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saregama india LTD.: repositioning the value proposition[[1]](#footnote-1)

Rituparna Basu and Neena Sondhi wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On May 5, 2018, Vikram Mehra, managing director of Saregama India Limited (Saregama), smiled as he overheard the conversation between a young male customer in his thirties and the salesperson who was packing his Carvaan box at the Reliance Digital store in Mumbai’s Palladium Mall: “My Mother’s Day problems are sorted,” the customer said. “I am giving my mother a Carvaan, the perfect portable music box. My best childhood memories are when she used to be working and humming these beautiful Hindi songs that played on the transistor. I can’t wait to see her delight when she can listen to all her favourite songs at the press of a button.” Saregama’s share price had reached ₹840,[[2]](#footnote-2) but what excited Mehra was the breakthrough Carvaan had achieved with the Indian consumer. Launched in 2017, the Carvaan was a portable music player with 5,000 pre-loaded songs from yesteryear. It came with built-in stereo speakers, Bluetooth, a USB drive, and an FM radio. The device balanced the best of technology with the simplicity of just pressing a button. The product had been a turning point for the 117-year-old music giant.

As Saregama converted its conventional copyrighted music into high-quality digital formats and made a rare stretch from the business-to-business (B2B) to business-to-consumer (B2C) markets, the firm recorded a revenue jump from ₹2.1 billion in fiscal year (FY) 2016–2017 to its highest revenue so far, ₹3. 5 billion in FY 2017–2018. The profit before tax also rose, increasing from ₹160.65 million in FY 2016–2017 to ₹411.2 million by the end of FY 2017–2018.[[3]](#footnote-3)

The first phase of the change had been positive, and Carvaan had played an important role in this success. Mehra now envisioned Saregama becoming the new “₹20 billion IP [intellectual property] content company” in the next five years. To make that happen amid the fast technological and consumer evolution, Mehra needed sharply defined short- and long-term strategies for Carvaan and Saregama.

THE INDIAN MUSIC INDUSTRY: EVOLVING CONTENT AND BUSINESS PRACTICES

Indian consumers’ hunger for entertainment was as large and diverse as the country’s population. PricewaterhouseCoopers forecast that the industry’s compound annual growth rate (CAGR) in India would reach 10.8 per cent by 2021, more than double the 4.2 per cent growth rate expected globally, and that the value of the Indian media and entertainment market would grow from US$27.3 billion[[4]](#footnote-4) in 2016 to reach $45.1 billion by 2021.[[5]](#footnote-5) The largest contributor to the Indian entertainment industry was television, at 46 per cent (see Exhibit 1); digital content made up 6 per cent of the market, and music 1 per cent. The sectors expected to grow were digital content, radio, music, and films (see Exhibit 1).[[6]](#footnote-6) The media and entertainment industry in India was undergoing dramatic changes (see Exhibit 2).

Historically, music cassettes had replaced vinyl records in the latter half of the 20th century, due largely to cassettes’ advantage of portability. However, music cassettes were easy to duplicate and were thus prone to the threat of piracy. S.F. Karim, a senior consultant employed with Saregama since 1978, explained:

With piracy, the legitimate music companies started getting hit. My products were copied and sold at cheaper rates in the market because the market vendors didn’t have to pay for royalty, taxes, or advertising. Counterfeiting came in as the bigger second problem. The look-alike products were doing rounds in the market and consumers were unable to differentiate. When I sold 2 million, 18 million were sold by the market vendors. Moreover, this escalated the problem of defective returns. Even if I didn’t sell much, I started receiving huge stocks of defective as well as unsellable returns, most of which were look-alike counterfeit product.

Music companies were equally concerned with noticeable changes in the consumption preferences of music consumers (see Exhibit 3).

At the same time, the music industry became more cluttered as a number of new firms established themselves in the 1980s (see Exhibit 4). Karim shared his observations:

Till then [the 1980s], we had a near monopoly, but during that time, artists started having other options and moved to companies that could give them a better deal. Similarly, firms took a conscious decision to choose the artists. Today, things have changed: artists are free to record with different music companies because there is no binding agreement.

During this period, two kinds of music co-existed—film and non-film music. Film music included a large number of popular movie songs, which were produced specifically for Hindi and vernacular movies and constituted an integral part of the movies and their consequent popularity. Non-film music included albums released by independent artists and singers. Thus, agreements were of two types. Karim explained:

To produce music, three things are required: lyricist, music director, and singer. In non-film, the music company has control over all three elements. The company takes care of all promotions, and the artist, according to the agreed terms, earns a royalty that is a certain percentage of the total music sales. However, in the case of film music, the royalty sharing agreement is between the film producer and the music company.

Shortly after 2000, competitive players entered the market and a new business arrangement evolved that guaranteed a minimum royalty, paid upfront to the producer, irrespective of sales. Ghanashyam Aayeer, Saregama’s chief financial officer (CFO), explained this model:

Earlier acquisition was on a royalty sharing basis, so you sank or swam together, but T-Series[[7]](#footnote-7) started offering a minimum guarantee, which revolutionized the industry. Producers found the guarantee most convenient because they started getting value up front instead of waiting for a longer payback period. Thus, music acquisitions became one of the most important sources of funding films. So today, music companies now need huge capital, both for IP acquisition as well as for managing music promotions.

At about the same time, in 2004–2005, the digital era became a reality. Aayeer summarized the change:

In this period, the telecom companies started introducing digital products, like caller ring-back tone, IVR [interactive voice recorder], and others. The telecom companies thus became the single biggest revenue earner for all music companies. But slowly, fatigue set in and revenues earned by the telecom companies came down to one-third of what they were in the 2010s.

However, new sources of revenue opened with the entry of over-the-top (OTT) service providers like Gaana and Saavn, which operated in India much as their counterparts Netflix and Amazon Prime operated in Western markets. These OTT services provided content directly to viewers over the Internet, bypassing companies such as cable or broadcast networks, which had traditionally controlled and distributed the content. OTT services distributed streaming media that could be conveniently accessed anytime, anywhere. Aayeer explained:

OTT is an exciting revenue earner for all Indian music players—including Saregama. A variation of the same OTT service is YouTube. It is by far the largest music service in the world. It brought down the valuation of music drastically. For one stream, YouTube is currently earning anything between one paisa[[8]](#footnote-8) to three paise, so it is as low as that. But volumes are huge, so earnings are big. The OTT service values one stream at 10–12 paise.

