



COVID-19: The many shades of a crisis

A media and entertainment sector perspective

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Foreword

The COVID-19 pandemic began at a time of increasing global economic vulnerability. There were already genuine concerns of falling consumption levels and investment alongside rising unemployment. Brexit and the U.S-China trade war hadn't helped and there was a palpable sense of uncertainty. Most indicators now suggest that some of the largest economies stand on the precipice of the greatest real recession in nearly 100 years.

As far-fetched as it seems right now though, there will be a recovery and people are already asking: how different will the post-COVID-19 era be from the one we knew earlier? The most tangible effect we see is on technology adoption and general versatility with digital commerce and content. We anticipate a considerable acceleration on both fronts for individuals and businesses, which should hopefully do as much for financial inclusion and e-governance, as for streaming services.

There has been a perceptible increase in media consumption – TV, digital and gaming especially – during the last few weeks as people have remained homebound. Monetisation of this trend could prove challenging however, as the media and entertainment sector in India derives a majority of its revenues from the advertising spend

of other industries. The recessionary impact on FMCG, financial services, automotive and e-commerce, therefore could have a knock-on effect. On the other hand, subscription revenues for the sector could improve over the medium term, as people are exposed and get accustomed to a greater variety of content during this lockdown period. This is predicated on new content being available quickly once the restrictions are lifted, which as per our analysis should correct with a lag of one to four weeks.

The segments most affected by the lockdown have been those that rely on a social gathering of people – films and events – and the recovery here might take longer than anticipated. Certain sections of consumers – particularly those residing in COVID-19 hotspots for example – are likely to remain apprehensive of crowds and display a preference for at-home media and entertainment options over outdoor experiences.

More generally, there could be a shifting of priorities as we progress to a new normal; the balance between work and family, wealth and well-being might be re-evaluated with leisure – of which media and entertainment is a large part – playing a greater role in our lives.



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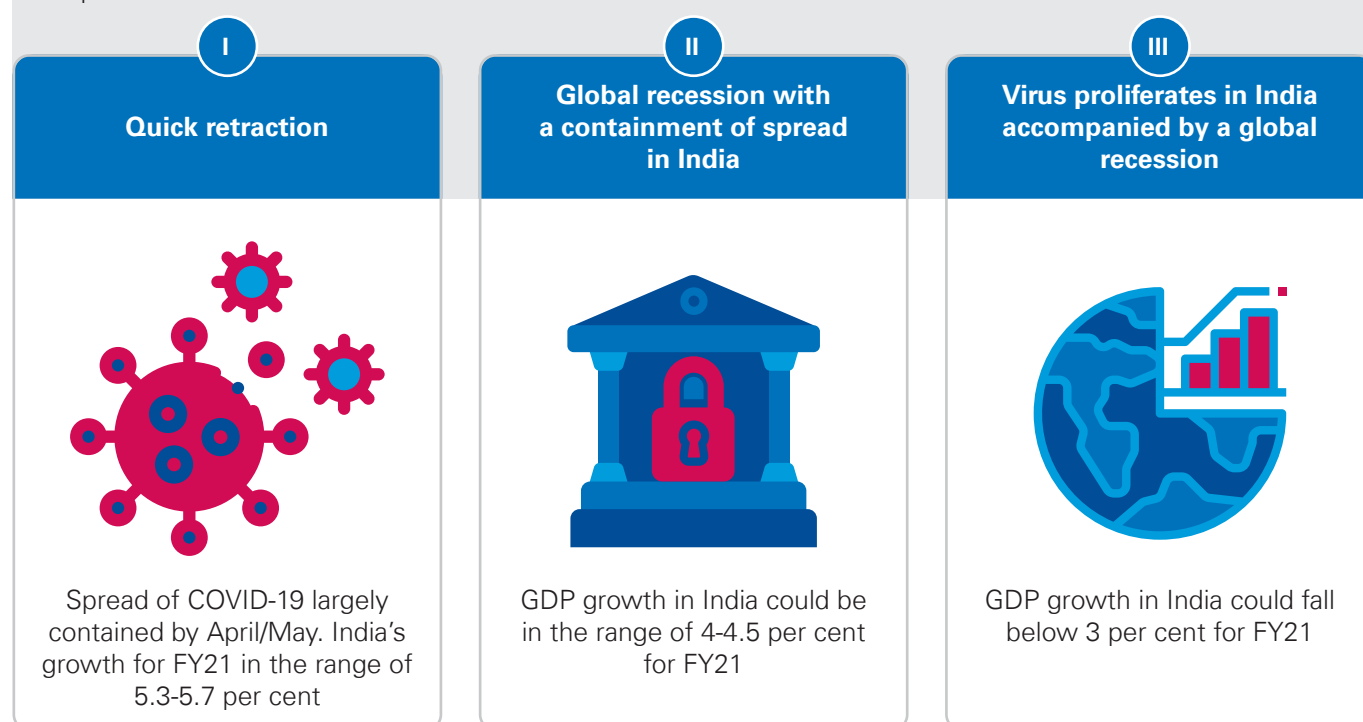
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COVID-19: A macro-economic context

