

# *Digital transformation in entertainment and media*





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# Message



ASSOCHAM INDIA's Apex Chamber for Commerce Industry started its initiative in Media and Entertainment sector in 2006 with a discussion on the Broadcasting Services Regulation Bill.

ASSOCHAM realized the potential of this Industry and organized the Annual Summit on Media and Entertainment called Focus from 2007 onwards.

FOCUS has witnessed participation and has been addressed by Union Ministers, Secretaries and Leaders from the Media and Entertainment Industry.

I am very happy to inform that perhaps ASSOCHAM was the first business organization to have realized the importance of Digitization and its impact on the Media and also decided to promote the Regional Industry which has tremendous potential for global audience.

Our efforts have been recognized by Ministry of Information and Broadcasting and Department of Electronics and Information Technology, Ministry of Communication and IT, Government of India and we are indeed thankful to them for acknowledging our efforts.

ASSOCHAM was also the preferred 'Partner' of the Ministry of Information and Broadcasting, Government of India for organizing the India Pavilion at the world's largest Film Festival at CANNES, France in 2009 and 2010. The India Pavilion received overwhelming response from the visitors and International business delegations.

The recent TRAI Recommendations on Implementation of Digital Addressable Cable System in India recommending Digitalization of the Cable Television is being rolled out across the country and ASSOCHAM extends its support in ensuring its successful implementation.

I am sure that FOCUS 2012 will come out with its set of suggestions and recommendations for taking this Industry to newer heights and I wish FOCUS 2012 and the ASSOCHAM team our good wishes.

A handwritten signature in black ink, appearing to read 'D. S. Rawat', with a horizontal line underneath.

**D. S. Rawat**  
Secretary General  
ASSOCHAM

## *Message*



I congratulate ASSOCHAM for organizing the 6<sup>th</sup> Media & Entertainment Summit, FOCUS 2012 with the theme “Digitization for Inclusive Growth” on 4<sup>th</sup> May, 2012 at New Delhi.

The Ministry of Information & Broadcasting efforts in implementing the recent TRAI recommendation on digitization is indeed laudable. This transition of migration from analog to digitization would lead to an opportunity to boost manufacturing capabilities within the country in the future and will accelerate growth of India Electronic Industry.

We acknowledge and thank the Ministry of Information and Broadcasting, Department of Electronics and IT, Ministry of Communications & IT, Government of India for their support and guidance.

This paper prepared jointly by PWC and ASSOCHAM will certainly benefit the Industry and the objective of migrating to digitization of the cable TV Industry in the near future.

I convey my good wishes for the success of FOCUS 2012 .

***Rajkumar Dhoot (M.P.)***

President  
ASSOCHAM

## Message



This year's 'Focus' comes at a time when the Indian Media and Entertainment industry is going through the first phase of Digitization of the cable industry, by converting the four metros into digital cities by 30 th June 2012. ASSOCHAM in the last few years had organised numerous interactions with the policy makers and the industry, where broadcasters pushed for digitization as the solution for many of their issues and the policy makers gave patient hearing. The stakeholders and the government authorities have unanimously agreed that digitization would improve the quality of broadcasts, plug the leakage of subscription revenue, bring greater transparency to the television sector and enable broadcast of larger number of channels.

For consumers, digitization implies better choice and quality of television viewing. Digitization of cable and satellite broadcasting is now being taken up in earnest with plans to complete the nation wide roll-out by December 2014.

The honourable I&B minister, Ambika Soni recently assured that all decisions would be taken in consultation with the stakeholders, which obviously is being appreciated by the industry. She further added that the cable operators have been pressing for digitization as they sense stiff competition from direct to home (DTH) network providers. However, it is yet to be seen how practical the sun down date is practical in a country with more than 100 million Cable connected homes.

Indian television industry is poised for a giant leap forward supported by substantial growth in advertising and subscription revenues. A true digitization dream can be fulfilled only when all the elements in the value chain, namely, Content, Distribution and Reception devices are all digitized. Digitization of Cable TV Distribution System is the first step for realizing the Broadband vision of India. Digitization besides better signal quality will facilitate services like IPTV and will offer more interactive and value added services like Video on Demand, Time Shift TV and many more. Not to forget that Digital Cable TV will provide great impetus to Indian economy, by enabling the government to collect taxes that at present go untapped.

Digitization of Cable TV Transmission will lead to a greater understanding of the dynamics of the pay-TV market in India, because digitization and addressability go hand-in-hand. With digitization taking over analogue the industry will be empowered to understand the consumer activity. Content-wise, digitization will lead to the creation of more content to fulfil the demand of urban audience for consumption on 3D and high-definition television sets and regional content for rural India.

We at ASSOCHAM strongly believe that Digitization will lead to inclusive growth of India by encouraging services like e-education, tele-medicine, e-banking and other e-services that demands addressability. Digitization is an inevitable phenomenon and it's already there, while the Industry needs to handhold the growth the government needs to create an encouraging environment to attract investment in the sector.

Best Wishes

A handwritten signature in black ink, appearing to read 'Sujata Dev', with a horizontal line underneath.

**Sujata Dev**

Chairperson  
ASSOCHAM

National Council on Entertainment & Media

# Message



Economic growth and technology are inextricably linked. The recession that ended in 2009 saw a seismic shift in global business power with companies in the developing world investing heavily in technology to fuel growth. This has led to the development of a virtuous circle as digital technologies drive consumer income and demand, education and training, and efficient use of capital and resources—leading to increased economic growth, particularly in emerging markets.

