



# TRENDS REPORT

## The Big Blur Challenge

A new balance of power in a multimedia market  
filled with multinational empires

# INTRODUCTION

*As digital life online continues to spread globally, the US market reached a tipping point this year: there are now more subscribers to the internet than to cable TV. It seems that a new balance is in the works.*

*For the audiovisual sector in particular, it's time to look at national industries in the context of a) an internet filled with new multinationals; b) an escalating quantity of content versus shrinking attention span and c) a globalization of tastes supplanting cultural differences. This year's main challenge for national TV industries will be to carefully pick their battles and their positioning: the time for trials and errors is coming to an end. Doing otherwise could potentially pit business profits and national interests against web empires.*

## CHALLENGES ARISING FROM GLOBALIZATION AND WEB EMPIRES

The lack of hard national borders in the online world is destabilizing established structures and business models in most film and television markets. Several countries are facing regulatory questions regarding culture, the media industry and the telecommunications economy given the globalized content market now dominated by huge American web interests.

The Federal Communications Commission (FCC) in the US is examining whether to impose restrictions on online distribution that mirror those in place for cable distributors, which would simplify access to programming for new digital players. The recent debates created by internet service providers (ISPs) selling "priority lanes" to certain over-the-top (OTT) players have also forced the American regulator to take a deeper look into net neutrality issues to ensure a fair balance in access to the network for all consumers.

In Canada, the Let's Talk TV regulatory proceeding attracted over 3,200 written submissions leading to appearances by 110 stakeholders, one of the most impressive turnouts ever at the CRTC. With 29 proposals under review, the most striking event was a confrontation between the regulator and American-owned OTTs. Certain decisions have been

announced already: foreign OTTs will, for the time being, remain unregulated in Canada. Some countries, on the other hand, such as Brazil and Argentina, have created a "Netflix tax" to guarantee viable competition for their own OTT players.

In Europe, France wanted the American giant to operate from French territory, meaning compliance with tax and royalty requirements for the content industry (the "cultural exception" concept). Netflix refused. Based out of Luxembourg for now (soon moving to the Netherlands), the service is available in France anyway. In the first 15 days from launch, an estimated 100,000 people signed up for a free first month. It's expected that Netflix will surpass 1 million subscribers in France by the end of 2015.

On another front, Facebook, which has 1.3 billion users, and Google continue to grow, especially driven by massive adoption in Asia.

# INTRODUCTION (CON'T)

## CHALLENGES ARISING FROM OVERABUNDANCE

We live in a consumer culture of seemingly unlimited streaming information. But unwanted data creates noise. **Attention span decreased from 12 seconds in 2000 to 8 seconds in 2013.** An American study shows that 61% of Facebook users took breaks from the social network that could last several weeks. Users had various reasons to do so: 21% said they were fatigued, 10% lost interest and 10% decided it was a waste of time. Such numbers suggest users lose patience when accessing internet content. Users may be seeking quicker gratification, but it's equally possible that the sheer abundance of content outruns the desire for consumption.

On the one hand: multitasking, the constant search for new web experiences, an escalating need for information and the creation, consumption and exchange of content have massively increased time spent online, especially via smartphones. On the other hand: as the power to discriminate relevant content becomes saturated, consumers tend to rely on familiar access points or trust social recommendations generated via friends and data algorithms.

## INFORMATION OVERLOAD

Information overload starts when the volume of potentially useful and relevant information available exceeds processing capacity and becomes a hindrance rather than a help.

**90 %**  
OF THE WORLD'S DATA  
HAS BEEN GENERATED  
IN THE LAST TWO YEARS

A TYPICAL US CITIZEN CONSUMES  
**34 GB**  
OF INFORMATION AND MORE THAN  
100,000 WORDS EACH DAY

MEDIA OVERLOAD IS THE

**NO. 6**

CAUSE OF STRESS IN THE  
UNITED STATES OF AMERICA

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## INTRODUCTION (CON'T)

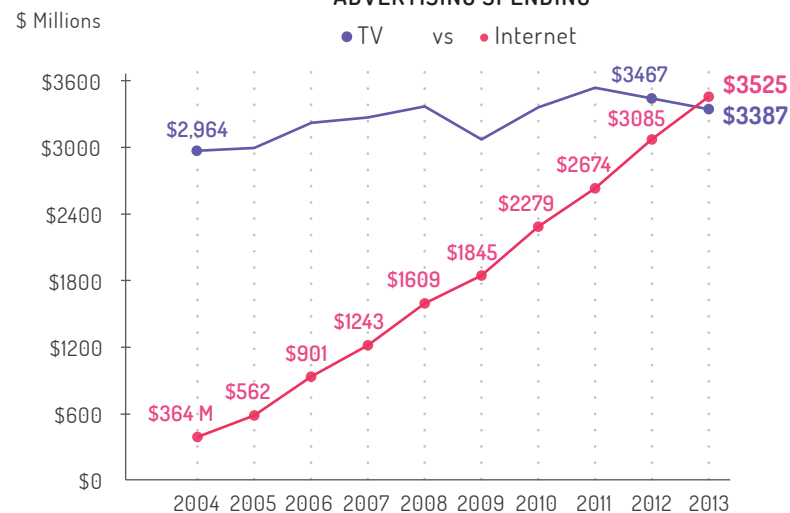
THIS TRENDS REPORT WAS PRECEDED BY 4 PUBLICATIONS. TOPICS ADDRESSED IN THE PREVIOUS REPORTS:

CHAPTERS	<b>Trends Report 1.0</b> “Are we ready for generation Screen?” (January 2013)	<b>Trends Report 1.5</b> Mid Year Update (August 2013)	<b>Trends Report 2.0</b> “Towards unrestricted accessibility” (January 2014)	<b>Trends Report 2.5</b> Mid Year Update (August 2014)
<b>1. Always On</b>	Hyperconnectivity & multiple devices	Wearable devices	Upgradable devices & personalization	Virtual Reality
<b>2. Screen Convergence</b>	New and multiple consumption patterns	Binge programming and binge viewing	Virtual Private Networks and democratized piracy	Infrastructure reliability & limitations
<b>3. Transmedia</b>	TV consumption remaining strong among all media	Online video: the dominant vector of communication	“Tivification”: undisputable appetite for TV-like content	Originals from everywhere
<b>4. Power of Many</b>	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
<b>5. Monetization</b>	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
<b>6. The Big &amp; the Agile</b>	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

