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FACULTY OF BUSINESS ECONOMICS
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Master's thesis

Digital products and internationalization: A case study of Bollywood film distributor Eros International

Supervisor :
Prof. dr. Pieter PAUWELS

Shirley Tonnaer

Thesis presented in fulfillment of the requirements for the degree of Master of Management

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Abstract

The purpose of this thesis is to add to the existing internationalization literature by explaining if and how digital distribution channels can contribute to export growth of Bollywood movies. This study is approached by a case study of one of the dominant Bollywood distributors: Eros International Plc. After an introduction to the industry and company, the internationalization process of Eros is contrasted with internationalization theory and the characteristics of digital goods. The main findings include that the internationalization process can largely be explained by the presence of the Indian diaspora. Eros fulfills a demand from a specific group for Bollywood entertainment through alliances with local digital platforms. Digital distribution allows Eros to familiarize new customers with their content in a way that the customer can relate to. By online monitoring, Eros can learn relatively inexpensive about their customer and anticipate on future preferences for content. This case study contributes to the research on a largely overlooked industry, yet one of growing importance. It sheds light on how demand from a certain group for a particular product can motivate a firm to internationalize, in contrast to a case where a firm tries to create the demand. This study also highlights the importance of embracing digital distribution in the Indian entertainment industry. The user patterns in the entertainment industry are shifting, and entertainment firms need to react to these changes.

Keywords: Internationalization; Export performance; Digital information goods; Film industry; Bollywood

Foreword and Acknowledgements

This thesis is written in partial fulfillment of the degree of Master of Management, with a major in International Marketing Strategy. The subject of the thesis was inspired by the course International Marketing of this major, as it concerns internationalization processes of firms. The purpose of this thesis is to explain Bollywood's export growth in the last decade by analyzing the internationalization process of one of the leading distribution companies.

I have chosen this subject because of a mixed academic interest in India's economic potential on the one hand, and internationalization processes on the other. The Indian film industry has an immense growth potential, therefore it is surprising how little academic interest is shown in this industry. This thesis is my humble attempt to make an academic contribution to this particular industry. Since I hold a Bachelor of Arts in South Asian studies, I found this Master thesis to be the perfect opportunity to unite two of my interests.

I would like to thank prof. dr. Piet Pauwels for his guidance and ideas during the whole process, from initial research concept to end result. With an educational background in South Asian studies, I have been drawn to and interested by the Indian film industry for years. Because I chose to write on a topic that is unknown territory to many, to say the least, I am grateful that he was prepared to supervise my thesis. Furthermore, I would like to thank my family and friends for serving as constant support.

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Chapter 1 Introduction

This chapter serves as an introduction to the research topic. It describes the relevance and purpose of this research, the research questions and the overall structure of the thesis.

The Indian film industry is often overlooked in its growing importance overseas. Producing over 1,000 films a year as opposed to 500 films by Hollywood, the Indian film industry is the world's biggest film industry in terms of production and people employed (Dywer, 2006a). The most important cluster of film production companies is located in Mumbai, and is often referred to as Bollywood. After ICT, Bollywood is the fastest growing sector in India. The Indian film industry as a whole grows by 360% in the period of 1998-2005, and by 58% in the period of 2001-2005. In 2004, Bollywood only produces 16% of all Indian films but accounts for over 40% of the industry's revenues (Lorenzen, 2009b). It is when Bollywood starts to offer films on video and online, that exports grow steadily. Bollywood eagerly adopts new methods of distribution, including the opportunities offered by the Internet. The big players among Bollywood distributors such as Eros Entertainment and Yash Raj films offer Video on Demand (VOD) and make intensive use of their YouTube channels to market films. Because of the high demand for Bollywood movies these distributors have started to sell their products directly to the customer through web shops.

So Bollywood is booming on a global scale, and seemingly digital channels facilitate this growth. In contrary to Hollywood, Bollywood distributors do not only sell their films to providers of on-demand internet streaming media such as Netflix or BIGFlix (the Indian equivalent). Additionally, they have created their own digital platforms to distribute their content. Bollywood distributors seem to take more ownership of digital distribution than Hollywood does. The question is how this relates to growing exports.

The purpose of this thesis is to add to the existing internationalization literature by explaining if and how digital distribution channels can contribute to export growth of Bollywood movies. One particular company is analyzed: Eros International Plc. To that end the following research question is defined:

How can we explain Bollywood's export growth in the last decade by the contribution of digital distribution channels to the internationalization process?

In order to answer this research question, I have kept the following sub-questions in mind. These questions will be answered, albeit not explicitly like the main research question:

- How can digital export channels contribute to export growth?
- Which digital export channels can we identify in Eros?
- How do the characteristics of digital goods affect the internationalization process?

Several researchers such as Mark Lorenzen, Florian Arun Taeube and Rajesh K. Pillania have looked into the reasons behind Bollywood's export growth (Lorenzen & Taeube, 2007; Pillania, 2008). However, their work focuses more on examining economic factors such as the role of the economic situation in the home market, and the role of globalization. The role of digital distribution channels in the context of Bollywood has been briefly mentioned, but has not been extensively analyzed yet.

The structure of this thesis is as follows. First of all, as an industry that is exotic to many, the story of Bollywood is told. Chapter 3 outlines the methodology of this thesis. Chapter 4 introduces the company Eros International. Chapter 5 then continues with a theoretical framework to answer the research questions and this in turn will lead to an analysis in chapter 6. In this chapter the research question will be analyzed through the use of the theoretical framework. Chapter 7 presents the conclusion of the findings.

Chapter 2 The Story of Bollywood

In this chapter the story of the Hindi film industry is told. This story serves as an introduction to an industry that is foreign to many. Therefore this chapter aims to provide an insight into the industry's profile.

The name Bollywood is a portmanteau between Bombay (the former name of Mumbai), and Hollywood, the American film district. Bollywood is often mistakenly used to refer to the entire Indian film industry, but actually it is only one of the many film industries of India. Out of all the film industries in India Bollywood has the highest market penetration (Lorenzen & Taeube, 2007). Other Indian film industries use similar portmanteaus, resulting for example in the name Tollywood for the Telegu language cinema. India is a vast country with a population of over 1.3 billion who are dispersed over 29 states and 7 union territories. In the constitution the Indian government makes a distinction between 22 official and 100 non-official languages (Government of India, n.d.). These regional differences have resulted in various local film production clusters that produce films in a large array of languages. The language that is commonly used in Bollywood is Hindi, which is why it is also often referred to as the Hindi film industry. Although its name might give the impression that Bollywood is an Indian copy of the American industry, the Indian film industry has developed its own style and has been producing movies as early as 1913.

2.1 Bollywood's History

The first films come to Mumbai in 1896 through the Lumière brothers, the first filmmakers in history. At this time India is colonized by the British Empire and the films are meant for mostly a British audience. A local photographer Harishchandra Sakharam Bhatavdekar attends one of these first shows in Mumbai and orders a camera for himself from the United Kingdom. He premieres as the first Indian film maker in 1899 by filming a wrestling match. Another important person in this time is Hiralal Sen, who runs the Royal Bioscope Company that shows and produces films. A fire at the warehouse of the Royal

Bioscope Company in 1917 destroys his films and with it, a great deal of early Indian film history. Sen finds it hard to compete with imported films and closes his business. The Elphinstone Bioscope Company is one of Sen's competitors that acquires rights to show films from foreign studios, and sets up the first purpose-built cinema in Kolkata by 1907. These foreign films would provide the experience that Indian film makers need to produce their own films. When stage magician and photographer Dadasaheb Phalke watches a foreign film based on the Bible, he imagines to portray the story of the Indian deities on screen. Notwithstanding earlier productions of which many were lost in the 1917 fire, the result of his idea is to be marketed as the first film of Indian production, the 1913 film *Raja Harishchandra*. Hence Phalke becomes the father of Indian cinema (Hutchinson, 2013). Modern Bollywood as we know it today takes off in 1931 by the production of India's first sound film, *Alam Ara* (Bamzai, 2007).

In the late 1930s British India consists of the countries we now know as India, Bangladesh and Pakistan. The golden age of Hindi cinema accompanies India's independence from British rule in 1947, and lasts until the mid 1950s. It is fair to say that to the people of India, Indian films are so much more than just entertainment. They play an important part in shaping national identity in this nation. Independence ignites energy and passion of a young nation, and young film-makers start to break away from the studio system and set up their own production houses (Bamzai, 2007). This transition from a studio system to a network of small-scale producers will shape the industry's structure until the end of the 20th century.

In the 1940s small companies outcompete the large studios because they have a strategy that makes their films more successful. They are more successful because they base new productions on previous successes. They develop a film formula and if proven that it is successful, they will reuse the formula to apply it to a slightly altered, new film. In the 1970s this formula is termed *masala*, which means a mix of spices. The formula is named this way because it builds on a blend of romance, action, drama, comedy and lavish song-and-dance sequences.

The *masala* genre crosses all religious, social and regional borders and appeals to Indians throughout the country.

2.2 Growth Opportunities

Throughout the story of Bollywood, the Indian government plays an important role. Until the 1990s the government imposes multiple restrictions on the industry through regulations and export quotas. The economic liberalization in the early 1990s sets new processes in motion. Although the scope of this thesis is not broad enough to discuss the process of economic liberalization of India, a few relevant results from this process can be mentioned. Policies in favor of foreign direct investments and privatization are introduced. Next to that, average tariff rates that first exceeded 300% are cut down to an average of 33% in 1994 (Sharma, 2003). With access to markets beyond India, it becomes easier for the industry to look outside the Indian borders for foreign audiences (Schaefer & Karan, 2012). The growth potential is tremendous.