In India E&M revenues continue to be largely non digital, in spite of changing consumer preferences. However the stage has been set for a new era in Indian broadcasting with the Parliament clearing a Bill to amend the Cable Television Networks (Regulation) Act for ushering in digitization. While the country has witnessed the emergence of addressable digital TV platforms such as direct-to-home (DTH) and Internet protocol television (IPTV), the new bill will enable the impact of digitisation to be experienced across all segments of the industry value chain

Digitization makes it imperative for service providers to usher in new business models which will provide them with pricing flexibility to increase revenue and facilitate the realization of that revenue towards the economic growth of the country. It will have a likely impact on the business operations and strategy in relationships with broadcasters, LCOs, customers and in management of STBs and infrastructure.

Cable digitisation in India poses a huge task before operators, consumers and policymakers due to the sheer scale of the endeavour and changes required in the present infrastructure of cable services. Creating awareness among multiple stakeholders, adopting digital addressable infrastructure with initiatives encouraging a digitised economy fostered by cooperation between the government of India, regulatory bodies and E&M companies are the key imperatives. This will ensure that when government policies mandating digitisation of cable and other information and entertainment platforms come into place, Indian and foreign players in the E&M space are well equipped with content and services benefiting their target customers.

In this context, through this paper, PwC in collaboration with ASSOCHAM attempts to delineate the key trends, challenges and developments that will shape the digital future of the Indian E&M space. It will be a useful read for Indian and foreign players in this industry, regulators, policy makers and every other relevant stakeholder who are realistically looking forward to the inevitability of digitization.

**Partha Kundu**  
Executive Director  
PwC India

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# Introduction

From all accounts, 'digital' is the new buzzword in the entertainment and media (E&M) industry. Therefore it follows that every segment in the ecosystem is likely to feel its impact in a significant way.

The digital experience goes beyond just providing content. It also includes providing it on the device of choice as well as on demand. The industry will also have to contend with the monetisation across different platforms as well as devices, central to their existence. It is being increasingly recognised that the digital experience cannot be delivered or monetised without multi-party collaboration. As a result, there is an upsurge in collaborative partnering—heralding the transformation of the E&M industry into a digital collaborative ecosystem.

The new digital paradigm is all set to restructure the working models for the television, music, publishing and film industries. Movies and television shows are gradually embracing the 'on-demand' mode on any digital device while books, newspapers, magazines and other forms of publications are reinventing themselves on interfaces such as mobile phones and tablets. With information getting commoditised, several media firms are switching from subscription fees to 'freemium' pricing business model combining free services with paid-for-premium services.

The business potential is huge in terms of services and investments in infrastructure as the world's largest market goes 'digital'. This is likely to open up new revenue streams. In fact, if implemented correctly, digitisation could prove to be a win-win situation for customers, operators as well as the government.

The Indian animation, gaming and visual effects (VFX) industry is also likely to benefit from this. Currently, this sector derives a majority of its revenue from outsourcing activities as international production houses outsource work to Indian studios. Alongside, international game publishers also outsource work to Indian game development companies. This is likely to shift as digitisation will also increase the share of domestic demand for similar services.

The move to digital is about utilising new capabilities to achieve transformative businesses and operating models. These capabilities open the door to a vast range of opportunities for the creative media including (but not limited to) access to a global market, multi-platform distribution, greater consumer engagement, improved collaboration and the development of innovative products and services monetised through new business models.

The following table expands on these opportunities, defines the trends observed and identifies key success factors:



Stakeholders and various challenges for components of Biodiesel supply chain are as follows:

Opportunity	Observed trends	Key success factors
Access to a global marketplace	<p>Social media is becoming a recognised means to access and engage with consumers in new ways.</p> <p>Digital tools enable companies to expand access to experts around the world (internal or external) and establish new innovation communities.</p> <p>The tools necessary to create, produce and distribute content digitally are streamlining some processes (e.g., rights to contract processing time or the ability of businesses to book their own ads).</p>	<p>Access to a variety of competing domestic online distribution channels, including aggregators, to reduce revenue loss to foreign aggregators</p> <p>Ability to produce, label or publish and make use of online marketing and distribution mechanisms (e.g., social network tools) to gain mindshare in the global content marketplace</p> <p>Ability of companies to produce for multiple digital platforms and the ability of firms to have affordable access to strategic intelligence (e.g., industry sales statistics, technology trends, etc.)</p>
New business models focussed around multi-platform distribution and consumer engagement	<p>Emerging new business models allow commercially viable digital consumption (e.g., iTunes, digital lockers, ePub, paywalls, 'paid' apps, consumer rewarded advertising, freemium model).</p> <p>Enabled by cloud computing and digital lockers, multi-format platform distributions are affecting creative industries.</p> <p>'Frictionless' digital content consumption drives more legitimate content acquisition.</p> <p>Many consumers default to 'free' models but will pay for value (e.g., experiences). 'Free' or discounted model in exchange of personal information can be monetised through advertising.</p>	<p>Integration of advertising and branded entertainment</p> <p>High penetration of smartphones and other mobile devices</p> <p>Willingness of distributor to use online content and apps to support traditional distribution platforms</p> <p>Development of multiple micro-payment options</p> <p>Growing sophistication in exploiting the analytics of online tracking systems</p> <p>Improved access of companies and government to measurement mechanisms in tracking consumer usage</p> <p>Ability of companies to incorporate user or audience feedback in the production (and ideation) of new content</p> <p>Ability of firms to experiment with shifting business models and invest in emerging technologies</p>
Increased collaboration	<p>Collaboration across the creative value chain between companies, entrepreneurs, academics and government</p> <p>'Co-creation' through web communities and social networks</p> <p>Creation of research centre or hubs for media companies</p> <p>Collaborative infrastructure to allow better connectivity among the creative media players in the digital marketplace</p>	<p>Availability of affordable essential digital production tools</p> <p>Implementation of content management systems</p> <p>Firm-level industry collaboration</p> <p>Meaningful interplay between larger and smaller companies</p> <p>Development of collaborative initiatives on an inter-form basis to create a new infrastructure</p> <p>Presence of an effective inter- governmental policy and programme co-ordination</p> <p>Development of relevant policy and programming in consultation with the industry</p> <p>Presence of a widespread high-speed infrastructure offered through a variety of packages at attractive price points</p> <p>Company adoption of digital production methods</p>
Lower barrier to entry	<p>Establishment of funds to stimulate the development of innovative interactive content</p> <p>Digital media training programmes and training funds</p> <p>Digital related academic programmes</p>	<p>Presence of a post-secondary system teaching continuous learning in digital techniques; integrating business skills and management training for the cultural media industries and promoting co-op programmes</p> <p>Presence of post-secondary institutions adaptable to the changing needs of the industry and work closely with it to establish appropriate curricula</p>

