



CONTENT EVERYWHERE

Mapping the Digital Future
for the Canadian Production Industry



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CONTENT EVERYWHERE: MAPPING THE DIGITAL FUTURE FOR THE CANADIAN PRODUCTION INDUSTRY

TABLE OF CONTENTS

<i>PART 1: SCOPE OF THE INQUIRY</i>	4
i. Growth of Online Video Content Distribution & Origination	4
ii. Goals of the Study	5
<i>PART 2: MARKET OVERVIEW</i>	5
i. The Growth of Video Online	5
ii. The OTT Threat	7
iii. Snapshot of Leading OTT Providers in the US Today	8
iv. TV Everywhere: Cable & Satellite's Response to OTT	9
<i>PART 3. ORIGINAL CONTENT: THE 'MAJORS' ONLINE</i>	9
i. Netflix	10
ii. YouTube	10
iii. Hulu	13
iv. Yahoo!	14
<i>PART 4: PURE PLAYS, BRANDED ENTERTAINMENT & CONTENT FARMS</i>	15
i. Pure Play Trends	15
ii. Branded Entertainment	17
iii. Content Farms	19
<i>PART 5: CABLE VOD</i>	20
i. US Market Overview	20
ii. Entry Points for Independent Producers	21
iii. Windows	22
iv. Revenue potential, keys to success and an uncertain future	22
<i>PART 6: CASE STUDIES</i>	23
i. RED VS. BLUE – Original Series on RoosterTeeth [www.roosterteeth.com]	23
ii. THE GUILD – Original series created by Felicia Day [www.watchtheguild.com]	25
iii. UNSTAGED – A branded entertainment property from American Express	27
iv. TEKZILLA – Original Series on Revision3 [http://revision3.com/tekzilla/episodes]	28
vi. AMERICAN: THE BILL HICKS STORY – a cable VOD case study [http://www.americanthemovie.com/]	31
<i>PART 7: CONCLUSION</i>	33
i. Opportunities for Canadian Producers	33
ii. Policy Considerations	34
<i>APPENDICES</i>	36



PART 1: SCOPE OF THE INQUIRY

i. Growth of Online Video Content Distribution & Origination

Over the past two years, the landscape for video content – both the creation of original content and the manner in which it is consumed – has undergone dramatic disruption. While traditional broadcasters and studios grapple with increasing fragmentation of audiences and struggle to maintain their grip on advertising dollars and eyeballs, new platforms, over-the-top (OTT) services, portable devices, user-generated content and content farms on the Internet have barreled blithely along, ignoring and challenging the orderly marketplace for windowing of high-quality, professionally produced film and television programming.

In Canada, this struggle is particularly acute, as new OTT services like Netflix, Roku or Boxee enter the market¹, bypassing the well-established regulatory weave stitched over 30 years to protect and nurture an indigenous broadcasting and independent production industry – an industry that has benefitted from a complex system of subsidy and financial incentives and, in turn, yielded almost \$2.3 billion in annual economic activity in 2009/2010.² This is no small achievement.

Confronted by galloping technological change and morphing audience behaviours and attitudes towards content consumption, the Canadian industry now faces its biggest challenge yet: how do we protect our ability to create and deliver Canadian content to audiences at home – and worldwide – when content everywhere and anytime threatens the underpinnings of our operating business models? If alternative services can deliver high-quality content at a dramatically lower cost to content-hungry, platform agnostic consumers, how can our own broadcasters and producers continue to create similar and competitive quality – but Canadian-originated content – at a viable price point?

And, as we ponder these questions, the US creative and online communities continue to innovate and challenge the ways in which content is produced and consumed. As online TV and video revenues grow and gain critical mass in that marketplace, the online platforms are turning to original content creation as a way to strengthen their brands. US cable channels have long employed the strategy of launching new networks with schedules entirely made up of acquired product, and after gaining some audience share, investing in 'brand defining' original series. Well known examples of this strategy are Comedy Central (with *South Park* and then *The Daily Show*), Bravo (*Queer Eye* and *Project Runway*) and most recently, AMC with *Mad Men* and *The Walking Dead*. In a similar trend, we now see cash-rich online platforms focusing on original content in order to distinguish their brands from pure 'replay' destinations, improve discoverability, and build audience engagement in an increasingly crowded online video marketplace.

While YouTube heralded a new world of user-generated content on the Internet just six short years ago, it is now rapidly shifting its emphasis to professional content in search of revenue and audience engagement. The Google juggernaut behind YouTube most recently committed \$100 million to finance original content and the creation of new channels of content. Similarly, Netflix has licensed significant 'prime time' drama series at the production stage, and Hulu, with its premium subscription service, is looking more and more like a cable network. Traditional broadcast

¹ Business Information Group. "More Over the Top Internet TV Services Coming to Canada" mediacaster.com. Business Information Group. Web. 21 November 2011.

² Canadian Media Production Association. *l'Association des producteurs de films et de télévision du Québec, and the Department of Canadian Heritage Profile 2010: An Economic Report on the Screen-Based Production Industry in Canada*. Toronto: Canadian Media Production Association, 2010: 15.



outlets are experimenting with content created on the Internet and some, like Adult Swim, are creating new formats that more closely approximate the Internet viewing experience. In increasing numbers, smaller online video destinations such as Vice, College Humor or MyDamnChannel have stepped into the original content business, and have bypassed the traditional broadcasting system entirely. On the long-form content side of the equation, transactional cable VOD has fast become a critical first exhibition window for independent feature films in the US.

Sitting next to this roiling hotbed of change – arguably one of the most innovative periods in media history – Canadians are blessed with an extraordinarily valuable system of public support for the creation and distribution of content, but one that is still rooted (with some exceptions) in a food chain of the past. Without the flexibility to respond and adapt to the tidal wave of change we currently face, we risk losing the important ground gained for Canadian content over the past three decades.

ii. Goals of the Study

The primary goals of this study are to provide Canadian film, television and multi-platform producers with an update on the US digital content industry with specific focus on changing and alternative outlets and models for financing and distributing content; an analysis of the emerging new players and their approaches and commitment to content origination; and the presentation of case studies to shed light on emerging financial models for 'content everywhere.' To this end, a series of in-person interviews with online platforms, VOD and digital distributors, and online content creators in the US were conducted in November and December of 2011.

And finally, this exploration of new content models emerging in the US should be placed in the context of Canada's current policy environment for support to the independent production sector. If the US provides us with intelligence on major trends in content origination in the digital world, what opportunities do these trends present for Canadian creators and what implications for our existing funding and regulatory framework?

PART 2: MARKET OVERVIEW

i. The Growth of Video Online

The global entertainment and media industry is projected to grow 5.7% annually from 2011 to 2015 and within this broad swath of business activity, the electronic market for filmed entertainment (including feature films and television programming) is the fastest-growing sector³.

Exhibit 1: Filmed Entertainment Market by Country (US\$ millions) ⁴											
North America	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR
United States	35,318	36,057	35,207	35,015	35,200	36,842	38,853	41,151	43,448	45,686	5.4
Canada	3,465	3,589	3,541	3,677	3,770	3,956	4,123	4,304	4,477	4,641	4.2
Total	38,783	39,646	38,748	38,692	38,970	40,798	42,976	45,455	47,925	50,327	5.2
CAGR is Compound Annual Growth Rate											
*At average 2010 exchange rates.											
Sources: PricewaterhouseCoopers LLP, Wikofsky Gruen Associates											

³ PricewaterhouseCoopers LLP. Global Entertainment and Media Outlook: 2011-2015. (New York: PricewaterhouseCoopers LLP, June 2011) 344-350.

⁴ PricewaterhouseCoopers LLP. 344.



Exhibit 2: Electronic Market* (US\$ millions)⁵											
North America	2006	2007	2008	2009	2010p	2011	2012	2013	2014	2015	2011-15 CAGR
United States	1,214	1,913	2,465	2,971	3,762	4,463	5,110	5,799	6,390	6,933	13.0
Canada	12	19	48	92	194	305	388	475	557	630	26.6
Total	1,226	1,932	2,513	3,063	3,956	4,768	5,498	6,274	6,947	7,563	13.8
<i>*At average 2010 exchange rates.</i>											
<i>Electronic Market includes Internet based services; excludes Cable VOD, PPV.</i>											
<i>Sources: PricewaterhouseCoopers LLP, Wikofsky Gruen Associates</i>											

While growth in the digital content marketplace is double digit in both Canada and the US, the growth rate is significantly higher in Canada, because availability of digital content offerings in Canada has lagged behind the US. All of the digital delivery services available today (such as iTunes, Netflix, Xbox and Playstation) had first launched and established a viable footprint in the US before launching in Canada. So, despite higher broadband penetration in Canada, we are in a 'catch up' high growth period with respect to adoption of digital content services.

The most radical change in the online content world in the past year is the dramatic shift to video viewing, and subsequent increase in video offerings across all types of websites and web destinations. Whereas video viewing online took hold thanks to the burst of user-generated-content (UGC) delivered by YouTube and sites like Dailymotion, the shift in the last year has been to professionally produced, higher quality, premium content. The reason for this is the need for greater audience engagement in order to improve the opportunity for monetization and increased advertising revenues across the Internet.

In terms of sheer volume, YouTube is still the world's top video site – loading 60 hours of video content every 60 seconds to the platform with close to 500 million unique monthly viewers worldwide. According to Mashable.com, more video content is uploaded to YouTube in a 60-day period than the three major U.S. television networks created in 60 years. However, YouTube has struggled to monetize large swaths of its video content due to its amateur, unsuitable/offensive or pirated nature. In a recent comScore report, Canadians were clocked as the highest video viewers in the world, in spite of bandwidth capping issues in the country, viewing an average of 303.7 videos per person in October 2011 (higher than the US average of 286.3 videos). Most of the world video viewing online is occurring on YouTube.

In terms of other popular video destinations in Canada and the US, where services are available, Canadians track their US counterparts very closely. While Canadian video content properties do not rank in the top five destinations, overall viewing to Canadian video content is increasing as evidenced by triple digit growth in video viewing to Canadian broadcaster sites. In comScore's May 2011 report, the CBC ranked 19th in terms of unique viewers for online video. As more platforms, broadcasters and services populate their websites with video, we can expect the viewership of video online to continue to grow – and in Canada, how much Canadian-originated video becomes available to Canadian users will also become a more urgent question.

⁵ PricewaterhouseCoopers LLP. 350.


Exhibit 3: Top 10 Video Content Properties in Canada (December 2010)⁶

Rank	Video Brand	Unique Viewers (000)	Videos (000)
1	YouTube	20,363	2,058,954
2	VEVO	8,036	63,406
3	Facebook	7,705	39,719
4	Microsoft sites	5,748	85,297
5	Viacom digital	5,029	23,093
6	Yahoo! sites	3,710	26,126
7	Break Media	3,494	18,355
8	Dailymotion	2,919	21,507
9	CTVglobemedia	2,780	55,854
10	CollegeHumor	2,506	8,871

Source: comScore Inc., Video Metrix, CA, All Locations, Persons: 2+, Dec 2010

Exhibit 4: Top US Online video Properties (May 2011)⁷

Rank	Property	Unique Viewers (000)	Viewing Sessions (000)	Minutes per Viewer
1	Google Sites*	147,158	2,173,422	311.2
2	VEVO	60,369	360,205	105.1
3	Yahoo! Sites	55,482	272,255	39.1
4	Facebook.com	48,189	176,076	19.3
5	Viacom Digital	46,535	241,026	74.2
6	Microsoft Sites	46,502	251,799	42.8
7	AOL, Inc.	42,271	246,592	45.7
8	Turner Digital	35,185	126,760	36.3
9	NBC Universal	30,622	67,251	21.1
10	Hulu	28,543	195,897	217.8

Source: comScore Inc., Video Metrix, May 2011

*Google Sites include YouTube

ii. The OTT Threat

Clearly, as greater amounts of video become available online, attracting greater numbers of viewers, the threat to the business models of traditional broadcasters, broadcast distribution undertakings (BDUs) and providers of video programming increases. This threat carries a double charge – first, the direct competition for advertising dollars and exclusive Canadian rights to US studio content, and second – and more damaging – the actual ‘cord cutting’ or cancelling of cable or direct-broadcast-satellite subscriptions and/or of specialty programming services, in favour of online delivery. The factors influencing consumer behaviour may be wide ranging, from economic pressures, to general competition for leisure time, to the actual draw of a new delivery system with a more attractive offering.

On the ‘cord cutting’ front, the US pay TV industry lost nearly 200,000 subscribers in the second quarter of 2011, results which were historically higher than churn figures in the past, and the six largest publicly traded US cable and satellite TV providers combined to lose about 580,000 customers in the same period. SNL Kagan projects over 46 million Internet-connected TVs in the US by 2014, with 7% of US cable/satellite users cutting the cord. Not surprisingly, 40% of Netflix subscribers report a corresponding decline in television viewership.

Exhibit 5: Cord-cutting in the US (2Q11)⁸

Rank	Company	Video Net Adds/Losses
1	Comcast	-238,000
2	Time Warner Cable	-130,000
3	Charter	-79,000
4	Cablevision	-23,000
5	Dish Network	-135,000
6	DirecTV	26,000
7	AT&T	202,000
8	Verizon	184,000
	Total	-193,000

⁶ Wall, Mike. [comScore 2010 Canada Digital Year in Review](#). comScore, Inc. Web. 23 March 2011.

⁷ comScore, Inc. [Top U.S. Online Video Properties by Video content Views Ranked by Unique Video Viewers, May 2011](#). (Chicago: comScore, Inc., June 2011) Web.

⁸ Lawler, Ryan. "Why 193,000 people stopped paying for TV last quarter:" [gigaom.com](#), GigaOM (2011): npag. Web. 9 August 2011.



However, there is also evidence suggesting that American households have been canceling their television subscriptions because of economic pressures (and declines in new housing), and not necessarily because of preferred OTT offerings⁹. In fact, cancellations by lower income subscribers have been offset by increases in broadband subscriptions and business services in the US. When Netflix reported losing 800,000 subscribers in the fall of 2011 after customer missteps on increased pricing and a failed attempt at spinning off the DVD business, traditional distributors may have breathed a little easier, at least in the short term.

In Canada, the environment and sensitivities for OTT are quite different. The Canadian broadcasting system has existed for three decades based on a model where the cost of originating Canadian programming has been cross-subsidized by the profits associated with the broadcast of US programming. When the marketplace opens up to OTT services and Canadian viewers can bypass the regulated Canadian broadcasters in order to access US programs directly, the disruption of the Canadian broadcasting system is surely underway. It is premature to comment on how disruptive OTT services will ultimately be to the traditional broadcast delivery platforms in Canada, but the incumbents have taken steps to secure rights for access to content on their online portals (such as Rogers On Demand Online), by authenticated subscribers only, as a defensive measure.

