UFO MOVIEZ:
Redefining the business of cinema

Sanjay Gaikwad, Founder and CEO

At one level, cinema is innovation's best friend. From the first set of moving images to the infusion of sound, colour, and even smell in the darkness of the theatre, cinema has married technology and entertainment to constantly push the boundaries of human imagination. However, like in many other fields, followers of Indian cinema too have often celebrated elements that are immediately visible and glamorous while neglecting those that remain behind the scenes. That is why good-looking stars are still the mainstay of the commercial film business, whereas talented technicians live out their lives in anonymity, and, in some cases, even penury.

All that has changed dramatically in the last decade, with technology and innovation becoming a more integral part of the business than ever before. The rise of 3D has played a key part in this transformation, making 'form' as powerful as 'content'. A major milestone came in 2002, when the 'big six' Hollywood studios came together to establish the Digital Cinema Initiatives (DCI) with the goal of creating an open architecture for consistency and quality in digital cinema. Movie watchers around the world were paying more for cutting-edge entertainment, and the DCI was a step towards sharing best practices in 'customer service' as it were, even as critics said the DCI standards were expensive for non-Western markets.

Soon, India was to make a few big, bold statements of its own in cinematic innovation. The more recent one of this was Resul Pookutty bringing home an Oscar for excellence in sound mixing. But even before that, a homegrown company was taking on deep-rooted biases in the labyrinthine distribution and exhibition trade in the domestic film industry—the largest in the world—en route recording a global first in innovation, at a much lower cost and with a much higher long-term return on investment than many thought possible. **Sanjay Gaikwad** tells us how.

What does UFO Moviez do?

UFO Moviez is the world's largest satellite-networked digital cinema chain. The company is credited with revolutionising the way exhibition and distribution works in Indian cinema—nominally an 'industry' but with few best practices—and for opening up India's vast tier II and tier III markets. The Apollo Tyres group, 3i UK, and Providence Equity Partners are investors in UFO.

How it all started

Sanjay Gaikwad used to read about Hollywood films earning hundreds of millions of dollars at opening weekends. Hollywood would release films in 8,000 to 10,000 theatres simultaneously, while the biggest Bollywood film would not go in more than 500 theatres before 2005. This was killing the industry, as these 500 prints were also being released in the second round in tier II and tier III theatres in a staggered manner, opening up a window of opportunity for pirates. It was this realisation that triggered the UFO concept in Gaikwad's mind.

Challenges

- Convincing exhibitors in tier II and tier III cities to invest in technology.
- Winning the trust of various stakeholders in the oft-chaotic film business.
- Maintaining quality while transitioning from traditional reel prints to MPEG4.

A key challenge for UFO Moviez is to mobilise investments in technology.

First, a little bit about the Indian film industry. In terms of content volume, the Indian film industry is the largest in the world, producing more than 1,300 films annually. In 2011, an estimated 3.3 billion movie tickets were sold in India. This is the highest number of tickets sold in the world, and yet India is a highly under-screened country with a screen density of 12 per million people as compared to 117 per million in the United States. Also, before digitisation, the Indian film industry was plagued by piracy, lack of transparency, leakage of revenue, and opportunity loss in terms of exploitation of the theatrical rights of films.

So what was the problem? The end product of the film industry, the full-length feature film, has always been a highly perishable commodity as far as theatrical collections are concerned. With the exception of about 10% 'hit' films, the rest of the movies have had an average lifespan of 6–14 days in any given theatre. Hence, it is essential that theatrical collections are maximised in this short span of time, which is only possible if the film is simultaneously released in an optimum number of theatres.

Till 2005, for exhibiting a film in a theatre, the producer/distributor had to provide a print (reel) of the movie, which used to be very expensive at approximately ₹50,000–60,000 per print. Hence, the producer/distributor, depending on budgets, would take out a specific number of prints to send to theatres and would maximise revenues by ensuring that such prints were sent to the most profitable centres in the metros first. After screening in the top theatres in the metros, the reel would then be passed on to theatres in tier II and tier III cities/towns. By this time, the print would have suffered loss of quality and the film would have fallen victim to piracy. Also, audiences in these cities needed to wait for weeks for the prints to trickle into the local theatres. As a result, theatres suffered loss of business. In addition, the exhibition and distribution sectors were highly disorganised, and there was a need to consolidate the market and increase the distribution spread to efficiently maximise the revenues.

