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COVID-19 and India's Media and Entertainment Sector: Recommendations for Recovery

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SUMMARY

The Reserve Bank of India (RBI) expects negative economic growth this year.[1] The slowdown has adversely affected production and distribution across most industries, and will likely hit markets fuelled by discretionary spending the hardest. These include the Media and Entertainment (M&E) sector—comprising TV, radio, print and digital media, as well as Over the Top (OTT) platforms for audio and video streaming—which is expected to see an "L-shaped recovery".[a]

In April 2020, the Observer Research Foundation (ORF) and the Esya Centre organised a roundtable to identify the M&E sector's challenges, emergent trends, and potential pathways to recovery. The discussion was framed using the triad of (a) policy and regulatory environment; (b) future of work and of production; and (c) the imperative of value preservation, with a focus on achieving consensus on remedial action. The key government ministries and regulators that were discussed include the Ministry of Information and Broadcasting (MIB), which plays a central role in the M&E sector. Other relevant nodes include the Ministry of Finance, the Reserve Bank of India (RBI), and the Telecom Regulatory Authority of India (TRAI).

This special report builds on the insights shared during the ORF-Esya Centre roundtable. The following were the key themes that emerged from the discussion:

i. The M&E sector must offset growth slowdown through investments in production efficiency, human capital, and innovation.

ii. The Government must provide a level playing field to functionally similar industries, by deregulating traditional industries like TV, radio, and print, and allow them to compete with digital counterparts through value for money services, product differentiation, enhancements in consumer experience, and choice.

iii. The Government must enable digital transformation by increasing economic freedom for traditional M&E businesses to operate, and by easing digital payment frictions and promoting their wide adoption. In addition, the Government must nudge traditional industries towards better quality of service for its own sustenance.

a An L-shaped recovery refers to economic growth falling sharply during a recession or a depression and returning to trend level growth at a very gradual pace.

iv. A focus on M&E exports can be leveraged to offset contraction and reallocation in domestic consumer spends. This requires a strategic approach and public-private collaboration to increase export competitiveness. Lessons can be learned from best practices from other jurisdictions.

v. Economic crises lead to a decline in margins across all rungs of the supply chain, and Micro Small and Medium Enterprises (MSMEs) in M&E will be most affected. Consequently, there is a need for industry and government to collaborate in mapping and targeting MSMEs with capacity-building measures to improve firm productivity.

vi. Cable TV households represent low-hanging fruits in terms of expanding high-quality broadband connections. They also represent addressable demand for video content – which accounts for a large share of broadband consumption globally. Resource sharing, and simpler right of way regimes are required.