India has a GDP that, on average, grows by 8% annually (Figure 2-1). More importantly, the part of the population that can afford to spend money on

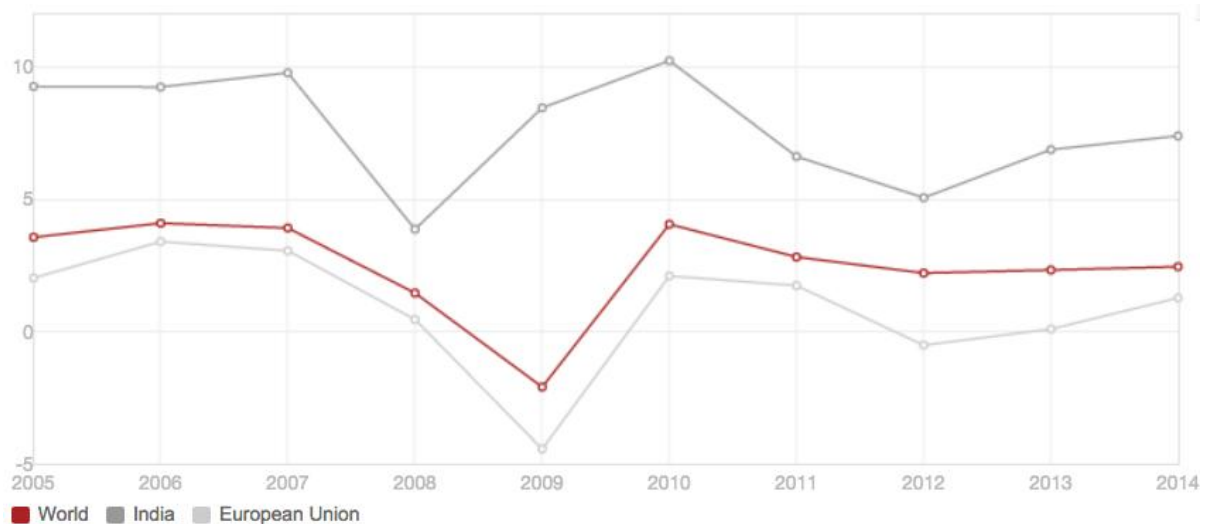


Figure 2-1 %Growth of India's GDP from 2005-2014
GDP growth of the world and EU for comparison

Reprinted from *The World Bank* website, by The World Bank, 2015, retrieved from <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/countries/1W-IN-EU?display=graph>
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entertainment, the middle class, is growing. Over 300 million people belong to this middle class and this number is growing by 5% annually. Within 10 years, nearly 70% of the total Indian population could belong to this middle class (Gupta, 2011). Bollywood has mostly been an indigenous industry since its inception a century ago, but times have changed. In the late 1990s the global and local start to interact more intensively (Pillania, 2008). Around the 2000s the growth of Bollywood takes a leap and so does exporting the films all over the world (Lorenzen, 2009a). In the last couple of years the industry continues to grow at high rates. Table 2-2 depicts the size (in INR billion) of the Indian Media and Entertainment industry and its different sectors from 2008 until 2013. It also depicts the projected size of the industry from 2014 until 2018. It lists the percentage growth of the different sectors in 2013 over 2012, as well as projecting the CAGR from 2013-2018. As can be seen in Table 2-1, the film business has grown by 11.5% from 112.4 INR billion to 125.3 INR billion between 2012-2013. The film sector will be expected to grow by a CAGR of 11.9% from 2013-2018 (KPMG, 2014). For comparison, the revenues from

Table 2-1
Industry Size and Projections

Overall industry size (INR billion)	2008	2009	2010	2011	2012	2013	Growth in 2013 over 2012	2014p	2015p	2016p	2017p	2018p	CAGR (2013-18)
TV	241.0	257.0	297.0	329.0	370.1	417.2	12.7%	478.9	567.4	672.4	771.9	885.0	16.2%
Print	172.0	175.2	192.9	208.8	224.1	243.1	8.5%	264.0	287.0	313.0	343.0	374.0	9.0%
Films	104.4	89.3	83.3	92.9	112.4	125.3	11.5%	138.0	158.3	181.3	200.0	219.8	11.9%
Radio	8.4	8.3	10.0	11.5	12.7	14.6	15.0%	16.6	19.0	23.0	27.8	33.6	18.1%
Music	7.4	7.8	8.6	9.0	10.6	9.6	-9.9%	10.1	11.3	13.2	15.1	17.8	13.2%
OOH	16.1	13.7	16.5	17.8	18.2	19.3	5.9%	21.2	23.1	25.2	27.5	30.0	9.2%
Animation and VFX	17.5	20.1	23.7	31.0	35.3	39.7	12.5%	45.0	51.7	60.0	70.2	82.9	15.9%
Gaming	7.0	8.0	10.0	13.0	15.3	19.2	25.5%	23.5	28.0	32.3	36.1	40.6	16.2%
Digital Advertising	6.0	8.0	10.0	15.4	21.7	30.1	38.7%	41.2	55.1	69.7	88.1	102.2	27.7%
Total	580	587	652	728	821	918	11.8%	1039	1201	1390	1580	1786	14.2%

Reprinted from "The stage is set: FICCI-KPMG Indian Media and Entertainment Industry Report 2014," by KPMG, 2014, p. 2. Copyright 2014 by KPMG.

filmed entertainment in the United States are expected to grow from 2014-2019 by a CAGR of 4.6% (PricewaterhouseCoopers, 2015).

A strong foothold in the domestic market can facilitate export. Even though Bollywood already has a strong position in its domestic market, there is still a lot of room for growth. In their report from 2012, PwC identify opportunities for the domestic film industry to increase consumer spend. First they note that there is potential in driving growth in admissions. On average an Indian only watches 1.7 films a year as opposed to 4 films a year by an American, even though total admissions are rising. Digital cinema will be key in driving growth in admissions and is linked to increasing penetration of screens in the country. Digital cinema enables effective distribution to cinemas all over the country including the ones in remote areas, which is especially important in an extensive country such as India. Digitization has enabled better monetization for the industry since a single film can be distributed to thousands of screens in a short amount of time. In 2013 approximately 90-95% of the screens are digitized but the growth of the number of multiplexes is expected to slow down. A second opportunity is increasing average ticket prices by delivering higher value to the customer. By delivering a differentiated experience through various means, such as high-quality equipment or comfort, consumer spend can increase. The third opportunity that PwC identify is the growth of in-home entertainment. Physical and electronic video, video-on-demand, have high potential of increasing consumer spend (PricewaterhouseCoopers, 2012).

2.3 Industry Structure

Bollywood's industry structure as it exists today is relatively new. As mentioned before, the structure that characterizes most part of the industry in the 20th century has its roots in the 1940s. Because of shortages during World War II, the big studios lose their scale economies, face higher costs and lower sales, and are eventually outcompeted by small-scale production companies. It is in this time that an industry with vertically integrated companies transforms into an industry that is characterized by vertical disintegration.

2.3.1 Value Chain

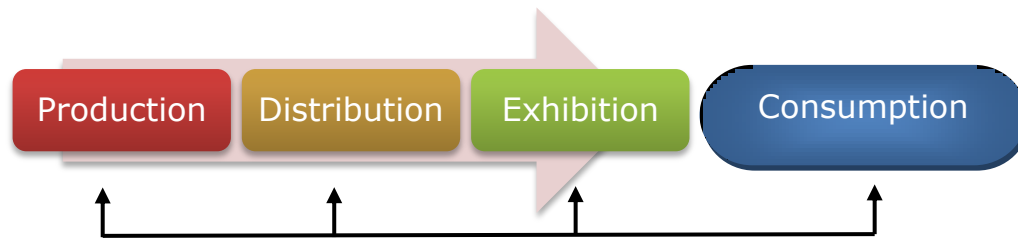


Figure 2-2 *Value Chain of Motion Pictures industry*

Adapted from "The Motion Pictures Industry: Critical Issues in Practice, Current Research & New Research Directions," by J. Eliashberg, A. Elberse, M.A.A.M. Leenders, 2006, *Marketing Science*, 25 (6), p. 639. Copyright 2006 by INFORMS.

The value chain of the film industry is illustrated in Figure 2-2. In today's Bollywood, high-budget, commercially successful films are made by an established group of producers. At the periphery a variety of producers produce the low-budget, niche films. It is up until this point that you can find a similarity between the industry structure of Bollywood and Hollywood. Media conglomerates cover the production, finance and distribution of mainstream Hollywood films, but not of the niche films. Bollywood, on the other hand, has no similar differences between their big-budget and low-budget films. In contrary to Hollywood, the Bollywood industry is characterized by horizontal and vertical disintegration. Even though Bollywood is the biggest film industry in terms of production, the fact is that Bollywood has yet to reach the same level of financial achievements as Hollywood. Even though Bollywood is the world's largest industry in terms of numbers of productions, it makes only a tenth of what Hollywood earns for half the number of films (Singh & House, 2010). In a 2014 list of international box office markets (Table 2-2), the Indian film industry only comes in fifth (MPAA, 2014). Hollywood integrates all the elements of the value chain. Because Hollywood has to oversee all these elements, it also carries the full risk if a film fails. Therefore, film scripts are evaluated carefully on projected box office returns, and productions follow strict planning. Bollywood, in contrast, does not manage the overall risk. Rather, the risk is shifted to the next link in the chain. Derek Bose suggests that this short-sightedness is a cultural problem,

Table 2-2*Top 5 International Box Office Markets – All Films (US\$ billions)*

1.	China	\$4.8
2.	Japan	\$2.0
3.	France	\$1.8
4.	U.K.	\$1.7
5.	India	\$1.7

Adapted from "Theatrical Market Statistics" by MPAA, 2014, p. 5. Copyright 2014 by MPAA.

born out of inbuilt insecurities which makes rivalry rather than collaboration the preferred option (Bose, 2006). Whereas in Hollywood the marketing is integrated, in Bollywood the full burden of marketing is loaded onto the distributor. The major inefficiency here is that the distributor can market the film completely by own judgment, even if it is at odds with what the producer intended. Bose further suggests that the lack of budgets for script development and market research, hence inefficient production, leads to the relative non-profitability of Bollywood (Bose, 2006).

