

# Digital Media at the Crossroads - 2020



## **THE DIGITAL MEDIA UNIVERSE IN CANADA: Measuring the Revenues, the Audiences, and the Future Prospects**



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# 1. Introduction

# 1.1 Study Mandate and Objective

## Mandate

- To **gather and present** publicly available data and information on **trends** in four creative sectors
- To **analyze** the impact of **digital disruption** of Canadian content ecosystem

## Objectives

- To set the stage for lively DM@X discussions on policy
- To do a refresh of the 2019 DM@X report – thus ensuring year over year continuity (*see data updates in the appendix*).

## 1.2 Last Year's Findings and This Year's Theme

Previously, on DM@X...

- **Digital advertising** was beating market share forecasts – *it still is.*
- **Mobile's dominance** in all sectors was noted – *and has grown more so.*
- **Social media advertising was growing fast**, while search had plateaued – *while the platforms gain, lose momentum, digital ad revenue marches onward.*

This year's Canadian Digital Media Universe is all about **streaming** – how it is **globalized** and **networked** and is a clear disruptor in terms of:

- Support for Cancon;
- Canadian creators' livelihoods; and,
- Democracy and society.

# **2. Newspaper Publishing and Journalism**

## 2.1 Newspaper Publishing and Journalism - Key Questions

- What is the state of the newspaper business model?
- How is news/information now mainly consumed in Canada?
- What is the state of trust in the news?
- Public intervention update - will these policies have their intended impact?

## 2.2 Business model - A check-in from 2018

- Based on Statistics Canada data for 2018 (released Nov 2019 and now includes online-only newspaper publishers):
  - Total newspaper ad sales were **\$1.5b in 2018** down 18.2% from 2016
  - Print ad sales totalled **\$1.2b**, down from \$2.1b in 2014.
  - Digital advertising sales grew by **20.8% from 2016 to 2018** - reaching **\$295.6 million**.
- Paywalls/digital subscriptions, with various applications, now mainly the norm. **Digital circulation sales up, now the second largest source of revenue for the newspaper industry:**
  - Canadian newspapers earned **\$52.7 million** from online circulation, **up 23.1%** from 2016.
  - For some publications revenue from digital is overtaking print. But as a sector overall, as in previous periods, *this increase is not nearly enough* to offset declining print advertising revenues.
- Overall, newspaper publishers' operating profit margin decreased to **3.3% in 2018**, down from 5.7% in 2016 and 9.3% in 2014.

**Punishing declines persist but digital revenue *seemingly* up +20% between 2016-2018**

## 2.3 Business model – Right numbers for 2018, but is it the wrong story for 2020

- Digital revenue *seemingly* up +20% between 2016-2018, according to Statistics Canada but some signs point to digital advertising revenue for newspapers plateau-ing and or dropping
- In annual reports:
  - TorStar reports that its “digital advertising revenue has not grown significantly” and it “expects that segment to continue its modest decline.”
  - Postmedia describes strong growth in digital ad revenue (+7%) but it unclear how much relates to revenue for newspaper properties vs. other digital services and domains operated by Postmedia
- What has changed since 2017-2019?
  - The continued dominance of Facebook and Google in the digital ad sphere and heavy reliance on each for referral traffic to publishers sites
  - Apple News service launched for \$9.99/month to access magazines and paywalled news content – 50:50 revenue split with publishers – but fewer referrals to newspaper websites

**Digital revenue emphasis shifting from advertising to circulation +  
Not easy to partner w/ Facebook, Apple, Google & come out ahead**

## 2.4 Digital transformation – Select global brands find their way

Digital transformation is expensive and difficult to pull off. Those with scale, global reach and willingness to partner seem to be leaving the rest of the field behind:



- Washington Post's Arc Content Management System (CMS) becomes a major revenue stream, as the technology expands beyond a publishing/media customer



- The Guardian reached break-even for 2018-10 with £224.5m in revenue, "aided by growth in digital revenues and increased contributions from readers." Today, digital accounts for 56% of Guardian Media Group revenue