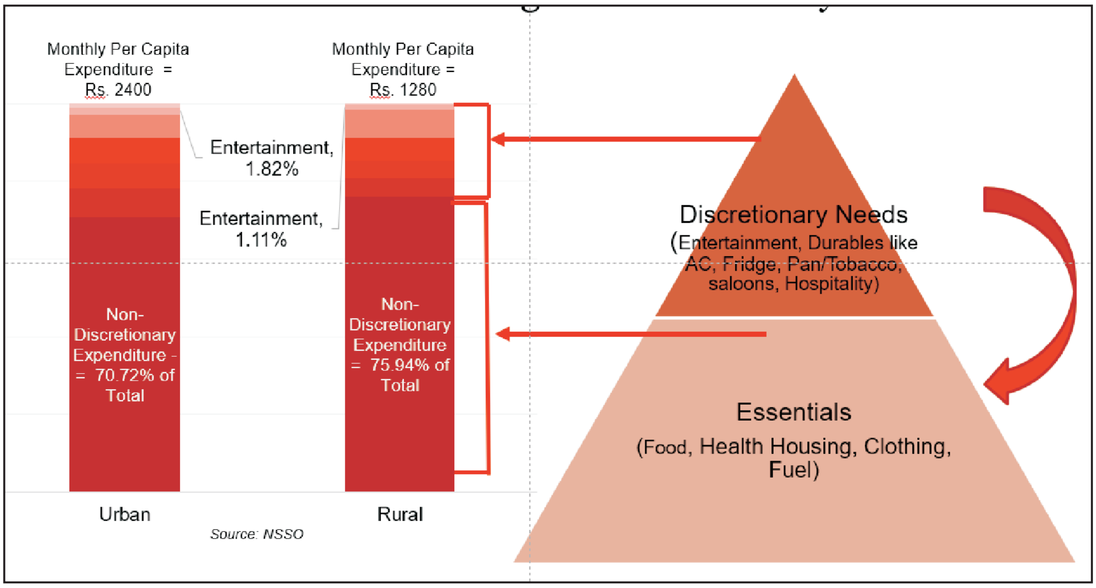
CHANGES IN CONSUMER SPENDING

Consumer spending is classified as discretionary and non-discretionary. The former includes expenditure on non-essential commodities that fulfil non-physiological needs, including M&E; the latter is spending on essential items that every individual requires, like food. Discretionary spending is more sensitive to the state of the economy and consumer confidence, both of which are on a downturn across the globe, owing to the COVID-19 health crisis.

According to the 2011-12 National Sample Survey Office's (NSSO) Household Consumption Expenditure Survey, the average monthly per capita expenditure in urban and rural India is INR 2,400 and INR 1,280, respectively.[2] Of this amount, urban households allocate around 71 percent on essentials, whereas for their rural counterparts, the proportion is 76 percent. Expenditure on M&E accounts for a meagre 1.8 percent in urban areas and 1.1 percent in rural areas (See Figure 1).

Consumers in developed countries like the United States (US) spend close to five percent of their total incomes on entertainment. Indeed, discretionary consumption increases with levels of prosperity.[3] As income-generating opportunities sharply reduce in India during the pandemic, expenditure on entertainment services will also decline on account of reprioritisation by consumers. The current levels of per-capita expenditure on such services are already low, to begin with, and further redistribution to other goods and services will be hard to overcome in the less resilient segments of M&E.

Figure 1: Discretionary and Non-Discretionary Expenditure in India

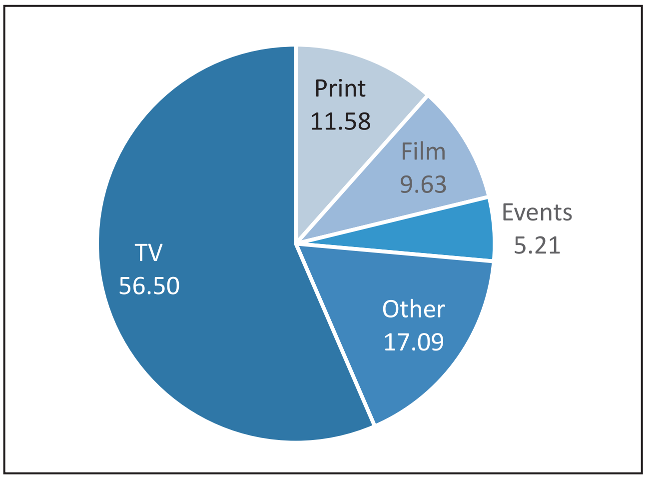


Source: Authors' own, using data from NSSO[4]

A decline in consumer spending will result in lower than expected industry revenues. M&E industries must respond to a drop in demand by reducing costs of final goods and services. This, in turn, will require efficiency improvements in production across supply chains. This can be achieved through lean methods of production, involving fewer workers and shorter timelines. Upskilling or reskilling of workers across the M&E supply chain is required to unlock such productivity gains. The role of the Media and Entertainment Skills Council is crucial.

As discretionary spending shrinks, consumers will also reallocate expenditure among different media. Some activities, such as watching movies in theatres, are likely to remain restricted due to social distancing norms that will continue to be promoted even after lockdowns are lifted. There are, however, no barriers to digital media consumption, which is on the rise globally. Figure 2 shows that TV commands the largest share of media expenditure in India (56.50 percent), followed by print (11.58 percent), film (9.63 percent), events (5.21 percent), and others (17.09 percent). These shares are likely to change rapidly. For instance, OTT video is already a near-billion-dollar industry in the country and is recording double-digit growth. Media expenditure by consumers in this segment will only increase, albeit subject to availability of broadband.

