Internationalization Strategies for Emerging Markets

Lessons from a Case Study of the Indian Film Industry in Bollywood

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Relevance of Emerging Markets

- BRIC countries are deemed to all be at a similar stage of **newly advanced economic development**
- The acronym BRICS is a widespread symbol for the **shift in global economic power** away from the developed G7 economies toward the developing world
- It is argued that **by 2050 the combined economies of the BRICs could eclipse the combined economies of the current richest countries of the world**
- Brazil, Russia, India, China combined, currently account for **more than a quarter of the world’s land area** and **more than 40% of the world’s population**
- The BRIC countries take an **exceptional position** in the landscape of emerging markets: They are all big, populous and have political power within their geographical region
- Still, the **BRIC countries differ** with regard to their **economic structure and development**
India – a macroeconomic perspective

- **Area:** 3.287.000 km² (~ 9 times the area of Germany)
- **Population:** 1,11 billion
- **Per capita income:** 1.031 USD
- **Economic growth 2010/11:** 8,7%
- **Industry growth (exp.):** 8,6%
- **Service sector growth (exp.):** 9,6%
- **Exports:** 182,6 billion USD (2008/09)
- **Most important export markets:** EU, USA, UAE, PR China
- **Most important export goods:** machinery and metal goods, oil derivatives, chemicals and pharma products, jewelry, apparel and textiles, agricultural products

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**Land of opportunity**

The ‘new’ India resides in the modernising cities of Bangalore, Hyderabad, Ahmedabad, Mumbai and New Delhi. And with a huge domestic market coupled with bold and visionary business leaders, the country’s ambition knows no bounds, writes James Lamont - May 27

**India shining**

Like the rest of the world, India has been affected by the global recession. Yet its economy is still strong, and is better placed than most markets to weather the storm, writes James Lamont - May 27

**Profit for good**

Social entrepreneurship could be a big driver of India’s growth but achieving scale at speed remains a challenge, says Sarah Murray - May 27

**Going solar**

India’s enormous energy deficit may help kick-start its solar industry in spite of the high costs involved, writes Amy Kazmin - May 27

**Law and disorder**

India’s legal services sector is expanding but is held back by an outmoded regulatory framework, says Reena SenGupta - May 27

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**Inspiring Personalities.**
Sector allocation

Sector allocation (GDP structure)

Industry sectors (industry sales volume per year)

Motivation

USA

• India
• 2009: 1,288 feature films (2003: 1100)

Bollywood
• 2009: 235 feature films (~4.5 per week); (2003: 177)
  ~18% of all Indian films, but 40% of revenues (2003: 16%)

Tickets sold:
  India, 2009: ~ 4 billion (2004: 3.6 billion) - exports 8%
  Hollywood, 2009: ~ 3 billion (2003: 2.5 billion) - exports 55%

Hollywood gets most revenues from exports
• Market share 60-90%, even France and Italy…

What is the market share in India?
• 80%, 60%, 40%...???

5 Internationalization Strategies for Emerging Markets
Research question

Preliminary Observation:
Hollywood and Bollywood seem to possess very different industry structures:
Large integrated studios vs. “organized chaos”

Why do industry networks differ across countries?
• Organization (firm boundaries, value chains)
• Entrepreneurs (personal and firm level)
• Innovation (project and firm level)

What is the influence of national (cultural) institutions?
• Embeddedness
• Family

Context-specific study, comparing existing knowledge from US and Europe with novel data from Indian context
New Product Development in the film industry

Background
• Cultural industries
• Project-based industries

Film industry
• Basic features
• Players and the value chain
• NPD in film-making
Background

Cultural industries

• Artistic content: film, music etc.
• Intrinsic and extrinsic motivation
  • Artistic performance (Awards)
  • Financial performance (‘Box office’)

Project-based industries

• System of projects with different duration - involving firms and freelancers
• Projects are mainly market-based (inter-firm), innovation and creativity are distributed activities
• Core team and some changing…new people
The context: Creative entertainment industries

• **Demand uncertainty**: Product experimentation → **novelty**
• Short product cycles
• Temporary **projects**: Increasing no. of parallel ties
• **Disintegration** of skills and firms
• **Coordination** tasks and problems through networking
• Clustering: spatial **proximity** and local **institutions**

**Creativity vs. transaction costs**
• Differences of tie function weak ties (artistic) vs. strong ties (commercial) (Delmestri et al., 2005)
• Networks in the US entertainment industries are characterized by **small world networks** – balancing strong and weak ties (Uzzi and Spiro, 2005)
The “generic” film industry field

- Film studio
- Media
- Script writer
- Director
- Shooting locations
- Exhibitors
- Distributors
- Video / DVD rental
- Lawyers
- Musicians
- Actresses and Actors
- Producer
- Editor
- Financier
- Special Effects
- Fans

Internationalization Strategies for Emerging Markets
The Film Industry – Stages and Players

