

Defining and Redefining Policies to Incentivize Cinema Business



Dr. Shikha Misra ¹⁰

Abstract

This case is based on the impact of technological development and changing preferences of consumers (audience) on cinema business. The case also channelized the vulnerabilities of leisure industry due to its too much dependence on availability of disposable income. The case also highlighted the dynamic nature of business environment due to which governments and businesses need to reframe their policies in order to be relevant and competitive which specifically in this case is 'ease of doing business'. Harsh Sharma, the leading exponent, was a second-generation cinema hall owner in Hapur, Uttar Pradesh. He joined his family business in 2015 with a vision to grow it further by adding more cinema halls. SARS-CoV-2 hit in 2019 resulting in a series of lock downs and severe setbacks to businesses globally. This resulted in a steep fall in the income of Harsh too and forced him to explore diversification options. He also realized, that post Covid, fewer people were coming to cinema halls to watch movies. This gave him a thought that there was a need of a new film policy by the state and union governments to support different stake holders in cinema business financially, technologically and through skill development programs. Harsh approached Chief Minister Office (CMO) with a request to come up with a conducive policy to make state an attractive location for the cinema hall / multiplexes owners, attracting film production houses for shooting and post production processing and for even distribution of films.

All the data used are secondary and sourced from government reports, websites, published news articles and research papers. All identities are created and any resemblance will be coincidental.

Key words: cinema, destination, location, policy, skill, editing, production house, international business, competitive.

Introduction and Back Ground of the problem

Mr. Harsh Sharma was from Hapur, a city in western Uttar Pradesh, India. He was a second-generation businessman who owned commercial properties and also operated a cinema hall there. This cinema hall was established by his father in 1990. Hapur was

¹⁰ Assistant Professor (Tourism Management), History of Art, Banaras Hindu University
E-mail: researchesofshikha@gmail.com, shikhamisra@bhu.ac.in

carved out as a district in 2011 and was close to Delhi-NCR (National Capital Region). After Hapur became a district lots of developmental schemes were implemented there. As a result of which the rates of real estates and per capita income had been on an increase there. Harsh was a twenty-nine-year-old young man who after completing his graduation had entered into his family business in 2015. Initially his family business was growing and was generating a good revenue too. By the mid of 2019 he started planning to get another cinema hall and a shopping complex constructed on his ancestral land. He was expecting a good return on investment as his land was along the National Highway.

Fast forward year 2024, at an age of twenty-one, Harsh got a good eight years' experience of operating a cinema hall and had understood ups and downs of it. One day while sitting in a café in Lucknow he was evaluating the status of his wealth. He realized that he had incurred huge losses as post-pandemic the prices of his real estate had gone down and also due to availability of numerous other sources of entertainment people had lesser inclination to come to a single standing cinema hall to watch a movie only. Though, his business was still operational and was generating an occasional good income too, as and when any hit movies struck the floor but it was not giving him the kind of returns which he expected from this being a heavy capital-intensive business.

He had also experienced that people of his town generally liked to watch a movie which was made in a regional language with local dialect and had regional artists worked in it. These movies were lesser in price also so the net return on running such movies in his cinema hall was higher but then there were not many of such movies being made and so not frequently available. He had also watched few discussions on TV shows about the methods which different state governments in India were implementing to attract film producers to shoot their movies, documentaries, videos, etc. in these states.

Taking the first sip of his second cup of coffee he thought to continue with this business but with a redesigned model of it. He thought of mixing more elements of entertainment and purposes to it so that it got aligned with the changing likes and needs of people to go to market and their often-casual activities during weekends. These elements might be or might not be directly connected to cinema business but certainly had to be connected to the way population in general wanted to pass their spare time, weekends, do gatherings and to celebrate festive seasons, as these were the main times when it was prepared to spend its savings. He also assumed that it was for sure that he was not the only one to face this dilemma. There must be more such single cinema hall owners who must be facing heavy financial losses during pandemic and later on too but still were very much willing to continue into this business.

