Media ecosystems: The walls fall down

KPMG in India's Media and Entertainment report 2018

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We would like to thank all those who have contributed and shared their valuable domain insights in helping us put this report together.

Image courtesy

Makuta VFX

Prime Focus Ltd

Reliance Animation

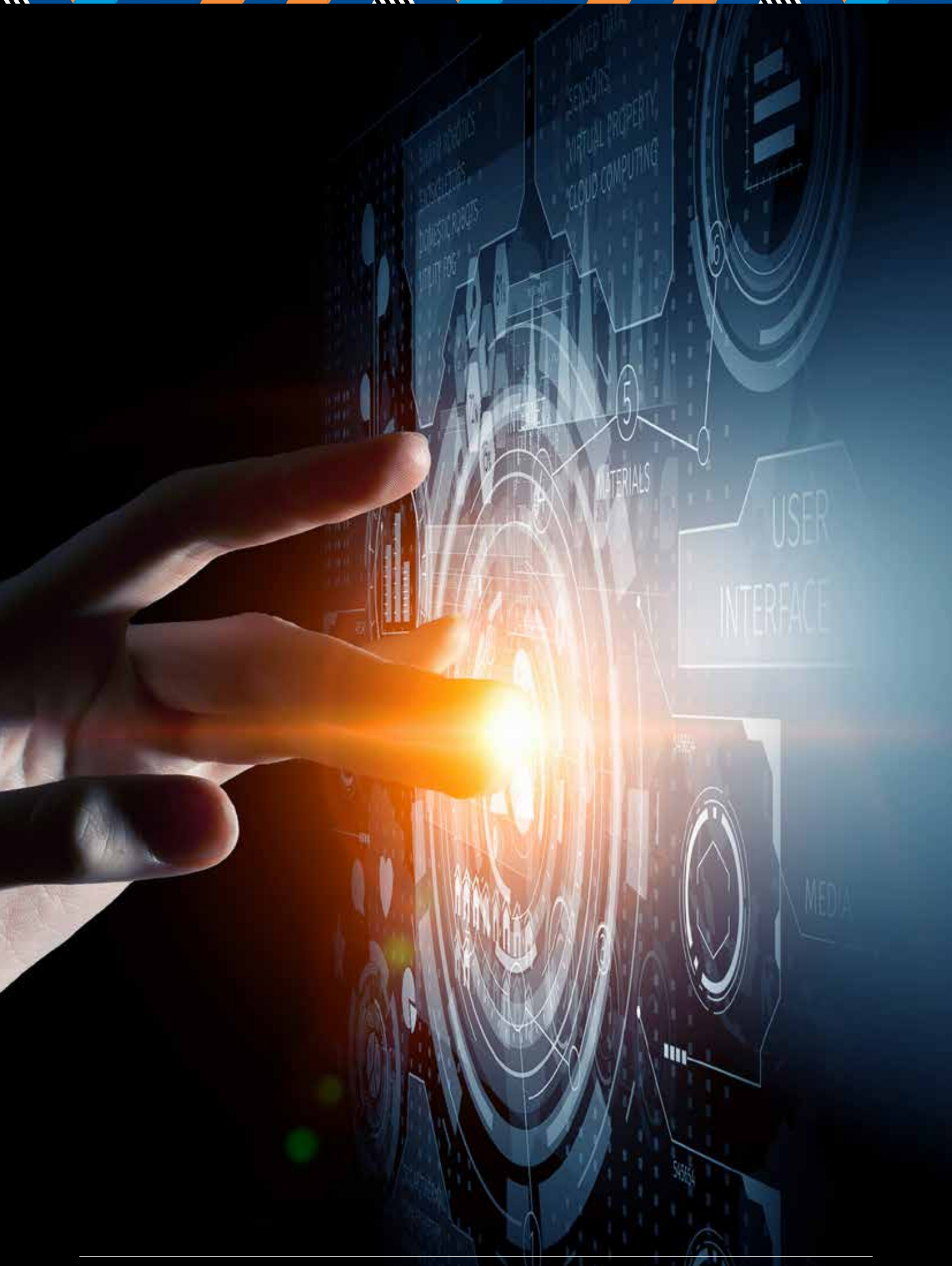
Sony Pictures Network India

Toonz Animation

Viacom 18 Media Pvt Ltd

Yash Raj Films

Zee Entertainment Enterprises Ltd



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Foreword

The Indian Media and Entertainment industry ('M&E') industry faced some head winds in FY18 due to the adverse impact on ad spend following the lingering impact of demonetisation and teething issues with the Goods and Services Tax (GST) rollout. This was reflected in an industry growth of 10.9 per cent in FY18 on the back of advertising growth of 11.5 per cent. However, the industry has bounced back from these challenges, and its long term outlook remains strong.

The global economy showed signs of recovery with real GDP growth rising from 3.2 per cent in 2016 to 3.8 per cent in 2017 — driven by faster growth in Europe, Japan, China and the U.S.[1] On the other hand, India experienced a decline in the growth rate from 7.1 per cent in 2016 to 6.7 per cent in 2017, primarily on account of demonetisation and implementation of GST.[2] Despite this slowdown, the economy is on its way to recovery with the real GDP expected to grow by 7.4 per cent in 2018 and 7.8 per cent in 2019.[3]

GST rollout, residual effects of demonetisation, and RERA resulted in the holdback of ad spends by advertisers across sectors, and, particularly, affected local advertising by smaller businesses. The resultant lower ad spends, coupled with the middling growth in the overall economy, adversely impacted growth rates across advertising dependent sectors such as television, print, radio and Out of Home (OOH).

Digital access and consumption has seen a rapid growth over the last 24 months following the rollout of 4G, aided by falling data costs and rapid growth in smartphone penetration. As a result, digital usage has become more democratised and widespread. This had a significant positive impact across multiple sectors with the a direct impact being noticed in digital advertising and mobile gaming — both of which witnessed growth rates in excess of 30 per cent in FY18. Additionally, growing demand for digital content had a positive impact on films and music segments as well as animation and VFX segments. On the flip side, growing digital consumption has started placing significant pressure on traditional print players, particularly in the English language segment, which is seeing a migration of both readers and advertisers towards digital.

1. World Economic Outlook, International Monetary Fund, April 2018
2. Real GDP Growth, International Monetary Fund, accessed on 27 July 2018
3. Real GDP Growth, International Monetary Fund, accessed on 27 July 2018

Another key growth driver has been the growing demand from rural and regional markets, which is attracting the attention of both advertisers and content platforms. The growing rural media consumption has been highlighted by measurement providers such as Broadcast Audience Research Council (BARC) in TV and Indian Readership Survey (IRS) in print. Growing media penetration in these markets across TV, print, radio and digital has been supplemented by increased focus on mass and regional content aimed at increasing the monetisation of the audience. In the long term, these markets are expected to provide significant support for growth of the Indian M&E industry.

However, in FY18, the Indian M&E industry witnessed the beginnings of a major structural shift as lines between various players across the value chain started blurring with the Technology, Media and Telecom (TMT) convergence starting to become a reality. This convergence has begun to give rise to the media ecosystems, particularly with telecom and technology players realising the importance of M&E as a key driver, to engage with and monetise their consumers. While, these changes are providing multiple opportunities to media organisations in the short term, they also have the potential to fundamentally change how media is created, distributed and consumed, and, therefore, completely disrupt the existing media value chain.

Looking ahead, the future of the M&E industry may therefore revolve around TMT convergence. Media companies will need to proactively look at their strategies and business models to operate and thrive in this new paradigm.

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Executive summary

Introduction

The global economy has been gaining momentum, with real Gross Domestic Product (GDP) growth rising from 3.2 per cent in 2016 to 3.8 per cent in 2017 — driven by faster growth in Europe, Japan, China and the U.S.[1] Growing trade, investments and manufacturing activity haves powered the global upswing since mid-2016.[2] However, in the long term a marginal decline to around 3.7 per cent CAGR is expected following risks from growing protectionist measures, fallout from Brexit, ageing workforce and rise in borrowing costs.[3]

In contrast with the global economy, India's real GDP growth rate declined from 7.1 per cent in 2016 to 6.7 per cent in 2017 — primarily on account of demonetisation and implementation of Good and Services Tax (GST).[4] However, the Indian economy is already on its way to recovery as the negative impact of these two measures is fading, overall investment sentiment is improving, construction is recovering from a slump and the farm sector is also witnessing growth.[5] India's real GDP is expected to grow by 7.4 per cent in 2018 and 7.8 per cent in 2019.[6] Moreover, unlike the expected decline in global economy, the Indian economy is expected to further strengthen with around 8 per cent y-o-y growth during 2020–23.[7]

Strong and consistent economic growth fuelled by a rise in consumption and growth in digitisation has boded well for the Indian Media and Entertainment (M&E) industry which has grown at a CAGR of approximately 11 per cent over FY14-FY18 to reach INR1,436 billion in FY18[8]. However, in recent years, the sector was adversely impacted by major regulatory interventions by the government around demonetisation and the Goods and Services Tax (GST). These initiatives had a temporary adverse impact on both consumption and advertising spends, resulting in a slower than expected growth rate of 10.9 per cent during FY18. However, the industry is now well on the road to recovery, and aided by a buoyant Indian economy, strong domestic (particularly rural) demand and growing digital access and consumption, the sector is expected to grow at a CAGR of 13.1 per cent over the next five years to reach INR2,660.2 billion by FY23[9].

Size of the Indian media and entertainment industry

Industry performance — Historical

Overall industry size (INR billion)	FY14	FY15	FY16	FY17	FY18	Growth in FY18 over FY17
TV	433.7	489.9	551.7	595.3	651.9	9.5%
Print	248.2	268.4	288.4	308.4	318.9	3.4%
Films	126.4	126.9	137.1	145.0	158.9	9.6%
Digital advertising	32.5	47.0	64.9	86.2	116.3	35.0%
Animation and VFX	41.0	46.5	53.2	62.3	73.9	18.6%
Gaming	20.3	24.3	27.6	32.4	43.8	35.1%
OOH	19.9	22.3	25.5	28.6	32.0	11.9%
Radio	17.2	19.8	22.7	24.0	25.9	7.9%
Music	8.5	10.2	11.2	12.6	14.4	14.7%
Total	**947.6**	**1,055.1**	**1,182.3**	**1,294.7**	**1,436.0**	**10.9%**

Source: KPMG in India analysis, 2018 based on primary and secondary research

1. World Economic Outlook, International Monetary Fund, April 2018
2. World Economic Outlook, International Monetary Fund, April 2018
3. Global economic growth has peaked, says World Bank, Financial Times, 10 January 2018
4. Real GDP Growth, International Monetary Fund, accessed on 27 July 2018
5. Press Note on Provisional Estimates of Annual National Income, 2017-18 and Quarterly Estimates of Gross Domestic Product For the Fourth Quarter (Q4) of 2017-18, MOSPI, 31 May 2018
6. Real GDP Growth, International Monetary Fund, accessed on 27 July 2018
7. Real GDP Growth, International Monetary Fund, accessed on 27 July 2018
8. KPMG in India analysis, 2018 based on primary and secondary research
9. KPMG in India analysis, 2018 based on primary and secondary research

Industry advertising revenues (INR billion)	FY14	FY15	FY16	FY17	FY18	Growth in FY18 over FY17
TV	138.4	160.0	183.7	202.6	223.5	10.3%
Print	166.0	179.6	192.3	204.4	210.6	3.1%
Digital advertising	32.5	47.0	64.9	86.2	116.3	35.0%
OOH	19.9	22.3	25.5	28.6	32.0	11.9%
Radio	17.2	19.8	22.7	24.0	25.9	7.9%
Total	**374.0**	**428.7**	**489.1**	**545.7**	**608.3**	**11.5%**

Source: KPMG in India analysis, 2018 based on primary and secondary research

- Television had a relatively subdued year in FY '18, with overall revenue growing at relatively slower rate of 9.5 per cent to reach INR651.9 billion. Advertising revenues faced headwinds due to the implementation of GST and associated issues with compliance, and middling growth in the overall economy. Although national broadcasters were less impacted due to GST than the local broadcasters. At the same time, subscription revenue growth was lower than expected as the DD FreeDish subscriber base soared to 30 million and DTH ARPUs declined with increase in competitive intensity
- The print sector was adversely impacted due to the after effects of demonetisation, coupled with weak advertising demand due to implementation of GST and Real Estate Regulation and Development Act (RERA). This resulted in a growth rate of 3.4 per cent during FY18, which was the lowest in a decade. Hindi and regional newspapers fared comparatively better (4.6 per cent and 4.2 per cent respectively), while English newspapers struggled, registering a growth of 1.5 per cent during this period
- Film segment revenues grew by 9.6 per cent during FY18 to reach INR 158.9 billion on the back of a resurgence over the last couple of years driven by strong domestic box office performances, coupled with growing overseas contributions particularly through entry into new markets such as China. Additionally, growing revenues from digital rights are supporting the overall growth
- Digital advertisement revenues have been growing rapidly in India, and the trend continued in FY18 with a growth of 35 per cent to reach INR 116.3 billion. Key growth drivers were developments in digital infrastructure; increased inclusion of and adoption by regional, non-urban users; increase in the penetration of mobile phones; and increase in maturity in the digital ecosystem driven by public and private investments.
- The Indian animation and VFX industry which has been on a strong growth trajectory clocked a growth of 18.6 per cent in FY18 to reach INR 73.9 billion with a strong overseas demand for animation and VFX services as Indian players move up the value chain along with growing demand from linear TV for local animation content. Digital Video on Demand (VOD) platforms, both global and Indian, have provided an additional impetus with demand for kids' and VFX content on platforms continuing to rise, as is the improvement in production values.
- Growing digital and smartphone penetration has significantly deepened the gaming user base with the mobile-first model driving user behaviour. Launch of lower priced Chinese smartphones in the Indian market, declining cost of data, rising disposable incomes, and acceptance of digital payments have resulted in the dramatic migration of online gamers to mobile phones. The interplay of these factors has led to the gaming segment growing by 35.8 per cent in FY18 to reach INR43.8 billion.
- The Out of Home (OOH) segment grew by 11.9 percent in FY18 to reach INR 32.8 billion primarily on the back of growth in controlled environment of the airport segment, with the segment also witnessing traction from smaller airports situated in tier 2 and tier 3 cities. The growth was aided by advertisement expenditures from State and Central Governments, e-commerce and technology players.

- The radio industry witnessed muted growth in FY18 at 7.9 per cent on the back of the fallout of GST rollout as local advertisement spends were significantly reduced. Over supply from the launch of new radio stations resulted in pressure on advertisement rates which also stayed flat.
- The Indian music industry continued to see a resurgence in recent years primarily on the back of rapidly expanding digital consumption and distribution, particularly since the rollout of 4G. Data penetration and increased use of smartphones are two key contributors towards the growing consumption of music on digital.

Industry performance — Projected

Overall industry size (INR billion)	FY19	FY20	FY21	FY22	FY23	CAGR % (2018-2023)
TV	746.4	855.3	959.1	1,066.6	1,179.6	12.6%
Print	338.5	357.8	378.6	400.8	424.9	5.9%
Films	171.7	185.4	199.3	213.9	228.8	7.6%
Digital advertising	154.7	202.6	263.4	339.8	435.0	30.2%
Animation and VFX	86.7	100.9	116.8	133.5	151.8	15.5%
Gaming	55.4	70.9	84.7	103.3	118.8	22.1%
OOH	35.7	38.6	42.0	45.7	49.7	9.2%
Radio	28.3	31.8	34.8	38.8	42.1	10.2%
Music	16.6	19.1	22.1	25.6	29.6	15.5%
Total	**1,633.9**	**1,862.5**	**2,100.7**	**2,368.0**	**2,660.2**	**13.1%**

Source: KPMG in India analysis, 2018 based on primary and secondary research

Industry advertising revenues (INR billion)	FY19	FY20	FY21	FY22	FY23	CAGR (2018-2023)
TV	255.0	291.5	330.1	373.0	425.3	13.7%
Print	223.7	236.4	250.1	264.7	280.7	5.9%
Digital advertising	154.7	202.6	263.4	339.8	435.0	30.2%
OOH	35.7	38.6	42.0	45.7	49.7	9.2%
Radio	28.3	31.8	34.8	38.8	42.1	10.2%
Total	**697.4**	**800.9**	**920.4**	**1,062.0**	**1,232.7**	**15.2%**

Source: KPMG in India analysis, 2018 based on primary and secondary research

The Indian M&E industry is expected to grow at a CAGR of 13.1 per cent during FY19 to FY23 to reach INR2,660.2 billion by FY23. Advertising revenues are expected to grow at a CAGR of 15.2 per cent to reach INR1,232.7 billion by FY23.

Key segmental trends

- Television is expected to grow at a CAGR of 12.6 per cent on the back of growing TV penetration, strong advertising demand on the back of domestic consumption and major events (two cricket world cups and a general election in the next five years) supported by better distribution realisations due to operationalisation of TV digitisation
- Print is likely to continue seeing muted growth at 5.9 per cent CAGR as sluggish growth in English newspapers — due to pressure from digital platforms — could be offset by strong growth in language newspapers. Hindi newspapers are also starting to witness pressure on growth rates
- The film segment is expected to remain resilient with a 7.6 per cent CAGR on the back of strong demand from digital platforms and growing overseas revenues
- Digital advertising is likely to continue seeing strong growth at a 30.2 per cent CAGR on the back of continued deepening of digital adoption and usage particularly from regional markets providing advertisers with the opportunity to offer customised advertising to wider demographics
- The animation and VFX industry is expected to show strong growth of 15.5 per cent on the back of strong digital demand, increasing production values and technology changes
- With a growth rate of 22 per cent over the next five years, the gaming sector in India is expected to touch INR118.8 billion by 2023 on the back of continued smartphone penetration, growing gaming user base and improved monetisation supported by increased localisation and technology innovations around data and analytics, augmented reality/virtual reality and so on
- The OOH segment is expected to grow at a 9.2 per cent CAGR on the back of Indian government's smart cities' campaign, promotion of public welfare schemes and expansion of the airport network. A nation-wide policy, single window clearances, city-wise exclusive licences on a long-term basis as well as an ROI-driven measurement metric can be key game changers for the OOH sector
- The radio segment is expected to see comparatively muted growth at 10.2 per cent given the over supply from new stations and the resultant pressure on ad rates, coupled with delays in Phase III auctions
- The music segment is expected to see strong growth with a CAGR of 15.5 per cent as digital access and consumption continue to become deeper. Given the growing listenership base and innovation in the pipeline, there lies a huge opportunity in converting the advertisement based subscription ecosystem into consumer paid streaming — all that is required is an optimum revenue model.

Industry themes

Technology, Media and Telecom (TMT) convergence — Building ecosystems

As data usage becomes ubiquitous, media consumption habits of consumers are witnessing a seismic shift. Telecom and technology companies across the world sense this is an opportunity to cater to this burgeoning digital subscriber base by building a footprint across the content part of the value chain as well. Traditional media companies have started to realise how important direct access to the digital first customer is, and as a result, have started to build out direct-to-consumer platforms. As a result, the TMT sector is witnessing a convergence in business models across the globe.

Following the launch of 4G services by Reliance Jio in September 2016 at disruptive prices, it resulted in commoditisation of voice services with realisations per minute dropping by more than 30 per cent post Q2 FY17 for incumbent operators. On the other hand, data consumption has emerged as one of the primary sources of revenue growth for telcos as data costs have reduced by approximately 90 per cent since then[10].

To drive data consumption, telecom operators are increasingly looking at content as a differentiator, both in terms of customer acquisition and retention. While operators like Airtel, Idea and Vodafone have looked to aggregate content across traditional television and video OTT apps, Reliance Jio is pursuing a two-pronged strategy of both aggregating content and investing in original and exclusive content through alliances with media companies across the value chain.

Technology has also enabled content creators and TV broadcasters to transform from a predominantly B2B business into B2C business. At the same time, technology companies have also become an integral part of the media ecosystem due to their ability to reach customers directly. YouTube and Facebook account for around 60-70 per cent of the total online video consumption in India and YouTube is the largest digital video platform in the country with 225 million Monthly Active Users (MAUs)[11].

This convergence playing out in the industry has raised concerns that traditional ways of making monies may no longer continue to be optimum. Business models are likely to converge eventually, potentially leading to a TV broadcaster focussing on OTT subscription revenues, or a technology company looking to realise revenues from content syndication. The boundaries between traditional and digital are likely to blur sooner than we imagine.

Various stakeholders stand to benefit from converging business models. While media content creators can have access to wider distribution through technology companies and telcos, as well as greater avenues for content monetisation, telecom and technology companies can increase monetisation on their platforms and create differentiation in their services through content offerings.

As technology becomes pervasive in everyday life, organisations that are able to smoothly merge the traditional business models, and ensure customer stickiness on their ecosystems are likely to emerge as winners in this war of ecosystems.

10. KPMG in India analysis, 2018 based on secondary research on Annual Filings of listed telecom operators in India

11. KPMG in India analysis, 2018 based on primary research

Over the Top (OTT) video consumption — Reaching a tipping point

There has been a noticeable change in the consumption of media content in recent years with increase in both the number of online video viewing audience and the time being spent on digital media by these audiences. The online video viewing audience in India is estimated to be around 225 million in FY18, and is projected to reach 550 million by FY23[12].

Pillar No 1 — Content

Catch-up TV, movies and sports form a large portion of the content available across OTT platforms backed by traditional TV broadcasters, as this helps them avoid incurring additional costs for digital-only content. However, there is an increasing focus towards creating original content for 'digital-first audience'. While the catch-up TV content is typically monetised through the Advertisement VOD (AVOD) model, original content warrants SVOD model to recover the content investments. The last two years have also seen an increased focus on regional language content with established OTT players increasing their regional content library, along with an advent of 'regional-only' local OTT players in the industry.

Pillar No 2 — Distribution

The OTT distribution landscape also saw a change in approach with telecom operators (telcos) being seen as an alternate and important mode of distribution to reach a wider audience base. This trend is expected to accelerate with telcos seeing usage of video on their networks as a key driver of increased data consumption. Bundling of services through telcos at a more affordable price may also be more likely to attract viewers rather than subscribing to multiple individual platforms in addition to data costs.

Pillar No 3 — Monetisation

The Indian OTT industry is currently driven by AVOD or a freemium model with SVOD still at a nascent stage with 2-2.4 million subscribers having directly subscribed to OTT platforms[13], in addition to ones who are considered as paid subscribers through telco-based access. While such telco-based subscription has increased in the last year, advertisement revenues have faced challenges with falling CPM rates on account of increasing ad inventory and lack of a standardised, third party validated, digital measurement tool.

Sustainable success of OTT platform is likely to be driven by engagement through quality content, resolution of standardisation of measurement and effectiveness of distribution. While the industry may experience a focus on regional language content in the near future, there is a possibility of digital video content mirroring TV content in the long term future. As far as distribution is concerned, collaboration between OTT players and telcos is expected to be a key success factor. Lastly, monetisation is likely to pick up in the medium term, through a mix of advertising- and subscription-led models.

12. KPMG in India analysis, 2018 based on primary and secondary research

13. KPMG in India analysis, 2018 based on primary research

Rural consumption — The next frontier

Rural India and tier II and tier III cities are asserting their power over the M&E sector in recent years. Print players have consistently seen strong readership and demand from these markets, and with the maturity of urban markets, non-urban demand is driving growth in Hindi and other language newspapers. While television broadcasters have launched a number of free-to-air (FTA) channels to tap rural and semi-urban markets, radio too has moved beyond metro cities. Listenership for non-metro areas has seen a multi-fold increase, at times even more than metro cities, attracting more brands to target rural markets. Availability of data at affordable rates increased the reach of digital platforms into rural areas driving a significant growth in digital usage and changing the demographics of digital consumption from niche to mass.

Rural to propel the next phase of growth, driven by macro-economic and sector specific factors

Macro-economic drivers

- Rise in income levels
- Growing literacy rates
- Government investment.

Sector-specific factors

- Digitalisation of television combined with strong FTA offerings
- Phase III expansion of FM into tier II and tier III cities
- Growing print readership with hyper localisation of content
- Digital inclusivity leading to rapid expansion of digital user base beyond urban markets
- Inclusion of rural areas under measurement metrics.

The Indian M&E industry has entered into a mature phase, and the growth is expected to come from untapped rural markets. The growth in the sector is likely to be largely be driven by demographic and habitual shift of the consumer, where the rural population is expected to have a pivotal role to play.

Social media — Driving meaningful conversations

The importance and value proposition of social media as a platform is increasing rapidly, and barriers to connectivity such as cost of access and awareness are being resolved at a fast pace. Mobility continues to be the primary driver for social media usage in India with increasing smart phone penetration leading to an estimated 300 million[14] social media users in the country, estimated to be spending two hours and 26 minutes[15] across social media platforms on a daily basis. Given the scale of engagement, marketers are increasingly trying to engage with users on such platforms by increasing their allocation of digital ad spends on social media with an increased focus on regional markets.

To increase engagement levels, social media platforms are expanding their value proposition — from only a means to connect with friends, such platforms are being used for multiple purposes like entertainment, commerce and gaming. Through communities, social media platforms are able to attract individuals with similar interest or beliefs, and are becoming increasingly popular among marketers to connect with a specific target group. The focus of marketers is shifting from gaining basic reach to enabling more meaningful conversations to reduce the divide between the brand and target customer, unlocking value for both parties. Furthermore, content is changing from static feeds to more interactive stories, driven by digital tools and technologies, with the power shifting from content creator to the user.

While social media platforms have evolved, data security and privacy are key challenges to be addressed. Building trust through privacy management and data security may be critical in the future, and the key would be how the equation of value to the user versus the brand is managed.

Data and analytics — Every detail counts

With the advent of digital disruption, the Media and Entertainment (M&E) industry has gone through a seismic shift in the way content is created, distributed, consumed and analysed. The massive explosion of data is generating new sensitivities across the media value chain (content creators, aggregators, distributors, marketers, advertisers, consumers and so on). It is thus becoming imperative for M&E organisations to grab opportunities enclosed within data with competent analytics capabilities.

The industry is investing heavily in analytics-driven content recommendations, adaptive streaming, video and image analytics, data-driven journalism and consumer analytics. For media distributors and aggregators, data-driven decisions on content acquisition is getting increasingly contextual. Advertising agencies are also leveraging analytics techniques to find the association of audience micro segments with different content genres and themes.

A smooth amalgamation between digital and analytical solutions is transforming the sector via active audience engagement, digital experience enhancement, content personalisation, contextual marketing campaigns, resolution of customer issues and customer life time value enhancement. Organisations are using predictive models to measure the contribution of a platform (traditional versus digital) in the success of any programme, and accordingly promoting it via the most suitable medium.

While quality content and consumer preferences are expected to drive sustainable growth, a clear strategy and competent analytics capabilities will help media

14. https://forecasts-na1.emarketer.com/5ab41471a2835e0fe88f6068/5a6a4c4e00e-a9b-064048c03f, accessed on June 22, 2018

15. Digital in 2018 report, https://digitalreport.wearesocial.com/download, accessed on June 22, 2018

Audience measurement — Need of the hour

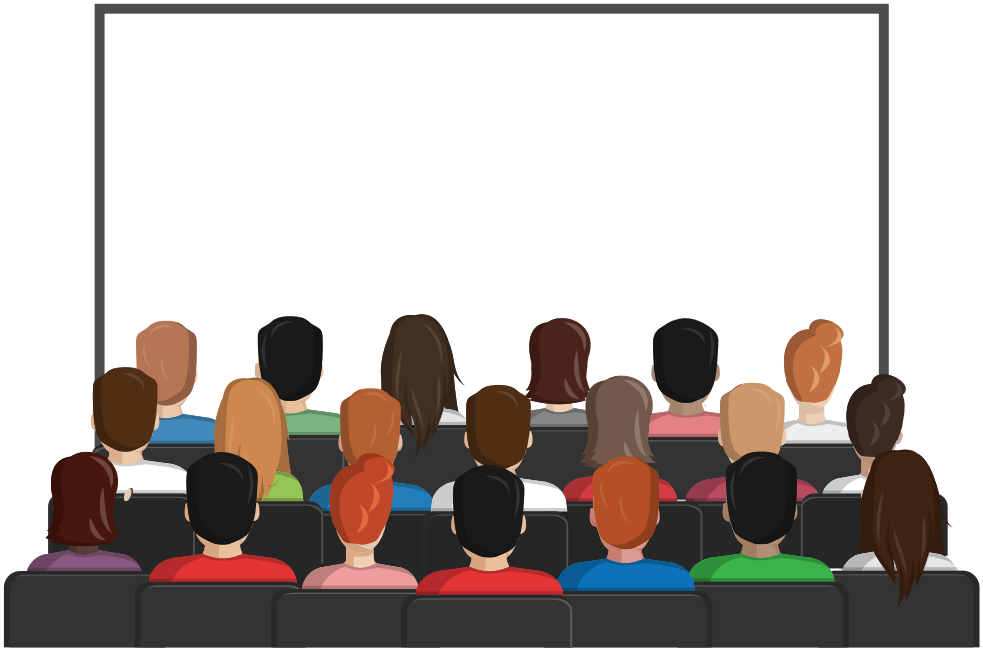
Media owners and agencies are increasingly emphasising the need for adequate, accurate, reliable and relevant data to justify and plan media spends. Research agencies, even with improved methodologies and quality checks, have struggled to meet expectations. Especially for traditional media, the core problems are operational challenges in sample selection and data collection, along with inadequate industry funding and backing to study and report a vast socio-culturally diverse market like India.

Amongst traditional media, television has been at the forefront of increasing the reach and accuracy of audience measurement through deepening of coverage and measurement metrics by Broadcast Audience Research Council (BARC).

Indian Readership Survey (IRS), the lone readership study for print readership in India, released its latest report in 2018 after a gap of four years. The industry's mixed reactions on IRS 2013 results pushed for complete overhaul in the IRS methodology. This led to a data-dark period of three years, which affected the media planning and the decision-making ability in print medium.

The radio industry is in need of a concrete audience research and measurement agency as the current methodology of TAM's Radio Audience Measurement (RAM) follows a manual diary method, and is only limited to the four metro cities. The same holds true for OOH advertising owing to its inherent challenges in measuring the audience, and lack of an independent industry-accepted monitoring body. On the other hand, digital medium has seen increase in its share of media spends by offering advertisers easy ways of targeting and measuring audience real-time, though there is absence of a standardised, third party validated, digital measurement tool.

Riding on the advancement in technology, media measurement has moved beyond measuring just viewing impressions. Advertisers are looking to study and analyse media consumption habits and patterns of viewers across platforms to better understand consumer behaviour. In line with this, deeper coverage, consistent methodology, and transparent approach and cross platform audience measurement tools are critical to meet the needs of the industry.



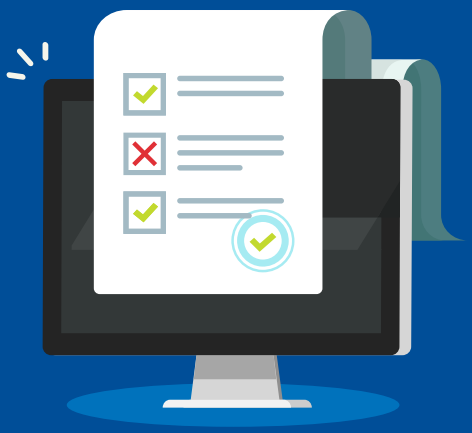
Tech trends

Rapid technology evolution is playing a significant and disruptive role in media creation, distribution and consumption. Technical innovations such as digital delivery and consumption, artificial intelligence, Internet of Things, impending 5G rollout, robotics and automation, augmented/virtual reality, 3D printing, blockchain, though at varying stages of maturity, have the potential to dramatically impact businesses and consumers, and the M&E sector is no exception.

In this report, we have evaluated four technology trends — digital content disruption (cord cutting), artificial intelligence, augmented/virtual reality and blockchain and their potential impact on the Indian M&E industry.

Cutting the TV cord — Harmonious co-existence	AR and VR — Reality reimagined
• Mature TV and digital markets like the U.S. are witnessing an increasing shift of viewers from TV to digital-only consumption on the back of price arbitrage and strong digital infrastructure • In India, TV offers a strong proposition in terms of price and content along with continued headroom for growth and lack of depth in digital infrastructure (especially Fixed line internet) • As a result, digital consumption appears to be largely complimentary to TV by enabling latent individual viewing.	• AR and VR have the potential to significantly disrupt the way media is created and consumed • In India, AR and VR are still in their infancy with limited adoption across sectors • The technology faces multiple constraints ranging from hardware limitations and availability, dearth of content and skill gaps • As a result, while usage of AR/VR is likely to increase among both consumers and businesses, it may still not become essential in the near future.
Digital video — A complimentary medium Short to medium term impact — **Minimal** 	High potential for growth Short to medium term impact — **Not imminent yet** 
Artificial intelligence (AI) — Blending science and creativity	**Blockchain — Hype or disruptor**
• As media organisations evolve to B2C models, understanding and anticipating user behaviour and proactively driving user engagement becomes critical. AI has a very significant role to play in this evolution • Key aspects of usage include neural networks and meta data, natural language processing, macro and micro trends through algorithm based systems and localisation through deep learning • Though at an early stage, the adoption appears fairly rapid and is likely to see significant benefits in the short to medium term.	• Use cases of blockchain in M&E revolve around the ability of blockchain to provide transparency to elements of the media and entertainment supply chain. • Some of the current use cases revolve around customer loyalty programmes, royalty management, content distribution and payments and curbing piracy • Blockchain has tremendous disruptive potential though the adoption in India is still at very early stages. Several applications are currently at the proof of concept stage.
Critical for organisations Short to medium term impact — **Rapid adoption expected** 	Transformative potential Short to medium term impact — **Currently in infancy** 

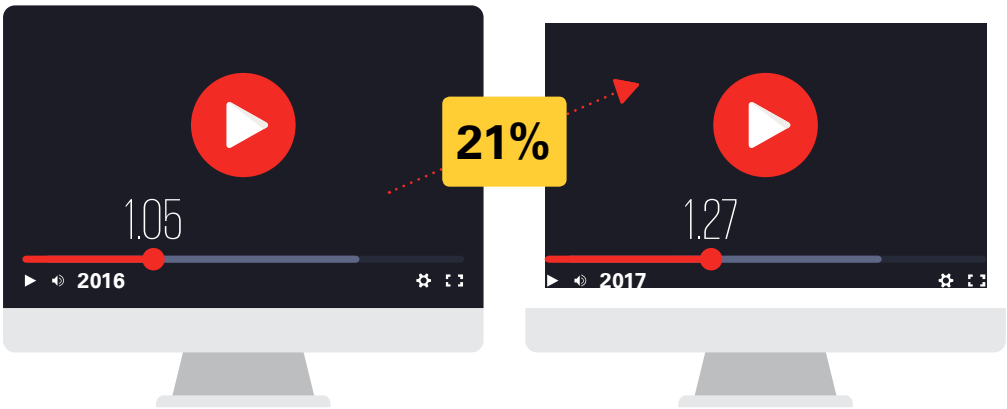
Digital consumption trends



Source: Kantar IMRB's TGI

Online video consumption on a growth trajectory in India

Average time spent watching online videos (hours per week)

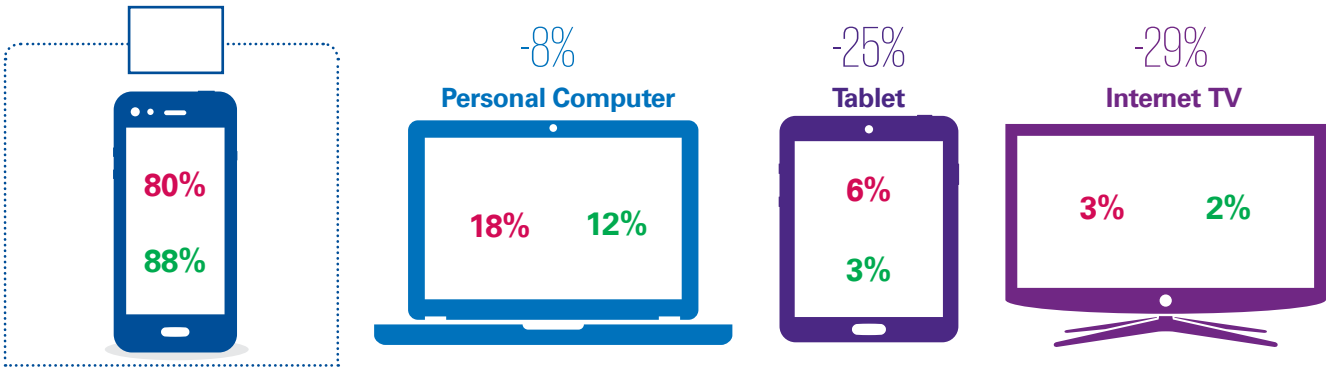


Online video consumption grew 21 per cent y-o-y in 2017 - in terms of average time spent per week across all age groups and socio-economic classes

Where are we watching?

Devices used to watch video

Mobile, the most preferred device for watching online videos



All other modes of online video consumption - personal computer, tablet and Internet-based television - witnessed significant declines in average time spent per week.

2016 2017

Note: Column figures corresponding to each device represent the percentage of respondents who use them most often to watch online videos, and due to multiple choices (assuming some people may prefer two or more devices equally), the sum is greater than 100 per cent for each year. Y-o-y growth is the rise or fall in average time spent per week on watching online videos for each device from 2016–17.

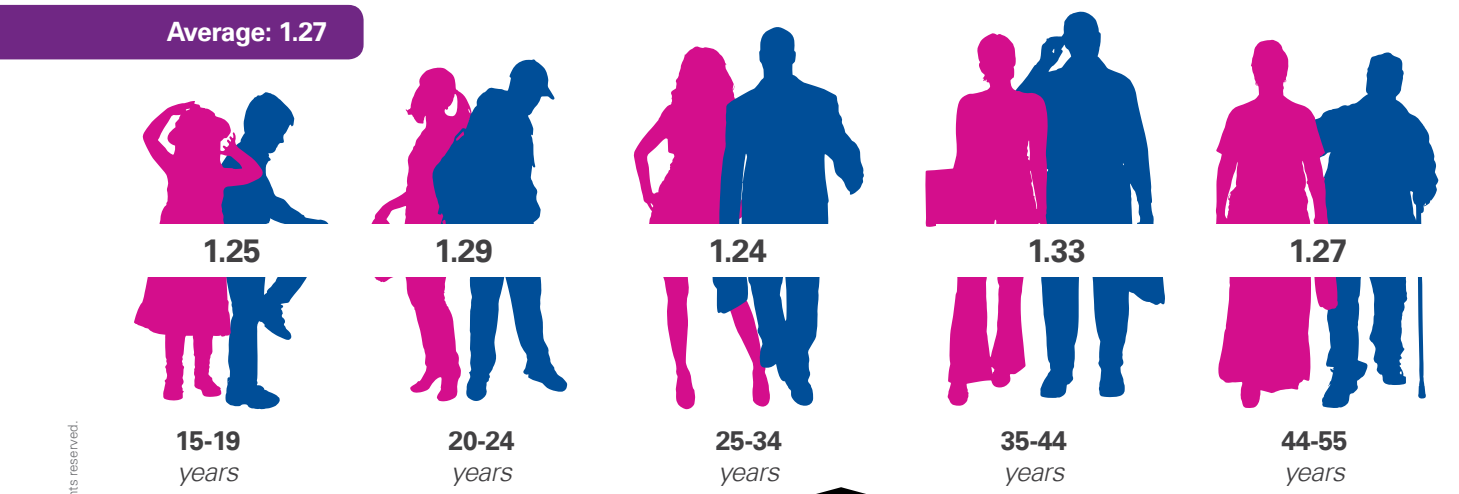
2016 and 2017 data pertains to surveys from Feb-May and Aug-Oct in both years

Source: Kantar IMRB's TGI

Who is watching?

Digital video is no longer a ***millennial*** phenomenon

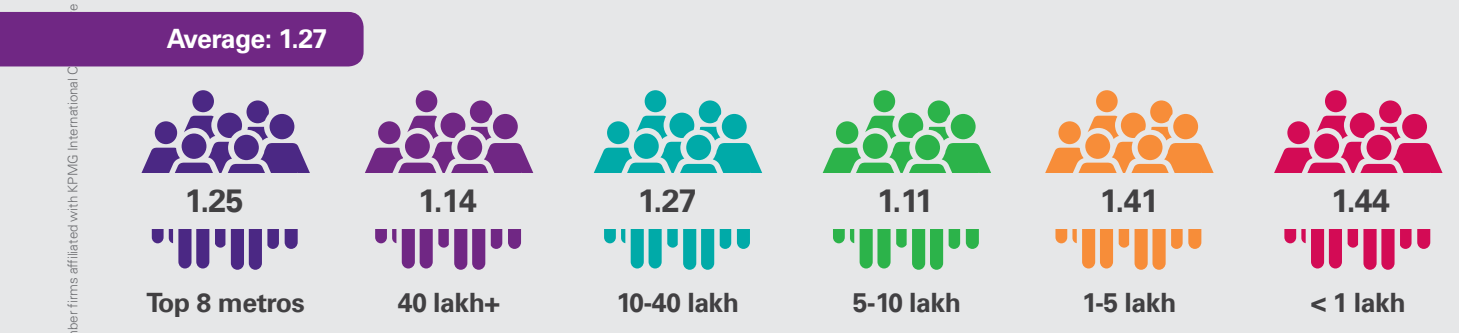
Time spent on online video viewing — by age group (hours per week, 2017)



The relatively older demographics (35–55 years) spend equal or more time watching videos online than the average time spent on online video viewing.

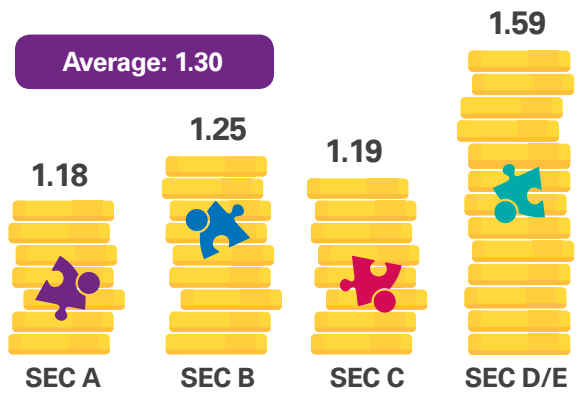
Time spent on online video viewing – By population of town (hours per week; 2017)

Digital video is finding its ***mass*** appeal



Small towns with population less than one lakh or 1–5 lakh are spending the maximum time watching online video content — compared to metro cities and other bigger towns.

Time spent on online video viewing – By socio-economic class (per week; 2017)



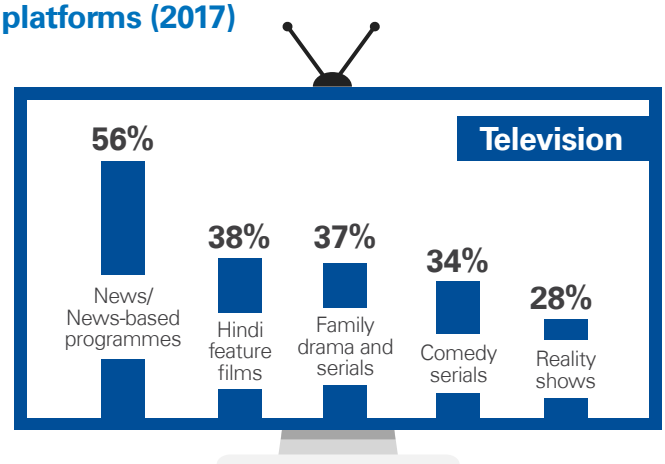
In congruence with the data on small towns, the lowest socio-economic classes (SEC D/E) spend a significantly higher share of their time watching online videos - compared to SEC A, B and C

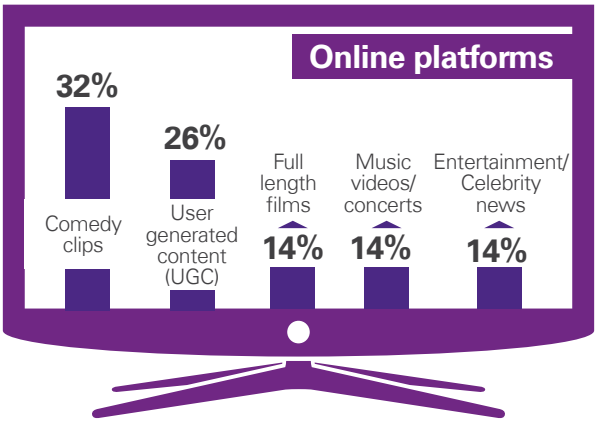
Source: Kantar IMRB's TGI

What are we watching?

Comedy and ***user-generated content*** take the lead in digital

Top five categories of video content Indians prefer to watch on TV vis-à-vis online platforms (2017)





Content preferences for Indian viewers **differ starkly** in nature across television and digital medium

While comedy features in both television and online video preferences, the kind of content within comedy would typically vary

Television : **Comedy serials**

Online : **Stand-up comedy clips, Short-format UGC**

User Generated Content (UGC) occupies the **2nd largest** share in online video consumption — indicating the strength of YouTube and other social media platforms in attracting people towards their video content

Reruns of TV shows on the web occupies the **7th rank** with 10.6 per cent of the respondents watching reruns on digital platforms

Note: Figures corresponding to each category represent the percentage of respondents who agreed to 'specially choosing to watch' those categories on TV/digital platforms. There were multiple choices, of which the top five categories receiving maximum responses for each of TV and digital platforms have been depicted.

Source: Kantar IMRB's TGI

Essentially, India is going big on online video viewing

Key takeaways

Mobile drives online video consumption

- Overall, the average time spent by Indians watching online videos grew 21 per cent y-o-y in 2017
- It grew solely on the back of the mobile phone, which is now the most preferred device for online video consumption by 88 per cent Indians.

Demographics don't matter

- Indians spent 1.27 hours per week watching online videos in 2017; those aged between 35–44 year spend maximum time watching online videos
- Small towns with population less than one lakh or one–five lakh and SEC D/E spend the maximum time watching online videos.

Varying content preferences on digital

- Content preferences for Indian viewers differ starkly in nature across the television and digital medium
- Comedy clips and User Generated Content (UGC) occupy the top two spots for online video viewing.

Driven rapidly by increasingly affordable data plans offered by telecom players and the widespread proliferation of smartphones, Indians have adopted online video consumption as a prominent media consumption habit.

Source: Target Group Index (TGI) India <2016/2017 depending on the data point> Wave 2. TGI is a pan India urban study done amongst respondents in the age range of 15 to 55 years, new SEC/NCCS ABCDE. It is a primary study which is administered face to face, and as a diary placement. Responses are captured at the claimed level only.

Source: Kantar IMRB's TGI

Sectors


NEWS

Television
Firmly entrenched

Performance of the television industry in FY18

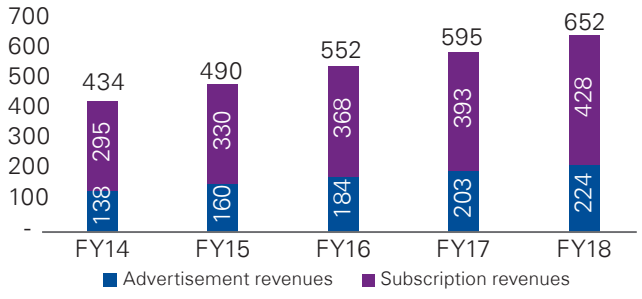
The Television industry in India was estimated at INR652 billion in FY18, a growth of 9.5 per cent from FY17, having grown at a CAGR of 10.7 per cent between FY14-FY18. The market size consisted of advertisement revenues of INR224 billion and subscription revenues of INR428 billion in FY18.[1]

Television had a relatively subdued run in FY18, with advertisement revenues facing some headwinds on account of the implementation of GST and a middling growth in the overall economy. The growth in subscription revenues was lower than envisaged due to:

- Continuing growth of DD FreeDish (FreeDish)
- Decline in the DTH ARPUs brought about by the change in mix of subscribers, with new subscribers coming in at lower price points as well as some existing subscribers opting for lower packs
- The intended benefits of digitisation to Multi System Operators (MSOs) in terms of clarity of subscriber base and revenue share from LCOs only partially starting to flow in.

While the above factors led to a decline in subscription revenues, the same were partially offset by the growth drivers i.e. an increase in the subscriber base i.e. C&S homes garnered by DTH and MSOs, as well as a strong increase in realisations for MSOs from Phase III and IV markets in FY18.

TV industry size (in INR billion)



Source: KPMG in India analysis, 2018 based on primary and secondary research
Note: The subscription revenues account for entire revenues of the distributors

Advertising revenues

Television advertising grew at a rate of 10.3 per cent in FY18[2], aided by the strong performance of Indian Premier League (IPL), Free-to-air (FTA) channels and consumer promotions by FMCG companies in the festive season. FMCG, telecom and auto sectors contributed more than two-thirds of the spends on television advertising in India. However, the first half of FY18 was majorly impacted by the implementation of GST and RERA as FMCG and real estate companies put their ad spends on hold. Although, the large broadcasters with a client base of national advertisers were less impacted that the ones with a predominantly local advertiser base.

The IPL though, continued its strong contribution to Ad revenues, garnering nearly INR13-14 billion as the reach on TV increased by approximately 14 per cent compared to the previous season.[3] Also, ad spends increased in the second half of FY18 on the back of improved customer sentiment and new product launches in the festive season by FMCG companies post GST implementation in July-2017. Though events like GST and RERA implementation pulled down advertising spends in FY18, this blip is not likely to have any lasting effects from FY19 onwards.

Subscription revenues

The subscription revenue growth was steady at 9.1 per cent in FY18[4] with a size of INR 428 billion, punctuated by the following trends:

- The overall growth in subscription revenues was driven by an increase in the number of Pay C&S households in FY18, which grew at approximately 7 per cent as compared to FY17. While the additions to Digital cable subscriber base remained strong, DTH additions were lagged and were slower than that in FY17
- Pay TV continued to face competition from FreeDish, as the FTA platform made further inroads by capturing about 6 million users on a net basis in FY18 and thereby, having a material impact on Pay TV
- DTH ARPUs remained flat in FY18 as many DTH players introduced packs at INR99 and below (FTA based) and below INR 200, to counter the competition from FreeDish, as well as to target Phase 3 and 4 customers with these low value packs.[5] The same resulted in a change in the customer mix, with a significant number of incremental subscribers, as well as some of the existing base, started to subscribe these packs, thereby impacting the ARPU growth
- MSOs witnessed a 10-12 per cent increase in ARPUs due to a significant increase in Phase-3 and 4 realisations. This increase in realisation was driven both by incremental ARPUs from end subscribers in these 2 phases, as well as a higher share of ARPUs starting to flow in from LCOs. However, the revenue share still remains skewed towards the LCOs.

1. KPMG in India analysis, 2018 based on primary and secondary research
2. KPMG in India analysis, 2018, based on industry discussions
3. Sporting Nation in the Making – V, India Sports Sponsorship Report, 2018
4. KPMG in India analysis, 2018, based on primary and secondary research
5. Based on industry discussions

> The MSO industry is expected to see strong increases in ARPUs going forward, especially in Phase 3&4 areas, coupled with content cost growth moderation, leading to improved recurring cashflows. The advent of the Tariff Order will significantly alter the media value chain, providing more leverage to the distribution platforms and vesting the end consumer with the power of choice. It will also put renewed focus on systems, processes and compliances as the industry becomes more mature, structured and regulated.
>
> **Rajesh Sethi,**
> Chief Business Transformation Officer, *SITI Networks*

The TRAI tariff order

TRAI's tariff order released in March 2017 aims to provide consumers with a complete choice in terms of selection of channels that they may want to view, proposes regulations on MRPs of channels as well as intends to bring in a transparent structure around distribution of the channels.

All the proposals of TRAI's tariff order and interconnect regulations, except the capping of discounts at 15 per cent around bouquets, had been cleared by the Madras High Court in May 2018.[6]

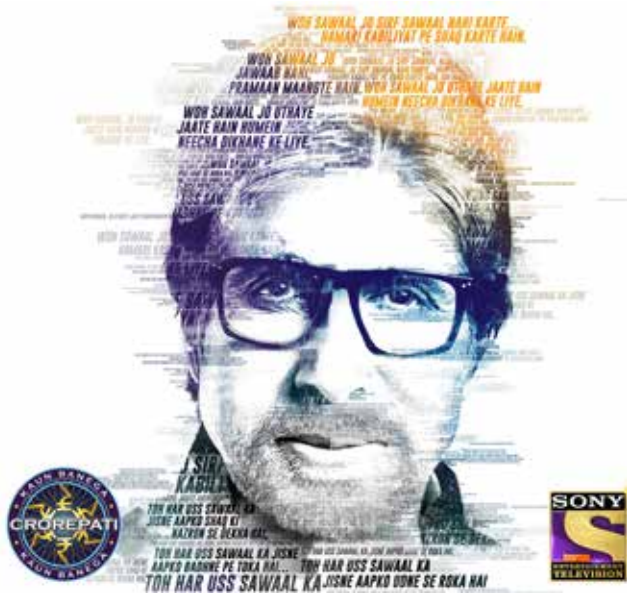
The tariff order was intended to result in a fair distribution of industry revenues across the value chain, including broadcasters and distributors. The implementation of this tariff order was intended to improve the monetization of popular content which is consumed by people as the tariff order gives more power to the customers to choose the channels they purchase. Distribution platforms could have more power to form multiple packages customized as per the local preferences and won't be forced to sell broadcaster bouquets, while the dilution of the 15 per cent condition ensured that packaging is likely to remain relevant and provide operating leeway to the distributors.

However, there have been certain reservations from industry participants on the tariff order around channel pricing being left to market forces rather than being regulated, regulation of margins being paid to distributors and a fundamental shift that the order will bring in to the business model of some stakeholders. The TRAI however, has notified 3 July 2018 as the date for implementation of the order, post the Madras HC orders and after giving a compliance notification to the Delhi HC.[7]

Although, given the lack of consensus amongst the stakeholders on the implementation of the order, the same could be subject to further litigations in the Supreme Court, and the actual implementation could be a long drawn process.[8]

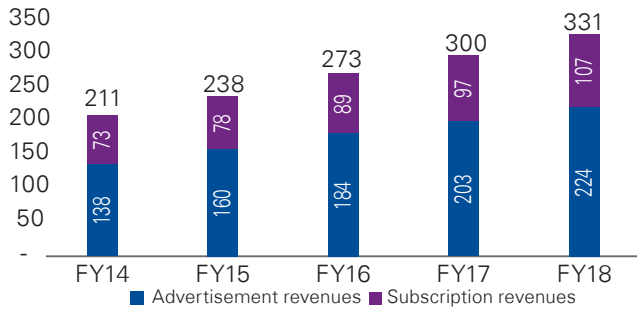
The Broadcaster industry size

Television broadcasters had a steady growth of 10.4 per cent in FY18 with annual revenues of INR331 billion, approximately 67 per cent of which were contributed by advertising.[9] The subscription revenue growth for broadcasters stood slightly higher at about 10.5 per cent, helped to an extent by the on-going digitisation process which results in higher share of revenues for broadcasters received from digital cable, which was in the range of 20-22per cent (of the consumer level revenues), as per industry discussions. The share of revenues received by broadcasters from DTH operators remained flat at around 33-35 per cent of the end consumer revenues in FY18, as indicated by industry stakeholders. The share of revenues earned by broadcasters from digital cable operators has a significant upside, although the achievability of the same would depend on the eventual implementation of the tariff order.



6. Madras HC upholds TRAI tariff order, Hindu Business Line, May 2018; accessed on June 5, 2018
7. Telecom Regulatory Authority of India, Press Release on Tariff and Interconnect guidelines; accessed on Jul 3, 2018
8. TRAI and Star India file caveats in Supreme Court, Exchange4Media, June 2018; accessed on June 5, 2018
9. KPMG in India analysis, 2018, based on primary and secondary research

Broadcaster industry size (in INR billion)



Source: KPMG in India analysis, 2018, based on primary and secondary research

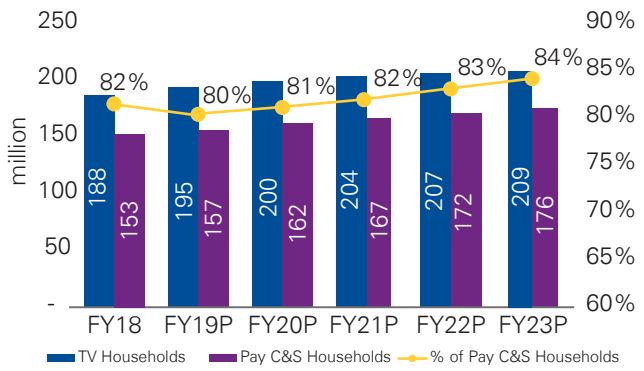
Television distribution in India

The number of TV households in India increased to 188 million in FY18, resulting in a TV penetration of 64 per cent. The industry witnessed net addition of 12 million Cable and Satellite (C&S) subscribers in FY18, reaching a base of 183 million.[10] The net additions increased after a slowdown in acquisitions in FY17 owing to demonetisation. The TV households are estimated to reach 209 million by FY23, implying a total TV penetration of 68 per cent.[11]

The per cent of Pay C&S households is estimated to marginally decline in FY19 and FY20, due to the increase of FreeDish in the overall TV landscape. However, with consumer potential for upgrading to pay TV from FreeDish, this is expected to rise to 84 per cent by FY23.

While the deadline for digitisation of for Phase 3 and 4 DAS ended on 31 January 2017 and 31 March 2017 respectively; there are still about 24-28 million analog subscribers in India.[12] As per our industry discussions, most of these analog subscribers are present in Tamil Nadu and North-East India.

TV households and ay C&S penetration



Source: KPMG in India analysis, 2018, based on primary and secondary research

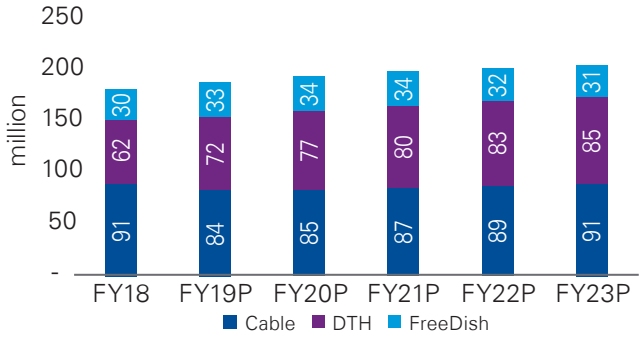
Of the overall C&S subscriber base of 183 million as of FY18, DTH stood at around 62 million **households** (excluding FreeDish) and Cable stood at around 91 million **households**.[13] With around 30 million subscribers in FY18[14], FreeDish is the largest DTH provider in the country.

Owing to the increased transparency due to digitisation, the MSOs started benefitting in FY18 through a higher revenue share being passed on to the MSOs from LCOs. However, the wide-spread implementation of subscriber management systems in Phase-3 and 4 still remains a work in progress.

There was an increase in the uptake of HD channels with 10-12 million subscribers availing HD services at the end of FY18.[15] The DTH players have been the front-runners in up-selling HD services to their customers with MSOs only managing to garner about 1-1.5 million HD subscribers. On an average, an HD subscriber results in a 1.5-1.7x ARPU as compared to a SD subscriber.[16]

The rapid growth of FTA channels has meant that consumers look at FreeDish as an alternative entertainment platform especially in DAS Phase III and IV. However, with FreeDish remaining a Hindi speaking market (HSM) phenomenon due to the unavailability of regional content for the South market, DTH and digital cable are likely to garner most of the new additions in the coming years. We expect digital cable and DTH to capture around 84 per cent of the C&S market by FY23[17] with FreeDish continuing to have a significant subscriber base provided FTA channels of big broadcasters continue to remain available on the platform.

Total C&S subscribers - split by distribution platform



Source: KPMG in India analysis, 2018, based on primary and secondary research

Note: DTH subscriber numbers are lower than TRAI reported data as the above numbers take into account adjustments for 30 day active base and multiple connections for a household

Note: The cable subscriber numbers include both Analog and Digital cable

10. KPMG in India analysis, 2018, based on primary and secondary research
11. KPMG in India analysis, 2018, based on secondary research
12. KPMG in India analysis, 2018, based on industry discussions
13. KPMG in India analysis, 2018, based on industry discussions and secondary research
14. Based on industry discussions
15. Based on industry discussions
16. Based on industry discussions
17. KPMG in India analysis, 2018, based on primary and secondary research

Television Industry – Trends and Themes – FY18

Advertising trends*

Genre wise AdEx – FY18 vs FY17 (Based on ad value)

Genre Contribution to AdEx	FY17 (%)	FY18 (%)	Growth FY17 18 (%)
Hindi GEC	30.5	27.7	-9.05%
Hindi News	8.2	7.9	-4.02%
Hindi Movies	5.1	6.3	24.50%
Hindi Music	2.6	2.7	5.09%
Regional	33.6	35.4	5.43%
Sports	5.6	5.7	3.41%
English Music	0.1	0.1	-8.35%
English GEC	1.7	1.8	8.57%
English News	4.2	3.8	-7.41%
English Movies	2.6	2.6	3.33%
Lifestyle	1.3	1.2	-2.24%
Kids	2.9	2.7	-7.25%
Infotainment / Knowledge	1.8	1.9	2.38%
Others	0.1	0.1	-9.87%
Total	**100.0**	**100.0**	

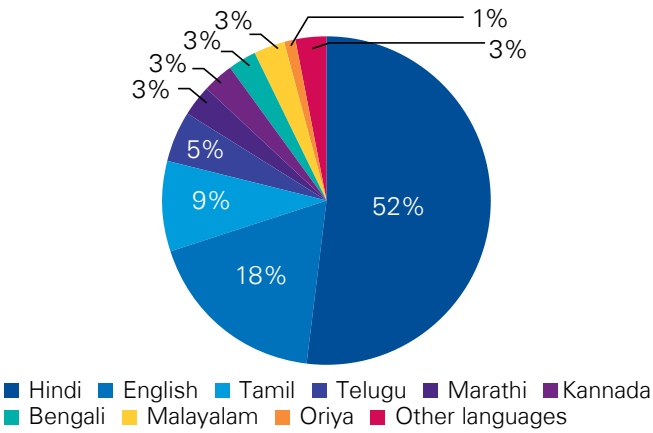
Source: TAM Media (based on Ad Value), Copyright reserved with TAM MEDIA RESEARCH PVT. LTD. any use of TAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.

- Regional and Hindi GECs continued to be the leading genres in terms of advertisement expenditure in FY'18. However, the AdEx on Hindi GECs declined by 9 per cent in FY18 as compared to an increase of 5.4 per cent in AdEx on regional channels, outlining the overall growth of the regional market in India
- The Hindi Movie genre saw the highest growth in AdEx in FY18, growing by 24.5 per cent over FY17 and contributing 6.3 per cent to the overall Ad spends in FY18
- The English GEC genre also saw an 8.5 per cent growth in AdEx in FY18, despite pressure on relative positioning in English viewership on account of the change in the measurement methodology. The AdEx for English News and English Music however, saw a decline in FY18.

Language wise AdEx split (Based on ad value)

- Hindi and English language ads continue to dominate the overall AdEx, contributing 70 per cent in FY18. While Hindi saw a marginal 1 per cent increase in FY18, English saw a decline of 6 per cent
- Except for Tamil and Marathi, which saw a marginal decline of 2 per cent and 9 per cent respectively, all other major regional languages such as Telugu, Kannada, Bengali, Malayalam and Oriya, saw a growth in their contribution to the overall AdEx in FY18.

Change in viewership (2017 vs. 2016)



Source: TAM Media (based on Ad Value), Copyright reserved with TAM MEDIA RESEARCH PVT. LTD. any use of TAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.

Note: The AdEx is based on the language of the advertisement and not the language of the channel

AdEx contribution of Pay TV vs. FTA channels (Based on Ad Value)

Channel Type	FY17 (%)	FY18 (%)	Gowth FY17-18 (%)
FTA	22.9	25.2	10
Pay	65.0	62.8	-3.4
Others	12.1	12.0	-0.7

Source: TAM Media (based on Ad Value), Copyright reserved with TAM MEDIA RESEARCH PVT. LTD. any use of TAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.

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AdEx contribution of Pay TV vs. FTA channels (Based on Ad Volume)

Channel Type	FY17 (%)	FY18 (%)	Gowth FY17-18 (%)
FTA	35.5	35.1	-1.3
Pay	43.5	43.3	-0.4
Others	21.0	21.6	2.9

Source: TAM Media (based on Ad Volume (Duration)), Copyright reserved with TAM MEDIA RESEARCH PVT. LTD. any use of TAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.

Note: Others includes channels for which rate cards are not available with TAM

- The FTA channels saw a marginal decline in the Ad volumes in FY'18, contributing 35.1 per cent to the overall Ad volumes on Television
- However, the FTA channels saw a healthy 10 per cent increase in Ad Value in FY'18, contributing 25.2 per cent to the overall AdEx
- The same implies that FTA channels are being able to command higher Ad rates with increasing viewership, even if the absolute volume of ads are not increasing in the same proportion.

> With BARC, there has been a progressive push for rural inclusion into the measured universe. This has led to some Ad spends flowing into a whole new genre of FTA players impacting revenue shares of all genres. This has been felt sharper by the urban focused genres such as English. This and an increase in number of channels due to launches have kept revenue under pressure in 2017
>
> **M.K Anand**
> CEO & MD, *Times Network*

> As the TV viewership is growing in India along with Bollywood performing well, Music on TV will also continue to grow. TV music channels have been able to develop innovative content and are now being able to hold onto viewers for much longer than just for snacking
>
> **Pawan Jailkhani**
> Chief Revenue Officer, *9X Media*

Regional languages driving growth

The regional language viewership on Television saw strong growth in 2017, which also led to the segment registering an advertising growth of around 14 per cent[18], faster than the overall television advertising growth. A snapshot of the increase in viewership across major regional languages is outlined as follows:

The Star TV network re-launched its Telugu bouquet of channels in June 2017 under the Star Maa umbrella, with fresh branding and shows. The increasing demand of content in regional languages was further affirmed by Star deciding to telecast the regional feeds of IPL in 2018; with Telugu being available on Star Maa, Bengali on Star Jalsha and Kannada on Star Suvarna Plus; along with a dedicated channel, Star Sports 1 Tamil for the Tamil audience. The result was a 22 per cent increase in the viewership of IPL in regional markets in 2018.[19]

In February 2018, Viacom 18 entered the Tamil GEC market with the launch of Colors Tamil, with an availability across 11 million households in Tamil Nadu and 22 hours of weekly original content at launch.[20]

Change in viewership (2017 vs. 2016)

Language	Percentage Change in Viewership (2017 vs. 2016)
Gujarati	146
Assamese	123
Marathi	74
Bangla	68
Oriya	65
Kannada	63
Bhojpuri	58
Punjabi	38
Telugu	33
Tamil	30
Hindi	27
Malayalam	16
Total	**32**

Source: BARC – 2016 (Week 1-13), 2017 (Week 40-52)

The southern GEC genre also saw acclaimed Hindi TV series being dubbed in regional languages and delivering good numbers. 'Kumkum Bhagya' on Polimer TV and Zee Tamil, 'Naagin' on Sun TV and Gemini TV and the likes of 'Balika Vadhu', 'Udaan' on Raj television was testimony to the popularity of successful Hindi content working in southern markets.[21]

There was also a wave of popular reality shows being adapted for regional audiences. 'Bigg Boss' was launched by Star TV in Tamil and Telugu with Kamal Hassan and Jr. NTR as the hosts. Apart from this, 'Big Boss' is also telecast in Bengali and Kannada.[22] Further, 'Kaun Banega Crorepati' was telecast in Malayalam on Asianet, in Kannada on Suvarna and in Tamil by Sun TV, outlining the acceptance of such formats by regional audiences.

With increasing focus on quality content in the regional markets, the production costs also saw an increase in FY'18. The production cost of a single original episode in the southern languages ranged between INR 0.175-0.2 million[23] and the acquisition price for a single ready dubbed Hindi series episode

> The content costs saw an increase in FY18 on account of significant improvements in the quality and production value of regional content. For non-fiction properties like Big Boss Tamil, the content costs were significantly higher, an indicator of the quality that audiences are now expecting
>
> **K. Madhavan**
> MD- South Business, *Star India*

was between INR 35,000-Rs 50,000 per episode.[24]

The proportion of local advertisers in regional channels ranges from 40-60 per cent, with the remaining being national advertisers, and this mix is skewed in favour of local advertisers for regional GECs outside the top three to four.[25]

Strong TV viewership on digital platforms

While there are 183 million C&S households in India, more than 96 per cent of these are single TV households.[26] This has traditionally restricted the consumption of content on TV to a select few programmes chosen by the main decision maker in the house. However, as the smartphone user base in India has risen to over 300 million[27], other members of the household now have access to personalized TV

> Live TV on digital is emerging as a real trend. With the bundling of broadband and IPTV expected to pick up pace in the future, digital mode of distribution could be important for TV channels going ahead.
>
> **Anuj Gandhi**
> Group Chief Executive Officer - *IndiaCast Media Distribution Private Limited*

18. Based on industry discussions
19. How language was king during IPL, The News Minute, June 2018, accessed on June 25, 2018
20. Viacom 18 enters Tamil Market with the launch of Colors Tamil, Economic times, accessed on May 22, 2018
21. Based on industry discussions
22. Bigg Boss Tamil and Telugu top the charts, TimesofIndia, accessed on May 22,2018
23. Based on Industry discussions
24. The battle for original TV content in Tamil Nadu, IndianTelevision.com, accessed on May 22, 2018
25. Based on Industry discussions
26. Based on industry discussions
27. More than a quarter of India's population will be smartphone users this year, 3 May 2018, accessed on 30 May 2018

viewership on their mobile screens, further helped by access to high speed mobile internet at low costs.

While broadcasters have their own OTT platforms that also offer live TV channels, telecom companies have emerged as front-runners in the 'Digital Live TV' segment with a wide range of live TV offerings to engage their existing customer base. Besides telecom operators and broadcasters, third party applications like Yupp TV and Hooq also offer live TV services.

The following table summarizes the availability of live TV channels across different platforms.

Key platforms offering live TV

Platform name	Telco / Broad-caster / Others	Live TV channels
Sony Liv	Broadcaster	24
Hotstar	Broadcaster	22
Zee5	Broadcaster	90
Airtel TV	Telco	360+
Jio TV	Telco	580+
Idea Movies and TV	Telco	400+
Vodafone Play	Telco	300+
Yupp TV	Independent	270

Source: KPMG in India analysis 2018, based on secondary research

As per industry discussions, consumers spend more than half of their time watching TV content (catch-up and live) on OTT platforms. Live sports and reality TV shows are the most popular genres of content viewed on digital. For example, the reality show 'Big Boss' had a favorable response on the digital platform VOOT due to the availability of exclusive and unseen content.

The digital mode of distribution has helped broadcasters to reach a wider consumer base with negligible customer acquisition costs due to their partnerships with telecom companies. In addition to wider reach, broadcasters stand to gain on monetization as incremental revenues have started to flow to them from these digital platforms. Currently, broadcasters are offering their content to telecom companies on a fixed fee basis. As the measurement of viewership on digital platforms evolves, content deals are expected to have some form of revenue sharing basis the content being watched by a certain volume of users on the digital platforms. The same may prove to be more rewarding for broadcasters in the long run.

Advertising impact on the industry due to GST and RERA

The television industry was coming out of the impact of demonetisation in the January - March 2017 quarter, when the rollout of GST in July 2017 further pushed back the advertising growth for the segment. The FMCG segment, which contributes a large portion to the TV advertising pie, temporarily stopped ad spends on new launches completely and cut down spends on existing products due to de-stocking. Our industry discussions indicate that the overall decline in FMCG spends due to the GST impact was to the tune of 25-30per cent, particularly during the June to September quarter in 2017.

The Real Estate (Regulation and Development) Act and the establishment of regulatory authorities which prohibit real estate companies from advertising new properties unless registered with RERA also impacted the ad spends by Real estate segment in FY18. Due to the initial lack of clarity on the registration process, many real estate companies did not register their projects, leading to a decline in ad spends. On account of the same, the growth of ad spends in the real estate segment was flat in H1 FY18.[28]

28. Based on industry discussions

Sports Broadcasting – Redrawing of the battle lines in FY18

The sports broadcasting landscape in India became a two player market post the completion sale of Ten Sports by Zee to Sony for USD385 million in FY18.[29] With major properties like IPL changing hands, the battle lines in the sports genre have been redrawn over the course of the last year.

Cricket broadcast rights – A Snapshot [30]

Star	Sony
International Cricket Council	Cricket Australia
Board of Control for Cricket in India	England and Wales Cricket Board
New Zealand Cricket Board	Cricket South Africa
Bangladesh Cricket Board	Sri Lanka Cricket
Asian Cricket Council	Cricket West Indies
Indian Premier League	Pakistan Cricket Board
Karnataka Premier League	Zimbabwe Cricket Board
Tamil Nadu Premier League	Caribbean Premier League
	Big Bash
	MCA T20 league

Source: BARC – 2016 (Week 1-13), 2017 (Week 40-52

Star India increased its presence significantly in domestic India cricket after acquiring IPL global rights (including broadcast and digital) for a sum of INR165.7 billion for five years from 2018[31] and retaining the rights for domestic and international matches in India by bidding INR61.7 billion for five years starting 2018.[32] On the other hand, Sony acquired rights from cricket boards in Australia, South Africa and England over the last year to strengthen its cricket offerings in order to offset the loss of IPL.

Over the span of 2018-19, India is slated to play in 11 international cricket tournaments / series which includes 6 tournaments / series to be hosted in India. While Star enjoys a monopolistic position for cricket that will be played in India, along with the IPL; Sony is likely to compete strongly with rights to most of India's overseas bilateral series.

The year also saw Sports making an entry into the FTA space, with the launch of Star Sports First, which is available on the DD FreeDish platform. Star Sports First contributed 31per cent to the overall viewership of the Pro Kabaddi League (Season 5).[33] Based on the average impressions (BARC Week 30-Week 52, 2017, U+R), Star Sports First was the third in terms of overall Sports genre viewership, only behind Star Sports 1 Hindi and Star Sports 1.

FY18 also saw Discovery Network's sports channel DSport entering the market, with a focus on properties such as Horse Racing, Cycling, Golf, Rugby and Football leagues such as Brazilian and Chinese leagues. The channel also entered the lucrative cricket broadcast space with Viacom 18 for live coverage of the Nidahas trophy in Sri Lanka.

The FTA genre and DD FreeDish – Continuing on the growth path

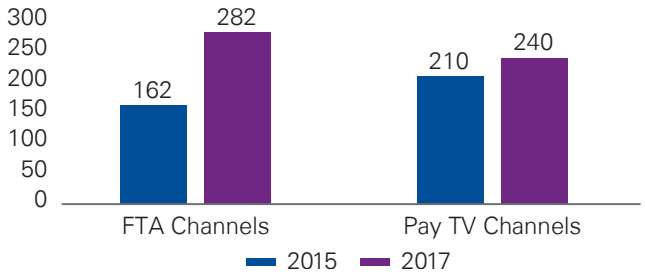
The 'Free to Air' channels continued their strong performance in the last 12-15 months, both in terms of viewership as well as realisations in terms of advertising monies. In fact, the growth of the FTA channels and subsequent measurement of viewership with the inclusion of approximately 99 million rural homes by Broadcast Audience Research Council (BARC), has been one of the major contributing factors to the overall increase in viewership on Television.

The FTA channels contributed a significant 31per cent to the TV viewership in 2017, up from 23 per cent in 2015.[34] The average weekly viewership for sister FTA channels of major broadcasters (Zee TV, Star TV, Viacom 18 and Sony Picture Networks India) contributed 48per cent to the overall viewership of the FTA plus Pay Channels for these broadcasters (considering BARC U+R data Week 13-52, 2017), an indicator of the importance of the FTA channels in the TV landscape today.

Hindi GECs and Hindi movies are genres which dominated the FTA viewership in FY18, owing to the strong footprint of the FTA platform, DD FreeDish in the HSM belt. While the ad rates on these FTA channels continue to be lower i.e. 20-25per cent of their Pay TV counterparts, the overall advertising revenues from these channels continued to grow, reaching a size of INR 1.25-1.50 billion in FY'18,[35] which

29. Zee Entertainment completes sale of Ten Sports to Sony, Hindu Business Line, 18 September 2017 ; accessed on 29 May 2018
30. Sony Pictures Network, Star India stack up for sports broadcast rights, Business Standard, 2 April 2018, accessed on 29 May 2018
31. The Year of big switch in Sports broadcasting, Indiantelevision.com, 19 December 2017, accessed on May 29, 2018
32. Star wins cricket broadcast rights in India for Rs 6,138 crore, Bloomberg Quint, 6 April 2018, accessed on 29 May 2018
33. The Year of big switch in Sports broadcasting, Indiantelevision.com; accessed on May 30, 2018
34. BARC The changing face of TV in India, February 2018; accessed on May 28, 2018
35. Based on industry discussions

Growth of FTA vs Pay TV



Source: BARC, The changing face of TV in India, February 2018; accessed on May 28, 2018

translated to approximately 6 per cent of the total TV advertisement revenues.[36] However, the industry is of the opinion that a part of the advertising monies flowing to the FTAs comes from Pay TV, thus starting to lead to a cannibalization of advertising revenues.

The growth of FTA channels and DD FreeDish have been symbiotic in FY18, with these channels benefiting from the large reach of about 30 million TV households that DD FreeDish provides. Further, traditional Pay TV broadcasters continued to push the INR99 entry level packs, which also led to the continued uptake in consumption of FTA channels.[37]

While the FTA channels traditionally used to air repeat content from the sister Pay TV channels with a fast declining window of broadcast, FY18 saw a couple of important shifts in this trend:

- Original Content on FTAs – The re-launch of Life OK as Star Bharat with a line-up of original programming meant that DD Freedish viewers could watch original programming at the same time as their Pay counterparts, as Star Bharat remains a Pay channel on DTH and MSO platforms. The same underlined the growing importance of DD Freedish.
- Reversal of the shrinking content windows – Owing to pressure from DTH and MSOs, the FTA channels, especially in the GEC genre, have reverted to content windowing of 6-12 months, leading to the restoration of a higher perceived value for a Pay TV customer.

> Freedish continues to be a strong Hindi heartland story that has resulted in strong increase in viewership share of FTA channels over the last one to two years. While the viewership growth for FTA will now slow down, the ad-revenue growth will remain strong due to low-pricing. Freedish also has a huge impact on the subscription revenues for the industry. The much-awaited government policy will determine the future direction for the Freedish platform.
>
> **Anuj Poddar**
> Head – Rural Business and Sr. Executive Vice President, *Viacom 18*

Key private channels available

Genre	Key private channels available
Hindi GEC	Star Utsav, Star Bharat, Zee Anmol, Zee Hindustan, Rishtey, Sony Pal, Dangal TV, Manoranjan TV, Big Magic
Hindi Movies	Star Utsav Movies, Rishtey Cineplex, Zee Anmol Cinema, B4U Movies, Sony Wah, Cinema TV, WOW Cinema, Enterr10, Maha Movie, Manoranhan Movies, Movie House, Housefull Movies, Housefull Action,
News	Zee News, Aaj Tak, ABP News, India News, News 18 India, India TV, News Nation, News State, News 24
Sports	Star Sports First
Music	Sony Mix, 9XM, Mastiii TV, B4U Music, 9X Jalwa, MTV Beats,
Regional Entertainment	Big Magic Ganga, Bhojpuri Cinema, Dabangg, ETV Rajasthan, ETV UP
Devotional	Sadhana TV
TV Shopping	Naaptol Blue, Homeshop 18

Source: DD FreeDish channel list as on 17 April 2018

36. KPMG in India analysis, 2018, based on secondary research
37. Based on industry discussions

The I&B Ministry directives to DD FreeDish

The rapid growth of DD FreeDish and the large reach enjoyed by the platform has resulted in private broadcasters incurring significant outlays as carriage to buy slots on the platform. The Government earned INR 851 million in July 2017 through the sale of eleven slots, with Star Bharat buying a slot at INR 84 million.[38] However, with the growing viewership of private channels on the platform and subsequent inflow of advertising revenues, the I&B ministry has expressed concerns around the relatively low viewership and advertising potential from Doordarshan channels.[39]

These concerns have led to a temporary suspension of the e-auction on the DD FreeDish platform, with no renewals happening currently, and as per our discussions with the industry, the channels are operating with temporary permissions. The Government is currently evaluating options for the platform around allowance of private channels and whether to introduce a revenue sharing model.

However, key broadcaster discussions indicate that revenue sharing is not a practical solution as it may not be possible to segregate the viewership of an FTA from FreeDish and other distribution mediums. While broadcasters are currently net distribution negative when it comes to FreeDish, only the major ones are being able to recover the carriage through advertising revenues. Broadcasters, nonetheless have indicated that they are hopeful of a resolution to this standoff, given the importance of both the platform and content of private channels in serving the entertainment needs of the rural audiences.

> We believe that the use of FreeDish is a sampler for eventual adoption of Pay TV by households. The consumer journey in the long run will evolve from FreeDish to cable TV, SD DTH and eventually HD DTH.
>
> **G Sambasivan**
> Chief Financial Officer, *Tata Sky*

GECs experimenting with content

Entry of Discovery JEET

FY18 saw the entry of a new player in the GEC space, with the launch of Discovery JEET in February 2018, with its stated focus on entertainment with a purpose. The channel launched with eight new shows including biopics on Baba Ramdev and a historical programme based on the battle of Saragahri. However, the lack of uptake by the audiences led to the channel pulling back on original programming by June 2018, instead focusing on providing dubbed international content.

Experimentation with non-prime time bands

A key trend in FY18 was the focus on non-prime time slots by major broadcasters. Star TV looked to reinvent the afternoon slot with original content on Star Dopahar, launching four original 30 minute shows between 12 noon and 2 pm. However, due to insufficient ratings, the slot was discontinued in September 2017. Colors also looked to make a mark in the afternoon/early afternoon slot, albeit only on Sundays, by introducing non-fiction.[40] As per industry estimates, the ad rates for the afternoon slot were 40-50per cent of the equivalent prime time rates.

Colors looked to exploit the early prime time slot with its shows from 5.00 p.m. 6.30 p.m. Sony Entertainment Television also introduced new shows in the 7.00 p.m. and 7.30 p.m. slot, while Zee TV also launched a kids show at the 6.30 p.m. slot.

Revamp of Life Ok and original programming on Star Bharat

Star TV completely revamped their second Hindi GEC by rebranding Life OK into Star Bharat from August 2017. Except for 'Savdhaan India', the entire roster of shows was refurbished including devotional music reality show 'Om Shanti Om', political and revenge dramas, as well as sitcoms.[41]

The interesting aspect around Star Bharat was its distribution strategy. The channel was available on the FTA platform DD FreeDish while it remained as a Pay channel on other distribution platforms. The availability of such original programming on a FTA platform has the potential to disrupt the market, from giving a fillip to the overall FTA genre and advertising revenues from the same, while on the other hand; potentially leading to negative ramifications for Pay TV in the long run, as no content differentiation exists on the channel for a paid or a free subscriber.

38. DD earns Rs.85 crore from auction of 11 slots, Economic Times, July 2017, accessed on 29 May 2018
39. I&B ministry asks Prasar Bharati to explain DD free dish continuation, Economic Times, April 2018, accessed on May 29, 2018
40. 2017 a year of rebranding and extending time slots for Hindi GECs, Indiantelevision.com; January 2018, accessed on May 28, 2018
41. Star India rebrands Life OK as Star Bharat, Exchange4Media, July 2017; accessed on May 28, 2018

Kids channels doubling down on local content

The importance of the Kids audience in India TV is evident by the fact that age group 2-14 accounted for 20 per cent of all TV impressions in 2017, with a high stickiness for the above mentioned target audience, with Average time spent ranging from 35-60 minutes.[42]

The year FY18 saw relaunch of Animax into a new kids channel by SPN India, named Sony Yay!, with a focus on locally-produced animated shows. The channel reportedly has retained IPs for all the animated shows, which with Indian characters, hold promise in terms of long term monetization potential.

At an industry level, the shift towards local stories and content on kids channel continued in FY18, which was also helped by the rising skill levels and storytelling capabilities of the Indian Animation and VFX organizations. Local IP, which takes about 15-18 months[43] to develop, is more relatable, is relatively easier to establish as compared to dubbed content and ownership of the IP can yield long term Licensing and Merchandising revenues. The mix of local IP to acquired content on Indian kids channels stands at around 50:50 currently.[44]

Disney's 'Chacha Bhatija', Turner's 'Tik Tak Tail' and 'Andy Pirki', Discovery's 'Little Singham' and Sony Yay's 'Guru aur Bhole' were some of the originals launched in the last 12-15 months in the genre.

> Technology has always been a catalyst for transformation in media and entertainment, but the one constant has been the audience's appetite for great storytelling. High-quality, original content will continue to be the key to success. Strong brands and franchises will inevitably fare better in this time of increasing consumer choices and that's what will keep Disney relevant in this ever changing M&E landscape.
>
> **Abhishek Maheshwari**
> Country Head – *Disney India*

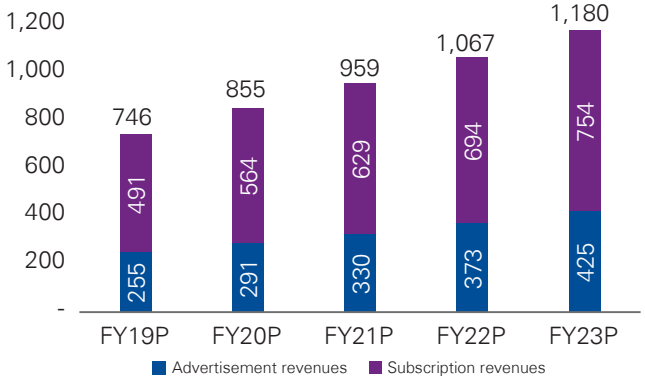
The cost of producing such content, however, remains expensive, with a local animated episode costing INR 2-2.5 million, much higher than comparable costs at a Hindi GEC. The ad rates for a 10 sec slot on leading kids channels range from an average of INR 4,000-5,000.[45]

> Kids are digital natives and early adopters of all new trends and technology. They are very opinionated and have strong views on the products and brands they consume. Kids have also emerged as in house consultants as they influence all household decisions. This along with the fact that the kids category in India has significant co-viewing has led to an increasing number of non-kid advertisers across categories like consumer durables, e-commerce, banking and insurance coming on-board to engage with kids and their parents.
>
> **Nina Elavia Jaipuria**
> Head – Kids Entertainment Cluster, Viacom18

Growth of the television industry - Looking ahead

The television industry is projected to reach a size of INR 1,180 billion by FY23, a robust CAGR of 12.6 per cent[46] over FY18-FY23. The growth across advertising and subscription sub-segments is outlined as below

TV industry size projections (in INR billion)



Source: KPMG in India analysis, 2018, based on primary research

42. BARC, A peek into kids viewership, November 2017; accessed on June 5, 2018
43. Based on industry discussions
44. Based on industry discussions
45. Based on industry discussions
46. KPMG in India analysis, 2018, based on primary research

Advertising revenues

Advertising revenues are expected to grow at a healthy CAGR of 13.7 per cent from FY18-FY23, recovering from a slower growth at 10.3 per cent in FY18.[47]

FY19 is expected to be a better year for the TV industry, with advertising revenues growing to INR255 billion at a robust rate of 14.1 per cent.[48] The growth is likely to be driven by the following factors:

- The impact of GST implementation, which pulled ad revenues down in FY18, has started to wane away in Q4 FY18, and robust growth is expected in FY19
- Increase in government spending on account of upcoming eight assembly and general elections in FY19
- Anticipated increase to the tune of approximately 30 per cent in the ad monetization from IPL 2018[49]
- Expected robust viewership from the FIFA world cup 2018
- Revival of spends by FMCG, Auto and BFSI segments on the back of continued rural demand and initiatives by the government to tap the rural markets, especially in the digital payments segment.

> As an industry, the worst is behind us and the next three to four years will be strong ad revenue growth years. Hindi GECs and Hindi movie channels will continue to be the main drivers of this growth mainly on the back of the high reach they deliver. Sports is the other genre which will see a huge growth in revenues and will command premium rates for marquee properties. FY19 being an election year will see government spends increase substantially in Hindi News and also the regional space.
>
> **Rohit Gupta**
> President - Network Sales and International Business, *Sony Pictures Networks India*

Over the long run, the overall TV advertisement spends are expected to grow on the back of sustained TV viewership from both urban and rural audiences as well as continued returns from the large investments that have been made by broadcasters in sports properties, especially cricket. However, with rising levels of content consumption on OTT platforms, advertisers could look to shift some of their marketing spends to digital platforms.

> Television advertising needs to move away from a cost plus pricing to a value-based pricing, especially for some under indexed genres like the regional language ones, in order to fully harness the value of the eyeballs being reached. Additionally, CPM/CPT rather than GRP-based monetization, is what will capture the real value of eyeballs.
>
> **Punit Misra**
> CEO, Domestic Broadcast Business, *ZEE Entertainment Enterprises Ltd.*

Subscription revenues

The subscription revenue growth is likely to remain strong in FY19 at INR491 billion, growing by around 15 per cent from INR428 billion in FY18[50] on account of the following factors:

1. MSO realisations from LCOs are likely to improve with the implementation of subscriber management systems
2. MSOs are expected to hike prices in the Phase III and IV markets to bridge the huge gap in prices compared to Phase I and II markets
3. DTH operators are expected to raise package prices after the mix moved towards lower ARPU packages in FY18
4. Implementation of the TRAI tariff and interconnect guidelines are likely to help in the upstreaming of revenues from the LCOs to the entire value chain, bringing in greater transparency in the system
5. Rising HD subscriber base in Phase 1 and 2 are likely to lead to an increase in realisations for the distribution industry.

47. KPMG in India analysis, 2018, based on primary research
48. KPMG in India analysis, 2018, based in primary research
49. Based on industry discussions
50. KPMG in India analysis, 2018, based on primary research

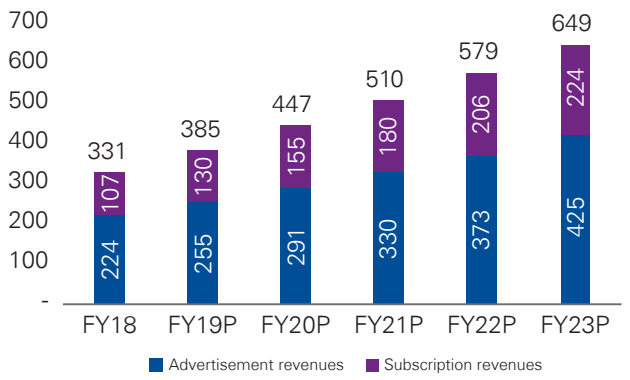
> The DTH industry will witness growth opportunities from newer avenues in the near future. The higher adoption of ARPU additive HD subscriptions, as well as migration of subscribers from legacy platforms will bode well for the organic growth of the entire industry. Consolidation in the space may also lead to pricing power in the days to come.
>
> **Rajeev Dalmia**
> CFO,
> *Dish D2H*

In the long run, subscription revenues for the TV industry are expected to grow at a rate of 12 per cent from FY18 to FY23, to reach a size of INR 754 billion by FY23. The growth is likely to be driven by higher realisations from Phase III and IV markets, eventual implementation of the tariff order and higher uptake of HD channels.[51] The uptick in realisations from the Phase III and IV markets is expected to start accruing over FY19 and FY20.

Broadcaster industry estimates

The revenues of broadcasters are expected to reach INR649 billion in FY23, implying a growth at a CAGR of 14.4 per cent from FY18 to FY23, on the back of faster growth of 15.8 per cent in subscription revenues during the same period.[52] Subscription revenues are expected to increase going forward due to an increase in the revenue share earned by broadcasters from digital cable operators on account of implementation of the tariff order and the resultant fair distribution across the value chain.

Broadcaster industry size (in INR billion)



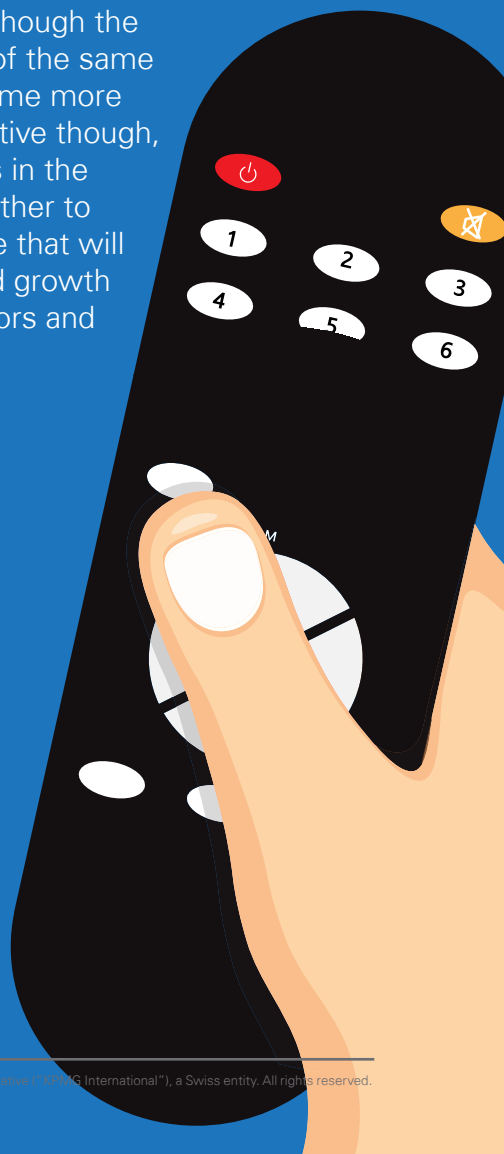
Source: KPMG in India analysis, 2018, based on primary research

51. KPMG in India analysis, 2018
52. KPMG in India analysis, 2018

Conclusion

From a relatively subdued run in FY'18, the Television segment is expected to bounce back and continue on the growth trajectory it has been on since the last few years. The growth in TV consumption across most of the genres, coupled with traction on Live and Catch up TV being viewed on Digital platforms, points to the fact that Television is likely to continue being the dominant mode of media consumption in India.

However, challenges around equitable distribution of revenues across the value chain remain. While there have been efforts by the industry and the Government on bringing in clarity around the same, a clear consensus amongst industry participants has not yet emerged. It is envisaged that the Government regulations going ahead may bring in the intended benefits of digitisation, although the implementation of the same will likely take some more time. It is imperative though, that stakeholders in the industry get together to create a structure that will ensure continued growth for content creators and distributors.



