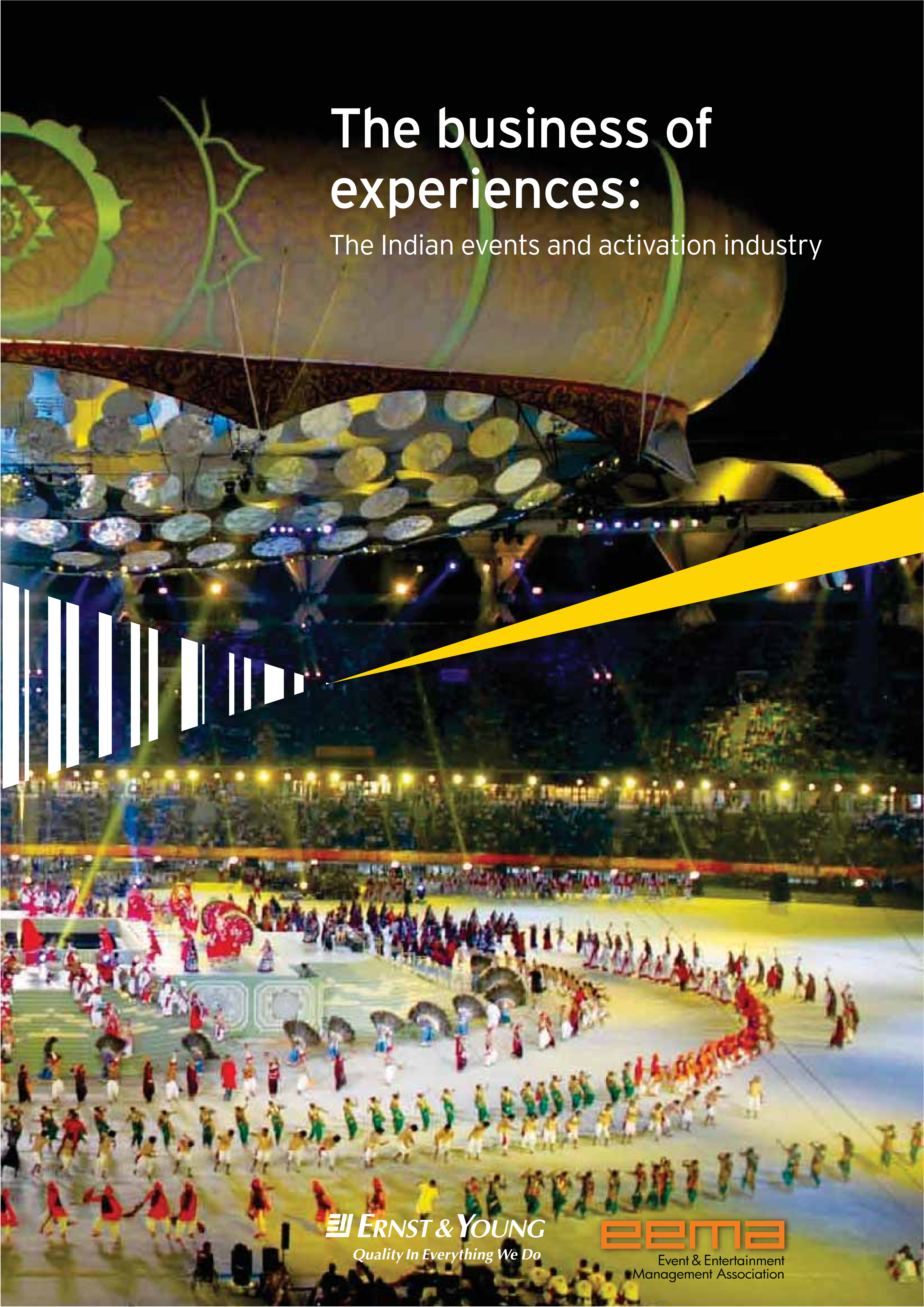
The business of experiences:

The Indian events and activation industry



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eema
Event & Entertainment Management Association

Foreword

It gives us great pleasure to be associated with the first white paper to be written on the events and activation industry in India. Over the past few years, the industry has grown considerably and through this paper, we endeavor to capture the trends and challenges that this dynamic industry faces.

The report is a culmination of extensive research involving detailed discussions with owners of events and activation companies across the country. The report captures emerging trends and issues based on these discussions, the risks faced by these companies, the M&A opportunities as well as the tax implications affecting the industry.

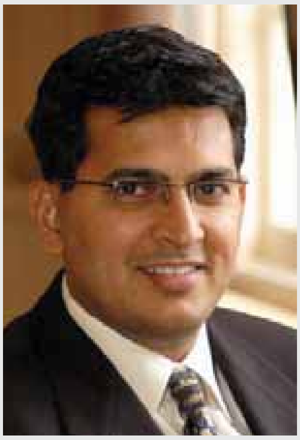
We sincerely hope that you find this report insightful in understanding the growth drivers and the key challenges facing the events and activation industry. We are indeed grateful to all the stakeholders and industry players who have provided their valuable input in compiling this report.

Farokh Balsara

Media & Entertainment Industry Leader

Europe, Middle East, India and Africa

Foreword



It is always an exciting prospect when one chooses an unchartered course. For those of us who have made the world of Experiential Marketing our home, the journey has been both challenging and rewarding. And speaking of challenges, one of the primary tasks has been that of assessing the Events and Activation juggernaut and the way forward. Hence, a White Paper for this Industry has been a crying need and it gives us great pleasure at EEMA to see this take shape.

We firmly believe that the findings will throw up statistics and trends which will in turn give direction and purpose to the industry going forward. Given the undoubted potential that exists in the urban and rural markets, domestic and international markets and in the Brand and Consumer engagement Zones, we are on to an exponential growth story.

Our sincere gratitude to Ernst and Young, EEMA's member base and everyone else who has wholeheartedly contributed to this effort.

Brian Tellis
President
EEMA

Atul S. Nath
Executive Vice President
EEMA

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Executive summary

Size and growth prospects

The organized portion of the Indian events and activation industry is estimated at around INR2,800 crore in 2011-12. The industry has grown at over 20 percent during the last two years and is expected to grow to INR4,375 crore by 2013-14. There is a large unorganized events and activation sector as well, which could be as large or even larger than the organized portion of the industry.

While managed events and activations form the core services provided, intellectual properties have been developed and exploited by only a few companies. However, going forward, industry leaders are of the opinion that growth will be driven by development of IP around:

- Sports, which is in a nascent stage in India
- Digital activation, which is becoming an integral part of all B2C properties, and
- Properties which target rural audiences, following the increased spends marketers are undertaking in tier-II and tier-III cities.

Marketers plan to increase the proportion of their BTL spends from 17.8% today to 19.6% by 2013-14.

Most event companies are profitable and expect to maintain their profitability, over the near future.

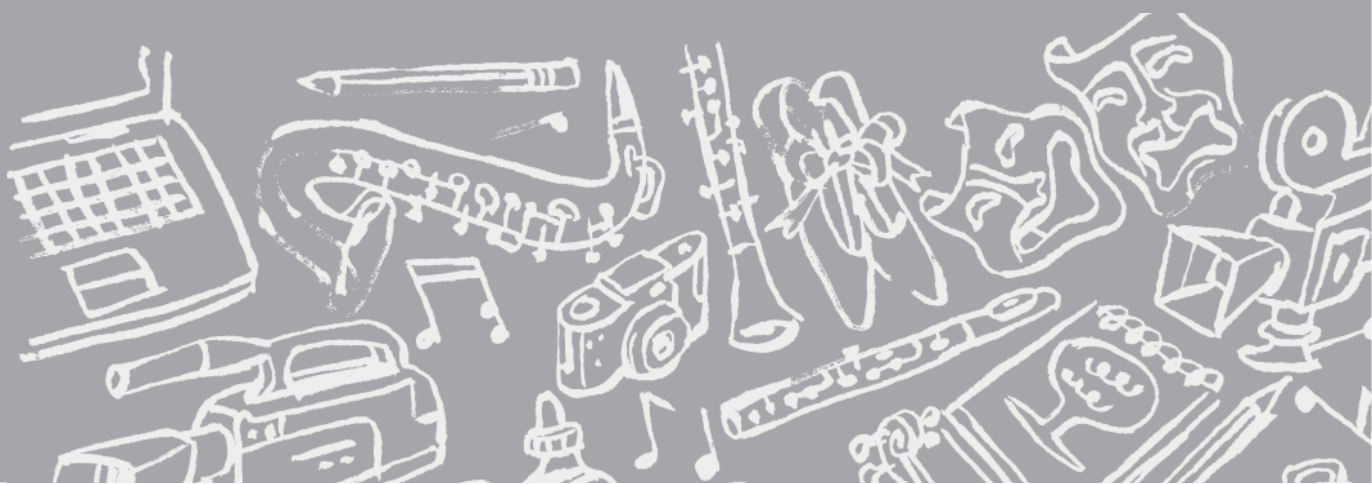
Strengths and areas of improvement

The key strengths of the Indian events and activation industry are the ability to "get things done" under adverse circumstances, execution creativity, an efficient cost base and a strong vendor base across price points.

Growth can be stimulated if certain issues such as onerous regulations around permissions, a plethora of taxes (particularly entertainment tax), inadequate events infrastructure, transparency of costs and the absence of a universal standard for demonstration for return of investment are addressed. The industry needs to own, in whole or in part, rights to intellectual properties to protect against economic downturns and maintain a stable top line.

Talent

Payroll comprises 13% of total costs, which is higher than other segments of the Indian media and entertainment sector. These costs are expected to remain disproportionately high until issues related to the lack of skilled talent, high attrition rates and absence of adequate education options are addressed.



The transactions opportunity

The events and activation industry in India has seen the lowest transactions activity among all segments of the media and entertainment sector, due to its small size, highly person-dependent nature and absence of bankable IP. As companies grow and cross the INR100 crore size, bring about increased transparency, build niche capabilities and become more corporatized, this is set to change. While, in the near term, mergers and acquisitions (M&As) are likely to be funded through internal accruals, private equity and strategic investors can be interested in the medium and long term.

Demonstrating return on investment (RoI)

Most marketers we interacted with indicated that they are likely to increase their expenditure on events and activations if the return on their spends could be demonstrated to their CEOs in a standard manner. However, due to the unique nature of each event, there is no universally accepted standard today to measure return on events and activation spends. The industry needs to define standards to measure performance against key client expectations (for example, sales, trial, awareness, database creation, etc.) and implement the same uniformly to increase marketer confidence. The importance of building communities, rather than conducting flash-in-the-pan events for advertisers, will help generate increased events and activation revenues.

Regulatory wish list

There is a need to rationalize state taxes, mainly entertainment tax, to a uniform percentage. Entertainment tax rates are extremely high in some states, which make events financially unviable. Ticketed events have fared extremely poorly in India due to high taxes, and there is a need for a tax waiver / holiday for five years to give a boost to the live entertainment segment of the industry. Growth in the live events segment can lead to economic growth, increased tourism and employment generation.

Risk management

Most event companies perform some degree of risk management around properties executed by them, but many tend to rely on the experience of their teams. Formal risk assessments (around event objectives, attraction points and hygiene factors) are seldom performed due to the increased costs related to the same, which many sponsors and clients are not willing to bear, but the events and activation agency is required to manage.

chapter 01

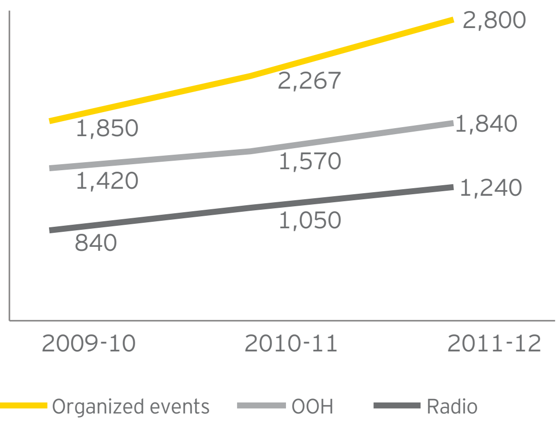
The industry today

In this section we discuss the current scenario and key trends, which the Indian events and activation industry has experienced over the last few years. This section is based on a survey of the CEOs of 32 Indian event management companies and Ernst & Young's analysis of the same.