Cinema as a tool for awareness

Cinema is a powerful medium to promote a destination by familiarizing its audience with scenic uniqueness and other tourist resources present there. These audiences may further be transformed into targeted segments for touring to the areas where these movies were shot. This is called 'Film Induced tourism'. Cinema plays a vital role in

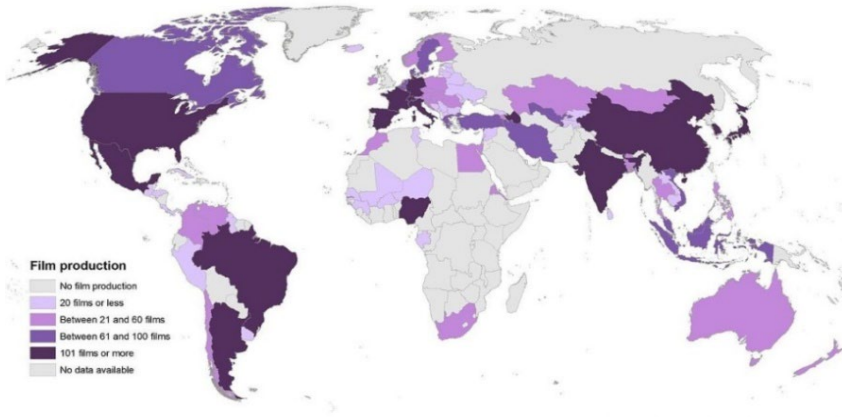
building a 'specific destination image' and affects its brand building. Both 'the cinema' and 'the destination' are correlated and cinema significantly affects inflow of tourist to a destination. E.g. the inflow of tourist to Udaipur after the release of Guide and Octopussy movies was increased (Kumawat, Shekhar, & Kothari, 2022). Literary fests, books, journals, dance and drama, films and other sources of entertainment, either unintentionally or sometimes intentionally, promote a destination. Cinema has a higher motivational impact to visit a destination as its audience watches it more intensely and with a higher concentration. This results in the retention of scenes (destination) in the memory of a person resulting in destinations becoming a part of 'the choice set' while taking a trips' decisions. This eventually increases the inflow of tourist at a destination.

Cinema as a tool for Economic & Socio-Cultural transformation

Cinema can also be used as a powerful tool by governments for economic and social-cultural transformation. Films like Pad, Peepli Live, Aligarh, Pink, Article 15, Prem Rog, Uda Punjab, The Kashmir Files, The Kerala Story, Article 370, etc. are few of the examples of movies which were woven around story lines based on social anomalies existing in a few sections of the society. Cinema also affects to a very large extent the cumulative psyche of the society. Cinema is an important economic activity too. Broadly dividing India has a Hindi film industry and regional cinemas like Bengali, Marathi, Punjabi, Tamil, Telugu, Malyalam, Kannada and Bhojpuri, etc. Cinemas provide employment, entertainment, promote culture-music-dance and drama of places, create social awareness, etc. It supports a creative economy by providing sources of income to actors & artists, lyricists, writers, poets, singers, dress, jewelry and footwears designers, stage decorators, makeup artists, architects, etc. Cinema also provides income to insurance industry, fashion industry, architects and taxes to governments.

Economies of cinema industry

In 2016 the size of cinema market in India was the 4th largest in the world. In the decreasing order of ranks the USA being the largest one and then China, Japan, India and UK. Companies which make or produce movies are called production houses. Due to availability of technically trained human resources, logistics, artists, locales and scenic beauties, requirements of the scripts, costs of labor and infrastructure developments, etc. most of the films are shot and edited at places other than where these production houses are located. These shooting places are called locations (National Informatics Centre, 2023).



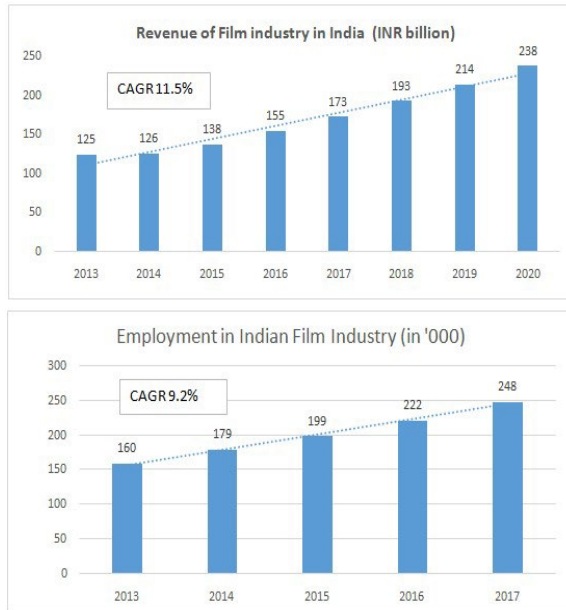
Map sourced from National Informatics Centre, Uttar Pradesh State Centre, Nivesh Mitra

Indian films and cinema industry was worth INR 172 billion in year 2022 (Basuroy, 2023). Indian film industry produces the largest number of movies (approximately 1500 to 2000 films in 20 different languages) and also sells maximum tickets (3.5 billion) in the world. Indian film industry has shown an annual growth rate of 10% per annum during the last couple of years. It now releases double the number of films in a decade from approximately 1000 films in year 2005 to approximately 1907 in the year 2015. Film shooting at a place is a complex activity in India. It requires more than seventy licenses to get the permission for an Indian movie to shoot in India itself. This procedure is even more complex for foreign producers as for a feature film they need a prior permission from the Ministry of Information and Broadcasting and for a documentary shooting they need permission from the Ministry of External Affairs besides other regular permissions and licenses (National Informatics Centre, 2023).