# DASHBOARD

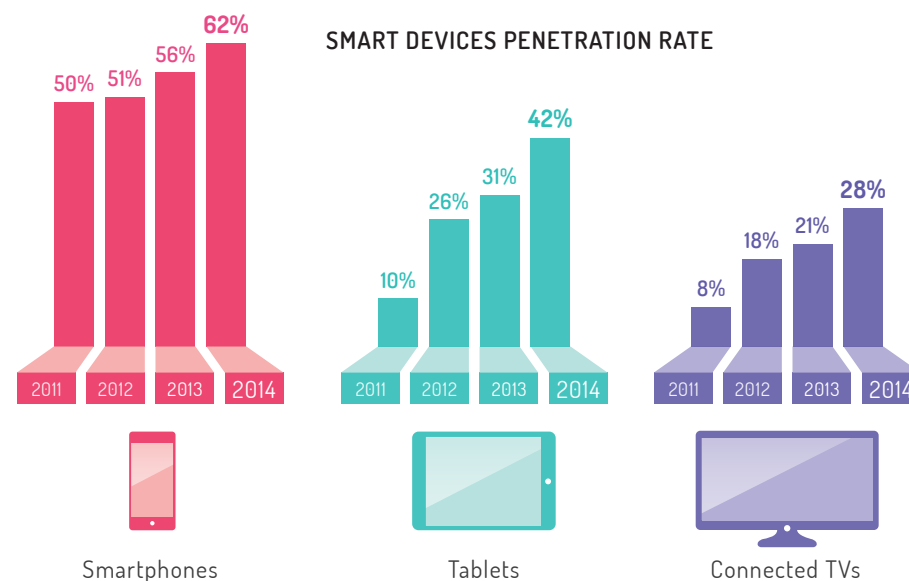
All data is for the Canadian market, unless indicated otherwise

## ADVERTISING SPENDING



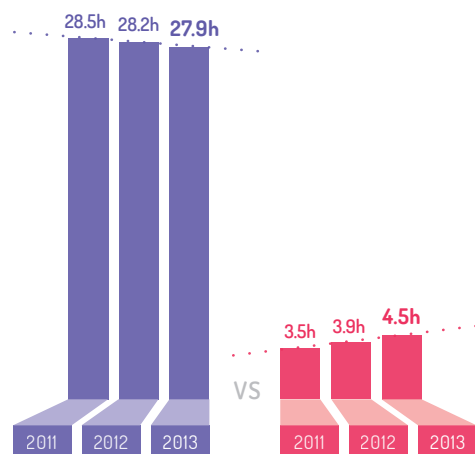
(IAB Canada, Canadian Internet Advertising Revenue Survey 2013-2014)

## SMART DEVICES PENETRATION RATE



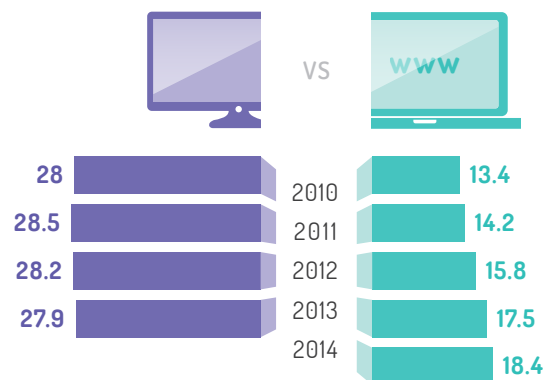
(MTM, 2014)

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



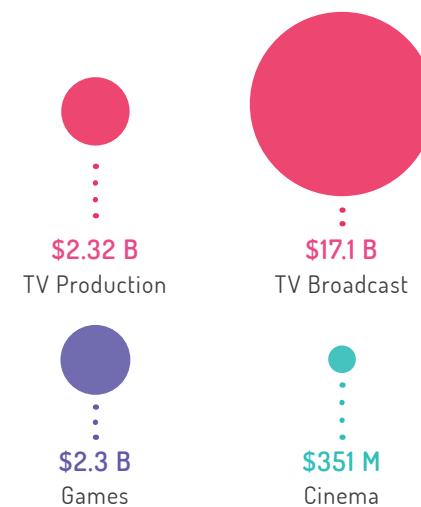
(CRTC, Communications Monitoring Report 2014, MTM 2014)

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



(CRTC, Communications Monitoring Report 2014, MTM 2014)

## SIZE OF PRINCIPAL SCREEN-BASED ECONOMIES



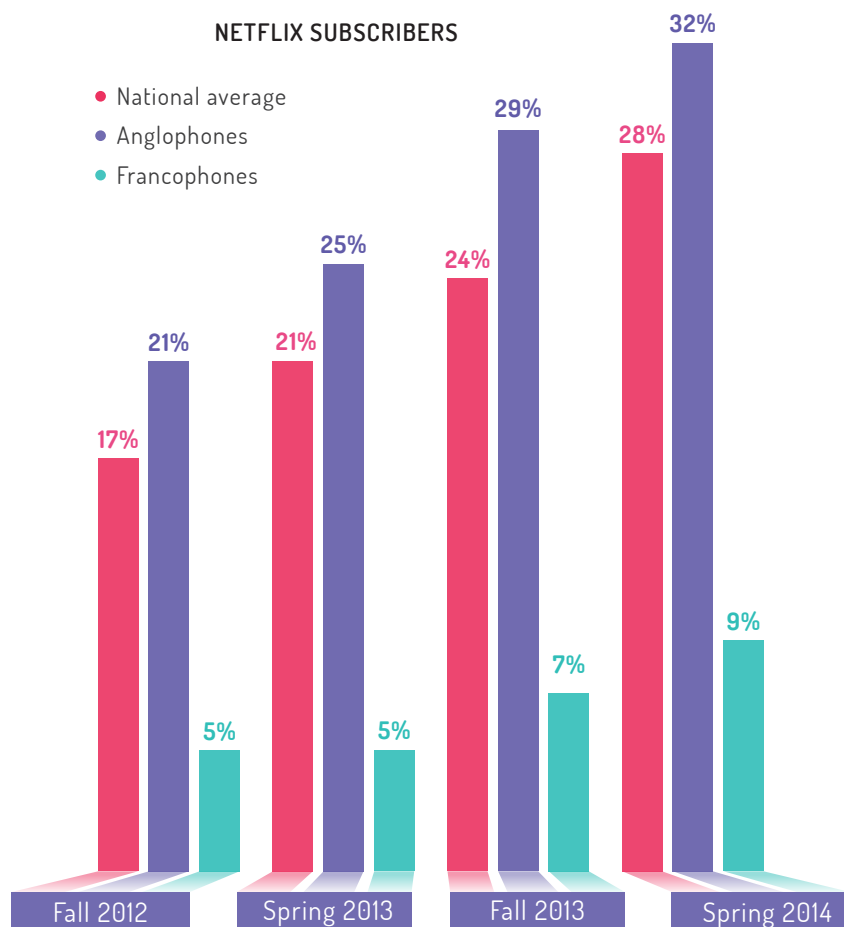
(CMPA, Profile 2013; CRTC, Communications Monitoring Report 2014; ESAC, Essential Facts 2014)

