



The Future : now streaming

KPMG - FICCI
Indian Media and Entertainment Industry Report 2016

#KPMGMediaOutlook



The Indian media and entertainment industry: Size

| Overall industry size (INR billion) (For calendar years) | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Growth in 2015 over 2014 |
|---|------------|------------|------------|------------|--------------|--------------|--------------------------|
| TV | 297.0 | 329.0 | 370.1 | 417.2 | 474.9 | 542.2 | 14.2% |
| Print | 192.9 | 208.8 | 224.1 | 243.1 | 263.4 | 283.4 | 7.6% |
| Films | 83.3 | 92.9 | 112.4 | 125.3 | 126.4 | 138.2 | 9.3% |
| Radio | 10.0 | 11.5 | 12.7 | 14.6 | 17.2 | 19.8 | 15.3% |
| Music | 8.6 | 9.0 | 10.6 | 9.6 | 9.8 | 10.8 | 10.2% |
| OOH | 16.5 | 17.8 | 18.2 | 19.3 | 22.0 | 24.4 | 10.9% |
| Animation and VFX | 23.7 | 31.0 | 35.3 | 39.7 | 44.9 | 51.1 | 13.8% |
| Gaming | 10.0 | 13.0 | 15.3 | 19.2 | 23.5 | 26.5 | 12.8% |
| Digital Advertising | 10.0 | 15.4 | 21.7 | 30.1 | 43.5 | 60.1 | 38.2% |
| Total | 652 | 728 | 821 | 918 | 1,026 | 1,157 | 12.8% |

Source: KPMG in India analysis, 2016

Advertising revenues: Size

| Overall industry size (INR billion) (For calendar years) | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Growth in 2015 over 2014 |
|---|------------|------------|------------|------------|------------|------------|--------------------------|
| TV | 103.0 | 116.0 | 124.8 | 135.9 | 154.9 | 181.3 | 17.0% |
| Print | 126.0 | 139.4 | 149.6 | 162.6 | 176.4 | 189.3 | 7.3% |
| Radio | 10.0 | 11.5 | 12.7 | 14.6 | 17.2 | 19.8 | 15.3% |
| OOH | 16.5 | 17.8 | 18.2 | 19.3 | 22.0 | 24.4 | 10.9% |
| Digital Advertising | 10.0 | 15.4 | 21.7 | 30.1 | 43.5 | 60.1 | 38.2% |
| Total | 266 | 300 | 327 | 363 | 414 | 475 | 14.7% |

Source: KPMG in India analysis, 2016

- Television registered a 14.2 per cent growth led by strong growth in advertising at 17 per cent on the back of increased Ecommerce spends and renewed spending by other sectors such as Auto, Telecom, Mobile handsets, etc. Subscription revenue growth at 12.8 per cent was slower due to delays in Phase 3 digitisation and further delays in availing the on ground benefits of Phase 1 and 2 digitisation.
- Print saw a slower growth at 7.6 per cent, coming off an election year though increased cover prices partially contributed to growth.
- Films grew at 9.3 per cent but the underlying fundamentals were mixed with Hollywood and Regional releases contributing to growth while Bollywood had a flat year.
- Digital Advertising continued its strong run with a 38.2 per cent growth over 2014 as a growing internet user base and usage was supplemented by increased spend allocation by marketeers. Increasing share of mobile and video advertising is a prelude of things to come.