### **Collaboration and innovation**

Till 2015, the industry is likely to be dominated by TV, print and films. The constituents of the industry are presently dominated by segments which have not been majorly affected by the rapid digitisation as experienced across the world. The structure of the industry is not likely to witness a dramatic shift in the foreseeable future. The E&M industry is increasingly becoming fragmented in nature due to entry of newer players and newer customers and regions getting added.

Like the rest of the world, in India too, the industry will have to contend with rising demand for the digital experience and the route to success in this emerging collaborative digital environment lies in harnessing three industry-wide dynamics.

**Digital:** There is rapid and accelerated digitisation of elements including content, business process and product innovation. Social media and apps for mobiles have had profound impact on how the consumer interacts with his/her environment and this is set to grow further.

**Demand:** All interactions are being affected by rising consumer expectations. Consumers are empowered, connected and ready to play an increasingly collaborative role in developing new E&M products and services.

**Data:** Data is key to the interface between consumers, content, experience and brand, as well as to innovation. Therefore, the ability to mine and analyse detailed, contextual information is key.

### **Digital versus non-digital spend**

The overall direction of travel in the global E&M industry has remained consistent and the next few years will see digital technologies increase their influence across the industry. The rapid change in technologies and consumer behaviour will continue across all E&M segments.

However, we continue to hold that the pace of change will vary significantly across territories. India, in this respect is different as the pace of change and its impact has been significantly slow as well as different as compared to other developed countries of the world. The primary reason for the slow proliferation of change is the lack of digital infrastructure. Consumer behaviour, on the other hand, has changed and is continuing to evolve like the rest of the world. Their likes, dislikes and preferences are not likely to be different from their global counterparts. However, setting aside such local variations, we believe the profound shift towards digital consumption, now evident in digitally advanced markets will eventually influence the Indian one as well.<sup>1</sup>



<sup>1</sup> PwC's Indian Entertainment & Media Outlook 2011

# Digitisation of content and sectors

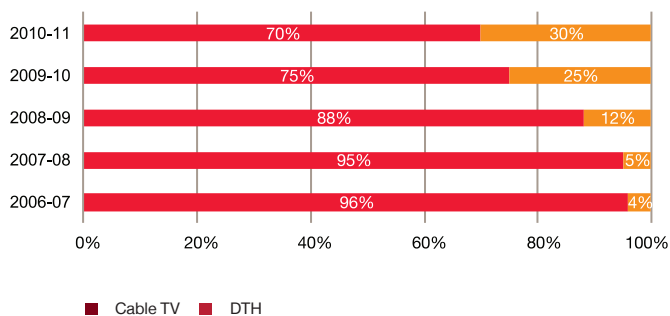
## Cable television

The pattern of growth being followed by India's Broadcasting and pay-TV market emulates that of North America (between 1998-2003), Korea (during 2003-2007) and Taiwan (during 2005-10)<sup>2</sup>. Domestic companies in these markets were on an accelerated growth path as networks were upgraded and consumers were presented with brand-new service experiences. As thought leaders in the industry point out, when government policies mandating digitisation of cable and other information and entertainment platforms come into place, Indian and foreign players in the E&M space should be well equipped with content and services benefiting their target customers.

## India broadcasting sector – Snapshot<sup>3</sup>

Total Household 239 Million
TV Household 148 Million
DTH Subs 44+ Million
Cable TV Household 94 Million

## DTH gaining share over CTV



2 Indiantelevision.com Digital edge journal: <http://www.indiantelevision.com/headlines/y2k11/dec/dec47.php>  
3 TRAI report, 2011



On the ground, digitisation is inevitable in India which has a population of around 1.3 billion people, total households of 239 million, TV households of roughly 148 million and pay TV households estimated at over 130 million. With a consumer base as huge as this, the revenues collected from the services provided to them should be reflected in the economy of the country. However this is not the present situation in India, as several local and small service providers have unregistered subscription bases. The money collected from people's homes every month for cable television services is probably the largest cash collection system in the world and ironically broadcasters only get 20% of the entire revenue pie.

Digitisation entails the utilisation of spectrum either through cable head ends or DTH systems uplink facility.

The government mandate to digitise cable networks across India will bring a significant transformation to the multi-billion-dollar TV industry and have a positive impact on the nascent broadband market. This is likely to bring a paradigm shift in the country's television distribution industry, where for years unscrupulous local cable operators have under-declared subscriptions, causing huge revenue losses to broadcasters and platforms.

Digitisation gives multiple system operators (MSOs) the opportunity to engage directly with end-customers. They will now have to reposition themselves from being largely viewed as a business-to-business (B2B) operator dealing with multiple local cable operators (LCOs), to being considered as a business-to-customer (B2C) operator, directly managing millions of end-customers.

