



# **The Battle against the World of Piracy: A Case Review of ABC Entertainment**

**Staff Development Unit  
Faculty of Commerce and Management Studies  
University of Kelaniya, Sri Lanka**





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**Authors**

N.L.E. Abeywardana  
L.C.H. Jayarathne  
P.M. Jeewandarage  
S.A.R. Lasantha  
D.M.N.S.W. Dissanayake  
B.C.P. Jayarathne  
H.A.H. Hettiarachchi  
B.K.H.D. Anuranga

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**Contact Details;**

Staff Development Unit,  
Faculty of Commerce and Management Studies,  
University of Kelaniya,  
Kelaniya, 11600  
Sri Lanka  
Email: [sarlasantha@gmail.com](mailto:sarlasantha@gmail.com)  
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## **Abstract**

In general, gaining of competitive advantage is the main objective of a company's survival. In the pursuit of achieving this companies explicitly or implicitly adhere to many strategies and many external factors which beyond the company's control affect this process. Thus is it inevitably complex and only keen companies survive? Provided that, in this review note we bring a contemporary case into discussion. ABC entertainment was one of the finest companies established in Sri Lanka and their core business was selling artistic content in different forms; ringtones, compact discs, etc. Their main revenue generator relied upon the ringtones supplied to mobile operators such as Mobitel, Dialog, Etisalat, Hutch and etc. Back then, Mobitel operated as the industry leader of telecommunication and subsequently companies entered to a price war with the emergence of companies like Airtel in 2009. All the companies faced severe reductions in revenue and found tough to operate. As means of survival and retaining competitive positions companies' implemented strategies such as adding value added services such as internet and data. The review proceeds discussing problems raised in the revenue models of the companies providing facts in relation to telecommunication industry in Sri Lanka, management structure and etc. Finally the review suggests strategies as means of survival.

**Keywords:** Revenue model, Strategies, Telecommunication industry, Entertainment Industry, Copyrights

**JEL Classifications:** A10, L96

## **Introduction**

Bharti Airtel India extended its global presence by entering into Sri Lankan market in January 2009 as the fifth mobile operator in Sri Lanka. Either Airtel Sri Lanka or ABC Entertainment (Pvt) Ltd<sup>1</sup> would have not probably anticipated the depth of challenges that they would come across in the years to come at this juncture. Several local news papers reported the Airtel move and what the existing players have to say on it.

“Bharti Airtel, a leading mobile service provider in India will commence operations tomorrow in Sri Lanka, which is expected to revolutionize the country’s mobile phone industry with its state-of-the-art technology and customer-friendly services. Head of Corporate Communications of Bharti Airtel Sri Lanka, Yohan Munaweera said that the company was happy to launch their operations in Sri Lanka and declined to comment further.

A spokesman for Dialog GSM said that they welcome competition and will offer the best services to their loyal customers. Dialog is confident that it can do well and will continue to provide value added services to be a key player in the industry, he said. Officials of Tigo said they needed time and declined to comment on the new entrant into the market”

*-Sunday, 11 January 2009 [www.lankanewspapers.com](http://www.lankanewspapers.com)*

Unlike the marketers, economists see goods and service market is fragmented into just four pieces. At one end it is the monopoly where only single player in the market while at the other end the perfect competition with large number of sellers.

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<sup>1</sup> Actual company named was not revealed due to privacy reasons



In between it exists the oligopoly and monopolistic competition. It is not hard to identify that telecommunication industry in Sri Lanka is more or less an oligopoly market for a person with little economics knowledge. It is interesting to point that the entire market is shared by a few players in the oligopoly market which may lead to fierce competition. And also the barriers to entry are significantly higher since a new entrant means losing of market pieces owned by the existing players.

As the economics suggest, the existing mobile operators were ready; they were ready for the battle. Mobitel already started slashing tariffs with the introduction of “Upahara Package” to state employees even before the Airtel entry. Price war began sooner as other players such as Dialog slashing tariffs significantly.

Post-paid packages offered by almost all the mobile operators required the customer to pay a deposit which would be paid only at the time of terminating the service. However the initial costs of pre-paid packages were comparatively cheap. Switching from one service provider to another would mean for some users changing their mobile number that has already been used for personal as well as business activities for a longtime. However a rational customer would probably compare the benefit of being stick to one mobile number with attractive tariffs offered for call time by another operator.

Price war continued until the Telecommunication Regulatory Commission (TRC), the regulatory body for telecommunications in Sri Lanka entered in to picture at the mid of 2010. TRC put an end to the price war by enforcing floor prices so that nobody could cut further down from the specified prices.

“Sri Lanka's telecom regulator is enforcing floor prices and interconnection rates for mobiles from July 15, ending a price war that has put the industry deep in the red, though concerns remain.

The market is shared between Dialog Axiata, Etisalat<sup>2</sup>, Mobitel, Airtel Lanka and Hutch. An intense price war started with Mobitel, a firm connected to state-run Sri Lanka Telecom giving a cut price tariff plan to state workers, ahead of Bharti Airtel's entry to the island as the fight player.”

-2010-07-14 <http://www.dailymirror.lk>

Despite the hardships and unpleasant experience, Airtel Sri Lanka celebrated its 5<sup>th</sup> anniversary at the dawn of 2014. Chief Executive of Airtel Sri Lanka expressed his view that Airtel's low price entry strategy was a wrong decision. Further he was of the view that the consolidation of the Telecommunication industry in future is inevitable.

“Speaking to the Business Times on Airtel Sri Lanka's fifth anniversary of its local market entrance, which falls today, Mr. Goonawardene gave his personal opinion that, in hindsight, Airtel's low price entry strategy used to enter the local market was a wrong decision by the operator. Other industry analysts said that Airtel's entry strategy of significantly lower tariff and free SIM entry offers had sparked a domestic price war that eventually resulted in the Telecommunications Regulatory Commission of Sri Lanka (TRCSL) stepping in and instituting tariff floor and ceiling pricing structures.”

