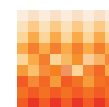




TRENDS REPORT

2015 MID-YEAR UPDATE

JUNE 2015



Canada Media Fund
Fonds des médias du Canada

INTRODUCTION

Canada Media Fund's (CMF) previous KeyTrends report (*The Big Blur Challenge*) indicated that digital distribution is slowly converting television – as in the case with music, publishing and gaming – into an **on-demand medium**. We described an increased shift to all-digital TV viewing and a “tipping point” as US data showed **internet subscribers now outnumber those with cable**. In Canada, data shows that a similar shift could happen relatively soon.

According to iDate's Content Economics 2014 report, various forms of online video distribution accounted for 31% of global audiovisual industry revenue in 2013. In the US, PricewaterhouseCoopers predicts that by 2018 all electronic home video (that is video streaming, video on-demand and transactional services) will generate \$13.8 billion in revenues, surpassing overall revenues generated by the film industry. Could 2015-2016 also be the “Year of SVOD” in Canada thanks to the arrival of Shomi and CraveTV, and with one third (33%) of the country already signed up for Netflix?

The shift to all-digital TV viewing has also increased the importance of accurately measuring online consumption. The world-first decision made by Germany's AGF (the German association providing official TV ratings) to include YouTube in its reach figures reflects the extent of convergence between TV and online video viewing. Yet if no one any longer questions the importance of digital distribution, what it means to the survival of television's economic model remains unclear.

To this day, the transition to digital has gained traction by optimizing services, rationalizing processes, introducing greater organizational efficiencies and cutting back on middlemen. But, as we noted in *The Big Blur Challenge*, this has also led to the advent of certain paradoxes. There is unprecedented choice, but users' attention span has shortened. Digital distribution provides more access to international markets but has a major

impact on traditional rights management, which in turn strikes at the heart of local audiovisual industry business models. We also continue to witness a narrowing of cultural preferences as major US franchises (mostly from television) influence global audience standards. Finally, digital technology has lowered barriers to new forms of competition, particularly user-generated content (UGC), which has contributed to democratize media. But on the other hand, larger industry players are continuing to consolidate and seeking to secure global monopoly positions.

This update seeks to refine the observations and conclusions noted above by decrypting the following trends:

- ◆ “Filter bubbles” and the growing dependence on algorithm-based recommendations from larger dominant platforms;
- ◆ Content globalization and the growing integration of digital markets;
- ◆ New content formats spurred by changes in consumer habits and behaviour;
- ◆ Media divergence: whether next-generation audiences will someday revert to “traditional” consumption patterns remains uncertain;
- ◆ The advent of “digital marketplaces” for film and TV rights;
- ◆ The rise of creative alliances and new competitors to counterbalance the web giants' market power.

ALWAYS ON: While Users Tend to Access the Web Through Fewer, but Massively Popular Platforms, They Are Also Being Channeled Into Isolated Filter Bubbles

UPDATE FROM PREVIOUS REPORT

Users must adapt to algorithmic constraints. Concentrated access points, as discussed in Chapter 1 of *The Big Blur Challenge*, can mean hyper-personalization of content that limits discoverability, often without the user's knowledge. Yet, intelligent and trustworthy curation can help viewers find relevant and new content.



40% OF FACEBOOK USERS DON'T KNOW THAT THEIR NEWS FEED FILTERS ALL
BUT A FRACTION
OF POSTS FROM FRIENDS AND SUBSCRIBED PAGES

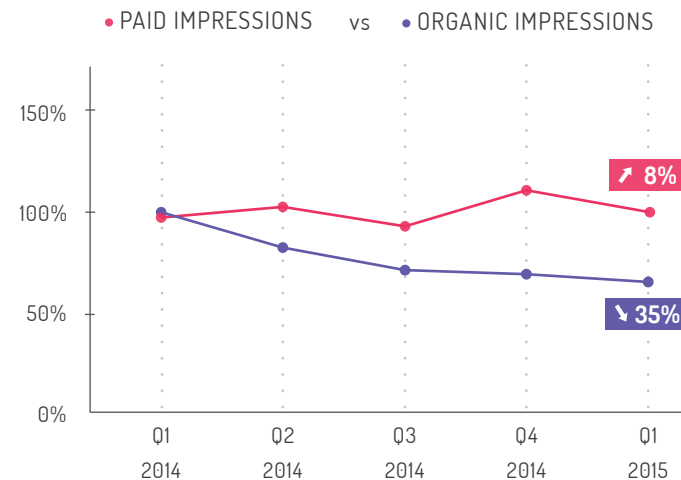
(Eslami, M., et al. (2015), "I always assumed that I wasn't really that close to [her]": Reasoning about Invisible Algorithms in News Feeds.)

Many internet users don't know that their individual web profiles determine what they see on many web platforms and applications, including Google, Facebook, Amazon and Netflix. Profiles are built by gathering thousands of bits of user data: browsing history, geographical location, devices used to browse the internet, local times and much more. Complex mathematical calculations (algorithms) analyze the data and display personalized, but consequently incomplete, content to each user. Because they affect user experiences and loyalty, these algorithms are jealously guarded by the giant web firms. Internet activist Eli Pariser calls this "The Filter Bubble".

