



# SHAPING THE INDUSTRY AT A TIME OF DISRUPTION

# TAKING INDIAN M&E INDUSTRY TOWARDS A \$100 BILLION ASPIRATION

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The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has over 7400 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 100,000 enterprises from around 250 national and regional sectoral industry bodies. In its 120th year of service to the nation, the CII theme of 'Build India – Invest in Development, A Shared responsibility', reiterates Industry's role as a partner in national development.

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CII BIG PICTURE SUMMIT 2015

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**BCG**

THE BOSTON CONSULTING GROUP



Confederation of Indian Industry

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# FOREWORD

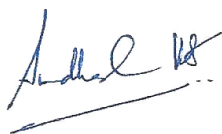
**W**elcome to the 2015 edition of CII Big Picture Summit's knowledge report, in partnership with BCG on the future of the Indian media and entertainment industry in order for it to reach its full potential and arrive at USD 100 Billion growth.

It is clear that the next decade for the Indian media and entertainment (currently valued at INR ~115,500 Crores) will be redefined by a digital transformation. Content, distribution, consumption and advertising trends will all undergo a "tectonic shift" to feed this revolution.

India already has the largest smartphone user base in the world. By 2020 it is predicted that every second Indian will have a personal media consumption device. Given this backdrop, India can become the nerve centre for M&E activity globally with the added push of the government's "Make in India" and "Digital India" initiatives.

However to reach this zenith, India needs to attract global investment and function with an enabling policy infrastructure. The government and industry need to come together in a cohesive partnership to make this happen. CII is actively working with the government to create an exhaustive, systemic policy framework which would involve forming a core working group of stakeholders to engage with policy-makers.

CII and BCG thank our stakeholders for their valued perspectives and support towards enriching the content of this knowledge report. We continue to look forward to your feedback in enhancing the usefulness of this publication.



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# EXECUTIVE SUMMARY

**T**he Indian media and entertainment (M&E) industry is coming of age. For the past five years, the industry has been growing at a stable 10% Year on Year (YoY) and is currently valued at INR 115,500 Crores. Today the industry has a significant presence on the global map. It has the third largest TV audience, second largest print circulation and produces the highest number of films worldwide. The industry is an important contributor to the Indian economy, providing employment opportunities for nearly 5 Million people (direct and indirect) and accounting for about 1.7% of the country's GDP. However, it continues to underperform to its true potential. Advertising, for instance, is only 0.33% of GDP in India compared to the global average of 0.64%.

The next decade could fundamentally change this outlook. Unlike in the West, where many parts of the industry are struggling, India's unsaturated markets brim with opportunity. Demand levels are set to surge as vast, latent consumer segments are tapped. On the other hand the advertising pie is poised to expand on the back of robust economic growth. If India could reach China's media consumption levels, it could create an incremental "Billion media hours" a day. With a billion clicks determining new winners and losers every minute, it is a tectonic shift that will reshape the fundamental principles by which the media industry operates.

India is gearing for a **consumption explosion**. India already has 250 Million digital screens (smart phones, tablets, laptops and PCs), which is more than the number of TV and film screens put together. This number is projected to multiply to 600 Million by 2020, implying that every second Indian will have a personal media consumption device. New **consumption behaviors** will get created with always-on, on-the-go, on-demand and seamless pick-where-you-left models across multiple devices and time frames. The distinction between prime and non-prime time will become redundant due to these changing patterns and behaviors of online consumption. It will also create

**fragmented audiences.** Consumers will gravitate towards the most popular content or niches of personal interest, while mid-tier, filler content will start fading out. There could be significant disruption in **sourcing models.** The sheer volume of content is also exploding with user generated content (UGC) and cheaper content models are emerging, challenging the premise that good content must be expensive. **Advertising** will need to be **reimagined** in terms of metrics, formats and techniques. Metrics revolving around prime time and front page will become archaic as the focus moves to “my time” and “my page”. With the ever-increasing choice of content and the popularity of time-shifted and on-demand viewing, measuring viewer behavior will become increasingly critical as it will facilitate targeted advertising. Further, there is a fast growing need for innovative and newer ad formats for effective monetization.

These changes will not happen in isolation; the interplay across these variables will catalyze change and alter the very paradigms on which the industry operates.

Amidst all this disruption, the one question that the industry needs to come together and answer is, “How will this growth be monetized?” Globally, digital has hurt print, music the most and TV, radio, films to a lesser extent. But India could be very different. Its monetization benchmarks are substantially different, both for subscription and advertising. Netflix with its USD 8/month offering disrupted the USD 80/month pay TV connection in the U.S., but digital pay TV, priced at under USD 5/month, is already one of the cheapest items in an Indian household’s purchase basket. Likewise, at under USD 3-5/month, Indian consumers have access to newspapers delivered daily to their doorsteps. This creates a stronger case for continued momentum in the traditional media sectors in the short to medium term. In fact, demand could potentially grow by tapping into the latent needs of the Indian media consumer looking for more choices.

Irrespective of how the monetization models evolve, the industry structure is expected to transform. Linear value chains of the past will collapse into non-linear structures accommodating new roles and new players while those that do not embrace the change will wither. Content aggregation and content management will become as important to the value chain as content creation. The industry structure will also become more complex and players will need to collaborate and compete at the same time with the game moving to winning ecosystems rather than isolated success models.

This change will also create new winners and losers. BCG contends that winners will do three things differently. They will think big (on the platforms), leverage multiple monetization approaches and invest heavily in content.

Within this environment of change, India has the potential to emerge as a global M&E hub. Opportunities, content and players are all becoming universal and India—backed by a stable macroeconomic outlook, a youthful, English speaking workforce and the government’s

**“Make in India”** and **“Digital India”** blueprints—is strongly positioned to exploit such trends. To attain this stature, India needs to establish itself as a global production hub and attract global investment. The industry and the government must come together to invest in education and infrastructure to attain this dream. Creating clarity on the IPR policy and enhancing ease of doing business will also be critical to propel growth.

Ultimately though, the pace, direction and extent of change will be shaped by the strategic choices of industry participants and the support of the government. Against this unfolding drama, there is potential for the industry to achieve the USD 100 Billion vision by shaping the industry to leverage the consumer and digital trends.



# SHAPING THE INDUSTRY AT A TIME OF DISRUPTION

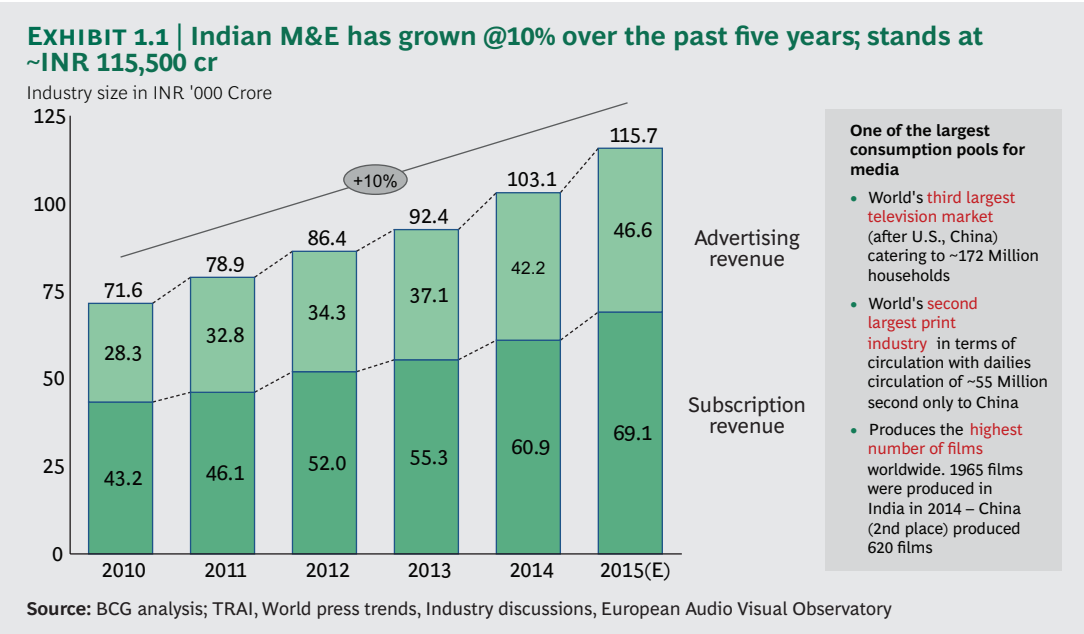
## M&E sector is core to the Indian economy

The India media & entertainment sector stands at approximately INR 115,500 Crores (2015) and has been one of the best performing sectors with a 10% compound annual growth rate (CAGR) over the past five years<sup>1</sup>. This growth has come on the back of macro factors like rising GDP, strong economic activity and increasing consumer income coupled with industry initiatives like improving addressability, content innovation and deeper segmentation.

A combination of these factors has driven

advertising growth at 10%, subscriber growth at 4-6% and per capita media spend growth at 9-10% over the past five years. Even newsprint circulation, which has been declining globally, continues to grow in India on the back of rising literacy and income.

India is significant on the global map today on several consumption dimensions. India has the world's third largest television viewership base (after the U.S. and China), the world's second largest print industry (in circulation terms) and produces the highest number of films worldwide (1950+ films produced in India 2014).



The M&E sector also contributes significantly to the Indian economy accounting for ~1.7% of GDP and providing employment opportunities, both direct and indirect, to nearly 5 Million people<sup>2</sup>. The employment

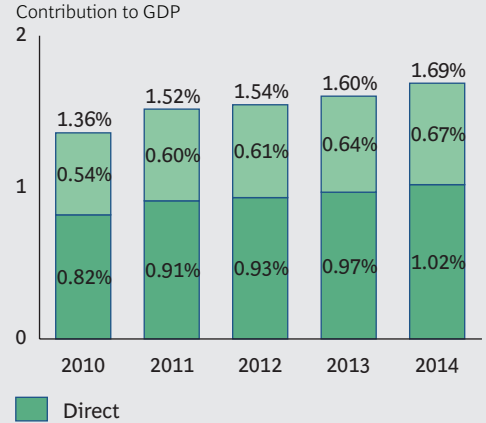
stats would be much higher if outsourced and informal employment is included. In addition, this sector has a strong pull-through effect in allied spaces such as travel & tourism.

### EXHIBIT 1.2 | Indian M&E is a significant economic contributor - ~5 Million jobs and ~1.7% GDP

#### M&E creates ~5 Million jobs...



#### ...and contributes ~1.7% to GDP<sup>1</sup>



Source: Census data and MHRD data

Note: Indirect employment calculated basis methodology outlined in "Economic Contribution of Indian Film and TV industry" – Motion Pictures Association

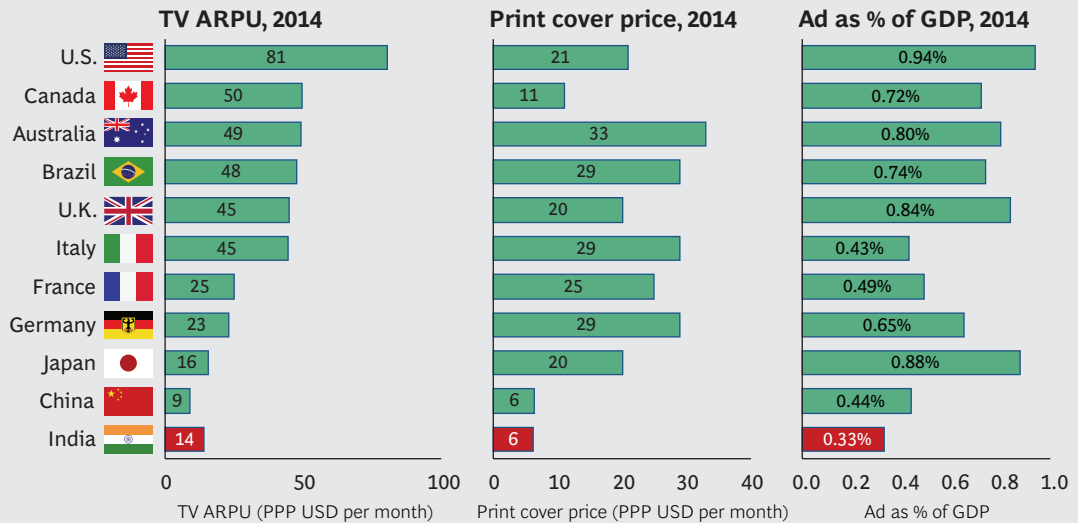
<sup>1</sup>Nominal GDP at market prices / product prices

### Under achieving to potential

However, the sector has continued to under-perform to its true potential. The Indian M&E industry lags global peers on several metrics. India has one of the lowest per capita media spends. With a TV ARPU of less than USD 4/month (USD 14/month on a PPP

adjusted basis), India is much lower than its western counterparts (~USD 80/month in the U.S. and ~USD 45/month in the U.K. - PPP adjusted). Similarly, India has amongst the lowest cover price charges for newspapers (USD 6/month on a PPP adjusted basis as opposed to ~USD 20/month in the U.S.)

### EXHIBIT 1.3 | India lagging global peers



Source: ARPU from Ovum 2015, World Press Trends, Ovum, Magna Global, IMF; Nominal GDP at product prices

Advertising as a % of GDP<sup>3</sup> is only 0.33% as opposed to the global average of 0.64%. As a result, despite high consumption levels, the Indian advertising industry still trails developed M&E markets in terms of revenue, ranking 12th worldwide.

There are several barriers preventing the industry from reaching its true potential.

**Infrastructure** challenges relating to addressability of consumers

- **Poor addressability** has been inhibiting revenue growth. Digitization needs to be rolled out completely to ensure higher addressability that enhances consumer experience & APRU.
- Our **screen density**, at 9 screens per Million, is much lower than global counterparts (15 screen per Million for China and ~30+ screens per Million for the U.S.). The lack of screens is significantly inhibiting film revenue growth.

