AN APPLICATION OF FLOW - APPROACH TO THE STUDY OF DOMESTIC MARKETING ABROAD: A CASE STUDY OF INDIA'S MOTION PICTURE INDUSTRY

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ABSTRACT

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By

Jagmohan Mundhra

The Objective and the Approach

This dissertation describes, analyzes and evaluates the marketing of a service in a developing economy as exemplified by the motion picture industry in India. A motion picture is regarded as a service because it cannot be physically possessed by its consumer (the movie-goer).

In 1971, India produced the largest number (433) of feature films in the world. To study the marketing of motion pictures in India, a fundamental approach was needed which would describe clearly what agencies participate in the work of marketing, what they do irrespective of what they are called, how much of each task they perform, and in what sequence. "Flow-approach" originated by Professor Reavis Cox was found to be most useful because it converted the functions of marketing into various flows for purposes of analysis and measurement. Five such flows were selected to be examined: flows of physical possession, ownership, financing, payment and communication. Attention

was directed at the "aggregate" channel comprising of each of the five "unit" channels.

The Areas of Inquiry

Answers were sought for five specific questions in this thesis. The first two constitute the descriptive aspect, the third forms the analytical aspect, and the last two belong to the evaluative aspect of this research.

Question 1. What is the existing structure of channels in India's motion picture industry?

Question 2. Why have these channels taken existing structures?

Question 3. How much marketing is performed in the channel?

Question 4. How efficient is the functioning of a marketing channel in the industry?

Question 5. How would common proposals for change affect the marketing of motion pictures in India?

Procedures and Methods

Flow diagrams were drawn for each of the five channels in answer to the first question. Also the participating elements in the channel, the channel captain, the direction, duration and magnitude of the flow were identified and discussed. In reply to the second question, factors responsible for the existing structure of the channels were presented in the light of the environment in which they evolved. In order to answer the third question it became necessary to define three real and two monetary indicators of marketing work. On the basis of data collected for a simple random sample, estimates for the values of these indicators were made for the population average. These values could serve as a set of decision criteria to separate the efficient channel from the inefficient one as required in Question 4. Sources of inefficiency both internal and external to the industry were identified and the pros and cons of the effects of certain common proposals for change were examined in response to the last question.

Results and Recommendations

The description, analysis and evaluation of the aggregate marketing channel in India's motion picture industry resulted in the following set of recommendations to the industry.

1. There is an immediate need for both vertical and horizontal integration at all levels in the industry.

2. Self-regulation is the only answer to many of the industry's problems for which it alone is to blame.

3. The concept of cooperative advertising should be introduced in the channel.

4. A reorganization of distribution territories is needed to improve efficiency. An alternate system is proposed.

5. Theaters should be forced to shift to a percentage basis of payment rather than the present systems of fixed rentals and minimum protection.

6. The average length of the feature film should be reduced by a thousand meters. Shorter running times will result in more shows and hence more releases, thus easing the problem of theater shortage.

7. A computerized accounting system is proposed for managing the flow of payment.

8. The need for on-going market research to keep abreast with changes in audience tastes and preferences cannot be overemphasized.

Conclusion

A marketing channel in India's motion picture industry is inefficient due to internal as well as external problems. Recommendations are aimed at solving the internal problems. The external environment at the present time is not conducive to the uninterrupted flows of physical possession, ownership, financing, payment and communication.

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By

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DEDICATION

To all those who cared.

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CHAPTER I

THE RESEARCH PROPOSAL

Nature of the Problem

Motion pictures, like any other commodity, have to find their way through a variety of channels from the producers to the consumer. Yet the nature of this commodity is quite unique. To the distributor it is a can of film, a tangible economic product which is capable of being seen and touched and physically moved to different points in the channel. To the consumer it is an audio-visual experience. It can be called a "non-good service" because the consumer cannot have the physical possession of the film.[1] What he gets is an experiential possession.

Economic products lie along a goods/service continuum, with pure goods at one extreme and pure services at the other, but with most of them falling between these two extremes. According to John Rathmell, the various marketing systems in the services category have taken on highly differentiated characteristics. Although contrasts do exist in those marketing systems that have evolved for

[1]This concept was first discussed by Robert C. Judd in an article called "The Case for Redefining Services," Journal of Marketing, Vol. 28 (January 1964), 58-59.

different types of physical goods, they are primarily differences of degree.[2] In the case of services, the marketing of recreation bears little resemblance to the marketing of medical service. For this reason, each industry which is in the business of marketing a service (as perceived by the consumer) has to be studied and researched in depth separately, and conclusions based on one cannot apply to another. Few, if any, generalizations can be made. The Motion Picture Industry is in such a business.

"Survey of Current Business" lists the box office receipts of movie theaters under "service" classification. But if we closely examine the suggested "marketing characteristics of services," they do not all apply to motion pictures.[3] Here are some comparisons:

1. Services are most likely to have their monetary value stated as rates, fees, admissions, charges, tuition, contributions, interests and the like. Motion pictures do state their price as admission charge.

2. Unlike many other services the movie-goer is a consumer of the service and not a client. The relationship between the audience and the movie is different than that

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[2]John M. Rathmell, "What is Meant by Services?" Journal of Marketing, Vol. 30 (October 1966), 32-36.

[3]For a detailed list of marketing characteristics of services see Rathmell, Ibid.

of the patient and the hospital or the passenger and the carrier.

3. Like other services, movies are products of the economic nature, because they have some value in the minds of the consumer and certainly they compete for the consumer's dollar.

4. Like other services, movies cannot be mass-produced; standards cannot be precise. Because of the human creative element involved in this product, no one movie can be exactly the same as another; but unlike other services, if the product is defined as a "print" of a film, it can be exactly duplicated. Service procedures can also be standardized, although their actual implementation will vary according to the creativity of people involved.

5. Economic concepts of supply and demand and costs are difficult to apply to a service because of its intangible nature. In case of motion pictures these concepts do apply but with some modifications. Even though the rate of admission does not go up if more people start attending the screening, an increase in demand of a type of product (e.g., themes containing sex and violence) does increase its supply. Also the concept of fixed and variable costs can be applied if all the costs of production and negative processing are lumped together on the completion of a film as a fixed cost (comparable to an expenditure in plant and equipment), and then the costs of developing

prints from the negative as variable cost (since this cost will vary in proportion to the number of prints desired).

6. Webster's dictionary defines "tangible" as "capable of being touched, capable of being realized by the mind and capable of being affected emotionally." From the consumer's viewpoint, a motion picture is not capable of being touched--it is an image on the screen, so it is intangible. But then it is capable of being realized by mind as well as affected emotionally, so it is tangible. From the point of view of middlemen and various agencies involved in its distribution, it is certainly tangible because it is a physical good. For a consumer it is an emotional experience. This "good or service" dilemma distinguishes this product from many others which are not quite that ambiguous.

7. But most of all, what comes in the way of fitting this product in the pattern of marketing characteristics of services is the following statement by Rathmell:

> Since services are acts or processes and are produced as they are consumed, they cannot be inventoried, and there can be no merchant middlemen since only "direct" sales are possible.[4]

This we already know is not true in the case of motion pictures.

These somewhat unique characteristics of motion pictures make them a very interesting topic to study. They

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[4] Ibid.

are primarily "services" with "good" support and their marketing is a challenging task which has traditionally been performed without any scientific basis. Even in the U.S., which has a relatively high degree of awareness of the marketing concept among the people in business, research has indicated:

> There is no significant evidence present to support the position that the motion picture industry has adopted the marketing concept or that it is employing (to any appreciable degree) highly sophisticated methods of consumer study to predict the market response to a particular film. Decisions are based on the subjective judgment of movie-makers and risk-takers.[5]

The Subject Matter of Research

A study of the system of marketing in any industry requires more than just the knowledge of its institutions and agencies. The functions they perform and their relationships to each other are difficult to describe in generalized terms. A helpful procedure is to fall back upon one of the most basic concepts of marketing--the channel of distribution.

We may think of motion pictures as originating with the procurement of raw film, then "moving" through a sequence of processes (where form utility is added to it by

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[5] Chris Musun, "The Marketing of Motion Pictures" (unpublished Doctoral dissertation, University of Southern California, D.B.A., 1969).

imprinting coherent audio-visual effects with some entertainment value into the hands of business organizations such as distributors and exhibitors who add time, place and possession utilities by making it available to the consumer (the viewer) who experiences it at his or her convenience. The term "moving" must be taken to cover much more than the physical movement of the product itself. It also covers passage of the rights and responsibilities of ownership and the burdens of financing and risking to successive agencies, transmittal of impulses to buy or sell, the arrangement of successive transactions, the accumulation and distribution of market information, transfers of instructions as to what shall be produced and the transfer of payment.

Vaile, Grether and Cox identify marketing channels comprising of five major flows: communication, ownership, physical possession, financing, and payment.[6] A channel of distribution may be thought of as the combination and sequence of agencies through which one or more of the marketing flows move.

It has been suggested that marketing behavior is systemic, i.e., comprised of a number of interrelated parts.

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[6]Some other flows discussed are negotiation, risking and ordering in Roland S. Vaile, E. T. Grether, and Reavis Cox, Marketing in the American Economy (New York: The Ronald Press Company, 1952), p. 121.

For example, a channel of distribution is a system and has its own structure. Part of the channel may be the business firm, which is a system or sub-system that can be analyzed by studying its components, organization and structure. It is to the overall channel system that our attention will be directed in this thesis.

This study will describe, analyze and evaluate marketing in a developing economy as exemplified by the motion picture industry in India.

Each of the three aspects mentioned above has its own significance.

The Descriptive Aspect

Even though a descriptive undertaking usually lacks any major objective or hypothesis it is a prerequisite to any such specific research. Because both theory and knowledge are very limited in the field treated, any attempt at directing the work by the use of a specific hypothesis will be both difficult and of limited utility because it may overstructure the work. However, depth of understanding can be gained by seeking answers to a few specific questions. Two such questions are of interest to us in this section.

Question 1: What is the existing structure of channels in India's motion picture industry?

Since we are primarily concerned with the five flows of ownership, physical possession, communication, financing and payment, and each flow is a series of movements from one agency to another, five such channels will be discussed. The structure of channels can be described and measured by charting the following:

1. The participating elements in the channel in succession in the direction of the flow.
2. The direction of the channel (forward to user, backward from consumer).
3. Duration (one time, or repeating channel).
4. Magnitude (units of flow through the channel.

<u>Question 2</u>: Why have these channels taken existing structures?

The answer to this question will put into perspective the explanation of the present system by examining how it is affected by:

1. The goals of society and the goals of channel members.
2. The inputs that are required to achieve the purposes served by the system.
3. The results or outputs that are obtained by the system.
4. The constraints that limit the ability of the system to attain its purposes.[7]

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[7]E. D. Jaffe, "Towards a Systems Approach to Domestic Marketing Abroad--A Case Study of Israeli Food Distribution" (unpublished doctoral dissertation, University of Pennsylvania, 1966).

The Analytical Aspect

This part of the research will be essentially a problem in logistics. It is the process inherent in a distribution system that moves products from their producer to their consumer. Such a system, viewed in a comprehensive manner, includes a significant portion of the activity which takes place in the channel of distribution, especially that concerned with transportation and storage, the physical product flow, and the inventory maintained in the channel.

There is essentially one important question to which an answer will be sought in this section.

Question 3: How much marketing is performed since the procurement of raw film to when it is released for screening as a motion picture?

This part of the study will be quantitative. Whether tangible of intangible, whether observed easily or with difficulty, the functions of marketing play a crucial role for motion pictures. The cost of performing them represents a substantial part of the cost of arranging for consumers to see showings of films at convenient times and places.

Although much has been written about "heavy" or "large" costs imposed by marketing in all areas of business, very few attempts have been made to devise measures of the work done for comparison with costs incurred.[8] In order to find out how much marketing is done in the motion picture industry, it will therefore be necessary to devise measures as well as to apply them.

The Evaluative Aspect

This aspect of the proposed research will deal with two significant questions:

Question 4: How efficient is the functioning of a marketing channel in India's motion picture industry?

The answer to this question will make some sort of evaluation of the effectiveness with which the firms in the motion picture industry perform their marketing tasks. Having determined in some combination of senses how much marketing is done, it goes on to see if it can come to some meaningful conclusions as to whether the marketing functions performed are really necessary and whether they are performed with a tolerable degree of efficiency. In particular, it looks at the industry's organization to see whether matters are so arranged as to minimize the amount and cost of each function performed. Also it asks whether the assortment and sequences of functions performed are such as to reduce the overall cost of marketing to a minimum.

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[8] Reavis Cox and Charles S. Goodman, Channels and Flows in the Marketing of House-building Materials (Philadelphia: University of Pennsylvania, 1954), 3 Volumes, mimeographed.

Question 5: How would common porposals for change affect the marketing of motion pictures in India?

There has been a lot of talk lately in the industry about the necessity of increasing government controls, the crippling effects of the star-system, nationalization of theaters, new methods for amortization of films, etc. In order to answer the question of how proposals such as these will affect the marketing of motion pictures, a two-step approach is needed. First, some of the common proposals for change will be identified and listed, and second, an evaluation will be made of how these proposals, if implemented, could change the marketing practices in the industry. This prediction objective is the most difficult of all the framework objectives to achieve, because it is based on uncertainty. Its usefulness and applicability will be determined by the thesis research.

Conceptual Framework and Methodology

A scientific approach to problem solving requires a theoretical framework. Once the objectives of the study are determined, a framework is then needed to guide subsequent analysis. Selecting the appropriate framework is an extremely difficult task. Unfortunately, a ready-made theoretical framework will not be available for all situations. It may be necessary for the analyst to modify an existing framework or develop a wholly new one.[9]

There are traditionally three major ways of organizing a marketing study: the commodity approach, the institutional (or structural approach), and the functional approach. The first concentrates on the distribution of a single product or a related group of products, the second treats the different types of organizations engaged in marketing, and the third deals with the major specialized activities that are performed in distribution. However, it should be noted that these objectives are neither completely parallel nor mutually exclusive.

In relation to the purposes of this study, there are two reasons why a commodity approach is beneficial. One is the usual argument that dissimilar products are marketed in significantly different ways--ways which are determined by the characteristics of the goods. Normally we could say that this view is misleading. Although there may be differences in specific details, in a broader context the similarities between the marketing techniques of different products usually outweigh their differences. But in the case of motion pictures there is no general agreement even in the broader context. We have already delved into the "good/service" dilemma in detail earlier.

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[9]Frank R. Bacon, Jr. and E. J. McCarthy, "Scientific Problem-Solving in Business and Economics" (unpublished material, MSU, 1972).

Then there is the argument about motion pictures being works of artistic expression unlike a bag of potatoes, and it will be unfair and too harsh to lump them with marketing of consumer goods such as automobiles or butter. Even professionals like Roland Vaile, E. T. Grether and Reavis Cox have called the problems appearing in the motion picture industry very peculiar.[10]

The other argument in favor of the commodity approach in the study of Indian marketing is not the commonly used one described above. No matter what commodity is chosen to trace the pattern of marketing, essential processes of buying, selling, negotiations, financing etc. and their existing trade practices are the outcomes of general economic environment in the country. The resulting picture of marketing environment which will emerge from any such study will be also applicable to any business research based on India. So a concentration on one good can lead to a better understanding of Indian distribution in general while giving focus to the study.[11] For the purposes of this study, therefore, it is decided to concentrate on the marketing of a particular product--motion pictures.

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[10]Vaile, Grether and Cox, Marketing in the American Economy, p. 155.

[11]Similar views were expressed by Leon V. Hirsch in the book Marketing in an Underdeveloped Economy: The North Indian Sugar Industry (Englewood Cliffs, N.J.: Prentice Hall, 1961), p. 13.

Within the framework of concentration on a single commodity, the study can be approached from the point of view of institutions or of functions. The former has the advantage of presenting a clear picture of market activities but can be somewhat pedestrian as it moves from one level to another. The functional approach has analytical strengths but is best used only after one has a specific idea of market structure. The difficulties of this approach are compounded because there is no general agreement as to what the functions of marketing are. "Lists of functions offered by different writers vary as much as the lists of instincts which once were so prevalent in psychology.[12]

In the study of domestic marketing systems abroad one has to always guard against mistakes caused by the use of familiar terms in unfamiliar or variable ways. We find ourselves asking repea edly, "Are we really talking about the same things here, or does it just seem to be so because we use the same words? Do the terms we use here in the U.S. have the same connotations in India? For these reasons, if we are going to make effective studies of domestic marketing systems we are going to have to throw off the shackles of conventional ways of thinking about

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[12] Wroe Alderson, Marketing Behavior and Executive Action (Homewood, Illinois: Richard D. Irwin, Inc., 1957), p. 23.

marketing and experiment with new approaches such as the "flow-approach."[13]

The Flow-Approach

The most fundamental analysis we can make of marketing will be based upon a consideration of what marketing is supposed to do. The functional approach gives us our best instrument for making such analyses. Conversion of this approach into a flow analysis in turn enables us to describe clearly what agencies participate in the work of marketing, what they do without regard to what they are called, how much of each task they do, the places where they do it, and the sequences in which they do it.

The flow-approach can most easily be described by looking at the physical aspects of distribution. We know that the goods consumers use reach them from a wide variety of scattered sources. So they must be moved physically from the places where they originate as raw materials through a number and sequence of places where they are processed and eventually be carried to the places at which they are consumed. Periods of movement alternate with periods when the goods are held somewhere for processing or merely kept in storage pending the next step in distribution or

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[13] This approach was first suggested by Professor Reavis Cox and Charles S. Goodman in "Marketing of House-building Materials," The Journal of Marketing, Vol. 21 (July 1956), 36-61.

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[13]This approach was first suggested by Professor Reavis Cox and Charles S. Goodman in "Marketing of House-building Materials," The Journal of Marketing, Vol. 21 (July 1956), 36-61.

processing. Correspondingly the goods are sorted and re-sorted as the circumstances of handling, processing and consumption may require.

It is our belief that the other functions of marketing can similarly be converted into flows for purposes of analysis and measurement. Buying and selling, for example, we can think of as a flow of authority over goods passing from hand to hand as the various processes of manufacturing, distribution, and consumption are accomplished. Or we can think of a flow of communication, with selling impulses moving in one direction and orders to process or distribute goods moving in the other direction. Similarly we can think of the flow of financing as taking the form of capital being produced in the country's financial institutions or being saved by individuals and then being moved into the hands of manufacturers, distributors, consumers and all others who need it in the performance of their marketing functions. Using the flow analysis, we can undertake to find out what agencies take part in each of the flows, the sequence in which they do it, and how much of the work each does.

Perhaps the most important merit of the flow analysis is that it makes possible (at least in principle) the measuring and counting of much (though perhaps not all) of the work done in marketing.[14]

Another virtue of the flow approach is that it introduces the element of structure in the way data is put together.

Application to our Specific Problems

In the descriptive aspect of this research, flow-approach will be applied to trace the movements of ownership, physical possession, communication, financing and payment from agency to agency in the motion picture industry. Thus a "flow chart" will be drawn for each of the five flows discussed above. Often goods, people and information move along established channels and in recognizable patterns. Tracing their flows will help us recognize and delineate these patterns, thus increasing our understanding of the arrangement of relationship among goods and people in geographic space.

To illustrate how some of these charts look, Exhibit I shows the physical flow of non-metallic cable. The diagram shown is of a channel with typical forward flow. This example is selected from Marketing in the

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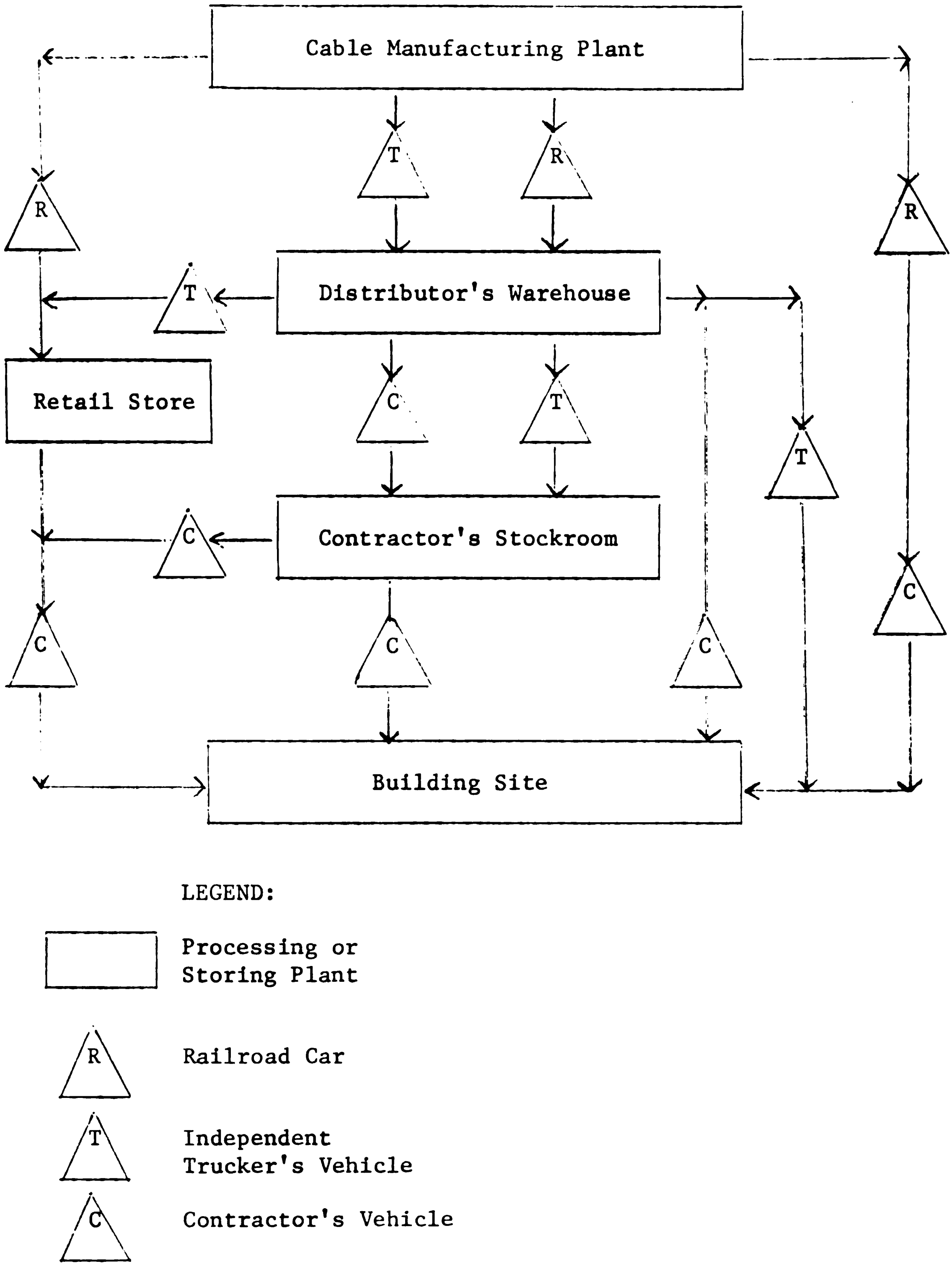
[14]Reavis Cox, "The Search for Universals in Comparative Studies of Domestic Marketing Systems, in American Marketing Association Proceedings on Marketing and Economic Development, ed. by Peter D. Bennet (Chicago:, AMA, 1965), pp. 143-162.

EXHIBIT I

An Illustrative Flow Diagram

(Physical Flow of Nommetallic Cable)



American Economy by Vaile, Grether and Cox.[15] The answer to Question 1 will contain such illustrative flow charts which will identify the movements through geographic space. Flow of physical possession and ownership are typically forward in the sense that each change normally takes the product farther away from the producers and closer to the consumers. Flow of payment is typically backward in the sense that a payment is usually made to someone at an earlier stage in the sequence of processing and handling. Flows of communication and financing typically go in either direction.

Question 2 will be approached with the explanation objective to determine why the channel structures described in the answer to Question 1 evolved as they did. Channel structure is determined by the goals of society and of channel members, the inputs of effort and resources required by the channel system, and constraints which limit the ability of the system to attain its objective. A historical perspective will be taken in this part. The goals of the government at the macro level and the goals of the producers, distributors and exhibitors at the micro level will be discussed. Constraints posed by rapidly changing audience

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[15] Vaile, Grether and Cox, Marketing in the American Economy, pp. 124-131. This book contains other such diagrams for flows of ownership, promotion, ordering, payment, negotiation, financing and risking in Chapter 5.

tastes, technical know-how, government regulations, etc. will be forthcoming for each channel system.

A single enterprise usually "administers" the channel. It initiates, coordinates and controls most or all of the activities undertaken. Davidson and McCarthy use the term "channel-captain" to identify this leadership role, which Fisk describes as follows:

> Marketing channels are usually under the control of a single firm in the sense that a single enterprise directs the allocation of resources for all agencies in the channel without interfering with the objectives of independent agencies which participate in the channel flows. These decision makers do not set goals for other firms in the constituent marketing channels, but they do decide what kind of agencies shall be combined to form the distribution network for systems they organize.[16]

For each of the channels discussed in Question 1, an attempt will be made to identify the channel captain.

No solution is found in current marketing literature to what is meant by the inputs and outputs of marketing. Another difficulty is in measuring the intangibles of marketing called "effort" and "satisfactions." It is not considered within the scope of the proposed study to solve the above problems. However, it must determine whether channel structure can be adequately explained in the absence of input-output data. Therefore, the question to be answered

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[16] George Fisk, "The General Systems Approach to the Study of Marketing," in The Social Responsibilities of Marketing, ed. by William D. Stevens (Chicago: AMA, December 1961), p. 210.

is: To what extent do the goals of society and of channel members, as well as constraints to the system, determine channel structure?

The analytical aspect of the proposed research requires devising measures for marketing work. The problems associated with measuring marketing efficiency constitute an important part of the literature on channel management. Some authors are concerned with macro-analysis, while others have developed analytical approaches that can be used by individual firms. Barger, Cox, Stewart, Dewhurst, Field, Lough, and Gainsbrugh, among others, have estimated the magnitude of total marketing costs in the U.S. economy.[17] These aggregative studies constitute a useful point of departure for the channel analyst. The analysis of operating efficiency in a channel, however, requires different analytical techniques and more refined measurements of productivity than those used by macro theorists.

Writers who are concerned with the measurement of channel efficiency have usually followed one of three approaches. The first group has developed check lists or marketing audit forms that can be used by the producers to evaluate the performance of designated channels. The second group of writers has been principally concerned with

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[17]For a brief summary of these studies see Paul D. Converse, Harey W. Huegy, and Robert V. Mitchell, Elements of Marketing (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1958), pp. 742-745.

applying accepted distribution cost accounting techniques to channel problems.[18] The final group has undertaken to develop specialized measurement of channel efficiency for specific problems. It is this third approach which will be most useful for seeking an answer to Question 3.

Reduction of Marketing to Measurement

The basic problem in reducing marketing to measurement is to find units of marketing that are both meaningful and countable. The most commonly used unit, of course, is the monetary unit. This can be done in absolute terms, as when the cost of marketing for a given firm or industry in a given year is said to be so many millions of dollars. It can also be done in relative terms, as when marketing costs are said to absorb half of the consumer's dollar or to require 35 percent of the consumer price as a combined gross margin for wholesalers and retailers.

To this researcher's knowledge, so far no significant attempt has been made in India to divide the total cost, incurred in the process from procurement of a raw film to its screening in movie theaters as a feature, into production costs and marketing costs. In India, the film business is run on the basis of black money (undisclosed

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[18] Bert C. McAmmon, Jr. and Robert W. Little, "Marketing Channels, Analytical Systems and Approaches," in Science in Marketing, ed. by George Schwartz (New York: John Wiley & Sons, 1965), p. 360.

for tax purposes), and the real figures of expenditure incurred in production are seldom given out. Hence a true economic study may be very difficult.[19]

While monetary units of measurement would be useful for many purposes, they would not serve well all the objectives of this study. What we are proposing to embark upon is an endeavor to find out how much marketing is performed in getting these motion pictures to the audience, how effectively it is performed, and the most likely results of applying various proposals for improvement. For such an analysis, the Rupee's (Indian monetary unit, 1 Rupee = 13.3 cents approximately) worth is not a sufficiently informative measure. The difference between alternative ways of performing a marketing task depends not only upon monetary costs but also upon the numbers of units of work to be done. Computations in monetary terms may obscure conclusions as to differences in what we may call the "real" work required. Furthermore, managerial controls very often must be imposed in real terms rather than in monetary ones. Therefore, it is necessary to define indicators that vary with the units of work performed and which are countable.[20]

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[19]These remarks were made by Mr. Arvind Kumar, the Editor of Madhuri, India's leading fortnightly film magazine in Hindi in his correspondence with this researcher.

[20]This part of the research is heavily influenced by the methodology suggested by Prof. Reavis Cox and Charles Goodman in their study Channels and Flows in the Marketing of House-building Materials.

Indicators of Marketing Work

Efficiency is a relation between work done and results achieved. For some purposes, such as the intangible flow of promotion, money expenditures may be the only measure of work done, so cost and revenue may serve well enough as input-output ratios. There are many situations, however, that require more direct comparisons of effort expended with results produced. Here, a search must be made for measures of work done other than money spent and measures of results achieved other than gross or net revenue obtained.

The need for analyzing the complete channel rather than some assortment of its constituent parts derives from the almost limitless number of combinations and sequences in which particular marketing processes can be passed around among places, agencies, and times. So, the quantity of marketing work can only be determined accurately in monetary or real terms by making a complete survey of all aspects of procurement, production, processing, distribution and exhibition wherever they are found and from the aggregate of efforts thus described subtracting the effort required for change of form. To conceive marketing in conventional terms as commencing only when the "movie" has been finished may prevent meaningful comparisons between alternatives and present a distorted view of the marketing work that must be performed to provide films for movie theaters.

Three real indicators of the marketing work have been chosen to be counted in this study:

1. The number of days taken to procure the film, process it and move it into the theater. Here movie production is also considered as a kind of processing. The time involved includes the time normally spent by the film in the operating inventories of producers, lab processors, distributors and the time spent in transportation.

2. The rupee-days of investment accumulated in the film as it moves from first procurement to final screening at the theater. A rupee-day is defined as the owning of one rupee's worth of film for one day.

3. The number of owning and non-owning business entities that participate in procurement, processing and handling the film as it moves from place of procurement to the movie theater. Here the non-owning agencies include both those who act as agents to bring about transactions and others, such as processing laboratories who have operating control over the film owned by others. An entity is construed as a legal business unit together with any affiliates in the same ownership.

Two monetary indicators of marketing work will also be counted:

4. The publicity expenses, measuring the magnitude of the flow of communication from the producer to the audience through the marketing channal and the media.

5. <u>The interest paid by the producer in providing the time utility to the film as a measure of the magnitude of flow of financing in the channel</u>.

