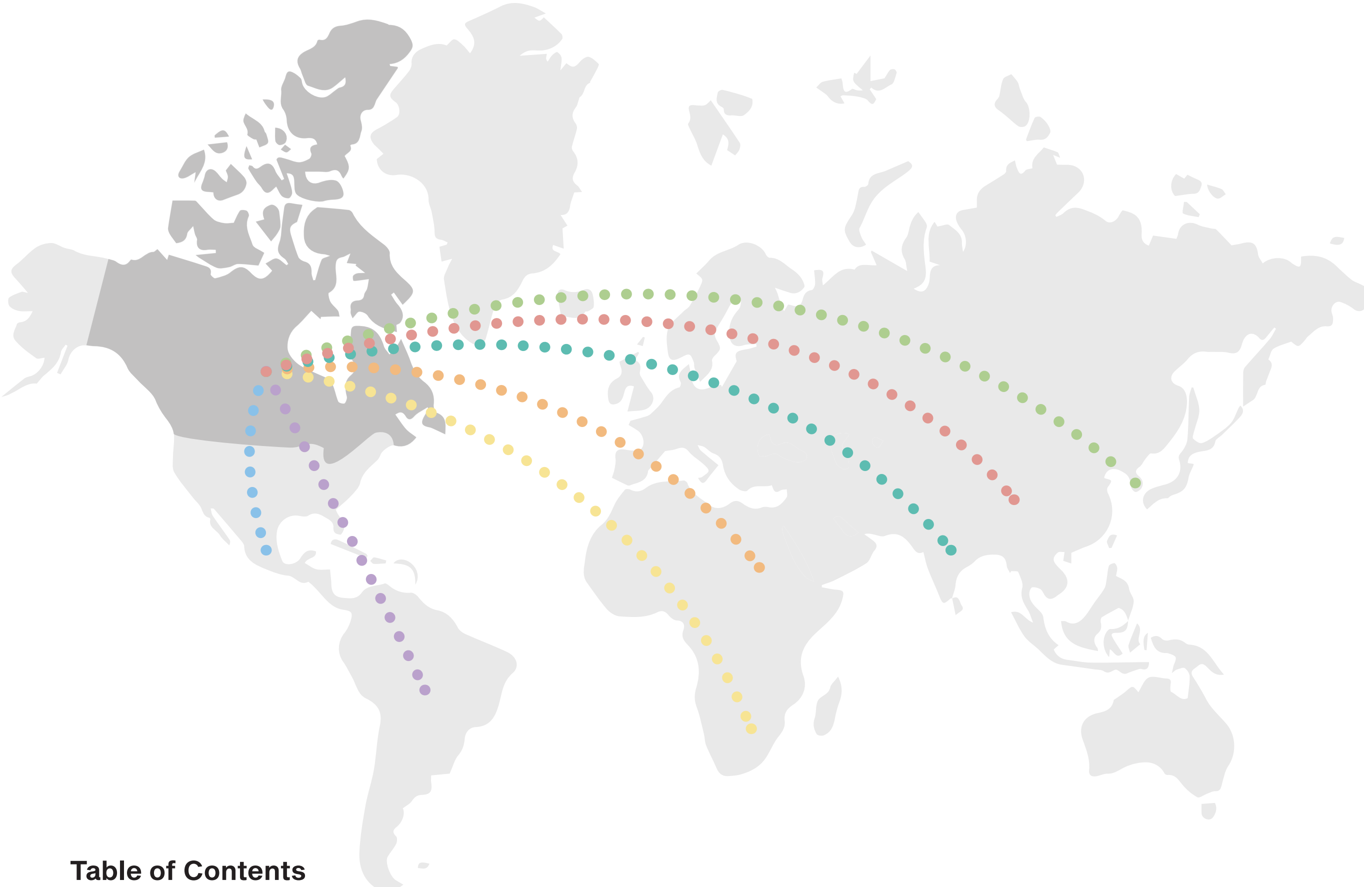
Adjust Your Thinking

The New Realities of Competing in a Global Media Market

November 2017

Canada Media Fund
Fonds des médias du Canada



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INTRODUCTION

This report builds on the international market series "Your Market Is Everywhere" released by the Canada Media Fund (CMF) in the fall of 2017 on the following countries/regions:

- South Africa
- Select English and French Markets in Africa
- Select Markets in South America
- Mexico
- South Korea
- China
- India

Whereas the international market series presented a geographical perspective, describing and analyzing markets on a country-by-country basis, this report examines some of the larger issues raised in the course of the research and analysis and pulls out key themes of relevance to Canadian producers, such as:

- New opportunities in a world that operates outside of TV schedules and national borders;
- The interplay between shifts in technology, virtually unlimited viewer choices and business models;
- Emerging markets' new mobile-connected audiences of hundreds of millions;
- Patterns and trends in the SVOD (Subscription Video on Demand) and OTT marketplaces.

The 'Adjust Your Thinking' theme will be woven throughout the chapters that follow, providing a framework through which producers can approach the media production, distribution and consumption landscape that, with each passing day looks less like the industry we came to know in earlier years.

The international market series of released in the fall of 2017 is titled "Your Market Is Everywhere" because, as research and interviews were conducted, the importance of thinking beyond a single or handful of countries' borders as potential markets for Canadian producers became increasingly evident. In some respects, this has always been the case, although there has been a group of countries to which Canadian producers exported their programming that could be thought of as 'the usual suspects,' i.e., the US, the UK, France and markets elsewhere in the world such as Australia and New Zealand.

Here are some of the key research findings presented in the international market series:

► All producers are now operating in a global marketplace;

► Canadian producers will be well served to understand the implications of the move away from the broadcast, linear and bundled television models;