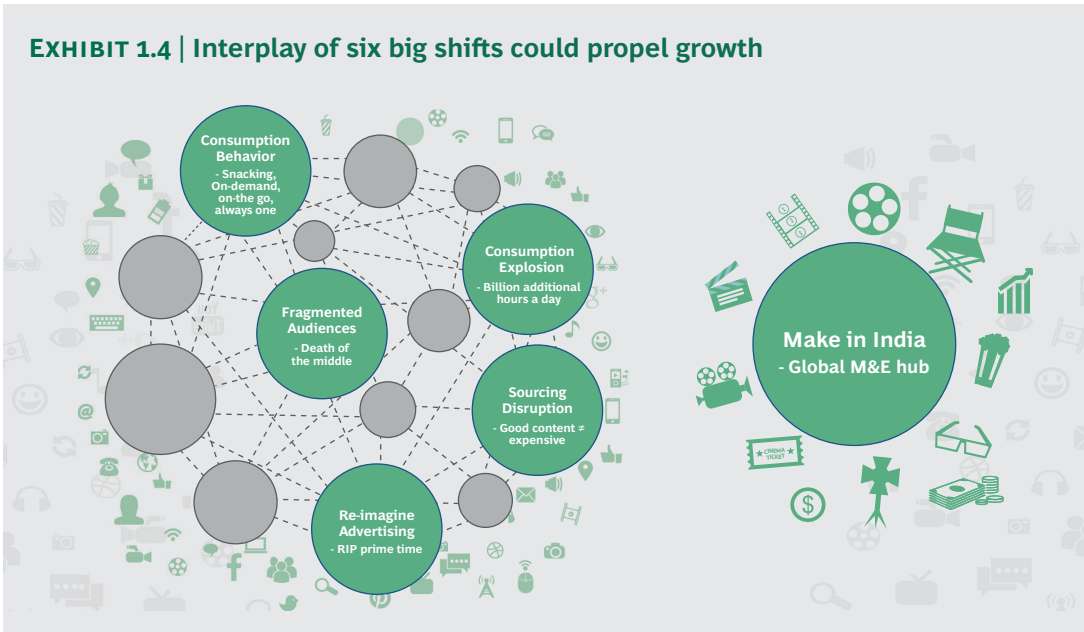
**Regulatory** issues related to pricing & taxation, present another major challenge. Several parts of the industry face a multi-layered tax structure. The industry and the government need to work collaboratively to create a balanced tax regime benefiting the industry, government and consumers.

**Ease of doing business** is another major hurdle faced by the industry. Currently India is ranked 142nd out of 189 economies by World Bank on this dimension. Several permissions are needed for new launches and events, curtailing growth. While the government is taking various steps to address this issue, there is significant room for improvement.

**Skills gap** are becoming more significant with the growth in the industry. There is a strong need for professionally trained workforce for media across creative and technical talent pools.

**Copyright and piracy** have also been inhibiting growth. Copyright laws have to be stricter to ensure content owners are able to monetise content effectively and these revenues get ploughed back into the creation of richer content. **Piracy** is another major challenge. The International Federation of the Phonographic Industry (IFPI) estimates that more than half of internet users access unlicensed services on a monthly basis in India. Piracy needs to be tackled head on as it causes significant revenue losses for the industry.

In summary, while the industry has come a long way, several significant challenges need to be addressed to ensure that the industry reaches its true potential.



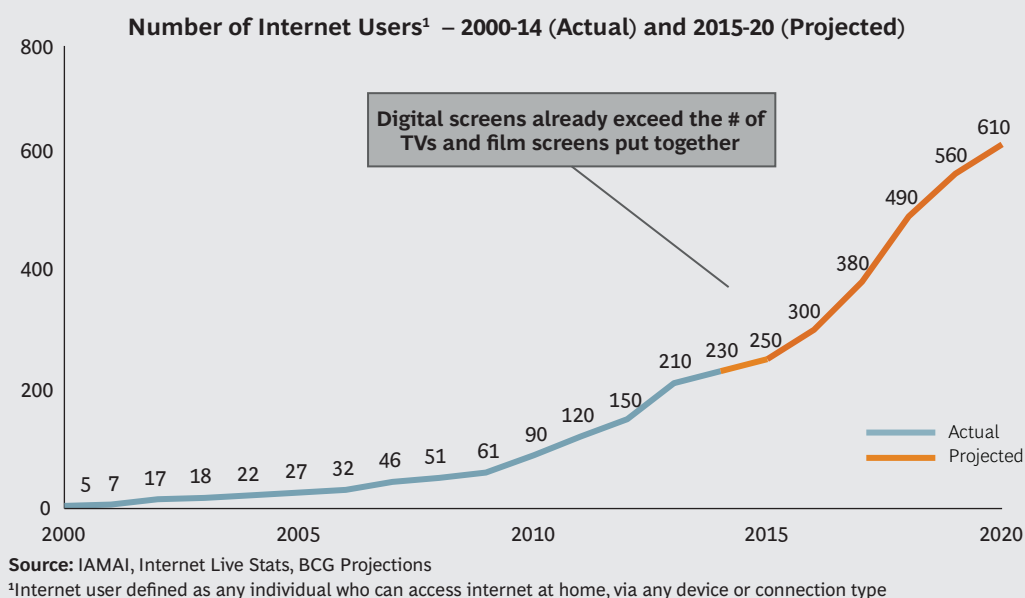
## Six big shifts could propel growth

Globally and in India, the M&E industry is undergoing a tectonic shift. The advent of “Digital”, higher addressability driven by digitization, reach explosion, higher segmentation and content innovation are together creating a paradigm shift. These, coupled with fundamental economic and consumption growth drivers, will create a new order of growth. This new order will compel the industry to rethink, redefine and reimagine the fundamental principles on which it operates – creating the next M&E revolution.

- *Consumption explosion.* Digital is here and now. It is no longer a scenario, it is the reality that is transforming the M&E industry. **India already has 250 Million digital “screens”, which is higher than**

**the number of TV and film screens put together.** This number is expected to skyrocket to over 600 Million by 2020. Both devices (smartphones) and distribution (telecom infrastructure) are geared to ensure this growth. For instance, the number of smartphone shipments in 2014 was more than the installed base. As prices continue to fall, BCG estimates that more than two-thirds of Indians will be able to afford smartphones over the next three years. On the infrastructure side, operators have spent over 90% of industry revenue on the last two spectrum auctions and are expected to spend more than USD 30 Billion on a capex rollout over the next 2-3 years. This is likely to drive not just an increase in the number of connections but also ensure that the quality and speed of networks improves exponentially.

### EXHIBIT 1.5 | 250 Million digital consumers today; will grow to 600 Million by 2020



The impact of this subscriber growth would be very different from what has been observed in the West. In developed markets like the U.K. and the U.S., digital media consumption growing at around 11.5%, has largely substituted traditional media consumption. The gap between traditional and digital media consumption is only expected to widen further. In the U.S., for instance, linear TV content consumption is likely to decline by nearly 4% by 2018, while segments like short

form will surge by as much as 30% in consumption terms.

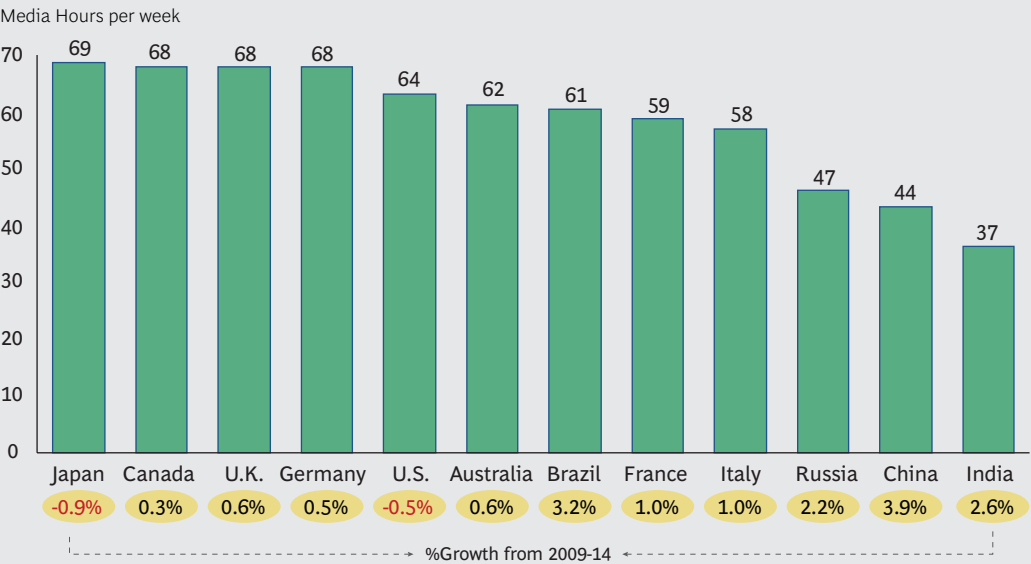
India could be different. These 600 Million (predominantly) mobile screens in India, could create new consumption occasions rather than cannibalize.

The reason is simple. India’s media consumption at 37 hours/week is among the lowest in the world. While consumption in the U.S. and the U.K. is

almost double (64-68 hours/week), India ranks below emerging economies like

China (44 hours/week) and Russia (47 hours/week) as well.

**EXHIBIT 1.6 | India - low hours spent on media**



If India can bridge this consumption gap and get closer to China (as it stands today), it could **create over 1 Billion**

**additional media hours per day.** India could likely see a consumption explosion moving it closer to global benchmarks.

**EXHIBIT 1.7 | Digital in developed economies has eaten into traditional media consumption**

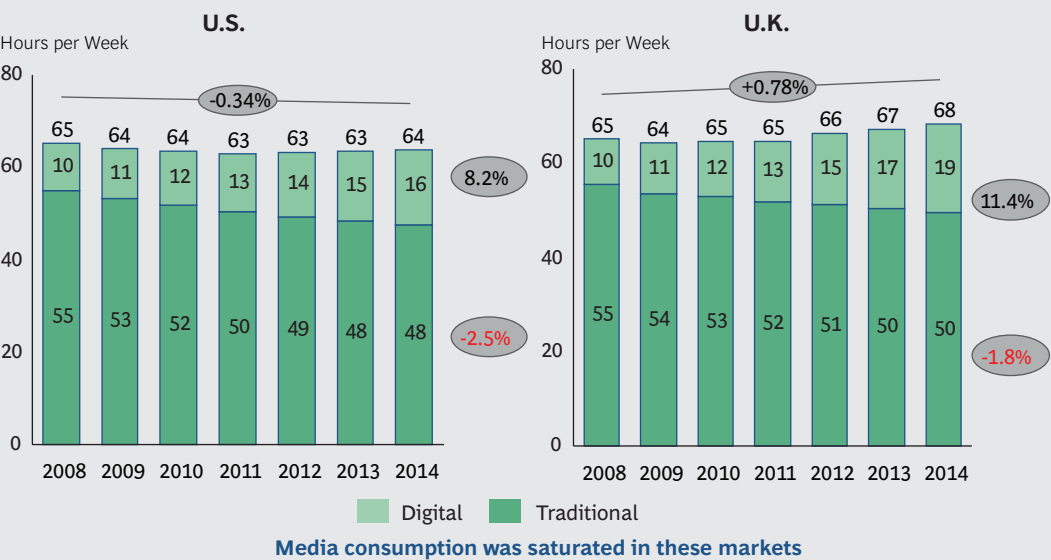
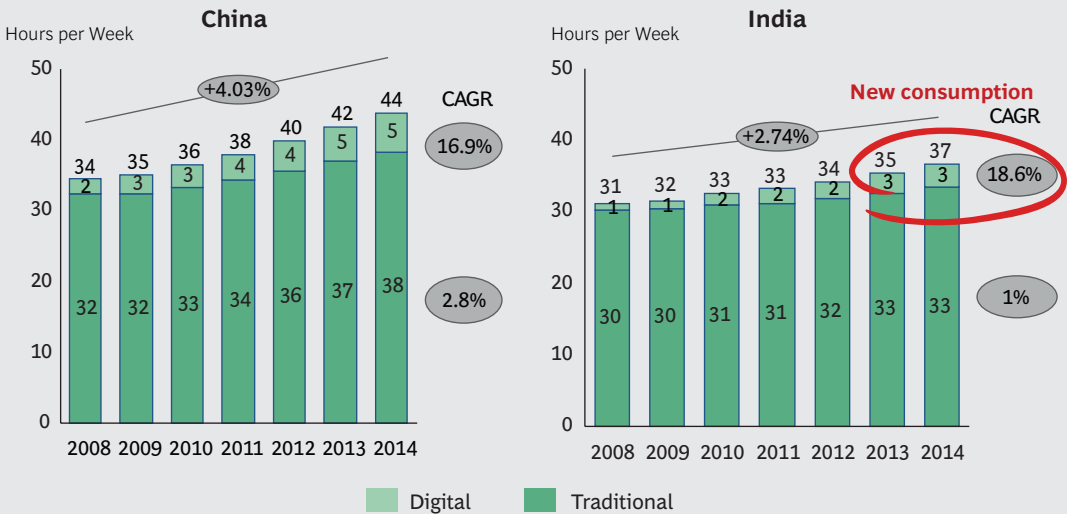


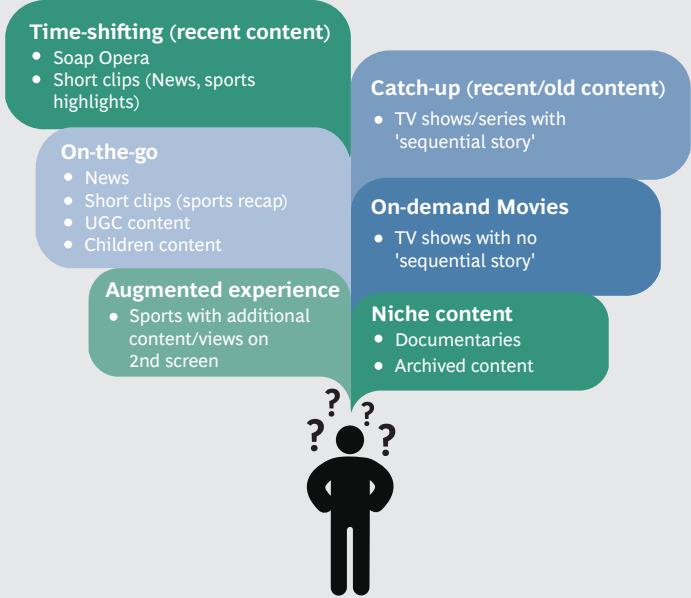
EXHIBIT 1.8 | ...digital can potentially unlock new consumption occasions in India (like china)



Source: PQ Media

- *Changing behavior.* As digital explodes and technologies like DVR<sup>4</sup> get entrenched, the industry could see the demise of appointment viewing. Consumers could migrate to time-shift, catch-up, on-the-go leading to an **anytime, on-demand consumption** as opposed to following set patterns of predetermined peak hours.

