Shekhar Kapur Bets Big on Asia as Global Entertainment Hub

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According to Indian filmmaker Shekhar Kapur, the primary driver of the global entertainment and media business in the coming years will be Asia. Last month, he announced plans to invest in the industry with what he expects to be a $500 million fund. He sees aggregation of creative content, along with cross cultural linkages, as the core of the business, and has sold this idea to the Singapore government -- whom he characterizes, for now, as just a strong backer -- along with unnamed investors in China, India and Japan. He plans to launch the fund next quarter and is betting on returns of 32% and higher. Kapur's films include Bandit Queen*, based on the life of Indian dacoit Phoolan Devi,* and *the Academy Award winner* Elizabeth*. He also founded Virgin Comics in India with Sir Richard Branson, among others. Kapur speaks with India Knowledge@Wharton about his fund and its chances for success. Below is an edited version of the interview.*

India Knowledge@Wharton: What is the genesis of your plan to launch a $500 million fund to invest in entertainment and media?

Kapur: The fund, which will be based out of Singapore, has huge backing from the Singapore government; I'm not saying it is an investor in the fund. The Singapore government and I have been working a long time on these ideas [based on my belief] that the world is going through a certain reverse cultural colonization.

Since World War II, a derivative of Western pop culture has dominated our world and become the global culture. That is largely because Western culture is very strong financially due to the fact that its home markets are so strong. So the financial strength of the consumers of that culture dictated their ability to leapfrog into the world.

That consumption strength is now shifting to Asia. I suspect that, in the next five to six years, the international media and entertainment business will have a value of almost $1.5 trillion. Asia's contribution to this will be 60% to 70%. Many people have not yet accepted that Asia will become as dominant as I believe it will. [Two reports released by PricewaterhouseCoopers in March and June 2007 predict that the global entertainment and media market will reach $1.8 trillion in 2010, growing at a 6.6% compounded annual growth rate. PwC projects that growth rate to be more than two times bigger for Asia Pacific (18%), taking that market size from its current Rs. 437 billion ($11 billion) to Rs. 1 trillion ($25 billion) by 2011.]

The reason they have not accepted that is because Asia is still seen as a great market for products -- everybody is still a little afraid of Asia -- and a great place for outsourcing. They don't see Asia as a generator of new technology. I can talk about 10 things that I expect Asia to do, but if you have to whittle it down to one idea, the new IPs (intellectual property) in the entertainment and media industry will be created in Asia.

India Knowledge@Wharton: How do you define the entertainment and media industry?

Kapur: I define entertainment in a large way. Whenever there is a delivery system that involves audiovisual emotional bites of storytelling, it becomes entertainment. So I would define YouTube as entertainment; I would define MySpace as entertainment, because entertainment is defined as: How do people spend their emotional spare time?

But entertainment is also the interface between technology and the consumer, because as more and more people have less time, they are using tools. We have to get [rid] of the idea of entertainment as sitting in front of a television or listening to the radio ... or going to see a movie or reading a newspaper. All those ideas are being challenged because the delivery systems are changing.

So whether it is the coming explosion of entertainment on mobile devices -- which is what I think Asia is going to take the lead on -- or creating web sites for social networking -- consider all that to be forms of media and entertainment.

The new social networking sites are going to be Asian; the new YouTubes are going to be Asian; the new MySpaces are going to be Asian. The new technology companies in visual effects are going to be Asian. And that's what the West doesn't get. That's where the Western companies are going to fail. The new, big media companies are going to come out of Asia and they will challenge the power of the great Western companies like News Corp. or the big studios.

India Knowledge@Wharton: What is so special about Asia here?

Kapur: One of the things we do not have is Asian countries accepting their cultural commonality. We believe China and India are different. Well, they are not. Entertainment is emotion, and it is storytelling.

If we look at traditional Japanese, Chinese, Indonesian or Indian films or television, you'll notice the stories are almost the same. Two boys, one girl, family, brother goes away, comes back, where does the mother go, the love for the family, the loss of the family.

They are all heavily melodramatic, entirely mythical in their storytelling ... and destiny plays a [major] role. So there is a huge commonality there. What's not being done now is [there is no] commonality [being created within] the entertainment and media business in Asia.

India Knowledge@Wharton: What is the business opportunity here?

Kapur: The big business opportunity is the aggregation and structuring of an Asian entertainment and media platform. It is not aggregated right now. We don't do much by way of research and development within the entertainment and media industry in Asia, because the price of failure in a non-aggregated or non-structured business is rather low.

Most of the companies in this industry [in Asia] are just surviving. You've heard how Indian animation companies are surviving on outsourced work they do for the big Western studios or the big animation companies. They barely have the management time or the resources to actually create their own intellectual property. They will never become the new Pixars if they don't do that. They need to [make] their own *Finding Nemos*.