Hence, to be globally competitive, there is a dire need for India to simplify this entire process and a prompt single window clearance. India is already down on the competitive edge on film industry. Global giants like the USA and Canada are approximately five times as large in revenue generation w.r.t. that of India while these countries produce approximately one third on the number of films annually. The biggest strength of India is its largest Broadcasting and distribution sector with the largest population to be targeted in the future.

74% revenue of Indian film industry comes from Indian box office collection and 7% from overseas collection. Remaining 19% comes from other sources of income like brand association, co-branding, film-based merchandising, home video, in film advertising, broad band movie release, digital release, global marketing opportunities, etc. So Indian film industry rely heavily on its collections in India itself. In an era when film production budget is continuously increasing this overly dependence on box office collection only means that producers make money only and only if film fares well at box office. Hence,

production houses must start looking for other sources of income too (Ratnakaram, Chakravaram, Tatikonda, & Vidyasagar Rao, 2021).



Source: National Informatics Centre, Uttar Pradesh State Centre, Nivesh Mitra

Distribution of screens

India has an uneven distribution of screens across the country. Mumbai, UP and New Delhi don the maximum number of film screens and hence these places also account for approximately 60% of the total revenue collection (Anand, 2011).

Availability of technological support

India needs to develop labs for the production, animation and post production editing of films. 3D and Sci-Fi films need advanced labs and 3D enabled cinema screens to release these films. As per a report published by Business Today on 21st August, 2011, after Hollywood movie 'Avatar' was released and became a block buster in India in 2009, Indian filmmakers also started taking interest in producing 3D films. This resulted in the production of 'Haunted', 'Ra.One', 'Dangerous Ishq', etc. Here it is worth mentioning that in 1984 first 3D film was produced released in India which was My Dear Kuttichathan, dubbed as 'Chhota Chetan' in Hindi, it was only in 2011 that the second 3D film 'Haunted' was produced and released while during the same duration Hollywood released several 3D movies and earned money by releasing them in India too. 3D films screening generates two to three times more revenue and brings repeat audience to the screen owners (Anand, 2011).

Skill gap

Availability of skilled human resource for production and post production activities is another bottle neck in the development film industry. Production of technology based Sci-Fi films require new and expensive technologies and also the trained personnel who know and also have experience to use them. Indian films' producers often need to engage technicians from other countries to handle technical aspects of film production. This escalates the cost of production by 30% to 40% as producers need to engage skilled, creative and experienced people (Anand, 2011). Availability of trained actors, directors, cameramen, editors, cinematographers, project managers, production designers, sound editors and recorders, shooting with drones, digital graphics, etc. are few of the skilled human resource requirements for making a film.

Financial resilience

There are only a few big production houses in India which have enough financial resources and which can risk higher investment on a single film. The likelihood of return on investment (ROI) on a film is not satisfactory. As per a report published in the 'The Economic Times' on 23rd Jul'22, post Corona opening has not been good for films as 71% of films have flopped losing more than 50% of their investments (Naidu & Laghate, 2023). Cinema has got an industry status in 2001 so film producers in India are entitled to get loans from banks.

Piracy

Piracy is another major issue which Indian film industry is facing. Pirates either download or record movies illegally in the theatre and then either screen them or sell them as DVDs at a nominal price. It decreases the footfall in cinema halls resulting in a huge revenue loss to both producers and distributors. There was a revenue loss of approximately Rs. 12 billion to box office due to piracy in 2019 (Jha & Ranjan, 2021).

Lack of opportunities for regional cinema

Regional film industry in India has a good potential but needs support to develop and flourish. Industry also lacks innovation and diversity in story, script and songs writing. Also, the marginalized communities have lesser representation in terms of both involvements in production as well as their depiction in the movies. If regional cinema develops then chances are higher that these marginalized communities will also get their reasonable representation (Jha & Ranjan, 2021).

