

TRENDS REPORT

Entering the Age of Experience

JANUARY 2016



Canada Media Fund
Fonds des médias du Canada

INTRODUCTION

It's already a new year and we are now better equipped to face the profound changes occurring globally as a result of the digital revolution. For the content industry in particular, this includes a better understanding of the dramatic paradoxes that were discussed in the previous edition of *Keytrends*:

- ◆ Users pay less attention though they have more choice.
- ◆ Despite much more fluid circulation of content across international markets and the greater potential for diversity to shine, globalization of tastes is supplanting cultural differences.
- ◆ Democratization of the media opens the content sector to newcomers. But the reaction – concentration and integration by major industry players – creates monopolies and barriers to entry.
- ◆ The digital sector is increasingly automated and dominated by algorithms. Yet we are witnessing refreshingly creative TV narrative and the emergence of new types of online content, formats and presentation lengths.

Consumers are behaving differently and have ever higher expectations. An insatiable appetite for content has propelled us into the future, driving technological innovation and generating demand for more robust infrastructure and integrated digital ecosystems. As the world continues to change, industry players are strategically venturing into digital technology with more experience under their belt. And with this experience comes the awareness that another experience, the *User Experience*, needs to lead content creation and distribution today. The User Experience – how individuals perceive, respond to and interact with the content they consume – is what's driving the ever growing connection and interdependence between content and technology.

This report explores the premise that we are entering into a new phase. The industry has gained a greater command of digital culture and technology, and multiple players are benefiting more often from emerging opportunities. The environment, though, has not yet attained maturity, let alone stability.

Today's content market reflects the underlying influence of digital technology and its benefits. With our customary six key trends as a framework, we invite you to explore the following topics:

1. Always On: *The "All-Smart-Things" World Is on Our Doorstep*
2. Screen Convergence: *Mobile, Mobile, Mobile...*
3. Transmedia: *Virtual Reality and Augmented Reality Take Off*
4. The Power of Many: *Is the Generational Gap Materializing?*
5. Monetization: *Fragmentation and Challenges to the Advertising Model*
6. The Big and the Agile: *Big TV and Big Tech Dominate, yet Niches Could Be the Next Frontier*

INTRODUCTION (CONT.)

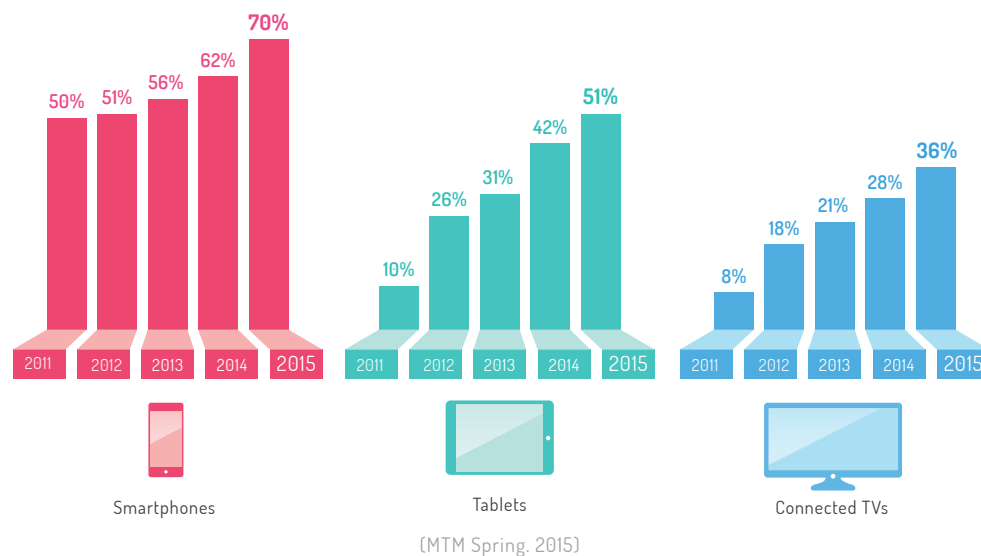
THIS TRENDS REPORT WAS PRECEDED BY 6 PUBLICATIONS. TOPICS ADDRESSED IN THE PREVIOUS REPORTS:

	Trends Report 1.0 “Are we ready for Generation Screen?” (January 2013)	Trends Report 1.5 Mid-Year Update (August 2013)	Trends Report 2.0 “Towards unrestricted accessibility” (January 2014)	Trends Report 2.5 Mid-Year Update (August 2014)	Trends Report 3.0 “The Big Blur Challenge” (January 2015)	Trends Report 3.5 Mid-Year Update (July 2015)
1. Always On	Hyperconnectivity & multiple devices	Wearable devices	Upgradable devices & personalization	Virtual Reality	Information overload is driving users to fewer but massively popular gateways	Filter bubbles
2. Screen Convergence	New and multiple consumption patterns	Binge programming and binge viewing	Virtual Private Networks and democratized piracy	Infrastructure reliability & limitations	The blending of TV and online consumption continues	Content globalization and integrated markets
3. Transmedia	TV consumption remaining strong among all media	Online video: the dominant vector of communication	“Tivification”: undisputable appetite for TV-like content	Originals from everywhere	Game watching and eSports	Rise of new content formats
4. Power of Many	Active participation of audiences in financing, production & distribution	Crowdfunding enters a structuring phase	“The audience has an audience”: value created by audiences	The Maker Movement	A new breed of creators (YouTubers)	Media consumption: future generations
5. Monetization	The App Economy	Cord-cutting, OTT and new challenges for TV	Social TV	Subscription models: the music sector provides examples of the potential future models in video streaming	Direct-to-user profitability	The surge of virtual marketplaces
6. The Big & the Agile	Polarization of the content ecosystem between big corporations & self-produced & self-distributed players	Concentration of players: the App Economy, an example	Big Data: the main competitive advantage	The Big 5: Google, Amazon, Microsoft, Facebook and Netflix	Competition intensifies: mergers and acquisitions	Emergence of new markets and regulatory initiatives

DASHBOARD

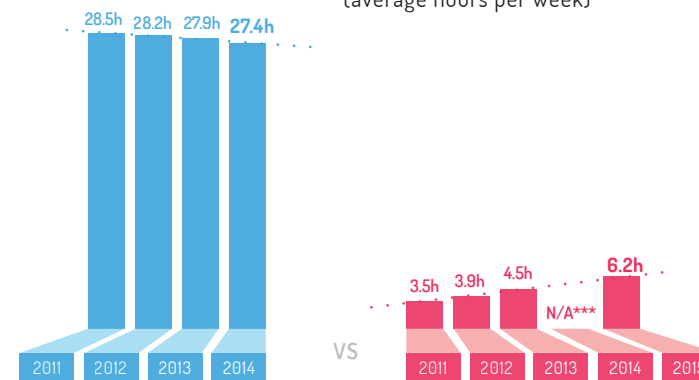
All data is for the Canadian market, unless indicated otherwise

SMART DEVICES PENETRATION RATE



TV CONSUMPTION BREAKDOWN:

• ON AIR* VS • ONLINE**
(average hours per week)



(CRTC, Communications Monitoring Report 2015; MTM Spring, 2015)

