Title of the Paper.

A changing Film Financing Patterns with Special reference to India – A changing Scenario

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Introduction.

The Indian film industry is considered to be the largest film industry in the world in terms of number of films produced and released every year. Spread across more than 800 films, cumulative consumer spending on the Indian filmed entertainment products is estimated to be in excess of INR 60 bn every year. The Hindi film industry attracts 40-50% of total consumer spending on Indian filmed entertainment products (Sunir Khetrapal report on Film financing 2008).

Since quantitative business trends are officially not recorded by any agency or industry body in India, I have relied extensively on discussions with various stakeholders associated with the industry and reasonable assumptions have been made regarding revenue losses due to leakages in the distribution sector and consumption of filmed entertainment products on pirated software.

BOLLYWOOD is a developing film industry, which is experiencing rapid transformation in the business segments of film production, financing, distribution, exhibition and home entertainment.

Theoretical Foundation

The reason for adopting an evolutionary perspective on Bollywood's growth is that there is little other theoretical foundation for understanding such a phenomenon of indigenous growth of an entertainment industry in an emerging economy. Existing research on indigenous industries in emerging economies deals with manufacturing, not entertainment or other knowledge-intensive industries (e.g. Nadvi and Schmitz, 1999; Mytelka and Farinelli, 2000;). Evolutionary economics and population ecology (e.g. Hannan and Freeman, 1977; 1989; Nelson andWinter, 1982; Aldrich, 1999) focus upon systematic changes in a population of firms, typically, in the guise of changing organizational practices and/or industry structures (Aldrich, 1999; Witt, 1993). Such changes, or industry evolution, may bring lasting changes in employment, turnover, exports, or other aspects of aggregated economic performance.

Method

I have chosen to undertake a case study of Bollywood in order not to test existing theory, but, on the contrary, approach a problem in order to inspire development of, or supplements to, theoretical ideas (Eisenhardt 1989; Yin 1994). I treat Bollywood as a paradigmatic case study. A paradigmatic case is not representative of a particular population of cases, nor probabilistically selected. Instead, it is theoretically selected in order to provide as much inspiration as possible
(Flyvbjerg, 2004).

Limitations.

For the case study of Bollywood, the qualitative data has been chosen for several reasons. The statistics that may illustrate the evolution of Bollywood is limited. Indian statistical bureaus offer no regional data on the film industry's structure or employment, and film data from Indian sources and the International Movide Databases are partial and do not list films' participants, budget, or performance. Hence, contrary to the US and European film industries, it is not possible at present to carry out a statistical actor-network analysis of the structure of social networks within Bollywood.

Empirical Analysis

The report sketches out the ongoing evolution of Bollywood, and explains how it is improving the economic performance of the cluster. It also analyzes the social network conditioning the evolution, and lastly, demonstrates how two environmental factors have been necessary to set in motion the evolutionary process.

Industry Evolution

Bollywood's film productions fall into a core of commercially successful mainstream (and often high-budget) films made by a relatively stable community of producers, plus a periphery of lower-budget niche films made by a much larger (and more fluctuating) group of producers with less talent, luck, or ambition.

The following table clearly explains the above mentioned point of High Budget and Low budget films which went on well on the box office.

Name of the Film	**Producer/Director**	**Budget in Rs. Crores.**
Kantha Swami	Susi Ganeshan	30

Shivaji	Shankar	65
Dasavatharam	Kamala Hasan	70
Kites	Rakesh Roshan	120
Endhiran	Shankar	190
Blue	Anthony D'souza	100
Love Story 250	Harry Baweja	80
Gajani	Murugandoss	65
Little Zizou	Sooni Tarapoorvala	2
Mithya		2

Source: Films Producers Guild and Box Office Figures.

A handful of firms have entered Bollywood, focusing upon achieving economies of scale in distribution and finance. Through distributing and promoting a range of films across different territories (including export territories), these firms take advantage of scale in marketing and distribution, releasing a large number of copies in cinemas in order to create crowding effects and pre-empt piracy, accessing new distribution channels such as TV and video, and investing enough in marketing to reap export markets. However, the ambitions of these firms to also vertically integrate have had less success so far. As they generally manage to produce less than half of their releases in-house, they still rely, to a wide extent, on buying films produced elsewhere and subsequently distributing and marketing them.