Yet, the attractiveness of financial returns is relative. Because of the country-wide popularity, the potentially great commercial successes motivate investors to finance these films. Still, great commercial successes are rare, and it continues to be a struggle for film producers to obtain film finance. The production companies hire star actors to increase their chances of financing. A star actor is often still considered as the main ingredient for enhancing a film's success, even though in reality a star actor does not guarantee success. Star actors are therefore primarily used to attract finance, rather than audiences. To finance these high-cost productions and high-paid actors the producers draw upon their social network. The production companies can tap into different distribution chains because they are not tied by a vertically integrated system. Each company in the value chain makes its own risk calculations, hence the incentive to perform might be higher than in a vertically integrated firm (Singh & House,

2010). On the other hand, the Bollywood chain has its inefficiencies. Inefficient distribution leads to a growth opportunity for piracy, which is estimated to have cost the industry \$4 billion of its revenues in 2008 (Ernst & Young, 2011). Especially in the second half of the 20th century the industry can simply be described as unorganized, inefficient, and even shady. It is suggested that producers especially draw upon criminal contacts for financing. It is estimated that 60% of film financing in the 1980s and 1990s comes from black money (Singh & House, 2010). Producer Ashutosh Gowariker sums up the state of the industry at this time as "Chaos! Complete Mayhem" (Lorenzen, 2009b, p. 15).

2.3.2 Distribution

As already mentioned, in the 1940s the relatively integrated studio system changes into a complex network of independent producers where films are financed and distributed independently. It is only in 1998 that the Indian government gives the film industry the official status of an industry. This status entails a change from unorganized financing to a corporate economic system. We now see the industry move towards horizontal integration. Some companies start to focus on achieving economies of scale in distribution and finance. By distributing films to both domestic and foreign territories, the companies can benefit from scale economies in marketing and distribution. Hence, foreign markets become more interesting through the horizontal integration in distribution and finance by these large firms. Through an efficient way of distribution and finance these large firms are winning market shares from the independent small-scale firms that do not have the advantage of economies of scale. Because of their size they can more easily invest in the creation of film merchandise such as ringtones and computer games, and benefit from these additional revenues (Lorenzen, 2009b). The industry is also getting corporatized more and more. The stock market now lists several Indian production, distribution and exhibition companies, such as Eros International Plc (Pillania, 2008).

2.3.3 Production

Although we can spot horizontal integration in the industry, there is little vertical integration in production. Production is, however, professionalizing. Production companies try to increase annual output so that they can benefit from scale economies in their production planning. Higher output also allows for better film finance and returns, as the production firms can bundle their films and make a favorable deal for their distributors both domestically as abroad. These types of business models attract capital from other industries and new production companies are set up by these businesses from different industries. Some production companies are integrating downstream in the value chain. They seek to integrate by setting up their own distribution channels and by boosting marketing. An example would be the firm in the industry with the largest turnover so far, *Yash Raj Films*, which has managed to integrate activities downstream successfully. This production firm that started out in 1970 has set up its own distribution abroad and does careful production planning. Because of their reputation they manage to hire the most popular star actors and top-notch crew for various consecutive films. High turnover has also allowed *Yash Raj Films* to incorporate studio and postproduction facilities, and to rent out their excess studio capacity. For many production firms this type of integration is a slow process, which is why often production firms stick to production only. It is especially a challenge to manage the right talent. To avoid high uncertainty, small firms choose for strategic alliances with distributors and financiers. They sign multiple films deals and increase their output for systematic sales through these partners. Although the production firm stays horizontally and vertically disintegrated, the lower uncertainty allows a firm to professionalize other activities such as production planning. Lorenzen and Taeube propose that the industry seems to move towards a system that is based on alliances. Professionalization of the industry brings production time and costs down by improving planning and ways of financing. Through the integration of distribution and finance in some firms, production companies can make considerably larger investments that allow them to tap into domestic and foreign markets (Lorenzen & Taeube, 2007).

2.3.4 Culture

The reason that the disintegrated structure of Bollywood can be economically efficient is that its structure relies on social networks. In India, business relations are likely to be influenced by family relations. Managers give preference to informal, social relations rather than formal, contractual relations. Between producers and actors trust is key, and formal contracts are rarely used. The key people in Bollywood form a small community with intense information exchange and social trust. This community consists of producers and actors from the 1950s and 1960s, as well as their extended families and close friends. Members of this network have entered the film industry as actors, producers or directors and often come from producer and actor dynasties such as the Kapoor and Chopra families. The Bollywood network is geographically focused on Mumbai, but socially dynamic. Even though family-businesses are typical for India, entry to this community is based on preferential attachment, rather than kinship only. The network grows by giving extended families, friends, friends' families the opportunity to work in the industry (Lorenzen, 2009b).

It is important for producers to have good relations with a network of star actors, since actors are casted and selected through relations. A star actor can sometimes take up half the production budget in salary, and is a big expenditure within film production. Because of the lack of formal relations, actors can also pose a risk for a production. Sometimes they can choose to work with a producer with whom they share a closer relationship, and opt out of the other film even at an advanced stage.

Also in film finance social relations are used. Private financiers continue to be key in Bollywood because production companies use their social relations to obtain finance from them. The producers from this network account for more than half of the mainstream productions, and far more than half of the box office hits. Around 25 companies of these producers form the core group and own most of Bollywood's social capital. The most expensive films in Bollywood come from these small, specialized production companies. There are big distribution

companies such as *UTV* who have entered the industry, but they rarely produce big-budget films with multiple star actors. That is because they face difficulty to sign on star actors and directors as they are reluctant to work with big corporations. After all, these corporations are not part of the network and require undesired formal relations and contracts.

In summary, the industry structure is characterized by disintegration in production on one side, and integration in finance and distribution on the other. The alliances that have been formed between these two sides have enabled Bollywood to reach high output and to make considerably larger investments in marketing and export. The existing social structure in Bollywood supports this system of alliances (Lorenzen, 2009b).

2.4 Exporting Bollywood

The earlier mentioned growth of export in the 1990s changes Bollywood in the domestic market in several ways. First, production companies use the export earnings to invest in internal economies and develop internal distribution capabilities. A second change is a shift in policy. The Indian film industry never enjoyed public support until the 1990s. The boom in export comes as a surprise to Indian policy makers and convinces them that there might be a lot of potential in this sector for Indian growth, granted that better framework conditions are installed. They cut down the massive entertainment tax, which in some states accounted for over 150% of ticket prices. Next to that, they grant Indian entertainment industries “official” status with the semi-public Industrial Development Bank of India. By giving this status to the industry, Indian policy makers want to stimulate investors to engage with Bollywood. With this new framework in place, enormous investments from financiers of other Mumbai industries flow to Bollywood and strengthen Bollywood’s external and internal economies. The third change in Bollywood is the entrance of companies from other industries into the Indian film cluster. Noteworthy examples include *Reliance*, India’s biggest telecom company, and *UTV*, India’s biggest TV program producer. These companies focus on building internal economies in distribution,

and often rely on the small-scale independent production companies for content. New to the industry is that these distributors systematically create crowding effects, prevent piracy, and make thorough use of new exhibition platforms such as video-on-demand and online platforms. The final major change that was facilitated by the export boom is the growing investments into exhibition facilities. Multiplex cinemas are built to bolster the demand of India's booming middle class. This middle class has high requirements. They want more choice and luxury, and they are able and willing to spend a higher percentage of their income on entertainment (Lorenzen, 2009b).

2.4.1 The Process of Globalization

Mark Lorenzen suggests that export growth is part of the globalization process. The effect of globalization is remarkable in the case of Bollywood; while Hollywood is only slowly establishing itself in the Indian market, Bollywood is reaching far outside the Indian borders with a growing number of exports (Chakravorty, 2012). The contribution to the US and Indian film market is visualized in Figure 2-3 and Figure 2-4. Both are important illustrations of the impact of cultural distance. In Figure 2-3 we can see that the largest markets for films from the US are English speaking countries. Figure 2-4 depicts the importance of the diaspora. The largest markets where Indian films dominate are countries with a high number of Indian diaspora (referring to Table 2-3). However, the export growth in the past decade is in a way quite remarkable.

There are several barriers that we can identify. These barriers of selling a Bollywood movie to a non-Indian audience in the European and North American market have to do with form and its foreignness to a non-Indian audience. First of all, the Hindi language can be a hurdle. Second, there is the length of the film. An average Bollywood film lasts on average up to 3 hours. For a Western person this is rather unusual and might be considered too long. Finally, the song-and-dance sequences (Dywer, 2006a). What in Hollywood would be considered a musical, is practically a given for Bollywood films. Almost every popular Hindi film has multiple song-and-dance sequences. These songs are released before

the film and are used as a marketing tool to stimulate the audience to come and see the movie in theatres. Often a shortened version of the song is edited into a music video that is shown through TV channels and media sites such as YouTube. This way the audience can already get a glimpse of what the movie is going to look like. These scenes are often shot in the most spectacular places. One minute you are watching the film hero dance in the Swiss mountains to only see him stand in between Egyptian pyramids the next. To a Western viewer these scenes may seem silly.