As CIBC analysts pointed out in a recent report, Netflix has secured over one million subscribers and more than \$100 million in revenues in just one year of operation in the Canadian marketplace, whereas TMN and MovieCentral reported \$136.5 million and \$107.8 million respectively in 2010 after 30 years of operation. But, at the same time, the quality and ease of the OTT viewing experience still does not match television in the home, and while Canadians are viewing more video online, they are more likely to 'cord shave' than 'cord cut'.¹⁰ This, of course, potentially hits Canada's pay-TV services hardest, as they are more generally viewed as premium purchases by consumers.

The debate about whether OTT services are supplements or replacements to traditional sources of television programming continues. In the meantime, traditional distributors (like the broadcasters and BDUs in Canada) and premium content providers (like HBO in the US and pay-TV services in Canada) work to preserve their business models by restricting access to their content by OTT services such as Netflix. The battle between pay-TV companies and Netflix for SVOD rights for first-run, highly valued premium series from HBO, Showtime or other outlets is an example of this trend.

iii. Snapshot of Leading OTT Providers in the US Today

The OTT marketplace in the US is considerably more crowded than in Canada, with new players jumping into the fray, such as Dish Network's Movie Pass (a reconfiguration of Blockbuster) and Red Box's DVD kiosk service both announcing streaming services in the past year designed to compete with Netflix. While Canadians now have access to Netflix (with a more limited inventory of titles than that offered to US Netflix subscribers), they do not have access to a number of US OTT services, including Hulu, Amazon's Prime and Instant Video services, and Vudu (Walmart's video service). These services have been largely focused on premium movie and television titles, though some are now entering into the original content arena. Canadians do, however, have access to a growing amount of video

⁹ Stelter, Brian. "Cable Is Holding Web TV at Bay, Earnings Show." *Nytimes.com*. The New York Times Company, 30 October 2011, Web.

¹⁰ Bek, Robert, Michael Lee and Tony Rizzi. *Cracks in Canada's Walled Garden? CRTC Kicks OTT Problem Down The Road, But Should Investors Do The Same?* Toronto: CIBC World Markets Inc., November 17, 2011.



content – much of it original – being created for popular sites such as YouTube, Machinima, Vice, CollegeHumor, FunnyorDie, Break, Cracked, and MyDamnChannel.

As for the largest OTT services in the US – namely Netflix, Hulu, Amazon and Blockbuster – their business models and offerings do vary slightly, as outlined in Appendix B.

iv. TV Everywhere: Cable & Satellite's Response to OTT

In order to retain subscribers, the traditional program suppliers have adopted aggressive 'TV Everywhere' programs, whereby authorized or authenticated subscribers can view programming on any device. While this addresses the compatibility and portability issue, the model depends on cable/satellite program providers being able to create an environment of scarcity, where they offer premium content only available to their subscribers.

The best example of this OTT tactic has been HBO and its HBO Go service. HBO has been notably aggressive in restricting the availability of its content to subscribers. Roughly three million HBO subscribers (over 10% of total) used HBO Go within two months of its launch. Showtime has followed with its own authenticated service, Showtime Anytime, and has withdrawn streaming of current originals from Netflix. Similarly, the US networks have been stepping back from their early enthusiasm for providing their content to free OTT services, forcing services like Hulu to offer subscription services like Hulu Plus. Hulu Plus, much like Amazon's Prime subscription service, was launched in order to protect premium content from a perceived 'devaluing' effect of the free viewing environment. Fox Television, for example, moved next-day Fox TV streaming content behind an eight day pay wall in order to protect its pay-TV operator partners from online video cannibalization.¹¹

Traditional content suppliers and distributors are therefore falling back on the strategy of creating 'scarcity' in order to protect value in the distribution chain and time will tell whether consumers will accept 'tolls' to access premium content online (or on their devices) or whether they will vote with their feet and move over to free OTT services

PART 3. ORIGINAL CONTENT: THE 'MAJORS' ONLINE

The original research undertaken for this study comprised in-person interviews, conducted in November and December 2011, with leading online platform companies, cable VOD and digital distributors, as well as online content creators. The primary focus of the online platform interviews was on current strategies for acquiring, commissioning or creating original video content in the US.

In an increasingly crowded OTT marketplace in the US, these services are not only competing with traditional TV networks, but also with each other in order to sustain and grow audience share. As with the cable networks in the 1990s, the OTT services increasingly turn to premium original programming to gain audience loyalty and attention.

¹¹ "OTT Doesn't Need Hollywood to Succeed." Tdgresearch.com. The Diffusion Group, Web. 4 November 2011.



i. Netflix

Netflix has been the juggernaut of OTT services – with more than 23 million subscribers reported in the US, Canada, and most recently, Latin America (Comcast by comparison has 22.5m subscribers). In the fall of 2011, Netflix accounted for 32.7% of peak downstream traffic in the US, compared to 29.7% in the spring of 2011 and in Canada, over 13% of Internet traffic was attributable to Netflix only six months after launch.¹² While the much publicized customer missteps (non-renewal with Starz, reversal on Qwikster spinoff, and hike in subscription fees) resulted in a stunning 800,000 subscriber loss last quarter, Netflix has moved boldly into Latin America and Brazil this fall after its Canada launch in September 2010.

The big news on the original content front this past year has been a reported \$100m paid by Netflix for 26 episodes of the original drama series *House of Cards*, starring Kevin Spacey and directed by David Fincher. Another original series licensed by Netflix is *Lilyhammer*, a Norwegian produced 8 x 45min crime series featuring *Sopranos*' Steven Van Zandt launched in early February 2012.

But Netflix's stated original content strategy is as a licensor only – not a producer – of high profile, premium, serialized drama series or event programming which can drive subscriber viewership and engagement. The company CEO, Reed Hastings, was quoted as saying, "If we can't spend the money with HBO and Showtime, then we've got to do things like that [i.e. license original, serialized drama series]." In other words: if networks like HBO continue to restrict access to their older catalogues, then Netflix will continue to seek exclusivity elsewhere (such as the exclusive streaming deal Netflix entered into with DreamWorks Animation and Relativity for movie titles like *Shrek*) or license similar programming. If the experiment works, then Netflix will begin to look more like a premium cable television channel like HBO or Showtime. But, importantly, from a consumer point of view, Netflix will have become a premium service that they will be able to obtain at a much lower price point than the equivalent premium pay-TV services.¹³

Netflix has repeatedly stated that its competency is not as a producer of content, but as a licensor of premium drama series. Furthermore, at this point, they are not in the business of developing early stage properties, but will step in as financiers of well-developed projects from established creators with cast attached, in exchange for rights that Netflix can exploit across the territories it operates in.

ii. YouTube

YouTube is the undisputed leader in user generated content (UGC) but audience engagement to its short-form programming is low, with discoverability and quality remaining a challenge. As a result, cost per thousand views (CPMs) for UGC is much lower than for professional video content. In an effort to improve audience experience and reward success, YouTube created channel partnerships, whereby content providers share revenue on ads placed by YouTube. There are over 15,000 channel partners on YouTube today. The top 100 YouTube partners are listed in Appendix C.

¹² Sandvine Incorporated ULC. Global Internet Phenomena Spotlight: Netflix Rising. (Waterloo: Sandvine Incorporated ULC, 18 May 2011) 3.

¹³ Siegler, MG. "Netflix Original Content Is Much More Than A Strategy Shift– It Could Shift An Industry." Techcrunch.com. AOL Inc., Web. 18 March 2011.



Of the top 20 YouTube channels presented below, 80% fall into the comedy category, 5% in drama, 5% in music, and 10% in the tutorial/informational category. The number of these partners now earning \$1000 per month from YouTube traffic has grown by 300% since early 2010.

Exhibit 6: YouTube Top 20 Channels (November 2011)			
Rank	Channel	Subscribers	Genre
1	Ray William Johnson	4,837,992	Reviews/Comedy/Personality
2	nigahiga	4,540,858	Comedy/Personality
3	machinima	3,514,521	Comedy/Gaming
4	Smosh	3,491,631	Comedy/Personality
5	ShaneDawsonTV	2,832,038	Comedy/Personality
6	Freddie W	2,406,868	Comedy/Gaming/Personality
7	Fred	2,331,254	Comedy
8	College Humor	2,287,201	Comedy
9	Real Annoying Orange	2,164,822	Comedy/Animation
10	MysteryGuitarMan	2,134,838	Music/Animation/Personality
11	Kevjumba	2,068,987	Comedy/Personality
12	Shane Dawson TV 2	1,931,220	Comedy/Personality
13	sxephil	1,880,497	Comedy/Commentary/Personality
14	Epic Meal Time	1,788,063	Comedy
15	FPS Russia	1,772,098	Tutorial/Gaming
16	KassemG	1,738,180	Comedy/Personality
17	FAILblog	1,682,532	Comedy
18	the lonely island	1,663,140	Comedy
19	Barely Political	1,629,885	Comedy
20	Michelle Phan	1,627,941	Tutorial/Personality

In the past year, YouTube has been pursuing several initiatives to improve its audience engagement through higher quality content. In March 2010, YouTube acquired Next New Networks, a group of niche original content websites, in order to upgrade more producers to partner-level status. Next New Networks' business plan was to create channels of original online content including *Barely Political* – a political comedy channel, *Indy Mogul* – for Do-It-Yourself (DIY) filmmakers, *Channel Frederator* – focused on animation, *Hungry Nation* – a food channel, *Fast Lane Daily* – for car lovers, *Comedy Thunder* – where comedy teams upload sketches based on a weekly theme, and a DIY fashion channel called *ThreadBanger*.

YouTube is also launching a new interface called 'Cosmic Panda' to help top suppliers improve audience engagement and to simplify the viewing experience. The new redesign significantly changes the presentation of videos and playlists, upgrades the viewing experience and provides better editing tools for partner channels.

Finally, and in a move that galvanized the traditional content industry, in 2011 YouTube took a dramatic step in an ambitious and sweeping initiative to expand its already vast body of online video to include the creation of professional content. The company issued a request for proposals (RFP) for \$100 million for roughly 20 channels of original video content. The RFP outlined criteria for those proposals to be selected for funding as being: creative merit, talent involved (i.e. celebrity), ability to execute on the idea and ability to build and sustain an audience.

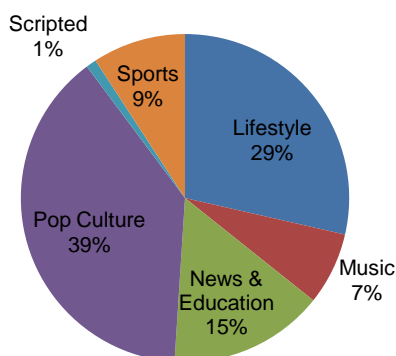
Celebrity was not restricted to the realm of traditional media – though Ashton Kutcher, Madonna, Deepak Chopra, Mario Batali and Jay-Z were all awarded channels – but also included Internet personalities and brands such as



Felicia Day, Machinima, and Ted.org. The initiative tapped into existing media brands, proven creatives, programmers and producers with a track record from both TV and the web to pool the best of old media with the best of new media.

Interestingly, an analysis of the categories of programming of channels selected for funding in this first round of funding from YouTube points to a shift in emphasis from the company's largely organic comedy focus. The complete list of channels that received funding from YouTube is provided in Appendix D.

Exhibit 7: Category Breakdown of YouTube Original Channels Commissioned in 2011



The Wall Street Journal reported that “Google is hoping to turn YouTube into a next-generation video provider that oversees free online channels with professional-grade shows.”¹⁴ The company continues to emphasize that its priority is to provide a platform for new channels, not to transform itself into a studio or TV network.

According to Google, over 600 proposals were submitted from a range of Hollywood production companies and online creators from which 100 were selected for funding. The range of categories of programming is very broad, including: pop culture and comedy, sports, music and health, as well as entertainment tailored to African-Americans and Hispanics, animal lovers, mothers, teens, and home-and-garden enthusiasts.

The anticipated combined output for YouTube is about 25 hours of new original programming and 20 hours of library programming available per day over the next year as the channels roll out. The resulting lineup of content channels emerging from the RFP appears to be an extraordinary cross section – or mixed bag – of content designed to cast a wide net over different types of YouTube users. Described by one Google executive as a “catalytic moment” in YouTube’s short history, the focus is clearly on lengthening user sessions – not necessarily by lengthening the running time of content presented (though there are longer episodes being created within some of the new channels) but by deepening the range and choice of content surrounding a particular brand or category.

The financing provided by YouTube is by means of an advance on advertising revenue, with content creators receiving a 55% revenue share after YouTube has fully recouped its programming advance. The decision by YouTube to front 100% of the financing, rather than contributing a smaller portion of the budget and having brands fill the gap, was to avoid the possibility of compromising the viewer experience. Most interesting for Hollywood creators accustomed to working for fees and nominal, often meaningless, backend profit participation, is that the YouTube

¹⁴ Efrati, Amir and Lauren A.E. Schuker. “YouTube Tees Up Big Talent.” online.wsj.com. Dow Jones & Company, Inc. Web. 29 Oct. 2011.



deal is only exclusive for 18 months (with a subsequent non-exclusive additional 18 months) with the content creator retaining full IP ownership. This 'creator-empowerment' approach has caused much excitement in the Hollywood production community.

YouTube will begin rolling out the launch of the new channels of programming early in 2012 and based on the success of this first wave of channels, the company will consider a second RFP. As the first round targeted the US market only, hopefully Canadian producers/creators/content brands will participate in this next round!

iii. Hulu

Hulu, the joint venture between NBCUniversal, News Corp and Disney, has also taken steps – albeit tentative ones compared to other OTT players – into the original content space.¹⁵ Hulu's primary focus remains the business of 'catch up' viewing from its parent networks, but it has also become an important platform for alternative programming not available on US cable networks. For example, Hulu is releasing many UK programs in a day-after-air strategy and has built a legitimate platform for hitherto highly fragmented and pirated Asian anim  programming. As such, Hulu has proven the viability of offering an alternative distribution model and is now seeking to explore an alternative production model.

In the US, where OTT services have achieved sufficient critical mass in terms of audience size and now compete for audience attention, it is not enough to depend upon the 'retread' model of the early cable network or syndication business. In other words, Hulu is now exploring how content – original to its service – can improve audience loyalty and improve its competitive position with respect to other OTT services.