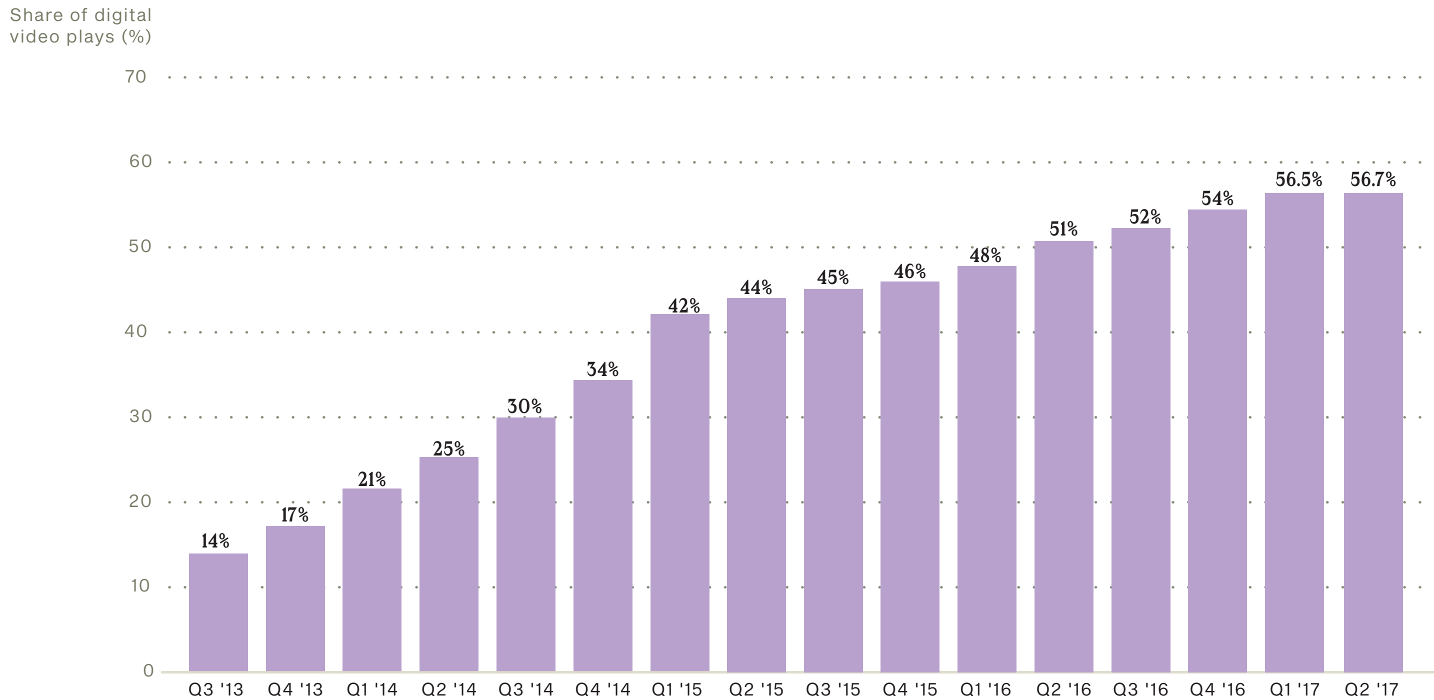
► With North American ad revenues on digital (desktop and mobile) having eclipsed television advertising revenues for the first time in 2017[1], it is clear that the balance of power is tipping in the world of legacy media outlets;

► The new marketplace is moving toward more non-linear and fragmented viewing across a variety of devices, platforms such as YouTube, Netflix and Amazon Prime as well as the social media feeds of popular applications such as Facebook, Twitter, Snapchat and Instagram.

Indeed, in the past decade, we have witnessed a barrage of new technologies, new platforms and new devices on and for which audiovisual programming is produced and consumed around the world. As one would expect with such enormous change afoot, new opportunities as well as challenges arise.

For example, for people born at or after the turn of the millennium and for many people in international markets, concepts such as set broadcast schedules, 30- and 60-minute form factors for programming, and the absence of comment sections seem alien. Each year around the world, more and more time is being spent on smaller and mobile screens. On-demand and on-the-go is increasingly the new norm and, in an ironic twist of the telephone as a device, one of the things we do least on our mobile phones is talk. In fact, by early 2017, over 56% of digital video plays around the world originated on mobile.

Worldwide mobile video play share 2013-2017



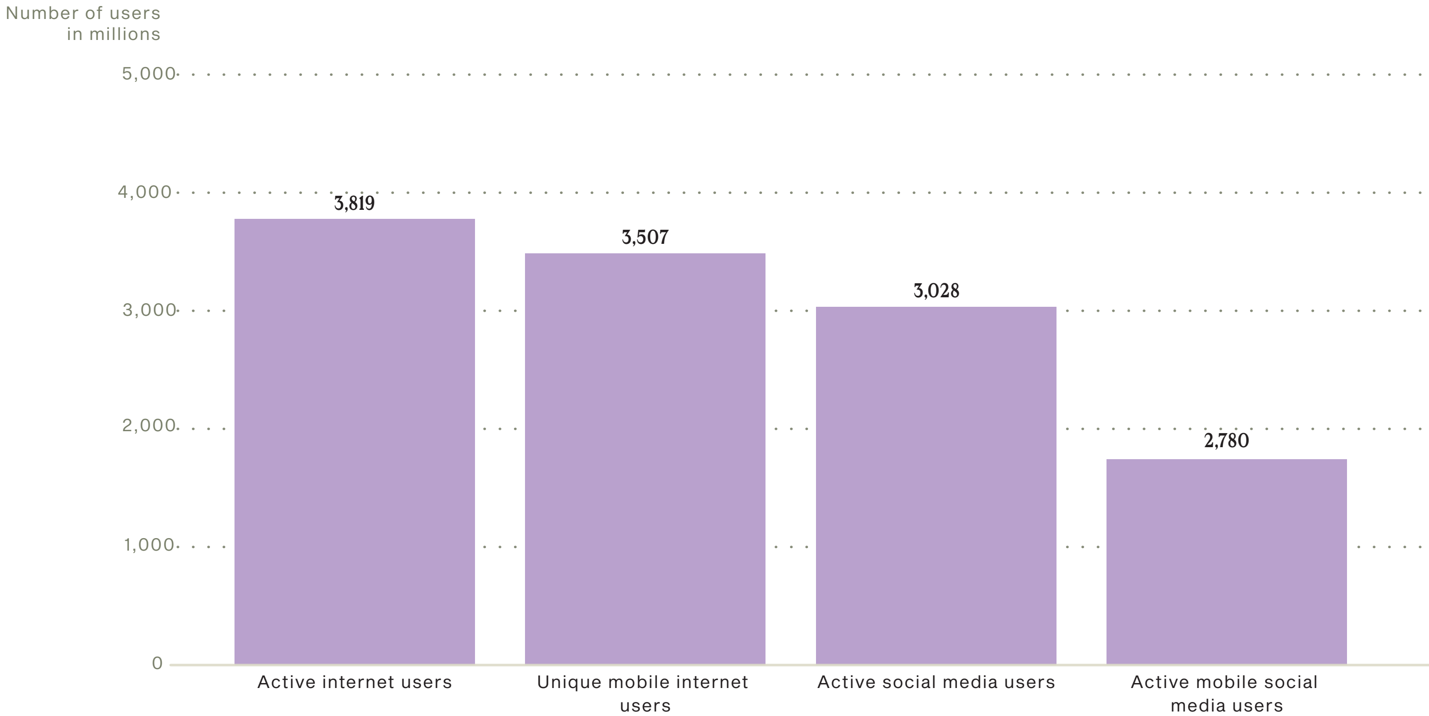
The industry analysis conducted for the CMF's fall 2017 international market series of reports—encompassing China, India, South Korea, South Africa, Mexico, and selected African and South American countries—covers markets representing over 4.5 billion people or about 60% of the world's population. A close-up on these numbers indicates that two of media markets examined, i.e., China and India, represent over one third of the world's population. Another 1.25 billion live on the African continent. Finally, and perhaps the most striking fact, is that Africa's francophone population, currently estimated at over 100 million, is projected to grow fivefold by 2050[2], a figure with clear implications for French-language media producers in Canada.