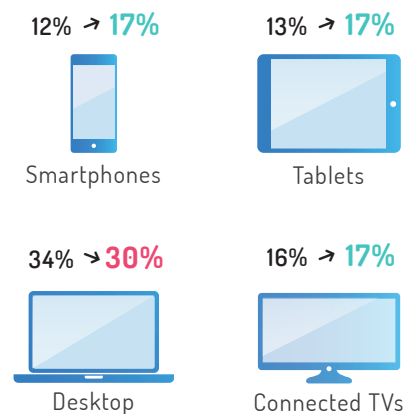
*On air average calculated on the overall populations, i.e. 2 years and older

**Online average calculated on weekly users 18 years and older

***Online information not collected by MTM in 2014

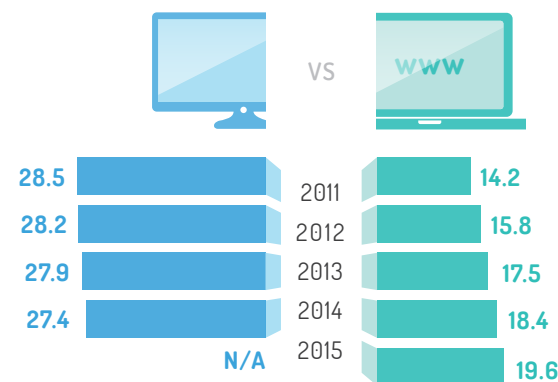
ONLINE TV CONSUMPTION BREAKDOWN PER DEVICE

(% of population, data from 2014 to 2015)



(MTM Spring 2015)

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



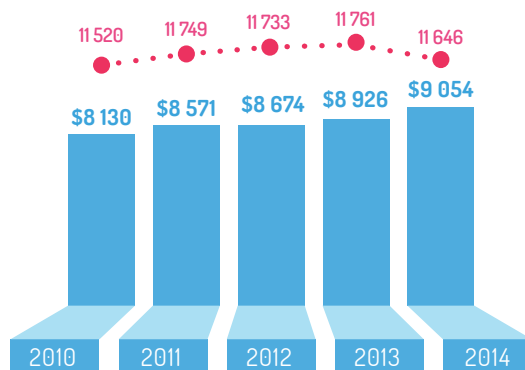
(CRTC, Communications Monitoring Report 2015; MTM Spring, 2015)

DASHBOARD (CONT.)

All data is for the Canadian market, unless indicated otherwise

BROADCASTING DISTRIBUTION UNDERTAKINGS

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

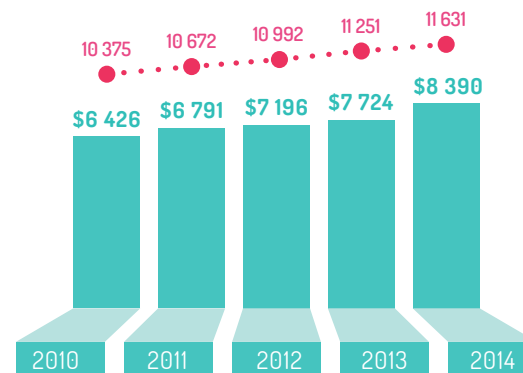


(CRTC, Communications Monitoring Report 2015)

In its most recent report, the CRTC reviewed its numbers from 2010 to 2013. This chart reflects the new data.

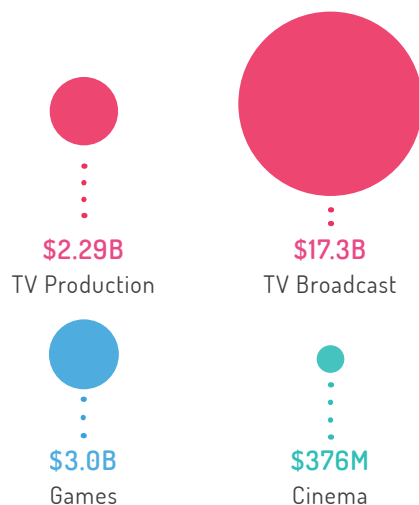
INTERNET SERVICE PROVIDERS

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



(CRTC, Communications Monitoring Report 2015)

SIZE OF PRINCIPAL SCREEN-BASED ECONOMIES



(CMPA, Profile 2014 ; CRTC, Communications Monitoring Report 2015
ESAC - Essential Facts About the Canadian Video Game Industry 2015)

AVERAGE BILL FOR COMMUNICATIONS SERVICES FOR CANADIAN CONSUMERS

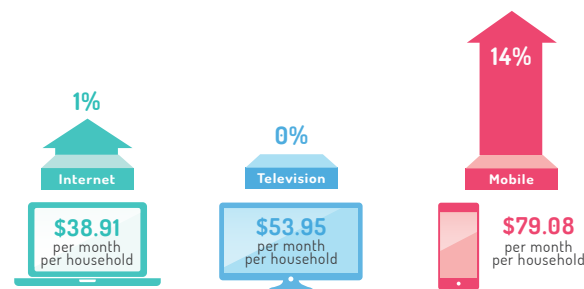
(Includes: broadcasting distribution undertaking (BDU) services, Internet, wireless and wireline telephone services)

In 2014, the amount that Canadian households spent on communications services **increased by 6%**, from \$191 to \$203.04 per month, compared to 2013.



COST BREAKDOWN OF TELECOMMUNICATIONS SERVICES IN 2014

(Compared to 2013, excludes wireline telephone services)

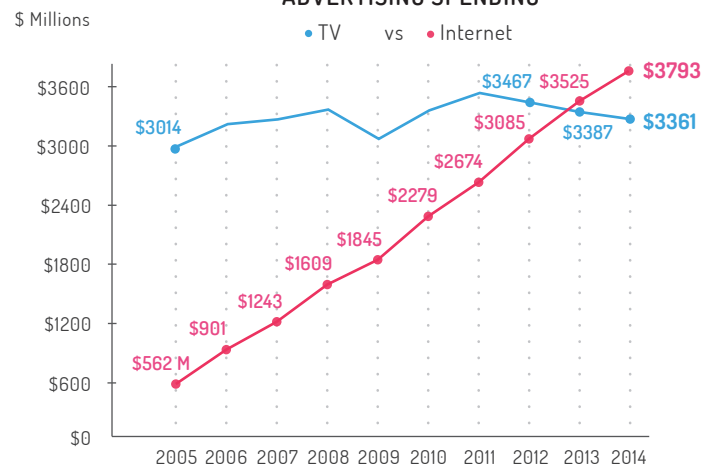


(CRTC, Communications Monitoring Report 2015)

DASHBOARD (CONT.)