- New York Times counts more than 3m paid digital-only subscribers and more than 4m total subscribers. Looking ahead: Objective: 10M paying readers, incl. 2M from outside the US



- Though not necessarily a global brand, the LATimes first narrative podcast (Dirty John) produced with Wondery was downloaded 6m+ times in first months, earned 1m print readers

### Global legacy brands start to square the circle as hybrids + data analytics

Source: The New York Times, *New York Times Tops 4 M mark in Total Subscribers*, Nov 1, 2018 ; The Guardian, *Guardian broke even last year, parent company confirms*, Aug 7, 2019  
The Washington Post, *Arc Publishing unveils state-of-the-art commerce platform Arc Subscriptions*, Mar 16, 2019

## 2.5 Digital transformation – Challenge for Canadian brands

Major digital platform plays in Canada have not successfully replaced lost ad and print subscription revenue for print papers:

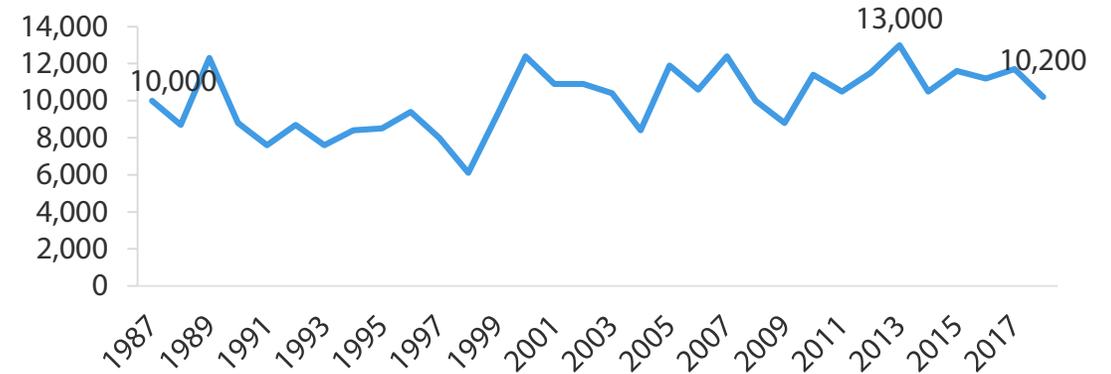
- **La Presse** ceased weekday print 2015, went all digital 2017. No panacea and in late 2018 converted to not-for-profit but too early to gauge impact
- **Postmedia** cuts local newspapers and trims staff, but still can't meet shortfall
  - \$125.1 million in digital advertising in 2019 (+7% from 2018), 20% of total revenue
  - \$259.4 million in print ad in 2019 (-16% from 2018), 42% of total revenue
- **Globe & Mail** digital *subscribers* up but still had layoffs in 2019. Specialty digital product, *Cannabis Professional* ending. Subscribers can now listen to articles in English, French and Mandarin (2019). Query potential revenue from Globe and Mail Centre lease?
- **Toronto Star** cut free Star Metro commuter papers (and staff in 2019). Selling Hamilton Spectator Building for \$25.5M. Arts section facing cuts in 2020.

**Still no downsized, digitized and diversified stability for Canadian “papers”**

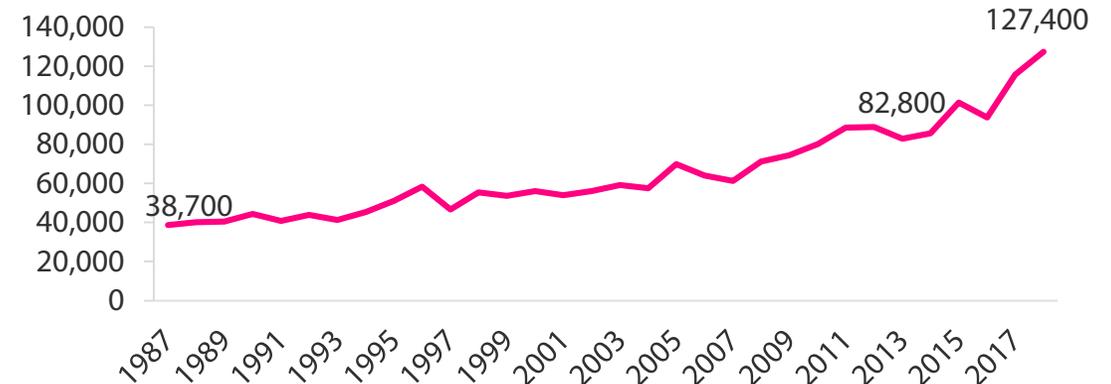
## 2.6 Journalism jobs – ups and downs and an overall plateau