Bollywood has indeed suffered from liabilities of foreignness. For production companies it is too risky to invest highly in marketing, because they have to attract a non-Indian audience to these distinctive *masala* films. Therefore they don't make an apparent effort. The advantage that Bollywood has is that these liabilities are much lower in some of the most interesting global markets in the world. The Indian diasporas that live in the USA, UK, Canada, and the Middle East are keen on consuming Bollywood products. Through the consumption of Bollywood films, the Indian diasporas express the longing for the homeland symbolically. Luckily for Bollywood producers, these audiences have a similar taste in films as the audiences in the domestic market. Mark Lorenzen mentions that the Indian diaspora is the most important aspect for Bollywood of globalization. He analyses the interaction between Bollywood and the diaspora. According to him, this interaction gives rise to growing exports, new product development, and investments into marketing, distribution and exhibition infrastructures (Lorenzen, 2009b).

2.4.2 The Indian Diaspora

From the 1930s onwards Bollywood exports films to several countries. Among these countries are Pakistan, Bangladesh, and Afghanistan, connected to India through close cultural and historical links. Films are also exported to the main trade partners of India, namely Russia and the Middle East. A third group, and undeniably the most important one, is the Indian diaspora.

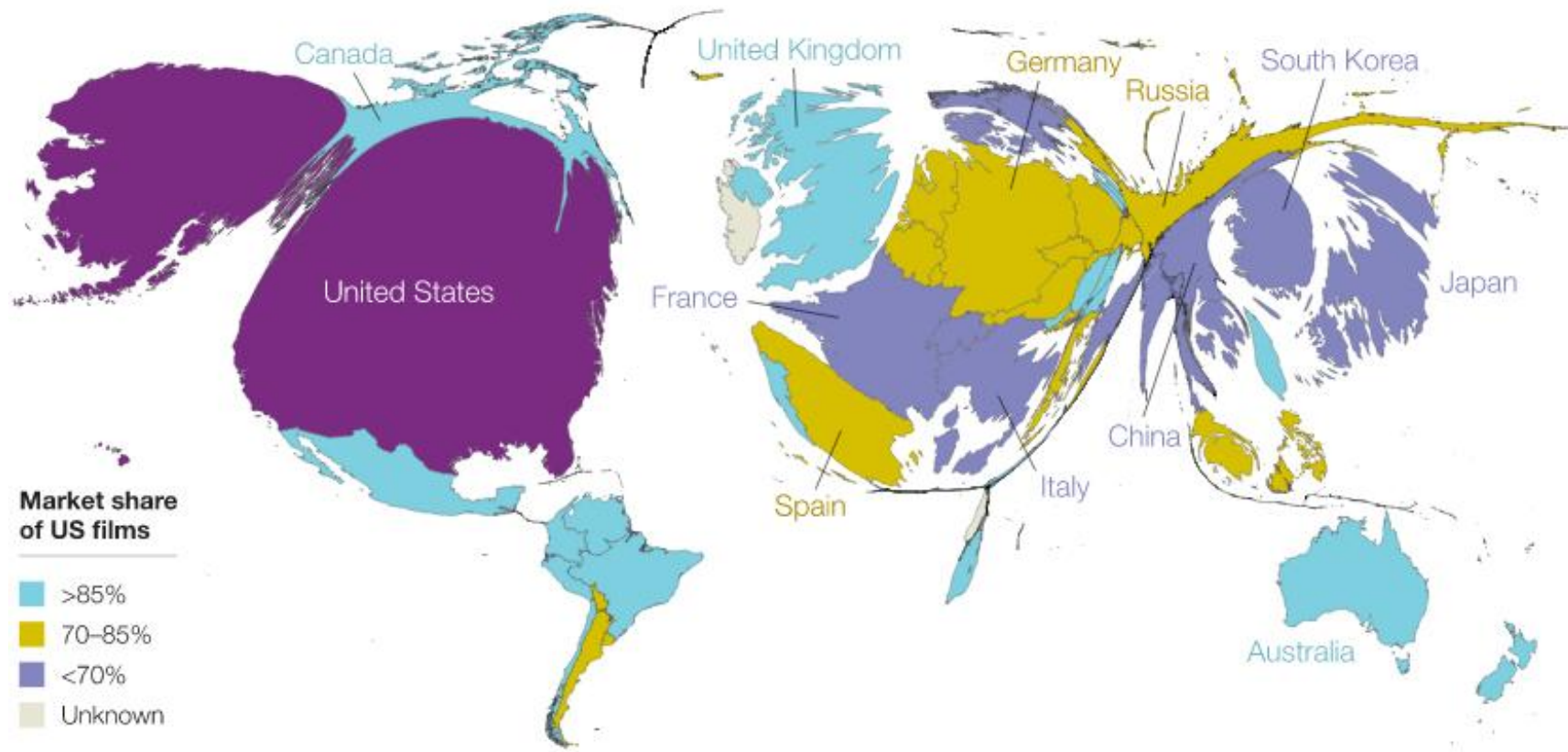


Figure 2-3 Countries sized by contribution to US film industry box office revenue, 2009

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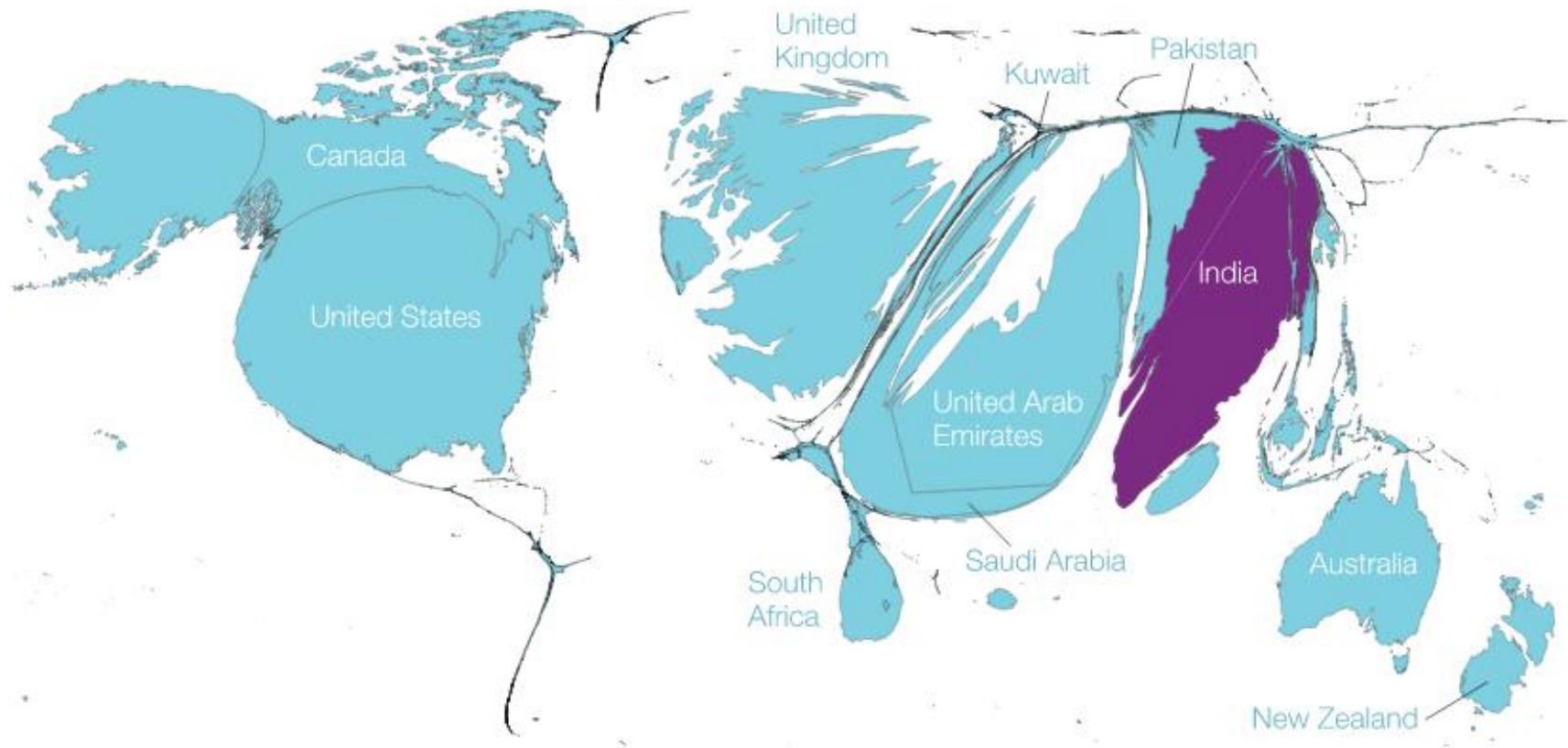


Figure 2-4 Countries sized by contribution to Indian film industry box office revenue, 2009

Reprinted from *McKinsey* website, by McKinsey&Company, 2011, retrieved from http://www.mckinsey.com/insights/strategy/remapping_your_strategic_mind-set Copyright 2015 by McKinsey&Company.

Under colonial rule migrations of Indians have formed large Indian communities in several countries like Burma, South Africa, Nepal and Sri Lanka. After Independence, Indians start to move to countries where they can make use of work opportunities. In this post-Independence period Indians disperse all over the world to countries such as the UK, USA, Canada, Saudi Arabia, UAE, Singapore, Australia and New Zealand (Lorenzen, 2009b). The Indian government estimates that in January 2015 a total of 11,379,746 NRIs and 12,725,280 PIOs live outside of India. These numbers make up a total of

Table 2-3
Top 20 Population of Total Overseas Indians

Country	Non-Resident Indians (NRI)¹	Persons of Indian Origin (PIO)²	Total Overseas Indians
USA	1,272,846	3,183,063	4,455,909
Saudi Arabia	2,800,000	13	2,800,013
Malaysia	150,000	2,000,000	2,150,000
Myanmar	5,576	2,000,000	2,005,576
UAE	2,000,000	2,349	2,002,349
UK	325,000	1,500,000	1,825,000
Sri Lanka	14,000	1,600,000	1,614,000
Canada	184,320	831,865	1,016,185
Mauritius	10,757	881,137	891,894
Kuwait	758,615	1,096	759,711
Oman	707,850	880	708,730
Singapore	350,000	350,000	700,000
Qatar	600,000	677	600,677
Trinidad &	1,500	555,000	556,500
Australia	251,000	235,000	486,000
Bahrain	350,000	2,500	352,500
Guyana	300	325,000	325,300
Fiji	1,400	313,798	315,198
Netherlands	20,000	205,000	225,000
South Africa	50,000	150,000	200,000

Adapted from "Population (Estimate/Assumed) of Overseas Indians: Country-wise" by the Ministry of Overseas Indian Affairs, 2015, p. 1-4. Copyright 2009 by MOIA.