Figure 2: Distribution of Expenditure by Indian Consumers (%)



Source: Authors' own, using data from NSSO[5]

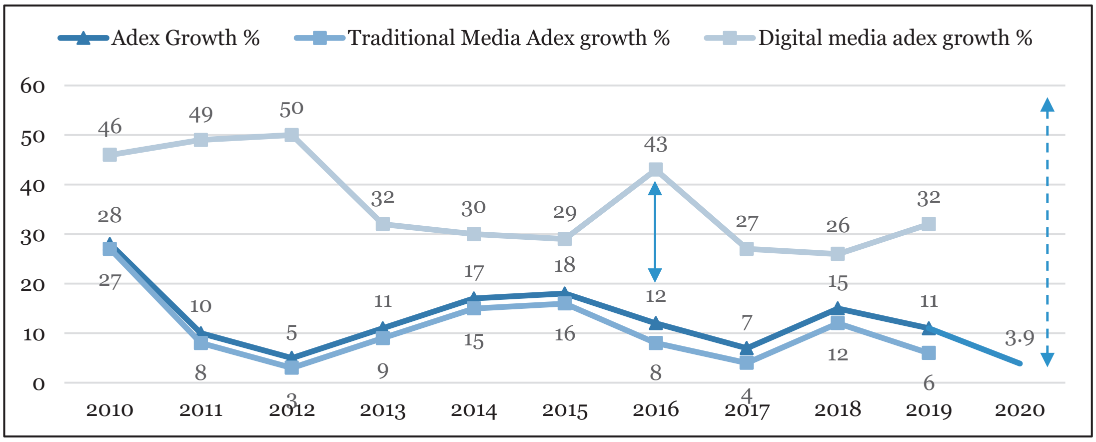
As consumers reduce and reallocate their discretionary spending, innovative M&E segments that offer value for money, product differentiation, enhanced consumer experience and choice of content, are likely to come out on top. For instance, low-income consumers reallocated M&E spends after mandatory digitalisation of TV signal distribution in 2011 led to higher costs.[6] Research found that households with limited budgets decided to "reduce their expenditure on other media, like newspapers, in order to afford the increase in cable rents following the digital switchover."[7] Consumers face a similar decision today. With reduced budgets, they are likely to reallocate expenditure to the most compelling M&E mediums. Conversely, wherever product innovation is limited by prescriptive regulations, M&E segments may face market failures.

While businesses compete for consumer spending, it is important to ensure that they do so on a level playing field. Some segments of M&E face relative disadvantages. For example, there are unparalleled restrictions on the pricing and bundling of TV channels. There is also asymmetric competition within industries—for instance, the dominance of large media conglomerates is prominent in industries like radio and print. The government must conduct assessments across M&E industries to engender a level playing field through a combination of deregulation and antitrust actions wherever there is abuse of market dominance.

NEW BUSINESS MODELS

Besides lower subscription revenue, advertising earnings too will reduce sharply as the economy slows down/contracts. Indeed, advertising expenditure is a bellwether of economic growth and consumer sentiment. Advertisers are likely to aim to extract greater value for money for each rupee spent during the economic downturn. This contention is borne out by the fact that every time there is a slowdown in the growth of advertising expenditure, advertisers spend more on digital mediums than they do on traditional ones (Figure 3). Digital mediums tend to offer more precise targeting and consumer tracking.

Figure 3: Growth in Advertising Expenditure (%)



Source: Pitch Madison, Hindu Business Line

While traditional mediums such as TV still command the majority of advertising expenditure today on account of their mass reach, the pandemic may accelerate structural shifts. Technological capabilities have evolved rapidly over the last decade and so has the reach of OTT. Some of the largest OTT platforms in the country that stream video, are run by affiliates of broadcasting companies. This means that industries such as TV should be allowed to price services in accordance with market forces, to reduce dependence on advertising and smoothen the transformation to digital. This includes the freedom to apply differential pricing for commercial and retail consumers. According to the Economic Survey 2019-20, "economic freedom enhances wealth creation by enabling efficient allocation of entrepreneurial resources and energy to productive activities, thereby promoting economic dynamism."[8] This principle is important to enable digital transformation.