The smallest country examined was South Korea. It has a population of only 50 million, yet boasts the world's highest level of internet penetration (90%[3]) and fastest internet speeds[4]. In addition, it sits atop international innovation index lists that measure factors such as patent activity, R&D intensity and productivity[5]. Also, despite its relatively small size, South Korea is the world's fifth-largest gaming market, with revenues of US$4.05 billion in 2016[6].

Although standards of living and infrastructure levels vary substantially from one country to the next, one thing that is constant is that digital access has opened media up to hundreds of millions of new users around the world. Whether this is by way of a new breed of lower cost mobile devices or the workarounds for legacy infrastructure such as fixed broadband, landlines and cable and satellite television, hundreds of millions of people in international markets are now newly online.

Globally, the number of internet users is rapidly approaching four billion. Three billion, or about 40% of the world's population, are social media users, whereas 90% actively use mobile devices to interact on social platforms.

Worldwide digital population as of August 2017
Global digital population as of August 2017 (in millions)



The next billion will access connectivity in the same way a large portion of the last billions has, i.e., via mobile as opposed to fixed broadband, and via OTT platforms such as Netflix and YouTube as well as their regional variations instead of by way of broadcast, cable or satellite television services.

What were once geographical marketplaces are now global marketplaces. What were once single screen experiences are now multiple screen experiences. And whereas television was generally either ad- supported or cable bundle payment supported, the global shift to an on-demand, 'all you can eat' subscription video on demand is the new paradigm for hundreds of millions of viewers around the world.

It is for these reasons that fresh thinking, agility and international collaboration are more important than ever. And so, in the final chapter of this report, we ask the following question and provide an answer to it to the extent possible: In the context of these shifts, how are Canadian media companies positioned to compete in the global marketplace?

In the words of one Canadian media executive interviewed for the project:

> **"Canada is a great place to run a global business from, both as a producer and a distributor. In terms of competitive advantage Canada punches well above its demographic weight in terms of financing. We also have the benefit of proximity to the world's largest buyer, the US, and we have a growing number of globally minded producers who know how to make content that sells around the world."**

As seen in chapter 1, the media landscape, once bounded by geographies and over-the-air, cable or satellite transmission, has been greatly expanded by the arrival of the internet and mobile technologies and devices. This in turn has led to a variety of new operating environments and new business models for producers, distributors, creators and aggregators.

What are the ways in which today's media producers can think about these changes? Media studies scholar Amanda Lotz, author of "The Television Will Be Revolutionized," has pointed out that the business model of television was largely unchanged between the mid-1950s and the late 1990s. It is only after the 1990s that it started to become obvious, but certainly not to everyone, that massive change was coming through new technologies for not only the delivery of programming but also an opening up of choice for viewers at an unprecedented rate in the industry.

Lotz has described the changes in the commercial model as a sequence that began in the 1950s and 1960s with what she terms the 'network era,' characterized by a handful of broadcasting conglomerates, followed by the 'multi-channel transition' of cable and premium TV which took hold in the 1970s and 1980s, and most recently the 'post-network era' in which we currently find ourselves[7].

But what does it mean to be 'post network'? Are television networks and cable channels going away? Probably not, and besides, such major shifts tend to happen over decades not years, if history is any guide. Instead, it is worth considering Lotz's '5 Cs' to help us understand what is substantively different about the post-network era and how producers can benefit from using them as guidelines.

These 5 Cs are Choice, Control, Convenience, Customization and Community[8], and applying them to everything from development and production phases to end users' media product provides a lens through which to view what many see as a highly turbulent media landscape.

Are there new challenges that come with the tectonic shifts of this post-network era? Yes. Are there also new opportunities for producers? Both within and beyond Canada's borders, there are many that see the current television landscape as a new golden age enabled by OTT platforms, video in social media feeds and streaming stick devices such as Roku, Amazon Fire and Google Chromecast. The cord cutters haven't abandoned screens altogether. They've just abandoned traditional screens.

One of the results of the new multi-platform, multi- device world is a flowering of production. Take Hollywood as one example. In 2016, 455 scripted television series were released, more than in any other year[9]. In other words, the pie has gotten bigger. Where there used to be approximately a dozen major outlets that were the potential programming buyers in Los Angeles, there are now estimated to be about 50 such outlets.

As the above figures relate only to Hollywood, we consulted with several Canadian producers and media executives on the business impact of new streaming platforms and new competition. A variety of viewpoints were heard, and many of them were enthusiastic and encouraging. One such executive focused on selling kids' and family content worldwide said the following on the topic of sales to OTT platforms:

> **"We've found that Netflix has actually driven prices up for us by increasing competition. Before, we had only a handful of places to sell the titles in our catalogue to in the U.S.: Nick, Cartoon Network, PBS. Now, with this fragmented market, there's more competition on the buying side in some genres and we've found that it's good for producers in those genres."**

On the topic of selling through to emerging markets, many of which have lower licence fees, another Canadian executive involved in international distribution said this:

> **"All these little markets can really add up. The individual licence fees may not be large but if you do pan-region deals, such as ones in for Latin America, they [the fees] can add up to a few hundred thousand dollars."**

Another reality of being a producer in a competitive industry undergoing unprecedented change is the importance of partnerships. One plus one can equal more than two in these scenarios as stacking elements such as funding, broadcasting and distribution deals can be facilitated through international relationships. To quote a Canadian media executive involved in the global distribution of programming:

> **"The future of our business is the acumen of knowing how to structure co-productions, because on the one hand license fees are going down, and on the other hand industry consolidation is happening at the top. People are looking for efficiencies, so working with partners who can access different resources and provide new opportunities is more important than ever."**

In this regard, Canadian producers are particularly well positioned, with a myriad of opportunities for entering the global marketplace. Partnerships between countries can be forged through official co-production treaties, and Canada has reached such treaties with over 50 countries around the world. These treaties provide for a complement of tax credits and incentives for both countries. Another option is the co-venture structure, which enables Canadian and foreign companies to collaborate and still have their production qualify as Canadian content for broadcasting purposes. More information on co-productions and co-ventures can be accessed here.

For some producers, and particularly in some regions of the world, the prospect of exporting to international markets was underpinned by concerns about piracy. These apprehensions were not unfounded. Whether through illegally duplicated and distributed DVDs or through unlicensed copies posted online, piracy has accounted for billions in lost revenue through counterfeit discs and illegal downloads and streams. And the problem has often been more acute in international markets[10].

