

TRENDS REPORT

2016 Mid-Year Update

JULY 2016



Canada Media Fund
Fonds des médias du Canada

INTRODUCTION

In our last Trends report, *Entering the Age of Experience*, we noted that our industry is being moved forward by an endless appetite for content. This appetite is not just driving innovation but also generating demand for more robust infrastructure and integrated digital systems. As a result of this transformation, industry players have gained a better understanding of and greater control over digital fundamentals. In turn, there's now an awareness that the **User Experience** has become the leading factor in content creation and distribution.

The User Experience, i.e., 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.

At mid-year, the media environment remains volatile and many indicators confirm this interdependence. Instant messaging services are engaged in a rapid growth trajectory and could be the start of a new era of so-called "conversational" platforms that create a direct path to discoverability. Other innovations are entering their hype cycles, bringing in their wake major investments and huge hopes. VR and AR are now being touted as much more than just new features for viewer enjoyment, but as entirely new media—the next major disruptors. As well, technological advances allow us to envision monetization methods that leverage the full potential of digital distribution. One way would be through flexible pricing based on consumer demand and interest.

The range of possibilities, market fluidity and relentless pressures to stay ahead will be very challenging for content creators, producers and distributors—especially in deciphering ways that the User Experience can be optimized in terms of reach and discoverability. Most important will be the question of alignment with the high expectations of the new generation of empowered consumers.

This update to *Entering the Age of Experience* focuses on the following trends:

- ◆ Bots as new conversational interfaces that facilitate content discovery and access;
- ◆ The growing thirst for online video that places increasing pressure on the telecommunications industry as well as on internet service providers;
- ◆ The route from virtual reality's market launch to mass adoption;
- ◆ The relationship between content and media consumption among younger generations (the so-called "digital natives");
- ◆ New digital distribution revenue models that allow prices to adjust to supply and demand;
- ◆ Government responses to the growing influence of media giants.

ALWAYS ON: As the Internet of Things ‘hyperconnects’ our world, bots aim to ease and humanize the digital experience

UPDATE FROM PREVIOUS REPORT

The Internet of Things will vastly increase smart wireless connections and open up new distribution opportunities. But in a digital environment oversaturated with content, how can media industries ensure greater discoverability and personalization instead of more confusion and viewer fatigue? The media sector will need better consumer interfaces – and bots may provide a solution.

“Nothing to install, nothing to configure – just flow.”

- Chris Messina, open source/open standards advocate and inventor of the Twitter hashtag

For content businesses, the challenge today is to create seamless, enjoyable User Experiences that help consumers conveniently navigate a huge sea of offerings.

Apps once helped manage our mobile-first universe. Now they are being challenged by new models of content discovery and delivery, thanks to remarkable progress in Artificial Intelligence (AI). Natural Language Processing and Deep Learning in particular have put **bots** at centre stage in recent months. They include AI-powered **Intelligent Personal Assistants** like Apple’s Siri and Microsoft’s Cortana. There are also **chatbots** that simulate human conversation on messaging platforms such as Facebook Messenger. China’s hugely popular WeChat lets consumers order a meal, book a doctor’s appointment, or buy movie tickets without leaving the messaging service, never having to install and navigate multiple apps to perform these tasks.

Tech giants are jumping on the bot bandwagon and investing heavily. Microsoft CEO Satya Nadella even says “bots are the new apps.” But how will bots impact the media sector? They may well become a key content tool for consumers, considering their many advantages: not just a single point of access to search for, discover and consume content, but one they can interact with using everyday language. That ease of use is why many observers believe bots will define a new era of **conversational platforms**.

THE BOT REVOLUTION

Key Concepts:

- ♦ A **bot** is software that can automate and perform tasks for people: reserve restaurant tables, book appointments, find information, etc.
- ♦ Bots use **Natural Language Processing (NLP)**. NLP interacts with humans through everyday language (voice or text). It comprises both Natural Language Understanding (by which bots derive meaning from human language) and Natural Language Generation (which allows bots to translate their computer point of view into human words).
- ♦ Bots can improve performance over time as they gain knowledge. Machine learning is about bots acquiring proficiency thanks to human assistance. **Deep learning** is about bots evolving without human help.

STRENGTHS



- Bots can reduce hindrances, excessive choice, and decision fatigue.
- They can be faster and more personalized than simple search and recommendation engines.
- They can provide a more human-feeling user experience.

WEAKNESSES



- Emerging technology: There are limits to what bots can understand and how well they respond.
- In the field, players still need humans to work alongside their bots.
- Establishing user trust: Bots are often used maliciously.

THE CONVERSATIONAL DISCOVERY PLATFORM

AI firms are now developing bots for content industries. San Francisco-based MindMeld, a conversational AI specialist, billed a recently released video discovery platform “as the first solution designed for television and OTT content providers (...) to deliver best-in-class discovery through a conversational interface.” The MindMeld bot can understand

and perform voice-activated searches as complex as “I want to see movies about AI” or “Show me movies about aliens invading Earth.” But developers acknowledge that many challenges lie ahead, given the intricacies of languages and their evolving nature.