EXHIBIT 1.9 | New consumption behaviors getting created

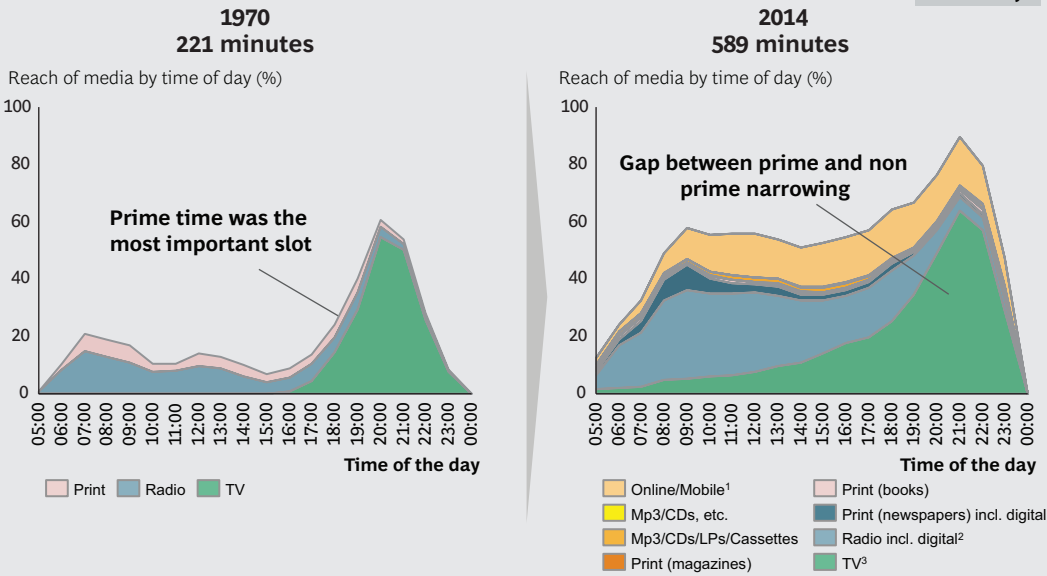


This could alter the consumption curve, as has been seen across developed economies. This trend is already evident in the developed market like Germany, for example, where lines between primetime

and non-primetime are dissolving; on-demand, on-the-go viewing has led to primetime ratings declining from 35% to 12% over the last 15 years.

EXHIBIT 1.10 | RIP prime time

Germany



Source: ARD/ZDF-Langzeitstudie Massenkommunikation; Statista, Medientage Munich 2014, BCG-Analysis updated Jan, 2015

<sup>1</sup>Communication e.g. via Social Networks grew significantly during the last five years

<sup>2</sup>Music streaming services are part of radio

<sup>3</sup>TV second screen: 3–49 ys old prefer tablets, 14 to 29 ys old prefer smartphone usage. 2014 events as Soccer World Cup or European Song Contest strongly push second screen usage

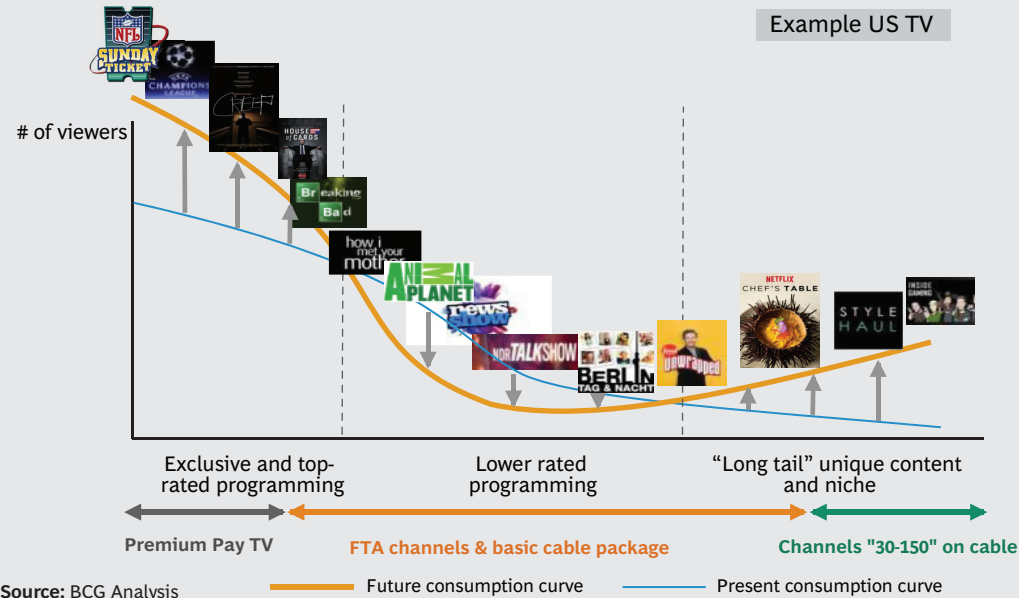
- **Audience fragmentation.** As consumption behavior changes, there could be **polarization of content**. With **top rated and niche content becoming increasingly valuable**, mid-tier and generic content is more likely to become correspondingly less attractive and fall

**through the cracks.** At one end, premium offerings and top rated shows will gain even greater traction; on the other hand, targeted reach could lead to proliferation of the “long tail” or niche content. Classically, it has been difficult to deliver niche content through “mass media”.

EXHIBIT 1.11 | Death of the middle

Top-rated and unique/niche content is becoming more valuable, mid-tier less attractive

Example US TV





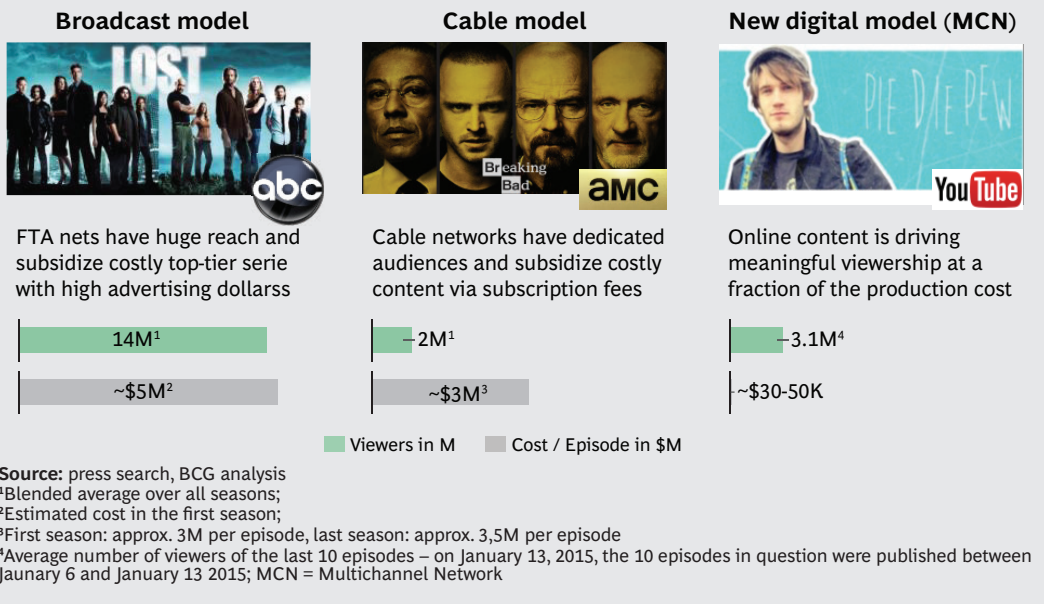
While the chart above refers to TV shows, there is potential for the same trend to play out across media viz. music, films, etc. For example, last year, the top 8 movies delivered ~45% of box office collections, however going forward there could be economic potential for niche films.

- Sourcing disruption.** Globally, the industry is breaking the myth that good content needs to be expensive. Social media is emerging as the biggest competition for traditional news. BCG's digital media survey, conducted across over 6,300 consumers, indicates that Facebook and Chat apps are becoming the first news source for India's digital consumers. Already, online content is driving meaningful viewership and creating new sourcing and production models that offer the same value at 1/100th of the production cost of traditional broadcast models. Not just the cost but the content

sourcing chain itself is undergoing a change. Winning news players, for instance, have integrated online and offline sources to create a 'river of content' approach where online becomes the first source to stop for breaking news and then digital comments across social media are integrated with professional editorial opinion to create the final story.

In the river of content scenario, the seed of the story can come from multiple sources – user generated, social media, newswires or reporters. At this juncture, the river of content is narrow with only breaking headlines, material that is relatively raw and a story that is not fully developed. With frequent updates across multiple platforms, the river of content widens to reach a form with full and widely available news stories/content, story details, and editorial articles and commentary.

**EXHIBIT 1.12 | Digital studios challenging industry belief that quality content must be expensive**



- Advertising reinvented.** Advertising is also being re-imagined across metrics, technique and formats. Data analytics is allowing advertisers to segment audiences and measure actual ad exposure. For instance, return path data (RPD), such as that supported by a set top box, enables advertising companies to build a rich

profile – personal and payment information, behavioral data, viewing preferences – of every audience member watching each program. Such data allows advertisers to create ad schedules that maximize ad exposure to specific audience segments (better planning) as well as match data on actual ad exposure



with advertiser data (measure campaign efficacy).

**Prime time and front page could lose relevance** as digital creates the concepts of ‘my time’ and ‘my page’. Innovations like Dynamic Ad Insertion (DAI) allow advertisers to send targeted campaigns. Formats are also seeing a reinvention with the advent of connected devices and smartphones/phablets.

Buying models are also evolving towards programmatic improving not only reach and frequency but also scaling better than traditional sales-force based buying methods. For publishers, the advantages are just as compelling. Programmatic marketing can access revenue streams that conventional sales forces cannot. It maximizes the value of inventories by selling impressions at real-time rates and also supports greater transparency about what is being bought, by whom and what the fair market price is for each piece of inventory.

At the same time, native advertising – a paid, content-based marketing campaign that follows the format and function of the actual website to which it is being delivered – is emerging as the preferred advertising format. Native ads fit into the site naturally and do not stand out as separate content. This is especially important on mobile devices, where pop-ups, banners and other “traditional” display ads stand-out and interrupt a user’s experience. LinkedIn’s sponsored stories, Facebook’s sponsored posts and Twitter’s promoted tweets are all illustrative of this new ad format. Realizing its potential, brands and agencies are turning to native ads, fueling strong growth especially in social media. Projected as the wave of the future, this approximately USD 8 Billion industry is forecast to expand to USD 21 Billion by 2018, globally. Social media, in particular, will both drive and benefit from this format since it is optimally positioned to utilize data that helps target and serve native ads off network.

- **Make in India.** Within this period of change, India could well emerge as a global M&E hub. Indian content is gaining global acceptance. Nearly 35% of the box office collections of Bollywood’s top 10 films came from outside India. Awards to Indian films, music and performance artists on the international stage are increasing. A youthful workforce, the highest number of engineering graduates in the world and adjacencies in the IT sector (VFX and animation) offer inherent advantages that can be leveraged for growth in the M&E industry. A stable macroeconomic outlook and the government’s initiatives like “Make in India” and “Digital India” will further strengthen our potential.

Making India the global M&E hub would require a three pronged approach:

- **Creating a global production hub.** India’s powerful IT adjacencies can be exploited to present the country as a go-to destination for animation, VFX, sound mixing and post-production work. Our wide variety of scenic locales and the demographic dividend in terms of English speaking youth can be channeled to cement India’s position as a global production hub.
- **Encouraging ‘Invest in India’.** While the global industry is seeing a period of uncertainty, India provides a strong opportunity for growth. India can be a magnet for global capital looking for growth. This capital could also come with expertise and skills that could help us take the industry to the next orbit of growth and cement our position on the global map.
- **Export of Content.** With growing westernization and global acceptance of Indian content, there is potential opportunity to export Indian content. For e.g. Indian movies have garnered significant attention globally (The top 10 movies got more than 20% of box office collections globally in 2015 YTD). As storytelling evolves we can potentially export more content formats

across TV, films and music. Industry players can leverage this opportunity to make richer content with a global perspective.

### Malaysia case study

Malaysia has created many groundbreaking interventions to push the growth of the media industry. The government intervened in 3 formats – funding, program initiatives and rebates. The government created funds aimed at different parts of the value chain of the industry prioritized basis the current quality compared to global benchmarks. For example, Digital Industry fund was created primarily aimed at leveraging digital technologies to create content. Also a very innovative fund – MyCreative Ventures was created to support creative industries businesses who have a different cash flow and financial plan compared to normal bricks-and-mortar businesses (which banks usually finance). Program initiatives were also implemented to uplift the skills of the talent pool serving the media industry. Creative Industry Lifelong Learning Programs was created by the government focused towards increasing the quality and skills of the creative industry’s talent pool. Rather than a government agency, an independent NGO organization was chosen to lead this initiative. The field of study in the schemes mostly include producing and directing,

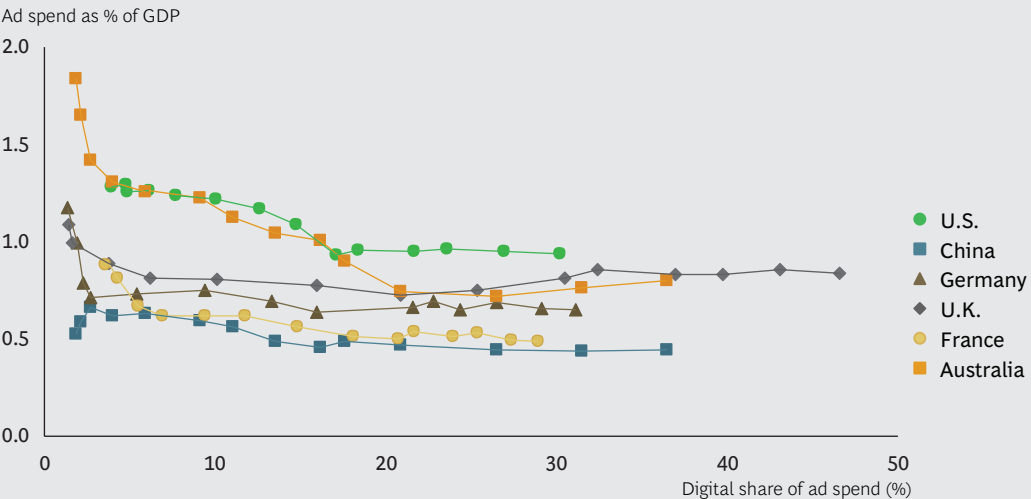
scripting and screen adaption, animation, games development, VFX and many more. In order to attract global production houses, rebates were also deployed. FIMI is a 30% cash rebate on all Qualifying Malaysian Production Expenditure (QMPE) and has hence helped attract many global movies such as Life of Pi, Roy and others. As a result the industry has been growing ~16% YOY for the past three years.

### Potential scenarios for the India story

India could be different from the West. Globally, the media industry is undergoing a rough patch with digital eroding revenues for traditional media companies. Subscription has fallen and advertising revenue as a percentage of GDP has declined with rising digital penetration. This happened primarily because spends moved from traditional to digital media where efficiencies are higher on both subscription and advertising.

But India could shape its’ own trajectory. The country’s subscription revenues are already the lowest in the world. More importantly from a consumer perspective, media spend is much smaller than other parts of the spend basket. As mentioned earlier, India could potentially see a consumption explosion, by creating choices and reaching out to new consumer segments.

**EXHIBIT 1.13 | Globally, digital has resulted in an overall decline in the advertising revenue as a % of GDP**



While consumption growth is likely the industry needs to find the right monetization model. Driven by the momentum of growing consumption, economic progress, continued content innovation, addressability and segmentation the industry could continue to grow at ~12-13%. In this scenario the industry would move from the current INR 115,500 Crores to INR 380,000 Crores by 2025. This growth is driven primarily by the fact that India unlike many other developed economies is far from saturation. Many regions in the country are still underpenetrated. India spends about 37 hrs/week on media while global average is 45 hrs/week. Only 172 Million households own TV which accounts for 65% of the total households. If advertising continues to grow at the rate of the economy and subscription revenues increase as penetration and addressability increase then India is likely to achieve this potential.