¹ An NRI is an Indian citizen, holds an Indian passport, and is temporarily emigrated to another country for a minimum of 6 months.

² A PIO is of Indian ancestry or origin, but is not a citizen of India and does not hold an Indian passport.

27,105,026 Indians. Table 2-3 lists the top 20 of countries with the largest numbers of Indian residents.

In the 1990s the earnings from export to the USA, UK and Arab countries begin to increase. After these markets, the Australian, Singaporean and East Asian market start to rise as well. Exporting to this new Indian diaspora is a lucrative business, because these Indians have much higher purchase power compared to the old diaspora and the Indians in the domestic market. So even if sales figures are not high in these markets, the revenues to Bollywood can still be high. For example, a DVD can cost around \$2.50 in India compared to \$ 13-18 in the USA. Theatre distribution produces even higher revenues. In 2005, a ticket in India cost on average \$0.35 as opposed to \$ 9.55 in the UK. By estimation, Bollywood collects more than \$200 million annually abroad in 2005. TV companies also consider the potential overseas. The biggest TV-channel of India, Zee TV, draws 40% of its revenues from exports to 4 million subscribers abroad. In the period of 2006-2007 the revenues from cinema exhibition in export markets grow by 21%, making up 9% of Bollywood's total turnover. This, however, does not mean that the process of export is straightforward. The dispersion of the Indian diaspora in countries as the UK and USA poses a challenge to fill cinemas. In this case home video offers a more interesting channel to reach an audience that is this dispersed. Apparently, the diaspora make use of this distribution method enthusiastically, since home video has made exports grow from 2000 until 2005 by 30-50% annually (Lorenzen, 2009b).

Before the 1990s the diaspora market is treated as one big unattractive territory. In this time it is not profitable to export because generally the diasporas are too widely dispersed. Films are bought in ethnic shops and sometimes exhibited in community centers. From the 1990s onwards, Bollywood is eager to explore new ways of distribution and exhibition that could take their movies abroad. They make use of TV, video and more recently, internet downloading. The geographical dispersion of the Indian diaspora becomes much less important because of the possibilities created by new technologies. The Indian diasporas

eagerly pick up the consumption of Bollywood films through satellite TV channels. When distributors start to offer films through video and internet, the exports grow steadily. Because demand from the diaspora grows so fast, the main distribution companies today sell films to TV channels or directly to the customer through retail and web shops. Marketing of Bollywood films, however, is targeted at the Indian diaspora and cross-over to a non-Indian audience is not apparent (Kerrigan, 2010). The non-Indian audience outside India are deemed to be uninterested in the films, so barely any effort is made to raise their interest. Phil Hoad asks a fair question in his article's title: Why aren't more Bollywood films marketed in English? He argues in his article that at least an understanding of the film's title would be a way to raise the profile of Bollywood in the non-Indian market (Hoad, 2012). Right now, it just does not seem to be a priority to the Bollywood industry.

The new distribution channels are also a platform for marketing. Before, companies could not afford to do marketing abroad because of the geographical dispersion of the diaspora. For the first time in the history of Bollywood, they are able to use new channels and platforms to do aggressive marketing all over the world. Although marketing is targeted at the Indian diaspora, this marketing infrastructure has some spillover effects. The films gain presence in mainstream retail stores and on film festivals, which in turn raises awareness and interest among the public for these films. Because of this raised interest, mainstream European and American TV-channels, cinemas and film festivals start to buy Bollywood films to fulfill the demand. This demand further stimulates the industry to invest in exhibition and distribution abroad. Before, the distributors perceived the foreign market as a homogeneous market that should be approached by indirect export. This perception has changed. Export markets are now separate territories, and agents are exchanged for own distribution. The foreign market is now perceived as a heterogeneous market that should be approached by direct exports. It is through the evolution from indirect to direct exports that they become aware of the market heterogeneity. To the younger diaspora audience, Bollywood has been available and visible through TV for

decades. As a consequence, the demand of this audience for cinema exhibition has grown enormously. Distributors can now systematically sell films to cinemas in the main diasporic markets. Bollywood companies are even buying up cinema chains abroad. A subsidiary of the second-largest Indian company, *Reliance Entertainment*, owns over 200 cinemas in North America. In other words, the diaspora strengthens Bollywood's internal and external economies through exports (Lorenzen, 2009b).

The financial results in the 1990s from the diasporic market are so interesting, that producers start to pay attention to this segment. Producers try to adapt the *masala* films in such a way that it appeals to the diasporic audience. A part of Bollywood is tailoring its movies to meet today's needs. Many producers are focusing on making big-budget blockbusters and rely on the openings week's earnings. They do this to pre-empt piracy. These A-grade films are made for the world market and may include themes such as the Indian residing abroad, the NRI. They also experiment with English language films. Other producers focus on B-grade films in regional languages or with specific themes (Dywer, 2006a). The adaptation to local needs takes place through pipelines of information. Between Bollywood and its export market pipelines of information are used for product development. Indian diasporas signal their preferences in two ways. First, producers can read consumer preferences through consumption patterns. Second, NRIs interact with the industry. The Indian diasporas voice their opinions online and through printed media. Also, many producers live abroad part-time, which gives them inspiration and input for topics that might appeal to the audience. This product development process between the industry and the diasporas has resulted in a new film formula. After the *masala* genre, the *global masala* genre is born. *Global masala* mixes Bollywood with western-style narratives and aesthetics. These films often narrate the story of a modern, middle-class family in the diasporas, and discuss themes as identity, modernity and gender roles. Even cast is carefully considered. Producers try to use actors who are "overseas friendly". The films are shot on iconic diasporic locations, such as London or New York. National film funds are eager to subsidize the location

shootings, because it stimulates film tourism. Meanwhile in India, the highly educated, urban middle-class also increasingly enjoys *global masala* films. Often they have ties with the Indian diaspora either through family or business, and can relate to the genre. Even though the *global masala* films are distinctively Indian, the style and narratives resemble mainstream Hollywood which is why they also appeal to Western audiences under the genre of "world cinema". The growing audience in the domestic and foreign market allows Bollywood to release prints in large numbers. The 2006 blockbuster *Don* is an example of this. Of this film 700 prints were released in the home market, and simultaneously 325 prints in the main export markets. *Don* earned \$ 2.2 million overseas (Lorenzen, 2009b).

Next to the pipelines of information, there are also pipelines of capital coming to Bollywood from wealthy diasporas. Many Indian diasporas involve themselves in Indian culture, politics and business, as a way to express their longing for their homeland. One way of doing this is through the pipelines of capital. Before Bollywood started to invest in exports, the diaspora already had. The diasporas run video import companies and organize cinema exhibition. The Indian diaspora transmits more money to their homeland than any other diaspora. The largest amounts come from the USA, UK and Canada. The Indian diaspora evidently is an important player to the development of the Indian economy. Bollywood consistently receives finance from the diaspora as the Indian government allows for 100% FDI in the film industry, and there is a well-oiled infrastructure behind these investments. Not only do they become important shareholders in production companies, they also invest in distribution and in exhibition facilities. Hence, they strengthen Bollywood's internal as well as external economies.

The diaspora also contributes to Bollywood by pipelines of talent. Some films that feature Indian actors are mistakenly taken for Bollywood, such as the British production *Slumdog Millionaire* (2008). Other seemingly Indian films actually are a product of diasporic directors abroad. These films, such as *Bride and Prejudice* (2004) and *Bend it like Beckham* (2002), are popular with Western audiences.

To copy the success of these productions, Bollywood seeks to co-produce films with diasporic talent. An example of such co-production is the 2006 film *The Namesake*. Bollywood company UTV cooperated with a Canadian Indian director to make this film. *The Namesake* grossed abroad more than UTV's Bollywood productions, exposing potential for these new types of productions. To attract Western audiences to Bollywood films, Rachel Dwyer, Professor of Indian Cultures and Cinema, suggests:

Perhaps some of its core elements, such as music and dance and its emphasis on the family (key to some of the most successful Hollywood films), will lie at the heart of a more complete globalization (Dwyer, 2006a, p. 39).

The importance of attracting highly educated and globally experienced members of the diaspora to India lies in the reinforcement of Bollywood's external scale economies and in the industry's ability to make use of the information pipelines (Lorenzen, 2009b).

Chapter 3 Methodology

This chapter describes the methodology that is used to answer the research question. It is subdivided in sections on the choice of research strategy, data sources and collection, and the limitations of this research.

Yin defines five main types of research strategies. The types of strategies he mentions are: experiment, survey, history, archival analysis, and case study. The reason to choose for one research strategy over the other depends on a few conditions. These conditions include the type of research question, the required control of the investigator over events, and on the focus on either historical or contemporary events (Yin, 2003). In this thesis we ask an explanation of a phenomenon in a real-life context. We want to understand the processes behind a certain change, and build new knowledge through empirical research. Therefore the most appropriate research strategy for the research question in this thesis is the case study. Yin describes the case study as follows:

In general, case studies are the preferred strategy when "how" or "why" questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context (Yin, 2003, p. 1).