# DASHBOARD (CON'T)

All data is for the Canadian market, unless indicated otherwise

## NETFLIX SUBSCRIBERS

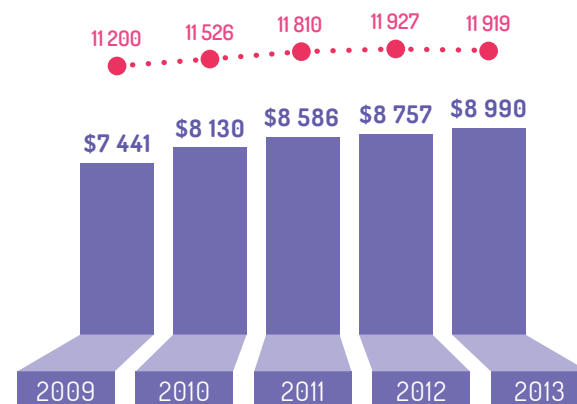
- National average
- Anglophones
- Francophones



(MTM, 2014)

## BROADCASTING DISTRIBUTION

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

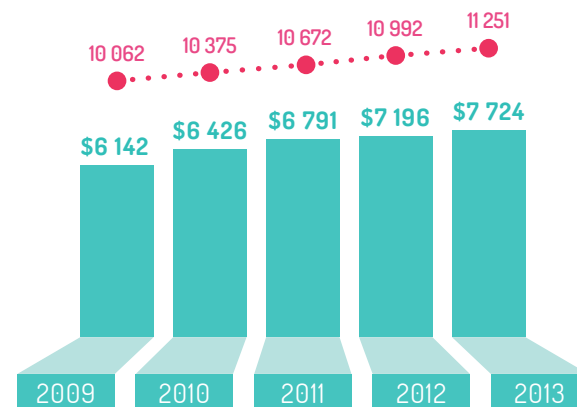


(CRTC, Communications Monitoring Report 2014)

In its most recent report, the CRTC reviewed its numbers from 2009 to 2012. This graphic reflects the new data.

## INTERNET SERVICE PROVIDERS

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

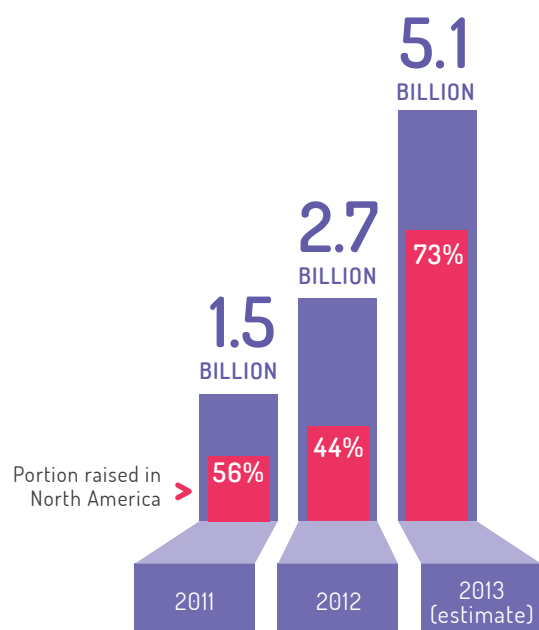


(CRTC, Communications Monitoring Report 2014)

## CROWDFUNDING

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

No updated data available



(Massolution, The Crowdfunding Industry Report 2013)

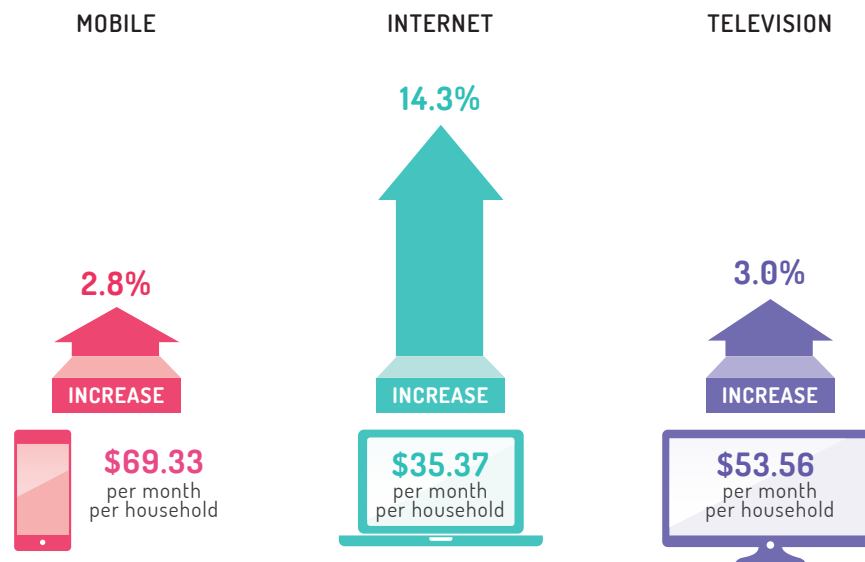
## AVERAGE BILL FOR COMMUNICATIONS SERVICES FOR CANADIAN CONSUMERS



In 2013, the amount that Canadian households spent on communication services increased by 3,2%, from 185\$ to 191\$ per month, compared to 2012.