Print
Hanging on

Overview

As the oldest pillar of the media and entertainment industry, print media has survived through peaks and troughs over a period of time. FY18 was a challenging year for the Indian print industry, as growth was the lowest in a decade at 3.4 per cent.[1] Hindi and regional newspapers performed relatively better (4.7 per cent and 4.2 per cent respectively),[1] while English newspapers struggled, registering a growth of 1.5 per cent.[1] The industry had to tide against multiple roadblocks. In the first half of the fiscal year, demonetisation and implementation of the new tax regime Goods and Services Tax (GST) disrupted growth. In the second half, as signs of revival emerged on the back of a good festive season and a steadier GST regime, the rise in cost of newsprint dampened spirits.[1]

Size of India's print industry

Amount in INR billion

Segments	FY14	FY15	FY16	FY17	FY18	Growth in FY18	CAGR % FY14 – FY18
Advertising	166.0	179.6	192.2	204.3	210.7	3.1%	6.1%
Circulation	82.1	88.7	96.1	104.0	108.2	4.0%	7.1%
Total	**248.1**	**268.3**	**288.3**	**308.3**	**318.9**	**3.4%**	**6.5%**

Note: Above numbers exclude the revenue from digital medium
Source: KPMG in India's analysis, 2018

Segment-wise size of India's print industry

Amount in INR billion

Segments	FY14	FY15	FY16	FY17	FY18	Growth in FY18	CAGR % FY14 – FY18
Newspaper revenue	234.3	254.0	274.1	295.0	306.4	3.9%	6.9%
Magazine revenue	13.8	14.3	14.2	13.3	12.5	-6.0%	-2.4%
Total print market	**248.1**	**268.3**	**288.3**	**308.3**	**318.9**	**3.4%**	**6.5%**

Note: Above numbers exclude the revenue from digital medium
Source: KPMG in India's analysis, 2017-18

While the print industry seems to be on the decline globally, India saw a 6.5 per cent growth year on year during the period FY14 to FY18.[1] However, in the current fiscal year, the circulation showed growth of mere 4.0 per cent.[1]

Advertisement revenue growth was lower in FY18 as compared to the previous years and it was only towards the later part of the year that advertisers were seen releasing budgets.[1] Local advertisers increasingly contributed to advertisement spends though this also exposed the industry to setbacks as local adspend had a greater adverse impact due to GST rollout. Advertisement revenue in English newspapers continued to lead Hindi and regional newspapers.

Magazine players in India seem to have transformed into content providers where content is available not only as printed magazines but across platforms such as mobile apps and websites through a subscription model. However, only a few brands with niche content are able to survive in the market which is demonstrated by the gentle de-growth in the magazine share of the Indian print industry.[1]

India is experiencing a digital wave with significantly improved connectivity, large and rapidly growing smartphone base, cheap data and a young population. Traditional newspapers are increasing their investments in digital properties as an integral supplement to their print strategy. Many only-digital

1. KPMG in India's analysis, 2017-18 based on industry discussions.

players are also striving to create a niche in the highly competitive market. Some in the print industry continue to blame the digital disruption for muted growth in the current year; however, the oldest media has been grappling with problems of its own such as increasing newsprint cost and wage board disapproval, which has intensified pressure on the margins.

> This year would be a year for tightening our belts. The focus would be on leaner workforce, more optimised print production reducing wastage, moving to a more integrated digital and print newsroom and digital revenue monetisation.
>
> **R Lakshmipathy**
> Joint Director
> *Dinamalar*

> An aspect to be considered and accounted for is the significant role that print-digital convergence is playing: in terms of content consumption, subscription sales and virtual activations, in terms of increasing time-spent of readers, and adding the 'experiential' dimension to the two-dimensional page. This will play a pivotal role in the sustenance of newspapers and in its monetisation, but no measurement matrix in the market exists as of now to measure the relative worth of newspapers and the collective audiences it thus accumulates - something that could be invaluable to agencies and brands. This is where the future will go, and we need to find ways to anticipate this.
>
> **Probal Ghosal**
> Whole Time Director
> *Amar Ujala*

Circulation - Dominance of Hindi and regional newspapers continues

During FY17 Hindi newspapers continued to dominate the circulation pie with 49 per cent share, while share of other regional language newspapers increased to 39 per cent and that of English newspapers remained flat at 12 per cent.[2] Even though Hindi continues to dominate the circulation pie, it seems to be losing its share to regional newspapers[2] as they gain more traction in tier II, tier III cities and in rural areas. In case of other regional languages, local players over the past few years, have created brand equity and strong customer loyalty.

As compared to the past few years, the growth in FY18 was due to the increase in cover prices as against volumes. Some players increased their

Year-on-year language-wise circulation revenue

Amount in INR billion

Languages	FY14	FY15	FY16	FY17	FY18	Growth in FY18	CAGR % FY14 – FY18
English	29.4	31.1	32.6	33.9	34.3	1.2%	3.9%
Hindi	26.7	29.9	33.3	36.7	39.1	6.5%	10.0%
Regional	26.0	27.7	30.2	33.4	34.8	4.2%	7.6%
Total print market	**82.1**	**88.7**	**96.1**	**104.0**	**108.2**	**4.0 %**	**7.1%**

Note: Above numbers exclude the revenue from digital medium
Source: KPMG in India's analysis, 2018

2. Indian Readership Survey (IRS) 2017

cover prices to offset the impact of increase in cost of newsprint - the strategy was adopted across languages.

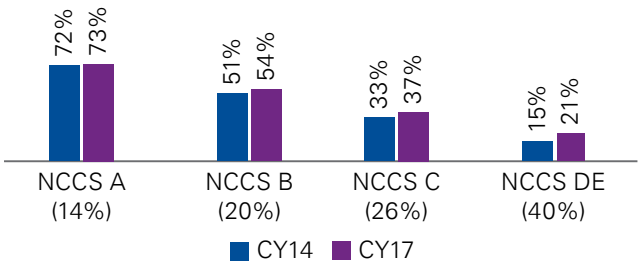
In recent years, muted growth and increasing competition from digital in key markets has driven English newspapers to move faster in developing their digital strategy as compared to regional language players. However, monetisation of inventory remains a challenge. On the other hand, the ability of Hindi and other regional language newspapers to present regional news along with national content multi-edition newspapers and supplements have expanded their reach and acceptability amongst readers. While the urban-rural divide plays out, the surge in rural readership backed by strong and definitive changes in demographics such as increase in literacy, change in lifestyle, and demand for more content in a language of reader's choice give language newspapers the edge. For instance, IRS 2017 indicates growth in Hindi newspapers (dailies) over the past few years is largely due to increased readership in the core Hindi language areas, where increase in literacy rates surpassed the growth percentage of the national average.[3] Also, contrary to belief, a younger population (below age of 40 years) is driving demand as reading newspapers is perceived by them as a status symbol.

As per IRS 2017, the growth in New Consumer Classification System (NCCS) category D/E, comprising 40 per cent of the total population, was the highest from 15 per cent to 21 per cent.[3] As this category largely comprises of relatively less educated population, they are generally affiliated to Hindi and regional newspapers as compared to English language newspapers. The next is the NCCS C category, where readership is driven by people who were previously in category D/E, but a change in their social status and education level has resulted in a change in the category.

Key takeaways from the IRS 2017 report:

- Only one English publication is in the top 10 publications list[3]
- The most coveted consumption classes - the middle class and the rich, are both growing. Approximately 63 per cent of individuals have completed school, 10 per cent are graduates and 27 per cent are illiterate[3]
- Growth in readership is seen substantially from rural population as compared to urban which comes from the Hindi and regional language newspapers[3]
- Overall readership of magazine grew over 75 per cent in 2017 as compared to 2014.[3]

NCCS-WISE readership in CY14 and CY17

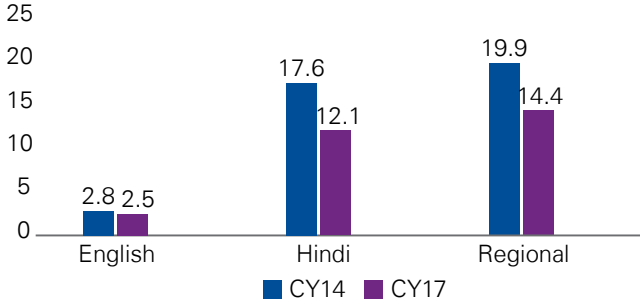


Source: Indian Readership Survey (IRS) 2017

3. Indian Readership Survey (IRS) 2017

> The Indian Media and Entertainment (M&E) industry is in the midst of exciting times and rapid change. With a renewed thrust on education, literacy levels have been improving, resulting in positive growth in readership. Reach is improving significantly across the Indian print media segment, which is compelling us towards delivering a more engaging, diverse and localised platter of content. According to the latest Google and KPMG in India report, Hindi is emerging as one of the fastest growing languages. This indicates that innovation in content across platforms will become key to success. A strong understanding of reader preferences and on-ground realities across India's fast-growing tier II, tier III cities and towns will be a distinguishing factor to create unique value propositions for brands and advertisers who want to engage with diverse audience segments across the country.
>
> **Satyajit Sengupta**
> Chief Corporate Sales and Marketing Officer
> *Dainik Bhaskar Group*

NCCS-wise readership in CY14 and CY17



Source: IRS 2017 report (Dailies: Growth seen across languages)

Advertising – Ebbs and flows continue

In FY18, while the Media and Entertainment (M&E) industry as a whole was still recovering from the after effects of demonetisation, the implementation of GST saw advertisers cut down on their advertisement budgets again, which impacted many of the mediums of advertising. As the second largest contributor,[4] print also experienced tremors. GST brought under its gambit print advertising which is now taxed at 5 per cent. Adspend appears to have reverted back to normal levels in the second half of the year.

Year-on-year language-wise ad revenue

Amount in INR billion

Languages	FY14	FY15	FY16	FY17	FY18	Growth in FY18	CAGR % FY14 – FY18
English	63.2	66.2	69.2	71.6	72.8	1.7%	3.6%
Hindi	50.7	55.5	59.8	64.3	66.6	3.6%	7.1%
Regional	52.1	57.9	63.2	68.4	71.3	4.2%	8.2%
Total print market	**166.0**	**179.6**	**192.2**	**204.3**	**210.7**	**3.1%**	**6.1%**

Note: Above numbers exclude the revenue from digital medium
Source: KPMG in India's analysis, 2018

4. Dentsu Aegis Network Report on Digital Advertising in India 2018

While FY18 has been an aberration, English newspapers have consistently seen weak growth rates with a CAGR of only 3.6 per cent during the last five years.[5] English newspapers are struggling with readership as they are the first ones to move to the digital platform. The ad rates from digital advertisements are not enough to compensate for loss of advertisement revenue from the traditional platform.

On an overall basis, print advertising revenues saw a CAGR of 6.1 per cent in the last five years primarily on the back of strong growth in Hindi and regional newspapers.[5] In addition to local advertisers, national advertisers are increasingly advertising in Hindi and regional newspapers to target rural, tier II and tier III markets with increased focus.

Year-on-year language-wise ad revenue

Amount in INR billion

Categories	CY17	CY16	CY15	Change from CY16
Fast moving consumer goods (FMCG)	14.0%	15.0%	14.6%	▼
Automobile	14.0%	14.0%	12.8%	■
Education	10.0%	10.0%	9.8%	■
Real estate	6.0%	6.0%	7.0%	■
Retail	6.0%	5.0%	5.6%	▲
Clothing/fashion/jewellery	5.0%	5.0%	6.0%	■
Banking, financial services and insurance (BFSI)	5.0%	5.0%	4.7%	■
E-commerce	4.0%	3.0%	4.3%	▲
Others	36.0%	37.0%	35.2%	▼

Source: The Pitch Madison Advertising Report, 2018

Legends:- ▲ Increase, ▼ - Decrease, ■ - no change

There has been no major changes in the sectoral contributions to print advertising. While FMCG sector is the largest contributor, there is a noticeable shift of local brands to Hindi and regional publications. The real estate sector, still recovering from the impact of Real Estate Regulatory Authority (RERA), was flat in terms of its contribution to advertisement expenditure (adex), however, it saw a de-growth of 7 per cent in terms of its contribution to growth.[6]

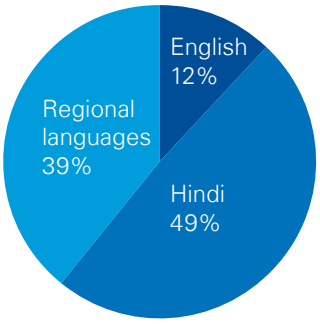
In FY18, the Central Government through General Financial Rules (GFR) 2017 has stopped the practice of compulsorily publishing tender notices in the print media as only online advertisements of tenders will be required. While, there is no estimate of the loss of revenue to the industry as a result of this, in a difficult year, this has come as another blow.

5. KPMG in India's analysis, 2017-18 based on industry discussions.
6. Pitch Madison Advertising Report 2018.

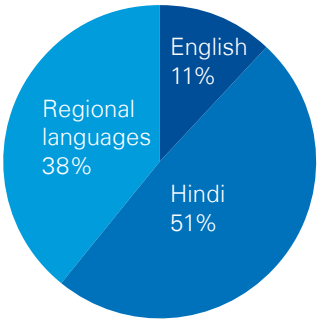
Key themes

Circulation continues to grow and is dominated by Hindi and language publications

Total circulation in FY17

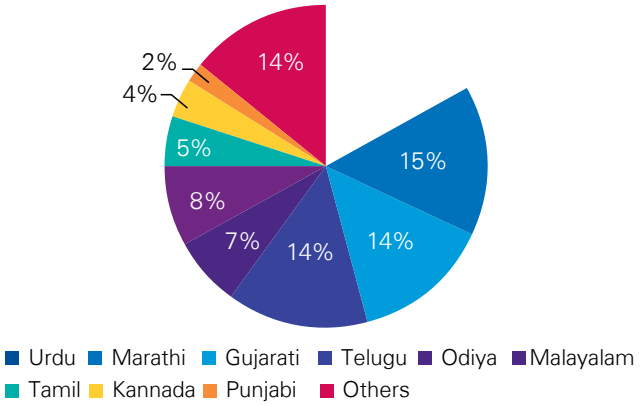


Total circulation in FY16



Source: Registrar of Newspapers of India, 2017 and 2016 data as on 31 March 2017 and 31 March 2016 and KPMG in India's analysis, 2018

Regional languages circulation share FY17



Source: Registrar of Newspapers of India, 2017 and 2016 data as on 31 March 2017 and 31 March 2016 and KPMG in India's analysis, 2018

> According to IRS 2017, total readership of magazines has doubled in the last four years, which is a significant development, particularly when the clamour is that magazines are losing out in the digital era. Also it is pertinent to note that 72% of the readership of English magazines is coming from the age group of 12-30, reinforcing the relevance and future of magazines.
>
> **Rajmohan**
> President
> *All India Magazines*

The industry is driven by a few family-owned businesses which have grown over the years. Based on Indian Readership Survey 2017, the top publications in terms of readership were as under:

Publication name	Language	Readership in CY17	Publication name	Language	Readership in CY14
Dainik Jagran	Hindi	70,377,000	Dainik Jagran	Hindi	16,631,000
Hindustan Times	Hindi	52,397,000	Hindustan Times	Hindi	14,746,000
Amar Ujala	Hindi	46,094,000	Dainik Bhaskar	Hindi	13,830,000
Dainik Bhaskar	Hindi	45,105,000	Malayala Manorama	Malayalam	8,803,000
Daily Thanthi	Regional	23,149,000	Daily Thanthi	Tamil	8,283,000
Lokmat	Regional	18,066,000	Rajasthan Patrika	Hindi	7,905,000
Rajasthan Patrika	Hindi	16,326,000	Amar Ujala	Hindi	7,808,000
Malaya Manorama	Regional	15,999,000	The Times of India	English	7,590,000
Eenadu	Regional	15,848,000	Mathrubhumi	Malayalam	6,020,000
Prabhat Khabar	Hindi	13,492,000	Lokmat	Marathi	5,887,000

Source: IRS 2017 report (Top dailies by languages).

Language-wise certified circulation (dailies) - CY17 vs CY16

Language	CY17	CY16	Change in circulation
Hindi	43,839,764	44,130,433	↓
English	15,314,555	16,423,005	↓
Malayalam	9,275,251	8,871,530	↑
Tamil	6,712,423	8,442,690	↓
Telugu	7,657,414	7,245,227	↑
Marathi	7,420,071	7,731,961	↓
Bengali	5,679,173	5,790,913	↓
Kannada	5,155,179	5,361,798	↓
Gujarati	1,827,474	1,790,614	↑
Punjabi	1,547,409	1,584,706	↓

Note: ABC data/trends are based on publications registered with the body and based on data shared by these publications thus may not be representative of the print industry.

Source: ABC Highest Circulated amongst ABC Member Publications (across languages), the Audit Bureau, January 2017 to June 2017, July 2017 to December 2017, January 2016 to June 2016 and July 2016 to December 2016 and KPMG in India's analysis, 2018

Key highlights of ABC data are as follows:

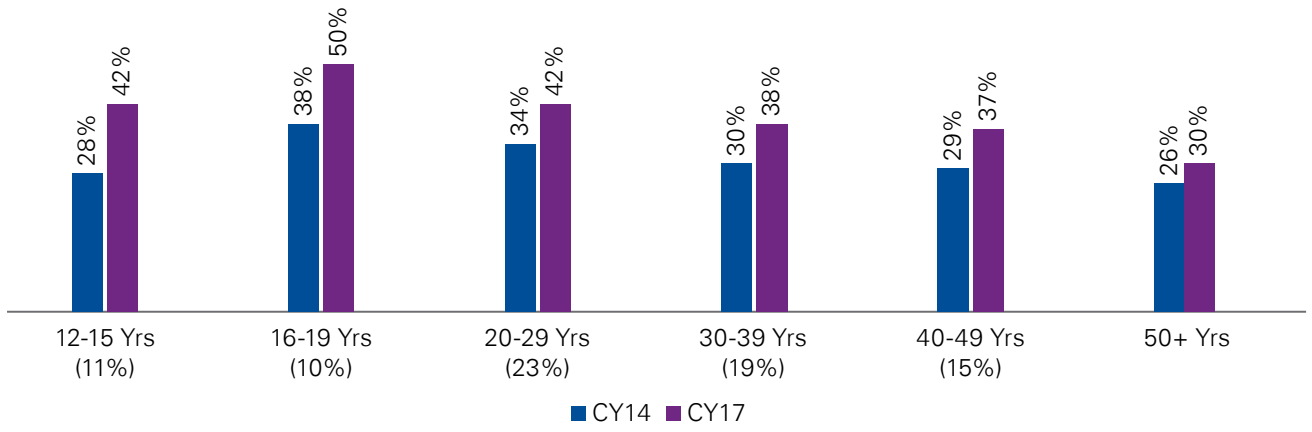
- Hindi dailies continue to lead circulation
- English dailies continue to lose ground to digital news
- In CY17, the period between July and December was impacted due to the rollout of GST and rising newsprint cost, thus for most regional newspapers, circulation was lower compared to CY16. However, January to March 2018 was a steady quarter, witnessing single digit growth
- Malayalam, Telugu, and Gujarati dailies grew, driven by macro factors.

Change in reader's profile

Rising literacy level, including among women, and a stronger economy has resulted in expansion of middle class and aspirational class which considers reading newspapers a status symbol.[6]

In terms of age, India is a young country with two-third of the population under 40 years. As per IRS 2017, average readership increased to 42 per cent from 32 per cent in 2017, growing at 9.1 per cent CAGR.[7] This surge in readership is largely driven by Hindi and regional language newspapers in tier II, tier III cities and rural areas.

Agewise readership in CY14 and CY17



Source: Indian Readership Survey (IRS) 2017

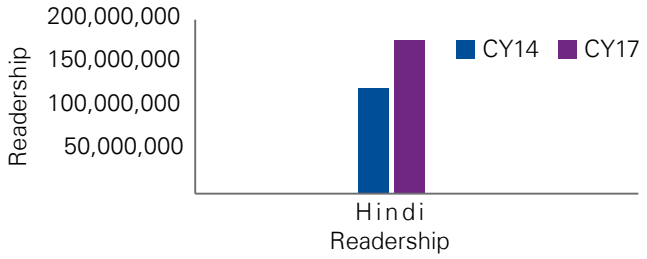
Growth in readership is largely witnessed in the age group below 30 years.[7] This indicates a headroom for long term growth and protection from the loss of revenue on account of near age mortality.

Language newspapers – Driving the sector

In India, two-thirds of the population lives in rural areas, with more than 160 million households.[8] Over the past two decades, rural population has become an influential consumer group with higher income levels and improved tastes and preferences, resulting in the growth of language newspapers. This has compelled the language newspapers to focus on hyper-localisation and regional news. Newspapers have capitalised on this need and have launched schemes which enable readers to buy two newspapers at a low price. This trend is expected to continue as most of the major publishers are working towards strengthening their presence in the existing markets. Over the recent years, print players have launched newer editions with an emphasis on non-metro cities and smaller towns. India's current literacy rate stands at 74.04 per cent with rural literacy rate at 68.91 per cent and urban literacy rate at 84.98 per cent.[9] The fastest growth in newspaper circulation was in states with strongest growth in literacy. While national literacy rates have gone up from 52 to 74 per cent (a growth of 42 per cent) between 1991 and 2011, the rise has been rather swift – from 42 to 69 percent, which means a growth of 65 per cent in the Hindi language of Bihar, Jharkhand, Uttar Pradesh, Uttarakhand, Madhya Pradesh, Chattisgarh and Rajasthan.[9] As per IRS 2017, readership in Hindi newspapers grew 45 per cent from 2014 to 2017, at a CAGR of 13 per cent[7]. Further, regional language newspapers continued to achieve double digital growth in this period.

6. KPMG in India's analysis, 2017-18 based on industry discussions.
7. Indian Readership Survey (IRS) 2017
8. http://www.usistef.org/affordable-clean-cookstove-and-electric-power-sources-for-rural-India.aspx
9. 2011 Census, conducted by Government of India

Hindi language wise readership CY17 and CY14

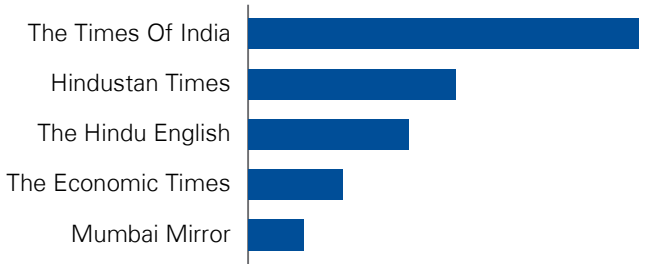


Source: Indian Readership Survey (IRS) 2017

IRS Readership - Hindi newspapers

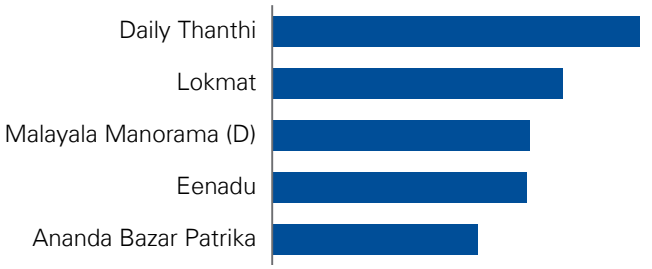
Source: Indian Readership Survey (IRS) 2017

IRS Readership - English newspapers



Source: Indian Readership Survey (IRS) 2017

IRS Readership - Regional newspapers

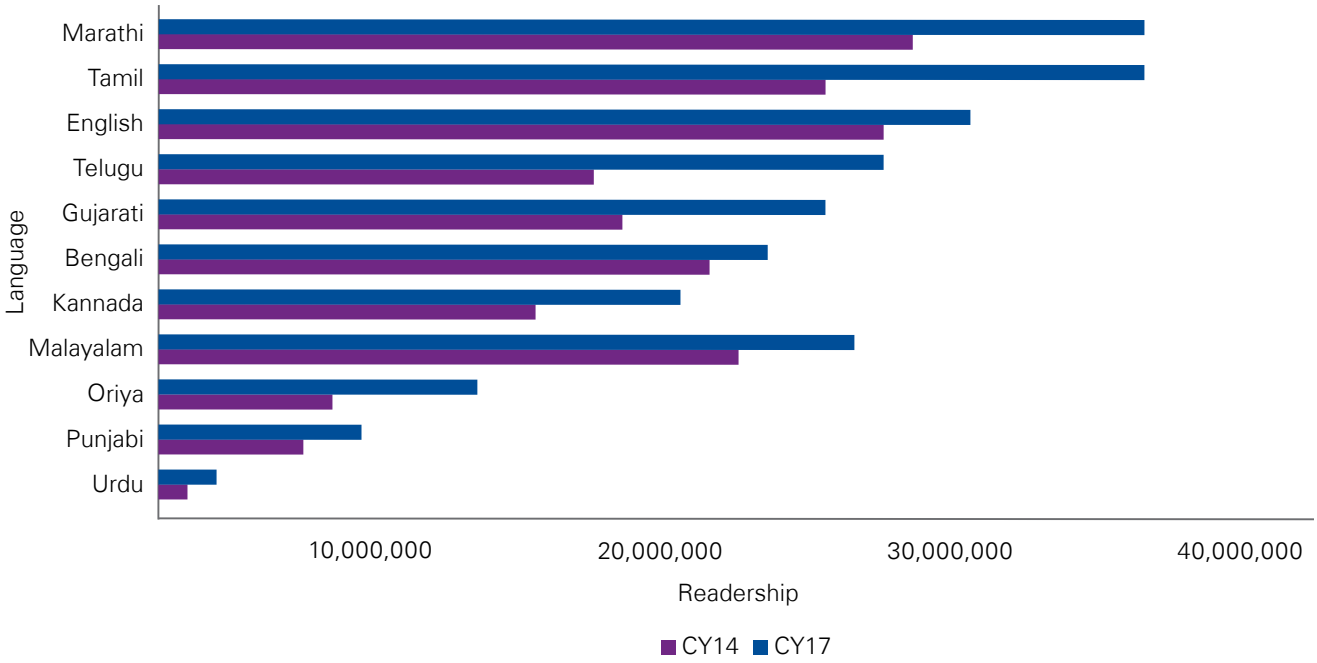


Source: Indian Readership Survey (IRS) 2017

> The growth potential of India's M&E industry clearly lies in 'Bharat' as India's rural and semi-urban areas continue to expand, reflecting a compelling story with about 10 new metros and 26 mini metros on the course of development. Trends in traditional newspaper readership in India continue to be biased towards greater affinity for Indian language newspapers. The next few years are poised to be more exciting as India is counting about over 500 million internet users and a large youth population. Quality news and entertainment are some factors that will continue to drive the M&E industry's growth to play an increasingly stronger role in empowering the nation.

Girish Agarwaal
Promoter Director
Dainik Bhaskar Group

Regional language wise readership CY17 and CY14



Source: Indian Readership Survey (IRS) 2017

Credibility of newspapers

In recent times, with the advent of fake news, industry experts believe the credibility of digital news is affected. This is where print continues to dominate with its strong brand equity. The perceived credibility of print is fuelling its continued growth in India. While globally the adverse impact of digital media is evident, digital has not been able to make a significant dent in the Indian print market yet, as print and digital media are currently complementing each other in the Indian media space. In the regional language media, the ratio between advertising revenue and reader revenue or circulation has always been healthy, unlike in the national media, where the circulation revenue was miniscule when compared to advertisement revenue. Print has taken a long time to build a loyal base; it is difficult for other mediums to replicate this in a short period of time.

Rising newsprint prices

Newsprint prices have gone up from INR36,000 per ton to INR55,000 per ton[10] in the past one year partly owing to the increase in USD rate from INR 64.84 to INR 68.65[11] per USD. In the current year, China started importing newsprint after the country stopped producing its own newsprint citing environment concerns, resulting in a surge in global demand for newsprint. Print industry in India witnessed approximately 40 per cent rise in newsprint prices.[12] The newsprint price has been increasing over the past nine months ending 31 March 2018, which has further distressed margins. With the cost of input amplified by more than 50 per cent and lack of convincing means to compensate it by rise in revenue, the overall impact is expected to be around INR4,600 crore per year.[12] While a few newspapers are planning to cut down on pages, few are expected to increase the cover price and advertisement rates. Industry experts believe the print industry should put in combined efforts as newsprint cost adds up to about 60-65 per cent of input costs and is expected to erode the bottom line. The subscription prices are low, and an increase of a couple of rupees might not impact circulation in the long run. Few in the industry also believe that if increase in newsprint cost is passed on to advertisers, there may be a possibility that advertisers may evaluate other options.

10. CRISIL Report on M&E, April 2018
11. Reserve Bank of India's Reference Rate for the US Dollar
12. https://www.exchange4media.com/spotlight/newsprint-price-spike-may-burden-print-industry-with-over-rs-4600-cr-additional-cost_91333.html.

> Circulation is critical to the growth of the industry. Advertising is dependent on the economic conditions over which the industry has no control. Also, small markets will take their own time to grow to generate advertising commensurate to circulation. Therefore, cover prices which are the lowest in the world, have to move up to ensure some predictability in growth, consistency in value accretion for print media companies and deeper penetration as against concentration of newspaper in advertisement friendly markets only. Besides increase in cover prices, the industry should also work to stop extraction by newspaper distributors who are forcing publishers to pay commission upwards of 30 per cent which is unheard of in any industry. I firmly believe both are possible provided the industry is united. Improvement of even INR1 in per copy realisation and increase at even inflation rate in subsequent years is capable of changing the industry's fortunes, which, in turn, will help increase penetration and improve quality.

R. K. Agarwal
Chief Financial Officer
Jagran Prakashan Limited

Consistent and ongoing measurement is critical

For the past few years, the industry and advertisers have been relying on circulation numbers presented by agencies ABC and RNI. The industry believes there are two major issues with the data - these are only for publications registered with the agencies and thus not necessarily representative of the print industry as a whole and, these being circulation, and not readership numbers, their relevance stands diminished in terms of what advertisers like to gauge.

IRS 2017 has provided the much needed impetus to the print industry. Their surveys do give some directional inputs to spends of advertisers. Weightage and allocation for individual print publications and language-wise division are expected to change. While the approach towards print advertising is expected to continue to be the same, new reporting variables are expected to help look at the numbers in a new light and derive meaningful insights. Some of the key trends include growth of readership driven by rural markets across languages, increase in variant readership and growth of infrequent readership. The IRS survey is expected to benefit the language newspapers, as most advertisers are looking for opportunities to expand their reach to rural population, which is largely an untapped market. There is an evident shift, with advertisers increasingly looking at opportunities in Hindi and other Indian language markets due to their ability to generate hyper local news content, which creates a direct connect with the target population.

The unpredictability of newsprint prices, and its sudden and unusual increase, which is often cited as a bane, has actually been a boon to the print industry. It has resulted in publishers working together, moving from a competitive to a co-optive relationship. This model of co-opetition has led to a long-needed increase in cover price. From an overly ad dependent model, it is healthier to move to a balanced subscription model, which ensures the long-term sustainability of the sector. If the product is good, readers have shown clear inclination to pay for it.

Print needs to also move towards a more credible and more granular readership matrix: the IRS 2017 has been partially successful, but it still has a lot to achieve in terms of data credibility and integrity and bridging the need gap of publishers, agencies and brands. TV appears to have delivered this, but print needs to catch up, considering the role it plays in advertising spends.

Probal Ghosal
Whole Time Director
Amar Ujala

Digital news – On the rise

Globally, digital news has been making momentous inroads over the past decade, and India is not far behind. Traditional newspapers have been complementing print versions with online media. The current media landscape reiterates the digital shift across mediums, especially print on the back of mobile connectivity and internet penetration. Many print players have a digital presence, however the focus on digital strategy for traditional players varies. The Indian newspaper industry is unusual, in that, traditional newspapers and digital news are growing in parallel. The digital news has few advantages over traditional newspapers, as readers are updated with news and information as they occur. Digital platforms are viewed as more interactive in comparison to a newspapers which are largely seen as unilateral. Digital news through e-papers, websites, mobile applications and social media platforms is on a rise.

On the backdrop of print revenue growth remaining muted in the last couple of years and impacted by demonetisation, RERA and GST coming in quick succession, the industry is adopting new measures to foster growth and recovery. The regional print majors are significantly focused on expansion of readership via hyper-local content and to drive responses for local and national advertisers, given the current limitations of volume growth challenges, coupled with huge increase in input costs. As a survival imperative, most print majors are driving strategic projects that identify core business processes, look at efficiency parameters, apply analytics to figure out what can be done better and determine what the future course of action could be on both costs and revenue dimensions. It is rapidly emerging that going beyond the traditional print journalism into areas like skilling and education promotion, as well fostering entrepreneurship and overall well-being and social impact is a key ask of our times. Enhancing our connect with rapidly maturing millennial audience through digital and social media handles is a very important part of this strategy. A large part of digital success will emerge from enabling commerce in tandem with content curation and proliferation to suit the regional audiences. The next few years will see investments increasing in this area.

Pradeep Dwivedi
Chief Executive Officer
Sakal Media Group

Age group	6 - 14	15 – 24	25 - 34	35 – 44	45 +
Total digital population	28.2%	88.9%	91.5%	80.9%	75.5%
Digital population for mobile usage		91.8%	93.3%	89.1%	88.9%

Source: Comscore Report on Digital consumption, 2017

Though the industry is investing resources in digital strategy, not many have been successful in monetising the medium. Growth in digital advertising is largely driven by fewer digital platforms, while other platforms and players are trying to find their foot to contribute to the growth. Over the years, news apps and sites like InShorts and Google Newsstand are making inroads into the digital news arena.

Newspapers read 'online' are over 25 per cent in NCCS A1, which can be viewed as an opportunity by industry players. With the intensification of digital media, consumption of digital news amongst the younger generation, considered to be the 'future of India' has been recorded at 92 per cent amongst the ages between 25 and 34, as against 76 per cent coming from 45 and above ages, most of which comes from mobile phones.[13] The availability of affordable smart phones and data have given a stout stimulus to consumption of digital content where the acceptance is more from the age 15 to 34.[14]

News consumption through videos is on the rise as the digital news providers are investing in a format that is short (under one minute) and more focused on specific news. A few players are already investing in videos, as it is expected to undergo innovation over the next few years. Currently, the industry is looking to combine the text and video format, as text gives the news more detailing and videos add visual appeal to the news. Also, videos can be monetised with pre-roll and mid-roll ads while text is monetised by digital banners.

> The consumption pattern of news has shown a dramatic change over the last couple of years. First, there is a shift from desktop to mobile, as India emerges as a mobile economy. Further, owing to economical and convenient availability of data in recent months, the consumption of digital news in the form of videos has increased. Adding to it, the consumption of vernacular content on smartphone in the recent times has been showing an exponential rise with improvement in internet penetration in India's hinterland.
>
> **Manish Maheshwari**
> Chief Executive Officer
> *Network18 Digital*

13. Indian Readership Survey 2017
14. Comscore Report on Digital consumption, 2017

> We have restructured the organisation so that all numbers are measured for communities, and not as per media type.
>
> **Pradeep Gupta**
> Chairman
> *CyberMedia Group*

Changes driving the digital news

Fake news

Digital news is fast, interactive and multi-channeled, and has become preferred choice for certain reader's especially younger generations. Readers rely on digital platforms for news, in the form of photos on Instagram, or videos on Facebook, or notifications from news apps. As digital news has expanded its reach beyond mobile apps to social media and other digital mediums, a lot of the unsubstantiated content is fed to the readers simply for sensationalism. While, readers consume news differently, they demand that news that is well-researched, authenticated and reliable, which creates a huge opportunity for traditional newspapers.

> In the Indian context, digital and print are expected to coexist. Though digital media has gained acceptance due to the flexibility of consumption, reading news on print remains a deeply ingrained habit for many Indian readers. Additionally, with the rising menace of fake news, which is largely a digital medium phenomenon, print offers a reliable and trusted source for curated information. As literacy rates improve across the country, newspapers will continue to be in vogue. Our company carries on with its strong commitment towards print and is making the necessary investments.
>
> **Mohit Jain**
> Executive President
> *The Times of India Group*

Social media for news distribution

Social media enables content delivery at rapid speed, thus it is one of the biggest mediums to share any kind of information. Based on the 'Digital transition' report by Reuters in December 2016, covering 26 countries, in the U.S. the percentage of people saying "they use social media as a source of news" has risen to 46 per cent, almost doubling since 2013, and the average for 26 countries is at 51 per cent.[15] Facebook, with more than 1.5 billion users worldwide, has better reach than most of the news media organisation across the globe.[15] The future of news consumption with machine learning and big data analytics is that the readers get news that interest them. However, fake news has dented the credibility of news on social media and thus the future of social media news is under close scrutiny.

15. 'Indian Newspapers' Digital Transition', a Report by Reuters institute for the Study of Journalism, December 2016

Indian print industry - Road ahead

Over the next five years, the print industry is expected to grow at 5.9 per cent[16] driven largely by advertising and circulation in Hindi and other regional language newspapers whose readership and penetration is likely to grow in rural areas. In FY19 and FY20, the general elections and the state elections are expected to give the much needed impetus to the sector. Also, as the new readership measurement stabilises, more advisers are likely to rework their print strategies which could further incentivise the print sector.

Advertisement and circulation is expected to grow at 5.9 per cent and 5.8 per cent respectively[16] with the growing focus on Hindi and other regional language newspapers driven by higher literacy level and consumption in tier II and tier III cities. Traditional newspapers are likely to continue their dependence on advertisement. The English newspaper industry might continue the sluggish growth in low single digits resulting from acceptance of digital news among English readers. The industry is aware of the aspiration to change into a digital future, and most of the players have actioned the movement by heavy investment in digital properties.

Particulars	FY18	FY19 P	FY20 P	FY21 P	FY22 P	FY23 P	CAGR FY18-FY23
English market	**107.1**	**111.2**	**114.4**	**118.4**	**122.4**	**126.8**	**3.4%**
Advertising	72.8	76.2	78.9	82.4	85.9	89.8	4.2%
Circulation	34.3	35.0	35.5	36.0	36.5	37.0	1.6%
Hindi market	**105.7**	**114.0**	**122.4**	**131.4**	**141.1**	**151.8**	**7.5%**
Advertising	66.6	71.6	76.5	81.7	87.3	93.5	7.0%
Circulation	39.1	42.4	45.9	49.7	53.8	58.3	8.3%
Language market	**106.1**	**113.4**	**120.9**	**128.6**	**137.0**	**146.0**	**6.6%**
Advertising	71.3	76.1	81.0	86.0	91.5	97.4	6.4%
Circulation	34.8	37.3	39.9	42.6	45.5	48.6	6.9%
Total print market	**318.9**	**338.6**	**357.7**	**378.4**	**400.5**	**424.6**	**5.9%**

Note: Above numbers exclude the revenue from digital medium
Source: KPMG in India's analysis, 2017-18

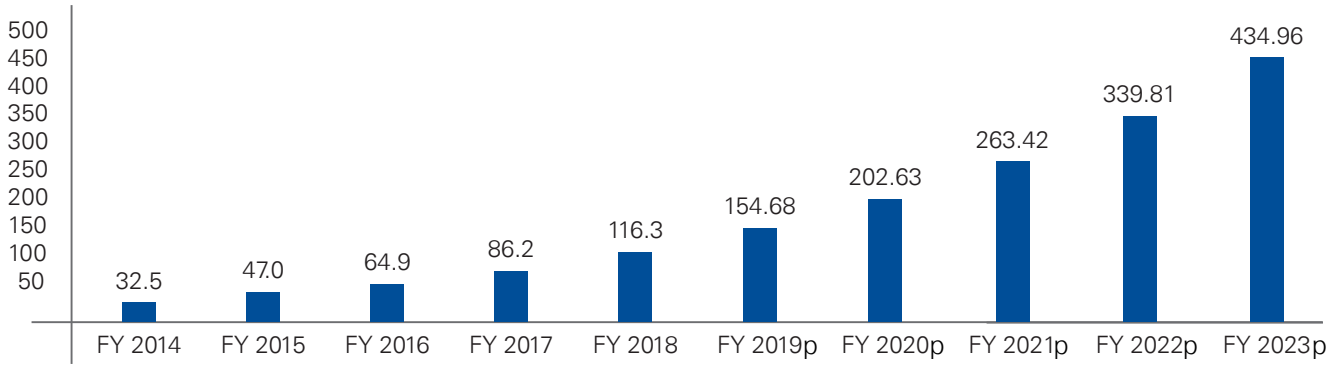
16. KPMG in India's analysis, 2017-18 based on industry discussions

Digital advertising

Supercharged growth

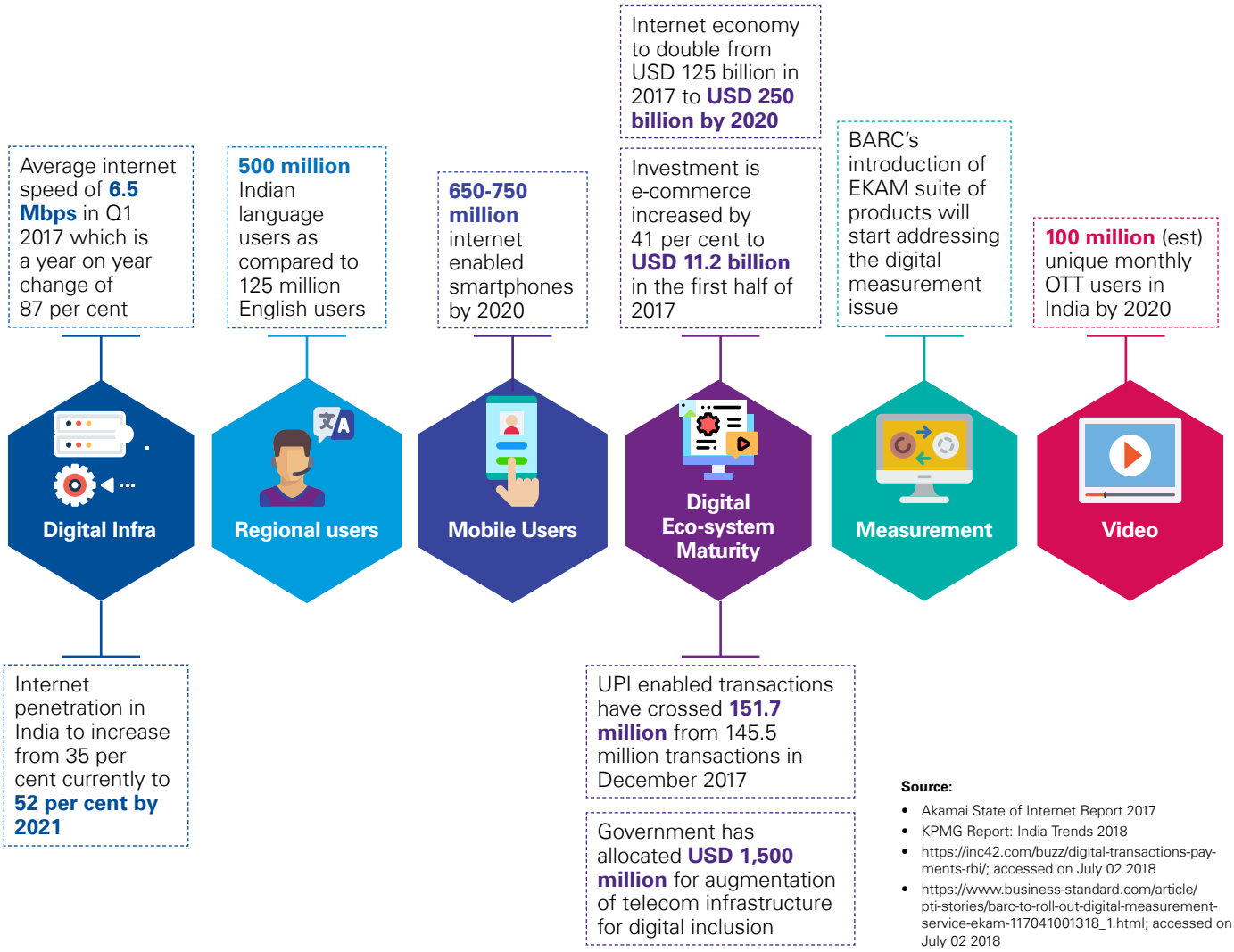
Digital advertisements have become mainstream in India, with digital ad spends expected to cross INR400 billion in FY 2023.[1] In FY 2017, digital advertising contributed INR86.2 billion, and is expected to grow at a rapid pace with a compounded annual growth rate (CAGR) of 30.9 per cent until 2023.

Figure 1: Digital advertisement spend (INR billion)



Source: KPMG in India's analysis and estimates based on industry discussions, 2018

It is expected that growth on digital ad spends in India might continue on the back of:[2]



Source:

- Akamai State of Internet Report 2017
- KPMG Report: India Trends 2018
- https://inc42.com/buzz/digital-transactions-payments-rbi/; accessed on July 02 2018
- https://www.business-standard.com/article/pti-stories/barc-to-roll-out-digital-measurement-service-ekam-117041001318_1.html; accessed on July 02 2018

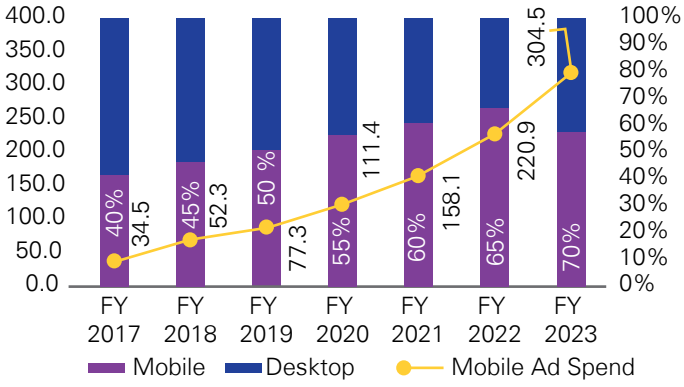
1. KPMG in India Analysis 2018
2. Akamai State of Internet Report 2017
   KPMG Report: India Trends 2018
   https://inc42.com/buzz/digital-transactions-payments-rbi/; accessed on July 02 2018
   https://www.business-standard.com/article/pti-stories/barc-to-roll-out-digital-measure
   ment-service-ekam- 117041001318_1.html; accessed on July 02 2018

Underlying trends

Mobile advertisement spend

Brands are increasingly devoting a larger share of their budget to mobile advertisements. Mobile advertisements are expected to grow from INR34.5 billion in FY2017 to reach INR304.5 billion in 2023 at a 43.8 per cent CAGR.[3]

Figure 2: Mobile ad spends (INR billion)



Source: KPMG in India's analysis and estimates, 2018

Marketers continue to allocate a larger share of their budget to video[4]

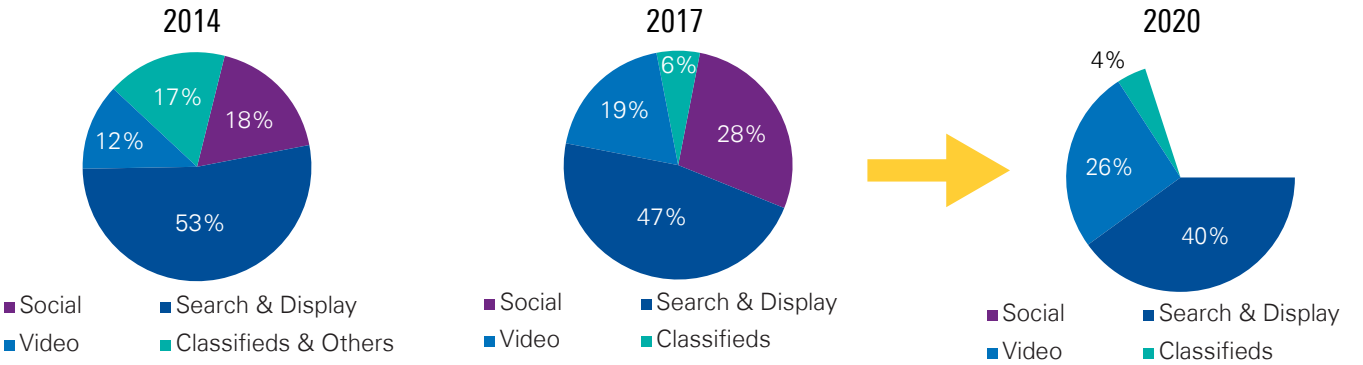
Search and display still contributes the largest share of the digital ad revenue, representing 47 per cent of the overall pie.[5] Auto, consumer durables, fast moving consumer goods (FMCG) are among the top spenders in this category.[6] With digital advertising reaching scale in India, this segment is relatively mature, and we expect their share of total digital ad spends to decrease in the future to 40 per cent of the overall digital ad spends.

Video as a segment has seen about 19 per cent of the contribution, and is expected to grow to 26 per cent of the overall pie by 2020. The consumption of video content in India has increased manifold on the back of higher internet speed, affordable smartphones and cheaper data rates.[7] FMCG and auto are among the current top spenders in this category.[8] Further, growth in video ads is because it is being seen as a more engaging medium than display ads. Growth is not just driven by video consumption but overall digital consumption. While news and music are streaming online, one can still show and consume a video ad.

Social media's impact on digital ads is increasing rapidly with 28 per cent contribution to the revenue on the back of rapidly growing user base fueled by millennial growth.[9] College students represent the highest (33 per cent) segment of active social media users in India, followed by young men – 27 per cent and non-working women – 11 per cent.[10] Users have become increasingly conscious of what happens in the virtual world, and are spending increasing amount of time on social platforms to interact with their circle of connections. Brands are, therefore, increasingly targeting consumers on social media platforms for higher engagement.

Classifieds contributes 6 per cent to the overall digital advertising segment, and is growing at a steady pace due to increased internet adoption. E-services, automobiles and real estate are the key growth drivers of this industry with increasing adoption of horizontal classifieds.[11] Local searches driven by non-metro cities such as Ahmedabad, Kochi, and Chandigarh are also driving the adoption of digital classifieds. With more services emerging in the hyper-local delivery and on-demand space, companies are spending on the digital platforms for more customer acquisitions. This segment is likely to lag with respect to video, social and search and display, and might have a lower share by 2020 in terms of digital ad spends.

Figure 3: Split of digital ad spends



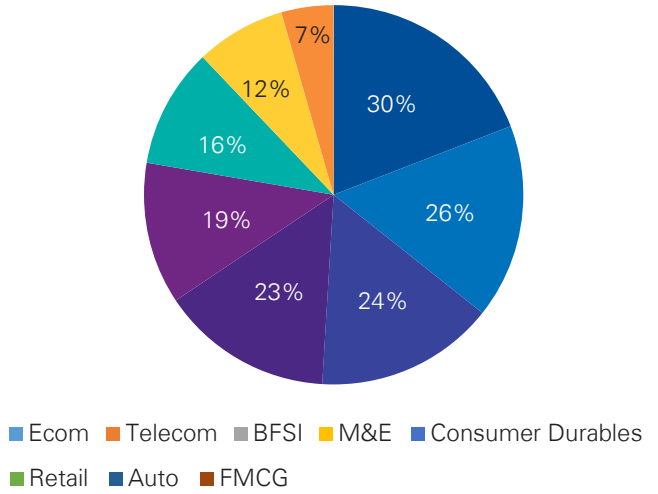
Source: KPMG in India's analysis and estimates based on industry discussions, 2018

3. KPMG in India analysis 2018
4. Digital report 2017 released by Dentsu Aegis, March 2018.
5. Digital report 2017 released by Dentsu Aegis, March 2018.
6. Digita=l report 2017 released by Dentsu Aegis, March 2018.
7. KPMG in India's analysis and estimates, 2018
8. Digital report 2017 released by Dentsu Aegis, March 2018.
9. Digital report 2017 released by Dentsu Aegis, March 2018.
10. https://www.livemint.com/Politics/FqcL24fK5aQ68qC6KzohJO/Social-media-in-India.html
11. KPMG India Industry Discussions

E-commerce leads digital ad spends

The e-commerce sector is leading the digital ad spends with 30 per cent contribution. Sectors such as the government, travel, auto and education are increasing their focus on digital channels to reach out to consumers.[12]

Figure 4: Sector-wise digital ad spends



Source: Digital Ad Report 2018 released by Dentsu Aegis

Value discovery through sequential programmatic models

Programmatic platforms are critical to the digital advertising ecosystem since they provide a platform for effective price discovery through auction-based platforms.

The aim is to create value for both the advertisers and publishers. In the traditional waterfall model, publishers are not able to choose their partners, since the partners are tiered basis their historical spends. Due to this, the publisher sometimes doesn't get the true value for their spot, and the advertisers don't get the same opportunity for that spot.

With the introduction of sequential- and header-based auction models, the auction happens at the same time by all stakeholders. This way there is more transparency in the process with all advertisers getting the same opportunity. The process of price discovery is more democratised.

These new sequential models have the potential to optimise revenue for both the publisher and advertiser. As an example, Conde Nast's 22 brands ranging from Vogue to Golf Digest uses header bidding.[13]

Key considerations for transition from waterfall to sequential models should account for:

- Transitionary support that it must provide to its partners
- Infrastructure costs in terms of new hardware and software

Impact of the rise of voice search

The way a consumer searches on the internet is going through a noticeable change. It is estimated that 50 per cent of all searches in 2020 will be voice searches, and there are about one billion voice searches globally per month.[14]

On the device side, Amazon sold over 20 million Alexa-enabled devices in 2017.[15] On the technology end, the far field recognition technology of Alexa has improved by 15 per cent over last year, and its spoken language understanding has increased by over 25 per cent.[16] Development in Artificial Intelligence (AI) has enabled more complex queries to be processed in quick time. Similar developments have happened with Google's Google Now and Microsoft's Cortana.

Voice assistants are becoming more popular with consumers since it enables a more natural conversation between the brand and the user. Customers are using it to search for products on

12. Digital report 2017 released by Dentsu Aegis, March 2017
13. https://pubmatic.com/blog/age-wrapper-technology-conde-nast/accessed on 12 July 2018
14. https://alpine.ai/voice-search-trends/
15. https://www.geekwire.com/2017/amazon-passes-10m-alexa-powered-echo-devices-sold-survey-says-with-more-models-on-the-way/
16. Amazon Annual Report 2017; http://phx.corporate-ir.net/phoenix.zhtml?c=97664&p=irol-reportsannual

e-commerce websites and play their favourite songs and movies among other things. This trend has a significant impact on how marketers look at search optimisation for websites.

Traditionally, in search engine optimization (SEO), key words were optimised by having certain permutations and combinations. Once the user searched for those key words, there was an increased probability that the target web page would show up in the results. Now, this technique no longer works if the search is done through a voice assistant. Optimisation needs to incorporate how customers actually talk. This makes the SEO process a little more complex and more specific. Marketers, therefore, need to take actionable steps on their websites to account for search driven by voice assistants to improve the quality of traffic and increase engagement.

With proliferation of voice search enablement on smart phone apps, Indian brands are also looking to tap into and leverage voice searches for greater customer engagement. Google, for example, is pushing voice search to enable it to reach regional and less sophisticated smart phone users.[17] Brands such as Nearbuy for deals, Magicbricks for property, Zomato for food are among others[18] that are investing into voice search capabilities for marketing and customer engagement.

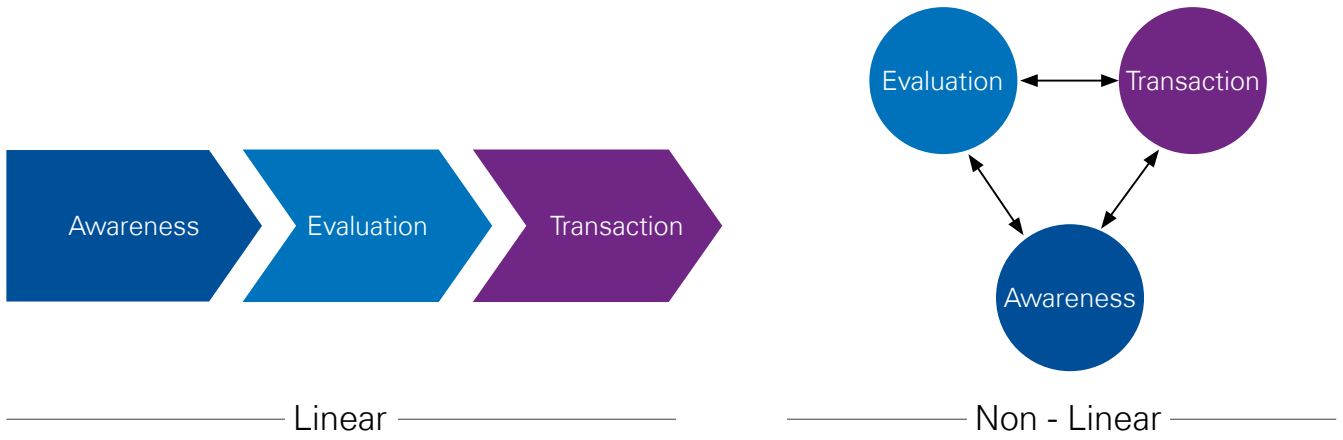
Shift from linear to non-linear content delivery and monitoring mechanisms

Content marketing no longer gives the desired results when done in a linear fashion or only when the consumer is in the transaction stage. The path to purchase of the customer has become more dynamic due to the combination of offline-online models. Each of the customer interaction points has become important for a customer to conclude a transaction. As an example, over 80 per cent of users search for information that is non-branded when they begin their research.[19] This is the time when consumers are most receptive to get more content, however marketers typically miss this phase of the customer journey.

Any friction along this journey can have significant impact on the brand sales. It is estimated that 11 percent respondents drop out of the purchase journey due to friction in the awareness stage.[20] This friction can be on both online and offline media. It is critical to share adequate information to reduce time and effort, and there needs to be a component of incentive.[21]

Marketers need to leverage such moments to create a mindshare of the brand. For example, Indian brands like Raymond, Shoppers Stop have already begun this journey by looking at solutions to capture 360 degree of the customer to engage with them at each moment of truth.[22] Key performance indicators (KPIs) need to be monitored across these interaction points; from views, shares and clicks to conversion. For doing this, it is critical to have accurate attribution models that are able to link the offline and online parts of the customer journeys. Digital technologies should be leveraged to have a 360 degree view of the customer along each of their interaction points to be able to connect and increase engagement.

Figure 5: Transition from linear to non-linear journeys



Source: KPMG in India analysis 2018

17. https://www.globalme.net/blog/the-present-future-of-speech-recognition; accessed on July 30 2018
18. http://www.afaqs.com/news/story/50665_Is-voice-search-the-future-of-SEO-in-India; accessed on July 12 2018
19. http://www.verticalmeasures.com/content-strategy/how-to-map-content-to-customer-journey/
20. KPMG Facebook Report 2018
21. KPMG Facebook Report 2018
22. https://retail.economictimes.indiatimes.com/re-tales/changing-face-of-indian-retail/2534; accessed on 12 July 2018

Contours of privacy management

Digital advertising rests on customer data on key interaction points along their journey. As the technology has matured, the level of data that the digital platforms can access has increased dramatically. As an example, they can track personal information like contact information, browsing history, device usage and application usage. This data helps advertisers target their audiences granularly, and helps them increase the level of engagement and transactions with their brand.

While we are able to appreciate the value the advertisers get from mining consumer data, is this data truly safe in their hands? Given the recent example of data harvesting done by Cambridge Analytica of extracting personal information of many profiles through Facebook to try and influence the outcome of the 2016 U.S. presidential election.[23] Also, as an example, consumer credit score company Equifax has revealed that hackers accessed up to 143 million customer account details on 29 July 2017.[24]

The number of instances of data breaches are having significant impact on consumers as well as the trust that a consumer has on the brand. In India, the cost of a single data breach is estimated to be INR 120 million as per a study done by IBM in 2017.[25] In 2017, Nyetya and Ccleaner were two such attacks that infected users by attacking trusted software.[26] Other examples include the Aadhar leak in 2017 and the Facebook leak in 2018 that compromised data of millions of users from their respective platforms.[27]

The value equation of what the consumer gets on the digital platform and what and how the platform can provide to third parties for monetisation needs to be viewed. Value can be created for the user if the control of what data is shared and how it is shared is given to them. The European Union's General Data Protection Regulation (GDPR) that has recently come into effect might change how customer information is stored and used.[28] The changing regulatory environment is likely to impact how marketers engage with their customers across various interaction points along the journey. While digital platforms are trying to create a value exchange proposition for third parties, the value to the customer must not be lost and their right to privacy needs to be protected.

Conclusion

India is one of the fastest growing countries in terms of digital advertising. Apart from FMCG, consumer-focused industries such as e-commerce, auto, banking financial services and insurance (BFSI) and technology, among other industries, are expected to drive growth.

Video content consumption might continue to rise on the back of on-demand content on digital platforms like over the top (OTT). Digital platforms are likely to continue to expand their value propositions on the back of digital technologies, and how they engage the user on their platforms will determine their success.

Hence, storytelling and driving meaningful conversations is likely to drive engagement for brands on such digital platforms, especially through mobile devices. Technology-led experiences are expected to drive interactions and transactions on digital platforms. User trust will be dependent on how digital platforms access and use their data, and this trust can be destroyed if privacy and transparency is not maintained between stakeholders.

23. https://www.cnbc.com/2018/03/21/facebook-cambridge-analytica-scandal-everything-you-need-to-know.html
24. http://www.wired.co.uk/article/hacks-data-breaches-2017
25. https://www.business-standard.com/article/news-ians/single-data-breach-costs-nearly-rs-12-crore-in-india-ibm-study-118071100479_1.html; accessed on 12 July 2018
26. https://economictimes.indiatimes.com/tech/internet/indian-companies-lost-500000-to-cyber-attacks-in-1-5-years-cisco/articleshow/63019927.cms; accessed on 12 July 2018
27. https://www.indiatoday.in/technology/news/story/aadhaar-data-of-130-millions-bank-account-details-leaked-from-govt-websites-report-974771-2017-05-02; https://indianexpress.com/article/technology/social/facebook-cambridge-analytica-data-scandal-what-has-happened-so-far-timeline-5108347/: accessed on 25 July 2018
28. https://marketingland.com/digital-advertising-2018-trends-230473

Films

On a comeback trail

Introduction

Following flattish growth earlier, the Indian film industry has had a healthy performance over the last two years, on the back of strong domestic box office performances coupled with growing overseas contributions particularly through entry into new markets like China. In domestic theatricals, the increase in Average Ticket Price (ATP) primarily resulted in box office growth with footfalls remaining nearly constant. Movies with differentiated and participative content continued to perform well at Bollywood and regional box offices. Action-packed franchise Hollywood movies remained popular among Indian audiences on the backdrop of their increased reach through English and dubbed content. For overseas theatricals, there has been an increase in the number of movies releasing overseas and particularly, the Chinese market, which has opened up new avenues for the Indian industry. The Cable and Satellite (C&S) market remained relatively static, and even witnessed a decline for certain regional cinema due to availability of commercially-viable alternatives for broadcasters. On the other hand, digital rights on OTT platforms became an important revenue stream. Aggressive content acquisition and emphasis on content exclusivity to draw more traffic by digital players have primarily led to this growth.

The exhibition industry continued to face headwinds with screen additions continuing to grow at a relatively slow pace. It was also adversely impacted by the Goods and Services Tax (GST) rollout which had mixed effects across states.

Table 1: Industry performance and projections

Revenues (INR billion)	FY14	FY15	FY16	FY17	FY18	FY19p	FY20p	FY21p	FY22p	FY23p	FY17 18 (YoY growth)	CAGR FY 18-23
Domestic theatrical	93.1	95.5	100.8	101.4	108.9	115.3	122.1	129.1	135.9	142.6	7.3%	5.6%
Overseas theatrical	8.1	8.2	10.8	12.3	14.8	16.4	18.1	20.0	22.1	24.3	20.6%	10.3%
Cable and Satellite Rights	15.0	15.0	15.8	15.5	16.1	16.8	17.6	18.4	19.2	20.0	3.5%	4.4%
Ancillary revenue streams*	6.7	8.1	9.7	15.7	19.1	23.1	27.5	31.7	36.7	41.9	21.9%	17.0%
Total	126.4	126.9	137.1	145.0	158.9	171.7	185.4	199.3	213.9	228.8	9.6%	7.6%

Source: KPMG in India's analysis 2018
Note: Ancillary revenue streams include sale of digital rights, music rights and in-cinema advertising

The Indian film industry witnessed ~10 per cent growth in FY18 over the previous year to reach INR158.9 billion. Theatrical revenue, constituting ~78 per cent of the total film industry revenue, was the key driver, with domestic and overseas theatricals growing by 7.3 per cent and 20.6 per cent respectively in FY18 over the last year. C&S rights value remained nearly constant while ancillary revenues demonstrated a strong growth of 21.9 per cent driven by the digital rights of movies and in-cinema advertising.[1] It is also interesting to note that the dependence on domestic box office gradually reduced from 74 per cent in FY14 to 69 per cent in FY18. This is primarily driven by increasing share of overseas and ancillary revenues whose contributions have grown at the cost of domestic theatricals and C&S revenue shares.

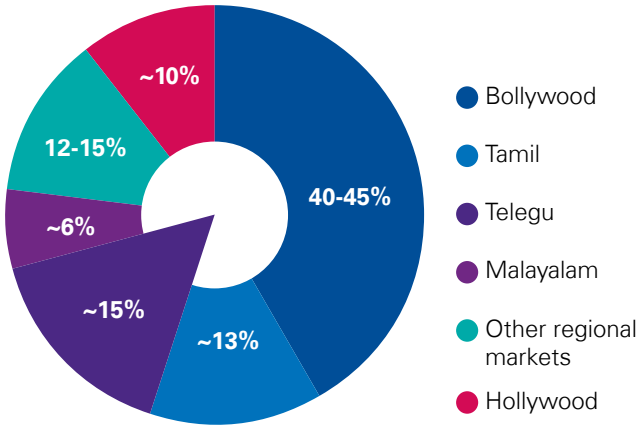
The industry is projected to grow at a compounded annual growth rate (CAGR) of 7.6 per cent till FY23 to reach INR228.8 billion primarily on the back of increasing contribution of the overseas theatricals and ancillary revenue streams like digital rights and in-cinema advertisement in addition to steady growth of domestic theatricals.[2]

1. KPMG in India's analysis 2018 based on industry discussions
2. KPMG in India's analysis 2018

Domestic theatricals — Strong performance driven by high profile movies

Domestic theatricals grew by 7.3 per cent over the last year to reach INR108.9 billion in FY18. Revenue growth in FY18 was largely driven by success of a limited number of high profile movies coupled with continued growth of regional and Hollywood content. The segment is expected to grow at a CAGR of 5.6 per cent over the next five years on the back of screen additions, rising ATP and footfalls, along with improved exhibition infrastructure.[3]

Figure 1: Domestic theatricals — language-wise share (percentage)

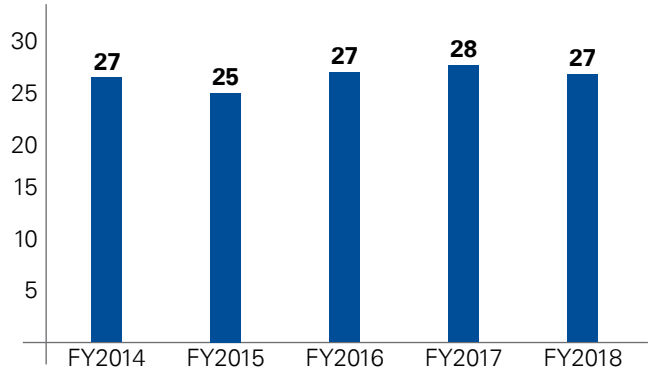


Source: KPMG in India's analysis 2018

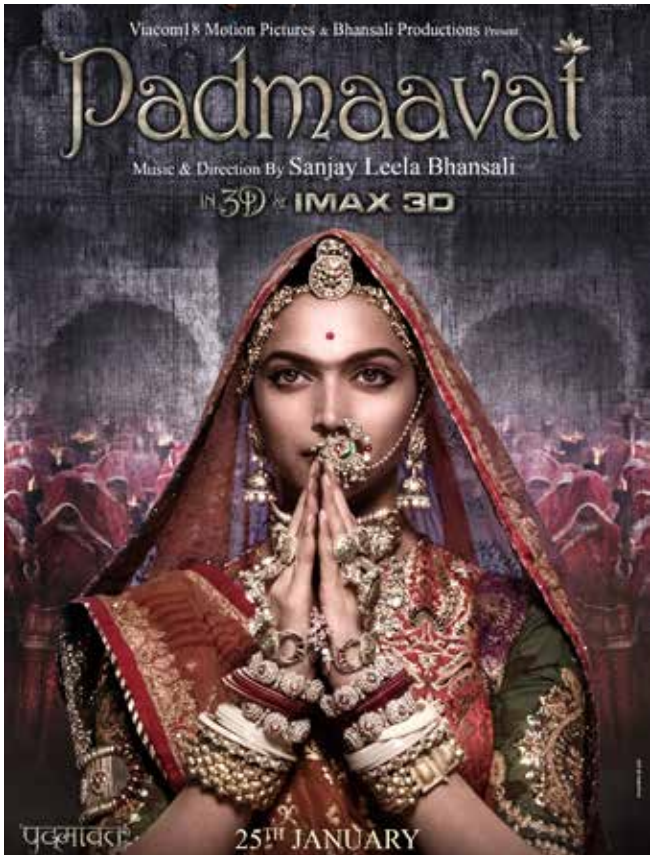
Bollywood — Holding steady

The overall performance of Bollywood films at the box office has remained nearly constant over the past three years. In FY18, the gross box office collection of top 50 Hindi movies (excluding *Baahubali 2: The Conclusion*) was INR37.5 billion.[4] *Baahubali 2: The Conclusion* became the highest grossing movie at the domestic box office in Hindi language with net box office collection of more than INR5.1 billion.[5] The number of Bollywood movies crossing INR1 billion in net domestic box office has remained in the range of seven–nine over the past few years. However, the number of movies crossing INR2 billion in net domestic box office has increased from one–two in previous years to four in FY18.[6]

Figure 2: Domestic net box office collection of top 50 Hindi movies (INR billion)



Source: Boxofficeindia.com accessed on 05 June 2018 and KPMG in India's analysis 2018
Note: FY18 revenues excluding 'Baahubali 2: The Conclusion'



The increasing success of content-driven movies has been the key highlight of Bollywood box office over the past few years. Industry discussions indicate that the audience appears to be appreciative of small-budget films with qualitative content rather than big budget films with weak content. Furthermore, the audience has become more receptive to a wide array of genres (comedy, action, inspirational, social cause) resulting in a higher success ratio across diverse content.[7]

3. KPMG in India's analysis 2018
4. KPMG in India's analysis 2018
5. 'Baahubali 2' clocks Rs510 crore in national box office collection, LiveMint, accessed on 01 July 2018
6. KPMG in India's analysis 2018
7. Industry discussions conducted by KPMG in India

> Films with good content but lesser known actors have outperformed at the box office last year and continue to do so. One of the biggest gaps in developing content for feature films is the availability of good writers/scripts due to a lot of content being developed across all platforms.
>
> **Aashish Singh**
> Vice President, Production
> *Yash Raj Films*

Further, out of the nearly 200 theatrical releases, the top 10 movies contributed in excess of 50 per cent of the total box office collection. Only 25 movies were able to garner more than INR300 million, indicating low revenue generation by a large percentage of movies.[8]

> The highest grossing movies are establishing newer benchmarks each year. Furthermore, increasing the number of concept-driven movies helmed by younger actors are driving footfalls and grossing INR1 billion at the box office.
>
> **Shariq Patel**
> CEO - *Zee Studios*

Regional film industry — Gaining prominence

The regional film industry has been gaining prominence with their share in overall domestic theatricals ranging between 45-50 per cent last year with Tamil, Telugu and Malayalam contributing to 70 per cent of regional domestic theatricals revenues.[9] Last year, Baahubali 2: The Conclusion emerged as the highest grossing regional movie of all time garnering in excess of INR5 billion from key regional markets[10], and contributing significantly to the regional box office growth. Over the past few years, small-budget and independent content-driven movies have been receiving success at the box office along with critical acclaim.

The Telugu film industry aggregated domestic box office revenues of ~INR16 billion in FY18 primarily on the back of Baahubali 2: The Conclusion which surpassed all previous box office records worldwide for an Indian film.[11] The Telugu version of the movie has grossed around INR2.5 billion in the domestic market.[12]

The Tamil film industry, however, witnessed headwinds in FY18 and clocked revenues of ~INR14.5 billion[13] as the industry was plagued by a variety of strikes such as the producer council protest against high charges levied by digital distributors, the theatre owner's association strike against the imposition of GST and local taxes, the entire film industry strike against local taxes imposed by Tamil Nadu government. Such incidences resulted in delayed release of films and subsequent drop in footfalls.

Other major regional cinema markets include Malayalam, Kannada, Bengali, Marathi, Gujarati and Punjabi. The Kannada industry struggled in FY18 due to the weak performance of certain high profile projects as well as experimental films. A key development last year was the release of dubbed movies in Kannada without much opposition. Other regional markets such as Bengali, Punjabi, Marathi and Gujarati have been showing strong growth supported by wider releases, more multiplex release windows and stronger focus on quality content.

8. KPMG in India's analysis 2018
9. KPMG in India's analysis 2018
10. Industry discussions conducted by KPMG in India
11. KPMG in India's analysis 2018
12. Final Collections of Baahubali 1 & 2 , GreatAndhra.com, accessed on 09 June 2018
13. KPMG in India's analysis 2018

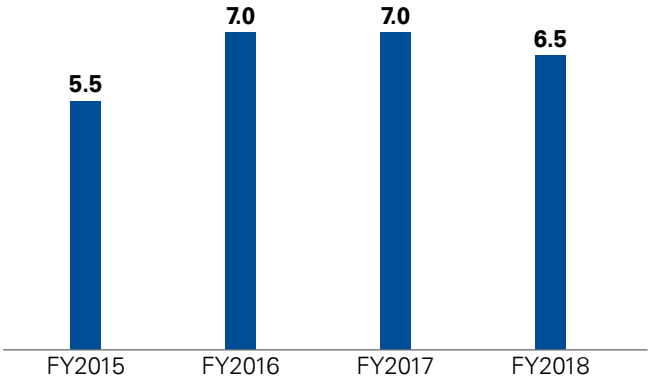
> The contribution of key regional markets (Tamil, Telugu, Malayalam and Kannada) to the overall industry performance has grown by 5 per cent in recent years. Compared to Bollywood, films from the key regional markets are less city-centric.
>
> **Rahul Puri**
> Managing Director - *Mukta Arts*

> The key regional markets in the south are experiencing a slowdown in the number of movie releases due to decreasing profitability (especially for average films). Popular actors should do more number of movies per year with relatable and participative content.
>
> **Daggubati Suresh Babu**
> Managing Director
> *Suresh Productions Pvt. Ltd*

Hollywood — Franchises driving the show

Hollywood movies' contribution to domestic theatricals in India has increased over the years reaching ~10 per cent in FY18 with domestic box office revenue of INR10.7 billion.[14] Fast & Furious 8 and Thor: Ragnarok became the highest grossing Hollywood movies collecting around INR1.27 billion and INR0.75 billion respectively.[15] Hollywood franchise movies have been performing well in India with all the top five grossing movies being franchise movies.

Figure 3: Box office collection of top 10 Hollywood movies in India (INR billion)



Source: Kinematograph Renters Society

The increase in box office revenue for Hollywood movies is attributed to increased reach through localisation of content by dubbing films in relevant languages, promotion by international stars, releasing of India-specific trailers and posters, and increasing media spend towards digital and social media. On an average, the dubbed version of Hollywood movies generate nearly 40 per cent of total collection going up to 50 per cent in case of popular movies (for example, superhero franchise movies).[16]

This growth is expected to continue in the coming years with greater focus of Hollywood studios on Indian market through increasing movie releases and marketing spend. In the first quarter of FY19, Avengers: Infinity War has become the highest grossing Hollywood release in India collecting in excess of INR2.8 billion.[17]

14. KPMG in India's analysis 2018
15. Kinematograph Renters Society
16. KPMG in India's analysis 2018
17. Kinematograph Renters Society

Overseas theatricals – China and more

Overseas theatricals contributed nearly 10 per cent to the total industry's revenue and grew by 20 per cent over last year to reach INR14.8 billion in FY18. Performance of overseas theatricals has improved over the years with growth in traditional markets like U.S. and Middle East, and new markets like China opening up for distribution and seeing robust performance. The overseas market is driven primarily by big films with top star cast and high budgets. Thus, most of the medium and low budget movies are not able to get a release in international market due to high Prints and Ads (P&A) costs.

For Bollywood, the total collection in the overseas market has reduced over the last year as some of the major films underperformed. The gross collection of top 12 Hindi movies in the overseas market reduced to INR7 billion in FY18 from INR8.8 billion last year.[18] Padmaavat became the highest grossing Hindi movie in the overseas market garnering INR1.85 billion.[19] About 60–70 Hindi movies released overseas last year in over 50 countries.[20]

Table 2: Revenue contribution of major overseas geographies (percentage)

Region	Contribution	Growth in FY18
Middle East	30-32%	10-12%
U.S.	30-35%	Marginal growth
U.K.	15-16%	De-growth

Source: Industry discussions conducted by KPMG in India

Regional movies continue to perform well in the overseas market. They registered a growth of 20 per cent over last year and generated INR8.4 billion in revenue for producers/distributors in FY18.[21] Majority of this growth has come from Baahubali 2: The Conclusion which grossed nearly INR2.9 billion in the overseas market.[22] Also, Tamil action thriller Mersal grossed INR740 million in the overseas market.[23] U.S. and Singapore are key markets for Tamil movies, with U.S. also being a key market for Telugu and Malayalam movies, along with Middle East. Increasing involvement of established industry personalities and top studios in regional cinema is enabling more films to get a worldwide release.

> Hindi films are poised to increase their presence across international markets as more markets are opening up to Bollywood. Overseas theatricals are seeing differential growth across markets — a typical film releases across 50 international markets with the growth coming mainly from the Middle East and U.S., as U.K. has been in decline with the second and third generation Indians being less culturally connected to Bollywood. The biggest opportunity to grow the international market for Hindi films in the future will come from China and Saudi Arabia with the latter having started the process of setting up multiplexes.
>
> **Vijay Singh**
> Chief Executive Officer
> *Fox Star Studios*

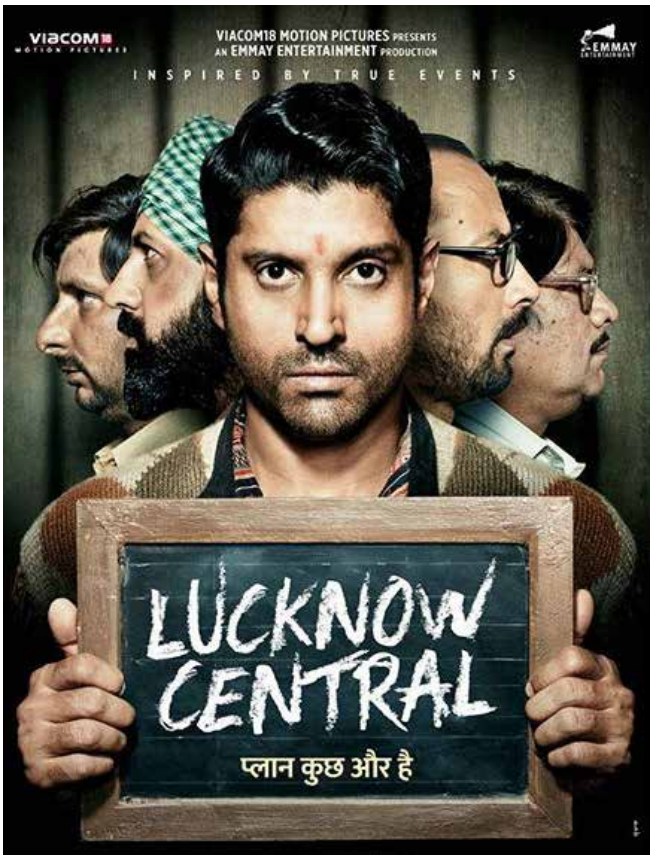
The China story

In FY18, China has emerged as an important destination for Indian producers. Over the last couple of years, an increasing number of Indian movies have been releasing and getting recognition in the China market. For example, Dangal became the highest grossing non-Hollywood film and one of the 20 highest-grossing films of all time in China.[24] The other three films which were released in China subsequently, namely, Secret Superstar, Bajrangi Bhaijaan and Hindi Medium also performed well at the China box office.

Table 3: Gross box office collection of top India movies in China (INR billion)

Movie	Total gross collection (INR billion)
Dangal[25]	~10
Secret Superstar[26]	~7.5
Bajrangi Bhaijaan[27]	~3
Hindi Medium[28]	~2

18. KPMG in India's analysis 2018
19. Boxofficeindia.com accessed on 08 June 2018
20. Industry discussions conducted by KPMG in India
21. KPMG in India's analysis 2018
22. Dangal set to beat Baahubali-2, grosses over Rs 1,500 crore worldwide, Business Standard, accessed on 06 June 2018
23. Spicyonion.com accessed on 08 June 2018
24. China Fears India May Be Edging It Out in Culture Battle, NY Times, accessed on 06 June 2018; China's love affair with Indian films, Fortune India, accessed on 08 June 2018
25. Dangal earns record Rs. 1,000 crore in China , The Hindu, accessed on 08 June 2018
26. Aamir Khan's Secret Superstar crosses Rs. 750 crore mark in China, The Indian Express, accessed on 06 June 2018
27. Bajrangi Bhaijaan China Box Office: Salman Khan's Film Is Almost At Rs. 300 Crore, NDTV, accessed on 08 June 2018
28. Hindi Medium China Box Office: Irrfan Khan's Film 'Is Nearing 200 Crore Mark', NDTV, accessed on 07 June 2018



One of the important trends observed in the success of these movies is the relatability of Indian content with the Chinese audiences. For instance, many of the social issues tackled in Indian films with the right blend of reality, empathy and humour resonate well with Chinese audiences due to similar realities in the Chinese society and culture. Also, with China having the highest number of screens worldwide (over 50,000[29]), it helps foreign films have a high reach in the country. Dangal was released across 9,000 screens in China.[30]

Another important factor indicating the growing popularity of Indian films in China is the grant of revenue-sharing slot under China's film import quota to an Indian film for the first time (Secret Superstar). Under this grant, the movie receives 25 per cent of the gross box office revenue earned in China. Traditionally, China allows limited Indian films to be released annually from which the producers earn a flat fee in the sub USD1 million range. Hollywood movies typically get 30 of the country's 34 revenue-sharing slots every year.[31]

Recognising the significant market opportunity in China, Indian production houses are planning more releases. For example, Eros is working on two co-productions with Chinese companies with one being a travel drama, The Zookeeper with Bollywood director Kabir Khan.[32]

> The potential for growth of the filmed entertainment content in India is tremendous, and there is a strong need to create an investment-friendly atmosphere through simplified laws, regulations and rationalised taxes, which helps to build quality infrastructure, encourages creativity and IPR protection. China has successfully demonstrated its exemplary leadership in the global film market by building massive cinema exhibition infrastructure. Apart from generating significant employment opportunities, Indian films have a huge potential of providing major boost to the travel and tourism sector of India by attracting tourists from the world over to visit various locations in the country showcased through our films.
>
> **Kulmeet Makkar**
> Chief Executive Officer - *The Film and Television Producers Guild of India Ltd.*

C&S rights — In slow motion

C&S rights contributed 10 per cent to the overall industry's revenue in FY18. Compared to the previous year, this segment has grown by 3.5 per cent to INR16.1 billion in FY18.[33] FY18 continued to see C&S and digital movie rights being sold as unbundled deals, with digital playing a crucial role. Digital is driving up the C&S prices of tent-pole movies by purchasing movie premiers and exclusive movie rights to be showcased on digital before C&S premier.

For Bollywood, nearly 50 per cent of the movies released are sold on C&S, and the price of sale is proportional to box office performance of the film (approximately 25–30 per cent of box office collection). Broadcasters focus on high profile movies with a view to drive viewership and advertising dollars. These high priced satellite deals for star-led movies limit channels to allocate additional budget for other films. As a result, the number of movies sold on C&S platforms and the prices of mid-budget movies haven't increased in recent years.

29. Berlin: China's Arthouse Circuit is on a Mission to Expand Diversity, Variety, accessed on 08 June 2018
30. After Baahubali 2, Aamir Khan's Dangal releases in 9000+ screens in China; creates a new record, Business Today, accessed on 09 June 2018
31. Aamir Khan's China Collections From 'Secret Superstar' Could Bring His Biggest Payday Ever, Forbes, accessed on 08 June 2018
32. Eros announces 2 Indo-Chinese co-productions to be directed by Kabir Khan and Siddharth Anand, The Economic Times, accessed on 06 June 2018
33. KPMG in India's analysis 2018

Similar challenges are being faced in regional markets with broadcasters focusing their C&S acquisitions on star-led movies and linking acquisitions to box office performance. Further, the number of movies sold on C&S platforms are also decreasing due to low commercial viability of films on television, increasing local cable-TV piracy and availability of other commercially-viable options like movie-award shows.

Ancillary revenue streams — Digital and in-cinema diving the growth

This has been the fastest growing segment over the past few years, and is the second highest revenue contributor after domestic theatricals to the overall industry. The segment has grown by 22 per cent over last year, and generated INR19.1 billion in revenue in FY18 on the back of growth in digital rights and in-cinema advertising.[34]

Digital rights

Sale of digital rights is one of the fastest growing revenue streams for movies, growing in conjunction with the rise of OTT platforms. In FY18, this segment garnered nearly INR6.2 billion, registering a growth of 28.6 per cent over last year. Some of the key digital rights acquisition in FY18 comprise Padmaavat, which was acquired by Amazon for INR200-250 million[35], and the two Baahubali movies by Netflix for INR255 million.[36]

Increase in the value of these rights is largely attributed to the emphasis given by major OTT players like Netflix and Amazon Prime on buying rights exclusively. Furthermore, the theatrical release window has reduced from three to four months to about eight weeks, which has resulted in the audience choosing to wait for the digital release of certain movies which are not made exclusively for a large screen experience. The most prevalent business model at present includes sharing of digital rights. The rights are blocked exclusively by the OTT player for a period extending from two to 12 weeks, post which the broadcaster takes over the rights showcasing it on its own OTT platform in addition to syndication. In this process, 70 per cent of the digital revenue of movie rights is being paid by either Amazon or Netflix.[37] For example, Amazon Prime Video India has signed a content deal with actor Salman Khan's home production, Salman Khan Ventures, to exclusively stream upcoming films shortly after theatrical release and two months before satellite and television broadcast.[38]

In terms of content acquisition, digital players were initially more selective compared to broadcasters as they catered to a niche audience, but this is changing with increasing adoption of digital. The number of movies sold on digital are comparatively higher due to showcasing of certain films relevant to digital-only audience and the revenue-sharing models that are in place to reduce the risk of the digital platform.

Major OTT platforms are collaborating with leading production houses for content acquisition. In FY18, YuppTV collaborated with Fox Star Studios through non-exclusive association to stream collection of popular movies by the production house.

A similar scenario is being played out in regional markets, with OTT players spending top dollars to acquire movie rights. Amazon Prime, Netflix, YuppTV and Sun NXT are procuring big-ticket regional movies at a fast pace to fortify their regional libraries. Some popular Telugu films such as Mister, Krishnagadi Prema Gadha, Soggade Chinninayana and Sarrainodu were bought by SunNXT and Netflix for around INR60–80 million each.[39]

Table 4: Regional movie digital rights

Movie	Digital Platform	Price (INR million)
Thaanaa Serndha Koottam (Tamil)	Amazon Prime	62.5
Rangasthalam (Telugu)	Amazon Prime	100
Sye Raa Narasimha Reddy (Telugu)	Amazon Prime	300

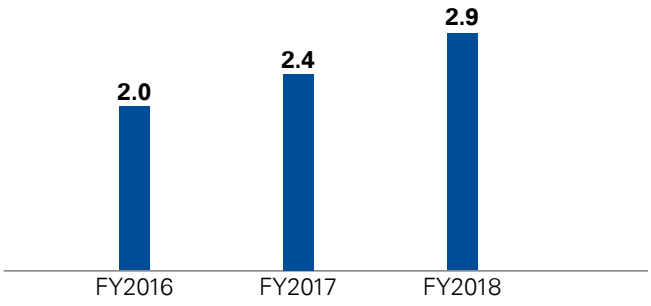
Source: Suriya starrer Thaana Serndha Kootam's satellite rights sold for a whopping price,BollywoodLife.com, accessed on 04 July 2018; Rs 10 cr digital rights jackpot?, The Hans India, accessed on 04 July 2018; 30Cr Massive Deal For Sye Raa, Tupaki.com, accessed on 04 July 2018

In-cinema advertising

In-cinema advertising has registered 23 per cent growth over last year and generated revenue of INR9.5 billion in FY18.[40] Increase in multiplex screens along with growth in the number of advertisers utilising the in-cinema mode of advertising are the key growth drivers. The two prominent players in this segment, PVR Cinemas and UFO Moviez registered a revenue growth of ~20 per cent and ~17 per cent respectively over the last two years.

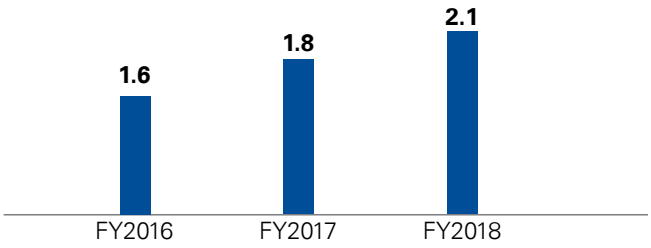
34. KPMG in India's analysis 2018
35. Amazon Prime video wins streaming rights for Padmaavat, The Mint, accessed on 04 June 2018
36. Netflix doubles down on India investment, The Mint, accessed on 04 June 2018
37. Why multi-platform sharing of digital rights works for everyone, Mint, accessed on 08 June 2018
38. Amazon Strikes Streaming Deal With Indian Superstar Salman Khan, Variety, accessed on 08 June 2018
39. Producers minting money on digital rights, The Hans India, accessed on 06 June 2018
40. KPMG in India's analysis 2018

Figure 4: PVR Cinemas advertising revenues (INR billion)



Source: PVR Cinemas investors report accessed on 01 July 2018

Figure 5: UFO Moviez advertising revenues (INR billion)



Source: UFO Moviez investors report accessed on 01 July 2018

In-cinema advertising enables advertisers to deliver a targeted marketing campaign in selected geographic areas, targeting specific weeks and movies to suit their target captive audience and marketing campaign calendar. In spite of increase in advertisers over the years, there are only 20 per cent of TV advertisers on this platform.[41] Also, the platform has only 20 per cent of inventory utilisation, and captures only 1-2 per cent of the total ad spend by brands indicating room for growth. Currently, most of the theatres use box office numbers as a metric for audience measurement for in-cinema ads. To counter this, Carnival Cinemas launched its own measurement tool to optimise an advertiser's investment by allowing an advertiser to pay per seat.[42]

This segment is expected to grow at a CAGR of 13–15 per cent over the next five years with innovation and experiential marketing being the key drivers to enhance in-cinema advertising experience.[43]

> In a country as diverse as ours, it's been a challenge to make multiple stakeholders see merit in the system of transparency through a centralised third party measurement. But over the last few years, I'm encouraged by the response we have got from a number of big studios, production houses, distributors and multiplexes. I am also positive about the cascading effect this is having on independent cinemas and single screens, where we are finding very good traction in recent weeks. With state governments expected to make the use of measurement systems mandatory, coupled with increasing confidence in the impact of our product, I dare to be hopeful of a fast changing landscape.
>
> **Rajkumar Akella**
> Managing Director - *comScore, India — Theatrical*

Exhibition infrastructure — Playing catch-up

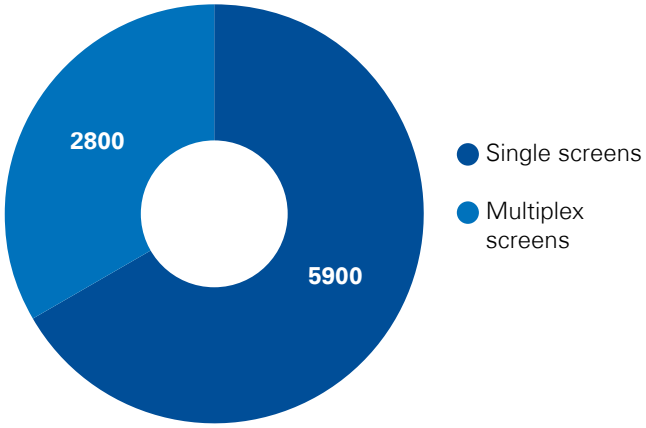
Though India has been traditionally dominated by single screens, growth of the exhibition market in the country is being driven by multiplexes which are increasing at 8–9 per cent annually.[44] However, in spite of producing maximum number of movies (~1500-2000) in the world, India remains a highly under-penetrated exhibition market with only eight screens per million. In terms of number of screens, the Indian film exhibition segment is less than one-fifth in size as compared to developed markets like China and the U.S.[45] At the end of FY18, India had a screen count of around 8700 with more than 50 per cent distributed across five states of south India and the remaining in other parts of India. Single screen theatres constitute ~68 per cent of total screens, however this percentage is expected to decrease further due to the continuous shutdown of single screens.[46]

41. KPMG in India's analysis 2018 based on industry discussions
42. Cinema advertising begins to take centre stage, Indian Television, accessed on 08 June 2018
43. KPMG in India's analysis 2018
44. KPMG in India's analysis 2018
45. Theme Report 2017, MPAA , accessed on 01 July 2018
46. KPMG in India's analysis 2018 based on industry discussions

India is adding around 250–350 multiplex screens every year, and roughly 100 single screens are shutting down. While, the shutting down of single screens is likely to slow down, multiplex screens are expected to grow to 10,000 over the next 10 years.

