

Business environment of indian entertainment industry



The liberalization efforts by the Indian government have resulted in the emergence of numerous sectors, which offer great possibilities for India's development. One such recent sector was interactive media and entertainment, along with information and communication technologies (ICTs). The entertainment and interactive media industry in India has been making headlines of late, not so much for its impact on the domestic market, but as a premier outsourcing destination for western entertainment companies. This paper examines the growth and development of the interactive media and entertainment industry in India. It discusses India's position and India's advantages in the global entertainment industry, the challenges that India faces in this industry, the path ahead, and opportunities for international collaboration in this sector.

The global film and entertainment industry was expanding fast. The Entertainment Council of Philippines estimates that the revenues from entertainment industry worldwide have been growing annually at 20% to 30% over the past few years. According to India's National Association of Software and Services Companies (NASSCOM), revenues from the global entertainment industry will amount to US\$50-US\$70 billion by end-2005. Today, entertainment products are increasingly used in films, TV programmes, commercials, games and online education. Following Walt DISNEY 1988 production Who Framed Roger Rabbit, worldwide interest in entertainment feature films has been rising. Four major entertainment movies released in 2004 collected record revenues. Children's channels across the world have seen their numbers rising ever so rapidly in the last few years. Entertainment products also have applications in the medical,

architecture, and legal fields. 1 the global non-entertainment entertainment industry, including work in scientific and medical entertainment, now accounts for revenues worth \$15 billion.

ENTERTAINMENT INDUSTRY

The Entertainment Industry in India though a late starter, was considered as one of the fastest growing segments of the entertainment and media industry. The Entertainment Industry in India gained significance as an outsourced destination for entertainment work due to low cost, skilled labour as its many advantages. In the recent past Indian entertainment companies and entertainment studios have been moving up the value chain to create their own intellectual property rights with Hanuman, Roadside Romeo, etc. and partnering with international studios to produce animated properties for the global audience. Though a majority of the work done by the entertainment industry in India was outsourced work, this was expected to change in the future with increased demand from the domestic entertainment industry. This industry can be categorized into four different components: Entertainment, education, content development and multimedia/web design. The entertainment market in India was relatively new compared to some other Asian countries. But it was among the fastest-growing in the Indian entertainment sector. With approximately 200 entertainment studios, India has emerged as a global outsourcing hub for entertainment technology services. The key drivers for the entertainment industry are the increasing domestic demand for entertainment movies and the increase in entertainment studios and training centers across the country.

MEANING OF PESTLE ANALYSIS

P-Political

E-Economical

S-Social

T-Technological

L-Legal

E-Environmental

Political factors are how and to what degree a government intervenes in the economy. Specifically, political factors include areas such as tax policy, labour law, environmental law, trade restrictions, tariffs, and political stability. Political factors may also include goods and services which the government wants to provide or be provided (merit goods) and those that the government does not want to be provided (demerit goods or merit bads). Furthermore, governments have great influence on the health, education, and infrastructure of a nation.

Economical factors include economic growth, interest rates, exchange rates and the inflation rate. These factors have major impacts on how businesses operate and make decisions. For example, interest rates affect a firm's cost of capital and therefore to what extent a business grows and expands.

Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy

Social factors include the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. Trends in social factors affect the demand for a company's products and how that company operates. For example, an ageing population may imply a smaller and less-willing workforce (thus increasing the cost of labour). Furthermore, companies may change various management strategies to adapt to these social trends (such as recruiting older workers).

Technological factors include ecological and environmental aspects, such as R&D activity, automation, technology incentives and the rate of technological change. They can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation.

Legal factors include discrimination law, consumer law, antitrust law, employment law, and health and safety law. These factors can affect how a company operates, its costs, and the demand for its products. Consumer protection laws are designed to ensure fair competition and the free flow of truthful information in the marketplace. These factors can affect how a company operates, its costs, and the demand for its products.

Environmental factors include weather, climate, and climate change, which may especially affect industries such as tourism, farming, and insurance. Furthermore, growing awareness to climate change was affecting how companies operate and the products they offer—it was both creating new markets and diminishing or destroying existing ones.

POLITICAL ANALYSIS OF ENTERTAINMENT INDUSTRY

Government Support

Mr. Kapil Sibal, Minister of State for Science and Technology, identified entertainment industry as one of the important sector for India's export oriented growth. ¹⁰ However, compared to governments in other countries; efforts by the Indian government to encourage the sector have been very minimal. The government of South Korea funds entertainment ventures on a partnership basis. ¹¹ Bangladesh has a World Bank-funded support programme for the entertainment industry. In contrast, there have not been many initiatives from the Indian government to promote the entertainment industry, at least till the past one year.