- Full-time journalists in Canada rose steadily from 1987-2013. Number of **journalism jobs dropped by over 20%** from 13,000 (2013) to 10,200 (2018)
- Where are journalists working? There is much demand for content to fuel the ravenous communications needs of brands online
  - Over the same time-period - **PR, advertising and marketing positions mushroomed by 54%** – from 82,800 in 2013 to 127,400 in 2017
- Little research exists but what there is suggests Canada's newsrooms lack diversity and are challenged to represent/appeal to Canadian population

Full-time employed journalists



Total employed in PR, advertising and marketing professions



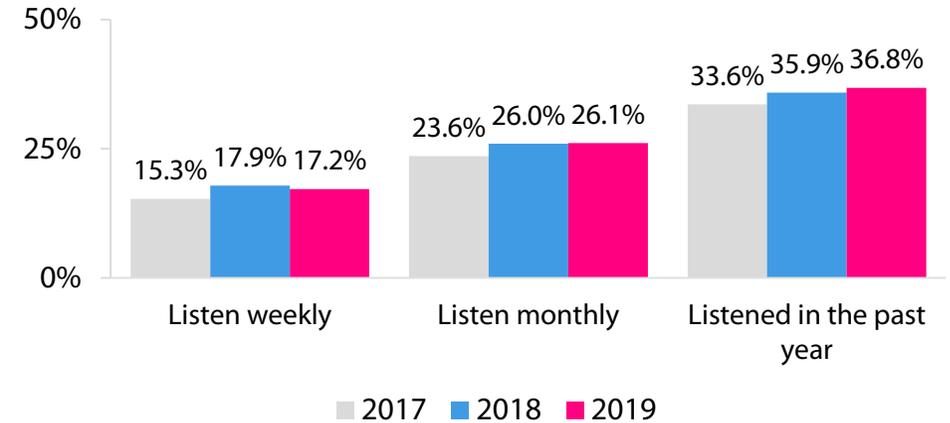
**Reporter's skills-set may be fulfilling content demands elsewhere**

Source: CMCRRP, *Growth and Upheaval in the Network Media Economy, 1984-2018*

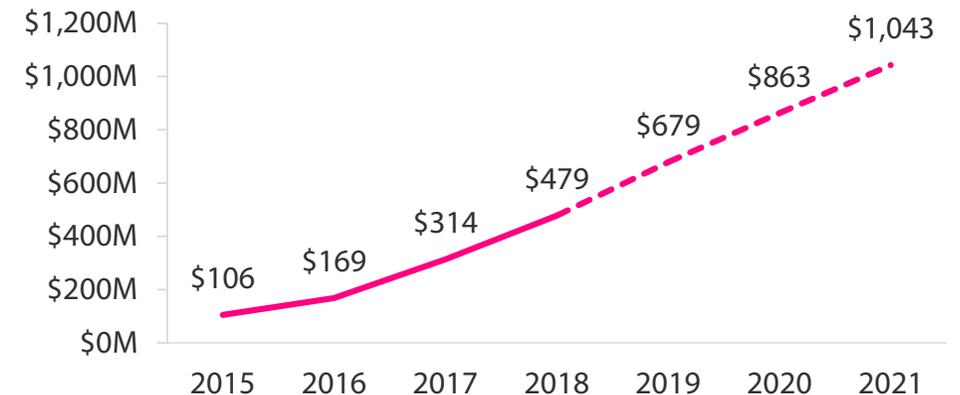
## 2.7 Podcasts – Listening the new reading