-Sunday, January 12, 2014 , <http://www.sundaytimes.lk>

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<sup>2</sup> Etisalt was formed by acquiring the mobile operator Tigo

Had the Airtel used a different entry strategy, the future of ABC Entertainment would have been different. ABC entertainment probably would have not realized what Airtel entry would mean to them. And the company would have not probably anticipated the phase of changes happened within the Telecommunication industry. All said and done it is the history now, but the future strongly lies at the choices made by the CEO of ABC Entertainment today.

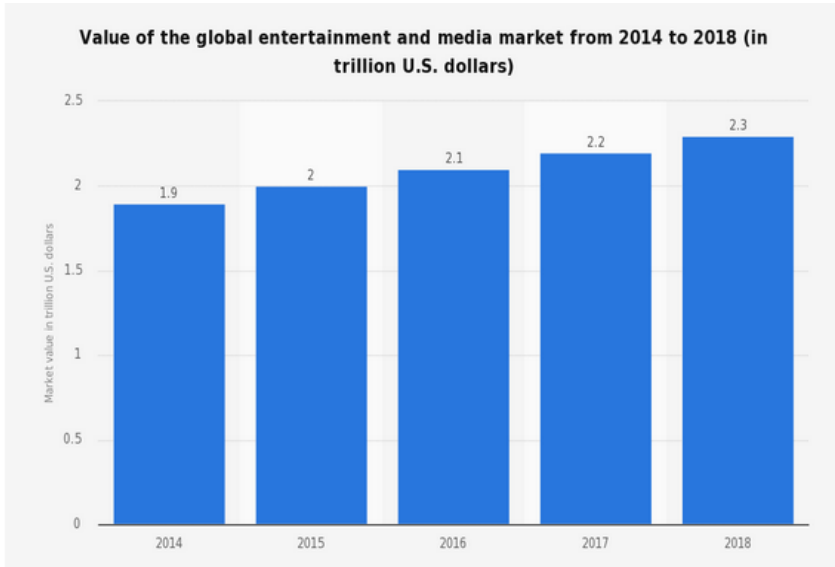
## **Entertainment Industry**

Entertainment is any action providing a diversion or permits people to please themselves in their leisure time, and may also provide fun, enjoyment and laughter. People may create their own entertainment, such as when they spontaneously invent a game; participate actively in an activity they find entertaining, such as when they play sport as a hobby; or consume an entertainment product impassively, such as when they attend a performance (Wikipedia, 2014).

Entertainment industry (informally known as show business or showbiz) is part of the tertiary sector of the economy and includes a large number of sub-industries devoted to entertainment. However, the term is often used in the mass media to describe the mass media companies that control the distribution and manufacture of mass media entertainment. In the popular jargon, the term showbiz in particular connotes the commercially popular performing arts, especially musical theatre, vaudeville, comedy, film, and music. It applies to every aspect of entertainment including cinema, television, radio, theatre and music. Once the great initiator of Disneyland concept said that entertainment in its broadest sense has become a necessity rather than a luxury in the life and this becomes true when the Indian entertainment and media economy is taken into consideration. It reveals that Indian entertainment and media

(E&M) industry has out-performed the Indian economy and is one of the fastest growing sectors in India (FICCI, 2006).

Furthermore, there is a booming entertainment and media industry in the worldwide. The Global Entertainment & Media Outlook 2014-2018 published by pwc in June 2014 has shown that the global entertainment market will be grown by 5% annually and it will reach to USD 2.3 trillion in 2018.



Source: PwC, “Global Entertainment and Media Outlook”, 2014-2018, at <http://www.pwc/gx/en/global-entertainment-media-outlook/index.jhtml>

Similarly, In 2014, 39% of E & M CEOs believe that the global economy will improve in the next 12 months compared to 20% last year (PwC, 2014).

Speaking about the Sri Lanka, few major areas have been focused by the people as noticeable entertainment options within the country. Even in tiny opportunities people tend to make it as happiness creation point based on a theme “if you work hard, you should definitely play hard!” (Work in Sri Lanka, 2014).

Accordingly, dining, theaters, sports, nightlife, recreational park, kid's life have been popularizing among the people's lives. Catering to the foodies of all ages and diverse favorites, capital city of Sri Lanka is vibrant with more dining options than one can keep count of. Also nightlife has seen a facelift over the past few years in the country for the happiness of people. Similarly, English theatre industry also has grown in size and variety over the past decade with the other theatre entertainment options. In another corner, with the development in near past within the country, various recreational parks have been established for the joy of people. Kids' parks including cycling tracks, zoo, and various types of museums, game arcades, and city hotels collectively host the kid's events in their world. At a glance, many of these options are sponsored by music industry directly or indirectly which is ideally focused within this review. However, as per the topic discussed in the case study it is relevant to shed some light on the music industry followed by which the ringing tone comes in today's world.

The music industry has been undergoing drastic changes since the advent of widespread digital distribution of music. A clear cut indicator of this is total music sales: since 2000, sales of recorded music have dropped off substantially while live music has increased in importance. The largest music retailer in the world is now digital: Apple Inc.'s iTunes Store (Apple incorporation, 2014). The two largest companies in the industry are Universal Music Group (recording) and Sony/ATV Music Publishing (publisher). Universal Music Group, Sony BMG, EMI Group (now a part of Universal Music Group (recording) and Sony/ATV Music Publishing (publisher)) and Warner

Music Group were collectively known as the "Big Four" majors. Labels outside of the Big Four were referred to as independent labels.