Movement Through Space

Most obvious of the various flows is the physical movement of the film through space. It starts out at the government agency from which the producer buys the imported raw color film stock. From this point of procurement it then moves physically through a succession of processes and on to the movie theater. The third measure is an indicator of the amount of work done in moving the film through space.

Movement Through Time

Another flow of the film is through time. The functions of procurement, processing and marketing are spread over periods sometimes short but often long. Film must be carried through these periods in the sense that at every instant it must be in the physical possession of someone and under the ownership control of someone.

The burdens imposed by the flows through time take a number of forms, among which the costs of investment, storage and risk are important. Measures one and two give some indication of the size of these burdens. Counts based upon them permit meaningful comparisons between different films. They also permit some evaluation of whether the total time required is as short as it could be and of the extent to which investment and storage are concentrated in those parts of each flow at which accumulated values are lowest.

Much of the work of marketing is associated with bringing together business entities not only in the sense of an actual flow of transactions but also in the development of relationships that may become routinized once they have been established. Taken together, three ways of counting will provide the basic data used in measuring the marketing work done in real terms. The intangible flows such as promotion and financing will be included in the two monetary measures of the cost of marketing.

Application of the counting procedure outlined above to a specific situation entails soliciting a sample of "films" to be studied and tracing each one of them from the point of procurement to the theater along some meaningful channel or set of channels. The data will be assembled into flow charts.

Methods of Obtaining Data and the Use of Statistics

In 1970, a total of 396 films were produced in India. Of these, 102 films were in Hindi--a majority of them produced in Bombay. Sixty-four films out of these 102 films were in color.[21]

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[21] This data is from the Indian Motion Picture Almanac ed. by B. Jha (Calcutta, India: Shot Publications, 1971), p. 858.

For the purposes of this research, we are interested in the measures of marketing work done in a "typical" Indian film. A "typical" film will be defined as the one which is produced in Bombay, on an average of two and one-half hours long, thirteen reels or more, and shot in color in Hindi. These are the films most popular with the masses.

A list will be made of all the Hindi films released in Bombay in the year 1972. Then on the basis of our definition of a "typical film," the population will be defined from which a random sample will be drawn. The size of the sample will be determined by cost and time considerations. It is highly unlikely that it will exceed ten.

Because of the lack of both significant previous work in this field and a body of generally agreed upon theory by which to structure this work, it seems the study will be most effective by concentrating on direct observation and personal interviews.

For each film selected in the sample, a set of data will be obtained for the three indicators of real work done and two monetary measures of marketing costs.

On the basis of the set of five averages based on a sample of size n, 95 percent confidence interval estimates will be made for the true population parameters corresponding to each of the three real indicators and two monetary indicators.

Since the population from which the sample will be drawn is finite, if the sample size will be more than 10 percent of the size of the population (defined as the "typical" Hindi films released in Bombay in 1972), a finite correction factor will have to be used.

Assuming that the population is normally distributed (an assumption that may be checked using the test for normality), since the size of the sample is going to be small ($n<30$), "'student's' t distribution" will represent the distribution of the sample and "t" statistic will be used in calculating confidence intervals for population parameters.

The statistical calculations will be applicable only to the analytical aspect of this study.

Secondary sources of data for descriptive statistics will be the libraries of Film Institute of India, Poona; Ministry of Information and Broadcasting, New Delhi; and the offices of the following leading film journals of India: Madhuri, Filmfare, Star and Style, and Screen.

Reasons for the Choice of Industry and Country

The Indian film industry, which is regarded as one of the important medium-scale industries of the country, has made considerable progress in the field of technology and production during the last six decades without much assistance from the government. India ranked second among the film-producing countries of the world in the matter of feature film production in 1970, because that year she produced about 396 feature films of which about 84 were in color and the rest in black and white. The Indian film industry feeds over 7,000 movie theaters in the country. In the absence of TV, except in Delhi and Bombay, cinema is the most powerful media of mass entertainment and communication in India. Its impact on the common people is, therefore, very great. The estimated capital invested in the industry is about Rs. 110 crores (approximately 146 million dollars) of which about Rs. 50 crores is accounted by the investment in the over 7,000 cinemas, Rs. 25 crores in the studios and laboratories and the balance, Rs. 35 crores, in the production of pictures. The industry provides employment for about 150,000 persons.[22] The estimated annual collections in the box office are about Rs. 130 crores (approximately 173 million dollars), and the entertainment taxes levied by the state government are estimated around Rs. 45 crores.[23] In addition, the film industry is earning about Rs. 4 crores per annum from

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[22] Statistical data in this section is primarily based on the Annual Report of Indian Motion Pictures Export Corporation Ltd., 1970, and the speeches of its chairman, Mr. A. M. Tariq.

[23] Numbers used in India: a lakh = 100,000 (written as 1,00,000 in India), and a crore = 10,000,000 (written as 1,00,00,000 in India).

film exports which is to a great extent offset by the import bill of Rs. 4 crores of raw film (except black and white positive manufactured in the country), studio equipment and parts thereof. Indian films are exported to nearly 100 countries of the world.

For an industry of this magnitude and stature and for the vital role it plays in the growth of a developing economy, the lack of research in its marketing operations is glaringly evident. Much has been written in sociological journals about the content of motion pictures, their effect on youth and children, and their attitudinal-behavioral ramifications. Creative people revolt against the idea of calling it an industry because they have their doubts if any industry can entertain you, make you laugh, or weep or think.[24] They regard cinema as an art form. Whereas these views are valid, they only tell part of the story. How can it be denied that the business of producing, distributing and exhibiting films is an industry?

Motion pictures should be visualized as an equilateral triangle, the three sides of which are Art, Technology and Business. Each corner of the triangle represents an interface having an impact on society which is the center of the triangle (see Exhibit II). The synergy between the three should be realized and stressed.

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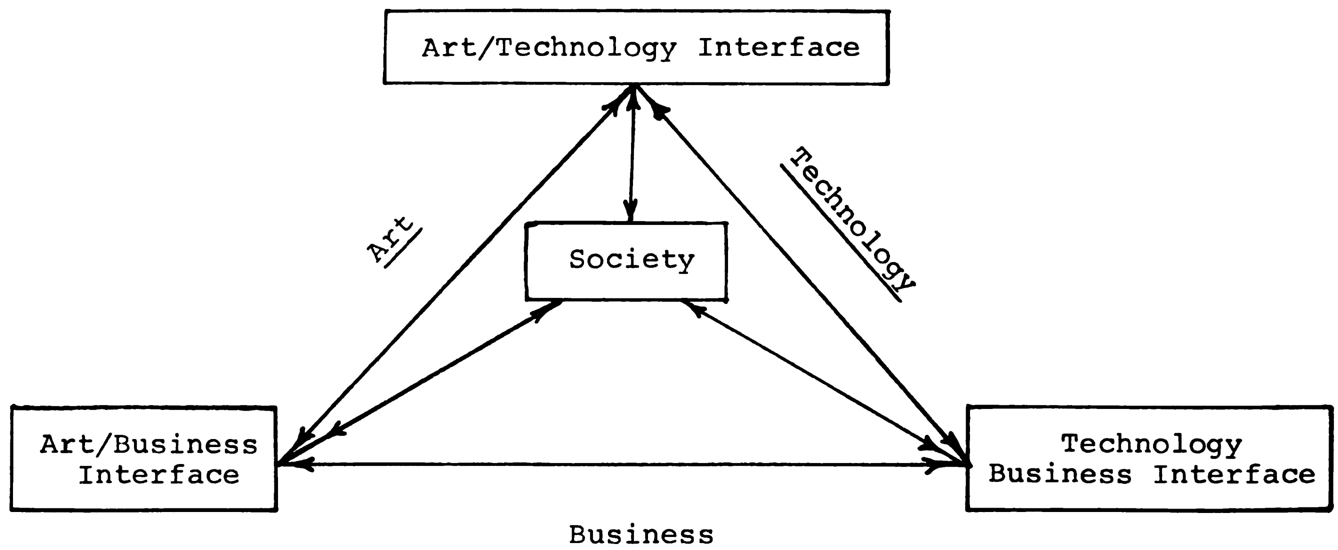
[24] K. A. Abbas, from a Souvenir Issue (Bombay: Indian Motion Pictures Export Corporation Ltd., March 1970), pp. 77-79.

RXHIBIT II

The Motion Picture Industry: A Synergy
of Art, Technology and Business



Basically, any industry--and the motion picture industry is no exception--is an area of activity that identifies and defines direct or indirect human needs or wants and then systematically sets out to produce a product or service that satisfies those needs. It must be able to sell those products or services for more than they cost, or the industry is not viable.

Systems that produce motion pictures, like all systems, accept inputs, process these inputs, and provide an output. Our inputs are people, stories, and physical materials--all of which are produced by tools and facilities. The processing of these inputs we call "production." The output is the motion picture product, in the form of sound film or tapes. Our primary markets are theaters. Our customers whose wants and needs must be satisfied are the people who patronize those theaters. The outstanding weakness of the motion picture business system is the lack of an effective feedback loop from our markets back to our inputs.

Consider for a moment the men and technologies responsible for manufacturing the superb films and tapes, cameras, microphones, amplifiers, other sound recording and transfer equipment, projectors, editing machines, printers, film processing machines, just to name a few. And consider the men who use and operate all of these, with consumate skill, to produce the picture and sound records that become the final motion picture. Obviously, then, we have an _art/technology interface_.[25] Marketing of all these technical equipments used as facilitating equipments for motion picture production, distribution and exhibition represents the _business/technology interface_.

These areas have received adequate attention in engineering, applied sciences, technical and business journals in some form or the other. It is the _art/business interface_ which has unfortunately been neglected by serious researchers and scholars. For this reason, focus of the proposed study has been directed to this interface.

There have also been other reasons for selecting India as background for the study of marketing of motion pictures than those mentioned earlier. First, many of the marketing studies to date are of developed countries. It would be a significant contribution to marketing literature if more could be learned about how marketing is performed in developing countries. Second, few integrated marketing studies have been made in India. Third, India is fortunate in comparison with many other developing countries in possessing a broad range of statistical data relating to its economy. Fourth, this researcher, being a native of the

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[25] Wilton R. Holm, "Technology's Role in Motion Pictures and Television," _Journal of the Society of Motion Picture and Television Engineers_, Vol. 81, No. 7 (July 1972), 509-511.

country, is likely to encounter less obstacles by way of easier accessibility to information, more cooperation and good contacts than any outsider.

Contribution of This Study to Marketing Literature

Although improvement in the efficiency of marketing is a key factor in economic development, its crucial role has not generally been appreciated. This has been due to a lack of understanding of the marketing function in the developing countries and to the difficulty of transmitting marketing skills in technical aid programs. Basic to any attempt at improving the efficiency of marketing in developing economies is an understanding of just how the present system operates. This study is an attempt towards such an understanding.

The growth of international transactions and operations demands greater knowledge of foreign marketing.[26] Such knowledge benefits from being gathered in a systematic and comparative manner that helps establish what is "universal, related and unique" in marketing systems.

The needs for comparison in marketing rests primarily on the realization that all research is comparative, explicitly or implicitly. Comparison of marketing systems

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[26]J. Boddewyn, "A Construct for Comparative Marketing Research," Journal of Marketing Research, Vol. III (May 1966), 149-153.

demands a conceptual framework to establish what must be compared. As Bartels put it, "Comparative analysis requires viewing all marketing systems, including our own, from a methodological framework to which each may be related before the systems are related to each other."[27]

As has been explained earlier, it is the opinion of this researcher that "the flow approach" suggested by Reavis Cox is such a methodological framework. Variations in the ways flows are organized and interrelated provide a very convenient basis upon which to compare different systems of distribution.

But before comparative marketing studies can be made with a standard methodological framework such as "the flow approach," it is necessary to build a foundation of literature devoted to domestic marketing abroad using the same framework. Gathering data on how marketing is performed abroad is a necessary prerequisite to comparing marketing systems with one another. Once such studies are available, comparisons then can be made from the literature at hand, or from hypotheses developed from these studies. <u>This research will make a contribution in building this foundation of literature</u>.

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[27]Robert Bartels, <u>Marketing Theory and Metatheory</u> (Homewood, Illinois: Richard D. Irwin, Inc., 1970), p. 199.

Even though flow approach to the study of marketing was first suggested by Professor Cox eighteen years ago and its merits were discussed in a number of articles in the marketing journals, it did not become very popular as a research methodology for doctoral dissertations and other studies. It is both unfortunate and surprising, because Professor Cox and Goodman used it very imaginatively and successfully in their study of the marketing of housebuilding materials. They wrote, "What we discovered, we believe, will interest students of marketing both for the substance of its findings and as an experiment in research methodology."[28] A modified version of this approach was used by E. D. Jaffe in 1966 in his dissertation studying Israeli food distribution.[29] It is an objective of this study to develop some methodology based on this conceptual framework for making studies of domestic marketing abroad, in light of the special problems to be encountered by a particular industry in a particular country. The methodology developed is then put to test by a study of motion picture marketing in India.

The need for an adequate conception of marketing for comparative studies points to the close relationship between

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[28] Cox and Goodman, "Marketing of House-building Materials," p. 36.

[29] Jaffe, "Towards a Systems Approach to Domestic Marketing Abroad."

Comparative Marketing and Marketing Theory. These two branches of discipline are bound to remain closely linked. The development of marketing theories will provide alternative conceptual frameworks for comparative studies on the one hand. On the other hand, such studies will help validate (or invalidate) proposed marketing conceptions, hypotheses and theories. This research is an attempt towards such validation.

The comparative approach is bound to influence all types of marketing studies, as well as the teachings of marketing, once it is acknowledged that all research is comparative and that learning benefits from the examination of any marketing system in light of common analytical categories.[30]

Courses in the comparative analysis of marketing systems need materials that might not be published by U.S. governmental departments and divisions of the United Nations.[31] The literature in international marketing needs research not only dealing with international trade and flow of goods between countries but also dealing with the marketing of goods and services within countries outside

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[30] J. Boddewyn, Comparative Management and Marketing, Text and Readings (Glenview, Illinois: Scott Foresman & Co., 1969), pp. 97-122.

[31] Donald F. Mulvihill, ed., "Preface," Domestic Marketing Systems Abroad, An Annotated Bibliography (Kent, Ohio: The Kent State University Press, 1967).

the United States. This research will also make a contribution in this area.

The market of the 70's for an increasing number of products does not stop at Los Angeles and New York City. Bombay or Beirut are as near as the nearest jet, or even the nearest telephone. The result is the rise of the multinational corporation and the accompanying maturation of international marketing. Less often is cultivation of foreign markets a separate activity, more and more it is taking its place in the mainstream of marketing.[32]

Practitioners as well as teachers of American marketing are displaying an ever increasing interest in how goods and services are distributed in other countries. The leadership taken by the American Marketing Association in establishing an International Marketing Federation and the publication by an AMA subcommittee of a bibliography on domestic marketing systems abroad are concrete indications of this interest.

So it has become important to understand and compare the manner in which a single marketing concept is applied in different countries.[33] One of the oldest

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[32]Dr. Steuart Henderson Britt, "Foreward," in Bertil Liander, Vern Terpstra, Michael Y. Yoshino, and A. A. Sherbini, Comparative Analysis for International Marketing (Boston: Allyn and Bacon, Inc., 1967), p. xv.

[33]Stanley J. Shapiro, "Comparative Marketing and Economic Development," in Science in Marketing, ed. by George Schwartz (New York: John Wiley & Sons, 1965), pp. 398-429.

concepts in the literature of marketing is that of the channel of distribution. Breyer was one of the earliest developers of the concept of the channel and long ago applied it to the analysis of marketing problems.

The channel problem is clearly one of the major managerial problems in marketing. Virtually every basic textbook in marketing talks about it. Describing precisely what the channel structure is at any time, explaining why it came into existence, and predicting what it is going to become--these are intellectual problems that challenge the most able analyst. Yet the concept of the channel remains vague and uncertain in much of the use made of it. This concept must be clarified and refined if it is to serve as a solid base for a theory of marketing, for the collection of statistics designed to test hypotheses formulated on such a theory, or for the devising of principles to be followed in the management of channels.[34]

The central theme of this research is the channel concept and it is seeking a clarification of this concept in the light of a particular industry in a particular country. <u>However, the concept being so general, implications may transcend beyond geographical boundaries and</u>

[34] Reavis Cox, Wroe Alderson, and Stanley J. Shapiro, <u>Theory in Marketing</u> (Homewood, Ill.: Richard D. Irwin, 1964), p. 11.

<u>specific commodities and thus make a contribution towards forwarding the frontiers of knowledge in general marketing theory by identifying "Universals</u>."

CHAPTER II

BRIEF REVIEW OF LITERATURE

Introduction

It is indeed a difficult task to single out studies from the available literature which have direct bearing on a piece of research such as the one undertaken in this thesis. Nevertheless, there are conflicting reasons for this. On one hand, since the subject has no clearly defined boundaries confined to any one particular discipline, there is plenty of written material interspersed throughout a wide spectrum of the fields of behavioral sciences, economics and mass-communications, which may have some relevance to this dissertation. On the other hand, since in a limited sense it is original research, there are no preceding studies which are directly applicable to this subject matter without modification.

To resolve this conflict, the available literature is organized in four major classifications: (1) Studies of domestic marketing abroad, (2) Studies using "flow-approach" as a theoretical framework, (3) Studies based on marketing in India, and (4) Studies dealing with the economic aspects of the motion picture industry.

Since this thesis investigates the application of "flow-approach" to the marketing of motion pictures in India, these four categories taken together form the universe of which this research is a subset. Therefore, a review of books and articles under these classifications should delineate the present state of art in this universe. For the sake of precision, relevance and brevity, only those writings are reviewed which have direct relationship to the subject matter of this dissertation.

Studies of Domestic Marketing Abroad

The literature on marketing of goods within countries outside the United States has grown considerably in the past ten years. An evidence of it is a three-fold expansion of the bibliography on "Domestic Marketing Systems Abroad" compiled by Mulvihill from the time of first publication in 1962 to the time it was revised in 1967.[1] Much of this growth is an extension of interest in international trade. It grows out of the desire of many American companies to enlarge their operations overseas.

Much of the literature on domestic marketing abroad combines observations by perceptive travellers with the results of inquiries among a few informed people and a

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[1] Donald F. Mulvihill, Domestic Marketing Systems Abroad: An Annotated Bibliography (The Kent State University Press, 1967). First publication in 1962.

survey of the easily available published materials. Most of it, however, does not dig very far beneath the surface.[2] These superficial types of what can be called tourist reports leave most of the important questions unanswered. In this enormous expansion of literature, only a few studies are published under the title of domestic marketing abroad, and these have been fragmentary. Also, most of these studies are geared to the point of view of the American Executive with the idea of foreign trade in mind. For example, a study by Dunbaugh of Marketing in Latin America has its primary objective to delineate present day Latin America as a market for goods and services for the American exporter.[3] Its purpose is to help top management make decisions on specific Latin America marketing problems. This preoccupation with international trade results in a lack of depth in the study of domestic marketing itself.

How marketing can contribute to economic development has been the subject of several studies.[4] Leon Hirsch has focused on this in his study of marketing in the North

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[2] Reavis Cox, "The Search for Universals in Comparative Studies of Domestic Marketing Systems," Comparative Marketing Systems: A Cultural Approach, ed. by Sommers and Kernan (New York: Appleton-Century Crofts, 1968), p. 12.

[3] F. Dunbaugh, Marketing in Latin America (New York: Printers Ink Book Company, 1960).

[4] Shapiro, "Comparative Marketing and Economic Development," pp. 398-429.

Indian Sugar Industry.[5] Hirsch's thesis is that although improvement in the efficiency of marketing is a key factor in economic development, its crucial role has not generally been appreciated. This has been due to a lack of understanding of the marketing function in low income countries and to the difficulty of transmitting marketing skills in technical aid programs.

Liedholm examined India's comparative advantage in iron and steel production. Even though not strictly a marketing study, it presented analysis providing an indication of whether import substitution or even the development of export surplus in steel were sensible policies for India to pursue.[6]

Comparisons of similarities and differences in marketing processes of two or more countries has also been a popular subject of research in the recent years. In most cases the comparisons have been made with marketing systems in the United States. Most researchers seem to be impressed more by differences than by similarities between

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[5]Leon V. Hirsch, Marketing in an Underdeveloped Economy: The North Indian Sugar Industry (Englewood Cliffs, N. J.: Prentice Hall, Inc., 1961).

[6]Carl Liedholm, The Indian Iron and Steel Industry: An Analysis of Comparative Advantage. Monograph: M.S.U. International Business and Economic Studies, Division of Research, Graduate School of Business Administration, East Lansing, 1972.

what they see abroad and what they remember of home. Sometimes, unfortunately, the comparison carries with it the connotation that what is different is necessarily backward. It is unfair, because the differences in marketing practices may reflect differences in value systems rather than mere failures to take advantage of "modern" technologies.

An important exception to the rule of emphasizing differences is in studies about communist countries. In looking at Russia and China, researchers seem to seek reassurance that the capitalist system can hold its own against their way of organizing economic systems. It is comforting when someone notes that as the communist countries start to become affluent they too find it necessary to advertise or to re-introduce profit motive as a governing force in management.[7]

Of the studies using comparative approach, studies of distributive systems in Great Britain and North America by Hall, Knapp, and Winsten and Robert Bartels' collection of studies on wholesaling in fifteen countries deserve special mention. Lady Hall and associates did an exhaustive study of structure and productivity of various distributive outlets.[8] This study is noteworthy for the

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[7] Cox, "The Search for Universals."

[8] Margaret Hall, John Knapp and Christopher Winsten, Distribution in Great Britain and North America (London: Oxford University Press, 1961).

methodology used in reconciling the establishment classifications in the American and Canadian censuses with those used in the British census.

Bartels' efforts are concentrated towards putting together a conceptual framework from which all marketing systems can be viewed and compared to before they can be compared with each other.[9]

Another person who has been pushing the frontiers of comparative research is Boddewyn. He suggests that a comprehensive definition of marketing should encompass and relate the various concepts of actor, process, structure, function and environment. Comparative marketing research, he says, should focus on discovering and explaining marketing similarities and differences in various places, times or sectors among one or more of these elements, their relationships, changes and strains.[10]

Many of the studies of marketing in other countries only talk about how a particular institution of marketing such as retailing or wholesaling operates in another environment. Most of them fail to define what these terms mean in their proper context. Goldman in his study of

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[9]Robert Bartels, ed., Comparative Marketing: Wholesaling in Fifteen Countries (Homewood, Illinois: Richard D. Irwin, Inc., 1963).

[10]J. Boddewyn, Comparative Management and Marketing, Text and Readings, pp. 97-122.

Soviet Marketing tells us that the basic functions of retailing and wholesaling seem to be indispensable in any but the most primitive societies. He writes:

> Whether in India or a pure Marxist state, retailing and certain wholesaling activities must be carried out even in the early years. At the second stage of marketing development, a whole new range of activities connected with market research and merchandising becomes important and vital even though such activities lead to an increase in the cost of distribution.[11]

Unfortunately, he is not explicit at all about what these activities are, what these terms mean, or why the activities in question must be performed.

After taking a cursory look at volumes of publications on international marketing, only a few mentioned above were chosen for brief review because they influenced the formulation of this research significantly in some form or the other. All of them without exception fall into our concept of domestic marketing abroad. Even though the majority dealt with a segment of the marketing system rather than its entirety, they pointed towards the lack of a consistent methodological framework which could be used to study domestic marketing systems abroad. This was by far the most significant contribution of the above mentioned studies to this research. Bartels and Boddewyn each suggested frameworks that brought this problem to focus.

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[11]Marshall I. Goldman, Soviet Marketing: Distribution in a Controlled Economy (New York: The Free Press of Glencoe, 1963), p. 201.

Reavis Cox's article about the search for universals in comparative studies of domestic marketing systems made it evident that the most fundamental analysis we can make of marketing will be based upon a consideration of what functions it is supposed to perform. This resulted in an interest in flow analysis which was then used to introduce the element of structure in the way data have been put together.

Studies Using "Flow-Approach" as a Theoretical Framework

Central to the flow-approach are the concepts of the distribution channel and the marketing flows. It is based upon a study of flows in distribution which is in turn an adaptation of the functional approach to the study of marketing. It was as early as 1957 that Wroe Alderson described distribution channels as organized behavior systems that direct and support the movement of goods and services from producer to user.[12] Later Breyer and Balderston identified the channel of distribution as a system.[13] Breyer referred to "type," "enterprise" and

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[12] Wroe Alderson, Marketing Behavior and Executive Action.

[13] R. Breyer, "Some Observations on Structural Formation and Growth of Marketing Channels," and F. Balderston, "Design of Marketing Channels," in Cox, Alderson and Shapiro, Theory in Marketing (Homewood, Illinois: Richard D. Irwin, 1964).

"business unit" channels, depending upon whether identification was made by "types" of concerns, by "ownership," or the operating unit of an enterprise. An attempt was then made by George Fisk to integrate the above channel concepts into an overall framework of marketing behavior which he called the "systems approach." According to Fisk, the systems approach, originally outlined by Alderson, had as its focus the organization of marketing processes and channels to achieve goals via inputs that produced outputs under constraints.[14]

Alderson's thinking proved complementary to that of Ralph Breyer and Reavis Cox. Breyer studied the channel organization in more detail than others and Cox emphasized productivity, efficiency, and utility. Professor Cox and his colleague Professor Goodman converted the functional approach into a flow analysis to study the marketing of house-building materials and reported its findings in 1956.[15] They emphasized the need for analyzing the complete channel rather than some assortment of its constituent parts by tracing the various kinds of marketing flows through the channel.

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[14]Fisk, "The General Systems Approach to the Study of Marketing," pp. 207-211.

[15]Cox and Goodman, "Marketing of House-building Materials," Journal of Marketing, 37-61.

Their framework which Cox termed as the flow-approach was an interesting experiment in research methodology.[16] Cox and Goodman later used the method in two comprehensive studies done for a National Trade Association. But it wasn't until 1965 that Reavis Cox suggested flow analysis as a better approach to seek generalizations about marketing that can be applied to every society of which we have any knowledge. He argued that it was better than the institutional approach which was predominant in the studies of foreign marketing systems. If censuses of business or similar data are lacking, the institutional approach is unworkable unless the researcher is prepared to undertake elaborate quantitative surveys. Hall, Knapp and Winsten's study cited earlier serves to illustrate the difficulties raised by the institutional approach when it is applied to studies of domestic marketing abroad or to comparisons between marketing systems. Also, the commodity and managerial approaches are deficient. The commodity approach presents only descriptions and the managerial approach is not applicable to countries that are not "business" oriented.[17]

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[16]For a detailed description of flow approach see Chapter I, pp. 11-13.

[17]Jaffe, "Towards a Systems Approach to Domestic Marketing Abroad . . ." p. 26.

Unfortunately, in spite of the merits of flow approach in the search for universals in marketing over the traditionally used approaches described earlier, it almost went unnoticed by scholars. At least it did not suddenly become popular as a framework in future research studies, as evidenced by the doctoral dissertations which have come out since then. To my knowledge, the only thesis which has used this methodology so far was written by Jaffe under the guidance of Professor Cox in 1966.[18] Therefore, the only two studies which can be reviewed in this section about literature on flow-approach are by Cox and Goodman and by Eugene D. Jaffe. Both of them have played a very important part in setting up the infra-structure on which this thesis is based.

Cox and Goodman's study examined the nature and scope of the distributive tasks involved in getting building materials to builders and their contractors. It studied in detail the marketing embodied in the material that goes into a specific, carefully selected, illustrative house. An overall picture was then put together from a wide-ranging study that showed for some forty-three materials of different types the channels of marketing actually used, alternative channels employed in the market place, and possible reductions in the amount of work done

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[18] _Ibid._

that might result from the use of different marketing methods. The study attempted to devise countable indicators of marketing work in order to find out how much marketing was performed in getting these materials to the building site and how effectively it was being performed.

The objective of Jaffe's thesis was to apply a systems approach to a study of marketing of food in Israel. It consisted of identifying and analyzing marketing channels each comprised of five flows: communication, ownership, physical possession, financing and risking. This study was based on "type" channel analysis. "Type" channel analysis charts the flows of a whole class of goods (not individual products) and describes and analyzes the number and distribution of marketing agencies and the functions they perform in getting goods and services from producer to user.

It should be noted that the two studies under consideration have both dealt with products which are primarily "goods" with "service" support. This dissertation extends the application of flow approach to a product which is primarily a "service" with "goods" support.[19] This posed unique problems requiring modification of framework in reducing marketing to measurement by suitable choice of

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[19]See Chapter I, pp. 1-4 for the explanation of why "motion pictures" are defined as such.

indicators of marketing work. Also, in contrast to Jaffe's thesis which dealt with "type" channel, this research focuses on "aggregate" channel comprising of all the "unit" channels which participate in marketing a specific commodity or service. "Unit" channels are distinguishable by specific flows consisting of the same acts of marketing repeatedly performed by successive agencies for identifiable goods or services which undergo the marketing processes. Five unit channels each representing one of the five flows of physical possession, financing, ownership, payment and communication will be discussed for motion pictures in subsequent chapters.

Studies Based on Marketing in India

In 1960, Boyd and Westfall reported that marketing was probably the least developed aspect of the Indian economy. It was considered a wasteful activity. Losses from poor physical distribution were undoubtedly large, as were losses resulting from the failure of the marketing system to integrate consumer wants with production resources. The greatest waste, however, came from the failure of marketing to furnish the force necessary to start the economy on a period of growth.[20] Since then, India is probably

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[20] Ralph L. Westfall and Harper W. Boyd, Jr., "Marketing in India," Journal of Marketing, Vol. 25 (October 1960), 11-17.

one of the few examples among all the poor countries where marketing has received at least some attention. But even now, much remains to be done to adopt the marketing concept fully. Marketing is the key to the optimum use of productive resources. A nation with limited resources such as India is compelled to make the most effective use of its resources. It is here that marketing can help. When marketing is ignored, resource allocation is left to the whims of those who own the resources. Since a seller's market often exists in the developing countries, producers pay little attention to marketing. This is harmful to both the present economy and to future development. It is not inaccurate to state that marketing, or rather the lack of it, more than anything else is the root cause of poor growth performance in developing countries.[21]

Even though the importance of marketing to developing countries cannot be overstressed, marketing knowledge and practice in India continue to be neglected for the most part. Officials in the country do not seem to appreciate the underlying significance of marketing in their development. Also, hardly any efforts have been directed by academicians to study marketing in India. The result is only a handful of studies scattered in the marketing literature on this subject.

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[21]Subhash C. Jain, "A Consumption Society at Grass Root Levels," Columbia Journal of World Business (May-June, 1968), 43-48.