The Indian government signed co-production treaty with France about 20 years ago and efforts are on to reactivate it. A treaty was signed with the Italian government, which in turn sent a delegation to Goa. Efforts are also on to sign similar agreements with Britain, Japan, Brazil, Canada, Netherlands and China. These treaties will lead to sharing of costs by partner nations and also the dispersion of technical know-how amongst the partner nations.

New Government Initiatives

A 25-acre Special Export Zone (SEZ) was going to be constructed in the outskirts of Thiruvananthapuram exclusively for the entertainment industry. The commerce ministry was said to have approved the creation of the SEZ within the Film and Video Park (FV Park) set up by the Kerala Industrial

Infrastructure Development Corporation near Thiruvananthapuram. The state
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government was said to have created a 15, 000 sq meters entertainment facility to welcome entertainment houses to create their bases. The FV Park made a good start when the Chennai-based Prasad Labs has made it its base to process all Malayalam films for the next two years. Kerala has been making efforts at convergence in the areas of information technology and cinema. The Entertainment Production Association of India recently suggested to the Information and Broadcasting Ministry of India that all TV channels must ensure 10% reservation for local animated content. The government can further encourage investments and participation in this sector by providing tax benefits. It can provide grants to Indian animators for participation in international conference and for taking up training programs abroad

2. ECONOMICAL ANALYSIS OF ENTERTAINMENT INDUSTRY

India's attractiveness as an entertainment hub lies in the presence of an English-speaking workforce, high-quality software engineers, a large pool of creative talent, good studios and low costs. The cost of producing a 30-minute 3D entertainment programme in India was US\$60, 000 compared to US\$250, 000-400, 000 in the United States and Canada. India has a cost advantage compared to the Philippines, which was another low cost producer of entertainments. The average monthly salary of an entertainment professional in India was US\$600 compared to US\$1, 000-US\$1, 200 in the Philippines. The cost of outsourcing one hour of entertainment work to India was estimated to be 30% to 40% of the corresponding costs in leading entertainment centres in Korea, Taiwan and the Philippines.

India's advantages in low costs have been exploited by many multinational firms and production studios. The advent of digital entertainment coincided with the liberalization of the Indian economy and India offered the benefits of lower production costs, strong creative and technical skills and a large English speaking population. This has led to the development of state of the art entertainment studios in several Indian cities, and these studios are collaborating with global entertainment companies.

FACTOR THAT AFFECTING THE ECONOMIC GROWTH OF ENTERTAINMENT INDUSTRY

Lack of Finance

Indian entertainment firms cannot match their western counterparts in financial strength. It was pointed out that state support in the form of tax holidays was crucial for success in the entertainment business. Canada, for example, offers major incentives to its studios for developing entertainment products. However, financial institutions in India have not been much forthcoming in funding projects in entertainment and interactive media. The long gestation period before fruition of projects discourages potential investors. This can be a major hurdle, and it has, in fact, led to the stoppage of a few production ventures. For example, Jadooworks had to stop production of animated epic of Krishna due to technical problems and lack of funding. The firm was supposedly on the verge of bankruptcy and this has led to the retrenchment of about 250 workers. 7 Interestingly, Jadooworks was the same firm which drew appreciation from Thomas Friedman in an article in February 2004 for employing traditional artistes and transforming

their skills to computerised digital painting – he was arguing that globalisation can have beneficial impact on traditional artworks. 8

The experience of Jadoo works underlines the fact that it was still too ambitious for Indian companies to single-handedly enter into entertainment projects. Even a small project in the entertainment industry entails a budget of US\$30 million, which was not affordable for Indian firms.

3. SOCIAL ANALYSIS OF ENTERTAINMENT INDUSTRY

Entertainment Products for Illiterates

The interactive media and entertainment industry in India has a large domestic market too to tap on. A field-study based research conducted by one of the authors in July-August 2004 on the diffusion of ICTs in India's rural areas offers some interesting results in this regard. 6 The study showed that television was a highly popular medium as a source of information in the Indian countryside, as it combines visual and audio effects and was less demanding of the cognitive skills of the user. Almost 35 per cent of India's over 1 billion population was illiterate. There was great demand from this segment of Indian population for an innovative medium that facilitate communication and information sharing, while at the same time, being easily accessible to the masses via the television. Products of interactive media and entertainment can fill this demand gap to a large extent; they can be great tools for education, entertainment and awareness among illiterates in India's rural and urban areas.

SOCIAL FACTORS AFFECTING FILM AND ENTERTAINMENT INDUSTRY

The Indian Entertainment industry: Facing the manpower challenge

Despite the impressive growth forecasts, the Indian Entertainment and Gaming industry will account for less than two percent of the worldwide market in 2010. Obviously a much larger opportunity exists beyond what was currently being envisaged and the potential remains high. India can participate in a more significant way in the global Entertainment market, provided the country has built up requisite manpower, with the relevant expertise, to fuel its growth. According to analysts, India has the potential to grow its Entertainment industry to around US\$ 1 billion by 2010, but will remain restricted to US\$ 869 million on account of a looming demand-supply gap in the area of employable human resources.

