



# TRENDS REPORT

## TOWARDS INCREASED ACCESSIBILITY

# PREAMBLE: let's not lose sight of the big picture

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In the first edition of this report, we identified the key transformational trends and market developments that are shaping, and will continue to shape, the content production and distribution industry over the coming years. For those interested in observing and illustrating these changes and their impacts, the current challenge resides in the fact that these transformation phases **are not clearly defined, that they overlap one another and that they coexist in the marketplace.**

This second edition of the Key Trends report continues to focus on these fundamental trends while shedding light on how certain phenomena are evolving and analyzing the impacts of these changes on the television and digital media sectors.

This second edition features an improved format, introducing a dashboard which provides highlights on a series of key indicators that serve to illustrate how the television and digital media content industries are evolving.

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# INTRODUCTION

The term “universal addressability”<sup>1</sup> was at the heart of CRTC’s public hearings in 1993 when the regulator was seeking to define how the Canadian broadcasting industry should prepare its “digital future”.

Due to new technology developments - more precisely, to digital video compression (DVC) – Canadian cable and satellite distributors were expected to increase their distribution capacities to transmit different programming services directly to individual subscribers. It was a new era for multichannel television and subscription to TV packages. These new technologies allowed to substantially increase the number of specialty channels, better support Pay-TV business models, and opened the door to IPTV. To this day, these elements remain fundamental attributes of the Canadian television market.

However, as established in previous trends reports, digital technologies have continued to evolve, and influence content consumers’ behaviour. Many viewers now demand greater control and deeper engagement with content. In fact, we believe that 2013 will be remembered as a “tipping point” towards a new era for television in which we can see new practices becoming widely adopted models for the industry. This could be characterized– to paraphrase the CRTC’s wording from 1993 – as the phase of “universal accessibility”.

[1] Source: The Alphabet soup of new TV by Watch Squad collaborator, Danielle Desjardins on CMF’s Trendscape

## WHAT YOU WILL READ IN THIS REPORT

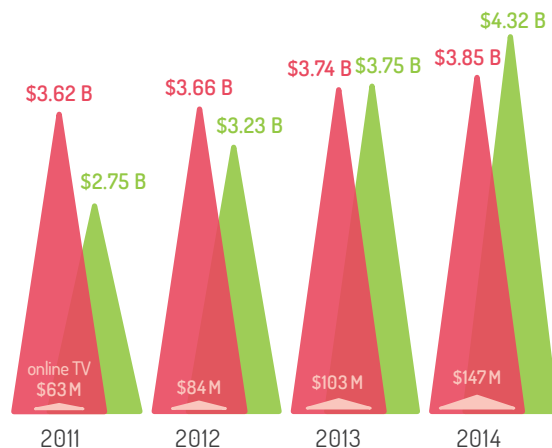
- ◆ Upgradable devices and personalisation are keys to greater consumer access;
- ◆ The industry is undergoing a consumer-driven transition, revising rights management regimes due to content piracy;
- ◆ There is an undisputable appetite for TV-like content;
- ◆ Value is now generated by the relationship between audience and content;
- ◆ Social TV opening the doors to monetization;
- ◆ Accessing and harnessing users’ data is likely to become the most important competitive advantage in the media market.

# DASHBOARD

All data is for the Canadian market, unless indicated otherwise

## ADVERTISING SPENDING

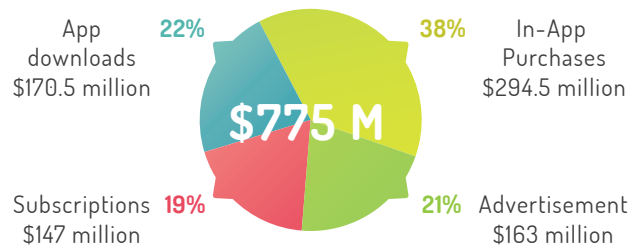
• TV, incl. online TV • Online, except online TV



(PWC, Rising to the challenge – Canadian Perspectives on the Global Entertainment & Media Outlook: 2013-2017)