The events industry is growing at a healthy rate

The size of the organized events and activation sector is estimated at around INR2,800 crore. This value represents the revenue of events and activation agencies and does not include the value of telecast rights of sporting events (unless owned by the events and activation management company), the value of meetings, incentives, conferencing and exhibitions (MICE) conducted by pure travel companies, value of IP not owned by event companies and properties managed by in-house activation teams of advertisers. Its growth trajectory over the last three years is clearly aligned to that of the radio and out of home segments, and this could be due to the key traits it shares with these segments such as, there is no universally accepted measurement metric, all these segments are individually less than 5% of the total media pie, and all are heavily dependent on a certain number of industries for their revenues.

Size of the organized events industry (INR Crore)



With an average growth rate of more than 20% during the last two years, the organized events and activation sector has shown a consistent growth pattern due to increasing confidence being shown by marketers in events and activation for their business growth.

There is practically no entry barrier to commencing operations as an event management service provider, and there are several unorganized players, i.e., service providers who are either individuals, do not have defined business processes and policies and/or have an annual turnover of less than INR5 crore. According to the estimates of the survey respondents, the organized sector accounts for around 40% of the total events industry.

Most Indian event companies have a national geographic spread

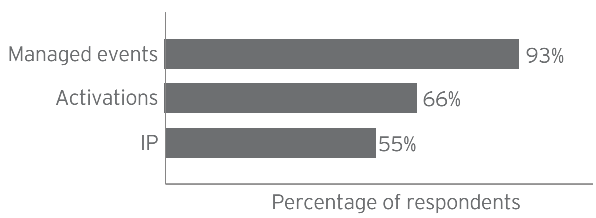
Most respondents had largely India-centric operations with an average of 2-5 offices located within India to facilitate their operations. Services are provided in over 20 cities on average, and often upto 100 towns and cities. Few event companies such as Wizcraft, Percept, etc (less than 10% of survey respondents) had offices abroad. The focus of most event companies continues to be India as many feel that there are sizable business opportunities to be exploited.

Managed Events forms the core service provided

There are three key services in the portfolio of Indian event companies. These are Intellectual Properties (IPs), Managed Events and Activations/Promotional Campaigns.

- IP refers to events whose intellectual property (ie, the concept, logo, name, etc) is wholly or partly owned by the respondent (the event management company). Some examples include Indian International Film Awards (IIFA), Mirchi Music Awards, The Kala Ghoda Festival, etc.
- Managed Events refer to corporate or personal events managed on behalf of a third party, who owns the IP of the event (if any). These comprise brand launches, dealer meets, auditions management for TV shows like Indian Idol, etc.
- Activation refers to event activities, usually small in size, which are carried out at multiple locations for the promotion/sale of a product or service.

Services provided

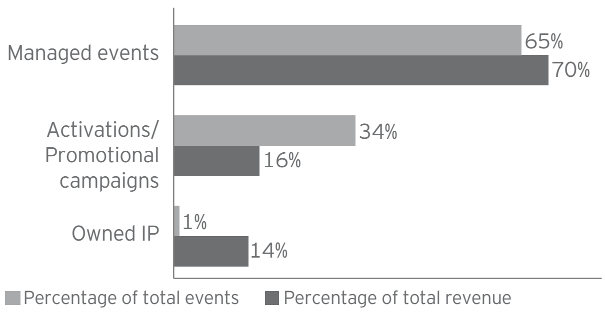


Almost all survey respondents provided Managed Events and Activation services. However, just 55% of the respondents owned, wholly or in part, any IP. This is in glaring contrast to media companies, particularly print and radio companies, where most owned over 15 IPs, and some large brands owned over 100. In fact, for several magazines, revenues from marquee events and IPs provide upto 50% of total revenues, and all their profits.

IPs, however, provide the most value

An interesting point noted during the survey was that IPs, which contributed just 1% of total events conducted by our survey respondents, contributed 14% of their revenues, which demonstrates their ability to generate a disproportionate share of revenue for events and activation companies.

Company revenues vis-à-vis events organized

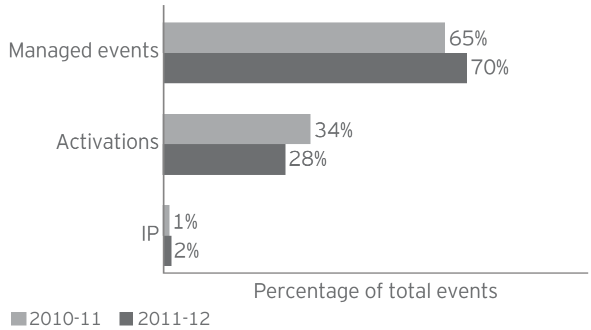


Managed events remained the core business for events and activation companies with the largest share of revenues coming from these services. While activation comprised 34% of the activities conducted, it generated just 16% of total revenues, due to the wafer thin margins in executing logistically complex events across multiple locations, inherent inefficiency of setting up, dismantling and repeatedly transporting event elements and the inability (generally) to amplify such events on TV in a sustained manner.

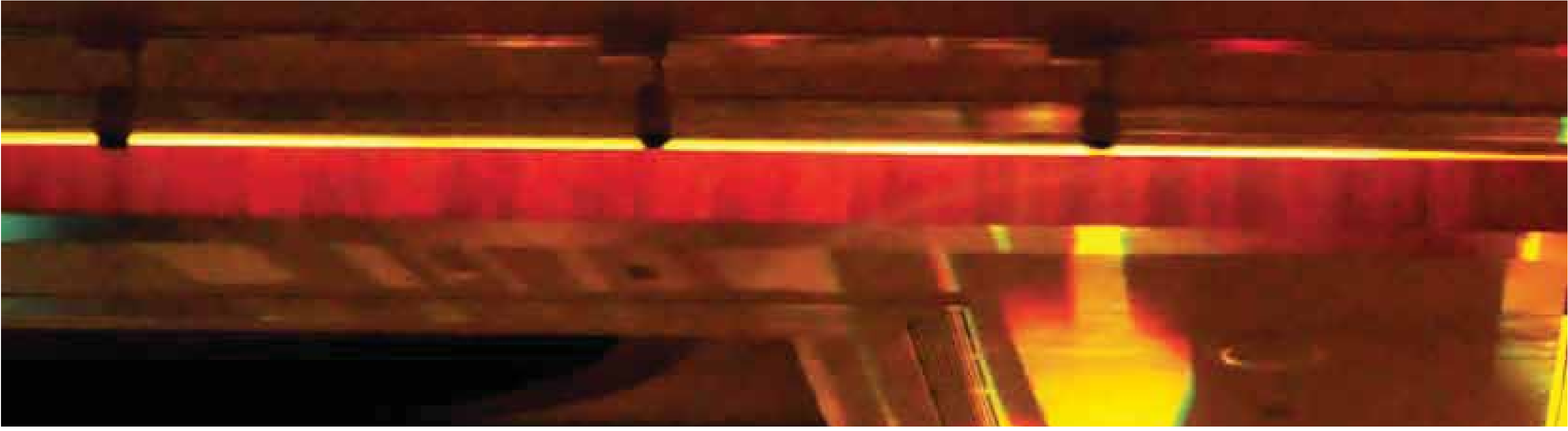
The number of events conducted is increasing

The total number of events delivered grew 24% in 2011–12 as compared to 2010–11 – and growth was noted across managed events, activation and IP. The number of IP doubled in terms of share of total events from 1% to 2%, while the main growth was noted in managed events, which increased its share from 65% to 70% of total events conducted. This indicates that event management companies have started realizing the importance of building and investing in IP on the one hand, while increased below-the-line marketing spends by advertisers is driving growth on managed events and activation.

Category share of total events



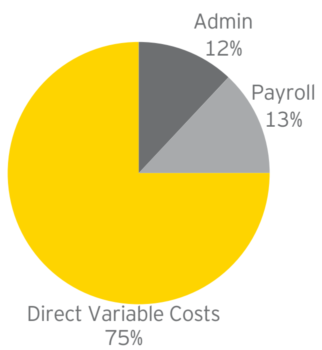
In recent years, print and radio companies, who have the ability to amplify targeted local content on their media vehicles to back up activation efforts, have made strides in growing their activation businesses and many such as Radio Mirchi, DB Corp, Jagran Prakashan and Big FM have set up dedicated teams offering these services in over 30 cities.



Payroll costs are higher than other segments of the media industry

On average, 75% of total costs were direct variable costs related to event production. This varied from 60% to 80% for different events. Processes to identify and accurately capture cost escalations during event production were often person dependent and in several cases, only identified after the conclusion of the event.

Cost break-up



For the events and activation industry 13% of the costs were attributed to payroll, whereas the average payroll costs across different segments of the media industry are usually 10% or lower. However, the lack of trained manpower, shortage of experienced personnel and unreliable vendors used (who require increased supervision) have inflated payroll costs by around 25%–30% at an industry level.

Other administrative costs, depreciation, interest, etc aggregated another 12% of total costs.

Human Resources

The average employee strength of our survey respondents was 50–60 employees, excluding contractual/event-based hires, with the average age below 26 years. While the youth factor lent an increased degree of passion in delivering high quality events with a "wow factor" and increased creativity, it also sometimes resulted in a lower regard for policies and processes, and the almost universal inability to get time sheets completed by employees on a periodic basis.

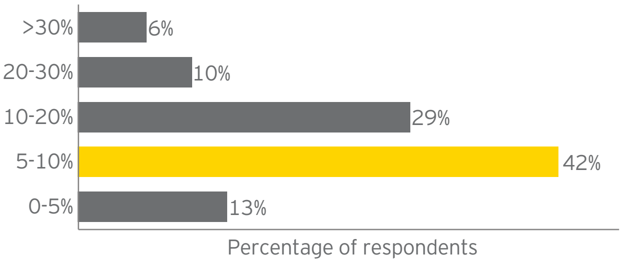
Most survey respondents said they were experiencing attrition rates of around 10%. The main causes for this attrition were employee movements to competitor event firms (often for small increases in remuneration), movement to in-house event functions of large advertisers and to set up their own event management agencies.

Most survey respondents felt that the talent entering the events industry was inadequate. The image of the industry was cited as one reason for this, as was the absence of adequate hands-on training courses. Accordingly, on-the-job training was the most preferred way of developing talent, often taking three to four years to be completed.

All respondents were profitable

The financial summaries we received from survey respondents indicated a sound and profitable business model, largely de-risked through advances received from customers. Earnings before interest, depreciation, taxes and amortization (EBIDTA) figures show that the current profit margin, on average, stood at around 19% of total revenues. Debtors days stood at a healthy 59 days, as most events and activation companies only paid creditors and vendors from advances of collections made from customers. Most event management companies had job costing systems in place, with the more evolved companies preparing both a pre-event profit and loss statement (or event budget) and a post-event budget-to-actual analysis.

Employee attrition rate



Key strengths

Working in the Indian environment, events and activation companies need a number of strengths to survive.

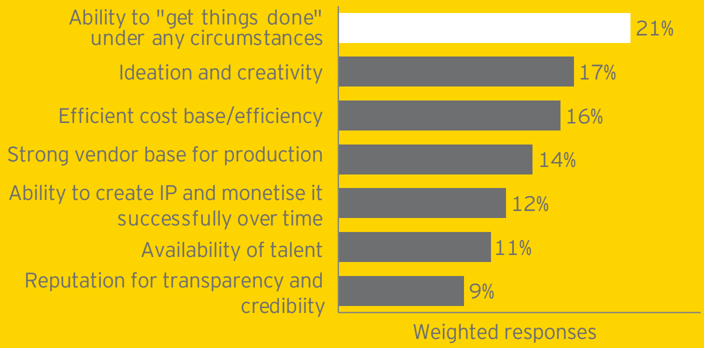
It was no surprise then that most respondents believed that the ability to get things done, in terms of conceptualizing, managing and executing events, under any circumstances was the key strength of the Indian events industry. Delivery of high quality events despite regulatory hurdles, poor infrastructure, inadequate talent base, large geographic spread and a not-very-quality-conscious vendor base was almost a pre-requisite for business success.

Another key strength highlighted by many respondents was around ideation and creativity. Indian sponsors, by and large, require innovations on properties each year. Creativity, as a tool, was required to get empanelled by large advertisers, and of course, to retain business in the all-too-frequent re-bidding of annually conducted events. Accordingly, creativity has become a tool imperative for growth of revenues, and also retention of business performed in the previous year.