Seamless digital payments are also necessary to unfetter subscription revenues across industries. Three aspects are important in this regard. First, consumers should be able to pay small amounts without the friction inherent in a One Time Password (OTP) process. The RBI must accelerate the adoption of risk-based payment authentication methods.[9] Second, merchants such as local cable operators must be nudged to install necessary acceptance infrastructure so that subscriptions can be paid for digitally. Lastly, recurring payments should be enabled on instruments such as RuPay and the Unified

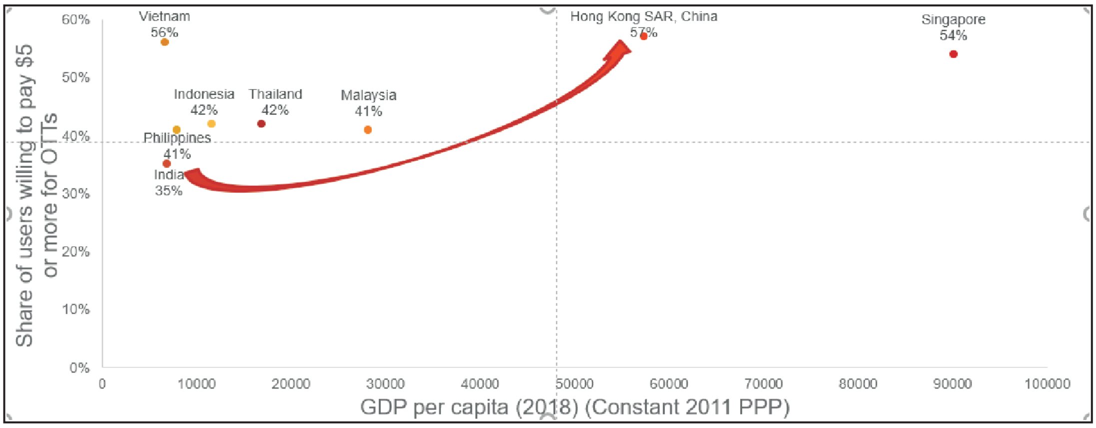
Payments Interface (UPI), to ensure that they can be used to purchase long-term monthly subscriptions.

Meanwhile, traditional media will require better quality of service to continue to attract subscription revenues. For instance, TV digitalisation is an unfinished agenda. There are also large variations in the technological standards adopted by cable operators. Government must ensure stronger commitment to quality of service in TV distribution, for the sustenance of the market. This requires new procedures for audit and enforcement, some of which are discussed in an April 2020 consultation paper by the TRAI.[10]

FOREIGN AND LOCAL INVESTMENTS

In 2018, only 35 percent of the total existing users of OTT platforms in India were willing to spend $5 or more for subscribing to such platforms.[11] Meanwhile, in Hong Kong, 57 percent of such users were willing to pay the same amount. Figure 4 illustrates that as GDP per capita increases, the willingness to pay for OTT services also rises. Since average incomes are falling due to the pandemic, the Indian OTT market will see a delayed convergence with other Asian markets. India will have to signal its growth potential through policy stability.

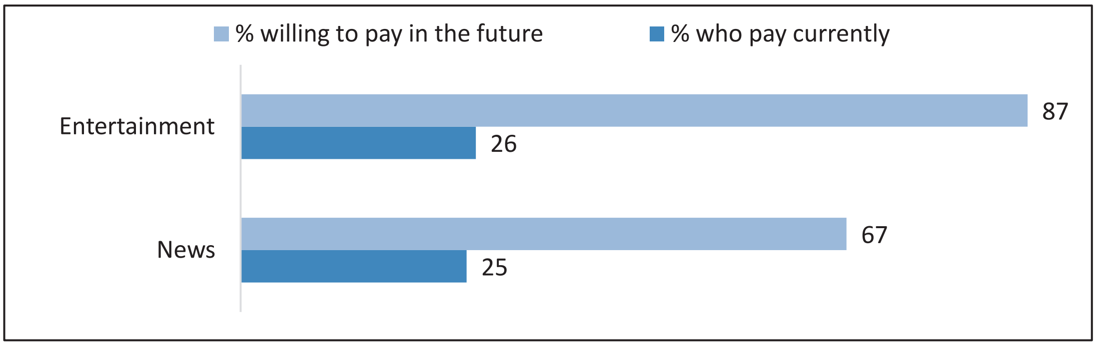
Figure 4: Delayed Convergence with China in OTT Subscription Revenues



Source: World Bank, Brightcove

Figure 5 shows results from a survey conducted in late 2019, before the pandemic.[12] While few people currently pay for news and entertainment services, many more were planning to do so in the future. This consumer optimism for consumption of entertainment also underpinned investment decisions by M&E companies and investors. The FDI in information and broadcasting accounted for around four percent of total FDI in services, in the period between 2000 and 2019.[13] The rebasing of consumer expectations may dampen future FDI prospects.