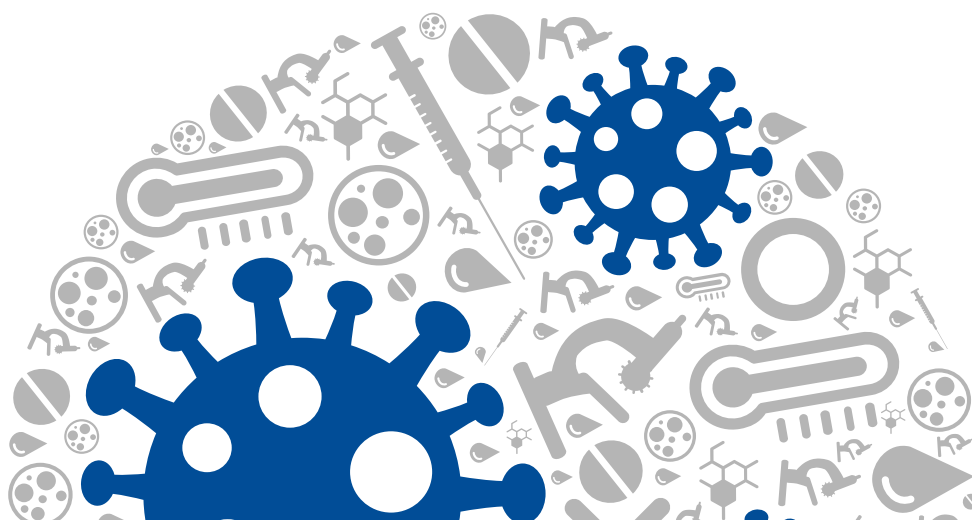
The COVID-19 pandemic is unique in that it has not only led to considerable loss of human life, but also widespread economic hardship through concurrent supply (input constraints), demand (spending patterns, consumer confidence) and market (financial conditions impacting wealth) shocks¹.

India's real GDP growth had already decelerated to its lowest in over six years at 4.7 per cent in Q3FY20². The COVID-19 pandemic, resultant lockdown and social distancing measures can only be expected to worsen prospects across manufacturing, services and agriculture. Along with lower consumption levels and higher unemployment, the Indian economy is likely to face a particularly challenging time in the months ahead.

While recovery timelines are uncertain, KPMG in India has studied three possible scenarios and outlined the impact on India's GDP under each³:



1. Potential impact of COVID-19 on the Indian economy, KPMG in India, April 2020
2. Quarterly estimates of gross domestic product for the third quarter (Q3) of 2019-20, Ministry of Statistics and Programme Implementation (MoSPI) accessed on 06 April 2020
3. Potential impact of COVID-19 on the Indian economy, KPMG in India, April 2020