To date, only three full-length research studies in marketing have been based on India. Walters wrote his thesis on fertilizer distribution by administrative order in India. He sought a normative solution to what happens when a government tries to substitute its own decisions for those of the market place in determining who shall consume what quantities of a commodity.[22]

Leon Hirsch's study of the marketing practices in the North Indian sugar industry has already been discussed in the section on studies of domestic marketing abroad. He also wrote an article on wholesaling in India.[23] India, one of the world's large developing countries, is described by Hirsch as a combination of Eastern and Western marketing practices, a study of transitions from a primitive to a more culturally and conceptually advanced system of distribution.

In 1972, Raval did a comparative study of cooperative marketing of agricultural produce in India and the United States.[24] He investigated the similarities and

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[22] J. Walters, Jr., "Distributing Fertilizers by Administrative Order in India," Journal of Marketing, Vol. 24, No. 3 (Jan. 1960), 70-72.

[23] Leon V. Hirsch, "Wholesaling in India," Comparative Marketing: Wholesaling in Fifteen Countries, ed. by Robert Bartels (Homewood, Illinois: Richard D. Irwin, Inc., 1963).

[24] D. S. Raval, "A Comparative Study of Cooperative Marketing of Agricultural Produce in India and the United States" (unpublished Ph.D. dissertation, George Washington University, 1972).

dissimilarities in the philosophy, history, structure, functions, financing and business methods of cooperative marketing in both these countries.

These studies mentioned above have made a significant contribution to this research. They have given a periodic frame of reference to the general marketing system of India in the context of which marketing of motion pictures in India could be examined.

Studies Dealing with the Economic Aspects of the Motion Picture Industry

Such studies are useful to review because they describe the business functions and economic activities involved in making a motion picture as opposed to the creative functions. To a person with little knowledge of how the movie industry is organized, they serve as a good starting point to indicate what to look at while gathering data about this industry. Unfortunately, whereas the literature on creative aspects of the industry is plentiful, economic studies are hard to come by.

Most relevant of such studies to this dissertation will obviously be a research on the economic aspects of India's motion picture industry. The only such study ever undertaken was by Jain in 1960.[25] The study dwelled a great

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[25]Rikhab Das Jain, The Economic Aspects of the Film Industry in India (New Delhi, India: Atma Ram and Sons, 1960).

deal on the organization, employment and production aspects of the industry. The role of marketing and its efficiency were only briefly touched upon. Being very dynamic, this industry has been in a constant state of flux and has changed a great deal since 1960. Numerous new problems have arisen with stringent government controls. New technology has had its impact and the audience tastes have changed a great deal. Even though a bit outdated now, Jain's work is the only one of its kind published so far and provides a background to familiarize an outsider with the workings of the industry.

The motion picture industry of India has followed very much in the footsteps of Hollywood in the past, so it is interesting and worthwhile to examine how much attention this industry has received from business researchers here in the U.S.

So far only five doctoral dissertations have been written related to this industry. In 1934, Barrett wrote his thesis in economics on the organization of the motion picture industry.[26] The study attempted to analyze the struggle for economic control of the motion picture industry by the various groups involved: producers, distributors, exhibitors, and investment bankers.

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[26]Rex P. Barrett, "The Organization of the Motion Picture Industry" (unpublished Ph.D. thesis, University of Missouri, 1934).

Then, after a lapse of thirty-four years, another study was made of motion pictures exhibition in 1968. Lamson did an economic analysis of quality, output and productivity. The central concern of his dissertation is the development of a conceptually valid output time series for motion picture exhibition--described as a service industry.[27]

In 1969, Basti investigated the impact of the American motion picture industry on the United States Balance of Payment.[28] Industry derived about 55 percent of its annual income from abroad. Probably no other major United States industry is so heavily dependent on foreign markets for its well being. The net contribution of this industry to the United States Balance of Payment ranges from $250 to $290 million annually. At this point, it may be interesting to note that in India, the film industry ranked the eighth largest with an export of almost Rs. 50 million in 1969.[29] It is hard to believe that both here and in India, an industry of such gigantic dimensions has been neglected and ignored by academicians and scholars.

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[27]Robert Doave Lamson, "Motion Picture Exhibition: An Analysis of Quality, Output and Productivity" (unpublished Ph.D. thesis, University of Washington, 1968).

[28]Abdul Z. Basti, "Impact of the American Motion Picture Industry on the United States Balance of Payments" (unpublished Ph.D. thesis, University of Colorado, 1969).

[29]These figures provided by Indian Motion Pictures Export Corporation, Ltd.

Also in 1969, Musun wrote his thesis on the marketing of motion pictures.[30] He took an institutional approach in describing the marketing management concepts in the motion picture industry. The scope of his dissertation extended from an analysis of marketing opportunities to the planning and execution of marketing programs, a review of trade practices and marketing restraints, an isolation and description of key variables affecting picture salability, and a presentation of existing decision making practices.

In 1971, Garrison did a study of uncertainty in the decision processes in new product launching such as motion picture production.[31] He chose motion pictures because the results of new product decisions in this industry are sufficiently immediate and distinct as to be measurable. Heuristic and normative models were presented to provide an understanding of information gathering and the flow of communication in the industry, of the search processes used, and of the decision criteria employed to screen proposals.

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[30] Musun, "The Marketing of Motion Pictures."

[31] Lee C. Garrison, Jr., "Decision Processes in Motion Picture Production: A Study of Uncertainty" (unpublished Ph.D. thesis, Stanford University, 1971).

Conclusion

This concludes the review of literature relevant to the subject matter of this thesis. Admittedly, the interpretation of what is relevant is very ambiguous indeed. Some criterion therefore had to be agreed upon in order to decide what is to be included in a chapter such as this. Criterion of selection here had been as follows: all studies which gave direction to this research either by suggesting a framework or methodology of its own, or by pointing towards a gap due to the limitations of existing approaches, have been included. Also included are those which provided the necessary background on which the foundations of conceptuations of this research are based. A number of others were looked into and eliminated, although it is acknowledged that some of them may have subconsciously influenced and shaped the thinking of this researcher.

CHAPTER III

BACKGROUND INFORMATION ON THE INDIAN FILM INDUSTRY

Introduction

Until very recently, the western filmgoers have not been aware that India is one of the most prolific film-making nations in the world. In fact, India has been one of the three largest movie producers in the world for more than 20 years. As early as 1958, India outranked the United States in feature film production and was second only to Japan. (See Table 1) In 1971, for the first time it rose to the eminent position of the producer of the largest number of commercial feature films.[1] The total quantity of production in 1972 fell by some 25 films as compared to 1971. Still, the output of 409 films is very high in comparison with most other countries and may again make India hold the record as the world's topmost film-producing country.[2]

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[1]Here a commercial feature film is defined as a standard 35 mm. film with a minimum length of 2000 meters. Documentaries, 8 mm., 16 mm. and short films are not included in this comparison.

[2]At the time of writing, data for long film production in the U.S. and Japan in 1972 is not available.

TABLE 1

NUMBER OF FEATURE FILMS PRODUCED

Year	India	Japan	U.S.A.
1954	264	288	303
1955	271	336	305
1956	296	369	337
1957	295	330	.378
1958	295	369	288
1959	312	345	223
1960	324	423	211
1961	297	398	254
1962	319	378	174
1963	305	361	155
1964	304	326	181
1965	325	490	191
1966	316	437	168
1967	333	410	215
1968	350	494	294
1969	367	494	290
1970	396	423	200+
1971	433	419	200+
1972	409	-	-

Note: In this table, Japan considers a minimum length of 2000 meters, U.S. considers a minimum length of 2500 meters, and India considers a minimum length of 3400 meters as "feature." Running time of 1000 meters of 35 mm. film is 36 minutes.

Source: This table has been formulated from various issues of various sources. They are:

a) Up to 1959: "Basic Facts and Figures: International Statistics relating to education, culture and mass communication," UNESCO publication.

b) 1959-1969: Statistical Yearbook, United Nations Publications.

c) 1969-onwards: International Film Guide, ed. by Peter Cowie, London: The Tantivy Press.

The quantitative progress of the industry is more striking if one considers the odds against which it is operating. Shortage of raw stock and heavy burden of taxes, strict controls of imports and ever increasing duties and tariffs, lack of availability of financing from nationalized banks and impending threat of government take-over, strict censorship code and inadequate number of exhibition outlets are only a few of the grievances the industry is suffering from. Add to this the acute electric power shortage and spiraling costs of production, and it remains no small wonder how an industry can survive under such chaotic conditions. But survived it has for more than sixty years and despite the continual cries of despair it has grown steadily into the enviable position it commands today. It is therefore important to take a brief look back at the origins of Indian cinema for a better perspective of the factors which have sustained its growth.

A Brief Historical Perspective

India, having produced its first motion picture way back in 1897 and its first feature film several decades earlier than some countries on both sides of the Atlantic, has had a lively, though intermittent, dialogue with the cinematographies of the world for well over seven decades. About fifteen years after the introduction of the cinematograph in India, on May 18, 1912, the first feature film made in India was shown. This film was part British in its birth having been photographed by British cameramen. But almost exactly a year later Dada Saheb Phalke's "Raja Harishchandra" was released in Bombay. This was truly a pioneering attempt, because Dada Saheb not only wrote the script, designed the sets, prepared the costumes, perforated the imported negative, directed the actors, cranked the camera, processed and printed the exposed film, edited the positive print, but he also marketed the film himself taking the print from place to place in a bullock-cart.[3]

It was the dedication-cum-foresight behind these earlier ventures which opened up the path for others to tread on and within a few years a flourishing new industry was built up that has not only supported itself on the strength of public patronage but also earned substantially for the public exchequer by way of taxes. After the first world war, the industry entered a boom period and by the end of that decade India was producing around thirty-eight films a year.

The great success and the increasing popularity of the motion pictures led the government to pass the first act known as the Indian Cinematograph Act of 1918, which required examining and certifying films as suitable for

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[3]Hameeduddin Mahmood, "Sixty Years of Indian Cinema," The Hindustan Times Weekly, Sunday, June 4, 1972.

public exhibition. The Indian film industry grew up in a colonial setting, but in the 1920's it was outproducing Great Britain. The twenties were remarkable in other aspects too. The socio-political awareness was trickling into films. The economics of the industry was growing unwieldy. In 1923, entertainment tax was first introduced and ever since taxation is one certainty the industry always had in its highly speculative business. The first film inquiry committee set up in 1928 to probe all aspects of the industry foresaw the strangulation of the creative artist and demanded protection. Over 700 films were produced in the twenties--all silent.

The beginning of the thirties witnessed many tidal developments. Production swelled to more than 170 in 1930 and 246 in 1931. Then in 1931, talkies landed with a thud. They sounded the death knell of the silent films. From 246 in 1931, their number came down to a bare 7 in 1934, and faded out completely by 1936.[4] With the advent of sound, the Indian film fastened exclusively on musical forms and became unique in its extensive use of songs and dances. It had other serious consequences. It gave birth to regional films in more than ten regional languages in the mid 30's. Cinema started relying on literary metaphor rather than on cinematic idiom, and the theater-in-cinema came back. The

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[4] Ibid.

creative collaboration of lyricist, music director and singer came to play a dominant role in films and has since emerged as the biggest motivation for an average moviegoer.

Cinema houses emerged rapidly during this period and many studios came into existence. The initial cost of equiping studios and cinema houses for sound was taken up with a new zeal, as the industry believed that talkies were to provide more profits and stability. Even though it caused a rise in the cost of production from Rs. 15,000 to Rs. 125,000 per movie, the box office collections for the industry increased from Rs. 200,000 in 1913 to Rs. 10,000,000 in 1931. The thirties marked the birth of producing concerns who had technicians, artists and camera-men on their payroll. Film production showed a constant increase and the industry, now firmly established, started consolidating.

The early forties were the period of the second world war. Though the war did not spread onto Indian soil, the country felt the shortage of raw materials. The inflationary tendencies increased the prices tremendously. As a result, the cost of production of the feature film went up four times and the collections at the box office increased three times. No doubt, the film industry enjoyed some sort of economic prosperity, but it was wiped off to a large extent by increases in costs and taxation. To meet the acute shortage of raw films, the government restricted the length of feature films to 11,000 feet (3,350 meters) and the distribution of raw film production by 48 percent at the end of 1945. The exhibitors found it difficult to stay in business due to heavy taxation and as a result the number of cinemas was reduced from 1,265 in 1930 to 1,136 in 1941.

World War II ended in September 1945 and soon after the control on the distribution of raw films was lifted. By the end of 1946, all the restrictions imposed on the film industry during the war period were withdrawn. On August 15, 1947, the country won its independence from the British rulers and this marked the beginning of a new era in the history of film production in India.

The inflationary boom of the war period made the industry somewhat prosperous financially. It led to an enormous increase in production two years after the war. The number of picture-goers tremendously increased and the black market in cinema tickets (scalping) started in spite of the best efforts of the government and the cinema management to stop it. The unexpected rise in production activities created scarcity of raw films and shortage of studio space, technicians and artists. This resulted in the system of "free-lancing" which is still prevalent in the industry. The cost of materials increased and the rates of interest became exorbitant. The Cinematograph (Amendment) Act of 1949 made the censorship more strict and the entertainment tax was increased again. The increased taxation created the practice of the receipts and payments in the film industry in "black" to avoid the payment of excessive taxes. This rather unique phenomenon, called "black money," has been a part of the Indian economy in various commercial sectors including the movie industry ever since and can be attributed to a large extent to the irrational, inequitable, unfair taxation policy. More on this will be discussed later in the appropriate section.

The fifties brought confusion and dismay for the movie industry. The second Film Inquiry Committee in 1951 recommended institutional arrangements for training in film crafts and techniques, for financing films, for marketing them abroad and for state recognition of extraordinary achievements in motion picture arts and sciences. However, the Government in its preoccupation with other development projects in the early years of independence set these proposals aside, and it was not until the early sixties that these recommendations were implemented. As a consequence of this, State Film Agencies, such as the National Film Awards Institution, The Film and Television Institute of India, National Film Archive, Film Finance Corporation and the Indian Motion Picture Export Corporation, came into existence.

In the late fifties, the Indian film industry ranked second in respect to capital investment, fourth in respect to the amount of wages paid, and fifth in respect to the number of people employed among the entire industrial sector of the country.

The sixties brought the color era. The number of color films made annually rose from 12 in 1963 to 75 in 1970. In a short span of two years, this number more than doubled with the production of 178 films in color in 1972. The sixties also brought attention to the problem of incomplete films. They accounted for a significant portion (at times as much as 30 percent) of the capital investment in the industry and, unless completed, amounted to "sunk cost." Indian films also established a regular market for export in many countries of Asia and Africa. Songs from Indian films, often criticized by Indian musicologists as hybrid and westernized, are Afro-Asian radio favorites. A few have proved hits in the Soviet Union also.[5]

The industry firmly settled down in color in the seventies. Whereas black and white movies still outnumbered those in color (ratio 1.3:1), most of them were in regional languages. Of the three major production centers, Bombay, Madras, and Calcutta, Bombay was the undisputed leader in color production. In 1972, 77 percent of all films made in Bombay were in color, followed by Madras with

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[5]Erick Barnouw and S. Krishnaswamy, Indian Film (New York: Columbia University Press, 1963), pp. 151-153.

31 percent and Calcutta with only 8 percent in color. Films made in Bombay transcend all regional boundaries and have great following all over India. They are the focus of this study.

With an estimated capital of Rs. 1.5 billion (approximately $200 million), employment for over 170,000 people, and with a revenue yield of over Rs. 530 million (approximately $71 million) to the various state governments by way of entertainment tax alone besides show taxes, levies, income tax and wealth tax every year, the movie industry certainly ranks as one of the major industries of the country in the seventies.

The Indian film industry can take justifiable credit for its impressive track record in spite of many unfavorable circumstances. It developed mostly under the laissez-faire system and its haphazard growth was caused by the absence of careful and proper planning. Much reliance on individualism; lack of organization and cooperation; multiplicity of controlling authorities; excessive taxation; dependence on foreign markets for raw materials; and absence of any clear cut policy in regard to direction, purpose and regulation on the part of government have all affected its healthy development. Historically, the industry has weathered severe storms and survived innumerable crises without much external support, and, in spite of its legitimate current woes, it is expected to retain its position as a principal leisure time activity in the lives of millions who cannot afford any other form of entertainment.

India's Movie-Going Public

No marketing study can be meaningful without a discussion of the consumer. It is the aim of every industry to develop an understanding of how the market for its product or service operates. For India's motion picture industry this understanding has been all the more crucial, because if it was not for public patronage, it would have been dead by now. Steadily increasing annual attendance figures at the cinema houses (see Table 2) have saved it time and again from the brink of financial disaster and attracted new aspiring producers to risk their investments in the hope that their film will be the box office hit of the year.

India is seventh largest and the second most populous country in the world. According to the 1971 census, only 29 percent of its population is literate. With such a high rate of illiteracy. it is no surprise that audio-visual impact of cinema has provided the best medium of information, instruction and entertainment. Besides this, entertainment has always been a prime sociological necessity of life, next only to food, clothing and shelter. Motion pictures in India provide the cheapest and in some places the only source of entertainment.

TABLE 2

ANNUAL ATTENDANCE AT CINEMA IN INDIA

Year	Total number of cinemas	Number of permanent theatres	Touring cinema	Total seating capacity for fixed cinemas (in thousands)	Total annual attendance for fixed cinemas (in millions)	Attendance per habitant per year
1953	3,540	2,940	600	2,003	750.3	2.0
1958	4,361	3,404	957	2,387	1,390.2	3.5
1960	4,500	3,175	1,325	-	1,400.0	4.0
1962	5,062	3,664	1,398	-	1.400.0	4.0
1964	5,295	3,843	1,452	3,200	1,825.0	4.0
1966	5,629	3,889	1,740	3,500	1,825.0	4.0
1969	6,541	4,255	2,286	4,000	2,190.0	4.0
1970	7,140	4,553	2,587	4,276	-	-
1971	7,400	4,750	2,650	-	-	-

Sources: a) Various issues of Statistical Yearbook, United Nations: UNESCO publication.
b) Records of Indian Motion Picture Producers Association, Bombay, India.

In India, other forms of leisure time activities such as social gatherings, night clubs, restaurants, bars, theatre, opera, poetic symposiums, outdoor games, television, hi-fi systems, etc. are only available to a privileged few because they are too expensive to afford for the majority of people.

With the price adjusted per capita income of less than Rs. 400 (approximately $54.00) per year, it is not hard to understand why only 12 million radio receivers were owned by the public in 1971. The number of television sets in operation was much less--a meager 25,000. Considering a huge populace of 550 million, these figures are almost insignificant.

Newspapers and periodicals cannot provide much leisure time occupation to those who cannot read or write. In 1970, their total circulation in all languages was approximately 29 million.[6] Compare these statistics with a weekly attendance figure of more than 40 million for the movies and it becomes apparent how strong a hold films have on India's teeming millions. As Professor Humayun Kabir, an ex-minister for Scientific Research and Cultural Affairs, Government of India, once said:

> Films, as a medium of entertainment, have come to acquire a definite position of importance in our society. In whatever light, favorable or otherwise, one might view them, the fact remains that a very

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[6] All statistics from the Government of India publication India: A Reference Annual 1971-72.

> great number of people willingly submit themselves to their hypnotic spell and thus are directly influenced by them.[7]

As an outcome of industrialization and of changing economic and social pattern, there is a relative increase in leisure for the working population of India. For the non-working population which in rural India is close to 60 percent of all persons, there is no end to discretionary time. The popularity of cinema is due to the fact that it brings some relief from the daily anxieties of life for the common man by lifting him to a make-believe or an imaginary world of fantasy. For this reason, the so-called "escapist fare," commonly known as "formula film" in India, is very popular. This also accounts for the heavy dose of songs and dances in Indian films, especially those made in Bombay and Madras. Plenty of free time available to an average moviegoer has resulted in the normal running time of an Indian movie to be much longer than that of films made elsewhere in the world. Many would feel short-changed if they did not get two and one-half solid hours of unrealistic melodrama for their money, sprinkled with at least eight songs and a variety of dances, and a triangle of hero, heroine and villain engaged in various plots and subplots. This is clearly reflected in the thematic classification of Indian films produced from 1954 to 1970 in Table 3, notwithstanding

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[7] Quoted from Tarachand Barjatya, A Handbook Detailing Some of the Problems of the Indian Film Industry (Bombay: Rajshri Pictures Pvt. Ltd., 1960), p. 3.

TABLE 3

THEMATIC CLASSIFICATION OF INDIAN FILMS

Theme	1954	1955	1956	1957	1958	1959	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Social (family melodramas and love stories)	204	182	160	169	150	175	162	174	162	178	171	189	195	224	238	254
Crime	4	5	11	20	28	29	30	43	39	21	46	35	60	65	64	80
Fantasy	9	16	49	23	45	46	23	21	20	23	28	15	19	13	11	13
Historical	1	12	4	6	5	8	15	5	12	7	5	6	5	5	2	2
Biographical	10	9	4	4	4	2	5	1	4	2	3	4	2	-	3	3
Mythological	21	27	37	38	36	32	32	30	21	17	25	20	22	15	17	18
Legendary	13	17	25	19	17	17	26	21	20	20	20	22	15	19	27	18
Devotional	1	1	2	8	5	-	2	4	5	13	7	1	4	2	3	1
Children	1	1	2	4	4	1	1	-	4	5	1	5	5	3	-	7
Miscellaneous (stunt, adventure, etc.)	-	1	2	4	1	2	1	20	18	18	19	19	6	4	2	-
Total	264	271	296	295	295	312	297	319	305	304	325	316	333	350	367	396

Source: a) Up to 1959: from The Economic Aspects of the Film Industry in India, by Dr. R. D. Jain (Delhi, India: Atma Ram and Sons, p. 25.

b) After 1959: from India 1971-72, A Government of India publication, p. 156.

the fact that any definite division may not be exclusively worked out in all cases.

There have been no scientific demographic studies of the movie-goers in India since 1960. But on the basis of discussions with various exhibitors, the findings of that survey still seem applicable in general. The following conclusions were drawn at that time from a survey of 2,000 randomly chosen respondents.

1. Women go to movies less frequently than men, the younger group is better represented than the middle-aged, and single persons go more often than the married.

2. The persons belonging to lower income groups go to movies more often than the others. Children go more frequently than adults, but less than young people, and children of the families in the lower income bracket go more than children of families in the higher income bracket.[8]

Since motion pictures are so popular in the low income groups and in the rural areas, there has been a considerable growth of touring cinemas in India. These are mobile units with projection facilities for 16 mm. and 35 mm. films, and they travel from village to village showing various feature films for a particular period of time. The number of permanent exhibition facilities has also considerably grown from 2,940 in 1953 to 4,750 in 1971 (see Table 2).

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[8] Rikhab Das Jain, The Economic Aspects, p. 23.

Even though in absolute numbers the increase is substantial, in proportion to the increase in population during the same period, the growth is hopelessly inadequate.

In 1970, with a population of 550 million, India had only 7,140 cinemas whereas the United States had more than twice as many theatres (14,420) with less than half as many people (200 million). Even a small developing country like Argentina had over 1,600 cinemas with a population of little over 20 million. The scarcity of cinema houses in India has resulted in various malpractices in the exhibition sector of the industry. These problems are discussed in a later section on current trade practices.

In 1971, the estimated gross collection at the box office was Rs. 1.5 billion ($200 million), approximately 0.4 percent of India's total annual personal expenditures. The 1970 box office receipts were up over the previous year's by 20 percent, and 1971 receipts were further up by 15 percent over 1970.

Such a steadily growing vast potential market for the product of this industry is probably the only plausible explanation for so many new people being lured into film production and distribution every year, in spite of the multitude of economic hurdles to overcome even before getting off the ground. Even those who vehemently oppose calling film-making a business enterprise and insist on it being only a medium for expression of creativity have to meet the test of market acceptance for economic survival or get lost in the rapid turnover of film-makers. Yet, each comes with the belief that he has the right marketing mix to meet the entertainment needs of the market, and each has the fond hope of getting rich quick by making the phenomenal film of the year with the largest market share. The facts that last year only 10 percent of all films released showed any profit and that only another 10 percent managed to break even do not somehow seem to matter.

This emphasis on individualism is a unique characteristic of the motion picture industry distinguishing it from all other major industries in the country. Whereas others function in a very closely knit organized setting on a long-term basis, the structure of the motion picture industry is what Alderson has defined as an ecological system.[9] The members of this system are not associated in a merely random fashion as in the case of an atomistic system, nor are they as rigidly connected with each other as in the mechanistic system.

The following section will take a look at this organizational structure.

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[9] Alderson, Marketing Behavior and Executive Action.

The Organizational Structure

Alderson states that one of the characteristics of operating systems is division of labor which is defined as the assignment of operating functions to individuals or sub-groups within the larger group. Division of labor by stages of the process involves successive levels in distribution channels. In discussing the elements of structure in operating systems, Alderson defines "seriality" as the state of being arranged in a sequence of steps and stages, with the process under consideration flowing from one stage to another.[10]

The operating system under consideration here is the motion picture industry in India. Its underlying structure involves sequential arrangement of the three stages of production, distribution and exhibition. A typical film has to go through all these stages before it reaches its audience. Each stage also has its own organizational structure and functions. In this section, first the entire operating system will be discussed and then the structure in each one of the three stages will be outlined in the exhibits that follow.

It is the aim of every producer to gain a release for his film in all areas which constitute his potential

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[10] Alderson, Ibid.

audience. As with many other goods and services, the target markets of a motion picture are usually geographically scattered. It is the function of the distributor to bridge this gap between production centers and potential market locations where the audience belong. The distributor came as an intermediary due to the increase of production activities and increase in the number of cinemas in the country. Through him, the supply and demand of motion pictures are linked.

Bombay is the production center for "Hindi Films." Their potential market is all over the country. Therefore, they need wider distribution than regional-language films. Traditionally, India has been divided into six distribution territories to cover all exhibition outlets.[11] An additional territory is assigned for "overseas" distribution. If a producer could sell his film to all these territories, he would have achieved extensive distribution. The distributors from each territory are then responsible for arranging the screening of the film in various movie theaters in their circuit so located that as large a percentage of the potential audience as possible is reached.

Exhibit III shows the sequence of operations that an average Hindi Film has to go through in order to get

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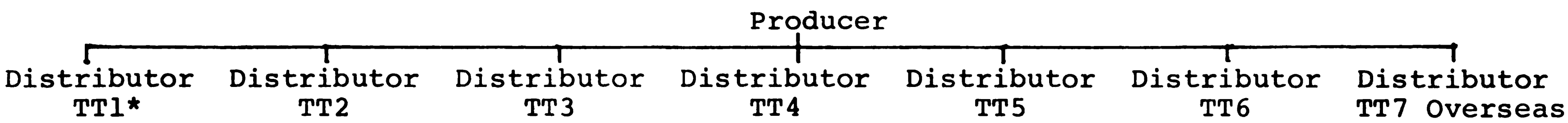
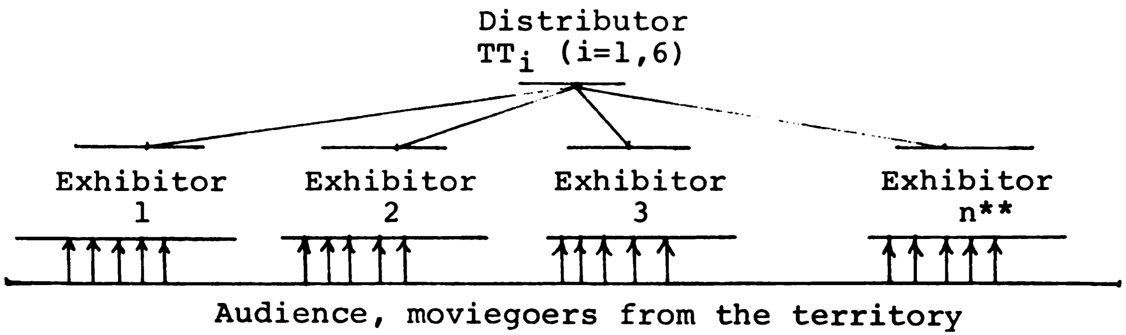
[11]A detailed description of the "territories" is given in the following section on Current Trade Practices.

EXHIBIT III

General Structure of the Motion Picture Industry in India



For each distributor:



* TT = Territory
** n = Number of theatres in which the producer's film gets a release in the territory. This number will vary from territory to territory.

Notes:

1. This diagram shows the channel required for extensive distribution. This is particularly applicable for a Hindi Film because they have markets scattered all over India.
2. The position of the producer is shown here on the top because he is the origin of operations in the channel. It does not mean he is the channel captain.

mass distribution. The channel is usually the same even though the members of the channel may be different. That is because release of each film is like an introduction of a new product to the market. All negotiations between channel members are considered strategic transactions since they pertain to non-recurring situations. Even though the functions performed each time may remain unchanged, the negotiations cannot usually be routinized because each film is considered a different product. The acceptance of one by the market does not automatically ensure the success of another even though the same group of people may be involved in its making. Alderson's structural postulate of marketing which states that effective management of any operating system requires the largest proportions of the systems operations being routinized does not seem applicable to the motion picture industry.

There are more registered production companies in Bombay than there are films produced annually. Each film production becomes a new project. The producer hires a number of people who perform different functions necessary for the completion of the film. Each of these people hired by the producer may be working simultaneously in other movie projects also with other producers because of the free-lancing system.

A group of people working together on a film form a "production unit." As stated, members of a unit usually belong to many other such production units. Once the production is complete, the unit disbands and another venture from the producer requires a new set of negotiations to put together the same unit or a different one.

Similar is the case in distribution. The producer seeks out distributors for the seven territories mentioned earlier. Each time a movie project goes into operation, a new set of negotiations are made with the distributors or all together different distributors are sought. Because of this highly individualized nature of business, it is meaningless to outline an organizational structure which is based on the number of people involved. Alliances in the motion picture industry are short-lived, but no matter who the members of the alliance are at a particular point in time, the functions performed usually remain the same.

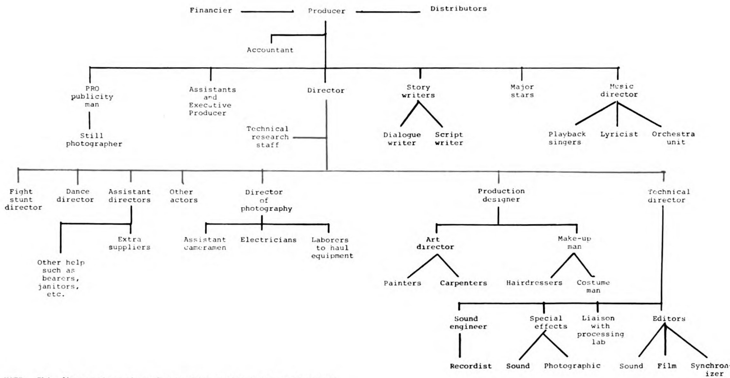
For this reason, the diagrams of organization structures presented in Exhibits IV, V, and VI are really charts of functions required to be performed in each of the production, distribution and exhibition sectors of the industry.