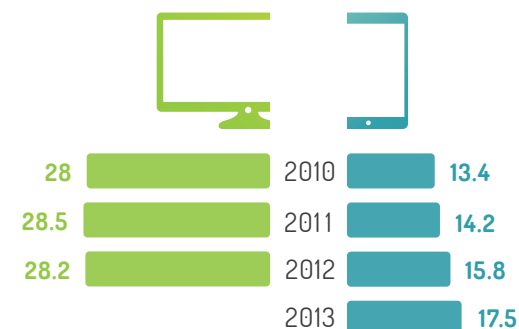
## APP MAKERS REVENUE IN 2012

No new data available



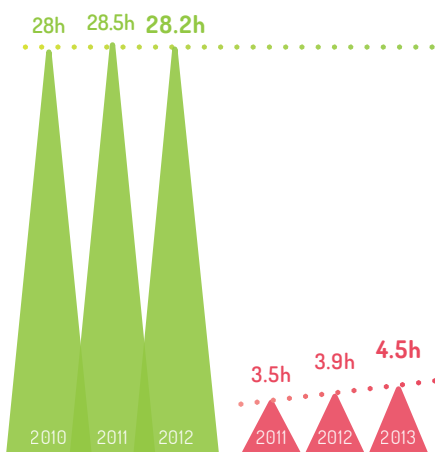
(ICTC, Employment, Investment, and Revenue in the Canadian App Economy 2012)

## TV CONSUMPTION VS TIME SPENT ONLINE (average hours per week)



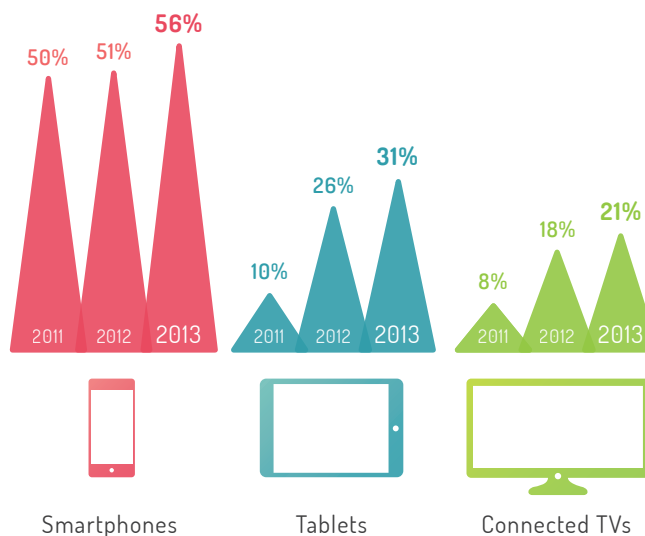
(CRTC, Communications Monitoring Report 2013, MTM 2013)

## TV CONSUMPTION: ON AIR VS ONLINE (average hours per week)



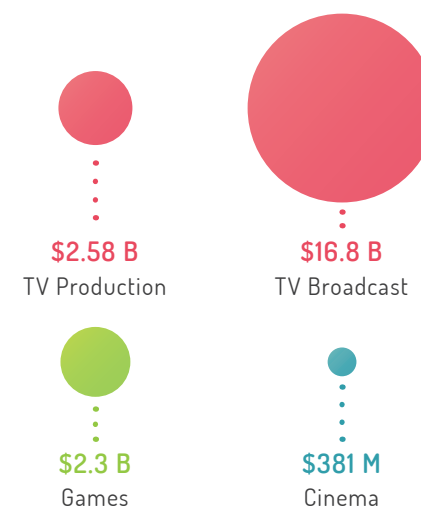
(CRTC, Communications Monitoring Report 2013, MTM 2013)

## SMART DEVICES PENETRATION RATE



(MTM, 2013)

## SIZE OF PRINCIPAL SCREEN-BASED ECONOMIES



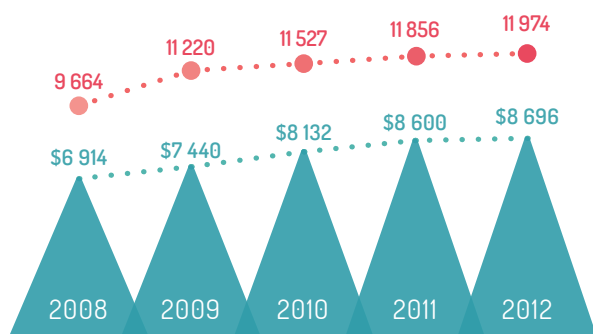
(CMPA, Profile 2012; CRTC, Communications Monitoring Report 2013; ESA Canada, Essential Facts 2013)