Kamal Gianchandani
CEO — *PVR Pictures Ltd.*

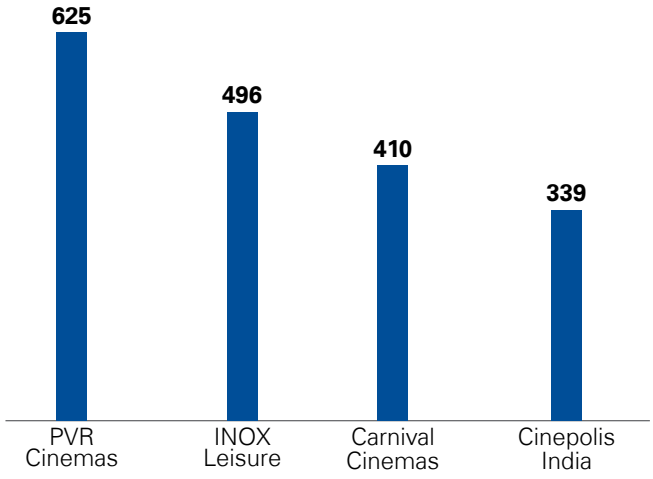
Figure 6: Estimated number of screens in India (rounded off to the nearest 100)



Source: Industry discussions conducted by KPMG in India and KPMG in India's analysis 2018

Multiplexes are primarily driving the growth of the exhibition sector. Over the last few years, multiplexes have been adding ~200-250 screens every year, and the trend is expected to continue in the future as well. The four major multiplex chains constitute nearly 68 per cent of the total multiplex screens as on FY18.[47]

Figure 7: Number of screens of major multiplex players — FY18



Source: PVR investor presentation (Q4, FY18); INOX investor presentation (May'18); Cinepolis India website accessed on 7 June 2018; Carnival cinema website accessed on 7 June 2018

Rising number of screens should lead to increase in accessibility and convenience to watch movies for viewers and thus would help grow footfalls. However, key challenges for development of exhibition infrastructure remain common across metros or Tier2/3 markets in terms of regulations and clearance of licenses.

Alok Tandon
CEO - *INOX Leisure Limited*

Single screens, on the other hand, are shutting down at the rate of ~100 screens per year due to poor infrastructure and commercial viability. Approximately, a similar number of single screen theatres are upgrading their infrastructure or converting into multiplexes every year.[48] Single screens with upgraded infrastructure and facilities are gaining popularity due to their ability to provide infrastructure and food and beverages (F&B) available at multiplexes at approximately 20–25 per cent lesser prices. While the upgrading of single screens is primarily happening in south India, screens are mostly shutting down in north India.[49]

47. KPMG in India's analysis 2018 based on industry discussions
48. KPMG in India's analysis 2018 based on industry discussions
49. KPMG in India's analysis 2018 based on industry discussions

Multiplexes have started gaining popularity in Tier 2 and 3 towns since they provide a good experience to the audience in terms of better viewing environment, sound quality and improved infrastructure over traditional single screen theatres. In the coming years, more multiplexes are expected to open in Tier 2 and 3 towns than in metros.

Devang Sampat
Director — *Strategy Initiative, Cinepolis India*

For the growth of cinema industry in India, it is important that multiplex growth moves to Tier 2 and Tier 3 cities in India. For cinemas to survive in these Tier 2 and 3 markets at low ticket prices, subsidy and tax incentives from the government are required. The government needs to decontrol ticket pricing and reduce GST rates on cinema exhibition sector to 18 per cent to ensure the survival and growth of the industry.

Nitin Sood, CFO — *PVR Cinemas*

A greater number of screens are required in the near future to facilitate greater theatre accessibility for cinema viewers. The key factors attributed to slow screen addition are limited growth rate of real estate development and complicated licensing and regulatory process. State-specific policies and incentives such as tax benefits are required to enable businesses to open cinema screens in these markets. Single window clearance for obtaining and renewing various licences is one of the most important regulatory measures being lobbied by the exhibition industry. At the same time, more theatres targeting higher footfalls should have affordable ticket and F&B prices.

Low capex solutions in remote areas can also be helpful to ramp up the number of screens. One such example to establish screens at lower cost as compared to multiplexes in remote areas is through 'DigiPlex', a mobile theatre van. It is an inflatable air-conditioned all-weather structure offering high-quality movie-viewing experience at an economical price to rural audiences. A single unit can be constructed with an investment of INR5 million as compared to a similar digital theatre costing INR15-20 million.[50]

The film exhibition market has witnessed a significant change and growth over the last few years and is destined to grow at a faster pace. The proactive policies of the Indian government and its bureaucracy are changing and will soon allow an ecosystem of an improved infrastructure and single window clearance so that new multiplexes can be developed more easily.

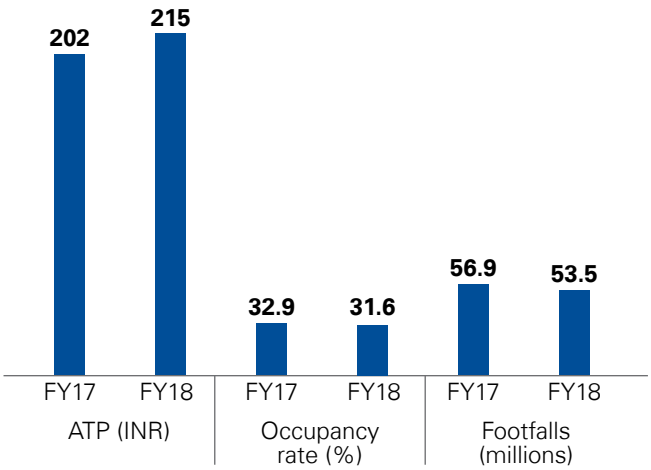
Dr Shrikant Bhasi
Founder and Chairman
Carnival Group

Key trends in exhibition

Although the average ticket price has increased for the two major multiplex chains (PVR and INOX cinemas) in India, their footfalls and occupancy rates have decreased compared to last year. This is due to dependence of the box office performance on limited high profile projects with a wide spread of movies underperforming. Further, increasing piracy and easy availability of greater number of movies on digital platforms also contributed to this de-growth.

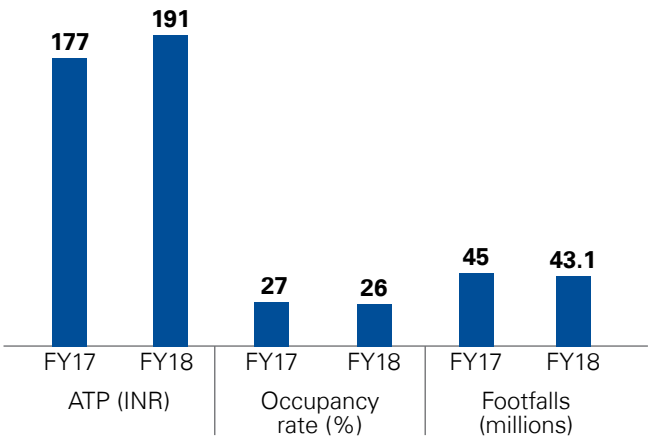
50. Digiplex, India's Mobile Theatre Van That Educates And Also Entertains, Exchange4Media, accessed on 07 June 2018

Figure 8: Average Ticket Price (ATP), Occupancy rate and Footfalls comparison across comparable properties for PVR Cinemas



Source: PVR Cinemas investors report accessed on 01 July 2018

Figure 9: Average Ticket Price (ATP), Occupancy rate and Footfalls comparison across comparable properties for INOX Cinemas



Source: INOX Leisure investors report accessed on 01 July 2018

For multiplexes, F&B and in-cinema advertising are the fastest growing revenue streams contributing ~35–40 per cent to the overall revenue with gross profit of 70 per cent in F&B and around 90 per cent in advertising[51]. Multiplexes have been embracing technology in every facet of the business — ticket booking, customer experience, data analytics on consumer patterns and so on. At the same time, there has been a growing emphasis on improvement in overall infrastructure through advancement in screen formats (for example, iMAX, 4DX), diverse F&B options and other facilities.

A large portion of the Indian film industry value is leaking on account of piracy, creating a pressure on footfalls in theatres. Definitive measures on regulation by the government, stronger control by exhibitors and an awareness campaign are required to step up the war against piracy."

Ajit Andhare
COO — *Viacom 18 Motion Pictures*

The next few years will see a drastic change in the consumption of content with the implementation of upgraded audio/visual technologies and better customer experience. The industry has been largely driven by increasing digitisation and higher internet usage over the last decade. Our industry has tremendous scope of growth with the increase in number of screens in tier II and III cities and advertising revenue associated with it.

PV Sunil
Managing Director — *Carnival Cinemas*

GST — Applying the brakes

The Goods and Services Tax (GST) was introduced by the government with the purpose to unify taxation across industries. Before the implementation of GST, a state-specific entertainment tax ranging from 15–110 per cent (with an average of 30 per cent) was levied on sale of movie tickets. However, GST implementation resulted in the following taxation rates:

- 18 per cent GST levied on tickets below INR100
- 28 per cent GST levied on tickets above INR100.

51. KPMG in India's analysis 2018 based on industry discussions

This has curtailed state-specific entertainment tax and led the way for the reduction of movie ticket prices in states with higher entertainment tax compared to GST rate. However, for multiplexes like PVR and INOX, only approximately 10 per cent of their total tickets are below INR100 representing 5–6 per cent of total box office collections. In an analysis of 20 states and union territories performed by the Multiplex Association of India, 28 per cent GST on tickets would have a negative impact in 12 states, neutral in one and positive in seven.[52]

GST regime has also allowed local bodies to levy taxes on entertainment. This has resulted in dual taxation that could increase the total cost to consumers by more than 28 per cent levied under GST. For example, in Tamil Nadu, entertainment tax is levied at the rate of 8 per cent on Tamil films and 20 per cent on other films resulting in significant increase in the prices of movie tickets.[53] Such high prices on movie tickets could lead to decrease in footfalls in theatres, especially for certain regional cinema which used to get exemption from entertainment tax.

On the other hand, GST implementation has resulted in the overall reduction of cascading effect of taxes leading to a positive effect on the cost of production/ distribution and exhibition of films. Also, theatrical rights and satellite rights attract a lower tax rate than before, thereby benefitting production houses and film producers.

At a high level, despite some benefits provided by GST, high taxation could become a significant challenge for the film industry which is already struggling with piracy and low profitability, driving consumers to alternate platforms.

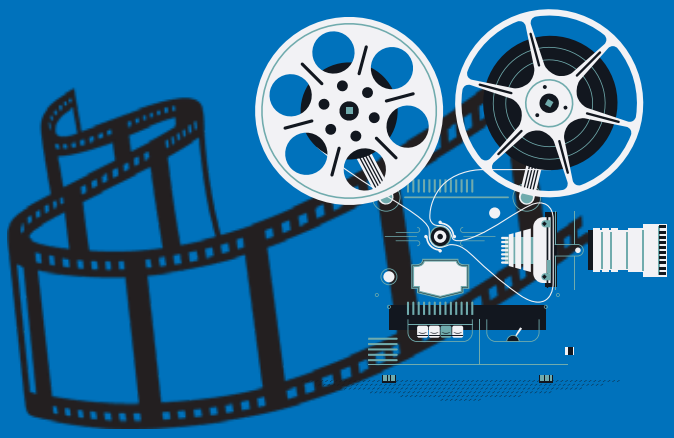
> At the core of the Film in India initiative lies the objective of easing filming across the country, which translates to the creation of a film friendly environment, through effective collaboration between key stakeholders from the government and the industry, towards this direction. The economy gains direct benefits such as revenue generation, increased foreign exchange, job creation, and induced benefits like film tourism and development of allied downstream industries through increased film shootings. These linkages have also had its impact on how states present and position their diverse locales as ideal filming locations. With more states introducing comprehensive film policies, incentives for filming and easing the permission process for filming, the industry is poised for a higher growth trajectory.
>
> **Vikramjit Roy**
> Head — *Film Facilitation Office*

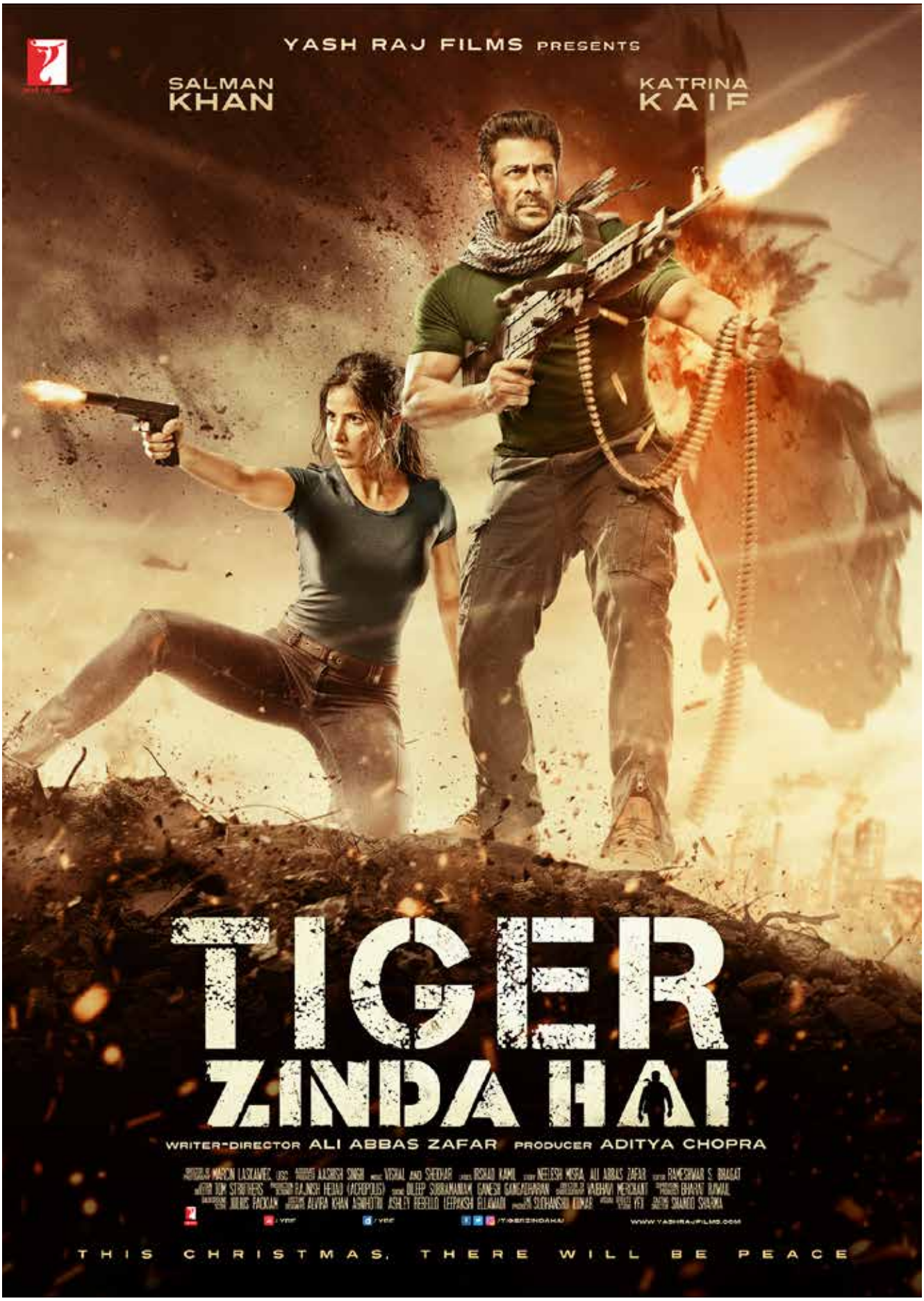
52. How will GST impact India's media and entertainment industry?, Rediff.com , accessed on 06 June 2018
53. Tamil Nadu govt. reduces local body entertainment tax to 8% ahead of Diwali, Business Standard, accessed on 06 June 2018

The future — Working towards a balanced growth

In spite of overall growth in the industry, the key contributors remain few films which performed well at the domestic and overseas box office in addition to growth from ancillary revenue streams like digital and in-cinema advertisement. This has exerted continued pressure on profitability, making it imperative to review business models and content strategy. The government's support could also go a long way to address the fundamental issues of screen addition, piracy and high taxation.

Though digital rights has emerged as an important revenue stream, the industry has to work closely for the faster and more balanced growth of its largest revenue contributor (domestic theatricals) through increase in the number of cinemagoers. This can be done through increasing screen penetration, making theatres available for different economic segments of society, and producing more participative content which can strike a chord with the audience.

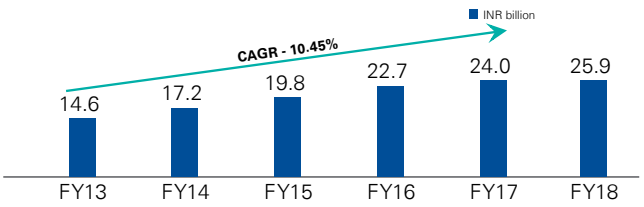



YASH RAJ FILMS PRESENTS
SALMAN KHAN
KATRINA KAIF
TIGER ZINDA HAI
WRITER-DIRECTOR ALI ABBAS ZAFAR
PRODUCER ADITYA CHOPRA
THIS CHRISTMAS, THERE WILL BE PEACE

Radio
Going local

FY 18 witnessed significant change in the regulatory environment with the implementation of Goods and Services tax (GST) and Real Estate (Regulation and Development) Act (RERA), 2016 coming into full effect. This, combined with the after effects of demonetisation, led to a weak start to year[1]. During the year, most of the stations acquired during the first and second batch of Phase III auctions went live, but the full impact of this will only be seen during the next fiscal year. While the period around mid-October provided some respite due to the festive season - the radio industry continued to see low growth rates from December onwards. While the radio industry's five-year CAGR is healthy at 10.45 per cent[1], the growth during the FY 18 has been weak at a meagre rate of 5.84 per cent[1]. Ad rates have mostly been flat, and growth is largely attributed to volume[1].

Size of the radio industry



Source: KPMG in India's analysis based on industry discussion and analysis, 2018

E-commerce and government spends which were the growth drivers for the radio industry through 2014–18 continued to see their share reduce in the overall advertising spends on radio[1]. The industry saw increased spends from the education sector, the automobile industry (recovering in the second half of the year) and the telecom sector increased advertising spends significantly to actively launch and promote various schemes with a focus on data-enabled services. For FMCG and retail sectors, radio continued to be an integral part of their media plans[1]. Implementation of RERA impacted spends by the real estate sector which is a key user of the radio medium due to its local reach. Due to increased supply, ad rates have remained flat with each player vying for more of the media share. Small players, especially the newly launched stations in non-metro cities, reduced their ad rates to attract small local businesses into their fold[1].

With the election commission keeping a tighter reign over advertisement spends by political parties, radio's share in the advertising spend is expected to fall. The industry is not expecting any major advertising revenue windfalls with the impending 2019 elections[2].

Two primary trends emerged during the year 2017-18, large radio companies are exploring opportunities beyond radio to combat the comparative slowdown in the industry; and increased focus on ad rates and brand building. The absence of an industry accepted measurement mechanism is also impacting companies[2].

Goods and Services tax (GST)

The uncertainties in the implementation of GST along with the high rate of 28% on a wide variety of products greatly affected luxury and de-merits goods industry.

The much needed impetus was provided by a rate cut in the GST rates effective 15 November 2017 wherein a large number of the items were moved from the 28 per cent segment to the 18 per cent segment.

The initial months were challenging, however, industry players are expecting the gains in the long- term to outweigh the initial hardships, since GST shall facilitate the move from unorganised to organised sector at a local level.

1. KPMG in India's analysis, 2017-18 based on industry discussions.
2. KPMG in India's analysis based on Industry discussion and analysis, 2018

FM spreading through the country — An update

While batch one was largely successful with 96 channels of the 135 channels being allotted in 56 cities, and the government collecting a cumulative bid price of INR11.08 billion, the second batch of auctions had a lukewarm response, with large operators such as DB Corp, HT Media, Reliance Broadcast Network and Jagran Prakashan-owned Music Broadcast Ltd not participating. This resulted in sale of only 66 channels in 48 cities with a cumulative bid price of INR 2 billion[4].

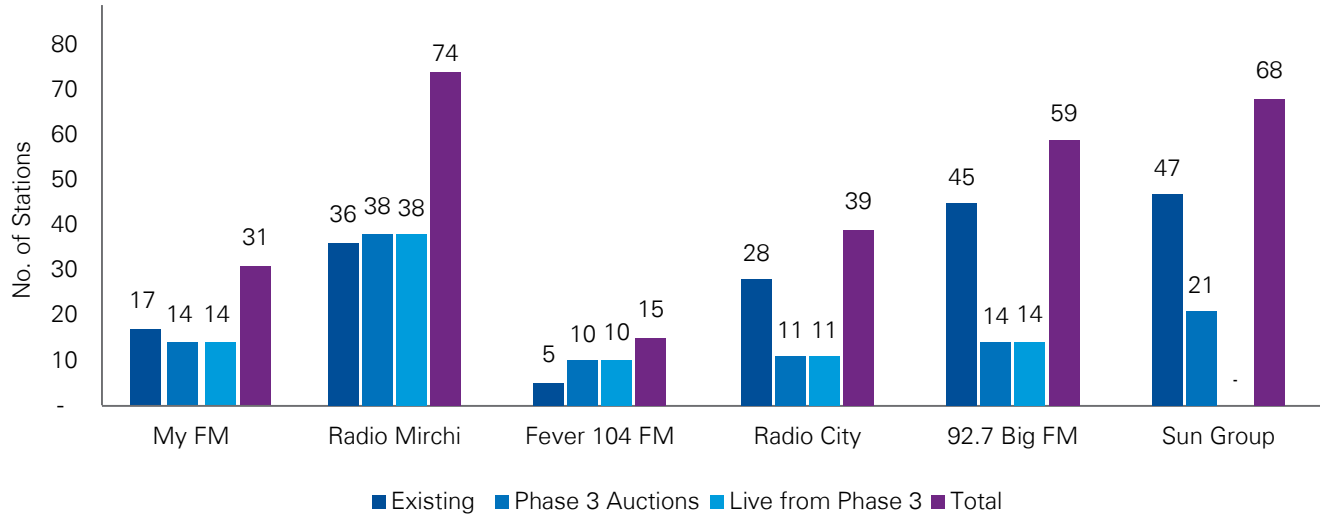
The Union Cabinet recently approved the licensing of radio stations for the third batch of Phase III FM radio licenses[5]. This batch will have 683 channels in 236 cities with the coverage of private FM radio broadcasting to span across all 29 states and six union territories. The third phase will include a large number of cities with zero private FM radio channels, as well as cities with a population of less than one lakh. The government estimates that it would yield more than INR 11 billion from the e-auction of third batch of Phase-III FM radio licenses[5]. However, radio industry players are skeptical of the success of future auctions, unless issues such as high reserve prices and measurement system are resolved.

The Information and Broadcasting Ministry is engaging with national and regional industry bodies, as part of its efforts to encourage more local entrepreneurs to participate in this e-auction. The focus is to look out for local entrepreneurs to bid for these FM radio frequencies. The ministry is said to be testing the infrastructure, including security checks, as part of the preparations for the e-auction. It will also appoint independent external monitors to oversee the e-auction of the subsequent batches of private FM radio channels[6].

Factors that can contribute to the success of batch 3

1. **Priority sector status:** Considering the vast reach of the radio, and the fact that it remains as one of the last free to air medium, the radio industry should be considered under the 'priority sector' so that the bank lending to this sector can qualify under the priority sector rules[7]
2. **External commercial borrowing(ECB):** Due to the high licensing fees and long gestation period mandated by lack of infrastructure in smaller cities, the radio industry should be allowed to raise capital in foreign markets under the ECB route[7]
3. **Reserve price:** High reserve prices has been a roadblock in the second batch of Phase III. The formula used for determining reserve bid price for stations should also be looked at, as the current method does not take into account the differences in consumer spending and changes in consumer mix from town to town.

Station live vs stations allotted



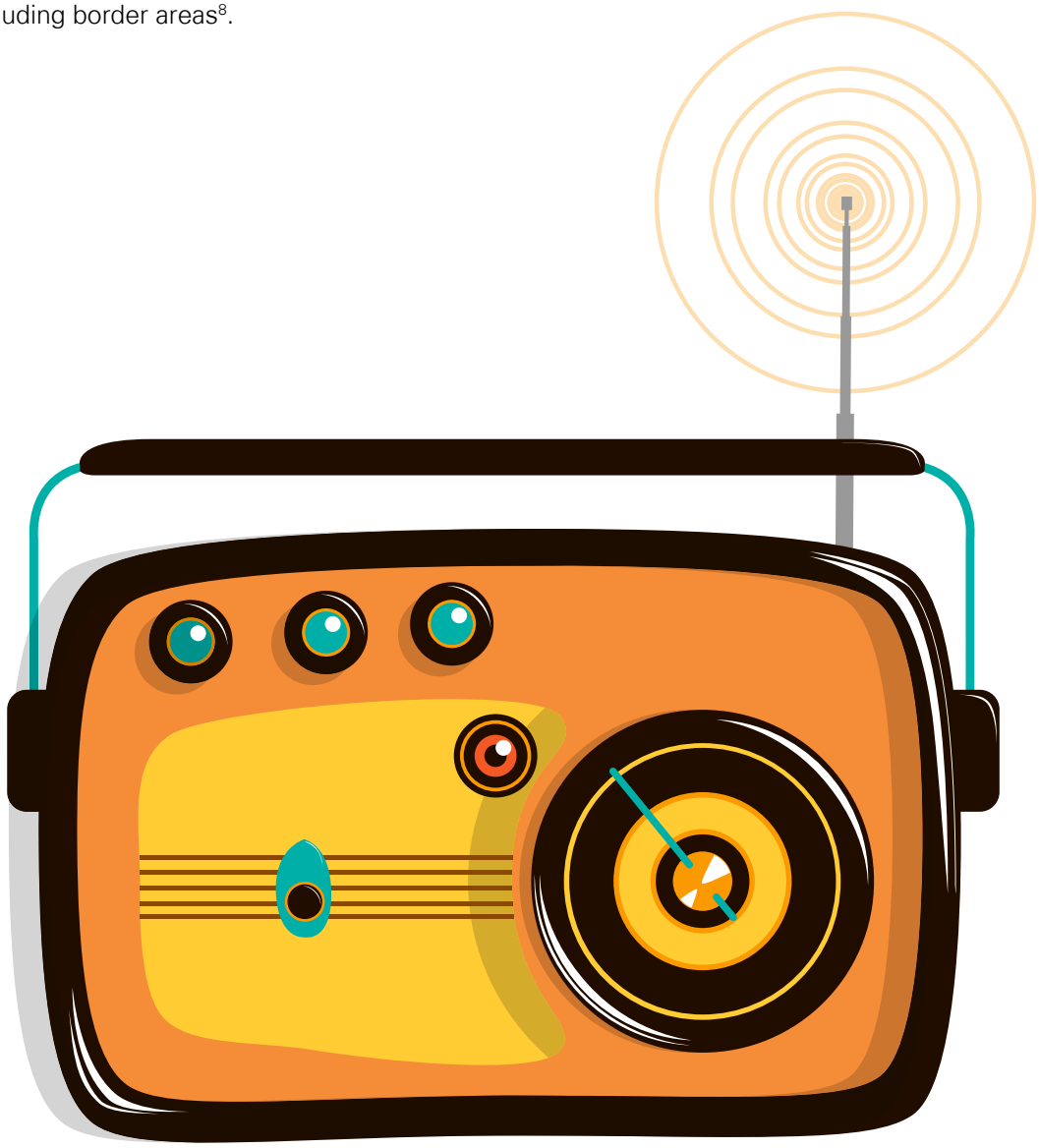
Source: KPMG in India's analysis based on industry discussion and analysis, 2018

3. Copyright reserved with TAM MEDIA RESEARCH PVT. LTD. any use of TAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.
4. 'Radio Mirchi picks up 21 frequencies in 2nd batch of Phase III auctions', www.economictimes.indiatimes.com, February 27, 2017, https://economictimes.indiatimes.com/industry/media/entertainment/media/radio-mirchi-picks-up-21-frequencies-in-2nd-batch-of-phase-iii-auctions/articleshow/57378256.cms, accessed on June 26, 2018
5. 'Cabinet approves third batch of Phase III FM licensing', www.radioandmusic.com, December 26, 2017, http://www.radioandmusic.com/biz/radio/private-fm-stations/171226-cabinet-approves-third-batch-phase-iii-fm, accessed on June 26, 2018
6. 'I&B Ministry wants more local participation in FM radio e-auctions', www.thehindubusinessline.com, April 12, 2018, https://www.thehindubusinessline.com/economy/policy/ib-ministry-wants-more-local-participation-in-fm-radio-e-auctions/article23512840.ece, accessed on June 26, 2018
7. KPMG in India's analysis based on industry discussion and analysis

All India Radio (AIR)

New FM stations of All India Radio have been approved for being set up at 213 new locations across the country (including 100 W FM Relay Stations at 152 locations)[8]. AIR has already set up 36 FM transmitters at 33 locations in the areas at the borders. In addition to this, schemes for setting up of 31 new FM transmitters have been approved for implementation in the border areas including the north-east states. In addition to terrestrial transmission, AIR has already provided 32 AIR channels on Doordarshan's DTH platform (DD Free Dish), which can be received by using DD Free Dish set top box throughout the country including border areas[8].

Also, AIR is expanding its reach, with the help of new-age technology. AIR has introduced its shows online, covers almost all popular stations on its website. Further, the AIR app was launched a few years ago, and has been downloaded several lakh times ever since. It offers an assortment of infotainment and public services, not just in Hindi and Urdu, but also other major regional languages. A recent partnership between AIR and Amazon Echo service has led people from all over the world to tune into AIR by giving a voice command[9].



8. 'New AIR FM stations at 213 locations including border areas: Rathore', www.radioandmusic.com, July 20, 2017, http://www.radioandmusic.com/biz/radio/air/170720-new-air-fm-stations-213-locations-including-border-areas, accessed on June 26, 2018

9. All India Radio — Without The Radio: Catch Up With Akashvani In The Digital Age', www.thebetterindia.com, February 13, 2018, https://www.thebetterindia.com/129387/india-radio-without-radio-catch-akashvani-digital-age/, accessed on June 26, 2018

> Tier II and Tier III cities have shown a lot of progress in the last 4-5 years becoming an integral part of the overall business. Each station in such cities has established its own brand image and differentiated itself from the overall market.
>
> **Prashant Panday**
> Managing Director and CEO
> *Entertainment Network (India) Limited*

Emerging trends

Inventory utilisation

Inventory utilisation has remained high during the year in A+ and A category cities like Mumbai, Bengaluru and Delhi, which saw utilisation as high as 90-95 per cent and even above 100 per cent during peak hours, whereas utilisation in smaller towns is estimated to be at 50-55 per cent[10]. The average inventory is defined as approximately 19 minutes per hour.

The surge in the number of radio channels has increased the available inventory. Different broadcasters have adopted different strategies to address this increase – some have increased rates so as to give up advertisers that do not fit in with the overall brand and image of the channel. Another counter strategy that has emerged strongly is that channels have reduced rates to attract audiences to the newly launched stations. With the general elections not likely to provide the impetus like the previous years, the newly launched stations may continue with low prices to entice potential advertisers beyond metro cities.

RJs — The new celebrities

Radio Jockey's (RJs) are able to captivate listeners through narrative and music. The connection between RJs and their listeners has evolved over time, with many of the RJs transitioning into other media as well. Reality shows and character roles in various TV and movie platforms have benefited both RJs (by increasing their popularity) and radio companies (by increasing their reach).

Popular RJs have become influencers across various social media platforms, which helps drive advertisement volumes by creating a unique mix of digital and radio.

The industry has also seen many renowned celebrities cross over as RJs. Karan Johar, Annu Kapoor, Anu Malik, Anil Kapoor, Satish Kaushik and Salim Merchant have put themselves in the seat of an RJ and tested their mettle on this platform.

Embracing digital

FM radio companies are adapting to the changing user behaviour by including a digital dimension to their offering. By allowing listeners to tune in to their favourite radio shows online, they are expanding their audience, and in the process, offering 360-degree solutions to advertisers. Digital also provides advertisers with a measurement metric.

94.3 Radio One India, the radio brand owned by Next Radio Ltd, has launched its online re-broadcast of its Delhi, Mumbai and Bengaluru international format network FM radio stations. It has also launched an audio business channel. 94.3 Radio One which broadcasts FM radio stations in Mumbai, Delhi, Bengaluru, Pune, Kolkata, Chennai and Ahmedabad, and will now be able to reach an all India audience. With this, listeners from across the country can stream the three international format FM radio stations from any internet connected digital device[11].

The year 2018 has also witnessed radio stations going online as a means to reach out to a wider set of audience. Popular segments are now available online, for instance, Yaad Sheher with Neelesh Misra, Mawali Bhai, recording of Radio Mirchi Murga all available freely on YouTube.

> Stick to the basic, radio world over is a local product — that is the strength of the medium 'Localisation'. Deliver a good listening experience, customise the playlist as per the city, and provide innovative and engaging content formats. Apart from this, innovative client solutions and top-notch jingle/spot production will drive even more traction to the listener and advertiser.
>
> **Rahul Namjoshi**
> Business Head
> *MY FM - DB Corp Ltd*

10. KPMG in India's analysis based on industry discussion and analysis, 2018
11. Radio One India launches www.1cast.in and new audio business channel, www.exchange4media.com https://www.exchange4media.com/mediaradio/943-radio-one-in-dia-launches-www1castin-new-audio-business-channel_87825.html

Radio exploring different genres

Radio programming is evolving from mostly airing romance-and humour-based shows to different genres of shows that cater to different sets of audience. Interesting show formats including sports, folk culture, trivia, technicalities of music making and more have opened a world of insightful entertainment while on the go. This has also paved way for advertisers to reach out to a different set of target audience through a single brand while gaining effective Return on investment (ROI).

Sports Flashes, a multi-sports app, has launched the first sports radio channel of India. As a 24x7 internet radio channel, it will only broadcast sports content and have live chat commentaries, talk shows, special sports programs, expert comments, sports news and updates, audio documentaries, university sports and sportainment content[12].

Hyper local advertisements

Since radio has a wide reach in rural and semi-rural markets, the industry is seeing a lot of hyper local advertisements. This trend is not only limited to small and local businesses but increasingly large and multinational companies are also rolling-out advertisements in local languages and creating different content to cater to local markets. Relatively low cost of creating content, ability to curate the programming to cater to local tastes, availability of content in the local dialect have contributed to this trend, which is poised to only increase in the coming years.

Centralised network programming

Large broadcasters have also started to create content centrally which helps in cost reduction providing them economies of scale. These programmes are aired in different cities with minor variations to add some local flavour, but the overall theme and content remain the same. Broadcasters are also experimenting to check whether such central programming can be worked out for different mediums, for instance, digital and radio.

Mergers and acquisitions

Licence lock-in periods, limitations on foreign direct investment (FDI) investment in radio, 40 per cent limit on the number of radio chapters in the city and government approvals are roadblocks hindering consolidation in the radio industry. With the stabilisation of the GST regime and other positive macroeconomic environment, the industry is seeing some rush.

HT Media (Fever FM and radio Nasha) and Next MediaWorks (radio one) have announced the signing of the binding term sheet for the proposed merger of their radio arms[13]. The proposed merger aims to take advantage of a larger combined metro play subject to the approval of shareholders, legal bodies and the Ministry of Information and Broadcasting.

The acquisition of 49 per cent stake by Zee Media Corporation Limited in the radio business of Reliance Broadcast Network Limited, '92.7bigFM', including an option to acquire the balance 51 per cent stake has not yet been completed[1].

The board of Music Broadcast (MBL) has approved the acquisition of the radio division of Ananda Offset, called Friends FM which has established a strong presence in Kolkatta over the last 10 years[14]. This transaction allows MBL to enter the Kolkata market, which is one of the top five markets in the country.

> Radio sector is poised for good growth this year on the back of content innovations, Audience measurement, idea based solutions, Government spending, etc. We will also be looking at some price increase in core markets.
>
> **Asheesh Chhaterjee**
> Chief Financial Officer & Head Revenue and Digital Transformation
> *Reliance Broadcast Network*

12. 'First Indian Sports Radio Channel, Sports Flashes Launched', www.exchange4media.com, January 16, 2018, https://www.exchange4media.com/media-radio/first-indian-sports-radio-channel-sports-flashes-launched_88002.html, accessed on June 26, 2018
13. Radio One and Fever FM/Nasha propose merger, www.bestmediainfo.com, July 18, 2018, http://bestmediainfo.com/2018/07/radio-one-and-fever-fm-nasha-propose-merger, accessed on July 27, 2018
14. 'Will India embrace digital radio broadcasting?', www.livemint.com, July 27, 2017, https://www.livemint.com/Opinion/0oboBd0yuUDjYqn6NcsPtL/Will-India-embrace-digital-radio-broadcasting.html, accessed on June 26, 2018

Key challenges and threats

A better measurement system

The radio industry has come together for its own common measurement system. Currently, Radio Audience Measurement (RAM) provides data covering only the top four metro cities, i.e., Delhi, Mumbai, Bengaluru and Kolkata, and industry players often question the sample size of the population covered to determine the results. With the expansion of the radio industry in recent times, there is no data that covers the non-metros, which were the prime focus of the recent auctions. To remedy the above problem, the Association of Radio Operators of India (ARO) and Media Research Users Council (MRUC) have jointly invited proposals from research agencies to conduct audience measurement research for radio. The study is expected to be used as the industry currency for buying and selling time on radio. The corollary to this is that it will enable all relevant constituencies to evaluate the medium offerings, devise content strategies, and plan campaigns based on the data provided. This is currently a work in progress[15].

Lack of measurement system continues to cause disruption in the growth of the radio industry. Due to lack of visibility, high quality advertisers continue to stay away from investing in radio. Addressing the measurement challenge is likely to also encourage companies to participate actively in the upcoming batch III of Phase 3 auctions.

A new approach to licence fees

High licence fees act as a deterrent to operators from venturing into new cities. A new approach to the licence fee is required to ensure that the licence fees are a reflection of the revenue potential of the respective cities. Revision in government policies is required to make things easier for businesses in the country.

Long gestation period

Lack of infrastructure in smaller cities also adds to the cost of the radio stations. The average time frame between the allotment of licences and the stations going live is around 12 to 18 months. There are multiple factors leading to this delay like the lack of broadcasting stations/studios in smaller cities, inadequate towers to relay the radio waves. This leads to further financial burdens on the industry already reeling under high licence and auction fees.

Making news and sports available on radio

The government continues to ban the broadcasting of news, sports and current affairs. The government has turned this down on account of danger to national security and public order. This restricts content differentiation.

Changing preference to video

Consumers' preferences are changing as they spend more time watching videos. Video is both an audio and visual medium, and thus is more engaging. It is difficult for radio to keep up with the enhanced interactive potential of the internet.

In international markets like the U.S., radio continues to hold its own due to the high cost of mobile data. In India, due to recent data-boom led by Reliance-Jio, internet penetration has increased substantially, with radio being limited to a passive medium when the user is occupied with some other activity like driving or working. The Indian internet music battle has been led by apps such as Gaana, Saavn. Streaming apps allow users to play everything they want and ad-free, which is important for. some urban consumers who may not want listen to advertisements, and may not mind paying a monthly access fees.

In the hinterlands, however, radio still holds the edge due to low mobile literacy, patchy network and general lack of infrastructure. This is where the next battle for supremacy is likely to be fought between the digital medium and the indestructible radio.

Digital radio

Benefits of digital radio technology over the analogue terrestrial radio broadcasting are; better signal quality, clear reception, and efficient use of allocated frequency as multiple radio channels can be broadcast on a single frequency and efficient reception of radio channels in static, portable and mobile environments. However, one of the biggest disadvantages of digitalisation of radio is that listeners need to buy special radio receivers as existing phones and music systems in cars do not support digital transmission. Another downside is the huge investments already made by radio companies in existing FM transmission infrastructure[14].

Supporting the digitalising of the radio, Telecom Regulatory Authority of India (TRAI) has released its recommendations for permitting digital radio broadcasting in Medium Wave (MW), Shortwave (SW) and Very High Frequency (VHF-II) frequency bands[15].

15. 'TRAI Tells Govt To Notify The Policy For Digital Radio In Time Bound Manner', www.exchange4media.com, February 2, 2018, https://www.exchange4media.com/media-radio/trai-tells-govt-to-notify-the-policy-for-digital-radio-in-time-bound-manner_88257.html, accessed on June 26, 2018

It has also recommended that the private sector be permitted to provide digital radio broadcasting services within the existing frequency band 88 – 108 MHz used for FM radio broadcasting. For liberalising the existing spectrum, already allocated to FM radio broadcasters in Phase-III of FM radio, they will have to pay an amount equal to the difference of auction determined price of equivalent spectrum for digital radio broadcasting in a city and amount paid for allocation of FM radio frequency. Existing analogue FM radio channels are to be allowed to remain operational for the remaining period of their Phase-III permissions. It also recommends that for the initial three years after declaration of digital radio broadcasting policy, the government should grant fiscal incentives in the form of lower tax rates to manufacturers of digital radio receivers.

> The radio business is metamorphosing. It is converting from being an audio-only business to being a multi-media business. Our presenters are becoming multi-media, our solutions to clients are becoming multi-media and our future initiatives are also in the multi-media sphere.
>
> **Prashant Panday**
> Managing Director and CEO
> *Entertainment Network (India) Limited*

With the industry already reeling under the impact of the increased outflows in the form of licensing fees, it remains unclear, whether the private sector will show any intent to make further investments in infrastructure when the basic problems of measurement, copyright and royalty remain unaddressed.

Copyright board

The radio industry has long demanded the formulation of a Copyright board to regulate the licence fees for music broadcast.

The Finance Act, 2017, as a part of its stride to reduce the number of tribunals, merged the Copyright Board (the Board) with the Intellectual Property Appellate Board (IPAB or Appellate Board). The recent amendment to the Copyright Act by the Finance Act and the merger of the Board with IPAB underway, it can be said that the Copyright Board has died without its actual constitution.

The proposal of consolidation of tribunals for increasing efficiency and reducing the financial burden of having different set-ups is a welcome move, however, it is hoped that the anomalies created on account of sudden merger of two judicial authorities are sorted out soon.

Looking forward

With an estimated CAGR for FY 19-23 of 8.38 per cent, the radio industry is heading towards a slower growth rate. The batch 2 of the Phase-III auctions were unsuccessful, and the timeframe for the next batch remains unclear. New stations are taking longer than anticipated to reach optimal capacity. With the 2019 elections fast approaching, it is widely believed that any changes to the formula for licensing fees is unlikely. This, combined with the lack of infrastructure in smaller towns, has led to slow roll-out of new stations in the newly auctioned cities. The uncertainty around timelines for the batch 3 of Phase- III, along with any future plans of subsequent auctions, have impacted the growth rate.

The timelines for the next phase of auctions remains unclear. We have estimated that the gestation period for a station to go live is 12-18 months which is more than our original estimates of 6-12 months. The anticipated revenue projections have been pushed back to factor in the delays.

Looking forward, the radio industry expects better streamlining of tax laws, lowering the licence fee for operating in smaller cities and bringing it under the 5 per cent GST slab in the upcoming budget. A better FDI regime may encourage more investments, which can boost long-term growth for the industry[16].

Increase in listener base

New stations and proliferation of private radio is likely to increase the listener base. An increase in radio coverage, along with wider reach in form of radio-enabled phone handsets, the listener base is slated for growth. It is worthwhile to note, with smartphones becoming more affordable and India's telecom rates being among one of the lowest in the world, the industry faces tough competition from the digital medium.

Wallet share remains flat

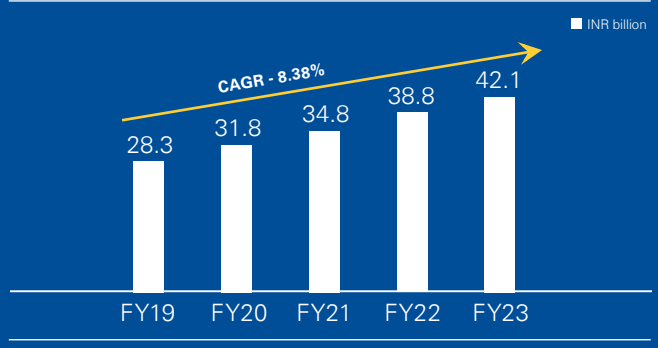
It is widely believed that radio is likely to attract a larger share of advertising spends, and the advertisement spends on radio is expected to increase to 10 per cent of the total marketing spend of companies in line with the developed countries. Spends on radio, however, remain almost constant at 4-6 per cent of the marketing spends of the companies. The decrease in spends by government agencies and lower spends by political parties are a factor impacting growth.

Increase in inventory

It was widely expected that the increase in inventory could lead to the widening of the radio industry and the industry is likely to benefit from the new players and the penetration of radio to new cities. The increase in inventory, however, is leading to a price war between the broadcasters. While the industry is expected to grow due to increase in inventory, the pressure on ad rates is expected to continue.

As one of the last free-to-air mediums, the importance of radio, especially in a country like ours cannot be overstated. While the first two batches of the radio auction have increased the market size, the expected revenue from new launches remains uncertain. The industry demands a robust method of measuring listenership, policy changes related to licence fee calculations and more transparency with regard to the next phase of auctions and their likely timelines in order to achieve its true potential.

Projected size of the Radio Industry



Source: KPMG in India's analysis based on industry discussion and analysis, 2018

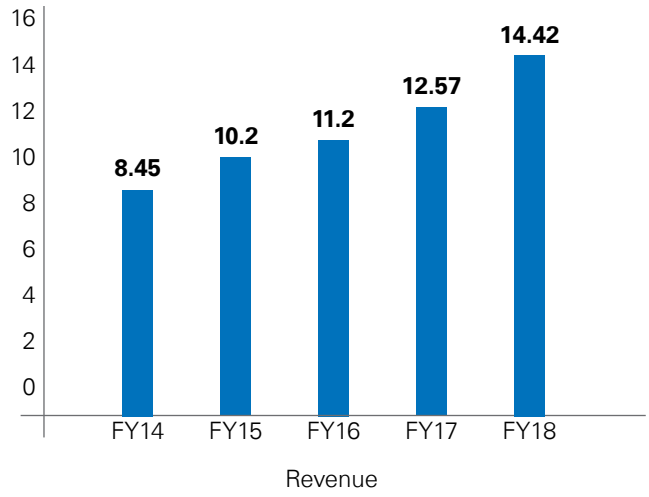
16. 'Union Budget 2018: Radio Wants Reduction Of License Fee, 5% GST Slab', www.exchange4media.com, January 31, 2018, https://www.exchange4media.com/media-radio/union-budget-2018-radio-wants-reduction-of-license-fee-5-gst-slab_88216.html, accessed on June 26, 2018

Music

Streaming the future

With continuing evolution in the music industry landscape owing to digital advancements worldwide, the Indian music industry has also become receptive in terms of both diversifying segmentation and improving reach through the digital medium. The music industry in India was estimated at INR14.42 billion in FY'18 having grown at a compound annual growth rate (CAGR) of 14.49 per cent between FY'14 and FY'18.[1]

Figure 1: Size of the Indian music industry (in INR billion)



Source: KPMG in India's analysis, 2018
Note: The revenue accounts for revenue of both record labels and streaming companies

The Indian music industry ranked nineteenth in the world in terms of music revenue in 2017.[2] Data penetration and increased use of smartphones have been contributing towards the growth of music consumption, especially in digital. From being an audio-visual market traditionally, India has been witnessing popularity in the audio-only dimension in FY'18 with continual innovation in the streaming services.

The success of streaming services is not only fueled by ease of accessibility but also efficient distribution models through telecom companies. The added advantages of tying up with telecom distributors are the increase in the consumer base by monetising subscribers of respective companies and their consumer loyalty.

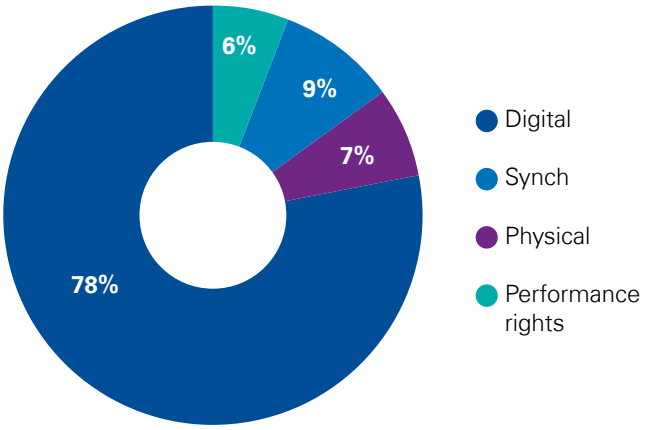
Key underlying themes

Emergence of music on streaming platforms

Rapid growth in internet penetration, coupled with reducing data costs and an increase in the availability of digital content, has given consumers the opportunity to access music of their choice at their fingertips. The internet has transformed the business topography of organisations by providing them with opportunities across five aspects — affordability, brand, content, reach and ease.

The digitisation of music has fundamentally shifted every aspect of the industry, from the way music is recorded to the manner in which albums are positioned, marketed and distributed. Streaming has shifted the balance of power within the industry, vesting the power of decision-making to end consumers and artistes. Proliferation of affordable smartphones, development of digital infrastructure and scaling of internet outreach have changed the landscape of the music ecosystem, resulting in an uptake in consumption. The diagram below depicts the maximum engagement of the digital format in terms of the percentage of revenue sharing.

Figure 2: Indian recorded music revenues by format - 2017



Source: IFPI Global Music Report, 2018

1. KPMG in India Analysis, 2018

2. IFPI Global Music Report, 2018

The advent of technological advancements and digitisation have given artistes an advantage of a wider consumer base. Streaming platforms have augmented the reach due to which there is no hassle for physical distribution of their recordings.

Digital music continued its strong performance in FY'18 both in terms of viewership and realisations, which has led to scaling returns for artistes and producers, since music streaming apps now account for close to 70 per cent of the total revenue generated by the music industry.[3] Thus, with approximately 300 million smartphone users and counting, the number of people using streaming platforms for music is only expected to rise significantly over the next few years. The 16 to 35 year old demographic set pushes a great growth, as around 75 per cent of digital music consumption in India in the coming years is likely to generate from this segment alone.[4]

> We have observed that consumer adoption and habit formation are shaping the growth of streaming platforms. Needless to say that smart-phone penetration and access to low cost high speed data is fueling the content consumption both across audio and audio-visual formats across digital platforms.
>
> **Devraj Sanyal**
> Managing Director and CEO
> *Universal Music Group, India and South Asia*

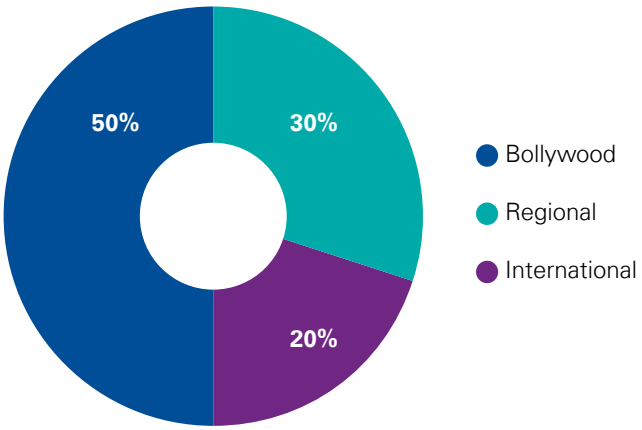
Revival and reinstating of regional music

Over the last few years, the Indian music industry has witnessed an increase in consumption of regional music in mainstream cinema. From Guru Randhawa having approximately 1.1 million subscribers on YouTube to DJs belting out Zingaat, one thing is certain — the wave of regional music has truly arrived in India.[5]

Over the Top (OTT) platforms have played a key role in the growth of regional music such as Marathi, Gujarati, Bengali, Tamil, Telugu and Kannada. The regional market around the OTT platforms has equitable distribution, and it also gives better uptake in terms of engagement of consumers in urban areas of the country. With expanding viewership from rural areas and small towns, listeners no longer concentrated in metropolitan cities, music streaming players have realised the potential of regional content to engage with the new audience.

The genre-wise breakup of consumption of music on streaming platforms is provided below:

Figure 3: Genre-wise music consumption 2017-18



Source: KPMG in India analysis, 2018 and industry discussions
Note: The split includes consumption and distribution of music genres across platforms

3. Revenues comprise both the acquisition cost of music by the streaming platforms which ultimately gets recorded as revenues for labels and revenues from the OTT platforms (both consumer paid subscription and advertisement generated revenue)
4. KPMG in India's analysis, 2018 based on industry discussions
5. "The Era of Regional music dawns in India, IndianTelevision.com, June 2018, accessed on June 30, 2018"

The major segment wise break up of regional music, which constitutes around 30 per cent in consumption is Punjabi (13 per cent), Tamil (7 per cent), Telugu (4 per cent), Kannada (3 per cent) and rest of the languages (4 per cent). [6]

While Bollywood commands the major consumption on OTT platforms, its share of consumption is decreasing with the overall transition to digital. For instance, Wynk Music holds vast collection of over 3 million songs, including popular music in 12 Indian regional genres. Almost 100 per cent growth has been witnessed in music in regional languages such as Tamil, Telugu, Punjabi and Kannada. Overall, song streams on Wynk Music have seen consistent growth on the back of rising demand for local content.[7]

> Consumption of music via video will amplify heavily. Consumer paid subscription will drive the future medium to long term future of streaming. The socio-economic strata of regional consumers commercially exposed to consuming music via free or cheap data/ devices, combined with the coming revolution in voice enabled transactions/devices will re-create the long tail left behind by the ring back tone and fill up the rest of the language/genre gaps. This will also eventually result in a great bonanza within the non-film space. It's about time that the music industry grows out of the shadow of the film industry
>
> **Mandar Thakur**
> Chief Operating Officer
> *Times Music, A division of The Times of India Group*

Another instance is of Amazon recently signing a deal with labels such as Sony Music, Tips, Warner Music and T- Series for its music streaming service. Like Prime Video, Amazon is focusing on regional content as the main differentiator with Amazon Music.[8]

Indian niche increases engagement with physical format

The Carvaan, launched by Saregama India Limited in FY'18 combines digital and physical delivery models, with focus on bringing back the shared experience of music. Carvaan is a digital audio player, which is targeted towards 35 to 40-year-olds and above who crave for music, but aren't comfortable with using technology to access it. It comes loaded with 5,000 songs which can be sequenced and played as per mood. Saregama Carvaan sold 389,000 units in FY'2017-18 with the main success factors being convenience and nostalgia which is being positioned as a perfect gift. It provides a conventional radio experience to the generation that comes from the Vividh Bharti era.[9]

Another instance of uptake in engagement of niche physical records is the renewed interest in vinyl worldwide. India, too, celebrated the love for vinyl on International Records Day on 21 April 2018 when Sony Music India hosted a vinyl pop up sale. The collection included over 25,000 imports of limited vinyl records from classics like Pink Floyd, A.R. Rahman to modern day Coldplay, Ed Sheeran and many more and exclusive record day releases.[10]

> The Music industry is at an upswing both in India and globally. The push is currently coming from lean-forward interactive experiences led by the streaming platforms, which over time will need sustenance through consumer paid subscriptions. At the same time, success of Carvaan confirms the existence of another large segment that still enjoys lean back listening experiences. With both these segments willing to spend for high quality listening, the immediate future of music industry looks bright
>
> **Vikram Mehra**
> Managing Director
> *Saregama India Ltd*

6. KPMG in India's analysis, 2018 based on Industry discussions
7. "100% spike in Indian regional music streams pushes growth of the digital music industry", Dailyhunt.com, accessed on May 25, 2018
8. "Amazon Music is the latest addition to your Prime subscription in India", androidcentral.com, accessed on May 28, 2018
9. Industry discussions
10. "Sony Music presents a one day vinyl pop-up sale", radiomusic.com, accessed on June 30, 2018

Voice activated technology seeing traction

Consumers have become receptive towards new technologies, which provide more convenience, for example, smart speakers with voice activation. Amazon has introduced early lead in voice-based devices through 'Alexa', which is a smart assistant that is built into its popular Echo smart speakers. Music OTT companies like Gaana have also come up with voice activated features that enable consumers to surf easily without typing. This technology might attract more audiences in the future because the ability to get simple tasks done through vocal commands has piqued the curiosity of consumers. It has opened up a market segment with potential growth opportunities. This also breaks down barriers and makes it convenient for people to use streaming services.

As per a survey by Geo Marketing, 42 percent of the respondents say that voice-activated devices have swiftly become 'essential' to them.[11] It should be taken into account that even if the voice is largely driven through companies like Google and Amazon, it is the recording labels that are providing access to music to create a better consumer experience.

Rise of independent music — Transition from film to non-film

As a direct consequence of the rising popularity of both music streaming and music festivals and concerts, the Indian music industry is witnessing a rise in the number of independent artistes across genres. Digitisation, especially, has provided independent artistes with the platforms to directly connect with the consumer and showcase their talent. Although Bollywood continues to be the primary content consumed, the indie music scene seems to be gradually maturing and witnessing greater supply and consumption.

For instance, both Gaana and Saavn are turning towards original music production and distribution.

Saavn launched its first song in the series 'Artist Originals' in early 2017. Saavn has been innovating, which can be witnessed through the launch of its original programming and its Artist-in-Residence (AiR) programme. Saavn's first Artist-in-Residence, independent artiste, Nucleya, became a popular electronic music artiste last year.[12] It is estimated that Saavn earns around 10 per cent of its annual revenue from direct artiste deals through its Artists Originals.[13]

Gaana too has launched its non-film music under the brand name 'Gaana Originals'. Gaana Originals features 11 original songs from top Bollywood/regional artistes releasing one song a week. It is showcasing the work of some of the leading Bollywood and Punjabi singers like Sonu Nigam, Shaan, Ankit Tiwari, Neha Kakkar, Sona Mohpatra, Tony Kakkar, Millind Gaba, Gurnazar, Sachin Gupta, Sonu Kakkar, and Soham. Gaana Originals' first six songs crossed 20 million streams on the Gaana platform within five weeks of its launch.[14]

Live events and music festivals — Long way to go to reach the destination

Live music events and music festivals are not only about music, but also about the holistic captivating experience a consumer gets. India is emerging as a promising market for music festivals and big ticket live events which, thanks to the reach of social media, are finding audiences across India. Social media platforms such as Facebook, Instagram and Snapchat have also entered into the live streaming space of these events. However, pricing models and lack of infrastructural development in tier 2 cities have been limiting the growth of live music events in India.

11. "OK Google, Siri, Alexa, Cortana; Can you tell me some stats on voice search?" branded3.com, accessed on June 30, 2018
12. "Saavn launches Artist Originals, sets tone for Indian Hip-Hop",Business Standard, accessed on June 15, 2018
13. "India Beyond Bollywood: How YouTube & Other Streaming Services Are Rewiring the Local Music Industry", Billboard.com, accessed on June 30, 2018
14. "Gaana launches Originals platform for Artists to launch non-film music",bestmediainfo.com , accessed on June 30, 2018

"With the boom in internet and data consumption the immediate future should see significant growth in the consumption of regional music. The first signs of this can be seen in the view counts of Haryanvi, Punjabi and Bhojpuri language videos. We are also witnessing the rise of a 'gigging culture'— people are seeking out live concerts by their favourite artistes and there seems to be a rise in ticketed events not only in tier 1 cities, but also tier 2 and tier 3"

Arjun Sankalia
Director
International Music and Publishing, Sony Music Entertainment India.

India has seen a rise in the number of live music events over the last two years witnessing not only indie but international artistes like Coldplay, Ed Sheeran, Justin Bieber and OneRepublic bringing their music to our country.[15] The Justin Bieber concert in India in May 2017 witnessed a crowd of 45,000 people.[16] Music festivals like 'Ragasthan', 'Enchanted Valley Carnival (EVC)', 'Supersonic' continue to witness footfall of thousands of people flowing in from different cities. Some of the nation's most famous composers and singers have built entire diversified careers off the back of Bollywood — making up to 70 per cent of their income from live shows.[17]

Music industry in India — The changing landscape

1. The Jio and Saavn consolidation

The integration of JioMusic and Saavn in a transaction is valued at over USD1 billion. The integrated business is likely to evolve into a media platform with global reach, cross-border original content, an independent artiste marketplace, consolidated data, and one of the largest mobile advertising mediums. Given the massive addressable market opportunity of over 1 billion users in India and globally, the combined entity proposes to invest aggressively to accelerate growth that would benefit all aspects of the ecosystem, including users, music labels, artistes and advertisers.[18]

This transaction is likely to leverage from its vast customer base and combined expertise in this field to create an uptake in consumption.

2. Spotify's forthcoming arrival in India

Spotify is one of the leaders in the digital music industry worldwide with specialisation in music, podcasts and video streaming services. Recently, the firm released its Initial Public Offering (IPO) and had disclosed its launch in India soon. With well-known companies like Saavn, Gaana, Hungama already operational and holding a significant market share, Spotify might have to compete with these players in order to win over the consumers. This might create an inevitable alteration in the percentage share of the companies in the music industry owing to the reputation, resources and distinguished content of the brand. As per industry discussions, Spotify is likely to bring in a renewed focus on innovation and personalised content automation to provide consumers with a wide variety of content.

3. YouTube going audio

With 225 million monthly active users in India, and reach of internet to almost 80 per cent of population of the country[19], the audio-visual platform YouTube has recently announced its new music subscription-based service. YouTube Music taps the phenomenon of Natural Language Processing (NLP) to let consumers find music based on a vague description. The app's home screen will dynamically recommend new

15. KPMG in India's analysis, 2018 based on industry discussions
16. "Inside Justin Bieber's Concert: He Sang Baby, Sorry And Everything In Between",ndtv.com, accessed on June 12, 2018
17. "India Beyond Bollywood: How YouTube & Other Streaming Services Are Rewiring the Local Music Industry", billborad.com, accessed on June 12, 2018
18. "Jio Music & Saavn, Merge Over A Strategic Partnership Valued Over US $1 Billion!", loudest.in, accessed on May 28, 2018
19. "YouTube monthly user base touches 225 million in India, reaches 80 pc of internet population",yourstory.com, accessed on June 30, 2018

listening based on your history, location, and activity. Though it is still pending to be launched in India, its strong brand and franchise is likely to fare better in the period of mushrooming consumer choices.

4. Jukebox — An aggregator in the music industry

BookMyShow, a service provider in the entertainment industry that assists in ticketing and information about movies and events around the world, has announced the launch of Jukebox for music lovers. The catalogue includes not only film music, but also specially curated content including talk shows and podcasts and both independent and international music. Consumers can download songs on the basis of credits earned while booking movie tickets. It consists of 3.5 million songs and 2000 hours of on-demand audio content.[20]

Challenges faced by the Indian music industry

Piracy continues to be a roadblock

Piracy has long been a bane of the music industry, and digitisation has added another challenging layer to this problem. As the landscape of the music industry continues to evolve, so do the challenges companies are facing in tackling illegal activities that seek to exploit revenue models through large scale copyright infringement. According to a study by Ipsos in FY'17, for Indian Music Industry (IMI), an International Federation of the Phonographic Industry (IFPI) affiliate, 94 per cent of the 900 surveyed music consumers in India professed to using some form of piracy to access music.[21]

Piracy threatens licensed music across platforms and channels, unlicensed streaming websites, peer to peer file sharing networks, cyber lockers and aggregators and stream ripping on OTT platforms. While stringent laws, widespread awareness and strict cybersecurity protocols within the distribution channels will help, there is a long way to go to completely curb the menace of piracy.

Value gap

Value gap depicts the growing mismatch between the value that various digital platforms extract from music and the revenue returned to the music fraternity. The traditional ecosystem of music is dependent on record labels investing in artistes and their music. A fair share of ongoing monetisation of content may be shared with the artistes to prevent leakages in the revenue model of companies. Legislative action is required to ensure that all remunerations are allocated correctly so that the online user content services making the music available to the customers arrange for licenses to do the same.

Conversion of subscribers from free to paid

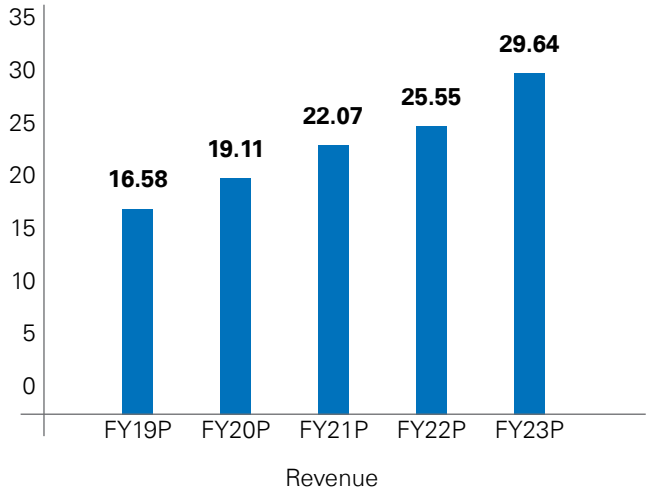
Given the unwillingness of people to pay for digital music, the culture of free has been emerging as a potential threat to the sustenance of the streaming services. While India-based streaming services may have gathered over 100 million users the overall conversion rate to paying is reckoned to be around 1 per cent.[22]

20. "All You Need To Know About BookMyShow Jukebox",bookmyshow.com, accessed on June 30, 2018
21. Music Streaming Helped Indian Music Industry Revenues Grow 27 Percent in 2017: IFPI",ndtv.com, accessed on June 17, 2018
22. "India: The sleeping giant of digital music is ready to wake up",musically.com, accessed on June 30, 2018

The journey towards this transition is long and uncertain, but sustained push along with quality services and innovation is likely to foster the shift towards a paid ecosystem.

The Indian music industry is projected to reach a size of INR29.64 billion by FY'23, a CAGR of 14.93 per cent from FY'18-23.[23] As discussed above, the major driver of growth is the digital medium. Strong infrastructural developments aided by favourable government initiatives have also contributed to the growth of music. This year is likely to witness an increase in the online audience as digital media has been giving a stiff competition to music on other platforms, and the trend is expected to continue in FY'19.[24]

Figure 4: Projected size of Indian music industry (INR in billion)



Source: KPMG in India analysis, 2018

Growth drivers

Consumption proliferation

Due to the onset of mushrooming growth of internet penetration for consumers at large in both urban and suburban areas, and increased use of smart phones, growth of music, especially in the digital space is going to scale up in the next few years.

Increase in spends in Advertisements in Video on Demand (AVODs)

Owning to their popularity and widespread reach, streaming platforms are likely to witness increasing revenues due to increase in spends in advertisements on digital platforms. This had led to additional monetisation for both the streaming companies and record labels.

Rising consumption of other genres of music

The uptake in the consumption of regional, independent and live events as mentioned in the earlier sections have expanded the reach of music beyond Bollywood. There has been a swift change in the tastes of consumers, with them being open to modern interpretations, inducing the consumers to embrace its own culture. Various OTT platforms are also coming up with distinguished and diverse content, thus providing consumers with varied choices.

Global opportunities with local utilities

With reducing barriers to the music, artistes have benefitted by growing consumption both locally and across the globe. The major push has come from strong infrastructural developments and the combination of both human and artificial intelligence to create a captivating and personalised consumer experience. The technology of voice activated devices is also accelerating the consumption of music, giving consumers the opportunity to quickly and easily access the music of their choice and discover new music.

23.KPMG in India analysis, 2018

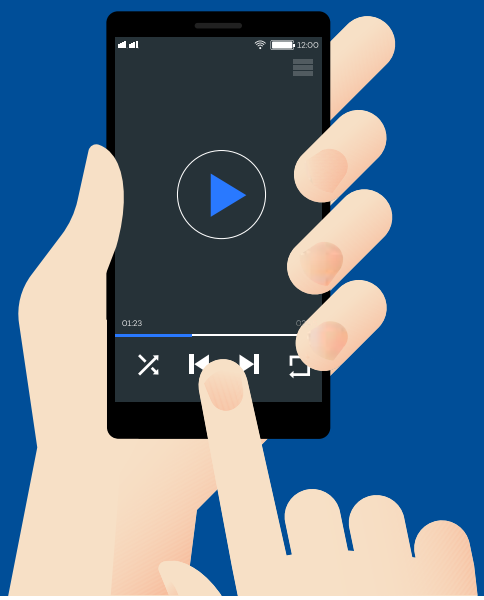
24.KPMG in India's analysis, 2018 based on industry discussions

Conclusion — The next frontier

Audiences are consuming more music than ever as can be witnessed by the growth trend over the past years. Aided by the unlimited virtual catalogue of diversifying genres on OTT platforms and investments in personalising the whole experience through artificial intelligence and machine learning, the music industry is expected to be poised for sustained growth.

Given the growing listenership base and innovation in the pipeline, there lies a huge opportunity in converting the advertisement paid subscription ecosystem into consumer paid streaming with an optimum revenue model that provides both utility to the consumers and returns for the companies. The industry is witnessing a differentiation in the form of content curation, packaging and presentation of the acquired content, as well as original content creation with independent artistes. Further, in the absence of strong unilateral dominance amongst various genres, non-conventional genres are likely to emerge as strong players in the music industry.

Various initiatives taken by the Government of India like Digital India and Bharat Net programmes are likely to enable the Indian music industry to outperform evolved recorded music industries in the digital platform, and mount up the rankings in the coming future. Thus, going forward, the Indian music industry stands to gain on monetisation fueled by democratising access and the diminishing roles of conventional mediums.



Animation, VFX and post-production

Redefining storytelling

Introduction

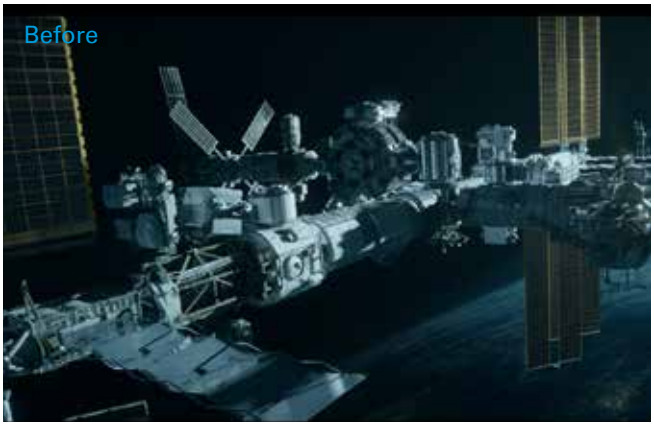
India's animation space continues to progress, both at home and abroad, supplemented by several production clusters cropping up throughout the country. A strong culture of collaboration between studios and major domestic broadcasters has laid a solid foundation for the industry. Additionally, Indian animation is gaining global popularity, with local studios working in partnership with overseas partners, helping them deliver their output to the worldwide audience. Continued impetus from the over-the-top (OTT) video space has also led major animation players to create separate online content niches to bring in daily users and increase stickiness amongst kids. The Indian animation industry is also taking slow strides towards exploiting the potential of popular intellectual properties (IPs) through ancillary licensed products, such as apparels, toys, books and DVDs.

The Indian VFX industry has also observed sizeable progress owing to effects-heavy movie genres such as action and adventure, and other genres that have traditionally not relied on VFX. Filmmakers are increasingly incorporating more VFX shots into everything from full-length features to TV shows. Further, several top grossing movies over the last few years have been high on special effects. Contrary to the '90s, when only 10–20 per cent of the budget was allocated to VFX-heavy action/adventure films, producers today are setting aside as much as 40–60 per cent of their outlays for special effects.[1] The transition towards higher VFX is not just limited to the silver screen as consumers are seeking better experience across all screen sizes, including TV and mobile.

However, for the animation and VFX industry to chart notable growth, there are a few challenges that need to be addressed. While finding highly skilled professionals is a major requirement for sustainable growth, the industry also faces a dearth of funding unlike their western counterparts, leading to a low volume of original productions, particularly animated features. Additionally, there needs to be greater intervention from the government in terms of instituting a robust support structure to help the animation and VFX industry proliferate.

> From an India consumption perspective, the abundance of animation content, both locally produced and globally sourced, is compelling Indian audiences to look at content differently. Expectations in terms of storytelling and production values have increased. The audience is demanding high quality shows, be it on TV, theatres or OTT platforms. This phenomenon is not restricted to just metros, as people in Tier-II and Tier-III cities are also showing a growing appetite for content, leading to an increase in scale and volume of work in the industry.

Arjun Madhavan
Director,
Assemblage Entertainment



1. Prime Focus, Jefferies, 10 July 2017

Factors driving the Indian animation and VFX industry

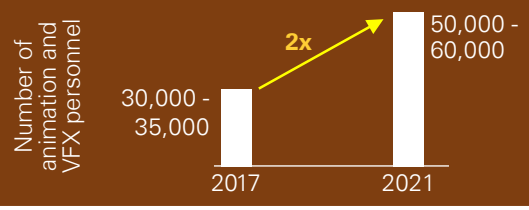
TV driving animation demand
Broadcasters have been commissioning new IPs to create steady demand. IPs, in turn, are driving other revenues streams such as licensing and merchandising.

VFX becoming a mainstay of films
VFX has become a core component of film production cycles with the number of films employing VFX rising each year.

Lower production costs
Animation production costs in India are one-third to one-fourth of that of North America, a key driver of the services segment.

Increasing demand from digital
The advent of OTT video platforms, access to 4G and falling data costs has resulted in rising demand for kids content on digital.

Growth in animation and VFX talent



Cultural synergies
India has over 125 million English speaking professionals, for easy communication and seamless execution of outsourced projects.

Adoption of technology
Adoption of latest technologies such as cloud computing has enabled India to lower time to market, lower costs and offset challenges pertaining to shortage of skilled workforce.

Source: Industry discussions conducted by KPMG in India; Some Careers in Demand, Admizzionz Campuz, accessed on 10 May 2018; This Startup Is Cashing in on India's Massive Demand For English-Speaking Workforce, Forbes, 13 November 2017

Animation industry in India

The animation industry recorded revenue of INR17.1 billion in FY18, growing at 11 per cent over FY17.[2]

Table 1: Animation industry's performance

Amount in INR billion

Segment	FY14	FY15	FY16	FY17	FY18	Y-o-Y growth in FY18	FY19P	FY20P	FY21P	FY22P	FY23P	CAGR % FY18 – 23
Animation services	8.0	8.2	8.5	9.1	9.8	8.0%	10.6	11.6	12.5	13.5	14.5	8.1%
IP production	4.8	5.2	5.7	6.3	7.2	15.0%	8.3	9.5	10.6	11.8	13.2	12.8%
Total	12.8	13.4	14.2	15.4	17.1	10.9%	18.9	21.0	23.1	25.3	27.7	10.2%

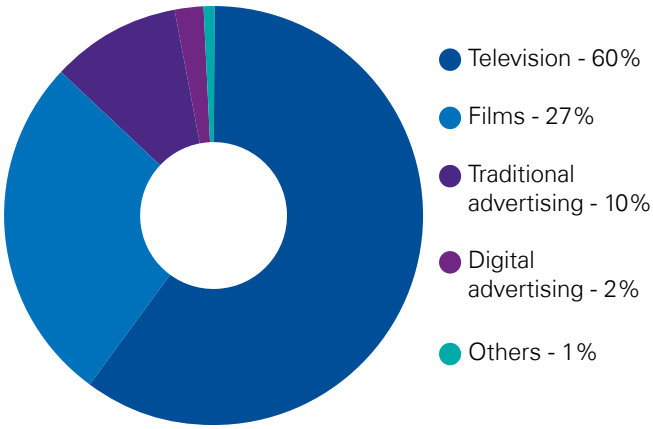
Source: KPMG in India's analysis and estimates, 2018-19; Industry discussions conducted by KPMG in India

Animation services

Indian studios have established a robust presence across the production value chain by working on animation properties from around the world, driven by the confidence exhibited by global production houses including Disney, Warner Bros. and Sony. With contribution pegged at more than 57 per cent in FY18[3], the services segment continued to account for the majority of revenue as demand from international TV and film with the growing demand from international OTT players also adding to the growth.

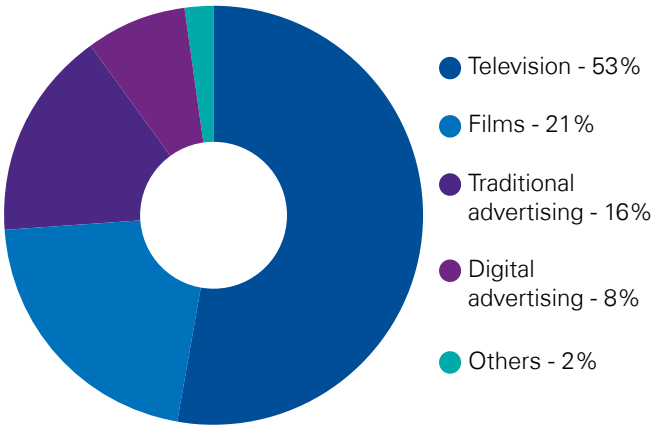
Pitching in with a contribution of about 15 per cent[4], domestic animation services continued to exhibit a poor show, with limited sub-contracting work by home-grown studios to other smaller studios.

Figure 1: Break-up of India's animation services — by segments : FY18



Source: KPMG in India's analysis and estimates, 2018-19

Figure 2: Break-up of India's animation services — by segments : FY23P



Source: KPMG in India's analysis and estimates, 2018-19

Note: Others includes animation work pertaining to segments such as Augmented Reality (AR)/Virtual Reality (VR), gaming, simulation

2. KPMG in India's analysis and estimates, 2018-19
3. KPMG in India's analysis and estimates, 2018-19
4. KPMG in India's analysis and estimates, 2018-19

IP production

The long-term revenue generating potential of original stories and characters has led to the rise of IP investments. Estimated at INR7.2 billion, animation IP production grew year-on-year at more than 15 per cent during FY18, having recorded a compounded annual growth of about 10.8 per cent since FY14.[5] Domestic production is expected to grow swiftly at a CAGR of 12.8 per cent over FY18-23, as IPs continue to drive content portfolios of major players. Leading players in IP production space adding skilled workforce year-on-year is a strong testament to the growing demand for original IPs in India.

Managing IPs for perpetual returns

While IP production continues to shape the animation industry in India, the industry is also looking to move beyond IP creation, as management of IPs is gaining paramount importance. IP management deals with producing a portfolio of copyrighted projects and exploiting them, with the emphasis on the value added to selling portfolios and brands.

> The Indian merchandising is taking baby steps and growing slowly but steadily. Merchandising depends largely on the success of the content and the spread in the market. The IP model in India has not matured to a level where merchandising revenues can be considered significantly in the overall revenue. However, with the advent of more successful native characters and content, merchandising industry is sure to grow in India.
>
> **Prafull Gade**
> Managing Director, *Deluxe India*

Indian IPs still have ground to cover in terms of generating the high level of value that some of the foreign IPs have been able to create.[8] For example, *The Simpsons*, which originally aired in 1989, developed into a multi-media franchise worth USD13 billion by 2017, including USD5.76 billion from primetime airings, USD4.72 billion from merchandise and toy sales and USD527 million from movie tickets sales.[9]

However, studios have started focussing on perpetual returns from ancillary revenue streams driven by successful IPs.[6] Feature films, spin-off shows, video games, products based on IPs such as *Chhota Bheem* and *Motu Patlu* have made major headway in India.[7]

> The dependence on local content is on a rise due to affinity of kids towards local characters and stories that they relate to. With this emerging trend, broadcasters have significantly boosted investment toward strengthening their local content play. The focus is on creating and owning successful local IPs that allow players to build ecosystems and strengthen engagement with kids on touchpoints beyond TV (such as games, interactive website, on ground initiatives), while also adding to their top-lines in terms of ancillary revenues from OTT, merchandising, licensing and syndication.
>
> **Nina Elavia Jaipuria**
> Head, Kids Entertainment Cluster, *Viacom18*

Global studios such as Disney, Turner and Viacom18 have also been pushing their characters through books, toys, clothing and so on, while reinforcing their presence in India through partnerships[10]:

- In 2017, Disney signed 40 brand association deals for *Cars 3*, the highest number of partnerships for an animation film in India. The third instalment in the animated film series surpassed Disney's own record of 16 brand associations for *Finding Dory* in 2017.[11]
- In 2017, Universal consolidated the L&M rights of DreamWorks Animation by partnering with Black White Orange Brands. The deal is expected to allow Universal to manage L&M for DreamWorks' portfolio, including properties such as *Trolls, The Boss Baby, Kung Fu Panda, Shrek* and *How to Train Your Dragon.*[12]

6. Industry discussions conducted by KPMG in India
7. Chhota Bheem celebrates a decade on air with new launches and a musical, Animation Express, 4 May 2018
8. Industry discussions conducted by KPMG in India
9. www.statisticbrain.com, accessed on 4 June 2018
10. Green Gold Store, www.greengold.tv, accessed on 5 June 2018
11. Walt Disney's 'Cars 3' inks highest brand deals for animation in India, Live Mint, 13 June 2017
12. Universal consolidates DreamWorks Animation merchandise rights in India with Black White Orange, Economic Times, 14 July 2017

E-commerce has also played a crucial role in making products available to consumers, while driving impulse buying through suggestions of related products.[13] However, the L&M business has had its share of risks and challenges. Piracy continues to be a grave issue along with other challenges such as inability of certain licensees to meet minimum guarantees acquisition of appropriate licences, access to the right distribution channels and propagating of the brand proposition correctly.[14]

Studios going global with their IPs

The market for animated content has opened up globally, and the competing ground for studios has become equally large. Indian studios are addressing the challenge of global competition by building relationships with animation studios across Europe and North America, to develop products that can be showcased globally. Studios have refined their product pipelines and are rejigging character building, storytelling, marketing and partnerships.

> We have seen huge demand for new and original content for linear and digital platforms. While earlier the focus was probably on international content, the industry is now witnessing a steady shift toward original iconic characters in animation. There is an eagerness among broadcasters to try out new concepts, and animation studios are also adopting concepts and characters that work both domestically and internationally.
>
> **Tejonidhi Bhandare**
> Director, COO, *Reliance Animation*

Table 2: Partnerships between Indian animation studios and international players, FY18

Studio	Partner	Show	Description
Cosmos Maya	Turner International	*Tik Tak Tail*	Launched on Pogo in 2017, *Tik Tak Tail* is a co-production between the two companies[15]
	Rai Ragazzi and Gruppo Alcuni	*Leo da Vinci*	In May 2018, the two companies signed a deal to co-produce *Leo da Vinci*, a cartoon series which will air on Rai TV in Italy[16]
	Gerhard Hahn	*Help Me Ganesha*	The two companies partnered to develop a new series about the Indian god, Ganesha[17]
Toonz Animation	Neon Creation and Backbone Entertainment	*Chi-Chi*	In April 2018, the companies inked a co-production deal for a new 3D animated kids' fantasy comedy — *Chi-Chi*, based on the pop-up book of the same name[18]
	XrisP	*The Story of Bookworm GOGO*	In March 2018, Toonz Animation and Korean producer XrisP Co. Ltd., announced the co-production and global distribution deal for *The Story of Bookworm GOGO*, a 104-episode series[19]
	Yellow Entertainment	*Several shows*	In June 2018, Toonz partnered with Australia-based Yellow Entertainment to develop, produce and distribute several pre-school animated series.[20]

13. Spark Magazine, Animation Express, April 2017
14. Spark Magazine, Animation Express, April 2017
15. Spark Magazine, Animation Express, October 2017
16. Cosmos-Maya's next international co-production is a spin-off series of much talked about 3d animation feature film leo, Indian Television, 22 May 2018
17. Cosmos-Maya CEO talks global expansion plans, Kid Screen, 23 January 2018
18. Toonz, Neon, Backbone sign co-production of 'Chi-Chi, The Apprentice Sorceress', Toonz Media Group, 12 April 2018
19. Toonz and XrisP announce the co-production of 'The Story of Bookworm GOGO', Toonz Media Group, 27 March 2018
20. Toonz Media Group partners Australia's Yellow Ent to co-produce pre-school animated series, Television Post, June 5, 2018.

Animation on TV

Broadcasters are focussing on owning IPs and localising content to restructure their content commissioning budgets in favour of building a portfolio of native characters and shows. In addition, the dependence on international content acquired from the west is also dwindling among broadcasters, owing to the long time it takes to establish such characters with the domestic audience.[22]

In terms of viewership, animation content has a longer shelf life than live-action shows as children can watch the former numerous times.[23] The animation content licensing typically follows a three-year cycle (duration for which the rights are given to the broadcasters).[24] After three years, the revenue in the second cycle is 65 per cent of the first cycle, and the third cycle revenue is around 50 per cent of the second cycle.[25] While broadcasters benefit from the longer shelf life and the repeat value of shows, having a long trail of library content proves lucrative in the longer run.

> While animation content is getting traction on digital platforms, the industry, by and large, is still driven by television. Kids can watch the same shows on TV countless times, which increases the repeat value of animation content, while also pushing its shelf life. This is a great incentive for domestic broadcasters to have a comprehensive library of compelling kids content.
>
> **Chaitanya Chinchlikar**
> Vice President, *Whistling Woods International*

Table 3: Original animation shows launched in FY18

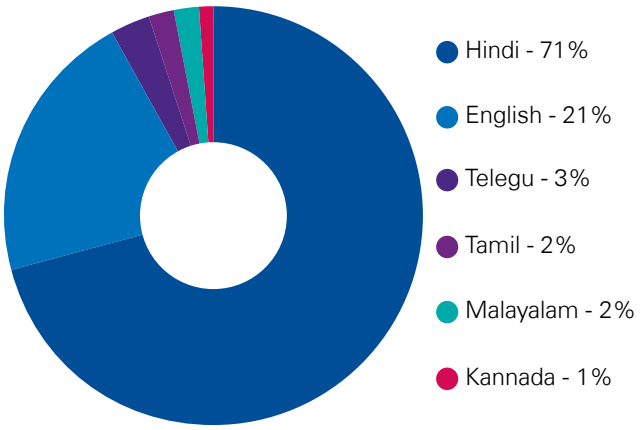
Broadcaster	Channel	Show	Studio	Description
Discovery Communications	Discovery Kids	*Little Singham*	Reliance Animation	Discovery appointed Reliance Animation to produce an original content series *Little Singham*, inspired by *Singham*, a high grossing Bollywood film.[26]
Turner International India	Pogo	*Tik Tak Tail*	Cosmos Maya	In September 2017, Turner launched two new shows *Tik Tak Tail* and *Andy Pirki* in partnership with Cosmos-Maya and AUM Animationto respectively.[27, 28]
		Andy Pirki	AUM Animation	
Sony Pictures Networks	Sony YAY!	*Guru Aur Bhole*	Cosmos Maya	Sony Pictures Networks forayed into the kids' content space with Sony YAY! in April 2017. The channel, targeting kids aged 2–14 years, emphasised on local content, and launched with four original, locally produced shows.[29]
		Sab Jholmaal Hai	Toonz Animation	
		Prince Jai aur Dumdaar Viru	Phoebus Media	
		Paap-O-Meter	Ssoftoons Entertainment	
Viacom 18	Nickel-odeon	*Gattu Battu*	Toonz Animation	Viacom 18 launched its fourth local IP, *Gattu Battu* (a detective comedy) in May 2017.[30]
		Rudra – Boom Chik Chik Boom	Green Gold Animation	Viacom 18 launched its fifth IP in June 2018. Produced by Green Gold, the show features a nine-year-old boy who learns magic as the protagonist.[31]
Disney	Disney Channel	*Yom*	Graphiti Multimedia	In May 2017, the channel launched *Yom*, a comedy series made by Graphiti, featuring the adventures of boy Yom.[32]

21. Industry discussions conducted by KPMG in India
22. Industry discussions conducted by KPMG in India
23. The modern day economics of film financing, Indian Television, 25 November 2017
24. Industry discussions conducted by KPMG in India
25. Industry discussions conducted by KPMG in India
26. Discovery India partners Reliance Animation to produce local IP 'Little Singham', Television Post, 23 January 2018
27. Turner International India Brings A Local IP For POGO After A Long Hiatus, Exchange4Media, 11 August 2017
28. Turner to launch AUM Animation's slapstick comedy Andy Pirki, Animation Express, 30 November 2017
29. Home-grown animated comedy content to be the flavour of Sony YAY, 13 April 2017
30. Nickelodeon launches its fourth local production, Best Media Info, 5 April 2017
31. Nickelodeon Launches Fifth Local IP Rudra; Targets 500 Hrs Of Content By FY19, Exchange4media, 6 June 2018
32. Disney, Graphiti's funny yoga show 'YOM' begins airing, Animation Express, 1 May 2017

Growing focus on regional content

Language-wise viewership patterns show that Hindi-based consumption is higher on kids' channels, followed by English and other regional languages.[33] Indian broadcasters are also extending the reach of their content in other markets by adding audio feeds in languages such as Tamil, Telugu, Malayalam, Bengali and Marathi. English and Hindi Speaking Markets (HSMs) have traditionally ruled the roost in terms of viewership, however, markets such as Tamil Nadu, Andhra Pradesh, Telangana, Gujarat and Maharashtra are witnessing increasing consumption.[34]

Figure 3: Language-wise viewership on kids channels, 2017



Source: A Peak into Kids Viewership, BARC, October 2017

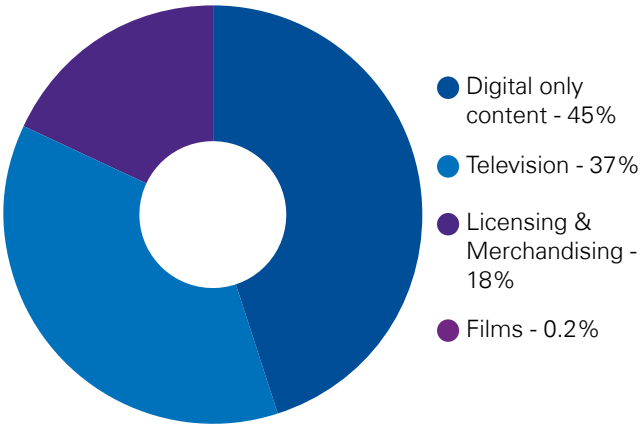
Animation in digital

The kids' content arena is attracting focus from digital platforms, primarily driven by kids' tendency to pick up on technology rapidly, as well as their tendency to be much more loyal — increasing not only the traffic, but also providing stickiness to the platform.[35] OTT video now serves as a second window, co-existing with TV.

OTT players are looking to offer content beyond plain catch-up of their shows, and enhance their commercial value. Over the last two-three years, revenue from digital platforms has surpassed revenue accrued from television broadcasting for animated IP production houses.

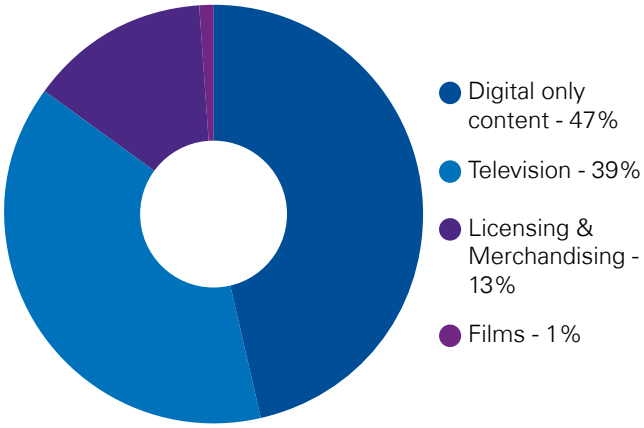
> The demand for Indian content has been on a constant rise in the Commonwealth of Independent States (CIS) and Asian countries, especially documentaries, short films, Indian drama (with specific focus on period dramas) and animated content (slapstick and content with educational angles). Most OTT/VOD platforms are looking for quality Indian content, and this rise in demand makes the current phase one of the best times for IP developers in India.
>
> **Ankur Bhasin**
> CEO, *Bhasinsoft India Ltd*

Figure 4: Break-up of India's animation production — by segments - FY18



Source: KPMG in India's analysis and estimates, 2018-19

Figure 5: Break-up of India's animation production — by segments - FY23P



Source: KPMG in India's analysis and estimates, 2018-19

33.A Peek into Kids Viewership, BARC, October 2017
34.'Discovery Kids will launch its own OTT app', Television Post, 11 April 2018
35.Industry discussions conducted by KPMG in India

Pure play online content platforms such as Amazon Prime, Netflix and YouTube have started to focus on building their respective kids' content line-ups, providing a boost to independent animation content producers. With players such as Facebook and another leading technology company also foraying in the digital content space, the potential for IP growth in the coming years appears to be significant.[36] Along with pure-play digital video platforms, a number of broadcasters have also launched dedicated platforms for kids' content. Viacom18's Voot has built a strong vertical around kids, while Sony LIV has introduced a new platform, LIV Kids in 2016.[37] Further, Discovery Kids has also announced its plans to launch its OTT application dedicated to kids' content.[38]

> The advent of digital has opened up several avenues to monetise animation content. However, Indian studios have to get their content formula right, and invest in characters and stories that carry a mass appeal among the local diaspora as well as the international audience. Further, with players such as Netflix and Amazon continuing to reinforce their kids' content slates, the demand for original IPs is likely to rise sharply.
>
> **P. Jaya Kumar**
> CEO, *Toonz Media Group*

Table 4: Kids' content — forays by major digital players in FY18

Player	Show/s	Studio	Description
Amazon Prime	*Kalari Kids*	Green Gold Animation	Launched in December 2017, *Kalari Kids* is a comedy series created by Green Gold Animation in partnership with Amazon. It is targeted at children aged 6–11 years.[39]
Netflix	*Mighty Bheem*	Green Gold Animation	In 2017, Netflix partnered with Green Gold Animation for a 13-episode series based on its show *Chhota Bheem*. The series is set to be launched in August 2018.[40]
Yupp TV	*Motu Patlu, Vir - the Robot Boy, Chacha Bhatija, Eena Meena Deeka, Kisna etc.*	Cosmos Maya	In April 2018, Yupp TV partnered with Cosmos Maya for kids' content. Under the association, YuppTV subscribers will be able to access content from Cosmos Maya.[41]
ALT Balaji	*Moe Doe, Ding Dong Bell, Happy Lucky Ki Katti Batti*	NA	ALT Balaji entered the kids' segment in May 2017, launching three original shows and an animated nursery rhymes show, while also acquiring shows such as *Little Krishna*, *Shaktimaan* and *Shuriken School*.[42]
	Little Krishna; Shaktimaan	Reliance Animation	
	BEO n' Peno	Animantz	In September 2017, Animantz entered into a deal with ALT Balaji for its show *BEO n' Peno*, a slapstick comedy series aimed at kids aged 4–12 years.[43]

36. Industry discussions conducted by KPMG in India
37. SonyLIV launches LIV Kids, Afaqs, 10 November 2016
38. 'Discovery Kids will launch its own OTT app', Television Post, 11 April 2018
39. Green Gold, Amazon Prime put Kerala martial art on the map, Indian Television, 9 December 2017
40. Chhota Bheem becomes Mighty with Netflix, Indian Television, 16 October 2017
41. YuppTV Ventures Into the Kids Entertainment Space with Cosmos- Maya's Wow Kidz, Yupp TV, 27 April 2018
42. ALTBalaji enters kids' entertainment, launches original animated shows, Best Media Info, 17 May 2017
43. Animantz locks deals with digital platforms for upcoming series 'BEO n Peno, Animation Express, 22 September 2017

Digital-only content creators

Kids' content has also proven to be lucrative for creators, who have been banking on a blend of nursery rhymes, education and entertainment content. For instance, since its launch in 2013, ChuChu TV has grown significantly on the back of a library of more than 350 original videos, with a viewership of 20 billion on YouTube. The channel caters to audiences in English, Tamil, Spanish, French and Portuguese, and is planning to add Hindi, Telugu, Russian and Arabic to its portfolio. ChuChu TV, which is watched in more than 100 countries, surpassed 17.5 million subscribers in June 2018.[44]

Animation in films

The animation films space continued to see meagre activity in 2017–18, with only one film, *Hanuman: Da' Damdaar*, releasing on the big screen.[45] Indian producers have found little or no merit in making animation films, primarily due to troubles attracting finance and creating content that can work domestically and travel globally.[46]

Hollywood animation is an exception to the rule, having performed successfully at the India box office over the last few years. Indian audience's penchant for animation productions from the west has grown distinctly, driven by content quality that Hollywood delivers in its animated features, stories and concepts that appeal to a broader audience base besides kids, and availability of content dubbed in local languages.