The unit of study, the case study, is one of the biggest distribution companies in Bollywood: Eros International Plc. Since I want to explain how digital distribution channels can impact export growth of this company, the type of case study will be explanatory. As already mentioned, this research uses empirical evidence.

There are several reasons why Eros International Plc is selected as case. First, Eros International, as its name suggests, is internationally active. Eros has an established, world-wide, multi-channel distribution network in over 50 countries. Second, Eros is the only Bollywood distributor with a self-owned digital platform, ErosNow (www.erosnow.com). Third, Eros has a leading market position (Eros

International Plc, 2015; Singh & House, 2010, p. 30). Their releases are among the highest grossing films (Eros International Plc, 2015). These reasons implicate that the company is doing something right in terms of strategy, and that it provides a valuable case to learn from.

3.1 Data Sources and Collection

Data are retrieved from different secondary data resources. A broad distinction can be made into data that is required of the company and industry, and data on the theoretical framework. One of the most important resources for the case is the official website of Eros International (www.erosplc.com). Also reports from widely acknowledged consultancies such as KPMG, Ernst & Young, and PwC are consulted (KPMG, 2014; Ernst & Young, 2011; PricewaterhouseCoopers, 2012). Since Eros International is a stock market listed company, data is also retrieved from Indian newspapers such as *The Economic Times*, *International Business Times*, and *The Times of India* (The Economic Times; International Business Times; Times of India). Several attempts were made to obtain primary data through expert interviews within Eros International. Due to a lack of response from the firm, these attempts were futile. Information on the company is therefore retrieved from different sources and once critically assessed, the obtained data should be sufficient for the purpose of this thesis. For the theoretical framework, several business and marketing journals are screened for works on internationalization theory (e.g. *International Journal for Business Studies*, *International Marketing Review*).

3.2 Limitations

This thesis deals with several limitations. The main limitations lie in the research strategy and data quality. Starting off with the research strategy. Case studies are advantageous because they study phenomena in the context that they take place in. They may help in explaining complexities of real-life situations that might not be done through surveys or experiments. Still, case study as a research method does not have widespread recognition. This has several reasons. First of all, case study research is often considered as method that should be used in the exploratory phase, and just serves as a prelude to further

research. Second, case studies are considered to lack credibility because they might suffer from bias. The researcher might be inclined to find what he was looking for. Third, there is the perceived inability to generalize the findings. It is questionable to place research strategies in a hierarchy in which one strategy is always superior over another. Rather, a researcher should use the most appropriate and advantageous strategy to the research at hand (Yin, 2003). Notwithstanding the criticism, a case study remains a useful research strategy, and should be carried out with a systematic approach.

Another limitation lies in the quality of the data. Or maybe it is better to say, the lack of data altogether. In this thesis only secondary data is used. Data can be inappropriate and lack quality. Data of films in India are not collected systematically. Collections at the box office are often estimates or deliberately misrepresented by production companies (Lorenzen & Taeube, 2007).

To overcome these limitations, it is first of all important to state that is not the aim of this thesis to make broad generalizations. This thesis attempts to share knowledge that we can derive from a successful company. From a managerial point of view it should contribute to knowledge about best practices in the use of digital export channels for international expansion in the film industry. To avoid bias, data from the Indian media and reports of consultancies should be consulted too in addition to data from the industry.

Chapter 4 The Company: Eros International Plc

This chapter introduces the case that is studied in this thesis: the company Eros International Plc. It describes the business activities of the firm, the distribution channels, and the firm's position in the Bollywood industry.

Eros International Plc, hereafter referred to as Eros, is a global company in the Indian film entertainment industry. Eros was founded in 1973 and is based in Mumbai. The company co-produces, acquires and distributes Indian language films. They distribute these films in different formats to over 50 countries through theatrical, television and digital channels. They hold aggregated rights over 2,700 films, and an additional 700 over which they hold the digital rights only (Eros International Plc, 2015). They release about 70 movies a year (Eros International Plc, 2015). Eros has offices in India, Australia, Fiji, Singapore, United Arab Emirates, United Kingdom and the United States of America.

In 2006 the company is listed on the AIM market of the London Stock Exchange. In 2013 the company delists from AIM and lists on the New York Stock Exchange instead (London Stock Exchange, 2013). Its Indian subsidiary Eros International Media Limited is listed on the Bombay Stock Exchange and National Stock Exchange (Bombay Stock Exchange, 2015; National Stock Exchange, 2015).

4.1 Distribution Channels

As mentioned, Eros distributes through theatrical, television and digital channels from which they draw 43%, 36% and 21% respectively of their revenues (Eros International Plc, 2015). Films are theatrically released in over 50 countries and dubbed or subtitled in over 25 languages. Eros follows a portfolio approach by film, budget, genre and language. Figure 4-1 illustrates a typical distribution timeline. Eros distributes to both multiplex chains and standalone theatres. From 2010 to 2015 the revenue performance of the

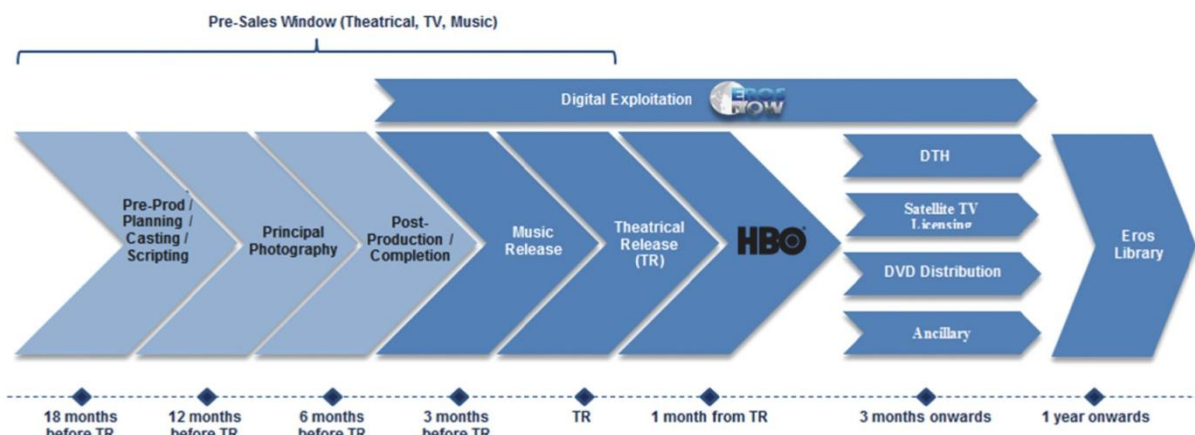


Figure 4-1 Typical distribution timeline of Eros through the first twelve months following theatrical release (TR)

Reprinted from U.S. Securities and Exchange Commission website, by Eros International Plc, 2013, retrieved from

<http://www.sec.gov/Archives/edgar/data/1532981/000117152013000674/eps5335.htm>
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theatrical channel increases from \$50 million to \$123 by a CAGR of 16.2%. In the television channel Eros reaches subscribers to cable or pay TV. They license their film content to content aggregators both in India as abroad. From 2010 to 2015 the revenue performance of the television channel increases from \$53 million to \$101 million by a CAGR of 11.4% (Eros International Plc, 2015).

Digitally, Eros primarily distributes content through Internet Protocol Television (IPTV), Video-on-Demand (VOD) and online internet channels (Eros International Plc, 2013). In 2012, Eros launches online subscription service ErosNow. This on-demand portal offers unlimited access to films, music and music videos in Eros' library. It is available on all internet-enabled devices. Next to paid services, ErosNow also offers a range of free movies. In June 2015, ErosNow registers 19 million subscribers globally. Premium users of ErosNow deliver a monthly returning subscription revenue, while the free users are monetized through online advertising. Transaction revenues are drawn from mobile users, and syndication revenues from the proprietary of original content to niche television and online platforms (Eros International Plc, 2015). This monetization model of ErosNow is illustrated in Figure 4-2.

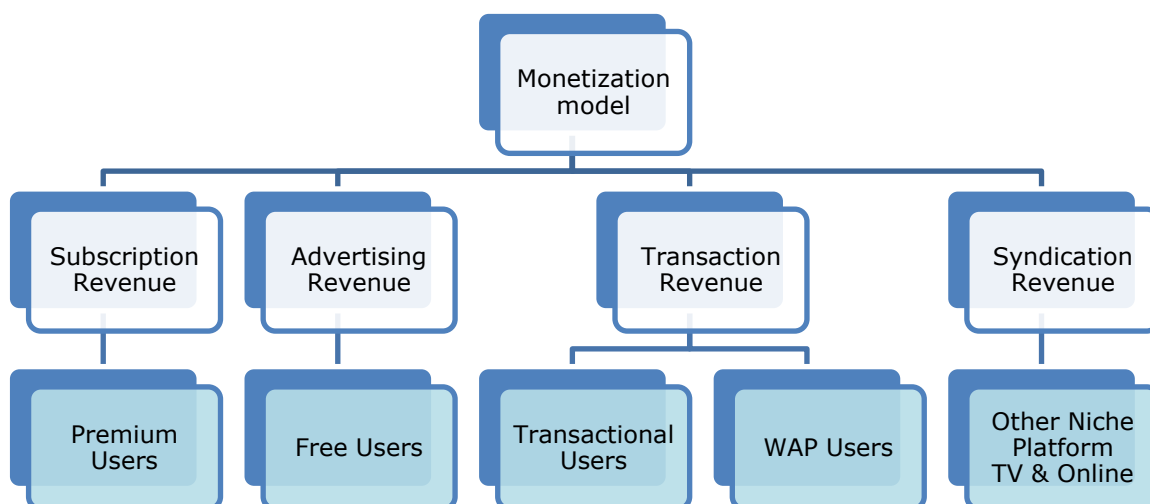


Figure 4-2 *Monetization Model of ErosNow*

Adapted from "Corporate Presentation" by Eros International Plc, 2015, p. 19. Copyright 2015 by Eros International Plc.