Organizational Structure in the Production Sector (Exhibit IV)

Production of motion pictures is an extremely complex operation. A number of different skills and variety of talents are engaged in narrating a story on celluloid. It takes the right combination of literary talents,

EXHIBIT IV

Organizational Structure in the Production Sector



NOTE: This diagram shows the order in which decisions are made and who makes them to staff key positions for performing various functions in a typical production unit. It is based on personal interviews with various producers in Bombay during the months of December 1972 and January 1973 and observation of their production units.

histrionic abilities, musical skills, technical expertise and business acumen to make a "winner." No business needs as much creativity in so many diverse fields as the business of film production .

The producer is the origin of all such activities. He is the person who governs its creation from the time of its conception until it is ready for showing in theaters. He coordinates the creative elements from the standpoint of financial management. He picks a story, signs the major stars, contacts the financiers, negotiates with the distributors and hires people to fill the key positions in the production unit. In India, it is hard to get financing for a film without a few well-known names heading the cast. Therefore, it is not the director who selects actors for key roles, it is the producer. Stars are signed even before the director is selected so that the movie can have financial backing.

Every unit has men called executive producers or production managers. Their functions are varied: keeping track of the days when stars are available for shooting, contacting studios about availability of stages, running around appropriate government authorities for permits to buy raw stock, booking recording studios for song-recording sessions, arranging for preview theaters to show the rushes to distributors, and even bringing refreshments for the stars on the sets--they do all kinds of chores.

Normally, these people are relatives of the producer. Nepotism abounds in India's movie industry.

Motion picture production requires the sequences to be grouped according to sets and filmic punctuation, because the shooting is never done in the logical sequence of the story. The story writer after finding an idea develops it to a clear and logical end, and then the script writer prepares a careful scene-by-scene narrative as it is going to be filmed. The dialogue writer then provides the required dialogues for the scenes. Most of the time, the same person performs all three functions.

The team of music director, lyricist and the play-back singer is indispensable to Hindi films. Songs from a film are almost as much a "box office" attraction as the name of a big star. Successful music directors command very high prices. The lyricist writes a song to depict a character's state of mind, and the music director provides the symphony which sets the mood of the audience towards a particular scene. The music director works in close collaboration with the director because he must share the emotion the director is trying to convey in order to transform it into appropriate music. Usually, catchy tunes are first set by the music director who then invites the song writer to write a song on the tune. So big is the impact of film music in India that its music industry publishes little else but records of film songs.

The film is made step by step as the director visualizes it. He is concerned with continuity, camera angles, control of action and nmmerous other factors that affect the pace of presentation of the story. He usually has a technical staff to advise him about things which need attention to represent the appropriate time and place of the story. For example, if the story is set in the background of 19th century India, the research staff furnishes the information on costumes, hair styles and such other things consistent with that time. Since a typical Hindi film invariably has dances and a climax fight between the hero and the villain, dance directors and fight director almost always are part of the production unit. They work in close cooperation with the director. All other actors, except the major stars, are normally chosen by the director for various roles.

The director has a few assistants who keep in touch with the extra-suppliers for any scene which may require a number of people without any speaking roles. They also carry various copies of the scripts to be handed out to the actors and actresses just before the shot. Since the major stars are always working on a number of films at one time, they almost never read the detailed script before coming to the shooting. Assistant directors also act as clapper-boys. Their primary function is to make sure all the required things are ready before the camera goes into motion.

The director of photography, camera man, and their assistants work long hours to translate the director's ideas into concrete images. They cannot sit around between "takes" playing cards like others as they have to arrange for the next shot. The director of photography not only has to supervise the filming of endless retakes during the day, but also has to sit and watch the previous day's rush prints after everyone is gone. Under him work the electricians, who illuminate the sets with dozens of lights to get the effect the director wants.

The production designer supervises the construction of sets as designed by the art director. He also looks after the wardrobe needed for various characters in the movie. Hairdressers and makeup men usually report to him for purchase of things needed to do their work. Many big stars these days bring their own makeup man and hairdressers but the producer has to pay for them.

The technical director is responsible for hiring the sound engineer, recordist, special effects director and editors. If any special sound is needed in a scene such as the roar of a lion, the special effects man will provide the tape for it. They also film animation, a presentation of titles, and provide information on trick-photography. Editing is a job of utmost importance and requires a close supervision by the director. In many cases, the director himself does the editing. Then synchronizing the soundtrack with the lip movements on the screen requires a good deal of technical skill. The responsibility for all these functions rests on the technical director's shoulders. He also acts as a liaison with the processing lab.

Once the film is completely processed and various prints are made, the production unit disbands, and now it is again the producer's turn to complete negotiations with distributors from various territories for an early release.

Organizational Structure in the Distribution Sector (Exhibit V)

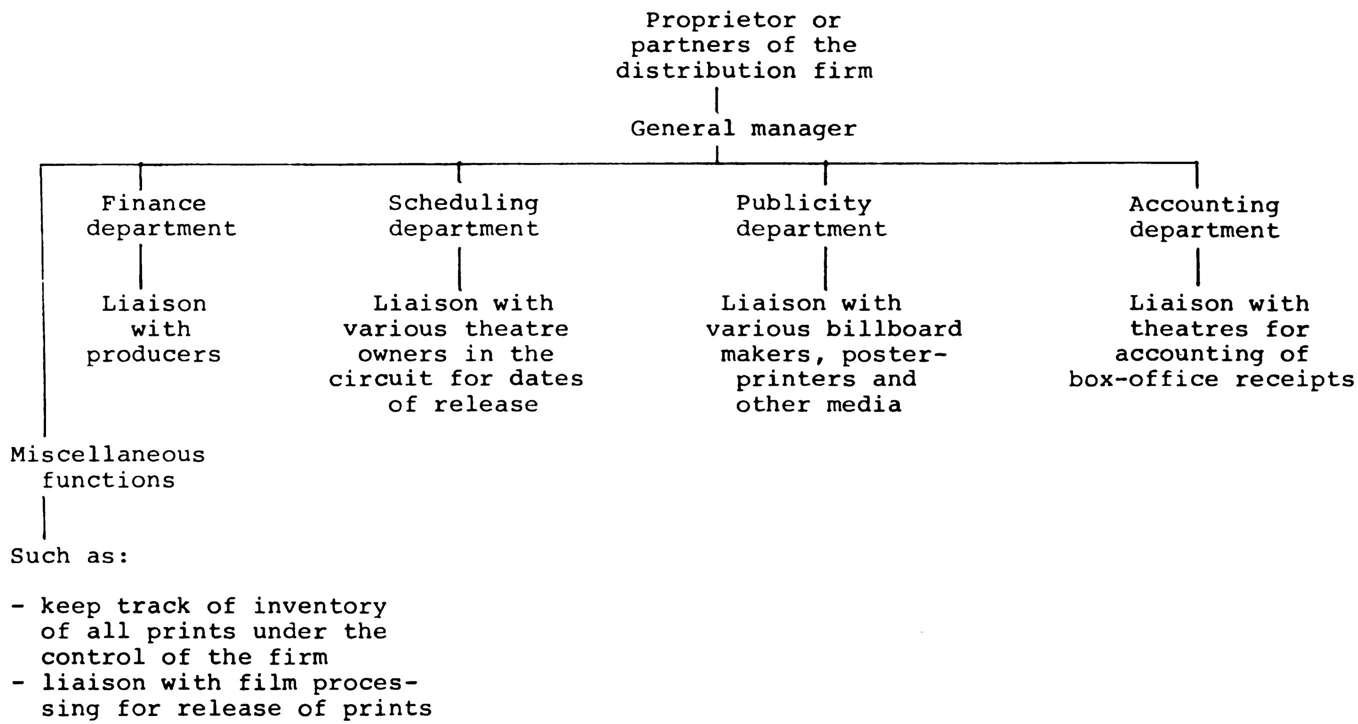
All distribution firms in India are either proprietorship or partnership concerns. Some have nationwide organization, but most are single units. There were some 1,200 companies employing over 10,000 persons in the motion picture distribution business in 1970. The estimated capital invested in films that year was more than Rs. 350 million ($47 million). Most of it came from the distributors. In India, they perform two important functions: (1) they help finance the films by giving advances to the producers during production; and (2) they help secure release of the films in important exhibition outlets in their territory.

Distributors are equivalent to wholesalers. These are the middlemen in marketing who add time, place and possession utilities to a product.

Every distribution firm has a general manager. He is in charge of the overall activities and decision making processes of the business. It is his responsibility to decide which films the firm should provide finances to, which films are to be released when, and what the terms of contract with individual cinema-owners are going to be. He normally has a number of people employed to assist him in making these decisions by gathering all pertinent information.

EXHIBIT V

Organizational Structure in the Distribution Sector



Note: This is a functional diagram of a typical distribution firm. Based on personal interviews with various distributors of Hindi films and data provided by Indian Motion Picture Distributors Association.

One important function is to select those movie producers whose projects the company may be interested in backing. Persons responsible for this keep an alert eye on various announcements of films being launched by producers seeking finances. They look at the star cast, the story, the reputation of the producer and use their judgement towards the success potential of the film. If it is a new producer, they insist on seeing a few reels of the film already shot before making any decision. A list of such projects is provided to the manager upon whose approval money is advanced to the producers in return for the exploitation rights of their films upon completion in the distributor's territory.

The next important function is to schedule the release of films available with the distribution firm at various theaters. Acute shortage of movie theaters in India has made it very difficult to get a release when desired in the appropriate location. There are always more films ready for release than there are movie theaters free to show them. For these reasons, it is extremely important for a distributor to keep a constant on-going relationship with some key theater owners in his territory.

Post-production publicity of the film is the distributor's responsibility. Depending on the terms of agreement, he may later deduct the amount from the producer's share of collections, but initially it is to be accounted for and paid by the distributor. Therefore, every distributing concern has men in constant touch with various publicity firms who prepare and place newspaper ads, print posters, paint billboards and make large wooden hoardings to be mounted on sites in high traffic areas. Outdoor advertising is most common in India. It is indeed hard to find a wall facing a street in Bombay which is not covered by announcements of "coming attractions."

To account for collections at the box office is also the distributor's responsibility. His men, in close cooperation with the theater owners, calculate among other things the state government's share of the weekly collections (entertainment tax), the theater rental for the week, and the "overflow."[12] In fact, distributors can be called the accountants for the industry because they keep track of not only their own revenues but also the producer's, the exhibitor's, and the government's.

There are many other miscellaneous functions to be performed in a distribution firm. Many movies have re-runs; many prints are given on loan to other territories. Film processing labs are to be contacted if more prints are desired. Some men are assigned to these tasks and to keep an inventory of all films whose exploitation rights are owned by the firm.

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[12]These terms are explained in the following section on Current Trade Practices.

The schematic diagram in Exhibit V shows the arrangement of functions just described. In the Exhibit, these functions are grouped under various departments. It is not intended to convey the impression that all distribution firms have these separate departments. Nevertheless, they all have to perform these functions regardless of their organizational structure.

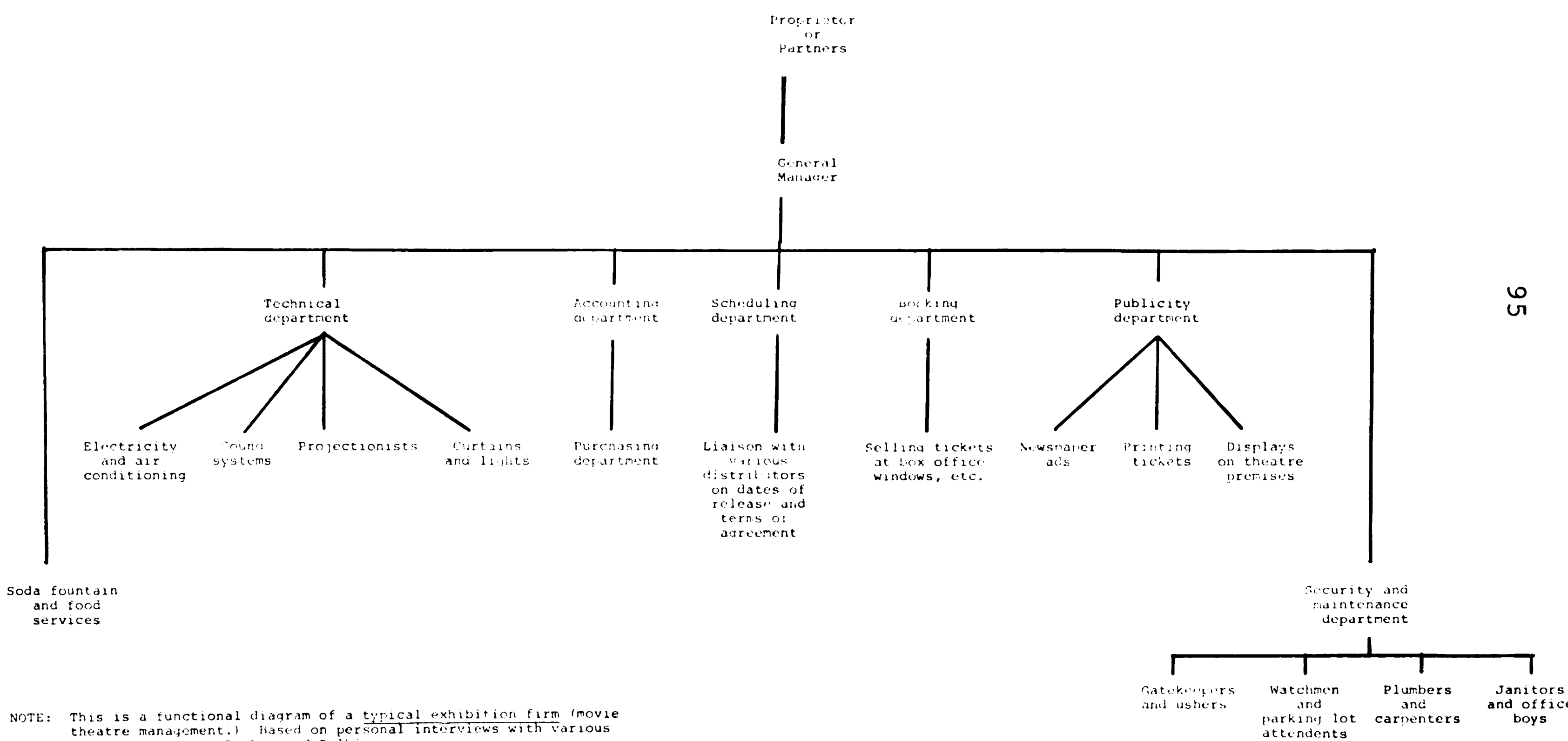
Organizational Structure in the Exhibition Sector (Exhibit VI)

This is the largest sector of the industry from the point of view of capital invested and number of persons employed. In 1970, there was an estimated capital investment of more than Rs. 500 million ($67 million) in the exhibition sector employing more than 90,000 people. Growth of cinemas in India has been very slow. On the basis of recommendations of various film inquiry committees appointed by the Government of India from time to time, there should have been one cinema for every 20,000 population. Working on this ratio, today India should have close to 28,000 movie theaters, whereas the latest available figures show only 7,400 (see Table 2). This severe shortage has virtually made the exhibitor the kingpin of the industry.

Most exhibition firms are also proprietorship or partnership concerns. Generally, the management pattern followed is that of centralized direction and control with the word of command going directly from the top to the

EXHIBIT VI

Organizational Structure in the Exhibition Sector



NOTE: This is a functional diagram of a typical exhibition firm (movie theatre management.) Based on personal interviews with various theatre owners in Bombay and Delhi.

concerned department. The general manager is the overall in charge for administrative and technical supervision. Under him are seven major departments performing a variety of functions.

The technical department is responsible for the trouble-free functioning of the sound system, projectors, curtains, lights, etc. The electric power shortage in the country has forced many big theaters to use their own generators so that essential functions can be continued. Air conditioning is important to movie theaters because it becomes an additional motivation for the man in the street to take refuge from the intense Indian heat during the summer. The technical department employs engineers to keep these operations running smoothly.

The accounting department is responsible for working in close cooperation with the distributor's office to calculate the entertainment tax, the theater's rental (on a percentage basis or a fixed amount per week), and the left-over to be paid to the distributor whose film is running at that time. Also, it has the responsibility for acting on purchase requisitions from other departments.

The scheduling department has liaison with various distributors on dates of release and terms of agreement. It decides whether the same film should continue for another week or a new one be released.

The booking department runs the box office. A number of booking clerks sit in different windows selling different priced tickets before each show. All seats are reserved so they have to keep track of which seats have been sold in advance and which are available at the time of the show. Advance booking is a common practice to avoid disappointment at the door. It is the responsibility of the head booking clerk to decide how many days before the announced release of a film advance booking should open.

The publicity department places the daily newspaper advertisement about the current program at the theater. They also arrange the displays on theater premises. It is common to have huge life-size plywood cuts of different postures of the stars mounted on prominent locations over the theater entrance. The amount of effort spent by movie theaters in India on what is called "point-of-purchase" advertising is just unbelievable. Many times when a big film's release is announced, even special tickets are printed with pictures of scenes from the film. All these functions are performed by the theater's publicity department.

The amount of traffic through the premises of the theater being very large, a security and maintenance department is needed to keep things in order. Gatekeepers and ushers see to it that only ticket holders come in. Watchmen, parking lot attendants, plumbers, carpenters, and janitors are necessary for any establishment heavily used by the public.

Food service providing popcorn, snacks, soft drinks, ice cream, etc. are essential during intervals. Most Indian films, being at least two and one-half hours long, have a fifteen minute break for intermission. Usually the theater management subleases this soda fountain business in return for rent and a percentage of the revenue.

Before screening the regular feature, it is mandatory for every theater to show a few shorts provided by the Films Division, Government of India. It is also mandatory to play the national anthem at the end of each show. Advertisers like this opportunity of capturing an attentive audience, so a number of advertising shorts are also shown before the feature. This is additional revenue for the theater.

Exhibition of movies in India has so far been a very profitable business. Scarcity of cinema houses and increased film production has made the task of the distributor very difficult. Many films have to wait for months to get a release in a choice theater. This amounts to increased costs because of interest expense on blocked funds. Theater owners do not hesitate to exploit their favorable situation in dictating terms to the distributors.

There are a variety of reasons why more cinemas are not coming up in the country. These and other issues will be discussed in the following sections on current trade practices and the Government's role.

Current Trade Practices

In this section, trade practices currently prevalent in the motion picture industry in Bombay are discussed. Bombay film producers have their own unique ways of conducting business somewhat differently from those of regional film producers. As mentioned earlier, there are a number of other production centers in India specializing in producing various regional language films. These films, however, have very limited markets, primarily confined to specific regions (where the spoken language is the same as the language of the film). On the other hand, Hindi films have nationwide appeal since their language is understood by the majority of people. Bombay is called the film capital of India for two reasons: (1) it is the leading production center for Hindi films, and (2) quantity wise, films made in Hindi top the list of films produced every year. (See Table 4)

The first hurdle every producer has to overcome in order to get his movie project off the ground is to arrange for capital. There are very few producers who can completely finance their own films: most have to rely on capital available from outside sources. Surprisingly, for such a speculative business, there is an abundant supply of it--but at exorbitant rates of interest (36 percent or more per annum). It is probably the glamour of the industry and the relatively quick turnover of invested capital that attracts many money lenders.

TABLE 4

CLASSIFICATION OF FILMS PRODUCED
ON THE BASIS OF LANGUAGE

Language	1965	1966	1967	1968	1969	1970
Hindi	97	100	82	72	100	102
Tamil	56	62	65	68	70	76
Bangali	29	30	25	29	29	34
Telugu	50	37	61	76	59	71
Marathi	14	12	20	17	16	20
Gujarati	5	2	3	3	6	5
Kannada	22	21	24	36	44	37
Malayalam	31	32	39	35	31	44
Punjabi	5	4	5	2	4	1
Others	16	16	9	12	8	6
Total	325	316	333	350	367	396

Source: Indian Motion Picture Almanac: 1971 (Calcutta, India: Shot Publications), p. 857.

The entire amount estimated for the making of a film is not required right at the very start of production. Unlike other manufacturers, it is possible for the producer to start and carry on the production of the picture with a relatively small amount and to manage the funds as it makes progress. Usually, the financier provides no more than 20 percent of the estimated cost of production. His risk is covered in one of two ways:

1. The producer transfers the "negative" of his completed film in the name of the financier. He sends a letter to the processing laboratory authorizing the withholding of the negative in the name of the financier until

his investment is recovered with interest. It means that no monetary transactions for the film can be made without the financier's consent.

2. The producer gives a lien on a particular territory to the financier. It means that when the processing laboratory delivers the prints to the distributor for the mortgaged territory, first the financier is paid with interest from the delivery amount, and then the remaining amount, if any, is credited to the producer's account.[13]

With the initial working capital (partly from the financier and partly from the producer's own resources), preliminaries, such as hiring various members of the unit, paying the signing amount to the stars, purchasing some raw stock, renting equipment, etc., are taken care of and the film gets into the production stage. With a few reels completed, rush prints are made to be shown to prospective distributors. The estimated budget is presented and negotiations are held with various distributors to represent seven territories. These territories are not along state lines. Historically, these circuits developed around main production centers according to transport convenience. Even though production centers relocated, the distribution circuits have remained the same for no other reason but tradition.

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[13]Laboratories in India act as more than mere processing plants. They collect, pay, deliver and store on behalf of the producer.

The seven distribution territories are as follows (see Exhibit VII):

1. Bombay circuit: This includes the state of Gujarat and part of Maharashtra (the districts excluded are Akola, Amravati, Bhandara, Buldana, Nagpur and Yeotmal, which belong to C.P.C.I.), Union territories of Goa, Daman and Diu, and Dadra and Nagar Haveli.

2. Delhi-U.P. circuit: It has the states of Uttar Pradesh, Haryana, Himachal Pradesh, Jammu and Kashmir and the Union territories of Delhi and Chandigarh.

3. C.P.C.I. circuit:[13] States of Madhya Pradesh, Rajasthan, and some districts of Maharashtra (mentioned under Bombay circuit) are included in this territory.

4. South circuit: It includes the states of Tamil-Nadu, Andhra, Mysore, Kerala, and Union territory of Pondecherry.

5. Bengal circuit: It comprises the States of West Bengal, Assam, Orissa, Bihar, Meghalya, Nagaland, N.E.F.A., and the Union territories of Manipur, Tripura and Andaman Islands. It also includes the neighboring countries of Nepal and Bhutan.

6. East Punjab: It includes the state of Punjab.

7. Overseas: All other countries except Nepal and Bhutan.

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[14]C.P.C.I. stands for Central Province and Central India. U.P. stands for Uttar Pradesh.

EXHIBIT VII

Present Territorial Distribution

The rights of exploitation of the film in each territory are given on a minimum guarantee basis. Almost nobody now sells his film outright to a distributor. A minimum guarantee is the amount of money a distributor must pay to a producer in order to obtain the distribution rights of his film for a given circuit regardless of how the film does at the box office in that territory. This ensures the producer at least partial and sometimes full coverage of his risk. Fifty percent of the agreed amount of minimum guarantee the producer collects during production. When a distributor is signed for a territory he is required to make a down payment to the producer. Then as the film progresses installments are paid. The sum of down payment and installments does not exceed fifty percent of the minimum guarantee until the picture is complete. The remaining fifty percent is paid by the distributor at the time of delivery of prints. There is no standard operating procedure for determining the amount of down payment and the number of installments. Each distributor is treated differently and a number of subjective factors come into play. Nevertheless, there is a generally accepted procedure for calculating the amount of minimum guarantee for each circuit. The percentages shown below are based on the exploitation potential depending on the strength of the target market in each territory. Each territory does not have the same number of people who are likely to see a Hindi movie. For this reason, percentages in all territories are not the same.

It should be kept in mind, however, that the following breakdown is based on the judgement of distributors in business for many years. It is not an outcome of scientific research conducted by the industry.

Minimum guarantees for:

Circuit	Percent
Bombay	18.0
Delhi-U.P.	18.0
C.P.C.I.	15.5
South	11.0
Bengal	15.5
East Punjab	8.0
Overseas	14.0
Total budget presented by the producer	100.0

This total budget usually includes all the estimated costs of production plus 5 to 7 1/2 percent producer's margin.[15]

The advance amounts paid by the distributors add to the working capital needed to complete the film. If the loans from the financier, advances from distributors and personal finacial resources of the producer are not enough, quite often the processing laboratories, raw stock suppliers, studio and equipment renters come to the producer's rescue by extending credits for the payment of services rendered. The laboratory, with whom the producer has gone into a contractual agreement about the processing of his

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[15]Percentage breakdowns are on the basis of data provided by Rajshri Pictures (Pvt.) Ltd., Bombay, a leading nationwide distribution firm.

film, at times provides financing up to Rs. 100,000 in the form of raw stock. The producer is expected to pay 12 percent per annum interest on the amount borrowed. The laboratory's risk is minimal because they have possession of the negative. They can refuse the release of any prints if the amount is not paid according to agreement.

Once the film is complete and all accounts are cleared usually twelve prints are released to each territory upon collection of the remaining fifty percent of minimum guarantee (called delivery amount) from the distributors. The release date in various territories may be different. The first week of release is considered most important. Big films may get a simultaneous release in twenty-five theaters in big cities and then be withdrawn from all the rest except one or two theaters after the first week. For these big releases, distributors need more than twelve prints during the first week. It is a matter of mutual understanding between distributors to borrow the extra prints from the territory which has a different date of release. The charges are nominal (Rs. 500 per extra print per week), and it is more a friendly gesture of favor in the expectation of a return favor when the other distributor needs it.

The exhibitors usually charge a fixed amount per week as their rental. Due to the shortage of theaters in India, they can dictate their terms and get away with it.

They take a big chunk out of the box office collections. As an example, the following figures are presented for a leading cinema house in Bombay:[15]

Rate: 4 shows per day, 28 shows per week, all full house

	Rs.	Percent
Gross collections at box office	125,000	100
Entertainment tax	65,000	52
Net collections	60,000	48
Theater rental	35,000	28
Balance	25,000	20

So a very small percentage of the total box office collection gets to the distributor. After the film's first run is complete in a territory, the distributor's accounting department adds up the total amount collected from all exhibition outlets after payment of rentals and taxes. Twenty percent of this amount the distributor keeps as his commission. From the remaining eighty percent, after subtracting the minimum guarantee paid by the distributor and all the publicity expenses incurred by him, what is left over is called the overflow. This overflow is then divided equally between the producer and the distributor.

There are some theater owners who state their terms and conditions in a different manner. They charge as weekly

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[16]Its name is being withheld on specific request of the theater management.

rental fifty percent of the net collections (total box office receipts minus the entertainment tax) or a fixed protection amount, whichever is higher. The protection amount acts as a sort of minimum guarantee for the exhibitor. It is designed such that the theater owner does not share the distributor's losses but has a part in his profits.

From the foregoing description of the trade practices in the movie industry, it would seem a surprise why every industrialist in India does not go ahead and build a theater. After all, which other business could be more lucrative than the one with guaranteed income and almost no risk? The following section on the government's role throws some light on the reasons for cinemas not mushrooming in India. It discusses the interaction of the government with business aspects of the film industry at each of the three stages of production, distribution and exhibition.

The arm of the government dealing with creative aspects of the industry in the form of censorship, state awards, training at the Film and Television Institute, etc. is not the subject of inquiry in this thesis, and, therefore, any discussion of that is purposely omitted from the next section.

The Government's Role

The overall controlling authority in matters concerning the motion picture industry is at the central Government level in the Ministry of Information and Broadcasting. There are a number of agencies at the State and local levels also responsible for licensing and taxation of businesses engaged in production, distribution and distribution of motion pictures.

The first encounter of a film-maker with the government is in the planning stages of production. It is necessary to present a letter from a processing laboratory, stating that it has taken the responsibility for processing of the proposed film, to the Joint Chief Controller of Imports and Exports (J.C.C.I.) in order to get the permit to purchase raw stock of negative film, sound film and positive film from authorized importers. Sometimes it is also necessary to attach consent letters from important members of the production unit informing J.C.C.I. of their agreement to work in the proposed film. This is required to distinguish a genuine producer from a bogus one. Almost all raw stock being imported is dispersed in controlled quantities. A permit is helpful in preventing bogus producers from buying raw stock and selling it at extremely high prices to the genuine ones. Also, all the raw film is not released at once. It is released in small quantities upon filing a consumption report of the previous usage.

The permit is not released unless the producer signs a bond promising replenishment of the amount of foreign exchange used by the export earnings of his film.

All raw stock is channeled through Indian Motion Picture Export Corporation (IMPEC), an agency of the Ministry of Information and Broadcasting. Over and above import duty, the producer has to pay two and one-half percent service charge to IMPEC.

Once the film is completed, there is an excise levy on exposed film. Depending on the number of prints taken from the negative, excise duty is paid by the producer to the Central Government. Then the film has to be passed by censors, again a central subject in India, for which fees are to be paid by the producer. These taxes cannot be passed on to the consumer. They have to be absorbed in the cost of production.

Once the film is released in a theater, all box office collections are subject to entertainment tax. This tax is collected by the State Governments and the amount of taxation varies from State to State. It is levied at rates varying from 25 percent to 150 percent of the net admission rates. The price of a ticket is calculated as the sum of the net admission rate and the entertainment tax. Even though this tax is paid by the consumer, it increases the price of the ticket and adversely affects the demand. On top of entertainment tax, most local governments charge a show tax levied on collections from each show.

In a recent decision taken by the Government in 1972, all film exports have to be channeled through the State Trading Corporation (an agency of the Central Government under the Ministry of Foreign Trade). Two and one-half percent commission is to be paid in advance by the exporter on the face value of the exports.

Following is a list of different kinds of taxes paid by the motion picture industry to the various levels of government. These taxes are applicable to the motion picture industry only. Other taxes, such as income tax, wealth tax, property tax, sales tax, etc., which are common to all other industries also, are not included in this list.

Taxes imposed by the Central Government

1. Import duty
2. IMPEC service charges
3. Excise levy on exposed film
4. Censorship fees
5. Export commission
6. Rentals on documentaries and newsreels supplied to the theaters for mandatory exhibition

Taxes levied by the State Governments

1. Entertainment tax
2. Licensing fees for cinemas

Taxes charged by local governments

1. Show tax

The relationship between the government and the industry has always been anything but cordial. Although the importance of films as the most powerful medium of mass contact has been recognized unanimously by all quarters of the government, no move has been made to assist the trade in taking care of its legitimate grievances.

One problem the industry has had for years is the lack of institutional finance. No banks or government bodies would invest in a film production under any conditions. Financing available from private sources is at prohibitive rates of interest. It is often argued that film production involves considerable risk; but even movie theaters which provide gilt-edged security for an investor because of its land, building and equipment, are not financed by banks or government agencies.

