

[SCREEN TEST]

A Script for Success

Digital cinema is changing the game in the movie distribution business
and UFO MOVIEZ is leading the charge

SHRUTI CHAKRABORTY



The plot

From the time of its conception to the era of summer blockbusters, everyone in the film industry has been fighting one common villain—the problem of distribution. The problem was so severe that some filmmakers were unable to get their movies to the screens at all, while others could not reach screens in remoter regions, depriving them of valuable small town revenue. Unable to watch their favorite films on the big screen, people resorted to buying bootleg prints instead, giving rise to another villain—film piracy.

The villain

Distribution of films is not as easy as it appears to the movie-going lot. The task of safely transporting expensive prints to the movie halls is treacherous, expensive, and prone to 'film pirates.'

The hero

Of the 47 years he has walked the earth, Sanjay Gaikwad has spent 22 years in the media technology industry. After heading technology at Zee Telefilms, Gaikwad's next move was to launch Playwin, the online lottery platform. But the lottery business is heavily regulated and fraught with risk. Gaikwad wanted to head back to his roots.

Watching the film industry from the buy side, Gaikwad saw that the system of staggered releases was having an impact on theater revenues and the property health of the single screen theaters around the country were deteriorating. There was a problem, and Gaikwad knew of the solution.

The solution Gaikwad knew would be to introduce digital cinema to more and more movie theaters in the country, so that a larger number of theaters could get access to the film in the first week—the make-or-break week in film circles. But Gaikwad was also aware that digital cinema had failed to take off so far with the gusto that he believed it could have in India. But it had done well in the west. If anything, it was only the complexity of the existing digital cinema technologies that had led to the failure of digital cinema

taking off in a big way in India.

Gaikwad did not go around innovating his way around this obstacle and instead bought his way through. In 2005, Gaikwad set up UFO Moviez Pvt. Ltd. and inked a licensing agreement with technology partner DG2L Technology Pte. Ltd.

In 2006, he expanded on this partnership to buy a controlling stake in the company. DG2L gave UFO Moviez access to its digital cinema technology which was an MPEG-4 based, end-to-end solution comprising film capture,



HEART OF THE ACTION

Number of theaters in India:
8,000 approx.

Number of digitized theaters: 5,500

UFO's reach: 3,000 theaters approx

Turnover: ₹140 crore

encoding, encryption, management, secure digital delivery and playback at the theater.

Gaining a tech edge

It is important to understand what DG2L's technology brought to the table. Some time ago, as is the norm in the west, an attempt to standardize digital cinema systems was made. And key stakeholders from across studios in Hollywood came together to form a committee called the Digital Cinema Initiative (DCI).

These stakeholders agreed on key parameters—the quality of image and

how different it would look from 35mm film. Heavy capital was invested and a new standard regime came about which covered 35 trillion colors, two million pixels, 45-bit resolution and tons of specifications. In other words, it was as complex as one could have made it.

Gaikwad says that while the quality standards under DCI resulted in a high image quality, the viewer experience was not very different using the MPEG-4 encoding. "We wanted to ensure that the technology gave the same quality, security and reliability, to the user, and then cut down on the complications of the standards."

Due to its MPEG-4 based encoding and encryption system, UFO could compress a large film to a small size and transmit the data via satellite directly to the theatres where its projectors were installed. Gaikwad explains that an average 3-hour film compressed on the MPEG-4 format has a file size of 8-10 MB. The JPEG-2000 image compression standard that was used under DCI, which another company in the space Scrabble Entertainment Pvt. Ltd. was using, compressed a film to 500 MB. This was a larger size and so difficult to enable satellite delivery with.

Taking out the competition

By understanding what UFO brings to the table, it is much easier to understand how other players in the market, which depended on the physical delivery of the digital content using the DCI standard, were restricted in their ability to scale up.

One of these players was Scrabble, whose digital technology had already been brought into the country from the US by Ranjit Thakur. As it turned out, UFO bought a controlling stake in Scrabble in 2011 for ₹1,130 crore, effectively taking out its one key competitor in the sector.

Apart from acquiring a rival, UFO has also gained a foothold in markets outside India. Scrabble expanded its operations to almost all of the Middle-East in 2010 and also set up an end-to-end digital lab that would cover

everything from mastering raw files to supplying hard drives. "We are getting heavily into Latin America where screens are not digital and that is what we are gunning for," says Thakur.