The only way they will do all that is if you aggregate and free up locked capital for research and development so they can create their own IPs. And then, they need to have international marketing ideas ... within Asia or in Asian companies that don't exist right now but which I'm hoping *will* exist. The distribution networks now are controlled by big Western corporations.

That can change. The world is going in for a huge shift. You will notice the digital age is a bit of a disruptive age. We can get ideas out much quicker and they can change the world.

Very soon 15% of the teenage population of the world is going to be living in India. Now imagine the utopian idea that [this whole] 15% is broadband-connected. They will become the tipping factor ... They will form the new ideas, and the Asian culture will be the culture of aspiration.

India Knowledge@Wharton: Could you give an example?

Kapur: Globalization will ensure that we will still be making *Spiderman*. But *Spiderman,* after four or five more releases, will make more than $1.5 billion; 70% of that money will come from Asia.

The power and cultural muscle of the Asian consumer will dictate that when *Spiderman* makes his last stop, he's Chinese or Indian and he will be swinging, not from New York, but from Shanghai. So that is the kind of imperative. The rest of the world will find that Asian cultures or the representatives of Asian cultures -- be it movie stars or television stars -- will be the ones they aspire to be.

India Knowledge@Wharton: How does your fund fit into all that?

Kapur: I thought of how we could go about it and went to find partners. This fund is about aggregation, about content creation, about creating common distribution platforms and tapping into the common cultural imperatives between Asian countries, so that we become a one-stop shop, where if you want to do business in entertainment and media, we are the main thing.

All that is possible because 70% to 75% of the revenues will come out of Asia and a large part of the process and product will originate, not in the West, but in Asia. This company will be a platform for that. [In addition,] a fund or a company like that will define and recreate the ecosystem in which the kind of ideas we are talking about will evolve and be promoted.

India Knowledge@Wharton: You cannot be in all the places in that ecosystem at the same time. What are your fund's sweet spots?

Kapur: The first thing is aggregation. The fund hopes to very soon become -- with bank credits and all -- a billion dollar fund. When you have access to a billion dollars, you will have the ability to take on large development projects, which we don't have in Asia right now.

In say, the movie business, if you want to make a movie, you go and partner with the studios. The studios are getting very good these days at marketing movies, [but] not very good at making them.

My comic book company -- Virgin Comics -- is actually a development business for franchises. We have a comic book by Nicholas Cage and his son, which is a Virgin Comics product.

We have actually developed a franchise model, where we create the next *Superman* and the next *Batman*, but we do it based on characters drawn from Asian mythology. We have sold them in the U.S. The company [Virgin Comics] is doing very well and we have 250 to 300 artists and 20 story writers in Bangalore.

My friends and I sat down, wrote the first few stories and put the comic books together. Directors are taking our comic books and making movies out of them; there are animation films that are being spun out of them, and Sony is spinning a game based on one of our comic books. So it is becoming a franchise business. The IP is from India, all the imagination, everything comes from India. So when you ask me about sweet spots, we've already proven a large part of that.

India Knowledge@Wharton: What are some of the existing strengths of the Asian countries?

Kapur: China is becoming very, very good, and is more advanced than India, in media technology. It has its own Google, etc., because it is more broadband-connected. In Singapore, Japan and Korea, the visual effects shops are better.

In India, the movie industry is better structured and institutional capital is now getting in. Some of our imagination, our storytelling, is much better. So we will be able to take companies -- like an animation company in India, a visual effects company in China, a Manga comic creation company or animation company in Japan -- and use these [investment] dollars in a cross cultural way to pick up whoever is fast. That is something nobody has ever done so far, because they have always looked at these as separate countries.

India Knowledge@Wharton: How will your investments be spread across films, music, etc.?

Kapur: We haven't decided that. But film is obvious. My Chinese partners, for example, and I understand that film is a big thing in the world right now, and that is one part of the traditional platform that can be turned into a multimedia play.

But I think the cultural film that we make now is going to change. I can visualize a world where a large chunk of the media consumption will happen on mobile devices. That will be true especially in Asia, where you don't have large homes. Ninety-nine percent of the Asian population lives in small places.

So this idea of having a home DVD system or home television system is not attractive to the restless, shifting, youth population living in small houses. They are going to gravitate more and more toward mobile devices. And as mobile technology develops, other possibilities will emerge.

I was talking to [an executive at] Nokia the other day, and I said, "Look, once you get greater battery life or alternatives to batteries, and you get a streaming video on your mobile device, you should be able to point that device at a wall and run a movie. Ten years from now, you can do that as a hologram."