There is another scenario where growth is turbo-charged and the industry reaches INR 500,000 Crores by 2025 (growing at 15-16%). Adding distribution revenue streams like broadband this number could easily be greater than ~INR 65,000 Crores by 2025 – taking the industry to the USD 100 Billion mark.

What will this take? Our belief is that the industry can unlock significant value and growth if it **creates and values differentiated content**. This differentiated content strategy could help uncover new consumption occasions and extract greater value from existing as well as new audience segments. As new audience segments and new consumption occasions get created the advertising pool will expand. The value of this is unimaginable. In this scenario the industry could balance monetization more evenly across advertising and consumer pay models. In summary, differentiated content would create additional value for consumers, advertisers and M&E players. As this value gets ploughed back to further enrich content quality it will create a virtuous cycle for growth.

## The Winners: Out with the Old, In with the New

In either case, the industry structure is set to change. Existing linear value chains are likely

to be replaced by non-linear models. Roles will merge and boundaries will get blurred between content publishers, platforms and distributors. Digital giants will play across platform and distribution whereas many media platforms are integrating backwards into publishing. At the same time new roles on curation / aggregation and analytics will start get added to the value chain. Flipboard, Google Newsstand, Trove and Editions by AOL are all indicative of this pattern. Instant Articles by Facebook, launched in May 2015, allows publishers to use their own publishing tools, and then converts into FB app format. Global publishers like New York Times and Buzz Feed have all endorsed this new model.

A new form of news curation is evolving that is smart and customizable. Smart Feed Readers analyze users' online behavior including their browsing history and social graph, perform filtering based on the analysis, and select popular pieces of content from multiple sources. The more the user utilizes the app, the more accurate the filtering based on the behavior analysis. This is resulting in highly personalized content being delivered to the user.

*In a fast changing ecosystem, winners will do three things differently*

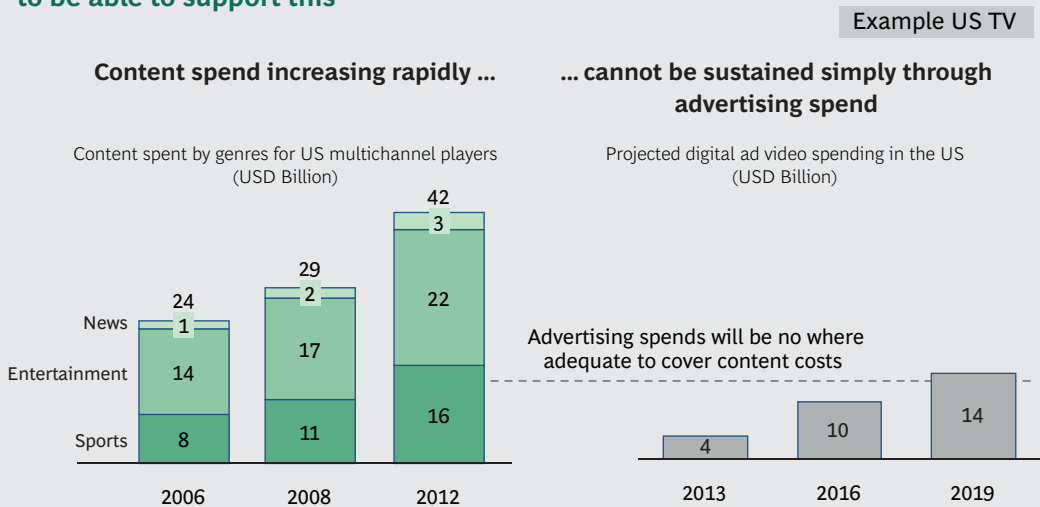
1. **Think big - winner takes all.** Platforms are becoming a winner takes all play. YouTube for instance, is not merely a video-sharing website, it is a seemingly unstoppable juggernaut, illustrative of the vast size and rapid growth of free online video consumption. Today, YouTube is a global phenomenon with over 1 Billion unique monthly users, 1 Billion video views per day, 1 Million advertisers and channels with over 1 Million subscribers. The top three online sites (Facebook, Google and Yahoo) attract more than 50% of the digital display advertising revenue in the U.S.<sup>5</sup>. The same phenomenon has also played out in emerging markets. In 2012, the Chinese online video market was highly fragmented with several companies jostling for a share of the pie. The biggest success story here was the merger of the two large companies in the market – Youku and Tudou. These two

companies combined to form the largest online video portal in China, cornering a market share of close to 30%. Following the merger, the company has exhibited robust revenue growth, and strong advertising and consumer business. Youku Tudou is now winning across platforms: it maintains a leading position in terms of MUV and time spent with combined traffic of 500 Million viewers across screens in Q1 2015. The company is an absolute leader in the mobile video market in terms of time spent. It is also diversifying beyond advertising revenues to consumer business, including subscription-based service, mobile games and interactive live entertainment.

The strength of the platforms is expected as scale helps them enhance analytics and curation skills and attract content from multiple sources. This though is in stark contrast to the publishing business that remains fragmented and is in fact moving to a more open source culture with many fragmented voices (including UGC) being accepted by the consumer.

- 2. **Leverage multiple monetization models - add the dimes to make the dollars.** Advertising itself might not be sufficient to fund rising content needs. Players then need to tap into multiple pools to ensure that they can continue to build differentiated content.

**EXHIBIT 1.14 | Cost of content increasing significantly – advertising alone unlikely to be able to support this**



Source: SNL Kagan, eMarketer

News players globally for instance have experimented with multiple monetization models including bundles between online and offline offerings to attract consumers. Even within pay-walls there are multiple models including tiered, freemium, full subscription etc.

In the music world, where increasingly access not ownership is the order of the day, players are like Spotify are at the vanguard of this change. They recognize

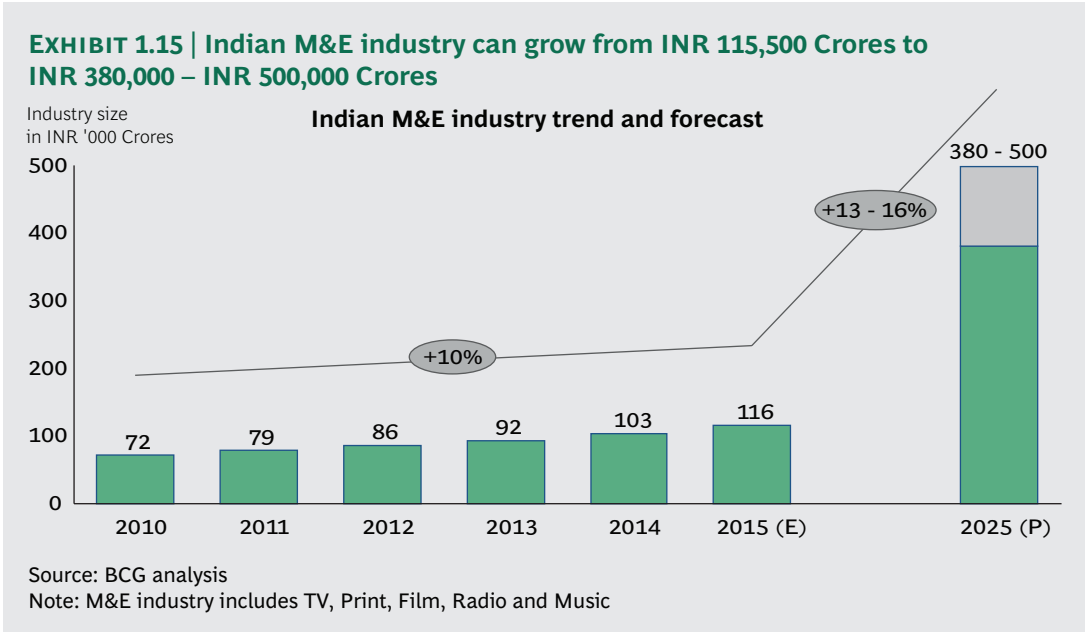
that multi-monetization models – ad-supported, premium, subscriptions and transactions – are critical to sustaining growth. Hence, many global majors have used a combination of audio and display ads for users without subscriptions (ad-supported); offered extra features including higher bit rate, offline access and mobile app access (premium); removed advertisements and time limits during streaming (subscriptions).

**3. Content will continue to be king: invest in differentiated content.** Is there is one universal media lesson – it is that content will continue to be king. Players like HBO, Netflix and The Economist Group that have realized this have continued to grow while peers might have floundered. When they can't buy the content they need to serve consumer needs, they produce it. Netflix today dominates the OTT content space and boasts even more subscribers than the traditional cable companies. The company's focus on developing and releasing original content has been based on the premise that original content provides differentiation and hedges against rising content costs. In keeping with this strategy, Netflix has 320 hours of original content planned for 2015. In many cases, the company has no pilot series, with decisions for originals based on customer usage and preference data. Netflix is also challenging traditional movie windowing with select day-and-date streaming releases. Therefore, rather than purchase pay TV window movie rights, they are

favoring distribution of original movies.

What can drive the growth?

The Indian M&E is at the cusp of an inflexion. The Indian M&E industry is the same size as the Indian IT sector was in 2003, which has now become a USD 100 Billion+ industry in 10 years driven by demand for outsourcing and government policy impetus for the industry. While macro factors like growing economic activity and consumer demand are providing the right tailwinds, the industry and the regulators need to come together to create the most cohesive environment for growth. India needs to invest in infrastructure (digital infrastructure, higher addressability), skills (technical and creative) and create a positive environment for all stakeholders including the government, regulators, industry players, advertisers and last but perhaps the most important consumers. Our estimates suggest that Indian M&E industry has the potential to reach the USD 100 Billion mark by 2025 if all the stakeholders work together towards this goal.



NOTES

- 1. Global average growth rate of ~5-6%
- 2. Does not include all contractual employees
- 3. Nominal GDP at market prices considered
- 4. DVR: Digital Video Recording
- 5. SNL Kagan, Magna Global – data for 2014

# DEEP DIVE INTO SUB SECTORS

## Television

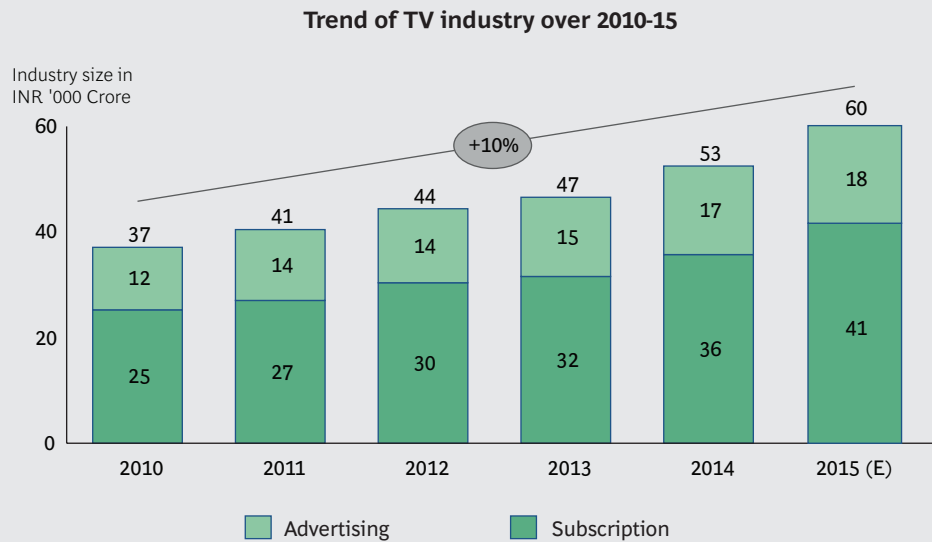
### IT'S SHOWTIME, FOLKS!

The TV industry comprising of broadcast and distribution grew at a CAGR of ~10% over 2010-2015 and currently stands at INR 60,000 Crores. Subscription revenues which form two-thirds of the industry (currently ~INR 41,000 Crores) grew at a CAGR of about ~10% while advertising revenues grew at ~9% CAGR. TV's share of the advertising pie has remained almost flat moving from 41.9% to 40.2% between 2010 and 2015.

Four drivers can propel TV industry growth in the future – growing consumption, increasing advertising spends, digitization and disruptive content, and OTT. OTT is the latest trend amongst these and is dominating the board room discussions given the extent of disruption in the linear/legacy television across most global markets.

- While time spent on TV has remained unchanged, the number of TV owning households has increased and now covers

EXHIBIT 2.1 | TV industry has been growing historically at 10% growth YoY

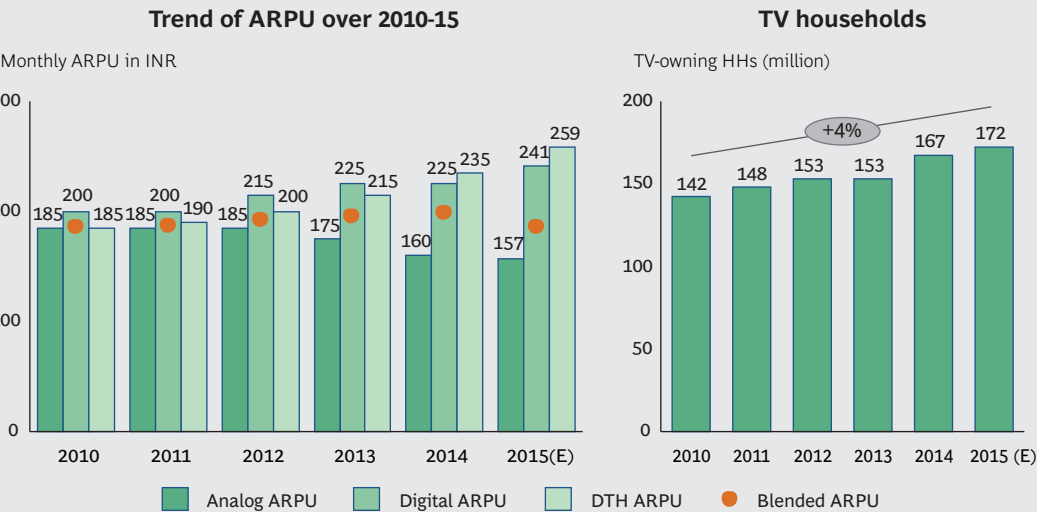


almost 140 Million households. Currently Indians spend nearly 21 hrs/week on live television while globally the average is 22.5 hrs/week, indicating room for growth. Overall this growth in consumption trend is enlarging the consumer base and promoting robust consumption growth.

- This was accompanied by subscribers shifting from analog to digital cable and

DTH. Overall, digital expanded its contribution to nearly 60%, with a fast fading analog accounting for the rest. Digitization has begun opening up lucrative monetization opportunities by enhancing the ability of market players to provide and charge for niche and premium content. This targeted segmentation has resulted in ARPU rising significantly.