Phase	Areas suggested by TRAI	Sunset dates for analogue cable TV services
Phase I	Delhi, Mumbai, Kolkata and Chennai	30 June 2012
Phase II	Cities with population of more than one million	31 March 2013
Phase III	All urban areas (municipal corporations and municipalities)	30 September 2014
Phase IV	Rest of India	31 December 2014

Source: TRAI: International training programme ITP 2012



The impact of digitisation will be experienced across all segments of the industry value chain and can be summarised as follows:

### **Impact on revenues and services**

Digitisation will enable MSOs to expand their revenue sources by providing more choice and variety to customers such as HD channels, broadband and value-added services (VAS) such as edutainment, gaming and video on demand (VOD). MSOs will also have greater flexibility to determine how to price content, in order to maximise revenues. Moreover in order to digitise and upgrade the infrastructure, MSOs will need external funding and can explore the various options available including, PE funding, IPOs and other strategic investors. Additionally, the government's recent decision to increase FDI in the broadcasting and DTH sector, from 49 to 74%, is likely to open up avenues for MSOs.

Within the gaming industry (entertainment value-added services), the auction of 3G spectrum by the government last year rang profit bells for the VAS industry. In view of the dynamic and ever-evolving nature of the VAS industry in India, tax implications of the innovative business combinations, joint ventures and collaborations in this space necessitate due consideration and attention on the part of all stakeholders. This matter assumes additional importance especially since the VAS industry is still perceived to be at a nascent stage in India as compared to developed countries of the world. Consequently, most transactions and arrangements in the VAS space involve a mind-boggling and unprecedented set of tax issues.

Consumers are likely to gain as well, in the following ways:

- Access to multiple channels
- Better viewing quality
- Multi-tiered services and pricing

Consumers will also benefit from new and healthy competition as digitisation (in metros) will ensure that existing DTH satellite platforms (including free-to-air DD Direct) compete for customers with digital cable operators. It will help boost subscription revenues and reduce dependence on advertising.

The government also has sufficient incentives to push digitisation and can accelerate the process by offering tax incentives to the cable industry. This is also likely to help the government in pursuing India's broadband goals, thereby boosting economic growth.

According to Media Partners Asia Report, leading digital media analysts expect a six-fold increase in subscriber revenues for MSOs, although the forecast is for a 20% churn in the cable subscriptions base to DTH. The subscriber declaration, which is a significant problem in India, is currently at 15%. This will rise to 100%, and the retained average revenue per user (ARPU) will increase six-fold if a 30% base case revenue share is agreed with the LCOs. Further, broadband will reduce the payback period on digitisation by about a year to 24 months if the product is bundled, when compared to a standalone digital offer<sup>4</sup>.

As for broadcasters, digitisation will increase subscription revenues and reduce advertising dependence. The carriage and placement fees are predicted to fall between 20-50% in certain markets and moderate in others. Last but not the least, once the digital implementation begins, gradual consolidation of LCOs is inevitable. As a result, industry profits and value will move to centralised distribution platforms and broadcasters<sup>5</sup>.

With digitisation you can count on every home getting the service. This will ensure that revenues will flow to the respective partner and tax authorities.

4 Media Partners Asia Report: <http://www.media-partners-asia.com/mpanews071211b.asp>

5 Media Partners Asia Report: <http://www.media-partners-asia.com/mpanews071211b.asp>

### **Impact on business and operating model**

Digitisation is likely to impact the business operations and strategy in relationships with broadcasters, LCOs, customers and in management of STBs and infrastructure.

- MSOs will have to renegotiate existing deals with broadcasters and decide how to define carriage and placement charges post digitisation. MSOs will also have to renegotiate content costs with broadcasters.
- MSOs will have to convince the LCOs to relinquish their stronghold over end-customers and agree upon measures to protect the existing income of LCOs.
- MSOs will need to partner with LCOs for the roll out of STBs, education of consumers and servicing customers, while LCOs will continue to play a role in collections and increasing ARPU.
- STBs roll out has to be planned out. The type of STB—HD, VAS, broadband-enabled or basic—will be critical for meeting different customer needs. It will also have a direct linkage with the MSOs' revenues and the services they will be able to offer to their customers in the future.
- Various procurement models such as sale or lease need to be explored for deploying these STBs at customers' homes, depending on the cost and willingness of customers to pay.
- The existing IT systems and processes should be capable of scaling up to support increased volumes. After digitisation, MSOs will now need to implement 24-hour call centres and implement business-continuity plans.

- MSOs are likely to face challenges in executing procurement plans, including the mapping of desired procurement timelines with the vendor's capabilities. One of the biggest challenges involved would include ensuring the accurate disbursement and tracking of STBs to LCOs, along with the management of inventory and re-order levels.
- MSOs would need to explore options to resolve issues related to payment collection and might have to implement multiple modes of collection to reduce their dependence on LCOs and collection partners.
- Data security is very important in this operation as it would require dealing with customers' personal information and payment details, and MSOs would need to comply with data privacy laws under India's Information Technology Act.
- MSOs will need to ensure Know Your Customer compliance within a reasonable time of activation and manage documentation, storage and retrieval efficiently.

Digitisation is a growth opportunity for cable operators, primarily the MSOs, who will need to move from a B2B model to a B2C business model. This shift will be achieved only if the MSOs scale up their operations considerably. The biggest challenge facing the industry is in terms of limited resources—infrastructure, time, money, management bandwidth and talent. The strategy that cable operators adopt towards digitisation will differentiate the winners from the losers.