The Indian media and entertainment industry: Projections

| Overall industry size (INR billion) (For calendar years) | 2016P | 2017P | 2018P | 2019P | 2020P | CAGR (2015-2020) |
|--|--------------|--------------|--------------|--------------|--------------|------------------|
| TV | 617.0 | 709.6 | 823.3 | 956.8 | 1097.6 | 15.1% |
| Print | 305.2 | 329.6 | 355.9 | 383.6 | 412.5 | 7.8% |
| Films | 158.7 | 174.1 | 190.0 | 207.8 | 227.3 | 10.5% |
| Radio | 23.4 | 28.4 | 32.7 | 37.8 | 43.3 | 16.9% |
| Music | 12.1 | 14.0 | 16.1 | 18.4 | 20.6 | 13.8% |
| OOH | 28.3 | 31.6 | 35.4 | 40.0 | 45.2 | 13.1% |
| Animation and VFX | 58.3 | 67.1 | 78.1 | 91.3 | 108.0 | 16.1% |
| Gaming | 30.8 | 34.4 | 39.0 | 45.4 | 50.7 | 13.9% |
| Digital Advertising | 81.1 | 113.6 | 153.3 | 199.3 | 255.2 | 33.5% |
| Total | 1,315 | 1,502 | 1,724 | 1,980 | 2,260 | 14.3% |

Source: KPMG in India analysis, 2016

Advertising revenues: Projections

| Overall industry size (INR billion) (For calendar years) | 2016P | 2017P | 2018P | 2019P | 2020P | CAGR (2015-2020) |
|--|------------|------------|------------|------------|------------|------------------|
| TV | 210.3 | 241.8 | 275.7 | 319.8 | 364.5 | 15.0% |
| Print | 204.0 | 221.7 | 241.6 | 263.3 | 285.8 | 8.6% |
| Radio | 23.4 | 28.4 | 32.7 | 37.8 | 43.3 | 16.9% |
| OOH | 28.3 | 31.6 | 35.4 | 40.0 | 45.2 | 13.1% |
| Digital Advertising | 81.1 | 113.6 | 153.3 | 199.3 | 255.2 | 33.5% |
| Total | 547 | 637 | 739 | 860 | 994 | 15.9% |

Source: KPMG in India analysis, 2016

The Indian M&E industry is expected to grow at a CAGR of 14.3 per cent to INR2260 billion by 2020 with advertising revenues expected to grow to INR994 billion at a CAGR of 15.9 per cent.

- Television is expected to grow at a CAGR of 15.1 per cent as advertising revenues will continue to show robust growth though delays in digitisation would mean that subscription growth would be slower than anticipated earlier.
- Print growth, expected at 7.8 per cent CAGR continues to be driven by growing regional markets with rural demand expected to be strong on the back of multiple government initiatives supplemented by headroom for circulation growth.
- Films are expected to grow at 10.5 per cent CAGR though largely on the back of growing acceptance of Regional and Hollywood content. Lack of screen density is a key constraint to sustained growth especially for Bollywood content.
- Radio at CAGR of 16.9 per cent is expected to show the strongest growth among the traditional sectors due to conversion to a reach medium in the long term supplemented by increased ad inventory.
- Digital advertising will continue to grow at a high CAGR of 33.5 per cent with a shift towards mobile and video advertising on the back of increase in mobile users and improved digital infrastructure. By 2020 it is expected that digital advertising will be INR255 billion and contribute to 25.7 per cent of total advertising revenues.



Underlying themes and growth drivers

The digitisation process continues to face delays

- Phase 3 digitisation failed to meet its deadline with around 76 per cent of boxes seeded by December 2015. While the government has not officially extended the timelines, the process has slowed down due to multiple court cases challenging the process. Further, benefits of Phase 1 and 2, particularly on ARPU have failed to materialise due to a number of on ground challenges across the distribution value chain. This resulted in a slowdown in subscription revenue growth in 2015. Our expectations over the next five years have also been toned down to reflect this delay.
- During 2015, the various stakeholders played out a waiting game, by entering into long term fixed fee deals for content and carriage primarily from a perspective of ensuring visibility of revenues and costs thus leaving the MSOs free to focus on completing seeding of set top boxes for Phase 3 and 4. We expect that once the seeding is complete, the various stakeholders will be back on the table to negotiate roll out of other aspects of digitisation such as addressability, gross billing, per subscriber billing, roll out of packaging etc.