Name of Films	**Producer/Director**	**Wide Range of Promotion.**
Hum Aapke Hai Kaun	Rajshree	Limited the Supply by having controlled Prints.
Umrao Jaan (New)	J.P.Dutta.	Released in India and abroad at the same time making it a break even proposal.

Source: Films Producers Guild and Box Office Figures.

Hence, the entry of these horizontally integrated firms has not changed the fact that the overwhelming majority (in 2008, more than 90%) of Bollywood films – including mainstream blockbuster films – are still produced by small, specialized production companies. A handful of production firms now sign multiple film deals and upscale their output of films with relatively low budgets for systematic sales through the new distribution and finance firms. Through such strategic alliances, production companies stay disintegrated.

No.	**Name of the Film**	**Producer/Director**	**Gross Collection in Rs,**
1	Gajani	Geeta Arts.	114,80,00,000
2	Rab Ne Bana Di Jodi	Yashraj Films	86,78,00,000
3	Singh Is Kinng	Vipul Amrutlal Shah	68,48,00,000

4	Race	Tips Films	61,68,00,000
5	Jaane Tu…. Ya Jaane Na	Mansoor Khan	56,41,00,000
6	Golmaaal Returns	Dhillin Mehta	51,69,00,000
7	Dostana	Dharma Productions	44,42,00,000
8	Bachna Ae Haseena	Siddharth Anand	36,44,00,000
9	Tashan	Yashraj Films	27,87,00,000
10	Sarkar Raj	Ram Gopal Varma	33,96,00,000

Source: IMdb figures.

The firm like UTV Motion Pictures consequently achieved a very high hit rate, and earnings were again reinvested in integrating studio and postproduction facilities. In 2004, the company had the largest turnover yet seen in Bollywood: 112 million USD, more than double of the second-most earning Bollywood firm (which is one of the new, integrated finance and distribution firms backed by corporate capital (Kohli-Khandekar, 2006a)). Bollywood seems to move towards an industry model based on alliances. The alliance practice is currently spreading along the value chain, allowing Bollywood to reap scale economies in distribution and finance, in combination with the creative and managerial advantages of maintaining small firm sizes in production. The spread of the practices of professionalization and alliances have brought about new modes of finance, better planning and this brings average production times and costs down. The entry of the integrated organizational form in distribution and finance (and only here) means that Bollywood is able to; at long last, invest considerably more in distribution, marketing, and exhibition at home as well as abroad, tapping into growing demand.

Bollywood has been seeing a newly-signed strategic alliances (e.g between NBC Universal, Inc. (NBCU) and New Delhi Television Ltd (NDTV), and between Turner International and Alva Brothers.)

Such alliances are being formed when India is on the cusp of change, an era marked by digital revolution. DTH, digital cable and IPTV are realities today. Projections indicate that India will have 90% penetration, with an estimated 185million television homes by 2015. (KPMG Report 2009 on Entertainment)

According to Ronnie Screwvala, Founder and Chairman of UTV Group the tie-ups not only signify the fact that every western media major wants a piece of the domestic action in India but also the eagerness of media houses in India to do the reverse.

Mumbai-based Sony Entertainment Television's executive vice president and business head, Albert Almeida feels strategic alliances, consolidation and inroads into regional markets will be key drivers for the broadcast industry over the next couple of years or more.

While Reliance, in a short span, has scaled up its operations, a company like UTV has evolved from being just a "production house" and "services" company to become an integrated media company.

UTV rose to this level by building on its core strength, content creation, both in TV and in motion pictures. In the last 12 months or so, it has launched its interactive initiative on the strength of its animation business by acquiring a controlling interest in gaming companies spanning console, mobile and online.

Just like UTV, there are several other production companies, eagerly eyeing recognition internationally. For example, Contiloe, the fully-integrated production house, which to its credit has worked with top broadcasters across entertainment and kids genres, is scaling up operations to be able to supply more content by backward integrating its complete production as well as the post production set up. Just like several of its counterparts, Contiloe is also looking for strategic partners.