<table>
<thead>
<tr>
<th>Development/Pre-production</th>
<th>Production</th>
<th>Post-production/Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRODUCER</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scriptwriter</td>
<td>Film studio/location</td>
<td>Distributor</td>
</tr>
<tr>
<td>Financier</td>
<td>Director</td>
<td>Editor</td>
</tr>
<tr>
<td>Lawyers</td>
<td>Actresses/Actors</td>
<td>Exhibitor</td>
</tr>
<tr>
<td>Main functions</td>
<td>Sound director</td>
<td>Media</td>
</tr>
<tr>
<td>Minor functions</td>
<td></td>
<td>Special Effects</td>
</tr>
</tbody>
</table>

Internationalization Strategies for Emerging Markets
The Film Industry – Innovations

Development: script-writing
   • New, different themes

Pre-production: casting
   • New (combinations of) actors

Production: actual shooting and sound recording
   • New technologies (equipment, shooting)

Post-production: putting together the parts
   • Animation, SFX

Marketing, Distribution, Exhibition
   • New revenue channels
Examples of Innovations

1. Development
Tomb Raider: story based on computer game

Some Theoretical Background

Social network theory

• Embedded ties:
  • special or close relationships (Uzzi, 1996)
  • different backgrounds, family, friends, neighborhood, schooling etc (Anderson et al., 2005)
  • trust (and coercion) as main governance mechanism (Uzzi, 1996)

Family Business

• Business groups (Khanna & Palepu, 2000; Guillen, 2001) fill institutional voids in emerging markets
• Rate of family involvement in entrepreneurial networks between 13% in Japan and 31% in Greece (Aldrich and Sakano, 1995; Drakopopoulou Dodd and Patra, 2002)
Theory I: Network structure and relation

Outcome of networks depends essentially on network structure and relation and purpose:

- **Structure**: dense vs. sparse

- **Relation**: strong vs. weak
Theory II: Family and Society in India

• Family as an *informal* institution
• Business groups in India family-dominated (Ramachandran, 2006; Lachaier, 2003)

• Hindu joint family
  • Multiple generations
  • Marriages between cross-cousins
  • Hindu succession act, no estate tax
  • Family law, not companies act governing HJF business
  • Family considered before individual
The Banyan (and the birch) tree

Due to the emphasis of family values in India, networks in Indian industries are characterized by strong relational embeddedness.
Back to Bollywood...

Data: Top 10 film each, 2003-2005 (IMDB)

• 30 case studies of task division and coordination of production

• **Name counts of main players**: Producers, directors, script writers, lead actors

• **India**: 21 films, **70% with family connections** in these categories alone
  • No quantifiable information about friends networks (yet)

• **USA**: 7 films (23%) with family ties, probably similar for European markets (other than Italy or France)
Back to Bollywood...

• Access to talent
  • “the personal relationship between the producer and actors still [is the] most important factor in film making process. […] In order to attract key actors a good personal relationship is required. Individual producers have certain advances for corporate, some things money cannot buy” (interview 26, producer)

• The role of family
  • “No, no we are an unlimited company and not a public company and it’s a family run business and I’m the chairman also. We have no partners. Everything is done in the family.” (interview 19, producer)

• Novelty
  • “but it’s always you and your brother doing the scripts for the films. How can you get new scripts when you always do them yourself” (trade fair visitor referring to a producer-director family)
Examples of Innovations

Production
Bollywood: **location shooting in Switzerland** (Paris, Venice…)
Started by Sangam, 1964 (also 1st Indian in Technicolor)
Back to Bollywood...

<table>
<thead>
<tr>
<th></th>
<th>Hollywood</th>
<th>Bollywood</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of producers</td>
<td>11</td>
<td>20</td>
</tr>
<tr>
<td>Maximum no of films</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Mean</td>
<td>2,7</td>
<td>1,5</td>
</tr>
<tr>
<td>Medium / Mode</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Film with family ties</td>
<td>7</td>
<td>21</td>
</tr>
<tr>
<td>No of family ties</td>
<td>7</td>
<td>38</td>
</tr>
<tr>
<td>Films with family ties</td>
<td>23,3%</td>
<td>70%</td>
</tr>
<tr>
<td>Family ties per film</td>
<td>0,23</td>
<td>1,27</td>
</tr>
<tr>
<td>Family ties per studio</td>
<td>0,64</td>
<td>1,90</td>
</tr>
</tbody>
</table>

Source: own calculation, based on IMDB
Summary and limitations

“There is no country on the planet, other than India and the United States, that approaches that level of domestic business” (Andrew Cripps, President, Paramount Pictures Int’l.)