But a silver lining to this cloud of illegally obtained content does exist. One of the outcomes of the move away from DVDs toward subscription-based streaming services that charge a single monthly fee for unlimited monthly viewing is that the incentive to create illegal copies and downloads has been greatly reduced. It's worth noting that a similar trend exists in the music industry, a market that lost approximately half of its revenue base in the years following the arrival of peer-to-peer file sharing online, and that in 2017 reported its highest revenue growth in 20 years[11]. While statistics vary from one research report to another and from one format to another, the trend is clear: Less illegal downloading is taking place, of both music and video as a result of the arrival of subscription streaming services[12].

While it's a controversial statement, some industry watchers have gone so far as to suggest that piracy has been "made pointless"[13] given the possibility of unlimited viewing in exchange for a single monthly price. For example, take the following statistics from one of the main torrent sites, BitTorrent. In 2016, BitTorrent accounted for just under 2% of downstream traffic during peak periods, whereas Netflix accounted for over 35% according to a Cisco Systems analysis. For comparison purposes, peer-to-peer file sharing represented 60% of all downstream traffic in 2003. Furthermore, Cisco reports that the sharing of files online is the only component of online traffic that is not on the rise[14].

Nonetheless, 2017 saw the creation of the Alliance for Creativity and Entertainment (ACE) comprised of over thirty studio, broadcaster and platform member organizations representing media producers in Canada, the US, the UK, Europe, Latin America and India—including Amazon, Bell, Disney, Grupo Globo and Star India. In ACE's June 2017 press release, the consortium described its mission as follows: "[to] draw upon the global antipiracy resources of the Motion Picture Association of America (MPAA) in concert with the internal antipiracy expertise of the ACE coalition members [...] work closely with law enforcement to curtail illegal pirate enterprises, file civil litigation, forge cooperative relationships with existing national content protection organizations, and pursue voluntary agreements with responsible parties across the internet ecosystem."[15]

So, although piracy has decreased substantially with the advent of streaming and a move away from physical form factors, it has not been eradicated. With initiatives such as ACE, we have evidence that industry stakeholders continue to work together in search of ways to optimize the capture of revenue for creators and rights holders.

The previous chapter discussed the phenomenon of the opening up of the now global media marketplace. This chapter goes deeper into specific platforms, such as Netflix, Amazon, Hulu and popular streaming sites in Asia and Africa, to further explore the new challenges and opportunities that accompany this landscape driven by a wealth of choice for viewers.

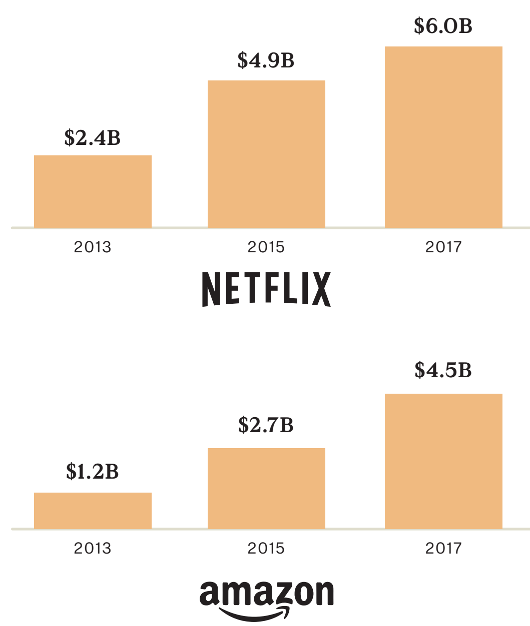
The array of choices comes not only from breaking free of broadcast schedules and the limited shelf space they offer, but also from the world that exists outside of television sets, a world sometimes referred to as the 'landline of home entertainment.' In many of the international markets examined in the CMF's fall 2017 series "Your Market Is Everywhere," the television as a box in the living room—along with the landline phone—has effectively been leapfrogged by mobile devices and the array of entertainment services available through them. A combination of weak infrastructure in broadcast, cable and telephone technologies and pricing that was beyond the reach of large swaths of the population kept conventional television and telephone services out of the hands of many.

In Canada and the US, a different factor has driven the adoption of OTT: the opting out of usually hefty monthly subscription fees, a practice also known as cord cutting. How big an issue has cord cutting become? According to one research firm, Canadian cable and satellite service carriers saw just over 200,000 subscribers opt out of their services in 2016[16]—a record number of cancellations representing $185 million in total losses[17]. In the world's largest entertainment market, i.e., the US, cord cutting increased by 33% between 2016 and 2017, adding up to over 22 million cord cutters[18].

Whether brought about by poor infrastructure in international markets or the appeal of lower-priced options in North America, it is clear that streaming OTT services are the next stage of delivery for entertainment products. These platforms and the proliferation of mobile devices on which services are consumed turn media content into something that can be accessed anywhere, any time. This is a very different user experience from broadcast schedules and pay channels largely consumed in a passive manner in living rooms.

Also, consider the shift of the product offering of OTT providers. Investments in programming, a combination of licences and original productions, have gone from zero five years ago to double digit billions annually. In October 2017, Netflix announced its plans to allocate $8 billion to the creation and acquisition of programming for 2018, up from just over $6 billion in 2017[19]. Meanwhile, Amazon reported spending $4.5 billion on content creation and acquisition for 2017, Hulu spent $2.5 billion and YouTube, now home to the premium pay service YouTube Red, has earmarked hundreds of millions annually for content creation[20,21]. And, while Netflix and Hulu are standalone monthly subscriptions, in about 200 international markets Amazon Prime Video comes packaged as a perk with Amazon Prime, the 2-day shipping program offered for an annual fee.

Estimated annual video content budgets of Netflix and Amazon
(original and licensed content)



(© Statista 2017, IHS Markit, Netflix, JPMorgan)
2013 and 2015 estimates by IHS Markit;
2017 estimates given by Netflix and JPMorgan
(for Amazon)

Curation, which was once the programmer's domain, is now in the hands of the viewer. Netflix's Chief Content Officer Ted Sarandos views the situation as a fundamental shift in the provision of programming. "My main thing is that we're all in the consumer satisfaction business," he said. "When you had three networks, three hours of prime time, there was such a thing as too much TV. But now you have unlimited shelf space and bandwidth, and tastes are hugely differentiated from one another."[22] This thinking is clearly behind Netflix's aim of reaching a 50/50 split between original and licensed programming in the coming years[23].

Another reality of on-demand media is that the professional content of television programming competes with social media platforms and feeds for viewers' attention. Whereas online video was dominated for years by YouTube, the Google-owned site now faces significant competition in the realm of video from Twitter, Facebook, Instagram, and Snapchat's here today, gone tomorrow visual vignettes. Even Netflix, which one would guess offers for the most part an at home and/or sit- down viewing experience, is proving to be growing its share of mobile viewing substantially. In the second quarter of 2017, the company reported 7.5 billion minutes consumed on smartphones, up 73% compared to 2014[24]. "Teeny tiny screens aren't the deterrent we thought they'd be," wrote a journalist covering the story[25].