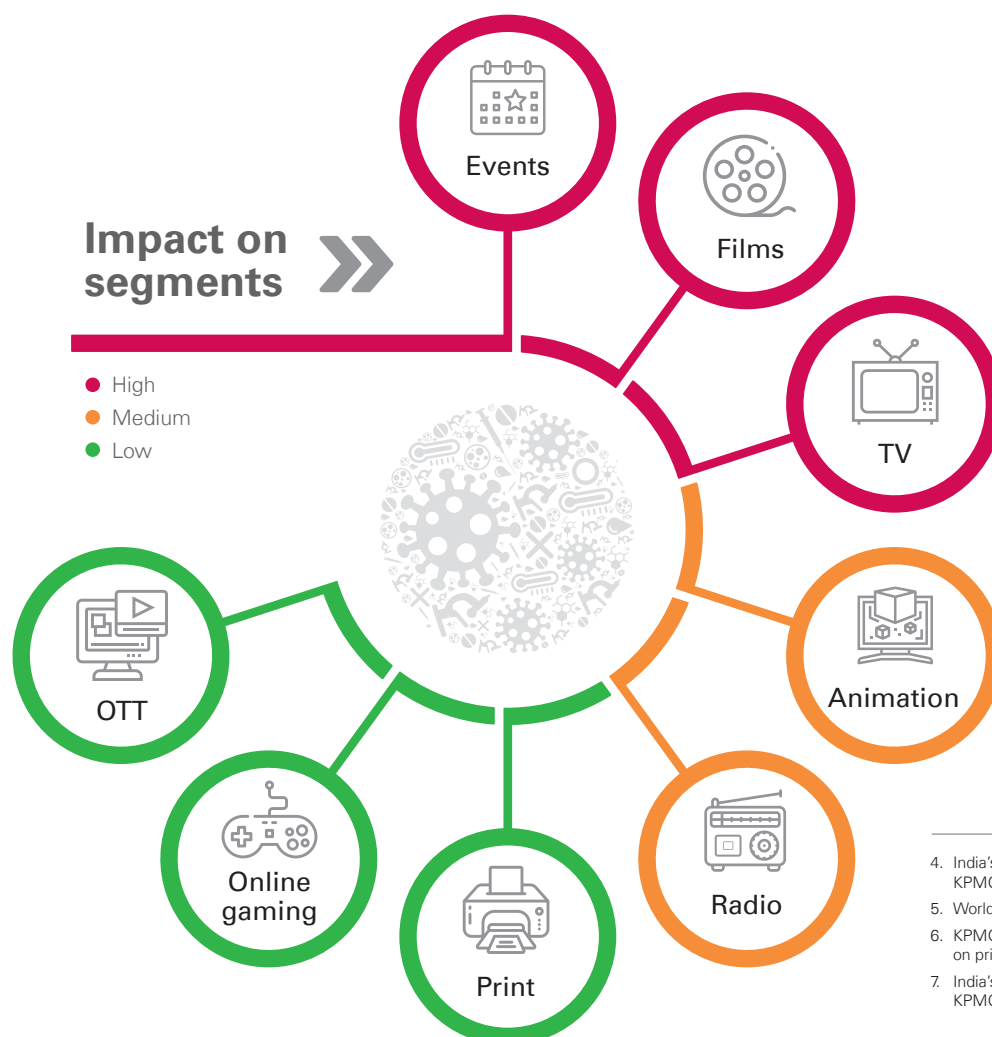
The many shades of a crisis: an M&E sector perspective

The media and entertainment (M&E) sector in India was estimated at INR1,631 billion in FY19 and grew at a compounded annual growth rate of 11.5 per cent over five-year period FY15-FY19⁴. This was against an overall rate of growth in the country's GDP at 7.2 per cent during the same time⁵.

Typically, media consumption has tended to be income inelastic. However, the current environment is unprecedented and could result in a dip in media consumption in the near term and importantly, a realignment in consumption models. During the lockdown however, certain segments of M&E are seeing consumption growth, particularly in TV, gaming, digital and OTT⁶. On the other hand, outdoor consumption models – films, events, theme parks etc.

– are witnessing a dramatic fall with social distancing norms in place. Further, most segments (except news related businesses) are unable to offer new content with production stalling across formats. Many segments of M&E also depend on contract employees/ freelance agents and hence the impact of the crisis on livelihoods in this sector is also considerable.

Monetisation in the M&E sector is predominantly reliant on advertising, which has seen a major contraction. Overall ad-spend is determined by the performance of sectors such as FMCG, e-commerce, automotive, financial services, real estate etc., all of which currently face their own challenges and could therefore take time to recover.



- India's digital future: Mass of niches, KPMG in India 2019
- World Development Indicators
- KPMG in India analysis 2020, based on primary and secondary research
- India's digital future: mass of niches, KPMG in India, 2019