Personalization can impact content creators by reducing the "discoverability" of their offerings. In fact, an internet user has little chance of finding content that does not match his or her preferences or browsing history.

Algorithms also favour certain types of content over others. In Facebook's News Feed, for example, only videos uploaded directly to the platform, will start automatically. Similarly, Google searches prefer websites adapted to mobile devices.

FACEBOOK BRANDED POST IMPRESSION GROWTH (U.S.)



(Adobe, Q1 2014–Q1 2015)

Lastly, filters make it easy to promote paid promotional content. The content's organic reach, or discoverability free of advertising, is reduced accordingly. On Facebook, the display of such "unaided" content fell by 35% in just one year, while paid ads rose by 8%.

In response, there's a growing movement to monitor and regulate these platforms and algorithms in order to protect and promote national content. For example, France may require TV platforms like Netflix to feature locally-produced works. This could be done either by changing algorithms that affect streams to France or by inserting a dedicated window (for French or European works) in recommendations.

Initiatives in the US and Canada also aim to promote national content and discoverability. In November 2014, the Motion Picture Association of America (MPAA) launched WhereToWatch, a cooperative search engine that shows where films are distributed as streaming content, rentals or for sale (DVD or Blu-ray). WhereToWatch also categorizes Netflix, Hulu, iTunes, Amazon, Xbox Video and over a dozen other platforms and services into particular genres of content. Locally, we have platforms like *Eye on Canada*, the First Weekend Club's *Canada Screens* and the Motion Picture Association's *Where to Watch in Canada*.

Yet, filters and recommendations can also provide relevant search results to consumers. Intelligent curation that guarantees confidentiality and wins user trust will be an absolute lifesaver for internet users swamped by information overload. Some studies underline that smart filters should dynamically respond to changing consumer patterns by using contextual data such as place, time and device used, as well as taking into account business rules, such as rights for different viewing platforms and limitations on how long content is made available.

"There are 33 million different versions of Netflix."

- Joris Evers

Netflix Director of Global Corporate Communications

SCREEN CONVERGENCE: Content Globalization and Integrated Markets

UPDATE FROM PREVIOUS REPORT

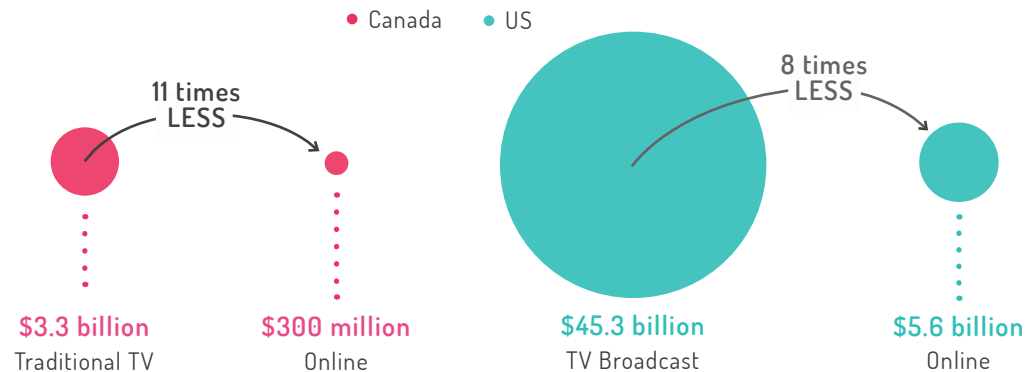
In *The Big Blur Challenge*, we addressed the growing fusion of TV and online content, along with significantly eased windowing strategies, and questioned the impact these trends might have on broadcasting rights and investments in original content creation. These questions remain more relevant than ever, given the calls for greater digital market integration.

In May 2015, the European Commission unveiled its plan for a Digital Single Market. It aims to give consumers and businesses improved access to digital goods and services across Europe. The plan includes measures that will affect the audiovisual industry: ending unjustified geoblocking, modernizing copyright law, and reviewing the EU's Satellite and Cable Directive and its telecom rules, amongst other things. Europe's embrace of the digital revolution, it seems, is tied to better market integration.

These developments echo calls from media stakeholders, old and new. In traditional TV, many want more control over content distribution across linear and online platforms, a sentiment shared by several Canadian

broadcasters in Los Angeles to buy US network series. By contrast, Netflix – which plans to reach some 200 countries by the end of 2016 – wants to make geographically segmented markets irrelevant. The streaming giant's answer to global distribution issues: asking for global rights while owning and producing its own programs. In fact, Netflix and an increasing number of digital players (YouTube, Yahoo, AOL, Hulu...) are making original content production a key to development and expansion strategies. However, their investments still pale when compared to traditional TV.

TRADITIONAL TV BUSINESS SPENDING ON PROGRAMMING vs ONLINE



(James Bradshaw, "Streaming wars: How disruptors are shaking up the TV Business," The Globe and Mail, April 15, 2015)

Convergence calls for seamless, integrated markets. It subverts the concept of geographic borders and the way revenue has traditionally been generated through location and time-based distribution (country-by-country rights and exclusive windows). Today's digital consumers demand immediate and unrestricted access to content on devices of their choosing, wherever they may be, while content providers struggle to keep down the cost of digital access. Stakeholders will need to find new ways to support original content to help balance these disruptive effects of the digital revolution.