## COST OF TELECOMMUNICATION SERVICES IN 2013

(compared to 2012)



(CRTC, Communications Monitoring Report 2014)

# ALWAYS ON: Fewer Entry Points for a Growing Number of Overwhelmed Users

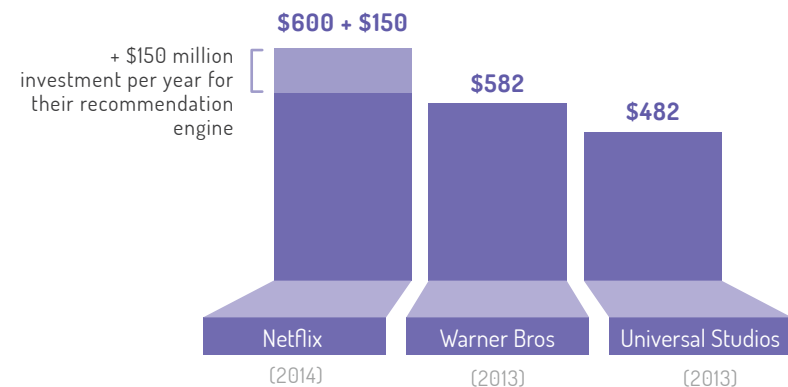
More and more people are connecting to new online content every day. Just a few players, though, control the vast network of sources and distribution. Google is the world's No. 1 search engine for both desktop and mobile devices with a 71% share. Baidu<sup>1</sup>, its closest competitor, has just 16%. On the video portal front, YouTube (owned by Google) leads the pack in terms of market share of total video audience both in the USA (73.4%) and Canada (90.4%). In North America, it comes way ahead of its closest competitors (Netflix, Bing Videos, Hulu and Dailymotion). Thanks to its "auto-play" feature however, Facebook is rapidly gaining grounds in accessing online video as well. Nearly 50% of North America's bandwidth is absorbed by YouTube and Netflix streaming in the evening (latest Sandvine 2014 report). This extreme concentration poses major challenges for content discoverability.

Innovative hardware still yields great results. For example, the iPhone 6 kicked off its launch weekend with record sales of over 10 million units. But software competition is fierce and the app market is saturated. Time spent on mobile apps skyrocketed 66% from Q4 2011 to Q4 2013

(from 18 hours, 18 minutes monthly to 30 hours, 15 minutes), but the average number of apps on a smartphone only rose by 15%. App use is 86% compared to 14% for mobile web browsing. Nonetheless, it also seems that relatively few apps are serving basic mobile needs, such as communicating, navigating and sharing images, and they are often owned by the same players who control traffic on desktop computers.

The paradox in this "unlimited marketplace" is that media technologies, services and content are growing much faster than consumption. Users, who fear being overwhelmed, now restrict their access points and their message could be summarized by: "I don't want to randomly go looking for content. If it's important or popular enough, it will get to me." Search may not be totally dead, but social is the new way to discovery.

ADVERTISING AND PROMOTION BUDGETS  
(\$ millions)



**66 %**  
OF US SMARTPHONES  
USERS DOWNLOAD  
**ZERO**  
APPS PER MONTH

**HALF**  
OF SMARTPHONE  
APPLICATIONS  
**LOSE**  
HALF THEIR PEAK  
USERS AFTER 3 MONTHS

**90 %**  
OF US USERS  
**REFUSE TO PAY FOR  
AN APPLICATION**

<sup>1</sup> Baidu Inc., created in 2000, is the first Chinese-language Internet search provider. Baidu offers many of the same products and services as Google, but is primarily focused on China, where it controls the majority of the search market.



While visibility once dominated discussions of web marketing, now the question is discoverability. The issue is one that could potentially translate into a costly spiral in terms of marketing budgets. Without properly adjusted campaigns, new shows might never gain an audience. Netflix spent more than \$600 million in advertising this year, winning the battle against all the mid-size online video portals.

#### BIGGER MOBILE SCREENS: GREATER VIDEO CONSUMPTION?



Record sales of Apple's iPhone 6 confirm the increasing popularity of screens big enough to double as tablet-sized video powerhouses, otherwise known as "phablets." 120 million units are expected to be sold by 2018. They've already replaced both smartphones and tablets in China. The phablet market is mature in Asian countries (with a 50% market penetration rate). There's a 30% market share in India. Phablet sales doubled in North America between 2013 and 2014 and \$125 million in sales are projected for 2014, or 25% of the smartphone market.

#### CHALLENGES

- ◆ Investments in technologies, services and content could exacerbate overabundance and user fatigue issues.
- ◆ Users increasingly lose interest if content lacks appeal or fails to gratify instantly.
- ◆ Major web and mobile media platforms are becoming increasingly monopolized, to the detriment of independent sites and content providers.
- ◆ Suitable marketing budgets and effective content recommendations are critical to reach and retain audiences.

#### OPPORTUNITIES

- ◆ Content distribution and promotion are becoming as important as production.
- ◆ Bigger screens will improve mobile content consumption.
- ◆ Audiences already flock to key platforms. In the case of open ones (such as YouTube), content producers and distributors can leverage a tremendous number of viewers to facilitate their own audience building.

## SCREEN CONVERGENCE: The Blending of TV and Online Consumption Continues, Driving “Creative Windowing”

TV’s shift to digital has long been a Trends Report topic, so it should come as no surprise that the United States market reached an important tipping point this summer: **internet subscribers now outnumber cable TV subscribers.**

“You can now officially think of American cable companies as internet service providers with a declining side business in television.”

- Zachary M. Sewad, senior editor at Quartz

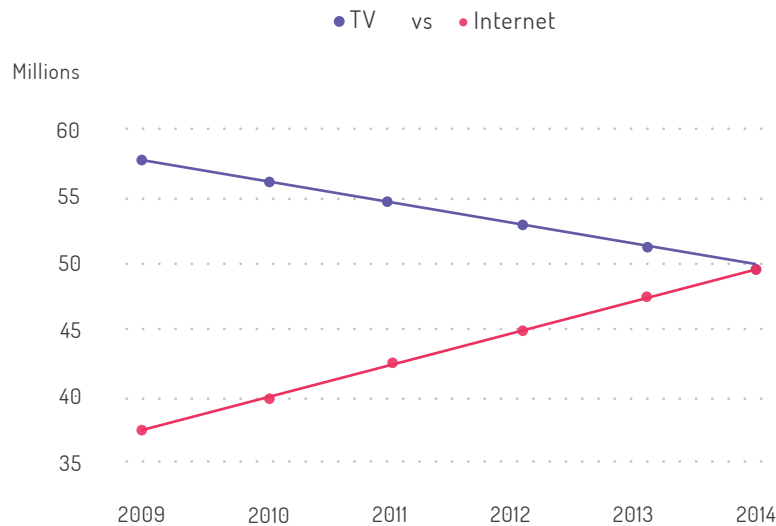
CRTC data (for 2013) suggest this could happen relatively soon in Canada. In fact, here, we already spend more on digital advertising than on traditional TV.

The lines between television and the web were already blurred. Now, it seems all the pieces are in place to speed up the convergence of both.