### **Challenges of digitisation**

Cable digitisation in India poses a huge task before operators, consumers and policymakers due to the sheer scale of the endeavour and changes required in the present infrastructure of cable services. The first imperative in an attempt towards widespread digitisation is to create awareness among all concerned stakeholders, and , providing training to more than 200,000 cable operators and orienting consumers towards the choices, accessibility factors and quality transformation that digitisation rolls in for them.

Digitisation in India requires investments to the tune of INR 400 billion. On the flip side, TRAI is suggesting a cap of INR 250 on monthly cable charges. Keeping this in context, capping the monthly cable charges to an upper limit will only lengthen the recovery of the investments made by the industry. This will deter operators from continuing on the existing analogue cable as far as possible and may delay the digitisation initiative in the country. To meet the current investment requirement, FDI should be enhanced from the present level of 49% to 74%.

An estimated 65 million STBs will be required by 2014 to complete the proposed digitisation process. At the customer's end, there are presently delays of installation. Any delay at the procurement end will result in user inconvenience. Upgrading the current infrastructure and installing digital addressable systems is imperative to an effective voluntary rollout among large MSOs. The existing infrastructure does not support protected programming, video-on-demand (VOD), interactive applications and other innovations.

The current regulatory framework also poses a hindrance to effective digitisation. It entails operators to register only with district authorities to offer their services. The challenge here is to establish a comprehensive licensing policy from broadcasters to local operators to digitise the analogue networks in smaller cities and rural areas. Most operators are not financially strong enough to upgrade the networks. Digitisation with addressability is a unviable option without formulating special packages for operators at charges which help them to overcome financial weaknesses. Moreover, digitisation will be witness to a large number of consolidations between LCOs and triple pay service providers or MSOs, to upgrade their infrastructure. There has to be business model transformations with cable operators migrating from carriage fee (B2B) to subscription (B2C) models. They would also need to create equitable revenue-sharing agreements with the LCOs who will face challenges when addressability poses a risk to their current business model and analogue shut-off leaves them isolated.

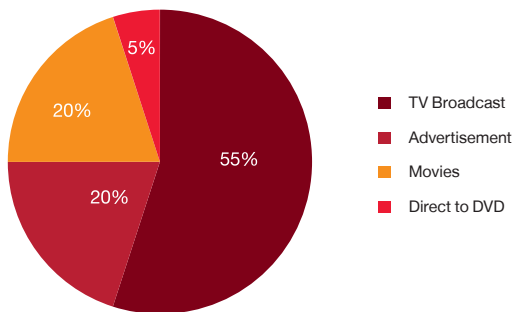
### Animation, gaming and visual effects (VFX)

The Indian animation, gaming and VFX sector has grown at a steady rate on the back of the growth in the global animation industry and the subsequent work outsourced to Indian firms. Backed by good growth in the children’s television genre and the success of visual effects in movies, a greater share of revenue is estimated to have come from these two segments as compared to direct to DVD content.

Experimentation is the new trend in the Indian animation, vfx and gaming industry. The Indian media and entertainment industry has been experimenting with special effects and visual effects for quite a while now. But in the last fiscal, the Indian animation and vfx/sfx companies bagged projects from both Hollywood as well as Bollywood.

Indian production houses are slowly moving up the value chain. While initially, only post-production work outsourced from Hollywood studios used to be sent to India, Indian studios are now looking to create their own intellectual property, by collaborating with foreign studios. Also, with the popularity of 3D, a large amount of 2D-to-3D conversion is being done by indigenous studios.

Revenue distribution of animation & VFX sector



Digitisation of content is a major trend driving the growth in this industry. Indian players in the vfx market are winning big budget projects both in the domestic as well as global markets. However, the growth is not as fast-paced as it ought to be, considering the growing emphasis on vfx by leading visual artists and creative agencies across the country. Even creative heads in the field of advertising consider it to be a driving factor while conceptualising a visual campaign. However, there are several impeding factors, such as lack of awareness among viewers, absence of government support and incentives, stringent budgets and unavailability of skilled manpower. It could be said that the industry growth trend emulates that of the Indian IT and BPO industries.