In this scenario, the other major revenue source for the music company was publishing. Aayeer explained:

This means when a song recording gets played in your own house, it is for your personal use, but if you play it in public, say in a restaurant or bar, then the music is used for public performance, which we refer to as “publishing.” This comes with a cost. In addition, the song also has composition and lyrics. Some people can pick up lyrics and give it a tune or some people can add different lyrics to the existing tune. But that tune or those lyrics are, again, owned by the music company. So for that, a licence has to be taken. In this sphere, we are one of the biggest because copyright of most of the earlier classics and popular tracks lies with us.

SAREGAMA india Limited: India’s OLDEST MUSIC COMPANY

The Company’s Lineage

Saregama, formerly the Gramophone Company of India (Gramophone Company) and popularly known as His Master’s Voice (HMV), was incorporated as a limited company in 1946.[[9]](#footnote-9) As the first overseas Indian branch of Electrical and Musical Industries Limited (EMI) of London, HMV’s strong initial inroads into production of music, cinema, and media content transformed the company into an invincible brand. However, increased and aggressive competition around the 1980s led the company into large financial losses. In 1985, legendary business doyen Rama Prasad (R.P.) Goenka of the RPG Group took over the financially ailing Gramophone Company.

In August 2000, recognizing that digital media was going to be the future, the firm ventured into the digital space and launched HamaraCD.com. The company also strategically acquired marketing rights and licensing agreements from established and successful labels in south India: Sangeetha Music (The Master Recording Company), Sargam Music Private Limited, Pyramid Audio (India) Private Limited, and Sea Records. In addition, with a vision to establish itself as a holistic music and entertainment company, Saregama acquired 42.85 per cent of Music World, an erstwhile RPG Group–controlled music retail chain. In November 2000, EMI sold off its majority stake to the RPG Group due to the government’s restrictions on transfers of earnings by foreign companies, and the company was renamed Saregama India Limited.[[10]](#footnote-10) EMI retained a token stake of less than 10 per cent in the company, which was later sold in the open market in 2005.

The subsequent years were an era of IP acquisition of new and popular music. Saregama entered the acquisitions market by raising funds from the equity market. Between 2000 and 2005, the company expanded into developing television content and also consolidated and merged a number of its international subsidiaries under the auspices of Saregama India Limited. Aayeer traced these years:

We had extensive physical distribution, so we approached English studios like Warner, Universal, Paramount, and BBC to use our distribution channels. We offered acquisition backed by minimum guarantee to foreign studios. We also went into film production. However, these new expansions did not really take off. Thus, in 2013, we liquidated our entire distribution network and we licensed the physical distribution rights to Sony.

In 2005, Saregama—the custodian of 300,000 songs, 23,000 artists, and 50,000 contracts, with 13 regional offices and four international offices, in London, New York, Kuala Lumpur, and Dubai—was fully acquired by RPG Group. However, the volatility in the market and the aggressive competition, compounded by changing consumer preferences, led the firm into a period of financial stress.

Rejuvenation

In 2011, the much diversified RPG Group was redistributed among the two sons of R.P. Goenka. The RP-Sanjiv Goenka Group, a consortium of companies managed by the younger son, Sanjiv Goenka, was formed. Saregama was now part of this group. Goenka knew that success in the new Indian market needed new and more efficient approaches. Hence, he turned to consulting firms McKinsey & Company and Boston Consulting Group for advice on how to lead this transformation.

Commenting on his vision and plans for Saregama, Goenka said,

Saregama is being transformed into a Mumbai-headquartered production house, generating content for online consumption. With data getting cheaper on every network, we are of the view that the demand for content is only going to grow. So, from being one of the richest repositories of Indian music of different genres, we are turning ourselves into a production house, which will also leverage our strengths from the past.[[11]](#footnote-11)11

The vision was exciting, but it needed a professional leader who could convert the thought into reality. Thus, Goenka handpicked Mehra to lead the next phase of the Saregama saga.

Mehra took over the reins in October 2014 as the 17th managing director of Saregama. The company had experienced considerable changes in leadership over its century-old lifespan and was an integral part of the ₹210 billion turnover to RP-Sanjiv Goenka Group.[[12]](#footnote-12) Mehra came with impressive academic credentials and a track record in business.[[13]](#footnote-13) He recognized that, “on the face of it, things may not have been good; but the foundation and the structure was there. Saregama owned the biggest treasure in the country. Practically every piece of music recorded in India from the early 1900s was owned by us.” Mehra took on the challenge and decided that music content would be the key strength on which the new Saregama story would be composed. With a systematic approach, based on data-driven consumer insights, Mehra got the company back on a growth trajectory. On a lighter note, Mehra shared his reason for joining the struggling firm:

I had immense faith in the strong foundation and the treasure of yesteryears’ music at Saregama. Secondly, it helps that to date the only music I listen to is a Kishore or a Rafi or an Asha.[[14]](#footnote-14) I don’t enjoy new music and this helped me connect more naturally. Third is the genuine free hand given by the promoter, ready to take a longer-term view. I feel that in order to do something different, there will be success as well as failures, and my faith in this goldmine of music is unshakable.

To date, Saregama had experimented with a certain amount of B2C ventures—HamaraCD.com, Music World, and others—but had remained largely as a B2B player (see Exhibit 5). This was restrictive, according to Aayeer: “The company always had a professional as an MD [managing director]. But the past MDs did not really look beyond the B2B market, where you are bound by what your business partner or client wants to do.”

Instead of remaining with the conventional and traditional approach of running a music business, Mehra decided that a different track was needed:

What is convention? If you see the United States right now, LPs are making such a big comeback. Premium ones like Bob Marley are selling like hot cakes. You need to keep on reinventing but remember that technology has to be slaved to what consumers want. Consumers may not be able to state in exact words what they want. . . . My firm belief is, marketing cannot be done sitting in glass chambers. You need to be sitting in your customer’s home. What we often do is we think that our customers are just like our friends. Our friends drive great cars and live fancy; they think 500 rupees for a drink is nothing. But that’s not India. India is something very different right now.

With Mehra’s vision, Saregama surged ahead on a two-phased journey.

Phase 1: Understanding the Indian Consumer’s Needs

In the first quarter of 2015, Saregama conducted a nationwide qualitative study across 23 Indian cities to determine the attitude of Indian consumers toward music and how they used it. Mehra shared:

When I joined Saregama, the one lesson that everyone in and outside the company, starting from my direct reportees to other labels in the industry, told me, “Customers will not pay you anything. B2B deals will happen. You may license your music to streaming applications, TV channels, and other movies to use your content, but in the end, customers will never pay.” And for me, this was a huge challenge and the reason behind this study.