Another problem is the scarcity of cinema houses due to the rules governing licensing of cinemas in various states. All licensing rules should be administered by one single authority to enable quicker decisions. At present, as many as eight different authorities have to accord sanction before construction can begin. It takes an enormous amount of time and causes a lot of difficulties because of the unnecessary bureaucratic red tape. It is not unusual for an applicant to pay his licensing fee and wait for two years to even get a "no" from the authorities.

Motion picture industry in India is the most heavily taxed industry in the country. Not even a small percentage of the tax revenues earned from it are ploughed back to the industry for its benefit. Recently the state of Punjab took over the ownership of all cinemas in the state, and it became a matter of grave concern for theater owners all over the country. By setting such a precedent, the threat of nationalization started looming over the industry. Most of the industry's ills can be attributed to shortage of cinema houses and their shortage is due to lack of availability of proper financing, threat of nationalization, and an excessive amount of bureaucratic lag in getting licenses. Time and again, industry's back has been broken by extremely heavy taxation.

The Government is responsible for many of the industry's current woes. In spite of earning handsomely from it without much effort, the Government in its priorities has not given the industry its rightful place. Instead, it has been used as a milch cow and it is still waiting to be recognized by the government as a legitimate industry. It is not considered an art, for then it would not be taxed, nor an industry, for then it would be financed. It is probably the moralistic Gandhian philosophy that has influenced the national leaders to think of entertainment as a luxury rather than an important social necessity for the people.

CHAPTER IV

CHANNELS AND FLOWS: THE DESCRIPTIVE ASPECT

Introduction

In order to find out how much marketing is performed in India's motion picture industry, it is necessary to understand the arrangement of relationship among individuals and institutions engaged in those activities and functions which are within the scope of marketing. In the first chapter, it was suggested that these functions can be converted into flows for purposes of analysis.[1] It is our endeavor in this chapter to present schematically the patterns of flows of ownership, physical possession, communication, financing and payment. In the preceding chapter, functions performed within the organizational structures of production, distribution and exhibition sectors of the industry were outlined. For an understanding of the functions performed between the sectors, it is important to restructure the participating elements in succession in the direction of the flow under investigation. When all the five flows are charted in this manner, the existing

[1]Chapter I, p. 16.

structure of channels in India's motion picture industry clearly emerges. Then factors responsible for the existing structure of the channels are identified by examining the environment in which these channels operate. As Bartels put it, "Distributive systems are indigenous to their environment."[2]

This chapter attempts to provide answers to the first two of the five questions undertaken by this research in its effort to describe, analyze and evaluate the marketing of motion pictures in India.[3] These answers underlie the descriptive aspect of this study.

Physical Possession Flow

Exhibit VIII shows the flow diagram of the individuals and agencies involved in the physical possession of the film. It starts out with three different kinds of raw films which are needed to make the finished "release prints." The negative film is what is known as camera original. It is the one loaded in the camera when scenes are being shot. Usually the "audio" is recorded on a quarter-inch magnetic tape and then transfered to a soundfilm which can be edited and synchronized with the picture.

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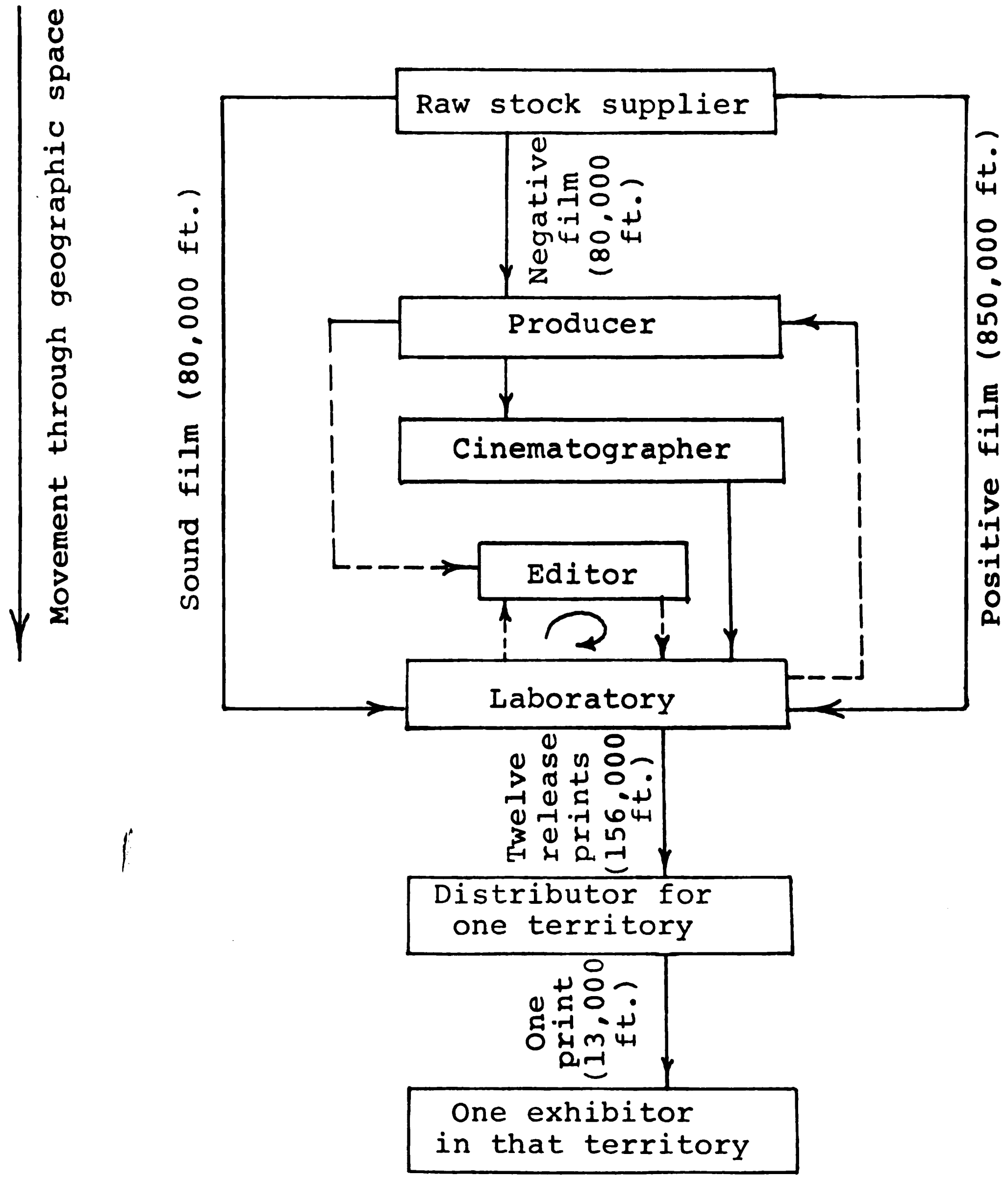
[2]Robert Bartels, "The Dimensions of Marketing Thought," in Kelley and Lazer, eds., Managerial Marketing: Perspectives and Viewpoints (Homewood, Illinois: Irwin, 1958, p. 411.

[3]These questions are listed and explained in Chapter I, pp. 7-11.

EXHIBIT VIII

Channel for Physical Possession Flow



NOTE: 1. This diagram is based on information provided by Mr. Wadia of Bombay Laboratories (Pvt.) Ltd, a leading firm in the business of motion picture processing and sound recording in India.

2. This flow is primarily a movement through geographic space even though every movement through space is also a movement through time, because each has some lapse of time associated with it.

The third kind of raw film is known as positive raw film on which printing is done from the processed negative. The edited positive and the edited sound film are then synchronized and put together to form the release-prints with sound track. On the average 80 reels of negative film are needed in the making of one motion picture about 13,000 feet long in its finished form. Each reel of raw stock contains 1,000 feet.

The producer after obtaining the necessary permit from J.C.C.I. purchases a total of about 80,000 feet of raw negative from the raw stock supplier in various installments as needed. The film is then passed to the cinematographer who loads it in his camera for the shooting. The exposed reels are then given to the processing laboratory for development of negative. The editor picks up the developed negative for sorting and returns it to the laboratory for rush-prints after editing the NGs.[4] He then also edits the rush-prints which are given to the producer from time to time by the lab for showing to the distributors how the film is progressing.

The sound film and the positive film are supplied directly to the laboratory by the raw stock supplier on

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[4]In the jargon of the film industry, NGs are "not good" takes. The director takes each shot a number of times and then keeps the best one for final print. The editor discards the NGs. The ratio of NGs to "good takes" varies from director to director. On the average it is about 5 to 1.

instructions from the producer. Since the audio recording is continuously going on while the negative is being shot, the footage requirement for sound film is almost the same as that for negative film. The requirement for positive film is much higher. For nationwide distribution usually about 60 release prints are necessary. So at the rate of 13,000 feet for the length of a finished release print, 780,000 feet of positive film is needed for this purpose. Over and above this, 60,000 feet of positive film is needed for rush prints while filming is in progress and another 10,000 feet is kept for miscellaneous reasons such as making "trailers" etc. for advertising purposes. An average commercial Hindi film, therefore, may require close to 850,000 feet of positive film.

The interaction between laboratory and the editor is very frequent. After the editor has completed editing of the rush prints in final form, the laboratory provides one finished print to the producer for showing to the censors. Their suggestions are forwarded to the editor along with the print in order to incorporate the changes recommended by them. Once this is taken care of, the laboratory releases an average of twelve prints per major territory.[5]

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[5]Out of the seven territories mentioned earlier, "overseas" usually gets 16 mm. prints. They are not included in the sixty prints mentioned here. Also East Punjab and South are quite often lumped together for distributing twelve prints. Each of the other four territories get twelve prints each, making a total of sixty prints.

Thus each territory gets 156,000 feet of film, which the distributor divides among various theaters--each one of them getting one print (13,000 feet) for screening.

The flow diagram shown in Exhibit VIII outlines the movement of the film from production to release. The participating elements in this diagram are those who actually take physical possession of the film. Even though the direction of the main flow is forward, there are some auxiliary backward flows to facilitate certain functions as explained earlier. The diagram shows only one distributor and one exhibitor for lack of space. It is applicable for every distributor and every exhibitor in the country. The magnitude of flow in terms of the length of film is shown in the diagram for an average film. The duration of the flow depends on the number of films produced every year. For each film it is a one time flow. Each time the same set of events and the same flow is repeated.

The "channel captain" for the channel, from which the flow of physical possession takes place, is undoubtedly the "film processing laboratory." It is the enterprise which administers, coordinates and controls most of the activities undertaken in this channel.

Ownership Flow

The ownership flow is one of the intangible flows of marketing through the distribution channel. It has been defined as a succession of transfers from one person to another of ownership rights over goods as they move from extraction through processing to consumption. This particular flow is extremely important in distribution because the successive owners that appear in it make the most meaningful decisions concerning what shall be done with and to the goods involved.[6]

The ownership flow is strongly influenced by whether or not there is a tangible product. Whereas it is quite easy to identify the transfers of ownership for products which are primarily goods with service support, it is an extremely difficult task to even understand this flow for products which are mainly "services" with "goods" support. For pure services, a true ownership is impossible because what is produced cannot be owned. Buying and selling remain extremely important, but the flow problems become different from those created by tangible goods.

These difficulties in delineating the ownership flow for those products which are towards the service end of the "goods-service" continuum, arise primarily due to the fact that the term "ownership" has been conventionally defined in a very narrow fashion to include only transfer of title. Leases and rentals are quite common now even for

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[6] R. Cox, C. Goodman, and T. Fichandler, Distribution in a High Level Economy (Englewood Cliffs, New Jersey: Prentice Hall, Inc., 1965), p. 34.

such "hard" goods as automobiles, and it does not involve transfer of title.[7] The owner, however, transfers to the renter a degree of control almost equal to that of ownership. The principal difference is that control passes not permanently and irrevocably, but for only a limited period, after which it reverts back from the renter to the owner.

The flow of ownership should therefore include transfer of control and transfer of the responsibility and authority for making the major economic decisions. The participating elements in the ownership flow are those who face the direct consequences of making these decisions. The members of this channel divide the fruits of success and share the risks of failure.

With the definition of the term "ownership" broadened in this manner, the peculiar difficulties encountered in the transfer of control for the motion picture in India can now be discussed.

From the point of view of consumers, motion pictures are primarily services with goods support. Physical commodities used in the performance of the services can best be considered as having been marketed to the service agency rather than to the consumer.[8] The service agency in this

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[7]"Hard" goods refer to those products which are primarily goods with some service support.

[8]R. Vail, E. Grether, and R. Cox, Marketing in the American Economy (New York, N.Y.: The Ronald Press Co., 1952), p. 164.

case is the theater which performs the service of providing entertainment for its customers.

The primary task of transfering the ownership breaks down into two parts: first, to set up a sequence of ownership; second, to determine how wide a span shall be covered by each successive ownership in the channel. The idea of span covers both the number and the variety of units embraced under a typical ownership at any level of the channel. When a film moves from one ownership level to another, it is likely to be dispersed among a larger number of ownerships so that there are more individuals sharing the risk.

Transfers of ownerships in a channel become more complicated when contracts of various sorts are used such as agreement which provides for a reversion of ownership rights after a specified period and arrangements under which the seller retains some part of the rights which ordinarily would be passed along to the new owner.

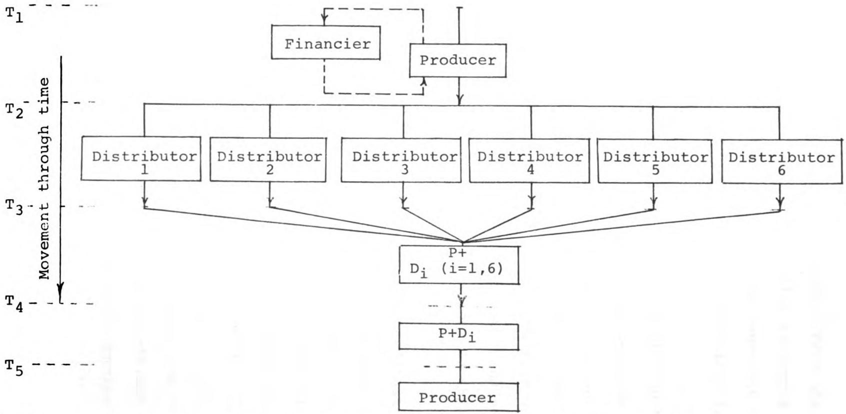
As mentioned in an earlier section on Current Trade Practices, the complete transfer of ownership is almost non-existent these days in India's film industry. Producers and distributors engage in such contractual ownership transfers as the ones discussed above. If by ownership of a film it is meant to find out who owns the master negative from which prints are made, the answer will be either the producer or the financier, depending on what kind of agreement has been made between them for payment of the loan. But it is more worthwhile from the marketing viewpoint to define the ownership of a film as the control over the right to exploit its market potential. In that case the distributor comes into the picture.

When the film's production begins, the only owner is the producer. Then he borrows money from the financier. The financier will not take part in the ownership flow if all he had to cover his risk was a lien on a particular territory. A lien does not entitle him to ownership. It is like being a tailor who has made a suit for a customer who does not pay. All that tailor can do is to withhold delivery of the suit until his bill is settled. He cannot use the suit himself. It is a different thing, however, if the producer transfers the "negative" rights of his film to the financier in order to borrow money. In such a case, the financier does exercise total control on all monetary transactions and economic decisions until such time as his loan is recovered with interest. After that the ownership goes back to the producer. Such a contractual relationship between the producer and the financier is indicated by the dotted lines in Exhibit IX.

The flow of ownership is primarily a movement through time. Movement through space also takes place because different owners are located at different places in the geographic space. At time T_1, the producer procures

EXHIBIT IX

Flow of Ownership



NOTE: 1. This flow is primarily a movement through time, even though the movement through space is associated with it.

2. Distributor seven for "overseas" is not included in this exhibit.

the raw stock from the appropriate source. From that point in time until time T_2, when the film is completed and prints given to various distributors, the ownership belongs to the producer except for the situation described in the preceding paragraph.

From time T_2, when the distributors pick up their prints for exploitation in their respective territories to the point in time they recover their minimum guarantee, their publicity expenses, and their commission, the ownership belongs to the distributors. This is because until then the producer has no share in the revenues and he does not make any financial decisions. In Exhibit IX this point is shown as T_3.

Only to simplify matters, it is assumed that all distributors recover their minimum guarantees, etc. in the same amount of time. It is usually not the case. Some may never get to T_3. Nevertheless, conceptually, the flow of ownership takes place in this fashion even though the value of T_3 may differ from distributor to distributor. Typical calculations for T_3 are shown in Appendix A.

After T_3, the "overflow" begins, which was defined as the revenue left over after deducting the minimum guarantee, publicity expenses, and distributor's commission. If T_4 represents the time when the first run of the film in all territories is over, then between T_3 and T_4, the ownership is joint between the producer and distributors from each territory. As explained earlier, the overflow amount is divided equally between the producer and the distributor.

Very often there is a stipulation in the contract between producer and distributors about a time period after which the exploitation rights for the film revert back completely to the producer. Suppose that point in time is indicated by T_5. If the film reaches point T_4, all the minimum guarantees are covered and most publicity expenses have also been taken care of. From T_4 to T_5, the producer usually gets about 40 percent of additional net collections from reruns, etc.[9] These calculations are also shown in Appendix A. After T_5, the ownership flows back to the producer.

Now that we have discussed the sequence and span of the flow of ownership in the channel, it is important to identify its direction, duration and magnitude. In "time space" the direction of movement is forward, but in "geographic space" the movement is circular for the flow of ownership. It starts with the producer and gets back to him after a period of time. From the distributor's point of view, the duration of the channel is "repeating" because each one of them is a participant in such a flow with many

[9]"Net collections" refer to the amount left over from box office receipts after paying entertainment tax and theater rental.

producers. From the producer's angle, it is a one-time channel because with each new film, a new set of distributors may be sought. The channel participants may change but the flow takes place in the same manner. Since we defined "ownership" as the right to exploit the market potential for a film, it is meaningless to measure the "magnitude" of flow through the channel. Perhaps the magnitude at the distributor's level could be measured as the number of films for which each distributor has the rights of exploitation at one point in time, but such a measure will be irrelevant to the channel representing the flow of ownership for one film.

The distributor takes the maximum amount of risk in the channel. The producer's risk is at least partially covered by the minimum guarantees, but if the film does not run for T_3 amount of time, the distributor has to bear the consequences. Therefore, the distributor is the most active participant in the channel in order to avoid sustaining a loss. He administers the channel by controlling most of the activities undertaken. The distributor is the channel captain in the ownership channel.

Exhibitors are conspicuously absent from the ownership channel because they normally charge fixed rentals and do not share the risk. Peculiarity of the nature of the product of the motion picture industry has resulted in a unique ownership channel quite different from those commonly found for tangible durable goods. Nevertheless, the flow does take place and the control and authority over making major decisions does get transferred from one participating element to another in the channel.

Financing Flow

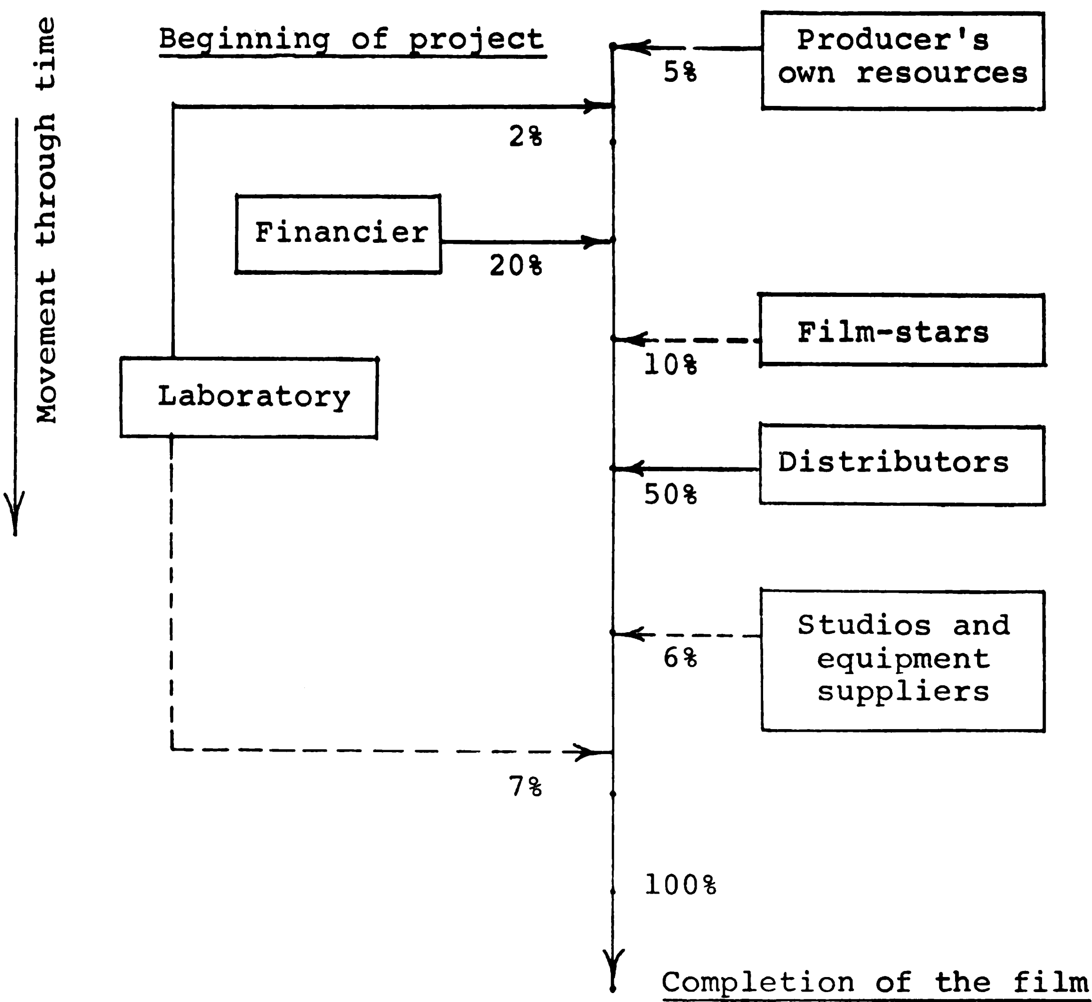
Film-making in India is an expensive proposition. It requires huge capital outlays and no established financial institutions such as banks and insurance companies are willing to participate. A typical Hindi film made in color with popular stars can cost anywhere from Rs. 3.5 million to Rs. 6.0 million. Very few individuals can put together that much money on their own and take the complete risk. The question of arranging finance, therefore, is of vital importance to anyone who wishes to produce a film.

The motion picture industry in general, except in state-controlled economies operates on borrowed funds. In India, its system of financing is very haphazard and it is governed by anything but economic principles. A number of subjective forces come into play, and it takes all the persuasive skills of the producer to accumulate capital and receive credit. In such a state of affairs it is no small task to even detect, let alone identify, a channel through which the flow of finance takes place. There are as many ways of raising funds as there are producers, so in exact terms no generalizations are possible. For these reasons, it would be presumptuous to even attempt suggesting the flow chart for financing of motion pictures. However, it is possible to present a flow diagram representing the agencies and individuals involved in providing capital and extending credit to the producer in order that his film gets completed. Exhibit X is such a diagram. The percentages shown on the chart are not totally arbitrary. They are rough estimates based on information collected by this researcher from a number of producers. What is presented in the flow diagram is what was found most frequently in the data. Nevertheless, a word of caution is necessary right at the outset in order to avoid putting absolute faith in the numbers given here. The percentages can vary a great deal depending on the reputation of the producer, his previous successes, his relationship with the people involved and his contacts with prominent personalities. Our inability to get exact numbers should not, however, undermine the importance of systematically following the sequence of the flow of financing.

There are two ways a project requiring a large amount of working capital can be financed. One is to borrow funds from others to run the project and the other is to get the services of people involved in the project on credit until such time as the project starts bringing in revenues. A producer uses both of these methods to get his film completed. The turnover of capital in the motion

EXHIBIT X

Flow of Finance



Note: 1. Financing for a film is done in one of two ways:
   a) by providing capital;
   b) by extending credit.

Those agencies and individuals who provide capital are connected with solid lines to the flow in this diagram. Those who give some or all of their services on credit are shown connected with broken lines.

2. This is only a flow chart for finance and not the flow chart.

picture industry is relatively fast. Therefore, extension of credit from film stars, studio owners, equipment suppliers and processing laboratory owners for their services can be a very crucial factor in the successful completion of a film.

The flow diagram shown in Exhibit X is drawn for the period extending from the time the producer purchases the raw stock to the time the film is completed and prints are ready to be delivered to various distributors. In this movement through time, a number of activities related with financing take place.

To start with most producers use some of their own resources to purchase a story and sign the artists for key roles. The signing amount is only a small fraction of the payment the stars receive when the film is completed.

The producer then goes to the laboratory to sign a contract for developing of negative and processing of print. For this he has to pay a signing amount of Rs. 2000 in order to get a letter required for obtaining the permit to purchase raw stock. At this point in time, the laboratory can provide financing up to Rs. 100,000 in the form of raw stock needed at the rate of 12 percent per year, if the producer so desires.

The producer, now equipped with raw stock and the promises of work from key members of the unit, goes to the financier who may provide working capital, usually up to

20 percent of the budgeted cost at a rate of interest of 36 percent per year. Even though this amount is shown in the diagram as a lump sum payment at one time, it is usually given in various installments as the film progresses. The distributors start providing advance payments totaling up to 50 percent of the budgeted cost in various installments after seeing a few "rushes" from the film. This is not considered a loan and no interest is charged for it.

Now comes the credit part of financing. This is usually provided to established producers by film stars, studio owners, cameras, lights, and other equipment renters and the laboratory. The amount paid to major stars in a typical Hindi commercial film is a substantial part (as high as 33 percent) of the total budgeted cost. If they agree to take only part of it during the shooting and the remaining after the film is completed and delivered, it can amount to as much as 10 percent of the financing of the film. Similarly if the laboratory does the processing work on credit and agrees to wait until the film is delivered to the distributors for the collection of its bill, it can be a great help to a producer with a tight working capital. Whereas a reputed producer enjoys these credit facilities and can launch a film with as little as only 5 percent of its budgeted cost from his own resources, a new producer's financing burden can be as high as 25 percent. The difference is mostly accounted for by lack of availability of credit.

Once the film is completed and prints delivered to various distributors, from the delivery amount received (sometimes as high as fifty percent of the budgeted cost of the film), the producer starts paying back his loans. This delivery amount, which has been explained earlier as the difference of the minimum guarantee and the advance payment by the distributors, is decided upon in the very early stages of production between the producer and the distributors. If for some reason the actual costs run higher than the budgeted cost, the resulting loss is incurred completely by the producer. It is important for the producer to complete a film as soon as possible and get an early release, otherwise the mounting interest charges can be sufficient to throw the budget off its delicate balance.

The participating elements of the channel are shown clearly in Exhibit X. Beyond the point in time when the film is completed and delivered to the distributors, there is really no flow of financing. Almost all the risk then belongs to the distributor. No more financing is required for the film's release from outside sources because once it is shown in the theatre, returns are instant and revenue keeps flowing in from box office receipts. In this matter, motion pictures differ considerably from consumer goods which once sold to the retailer can sit on the shelf for a long time before gradually picking up sales. On the contrary, if a film in India does not draw full houses in its first few weeks, it never will cover its costs. It is very unusual for any new film not to attract a capacity crowd at least during the first week of its release. The patronage gradually tapers off in the succeeding weeks.

The direction of the flow in geographic space is "backward" because most of the financing comes from the distributor who is at a later stage in the sequences of operations than the producer in the making of a film. Also the laboratory, which again comes at a later stage in the sequence of operations, provides financing to the producer. The magnitude of the flow is given in percentages. Rupee figures are not used here for the budgeted cost of a film because they vary a great deal from one film to another. The duration of the channel is "one-time" and the channel members disband once the project is complete. A new project requires a new set of negotiations to form a channel. The channel captain is again the distributor who in conjunction with other distributors from other territories provides the bulk of the flow of financing in the motion picture industry.

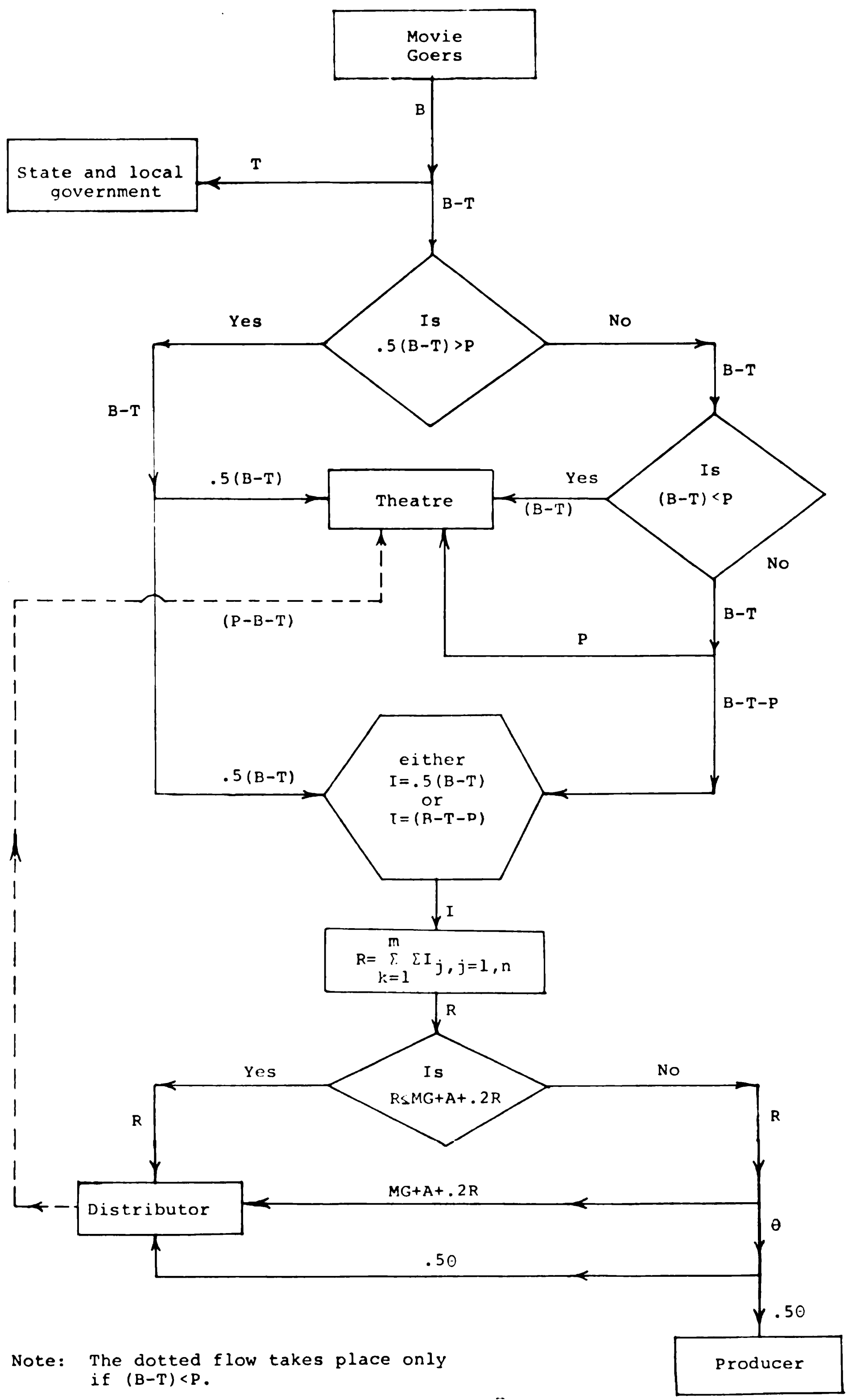
Flow of Payment

In the ultimate analysis, it is the movie-goer who pays for his entertainment and by doing so collectively provides the source of funds from which the government, the theater owners, the distributors and the producers receive their respective shares according to pre-arranged terms. The flow of payment originates from the movie-goers and works its way backwards to the producer. There are a number of leakages on the way in this pipeline and unless the input to it is substantially large, the leakages may be sufficient to drain the flow completely and the other end may not even receive as much as a trickle. Exhibit XI graphically shows the manner in which this flow takes place, the stages at which the leakages occur, and the amount of flow required at the input end in order to even get to the output end.