Rollout of BARC was a landmark event

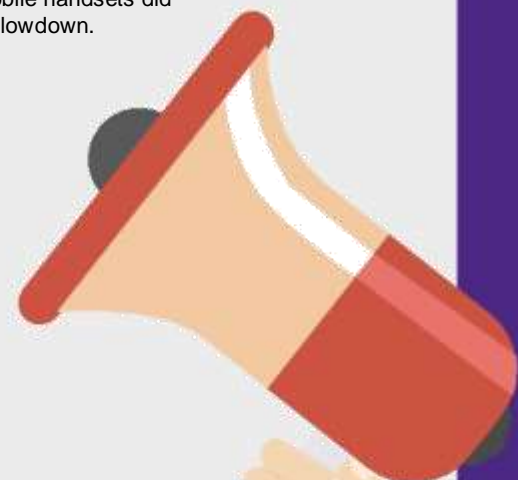
- The implementation of the viewership measurement system by BARC, was a major theme in 2015. While inclusion of rural markets and increase in sample size led to a reshuffle in the rankings of channels, particularly highlighting the viewership of free-to-air channels, there was no immediate impact on advertising (ad) budget allocations among channels or genres. Going forward, sustained trends in ratings could lead to advertisers re-thinking their ad spend mix and broadcasters their content strategy.

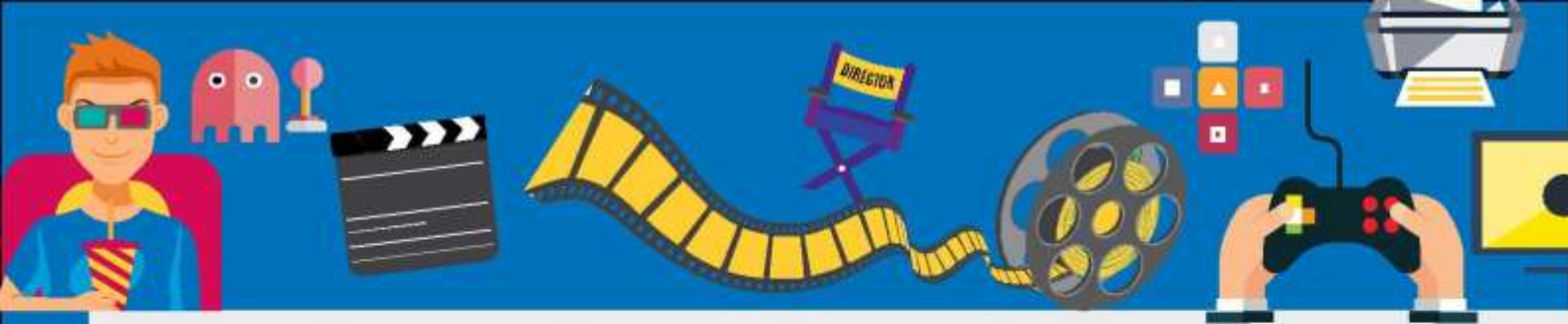
Growing prominence of ecommerce advertising

- The ecommerce segment continued to aggressively chase market share by continuing to spend on customer acquisition. A slowdown in investment sentiment meant that while there was a reduction in spend by the smaller ecommerce companies, the growing spends by large players such as Amazon, Flipkart, Snapdeal, Paytm, Olx and Quikr more than offset this reduction.
- Ecommerce ad spends initially focused on digital platforms, but over the last couple of years, there has been significant increase in ad spends across Television, Print and Radio. However, most of these spends have been largely concentrated on national networks and have not percolated down to regional markets. It is expected that ecommerce will continue to be an active advertiser across platforms with spends being concentrated among the large ecommerce players and increasing focus on regional markets.

Regional continues to drive Print growth

- Print witnessed a marginal slowdown in 2015 coming off an election year with both Hindi and Vernacular markets surprisingly growing at a slower pace, though increased spends by Ecommerce, Telecom and Mobile handsets did help in partially arresting the slowdown.