The consumer insights that the company gained were interesting. Mehra summarized them succinctly:

It came out clearly that the older people, the crowd aged 35 years and older right now, are primary customers of a Kishore, Rafi, Asha, Lata, Hemant kind of music. That customer was saying that we had made it very difficult for them to consume our music. Our question was, Why? The music is there on so many apps. They said they don’t use the apps; they find them too complicated. People who are 35+ and live in Bombay, Delhi, and Calcutta—they are more tech-savvy. But a 35+ living in Ludhiana, Jabalpur, Kochi, or Munnar—the belts that are B-level cities—are large consumers of entertainment. They are the people who watch StarPlus television shows today. They are my customers, who wait for their sons or daughters to come home, do an illegal transfer of 10 songs onto their phones, and continue to listen to that music only.

Mehra shared three key insights that led him to conceptualize Saregama’s possible offerings. The first had to do with how consumers wanted to access music:

I met this lady in Kanpur who remarked, “Son, our time was good: Vivid Bharti [on AM Radio] was played at my place the whole day. I used to cook, the kids used to study, and my husband did his work.” . . . For me, it was as if someone was talking about my life because that’s how I was exposed to music. My mom was a huge fan of the music. Vivid Bharti was switched on all day, literally. And I said, maybe there is a case out there.

Can I package my music in a fashion so that people can listen to it at the press of a button? People want to be in control of tech objects. There was another man who told me, “I want control in my hands; I don’t want to be dependent on my son or daughter, and beyond that, I just want to enjoy.” There’s a dichotomy in that: I want to have control, but I don’t want to have full control. This device [the Carvaan] is not expecting you to do something every minute with it. Turn on Kishore Kumar and for the next 36 hours, Kishore Kumar will keep on playing back to back, randomly, without any advertisement or intervention.

The second powerful insight had to do with the purpose of music:

This was about nostalgia, like going back to those days when life was simpler. Life today is too high-strung. At times, one just wants to switch off, with no complications. Even a washing machine today has 12 buttons; you have to learn them all, which mode I operate in. . . . I go and ask for a normal coffee at a shop—they are going to throw in options, half of which I don’t even understand. There are so many choices at any given point of time. *But*, I don’t want to do anything—just lean back and relax. Music is about relaxation.

The third insight was how to access the target consumer:

Because of nuclear families, more and more youngsters are staying away from their homes. Hence, every anniversary, Diwali [festival], or parent birthday, you want to give them something. You will not carry sweets for your parents, so you will pick a saree [dress], phone, or tie. These are very standard gifts that you can give your parents. But you have given it once, now what do you do?

Retired Indian parents, especially those who retired from the public sector, overnight become really stingy and stopped spending money on themselves because they were not sure about pension or retirement income. I might not be able to sell to them, a 65+ someone, because this kind of purchase might be perceived as an indulgence. However, it would be a rational thing for a son or daughter to buy as a gift for a parent.

Thus, the mandate was clear: there was a large population of those who grew up in the 1980s and earlier and now craved music that appealed to them. But they wanted this to be an easy listening experience, in the background, with minimum intervention or effort needed from the consumer.

Phase 2: Crafting the Value Proposition

The consumer insights were key to a revolutionary product that was targeted at the unmet need of a hitherto untapped music market. The targeted users were older consumers, 40 years of age or older, who were fond of music, but the targeted buyer was their children.

In May 2017, Saregama had its largest product launch of Carvaan, a portable digital music player loaded with 5,000 evergreen Hindi songs. The product came in six retro colours and looked like a transistor radio from the 1970s (see Exhibit 6). Mehra outlined the defining components of Carvaan:

Firstly, convenience. You just press a button and music starts; you don’t have to do anything else. No data connectivity, no Internet speed, no pirated content. The volume is at a particular level; you don’t need to increase or decrease the volume with every song. Second is nostalgia. There’s a reason why this is being packaged this way. The people who have grown up listening to transistors will remember Murphy’s old transistor. Hence, this format. Everywhere nostalgia sells. And we are selling nostalgia and convenience. But it is packaged completely differently so that the consumer is seeing the value.

The Bluetooth and the USB [port] are critical. This means that whenever your grandson or granddaughter is coming home, the Carvaan becomes your Bluetooth speaker. They can listen to their own English music on this only. What is it doing? It is telling a 65-year-old that what I am buying can also be used by my grandchildren. It just makes our product complete. People often wonder why we have given the Carvaan [the capacity to be] a Bluetooth speaker. There was a lot of thinking that had gone behind everything that is in the product, a sort of eureka insight.

Carvaan was manufactured in China and was priced at approximately ₹6,000 per unit, with an almost 20 per cent profit margin. Aayeer confessed, “Per-unit profitability is not very enticing for a CFO, but this per-unit profit multiplied by a large volume gives us a huge profit. It brings you back into the game.” Launched as a B2C product, the Carvaan sold 95,000 units just in the first quarter.[[15]](#footnote-15)

The content fed into the product was backed by a large repository of Saregama business intelligence data, generated every month from its content played on YouTube, streaming applications, telecom, TV channels, and radio stations. The playlist was developed using a copyrighted randomizing logic. According to Mehra,

Everything that has gone out there is copyrighted, and we will make it very difficult for anyone to do this, but you may come out with a different structure altogether. But, what will they put inside this? Which music? They can’t put Rafi songs; that’s owned by us. They will have to put a newer singer. Who listens to newer singers? Kids. Will kids go for a physical structure? No, they will go for digital. We are very clear in our head who our audience is.

Next, the company launched a Carvaan Mini in October 2017. This was launched in a lower price category and was positioned more as a Bluetooth speaker that was also loaded with 251 of Saregama’s biggest hits. This was priced around ₹2,000. “Actually, this was a dealer push kind of a product, more for the younger consumer who wants a Bluetooth speaker and gets an added advantage of a select few retro songs,” said Mehra. Beginning in early 2018, the firm launched regional variants of Carvaan in Tamil, Bengali, and Marathi, and it had plans for more regional variants.