That said, Hulu's foray into original content has been less splashy than YouTube's. For a start, it has become the platform of choice for the exclusive launch of original web series – seeking a premiere within a high-quality television viewing environment (as opposed to what is often perceived as the cluttered 'amateur' environment of YouTube). So, for example, Lionsgate launched its animated comedy series *Trailer Trash* on Hulu, as did Kiefer Sutherland and Digital Broadcasting Group with *The Confession* and Vuguru with *The Booth at the End*.

Hulu has also been producing a daily four to five-minute magazine show called *The Morning After*, which provides its viewers a wrap-up of what they might have missed on television the night before. More recently, Hulu unveiled its new original programming strategy with its acquisition of Morgan Spurlock's *A Day in the Life*, a six-part series which follows well-known personalities like Richard Branson and Russell Peters for 24 hours. Unlike its web series deals, Hulu is fully commissioning the series, taking all rights and ownership as well as all ad revenue generated in exchange for complete financing.¹⁶

Early in 2012, Hulu unveiled its first original scripted series, *Battleground*, a political campaign mocumentary created by JD Walsh, and a documentary series entitled *Up to Speed*, from writer/director Richard Linklater, which follows tour guide, historian and flaneur Timothy "Speed" Levitch ("The Cruise") as he visits the monumentally ignored monuments of America's cities. A second season of the Morgan Spurlock series was also ordered.¹⁷ Interestingly, Hulu has drawn upon some of the icons of the American independent film world for its foray into episodic television,

¹⁵ Shields, Mike. "Hulu to Produce Original Content." hollywoodreporter.com. The Hollywood Reporter. Web. 3 Mar. 2011.

¹⁶ Learnmonth, Michael. "Hulu Enters Original Programming with Morgan Spurlock Series." adage.com. Crain Communications. Web. 3 Aug. 2011.

¹⁷ Marlowe, Chris. "Hulu Further Challenges Broadcasters with Original Programming." dmwmedia.com. Digital Media Wire. Web. 17 January 2012.



perhaps because of their loyal fan base as well as their proven ability to produce content at much lower budgets than the traditional studios.

While acquiring original content will be part of the mix going forward, Hulu executives stress that they are not in the HBO game of producing premium original content. Rather, their focus will be on alternative content (i.e. content that is not widely available on television) that makes economic sense (i.e. lower budget) and that meets the interests of their 'binge' audience, which tends to prefer intelligent, quirky comedy, science fiction, and smart 'indie movie' type of content. Reported budgets are in the \$50,000 to \$200,000 per episode range and the format is longer-form, which is consistent with Hulu's 'television-like' viewing experience. Hulu is less interested in cooking shows or other general interest programming, which is widely available in the traditional 500-TV-channel universe.

iv. Yahoo!

Yahoo has been producing a considerable volume of original web content (between 25 and 35 series) for the past five years. Most of it has been short form – but some of it has garnered awards and loyal viewership. In fact, Yahoo Studios reports that it had all 10 of the top 10 most-watched online video series in August 2011. Recent top performing Yahoo video series (all short episodes in the 3-5 minute range) include *OMG Now!* (a celebrity blog), *Primetime in No Time* (a long-running recap show like Hulu's *The Morning After*), *Second Act* (a Webby award-winning series about people reinventing their lives) and *The Daily Ticker* (the web's most widely watched finance show).

Yahoo's key differentiator in terms of original content is its sheer scale. The phenomenal volume of home page traffic (180 million unique viewers/month reported in 2011) supports video viewership and, as such, most of the original content to date has been 'tuned' to the popular categories of content on Yahoo: news, finance, sports, entertainment and lifestyle. Furthermore, the original series commissioned by Yahoo tend to skew to a female demographic and are largely financed through brand partnerships, whereby the brands cover the cost of production, and, once those costs are recouped, revenues are split between Yahoo and the producer. Budgets rarely exceed \$50,000 per episode and are usually considerably less than that amount (such as the budget for in-studio, green screen, hosted shows).

In October 2011, Yahoo announced an entirely new slate of seven original video series targeting female audiences and yet another online series from documentary filmmaker Morgan Spurlock entitled *The Failure Club* about people overcoming their debilitating fears. The Yahoo original programming initiative combines in-house production from Yahoo!Studios and third-party partnerships where Yahoo finances 100% of the budget and negotiates an ad revenue share with the producer, with the producer retaining IP ownership in the program. The Yahoo programming initiative also coincides with the launch of a newly designed video destination on Yahoo called Yahoo!Screen which (like Cosmic Panda on YouTube) improves the video viewing experience for audiences.

Unlike YouTube, Yahoo has stuck to a more linear programming strategy in the lifestyle category with its lineup of unscripted series anchored by personality hosts such as: *Reluctantly Healthy*, hosted by Judy Greer from *Arrested Development*, which offers cooking and exercise tips for time strapped people; *Let's Talk About Love* with Niecy Nash from *Reno 911*; and *Chow Ciao*, Italian recipes in 15-minutes hosted by *Top Chef* Fabio Vivani.¹⁸

¹⁸ Baldwin, Drew. "Yahoo! Taps Hulu, Launches 7 Original Series." News.tubefilter.tv. Tubefilter, Inc. Web. 6 Oct. 2011.



While the Yahoo!Studios internal team of 50 or 60 staff continues to pursue branded entertainment opportunities with advertisers and sponsors, Yahoo has also been pursuing a 'slate approach' to programming – a move to pure entertainment which may be sold to brands after the fact (much like the TV model). In this arena, Yahoo has been targeting comedy, sci-fi, and animation and will be launching three new multi-million dollar long-form properties (exclusive to Yahoo) over the next year. In December 2011, Yahoo announced a new comedy channel with a slate of original programming from well-known comedians such as Bill Maher. Yahoo's comedy line-up includes *Funny Or Die Presents First Dates with Toby Harris* starring Seth Morris in a series about ill-fated first dates; *7 Minutes in Heaven*, a hosted show with comedian Mike O'Brien; and *Sketchy*, featuring comedy shorts from the talent roster of agency Principato-Young Entertainment. Not surprisingly, most of these properties are being pitched to the Yahoo programming team via agencies and lawyers in Hollywood.

Yahoo's move to a more 'network' approach to programming will be evaluated carefully over the next year. But, in the meantime, Yahoo is committed to 'videofying' their site to ensure that a bigger portion of the \$600 billion spent on advertising on television today moves over to the now \$20 billion spent online.

As yet, other large OTT players such as Amazon, iTunes, and Vudu have not launched significant original programming initiatives. And while Microsoft has played a critical role in the financing of one of the all-time greatest hits of the web (namely Felicia Day's *The Guild*, now in its fifth season), its primary focus has been to extend its game console to an online entertainment service with a rich video offering from traditional television distributors and content providers on the Xbox Live. Microsoft has signed deals with Facebook and Twitter to allow its users access to social networking features through their Xbox Live connection. It also has deals with Netflix, Comcast and Verizon in the US, as well as with Sky in the UK, for premium content – all in an effort to transform the game console into a gateway for other types of entertainment.¹⁹ While there are over 35 million Xbox Live households in the US, expectations that the Xbox will replace the cable set-top box have fallen short, as users must still maintain their cable subscriptions to access much of the content offered by Microsoft.

PART 4: PURE PLAYS, BRANDED ENTERTAINMENT & CONTENT FARMS

i. Pure Play Trends.

Pure play websites can be described as single category or genre of programming and/or defined demographic destination sites, for example Treehugger.com or CollegeHumor.com. Increasingly, as advertising revenue moves to the Internet, 'pure play' websites are turning to the creation of original video content to help build audience loyalty, lengthen duration of visits and generally distinguish their channels in a very crowded marketplace. Budgets for original content are still relatively low (as compared to traditional television budgets) but are gradually creeping up and are frequently linked to branded entertainment. Many of the pure play video sites combine branded entertainment partners with an ad sales financing model to underwrite original video content. That said, big brands like American Express are expanding beyond straight brand integration video strategies to play the role of content publisher online. American Express's recent *America Unstaged* is an original music series that pairs breakthrough musical artists (like Coldplay and Duran Duran) with influential film directors for a live digital concert experience in partnership with YouTube and Vevo. This next generation of online video content is closer to the television network model, whereby advertising surrounds the content rather than attempting to be at the centre of it.

¹⁹ Schiesel, Seth. "Microsoft Reveals New Strategy for Xbox." nytimes.com. The New York Times Company. Web. 1 June 2009.



Not surprisingly, given the profile of the early adopters on the Internet, the most popular pure play video-rich websites are comedy-based or popular culture-focused, and are aimed at the male 18-34 demographic. Leading the pack of pure play comedy sites are CollegeHumor, Break, Cracked, FunnyorDie, TheOnion, VICE TV and MyDamnChannel. There is also a growing list of videogame, horror and scifi sites seeking to add video for fans of those genres.

Exhibit 8: Snapshot of Video-Rich Websites			
Site	Video Content Strategy	Unique Visitors (monthly)	Revenue Source(s)
5min	Short-form content focused on lifestyle, instructional and DIY across multiple genres. Acquired by AOL.	2.5m	Ad Sales & syndication across other sites
Break	Short-form comedy videos – increasing number of originals financed.	3.9m	Branded Content, Ad Sales
Blip.tv	Curated third-party original web series in all genres. BlipTV does not commission original content.	1.1m	Ad Sales
College Humor	Curated comedy videos – most originals generated in-house. Owned by IAC.	1.1m	Ad Sales
Cracked	In-house produced comedy videos. Extension of Cracked magazine.	1.7m	Ad Sales
Crackle	Original web series and major previously released films and TV series.	5m	Ad Sales
eHow	Online how-to articles and videos.	40.9m	Ad Sales
Funnyordie	Celebrity-driven comedy; originals financed in-house.	1.8m	Branded content, Ad Sales
Heavy	Shifted strategy to text and blog-based from video. Some original programming for UFC.	361k	Ad Sales
Howcast	Short form how-to videos.	301k	Branded content, Ad Sales
Machinima	Professional and user-generated video focused on gaming. Aggregated channels on YouTube total 148.6m unique visitors.	42.3k	Production of Client Videos/Branded Content, Ad Sales
ManiaTV	Celebrity driven original web tv shows.	43k	Branded content, Ad Sales
My Damn Channel	Co-produces original series with proven comics and talent, often with brands. Received funding from YouTube for MyDamnChannel Live.	125k	Branded content, Ad Sales
The Onion	In-house produced comedy shorts and shows (e.g. Onion News Network, Onion SportsDome).	842k	Ad Sales, Merchandising
Revision3	Internet TV. Special interest video network. Original video. Aggregated Revision channels total 23m unique visitors.	91k	Ad Sales, Branding, Merchandising
Vice	Original video magazine with culture, news, music, food and technology – satirical and factual.	103k	Branded content, Ad Sales
<p>Source: compete.com analytics</p> <p>Note: Unique visitor numbers may skew lower because compete.com only counts each visitor once per month and importantly, does not take into account unique visitors from affiliated or syndicated sources.</p>			

In Exhibit 8, the dominance of comedy sites in the emerging pure play online world is evident as is the informational or how-to sites such as eHow.

Many of the comedy sites are not commissioning original content from third party producers, favouring a lower-cost, in-house production model – largely supported by advertising or sponsorship revenue. FunnyorDie, The Onion and



CollegeHumor have developed their own roster of established and online celebrity comic talent and for the most part are 'closed shops' to third party unknowns.

Cracked.com, another popular comedy site, has built its audience on the legacy of its magazine brand and employs a 'virtual writers' room' of 2,500 writers with about 100 pitches reviewed by in-house editors each week. When the Cracked editorial team approves and commissions a piece, it owns the IP. While 80% of what Cracked produces online is still text-based (according to executives at Cracked, it is still easier to monetize text than video), the company has also moved to original video production. Led by in-house talent such as Michael Swain with shows like *After Hours*, *Stuff That Must Have Happened* and *Agents of Cracked*, the site is launching more original series this year than ever before. The Cracked budgets for 5 to 6 minute episodes are in the \$1500-\$7000 range and are largely produced in-house.

Vice (previously VBStv) is focused on short form documentaries covering culture, music, fashion, extreme sports, and travel, with a particular Vice magazine tonality and point-of-view. For example, *Hamilton's Pharmacopeia* follows its host on his personal worldwide exploration and experimentation with mind-altering drugs. Vice TV engages its in-house and freelance videographers around the globe to produce its unique brand of news and has won awards for its more intrepid coverage of forsaken places in Africa and of the Taliban in Pakistan.

Leading the pure play comedy sites in third-party original programming is MyDamnChannel. MyDamnChannel's first hit was *You Suck at Photoshop* and from there it has grown its slate of original series with shows from well-known comics such as David Wain's *Wainy Days*, Harry Shearer's *Found Objects*, and the Josh Gad series *Gigi*. Like its counterparts at FunnyorDie and CollegeHumor, MyDamn Channel mines the world of comedy – from comedy troupes and podcasters, to better known stand-up comedians – in order to find creators willing to experiment in the looser (i.e. uncensored) environment of the Internet.

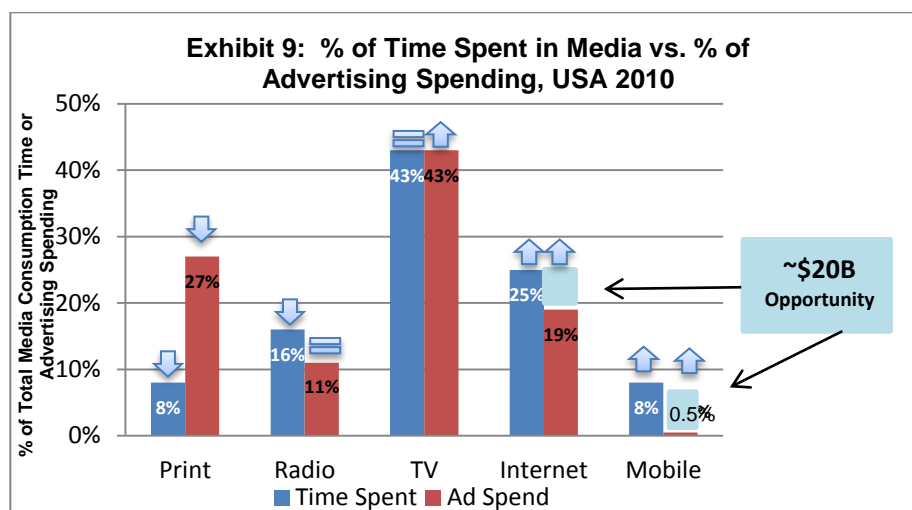
In interviews conducted for this study, it is increasingly evident that the process of developing, pitching and producing original video content for online platforms is following in the footsteps of television. While many of the Internet upstarts claim an open-door policy with respect to third-party producers and pitches, as the business of online video matures, the role of Hollywood agents, lawyers and demonstrated track record or celebrity has also become increasingly important. Furthermore, with the power of the Internet ever-present, the ability to demonstrate a pre-existing audience for a concept or a personality on YouTube, Twitter or Facebook is also critical to most original content pitches.

ii. Branded Entertainment

The concept of branded entertainment – where corporate brands are associated with an entertainment property either through product placement or sponsorship – is also evolving in the new world of online video. Brands have become an important funding source for creating original, short-form online video content. The reason is quite simple: advertising follows eyeballs and as audiences have increasingly turned to the Internet for information and entertainment, brands have had to follow. Since 1995, global Internet advertising has grown from \$55 million to over \$70 billion. Even with this enormous attention shift, there is still a lag between how quickly audiences are migrating to the web and to mobile, and how quickly advertising dollars have moved there.