# DASHBOARD (CON'T)

All data is for the Canadian market, unless indicated otherwise

## BROADCASTING DISTRIBUTION

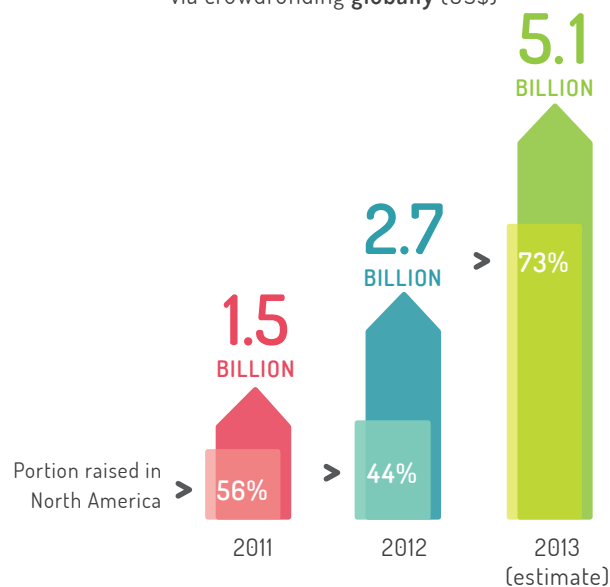
• Subscribers (thousands) • Revenues (\$ millions)



(CRTC, Communications Monitoring Report 2013)

## CROWDFUNDING

Total amount of money raised via crowdfunding globally (US\$)

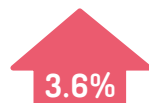


(Massolution, The Crowdfunding Industry Report 2013)

## AVERAGE BILL FOR COMMUNICATIONS SERVICES FOR CANADIAN CONSUMERS



In 2012, the monthly amount dedicated by Canadian homes to communications services went from \$181 to \$185.



for telecommunication services



for television distribution services

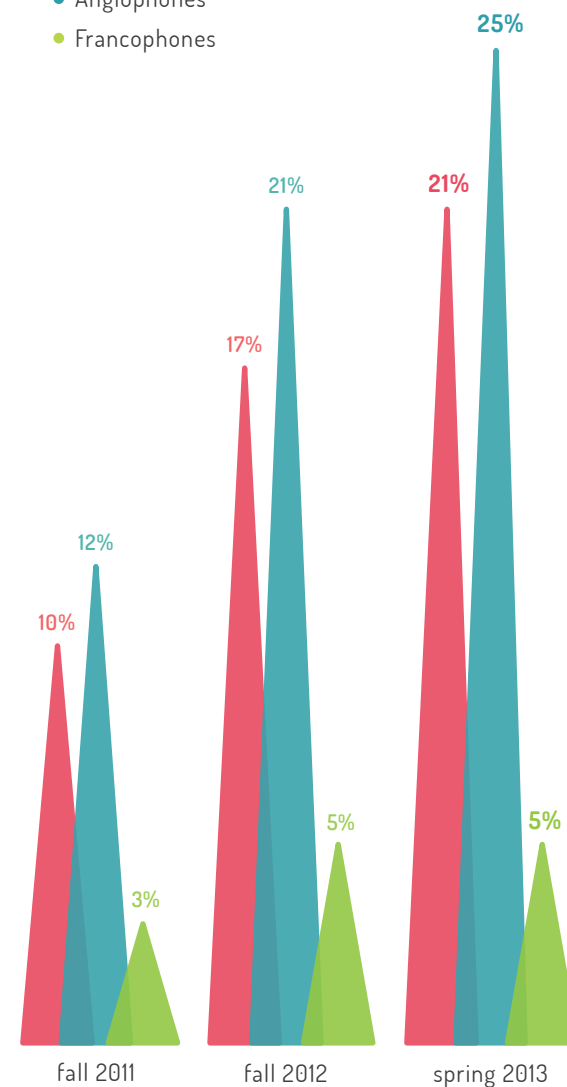
(CRTC, Communications Monitoring Report 2013)

## NETFLIX SUBSCRIBERS

• National average

• Anglophones

• Francophones

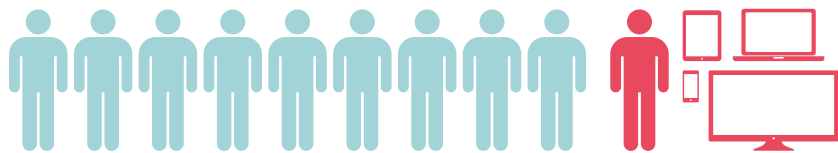


(MTM, 2013)

# ALWAYS ON: Customizable and Upgradable Devices

*The multiplication of connected devices coupled with increased broadband network capability has been at the core of the evolution of the media sector in the past few years. As was the case in the last update report (August 2013), we are interested in the factors responsible for the acceleration of this constant connectivity.*