The product was positioned as a nostalgia gift product and made use of selective digital media, such as YouTube, to broadcast emotion-driven commercials. The launch announcements used traditional print media. The product was sold through Saregama’s own 7,000-odd physical distribution outlets and on the Amazon portal. Aayeer described the distribution model:

We have set up our own fresh distribution network rather than relying on dealers, as was the practice in the past. Then, it was all on a “sale or return” model basis, which actually killed the music business. The dealers did not have any commitments. Whatever was sold, they made 30–35 per cent; the rest, they returned to the music company. And then came the time when returns were higher than the sales. Now, the basic distribution network has been designed in such a manner that our customers are mainly the electronic stores where cash and carry is the criteria for the sale. So currently, the sale is strictly on a cash-and-carry arrangement without any return.

The company also developed an organizational structure with clearly defined roles to manage the product verticals (see Exhibit 7).

WHAT NEXT?

The company sold 95,000 units of Carvaan in the first quarter of FY 2017–2018 and expected to sell 300,000 units by the close of the fiscal year.[[16]](#footnote-16) According to Aayeer, “Carvaan has been the single largest turning point for the financial health of the company” (see Exhibit 8). Aayeer continued, “This is a huge advantage as it reduces the reliance only on B2B. Secondly, it provides a strong financial shoulder to explore more sustainable long-term strategies.”

The journey so far had been extremely satisfying, but the road ahead was not without challenges. Karim outlined those:

For us Indians, music will never come to end. Only the form changed. Earlier, there was record, then came cassette, CD, then it went digital; now again with Carvaan, we have come back into physical format in a different way. Music survived. But what changed is the consumer and their demands. Their demands increased tenfold and keep changing. So one has to be ready with different ways of reaching the consumer.

The company made a clear foray into the B2C market by tapping the needs of the older consumer through Carvaan. At the same time, Saregama began producing full-length feature films through Yoodlee Films, which created a product that was targeted at the younger, tech-savvy consumer. Mehra expressed the need for caution:

Right now, it is a leap of faith. We challenged the common belief of “no one wants to pay for music” with Carvaan, and now we want to challenge the perception that the “movie business is a gamble.” We started Yoodlee Films with a structure that would ensure that every movie at least recovers its cost. The movies are made with smart budgets and selective, target-oriented distribution. Now we need to make it into a sustainable business model that does not depend on individuals and would come with a certain profit every time.

Aayeer spoke to the financial considerations:

Growth can be done in multiple ways. It can be through a platform or through content. We realized that growth with a platform is highly capital intensive. On the content side, Carvaan has helped us generate capital with which we can look at IP acquisition now. We have already acquired six or seven new film music, as this business needs to be with your own money and not on borrowed capital.

Lastly, despite being a listed company, we were somewhat ignored by the investors as they were never impressed with a B2B kind of business; they think of that as an annuity business. Now, once they see a product or a line that can really grow, the investors see a promise. With Carvaan, we have moved into the United States; we are also releasing in Canada, Europe, and the Middle East. And the investors are showing confidence. In a year’s span, the number of scripts, which was about 180, touched around 900.

While all of this is good news, we cannot remain as a one-product bundle. Of course, Carvaan has huge potential and will need to be scaled up and innovated, but we need more to keep the business moving and growing.

Mehra knew that with success came responsibilities. The previous four years had been extremely productive, and Saregama was getting back on the track that Goenka would have envisioned for his company. Yet neither Karim, who forecasted ever-changing consumer demands and disruptive technological innovations, nor Aayeer, who wanted concrete and measurable indices of a robust financial health, were wrong when they spoke about a multi-pronged strategy. That being the case, Mehra wondered how to balance the B2B and B2C growth engines for Saregama. He saw two alternatives:

*Option A*: Saregama could continue to follow the traditional B2B model where the music company directly produced or procured rights to film as well as non-film music and distributed them through the company’s well-established distributor network. This included distribution through various Internet-based media channels and apps. Could this pure content and IP acquisition focus, independent of the platform business, bring Saregama back to a formidable growth track, or was it too conservative?

*Option B*: Saregama could stretch into its newly-found space in the B2C markets with more innovative variants of the Carvaan product. This was an interesting opportunity if the firm could produce more portable and digitally innovative product variants.

Mehra also wondered whether he needed to draw phased business plans—move into one segment and then the other—or explore both the B2B and B2C opportunities simultaneously. He saw a vast range of possibilities and combinations of actionable options. The question was, How should Saregama strike the right notes?

Exhibit 1: Media and Entertainment Industry in India

(a) Percentage Share of Media and Entertainment Sub-Sectors (2016)

(b) Growth, Current and Projected, of the Media and Entertainment Industry

Source: Created by the case authors based on “The State of the Media and Entertainment Sector in India,” Live Mint, October 23, 2017, accessed May 6, 2018, www.livemint.com/Consumer/Gd1QhKIlEb6kotghQ0ameK/The-state-of-the-media-and-entertainment-sector-in-India.html.

Exhibit 2: THE MEDIA AND ENTERTAINMENT INDUSTRY IN INDIA

The most interesting and unifying form of entertainment, irrespective of consumer demographics or medium, was music. However, the media and entertainment industry in India was predicted to experience a tectonic shift. Between 1.0 and 1.5 million customers had already moved entirely to digital media consumption, and an estimated 4 million Indians were expected to be digital-only consumers by 2020. Over-the-top (OTT) platforms such as Netflix, Hotstar, and Amazon Prime were another fast emerging favoured entertainment channel. This was predicted to be the fastest growing platform, with an expected revenue from OTT subscriptions reaching ₹5 billion by 2023.

The recorded music business in India was expected to double by 2019 to ₹18.9 billion (US$300 million). While legitimate music consumption still accounted for only 1–2 per cent of the total consumption, trends demonstrated that Indian consumers were evolving and responding to entertainment that had a new digital address (see Exhibit 3). Mandar Thakur, chief operating officer of Times Music India, observed:

The “typical Indian mobile consumer” still consumes mobile telco-based products like ringback tones and hence those products will have a long tail, whilst the “evolved modern Indian consumer” consumes streaming/subscription services, is smartphone-heavy usage savvy and will grow the top end of the market.

In either case—the preference by the emerging consumer is not of “ownership” but of “rental.”

Frank D’Souza, partner in the entertainment and media vertical of PricewaterhouseCoopers India explained:

The players in the industry needed to move over from being content and distribution focus to see how a unique user experience can be created for the customers. Strategies that will shape tomorrow’s leaders were . . . extending franchise into an experience, building direct to consumer destination, aligning operations to fan values.