New models are emerging for the production and distribution of original content. Traditional TV stakeholders in Canada and abroad, for example,






are leveraging their online subsidiaries or forging alliances with streaming sites. Hulu Japan, owned by Nippon TV, said in April it would produce original remakes of foreign shows in collaboration with over-the-air broadcasters – the first being a Japanese version of the German drama *The Last Cop*. In Canada, Rogers and Shaw partnered with Netflix for the drama series *Between*. Canadian and US audiences can see it on City TV and on both the Shomi and Netflix streaming platforms. But the shift to collaboration, or coopetition, still leaves key questions unanswered. The economics of producing and selling TV remain precarious, as several observers have noted.

UPDATE: TV'S SHIFT TO DIGITAL CONSUMPTION: POPULAR OTT PLATFORMS IN NORTH AMERICA








PLATFORMS PRIOR TO 2015 (CANADA)

				
Tou.tv	Club Illico	Canal+ Canada	Shomi	CraveTV
Ici Radio-Canada	Videotron	Canal+	Rogers & Shaw	Bell
Jan 2010	Feb 2013	Nov 2013	Nov 2014	Dec 2014
\$6.99/mo	\$9.99/mo	\$7.99/mo	\$8.99/mo	\$4/mo

PLATFORMS PRIOR TO 2015 (US)

				
Netflix (streaming)	Hulu	Amazon Instant Video	WWE Network	CBS All Access
Netflix	NBC Universal	Amazon	WWE	CBS
Jan 2007	Fox, Disney	Amazon	Feb 2014	Oct 2014
\$7.99/mo	March 2008	Feb 2011	\$9.99/mo	\$5.99/mo
	\$7.99/mo	\$8.25/mo		

NEW PLATFORMS (US)

						
Sling TV	Playstation Vue	Noggin	HBO Now	Showtime	Apple web TV	NBC
Dish Network	Sony	Nickelodeon	HBO	CBS	Apple	NBC Universal
Feb 2015	March 2015	March 2015	Apr 2015	July 2015	TBA	TBA
\$20/mo	\$49.99/mo	\$5.99/mo	\$14.99/mo	\$10.99/mo	\$30-\$40/mo	\$2.50-\$3.50/mo

(Source: The companies; sources familiar with Apple and NBC's plans)

TRANSMEDIA: Game Watching, ESports and Changing Real-Time Viewing Habits Mark the Rise of New Content Formats

UPDATE FROM PREVIOUS REPORT

The exponential growth of “game watching” and eSports, as mentioned in our last report, continues its remarkable rise. It also points to an even broader phenomenon: the expanding popularity of long-form video broadcast in real-time with no editing or narration.

“Game watching” (as people play online games) and the corollary emergence of “eSports” (online tournaments and events) could significantly compete with television in terms of time spent consuming content, especially amongst Millennials (e.g. at least 49% of Twitch viewers are under 35 years old). Game watching continues to thrive online: in March 2015, Minecraft, the most popular game franchise – and second most searched-for term on YouTube – totalled 3.9 billion views, while Twitch’s live video game platform delivered 26 billion minutes of video to 51 million viewers worldwide.

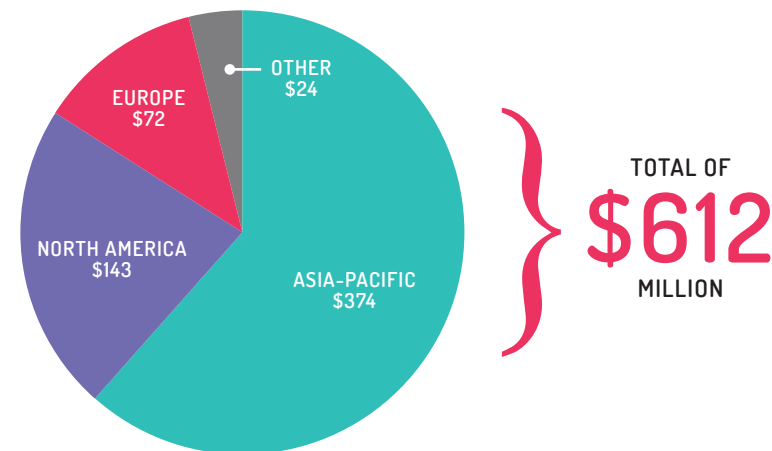
Linear TV and theatre screens have succumbed to eSports: the collegiate tournament finals of *Heroes of the Dorm* aired live on ESPN2 in April 2015. A month later, the Digital Cinema Distribution Coalition brought live streaming of the *League of Legends Mid-Season Invitational* to 15 Cinemark screens across the US. In Canada, Cineplex Entertainment will start presenting live broadcasts of gaming tournaments as of August 2015. A small selection of franchises (like *League of Legends*) dominates game watching and eSports, with the top five accounting for about two thirds of viewership. Audiences are expected to soar by nearly 60% over the next few years, from 89 million in 2014 to 145 million by 2017.