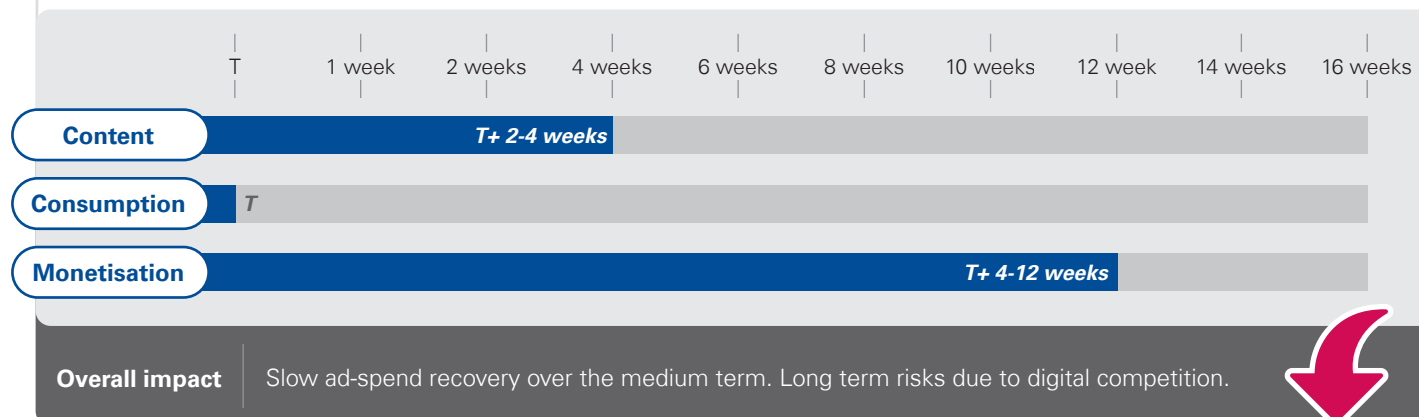
There is still uncertainty on when we can expect some normalcy to return to our lives. The resultant impact on GDP growth from three such scenarios has been outlined earlier. For the sake of analysis, we assume that normalcy will return at a point in time in the future (T), post which there will be renewed activity on content supply, consumption and monetisation. There is however expected to be a lag in the response of these levers in each segment, which we have measured in weeks (e.g. T + 3 would be three weeks post recovery).

TV: Glued to the telly but where's the money?



Industry revenues FY19: **INR714 billion⁷**

- Overall TV viewing has increased but absence of fresh content.
- News channels are popular as viewers follow COVID-19 updates in real time
- Monetisation has dropped substantially with advertisers scaling back on spends
- Sports could emerge as the big draw when recovery begins, especially if IPL dates are announced

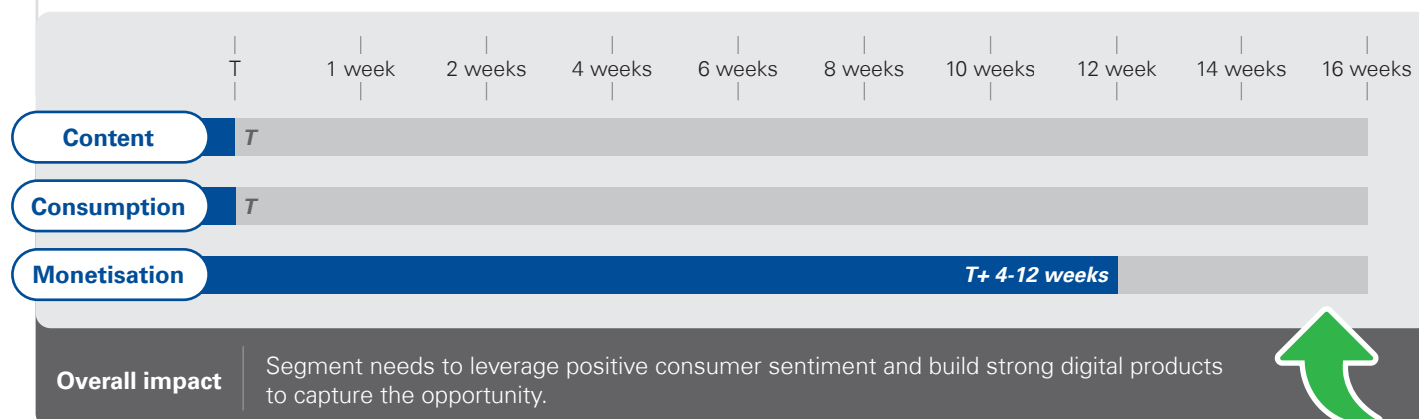


Print: New lease of life



Industry revenues FY19: **INR333 billion**

- Monetisation a serious challenge as advertisers scale back expenditures
- Higher credibility in the face of proliferation of fake news on social media
- Circulation pick up in near term once restrictions are lifted also resulting in improved ad monetisation
- Digital presence now more critical and could translate into greater monetisation opportunities



Films: Disaster at the box office



Industry revenues FY19: **INR183 billion**

- Footfalls and therefore revenues have dried up with cinema hall closures
- Rental cost savings anticipated due to invoking of force majeure clause
- Recovery process may be different across demographics based on specific COVID-19 experiences and perceived risk from social gathering
- Medium term release pipelines may be impacted due to crowding of projects and restart of on-hold projects

T 1 week 2 weeks 4 weeks 6 weeks 8 weeks 10 weeks 12 week 14 weeks 16 weeks

Content

T + 2 weeks

Consumption

T+ 2-12 weeks*

Monetisation

T+ 2-12 weeks

Overall impact

Footfalls could take a while to return to normalcy. Risk of narrowing of theatrical windows. Expansion delays likely.