Figure 5: Consumer Expectations in India (2019)



Source: World Economic Forum

A response that the MIB can employ, is to signal commitment to development of M&E markets through focus on agile governance, in consonance with the Prime Minister's refrain of "minimum government, maximum governance". This can reflect in ease of permissions and clearances (single windows) for broadcasting and production, as well as encouraging content industries to self-regulate. Focus on deregulation can help increase the investment appetite of traditional industries, that are leading the way in the case of both audio and video OTT investments in any case. In fact, India's largest OTT services are homegrown, unlike in many developing markets. This strength must be nurtured.

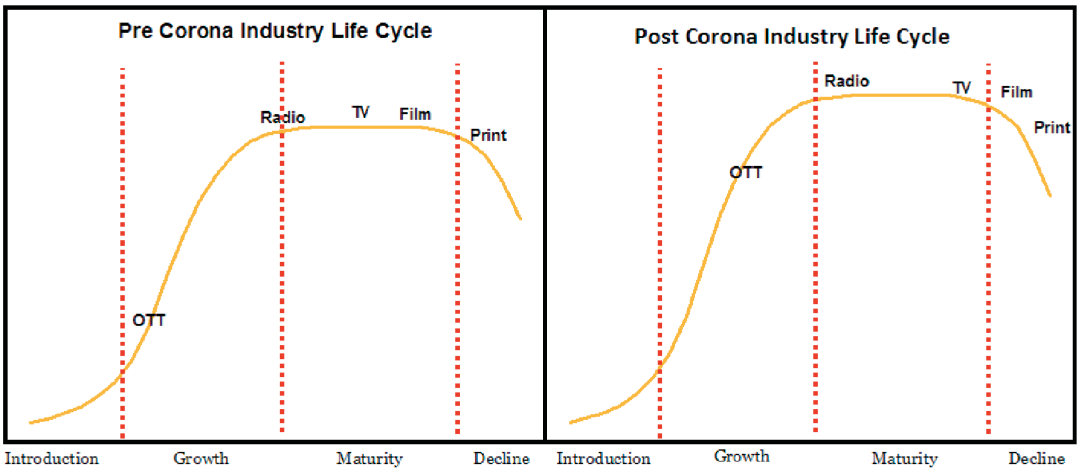
In this context, India can take a leaf out of South Korea's playbook to incentivise M&E exports. In 2013, South Korea established a Creative Economy Action Plan and Measures to Establish a Creative Economic Ecosystem to leverage local strengths and tap into global markets. Proactive state support led to the success of K-Pop and the Korean Wave, that helped increase the export of audio visual services from Korea with an AAGR of 17.95 percent over the period 2006-2018.[14] Specific interventions included talent development, funding support, and setting up of Korean Cultural Centres in over 25 countries. The Korean government also plans to use Big Data analytics to trace demand for the country's creative exports.

In fact, the M&E sector is one of the "12 Champion Sectors" recognised by the country's Ministry of Commerce and Industry. This programme intends to increase the competitiveness of services exports from India, and has an allocation of INR 50 billion. M&E industries are yet to fully leverage the fund. It could be used for enhancing the integration of M&E services with digital products such as e-books, facilitating content translation and subtitling, and collaborating with other jurisdictions to curb piracy of Indian content abroad. Additionally, industries can leverage a large pool of technicians, engineers, and design professionals towards the provision of specialised services within global content production supply chains.

SUPPLY CHAINS

Many M&E segments have slowly transitioned to digital over the last decade, whereas others were replaced altogether. For instance, OTT platforms now account for majority of music consumption in India and old segments like CDs and DVDs are no longer popular.[15] Such transitions will only accelerate, as consumer behaviour changes and digital platforms grow faster than traditional ones. Figure 6 shows the life cycle of M&E industries, and the expected changes due to the pandemic.