Game watching seems to have marked the start of both a viewing behaviour and a content format that a growing number of users like: full-length “reality” entertainment consisting of unscripted content without actors. This trend is facilitated by cutting-edge technology—especially the enhanced power and speed of large-screen mobile devices

(easy video consumption anytime, anywhere) and social media. In Canada, near-daily mobile video consumption rose by 76% from December 2013 to December 2014.

GAME WATCHING AND ESPORTS STILL SOARING: ESPORTS REVENUES WORLDWIDE, 2015 (ESTIMATE)

(By region, in millions)



(SuperData Research, eSports Market Brief 2015)

Despite massive consumer interest and potential, eSports are far from an industry. Worldwide revenue was less than \$200 million in 2014, including sponsorship, advertising, licensing, ticket sales and game-publisher investment. By comparison, US-only NFL and MLB each gross roughly \$10 billion a year, while European professional soccer leagues generate close to \$21 billion annually.

The near-spontaneous popularity of Meerkat and Periscope (that announced reaching 1 million users after 10 days and is now owned by Twitter) since their early 2015 releases suggests – as with game watching – a huge appetite for lengthy real-time entertainment. These applications, which let smartphone and tablet users broadcast video in real time, have been eagerly adopted on a large scale. The NHL, the BBC and TV host Jimmy Fallon are major users. In Canada, reality show *La Voix* broadcast the season winner's speech with Periscope. Adobe called real-time broadcasting the "new frontier for social [media]". Yet, one of the most popular livestreaming applications was launched four years earlier, in 2011: YOUNOW is said to have 100 million user sessions a month, with about 150,000 broadcasts daily and 70% of its users under the age of 24.

The craze for long-running, unedited content is also appearing on television, thanks to the burgeoning popularity of Slow TV. Slow TV was an immediate success in Norway when it first appeared in 2009. Just a couple of years later, two-thirds of the country watched a single 5½-day show broadcast live from a cruise ship. The record audience figures attracted broadcasters and marketers in the UK and the US. BBC Four aired four Slow TV programs in May 2015. American fast-food chain Arby's ran a 13-hour commercial on local television in Minnesota. The Travel Channel also plans to air a 12-hour show.

A fad or a meaningful trend? The novelty factor can't be discounted yet, but it's important to note one troubling commonality between game watching, streaming live reality and Slow TV: "storytelling" is replaced by spontaneous action, filmed in real time. This spontaneous action engages a social conversation which then becomes an integral part of the viewing experience. Will a new type of "reality TV" manifest itself in the near future?

SLOW TV

Slow TV has no soundtrack, voiceover, fancy camerawork or editing. Some may call it a Zen experience. Media history buffs can draw parallels with several other audiovisual efforts, such as:

- ◆ The Lumière brothers' "Arrival of a Train at La Ciotat"
- ◆ Warhol's "Sleep"
- ◆ "Yule Log" marathons of a roaring fireplace (*New York TV station WPIX first broadcast a "Yule Log" marathon in 1966*)

THE POWER OF MANY: Will Future Audiences Grow as Digital-Only Consumers?

UPDATE FROM PREVIOUS REPORT

We previously spotlighted the growing professionalism of user-generated content (UGC). The emergence of a new type of creator, self-produced, self-distributed and self-promoted, signals a new digital culture. Here we focus on audiences who massively consume and identify with this new culture. There are millions and millions of them: most are young viewers who are “naturals” at new viewing habits and digital formats.

The entertainment and advertising industries seem to have been absorbed for several years with a demographic known as Millennials (those born between 1980 and 2000), a demographic segment whose unfamiliar behaviour and consumer psychology they are still trying to grasp. If Millennials – given their proximity to, and ease with, today's digital tools – represent a turning point in general consumption habits, especially media consumption (See KT 1.0, “Are you ready for Generation S?”), then it seems a generation gap is redefining audiences. **Millennial ranks are now being swelled by a generation of newcomers: Generation Z.**

Gen Zers spend most of their time watching TV on non-traditional devices, considerably reducing the time spent watching programming live at the time of broadcast. According to Nielsen, the average US teen (12-17 year olds) watches four hours less per week of traditional TV than 10 years ago. In Canada, the trend is less pronounced, but still very real: weekly TV viewing among teens dropped by almost an hour and a half between 2010 and 2012.

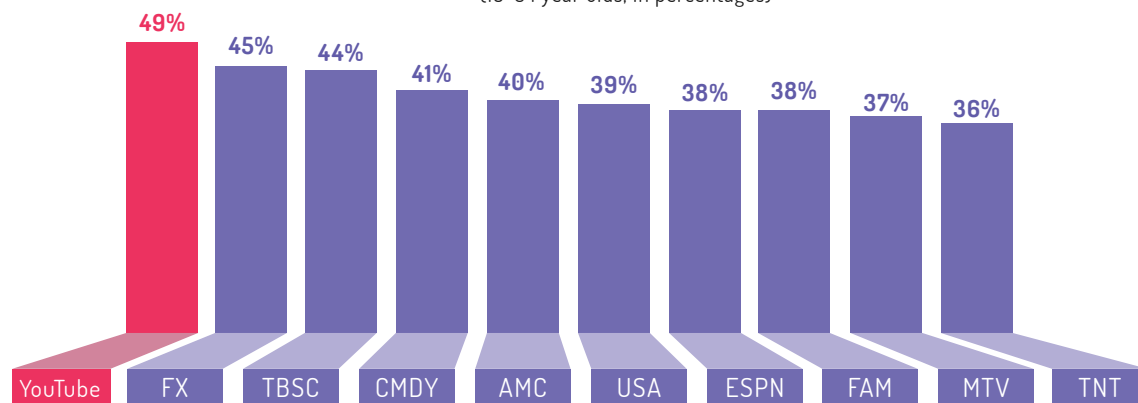
GENERATION Z

Generation Z is classified as those who were born after the Millennial Generation. While there is no agreement on the exact dates of this generation, most sources believe it “spans from 1995 to 2015”.