**EXHIBIT 2.2 | Increasing TV households and digital cable penetration has resulted in strong subscription revenue growth**



Source: TRAI and Indiacast

## SPORTS LEAGUES AND REALITY SHOWS HAVE CREATED SIGNIFICANT GROWTH GLOBALLY

### Sports Leagues

- Sports leagues such as Super Bowl have created high viewership and revenue streams abroad
- More than USD 330 Million seen in Ad revenues for TV industry
- More than 6 Million hours’ worth of Super Bowl XLVIII teasers and ads released on YouTube
- Generated USD 2.19 Billion of network advertising sales from more than 130 marketers

### Reality Shows

- Reality shows such as American Idol, Britain’s got talent have been heavy money earners for the industry
- American Idol created USD 6.4 Million per half hour in advertising revenue which is the highest for any TV show
- The X Factor churned revenues of USD 5.5 Million per half hour second to American Idol



- Content innovation continues to transform the TV industry in fundamental ways. Mass, broad based productions are giving way to innovative, clutter-breaking content. Breakthrough premium content, ranging from domestic sports leagues to reality TV shows, and niche content covering the gamut from lifestyle to cooking programs, are not just enjoying better ratings but also attracting higher advertising spends.
- Digital has brought in its wake over-the-top (OTT) platforms, disrupting the existing order. Recognizing this, leading players have moved quickly to establish

their digital presence. At the same time, new players have emerged, completely overturning simple, linear value chains.

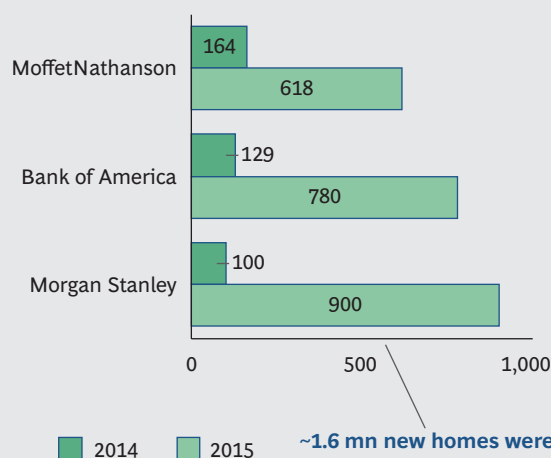
#### HOW WILL THE REVENUES SHAPE UP?

The scene has been set. The industry outlook depends on how each of the drivers mentioned above play out and how OTT changes the landscape. Globally OTT has destroyed value - cord cutting has led to value destruction for traditional media players, but India could be different. India can see growth coming from OTT where it creates single TV household to multi-screen households and propels choice led consumption.

#### EXHIBIT 2.3 | Cord cutting is now real for the TV industry

##### Cord cutting is accelerating..

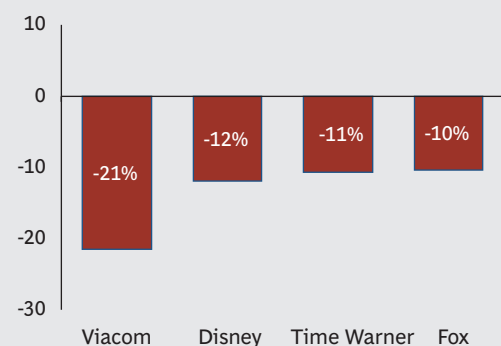
US pay TV subscribers lost ('000s)



~1.6 mn new homes were added in 2014-15 due to housing growth so actual losses are significantly higher

##### ..~\$50 Billion of value wiped out in 5 days as industry acknowledges fears

Drop in share price (% from 5 Aug to 14 Aug 2015)



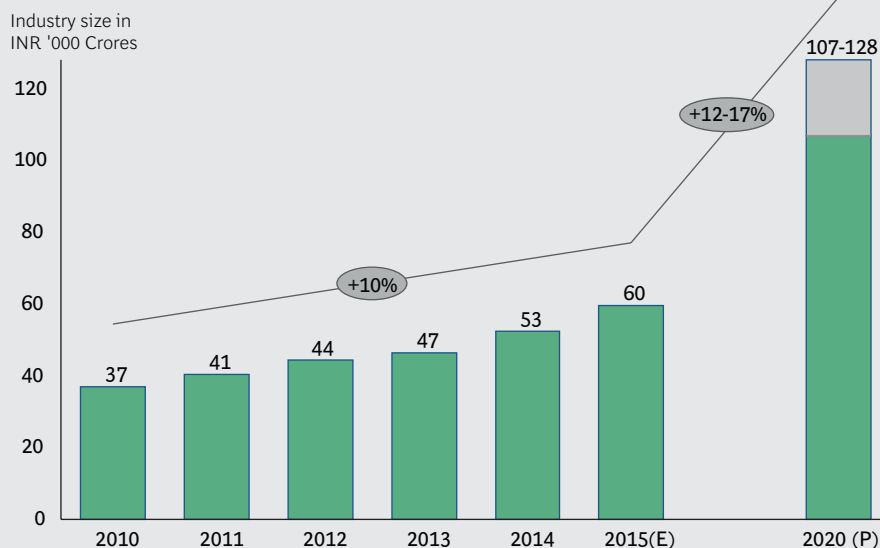
The industry path (actions taken by regulators and players) would determine the growth of the industry.

The industry is expected to continue to deliver growth in line with the underlying consumer trends highlighted above. With growing digitization, enhancing quality of content and investment in platforms, the industry could continue to grow at 12-13% CAGR

achieving revenues of approximately INR 107,000 Crores by 2020. However, with a few industry actions that enhance the quality and monetization of content, there could be higher potential in this space. Increasing and more targeted ad spends and innovative ad formats coupled with better monetization would enable TV industry to grow ~3X to INR 128,000 Crores with subscription and advertising revenues growing at ~16-17% CAGR.



## EXHIBIT 2.4 | TV industry can grow from INR 60,000 Crores to INR 107,000-128,000 Crore



### WHAT DO STAKEHOLDERS NEED TO DO IN ORDER TO GROW?

For the Indian TV industry to succeed, industry players need to take certain definitive actions and regulators need to address long-standing barriers. Industry players need to determine the apt monetization model for digital and promote skills education. Enhancing infrastructure and improving the regulatory environment will all be critical in enabling the Indian TV industry to embrace its full growth potential.

#### Industry actions

- Industry players would have to determine the right monetization model for OTT. Given the spur of digital devices, it is crucial for the players to experiment various monetization models as early as possible.
- The skills gap in the industry also needs to be addressed. India's workforce is untrained and ill-equipped to meet the particular challenges of digitization and OTT platforms. This could seriously hold back the Indian TV industry's forward march. The industry needs to come together to invest in talent building at the grass-root levels – provide industry perspective to the colleges, make financial commitments, etc.

#### Regulatory issues

- Industry participants will need to exhibit greater aggression to ensure that the optimal infrastructural climate is available for TV digitization. This, in turn, requires more cohesive and concentrated action across all stakeholders. Another immediate need, considering their commonalities, is to evaluate a supportive and mutually beneficial regulatory environment for the broadcasting and telecom sectors.
- Issues related to pricing and taxation present another major challenge. Entertainment tax levels vary from 15% to 110%, with many states levying more than 30%. There is a dual levy of tax on DTH services – DTH players pay both service tax to the government and entertainment tax to the state government. Taxation regimes can be reassessed collaboratively by industry players and regulators to ensure a cohesive environment for growth. The pricing for this sector is regulated. This pricing needs to be evaluated collaboratively by the industry players and regulators to balance the need for the consumers and the growth prospects of industry players.
- Copyright laws need to be updated. At

present, IPR protection, including for content rights, are loosely defined. Censorship norms are also due for a makeover: there is no distinction between censorship norms for news and non-news channels. IPR protection needs to be strengthened so that content owners can monetize content effectively. This will ensure money is ploughed back into creation and acquisition of rich content.

- Piracy is another major challenge. The International Federation of the Phonographic Industry (IFPI) estimates that more than half of internet users access unlicensed services on a monthly basis in India. Piracy needs to be tackled head on as it causes significant revenue losses for the industry.

## Print

### INDIAN NEWSPAPERS CONTINUE TO HOLD THEIR OWN

The Indian print industry (newspapers, including dailies, periodicals and magazines) grew at a rate of 6% CAGR over 2010-2015 and is currently estimated at INR 27,000 Crores. Advertising continues to grow in importance and be the mainstay of this industry, contributing a hefty two-third share of overall revenues (CAGR of 7%) while circulation accounts for the remainder (CAGR of 3%).

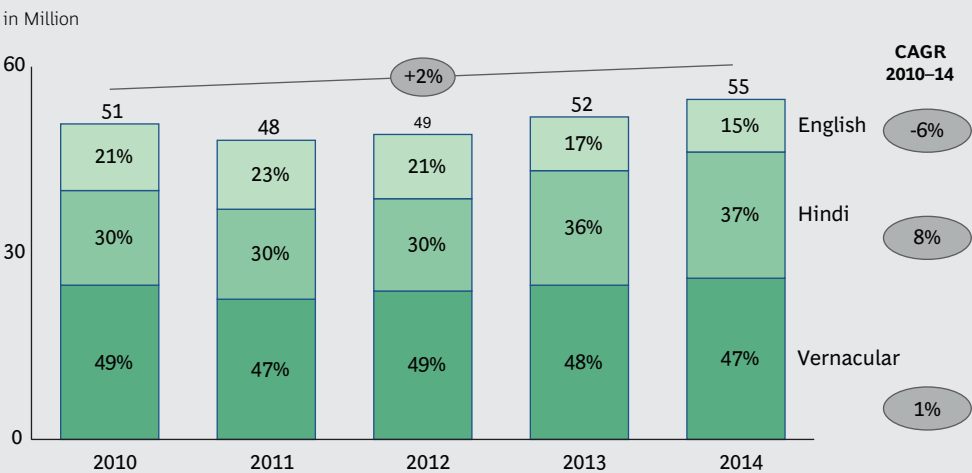
95% of total print circulation is from news dailies. Within newspaper dailies, Hindi and vernacular papers together contribute to more than 80% of circulation revenue with English readership at less than 20%. Trends indicate that circulation of English language print offerings has been stagnating. This pattern started in 2012 with this niche registering a (-6 %) CAGR over 2010-2014. In contrast, Hindi has grown aggressively (8% CAGR) and vernacular papers have continued to grow as well. These trends are in line with growing literacy levels in India and underlying consumer behavior and are distinctly different from the experience in developed markets.

### THE GLOBAL BATTLE

Globally digital has been a threat for the industry. Growth in digital has not been able to compensate for decline in traditional print media.

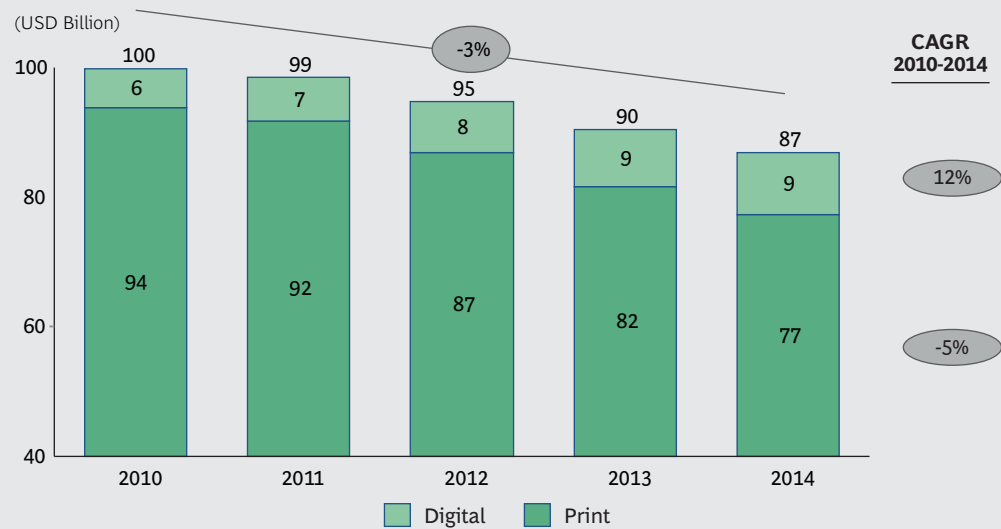
Globally, particularly in developed markets, the shift to digital has eroded value for the industry overall. For example the classifieds segment in the U.S. shrunk by over 60% between 2006 and 2011 as classifieds moved online. The decline is largely due to price offset of digital vs. print media wherein digital (in the west) is only ~10-12% of the cost of traditional media.

EXHIBIT 2.5 | English circulation declining; overall growth @ 2%



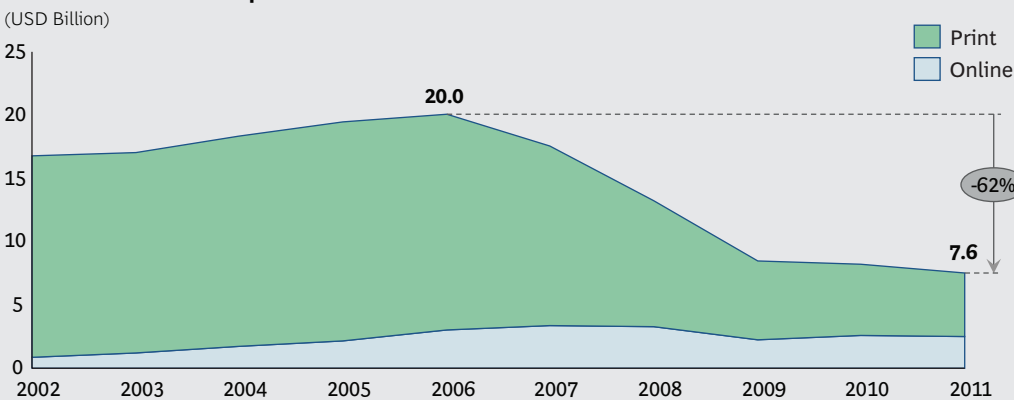
Source: BCG Case analysis, Audit Bureau of Circulation

**EXHIBIT 2.6 | Digital revenues not enough to offset print decline**



**EXHIBIT 2.7 | Digital migration caused U.S. classifieds market to decline by ~62% between 2006 – 2011**

**Example: U.S. classifieds revenue – Print vs. online 2002-2011**



Source: Newspaper Association of America; IAB internet advertising revenue reports, SPH, BCG analysis

The west is seeing mass user migration to digital formats. Globally news consumption behavior has been shifting to online/social media with younger demographics predominantly choosing online as a preferred source of news & information, creating new consumption behaviors.

As a result the time spent reading newspapers worldwide has fallen by a steep 25% in four years (2010 – 2014). Today, less than 15% of consumers in developed markets use print as the main source of news.

Monetization of digital readers especially on mobile is a critical concern amongst publishers especially as they compete with social networks. The New York Times for instance has more than 50% of its traffic coming from mobile, yet it contributes just 10% of digital ad revenue.