*Recovery range determined by socio-economic class of audience and severity of experience with COVID-19

OTT: Silver lining



Industry revenues FY19: **INR173 billion**

- Secular rise in OTT consumption in duration, and across demographics and devices
- Content pipeline has dried up. OTT players with a large, legacy library have an advantage
- Ad-spends currently down but greater digital allocations by brands likely post recovery
- OTT players offering extended free periods to drive subscription pick up through habit formation

T 1 week 2 weeks 4 weeks 6 weeks 8 weeks 10 weeks 12 week 14 weeks 16 weeks

Content

T + 2-4 weeks

Consumption

T

Monetisation

T+ 4-8 weeks

Overall impact

Habit formation could result in a new normal and accelerated growth in consumption and monetisation.

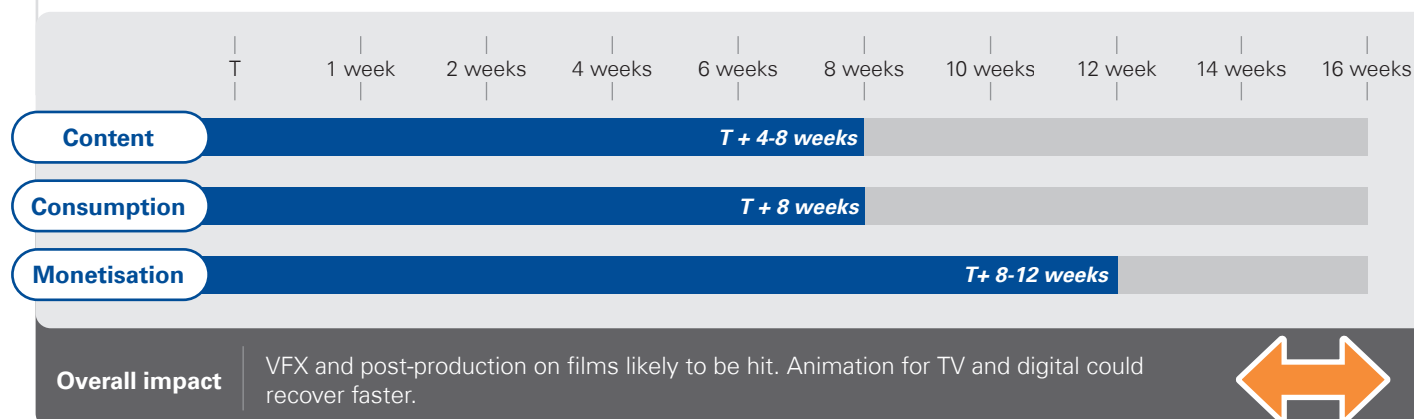


Animation: Back to the drawing board



Industry revenues FY19: **INR88 billion**

- Lockdown has affected content creation as remote working poses infrastructural challenges
- Animation and VFX work more long-term so demand could hold up despite crisis
- TV and digital projects could increase while film projects have taken a bigger hit
- Segment has high fixed and capital costs so cash flows likely to be an issue