Over the years, Indian production houses have been exposed to, and even produced, locally adapted shows and formats, which have excelled in the international markets. Plus, post production has evolved considerably. Now with strategic alliances, the local producers also fully expect to exploit opportunities in foreign markets.

Environmental Factors. (Demand Changes & Policy Regulations)

India's GDP is rising rapidly (doubling over the last two decades and currently growing 8% annually), and its middle class booms (currently 300+ million people strong and growing at 5% annually). Many of the newcomers to Bollywood have entered in order to reap these demand opportunities through investing in upgrading existing cinemas and constructing multiplexes. Bollywood still earns 68% of its revenues from cinema exhibition (CII and KPMG, 2009), and in the period 2006–2009, box office collections rose by 35% (Kheterpal, 2009), and in 2009 by 27% (European Audiovisual Observatory, 2009). As a rapidly growing supplement to cinema, Hindi films have found a new exhibition channel in Indian TV. While national coverage of TV in India in the early 1980s caused an initial drop in demand for Hindi films, after the entry of satellite channels in the 1990s, selling films to Hindi TV channels became major business. Bollywood has been more enthusiastic and much quicker (Currah, 2007) in embracing new technologies for products and platforms. Bollywood is not only implementing digital cinema distribution on a large scale, the cluster is also in the process of mastering new auxiliary revenue streams supplementing sales of music soundtracks, such as ring tones and movie clips for mobile phones.

With an overall reduction in costs, there is a potential for each of the revenue components to grow, albeit in varying degrees. Domestic theatrical revenues are estimated to grow at 17 percent, aided largely by multiplicity of ticket rates and higher occupancy due to rightsizing of screens from INR 34 billion to INR 86 billion in 2010. Satellite rights, including pay-per-view and broadband rights, could take off in 2007, when DTH, IP-TV and broadband cable networks are expected to be rolled out on a large scale. Satellite revenues are expected to grow at 22 percent from INR 5 billion to INR 17 billion in 2010. (European Audiovisual Observatory, 2009)

As per the latest report of the KPMG (2010) growth in other income from in-film promotions and merchandising is anticipated to flatten out after the initial spurt, while growth in revenues from the sale of music rights could be minimal.

Overall, the industry is expected to grow annually at 16 percent to cross the INR 100 billion mark by 2007, and reach INR 143 billion in 2010. If the combined efforts of the various stakeholders and the government create the desired impact in terms of charting a structured roadmap for the future, this growth rate could even exceed 30 percent in the next 4-5 years. The later part of this section focuses on the need for such collaboration.

Bollywood has been the Indian film cluster that has been fastest in tapping into new global business opportunities.

There has been a general shift in the policy attitude towards Bollywood. The national government now also finally responds to the film industries lobbying, clamping down on piracy (which has, according to some estimates, e.g. CII and KPMG, 2005, deprived the film industry of more than 40% of revenues) and allowing for advantageous FDI schemes in the construction of new cinemas.

The most important policy change, however, allows new types of private investments to enter into Bollywood. Until recently, Indian entertainment industries, including film, were not liable for public investments through the semi-public Industrial Development Bank of India (IDBI). As private capital was abundant in other entertainment industries, such as TV, this lack of "official" status had the largest adverse effect upon film: Public as well as private banks and other financial institutions would refrain from engaging with film production companies, and India did not develop a professional finance and insurance system for film production. Production companies were, as mentioned above, forced to raise capital through private bank loans, or, in the many cases when banks were unwilling, through friends, family, or private money lenders with high interest rates (as high as 60% annually (Dwyer and Patel, 2002)). The Indian government finally granted the entertainment industries official status in 1998. Investments by the Industrial Development Bank of India are now meant to encourage private banks, other financial institutions, and insurance companies to engage with film financing and insurance as in other industries.

The national government has also allowed for 100% FDI in the film industry (IBEF and PWC, 2005). Bank loans constituted only 7% of film finance in 2004 (Kheterpal 2005), and retained earnings, private loans by family, rich friends or associates, and agreements with distributors were still the preferred modes of finance for more than two-thirds of Bollywood film projects in 2006 (Das Gupta, 2006). Hence, the main beneficiaries of the new status and image of the film industry have been found within distribution, where newcomers have been able to both raise institutional capital and attract corporate investments from other Indian industries.