All data is for the Canadian market, unless indicated otherwise

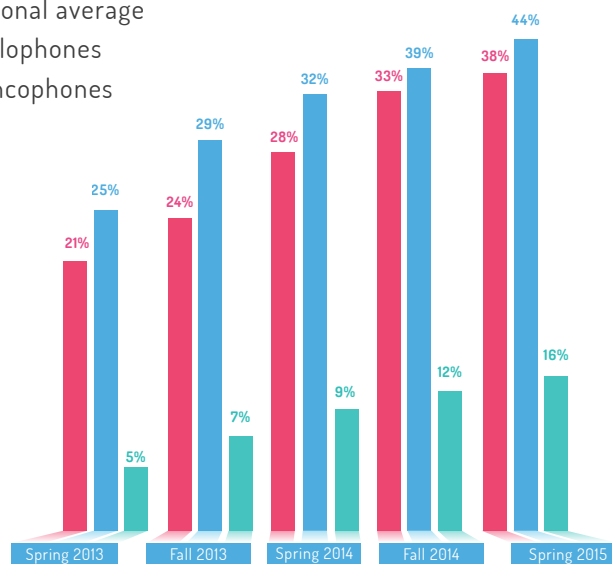
ADVERTISING SPENDING



(IAB Canada, Canadian Internet Advertising Revenue Survey 2014-2015)

NETFLIX SUBSCRIBERS

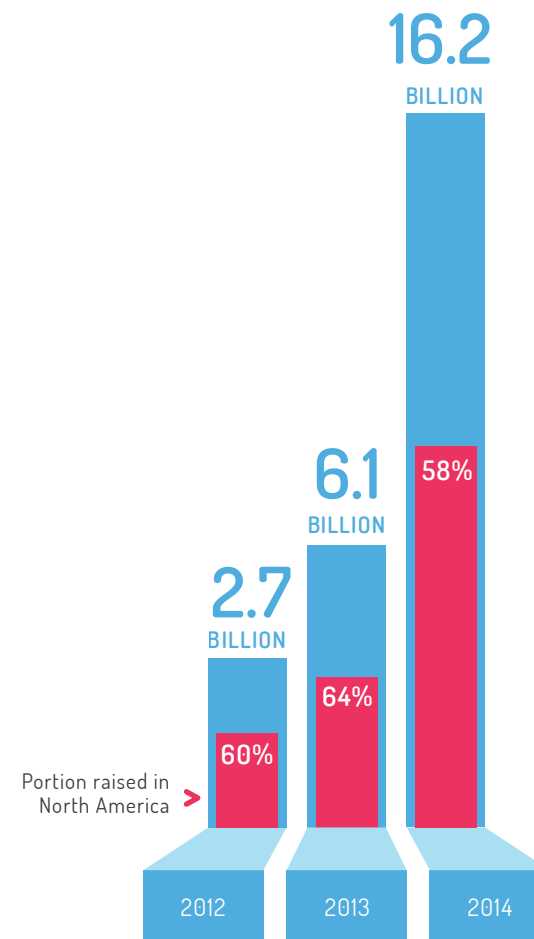
- National average
- Anglophones
- Francophones



(MTM Spring, 2015)

CROWDFUNDING

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



(Massolution, The Crowdfunding Industry Report 2014)

ALWAYS ON: The "All-Smart-Things" World Is on Our Doorstep

"By 2020, more than 5 billion people will be connected, not to mention 50 billion things."

- World Economic Forum 2015

The next phase of hyperconnectivity lies in the Internet of Things (IoT). This worldwide market will affect every industry, with investment estimated at US\$6 TRILLION or more over the next 5 years.

Keytrends has often discussed hyperconnectivity and the democratization of technology but also the growing tension between web automation and users who once had greater freedom to choose content and platforms. Indeed, automation restricts autonomy by confining users to "filter bubbles" while also interfering with decision processes.

A full-on Internet of Things (IoT) may well be a new inflection point in the age of "digital omnipresence," given the massive investments at stake. This gigantic market of smart wireless connections will revolutionize industry, consumer markets and governments. Clearly, the entertainment and content sector will not be spared.

IoT is expected to vastly improve the synergy between the web, the ever growing number of connected screens, and the plethora of other digital devices capable of collecting, processing and exchanging user data. It may be the key to the entertainment and content sector's long-pursued ambition of a seamless all-platform user experience – one that is much more tailored to the tastes and preferences of individual consumers, thanks to better harnessing of the power of Big Data. As a window to potentially the greatest personalization of the digital environment, the next 12 to 18 months will determine whether the marriage between Big Data, Content Discoverability and the User Experience will be happy ever after.

What is the Internet of things?

noun:

A network of internet-connected objects able to collect and exchange data. **Commonly abbreviated IoT.**

(BI Intelligence, The Internet of Things Report 2015)

MARKET DRIVERS AND BARRIERS

Four Market Drivers

- ◆ Expanded internet connectivity
- ◆ High mobile adoption
- ◆ Low-cost sensors
- ◆ Large IoT investments



Four Barriers

- ◆ Technological fragmentation
- ◆ Implementation problems
- ◆ Security concerns
- ◆ Privacy concerns



(BI Intelligence, The Internet of Things Report 2015)

"Metadata is the fuel which powers personalised search and recommendations. Imagine a world without detailed synopses, film or programme information nor images/trailers – our viewing experience would be limited. Navigation and finding information would be tedious and constantly disturbed due to other sources having to be referred to. Thankfully today we have the data and supporting technology that provides us with a more knowledgeable interface."

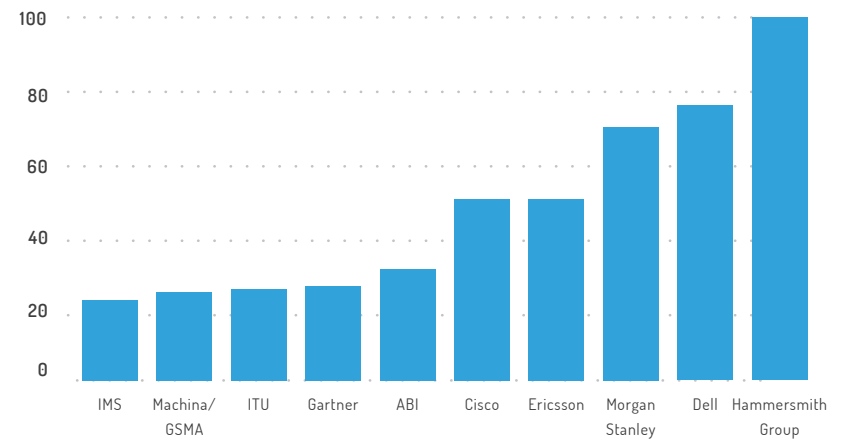
- Jennifer Walker, Ericsson, 2015

Creators will have to adapt to a connected world where devices, users and the Cloud continually interact. “User first” will become a mantra. Personalization, user engagement and participation, and fast prototyping and audience testing will be of unprecedented importance. As well, consumers will rely more than ever on algorithmic and social media recommendations to navigate a sea of overabundant content. While “pull” content once ruled, now we can expect a shift towards “push” dynamics specific to the IoT and an online world dominated by social media.

The tension between artistic creation and this progressively automated ecosystem will likely grow. Terminals, machines and devices will vie for primacy because they can do more than just collect and disseminate data. They can also process it (using algorithms), take action and exchange information. In short, this is a self-managing universe where efficiency and greater speed reign supreme. Creators will ask who’s in charge, people or processes? And what’s more important, an idea or an algorithm?