Ring tone also belongs to the entertainment industry and until recently, ringtones have been simplistic, short re-recordings of well-known musical compositions or other sounds such as a voice recording or a sound effect (Traurig, 2005).

A ring tone maker allows a user to take a song from their personal music collection, select whatever section they like and send the file to their mobile phone. Files can be sent to the mobile phone by direct connection (e.g., USB cable), Bluetooth, text messaging, or e-mail. The earliest ringtone maker was Harmonium, developed by Vesa-Matti Paananen, a Finnish computer programmer, and released in 1997 for use with Nokia smart messaging.

Andy Clarke (whilst working for UK Phone Provider Orange) approached the UK's Mechanical Copyright Protection Society in 1998 and helped create the B5 Ringtone License. In 1999 Andy registered ringtone.net and set up what is believed to be the world's first "legal" ringtone business. Some providers allow users to create their own music tones, either with a "melody composer" or a sample/loop arranger (such as the MusicDJ in many Sony Ericsson phones). These often use encoding formats only available to one particular phone model or brand. Other formats, such as MIDI or MP3, are often supported; they must be downloaded to the phone before they can be used as a normal ring tone.

When someone buys a ringtone, an aggregator (company that sells ringtones) either creates their own tune or mixes together a pre-existing one. After the ringtone is created, it is put into a unique file format and sent to the person's phone via SMS. If the company uses a pre-existing song, they must pay royalties to the person who owns the song. A significant portion goes to the cell phone provider.

In 2005 "SmashTones" (now "Mobile17"), became the first third-party solution to allow ring tone creation online without requiring downloadable software or a digital audio editor. Later, Apple's iPhone allowed users to create a ringtone from any song purchased for the phone's iTunes library but with some difficulties, including a 40-second limit, and the fact the file has to be an AAC format and whose name ended with the extension .m4r.

There are a variety of websites that let users make ring tones from digital music or other sound files; they upload directly to their mobile phone with no limit on the number of songs uploaded.

Sri Lanka is a middle-income country with a per capita income of US\$ 2,399 in 2010, which is an increase of 16.6 per cent from the 2009 per capita income of US \$ 2053<sup>3</sup>. According to the 2009 Annual Report published by the Central Bank of Sri Lanka, the country recorded a GDP growth rate of 4.8 per cent

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<sup>3</sup> (Lanka Business Online, 2011)

in 2009 (Table 1). This is considerably lower than the growth rates of both 2007 and 2008. The combined impact of the global recession and the heightened military drive at the final stages of the war in the North and East were the main reasons for this dip in 2009. However, the economy revived significantly by 2010 recording a GDP growth rate of 8 per cent,<sup>4</sup> fuelled by post war economic expansion, combined with renewed optimism.

Table 1: GDP Per Capita and GDP Growth Rate

Year	GDP Per Capita at Market Price(US\$)	GDP Growth Rate (%)
2007	1,634	6.8
2008	2,014	6.0
2009	2,053	3.5
2010	2,399	8.0

*Source: (Central Bank of Sri Lanka)*

The country's population of 20,450,000 has a literacy rate of 90.8 per cent, the highest in the South Asian region as at 2011<sup>5</sup>. A high literacy rate enables people to make use of new technological developments, a crucial factor in telecom sector development. However, a study done by the Sri Lanka Information and Communication Technology Association (SLICTA) showed that while the demand for IT graduates in 2007 was 5755 the supply in that same year was only 2216.

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<sup>4</sup> (Official Government Website of Sri Lanka, 2011)

<sup>5</sup> (Daily Financial Times, 2011)



Table 2: Growth of Telecom Sector and its Contribution to GDP

	2008	2009	2010
Growth of telecom sector (%)	22.30	11.7	15.1
Share of GDP (%)	1.6	1.7	1.8
Contribution to GDP (%)	5.1	5.2	2.8

*Sources: The Telecom Regulatory Commission (TRC), the Department of Census and Statistics (DCS) and the Central Bank of Sri Lanka*

In fact, reforms of telecommunication sector began in 1980 after de-linking of government owned posts and telecommunications services. Thereafter, the sector experienced with massive influences of partial privatizations and restructuring of the state-owned incumbent operator; permitting market entry in the mobile telephony market; competition in the fixed wireless local loop (WLL) segment of the fixed market; and the establishment of a five-member regulatory commission with its own fund and with relatively more workable independence than a typical government department in Sri Lanka. According to (Jayasuriya & Knight-John, 2004) these policy initiatives reflected a commitment to the policy makers to pro-competitive reforms with Sri Lanka's telecommunications sector being seen as one of the more open among developing countries in the Asia Pacific region, with a huge potential for growth.

## **Overview of ABC Entertainment Company**

ABC Entertainment (Pvt) Ltd began its operations as a company selling pre-recorded music cassettes and compact discs. The company is a SBU of a largest family owned business group in Sri Lanka which is a diversified conglomerate whose activities span over manufacturing, marketing, exports, communications, media, information technology, packaging and more.

Company has expanded its line of business from selling pre-recorded to selling company owned titles under the company label. Company has started artist and repertoire management on this move. In addition the company imports and distributes international labels. Company is the sole agent of several world leading entertainment companies such as Sony Music, Universal Music, Virgin Records, BMG Cresendo and etc. The labels varied from western and eastern classical music to reggae, rock-n-roll, blues, soul, pop, jazz, funk, rap and Hindi and Tamil film soundtracks.

In addition to the physical sales of CDs, DVDs, company provides digital content to the telecommunication operators in the form “Ringtones”. Ringtones are usually a music track which is played by the mobile operator and heard by the caller from other end until the call receiver answers the phone. This is different from the Ringing tones which are heard by the receiver from his phone when somebody else dialed up the number. Ringtones is a value added service offered by telecommunication operators to its customers usually for a fixed fee on monthly basis.