Source: “The State of the Media and Entertainment Sector in India,” Live Mint, October 23, 2017, accessed May 6, 2018, www.livemint.com/Consumer/Gd1QhKIlEb6kotghQ0ameK/The-state-of-the-media-and-entertainment-sector-in-India.html; Tim Ingham, “India’s Music Business Will Almost Double in 2019 – KPMG,” Music Business Worldwide, April 23, 2015, accessed May 6, 2018, www.musicbusinessworldwide.com/indias-music-business-will-double-by-2019-kpmg; Frank D’Souza, “Global Entertainment and Media Outlook 2017–2021,” PWC India, accessed May 6, 2018, www.pwc.in/industries/entertainment-and-media.html; FICCI Media & Entertainment Committee and Ernst & Young, *Re-Imagining India’s M&E Sector*, March 2018, 14, accessed May 6, 2018, www.ey.com/Publication/vwLUAssets/ey-re-imagining-indias-me-sector-march-2018/%24File/ey-re-imagining-indias-me-sector-march-2018.pdf; Gaurav Laghate, “Indian OTT Market Has a Potential to Reach 5bn by 2023,” *Economic Times*, November 20, 2018, accessed August 23, 2019, https://economictimes.indiatimes.com/industry/media/entertainment/indian-ott-market-has-a-potential-to-reach-5bn-by-2023-bcg/articleshow/66709416.cms?from=mdr.

Exhibit 3: Evolution of the INDIAN cONSuMER’s Music Preferences

The change in consumers’ music consumption and preferences from the mid-1900s to the present were phenomenal. Music cassettes and CDs had dominated the market in the 1970s. When the digital era arrived two decades later, consumers were busy finding and adapting to cheaper and more convenient alternative sources of music. A survey of Indian consumers found that approximately 40 million Indians—two-thirds from urban India and the rest from rural India—were online every day. The most popular activity on the Internet was downloading music (19.38 per cent); if consumers were not downloading and storing songs, they were listening to songs online (almost 14 per cent).

A large segment of consumers moved from listening to copied content on their portable devices to listening to freely downloadable content. Mehra elaborated: “Digitalization brought in rampant piracy, with consumers downloading free content. So revenue started decreasing, and music companies found it tough to reinvest, and hence quality of content deteriorated.”

With no physical barriers, illegal music providers proliferated online by registering and re-registering new website names that were impossible to control. However, the growth of smartphone use, falling data rates, and a shift from browser- to application-based consumption helped to control illegitimate music distribution to some extent and promoted legal distribution among end-users across the globe. According to Mehra, “In the app world, it is easier to control piracy because the firm can go to Google or Apple with legitimate proof that the app has got our content. This helps because then they remove the app completely.”

Source: Created by case authors based on discussions with Vikram Mehra (managing director, Saregama), Ghanashyam B. Aayeer (chief financial officer, Saregama), and S. F. Karim (senior consultant, Saregama), February 6, 2018; and “The Current State of Digital in India,” e-Intelligence, accessed May 6, 2018, www.e-intelligence.in/blog/latest-interactive-infographic-the-state-of-digital-in-india.

Exhibit 4: key players in India’s music and entertainment industry

**Zee Entertainment Enterprises (local major)**: The Mumbai-based music major, launched in 1992, was owned by the Essel Group. The firm had diverse product offerings in the field of entertainment and a considerable national and international presence. It operated 37 domestic and 39 international television channels and owned a music company (Zee Music Company) and a multi-satellite operator (Siti Cable). The company’s other interests included print, Internet platforms, mobile applications, and film production. It had large-scale operations in both content publishing and digital platforms. In 2010, in partnership with Penske Media Company and United Internet, Zee Entertainment Enterprises launched a digital platform, India Webportal Pvt. Ltd. In February 2018, Zee Entertainment Enterprises launched an over-the-top (OTT) platform called Zee5. The firm carried out large-scale brand initiatives.

**Super Cassettes Industries Private Limited, doing business as T-Series (local major)**: Founded in the 1980s and headquartered in Delhi, T-Series began as a company selling pirated Hindi film music. It was privately owned by the Kumar family. In the 1990s, T-Series entered music distribution and film production. In 2017, it started its YouTube channel by entering into a licensing arrangement with Amazon India. This was hugely successful, with over 35 million subscribers and more than 30 billion views.

**Sony Music Group (international)**: Sony Music Entertainment India (Sony Music) was now a subsidiary of the Sony Corporation of America, headquartered in New York. Sony Music began operating in India in 1997 and was the first record company in India to be 100 per cent foreign owned. The firm was involved with publishing and distributing film and non-film musical content. It also served as the distribution arm for Hindi and regional content for other big music firms such as Zee Entertainment Enterprises, Saregama, and Warner Music Group Inc.

There were also smaller category leaders such as Eros International Media Pvt. Ltd., which was involved in motion picture production and distribution, and Sun TV Network Ltd., a large TV production and network player in India’s southern region. There were also subsidiaries of popular media houses, such as Times Music India (Times Music) and Times Internet, of Bennett Coleman and Co. Ltd. Times Music began with music distribution and then launched its own music label (Junglee Music) in 2007.

Exhibit 4: (Continued)

**The Digital Players**: Both international OTT players (Amazon Prime and Netflix) and domestic OTT players (Hotstar, Sony LIV) were emerging in India’s music and entertainment sector. Smaller and regional players made the market extremely cluttered, with low entry and exit barriers. Digital players also included smartphone-friendly streaming services provided by seven local telecom Internet companies—including Reliance Jio Infocomm Ltd. (JioSaavn Music and Radio), Bharti Airtel Ltd. (Wynk Music), and Times Internet (Gaana)—and international providers such as Apple Music, Google Music, and Amazon Prime Music. Users could use voice-commanded devices—notably Google Home and Amazon Echo—in addition to smartphones and computers to play their favourite music.

**Piracy and Counterfeit**: There was also a parallel grey market that allowed Indian consumers to download free, pirated content; purchase pirated and counterfeit CDs and DVDs at deeply discounted prices; and ”borrow” pirated and counterfeit CDs and DVDs through home-delivery lending libraries.