- Growing audience for podcasts in general: 17% of Canadians listen to podcasts every week.
  - Flexible format, less expensive to produce than radio
  - Diversity of subjects possible and appetite for Canadian content
- Top platforms: YouTube, Apple Podcasts/iTunes, Spotify.
  - Spotify going strong on podcast: \$340M acquisition of podcast network Gimlet Media in February 2019.
- News organizations investing in audio:
  - NYTimes “The Daily” synthesizes current events for 2m+ listeners in ~25 minutes, LA Times true crime, “Dirty John”
  - CBC’s success with Someone Knows Something, Missing & Murdered, Canadaland podcast network, Postmedia: Canada Covered
- 23% of Canadian podcast listeners have provided direct monetary support to podcasts they listen to.
  - Crowdfunding, live events, merchandise, etc.

% of Canadians 18+ who listen to podcasts



Podcast ad revenue in the US (US\$ millions)



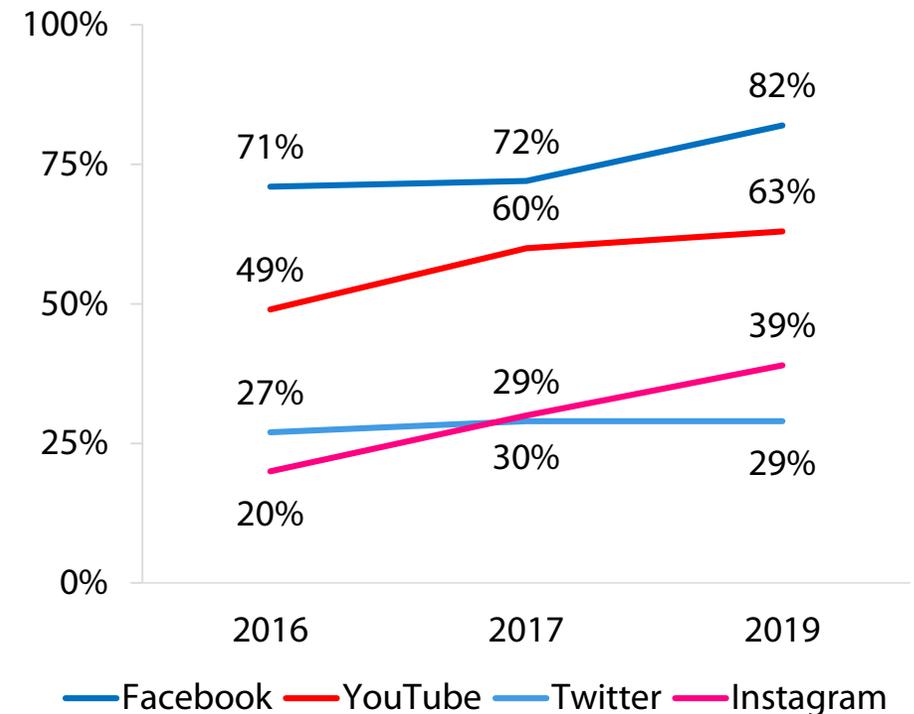
## Can Canadian market sustain a plethora of public affairs podcasts?

Source: Audience Insights Inc., Ulster Media and TPX, *The Canadian Podcast Listener 2019*

## 2.8 Social media - Rising concerns over loss of privacy

- Data privacy is a universal issue as content creators/distributors attempt to capture and exploit digital audience analytics to attract advertisers
- 73% of Canadians says they're concerned about potential privacy violations from using Facebook (2019)**
  - 2018, revelation that Cambridge Analytical harvested personal information from 87 million FB users' profiles, incl. 620,000 in Canada
  - 32% of Canadians are hesitant about using social media or taking part in an online discussion due to harassment concerns.
- And yet, **82% of Canadians still use FB on a weekly basis** and Canadian usage is up on all platforms but Twitter