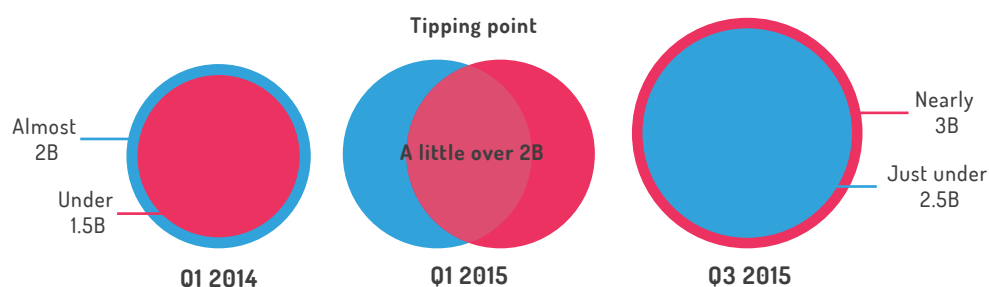
THE RISE OF MESSAGING AND CONVERSATIONAL PLATFORMS

- ◆ It's now possible to reach billions of people across the most popular messaging services.
- ◆ Two years ago, voice-assisted usage was negligible. Today, it exceeds 15% of all search traffic.

MESSAGING APPS HAVE SURPASSED SOCIAL NETWORKS

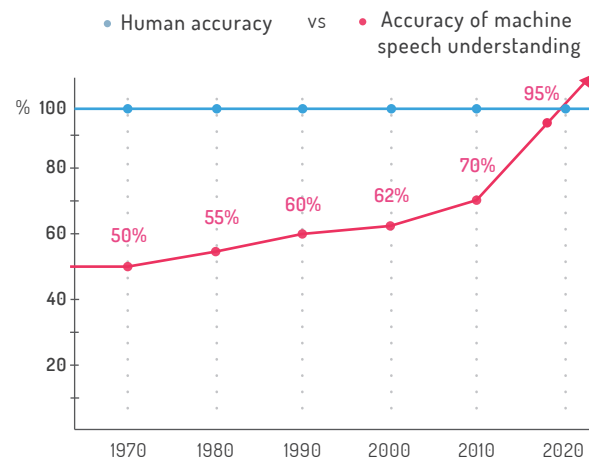
Monthly active users for 4 social networks and messaging apps

- Big 4 Social Networking Apps (Facebook, Twitter, LinkedIn, and Instagram)
- vs
- Big 4 Messaging Apps (WhatsApp, Facebook Messenger, WeChat et Viber)



(BI Intelligence, 2015)

ACCURACY OF MACHINE SPEECH UNDERSTANDING



(MindMeld, 2016)

FROM DISCOVERY TO PURCHASE: CONVERSATIONAL COMMERCE

Bots – and chatbots in particular – also show great promise for marketing and monetization. *Business Insider* reports that messaging apps now eclipse social media among consumers. We are on the verge, says tech writer Chris Messina, of a new age of bot-powered “conversational commerce”: “(It) largely pertains to utilizing chat, messaging, or other natural language interfaces to interact with people, brands, or services and bots (...). You and I will be talking to brands and companies over Facebook Messenger, WhatsApp, Telegram, Slack, and elsewhere before year’s end, and will find it *normal*.”

ReplyYes, a startup that sells vinyl records, uses a sales engine built on text messaging. The company reports that marketing texts get viewed 98% of the time, as opposed to 20% for emails. American TV network ABC is also betting on the power of messaging. It worked with Imperson, a company that builds brand experiences through chatbots, on a Miss Piggy bot that talked with people on Facebook Messenger.

What does the bot and messaging revolution boil down to? Mainly the need to engage with people where they are, and give them more personalized, human interactions.

CANADIANS WANT A MORE HUMANIZED EXPERIENCE – AND BOTS CAN HELP

Accenture reports that 49% of Canadian consumers have switched providers in the past year due to poor customer service, with cable and satellite TV one of the most affected industries. “Consumers demand a more personalized experience and human interaction,” says the report. Bots can fulfill many service requests by delivering live, fast and human-feeling support, while referring more complex cases to customer service agents. Customers don’t have to search websites or dial through slow and frustrating phone systems.



80% of customers who switched providers could have been retained; customer service was cited as a top retention driver.



68% will not go back once they have left a provider.



77% of Canadians expect customer service and support to be easier/more convenient to obtain.



65% want multiple channel access (on-/offline) to service



53% expect more live or in-person options for obtaining service and support.

(Accenture Strategy, 2016)

SCREEN CONVERGENCE: Video besieges bandwidth

UPDATE FROM PREVIOUS REPORT

In *Entering the Age of Experience*, we discussed the soaring need for wireless data, due largely to video. The rising consumer demand for online video will pressure the telecommunications industry to guarantee a high-quality user experience.