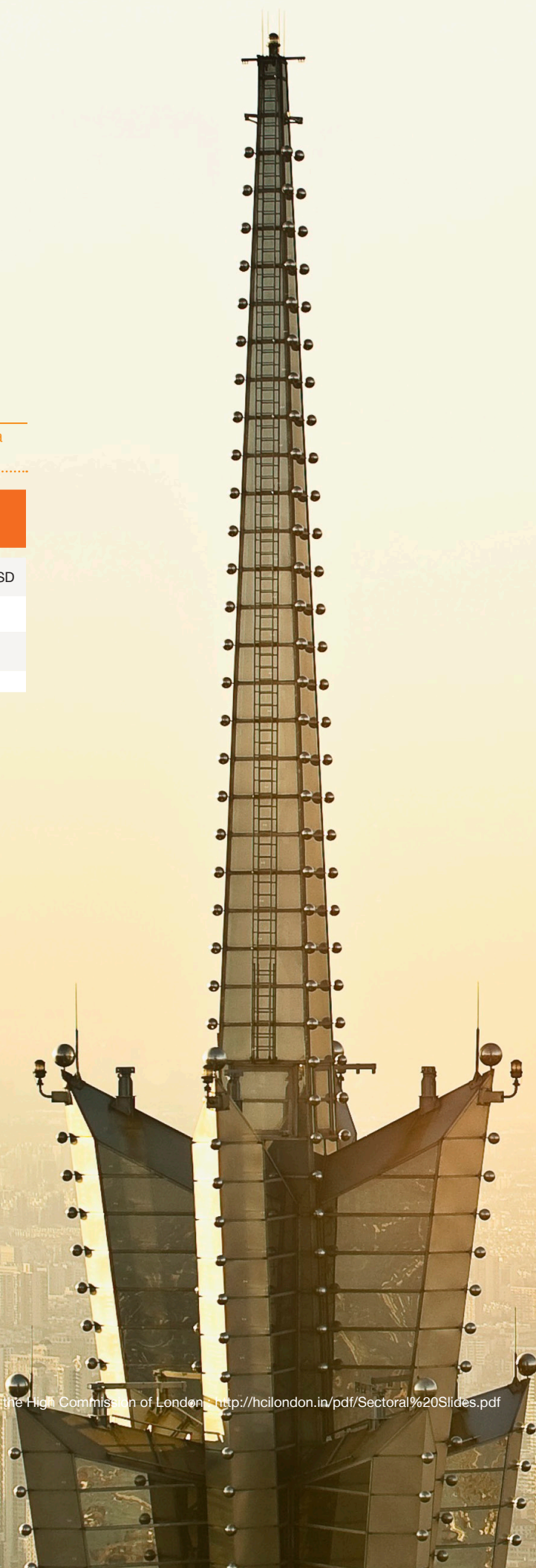
Though the Indian animation and gaming industry has huge potential to grow, both in terms of size and value of services, some support from the government will boost its growth. The capability and growing confidence in the gaming and animation industry is witnessed in the increasing number of co-production deals, increasing focus on development of original content and own IPs, setting up of overseas offices and recent investments from private equities. If the government supports the industry through tax rebates or grants, it could grow by leaps and bounds.



In comparison to other countries providing high-quality animation services, India offers significant cost arbitrage<sup>7</sup>.

Estimated costs for 30 minutes of animated content	India	Korea and Philippines	North America
2D hand-drawn	45,000–50,000 USD	60,750–67,500 USD	180,000–200,000 USD
3D	90,000 USD	121,500 USD	360,000 USD
Backend production	200,000 USD	270,000 USD	800,000 USD
Flash animation	20,000 USD	27,000 USD	80,000 USD

<sup>7</sup> Ministry of Commerce & Industry Government of India & Ficci report on Investing in India to the High Commission of London. <http://hclondon.in/pdf/Sectoral%20Slides.pdf>



**Key trends in the Indian animation, gaming and VFX/  
SFX sectors<sup>8</sup>**

Domestic companies have started to focus on improving quality and the creating original IPs, which can be leveraged in terms of merchandising and broadcast revenues.

New business models have evolved in the marketplace to successfully tackle current challenges such as piracy and lack of effective distribution. The new models have led to increased market penetration and increased awareness about the animation and gaming industry.

Consolidation in the industry will continue in the next three to five years, as smaller facilities get absorbed by larger players and the studio model gains dominance in India.

<sup>8</sup> Nasscomm trend report on the Indian animation, gaming & VFX industry: <http://www.nasscom.org/animation-vfx-and-gaming-technology-1>

The industry has registered slow growth thus far because it did not gain recognition in the domestic market. The usage of animation in Bollywood is still low, but that of vfx and sfx is growing. The industry was slow to generate significant outsourcing revenue because of the poor recognition it got in the local market. It had no proof to showcase to potential clients in the developed markets, who have been looking at India as a centre for cost arbitrage. The Indian audience does enjoy watching animated movies and movies like Avatar hit the box office with the highest records in India. However, Indian animation filmmakers need to combine animated content with good scripts.

Animation and vfx players also look for business opportunities not only in movies but also in broadcast, advertising, and various corporate pre-visualisation trends. The share of the Indian animation and gaming industry is still very low (0.6% of the worldwide animation and gaming market)<sup>9</sup>. This indicates that there is more potential in the domestic market. With India's share of the global outsourcing market in animation and gaming standing at less than 10%, the segment has a lot of opportunity to tap in the outsourcing market.



<sup>9</sup> Dataquest India CIOL Article: Gaming industry adding that effect: <http://dqindia.ciol.com/content/industry/2011/311102102.asp>

## The gaming industry

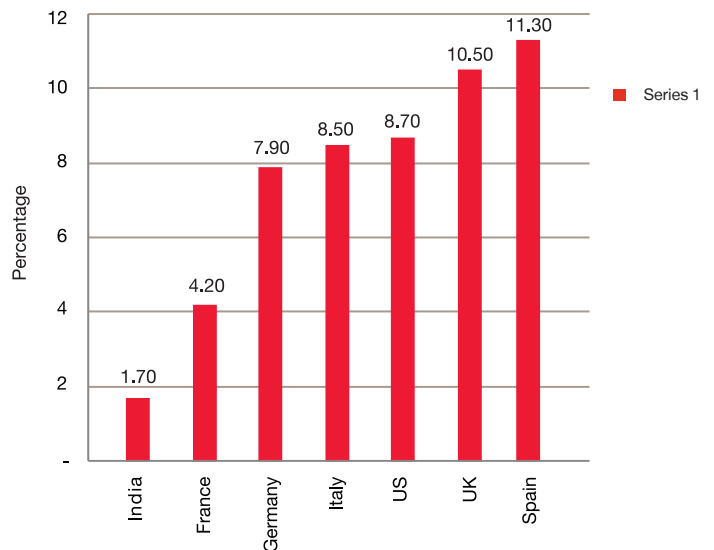
The gaming industry in India can be segmented into console gaming, PC gaming, mobile gaming, and online gaming. India is expected to follow China's lead as one of the fastest growing markets especially for online gaming. Gaming still performs poorly in the socio-psychological acceptance scale by the Indian consumers at large. Other than this major hindrance, other factors affecting the growth of this industry are lack of skilled manpower delivering products of global quality and standards to meet consumer expectations as well as a major part of the revenue coming in getting redirected to the telecom operators. Telecom operators keep nearly 60 to 70% of their revenue accruing from mobile games downloads. This revenue-sharing agreement restricts them to develop their own IPs and distribute them.