The input to this system occurs when the movie-goers go to a theater and purchase tickets, thus contributing to the weekly box office receipts donated by "B" in the exhibit. The state and local governments have the first claim from these receipts in terms of the entertainment tax and the show tax and it is represented by "T." The remaining amount (B-T) is the magnitude of the flow of payment at the stage when comparison is made between the weekly protection figure (P) demanded by the theater and fifty percent of this amount (B-T). If 0.5 (B-T) is greater than P, the theater charges this amount as its weekly rental and the remaining amount 0.5 (B-T) flows to the next stage of the channel. On the other hand, if 0.5 (B-T) is less than P, a check is made whether (B-T) is less than P, because if it is, not

EXHIBIT XI

Flow of Payment



Note: The dotted flow takes place only if (B-T)<P.

only the entire amount goes to the theater owner, but also the distributor for the territory has to put up the difference (P-B-T) shown by the broken line in the Exhibit. If (B-T) is equal to P, the whole amount for the week goes to the theater owner as rental and the magnitude of the flow is zero after this point in the channel. If, however, B-T is greater than P, the magnitude of the flow after the theater rental payment for the week is B-T-P. Let us denote the magnitude of this flow, whether it is .5 (B-T) or (B-T-P) as I. It represents the income from one theater for one week after paying taxes and rental. If the film has a first run for "n" weeks in one theater, (ΣIj, $j=1$, n) represents the total income from this theater at this stage in the flow of payment. More commonly, a film is released in many theaters in a territory to reach its potential audience, and in each one it has a first run of certain number of weeks which may vary from theater to theater. Suppose the film was released in "m" theaters in this territory having a first-run of "n" weeks in each theater (n being a variable); the term $\sum_{k=1}^{m}\Sigma\ Ij$, $j=1$, n represents the total amount collected from all theaters in the territory at the end of their first run after paying their rentals and the government's share of taxes. This amount is denoted by "R" and it is the magnitude of the flow of payment when it reaches the distributor from the territory. If the value of R is less than or equal to the sum of minimum guarantee (MG) advanced by the distributor to the producer, the advertising expenses (A) and the distributor's commission (20 percent of R), then this amount in its entirely goes to the distributor. If, on the other hand, R is greater than the sum mentioned above, the amount (MG + A + .2R) goes to the distributor and the remaining amount Θ, known as the overflow, is divided equally between the producer and the distributor. (See Appendix B)

The participating elements in the flow of payment are identified in the flow chart presented in Exhibit XI. The government is shown in the diagram away from the main channel because it is only a recipient from the flow and not a participant in it. The direction of the channel is obviously "backward" because it starts from the consumer and works its way back to the producer. The duration in at least part of the channel is "repeating" even for one film because the calculation for "I" is done on a weekly basis. The diagram shown in the exhibit is only for one territory. Exactly the same flow process takes place in other national territories also and the producer is a participant in all those "Θs." To extend this concept to all territories, the receipt of payment by the producer on a nationwide basis can be represented by the following mathematical expression: ($\sum_{i=1}^{6} 0.5\Theta_i$ · where $\Theta \geq 0$). The magnitude of flow in the channel has been pointed out at various stages in the diagram as well as in the preceding discussion.

The channel captain in the flow of payment is the exhibitor because he is the one who receives, controls, and coordinates the distribution of revenue earned at the box office as a result of payment by the movie-goers.

The flow diagram presented in Exhibit XI is a faithful reproduction in an organized manner of the information gathered by this researcher regarding the flow of payment from a variety of sources in the film industry.[10] The industry, however, uses no flow chart or computer facilities to calculate its distribution of income. No previous attempt has been made to study it as such, and no theoretical models are available to ease its toilsome accounting efforts. A lot of cheating goes on, and the producer has little more to rely on than the distributor's spoken word. Except for the variable "B," which can be fairly accurately estimated from the counterfoils of the printed tickets sold at the box office, all of the variables are susceptible to manipulation by members of the channel. And manipulated they are quite frequently to absorb the "black money" payments. How it is done is a matter of subsequent discussion in an appropriate section.

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[10] Mr. Tarachand Barjatya, the proprietor of a large vertically integrated firm engaged in production, distribution, and exhibition of Hindi films, was one such source who was extremely cooperative.

Communication Flow

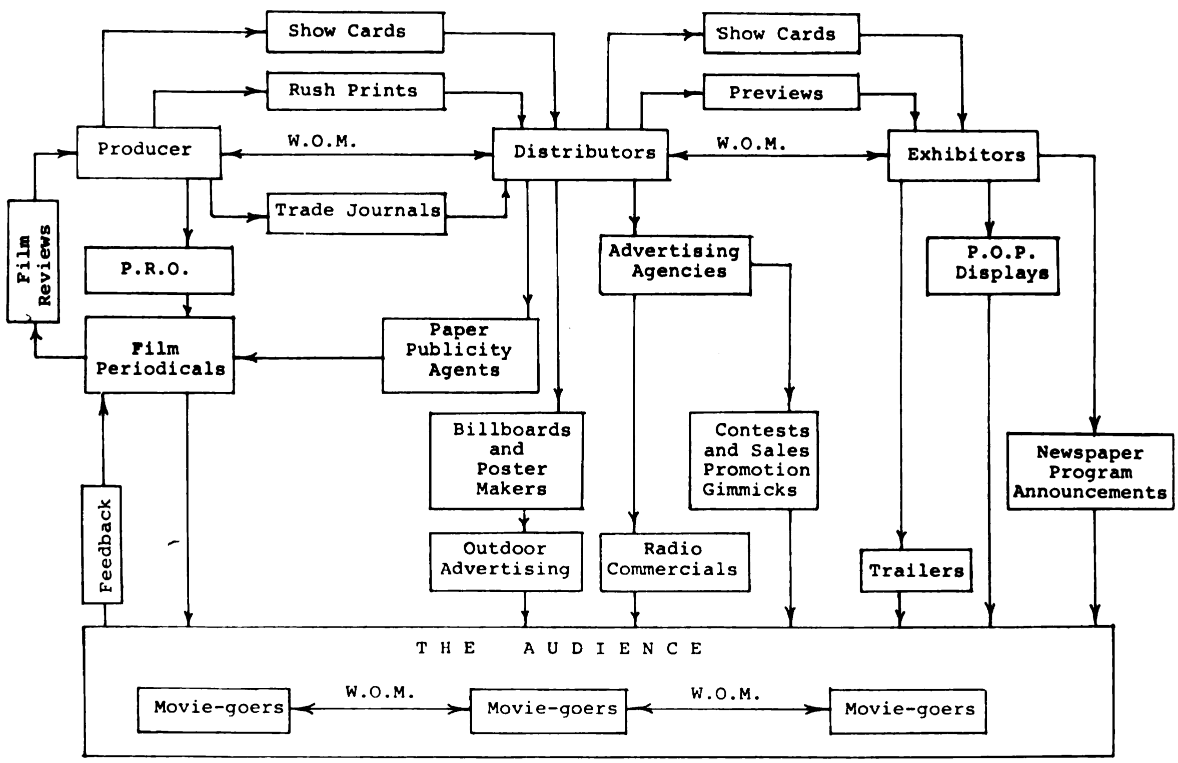
Promotional impulses, aimed at getting a desired favorable response towards a film from various participating elements in the channel, primarily constitute the intangible flow of communication. These impulses are sent through a variety of media, but a somewhat unique situation exists in the case of the motion picture industry, its product being an extremely potent medium itself.

As communication theorists would point out, the task of disseminating information for the source becomes much easier when the receivers are eager to receive it. The motion picture industry in India enjoys such eager receivers, as evidenced by increasing circulation and continued popularity of fan magazines, film periodicals, and gossip columns. There were some 315 of these in publication in 1972 dealing exclusively with the subject matter of film-life ranging anywhere from the announcement of a new production venture to the affairs of a popular movie star. So high is the "cinema-consciousness" in the Indian masses that few topics of common interest will generate more participation in any social gathering than the subject of movies. "Word of mouth" advertising, therefore, becomes an essential element of the communication mix of a motion picture in its effort to reach the potential audience.

Exhibit XII represents the flow diagram according to which the flow of communication takes place in India's

EXHIBIT XII

Communication Flow



Note: W.O.M. denotes Word of Mouth; P.R.O. denotes Public Relations Officer; and P.O.P. is Point of Purchase.

motion picture industry. Not only are there promotional impulses moving within the industry between its three sectors, but also a great deal of effort is made by each sector for communicating to the public.

When the film is in its production stage, a great deal of communication takes place back and forth between the producer and the distributors by word of mouth (W.O.M.). Also during this time, under the producer, a member of the production unit known as the Public Relations Officer (PRO) is active releasing stories and incidents about the shooting to the various film periodicals for publication. Through them, fans and readers around the country become familiar with the name of the film and start looking forward to its release. While the film is being shot, still-photographers employed by the unit prepare a number of show cards from the "highlights" of the film. With the help of these show cards and "rush prints," the producer tries to convince and persuade various distributors about the quality of his project in order to obtain minimum guarantees for territorial exploitation rights of the film. He may also advertise the names of important members of the production unit in trade journals such as The Film Industry and Kay-Tee Reports circulated among the members of the industry in order to attract inquiries from distributors.

Once the film is completed and delivered to the distributors, they engage in heavy pre-release publicity.

In fact, the bulk of the advertising budget for a film is spent prior to its release. After the release it is mainly at the mercy of word-of-mouth communication between the movie-goers. The distributors usually take out full page ads in a number of film periodicals announcing the date of release through the help of what are known as Paper Publicity Agents.[11] They charge the distributor a fee for preparing layouts and also get commission from the media for buying space. Distributors also employ the services of billboards and poster designers and printers for outdoor advertising, a medium used extensively by the film industry in India. Some producers of big-budget films also use advertising agencies to prepare radio commercials and to devise contests and other sales promotion gimmicks before and after the release of their film during its first run.

Communication between distributors and exhibitors takes place in three ways. Word of mouth, of course, is most predominant. Also, distributors present showcards to be used for display purposes on theater premises and make arrangements to show "previews" of the film to theater owners in order to persuade them to release the film in their theater.

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[11] This researcher interviewed two such individuals prominent in Paper Publicity: (a) Mr. Colin Pal of "Up-to-Date Publicity," and (b) Mr. V. P. Sathe of "Bombay Publicity."

The exhibitors promote the film to movie-goers in three ways: they screen the trailers of coming attractions to lure the audience; they put up the point-of-purchase displays on theater premises in the form of life-size paintings, cuts and photographic "blow-ups;" and they advertise their program announcement every day of the week in local newspapers.

Once the film is released, the most overpowering influence is "word-of-mouth" communication among the audience. In this respect, motion pictures once again differ considerably from tangible consumer products. Whereas the acceptance or rejection of a consumer product by one individual may not have a substantial influence on the choice of another individual, films require collective appreciation because they are exposed to a number of people at one time. The "feedback" in terms of audience reaction is usually provided in the form of letters to the editors of "film magazines" and from published "reviews" of the film by various critics.

Communication flows are very important for the marketing of a motion picture because the right promotional mix can sometimes make the difference between a "hit" and a "flop." The flow being intangible, it is impossible to measure its magnitude except in monetary terms. As much as 25 percent of the cost of production of the film may be budgeted for publicity expenses in India. An accurate estimate is very difficult to get because this is the account commonly used to absorb most of the expenses incurred due to black-money payments. Thus the income statements of production firms presented for tax purposes almost invariably include an inflated figure for publicity expenses.

The direction of the flow of communication is "two-way," with promotional impulses typically moving forward from producer to the movie-goers, and their reaction flowing backward as feedback to the producer. The duration of the channel is repeating with messages going back and forth constantly between the participating elements of the channel. The channel captain in this flow is the distributor because it is his responsibility for the most part to publicize the film not only to movie-goers but also to various theater owners in his territory.

Factors Responsible for the Existing Structure of Channels

Once the present structures of the channels carrying the five flows are clearly outlined, the next logical step is to find out why these channels have evolved as they did. A historical perspective in the preceding chapter attempted to trace the environment in which these various channels took shape. But an explanation of the present structure of channels discussed in this chapter should also include an examination of the goals of society and of channel members, the inputs of efforts and resources required by the channel system, the result of these inputs, and the constraints which have been instrumental in determining these channel structures.

In a democratic process, the government elected by the people sets up the goals and objectives of the society. Prime Minister Mrs. Gandhi recently stated that profit motive cannot be accepted as the criterion for directing economic growth in India. She advocated a policy of self denial by those who were better off than the rest of their countrymen.[12] India's economic goals have been set along socialistic lines, in which the profit motive of the "better-offs" is subservient to the service of the large majority of the economically backward sections of the society. In simplistic terms, the philosophy which regards "self denial" as a great virtue expects those who have succeeded in meeting their basic needs of food, clothing and shelter to deny themselves the satisfaction of other higher Maslovian needs and work towards the satisfaction of the basic needs of their fellow men. In a society whose leaders believe in this philosophy, the sociological needs of an individual such as entertainment and leisure get a very low status in the Government's scheme of

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[12] Excerpt from a speech given by Mrs. Indira Gandhi to the annual general meeting of the Federation of Indian Chambers of Commerce and Industry in April, 1973.

priorities. Therefore, it is small wonder that India's commercial film industry, whose primary aim has been to satisfy these "unfavored" needs, has received a "step-motherly" treatment from a Government whose goals are not quite compatible with the goals of the industry.

No one can deny the existence of profit motive in the film industry, but being an interface of art and business, it consists of commercialism as well as dedication. If the industry were given some assistance by the Government to stabilize itself, there would perhaps be a greater sense of dedication and less of commercialism. Instead, it works under a number of constraints which have forced the channels to take their existing structures. In the following paragraphs we shall take a look at each one of the channels discussed earlier in this chapter from the point of view of the constraints which shaped them.

The structure of the channel for physical possession flow evolved in its present form because of the restrictions on the import of raw stock for the motion pictures. The shift in audience tastes towards color films forced the producers to buy color stock which is not produced in the country. Shortage of foreign exchange necessitated requirement of a Permit to be issued only at the assurance of a laboratory that the producer is genuine. These constraints resulted in the emergence of the laboratory as the channel captain, engaged in administering, controlling and coordinating the entire channel, and not merely an agency employed to process the film.

The flows of ownership and financing developed under the adverse conditions of the unwillingness of traditional financial institutions to provide capital for the working of the industry. Increased taxation, high rates of interest and the rising costs of production made it impossible for a producer to generate enough capital on his own to produce a film. The risk had to be shared with and divided among a number of distributors who became the primary source of funds in the industry. This resulted in the currently prevalent practice of minimum guarantees and the distributor emerged as the channel captain actively administering both the channels of ownership and financing.

The acute shortage of movie theaters in the country has made the exhibitor the most powerful member of the channel through which the flow of payment takes place. He can demand his terms and participate in the profits without sharing the risks. The government, trying to squeeze as much as possible from this superficially prosperous industry, has diverted a large part of this flow towards the state treasuries in the form of entertainment taxes. The construction of more new theaters in the country has been hampered by the low priority status assigned to giving licenses for this purpose by the government in accordance with the goals it has set for the society.

The communication flow has taken its present shape because of the geographical separation between production centers and exhibition outlets. Distributors are the middlemen bridging this gap. They are close to the producers as well as the movie-goers in their territory. They are in the best position to know the available release dates in a theater as well as the expected completion date of a forthcoming motion picture. It is not surprising, therefore, that the distributors administer, coordinate and control the communication channel which carries the flow of information about a film to various individuals and agencies participating in the channel.

The aggregate channel with the production and marketing efforts of producers, distributors and exhibitors provides a creative input to a society in the form of motion pictures aimed at satisfying the entertainment needs of its members. The need exists even though its satisfaction is not given high priority by those responsible for determining the goals of the society. For this reason the industry operates in an unfavorable environment which results in peculiar channel structures for its survival. The results of this industry's input to the society could be divided in proportion to the input efforts of its individual members if there were no constraints. These constraints ultimately determine the various channel structures and provide the perspective for the understanding of why the channels evolved as they did.

Conclusion

This chapter started out with the stated objective of providing the descriptive aspect of the study of motion picture marketing in India. In order to do this, two questions needed to be answered: (1) What are the existing structures of channels in India's motion picture industry? and (2) Why have the channels taken these existing structures?

The flow charts outlining the channels of physical possession, ownership, financing, payment and communication attempted to answer the first question. Then, the preceding section attempted to answer the second question by explaining the present channels in the light of those objectives, inputs and constraints which have been instrumental in giving the channels their existing structures.

CHAPTER V

MEASUREMENT OF MARKETING: THE ANALYTICAL ASPECT

Introduction

The analytical aspect of this study is concerned with the measurement of marketing work performed in the span of time stretching from the procurement of raw film to the screening of the completed motion picture. During this period a number of activities take place, some adding form utility to the film and others essential for providing the time, place and possession utility to it. These latter activities appear to be of special interest to us in order to separate the production costs from the marketing costs, although one could perhaps argue that utility is an "all or none" proposition from the consumer's point of view. Each of these activities taken separately have no utility to the consumer. For example, a finished motion picture not finding proper release facilities or an unfinished film with an established distribution network is of little use to the movie-goer for the satisfaction of his entertainment needs. All of these conditions must be met by the film in order to have any utility for him.

If we take this viewpoint, it becomes unnecessary to try to distinguish production from marketing, and the word marketing then takes a broader, more general meaning to include production as an activity within its spectrum and not separate from it. It is even more difficult to draw a line between the end of production and beginning of marketing for products which are primarily services with some goods support. As pointed out in Chapter I, a motion picture is regarded as such a product by its consumers (the movie-goers).

Motion pictures are viewed collectively by a number of people at one time. The price of the product to them is the amount they pay for admission tickets. This price is not determined on the basis of the producer's cost plus the middleman's mark-up. If that was the case, as with most tangible consumer goods purchased individually by households, it would be relatively easy to separate the production and marketing costs from the per unit price of the product. In a somewhat unique situation of the motion picture industry, where the admission charges are usually fixed and based on such considerations as willingness and ability to pay, the sole determinent of whether a film will break even is its ability to attract a large number of people. Therefore, different measures of marketing costs and different indicators of marketing work are necessary instead of the traditionally used figures calculated by the "per unit price minus per unit cost of production approach" for most consumer goods.

In the first chapter, three such indicators were suggested to count the number of units of real work performed, with a belief that the task assigned to marketing takes the form of organizing and regulating a number of different but related flows. Also, there are monetary indicators of the dimensions of marketing work such as the costs of publicity, financing and transportation, and the distributor's commission.

Real and Monetary Indicators

Three real and two monetary indicators were selected to measure the amount of marketing work performed in the movement of a film from the point of procurement to the place of screening. They are as follows:

1. The number of days taken to procure the film, process it and move it on to the theater.

This is an indicator of the overall dimensions of the job in real terms. Data was collected for each member of the sample by counting the number of days elapsed between the date of application for raw stock to the date of release in the Bombay circuit. It not only includes the actual time required in planning, shooting and processing of the film but also the waiting time caused by bureaucratic hold-ups at the government level, lack of availability of immediate shooting dates from free-lance artists (who work in many films at one time), and the delay in release due to the heavy demand for limited exhibition facilities.

2. <u>The rupee-days of investment accumulated in the film as it moves from first procurement to final screening at the theater</u>.

This is an indicator of the opportunity cost involved by measuring the size of funds tied up for a period of time when they could be utilized elsewhere.

As mentioned in Chapter IV during a discussion of the flow of financing, the entire amount estimated for the production of a motion picture is not required right at the very start of production. Capital is borrowed and credit is forwarded as and when needed at various stages of production. Also, not all the available funds require payment of interest on them. To overcome these difficulties, preliminary data analysis was done which resulted in the following simplication:

Let 'T' be the span of time extending from the date of application for raw stock to the date film is ready for censor certificate and let 'F' be the total funds invested in the film during this period taking into account all capital expenditures regardless of the sources of these funds.

This amount F is divided into a number of installments f_1, f_2, f_3, . . ., f_n borrowed at different points in time t_1, t_2, t_3, . . ., t_n respectively, measured from time t=0 representing the date of application for raw stock. After time T, all the available sources of funds have been utilized and the film is ready with an invested capital of F. Let T' denote the time lag between censor certification and the first premiere in Bombay circuit.

Then, the total rupee-days of investment =

$$f_1 \cdot (T-t_1)+f_2 \cdot (T-t_2)+f_3 \cdot (T-t_3)+\ldots+f_n \cdot (T-t_n)+f \cdot T'$$

Initial data analysis indicated (Exhibit XIII):

$$f_1 \cdot (T-t_1)+f_2 \cdot (T-t_2)+f_3 \cdot (T-t_3)+\ldots+f_n \cdot (T-t_n) \simeq F\ \frac{(0+T)}{2} = F \cdot \frac{T}{2}$$

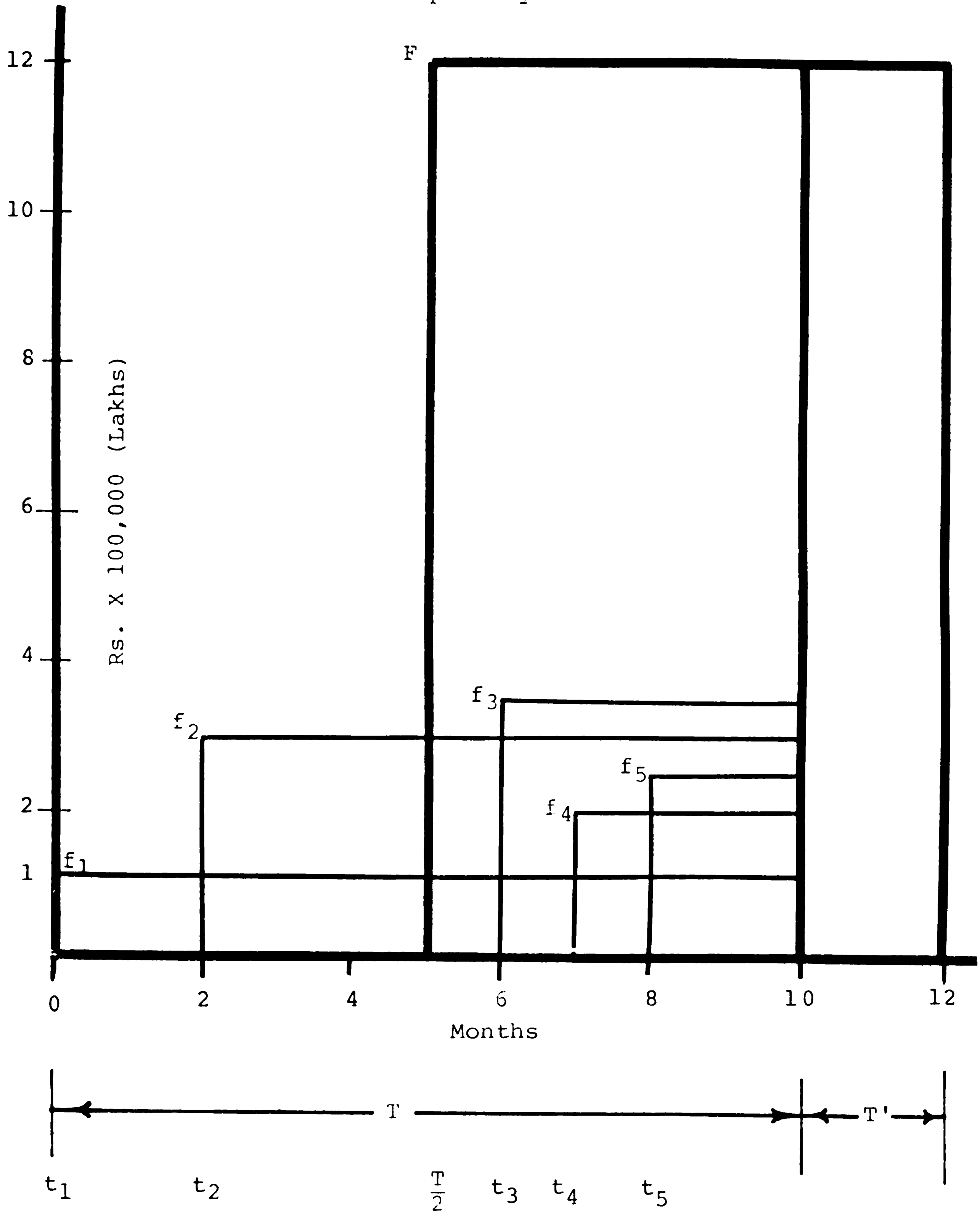
So a simplified measure of the indicator for capital tied up in a film in real terms is given by: $F \cdot (T/2+T')$ rupee-days. This data was also collected for each member of the sample.

3. <u>The number of owning and non-owning business entities that participate in procurement, processing and handling the film as it moves from place of procurement to the movie theaters</u>.

The data for this indicator was obtained with the help of physical possession and ownership flow charts (as illustrated by Exhibits VIII and IX in Chapter IV), for each member of the selected sample. The non-owning agencies include those who act as agents to bring about

EXHIBIT XIII

Measurement of Rupee-Days of Investment



transactions, such as the raw-stock suppliers, as well as those who have operating control over the film owned by others, such as the laboratories. An entity is defined here as a legal business unit together with any affiliates in the same ownership. In real terms this indicator is a measure of the degree of vertical integration in the channel. Higher the degree of integration, smaller will be the value of this indicator.

In counting the number of units of this indicator, we shall confine ourselves to only those theaters which show the film for the first time in a particular geographical area such as an identifiable city or town. The following example is presented to show how the value of this real indicator is calculated.

Suppose for its first run a film gets a nationwide release in seventy-two theaters, after being distributed through six distributors by its producers. Also, suppose the raw-stock supplier and the processing laboratory are the only two non-owning entities participating in the flow of procurement, processing and handling of this film.

Then,

the total number of units of Indicator No. 3 =

$$72 + 6 + 1 + 2 = 81$$

Now, if the producer had a vertically integrated organization (commonly known as a "combine" in India's film industry) which not only owns the production firm but also has distribution companies in two territories and controls six theaters for the release of his film in each of the two territories, then these (1 + 2 + 12 = 15) units are combined under one business entity.

In such a case,

the total number of units of Indicator No. 3 =

$$81 - 15 + 1 = 67$$

4. The publicity expenses.

Managing the flow of communication is a primary function of marketing. The cost associated with it, therefore, is naturally a strong monetary indicator of the marketing work performed.

The data available from the accounts maintained by the distributors for tax purposes regarding publicity expenses is almost always completely erroneous and misleading. These amounts are highly inflated deliberately for two reasons: (1) the "black money" payments to the "stars" cannot get a direct entry in the account books, and (2) the illegally paid high rate of interest cannot be shown in the account books.

This researcher was extremely fortunate in overcoming these difficulties and getting accurate information about the required data because of his personal contacts with some highly influential people in the industry. It took a lot of convincing that accurate data was needed for an academic study to be meaningful and that confidentiality of the sources will be maintained. In the early stage of this study it was anticipated that these problems may force the researcher to settle for percentage estimates of costs rather than actual amounts. Such a recourse was not necessary once the initial rapport was established. The data presented in this chapter about publicity expenses as the monetary indicator of marketing is in actual figures. It represents the total amount spent nationwide on multi-media advertising prior to the release of each film selected in the sample.

5. The interest paid.

An uninterrupted flow of financing is imperative to the successful completion of a motion picture. In facilitating transactions, transmittal of the burden of financing and risking to various agencies in the channel is the task of marketing. The amount of interest paid is the cost of performing this task. Hence, it can be used as a monetary indicator of the magnitude of work done by marketing.

However, not all the interest paid on borrowed funds can be attributed to marketing. A significant amount is paid for capital used in production, and that should be regarded as production cost. Strictly speaking, only the interest paid on funds required to perform marketing services such as publicity, transportation etc. should be used as an indicator of marketing cost. Since an important function of marketing is to provide time utility, the amount of interest paid for the waiting time after the completion of production and before the release of the film should also be included in this monetary indicator.

Unfortunately, the producers' account books did not make such a distinction between the interest paid for production and the interest attributable to marketing alone. Data was only available for the total interest paid. It is recognized that in its aggregate form this data is at best a crude monetary indicator of marketing work. However, it will be useful in comparing the overall efficiency of operations of one production firm with the other.

Although this amount is almost always manipulated downwards in the producers' account books, the data presented in this chapter is accurate to the best of this researcher's knowledge. The figures tabulated under this heading represent the total amount of interest paid on borrowed funds for each film selected in the sample.

Other Possible Indicators

Distributors are the middlemen who add time and place utility to the motion picture. So the amount they charge as their commission should be attributable directly to the cost of marketing. In spite of its usefulness as an important monetary indicator, the data for distributor's commission could not be used in this research for the following reason.

The distributors charge their commission as a percentage of the revenue. Such an arrangement makes this part of the marketing cost go up with an increase in the revenue. Since all members of the sample were randomly selected from the films released in 1972, some of these motion pictures had not completed their first run when this researcher was collecting the data. Therefore, an accurate account of the total revenue from the first run was not available for all members of the sample. Distributor's commission being twenty percent of this revenue, complete data on this monetary indicator was not available at the time of research.

Transportation costs can also usually be included in the monetary indicators of the work performed by marketing. However, they are rather insignificant compared to other marketing costs in the case of motion pictures because of the relatively light weight and small bulk of the product.