So to say that Netflix et al. have changed everything is an understatement. And it's not just the staggering growth curve, but also the industry shift from an advertising-supported business model to a subscription-based model. The players are different, the money flows differently and pleasing audiences, not advertisers, takes the front seat.

Raise the subject of Netflix with anyone in the industry and you're likely to hear a pointed opinion. Whether or not Netflix is a positive or negative for producers and studios is largely beside the point: Netflix and its streaming platform cousins around the world are here to stay. The way programming is created, consumed and even licensed has been radically altered. "They totally made television global, and that was an unheard-of concept," said a top Los Angeles producer and studio executive. "Whoever thought of buying universal rights to anything?"[26]

In the research conducted for this project, we also encountered some polarized viewpoints from Canadian producers and media executives. One told us that under the current global licensing arrangements that Netflix requires, much of the value of content created in Canada is leaving the country. Another took a markedly different stance, suggesting that producers should stop worrying about signing over the rights along with future backend revenue and instead focus on making the show. He believes that producers err on the side of overestimating the value of those rights and, as a result, end up retaining control but not doing the deal.

> **"Control over what? Something that will never get made? Producing is about having to make some compromises. That's just the reality of it."**

Another Canadian media executive involved in global licensing and distribution deals acknowledged the trickiness of many of the new arrangements and business models, explaining things this way:

> **"From a rights standpoint, things are so much more complex now. It's virtually impossible to become an expert in all the rights in all the countries and all the platforms. That's why I think it's better to establish an area of expertise in a specific genre. Being excellent in one area can really pay off. When I talk to producers looking for scale, and if they're not big production companies, I recommend partnering with a distributor who has the right relationships."**

A documentary producer we spoke with about the opportunities and challenges of dealing with OTT platforms had this to say:

> **"Country by country the legacy broadcast markets are dying. Netflix is getting so big and is one of the most visible platforms that they now call the shots. Everyone wants their film on Netflix, though there's new competition from Amazon, Hulu, etc. which will, once again, change the game. Five years ago, Netflix was buying catalogue for small dollar amounts and now they're doing things like paying $5 million for *Icarus*. So, yes, Netflix takes global rights and I have to let go of any back end, but if I do a deal with them, I look at it as taking the global revenue off the top—as long as they pay enough. At the same time, there's so much documentary on the supply side that, unless you have a prior relationship with them, dealing directly with Netflix without an agent or representation, is a new challenge."**

With any new platform comes a new user experience and new opportunities. The global nature of streaming platforms means the ability to reach large audiences at once and the universal language of animation was a perfect fit between Voot Kids, a streaming service in India, and an animation studio in Quebec.

> **"With OTT and SVOD being so big, [our show] fit in perfectly. It's short form, with no dialogue, so it's great for an international audience. To the buyers in India, it looks like Disney, because of its high-quality 3D animation."**

Another characteristic of programming delivered digitally is that data on viewing patterns, such as stops, starts, pauses and repeated viewings, form part of the intelligence about the program, in real time. Consumption becomes a programming element with sophisticated data analytics and machine learning systems informing the decision- making process. Such efficient systems led to what some termed the 'Netflix cancellation binge' of 2017, with shows such as *The Get Down*, *Bloodline* and *Hemlock Grove* getting the axe. Netflix's CEO Reed Hastings is more than comfortable with the situation, going so far as to state that the platform has had too many successes. "Our hit ratio is way too high right now," said Hastings. "I'm always pushing the content team. We have to take more risk [...] try more crazy things. Because we should have a higher cancel rate overall."[27]

Because Netflix has become such a juggernaut, amassing over 100 million subscribers in almost 200 countries[28], we tend to think that it holds the lion's share of the global market, with smaller slices going to services such as Amazon and Hulu, but that would be missing an important part of the story. A global audience does not necessarily mean a homogeneous audience and, in international markets in Asia, India and Africa, some local rather than global players are gaining footholds in the streaming service space.

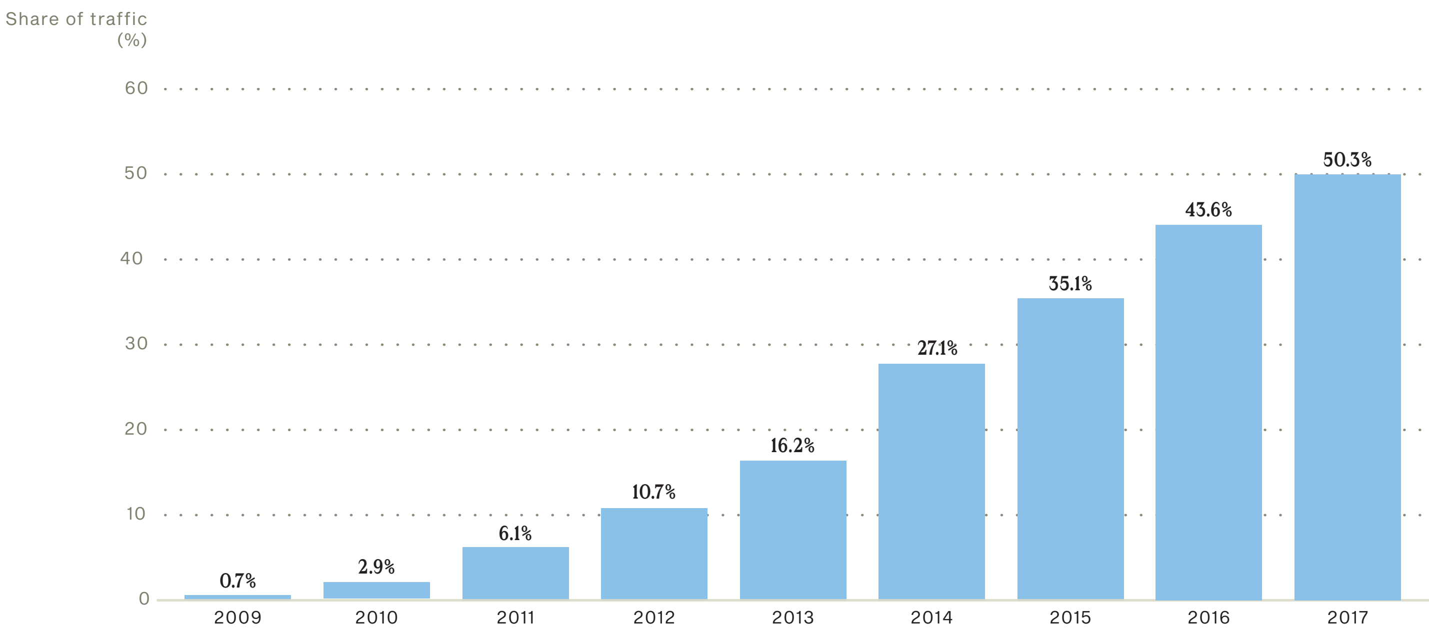
Despite the presence of four dedicated OTT providers in India (BIFFlix, Spuul, BOXTV, ErosNow) and broadcaster-operated OTT platforms such as Zee TV's OZee and Star TV India's Hotstar, Netflix decided to enter the Indian market with a high- profile launch at the beginning of 2016. A year and a half later, Amazon and Hotstar are the dominant providers, not Netflix. As pointed out in an article published in *Wired* earlier this year: "The battle for Indians' eyes and screens is not just about streaming video. Netflix may be facing off against Amazon Prime Video and India's own Hotstar, but Amazon is simultaneously taking on Flipkart, India's multi-billion-dollar e-commerce company. From Amazon's perspective, video is just a perk to lock in consumers. [...] Given that the number of heavy internet users in India will likely overshadow that of the US in the not-too-distant future, India may well become the ultimate proving ground for global tech companies. If you can't make it in India, you'll always be second-rate."[29]