INDUSTRY ESTIMATES FOR CONNECTED DEVICES IN 2020

Forecasts range from 20 to 100 billion



(UK Government Chief Scientific Adviser, 2014)

EXAMPLES OF THE FORMS IOT MIGHT TAKE IN AUDIOVISUAL MEDIA

- ◆ **Connected toys (or toys-to-life):** One example is Disney’s Playmation, which combines figurines and wearables to create interactive adventures for kids. It rolls blockbuster brands like Marvel and Star Wars into an at-home version of laser tag powered by connection tech that uses cheap, ubiquitous and miniature, yet sophisticated, sensors.
- ◆ **Smart TVs and set-top boxes** have morphed into home media servers. Many believe that – coupled with smartphones – they may also become unified control systems. Apple has already introduced Home Kit software for convenient management of automated devices. It lets people lock doors, dim lights, and adjust thermostats through iPhones, iPads and Apple TV boxes.
- ◆ **More personalized devices and services** (like Amazon and Netflix) and recommendations.



SCREEN CONVERGENCE: Mobile, mobile, mobile...

"Mobile is not a subset of the internet anymore, that you use only if you're waiting for a coffee or don't have a PC in front of you – it's becoming the main way that people use the internet."

- Benedict Evans, analyst, Andreessen Horowitz, September 2015

Video on mobile has grown in popularity, offering Canadian content providers many opportunities – and challenges as well. Some were noted in previous *Keytrends* reports (curation and personalization, growing consumer fatigue). But the soaring demand for wireless data, and the rising cost to consumers, pose new problems for the telecommunications industry.

Canada joins other mature markets in that it is now 'mobile-first' for online consumption, especially among the young. More importantly to the content sector, video on devices such as smartphones and tablets is increasingly popular. YouTube, for example, reports that viewers use mobile more than half the time. Some think mobile may become the main platform for online video worldwide as early as next year. In Canada alone, the surveyed number of adults who watched videos on smartphones jumped nearly 80% from 2013 to 2015.

CANADA INCREASINGLY 'MOBILE-FIRST'

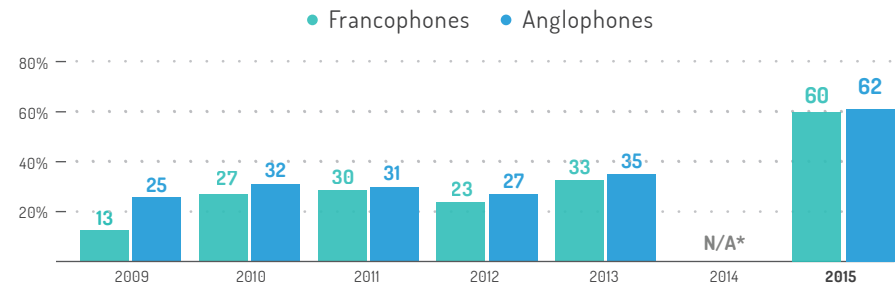
Mobile is now **more engaging** than desktop.
Mobile accounts for **56% of all time** spent on the internet.



[comScore & Yahoo 2015]

MORE AND MORE CANADIANS STREAMING VIDEO ON THEIR SMARTPHONES

Canadians Smartphone Owners 18+, % of the population



(MTM, 2015)

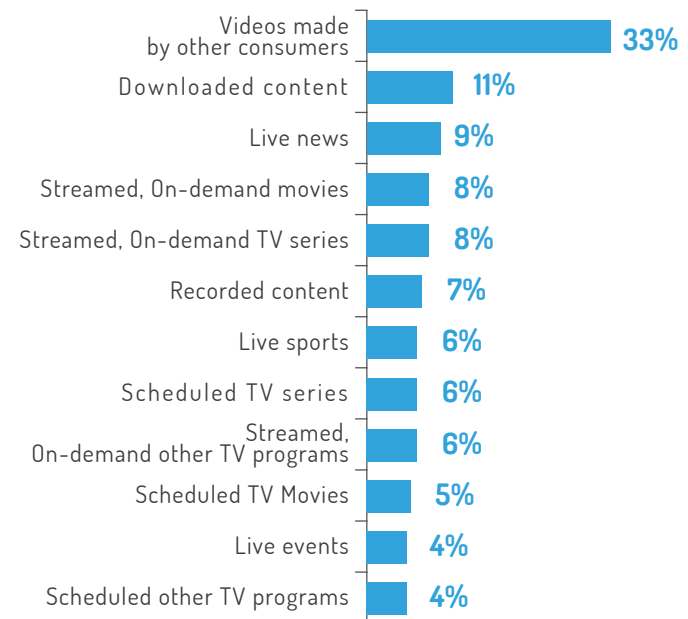
*Information not collected by MTM in 2014

The Canadian Media Concentration Project, a Carleton University research group that studies the convergence of the Canadian telecom, media and internet markets, says “If content is King, connectivity is Emperor.” Mobile video’s future is tied to telecommunications services that enable cost-efficient data usage. How does Canada fare? Nearly 29 million Canadians were wireless subscribers in 2014, and 93% of us had access to some form of broadband (or LTE) network (up from 81% in 2013), says the CRTC. But 2015 reports from OpenSignal and the United Nation’s Broadband Commission put Canada at No. 21 in LTE coverage and No. 47 in mobile-broadband subscriptions per capita. Furthermore, the CRTC points out that our rates for broadband, wireless and bundled telecom services continue to be high when compared with those of other countries.

Phillip Huang, analyst at Barclays Capital, says Canada will likely lag behind the US and other markets in mobile video. He attributes this to Canada’s poorer connectivity and higher data costs, alongside other factors such as a smaller domestic market, regulatory limits on exclusive content, and strict TV subscription packages. The rise of online video highlights, once again, that not only are screens and platforms converging, but content and telecom industries are as well.

Long-form video has gained popularity on handhelds, according to the Interactive Advertising Bureau and several research firms. User-generated content dominates mobile viewing, accounting for one-third of viewing time in 20 markets, including Canada. But television shows and full-length films are an increasingly important part of the mobile diet. That trend should hold due to the rapid growth of SVoD and TV Everywhere. Canada already ranks among the leading viewers of long-form smartphone video, along with the US and East Asia.

% OF CONSUMERS THAT WATCH EACH CONTENT TYPE ON SMARTPHONES



(Ericsson, 2015)

THE “TOTAL REACH” CONCEPT: IS CROSS-PLATFORM DATA FINALLY BECOMING A REALITY?

Advertising has shifted to digital as more content providers enter the OTT space. Now, as never before, there’s an overwhelming demand for reliable data about both online and traditional audiences. Companies such as Nielsen, comScore and Numeris have measurement solutions that may lead to a “total measurement currency” that describes viewership across all platforms.

Nielsen has a new tool, due out in early 2016, that will encompass linear TV, DVR, video-on-demand, desktop, tablets, mobile, and connected devices like Roku and Apple TV. Only viewing on wearables, such as the Apple Watch, will not be included.

Digital measurement specialist comScore acquired set-top box data specialist Rentrak in fall 2015.

In 2015, Canada’s Numeris outlined its strategic Product Roadmap, including On Demand Measurement, a non-linear measurement service. Numeris is investigating a hybrid strategy that would survey all platforms and has created an Innovation Lab to explore alternative devices for audience measurement.

TRANSMEDIA: Virtual Reality and Augmented Reality Take Off

"Virtual Reality and Augmented Reality are expected to generate about \$120 billion in revenue by 2020."