*Weekly usage of social media, Canada*



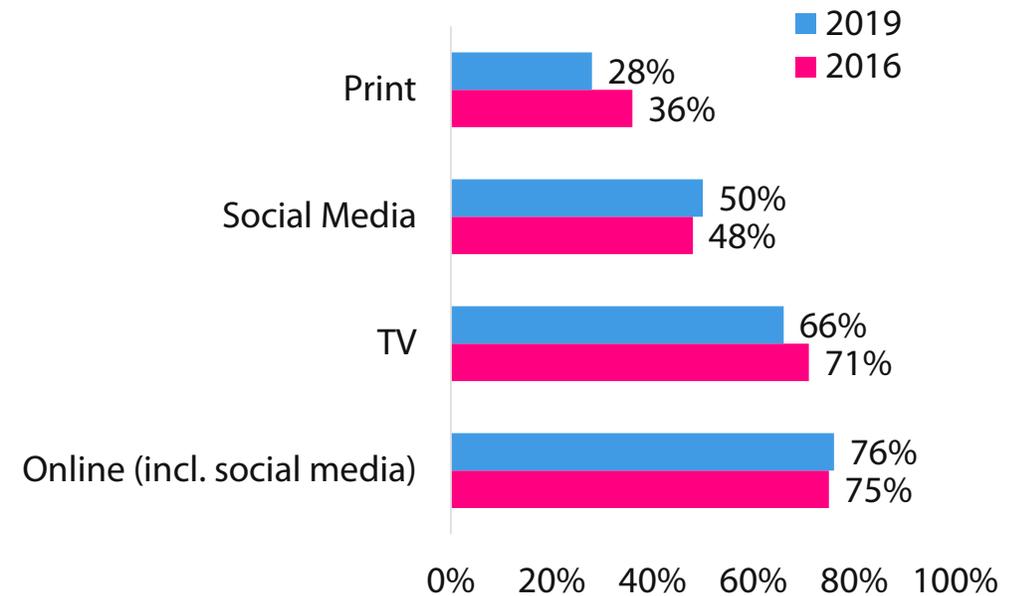
**Social media is scary to Canadians, but the addiction is real**

Source: Insight West, 2019 Canadian Social Media Insights – CIRA, Canada's internet factbook 2019 – Ryerson Leadership Lab, *Rebuilding the Public Square*

## 2.9 Paradox Source/Trust

- Erosion of traditional sources for news i.e., TV and print, while online stays steady:
  - 40% of Canadians use FB for news
  - October 2019, FB launched “Facebook News” in the US
- But trust for social and online generally is **low**
  - Edelman’s Trust Barometer in 2020, globally 76% worried about **false information or fake news being used as a weapon**
  - 60% of Canadians - the government should intervene to require social media companies fix problems they have created
- Measures to curb fake news:
  - Facebook labelling suspicious content as “False Information” with independent fact-checking. However, doesn’t apply to sponsored publications (e.g., political ads).
  - Label for content coming from state-sponsored media
  - Google News Initiative pledges \$1m grant to the CJF for national news-literacy campaign called NewsWise

Sources of news, Canada



Trust in news source, Canada, 2019

**52%** trust in news overall

**35%** trust in news in online search

**20%** trust in news on social media

**More Canadians accessing news online/mobile despite lower trust in news online/social**

Source:: Reuters Digital News Report 2019

## 2.10 Intervention Policy

- The policy case for supporting journalism is focused on the **preservation/strengthening of democracy, not the production/exhibition of Canadian content** – as for the cultural sector.
- Ottawa to release **\$595M over five years to support select news media outlets** (budget 2019), distributed between three initiatives:
  - A 25% refundable tax credit on salaries for journalism organizations.
  - Canadians can claim up to \$500 for digital news subscriptions for a tax credit worth up to \$75.
  - Not-for-profit news organizations will be able to apply for charitable status, allowing them to receive donations and issue tax receipts up to 15% to digital subscribers.
  - *Limitations:* recipient outlets must be approved by a panel of experts and be at least 75% owned by Canadians. Industry, sports, recreation, lifestyle and entertainment-specific publications are not eligible.
- **Local Journalism Initiative:** a five-year national program supported by the Government that provides funding to Canadian media organizations to **hire reporters in ‘news deserts’** (\$60,000/year/journalist).
  - 7 non-governmental administrator organizations representing community TV, radio, English, French and Indigenous print and online news media throughout Canada.
  - Content produced by LJI reporters is posted on a Portal, and other news organizations can freely reuse it (CC licence).
  - In the LJI first call (Dec 2019), 105 journalists were subsidized in 95 host news organizations.