Source: “Zee Entertainment Enterprises,” Money Control, accessed May 6, 2018, www.moneycontrol.com/company-facts/zeeentertainmententerprises/history/ZEE; India Brand Equity Foundation, “Zee Entertainment Enterprises Limited,” IBEF, accessed May 6, 2018, www.ibef.org/industry/media-entertainment-india/showcase/zee-entertainment; “Movies and Music,” Zee Entertainment, accessed May 6, 2018, www.zeeentertainment.com/businesses/movies-and-music; Sonam Saini, “Zee’s JV Partner Penske Hires LeEco’s Debashish Ghosh,” Indian Television, June 15, 2017, accessed May 6, 2018, www.indiantelevision.com/television/tv-channels/people/zees-jv-partner-penske-hires-leecos-debashish-ghosh-170615; Lata Jha, “Amazon Prime Music Ties Up With T-Series,” Live Mint, February 21, 2018, accessed May 6, 2018, www.livemint.com/Consumer/VEuZ7SWGIjOQL078bs6DuL/Amazon-Prime-Music-ties-up-with-TSeries.html; Deepa Mani, “Case Summary: Sony Music (India),” ISB Insight, April 16, 2014, accessed May 6, 2018, http://isbinsight.isb.edu/case-summary-sony-music-india.

Exhibit 5: SAREGAMA PRODUCT PORTFOLIO

**Online Music Store**: Saregama launched its fully owned online music store in April 2015 to make available Saregama’s digital library of 110,000 songs in 14 different languages for free live streaming and for downloads at a nominal price of ₹9 per song. Songs were sold as single units. Later, the live streaming was restricted to a 90 second preview and prices were set at ₹4 per song for an MP3 version and ₹10 per song for HD versions. (HD meant the best quality in hi-fidelity 320 kilobits per second [Kbps], which commanded a premium). Each purchase allowed 10 downloads per song, which the user could access on multiple devices. Special packages were introduced, such as 5,000 songs for ₹1,500 and premium albums for ₹449, offered from time to time as promotional offers. The company also launched its own Saregama Classical app (for Indian classical music) and Saregama Shakti app (for devotional songs) with offline listening support for Android (starting from ₹99 per month) and iOS (starting from ₹120 per month), launched late in 2015 and 2016 respectively.

The online music store and the apps worked as parallel business-to-consumer (B2C) distribution channels in India and across the globe for Saregama’s digital content. This further supplemented Saregama’s existing business-to-business (B2B) stream, operationalized through a plethora of online distribution partners such as Google Play Music, Amazon Prime, Apple Music, and Deezer. Saregama also distributed its music through free live streaming applications, like JioSaavn, Gaana, and Hungama, which played free music with advertisements for listeners. Saregama’s content was also distributed through subscription-based alternatives offered by the telecom service providers, such as Wynk (Bharti Airtel Ltd.), Idea Music (Idea Cellular Ltd.), and JioSaavn, which had optional subscription-based ad-free offers.

With global players like Spotify Technology SA planning to launch in India, Mehra felt that “Now the end-customers could go back and listen to music legally. On these official applications, the quality of audio was far better, and every time an end-user was going there and listening to our songs, these official applications ended up paying us.” Saregama had worked out licensing agreements with the distribution partners, where a certain predetermined amount was paid to the company when a customer listened to a song for more than a minimum duration in these applications. The payments came on a monthly usage basis.

Exhibit 5: (Continued)

**Music Cards**: Early in 2016, Saregama ventured into a more tangible space, diversifying with pure product offers. The first was Saregama’s “music cards”—music on convenient and portable USB flash drives in a form similar to that of a credit card. The initial four variants of the cards (Shakti; legends; romance/Bollywood; and Jagjit Singh for *ghazals*, popular songs based on Arabic poetry) came with 150 pre-loaded songs. In 2017, Saregama announced the introduction of customized music cards priced at ₹990, tailor-made with personalized photos and 200 songs selected by the buyers and ordered through Saregama’s online store. In 2018, the company marketed 27 variants of music cards priced at ₹690 per unit through its own online music store and third-party e-commerce websites like Amazon, Flipkart, Snapdeal, Indiamart, and others.

**TV Production**: Over the years, Saregama’s television production arm had steadily churned out television content for regional satellite television channels. The longest lasting association was with Sun TV Network, the oldest premium satellite television channel in the southern state of Tamil, which launched in 1993. Saregama’s popular ongoing offers on Sun TV included Chandralekha (introduced in October 2014), Roja (introduced in April 2018), and Valli (introduced in December 2012). Saregama’s TV content, aired by Sun TV from as early as the 2000s, included daily soap operas like Athipookal, running from 2007 to 2012 and airing 1,272 episodes, and My Dear Bootham, running from 2004 to 2007 and completing 914 episodes. Later, Saregama also produced non-fiction programs for Sony Entertainment Television.

**Yoodlee Films**: Saregama ventured into movie production in 2017 as Yoodlee Films, targeting young, cinema-loving, global Indians aged 18–35. The name *Yoodlee* was a tribute to singing and acting superstar Kishore Kumar, who was famous for yodelling. The name suggested the youthful, energetic, realistic, and relatable positioning of the offer. The movies were planned as smart budget movies for 10–12 city releases for the urban populace. The term *smart budget* meant that costs were kept low, within the range of ₹35–40 million. Saregama was the only production house to share 30 per cent of the profits with the key artists. Production started with a basket of 10 full-length feature films, with *Brij Mohan Amar Rahe* released first on September 1, 2017. The films included bilingual projects and real-life stories, some of which had national award winning directors and even superstars like Amitabh Bachhan.

Yoodlee Films was not focused on competing in the mainstream commercial cinema space and, hence, was open to TV or digital releases or even releases on OTT platforms. The idea of accessing this untapped market was the fruit of the company’s 2015 market study on music, which later led Mehra to aspire to a target of 100 movies produced by Yoodlee in five years (by 2020).

Source: Press Trust of India (PTI), “Saregama Launches a New Online Music Store for Streaming and Downloading Songs,” *Economic Times*, April 13, 2015, accessed May 6, 2018, https://tech.economictimes.indiatimes.com/news/internet/saregama-music-store/46902868; PTI New Delhi, “Saregama Launches Devotional Music App,” *Hindu Business Line*, January 20, 2018, accessed May 6, 2018, www.thehindubusinessline.com/info-tech/saregama-launches-devotional-music-app/article8405990.ece; Vikas SN, “Spotify Working on India Launch: CEO Daniel Ek,” ET Tech, March 16, 2018, accessed May 6, 2018, https://tech.economictimes.indiatimes.com/news/internet/spotify-working-on-india-launch-ceo-daniel-ek/63324267; “Saregama Launches Music Cards Preloaded with Songs in USB Drive,” Media News 4U, April 28, 2016, accessed May 6, 2018, www.medianews4u.com/saregama-launches-music-cards-preloaded-songs-usb-drive; “Saregama Chandralekha on Sun TV Completes 1000 Episodes,” Media News 4U, February 2, 2018, accessed May 6, 2018, https://tvnews4u.com/saregamaschandraleka-sun-tv-completes-1000-episodes; PTI, “Saregama Gets into Film Production with Yoodlee Films,” *Times of India*, July 19, 2017, accessed May 6, 2018, https://timesofindia.indiatimes.com/business/india-business/saregama-gets-into-film-production-with-yoodlee-films/articleshow/59663479.cms; PTI, “Yoodlee Films Announces the Line-Up of Upcoming 10 Releases,” India Today, August 2, 2017, accessed May 6, 2018, www.indiatoday.in/pti-feed/story/yoodlee-films-announces-the-line-up-of-upcoming-10-releases-1008668-2017-08-02.