## 1 OUT OF 10 CANADIANS IS A "4 SCREENS" CONSUMER

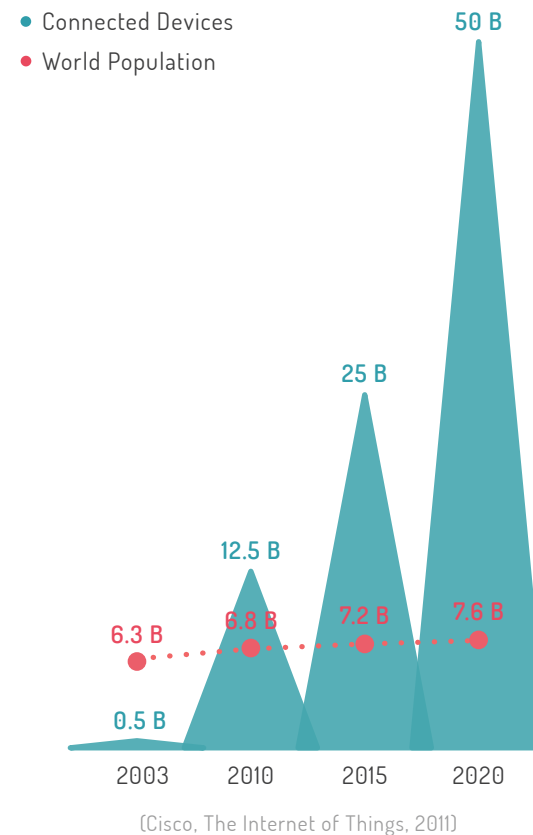


(MTM, 2013)

The average North American household owns an increasing number of screens, including several that are Internet enabled. Manufacturers are under constant pressure to innovate and increase the performance of their devices, which in turn leads to a race (and high expenses for both consumers and manufacturers) to develop increasingly sophisticated technology.

For example, Apple transformed the mobile industry in 2007 with the launch of its iPhone and has since then marketed six new versions of its smart phone in as many years. Moreover, users have become increasingly savvy and sophisticated in the use of their media devices. They are therefore in a better position today to make more individualized choices when it comes to technology.

## MORE CONNECTED DEVICES THAN PEOPLE



In this context, new technology solutions are emerging that encourage consumers to adopt a more sustainable and economical approach. For example, Apple launched its iPhone C, a cheaper alternative to its previous line of smartphones. Google recently launched Chromecast, a USD\$30 device that makes it possible to convert a standard (non-Internet connected) TV set into a Smart TV.



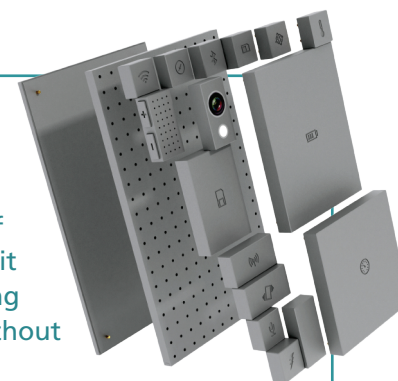
Motorola (owned by Google) recently confirmed that it is working on a modular smartphone concept comprising different parts (battery, camera, screen) that can be replaced separately, enabling buyers to assemble a phone that meets their personal needs and preferences. Motorola has partnered with the popular Phonebloks project.

Over the coming years, we could witness the emergence of a new technology phase, where devices would be customizable and where certain communication and media device components would be individually upgradable.

#### WHAT IS PHONEBLOKS?

According to its developer, Phonebloks is a smartphone made of detachable blocks. If a block breaks, it can be easily replaced; if it's becoming obsolete, the user can upgrade it without having to replace the entire phone.

The project is only a concept at this stage, but it generated close to 1 million supporters in a social networking campaign on Thunderclap earlier this year, breaking records along the way.



#### CHALLENGES

- ◆ Potential impacts of these changes on compatibility and interoperability remain to be seen. Is the way being paved to increased or universal compatibility? Or, on the contrary, will customization complicate the task for content developers and distributors?
- ◆ Increased opportunity for market concentration and control in the hands of equipment manufacturers.

#### OPPORTUNITIES

- ◆ New technologies enabling upgrades will accelerate consumers' adoption of an even higher number of connected devices.
- ◆ Increased personalization will enable a better understanding of users' preferences.
- ◆ These developments could enable a shift from a "device" economy to one in which more money is directed to other expenses: app purchases, content subscriptions, etc.