**Too early to see broad impact, and programs will evolve – but “total independence” not likely feasible**

## 2.11 News - Conclusions

- We *may* be approaching what the “new stability” looks like for traditional Canadian newspapers – albeit in downsized form - but more likely there are still more cutbacks and closures to come.
- As in the streaming business for television, big tech and big international brands will continue to divert the attention of Canadians.
- Trust not guaranteed in the traditional Canadian media, but government support of journalists in smaller communities, and some entrepreneurial initiatives might preserve the emphasis on democracy.
- The growing assault on privacy that drives digital advertising is changing public opinion on the big tech platforms and support the resolve of governments to push back – in Canada and abroad.

# 3. Television

## 3.1 Television Content in a Streaming Age – Key questions

- How fast is **revenue declining** for Canadian television?
- What is the **real impact** of global television streamers in Canada?
- Will Canadian content in the new streaming environment **break, bend, or bolt ahead**?
- **Who will prosper** in the age of both high demand for programming and streaming spillover into Canada?
- Are we headed for a future where Canadian jobs are more “**manufacturing**” than creating **intellectual property (IP)**?

## 3.2 Once upon a time... in Canada

- Film and TV production volume: **+31%**
  - More growth in 2018/2019
- Canadian TV revenue: **-4%**
- All streaming services' revenue: **+164%**

Total film and television production volume



Canadian TV revenue



Internet-based video services revenue in Canada



**Streaming services revenue set to surpass regulated TV broadcasting revenue by 2022**

## 3.3 The streaming torrent

- **In 2019, an increasingly complex landscape**
  - The recent – and upcoming – entry of major players in the US accelerates the dynamics and stiffens competition: Disney+, Apple TV+, Warner (HBO Max), Universal (Peacock), Quibi, etc.
- **And in Canada?**
  - Netflix now not the only game in town in Canada.
  - Bell (Crave), CBC (Gem, ICI TOUT.com), Videotron (Illico.tv) have unique offerings
  - A good share of streaming services originals is manufactured in Canada (e.g. Apple commissioned DHX for exclusive *Peanuts* content).



**2019 marked another turning point in the Streaming Wars: Disney, Apple ...**

## 3.4 No rest for the consumer

- **Streaming services have mushroomed and evolved**
  - Once upon a time, Netflix had all the good content, just like Blockbuster.
  - But now all the major media and production companies are reserving their content for their own streaming ventures.
  - And streaming is more than just cable channels via the Internet – they are accessible libraries of infinite size.
  - To gain market share streamers are commissioning original content in unprecedented numbers - 495 scripted original series in 2018 (+85% in 7 yrs.)
  - Streaming services include very niche services serving specific interests on a global basis – and the competition includes games and UGC (e.g. TikTok).
- **Future streaming packaging will look a lot like cable**
  - Different consumers will likely buy different packages or bundled services, and just like cable, consumer personas will emerge.
  - There is no consensus on how many streaming services the market will buy, or how packages will be sold or how, or the depth of each market segment.
  - Streaming services will plateau and the market will likely consolidate – but based on the programming investment, not quite yet.