- Digi-Capital, January 2016

Virtual reality (VR) and augmented reality (AR) are finally poised for wide consumer release. It's taken years of research and development, but now technology giants are aggressively releasing affordable devices. What are the prospects for content makers?

Some forecasts equate AR devices with smartphones, a good way to stream TV and film content, either in 2D or 3D. On the other hand, VR may yield completely new forms of immersive long-form content and games. Headsets demonstrate how VR and AR can be eminently mobile, whether using built-in displays or smartphones as display and processing units. That means we can expect VR and AR, much like TV before them, to jump on the "Content Everywhere" bandwagon.

VR is still 5 to 10 years from mainstream adoption, according to Gartner's 2015 Hype Cycle for Emerging Technologies, though it will soon be widely understood by the general public. In short, content businesses must prepare now if they hope to compete. To that end, film and television producers – as well as those in games, news and education – are developing VR experiences for home, work and school, and even VR-equipped hotels and stores. Some content businesses are repurposing their catalogues for delivery on immersive VR devices, while others are exploring new languages and formats to create "VR-first" experiences.

Canadian innovators are making remarkable forays in both VR technology and content to show they can be top industry contenders. In September 2015, the first VR Emmy went to Toronto-based studio Secret Location for Sleepy Hollow, a VR experience derived from the TV show and created in partnership with Fox. Just months before, Montreal's Felix & Paul Studios announced a deal – based on its proprietary 3D VR technology – to write, direct and produce a slate of VR projects for the Oculus platform.

"VR and AR headsets both provide stereo 3D high definition video and audio, but there's a big difference. VR is closed and fully immersive, while AR is open and partly immersive – you can see through and around it. Where VR puts users inside virtual worlds, immersing them, AR puts virtual things into users' real worlds, augmenting them. [...] Where VR is like wearing a console on your face (Oculus), AR is like wearing a transparent mobile phone on it (Magic Leap, HoloLens)."

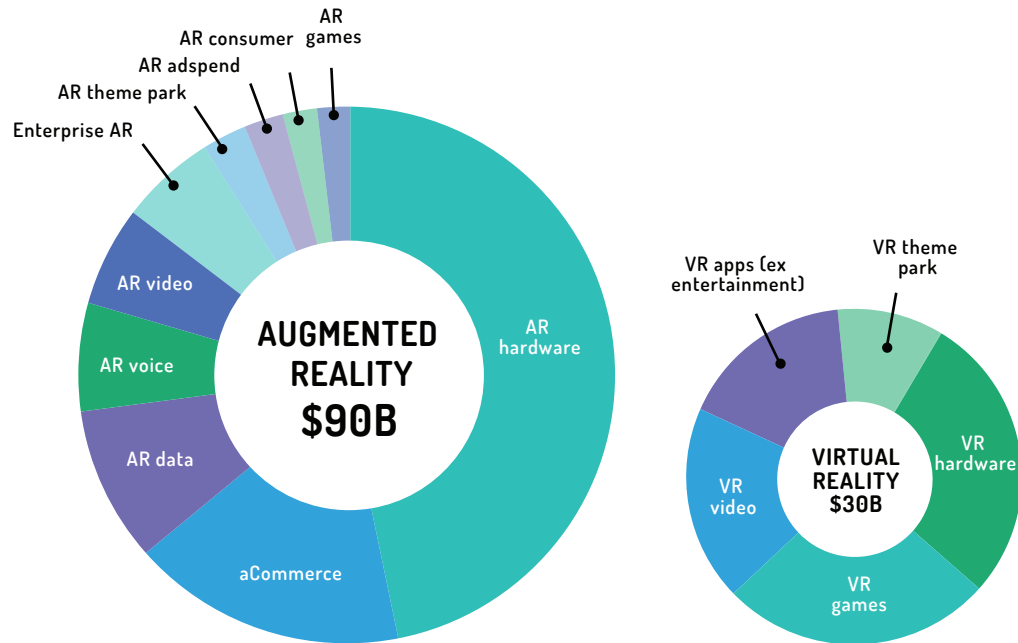
- Digi-Capital, 2015

"Virtual Reality headset shipments to approach 30 million by 2020, driven by video & gaming use cases"

- Juniper Research, September 2015

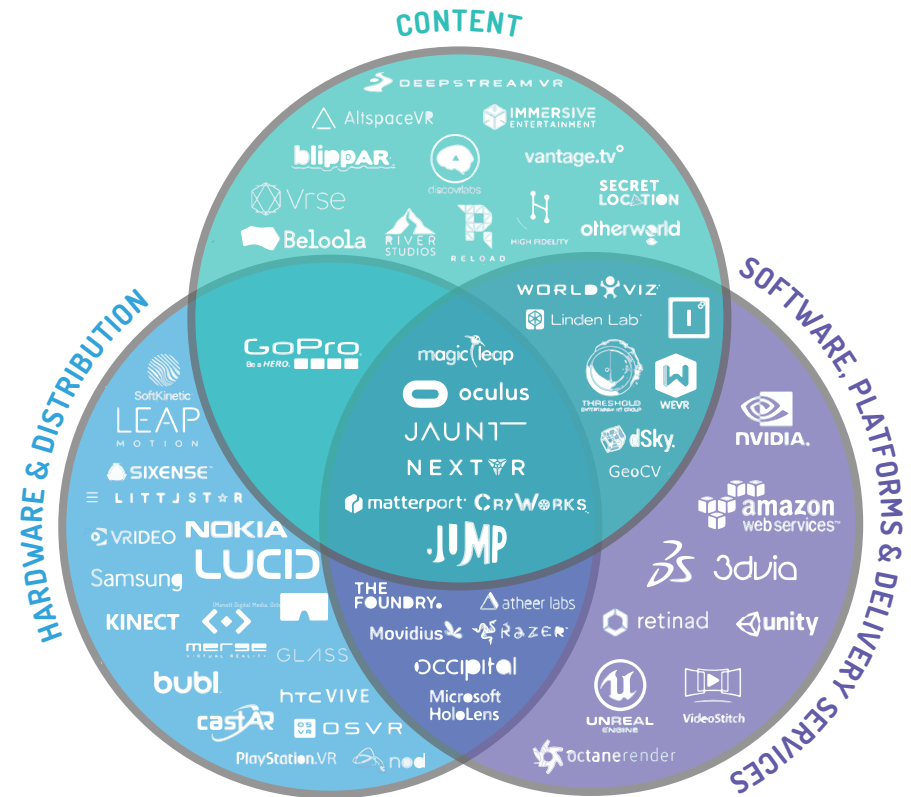
VR AND AR REVENUE FORECAST 2020

(Billions, US\$)



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SOME MAJOR PLAYERS IN VR AND AR TODAY



(Manatt Digital Media, October 2015)

THE POWER OF MANY: Is the Generational Gap Materializing?