## SCREEN CONVERGENCE: Providing consumers with what they want: unrestricted access to content

Overplay, Box VPN, Unblock-us, Express VPN or Pure VPN are examples of companies that—for a monthly or annual fee—offer user-friendly encryption services enabling consumers to browse the web without location restrictions by hiding their IP location and anonymously through encrypted communications.

One of these services' most often cited sales arguments is that they provide users access to geo-blocked media sites such as Hulu, Netflix, BBC iPlayer and Spotify. It is in this manner that the typical Internet user is slowly engaging in a form of democratized piracy, and the desire for unrestricted content consumption is at the heart of this behavioural shift.

Consumers are not the only ones whose mindset is changing: well established media players—as demonstrated by recent statements made by Netflix, Telemundo and HBO executives—have openly admitted to using piracy sites to help them identify consumption trends, determine the best content to purchase and engage with super-fans.

Many players within the music, film and television industries have long thought that consumers were illegally downloading content because they did not want to pay for it. The many shifts now occurring in the industry demonstrate that users are more than willing to pay for open and easy

access to content sites (including those that require paid subscriptions such as Netflix and Illico Club Unlimited). The challenge the industry now faces is to determine how it can provide consumers with what they want: a more convenient access to content offerings.

### CANAL+

European media giant Canal+ Group just arrived in Canada's French-language market. A large portion of the content produced by the group will be available through a dedicated channel on DailyMotion. The offer will include free TV content, subscription-based premium TV content as well as on-demand movies.

In this first North American venture, one of Canal+'s main strategic objectives is to shorten content broadcasting delays between France and Canada. These delays are the main culprits responsible for illegal downloading, according to Jean-Marc Juramie, Canal+ Group's director of international projects.

### THE TV INDUSTRY IS RESPONDING TO CONSUMER DEMANDS BY:

Creating more broadcast-controlled premium OTT services that are not only dedicated to catch-up TV but also provide access to a more extensive catalogue of titles.

Moving towards simultaneous releases. This means not only what we refer to as "binge programming" (i.e., releasing all episodes at once), but also reviewing operational strategies by releasing content for different windows/platforms and territories either simultaneously or with less lag time.

(For example, BBC1 offers its primetime shows for catch-up one hour after the end of broadcasts)

Unbundling offerings and facilitating content discovery.

Relying on more cross-broadcaster partnerships and international joint ventures.



"I probably shouldn't be saying this, but it is a compliment of sorts. The demand is there. And it certainly didn't negatively impact DVD sales. [Piracy is] something that comes along with having a wildly successful show on a subscription network."

- Michael Lombardo, President

HBO Programming on *Game of Thrones* being the most-pirated show ever



"At Telemundo, we've learned to recognize that piracy is a fancy name for super-obsessed fans. We've learnt to ask what pirates are doing with our content, so we can find them and help."

- Peter Blacker, Telemundo Media EVP

Digital Media and Emerging Business MIPCOM (October 2013)

BREAKING BAD SEASON FINALE VIEWERS ON TV  
(millions)



Many observers point out that the main factor for Breaking Bad's record ratings was the availability of an entire library of past seasons in the U.S. (via Netflix). This enabled curious new viewers to catch up and funnel back to AMC for the new episodes.

### CHALLENGES

- ◆ Many initiatives currently underway such as the CRTC's Let's Talk TV conversation and the recent Section 15 directive on unbundling point to the underlying need for a comprehensive national discussion amongst industry players on rights, including exploitation of broadcast windows and territorial rights.
- ◆ Rights management and negotiation costs as well as content digitization costs are likely to increase.

### OPPORTUNITIES

- ◆ While piracy may continue to cannibalizing a portion of viewership, it can also contribute to generating great exposure and growing demand.
- ◆ It is possible to create an effective feedback loop between television viewership and on-demand web content. The final season of Breaking Bad is a textbook example.

### 3 TRANSMEDIA: Everybody Is Doing TV

Media history is repeating itself: most media start off by borrowing vastly from existing media formats and codes before developing their own creation and production conventions. Thus, print media borrowed from the novel, radio borrowed from print media, television made its debut as a series of filmed plays before creating its own conventions. Not surprisingly, the web is largely influenced by television standards.

By deciding to create original content, Netflix, Amazon, YouTube and other web players are actually using television formats and learning television codes.

Having received nine nominations at the 2013 Emmy Awards, House of Cards proved it was primarily an excellent TV series.