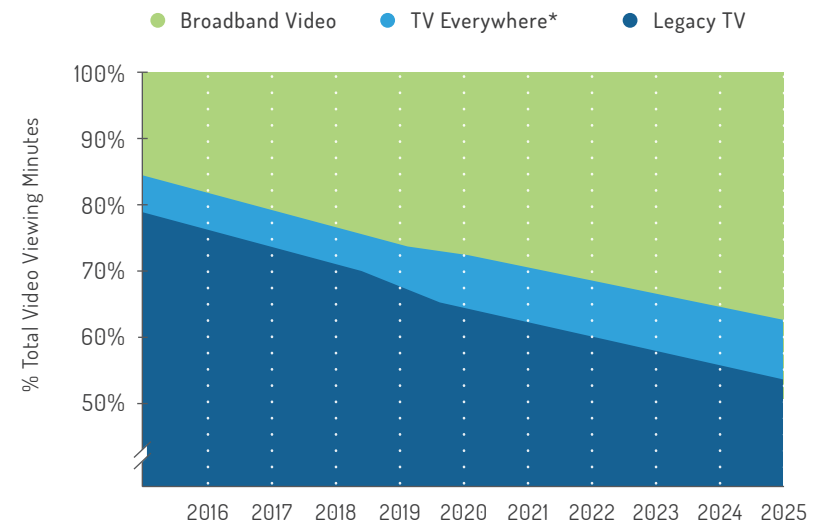
“The reality is that the Internet is a shared resource, and, like any finite resource, the more people sharing it, the smaller the share each receives (...) There is a constant race between supply and demand of bandwidth, and the larger and less densely populated a country is, the greater the likelihood demand will outstrip supply.”

- Conviva, Viewer Experience Report Mid-Year 2015 Update

Wireless data has escalated both in Canada and worldwide in recent months, say various sources. According to Ericsson, the net increase in mobile video traffic in 2015 is equal to 3 full-length movies per smartphone subscription. Cisco forecasts that, by 2020, worldwide mobile data traffic will be 8 times greater than it is now, while video will account for 79% of global data traffic (78% of traffic in Canada). As online viewing continues to soar, some forecast that linear viewing will ultimately decline: The Diffusion Group figures that, between now and 2025, video viewing in the US will grow 81% online and shrink 34% on legacy television.

This is chiefly explained by the adoption of OTT services as the distribution method of choice, and by the increased penetration of connected devices, including connected televisions. Many sources report a drastic increase in connected TV use in recent months. New higher standard resolutions and larger television screens push data consumption, especially since these mega-screens require significant bandwidth to deliver acceptable 4K online video.

VIDEO VIEWING SOURCE MIX, 2016-2025, US



*TV Everywhere: Paid TV programming made available on both linear and online platforms
(The Diffusion Group, The Future of TV Viewing 2016-2025, 2016)

Network operators will have to upgrade broadband performance constantly to sustain the growing volume of video online. Can Canada's infrastructure deliver the goods? Yes, according to Dany Dicks, a UK-based analyst with the Heavy Reading research group: "Most developed market networks will be ready and becoming ready to deal with large amounts of video content of increasing levels of high definition (...) Network operators are already 'dimensioning their networks' to deal with more video."

The transition to digital distribution has made a high-quality user experience an extremely competitive factor for content industries – and a reliable network infrastructure a strategic concern.

"However good the content, a terrible experience will hamstring its success."

- Conviva, Viewer Experience Report Mid-Year 2015 Update

This is central not only for the content industry but for many other sectors of the Canadian economy, and is currently the subject of two nationwide public consultation processes. The Department of Canadian Heritage is concerned about these rapid changes in technology and consumer habits, and their impact on the creation, discovery, and export of Canadian content in a digital world, while the CRTC has questions about the democratic issues pertaining to access and the quality of broadband services.

4K COMES TO BROADBAND

It's hard to ignore the steady stream of optimistic news about 4K: increased production of content and its arrival on the set-top box market, increases in sales of smart TVs, larger 4K libraries available from OTT service providers, and more. The industry seems well on its way to conversion to 4K. Also known as Ultra High Definition (UHD), its standard resolution is 4 times higher than HD. Can the Canadian infrastructure cope with 4K? Netflix estimates that 4K video consumes roughly 7 GB per hour (compared to 3GB for HD content), and recommends a 25 Mbit/s connection speed to stream reliably at UHD quality. Akamai reports that the average connection speed in Canada was 13.1 Mbit/s as of Q4 2015. However, this should change in the next few years due to rapid bandwidth upgrades nationwide, and 4K is expected to quickly become a major driver of online bandwidth. Cisco predicts that UHD will account for 21.8% of online video traffic in Canada by 2020, up from 2.8% in 2015 (91.2% CAGR).



TRANSMEDIA: Virtual reality hits the market – the road to mass adoption

UPDATE FROM PREVIOUS REPORT

Recent months have seen a succession of major VR and AR announcements, confirming that these technologies are gaining in importance. With the launch of many VR headsets in the first half of this year, virtual reality is now definitely real, and its huge growth potential raises equally big expectations. Despite the clear enthusiasm surrounding this budding market, virtual reality's popularity will depend on a series of factors, including the ability of manufacturers to attract and support content creators.