At the same time it launched in India, Netflix also made its service available in several African countries, where the limitations of unreliable high- speed internet are a very real obstacle. In Nigeria, home to the prolific Nollywood film industry that produces as many as a few hundred movies per month, the local streaming service is iRoko. The company's CEO, Jason Njoku, has plans to occupy a specific niche in the streaming world, one that is outside of Netflix's wheelhouse. "We are obsessed with creating Africa's largest community around local content,"[30] he said. It's an ambitious goal, but one that may not be out of reach bearing in mind the specificity of Nollywood content and an African diaspora of tens of millions spread across Europe, the UK as well as North and South America.

Meanwhile Malaysia-based iflix, a streaming service established in 2015, is now the dominant player in 19 Southeast Asian markets. One iflix investor provides the following explanation for the company's rapid and prodigious success in the region: "Netflix chases the affluent crowd, who are willing to pay around US$10 a month, whereas iflix is targeting emerging markets where the target audience earns less than US$10,000 per year, so it only charges $2 to $3 a month."[31]

About half of the 7.5 billion people making up the world's population in 2017 are now online. In comparison, Canada's digital population counts just over 32 million internet users, which represents about 89% of the country's population[32]. But perhaps the more salient comparison is the growth of internet as accessed solely through mobile, from a global perspective. There we see a market that was more or less zero in 2009 to one that accounted for about 50% of all web traffic in 2017.

Share of mobile phone website traffic worldwide 2017



This is remarkable growth in just a handful of years and it is easy to see the opportunities for mobile phone carriers as well as the software and hardware companies servicing that industry. There are also implications for producers and content providers as the delivery mechanism for news, information and entertainment moves from legacy hardware such as radio and TV to mobile devices.

The size of the digital divide varies greatly from country to country, as noted in the CMF's fall 2017 international market series "Your Market Is Everywhere" which can be found here.

Here is a recap of the figures regarding the digital populations (via mobile or fixed internet) of the countries examined in the reports:

COUNTRY	POPULATION	PERCENTAGE OF POPULATION
AFRICA[33]	130 MILLION	10%[34]
CHINA	730 MILLION	53%[35]
INDIA	462 MILLION	35%[36]
MEXICO	70 MILLION	55%[37]
SOUTH AFRICA	29 MILLION	52%[38]
SOUTH KOREA	45 MILLION	90%[39]
SOUTH AMERICA[40]		
ARGENTINA	35 MILLION	80%
BRAZIL	139 MILLION	66%
CHILE	14 MILLION	78%
COLOMBIA	29 MILLION	58%

The digital divide is definitely contracting and doing so at a quickening pace, although there is still a way to go. In a report recently released by the UN's International Telecommunications Union, it was projected that 60% of the world will have internet connectivity by 2020—up from the just over 50% reported for 2017[41]. For those countries with newfound mobile connectivity, as is the case of countries that already enjoy high rates of internet penetration, the UN report makes an important point about how mobile technologies are experienced: "People no longer go online, they are online."[42]

'How' people are online is also changing. For the next billion mobile phone users, the internet experience will not be one of typing and text but of voice activation and video[43]. Facilitating this shift is the fact that lower cost smartphones and cheaper data plans are cropping up around the world. Take Chinese smartphone manufacturer Huawei as an example. Five years ago, the company's products accounted for less than 1% of global phone shipments and Huawei is now the third largest global phone provider, after Samsung and Apple. Today, it holds 10% of an increasingly international market[44].

It is on this foundation of more accessible and affordable hardware and mobile phone services that Facebook rolled out its 'Free Basics' service, aimed specifically at the world's developing markets. Between 2014 and 2017, Facebook made Free Basics available in over 60 countries throughout Africa, Asia and Latin America. In 2015, Free Basics was made available in India, but the service was banned by the government a year later for violating net neutrality rules which state that no content provider shall be favoured over another online.[45]

And the Indian government is not the only one to take issue with Free Basics. While increased access to digital services in areas that previously lacked affordable and accessible solutions is overall a positive development, Global Voices—a research consortium of journalists, politicians, academics, entrepreneurs and activists—has studied Facebook's Free Basics closely and notes a variety of concerns, among them: Free Basics is not the open, global internet, but a private company's portal that offers limited content and services. The app offers only a small amount of local content and, in heavily multilingual areas such as the Indian subcontinent, Free Basics is offered in only one local language[46].

Like Facebook, Google has in its sights the hundreds of millions of Africans and Indians who are new to the internet. In Africa, Google has witnessed an explosion of uploaded video content, which has doubled over the past two years, as has video viewing time on mobile phones[47]. To this end, the company has embarked on a number of hardware and software initiatives that target the users' needs in developing markets.

One such effort is a partnership with handset manufacturer Freetel by which $40 Android smartphones are made available in Africa. Another is a data-saving version of YouTube designed specifically for developing markets where data plans are costly and WiFi zones are scarce. Called YouTube Go, it is designed to work without an internet connection and has already been rolled out in India and Nigeria. It uses video compression technology to slim down large files, makes different quality versions of videos available for download depending on available bandwidth and allows users to share video clips by Bluetooth[48].

This chapter builds on the findings and observations of the previous four chapters and puts them into the context of the benefits of shifting to a new mindset that acknowledges the dramatic changes that are unfolding in the media, tech, and entertainment industries. An overview of Canada's competitive position in the global marketplace will also be provided to round out the picture of this profoundly altered landscape and explain how these changes impact the country's producers, content creators and technologists.

As seen in the previous chapters, the industry has undergone more change in the past few years than ever before. Up until a handful of years ago, YouTube was populated by things like illegally uploaded content, endless footage of cute kids and cats, and one-off viral videos whose protagonists were, well, cute kids and cats. Was it ever considered to be an alternative to TV? Not by most.