Pondering on the future

Harsh had a good business experience. He also had land and a good market reputation in Hapur. He wanted to merge his real estate and cinema business and come up with a business which can offer his clientele a complete package of entertainment, shopping and meals. He was wondering that during this post Covid time how would he be able to

arrange liquid funds which was required to invest in diversifying his single standing cinema hall business to a cineplex or multiplex or multiplex with a shopping complex or multiplex in a mall?

Also, during post pandemic times people generally have lesser disposable income, he was not sure about the financial feasibility of the new set up in the next few years. Though, he was sure that as and when the situation would improve post Covid, his business would also be able to make enough funds to self-sustain itself but by that time he would be needing financial support from the state government in both raising funds for establishing his new business and tax exemptions for more working capital to be available with him. Also, he was wondering if he should go ahead for cineplex business or multiplex business.

Hence, he realized that due to availability of lesser liquid money with the cinema hall owners there was a dire need of the state government intervention and with coming up policies to make this business more competitive. He decided to write to the Chief Minister Office (CMO) for their intervention and look into this matter and come out with a new policy for a better future of all the stake holders of cinema business.

He was thinking-

- i. If the government will listen to the problems of cinema hall owners like him?
- ii. What solutions should he expect from the government? Loan at an economical cost? Tax rebate? Technological availability not very far away from shooting places? Assuring ROI? Trained HR?
- iii. Should he expect that this policy will make UP an attractive film shooting destination? Will this make more regional and low budget movies available at a low budget?
- iv. Will the new policy be able to provide him a solution to merge his current cinema hall business with his future plan of shopping complex businesses and eventually revive the income?
- v. How to even out the distribution of screens across the country?

Harsh wrote a letter to the CMO and waited for the response. He raised a lot of questions in his letter. He received a response after fifteen days with an assurance that the state government would look into this problem and would do crowd sourcing to reach to a policy which would provide solution to the problems of cinema hall owners. They also requested him to provide his inputs in drafting the policy to make it oriented towards cinema hall owners problems. CMO also promised that it would work on a policy to attract more film producers to shoot their movies in UP.

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TEACHING NOTE

Synopsis

This case study is about the problems which cinema hall owners and film industry are facing with the increased competition, changing customer taste and coming up of alternative sources of entertainment like Over the Top (OTT) platform, YouTube, cable networks, pirated movies, etc. It provides information about the points which any country / state needs to consider while preparing its Film Policy in order to attract film production houses proactively. It also discusses about the infrastructural, procedural and human resource gaps which a destination needs to look into in order to be a film business friendly destination. Harsh Sharma was a young guy who owned a single screen hall and was with a good eight years' experience. He had incurred losses in his cinema hall business during Covid and post-Covid times due to lock downs and people not going to cinema halls due to availability of lesser funds and risk of disease. He planned to revive his business by diversifying and adding more elements of utility into it. Hence, he seeks financial and process related support from the state government so that he may invest, revive and survive his business.

Learning objectives

1. To make learners understand the elements of a globally competitive business policy.
2. To inculcate insights of the necessary requirements for 'ease of doing businesses' in cinema industry.

Que 1) Consider yourself Harsh Sharma and give response to the CMO by drafting a policy on the basis of information provided in the case above.

Discussions

Teachers teaching this case study need to do discussions with the learners on the following points-

1. From the above discussion on the problems, it may be concluded that the government needs to develop a film policy which will provide solutions to the declining income of cinema screen owners, making the state a more attractive location to shoot, availability of technological support through labs and availability trained HR for post shooting processing of movies and also providing necessary back up to the regional cinemas.

2. Colebatch, H. has written in his book, "Policy is an idea which flows through all the ways in which we organize our life: it is used by a wide range of participants in public life- public officials, elected representatives, activists, experts, journalists and others in their attempts to shape the way public life is organized" (Colebatch, 2009). Policy is a regulation, a set of rules and guidelines which are followed in order to achieve common goals. Policy provides useful tools for governance. Common examples of policies are health policy, tourism policy, transport policy, Rajasthan Film Tourism Promotion Policy - 2022, etc.
3. Recently there has come up a major change in India, while drafting a policy both union and state governments have started inviting crowd sourcing as a means to seek inputs to handle public problems like making an app for PMO, name of new Planning Commission, writing song for Swachh Bharat, etc. (Sharma, 2014).
4. A state may develop a film policy to make that state a favorable destination for film shootings and post shooting processing. It will increase the awareness about the culture of the state and will also help in its branding. It will enhance skill development and hence will increase job opportunities. This newly developed scenario will also promote regional cinema. Participants from different positions in film industry will have different requirements. Hence, film policy should have different slabs and types of incentives and baits for them. Only then the policy may be holistic in nature.
5. India needs to redevelop and upgrade its cinema screens for an even distribution of films across the country. Availability of technology and trained people who can use this technology for production and post production needs innovation and developments. Training institutes which can provide the necessary learning and hands on expertise to an intern is mandatory to bridge the gap between the demand and supply of skilled human resource.
6. Further simplifying the procedure to get the permission to shoot at a location will save resources of the production houses.
7. Film production is an expensive and risky process so if the concerned governments can provide financial incentives to production houses, then it will motivate more entrepreneurs to enter into this business.
8. Gone are the times when single standing cinema hall can financially survive. In order to fetch more money from cinema audiences now these cinema hall owners need to offer a full entertainment, shopping and eating out package to their audience. They need to include more facilities like eating joints, game zones, free sitting spaces, parking areas, ATMs, etc. in the vicinity of the cinema screens. Also, a variety in spaces like covered as well as open areas with greeneries are needed to retain the customer for a longer time and repeat footfall.