- However, as English and National markets saturate, the Regional story continues to dominate strategies of Print players and will continue to be the key growth driver. As companies are increasing their focus on tier-II and tier-III cities, and rural areas, hyperlocalisation is emerging as an effective theme among print players and advertisers.
- Government initiatives designed to increase rural incomes will also increase long term spending power and contribute to the advertising potential of these markets. Further, in 2015, while most companies in Hindi and Vernacular markets increased cover prices, there continues to be sufficient headroom for continued growth in cover prices.

Emerging shift in films in favor of Hollywood and Regional content

- Coming off a poor year in 2014, the Films segment grew by 9.3 per cent during 2015 hiding a key theme which could be a portent for the future. The growth was primarily driven by strong performance by Hollywood and Regional content which offset another weak year for Bollywood.
- Bollywood, particularly, is constrained by slow pace of screen growth and inconsistent quality and has been facing increasing competition from Hollywood and Regional content. Enhanced distribution reach, tent pole franchise movies, supported by allowing content to play in non DCI compliant screens has opened up a substantial portion of Indian audiences for Hollywood content. Regional content on the other hand has seen growing budgets, increased distribution and marketing spend allowing wider audiences to access the content.

Radio is becoming a 'Reach' platform

- Radio continued its strong run with a 15.3 per cent growth in 2015. Following the new stations licensed in Phase 3 and consolidation in the industry, Radio is transforming from a 'coverage' media to a 'reach' platform. Major radio stations have been operating at high ad inventory utilisation levels and this coupled with the growing advertiser interest has enabled increase in ad rates. Release of additional inventory from launch of new stations will stabilise rates but result in continued advertisement inventory pick up.
- The first batch of Phase 3 auctions raises some concerns given that while major cities witnessed a bidding frenzy, a number of smaller cities were not picked up in the auction amid fears of high reserve prices and weak market potential. This raises concerns on not only the economics of the new channels but also could potentially dilute the interest levels on the second batch of the Phase 3 auctions. The government has not yet announced the dates for these auctions.

OTT – building for the future

- While there is a significant level of interest in building out OTT platforms, viability in the short term remains a concern given bandwidth constraints, high cost of customer acquisition, dependence on advertisement led models and high cost of data access.
- However, all of this is set to change, starting with expansion of the digital infrastructure with 4G rollout, government's Digital India campaign and multiple private initiatives around broadband and public wifi. The 4G market is expected to be highly competitive and will likely result in lowering of data costs. Coupled with increased penetration of smartphones, we expect that consumers will become used to viewing content beyond the Television screen, paving the way for digital dedicated content and innovative monetisation models.




Sports is looking beyond cricket for growth

- Cricket continues to be the primary driver of viewership, with marquee properties such as IPL and World Cup, witnessing growth in both ad rates and sponsorships. However, the last couple of years has seen the launch of various sporting leagues across varied sports such as Kabaddi, Football, Tennis etc. Kabaddi in particular has seen strong audience and brand response prompting the league owners to make the tournament a bi-annual affair to leverage on its popularity.
- As ownership of cricket as a platform becomes more expensive, we expect brands in India to start investing into other sports. However, building out non cricket sporting leagues will require long term vision and investing strategy to first drive sustained viewer interest before they become attractive to brands

In conclusion, the underlying fundamentals of the M&E industry have not changed with continuing robust domestic demand and strong advertiser interest. There are also a number of systemic matters that need to be addressed and resolved such as completion of cable digitisation, increasing access to content for film audiences, Phase III auctions for Radio etc, which could have a significant positive impact on the long term growth potential of the M&E sector.

While we remain bullish on the growth of the sector, it should also be noted that we are on the cusp of a technological revolution which could dramatically change consumption patterns in the long run. Though this will present significant challenges to existing business models, there are also significant opportunities which could far outweigh the risks. However, to leverage these opportunities, the M&E industry needs to invest for the future and be willing to look dispassionately at the changes that will be required in both mindset and approach.