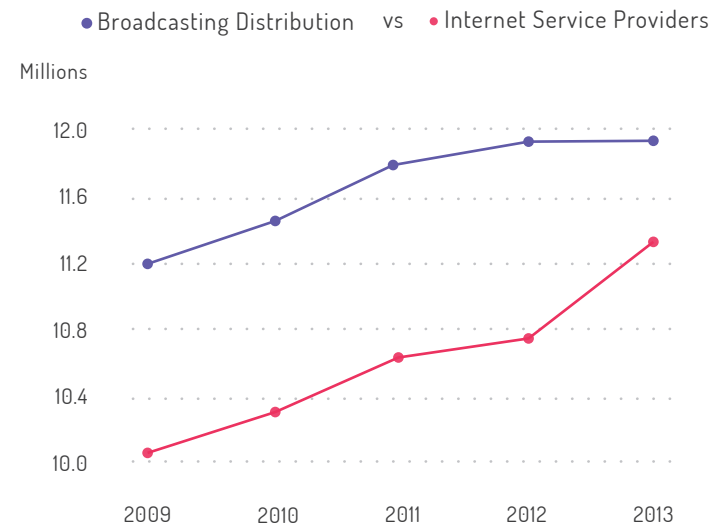
Television is slowly becoming an **on-demand medium** as it caters to digital audiences. Phenomena like “TV everywhere,” “catch-up TV,” and the recent call for unbundling TV services and allowing subscription video on demand (SVOD) independent of cable-provider subscriptions (such as Videotron Illico Club, and eventually Shomi<sup>2</sup>) clearly signal the trend.

Even so, it’s not a one-way street. Some web platforms are integrating scheduled programming and live broadcasts. Vice Media’s digital news division just partnered with Skype, whose video broadcasting platform can now be used for several live show formats. Vice, a global media company, has also thrown caution to the wind by adding live scheduled programming to its lineup.

SUBSCRIBERS TO THE TOP NINE AMERICAN CABLE COMPANIES



SUBSCRIBERS TO CANADIAN COMPANIES



<sup>2</sup> Bell Media announced the launch of a similar service, CraveTV, that will be available at first to Bell Fibe TV and Telus Optik TV subscribers. CraveTV may eventually be available to other services subscribers.

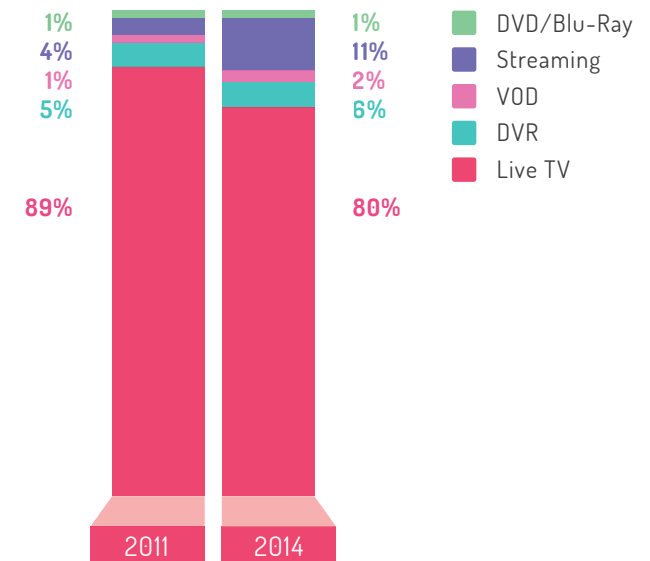
As well, Netflix recently said it was developing a daily talk show to debut in 2016. Both Vice and Netflix hope to capture viewers by providing an incentive to log in every day.

Media chronology, especially in countries like Canada and the US where it is not regulated, has become extremely flexible. As a result, many broadcast windows – as much in television as in cinema – have started to branch out.

Almost all major US networks have launched pilots on the web before premiering new shows on TV (even up to 6 weeks early). Though uncommon in Canada, there are similar cases. For instance, the TVA comedy *Les beaux malaises* made its first 4 episodes available to Club Illico subscribers a few weeks before the TV debut and the first episodes of the 3rd season of *Tiny Plastic Men* will be available online months before their broadcast premiere on Super Channel.

Traditional movie theatre windows are also disappearing as day-and-date releases become popular, which means films appear in theatres and online the same day. Distributors and exhibitors fear that online availability will hurt ticket sales. Netflix recently caused a backlash among them (including AMC and Cineplex) by announcing that the sequel to the cult classic *Crouching Tiger, Hidden Dragon* would be released simultaneously on its platform and in theatres in 2015.

**VIEWING SHIFTS: CBS IN EXAMPLE**  
Share of TV/Video Program Viewing Hours



CBS declares that on average, it generates 10% to 20% more ad dollars per viewer from Internet-streamed programs than TV.

#### UPDATE FROM PREVIOUS REPORTS : CORD-CUTTING IN CANADA

CMF's analysis of BDU subscribers for Q2 2014-15 states that Canadian BDUs lost 0.6% of subscribers in the aggregate, with the highest loss sustained by Rogers (-5.2%) and the highest gain to Telus (+14.4%). These figures demonstrate that Canadian BDUs are clearly competing against each other for subscribers to television services, but the industry as a whole is not yet facing a material erosion of subscribers.

## CHALLENGES

- ◆ The “blending” of online video and TV could lead to more cord-cutting and cord-shaving.
- ◆ Unbundling TV services could affect the value of TV content and cable and satellite distribution revenues, with a cascading effect on revenue earmarked for the production of original content.
- ◆ As audiences shift to online TV content, rights issues need to become as lean and standardised as possible.

## OPPORTUNITIES

- ◆ Series now have more time to build an audience and a reputation since they are not limited by a short first window on television.
- ◆ Audiences can discover and experience content at their own pace.
- ◆ TV still influences web content stakeholders, so there is still a high demand for people with TV expertise.
- ◆ Overall, Canadian telecom companies are not losing revenue. ISP earnings generally make up for lost cable subscriptions.

### 3 TRANSMEDIA: Game Watching and ESports

In the US, at \$21.5 billion, videogame revenues for 2013 exceeded those of the music industry and approached those of the film industry. This reality also applies to Canada, where video gaming amounted to a \$2.3B industry in 2013 (compared to an estimated \$292M in revenues for music), whereas film & television production accounted for \$5B in revenues.

If the gaming industry has been changing the face of entertainment for many years now, the rise of “**game watching**” (i.e. watching people play online games) and the corollary emergence of “**eSports**,” (i.e. increasingly popular online tournaments and events) could potentially accelerate the growth of that sector, but more importantly could represent a significant source of competition to television in terms of time spent consuming content.



