Marrying media with tech

There has been a spate of mergers and acquisitions with media firms taking over tech ones or vice versa. What does it mean?

MEDIASCOPE

VANITA KOHLI-KHANDEKAR

SHAREit, a file sharing app, has 1.5 billion users worldwide. Of these more than 400 million are in India making it the Chinese firm's biggest market. Earlier this year, SHAREit acquired FastFilmz, an Indian over-the-top (OTT) app for a reported $13 million. MX Player, which allows users to watch more or less all video formats, has over 175 million regular users in India. In July this year, one of India's largest media firms, the Times Group paid about $140 million to acquire it

SHAREit is a tech company that acquired a content firm and Times Group is a media firm that bought out a large tech platform. As digital expands, data prices fall and over 412 million broadband users come into play, the walls that kept content, distribution, technology, platforms and all such terms separate have been falling quickly. Deals like SHAREit-FastFilmz and Times-MX Player will become more frequent — an EY report lists three similar deals. Film studios, broadcasters and anyone in the content business should pay attention to these for two reasons.

One, a bulk of SHAREit's 400 million Indian users are from small-towns in Tamil Nadu, Karnataka, Andhra Pradesh, Telangana and Maharashtra. For it FastFilmz was important because, "It is the number one OTT in South India. Their team is very important to us; they are masters of South India. It is very difficult to get a team that understands the Malayalam, Telugu, Tamil and Kannada speaking markets," says Jason Wang, managing director, SHAREit India. Small-town India usually gets the short shrift in a media ecosystem that thinks that India begins and ends within Delhi and Mumbai. Every young media planner thinks that television is dying in India because they themselves watch Netflix or Amazon.

But TV reaches over 836 million people in India and continues to grow in double digits. Much of this growth comes from small-town and rural India — notice the success of free-to-air TV channels and the rise in movie viewership on TV over the last three years. Most multiplex chains are investing in more screens in tier-II and tier-III markets. MX Player, SHAREit and their ilk have the potential to be huge disruptors in these under-served, media thirsty markets.

Two, India's 500 million internet users have not amounted to much so far. Put together subscription and advertising and the digital pie is just about ₹100 billion. TV, on the other hand, gets over ₹660 billion in revenues. Except for YouTube, no other video app makes money in India and probably won't for a long time. "Advertising CPMs (cost per mille or thousand) are very low in India. There is no need to sacrifice consumer experience for such a small income. We may sacrifice revenue in the next three to five years because we firmly believe that income from India will rise as users rise," says Wang.

This then is a long haul game not meant for the faint-hearted or the easy-going. The Times Group, which is as mass media as it gets with newspapers, TV, radio and digital brands, has been trying to crack the OTT market since 2013 with Box TV long before Star's Hotstar or Viacom18's Voot came in. MX Player is, arguably, its biggest shot at the game.

TV is a cosy club with five firms — Sun, Sony, Star, Zee and Viacom18 — controlling more than 70 per cent of the viewership in India's 197 million homes. There is a complacent air of 'we know what to do' about it. This then is just the time when any one of these merged entities could totally disrupt the market. Sure, all major broadcasters have OTT apps. But they are too wedded to their own content and formats. None of them has a digital audience anywhere close to YouTube, SHAREit or MX Player. You could argue, rightly, that this is not a fair comparison given they reach way higher numbers on linear.

However, the market, audiences, technology have got so mixed up that there are no fine distinctions. Platforms, aggregators, distributors, creators are simply terms we use to understand this kaleidoscopic world. The viewer simply looks for a nice video.

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CHINESE WHISPERS

Composer *didi*

West Bengal chief minister Mamata Banerjee (*pictured*) has got into the Durga Puja mood already. She has composed the theme song for one of Kolkata's puja committees where her minister Arun Banerjee is a member. It has been sung by singer-turned-politician Indranil Sen, who is a minister in her government. Last year also, Banerjee had composed a song for the same puja committee; but maybe she wasn't too happy with the end result. So this year, she took another shot at it and the lyrics, she said, have a more welcome feel to it.

Election fever grips capital

Election season means long days of hectic activity. On Tuesday, there was much speculation that the Narendra Modi government might succeed in getting Vijay Mallya, jewellers Nirav Modi and Mehul Choksi back to India. The Modi government has also scaled up its outreach to stakeholders, including the media. Off the record briefings by senior ministers have become the order of the day. Meanwhile, the Rashtriya Swayamsevak Sangh has asked its affiliates to make their presence felt. The Bharatiya Mazdoor Sangh is gearing up for protests and press conferences, including one on Wednesday. If the Bharatiya Janata Party is organising multiple press conferences in a single day, the Congress is working up its energy to match its opponent.