Figure 6: Stages of Industry Life Cycle



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Industry transitions lead to supply chain disruptions and add to business uncertainty. At a time when such transitions are accelerating because of new market forces, it is imperative that the Indian Government impose regulatory moratoriums wherever possible. For instance, heavily regulated segments, such as TV, incur large costs in order to adjust to frequent regulatory changes. The last major change by TRAI in 2019, led to cord-cutting by around 12-15 million households.[16]

Economic crises also lead to a decline in margins across all rungs of the supply chain. Such a decline often starts from the top. For instance, as Table 1 highlights, the 2008 financial crisis precipitated a 40-percent fall in producer margins. This, in turn, can lead to supply chain shocks in terms of availability of credit. Small businesses and independent workers supported by producers will suffer, unless public-private partnerships are leveraged to provide monetary relief in the M&E ecosystem.

Table 1: Margins Earned on Big Budget Films post-2008 financial crisis

All figures in INR Million	2009	2010
Star Cast	250	200
Director	100	70
Money Spent on Talent	350	270
Pre-production + Production	200	200
Post Production	50	50
Marketing	50	60
Total Money Spent on Movie	650	580
Producers Margin	250	150
Producer Margin as % of Total Money Spent by Studio	**27.7%**	**20.5%**
Total Money Spent by a Studio	900	730

Source: FICCI-KPMG (2011)

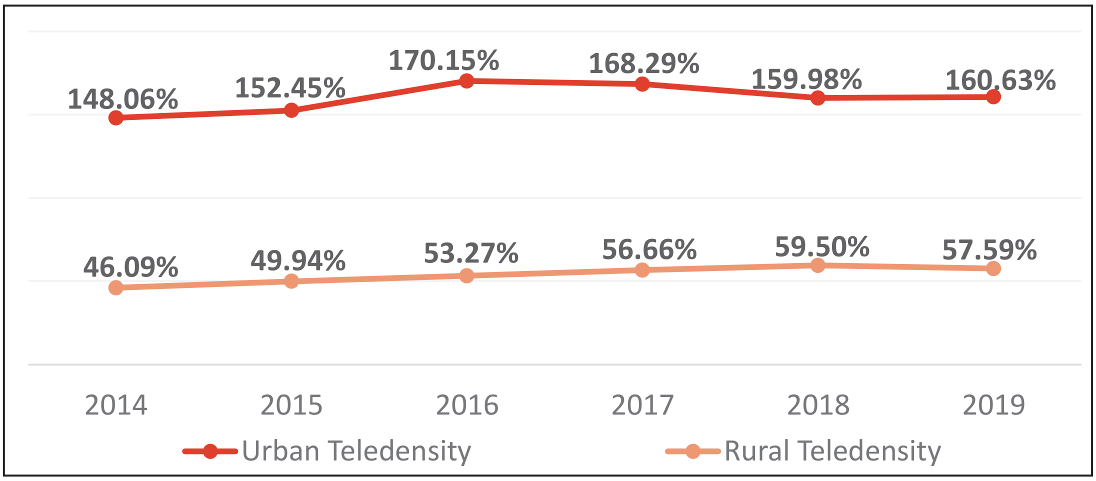
Industry and government must collaborate to formalise M&E supply chains. However, targeting MSMEs is a major challenge when it comes to credit delivery, because of the lack of an industry dataset, including for M&E-linked MSMEs. The last MSME census took place in 2006-07. Therefore, a private-public partnership is useful to identify beneficiaries on an accelerated basis in the M&E sector. The formalisation of M&E supply chains can also contribute towards enhanced resilience to credit shortages and economic downturns. This is another area where public-private partnerships can be useful.

Capacity-building of M&E-linked MSMEs also comes with the added benefit of increased productivity per worker and a chance to participate in global value chains of content production. In fact, the MIB must now focus on the entire spectrum of capacity-building activities—from formalisation of supply chains to digitalisation and quality of service. This requires it to pivot away from its traditional role as a licensor, to being an enabler of sectoral transformation. Countries such as South Korea and Singapore offer repositories of institutional best-practices in this regard.