Table 5: Major foreign animation films released in India in FY18

Film	Gross box office (INR million)
Despicable Me 3	190.2
Cars 3	110.5
Coco	106.9
Ferdinand	24.1
Peter Rabbit	21.9
Paddington 2	19.0

Source: Box Office Mojo website, accessed on 31 May 2018
Note: USD1 = INR65.15

Future outlook

Building on its existing strengths, the Indian animation industry is set to build scale and grow further at a double digit CAGR of 10.2 per cent[47] over the next five years. While TV might continue to be a key pillar for animation consumption, OTT channels could emerge as serious contenders for traditional content distribution. Content slates could also be moulded by changing viewership patterns and the shift from long and complex storytelling to a shorter-form animation as evident from the consumption patterns, which are in favour of short-to-medium format, snackable content on digital.[48]

Content franchising is likely to gain more prominence amongst original animation IP creators. While investments towards building new characters and brands are likely to continue, TV networks are also more likely to favour funding for continuing existing shows given the challenges with marketing new original content and attracting new audiences.

Finance is a key facet of the animation, and the lack thereof continues to be a challenge. Animation can be a high risk, high reward investment given the long production and revenue cycles, which invariably deters investors. Better access to finance by developing new financial instruments, blending public and private funding, and pooling resources for large-scale projects to ease cash-flow management issues could help propel the creation of IPs.

A more cohesive effort to embolden and nurture skillsets is needed to facilitate easy transition from study to employment. Since a large number of training programmes in India are software-based, they can become immaterial given the rapid technological changes and tailored processes and pipelines followed by different studios. Hence, going forward, it would be crucial for animators to develop adaptable skills, and be open to working with new products. Further, it is important to promote creative expression in classroom teaching to build a pool of talented storytellers versed with developing compelling characters.

> The animation industry is undergoing a tectonic shift driven by reach and access, a choice explosion and content innovation, together creating a new order of growth. This new growth will compel the industry to re-think, re-define and re-imagine the fundamental principles on which it operates – creating the next animation revolution.
>
> **AK Madhavan**
> CEO, *Assemblage Entertainment*

44. Chennai-based ChuChu TV hits top slot with 17.5 million subscribers, The Business Standard, 5 June 2018
45. Salman Khan's Hanuman Da Damdaar to be biggest pan-Indian release, Deccan Chronicle, 8 May 2017
46. Industry discussions conducted by KPMG in India
47. KPMG in India's analysis and estimates, 2018-19
48. OTT is Reshaping The Entertainment Market Of India Traditional Media To Face Tough Challenge From Vod Services, Satiitv.com, 20 January 2018

Visual effects (VFX)

The Indian VFX and post-production industry has been in a state of continuous transition as filmmakers continue to push creative boundaries, and an evolving technological landscape. VFX is creating endless possibilities for both films and TV shows. With a large talent base in India, available at relatively lower costs, the industry has been on a growth curve, led by projects from Hollywood and domestic producers.

> With more projects flowing in from foreign markets than ever, the Indian VFX industry has grown tremendously in terms of both size, as well as the complexity of work being delivered in the past few years. The industry is witnessing a cultural shift wherein more prominent, creatively challenging effects are now being delivered by Indian artists under the right guidance and supervision of industry experts. Things have also picked up on the domestic market front. Baahubali was a huge undertaking which paid off gloriously and helped unlock the potential for VFX employment in homegrown productions, with the volume of films employing VFX now showing a tremendous uptick.
>
> **Merzin Tavaria**
> MD and Creative Director,
> *DNEG India*

The VFX and post-production industry grew by around 21.1 per cent y-o-y in FY18, led by a 33 per cent growth in the VFX industry. While VFX revenue from foreign projects constituted a major share of the industry (73.3 per cent), the domestic VFX industry, pegged at close to INR7 billion in FY18, also grew at a brisk rate of 30 per cent y-o-y. The rapid growth in VFX usage by Indian films and TV can be credited to the exposure of Indian studios to innovative techniques and latest applications. Technology is allowing VFX houses to upgrade their skills as per latest market trends. Owing to continuous exposure to novel techniques, studios have become competitive in terms of quality and deadlines.[49]

With revenues of INR29.7 billion, the post-production industry has grown at a CAGR of 12.8 per cent over FY14-18.[50] Along with traditional post-production services such as audio editing, video editing and sound recording, stereo conversion is also picking up. 3D viewing in India has plotted a striking growth. The continued release of new films in 3D and conversion of older films from 2D to 3D have spurred the growth of stereoscopic conversion in India. While 3D has been a preserve of Hollywood titles, it has started to gain momentum with domestic productions such as *Baahubali: the Beginning* and *Padmaavat*. Going forward, more Bollywood and regional films are likely to be released in 3D.

Table 6: VFX industry's performance

Amount in INR billion

Segment	FY14	FY15	FY16	FY17	FY18	Y-o-Y growth in FY18	FY19P	FY20P	FY21P	FY22P	FY23P	CAGR % FY18 – 23
VFX	9.8	12.1	15.5	20.4	27.2	33.0%	34.5	43.1	52.7	63.2	74.5	22.4%
Post-production	18.4	21.0	23.5	26.5	29.7	12.0%	33.2	36.9	40.9	45.0	49.5	10.8%
Total VFX and post-production	28.2	33.1	39.0	46.9	56.8	21.1%	67.7	79.9	93.7	108.2	124.1	16.9%

Source: KPMG in India's analysis and estimates, 2018 - 19

49.Spark Magazine, Animation Express, September 2017

50.KPMG in India's analysis and estimates, 2018-19

> The prevalent trend is witnessing the deepest and ceaseless acceptance of 3D content in the Indian market, driven by the increasing appetite of film producers and rising interest from exhibitors. This has seen the demand of stereoscopic conversion rising. While this demand has led to Indian players ramping up their workforce, foreign players have also reinforced their offshore presence in India, developing efficient systems to ensure timely delivery.
>
> **Ashish S K**
> Founder, *Punnaryug Artvision Pvt Ltd*

VFX in films

The new generation of filmmakers, who are investing to make films look better in terms of production values, have added buoyancy to the VFX industry. As opposed to earlier, VFX is not just restricted to fantasy-based and fictional films, and is now being used to enrich production of varied film sequences. In FY18, a number of projects in Bollywood that used VFX include *Tiger Zinda Hai, Judwaa 2, Padmaavat, Jagaa Jasoos and Baaghi 2*.

VFX in regional films

While budgets being apportioned for VFX continue to increase in Bollywood, regional filmmakers have also started to follow suit. Tamil and Telugu directors have been showcasing strong inclination towards getting more VFX shots in their films, insisting on producers to increase their budgets to get more realism in shots. The appetite for VFX has only grown after the positive box office performance of films such as *Robot* and *Baahubali: The Beginning*. With the increasing demand, the south Indian region is gradually becoming a bustling ground of VFX talent and studios.[51]

FY18 featured some prominent films that had VFX as a central part of their production:

- The production of *Baahubali 2*: The Conclusion saw about 30 VFX studios appointed from around the world. Hyderabad-based Makuta VFX handled most of the VFX work for the film, which had 4,000–5,000 VFX shots.[52]
- Prasad EFX delivered 3,100 VFX shots for the film *Singam III*. The work, which lasted for five months, ranged across several facets including, creating 3D models, animations, 3D tracking and compositing.[53]

VFX for Hollywood films

India has positioned itself as a hub for VFX and post-production services for production houses in North America and Europe. Indigenous studios have moved up the value chain, forging production pipelines and teams with skilled and experienced artists to lend services to international films. While a few years ago, foreign producers were outsourcing work to India to leverage cost advantages, the scenario has evolved towards projects flowing in based on the skills and proficiency that Indian artists have to offer.

Major Hollywood projects Indian studios were a part of in FY18 include:

- Double Negative, a Prime Focus group company, won the Oscar award for 'Best Visual Effects' for *Blade Runner 2049*.[54]
- Moving Picture Company (MPC), part of Technicolor, provided digital doubles, CG crowds and set extensions for *Wonder Woman*. MPC worked on 500 VFX shots, with the Bengaluru team doing the majority of asset building.[55]
- Founded in 2013, the Mist VFX Studio was involved in major Hollywood projects in FY18, having provided paint, rotoscopy and matchmove for *Spider-Man: Homecoming, Black Panther and Ghost in the Shell*.[56]

Studios from the west bolstering their presence in India

While work continues to flow from production houses worldwide, a number of foreign studios have been enhancing their footprint in the Indian market, both through the organic as well as inorganic route:

- In November 2017, U.S.-based Digital Domain opened a studio in Hyderabad. Owing to increasing consumption of content, the company envisages India as an integral part of its global expansion.[57]
- Another U.S.-based VFX studio, Legend 3D, expanded its presence into the Asia-Pacific region with the establishment of Legend India and the opening of a studio in Pune in November 2017.[58]
- To reinforce its presence outside the U.S. and Europe, London-based TV and movie VFX studio, Framestore, acquired a 50 per cent stake in Anibrain, an Indian VFX studio, for EUR12 million in January 2018.[59]

51. Industry discussions conducted by KPMG in India
52. Spark Magazine, Animation Express, September 2017
53. Prasad EFX delivers 3100 VFX shots for director Hari's 'Singam III, Animation Express, 2 March 2017
54. Prime Focus Group Firm Secures Third Oscar in Four Years for Best VFX, Corporate Ethos, 6 March 2018
55. MPC Delivers Digital Doubles, CG Crowds and Set Extensions for 'Wonder Woman', AWN, 20 July 2017
56. Spark Magazine, Animation Express, September 2017
57. Leading visual effects studio digital domain continues global expansion with India opening, Digital Domain, 6 November 2017
58. Legend expands global footprint with new studio in Pune, Animation Express, 25 October 2017
59. Indian investment to boost Sargent's special effects business Framestore, Independent, 7 January 2018

VFX in TV

Indian TV producers have been increasingly releasing drama, fantasy, historical, mythological and thriller shows, which have gained significant traction among the audience. Earlier, VFX was considered merely a support function, however, now several TV shows are being produced entirely using VFX. It is used to create explosions, set extensions, exotic landscapes, CG animals, and so on. Several broadcasters including Star, Sony and Zee are provisioning higher budgets for VFX units to maintain authenticity of storytelling for their TV programmes.[60] For example, *Vighnaharta Ganesh* and *Porus* are two recent shows which demonstrate the evolution of VFX on Indian TV.[61]

VFX in digital

The arrival of VOD streaming platforms such as Amazon Prime and Netflix, with programming budgets akin to India's large film producers, is starting to further accelerate the investment in VFX. For instance, Amazon laid out a production budget close to INR100 million for a 10-episode drama series based on cricket. Titled *Inside Edge*, the series has around 1,200 VFX shots.[62]

Higher budgets and higher production values are likely to create more demand for VFX services from digital, going forward. Further, while television still has a firm hold over viewership in rural areas, OTT platforms are slowly capturing more of the urban viewership. This mandates continuous content innovation from OTT players, in terms of visual appeal and feel of the shows.[63]

> The advent of subscription-based video-on-demand services such as Netflix and Amazon Prime has ushered in an increase in demand for original content. While only a handful of production houses were making films/ TV shows earlier in this space, it has now opened up with several independent content producers showcasing their content online. This development augurs well for the demand of VFX services, as the demand of video on demand shows employing visual effects is a good sign for the industry.
>
> **Jesh Krishna Murthy**
> Founder & CEO, *Anibrain*

Technology trends in VFX

Technology is moving at a brisk pace and the following trends underlining its adoption in VFX:

- **Analytics:** At the back-end, developments in analytics are allowing studios to keep a close eye on projects and acquire thorough analysis of the work they are doing. This is helping studios with precise data to advise future bids, in addition to monitoring projects in real time.
- **Cloud technology:** Advances in cloud technology are also making tasks easier and more accessible. For artists, cloud is reducing time spent on technical tasks and also empowering them to access industry tools from anywhere around the world. On the other hand, this democratisation of VFX work is allowing studios to outsource menial tasks and focus more on specialist jobs.[64]
- **Digital doubles:** The VFX industry is also witnessing breakthroughs such as photorealistic CG digital characters, as seen in films such as *Furious 7, Rouge One: A Star Wars Story and Blade Runner 2049*. Advances in and the integration of several technologies such as high fidelity facial and performance capture, body, face and eye scanning, and re-lighting techniques — rendering, muscle and skin simulation are making digital characters look more realistic.[65]
- **Artificial intelligence:** While the applications are currently limited in India, there are a number of software companies around the world working towards bringing Artificial Intelligence (AI) to the VFX space, developing machine learning tools that can perform tasks more quickly, effectively and at a much lower costs than human workforce.[66]

60. Spark Magazine, Animation Express, September 2017
61. Spark Magazine, Animation Express, September 2017
62. Fluiidmask reveals the story behind the edgy visual effects of Inside Edge, Animation Express, 8 August 2017
63. Spark Magazine, Animation Express, September 2017
64. Better, faster, stronger: VFX in the modern age, The Foundry, 10 October 2017
65. The Future Of VFX: 5 major trends happening right now, Av3 Software, 26 October 2016
66. The Oscar for Best Visual Effects Goes To: AI, Futurism, 28 March 2018

Animation and VFX industry — Challenges

Shortage of qualified talent

Finding relevant talent has been a long standing challenge for the industry. While earlier, most of the studios used to work on labour-intensive projects, the scale and complexity of jobs has increased in the recent years. However, there is a deficit of talent that is up to speed with the skills necessitated to service and deliver big projects. Also, while the freelance economy is thriving across the world — driven by numerous talent-pairing platforms in industries such as IT and consulting — the animation and VFX space still needs a dedicated, reliable and affordable source of talent-pairing for the stakeholders.[67]

> The Indian animation industry is seeing heaps of work flowing in, however, lower availability of talent and mismatch of skills is currently plaguing the Industry. Talent in India is not being trained properly as a number of cookie-cutter institutes are just focussing on software training.
>
> **Rahul Bakshi**
> CEO, *Pheobus Creations Media*

Need for skills up the value chain

Indian talent is required to develop skills in script writing, storyboarding, and character and concept development. While there are schools currently working towards bridging this training gap, the industry needs better collaboration between government and private players to facilitate growth of animation and VFX as an art form and a career.

Some studios have started to engage local talent in extensive training programmes, while bringing in foreign professionals to push skill sets.[68] For instance, Prime Focus runs the Prime Focus Academy of Media and Entertainment Studies, offering courses in rotoscopy, digital paint, rotomation and match moving.

Increased government incentives necessary

While bigger players such as Disney, DreamWorks, Sony and Fox are equipped to underwrite high-budget projects independently, major global studio clusters are built on the foundation of benefits such as tax credits and rebates. In terms of the current incentive regime, India lags behind countries such as the U.K. and Canada. It is essential to establish an incentive framework that not only reinforces India's position as a services hub, but also makes it viable to create original properties.[69]

Scarcity of funds

Putting together funds for projects is a major challenge for animation studios, particularly smaller ones. While a range of funding mechanisms, including public funding, bank loans, pre-sales to broadcasters and advances on distribution, are available to studios in other countries, the finance framework is still immature in India. Opening an animation studio and creating original content is prohibitively expensive, and entails high upfront investment in terms of equipment, software and professional manpower. Insufficient funding and the resulting incapacity to promptly hire talent and ramp up infrastructure for bigger projects prove challenging for several cost conscious studios.[70]

67. Spark Magazine, Animation Express, December 2017
68. Spark Magazine, Animation Express, September 2017
69. Industry discussions conducted by KPMG in India
70. Spark Magazine, Animation Express, December 2017

Future outlook

The Indian VFX industry is expected to grow at a CAGR of 22.4 per cent over FY18-23, with revenues reaching INR74.5 billion in FY23.[71] VFX is likely to continue to be a massive undertaking for producers, and future investments in engaging effects in movies are likely to outstrip the current budgets. This is expected to spawn significant demand for specialised and skilled effects artists and technicians. Small-screen programmes are likely to further bolster demand. TV line-ups from broadcast networks could change so as to limit reruns — increasing the number of shows produced every year. This, coupled with the growing proclivity for VFX amongst production houses, might see the use of VFX in TV spiralling.

Exclusive content is becoming the key driving factor in a highly competitive digital video landscape. With today's shows featuring higher production values, the economics in the OTT video space are changing and previously inconceivable production budgets are becoming viable. This trend might increase the demand for VFX from digital as high-end shows become the staple of content consumption in India.

VFX is also likely to further expand into new realms such as VR and AR. New products and technologies for consuming AR and VR, including high-end VR headsets and smartphone accessories, are likely to make newer, more immersive visual experiences readily available to the masses. However, to accommodate the rising demand for such experiences, studios may need to brace themselves for large scale technological changes and invest in solutions that can provide performance, scalability, and collaborative capabilities required for extensive workflows.

> While the Indian VFX industry has showcased growth, it's not exponential. There is a need of projects that can push the envelope in terms of special effects. We need more producers and directors with an appetite for risk taking and breaking out of standard formulaic features. Only then will we start to see tremendous growth.
>
> **Pete Draper**
> CEO & Co-Founder, *Makuta Visual Effects*

71. KPMG in India's analysis and estimates, 2018-19

Gaming

Ready to play

Introduction

India has embraced the mobile-first culture wholeheartedly, and in many aspects is ahead of wealthier countries in its adoption behaviour. The country has emerged as the second largest smartphone market in the world, after China.[1] Smartphone users in India are highly comfortable and conversant with mobile technology, with more than 50 per cent showing a preference for using mobile devices over other sources for their leisure activities including reading, listening to music, watching videos, social networking and shopping. Approximately 54 per cent of Indian consumers shop via their mobile phones compared to 37 per cent in the U.K. and 34 per cent in the U.S.[2]

The engagement with mobile phones extends to gaming as well, and in 2016 nearly 90 per cent[3] of online gamers preferred to use smartphones and tablets over other devices. The high cost of gaming console devices has prevented their mass adoption, and instead the launch of lower priced Chinese smartphones in the Indian market, falling cost of data, and rising disposable incomes, alongside acceptance of digital payments, have resulted in the dramatic migration of online gamers to mobile phones. The interplay of these factors has led to the doubling of the online gaming market in five years, from INR 20.3 billion in FY14 to INR 43.8 billion in FY18.[4]

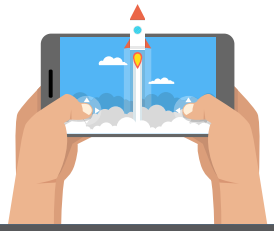
Historical estimates of online gaming in India

Online gaming in India (INR billion)	FY14	FY15	FY16	FY17	FY18	% increase FY17 to FY18
	20.3	24.3	27.6	32.4	43.8	35.1%

Source: KPMG in India's analysis 2018

Components of online gaming

Online gaming[5] includes revenues from:

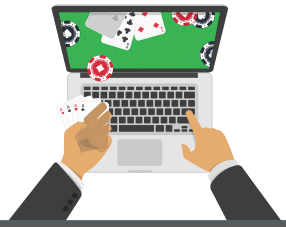


Mobile

Revenues from gaming applications for smartphones and tablets including one-time paid-app downloads and freemium games that offer in-app purchases

PC and Consoles

Revenues from online sales of video games for direct download onto gaming consoles or PCs/laptops via the internet as well as in-app purchase. Excludes sales of physical video game sales



Browser-based

Revenues from freemium games played on the browser with in-game purchases for additional premium content or functionalities. Includes 'massive multiplayer online' games and 'multiplayer online battle arena' games

1. India now second largest smartphone market in the world, The Hindu, October 2017
2. The India Opportunity: Tapping into One-Tenth of the World's Gamers, Newzoo, April 2018
3. Online gaming in India, Reaching a new pinnacle, KPMG-Google, May 2017
4. KPMG in India's analysis 2018 based on primary and secondary research
5. Statista, Euromonitor

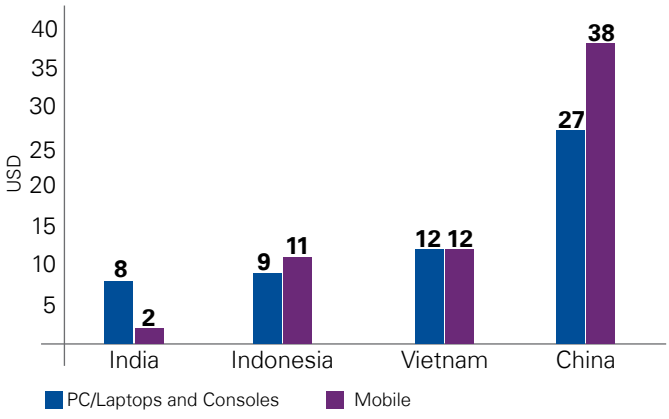
Mobile gaming leads from the front in India

From a meagre contribution of 18 per cent in 2012 (the smallest segment), mobile gaming comprised 46 per cent of the global gaming revenue in 2017 and this number is set to reach 60 per cent by 2021.[6] Mobile gaming already leads from the front in India with nearly 89 per cent of all gaming revenue in India generated by mobile games in 2017.[7] The higher than expected growth in online gaming over the past 18 months has primarily been on account of the mobile gaming segment, which has benefitted from the fall in 3G and 4G data costs. Wireless data consumption increased dramatically from 147 megabytes per subscriber per month in 2016 to nearly two gigabytes by December 2017[8] – a period when prices fell per gigabyte from USD3.34 (INR229) to USD0.26 (INR18).[9] Mobile gaming dominates other devices – both in terms of revenue and number of gamers – and this is not expected to change going forward.

… but gamers are yet to increase their spends

While the number of online gamers and their associated engagement metrics with the content on offer has improved, making the country home to "one-tenth of the world's gamers"[10] in 2018, the average revenue per user (ARPU) has not kept pace. Compared to much smaller mobile gaming markets like Vietnam (one-fourth the size of India) where ARPU levels are at USD12 the figure for India is a paltry USD2. The ARPU for downloaded games onto PCs and consoles is higher at USD8 and closer to the levels prevalent in Indonesia and Vietnam at USD9 and USD12 respectively.[11] It is interesting to note that barring India, in every other country profiled in the graph, the ARPU for mobile games is higher than or similar to the ARPU for PCs and consoles. India not only seems to have a large mobile gaming population that is yet to be monetised (low mobile ARPU), but also a relatively small number of core gamers who prefer the larger screen formats of PCs and consoles (high PC/console ARPU).

ARPU comparisons (2018)



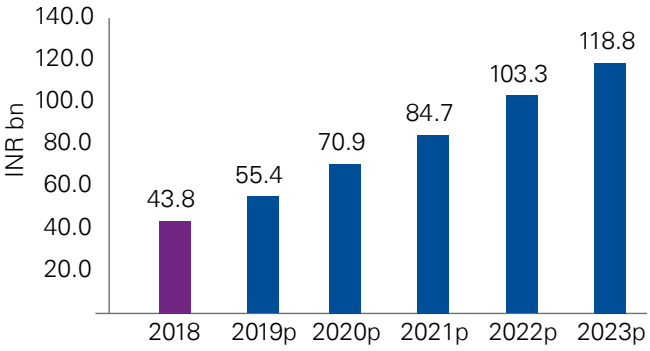
Source: Statista

Online gaming projections 2018–2023

The online gaming market in India in FY18 is estimated at INR 43.8 billion, and expected to touch INR 118.8 billion by FY23, growing at a CAGR of 22.1%.[12] Over the next five years, while ARPU levels could double — albeit over a small base[13] – most of the revenue growth may continue to be on account of an increase in the number of gamers in the market. Initial conversion to mobile gaming may occur quickly (i.e. as smartphone penetration increases across both rural and urban India, consumers embrace mobile gaming as a legitimate recreational activity), but gamers are expected to only gradually increase their spending on this front. Therefore, more people might be willing to spend smaller sums of money on mobile gaming, and the market could only witness higher spends when these casual gamers increase their engagement over time. In fact, the dominant revenue model in mobile gaming — the freemium model — taps into this behavioural trend and offers free apps for gamers with in-app purchases (IAP) for progression as they become more engaged.

6. Global Games Market Report, Newzoo, April 2018
7. The India Opportunity: Tapping into One-Tenth of the World's Gamers, Newzoo, April 2018
8. TRAI Performance Indicator Reports
9. TRAI Performance Indicator Reports/CRISIL research on Telecom Data Services
10. The India Opportunity: Tapping into One-Tenth of the World's Gamers, Newzoo, April 2018
11. Statista
12. KPMG in India's analysis 2018 based on primary and secondary research
13. Statista, KPMG in India's analysis 2018

Online gaming market in India



Source: KPMG in India's analysis 2018

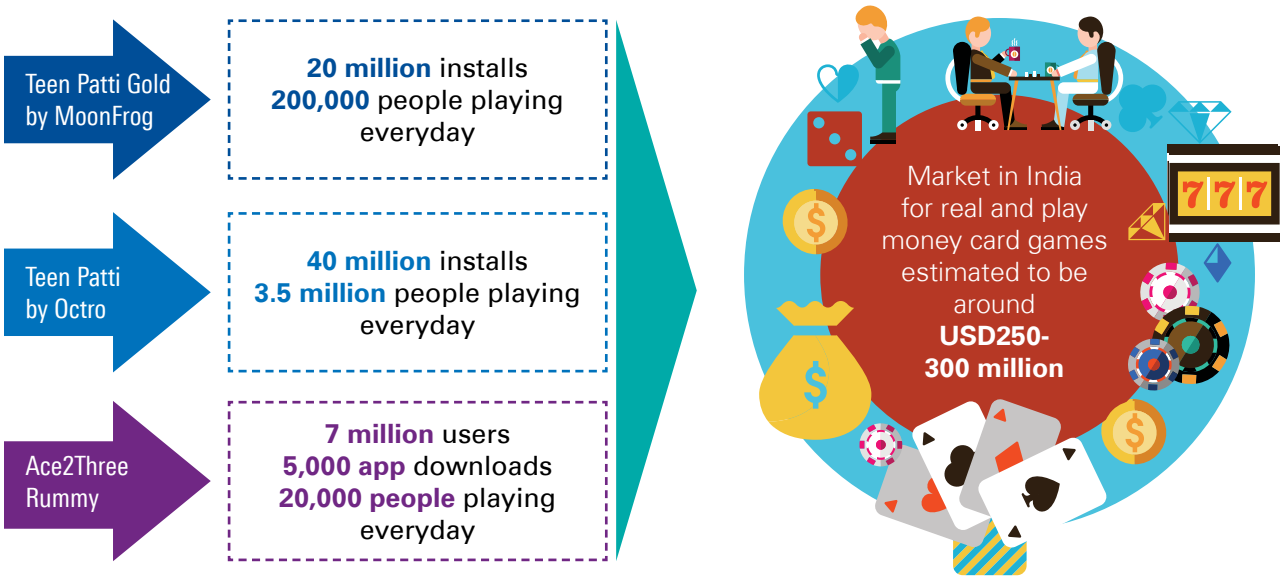
Consoles lag but core gamers could prefer large screens

Growth may also occur in other segments of online gaming in India with the number of households owning video game consoles set to increase from 6.7 per cent in 2016 to more than 9 per cent by 2023.[14] Many could also begin the transition to larger screen formats as they move from being casual to serious gamers. A gamer with over 18 months of gaming experience is three times more likely to play on a larger format screen than a relatively newer gamer.[15] The revenue growth in both the PC and console segments is likely to be driven primarily by in-app purchases rather than paid downloads,[16] bolstering the importance of the freemium model of monetisation in online gaming.

Winning hand: The popularity of online card games in India

The massive success of online card gaming in India has the potential to disrupt all market projections, as this genre alone is estimated to be growing at 50-100 per cent year on year.[17] Three versions of teen patti and one version of rummy and poker each are among the top grossing games on the Google Play Store charts,[18] clearly establishing the dominance of online card games in India. Although the move from physical card tables to virtual ones began a decade ago, the mobile version of these games is what has led to this unprecedented growth.

Unlike poker, which is a relatively new game for Indians, teen patti and rummy have been played for generations in this country, and are popular across demographics and regions. Few games have such mass appeal. Card games such as teen patti and rummy enjoy social acceptance without the stigma attached to gambling, as a Supreme Court ruling declared them as games of skill rather than chance.[19] Poker however still awaits such regulatory clarity. While a few High Courts — West Bengal, Nagaland



Source: How traditional card games such as poker, rummy and teen patti have taken the mobile gaming industry by storm, Economic Times, February 2017 and KPMG in India's analysis 2018

14. Euromonitor
15. Online gaming in India, Reaching a new pinnacle, KPMG-Google, May 2017
16. Euromonitor
17. The big bet VCs love: Online Rummy portals in India are raking in millions for their investors, The News Minute, May 2017
18. As on May 26, 2017

and Karnataka[20] — have ruled that poker is a game of skill, its legality differs across states as gambling is part of the State List under the Seventh Schedule of the Indian Constitution. Further adding to the complexity in the industry, is the decision by some distribution channels to only permit play-money versions (with chips) of card games on their platforms. Real-money card games are available mostly from developer websites, necessitating a different customer acquisition strategy for such companies.

But even with this uncertainty — cases continue to be routinely filed challenging the legality of playing card games with stakes — there is money to be made in this market. While the initial download for the games are free, companies such as MoonFrog and Octro generate revenue when the gamer buys chips. These start-ups are highly profitable with margins as high as 35 per cent,[21] and private equity money has helped many companies, including Ace2Three, MoonFrog and Octro, scale. In 2017, Matrix Partners reported a return of 20 times over its investment in Head InfoTech India, which operates the online rummy gaming company, Ace2Three.[22]

In the interest of the online card gaming community at large, and in absence of clear regulatory guidelines, businesses are coming together proactively to self-regulate and promote responsible gaming practices. One such recent example is the creation of The Rummy Federation (TRF), which was launched in December 2017 to leverage the learnings of various companies in the market and adopt best-in-class practices from developed and regulated western countries.[23] Such initiatives are likely to help improve transparency and credibility for the online card gaming industry in India, which appears poised for exciting times ahead.

Monetisation models: Why is freemium so popular?

Customers in India are price-sensitive and place high importance on value-for-money. This has been often established through the experience of businesses operating across a wide spectrum of markets in the country. Online gaming is no different. Gamers are reluctant to spend up front on mobile apps without previewing the game, and the pure paid-apps model is unlikely to be popular among first time users. Free games rely on advertising as their primary source of revenue, but in general, these advertisements quickly become intrusive to the gaming experience. Customer retention is dependent on the way the ads are integrated into the app.

> Card games have been part of the Indian tradition for generations, and the familiarity with the genre has translated into the massive popularity of online card games as well. However, at present, the real money online gaming market in India does not have a clear set of guidelines to operate under, which is impacting capital flow, and therefore, growth.
>
> **Dhananjai Hari**
> Vice President Marketing
> *Mad Over Poker*

The views and opinions expressed herein are those of the quoted person/s and do not necessarily represent the views and opinions of KPMG in India)

The 'freemium' (a portmanteau of free and premium) model appeals to customers at various levels, offering a free product up front with access to a full set of features once they are convinced of its attractiveness. Freemium games are predicated on the arrival of a 'friction point',[24] which is the point in a game at which a gamer's progress is dependent on her choosing between a cooling-off period/playing at a lower level/watching rewarded videos and paying money to continue, typically through an in-app purchase. Given the low propensity to pay of gamers in India, monetisation strategies that combine in-app purchases, along with rewarded videos and incentive-based advertising, are likely to succeed. Anecdotal evidence suggests that when engaged, gamers in India are able and willing to spend significant amounts of money to pursue their interests, and it is the onus of the gaming companies to ensure a customised experience that can lead to both monetisation and long term customer retention.

The subscription monetisation model in online gaming uses an innovative pricing strategy targeted towards

19. Why games of skill don't come under gambling, Mint, April 2016
20. India's poker startups industry worth $120 million slowly becoming a profit-making model, Economic Times, November 2016
21. Online rummy business exits show investors making handsome returns, Economic Times, May 2017
22. Online rummy business exits show investors making handsome returns, Economic Times, May 2017
23. Online rummy operators join hands self-regulate, The Hindu, December 2017
24. Freemium vs. Premium: The rise of pay-to-play games, iPhone Life Magazine, February 2014

> It isn't entirely accurate to say that gamers in India are unwilling to pay for content. Hitwicket has had multiple instances of gamers spending in excess of INR100,000 (USD1,480) as they progress in their engagement with the game, and some of them have spent this amount in the initial six months itself. These are highly engaged gamers; typically male and over 28 years of age, who have the disposable income to support their gaming interests
>
> **Keerti Singh**
> Head, Growth & Operations
> *Hitwicket*

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online gamers with a low propensity to pay. Nazara Technologies has been successful in employing the 'sachet pricing strategy'[25] that allows gamers access to their catalogue of games for a fixed daily, weekly or monthly subscription. Not only does this provide mass mobile internet users with greater control over their gaming spend, but also reduces the need for digital payments as the billing is made in partnership with telecom operators (carrier billing). The subscription model is also popular with gamers at the other end of the engagement spectrum — the serious gamer — as it allows them to play competitive online tournaments across multiple games by purchasing subscription packages based on their particular stake or usage requirements.

From accessing and playing games with high upfront cost (consoles, CDs) to the adoption of a free-to-play model (mobile predominantly), Indian online gaming has adapted to changing customer preferences. To achieve the revenue growth projected for this segment, online gaming companies might have to continue to innovate and employ India-specific marketing and pricing techniques for gaming content that is relevant and customised. While freemium strategies could help increase the monthly active users (MAU), it is the subscription model and commission-based play (real money card games) that are likely to drive higher ARPU in the industry.

Build, distribute and monetise

If we consider the three major aspects — build, distribute and monetise — to any successful business, While India has the technical and design talent to build quality online games, distribution strategies are still to improve, and monetisation remains the biggest challenge. There are several online gaming companies that are dedicated to the Indian market, which create unique localised content popular with the target audience. Games featuring cricket and Hindi movies (Sultan, Baahubali), traditional folklore and cartoons (Chota Bheem, Motu Patlu) and cards offer more relatable content to the Indian gamer.

When it comes to the mobile market, distribution platforms have hundreds of thousands of apps, and breaking through the clutter requires effort. Search queries and their related algorithms have become more refined, and rankings are no longer solely based on number of downloads (free apps typically top this list), but include other important metrics such as customer retention rates and monetisation (top grossing apps). Distribution platforms also assume the role of curators by publishing Editor's Choice, App of the Day that help improve the visibility of better designed, quality apps. As these platforms retain a percentage of the paid downloads as well as in-app purchases, it is in their interest to promote games that are better at retaining and monetising their customer base.

Monetisation is the biggest challenge facing gaming companies. Popular methods of monetisation include in-app purchases, rewarded downloads and real-world incentives. Online gaming companies agree however, that the best way to ensure steady monetisation of a game is to invest in long term customer retention by giving the user a customised experience. Companies are using customer data to generate deep learning insights on behaviour patterns and integrating those into the playing experience. Old school marketing principles including a focus on customer centricity appears to be fundamental in this market as well. Online gaming companies are quickly learning that the customer might only spend both time and money on content, when he/she is engaged and identifies with it.

25. Nazara Technologies Limited, DRHP, January 2018

Online gaming outlook: 2018

The headline trends for the next few years are likely to be:

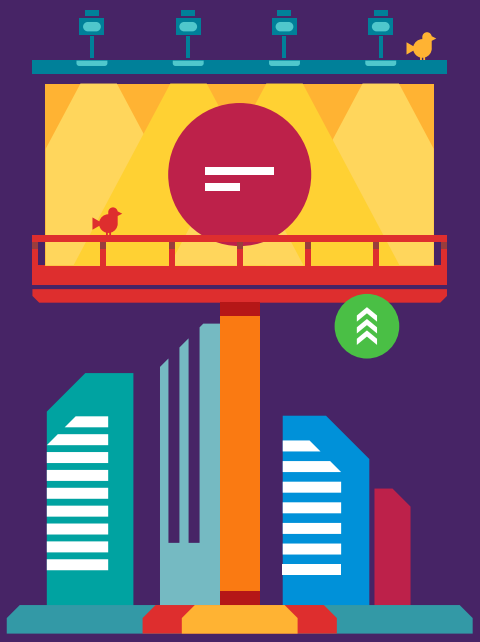
- **Ability to monetise** content especially on mobile phones could improve; first due to an ever increasing number of mobile gamers and then with higher spends per gamer. Entry level gamers might continue to look for free games and embrace the freemium versions once their engagement improves. Social multiplayer games including fantasy sports and online cards are expected to continue their successful reign in monetisation and observe higher ARPU than the rest of the market[26]
- Games with **Indian context** could prove to be the wild card (quite literally) in online gaming as localisation becomes imperative for mass appeal
- As acquisition costs rise, **data and analytics** could be leveraged to create customised gaming experiences and optimise the lifetime value of the gamer by establishing a feedback loop, real-time tracking and development of social capital between developers and gamers
- Emerging technologies like **Augmented Reality (AR) and Virtual Reality (VR)** are expected to change how gaming content is developed and consumed. AR has already had some success in gaming applications with games such as Pokemon Go that at one time had a base of 75 million globally[27]
- Despite having a much smaller population of core or serious gamers, there might be concerns on the **addictive nature of gaming** and its effect on mental health. In 2018, the WHO classified compulsive gaming as able to disrupt daily healthy lifestyles along the lines of other addictive substances like gambling and drugs[28]

With a growth rate of 22 per cent over the next five years, online gaming in India is expected to touch INR 118.8 billion by FY23.[29] Console gaming is set to grow alongside the broader market, but it is likely to be mobile phone gamers, and their increased engagement with the content, that drive growth. The future looks promising for online gaming in India.

26. KPMG in India's analysis 2018 based on primary and secondary research
27. Pokenomics: The secret to the success of Pokemon Go, Newsweek, July 2016
28. Compulsive video-game playing now a new mental health problem, says WHO, The Hindu, June 2018
29. KPMG in India's analysis 2018

Out of home (OOH)

Technology comes out to play

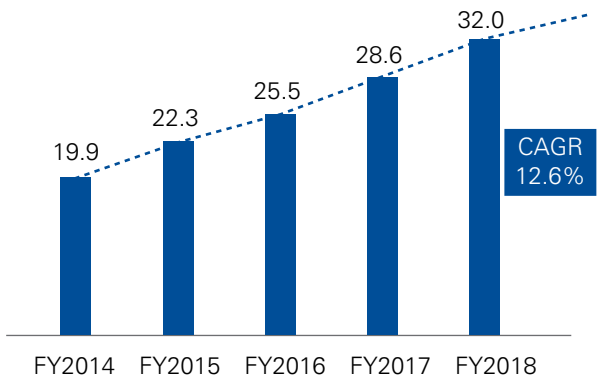


OOH industry size

Given the impediments of demonetisation and the implementation of the Goods and Services Tax (GST), the out of home business failed to see the surge during the first half of FY18. However, it has bounced back since, with industry veterans expecting FY19 to be a promising year overall. The OOH industry, has witnessed close to 12 per cent Compound Annual Growth Rate(CAGR) since FY14, growing from INR19.9 billion to INR32 billion in FY18.[1]

In general, the catalysts for OOH advertising in India are expected to mimic the catalysts of the overall traditional advertising space. Even as automotive, Fast-Moving Consumer Goods (FMCG) and financial services continue to remain important contributors, FY18 has seen meaningful participation from the State and Central Government, e-commerce and technology players. Telecom service providers, however- mainly due to issues faced by the sector at large, FY18 saw a decline in the OOH expenditure as in other media.

OOH industry size (in INR bn)[2]



In FY18, government schemes took centre stage with the Central Government reaching its halfway tenure mark. Schemes such as Swachh Bharat, Ujjwala Yojana), Skill India, Make in India, Jan Dhan Yojana leveraged the use of various advertising platforms for disseminating information to masses across the country.

What makes OOH sell?

First, OOH has proved to be a versatile advertising medium in terms of reach, frequency, targeting and creativity. The ability to reach remote areas, target specific regions or audience and provide innovative formats has led to an increase in the share of media budgets allocated to OOH advertising. Unlike other media, the audience exposed to OOH media platforms do not have option to skip, block or tune out of the advertisements displayed. Thus, the OOH media offers a relatively higher time span to attract attention and get noticed. Some examples are prominent OOH sites at airports, railway stations, high-traffic streets, elevators, shopping malls, high street markets. Advertisers have also started focusing on creating innovative content and formats exclusively for OOH media.

Second, brands are willing to pay more for the exclusivity and quality that premium OOH sites offer. One such example would be digital screens at airports that attract many advertisers owing to the value they offer in terms of visibility, audience and quality. Generally, advertisers tend to book such sites for the entire duration of their campaign or the entire year, thus enhancing the value and demand for them. With Digital OOH (DOOH) set to step out of airports and move to streets, advertisers may have increased options for such sites.

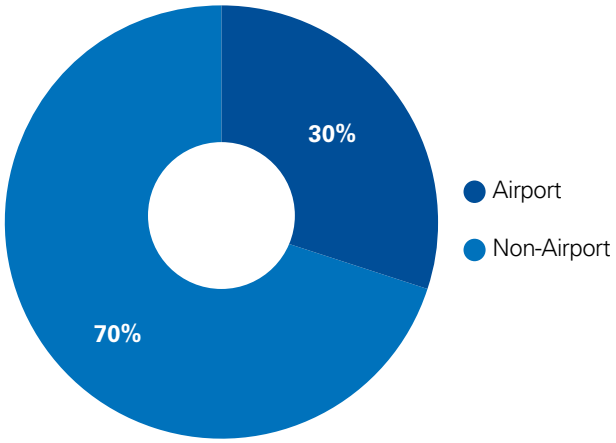
Last, despite being a mass media, it can be easily customised to meet varied needs of marketers. Creatives, size, location of sites, as well as duration of campaigns can be tailored to suit the client's requirements. Moreover, it is able to provide a high volume campaign in specific locations, for a fixed period of time, and hence it can be used extremely well for tactical campaigns.

Airports — Where OOH takes off

The airport segment is one of the significant contributors to OOH growth. While airports in Delhi and Mumbai have been the major contributors to the OOH story, the segment is also witnessing traction from smaller airports situated in tier 2 and tier 3 cities. These airports, while featuring in nationwide media plans, tend to get a lion's share of their advertising monies from local retail players who are using airport OOH not only for reach but also for brand building. In a sector, which is highly fragmented at the city and state level, airport OOH contributes to roughly 30 per cent of the overall revenue[3]. The remaining 70 per cent is spread across the country through various formats such as street furniture, transit media, unipoles and public utilities[4]. The airport segment can be considered as a popular model for advertisers as it provides them a controlled environment for experimentation and innovation.

1. KPMG in India analysis 2018 based on industry discussions
2. KPMG in India analysis 2018 based on industry discussions
3. KPMG in India analysis 2018 based on industry discussions
4. KPMG in India analysis 2018 based on industry discussion

Segregation of OOH revenue- Controlled vs. non-controlled environment



Source: KPMG in India analysis 2018 based on industry discussions

OOH — A highly fragmented sector

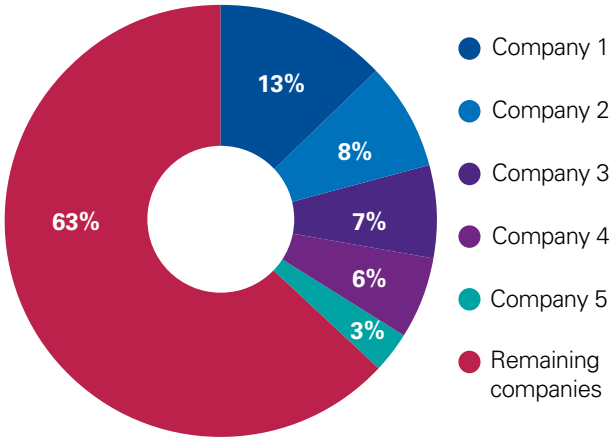
Despite being one of the oldest advertising media, OOH media ownership is a highly fragmented business. Apart from a few firms operating at a pan-India level, such as Times OOH, JCDecaux, and Pioneer, a majority of the market operates at a local and regional level. As a result, it becomes difficult for brands to plan national campaigns. Moreover, brands find it exceedingly difficult to implement, and more importantly, monitor OOH offerings in different cities/states. The problem becomes even more complex as unlike other traditional media channels, there are no central monitoring reports by any third party. Though several agencies are leveraging their proprietary audience measurement metrics, there is a need for an industry-accepted common currency[5].

This fragmentation is one of the major causes that a large number of advertisers have concerns on OOH advertising, with the growth rate having scope for improvement.

Lack of a one-stop shop for clients

Another area of fragmentation for the OOH sector is through the media offering itself. Despite brands looking at the OOH market segmentation as airport versus non-airport, thereby combining all other types of media offering (for example, billboards, street furniture, railways, metros) under the latter, there are only a handful of OOH companies with cross-platform offerings. Most entities have concentrations with standalone rights in different formats including airports, bus shelters, metro lines, or railways. This creates a significant concern at the advertiser side of the ecosystem. Typically, if an advertiser wants to consider a variety of genres such as mass entertainment, niche entertainment, music and kids, they can approach a single network for one-stop shopping of their media needs. This choice becomes rather difficult to exercise in relation to OOH where they have to deal with several offerings separately, thereby increasing their involvement time.

Segregation of OOH revenue by various players

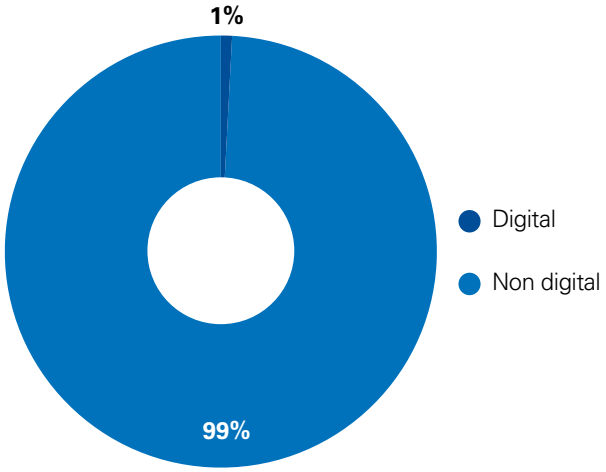


Source: KPMG in India analysis 2018 based on industry discussions

Digital OOH — High on promise but a long way to go

The controlled versus non-controlled environment principle is also responsible for one of the core distinctions in trends between Indian OOH and global OOH. While digital OOH or DOOH, as it is commonly known, contributes 35–40 per cent of OOH revenue globally, this contribution has been limited to a low percentage of around one in India[6].

Segregation by media



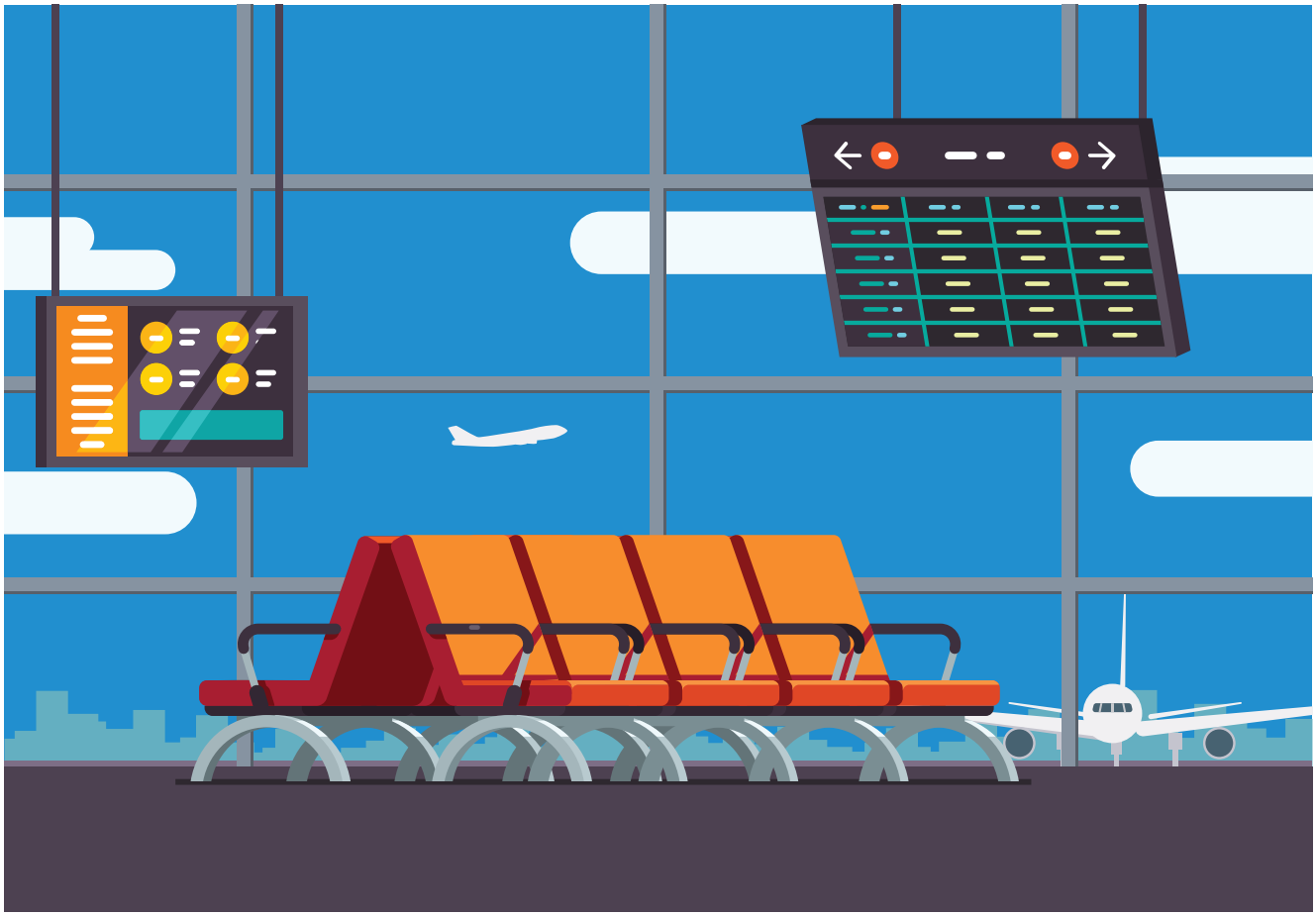
Source: KPMG in India analysis 2018 based on industry discussions

5. KPMG in India analysis 2018 based on industry discussions
6. KPMG in India analysis 2018 based on industry discussions

What stands in the way of DOOH?

One of the major reasons for this low adoption is that advertisers prefer to take such bets only in specific controlled environments (such as airports and malls), where instances of vandalism, exposure to elements and overall maintenance is relatively lower. Even in other controlled environments such as railway stations, wagons and metros, DOOH has failed to pick up pace in India[7]. While digital OOH is a well-accepted global phenomenon, some key questions need to be addressed, especially in the Indian context — What are the different ways in which this format can used? Will the urban advertising norms be revised to permit digital displays in high traffic areas? Currently, a large number of agencies do not allow digital billboards on roads due to concerns on traffic safety[8]. While DOOH usually implies electronic screens, a large number of brands stick to self-changing motorised flexes, which are arguably termed as digital OOH.

> Digital OOH can provide the much required impetus to the industry, due to controlled environment and scope for innovations. However, for that to happen on a sizable scale, DOOH will have to come out of the airports and play in the streets.
>
> **Sunil Vasudeva**
> Chairman and whole time Director - *Pioneer Publicity*



7. KPMG in India analysis 2018 based on industry discussions
8. KPMG in India analysis 2018 based on industry discussions

DOOH and the loss of exclusivity

One more reason for the slow response to DOOH is the way Indian advertisers look at outdoor media. For most brands, OOH has become a show of brand strength. Brands today want to 'own' specific sites/areas which are of paramount importance to them or to their dealer/distribution network. Brands want these locations to be synonymous with their brand name, and hence long-term exclusivity becomes an imperative in the OOH game. However, given most current use cases of DOOH where multiple brands effectively end up sharing airtime on the same site, the highly coveted exclusivity gets compromised, and hence, brands which look for exclusivity in their advertising campaigns might not opt for this medium.

Growth drivers for DOOH

An area that could provide impetus to DOOH is the smart cities campaign of the Indian government[9]. The government has notified 100 cities with outdoor media rights as being one of the quick wins for these cities. These cities can be positioned to provide a showcase to the rest of the country on how DOOH can be used effectively in non-controlled environments as well. This requires defining terms of usage at the contracting stage, providing long term rights to licensees and maintaining such sites. Another area which could contribute to DOOH growth is Internet of Things (IoT). Interactive outdoor, combined with customer information and increasing data analytics capabilities, can provide advertisers with targeted and customer specific DOOH media plans. Though this idea is in a nascent stage currently, the wave of growth in DOOH can come from these areas.

Technology to script the next innings of the OOH gameplay

The adoption and integration of technology can open up many avenues for the industry. Addressing the concerns of transparency, monitoring and measurability, many players in the industry have started to build technology-led solutions to equip advertisers gain better control over planning, monitoring and measuring the OOH campaigns. Industry is also looking forward to centralised, interactive and real-time OOH offerings by embracing DOOH, IoT and data analytics.

Technology — Role to play in all areas

Today, technology has a bigger role to play in OOH in areas such as creative expression, innovations in design and format. However, measurability and transparency continue to haunt the OOH sector as a whole. Advertisers, today, insist on Return on Investment (ROI) benchmarking, proper planning of outdoor sites, and metrics on site performance and correctness of billing. Clients are leveraging their takeaways around prevalent irregularities of the OOH sector, and are on the continuous lookout for solutions that safeguard their brand story, plug cost leakages and assuage their concerns on overbilling and campaign performance.

Technology to enable better planning

The industry is in an immediate need of a technology-backed paradigm shift, which will help brands identify cities, locations, and even streets that can provide them high returns based on their target group profiling and segmentation. Traditionally, the site selection and planning approach has largely been based on personal experiences, knowledge and following the competition. Once the industry has an effective and consistent planning tool and a scientific approach to site selection, the revenues are expected to increase.

Technology in third party measurement

> There is immense scope for technology to play in the OOH business. What's important is that innovators should also understand the underlying dynamics of the industry, as well as the growth drivers that run the industry. Only then the purpose of innovation will be met.
>
> **Amit Kapoor**
> Chairman and Managing Director - *US Advertisers*

Advertisers, today, are raising concerns over correctness of billing. While advertisers can monitor sites in major cities during the campaign period, these concerns become valid in sites in other areas. In the age of geo-tagging, and lower cost of data over mobile network, the sector is hoping for a technology transformation which could help brands get comfort over the performance of their advertising spends.

9. KPMG in India analysis 2018 based on industry discussions

Once these systems are in place, the lack of control in open, public areas can be reduced to a certain extent, which may, in turn, propel the sector to grow faster than its historical growth rates. However, the current offerings in the industry are restricted to specific sites/locations/vendors. As such, there is limited acceptability of the current technology solutions as concerns of cost effectiveness, robustness and linearity of reporting need to be addressed. Site photographs with the day's newspaper might not be sufficient in the long run as clients demand real time assessment of their campaigns. The measurement system needs to be easy to implement, affordable, tamper proof, and with a user interface that enables clients and agencies to monitor multiple dashboards at the same time.

The regulatory landscape

One of the core problem areas of the OOH sector is the large number of regulatory constraints applicable on the sector. OOH, primarily located in public areas, is subject to multiple regulations subject to traffic, aesthetics, licensing and structural safety. For some lucrative sites, there are as many as four to five regulatory powers in play.[10] While OOH players bet big monies on various sites as part of their revenue projections, a large number of projects fail to materialise due to policy/regulation deadlock. A single body could be appointed to take charge of licensing and approving site plans to address concerns of OOH players.'

> Aesthetics have a huge role to play in the OOH industry. A single policy, which clearly outlines areas earmarked for OOH advertising, along with clear directives on sizes, formats, quantity is what the industry needs most at this moment.
>
> **Pramod Bhandula**
> CEO - *JCDecaux India*

Regulations on formats

The regulatory landscape also does not allow digital media at various places in the country. While traffic and pedestrian safety is paramount, the adoption to cleaner, uniform formats in the city may go a long way in reducing the clutter that is so evident in some of the major cities.

The need for constraints

At the same time, it is important to consider the point of view of the authorities, who are responsible for the safety of its citizens, aesthetics of the city, and reducing of visual clutter. The authorities claim that given the vast expanse of the cities, the regulatory constraints are the only checks they can implement on ever increasing OOH advertising, especially in metro cities. Further, as different areas fall under different agencies, there, may be more than one regulatory body.

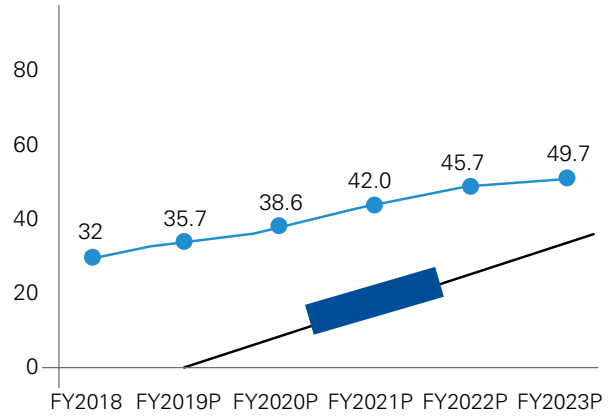
The demand for exclusivity

Industry experts believe that limited importance is being given to design/aesthetic aspects such as creative adaptation, standardisation of sizes, and uniformity in formats. They also opine that as long as exclusivity is not offered at the city level to a licensee, the design aspects cannot be improved largely. At the same time, licences for various areas have to be auctioned, in order to employ leading procurement practices, and thus, exclusivity gets compromised. Moreover, as the OOH sector is highly fragmented, if the rights of a city or a state are kept exclusive, there might not be any takers for the same as there are a large number of players in the sector. Despite the implementation of the GST regime, some industry leaders believe that advertisement tax continues to be levied in a few areas. As our cities grow, civic bodies have started to play a bigger role in approval and licensing of media owned by other bodies falling in their jurisdiction, such as railways, metros which often leads to losses for licensees of these media offerings. Clarity on civic policies, uniformity in design and streamlined approval processes may highly benefit the sector.

10. KPMG in India analysis 2018 based on industry discussions

The way ahead

OOH industry projection (in INR bn)[11]



In the coming year, we expect the state assembly elections followed by central elections as well as the contribution from the overall technology sector to be key growth drivers. The growth of the supply side is also expected to be secular with the expansion of transit infrastructure such as airports, metros and malls across the country, as announced by the authorities. These factors could be responsible for close to 12 per cent growth in the next financial year, taking the industry to INR35.7 billion.

Due to the higher base as well as an increase in inventory due to infrastructure revamp, new metro lines, and airports, the subsequent years may see a downward correction of growth, thereby leading to a steady state growth of 8–9 per cent in the upcoming years.[12]

With the Government of India's initiative to launch airports in smaller towns and cities including the Ude Desh ka Aam Nagrik (UDAN) initiative, the advertising investments in airports are expected to remain secular. This can provide an excellent opportunities for brands which are looking at engaging the population from smaller cities and tier 2 towns, where they see organic growth for multiple product lines. Some of the categories that may invest heavily in these sectors include FMCG, banking, telecom and automobiles.[13]

Conclusion

While the initial part of the year did not bring in the expected revenue, the OOH sector performed well in the latter part of the year. Innovations in street furniture, expansion of various metro lines, expenditure due to government schemes contributed significantly to the incremental revenue.

The challenges of the sector, however, continue to keep the growth under check. The clients' increasing insistence on a measurement currency, lack of a single stop shop for clients, and concerns over correctness of invoicing remain some of the concerns. It is clear that the OOH fraternity, including all stakeholders needs to come together to solve these issues.

The stage is set for OOH to ride the next level of growth. A nation-wide policy, single window clearances, city-wise exclusive licences on a long-term basis, and an ROI-driven measurement metric can be key game changers as the industry confidently marches ahead.

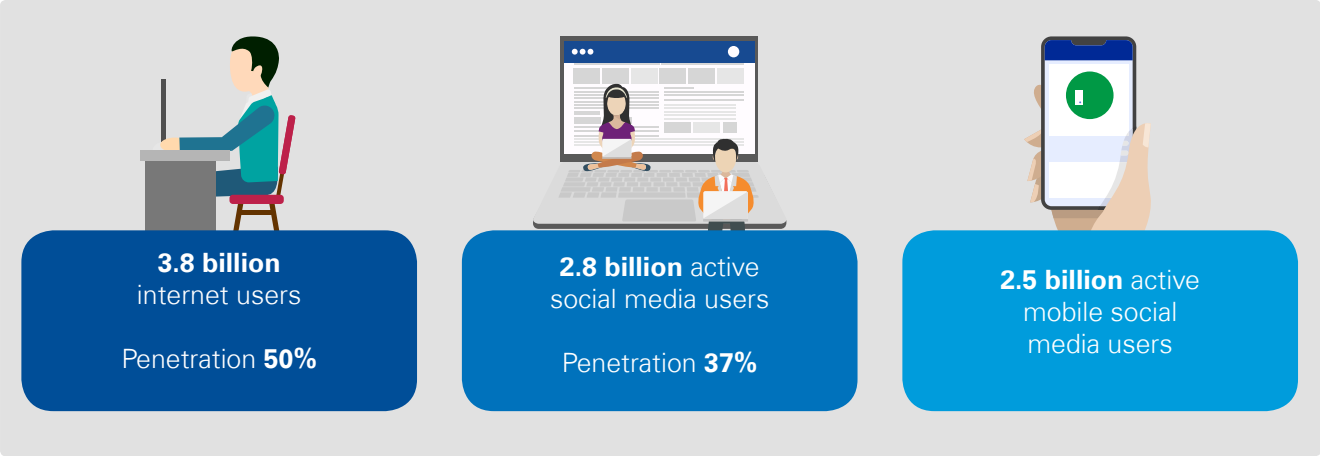
11. KPMG in India analysis 2018 based on industry discussions
12. KPMG in India analysis 2018 based on industry discussions
13. KPMG in India analysis 2018 based on industry discussions

Global TMT trends

Global themes

Introduction

Convergence, disruption, transformation — whichever way it is defined, one thing is certain: the global Media and Entertainment (M&E) industry is witnessing change with a far reaching impact. Much of this change has occurred in tandem with developments in digital technology and changes in the usage behaviour of consumers, who have unequivocally declared the smartphone as the device of choice for ME consumption. In 2017, nearly 90 per cent of the world's internet users went online using their mobile device and of the estimated 2.8 billion social media users globally, 2.5 billion were mobile social media users[1].

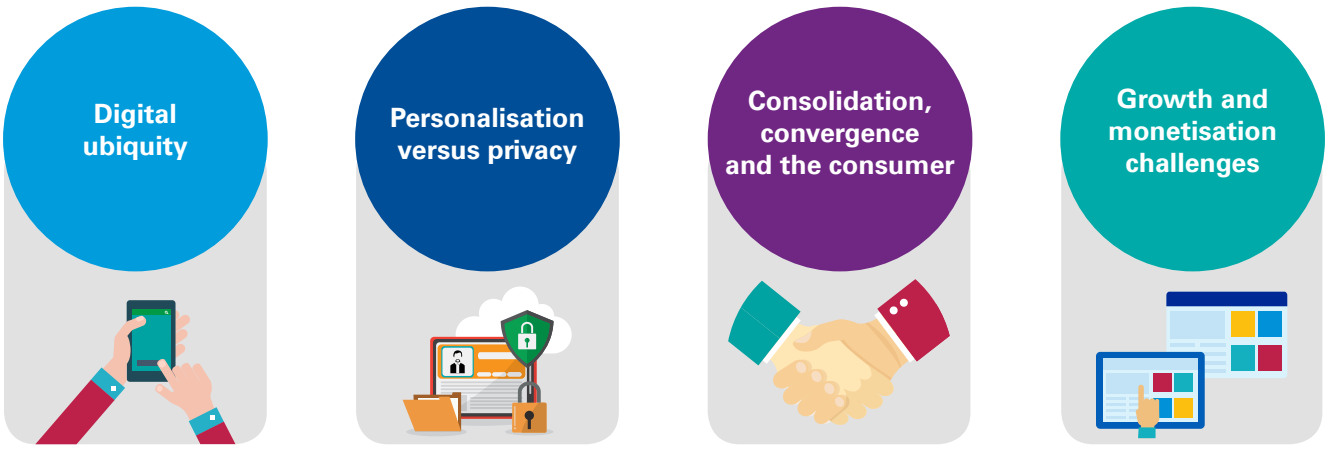


Source: Digital in 2017, Global Overview, We are Social and Hootsuite

The transformation in the global ME industry has also brought about a renewed focus on content and the consumer. In order to own the consumer – relationship, activities and wallet – companies need to deliver relevant content in the right format at the right time.

As consumers spend time on a product or service, their usage behaviour helps with personalisation, thereby creating a virtuous (in principle at least) cycle. However, consumers are now increasingly conscious of the implicit sharing of personal data across platforms and developers, and demand accountability and responsibility from companies collecting this information. This creates a 'privacy paradox' where continuous refinement and customisation of the user experience and the creation of more targeted marketing campaigns necessitate greater amounts of personal data to be gathered by companies. Regulatory scrutiny into these practices has expectedly increased.

In this chapter, we outline four major trends shaping the global media and entertainment industry today:

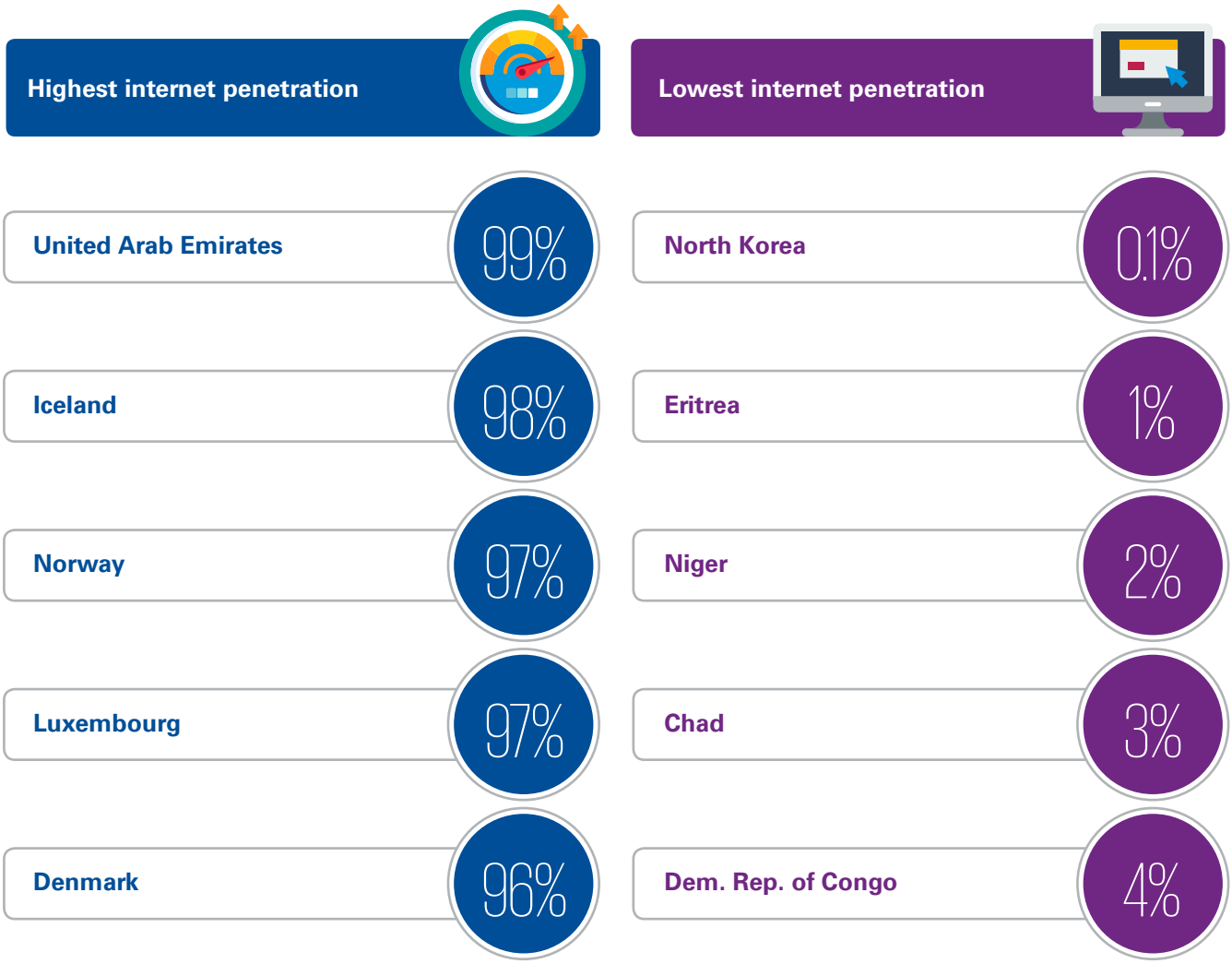


1. Digital in 2017: Global Overview, We are Social and Hootsuite

1. Digital ubiquity

As of 2017, there were 3.8 billion internet users, constituting 50 per cent of the world's population[2]. It is estimated that around 60 per cent of all payment transactions were digital last year, with over 500 million mobile payment users in China alone[3]. Mobile browsing increased 30 per cent as compared to 2016, and makes up nearly half of all web pages browsed. With an estimated 4.9 billion unique smartphone users (penetration of 66 per cent), 2.8 billion social media users and 2.5 billion[4] active mobile social users, the intersection of social media and the mobile device has reached a critical mass. However, with this level of digital penetration globally, smartphone growth will be hard to come by. Global new smartphone shipment growth was flat[5] in 2017 as incremental differences among devices become less apparent and people take longer to replace their phones.

With respect to individual countries, internet penetration is close to 100 per cent in the United Arab Emirates followed by Ireland and Norway. At the other end of the spectrum, North Korea remains the least connected country in the world. African countries also report low levels of internet penetration with fewer than one in three citizens able to access the internet. The Asia–Pacific region tops with more than half the world's internet users globally, 54 per cent of the world's social media users, and 56 per cent of all mobile social media users[6].



Source: Internet World Statistics, 2017

2. Digital in 2017: Global Overview, We are Social and Hootsuite
3. 2018 internet Trends, Mary Meeker, Kleiner Perkins Caufield Byers
4. Digital in 2017: Global Overview, We are Social and Hootsuite
5. 2018 internet Trends, Mary Meeker, Kleiner Perkins Caufield Byers
6. Internet World Statistics, 2017

2. Personalisation versus privacy

The continuous evolution of business models in the global ME industry has been driven by the imperative to own the user experience alongside the consumer relationship. This direct-to-consumer relationship can only be sustained, and emerge successfully, when there is a deep understanding of consumer profiles and behaviours, coupled with usage patterns and preferences. Considerable amount of data gets generated on all these fronts when consumers spend time on any digital medium. Every click, skip, streaming choice and 'like' helps build out the profile of the user and create hyper targeted content and advertising. For businesses dependent on advertising income, sharing this social and demographic data with advertisers is critical to demonstrate the value in buying digital space within their product or platform.

However, there is a hidden cost to these 'free', advertising-dependant products and open platforms. Facebook, which relies on external app developers, is now known to have shared extensive amounts of data on its users — full names, friends lists, hometown, education, profession, 'likes' – with agents as an 'unintended consequence' of its open platform structure. This information was acquired through application programming interfaces (APIs) of third party developers, often without the explicit permission of Facebook and then shared widely. It allowed companies with access to this information to create targeted marketing campaigns by correlating user profiles with their propensity to purchase. While there is no doubt that this helped improve the efficacy of digital advertising, the legality of this strategy is in question today as regulators have stepped in to address the importance of consent of users[7].

The General Data Protection Regulation (GDPR), which became fully enforceable in May 2018, was designed to enable EU citizens to have better control of their personal data, and makes companies (wherever they are based) liable for the security of the information they collect. Penalties for non-compliance are punitive at approximately USD24 million or 4 per cent of a company's global revenue, whichever is greater. While Europe has always been at the forefront of data privacy regulations — having recognised it as a fundamental right in 1993 — other countries are likely to follow suit as increasing number of people demand to know when their personal information is being collected and why[8].

3. Consolidation, convergence and the consumer

As a result of being denied access to the end-user relationship, traditional Business to Business (B2B) organisations such as broadcasters, studios have staked their claim to consumers in order to remain relevant in the face of the technology companies, which themselves starting to focus on content; as well as to improve monetisation of engagement and enhance loyalties. Those companies that already owned the end-user relationship have chosen to expand horisontally to previously 'not owned' parts of the value chain and play an important role in content creation. Netflix did not just transform from an online DVD rental company to an OTT streaming service, but has also emerged as one of the leading generators of original programming, marking its presence as a full-fledged network in digital media and entertainment.

Companies that were either technology, e-commerce and/or communications focussed, can no longer be boxed in as every business strives to build an ecosystem that can support multiple sources of revenue (advertising, transactions and subscription). Google has plans to move from being a search engine and advertising supported technology business to an e-commerce player, while Amazon shifted in the opposite direction with revenues from its premium product placements on users' search queries — or advertising services — up 130 per cent from a year ago.

Telecom companies are also focusing heavily on content, both in partnership with, and at times, in direct competition with media companies. A curated, high-quality portfolio of content — music, videos, learning — is seen as a competitive differentiator, both for customer acquisition and retention. Much to the consternation of the general public, 'Net Neutrality' that forced internet providers such as AT&T, Comcast and Verizon to treat all traffic on the internet equally (i.e. they could not block or slow down traffic to certain websites and apps while allocating greater bandwidth to companies with whom they had commercial arrangements) has been rolled back in the U.S.[9]. This could allow companies with ownership of the last-mile delivery of content to assert dominance in a highly competitive market, and bolster the case for large scale consolidation such as the AT&T–Time Warner merger (approved as of June 2018)[10] and Comcast's bid for the entertainment assets of Fox.

7. Is it time for big tech to rethink the "free" business model? Economist Intelligence Unit, May 22, 2018
8. 10 things you need to know about GDPR compliance requirements, Insight, January 02, 2018
9. Net Neutrality rolled back in the US, Hindustan Times, June 12, 2018; accessed on June 15, 2018
10. AT&T complete acquisition of Time Warner Inc, AT&T Press Release, accessed on June 15, 2018

M&A and consolidation	Deal value	Deal rationale[11]
Time Warner and AT&T	USD85 billion	AT&T can offer its over 100 million telephone users the multifarious content from Time-Warner, which includes HBO, Warner Bros and Turner Broadcasting
Fox, Disney and Comcast	Ongoing	Comcast, which already owns NBC–Universal, is one of the largest cable and broadband providers in the U.S. It upped the stakes by outbidding Disney for Fox's entire business by making a USD31 billion offer for the 61 per cent of Sky television network that Fox does not own. This is a 16 per cent premium to Disney's original offer
CBS, Viacom, Verizon	Ongoing	CBS is blocking moves for a re-merger with Viacom, while Verizon is rumoured to be considering making a bid for CBS' news and entertainment assets to add high quality content to its primarily telecommunications portfolio

4. Growth and monetisation challenges

It was Sheryl Sandberg, Chief Operating Officer at Facebook, who clearly articulated the paradox when she said Facebook users cannot hope to completely opt out of data sharing as that would require Facebook to become a 'paid' product[12]. It is the sponsored advertisements and targeted marketing that keeps the social media giant ticking with 98 per cent of its global revenue[13] accruing from selling space on its various platforms. With the enormous amounts of personal data that Facebook collects and mines on its users, the relative efficacy of marketing campaigns turns out to be high. Click-through rates and return on ad spends on the site are both rising. But so is cost of acquisition, which is rising even faster[14].

On the broader internet though, monetising views or 'eyeballs' is becoming harder and webpages are cluttered with banner and video ads. Ad blocking on web pages has become so mainstream that Google has included a built-in ad-blocker to its browser, Chrome. Even mobile ad blocking, which was uncommon a few years ago, has gained popularity, and Microsoft recently soft-launched native ad blocking on Microsoft Edge for mobile platforms[15].

For reasons both commercial and strategic (conflict of interest, more stringent data privacy norms), big technology and media companies are actively moving away from a pure advertising model to one that also includes subscription. In fact, the millennial generation has embraced the on-demand, gig economy and prefers 'access' to 'ownership', further fuelling the rise of subscription businesses. The digital transformation has created a 'circular, dynamic relationship' with the subscriber in place of the erstwhile 'linear transactional channels' of moving product to consumer[16]. Revenue growth has been compelling. Spotify, the popular music streaming company, had zero per cent of its monthly active users as subscribers at launch, versus 45 per cent currently[17]. For the first time last year, The New York Times reported higher revenues from digital subscriptions than advertising, a clear indicator of the success of its strategy to introduce a pay wall on its site[18].

The music industry has in many ways been saved by streaming subscriptions. Fifteen years ago, record labels were witnessing a precipitous decline in revenues with piracy and decreasing physical sales, but in 2017, the music industry posted its highest growth since 1919. Last year was also the first time that subscriptions became the single largest revenue source for companies at 38 per cent[19] and paid subscribers totalled 176 million, a jump of nearly 60 per cent year on year. At the same time, digital downloads fell by 20 per cent, as consumers prefer to rent their way to a larger library of music — available to them digitally anytime, anywhere — rather than buy and own songs.

11. KPMG in India analysis, 2018 based on secondary analysis
12. Sheryl Sandberg says Facebook users would have to pay for total privacy, Fortune, April 07, 2018
13. Statista
14. 2018 internet Trends, Mary Meeker, Kleiner Perkins Caufield Byers
15. Microsoft Edge Browser Updated with Built-in Ad Blocker on Android, Softpedia, June 20, 2018
16. The product economy is over. Here's how to survive in the subscription economy, Tien Tzuo, June 08, 2018
17. 2018 internet Trends, Mary Meeker, Kleiner Perkins Caufield Byers
18. The New York Times is not "failing": Forbes, July 27, 2017
19. Thank streaming: Global music sales jump 8.1 per cent, CNET, April 24, 2018

End notes

It is difficult to predict how these changes will play out in the near term, and even whether media and entertainment can continue to be considered a separate market segment independent of the broader technology industry. KPMG's recent publication, 'Race for the platform', suggests that it is the tech giants — whose dominant business is social media, e-commerce, gaming or mobile device ecosystems and importantly, not traditional TV or film companies — who are likely to become the dominant platform for consumers to obtain content. These tech giants tend to have a combination of the following characteristics that allow them to gain an advantage over competitors[20].

- Network of users: Video, search and e-commerce websites have users and subscribers in the hundreds of millions compared to tens of millions of viewers for TV channels
- Access to data: Usage data is easier to gather and consumer profiles are easier to build for technology and internet companies compared to traditional multi-channel video programming distributors. The technology of the internet allows for more discrete data collection — search histories are typically auto collected; and consumers online are more willing to share personal data including location, interests, educational and professional background details — compared to TV viewers. This allows the content offered by these tech giants to be better curated, and therefore more appealing
- Innovation: Tech giants are free from the 'legacy infrastructure' of traditional media and entertainment businesses, and have better speed to market on the latest viewing technology. Innovation and risk taking ability on content is also greater as even when viewers reject a show on, say, Netflix, they are more likely to switch to watching another show on the same platform. This is unlike traditional TV, where switching typically means to another channel
- Capital: Many of these tech giants have large allied or 'orthogonal' businesses to their media interest, and have even offered their OTT portfolio as an ancillary incentive to subscribers of their main product. Their deep pockets and diversified businesses enable them to both out-bid competitors in the near term as well as take decisions with longer term payoffs

However, while cord cutting and OTT streaming continue to challenge traditional media and entertainment bastions globally, one of the biggest obstacles these tech companies are likely to face is customer inertia. The advantage though is that the younger, digital generation — whose lifetime value is amongst the highest — has embraced this shift and will be the ones to direct the future course for the global media and entertainment industry.

Conclusion

The emergence of digital media and the associated evolution of business models have started to play out in India as well, albeit India would possibly be slightly behind on the maturity curve when it comes to the shift in distribution of monies across traditional and digital media, as well as monetisation from digital businesses. However, what is likely to remain in sync with global trends is the emergence of ecosystems that will try and build presence across the entire value chain, whether it is building a relationship with the end consumer, controlling the pipe that delivers content, or taking charge of the content itself. Companies cannot afford to remain straightjacketed into traditional segments in India as well, and embrace business models that are likely to help them stay relevant in this age of ecosystems.

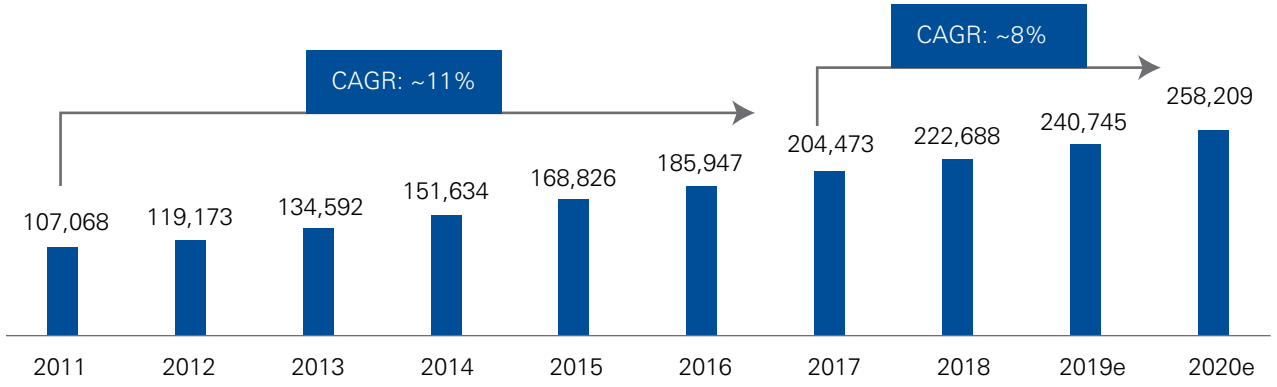
20. Tech Giants: Race for the platform: KPMG US, 2018

Case study - Chinese media and entertainment industry

Riding the digital wave

China emerged as the second largest economy in the world growing by 6.9 per cent[21] in 2017, complemented by a strong consumer base of approximately 1.4 billion people and rise in disposable income at approximately 7.5 per cent[22] year-on-year (YoY) in the first three quarters of 2017. The Chinese Media and Entertainment (M&E) industry has displayed impressive growth in the recent years with approximately 11 per cent Compound Annual Growth Rate from 2012 to 2017[23]. While a rise in disposable income and increased television penetration has catalysed the growth, the catapult for the M&E sector in China is the 'digital growth' story. China has over 772 million[24] internet users and a smartphone penetration of approximately 52 per cent[25] in 2017.

Media and Entertainment industry - Market size - China (USD bn)



Source: "Entertainment and media market in China 2017", Statista, 2018

The sector growth is attributed to the following key drivers

Strong economy and rise in disposable income

China transitioned from a predominantly lower middle class economy in 2005 to a current day upper middle class and affluent society[26]. The steady rise in disposable income resulted in a shift from mass market to premium content consumption

Digital infrastructure growth

China is working on the convergence of networks, devices and content for continuous mobile streaming and engagement. It started the campaign to provide affordable and faster internet in 2015 which increased the average download speed of fixed line broadband to 16.4 Mbits/s and internet speed of 4G network to 15.4Mbits/s by 2017[27]

Evolving revenue streams

There is a shift in the business model to integrate ancillary revenue streams such as advertising and overseas exports. Advertising revenue in China is expected to increase from approximately USD590 million at present to approximately USD940 million by 2021 outpacing the wired internet advertising by 2019[28]. In 2016, the Chinese film industry exports totaled to USD600 million[29]

21. "China's economy grows by 6.9% in 2017", BBC News, January, 2018, accessed on 14 May, 2018
22. China Economic Update, World Bank Report, December 2017, accessed on 17 May, 2018
23. The 41st "Statistical Report on the Development of China's Internet Network", CNNIC China, January, 2018, accessed on 18 May, 2018
24. "Top Markets Report Media and Entertainment", International Trade Administration, Department of Commerce, United States of America, October 2016, accessed on 18 May 2018
25. "Global Mobile Market Report", Newzoo, 2017, accessed on 18 May, 2018
26. "China Consumption Trends – China Digital Banking Report", BBVA Research, 2017, accessed on 22 May, 2018
27. "Top 10 cities with fastest download speed in Chinese mainland", China Daily, Nov 2016, accessed on 23 May, 2018
28. "Media, entertainment industry growth to exceed global average", US China Daily, June 2017, accessed on 24 May, 2018
29. The Economic Contribution of Film and Television in China in 2016, Oxford Economics, Dec 2017, accessed on 27 May, 2018

Digitalisation of distribution

China is ramping up its telecommunication infrastructure, including the 'tri-network convergence,' which is integration of telecom, broadcast and internet on a single platform, which will deliver not only voice but data and video content as well

Rise of tier I and II cities and changing lifestyle

The rise in the number of tier 1 and 2 cities, and the associated increase in per capita content consumption, coupled with the rise in hours spent in commute, rise in smartphone and internet penetration, availability of Wi-Fi zones and the demand for convenience, have integrated on-the-move media consumption with everyday life.

The Chinese film market — competing at a global stage

China overtook USA to emerge as the world's biggest box office market in the first quarter of 2018, with the box office collections of USD3.2 billion as compared to USD2.85 billion for USA during the same period.[30] The industry grew at the rate of 19 per cent annually between 2013 and 2018.[31]

The Chinese film industry produced a total of 944 films in 2016, of which 772 are commercial and 172 were educational films and documentary titles[32]. A notable development is the rise in the contribution of domestic films to the overall industry revenue. Domestic films accounted for 82 per cent of film releases in 2016 and 58 per cent of the total box office revenue. Chinese cinema clocked a box office attendance of 1.4 billion in 2016[33].

On the digital front, the ratio of internet users paying for video content has increased 10 times from 2012-16 to reach 13.2 per cent and is expected to increase to 40 per cent in 2022[34]. Competitive monthly fees of approximately USD3 across all major Chinese video platforms has been instrumental in initiating the move from peer-to-peer sharing online movie platforms and pirated DVDs to digital viewing.[35]

The key growth drivers for the Chinese film industry include:

- As part of China's twelfth Five-Year Plan (2011–2015), various government policies were aimed at moving the Chinese economy from export- and investment driven growth to a more consumption-led growth which has boosted the film industry growth[36]
- Regulatory cap on foreign films being shown in China is limited at 34 films per year.[37] This protects the domestic film industry, and has contributed to rise in domestic film production
- Fresh injections of capital from non-traditional investors led by Baidu, Alibaba and Tencent is integrating the conventional film industry with the digital value chain.

Infrastructure growth around movie screens
In terms of number of screens, it is expected that by 2021, China is expected to lead the world by having approximately 80,000 screens followed by the USA which is expected to have approximately 43,000 screens. It is estimated that China will also lead in terms of number of IMAX 3D screens which will grow from approximately 300 3D screens in 2016 to approximately 575 3D screens by 2021.[38]

The rapidly growing industry is marked by the following emerging trends:

Collaborative models for film production

Given the protectionism policies, foreign films use either of the following business models for foreign film productions:

- Joint production (collaboration): It is considered as a domestic film, and is not subject to quota. These films are 51 per cent Chinese-owned
- Assisted production (entrusted): In this agreement, foreign party puts 100 per cent of the capital. The Chinese counterpart produce the film and it is counted as a foreign film under the import quota.

In 2016, 8 of the top 10 domestic films were co-productions[39]. It results in a beneficial situation for China and its foreign counterparts because co-produced films are considered as 'made in China', and get the same treatment as domestic films.

30. "How China is all set to overthrow North America as the world's biggest movie-market", First Post, April 2018, accessed on 27 May 2018
31. Cinemas - China Market Research Report, IBISWorld, March 2018, accessed on 28 May, 2018
32. "The economic contribution of film and television in China in 2016", OXFORD Economics", December 2017, accessed on 28 May, 2018
33. "The economic contribution of film and television in China in 2016, OXFORD Economics", December 2017, accessed on 28 May 2018
34. "China's consumers are paying to watch movies online, but foreign streaming giants are missing out", South China Morning Post, March 2018, accessed on 28 May 2018
35. "CNN Tech - China's big streaming shift: Paying instead of pirating", CNN Tech, January 2018, accessed on 28 May 2018
36. China Outlook 2016, KPMG China report, 2016, accessed on 28 May, 2018
37. "China retains grip on foreign film quota", BBC News, February, 2014, accessed on 28 May 2018
38. "Media, entertainment industry growth to exceed global average", China Daily, June 2017
39. Report: A snapshot of China's creative industries, BOP Consulting for Canada Govt. , 2017, accessed on 28 May 2018

These films are distributed using either the revenue-sharing approach wherein Hollywood studios receive a percentage of box office collection along with bearing all marketing costs; or a flat-fee based model where Chinese distributors buy the rights to screen the movie in China for a fixed amount/fee and filmmakers do not receive any proportion of box office collections.

Improved efficiencies using big data analytics

Internet technologies and 'big data' are being employed on a large scale in the film industry to improve distribution efficiency and data-driven marketing to plan trailer launch and promotions.

Entry of leading non-media players in the film industry

With the intent to integrate with the growing industry, giants like Huayi Brothers, Enlight Media are entering the film industry. For example, Alibaba acquired 60 per cent stake in China Vision for USD805.5 million[40]

Emergence of additional revenue streams

Players are modifying the business model to incorporate additional revenue streams such as video-on-demand, China cinema and TV networks alliances, and brand licensing arrangements.

Standardisation in production and distribution

The industry is standardising its production and distribution operations through 'tri-partite agreements' between the production house, the investors and an independent 'completion guarantee' company that ensures that the production and distribution of the films are on time and within the allocated budget.

40. China's Digital Game Sector, May 2018, US - China Economic and Security Review Commission, accessed on 4 June 2018

China's gaming industry — Outpacing the global growth

The Chinese gaming market stood at USD32.5 billion as on 2017, overtaking the traditional market leader North America with market size of USD25 billion[41]. China's current global market share in gaming is over 26 per cent. China-developed online games generated overseas revenue of USD7.2 billion[42] in 2016, accounting for approximately 41.6 per cent of the total gaming revenue, and contributing to a double-digit growth rate[21]. This growth was led by players such as Youzu, ELEX and Perfect World.

The Chinese market growth rate has consistently been beating the global average to establish itself as the leading market in gaming:

Year	Revenue (million USD)	China's growth rate	Global growth rate	China's market share
2012	10,650			15 per cent
2013	14,410	35 per cent	5 per cent	19 per cent
2014	17,997	25 per cent	11 per cent	21 per cent
2015	23,087	28 per cent	10 per cent	25 per cent
2016	26,943	16 per cent	13 per cent	27 per cent

Source: iResearch China's Online Games Industry Report, 2017

The gaming industry can broadly be categorised by the platform used into the following:

PC games

Dominated the traditional Chinese gaming industry, and is currently witnessing a slowdown as user preferences are getting skewed towards mobile-based gaming. Major players like Tencent and NetEase are launching mobile versions of their PC games to combat this slowdown

Mobile/App-based gaming

The growth in internet and smartphone penetration, the rise in hours spent in everyday commute and widespread access to free Wi-Fi coverage have catalysed the growth of this segment. Tencent, Baidu, 360, Xiaomi and UC are the leaders in the category

Browser-based games

This category has been witnessing a decline due to technical limitations stemming from the need for a Flash framework. Several producers have moved to mobile gaming or are exploring the overseas market for growth

Console-based gaming

The ban on console market in China was lifted in July 2015, but console game manufacturers now face stiff competition in the price-sensitive market from pocket friendly alternatives such as Over-The-Top service providers and smart TVs which provide embedded gaming features. Major players in this segment include Microsoft (Xbox), Sony (PlayStation) and Nintendo

41. Global Report: US and China Take Half of USD 113Bn Games Market in 2018, Newzoo, May 2015, accessed on 5 June 2018

42. IDC Announces 10 Predictions for China's Gaming Industry in 2017, IDC, 23 January 2017, accessed on 6 June 2018

The Chinese gaming market operates on two models

However, the consumer base is highly price sensitive, with as much as 54 per cent of the gamers preferring a free game model in 2014 with most players sticking to the free-to-use features of the game[43].

The Chinese gaming market is dominated by regional players. Foreign players have not been able to make a mark in this segment. According to App-Annie, 9 of the 10 most popular mobile phone games in China during 2017 were developed by local companies[44]. The Chinese game developers have employed a China-customised route to successfully initiate the shift in consumption pattern from free-to-play to a pay-to-play model through:

High degree of localisation

In order to succeed in the market, the content should be localised and must be marketed on domestic social networks like Weibo and WeChat instead of global social media platforms such as Facebook, Twitter and YouTube.

Customised cloud storage solutions

Local players rely on collaboration with local partner storage solutions. Foreign cloud solutions are unstable for usage in China and lead to disconnections and delays that dampen the gaming experience.

Increased focus on digital payments

Integration with local payment options such as Alipay is critical for game monetisation as 75 per cent of the app payments in China are done through direct carrier billing.

Integration with local social media

Players such as Tencent are cross leveraging their social media platforms to lure users into multi-player games.

Government policies to support local gaming industry

Protectionism policies are designed to promote local developers. USA and European companies find it difficult to promote their games in China where Google Play Store is blocked. The likes of Tencent and NetEase use alternate Chinese app stores to promote their content. Overseas developers are also prohibited from selling games through local app stores unless they collaborate with local companies.