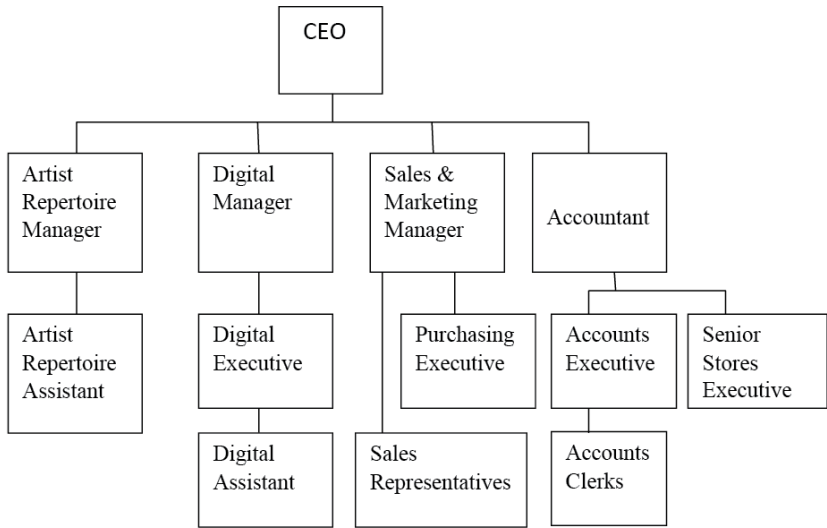
## **Management**

The ABC Entertainment is one of the companies in the entertainment and media hub of the group. The group has appointed a Chief Executive Operator Mr. Prakash Raja to overlook the company affairs. In fact he is a close family relative of the owner of this large family owned group of businesses. The management of group extended over several generations of this reputed business family. Mr. Prakash is belonged to the third generation.

Mr. Prakash is very energetic and cheerful person who strongly believes that people should perform to their optimum potential, both to achieve personal goals and meet organizational objectives. He is people oriented and always gives priority to the company employees. Employees are given the autonomy to work. Employees love to work under him and he would listen to even minor employees who could easily channel him without following the formal hierarchy. Some employees are accused by others for playing around with him, due to the less orientation toward work. Some employees have taken the situation for granted.

The ABC Entertainment Company is having relatively few layers in its organizational structure which is depicted in figure 1. Employee count of the organization is about twenty and most of whom have worked for the company over several years. The middle management consists of 4 Managers; Artist & Repertoire Manager, Digital Manager, Sales and Marketing Manager, and the Accountant. Company consists of five divisions; Artist & Repertoire division, Ringtone division, Sales division, Finance division and the stores. Ringtone division is headed by the Digital Manager whereas stores division also comes under the purview of Accountant.

**Figure 01: Organizational Chart**



*Source: Research data*

Sales & Marketing Manager overlooks the physical sales of CDs and DVDs. Company sells the locally produced music albums as well as imported albums and films through its retail outlets as well as other distribution channels. Purchase Executive of the company handles the importing of Albums and films from the international entertainment market. He regularly checks the international music catalogues and makes orders according to the estimated demand. Accountant overlooks the financing and reporting function of the company. The stores division also comes under his purview.

Digital Manager is responsible for the activities of ringtone division. He regularly interacts with the mobile operators. Digital Manager was a long standing company employee who joined the company as a Sales Representative. He was gradually promoted to the post of Digital Manager. However due to

accused unethical customer dealing, he had to leave the company but sooner joined to one of the mobile operator. The mobile operator has deployed the person at a position dealing with ringtones so that the move was obviously detrimental from the point of ABC Entertainment. Later an Executive of ringtone division assumes the role of the Digital Manager however he was relatively new and inexperienced.

### **Artist and Repertoire Management**

Artist and Repertoire (A&R) Manager is mainly responsible for Artist and Repertoire Management of the company. Mr. Sanath Silva has worked for the company over several years and possesses a music background as he had previously served as a player in a Music Band. Company purchases the copyrights of songs from local artists; popular as well as grooming artists. Artist could sell the copyrights of a single track or a full album comprises of several tracks. A& R Manager initially evaluates whether the music tracks are fitting to the company requirements i.e whether they are saleable either as music albums or ringtones by listening to music tracks.0

Artist transfers the copyright to the company in writing, if the company decides to purchase the content. For this purpose company uses either a standard letter or formal legal agreement depending on the purchase cost. Songs with relatively lower purchase cost is usually accompanied with a standard letter through which Artist provides his consent. However if the cost of copyright is relatively higher or contains a full music album, purchase is supported through a comprehensive legal agreement. The Artist who initiates the transaction could be the singer, music producer or the lyrics writer. It is a general practice that the Artist who initiates the sales transaction must get the consent of other parties in writing for the sale and waiver of their rights.

The legality pertaining to copyrights comes under the purview of Intellectual Property Act No 36 of 2003. The act distinguishes economic rights and moral rights pertaining to copyrights.

## **Section 9; Economic Rights**

Subject to the provisions of sections 11 to 13 the owner of copyright of a work shall have the exclusive right to carry out or to authorize the following acts in relation to the work a) reproduction of the work; b) translation of the work; c) adaptation, arrangement or other transformation of the work; d) the public distribution of the original and each copy of the work by sale, rental, export or otherwise; e) rental of the original or a copy of an audiovisual work, a work embodied in a sound recording, a computer program, a data base or a musical work. In the form of notation, irrespective of the ownership of the original or copy concerned; f) importation of copies of the work, (even where the imported copies were made with the authorization of the owner of the copyright); g) public display of the original or a copy of the work; h) public performance of the work; j) broadcasting of the work ; and k) other communication to the public of the work

## **Section 10; Moral Rights**

The author of a work shall independently of his economic rights and even where he is no longer the owner of those economic rights, have the following rights : a) to have his name indicated prominently on the copies and in connection with any public use of his work, as far as practicable ;b) the right to use a pseudonym and not have his name indicated on the copies and in connection with any public use of his work; c) to object to any distortion, mutilation or other modification of, or other derogatory action in relation to, his work which would be prejudicial to his honor or reputation Act also specifies the proper procedure of assigning or licensing copyrights to another person in the section 16 of the act.