Setting a global benchmark

I am a firm believer in the power of technology innovation. Before launching UFO Moviez, I was involved with the modernisation of the Zee Group and played a hands-on role in their foray into the hugely successful online gaming venture, Playwin. At UFO Moviez too, technology has been at the heart of all our strategy and service philosophy.

UFO Moviez envisioned the seamless distribution of films via satellite from day one, creating a technology-driven platform where all existing players in the value chain come together, do business, and are profitable. This was a difficult task to accomplish, especially since this particular deployment of technology—delivering films via satellite to theatres—was a global first. Right from earning the trust of the film industry, to sourcing content, to convincing cinema halls across the length and breadth of the country to use this brand-new technology, Team UFO had to surmount many challenges.

We realised that the only way to overcome the reliance on expensive print and guarantee a widespread 'first day,

first show' release in a country as vast as India was through satellite delivery of digital cinema. UFO's use of MPEG4 technology allows content to be sent to theatres via satellite, and today UFO is the largest satellite-based digital cinema network in the world.

UFO's success lies largely in its introduction of unique business offerings to the industry such as the 'pay per show' business model, which helps maximise profits for both distributors and exhibitors. UFO's operations are structured to be a platform provider, to provide an end-to-end gamut of services to the film industry right from sourcing content to digitising it, providing and maintaining equipment in cinemas, delivering content to theatres, enabling the playout of content in the cinemas, and providing feedback to distributors. The distributor is insulated from any breakdown, technology obsoleteness, failures, etc. UFO Moviez is essentially a single point of contact for a film to release in more than 3,000 screens across India.

The impact

UFO's innovative solutions have helped the industry to conduct business in a more efficient way. Theatres and distributors now reach out to each other digitally for the purpose of delivery and playback of films. If one were to go back only six years in time, one would find that the then blockbuster films managed to reach barely about 500 theatres, with low-budget films finding

The digital setup of UFO at Jayanti Cinema in Barrackpore, West Bengal.

One of the key benefits of increasing digitisation is rising in-cinema advertising revenues

"Unlike yester years, there is a marked improvement in transparency of ticket sales in India. This can be mainly attributed to the superior processes and systems introduced by multiplex chains and the digitization of theaters and prints. One off-shoot of this transparency has been the gradual adoption of cinema advertising in India. Advertisers now have better access to occupancy rates and film revenues of film goers. The cinema advertising market has grown at a robust 18 percent in 2011 to reach INR 140 Crs. Digital cinema providers such as UFO Moviez and Real Image have cornered the bulk (~ 70percent) of this advertising revenue while film exhibitors take the rest of the pie. However, the potential for cinema advertising both inserted in the film and banners, hoardings displayed in the theater is still in a nascent stage of development. Advertising revenue is expected to contribute to 30 percent of total digital cinema revenue this year as compared to 24 percent in the last financial year."

Source: KPMG report for FICCI FRAMES 2012

IN SMALLER TOWNS and villages, where most audiences were able to view a new film as late as two months after its all-India release, cinema enthusiasts can now see all new releases first day, first show.

it tough to secure a release in even 100-plus theatres across India. Today, a blockbuster release can easily reach 3,000 theatres across India, providing a win-win solution to the entire ecosystem.

Producers and distributors are assured of a wide release in a transparent fashion, exhibitors (theatre owners) are enjoying a revival in business, and audiences across the country are able to enjoy first day, first show screenings wherever they are. In smaller towns and villages, where most audiences were able to view a new film as late as two months after its all-India release, cinema enthusiasts can now see all new releases first day, first show.

Territory distribution prices have as much as tripled in certain regions vis-à-vis pre-UFO days. Also, regional language cinema, which was badly affected by the lack of outreach to audiences and spiralling print costs, is now revived. Even defence personnel in remote areas such as Leh are able to watch films first day, first show, thanks to UFO's digital cinema solutions.

Small-budget, niche cinema has also benefited immensely, the latest case in point being *Paan Singh Tomar*, a 100% digital release that actually witnessed a week-on-week increase in the number of screening theatres, a hitherto unheard-of phenomenon. (In its third week, the film was screening in 310 theatres versus its opening figure of 135 theatres.)