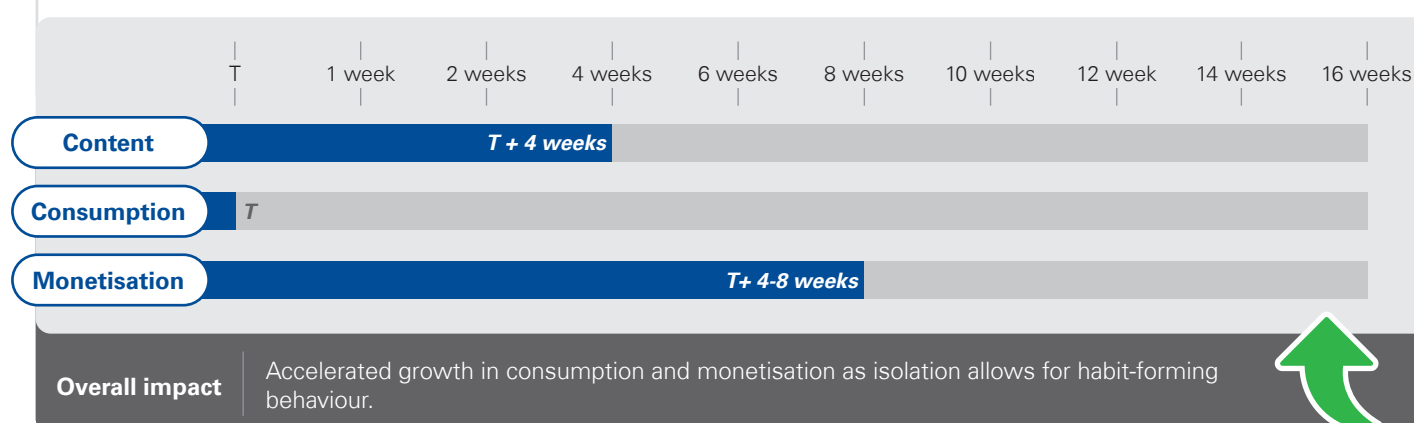


Online gaming: A dream run



Industry revenues FY19: **INR62 billion**

- Noticeable increase in time spent since mid-March
- Monetisation gap due to lowering of ad-spends
- Paid models could see growth as online gaming gets more entrenched into overall time spent on M&E
- Fantasy sports and e-Sports may be adversely impacted with a stalling of sporting activity, as well as potential aversion to social gatherings in certain demographics



Radio: Tuning in



Industry revenues FY19: **INR28 billion**

- Radio jockeys operating from home so content continues to be refreshed
- Local and topical content popular as people look to follow COVID-19 news relevant to their specific area
- Overall decline in advertising revenues, though some branding has been converted into CSR
- Drop in transit audience listeners as people are working from home

T 1 week 2 weeks 4 weeks 6 weeks 8 weeks 10 weeks 12 week 14 weeks 16 weeks

Content

T

Consumption

T

Monetisation

T+ 4-12 weeks

Overall impact

Demand for timely, localised content should remain strong even after recovery. Ad-spends could take time to recover however.



Events: Lights out



Industry revenues FY19: **NA**

- Multiple events cancelled including IPL, IIFA2020, India Gaming Expo, FDCI Fashion week etc.
- Industry's losses estimated at around INR 30 billion by the Event and Entertainment Management Association (EEMA)⁸
- Earlier recovery more likely in B2B events before B2C as people continue to remain wary of crowded places
- Given dominance of small players, the segment could come under severe cash flow pressures

T 1 week 2 weeks 4 weeks 6 weeks 8 weeks 10 weeks 12 week 14 weeks 16 weeks

Content

T + 12-16 weeks

Consumption

T + 12-16 weeks

Monetisation

T + 8 weeks

Overall impact

Live events could see a delayed recovery as social distancing behaviour takes a while to dissipate. Government support essential.



8. "Live events industry sustains near Rs. 3,000 crore losses", Economic Times online, accessed 06 March 2020

A whole new world?



Insights into the crisis and its aftermath

Significant and lingering adverse economic fallout

- The global economy is likely to see a sharp decline, possibly sliding into recession
- The impact on India's economic growth will be a result of both global trends and the extent of proliferation of the virus. GDP growth could be closer to 5.3-5.7 per cent in more favourable circumstances or fall to below 3 per cent should we face major challenges in our recovery

COVID-19 impacted locations and demographics to present further differences

- Locations and demographics that have witnessed a higher concentration of COVID-19 cases are likely to be risk averse in the near to medium term with regard to spends and social gatherings

India vs Bharat behaviours to deviate further

- Extended lockdowns and supply chain disruptions could affect the 'Bharat' population to a greater extent given the large informal economy and unorganised employment. Government support is critical to revive domestic consumption among this group

Short term and risk averse organisational behaviour in the near term

- Organisations are more likely to focus on the 'here and now' and cash conservation, rather than look for aggressive spends to catalyse growth

And for the media and entertainment sector...