Brands are doing the same thing, as branded content is all about creating original TV-like programming.

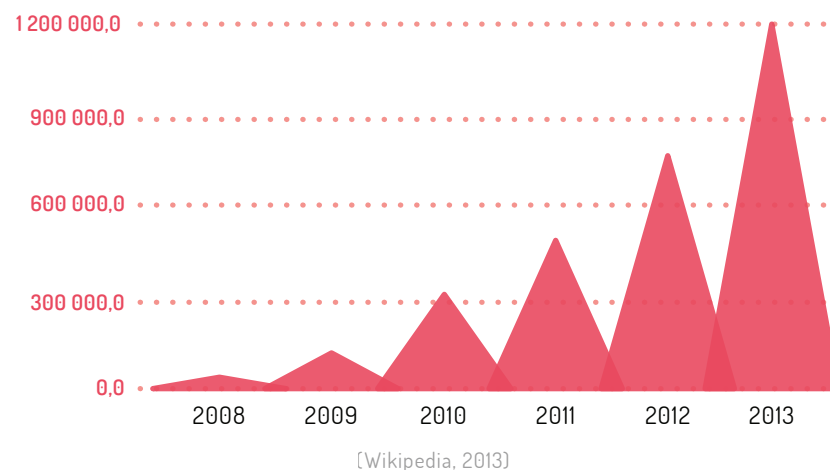
And this trend is accelerating. As video formats now make up a large part of digital content consumption, we're witnessing more and more initiatives coming from "non-TV" players. For instance, The New York Times recently announced the launch of a first animation series, and BBC Radio has launched a video channel on BBC iPlayer.

What this tells us is that there is an incredible appetite for TV-like content, both from audiences and the industry. In this context, TV creators, directors and producers currently possess one of the most sought-after forms of expertise in the media market.

The volume of TV-like programming created by "non-TV" sources could hit an exponential curve as these new players become more fluent with TV language and formats.

Think about the mobile apps ecosystem: creating a software application was something that was—for decades—exclusively done by computer specialists. That is until Apple's App Store released a developer's kit that provided anyone who possessed basic computer programming skills with the opportunity to create, produce and self-distribute an application.

PRODUCTION CURVE  
APPS ON THE APPLE APP STORE



## CHALLENGES

- ◆ Television may continue to shift toward online streaming (as opposed to cable or satellite-distributed TV).
- ◆ TV-quality content will attract the traditional pool of TV talent to shift toward new commissioners.
- ◆ In Canada, some content creators could be tempted to negotiate directly with foreign partners or content commissioners to greenlight their projects.
- ◆ These developments could create additional demand for traditional content funding sources.

## OPPORTUNITIES

- ◆ TV creators and broadcasters alike are in a good position to partner with new players wishing to create content with TV-like production values: brands, newspapers, radio and the gaming industry can all become valuable markets to develop.

The phrase “The audience has an audience” was coined by Ingrid Kopp, director of Digital Initiatives at the Tribeca Film Institute. What it addresses is the need for content industry stakeholders to understand that part of the audience has become a MAKER. What participative audiences are telling content producers and distributors is: “We don’t want to just consume content, we want to make it ours.” This is a fundamental message conveyed through the growing popularity of social media and curatorial tools such as Twitter, Tumblr, Instagram and Spotify, which are indisputably helping brands and content to gain more exposure, generate recommendations and ultimately increase consumption rates.

In the last year or so, the main focus has been on engaging and activating audience participation through different strategies (social media, second screen, gamification, etc.). Content’s former intrinsic value has shifted and is now part and parcel of the relationship between the user and the content. One of the industry’s main challenges over the coming years will be to figure out how to capture and augment that value. Meeting this challenge will partially reside in facilitating access to content, not only with respect to the means by which audiences consume content, but also by getting users involved in commenting, sharing and curating this content.

“Every time a new consumer joins this media landscape, a new producer joins it as well, because the same equipment—phones, computers—let you consume and produce.”

- Clay Shirky,  
*How Social Media Can Make History, TED Talk, 2009*

A striking example of the power of engaging with fans is Star Citizen, an online space simulation game project. Its crowdfunding campaign has raised over \$27 million so far. And it continues to raise more than \$2,000 per hour on average. How? By engaging with fans and empowering them in the game’s creation process, using forums, chats, social networks and other tools.