The ability of the events and activation industry to deliver cost-efficient event solutions was noted as another key strength. Most respondents believed that Indian events and activation companies are quite proficient at delivering quality events even when they face budgetary constraints. There is a large vendor base available for all events, across different price points. In addition, several large events and activation companies have implemented strong commercial functions to negotiate better rates with vendors on the back of volume discounts, and ensure that event budgets, and actual procurement, are in line with estimated rates for a particular service. Implementing a central commercial function, particularly for events and activation companies with multi-location operations, has resulted in savings of up to 15% in procurement costs.

Most respondents felt that the availability of talent and the overall transparency of the industry were areas that needed improvement.

Key strengths of events and activation industry



Key challenges

Indian events and activation companies face several operational and other challenges. These are discussed below:

Onerous regulations – Most respondents believed that regulatory hurdles remain the key challenge in organizing and managing events. The multiplicity and varying direct and indirect taxes affect the profitability of the industry. Further, numerous permissions are required from multiple authorities to conduct an event.

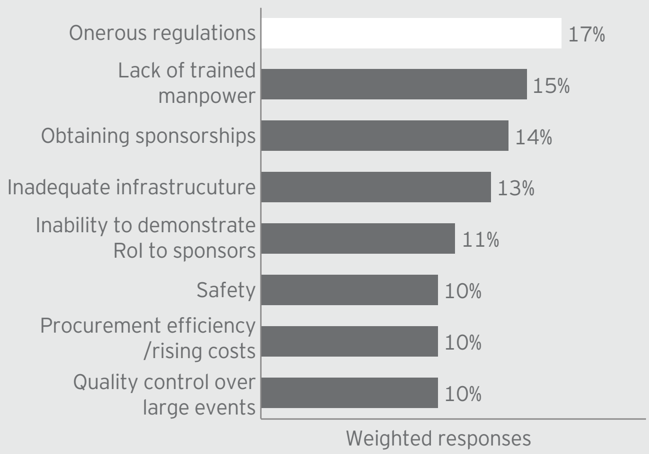
Lack of trained manpower — In terms of work skills, the current employee base does not fare well on the expectations of most events and activation companies as they believe that most of the employee pool is not talented enough to meet the needs of this sector. Some believe that the scenario could be improved through focused learning and training programs for current and prospective employees. As mentioned in this report, most believed that the quantity and quality of talent entering the industry was not adequate.

Obtaining sponsorships – Another key challenge that is faced by the industry has been that of obtaining sponsorships for their events. This issue is closely related to the industry's efforts to demonstrate return on investment (RoI) for their events as most event sponsors are looking for tangible contributions to their brand awareness and in an increasing number of cases, to their bottom line.

Inadequate infrastructure – Most industry leaders are concerned that this factor has impacted their profitability because of lack of supporting infrastructure such as proper event venues, hotel room availability, technology service providers, air transport network, etc. makes conducting large-scale events, particularly conferences, seminars and other large events, onerous.

Most respondents felt that the industry had managed the issues of procurement costs, safety and event quality control better.

Key challenges



chapter 02

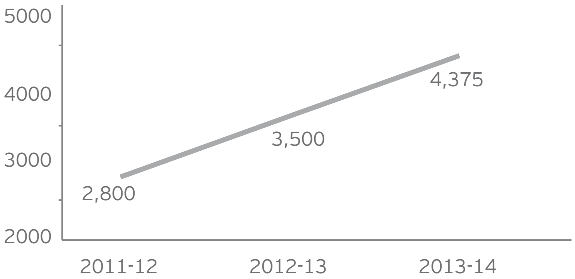
The road ahead

In this section we discuss the key trends and issues which the events industry is likely to experience in the coming years. This section is based on a survey of CEOs of 32 Indian events and activation companies, and Ernst & Young's analysis of their responses.

Events and activation industry to grow at a healthy rate

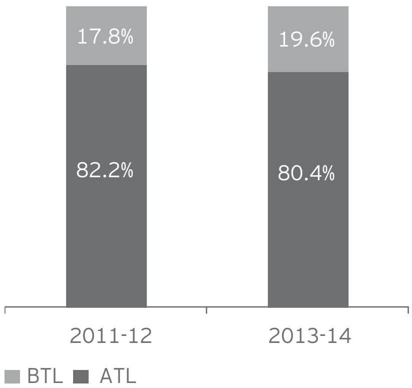
Survey respondents believed that organized companies in the events and activation sector are likely to grow at an average rate of 25% over the next two years; from their current size of INR2,800 crore to INR4,375 crore in 2013–14. They expected the overall industry to grow at around 17%. This is likely to change the ratio of the organized to unorganized portions of the industry from the current level of 37:63 to 42:58 in two years.

Expected growth of the organised events and activation industry (INR Crore)



The key reasons for this growth are likely to be an increase in events and activation spends by marketers. 57% of survey respondents believed that the share of total marketing spends attributable to BTL activities (including events and activation) is likely to grow by around 10% over the next two to three years to reach nearly 20% of total marketing spends. In addition, increase in overall event production costs (which tend to match, at least, the inflation rates), growth of revenues across regional activation, increase in the number of IPs launched (particularly for luxury brands) and increasing upper-middle and rich classes will likely boost revenues.

Increase in share of events and activation spends by advertisers

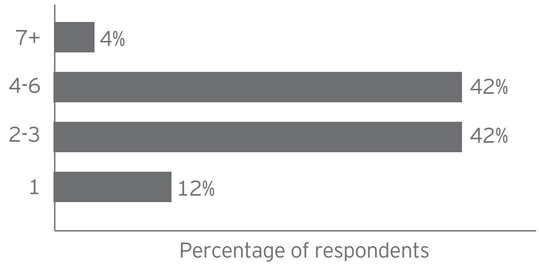


Most survey respondents have plans to expand their geographic operations by at least one new market in the next two years. They are also looking to expand their service portfolio and introduce at least two new services in the next two to three years to cater to the increasing demand for more recent event categories such as sports, weddings and digital activation.

IP will increasingly assume more importance in driving growth

IPs feature at the core of the event industry's growth plans. More than 80% of the survey's respondents expected to launch at least two new IPs during the next two years. They felt that IPs were more resilient to economic slowdowns, tended to get signed-up for longer periods, had more measurable results over time, built the company's brand in the market place, and most importantly, enhanced the valuation of the company in the eyes of potential investors.

Expected number of IPs to be launched in the next two years



Three IP models are expected to prevail:

1 In the first model, the entire IP is owned by the events and activation company, and sold to sponsors for various periods of time. While this model provides the highest returns to the events and activation company, the risk is also highest, given that media spends required for amplification could be as high as 70% of the IP cost.

2 In the second model, the IP is co-owned by the events and activation company and a sponsor, and this model works well where there is comfort in a long-term commitment with a sponsor, though returns are not considerable. A top-line boost, in many cases, assures the events and activation company of annuity revenues.

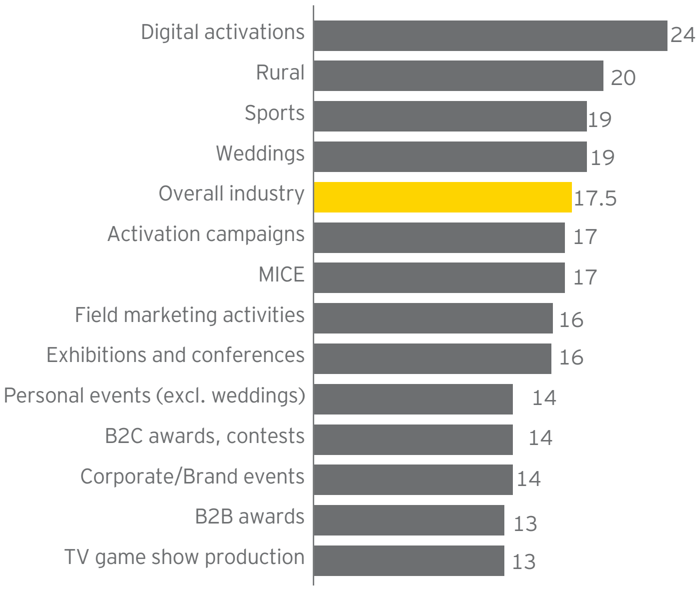
3 In the third model, the IP is co-owned by the events and activation company and a media owner (broadcaster, publisher, radio company, etc.) where the media owner provides media space in lieu of equity in the IP. This model has shown significant uptake by FM radio, regional TV, sports TV, regional print and outdoor companies, whose capacity utilizations are low (during some periods of the year) and can be increased through activation and other events.

Digital, rural, sports and weddings will grow fastest

As mentioned above, the overall growth of the events and activation industry is expected to be around 17%. However, the growth is clearly broken up into three segments:

1. **Drivers:** certain types of events are expected to grow at more than 17.5%. Survey respondents expected growth drivers to be digital (albeit from a small base), rural, sports and weddings.
2. **Core:** these event types provide sustained revenues from existing clients on the back of their ability to demonstrate RoI efficiently, and include activation, MICE, field marketing and exhibitions.
3. **Opportunistic:** these events are driven by client-specific needs and are tending to get increasingly commoditized such as, personal events, awards, contests, brand launches, etc.

Expected growth rate (%) - Event categories



Digital activations

With more than 70 crore mobile phones in use today, mobile marketing and the ability to interact with event audiences has reached a point where it just cannot be ignored. Most events (B2B and B2C) have an interactive element built into their strategy.

Digital activation is being used to:

a. Build awareness around an event, and hence, the sponsoring brand(s)
b. Interact with audiences during the event to get their comments, point of view, votes, scores, etc.
c. Continue to engage with audiences after the event
d. Build communities using social media networks

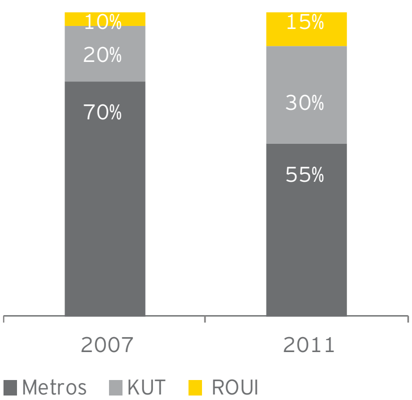
The big opportunity for the events and activation industry is to offer interactivity services to advertisers as part of the event/activation plan to enable building databases for them to exploit, and thus demonstrate ROI on their spends.

The rural opportunity

All respondents felt that rural activation is likely to be a significant driver of growth over the next few years. With saturation in the metros and large cities, the need to tap rural markets and their large consumer base, was critical.

A study by Ernst & Young, *The New Market Shehers*, clearly shows the movement of marketing spends from metros to key urban towns (KUT) and rest of urban India (ROUI), on the back of increased disposable incomes in tier-II and tier-III towns.

Movement of marketing spends to non-metro locations



Marketers spent 70% of their marketing money on metros in 2007, which declined to 55% in 2011. The non-metro opportunity has grown 50% during the period from 30% to 45% of marketer spends. This change is expected to continue, on the back of the growth in regional TV channels, increases in the number of regional print editions and phase III of FM radio licensing, which will expand the reach of radio from less than 100 cities currently to nearly 300 cities in two to three years.

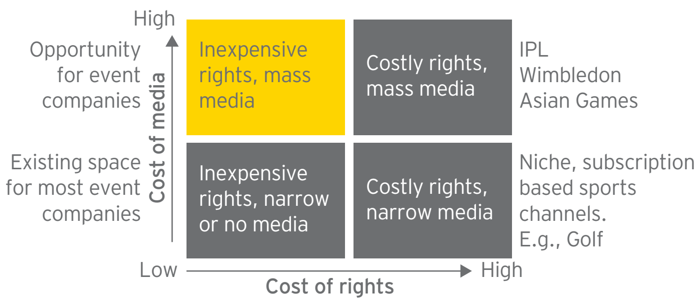
It's time for sports

Sports leagues have seen considerable interest since the success of the Indian Premier League. Leagues for hockey, football, cricket, street fighting, basketball, baseball and even power boating have commenced or been announced.

The opportunity for events and activation companies so far has been:

1. Conduct opening or closing ceremonies, parties, etc. involving the league
2. Manage various events for one of the league teams
3. Execute sporting events with low or no media amplification.

The bigger, untapped opportunity that exists is around creating a sports property, which can utilize mass media and inexpensive rights. There are several TV channels, which have low viewership periods, including sports channels without India cricket-based properties. Tie-ups with such channels could enable amplification of a series of small city-level sports leagues, which could culminate with a national knock-out final that will provide low-cost sponsorship opportunities for advertisers who do not have the financial muscle for large sporting events.