A similar situation exists in the gaming segment as well, which has the potential to achieve revenues of US\$ 732 million by 2010, but was expected to touch only around US\$ 424 million by that period, owing to the paucity of skilled manpower.

The employment statistics for the Indian entertainment and gaming industry during 2006 were as follows:

Around 16, 500 professionals were employed by the Indian Entertainment industry during 2006.

This figure was forecast to increase at a CAGR of 14-15 percent and exceed 26, 000 by 2010.

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There were nearly 150 gaming companies in India, employing about 2, 500 people.

This number was forecast to increase at a CAGR of over 50 percent to exceed 13, 000 by 2010, with the industry revenue forecast to grow nearly ten-fold and reach US\$ 424 million.

4. TECHNOLOGICAL ANALYSIS OF ENTERTAINMENT INDUSTRY

While it was true that India's entertainment industry was growing at a remarkable pace, the fact remains that this growth was largely a result of the mushrooming of " studios-for-hire." In entertainment feature films, for example, while Indian companies carry out the technological entertainment work, character design, and storyboarding are done abroad. India was yet to become a successful player in concept creation, the high value-adding segment of the industry which remains a preserve of western firms. India's advantages of low costs in this industry will be too short-lived, and sooner rather than later, the country will have to start developing new technologies.

Skills

The entertainment industry was still young. Indian cinema was yet to make its mark on the global stage. The booming entertainment outsourcing industry was constantly demanding new skills and fresh infusion of new talent into the industry. As such, it was imperative that we have a healthy pipeline to supply talent to the industry. Skills required in the entertainment field can be clubbed under two broad categories, mainly technical skills and soft skills. Programming expertise, analytical ability, and proficiency on the

software are basic requirements for technical skills. The number of professionals joining the entertainment industry has been growing at a compound annual growth rate (CAGR) of 18.2 percent and was expected to grow at the same rate. Though India possesses the manpower with the requisite skill set, what remains an area of concern was the education imparted to this manpower from the quality perspective. This has resulted in mushrooming of multimedia institutes. What was interesting was that quite a few reputed organizations have come forward and started a chain of multimedia institutions for two reasons. One, they can use the trained professionals for in-house entertainment development and secondly, use this education channel for market diversification and penetration. However, companies need to invest considerable time and money in bringing these students up to the levels where they start earning revenue for the organization.

Need For technological training to employees

“ There are no academic institutes like Indian Institutes of Technology, Regional Engineering Colleges, Polytechnics, etc., churning out animators by the thousands. What we have are only fine arts schools which teach the fundamentals but not the technical skills required for production,” points out K. Chandrasekhar, General Manager, Media Works, and Tata Elxsi. According to him, this was a major drawback for the industry in India.

Education in new media has to be embedded into the mainstream curriculum. Students have to realize that they can have a lucrative career as animators, and the governments as well as educational institutions have to start programmes for their career development. The entertainment sector

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will benefit greatly by giving encouragement to the community of traditional artists as much as to technically trained professionals. In other words, integration of the rural and urban talent will prove highly beneficial. Also, NASSCOM's President Kiran Karnik believes that there was a need for an entertainment academy to build a steady inflow of entertainment professionals in the industry. NASSCOM extended its help to the government for framing the curriculum and also work with the industry players to enhance the academic-industry interface.

5. LEGAL ANALYSIS OF ENTERTAINMENT INDUSTRY

Intellectual property

Outsourcers have always been concerned with the protection of their intellectual property in India. India was one of the few countries which have failed to take stern action against its infringement. India needs to strengthen its IP policy and ensure that companies operating in the outsourcing sphere take stringent steps to take care of clients' IP rights.

International Cooperation in the Entertainment industry

The Indian government was signing co-production treaties with other countries. Professional organisations too are trying to promote the Indian entertainment sector abroad. ASIFA, India, organises film festivals, conducts workshops and entertainment film competitions at the international level. Kahani and Entertainment Bridge have showcased their entertainment shows at Cannes Mipcom (a summit where mobile, broadband and interactive professionals from 95 countries interact with broadcasters, producers and distributors) in October 2005.