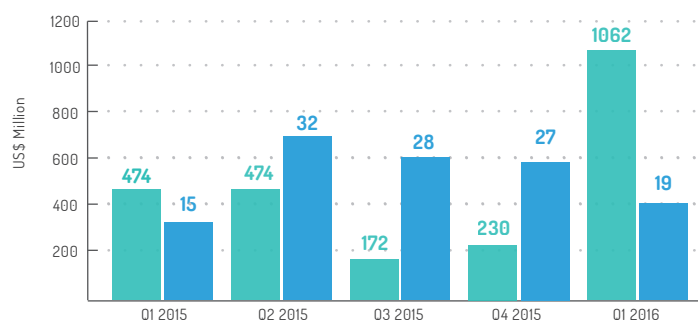
"Once people experience high-end VR, they're going to want it. We'll look back on 2020 as the VR era, but in the next five years I'm bracing for the inevitable trough of disillusionment in the hype cycle."

- Chris Dixon, partner, venture capital firm Andreessen Horowitz

By recent accounts, US\$1.062 billion was invested in VR/AR in the first quarter of 2016, a one-year jump of more than 120%. Facebook announced last spring that 2 million hours of content had been viewed on its Oculus Gear headsets, while international content conferences and markets are devoting whole segments to virtual reality. This shows a definite and growing interest in virtual reality by the content sector, but mass adoption will take time, and the path is strewn with obstacles as well as enablers.

QUARTER ON QUARTER FUNDING IN THE VR/AR LANDSCAPE

- Total amount of funding, US\$ Million
- Number of funding events



(VB Profiles, 2016)

TOOLS TO BUILD A MARKET

Emerging VR technology poses challenges to the content industry. Some are typical growing pains during the prototype phase. Headsets and other hardware are well short of full performance potential. A VR "grammar" has yet to be written. And there's still no tool that intuitively helps create professional-quality content. Investment should quickly lead to perfecting the technology, but for producers who want to get a feel for it now, the trial period is proving costly and could discourage some players. To support creators, VR manufacturers are making the production equipment used in developing VR applications more affordable and easier to get. Some, for example, offer open source software development kits for 3D creation or directions for building a 360° camera.

HARDWARE OR CONTENT... CHICKEN OR EGG?

The success of VR will depend largely on the availability and quality of the content created for these new devices. It has to be content that persuades consumers to invest in a VR headset. For content creators, market growth is uncertain and monetization options hard to define. Producing content specifically for a device owned by comparatively few consumers is a high-risk strategy – which basically means a waiting game since there's no "killer app" to wow people. To stimulate content production, manufacturers are partnering with entertainment companies and are also investing directly in content themselves, for example, by setting up a studio or a VR-dedicated accelerator program. They're also setting up distribution platforms that will help consumers discover and buy VR content in a user-friendly way.

"Mobile" VR headsets will make it easier to access the technology through a smartphone, something nearly three quarters of all Canadians own. These affordable devices provide a virtual reality gateway and may make the general public more interested in experiencing 3D environments with a high-end headset. Mobile VR, with its 360° content, also provides a good training ground for creators to master the grammar of spherical geometry. To spruce up their catalogues, manufacturers are also encouraging production of 360° content by launching platforms and video players designed for this format.

"Smartphones will eat VR - but right now most of the key technology is still being created and isn't yet commoditised."

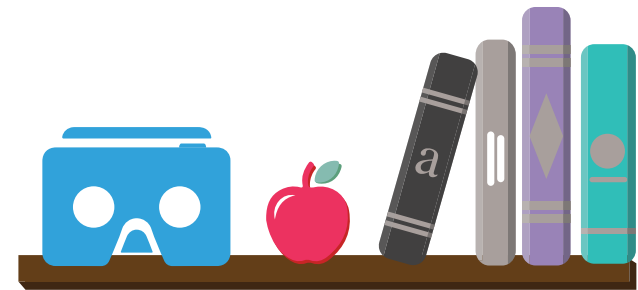
- Benedict Evans, Analyst, Andreessen Horowitz

DOES CANADA HAVE WHAT IT TAKES?

A recent Quebec Film and Television Council study highlighted the pools of talent in film production, television, animation, visual effects, and video games that are needed for VR. Though several key creative industries may be involved, Canada's labour market currently absorbs most of the ICT talent, according to the Information and Communications Technology Council (ICTC). Being able to attract talent and provide conditions to retain it will be a challenge. To counter this shortage, the ICTC has developed a national talent development strategy meant to position the comparative advantage of Canadian talent in the global digital economy. The Canadian Film Centre's Media Lab and OMERS Ventures are also conducting research to identify the key players in the VR ecosystem in Canada and the primary workflows used to bring VR to users.

EDUCATION WANTS TO MOVE UP TO VR CLASS!

Many people consider education a promising sector for virtual reality development. In fact, classroom VR is becoming a reality with the arrival of affordable headsets that use smartphone displays. A recent survey of elementary and secondary US schoolteachers showed that 10% would like to use VR as a teaching tool, compared to 5% the year before. This enthusiasm among educators reflects virtual reality's potential to deliver affordable yet rich learning experiences. A biology student can study in 3D learning environments. Teachers can take their classes on virtual learning adventures, such as a trip to the Moon or a tour through prehistory. Since all that limits them is available content, education sector demand for high-quality VR is an outstanding opportunity for content creators.