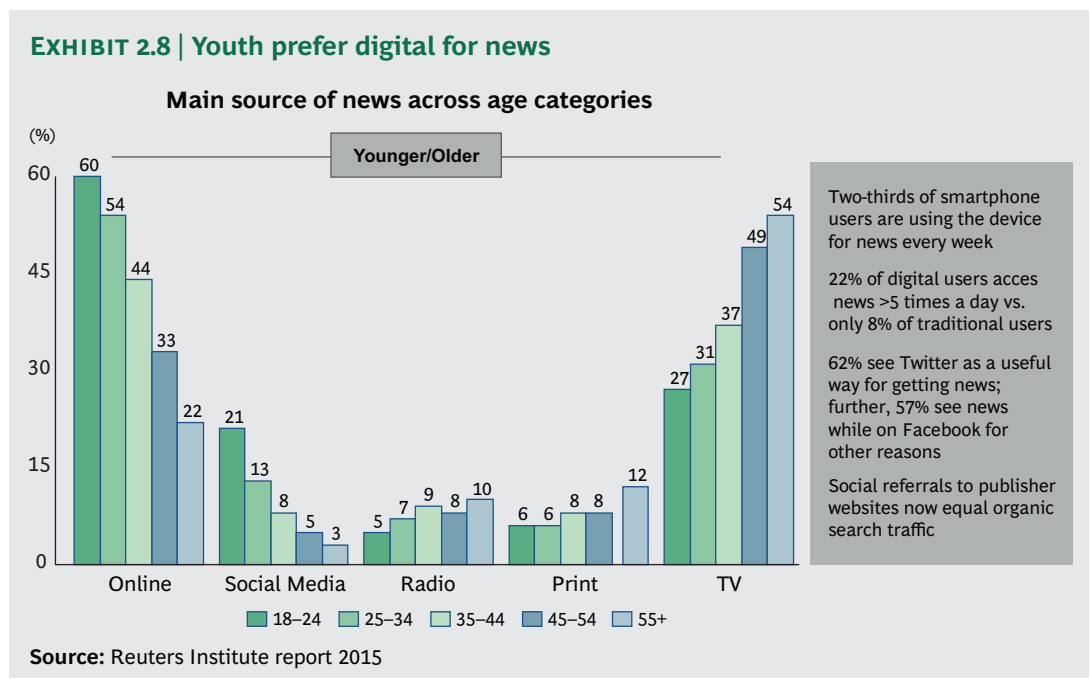
Publishers have tried to launch paid apps but they have not been very successful. For instance, NYT Now debuted in Apr-14 as a slimmer, USD 8-a-month version of the full-access digital subscription, which started at USD 15/

month. However the app did not gain enough subscribers to make it a viable paid product and has now been made a free app.

News aggregation models have also changed globally after the advent of digital. Consumers are open to multiple voices integrating across social media, blogs, professional writers and audio visual news online. Leading news players are challenging the model for news gathering by integrating online and of-line and moving away from archaic concepts like print first.

The economics of these models is also very different and is developing aggregators as a new class of players - shifting the axis of success from news gathering to curation and discovery. Flipboard, an app-based aggregator that uses machine learning algorithms to recommend news articles to consumers, has 70 million monthly active users.

In summary, the jury is out on how global print players, will face this digital tsunami.



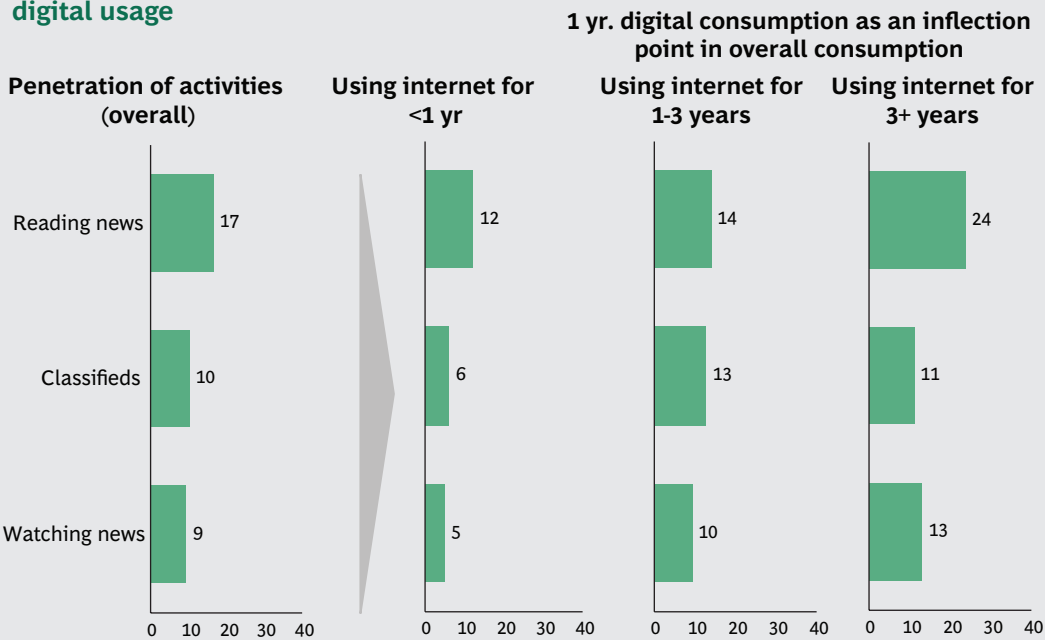
**HOW WILL THE INDIAN INDUSTRY SHAPE UP**  
Two contrasting trends are likely to determine the Indian print industry’s future.

On one hand, Indian newspaper circulation is expected to continue to grow especially for vernacular and Hindi print (which account for 80% of the circulation) driven by rising literacy. This growth stems primarily from tier 2 and tier 3 markets which are also significant consumption markets for categories like FMCG, leading to a commensurate growth in advertising. While circulation has been growing at a steady pace there is still room for improvement as there is a significant gap between ‘can read’ and ‘do read’ with only a third of a pool of nearly 580 Million literates reading a newspaper.

On the other hand digital migration would have an adverse impact on print media’s prospects. As per BCG’s digital survey conducted on 6,300 respondents nationally, news consumption increases with amount of time users have spent online (digital-age). For instance online news is consumed by 7-12% of digital users in their 1st year of using internet increasing to 13-25% for consumers using the internet for 3+ years.

Some categories like classifieds and real estate have seen a significant shift to digital, with 90% of consumers indicating a preference for the digital medium in these categories (as per BCG’s Digital Media consumer survey).

**EXHIBIT 2.9 | Consumption of news genres online increases with maturity of digital usage**

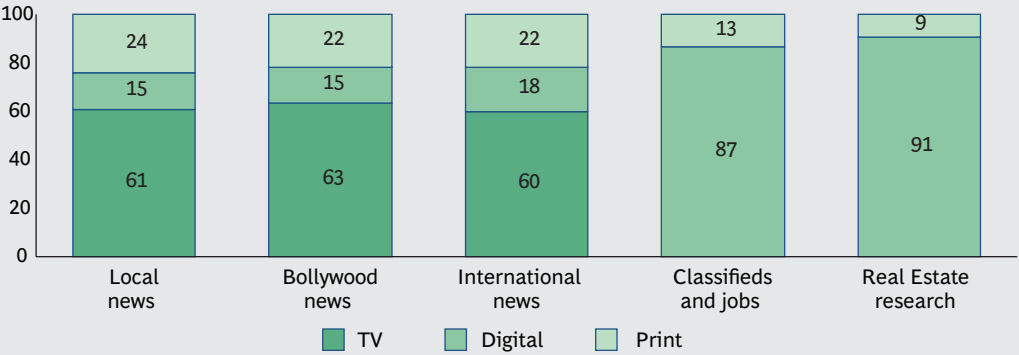


**Source:** Quantitative survey of ~6300 digital media consumer  
**Q:** "Which of the following activities have you done on internet in the last one month?"

**EXHIBIT 2.10 | ~90% consumers prefer digital for classifieds**  
*While print remains relevant for news*

**Medium preference for a set of genres which can be consumed across multiple mediums**

% of consumers preferring a certain medium for each genre

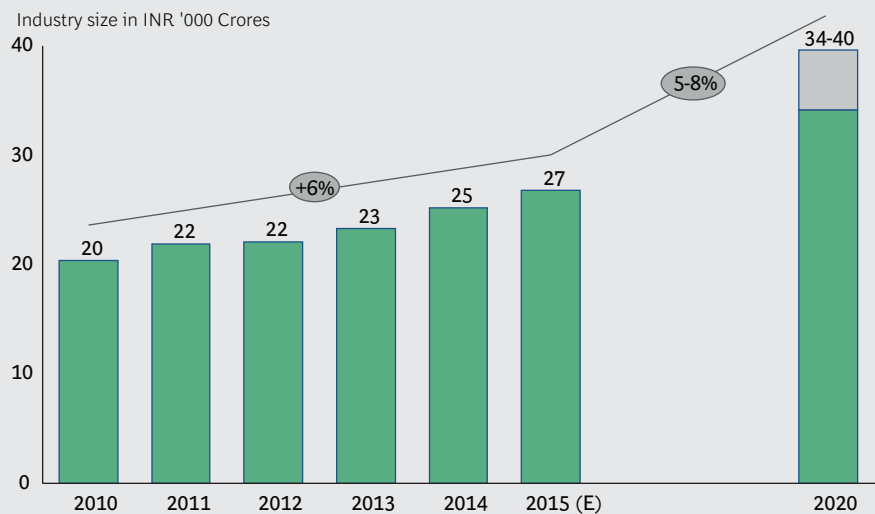


**Source:** Quantitative survey of ~6300 digital media consumers  
**Q:** "For each of these activities mentioned below, can you tell me which mediums do you use to do these activities?  
Can you rank your most preferred medium for doing these activities"  
**Note:** Rank 1 considered most preferred medium for the activity

Depending on how these two factors play out, the industry can grow from INR 27,000 Crores to INR 39,500 Crores by 2020. If digital migration is rampant and the industry is unable to monetize the same it will likely see a CAGR of ~5% (circulation and advertising to grow at

a CAGR of ~6% and ~4% respectively) by 2020. On the other hand an aggressive circulation growth and monetization across platforms can enable an 8% CAGR (circulation and advertising CAGR of ~9.5% and ~7% respectively) by 2020.

**EXHIBIT 2.11 | Print industry can grow from INR 27,000 Crores to INR 34,000 Crores – 39,500 Crores**



**Source:** Audit Bureau of Circulation, World Press Trend, Magna Global, BCG Analysis and Industry estimates

**WHAT ACTIONS WILL DETERMINE THE FUTURE POTENTIAL OF THIS SECTOR**

**Industry actions**

- To propel industry growth, newspaper reading needs to be encouraged. Although literacy levels have risen, the **gap between ‘can read’ and ‘do read’** has remained the same. Circulation growth will languish unless this divide is bridged and newspaper uptake pushed higher. This requires investment from the players at grass root levels to enhance the understanding e.g. with educational institutes.
- Players need to enrich the offering on local content – in terms of language and relevance – to deepen circulation penetration and grow the readership base. This will aid not just the circulation revenues but also help players grow the advertising pool for these markets.
- One of the cornerstones to build circulation and revenues has been the **accurate measurement of readership**. The industry needs to align on metrics and sources that can be used to track information on demographics and incremental reach. Established, transparent metrics will grow

the advertiser confidence and help the industry garner a higher share of the advertising revenue pools.

- **Retraining and upgrading skills** will be vital to adapting to new organizational challenges. The move to digital means that new skills will be required to implement concepts like the integrated newsroom. However, investment in retraining, both by government and industry, are currently inadequate.

**Regulatory**

- The wage increase recommended by the Majithia Wage Board would result in an 80-100% increase in wage costs for print news organizations, if fully implemented. Industry and government should work together to ensure a positive environment for growth.
- The current FDI cap for investment in media is 26%. The government in consultation with the industry must re-evaluate this cap in light of the current environment and shape the ideal policy to maximize growth for the industry and enhance the quality of consumer offerings.

Film

BLOCKBUSTER IN THE MAKING

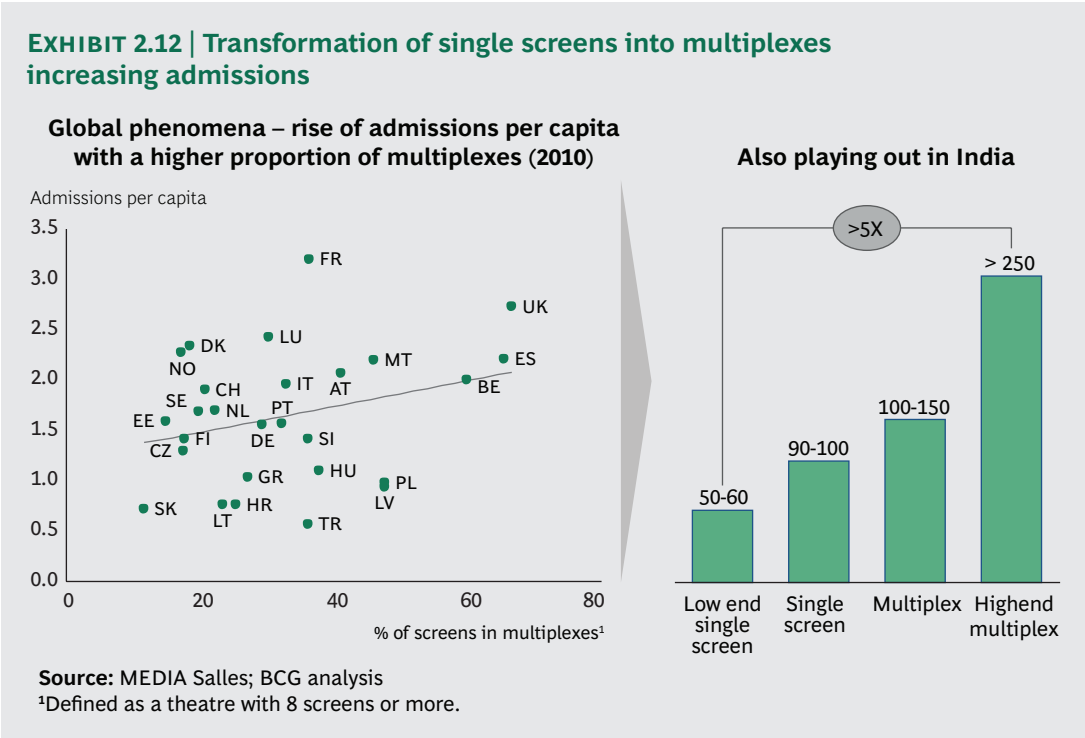
The Indian film industry is currently estimated at about INR 13,000 Crores and has grown at CAGR of ~13% between 2010 and 2015. Domestic theatricals are the key growth engine accounting for almost three quarters (~75%) of the industry revenue and have been growing at a ~12% CAGR. This has been aided by an increase in ticket prices (~8%) and rise in admissions (~3.5%). This growth is coming primarily from the expansion of screens and rise of the multiplex phenomenon leading to a rise in average ticket price in India. Cable and satellite rights is the next big contributor (~11% revenue contribution in 2014) followed by overseas collections (7% revenue contribution in 2014). While overseas box office collections have been showing strong growth (~22-25% growth between 2010 and 2015) revenue from cable and satellite has come under pressure over the last year due to broadcasters becoming more cautious on movie rights acquisition.