Wooing Maya

Bahujan Samaj Party (BSP) Chief Mayawati (*pictured*) on Tuesday criticised not just the Bharatiya Janata Party (BJP) and the Narendra Modi government, but also the Congress and the UPA governments, for steep petrol and diesel prices. The Congress is negotiating a seat adjustment with the BSP in Madhya Pradesh for the upcoming assembly polls. However, the criticism has left the Congress a tad nervous. The party reckons that the key to defeating the BJP in 2019, and also in Madhya Pradesh, is an alliance between the Samajwadi Party and BSP in Uttar Pradesh. According to sources, the BJP is also reaching out to Mayawati. As part of this strategy and to mollify the upset Dalit community, the Modi government is mulling conferring the Bharat Ratna on BSP founder Kanshi Ram posthumously.

The high point of the Vajpayee era

The singular contribution of the Vajpayee government to the Indian economic reform process was the privatisation of public sector enterprises, says the author in the concluding part of the series

RAKESH MOHAN

Another major courageous reform undertaken during the Vajpayee period was the significant reduction in small savings interest rates. While nominal levels of small savings interest rates had been changed over the 1990s, a significant decline in inflation since the mid-1990s meant a large increase in real interest rates on these popular savings instruments widely used by the middle- and low-income classes. High real interest rates on savings accounts constrained the downward movement of both market and bank interest rates along with policy rates set by the Reserve Bank, thereby severely constraining the resurgence of economic activity and investment.

Finance Minister Yashwant Sinha set up an expert committee under then Deputy Governor of RBI, YV Reddy, which recommended the reduction of these rates based on a certain degree of market discipline. The government implemented these recommendations with alacrity, despite widespread popular and political opposition. This reform set in motion a low interest rate regime for the many following years, and also made the overall interest rate structure more market determined, making monetary policy making and transmission much more effective.

Trade

On the trade front, the Vajpayee government continued the liberalisation process begun by Prime Minister Narasimha Rao in 1991. Quantitative restrictions on imports, including consumer goods, were almost eliminated by 2004; and customs duties continued to be reduced. The 'peak' customs duty was reduced from 45 per cent in the 1998-99 Budget speech to 20 per cent in 2004-05 (It came to rest at 10 per cent in 2008). This continued throughout the Vajpayee regime even in the face of significant opposition from Indian business. The subsequent rapid expansion of Indian trade in the following eight years or so provides ample evidence to support the wisdom of this policy. Regrettably, some of these reforms have been reversed recently and protectionism has once again reared its ugly head.

In its quest to open the Indian economy and to promote trade the Vajpayee government also began the process of participating in bilateral and other regional trade agreements. He set up the Joint Study Group with the government of Singapore with the intention of establishing the India Singapore Comprehensive Economic Cooperation Agreement (CECA), and another one with the government of Sri Lanka to establish a Comprehensive Economic Partnership Agreement. I was privileged to be appointed as the joint chair from the Indian side in both those study groups. The India Singapore CECA was later implemented by the UPA I government soon after coming into power. These initial discussions set the stage for later initiatives by successive governments on similar free-trade agreements with ASEAN and others. They also served as a signal of India's confidence and that it was open for business.

Had the major labour market reforms in 2001 been implemented, the Indian industry could have seen increased investment in labour-using manufacturing

Privatisation

The singular contribution of the Vajpayee government to the Indian economic reform process was the actual privatisation of public sector enterprises (PSEs). Former Prime Minister Narasimha Rao had begun the process of disinvestment that had essentially been done with the purpose of raising resources for the government, rather than restructuring or reform of the PSEs. This was a bold initiative, so much so that it has yet to be repeated by successor governments of Prime Ministers Manmohan Singh and Narendra Modi. Although it did generate a certain degree of controversy, on the whole, the privatisation of nine significant PSEs and 19 hotels was accomplished successfully without scandal or any allegations of wrongdoing. Once again, the fact that this could have been done in a relatively smooth manner is a tribute to Prime Minister Vajpayee's political sagacity and skillful management. There was also an attempt to bring down government equity in public sector banks to 33 per cent, as announced in the year 2000 Budget speech by Finance Minister Yashwant Sinha, but this proved to be a nonstarter and has remained one till today. With the demonstrated success of this privatisation process it remains a puzzle why successive governments have not carried it forward.