THE POWER OF MANY: A generation of creators

UPDATE FROM PREVIOUS REPORT

Many indicators pointed to a gap forming between the young today and prior generations. Here we'll take a qualitative look at one side of that gap: the group sometimes known as Generation Z, the post-Millennials. They've been called "digital natives" because they were born near the end of the last century, when online use had grown to include the general public. (By 2000, most Canadian households – 51.3% – had Internet service at home.)

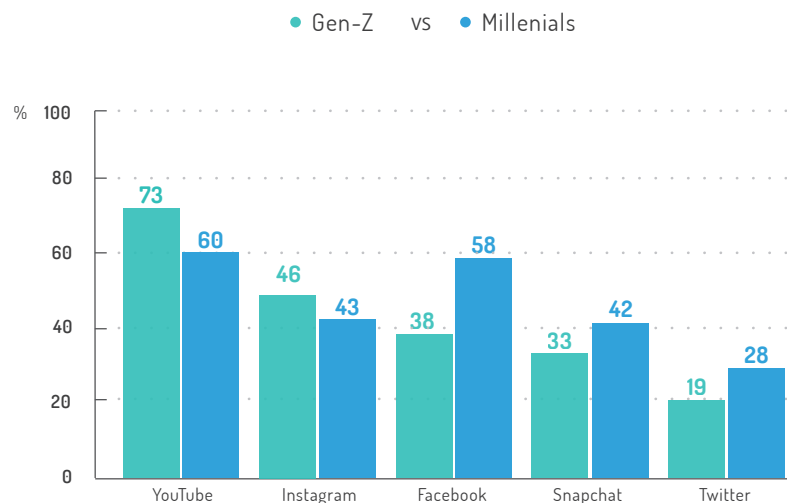
"Technology aside, Generation Z also has refreshingly different attitudes. They are more entrepreneurial, they grew up with search engines and like to discover content for themselves. They also like to be involved in the process, contribute to the solution and be more immersed in experiences."

- EY, From innovation to expectation — how M&E leaders are responding to Gen Z

In our 2015 mid-year update, we noted that Millennials have been swollen by a generation of newcomers, Generation Z, and we're seeing different habits and attitudes emerge, especially where technology and media are concerned.

Some studies call them a generation of creators mastering the technological tools needed for digital originality. This comfort level is personified by two phenomena especially popular with younger users: the game of Minecraft and the creation of channels on YouTube. For Gen Z, there's nothing odd about creating complex virtual worlds with collaborators somewhere on the other side of the planet, or producing online video channels that could make them international stars – it's just normal. They're innovative cultural forces heavily involved in social networks, not only in terms of sharing and conversation, but also in co-creation.

WHICH SITES OR APPS DO YOU SPEND THE MOST TIME ON (US)?



(Refuel Agency, Generation Z Digital Explorer 2015)

AT HOME IN THE WORLD OF MINECRAFT

This extremely popular game has over 100 million registered users. It transforms players into designers of complex machines, coders, artists, and even YouTube video producers.

"Minecraft is, essentially, the gaming version of youtube.com; a social interaction that has exploded onto the gaming scene and has transcended the typical boundaries of gaming."

– Minecraft Seeds

Minecraft sales skyrocketed in late 2011, when kids discovered it. Now, the game is selling 10,000 copies daily and, according to Microsoft, which acquired it for US\$2.5 billion in 2014, nearly 40% of the players are women. Minecraft players, nearly half of them 15 to 21 years old (43%), enjoy great freedom in building their world. To move ahead, they must master skills that are very close to those of computer scientists: parts of the game are conceived as a virtual electronic circuit with switches, buttons, and levers. Most of all, however, Minecraft puts players into an imperfect world, where anything can go wrong and players cannot expect any outside help to fix bugs. They must create their own solutions. Minecraft teaches resiliency in both a practical and a philosophical sense, and helps develop "computational" thinking by playing with logic and "conditional instructions" (testing for true or false) specific to the world of computer science.

AT HOME ON YOUTUBE

Minecraft and YouTube are both outlets for Gen Z's creativity, and their spheres intersect in the digital world: there are over 70 million YouTube videos dealing with Minecraft in one way or another. "Minecraft" is the second most frequently searched English word on YouTube, after "music." Roughly two thirds of the young people interviewed for

"Minecraft Generation," a *New York Times Magazine* article, had started their own Minecraft channel on YouTube.

Every issue of *Keytrends* has noted that infatuation with YouTube among young people has grown nonstop, and this trend is strongest among the Gen Z age group. Not only are they major YouTube consumers but content creation for the platform is this generation's new hobby. A 14-month field study of people 13 to 24 by Kids Media Center researchers from Centennial College observes, "Creating 'content' for fun is increasingly part of the youth experience. Instead of coming home and drawing or painting, children are looking to their favourite online personalities on YouTube for entertainment and content creation inspiration."

Generation Z mastery of the online creative worlds of Minecraft and YouTube shows how technology and innovation are "the new normal" for its most representative members. Content producers would do well to accommodate this rising generation's need to participate in content creation and socialize in the virtual space.