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Out of Home

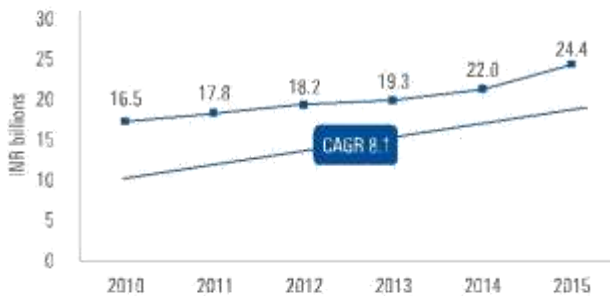
Driven by transit





Outlook for the year

OOH industry size



Source: KPMG in India analysis and discussions

In 2015, the Out Of Home (OOH) industry in India received a boost by a combination of factors including new categories spending on OOH media, E-Commerce and M-Commerce. The current year's growth of 13 per cent¹ was driven mainly by automobile, e-commerce and telecom sectors with the different formats benefitting. The overall spend on OOH out of the total advertising pie was 5.4 per cent which is higher as compared to the previous year¹.

Billboards continue to dominate the OOH landscape. Street furniture however has declined from 20 per cent five years back to about 5 per cent now¹. The media formats that have emerged as clear 'growth formats' are ambient and transit. The new metro lines, malls, corporate parks and world-class airports have given a new boost to OOH advertising. It is no surprise that airports, transit and ambient together account for 37 per cent of revenue share and this segment is posting steady growth¹.

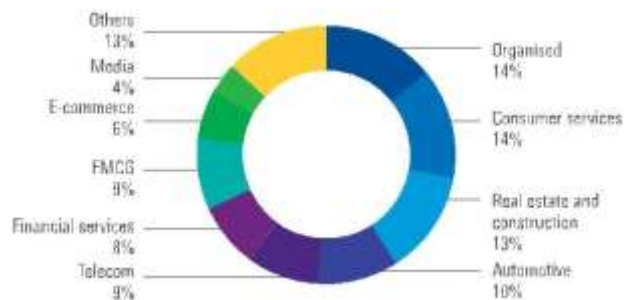
OOH format-wise revenue split 2015



Source: KPMG in India analysis and discussions

In terms of brands, Housing.com, Aakash Institute, Kalyan Jewellers, Bhima Jewellers, Tanishq and Malabar Gold from the jewelry category and Flipkart, Quikr from the E-Commerce category made it to the list of top ten spenders in OOH in 2015². In 2014, Vodafone, Tanishq and Big Bazaar were listed in the top three positions for maximum space in OOH, they were replaced by Housing.com, Amazon and Flipkart in 2015². Vodafone, OLX, Idea, Big Bazaar and SBI Home Loans which were in the top ten brands list in 2014 did not make to the list in 2015².

Sectorwise OOH split 2015



Source: KPMG in India analysis and discussions

01. KPMG in India analysis and discussions

02. These Brands have maximum OOH Spends and Space in India - 2015, <http://www.allaboutoutdoor.com/news-detail.php?mid=4509>, accessed on 18 March 2016

While retail, consumer services and real estate held strong, the growth story was scripted by advertisers from e-commerce, automobile and telecom. In terms of city-wise split, Mumbai was the major contributor to OOH revenues (22 per cent)³ followed by Delhi (19 per cent)¹. Bengaluru has replaced Kolkata in the third place as compared to the previous year with a contribution of 10 per cent³. With a growing impetus on e-commerce, the expected launch of automobiles throughout the year, and signs of a strengthening economy, leading to increased ad spends, 2016 is expected to see sustained growth for the sector.