4.2 Competitive Position

Eros has a strong competitive position in the market with a multi-platform model. In the theatrical sector, Eros has held an average of 3 out of top 10 box office hits past five years. The pre-sales of their films are facilitated by their brand, reputation and industry relationships. As can be seen in Figure 4-3, they hold the highest theatrical market share of Indian companies in the United States and the United Kingdom between 2011-2014. In the television sector, cable digitization and rising Pay TV penetration foster the demand for premium content. In the digital sector, ErosNow is the leading Indian platform with a global reach. In contrary to Netflix, Eros owns most of the content on ErosNow. Therefore the content acquisition costs are not high. Eros only acquires some content from rival studios to enhance the variation in offered content.

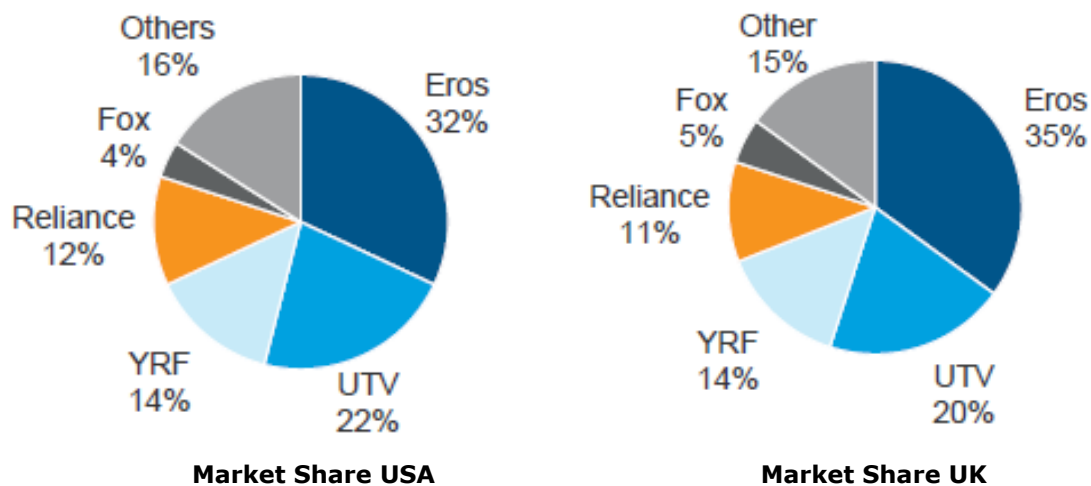


Figure 4-3 Theatrical market share in the USA and UK between 2011-2014

Reprinted from "Corporate Presentation" by Eros International Plc, 2015, p. 5. Copyright 2015 by Eros International Plc.

The projected number of internet users in India is 1 billion in the next 15 years, so the growth potential domestically is enormous. At this moment, however, Eros earns about 61% of its revenue outside India (Eros International Plc, 2015). The growth potential outside India certainly has not gone unnoticed. Eros has entered another big film industry by partnering up with big Chinese film companies China Film Group Corporation, Shanghai Film Group Corporation, and Fudan university. In these partnerships they co-produce, promote and distribute Sino-Indian films in India and China. The size and growth rate of the Chinese movie market offers Eros a prospect of a growing Chinese Box Office and a high rewarding opportunity in the long run (Eros International Plc, 2015).

Chapter 5 Theoretical Framework

This chapter introduces the theoretical framework. It also explains how the theory will be used to conduct the empirical analysis in the next chapter.

The research question posed at the beginning of this thesis was: *How can we explain Bollywood's export growth in the last decade by the contribution of digital distribution channels?* There certainly is not just one simple, clear-cut reason. There is a variety of approaches you can take on towards explaining if and how digital distribution has led to a growth in export. The scope of this thesis is only limited, therefore it will attempt to explain export growth solely through evaluating the internationalization process of Eros in the last decade. More specifically, it contrasts Eros' rapid internationalization process with internationalization theory by analyzing how the characteristics of digital goods affect the pace of internationalization. This is an approach inspired by the one that Mahnke and Venzin have taken in explaining the internationalization process of Ebay (Mahnke & Venzin, 2003). Through this approach, this thesis can explain how Eros has been able to internationalize through the products it sells on its digital platform. Hence, it can partially explain how this process has led to export growth. It has to be stressed that the aim of this thesis is not to give an all-encompassing analysis of Eros' export growth. Only a small fraction of possible factors are addressed. Consequently, I will have to be selective and only stress facts that are relevant to my approach and industry.

5.1 Internationalization

Firms are increasingly internationalizing, and particularly have over the last few decades. It is then not surprising that topics of internationalization and globalization have gained a lot of scholarly interest. In the 1970s research on internationalization focuses initially on the slow, gradual internationalization processes of large manufacturing firms (Johanson & Vahlne, 1977). Theories such as the Uppsala model attempt to explain how firms gradually intensify their activities in foreign markets. A great part of this literature has been written in

the context of large firms that sell tangible, physical products (Vahlne & Johanson, 2013). Alongside research on internationalization, an interest in export strategy has evolved. Export strategy research is often concerned with the way in which firms internationalize and why, and how this internationalization process affects the firm's performance. Research streams show certain similarities. They try to expose success factors and reasons for failure in international ventures. From the late 1980s on, the attention of scholars draws to firms who internationalize at an early stage. These include companies from fast-changing industries such as the high-technology industry. These types of firms defy the traditional way of thinking about the internationalization process (e.g. Knight & Cavusgil, 1996). Some authors argue that the traditional models of internationalization are more or less outdated. They argue that these models fail to explain the expansion of international new ventures. In explaining accelerated internationalization, some authors start to give importance to the importance of network relations, industrial conditions, managers' capabilities and technological change (e.g. Oviatt & McDougall, 1999). In the mid 1990s firms start to commercialize the Internet business. These companies, such as Yahoo and Ebay, expand rapidly in the international market. Although they are completely different companies, they have an important similarity: they offer digital information goods on an international scale. Technological change such as the Internet has a massive impact on the possibilities for internationalization of a firm. A firm can become an international business, merely through a website. The Internet opens up the market place for digital information goods, the focal point of this thesis.

5.2 Digital Products

Digital information goods are often experience goods. A consumer learns how much he or she values an experience good only after consuming it by sight, taste or touch (Kim, 1992). Movies certainly are experience goods. After all, one cannot experience a movie without watching it. Digital information goods are different from other goods in their economic implications. They differ in the experience good character, production costs, product adaptation costs and

transportation costs (Shapiro & Varian, 1999). Digital goods often require an information inquiry of the consumer that leads to the consumption of the digital product. In the case of film, this can be visiting a website to read about a new release or watching previews. Media producers build on reputation and branding to overcome the reluctance of consumers to buy information before they know what they are actually getting (Shapiro & Varian, 1999).

Attention is scarce in the information economy, and marketing is needed to grab the attention of online consumers. The internet allows for one-to-one marketing, as opposed to the conventional broadcast form of advertising. The online behavior of millions of people is observed, analyzed and used to target each user with customized content and ads (Shapiro & Varian, 1999). For example, if you check out the prices for an airplane ticket to London on one website, you will almost surely be confronted by banners advertising hotels in London on the next website you visit. This one-on-one marketing is beneficial to the advertiser and consumer because the consumer only gets the ads that are likely of interest to him. At the same time, the advertiser reaches his target audience. With information on preferences of consumers, the firm can further customize its offerings to match the needs of the consumer. Hence, these products are more valuable to the consumer.

The cost structure of digital goods is characterized as follows. The fixed costs of production are high, but the variable cost of reproduction is low. An important component of the fixed costs are sunk costs. If you invest in a film and it flops, you cannot recover your investment. Next to first-copy production costs, marketing and promotion are a major cost item for many information goods. The marginal cost of producing another copy does not increase. You can produce one copy or 10 million copies at roughly the same unit cost. There are hardly any natural capacity restraints. This offers great marketing opportunities. Whereas a producer of physical products will have to bare marginal costs on each additional free sample, a producer of information goods has no cost of distributing any additional free copy (Shapiro & Varian, 1999).

According to Shapiro and Varian, there are only two sustainable structures for an information market. The first is the dominant firm model, in which one firm enjoys a cost advantage by virtue of its size and scale economies, not necessarily by having the best product. A popular example of this structure is Microsoft. The second structure is a differentiated product market. In this market, a number of firms are producing the same kind of information in many different varieties. This is the most common structure for information goods, including film. At the most fundamental level, the principle of competitive strategy for a firm in a differentiated product market is to differentiate the product to distinguish oneself from competition. The goods also have to be priced in a way that maximizes their value. If you are able to customize your products to generate the most value for your customer, and establish appropriate pricing, you can gain the most value out of the created information (Shapiro & Varian, 1999).

If you want to customize your product, you will need to get to know your customer first. The two main ways to get this information are through registration and billing, or through observation. In the registration or billing process, demographic information can be asked of the consumer. In some cases consumers are reluctant to give this information, as they don't know how it will be used. Another pitfall is that they simply give false information. In the case of observation, firms can analyze the online behavior to learn about their customers. In the digital film industry, you can observe that the firms know that certain groups of consumers have different price elasticities. Therefore you can often see that these firms offer different subscription 'levels' such as basic and premium.

Chapter 6 Empirical Analysis

This chapter contrasts the internationalization process of Eros to the theoretical framework in an empirical analysis.