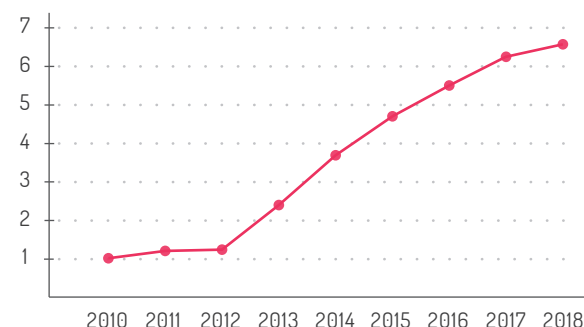
**IN 2013, 71 MILLION PEOPLE WATCHED OTHER PEOPLE PLAY VIDEO GAMES WORLDWIDE.**

Internet giants have taken note, as evidenced by the purchase of Minecraft <sup>3</sup> and Twitch by Microsoft and Amazon, respectively. This interest in the growing population of e-gamers, including game activities that are often still unknown to the general public, involves a lot of money (Minecraft sold for \$2.5 billion) and hints at the worth of mature e-gaming ventures in today's market. To echo this new reality, PlayStation announced in August 2014 that their PS4 update would include an application that lets players upload game highlights directly to YouTube.

<sup>3</sup> *Minecraft is a sandbox game created in 2011, a 3D block world in which one can travel freely and do as they please. Players can create items and buildings from scratch using materials they harvest from the world around them.*

Twitch, launched in 2011, gets 45 million unique visitors a month. Though a popular eSports event broadcaster, it's best known as an aggregator of videos produced by gamers who comment on their online gaming sessions. The livestream broadcast of the League of Legends Season 3 World Championship (October 2014) was seen by 32 million people, and 8.5 million tuned in to watch as it happened. To compare, the 2012 Olympics on YouTube peaked at 500,000 live streams.

**WORLDWIDE eSPORTS VIDEO CONSUMPTION FORECAST**  
(in Billions of Hours)



**NUMBERS OF VIEWERS FOR MAJOR SPORTING EVENTS IN 2013**  
in Millions



As with traditional sports, eSports have superstars, fans and official uniforms. The action simply happens online. Average viewing time is over 2 hours, and aficionados log in roughly 19 times per month. The online sports capital is South Korea, but the movement has spread quickly in North America bringing alternate content that gamers love. The first tournaments took place at the end of the 1990s. Then eSports quickly evolved into a professional endeavour. Media recognition moved it into the spotlight and now championships take place in stadiums with 40,000 fans

in the seats – along with about 4 times that many online – who watch top e-gamers duke it out on giant screens. Sports licensing has become extremely expensive so broadcasters see this as an appealing new model to satisfy sport fans. In July 2014, ESPN's broadcast of the Dota 2 tournament sparked a Twitter controversy (ESPN subscribers arguing that playing Dota 2 is “not a sport”) that underscored issues that were developing between traditional and online sports.

#### UPDATE FROM PREVIOUS REPORTS: ORIGINALS EVERYWHERE...GROWING

Many online platforms now produce original content. Major media groups continue to fine-tune their strategies as they increasingly wade into production of branded content and original programming for the internet. Even industries that had nothing to do with content creation have diversified in that direction. For example, the Marriott hotel chain aims to produce content that will entertain their younger clientele. The current major online preference is short video segments, but *Huffington Post Live* – with 100 million video views per month – has launched several live broadcast projects. It aims to strengthen its video content strategy ushered in by the live service 2 years ago. An anticipated agreement with Vice Media would ensure a supply of videos in line with trends that favour engaging, highly social content. Global TV production firm Endemol's digital arm (Beyond USA) is launching Beyond Originals, an online platform for its latest productions (both series and reality shows). It will give online creators a chance to take part in content development.

#### CHALLENGES

- ◆ Game watching and eSports are a proven generational, content consumption craze often misunderstood by traditional network executives and older audiences.

#### OPPORTUNITIES

- ◆ A market of enthusiastic e-gamers that exists exclusively online.
- ◆ A young population ready and willing to pay for online content.
- ◆ Room for niche programs raises the feasibility of new online games.
- ◆ The gaming economy is maturing thanks to diversified and growing revenue streams.
- ◆ Tournaments provide game publishers with the perfect opportunity to promote new products.

The “maker movement” defines how audiences appropriate TV, film and video game productions and contribute to them using media tools and social media. We first mentioned this subject in the Mid-Year Trends Report (August 2014). Here we’ll focus on users becoming professional “makers”, especially in the video production realm.

This new breed of creators reaches millions. Its members are supported by self-distribution and a self-branding culture. They are web-born content producers with digital personalities that share one outstanding characteristic: they’re all self-taught. While making a name for themselves – whether through comedy, music or the now classic video blog (vlog) format – they’ve rewritten the rules of stardom. Traditional players are paying close attention to these “mini media hubs.”

They gained fans by being genuine and responding to audiences. They maintain a dialogue with followers via several platforms – among them Twitter, Instagram, Snapchat and Tumblr – but YouTube is still the primary platform they create for.

Social media, which is all about sharing, has heavily influenced YouTube culture. That includes sharing the wealth through collaboration: YouTubers constantly invite each other to do videos for their respective channels. It helps introduce them to new crowds, meaning everyone benefits when YouTubers work together to unite diverse audiences.

PewDiePie has over 32 million subscribers to his main channel, making him the most popular YouTuber for now. It’s said the digital celebrity makes some \$4 million a year in revenues from advertising on his channel and from sponsorship deals. His fame springs from videos that feature personal commentary and reactions to video games as he plays them.



Online content producers have also turned to other video-creation platforms. Vine and Snapchat are increasingly popular. The first lets users make looping 6-second videos, while Snapchat shares photo and videos ephemerally, meaning posts disappear after a few seconds. There are also Snapchat Stories where users sequence Snaps (no longer than 10 seconds each) to create narratives. Vine and Snapchat call their stars Viners and Snapchatters, the most popular being Jérôme Jarre, a 23-year-old from France. He has 7.7 million subscribers on Vine and tons of followers on Snapchat. Current rates for sponsoring Jarre’s posts are reported to be around \$25,000 on Vine (6 seconds-videos!) and \$35,000 for a Snapchat video. In October 2014, Jarre turned down a \$1M offer from a New York advertising agency; the young man considered that the deal would break his freedom of traveling regularly and limit him from doing what he wanted.



YouTube isn’t just a niche culture anymore. The talent is mainstream. A *Variety* survey of US teenagers (July 2014) showed that of the Top 20 most liked and influential media personalities and celebrities, the Top 5 were YouTubers. That put them ahead of stars like Jennifer Lawrence, Katy Perry and Leonardo DiCaprio. Of the complete Top 20, 10 were “digital” personalities. In short, the new creators now claim more room in the hearts and minds of consumers and, by extension, in their media consumption.