Small world of Bollywood dominated by embedded ties
  • Geographic clustering as an explanation?
  • No, because that is found in Hollywood etc., too…

National cultural institutions like family influential antecedent
  • Other factors, e.g. more formal institutions (laws, industry bodies, certification etc.) to explain differences?
  • Maybe further research

Lessons for other industries and countries
  • Difficulties for film foreign firms to enter Indian market seems to be caused by family-orientation
  • Not enough to look at formal market structure, shares etc., but also informal relationships
  • Investigate value chain and try to identify critical core

(Only within projects, only embedded family ties, small sample (films, years)
The Film Industry – Stages

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<th>Development/Pre-production</th>
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</tr>
</thead>
<tbody>
<tr>
<td>IDEA → SCRIPT</td>
<td>SHOOTING/SOUND RECORDING</td>
<td>MARKETING/EXHIBITION</td>
</tr>
<tr>
<td>DESIGN AND PLANNING</td>
<td></td>
<td>MASS PRODUCTION (e.g. DVDs)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>EXHIBITION REEL PRINTING</td>
</tr>
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<td>EDITING / MASTER COPY</td>
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</tbody>
</table>

**project activity**

**volume activity**
Examples of Innovations

Pre-production
- James Bond: product placement (mobiles, car)
  “Now, pay attention 007. First your new car…BMW…”
Dhanyavad!
Backup
Since 20 years ago, Indian companies have grown in size and scope, venturing into overseas markets and snapping up foreign companies.

But even as Indians celebrate the rise of their country’s companies, they worry that India’s corporate titans are too firmly entrenched, and too deeply ensconced in the corridors of power.

The fear is that Indian capitalism is turning oligarchic.

About three-quarters of the economy are still in the hands of state firms and old, private firms born before 1985.

The birth-rate of new firms slowed after the mid-1990s. And in India old firms seem never to die.

Corporate India “looks more like an exemplar of dynamic, competitive capitalism than of concentrated market power and economic entrenchment”.

Fringe benefits

Sources: CMIE; Ashoka Mody (IMF), Anusha Nath (Boston University) and Michael Walton (Harvard)
The Film Industry – Stages

- Development: script-writing
- Pre-production: casting
- Production: actual shooting and sound recording
- Post-production: putting together the parts
- Marketing, Distribution, Exhibition
The Film Industry

- The development process:
  - Final product remains largely constant, i.e. a film ‘reel’
  - Project may change completely in very late stages (digital recording), new agents, new time schedule etc: extremely late design freeze, often artist-driven
- Project organizations have the ability to:
  - Adapt organisational structures to demands of each project
  - Integrate diverse knowledge, motivations and skills
  - Few economies of scope, few people employed full-time
Examples of Innovations

4. Post-production
   - Star Wars: special effects (Pixar)
Examples of Innovations

5. Distribution and Exhibition (Marketing)
   - Home video/ DVD
   - Merchandise:
     Lion King (>US$1 bn), E.T.,
     Ghost Busters, Jurassic Park
Stylized theoretical model

“Generic” Industry Networks

National Institutions
- Formal
- Informal

Industry effect: Film as a “small world-industry”

Country effect: India as a strong tie society

Country Specific Industry Networks
- Unique quality as theoretical sample (Eisenhardt, 1989)
  - “Greatest story never told”
  - Largest film industry; no business groups (compared to Indian economy)
- **Multiple, nested case studies** (firm, project)
  - semi-structured, in-depth interviews with core players (producers, directors, lead actors, script writers)
  - Archival data
  - Open narratives from industry informants (VCs, studio owners)
- Literal and theoretical replication strategy to increase generalizability
- Check for case-specific influences
- Cover **mainstream commercial film production**
- **Top 10 film each 2003-2005** (30 out of 450 on IMDb)
  - Three personal entry channels
  - Covered 14 production companies, 23 films
  - Qualitative findings corroborated by “name count” of family ties
Embedded ties

- **Finance**

  “Indian venture capital would be ready to invest, at least in the films that can get stars, because here, risk is low and returns rapid. But producers themselves are not ready to seek institutional money, because they prefer to keep transactions flexible, black, and based on personal ties and favors. This is a way that can be controlled better and with no public interference.” (interview 34, venture capitalist)

- **Access to talent**

  “the personal relationship between the producer and actors still [is the] most important factor in film making process. […] In order to attract key actors a good personal relationship is required. Individual producers have certain advances for corporate, some things money cannot buy” (interview 26, producer)
Embedded ties
- **The role of family**
  - “My dad is doing the movies, so it’s like I’m like the third generation in my family. So the only thing I do is make movies. So the only thing I know is making movies and nothing else. […] Yes I’m the third generation in my family. My dad is in development. So my granddad announced me. So for me nothing but movies, there is nothing else I want to do.” (interview 10, producer)

  - “No, no we are an unlimited company and not a public company and it’s a family run business and I’m the chairman also. We have no partners. Everything is done in the family.” (interview 19, producer)
Arm’s-length ties

- *Novelty*
  - "You see, that’s because that was the demand of the script, and at the same time when you are doing two to three films at the same time you can’t have just your family doing all the films. So I’ve had one film at any given time with a family member and the other beyond or outside the family." (interview 13, *producer*)

  - “but it’s always you and your brother doing the scripts for the films. How can you get new scripts when you always do them yourself" (trade fair visitor referring to a producer-director family)
Stylized theoretical model

Figure 1:
Conceptual Model of Competing Logics in the Creative Industries

Industry Level Logic
(Main effects)

Effect on Network

National Level Logic
(Moderating effects)

Creativity Logic

Transaction Cost Logic

Sparse, weak ties

Dense, strong ties

Formal Institutions

Informal Institutions

Country Specific Creative Industry Networks

Prof. Florian Täube