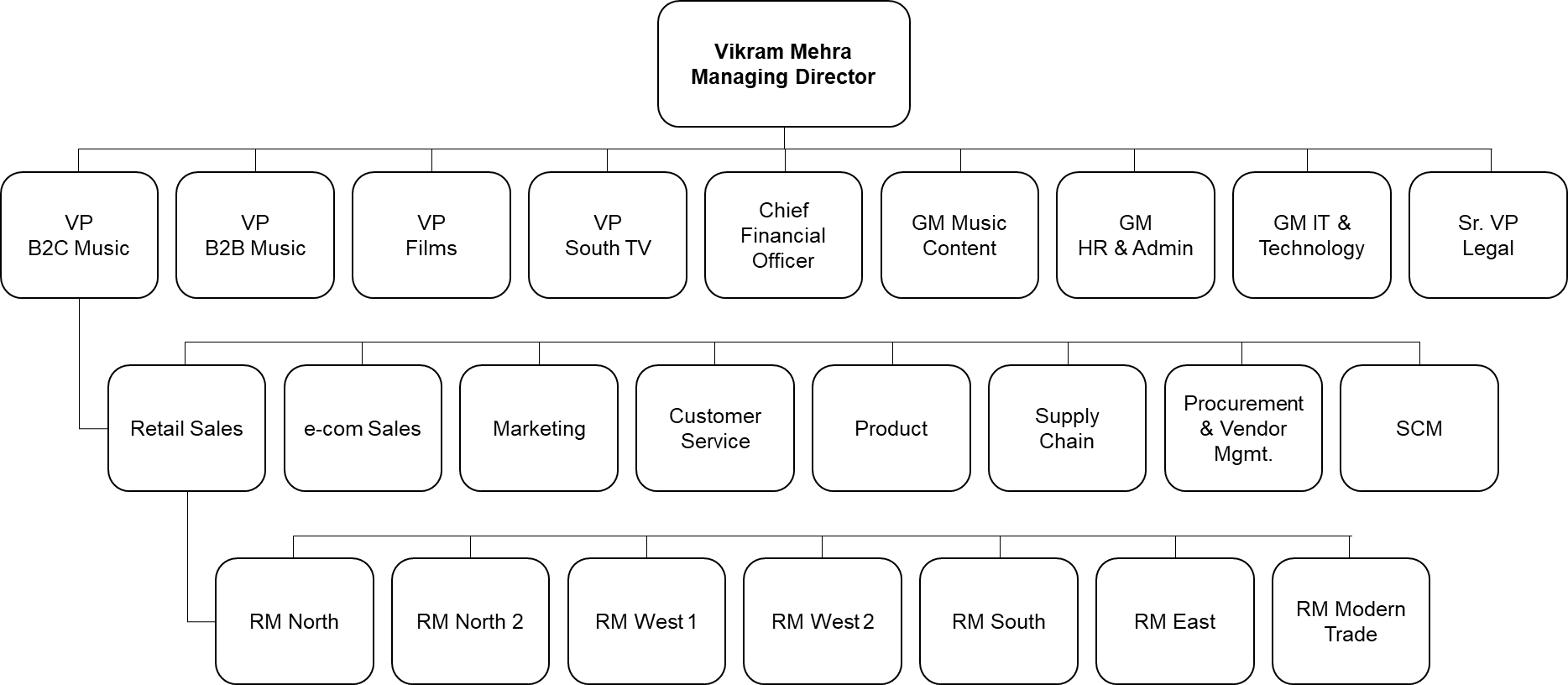
Exhibit 6: CARVAAN—product design and features





Source: Company website*.*

Exhibit 7: SAREGAMA’s ORGANIZATIONAL STRUCTURE



Note: B2B = business-to-business; B2C = business-to-consumer; GM = general manager; HR = human resources; Admin = administration; IT = information technology; Mgmt. = management; RM = regional manager; Sr. = senior; VP = vice-president; e-comm = e-commerce; SCM = supply chain management.

Source: Company data.

Exhibit 8: Saregama’s Financials

(a) Revenues and Costs for Select Products and Services

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FINANCIAL YEAR** | | | |
| **in ₹ ’00,000** | **2013–14** | **2014–15** | **2015–16** | **2016–17** |
| **Revenue from Operations** | | | | |
| Sales of Products |  |  |  |  |
| Audio CDs | 323.69 | 216.77 | 265.74 | 41.36 |
| DVDs | 86.39 | 19.57 | 25.77 | 19.38 |
| Music Cards | — | — | — | 537.78 |
| Sale of Services |  |  |  |  |
| Income from TV Serials | 5,623.64 | 6,442.26 | 8,473.72 | 6,692.49 |
| Licence Fees | 10,639.26 | 11,468.28 | 12,663.95 | 13,468.72 |
| **Manufacturing Costs** | | | | |
| Audio CDs | 171.27 | 182.05 | 196.47 | 37.01 |
| DVDs | 56.53 | 16.90 | 18.64 | 15.69 |
| Music Cards | - | - | - | 485.45 |
| **Production Costs** | | | | |
| TV Serials | 5,150.21 | 7,049.28 | 6,632.80 | 6,126.26 |
| Portal Development | 27.90 | 10.20 | 134.02 | 198.61 |

Exhibit 8 (Continued)