As the graph below demonstrates, there is a significant \$20 billion opportunity in the US based on a comparative analysis of time spent in media versus advertising spending.²⁰ Currently, there is a gap between consumers' time spent on the Internet and on mobile and the percentage of advertising dollars spent on those two platforms. This gap – approximately \$20 billion – is expected to close in the next five years. It is therefore likely that as more brand money flows into the digital space, a greater amount of brand spending will be attached to original video content.



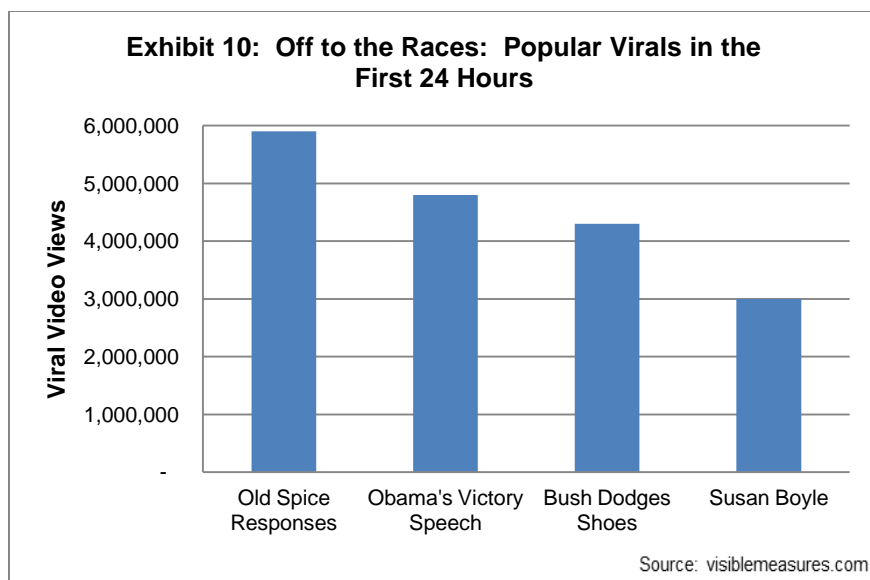
As brands have grown more sophisticated, they have moved beyond simple product placement toward many varieties of bona fide content origination. Some results are better than others, of course, but there have been several notable successes. For example, Illeana Douglas' *Easy to Assemble*, now in its third season, was independently developed, then sold to IKEA, which finances production with limited editorial input. The series, with episodes typically running about five minutes each, features a fictional version of Douglas pursuing a more 'normal' life by quitting her Hollywood career to work at an IKEA outlet in Southern California. MyDamnChannel is the series' primary distribution partner.

Other recent examples of branded series include *Chief Household Officer*, profiling working moms, on Howcast (funded for \$2.8M by Hewlett Packard) and *Suite 7*, a celebrity-driven series underwritten by The Sleep Council (mattress manufacturers). Though neither has enjoyed the success or longevity of *Easy to Assemble*, they indicate ongoing brand willingness to experiment with the form.

For their part, audiences are not bothered if a brand is overtly behind original programming, as long as it entertains them. For example, the now notorious *Old Spice Guy* campaign began with a traditional TV spot in 2010, and quickly went viral as demonstrated in viewership graph below. It has since become one of the most successful branded viral video campaigns ever, with the subsequent 'Responses' campaign where over 180 clips were released on the Internet, many of which were suggested by viewers. Clearly, the audience has engaged in the character, without any concern that he is entirely a brand creation.²¹

²⁰ eMarketer. "% of Time Spent in Media vs. % of Advertising Spending USA 2010." eMarketer, Inc. Web. March 2011.

²¹ Ehrlich, Brenna. "Lessons Learned From the Old Spice Campaign & Its Imitators." mashable.com. Mashable, Inc. Web. 16 March 2011.



iii. Content Farms

As stated earlier, the 'videofication' of the Internet is well underway as penetration of broadband and a fleet of portable smart devices help to accelerate audience consumption. One important additional source of original video on the Internet is from so-called 'content farms' such as eHow from DemandMedia. Unlike 'pure play' video-rich websites that are developing and creating content for online audiences following the more traditional model, content farms create and produce content based only on the search behaviour of Internet users. These companies have been producing vast quantities of text-based articles from their community of freelancers for several years, assigned according to categories and subjects of user interest in order to attract search traffic. The low quality of the content, comparatively low compensation for the writers of the content and cluttering of the search experience for users resulted in Google launching an algorithm to combat the 'gaming' of search functionality earlier this year.

Increasingly these lower cost content providers/producers are turning to video to feed 'search' categories and improve audience engagement on the Internet. DemandMedia's original video content is produced in the categories of comedy, family, style, home & garden, health and food. The model for DemandMedia video is not unlike text-based assignments where filmmakers apply to be an authorized freelancer and are paid up to \$500 for a video.

One company in Canada, WatchMojo, has been producing and syndicating its originally produced, 'ad friendly' short form video content in many lifestyle categories since 2006. Described as infotainment, WatchMojo's strategy is to monetize video views across a wide spectrum of platforms such as YouTube, Hulu, Yahoo!, and MSN. The company boasts a cumulative audience reach of between 25 million and 50 million per month.

Many creators and industry pundits consider this type of content to be the harbinger of a dangerous move to lower quality production values, lower compensation, and no protection of copyright across the Internet.²² And while there is considerable evidence that the Internet has shaken the underpinnings of intellectual property, recent research also

²² Ingram, Matthew. "The Benefits and Risks of Content Farms." gigaom.com. GigaOM. Web. 23 February 2011.



indicates that videos with higher production values are watched 30%-50% longer online and more likely to be recommended to others than 'simple' videos.²³

PART 5: CABLE VOD

i. US Market Overview

For the purposes of this discussion, cable VOD in the US is defined as the transactional delivery of filmed entertainment by a subscriber's cable company for a rental fee (as opposed to free cable VOD which is typically associated with network television shows and offered primarily for catch-up viewing purposes). In the US, estimates indicate that transactional cable VOD represents 77% of digital revenue. As total revenues from distribution of DVD finished goods decline, the question arises as to whether, and how, producers can tap into this new opportunity in the cable VOD arena.

Exhibit 11: US Movie Sales and Rentals, by Type, 2008 & 2013 (millions)			
	2008	2013	% Change
Packaged goods sales			
DVD annual sales value	\$13,320	\$3,000	-77%
Blu-ray disc annual sales value	\$750	\$8,400	1020%
Rentals			
Physical disc rentals	\$6,558	\$4,600	-30%
Pay-TV video-on-demand (VOD) rentals	\$554	\$3,900	604%
Online rentals and downloads	\$488	\$1,500	207%
Total	\$21,670	\$21,400	-1%
Source: In-Stat and Capgemini, "The Digital Entertainment Revolution," March 2, 2010			

For some independent filmmakers in the US, cable VOD has replaced theatrical distribution as a first point of release for their films. Unlike opportunities for distribution over the Internet – which has many more points of entry (including self-distribution) – cable VOD offers a better chance for financial return but is also defined by the limitations of space and access. Cable VOD is controlled by a small number of gatekeepers with a smaller offering. For example, Time Warner shows up to 250 titles at a given time, Charter offers about 1,000 and Comcast offers about 4,000 – as compared to Netflix's 20,000 and Amazon's 100,000 TV episodes and movies.

By comparison, the Canadian cable VOD market operates quite differently, and remains part of the regulatory environment that governs broadcast, specialty and pay-TV services. In Canada, there were 18 VOD services in 2010, used by about 40% of Canadians with digital-TV subscriptions. VOD revenues in Canada have grown from \$2.9 million in 2003 to about \$205 million in 2010. According to a recent speech by CRTC Commissioner Rita Cugini,²⁴ VOD growth in Canada has been slow because of relatively limited uptake of digital technology and an uncertain business model for VOD programming rights.

²³ Epstein, Eden PhD and David C. Evans, PhD. "Are Highly-Produced Online Videos Watched Longer Than Simple Videos in Business Contexts?" psychster.com. Psychster, Inc. Web. 2010.

²⁴ Cugini, Rita. Speech to the International Institute of Communications' International Regulators Forum. Johannesburg, South Africa, 1 October 2011. crtc.gc.ca, Canadian Radio-television and Telecommunications Commission: npag. Web.



In a recent policy review, the Commission took several steps to encourage the further development of VOD services, including permitting advertising and providing some relief in accounting for the 5% revenue contribution that VOD services must make to Canadian programming. Growth in VOD in Canada will continue as cable distributors expand their VOD offerings in order to compete with satellite services, which are restricted by the unidirectional nature of their service, and therefore cannot offer VOD. A fulsome VOD offering is also an important response to new OTT entrants like Netflix.²⁵

ii. Entry Points for Independent Producers

In the US, cable systems do not acquire independent films directly. Aggregators like inDemand (owned by the three largest cable operators) acquire content and program channels for the cable systems. The larger aggregators do not acquire one-off, independent titles, so typically producers sell to a channel such as IFC which takes all rights including cable VOD, or to a VOD distributor such as Gravitas, Cinetic or Magnolia, which deliver packages of independent films to aggregators. The exhibit below summarizes the food chain and players in the US cable VOD marketplace.

Exhibit 12: Players in the US Cable VOD Market				
Platforms (provide Cable Service)	Aggregators (direct access to platforms and programming power)	Channels (special placement on VOD channels)	Distributors (sometimes called aggregators when only dealing in digital)	
100M cable subscribers in the US	inDemand (owned by Comcast, Time Warner, Cox)	IFC	Brainstorm	
Comcast, Time Warner & Cox (Top 3 Cable Companies control 40% of the market)		FilmBuff	Cinetic/FilmBuff	
		Avail-TVN	Focus World	Fluent/Might Entertainment
			Magnolia/HD Net	Gravitas Ventures
			Sundance Select	Magnolia
		Tribeca	MPI Media Group	
			New Video	

The deal points for Cable VOD vary depending on what 'entry point' the producer has negotiated, whether through a channel or through a distributor or access aggregator. Not surprisingly, players with the greatest leverage (namely the studios) negotiate the most favourable revenue splits with platforms and aggregators. Aggregators require shorter terms (typically two months) and fewer rights (typically cable VOD and Internet VOD) and they do not pay advances. Some channels may take more or all rights with longer terms and may pay advances. Distributors will most often want all rights for a longer time period and may pay advances.

Exhibit 13: Revenue Share Example			
	% Fee	\$ Amount of Fee	Remaining Revenue
Rental Price			\$4.99
Cable Platform	50%	\$2.50	\$2.50
Channel/Aggregator	50% - 65%	\$1.25 - \$1.625	\$.875 - \$1.25
Distributor	15% - 50%	\$.13 - \$.625	\$.44 - .625
Producer Share			\$.44 - .625

²⁵ Canadian Radio-television and Telecommunications Commission – Policy Development and Research. Navigating Convergence: Charting Canadian Communications Change and Regulatory Implications. CRTC, Web. February 2010.



As outlined above, each player along the distribution chain extracts a percentage of revenue as a fee. The cable platform and the aggregator split the top line revenues 50/50. The aggregator (or the channel if it has a deal with the cable platform) will then share revenue 35% to 50% with the next player in the distribution chain (i.e. the distributor). And finally the distributor will take anywhere from 15% to 50% as a fee, and after recouping any costs of encoding, pay out the remaining revenue to the producer. While the producer's share may be as low as 10% of the consumer's rental price, this can still represent a significant new source of revenue as cable VOD usage expands, replacing evaporating theatrical and DVD revenues in the US.

iii. Windows

There is still a high degree of uncertainty and movement in the windows of exploitation for film titles. While the supply side players (studios, producers, distributors) experiment with different models to offset the declining DVD business, their demand side counterparts (TV channels, theaters, Internet, cable) seek to defend existing business models while jockeying for dominance in the evolving distribution environment.

The risk in this environment of uncertainty is that when the 'orderly windowing' of rights exploitation is disrupted, it can knock out the ability to exploit another window or reduce advances or revenues in another window. (See Appendix E for diagram of current windowing in the US.) For example, an existing dominant business like a pay cable channel will have a blackout or holdback against media that is a threat to its business model – such as Internet subscription services – or significantly reduce its advance if any exploitation of the title has occurred. In direct opposition, a distributor might push an early cable VOD window (day and date with theatrical), or offer an exclusive or a premiere in a non-traditional medium in order to get better placement, revenue share splits, or a minimum guarantee – all to offset diminishing DVD sales.

Supply-side and demand-side players can therefore work at cross purposes, and thereby complicate the management of windows and the maximizing of revenue. For example, the cable VOD window may close if a film has been exploited in any other media besides theatrical. The same goes for jockeying the window position of any one player, which can potentially eliminate the exploitation of the program in another window or unfavourably affect the deal points, advances or revenues the producer would otherwise receive. Clearly, the independent producer, seeking to maximize their return, must proceed with caution to ensure that value is not lost in the distribution cycle for a particular film title.

iv. Revenue potential, keys to success and an uncertain future

For most independent titles, the typical cable VOD rental price is \$4.99. An independent premium VOD title which is released day and date or within weeks of its theatrical release will rent at \$15 – as compared to studio premium titles at \$30 to \$60.

There has been a great deal of enthusiasm about transactional cable VOD breathing new life into an otherwise moribund independent film business in the US. And while some titles have successfully hit the six or seven-figure cable VOD revenues, these tend to be in the minority, with most earning in the low five figures. Critical to the success of an independent film on cable VOD is as seemingly innocuous a fact as the placement of the title on the alphabetical listing by the cable platform. So, films with titles beginning with the letter 'A' tend to perform better – as do films included in a channel's branded 'tab' such as 'Indie Film Club' or 'Sundance Selects'. The 'new release' tab and trailers are reserved for studio blockbusters and some channels.