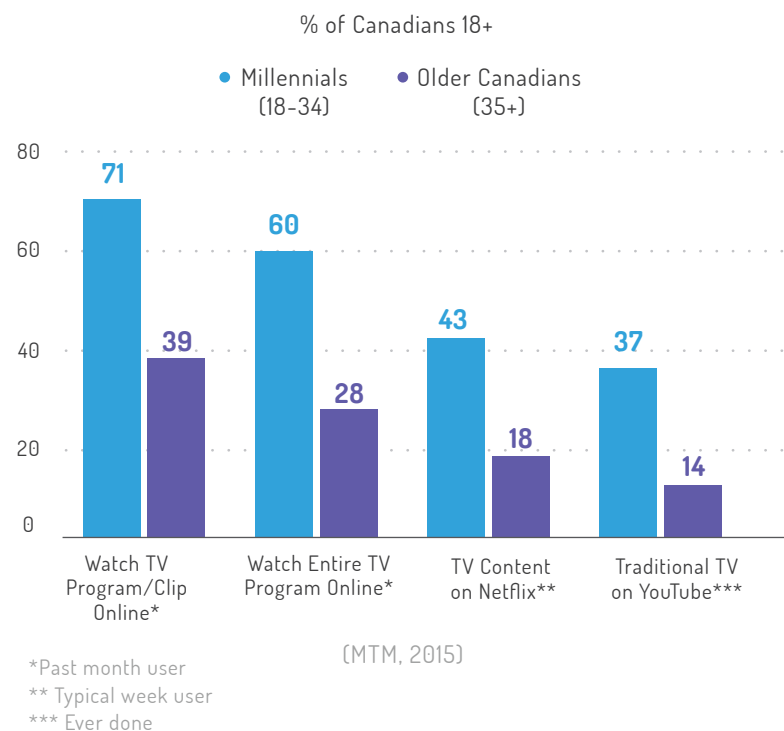
“While overall viewing hours have not changed significantly, younger Canadians are watching significantly less traditional television than older cohorts.”

- CRTC Communications Monitoring Report, 2015

The media consumption habits of Millennials and Generation Z vary markedly from those of their predecessors. Younger people are accustomed to making their own content choices. They naturally turn to mobile devices, which give them more flexibility. The signs point to a generation gap, and the industry must quickly adopt new entrepreneurial strategies to serve groups on either side.

TV consumption has been relatively stable so far, despite digital mayhem, and traditional habits have tended to persist. Canadians typically viewed 27.4 hours of television per week in 2013–2014, compared with 28 hours in 2009–2010. Similarly, the effect of “cord cutting” so far remains marginal – even though cable and satellite subscriptions continue to decline, down 1.5% year-over-year in September 2015. But age groups reveal many significantly distinct profiles within the overall numbers. In fact, there is a major shift in people’s consumption habits at age 35. Can the content ecosystem afford to ignore this generational divide?

CANADIAN VIEWERSHIP OF ONLINE TELEVISION

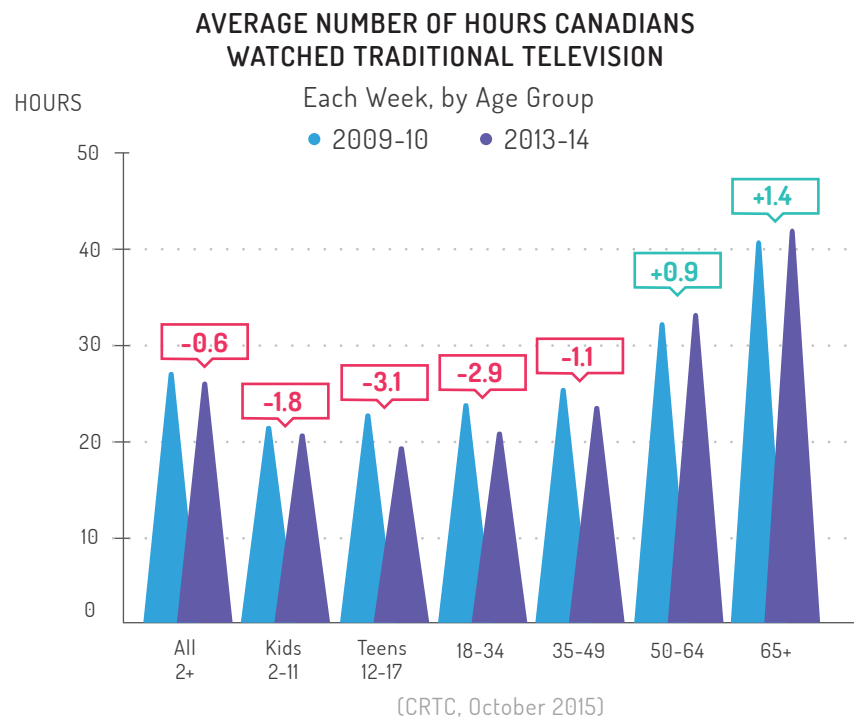


Millennials, who represent over 25% of Canada's adults, watch less than half as much linear television (20.6 hours per week) as those over 65 (41.8 hours per week) and consume up to twice as much online content. Such generational differences go beyond times or modes of consumption. They also appear in media habits that clearly show television plays a different role for younger generations:

- ◆ Linear TV is less attractive than on-demand and streaming services.
- ◆ Mobile devices are favoured over television.
- ◆ Strong interest is shown in short formats.

Are younger generations also distancing themselves from so-called traditional television formats as they abandon legacy distribution? A recent American study found the 13-to-24 group prefers platforms like YouTube and Facebook over traditional TV, thanks to entertaining content they more readily identify with. YouTube is extremely popular in Canada among people under 35: nearly 96% say they used the platform in the last month.

What's the long-term view for these habits? Nielsen data shows a slight rise in cable subscriptions among US Millennials with children. A recent Canadian report indicates that 28% of Millennials not subscribing to cable are interested in "skinny basic" and pay-per-view services. It seems Millennials are willing to consider flexible packages as long as they match their expectations.



PREFERENCES VARY BETWEEN GENERATIONS WORLDWIDE

	Younger generations	Older generations
Go-to services	S-VOD	Linear TV
	Piracy	DVR
	Play/catch-up	Play/catch-up
	YouTube	YouTube
Secondary services	Linear TV	S-VOD
	DVR	T-VOD/PPV
		DVD/Blu-ray

Today's teens are now streaming natives. In fact, **46%** of them spend an hour or more on YouTube every day. Streaming natives also watch video on different platforms, spending around **59%** of their total viewing time on mobile screens, which is considerably more than other age groups.

(Ericsson, 2015)

HOW COMPANIES ARE ADAPTING TO NEW AUDIENCES: HAPPY MARRIAGES BETWEEN TRADITIONAL MEDIA AND YOUTUBE

YouTube's success among the young continues to grow, as *Keytrends* has already reported. More influence means YouTubers can extend their commercial appeal beyond the platform itself. Some are making the leap to TV or film, while others have launched their own line of products. Traditional entertainment sectors have moved in to grab a piece of the pie.



CANADIAN BROADCASTERS OWN OR CO-OWN MCNS ON YOUTUBE

- ♦ Much with Much Digital Studios
- ♦ CBC with Fullscreen for the launch of the CBC|Fullscreen Creator Network
- ♦ Quebecor with Goji

TOP MCNS OWNED BY LEGACY MEDIA

- ♦ Maker Studios is owned by Disney
- ♦ AwesomenessTV is owned by DreamWorks Animation and Hearst Corporation
- ♦ Fullscreen is owned by Otter Media (online video joint venture between the Chernin Group and AT&T)
- ♦ Machinima has Warner Bros as a major investor
- ♦ StyleHaul is owned by RTL, also a major investor in BroadbandTV

YOUTUBE TO SPOT TALENT

The Canadian Film Centre and CBC partnered to launch the Jumping Screens Comedy Workshop, an incubator for web creators aiming to transfer online talent to traditional television projects. Another interesting case is Discovery Communications' New Form Digital studio, a digital venture to develop and produce pilots with YouTubers who have well-established fan bases. It uses those fan bases to test the commercial viability of new projects, and then, with help from supporting online audience statistics, sells the pilots to distributors or broadcasters.