What do you do when 50% or 60% of the revenues from your film are going to be derived from people viewing it through a mobile device and not being able to concentrate more than 10 minutes? You're going to have to make modular films. Then, do you make modules that make a film or do you make films that go into modules? You'll be asking yourself questions like that.

I am now experimenting with a character that I have developed to make five-minute modules and feed it throughout the world through downloads. We already have two or three versions of the script, and what we do next depends on how people react to the characters going into that movie.

India Knowledge@Wharton: You could probably also reformat existing content to suit the new delivery mechanisms.

Kapur: Over the last 10 years, there has been immense investment in delivery systems but not enough investment in content. The assumption that original content can be re-jiggered and remixed into new delivery systems is wrong. Television didn't come into its own until we had the soaps. Each technology requires its own culture and its own type of content.

Billions of dollars are being invested in delivery systems, like Apple has done [with its devices], like Nokia with cell phones, or Microsoft in its technologies. There will be huge content companies that will come up to satisfy that work in tandem with the delivery systems, or these companies will be forced to become their own studios, like iTunes has almost become a studio.

India Knowledge@Wharton: In your mix of investment options, some are more high risk than others. How would you balance your portfolio?

Kapur: The investments will be divided between high risk and low risk, but we haven't come to that. The high risk part of it will be the development of new technologies.

We are going to start much more as a content aggregation company, the distribution of content and the creation of content. We will buy into content companies, integrate them and distribute content throughout Asia. There will be some investment in potential new MySpaces, the new Second Life [an Internet-based virtual community]. I don't think the fund is looking right now at creation of hardware technologies. That will happen once we have content that is large enough for us to be able to afford to create our own network.

India Knowledge@Wharton: Could you give an example of a typical investment you might make?

Kapur: Yes, we would produce cross cultural films. I would make an investment in a company that employs 25 people who are telling stories; I would invest in a company like Virgin Comics; I would invest in an animation company; I would invest in a distribution channel, and I would have alliances with cell phone networks.

It will be much, much bigger than film. But at just the film level, [we will] put together Indo-Chinese productions and sell them. That's the simple way. You take a Shah Rukh Khan [a leading Indian movie star] and somebody else from China, and you make an Indo-Chinese production. We haven't made deals for specific projects yet.

India Knowledge@Wharton: What kind of returns do you expect?

Kapur: I think the returns will explode. But then, I have to be conservative. Just look at the shares of listed Indian media and entertainment companies. We should be able to at least double their current 16% rate of growth. And if we don't at least double that with the judicious investments that we do, it will be very silly. So we are talking about a return of at least 32%.

India Knowledge@Wharton: How will your fund be organized?

Kapur: The problem is that the way corporations are settled right now, they are not mobile enough; they are not fluid enough. The world is changing so much that when a corporation starts to sit on its haunches with its board of directors, it loses its ability to be fluid and adaptable in its decision-making.

In the future, in the media and entertainment business, everything is going to shift so fast that what you need is not a battleship but an accumulation of a thousand people. As a kid, I used to watch parrots in [New] Delhi. Suddenly when one changes direction, all of them change direction. That's the way you need your new business to be set up if you are going to be in the media and entertainment business.

India Knowledge@Wharton: What is the minimum economic size for a fund like the one you plan?

Kapur: The economic size is defined by the availability of funds. If it's about a billion dollars, people want to come and do business with you, and you can find the best people. So there is a factor of acceptability. My partners are financially huge; I am the one who brought the vision to the fund.

One aspect is the perception of power that makes people want to do business with you. If I want to now create a talent agency and sign all the big talent in television and film, directors, actors and producers, in China, India and Japan together, I need to be able to say to everybody that we are a major, major business. When Hollywood comes to do television channels with us, they know they are doing business with people who have access to the best talent.

India Knowledge@Wharton: What is your investment time horizon?

Kapur: My idea of aggregation is not like how it is with hedge funds and private equity firms. They have a very short-term view: Buy this company, buy that company, put it together, strip assets and then sell it and walk [away with] a profit. That's not what we are looking at. We are looking at creating an ecosystem of incredible growth.

We are not looking at exit strategies yet. You can't create an ecosystem with exit strategies; you can create it with long-term investments. Certainly the Singapore government is not looking at exit strategies right now in its encouragement of our fund. They are looking at long-term investments to create the kind of ecosystem and businesses that can be nurtured. We are looking at something where the value grows so much that nobody wants to exit.

India Knowledge@Wharton: If there are a couple of things that could upset this apple cart, what would those be?

Kapur: The wrong partners, the wrong people investing. We are very, very, careful about whom we take on as partners. They have to be strategic partners who bring some kind of an advantage; they can't just come with money.

India Knowledge@Wharton: Where are you based?

Kapur: I am based on an airplane. I divide my time between Singapore, Mumbai and London.