The only other tools that independent films have to compensate for the rather antiquated approach to cable VOD listings is to support an eye-catching title with a compelling and very short synopsis, as well as accurate metadata for search functionality.

The cable VOD future is uncertain as OTT services move onto televisions (such as Netflix on Sony Bravia TVs and XboxLive) and cable moves onto the Internet (such as Comcast's xFinity service.) Competitive pressures may force cable VOD to provide more content with a significantly improved user interface that provides better recommendations, navigation, and discoverability comparable to OTT services.

PART 6: CASE STUDIES

The number of original web series available across the Internet today is vast – in the many thousands. BlipTV, a platform which focuses entirely on presenting original web series (though it does not originate content), carries over 50,000 English-language series – with about 2,200 series actively curated at any given time. According to the programmers at BlipTV, the more a web series looks like something viewers can find on television, the less likely it will perform well on the web – hence the success of targeted shows about videogaming, machinima-based sci fi game-based series, as well as horror and 'uncensored' comedy in all its forms.

And while opinions on what will or will not work on the web abound, there is general agreement that the higher production cost model of network television is not sustainable on the web. Some compare the new paradigm for web video to what Scripps did to factual television budgets by introducing the \$100,000/hour model to its original series. And while there is agreement that production costs are inching up for professionally produced video for the Internet, generally the do-it-yourself, self-financing, non-union approach prevails. In fact, one prime originator of web content in the US cited the absence of a workable new media agreement with ACTRA in Canada as a serious impediment to competitive pricing for web series production in the country. According to this source, labour rates in Canada, for both above and below the line positions, are so much higher than in the US that shooting a \$500,000 web series in Canada would cost more than \$1 million for the equivalent number of shooting days. Regardless of whether such an assessment of Canada's union agreements for new media production is wholly accurate, perception is in large measure reality and it should be of concern if US-based producers believe that Canada is uncompetitive in this growing area of production.

The debate over 'shorter is better' on the Internet also continues. For comedy, there is no doubt that 'the funny' has to be delivered faster for the Internet audience. But, for other formats like drama and thrillers where story arcs may be more complex, companies like Vuguru, Machinima and Crackle are looking to string five to nine minute episodes together into 90-minute features in order to access traditional ancillary market sales which can offset production costs. Machinima's *Mortal Kombat* and Crackle's *The Bannen Way* are examples of this strategy.

The following selection of case studies seeks to shed light on production models for a small sample of successful original video content currently being produced for the web.

i. RED VS. BLUE – Original Series on RoosterTeeth [www.roosterteeth.com]

This web project provides an interesting case study of an entirely self-financed property which leveraged technology to create a completely new entertainment experience on the Internet. *Red vs. Blue* garnered enormous success on



the Internet early on but, unlike many early web hits, its creators did not rush to accept the offers to move the property to television.



Description: *Red vs. Blue: The Blood Gulch Chronicles* is a machinima original comedy/science fiction animated series produced employing the game engine of a pre-existing videogame environment and characters. The series is based on the assets of the popular Microsoft Xbox game *Halo*. Unlike the video game from which they hail, the soldier characters in *Red vs. Blue* are not portrayed in constant action fighting sequences, but rather “they just stand around insulting one another and musing over the absurdities of war”²⁶ in a rather desolate canyon. Launched in 2003, the series is a bona fide hit with over 1.6 million subscribers on its YouTube channel and 7-figure returns in DVD and ad sales.

For many, *Red vs. Blue* is the poster child for the do-it-yourself filmmaking ethos of YouTube – low budget production combined with wicked boy humour steeped in videogame culture. While much machinima is the domain of amateur gamers and enthusiasts, the satirical writing of *Red vs. Blue* provided a biting commentary on sci-fi, gamer culture, and the military – served up in a consistent and deadpan fashion that quickly earned the series a loyal following.

Programming Strategy: The producing company, Rooster Teeth Productions, has released other live action and animated series, but to date, none has captured the kind of audience as *Red vs. Blue*. The company has produced nine seasons of the series and a total of 297 episodes which run about 5 to 7 minutes each. The original show was entirely self-financed, written, directed and voiced by series creator Burnie Burns with his colleagues Matt Hullum and Joel Heyman.

The initial cost of production for a machinima series is limited to the purchase of the Xbox and the videogames employed in the production – manipulated to generate an entirely new animation, hopefully to dramatic or comedic effect. With success, the Rooster Teeth team has expanded to include expertise in more sophisticated computer graphics and effects, which extends the production values beyond the movements achievable within the *Halo* game engine.

Some of the other original shows produced by Rooster Teeth have moved the production company beyond machinima to include live action comedy shorts and series. But the company remains rooted in Internet culture and its productions are consistent in this tone and attitude:

²⁶ Thompson, Clive. “The Xbox Auteurs.” *nytimes.com*. The New York Times Company. Web. 7 August 2005.



- *The Strangerhood* (machinima based on *The Sims 2* game) – 28 episodes, parodies reality television series;
- *RT Animated Adventures* – an animated comedy series, 25 episodes, which follows the lives of the Rooster Teeth team;
- *RT Shorts* – over 100 mostly live action shorts;
- *Immersion* – a live action, 17 episode, factual series, where members of the Rooster Teeth team recreate and test elements or phenomena from video games in real life;
- *Past Cast* – live action shorts of historical figures told in YouTube vlogging (video-blogging) style.

Going forward, the company is interested in developing web series which are created as web-feature hybrids – released online in 8-10 minute episodes, but conceived creatively and for narrative purposes as a feature film.

Business Model: Like so many of the surprise ‘hits’ or personality creations of YouTube, the original *Red vs. Blue* was self-financed. With much more complex animation, the production cost has inched up considerably, but 8-minute episodes still come in much lower than an equivalent television episode. It is produced non-union and today, entering production for its 10th season, the show is still self-financed.

Distribution: Rooster Teeth operates its own destination website with BlipTV serving ads and also benefits from a strong YouTube presence as part of Machinima’s network of 1,500 affiliated channels. It earns revenue through a combination of ad sales and ancillary sales (in the millions of dollars) such as DVD and iTunes handled by New Video.

ii. THE GUILD – Original series created by Felicia Day [www.watchtheguild.com]

Like *Red vs. Blue*, *The Guild* is an example of a do-it-yourself original web series, but in this case the series was funded first by fans and then through a licensing deal with Microsoft Xbox.



Description: *The Guild* is an independently produced, live action comedy web series about the lives of a group of online gamers (or ‘guild’) called ‘The Knights of Good’. The guild members play countless hours of a massively multiplayer online role-playing game (MMORPG) while the series focuses on the efforts of Codex (played by Day), the guild’s priestess, who attempts to lead a normal life despite the fact that one of the game’s warlocks has moved in with her.

The series – now a bona fide hit and franchise – is the brainchild of Felicia Day, a once struggling LA-based writer/performer who resorted to shooting the original 2-3 minute episodes herself when networks passed on her TV



pilot script. Launched in 2007, the first season of *The Guild* was largely financed by Paypal donations from devoted fans (early episodes were self-financed and attracted over one million viewers on YouTube). Felicia Day has since become known as the 'Queen of the Web' and her tenacity and determination to remain independent and in control of her creative destiny have become the stuff of Internet legend. *The Guild* has been recognized by a long list of industry awards and Felicia Day herself has been celebrated as one of the Internet's first celebrities. Her music video, *Avatar*, has over 18 million views on YouTube.

In addition to creating, writing and acting in *The Guild*, Felicia Day starred in Joss Whedon's online musical *Dr. Horrible's Sing-Along Blog* – another Internet hit – and is currently creator of a new series *Dragon Age: Redemption*. She was also one of the recipients of YouTube's recent round of funding for new original channels of content.

Production Model: Whereas the production costs of the first season episodes ran in the \$2,000 per episode range, more recent episodes now run an average of eight minutes up to as much as 22 minutes and budgets have gone up along with production values – though nowhere near the costs of a network sitcom (the show is a union production). Now in its sixth season, the *Guild* team has produced 58 episodes and over 24 bonus videos, and earn revenues worldwide from licensing, comics and DVDs.

The do-it-yourself, connect-with-your-fans-directly philosophy, which was critical to the series' original success, still characterizes its creator's approach. Day, who has over a million Twitter followers, has described this 360-approach to web producing as follows: "To me, web video is all about creating community and connecting people around something they like, which could be my show, or it could be gaming. That's the baseline for whether something is going to be appealing to a lot of people or just a select few. So when I'm thinking about adding to the video aspect of what I do, like *The Guild*, we do fan fiction contests and fan art contests where people can submit their art and then we put it in a gallery so everybody can enjoy everybody's creativity as an experience. That adds to our show in a way where everybody can participate, even if they're not physically making a picture. That's a social sort of activity that enhances my community."²⁷

Business Model: Whereas the first season of *The Guild* was a classic do-it-yourself leap of faith, subsequent seasons have been financed by Microsoft, which licenses the property for an exclusive first window on its Xbox Live, Zune and MSN Video platforms, sponsored by Sprint. After the premiere, the series moves to YouTube, iTunes, DVD, Netflix and Hulu with distribution handled by New Video. The producers earn a licence fee from Microsoft as well as a revenue share. One of the advantages of this model is the transparency of technology companies with respect to reporting revenues earned as compared to the notoriously obscure reporting from traditional media companies. The producers retain ownership of the property – another anomaly for Hollywood – and earn ancillary revenues across all other distribution platforms (New Video normally retains a 15% commission on the properties it distributes to digital outlets).

²⁷ Kung, Michelle. "Felicia Day Talks 'Dragon Age: Redemption' and the Future of Online Entertainment." *wsj.com* Dow Jones & Company, Inc.. Web. 11 October 2011.



- iii. **UNSTAGED – A branded entertainment property from American Express**
[\[http://www.vevo.com/show/unstaged-an-original-series-from-american-express/7\]](http://www.vevo.com/show/unstaged-an-original-series-from-american-express/7)



Description: *Unstaged* is a special-event original live-music series that pairs high profile musicians with renowned film directors and visual artists. It is underwritten 100% by American Express, with Vevo and YouTube serving as the primary distribution outlets. AMEX began with a prototype concert in 2009 – before creating the *Unstaged* strand – featuring Alicia Keys and Jay-Z. There have been seven *Unstaged*-branded installments since, beginning with Arcade Fire in August, 2010. John Legend & The Roots, My Morning Jacket and Sugarland were also featured in the inaugural year. The 2011 series included:

- Duran Duran, directed by David Lynch (*Blue Velvet*, *Mulholland Drive*, *Twin Peaks*)
- Mary J. Blige, directed by Adam Shankman (*Hairspray*, *A Walk to Remember*, *The Wedding Planner*)
- Coldplay, directed by Anton Corbijn (*The American*, *Control*)

Programming Strategy. The core programming is built around live-streaming events from landmark venues like NYC's Madison Square Garden (Arcade Fire) and Plaza de Toros de Las Ventas in Madrid (Coldplay), with “catch up” viewing on Vevo and YouTube. AMEX has experimented with a variety of social-networking elements, hoping to additionally engage the audience. Examples include:

- **Press Pass Challenge.** Fans submitted questions for a Billboard.com interview with Mary J Blige.
- **“Share the Journey” Photo Project.** Fans submitted photos for possible inclusion in the Mary J. Blige onstage video installation. Similarly, for the Coldplay event, fans designed and submitted their own “butterflies,” for the *Flight Of Madrid* onstage visuals.
- **Choose Your Cam.** Online viewers choose from several different camera angles.
- **Facebook “likes”** unlocked some additional content from the Coldplay show.

Business Model: As larger brands become more experienced in content creation, and audiences more sensitized to pure ‘product placement’ plays, companies like American Express or Kraft are moving to a brand-as-content publisher strategy – as opposed to a model where the brand is embedded in the content. For the most part, original content publishing for the web is still not as expensive as the traditional million dollar 60-second commercial for network television. Production shoots for web series are often non-union shoots or where unions are involved, guild minimums are the norm.

What content publishing over the web provides which television commercials cannot, is the ability for brands to connect, activate and leverage their audience directly. In this regard, AMEX's agency, Digitas, expresses satisfaction with the series, citing some customer metrics it finds encouraging:



- 15% lift in brand favourability
- 10% lift in brand innovation
- 12% increase in “Amex is for me” sentiment
- 13% lift in intent to recommend

Furthermore, the series has generated ample publicity for AMEX. Digitas reports there have been 258 public relations placements with 320 million total circulation. The bottom line: AMEX has continued producing shows, so the series apparently is achieving its main objectives.

Distribution: Vevo is a top-ranked music video site, in effect the “Hulu of music.” According to comScore, its traffic surpasses AOL Music, MTV.com and Yahoo Music. In fact, its traffic is often in the top 10 of all Internet video properties. As of October 2011, Vevo had 57 million users in the US and streamed 827 million videos a month, a 400% increase since its December, 2009 launch. It is co-owned by Universal, Sony and the Abu Dhabi Media Company, but operates independently. Vevo’s videos are streamed through YouTube, which accounts for most of its traffic. The company is reportedly in talks with several cable systems to launch a linear cable channel. Coldplay’s *Unstaged* event generated more than 19 million streams on YouTube – the most ever generated by a single-artist live event on the site.

iv. TEKZILLA – Original Series on Revision3 [<http://revision3.com/tekzilla/episodes>]

This case study is an example of how original programming is being produced online by one of the most successful OTT platforms, Revision3, focused on the tech-savvy, young male audience.



Description: *Tekzilla* is a twice-weekly factual series featuring reviews of the latest hi-tech gear, tips and tricks – supplemented with expert interviews – aimed at an audience of young (18-34) male online users. New episodes are posted each Tuesday and Thursday. Episodes are typically 30-50 minutes each, shot in-studio, in a standard 3-camera setup. The current hosts are Patrick Norton, Robert Heron and Veronica Belmont. The series debuted in September 2007, and to date just under 300 episodes have been produced by Revision3, which also handles distribution.

Programming Strategy: As with all Revision3 series, *Tekzilla* is built around its hosts – all of whom have previously established online followings, in this case mostly from successful prior podcasting. Other Revision3 hosts have built their audiences as bloggers. In this way, Revision3 is leveraging a ‘proven’ online personality and growing the audience base.