Another interesting example is the case of Veronica Mars. This property was originally a TV show that aired in the U.S. from 2004 to 2007. The fan community survived the show’s cancellation. Eventually a feature film script was drafted, but Warner Brothers—that had produced the TV show—declined to produce the movie. In March 2013, the show’s lead actress and the original screenwriter launched a fundraising campaign to produce the film through Kickstarter and attained the \$2 million goal in less than 10 hours. During the 30-day campaign, they raised over \$5.7 million, and the movie went into production.

## CHALLENGES

- ◆ Social media platforms, not TV players, are currently better positioned to capture the value shift toward the relationship between users and content.
- ◆ Producers and broadcasters will need to make significant investments– in terms of creative and technical skills and financial resources – to keep on top of the direct relationship with the consumer, and to shift from being only content providers and programmers, to content enablers.

## OPPORTUNITIES

- ◆ Heightened understanding of audiences and increased interaction lead to better value proposals, a broader consumer base as well as amplified marketing and promotion.
- ◆ A new funding model is emerging: using pre-sales crowdfunding and active crowdsourcing creates an iterative process whereby creators are directly connected to consumers, and able to offer products that respond to their specific demands - and for which consumers are willing to pay.

The relationship between television and social networks is growing stronger. Until now, users were the primary owners of this relationship. In 2013, we observed an important shift in social TV dynamics, mainly through Twitter and Facebook. These platforms took the lead in revenue generation and developing sustainable business models. Now, a growing number of commercial players are embracing social media practices by entering into partnership agreements with these platforms. For instance, Comcast and NBC Universal recently announced the release of a “See it Button” that can be embedded directly in a tweet—enabling users to tune into a TV program directly from Twitter.

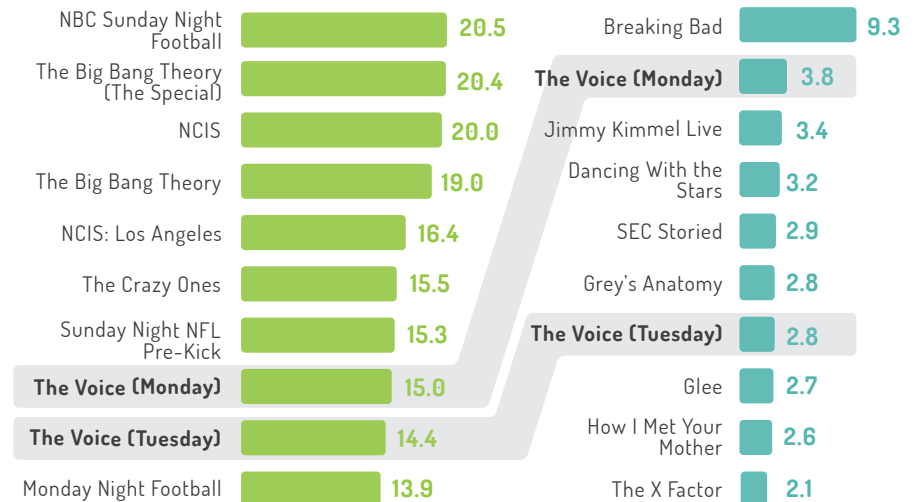
Another social TV initiative announced by Twitter is TV ad targeting products, which enable advertisers to present Twitter ads to consumers who have already seen their ads on television. This allows broadcasters to maximize their existing advertising opportunities and build alternative revenue streams.

The situation in Canada is slightly different given that:

- 1) Facebook is much more popular than Twitter.
- 2) Even when Facebook and Twitter are combined, social TV adoption remains low.
- 3) Distributors' VOD and OTT services are nascent; not all content is currently available and, when it is, lag times can be long. Consequently, consumers do not have access to everything they hear about via social networks.

## THE MOST POPULAR TV SHOWS VS THE MOST TWEETED TV SHOWS

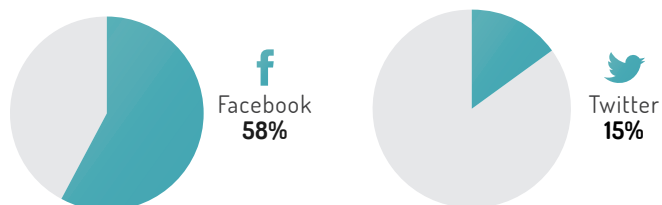
• TOTAL AVERAGE VIEWERS VS • TWITTER UNIQUE AUDIENCE  
(in millions)



TV ratings refer to live plus same-day viewing  
(Nielsen Twitter TV Ratings, 2013)

Although a new study released by Nielsen and Twitter (2013) was unable to establish direct correlation between TV audiences and the most tweeted-about programs, Nielsen nonetheless stated: “Higher Tweet Volume Drives TV tune-in 29% of the time.”