Yet today YouTube boasts about a billion unique visitors per month and has been localized for 42 international markets. The average viewing session is 40 minutes, a large portion of which is viewed on mobile devices[49]. It has also spun off its own industry of stars created from the ground up, i.e., the tens of thousands of YouTubers who post everything from game plays and makeup tutorials to comedy sketches and how-to videos. Five years ago, Netflix was largely a second home for older and back catalogue titles that couldn't find a home on broadcast or cable TV. Original content on Netflix once represented a single digit percentage but the company's current target for it is 50%[50].

With the above statistics in mind, it should probably not come as a surprise that, in the fall of 2017, a research report revealed that half of those aged 22 to 45 consume no content on traditional television platforms[51]. But whether surprising or not, it is still not clear how radical change actually occurs. As one character said to another in Hemingway's "The Sun Also Rises" when asked about how he went bankrupt, "two ways: gradually, then suddenly." The same might be said to describe the nothing less than profound shifts being witnessed in the media and entertainment industries. It happened gradually, then it happened suddenly.

Let's take a look at the current state of Hollywood as an example. Summer ticket sales, on which the movie business relies for its major cash inflow, were at their lowest in over a decade[52]. The 'tentpole' blockbusters that were supposed to bring hordes of paying customers through the doors did not. While studios were spending unprecedented amounts of cash on big name franchises, audiences were going elsewhere. People had choices, and many of those choices had nothing to do with Hollywood.

So what can be made of this? Does it mean movies are going away? Most likely not. But their primacy, and everything from the way they are being made to the way they are marketed, is now open to debate. For decades, this was not the case because the industry had a monopoly on the platform for feature film production and distribution and, in turn, on people's attention. Yves Bergquist, Director of the Data & Analytics Project at USC's Entertainment Technology Centre, put it this way: "Nobody ever got promoted in Hollywood because they had better inside knowledge of what audiences wanted to see, simply because, until fairly recently, that didn't matter. The industry had an unassailable stronghold on our leisure time, and so the success factors were, for the most part, intrinsic (the product) rather than extrinsic (the market)."[53]

Today, the once mighty and untouchable broadcast, print and game industries are also witnessing a shift of value to such extrinsic market factors. The two biggest tech platforms, Facebook and Google, form a powerful duopoly that accounts for almost two thirds of all digital advertising revenue and about 20% of overall advertising revenue[54]. In the tech world, such rewards are reaped only when a company masters the art of giving consumers what they want, of becoming the destination—or starting point—of one's digital experience. Whether it's Facebook itself, its Messenger app, or the hugely popular apps it acquired, WhatsApp and Instagram, or any one of Google's seven products that count more than 1 billion users[55], the media barons of the moment are companies such as these because they know how to create products that attract and hold attention.

For these reasons, legacy media organizations are starting to pursue deals with technology platforms and are betting on the up-and-coming self-made stars of social media platforms such as Instagram, YouTube and Snapchat. Take Time Warner, for example, which recently announced a $100 million deal with Snap for the development of ten shows comprised of episodes of three to five minutes in length[56].

During the summer of 2017, Facebook announced that it too would be investing in original content with its 'Facebook Watch' feature. Content will be available both on demand and in real time and will include such premium viewing as major league sporting events. A budget of approximately $1 billion has been earmarked for content acquisition and licensing, which places Facebook in the same competitive ring as YouTube, Netflix and other OTT providers[57]. And not to be left out is Apple, which recently announced its own billion dollar 'war chest' for the creation and acquisition of content for its platforms and devices[58].

As for Snapchat, old-world media brands ranging from National Geographic to CNN, ESPN and Disney have been part of the content offerings since the introduction of Snapchat Discover in early 2015. Parent company Snap Inc.'s head of content is a young thirty something named Nick Bell. He explains his viewpoint and vision for where the app fits into a new media marketplace in the following terms: "The audience is basically developing this language of what mobile video is. Some of it's really obvious, like vertical video [...] We spent a lot of time thinking about what would lend itself well to Snap—how you develop characters, what the narrative and the story arcs look like when you're telling these stories in a short format, the importance of episodic content and what happens in this world where people can miss content. Do you make previous episodes available? We're really excited about something that is very regular and people can tune in to on a daily basis, potentially. We're also thinking about what content can travel borders."[59]

CANADIAN COMPETITIVENESS IN THE GLOBAL MARKETPLACE

With the new reality of a global and increasingly technology dependent marketplace established, this section provides an overview of how Canadian companies are positioned in this market. Gone are the days when Canada lacked the infrastructure and production talent needed to build a reputation beyond its borders. Several decades of 'Hollywood North' productions, the introduction of tax incentives and the ratification of dozens of international treaties have led to a much higher level of visibility for the country on the international stage.

A cross-section of Canadian media executives who are active in international production and distribution were interviewed for this report and had the following to say with respect to Canada's strengths in the global market:

- **"Internationally, Canada is known for a few things: reliable delivery, good storytelling and creative financing. And if you bring international financing to the table, you have more leverage in negotiating the retention of rights. And if you're able to do that, you can hang on to an equity position for the future."**

- **"Canada has a reputation for being professional, for being trustworthy as business people, and for bringing solid investment from provincial and federal partners. Canadian production companies can come in maybe not at half the price, but often at 30–40% below competitors in the U.S. And we're still commanding the same licence fees as they are, so it makes a lot of business sense to work with Canadian companies."**

- **"Content produced in the US tends to travel well from north to south, meaning it generally does well throughout North America, whereas Canadian shows travel well east to west, meaning to Europe and Asia. Canada's reputation is for shows that are less extreme than those made in the U.S. but that have high-quality content and boast high production values."**

Film, TV and game production in Canada now represent billions in dollars of revenue annually and inject additional billions in contribution to GDP through what economists call indirect economic impact. This report has devoted considerable space to the film and TV industries but less to the video game industry, where Canada has held an important role for several decades. In 2017, there are more than 596 active game studios in Canada that employ over 21,000 people[60]. This strong position is particularly significant in the context of the global gaming industry, which has grown from about 100 million gamers 20 years ago to reach 2.6 billion gamers in 2017[61].

Such exponential growth is behind the setting up of Canadian offices and studios by major European gaming companies such as Ubisoft and Los Angeles-based studios such as Disney Interactive, Sony Pictures Imageworks and Warner Bros. Interactive Entertainment[62]. In addition to these big names, indie game studios are proliferating in Canada, not just in the country's largest cities, but also in more secondary ones such as Victoria, Winnipeg, Quebec City and Halifax.

Canada's flourishing game industry is one reason why the country has also become associated with a culture of technology and innovation. Canada's tech sector has grown amply in recent years. It is currently reported to employ 864,000 people—or

5.6% of Canada's total workforce—and is valued at $117 billion, or 7.1% of the country's economic output[63]. Technology-based companies in Canada are concentrated in British Columbia, Ontario and Quebec, with new centres of activity emerging in Atlantic Canada and the Prairies[64].