Some failed initiatives

Inevitably, there were also a number of failed reform announcements, some of which continue to hobble the Indian economy today. Few remember that the 2001 Budget speech announced major labour market reforms through a proposed amendment of the Industrial Disputes Act that would have increased the floor level of firms subject to the provisions of Section VB the Act from hundred workers to 1,000. It had also provided for 45 days of wages for each year served as compensation to any worker who would have to be laid off. Had this announcement been implemented the course of Indian industry might have changed for much better, with increased investment in labour-using manufacturing. Employment in organised sector manufacturing may not have stagnated as it has and Indian exports could have exhibited a much greater presence in the world of trade. Alas, this reform is yet to see the light of day. Similarly, petroleum price deregulation, decontrol of the sugar and fertiliser industries were also announced. Of these, only the petroleum price deregulation has finally been implemented by the current government; other reforms remain in abeyance.

The Vajpayee government exemplified the determined continuity of the economic reform process initiated by Prime Minister Narasimha Rao in 1991, after the 1996-99 interregnum due to political instability. Many of the reforms would not have succeeded without sagacious political leadership reaching out across the aisle to engage in consultation, discussion, and compromise. The design of the reforms was also aided by seeking out all available economic expertise. Economic technocrats were given the space to provide advice without fear or favour. If the Indian economy is to move forward, a similar atmosphere of consultation, discussion and utilisation of technical expertise by the political and civil service leadership is indispensable.

(Concluded)

The author is senior fellow, Jackson Institute for Global Affairs, Yale University; and distinguished fellow, Brookings India

DECODED

With the rupee dropping to new lows against the dollar every day, **Anup Roy** explains two terms — NEER and REER — that have become part of our daily conversation.

Nominal and real

Why should we bother about 'REER' and 'NEER'?

The nominal effective exchange rate or NEER is an index of the weighted average of the exchange rates of a basket or group of countries. The US dollar versus Indian rupee numbers quoted regularly reflect the value of the rupee against the US dollar, and not against other currencies with which India has significant trading links. Over a period of time, the other currencies might also have depreciated against the dollar, with the result that the relative value of the rupee is very different against these currencies. The NEER seeks to resolve part of this problem by measuring the rupee against a basket of trading partners by assigning each currency a weight, based on the trading done with the country.

A real effective exchange rate (REER) is the NEER after factoring in relative inflation (consumer price-based index) using some measure of relative prices or costs; changes in the REER thus take into account both nominal exchange rate changes and the inflation differential vis-à-vis trading partners. In the current context, REER is more relevant as it takes into account a whole host of factors that actually determine an exchange rate, the key being inflation differential.

How does one arrive at the REER and the NEER?

The Reserve Bank of India (RBI) publishes the two measures of REER and NEER — one on a 36-currency basis, and the other on a six-currency basis. Weights are added based on how much trade is done with one particular country. Needless to say, the actual calculations are more complex than this.

The base is a year to which a value of 100 is assigned. Anything more than that would imply an overvaluation of the rupee (that means it should depreciate to reflect parity) and less than 100 would mean undervaluation (that means the currency should be allowed to appreciate).

Let us take the 36-currency basket. On a trade-based weight, REER, at the end of August, was at 114.54. This means that since 2004-05, adjusting for inflation, the Indian rupee has appreciated 14.54 per cent against the average of these 36 currencies, weighted as per their trade with India.

Does it mean that a mere 14.54 per cent devaluation from the rupee level at 2004-05 would reflect the true value of rupee now? Not necessarily. Based solely on the REER construct, the statement that the REER is 14.54 per cent overvalued relative to the 2004-05 is algebraically correct, but extrapolating this to a "true value" of the rupee faces problems. Instead, REER gives an indication whether the rupee is overvalued or undervalued.

But why is the six-currency REER higher?

On a six-currency trade-based weight, REER was at 122.70 in August. These six currencies essentially constitute the major trade partners of India. As India is a net importer (70 per cent of India's oil needs are imported), it makes sense for the country to keep the currency strong against these countries. It makes the import bill smaller to that extent (say we need to give ₹70 for one litre of oil, against ₹100).