Events and activation companies must build communities for their clients

More and more marketers are insisting on a linkage of event spends to their sales objectives and hence, events are moving from being once a year "flash in the pan" occurrences, which can be easily forgotten by their intended audiences, to a series of ways to continuously engage with the target audience, through various means, of which the actual event can be one element. This model is effective both for B2B and B2C events, and results in not only a higher spend, but also a much higher brand recall and participation level. The figure alongside indicates how an annual B2B award for an industry was converted into a forum to regularly interact with CEOs from that industry across newsletters, internet, round tables and a white paper.

March	April	May	June	July	August	September	October	November	December
Round table 1 Customer experience		B2B Newsletter #1	Round table 2 Meet the regulator	B2B Newsletter #2		Round table 3 Procurement	B2B Newsletter #3	Industry whitepaper	Awards

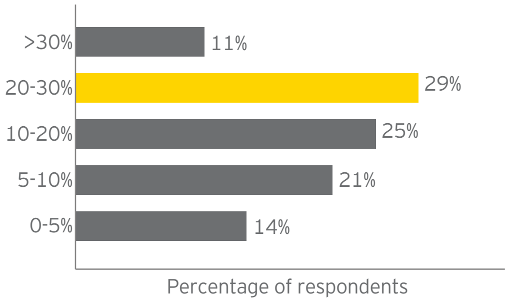
● Articles written by a CEO, published in a business newspaper

Profit margins expected to be maintained

Profit margins of the events and activation companies are expected to average around 15% going forward, as almost none of the respondents believed that profits are likely to fall. Discussions indicated that revenue growth is expected to more than adequately cover the increases in direct variable costs, and procurement efficiencies will bring in a certain degree of cost control as well, a part of which could be passed-on to sponsors and clients. The factors critical to maintain profitability were:

1. Management of payroll costs at around 10%
2. Increasing procurement efficiency, particularly for large and multi-city events
3. Close monitoring of overhead costs (mainly rent)
4. Implementing barter deals for travel, food and beverage, etc. to reduce event production costs
5. Increase in selling of concepts to advertisers to be able to earn a "creativity premium"

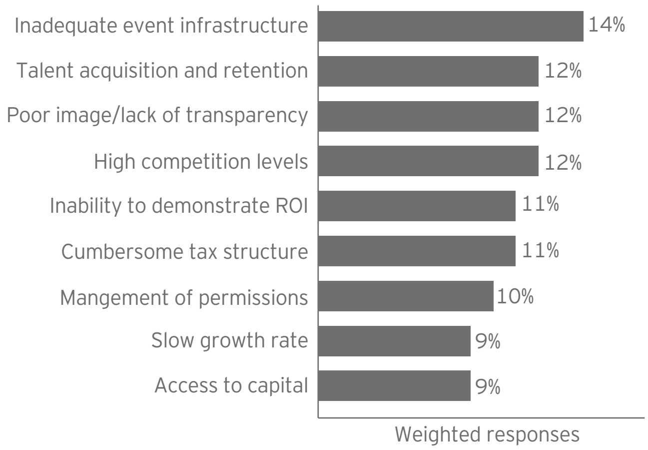
Expected profit margins



Key issues the industry will face over the next few years

In this section, we analyze the response of the survey participants when they were asked to list five most critical issues they expected to face in the next few years.

Key issues expected to be faced



Inadequate event infrastructure — Most industry leaders are concerned that this factor will continue to impact their growth as lack of supporting infrastructure such as proper event venues, accommodation availability, technology support, transportation, etc. not only makes the process of managing events difficult, but reduces the number of events that can be managed by one company, increases the risk of events going wrong, and reduces the number of international event formats that can be replicated in India, particularly in the exhibitions and sports genres.

Talent acquisition and retention — As mentioned earlier in this report, the industry faces problems in identifying and nurturing talent which is conversant with the working of the industry and is equipped with the necessary skill sets. At the same time, the attrition rate shows no signs of abating. Accordingly, most events and activation company CEOs expected payroll costs to increase faster in the years ahead than other cost items.

Expected increases in event costs

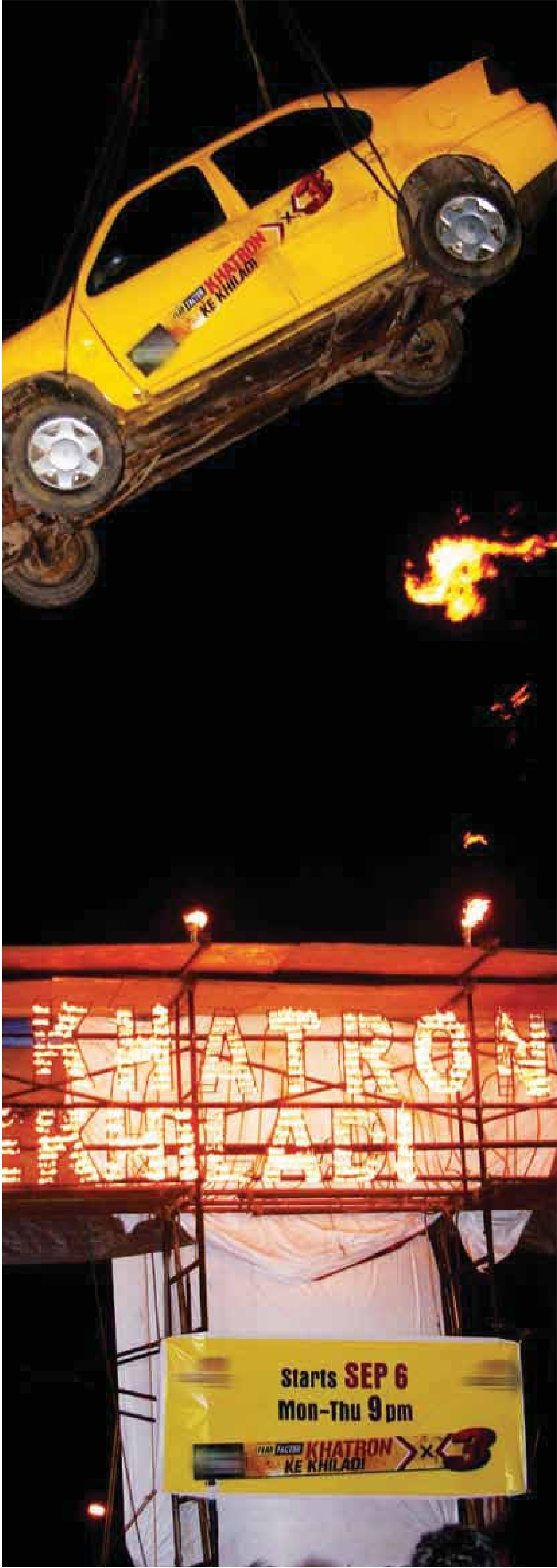
Poor image/lack of transparency and inability to demonstrate RoI – Respondents felt that due to the non-existent entry barriers of the events industry, there were several cases where small vendors and fly-by-night event managers delivered poor quality to their clients, or did not deliver on promises. Absence of defined processes and policies to conduct events, procure material and demonstrate return on client spends had also impacted the industry at large.

The key solution to this issue is the demonstration of return on marketing investment to advertisers and sponsors in a consistent manner. This aspect is discussed in detail in a subsequent section of this report.

One aspect that respondents felt was increasingly important to retain and improve revenues was media amplification. For many marketers, and also for a growing number of personal events, addition of a media plan to the on-ground elements has become a necessity. While this often doubles the total cost of the event, it reduces the cost per contact significantly, often making it one-thousandth of the pure on-ground cost per contact. Marketers are willing to increase their budgets on the back of the reduced cost per contact and also the ability to demonstrate the return on event investment in terms understandable by their CEOs.

High competition levels – As in all sections of the Indian media industry, competition between incumbents is considerable, and that fact is not expected to change any time soon. Sponsors and marketers often call for re-bids every year for annual properties, and while the project may still be handed to the events and activation company used during previous years, margins get impacted significantly. The industry needs to work towards a formula where annual assignments should be re-bid only every two or three years, or only on a technical level. Implementing the AOR model would help.

Taxes and permissions – These aspects have been discussed separately in this report.



chapter 03

The transactions opportunity

In this section we discuss the M&A deals which have taken place in the past. We also look into the opportunity that exits for M&A deals in the future.

Historical M&A landscape

Historically, deal activity in the events and activation industry has been minimal. The industry was largely unorganized and most of these players had not achieved critical scale or size. Even large organized players were operating at the low end of the value chain as mere event organizers. The only differentiating factor among the players was their event execution capability with little value-addition in terms of ideation, conceptualization and creativity. With no clear USP and lack of scale, attracting large international event management companies was virtually impossible.

The sector had also been flying under the radar of Private Equity (PE) funds, primarily on account of the regulatory uncertainties around entertainment taxes, licenses and permits required, etc. There were no established best practices from a PE perspective. The sector suffered from inadequate financial transparency and low degree of control. Most of all, there involved a high degree of uncertainty in the number of events one could organize going ahead, which was the only way to scale up for these players. As such, PE funds had considerable concerns around the stability of future cash flows, margin management and the ability to achieve critical scale. The lack of availability of external funding, in turn, slowed the growth plans of some of the players as well.

The table gives details of some of the deals in the events and activation industry.

Date	Target	Investor	Industry	Deal Type
June 2012	Hungama Digital	JWT	Activation	Inbound
July 2011	Direxions Global	LoyaltyOne	Database marketing	Inbound
October 2010	Asian Business Exhibition and Conferences	QInvest LLC	Events	Private Equity
June 2008	Megaron	MCI group	Activation	Inbound
April 2008	Chateaux Hospitality Pvt. Ltd. (Rams)	WPP/Grey	Events/ Activation	Inbound
April 2008	Percept Holdings Pvt. Ltd.	Everstone, JPM, Passport Capital	Events / Activation	Private Equity
January 2008	Encompass Events Pvt. Ltd	JWT	Events / Activation	Inbound
December 2006	Sercon India Private Limited	Bates Asia	Events / Activation	Inbound
November 2005	Solutions Digitas	Publicis Groupe	Events / Activation	Inbound
January 2005	Kidstuff Promos & Events	DDB Mudra	Events / Activation	Domestic

Evolving landscape

From an investor perspective, the following factors are important guidelines to their decision making.

1. **Significant growth**

   Over the past few years, the event management industry has witnessed a paradigm shift. Starting from the establishment of an industry association (EEMA), the industry grew at an impressive CAGR of more than 15% in the last four years.

2. **Strong fundamentals**

   This growth has also been largely fuelled by rising disposable income and a burgeoning middle class that is willing to spend more on personal events such as concerts, celebrations etc. It is also aided by corporate entities realizing the emergence of events and activation activities as an effective marketing medium and have significantly expanded their advertising budget allocation to this medium over the past few years.

3. **Increased corporatization**

   Today, organized players account for around 40% of the total industry revenues with the emergence of a few large players with significant scale of operations, strong domain expertise and niche capabilities — all through organic growth.

4. **Evolution in scope of services and de-risking of single service organizations**

   Players such as Wizcraft, Encompass, Showtime, Fountainhead, Candid Marketing, etc. have transformed themselves from pure event management companies to marketing partners for their clients. Corporate entities are increasingly integrating events and other activation activities into their core marketing and branding strategies — and the event management industry has geared itself to cater to this demand. Players are moving up the value chain and offer a complete 360 degree marketing solution to their clients right from ideation, conceptualization, promotion, marketing, arranging sponsorships and on-ground execution.

5. Niche capability building

   Some of the event management companies have built strong domain expertise and niche capabilities across key sub-segments and industry verticals. For example, Fountainhead has restructured itself and established subsidiaries to focus on niche categories such as tourism marketing (FH Corporate Journeys), live music events (Oranjuice Entertainment), and cultural festivals (Fountainhead). Players such as Wizcraft have gained expertise in organizing large-scale national and international mega events and spectaculars. Others such as Percept, Showtime, etc. have gained expertise across verticals such as sports-related events, youth-centric events, music concerts, film awards, etc. ESPN Star Sports has recently formed an Event Management Group to exclusively focus on managing sporting events in India.