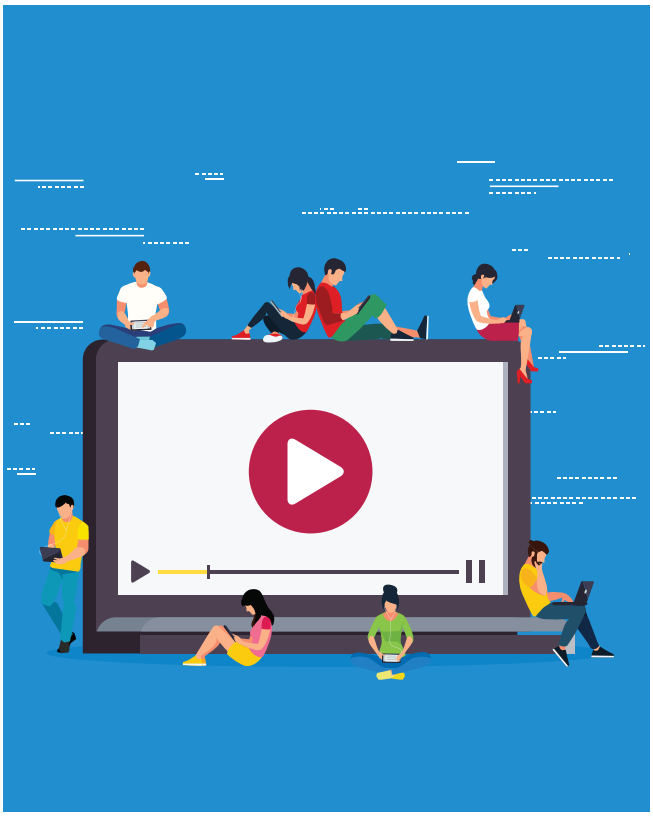
Thus, the key to success in the industry is to focus on online mobile-based games with localisation of content and partnerships with local payment and telecom service providers.

43. Mobile Gaming Cross-Market Analysis, Q1 2014, INMOBI Report, accessed on 6 June 2018

44. Local groups Tencent and Netease dominate gaming market in China, Financial Times, 19 January 2018, accessed on 7 June 2018

Digital media market in China — The preferred mode of entertainment for millennials

China boasted of 772 million internet users by the end of 2017 with huge 751 million accessing it through mobile phones as per China Internet Network Information Centre (CINIC)[45]. The digital media market can broadly be segmented into video and non-video segments.



Video-based digital media — Emerging prominence of the OTT platforms

In terms of size, around 579 million internet users watched online videos as of December 2017[46]. While social media platforms like YouTube remain popular, OTT is steadily emerging as a preferred mode of viewing videos online, and it is estimated that more than 40 per cent of the video viewers in China will use an OTT service by 2019.[47]

Year	OTT viewers (millions)	Growth rate	Share of digital video viewers (per cent)	Broadband penetration (per cent)
2014	9.5	130 per cent	2.2 per cent	4.7 per cent
2015	22	133 per cent	4.4 per cent	10.3 per cent
2016	80	264 per cent	15.4 per cent	26.9 per cent
2017e	144	80 per cent	26.9 per cent	44.5 per cent
2018e	175.7	22 per cent	32 per cent	50.9 per cent
2019e	207.3	18 per cent	36.8 per cent	57 per cent
2020e	234.2	13 per cent	40.7 per cent	61.9 per cent

Source: "China online Video: Evolving content strategies driving profitability", JPMorgan Chase and Co., 11 May 2017

45. Five Surprising Facts About China's Internet Users", eMarketer, 26 Feb, 2018, accessed on 8 June 2018
46. China: Online video users, Statista, 2018, accessed on 8 June, 2018
47. "China's Subscription OTT Video Market Is Booming", eMarketer, 18 January 2018, accessed on 8 June 2018

While local players continue to make headway in the digital video segment, government policies do not allow foreign OTT players to enter the market as platform operators. Restrictions also exist on the import of content. Chinese TV stations have various restrictions on import and broadcasting of foreign content which state that no more than 30 per cent of the content can be foreign.

China continues to be the leading Asian market for subscription video on demand (SVOD) in terms of subscribers with 40.5 million viewers (50 per cent of the OTT viewers) as of 2016. Market estimates indicate there would be 74 million SVOD subscribers in China by 2021[48].

The digital market in China is currently dominated by platforms operated by three leading companies commonly referred to as 'BAT'. Baidu's iQiyi, Alibaba's YouKu Tudou and Tencent's Tencent Video are ruling the market, with iQiyi being the biggest of the three.

iQiyi: Founded in 2010, iQiyi is popularly known as the Netflix of China. With a market share of 28 per cent and revenue to the tune of USD2.67 billion in 2017, iQiyi is the second biggest OTT platform in China in terms of user base. It had 126 million active daily mobile users and 50.8 million paid users as of 2017. iQiyi entered into a licensing deal with Netflix to bring its original content to their platform.[49]

Tencent Video: Launched in 2011, Tencent Video is a leading video platform with 137 million active daily mobile users and 56 million paid subscribers at the end of 2017. In addition to allowing its users to upload videos, Tencent develops original content, and has also secured partnership with foreign content providers like BBC Worldwide, ITV Studios, Sony International and HBO. Tencent leverages its social media platform WeChat to promote its video platform.[50]

YouKu Tudou: The platform came into existence with the merger between two big online video companies of China in 2012. YouKu.com acquired Tudou for USD1 billion, with the merged entity commanding one-third market share.[51] It was later taken over by Alibaba in 2016 for USD4 billion[52]. It had 325 million monthly active users with a share of 29 per cent of the users in the 25–30 age-group in the year 2017[53]. It has entered into partnership with NBC Universal and Sony Pictures to get its customers access to Hollywood productions.

Given the price-sensitivity of the market, the players use a mix of two business models to balance the usage volume and the monetisation aspects:

- Advertisement-based OTT services: Targeted at the masses, this model allows free access to the platform with advertisements serving as the source of revenue for the company
- Premium OTT services: This model targets the premium segment and charges a fee for providing access to the OTT services. The user can view programmes without advertisement disruptions.

Third party market research indicates that Chinese users willing to watch commercials if it means a lower service fee and lower expenditure but also majority of the Chinese customers share their subscription account.

Non-video based digital media — Traditional platforms are adding digital offerings to their portfolio

Traditional non-video markets such as newspaper, book publishing, magazine publishing and music and radio are also gearing up to ride the digital wave. Leading newspaper publishing houses are increasingly initiating online platforms for digital access. Examples include ChinaDaily which is complementing the offline circulation with a dedicated website with daily hits of 12 million on ChinaDaily.[54]

The Chinese book publishing market is also expanding its digital footprint with the surge in internet accessibility and popularity of mobile devices such as Kindle.

The Chinese magazine market has seen a shift from offline to online medium, with large publishers launching standalone apps which are free to download and advertisement-supported. These media houses use their Weibo and WeChat accounts to popularise their online offerings and drive subscriptions.

Major players operating in the Chinese music industry like Alibaba, CMC, Tencent (Green Diamond), NetEase, Baidu offer their content digitally with as much as 96 per cent of the music revenue coming from digital releases[55].

48. "China will drive SVOD growth in Asia, Netflix or no Netflix, Disruptive-Asia, 19 October 2016", accessed on 11 June 2018
49. "iQIYI And Chill: The 'Netflix Of China' Can Be Your Next Multibagger" Seeking Alpha, April 2018, accessed on 11 June 2018
50. "WeChat hits one billion monthly users", BBC News, 6 March 2018, accessed on 11 June 2018
51. "Youku Tudou Strengthens Premium Video Platform with Sony Pictures Television Partnership", TechInAsia, November 2012, accessed on 8 June 2018
52. "Alibaba Completes USD 4 Billion Takeover of Youku Tudou", Variety, April 2016, accessed on August 13, 2018
53. "Tencent Video, IQiyi in race to lead China's online Video Market, SCMP Advertising and Marketing, October 2 2017, accessed on 13 August, 2018
54. Company information about Chinadaily, Chinadaily Website, accessed on 8 June 2018
55. "China Music Industry to Break through Internationally", CKGSB, 13 February 2018, accessed on 14 June, 2018

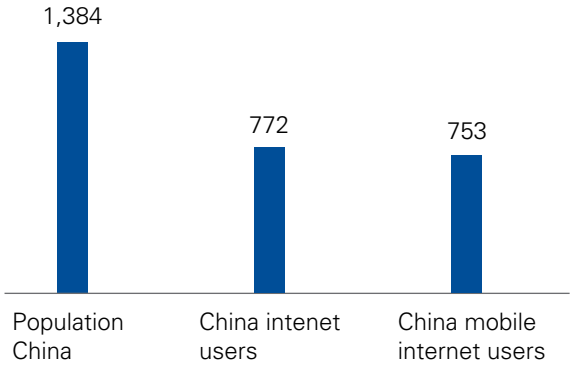
Key takeaways for India from China

India internet user growth mirroring China's growth

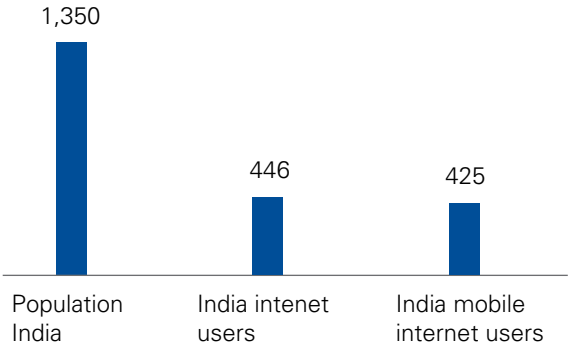
China's internet population reached 772 million by the end of 2017, while India's is expected to cross approximately 700 million by 2020, from the 456 million at the end of 2017. The internet penetration in India currently stands at approximately 37 per cent compared to about 56 per cent in China.

India is currently second only to China in terms of internet users.[56] Both India and China have a young demographic consumer base, and both the countries are exploring new and exciting ways to provide for consumers' evolving needs around digital media.

China's population vs internet users (2017)



India's population vs internet users (Dec 2017)



Source: "Entertainment and media market in China 2017", Statista, 2018

Increase focus on subscription based models

In last three to five years, the Chinese digital media industry has experienced a shift from traditional ad-based revenue models to a mix of subscription- and ad-based models with more than 13 per cent users paying for video content in 2016.[57] Compared to traditional advertisements, the ads on digital video are growing at a faster rate, and this is driven by more relevant content provided by digital players. Chinese media players are making rapid strides to leverage digital opportunities through partnerships. Some of the prominent players such as iQiyi, which is an on-demand video streaming service provided by Baidu, recently tied up with Netflix to license some of the premium content.

India is witnessing a similar trend in shift in revenue models as Indian home grown media companies like Hotstar, Eros Now, ALT Balaji are primarily focusing on the subscription-based model though their own platforms or partnerships with leading telecom players. India can leverage a mix of subscription-and ad-based models and local social media platforms for promotion of the OTT platforms.

Support for local film development

China is also promoting its local movie industry by rapid infrastructure growth. The growth of Chinese movie industry is also supported by collaborative business models with foreign production houses. In addition, emerging uses of technologies such as big data analytics in estimating box office revenue and ticketing sales is leading to improved efficiency and decision-making.

While India may not follow China's restrictive policy for limiting release of foreign films, it could work towards developing favourable policies to support growth of domestic and regional cinema. India has around the one-fifth the number of screens as compared to China though it produces the highest number of films in the world at about 2,000 compared to approximately 772 films produced annually in China[58].

56. China Internet Network Information Center; Internet & Mobile Association of India; World Bank; Statista; Internet Live Stats , accessed on 18 June 2018
57. "China's consumers are paying to watch movies online, but foreign streaming giants are missing out", South China morning post, TECH, 20 March 2018, accessed on July 5, 2018
58. INOX investor presentation, December 2017, accessed on 5 July 2018

Focus on AR/VR industry

The VR games industry in China is presently not well established, and is fragmented across software and hardware industry, however it is expected to make rapid progress owing to the innovations which are expected to bring down the hardware prices.

India can learn from China in terms of embracing affordable VR technology. Though this might be targeted towards a premium Indian audience, but it is expected that innovation towards lower price options are expected to come in the market which might create additional avenues for the animation and VFX industry, and will eventually spike interest of mid-premium category consumers.[59]

Focus on domestic Intellectual Property (IPs)

The gaming sector in China is focusing on developing in-house games which will be promoted via emerging digital distribution channels and social media apps.

India can learn from the success of the Chinese gaming industry, and focus more on creating internal IP which is likely to lead to increased domestic consumption as well as drive exports. A few Indian companies have already started creating local games centered on Indian characters which may have the potential to become a key contributor to the overall online gaming industry.

Tapping into the overseas gaming market

Chinese gaming companies have not only focused their attention towards its local consumer base but have developed games for international audience as well. As an example, companies like Youzu and ELEX have developed games for Korea, Japan and other Southeast Asian markets as well as for developed markets of the USA and Europe. Continuing the similar trend, more Chinese companies are expected to work with international gaming companies.

India can also look to focus on international markets along with developing its in-house gaming industry. Many of the South Asian countries have resonance with Indian culture and Indian characters[60].

Pan-entertainment IP continues to grow in importance

Pan-entertainment is a scenario where companies look to create an ecosystem around successful TV shows or movies by tying up with developers of books, comics, theme-based games and so on that have successful characters. This trend has seen some success over the past few years, and is expected to continue in the future as well. As an example, Tencent's division of Chinese literature, which had an IPO recently, worked on creating popular games based on famous literature.

Though the Indian gaming industry has not seen as much progress as China in terms of pan-entertainment games, India can learn from China's success and exploit the digital gaming market. While traditionally Indian companies have leveraged popular Indian TV characters such as Chhota Bheem and Motu Patlu, more Indian companies can follow a similar pattern.

Conclusion

India is expected to follow China's growth path in the digital media industry due to the many similarities across demographics, internet growth, mobile penetration, proliferation of OTT services, similar revenue models, adoption of similar emerging technologies and so on.

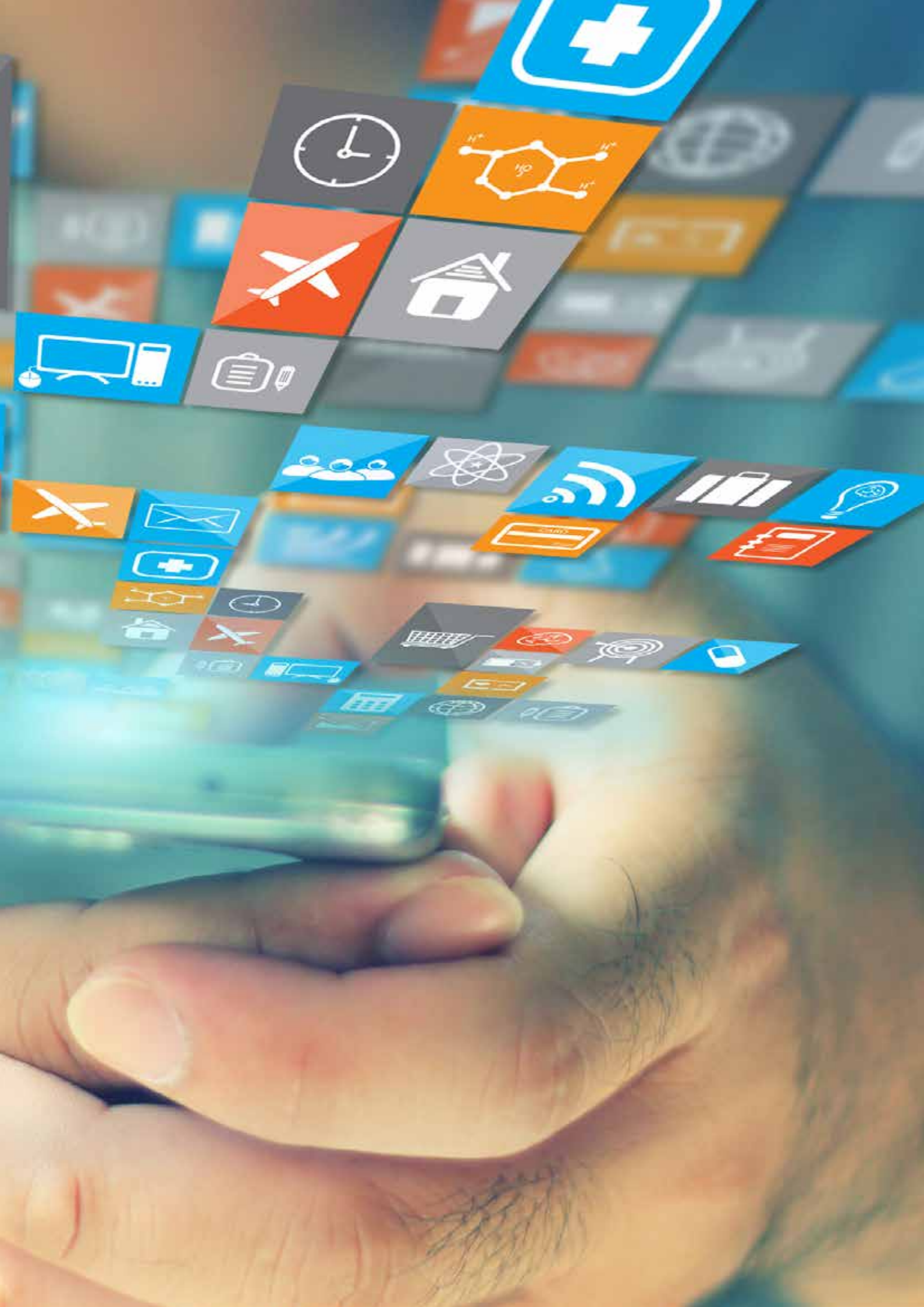
Indian media companies can potentially learn from China and focus on shifting towards subscription-based models, especially around digital media which lends itself to better monetisation opportunities over the long run. India can also learn from China in terms of supporting local and regional films by creating favorable policies. Another focus area for India should be developing AR/VR technology which may have wider implications in animation/VFX and gaming segments. India should also focus on creating domestic IP in gaming, and on promoting it not only for domestic consumption but also for international markets.

Further, the government and policy support around China's M&E industry has ensured that the local character development and growth. While India may not choose to go down the protectionism path as China, the focus on local IPs across the media industry segments is an important aspect of growth that India could look to emulate in the years to come.

59. "16 predictions for the 2018 games industry in china and southeast Asia", Niko partners, February 2018, accessed on 5 July 2018

60. "16 predictions for the 2018 games industry in china and southeast Asia", Niko partners, February 2018, accessed on 5 July 2018

Themes



Telecom, Media and Technology convergence

Building ecosystems

The boundaries defining the Telecom, Media and Technology (TMT) sector are increasingly blurring across the globe, with technology being the catalyst for this disruption, and driving convergence of business models. Traditional media companies are realising the importance of remaining relevant in a digital world, and having deeper insights into the consumption habits of consumers, in order to compete against technology companies which are also using the power of media and content to deepen their engagements with users.

As this convergence starts to play out across geographies, India is not likely to remain far behind. Moves by both telecom and media companies in India have put the wheels of convergence in motion, and the future is likely to revolve around a battle of the ecosystems, rather than specialist organisations.

Global TMT convergence

Traditional telecom voice revenue growth in established economies globally is seeing a considerable slowdown. North America and Europe are seeing subscriber growth tapering off, and at the same time, seeing an increase in smartphone penetration[1].

With 4G and 5G services forecasted to account for 67 per cent of the nine billion SIM connections globally by 2025[2], there is no escaping the fact that high speed data services are leading a seismic shift in media consumption habits. This is an opportunity that telcos and technology companies across the world are cognisant of, and convergence is the primary way these organisations are trying to capture incremental value from burgeoning digital subscribers globally.

The AT&T–Time Warner Merger

A case in point is the USD85.4 billion merger between AT&T and Time Warner[3], which is intended to create a large organisation, with both content distribution and creation as core strengths of the merged entity.

Key benefits of the AT&T–Time Warner merger[4]

Sharper targeted advertising
With internet companies having more granular information on the end users and their consumption habits, as compared to Time Warner, the integration of AT&T's distribution is likely to help the merged entity sell better to consumers with more effective, targeted advertising. According to a Credit Suisse report[5], targeted TV represents a USD30 billion revenue opportunity by 2030, and is envisaged to be a key benefit of the merger.

Compelling content for AT&T to compete against tech platforms
Providing compelling content to users in order to increase customer stickiness on the AT&T ecosystem, in turn helping compete with technology companies like Netflix and Facebook, which are themselves becoming holistic media destinations.

Better content curation
Curate content for the mobile environment with Time Warner's expertise, leading to increased data consumption for AT&T.

1. GSMA Intelligence
2. The Mobile Economy, 2018, GSMA
3. AT&T wins approval for $85.4 billion Time Warner deal, NYTimes, June 2018, accessed on July 6, 2018
4. KPMG in India analysis, 2018 based on secondary research
5. Time Warner CEO says merger needed to compete with internet titans, Reuters, April 2018, accessed on May 30 2018

Tech companies — At the forefront of media convergence

Technology companies like Facebook, Google, and, of late, Amazon have also seen this convergence at play, with strategies around competing with traditional forms of content distribution.

Facebook's initiatives around media and content

Segment	Initiative
News	Facebook's instant articles feature allows publishers to host stories and content directly on the social network. With the print industry facing headwinds globally, social networks like Facebook have become an important source of news for a large number of digital and non-digital natives For example, as on August 2017, 67 per cent of Americans reported getting some of their news on social media. Approximately 55 per cent of Americans aged 50 or older got news from social media with the comparable number being 78 per cent for Americans aged less than 50[6].
Video - Key sports streaming rights	• Rights to stream 25 Major League Baseball (MLB) games in 2018, which will not be available on television or any other online network[7] • Deal with National Football League (NFL) for streaming highlights from regular season games, along with playoffs and the Super Bowl[8] • Streaming rights to the English Premium league in Thailand, Vietnam, Cambodia and Laos from 2019 to 2022[9].
Video - original content	• The platform launched 'Facebook Watch' in September 2017 for the U.S. geography, and has plans to invest USD1 billion in original content in the near future[10].

Amazon, through its Prime Video offering, has entered into a deal with to stream NFL Thursday Night football for a period of one year (2017 to 2018), which includes 11 games. Further, the streaming service has added the ATP (Association of Tennis Professionals) world tour for a period of five years starting November 2017[11]. On the non-sports video content front, Amazon Prime Video is envisaged to spend USD5 billion on original content in 2018, making it amongst the largest spenders on original scripted content globally[12].

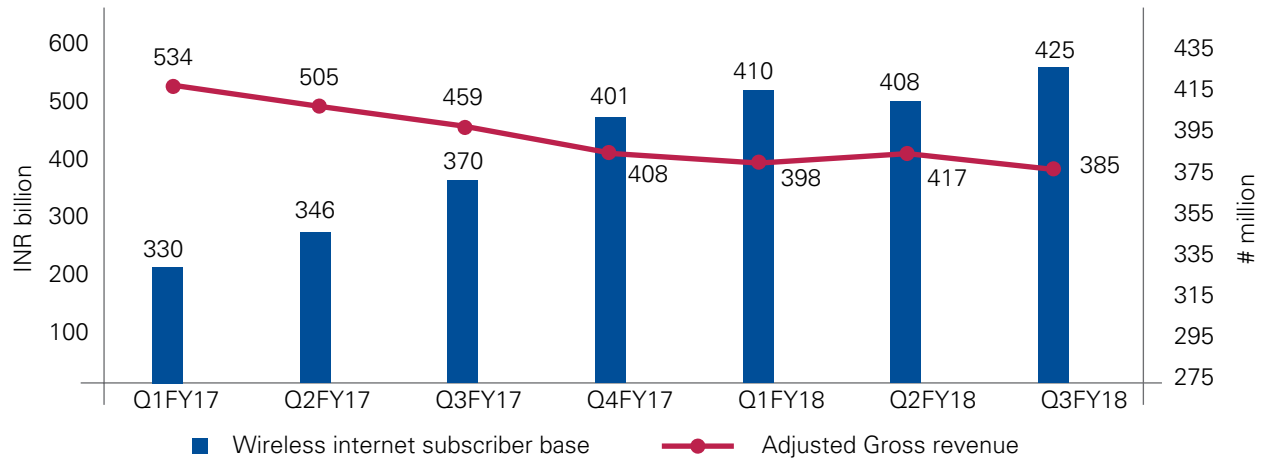
Further, Youtube has secured rights to stream matches of Major League Soccer (MLS) teams like Seattle Sounders and Los Angeles FC. This offering, as a part of Youtube TV's USD40 a month bouquet, is a serious competitor to traditional media and is directed towards users in the U.S. who are looking to cut the cord[13].

6. Pew Research Centre, News across Social Media platforms, September 2017, accessed on May 30,2018
7. Facebook signs exclusive deal to stream 25 MLB Games, Bloomberg, March 2018, accessed on June 30, 2018
8. Big Media, Silicon Valley Battle for Multibillion-Dollar Sports TV Rights, Variety, February 2018, accessed on June 30, 2018
9. Facebook to stream Premier League matches in Asia, CNET, July 2018, accessed on July 6, 2018
10. Facebook to invest USD 1 billion in original content, The Hindu, September 2017, accessed on May 30, 2018
11. Big Media, Silicon Valley Battle for Multibillion-Dollar Sports TV Rights, Variety, February 2018, accessed on June 30, 2018
12. Amazon expected to spend USD 5 billion on content this year, MediaPost, February 2018, accessed on June 30, 2018
13. Youtube TV nabs exclusive streaming rights to Seattle Sounders Games, Variety, February 2018; accessed on May 30, 2018

Telecom industry in India - Betting on data consumption for survival

The telecom industry in India has witnessed a significant disruption post the launch of services by Reliance Jio in September 2016. The aggressive tariffs and focus on bundling by operators has led to a steep decline in the revenue of the industry, with the Adjusted Gross Revenue (AGR) declining from INR534 billion in Q1FY17 to INR385 billion by Q3FY18, with the wireless internet subscriber base in the country showing rapid growth from 330 million to 425 million in the same period[14].

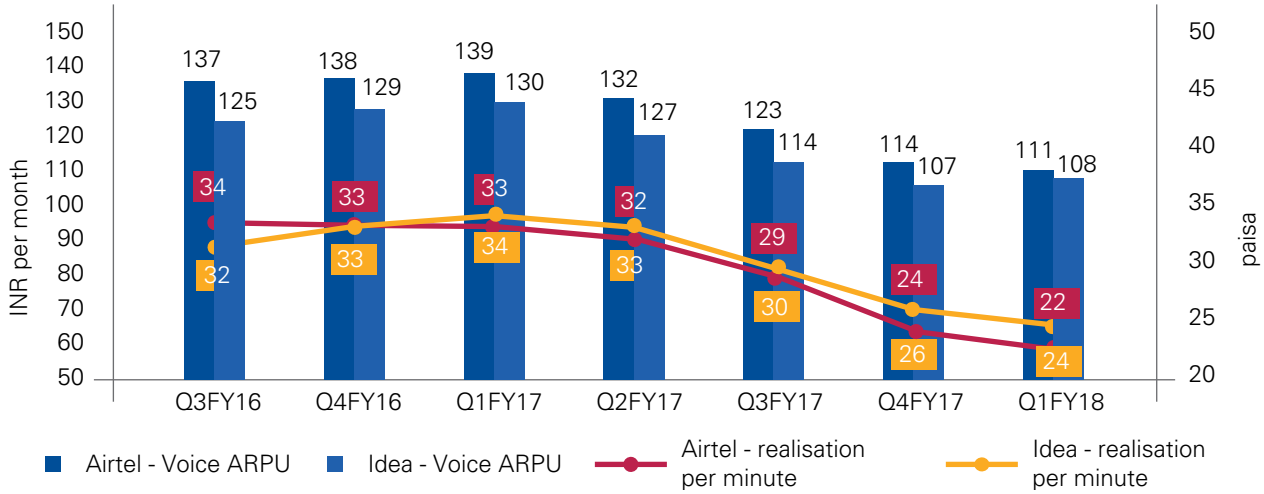
Telecom industry — Revenue and internet subscriber base



Source: Quarterly performance indicator reports, TRAI

Due to the increase in competitive intensity post the launch of Jio, average voice revenue per user (voice ARPU) for major operators like Airtel and Idea have been on the decline from Q3FY17 onwards. While the voice usage has increased across the industry, voice ARPUs for the industry declined by 15–20 per cent in the last year. In addition, voice realisations have suffered a decline of nearly 32–35 per cent in the same period as basic voice now stands commoditised[15].

Declining voice ARPUs post the launch of Jio

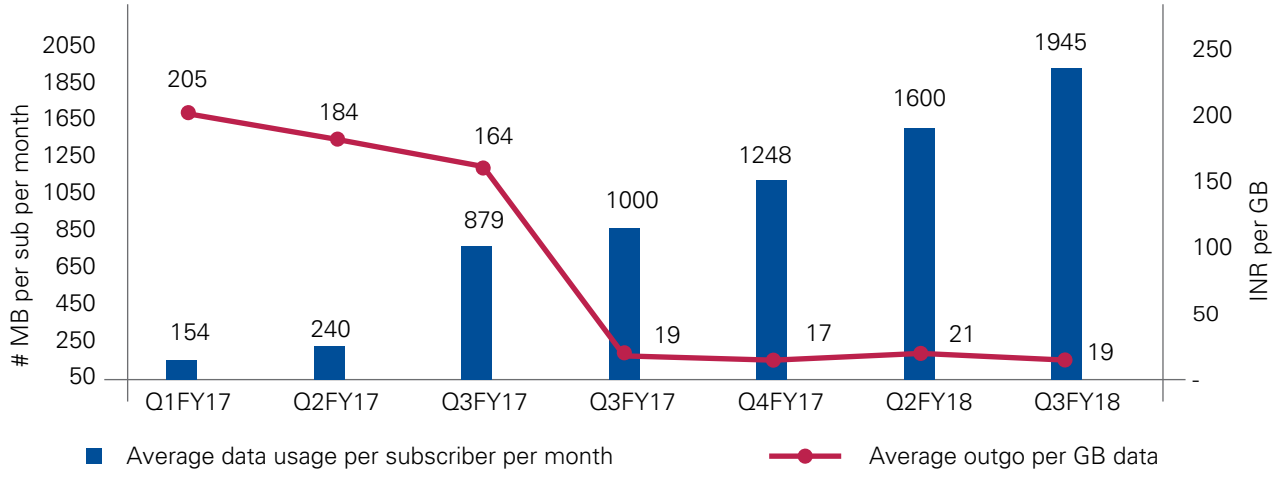


Source: Company reports, KPMG in India analysis, 2018 based on annual filings of telecom companies

14. Performance Indicator Reports, Telecom Regulatory Authority of India (TRAI)

15. KPMG in India analysis, 2018 based on secondary research on Annual Filings of listed telecom operators in India

Rapid increase in data consumption



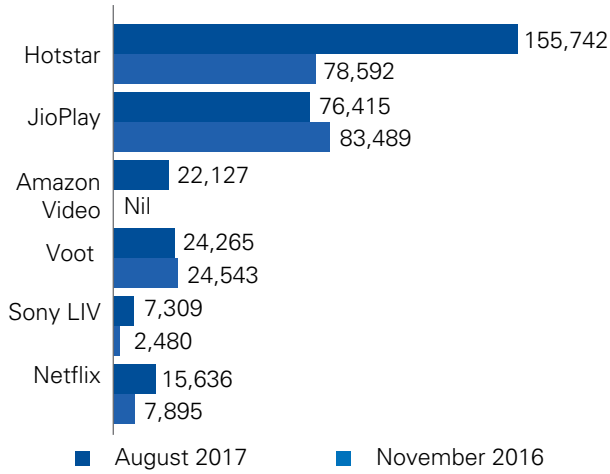
Source: Quarterly performance indicator reports, TRAI

While voice services have become commoditised, data consumption has emerged as the primary driver of potential revenue growth for telecom operators, with data bundles being the focus of major telecom operators since the launch of Reliance Jio. The steep reduction in data costs, from an average outgo of approximately INR 200/GB in Q1 FY'17 to approximately 20/GB in Q3 FY18, has resulted in a multi-fold increase in data consumption, with per subscriber usage touching approximately 2GB in Q3 FY'18[16].

With the increase in data consumption, the video watching user base in India is expected to increase from approximately 20 per cent of the wireless subscriber base in India in 2016 to approximately 40 per cent by 2020[17]. Also, videos are expected to contribute nearly 77 per cent of the mobile data traffic by 2022 compared to about 50 per cent in 2017 as the digital mode of media consumption gains higher scale[18]. The consumption of video content on various Over the Top (OTT) applications has increased significantly over the past 18–24 months.

Given the sharp decline in voice realisations and revenues, coupled with the rapid growth in data consumption, telecom operators are expected to rely heavily on voice and data bundling to further increase data consumption. While the adoption of data on wireless networks has seen good traction, wired broadband services could be the next frontier for telecom operators, in order to further boost data services on their networks. With sizeable fibre optic networks already in place, telecom operators are favorably placed to cash in on this underserved segment. Wired broadband coupled with the content that telcos are already focusing upon, holds a real potential for the traditional media distribution businesses to be disrupted. This upsurge in data consumption is likely to be critical to the long-term sustenance of their businesses which have already seen multi billion dollars of investments in high speed 4G networks.

Total time spent (in lakh minutes)



Source: App Annie, Respective company websites

16. Performance indicator reports, Telecom regulatory authority of India (TRAI)
17. KPMG in India analysis, 2018
18. Cisco VNI estimates

Telecom operators - Realising the importance of content

In order to support the consumption of mobile data on their pipes, telecom companies are increasingly realising the importance of having control on content as a key differentiator for their businesses. This control over the input to the data pipes is being achieved either through licensing partnerships with multiple content creators across the value chain to build a robust library of content, or through strategic investments or partnerships which gives telcos a say in the content creation process. Content acts as an important tool, both for potential customer acquisition and customer retention on the telcos' networks.

While operators like Airtel, Idea and Vodafone have looked to aggregate content across traditional television and video OTT apps, Reliance Jio is pursuing a two pronged strategy of both aggregating content and investing in original and exclusive content through alliances with media companies across the value chain.

Key content alliances of telecom players

	Jio	Airtel	Idea	Vodafone
Alt Balaji	✔	✔	✖	✔
Amazon Prime	✖	✔	✖	✔
Eros Now	✔	✔	✔	✔
Hooq	✖	✔	✔	✔
Hotstar	✔	✔	✖	✖
Netflix	✖	✖	✖	✔
Sony Liv	✔	✔	✖	✖
Voot	✔	✖	✖	✖
Zee5	✔	✔	✖	✖

Source: KPMG in India analysis, 2018

Reliance Jio — Creating a digital powerhouse

Jio's data boost for India's internet

India's internet user base, 95 per cent of which is wireless, reached 446 million by the end of 2017, thanks to the accelerated internet penetration caused by the launch of Reliance Jio's (Jio) disruptive 4G offerings in September 2016. The aggressive roll-out of 4G services by the new entrant has been the catalyst for broadband subscriber base increasing to 81 per cent of the overall internet base as on Q3FY18, up from 46 per cent as on Q1FY17[19]. The internet user base is expected to grow to more than 900 million users by FY22[20] as the adoption of low cost smartphones as well as VOLTE-enabled phones grows and telcos continue to extend their network coverage. Jio has announced its goal to cover 99 per cent[21] of the Indian population with its 4G network by the end of 2018, helped by more than 0.4 million base stations that Jio has deployed as on March 2018.[22]

Jio's launch not only widened the internet user base, but also resulted in increasing availability and affordability of high speed mobile broadband across the country by launching a fierce price war. Data prices fell by over 90 per cent and data consumption per user grew around eight times[23]. However, wireline internet penetration and speeds remain relatively lower (than developed markets). Existing Intenet Service Providers (ISPs) are upgrading their infrastructure, dropping tariffs as a pre-emptive response to the anticipated disruptive Fibre To The Home (FTTH) launch by Jio.

Digital ecosystem benefitting from Jio's data push

Jio's launch has benefited the digital ecosystem in three ways:

1. Incremental users
2. Increased usage per user
3. Increased monetisation due to increased usage

Rapid uptake of digital services across categories post launch of Reliance Jio in September 2016

	Sep 16	Dec 16	Mar 17	June 17	Sep 17	Dec 17	Mar 18	June 18	**Growth (x/times)**
Video players and editors									
App downloads (mn)	28	42	70	72	78	103	124	142	**5.07**
Data usage (MB)	85	187	1,182	1,034	1,346	1,309	1,313	1,629	**19.16**
Entertainment									
App downloads (mn)	57	86	194	184	219	213	249	289	**5.04**
Data usage (MB)	10	29	195	227	271	220	226	248	**24.80**
Music and audio									
App downloads (mn)	29	49	81	79	83	107	113	122	**4.25**
Data usage (MB)	5	7	23	28	36	36	39	44	**8.80**
Gaming									
App downloads (mn)	298	371	664	746	962	922	1,014	1,097	**3.68**
Data usage (MB)	17	18	35	36	43	40	46	54	**3.18**

Source: Data provided by App Annie, considering Google Play downloads only

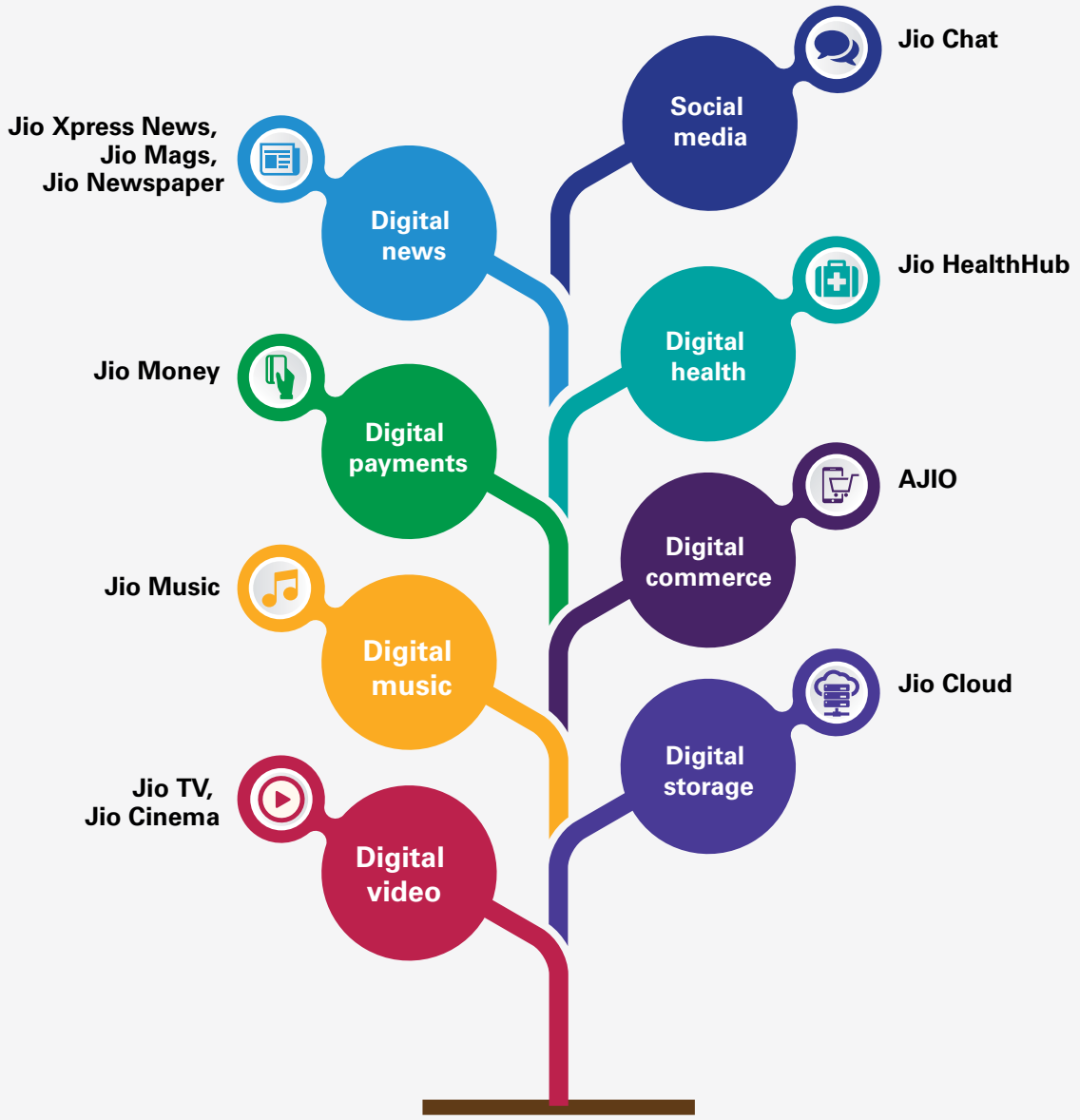
As is evident from the above table, entertainment and video apps, which largely use video as a medium to communicate with users, and require high internet speeds, have seen the highest growth number of downloads and data usage, post the launch of Jio. Music and audio has seen strong growth as well, while gaming has seen a 3.7 times increase from a relatively higher base, outlining the acceptance of digital gaming amongst Indian users.

19. Performance indicator reports, Telecom regulatory authority of India (TRAI)
20. CRISIL research
21. Jio 4G will cover 99 per cent of India's population, Firstpost, February 2018, accessed on June 12, 2018
22. Reliance Jio overtakes Bharti Airtel as India's largest telecom network, Ultra News, March 2018, accessed on June 12, 2018
23. Performance indicator reports, Telecom regulatory authority of India (TRAI)

Differentiating through digital services

To differentiate itself in a highly commoditised telecom market, which has little scope for innovation other than tariffing, Jio has adopted a strategy of being a smart pipe by offering attractive digital services to its users, most of which are walled gardened. By offering these digital services across a wide variety of content segments, Jio hopes to increase the value and attractiveness of its high speed network hence increasing its pricing power, user satisfaction and loyalty. Apart from these digital services, Jio also plans to make a foray into the FTTH market as well as provide smart home solutions to its large customer base.

Jio's digital services ecosystem



Video — The data guzzler, and Jio's presence across the video value chain

Of all digital services, data guzzling services like video and music streaming share a symbiotic relationship with telcos' high speed internet network. Given the rapid uptake of online video consumption, Jio has decided to place a strategic bet in offering bundled OTT and Internet Protocol TV (IPTV) services along with voice and data in the form of triple play bundles in today's undifferentiated telecom market.

In 2017, 15 per cent of the total video consumption in India took place on OTT platforms with the remaining 85 per cent share on cable and Direct to Home (DTH) platforms. With the rapid growth of OTT platforms and the soon-to-be-launched IPTV service by Jio, digital video's share of total video consumption is expected to increase manifold, implying that Jio can build a profitable business model around its OTT and IPTV offerings benefitting content owners as well. Hence, Jio has strengthened its value chain presence by vertically integrating within the video streaming space. This also allows Jio greater market share and the ability to extract more value for itself from the value chain which will benefit due to increased internet users and affordable high speed internet.

	Content production	Content aggregation	Content platform	Content distribution	Consumption device
Jio's presence	Eros International	-	Jio TV, Jio Cinema	Wireless internet, FTTX (proposed to be launched), pan India MSO license	Jio Phone Jio STB (proposed)
Jio's investments/ strategic partnerships/ collaborations	ALT Balaji, TV18, Eros Int., Siddharth Roy Kapur Films	All major broad-casters, digital content creators like Vikram Bhatt, Arre	-	-	-

Jio's content investments

Given the synergies between digital content companies and Jio, the latter has started investing in digital content companies which are beneficiaries of the digital services ecosystem being created by Jio. By strategically investing in such digital companies, Jio benefits by:

1. Facilitating availability of various internet services that make Jio's pipe more valuable because of the need for high speed internet and increased data consumption
2. Participating in the financial upside of digital services which are likely to benefit from the increasing consumption
3. Gaining higher market power in case of strategic digital services such as video and music streaming which are disrupted due to availability of high speed internet
4. Increased traction on the platform through content, which could further help Jio understand consumer behaviour better, and potentially help it monetise the content in the future through both AVOD and SVOD models.

Investee company	Nature of business	Investment rationale	Investment[24]
Network18 and TV18 Broadcast	Digital platforms and TV broadcasting	Gain preferential access to Network18's digital properties[25] and TV18 Broadcast's TV channels[26] which will benefit from Jio's internet wave	INR40 billion for 78 per cent in Network 18 and 9 per cent in TV18
Balaji Telefilms	Content production house and OTT platform	Partner with Balaji's digital content platform, as well as establishing a presence in the content production leg of the value chain	INR4.13 billion for 24.92 per cent stake
Eros International	Movie distribution and production finance	Gain access to Eros' industry leading movie database, as well as participate in the creative side of content production, which could be potentially exclusive for Jio subscribers	INR2.41 billion for 5 per cent stake and INR10 billion for jointly controlled content production and acquisition fund
Saavn	Music OTT	Merge Jio Music into Saavn, creating an industry leading music streaming OTT service	Partial stake acquired from existing shareholders of Saavn for INR6.7 billion, with an investment of INR6.5 billion into the merged platform

Jio is leveraging its most strategic consumer asset - the internet network - to deliver video services to its users. But Jio's internet ecosystem also enables content companies to deliver content either directly or via Jio's content services. All in all, it's time for a content tsunami in India following the data tsunami.

Contributed by Bhavesh Singhi

24. Based on secondary research
25. In.com, IBNLive.com, Moneycontrol.com, Firstpost.com, Cricketnext.in, Homeshop18.com, Bookmyshow.com
26. Colors, CNNIBN, CNBC TV18, IBN7, CNBC Awaaz

Technology changing the way media is consumed

Technology has brought all stakeholders in the media industry on a level playing field when it comes to distribution of video on digital platforms. Traditional B2B2C models of content creators and TV broadcasters have now been transformed into B2C models, with companies reaching consumers directly through mobile and web applications without relying on the traditional TV distribution network. This has resulted in an explosion of content choices available to the Indian consumer on digital platforms.

Further, technology companies like Google, Facebook and Amazon have become an integral part of the media ecosystem due to the ability to reach the customer directly. Of the total online video consumption in India, Youtube and Facebook account for a bulk at around 60–70 per cent[27] and with 225 million Monthly Active Users (MAUs), Youtube is the largest video platform in the country[28]. Facebook plans to introduce its 'Watch' video product in India in 2018, and the platform's video streaming plans are evident by the USD600 million bid it put in for the IPL digital rights.

Google has become a distributor of movies and music across the world on digital media through its Play Movies and TV and Play Music applications respectively. While Play Movies & TV allows one to purchase or rent movies, Play Music allows users to purchase songs/albums or monthly subscription services to stream music online.

At the other end, Amazon offers digital video and music streaming services to its 'Prime' subscriber base in India and globally, in addition to other privileges on its e-commerce platform. The company had committed investments of USD300 million in original video content for India in 2017[29] and is amongst the top SVOD platforms in India with approximately 13 million MAUs[30].

Convergence — What is in it for the stakeholders

Potential benefits for media content creators

Wide distribution

The convergence of traditional content-led organisations with telcos and technology-led platforms results in content reaching a wide audience base through an alternative distribution medium, which is increasingly becoming digital. With India having over 1.16 billion mobile and 446 million internet connections as on December 2017[31], the reach of telcos and technology companies is pivotal in today's age. This form of a B2B2C distribution helps content companies, especially mid- to small-sized, reach customers effectively without incurring significant Customer Acquisition Costs (CAC), in turn helping them achieve sustainable unit economics.

> We are adopting a collaborative approach in the OTT market, using 22 platforms, besides our own app and website to distribute content and build our brand. The same helps our content reach a large user base, also resulting in a limited monthly burn, and lets us deploy majority of our capital on content creation.
>
> **Ajay Chacko**
> Co-Founder, Arre

However, in an age where understanding consumer behaviour on digital platforms through machine/deep learning is key to targeted advertising and monetisation, content creators need to be aware of losing the grip on customer data through distribution on third party platforms. For example, even though IPL could be accessed through Jio TV or Airtel Digital TV, the viewing experience was enabled only through the Hotstar app.

27. Based on Industry discussions
28. Youtube monthly user base touches 225 mn in India, Yourstory, March 2018; accessed on June 2, 2018
29. Amazon Prime Vide, Netflix and Hotstar slug it out, Forbes, March 2017, accessed on June 2, 2018
30. Sony Liv doubles MAUs to 15.6 mn in Feb, App Annie report, Indianteleivsion.com; March 2018, accessed on June 2, 2018
31. Telecom regulatory authority of India

Avenues for monetisation
Monetisation by content creators has traditionally been advertising-led in India, both in the case of broadcasters and OTT players. Convergence allows an additional outlet for monetisation, especially for syndication/subscription-based revenues. For example, the subscription revenue for top broadcasters in India from distribution of their content on telcos stands at approximately 2–4 per cent of the overall broadcasting revenue currently[32], and is expected to increase as consumption picks up pace.

Potential benefits for telecom companies and tech platforms

Increasing content consumption leading to better monetisation
By 2021, 82 per cent of all IP traffic is expected to be video[33], and telecom companies and tech platforms are increasingly cognisant of the need to provide superior video delivery experiences on their networks and applications. The resultant increasing data traffic, at scale, is likely to be a key component of monetisation and profitability for such entities, especially in the light of falling voice revenue.

Content as a differentiator
Telecom companies and tech platforms like Facebook, Google, Youtube need a differentiator in order to ensure stickiness of customers on their platforms, as well as long-term/repeat usage. The quality and depth of content provides the same, with attractive quad play bundles that can help lock in customer relationships. For example, Jio's content collaborations with a wide range of content creators, as well as efforts by Facebook to acquire Indian Premier League's (IPL) digital rights show the importance of content.

Backward integration with media companies and importance of original content
In India, since TRAI regulations do not allow broadcasters to discriminate between distribution platforms, backward integration with content creators helps them dip into a pool of original and exclusive content, which could be essential for them to compete in the market. For example, Reliance Jio's deals with Eros and ALT Balaji on original content could result in a competitive advantage for the telco in the years to come.

The common advantage

Customer insights to drive targeted advertising

Convergence leads to content creators, telcos and tech platforms forge a direct association with the consumer through apps, rather than traditional forms of distribution. Deeper insights into consumer behaviour and accurate measurability, thus gained through the time spent on these apps can be effectively used for sharper and targeted advertising, which is likely to add more value to advertisers and be relevant to consumers.

Convergence — Leading to an evolution of business models

Just as traditional media consumption patterns are likely to evolve with the TMT convergence, traditional business models could also see a change. With newer channels of distribution, targeted content and a deeper understanding of the consumer, traditional ways of making money from these businesses may not remain effective anymore.

Converging business models in the non-video segment

The traditional non-video segments like print are likely to be amongst the first to see a wave of disruption caused by convergence, both in terms of consumption and how businesses are run.

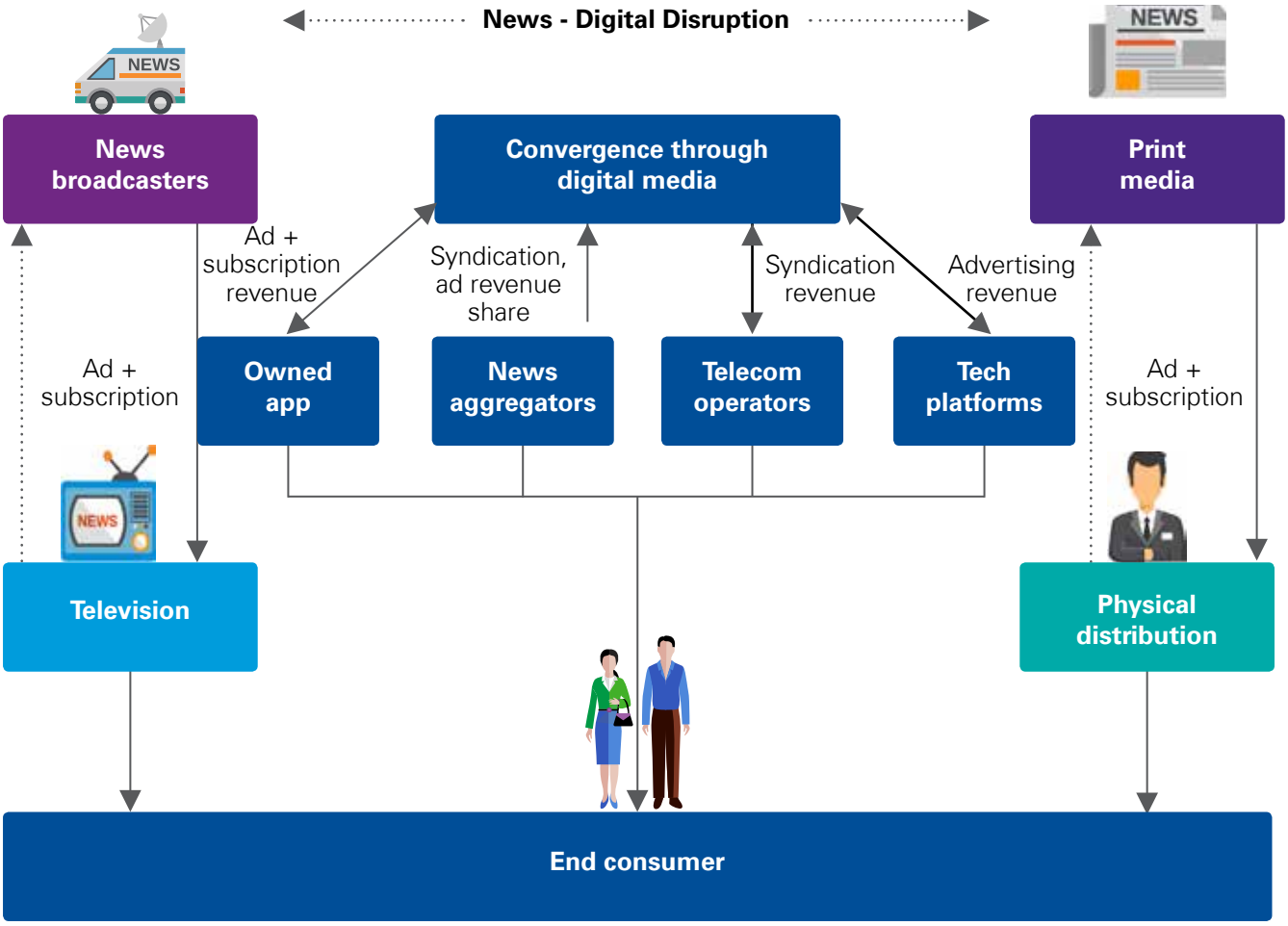
Taking an example of the news segment, in a converged world, news is not restricted to distribution through television or newspapers — as was traditionally the case. Convergence has ensured that news is now consumed across a variety of mediums, ranging from traditional to digital media like social networks, news aggregators and owned app platforms. Thus, a new-age news organisation would need to be conversant with both broadcast and print, as well as digital business models.

This convergence of business models also brings in additional revenue monetisation opportunities, as channels to reach the consumer expand. For example, news broadcasters and print players could look at garnering additional syndication revenue by disseminating their content on digital news aggregation platforms.

Therefore, whether it is traditional radio companies looking to stream digital music or print companies looking to establish a well-rounded digital presence across own applications, aggregator platforms and technology platforms like Facebook, convergence is all about innovating across business models to monetise changing consumer preferences in an optimal manner.

32. Based on industry discussions

33. Cisco VNI forecasts



Converging business models in the video segment

With convergence ensuring availability and consumption of video content across a variety of devices at any given point in time, organisations are looking to effectively monetise it through innovation in business models.

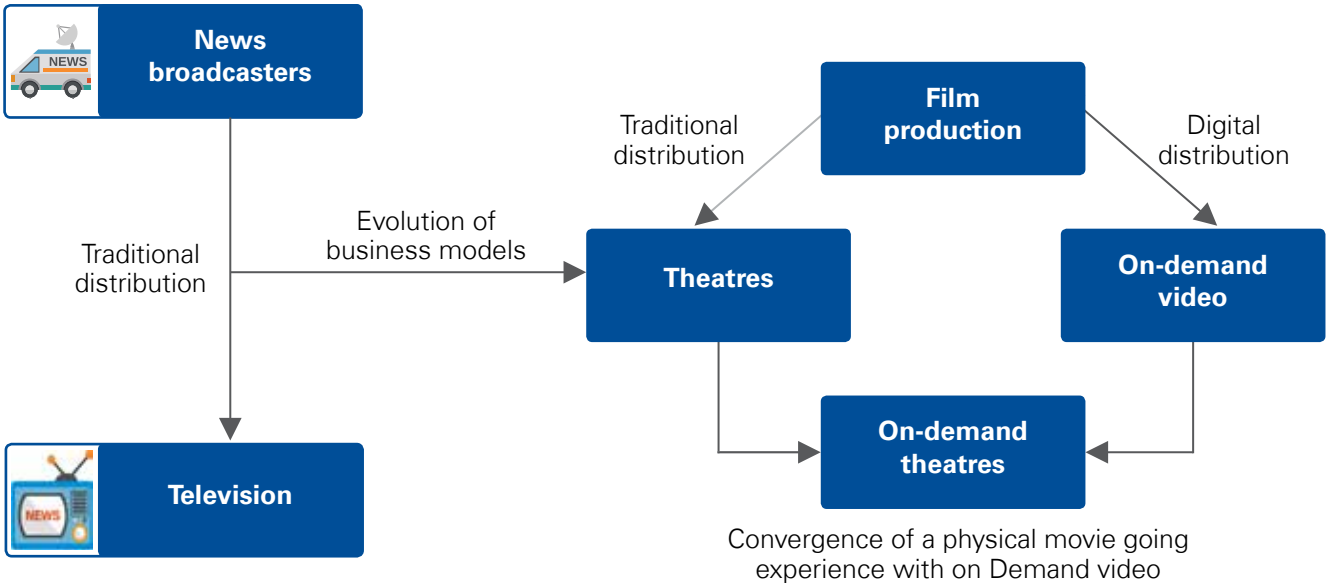
Technology companies like Instagram have made their foray into the video content creation segment, with the launch of IGTV, an early stage competitor in the social media video space to Youtube. On the other hand, traditional video broadcast companies are effectively looking to leverage digital through their own video applications, as well as integration with various tech/telecom platforms to reach a wider set of consumers.

Business models in film distribution have been disrupted, not just in India, but globally through majors like Netflix and Amazon Prime Video, and homegrown apps such as Hotstar, Jio Cinema, Eros Now. An example of converging business models in films is Teriflix, a Bengaluru-based startup, which is looking at an amalgamation of the movie going experience with video on demand functionality. The company's product is a 13-seater auditorium, with a 135-inch screen and the facilities to watch movies in HD resolution with Dolby sound. The revenue model is based on rentals of the facility, on a per hour basis.

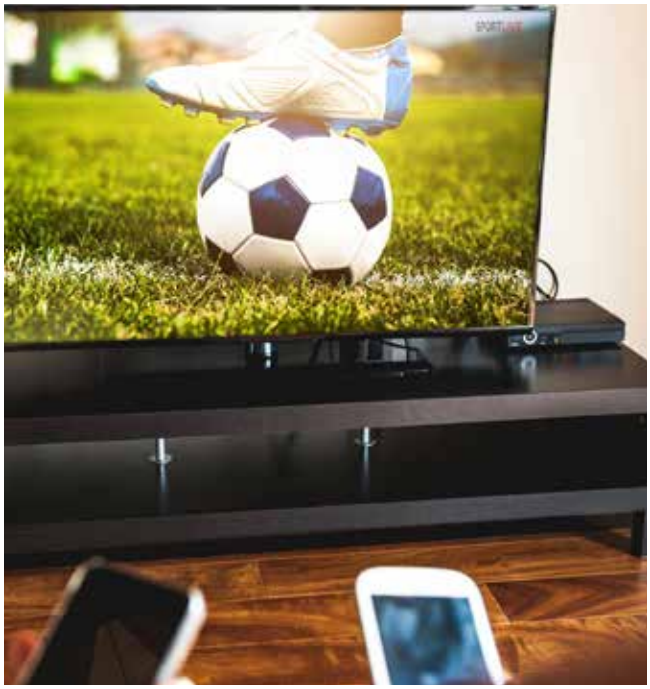
Consumers can view the movies at the facility from their existing Netflix or Amazon Prime account, with a 100 Mbps internet connection to facilitate the streaming experience[34].

34. Bengaluru gets its first mini theatre for Netflix, Amazon Prime Video, Yourstory.com; accessed on May 30, 2018

Convergence of traditional and digital films distribution business models



Another example of a digital company looking to explore a traditional movie distribution model is being seen in China by Baidu's iQIYI, a video streaming service, which has opened a movie theatre branded 'Yuke' in Guangdong. The theatre comprises two-10-seater mini theatres, which can be rented on an hourly basis to showcase any movies from iQIYI's catalogue[35].



Disclaimers:

The views and opinions expressed herein are those of the person(s) and do not necessarily represent the views and opinions of KPMG in India.

35. iQIYI Inc Press release; accessed on May 30, 2018

Conclusion

The rapid penetration of technology across all facets of consumer's daily lives means that TMT convergence is imperative for organisations to continue capturing the user's time and wallet share. The business models around standalone product offerings - whether its prime time shows on traditional TV, a voice and data pack from a telecom operator, or the ability to stay connected on a social media based tech app - may not remain relevant in isolation. It is the war of ecosystems that is likely to pan out in the TMT space, and the leaders are likely to be organisations that are able to smoothly merge these traditional business models, and ensure customer stickiness on their ecosystems.

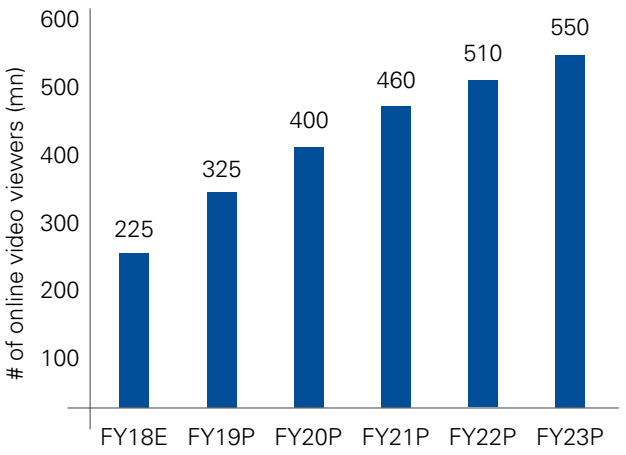
OTT consumption

Reaching a tipping point

Introduction

Rising smartphone and mobile internet penetration has resulted in increasing adoption of online video viewing in the country. Since India is primarily a single TV household market (96 per cent households with single TV sets[1]), these smartphones act as a second screen for the audience. The number of online video viewing audience in India is estimated to be around 225 million in FY18 and is projected to reach 550 million by FY23[2] driven by increasing smartphone penetration, increasing geographical coverage of high speed data, affordable data charges and availability of compelling video content including content which is exclusively produced for digital.

Online video audience (million)



Source: Industry discussions and KPMG in India analysis, 2018

4G mobile data driving online video consumption

With the launch of Reliance Jio's 4G services in September 2016, and its aggressive data prices, incumbent players like Airtel, Vodafone and Idea followed suit, offering competitive 4G data prices with a view of retaining their subscribers and in the process migrating their existing 2G and 3G subscribers to 4G technology. The aggressive drop in data prices has resulted in the average realisation per GB falling from INR229 in FY16 to INR20 in FY17[3]. This has seen a further marginal drop in FY18 reaching an estimated INR18 per GB[4]. This resulted in average data usage to increase from 147 MB per sub per month in FY16 to 1,000 MB per sub per month in FY17 and further to 1,945 MB per sub per month in December 2017[5].

Key parameters of data services

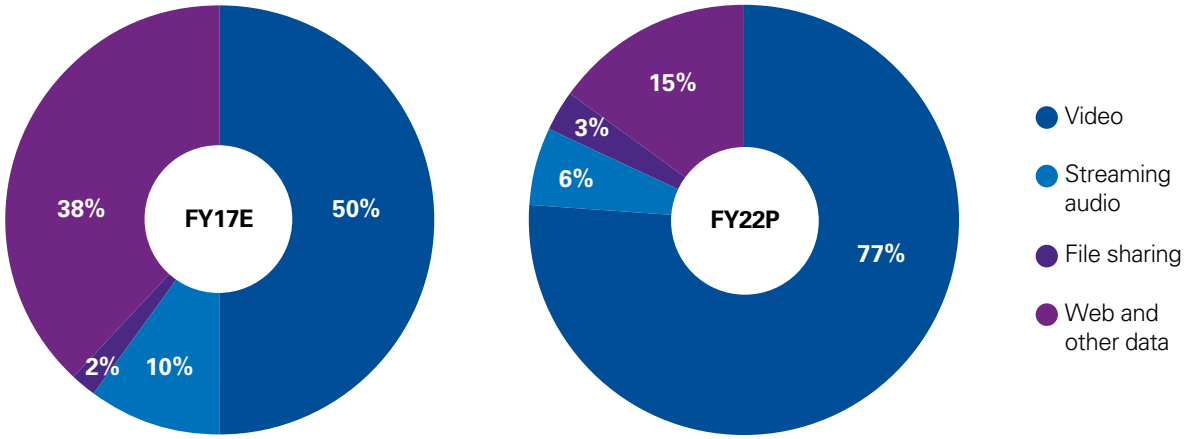
	Unit	FY15	FY16	FY17	FY18E
Data subscribers	million	283*	322*	401*	477
Avg. realisation per GB	INR/GB	256	229	20*	18
Data usage per sub per month	MB	99*	147*	1,000*	~2,000
Share of data usage					
2G		4%	4%	2%	1%
3G		30%	26%	20%	9%
4G		66%	70%	78%	90%

E: Estimated; P: Projected
Source: CRISIL Research on Telecom Data Services, TRAI Performance Indicator Reports
Note: (*) data has been directly taken from TRAI, other data has been taken from CRISIL report

Video content is the dominant category driving this increased mobile internet usage contributing 50 per cent of the entire usage[6]. An average Jio user consumed 13.4 hours of video content per month as on December 2017.[7] Consumer internet video traffic is projected to grow at CAGR of 41 per cent and is expected to contribute greater than 75 per cent of the mobile internet usage by FY22[8].

1. Based on industry discussions
2. Based on industry discussions and KPMG in India analysis, 2018
3. TRAI Performance Indicator Reports
4. CRISIL research on Telecom Data Services
5. TRAI Performance Indicator Reports
6. CISCO VNI Mobile Forecast report
7. Reliance Jio turns profitable: Subscriber base at 160.1 million, total data traffic at 431 crore GB, Indian Express, January 2018; accessed on June 15, 2018
8. CISCO VNI Mobile Forecast report

Category-wise contribution of consumption through mobile internet in India



Source: VNI Mobile Forecast Highlights 2016-21, KPMG in India analysis, 2018

The increasing video traffic has been supported by low data charges which has not only enabled viewers increase their online viewing time but also encouraged them to register and use subscription-based video OTT platforms with the savings from paying lower data charges.

Changing consumer preference – digital consumption on the rise

There is a noticeable shift in the way people are preferring to consume content in the recent years. The time spent by people on digital media is increasing at a much faster pace compared to the traditional forms of media like television, print and radio. This trend is visible across nearly all forms of content including news, audio and video consumption. India's online video consumption almost rose five times as per Hotstar's India Watch Report 2018. While the metros witnessed a 3.5 times increase, smaller cities having a population between 100,000 and one million experienced a jump of 4.3 times albeit over a smaller base[9].

While the average time spent by a viewer on television is longer than the average time spent consuming online videos, this time is increasing with long-form online videos gaining acceptance among audience due to cheaper data rates and habit formation over a period. The availability of sports and popular television shows on major OTT platforms has gone a long way in making audience familiar and comfortable in consuming long-form content on their mobile devices.

While the typical time spend by an average user on YouTube is around 8-12 minutes per session, time spent by subscribers on various OTT platforms ranges from 30-50 minutes[10] per session. 96 per cent of watch time on Hotstar comes from videos which are longer than 20 minutes while one-third of Hotstar subscribers prefer watching their favourite shows on Hotstar compared to television[11].

9. India Watch report 2018 by Hotstar
10. Based on industry discussions and KPMG in India analysis, 2018
11. India Watch report 2018 by Hotstar

Video OTT content – growing focus on originals and regional content

Catch-up TV building the content library

Catch-up TV and movies form a large portion of the content available across various OTT platforms:

- Promoting catch-up TV through the existing content catalogue with traditional TV broadcasters has been their core strategy. This helps them avoid incurring additional content cost specific to digital platforms.
- India is primarily a single TV household market (96 per cent households with single TV sets[12]) with a mobile phone being the second screen for the audience who are unable to watch their favourite shows on TV. With the availability of a digital ecosystem of high speed internet and affordable smartphones, OTT platforms are able to reach the broader demographics and gain attention from the masses through their Advertising Video-on-Demand (AVOD) model.
- Catch-up TV has helped the audience watch content as per their convenience resulting in spread of viewership throughout the day rather than it being skewed during a fixed prime time
- Catch-up TV also offers 'un-cut versions' or 'behind the scenes' footage of certain content to feed on their TV popularity and earn additional income from AVOD. For example, VOOT has been creating digital shows with the content that was shot but used in the TV broadcast of Bigg Boss.

> Content genres on all OTT platforms are distributed like a bell curve. The largest part of the content library is composed of popular programming which includes sports, big movies, catch-up TV and originals. Live TV and a long tail of movies comprises the other smaller portions of the content offering.
>
> **Uday Sodhi**
> Business Head - *Digital, Sony Pictures Networks India Pvt. Ltd.*

12. Based on industry discussions

Growing focus on original content

While catch-up TV forms a large portion of the content, there is an increasing focus towards producing original content targeted at 'digital first' audience. While most of the catch-up TV content is monetised through the AVOD model, original content usually warrants the Subscription Video-on-Demand (SVOD) model to recoup the investments.

Original content forms an important part of a video OTT platform bringing 'New Age storytelling' to the fore. It provides differentiated content compared to TV, showcasing stories which can be told over 10-12 episodes. This enables originals to bring in concept of a 'season' to the Indian audience who are well versed in consuming season-wise content of their favourite English TV and web series. This also gives audience the opportunity to binge watch any series that they may not be following from the beginning. Interestingly, it is observed that the viewership of older seasons of a particular series increases when a new season is released. This may be due to existing audience revisiting older seasons or newer audience wishing to come up to speed with an older season before starting to watch the latest season.[13]

Content creation companies like ALT Balaji, TVF and Arré have traditionally built their libraries through original content while broadcasting platforms have tied –up with various content producers. Global VOD players like Netflix and Amazon Prime Video offer original content in addition to a catalogue of the latest series and a library of Indian and international movies and TV series. They are building their original programming aggressively with the help of tie-ups with media houses and individual producers. While Amazon Prime has partnered with Dharma Productions and Mukesh Bhatt's Vishesh Films, Netflix has partnered with Red Chillies Entertainment and Phantom films[14].

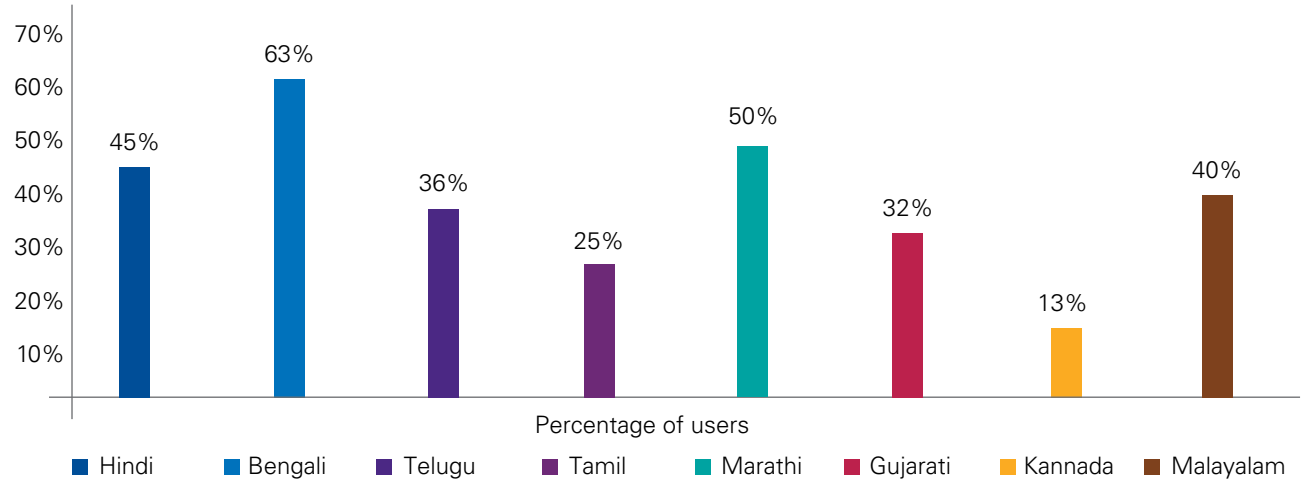
> Catch-up TV is the leading form of content (in terms of hours) on OTT platforms and receives a marketing push from big broadcasters as well. The low availability of original programming content is an important reason for this viewership trend. However, the trending content on OTT is almost always original content. This indicates the higher level of engagement offered by original content.
>
> **Ajay Chacko**
> Co-Founder - *Arre*

13. Based on industry discussions
14. Netflix, Amazon set aside Rs2,000 crore each in battle for India market, Mint, April 2017; accessed on June 15, 2018

Regional content for the future

90 per cent of the incremental internet users in the next five years are estimated to be Indian language users[15]. Furthermore, the Indian language users are estimated to have 90 per cent adoption rate for digital entertainment[16]. Despite this, a large portion of the users have stated limited content availability on digital entertainment platforms indicating headroom for growth in the regional digital content space.

Percentage of users that stated limited content availability



Source: Indian Languages – Defining India's internet, KPMG-Google report

The previous year saw an increased focus on regional content with established OTT players like Hotstar, Sony Liv, VOOT, Amazon Prime Video and Netflix adding content in Tamil, Telugu, Kannada, Marathi and other local languages to their library, including originals in some cases. Amazon Prime Video has tied up with Shree Venkatesh films for Bengali; Dream Warrior Pictures, V Creations and Studio Green for Tamil; Lakshmi Narasimha Productions and DVV Entertainment for Telugu and Everest for Marathi[17]. ALTBalaji started offering its original Hindi programmes dubbed in regional languages of Tamil, Telugu and Malayalam in addition to producing original vernacular content. Some of these major OTT platforms have regional content contributing around 10-15 per cent[18] of their total hours of content.

In addition to the established OTT players, there was an advent of local players like Hoichoi (Bengali) and Sun NXT (Tamil, Telugu, Kannada and Malayalam) focusing only on regional languages. Hoichoi has a library of over 500 movies with plans of releasing two originals every month with their biggest show being a Byomkesh Bakshi original[19].

> We do not look at broadcast and OTT content differently. Rather, we look at OTT as an extension of the larger TV screen providing an alternate viewing platform to the audience. In that sense, content produced by us for the mass and segmented audiences will continue to drive demand, with original content being a cherry on top.
>
> **Tarun Katial**
> CEO - *ZEE5 India*

15. Indian Languages – Defining India's internet, KPMG-Google report
16. Indian Languages – Defining India's internet, KPMG-Google report
17. Regional OTT content more than just catch-up TV, Indian Television, November 2017; accessed on June 10, 2018
18. Regional OTT content more than just catch-up TV, Indian Television, November 2017; accessed on June 10, 2018
19. Regional OTT content more than just catch-up TV, Indian Television, November 2017; accessed on June 10, 2018

Distribution of video OTT content – Competition and collaboration

Telcos – the alternate mode of distribution

The success of OTT video platforms depends not only on good content but also on an effective distribution model which ensures large viewership. Telecom companies had access to an estimated 425 million[20] data subscribers as on December 2017 across the country and provide a huge potential to reach the audiences not covered by dedicated video OTT platforms. With voice getting commoditised, the telecom companies are focusing on driving increased usage of data. This has resulted in higher share of non-voice revenue – the contribution of data revenue in the overall revenues is estimated to have increased from 27 per cent in FY17 to 34 per cent in FY18.[21]

> While all OTT players build B2C distribution capabilities, B2B2C is going to be critical for scale-up in India, given the aggressive push and content subsidisation by the distributors, esp. the telcos.
>
> **Achint Setia**
> Senior Vice President -
> *Digital Ventures, Viacom18*

This trend is expected to continue in the future with telecom companies seeing usage of video as a key driver of increase in data consumption in the coming years. In lieu of this, large telecom companies are getting actively involved in the digital VOD market through aggregation and partnership models to ensure increased data usage. The advantages of telcos partnering with content creators include:

- Increase in the number of viewers for the content creators/OTT platforms by monetising the captive mobile subscriber base of the telcos
- Carrier billing leading to ease of payment
- Saving of customer acquisition costs for OTT platforms.

Telecom operators also believe that bundling of services at an affordable price is more likely to attract viewers rather than subscribing to individual platforms in addition to the streaming costs.

Hence, collaboration between these telecom operators and media houses which create content could result in providing users with a complete end-to-end experience. While distribution through telcos has its advantages, distribution through own apps results in better understanding of consumer behaviour.

Telco-OTT partnerships

Telecom operator	Tie-ups
Reliance Jio	Reliance Jio has partnered with Hotstar, ALTBalaji, Eros Now, Sony Liv, VOOT, Zee5 and Discovery Communications India to provide video content to Jio users. ALTBalaji signed a deal with Reliance Jio to provide its original content on Jio Cinema and Jio TV following Reliance Industries Limited's acquisition of 24.9 per cent stake in Balaji Telefilms.
Airtel TV	Airtel TV has partnered with Eros Now, SonyLIV and HOOQ, in addition to Amazon Prime, Hotstar, Zee5 and ALTBalaji. Airtel TV claims to offer content in 15 languages
Vodafone	Vodafone has partnered with Amazon Prime, Eros Now, HOOQ, Discovery Communications India and ALTBalaji for its platform Vodafone Play. Vodafone also provides access to 12 months of free Netflix to its RED plan customers in addition to Vodafone Play.
Idea	Idea Cellular has partnered with Eros Now and HOOQ to provide video content to its customers. In addition, Idea Music has partnered with Sony Music, Zee Music, SaReGaMa, Universal, BPL and Aditya Music.

Source: Economic Times- Telecom section, KPMG in India analysis, 2018

20. TRAI Performance Indicator report
21. TRAI Performance Indicator reports, CRISIL Research on Telecom Services

Alliances among competitors – New mantra for video OTT platforms[22]

In addition to the partnerships with telcos, there are examples of video OTT platforms inking partnerships amongst themselves. YuppTV has partnered with ALTBalaji which allows its users to access ALTBalaji's premium content on YuppTv's platform. SonyLIV has a partnership with Arré which allows its users to watch Arré's latest web series on its mobile and web platforms.

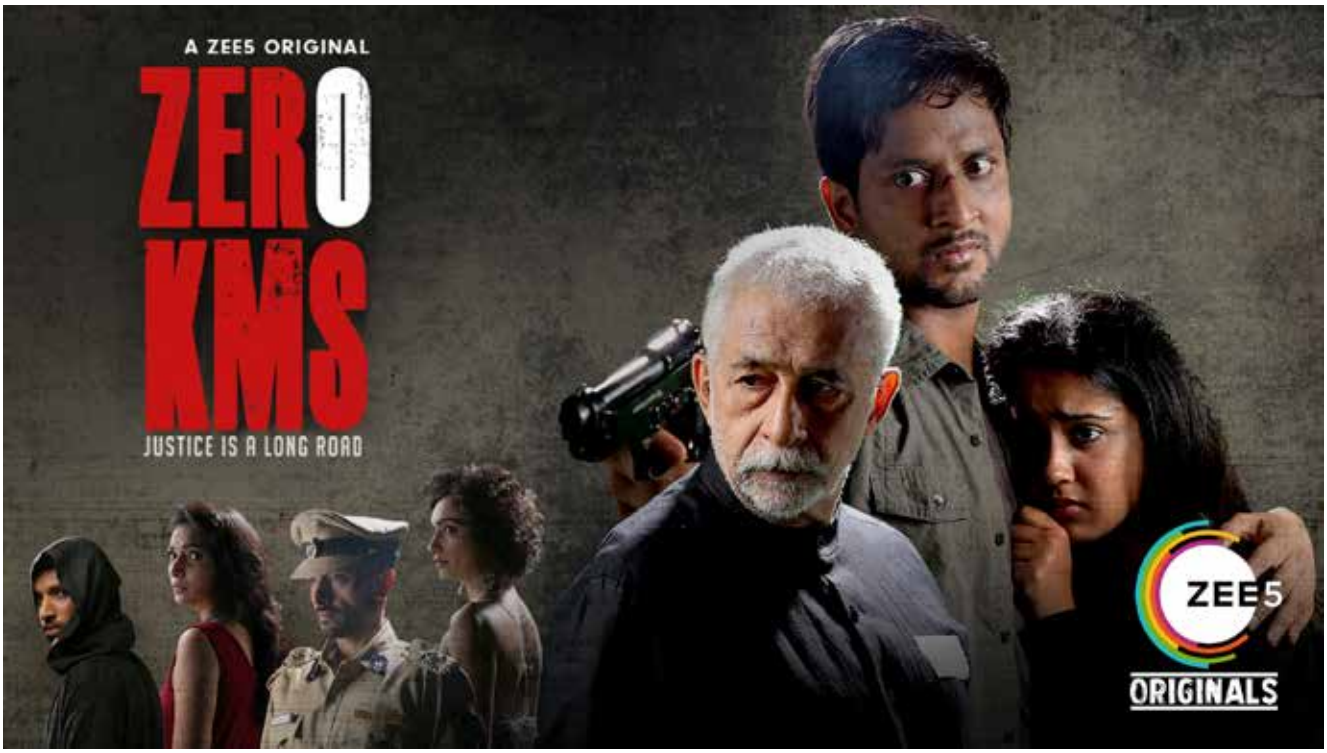
Other modes of distribution and partnerships

In addition to own platforms and distribution through telecom operators, video OTT players also reach customers through hardware distribution platforms like Roku, Amazon Fire TV Stick and Google Chromecast. These devices enable consumers to cast content on larger screens converting the regular television sets to smart TVs. For example, Amazon Fire TV Stick comes pre-loaded with applications like Netflix, YouTube, Hotstar, Eros Now, Gaana, VOOT, etc., though Amazon Prime Video is the landing banner.

Video OTT players have also joined hands with these hardware distribution platforms to roll-out special launch offers. Amazon has a launch offer in partnership with Airtel which extends 100 GB free high speed data via Airtel Broadband/Airtel 4G Home Wi-Fi to all customers purchasing Amazon Fire TV Stick. It also has a launch offer in collaboration with Eros Now where Fire TV customers can enjoy three months of free subscription to Eros Now which is priced at INR99 per month. Post the free trial period, Eros Now will receive 70 per cent of all revenue generated from Eros Now subscriptions from Amazon Fire TV[23].

Another relatively small distribution platform is the entertainment service extended by Ola Cabs to their riders through Ola Play. The riders are able to access content from a back mounted Android tablet or through their smartphones. Though having a relatively small play, certain content providers like ALTBalaji and YuppTV have tied-up with Ola Play to extend their services to a larger user base.

The various distribution modes are quickly evolving, with platforms trying to reach out to a large customer base, while keeping their strategic objectives in mind. For example, Hotstar ensures that cricket is still viewed on their platform, even if the originating application might be a telco aggregator like Jio TV[24].



22. Based on industry discussions and KPMG in India analysis, 2018
23. Eros Now available on Amazon Fire TV stick, Business Wire, April 2017; accessed on June 15, 2018
24. KPMG in India analysis, 2018

Digital Video Distribution – Friends and Foes

By Rishika Lulla Singh, CEO Eros Digital

Flashback to 1990 when life was much simpler, a couple of black and white TV channels in India, the origination of VHS tapes and viewers would have the option to select the movie to watch this evening or this weekend and an individual with a briefcase would come in with the options available to select.

Fast forward to 2018, nearly two decades later, India currently has 800+ TV channels, 8500 cinema screens, 50 Digital OTT players, Social Video platforms and to add further color there are options of SD, HD, 4K, AR, VR, 360 degree video. From basic videos of 'how to tie a tie in 10 seconds' to a six-hour binge watch of 'Black Mirror', the Indian consumer is spoilt for choice. Now layer this with a language filter and democratised distribution introducing more English language content and international content as options for the user, adding fuel to the fire.

The content choices available are only going to increase in both quality and quantity and hence making it more challenging for digital video brands to get discovered by the viewer. In order to be able to solve this problem on a progressive basis, it has become imperative to simplify and identify the three basics which have been relevant and consistent in the Video world over the last 2 decades.

1. Develop a brand ethos and a culture for your proposition to the viewer
2. Seed the Brand in the viewer world rather than a lean back and wait strategy
3. Solve for Product Distribution and not Content Distribution

Distribution is the 'not' so glamorous but the pillar of any key digital video business and to break this clutter, platforms are now getting into product and content distribution 'partnerships' and have four key stakeholders in the mix - Native Distribution partners (ISPs & Telcos) , Core Distribution Partners (App Stores), Frontline Distribution Partners (the several device and OEM platforms) and Marketing and Alliance Partners (Seeding the service on a secondary but contextual layer of another digital and/or brand). These partnerships are now becoming an imperative element in the growth strategy.

The answer to be able to create a phenomenal balance of the distribution matrix is firstly to establish a core brand position based on the psychographic profile of the customer and on the back of strong exclusive programming. Stage two would be working with the Native and Frontline distribution partners on a-la-carte and packaged basis for a push and pull consumer play, this combined with the deep linking of the product and content into the several consumer touch points in the digital world and finally closing it off by reaching out as a primary or secondary value add on to a partner service. But here's the thing, there are a finite number of these partners who are relevant to the OTT business, except marketing and alliance partners and to reiterate the consequence, we are currently experiencing a classic scenario of collaborating with a competitor. Strategic intent is an essential ingredient to collaborate with your competitors, and win.

Reference: On a Telco Online Video Service, multiple stakeholders, from OTT players like Eros Now to broadcast partners to other domestic and international aggregated services, both AVOD and SVOD operate together with slightly differential models, but in essence working in a way to increase the overall consumption of video in a digital space. Whilst competitors in the open domain, they are collaborators on a platform with all partakers gaining to reap superior benefits.

Eros Now has been able to achieve a reach of 7.9 Million paid subscribers with over 100 million registered users adopting this principle as the core to our distribution strategy. The collaborative approach along with our qualitative metrics has also helped build higher engagement with the users wherein one out of every five users end up watching the entire duration of the video and the most engaged viewer visits the service about three times a week.

Social media platforms have also enabled a high reach for Eros Now with Instagram and Facebook driving active weekly and monthly viewers in 50+ countries in the world with a less than 1 per cent dropout for Eros Now social media brand.

Monetisation of video OTT content

The number of online video viewing audience in India is projected to increase from 225 million in FY18 to 550 million by FY23[25]. The improved streaming infrastructure along with video playback capabilities and syncing of multiple devices have helped platforms improve engagement and provide a better user experience.

The business models for video OTT are a mix of Advertising Video-on-Demand (AVOD) and Subscription Video-on-Demand (SVOD) led offerings with transaction based VOD also prevalent. While leading platforms like Hotstar, Voot and Sony Liv are largely AVOD or Freemium (paywall for selective content) based platforms like Netflix, Eros Now, ALTBalaji and Sun NXT are primarily subscription based with large portion of content accessible behind a paywall. Amazon on the other hand, offers a paid multi-benefit subscription service which not only offers video content and music but expedited and free shipping for select products bought on Amazon's e-commerce platform. SVOD platforms provide their customers compelling original content which is differentiated from TV, and the ability to view the same across multiple screens, at any time. Their content strategy is targeted at people who are bored of consuming TV content and want something new. Amazon Prime video and Netflix offer one-month free trial while ALTBalaji allows customers to watch the first five episodes before the paywall is applicable.

Monetisation models and subscription rates of top OTT platforms in India

Platform	Content	Business Model/ Subscription fee
Hotstar	Broadcaster + Original (PPC) + Aggregated content	Freemium, INR100/m
Zee5	Broadcaster + Original (PPC) + Aggregated content	Freemium, INR99/m
Voot	Broadcaster + Original (PPC) + Aggregated content	Free
Sony Liv	Broadcaster + Original (PPC) + Aggregated content	Freemium, INR42/m
YouTube	UGC and PPC	Free
Eros Now	Original (PPC) + Aggregated content	Freemium, INR49/m
Netflix	Original (PPC) + Aggregated content	INR500/m
Amazon Prime	Original (PPC) + Aggregated content	INR83/m
Jio TV/Jio Cinema	Aggregated content	Free but only for JIO users
Airtel TV	Aggregated content	Free but only for Airtel subscribers
ALTBalaji	Original (PPC) + Aggregated content	Freemium, INR25/m
ViU	Original (PPC) + Aggregated content	INR99/m

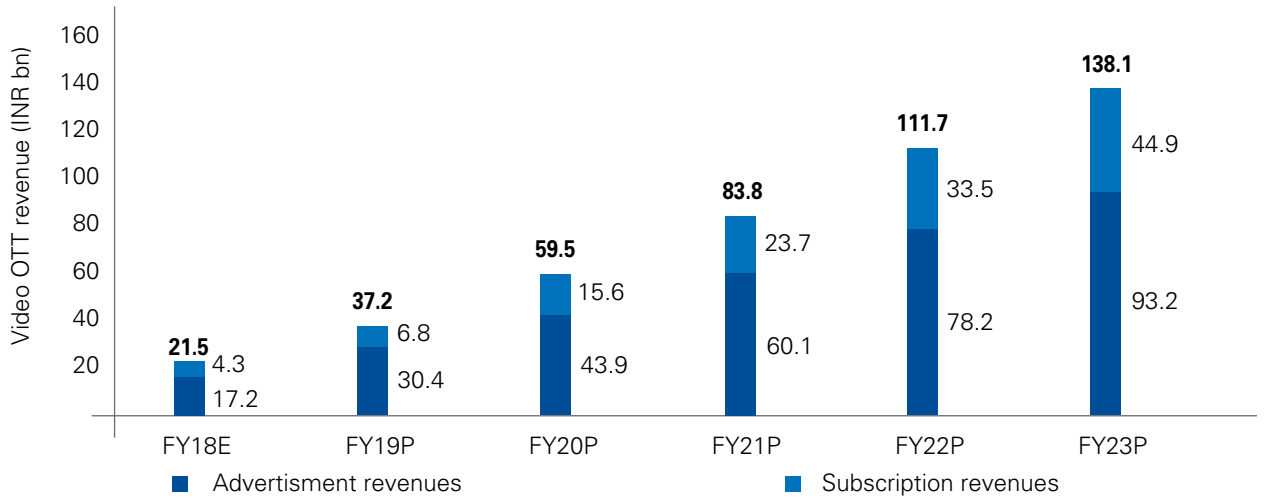
Source: Industry discussions and KPMG in India analysis, 2018
Note: PPC – Professionally produced content, UGC – User Generated Content

25. Based on industry discussions and KPMG in India analysis, 2018

The video OTT space in India is primarily driven by AVOD or Freemium model at present. Though SVOD is catching on, its adoption is at a relatively nascent stage. Out of the 225 million video viewers in India, there are only around 2-2.4 million SVOD viewers who have directly subscribed onto the paid platforms. This does not include Amazon Prime video subscribers or subscriptions garnered through telecom operators[26].

The video OTT market in India is estimated to be INR21.5 billion with advertisement contributing around 80 per cent of the total revenue at INR17.2 billion. The industry is projected to grow around 45 per cent CAGR in the next five years to reach INR138 billion by FY23[27].

Video OTT revenue (INR billion)



Source: Industry discussions and KPMG in India analysis, 2018

Advertising revenues – falling CPM rates

The advertisement revenue from the video OTT market in India is estimated to be INR17.2 billion as on FY18. It is projected to grow around 40 per cent CAGR in the next five years to reach INR93 billion by FY23 driven by increase in the video viewer base, higher viewing time per subscriber and change in the advertisement rates. In the present market, the cost of an advertisement slot on YouTube ranges between INR200-250 CPM (cost per thousand impression)[28] while the CPM rates on OTT platforms like Hotstar and Voot may go at a premium of 1.5-2 times that of YouTube[29].

With the expansion of the video OTT market and availability of content, CPMs are declining on account of the following factors:

- The increasing size of the video viewing market is resulting in the audience profile changing from a select elite to the masses. This has resulted in advertisers potentially realising a lower ROI on the CPM rates in terms of converting the advertising budgets to sales
- The increasing video viewer base along with higher viewing time per subscriber is resulting in growing ad inventory. This is subsequently resulting in lower utilisation rates on the OTT platforms as the advertisement budgets are limited.

Introduction of a standardised digital measurement tool which can quantify the cost effectiveness of video advertisement may help in standardising the CPM rates going forward.

26. Based on industry discussions and KPMG in India analysis, 2018
27. Based on industry discussions and KPMG in India analysis, 2018
28. Digital platforms in 2017: Advertisers see a new hotstar in Over The Top platforms, Financial Express, February 2018; accessed on June 15, 2018
29. Based on industry discussions

Paid subscription – Acceptance and the role of telcos

India is primarily an advertisement driven VOD market though SVOD is catching on. Presently, of the 225 million video viewers in India, there are only around 2-2.4 million SVOD viewers who have directly subscribed onto the paid platforms. In addition to these direct subscribers, there are around 10 million Amazon Prime Video subscribers[30] and a host of subscriptions garnered through telecom operators.

While the revenue stream earned by platforms from their direct customers is a function of the subscription fee and number of customers, the revenue ecosystem between telecom operators and OTT platforms varies from case to case. While there are certain deals on a per customer basis, most deals usually are based on a fixed-fee agreement. The presence of a standardised measuring tool in the industry might change the business model of the telco-OTT partnership from a fixed-fee arrangement to a per subscriber revenue model.

> For subscription based VOD to gain traction, three aspects should be addressed – easy and secure payment systems need to be in place, high quality and relevant programming for the respective target audience and the issue of piracy needs to be addressed.
>
> **Ali Hussein**
> Chief Operating Officer - *Eros Now*

The future – Collaboration for monetisation

With 225 million viewers, video is the dominant category contributing 50 per cent to the mobile internet usage in India. The number of viewers is projected to increase to 550 million by FY23 with the contribution of video to mobile internet usage expected to go north of 75 per cent[31]. The success of OTT video platforms in the future shall depend upon how effectually they are able to reach this large number of video viewing audience through effective distribution, and at the same time engage them through high quality content.

The telecom companies with access to an estimated 425 million[32] data subscribers as on December 2017 provide a huge potential to reach the audiences not covered by dedicated video OTT platforms. The collaboration between telcos and video OTT players is likely to be a key enabler for the successful distribution of digital video in the medium to long-term future providing users with a complete end-to-end experience. On the content side, the industry may experience an increased focus on regional language content in the medium future.