Ad-spend pressures to linger on the back of weak economy and lower domestic consumption

Longer time lag to return to normalcy for weaker economic sections of the populations

Digital consumption to see rapid incremental growth with India's 'digital billion' trajectory likely to accelerate materially

At-home entertainment options (digital, TV, gaming) to see an upswing as 'lockdown behaviour' results in habit formation

Outdoor entertainment (films, events, theme parks) particularly in COVID-19 hotspots to see lingering risk aversion even in the medium term. 'Pent-up' demand behaviour among some sections of population may provide some respite

Delayed expansion plans though digital businesses aggressively target market opportunity



The above themes will play out across the M&E value chain as follows:



Supply chain

Innovations in content pipeline

- Limited content banks have severely constrained broadcasters and platforms. Current supply chains have limited remote collaboration options, longer lead times and a lack of technology integration
- A focus on building a stronger content bank may result in working capital being locked up across the value chain, leading to higher cash flow requirements
- Focus on technology integration, process efficiencies and reduction of lead times
- Aspects such as remote collaboration for creative ideation and scripting could last well beyond COVID-19 and alter the way the industry creates content forever.

Cloud solutions and remote working

- With greater harnessing of cloud and remote working solutions, companies may look at efficiencies in the way they conduct business, even across revenue generating functions such as sales

Innovations in delivery models

- With outdoor entertainment and recreation facing challenges in the near term, innovative outreach and delivery models are likely to evolve. Virtual live events and film exhibitors could be expected to leverage technology to reach consumers directly

Greater emphasis on predictive analytics

- Companies could place an increasing amount of reliance on Artificial Intelligence (AI)/ Machine Learning (ML) to predict consumer behaviour in these uncertain times

And finally... cash is king

- There is likely to be a near term focus on sustenance at current levels by companies. We may see a drastic fall in the capex/ investment cycle by companies, which could constrain supply and the growth of the M&E industry in the near term.



Consumption

India vs. Bharat dichotomy could likely widen

- The larger cities may not see an adverse impact in media consumption across most segments. The fall in consumption in outdoor entertainment options could likely be offset by increased at-home consumption of television, digital and gaming segments
- However, the same trend may not play out in smaller cities and rural areas. The lockdown and subsequent halt in economic activity has seen a major reverse migration of population, for whom the focus now is on mere sustenance. Media spends for this socio-economic class, especially around TV and films, could see a considerable decline.

At-home consumption, particularly OTT and gaming, to see continued accelerated growth

- Digital media consumption, particularly OTT, has seen a surge during the lockdown period in terms of both time spent and newer audiences. The resultant habit formation is likely to result in a new higher normal once the situation around COVID-19 comes under control
- OTT consumption in India could start seeing a shift from the mobile screen to the large TV screen owing to the lockdown effect with broadband internet/FTTH companies being indirect beneficiaries. This could also hasten the process of cord cutting/ shaving in the medium term
- Gaming as a segment could be one of the major beneficiaries in the overall digital ecosystem, especially around the younger demographic. Media companies, including OTT platforms, could seriously look at gaming as an extension to their ecosystem offerings.

Outdoor media consumption

- M&E segments such as films, events and theme parks are looking at a prolonged recovery cycle, owing to risk aversion towards social gatherings, particularly in COVID-19 affected cities and hotspots, which unfortunately includes some of the major cities

- The releases of big budget films could be severely impacted due to the same, and could lead to a sub-par FY21 for the segment
- Pent up demand behaviour by certain sections of the population may provide some respite

Delayed gratification

- While India's media consumption remains upbeat during the lockdown, indulgent expenses around purchase of latest hardware, technology upgrades etc. could be postponed for a while



Monetisation

Longer timelines for ad spend recovery

- An economy under stress and the adverse impact on the key ad-spend sectors such as consumer, auto, e-commerce etc is likely to impact monetization significantly. As a result, though consumption may rebound earlier, monetisation recovery may take longer

Penetration of subscription based digital models to accelerate

- Digital consumption has been one of the beneficiaries of the lockdown, though advertising led monetization, is not going to be immune to the overall cuts in advertising
- However, digital subscription revenues could see an upswing post COVID-19 as habit formation in terms of OTT video consumption sets in.

- Currently, though subscription monetisation is low since most platforms are offering free trials and sign ups to attract new audiences, with potentially higher paid conversions subsequently

Print gets a new lease of life

- One of the major bugbears of social media during this crisis is the circulation of fake news through social media. This is where newspapers, with their credibility stand to gain in terms of circulation as well as wider penetration of their respective digital platforms
- It is critical for print businesses to leverage this opportunity to evolve and build strong integrated digital cum print solutions to retain consumer loyalty

Medium term downside risk for outdoor entertainment segments

- Aversion to social gatherings in the medium term (particularly in major COVID-19 hotspots) could result in lower footfalls and ticket sales for films, events and theme parks
- As a result, there is risk of narrowing of the theatrical window for films, resulting in content reaching digital platforms quicker. This has implications on the overall monetization of films, with digital rights playing a far greater role when compared to theatrical revenues

M&E services build on domestic opportunities

- There is likely to be a greater emphasis on domestic markets in the services space, particularly in the animation and VFX segments, as global pipelines come under severe pressure.