In the last month, Canadians who have used



(MTM, 2013)

Canadians who have

Fall 2012

Spring 2013

Chatted or posted on Facebook about a TV program	12%	14%
Chatted or posted on Facebook about a TV program while watching the program	6%	7%
Tweeted about a TV program	4%	4%
Tweeted about a TV program while watching the program	3%	3%
Posted on Facebook or Twitter while watching TV (Social TV users)	8%	9%

(MTM, 2013)

### CHALLENGES

- ◆ Although the trends in Canada are not yet the same as in the U.S., Canadian producers, broadcasters and distributors need to monitor the situation and prepare for potential shifts in viewer behavior.
- ◆ Ad revenues are beginning to shift from “traditional TV” towards new social media players.

### OPPORTUNITIES

- ◆ The correlation between increased Social TV volume and increased audience ratings seem to be currently genre-specific. Certain genres could take advantage of this.
- ◆ Social TV allows for maximizing existing revenue opportunities and building alternative revenue streams.

A lot of things differentiate the “traditional” way of commissioning original TV content from the practices of the new online TV players. For instance, Netflix does not require a pilot before greenlighting a TV show, does not retain all exploitation rights and uses a “binge” strategy to release its programs. Amazon uses an open platform to crowd source new talents. But in particular, there is one thing that both of these online players do very differently than traditional TV networks. It involves the way they use data generated by their online services -users’ behaviours and other types of web-mined information- to: a) identify the next content hit; b) make casting and other creative decisions; c) cross-promote and recommend their offerings; and d) optimize their platform and products.

To build this data mining and analytical capability, major web players actively recruit innovation start-ups and acquire more agile players. For example, Ooyala, a Silicon Valley start-up that specializes in IT services and products for online videos, uses the latest analysis technologies and a “big data architecture” to help broadcasters deliver the right content to the right screens at the right times. The goal is to involve the viewer in an immersive experience that advertisers will want to be part of.

Social media platforms are also relying heavily on data. Twitter’s recent acquisition of social TV analytics firm BlueFin demonstrates how the platform intends to use semantic technology to match Twitter conversations with specific TV shows in order to develop more targeted and relevant advertising strategies (likely to encourage TV advertisers to include Twitter in their media mix).

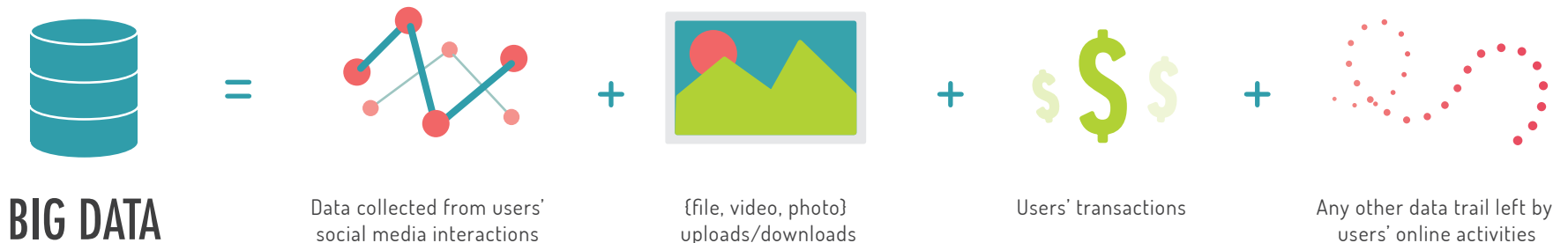
“Data is becoming a new exchange currency that will enable those who know how to use it to gain a commercial advantage and provide a custom-made experience to advertisers and audiences alike: personalized television.”

- Danielle Desjardins,  
*Big Data: The Future of Television*  
(CMF’s Trendscape)

Netflix estimates that 75% of user activity on its platform is driven by its recommendation engine.

[Wired, 2013]

## BIG DATA DEFINED



## CHALLENGES

- ◆ Audiovisual players may need to catch-up a considerable gap that separates them from data-driven companies (e.g. Netflix implemented its enhanced recommendation algorithm back in 2006 and relies on 800 engineers dedicated to big data and web infrastructure - WIRED).
- ◆ Set up costs and investment may be considerable.

## OPPORTUNITIES

- ◆ Greater understanding and insight on consumers.
- ◆ Super targeted advertising maximizing revenue generation opportunities.