Disclaimers:

The views and opinions expressed herein are those of the person(s) and do not necessarily represent the views and opinions of KPMG in India.

30. With 10 Mn Prime subscribers, India turns out to be biggest market for Amazon, Entrackr, April 2018; accessed on June 25, 2018
31. Based on industry discussions and KPMG in India analysis, 2018
32. TRAI Performance Indicator reports

Rural segment

Scalability from hinterlands

Introduction

The Indian Media and Entertainment (M&E) industry reached INR1,462.7 billion in FY18, and is expected to continue its growth at a compounded average growth rate (CAGR) of 12.7 per cent to touch INR2,664.7 billion by FY23[1]. A key underlying theme contributing to this growth is increasing penetration and consumption from rural India and tier II and III cities, resulting in increasing focus by advertisers on these markets.

For broadcasters, the third and fourth phase of digitisation brought semi-urban regions under their fold, and was one of the major growth drivers during the last couple of years. Recent data from Broadcast Audience Research Council (BARC) India indicates that growth in languages such as Punjabi, Oriya, Bhojpuri, Assamese and Gujarati is almost twice the rate of growth of languages such as Hindi, Tamil, Telugu, reflecting the desire to watch content in the language of the audience's convenience. A few free-to-air (FTA) channels were launched by broadcasters to tap the rural and semi-urban market.

Post phase III, radio sector furthered its footprint beyond metro cities, and listenership for the new geographies has seen multi-fold increase over the year, and in some cases more than the radio stations in metros. However, advertisement rates for these stations are lower than those prevalent in metro cities.

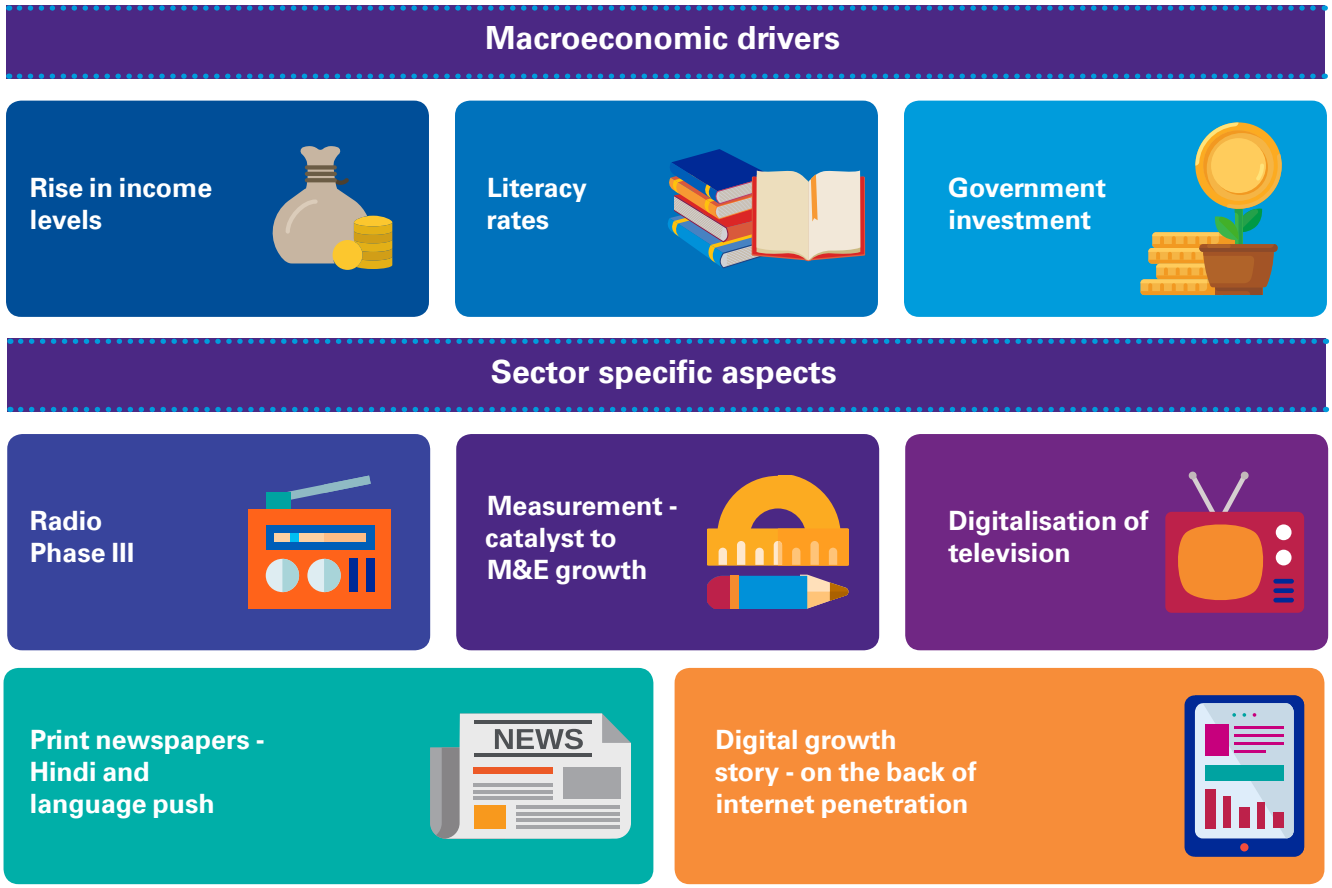
The growth in the print industry in FY18 was largely on the back of continued readership growth in regional language markets and advertisers' confidence in the medium, especially in tier II and III cities. The Indian print industry, unlike its western counterparts, is standing strong on the back of growing demand from regional markets.

Availability of cheaper data has increased the reach of digital media platforms across the country including rural India, where penetration levels are higher. Digital media, at around 28 per cent year-on-year growth, is expected to outperform other mediums[1].

Film exhibition players are also eyeing the latent demand in small towns and rural areas by looking to devise low capital expenditure plans to explore tier II and III cities. They have explored avenues such as a public–private partnership model, wherein the exhibitor partnered with the state and got into joint ventures with investors or real estate partners to build entertainment zones with two- or three-screen multiplexes, food courts and retail outlets. Some players are also venturing into mobile theatres to expand reach to hitherto untapped rural areas.

Overall, M&E, like the FMCG and other industries, is closely monitoring rural markets. The growth in rural markets is attributed to several macroeconomic and sector-specific factors.

1. Industry discussions conducted by KPMG in India



Macroeconomic drivers

Rise in income levels

India's per capita income, a gauge for measuring living standard, is estimated to have grown at 8.3 per cent to INR111,782 in FY18[2].

India's two-third population and 70 per cent workforce resides in rural areas and tier II and III cities, and contributes 46 per cent to the national income[3]. Despite the rise in urban population, more than half of India's population is projected to be rural by 2050[3]. The Government of India recently announced doubling farmers' incomes by FY23 through a number of initiatives. If achieved, rural income, which is largely dependent on agriculture, may grow at a CAGR of 10.4 per cent[4] annually. The rise in rural income levels are likely to provide impetus to the purchasing power which can lead to more advertisers and brands looking to tap the potential customer base.

Literacy rates

While literacy rates increased from 52 to 74 per cent (a growth of 42 per cent)[5] at the national level between 1991 and 2011, the rise has been rather swift — from 42 to 69 per cent, which means a growth of 65 per cent —– in Empowered Action Group (EAG) states. Bihar, Jharkhand, Uttar Pradesh, Uttarakhand, Madhya Pradesh, Chhattisgarh, Rajasthan and Odisha are EAG states. Rising literacy rates are leading to a momentous shift in content consumption of the population through newspaper, television, digital platforms, and theatres.

2. //economictimes.indiatimes.com/articleshow/62383494.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst
3. Changing structure of Rural Economy in India
4. https://timesofindia.indiatimes.com/business/india-business/indias-per-capita-income-grows-by-8-6-to-rs-1-13-lakh-in-fy18/articleshow/64403580.cms
5. 2011 Census, conducted by Government of India

Government investment

Over the years, the Government of India has introduced many schemes to improve rural infrastructure — roads, irrigation projects, sanitation, medical centres, electrification. If achieved, schemes such as 'Digital India', 'Smart Cities', 'Swachh Bharat Abhiyan', electrification of all villages, can give a boost to rural income driven by increase in employment and farmers' incomes. In FY18, the Government of India unveiled 'Pradhan Mantri Sahaj Bijli Har Ghar Yojana' to provide electricity connection to all willing households in rural and urban areas by FY19[6]. This initiative is expected to increase the reach of television and smartphones.

Sector-specific drivers

Growing rural television viewership

TV households in India aggregated 183 million in CY17, representing only 64 per cent penetration of the total households[7]. Though, TV households have been growing at a CAGR of around 6.4 per cent over the last four years, there is significant headroom for growth[7].

A recent study by BARC, 'The changing face of TV in India' brings out some interesting trends in rural viewership. Here are some findings:

- While earlier urban and rural India had an almost equal split of TV homes, rural India now has 17 per cent more TV homes than urban India, but has only reached 52 per cent penetration so far. This is relevant for broadcasters and advertisers[7]
- More people watch one TV set in rural India as compared to urban India — around 98 per cent of homes in rural areas are single TV households where the entire family watches content together[7]
- 'Young Bharat' (15–40 years) forms the mainstay of the rural viewership with 47 per cent share of total viewership[7].

A key trigger for growing interest in rural viewership is the expansion of BARC's TV measurement methodology to enhance rural coverage. This has resulted in highlighting of the potential and size of rural TV viewers. Corresponding to this, there has been increased availability and accessibility of content, which has supported growth in rural viewership

- DD Free Dish offering FTA channels has found significant traction particularly in tier II cities and beyond in the Hindi markets. Other direct-to-home (DTH) operators have also started offering 'slim' packs of limited popular channels to target the audience. This has helped greater accessibility of cable and satellite (C&S) television to rural households at convenient price points
- There is growing availability of content that is targeted at mass markets ranging from popular programmes on general entertainment channels (GECs) such as Naagin to sporting events such as Pro Kabbadi League and Pro Wrestling League including a wider distribution of IPL in multiple languages. Further, quantum and quality of content on DD Free Dish has seen a significant increase with latest pay TV content now available with minimal windowing, as broadcasters attempt to target the FTA advertising market.

In the coming years, rural viewers are expected to play a more significant role in the entire ecosystem. With urban TV penetration slowing down, the next phase of exponential growth is set to come from rural India as TV penetration in rural still stands at 52 per cent of the total rural households[7].

Radio phase III auctions have expanded reach

Radio broadcasting is one of the most popular and affordable means for mass communication, largely owing to its wide coverage, low set-up costs, terminal portability and affordability. The popularity of radio is measured by its outreach and hours spent on listening to radio by the audience which has been stable over recent years. Radio is now evolving into a mass medium following the ongoing phase III expansion of FM radio which envisages 966 FM radio channels to be made available in 333 cities.

- In the first batch of phase III, 135 private FM radio channels in 69 cities were put to auction in CY15[8]. Out of these, 96 FM radio channels in 55 cities were successfully auctioned[8]
- In the second batch of phase III, 266 private FM radio channels in 92 cities were put to auction in CY16[8]. Of these, 66 FM radio channels in 48 cities were successfully auctioned[8]
- At the end of September 2017, 322 FM radio stations were made operational in 86 cities by 34 private FM radio broadcasters[8].

6. Press Information Bureau, Government of India (Ministry of Power): Notification dated 25 September 2017.
7. Broadcast Audience Research Council India Report: Changing Face of TV in India
8. Recommendations on issues related to Digital Radio Broadcasting in India-1 February 2018

Radio is considered to be an effective medium in tier II and III cities, where radio-enabled mobiles have furthered its consumption. For instance in some of the smaller towns, the share of radio is more than that of metros[9]. Therefore, national advertisers are gradually moving towards tier II, tier III cities and rural markets. Local advertisers such as retail outlets, education institutes, real estate players, auto outlets and others are advertising on radio more than they did in the past. Radio measurement surveys conducted by Radio Audience Measurement (RAM) indicate that the average time spent listening to radio per week was more than 12 hours in metro cities[10]. Similar numbers for non-metro cities are not available due to the lack of radio appropriate listenership measurement mechanism in these regions. However, with the implementation of phase III, the average time spent listening to radio per week is expected to grow over the next few years backed by macroeconomic factors.

Radio is believed to deliver better return on investment (ROI) for brands in rural markets, as other mediums are considered expensive or have limited reach. However, a key challenge for the radio industry in these markets is the lack of a credible and more inclusive measurement system, which provides listenership trends for both metro and non-metro market.

Hindi and regional language newspapers drive print readership

In contrast with the global trend of declining print readership, India continues to see growth in readership. As per the Indian Readership Survey (IRS) 2017, overall readership grew by 37.3 per cent between CY14 and CY17[11]. The highest growth in readership base was seen in the New Consumer Classification System (NCCS) D/E categories, comprising 40 per cent of the total population, which grew from 15 to 21 per cent during this period[11]. This was because of the jump in literacy levels in the last two decades, rising disposable income and the perceived credibility of written words.

Further, there has been a wide disparity in the growth rates of Indian language newspapers vis-à-vis English newspapers. While traditionally, English newspapers dominated the newspaper circulation, in the last decade particularly, there has been a significant shift with Hindi and other regional language newspapers driving circulation growth. English newspapers have shown sluggish growth. Circulation of Hindi and other regional language newspapers have grown at a CAGR of 10 per cent and 7.6 per cent respectively from FY13 to FY18 as compared to 3.9 per cent for English newspapers[12].

As per IRS 2017 report, the top three circulated newspapers were in Hindi — Dainik Jagran, Hindustan Times and Amar Ujala. Times of India, an English newspaper, found its place down to the eleventh spot[11].

The growth in circulation of Hindi dailies has kept pace with the rise in literacy levels in predominantly Hindi speaking states. With smaller towns and villages becoming more aware and educated, regional is likely to continue to grow. It is the English newspapers which need to rethink their strategy.

Rapid digital adoption on the back of 4G rollout

Rural India traditionally lacked infrastructure for digital consumption due to poor reach, high data costs, bandwidth constraints and absence of relevant and affordable devices. However, from FY16 to FY18, there has been a dramatic increase in both internet penetration and usage, and this trend is likely to continue.

One of the primary drivers for rapid growth in online consumption in rural areas is the sudden increase in 4G offerings by telecom operators supported by a dramatic reduction in data costs and affordable 4G-ready smartphone prices. Average data costs declined from INR205 per GB in June 2016 to INR19 per GB in December 2017[13]. Similarly, the average price of an entry level 4G-capable device was INR1,500 in CY18, as compared to nearly INR3,000 in CY16[14].

9. Industry discussions conducted by KPMG in India
10. Copyright reserved with TAM MEDIA RESEARCH PVT. LTD. any use of TAM Data or (derivative thereof) mentioned herein without express permission of TAM shall be treated as illegal.
11. Indian Readership Survey (IRS) 2017
12. KPMG in India's analysis 2017-18
13. https://telecomtalk.info/average-per-gb-data-price-rs19/175423/
14. India Mobile Broadband Index 2018

This resulted in rapid growth in both the internet user base and internet consumption across India, but particularly so in rural India. Internet users are expected to have grown from around 278 million in CY14 to an estimated 500 million in June 2018[15]. Similarly, the average data consumed has shown a 144 per cent growth year-on-year since December 2013[16]. Entertainment is observed to be one of the primary driver of internet usage in rural India with 58 per cent[17] of the internet users accessing the internet to watch videos followed by online communication and social networking. As per India Watch Report by Hotstar, there was a 4.3 times increase in over-the-top (OTT) consumption in cities with a population of less than 10 lakh while increase in metros was comparatively lower at 3.5 times[16].

There is also a significant change expected in internet user demographics. A report released by Google and KPMG in India in 2017 estimated that 536 million Indian consumers are expected to use regional languages for online services by 2021, as compared to about 199 million users who are anticipated to access the internet in English[17]. Indian language internet users are expected to account for nearly 75 per cent of India's internet user base by 2021[18]. Apart from Hindi, users of other languages such as Marathi and Bengali are expected to be the drivers of volume growth, while Tamil, Kannada and Telugu users are expected to be more digitally engaged till FY21.

While digital access in rural and regional markets has grown, sustained growth in consumption requires content which is relevant, contextual and convenient. As a result, content owners and platforms are focussing on expanding their content for mass markets, and in regional languages. Digital players are looking towards rural markets with newer approaches such as creating content in local language. For instance, Microsoft launched its services such as emails and searches in 15 Indian languages[18]. Similarly, GoDaddy started support services in four regional languages, whereby volumes increased by 40 per cent from other than tier-I areas[18].

Measurement — Catalyst to rural M&E growth

According to the 2011 Census Report, nearly 70 per cent of India's population of 1.2 billion live in rural areas[19]. Despite this, rural markets were a relatively unexplored territory in terms of TV audience measurement until the introduction of the BARC rural data for the broadcasting industry in CY15. Post rural measurement was brought under the ambit of BARC measurement, the high levels of television viewing and impressions in rural India was appraised by both broadcasters and advertisers. A consequence of this has been the rise in the number of FTA channels, growth of Free Dish, increase in advertising on FTA channels and growth in content that appeals to the mass. There has been a 13 per cent rise in the number of advertisers on rural-focussed channels, and the biggest spike was seen in Hindi speaking markets (HSM) channels[20].

In the print sector, IRS 2017 report introduced new variables when conducting the survey with increased weightage to rural areas, which is expected to bring more advertisers to rural markets. The survey indicates that around 38 per cent of the rural population forms the affluent base (NCCS A and B), and 47 per cent of total rural population is in the age group of 15–40 years which shows that going forward, any premium or high-end product targeting may not necessarily be limited to urban regions[21].

The radio sector is also looking to remedy the lack of measurement beyond metro cities particularly given that tier II cities and beyond were prime focus areas of the recent auctions. The Association of Radio Operators of India (ARO) and Media Research Users Council (MRUC) have jointly invited proposals from research agencies to conduct audience measurement research for radio. As this changes, the semi-rural and rural audience is likely to balance the advertisement expenditure (adex) allocation to these markets.

While there is growing advertiser interest to tap into rural markets, transparent and consistent measurement methodologies are critical across sectors to enable determination of ROI of ad spends in these markets.

The road ahead

The M&E sector continues to grow at a rate faster than the gross domestic product (GDP), reflecting the growing disposable income led by stable economic growth and changing demographics. The Indian M&E industry has been hitting new milestones, and is expected to continue to grow at a CAGR of 12.7 per cent[22] over the next five years, with a significant portion of growth expected from the relatively untapped rural markets.

15. Internet in India 2017, Internet and Mobile Association of India (IAMAI) and Kantar IMRB Kantar.
16. The India Watch Report 2018, Hotstar
17. Indian languages – defining India's internet, A study by KPMG in India and Google April 2017
18. https://indianexpress.com/article/technology/tech-news-technology/rural-markets-rising-online-video-consumption-at-heart-of-indias-next-internet-growth-driver-February 23 2018
19. Census Report 2011
20. https://economictimes.indiatimes.com/magazines/brand-equity/rural-india-not-in-the-dark-February 22 2017
21. Indian Readership Survey (IRS) 2017
22. KPMG in India's analysis 2017-18

Social media

Driving meaningful conversations

Social media adoption and usage in India has been growing rapidly over the last few years. It is estimated that there are over 300 million social media users in India[1] with WhatsApp totalling over 200 million active users[2]. Similar trends are noted with regards to social media usage with the amount of time that an Indian user spends on social media estimated at 2 hours and 26 minutes daily[3]. Given this engagement level and scale, marketers are increasingly trying to engage with users on such platforms. Social media ad spending is expected to account for over 25 per cent of the overall digital ad spends in 2017[4].

Mobility continues to be the primary driver for social media usage in India. Mobile social media penetration in India as of January 2018 is 17 per cent as supposed to 65 per cent in China[5]. There is huge scope for adoption of social media through a mobile device and as a result mobile ad spends on social media are expected to have crossed 50 per cent by FY18[6]. Retail, Telecom, Media and Entertainment are among the sectors which are expected to spend a significant portion of their digital ad spends on social media this year[7].

To increase engagement levels, social media platforms are expanding their value proposition. From only a means to connect with friends, such platforms are being used for multiple purposes like commerce and gaming. Social media has created a distinct space for conducting community based commerce driving C2C business, with estimated sales crossing 2 per cent of overall e-commerce sales as per SalesForce's Q1 Shopping Index in 2017[8]. Social gaming trend in India is also developing at a fast pace and is currently growing at over 100 per cent due to high penetration of smartphones, access to affordable games, and inexpensive data plans[9].

Importance and value proposition of social media as a platform is increasing rapidly and barriers to connectivity such as cost of access and awareness are being resolved in India at a fast pace. This growth is further expected to be fuelled by the addition of regional users, which are projected to increase to over 300 million by 2021[10]. Marketers are conscious of this trend and are steadily increasing their allocation of digital ad spends on social media with an increased focus on regional markets.

Trends in social media

From new features powered by technology on social media platforms and evolving consumer preferences, marketers have a lot to look forward to, to create brand opportunities. Social media platforms are pushing the envelope to create a platform where relationships can be created and nurtured through more meaningful and interactive conversations, thereby expanding the value to the user as well as the brand that is catering to that user.

The rise of `communities` and the new battleground for marketers

Communities connect people with similar interests on social media platforms such as LinkedIn, Facebook, among others. There are over 100 million people globally who are part of such communities on social media platforms like Facebook[11]. Referrals, trust and the ability to connect in the community are key reasons for high engagement in such communities. Although these communities are very specific and niche, they enable the brand to reach or target an audience that is interested in a particular topic, that is committed and micro segmented. Given this, the potential cost of acquisition of a new customer may be relatively lower as compared to other digital mediums[12].

It is also a great way for the brand to establish its presence over a digital medium and help engage with the users in a more meaningful way. For example, Lego Ideas is a creative online community for toy sets enthusiasts. It enables the users to submit new design ideas, whereby fans can vote and offer feedback. If a design receives over 10,000 votes, it will be considered to become one of the brand's official sets and the user can also receive a percentage of sales for the idea[13]. By championing creativity and collaboration, this example rewards loyal customers and gives them a compelling reason to invest in the brand.

1. https://forecasts-na1.emarketer.com/5ab41471a2835e0fe88f6068/5a6a4c4e00ea9b-064048c03f, accessed on June 22, 2018
2. https://www.financialexpress.com/.../whatsapp...active-users...users-in-india/1044468/, accessed on June 22, 2018
3. Digital in 2018 Report, https://digitalreport.wearesocial.com/download, accessed on June 22, 2018
4. KPMG India Industry Discussions
5. Digital in 2018 Report, https://digitalreport.wearesocial.com/download, accessed on June 22, 2018
6. KPMG India analysis, 2018 based on? Please provide the primary research basis which this analysis was carried out.
7. KPMG India Industry Discussions
8. https://www.fierceretail.com/digital/social-media-s-impact-overrated; accessed on July 10, 2018
9. https://www.thehindubusinessline.com/info-tech/social-gaming-growing-rapidly-in-india-due-to-proliferation-of-smartphones-cheap-data/article9969727.ece, accessed on June 22, 2018
10. KPMG Report: India Trends 2018
11. https://medium.com/@global_nomads/facebook-the-future-of-online-communities-ab-7f8592a3d5, accessed on June 22, 2018
12. KPMG India Industry Discussions
13. https://econsultancy.com/blog/68720-six-successful-examples-of-online-brand-communities, accessed on June 22, 2018

Additionally, the engagement levels on such communities is much higher compared to a website. As per a marketing study conducted in the U.S., average time spent on a website or a blog is three minutes as compared to a forum or a group where it is close to 20 minutes[14]. Through advanced data analysis and social listening tools, brands can get a deeper and a more granular understanding of consumer behaviour, feedback on products and services and insights on new trends. Given the above, online communities on social media platforms are gaining traction both from the audience as well as the marketer. It is forecasted that the worth of online communities worldwide is expected to reach USD1.2 billion by 2019[15].

Transition to enabling and measurement of `meaningful conversations`

Establishing a social media presence has become essential for brands today. Given the current scale of spends (28 per cent of overall digital ad spends[16]) allocated to social media as a segment, creating awareness alone no longer drives the marketing agenda. There is an increasing focus on how a brand can create maximum impact on every dollar invested in the form of new customers, increased sales, and impact on brand among others parameters[17].

For this to actualise, marketers need to have a promotion plan that outlines specific action items to drive meaningful engagement with their target audience. Mining these conversations can potentially lead to advocacy of the brand, help increase outcome based actions, develop deeper customer insights and understand the constant pulse of the customer to potentially have a sustainable relationship. For this to actualise, the measurement matrices need to evolve. Transition needs to happen from a pure CPM evaluation to meaningful matrices like CPC (Cost per click), CPL (Cost per Lead), CPE (Cost per engagement) among others. For example, Avon India created a campaign called #PayAttention for creating breast cancer awareness. As part of the campaign, a demonstrative video, real life survivor stories and interactive sessions with subject matter experts were shared on social media platforms. The success of the campaign was evaluated with the PR value (USD206.7 million) it generated with a media spend of only USD2500[18].

Understanding the changing mind set and requirement of the marketer, in January 2018 Facebook announced an algorithm change on its platform that was focused on, to "bring people closer together and build relationships[19]" This new ranking system prioritises posts that initiate conversations and meaningful interactions. So if the brand is unable to do so, it will get lesser attention.

Some of the ways through which marketers can make this shift is by creating content that is engaging, differentiated and useful, building in advocacy incentives to achieve scale, understand and leverage tools on social media platforms to create the maximum impact. For example, Comi-Con India pulled off an organic influencer engagement campaign on social media platforms with 57 influencers generating over 31,000 total engagements[20].

If the acceptance of such relevant measurement matrices increases, the divide between the brand and the target customer decreases unlocking value for both the parties.

> We at Facebook are deeply committed to encourage meaningful interactions that help people to connect people, have conversations and foster community. As community grows, we are looking at delivery relevant social experiences and building tools to ensure time well spent on Facebook.
>
> **Saurabh Doshi**
> Head Entertainment Partnerships - *Asia-Pacific*

14. https://postcron.com/en/blog/facebook-groups-online-communities/, accessed on June 22, 2018
15. https://hosteddocs.ittoolbox.com/WWenterprisesocialshares.pdf, accessed on June 22, 2018
16. KPMG in India analysis, 2018 based on? Please provide primary research
17. Industry Discussions by KPMG in India
18. https://www.digitalvidya.com/blog/social-media-marketing-case-studies/ accessed on July 10 2018
19. https://www.forbes.com/sites/forbescommunicationscouncil/2018/03/09/13-ways-to-boost-facebook-content-engagement-post-algorithm-shift/#6a4a6c105e7a, accessed on June 22, 2018
20. https://www.digitalvidya.com/blog/social-media-marketing-case-studies/ accessed on July 10 2018

Enabling value exchange in the era of data privacy

With recent changes in laws for data privacy like General Data Protection Regulation (GDPR) triggered because of increasing incidents of financial loss due to breach of data security on digital platforms, companies need to be very cautious in the way they use consumer data. Also, consumers have increasingly become aware and conscious about how their personal data is being used and shared in the digital world. This creates an interesting problem for a brand, where mining data on digital platforms was one of the key value propositions to understand the customer and create effective strategies. Given the above, there is a possibility of a value proposition for both the user and the brand.

Value proposition to the user can be:

- **Control:** Authority given to a user on how their data can be used or if there are incentives to increase the convenience and economics of his digital journey. Some options have been available to users on digital platforms on how data is captured and stored on digital platforms, but the awareness to use and control privacy settings on social media platforms is relatively low[21].
- **Clear value proposition:** A clear value proposition for the user is another lever for value exchange. For example, e-commerce companies like Flipkart and Amazon are using customers' data to influence them by remembering their product choices, providing notification on availability of desired products, recommending relevant products based on their buying behaviour among others. Customers have a higher probability of sharing data if there is value proposition in the form of convenience. As per a study conducted by a business professor of NYU in 2017, more than 75 per cent of the participants were willing to share personal information with companies provided they in turn provide them with a product or service they value[22].
- **Transparency:** Transparency in communicating with customers on how their data is used. The transparency in communication builds trust for the brand in consumers' minds and it reduces the chance of non-subscription by the customer. Loyalty programmes can give incentives to the user to subscribe to their brand and also use customer data to make their entire journey more experiential. As per a study done in North America by a customer intelligence platform Vision Critical, with over 1000 people, 66 per cent of the users would feel more comfortable in sharing personal information if brands proactively told how their information would be used[23].

Value exchange for the brand and the consumer on social media platforms need to coexist for sustainable business to take place.

21. Industry Discussions carried out by KPMG in India
22. https://www.adweek.com/digital/why-consumers-are-increasingly-willing-to-trade-privacy-for-convenience/, accessed on June 22, 2018
23. https://www.visioncritical.com/news-events/new-research-vision-critical-reveals-two-thirds-consumers-comfortably-share-personal-information-brands-open-use/, accessed on June 22, 2018

Transition from static feeds to interactive stories

Social media companies have come a long way through innovation from providing static feeds of information to engaging interactive content.

Conventional ephemeral story telling is going through a shift where, there is a larger need of 'story-doing' than story telling by the brand due to democratisation of content creation and the rise of image over text[24]. Brands need to make a shift of orchestrating or managing the content as supposed to creating the content. For example, 'tip exchange' launched by Vanish Napisan an Australian company, invited consumers to upload their videos on how to remove stains[25]. This consumer-produced content was shared across multiple channels which helped the brand to create an engaging platform through personalisation that facilitated two-way conversations between the brand and its target customers. Agencies globally have also acknowledged this trend and have reported two to three times more engagement with Instagram story posts than with regular content[26].

Digital companies are conscious of this trend and are enabling various tools and techniques on their platforms to enable the user to be creative and interactive. Below are some examples:

- L'Oreal's makeup app uses Virtual Reality (VR) to apply makeup virtually and Elle magazine created a 360 degree photo shoot through VR[27].
- Ikea has its annual catalogue on its application powered with Augmented Reality (AR), where you can actually visualise how the piece of furniture looks and fits in your home[28]. Companies can sponsor these AR lenses or filters on their digital platforms or external ones.
- For National Donuts Day, Dunkin Donuts had sponsored a lens whereby users can turn their faces into donuts and also decorate with animated toppings[29]. These filters give the user freedom to express creativity with pictures and thus boosting its usage and popularity.
- A face filter from Kylie Cosmetics where a lipstick can be added to a user's face after the picture is taken. This lipstick has shades from Kylie Cosmetics, which the brand can leverage for marketing purposes[30].
- Facebook has added features like one click camera, boomerang, text feeds augmented by 3D pens to create fascinating pictures[31].
- Siyaram's, an Indian textile brand created an interactive content marketing campaign called #10daysofgoodwill during Navratri, which enabled a contest among users to solve a challenge every day for 10 days. This generated an organic reach of 32,000 through 750 participants on Twitter[32].

26. KPMG India Industry Discussions, https://adespresso.com/blog/instagram-stories-examples/, accessed on June 22, 2018
27. https://economictimes.indiatimes.com/small-biz/marketing-branding/marketing/10-digital-marketing-trends-to-watch-out-for-in-2018/articleshow/62280112.cms; accessed on 10 July 2018
28. https://www.skyword.com/contentstandard/creativity/augmented-reality-beyond-filters-how-ar-technology-can-tell-your-story/, accessed on June 22, 2018
29. https://contentmarketinginstitute.com/2018/03/stories-filters-bots/, accessed on June 22, 2018
30. http://www.glamourmagazine.co.uk/article/kylie-jenner-accuses-snapchat-of-making-fun-of-her, accessed on June 22, 2018
31. https://techcrunch.com/2018/04/12/facebook-3d-drawing/, accessed on June 22, 2018
32. https://economictimes.indiatimes.com/small-biz/marketing-branding/marketing/10-digital-marketing-trends-to-watch-out-for-in-2018/articleshow/62280112.cms; accessed on 10 July 2018

AI driven chat bots and social media

With chat bots, brands have created a customer experience enhancer on digital platforms to increase engagement with the user.

The bots understand consumers' needs and provide them with relevant and actionable suggestions by offering them swift and easy path to purchase or providing information they are trying to seek. They offer sensitive and emotionally intelligent responses which are contextual and help the consumer in evaluating a product/service. As an example Ria is an AI assisted chat bot and is used by an app called Healthify me. Ria is powered by 150 million food logs and 15 million messages, and solves queries related to health management and keeps the user on track with his nutritional goals[33]. Ria has been designed to work as a nutritionist and a fitness trainer and help people in selecting the right exercises and diet plan as per their body type and schedule.

Chat bots are also becoming effective and prevalent in providing customer service:

- At the 2017 F8 Conference, Facebook announced that over 100,000 Facebook bots were active on their messenger platform and were providing services round the clock to consumers[34].
- HDFC Bank's Eva claims to have interacted with over 530,000 users, with more 1.2 million different conversations and more than 2.7 million queries addressed[35]. They use artificial intelligence, natural language processing and machine learning to understand a query and resolve it quickly and provide relevant responses to the user.

Although there are benefits to these technologies, there are certain risks. These chat bots have access to customer information which makes them susceptible to cyber attackers. Also, in some instances chat bots are designed to be accessed on mobiles phones which makes them susceptible to cybercrime, resulting in failure of safeguarding customer data privacy and potentially causing revenue leakages. For example, at Tinder – a dating application, a chat bot impersonated a female and encouraged men to click a link and provide their credit card information resulting in a scam[36].

Since chat bots provide exciting opportunities, it is the businesses' responsibility to ensure that they create an infrastructure with secure technologies, networks and platforms to ensure that the customer's data is safe and encrypted.

33. https://cio.economictimes.indiatimes.com/news/enterprise-services-and-applications/healthifyme-launches-ai-enabled-chatbot/61076514, accessed on June 22, 2018
34. https://venturebeat.com/2017/04/18/facebook-messenger-hits-100000-bots/, accessed on June 22, 2018
35. https://www.financialexpress.com/industry/technology/hdfc-banks-eva-becomes-indias-smartest-chatbot/843614/, accessed on June 22, 2018
36. https://dzone.com/articles/chatbots-and-cybersecurity-new-security-vulnerabil, accessed on June 22, 2018

Age of the `new age influencers`

We have now moved from TV, a single screen which was shared by the entire family to individual and personalised screens such as mobile devices or tablets in India. In the era of pure television, celebrities were considered one of the biggest influencers, because of their popularity and national reach.

When screens multiplied, innovation led to new content and format types. These `new age influencers` created content that was targeted for a specific group of audience; like followers of fashion, health, food, beauty among others. With their content, these influencers were able to create a niche for themselves and build trust among their followers:

- For example, Sandeep Maheshwari, a health and wellness specialist, creates videos that are in Hindi as well as in English and discusses topics such as depression, career and fitness. His target groups are generally students and young professionals; he has about two million subscribers and over 120 million video views on YouTube[37].
- Also, Mercedes started an influencer marketing campaign with a popular influencer, Loki – a dog who has a following of 1.6 million on Instagram. A video with Loki garnered more than 17.5 thousand views on YouTube and helped Mercedes reach a younger audience[38].

Brands which work in this space can create a larger impact by reaching their target audiences through such influencers. A study conducted by Google showcases that, compared to videos owned by traditional celebrities, videos created by the top 25 YouTube stars earned three times more views, two times the action and 12 times the comments[39].

Some of the challenges faced by brands in this space are[40]:

1. **Selection**: Brands find it difficult to identify the right set of influencers for them. Brands typically want to work with influencers who work in the same target category but influencers presently write about multiple categories. Though, the approach of having an influencer amplifies the reach of the product, there is a risk that without a targeted approach, the campaign could be diluted.
2. **Non-exclusivity**: Influencers typically work with multiple brands which can include the target brand and also its competitors. The content can lose its differential premium if all brands in the segment employ similar content. Brands have also tried to sign exclusive agreements with influencers, but have not been widely adopted yet.
3. **Content**: Occasionally, in the name of creative freedom, influencers write content which may not be aligned to the brand guideline principles. This might pose a reputation risk for the brand and hence, brands have to be cautious in selecting the right set of influencers who can create appropriate content for them.

Both the influencer and the brands are selective about choosing the campaign they want to work on to maximise the ROI for the brand, its reach and impact by the influencer.

Conclusion

Social media platforms are at an inflection point. How social media platforms use consumer data while maintaining and building trust is going to be critical in the future and the key would be how the equation of value to the user vs the brand is managed. Visual consumption is an important theme that is likely to set the course of how brands interact with their consumers. Instagram is expected to become more popular on the back of interactive content powered by digital technology and brands are expected increasingly to adopt it as a part of their larger social media strategy[41]. It will be interesting to see how private sharing applications can be leveraged by brands in the future and once the measurement conundrum is solved with reference to such platforms, there can be huge potential value that can be unlocked for both the parties. Millennials and regional users are expected to drive adoption from a user base perspective on social media platforms and increase in engagement through experiential content and commerce activities may expand the role of social media platforms in the future.

37. https://www.facebook.com/SandeepMaheshwariPage/posts/2017-04-26-celebrating-2-million-subscribers-with/1185651788227471/, accessed on June 22, 2018
38. https://www.searchenginepeople.com/blog/brands-rely-influencer-marketing-2018-beyond.html, accessed on June 22, 2018
39. https://hosteddocs.ittoolbox.com/WWenterprisesocialshares.pdf, accessed on June 22, 2018
40. KPMG India Industry Discussions
41. KPMG India Industry Discussion and Insights

GST one year on

Teething pains

GST: A year old in India

The historic launch of Goods and Services Tax (GST) in India finally saw the light of the day on 1 July 2017. GST is a broad tax levied on manufacture, sale and consumption of goods and services with a mechanism for allowance of input tax credit paid at each stage of supply.

Most of the indirect taxes under earlier regime such as Excise Duty, Service Tax, Countervailing Duty (CVD), Value Added Tax (VAT), Entertainment Tax at State level, Entry Tax, etc. have been subsumed and only one tax i.e. GST, is levied and collected on value additions at each stage of supply of goods and services at a national level. In India, there is a dual GST model wherein Integrated Goods and Services Tax (IGST) is levied on all inter-state supplies and Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST)/Union Territory Goods and Services Tax (UTGST) is levied on all intra-state supplies. GST which is generally described as 'one tax for one nation' has in true sense unified India as one market.

To a large extent GST has curtailed various exemptions and concessions which were prevalent in the earlier tax regime. The benefits of GST such as, elimination of multiple taxes and levy of one tax has reduced the cascading effect and has consequently reduced the overall incidence of taxes.

A snapshot of broad impact of GST on the Media and Entertainment sector has been tabulated below:

Particular of revenue	Levy under erstwhile Indirect Tax regime		Levy under GST[4]
	State Levy – VAT[1]/ Entertainment Tax[2]	Central Levy – Service Tax[3]	
Production houses			
Permanent transfer of copyright	6% VAT (Maharashtra)	0%	12%
Temporary transfer of theatrical rights	0% VAT (Maharashtra)	0%	12%
Temporary transfer of musical rights	6% VAT (Maharashtra)	15%	12%
Temporary transfer of satellite rights	6% VAT (Maharashtra)	15%	12%
Theatres – Movie tickets	Entertainment tax ranging from 15% to 110% (with an average of 30%)	0%	18% (for ticket price up to INR100) and 28% (for ticket price more than INR100)*
DTH/Cable operators	Entertainment tax ranging from 10% to 30% Demand of VAT in respective states on Customer Premise Equipments treating the same as right to use	15%	18%*
Entertainment and sporting events	Entertainment tax as applicable	15% (in case of sports event other than recognised sporting event on ticket price exceeding INR500)	28%*
Amusement parks	Entertainment tax as applicable	15%	18%*

*In addition to applicable GST, municipalities have been empowered to levy tax on entertainment and amusement

1. The Maharashtra Value Added Tax Act, 2002
2. Source: - What price for entertainment after July 1? Here's how GST will impact your fun time | www.economictimes.indiatimes.com | 24 June 2017; - GST: Entertainment, cable, DTH will attract lower taxes under new tax regime | www.indianexpress.com | 23 May 2017
3. The Finance Act, 1994
4. 4 The Central Goods and Services Tax Act, 2017 and the Integrated Goods and Services Tax Act, 2017

While GST implementation was expected to bring about tax efficiencies in the economy, the journey so far has had its share of challenges. Some of the major challenges were the initial glitches in the technology and GST network, issues faced by exporters for export without payment of taxes, claiming of credits, coping with the multiple compliance requirements, etc. Further, impact of GST on various trade and industry has varied depending on the function of each trade and industry. Certain impact areas for the media and entertainment segment in terms of what has worked well for the industry, the challenges faced by the industry due to GST implementation and expectations of the industry from the government, have been broadly touched upon in the ensuing paragraphs.

Hits

In the year gone by, the government through its GST Council meetings has tried to resolve various issues that had surfaced under GST, thereby resolving ambiguity for the Media and Entertainment industry and avoiding the possibility of probable tax litigation in the future. Some of the clarifications issued have been stated below, by way of example:

- The government has clarified that the Customers Premise Equipments (CPEs) such as set top boxes, dish antennas, etc. are not sold by the DTH service providers/cable operators to the end customers, and they are merely placed at the customers' location for supply of digital cable services. Thus, placing of CPEs at customer premises is not a separate supply, but the same is part of cable services. Under the erstwhile tax regime, the state governments had raised huge VAT demands contending that the CPEs are provided to the end customers on right to use basis and the same is deemed sale under state VAT laws. Such clarification may avoid prospective litigation under the GST Regime.
- An ambiguity on the place of supply for broadcasting services (i.e. channel distribution services) as to whether the same would be location of recipient of services or the location where the cable head-ends are located was resolved by the government by clarifying that the same would be the location of recipient of services as per the records of the supplier. The said clarification has provided a sigh of relief to the broadcasters as tracking of head-ends/ IRD boxes provided to the cable operators may have been a mammoth task.
- At the time of introduction of GST, there prevailed an uncertainty whether permanent transfer of copyrights would be considered as supply of goods or supply of services. In this connection, a notification has been issued, by virtue of which permanent transfer of intellectual property right (which includes copyright) has been incorporated in the goods schedule, attracting GST at the rate of 12 per cent. However, determination of place of supply (i.e. location of termination of delivery), in case of permanent transfer of intellectual property right is still a challenge, the same being intangible in nature.

Misses

Municipality being empowered to levy tax on entertainment and amusement

State level entertainment tax has been subsumed under GST; however, municipalities have been empowered to levy tax on entertainment and amusement. In certain states such as Tamil Nadu and Madhya Pradesh, the authorities have started levying and collecting taxes on entertainment and amusement.

The country even witnessed the anguish of the theatres and multiplex owners in Tamil Nadu as they discontinued screening of films and went on strike as a mark of protest against the imposition of entertainment tax by local bodies on movie tickets.

In case going forward, other states also follow suit and grant power to the local bodies to levy entertainment tax, the likely benefit that has arisen to the industry on account of entertainment tax being subsumed may wane and they may suffer multiple tax levies similar to what was prevalent in the erstwhile tax regime.

There is an apprehension amongst the media industry players that, the levy of entertainment tax by local bodies will be a back door entry by the state government to levy taxes on entertainment, the right which was taken away from them under GST law. Further, levy of entertainment tax may also lead to cascading effect of taxes, since entertainment tax amount may have to be included in the base value for levy of GST.

Momentary dip in sales made by FMCG industry, leading to cut-down in their advertising spends and consequent slowdown in advertising business

At the time of introduction of GST, various technical and system related problems were faced by the FMCG industry due to glitches in the GST network of the government as well as changes in their system. The industry was coping with multiple compliance requirements and system changes at the same time. Due to this, the companies in the FMCG industry could not raise invoices to its customers, leading to decline in their sales revenue for a temporary period.

Consequent to such dip in the sales revenue, companies cut down their overhead expenses including advertising spends. Such reduction in the advertising business had momentarily hurt advertising agencies and television industry.

Specific restriction to avail ITC on certain inward supplies

The GST law provides a specific restriction on availment of input tax credit on food and beverages, outdoor catering, beauty treatment, hiring of motor vehicles, etc.

Although service tax law prohibited credits on outdoor catering services consumed by individuals or employees, there was no specific prohibition in regards to outdoor catering services received for business purpose. However, under GST, expenditures on food and beverages, for whatever purpose, will not qualify for credit. It is pertinent to add that, a proposed amendment states that, if it is obligatory for employer to provide such food and beverages to employees, under any law, the same will be eligible for credit.

In case of production business, it is a common industry practice to serve food and beverages and provide facility of conveyance including vanity vans, to the actors and technicians shooting at various locations.

The above mentioned expenses, thus are associated with the core business activity and form a substantial part of the production costs. Due to specific restriction of input tax credit of such expenses, there is a huge credit blockage for the production houses and has a negative impact on their cost of production and profitability.

Further, for production of any audio visual content, the services of makeup artists is indispensable. However, in this regard, there is no clarity as to whether the services of a makeup artist will fall under beauty treatment services, the credit of which is restricted under the input tax credit provisions of the GST law. If the same is also restricted, then this will add on to the negative impact on production houses.

Input tax credit blockage due to place of supply of services

The production of movies, TV serials and other similar content many a times involves outdoor shoots at various locations. During the course of shooting at various locations, production houses incur a substantial cost on the accommodation of the actors and technicians.

As per the place of supply provisions, the place of supply of services by way of hotel accommodation is the place at which such immovable property is located. The service provider charges local taxes (CGST and SGST/UTGST) on such services provided, however, since these are state levies, the input tax credit of such taxes cannot be availed in another state.

Since, it is practically impossible for production houses to obtain registrations in all the states where the shooting is carried out, they are not able to avail the input tax credit on the accommodation services received during the course of shooting. Accordingly, there is significant tax cost on account of hotel accommodation, renting of immovable properties and other performance based services received in states where the production houses are unregistered.

States not entitled to grant tax exemption status[5]

It was a practice in many states to exempt certain regional films as well as films spreading social messages to society, from levy of entertainment tax. For instance, tax exemption was granted to certain films like Mary Kom, Bhaag Milkha Bhaag, etc. owing to the motivational stories of the Indian sportspersons who have brought laurels to India.

GST has two components, i.e. central tax and state tax. Further, if the ticket prices are INR100 or below, GST charged on each ticket is 18 per cent, and on tickets priced above INR100, GST is 28 per cent. If any state declares a film tax free, it has the authority to only waive off the state GST, which is half of the total GST charged i.e. 9 per cent or 14 per cent, as the case may be. For instance, post introduction of GST, the film Toilet: Ek Prem Katha was granted tax exemption by the state of Uttar Pradesh. However, only the tax component pertaining to state tax i.e. SGST was waived off on the movie ticket.

The government should consider to grant overall tax exemption to films spreading social messages to the society i.e. both central and state taxes (CGST and SGST) must be waived off.

5. Content source:
Priyanka Chopra's 'Mary Kom' goes tax free in Uttar Pradesh |www.indianexpress.com | 31 August 2014
Bhaag Milkha Bhaag gets tax exemption | www.hindustantimes.com | 21 July 2013
Toilet: Ek Prem Katha tax free in UP: Wondering how GST calculation works? Here' how | www.hindustantimes.com | 18 August 2013

Challenge in determining value in cases of barter of services

The companies in the media and entertainment industry indulge in various arrangements of co-promotions and marketing. Under such arrangements, production houses, exhibitors, distributors and artists often undertake various promotional activities such as providing free movie tickets, tie-in promotions, distributing free merchandise, making appearances for events, etc. In turn, the other companies promote the movies along with their goods/services, as the case may be.

The definition of supply under the GST law specifically includes barter transactions. Therefore, such transactions where practically there is no flow of monetary consideration, will now have to be valued and GST will have to be paid by both the parties.

The challenge here is determining value of such services, since, there is no market value of such supply which is readily available nor can there be comparable supplies to arrive at value of services of like kind and quality, since the value is dependent on success of the film. Further, the parameters of success may vary for each movie.

GST under reverse charge mechanism on inward supplies from unregistered persons

The scope of reverse charge mechanism has been expanded under the GST law to include procurements of goods and services from unregistered persons under GST.

In the media and entertainment industry, large section of service providers (including crew members, individual professionals, workers and labours on the sets where shoot is conducted) and suppliers are small suppliers or service providers, whose turnover may not cross the threshold limit for registration under GST.

The inward supplies of goods or services from such suppliers will attract GST in hands of the media companies, which is registered and procuring goods/services from them. This is expected to expose the industry to a huge cash flow and compliance cost, requiring tracking of such payments/procurements, accounting and recording of such transactions, raising of multiple invoices, etc. The same may lead to huge practical challenges for the industry players.

The provisions have been deferred as of now until 30 September 2019 and an amendment to restrict the provisions to specified class of taxpayers has also been proposed.

Input tax credit on advances paid for production

Certain companies pay huge advances to the owner of a copyright. This advance is paid even before the movie is made so that the copyright in the movie is transferred as soon as the movie is made. Such advance amount is a consideration against the share of copyrights in the movie. On receipt of the advance amount, the production company issues receipt voucher and collects GST on such advance. Such GST collected by production companies is also deposited with the government. However, companies giving such advance amount are unable to avail the credit on such advance amount paid, due to the conditions mentioned in GST law for input tax credit availment.

The GST law requires possession of invoice and receipt of services for credit availment. The company receiving an advance does not issue an invoice for advance receipt, but a receipt voucher, which is not a document basis which the input tax credit can be availed. Also, since the movie in respect of which the share in copyright is to be received by company paying the advance, is under production, hence, receipt of service is difficult to justify. Since the input tax credit paid on advance cannot be availed and the same is deferred, there is huge cash flow impact.

Multiple registrations

Under the erstwhile regime, media companies being primarily service sector companies had a centralised registration. However, under the GST regime, a person providing taxable supplies is required to obtain registration in each state of operations and there is no option available for centralised registrations.

Consequently, the registered persons are required to file separate returns in respect of each registrations obtained under GST and pay taxes in each state. This increases compliance cost of these companies to a large extent.

Further, under GST, the concept of inter branch billing has been introduced, adding to existing compliances and challenge in valuation of such transactions.

Conclusion

The impact of GST on the media and entertainment industry are both positive and negative. The industry stands to benefit considerably with the introduction of GST, majorly due to single tax levy on licensing of copyright, fungibility of credit of goods and overall reduction of cascading effect of taxes having a positive effect on the cost of production and profitability. However, certain concern areas still remain open, for which the industry seek certain amendments in the law and clarifications from the government. Key areas include increase in the threshold for GST on reverse charge on procurements from unregistered vendors or elimination of the same, ease of compliances i.e. introduction of single return at the earliest, eligibility to avail input tax credit so far as the tax has been deposited to the government, swift disposal of refund applications of service exporters, clarity with respect to anti-profiteering provisions and its applicability for media companies, restriction on the states from empowering the local authorities to levy taxes on entertainment, clarification on credit eligibility of makeup artists' services received by production houses, granting of sector specific relaxation to production houses with regard to availability of input tax credit on outdoor catering and food and beverages, considering the nature of business.

The industry awaits a positive response from the government in reference to the concern areas stated above.

Data analytics

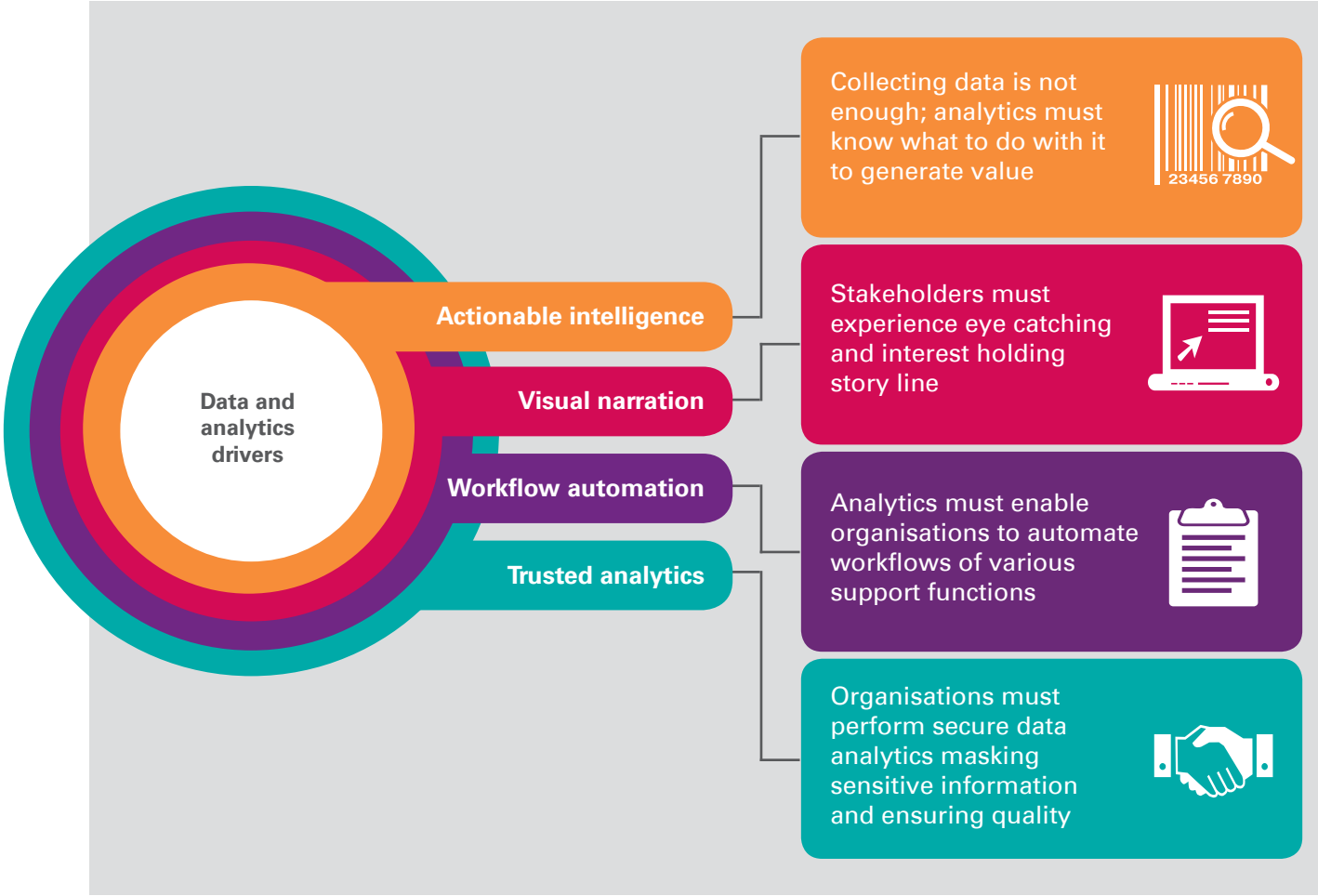
Every detail counts

Rise of analytics

With advent of digital disruption, the Media and Entertainment (M&E) industry has gone through a seismic shift in the way content is created, distributed, consumed and analysed. The industry has digitally induced multi-device, time-shifted, and often non-linear or hyper-linear viewership (binge viewing). The Indian M&E sector alone has grown up with over 483 million internet users, 300 million social media users and 218 million digital video viewers[1]. The massive explosion of data is generating new sensitivities across the media value chain (content creators, aggregators, distributors, marketers, advertisers, consumers and so on). It is thus becoming imperative for M&E organisations to grab the opportunities enclosed within data with competent analytics capabilities.

The challenge related to analytics in the M&E industry is not only in collecting data, but also in extending integration of multiple data streams, analysing data and deriving value from it. Our association with the industry across the value chain (content creators, aggregators, distributors, marketers, advertisers and so on) reveals that there are four key drivers of analytics in the industry (refer Figure 1).

Figure 1: Data and analytics drivers



Source: KPMG in India analysis

1. Media usage, by country, eMarketer, August 2018

Big data analytics

During the initial days of main-stream introduction to big data, very few media executives could define the catchphrase, let alone know what it means for their companies. Currently, the industry is grappling with challenges related to dynamic data points, diverse data types and real time data ingestion. Making sense of the avalanche of data derived from images, videos, enterprise content, applications, consumers, social media, third parties and regulatory guidelines, could help organisations come up with sophisticated contents and services. The overall exponential growth of big data analytics technologies is also catalysing such agendas.

The following factors drive prioritisation of big data analytics for the industry (refer Figure 2).

Streaming analytics

The big data ecosystem allows media companies to ingest data from their content, consumer, customer and support function value chains. This is backed by real time data processing, data governance and insight generation.

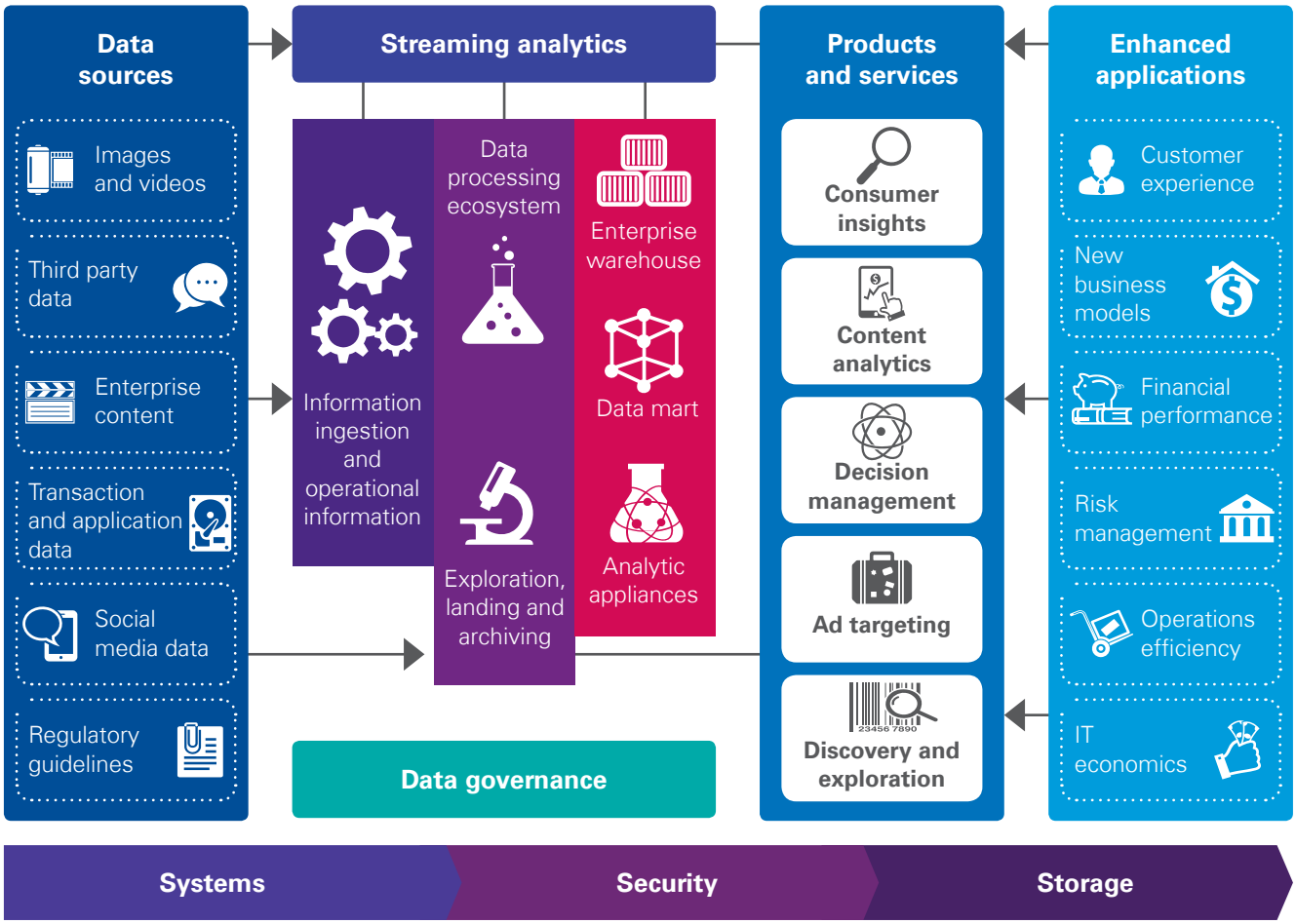
Products and services

Big data-driven media businesses have the ability to publish content with qualitative and quantitative insights derived from analysing large and heterogeneous datasets. Media companies can use big data to find out more about their consumers and customers: their preferences, profiles and attitudes to build a richer and a more interactive relationship with them.

Enhanced applications

Big data blends human expertise with data-driven offerings, thus creating an algorithmic and scalable platform for applications such as customer experience, business model, risk management, operational efficiency, IT automation.

Figure 2: Big data analytics framework for the media industry



Source: KPMG in India analysis

Contextual content

Aligning content with consumer preferences is one of the key success drivers. Content delivery mechanisms are increasingly becoming important as consumers demand more flexibility and choices. For media distributors and aggregators, data-driven decision on content acquisition is getting increasingly contextual.

Adopting technologies such as predictive data analytics, cloud computing, and personalisation engines is important to building a competitive business strategy for M&E companies.

- Amazon Web Services (AWS), the cloud computing arm of e-commerce giant Amazon, has launched a platform called Rekognition which analyses video streams and performs event and facial analytics[2].
- The company is also working with independent software vendors such as Tessact whose Artificial Intelligence (AI) and data analytics platform helps customers in M&E applications such as facial recognition, scene detection and subtitle extraction[3]

Following in the footsteps of global leaders among data driven media leaders, Indian organisations are also equipping themselves with semantic analytics technologies:

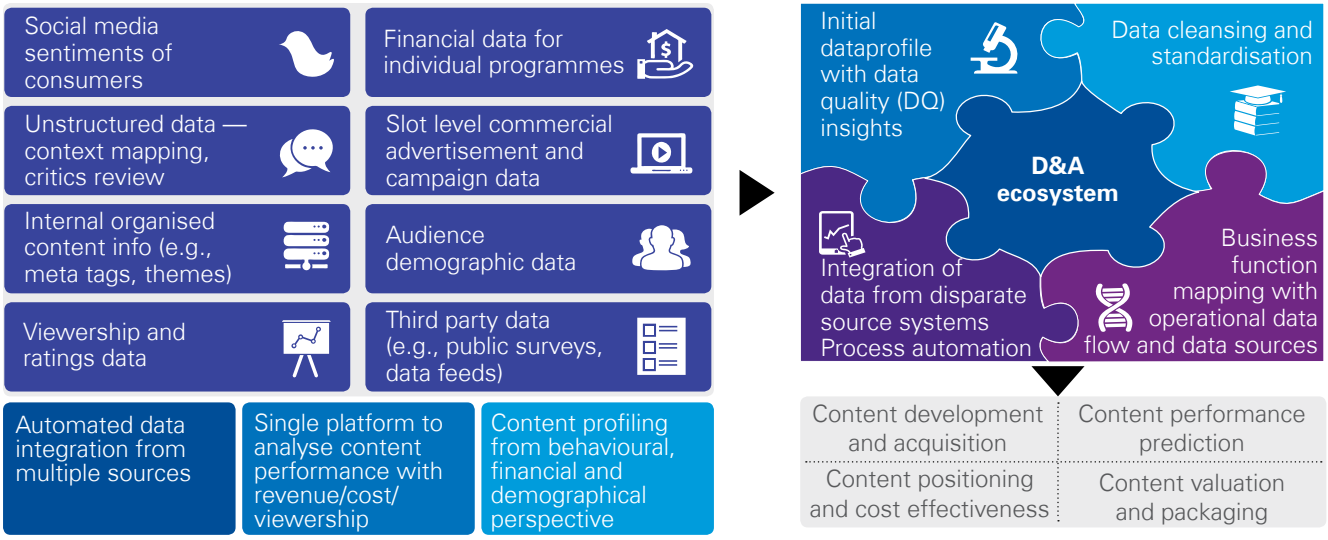
- Viacom 18's Video On Demand (VOD) platform, voot has been rolling out 'Voot Orginals' for the past couple of years[4]. This is a set of original content tailored with content analytics and audience insight
- Netflix is trying to close the gap with Amazon Prime in the Indian market with analytics-driven recommendation engines, open connect infrastructures and adaptive streaming[5]
- For cricket — the most viewed sports in India — video analytics has become a major element in keeping television audiences glued to high-voltage entertainment[6]. The benchmark for analytics has got higher with Indian Premier League (IPL)[7]
- Recently, Tata Sky partnered with ThinkAnalytics to power its personalised content recommendations across connected devices[8]
- Vidooly has launched video creators' initiative in India and South East Asia[9]. Under the initiative, the video analytics marketing company will identify and assist video content creators to create the next generation of online video stars

As depicted in Figure 2.1, many traditional and Over-The-Top (OTT) players are using large amount of viewership data from diverse sources, along with click stream analytics. This is helping them conduct an in-depth analysis of viewers' habits such as:

- When a viewer uses a device to view content
- When a viewer pauses, rewinds and fast-forwards a particular programme
- When a viewer searches for content or rates content

This enables organisations deliver content with the high viewership potential.

Figure 2.1: Content Analytics Framework



Source: KPMG in India analysis

2, 3. AWS's big bet for OTT players with data analytics & AI, The Economic Times (ETtech), Aritra Sarkhel, Jan, 2018
4. Is data science behind the hugely popular Voot Originals? Viacom18 COO explains, Analytics India Magazine, Richa Bhatia, Sep, 2017
5. How Netflix Is using big data to catch up with its Indian VOD competitors Hotstar And Amazon Prime, Analytics India Magazine, Richa Bhatia, Jun, 2018
6, 7. Running the numbers: How data and analytics influence cricket - Part 2, The Times of India, S Giridhar and VJ Raghunath, May, 2018
8. Tata Sky's personalised content discovery to be powered by ThinkAnalytics, Televi sion Post, TVP Bureau, Jun, 2018
9. Vidooly launches initiative for online video creators, Television Post, TVP Bureau, Jun, 2018

Data-driven journalism is also shaping the news industry. It is improving the quality of journalism and enhancing the brand's value. It is also allowing organisations to analyse data more thoroughly in a cost-effective manner, and enabling data analysis to be performed by a wider range of users. Data teams are regularly finding stories buried in data to provide insightful, personal and shareable visual explanations. Many organisations are using big data analytics to develop an early warning system for breaking news, and assess how audiences are consuming news in real time. Here are some examples:

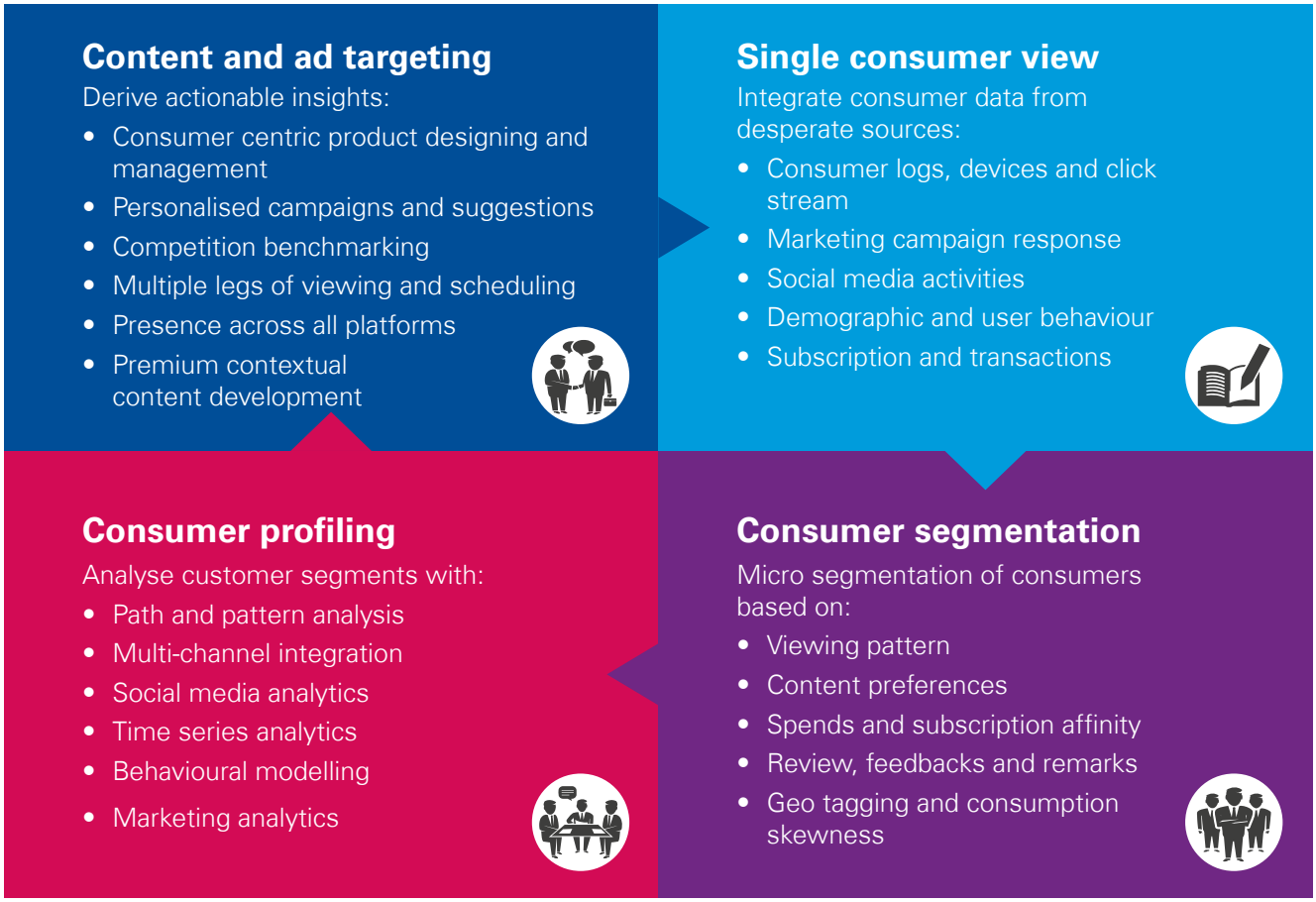
- Republic TV has inked a strategic multi-year partnership with data science company Gramener for real-time election coverage, focusing on analysing data and bringing to the audience visual presentation of election results[10]
- DataLEADS, an Indian data-driven organisation running a series of data boot camps, has promoted data-driven research and journalism across Asia by facilitating collaboration among journalists, data scientists, businesses, and government agencies[11]

Consumer-first approach

The ongoing secular shift in media consumption across devices has set up the context for advanced audience analytics. The audience behaviour is now fragmented in micro segments. Their demand is to consume media everywhere, anytime, and on any device. Instead of having a broad segmentation of consumers across age, gender, socio-economic classifications, the focus is shifting towards having a single view of consumers around their content consumption trends and preferences.

Consumer analytics can be broadly categorised into four process groups (refer Figure 2.2): single customer view, consumer segmentation, consumer profiling and content and ad targeting. Using the same, organisations are able to perform effective cross-platform analytics and predict the right content for the right audience.

Figure 2.2: Consumer analytics process groups



Source: KPMG in India analysis

10. Republic TV partners Gramener for real-time election coverage, Television Post, TVP Bureau, May, 2018

11. How an Indian data journalism initiative is bringing data into the mainstream across Asia, Data Journalism The Den, Teemu Henriksson, Jun, 2018

Media companies are building analytics-driven personalised recommendation systems with direct-to-customer strategies to promote relevant contents to consumers.

- Online gaming platform Zynga — known for games like FarmVille, used smart data to understand user preferences[12]. It monitored and recorded user behaviour to see how the games were being played, and used those insights to tweak and improve gameplay
- Microsoft acquired gaming company Minecraft for USD2.5 billion, because it realises the importance of big data in the long run, and the need of data-forward firms to help mine and understand user behaviours[13]

Social media analytics is another toolkit to analyse huge amounts of user generated datasets which can be packaged in value added services in a cost-effective manner.

- Infinite Analytics' artificial intelligence (AI) platform called 'ian' (Infinite Analytics Nucleus) performed behavioural analytics on social media data of consumers. Accordingly it pushed a targetted trailer of movie Shaadi Mein Zaroor Aana. This resulted in a huge success with the trailer of the film reaching a million hits within five days of its release[14].

Instead of having rule-based analytics models, media companies are using the ones which are self-learning and adjusting automatically based on usage and behavioural patterns

- Based on audience analytics, music companies like Spotify and Pandora are now predicting popularity of upcoming songs and customising playlists of subscribers accordingly[15]
- Comscroe's 'Box Office Essential' analytics platform is helping production houses predict the pre-release success factors of movies and their respective box office collections using historical movie reviews and ratings by audience[16]

Advertising agencies are performing in-depth consumer analytics to find association of audience micro segments with different content genres and themes, and utilising those influences effectively to push products and brands, along with geo-tagging.

Many news and sports organisations are also using video analytics, alongside traditional digital analytics for 'total audience delivery' across multiple screens and platforms. ESPN has launched ESPN+, an SVOD platform to serve cord-cutting and cord-never households and engage them with video and streaming content[17].

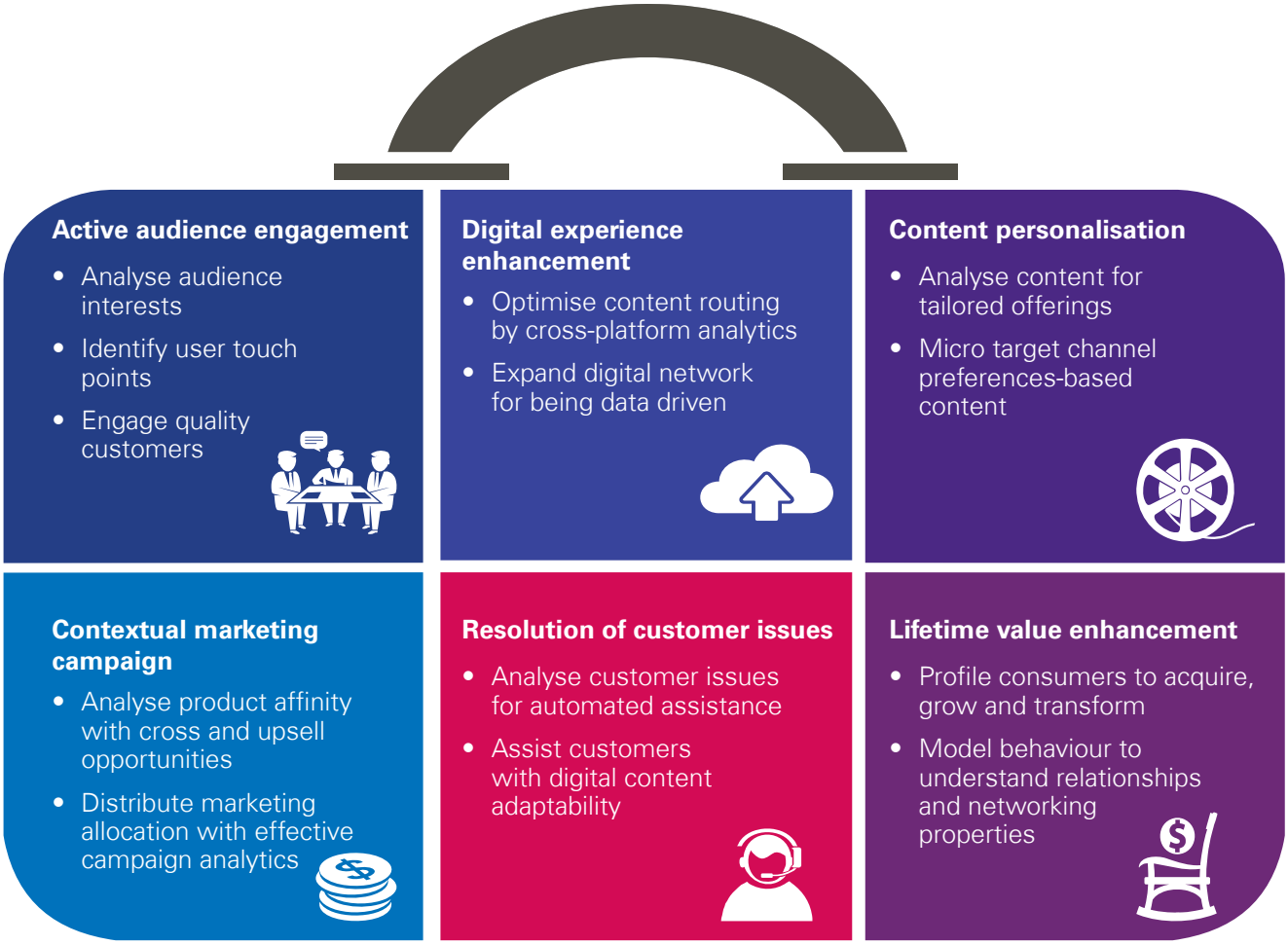
Enhanced user experience

As the media ecosystem continues to evolve, traditional media companies have started taking more direct roles in building relationships with consumers, using Customer Value Management (CVM) and Customer Experience Management (CEM). The objective is to engage 'right consumers with right content at the right time'.

As explained in Figure 2.3, a smooth amalgamation between digital and analytical solutions is transforming versatile media platforms in improving customer engagement initiatives. Data analytics in the M&E industry holds immense potential to unleash a new era of innovation. It is helping media companies to understand audience behaviour, refine marketing activities, and improve customer advocacy.

12,13. How big data is disrupting the gaming industry, CIO.com, Kevin Rands, Jan, 201
14. Data analytics makes a blockbuster debut in Bollywood, The Economic Times, J Vignesh, ET Bureau, Nov, 2017
15. How Is Analytics Changing The Music Industry?, Innovation Enterprise, James Ovenden, May, 2018
16. How can analytics play a significant role in shaping Indian cinema?, Analytics Insight, Shweta Mayekar, Apr, 2018
17. 5 ways ESPN could please cord-cutters without killing Its cable business, Fast Company, Jared Newman, Apr, 2018

Figure 2.3: Data and analytics offerings for enhanced consumer experience



Source: KPMG in India analysis

- Emarsys, a B2C marketing automation software, is personalising experiences for sports fans by using machine learning algorithms and predictive analytics[18]
- NBC Universal signed up with Snap Inc. (Snapchat) to come up with an analytics-driven digital platform with audience intelligence[19]

In India:

- Hotstar used advanced analytics to offer IPL 2018 with a multi-lingual viewing experience in six languages[20]. It offered an immersive Virtual Reality (VR) based online gaming experience called as 'Watch 'N Play', . This provided an unmatched engagement opportunity for fans[21]
- Sony Pictures Networks India Private Limited (SPNI) selected analytics and engagement technology provider CleverTap Analytics for its SonyLIV OTT platform[22] to gain greater understanding of their users while improving their ability to segment, engage and track them throughout the user life cycle.

Music and entertainment organisations are using big data technologies to host in-venue use of social media. One such use case is to provide tweet-to-screen technology with hashtags and content to active audiences at shows. This can be done while they are waiting for the show to start or during changing acts or at other relevant times. Another example is offering seat upgrades to people who tweet a specific hashtag and, assuming they have opted in, retargeting them later for other offers.

18. Predictive analytics wins sports fans, DMNews.com, Alexander Neely, Jun, 2017
19. NBCUniversal and Snap team up To bring innovative content to Snapchat; can they succeed?, Forbes.com, Nelson Granados, Oct, 2017
20,21. VIVO IPL 2018 on Star creates viewership history, Star, Press Release, Apr, 2018
22. Sony selects CleverTap Analytics and engagement platform to drive growth of SonyLIV VoD app, CleverTap, Press Release, Jun, 2017

Personalised sales and marketing

Digital advertising continues to drive growth for ad agencies as technology disrupts and creates new ways for brands to connect with consumers. The Indian digital advertising industry, currently pegged at around INR86.2 billion, is expected to grow at a CAGR of 30.9 per cent till 2023 reaching INR434.96 billion[23]. Digital media spends, currently contributing 15 per cent of the total advertising pie, will reach 24 per cent of the entire market by 2020[24]. 'Mobile first' is becoming a key business strategy as one-to-one personalised marketing moves closer to reality.

Big data analytics is getting increasingly important in this space as the sector becomes more competitive with marketing and ad-targeting push.

- Time Inc. India, which has acquired ad tech company Viant, is performing analytics for ad visibility and ad engagement optimisation[25]. This has helped Time's display advertising viewability to go up by 70 per cent from 50 per cent[26]
- During the India–South Africa cricket series held over January and February 2018, SonyLIV leveraged Akamai's dynamic ad insertion capabilities during the live stream[27]
- Fox Sports used the Adobe analytics solution for 'Super Bowl'[28]. They leveraged real-time data to optimise advertising strategy and fulfil obligations to advertisers
- InMobi has acquired AerServ to create the industry's first programmatic mediation platform for mobile in-app publishers[29]
- VuLiv Player has launched eye-tracking technology in digital advertising called EyeVu[30]. This advanced tracking technology gauges a viewer's attention to digital content and enables brands and marketers to track even the slightest eye movement of a consumer while watching brand advertisements or digital video content. This enables organisations to create more relevant and compelling brand advertising content, saving almost 90 per cent marketing dollars and generating accurate conversions to the campaign[31].

Sales teams now have transparent, data-driven applications they can use to show, for example, how changing the channel mix can generate more revenue for the same ad spend. Product vendors like Salesforce, IBM Analytics, Optimove, NGData, Beyond the Arc, Infogix, AgilOne have come up with such advanced analytics-driven ubiquitous platforms[32]. As the technology is powered by third parties, media companies avoid the inherent conflict they often face when recommending advertiser investments.

Another compelling use of analytics is how it is enabling numerous brands, ad agencies and content creators to identify and map influential characters or events. This is enabling them to craft promotional strategies around consumers within a certain community or even beyond the original community. Bottlenose, an analytics-driven brand intelligence company, has come up with a graph analytics platform called, Nerve Center [33]. This is helping organisations measure brand sentiment and ad spend targeting.

In sports, ticket pricing is one area where franchises are improving their revenues by applying analytics. National Football League (NFL) teams in the U.S. are already using dynamic pricing for stadium tickets, with aid from event ticket search aggregators like TicketIQ[34].

Media companies are thriving to recast the sales conversation from one based on attention, to one based on outcomes and return-of-investment (ROI). Instead of marketing squishy metrics such as clicks, impressions, reach or gross rating points (GRPs), organisations are deploying advanced analytics and tracking technology that allows them to sell clear and quantifiable results such as actual sales. Big data evolution is enabling these organisations to build up the strategy and practice of responding with immediacy to external events and triggers'.

23. KPMG in India analysis 2018
24. Digital advertising to grow at 32% CAGR to reach Rs 19,000 crore by 2020, The Economic Times, Gaurav Laghate, ET Bureau, January 2018
25, 26. How Time Inc. is leveraging the power Of data analytics to be a leader in Media industry, Analytics India Magazine, Srishti Deoras, Jan, 2018
27. SonyLIV leveraged Akamai's dynamic Ad insertion capabilities during Ind-SA series, Television Post, TVP Bureau, Mar, 2018
28. FOX Sports scores big in Super Bowl XLVIII, Adobe, Customer Story, Jan, 2018
29. Programmatic tech set to steer digital advertising, The Hindu Business Line, Amrita NairGhaswalla, Jan, 2018
30, 31. VuLiv Player launches eye-tracking technology for evaluating digital ads, Television Post, TVP Bureau, Mar, 2018
32. Predictive analytics for marketing – what's possible and how it works, TechEmergence, Daniel Faggella, Jun, 2018
33. Bottlenose aims to automate business intelligence with AI, Silicon Angle, Eric David, Sep, 2016
34. Dynamic ticket pricing use takes off, and teams hope it'll lure fans back into sports stadiums, CNBC, Jacob Young, Dec, 2017

Dynamic distribution

Data can be used to make distribution decisions or evaluate the impact of new distribution models on audience growth. One example is the way in which programmes, that were originally available only via cable or the satellite set-top box, can be viewed on mobile or desktops. The objective is to be 'present on all devices' that consumers use.

In line with this strategy, organisations are using predictive models to measure the contribution of a platform (traditional versus digital) in success of any programme, and accordingly promoting it via the most suitable medium. All of these dynamics are changing so quickly that current behaviours may not always be the best predictors of future ones. For example, young people such as children and teenagers, who almost share a personal relationship with their devices, prefer to watch content on their personal devices even if the family has a TV. An effective method to predict these behaviours is to watch the trends, and use analytics to look for anomalies that may signify a shift in behaviour.

For instance:

- Netflix is contemplating tie-ups with Indian cable operators to integrate Netflix with cable set-top boxes to offer a smart TV-like experience to consumers without smart TVs[35]
- The competition is becoming even fiercer with a variety of players such as Vu, Xiaomi, Airtel TV and ACT Fibernet vying for a larger pie of the Indian VOD market[36]
- Eros International's digital platform, Eros Now, has partnered with Metrological, a cloud-based TV app store and content distribution platform to provide continuous OTT experience[37]. Eros Now has also partnered with Dialog Axiata to launch in Sri Lanka, using Dialog ViU app[38].

Exploratory analysis and storytelling

With the rise of big data and the legitimacy (both real and perceived) that accompanies the use of statistics and numbers, it is critical that data stands tall both scientifically and artistically. It is not enough to just put information out there. Strategist and decision makers of M&E organisations need to understand why it is worth learning and retaining data. The content should encourage them to consider the personal impact of the information. Ultimately, strong data-driven storytelling is as much about accessibility and personal investment as it is about the numbers.

Figure 3: Perceptions of storytelling with data

Source: KPMG in India analysis

35, 36. International players target Indian VoD market, Advanced Television, , Apr, 2018
37. Eros Now partners cloud-based TV app Metrological, Television Post, TVP Bureau, Dec, 2017
38. Eros Now partners Dialog Axiata to launch in Sri Lanka, Television Post, TVP Bureau, Jun, 2018

To create a successful and data-driven story, the following factors are essential:

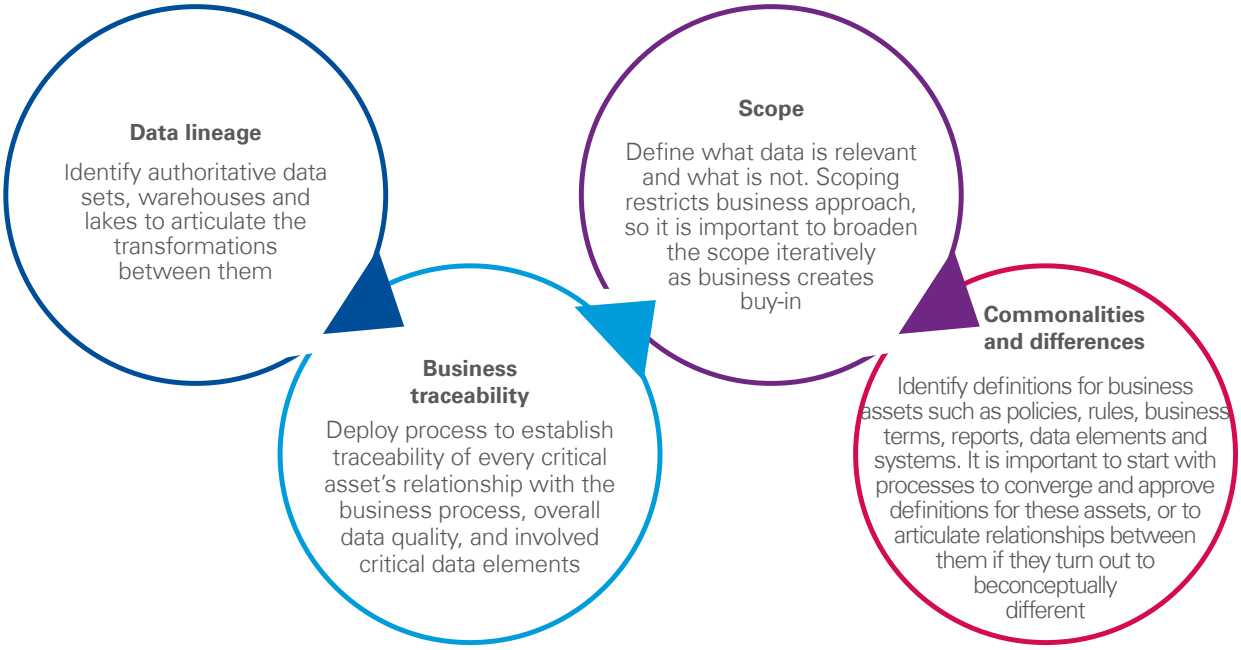
1. **Great data:** Before outlining any story, companies need to have quality-checked contextual data. The goal is not to overwhelm the stakeholders with numbers, metrics or algorithms, but to ensure that the premise of the story is well supported, and can be tailored for multiple audiences, especially if analytics is driving multiple objectives (for example, increased brand awareness and sales)
2. **Visual narrative:** Strong visual content is critical in order to trigger engagement and sharing. A well-designed visual can also turn a mass of data into something readers can digest almost at a glance. Readers can intuit relevant patterns and understand takeaways
3. **Relevance:** A common challenge with data-driven storytelling is working with niche info that does not automatically resonate far and wide. An effective strategy in that case is to tie the information to a larger issue like a current event or situations people regularly encounter. If data-driven storytelling fails to address the 'why should I care' aspect of audience, it may not be successful.

Data governance and democracy

It is clear that media companies are at the forefront of a data revolution with users becoming data-rich before becoming economically-rich. From end consumers' perspective, there is an increased concern about how personal data is being used. This calls for a rigid data governance model with data empowerment and protection architecture. The objective is to safeguard private data, while making it possible for consumers to safely share their information to access benefits. From business users' perspective, they need to be equipped with a democratised environment that allows them to access information with facilitated data analysis or self-service data analysis.

With data explosion in the industry, myriad of data sources are now available to be integrated via big data analytics and data lake ecosystems. However, it is important to incorporate the aspects as mentioned in Figure 4 prior to such integration.

Figure 4: Key aspects of data governance



Source: KPMG in India analysis

From the in-house analytics perspective, business users need democratised data access. Facilitated data analysis involves analytics to be performed by data analysts with investigations being led by subject matter experts (SMEs). Whereas, self-service data analysis allows non-data expert SMEs to deep dive into the data. This means that they can follow the data breadcrumb trail to see where it leads them. The four pillars of such data democratic environment are:

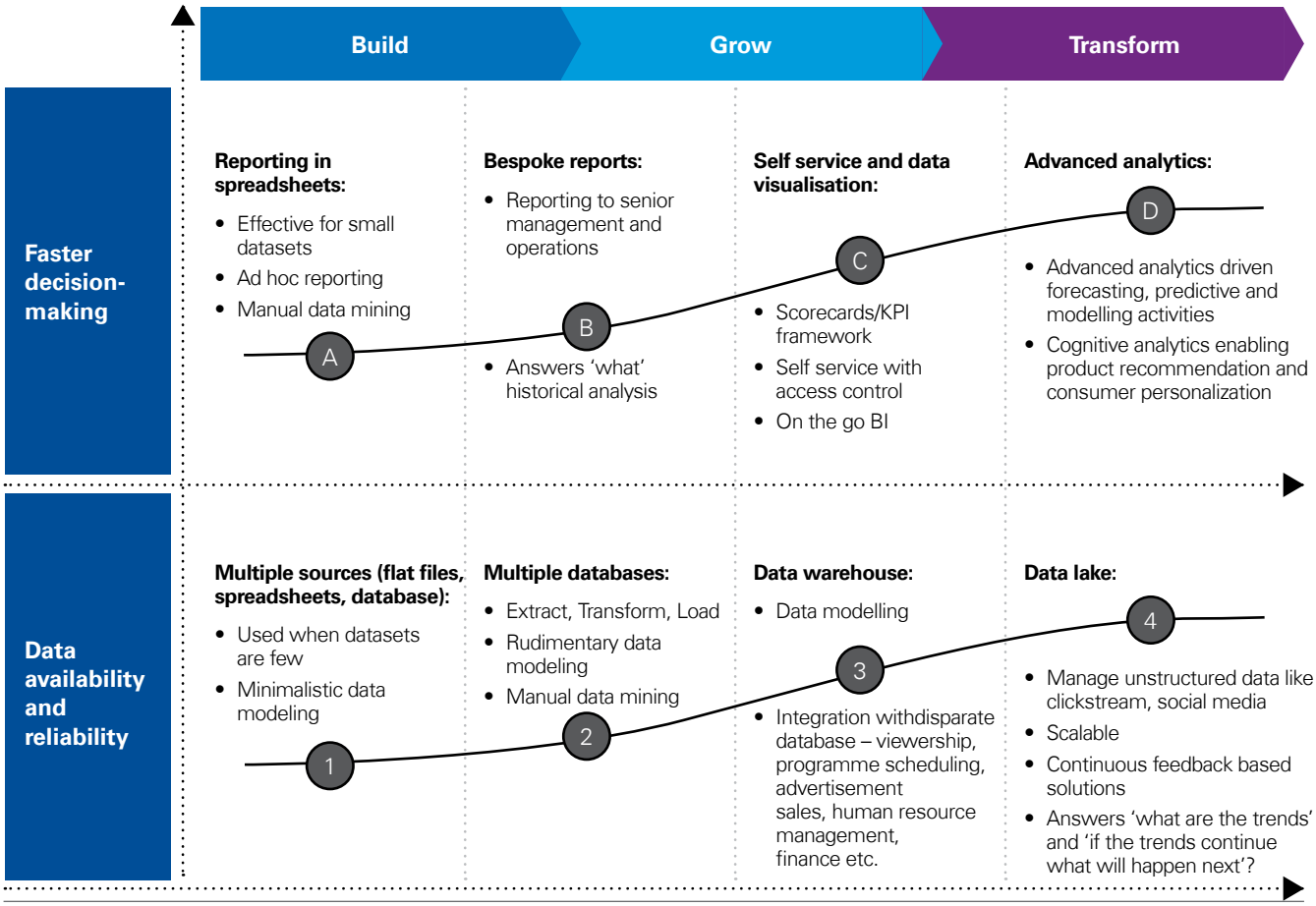
- Tools with interactive user interfaces
- Data aligned to business problems
- Quality data with enhanced trust
- Supportive environment for cultural adaptation

Data and analytics maturity framework

It is important for organisations to realise that they need to curate a proper data strategy and build trust around analytics methodologies in order to address the challenges of digital shifts. As per KPMG International's 'Guardians of Trust' report , 61 per cent of CEOs see building a trusted analytics ecosystem as a 'top three' priority for their organisation. Yet just 35 per cent of IT decision-makers have a high level of trust in their organisation's analytics[39]. Approximately 92 per cent of such leaders are concerned about the negative impact of Data and Analytics (D&A) on corporate reputation and 56 per cent are doubtful about data integrity[40]. Hence, it is important for organisations to understand and access their current maturity of data and analytics before they aggressively start investing in emerging technologies and frameworks.