Exhibitors' theater rentals should also be included in marketing costs, but since the revenue (R) for a film (see Exhibit XI) has been defined as the amount remaining after deducting taxes and theater rentals from the box office receipts, they are treated as though they do not affect the operating statement in calculating the total cost of a film.

Table 5 is presented to give some idea of the allocation of costs to the production and marketing functions of a commercial Hindi film after its nationwide first run has been completed. This film is not one of those randomly selected in the sample.

TABLE 5

ALLOCATION OF TOTAL COSTS FOR A HINDI FILM

Head of Expenditure	Rs. X 100,000	Percentage
Production costs:		
Star cast	12.0	21.0
Junior artists	1.5	2.6
Story and direction	3.5	6.2
Music	3.5	6.2
Raw stock	4.0	7.0
Laboratory charges	1.5	2.6
Studio, etc.	5.0	8.8
Total production costs	31.0	54.4
Marketing costs:		
Publicity	10.0	17.5
Interest paid	3.5	6.2
Transportation	0.5	0.9
Distributors' commissions	12.0	21.0
Total marketing costs	26.0	45.6
Total cost of the film	57.0	100.0

Description of Population

From the very outset of this research it was realized that its dimensions will have to be dictated by time and cost considerations. It becomes necessary, therefore, to make a precise definition of the population which is both meaningful and manageable.

India produces films in many languages. When we talk of India's motion picture industry in general, we are talking about four hundred and some odd films made in as many as ten different languages at three major production centers of the country. The industry is quite heterogeneous because motion pictures made in different languages at different production centers encounter different kinds of problems. This is not to imply that they have no common grounds at all, but differences outnumber the similarities and few sweeping generalizations are possible. So a meaningful analysis of the cost structure is not possible without isolating a part of the industry which is homogeneous, with one language and one production center.

Classification of films produced on the basis of language was presented in Table 4, Chapter III. It clearly indicated that films made in Hindi have always ranked highest in the quantity of production. They also enjoy the largest potential market as evident from Table 6. Hindi films are not only seen by Hindi-speaking people but also by many others throughout the country. Table 7 shows Bombay as the leading production center for motion pictures made in this language. IMPPA records indicate that 88.4 percent (92 out of 104) of these films produced in Bombay in 1972 were in color.

TABLE 6

CLASSIFICATION OF THE POPULATION ON THE BASIS OF LANGUAGE SPOKEN (1961)

Language	No. of Persons Speaking (in millions)
Hindi (includes Urdu, Sanskrit)	157
Tamil	30
Bengali	34
Telugu	38
Marathi	33
Gujarati	20
Kannada	17
Malayalam	17
Punjabi	11
Others (includes Assamese, Oriya, Kashmiri)	25
Total	382

Source: India 1971-72, a reference manual, Publications Division, Ministry of Information and Broadcasting, Government of India, New Delhi.

Note: No such data is available after 1961.

TABLE 7

OUTPUT OF HINDI FILMS ACCORDING TO PRODUCTION CENTERS

Year	Bombay	Calcutta	Madras	Total
1972	104	1	22	127
1970	88	1	13	102

Source: Based on data collected from the files of Indian Motion Picture Producer's Association, Bombay (IMPPA).

In defining the boundaries of a manageable but meaningful population, the above-mentioned facts strongly suggest the inclusion of Hindi films produced in Bombay in color with an appeal to the mass market. Since this researcher began collecting data in the last month of 1972, many films produced in 1972 had not been released and very little data was available on their marketing indicators. Because of this, data was collected for films released in Bombay in 1972.

To summarize, the population consists of the following characteristics:[1] (1) motion pictures made in Hindi language, (2) filmed in color, (3) having mass appeal, (4) produced in Bombay, and (5) released in 1972 in the Bombay circuit. The size of the population so defined is equal to 85.

Selection of the Sample

In order to measure the magnitude of the marketing work required to be performed in the motion picture industry, we could count the three real and two monetary indicators for each of the eighty-five members of the population and calculate an average value for every one of these indicators. Such an effort, even though possible,

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[1]As pointed out in Table 1, all the statistics presented include only feature films with a minimum length of 3400 meters.

is not very practical due to cost and time considerations. An alternate course of action is to select a random sample which may introduce a certain amount of error; but if the sample is truly representative, this error is small enough for decision making purposes.

Our population of eighty-five, as defined in the previous section, is quite homogeneous. In such a case, a truly representative sample can result by using the simplest and most fundamental probability sampling method known as "simple random sampling." If we were to draw a sample of size ten from this finite population of eighty-five, a simple random sample will be a sample drawn in such a way that every combination of ten elements has an equal chance of being in the sample selected.

Each member of the population was assigned a number between 01 and 85 and no two members were assigned the same number. This list of names and numbers would constitute the sampling frame. We then turn to a table of random digits in order to select a simple random sample of ten such two-digit numbers. A list of random digits generated by a computer is shown in Table 8. These digits are combined in groups of five. It was decided to use the second and third digits of each group of five. Since the fourth and the seventh random numbers so chosen (99 and 93 from Table 8) are both exceeding the largest number in our population (85), they are discarded. Therefore, the ten members of this simple randomly selected sample are 65, 11, 41, 05, 59, 32, 71, 21, 69, and 25. For reasons stated earlier, their corresponding names will not be disclosed, and they will be referred to as films n_1 through n_{10} in our data presentation.

TABLE 8

A TABLE OF RANDOM DIGITS

1.	86569	7.	69343
2.	71195	8.	63256
3.	34198	9.	07164
4.	49944	10.	32151
5.	20512	11.	36943
6.	95920	12.	42543

Source: Rand Corporation, A Million Random Digits with One Hundred Thousand Normal Deviates (Glencoe, Ill.: The Free Press, 1955).

Note: The ten underlined pairs of digits represent the numbers chosen in the sample.

Statistical Procedure

The purpose of statistical computations in this research is "simple informational reporting." We wish to estimate certain characteristics of our fairly homogeneous population of eighty-five on the basis of data collected for the simple randomly selected sample of ten. We wish to state the range within which we are highly confident that the true values of the chosen marketing indicators fall for the entire population.

Our target population of eighty-five is "dynamic" in nature. Since the number of films released every year within the specifications of our target population may vary from year to year, it is a dynamic population over time. Here we are in a situation where we must sample a past statistical universe and yet must make estimates for a future universe which may have changed over time.[2]

Notwithstanding this problem of dynamic universe, we can use the procedure of "confidence interval estimation of the mean" for our computations. The application of this procedure is based on three statistical assumptions: (1) random selection of the sample, (2) at least "interval" level of measurement for sample data, and (3) normal population.

The data needed for statistical computations is presented in Table 9. The units of measurement of all the real and monetary indicators are in the interval scale

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[2]Morris Hamburg, Statistical Analysis for Decision Making (New York: Harcourt, Brace and World, Inc., 1970), p. 243.

TABLE 9

DATA FOR STATISTICAL COMPUTATIONS

	Symbols					
	X	X_1	X_2	X_3	X_4	X_5
Sample (Films)	Total Production Cost (Rs. x 100,000)	Indicator 1 (Days)	Indicator 2 (Rupee-days) x 10^7	Indicator 3 (Number of Units)	Indicator 4 (Rs. x 100,000)	Indicator 5 (Rs. x 100,000)
n_1	25.4	412	36.1	81	8.2	2.1
n_2	32.2	345	42.4	89	11.1	1.8
n_3	41.0	460	75.0	112	15.6	3.9
n_4	28.8	510	52.3	81	8.0	3.2
n_5	30.0	390	38.2	51	10.4	2.6
n_6	27.5	311	27.6	67	7.5	3.5
n_7	35.1	431	49.1	93	11.3	2.8
n_8	32.2	405	54.2	75	9.4	1.8
n_9	38.2	611	67.1	109	14.3	4.2
n_{10}	23.6	307	31.8	74	7.8	1.9
Total n = 10	314.0	4182	473.8	832	103.6	27.8
Sample mean ($\bar{x}$)	31.4	418.2	47.4	83.2	10.4	2.8
Sample std. dev. (s)	5.24	88.17	14.48	17.56	2.65	.846
$\hat{\sigma}_{\bar{x}}$	1.75	29.39	4.83	5.85	.88	.282
$\hat{\sigma}_{\bar{x}} \cdot f$	1.66	27.92	4.59	5.56	.84	.268
$t \cdot \hat{\sigma}_{\bar{x}} \cdot f$	5.395	90.74	14.91	18.07	2.73	.871
Confidence interval	26-36.8	328-509	32.5-62.3	66-102	7.67-13.13	1.93-3.67

because not only can we specify equivalences and greater-than relationship between numbers, but we can also specify the ratio of any two intervals.[3] Also, as explained in the previous section, a simple random sample has been selected. Although no test was conducted to check the normality of distribution of the population, it can be reasonably assumed to be normal because it is fairly large in size and quite homogeneous. Even if the population distribution is non-normal, the central limit theorem tells us that the sampling distribution of the mean may be considered to be approximately normal for a large sample. If the sample size is small, the sampling distribution of the mean is close to a "t-distribution."

With these conditions satisfied, appropriate statistical estimation technique will be used in the following computations to calculate a 99 percent confidence interval estimate for each of the five selected indicators shown in Table 9.

Computations

N = size of the population = 85

n = size of the sample = 10

f = finite population correction factor $= \sqrt{\frac{N-n}{N-1}} = \sqrt{\frac{85-10}{85-1}} = 0.95$

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[3]For a detailed discussion of the admissible operations on an "interval scale" level of measurement, see Sidney Siegel, Non-parametric Statistics for the Behavioral Sciences (New York: McGraw Hill, 1956), p. 28.

Since $n < 30$ and σ (population standard deviation) is unknown, t-distribution will be used.

degrees of freedom = $n-1 = 10-1 = 9$

$\alpha = .01$ since confidence interval is 99%,

So the critical value is[4]

$$t = 3.25$$

Interval Estimation for Production Cost

From Table 9,

Sample mean $(\bar{x}) = 31.4$

Sample standard deviation $(s) = 5.24$

$\hat{\sigma}_{\bar{x}}$ = estimated standard error of the mean, or the standard deviation of the sampling distribution of means

$$= \frac{s}{\sqrt{n-1}} = \frac{5.24}{\sqrt{10-1}} = \frac{5.24}{3} = 1.75$$

Confidence interval:

$$\bar{x} \pm t \cdot f \cdot \hat{\sigma}_{\bar{x}}$$

$= 31.4 \pm 3.25 \times 0.95 \times 1.75$

$= 31.4 \pm 5.395$

$= [26.0 \text{ to } 36.8] \times 10^5$ Rupees

$= [2{,}600{,}000 \text{ to } 3{,}680{,}000]$ Rupees

$= [2.6 \text{ million to } 3.68 \text{ million}]$ Rupees

[4]From t-Tables, Hamburg, Statistical Analysis, p. 787.

<u>Interval Estimation for Indicator 1</u>

From Table 9,

Sample mean ($\bar{x}_1$) = 418.2

Sample standard deviation (s_1) = 88.17

$$\hat{\sigma}_{\bar{x}_1} = \frac{s_1}{\sqrt{n-1}} = \frac{88.17}{3} = 29.39$$

Confidence interval:

$$\bar{x}_1 \pm t \cdot f \cdot \hat{\sigma}_{\bar{x}_1}$$

$= 418.2 \pm 3.25 \text{ X } 0.95 \text{ X } 29.39$

$= 418.2 \pm 90.74$

= [328 to 509] days

<u>Interval Estimation for Indicator 2</u>

From Table 9,

$\bar{x}_2 = 47.4$

$s_2 = 14.48$

$$\hat{\sigma}_{\bar{x}_2} = \frac{s_2}{\sqrt{n-1}} = \frac{14.48}{3} = 4.83$$

Confidence interval:

$$\bar{x}_2 \pm t \cdot f \cdot \hat{\sigma}_{\bar{x}_2}$$

$= 47.4 \pm 3.25 \text{ X } .95 \text{ X } 4.83$

$= 47.4 \pm 14.91$

$= [32.5 \text{ to } 62.3] \text{ X } 10^7$ Rupee-days

= [325 to 623] million Rupee-days

Interval Estimation for Indicator 3

From Table 9,

$$\bar{x}_3 = 83.2$$

$$s_3 = 17.56$$

$$\hat{\sigma}_{\bar{x}_3} = \frac{s_3}{\sqrt{n-1}} = \frac{17.56}{3} = 5.85$$

Confidence interval:

$$\bar{x}_3 \pm t \cdot f \cdot \hat{\sigma}_{\bar{x}_3}$$

$$= 83.2 \pm 3.25 \text{ X } 0.95 \text{ X } 5.85$$

$$= 83.2 \pm 18.07$$

$$= [66 \text{ to } 102] \text{ units}$$

Interval Estimation for Indicator 4

From Table 9,

$$\bar{x}_4 = 10.4$$

$$s_4 = 2.65$$

$$\hat{\sigma}_{\bar{x}_4} = \frac{s_4}{\sqrt{n-1}} = \frac{2.65}{3} = 0.88$$

Confidence interval:

$$\bar{x}_4 \pm t \cdot f \cdot \hat{\sigma}_{\bar{x}_4}$$

$$= 10.4 \pm 3.25 \text{ X } 0.95 \text{ X } 0.88$$

$$= 10.4 \pm 2.73$$

$$= [7.67 \text{ to } 13.13] \text{ X } 10^5 \text{ Rupees}$$

$$= [767{,}000 \text{ to } 1{,}313{,}000] \text{ Rupees}$$

Interval Estimation for Indicator 5

From Table 9,

$$\bar{x}_5 = 2.8$$

$$s_5 = 0.846$$

$$\hat{\sigma}_{\bar{x}_5} = \frac{s_5}{\sqrt{n-1}} = \frac{0.846}{3} = 0.282$$

Confidence interval:

$$\bar{x}_5 \pm t \cdot f \cdot \hat{\sigma}_{\bar{x}_5}$$

$$= 2.8 \pm 3.25 \times 0.95 \times 0.282$$

$$= 2.8 \pm 0.871$$

$$= [1.93 \text{ to } 3.67] \times 10^5 \text{ Rupees}$$

$$= [193{,}000 \text{ to } 367{,}000] \text{ Rupees}$$

A Test of Hypothesis

During the course of this research, a very interesting rule of thumb was suggested by some experienced producers in response to a question about how the budget for a film was estimated in its planning stages. On the basis of their experience they had found that the total budgeted cost (which includes total production costs plus publicity expenses plus the interest to be paid) for a film was usually three times the budgeted cost for the "star cast."[5]

[5]The "star cast" for a typical commercial Hindi film usually includes actors in the key roles of the hero, heroine, comedian and villain. Also included are a few important "character roles" almost always assigned to a handful of well-known movie personalities.

In order to find out whether there is any statistical validity to this claim, the following test of hypothesis was conducted.

For each of the members of our sample, data was collected for actual cost (not anticipated cost) of the star cast and actual total cost for which budgeting is done in the planning stages. This data is presented in Table 10. The fourth column in this table shows the ratio of the two costs. We wish to test the hypothesis that the average value of this ratio for the entire population of 85 is equal to three.

TABLE 10

DATA FOR TEST OF HYPOTHESIS

Sample (Films)	Total Budgeted Cost (Y_1)* Rs. X 100,000	Cost for "Star Cast" (Y_2) Rs. X 100,000	Ratio (Y) ($Y=Y_1/Y_2$)
n_1	35.7	11.2	3.19
n_2	45.1	14.5	3.11
n_3	60.5	16.7	3.62
n_4	40.0	13.5	2.96
n_5	43.0	16.0	2.69
n_6	38.5	14.2	2.71
n_7	49.2	15.1	3.26
n_8	43.4	13.2	3.29
n_9	56.7	16.4	3.46
n_{10}	33.3	9.8	3.40
Total			31.69
Mean ($\bar{Y}$)			3.17
Standard deviation (s)			0.29

* Total budgeted cost = Total production cost
+ Publicity
+ Interest paid

Therefore, $Y_1 = X + X_4 + X_5$ from Table 9.

$$H_0: \mu = 3$$

$$H_1: \mu \neq 3$$

given: = .01, n=10, N=85, t=3.25, f = 0.95

sample mean $(\bar{Y})$ = 3.17

sample standard deviation (s) = 0.29

$$\text{so, } \hat{\sigma}_{\bar{y}} = \frac{s}{\sqrt{n-1}} = \frac{0.29}{\sqrt{10-1}}$$

$$= \frac{0.29}{3} = 0.097$$

Critical values:

$$\mu \pm t \cdot f \cdot \hat{\sigma}_{\bar{y}}$$

$$= 3 \pm 3.25 \times 0.95 \times .097$$

$$= 3 \pm 0.299$$

$$= 3 \pm 0.3$$

So the acceptance region for the null hypothesis is from 2.7 to 3.3.

Since our sample mean is 3.17, it falls in the acceptance region. Therefore, we accept the null hypothesis that population mean is equal to three.

In other words, the producers' rule of thumb that the total budgeted cost is three times the cost for the star cast is statistically justified. Perhaps an explanation for such a relationship can be attempted in the following manner. A big star cast film usually has big sets, a big name music director and big overheads. The completion time for such films also tend to be longer resulting in higher costs because big stars do not usually give quick shooting dates. All these factors taken together result in a more than proportionate increase in the total production cost due to an increase in the cost of the "star-cast."

Interpretation

The statistical data analysis presented in the preceding section can be interpreted as follows. An average Bombay-produced Hindi film made in color for the entertainment of the masses has the following characteristics.

1. Its cost of production ranges from 2.6 million to 3.7 million Rupees.
2. It takes anywhere between 328 to 509 days for completion and release.
3. The opportunity cost for the film is equivalent to tying up anywhere between 325 to 623 million Rupees for a day.
4. Anywhere between 66 to 102 different business entities participate in moving the film from the place of procurement to movie theaters all over the country.

5. The cost of communicating information about the film prior to its release to the masses nationwide ranges from 767,000 Rupees to 1.3 million Rupees.
6. Its producer pays anywhere from 193,000 to 367,000 Rupees in terms of interest on funds borrowed for the making of the film.
7. Its total budgeted cost is usually three times the amount paid to the star cast.

CHAPTER VI

EFFECTIVENESS OF MARKETING: THE EVALUATIVE ASPECT

Introduction

The evaluation of how well the job of marketing is being done is an extremely difficult task because no standards have ever been established in the industry to judge its efficiency. Being able to complete a film and secure its release are no small accomplishments in an industry which has more than twice as many registered producers as there are films produced. Undoubtedly, those who manage to achieve this goal are more effective in performing their functions than the producers who have to abandon their films for lack of funds or unavailability of release facilities. But even among those who do succeed in organizing the aggregate channel necessary to add form, time, place and possession utilities to the film (they are the people who constitute our population), some can do the job more efficiently than others.

No consensus has yet been reached among marketing scholars about the meaning of the term "marketing efficiency." Perhaps no single definition of the term should even be expected because marketing activities can be appraised from a societal point of view as well as from the point of view of the firm. In the case of production, efficiency is defined as a ratio of output of physical goods to inputs of resources used. The difficulty in using this definition for measurement of marketing efficiency arises from the fact that the output of marketing is intangible. It refers to the amount of consumer satisfaction created by the system. What then should be done to evaluate the efficiency of marketing in the motion picture industry? One thing is certain: we need to find an alternate, more workable measure of efficiency than the traditional input-output ratio.

The Meaning of Marketing Efficiency

To get a job done is being "effective"; how well it is done determines its "efficiency." An immediate response to the question of "How well is it done?" will be "Compared to what?" This makes the word "efficient" a relative concept which in turn suggests formulation of a set of criteria to distinguish the "efficient" from the "inefficient."

Efficiency of a business firm can be relative in two respects: (1) It can be relative to the performance of other businesses in the industry at the same point in time, and (2) It can be relative to its own performance in a past period. In the case of motion pictures, measurement of this second kind of relative efficiency is not very useful for two significant reasons. First, the exogenous variables faced by firms in this industry are known to change very rapidly. Consumer tastes and preferences change quickly over time; government controls, levies, duties, tariffs, etc. seem to be on the increase every year; and technological improvements are always forthcoming. Secondly, each film project is started as a new business venture. The turnover of producers in the industry is so high that there are only a handful of producers who can appropriately call themselves ongoing business concerns.

Considering these problems, it is more meaningful to concentrate our efforts in the direction of measuring the efficiency of performance of a business firm relative to the performances of other such business firms in the industry at a given point in time. Since our interest is marketing of motion pictures, it is more appropriate to broaden this concept and use the term aggregate channel (which manages the flows of marketing) in the place of business firm. In other words, since each firm has its own marketing channel, how efficiently one channel is performing relative to others in the same time period should be our area of inquiry in the evaluative aspect of this research.

There are two main marketing objectives common to all members of our population: (1) To get a nationwide release for the film--in every major city and town in each of the six territories, and (2) To communicate persuasive messages about the film to all members of its potential audience prior to its release.

We are now in a position to arrive at a workable definition of efficiency in terms of efforts required to achieve common marketing objectives. We can say that of two comparable marketing channels, the one which succeeds in achieving the same objectives with less efforts is efficient relative to the other channel. By the same token of argument for a group of channels, marketing performance of one member is efficient relative to the group, if the amount of marketing efforts it requires is less than the average effort required by the group to meet the same objective.

In the previous chapter, we had agreed upon five indicators to measure the amount of marketing effort exerted in an aggregate channel managing the flows of physical possession, ownership, communication, financing and payment. After statistical analysis of the data, an interval was constructed for each indicator representing the limits of average marketing effort of the population to meet its marketing objectives. According to the reasoning presented in the preceding paragraph, these five intervals should serve well as a set of criteria to compare with, in order to separate the efficient from the inefficient at this point in time. They can be updated every few years to incorporate the effects of changes in the exogenous variables.

To summarize, if the value of an indicator for the aggregate channel of a film is less than the lower limit of the same indicator for the population, then the channel is performing the corresponding marketing functions efficiently. The underlying concept is simple: if you are better than average, you are efficient.

Sources of Inefficiency

The preceding section suggested a workable measure of efficiency at the micro-level. The yardstick it presented takes the contemporary policies and practices prevalent within the industry and in its environment as given, without questioning the propriety of existence of some of those exogenous variables. Within a given framework, it sets a standard to judge the marketing efficiency of each channel in the industry, but it does not take a critical look at the possible sources of inefficiency in the framework itself. Each member of the industry could perform its functions better if at the macro-level industry as a whole becomes more efficient. Here also efficiency is a relative concept because it compares the existing environment and its consequences with the ramifications of a proposed environment for the industry. The industry is considered efficient if it is operating under that environment which results in less marketing effort required by all of its members to achieve their common marketing objectives. With this in mind, the following discussion critically examines some of the existing factors (both internal and external to the industry) which have adversely influenced the efficiency of its operations.

Lack of Integration

The most striking feature of India's industrial development has been the concentration of ownership and control in few hands and in few establishments. But this is not true of the motion picture industry. There are 1200 film producers, 1500 distributors and approximately 3000 theater owners. A three-tier arrangement of the producer, distributor and exhibitor exists. The industry cannot exercise any effective control over the channels and its intermediaries at any level.[1] The turnover of people in the industry is very high. Most people lose money and make an exit, but what keeps the industry going is the constant influx of new people and new capital lured by the glamour of the industry. This influx causes a serious problem of coordination. The system of free

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[1]Adige Dinkar Rao, "Marketing Research for the Indian Film Industry," Star & Style (Bombay: July 20, 1973), pp. 14-15.

lancing adds to this chaos with every person trying to enhance his own self-interest at the expense of the industry. This chaotic, haphazard growth has seriously hampered efficient operation because no channel can routinize its procedures resulting in regularized flows. Time and efforts spent on negotiations would be much lower if each new film did not require a new set of negotiations for the formulation of a marketing channel.

Erratic Financing

The flow of financing in the channels is extremely erratic causing increased marketing costs. Statistics show that under the present economic set-up, most of the revenue of the film is dissipated before getting to the producer due to the huge cuts of taxes, substantial share of the exhibitor and the minimum guarantee and commission accruing to the distributor. As a result, the producer is involved in a peculiarly inverted arithmetic which has no parallel in any other industrial enterprise anywhere.[2] Under such topsy-turvy conditions, the problem of procuring finance for his project becomes all the more difficult, and he finds himself constrained to seek it at an almost suicidal rate of interest. The value of Indicator 5 in Table 9 can

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[2]Dilip Kumar, "The Ills of the Film Industry," Silver Jubilee Souvenir of Indian Talkie, 1931-1956 (Bombay: Film Federation of India, 1956), p. 47.

be considerably reduced if the industry should have available to it financing from banks, insurance companies, investment corporations and the like. This could be possible by ploughing back some of the tax revenue earned from the film trade into the industry itself.

Excessive Taxation

Sevin defines productivity of marketing as a ratio of net revenue over marketing costs.[3] Therefore, impediments to marketing efficiency are not only the results of increased marketing costs but also of reduced net revenue. A brief look at the magnitude of flow of payment is enough to point out what a lion's share the state, local and central governments take away from the revenues of the industry in the form of a variety of taxes. From a large inflow at the box office, only a trickle reaches the producer. The motion picture industry in India is perhaps the most heavily taxed industry in the world. Not only is it bad in itself for the health of the industry, but it also has been the root cause of a variety of malpractices in the industry such as the black money payments. Excessive taxation and all its resulting consequences have done more harm to the economic well-being of the industry than all other factors taken together.

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[3] Charles Henry Sevin, Marketing Productivity Analysis (St. Louis: McGraw-Hill, 1965), p. 9.

Bureaucratic Controls

The slow-moving machinery of the government is one reason for the high values of Indicators 1 and 2 resulting in increased marketing costs. Members of an aggregate channel have to clear with a number of overlapping authorities to perform their functions. If the industry was made a Central subject, it would ensure uniformity of taxation (at present all states have different rates of entertainment taxes resulting in considerable accounting problems) and expedite matters due to the necessity of dealing with only one Central regulating body.

Scramble for Stars

The costs of a great many films are unreasonably high, not because the prices of all factors of production have gone up, but because the stars, the music directors, and some of the other functionaries who are in demand have raised their prices beyond the reasonable limit. Our research has indicated that one-third of the budgeted cost of production is paid to a handful of so-called "stars." Producers, particularly the new entrants to the field, are to blame for this state of affairs. They plunge in with fond hopes, over-eager to sign up well-known stars and music directors in order to gain instant attention from financiers and distributors. The high prices of the "stars" pose quite a problem, and it becomes all the more oppressive because "black" payments are also involved. The producer, after paying fabulous prices, finds himself in the unenviable position of having to prove by devious means, and not very convincingly either, that he has actually "spent" the money.[4]

Because of this mad scramble for them and the free-lancing system, these "stars" sign up a large number of films at one time. It results in their being able to provide shooting dates to any one producer only after long intervals of time. Not only do the total number of days required to complete and release a film (Indicator 1) increase considerably resulting in loss of efficiency, but also a large amount of money is tied up for unproductive waiting time while the amount of interest to be paid (Indicator 5) keeps accumulating.

Scarcity of Theaters

It was pointed out earlier how scarcity of theaters has resulted in exhibitors becoming "absentee landlords," participating only in the income without sharing the costs. Shortage of cinema houses throughout the country causes a bottleneck in the flow of films from the producers to the movie-goers. Many producers have to wait for months after

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[4]Tarachand Barjatya, A Handbook Detailing Some of the Problems of the Indian Film Industry (Bombay: Rajshree Pictures Pvt. Ltd., 1960), p. 17.

getting the censor certificate to get the films released in major cities and towns. Unproductive waiting time always results in higher costs reducing the efficiency of any operation.

Ill-organized Territories

As pointed out in Chapter III, there is no logical basis now for distribution territories to be divided the way they are. Even though the States of the Union have been reorganized, the distribution territories remain the same, intersecting and crossing the State lines. Since entertainment taxes are the responsibilities of the State governments, the same film running in the same territory pays different rates of taxes at different theaters. This causes accounting problems resulting in inefficiency due to delays in the flow of payment.

Common Proposals for Change

It is a common practice among the industry people to hold the government responsible for all of its problems. It is also usual for the government to turn a deaf ear to the industry's outcry and blame it for its own ills. The unfortunate thing is that in their preoccupation with accusing each other, neither does anything about implementing recommended solutions to the problems. Committees are formed by the government to study the internal problems of the industry and prepare a report, only to find it collecting dust on the shelves of the Ministry of Information and Broadcasting. In the same manner, no sooner is an agreement reached between the producers and the screen-actors association on the number of films an actor should work in at one time than it is broken by some unscrupulous person initiating an avalanche of defectors on his side. Therefore, it is no surprise that the industry has operated in a constant state of crisis for well over a decade. The only logical explanation of its sustenance is the influx of unwary new entrants who come into the industry with great enthusiasm, stay until they get disillusioned, and leave making room for another set of new unwary entrants. The industry lacks coordination and a sense of unity. The "each-man-for himself" attitude makes the channel function more as a coalition than as a team.

In the preceding section and at various other places in this thesis we discussed the factors responsible for inefficient operation of marketing channels in the industry. In some instances remedies were also suggested and their effects evaluated. In this section, three most recent controversial proposals are presented with their pros and cons.

Method of Amortization

Recently the Film Federation of India concerned itself with the perennial problem of amortization. Since the motion picture industry is in the business of providing an intangible product to the society, its depreciation is known as amortization. The scheme of amortization adopted by the government is 60 percent in the first year, 25 percent in the second year and 15 percent in the third year. The industry's contention is that the films bring back most of their returns within the first year of release. What they fetch in the second and third years is insignificant compared to the returns of the first few months. In view of this, the scale of amortization should be changed in order to afford the entrepreneur a slightly better margin after payment of taxes. The industry's grievance is that in spite of the majority of films "flopping" at the box office, it is called upon to pay taxes on national profits and losing pictures. The government favors the present system because it brings in more tax revenue. The industry wants 100 percent amortization in the first year and none after that. This researcher suggests an intermediate course which will keep the present scheme of 60:25:15, but will provide tax refunds in the second and third years on the basis of cumulative tax assessment. The following example is presented to illustrate the arithmetic involved in the three proposals: (See also Table 11)

TABLE 11

A COMPARATIVE ANALYSIS OF THE GOVERNMENT'S CASH-FLOW USING THREE AMORTIZATION METHODS

Year (After Release)	Time (Date of Release)	Tax Income Rs.	Interest Income Rs.	Total Income Rs.
Present Method				
End of first year	t=1[a]	2,160,000	-	2,160,000
End of second year	t=2	0	216,000	2,376,000
End of third year	t=3	0	237,600	2,613,600
Comparison point	t=3		Rs. 2,613,600	
Industry Proposed Method				
End of first year	t=1	1,200,000	-	1,200,000
End of second year	t=2	300,000	120,000	1,620,000
End of third year	t=3	60,000	162,000	1,842,000
Comparison point	t=3		Rs. 1,842,000	
Suggested Compromise Method				
End of first year	t=1	2,160,000	-	2,160,000
End of second year	t=2	(-300,000)[b]	216,000	2,076,000
End of third year	t=3	(-300,000)	207,600	1,983,600
Comparison point	t=3		Rs. 1,983,600	

[a]Time (t=0) is the date of release of the film

[b]Negative tax-income represents tax-refund by the government.