*Estimated monthly spend on SVOD services*

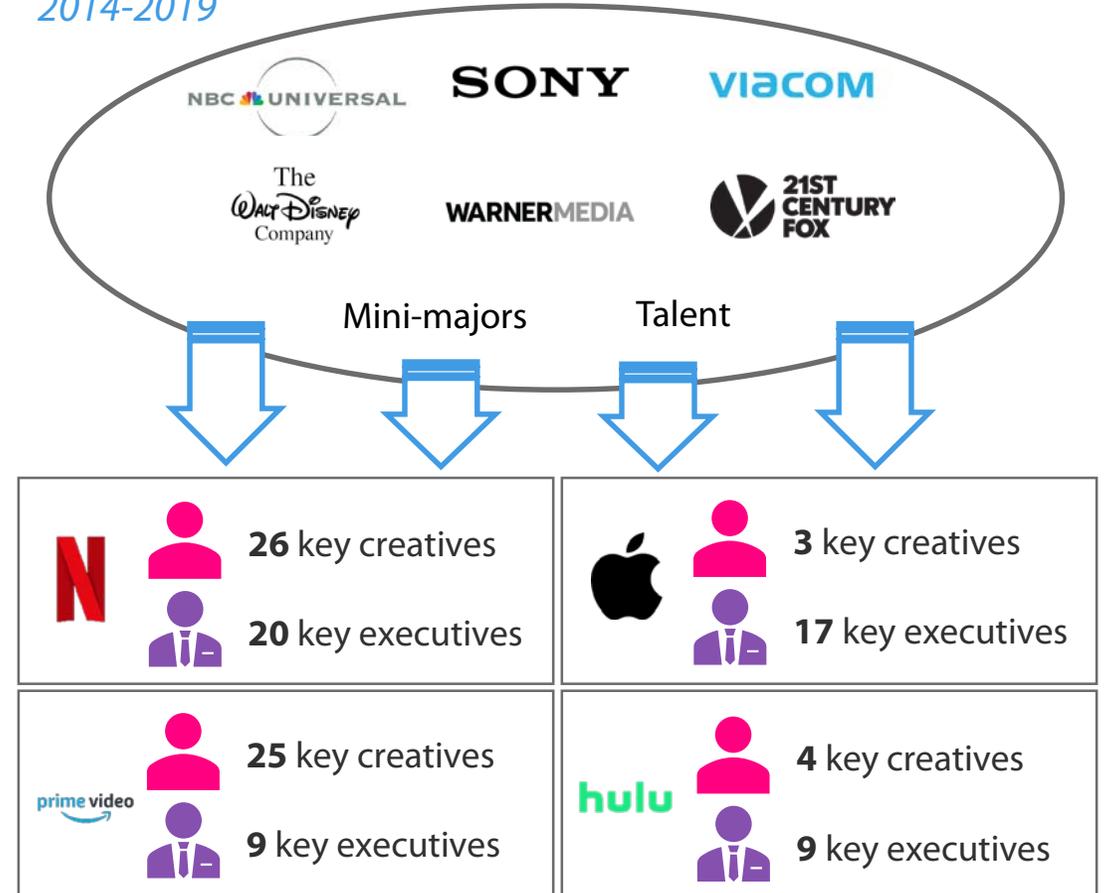
	CAD/month
The Fanatic	\$205
The Omnivore	\$99
The Harried Parent	\$53
The Escapist	\$42
The Connoisseur	\$40
The Frugalist	\$0

**The cheap ride of a ten dollar/month Netflix charge is over.**

## 3.5 Streamers - Hoovering up the Best Execs as Well as Content

*Exodus of talent from Hollywood studios to streaming platforms  
2014-2019*

- Yes, through commissioning and acquisition global streamers are **paying big money for top shows**:
  - New originals: Netflix's *Stranger Things*, Disney's *The Mandalorian*, Apple's *The Morning Show*, etc.
  - And top "re-runs" are equally important:
    - WarnerMedia spent \$425M for 5 years of *Friends*;
    - HBO locked down rights for *Sesame Street*;
    - Netflix acquired *Seinfeld* rights for \$500M.
- Streamers are poaching talent and executives, offering **better deals and more creative freedom**.
  - E.g., Ryan Murphy and Shonda Rhymes signing with Netflix (\$300M and \$150M),
  - Phoebe Waller-Bridge inking overall deal with Amazon (\$20M).
- A competition fueled by big tech money:
  - Netflix will spend \$17B on content in 2020, Apple \$6B.



