

let the show begin!

By Avdesh Mittal

The famous playwright William Shakespeare once wrote, “To business that we love we rise betime, and go to it with delight.” The Indian entertainment industry has much to delight in with its stellar growth projections, as the country’s increasingly affluent and sophisticated consumers flock to local entertainment sources as a means to spend their wealth.

Indians love to watch movies. With increasing consumerism, people seek entertainment outside the home, and the Indian movie industry has been racing to meet that demand. It has been rapidly adopting new advancements in technology, and is becoming more corporatised. Several film production, distribution and exhibition companies are expected to launch public issues as more multiplexes and digital cinema halls spring up across the country. Estimates by Price-waterhouseCoopers (PwC) put legitimate revenues from filmed entertainment at 68 billion Indian Rupees in 2005, and predict them to more than double to 153 billion Indian Rupees over the next five years.

In contrast, the radio industry is much smaller in size but is expected to outpace the film industry in growth. From revenues of just 3 billion Indian Rupees in 2005, it is expected to quadruple in size to 12 billion Indian Rupees by 2010 as restrictions on foreign direct investment are loosened.

Radio entertainment operators no longer need to fork over hefty licence payments upfront, and instead participate in revenue-share schemes with the

Indian government. Out of the 338 new licences issued recently, only 22 have been in metro cities while the balance 316 licences are spread over 87 cities — meaning that 94 percent of radio operations are aimed at “media-dark” second-tier cities. This augurs well for corporate India, as it increasingly focuses on bottom-of-the-pyramid markets that are expected to be the engines behind their next stage of growth.

In spite of glossy productions and industry optimism, profits in the Indian entertainment industry are at B-grade levels compared to blockbuster profits seen elsewhere. The industry is still very much owner driven, and this has restricted their full potential in scale. Local industry players with a “minor stage show” mindset are resistant to hiring the highly rated external players to take them to the next level of performance. This problem is also prevalent in foreign companies such as Walt Disney, ESPN-Star Sports, Star, Discovery and BBC, many of which have the latent potential to grow to many times their current size.

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This will change, especially as new heavyweight competitors with deep pockets enter the market. In 2005, Reliance Capital bought a majority stake in Adlabs, which in turn provided it with a presence across the entire value chain of the filmed entertainment segment, ranging from film production to exhibition and distribution. Through Adlabs, Reliance also made its entry into the radio segment by bidding for over 50 FM radio stations across the country with aggregate bids of over 1.5 billion Indian rupees. Another significant market entry last year was that of the Tata group. Through its subsidiary Videsh Sanchar Nigam Limited, Tata tied up with the Paris-based Thomson Group to identify opportunities in managing and delivering content for third parties, including broadcasters and content providers.

Cable network and movie studio owner Viacom Inc. also has major plans for India. Said Viacom CEO Tom Freston in March 2006, “We want to produce films here; we don’t want to just distribute. We want to work with Indian producers” in what Freston calls a young market. “We’re also keen to explore the home video market; 80 percent of film revenues in India comes from ticket sales, whereas 60 percent of revenues in the West comes from home video.”

The industry needs “glocal” Indians (Indians with a global perspective and very deep local knowledge) who understand local audiences and are more willing to adapt and localise international best practices.

The first step in locating such qualified glocal business leaders is to cross domains and look at multinationals in the fast-moving consumer goods (FMCG), telecommunications, consulting, software, hospitality and infrastructure sectors. Film companies will benefit from executives with senior experience in large-scale infrastructural projects, while radio companies should probably first start by looking for candidates from the telecommunications or FMCG sectors.

The film industry also needs industry executives with strong project management skills to build early mover advantage during this crucial phase of growth. In broadcast, early movers have significant advantage because they can tap into growing markets first as the number of participants increases.

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In building their foothold (and footprint) in India, industry executives need to think big and be prepared to build strong regional teams to scale up operations at a very fast pace. They need to have the necessary financial management skills to keep tabs on multiple rapid investments, and to understand how to bring a company to IPO, where necessary. Two major film exhibition companies, PVR & Inox Leisure, have gone public.

It is not difficult to attract such talent as the opportunity to grow personally and to grow a business is huge, and many find the challenge attractive. Two executives from Coca-Cola have made the leap. A senior manager from Coke is now with Pantaloon, an Indian retail venture capital fund, as their domain expert, and another is now with a major local newspaper publisher, Anand Bazar Patrika. Radio has also been attracting its fair share of executives from other domains.

Strong industry leaders will also be able to galvanise industry lobby groups. Indian media companies today have more opportunities than ever to enter into co-production tie-ups with other countries and to bring in foreign film and radio programmes. However, the industry lacks funding, infrastructure and manpower for film and radio development across all sectors. Manmohan Shetty, Managing Director of Adlabs, has said, “It’s the requirement of the times, demand for greater transparency and professional functioning, and film

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producers are responding to that. Even a bank wants to be sure about a film production firm before funding.”

Competition in the India film and radio industry is set to leapfrog ahead. Industry players are well advised to hire professional managers to rapidly scale up and integrate business across functions such as operations, finance, HR and marketing. As businesses grow larger, it is critical for them to acquire professional talent that will put structure, systems and processes in place so as to efficiently leverage this huge opportunity in the marketplace.

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These are very exciting times for India’s entertainment market and industry observers would chorus: “Let the show begin!”

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