A closer look at Canada's tech sector:

► In British Columbia, the tech sector employs almost 100,000 workers, more than the forestry, mining and oil and gas industries combined[65];

► Toronto now boasts the world's fastest-growing tech market. Between 2016 and 2017, it created more than 20,000 jobs, twice as many as New York City[66];

► Bloomberg Technology recently referred to Quebec as "a surprise leader in Canada's race for smart global jobs," citing fast expanding local tech companies such as GSOFT and Breather and, of course, France's Ubisoft, which has grown its footprint to 3,500 employees in its Montreal, Quebec City and Saguenay studios, as evidence of this booming sector[67].

The shifts described in this chapter are indications of Canada's evolution from a resource-based economy to a knowledge-based economy. Concurrent with this expansion has been the attractiveness of Canada as a site for investment from the likes of Facebook, Google and Microsoft. And because the media and entertainment industries are now in a symbiotic relationship with the tech sector, these developments create an array of opportunities for Canadian content creators and producers.

Artificial intelligence (AI) is one of the hottest fields in computing. It focuses on augmenting devices and services with intelligence in the form of things such as predictive analytics, behavioural targeting, curation and recommendation. Using techniques such as machine learning, systems effectively get smarter with each user interaction and are used in Netflix, YouTube, Facebook, Amazon and Spotify recommendations and feeds.

In the past few years, Canada's three largest cities have benefited from substantial investments made by the world's biggest tech companies in AI labs and centres. This also bodes well for the media and entertainment industries as they are increasingly being called upon to deliver dynamic—as opposed to static—products, services and experiences. In September 2017, Facebook announced the launch of an AI research lab at McGill University, following AI investments made by Google and Microsoft in Montreal and Toronto. Also in September 2017, Samsung, the world's largest maker of mobile devices, announced the opening of an AI lab at Université de Montréal[68].

In the words of *Wired* magazine: "Universities in Toronto and Montreal have played a big role in the rise of deep learning, a collection of AI techniques that allows machines to learn tasks by analyzing large amounts of data. As deep learning remakes the likes of Google and Microsoft, Canada has become a hotbed for new talent."[69] In Vancouver, AI labs have been on the rise also, with the city described by the Financial Post as having an ecosystem that is exploding[70]. On top of the gaming and AI activity, there's also Vancouver's international reputation as a VFX (visual effects) hub. Comprising over 60 VFX and animation studios, the cluster ranks as one of the world's largest[71].

Canada is also becoming a hotbed for AR (Augmented Reality) and VR (Virtual Reality) development, the technologies that bring together the digital and physical worlds, largely brought to popular attention last year by the success of Pokemon Go. The gloves, goggles and helmets seen in the labs of the 1990s and early 2000s are back, this time with a host of easy-to-use consumer applications and far more affordable price tags. Vancouver is reported to have over 130 companies working in the AR/VR sector[72] and Toronto and Montreal have similarly thriving AR and VR scenes. The VR and AR market is projected to boom globally, with one estimate projecting an increase from about $6 billion in 2017 to $40 billion by 2020 and another forecasting a market size of over $100 billion by 2021[73].

Hollywood also considers VR as a potential new source of ancillary revenue. In the fall of 2017, AMC Entertainment, which owns the largest chain of movie theatres in the US, announced that it would be making a $20 million investment in VR arcades—some freestanding and others in AMC theatres—as a hedge against the sharp decline in movie ticket sales registered during the summer 2017 season[74].

An executive from Los Angeles-based VR and VFX company Legend 3D, which itself has opened a studio with a headcount of about 400, notes that Canada, given its high level of technical talent, geographical proximity to the US and government support through funding and tax incentives, is at the top of the list of companies looking to expand to other markets[75].

SOME CONCLUSIONS

If there's one thing that can be learned from the intertwining of the media, technology, and entertainment industries examined in this report, it's that, in a restatement of Hemingway's wisdom quoted above, *change is gradual, until it isn't*. When there are multiple streams of change at work, as witnessed here (technological, cultural and social), they bring with them new user experiences, new relationships with users, new partnerships among companies in the supply chain and new business models in turn.

The outcome of all of this activity is that new players are being endowed with new forms of power and influence, as seen in the current dominance of social media platforms and the decreasing clout of traditional media players in radio, print, television and film. In the new environment, whoever has the strongest hold on consumers' attention wins. And it is one that is highly dynamic with many moving parts and many unpredictable elements. In the media industry, as in most industries over the past century, the winners in recent decades are not likely to be the winners in the coming years. Whether it's yesterday's Sears ceding its position to Amazon or Netflix eclipsing broadcasters and cable companies, adjusting one's thinking with regard to the who, what, why, how and for whom media products and services are being created is likely to serve producers well as tough decisions are made in the years to come.

This report, informed by the CMF's seven publications making up the fall 2017 "Your Market Is Everywhere" international market series as well as interviews with industry players throughout the country and around the world, has identified several implications for Canadian producers. The world of broadcast schedules and geographical borders is yesterday's world. The result of this shift is that all markets are now global markets. The new environment in which content production and distribution are taking place is non-linear, multi-platform, multi-device, and on demand. While the supply side is heavy, with competition now coming from all directions, new opportunities and niches emerge for agile and forward-thinking producers. International collaborations and strategies take on an added importance as the industry develops in this manner and opens up Canadian producers to new markets, new relationships and new ways of producing and distributing content that will define the next era of an industry that is in the midst of unprecedented change.

ACKNOWLEDGMENTS

Thank you to the following producers, executives and industry players who generously offered their time to participate in interviews or contributed in other ways for the “Your Market Is Everywhere” and “Adjust Your Thinking” series of research reports.

Ivan Acebo-Choy
Trade Commissioner, Mexico

Solange Atwood
Blue Ant Media

Ric Esther Bienstock
Good Soup Productions

Pierina Corbo
Telefilm Canada

Denis Dore
Squeeze Studios

Laetitia Gadegbeku
Trade Commissioner, Côte d’Ivoire and Liberia

Athena Georgaklis
Nelvana

Emma Hicklin
Trade Commissioner, Creative Industries

Raja Khanna
Blue Ant Media/CACE (Canadian Association of Content Exporters)

Nuala Lawlor
Trade Commissioner, South Africa

Eric M’Boua
Host/Producer, Cote d’Ivoire

Angelica Manrique
Trade Commissioner, Colombia

Elena Pesut
Trade Commissioner, Creative Industries

Lance Samuels
Blue Ice Pictures

Josh Scherba
DHX

Natalie Vinet
Proper TV

Robert Wong
Creative BC

FOOTNOTES

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Prepared by Leora Kornfeld for

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by the

Canada Media Fund