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X-media Lab has been floated to help local, independent digital media producers reach their ideas successfully to the market with assistance from outstanding international new media professionals, who act as mentors to the companies and project teams. The second lab held in Singapore from 17 – 19 November 2005, “ Creating Successful Computer Games”, attracted worldwide response. Indian developers have also been invited to interact with eight of the best games people in the world. There was also a plan to do a lab in India next year. 14

According to Mohit Anand, Country Manager, Microsoft Entertainment and Devices Division, Microsoft India, “ Gaming in the last 7-8 years has really come a long way but it still has a long way to go. Critical factors like PC penetration, organised retail, broadband, and gaming hardware need to be addressed to help the industry. Those factors are gradually changing and the future definitely looks bright. India was the youngest country in the world, and the new generation was completely tech savvy. We believe that gaming was definitely here to stay and evolve.” 15

What are the opportunities for engagement between India, Singapore and other Southeast Asian countries in the field of interactive media and entertainment industry? To begin with, Singapore and Southeast Asia will be an important market for products from India’s entertainment industry.

Singapore has significant expertise in telecommunication and media industry. Harnessing the favourable trade and investment climate offered by the Comprehensive Economic Cooperation Agreement between the two countries, firms in Singapore should consider investing in India’s

entertainment and media business. Maya Academy of Advanced Cinematic, a <https://assignbuster.com/business-environment-of-indian-entertainment-industry/>

leading player in the Indian entertainment industry, was planning to extend its operations to Singapore. It was currently working on a project for BBC and has also been involved in the video games division.

Entertainment was one of the fastest growing sectors in India-ASEAN relations. The entertainment industry was expected to grow at a compound annual growth rate of 20 percent from 2002 to 2007. The entertainment industry, with total revenues of US\$3.6 billion in 2002, was projected to grow up to US\$8.7 billion by 2007. ASEAN was a big market for Indian films. There are tremendous collaboration opportunities between India and ASEAN in the area of 3D entertainment, graphics, etc.

The Philippines was, until recently, a fast growing entertainment industry, rich in creative talent, and it was a major destination for outsourcing by entertainment firms in the United States. However, with rise in costs, the entertainment industry in the Philippines has begun to decline, and Filipino workers in the industry have been migrating to India and Singapore in search of jobs. India, the Philippines, Singapore and even China must realize that there was little to be gained in the entertainment industry in the long run by competing with each other on costs. Rather, they should seek avenues for cooperation, and direct their efforts at acquiring intellectual property rights in this creative industry.

6. ENVIRONMENTAL ANALYSIS OF ENTERTAINMENT INDUSTRY

Ability to scale operations. Indian firms are facing a talent shortage which affects their ability to scale up their operations based on client demands.

This also affects the client's confidence in off shoring large chunks of work. Though Indian companies have put in place huge expansion plans, these are often marred by various reasons. Tie-ups with educational institutes are helping overcome thwas difficulty.

Opportunities in Collaborations

Indian companies are trying to improve quality and making attempts to compete globally with the market leaders in the industry. It was said that the year 2004 was a watershed for the Indian entertainment and gaming industry (according to the Federation of Indian Chambers of Commerce and Industry [FICCI] report on the Entertainment Industry). The year was marked by increased use of entertainment in the Bollywood segment. According to the FICCI report, the increasing demand for downloads of games on mobile phones will enhance the opportunities for gaming companies and bring in new entrants.

Several Indian companies are entering into collaborations with foreign new media companies, which outsource their work to the Indian companies. Recently, Toonz Entertainment floated a joint venture with First Serve International LLC, a global media company which aims to produce and distribute top-notch entertainment programming for the world market. The new venture will be headed by former Walt Disney executive Ed Bordering. In 2004, a Chinese company also invested in India Games Ltd.

Toronto-based entertainment Products Company Kahani was collaborating with Mumbai based Entertainment Bridge. In this venture, Kahani was expected to invest US\$30-US\$40 million over the next three years to engage

in film production. The storylines and scripts will be completed in Canada whilst product development and promotion are expected to be done in India. The company was also planning to tie up with Bangalore and Hyderabad-based studios. Zee's entertainment arm, Padmalaya Telefilms, has signed a US\$14 million contract with Italian producer-distributor, Mondo TV, to co-produce four new animated series. Padmalaya also has collaborations with British entertainment companies Mallard Media and Ealing Entertainment.

CONCLUSION

The Indian interactive media and entertainment industry has seen tremendous growth in the last year or so. It was fast emerging from being an outsourcing destination for western entertainment companies to develop and showcase its own capabilities and potentials. The emergence of various industry-related organizations and companies, and the availability of affordable and talented expertise, point to tremendous potential this sector has to offer.

Whilst there are internal challenges to the Indian interactive media and entertainment industry, given the efforts being undertaken by the government and like-minded organizations, it will be sooner rather than later, that India lays a strong claim as a major international player in this industry. It was thus opportune for Singapore and countries in the region to identify potential opportunities for collaboration so that we are able to ride on the waves of the Indian interactive media and entertainment industry.