Content on video platforms was once widely seen as amateurish. In fact, many still think YouTube is little more than mediocre user-generated content (UGC). But it's time to reconsider as the latest web superstars have really raised the bar. Users now expect more from online sources, especially YouTube. The gap between amateur and pro content shrinks every day. Brands in search of new advertising venues have already capitalized on this. Entertainment companies want to take advantage of it, too.

A good example is the series of YouTube videos created by Lionsgate for the third movie in their *Hunger Games* franchise. The studio had YouTube stars present themselves as characters in the fictional *Hunger Games* world. One clip followed a YouTuber famous for teaching self-defence techniques as he trained a group of "Peacekeepers" (the police force in the films). Five branded content videos were launched a few weeks before the movie's theatrical release.

#### HOW DIGITAL STARS GENERATE REVENUES



**Shared revenue** with YouTube for ads that play on their videos (1 million views can get the creator anywhere from \$1,000 to \$2,000).



**Brand association** (brands shown in videos, branded content) Lionsgate/Hunger Games/YouTubers example, as cited previously.



#### Merchandise

In October 2014, clothing brand Aeropostale partnered with five popular Viners to launch a t-shirt collection designed by the Vine stars, sold online and in stores.



#### Gigs on other media (TV, film, radio, book deals)

YouTuber Grace Helbig saw her book *Grace's Guide* become a #1 New York Times Best Seller only one week after its release in October 2014.

#### CHALLENGES

- ◆ Today's young audiences expect direct and constant contact with digital stars. Traditional players must adapt quickly if they want to stay in the game.
- ◆ Some web creators attract more advertising dollars, so traditional stakeholders must learn how to collaborate, or compete, with them.
- ◆ The high concentration of global audiences on YouTube makes it harder for traditional content producers to attract attention outside of such online platforms.
- ◆ 70% of YouTube views are said to happen outside of the USA, which confirms the global position of the platform.

#### OPPORTUNITIES

- ◆ YouTube and other video-sharing platforms now host some of the hottest new stars. Traditional media can develop a variety of partnerships with them to attract new viewers.
- ◆ Some TV industry players hope to take advantage of new business and creative opportunities by investing in ventures targeting YouTube and YouTubers. These include Temple Street, Boat Rocker Studios, Blue Ant, Corus and Endemol Beyond.



Phenomenons currently influencing TV consumption impose new economic dynamics between players in the value chain. Direct monetization now happens more often directly between content and end users. There are fewer middlemen, friction is reduced and results come fast. This section elaborates on how televised content streaming may bypass cable providers so that subscribers are billed directly. Plus, fan labour and funding have triggered new economic challenges in the production and distribution of original web content.

### AVOIDING THE GATEKEEPERS

Growing consumption of online audiovisual content – along with increasingly competitive OTT providers – are starting to shut out several broadcasters in favour of streaming services independent of cable networks. Until recently, most “catch-up TV” and “TV everywhere” arrangements required users to keep their cable subscription (“cable network authenticated catch-up services”). But US networks such as ESPN and CBS, as well as specialty services like HBO, recently announced, or launched, online broadcasts free of cable subscriptions. HBO says it will stream programs starting in 2015 through a standalone “web only” service. Rather than cable authentication, it will require a monthly subscription to HBO’s Go app. The day after HBO’s announcement, CBS said it would debut *CBS All Access*, subscription-based streaming for all current shows, as well as some of its classic catalogue.

Such business decisions suggest that “gated” SVOD and catch-up services have failed to match expectations. They also confirm that users want unrestricted access to content, something we highlighted in the last Trends Report. This business logic defies previous standards whereby a limited number of cable and internet services split streaming for their own subscribers. Instead, it would give online access to as many subscribers as possible in the hope they’d likely become loyal customers.

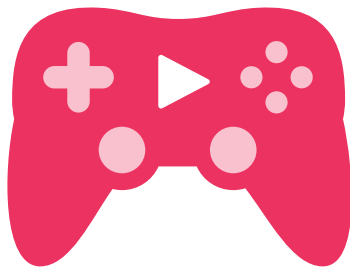
### WHAT’S THE VALUE OF FAN LABOUR?

The activities of web and social media users – mash-ups, sharing, editing, creating derivatives or additions, recording music covers, filming themselves using a brand or a copyrighted product – have always raised legal and ethical questions about the fair use of copyrighted work. There are now immensely more fan-made videos on sites like YouTube or Twitch (sold to Amazon for \$1 billion in September 2014). This has led to concerns over both fair remuneration for the “new breed” of creators, and royalty payments to initial rights-holders. We expect a growing debate on whether fans should have to pay for the copyrighted content for which they build tremendous engagement and followers. Or on the contrary, whether brands and corporations should reward fan-created visibility that brings major marketing and promotional attention to their products.

**“In recent years, media conglomerates have become more aware of how fan labour activities can add to and affect the effectiveness of media product development, marketing, advertising, promotional activities, and distribution. They seek to harness fan activities for low-cost and effective advertisements.” - Wikipedia**

# 19 TIMES MORE

FAN-MADE VIDEOS ABOUT VIDEO GAMES ON YOUTUBE THAN VIDEOS RELEASED BY GAME PUBLISHERS



9 MILLION  
FAN-MADE  
VIDEOS



GAME  
PUBLISHER  
VIDEOS

## FAN FUNDING

As highlighted in previous reports about crowdfunding, fans are now more often asked to “donate” directly to project creators through “subscription-based crowdfunding”. This emerging trend lets users regularly contribute to creators themselves – as opposed to single-event fundraising, or projects supported through a limited-time campaign. Fans can back their favourite creators on websites like Patreon and Subbable by becoming ongoing patrons.

Now that some sites have embraced “fan funding,” the model seems to be gaining more notice. Vimeo, for instance, has offered a fan-funding system (Tip Jar) since September 2012 that allows donations to video artists who post there. YouTube announced its own “Fan Funding functions” in September 2014. It lets fans “tip” channels up to \$500. YouTube takes 5% plus a small transaction fee, which varies slightly according to the market. Both the creator and viewer have to be in a country where the program exists, which for now includes the US, Australia, Japan and Mexico. A Canadian cannot contribute to an American YouTuber yet.

### CHALLENGES

- ◆ Bypassing traditional gatekeepers can speed the move of cable subscribers to online streaming.
- ◆ Viewers are likely to choose fewer channels but engage directly with content and services (pick and pay).
- ◆ The industry will need to find the right balance between legal use of copyrighted works and fair remuneration of all parties, including fan work.

### OPPORTUNITIES

- ◆ Fan labour is an opportunity for more transparent, more social marketing and promotion.
- ◆ Creators can now get funded directly by fans, which can allow them to have a lighter, more agile creation process.