MONETIZATION: Pricing that adjusts to supply and demand

UPDATE FROM PREVIOUS REPORT

We found that revenue models for content were becoming increasingly fragmented: initiatives to monetize user engagement in a video game during its ongoing development, for example, or syndication of content. Today's technology makes it possible to envision new revenue models for distributed online content.

"... and what if prices for culture were to become flexible tomorrow? Like plane tickets or hotel rooms. Yield management in real time could make prices vary, based on users, their needs, the moment of discovery and consumption, and media in use. And does quality fit in?"

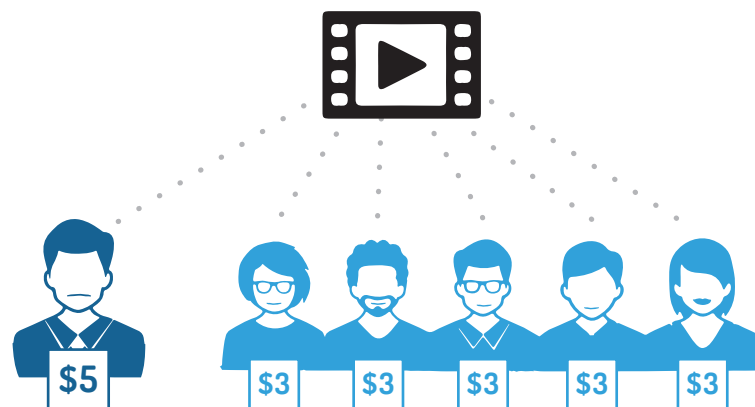
- Méta-Médias, La TV demain - 10 enjeux de transformation

Hotels and airlines have been doing it for years. Amazon has developed a sophisticated system of its own. The Toronto Blue Jays introduced it on ticket sales for the 2016 baseball season. It's called dynamic pricing (yield management), or differential pricing, where prices change according to supply and demand.

Among other models of revenue diversification and improved customer experience, the American film industry is starting to examine differential pricing for ticket sales. Atom Tickets, a startup with \$50 million in backing from Fox, Disney, and Lionsgate, has developed an app that (among other things) lets users buy movie tickets and invite their friends to a theatre date. The app rewards social behaviour: the larger the group, the lower the ticket price. Atom also allows differentiated pricing based on demand and price sensitivity for a given film and show times. The app is currently available in some US cities and in Calgary. It should be released across Canada and the US by the end of 2016.

Another startup, Gondola, has worked for several years on a dynamic pricing engine for the video game industry. Gondola algorithms analyze game behaviour from the start and predict what a player is ready to pay for the virtual objects that allow advancement. They compile frequency of play, session length, virtual objects seen, and objects that may be needed.

Gondola conducted a 6-week test in 2015 with the producers of *Cut the Rope 2* (downloaded more than 750 million times since 2010) and found signs of major improvement in terms of player retention and conversion rates from free to paying players. Scientific Revenue, a more established company, says its yield management engine has been downloaded more than 100 million times. The Scientific Revenue engine uses machine learning and other analytical methods to tie virtual object prices to individual player histories. Both Gondola and Scientific Revenue provide video game developers with tools that work in real time and promote user engagement, retention, and conversion (from free to paying).



Where online video platforms are concerned, some forms of yield management already exist. With Vimeo on Demand, for example, video makers determine prices for rentals, purchases, or subscriptions to their own content. Netflix, on the other hand, offers three different subscription plans, based on the video quality desired and number of

devices that can be connected at the same time. With advances in Big Data processing, it's entirely conceivable that this algorithmic champ may offer a subscription plan tailored to each customer that depends on willingness to pay and preferences.

BLOCKCHAIN: LEDGERS RULING THE DIGITAL WORLD

For many pundits, 2016 is the year of the blockchain, the “next big thing” that will disrupt the economy and many industries, including media.

WHAT IS A BLOCKCHAIN?

A blockchain is essentially an automated record book of digital transactions. Transactions are automatically verified, processed, and recorded. The blockchain “ledger” is public, self-maintaining, and decentralized — all can access it, nobody owns it. The idea is to remove middlemen and third-party authentication processes that can be slow, costly, and vulnerable to corruption and cyberattacks. Blockchain technology was initially developed to serve as a highly secure accounting ledger for digital cash transactions with Bitcoin and other digital currencies. But the technology has many other potential uses.

“Tomorrow, we will perform the equivalent of “googling” to verify records, identities, authenticity, rights, work done, titles, contracts, and other valuable asset-related processes. There will be digital ownership certificates for everything. Just like we cannot double spend digital money anymore, we will not be able to double copy or forge official certificates once they are certified on a blockchain. That was a missing piece of the information revolution, which the blockchain fixes.”

– Melanie Swan. Blockchain. O'Reilly Media. 2015

HOW CAN THE BLOCKCHAIN IMPACT THE CONTENT INDUSTRIES?