A typical *Tekzilla* episode will feature about six segments, starting with some chat among the hosts and segueing into specific tech topics – some of which are overtly sponsored. In the sample episode below (Episode 273 from Nov 29, 2010), each segment below is also cued up for streaming separately.

- What Pat Would Buy at a Hardware Store
- Cleaning Up Your Digitized Vinyl LP Recordings
- DIY a \$20 Macintosh!
- Discover the Secret Tropes Behind Every TV Show
- Can You Learn How to Play Guitar with the Fretlight (sponsored segment)
- Surround Sound Headset Reader Recommendations
- From Where Does Patrick Get His T-Shirts?

To help capture audiences who prefer shorter-form content, Tekzilla also produces 1-3 minute pieces such as *Tekzilla Daily Tip*, a daily Videocast, usually featuring one of the hosts.

Most of Revision3's original series are oriented toward technology, gadgets, gaming and entertainment consistent with their young male online audience. Other long running series on the platform include:

- DiggNation. A weekly tech/web culture show based on the hottest topics on Digg.com.
- Film Riot. How-to guide on all aspects of DIY filmmaking.
- Epic Meal Time. A “weekly dose of everything you never knew you wanted to eat.”
- GeekBeat.TV. A three-times-a week overview of anything that might appeal to self-proclaimed geeks, hosted by nerd heartthrob Cali Lewis.

Episode length, depending on the series, varies widely: from one minute to one hour. According to CEO Jim Louderback, the “sweet spot” is 6 to 8 minutes per episode. There is, however, no limit on the number of episodes, as long as they continue to attract an audience. Indeed, the goal is for series “to never stop.”

Revision3 produces about half its programming in-house and the development process is relatively simple and consistent, regardless of the series. Revision3 scouts for, and will take pitches from, hosts with an established online following. Having a built-in audience is absolutely vital to the development process. Popular tech bloggers, for example, often make successful hosts. New series are also spun-off from established ones, as with the *Tekzilla Daily Tip*. Similarly, *Game Room*, an upcoming series on video gaming, will be hosted by GeekBeat.TV presenter Cali Lewis. As advertising drives the revenue model of Revision3, the company looks for “credible hosts who can introduce brands to their community.”

Production budgets are modest, since most shows are produced in-studio with a host and simple graphics. According to the company, budgets are typically “around \$200 per minute.” Given these production costs, Revision3 is able to fully finance its original production. The 2-person in-house development team will help craft the basic structure of a series and it then has “about six months to prove itself” once launched. When third-party producers deliver programming, they typically deliver finished episodes to Revision3 according to predetermined style and tech specs.

The company has begun to expand beyond pure-tech content, adding complementary shows like *Epic Meal Time* (on food) and *The Totally Rad Show* (on entertainment). Revision3 has recently partnered with Gawker to produce *Lifehacker*, an “urban survival guide” featuring tips like how to open a wine bottle with a shoe. Programming VP Ryan Vance says topics like cars and sports are logical areas to target next, since “there are geeks in every single possible content space.” Revision3 has no plans, on the other hand, to expand into scripted programming.



Business Model: Revision3's primary revenue source is advertising and the company has developed partnerships with returning brands such as Ford, GoDaddy, T-Mobile, Electronic Arts and Netflix. Programming is not pre-sold to, or directly underwritten by, sponsors as in other branded entertainment models. Revision3 generates revenue by selling against its highly-focused audiences at rates ranging from \$35-\$80 CPM.

Each original episode begins with a pre roll ad, typically around 15 seconds. In a throwback to early TV, hosts will often do pitches themselves, about mid-way through an episode. Revision3 does share ad revenue with its program suppliers and while the company does not disclose its finances, it reports to be making money and maintaining its brisk growth rate. Notably, the CEO reports that their top producers are now earning "upwards of US\$1 million" annually. Although it varies case by case, Revision3 will often share the underlying intellectual property rights on shows it produces. It does not yet monetize its programming with any ancillary distribution (international, TV sales, etc.).

Distribution: Revision3 currently reports an average 80 million views and 23 million unique visitors each month – across all affiliated sites – with traffic up about 300% over last year. Only about 10% of total viewership occurs at its own website, the rest is driven by YouTube, iTunes, Roku, TiVo and other third-party distribution outlets. Revision3 is very much focused on mobile distribution, with about 30% of viewership on iOS, Android and other mobile operating systems.

v. **VICE – a new online video network** [<http://www.vice.com/video>]

Another important player in the original factual and non-fiction programming for the web is VICE.



Description: Vice started as a pop culture print magazine in Montreal in 1994, moved to Brooklyn in 1999, then entered into a joint venture with Viacom for a video initiative entitled VBS.TV in 2007, and today is an international media company with offices in over 27 countries with a growing portfolio of properties. The company has leveraged its brand of programming for television and produces an MTV show, *The Vice Guide to Everything*, and is developing a new weekly series for HBO reported to be a young person's *60 Minutes*. Vice's recently updated online video strategy consists of three branded channels: Noisey.com (music), Motherboard.com (technology) and TheCreatorsProject.com (art). The company was also one of the successful proposals for original channel partnerships with YouTube in 2011.

Vice's early foray into video defined the tone of what some called the online MTV – irreverent and hip for sure – but really much more: in its transparent style of journalism (where process is not concealed) and mini-documentaries on



some of the world's most notorious danger zones (for example, *Vice's Guide to Liberia* or *The Gun Markets of Pakistan*.) As described by one of Vice's founders, Suroosh Alvi, "traditional journalism always aspires to objectivity, and since day one with the magazine we never believed in that...Our ethos is subjectivity with real substantiation. I don't think you see that on CNN."

Programming Strategy: The VBS.TV original lineup of videos featured reporting on popular culture (shows like *Behind the Seams*, which covers odd-ball fashion stories, and *Tattoo Age*, with renowned tattoo artist Freddy Corbin), travel (*Vice Guide to North Korea*), extreme sports (such as the skateboard show *Epicly Later'd* and surfing series *Hi Shredability*), and music (the much lauded feature length *Heavy Metal in Baghdad*). Among the early VBS.TV series which exemplified the tone of the 'brand' was *Hamilton's Pharmacopeia*, a drug exploration travelogue. In a way like the counter-culture of the sixties, Vice has cornered the online video market for the thinking-hipster (mostly male hipster) of today – but in this iteration, there's an embedded business model.

Vice is now reorienting its video strategy under its three branded channels in the categories of music (*Noisey*), technology (*Motherboard*) and art (*The Creators Project*) with plans to expand these verticals to cover news, food, travel, fashion and film/photography. Each channel is underwritten by a sponsor or several sponsors, the most prominent being Intel's sponsorship of The Creators Project. In this case, Intel has committed significant sums to be the sole underwriter of a channel dedicated to the intersection of technology and art (tens of millions of dollars over several years, according to a recent Forbes article).²⁸ With the help of ex-MTV chief Tom Freston, Vice has expanded its relationships in Hollywood, in the investment community, and in the advertising world and will double current revenues of \$100 million in the next year.

Similar to the American Express *Unstaged* project, the Creators Project is an example of how large brands with annual advertising budgets in the billions of dollars are targeting alternative content strategies to reach younger consumers who are tuned out or turned off by traditional ads and/or traditional media delivering them.

vi. **AMERICAN: THE BILL HICKS STORY – a cable VOD case study** [<http://www.americanthemovie.com/>]

The following case study looks at the Gravitas release on cable VOD of an independent film title – *American: The Bill Hicks Story* – a documentary film produced by British filmmakers Matt Harlock and Paul Thomas about an American comedian, Bill Hicks, who died of pancreatic cancer at age 32.



²⁸ Bercovici, Jeff. "Tom Freston's Revenge." Forbes.com. Forbes.com LLC. Web. 1 January 2012.



Description: This feature-length film is narrated by ten people who were close to the subject and employs archival video footage and photographs in an innovative animation style which creates an entirely fresh and entertaining approach to the biographical documentary genre. The legacy of this enormous comic talent is teased to life in an equally bold, uncompromising and hilarious style of photo-animation. The film debuted at the SXSW Film Festival in 2010 and was nominated for a handful of awards (including the Grierson British Documentary Award for 'Most Entertaining Documentary') but did not pursue the traditional distribution route. While the film received a number of distribution offers, the filmmakers decided not to accept any of these all-rights deals and proceeded with a split-rights strategy that has become a text-book case for maximizing returns on a niche film.

Business Model: For *American: The Bill Hicks Story*, Gravitas Ventures and Variance Films teamed up for a theatrical-VOD day-and-date (simultaneous) release last April, 2011. Variance opened the film in New York City and then expanded the release to 31 additional theaters across the country while Gravitas Ventures, the LA-based VOD distributor, made the film available through its cable VOD offering via Warner Bros.' relationships with over 100 million potential viewers through satellite, cable and online VOD.

Gravitas offers Warner approximately five titles each month that often benefit from the better placement and revenue splits than studio releases enjoy on cable VOD. Gravitas also programs independent titles in its own packages called 'new movies on demand', 'events on demand', 'horror on demand' and 'PBS-Docs on demand'. These packages are licensed monthly to over 65 North American cable, satellite and telco partners. As described earlier, the single biggest challenge for independent titles on cable VOD is placement, as the menus for new releases favour Hollywood titles first and then simply present new titles in alphabetical order with one-line synopses and limited search or social media functionality. What this means for most independent films – those without a catchy title, shock-value content or strong word-of-mouth – is total obscurity and little chance for financial returns. In contrast, the iTunes user interface is more sophisticated with better 'searchability' and as such, can offer better visibility for some indie titles.

The keys to the success of a film like *American: The Bill Hicks Story* still depend on extremely positive word of mouth and enthusiastic press coverage to support the release. Coming out of a successful showing at the SXSW festival, the filmmakers pursued an online social media campaign to activate fans of Bill Hicks in the US and the UK. According to Nolan Gallagher, CEO at Gravitas, the potential impact of an independent film can be greater if all marketing efforts collaborate in a single, combined release, as these indie films have only one chance to capture audience attention.

While the film grossed only \$90,589 at the US box office and the filmmakers took a loss on the theatrical release, the positive press coverage coming out of theatrical was critical to Gravitas' ability to convince Warner to champion the film. The film subsequently grossed \$100,000 in its first month on VOD and Gravitas expects that it will earn \$600,000 by the end of 2013 – a significantly higher return compared to the average performance of cable VOD, which ranges for independent titles from \$50,000 to \$150,000, net to the filmmaker.

Clearly, for feature films, the power of festival attention is still an essential first step in any distribution strategy. But today, filmmakers are compelled to understand how to directly reach the audience for their films; to activate social media to attract and sustain that audience; and to then consider the opportunities in the digital distribution market as well as the traditional theatrical and television markets for their eventual release strategy.



PART 7: CONCLUSION

i. Opportunities for Canadian Producers

For the past six years, video on the Internet has been dominated by user-generated video clips on YouTube (now tracking at 60 hours of content uploaded per minute), a handful of 'break-out' web series like *The Guild*, and branded series such as IKEA's *Easy to Assemble*, and a handful of attempts by the traditional business to bring web properties to television (*Children's Hospital* on Adult Swim is one such example). What changed in 2011 was the significant shift by most of the largest players in the Internet space – YouTube, Yahoo, Hulu, Netflix – to the origination of professionally produced video. At the same time, branded entertainment has evolved, as many of the bigger brands move from origination of content as an experiment, to treating the creation or publishing of content as a critical part of their digital media strategy. This is good news for smaller pure play websites which may have been dedicated to original video for some time but struggled to finance its production.

A summary of the major findings of this inquiry are:

- ***Online video viewing has increased dramatically in the past year and Canadians are world leaders in online video consumption***
- ***The 'videofication' of the web is well underway and a top priority in 2012 for many of the major web platforms in the US***
- ***The struggle between traditional and OTT players continues, with traditional media companies adopting tactics to protect the value of established windows of exploitation***
- ***Online platforms turn to professionally produced original content to strengthen audience engagement, to improve potential for monetization, and to distinguish their channels and brands in a crowded marketplace***
- ***Original online video comes of age with premium serialized drama series licensed by Netflix; a major funding initiative for original channels by Google/YouTube; and an array of original programming strategies from online players and brands***
- ***Most players agree that while budgets for online originals have increased, the no-budget, non-union, do-it-yourself model of production prevails***
- ***Similarly, most agree that original content for the web should not look or feel like television content***
- ***As original video for the web evolves, so has the role of Hollywood agents, lawyers and celebrities gotten larger, making direct access to buyers more difficult***

So what does this mean for Canadian producers? First, the marketplace for web video is truly global and Canadian producers have a long history of successfully producing content for international audiences. As the audiences online expand and mature, the genres of programming will also evolve. While YouTube's first 'call' for content proposals mostly focused on creators in the US, there is no reason to doubt that should this first round be deemed a success,



future rounds will cast a broader net to include creators in other regions. As Google/YouTube usage is higher on a per capita basis in Canada than anywhere else on the planet, it is fair to conclude that Canadian proposals that can attract and sustain an audience will have as good a chance as any from the US.

Second, more buyers – and competition – in the marketplace are a good thing. While the past two decades have been characterized by the proliferation of specialty channels and with them, more outlets for Canadian producers' programming, more recent consolidation and contraction in the traditional television marketplace has exerted pressure on shelf space. At the same time, consumer tastes have shaped and limited the demand for certain types of programming – for example, the decline of investigative documentary series in favour of reality television programming. More online platforms entering the original content business, each seeking to distinguish their brands through distinctive content offerings, should encourage greater diversity in genres and formats of programming. The channels developed by VICE are certainly evidence of this trend.

For traditional Canadian film and television producers who are trained in the creation of premium quality content but generally have little involvement with its delivery to the audience, the requirement of many online buyers for proof of audience uptake before proceeding with an order may present a significant stumbling block. Most online buyers are looking for proof of concept – either through a demonstrated pre-existing YouTube audience or brand value of a celebrity or expert – that guarantees reach before investing in an original series. The vast warehouse experience online demands such tactics, given the challenges of 'discoverability'. As such, the relative weakness of the Canadian 'star' system when compared to the Hollywood machine poses an ongoing challenge. The good news is that celebrity on the Internet is not restricted to Hollywood celebrity and Canada has had its share of Internet 'break-outs', with YouTube personalities like Jon Lajoie and Justin Bieber and Andrew Grantham's *Ultimate Dog Tease*.

ii. Policy Considerations

For Canadian producers, the immediate opportunity is to use the Internet to source new talent and to pilot new series ideas – which many are already doing. The greater opportunity, however, is to begin developing original properties for the web and for online audiences as a new line of business. The recent three-year renewal of the Independent Production Fund's web series program is good news in this regard. While this fund has very limited resources (only \$1.5m in funding per year) and is restricted to scripted series, it is the only fund which supports linear web series in the country.