## THE BIG AND THE AGILE: Hungry for Global Media Power

*Old and new entrants, funded by huge war chests, dominate global media expansion. The competition is heating up.*

Partnerships, mergers and acquisitions characterize the audiovisual industry's global growth. The biggest tech companies may spend up to \$600 billion this year to acquire start-ups. Ernst & Young recently declared that mergers and acquisition activity among global media and entertainment companies has hit a 3-year high, and the appetite for additional deals is growing. But what stands out in this heated digital evolution are new ties that tech and web giants seem to be developing with old-school audiovisual barons whose industry is on the edge of disruption. Investment scenarios look good since Facebook or Apple could easily buy Lionsgate or AMC, which are valued at \$4 billion dollars each – just 20% of what Facebook paid for WhatsApp (\$22 billion).

Mergers and consolidation kept the Canadian broadcast industry on its toes until last year. But – with local takeover opportunities decreasing – the next few months could reveal different strategies, such as collaborations among national players and “old world-new world” partnerships with web companies. For example, Rogers recently announced a \$100 million deal with Vice Media to build a Toronto studio – a way to create news and programming for digitally astute younger audiences.

Collectively, the three biggest subscription VOD services (Netflix, Amazon, Hulu) will spend \$6.8 billion in 2015 for both acquisition and original programming (RBC Capital Markets). While this spectacular OTT growth benefits Hollywood and the TV industry (mainly in the US), it also signals greater pressure to invest in programming, especially in distinctive and exclusive originals. The main Canadian broadcasting groups, by comparison, will spend 4% more on programming in the aggregate (\$4.2 billion) in 2014 (source IHS).

MERGERS & ACQUISITIONS : ANALYZING TOP TECH ACQUIRERS

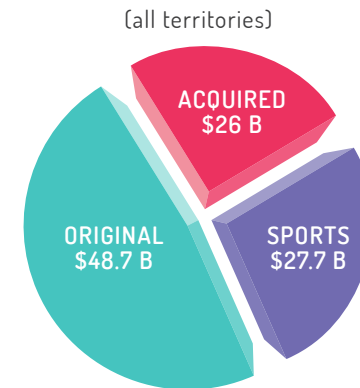
2009	2010	2011	2012	2013	2014
Microsoft <sup>1</sup>	Google <sup>1</sup>	Google <sup>1</sup>	Google <sup>1</sup>	YAHOO! <sup>1</sup>	Google <sup>1</sup>
IBM <sup>2</sup>	IBM <sup>2</sup>	zynga <sup>2</sup>	facebook <sup>2</sup>	Google <sup>2</sup>	YAHOO! <sup>2</sup>
ORACLE <sup>2</sup>	facebook <sup>3</sup>	facebook <sup>2</sup>	SIEMENS <sup>3</sup>	Apple <sup>3</sup>	twitter <sup>3</sup>
Google <sup>4</sup>	GROUPON <sup>4</sup>	BOSYSTEMS <sup>2</sup>	GROUPON <sup>4</sup>	facebook <sup>4</sup>	Apple <sup>4</sup>
intuit <sup>5</sup>	AOL <sup>5</sup>	GROUPON <sup>5</sup>	CISCO <sup>5</sup>	CISCO <sup>5</sup>	intuit <sup>4</sup>
ENERNOC <sup>6</sup>	DELL <sup>6</sup>	ebay <sup>5</sup>	ORACLE <sup>6</sup>	IBM <sup>5</sup>	facebook <sup>4</sup>
AUTODESK <sup>6</sup>	zynga <sup>6</sup>	AUTODESK <sup>7</sup>	AVNET <sup>6</sup>	BOSYSTEMS <sup>5</sup>	Microsoft <sup>7</sup>
CISCO <sup>6</sup>	ORACLE <sup>8</sup>	BlackBerry <sup>8</sup>	twitter <sup>6</sup>	twitter <sup>5</sup>	Rakuten <sup>7</sup>
amazon.com <sup>6</sup>	CISCO <sup>8</sup>	NUANCE <sup>8</sup>	IBM <sup>9</sup>	intel <sup>5</sup>	ADOTECH <sup>7</sup>
NASPERS <sup>6</sup>	NASPERS <sup>8</sup>	salesforce <sup>8</sup>	Microsoft <sup>10</sup>	ebay <sup>10</sup>	j2 Global <sup>7</sup>
CB INSIGHTS	SIEMENS <sup>8</sup>	Adobe <sup>8</sup>	BOSYSTEMS <sup>10</sup>	AUTODESK <sup>10</sup>	
	BOSYSTEMS <sup>8</sup>		intel <sup>10</sup>		

(CB Insights)

## 6 THE BIG AND THE AGILE (CON'T)

US broadcasters and SVOD services hope for big European inroads. Discovery Communications, AMC Networks, Viacom and Warner Bros. all acquired various European TV and media companies this year, confirming that traditional players are also keen to take advantage of cross-border expansion. Netflix – which recently moved into the last major European markets, including France, Germany, Austria, Belgium, Luxembourg and Switzerland – may have reached a turning point for its own global expansion: now it must compete against national broadcasters looking to launch their own independent SVOD platforms. On the other hand, this impetus could spell trouble for broadcasters if they must fight for a limited number of national viewers against web giants who've built global audiences and revenue streams.

2014: BREAKDOWN OF TV PROGRAMMING TYPES



### UPDATE FROM PREVIOUS REPORTS: CANADA BUILDS AN MCN PRESENCE

Multi-channel networks (or MCNs) manage a range of video content creators, primarily YouTubers and YouTube channels. The largest MCN viewership (over 5.5 billion views monthly across thousands of channels) is Maker Studios (Disney). AwesomenessTV (DreamWorks Animation) has the most channels (86,000+). Now Canadian players have taken to MCNs: Blue Ant Media bought into music-focused Omni Media and Corus invested \$12 million in digital lifestyle network KIN. DHX Media – a producer of children's shows – recently became a certified MCN as well, as did CBC / Radio-Canada.

#### CHALLENGES

- ◆ It becomes more difficult to compete against the few players whose core assets are exclusive programming and strong audience base.
- ◆ Original programming costs are increasing.
- ◆ As tastes and cultural references become more homogenous across global audiences, it becomes harder to develop a distinctive offering.

#### OPPORTUNITIES

- ◆ As tastes and cultural references become more homogenous across global audiences, it becomes easier to sell formats and premium content worldwide.
- ◆ A niche strategy can be a good alternative: local presence and regional coverage can differentiate content producers and distributors from global players.