As some authors argue, foreign market penetration in a single market develops in stages (Johanson & Wiedersheim-Paul, 1975). Firms start with no regular export activities. They then move on to export through agents and licensing agreements. Once they gain more market knowledge, they establish sales subsidiaries, joint ventures and overseas production units. Lack of knowledge about a market leads to liabilities of foreignness and therewith inhibits international expansion. Entering a market without having sufficient knowledge about that market, limits the resources that are committed. The more knowledge, the less perceived risk. This theory predicts that firms are willing to commit their resources in accordance with the amount of market knowledge (Mahnke & Venzin, 2003). Also in internalization theory, lack of foreign market knowledge increases the risk exposure in international expansion. However, internalization theory suggests that expropriation risks can be controlled by internalizing vertical activities (Vahlne & Johanson, 2013). This in contrast with internationalization theory, in which risk is controlled by limiting the committed resources. The entering company may compensate the temporary disadvantages by making use of their advantages such as reputation and brand (Mahnke & Venzin, 2003). Because these are intangible assets which they need to signal quality, more firms tend to choose for expansion by FDI for reasons of control (Vahlne & Johanson, 2013).

6.1 Internationalization Process

In the case of Eros we can see a gradually increasing commitment of resources. In the 1990s and 2000s, Bollywood movies would be mostly exported to ethnic shops in the diaspora markets. Because these movies were often illegally copied and sold, Eros decided in the 1990s to lower the price of the video tapes in the U.S. market. Eros' VP of marketing in that time, Behram Shahparast, says that in

Canada they consequently sold 10,000 copies of the film *Hum Aapke Hain Koun*, whereas in the past they would be lucky if they sold 1,000. Substantial revenues, however, still come from theatrical distribution to the diaspora market (Bessman, 1999). From video and theatrical distribution Eros moved on to establishing local offices in Australia, Fiji, Singapore, United Arab Emirates, United Kingdom and the United States of America (Eros International Plc, 2015). In the last 10 years you can observe that Eros increasingly gains confidence in establishing itself in the foreign market by digital products. We can identify a common thread in the internationalization process of Eros: Eros mainly targets the Indian diaspora. A few examples will be mentioned.

In 2005, Eros closes a deal with U.K's IPTV service HomeChoice. With a target audience of South Asian diaspora in mind, they launch the service "B On Demand movies", priced at £10 a month (ITVT, 2005). In 2004 a similar deal is made with Canadian company Rogers Cable (Cable & Telecommunications Association for Marketing, 2004). In 2006, Eros makes several digital deals. It enters into an agreement with International Networks, a subsidiary of Comcast, to launch a service called "Bollywood Hits on Demand" in North America. This service is a subscription video-on-demand (SVOD), and is available from the largest broadcasting companies in the U.S. such as Comcast, Cox Communications and Time Warner Cable (www.mybhod.com). In the same year in North America, Eros enters into an agreement with web-based VOD service company Movielink, now known as Blockbuster (www.blockbusternow.com). On this website, customers could legally download Bollywood movies. Also in Europe, Eros makes its digital entry. In June 2006, Eros launched a digital movie download service with RTL. The goal of this deal is to make Eros' movies available to a Dutch audience through RTL's digital platform (Eros International Plc, 2006). It can be suggested that Eros has the number of Indian population overseas in mind. The largest diaspora market lie in the U.S., U.K. and Canada, but also the Netherlands offer an interesting market for Bollywood films (Table 2-3).

Johanson and Wiedersheim-Paul conceptualize the internationalization process in four stages. These successive stages represent higher degrees of resource commitment: (1) no regular export activities; (2) export via independent representatives; (3) establishment of an overseas sales subsidiary; (4) overseas production units (Johanson & Wiedersheim-Paul, 1975). From the number of alliances it might be suggested that the activities of Eros fit into the second last stage. One could argue that at this stage Eros mostly enters and operates in foreign markets through alliances, rather than setting up businesses from scratch, and is therefore not at the final stage of internationalization. Perhaps the strength of Eros is to acknowledge the actual demand for Bollywood movies, and commit their resources accordingly. In the case of Eros, digital distribution has opened up possibilities of specific relevance to this industry's audience. The diaspora are geographically dispersed in most of the markets. Even though you can find Bollywood screenings and shops selling Bollywood DVDs in some of the larger cities, there is still a significant group outside these areas that barely have direct access to Bollywood films without digital distribution. The possibility of accessing films online, from anywhere and anytime, is a possible incentive for viewers to subscribe to a VOD service. The popularity of Netflix in the last few years shows that customers are ready and willing to consume films through digital channels. For more reasons than geographical dispersion alone, Eros recognizes potential in digital distribution and embraces it. After years of experience and gaining knowledge on the international digital market, Eros starts monetizing their content independently and launches ErosNow in 2012. The question remains if an online platform with Bollywood-only content will be sufficient to maintain the interest of the diaspora.

Eros seems to export to markets that they feel are close to home. The diaspora is the factor that makes the distance psychically small. The internationalization of Eros does not necessarily lie in the hands of Eros alone. The diaspora market has been importing Bollywood movies for decades. In a way, rather than Eros choosing to expand internationally, the diaspora demanded that they did (Grönroos, 1999). In the diaspora market, many customers like to watch

Bollywood movies, but also grew up in a market where Hollywood is the mainly offered and preferred content. Providing Bollywood movies as an optional package, or in other words, mixed bundling with Hollywood content, might be a smart choice in a market with heterogeneous demands such as in the entertainment market (Chiambaretto & Dumez, 2012).

6.2 Digital Product Characteristics

In the market of digital products, Eros can reap the benefits from the characteristics of a digital good. As mentioned earlier, these goods differ from physical goods in experience good character, production costs, product adaptation costs and transportation costs (Shapiro & Varian, 1999).

According to Mahnke and Venzin, both customer and entering company engage in learning. Companies have to learn about the new market, while the customer has to learn about the product of the new entrant. This is especially important for a digital good: it is an experience good. Because the consumer does not know what he is buying until he has actually experienced it, the firm has to convince the consumer that it will be worth it. The characteristics of Eros' products seem to follow this line of thought. On ErosNow, you can watch many films free of charge (www.erosnow.com). The only entry requirement for access to these free movies is that consumers have to register. Additionally, Eros has its own YouTube channel, a medium that is a well-known and accessible channel in the western world. The promotions Eros carries out through this channel is an accessible way in which consumers can get more familiar with Eros. Also through advertising campaigns such as the "Bollywood Oye!" campaign in Canada, customers could learn about Eros' products (Cable & Telecommunications Association for Marketing, 2004). In general, digital information goods providers seem to target countries with high internet penetration (Mahnke & Venzin, 2003). The named examples, the U.S., U.K., Canada and the Netherlands, seem to fit this description. After market entry, Eros is able to learn about customer preferences by monitoring their online behavior. The requirement of registration enables Eros to practice one-on-one marketing and make better predictions on in

which films to invest. An additional benefit is that Eros can use the retrieved information for strategy development in their other channels as well. Eros mentions that it continues to analyze online behavior for direct marketing and market research (Eros International Plc, 2015). Relatively to physical goods, this provides a cheaper way of learning. In general, the required resource commitment for digital goods might be less than physical goods in absolute value. Market entry with digital goods might mean nothing more than hiring a domain name, and setting up a marketing and IT team to run the business (Mahnke & Venzin, 2003).

Digital information goods providers seem to deviate from a slow international expansion process. Digital information good providers want to penetrate the foreign market quickly. They seek entry modes that allow them to benefit from economies of scale, from network effects, as well as to control branding (Mahnke & Venzin, 2003). In terms of digital products, Eros seems to seek out the biggest players in the markets that it enters. For example, they cooperated with Comcast in the U.S., and RTL in the Netherlands. By doing this, they tie their brand name to an already established brand in a foreign market. However, to an Indian residing abroad, Eros is a well-known brand name. I argue that the brand Eros and their dominant position in the market favor their position in new markets. They further strengthen their brand by cooperating with locally established providers which opens up the market to new, even non-Indian customers. Concerning the Indian audience, Eros does not necessarily has had to go through the process of making their brand known first, instead they mostly had to focus on persuading consumers that the content that they offer is valuable. With a worldwide dispersed diaspora, they are fulfilling a demand that allows for rapid expansion of their digital products.

Chapter 7 Conclusion

This thesis has attempted to shed light on the reasons for the export growth of Bollywood movies. This was done by contrasting the international activities of Eros with internationalization theory and the role of digital product characteristics.

From the analysis we found several factors that possibly have contributed to the export growth of Eros. The main theme was that Eros' internationalization can largely be explained by the Indian diaspora. Eros has expanded mainly by partnering up with local, big-player digital platforms. One reason could be that Eros chooses to focus on markets that have a large Indian diaspora. Additionally, a possible reason for growth lies in the characteristic of this main target audience. Because of the geographical dispersion of the Indian diaspora, digital distribution can reach a wider audience than theatre distribution can. Another reason could be the bundling of Hollywood and Bollywood content. The possibility of buying both in one package is able to meet the specific demands of the Indian diaspora, who grew up watching both.

In the analysis we also found that the characteristics of a digital good influence the internationalization process. Eros allows customers to learn about their digital content by offering free movies, promotions through YouTube and by advertising campaigns. In return, Eros can learn about its customers by monitoring online behavior. This information can help in offering content that is valued by the customer, who is then more inclined to buy it. Because digital films can be distributed relatively quickly, Eros has been able to accelerate the pace of internationalization. It has done this by fulfilling a worldwide demand through ErosNow, but also through using their brand in cooperation with large, local digital platforms.

This case study has attempted to show how demand from a certain group for a particular product can motivate a firm to internationalize, in contrast to a case in which a firm tries to create the demand. Also, the importance of embracing digital distribution in the entertainment industry is highlighted. The way in which people are consuming entertainment is changing, and entertainment firms need to react to these trends. The findings from this thesis are particularly relevant to other distributors in the Indian film industry. The aim of this thesis was not to give an all-encompassing analysis of Eros' export growth. It has to be noted that only a small fraction of possible reasons for export growth have been addressed.

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