6. Rural opportunity

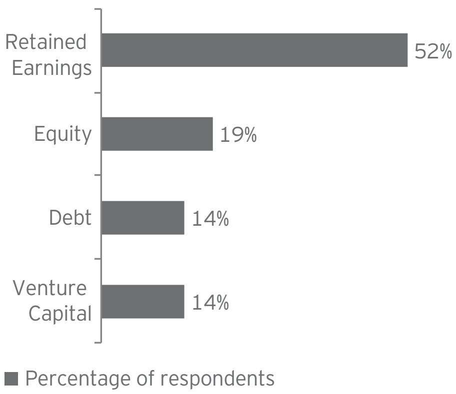
   With significant growth expected from tier-II and tier-III cities in India, events are increasingly moving to small towns and rural areas. Instead of holding one large event in a big city, organizers are progressively looking to smaller centers for several small events. This is expected to help capture a relatively large audience at similar costs. For these events, large event management companies are looking to engage smaller event management companies with rural expertise and in-depth understanding of the target audience to provide on ground local support.

7. Creation of IP

   A few large companies are now building their own event intellectual property portfolio. These companies conceptualize, create, execute and also own these event properties. Over time, these events transform into strong brands, which are then extended across various platforms. For example, Wizcraft owns and organizes the IIFA film awards, and in the recent past, have extended the brand "IIFA" with a chain of IIFA cafes and bars that also sell IIFA-branded film merchandise. Similarly, Percept has created a subsidiary called Percept IP that organizes one of the largest music festivals in Goa every year, Sunburn. The event has grown at a fast pace since inception and attracts close to 100,000 people now. This property will now be extended to club lounges, merchandise, music record and video labels, television, etc. These IP-based properties provide stable cash flows and increased monetization opportunities leading to high margins.

The road ahead: Consolidation and inbound investments

Expansion funding options



Going ahead, we believe that the large event management companies will adopt an inorganic growth strategy and as such, the industry will witness increased M&A activity. M&A activity is expected to be funded from internal accruals in the near term.

Some of the larger players could potentially acquire smaller/standalone companies to quickly achieve scale and add new genres/capabilities to their portfolio, thereby reducing clutter and enhancing market share. Some smaller companies with expertise in rural events, etc., will also, in the due course of time, become natural acquisition targets for the larger companies. Such a consolidation within the event management industry will be beneficial to all the stakeholders. With an increase in size, they would also be able to enjoy higher bargaining power with suppliers and clients.

Once companies achieve critical size, we see significant scope for private equity investments into the sector. PE funds can be attracted on the back of larger scale, strong differentiating factors, stable cash flows (on account of IP-based events) and larger industry consolidation. However for this to happen, companies will have to improve their financial control and adopt complete financial transparency and corporate governance.

These positive changes will, in time, make such event management companies extremely attractive to global players as well, who face stagnation in their domestic markets and are keen to enter the high-growth Indian market.

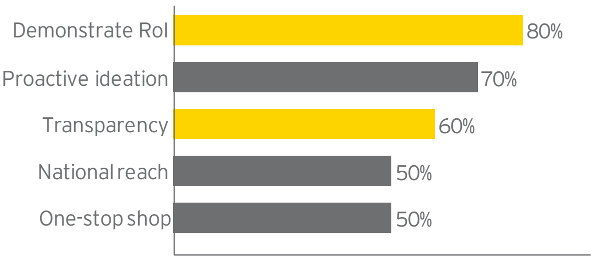
chapter 04

Demonstrating return on event investment

Measurement of ROI has been a key area of improvement for the events and activation industry. In this section we discuss the importance of measurement of ROI and propose an approach for the same.

We conducted an anonymous survey of ten large event and activation spenders, on aspects of the services they received from their existing service providers, which they most wanted to see improvements in. Respondents put measurement of RoI and transparency of costs as amongst the most important requirements.

Wish list from your existing events agency



Almost all advertiser respondents mentioned that they would be willing to invest more on events and activation activities, were the level of transparency to be enhanced and RoI be demonstrated in a consistent manner to their CEOs.

In addition, an analysis of the size of the TV and radio industry clearly suggests that introduction of a universally acceptable measurement metric has, in both cases, led to an increase in advertiser confidence in the medium, and boosted growth. Inability to demonstrate value is the foremost reason why, in times of economic slowdown, advertisers first curtail spends on areas where they are unable to demonstrate value to their CEOs and boards, although those areas may be the most efficient.

All these reasons certainly make a strong case for the Indian events industry to define and implement a standard measurement metric to demonstrate RoI.

Problems in measuring RoI

Unlike the TV industry, the print or radio industry, where the product being measured is largely uniform, there are several types of events and measurement of their success depends on different factors. Hence, a standard measure such as television audience measurement (TAM), Indian Readership Survey (IRS) or Radio Audience Measurement (RAM) is not a feasible solution.

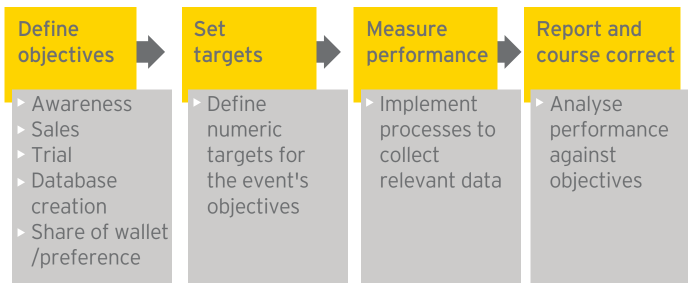
The cost of measuring event performance is also quite high, given that events could be conducted across several cities, are likely to require on-site presence, and an event repeated across different cities could have very different results. Hence, a sample may not always be representative of the whole activity.

In addition, many event agencies do not wish to measure success for certain events where they believe the costs do not justify the results.

A proposed approach

The basic premise of any event or activation is that it delivers value to the client and/or sponsor. This value needs to be measured to justify this claim.

The following is the basic approach of RoI measurement in the case of heterogeneous services:



Define objectives

This step is performed at the time of obtaining the client brief. A similar event may have different objectives based on client needs. An event may have one or more objectives. The critical success factor is to limit objectives to one or two key objectives, and use this information during the ideation and concept development stage, as well as during execution.

Often, clients may identify one objective (for example a sales target), but the events and activation company can provide inputs to increase the RoI for the client by amplifying the proposed event and creating mass media awareness, which could significantly reduce the cost per contact.

Set targets

For each objective, a numeric target must be set. Examples of targets are:

Objective	Examples of targets
Awareness	‣ Viewership/readership/listenership of the defined TG ‣ Cost per contact (INR)
Trial	‣ Number of persons who experienced the product during an activation/period
Sales	‣ Sales (in INR) ‣ Pre- and post-campaign sales increase (INR/%) ‣ Increase in sales (%)
Database creation	‣ New leads generated ‣ Improved quality of the potential customer database
Share of wallet / preference	‣ Increase in advertiser's share of wallet of their customers, etc.

Measure performance

This is the part of the exercise where actual data is collected. Data collation would need to be built into the event production process ab initio, to ensure that all required data points are correctly captured for subsequent analysis.

The key issue in this area is the veracity of the information, and whether clients will accept information from the event agency itself. To this, the following approaches could be adopted:

1. Use an independent consultant who can validate the RoI data
2. Outsource certain portions of the measurement (particularly around media reach and awareness, press cuttings, etc.) to third party agencies
3. Permit client validators to attend events and measure RoI data collection, based on a sample

It could be noted here that before TAM and RAM were instituted, TV and radio companies would often conduct their own research to demonstrate viewership or listenership, and use that data effectively to sell ad space. A similar model could create a very favorable impression on event clients.

Report and course correct

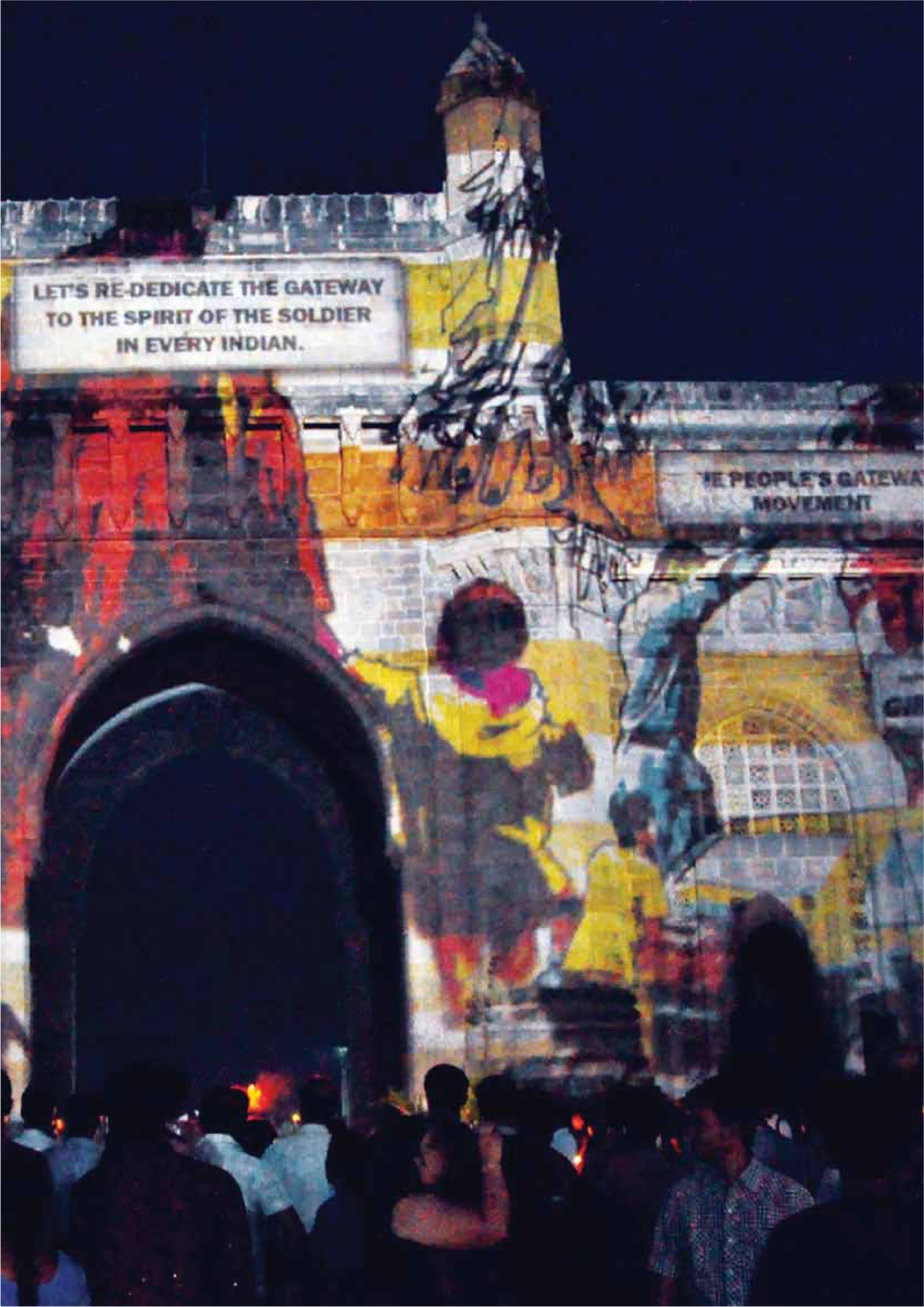
The last part, of course, will be to report on RoI to the advertiser/sponsor. Global research reporting best practices require that all findings are clearly supported by the sample size, the methodology used, the period of coverage and any assumptions made.

Over a period of time, EEMA or another industry body could define a universally acceptable set of guidelines for measurement of awareness, trial, sales, etc and a standard could be created, which would go a long way in building advertiser and sponsor confidence, and hopefully, as noted in other media segments, provide a further boost to growth.

chapter 05

Tax implications on the industry

In this section we discuss the indirect and direct taxes which affect the events and activation industry.


LET'S RE-DEDICATE THE GATEWAY
TO THE SPIRIT OF THE SOLDIER
IN EVERY INDIAN.
E PEOPLE'S GATEWA
MOVEMENT

Indirect taxes

With the emergence of indirect taxes and simultaneous increase in the number of events being held in India, indirect taxes are now becoming an important aspect while planning events in India. Major indirect taxes applicable on events held in India include Entertainment Tax, Service Tax, Value Added Tax ('VAT'), Stamp Duty, etc.

Entertainment tax

Entertainment tax is levied by state governments on various activities such as film exhibition, entertainment events, sports activities, cable/DTH operations, etc. Further, unlike service tax which is a single levy applicable across India, entertainment tax legislations differ from state to state. Generally, entertainment tax is levied on the amounts charged for allowing entry into the place where an entertainment event is held.