INFRASTRUCTURE

There is considerable disparity in the availability of digital infrastructure between rural and urban India. (See Figure 7) Inequitable access to digital infrastructure is also evident in the number of internet subscribers. Urban internet density was 104.25 per 100 population in the quarter July-September 2019. The analogous measure of rural internet density was 27.57 during the same period.[17] The fact is that return on investment in digital infrastructure is much lower in rural areas than in urban areas—and the private sector consequently has lower incentives to invest in rural areas.

Figure 7: Tele-density in Urban and Rural India (2014-19)



Source: TRAI

The gap between the digital "haves" and "have nots" will likely exacerbate with the advent of more expensive communications technologies like 5G. The International Telecommunications Union notes that "it will be commercially challenging to deploy 5G networks in rural areas where demand tends to be lower."[18] Therefore, the uptake of M&E services is intrinsically connected to generating demand for next-generation digital infrastructure in the rural areas.

Around 92 percent of Indians who are connected to the internet, spend their time watching videos. Video consumption, by virtue of its high bandwidth requirements, accounts for four-fifths of internet consumption globally.[19] This creates demand for digital infrastructure and the virtuous cycle must be supported by the government as a lever to bridge the digital divide. The implications on regulatory principles for OTT services is clear—government should adopt a light-touch approach wherever there is need for oversight. It should intervene only via regulation in case of market failure.

Additionally, there are around 60 million cable TV households in the country today. These households are spread across urban and rural areas. They represent low-hanging fruits in terms of expanding high-quality wired broadband connections in the country. However, the conversion of one-way cable connections into two-way digital connections requires capital expenditure. Total spending per subscriber for providing broadband over cable ranges between INR 7,250 and INR 12,050.[20] Density and dispersion influence these costs. Remote or sparsely populated locations require higher per-mile construction costs.

Infrastructure sharing at the last-mile is one measure to maximise resource efficiency in the telecom and TV distribution ecosystem, without fiscal burden on the state. The TRAI has already recommended that telecom and internet providers should share networking infrastructure such as cable ducts and In Building Solutions (IBS), in a transparent, fair and non-discriminatory manner. It has also recommended that "Model Building By-Laws" be developed for shared infrastructure. Broadcasting should also be included within the ambit of such infrastructure sharing.

Additionally, Right of Way Rules (RoW) issued in 2016 for telecom eased the process of laying optical fibre cables for providing broadband. However, this is disparate from the RoW clearance procedure for setting up broadcasting infrastructure. Here, there is a need to harmonise RoW clearances for broadcast and broadband RoW. This would incentivise uptake of two-way digital connections.

CONCLUSION

The COVID-19 pandemic has upended all assumptions of business-as-usual for the global economy and for India. It has also sharpened market trends that were already visible before the health crisis – such as the increasing demand for digital services. For the M&E sector, this means faster transition to digital mediums and more pressure to compete for consumers, as well as for advertisements and subscription revenues. Luckily, most traditional domestic M&E industries had already begun to transform themselves before the crisis. For instance, TV, radio and print industries were all investing in digital platforms. Similarly, India was moving up the production value chain, and had developed hubs for skill-intensive industries such as animation.

Accelerated transformation in the Indian M&E sector can be enabled through public – private collaboration, based on a shared understanding of the strategic importance of fostering resilience and innovation. This was the objective of the roundtable that led up to this report. There was consensus that M&E industries require concerted efforts at regulatory and policy reform, more than fiscal support. This includes initiatives to level the playing field between small and large players, incumbents and new entrants, and traditional and digital platforms. Many positive outcomes can be achieved by simply allowing traditional industries greater economic freedom. This means revisiting legacy rules and regulations that have held back their development. Several such low-hanging fruits are identified in this report.

Stakeholders at the roundtable also emphasised that government intervention should be limited to instances of market failure. Conversely, overregulation can cause distortions that hold back transformations that engender sectoral resilience and innovation. This is in consonance with the prescriptions in India's latest Economic Survey (2019-2020), which notes that "though India has made significant progress in enhancing economic freedom for firms and citizens, it still counts among the most shackled economies in the world."[21] Lastly, new rules for the road must entail a commitment to quality and consumer choice. This includes improvements to digital infrastructure. It is time for Indian audiences to enjoy global standards of content and service. They should expect no less from a vibrant and mature creative and cultural ecosystem.

ABOUT THE AUTHORS

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