(Koulopoulos, T. and Keldsen, D. *Gen Z Effect: The Six Forces Shaping the Future of Business*, 2014)

YOUTUBE REACHES MORE 18-34 YEAR OLDS THAN ANY CABLE NETWORK IN THE US

(18-34 year olds, in percentages)

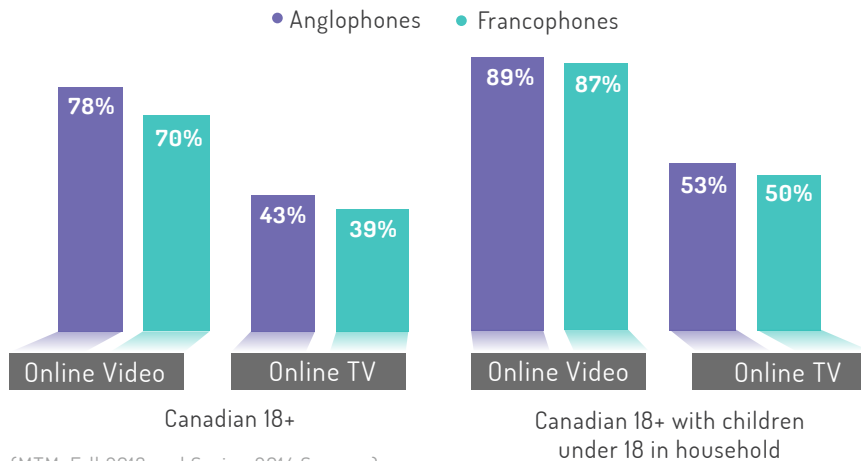


(US Statistics and Nielsen, November 2013)

4 THE POWER OF MANY (CON'T)

In response, the web giants are battling to gain younger viewers. According to Nielsen, 45% of US families with children subscribe to a Video On-Demand (SVOD) service, a trend also present in Canada. Netflix, Amazon and YouTube target Generation Z via applications and thousands of hours of content (both acquired and original) for younger audiences. Netflix has accordingly invested in new shows for children and Google has launched a YouTube Kids app. Content for children dominates YouTube in any case. The most watched channel worldwide in the first four months of 2015 was DisneyCollectionBR, which presents videos of “unboxing” of toys.

ALMOST 9 IN 10 CANADIAN FAMILIES WATCH ONLINE VIDEOS



(MTM, Fall 2013 and Spring 2014 Surveys)

“Traditional TV viewing for teens and tweens is dead – not dying, dead.” “Generation Z (those born from the mid-90s) will be way more influential than Millennials. More influential on their peers and more mobile than any generation before: these two characteristics will undoubtedly be key to targeting future media consumers.”

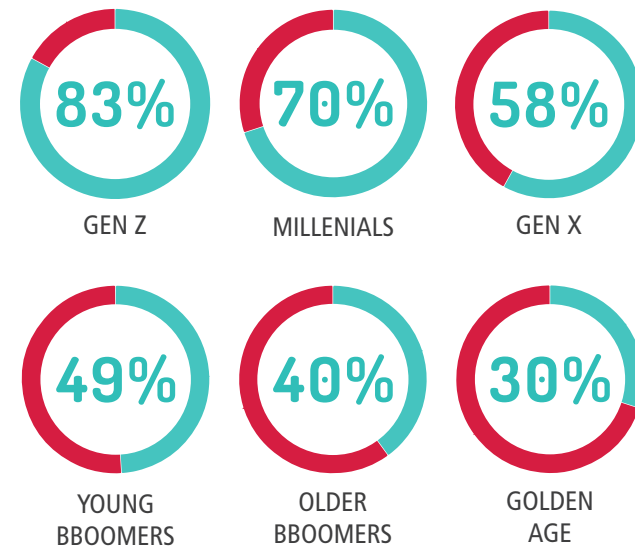
- Brian Robins, Awesomeness TV (during MIP 2015)

In the past, young audiences normally replicated their parents’ media consumption habits in the long run. Many indicators suggest now that this “digital-only” generation may retain its new habits for years to come and never revert back to traditional platforms for consuming media.

“Young Millennials represent the « tipping point » for television—a transition from traditional, broadcast delivery to online—which will only continue to accelerate with subsequent generations that grow up with the availability of content anywhere, anytime, from any device.”