- ◆ Blockchain technology can facilitate the creation of digital copyright ledgers that can expedite and validate payment to creators and publishers.
- ◆ The technology can be used to power smart contracts (computer programs that can automatically execute the terms of a contract).
- ◆ Blockchain tech can also enable direct compensation and help automate revenue sharing between media creators, publishers, and other stakeholders in the value chain

THE BIG AND THE AGILE: Players big and small are fighting for local and niche audiences, while regulators struggle to level the playing field

UPDATE FROM PREVIOUS REPORT

In *Entering the Age of Experience*, we said that after deploying services globally, media multinationals would likely develop hyper-local production approaches and exploit niche content to consolidate market share, strategies that could cut opportunities for local players. That trend has intensified in the past few months, but governments and regulators are intervening to ensure a measure of fairness.

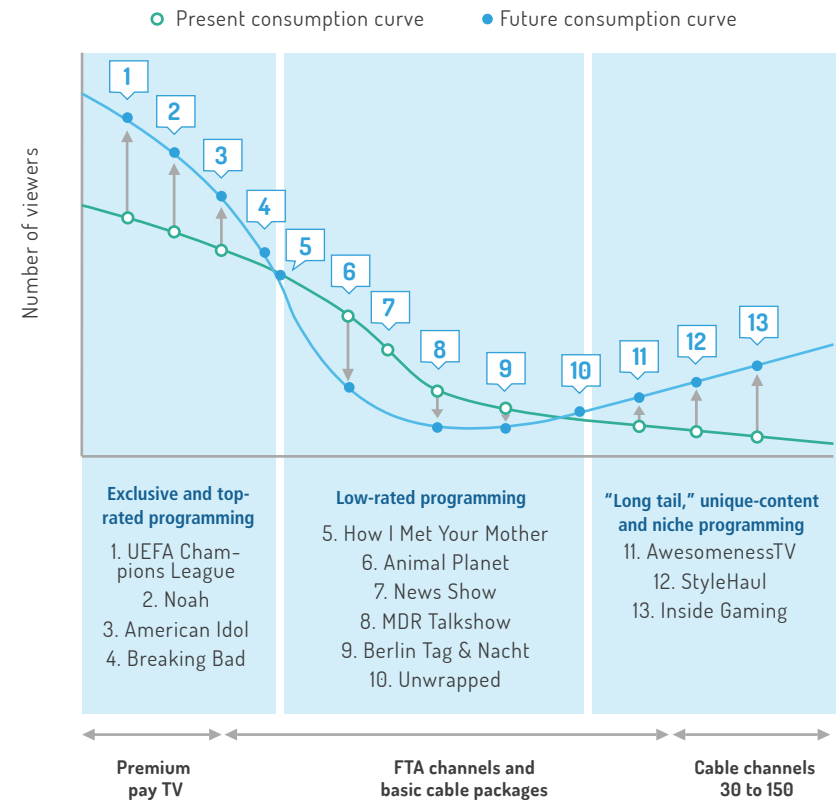
"OTT will not escape regulation."

- Andrew Sheehy, Chief Analyst, Nakono

It appears that the Theory of the Long Tail, popularized over a decade ago by author and entrepreneur Chris Anderson, is holding true: "Our culture and economy is increasingly shifting away from a focus on a relatively small number of "hits" (...) at the head of the demand curve and toward a huge number of niches in the tail. As the costs of production and distribution fall, especially online, there is now less need to lump products and consumers into one-size-fits-all containers. (...) Narrowly-targeted goods and services can be as economically attractive as mainstream fare."

The Boston Consulting Group confirms that long tail content and niche programming are indeed becoming more valuable. American media giants in particular are capitalizing on the trend. They are investing in specialized content verticals and are expanding their footprint worldwide. Canadian companies, too, are growing internationally. Love Nature, an SVOD service by Blue Ant Media and Smithsonian Networks, has launched in 32 countries. Kidoodle.TV, A Parent Media's SVOD platform for kids, is now available in 145 countries.

TOP-RATED AND UNIQUE CONTENT IS BECOMING MORE VALUABLE, WHILE MIDTIER IS LESS ATTRACTIVE



(Boston Consulting Group, 2016)

<https://www.bcgperspectives.com/content/articles/media-entertainment-digital-revolution-disrupting-tv-industry>

“Think Global, Act Local” has become the mantra of global content businesses. Their strategy? Produce and buy more original content with cross-market appeal, partner with local producers and creators, and leverage local operators, including broadband and mobile carriers, to resell content services.

But local players are putting up a fight. In Asia, for example, Netflix faces local startups that offer lower subscription rates, more local content, and streaming technology better suited to the region’s telecom infrastructures. And Asian pay TV giant Astro is launching a new mobile-first OTT service for regional consumers, starting with Indonesia.

HOW BIG MEDIA IS CONQUERING LOCAL AUDIENCES WORLDWIDE



Time Warner - Operates streaming platforms dedicated to documentary, horror and Korean drama.



HBO - Will soon have streaming services in 12 countries throughout the Americas, Europe and Asia.



Amazon - Announced 12 original shows to be produced in Japan to bolster Prime subscriptions there.



AwesomenessTV - Launched localized versions in the UK, Spain, France, Germany, and Brazil in partnership with Endemol Shine.



Netflix - Now in 190 markets. Recently announced first German, Spanish, Argentine, and Indian originals, first original anime and documentary short, and new Asia-Pacific VP to build partnerships in the region.