Within the industry, big budget movies still rule the roost. Eight big budget movies in 2014 (>50 Crores budget) contributed to nearly INR 2500 Crores in terms of box office collection (~25% of the domestic box office collections).

FOUR-POINT-HIT FORMULA

Four factors – consumption growth, segmentation, content innovation and Make in India – can drive growth.

- Indians love their films and **admissions** to movie theatres have been steadily climbing over the years. The impetus for rising film consumption has come from increasing number of screens, although screen density in India is amongst the lowest in the world (9 per million vs China’s 15 and U.S.’ 125), indicating potential for further growth. China has seen a growth rate of 35% YOY from 2010-14 in terms of number of screens added and this has significantly boosted consumption growth and has attracted lot of global movie giants
- Segmentation is also driving higher ARPU. Today, more and more single screen theaters are being converted into **multiplexes**. This trend has benefited the industry in two ways. It has increased the choices on offer, luring a wider audience to the theatres. Secondly it has driven up average ticket prices. The cost of tickets to a high-end multiplex is often 5 times higher than that for a lower-end single screen. This is a global phenomenon that is playing out in India as well.



- Customers are more aware, discerning and willing to experiment with new genres. Content driven movies have become money spinners, encouraging innovation at the “long tail” of niche content. Technologies (like 3D, IMAX) and Animation & VFX are also gaining traction leading to a higher ARPU. For instance 3D movies command ~40% higher ticket prices than 2D films globally. This is also playing out in India
- For the film community, Make in India is gradually moving from being a policy statement to a reality. Line production is picking up in India with many studios doing business with their Indian counterparts. The country is also emerging as a destination for international shoots with parts of popular films such as Mission Impossible 4, Zero Dark Thirty, The Bourne Supremacy and Slumdog Millionaire being shot here. Exploiting its IT

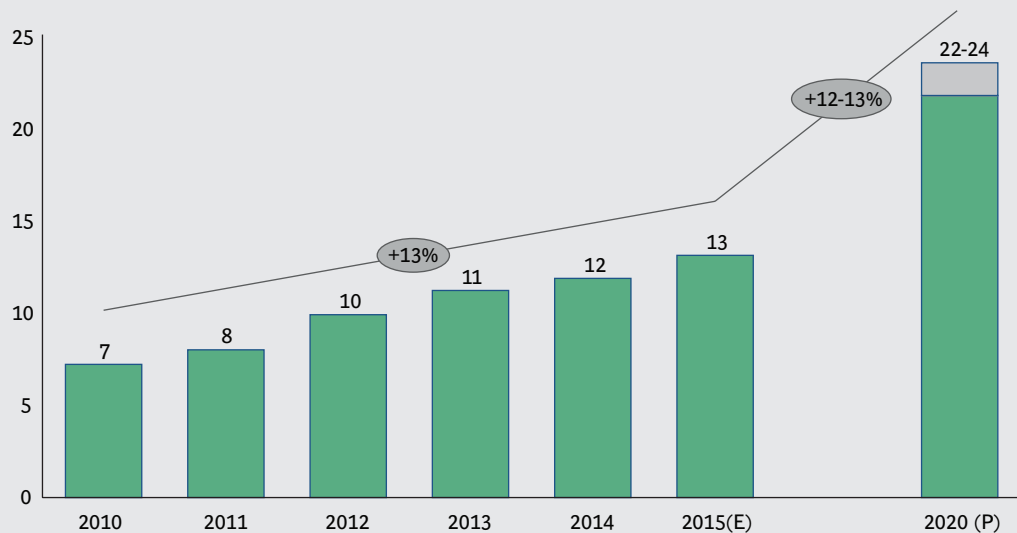
adjacencies, India has moved to position itself as an exciting hub for cutting-edge animation and VFX.

#### THE PATH FROM HERE

BCG estimates the Indian film industry to increase from INR 13,000 Crores to between INR 22,000 Crores and INR 24,000 Crores by 2020, growing in the range of 12% - 13% CAGR. This growth is expected on the back of higher spend on entertainment with rise in disposable income, and favorable demographics. In addition to these fundamental drivers, if the stakeholders work collaboratively to improve the screen density, increase multiplex penetration, better monetize content through C&S rights and overseas distribution, and leverage digital platform, the industry can scale new heights. Globally the film sector has been relatively insulated from the advent of digital, a trend expected to play out in India as well.

#### EXHIBIT 2.13 | Film industry can grow from INR 13,000 Crores to INR 22,000 – 24,000 Crores

Industry size in INR '000 Crores



Source: Dodona Global Research and BCG Analysis

#### WHAT DO STAKEHOLDERS NEED TO DO IN ORDER TO GROW?

In order to accelerate the pace of the growth, both industry players and regulators need to create an ecosystem conducive to grow the film industry.

#### Industry actions

- Players need to boost screen density. This is possible on a sustainable basis, only if they are able to develop monetization models for new screens (esp. multiplexes in tier 2 /



tier 3 towns). As consumer income in these town classes increases there will be a natural growth in ticket prices, but players also need to be proactive in terms of content offered in these town classes. Players also need to find models for creating new screens outside malls if mall development stagnates (e.g. creation of family entertainment centres).

- The industry can tap into the global revenue pool by creating movies with the global audience in perspective. The top 10 Indian movies got ~22% of their box office collections overseas (2015 YTD) but the same ratios decline rapidly on the overall base (~10%).
- Increasing experimentation with low budget movies can increase content rich movies and eventually lead to serving niche audiences.
- The industry needs to upgrade creative and technical skills (esp. in areas like script writing / screenplay, editing, art direction, post production etc.). This will likely enhance the levels of innovation and improve the success rate bringing down overall cost of production.
- Exhibitors need to enhance occupancy by providing alternate content (e.g. recorded concerts) that attract niche audiences.

### Regulatory issues

- The biggest driver for growth for this sector is screen density. The government can potentially accelerate the same by having initiatives like a single window clearance to smoothen the approval process and reduce the time, effort and cost of expansion.
- The current copyright act can potentially be re-examined to allow movie producers and technicians to monetize rights adequately. This will encourage greater investment in content and prosper overall industry growth.
- Censorship norms can be evaluated to allow for easier exhibition of alternate

content – enriching the quality of content provided to consumers and driving revenue growth.

- The industry faces significant tax pressures – combining entertainment tax and service tax (levied on remuneration paid to artists and technicians). This raises the overall production costs. The regulators and the industry can work to create a taxation policy conducive for higher growth.
- Establishing co-production treaties with other countries would further boost market prospects. Such treaties would enable foreign production houses to shoot in India and vice versa.

## Radio

The Indian radio industry has registered 11% CAGR over 2010-2015 and is currently valued at INR 2,300 Crores. The growth has been driven by increase in radio consumption due to the launch of private FM channels and growth in consumption through mobile phones with in-built FM services in feature and smartphones helping in quick adoption of the FM radio. There are 250-300 Million radio users today, more than TV HHs and Internet users in India. Further radio advertising received a fillip over the last 2 years from increased government & political spending including the elections in 2014 and emergence of e-commerce as a major advertiser.

Globally radio advertising has been resilient to the structural migration to digital as radio is the top source for music consumption with time spent on radio increasing from 10.4 hours/week in 2009 to 12.3 hours in 2014 with total share of media consumption stable in 26-27% despite the digital explosion. Further it is an attractive medium for advertisers given its combination of reach, ability to choose individual geography and effective pricing.

Radio particularly continues to remain the media of choice for music discovery even in developed markets and hence attracts interest from publishers and advertisers.

EXHIBIT 2.14 | Radio remains top source for music consumption

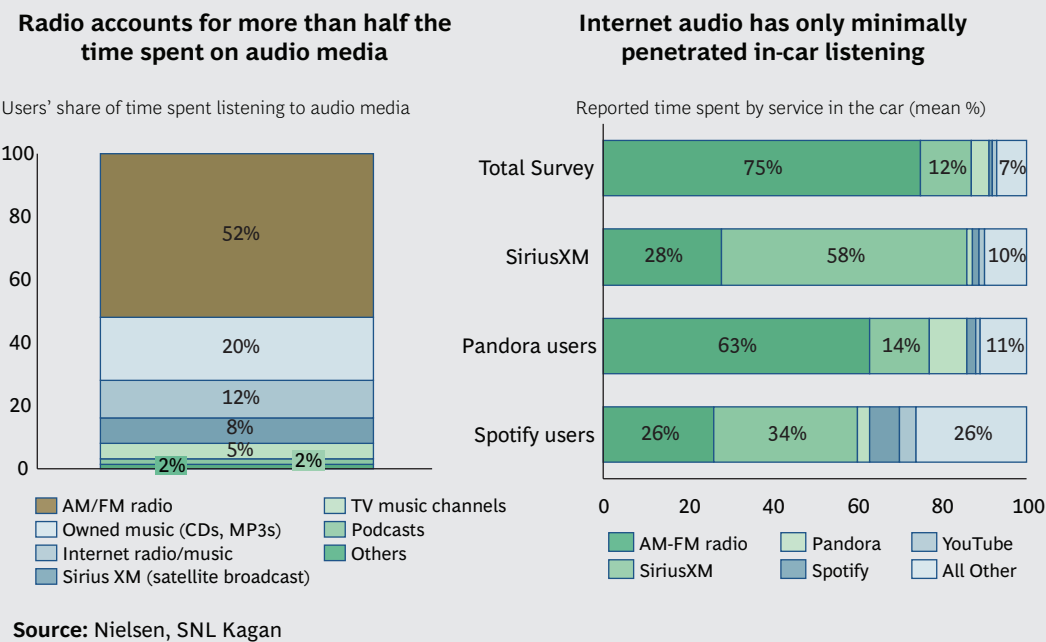
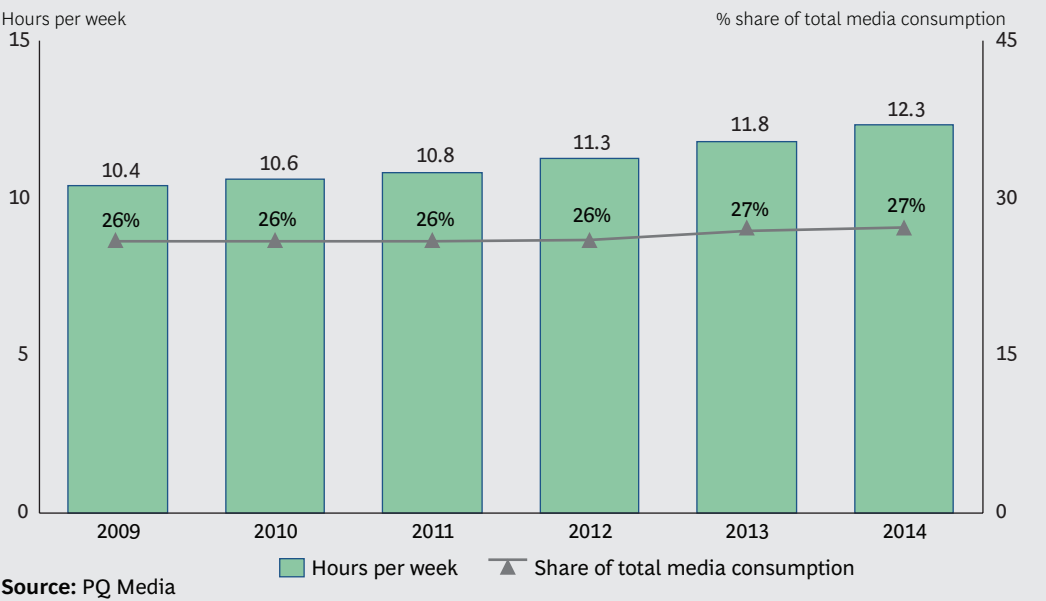


EXHIBIT 2.15 | Chord cutting is now real for the TV industry



PHASE III AUCTIONS LIKELY TO PROVIDE A SIGNIFICANT BOOST TO THE MARKET

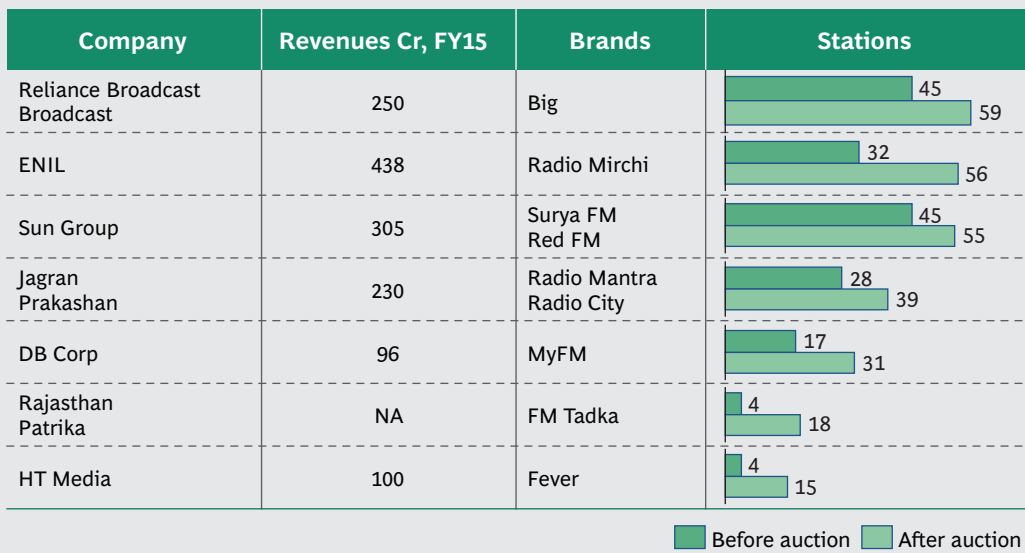
- *Explosion in reach.* Phase 3 FM license auctions initiated in July 2015 will dramatically expand FM radio services from 86 cities to 294 cities and rural areas, enlarging FM radio’s reach from 40% to 75% of the Indian population. Tier-2 & 3

cities are an untapped market offering latent growth opportunities for FM radio market. Further, following the phase 3 auction, radio’s positioning will be strengthened with pan India presence attracting more advertisers. After the Phase 2 auctions in 2005, the radio industry’s advertising share increased

- from 1.6% to 3.6% in 2009. Current auctions are likely to have a similar positive impact on radio advertising.
- Diversification & surge in content.** Radio stations are experimenting with fresh, more varied formats, moving away from the repetitive 24x7 film music formula to more absorbing content. For instance, regional channels have been airing dramas and talk shows to expand their listener base. With Phase 3 FM auctions allowing more than one frequency in a city, radio stations are anticipated to aggressively pursue localized content and news (with some conditions) to attract audiences and advertisers alike with wider bouquet of channels.