- The State of Online Video, 2015 Annual Edition, Limelight Networks

PERCENTAGE OF YOUTUBE USERS (USA) WHO VISIT THE PLATFORM AT LEAST MONTHLY:



(source: DMR)

UPDATE FROM PREVIOUS REPORT

We previously examined several forms of disintermediated monetization, such as crowdfunding or fan funding. More sophisticated disintermediation has appeared that could disrupt the media sector in the same way as the car-pooling, taxi and hospitality industries have been affected in the last few years.

Digital transition has led to optimized services, rationalized processes, increased organizational efficiency, and left less room for middlemen. As a result, we've seen that creating content and delivering it to the end user could be better, simpler, and faster. The same transition in other industries has meant major disruptions for some as automation and process simplification is applied to sales and standardized terms of trade on a global scale. The audiovisual industry is not immune to these advanced modes of disintermediation.

VIRTUAL MARKETPLACES

Platforms that control the entire transaction process help facilitate commercial relations by connecting customers to a provider, whether it be a company or an individual. This includes contracts and exchanges of funds between buyers (or renters) and sellers. These platforms typically operate through monthly subscriptions, administration fees and/or commissions.

To understand the potential impact of these virtual marketplaces, one could draw a parallel with sharing economies that allow individuals and groups to make money from underused assets. Platforms and

marketplaces like Uber, Airbnb, HomeAway, VRBO and Etsy have gained immense power. Hundreds of millions of dollars change hands directly between private owners and customers, not as classic retail transactions but in terms that express the inherently shared logic of access and *right of use*. Despite their vast scale, these companies don't need to hold stocks or inventories of taxis, vacation homes or apartments around the world.

Platforms like YouTube, Vimeo and Dailymotion do much the same thing in the audiovisual world. Generally such aggregators concentrate on delivery and distribution without introducing an intermediary component while facilitating – where applicable – monetization through transactional models, subscriptions or advertising. Some of these platforms, like Vimeo and BitTorrent Bundle, offer very attractive revenue share with creators receiving a 90% cut of all sales.

Yet, rights clearance and commercial negotiation still exist upstream from this online exploitation and remain the audiovisual industry's core business model. The relationship between sales representatives or distributors and buyers/broadcasters has (until now) remained largely outside the processes of automation and disintermediation.

What could point to a more sophisticated automation for audiovisual business models are emerging platforms aggregating rights information and bringing buyers and sellers to a shared online marketplace, while facilitating their negotiations via online tools and providing frictionless payment options.

Unlike sharing economy platforms that facilitate C2C transactions between individuals, rights transaction platforms are based (for now) on a B2B (business-to-business) logic.

EMERGING RIGHTS TRANSACTION PLATFORMS



The American firm RIGHTSTRADE was named “Start-up of the Year” at MIP TV (April 2015). This B2B online marketplace uses automated scouting, negotiation and licencing so buyers can connect faster with content owners for film, television and digital media rights. RightsTrade has only 2,198 titles directly available for now, but has over 6,000 buyers already signed up, including 20th Century Fox Home Entertainment, Miramax and The Weinstein Company.

Platforms like FADEL’s Asset Rights Clearance (ARC) provide a backend to rights-trading marketplaces, offering “a set of publicly available web services so that digital content and distribution systems, as well as federated search platforms, can connect to ARC and clear digital asset usage in real-time.”



THE BIG AND THE AGILE: Is There Anything to Tame the Giants?

UPDATE FROM PREVIOUS REPORT

Dominant US players continue to concentrate market power. Are creative alliances, new competitors and bold regulatory measures enough to counterbalance this trend?

Google, Amazon, Netflix, Facebook and Apple have become established stars, and it's becoming increasingly difficult to compete with these multinational mega platforms (as noted in our previous report). They control prices and discovery. They set encoding formats, own user data, and ultimately yield tremendous influence on consumption patterns.

Google's
MEDIA REVENUES EXCEED THOSE
of the
SECOND & THIRD
LARGEST MEDIA OWNERS COMBINED
(DISNEY AND COMCAST)

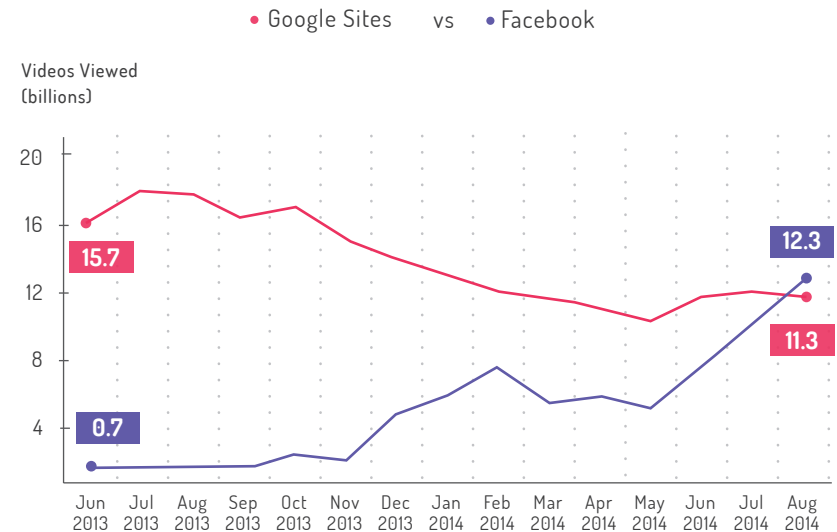
(ZenithOptimedia, 2015)

While they dominate global content markets and still hold tremendous growth potential, conglomerates not only compete with each other, but also pursue fiercely competitive alliances. Further challenges include the emergence of vast new markets, like China and India, and comprehensive regulation, mostly in Europe, designed to counter their grip on the digital sector.