Diverse state wise entertainment tax laws

Given that the legislations governing entertainment tax law are different in all states, the applicability of entertainment tax on events conducted in the states also differs, leading to difficulties in complying with the appropriate laws.

Entertainment tax rates on events also differ from state to state - which adds to the degree of complexity in ensuring compliance and pricing for events with a multi-state spread. Further, certain legislations provide for different tax rates on the same event within different municipal limits of a state, or for different types of events. For instance, different rate of entertainment tax has been prescribed under the Maharashtra Entertainment Tax law for award functions and other events. This leads to lot of confusion.

High and diverse entertainment tax rates

Ticket sales are a major revenue source for event organizers. Some state governments charge a very high rate of entertainment tax and hence, it accounts for significant cost in hosting an event. Certain state governments charge entertainment tax at a rate as high as 50% of the value charged for entry into the event, while some state governments also grant exemption from payment of entertainment tax depending on specific nature of events.

A generic comparison of entertainment tax rates applicable to events held in major states has been given below:

State	Entertainment tax rate (%)
Bihar	50
Uttar Pradesh	25
Maharashtra	25
Chandigarh	25
Madhya Pradesh	20
Goa	15
Delhi	15
Haryana	Exempt

Applicability of entertainment tax on business exhibitions

While entertainment tax is applicable on entertainment, certain legislators intend to extend the applicability of this tax to business exhibitions and fairs carried out in those states. This aspect lacks clarity and event organizers / owners of such business exhibitions shall be under risk of demand of entertainment tax on the collections from these events.

Entertainment tax, in addition to other taxes

While entertainment tax is levied on entertainment events, certain revenues from the events are also made liable to service tax. For eg, event sponsorship amounts earned are liable to entertainment tax under certain entertainment tax legislations, in addition to the service tax (currently at 12.36%) levied by the central government.

The incidence of high entertainment taxes reduces the scope for ticketed events such as concerts, recitals, theater, etc. Several countries generate significant revenues from such live entertainment events, which also give a boost to tourism, hospitality, travel, associated services, etc. This has an impact on overall economic growth and creates employment as well.

Service tax

Levied by the Central Government, Service Tax is currently applicable at 12.36% on the value of services. Further, with the introduction of Negative List based service tax legislation with effect from July 1, 2012, the approach to levy service tax has undergone a paradigm shift whereby all services shall be liable to service tax unless mentioned in the Negative List or Exemption List.

Given this, the major sources of revenue in relation to events such as grant of telecast rights, sponsorship revenue, etc shall be liable to service tax at 12.36%. However, admission to the entertainment events has been kept outside service tax ambit by including the same in the negative list of services.

Customs duty

Customs duty is levied on import of goods into India. Events such as exhibitions, musical shows, etc entail import of various goods into India. While all imports are liable to customs duty at generic rate of 28.85%, the rate of customs duty depends on the description of the product and its classification under the internationally accepted classification nomenclatures. Further, certain benefits such as exemptions, duty drawback, concessional rate of duty, etc could be explored for temporary import of such goods. Further, international customs arrangements such as ATA Carnet allow temporary import of equipments without the payment of customs duty for use at exhibitions and fairs.

Value added tax

VAT is levied by state governments in India on sale and purchase of goods within a state in India. Further, sales which occasion movement of goods from one state of India to another are leviable to a Central Sales Tax ('CST'). VAT is levied at generic rates ranging between 5% to 15% depending of the description of goods sold. Further, certain state VAT legislations provide for special registration and payment provisions for sales made in exhibitions, trade fairs, etc.

Stamp duty

Stamp duty is payable to the state government on the execution of specified instruments. Certain state stamp duty legislations provide for payment of stamp duty on instruments granting exclusive telecast / broadcast rights, instruments for specified performances, etc.

ATA Carnet

Internationally, ATA Carnet benefit for duty free temporary import of goods into India extends to goods imported for exhibition, fair, professional equipment and commercial samples. While India is a member of ATA Carnet, the temporary duty free import is available only in respect of goods imported for exhibitions or fairs. This unnecessarily requires event owners to incur customs duty on such imports and apply for drawback or refund at a later date resulting in cash flow inefficiencies.

Multiple taxation without credit

As can be observed, multiple indirect taxes are levied by multiple regulators on the various activities in relation to an event. However, credit of the tax paid on any activity is not available as set off against the liability of any other levy which leads to increase in cascading and multiplicity of taxes.

Direct taxes

The increase in the number of events and the high stakes involved in them has drawn the attention of the Revenue Authorities. In light of the unique nature of the industry, the following issues would need to be considered from an income tax perspective while organizing an event in India:

1. Taxability of revenues from an event in India

   The primary source of revenue for an event manager from an event is revenue from sale of live telecast rights (where an event is organized and recorded by an event owner) or management fee (where an event management company is commissioned to organize an event). In addition to revenues from sale of live telecast rights/management fee, events generate income from ticket sales and sponsorship fees.

   A resident event management company/event owner in India is taxable in respect of its global income on net basis (income less expenses) as per the normal provisions of the Income-tax Act, 1961 ('Act'). However, a non-resident event management company/event owner would be taxable in respect of its income which accrues or arises or deems to accrue or arise in India or is received or is deemed to be received in India. A non-resident event management company/event owner can choose to be governed by the provisions of the Act or the applicable Double Taxation Avoidance Agreement ('Tax Treaty'), provided he is eligible to claim the Tax Treaty benefits.

   Where an event management company/event owner has entered into an international transaction or a specified domestic transaction with its related parties, as defined under the Act, such transaction would be required to be at arm's length price. In this regard, the event management company/event owner is required to maintain prescribed documentation and undertake prescribed filings with the Revenue Authorities to demonstrate that the transactions with the associated enterprises, during the year, are at arm's length price.

The following are some of the key income tax issues of relevance to the event management company/event owners:

a. Taxability of revenues from grant of live telecast rights

   The event owners typically own the rights to telecast a live event, which they may grant to broadcast companies. The issue that arises is whether the revenues earned by non-resident event owners from grant of rights to telecast a live event in India are taxable in India. Generally, the taxpayers take a position that there is no 'copyright' in the rights to telecast a live event in India and, therefore grant of such rights is not in the nature of 'royalty'. However, the Revenue Authorities typically consider that the payment towards acquisition of rights to telecast a live event in India is in the nature of 'royalty' for transfer of 'copyright', which is deemed to accrue or arise in India and is, therefore, taxable in India. In view of the same, there exists a controversy on the taxability of income earned from grant of rights to telecast a live event in India.

   It may be interesting to note that the definition of 'royalty' under the Act does not include 'live coverage of any event', while the draft Direct Taxes Code Bill, 2010 ('DTC') specifically includes 'live coverage of any event' under the definition of 'royalty'.

b. Taxability of event management fee

As per the provisions of the Act, payment to a resident event management company i.e., event management fee, is considered to be in the nature of 'professional fees' and subject to withholding tax under Section 194J. In the case of a non-resident event management company, the event management fee may be considered as being in the nature of 'business income' (unless the provisions of Independent Personal Services under Tax Treaty are attracted) and hence taxable in India where the event management company has a permanent establishment in India. However, the Revenue Authorities may take a position that the 'event management fee' is taxable on gross basis in India as 'fees for technical services' as per the Act or applicable Tax Treaty and accordingly, litigation in the matter cannot be ruled out.

c. Taxability of sponsorship fee

An event owner receives sponsorship fee from various corporates (i.e., sponsors) which use the events for promotion of their products. Sponsorship generally includes naming an event after the sponsor, displaying the sponsor's company logo or trading name, giving the sponsor exclusive or priority booking rights, complimentary tickets, sponsoring prizes or trophies for competition etc. Typically, sponsorship agreements are a combination of such rights and the sponsorship fee is a lump sum amount to be paid annually by the sponsors.

As regards payment of sponsorship fee to a resident event owner, the issue arises regarding applicability of withholding tax provisions of Section 194J (i.e., royalty for use of or right to use trademark or similar property) vis-à-vis Section 194C (i.e., in respect of advertising contract) of the Act, depending on the terms of the contract.

The other issue that could arise is whether the sponsorship fee paid to a non-resident event owner by the various sponsors, in respect of an event in India, is in the nature of 'royalty' and taxable in India.

Based on various judicial precedents in India, the taxpayers take a position that the consideration from grant of sponsorship rights is not in the nature of 'royalty'. However, the Revenue Authorities usually view that the entire payment towards acquisition of sponsorship rights by sponsors, in respect of an event in India, is in the nature of 'royalty' as there is use of trademark or similar property involved.

The taxability of sponsorship income should essentially depend on the facts of the case and commercial understanding of the parties reflected in the documentation. Given the stakes involved, it is imperative that appropriate documentation is maintained to mitigate tax exposure that sponsorship income is taxed as 'royalty'.

2. Taxability of revenues from activation business

   Despite logistical challenges like multi-city events and varied target audience profiles, the activation business continues to grow with the prominent source of revenue arising from sponsors of the brand / products. As regards payment of fee to the companies undertaking activation, the issue arises regarding applicability of withholding tax provisions of Section 194C vis-à-vis Section 194J of the Act, where the activation is being carried out by an event management company. Since the purpose of activation is advertising/ or brand promotion the taxpayers take a position that the payment is for advertising work as covered by Section 194C of the Act and subject to withholding at the rate of 2%. However, the Revenue Authorities may take a position that the activation where carried out by an event management company is in the nature of professional services and subject to withholding at the rate of 10% under Section 194J of the Act. Accordingly, the taxability of payments for activation would depend on the terms of the contract and the facts of each case supported by appropriate documentation.

3. Withholding tax implications on key payments

   The major payments associated with event management are payments to event management companies, artists' fees, infrastructure at the venue and production expense where events are telecast by the event managers, unless broadcasting rights are transferred. Such payments may be liable to deduction of tax at source under various provisions of the Act. In the case of residents, the applicability of the provisions of Section 194C, Section 194J and Section 194-I (i.e., rent) of the Act and, in addition, in the case of non-residents, the applicability of Section 194E (i.e., payments to non-resident sportsmen, entertainers and sports associations) and Section 195 (i.e., payments to non-residents) of the Act should be examined.

   Non-compliance with the withholding tax provisions results in additional interest liability, disallowance of expenses and penalty exposure. Also, where a payee, whose income is subject to withholding, does not have a tax registration in India (i.e., Permanent Account Number), the tax is required to be withheld at the rate specified in the relevant provisions or the rates in force or 20%, whichever is higher.

   We have discussed below the withholding tax implications on some of the key payments in connection with an event:

   a. Payments to resident artists performing in India and outside India:

      Section 194J of the Act specifically provides that the services provided by resident artists for performance in India are in the nature of 'professional services', as defined under Section 194J of the Act, and subject to withholding tax at the rate of 10%.

      An individual resident in India is taxable on his global income. The income from performance outside India could also be subject to withholding tax in respect to the country of performance. In case taxes are withheld in the foreign country, then the resident artist may claim the tax credit in India against the tax liability.

   b. Payments to non-resident artists performing in India:

      - The Finance Act, 2012 has amended the provisions of Section 115BBA and Section 194E of the Act to cover within its ambit taxability of income of non-resident entertainers from performance in India, at the rate of 20% (excluding surcharge and education cess) on a gross basis and the consequential withholding tax rate would also be 20% which is a welcome move.

Furthermore, Section 115BBA of the Act exempts non-resident entertainers from filing tax return in India if the only income earned from India is in respect of performance and appropriate taxes are withheld from said income.

- Usually under the Tax Treaty, there is a separate Article on 'Income earned by entertainers and athletes', which provides for taxation in India of the income from the personal activities of artists/ entertainers in India. Even where the income from personal activities accrues to another person and not directly to the artists/entertainers, it is still taxable in India in accordance with this article in the Tax Treaty.
- Additionally, as per the provisions of the Act, a non-resident artist, who has come to India in connection with shows or events in India and has earned taxable income in India, should obtain an Income Tax Clearance Certificate ('ITCC') prior to departure from India. In the absence of procuring the ITCC, there may be practical difficulties for the artist while departing from India.
- As per guidance by the Central Board of Direct Taxes (CBDT), consideration paid to a non-resident artist to acquire the copyrights of performance in India for subsequent sale in India (as records, CDs, etc) or the consideration paid to the artist for acquiring the license for broadcast or telecast in India is taxable in India as 'royalty' under the Act as well as the applicable Tax Treaty.
- In some contractual arrangements, it is possible that the non-resident artist receives separate consideration for grant of 'image rights' (including, but not restricted to, right to use name, images, videos, quotations, signature, likeness, personal attributes etc., of the non-resident artist). Most of the elements of 'image rights' granted by the non-resident artist are likely to qualify for protection under the intellectual property law and, hence, are considered as 'royalty'. However, few components of 'image rights' granted may not enjoy protection and the tax implications thereon would need to be evaluated based on the factual matrix. Accordingly, it is imperative to undertake a careful assessment of the 'image rights' granted as per the agreement to determine the withholding tax implications.

c. Payment to resident event managers

The CBDT has clarified that the services provided by resident event managers are in the nature of 'professional services', as defined under Section 194J of the Act, and subject to withholding at the rate of 10%.

