Research Paper Commerce

Growth Drivers and Challenges of the Indian Media and Entertainment Industry

* Dr Mahalaxmi Krishnan

* Associate Professor of Commerce, K J Somaiya College of Arts and Commerce, Mumbai

ABSTRACT

Globalization of the Indian economy and rapid advances in Information Technology, Communication and Electronics metamorphosed the Media and Entertainment Industry in India. The Industry is growing at a fast clip due to several favorable factors but there are also inhibiting issues which need to be addressed by the Industry and the government for sustained growth.

Keywords : Media and Entertainment Industry, Digital world, ICT, Leisure and Entertainment

Introduction

Indian Media and Entertainment (M & E) industry now finds itself in the vortex of digital media with increase in mass broadband led by the launch of 3G and 4G services. 90% of India's projected 187 million broadband subscribers are expected to access internet through wireless devices by 2015.

There is an explosion of news bulletins on various television channels in the last couple of years and special news channels. Major daily newspapers have further increased their circulation and readership. Radio and cinema got revived in recent years. Media is identified as among the top five priority sectors for investment. Press freedom is respected in India and there are fewer specific restrictions or regulations in India restraining media freedom. There has been a gradual shift from government ownership of mass and electronic media to private sector.

Radio and newspapers were the mainstay for the people of India till the 1970s. These were widely referred to as windows to the world. Media in India meant various newspapers in regional or vernacular languages which kept the common man informed about the political, cultural and local news. Nationalization of the banks in 1969 and the economic reforms since 1991 brought radical changes in mass media. There is a plethora of news sources ending the monopoly of a few newspapers and the print media. Rapid progress in ICT accelerated the process. TV channels, the internet and social media, networking, mobile telephony, etc. have made news easily accessible and readily available. Today news is accessible on the palm with press of a click. Average Indian's reliance on the media for news and views has gone up considerably resulting in mushrooming of newspapers, TV news channels, magazines, web sites and social media organizations.

Rationale for the Study

Economic liberalization, fast-growing middle class leading to a cascading demand for leisure and entertainment has enticed global media companies to scale up investments in India. This research paper looks at the change drivers and the challenges faced by this industry.

Objectives of the study

The objectives of the study are to examine the

i) Key change drivers
ii) Challenges faced by M & E Industry
iii) Government Initiatives

Research Methodology

This research paper is a desktop analysis of the media and entertainment industry in India based on published sources, both electronic and print. Data and information for the research study were gathered from secondary published sources viz., books, newspapers, periodicals, journals, web sites, and research studies. Critical qualitative analysis of the data and information from published sources were made keeping the objectives of the study in mind.

Findings of the study

Key Change Drivers

Forces of globalization, liberalization and privatization have resulted in big changes in the media and entertainment industry. Cascading innovations in technology and telecommunications brought metamorphic changes in the industry. The key change drivers are:

- rising consumer spending
- sustained increase in disposable incomes
- reduction in personal income tax over the years leading to additional incomes
- vast scope for media penetration in both urban and rural areas
- liberalization of foreign investments in sectors such as print media, radio, films, television and other related segments
- technology innovations
- revolutionary changes in telecommunications
- spread of education
- changing aspirations and lifestyles
- changing demography with a large youth population
- gender equality and
- pop culture

Media and Entertainment industry grows faster in an expanding economy. This is due to income elasticity wherein when income rises more of it is spent on leisure and entertainment than on necessities. Consumption spending also rises due to increasing disposable incomes on account of sustained growth in income levels.

Challenges faced by the M & E Industry

The major challenges faced by the industry are:

- Content guidelines: The contentious issue of content regulation needs to be addressed by the government and a consensus evolved with the industry in the absence of self regulation by the industry itself.
- Cross-media ownership: Media integration across segments is an essential tool for the media industry. By its very nature it could lead to anti-competitive behaviour hurting the entire value chain of the industry. Absence of cross-media ownership rules is affecting the industry inhibiting potential foreign investors in evolving their long-term investment strategy for India.
- Lack of empowered regulators: TRAI, the independent regulator, is only for television and radio. Their role has been restricted to providing recommendations on segment issues to the government. As a result the government has still not acted upon several recommendations of the regulator. Some of the key pending recommendations include 'digitalisation of cable TV', 'privatization of terrestrial broadcasting', 'licensing of satellite radio', 'issues relating to broadcasting and distribution of TV channels' of which 'addressability in distribution' forms a significant part impacting the largest segment of television, etc.
- Lack of uniform media policy for foreign investment: There is lack of a consistent and uniform media policy for foreign investment. Some of the inconsistencies include different caps in foreign direct investment in various segments such as

o Television distribution: DTH 49% (strategic FDI only 20%); cable 49% (ownership has to be with Indian citizens).