As in the earlier years, challenges such as lack of a measurement metrics, fragmentation and slow adoption of technology (such as digital OOH) continued to be sore points for the industry. However, industry players are working with Indian Outdoor Advertising Association (IOAA) towards building an Audience Measurement System for Outdoor Media and if successful, could be a game changer. Also, digital OOH is slowly gaining momentum especially through transit media in metro cities.



The time has come for all the stakeholders in our industry to set aside their personal agendas for some time and focus on the industry and a step in that direction has been taken by the signing of the MOU between Advertising Agencies Association of India (AAAI) and IOAA.

**Soumitra
Bhattacharyya**
Chief Executive Officer
Madison Out of Home

What's trending: How technology is changing outdoor advertising

Technology is continuously evolving and advancing and changing the way one does business. For years, the only real form of outdoor advertising was billboards. The images, placed alongside highways, made it possible to pass along a message in order to help draw attention to a particular product or service, but ultimately, it allowed individuals to receive the message only if they drove past the sign and if they actually paid attention to what it said. Technology has drastically changed the way one might treat outdoor advertising, and businesses are now looking at potentially purchasing advertisement space and what different types of options are available and how these can impact businesses. Some of the key technology trends in outdoor advertising are as follows:

Interactive advertising

Globally, interactive advertising is a fast evolving trend, its major differentiator as compared to traditional media is the ability to allow consumers to interact and select the relevant content of the advertisements as against traditional media that distributes mass messages. In case of an interactive advertisement customers interact with the medium which gives more time for the advertiser to communicate its message. For instance, a telecom company launching its new services can put an interactive billboard to give details regarding its new services, rates, data and voice plans, etc. and customers can filter the content based on their requirement. Interactivity in the outdoor sector is one of the latest developments which aims at putting the consumer at the centre of the campaign. The emergence of interactive outdoor advertising has witnessed the merging of experiential marketing with traditional posters, creating an impact by which this medium can be measured.

Despite its performance globally, in India interactive outdoor advertising is at a nascent stage, the use of interactive outdoor is limited to a few industries. Indian advertisers have not yet commenced using the concept of interactive outdoor advertising with real time content, there are few issues related to the use of interactive outdoor; mainly cost mixes i.e. interactive is a costly media and the OOH allocation of the overall advertising pie is usually too little to use interactive outdoor. However, there are few instances where interactive outdoor was successfully used in India for instance Colors for their reality series 'India's Got Talent' wherein people were able to interact with the billboard and anybody could call with their mobile phone and activate events on the billboard⁴. In India, although currently the use of interactive outdoor is relatively scarce but in the coming years with technological advancements and the rise of new industries, the use of this technology is only likely to increase.

03. KPMG in India analysis

4. 8 near-future trends set to change out-of-home advertising, <http://www.digitalsignagetoday.com/articles/8-near-future-trends-set-to-change-out-of-home-advertising/dated-15-February-2016> accessed on 8 March 2016

Precision targeting with data analytics

Over the past couple of years, broadband networks and low-cost flat-screen televisions have enabled static billboards to change into fluid displays that can be changed at low cost multiple times each day. The widespread adoption of smartphones has enabled the simple billboard to become a portal for direct communication between the advertiser and target audience. An advertisement can encourage the viewer to send a text message for more information; it can include a quick response code or a near field communications (NFC) chip that can be used to push down more information to the mobile device. Until recently, advertisers' options for choosing locations for their OOH advertising were limited, they would look at the location of the bus stop, train station or taxi stand and they would survey people at those locations to build a profile of the average passer-by. Now with innovative geo-location analytics tools, advertisers can choose the location and content of messages based on the near-real-time knowledge of consumer profiles and locations. Companies planning OOH advertising campaigns can now get accurate information on the number of people at any location, by the time of day or day of the week. They can also understand the age group, gender or demographic they belong to. By applying the science of data, there is the opportunity to achieve precise targeting with OOH advertising, resulting in potentially more effective campaigns and improved Return on Investment (ROI) on marketing budgets.