Note: Matters discussed above are indicative and positions taken will vary on a case by case basis.

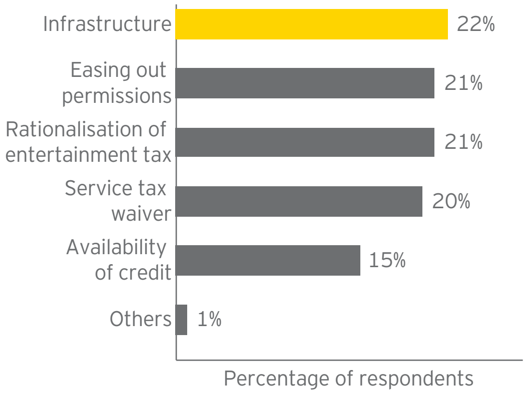
chapter 06

EEMA's wish list

The events and activation industry is subject to a plethora of permissions and taxes. Through this section EEMA presents the regulatory changes it wishes for.

EEMA has been working on a wide range of industry challenges over the past few years. Some of these challenges arise from competitive pressures within the industry, some as a result of the interaction with other stakeholders of the industry like clients and vendor partners, and some with the Government.

Key issues requiring regulatory support



Clients

As far as challenges with client relationships are concerned, the events and activation industry must be accountable to its clients by way of an ROI measurement tool. That being said, there must also be a commitment from clients to move toward an AOR agreement with an agency.

While an NDA is often signed by the agency, it is necessary to attach a commercial value to the creative inputs of the agency (pitch fee) and protect the intellectual property in the form of ideas, designs, etc.

Vendors

On the challenges with the supply chain or vendors, there must be a commitment from the supply chain to offer the latest and most efficient solutions by way of production values and technology. This will happen if relationships are forged on a long term basis and with a commitment to a partnership approach. There can be absolutely no compromise on reliability and safety standards.

Regulatory

As the body representing the events and activation industry in India, EEMA has put together the following key elements of the wish list to the Governmental authorities.

Permissions and licensing:

Over the past decades, multiple licenses and permissions, some relevant and some archaic have come into being with respect to the commissioning and execution of an event in India. In some situations, the number of licenses and permissions are unreasonably high and complicated. For the development of the space and for the extended benefit to consumers and the public at large, it would make sense to rationalize the licensing and permissions requirements and process in the country. This would include event licenses, authority permissions (police, fire, municipal, etc), entertainment tax, music licensing among others. Rationalization is an absolute must and a single window clearance would certainly help efficiency all round.

Tax Laws:

The industry is faced with taxation-related challenges - Entertainment Tax, Service Tax and applicable tax deducted at source (TDS) rates. Each of these impacts the industry in different ways but all are restraining the growth of the industry in a significant manner. The TDS rates applicable are inordinately high and inevitably lead to extreme cash-flow pressures for all companies in the industry. The levying of service tax has led to an overall budgetary loss for the industry from the client. This could be rationalized through a lower service tax applicability or ease processes through a rationalized VAT. Entertainment Tax, which varies from state to state has been a stumbling block for many years in some states for attracting national and international events. State governments may find an overall benefit for the state and for the state exchequer if the entertainment tax levels are lowered. Provision of a five year tax holiday on live events may give a significant boost to this segment of the events industry, which in turn can lead to increased tourism revenues and generate employment.

Infrastructure:

The events and activation industry has grown exponentially in the past 15 years in India but regrettably, supporting infrastructure has not kept pace. It is appalling that many if not most of the large commercial cities do not have adequate convention and exhibition centres. Large format events have to be held on open grounds which make it inconvenient and commercially unviable. The challenge continues with lack of sufficient ballrooms, low hotel room availability, technology service providers, air transport network, etc. The activation business faces its own set of challenges with adequate facilities being available only in private spaces like malls and modern trade. Public spaces like markets and entertainment areas do not allow for organized spaces for activations. It is important to note that considerable revenue opportunities exist for the governmental authorities through creation of such events and activation infrastructure. Hence infrastructure development is a must.

Education

There is a very large number of young workforce already gainfully employed in the business of events and activation, and many more are entering the industry year on year. There is a need for a standardization of educational qualification for the industry. EEMA would like to see the educational authorities co-develop diploma and degree courses and along with EEMA to professionalize the industry.

chapter 07

Event risk management

"If you fail to plan, you plan to fail"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A risk is anything that negatively impacts an event. All events and activation are susceptible to risk. Events attract considerable media attention, draw sizeable investment from sponsors, involve interactions with the public, invitees or participants, contain non-negotiable dates and require the seamless integration of hundreds of non-standard elements across infrastructure, permissions, performers, props and personnel.

The fructification of one or more risks could result in audience or participant dissatisfaction, failure to achieve event objectives, withholding of payments by sponsors, loss of reputation, loss of life or even litigation against the events and activation company.

Types of event risks

Event risks are of two broad types:

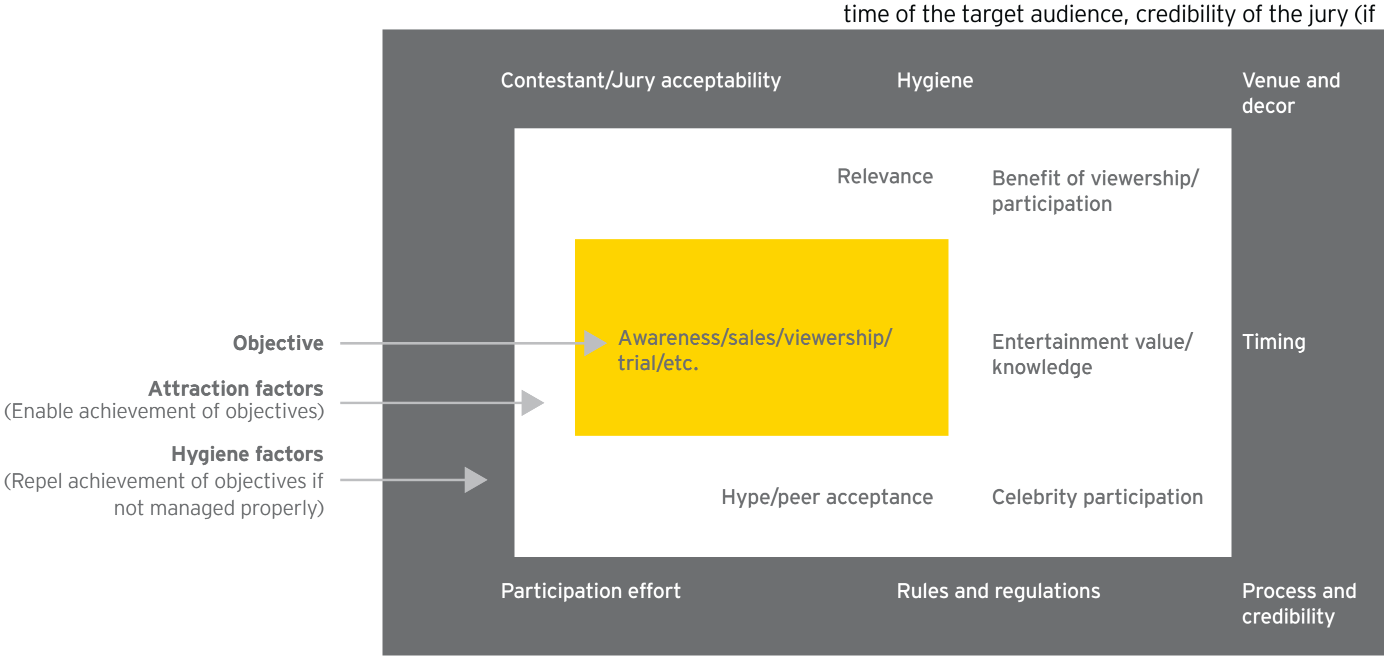
1. Conceptual risks

   These are risks, which arise due to assumptions or judgments made at the conceptual or design stage of an event or activation. They can be defined as objective, attraction factors and hygiene factors.

   a. Objective: It is of utmost importance to know what the objective of organizing an event is for the IP owner as well as the sponsor(s). The objective could be awareness creation, viewership, readership, sales, trial, etc. Defining the objective and measureable targets guides all other aspects of the event.

   a. Attraction factors: These are factors, which are critical to achievement of the event objective. They involve relevance of the event to the target audience's profile (is it something they are interested in?), acceptance of the events among their peers, the benefit of participation/attending the event by the target audience, etc. The importance of each factor varies with each event and target audience.

   a. Hygiene factors: These factors are important to maintain the interest of the target audience, once they have tuned-in to or have attended the event. If these factors are not managed adequately, the repercussions could include loss of interest, loss of reputation and lack of participation. Key risks include excessive participation efforts, unfair terms and conditions, weak participant selection/evaluation/short-listing processes, a timing not suited to the free time of the target audience, credibility of the jury (if



any) or participants, etc.

2. Operational Risks

   These risks relate to unanticipated circumstances which may adversely affect the smooth execution of an event. Every element of an event is subject to several operational risks, some of which are:

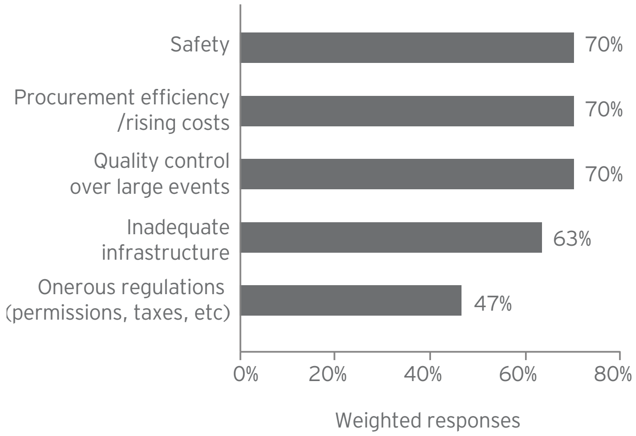
Event element	Risk example
Hangar	Collapse could cause injury to performers or audiences
Stage	Collapse could cause injury to performers or audiences
Barricades	Inadequate to prevent unruly crowds
Food and beverage	Cause illness, such as food poisoning due to use of unhygienic substances
Electricals and fireworks	Cause short circuits, electrocution, public injury
Power	Outages
Lights	Inadequate or unfavorable lighting
Performers	Illness, or delay in arrival
Seating	Inadequacy, or injury to audiences
Security	Inadequate to prevent entry of harmful objects
Permissions	If not received in time, could cause stoppage or cancellation of the event
Weather	Rain or winds can cause show stoppage
Sound	Could stop functioning
Wiring	May get cut and result in show stoppage, injury to audiences
Costumes	Damage or malfunction
Fireworks	Public injury
General disasters	Earthquake, fire, flood, etc
Manmade disasters	Terrorist attacks, shooting, etc

An average event has over one hundred risks

The events and activation company has to manage these risks by adopting a defined risk management approach.

Our survey of events and activation company CEOs indicates that events and activation companies face the highest risks around safety, procurement and event quality.

Key operating challenges faced by event and activation companies

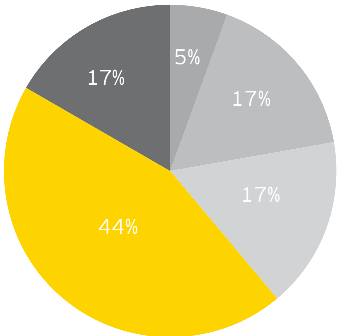


Status of risk management in the industry today

The aim of risk management is not to eliminate risk, but to manage the risks involved in conducting an event in the most efficient manner, and bring them to acceptable levels. Risk management builds awareness of risk factors, which in turn results in a consistent event experience, and of course, peace of mind.