o Content (news): Television and print - 26%; Radio nil

o Content (non-news): Television and print - 100%; Radio 20% (only portfolio)

- Absence of Level playing field: Traditionally, most sectors of Indian M & E industry have operated under various agencies of the Indian government. Later these were opened to private sector in various stages. FM radio is a case in point where the incumbent All India Radio (AIR) was the sole player in the medium of both AM and FM radio broadcasting. Limited frequencies of FM broadcasting have been opened to the private players with a license fee, which is not currently applicable to the incumbent AIR. Likewise in television segment, all terrestrial broadcasting rights continue to be with the incumbent Doordarshan.
- Merging of the FII and FDI caps: This is one of the concerns afflicting the industry. While an FII invests primarily for quick appreciation of its invested capital rather than taking a longer-term view of the business, an FDI investor is more in the nature of a strategic investor and is in the business for the long haul. FDI in several cases is also accompanied with expertise (such as technology, technical know-how, etc.) being brought into the country that helps in the growth and development of the industry. The government policy does not provide environment conducive to encouraging strategic investors in making investments in the sector.
- Piracy: This is a major challenge faced by this industry impacting all segments of the industry especially music, films and television. The industry is making efforts to combat piracy. Lack of empowered officers for enforcement of anti-piracy laws is encouraging the menace of piracy. This, coupled with the lengthy legal and arbitration process, is a deterrent to fight piracy. Copyrights Act does not address the needs of the electronic media which has maximum instances of piracy. There is a need for Optical Disc Law to address the need for regulating piracy at the manufacturing stage.
- Price regulation in the television industry: Price controls set by TRAI limit a broadcaster's ability to shape their business model, based on market demand and the competitive environment. Market efficiency should be regulated through competition and not through price regulation.
- Tax treatment of foreign broadcasting companies: This is a major deterrent for foreign investment in the broadcasting sector in India. One of the major issues pertains to taxation of satellite segment usage fee paid by broadcasters to foreign satellite companies. Tax officials treat such payments as royalty income and tax the same on source rule basis though such satellite companies do not have any office or presence in India. In the case of foreign telecasting companies too though they do not have any office, business presence or operations in India, Tax officials have been arguing that foreign telecasting companies must have a permanent establishment (PE) in India on account of their agents selling air-time space to India advertisers. Another issue plaguing the industry relates to double taxation. Various bilateral conventions for the avoidance of double taxation do offer a process for re-mediation of double-taxation issues. But there are number of foreign broadcasting companies involved in double-taxation dispute cases in India which are impeding the Indian government's attempt to attract new investors.

Government Initiatives

Government is tilting towards digital making it compulsory to convert to digital addressable infrastructure by March 2015 in the entire country. The Ministry of Information and Broadcasting (I&B) is taking steps to provide financial incentives to ease the import of equipment, including set-top boxes, to assist in speeding up the process of converting India's cable TV distribution system from analogue to digital. Other steps include raising the foreign direct investment (FDI) limit for cable companies to 74% from current 49% and launching awareness campaigns on the merits of digital cable.

As a result of government initiatives and due to the technology enabled convergence of multiple media segments into single channel, the media and entertainment industry is a lucrative option for making investments. India's Silicon Valley is gearing up to have a film city on the lines of Hollywood. This project is built on the outskirts of Bengaluru by Nandi Infrastructure Corridor Enterprise (NICE). The Rs 1,000 crore (US$ 184.48 million) film city will come up on a 300 acre plot and will have around 20 studios with facilities similar to Universal, MGM and Disney studios. The year 2007-08 was marked by the entry of media and entertainment conglomerates - Viacom Inc., NBC Universal Inc. and Walt Disney Co - into India through partnerships with Network 18 Group, NDTV Networks Plc. and UTV Software Communications Ltd, respectively. Walt Disney Company (Southeast Asia) Pte Ltd, Singapore is increasing its shareholding from 48.02 per cent to 100 per cent of UTV Software Communications Ltd which result in FDI inflows amounting to Rs 8,250 crore (US$ 1.52 billion). Bharti Enterprises and Japanese internet company SoftBank have set up 50:50 joint venture (JV) firm - Bharti Soft-Bank Holdings, to work on mobile internet with an emphasis on e-commerce, gaming and social media.

Conclusions

Favorable investment climate that allow foreign investments, the digital lifestyle and spending habits of the consumers and technology advancements are great growth drivers for the industry. It should simultaneously address the challenges facing the industry so as to sustain the growth momentum.

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