React to cope, respond to thrive

The economic recovery can be expected to present its fair share of complexities, as organisations respond to pressures on multiple fronts. With a hard reset for a number of businesses, all aspects of operations would need urgent attention. Organisations might need to be risk focused and innovate existing business models and processes to survive and emerge stronger.

Technology takes centre stage

- Digitisation and building strong integrated digital models will become essential rather than optional in the post-COVID era
- For digital companies, increased focus is required on strengthening technology backbone, as digital penetration is expected to become more widespread once we regain normalcy
- Digital media consumption provides the opportunity to build faster and more nuanced profiles of users. The trend of using technology to enhance customer engagement – recommendation engines, personalisation, feedback loops, data analytics – will only accelerate and deepen
- Apprehensions around individual privacy online could become stronger and companies can expect to face a backlash should they not have credible measures in place for data protection

Building supply chain resilience

- Emphasis on deepening content pipeline, building content banks and reducing lead times
- By leveraging technology and its associated tools – telecommuting, cloud, AI/ ML – M&E companies should invest in improving content output efficiencies
- Enable recommendation engines to showcase less explored parts of content library, gamification of content etc. when production is hampered in exigencies

Cash regains supremacy

- Trend of risk aversion not just for consumers but also for organisations as liquidity allows for a great degree of comfort and confidence during stressful times
- Media spend by companies across sectors might be subject to a higher level of scrutiny and therefore M&E companies might need to offer more accurate return on investment calculations in traditional media and greater programmatic advertising options on digital platforms
- M&E companies might be more inclined to review the cost of acquisition (CAC) of new users, resulting in some downward pressure
- Capex and expansion plans would need to be reassessed to balance cash requirements, growth ambitions and consumption dynamics

Lowering operating leverage

- Emphasis on flexibility as companies look to move to a variable cost model and reduce fixed costs. As this crisis has shown, the ability to remain agile during downturns is a valuable asset
- Most content producers are paid ahead to allow them to manage their own working capital but such upfront contractual payments could be re-negotiated to avoid locking up cash

Investing in business continuity planning

- Build a culture of agility through the organisation
- Upskill employees to meet the challenges of working in a transformed environment

Innovations in customer offerings and outreach

- Outdoor offerings and outreach in particular, would need to innovate to rebuild customer confidence
- Build innovative experiences in 'out of home' to combat increased competition and mindshare from 'in-home' entertainment options.



In order to assist with the transition back to normalcy, KPMG in India has developed a framework to help companies work through the competing organisational priorities:

I. Immediate focus for companies will be on **value preservation and protection**

Protection of the workforce: Focus first on the physical and mental well-being of the workforce with a gradual reintegration process. Time for leadership to deliver clear messages on organisational priorities and provide a fair assessment of the impact of the crisis on their business to employees

Stakeholder communication includes not just employees but also external parties including vendors, partners and customers

Identify short-term cash flow challenges and enable cost levers for savings opportunities

II. Medium term objective will be **value creation**

Agree and implement the recovery plan

Incorporate learnings from the crisis to streamline processes and potentially provide better insulation from such shocks

Devise tactical working capital projections in acknowledgement of the changed environment

Invest in upskilling teams to adapt to the new normal

III. Long-term vision will be **value realisation**

Carve-out of non-core businesses to unlock value

Identify strategically aligned inorganic growth opportunities

Develop deep and credible succession plans



Conclusion

While traditional media could face some challenges in the near to medium term, digital media businesses have fared relatively better, albeit only on the consumption side. There is likely to be a long-term – upward – shift in the integration of digital technologies into our everyday lives, and media and entertainment will be an immediate beneficiary. This is likely to be true across socio-economic groups – i.e. for both India and Bharat.

The differences could arise however with a more granular observation of individual behaviour, as we expect urban areas affected by COVID-19 to potentially show greater affinity for at-home entertainment, subscription content, cord-shaving and streaming to larger screens in the near to medium term. On the other hand, livelihoods of a large segment of Bharat have been severely affected by this pandemic, potentially making entertainment spends into an aspiration. Inequity and imbalance in consumption could even be exacerbated in our post-crisis reality.

So, while we hope for a quick recovery and look forward to putting the pieces of our lives back together over the next few months, much would have changed in our world. Entertainment across all its forms could provide some much-needed succour.

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