The Indian gaming industry is expected to witness large changes, primarily in the domestic market. Introduction of 3G and telcos focus on value-added services are expected to lead to exponential growth for mobile gaming in India. This will also lead to Indian gaming players moving up the value chain and getting involved in end-to-end game development and publishing. As the Indian market matures and gains expertise, Indian players will gain confidence of their foreign counterparts and attract greater percentage share of the outsourcing pie and co-publishing deals.

The online gaming market will grow due to increased internet penetration in India, introduction of broadband wireless access (BWA) and the growing trend of massive multiplayer online role-playing games (MMORGs). Presently, a majority of the gaming services revenues in India comes from outsourcing, especially for console, PC and online gaming. Currently, revenues from console game development services are derived by providing services to international companies. As per Nasscom, there is a significant difference in the production costs in India and the US. Game development in India saves more than 50% compared to the US.

The mobile gaming market in India, though growing fast, is still in its nascent stages, as compared to other geographies. India has one of the largest mobile consumer bases in the world and in the near future, this percentage count should increase.

Revenue distribution of animation & VFX sector



# Policies and regulations

The E&M sector can only realise its full potential over the next couple of years under the aegis of prudent fiscal legislation. The industry is expected to grow by 13.2% cumulatively over 2011-2015 to reach 1199 billion<sup>10</sup> INR facilitated by rebound in economic conditions and advertising spends. The industry can also realise double-digit growth over the next five years contingent on improvements in infrastructure which support a digital ecosystem, advertising trends and consumer spending on entertainment received through digital media.

As discussed earlier, revamped business models encompassing customer connect, content utilisation and cost of operations will be important to sustain the imperative innovations currently underway in social media, content provided by mobile operators, 3G services and the numerous television channels.

India is witnessing initiatives encouraging a digitised economy fostered by cooperation between the government of India, regulatory bodies and E&M companies. The government has rolled out a mandate for cable operators to adopt digital addressable infrastructure by 31 March 2015 to ensure digitisation and addressability in the television industry. The Supreme Court of India has issued an interim directive aimed at removing tariff hurdles. According to this interim directive dated 18 April 2011, the broadcasters are allowed to charge from direct-to-home (DTH) operators, internet protocol television (IPTV) operators and MSOs offering digital cable services, no more than 42% of the rates paid by analogue cable operators and non-CAS (conditional access system) players for television channels. This tariff order has replaced the 35% cap notified by the Telecom Regulatory Authority of India (TRAI) in July 2010 (which the broadcasters have been currently following) and the 50% by the Telecom Disputes Settlement & Appellate Tribunal (TDSAT) in July 2006<sup>11</sup>.

This increase in rate cap (which, according to industry estimates, accounts for around 40% of the total costs for DTH operators)<sup>12</sup> is not expected to benefit broadcasters in the near term as most of them have signed long-term commercial deals with DTH operators and these existing agreements will prevail.

While there have been constant confrontations on the differential tariff rates charged by broadcasters from the DTH, IPTV operators and MSOs offering digital cable services and the analogue cable operators and non-CAS players, it has been argued that broadcasters can offer concessionary rates to the DTH and IPTV operators as the subscriber declaration by them is more transparent as against rampant under-reporting by analogue cable operators, to the extent of 80%.

Regulations governing foreign investments in the radio, film and television industries have been reworked favourably by the government. Presently, FDI up to 100% is allowed in the film and advertising industry and 100% in TV broadcasting (except news). The government has also increased FDI limits for DTH and IPTV from 49 to 74% respectively.

Major policymaking bodies like The Ministry of Information & Broadcasting (MIB), in consultation with TRAI have charted a forward-looking framework of policies and regulatory norms for the Indian E&M industry. Amendments to the Cable Act, significantly charted transition phases for digitisation, increase in FDI limits and various other incentive structures will pave the way for the digital economy that the E&M industry needs to embrace. These policies will also facilitate the gradual acceptance of innovations supporting the digitisation wave, incorporating movements of the industry from MPEG2 to MPEG4 and complete integration of equipments to their HD-ready counterparts.

<sup>10</sup> PwC Analysis on the Indian E&M industry: <http://www.pwc.com/in/en/press-releases/the-indian-entertainment-and-media-industry-to-grow.jhtml>

<sup>11</sup> Icra analyst report on Indian television & broadcast industry

<sup>12</sup> Icra analyst report on Indian television & broadcast industry

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# The way ahead

According to a study done by PwC and Nordicity for the Ontario Media Development Corporation, digital transformation is touching the cultural media industries around the world in different ways, and the rate of change is staggering. Generally, the opportunities arising from the move to a digital economy include access to a global market, the development of new business models built around multi-format and multi-platform distribution and customer engagement, increased collaboration among actors in cultural media industries (industry firms, academic institutions, government), and lower barriers to entry for new industry players. At the same time, cultural media industries are faced with major challenges when transitioning and adapting to the digital world. First, access to additional financing to experiment with innovative ideas, invest in new digital tools and/or train and develop digital talent is one of the major challenges to the transformation of cultural media industries. Second, the lack of trained digital workers, both entry-level and senior staff, is a critical issue cultural media companies need to address to be successful in their digital transition. Third, cultural media industries need dedicated resources to experiment and innovate with digital initiatives, and those are often lacking. Lastly, access to distribution channels and consumer data is critical to the success in a digital economy and it remains a major challenge for most cultural media industries. These challenges will require creative approaches, based as much on the redeployment of existing resources as on accessing new ones.