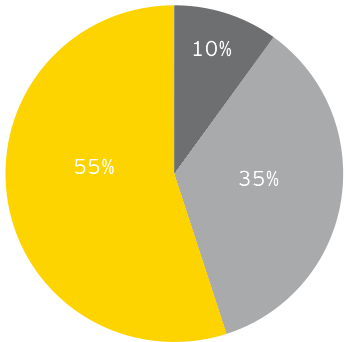
Only 17% of our survey respondents conducted a formal and documented risk management exercise for all events managed by them, while 61% conducted some level of risk management for their marquee events or for events with a considerable level of public exposure.

Risk management



- Yes, but only for events with large public exposure
- Yes, but not formally - its left to experience of people
- No
- Yes, for all events
- Only for some marquee events/activations

Companies that have defined policies and processes

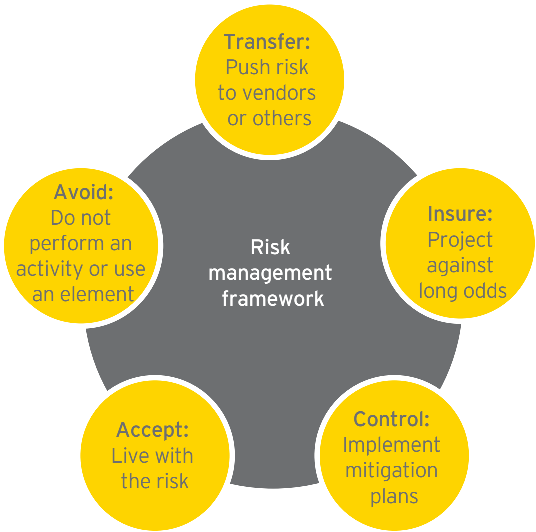


- Yes, for all areas
- None
- Yes, for some key areas

While our discussions indicated that events and activation companies clearly recognized the importance of conducting a formal risk assessment, it was not always performed. The key reason for this was that while clients and sponsors usually expect events and activation companies to ensure that events are executed adequately and risks are managed, they often are not willing to pay the insurance or additional costs associated with the same. Risk management costs could be as high as 10%–15% of total costs, which is, unfortunately, the negotiation margin that determines which event agency wins a competitive pitch. Contracts with sponsors invariably put the risk of event delivery on the events and activation company, and hence, it is left to the events and activation company to ensure risk management. Demonstration of risk management could be a differentiator for more evolved sponsors.

More than half of our survey respondents had implemented policies and processes for all key areas in some form or the other, while around 35% had it for some key areas such as procurement and billings. In most cases, policies were not documented, and there was a degree of reliance on personnel with "events experience".

The external validation of selection processes for nominee and winner determination appears to be on the rise, particularly for all events with large public exposure (such as contests on Facebook), with heavy media amplification (for example Indian Idol, Fear Factor) or considerable prize money (for example KBC). The key reasons for this were that documented processes reduced the number of complaints that converted into litigation, and external validation identified errors in a timely manner and prevented mistakes.



The key risk management techniques used across events are:

- Transferring the risk to the respective vendors – For example, caterers are responsible for any loss of life or illness caused by the food to artists or audiences.
- Insuring against the risk – This is usually used for risks that are force majeure in nature such as floods or terrorist attacks, or which are of very low probability such as loss of life or injury to audiences.
- Adding controls to manage the risk – This is the most common form where adequate checks and balances are ensured such as load testing hangars and stages, building in redundancies for sound, light and electronics, ensuring adequate separation between the stage and audience areas, etc.
- Accepting the risk – where the cost of control may be too high for management to control or insure against
- Avoiding the element(s) – where it is not possible to mitigate the risk

The way the above techniques are used, however, varied from event to event. Events of a similar nature are not always insured, nor are preferred and reliable vendors always used for high risk areas. At the end of the day, as one events and activation company CEO put it, "event bottom lines" drove his "worry lines".

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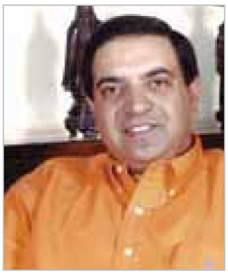

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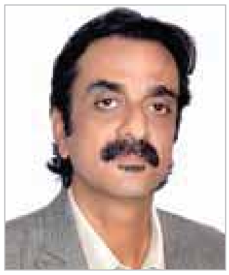
Event Crafter



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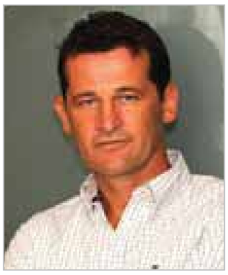

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Seventy EMG

Sameer Tobaccowala
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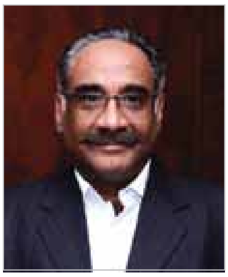

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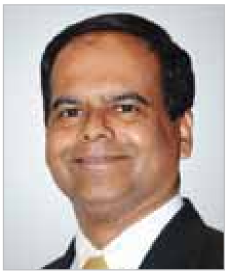
Touchwood



Vijay Adhikari
UBM

Wiz Sabbas Joseph
Wizcraft

Glossary

Act	The Income Tax Act, 1961
AOR	Agency on Record
ATL	Above the line, or media spends of marketers
B2B	Business to Business
B2C	Business to Consumer
BTL	Below the line, or non-media spends of marketers
CAGR	Compounded annual growth rate
CEOs	Chief executive officers
Crore	Ten million
CST	Central Sales Tax
DTH	Direct to home or satellite television
EEMA	Events and Entertainment Management Association
EY	Ernst & Young Private Limited
IP	Intellectual property
IRS	Indian Readership Survey
ITCC	Income-tax clearance certificate
KUT	Key urban towns
M&A	Mergers and acquisitions
MICE	Meetings, incentives, conferences and exhibitions
NDA	Non disclosure agreement
OOH	Out of home
PE	Private equity
RAM	Radio Audience Measurement
RoI	Return on investment
ROUI	Rest of urban India
INR	Indian Rupees
TAM	Television Audience Measurement
TDS	Tax deducted at source
VAT	Value-added tax

About us

Events and Entertainment Management Association (EEMA)

Over the past four years EEMA has grown into the de-facto voice for the events and activation industry in India. It was established in 2008, to provide a unified voice of the industry to the government, statutory bodies, taxation authorities and private licensing bodies and protect its members' interests. Today it comprises the largest and leading companies, organizations and institutions operating in three segments – Event Management, Brand Activation and Experiential Marketing.

EEMA seeks to lay down professional standards of management within the industry and interface between its members and clients, vendors and artists across the country and act as a repository of knowledge for its members. It seeks to constantly upgrade skills and knowledge levels of its members by organizing training programs, seminars and interface with international and local industry stalwarts and advising its members on safety standards, employee codes of conduct and best practices of the industry.

Ernst & Young

With a dedicated event risk management team since 2002, Ernst & Young has been associated with more than 150 unique events, awards, contests, pageants, TV game shows, activations, lotteries and draws in India, including Kaun Banega Crorepati (KBC), Indian Idol, Mirchi Music Awards, Femina Miss India, Playwin, Formula 1, Genius Scholarship, etc. From conceptualizing intellectual properties, reviewing and designing events processes, managing event risks and validating winners and shortlisted participants, Ernst & Young provides end-to-end solutions to event management companies.

You can contact

Ashish Pherwani: ashish.pherwani@in.ey.com

Radhika Pradhan: radhika.pradhan@in.ey.com

with your feedback and suggestions.

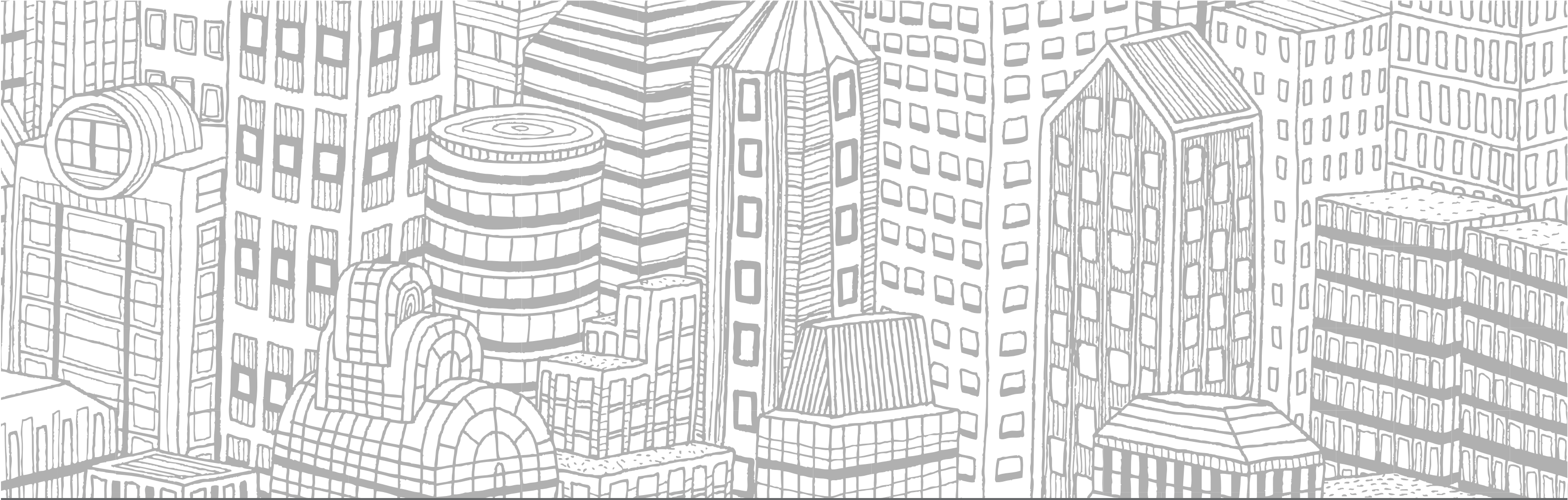
Our offices

Ahmedabad
2nd floor, Shivalik Ishaan
Near. C.N Vidhyalaya
Ambawadi
Ahmedabad 380015
Tel: +91 79 6608 3800
Fax: +91 79 6608 3900

Bengaluru
12th & 13th floor
UB City Canberra Block
No. 24, Vittal Mallya Road
Bengaluru 560 001
Tel: +91 80 4027 5000
+91 80 6727 5000
Fax: +91 80 2210 6000 (12th floor)
Fax: +91 80 2224 0695 (13th floor)

Chandigarh
1st Floor
SCO: 166-167
Sector 9-C, Madhya Marg
Chandigarh - 160 009
Tel: +91 172 671 7800
Fax: +91 172 671 7888

Chennai
Tidel Park,
6th & 7th Floor
A Block (Module 601,701-702)
No. 4, Rajiv Gandhi Salai
Taramani
Chennai 600113
Tel: +91 44 6654 8100
Fax: +91 44 2254 0120



Hyderabad
Oval Office
18, iLabs Centre,
Hitech City, Madhapur
Hyderabad 500081
Tel: +91 40 6736 2000
Fax: +91 40 6736 2200

Kochi
9th Floor
ABAD Nucleus
NH-49, Maradu PO
Kochi 682 304
Tel: +91 484 3044000
Fax: +91 484 2705393

Kolkata
22, Camac Street
3rd Floor, Block C
Kolkata 700 016
Tel: +91-33-6615 3400
Fax: +91-33-2281 7750

Mumbai
6th Floor Express Towers
Nariman Point
Mumbai 400021
Tel: +91-22-6192 0000
Fax: +91-22- 6192 2000

14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (west)
Mumbai 400 028
Tel +91 22 6192 0000
Fax +91 22 6192 1000

5th Floor Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063, India
Tel: +91-22-6192 0000
Fax: +91-22- 6192 3000

NCR
Golf View Corporate
Tower – B
Near DLF Golf Course
Sector 42
Gurgaon – 122 002
Tel: +91 124 464 4000
Fax: +91 124 464 4050

6th floor, HT House
18-20 Kasturba Gandhi Marg
New Delhi – 110 001
Tel: +91 11 4363 3000
Fax: +91 11 4363 3200

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
Gautam Budh Nagar, U.P.
NOIDA 201 304
Tel: +91 120 671 7000
Fax: +91 120 671 7171

Pune
C–401, 4th floor
Panchshil Tech Park
Yerwada (Near Don Bosco School)
Pune 411 006
Tel: +91 20 6603 6000
Fax: +91 20 6601 5900

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