ALPHA AGAINST ALPHA

Facebook's push to be the No. 1 video platform was a wake-up call for YouTube (Google). Videos uploaded directly to Facebook were rare before 2014, but now chalk up four billion views a day. By comparison, YouTube took six years after launching to hit three billion views a day (in 2011).

FACEBOOK VS. YOUTUBE: NUMBER OF VIDEOS WATCHED (BILLIONS) ON DESKTOP



(comScore Video Metrix, US, Age 15+)

6 THE BIG AND THE AGILE (CON'T)

Another major challenge to Google's online advertising domination is the partnership announced in May 2015 between social media leader Facebook and IT giant IBM. The partnership aims to combine Facebook and IBM's significant resources to offer more precision in targeted advertising. Internet service provider AOL (the third-largest desktop video company in the US after Facebook and Google) has weighed in as well. Chairman and CEO Tim Armstrong said, "We are building toward becoming the largest media technology company in the world." This was after Verizon, the No. 1 US telecom operator, acquired AOL for \$4.4 billion US.

Big alliances are not, however, inherently successful. In the view of US Federal Communications Commission (FCC) Chairman Tom Wheeler "an online video market is emerging that offers new business models and greater consumer choice." And referring to the failed Comcast-Time Warner merger, he said, "The proposed merger would have posed an unacceptable risk to competition and innovation, including the ability of online video providers to reach and serve consumers." Meanwhile, the FCC is analysing a new proposal by Charter Communications to merge with Time Warner Cable, but nothing indicates that the outcome of this new proposal will suffer the same fate as the dropped Comcast-Time Warner deal.

NEW PLAYERS

It may not signify a new "dot com" bubble, but *Le Figaro* recently listed nearly 80 start-ups worth over \$1 billion, twice the 2013 figure. Some are Indian and Chinese, along with many American firms. Silicon Valley giants have been quick to snap up rising stars such as Instagram (Facebook), Twitch (Amazon), and Vine (Twitter). Now though, some newcomers are cultivating independence as they offer alternative business models and destinations that attract millions. Snapchat, for instance, launched DISCOVER (January 2015) to distribute content for recognized publishers

like CNN, People and ESPN. This may become the first profitable revenue stream for Snapchat, which is said to have gained 100 million users since launching in 2011.

Rather than trying to displace YouTube (a failed strategy for video aggregators like Dailymotion and Vimeo), Vessel (created in March 2015 by one of Hulu's founders) offers an innovative business model: it provides established video stars – as well as YouTubers and new creators – a way to launch content for 72 hours exclusively on Vessel. Subscribed members enjoy this "early access" and the platform splits profits 60/40 with creators. Vice has also attracted much media attention as it chalked up some impressive deals with Rogers Communications, A&E Networks and HBO.

In summary, despite the dominance of big media platforms, progressive players are still finding new ways to connect with audiences.

EMERGING MARKETS

The growing digital economies of China and India are giving rise to a new crop of homegrown giants that could rival US conglomerates. The Asia-Pacific region is now set to lead growth in digital TV worldwide: the region will contribute two thirds of the more than 600 million new digital TV households over the next five years, with China boasting some 450 million digital homes by 2020 (27% of the world total) and India overtaking the US to take second place as early as 2015. China is now also the world's leading IPTV and gaming market.

Efforts by US giants to tap into Asia's massive markets have achieved mixed results so far. Some are making successful inroads, including Fox (which recently announced partnerships with leading Asian OTT platforms). Others have experienced great difficulty, notably Facebook, which has been banned in China since 2009 and recently faced strong opposition to its Internet.org initiative in India. Going forward, Western

conglomerates will have to compose with stiff competition from well-established Asian tech companies expanding regionally and abroad, including Chinese behemoths like Baidu, Alibaba, Tencent and Xiaomi.

THE RISE OF CHINA

China boasts more IPTV subscribers (34M) than the second and third largest IPTV markets combined (France, 15.4M and the US, 13.3M).

Chinese game-related spending is expected to surge by 23% to \$22.2Bn in 2015 (nearly a quarter of the world total), which could move China into first place ahead of the US. The world's top gaming revenue earner is Chinese investment holding company Tencent.

REGIONAL REGULATORY MEASURES

Elsewhere, stakeholders are demanding more access and market integration. France and the UK seek a levelled OTT playing field, and the EU's Digital Single Market proposal goes even further.

National industries naturally want their audiovisual enterprises and telecoms to stay competitive. The growing hegemony of large American platforms remains a key issue. As mentioned throughout this report, regulatory agencies around the world, whether in France (CSA), the USA (FCC) and Great Britain (OFCOM), are raising many questions and introducing new proposals. While Canada's industry is still figuring out the impact of the CRTC's Let's Talk TV decisions, the European Commission has just introduced concrete recommendations and offered a bold plan to keep internet giants in check.