Industry participants, we believe, should focus on the following factors to harness the above-mentioned drivers:

- Empowering the consumer
- Involving the advertiser
- Transforming the business organisation into a collaborative digital enterprise

## **Empowering the consumer**

Proliferation of digitised content has empowered the consumer to demand for content to be made available on their choice of platforms, be it tablets, mobiles or laptops. It has also opened up a world of information and entertainment at minimal costs or no cost at all.

However, funds required for reinvesting in creating newer experiences and content for the discerning consumer should be driven by innovative revenue generating models. The model should undergo a tectonic shift from offering the lowest paying consumer the widest choices to getting consumers to pay more for better quality and services that digitisation promises to bring to every household.

Digitisation also provides service and content providers with an opportunity to identify the appropriate target group benefiting from their efforts. Tracking consumer preferences as they move across various platforms will enable providers to involve consumers in redefining their business model. In terms of participation, consumers love playing an active role in shaping their content—and are happy to pay to do so. An example of this is the popularity of voting for contestants on reality shows. Social media platforms are essential for their participation. In terms of privilege, consumers would like unlimited access to content for free, but are happy to pay for services that provide additional value and the ability to ‘jump the queue’ such as special offers, advance information on discounts, etc. These attributes are needed to engage into sustained profitable relationships with consumers.

### ***Involving the advertiser***

As content providers have set about using creative and innovative thinking to drive digital revenues from consumers, advertisers and agencies too will need to follow suit, becoming increasingly sophisticated in identifying and exploiting new brand opportunities brought by digital content services and platforms. Advertisers will want more information and more verifiable return on investment from their ad spends.

While the current trend among industry players is to minimise their dependence on advertising-led revenue streams, they can actually enjoy a larger slice of the revenue pie by tracking consumer preferences and targeting viewers who prove most beneficial to their monetising strategies. Digitisation will enable them to channelise their spends towards a more differentiated audience.

TV advertising still remains key as one has seen the return on ad spend on TV during the economic recovery in a way that has not happened for the publishing media. One reason is that video content is by nature compelling and consumers are passionately attached to it. TV delivers an intensity of experience and an audience reach that other media struggle to match. Digitisation will also give way to an innovative business model benefiting broadcasters where they can reduce the burden of a carriage fee. This model will provide exclusivity of content and a 100% subscription-driven model and appeal to advertisers by creating the critical mass of audience they are looking for.

Other innovative mediums that advertisers can use to engage with consumers will possibly fall in the following categories:

- ***Mobility and social networking to connect with consumers***
- ***Branded digital entertainment:*** The consumer's rising receptiveness to branded entertainment is underlined by a number of studies that say that consumers are more likely to buy a brand that entertains them.
- ***Power of complementary cross-platform integration for driving deep content engagement:*** This is evident in video games, which have successfully tapped into every aspect of digital by incorporating compelling content, interactivity with social networks, exciting graphics and integration with mobile.

### ***Transforming the business organisation into a collaborative digital enterprise***

The forces affecting E&M companies, we believe, will lead to a new operating model, the Collaborative Digital Enterprise or CDE<sup>13</sup>. This operating model will enable companies to harness the three key drivers of digital, demand and data we highlighted earlier. The CDE will emerge in many sectors in the next few years, but the digitisation of content and surrounding experience—the core offerings made and delivered by the E&M industry—makes the model particularly effective for E&M companies. While CDE is a clear possibility in more digitally advanced countries, it may not be immediately true for India. However, we have seen situations change when appropriate infrastructure becomes available. The Indian industry should therefore perceive this opportunity as incremental as well as a hedge against the future. It may soon be time for action.

# *Notes*





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# ***About ASSOCHAM***

ASSOCHAM acknowledged as Knowledge Chamber of India has emerged as a forceful, pro-active, effective and forward looking institution playing its role as acatalyst between the Government and Industry. ASSOCHAM established in 1920 and has been successful in influencing the Government in shaping India's economic, trade, fiscal and social policies which will be of benefit to the trade and industry.

ASSOCHAM renders its service to over 4,00,000 members which includes multinational companies, India's top corporates, medium and small scale units and Associations representing the interest of more than 400 Chambers and Trade Associations from all over India encompassing all sectors.

ASSOCHAM has over 100 National Committees covering the entire gamut of economic activities in India. It has been especially acknowledged as a significant voice of Indian industry in the field of Corporate Social Responsibility, Environment & Safety, Corporate Governance, Information Technology, Agriculture, Nanotechnology, Biotechnology, Pharmaceuticals, Telecom, Banking & Finance, Company Law, Corporate Finance, Economic and International Affairs, Tourism, Civil Aviation, Infrastructure, Energy Power, Education, Legal Reforms, Real Estate, Rural Development etc. the Chamber has its international offices in China, Sharjah, Moscow, UK and USA. ASSOCHAM has also signed MoU partnership with Business Chambers in more than 75 countries.

## ***Contacts***

***DS Rawat***

Secretary General, ASSOCHAM

Phone: 011-46550555

Email Id: [d.s.rawat@assochem.com](mailto:d.s.rawat@assochem.com)

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Providing organizations with the advice they need, wherever they may be located, our highly qualified, experienced professionals, who have sound knowledge of the Indian business environment, listen to different points of view to help organizations solve their business issues and identify and maximise the opportunities they seek. Our industry specialization allows us to help co-create solutions with our clients for their sector of interest.

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