One general cultural policy issue worth revisiting is whether the emphasis on interactivity and immersive digital content in many of our funding programs may inadvertently retard Canadian producers from moving aggressively into the world of original online series, which are for the most part linear in nature. Government policy focus has been on bringing traditional television producers into the digital world through initiatives such as the Bell New Media Fund and Canada Media Fund Convergence and Experimental Streams, to the exclusion of pure play linear web creation.

Similarly, other financing tools available to Canadian producers, such as federal and provincial tax credit regimes, are in many jurisdictions designed to support traditional television production or interactive production to the exclusion of linear web production. Clearly, the funding pie is limited and further erosion of financing available to more established sectors of the industry pose challenges. However, Canadian producers risk missing the opportunity to participate in a burgeoning new sector of activity, should the financing environment not adapt to this new reality.



Finally, and perhaps of greatest concern, is the absence of strong online buyers for video content in the Canadian marketplace. While the consumption of video content is a global experience, the origination of content remains local, with nearly all of the buyers in the English-language market currently located in the US. Whether it is Google/YouTube, MSN or Yahoo – all of which have offices in Canada but are headquartered in the US – or Break, CollegeHumor or Vice, which all boast large Canadian audiences, there are no Canadian-owned and operated online content platforms of significant scale committed to commissioning original video content.

A generation of online video consumers has direct access, for the first time in Canadian broadcasting history, to staggering quantities of video programming – most of it non-Canadian – delivered straight to their device of choice. While Canadian broadcasters have made large quantities of their television programming available for online viewing, to date there have not been many significant initiatives by these players to invest in the creation of original web content. Beyond NFB.ca, a destination for Canadian content online does not exist – nor has a MyDamnChannel or Machinima equivalent sprung up. This is a major gap in the fast evolving new media landscape that warrants further discussion and analysis by policy makers and industry stakeholders.



APPENDICES

- A: List of Companies Interviewed
- B: Comparison of Major US Internet VOD Providers
- C: List of Top 100 YouTube Channels
- D: List of YouTube Funded Channels, 2011
- E: Cable VOD/Digital Release Windows
- F: List of Exhibits
- G: Bibliography
- H. Duopoly Team

APPENDIX A

List of Companies Interviewed

Company	Description
BlipTV	Blip is home to the best in original web series from professional and up-and-coming producers.
Break.com	Leading creator, publisher, and distributor of digital entertainment content including video, editorial, and games.
Cracked/Demand Media	A network of consumer demand driven websites like eHow, Livestrong.com and Cracked.com, their comedy offering.
Digitas	A global integrated brand agency that combines media, creativity, technology, analytics.
Felicia Day	Creator, writer/performer of <i>The Guild</i> .
Google/YouTube	A global video distribution platform for both user-generated and professional content.
Gravitas	Specializes in the aggregation of entertainment content for worldwide distribution via cable VOD, broadband, mobile and the airline/hospitality industries.
HD Digital Productions (Jace Hall)	Current producer of "The Morning After" on Hulu.com.
Hulu	An online video service with hit shows, clips and movies accessed through both a free ad-supported model and a premium pay subscription model; owned in part by NBCUniversal, News Corporation and The Walt Disney Company.
IAWTV	The International Academy of Web Television (IAWTV) is a nonprofit organization comprised of leaders in the field of web television, web video, and the digital entertainment industries.
ICM	International Creative Management ("ICM") is a talent and literary agency, representing creative and technical talent in the fields of motion pictures, television, music, publishing, live performance, branded entertainment and new media.
Machinima	Next generation video entertainment network for video gamers, providing comprehensive gaming-focused editorial and community programming.
MyDamnChannel	My Damn Channel empowers comedians, actors, filmmakers, musicians and brands to co-produce, monetize and distribute original video content on the website and in syndication across all digital platforms.
Netflix	World's leading Internet subscription service for enjoying movies and TV shows.
New Video	Entertainment distributor and an aggregator of independent digital content worldwide.
Revision3	Special interest video network, producing all-original weekly and daily episodic community driven programs.
Rooster Teeth	Online destination for original web series <i>Red vs Blue</i> and web production company.
Vice	"Definitive Guide to Enlightening Information" – print and online magazine and online shows created by freelancers throughout the world.
Vuguru	A multi-platform studio creating original programming; owned by Michael Eisner with minority stake held by Rogers.
Yahoo!	A content, communications and community platform focused on delivering digital experience in a personalized way.

APPENDIX B

Comparison of Major US Internet VOD Providers

	Amazon Instant Video	Amazon Prime	Blockbuster	Hulu	Hulu Plus	Netflix (Streaming)	Netflix (DVDs)
PRICING	Rent or purchase new release titles starting at \$3.99. Amazon Daily Deals offer titles to rent for as little as \$0.99. Purchase fees are \$15 or less.	\$79/year for Amazon Prime, unlimited instant video included.	Starts at \$10/month in addition to Dish Network programming and equipment fees.*	Free; Ads	\$8/month; Ads	\$8/month. \$16/month for unlimited streaming +1 DVD. Prices vary for additional DVDs.	\$8/month \$16/month for unlimited streaming +1 DVD. Prices vary for additional DVDs.
WHO SUPPLIES	ABC, CBS, NBCUniversal, Fox, WB, HBO, Sony Pictures Television, Disney, Paramount, MTV Networks, BBC, PBS, National Geographic, Magnolia Pictures, IFC Films, Egami Media, Vivendi Entertainment, New Video Group, Fred Rogers Company, Strand Releasing, Music Box Films, Film Movement, Reel Media, Sesame Workshop, Nickelodeon.	CBS, NBCUniversal, Fox, Sony Pictures Television, BBC, PBS, National Geographic, Magnolia Pictures, IFC Films, Egami Media, Vivendi Entertainment, New Video Group, Fred Rogers Company, Strand Releasing, Music Box Films, Film Movement, Reel Media, Sesame Workshop	Streaming content includes Dish Network content such as Discovery Channel, AMC, TNT, TBS, Food Network, Fox and more; movies from Starz, Sundance, Epix, Encore and more; TV Everywhere	Current and back season TV shows from more than 260 networks and studios like ABC, A&E, Comedy Central, FOX, Lionsgate, MGM, MTV, National Geographic, NBC, Paramount, VH-1, Univision; movies from Miramax and Criterion Collection	Current and back season TV shows from networks and studios like ABC, BET, Comedy Central, MTV, NBC, VH-1, Univision (extended); hundreds of movies from both Miramax and the Criterion Collection. Includes faster, deeper access to Fox primetime.	Movies and TV shows (including past seasons of current shows) from Paramount Pictures, MGM, Lions Gate Entertainment, Sony Pictures, Disney, Overture Films, Anchor Bay Entertainment, NBCU, 20th Century Fox, Sony Pictures, Disney-ABC, DreamWorks SKG, AMC Networks, expanded deal with Discovery, select WB shows, Starz Play with 1,000 titles.	TV shows and movies from Warner Bros., Universal Studios, Twentieth Century Fox
TITLES/EPISODES	Over 100,000 movies and TV shows, with over 15,000 of those titles in HD. (Doesn't break it out by titles.)	Will have over 11,000 movies and TV show episodes when Fox content is available this fall, with over 2,000 of those titles in HD. (Doesn't break it out by titles.) Now has every season of every Star Trek show.	3,000 movies streamed to TV; 4,000 movies streamed to computer. Hundreds of streaming TV shows. Plus, 100,000 movies and TV shows by mail. Dish comes with access to some authenticated TV programming.	Over 1,720 TV titles and 1,470 movie titles	More than 16,000 hours, which includes 2,180 TV titles and 1,450 movie titles	Over 20,000 episodes	Over 100,000 episodes
VIDEO GAMES	No	No	3,000 games by mail (for Nintendo Wii, Sony PS3 and Microsoft Xbox 360).	No	No	No	Yes
TV CONTENT WINDOW	Day after	Library titles	N/A	Day after broadcast for current season, back season library of hundreds of popular TV shows	Day after and limited viewing window	Library titles	Library titles
MOVIE CONTENT	Same day as DVD release	Library titles	N/A	Varies by movie	Varies by movie	28 days after DVD release;	28 days after DVD release

APPENDIX B

Comparison of Major US Internet VOD Providers

WINDOW						smaller selection than DVD offerings	
ADS	No	No	N/A	Yes	Yes	No	No
RENT OR OWN	Rent and/or own	Rent and/or own	Rent	Rent	Rent	Rent	Rent
HD	Yes (720p)	Yes (720p)	Yes	No	Yes, when available	Yes (720p) (Sony PlayStation 3 offers 1080p)	Select Blu-ray titles available
DEVICES	PC, Mac, connected TV, Blu-ray, Set-Top-Boxes, Kindle Fire (Nov. 15)	PC, Mac, connected TV, Blu-ray players, Set-Top-Boxes, Kindle Fire (Nov. 15)	HD DVR; Facebook integration	PC, Mac	Computers, game consoles, streaming players, Blu-ray players, set top boxes, HDTV, DVRs, mobile devices (including iOS and Android)	Computers, set top boxes, game consoles, streaming players, Blu-ray players, HDTV, DVRs, mobile devices (including iOS and Android)	DVD and Blu-ray

Source: PaidContent.org, October 10, 2011

APPENDIX C

List of Top 100 YouTube Channels

YouTube Top 100 Channels							
Rank	Channel	Subscribers	Genre	Rank	Channel	Subscribers	Genre
1	Ray William Johnson	4,837,992	Reviews/Comedy/Personality	51	shane	1,038,738	Comedy/Personality
2	nigahiga	4,540,858	Comedy/Personality	52	VenetianPrincess	1,038,251	Comedy/Music
3	machinima	3,514,521	Comedy/Gaming	53	kipkay	1,032,194	Tutorial/Personality
4	Smosh	3,491,631	Comedy/Personality	54	IanH	1,019,863	Comedy/Personality
5	ShaneDawsonTV	2,832,038	Comedy/Personality	55	expertvillage	1,012,138	Tutorial
6	Freddie W	2,406,868	Comedy/Gaming/Personality	56	WongFuProductions	994,006	Comedy
7	Fred	2,331,254	Comedy	57	daneboe	986,032	Comedy
8	College Humor	2,287,201	Comedy	58	JustinBieberVEVO	979,835	Music
9	Real Annoying Orange	2,164,822	Comedy/Animation	59	VEVO	965,903	Music
10	MysteryGuitarMan	2,134,838	Music/Animation/Personality	60	SHAYTARDS	965,291	Comedy/Reality/Personality
11	Kevjumba	2,068,987	Comedy/Personality	61	RiotGamesInc	956,210	Gaming
12	Shane Dawson TV 2	1,931,220	Comedy/Personality	62	davidchoimusic	950,828	Music
13	sxephil	1,880,497	Comedy/Commentary/Personality	63	SeaNanners	927,984	Gaming
14	Epic Meal Time	1,788,063	Comedy	64	BreakingNYC	908,048	Comedy
15	FPS Russia	1,772,098	Tutorial\Gaming	65	nqtv	900,856	Comedy/French Language
16	KassemG	1,738,180	Comedy\Personality	66	ImprovEverywhere	880,410	Comedy
17	FAILblog	1,682,532	Comedy	67	UKFDubstep	879,221	Music
18	the lonely island	1,663,140	Comedy	68	juliansmith87	877,523	Comedy
19	Barely Political	1,629,885	Comedy	69	BrittaniLouiseTaylor	875,980	Comedy
20	Michelle Phan	1,627,941	Tutorial/Personality	70	boyceavenue	870,149	Music
21	Yourfavoritemartian	1,612,007	Music/Comedy/Animation	71	bubzbeauty	855,457	Tutorial
22	davedays	1,564,889	Music/Comedy/Personality	72	ItsKingsleyBitch	844,002	Reality/Personality
23	machinima respawn	1,563,332	Gaming	73	juicystar07	842,231	Reviews/Personality
24	RihannaVEVO	1,518,751	Music	74	linkinparktv	834,650	Music
25	IGNentertainment	1,501,720	Gaming	75	meekakitty	819,018	Music/Reality
26	RoosterTeeth	1,367,034	Comedy Gaming	76	RhettandLink	807,349	Comedy
27	kidrauhl	1,365,565	Music	77	thecomputerner01	803,124	Comedy
28	Tobuscus	1,314,451	Comedy/Personality	78	KatyPerryVEVO	794,012	Music
29	ijustine	1,267,848	Personality	79	HappySlip	788,407	Comedy
30	charlieissocoollike	1,254,925	Reality/Personality	80	TotallySketch	782,977	Comedy
31	zeldaxlove64	1,253,508	Music	81	MondoMedia	781,440	Animation
32	JennaMarbles	1,249,450	Comedy/Personality	82	JumbaFund	776,172	Comedy
33	KurtHugoSchneider	1,218,311	Music	83	JonasBrothersMusic	774,445	Music
34	SelGomez	1,211,347	Music	84	TylerWardMusic	767,622	Music
35	HouseholdHacker	1,209,705	Tutorials	85	felipeneto	767,265	Commentary/Portuguese Language
36	LadyGagaVEVO	1,205,546	Music	86	freddiew2	766,827	Comedy/Gaming/Personality
37	TheFineBros	1,158,693	Comedy	87	WhiteBoy7thst	764,256	Gaming
38	WHATTHEBUCKSHOW	1,140,863	Comedy/Personality	88	charlestrippy	763,633	Comedy/Personality
39	schmoyoho	1,129,631	Comedy/Music	89	RecklessTortuga	743,380	Comedy
40	EminemVEVO	1,121,883	Music	90	jonlajoie	742,657	Comedy
41	makemebad35	1,119,148	Comedy	91	keeptheheat	726,794	Comedy/Music
42	DeStorm	1,105,841	Music	92	DieAussenseiter	722,200	Comedy/German Language
43	werevertumorro	1,102,700	Comedy/Spanish Language	93	LisaNova	718,816	Comedy
44	TheStation	1,100,349	Comedy/Animation	94	AtlanticVideos	711,866	Music
45	universalmusicgroup	1,088,360	Music	95	pyrobooby	707,814	Commentary
46	nicepeter	1,081,795	Comedy/Music	96	mileymandy	697,013	Reality/Personality
47	TimothyDeLaGhetto2	1,074,083	Comedy/Music	97	wafflepwn	696,194	Reality
48	communitychannel	1,059,316	Comedy/Personality	98	therealdemilovato	692,986	Music
49	BlueXephos	1,052,868	Comedy/Gaming	99	JamesNintendoNerd	689,589	Reviews/Gaming
50	shaycarl	1,045,600	Comedy	100	xlawz	685,870	Tutorial/Gaming