(b) Profit and Loss

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **FINANCIAL YEAR** | | | | | |
| **in ₹ ’00,000** | **2011–12** | **2012–13** | **2013–14** | **2014–15** | **2015–16** | **2016–17** |
| **Revenue from Operations** |  |  |  |  |  |  |
| Net Revenue from Operations | 14,975.54 | 17,468.95 | 16,771.53 | 18,188.53 | 21,484.36 | 20,815.61 |
| Other Income | 601.37 | 977.25 | 597.01 | 705.77 | 992.20 | 1,156.16 |
| **Total Revenue** | **15,576.91** | **18,446.20** | **17,368.54** | **18,894.30** | **22,476.56** | **21,971.77** |
| **Expenses** |  |  |  |  |  |  |
| Cost of Materials Consumed And Contract Manufacturing Charges | 1,633.04 | 1,040.42 | 247.56 | 203.52 | 237.84 | 544.70 |
| Cost of Production of Television Serials and Portal | 2,437.79 | 3,955.33 | 5,178.11 | 7,059.48 | 6,766.82 | 6,324.87 |
| Increase (Decrease) in Inventories of Finished Goods and Work in Progress | (18.26) | 479.94 | 471.61 | (274.67) | 383.21 | (892.38) |
| Employee Benefits Expense | 2,477.89 | 3,017.82 | 2,981.27 | 2,977.91 | 4,035.95 | 3,843.51 |
| Finance Cost | 393.27 | 264.48 | 278.38 | 51.26 | 36.05 | 26.96 |
| Depreciation and Amortization Expense | 1,119.18 | 1,188.03 | 280.79 | 538.87 | 526.02 | 393.29 |
| Other Expenses | 6,788.69 | 7,098.48 | 5,319.42 | 6,541.13 | 8,551.38 | 10,124.31 |
| **Total Expenses** | **14,831.60** | **17,044.50** | **14,757.14** | **17,097.50** | **20,537.27** | **20,365.26** |
| Profit (loss) Before Exceptional Items and Tax | 745.31 | 1,401.70 | 2,611.40 | 1,796.80 | 1,939.29 | 1,606.51 |
| Exceptional Items | Nil | 327.17 | 885.63 | 261.39 | 960.09 | Nil |
| Profit (Loss) Before Tax | 745.31 | 1,074.53 | 1,725.77 | 1,535.41 | 979.20 | 1,606.51 |
| Tax Expenses |  |  |  |  |  |  |
| Current Tax | 475.25 | 470.00 | 635.10 | Nil | 527.44 | 995.56 |
| Excess Provision of Earlier Years Written Back | Nil | Nil | Nil | Nil | Nil | (187.60) |
| Deferred Tax Charge (Credit) | 409.43 | (483.45) | (118.10) | (33.10) | (302.67) | 27.46 |
| **Profit (Loss) for the Year** | **(139.37)** | **1,087.98** | **1,208.77** | **1,568.51** | **754.43** | **771.09** |
| **Basic Earnings per equity Shares** | **(0.80)** | **6.25** | **6.95** | **9.01** | **4.34** | **4.43** |

Note: ₹ = INR = Indian rupees; Net revenue from operations calculated as gross revenue from operations less excise duty.

Source: Compiled by case authors based on company annual reports.

1. This case was awarded an honourable mention in the ISB-Ivey Global Case Competition 2018. The prize was sponsored by ISB. [↑](#footnote-ref-1)
2. ₹ = INR = Indian rupees; ₹1 = US$0.015 and US$1 = ₹66.83 on May 5, 2018. Aniek Paul, “Saregama Rises from Its Ashes Like a Phoenix Riding Carvaan,” Live Mint, May 18, 2018, accessed May 26, 2018, www.livemint.com/Consumer/lohWBttSc8QMFhznMVPqhM/Saregama-rises-from-its-ashes-like-a-phoenix-riding-Carvaan.html. [↑](#footnote-ref-2)
3. Saregama India Limited, *Annual Report 2017–18*, May 29, 2018, accessed May 30, 2018, https://r.saregama.com/resources/pdf/investor/Annual\_Report\_2017-18.pdf. [↑](#footnote-ref-3)
4. All dollar amounts are in USD unless otherwise specified. [↑](#footnote-ref-4)
5. Gaurav Laghate, “In Media and Entertainment Sector, World’s No Match for India,” *Economic Times,* June 8, 2017, accessed May 6, 2018, https://economictimes.indiatimes.com/industry/media/entertainment/media/in-media-and-entertainment-worlds-no-match-for-india/articleshow/59043473.cms. [↑](#footnote-ref-5)
6. “The State of the Media and Entertainment Sector in India,” Live Mint, October 23, 2017, accessed May 6, 2018, www.livemint.com/Consumer/Gd1QhKIlEb6kotghQ0ameK/The-state-of-the-media-and-entertainment-sector-in-India.html. [↑](#footnote-ref-6)
7. Super Cassettes Industries Private Limited did business as T-Series. [↑](#footnote-ref-7)
8. A paisa was worth one one-hundredth of a rupee. [↑](#footnote-ref-8)
9. “Saregama India Ltd. – Company History,” *Business Standard*, accessed August 21, 2019, www.business-standard.com/company/saregama-india-204/information/company-history. [↑](#footnote-ref-9)
10. The company name was built from the first four notes of the seven-note Indian musical scale: Sa, Re, Ga, and Ma. [↑](#footnote-ref-10)
11. 11 Arkamoy Dutta Majumdar, “We Are a Leaner, More Efficient Company Today: Sanjiv Goenka,” Live Mint, September 29, 2016, accessed May 7, 2018, www.livemint.com/Companies/eF9OWXXuWEDjvYaKUpX4NN/We-are-a-more-leaner-efficient-company-today-Sanjiv-Goenka.html. [↑](#footnote-ref-11)
12. “RP–Sanjiv Goenka Group Enters FMCG,” *Hindu*, April 10, 2017, accessed June 2, 2018, www.thehindu.com/business/Industry/rp-sanjiv-goenka-group-enters-fmcg/article17911708.ece. [↑](#footnote-ref-12)
13. He had a B Tech (engineering degree) from the Indian Institute of Technology, Roorkee, an MBA from the Indian Institute of Management Lucknow, and 10 years’ experience as chief marketing officer and chief commercial officer at the satellite TV company Tata Sky Ltd. [↑](#footnote-ref-13)
14. Legendary Indian playback singers accredited for most of the hit Bollywood music produced in the last century. [↑](#footnote-ref-14)
15. Rajesh Naidu, “Saregama Connects with Consumers, Hits the Right Notes,” *Economic Times,* November 30, 2017, accessed May 6, 2018, https://economictimes.indiatimes.com/markets/stocks/news/saregama-connects-with-consumers-hits-the-right-notes/articleshow/61858145.cms. [↑](#footnote-ref-15)
16. Ibid. [↑](#footnote-ref-16)