Lionsgate - Launched Globalgate with 8 international distributors, giving partners priority access to each other’s movies for re-makes in their local languages.

LEVELING THE PLAYING FIELD

Indonesia’s reaction to Netflix’s massive international expansion was among the strongest. Government agencies and telcos there insist that Netflix comply with permit and domicile requirements, taxation regulations, and censorship rules, or face total blockage. In the UK and Israel, American digital giants are now facing tougher rules that will prevent them from circumventing tax regulations. And Australia is about to pass new legislation that will require OTTs to charge a 20% sales tax, even if they are based overseas.

It seems local authorities are trying to level the playing field against what they see as unfair competition from foreign-based media giants. Some governments are reviewing their fiscal, tax, and regulatory frameworks to harmonize market conditions for both multinationals and local players, ensuring the latter are not disadvantaged. Other governments have stayed away from the issues, especially since there is no consensus on how digital disruptors like OTTs should be regulated – or if they should be regulated at all.

In some jurisdictions, like France and Brazil, existing regulations already apply in some measure to OTTs. But others, including New Zealand, India, South Africa, and Israel, still have regulators consulting on the impact of OTTs. The European Commission has said it would consider imposing a 20% European content quota on OTT providers, though some member states like Denmark have determined that OTTs should not be regulated.

“National legislative processes, legal systems and enforcement mechanisms,” says analyst Andrew Sheehy, “are still trying to work out how to deal with digital services that are instantly launched to a global audience, where the product offered might have no physical form and where the actors on the supply side can change the jurisdiction where they operate without moving any physical assets.”

But as television increasingly migrates to the internet in mature markets like Canada, “it seems utterly inconceivable,” notes Sheehy, “that the TV programming that would be delivered in this new TV industry would somehow shift from being ‘regulated’ to ‘unregulated.’ There seem to be three possible long-term market outcomes:

1. Some deregulation of non-OTTs: The regulations that are currently applied to existing broadcasters will be relaxed so that these services are better able to compete with OTTs.
2. ‘Light-touch’ regulation for OTTs: Some degree of regulation will be applied to OTTs, perhaps to address key policy issues around programming appropriateness, funding of national content and fiscal matters
3. Dual approach: A hybrid approach could be used to level the playing field using a combination of 1 and 2.”

OTT SERVICES: KEY ISSUES ON THE REGULATORY AGENDA

- ♦ Operating licenses and fees
- ♦ Income and sales taxes
- ♦ Contributions to national content funds
- ♦ Expenditure rules on nationally-produced content
- ♦ National content programming quotas
- ♦ Application of national regulations to foreign-based entities
- ♦ Indirect levies (e.g. on fixed and mobile broadband carriers)

CHALLENGES & OPPORTUNITIES

CHALLENGES

- ◆ AI-powered “conversational tools” (chatbots, intelligent personal assistants) are still an emerging technology. Much progress needs to be made if they are to become a go-to content discovery tool that consumers trust. (Chapter 1)
- ◆ The capacity of network infrastructures to deliver content becomes a strategic concern for the content industry. (Chapter 2)
- ◆ VR remains a risky endeavour for the content industry: market growth is uncertain, few consumers currently own VR devices, and monetization models are hard to define. (Chapter 3)
- ◆ Producing VR content requires a wide set of skills. Being able to attract talent and provide conditions to retain it will be a challenge. (Chapter 3)
- ◆ Most legacy media companies have a hard time figuring out how to attract a generation of tech-savvy users accustomed to control over their media experience like no generation before. (Chapter 4)
- ◆ New monetization schemes arising from technological advancement bring several challenges. They may not live up to the hype. (Chapter 5)
- ◆ The international expansion of media giants is creating new challenges for national governments and regulators, adding to the pressure regulatory frameworks are already experiencing as a result of the digital revolution (technological disruptions, shifting consumer habits). (Chapter 6)

CHALLENGES & OPPORTUNITIES (CONT.)

OPPORTUNITIES

- ◆ AI-powered bots and conversational platforms can be leveraged to support the discoverability and consumption of content. (Chapter 1)
- ◆ The rising popularity of messaging opens up new channels for the marketing and distribution of content. (Chapter 1)
- ◆ The growing popularity of online video is an opportunity for telcos and Internet service providers to offer Internet packages that meet consumers' needs and foster greater consumption of content. (Chapter 2)
- ◆ There is strong demand for VR content and manufacturers are creating incentives to attract and support creators: the timing is right to experiment with the new technology. (Chapter 3)
- ◆ In today's extremely fast-tracked world, the content sector will benefit from the creative power of the new generation about to enter the job market. (Chapter 4)
- ◆ Technology, especially big data analytics and the possibility to track down every single transaction happening online, is opening up a slew of new monetization schemes. (Chapter 5)
- ◆ Governments can leverage the current impetus for policy and regulatory reform to modernize their frameworks and better position their national industries in the global marketplace. (Chapter 6)

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RESEARCHED AND WRITTEN BY

Pierre Tanguay

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

Sabrina Dubé-Morneau

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

Danielle Desjardins

Consultant
danielledesjardins@lafabriquedesens.com