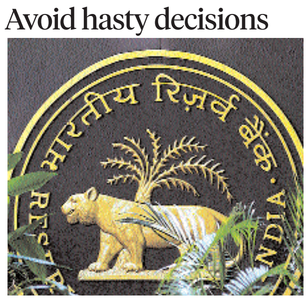
In this context, NEER being at 73.37 looks interesting. Since it is not adjusted to inflation, this means that since 2004-05 the rupee has depreciated 26.6 per cent against the 36-currency basket in nominal terms. That may seem a lot, but remember, the NEER doesn't take into consideration any inflation adjustment. When looked in conjunction with the REER, NEER may indicate that we should have depreciated much more. At the risk of being overly simplistic, NEER may mean that if rupee's purchasing power against the 36 countries was 100 in 2004-05, it is now only 73.87.

How are exchange rates and inflation related?

Usually, inflation differentials are a key driver of exchange rates. Let's consider a simple example. Suppose a pen costs one dollar to make in a developed country. Now, say, it takes ₹35 to manufacture the pen in India. With India's exchange rate being at ₹70 to the dollar, the buyer can buy two pens made in India. But what if India's pen-making competitor country has an exchange rate of ₹105 equivalent to a dollar? The buyer can purchase three pens, instead of two. India, in this case, loses the business. For any meaningful competition in the pen market, India must let its rupee touch 105 against the dollar. This depreciation of the rupee, or erosion in its value, is also inflation from India's perspective. REER can be used as a yardstick here to find out how much depreciation would be needed to compete against the 36 countries in the global pen market.

LETTERS

Avoid hasty decisions



I admire your elegantly articulated advice to the government, "Staying calm" (September 11). Your detailed list of what to do and what not to should help those in charge to, hopefully, survive through the present crisis. Undoubtedly, almost everything seems to be going wrong on the economy front. Most of our fiscal targets seem to be in danger. Only the single mantra of "staying calm" can — and will — help at this difficult juncture. Taking knee-jerk actions, under populist pressure, has never helped any government or for that matter any business conglomerate. The only silver lining is that a weak rupee can help boost our exports, which were for long under pressure due to (a) the global situation and (b) an artificially propped-up rupee. It is time to focus on this sector and ensure that nothing comes in the way of our major exports. Cutting fuel taxes, by giving in to the bandh calls by the Opposition, would not solve anything.

As suggested by you, the Reserve Bank of India (RBI) must insist that exporters bring back their foreign currency revenues expeditiously and rein in currency speculators. How exactly the RBI and the government can bring in this discipline is an issue that needs some consideration. Any decision by the RBI's monetary policy committee to raise the interest rates could indeed be counterproductive.

Krishan Kalra Gurugram

Onus lies on the US

This refers to "2+2 steps forward, one step back" (September 10). In our 1962 war with China, the Russian press of the day blamed us for it. If the United States came to our help then, it was to spite the USSR. After China's first nuclear test in 1964, the US had started giving us tacit support for our own nuclear programmes. But when it is about the ever uncertain Indo-Pak equations, the US does not mind being on the same page with China, as in the 1971 Indo-Pak war. Notwithstanding recent tough US talk, its tilt towards Pakistan has been overt due to their long engagement in the Afghan theatre, irrespective of the incumbent at the Oval office.

A flurry of agreements could well be part of the overall Donald Trump agenda for this volatile region, now made more effervescent by China. These overtures must ride the long haul and be predicated on a pragmatic, honest and fresh Indo-US politico-economic paradigm. The onus of our bilateral ties lies more on the US.

R Narayanan Navi Mumbai

Through the roof

In the run up to the Lok Sabha election in 2014, Baba Ramdev regularly castigated the United Progressive Alliance (UPA) government for petrol prices being above ₹70 per litre. In television interviews, he would ask people which government would they vote for — the UPA that gave petrol at ₹70, or to the National Democratic Alliance (NDA) that promised to cut excise duties and offer it at Rs 35. On his part, Arun Jaitley, as Leader of the Opposition, used to say that petrol prices are rising due to the inefficiencies of the state-run oil companies.

But now, as on September 9, 2018, Mumbai petrol prices have not only turned volatile crossing ₹87, but will rise further as prices of crude oil have been showing a firm trend. Moreover, the rupee has moved lower against the dollar, making petrol prices in Mumbai more expensive than before. In order to help the private sector oil companies, petrol and diesel prices are revised daily, thanks to the so called dynamic pricing system initiated by the NDA government fleecing the common man and the business sector alike. If the government reduces excise duties, fuel rates will become cheaper but the Narendra Modi government remains unmoved and both Ramdev and Jaitley are silent on this issue.

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