

UKIBC Case Study

Prime Focus London

Introduction

This case study is based on discussion with Mr Parvinder Bhatia COO, Prime focus. In 2006 Prime Focus expanded to international market by taking over and merging VTR and Clear, two reputed post production and visual effects services companies in UK. The amalgamated UK company is named Prime Focus London. The objective of this discussion was to understand the motives of expanding in UK for Prime Focus India and document their experience. Prime focus expansion to US is a great example where value creation happened through building synergies between high level talent from advanced market and cost advantage of developing market.

Company Background

Prime Focus is India's largest entertainment services company, providing creative and technology services to film makers in India and abroad. Services include post production, digital intermediate, visual effects and animations for feature films, commercial and televisions. PF has been in business for last 12 years. They started their journey of international business by acquiring VTR in 2006. Right now PF has 4 studios in Mumbai, one each in Hyderabad and Chennai and four studios in Soho London. After a successful venture in UK, PF has further expanded into US and Canada through acquisition route.

Motive for Internationalization

In India post production and visual effect industry cater to media and entertainment industry. This is a really high growth market in India but this growth also poses a challenge because at one point the type of talent required to service these markets is not available in India. So a company solely focusing on Indian talent in post production domain will find it difficult to take certain pieces of work which require high degree of post production talent.

So PF decided to move into global market to first attract and retain talent from more mature market like US and UK with advanced demand and technology. Also interaction with these markets will also help in developing local talent.

Another big reason is as there are various stages in post production work, some of the work can be done by inherent talent base at very competitive cost. So in this manner PF can get competencies to defend and expand in domestic market by gaining advanced skills and technology and they can also get a cost advantage in those developed market.

This is very similar to outsourcing model championed by Indian IT companies.

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Choice of UK Market

Prime focus has multiple reasons to choose UK market. For post production industry UK is a very important strategic market. UK has massive post production work coming for commercial sector as well as broadcasting sector. The type of work as well amount of work is huge. Also UK has plenty of Talent in this domain. So it is very easy to attract and retain talent here. Another important strategic reason is that lot of US companies get their work done in UK. In this manner having presence in UK also give access to US market.

Beside these strategic reasons, other soft reasons to choose UK were cultural similarities between India and UK. Also UK is considered first port outside India as so many Indian professional and business man has UK experience. A well established network of India and UK businessmen makes UK as preferred market for Indian companies going global.

Mode of Entry and Financing internationalization

Prime Focus decided to enter UK market by acquisition route. In 2006 Prime Focus India was around £5 m company. To finance their vision of internationalization company got listed in stock exchange. They have investors like Reliance, ADAG and Kotak and capital is raised through equity market. Prime focus was listed in stock exchange in April 2006 to finance the internationalization.

PF acquire VTR 4th which was the largest post production market. VTR was a loss making company. To turn around make this acquisition work was a big challenge for Prime Focus. The steps taken by prime focus management were restructuring, bringing focus, upgrading infrastructure and augmenting talent base.

In VTR lots of entities pursuing the same market. After the acquisition it was split into divisions based on markets for example post production catering to media, post production catering to entertainment and another division catering to films.

Another thing Prime focus realized is the lack of backup talent. So PF acquires 3 more companies to fill this gap.

PF invested capital to upgrade infrastructure

Put strategy, structure and financial structure in place using management talent based in India.

Global integration to maximize value offering to customers. Prime focus can now claim global presence to customers and get the work done at location which brings the maximum value.

With all these steps Prime Focus brought best management practices and utilize resources to maximize value.

Unique Value Proposition

In post production industry there are various stages of work and some of the work is quite low level for which not much control is needed. In UK and US due to very high cost of labour even these low level work costs a lot. Prime focus works on global

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delivery/outsourcing model which is adapted from Indian IT industry, where the piece of work is divided and done at the location which can deliver maximum value at lowest cost. This front end and backend outsourcing model is sold to client and give PF a cost advantage over companies which either lack talent or have high cost.

Global Integration Challenges

The greatest challenge faced by Prime Focus was to integrate different geographical locations within the organization. As soon as the movement of resources from cross border location started these softer issues became more evident. Also when both locations worked together there were conflicts because of working style differences. Since the work culture is very different in both countries. Building synergies between both locations was the biggest challenge as mentioned by Mr Bhatia.

Also there was preconceived notion that once an Indian company acquire all the work is going to India. This rumour is against the very premise of going global. The number reveals that only 5 % of work has gone to India. Prime Focus want to retain the highly skill talent of UK market and build on that. Trust building as an employer is another big challenge for PF.

Financing post production division after acquisition is also a big challenge as Post production services industry is not very profitable in UK so raising capital is very difficult in UK for Prime focus. Though in India it is a growing industry so raising capital was not that difficult.

The Road ahead

Prime focus has entered the market through acquisition and the first target was to make Prime Focus London profitable. The first target was achieved within 18 months because of prudent management and value creation using synergies of skill advantage of advanced market and cost advantage of developing market. The valuation of Prime Focus in Indian stock market has grown 3 times and in UK Stock market is almost doubled.

PF has a target of doubling the revenue in 5 years time.

This case highlights the process of value creation using synergies between 2 dissimilar markets.