- (1) The owner of a copyright may-
  - a) grant license to a physical person or legal entity to carry out all or any of the acts relating to the economic rights referred to in section 9
  - b) assign or transfer in whole or any part of the economic rights referred to in section 9.
  
- (2) Any assignment or transfer of an economic right, and any license to do such an act subject to authorization by the owner of the copyright, shall be in writing signed by the assignor and the assignee, transferor and the transferee or by the licensor and the licensee, as the case may be

Company acquires the economic rights from the Artists in writing either using the standard letter or legal agreement. However the careful scrutiny of the sub section 2 of the section 16 arise the question whether it is appropriate to use a standard letter to assign copyrights. This section dictates that transfer shall be in writing signed by both the assignor and the assignee. However the standard letter used by the company is signed only by the artist i.e the assignor. Thus the practice of using standard letter exposes the company to legal risks.

## **Sales and Operations**

*“As the ways in which customers experience our content continue to change and multiply, our organization and its strategy for delivering content must evolve to meet the demands of the market. I look forward to building on the foundation of innovation and operational discipline at Sony Pictures Home Entertainments to position this business for future growth”*

*– Man Jit Singh- President, Sony Pictures Home Entertainments.*

One of the main reasons fuelled for future growth and success of an entertainment company is the focus towards its operations. World popular entertainment companies generate their income

through diversified operations. However, ABC Entertainments has a relatively narrow focus and it basically sells imported and local music albums, films. In addition it provides ring tones to mobile telecommunication operators. Company generates 80% of its revenue from the ringtones while the balance attributable to the physical sale of albums and films.

## **Physical Sales**

Company has two retail outlets that sells company music albums, locally purchased other albums, films as well as imported albums & films. In addition the company distributes albums and films through retailers around the country. Company has also obtained space to sell CDs and DVDs in a reputed high end garment retailer in Colombo. Further, the company has their own website store. Through this website store customers are able to purchase music compact discs, videos, VCDs and DVDs and also offer concert tickets for international and local events as well as other entertainment related products.

ABC Entertainment imports the well trendy Pop, Hindi, Tamil, Western, Reggae, Funk and Eastern music compact discs being the sole agents/marketers of world popular entertainment companies such as Sony Music, Universal Music and BMG Crescendo. Importing of Albums and films is handled by the Purchase Executive. He regularly checks the international music and other entertainment catalogues and decides the volume of albums and films to be imported. He then obtains the approval from the Sales & Marketing Manager as well CEO to proceed with the import. The selection of the titles and quantity to be imported is largely judgmental. The experience of Purchase Executive matters in this decision.

It is interesting to inquire whether how far the company can sell the imported music albums and films. Price of an imported



music album or film is generally closed to Rs. 1000. It is questionable whether the customers prepared to pay such a price. There are few customers who seek for original CDs and DVDs but many are happy to settle with chap and pirated versions. These pirated versions are available from the prices below Rs 100 at many places. Further the internet facilitates downloading many of films and music albums at free of charge. This has further reduced demand for original CDs and DVDs sold by the ABC Entertainment company. The fate of many imported CDs and DVDs were obvious. After showcasing at the outlets for a few months, they come back to the store and rest in peace there for long.

“Let’s face it, Asia is still a hotbed of movie and music piracy. Walk along the crowded sidewalks of the Pettah and you will see dingy huts selling DVDs containing several movies for just Rs.100. Sheathed in plastic, with a cover note ripped straight from the original DVD, these DVDs (usually a recorded no-brand DVD-R with no disc art) sometimes contain up to eight movies. What you get is lower than 240-line VHS resolution.

The same goes for music, with MP3 CDs containing hundreds of copyrighted songs in all three languages going literally for a song. It is not only Michael Jackson and Lionel Richie who are ripped into MP3, but also Amaradeva and Victor Ratnayake. Clearly, the pirates are not leaving anyone alone from Hollywood to Bollywood to Kollywood.

So, this ugly scene must be limited to the pavement, right? Wrong. Go to any shopping mall in the city and the so-called ‘Original DVD’ shops openly sell counterfeit DVDs for a more respectable amount of money, say, Rs.200 for a movie with a DVD case.

Pirates are always one step ahead. They moved swiftly from VCD to DVD and now, they have invaded Blu-Ray. There are seemingly genuine Blu-ray discs at video stores in shopping malls for around Rs.500. However, one can differentiate between the genuine article and the fake one in just 10 seconds. The cover art is wrong in every one of them, for starters.”

*-<http://www.sundayobserver.lk> -2012/07/29*

Stock of the company is believed to be comprised of non moving stocks to larger extent. This is partly due to the lower demand for originals with the increasing availability of pirated versions. And also it is questionable whether the Purchase Executive’s judgment at the time of importing on the possible quantity of sale is how far reasonable. However it is difficult for a person to statistically verify on the amount of non moving stock as the inventory system of the company does not facilitate to analyze the age of its stock. Usually many inventory systems help to identify the stock below 30 days, stocks between 30-90 days, .....,stocks above one year. Stocks above certain threshold level of period which is primarily depends on the nature of industry indicate that they are non-moving. A provision should be made to write off such stocks from the inventory which obviously reduces the company profits. However due to the system limitations, non moving stock of the company cannot be easily verified so that profit of the company seems to be overstated. Company has once written off some stocks and sold at nominal amounts through a special campaign.