Winning over the hall-owner

Gaikwad sensed that there would be some resistance on the part of the exhibitors or the theater owners to take on the digital technology due to the high cost of the digital projectors. Under DCI, and in Scrabble's business model, theater owners would have to buy the digital projectors, which were very costly.

To reduce the resistance, Gaikwad took on the capital investment and installed the digital projectors in the cinema halls himself and let the theater owners keep their analog systems in case they didn't have faith in the digital cinema system.

For a cost of ₹6-8 lakh per theater, UFO Moviez had finally managed to install its digital cinema systems in movie theaters. This system, however, did not work for Hollywood content that was delivered on the DCI standards, which uses projectors worth ₹30 lakh. This is another reason why the Scrabble deal makes sense as it brings under UFO's wing the release centers for Hollywood films.

DG2L's Theatre Management System also comes with other features like a 192-bit content delivery encryption system and a digital watermarking solution. Film pirates had a fight on their hands as well. Then there were the all-important ad insertions, which play a key part in UFO's business model.

The money shot

In lieu of his investment, Gaikwad took the advertisement rights during the screenings of the films. He explains that back then, these theatres anyway didn't have access to the movies, so there was no question of ad revenues.

"We gave them a digital system and took ad rights. In-cinema ads were dying due to logistical challenges. The ads had to be provided in the analog format and there was no way to know

whether the ads were being played or not," he adds. UFO Moviez now has a revenue sharing model with the cinema hall owners who get 25 percent of the revenue UFO earns from advertisements. UFO Moviez has also come up with a per-show model under which both distributors and exhibitors are charged a fee every time a movie is shown using the UFO system.

Exhibitors are charged ₹100-150 and distributors are charged ₹350-400 for each show. The advantage to the exhibitor is that while he invested about ₹70,000 only to get the analog prints, he would spend about ₹8,000-10,000 using the digital technology to show the movie in the same period.

"The UFO system works like a black box," explains Gaikwad. The exhibitor and distributor strike a deal on the number of screenings that the exhibitor can have and then that data is available on the server and the exhibitor has a smart card that reads the data, so he can't have more screenings than what has been agreed upon.

UFO INCURS A COST OF ABOUT ₹2.5 CRORE FOR THE SATELLITE DELIVERY OF THE FILMS EACH YEAR.

The three-dimension challenge

While UFO was clamoring to grow its presence in the domestic film industry, many Hollywood films started releasing in the 3D format. This, Gaikwad claims, was being done to give a push to the roll out of the DCI technology.

After the release of Avatar, people who wanted to install digital systems and 3D went up exponentially, giving a push to Scrabble Entertainment.

People who missed the boat on Avatar were desperate to get digital technology installed. In Bollywood, there wasn't any great 3D content, but Gaikwad says that it did get a push in

Bollywood post the release of Haunted. But the 3D business for UFO didn't take off as rapidly because of poor 3D movie releases in Bollywood like Ra.One, he says. While the company was targeting 500 screens with 3D technology, it could cover only 200 in 2011.

Filming the future

UFO has also innovated on its original technology platform to develop a technology for ticketing to help distributors know about ticket sales without depending on the declaration by the exhibitors called IMPACT, or Integrated Media Pact.

After the technology is rolled out in enough theaters in the country, or after attaining a critical mass, UFO will move towards also playing the role of an exchange and will run a settlement service, Gaikwad reveals.

UFO currently has its system installed in over 3,000 cinemas in the country. Along with Scrabble, it has covered 3,520 screens. But it incurs a cost of about ₹2.5 crore for the satellite delivery of the films each year.

The overall investment UFO has made so far in its business is ₹400 crore. It has raised \$22 million in private equity investment from the 3i Group, which made a partial exit, at which point the company received another ₹260 crore from Providence Equity Partners. The company currently has a turnover of ₹140 crore, targeting a turnover of ₹250 crore this fiscal.

Of the 8,000 operational screens in the country, 5,500 are digitized by UFO and competitors, Gaikwad says, which includes Real Image—a company that has a stronghold in the south. But about 70 percent of the current Bollywood box office collections come through the UFO network, he reveals.

Gaikwad says that the process of rolling out digital cinema will be quickened now that it has acquired Scrabble and that in the next one and a half years, all Indian screens will have a digital cinema system. Better days ahead for cinephiles then. ■

(With inputs from Pranbihanga Borpuzari)