"But now, in 2015, something new is happening. We all finally had the sober realization there must be a better way to monetize content than advertising."

- Benjamin Smith, *The Subscription Wars Are Here*, November 2015

Monetization of digital content continues to mature. But the idea of online advertising as the dominant model has been seriously challenged. The result is more exploration and still greater fragmentation of revenue models.

The 2013 *Keytrends*, *Are we ready for Generation Screen*, identified a major challenge in monetizing digital content: "the need to concurrently exploit several revenue models with distinct and flexible pricing structures." On the other hand, it noted that complementary monetization strategies help prolong commercial exploitation. This realization has since only grown stronger.

In the past, the most basic business model could be reduced to the following expression: a product or service was sold directly to the consumer. In the digital economy, though, the diffuse concept of free access prevails. Simple access to a product is gradually replacing the appeal of ownership. Value, in turn, is based essentially on a user experience that is satisfying, easy and engaging. Content publishers consequently must articulate a delicate balance that includes free services, priced services, and non-intrusive advertising. In addition, they must consider the total experience of a given user for all opportunities that can be monetized. In other words, monetization initiatives are shifting their focus from the product to the user.

MONETIZING USER ENGAGEMENT

Along with the professionalization of user-generated content that we described in previous editions of *Keytrends*, we are now observing several initiatives that seek to monetize this type of content. These include direct donations (Tip Jar or Fan Funding Feature) and revenue sharing derived from distribution platforms, sponsorships or product placements that have made some YouTubers rich. As the monetization of user-generated content grows by leaps and bounds, there are also businesses like Jukin Media that specialize in licensing and rights syndication for creators, so the maker can capitalize on the success of a video that goes viral, no matter the platform on which it is viewed. This way, even clips that are hijacked, imitated, parodied or remixed for heavy distribution can rely on a "copyright claims facility" that helps link content to its originator should associated rights and royalties become an issue.

Some self-distribution platforms have hit the big time, such as VHX, which allows creators to sell downloads and rentals of their videos directly to their fans. Referred to by some as the “Wordpress of OTT,” VHX has helped publishers monetize films, TV shows, web series and other types of video content. It has grossed over US\$7.7 million and served over 1.3 million consumers to date. Other self-distribution platforms, Iris.TV being one, use sophisticated algorithms that can target “the right content for the right audience at the right time,” and thus generate revenues through programmatic advertising. Game watching has had an effect too, pushing some to offer (and monetize) early access to their game projects. Vlambeer Studio from the Netherlands, for example, offers viewers the option to watch and interact with game developers as they work on new games. It charges a fee to fans who want to experience that transparency and proximity. This may be an indication of opportunities to monetize early engagement between creators and users.

MONETIZING IMPULSE BUYS ON SOCIAL MEDIA

Research suggests that 30% to 50% of offline purchases are made on impulse. Many marketers hope to induce that effect online by including more e-commerce functionalities during any pleasant user experience, mainly on social media and entertainment sites. For example, Pizza Hut has added online ordering to its advertising on Hulu in the US. Facebook, Twitter and Pinterest are all introducing Buy Now buttons on their platforms. And Amazon Prime remains the textbook example of e-commerce integrated within a dedicated content environment: one-click purchasing and free delivery in two days – immediate gratification that tempts every buying impulse.

ALTERNATIVES TO ADVERTISING

Online audiovisual distribution is leaning heavily towards subscriptions and bundled concepts, adopted by traditional media players and new OTT giants alike. Even YouTube, the ad-based epitome, has announced a subscription service, YouTube Red (October 2015). Syndication models and programmatic advertising have gained ground, particularly via ad exchanges and real-time bidding.

WHY CONTENT SYNDICATION MAKES SENSE

Media strategy manager Francesco Marconi argues that as content consumption continues to shift to mobile—and social apps in particular—the content industry should increasingly look to syndication on platforms like Facebook, Snapchat and Twitter: “Media companies can benefit by teaming up with these technology firms to create platform-specific content for the distribution channels with the largest audiences, potentially creating more engagement and revenue opportunities.” These social platforms have, in fact, developed a number of tools to help content publishers distribute and monetize content.

A parallel development, the aggressive rise of ad blockers (see *box*), has forced both advertisers and content publishers to rethink their commercial strategies.

AD BLOCKERS COSTING BILLIONS

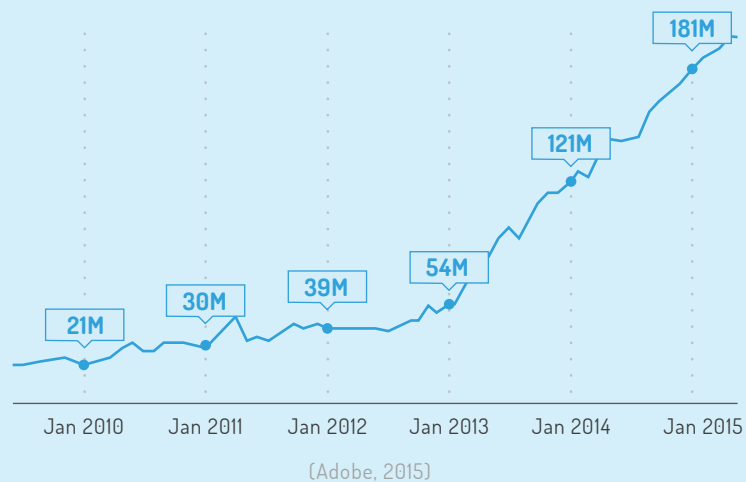
More and more consumers are blocking ads, including ads on mobile devices. The reported cost globally is expected to hit US\$41 billion in 2016 (up from US\$22 billion last year). Does the trend threaten online content monetization? Industry stakeholders, including the Interactive Advertising Bureau, are now rolling out programs to tackle the issue.

Analysts also suggest various strategies to counter ad blockers:

- ◆ Employ anti-ad blocking technology.
- ◆ Use native ads and native mobile apps, so ad blockers can't react.
- ◆ Tailor ads to audience experience.
- ◆ Expand monetization beyond ads to include subscription and transactional revenue, for example.