As mentioned in Figure 5, one such approach can be to build a data-driven framework first, with available dataset and ad-hoc reporting. An analytics road map can then be put into place by assessing the growth drivers and performing historical trend analysis on data. Once there is a scalable framework in place, and all performance metrics are identified, analytics can become transformational with advanced data modelling, data lakes, self-service explorations and cognition.

Figure 5: Data and analytics maturity framework



Source: KPMG in India analysis, 2018

In short-term measurement, calculating analytics ROI involves evaluation of resource time and expense reduction for developing and deploying analytical reports. In long-term, the return is measured from revenue gains and capital expenditure (CAPEX) / operational expenditure (OPEX) reductions with performance analytics being used to streamline business process and to identify opportunities for growth.

39,40. Guardians of trust, KPMG International, Data & Analytics, 2018

What is next

New developments in data and analytics technologies in the M&E industry have opened avenues to launch new products. The industry has shifted toward more distributed models for content distribution. There has been a growth of content formats, and changes in ad distribution, revenue streams, and surrounding technologies. There are even more changes on the horizon with new data regulations, the growth of conversational machine learning algorithms, and continuous improvements in cloud technologies and services. These lead to disruptive developments, backed by socio-economic changes, digital adaptability and futuristic mega trends. The Indian M&E sector, too, blends in with global development outlook.

False content and news reduction

In order to control the spread of fake news which can have devastating consequences, organisations are likely to use advanced Natural Language Processing (NLP), Machine Learning (ML) and analytics techniques to flag such content and prevent it from getting distributed. Many global organisations have already started using sentiment analysis on published content and publishers. The analysis are by machine learning models that analyse the way an article is written, and could tell whether it is similar to articles written to make false interpretations, or are pseudoscientific, or are opinion pieces disguised as news, or are satirical. The models could tell if the article is comprised of mostly tweets and quotes from other people.

- Adobe recently launched an AI backed technique to find fake images, to help increase trust and authenticity in digital media[41]
- Facebook is going to continue using machine learning and AI in its crusade against online propaganda[42]. The social media giant has announced that it has begun piloting an analytics driven fact-checking programme in India
- Google has rolled out changes to its search results in hopes of curbing both fake news and offensive material[43]. To begin with, it has tweaked factors such as freshness and the frequency of a site's appearance to promote more authoritative sources while downplaying the junk.

Data-driven journalism also plays a significant role in this context:

- India Today has implemented data journalism through the NewsFlick initiative[44]
- IndiaSpend is another Indian data journalism initiative channelling a vision to improve the quality of public discourse by using data to write stories in areas of public interest[45].

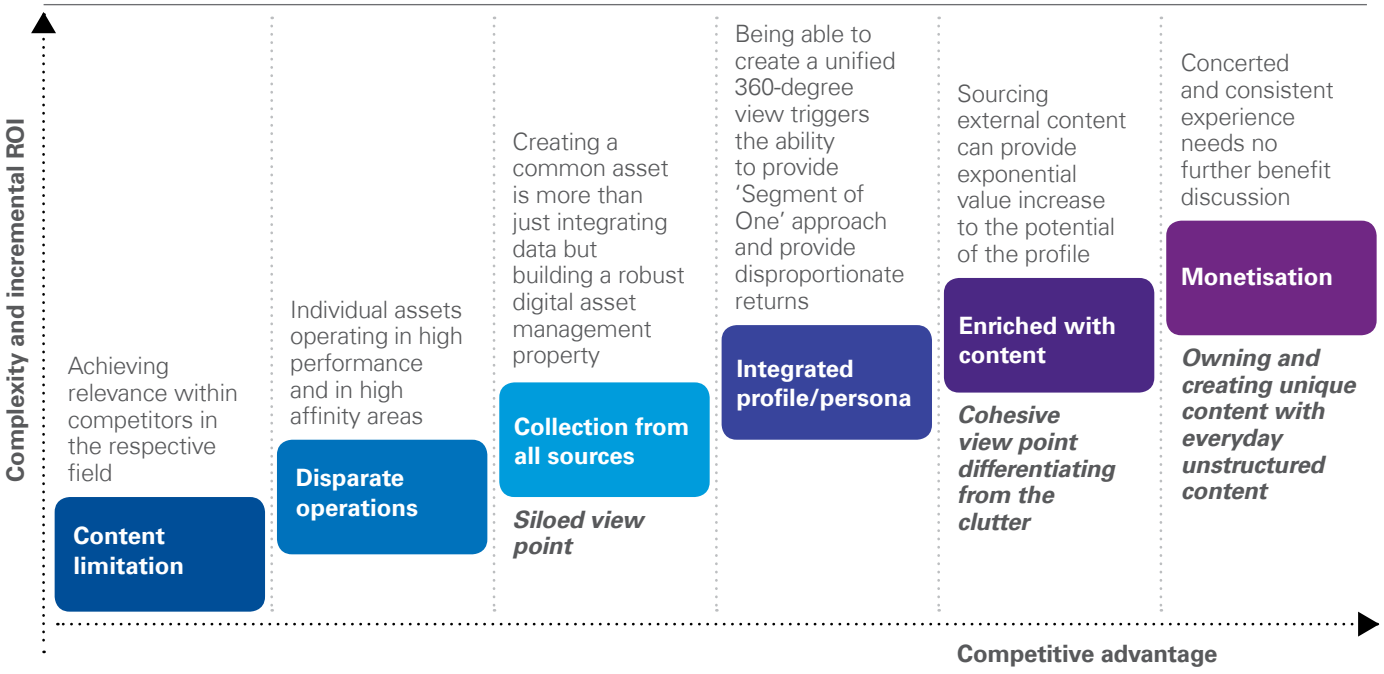
Another important aspect linked to this space is the nuisance created by spambots for media marketing and ad agencies. They create surge in traffic, cause corruption in analytics data and impact security of server resources. While analytics service providers are already filtering out known bots and crawler traffic before they cause fake inflation in numbers, advanced analytical techniques might help identify the discrepancies in traffic, limit access with intelligent use of captcha technologies and track the tails of crawlers

Content monetisation

Traditional monetisation strategies are being challenged with more players investing in dynamic portfolios of multiple revenue streams. This enables organisations to have brand extension, premium inventory, ubiquitous platforms, premium user experience and new market penetration. Each of these strategic models are transformational journeys for organisations, involving paradigm shift in operating and analytical culture. While many of these heavily rely on leadership insights, the industry is likely to shift towards analytics for value chain creation, data collection strategy, data quality improvement and efficacy measurements. The associated figure (refer Figure 6.2) shows different stages and aspects of analytics in a content monetisation framework, with an optimum balance between complexity and competitive advantage.

41. Adobe is using AI to catch photoshopped images, Engadget, Kris Holt, Jun, 2018
42. Facebook begins fact-checking news stories in India, Engadget, Mallory Locklear, Apr, 2018
43. Google refines its search results to curb fake news, Engadget, Jon Fingas, Apr, 2017
44,45. Can data-driven journalism check the rise of fake news?, Analytics India Magazine, Amit Paul Chhowdhury, May, 2017

Figure 6.2: Analytics driven content monetisation framework



Source: KPMG in India analysis

- Based on advanced analytics driven insights, YouTube has tweaked Ad Strategy to curb content stealing[46]. YouTube has started to place ads on channels only if they reach 10,000 views as it tries to filter out people who make money on the site by stealing content from other sources[47]
- Native advertising and content discovery platform, Taboola has rolled out an analytics driven application that lets publishers know precisely which articles are generating the most ad revenue[48]
- The analytics tool also lets publishers compare which referral platforms — like Facebook, Twitter, WhatsApp, or Google Search — are bringing in the most advertising dollars[49]
- Electronic Arts' Star Wars Battlefront II video game introduced an analytics powered microtransactions system in the game, which encourages gamers to spend real money on the game to unlock particular fan favourite characters[50]
- In the news and publishing industry, 'creative destruction' by big data technologies is already helping adaptive organisations monetise content. This is being achieved by applying decision science on content profiling, content anchor identification, targeted marketing, paywall setting (which and how much content should be paid versus free), customised customer service experience and content distribution platform optimisation (social media versus others).

Packaging and pricing strategy improvement

Big data analytics is likely to influence the B2B and B2C sectors of the industry in the near future, to drive dynamic pricing of content for aggregators, distributors and consumers. With relevant insight from content and audience analytics, companies are now equipped with business wisdom about bid price optimisation, quote optimisation, customised pricing, competition benchmark and pricing performance measurement. Analytics could also eventually evolve to operate as a profit centre to revolutionise sales and marketing initiatives. For example,

- Playster is using analytics driven media lines subscription model to distribute a wide variety of media types including audiobooks, music, television shows, and movies[51]
- Direct to home (DTH) operator Dish TV has revealed that it will negotiate content deals with broadcasters based on consumer analytics on subscribers who have subscribed channels on an a la carte basis[52]

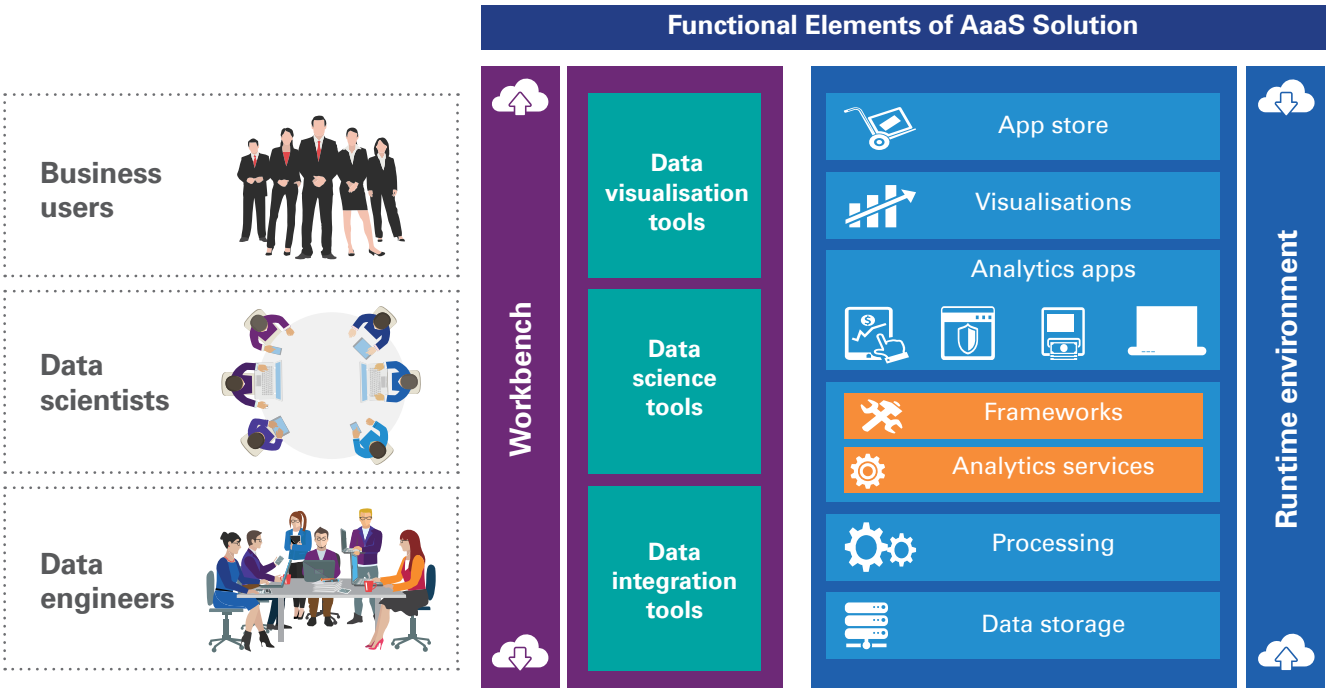
46, 47. YouTube tweaks ad strategy to curb content stealing, News18, Reuters, Apr, 2017
48, 49. A marketer's guide to the major players in native advertising, Taboola, Dec, 2017
50. Economics of microtransactions in video games, Intelligent Economist, Prateek Agarwal, Dec, 2017
51. playster.com
52. Dish TV to negotiate content deals based on consumer insights gathered from RIO offering, Television Post, TVP Bureau, Dec, 2017

Advanced analytics techniques involving association, recommendation and collaborative filtering could enable content creators and product promoters to come up with bundled or sachet offerings for relevant demands. News aggregator application, Inshorts has introduced artificial intelligence-based news summarisation on its application. The feature is based on its Rapid60 algorithm that can automatically summarise a full-length news article to 60 words news brief, along with a headline and a card image[53]. Data harmonisation across disparate information sources involving content, deal, product placement, ad targeting, consumption trends and consumer engagement will help mine insights. This will result in analytics-ready cross-sell and up-sell opportunities.

Analytics as a service offering

As the industry reshapes itself and becomes adaptive towards cloud-based technologies, analytics, too, is expected to have its niche offerings through web delivered technologies. This could help industry SMEs and data scientists focus more on business analytics use cases rather than doing data cleansing and integration. In order to generate real time insights, Analytics as a Service (AaaS) offers a shared platform to gather, store, assess, visualise, and make predictions from heterogeneous data sources, using High Performance Computing (HPC) resources.

Functional elements of Analytics as a Service (AaaS) solution



Source: KPMG in India analysis

53. Inshorts debuts AI-based news summarization on its app, The Economic Times (ETtech), Jun, 2018

Many leading analytics solution providers have come up with AaaS products that can help content creators generate caption, extract spoken keywords, detect emotion and summarise videos for content analytics. Some examples include.

- IBM Watson Media solutions enable organisations infuse AI throughout your media workflow or video library[54]
- Vidooly is a cross platform video analytics and marketing suite that helps online video content creators, enterprise media companies, digital focused brands and agencies reach out to more people with their videos and increase audience engagement through actionable video intelligence[55]
- Quid hosts its analytics platform to understand trends, guide technology investments and perform informed market research[56]
- Microsoft's Azure offers a broad set of cloud based big-data solutions[57]
- SAS, a data and analytics solution developer, recently launched SAS Viya as a cloud based solution platform that extends the SAS platform to enable data scientists, business analysts, developers and executives alike to work with collaboration[58]
- Performance analytics services are helping consumer-insights teams with narrative reporting on key performance indicators (KPIs). For social media analysis, many analytics applications (Quintly[59], Bottlenose[60]) are now available to perform exploratory data analysis on tracking conversations and measuring campaigns.

AaaS will allow organisations to opt for capex and opex effective 'pay-as-you-use' framework for analytics, with no burden of internal infrastructure set-up, analytics eco-system development and overhead maintenance. This could also help them ease the adoption of advanced analytics capabilities among business users with an abstraction layer created to hide platform level technical intricacies.

Conclusion

All of these applications of data and analytics can be a palpable game changer, given the current dynamics and circumstances of the quickly changing media world. However, it is apparent that without support from leadership on a clear data analytics road map and analytics-first mindset, companies may not be able to mature their existing pilots or small-scale projects into bountiful revenue opportunities. Drawing a closure, content and consumers are the kings in the industry, but the realm is driven by underlying data and triggering analytics.

54. Watson Media, IBM
55. vidooly.com
56. quid.com
57. Analytics offerings, Microsoft Azure
58. SAS Viya, sas.com
59. quintly.com
60. bottlenose.com

Audience measurement

Need of the hour

The one area which manages to pique the interest of advertisers, broadcasters and agencies, equally, is measurement of media. As advertising spends across media increase, the interest in the measurement of media is higher than ever.

What do advertisers want

Advertisers, today, are focused more than ever on the measurement of their return on advertising investment for simple reasons. First, advertising spends are back on the rise after initial jolts of demonetisation and GST implementation. With each incremental advertising rupee, advertisers are keen to identify returns on investments. Second, due to technology playing a huge role in today's media industry, we are better positioned to address measurement-related queries. Technology has enabled advertisers to effectively target and monitor not just demographics, but customers based on their values, attitudes and lifestyle choices. In the age of targeted advertising, just knowing what a typical New Consumer Classification System (NCCS) customer watched on TV on a Monday night does not suffice. With low cost of mobile data boosting consumption across various screens, and introduction of Internet of Things(IOT), advertisers and content creators want to understand their consumers better by cross referencing the media consumption habits of their audiences with their overall life choices.

The challenges faced by the sector

Audience research and measurement agencies have been on their toes to meet the advertisers' rising demand for more accurate, reliable, relevant and focused data to plan and justify their advertising spends. The research methodology and results need to expand and innovate to keep up with the evolving media vehicles, platforms and viewing patterns. The core problem is the industry backing to get the requisite funding for conducting study for such a regional, social, economic and culturally diverse market like India. Though sample selection and data collection continue to pose the biggest operational challenge, research agencies are improving their methodologies and checks to ensure data collection is not compromised by unscrupulous entities.[1]

Radio — In need of a dynamic measurement system

Advertisers, today, are focused more than ever on radio, which has become a steady part of the advertisers' media plan because of its last mile reach and ability to add incremental value to an integrated media plan. Advertisers use radio to create awareness about schemes, announce contests and drive footfalls to their touchpoints. However, the lack of a concrete audience research and measurement of consumption continues to affect growth in cities not covered by current metric, Radio Audience Measurement (RAM).

1. KPMG in India, 2018, analysis based on interactions with various industry stakeholders

Current issues in the radio listenership measurement system

The issue of performance monitoring has haunted the radio industry for a long time now. While All India Radio (AIR) started analysis of listenership of radio in 1946[2], through its 'listeners' research wing', private FM stations were monitored in 2007 for the first time, using a paper diary method.[3] The panel, now expanded to 600 listeners across metros, were required to mark the radio station they listened to at the designated time band. Since then, radio station owners as well as advertisers have raised concerns over the panel size, the methodology and representation of the listenership data[4].

In 2016, the Telecom Regulatory Authority of India (TRAI) also raised this as one of the pressing issues in the radio industry, and suo-moto released a consultation paper on the issues related to radio audience measurements and ratings in India. Various stakeholders were requested to provide their feedback. It is believed that the industry is in favour of a self-regulated, forward looking rating agency[5].

The current methodology followed by Television Audience Measurement's RAM has potential for improvement, owing to its availability limited to four metro cities, viz. Delhi, Mumbai, Bengaluru, and Kolkata and reporting of numbers based on the manual diary method. A large, representational sample is a prerequisite for adequate performance of a rating agency. Second, the methodology for arriving at ratings should be transparent, robust and scientific in nature.

The way ahead

One area that radio stations can look at leveraging is understanding the measurement of radio listenership through mobile phones. As the cost of ownership of mobile phones in India has reduced drastically in India, the penetration of radio could further increase, given that in-built radio is a standard function for feature phones. Though the listeners may have security concerns about third party applications collecting data about their radio consumption habits, but if these concerns are assuaged using appropriate data security measures, radio stations could effectively leverage technology to monitor listenership trends, choices and habits of its audiences. With new licenses exploring new cities, the reach of radio as an advertising media is only going to increase. Though the current metric system covers four major metros, the penetration of radio in smaller cities also needs to be measured.

Another way that radio stations commonly use to understand the pulse of their markets is through consumer engagement. Contests, promotions offer an excellent way to radio stations to understand and identify latent consumer bases, however, currently it is being done only at a city, or a single channel level. If radio stations, across cities and companies can come together and conduct innovative field tests, it may prove to be beneficial in the long run. Of course, the industry may benefit if the measurement need gap, especially in other cities are addressed.

Media Research Users Council (MRUC), the apex media measurement organisation in India, has plans to introduce research initiatives to fill in these gaps in the market.

> Pan India multi-city level radio research, which is essential given the current width and depth of penetration of radio, is a key area of future focus.
>
> **Sathyamurthy Namakkal**
> Chairman - *Techcom, IRS 2017*

There is scope of improvement in the radio audience measurement and profiling, and the industry is right on the cusp of a technological revolution, with technology playing a key role in all major aspects such as programming, broadcast, inventory utilisation. It is now possible to define audiences in a more detailed manner than just restricting the description to age, gender and occupation. With the vast amounts of data related to mobile music, video and content consumption, audiences can be profiled on the basis of their genre preference, favoured time of the day and attitude towards ad-avoidance. While this needs a more concentrated, and defined approach to audience research, the members of the media ecosystem could vastly benefit from these improvements, especially in the light of new radio stations coming up.

2. TRAI recommendations on Issues related to Radio Audience Measurement and Ratings in India, September 2016
3. TRAI recommendations on Issues related to Radio Audience Measurement and Ratings in India, September 2016
4. KPMG in India, 2018, analysis based on discussions with various industry stakeholders
5. TRAI recommendations on Issues related to Radio Audience Measurement and Ratings in India, September 2016

Out of home — A lot more than morning/ evening traffic

Out of home (OOH) is primarily used as a catalyst to a brand's media plan. Brands rely heavily on the appeal of OOH media to change or retain the purchase decision in their favor. While initially brands used OOH as a reach building platform, brands today look at OOH as a brand building platform as well.

Current issues

Site selection challenges

Advertisers currently see site selection as one of the most difficult yet critical aspects of the OOH sector. For them, not only are site visibility and traffic important, but qualitative aspects such as catchment area quality, brand affinity, neighbouring brands are important too. Presently, there are no industry-wide metrics that could help brands in the site selection phase. Most brands can look only at a few aspects such as a qualitative assessment of traffic, premium nature of the area and brands that were previously associated with the sites.

Lack of a measurement body

A major roadblock in the OOH success story is lack of an industry-wide, self-regulated audience measurement body. Brands and media agencies have time and again lamented about the lack of scientific planning and effective measurement of their OOH media plans, which is counted as a key reason for OOH not occupying a central place in their media plans.

Inadequate measurement methodologies

While different players have toyed with the idea of an audience measurement and site rating platform, the acceptance of such systems has been abysmally low. The primary reason for low adoption is lack of a clear, concise and robust methodology[6].

The way ahead

Planning tool to aid decision-making

The industry could vastly benefit from a planning tool, which provides brands with real time insights such as quantified audience exposure, prominence of the site, proximity to key hubs and associated business entities in the city. Brands may benefit from such a tool as it could lead to better and more focused media plans.

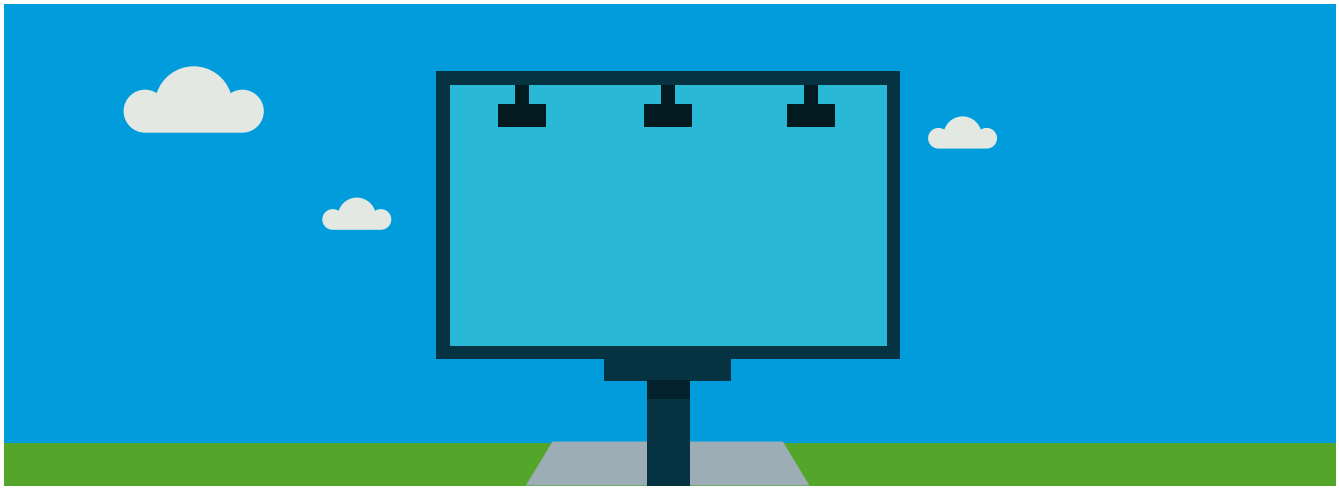
Another area that a planning tool impacts immediately is the rationalisation of media rates for some sites. According to industry analysts, brands buy an OOH site based on the perceived value of the offering, as there are no quantified results available for the larger part of the market. If there is a planning tool with site ratings, the rates of low performing sites is expected to be pushed down, while the truly high performing sites may retain the premium attached to them. Analysts believe that such rationalisation is likely to result in a substantial increase in the OOH revenue.

Monitoring — Much more than photographs

In addition to a planning tool, the industry could benefit from a monitoring system that tracks and transmits photographs of various sites in real time and in a transparent manner. The system has to be tamper proof and robust at the same time.

Further, a measurement structure, wherein the reports of campaigns along with proof of execution can be seen in real time, is required. Brands are happy to bid goodbye to site photographs with the day's paper, provided the alternative is more transparent, easy to implement, and can bear the burden of huge advertising spends across the country.

6. KPMG in India, 2018, analysis based on discussions with various industry stakeholders



Television

Television advertising spends have always seen a greater traction in the measurement section across media. The industry shift from TAM to BARC, though has taken time, but can now be safely called complete.

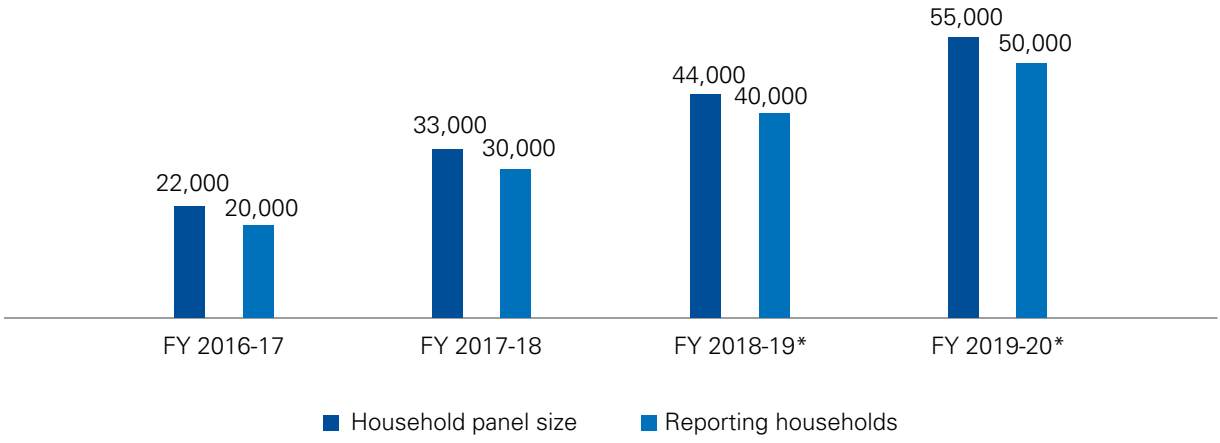
The BARC story

BARC has delivered a promising start by performing a complete overhaul of the entire TV measurement system, starting with data collection to measurement devices, panel selection, watermarking technology, data processing and end-user software[7]. Heavy investments have been made in technologies such as BAR-o-meters, watermarking, data management, multi-platform presence and software & automation[8]. The use of technology, along with their strict code of conduct for panel households and broadcasters, has brought in transparency in the measurement and reporting process.

BARC India has remained focused on addressing the advertisers' concerns over transparency, accuracy and reliability of television audience and ratings measurement data.

With an estimated universe size of around 183 million TV Cable and Satellite (C&S) households[9] spread across geographies, one of the major issues with advertisers has been the sample size for which the viewing habits are recorded, and then used to project the same for the entire universe. Though it is understood that it is impossible to study the TV viewing habits at a census level, a substantial sample size is required to represent the diverse TV viewing demographics and regions. Introduction of TV ratings for rural markets has helped in this regard by making the measurement thorough and relevant for the advertisers.

BARC India sample size



***Estimated figures for BARC India sample size[10]**

7. 'Solving The Puzzle' – Key Differentiators, BARC India, accessed July 2018
8. 'Solving The Puzzle' – Key Differentiators, BARC India, accessed July 2018
9. Universe Update – 2017, BARC India Newsletters, March 2017
10. 'BARC India to increase panel size to 44,000 homes in FY19, Televisionpost, July 2018

Much more than people meter

Going forward, one of the major focus areas for BARC is TV measurement using Return Path Data (RPD) and a single currency based on fused (panel + RPD) data[11]. It is believed to be the next game changer in TV measurement with positive outcomes for broadcasters as well as distributors.

> With the aim of providing more robust and accurate data, we have started work on RPD based viewership measurement. This will provide data with far more granularity in a far more cost-effective manner than would be possible with a meter-based panel.
>
> **Romil Ramgarhia**
> COO - *BARC India*

11. KPMG India, 2018, analysis based on discussions with various industry stakeholders

Print

Print newspapers and magazines are seeing the greatest impact from the emergence of digital media in news and general awareness segment through websites and apps. However, the print segment continues to deliver a robust growth rate year on year on the back of increasing literacy rate, growing penetration and regional markets[12].

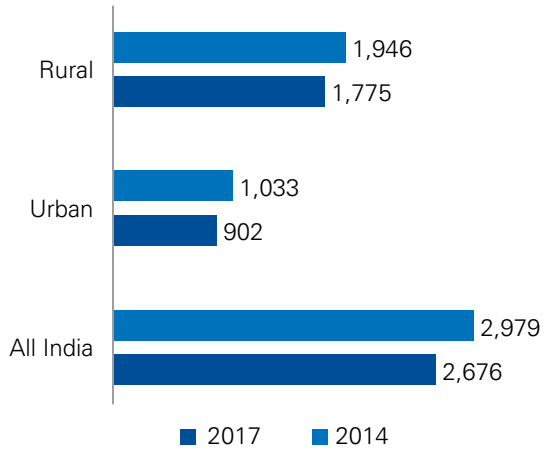
Advertisers prefer to opt for newspapers and magazines audited by either the Audit Bureau of Circulation (ABC) or Certified Audit of Circulation (CAC).

In addition to circulation numbers, advertisers rely heavily on readership numbers reported by Indian Readership Survey (IRS). IRS was launched by Media Research Users Council (MRUC) in 1995, and is presently conducted and released by Readership Studies Council of India (RSCI), formed jointly by MRUC and ABC. IRS, with its comprehensive methodology and a large representative sample size, has grown to become the only accepted currency for print readership and planning.

IRS 2017 — Results after a long hiatus

The release of IRS 2017 study was a much awaited station in the journey of print readership. Before IRS 2017, the last IRS results were released in January 2014. The IRS 2013 results were met with mixed reactions from different industry players.[13] As per some industry analysts, the results had a few gross anomalies, and it also contradicted circulation figures by ABC. The fieldwork for IRS 2017 started in 2016, and according to a RSCI statement, enhanced levels of scrutiny were adopted, "including frequent field visits, back-checks, use of GPS tracking devices, audio recordings, and quarterly validations". The fieldwork for the study was announced in March 2016, and the results were slated to be released in January 2017.[14] However, frequent delays led to the start of the fieldwork in November 2016, with the results being pushed to January 2018.

Households universe in IRS (in lakh)



Source: IRS 2017 Topline findings, MRUC

As per the IRS 2017 press release, the household universe has grown by 11 per cent.[16]

IRS 2017 has also introduced new reporting metrics — total readership (last seven days, last three days and yesterday) and main issue readership/variant readership. Apart from the standard and well-established average issue readership metric, one can now look at data from the perspective of Total Readership (TR), and readership of publications by timeframes of last seven days and last three days. These new metrics have been introduced to provide a true representation of the changing consumption habits among newspaper readers.[17]

The absence of any readership study for the past three years impacted the industry in many ways. The data — dark period, without any comprehensive and reliable study, made planning and decision-making for agencies difficult and less objective. The revamped processes and technology have given credibility to the latest IRS results, and brought in a positivity for the print industry including publications, agencies and advertisers.

12. KPMG in India, 2018, analysis based on discussions with various industry stakeholders
13. 'Indian Newspaper Society rejects IRS 2013 findings', The Economic Times, 5 February 2018
14. 'Indian Readership Survey (IRS) 2016 launched', Afaqs, March 2016
15. IRS 2017 Topline Findings, MRUC
16. IRS 2017 Topline Findings, MRUC
17. 'Print media on growth trajectory, says IRS 2017 report', AdAge India, 18 January 2018

Digital

The size of digital advertising grew from INR70.1 billion in 2016 to INR109.7 in 2017[18]. It now contributes a whopping 17.5 per cent to Indian Advertising expenditure with video gaining huge ground, along with search, display, native and programmatic advertising. Digital advertising is projected to grow with a CAGR of 29.17, and is likely to cross INR300 billion by 2022.[19] The rate at which digital media is growing makes audience measurement a critical factor.

If we look at the history of measurement for digital media, it started with the same basic principle used by other forms of media such as viewership for TV, listenership for radio and circulation for newspapers. Initially, digital media placed audience size as one of its measurement metrics. Later, techniques such as number of pages viewed, clicks, defined user metrics by use of cookies and analytics helped in digital measurement. Much later it has transcended to engagements being measured by the bounce rate of the websites.

Sectors such as FMCG, telecom, BFSI, e-commerce and real estate are growth drivers for digital, and hence, measurement becomes an important factor to keep the investments flowing for the digital Advertising expenditure.

Challenges in measurement

Today, an organisation does not want to simply reach the audience, but it wants to drive engagements and meaningful conversations. In the absence of a unified digital measurement metric and third party measurement, it becomes difficult to authenticate data. There are different types of digital advertisements which are distributed through various channels. A major concern is the metric for each channel is not standardised. Also, innovative features on continuous basis require new metric to calculate the viewability.

There is no third party verification for major digital platforms. Companies and media agencies rely on proprietary data released by such platforms. In the current scheme of things, agencies are using ad servers where a campaign can be tagged before the start of the campaign, providing unduplicated reach, and assured human viewability.

To address this issue being faced by advertisers, BARC India, which measures TV audience in India has announced the roll-out of its digital media measurement currency. It intends providing data considering unique reach and frequency across devices and allow analysis and comparison of different platforms and their offerings. The EKAM suite of products are likely to be rolled out over the next 18–24 months.[20] It is expected to provide the industry with independent third party measurement, verification of audience, and eventually viewability of video ads and content.

Current drivers of conversion on Digital

Conversion is one of the ways to measure effectiveness of digital advertisement. Campaigns are used to create awareness of a brand, bring visitors to your content, increase sales of products or services, improve subscription to mailing lists and so on.

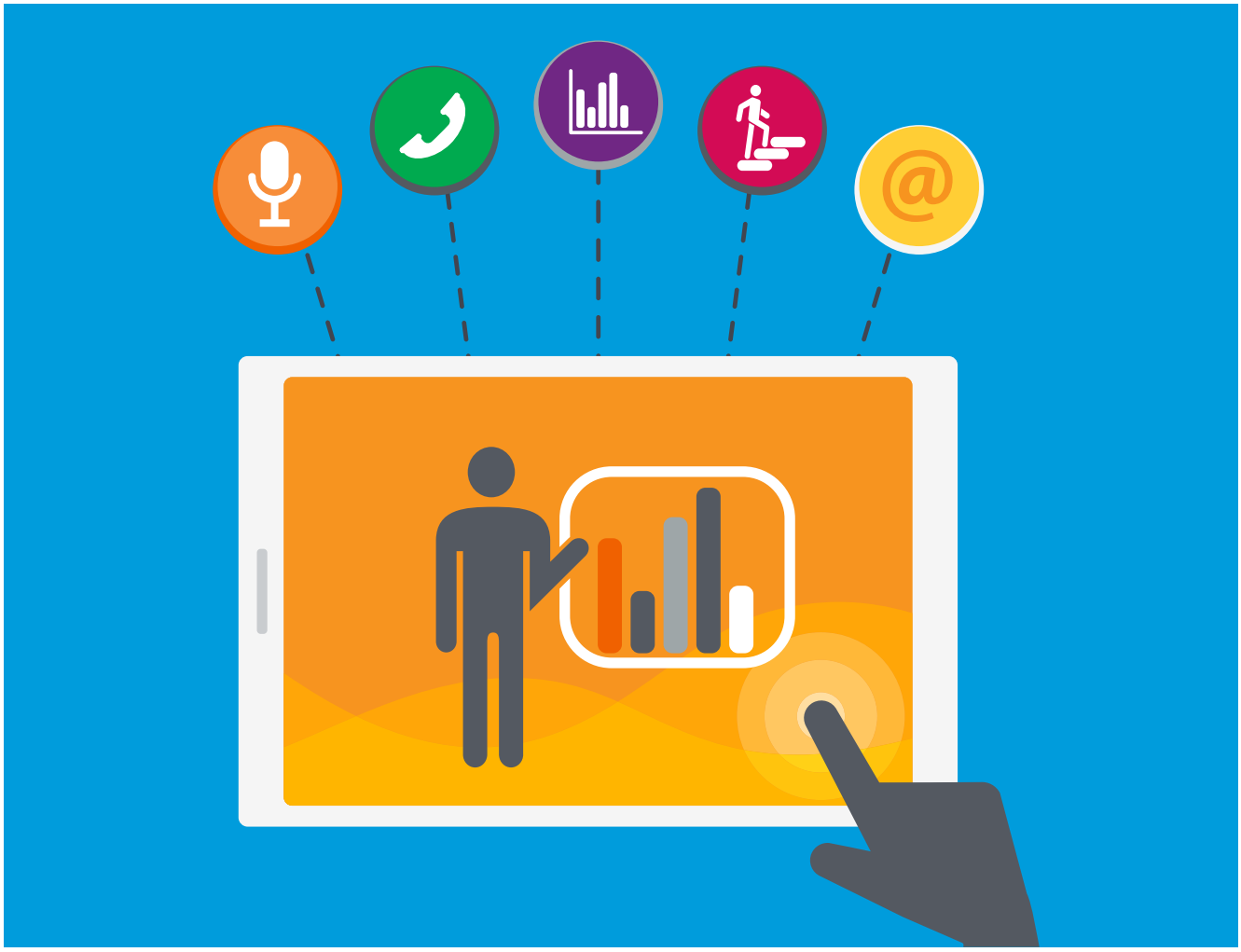
18. KPMG in India, 2018, analysis based on discussions with various industry stakeholders
19. KPMG in India, 2018, analysis based on discussions with various industry stakeholders
20. 'Achieving consensus is the biggest challenge for EKAM', Interview with Partho Dasgupta, Afaqs, 22 January, 2018

Measuring impact of digital media is a challenging job. Paid, Earned, Shared, and Owned (PESO) is an analytical approach used to assess marketing effectiveness.[21] There are four different media used to attract customers, namely, paid, earned, shared and owned media. All the marketing activities fall under one of these media.

- Paid media relates to marketing activities which a company has to pay to use the services. This includes advertisement on radio, TV or any other paid advertisement
- Earned media refers to advertisement like review by a customer, recommendations, press mentions, word of mouth which are provided by a third party and not paid by the organisation
- Shared media includes content shared on social media
- Owned media is created by the company like reviews, employee stories, customer reviews or any other content.

PESO means bringing all the right marketing ideas together, and then measuring the actual campaign with the forecast. Integrating two or more media helps compensate the weakness of one channel with the strength of others. This ultimately leads to efficient and fruitful marketing.

With digital reaching out to over 450 million users and the smartphone internet user-base crossing 300 million, digital is likely to affect other media channels in a bigger way[22]. Also, with advertisers having become more aware about the challenges in ad-viewability, the industry is likely to move towards a third party monitoring service or an ad-server to reach out only to the right audiences and get transparency in their digital marketing spends.



21. 'The 5 easy steps to measure your social media campaigns', Jenn Deering Davis, co-founder of Union Metrics, Neil Patel Blog, accessed July 2018
22. Digital, Pitch Madison advertising report, 2018

In conclusion

Before measuring digital advertisement, organisations should set goals with respect to the outcome expected from advertising. Each advertisement category should be assigned standard metrics. The next step would be to measure the same. Organisations can use their own analytics tools in case third party tools are not available. Last, monitor the findings on regular basis by comparing it with previous records, competitors' data and so on so that mistakes can be rectified[23].

The measurement sector is witnessing more activity than ever. Technological advancements, focus on returns on marketing investments, and booming data analytics capabilities have made for more than a conducive environment for improvements in the measurement sector.

One area with a scope for significant improvement is cross-platform audience measurement. These days, advertisers are increasingly looking at implementing an integrated marketing plan where each media has its separate role to play and KPIs to achieve. Advertisers understand that the consumers of this day and age, especially the youth, do not consume any one medium in isolation. Hence, if there is a platform which can provide media agnostic measurements, it is likely to benefit the ecosystem. While BARC has initiated a digital media measurement tool — EKAM, it needs to be seen what kind of information would be made available. It is important for a cross platform to have identical definitions, datasets and methodology for various media so that results can be interpreted, analysed, which can lead to actionable insights. While advertisers and media agencies often talk about inclusion of cross platform measurement bodies, they are yet to gain entry into the mainstream media planning and monitoring mechanisms.

23. 'The 5 easy steps to measure your social media campaigns', Jenn Deering Davis, co-founder of Union Metrics, Neil Patel Blog, accessed July 2018

Consolidation and M&A

Mergers & Acquisitions ("M&A") deal trends support the multitude of themes playing out in the Indian Media and Entertainment ("M&E") industry. On one hand, technology, media and telecom ("TMT") companies are converging their businesses to provide a complete content ecosystem to its consumers, whereas on the other hand television, radio and other traditional segments are seeing further consolidation. Segments like digital, animation, sports are growing segments, which are also seeing keen interest.

Telecom convergence driving M&A

The data and digital revolution is changing consumption patterns all over the world. In response, telecom companies are seeing their roles morph into that of complete consumption ecosystem providers. AT&T's recent acquisition bid of Time Warner in the U.S.A[01] is an example of the trend where the future of media and entertainment is rapidly converging around three elements: premium content, direct to consumer distribution and high speed networks, which are required to transform the way media is distributed, paid for, consumed and created.

Another example of the trend towards converged business models is the formation of HOOQ — the digital content service provider with presence in Philippines, India, and Thailand. This company came about as a classic studio–telecom partnership between Sony Pictures Television, Warner Bros (both with wide and deep content libraries) and The Singtel Group (with a strong base of mobile subscribers). The trio has already invested about USD95 million in HOOQ[02].

2017–18 saw Reliance Jio Infocomm Limited (Jio) build a similar joined business model by attempting to create a complete ecosystem of digital products and services around its core telecom service offering.

Investments by Jio and Reliance Industries Limited (RIL)

In content:

In February 2018, RIL, through its subsidiary TV18, increased its stake in Viacom18, taking operational control of the joint venture[03]:

- This investment provides leverage and control of a vast repository of content held by Viacom18, which Jio can bundle with data to its customers.

In July 2017, RIL participated in a private placement of INR4,130 million in Balaji Telefilms Limited[04]:

- This provides Jio access to content development capability and original content streaming platform — ALT Balaji.

In March 2018, Jio invested USD104 million in Saavn Media Private Limited, which operates a music streaming service 'Saavn' via an application. Jio then merged Saavn with Jio Music, Jio's own music streaming service[05]:

- This investment is likely to help strengthen the music catalogue of Jio.

In February 2018, RIL acquired a 5 per cent stake in Eros Limited (Eros) for USD39 million[06]:

- This investment provides Jio access to 'Eros Now', an OTT platform, and its library of movie content.

In May 2018, Jio agreed with Whistling Woods International, a film, communication and creative arts institute to develop a lab dedicated to virtual and augmented reality content[07]:

- This investment is expected to help Jio build a virtual and augmented reality content catalogue.

In technology:

In April 2018, Jio made an investment of USD180 million in artificial intelligence-led education tech platform—Individual Learning Private Limited (Embibe)[08]:

- This is an indication of Jio's interest in artificial intelligence and machine learning.

RIL acquired 20 per cent stake in Israeli tech incubator Jerusalem Innovation Incubator for USD25 million in July 2017[09]:

- The incubator is expected to invest in startups focusing on areas like cloud, big data, fintech, artificial intelligence.

Reliance Retail Limited, a subsidiary of RIL bought a 16 per cent stake for USD7 million in KaiOS Technologies, a U.S.-based company which provides an operating system for JioPhone[10].

01. "AT&T prevails as Time Warner takeover gets OK from judge", www.foxbusiness.com dated 12 June 2018, https://www.foxbusiness.com/markets/att-prevails-as-time-warner-takeover-gets-ok-from-judge, accessed on 13 June 2018.
02. "Asian Netflix challenger HOOQ raises $25M more from Singtel, Sony and Warner", techcrunch.com dated 11 January 2017, https://techcrunch.com/2017/01/11/hooq-25-million/, accesse d on 13 June 2018.
03. "Viacom18, Reliance Jio set for synergies in big data, content and tech", Businessstandard.com, dated 12 December 2017, http://www.business-standard.com/article/companies/viacom18-jio-set-for-synergies-in-big-data-content-technology-117121101337_1.html, accessed on 28 May 2018.
04. "RIL buys 25% stake in Balaji Telefilms for Rs413 crore", livement.com, dated 21 July 2017, https://www.livemint.com/Companies/bKu1z9YYSqfVqo8HT4N1xM/RILbuys-25-stake-in-Balaji-Telefilms-for-Rs413-crore.html, accessed on 28 May 2018
05. "Reliance Jio, Saavn to create $1 billion digital music platform" dated 24 March 2018, http://www.thehindu.com/business/Industry/reliance-jio-saavn-to-create-1-billion-digital-music platform/article23340427.ece,accessed on 28 May 2018.
06. "Content battle brings Reliance, Eros together" fortuneindia.com, dated 21 February 2018, https://www.fortuneindia.com/investing/content-battle-brings-reliance-eros-together/101610, accessed on 28 May 2018.
07. "Whistling Woods, Reliance Jio to set up VR Lab for development of cinematic VR content", televisionpost.com, dated 17 May 2018, http://www.televisionpost.com/whistling-woods-reliance-jio-to-set-up-vr-lab-for-development-of-cinematic-vr-content/, accessed on 28 May 2018.
08. "Reliance Industries to buy 73% stake in Embibe", hindubusinessline.com dated 13 April 2018, https://www.thehindubusinessline.com/companies/reliance-industries-to-buy-73-stake-in-embibe/article23521591.ece, accessed on 28 May 2018.
09. "Reliance Industries Acquires 20% Stake In Israeli Tech Incubator For $25 Mn" dated 20 July 2017, https://www.teleanalysis.com/news/corporate/ma/reliance-industries-acquires-20-stake-israeli-tech-incubator-25-mn-26062 , accessed on 28 May 2018.
10. "Reliance Retail buys 16% stake in KaiOS tech for $7 million", medianama.com, dated 12 March 2018, https://www.medianama.com/2018/03/223-reliance-retail-kaios/, accessed on 28 May 2018.

In response, other telecom operators appear to be moving in a similar direction. Bharti Airtel Limited acquired a strategic stake in Juggernaut Books, a digital platform to discover and read high quality, affordable books, and submit amateur writing[11]. Major telecom companies in India are thus moving away from their traditional role as 'data pipes' to a role where there is a discernable convergence of technology, media and telecommunications.

Television broadcasting — consolidation is the name of the game

Although there have not been any prominent deals in the Indian television broadcasting space of late, the sector is expected to move towards further consolidation as it has in the last few years. Some of the transactions in the television broadcasting space were:

- Abercross Holdings Limited acquired unknown majority stake in B4U Television Network (India) Pvt. Ltd. for INR1,686 million in November 2017[12]
- Zee Entertainment Enterprises Limited acquired 9X Media Private Limited and its subsidiaries for INR1.6 billion in October 2017[12].

At the global level, The Walt Disney Company (Disney), a U.S.-based multinational mass media and entertainment conglomerate and world's largest M&E company (by market capitalisation), has announced a bid for Twenty-First Century Fox (Fox), a Manhattan-based multinational mass media corporation headed by Rupert Murdoch.[13] Comcast, aan American global telecommunications conglomerate had also made a higher bid for Fox, to which Disney countered with an even higher bid. Comcast, later dropped its bid and Disney got the approval to buy Fox.[14] The global significance of this deal can be gauged by the interest being shown by both Disney and Comcast in Fox. Fox's stake in Star India, which is one of the largest media companies in India, is likely to come under the umbrella of the new acquirer if the deal goes through. Star India operates 69[13] channels reaching 720[13] million viewers a month across India and more than 100[13] other countries. The acquirer is expected to absorb the digital streaming platform of Star India 'Hotstar' and Star India's stake in direct-to-home platform 'Tata Sky' in India.[13] It may trigger further competition for quality content in the television broadcasting and Over-The-Top ("OTT") space, much to the delight of Indian consumers.

11. "Bharti Airtel acquires strategic stake in Juggernaut Books", hindubusinessline.com dated 4 December 2017, https://www.thehindubusinessline.com/companies/bharti-airtel-acquires-strategic-stake-in-juggernaut-books/article9981110.ece, accessed on 28 May 2018.
12. Source: www.ciq.com, accessed on 28 May 2018
13. "The Walt Disney Company To Acquire Twenty-First Century Fox, Inc., After Spinoff Of Certain Businesses, For $52.4 Billion In Stock" , www.thewaltdisneycompany.com, dated 14 December 2017, https://www.thewaltdisneycompany.com/walt-disney-company-acquire-twenty-first-century-fox-inc-spinoff-certain-businesses-52-4-billion-stock/, accessed on 28 May 2018.
14. "Disney wins: Comcast drops its bid for 21st Century Fox" money.cnn.com, dated 19 July, 2018, http://money.cnn.com/2018/07/19/media/comcast-fox-disney/index.html, accessed on 24 August 2018.

TV distribution — building a war chest for growth

With digitisation on the verge of completion in India, the theme of consolidation continues. Some recent transactions in the television distribution business highlighting this trend are:

- Dish TV with an active subscriber base of 15.5 million and Videocon d2h of around 12.2 million completed the merger of operations to form a single-largest paying TV operator with 27.7 million net subscribers in March 2018 as both players aim to enhance synergies as a result of this merger.[15]
- In December 2017, Bharti Telemedia Limited, the direct-to-home television arm of Bharti Airtel Limited picked private placement from Warburg Pincus for 20 per cent stake at USD350 million[16].

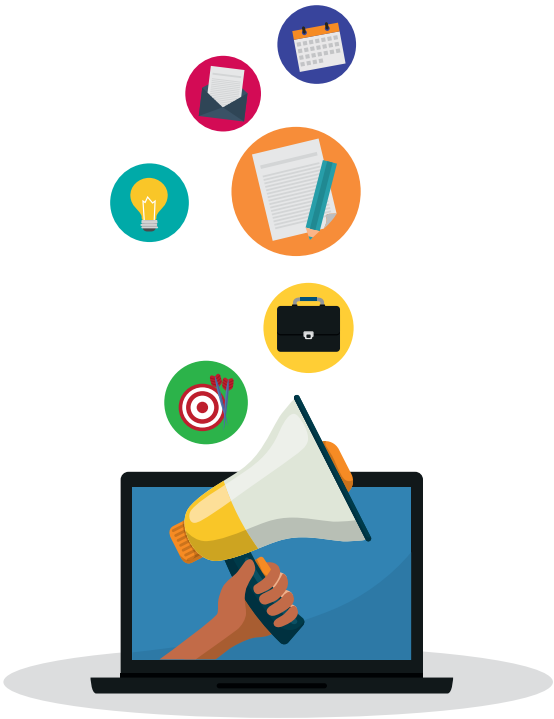
With the last phase of digitisation kicking in, Multiple System Operator's ("MSO") need to invest in STBs, upgrading digital head-ends, other back-end infrastructure. Many local MSOs facing challenges around high capital expenditure requirements to meet the digitisation targets have exited or collaborated with bigger players to fund these activities. Larger MSOs are raising funds to fund acquisitions and their growth capex. Some deals that have happened in the recent past in this regard are:

- GTPL Hathway Limited announced a public offer of equity shares of INR2,400 million[17] in June 2017. GTPL Hathway Limited invested acquired/increased its stake in the following local entities — GTPL Space City Private Limited, GTPL Junagadh Private Limited, GTPL Surat Telelink, GTPL Ahmedabad Cable Network, GTPL Vidarbha Tele Link, GTPL Blue Bell, GTPL Sharda Cable Network Private Limited and GTPL TV Tiger Private Limited[20].
- Similarly in 2016, Siti Cable Network Limited raised funding by issue of securities to promoter companies valued at INR5,300 million[18] through warrants and optionally fully convertible debentures (OFCDs) in January 2016. This funding was used to acquire regional MSOs, namely, Variety Entertainment Private Limited, SITI Jony Digital Cable Network Private Limited, Scod 18 Networking Private Limited, Sai Star Digital Media Private Limited, Krishna Teja Digital Entertainment Private Limited and Bargachh Digital Communication Network Private Limited[20].
- DEN Networks Limited, another leading cable television distribution company announced private equity funding from Goldman Sachs Group amounting to INR1,424 million in September 2016[19].

Digital advertising — traditional agencies adding digital arsenals

With media consumption increasingly being driven through digital mediums, wherein the industry can track viewing pattern and preferences, activity in the areas of digital advertising, data analytics, and artificial intelligence are expected to increase at a secular pace. Traditional agencies are therefore adding digital products and capabilities to their portfolio. Some key transactions in this space are as follows:

- In April 2017, Dentsu Aegis Network Ltd, a U.K.-based digital advertising company acquired 89 per cent stake for INR8.3 billion in Smile Vun Group Pvt. Ltd, which provides digital media network solutions[20]
- Dentsu Aegis Network Ltd also acquired 51 per cent stake in Sokrati Technologies Private Limited, which provides social advertising and digital marketing services in July 2017.[20]



15. "Dish TV India, Videocon d2h merger completed" economic times.com, dated 22 March 2018, https://economictimes.indiatimes.com/industry/media/entertainment/media/dish-tv-india-videocon-d2h-merger-completed/articleshow/63414778.cms, accessed on 28 May 2018.
16. "Warburg Pincus to buy 20% in Bharti Airtel's DTH arm for $350 mn", VCCedge.com, dated 12 December 2017, https://www.vccircle.com/warburg-pincus-to-buy-20-in-bharti-airtels-dth-arm-for-350-mn/, accessed on 28 May 2018.
17. "GTPL Hathway to launch IPO on 21 June, sets Rs167-170 price band" dated 15 June 2017, https://www.livemint.com/Money/RG4Fn77cnQAAPUWKSA8zIP/GTPL-Hathway-fixes-share-price-band-of-Rs167Rs170-apiece-fo.html, accessed on 28 May 2018.
18. Siti Cable Gets Fresh Equity / OFCD Infusion Of INR530 Crore @ RS. 35 BY PROMOTERS",bseindia.com, (corporate announcements) dated 20 February 2016, http://www.bseindia.com/corporates/ann.aspx?curpg=101&annflag=1&dt=&dur=A&dtto=&cat=&scrip=532795&anntype=C, accessed on 10 February 2017
19. Source: BSE announcements, bseindia.com dated 27 October 2016
20. Source: www.ciq.com, accessed on 28 May 2018

Animation and VFX — growing digital demand driving growth story

Digital demand and consumption is leading the way for investment and interest in upcoming segments like Animation and VFX:

- Content creators are making animated shorts, showcasing their properties in a concise format.
- Studios are also investing in new characters to have more opportunities for diversification and monetisation.
- The ingress of OTT platforms is giving rise to the consumption of original content, short form and preschool animation content.

Further, with the success of the Indian information technology outsourcing story, many global players are investing in backend support for animation/VFX/gaming and so on as they try and leverage from technically trained and economically efficient workforce in India. Some deals in the animation and VFX space are as follows:

- Graphic India Pte. Ltd, which produces entertainment animation and publishes comic books, graphic novels, animation, and character entertainment through mobile and digital platforms in India, raised USD5 million funding led by Start Media, LLC, a U.S.A based company that helps companies develop internet content.[21]
- Framestore Limited, a U.K.-based VFX company acquired stake in Anirbrain, a visual effects and animation studio based in India that specialises in creating visuals for films, television and so on for INR962 million.[21]
- Emerald Media (Emerald), a vehicle set up by private equity fund Kohlberg Kravis Roberts and Co Ltd (KKR) to invest across media and entertainment, bought a controlling stake in animated content creator Maya Digital Studios Pvt. Ltd.[22]

Live events and sports entertainment — non-traditional segments picking up interest

Live events, sports, including investor interest in franchise-based leagues other than cricket is expected to grow as it is still untapped in India. These segments are relatively new and have started seeing traction:

- In 2017, Smaaash Entertainment acquired PVR bluO Entertainment Limited for INR860[23] million following it up by an acquisition of SVM Bowling & Gaming , which has presence in southern India.[21]
- Smaaash Entertainment also raised funding of INR 250 million from Sixth Sense Ventures[23] and INR900 million[24] from another group of investors in 2017.

21. Source: www.ciq.com, accessed on 28 May 2018
22. "KKR-backed Emerald Media takes control of animation firm Cosmos-Maya, vcccircle.com, dated 11 January 2018, https://www.vccircle.com/kkr-backed-emerald-media-takes-control-of-animation-firm-cosmos-maya/, accessed on 28 May 2018.
23. "Sachin Tendulkar-backed Smaaash Entertainment raises Rs 25 crore, economic times.com, dated 27 November 2017, https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/sachin-tendulkar-backed-smaaash-entertainment-raises-rs-25-crore/articleshow/61813829.cms, accessed on 28 May 2018.
24. "Smaaash Entertainment Raises Another $14 Mn Funding From HNIs, dated 22 December 2017, https://inc42.com/buzz/entertainment-startup-smaaash-funding/, accessed on 28 May 2018.

What next?

Convergence of TMT will continue, and is likely to see more investment activity as telecom players look to build a well-rounded consumption ecosystem backed by strong technological capabilities. Growing digital consumption is likely to result in consolidation due to the increasing interest in this space and the presence of a multitude of players. Further, technology enablers such as artificial intelligence, machine learning and augmented/virtual reality are expected to gain investor interest.

Traditional spaces like television distribution and broadcasting and film exhibition continue to see investor interest through consolidation. Considering that the lock-in for old licences is expiring in the radio space, smaller players may look to exit, further driving consolidation.

Animation and VFX are likely to see more investments given the digital consumption drive by OTT players and film producers.

Gaming, Sports entertainment and Live events segments look promising with the increasing consumer base gaining access to such non-traditional sectors of entertainment.

Disclaimers:

Use of companies' / products' in the document is only to exemplify the trends in the industry. We maintain our independence from such entities and no bias is intended towards any of them in the document.

Tax landscape

Over the past couple of years, the M&E landscape has under gone a sea change - traditional media platforms being replaced with digital ones; evolving delivery/business models; new players entering the space, fast changing consumption patterns and much more. The evolution of new business models has resulted in emergence of new tax issues, many resulting from difficulties in determining the place/ point of taxation in a digitalised environment, such as – where economic activities are carried out or where value is created or where ownership rests.

Globally, policymakers have realised the need to assess the impact of digitalisation and review tax strategies and policies. At a global level, the Organization for Economic Co-operation and Development (OECD), in its Base Erosion and Profit Shifting (BEPS) Action Plan 1[1], has attempted to address key tax challenges arising from digitalisation. Further, the Multilateral Instrument (MLI) was developed to modify existing bilateral tax treaties to implement BEPS measures without the need to individually renegotiate each tax treaty. As on 29 June 2018, there are 82 jurisdictions including India which are covered under the MLI[2].

In India as well, the government has taken measures with a view to address the tax challenges. These include clarifications through circulars on vexed tax issues, introduction of equalisation levy and bringing the concept of 'significant economic presence' into the Income-tax Act, 1961 (the IT Act) to determine taxable presence in India. Another move which the government is planning, to keep pace with the global best practices and economic needs of the country, is to modify the Income-tax Act, 1961 with a new direct tax code. Further, the government has launched electronic assessment of tax returns - a step forward towards the government's ambitious plan of paperless system of interface between the taxpayer and the authorities.

While tax reforms are on their way, there are certain typical and distinct tax issues which the M&E industry faces. This chapter provides an overview of key direct tax issues relating to the M&E industry, including some key/recent judgements dealing with such tax issues. On the indirect tax front, one of the single most significant developments has been the advent of the Goods and Services Tax (GST). The possible impact of GST on the M&E industry has separately been discussed in the report.

Film industry

Deduction of expenses

The Income-tax Rules, 1962 (Rules 9A and 9B), permit deduction of expenditure incurred on production of films/acquisition of distribution rights therein.

However, there are a few ambiguities surrounding the applicability of Rule 9A/9B, including:

- whether it extends to satellite, music, home video and other rights in addition to theatrical rights;
- whether it is discretionary or mandatory;
- whether it overrides all other provisions of the IT Act (for example, allowability of expenditure irrespective of whether it is capital or revenue in nature or whether tax has been deducted at source or not);
- deductibility of expenses that are not covered by Rule 9A/9B, etc.

A government circular clarifying the above aspects could help dispel this uncertainty.

Withholding tax (WHT) on production of films

The issue, whether payments for production of motion films or cinematographic films are liable for WHT under Section 194C[3] (applicable to payment under contract for 'work') or under Section 194J[4] (applicable to payment of royalty and fees for technical/professional fees) of the IT Act, has been a matter of debate. The same has been decided by the Mumbai Tribunal, in favour of the taxpayer, in the case of Nitin M. Panchamiya[5], which was recently followed in the case of Alliance Media & Entertainment Limited[6]. The Tribunal has held that payments made for production of complete films would fall within the expression 'work' and hence, be liable to WHT under Section 194C and not Section 194J of the IT Act.

1. Addressing the Tax Challenges of the Digital Economy, Action 1 - 2015 Final Report and Tax Challenges Arising from Digitalisation – Interim Report 2018.
2. Source : Publication by OECD "Signatories and parties to the multilateral convention to implement tax treaty related measures to prevent Base Erosion and Profit Shifting – status as on 29 June 2018"
3. WHT rate under Section 194C is 1-2 per cent
4. WHT rate under Section 194J is 10 per cent
5. Nitin M. Panchamiya vs ACIT [2012] 50 SOT 468 (Mumbai Tribunal)
6. Alliance Media & Entertainment Limited vs ITO [2017] 79 taxmann.com 114 (Mumbai Tribunal)

WHT on payment for acquiring right to exhibit cinematographic films

The IT Act specifically excludes consideration for sale, distribution or exhibition of cinematographic films from the purview of 'royalty' as defined under the IT Act[7]. The issue which has arisen is whether the consideration for non-theatrical rights would fall within the scope of the said exclusion. Recently, the Chennai Tribunal, in the case of Indo Overseas Films[8], has held that irrespective of the medium in which the cinematographic films have been exhibited i.e. television, cinema halls, pay TV, etc., the same constitutes 'exhibition of cinematographic films', which has been clearly excluded from the ambit of the definition of 'royalty' under the IT Act. Consequently, it was held that no WHT is required under Section 195 of the IT Act on payments to non-residents for purchase of rights to exhibit cinematographic films.

Broadcasting industry

WHT on certain payments by TV channel companies

Discount given to advertising agencies

The issue of applicability of WHT on discount given by television channel companies or media houses to advertising agencies for procuring and canvasing advertisements was fairly settled vide a CBDT circular[9] that clarified that no WHT is attracted on such payments. Having said that, recently, the Supreme Court in the case of Prasar Bharti[10] held that the payments made by the taxpayer to the advertising agencies for securing advertisements are 'commission' liable for WHT under Section 194H of the IT Act. The facts of this case are different from those envisaged in the circular, and one will have to evaluate the facts of each case before deciding whether the circular would apply or not.

Payment of channel placement fee

The issue relating to WHT on placement charges payable by broadcasters to local cable operators/MSOs was decided by the Tribunal in favour of the broadcaster/telecaster in various cases11. However, the tax authorities had not accepted the same and had contested the issue before higher appellate authorities stating that placement fees should be subject to WHT at a rate of 10 per cent under Section 194J of the IT Act and not at the rate of 2 per cent under Section 194C, as done by the broadcasters. In this connection, recently, the Bombay High Court in the case of NGC Networks[12] held that channel placement fee is not 'royalty' as defined in the IT Act (prior to the retrospective amendment[13] which seeks to bring payments for transmission of data within the scope of 'process' royalty) and that the retrospective amendment in the definition of 'royalty' should not affect the WHT in prior years.

Further, in the case of UTV Entertainment Television Limited[14], the Bombay High Court has held that the cable operator/MSO does not render any technical service by placing a channel on a prime band and hence, WHT provisions contained in Section 194J of the Act are not applicable to placement fees. The Court held that placement fees are liable for WHT under Section 194C of the IT Act.

Taxation of transponder charges

The taxability of transponder payments has been a fairly contentious issue with the tax authorities contending that such payments are in the nature of 'royalty' under the tax treaties and IT Act, especially after the retrospective amendment vide Finance Act 2012. However, various High Courts[15], and recently, the Delhi Tribunal in the case of Independent News Service Private Limited[16] have held that even post the amendment in the definition of 'royalty' under the IT Act, payments received by foreign satellite companies for lease of transponders are not taxable as 'royalty' under the tax treaty.

Thus, while transponder payments are taxable under the IT Act, non-resident taxpayers can continue to benefit from tax treaties entered into with India to contend that such payments are not in the nature of royalty/fees for technical services under the tax treaty and hence, not liable to taxes in India.

Taxation of a Foreign Telecasting Company (FTC) on account of advertisement revenues

The two primary sources of revenue for FTCs are income from sale of advertising airtime on the TV channel and subscription revenues.

Taxation of advertisement revenues

The circumstances in which FTCs constitute a PE/business connection in India and the determination of taxable income attributable to such PE/operations carried out in India, continue to be contentious issues between FTCs and the tax authorities.

7. Explanation 2 to Section 9(1)(vi) of the IT Act
8. Indo Overseas Films vs ITO [2017] 81 taxmann.com 378 (Chennai Tribunal)
9. CBDT Circular No. 05/2016, dated 29 February 2016
10. Director, Prasar Bharati vs CIT [2018] 403 ITR 161 (Supreme Court)
11. Zee Entertainment Enterprises Ltd [2015] 38 ITR(T) 636 (Mumbai Tribunal); UTV Entertainment Television Limited (ITA Nos. 2699,4204,4205,2700/ Mum/2012 dated 29 October 2014)
12. CIT vs NGC Networks (India) Private Limited (ITA No. 397/2015) (Bombay High Court)
13. Retrospective amendment introduced vide Finance Act, 2012 to definition of 'royalty' in Section 9(1)(vi)
14. UTV Entertainment Television Limited [2017] 399 ITR 443 (Bombay High Court);
15. DIT vs New Skies Satellite BV and Shin Satellite Public Co. Ltd [2016] 382 ITR 114 (Delhi High Court), DIT vs M/s. ATN International Ltd. [2016] 242 Taxman 8 (Calcutta High Court)
16. Independent News Service Private Limited vs ITO [2018] 90 taxmann.com 163 (Delhi Tribunal)

Recently, the Mumbai Tribunal in the case of SPE Networks Inc[17] and International Global Networks BV have held that the Indian agent of the FTC, being an independent agent, does not constitute a PE of the FTC in India. Further, in the case of International Global Networks BV[18], it was held that payments made to the Indian agent are at arm's length and hence, the FTC was not required to pay any additional tax in India, applying the ratio of various judgements of the Supreme Court/High Courts.

Having said the above, pursuant to the OECD's BEPS Action Plan 7 and the MLI, one will have to be mindful of the proposed expansion in the scope of PE to cover situations where a dependent agent 'habitually plays the principal role leading to the conclusion of contracts that are routinely concluded without material modification by the enterprise', unlike the existing provisions which typically cover only the conclusion of contracts that are 'in the name of" or binding on the principal for creation of a dependent agent.

Taxation of subscription revenues

Subscription revenues are generally collected by Indian distributors and are subsequently paid to the FTCs. The FTCs take a position that the payment of subscription revenue is in the nature of business income and is not taxable in India in the absence of any PE in India. FTCs are of the view that the payment for grant of distribution rights is not for any copyright and hence, is not in the nature of royalty (which is taxable on a gross basis at a specified rate). However, the tax authorities hold a contrary view and contend that the subscription revenues are liable to tax as royalties.

Deduction of cost of production of programmes

As discussed earlier, the deduction of expenditure incurred on production of films/acquisition of distribution rights is permitted in Rule 9A and 9B of Income tax Rules, 1962. However, in absence of a specific Rule for deduction of cost of TV programme, the issue is whether these expenses are revenue in nature and allowable in the year in which they are incurred, or such expenses should be capitalised and eligible for depreciation at the rate of 25 per cent (rate applicable for intangible assets).

Given the short lifespan and nil or negligible revenue earning potential after the first telecast, several industry players chose to claim deduction of the production cost when the programme is telecasted and not capitalise the same. While the said position is upheld by the Delhi High Court[19], it still remains a subject matter of dispute with the tax authorities.

DTH industry

WHT on discount on sale of Set Top Boxes (STBs)/Recharge Coupon Vouchers (RCVs)

An issue arises vis-à-vis applicability of WHT on the discount given to distributors on sale of STBs/RCVs. The tax authorities are of the view that discount on sale of STBs/RCVs is in the nature of commission, subject to WHT under the Section 194H of the IT Act. However, the industry is of the view that the discount is not in the nature of commission and hence, Section 194H is not attracted thereon.

Recently, the Mumbai Tribunal in the case of Bharat Business Channels Limited[20] held that trade discounts provided to distributors/dealers on sale of set up boxes and recharge vouchers from the Maximum Retail Price by the taxpayer shall not be considered as 'commission' subject to WHT under Section 194H of the IT Act since the relationship between the taxpayer and the distributors/dealers is on principal to principal basis.

In this regard, it could benefit the industry if the government issues a suitable clarification (similar to the one issued in the case of TV channel companies[21]) that discount on sale of STBs/RCVs is not in the nature of commission/brokerage and not subject to WHT.

Music industry

Deductibility of cost of music rights

The deductibility of acquisition cost of licence for music rights has been a controversial issue. The issue is whether such cost is entitled to depreciation (at the rate of 25 per cent on written down value basis), or is in the nature of revenue expenditure, deductible in the first year or is to be amortised over the period of a licence. The Delhi High Court in the case of Krishan Kumar[22], the Mumbai Tribunal in the case of Tips Cassettes & Record[23] and the Calcutta Tribunal in the case of Gramophone Company of India[24] have held that the payment for acquiring music rights (both lump-sum and recurring) are in the nature of payments for acquiring raw materials and hence, should be deductible as revenue expenditure. Given that this is a timing issue, it would be beneficial if the government can issue a circular/clarification confirming this position.

17. SPE Networks Inc vs DCIT (2017) 87 taxmann.com 345 (Mumbai Tribunal)
18. International Global Networks BV vs ADIT (2017) 84 taxmann.com 188 (Mumbai Tribunal)
19. CIT vs. Television Eighteen India Ltd. [2014] 364 ITR 597 (Delhi High Court)
20. JCIT vs Bharat Business Channels Limited [2018] 92 taxmann.com 216 (Mumbai Tribunal)
21. CBDT Circular No. 5/2016 dated 29 February 2016
22. CIT vs Krishan Kumar [2015] 53 taxman.com 273 (Delhi High Court)
23. Tips Cassettes & Record Co. vs ACIT [2002] 82 ITD 641 (Mumbai Tribunal)
24. Gramophone Co. of India Limited vs DCIT [1994] 48 ITD 145 (Calcutta Tribunal)

Digital media industry

The OECD, in its BEPS Action 1 Report identified a number of broader tax challenges arising from digitalisation. These challenges relate to the question of how taxing rights on income generated from cross-border activities in the digital age should be allocated among countries. To address these issues, a range of potential options are analysed by the Task Force on Digital Economy (TFDE) which included alternatives to the existing PE threshold based on 'significant economic presence', the imposition of new withholding tax on certain types of digital transactions and the introduction of a separate 'equalisation levy'[25].

In continuance of India's strategy to adopt measures of OECD on BEPS, after the introduction of equalisation levy in 2016, the scope of 'business connection' in the domestic tax law has been expanded vide the Finance Act, 2018. The law provides for taxation of foreign enterprises not having any physical presence in India, but having 'significant economic presence' in terms of aggregate payments from transactions of goods/services/property (including provision of download of data or software in India) or the number of digital users, exceeding prescribed limits. Foreign digital media companies, not having physical presence in India, but providing data/content digitally to customers in India may be impacted by this amendment in the tax law.

Radio industry

Deductibility of licence fees

Radio broadcasters are required to pay licence fees (one time entry fee and recurring annual fees) to the government as per the licence terms. The issue that has arisen is whether such fees are in the nature of revenue expenditure to be claimed as deduction in the year in which they are incurred or are in the nature of capital expenditure, entitled to depreciation. Since the annual licence fee is payable for each year of operation, it could be allowed as revenue expenditure. Further, the one-time entry fee could be allowable as a deduction over the period of the licence. However, another view is that the payment for the one-time entry fee could be treated towards licence acquisition, specifically covered as an intangible asset, eligible for depreciation at the rate of 25 per cent. This has resulted in a dispute between taxpayers and the tax authorities.

Sports

Taxation of sports associations, sportspersons and foreign teams participating in such sporting events (for example, taxability of broadcasting revenue earned by the sports associations, taxability of participation fee received by sportspersons, advertisement and sponsorship income earned by the participating teams, attribution of income in India, etc.) is a vexed issue.

Recently, the Supreme Court in the case of Formula One World Championship Limited[26] has held that the racing circuit should constitute a fixed place of business/PE of the foreign company in India under the India-U.K. tax treaty, even though the duration of the event was only for a short duration of three days, since the foreign company had full right of access to the circuit during the entire period of the event.

Further, the Authority for Advance Rulings (AAR) in the case of Production Resource Group[27] held that the space provided to the foreign service provider for rendering services i.e. lighting, sound, video, etc. during the Commonwealth Games in India constitutes a PE of the foreign company in India under India-Belgium tax treaty, since it had an identifiable place of business at its disposal, and the duration and degree of permanence was for as much time as its business required.

Transfer Pricing (TP)

The increased cross-border activity coupled with the peculiarities of the nature of transactions undertaken in the M&E industry poses several practical challenges in establishing the fact that the transactions undertaken between related parties are at an arm's length. The sections below provide an overview of TP related issues faced by the M&E industry.

Compliance vis-à-vis peculiar transactions

The Indian TP regulations provide that the comparability of an international transaction with an uncontrolled transaction should be judged with reference to certain specific conditions as prescribed under the Rules.

In view of such parameters, if the nature of international transactions entered into between parties in the M&E industry are analysed, it can be seen that they are distinct and peculiar and are not comparable to those undertaken in any other industry. Prices and returns on transactions in the M&E industry vary significantly from transaction to transaction, firstly between different genres and also, within the same genre, between each content product.

25. Source: OECD Publication "Tax challenges Arising from Digitalisation – Interim Report 2018"
26. Formula One World Championship Limited vs CIT [2017] 394 ITR 80 (Supreme Court)
27. Production Resource Group [2018] 401 ITR 256 (AAR – New Delhi)

This poses peculiar challenges from a benchmarking perspective. Firstly, it is usually difficult to gather information from the public domain on similar independent transactions undertaken in this industry. Secondly, even if some data is available on certain similar transactions undertaken between unrelated parties, they can seldom be used for benchmarking the related party transactions because of material differences between the two transactions being compared.

The Indian TP regulations have prescribed six methods under the law for the purpose of determination of an arm's length price. Given the distinctiveness of international transactions entered into between related parties in the M&E space, it is often felt that the benchmarking analysis may not always be possible within the purview of the five methods prescribed under the law.

However, taxpayers may have a little more flexibility to use the sixth method viz. the 'Other Method' wherein tender documents, third-party bids, proposals, valuation reports, standard rate cards, price quotations and commercial and economic business models, etc., could be used to demonstrate an arm's length intent.

Increased compliance burden on foreign M&E entities undertaking TP compliances in India

In a recent landmark decision of a foreign taxpayer[28] , the Special Bench of Kolkata Tribunal dealt with an emerging issue in India, namely 'base erosion'.

The Special Bench, in this case has held that whether there is an erosion of the overall Indian tax base is not a relevant factor in determining whether TP provisions apply to a transaction.

The Special Bench has rejected the base erosion theory in principle which would not be restricted only to the transaction in question in this particular case, but also to wider classes of transactions. This ruling, if implemented by the tax authorities, can have wide spread ramifications for any foreign M&E entities complying with TP compliances in India. In the immediate short-term, the ruling may increase the compliance and litigation burden for taxpayers and the overall impact could be adverse. Consequently, the foreign M&E entities who may be undertaking TP compliances in India taking support of the base erosion argument would need to reassess the arm's length justification reasons in light of this decision.

28. Instrumentarium Corporation Limited v. ACIT [2016] 71 taxman.com193 (Kolkata Tribunal) (Special Bench)

Documentation under BEPS provisions in India

Country by Country (CbyC) reporting and Master File (MF)

Based on the recommendations issued by the OECD, provisions pertaining to BEPS Action Plan 13 have been introduced and made effective from Assessment Year (AY) 2017–18 i.e., for FY2016-17 under the Indian regulations. A snapshot of the said provisions is provid ed below:

Taxpayer	Applicability		Penalties	
	CbyC	MF	CbyC	MF
All multinational groups	Consolidated group revenue, exceeds INR 55,000 million in the preceding accounting year	Consolidated group revenue exceeds INR 5,000 million, for the accounting year, along with fulfillment of certain other quantitative criteria	Failure to furnish - penalty ranging between INR 5,000 and INR 50,000 per day, depending upon the stage and recurrence of the default. Further, furnishing of inaccurate information, might attract a penalty of INR 500,000.	Failure to furnish - INR 500,000
Multinational groups not headquartered in India but have a resident entity in India headquartered in India but have a resident entity in India	Liable to file notification intimating the information regarding entity filing the CbyC in its jurisdiction	Liable to file MF irrespective of maintenance/ filing of the MF by parent/alternate reporting entity, where quantitative conditions as mentioned above are satisfied	Same as above	Same as above
	Where no other entity from the group is liable to file CbyC, or CbyC so filed is unavailable to India due to systemic failure, Indian resident entity is liable to file CbyC in India			

While FY17 was the first year of implementation of BEPS Action Plan 13 and certain challenges were encountered by taxpayers in India, a majority of the concerns were taken care of and smoothened out by the due date of filing of the CbyC report and Master File in India.

Update on Advance Pricing Agreements (APAs)

The APA Scheme endeavours to provide certainty to taxpayers by specifying the method and determining the prices of international transactions in advance thus avoiding future transfer pricing disputes.

Since its inception, the APA scheme has evinced a lot of interest from taxpayers and that has resulted in more than 815[29] applications (both unilateral and bilateral) being filed so far in about six years. CBDT has already signed 223[30] APAs (203 unilateral APAs and 20 bilateral APAs), which has been highly appreciated nationally as well as internationally.

APAs signed for international transactions like management cross charges and royalty have helped boost the confidence of the taxpayer community in India's APA programme. The Indian APA authorities have recently concluded APAs in the highly litigious matters of (Advertising, Marketing and Promotion) AMP with two taxpayers. Further, the Indian government has consciously put the APAs on a fast track, which has helped in boosting taxpayer confidence in the government's APA programme.

The M&E players in India have significant intercompany transactions in the nature of royalty given their tie-ups with international M&E entities and nature of their operations. While the APA and MAP for brand royalty were not signed for an entity in the M&E industry, payment of brand royalty being a contentious TP issue in Indian TP audits, conclusion of an APA/MAP on the same is a welcome move and M&E players could benefit from the precedent set by the said APA.

Other notable developments

Payment of interest to Associated Enterprises ('AEs') has been restricted to 30 per cent of EBIDTA of the taxpayer with a view to align Indian provisions with recommendations of the OECD's BEPS Action Plan 4. The disallowance shall be the lower of excess of 30 per cent of EBIDTA or amount of interest actually paid to AEs. In cases where the whole interest expenditure cannot be claimed in the relevant AY, it shall be carried forward for eight years.

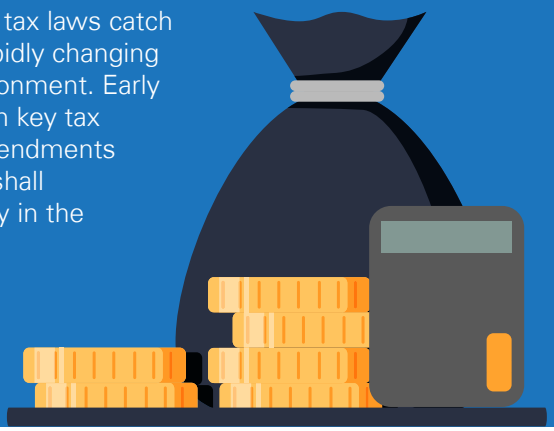
Where an adjustment is made to the income of the taxpayer and the same is accepted by the taxpayer, cash amounting to such adjustment should be repatriated into the Indian entity's account by the AE, on or before 90 days of the conditions stipulated in the relevant Rules. Failure to do so beyond the specified period would render re-characterisation of such adjustment as an advance given by an Indian taxpayer to its AE and interest shall be imputed thereon. This provision is applicable to primary adjustments exceeding INR10 million made in respect of Assessment Year 2017-18 onwards.

The Safe Harbor Rules (SHR) were amended in 2017 which prescribed revised safe harbor margins for various intercompany transactions. Further, in line with the OECD guidelines, the CBDT introduced a new category of service within the SHR viz. receipt of low value adding intra group services which states that where the value of transaction pertaining to receipt of low value adding intra group services does not exceed INR100 million and the entire methodology has been certified by an accountant, a markup not exceeding 5 per cent could be paid.

Concluding remarks

Taking the positives from the Union Budget 2018-19, it shows that the government is committed to provide a boost to the digital economy and has emphasised on digital areas like artificial intelligence and blockchain technology. The steps like provision of free wi-fi, creating a robust digital infrastructure and rural development may help increase the consumption of digital content and can benefit the industry in the long run.

With the government trying to keep pace with the evolving business models in the M&E industry, one will have to wait and watch how much the tax laws catch up with the rapidly changing business environment. Early clarifications on key tax issues and amendments in the tax law shall provide stability in the tax regime.



29. Source: As APA Annual Report FY 2016-17, 815 Applications were filed till FY 2016-17
30. Source: Press Release by CBDT dated 4 July 2018

Tech trends

Cutting the TV cord in India

Harmonious coexistence

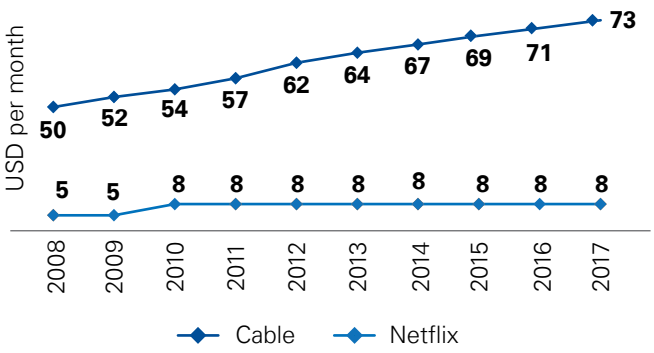
Digital video — A complimentary medium | Near to medium-term impact on TV — Minimal

The widespread penetration of internet has led to a steady increase in the consumption of digital media across the world. With the proliferation of digital media platforms and compelling content being made available on these direct-to-consumer platforms, several users, especially in the U.S., have begun to consume video content entirely through over the top (OTT) platforms on the internet and cut off their cable connections. This process is popularly known as cord cutting.

Expensive cable — A primary reason for cord cutting in the U.S.

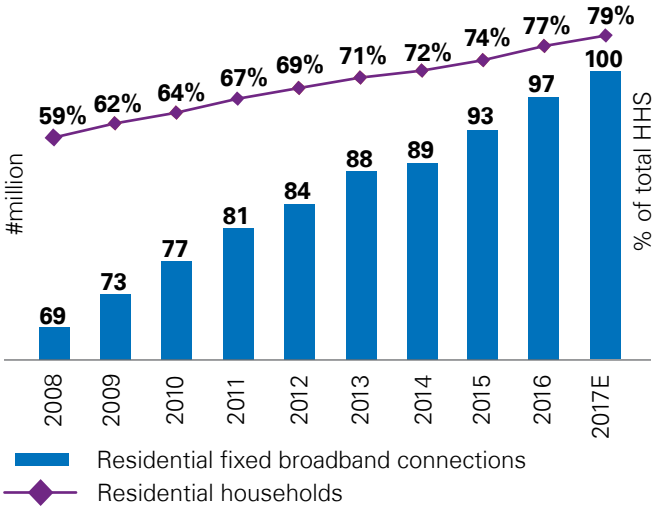
The U.S. has witnessed an increase in cord cutting over the years, and the number of 'cord cutters' is expected to reach a base of 40.1 million by 2021 from 16.7 million in 2016.[1] Cord cutting in the U.S. is being largely driven by the vast difference in the subscription fees of cable and OTT services with nearly 87 per cent[2] of the people cutting the cord owing to this differential. This is evident from the fact that a bundle of three major OTT video application costs approximately USD29 per month[3] , which is less than half the cost of cable.

Figure 1: Cost of cable vs Netflix



Source: Federal Communications Commission (FCC) report on basic cable services, Netflix annual reports, KPMG in India analysis, 2018

Figure 2: U.S. residential fixed broadband connections



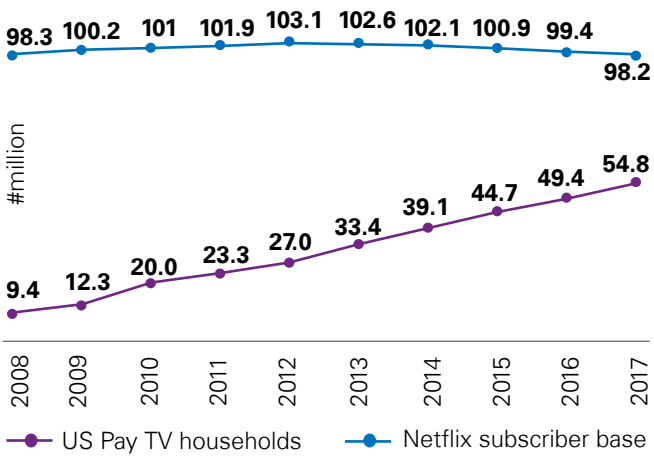
Source: US Telecom - Industry metrics and trends 2018

This change in the U.S. though, has been facilitated by the deep penetration of supporting infrastructure in the form of residential fixed broadband connections. With nearly 79 per cent of the households in 2017[4] having access to wireline broadband and average internet speeds of 18.7 MBps[5] in 2017, it is easier for cord cutters to have a seamless viewing experience on OTT.

1. eMarketer Lowers US TV Ad Spend Estimate as Cord-Cutting Accelerates, eMarketer, accessed on June 13, 2018
2. The Biggest Reason People Cut the Cord Is Getting Bigger, The Motley Fool, accessed on June 13, 2018
3. KPMG in India analysis, 2018 taking into account Netflix, Amazon Prime and Hulu
4. Industry Metrics and Trends 2018 Report, USTelecom, accessed on June 13, 2018
5. Akamai's state of the internet Q1 2017 report, AKAMAI, accessed on June 13, 2018

Low Impact High Impact

Figure 3: OTT closing the gap with Pay TV



Source: Netflix annual reports, IDFC securities report on India Video OTT, April 2018

Besides the availability of supporting network infrastructure, compelling and varied content by OTT players in the U.S. has led to higher adoption of OTT. While Netflix, Amazon and Hulu offer a wide range of TV shows, Sling TV offers a cheap alternative to cable TV. There are other OTT platforms like YouTube TV, Vudu, Crackle, Twitch and Kanopy, which provide diverse content choices for consumers. Over the years, Netflix, Amazon and Hulu have become the top video streaming services in the U.S.[6] and amassed a cumulative subscriber base of more than 102 million[7], while the pay TV subscriber base declined from 103.1 million in 2013 to 98.2 million in 2017, as outlined.

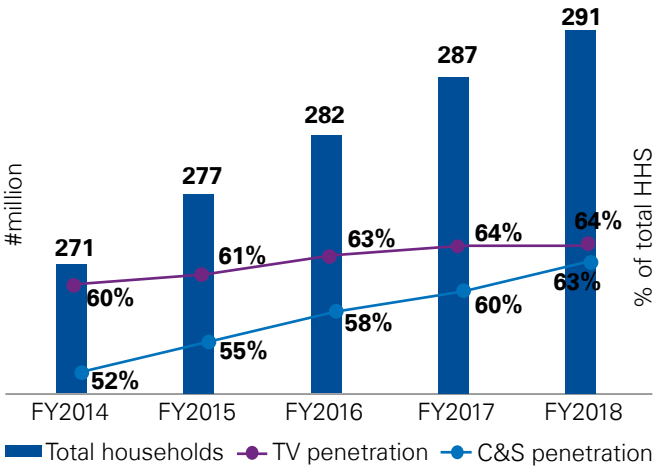
Cord cutting in India — Unlikely to go the U.S. way

While cord cutting has led to a decline in the pay TV connections in the U.S., India might not witness the same trends, especially over the medium-term, owing to the following factors.

TV remains underpenetrated in India

With TV penetration being just 64 per cent in FY18, there is still a significant potential for increase in the number of TV households in India. While the penetration of Cable and Satellite (C&S) has grown at a faster rate over the last five years compared to TV penetration, a significant part of the market still remains untapped with over a 100 million Indian households not availing C&S services.[8] Further, with affordable forms of C&S television, in the form of DD FreeDish and entry level Free to Air (FTA) channel packs from pay TV distributors, the TV & C&S penetration in India has a reasonable headroom to grow.

Figure 4: TV and C&S penetration in India

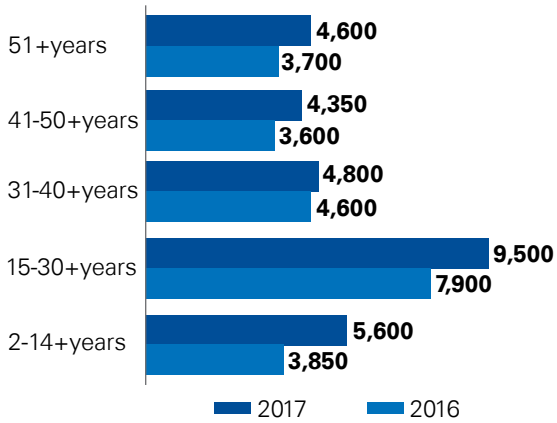


Source: KPMG in India analysis, 2018 based on primary research on C&S subscriber base in India

TV viewership is rising across all age groups, including 'digital ready' millennials

As per BARC, the TV viewership in India continues to achieve robust growth, increasing by nearly 22 per cent from 2016 to 2017. The rise in viewership was spread across all age groups with 15-30 year olds, traditionally being considered to be early adopters of digital media, contributing the most to TV viewership in India. This trend outlines the fact that viewers across age groups are increasingly consuming traditional television, despite the accompanying increase in digital consumption, pointing to the trend of cord cutting not being prevalent as far as TV consumption is concerned.

Figure 5: Indian TV viewership (in million impressions)



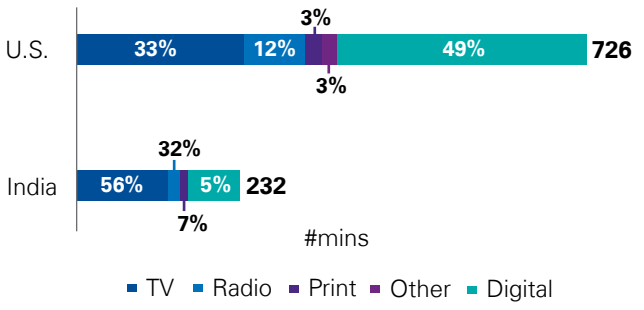
Source: BARC report on The Changing Face of TV in India, 2018

6. Top 10 video streaming services, NCTA, accessed on June 13, 2018
7. Cumulative subscriber base, does not represent the number of unique subscribers across the three platforms
8. KPMG in India analysis, 2018

TV still has the largest share of the daily media consumption pie in India

The daily media consumption by adults (aged above 18) in India[9] was 232 minutes in 2017 compared to 726 minutes in the U.S.[10] While adults consumed media for 75 minutes each day on digital, TV remained the primary source of entertainment for adults in India with 131 minutes or 56 per cent of the daily time spent on media in 2017 — this was considerably higher than the 33 per cent share enjoyed by TV in the U.S. This outlines that television remains the primary source of media consumption in India, in spite of digital consumption being on the rise.

Figure 6: Major media consumption by adults per day (2017)



Source: eMarketer

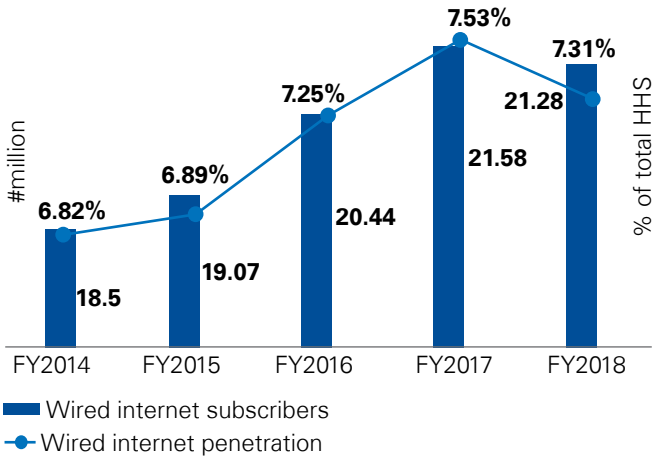
Wireline internet infrastructure in India still not up to global standards

While wireless internet subscription has grown by more than 80 per cent[11] from FY14 to FY18, the wired internet subscriber base has grown by just 15 per cent in the same period in India. The wireline internet connections in India stood at 21.28 million in FY18 — at just about 7.3 per cent of the total Indian households. Besides the low penetration of fixed line internet, India lags behind global leaders in the average internet speed. These factors make the consumption of interruption free long form content on digital media a challenge for the Indian masses, acting as a deterrent for users to consider potentially cutting the cord.