Suppose, the total costs to be amortized for the film = Rs. 4,000,000

and let the income for the first, second and third year after its release be Rs. 6,000,000; Rs. 500,000; and Rs. 100,000; respectively.

Assume the tax rate on profit = 60%

According to the present method (favored by the government):

1st Year	Rs.
Income	6,000,000
Less amortization	2,400,000
Profit	3,600,000
Tax	2,160,000

2nd Year	Rs.
Income	500,000
Less amortization	1,000,000
Profit	(-500,000)
Tax	0

3rd Year	Rs.
Income	100,000
Less amortization	600,000
Profit	(-500,000)
Tax	0

Total tax paid by the industry Rs. 2,160,000

	Rs.
Government's tax-income from the film (at the hypothetical interest rate of 10 percent per year)	2,160,000
Interest income - 1st year	216,000
Interest income - 2nd year	237,600
Total income earned by the government from the film at the end of three years after its release (See Table 11)	2,613,600

According to the proposed method (favored by the industry):

1st Year	Rs.
Income	6,000,000
Less amortization	4,000,000
Profit	2,000,000
Tax	1,200,000

2nd Year	Rs.
Income	500,000
Less amortization	0
Profit	500,000
Tax	300,000

3rd Year	Rs.
Income	100,000
Less amortization	0
Profit	100,000
Tax	60,000

Total tax paid by the industry Rs. 1,560,000

	Rs.
Government's tax-income from the film (at the hypothetical interest rate of 10 percent per year)	1,560,000
Interest income - 1st year	120,000
Interest income - 2nd year	162,000
Total income earned by the government from the film at the end of three years after its release (See Table 11)	1,842,000

According to the cumulative tax-refund method (proposed by this researcher):

End of 1st Year	Rs.
Income	6,000,000
Less amortization	2,400,000
Profit	3,600,000
Tax	2,160,000

End of 2nd Year	Rs.	Rs.
Cumulative income		6,500,000
Less:		
1st year amortization	2,400,000	
2nd year amortization	1,000,000	3,400,000
Cumulative profit		3,100,000
Cumulative tax		1,860,000
Tax refund		300,000

End of 3rd Year	Rs.	Rs.
Cumulative income		6,600,000
Less:		
1st year amortization	2,400,000	
2nd year amortization	1,000,000	
3rd year amortization	600,000	4,000,000
Cumulative profit		2,600,000
Cumulative tax		1,560,000
Tax refund		300,000

Interest earned by the government on tax money at the hypothetical rate of 10 percent per year:	Rs.
On Rs. 2,160,000 for one year	216,000
On Rs. 216,000 for one year	21,600
On Rs. 1,860,000 for one year	186,000
Total	423,600
Total tax paid by the industry	1,560,000
Total income earned by the government at the end of three years from the film (See Table 11)	1,983,600

Therefore, the proposed cumulative-tax-refund method is truly a compromise approach. Using this method over a total span of three years, the industry does not have to pay any more taxes in absolute terms than what it is proposing itself. From the point of view of the government's net income at the end of three years, this compromise method certainly earns more than what the industry's proposal has to offer, as Table 11 clearly indicates.

A similar cash-flow analysis is done for the industry in Appendix C. It shows that using the proposed cumulative-tax-refund method, the industry's cash-flow will improve substantially at the end of three years. The present method gives a net cash flow of only Rs. 214,400 at the end of this period. The industry's favored method will improve this amount to Rs. 986,000. The suggested compromise approach will result in a net cash-flow of Rs. 844,400 at the end of three years. So it is not substantially lower than the industry's proposal.

This suggested compromise approach called the cumulative-tax-refund method should be more acceptable to the government than the present industry proposal because it results in a larger net income for the government. It should be acceptable to the industry because by doing so their net cash-flow improves considerably as compared to the present method. Also it results in a reduction of the absolute amount of tax to be paid over this three-year time period to the level the industry wants.

Nationalization of Theaters

Early this year the decision of the State Government of Punjab to take over theaters within the State left the industry apprehensive about similar takeovers of the cinemas in other states. Yet most film-journalists applauded the move and strongly recommended similar action in other parts of the country.

It is true that the uphill increase in the rentals of cinemas has been going against the interest of the film industry as such, and that the existing cinemas have enjoyed a kind of monopoly power that has been largely misused to subvert producers to the mercy of the exhibition sector. But despite these factors, the policy of state takeover of theaters is hardly the answer. No government will ever think of giving theaters on nominal rental when cinemas have always been a major source of income to the state without any investment or risk. Like many other nationalized industries, government-controlled theaters may well turn out to be another white elephant to the public exchequer.

As proposed, if the decision to nationalize is left to individual states, considerable confusion would occur. The states of Mysore and Maharashtra have already rejected such proposals at this time. Partial nationalization without an integrated policy is bound to affect the nationwide distribution system now controlled by the private sector on several issues connected with uniform exhibition of films. Nationalization of cinemas in one state has already led to uncertainty all over the country and has stopped the inflow of badly needed investments for the construction of new theaters.

Setting Up the Film Council

In March of this year, the government disclosed that it was evolving a comprehensive national policy on the film industry. It proposed to set up a film council as the apex body for mobilizing collective thinking on the problems faced by cinema in general and by the Indian film industry in particular. Under the auspices of the film council, it suggested the organization of a National Film Corporation which would assume a variety of functions in the field of import and export of films, augmentation of facilities of distribution and exhibition at home and abroad, and the harnessing of various schemes of incentives with a view to aiding the process of regeneration of Indian cinema.

This is truly a grand design encompassing every aspect of film making, distribution and trading. Yet as one film-journalist pointed out, there is a dreadfully familiar ring to all this verbiage. Most industrialists in India are very skeptical of such "apocalyptic visions" of the government because they soon lead to complete government take-over. The movie industry's skepticism, therefore, is not totally unwarranted.

Conclusion

The objective of this chapter was the evaluation of marketing and its environment as it relates to India's motion picture industry. It needed a three-stage approach: first, the evaluation of the marketing performance of an individual channel in the industry; second, the evaluation of the environment internal to the industry; and third, the evaluation of the environment external to the industry.

In the first chapter, it was proposed that the evaluative aspect of this research should deal with two significant questions: (1) How efficient is the functioning of a marketing channel in India's motion picture industry? and (2) How would common proposals for change affect the marketing of motion pictures in India.?

In order to answer the first question, it was necessary to establish a set of criteria for efficiency by which a channel's performance could be judged. To answer the second question, we closely examined both internal as well as external sources of inefficiency and discussed common proposals for change affecting the operations of the industry. On the basis of these evaluations, recommendations are made to improve the marketing efficiency of the industry in the following chapter.

CHAPTER VII

SUMMARY AND CONCLUSIONS

Recommendations

Even though we have closely examined the interrelationship of the motion picture industry and the government throughout this thesis, and often passed judgements from an outsider's point of view, yet the recommendations arising from this research are meant only for the industry. The government is not totally responsible for the chaotic conditions in the movie business. There is a lot industry can also do, even under the present unfavorable environment, to put its house in order. The government does not need any more recommendations when it already has volumes of reports of various film inquiry committees urging immediate action. Unfortunately, most such reports are good only for academic purposes if their findings are not implemented. The following recommendations are made to the industry with the objective of improving the efficiency of operations of its marketing channels and creating an internal environment conducive to the uninterrupted flows of physical possession, ownership, financing, communication and payment.

1. There is an immediate need for both horizontal and vertical integration in the industry. No matter what business we are in, there is some minimum size below which it cannot be operated efficiently. Most economists have recognized this fact. There are too many small producers and distributors working with so little resources of their own that even a minor setback can force them to abandon their partially completed films, resulting in large economic waste. This researcher is not proposing doing away with competition. But instead of having 1200 different small producers, there could be 30 different production organizations, each having pooled resources of 40 small producers and competing with each other for the share of the market. Such horizontal integration is required at each of the three levels of production, distribution and exhibition. Then each such production firm could have affiliations with an integrated distribution corporation which has the capacity to distribute its output nationwide through an integrated exhibition firm controlling a number of theaters around the country. A number of such vertically integrated channels could compete with each other in an organized manner and function very efficiently. These established channels should be responsible for most of the industry's output. Such an arrangement need not throttle individual entrepreneurship if the government takes upon itself the task of supervision for maintenance of competition. There

should be a similarly integrated corporation in the public sector also. Any individual producer who wants to make films and exploit them could do so under the aegis of any one of such corporations.

2. The industry should make a sincere effort to regulate itself. The trade associations of all the branches of the industry should get together and form a central nerve center for the entire industry with representation from all the member associations. Such a top level policy-making body should formulate a code of ethics for each area of operation of the industry. It should form ad hoc committees and hold hearings in the event of any dispute among its members. It should also act as a lobbying organization in the parliament representing the interests of the industry.

3. The concept of cooperative advertising should be introduced in the film industry. Under the present system, it is the producer who ultimately bears the entire cost of publicity. Only in those cases when the film does not bring enough revenue even to cover the publicity expenses does the distributor shoulder the burden. The exhibitor does not participate in the advertising costs even though he certainly benefits from it. Perhaps a reasonable arrangement should require the exhibitor to pay for all on-premise publicity and displays, the distributor to pay for 50 percent of the cost of advertising attributable to his territory, and the producer to share the other

50 percent as well as pay for advertising in the national media.

4. The present allocation of distribution territories is totally outdated and has no logical reason to exist. It intersects with state boundaries and creates a variety of accounting problems for the distributor since each state has its own rate of entertainment tax, sales tax and publicity tax. Also two distributors in the same state across a hypothetical territorial boundary can considerably affect each other's business by their individual action. For these reasons, a reorganization into four distribution territories in place of the present six is recommended in Table 12. The proposed division is on the basis of population and along state lines. The territories can be named the Northern-Western circuit, the Central circuit, the Eastern circuit and the Southern circuit. The table shows how each territory can be ranked on the basis of potential market for Hindi films. This is determined by how many Hindi-speaking people the territory has. A formula should be devised for the calculation of minimum guarantees from each of the proposed territories on the basis of three factors: (1) proportion of the population in the territory which can understand spoken Hindi-Urdu, (2) number of permanent theaters in the territory, and (3) the ratio of urban to rural population in the territory.

An attempt could not be made in this thesis to

TABLE 12

PROPOSED REORGANIZATION OF DISTRIBUTION TERRITORIES

Distribution Territory	1971 Population (Millions)	Potential Market for Hindi Films (Rank)
1. The Northern-Western Circuit:		
Jammu and Kashmir	4.6	2
Himachal Pradesh	3.4	
Punjab	13.5	
Chandigarh*	0.2	
Haryana	10.0	
Delhi*	4.0	
Rajasthan	25.7	
Gujarat	26.7	
Maharashtra	50.3	
Dadra and Nagar Haveli*	-	
	138.4	
2. The Central Circuit:		
Uttar Pradesh	88.4	1
Madhya Pradesh	41.6	
	130.0	
3. The Eastern Circuit:		
Bihar	56.3	3
Orissa	21.9	
W. Bengal	44.4	
Meghalaya	1.0	
Assam	14.9	
NEFA	0.4	
Nagaland	0.5	
Manipur*	1.1	
Tripura*	1.5	
	142.0	
4. The Southern Circuit:		
Andhra Pradesh	43.4	4
Mysore	29.3	
Goa, Daman and Diu*	0.9	
Tamilnadu	41.1	
Pondicherry*	0.5	
Kerala	21.3	
The Islands*	0.1	
	136.6	
TOTAL FOR ALL TERRITORIES	547.0	

*Union territory

Note: Appendix D shows this reorganization on the map of India.

devise such a formula because data is not available for factors (1) and (3) at this time from government sources. It is the belief of this researcher that such a reorganization of territories and determination of minimum guarantee amounts on the basis of market potential will be more equitable and will eliminate considerable confusion from the flow of payment. It is also in accordance with the recommendation for horizontal integration because by reducing the number of territories it suggests reduction of the number of independent distributing organizations.

5. The present system of payment of fixed rentals or a minimum protection amount to the theater owners should be immediately discontinued. No other industry has a middleman who participates in profits but does not share the costs. The remaining amount from the box office receipts after the government has taken its share should be divided on a percentage basis. The percentage figure should be decided by a joint committee of distributors and exhibitors. It may be useful to classify theaters into three types--small, medium and large--and have three different percentages for the exhibitor's share depending on the type of theater owned. Since a large theater owner in a big city may have higher operating costs, he could be allowed a larger percentage of the take. Once these three different percentages have been agreed upon by the committee, they should be uniformly applied throughout the country. An

arrangement of this kind will really make business operations in the industry more efficient, because standard operating procedures can be formulated.

It is realized that such a recommendation will be hard to enforce due to the heavy demand for theaters which are in very short supply. But then, given a choice between government take-over and percentage-agreement, they just might prefer the latter.

6. The producers should seriously consider shortening the length of their feature films. The minimum length of a feature should be lowered from 3400 meters to 2500 meters. Not only will it save a lot of foreign exchange (all color raw-stock is imported), but also production costs will be reduced. A shorter running time will result in more shows per day, so more films could find release every year. It is surprising that no one in the industry has proposed such an obvious course of action even as a temporary measure to handle the problem of delay in release due to an extremely inadequate number of exhibition outlets.

7. The industry should switch to a computerized accounting system for calculating the respective shares of the government, exhibitor, distributor and the producer from the box office collections. In the present system, chances of human error are very high due to the large number of variables involved. The producer has no resources to keep a check on any such mistakes, deliberate or otherwise,

for every theater across the country in which his film gets a release. The people employed presently as accounting clerks can be trained to do key-punching or act as input sources for the data bank. The flow-chart presented in Exhibit XI is a simplified model on which a computer program can be based easily. A computerized accounting system will expedite the flow of payment considerably and will have the capability of providing day-to-day feedback about the success (or failure) of a film to all the members of the marketing channel.

8. Top priority should be given at the industry level to market research on a continuing basis. The motion picture industry in India is totally production-oriented. No research is conducted to assess the audience tastes and preferences for the kind of movies they want to see. There is no market segmentation. Films are made to suit the fancies of the producer, the financier and the distributor. The only form of public opinion research is through the traditional medium of box office. If the film becomes a "hit," a number of others based on a similar theme with only slight variations are produced until the public gets disgusted with such remakes. No surveys are conducted even for a "hit" film to find out why it became successful. The justification often provided for this pathetic lack of research is that creativity cannot be repeated. What is not realized is that channelized creativity guided by

market research can reduce the chances of failure. The advertising industry is a good example of such creativity. Market research should be helpful in delineating the movie-goer's profile (both demographic as well as psychographic), assessing the demand potential, and isolating those ingredients of a film which were responsible for its success or failure. The risks of innovation are as great as the rewards. A large percentage of films fail in the market, and a still larger number have to be dropped, at a great cost, before commercialization.[1] The secret of successful experimentation in making films to suit public taste lies in adequate marketing research undertaken by the industry.

Some Opinions

In the last chapter two currently prominent proposals for changing the conditions in the film industry were discussed. They were the proposals for setting up a film council and for nationalizing of theaters in India. In the light of recommendations made in this chapter, certain opinions can now be expressed about these proposals.

First, the idea of a comprehensive film policy sounds very attractive and if implemented as proposed should improve efficiency because it would necessitate dealing with only one central authority. But too often in the

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[1] Rao, "Marketing Research," p. 15.

past the promises of new policies and organizations have been abysmally belied. Where action isn't taken, there is nothing like using words as a camouflage. No one quarrels with the need for comprehensive guidance for the medium. But what may happen with the establishment of a film council is the addition of yet another bureaucratic obstacle to quick and effective decision making. Second, to solve the universally accepted shortage of cinemas in India, the cinema has to be in both the private and public sectors. The government rather than taking over should compete with private enterprise. Healthy competition in a stable environment is the only cure for chronic maladies plaguing the film industry.

A Brief Review

The objective of this thesis was to study the marketing of a service in a developing economy. A review of marketing literature clearly demonstrated the need for research in two areas: (1) selection of a consistent methodological framework to study domestic marketing systems abroad, and (2) building an adequate body of literature on marketing of services. Both these areas of inquiry were blended in the subject matter of this study. An almost total lack of research on marketing operations of the motion picture industry providing the service of entertainment to millions, coupled with the fact that India, a developing economy, is the biggest producer of feature films in the world, were two good reasons to undertake the task of studying the marketing of motion pictures in India. The methodological framework selected to organize the study was the flow-approach which is based on identifying the aggregate marketing channel managing the flows of physical possession, ownership, financing, communication, and payment.

It was decided to explore the subject matter from three aspects: descriptive, analytical and evaluative. Answers to specific questions were sought in each of the three aspects because it was realized that formation of hypotheses is of little utility in a field where both theory and knowledge are very limited at present. In all, the study attempted to find answers to five questions:

1. What is the existing structure of channels in India's motion picture industry?
2. Why have these channels taken existing structures?
3. How much marketing is performed in the channel?
4. How efficient is the functioning of a marketing channel?
5. How would common proposals for change affect the marketing of motion pictures in India?

The first two questions were answered in Chapter IV by outlining the channels through which the five movements of physical possession, ownership, financing, communication and payment takes place. The concept of flow from the place of procurement to the place of consumption was extremely useful in identifying the channels. Identification and explanation of the channels and flows constitute the descriptive aspect of this research.

The third question deals with the measurement of marketing effort in the channel. Real and monetary indicators of marketing had to be defined in order to answer this question. Chapter V was devoted to the analysis of these indicators. Therefore, it constitutes the analytical aspect of this research.

The last two questions were evaluative in nature. The evaluation of performance required defining workable standards for efficiency. Then sources of inefficiency in the channel and its environment were isolated and the pros and cons of the effects of some common proposals for change were evaluated. Chapter VI attempted to answer these questions and thus constitutes the evaluative aspect of this research.

Suggestions for Future Research

There are many opportunities for future research even in the specific area of marketing of films in India's motion picture industry. As pointed out in the section on recommendations, there is an urgent need for probing the tastes and preference of the movie-goer in India. Also, forecasting models for motion picture grosses and pre-production planning are needed based on identification of key variables which affect such grosses. Research is needed to identify which medium of communication is most powerful for the publicity of a film. Analysis of export marketing of Indian films could be another interesting area of inquiry.

In the broader area of domestic marketing research, there is need to apply the flow concept for many other products in many other countries. When a substantial body of literature accumulates, it should be possible to make direct comparisons of marketing in two countries.

In a still broader context, there is tremendous scope for research in the area of marketing in service industries. Only very recently, academicians have turned their attention to the study of "service-marketing." Research could be conducted to compare the marketing efficiency of service industries with that of the manufacturing industries.

Limitations of This Study

In this research, India's motion picture industry was deliberately assumed to be synonymous with Bombay's Hindi film industry. This was done to confine the research to managable proportions. Even among Hindi films, the universe was defined to include only the mass-entertainers.

There are, of course, a number of other kinds of films made in India. There are low-budget art films and films produced in regional languages. There are other production centers such as Calcutta and Madras. They share many conditions with their Bombay counterparts but also there are many differences.

Time and cost considerations necessitated drawing a line. Hindi films were selected because their economic and social impact is the greatest. Recommendations resulting from this research are only intended for the marketing channels of Bombay-produced Hindi films.

A Closing Statement

Marketing of motion pictures in India is an exercise in tolerance among adverse conditions. It is the story of an extremely potent medium mistreated, misused, and mismanaged. It is an industry sick and ailing but with a glamorous front. Ironically, this glamor is both the cause of its ruin as well as its survival. Seeing its superficial glitter, the government does not believe the industry is on the brink of economic disaster and keeps increasing its taxes. Also lured by this glamor comes the new producer with new resources and new ideas to make the "phenomenal" film. If it wasn't for this new influx every year, the industry would have died long ago. Turnover is high, investors come and leave, but the show goes on, as it always has, as it always will.

APPENDICES

APPENDIX A

DETERMINATION OF OVERFLOW

1. <u>Calculations for time T_3*:</u>

Assume,

R = Revenue earned after the entertainment taxes and the theatre rentals are paid up.

K = Minimum guarantee paid by the distributor.

A = Total publicity expenses paid by the distributor before the film is released. (In the film industry most of the publicity expenses are incurred prior to release).

Distributor's commission = 20% of R = 0.2R

Therefore,

$$\text{Overflow } (\Theta) = R - (K + A + .2R)$$

$$\text{Producer's share } P = \frac{\Theta}{2}$$

but until such time that $\Theta > 0$, the producer's share = 0,

$$\text{If, } \Theta \leq 0$$

then $R - (K + A + .2R) \leq 0$

So $.8R - K - A \leq 0$

$$\text{so } .8R \leq (K + A)$$

$$\text{or } R \leq 1.25\,(K + A)$$

---

*T_3 was shown in Exhibit IX, Chapter IV, p. 115.

So T_3 is that point in time when the revenue earned after the entertainment tax and theatre rental becomes greater than 125 percent of the amount paid by the distributor on minimum guarantee and publicity expenses.

2. Incremental increase in producer's share from additional runs

Suppose

R_1 = the total revenue collected after entertainment tax and theatre rental from the first-run of the film

Assuming that this was enough to cover the minimum guarantee and publicity expenses and it provided an overflow

In that case, producer's share

$$P_1 = \frac{\Theta 1}{2} = \frac{R_1 - (K + A + .2R_1)}{2}$$

Now,

Suppose ΔR = increase in revenue earned from a second run of the film

ΔP = increase in producer's share from the second run

Assuming that no new publicity expenses were incurred during the second run,

If $R_2 = (R_1 + \Delta R)$ = total revenue collected after entertainment tax and theatre rentals from the time the film was first released to the time the re-runs were completed (in other words, to-date revenue collected) and $P_2 = (P_1 + \Delta P) =$ total producer's share from the time the film was first released to the time the re-runs were completed (to-date producer's share)

then, $$P_2 = \frac{\Theta 2}{2} = \frac{R_2 - (K + A + .2R_2)}{2}$$

therefore,

$$(P_2 - P_1) = \frac{R_2 - (K + A + .2R_2)}{2} - \frac{R_1 - (K + A + .2R_1)}{2}$$

or $$(P_2 - P_1) = \frac{.8R_2 - \cancel{K} - \cancel{A} - .8R_1 + \cancel{K} + \cancel{A}}{2}$$

or $$(P_2 - P_1) = \frac{.8\ (R_2 - R_1)}{2}$$

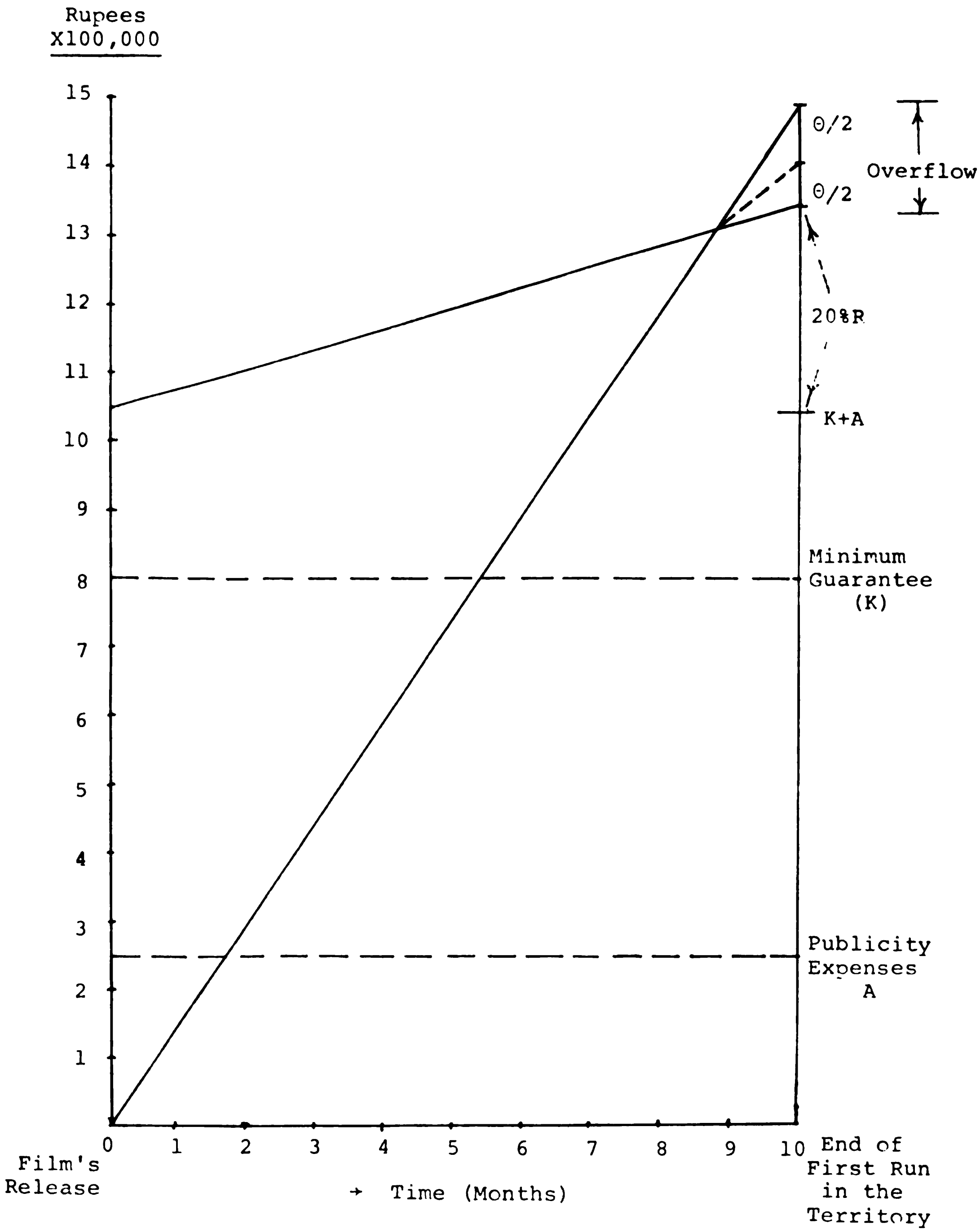
or $$\Delta P = .4\ \Delta R$$

$$\underline{\Delta P = 40\% \text{ of } \Delta R}$$

So, if the minimum guarantees and publicity expenses are covered from the first run, the producer gets about 40% of <u>additional</u> net collection from re-runs.

APPENDIX B

GRAPHICAL DETERMINATION OF OVERFLOW



APPENDIX C

AN ANALYSIS OF INDUSTRY CASH FLOW

Assumptions

1. The exhibitor is not included in the industry cash flow analysis because the revenue income discussed on page 194 is the amount after the entertainment taxes and theater rentals have been paid.

2. Rs. 4,000,000 represent the total cost to be amortized for the film. It does not include the producer's margin or the distributor's profit.

3. The distributor's commission of twenty percent is totally accounted for by his direct and indirect variable costs of distribution.

4. Fifty percent of the cost of the film is a cash outflow during the time of production. The other fifty percent is paid out within one year after release of the film.

5. The interest rate at which money can be borrowed or loaned is assumed to be ten percent per year.

TABLE 13

NET CASH FLOW BEFORE TAXES

	Cash Inflow to the Industry Rs. X 1000	Cash Outflow from the Industry Rs. X 1000	Rs. X 1000
Prior to film's release	0	2000	(2000)
One year after film's release	6000	2000	4000
Two years after film's release	500	0	500
Three years after film's release	100	0	100

TABLE 14

COMPARATIVE ANALYSIS OF INDUSTRY CASH FLOW

	Net Cash Flow Before Taxes Rs. X 1000	Tax Outflow Rs. X 1000	Net Cash Flow After Taxes Rs. X 1000	Interest Rs. X 1000	Total Cash Flow Rs. X 1000
Present Method					
Prior to film's release	(2000)	0	(2000)	-	(2000)
One year after release	4000	2160	1840	(200)	(360)
Two years after release	500	0	500	(36)	104
Three years after release	100	0	100	10.4	214.4
Comparison point (end of three years after release)			Rs. 214,400		
Industry Proposed Method					
Prior to film's release	(2000)	0	(2000)	-	(2000)
One year after release	4000	1200	2800	(200)	600
Two years after release	500	300	200	60	860
Three years after release	100	60	40	86	986
Comparison point (end of three years after release)			Rs. 986,000		
Suggested Compromise Method					
Prior to film's release	(2000)	0	(2000)	-	(2000)
One year after release	4000	2160	1840	(200)	(360)
Two years after release	500	(300)	800	(36)	404
Three years after release	100	(300)	400	40.4	844.4
Comparison point (end of three years after release)			Rs. 844,400		

Notes: 1) Present year's total cash flow = previous year's total cash flow + present year's net cash flow after taxes + present year's interest.
2) All negative numbers are in parenthesis.
3) Negative tax outflow means tax-refund to the industry.
4) Negative interest means interest paid by the industry.

APPENDIX D

PROPOSED TERRITORIAL RE-DISTRIBUTION

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Karanjia, B. K., Editor, Film Fare, Bombay, December, 1972.

Kaushish, D. C., Exhibitor, New Delhi, January, 1973.

Kirtane, Mr., Indian Motion Picture Producer's Association, Bombay, December 1972.

Kumar, Arvind, Editor, Madhuri, a Hindi film magazine, Bombay, December, 1972.

Kumar, Rajendra, Actor, Bombay, January 1973.

Majumdar, Phani, Director, Bombay, January 1973.

Malhotra, Roshanlal, Industry Spokesman, Bombay, January, 1973.

Mehta, Harin, Reporter for Free Press, India, December, 1972.

Mirchandani, K. T., Publisher, Kay-Tee Reports, Bombay, December, 1972.

Mukherjee, S., Producer/Studio-Owner, Bombay, January 1973.

Murari, Jagat, Films Division, Bombay.

Nair, P. K., Assistant Curator, National Film Archive of India, Poona, January, 1973.

Ollia, Jimmy, Secretary, Film Federation of India, Bombay, January, 1973.

Pal, Colin, Publicist, Bombay, January 1973.

Pillai, S. S., Editor, Screen, Bombay, December 1972.

Ramesh, M. Secretary, Indian Film Exporters Association, Bombay, January 1973.

Samanta, Shakti, Producer-Director, Bombay, January 1973.

Sathe, V. P. Publicist, Bombay Publicity, January 1973.

Segal, Mohan, Producer, Delux Films, Bombay, January 1973.

Sinha, Ajit, Producer, Bombay, January 1973.

Verma, L. N., Studio Manager, Bombay, December 1972.

Verma, Prakash, Producer, PeeVee Films, Bombay, December 1972.

Wadia, Hosi, Deputy Managing Director, Bombay Film Laboratories Pvt. Ltd., Bombay, January 1973.