The regulation changes have had notable impact upon the evolution of Bollywood. First and foremost, new regulation has promoted the entry into the industry of a new breed of film distributors that pull alliances with incumbent production companies, ultimately allowing for more efficient finance and more targeted investments by both producers and distributors in marketing and exports. Before the film industry obtained official status, the scarcity of funding forced producers to look towards the organized crime cartels in Mumbai, peaking during the 1980s and 1990s. In the 1990s, criminal sources financed an estimated 40% of film production (Kripalani and Grover, 2002). Today, it is estimated that below 10% of film finance is illegal (Khetrapal and KPMG report 2009). Many social relations to the underworld are being replaced by alliances to new, well-funded, and legal distribution firms.

Discussion and Theoretical Implications.

The combination of disintegration in production and integration in distribution and finance has allowed for a continuation of Bollywood's high annual output of films in combination with significantly larger investments in marketing and distribution, boosting earnings and exports. New financial opportunities propagated by regulation have also helped to (partially) cleanse the Bollywood network from social relations to the Mumbai underworld.

Investments in the Film Industry

The Indian film market ranks as the largest theatrical market in the world, with over three billion total admissions in 2007 (close to 50% of global admissions). The number of multiplex screens is expected to increase from 193 in 2006 to 907 in 2011. Digital cinema development has reached close to 1,000 screens.

The Indian film industry is projected to grow to US$3.6 billion in 2012, nearly double its present size. Cumulatively over the next five years, domestic box office is expected to grow at 11%, overseas collections at 19%, and home video at 15%.

Directed by Sanjay Leela Bhansali, Saawariya marked the first major production by a Hollywood studio fully filmed in India. Despite opening to adverse reviews the film grossed US$18 million worldwide in 2008 and started the trend of Hollywood producing in India.

Warner Bros. Pictures released Chandni Chowk to China on January 16, 2009. The film opened on more than 125 screens in over 50 markets, making it the largest ever release of any Bollywood film in the United States and Canada. The film was also released in 40 international markets.

In May 2008, Viacom unveiled a joint venture with the Network-18 group to create Viacom 18. While the deal initially focuses on small screen ventures, part of the pact sees Viacom became an equal partner in the Indian Film Company.

Paramount is also looking to begin investing in co-productions and has been in talks with large studios such as Yash Raj Films since 2006. Tom Freston, President & CEO of Viacom, has described India as “among the three most exciting markets in the world, it would not be incorrect to say the top market in Asia.”

Indian Investment in the US

Bollywood films released in the United States earn around $100 million a year through theater screenings, video sales and the sale of movie soundtracks.

The largest push into the American film industry by an Indian company is seen from Anil Ambani’s Reliance Entertainment. Screening – Reliance Entertainment has been purchasing movie theatres in the US, targeting areas with the densest populations of the Indian diasporas in the US and bringing them Bollywood movies as well as regional Indian films (A**bove figures from the Motion Pictures Distribution Association India Private Limited and the KPMG 2010 report)**

Conclusion

Bollywood is not just one of India's most eye-catching growth phenomena; it is also the world's biggest and fastest growing commercial film cluster. Bollywood finances, produces, markets, and distributes well over 100 films annually, including big-budget blockbusters.(KPMG – 2010 report)

The paper demonstrates how environmental factors – rapid development of demand, as well as changes in government regulation – have been external preconditions for industry evolution. The rules of the filmed entertainment business are changing. The production process is getting more corporatised, multiplexes are bringing in a breath of fresh air on the exhibition front, and investors are watching with keen interest which way the fortunes are going to swing.

The production cycle is getting shorter for at least the organised players. Mukta Arts, for instance, took only six months to produce *Shaadi Se Pehle*. In the recent days the production time for some of the regional Indian movies has come down to 22 days to 30 days without any compromise on the production value. The average time spent on the floor has generally shrunk. The industry once used to waste and extravagance is realising the value of streamlining operations. (Films like Shevri and tya Ratri Paus padat hota in Marathi language) Digital delivery of movies will also drive change. Multiplex operators are fast ramping up. Adlabs plans to invest Rs 2 billion over three years towards multiplexes, adding 100 new screens by the end of FY 09 to take the total to 135 screens.

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