Digital — Emerging as a complimentary screen rather than a threat

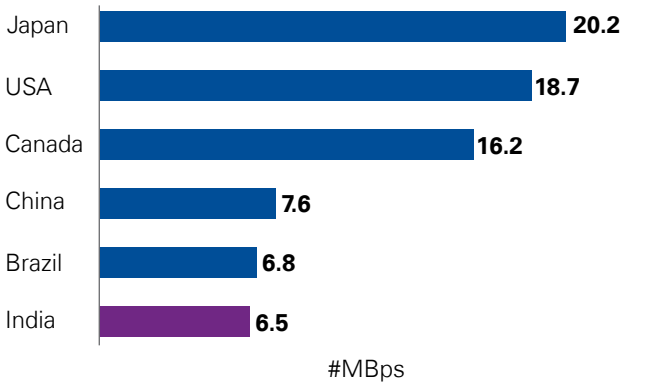
The content watched on TV screens in India caters to the choices of the key decision-makers in each house, as nearly 97 per cent[12] of the households in

Figure 7: Wired internet penetration in India



Source: TRAI performance indicator reports, KPMG in India analysis, 2018

Figure 8: Average internet speed (2017)



Source: AKAMAI state of the internet connectivity report, 2017

India have only a single TV set Thus, there is a latent demand for varied TV content as other members of the house might prefer to watch other shows/ channels than the ones running on their home TV. However, the proliferation of digital video platforms that offer live and catch-up TV content, combined with declining data prices, has changed this paradigm. Mobile devices have become the preferred screens for this user group to consume TV content; and catch-up TV content is amongst the most consumed form of entertainment on digital video platforms.[13]

To emerge as a primary screen for consumption, digital OTT platforms would need to offer content of a substantial volume and compelling quality, in order to convert viewers to a 'digital first' mindset.

9. Adults-in-india-spend-3-hours-52-minutes-a-day-consuming-media, eMarketer, accessed on June 13, 2018
10. US adults now spend 12 hours 7 minutes a day consuming media, eMarketer, accessed on June 13, 2018
11. TRAI Performance Indicator Reports, KPMG in India analysis, 2018
12. Based on industry discussions
13. Based on industry discussions

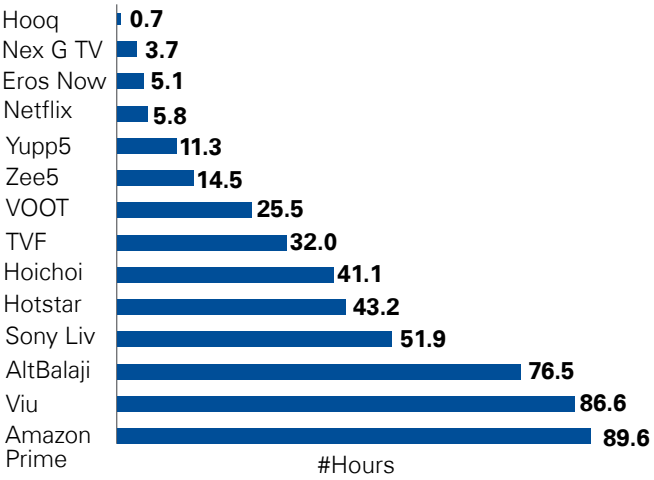
Quantum of fresh content on TV much larger than originals on OTT currently

While there is an increasing amount of digital-first, original and fresh content being created by OTT platforms, the depth of content available on TV remains far stronger than the OTT only content currently.

The volume of fresh content being served by a broadcaster on TV is currently much more than the original content created by OTT players for the Indian market. Zee Entertainment, for example, produced about 500 hours[14] of original content for TV per week in FY18. Compared to this, all digital video OTT players (excluding YouTube TV) together created less than 490 hours[15] of original content for the Indian market. Many of the digital video OTT players have new premium content lined up for production this year, which is likely to help in building a library of digital-first original content.

However, it will take some time — potentially over medium to long-term — before this library can challenge the fresh content produced specifically for TV. Until then, the possibility of viewers shifting solely to digital platforms for their entertainment needs, seems to be less likely.

Figure 9: Original content on digital video OTT platforms*



* Inclusive of original content for the Indian markets as on 16 June 2018 but excludes double counting of dubbed content
Source: IDFC securities report on India Video OTT, April 2018; KPMG in India analysis, 2018

Traditional TV players are still outspending digital platforms on creating content

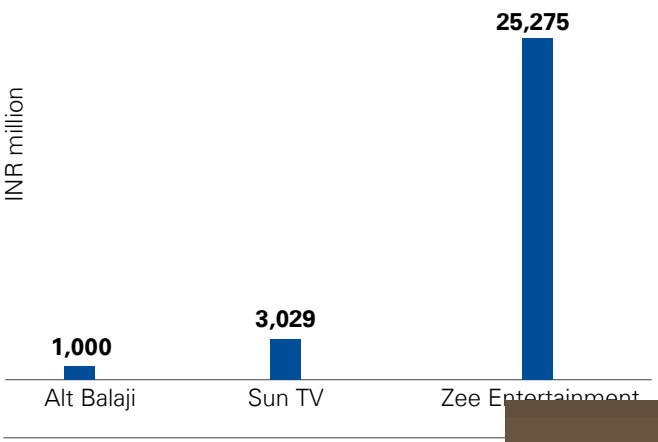
OTT video players have started to invest significantly on digital-first content with Amazon having committed to invest USD300 million[16] for making original content for the Indian market and Alt Balaji planning to spend INR1,100 million[17] in FY19 to make 24 original shows meant for digital platforms. While OTT players ramp up investments in original content, broadcasters like Star, Zee, Sony and Viacom18 comparatively spend a much larger sum on original programming for TV every year, resulting in the large volume of original content available on their broadcast channels for daily consumption.

TV retains its strong value for money proposition

Today, a consumer in India has the choice to consume content either on an OTT video platform suited for their needs or continue to use the services of cable/Direct to Home (DTH) providers for daily entertainment. As a single OTT application is unlikely to offer the diversity of content that a base pack of cable/DTH subscription might, a consumer is likely to subscribe to multiple OTT applications in case the cord is cut. With additional costs of internet data packages, currently the cost of consuming content through an OTT bundle turns out to be slightly more expensive than the traditional distribution platforms like digital cable and DTH, reinforcing the value for money proposition of TV.

Also, with the wide variety of content available on pay TV platforms and DD FreeDish, the value for money proposition of television is not likely to erode anytime soon. With the OTT platforms also focusing on original content, there would be an eventual need for them to start monetising the same through subscriptions, making it tricky for them to balance viewership and affordability in terms of competing with television.

Figure 10: Spends on content/programming (FY18)



Source: Company annual reports

14. Zee Entertainment Q4 FY18 concall transcript, accessed on June 14, 2018
15. KPMG in India analysis, 2018; data recorded as on June 16, 2018
16. How Amazon edged past Netflix, Quartz, accessed on June 14, 2018
17. Balaji Telefilms Q4 FY18 concall transcript, accessed on June 14, 2018

The digital age has ensured that more content is becoming available to the consumers through an increasing number of platforms. This will translate to people consuming more content for more time helping expand the content consumption pie; Over all — more is more

Punit Misra
CEO
Domestic Broadcast Business, Zee Entertainment Enterprises Limited

Figure 11: Approximate cost of content consumption for a subscriber

*OTT bundle includes two OTT apps and an internet connection to match the content available on cable or DTH
Source: Company reports, KPMG in India analysis, 2018

Conclusion

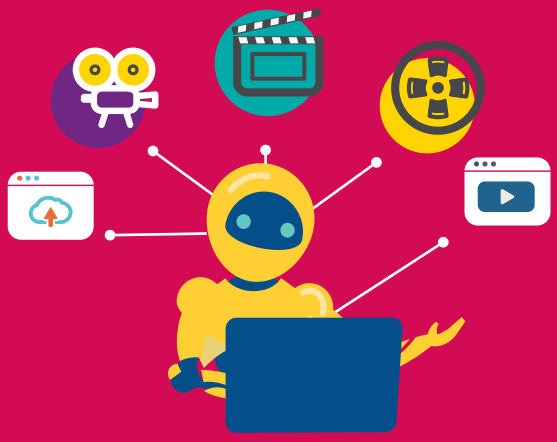
The rapid increase in digital consumption seen over the last 15-18 months in India is not likely to lose steam in the near future, with an increasing number of customers viewing content online. However, television continues to remain relevant with growing viewership and attractive price points. Further, with the quantum of investments in fresh content by broadcasters, the depth of original content available on TV cannot be rivaled by OTT platforms currently.

Thus, while digital is likely to emerge as a strong complimentary medium for video consumption, the TV cord seems to be safe in the near to medium-term.

The views and opinions expressed herein are those of the person(s) and do not necessarily represent the views and opinions of KPMG in India.

Artificial Intelligence (AI)

Blending science and creativity

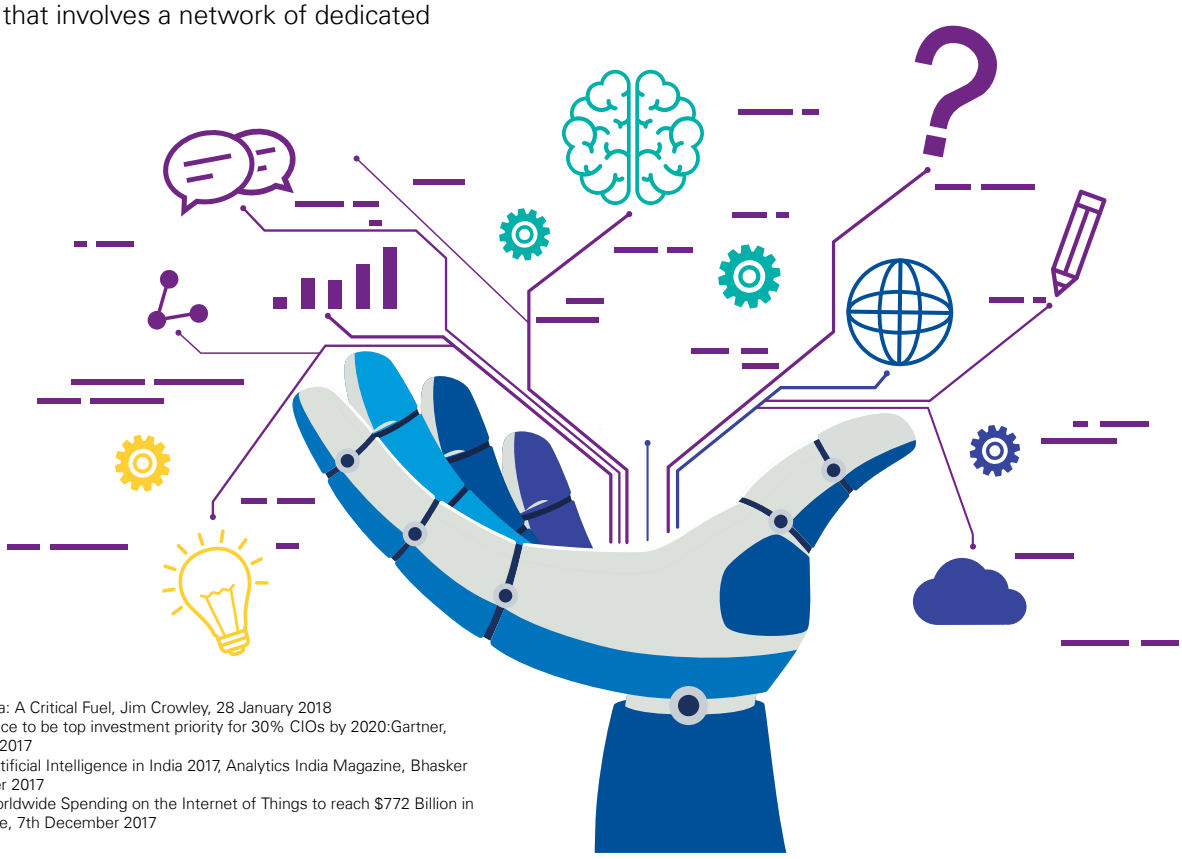


Artificial Intelligence
Accelerated adoption expected - Exciting journey ahead

AI on the rise

A new era of media creation and consumption has arrived, driven by increased computing power that provides fuel to kick start the industry's advent into emerging technologies such as Machine Learning (ML), Internet of Things (IoT) and Artificial Intelligence (AI). Emerging technologies have altered how entertainment is now delivered to a viewer by catering to individual demands and preferences. Industries are looking at adopting these emerging technologies for the purpose of expanding their footprint across markets as well as transforming their business models to effectively succeed in the burgeoning digital landscape. AI is one such technology that aims to create intelligent outcomes by way of imitating human intelligence. Data is the fuel that is expected to boost AI's growth. Data analysts estimate that around 90 per cent of the data produced globally is unstructured.[1] Massive volumes of data is generated every moment and true value addition lies in capturing it in the real time. IoT is a foundational capability for the creation and capture of real time data. It is a technology that involves a network of dedicated physical objects that contain embedded technology to communicate and sense or interact with their internal states or the external environment. Intelligent technologies like AI and IoT can help organisations to leverage the power of real time data collected by the connected devices. By applying ML, organisations take data analysis to the next level by identifying hidden patterns and making decisions with minimal manual intervention.

AI is right at the top of the priority list for investments for more than 30 per cent of the Chief Information Officers' in global businesses.[2] At a current estimate of USD180 million in annual revenue, the artificial intelligence industry in India is also gaining traction, with more than 800 companies using AI in a multitude of applications.[3] Similarly, a report released by IDC projected that the worldwide IoT market would grow to USD 1.7 trillion in 2020 with a compound growth rate (CAGR) of 16.9 per cent led by devices, connectivity and IT services.[4]



1. Unstructured Data: A Critical Fuel, Jim Crowley, 28 January 2018
2. Artificial intelligence to be top investment priority for 30% CIOs by 2020:Gartner, Livemint, July 19 2017
3. Study–State of Artificial Intelligence in India 2017, Analytics India Magazine, Bhasker Gupta, 24 October 2017
4. IDC Forecasts Worldwide Spending on the Internet of Things to reach $772 Billion in 2018, IDC Website, 7th December 2017

AI: A disruptor in the M&E industry

The Media and Entertainment (M&E) industry, in particular, is on the cusp of a digital transformation with rapid changes in the traditional media landscape and rising levels of digital sophistication in consumers. The industry is looking to benefit from the changing digital strategies of the companies which are shifting to AI and IoT applications. The connecting of assets, processes and personnel enables the capture of data and events from which a company can learn behavior and usage, react with preventive action or augment or transform business processes. Intelligent machines using AI technology capable of 'knowing what type of content to create' by processing terabytes of unstructured data from social media are being developed by digital media platforms. ML algorithms can analyse content based on formats, themes and interest, and judge the extent of consumers' acceptance of the AI created content on various platforms in terms of adoption rate, views, likes and dislikes and viewer comments.

Media organisations are also implementing AI to help users make informed decisions by basing the AI systems on data points such as personality, tone and emotions among other features (visual recognition). This helps in the identification of distinct individual characteristics, customer needs, values and other identifiable information, which are then fed into a predictive model that delivers a personalised service offering. The use of sensors to track consumption preferences and use them in conjunction with analytics to drive personalisation is an important part of how IoT works. For example, the organisers of Taylor Swift's latest world tour allowed registered ticket holders to check in using RFID wristbands (promoters supplied fans with connected bracelets glowing in sync with the music).[5] Thanks to IoT, media and entertainment companies can deliver extra value to their target audience, build personal relationships with their customers and subsequently increase revenue.

AI in customer engagement could also be used to understand what changes in offerings or consumption are effective to reverse the situations identified as 'churn risky' and retain valuable subscribers.

Some of the technologies that help in providing such targeted services and insights include:

- **Neural networks,** which have the capability to learn to recognise and generate sophisticated images, help provide personalised movie and show recommendations to consumers
- The **Natural Language Processing (NLP)** technology creates condensed pockets of information from available sources of data while linking the information to its source, helping create articles and snippets of information that have high user readability. The Washington Post uses its in-house AI system, Heliograf, to generate news articles for key events like the Olympics[6], where reporting has a significant impact on the event itself.[7] IBM had announced the possible release of a video enrichment service that uses natural language understanding to deep analyse videos with a better understanding of context and current trends than before[8]
- **Augmented Reality & Virtual Reality (AR/VR)** uses special equipment that can be augmented with ML algorithms to create holographic scenes that truly immerse the user in their surroundings. Empower Labs, a pioneer in the Indian AR gaming industry, is involved in creating a 'hyper immersive gaming experience.'[9]
- **Virtual assistants** on personal devices provide superior and customised experience by understanding the linguistic and emotional signals of the user. Voice assistants are now perfecting their services by using powerful algorithms that make them smarter, intuitive and mature conversationalists.
- **Algorithm-based systems** help pick up trends to create high quality content for social media. Octi, a video tech start-up, uses AI to create video clips to be distributed via social media, and is, therefore, a strong marketing tool.[10]

5. How IoT changes Media and Entertainment?, R-Style Lab Blog, 23 December 2016
6. IOC Trademarks, the IOC logo, and any other product or service name or slogan contained in this document are trademarks of the IOC
7. Automated Journalism – AI Applications at New York Times, Reuters, and Other Media Giants, Techemergence, Corina Underwood, 17 January 2018
8. IBM Watson turns focus to analyzing video, behavior for new insights, Marketing Dive, David Kirkpatrick,25th April 2017
9. India's Empower Labs aspires to be the next Niantic Labs, developer of the latest sensation Pokemon' Go, YourStory, Abhinav Balagoni, 20th July 2016
10. This Startup Wants to Help Brands Make Videos Using Artificial Intelligence, Medium, Yves Mulkers, 12 January 2017

- AI is also assisting the delivery of quality content to a vast group of audience at different bandwidths, thus enabling better reach. Netflix used Adaptive Bit Rate (ABR) coding to develop a dynamic optimiser for providing uninterrupted streaming to consumers with lower network bandwidth, thereby enabling its reach in lower economies.[11]
- Subtitles and closed captioning play an important role in the current age of continuous video proliferation by making the content available to viewers sans the language barriers. This is being augmented by the use of Machine Learning to handle multiple languages and dialects and to provide near real time transcription of the videos. uStudio, a cloud based video platform has introduced a push button feature which generates Soundwave Transcript™ to automatically create subtitle files with almost no human intervention.[12]

AI applications across media segments

The media industry is one of the largest users of unstructured data such as video, audio, scripts, social media posts, and hence is poised to gain through the influx of AI technologies.

The following table gives a brief perspective on how AI is influencing different sectors within the M&E industry.

Table 1: Segment-wise application of AI technologies

Company (Category)	Business description	Recent developments	Recent developments
Television (TV)	ML-powered recommendation engine	By feeding, browsing and scrolling data to several complex ML algorithms, these recommendation engines automatically align the content with the tastes and preferences of the user	Personalisation
Radio	Natural language processing	By leveraging AI-powered voice assistants like Amazon Alexa, several radio companies are launching 'voice on demand' in order to widen their outreach	Content classification and archiving
Films	Predictive analytics	Production houses are harnessing the power of predictive analytics for facilitating release date selection in order to enhance the box office success rate for the movie	Prediction
Animation and VFX	ML	ML-powered facial animation packages allows users to record facial data via webcam for creating complex animation characters in a very short time.	Character design
Digital	Predictive analytics	Advertising agencies are now using analytical engines powered by ML and big data in order to develop customer profiles for lead generation and customer retention with the data generated by multiple channels and platforms	Lead generation and customer retention

11. 5 Ways AI is Changing Video and TV Today, Divitel, Tuan Huynh and Hendrik Haandrikman, 8 June 2018
12. uStudio incorporates Deep Learning Technology to Automate Video Transcription, uStudio official website, 15th September 2016

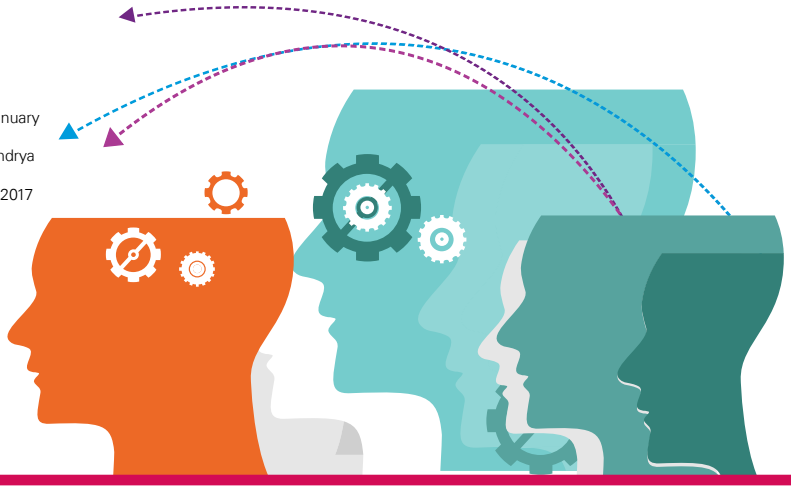
The idiot box is now intelligent: There is high potential for AI in the TV sector due to rising domestic consumption and implementation of digitisation. Creating highly curated content as per individual consumer preference is an important application of AI in the television sector. Different aspects of television including monitoring, logging, transcribing, subtitles are potential areas where AI could ease workflows and processes.[13] Entertainment players like Viacom18 and Sony Entertainment apply AI to generate smart reports and ratings on their channels and programmes to improve their performance. Viacom, in particular, has employed, including in India, a TV sales platform, the Echo Social Graph, to quantify audience preference through social media analysis so as to reach the right set of audience for its clients and market across multiple platforms. Viacom further uses data analytics to map characters, plots and moments in television, and applies sentiment analysis that advertisers can use to target a specific market.[14]

Tune into intelligent automation: Radio is now transitioning towards becoming one of the best channels of media in terms of reach. It is experiencing rapid growth with operationalisation of new stations across geographies as well as introduction of new genres. By leveraging Natural Language Processing (NLP) capabilities, AI engines are able to transcript archived broadcasts and tag the content with popular keywords, enabling contextual search. Thus, users can search for the tags in order to access archived audio files, making the radio segment convenient and on-demand. In India, the adoption of AI in the radio segment is yet to see fruition. All India Radio (including Vividh Bharati and 41 other services), however, has partnered with Amazon platform Alexa to enable streaming across the globe through a simple voice command.[15]

Intelligent makeover of the silver screens: Growth in the film sector is driven by the growing depth of regional content, expansion in overseas markets and a significantly high contribution from digital revenue streams. Different areas of the film media today have adopted smart technologies such as AI and ML to optimise their services and the following are few instances of AI applications in the film industry:

- **Production process:** With the introduction of data analytics, production houses are now looking at multiple data points across social media platforms to understand user consumption patterns and gauge the effectiveness of marketing efforts. These data points could enable the building of an effective strategy to increase Return on Marketing Investment (ROMI).
- **Script development:** Video and scene recognition solutions such as AWS Rekognition© and IBM Watson Cognitive Highlights™ enable automatic content creation and analysis of emotion. As solutions improve and self-learning capabilities get enhanced, AI-powered solutions are likely to be used in script development and assist in editing.
- **Budget optimisation:** Independent production companies and studios are now using neural networks for preparing film production budgets. ML algorithms can estimate costs for each line item in a budget based on historical data and automatically classify each expenditure under higher level categories to prepare the master budget for the film production.

The Indian film industry saw the usage of data analytics for the first time in the movie — *Shaadi Mein Zaroor Aana*.[16] Large points of seemingly unconnected data points from social media were pooled to cater to a particular taste of a niche audience. The AI platform, called 'ian' by Infinite Analytics, was able to pick up details to minute levels and apply them wherever possible, for instance, in selecting the costumes to suit the audience. The trailer reached a million hits within five days of its release, and the marketing cost was significantly below that of traditional methods.[17]



13. How AI is evolving and Affecting TV Broadcasters, Andy Stout, 6 October 2017
14. Artificial Intelligence at Disney, Viacom, and other Entertainment Giants, Techemergence, Edgar Alan Rayo, 11 February 2018
15. All India Radio turns to Alexa for Expansion, Livemint, Harveen Ahluwalia, 26 January 2018
16. Shaadi Mein Zaroor Aana is owned by Soham Rockstar Entertainment and Soundrya Productions
17. Data Analytics makes a Debut in Bollywood, ET Tech, J Vignesh, 24 November 2017

Digital transformation of media: The number of online video viewing audience in India is estimated to be around 225 million in FY18 and is projected to reach 550 million by FY23.[18] Online video streaming services are leveraging analytics in the best possible manner to make better decisions pertaining to investments in improving user experience. Complex text analytics that enable greater understanding of the contextual meaning behind a user's search phrases and patterns are used in customisation of services. User data and AI-generated metadata (data that describes data derived from transcripts of conversations and text descriptions of video scenes) help businesses derive accurate inferences on subscriber preferences and consumption patterns that aid personalisation of the user experience to a level that goes beyond content recommendation and discoverability. Further, metadata analysis can create linear on-demand and real time channels customised for each viewer.

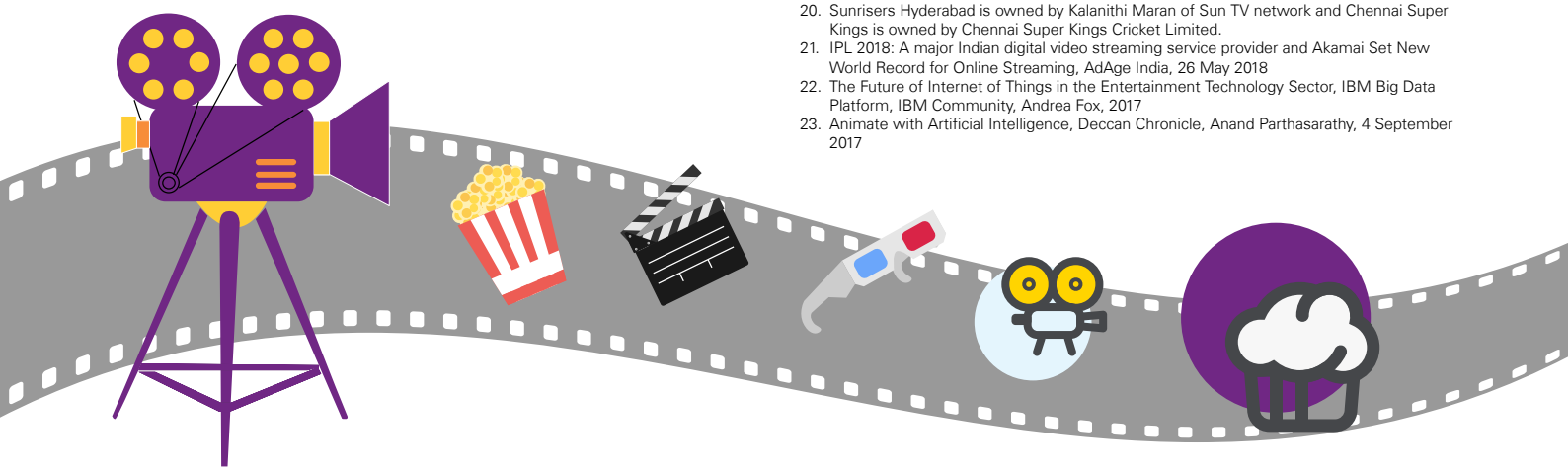
Hotstar, one of the largest Indian online streaming platforms, uses AI for performing its global streaming. The Indian Premier League[19] (IPL) season saw high traction in the number of viewers using Hotstar, with 202 million users tuning in during the tournament. The data powered ML engines automatically improved the overall performance and digital experience of the application. On 27 May 2018, Hotstar created history by recording a whopping 10.3 million peak concurrent viewers tuning in to see the nail biting finish of the Final of Vivo IPL 2018. The clincher in the first qualifier match between SunRisers Hyderabad and Chennai Super Kings[20] (2 of the 8 teams to play in this season of IPL) broke all previous records in online video streaming across the world.[21] Hotstar is on a path of continuous innovation that improves their modelling strategies and features. Similar to AI technologies, mobile applications seem to be the focus area for organisations deploying IoT to capture an array of new data available on customer behavior based on the type of platform and non-entertainment ecosystems that are used and connected by people. More than 60 % of companies primarily rely on mobile apps in order to monitor the customer data. The remaining tend to focus on the production and distribution in order to gather information.[22]

Disrupt with intelligent animation: There is a shift in the mind set of viewers, who are now looking for the 'wow' experience. Animation holds the potential to provide just that, with its ability to redefine entertainment and storytelling. Deep learning systems are transforming the animation segment with their applications in the areas of visual effects and face re-enactment. Modern deep learning engines enable quick creation of graphic elements which are used in 3D models creation, video games and so on with minimal human input, helping businesses establish their artistic and technical expertise. The first ever Indian game workflow (creating gaming or animation storyline end-to-end), Norah.AI, employs neural networks, deep learning and artificial intelligence to generate new animations that can quickly adapt to differing requirements by combining varied animations together. A repository of different animations (combat, art and so on) can be created based on the learning of the AI system. AI promises fast and easy creation of animation and gaming in a way that was never possible before.[23]

Challenges to look out for

Despite the significant benefits from the implementation of AI, the desire of an AI-driven media industry is far from reality. The four major enablers of AI adoption — strategy and governance, employee competencies, IT infrastructure and data governance — are often the challenges too.

18. Online video consumption grows 5 times in 2017: Report, ET Telecom, 23 February 2018
19. The Indian Premier League is owned by BCCI
20. Sunrisers Hyderabad is owned by Kalanithi Maran of Sun TV network and Chennai Super Kings is owned by Chennai Super Kings Cricket Limited.
21. IPL 2018: A major Indian digital video streaming service provider and Akamai Set New World Record for Online Streaming, AdAge India, 26 May 2018
22. The Future of Internet of Things in the Entertainment Technology Sector, IBM Big Data Platform, IBM Community, Andrea Fox, 2017
23. Animate with Artificial Intelligence, Deccan Chronicle, Anand Parthasarathy, 4 September 2017



Strategy and governance

The success of AI adoption is highly dependent on perceptible commitment by the top management, and an AI strategy that drives the organisation in the right direction. A lack of clarity and understanding by the management can heavily disable an organisation's digital growth right direction. A lack of clarity and understanding by the management can heavily disable an organisation's digital growth.

Since the developmental cycle of AI is nonlinear, and more of a trial and error method, the top management should design an ecosystem to embrace an agile and adaptive working style and strategy design commonly found among start-up ecosystems and AI forerunners.

Employee competencies

Workforce is abundantly available, however the hurdle lies in the availability of a talent pool that is more aligned to AI; staffing skills is the number one challenge for 54 CIOs looking to adopt AI in their organisations.[24] Imbalance in the demand and supply of talent could pose the problem of high acquisition cost and loss of quality. In order to be an AI-driven organisation, business leaders should take an initiative to reshape and reskill the people and foster the culture of perpetual learning.

IT infrastructure and technology

Organisations that have equipped themselves with digital capability and infrastructure are likely to be quicker and more agile in the implementation of AI. The organisation should initially conduct a gap analysis to understand what exactly is lacking in the current IT infrastructure. Once the gaps are identified, small scale ideas can be rolled out initially in order to test the viability before implementation of a large scale project.

Data governance

Managing vast amounts of data is challenging as costly infrastructure is required to generate, maintain and store the data. Unstructured data requires effective data engineering and data governance. Licensing of original third party content for obtaining valuable content is also costly for the players of the M&E industry. Integrating data cataloguing with data governance is a good strategy for enhancing value through AI applications. By cataloguing the data, business users can get access to trustworthy data that could be fed into predictive/data models. It also helps centralise the data in one location for facilitating better data discovery.

Cybersecurity

Several organisations are hesitant about adopting AI technology due to the availability of critical information in a digital format and easy accessibility by various entities. Before developing any AI application, it is important to develop policies that could help organisations build a secure and robust AI solution with the help of technical experts.

24. Winning the war for AI talent, written for CIO and licensed by Bloomberg Professional Services, Esther Shein

The way ahead

Artificial intelligence is a force to reckon with, and the benefits of its implementation cannot be ignored. The players who move first in the industry stand to gain a lot from it, while being the first to face challenges inherent to a transformation. The following points are some of the major considerations in the process of AI adoption.

AI adoption needs to begin with an as-is analysis of the organisation, involving IT infrastructure assessment, financial readiness and availability of skillset among the employees. A thorough business case has to be prepared for projecting likely financial results and other major business consequences of AI adoption. Cross-functional collaboration is essential to break the organisational silos for efficient adoption. The initial period of implementation is marked with high investments requiring stakeholder buy-in. The focus therefore ought to be on growth.

The next stage is about scaling up the infrastructure to incorporate the identified use cases. Richness, easy availability of data, level and speed of processing are some metrics that are to be considered while evaluating the use cases. Scaling up infrastructure, internal capabilities and creating learning opportunities to upskill the workforce of an organisation are pre-requisites to run pilot tests. Identifying function-wise AI champions can drive AI adoption across organisation.

Large scale adoption requires a strategic approach to building an intelligent business ecosystem. Collaborating with other players in the industry could be vital to acquiring capabilities within a short time frame. Associations with players who are more agile and have better risk appetite are quicker ways to invest in emerging technologies and build niche capabilities as a point of leverage. Government initiatives, internal governance policies, competitive landscape and stakeholders in the organisation are key considerations for large scale AI adoption.

Initiate

- Conduct initial opportunity assessment of the existing skillset and IT infrastructure
- Articulate business needs and create comprehensive business case for AI
- Bring together independent operations and prepare collaboration plans among functional groups
- Measure readiness through industry benchmarking for AI adoption
- Prepare the adoption roadmap for scaling up operations in future
- Focus on growth over savings.

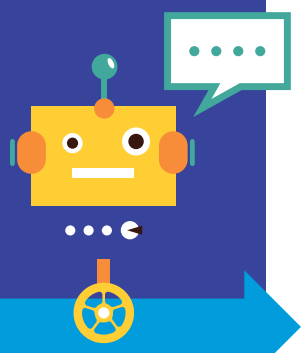
Scale and Replicate

- Look out for high value use cases
- Evaluate the use cases on the basis of
  - Richness of data
  - Opportunity for systemic learning
  - Level and speed of processing
- Scale up the existing infrastructure for accommodating the use cases
- Identify and engage AI Champions for each function
- Build internal capabilities through focused trainings
- Invest in technology for enabling rapid impact of pilots
- Implement small scale projects.

Evangelize

Large scale adoption of integrated AI solutions requires:

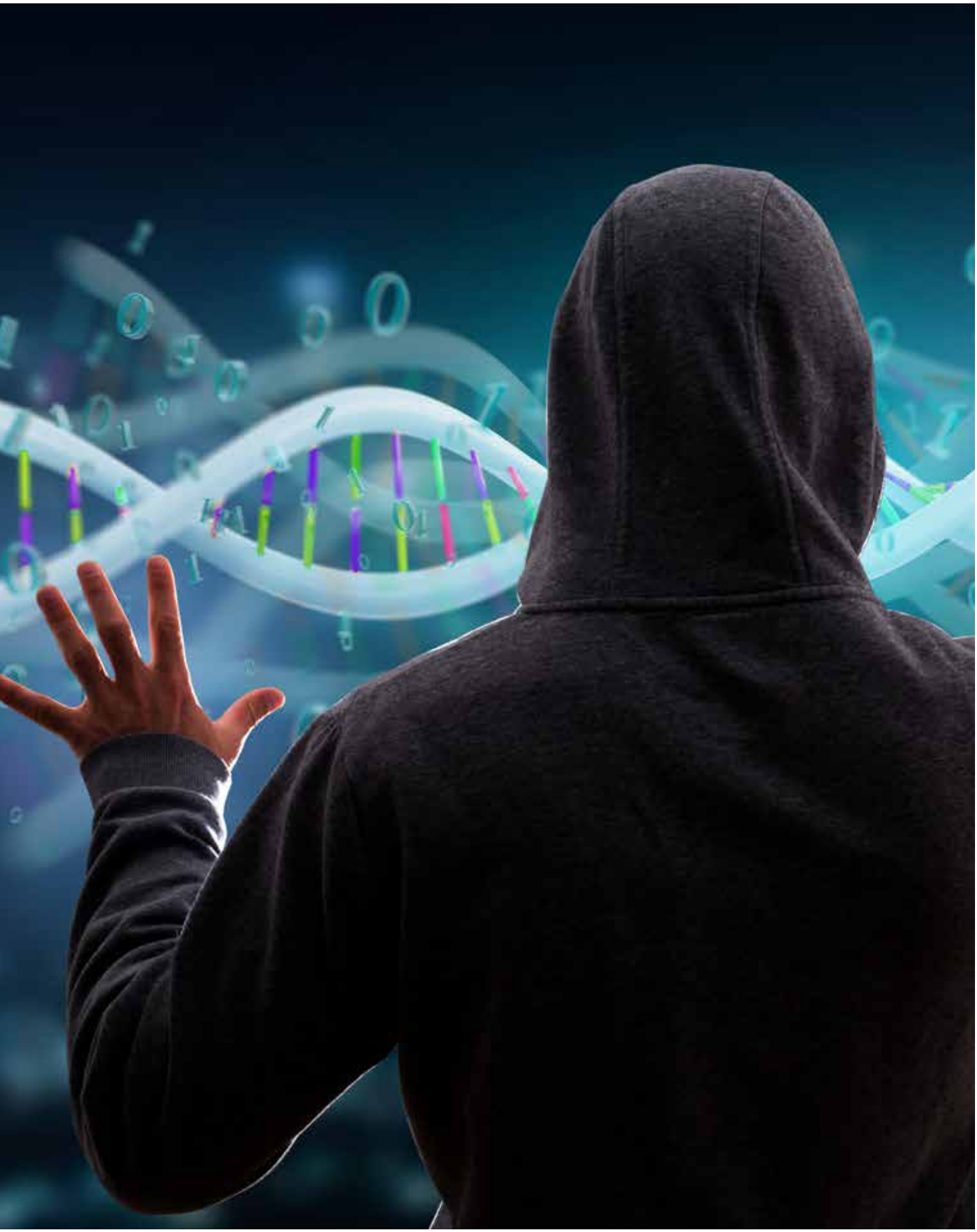
- Adoption of agile method of solution deployment
- Collaboration with other players in the market to acquire new capabilities
- Stakeholder management for smooth and uniform implementation
- Compliance governance and internal control; data regulation.



Way Forward- Three Phases of AI implementation

Conclusion

Artificial Intelligence in the M&E industry is in its nascent form and holds the prospect to open new avenues for those players who plan to take AI ahead in their strategy. There are numerous applications of AI in the media industry but a few players have adopted the technology to leverage its full potential. The Indian M&E industry is yet to explore the vast benefits from AI, and, therefore, has a promising future through its quick adoption. There are challenges that can slow down adoption, however the goal of achieving an AI-driven M&E industry is not impossible.

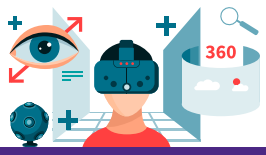


Augmented and Virtual Reality

Reality reimagined

Immersive experience - Disrupting media | Near to medium impact on Media sector - Moderate

Moving forward from just being buzzwords, Augmented Reality (AR) and Virtual Reality (VR) are increasingly finding applications across sectors including media and entertainment (M&E), education, healthcare, consumer markets, defence, real estate, automotive, and travel and hospitality. In addition, Mixed Reality (MR) has also sprung up as a novel concept, finding a middle ground between AR and VR.

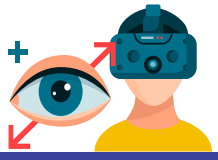


Augmented Reality (AR)

- AR enhances users' real environment by superimposing elements of a virtual environment; it allows users to stay connected with their immediate physical environment
- AR is largely deployed through smartphones and other regular computing devices.

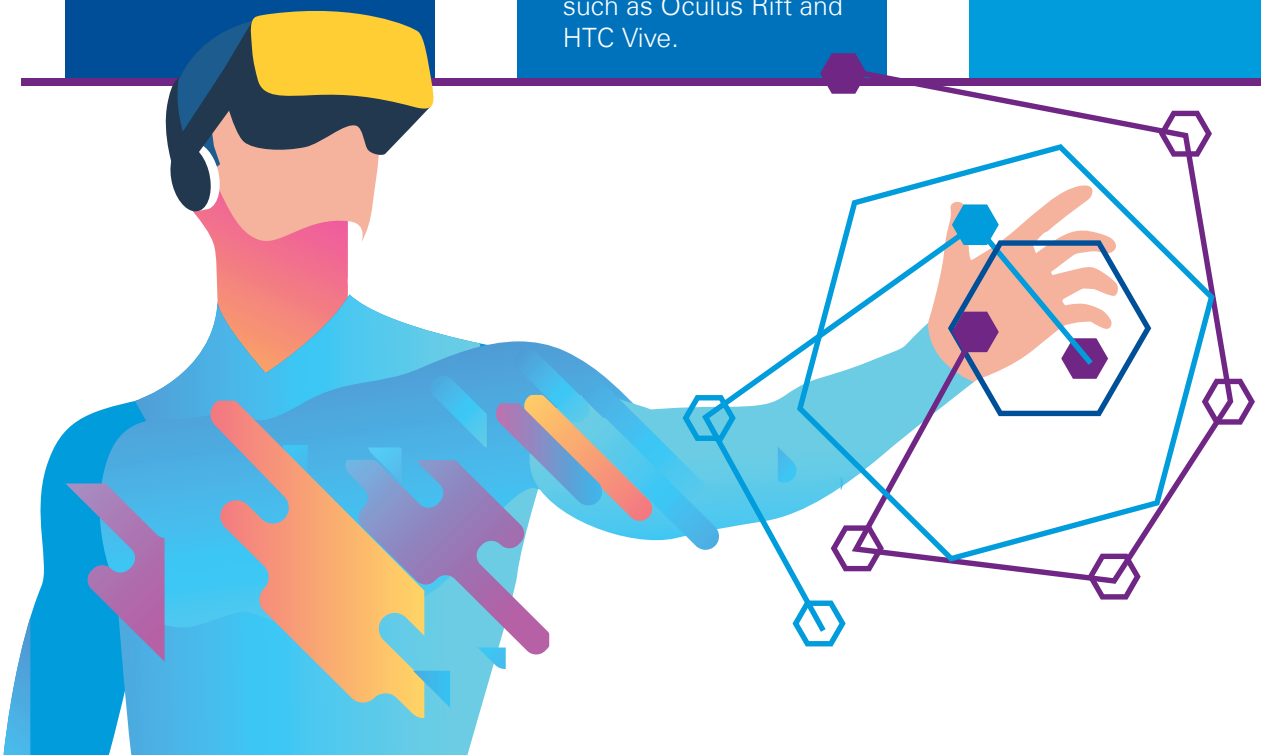
Virtual Reality (VR)

- VR enables users to experience a computer generated virtual environment in an immersive manner; it requires them to be detached from their physical environment
- It is experienced through Head Mounted Displays (HMDs) comprising low-cost headsets such as Google cardboard and fully integrated devices such as Oculus Rift and HTC Vive.



Mixed Reality (MR)

- MR lies across the continuum between the real and virtual worlds, enabling users to find a balance between complete immersion and reality
- MR is also experienced through HMDs, which are presently limited to Microsoft Hololens and other devices supported by Microsoft Windows 10.



Applications — Disruption across sectors

Individuals and enterprises across the globe are using AR, VR and MR for a wide range of purposes, even as new use cases continue to emerge. Currently, AR/VR applications broadly range across four areas — entertainment, experiential zones, marketing and sales, and training, learning and simulation.[1]

Among these, training, learning and simulation accounts for the biggest share — about 70–75 per cent — of the AR/VR market (by value) in India.[2] The rest is spread across experiential zones, marketing and M&E, which comprises gaming, live events, print and video (for example, films, documentaries, news and advertisements).

AR/VR application areas also span across a number of sectors apart from M&E, as described below:

Sector-wise applications and potential of AR/VR adoption in India[3]

Sector	Primary use case	Major stakeholders	Current adoption	Future potential
Education	Visual and interactive learning	Educational institutions and online learning players	Extremely low	Extremely high
Healthcare	Training, therapy, surgery, diagnosis and marketing	Medical institutes, doctors, patients, pharmaceutical companies and healthcare equipment manufacturers	Extremely low	Extremely high
Consumer Markets	Virtualisation of physical stores, virtual trial, information dissemination and marketing	Online retailers, consumer packaged goods (CPG) players and in-store retailers	Low	Extremely high
Defence	Training and simulation, and manufacturing and design	Defence suppliers and defence forces	Medium	High
Real Estate	Design, architecture, marketing and sales	Architects, real estate developers, interior designers and agents	Low	High
Automotive	Design, marketing, training and virtual test drives	Original Equipment Manufacturers (OEMs), ancillaries, dealers and online portals	Low	High
Travel and Hospitality	Virtual tours, tourism information dissemina-tion, travel guidance and language translations	Tour operators, tourism promotion boards, online travel agents, city administrations and hospitality players	Extremely low	High

Evidently, the potential of AR/VR adoption is higher in the enterprise segment, owing to the value AR and VR can generate for businesses.

Thus, adoption of AR/VR at the business-level is likely to happen prior to its adoption at the consumer level — globally, as well as in India.

1. Industry discussions conducted by KPMG in India, 2018
2. Industry discussions conducted by KPMG in India, 2018
3. KPMG in India's analysis, 2018

Gaming — The primary use case for AR/VR

Gaming accounts for a significant share of the AR/VR market globally. AR-based games such as Pokemon Go have displayed potential for mass adoption, while VR is touted to be the future of gaming — owing to the highly immersive experience it provides. The Indian gaming industry is also picking up pace, and VR is expected to contribute to its growth. Several theme parks and shopping malls in the country have established VR gaming stations, and this is likely to progress towards more immersive gaming experiences.[4] However, currently, this demand is largely being met by foreign players, primarily from China.[5] Consequently, a majority of VR-based game developers in India are trying to tap foreign markets or tie up with Chinese hardware manufacturers to sell gaming systems as a package in India.

Consumer-driven demand for VR gaming is presently at a miniscule level, though it is likely to rise gradually as the overall gaming/eSports ecosystem develops in India. On the contrary, AR-based gaming is expected to rise faster due to its ability to latch on to smartphone penetration.

> Majority of the theme parks and shopping malls in India are procuring their VR gaming systems directly from China, with hardware and software bundled together. Since India does not produce any hardware, home-grown game (software) development companies are finding it difficult to sell to Indian customers, and thus, are looking to partner with foreign hardware providers to sell complete systems as a bundle.
>
> **Arijit Bhattacharyya**
> Founder,
> *Virtualinfocom*

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M&E — Experiments across the ecosystem

In the M&E space, AR and VR find some promising applications across various segments.

Category-wise applications and examples of AR/VR in M&E

Videos

Programming including TV shows, documentaries and news is capturing the imagination of AR/VR content developers. In addition, the consumption of video content in VR through over the-top (OTT) platforms could prove to be a major use case. Currently, some basic 360-degree VR content is being streamed and consumed through a few major video consumption and social media platforms.

- In early 2018, BBC launched VR-first documentary 'Damming the Nile' — allowing viewers to explore the subject from a correspondent's viewpoint[6]
- News broadcasters including NDTV, Republic TV, WION and the Times Network have been producing VR content, and are gradually building AR/VR capabilities[7]
- The Weather Channel, which started using AR in 2015, integrates immersive AR content into its broadcast feed to show realistic weather scenarios such as storms and real time cityscapes.[8]

4. Industry discussions conducted by KPMG in India, 2018
5. Industry discussions conducted by KPMG in India, 2018
6. The Future Of News: BBC News Invests In Virtual Reality-First Documentary Series, exchange4media, 23 February 2018
7. MUMBAI: We all thought virtual and augmented reality (VR/AR) are something in the future, right? Well, no, not really. It is here, right here, right now, Indiantelevision, 7 September 2017
8. The Weather Channel Forecasts More Augmented Reality for Its Live Broadcasts with Unreal Engine, Next Reality, 10 April 2018

Films

With the potential to transform movie theatre experience, VR theatres have also started surfacing.

- In March 2017, PVR launched the first of its 10 planned VR lounges in India, in partnership with HP; the company is investing a total of INR150 million for this[9]
- In March 2016, the world's first VR theatre was launched in Amsterdam — playing half hour videos using spinning chairs, Samsung Gear VR and Galaxy S6 smartphones[10]
- In 2016, cinema and media studio Memesys Culture Lab launched ElseVR, a channel to deliver content in VR; the channel publishes short films in VR on a quarterly basis.[11]

Live events

Attempts are being made in India to capture live sports, concerts, product launches and so on in VR, and showcase the novelty of these technologies at meetings/conferences.

- The 2018 season of the Indian Premier League (IPL) was streamed in VR on Hotstar[12]
- The Indian Super League (ISL) has also experimented with VR broadcast of a league football match
- Mobile manufacture OnePlus streams its launch events in VR; it started with the OnePlus 2 launch in 2015, for which the company even created its own version of a cardboard VR headset[13]
- Companies in the AR/VR space (for example, Facebook) set up experience zones at several conferences and events to market their products and create awareness.

Print

Print stories and advertisements are being augmented through AR mobile applications

- In 2016, Dainik Bhaskar partnered with Yeppar to augment its newspaper, using a mobile application to point at the stories, pictures or advertisements in the newspaper. Users could watch related videos, pictures and use the text-to-speech feature[14]
- Malayala Manorama is also creating 360-degree content capturing the beauty of major places in Kerala for users to experience through VR headsets such as Google Cardboard.[15]

Advertising

Marketing and advertising is expected to become increasingly immersive through AR and VR, potentially generating a higher level of engagement with viewers.

- In February 2018, The New York Times launched an AR advertisement on the Winter Olympics* — showcasing how AR opens up new possibilities for brands to advertise[16]
- In early 2018, Vodafone India launched AR avatars of pugs on live television during the final match of the Premier Badminton League. This was done through an AR animation embedded into the feed of the camera used at the badminton court to display pugs along with the commentators on TV.[17]

*IOC Trademarks, the IOC logo, and any other product or service name or slogan contained in this document are trademarks of the IOC.

9. PVR to Launch 10 virtual reality lounges in India, The Economic Times, 21 March 2017
10. The World's First Virtual-Reality Theatre Opens in Amsterdam, Architectural Digest, 21 March 2016
11. Virtual reality debuts in Indian journalism, The Hoot, 24 October 2016
12. Star India reimagines VIVO IPL 2018, Hotstar Media, 17 January 2018
13. OnePlus 2: The World's First Product Launch in VR, OnePlus, 25 June 2015
14. Yeppar introducing Augmented Newspaper, Indian CEO, 16 August 2016
15. Welcome to the world of Malayala Manorama VR.Manoramaonline is coming out with a series that will capture the beauty of God's Own Country, Malayala Manorama, accessed on 21 June 2018
16. Inside The New York Times' Winter Olympics AR Experience, Adweek, 5 February 2018
17. Getting real, with AR, Business Line, 25 January 2018

The AR/VR market — Currently in its infancy

AR and VR are increasingly gaining adoption globally. By 2025, the global AR/VR market is expected to be valued at approximately USD80 billion.[18]
This comprises USD45 billion in hardware sales[19] and USD35 billion in software sales. Further, within the overall AR/VR software market, the M&E sector (comprising video games, live events and video entertainment) is likely to account for a 54 per cent share.[20] Moreover, the market is witnessing a rise in mergers and acquisitions, with 130 deals taking place around the world during 2014–17 — out of a total of 180 during 2005–17.[21]

The Indian narrative

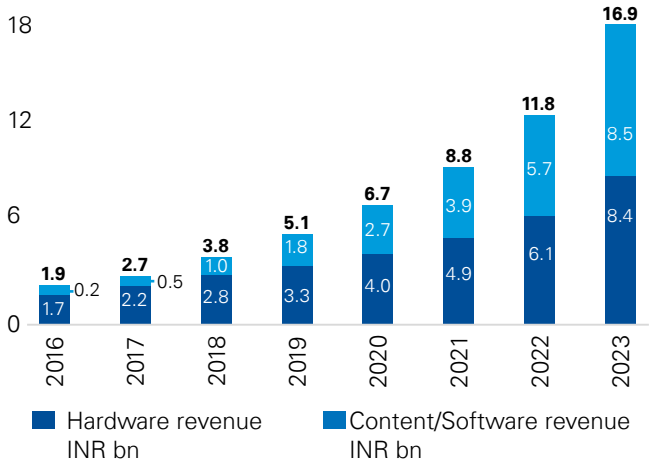
In India, AR and VR are still in their infancy with limited adoption across sectors. However, over the past couple of years, businesses have increasingly gained better understanding of how AR and VR can benefit organisations. With this phase of educating the customers nearing its closure, the actual adoption is now likely to start growing. The potential is significant and industry players expect the AR/VR market in India to grow exponentially over the next few years.

In 2018, the AR/VR market in India driven by M&E is estimated to be valued at INR3.8 billion, and is expected to grow at approximately 35 per cent CAGR during 2018–23 to reach INR16.9 billion by 2023.[22]

Gaming accounted for 88.6 per cent and 91.8 per cent in the hardware revenue and content/software revenue respectively in 2018. Other media segments – live events, videos – continue to remain small in 2018; however they are cumulatively expected to contribute close to 48 per cent and 29 per cent to hardware revenue and content/software revenue respectively in 2023.

Since, a majority of the M&E sector's sub-segments including gaming, video consumption, live events and print are primarily consumer-driven, the contribution to AR/VR market from M&E is very small and may continue to remain so until consumer adoption picks up and is willing to pay for the content. While several companies are creating and capturing films, documentaries, advertisements, live events, etc. In VR, the consumption remains limited to basic mediums such as YouTube and social media platforms through entry level VR headsets using a smartphone or a laptop using mouse movements.[23]

Figure1: AR/VR market opportunity from M&E sector — India (INR billion)



Source: KPMG in India's analysis, 2018

> Over the last year, the AR/VR space in India has slowly taken the form of an industry. Start-ups in this space are on a rise, with the existing animation, VFX and gaming players also seeing AR/VR as a natural progression. Several AR/VR companies are carving their niche in areas such as training and simulation, defence applications and education. As a majority of applications and content development on AR/VR has primarily been aimed at industrial use, the contributing share of entertainment content has remained smaller."
>
> **Ashish S K**
> Founder,
> *Punnaryug Artvision Pvt Ltd*

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18. Virtual & Augmented Reality: Understanding the race for the next computing platform, Goldman Sachs, January 2016
19. Virtual & Augmented Reality: Understanding the race for the next computing platform, Goldman Sachs, January 2016
20. Virtual & Augmented Reality: Understanding the race for the next computing platform, Goldman Sachs, January 2016
21. Virtual and Augmented Reality Industry Primer, McCafferty & Company, March 2018
22. KPMG in India's analysis, 2018
23. KPMG in India's analysis, 2018

Though the print players have also been experimenting with AR to stay relevant, the adoption has not picked up yet. Considering that print as a medium is in need of a transformation on account of the digitalisation of news, AR could well be the saving grace.

As mentioned previously, the demand from enterprises is driving AR/VR currently, and this is expected to be the case for the next few years, until a few major use cases materalise that trigger mass adoption.

In the past two–three years, at least three print industry giants have tried their hand at AR, but the industry has not embraced AR effectively yet. In terms of its contribution to AR/VR in India, print would probably be at the bottom. However, it is safe to say that print has to evolve and use these technologies, otherwise it would die.

Ankush Sharma
Chief Executive Officer,
Rams Creative Technologies Pvt Ltd (Yeppar)

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For mass adoption to take place, there has to be a primary use case for AR/VR devices. Nobody would buy a quality headset only to watch news and other media content. Just as communication was the primary use case for smartphones before mobile applications made them much more useful, AR/VR devices would also have to find such valued applications to gain widespread adoption.

Abhishek Gupta
Co-founder and CEO,
GreyKernel

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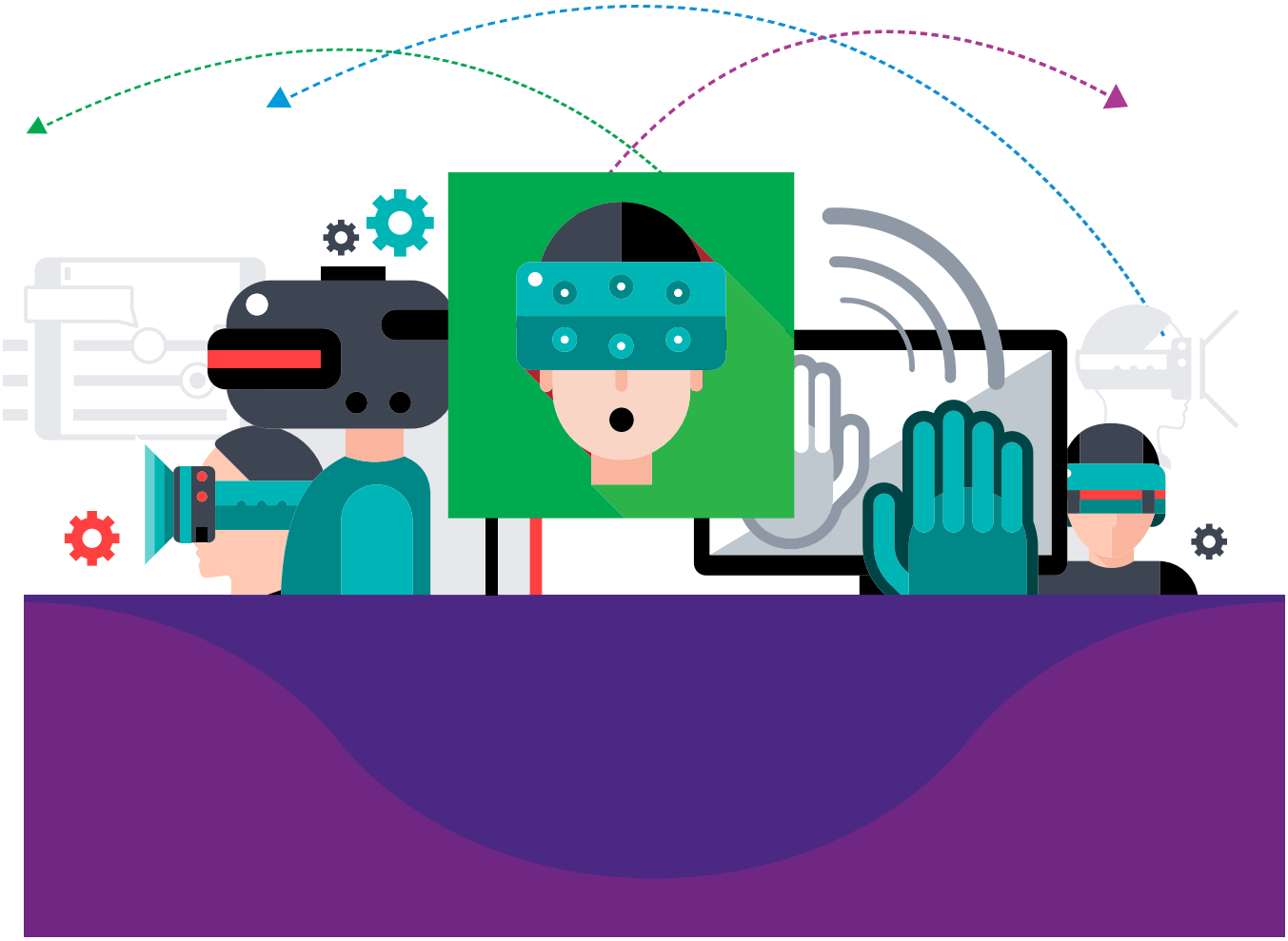
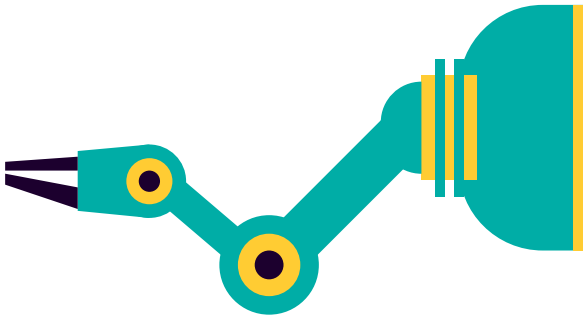


Market landscape — Giants vs start-ups

The global AR/VR market comprises several large companies and many start-ups. Some of the major players and their work in the AR/VR space is described below:



Major AR/VR players (global)

Company (Category)	Business description	Recent developments
Facebook (software enablement and hardware development)	• Acquired Oculus for ~INR127 billion (USD2 billion) in 2014[24] ; develops VR headsets used across sectors	• Partnered with the University of Washington in January 2018 to set up an AR/VR research centre[25] • Introduced AR effects for Messenger in December 2017[26], and launched a platform in April 2017 for developers to create camera effects.[27]
Google (software enablement and hardware development)	• Entered VR gameplay with Google Cardboard in 2014 and launched ARCore SDK in 2017 to enable development of AR applications for Android devices • Google's 'Jump' enables 3D-360 VR video production through automated image stitching and compatible VR cameras.	• Launched Daydream View VR headset in October 2017 • Introduced 'Poly' in 2017, a library of 3D objects for developers' use • Launched 'Earth VR', 'Expeditions AR' and 'Tilt Brush' during 2016-17 to enable users to experience places virtually, learn lessons through visual content and paint in 3D.
Magic Leap (software enablement and hardware development)	• Founded in 2010, it is building an AR device slated for launch in 2018.	• Revealed the first look of Magic Leap OneTM Creator Edition in December 2017.[28]
Microsoft (software enablement and hardware development)	• Develops and sells Hololens, a holographic HMD that Microsoft terms a mixed reality device; it works with its Windows 10 operating system • Also partners with other device manufacturers including Lenovo and Acer for use with Windows 10.	• Reportedly, the second edition of Hololens would be launched in early 2019[29] • Expanded the distribution of Hololens to 39 countries by November 2017.[30]

24. Facebook to Acquire OculusPR Newswire, 25 March 2014
25. Facebook partners with the University of Washington to create new AR/VR research center, facebook, 8 January 2018
26. Facebook introduces new augmented reality effects for Messenger, The Verge, 12 December 2017
27. Facebook launches a camera platform for developers to push augmented reality forward, The Verge, 18 April 2017
28. A Small Reveal, Magic Leap, 20 December 2017
29. Microsoft to Launch Second-Gen Hololens AR Headset in Early 2019 (Report), Variety, 15 June 2018
30. Microsoft expands HoloLens headsets to 29 new markets, now up to 39, TechCrunch, 1 November 2017

India scenario — The budding start-up ecosystem

In India, the AR/VR market comprises hundreds of start-ups, with estimates ranging from 170[31] as of mid-2017 to over 500[32] currently. Moreover, India is among the top five countries by the number of VR start-ups globally.[33] The market predominantly comprises content and software development companies, while hardware development in India is focussed primarily on low-cost VR devices used for entertainment purposes. There are no AR/VR hardware development companies in India that focus on serious use cases, and hardware for such applications is entirely dependent on imports of products such as Oculus Rift, Microsoft Hololens and HTC Vive.[34] Essentially, the market is highly fragmented with a large number of small players.

Within the software and content segment, it is primarily start-ups that are driving the market. Currently, these players are largely trying to target niche sectors or use cases. For instance, Mumbai-based Xenium Digital focusses on two verticals — experiential marketing and industrial applications.[35]

> We started with the development of games, but realised that the true potential of AR/VR applications in India currently lies in marketing, and industrial AR applications such as training. Thus, Xenium has been segregated in two divisions, each catering to one of these use cases.
>
> **Parveez Nasyam**
> Managing Director,
> *Xenium Digital*

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Similarly, VR player SmartVizX, which was founded in 2015 by two architects, focusses on the Architecture, Engineering and Construction (AEC) space.[36]

> The AEC space is significantly fragmented with no standards around the application of design technology. Multi-billion dollar projects are carried out using static, picture-based 3D visuals for reference, and more often than not, decisions go wrong. VR is the way forward for design technology, and AEC companies in India are beginning to explore it sincerely.
>
> **Gautam Tewari**
> Co-founder,
> *SmartVizX*

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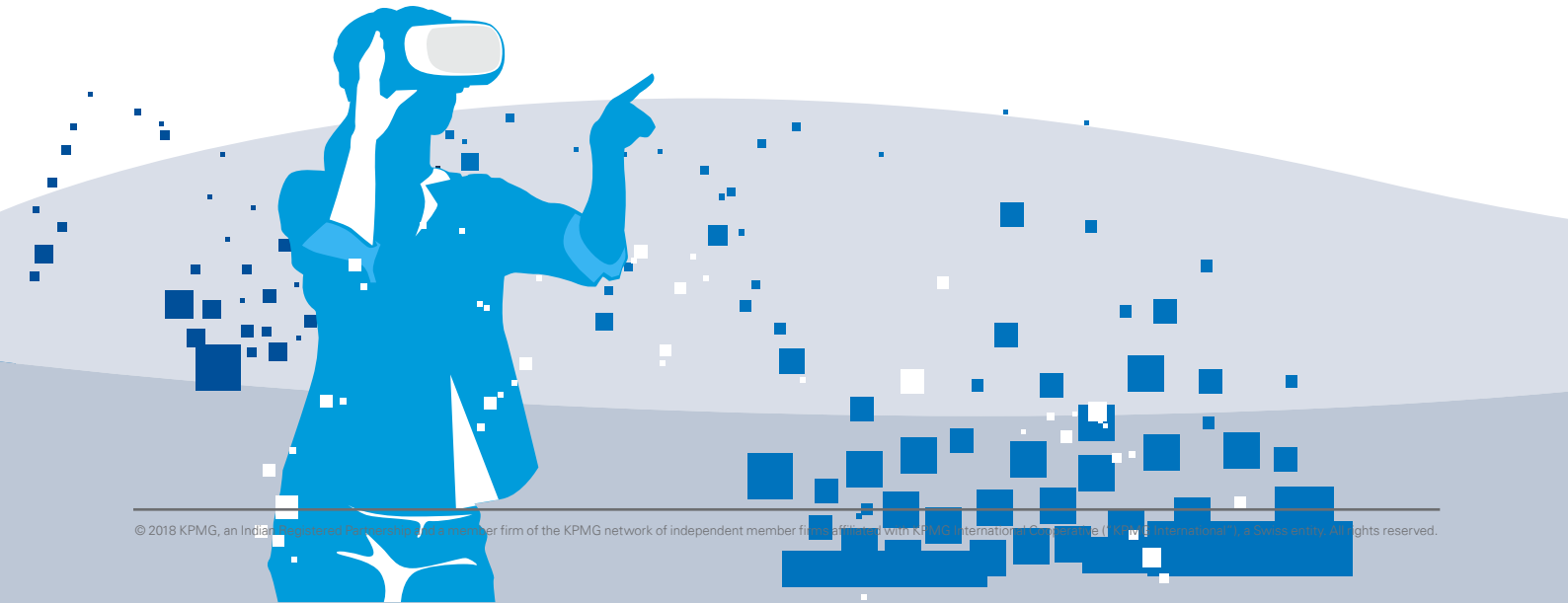
31. Market Pulse Report AR & VR — India, GrowthEnabler, November 2017
32. Industry discussions conducted by KPMG in India, 2018
33. Market Pulse Report AR & VR — India, GrowthEnabler, November 2017
34. Industry discussions conducted by KPMG in India, 2018
35. Industry discussions conducted by KPMG in India, 2018
36. Industry discussions conducted by KPMG in India, 2018

In the M&E sector also, there are several studios involved specifically in VR content development, as described below:

Examples of some VR content production companies in India - continued

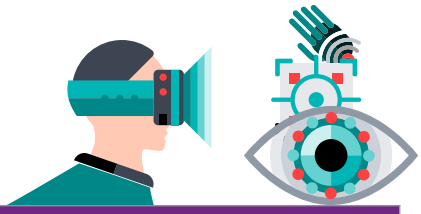
Company (Category)	Business description	Recent developments
Meraki Studio	• Works with several stakeholders to create content in VR, including sports broadcast, movie promos, documentaries, news, live concerts and walkthroughs.	• Captured an ISL football match in 360-degree • Worked on creating the movie, Mubarakan's, promo in 360-degree • Created a VR documentary titled I am Keonjhar for the India Literacy Project • Created a VR tour of the Deonar dumping ground for the India Today Group.
Wonderwork	• Creates VR content including documentaries, corporate films, live events, tourism-promotion videos and walkthroughs.	• Created a VR film for WaterAid, a non-profit organisation, showcasing their efforts in restoration of water systems in a village, post the Nepal earthquakes in April 2015 • Captured a popular five decades' old theatre play from Maharashtra in 360 degree VR to re-create the experience for its initial audiences who are now majorly senior citizens.
Elysian Studios	• Creates 360-degree 3D virtual tours of tourist destinations • Develops VR wedding films through a separate division called VivaahVR.	• Created a VR experience of the 2016 Kumbh Mela in Ujjain • Captured a Tibetan Buddhist monastery from Himachal Pradesh in VR, covering the lives of monks • Worked with individuals in the wedding space.
Alter EgoCrew	• VR production company creating documentaries, brand films, advertisements and live broadcasting in VR.	• Developed ads for brands including Daikin and Proburst • Captured events including Bailamos Dance Party in 2016 • Created a couple of documentaries/short films.



During the past couple of years, such start-ups have collectively played a major role in educating the Indian business community about applications and benefits of AR/VR. However, the industry is nearing an inflection point, from where it could start growing exponentially. This could also be triggered by the rise in the inflow of private investment. While only about 5 per cent of the AR start-ups in India received any form of funding during 2013–17, this scenario is likely to change significantly in the next five years.[37]

Growth drivers — Demand from the enterprise segment

The anticipated growth of AR/VR in India is likely to be driven by use cases such as training, simulation and learning, and marketing and sales. In addition, market forces including the rise in digital transformation initiatives globally, and India's strength in software development would propel the AR/VR market in the country.



Key growth drivers of AR/VR in India

Training, simulation and learning	This segment accounts for 70–75 per cent of the Indian AR/VR market currently, and is expected to continue to occupy a major share in the foreseeable future.[38]
Sales and marketing	Due to their ability to provide an immersive experience, AR/VR can prove to be effective in assisting sales and marketing of products/services. Additionally, these technologies have the potential to transform the online shopping experience.
Digital transformation	AR/VR initiatives are getting a boost as digital transformation continues to be one of the major agenda for organisations globally.[39]
Software and content development prowess	According to industry players, content development accounts 70–80 per cent of the AR/VR software revenue, and platform development accounts for the rest. Hundreds of companies in India are involved in the development of software and content suited for VR.[40]
Supporting infrastructure	With the expansion of pan-India 4G services by telecom operators in India, average internet speed and usage in India is projected to get a major boost, thus facilitating trials and adoption of new technologies like AR/VR.

37. Only 5% AR/VR Startups in India Raised Any Funding in Last 5 Years, IndianWeb2, 8 January 2018
38. Industry discussions conducted by KPMG in India, 2018
39. Industry discussions conducted by KPMG in India, 2018
40. Industry discussions conducted by KPMG in India, 2018

Essentially, the enterprise segment is expected to drive the AR/VR market globally (and in India) until the limitations posed by hardware segment — including high cost of ownership, bulky nature of headsets and feelings of nausea on prolonged usage — are subdued through enhancements in technology and content development.

Challenges ahead — Hardware is the biggest spoilsport

In addition to the issues related to cost, quality, nature and utility of hardware, the AR/VR market faces a few other major challenges as well. These include a lack of understanding of AR/VR applications within user groups, and concerns over the return on investment (ROI), data security, talent acquisition and investor sentiments.

Key challenges for AR/VR in India

Hardware form factor

- The cost of quality AR/VR devices such as Oculus Rift, HTC Vive and Sony PlayStation VR ranges approximately between INR34,000 and INR70,000.[41] Further, the developer edition of Microsoft Hololens costs about INR200,000 (USD3,000).[42] Even the low-priced Oculus Go costs approximately INR20,700.[43] Moreover, these devices are required to be used with equally expensive computing systems — ultimately inhibiting individuals as well as businesses from adopting AR/VR
- A majority of AR/VR devices are also quite bulky and may cause nausea on prolonged usage. Further, from an individual consumer's perspective, AR/VR content and devices could be perceived as just a novelty, and not a necessity.

> The reason for this industry not realising its true potential in the last one or two years is not because of software or content or even the capabilities of companies to invest in this industry, but rather due to hardware. The inhibitors to adoption of AR/VR have been the price point and bulky nature of headsets, and that a fairly powerful workstation is required to use it.
>
> **Abhishek Gupta**
> Co-founder and CEO,
> *GreyKernel*

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Lack of understanding among user groups

- Over the past few years, industry players have played a strong role in building awareness about AR/VR among user groups across sectors. However, since the adoption rate is still low, there is significant scope for further educating the business community about AR/VR.

> Significant investments would have to be made to help build familiarisation for AR/VR in the context of each of the user groups. There is still a lot of learning that is yet to happen, and it would take place over the next two–three years.
>
> **Rahul Dutta**
> Founder,
> *Trimensions*

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Dearth of content

- Owing to a small consumer base, companies — especially from the media and entertainment standpoint — are holding back and going slow on the creation of VR content[44]
- Presently, content is being pushed, while the demand from consumers is not significant. For instance, news channel Wion tried broadcasting news in VR, but it did not gain traction because the user base is negligible.[45]

> Several movie production houses in India are in talks about creating content in VR, but they have apprehensions about investing large sums of money into it without having a noteworthy consumer base to watch them.
>
> **Anuj Khemka**
> Co-founder and COO,
> *AlterEgoCrew*

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41. Amazon India website, accessed on 30 May 2018
42. Microsoft website, accessed on 30 May 2018
43. Amazon India website, accessed on 30 May 2018
44. Industry discussions conducted by KPMG in India, 2018
45. Industry discussions conducted by KPMG in India, 2018

Lack of clarity on ROI

- Without having complete knowledge about AR/VR, businesses across sectors are currently apprehensive of committing significant investments towards AR/VR — primarily due to insufficient understanding on how to evaluate ROI from such investments[46]
- Also, for applications that are consumer-focussed (for example, entertainment, marketing and sales tools, and experiential zones), monetisation opportunities have not yet evolved significantly owing to a low consumer base.

Funding constraints

- Globally, AR/VR start-ups collectively raised over INR203.4 billion (USD3 billion) in venture funding during 2017, however, more than half of this (INR108.8 billion/USD1.6 billion) were allocated to just four companies — Magic Leap, Improbable, Unity and Niantic[47]
- During January–March 2018, investments worth about INR51 billion (USD750 million) were made in this space globally[48]
- However, in India, only about one in 20 AR/VR start-ups received funding during 2013–17[49], and several players have shut their shops during the past two–three years[50]
- However, this scenario is likely to change drastically in the near future, given the high market potential of AR/VR and growing adoption rates.

Immature ecosystem

- Since the AR/VR ecosystem has not yet developed significantly, the acquisition of talent remains a challenge. It is expected that the developer (software) ecosystem would mature as the market ripens. To this end, the industry players are joining hands with media educational institutes to develop talent specifically for AR/VR content development
  - In June 2018, Reliance Jio and Whistling Woods International launched a VR Lab in Mumbai to create a base of VR filmmakers in the Indian M&E industry[51]
  - S P Jain Global School of Global Management in Mumbai has recently launched a nine-month weekend professional technology programme to produce graduates skilled in VR content development[52]
- Also, while the average internet speed and connectivity has been growing rapidly in India, the country still lags far behind other nations — ranked at 89 globally in terms of average connection speed (as of Q1 CY17).[53]

Outlook — Though not essential yet, AR/VR is likely to scale heights

While it is established that the adoption of AR and VR is expected to rise significantly in the mid-to-long term, it is critical to evaluate the extent of it. Although AR/VR players in India are optimistic on the industry's growth path, they are equally cautious about the uncertainties and challenges ahead.

46. Why Virtual Reality Is Still Not Mainstream in India Despite Tech Progress, Analytics India Magazine, 28 March 2018
47. AR/VR startups raised $3 billion last year led by a few industry juggernauts, TechCrunch, 6 January 2018
48. Startup VR/AR Companies Raised Record Breaking Funding, VRFocus, 5 April 2018
49. Only 5% AR/VR Startups in India Raised Any Funding in Last 5 Years, Indian-Web2, 8 January 2018
50. Industry discussions conducted by KPMG in India, 2018
51. Reliance Jio partners Whistling Woods to set up VR lab in Mumbai, Livemint, 5 June 2018
52. Virtual Reality Program Overview, S P Jain Global School of Global Management, accessed on 21 June 2018
53. akamai's [state of the internet], Q1 2017 Report, May 2017

It is difficult to ascertain the growth of AR/VR market in India at the moment. However, if we look at the smartphone adoption, it took close to a decade for it to become mainstream. Now, with Indians becoming more tech-savvy, a similar, but faster adoption trend can be expected for AR/VR as well. Thus, we can expect these technologies to become a part of our daily lives in the next three–five years.

Parth Choksi
Co-founder,
Meraki Studio

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A year ago, we had to educate people about AR and VR, but now people understand them, and the interest from user groups is apparent. The market was expected to have progressed significantly by now, but customers are still in the experimentation stage, and are holding back on real implementation. It would take some more time for the mainstream adoption of AR/VR to become a reality.

M A Kodandarama
Founder and CEO,
Preksh Innovations Pvt Ltd

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While usage of AR/VR is likely to increase among both consumers and businesses, it may still not become essential in the near future. Moreover, it would take another 8–12 months to see if people are actually going to use AR/VR devices.[54] As hardware industry is the first to grow in such a market, its adoption would decide the future of AR/VR in India.[55] Thus, the primary factor suppressing AR/VR in India (and globally) is hardware — owing to its cost, form factor and limitations on utility.
However, going by the way the smartphone market has developed rapidly, it could be assumed that AR/VR devices would also take a similar path — provided there are primary use cases for consumers, and AR is able to truly leverage the wide reach of smartphones and other available computing devices.

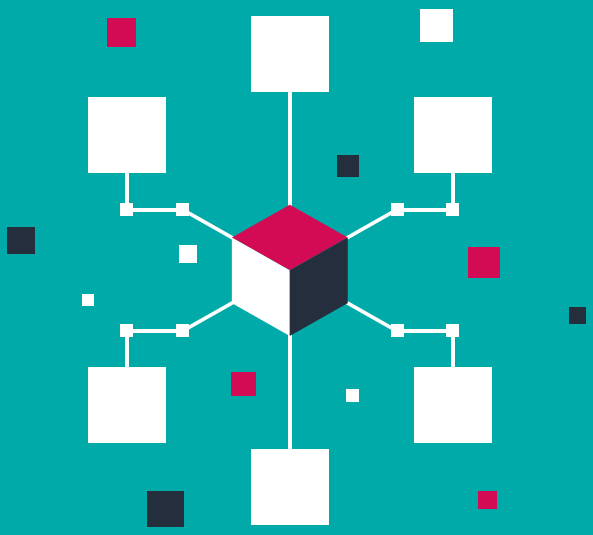
Further, in addition to the hardware aspect, there are a few issues that need resolution to increase adoption of AR/VR in India. These include awareness about the possibilities they create, the returns they could generate, and the availability of an ecosystem comprising accessibility to funds and talents. Some sectors and leading players might have to take the lead to encourage their peers to adopt these technologies. Irrespective of the current scenario, AR and VR seem ready to scale greater heights in the near future.

Essentially, AR/VR is likely to be a disruptor in the way media and entertainment content is consumed, as well as for other applications across sectors including education, healthcare, consumer markets, defence, real estate, automotive, and travel and hospitality. However, we may still have to wait to see when that actually happens.

54. Industry discussions conducted by KPMG in India, 2018
55. Industry discussions conducted by KPMG in India, 2018

Blockchain

Hype or disruptor



Blockchain: A new wave of disruption?

Though blockchain has its origins in the financial world, its ability to bring in transparency to the ecosystem, and create an immutable chain of records finds various applications in the media industry.

Blockchain technology works on the principle of distributed ledger which is secured using cryptography. It logs every change to the asset in a set manner, which is visible to all participants. These changes are updated in real-time, and each amendment has a chronological timestamp before being cryptographically locked, thus preventing tampering of the records.

The Blockchain can be described as a distributed database of records or public ledger monitored by every node of the Blockchain network but ultimately controlled by none. The exchange using Blockchain is not limited to information but tracking of anything of value including titles, commodities, diamonds, data management, digital content, network infrastructure, music, art, scientific discoveries, intellectual property and even votes — these can be stored and tracked securely.

How Blockchain impacts the media and entertainment industry

There are multiple aspects within media and entertainment which can be disrupted by Blockchain technology — all of which primarily revolve around the ability of Blockchain to provide transparency to elements of the media and entertainment supply chain.

Traditionally, piracy has been a major challenge for content owners, which results in significant revenue leakage. With the proliferation of digital consumption, the levels of piracy has increased significantly. Pirated films and TV shows are downloaded approximately 5.4 billion times per year[1]. Downloaded pirated content is estimated to cost global streaming players more than USD50 billion through 2022. The distributed control powered by smart contract through Blockchain technology can enable transparency in media content transactions and help curb piracy.

Similarly, Blockchain technology can enable tracking of usage and monetisation of digital content. This can help protect copyright holders, and help ensure that copyright owners in the content value chain receive their fair share of royalty and other content-related payments.

Blockchain, however, also has the ability to disrupt the existing media value chain by tipping the scale towards primary content creators/copyright owners and away from traditional leaders of value chain — aggregators, platform providers and distributors.

Ubex developed their blockchain solution, which tracks different customer actions on publisher and advertiser sites and saves the activity data on blockchain, which is transparent and encrypted. It helps companies easily identify whether 'people viewing their ads are members of their targeted audience', and hence increase the effectiveness and success of the targeted advertising campaigns.[2] The use of a secure/encrypted blockchain solution can also address consumer data privacy concerns being faced by many in the digital advertising industry today.

While select applications of Blockchain technology are still evolving, most payment-focussed use cases have successfully completed their proof of concept stage. Parts of the media value chain have already been impacted by new Blockchain-based payment and contract options. These can disrupt the structure and processes for pricing, advertising, revenue sharing, and royalty payments across the value chain.

Blockchain can help create communities and focus groups where the creators of content can set the rules. For example, Matchpool is a decentralised premium content delivery solution on blockchain where users create 'pools' (special interest groups), where the pool creator can choose from the available monetisation models ranging from 'per content utilisation fee' or a blanket 'subscription fee' based on transaction data. This platform uses 'Guppy (GUP)' tokens, where users can buy directly or trade on the 'Matchpool' platform. As the protocol runs on blockchain, it performs all transactions in a transparent, peer-to-peer fashion. It involves no intermediary intervention or additional service fees. Pool creators and content owners get directly paid for their services and efforts. An added benefit is that the platform does not collect user information, which is a plus for privacy[3].

1. Alliance for Creativity and Entertainment (ACE)
2. How Ubex Uses Blockchain to Disrupt the Advertising Market'; Published 30 April, 2018 on Bitcoin.com
3. How blockchain makes the online content economy fair and transparent' by Ben Dickson, August 2017.

We have set out below three case studies to illustrate the value and potential impact that Blockchain as a technology can bring to the media and entertainment industry.

Case No 1: Royalty management

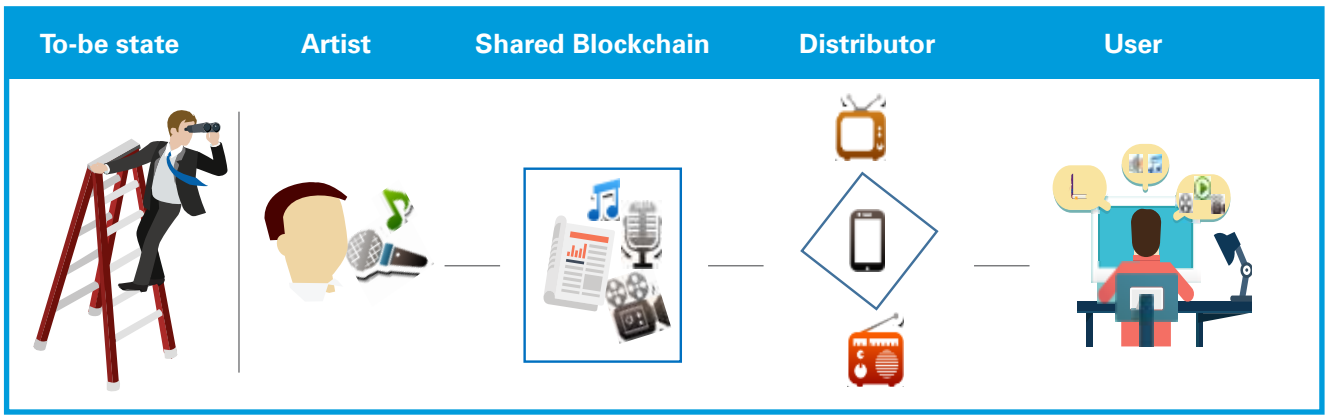
The pain point

The existing royalty management has a large lag in terms of payments to content owners as there are multiple contracts, and also requires significant effort on reconciliations. Content can be illegally downloaded, copied and shared, which eats into the artiste's royalties and music label's revenue.

It is common for pirated versions of both Indian and Hollywood movies to be available even prior to their release. Further, profit and revenue sharing models become difficult to execute, since tracking the reach and number of views becomes difficult to monitor.

How blockhain solution can help here

Copyright contracts can now be put on the Blockchain, identifying copyright of the content and defining how royalties should be split among writers, performers, publishers, producers and so on. The excellent security that Blockchain technology provides can be utilised to find solutions to prevent unauthorised distribution. One way is to encode tracks using hash on the Blockchain, which ensures that a distinct key is created every time a song is uploaded and played, preventing 'piracy' of the content.



Case in use

Microsoft launched a blockchain solution for managing content rights and royalties for the media and entertainment industry[4]. This solution will first be deployed in the French gaming company 'Ubisoft', one of Microsoft's gaming partners and its other game publisher partners in a phased manner. The solution attempts to digitise the present manual process of royalty calculation. It also aims at reducing the time taken to dispurse the royalty payment to the end beneficiarry.

Through a built-in smart contract architecture, it provides real-time and precise calculations of each member's royalty position that helps track and reconciles royalty transactions.

Microsoft's Azure cloud infrastructure and Quorum are the backbone on which the network has been built. On implementation, Microsoft's gaming partners will have the ability to have a real time view on each transaction as opposed to the 45 or more days taken by the legacy processes. While it is early to know the dollar impact of the implementation, the application has helped the partners in generating accounting accruals on a daily basis to improve their forecasting. This would notably improve operational efficiencies and cost savings in the royalty management process through due to automation and also increase transparency amongst industry players, thus increasing trust.

Case No 2: Content distribution and payments

Problem statement

Involvement of multiple parties between artiste content and subscribers results in issues like higher lag time, lesser profits for artistes and copyrights complications.

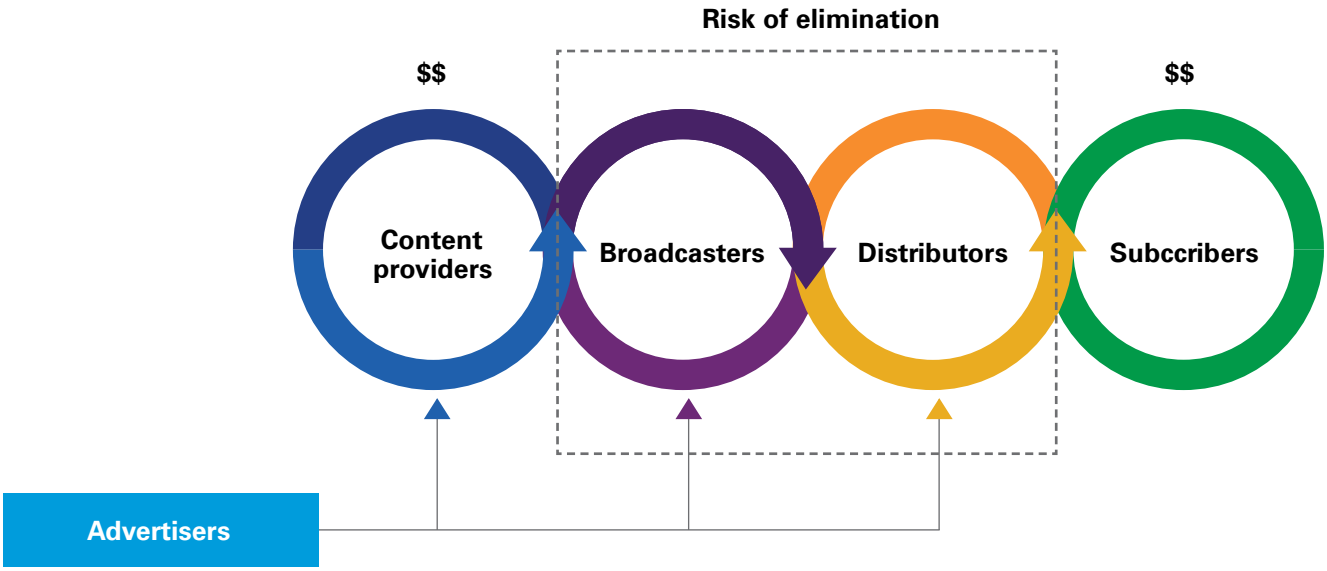
How blockhain solution can help here

Blockchain has the potential to create a value chain where there are no broadcasters and distributors. This disruption can be brought about by hosting the content on a public distributed ledger accessible by secured login by authorised nodes.

Content providers can directly market their content to subscribers, collect payments for consumption and distribute royalties to copyright owners in close to real-time by reducing the current ecosystem turnaround time from two days to a matter of a couple of hours.

Payment for partial content (micropayments) might be possible and creators could be rewarded close to real time. Monetisation of portions of content with protection from piracy and copyright infringements are likely to evolve as adoption of the technology gains traction.

While more precise marketing efforts and automation of billing and royalty payments are required to bypass aggregators, payment for content using smart contracts has been successfully piloted by leading market players.



4. Could Microsoft Dominate Blockchain-Based Rights And Royalties Management?', Published June 22, 2018 on ethnews.com

5. Blockchain Platform to Help Content Creators Earn Fair Pay for Music, Movies, Games, eBooks'; By Connor Blenkinsop, Published 04 June 2018

Case in use

Qravity is a digital entertainment production and distribution platform built on Ethereum blockchain, which enables participants and content providers to collaborate more efficiently while developing and distributing content on digital media[5]. Qravity's cryptocurrency is called QCO - within its ecosystem, individuals and distributors can use it to licence or purchase content directly. The platform uses virtual tokens to record every activity for content creation, and upon successful completion distributes profits derived from the finished content to their respective stakeholders. For example, a person who writes a song gets a share of, say, five per cent, of the song's revenue. Every time someone buys that song, the lyricist gets five per cent of that payment.

Case No 3: Piracy

Problem statement

Due to mulitple leakage points and insufficient controls, music and videos are downloaded illegaly, resulting in huge losses for media houses and artistes alike.

How blockhain solution can help here

Music or video content created by the source is tagged to a unique codec which, requires a particular player to play the content. Once the music is streamed or downloaded and played, every usage is updated as a transaction in the Blockchain.

Once the content is downloaded illegally and ripped from the codec, the player will not identify the ripped format. The music or video file will not be readable and the transaction will be logged in Blockchain alerting every participant about the possible violation. This will discourage illegal download of the music or videos, saving the company and artiste from facing losses.

Case in use

A video streaming software technology, Linuis, has been using Blockchain protected content distribution to fight the war on TV and film piracy. In 2015, Grammy-winning singer Imogen Heap released a new single Tiny Human using the Ethereum network[6]. Sales of her single using Ethereum smart contracts stood at approximately GBP30,000 by the end of October 2017[7].

Blockchain adoption in the industry

Start-ups leading the journey

With content creators finding their place under the sun with Blockchain, it is not surprising that transformative applications that have been launched till now have been introduced by start-ups. These applications are restricted to whitepapers that talk of a better future, but have not been seen in action.

No Postage Necessary, a romantic indie comedy released in June 2018, was the first film to be released using the Blockchain technology[8]. Viewers are able to buy the film through the Blockchain-based video app — Vevue — and pay for it with the app's digital currency. The use of a watermark on every screening could prevent piracy of the content. The use of Blockchain strives to enable the tracking of the number of views, and payments to investors and creatives can theoretically be made in real-time, thus increasing transparency.

Another start-up, Ujomusic, is attempting to disrupt the value chain in the digital music industry by providing a decentralised cryptographic hash with digital records of lyrics, music compositions, graphical content, owners, rights to owners and other significant content. Since the record is publicly owned as opposed to being owned by a company/an individual, content creators have a platform to register their content even without the backing of a big record label.

6. How we tried to buy Imogen Heap's song on Ethereum'; Published 24 January 2016, Hatching Amazing
7. Imogen Heap
8. Official website for the film 'No postage Necessary'

Industry leaders are not far behind

This is a phenomenon that the industry cannot turn a blind eye to, and large media conglomerates have also embarked on their Blockchain journey by collaborating with start-ups and investing in them.

In 2016, Disney started the development of a Blockchain project, DragonChain, with the goal to create cost-efficient business networks where virtually any type of media component can be tracked and traded — without requiring a central point of control[9].

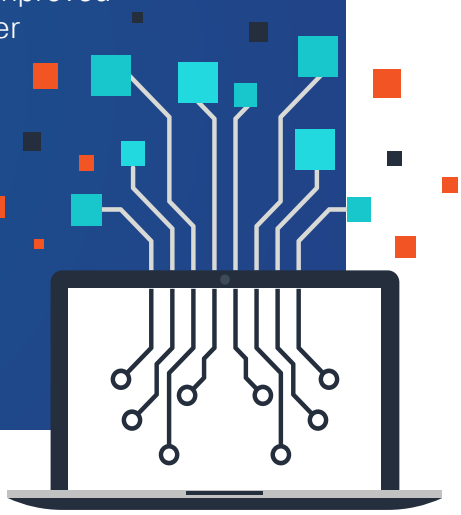
By 2017, this was made open source with an Initial Coin Offering (ICO), which provides features such as easy integration, protection of business data and operations, currency agnosticism, and multi-currency support[10]. One of the distinct aspects of the DragonChain architecture is the ability for businesses to maintain total control of sensitive business data and smart contract logic. There are currently four projects (Look Lateral, Seed2You, LifeID, IDPay, Clevx) utilising DragonChain, with many more in the pipeline

Major players		
Universal | Comcast | Cox Communications		
Content Providers	**Aggregators & Broadcasters**	
PledgeMusic	**Ujo Music**	**BitClave**
PeerTracks	**LBRY**	**Livepeer**
	PeerTracks	**STREAM**
	Dot Blockchain Media	**Theta Network**

Source: KPMG in India's analysis 2018

Way forward

The use of Blockchain as a technology has been facing resistance due to the lack of speed and standardisation over the past couple of years. However, with rapid platform development and the introduction of newer protocols that support faster transactions, Blockchain is increasingly starting to gain adoption across media players globally. Blockchain is likely to allow content owners to effectively market its content to targeted subscribers, accept micro-payments for bits of content and manage relationships with artistes as well as consumers. Near real-time, cost-effective monitoring of consumption of content and payment of royalties pose a threat to disruption of intermediaries in the value-chain. Interoperability of platforms and improved seamless customer experiences are fundamental drivers to improve the adoption of Blockchain in the distribution and business strategies of media players.



9. Official website of 'Dragonchain'
10. Blockchain Startup With Disney Roots Completes $13.7 Million ICO' Published at coindesk on 3 November, 2017.

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