APPENDIX D

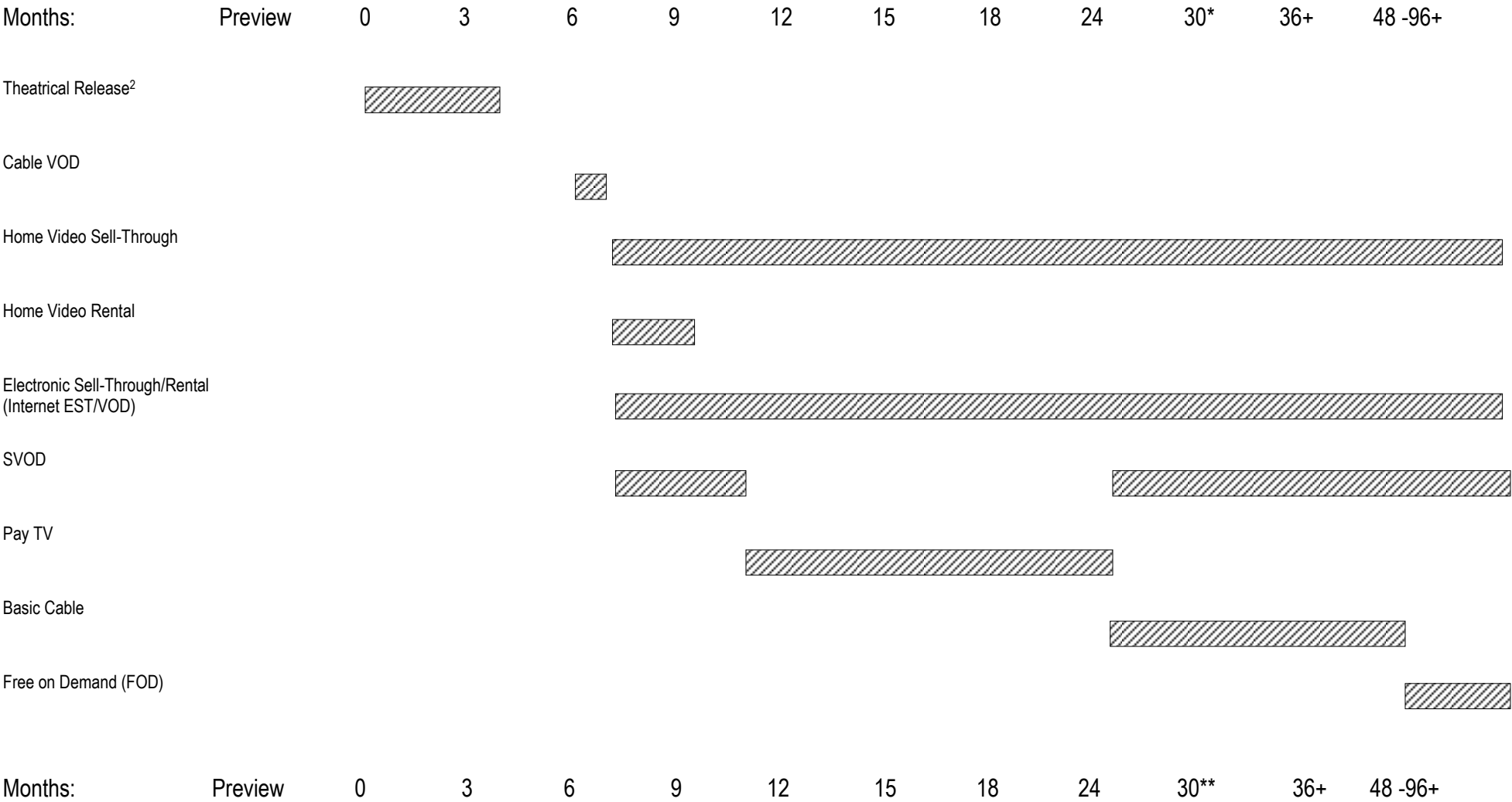
List of YouTube Funded Channels, 2011

New YouTube Professional Content Channels			
Channel	Genre	Channel	Genre
@radical.media: Channel - Education (name TBD)	News & Education	Knights of Good Productions: Geek & Sundry	Lifestyle
Alchemy Networks: Alchemy Networks	Pop Culture	Lionsgate: Lionsgate Fitness Channel	Lifestyle
Alli Sports: Alli Sports	Sports	Machinima: Machinima	Pop Culture
Bedrocket Media Ventures and Full Picture Productions: Look TV	Lifestyle	Magical Elves and InStyle magazine: Little Black Dress	Lifestyle
Bedrocket Media Ventures: Channel - Network A	Sports	Maker Studios: The Maker Music Network	Music
Bedrocket Media Ventures: Channel - Official Comedy	Pop Culture	Maker Studios: The Moms' View	Lifestyle
BermanBraun & Rodale Inc.: Taste	Lifestyle	Maker Studios: Tutele	Pop Culture
BermanBraun & Rodale Inc.: Vigor	Lifestyle	Meredith Corporation and Meredith Video Studios: Digs	Lifestyle
BermanBraun: theLOGE	Pop Culture	ModernMom.com: ModernMom Channel	Lifestyle
Big Frame: BAM	Pop Culture	Mondo Media: New Animators	Pop Culture
Black Box TV: Black Box TV (Anthony Zuicker, founder of CSI)	Pop Culture	monotransistor: werevertumorro	Pop Culture
Bleacher Report: Bleacher Report	Sports	My Damn Channel: My Damn Channel: Live	Pop Culture
Brady Haran: DeepSkyVideos	News & Education	New Nation Networks: New Nation Networks	Pop Culture
Brady Haran: numberphile	News & Education	Noisey: VICE	Music
Brooklyn Films Digital:Avnet/Garcia Scripted Content Channel	Scripted	Pharrell Williams : i am OTHER	Music
CafeMom: CafeMom Studios	Lifestyle	Philip DeFranco: Sourcefed	Pop Culture
Chopra Media/Generate: The Chopra Well (Deepak Chopra)	Lifestyle	Pitchfork: Pitchfork TV	Music
Clevver Media: ClevverNews	Pop Culture	PMC: PMC Entertainment News	Pop Culture
Clevver Media: ClevverStyle	Lifestyle	Red Bull Media House North America: Red Bull	Sports
Clevver Media: ClevverTeVe	Pop Culture	Roadside Entertainment/BAC: The NOC	Sports
Comedy Shaq Network: The Comedy Shaq Network (Shaquille O'Neal)	Pop Culture	SB Nation: SB Nation	Sports
Cooking Up a Story: Food Farmer Earth	Lifestyle	Seedwell: American Hipster	Pop Culture
DanceOn : DanceOn (Madonna)	Pop Culture	Slate: Slate News Channel	News & Education
DECA: KinCommunity	Lifestyle	Smart Girls at the Party: Smart Girls at the Party (Amy Poehler)	News & Education
Demand Media: eHow Home	Lifestyle	Smosh/Alloy Digital: Smosh Animation (name TBD)	Pop Culture
Demand Media: eHow Pets & Animals	Lifestyle	Soccer United Marketing & Bedrocket: KickTV	Sports
Demand Media: LIVESTRONG	Lifestyle	SoulPancake Productions: SoulPancake (Rainn Wilson)	News & Education
Digital Broadcasting Group (DBG): Spaces	Lifestyle	Source Interlink Media: Motor Trend	Lifestyle
East of Center Productions LLC: YOMYOMF	Pop Culture	Steve Spangler Science: The Spangler Effect	News & Education
Electus: Channel - Food (name TBD)	Lifestyle	TakePart™: TakePart™ TV	News & Education
Electus: Channel - Pop Culture (name TBD)	Pop Culture	TED Conferences: TEDEducation	News & Education
Electus: NuevOn - Latin Channel (Sofia Vergara)	Pop Culture	The Bowery Presents: The Bowery Presents	Music
Emil Rensing International: Channel - Auto (name TBD)	Lifestyle	The Nerdist Channel: The Nerdist Channel	Pop Culture
EQAL: u look haute!	Lifestyle	The Onion: Onion Broadcasting Company	Pop Culture
Everyday Health, Inc.: Everyday Health TV	Lifestyle	The Wall Street Journal: The Wall Street Journal	News & Education
EYEBOGIE: POP SPOT	Pop Culture	The Young Turks: Town Square	News & Education
FAWN by Michelle Phan: Fawn	Lifestyle	Thomson Reuters: Reuters.com	News & Education
Fine Brothers Films: MyMusic	Pop Culture	Tony Hawk's production company, 900 Films, Inc. : RIDE Channel	Sports
Frederator Networks: Channel Frederator's Cartoon Hangover	Pop Culture	Uncommon Content Partners: Taste & Access	Lifestyle
FremantleMedia: Channel - Pets & Animal (name TBD)	Lifestyle	Uncommon Content Partners: The Conversation Channel	Pop Culture
Hearst Magazines : Car and Driver Television	Lifestyle	Varsity Pictures: Awesomeness	Pop Culture
Hearst Magazines : Channel - Fashion & Beauty Channel (name TBD)	Lifestyle	VICE: Noisey	Music
Iconic Life and Times (Jay-Z)	Pop Culture	VICE: VICE	Pop Culture
IconicTV: 123UnoDosTres	Pop Culture	Vlogbrothers: CrashCourse	News & Education
IconicTV: myISH	Music	Vlogbrothers: SciShow	News & Education
IGN Entertainment / Shine Group: START	Pop Culture	Vuguru & POW! Entertainment: Stan Lee's World of Heroes	Pop Culture
Intelligent Television: Intelligent Channel	News & Education	Walter Latham Digital: Walter Latham's "Kings of Comedy"	Pop Culture
JON M. CHU: Channel - Dance (name TBD)	Pop Culture	WWE: WWE	Sports
Katalyst: Thrash Lab (Ashton Kutcher)	Pop Culture	Young Hollywood: Young Hollywood Network	Pop Culture

APPENDIX E

Cable VOD/Digital Release Windows

Current Typical Independent Filmed Entertainment Windows in the US Market¹



¹Grid designed to show relative positioning amongst media. Actual theatrical runs, digital windows and TV deals may vary from film to film.

²Typically a few weeks to several months. NATO (Nat'l Assoc. of Theatrical Owners) requires a 4 month exclusive window for studio titles

APPENDIX F

List of Exhibits

- Exhibit 1: Filmed Entertainment Market by Country
- Exhibit 2: Electronic Market
- Exhibit 3: Top 10 Video Content Properties in Canada
- Exhibit 4: Top U.S. Online video Properties
- Exhibit 5: Cord-cutting in the US
- Exhibit 6: YouTube Top 20 Channels
- Exhibit 7: Category Breakdown of YouTube Original Channels Commissioned in 2011
- Exhibit 8: Snapshot of Video-Rich Websites
- Exhibit 9: % of Time Spent in Media vs. % of Advertising Spending, USA 2010
- Exhibit 10: Old Spice Guy is Back
- Exhibit 11: US Movie Sales and Rentals, by Type, 2008 & 2013
- Exhibit 12: Players in the US Cable VOD Market
- Exhibit 13: Revenue Share Example

APPENDIX G

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APPENDIX H

Duopoly Research Team Bios

Catherine Tait: Project Leader

Catherine Tait is a founding partner of Duopoly, an independent entertainment company that has provided business development services to the media industries in Canada and the United States for the past 9 years. Tait been engaged by a range of organizations including the Canadian Film Centre, Tribeca Film Institute, Telefilm, the Canada Media Fund and the NFB, to develop strategic plans for digital and multiplatform transformation. She is also active in the production of feature films, television and multiplatform properties most recently with PAPILLON, a web series for Bite TV, LUCKY, a feature documentary sold to HBO and PURE PWNAGE, a comedy series for Showcase based on a pre-existing Internet property. She was Executive Producer of the CBC's top-rated animation series, CHILLY BEACH which was also originally a web series. In 2006, Ms. Tait founded an online and mobile video content company www.iThentic.com. She also manages a content channel partnership with Hulu.

Ms. Tait has over 25 years of experience in the public and private sector media business, in a variety of senior executive roles on both sides of the border. In her role as Salter Street Films' President and C.O.O., Catherine took the company public on the Toronto Stock Exchange, built and financed a new media subsidiary, and spearheaded the company's successful bid for digital broadcasting licences including the Independent Film Channel Canada. Prior to Salter Street Films, Catherine was Executive Director of the Independent Feature Project in New York, the largest organization of independent producers in the United States. Before the IFP, Catherine worked in policy and planning for Telefilm Canada, and served as Canada's Cultural Attaché to France. She was a Director of the Board of Aliant, Atlantic Canada's telco; a Director of CHUM Ltd; a Director of eOne's Canadian Board; and most recently, serves as a Director and co-founder of a new broadcasting venture, Hollywood Suite.

Al Cattabiani

Al was President/CEO of Wellspring Media, a company he co-founded in 1993 and sold in 2004. Wellspring, now controlled by The Weinstein Company, was a leading independent distributor -- worldwide, in all media -- of arthouse cinema and programming promoting holistic living. Its library of over 700 titles included many Oscar, Emmy and Grammy winners. Before starting Wellspring, Al served as President and Chief Operating Officer of Los Angeles-based Pacific Arts Corporation, where he helped create the PBS Home Video label.

Al Cattabiani has always focused on distributing high-end niche programming. He is a partner in several startups, ranging from original content for mobile phones to electronic distribution of wellness information to new models for releasing music and films. He also consults for a variety of clients: from multi-billion dollar conglomerates to mid-sized growth companies to individual artists and producers. He serves on the boards of the Global Film Initiative, a non-profit foundation to assist filmmakers in developing countries; and of Acorn Media Group, a distribution and direct-marketing company based in Washington DC, London and Sydney.

Tanya Brunner

Tanya is a consultant focusing on the development and execution of profitable, multi-platform business plans for media companies. She provides competitive analysis, business development, operational assessment and project implementation services. Before starting her own business, Tanya was an executive with Genius Products (The Weinstein Co.), and its predecessor, Wellspring Media, where she led the company's digital initiatives. Her career has spanned all the major facets of the media business, including packaged goods and digital media distribution, operations, strategy, international & television sales, business development, contract negotiation, rights management and finance.

Tanya has an MBA in Finance and Marketing with a concentration in Entertainment, Media & Technology from NYU's Stern School of Business and a BA in Anthropology from UC San Diego.