Apart from the imported Albums and films, the company locally produces and sells music albums. Company purchases the copyrights from local artists and produced them in recorded

CDs and DVDs. Company gets CDs/DVDs replicated through Penguin Industries (Pvt) Ltd. There is a distinction between CD replication (manufacturing) and Duplication (burning). In Duplication the content is copied to a blank CD. However in the process of replication, the CD is manufactured with data. Duplicated data is usually not permanent while replicated CDs could be used over 10 years. ABC Entertainment has previously replicated their CDs through an Indian Supplier and later shifted to the Penguin due to both cost and time constraints. Penguin Industries is considered to be the only supplier in Sri Lanka who replicates CDs and DVDs. Assistant working under the A&R Manager handles the CD replication process.

Usually the Artist has produced the content in the studios that they are working with. To facilitate the local artists, the company has invested in recording and duplication studio facilities. By the time of proceeding with the investment, the group has already invested in millions of money for studio facilities by moving upward in the supply chain. It is questionable how far the investment made by ABC Entertainment is reasonable, when its parent has quite advanced and state of the art studio facilities.

### **Copyrights Acquisition**

Locally produced CDs are made out of the copyrights acquired from the local artists. Company purchases either Albums or single music track from Artists. The payment for local artists may be an outright copyright payment or revenue basis payment. Under the outright payment, the company pays initial payment to artists and thereafter the artists will not receive any income from his content. Under the revenue basis payment the company pays initial payment at the time of purchase and thereafter the artist will receive variable payment depending on the content performance. i.e how much of physical sales made

and/or digital sales in terms of ringtone. Assets of the company are largely comprised of copyrights assets.

Acquisition of albums is handled by A&R Manager while the acquisition of single tracks is mainly handled by the Digital Manager of the Ringtone division. Once the A&R Manager evaluates the fitness of the album, the acquisition process begins. Similarly Digital Manager also evaluates the fitness of a single track to be used as ringtones. Purchase Requisition is raised by them after the evaluation. The requisition requires the estimation of revenues and costs for the content purchased. For an album there are two sources of revenue; physical sales and digital sales whereas for singles it is digital sales.

Estimation of physical sales is carried out by Sales & Marketing Manager based on his experience. Digital sales estimation is carried out by Digital Manager. Estimated sales figures are recorded in the purchase acquisition with their respective signatures. Estimation of costs is mainly carried out by an Accounts Executive. For the physical sales, the main costs attributable are the costs of replication and packaging costs. For digital sales there is no direct cost associated. Even though company has a separate ringtone division, cost of the division is considered as overhead. Net revenue is then calculated as physical sales minus direct costs plus the digital sales. This figure is then compared with the copyright payment expected by the Artist. Accountant approves the Purchase Acquisition, once the estimation of profits is finalized. Finally the CEO approves the purchase after evaluating the profitability of acquisition.

The actual performance of the acquired copyrights assets is questionable. There are plenty of examples that the company had paid couple of millions to acquire certain albums, but the revenue generated in terms of physical and digital sales is poor.

There are also few examples that worked other way around. It is purely judgmental and hard to determine what would be the performance at the time of purchase. However the company could improve the acquisition process by looking at the actual performance of the content purchased from the same artist for subsequent purchases.

Company does not have proper systems in place to measure the performance of copyrights it acquired. Physical sales are captured in its inventory system, however there is no system to capture digital sales. It is time consuming manual task of tracing several reports sent by mobile operators and then feeding the data into an excel sheet. Usually songs are traced by their names and sometimes there can be several songs which are more or less carrying the same name.

## **Digital Sales**

Eighty percent of the company revenue comprises of ringtone sales. Company sells ringtones to mobile telecommunication operators such as Mobitel, Dialog and etc. The company sells the songs of local artists as well as international artists as ringtones. Copyrights are acquired from local artists to use their content as ringtones. Company purchases content of international artists usually the English songs from international reputed entertainment companies. Company has made agreements with them to use the content as ringtones. Lump sum payments have made at the time of initiating the agreements. In addition, royalty payment is made regularly on the basis of content performance, i.e ringtone sales. The

company has exclusive rights on almost all English content provided to mobile operators.

Ringtone is usually a catchy part of a song played by mobile operators. The employees in the ringtone division first carefully listen to the entire track and then decide which part to be used as ringtone. It is then provided to the mobile operators to upload in their web portals. Some mobile operators provide the facility of direct uploading these ringtones via networks to their sites. For some operators, the company provides the content using compact discs.

ABC Entertainment Company accounts digital sales revenue based on the revenue reports provided by different telecommunication service providers at the end of each month. Mobile operators send system generated reports which includes number of downloads from each song. Company invoices mobile operators having calculated the revenue for such downloads. The nature of the business is so that the company has to totally rely on the information provided by mobile operators.

## **ABC Entertainment's Revenue Shocks**

ABC Entertainment Company has close ties with telecommunication industry since their main revenue generation relies on the ringtones supplied to mobile operators. Accordingly telecommunication service providers such as Mobitel, Dialog, Etisalat, Hutch, etc in Sri Lanka are the main sales partners of ABC Entertainment Company.

At earlier stages in the telecommunication industry, first movers such as Mobitel played a major role within the industry. In any industry, business, economics, or marketing, first-mover advantage, or FMA, is the advantage gained by the initial significant occupant of a market segment. It may be also referred to as Technological Leadership.