The road ahead

OOH industry size



Source: KPMG in India analysis and discussions

The road ahead for Indian OOH industry is stimulating, many factors are expected to drive growth for the sector. Firstly, development in infrastructure such as roads, railways, airports is likely to lead to the share of digital screens increasing manifold not only in metro cities but also in Tier II and Tier III cities; also reduced costs to produce LED screens is likely to give the segment a much needed impetus. The Airports Authority of India (AAI), has plans to functionalise almost 50 airports over the next 10 years.⁵ The Government of India recently announced 100 cities which will be developed as smart cities over the next five years, out of those towns and cities, 24 are capital cities, another 24 are business and industrial centres, 18 are culture and tourism influenced areas, five are port cities and three are education and health care hubs.⁶ The government also intends to take up road projects worth INR1,000,000 million a year and 1 per cent of it — INR10,000 million — will be spent on tree plantation along national highways.⁷ All the above are expected to lead to an increase in OOH spending beyond what was projected in the previous year. Secondly, the sector is likely to see new developments in multi-targeting where OOH planning systems are integrating with data sources including mobile, online browsing and shopper purchase records. The advertisers can utilise OOH to target micro-specific segments on the move. For instance, election campaigns can tap into first-party polling and location data to target constituents in real-time. Thirdly, real-time OOH trading could make its first moves into India as OOH vendors integrate inventory into demand-side-platforms. Digital OOH's ability to target consumers on a real-time basis could lead to more robust use of the segment. Fourthly, with technological advancements, OOH is likely to become a more intelligent option as many brands would take advantage of the developments in internet-connected and interactive screens. This is likely to drive more customers and eventually advertisers towards it.

The above OOH predictions are based on advances in technology that continue to shape the industry and one can expect more intelligent, highly-targeted and measurable campaigns as the OOH medium evolves.

5. 50 new airports coming up in India in the next 10 yrs dated 5 November 2015, <http://www.businessinsider.in/50-new-airports-coming-up-in-India-in-the-next-10-yrs/articleshow/49673619.cms> accessed on 18 March 2016

6. Govt. announces list of first 20 smart cities under 'Smart Cities Mission' dated 30 January 2016 <http://www.thehindu.com/news/national/list-of-first-20-smart-cities-under-smart-cities-mission/article8162775.ece> accessed on 18 March 2016

7. Govt unveils policy to create green corridors along national highways dated 25 September 2015, <http://www.thehindubusinessline.com/economy/logistics/govt-unveils-policy-to-create-green-corridors-along-national-highways/article7703187.ece> accessed on 18 March 2016



Regulations, Consolidation and Measurement will be the game changers! Government Regulations are critical to the growth of this industry. We are addressing this issue through IOAA to lay down a universal rule that brings uniform regulations to one and all under the roof. The OOH Industry has always suffered because of the fragmentation that exists in the industry. However, with larger players coming together under the unifying umbrella of IOAA, a lot of transparency will come into the industry. IOAA is also working towards building an Audience Measurement System for Outdoor Media. Industry players are working very closely with IOAA to deliver on these issues. AAAI and IOAA coming together will surely add focus on the regulations and create a culture of discipline and good practices going forward. 2016 in all aspects, be it Revenue Growth as predicted by Warc, or Uniformity and Regulations through IOAA, or the Infrastructure development and Government Support along with their Marketing spends on various initiatives seems to be a year to look forward to. The sector seems well placed for better year ahead.

Alok Jagan
Managing Director
Lakshya Media Group

Conclusion

With growing competition between the products and services, effective and efficient advertising seems to be the need of the hour and this need has resulted in new and innovative changes in OOH advertising media. Advancements in technology and the constant evolving advertising mix have created newer trends in outdoor media. Gradually, electronic LED Billboards, mobile displays, roll ups, vehicle wraps, skywalks, building wraps, flyover panels and interactive screens are changing the trends in Indian OOH advertising in a massive way.