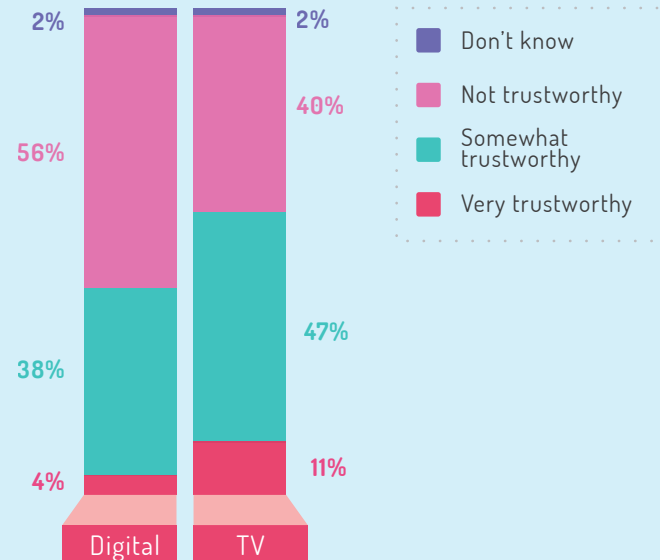
THE GLOBAL GROWTH OF AD BLOCKING ON DESKTOP

Global monthly active ad blocking software users per year



Canada's desktop ad-blocking rate is average compared to other western countries, say reports, and we are among the lowest for mobile. But Canadians remain particularly distrustful of digital ads, so content publishers need to make considerable progress in this regard.

CANADIANS DISTRUST DIGITAL ADS



(eMarketer, 2015)

“Online distribution is cost-effective when targeting small audiences, and the nature of the web means that small niches attain a significant scale when applied to a global market.”

- Andy McDonald, Deputy Editor, Digital TV Europe, 2015

Legacy TV players – though firmly established in online video – are being challenged by Silicon Valley giants who continue to gain ground in original content production. TV’s answer is to push out content on as many screens as possible, using an ever-increasing number of streaming services and TV Everywhere apps. The next stage of the confrontation between Big TV and Big Tech may well boost niche content.

Keytrends 3.5 indicated that smaller, progressive players are finding ways to reach audiences by mining “digital niches.” They focus on unique offerings, such as foreign content, lesser-known drama series or anime. It’s proving to be a viable business model because the niche can be monetized on a global scale. In traditional TV, niche channels that struggle to gain broad audiences are the most likely to suffer from market disruptions.

“As over-the-top video starts to mature, the market is increasingly giving rise to players that cater for specific audiences. While the rise of the Netflixes, Amazons and Hulus of the web offers a new route to market for TV and movie content, there is a new wave of online players specialising in specific genres.”

- Andy McDonald, Deputy Editor, Digital TV Europe, 2015

Industry giants are watching, though, and adapting fast. Online video is particularly saturated in North America and Western Europe. There’s a search for new audiences in niche segments and markets like BRIC (Brazil, Russia, India and China), MAVIN (Mexico, Angola, Vietnam, Indonesia and

Nigeria) and beyond. Will this rush to niche and emerging markets lead to more diverse, localized content? And can this offset the trend towards the narrowing of cultural preferences?

The “battle for the niches” again shows the content industry’s improved understanding and command of contemporary digital culture, as well as a better ability to leverage opportunities in our hyperconnected environment. It also highlights industry concentration and integration: The Big still get bigger, but they’re also more Agile. Liam Boluk, venture capitalist and head of Originals at REDEF, recently said that for traditional TV networks to thrive, they “need to invest in new digital properties, create new distribution models and partnerships, and invest in radically different content forms.” That’s now a plan in motion for many in Big TV – and no longer wishful thinking.

6 THE BIG AND THE AGILE (CONT.)



Now localized in 85 countries. Also working on a tool for creators to professionally translate their videos. YouTube notes that an average of 60% of a channel's views come from outside a creator's home country.



With its Spanish-language shows enjoying great success in the US, Netflix is working on its first Italian original series and may turn to Bollywood and anime programming. Earlier this month the service announced its launch in over 130 new countries, bringing its total to 190.



Planning a standalone version of its GO streaming service for Latin America and the Caribbean.



The "Netflix for African and African-American Movies" has inked investment deals and partnerships with Orange Digital Ventures and Sony Pictures Television.



The telecom company, which offers low-cost international calls, has moved into OTT video by launching a multi-ethnic content service aimed at migrants in Europe. Lebara Play will offer more than 150 TV channels and 3,000 movies from around the world.

HOW BROADCASTERS ARE ADAPTING: A CANADIAN EXAMPLE

ROGERS PARTNERS WITH VICE

The Canadian TV giant and the globally successful youth media brand recently announced details of their Canadian VICELAND channel, and unveiled their new Toronto production studio. The studio is currently developing and producing nine original series.

"We're proud to be working with VICE to introduce a new voice in the media landscape through premium, original, cross-platform content that speaks directly to our Millennial audience. This Gen Y audience is not only looking for entertaining content, but something that reflects their values and views of the world. Through VICELAND and content from the new VICE Canada studio, we will fill this void, bringing viewers a unique programming experience unlike anything they've seen before."

- Rick Brace, President, Rogers Media, 2015

CHALLENGES & OPPORTUNITIES

CHALLENGES

- ◆ Creators must adapt to a connected world where objects, users and the Cloud continually interact and generate massive amounts of usage data for analysis. (Chapter 1)
- ◆ The digital environment is more than ever at a crossroads where all types of content and user experiences converge. TV content must stand out against video games, news media, personal messaging services, user-generated content, social media, etc. (Chapters 1, 2, 3, 5)
- ◆ Since it is becoming increasingly difficult to attract users to websites owned by content publishers, audiences must be reached via content syndication on various social platforms. (Chapter 5)
- ◆ With data usage expected to continue soaring, consumers are likely to press telecommunications services to offer more cost-efficient data plans. (Chapter 2)
- ◆ For the content industry, VR and AR remain high-risk investments since they have not yet been field-proven in the marketplace. (Chapter 3)
- ◆ Evolving generational consumption habits will require the implementation of a number of content distribution strategies. (Chapters 4, 5)
- ◆ The limitations of the advertising model force industry players to rely on several monetization strategies simultaneously. (Chapter 5)
- ◆ After deploying their services globally, OTT multinationals could consolidate their market share by developing hyper-local approaches to production and exploiting niche content, strategies that cut opportunities for local players. (Chapter 6)

CHALLENGES & OPPORTUNITIES (CONT.)

OPPORTUNITIES

- ◆ IoT, VR, and AR point the way to user experiences outside of traditional screens. This multiplicity of interfaces opens the door to new content distribution opportunities. (Chapters 1, 3)
- ◆ A 'user first' approach, supported by Big Data and encouraging fast prototyping and audience testing, may help mitigate the financial risks of investing in new content: new concepts and ideas can be tested quickly and at lower cost. (Chapters 1, 2, 4)
- ◆ To reach a larger audience, the content industry now has the opportunity to syndicate content on a wide variety of media and social platforms (Medium, Facebook, Snapchat etc.), but this requires a structure able to support multiplatform production. (Chapter 5)
- ◆ VR and AR are very fertile fields of experimentation for creators: a whole new language needs to be developed. (Chapter 3)
- ◆ The growing popularity of digital consumption and new content formats with younger generations represent an opportunity to diversify content business sectors and portfolios for traditional industry players. (Chapter 4)
- ◆ The new financial model puts the focus on the user experience, allowing for the monetization of a number of user engagement points in the content life cycle. (Chapter 5)
- ◆ The rise of online niche markets could help boost the commercialization of producers' back catalogs. (Chapter 6)
- ◆ Greater investments in niche markets could potentially offset the homogenization of content offerings and audience preferences. (Chapter 6)

Published by the Canada Media Fund
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