Early in 1989, Celltel has launched in Sri Lanka as the first known mobile operator. Mobitel started operations in 1993 as another first mover in telecommunication industry and became a wholly owned subsidiary of Sri Lanka Telecom in October 2002. Mobitel continued with its strategy which is positioned around value innovation and customer firmly believing that, it can serve well, by making the best out of the technology being used, distribution systems, product portfolio, services and value added services, with heightened acumen concerning customer needs and interests. With that Mobitel had a considerable and valuable market share initially. But, when the times passed, there were new entrants into the telecommunication industry where the Dialog, Airtel and Hutchison came to play. Dialog GSM was launched in 1995 and it was the first operator to launch International roving in Asia Pacific in 1997. In year 2004, Hutchison launched its services and in 2009 Airtel was launched. Meantime Celltel was rebranded by Millicom International in January 2007, as Tigo (Sri Lanka) then acquired by Etisalat and renamed as the Etisalat in year 2010 (Mallawaarachchi, 2014). Accordingly, The strong growth

looked likely to continue as the country's five competing mobile operators battled for market share and position: Dialog Axiata (formerly Dialog Telekom); Mobitel; Etisalat Sri Lanka (formerly Tigo); Hutchison Lanka; Bharti Airtel Lanka (launched January 2009) (Sagar, 2010).

While new service providers join the industry, Mobitel was not able to keep the strong market share further more. While new comers like Dialog, Etisalat are entering to the industry the existing service providers had to decrease their caller charges to sustain over the competition. The last entrant to the industry was the Airtel in January 2009. Notably Mobitel's strategy over the new entrants was a new caller package for government employees called 'Upahara'. Under the Upahara package call rates were significantly slashed. This was followed by the other service providers where it started a price war. All players started to experience drops in their revenue.

The strategy put forward by most operators is to focus more on value added services such as internet and data to come out from the situation. While more emphasis on data is placed, they did not leave ringtone revenue also unattended.

Telecommunication operators usually charge a fixed payment from the subscribers on monthly basis. Once a person subscribed to the service, every month the service is automatically continued until the subscriber requests for cancellation. Most of operators get the subscribers attracted by offering the service for the first month. In many occasions such subscribers forget to notify the cancellation of the service at the end of the month which results continuation of the service for a fee in next month. Despite such subscribers, the most of youth willingly subscribes to the service as they see it is a value addition.



The revenue received by mobile operators from the ringtone revenue is shared between the operator and the content suppliers. ABC Entertainment is a major content supplier to mobile operators. ABC Entertainment has entered in to agreements with mobile operators which specified the percentage of revenue from each download of ringtone that is shared between the company and the operator. While mobile operators attempted to increase the volume of ringtone subscription, the time came to focus the percentage of revenue shared between the operator and the content supplier. Several mobile operators demanded to increase the revenue share received by them.

ABC Entertainment being a major content supplier initially turn down such requests. Later several mobile operators get together and demanded to revise the percentage, so that it came to a point where the company can no longer resist. Revenue share was then revised in favor of mobile operators. However the company being the exclusive provider of most of English content, the company did not agree to revise the revenue share and it was the local content revenue share that was revised. The company justified the stance as it has to pay larger share of revenue of English content to international suppliers as the royalty.

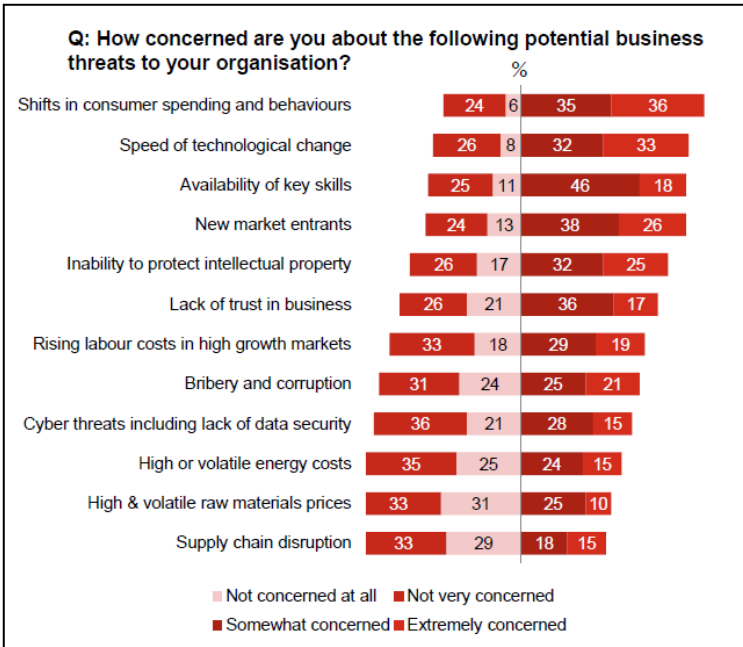
Despite the promise that most operators made at the discussion tables on increase of volumes to negate the revision of revenue share, the revenue of ABC Entertainment was largely affected. Company has no relief from its other source of revenue i.e. physical sales of albums and films. Piracy is the common threat that the company encounters when selling the originals. Company experienced a significant drop in the sales made in outlets as well as sales generated from other distribution channels.

## **The Way Forward**

CEO is thinking how to direct the company towards a better future. He wished if Sri Lanka had stringent intellectual property controls similar to that of European countries. His life would be much easier if the government had created such environment since it would naturally open multiple avenues for a company with legally acquired copyrights and a company which focused on originals not pirated. Despite a few attempts to control piracy (see Appendix 1), Sri Lanka has a long way towards a world respecting intellectual properties.

However, it is interesting to glimpse that the inherent worries of CEOs of global entertainment and media industry and how they faced to the competition. As per the 17<sup>th</sup> Annual global CEO survey which has done by PwC, the following key findings in entertainment and media industry are highlighted.