EUROPE'S PLAN TO COMPETE WITH SILICON VALLEY

The European Commission's **Digital Single Market** would give its 28 member states a uniform framework for digital goods, capital, content and services. Aiming to "restore Europe as a world leader in information and communications technology," the phased two-year strategy hopes to make local companies more competitive and apply EU-wide standards to huge players (like Google and Facebook) to "level" the playing field. Among the proposal's goals:

Reduce barriers to cross-border online activity. Europe's potential customer base is 500 million (the US has 350 million) yet technology firms are hindered by 28 sets of national laws. Through updated and harmonized copyright law, and an end to geoblocking, the commission will push for portability of legally acquired content across borders.

Fix Europe's fractured telecoms market and promote investment. While revenues from mobile internet spectrum auctions (such as 4G) would stay with member states, licencing conditions (like time limits and coverage requirements) would be harmonized across the EU. Rules governing services like Facebook's WhatsApp instant messaging will also be reviewed.

A level playing field for companies and services in the same market. The commission wants to examine various platforms – meaning the generic foundations typical of Google, Facebook, Apple, Uber, and Airbnb – to detect potentially unfair conditions and practices, non-transparent pricing policies and search results, as well as the use of private or personal data for profiling and targeted advertising.

CHALLENGES & OPPORTUNITIES

CHALLENGES

- ◆ While broadcast television's content was curated to some extent, algorithmic personalization can achieve new levels that are beyond the reach of traditional TV players. (Chap 1)
- ◆ Filters can create a problem for content creators. Broad discoverability – if it is to compete with paid promotional content – hinges on heavy marketing or exploiting extremely popular topics. (Chap 1)
- ◆ Poor transparency by algorithm owners raises privacy issues and questions of civic and social responsibility. (Chap 1)
- ◆ Adding to the impact of unbundling, increased market integration could further affect cable and satellite distribution revenues, and consequently funding for original content production. (Chap 2 and Chap 6)
- ◆ Market integration may increase pressure to “standardize” content. The recent deal between NBCUniversal, Germany's RTL and France's TF1 to co-produce TV series with wide international popular appeal is one example. (Chap 2 and Chap 6)
- ◆ Some new content formats (hyper short as well as longer, real-time content) diminishes the importance of direction in content creation and questions the role of the storyteller. (Chap 3)
- ◆ Streaming real-time broadcasts, once confined to news coverage and sports events, are becoming mainstream entertainment and could compete for user's attention over an extended period. (Chap 3)
- ◆ New generations of users may never come back to more traditional content types and consumption patterns. (Chap 4)
- ◆ Online marketplaces could replace traditional markets (like MIPCOM, NATPE, etc.) to trade audiovisual rights, eventually even bypassing sales reps and distributors. (Chap 5)
- ◆ There may be less incentive for content buyers to provide presales as they move to automated, real-time rights trading to secure readily available assets. As a result, content creators may have fewer opportunities to secure upstream financing. (Chap 5)

CHALLENGES & OPPORTUNITIES (CON'T)

OPPORTUNITIES

- ◆ Personalization can make content feel more relevant, but users want intelligent, credible and trustworthy curation. (Chap 1)
- ◆ “Learning the robot’s language” is one key to major visibility since it leads to better understanding of, and adaptation to, web giant’s algorithms. (Chap 1)
- ◆ Telecom regulators could follow the EU’s lead to ensure fair competition, spur local innovation, and encourage the growth of regional digital economies, and in the process fend off the effects of excessive concentration. (Chap 2)
- ◆ More ad-based revenue streams will open up for online content distribution (especially due to the spur of consumption on mobile devices), possibly offsetting declines in other revenues. (Chap 2 and 3)
- ◆ Producers and distributors could monetize the popularity of long-running unedited content and other new formats. They could possibly reach users who have unsubscribed from (“cord cutters”) or have never subscribed to (“cord nevers”) cable or satellite TV services. (Chap 3)
- ◆ If content producers and distributors want to capture younger generations’ attention, they need to monitor what Gen Z is watching right now and develop their understanding of the organic digital culture that Gen Z and Millennials are growing up in. (Chap 4)
- ◆ Online rights trading platforms could provide direct control for rights holders at a lesser cost than distributor commissions, with potential benefits to the consumer in the form of lower prices. (Chap 5)
- ◆ Online marketplaces could also provide direct access to buyers on local and international markets, including for smaller, niche or back catalogues. (Chap 5)
- ◆ Major efficiency gains could be achieved through digitizing and standardizing rights management, product deliveries and fees for all agents involved in transactions. (Chap 5)
- ◆ Integrated markets and globalization of audiovisual content could lead to moving from an “acquisition model” to a regional and international “co-production model”. (Chap 6)

PUBLISHED BY THE CANADA MEDIA FUND
RESEARCHED AND WRITTEN BY

Catalina Briceno

Director, Industry and Market Trends
cbriceno@cmf-fmc.ca

Gaëlle Engelberts

Analyst, Industry and Market Trends
gengelberts@cmf-fmc.ca

Pierre Tanguay

Analyst, Industry and Market Trends
ptanguay@cmf-fmc.ca