- Investment and changing player landscape.** The radio industry is estimated to invest up to INR 4,000 Crores in phase 3 auctions including auction & migration fees, capex and marketing spend. This is twice the current industry size and indicates the potential growth opportunities of the phase 3 auctions. Operator can own 40% of channels in the same city subject to presence of at least three operators in the city, whereas the earlier regulation provided for only one channel per operator in each city. As a result most radio operators' strategy has been to strengthen their position and expand base by bidding for additional stations in existing markets - ENIL, Reliance's Big FM and HT Media (Fever) — will have more than one station in several cities.

**EXHIBIT 2.16 | Radio market landscape post phase 3 auctions**



**Source:** Media Research from 2011, Company websites, annual report, MIB website and media reports

**1** Revenues refer to only theradio revenues of each of these firms

**2** Radio Mirchi will go to 56 if its acquisition of 3 stations from Oye, is approved by the Ministry of Information & Broadcasting

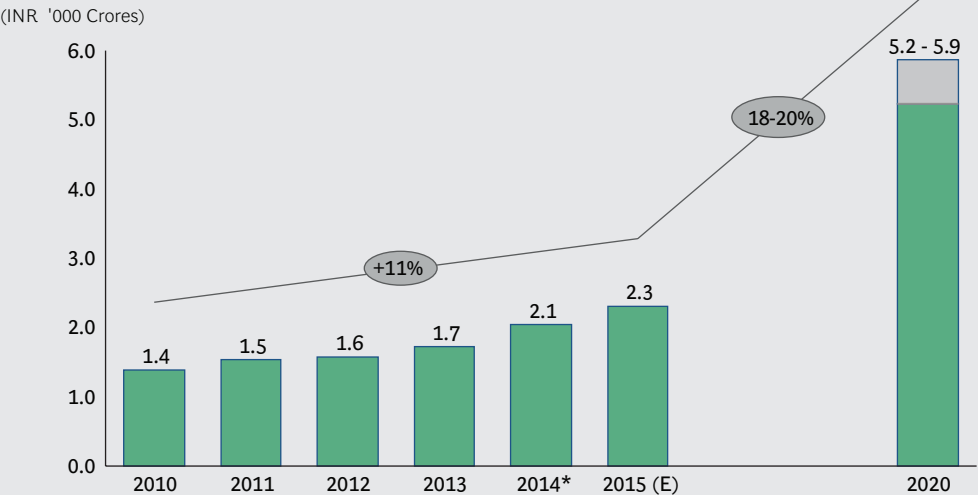
**3** The Madras High Cort has stayed the publication of the wins of three of the Sun Group's radio firms. It appears that the firms have won a total of 10 licenses

**HOW WILL THE REVENUES SHAPE UP?**

The Indian radio industry is expected to grow in the range 18% to 20% CAGR to between INR 5,000 Crores and INR 6,000 Crores by 2020. Even our base case scenario factors a healthy growth rate of 18% CAGR assuming the phase 3 auction has the same positive impact of phase 2 auction with radio share of total advertising increasing from ~5% in 2015 to

~6-8% by 2020. This scenario can play out if the industry is successful in leveraging the increase in addressability by investing aggressively in new channels and content. Further, radio industry can also leverage live events such as musical award shows to gain brand awareness and offer advertisers with a strong advertisement medium.

**EXHIBIT 2.17 | Radio industry can grow from INR 2,300 Crores to INR 5,000 Crores – INR 6,000 Crores**



**Source:** TRAI, Industry discussion; \* 2014 TRAI numbers revised upwards based on industry discussion to effect timing difference in revenue recognition  
Numbers include FM and AIR terrestrial radio advertising revenues

**WHAT DO STAKEHOLDERS NEED TO DO IN ORDER TO GROW?**

Industry actions

- Effective measurement of radio audiences have not kept pace with changes in the radio industry. Given the rapid growth in consumption on mobile, these need to evolve and become more integrated. The radio stations and survey companies need to work together towards a countrywide acceptable sample size and methodology to measure the listeners and effectiveness of a radio stations.
- Issues related to music royalty have been a major cause of disputes between radio and music players. While the Copyright Board provided relief to the radio industry by reducing royalty payments to 2% of net advertising revenue, the issue is not yet fully resolved and music companies have challenged the decision in court.

Regulatory

- Addition of news and current affairs programs to offer more comprehensive programming could provide a boost to the radio industry and provide enhanced access

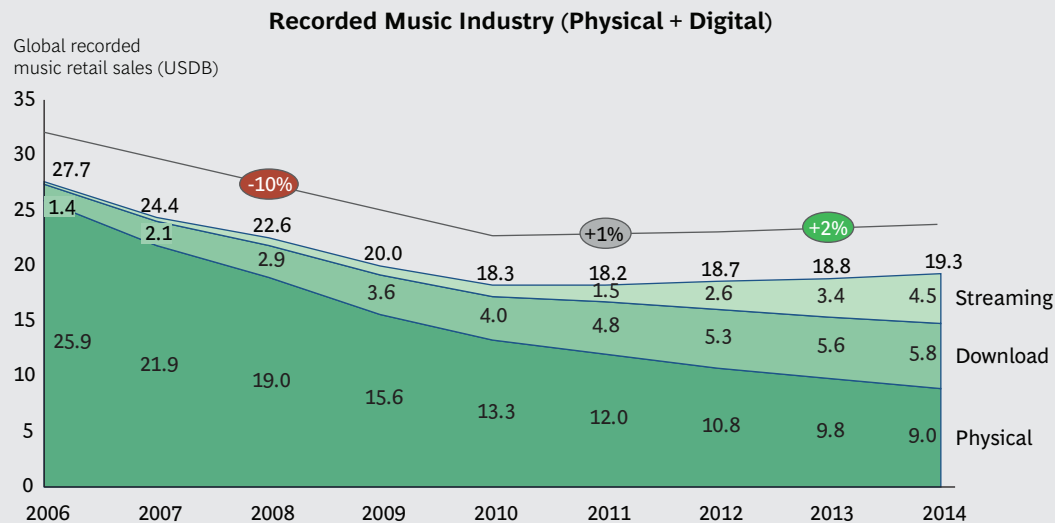
to consumers. In addition, the ability to broadcast live across stations could reduce cost for private operators.

Music

The Indian music industry has grown at a moderate CAGR of 5% between 2010 and 2015 to reach about ~INR 900 Crores. Physical music revenue has declined sharply over the last 5 years with the advent of digital music, which is the major contributor to the music industry having exceeded physical distribution in 2011. Within digital music, ad supported streaming revenue is growing rapidly with many players entering the market over the last few years, while mobile personalization revenues (caller back & ring tones) have declined after hitting peak in 2012 due to change in regulations.

Globally, recorded music industry has declined sharply over the last 10 years with shift in music consumption from physical to digital downloads (ownership) to digital streaming (access). The industry has witnessed moderate growth in the last 2 years as digital streaming is being monetized through a combination of advertising and subscription model.

**EXHIBIT 2.18 | Recorded music industry has moved from physical to digital, and from download to streaming**



Source: RIAA

**HITTING THE RIGHT NOTE!**

- *Explosion in reach.* Digital streaming services have animated the market with the emergence of digital music aggregators such like Hungama, Gaana and Saavn. With a focus on data analytics, better user experience and targeted advertising, digital streaming has altered the dynamics of the music industry and is now at the very heart of the industry.

Listening to music online is the third most preferred activity for urban internet users in the country. As many as 97.4 Million people in urban India listen to music online, which is close to the 63% of the total urban Internet users in the country. Mobile is the predominant platform accounting for 75% of traffic and about 36 million use an app to stream music on their mobile<sup>1</sup>.

- *New players emerging.* In this fast evolving environment, the market ecosystem will need to evolve to welcome vibrant new players with differentiated skills and technology who can invigorate the industry. Mobile operators, for instance, are focusing on monetizing their subscriber base and billing relationship by offering music services.

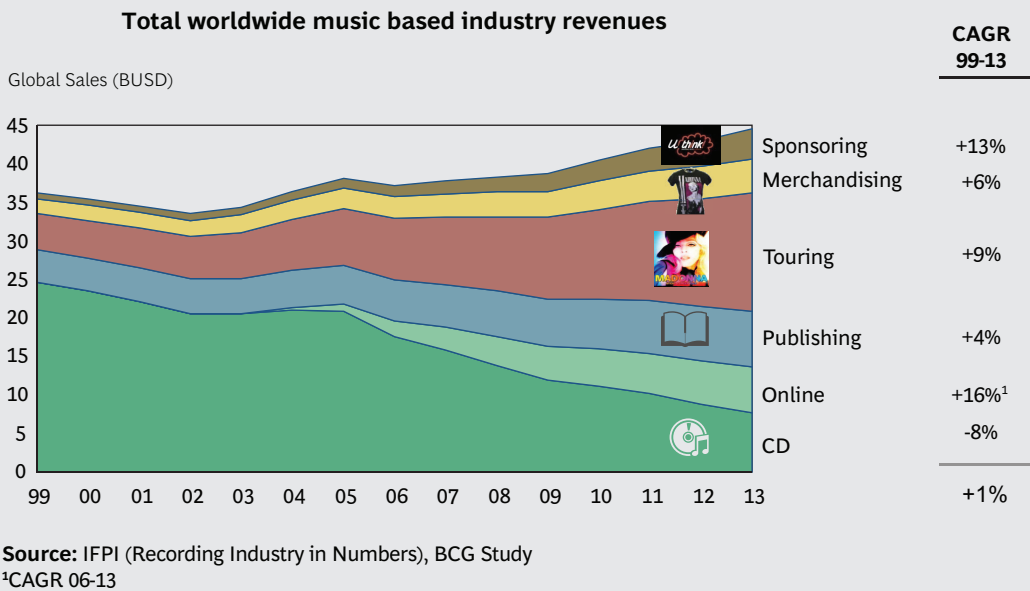
- *New revenue streams.* **Music video** is one the potential growth drivers with high demand amongst Indians. 63% of Indians using YouTube watch music videos. Bollywood stars have collaborated with publishers to create significant hits on YouTube.

Globally, music companies have generated new revenue streams like **live events and merchandising**. The importance of live events is further emphasized by the fact that they present an important advertisement medium for music companies.

- *Branded content.* Branded content allows the user to go beyond music streaming and interact with brands in a more engaging & non disruptive fashion. Some of the examples are:

1. **Sponsored playlist.** As people listen to a popular playlist, a brand is showcased via the Playlist cover image as well as display ad.
2. **Branded channels.** Branded environments that house curated music, film and content that reflect the brand's personality.

EXHIBIT 2.18 | Smart incumbents have generated new revenue streams

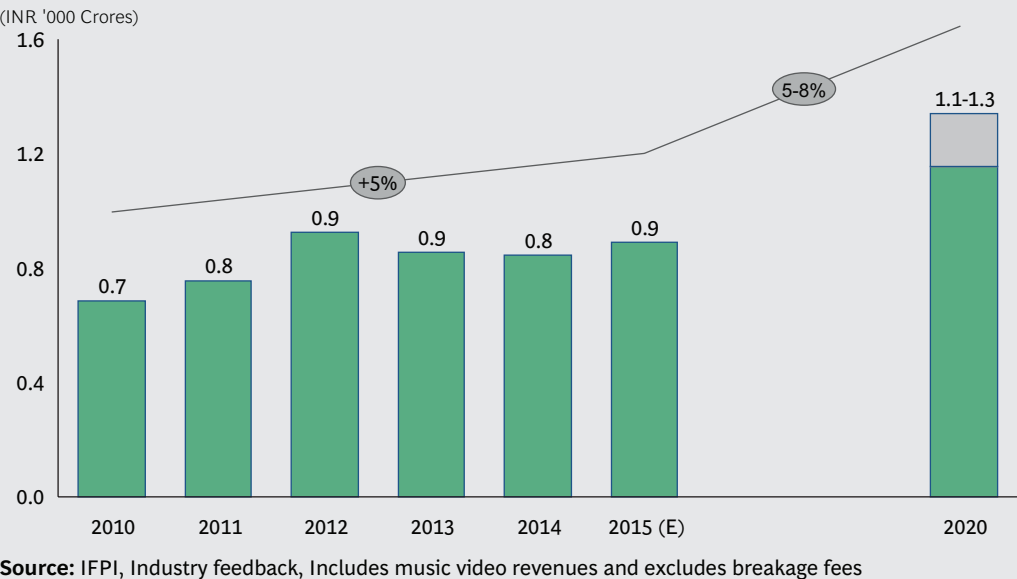


HOW WILL THE REVENUES SHAPE UP?

The Indian music industry is expected to grow in the range of 5% to 8% CAGR to between INR 1,100 Crores and INR 1,300 Crores by 2020. In the base case, music industry will grow at the same pace seen in the last 5 years

given the underlying increase in music consumption aided by an optimum mix of advertising and subscription, and build-up of ancillary revenue streams. Physical music revenue will continue to decline and become insignificant over time.

EXHIBIT 2.20 | Music industry can grow from INR 900 Crores to INR 1,100 Crores – INR 1,300 Crores



## WHAT DO STAKEHOLDERS NEED TO DO IN ORDER TO GROW?

### Industry actions

- With Indians generally averse to paying for digital music content, **monetization** is a big issue for both local and global music players entering the Indian market. Most digital music services are predominantly advertising driven. A move towards the paid model in India will, therefore, require a behavioral shift. Further, unlike music offerings from mobile operators, independent services face some key challenges, such as establishing a billing relationship with customers.

### Regulatory

- **Digital piracy** has emerged as a major menace. The International Federation of the Phonographic Industry (IFPI) estimates that more than half of internet users access unlicensed services on a monthly basis in India. Piracy needs to be tackled head on with a collaborated effort by government agencies and industry players as it causes significant revenue losses for the industry.

# FOR FURTHER READING

The Boston Consulting Group published other reports and articles on related topics that may be of interest to senior executives. Recent examples include:

**The Talent Revolution in Digital Marketing**

A focus by The Boston Consulting Group, September 2015

**Branded Content: Growth for Marketers and Media Companies**

A focus by The Boston Consulting Group, July 2015

**The Programmatic Path to Profit for Publishers**

A focus by the Boston Consulting Group, July 2015

**Digital India—Insights for Marketers and Media Companies**

A report by The Boston Consulting Group, April 2015

**Signals Intelligence: Paid Search Reveals Audience Intent for Display Advertisers**

An article by The Boston Consulting Group, March 2015

**Five Pricing Secrets of B2B Information-Services Companies—Making More Money from Data**

An article by The Boston Consulting Group, October 2014

**Improving Engagement and Performance in Digital Advertising—Adding Data, Boosting Impact**

A focus by The Boston Consulting Group, September 2014



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