UFO's recent acquisition of a controlling stake in Scrabble Entertainment (a pioneering entity in deploying digital cinema in India) has helped it to better consolidate its offerings, and it now provides an integrated offering covering both DCI as well as non-DCI systems to the industry. At 3,000 screens, with more than 4,700 films having been released and over 11.5 million shows having been held till date, the next big thrust areas for UFO in terms of growth include 3D and in-cinema advertising solutions.
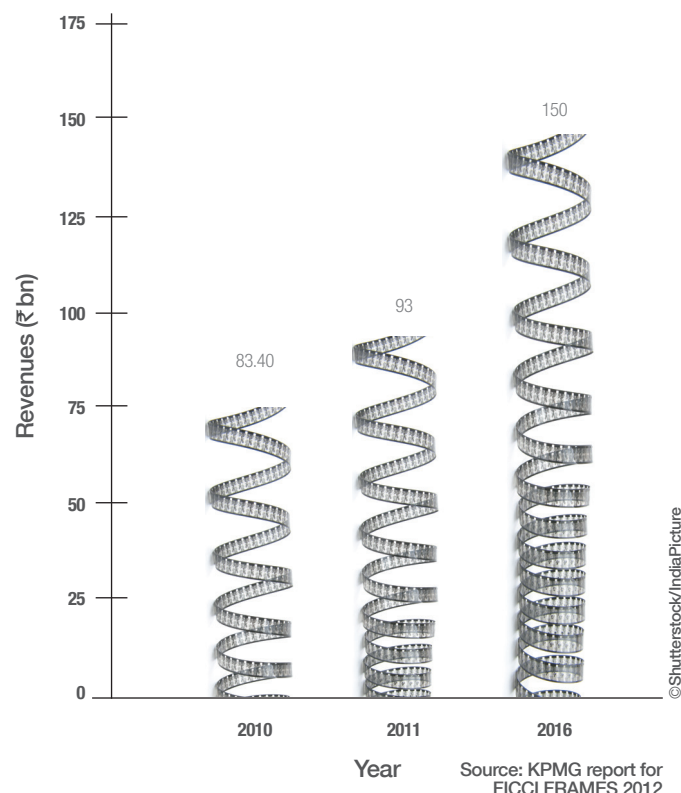
Technology is the core, driving fundamental at UFO Moviez. The digital cinema application is a platform that is constantly evolving in order to accommodate the business and technology requirements of a fast-changing market. It was for this purpose that a separate software development team was set up at UFO. To foster an environment of constant innovation and technical agility, this development team works as a vendor to UFO's core technology team, even though they are employed by the same company. This innovation structure lends commercial and technical agility to the company.

UFO is also constantly endeavouring to offer best-in-technology solutions to its customers, the latest example being the installation of UFO-Dolby co-branded processors in UFO digital cinemas across the country, which has helped transform the audio experience for audiences. And last but certainly not the least, UFO's Digital Cinema systems are helping to bring about estimated power savings of 21,000MW per year across its 3,000 screens as of today (assuming 100% capacity utilisation and in comparison to the erstwhile analogue projectors). And this is in addition to preventing the generation of more than 1mn kg of polyester waste (from film reels).

The road ahead

The Indian exhibition industry is rapidly moving towards 100% digitisation. The revenues of films are set to increase, and with the commercial cycle of a film decreasing, there will be an

ESTIMATED GROWTH OF THE INDIAN FILM INDUSTRY

Revenues (₹ bn) vs Year. 2010: 83.40, 2011: 93, 2016: 150.

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Source: KPMG report for FICCI FRAMES 2012

Digitisation has changed the face of the theatre back room.

increase in number of films being made, with more and more independent producers launching films for niche and regional markets. We are in a true sense witnessing the democratisation of the production, distribution, and exhibition sector. Riding on the digital wave, the number of screens is set to increase, but the per-screen seating capacity will keep coming down to enable better facilities.

It has been an honour and a matter of great pride for all us UFOrians to be part of a fast-growing, innovative company which has changed the fortunes of our much-loved but underserved film industry. Representatives of the industry also acknowledge the growth in business that has been enabled by UFO's Digital Cinema solutions, and audiences are able to watch films first day, first show, no matter where they are. It has been an amazing journey for everyone! ✦

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