Solutions and Recommendations

It is clear from the above discussion that there is a need to develop new policy and revive the existing ones not only to make shooting more convenient for the production houses but also to attract them proactively by being more internationally competitive. Following may be the focal points to be considered by governments while drafting a proactive and more competitive film policy-

- i. Infrastructure development: Researches should be promoted and sponsored to explore new resources for shooting like scenic sites, superstructures, airports, gardens and beaches, etc. New sites for the shooting must also be developed. Post production and editing requires advance labs so government should encourage development of these on Public Private Partnership model.
- ii. Establishment of Film Cities: On the pattern of Special Economic Zones and equipped with necessary technological support, accessibility, privacy and security of the production units etc. new film cities is needed. If film production units from abroad come for shooting at these places, then the concerned government may provide them special facilities at competitive rates to attract more business.
- iii. Even out advanced screens distribution across the country: Enough number of film screens with advance and latest technology like sound system, comfortable seating, good air conditioning, eating joints in the vicinity, 3D and 2D with sharp images are needed for the screening of films. Schemes are needed to start new cinema houses and multiplexes, to renovate the existing ones and to restart those which have been shut down during Covid period due to almost nil revenue generation.
- iv. Tax incentives to attract production houses from abroad to come to India for shooting and post production processing of films. Also, tax rebate may be provided to new production houses if they shoot the entire or a certain pre-fixed part of film in India.
- v. State Governments should provide status of industry to cinema halls too. Government should also provide necessary information, financial assistance and tax benefits to entrepreneurs entering into cinema hall / multiplex businesses in cities where there are no cinema hall / multiplexes. This will more sources of income in these cities.
- vi. Institutional development: Institutions to provide training to the aspiring artists, actors, technicians, script writers, lyricists, music composers, music instrument players, dancers, singers, editors, technicians, cinematographers, camera man, software developers, etc. should be developed so that production houses may fulfill their requirements from India itself.

- vii. Government may provide food and lodging facilities at a subsidized rate in the existing government owned accommodation facilities to the visiting shooting crews from abroad. New facilities may also be developed on both purely state owned and/or PPP models as per the feasibility of the location.
- viii. As far as possible above-mentioned schemes and necessary support must also be extended to the production houses in regional cinemas.
- ix. Financial incentives in the form of a pre-fixed amount may be provided to film production houses coming from abroad and depicting the rich history and culture of India and showing India positively through their cinema.
- x. Also, tax rebate may be provided to Indian films based on patriotic themes and real-life stories.
- xi. Tax benefits or reimbursements, depending on prefixed terms, may be provided to the production houses if they procure their required inventory for shooting from India itself.
- xii. Constitution of Film Department / Division / Ministry for making all the policies, providing incentives and single window clearance to the projects for giving permission to shoot is needed to smoothen and fasten the process.
- xiii. As per the requirement, necessary security arrangements may be provided free of cost and / or on paid basis to the shooting production houses visiting a location.
- xiv. Small cultural societies and clubs may be developed at district and town level to develop and promote the culture of acting, dancing, singing, writing, photographing as a source of entertainment and livelihood.
- xv. Post production editing and processing of films should be developed and promoted by providing necessary technological labs and trained human resource support. These labs may also be used by 2D movies from other countries to be converted to 3D ones. India already has few such companies which provide these services like Prime Focus in Mumbai. Providing tax incentives, duty exemption, etc. will make India more price wise and resources wise competitive.

These above-mentioned steps may further make India more competitive and will help it in rising in the index of 'Ease of doing businesses.

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