Speed of technological advancements and shifts in consumer spending and behaviors continue to keep E & M CEOs awake at night as their greatest concern and 71% of CEOs are somewhat or extremely believe about shifts in consumer spending and behaviors while 65% of CEOs believe technological changes as the main concern which leads to create threats in their businesses. Moreover, following potential business threats can be identifies as per their views E & M industry.



Source: (PwC, 2014)

However, within the same environment, technological advances, demographic shifts, shift in global economic power, urbanization and resource scarcity and climate change have been identified as main global trends in their industry. In order to capitalize those trends organizations can implement the strategies such as focusing on customer growth and retention, investing on technology, using and managing data and data analytics, investing on R & D projects, redesigning the organizational structures and concerning on risk management.

Oppositely, they are optimistic about their growth prospects based on the opportunities such as product and service innovations, increased share in existing market, new geographic markets, merges and acquisitions, new joint ventures and strategic alliances. However they believe that, among the

those available opportunities product and service innovations will play vital role in E & M business growth.

Furthermore, 65% of E & M CEOs reveal that implement a cost reduction initiative is a better restructuring activity for the business growth.

Artistic content such as songs, films are heavily used in television and radio stations in Sri Lanka. It is doubtful whether these radio and TV stations use the content in their programmes with the knowledge of real copyright owner. At present ABC Entertainment does not charge the radio and TV channels for the use of their content. Instead the company receives free advertisements from the channels. However these contra agreements do not always work for the benefit of ABC Entertainment. Some channels display the advertisements of ABC entertainment in non prime times and their idle time slots. Apparently, the channels do not seem to have a considerable cost for the advertisement offered in contra of copyrights used.

Stage performances in different scales are carried in all over the Sri Lanka usually by professional organizers. It is an interesting question whether they could perform songs in public without the knowledge of copyrights owner. Exclusive ownership of copyrights means covering all the dimensions of economic rights including public performance (see g & h of subsection 9; economic rights of the act). At present ABC Entertainment does not get any income from these stage performances for the content owned by them. It may be a long way for a copyright owner in Sri Lanka to tax stage performers on the use of content.

The technology always innovates products that human have never thought of. Fifty years back, a singer in Sri Lanka would have not probably thought of playing his song as a ringtone in a mobile device. Who would not have thought of Apple iTunes, until Steve Jobs innovated? Rapid changes in technology could

bring new avenues for using the copyright of contents that the world and ABC Entertainment have never thought of.

CEO of the ABC Entertainment Mr. Prakash Raja knows that he cannot wait until the government of Sri Lanka to make an environment respecting intellectual properties or the technological forces to innovate new product that a copyright owner can generate some revenue. He is wondering what strategies he should pursue in order to come out from the situation that the ABC Entertainment has encountered at present.

## **Appendix 01**

### **Pirates going straight after massive CID raids**

#### **Sri Lankan pirates are trying to go straight after massive CID raids for copyright violations**

“Sri Lankan pirates are trying to go straight after massive CID raids for copyright violations. In a strange twist of events three music outlets that were previously selling pirated material, are talking to the Maharaja organization a local group involved marketing music and producing local originals - to join its retail sales network and stop pirating its originals.

"Discussions are ongoing to sell local originals at a discounted price in these three shops," said Kalinga Indatissa, a lawyer specializing in intellectual property rights (IPR) appearing for Maharajas.

Last month the CID raided 16 of the most popular pirated music outlets in Colombo for violation of copyrights.

Now some of the main actors are trying to make peace and turn copyrights observance into a win-win situation.

The experts say there is plenty of room in the local music business for this kind of change.

Sri Lanka's legitimate music market is about US\$ 13 mn but going by pirate music sales, the actual music market is over double this value and growing fast.

Local music in Sinhala accounts for nearly 70 per cent of Sri Lanka's total music market.

But nearly 30 per cent of Sinhala music in CD format and 20 per cent of it in cassettes are pirated copies.

Imported English, Hindi and Tamil music account for around 30 per cent of the market but almost all of the music available locally over 95 per cent is pirated.

"So if you remove the pirate market there is room for prices of originals to come down," says Indatissa.

Local original music sells in the range of Rs 500 in CD form but pirated versions are nearly five times cheaper.

The price difference is even bigger when it is an imported original - pirated copies sell as low as Rs 225 when original CDs are going in the range of Rs 1,200.

But starting from last month, sellers of unauthorized copies of music have already set the ball rolling for price reforms in the local market.

With this kind of move afoot, Maharajas is not the only one to notice the local market potential.

"We are very pleased with the steps taken by the Sri Lankan authorities to fight music copyright violations," says V J Lazarus, President of the Indian Music Industry (IMI).

IMI has good reasons for applauding local attempts at promoting IPR, however random.

"Piracy accounts for 65 per cent of the music business in India. The legitimate music industry has shrunk from US\$ 300 mn to US\$ 150 from 1999 to 2005," says Lazarus.

By egging on the local authorities IMI is also protecting its extended interests in Sri Lanka.

This is because all of the original foreign music, in English, Hindi and Tamil, in Sri Lanka, is imported from India.

The pirate copy suppliers are mainly Pakistan and Malaysia. So to safeguard local interests and reduce adjustment pains, the Indian companies are even talking about local recording contracts.

Local authorities and recording bodies are still gathering their wits in the wake of the sudden changes but with government level talks on going to expand the Indo-Lanka FTA into services and investments, this could be a new beginning. (<http://www.lankabusinessonline.com/print/pirates-going-straight-after-massive-cid-raids/1579272034#>)



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**Department of Commerce and Financial Management  
Faculty of Commerce and Management Studies  
University of Kelaniya**

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