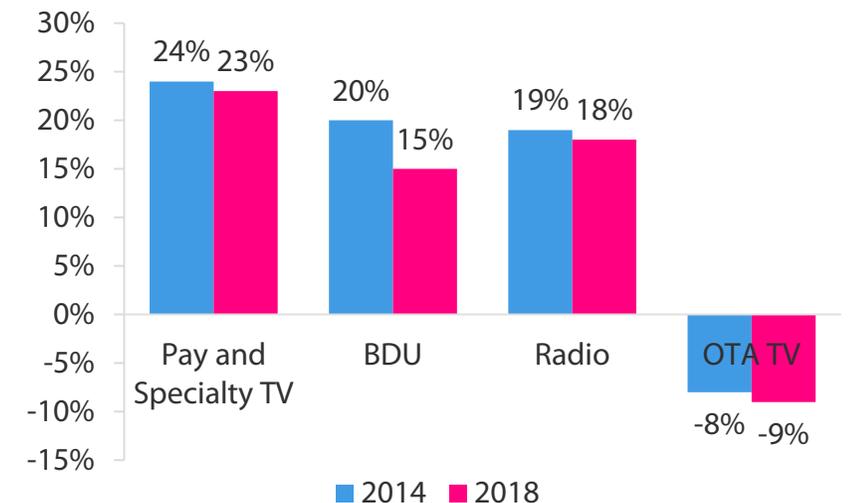
**How can media groups in other countries compete? The walled garden is no more.**

Source: The Los Angeles Times, *The exodus of talent from Hollywood studios to streamers is stunning*, Oct 13, 2019 – Hollywood Reporter, *'Friends' Officially Leaving Netflix for WarnerMedia's Streaming Service*, July 9, 2019 – Hollywood Reporter, *Netflix Lands 'Seinfeld' Rights in \$500M-Plus Deal After Losing 'Friends' and 'The Office'*, September 16, 2019

## 3.6 Has the Canadian Broadcasting Market Collapsed?

- Contrary to what many believe – because of the rise of digital advertising - **TV advertising has not collapsed.** TV broadcasting has not gone the way of newspapers.
  - **-12%** since 2013, but still a \$2.6 billion market in Canada.
- Likewise, **traditional TV viewing has not collapsed.**
  - **-8%** in traditional TV viewing time since 2015.
  - But Canadians 18+ still viewed 26.2 weekly hours of traditional TV versus 3.2 weekly hours of Internet TV in 2018.
- However, **streaming services are playing havoc** with the ability of private broadcasters in English Canada to buy top US shows that historically cross-subsidized Canadian programming.
  - Streaming services are global delivery services for global and American programming; they do not sub-license to Canadian broadcasters as the US networks used to do.
- And many fear a near term tipping point where cable/satellite carriage nose dives from the assault of streaming services
  - Cable subscriptions have not collapsed - **-18%** since 2013, but still 6 million subscribers in Canada.

*Broadcasting sector profit margins, 2014-2018*



**While not “collapsed” there is a perception that it will.**

## 3.7 Canadian Broadcasters – Not Business as Usual

- **Bell Media** - CTV named network of the year by Playback.
  - Canada's most watched network – CTV – swept its TV assets into one “master brand” and is launching a CTV digital hub (spring 2020), and has integrated content team with Crave.
  - Actively pursuing/producing own IP; using AI to predict when property will take off
  - Negotiating for as much of a window as possible when co-financing with a streamer
  - “Canadian custodian” for HBO to generate returns from Crave
- **Blue Ant** – Named media company of the year by Playback.
  - Diversification (production, global SVOD distribution) and acquisition (e.g., Saloon Media).
  - Growth driven by unscripted and digital content: Omnia, a multichannel, multiplatform digital network, generates around 3B views per month across its YouTube, Twitch, FB, Snapchat and TikTok channels (pop culture, gaming, etc.).
  - Now optioning more book, article and podcast IP to break into the scripted market.
  - Now working with a diverse range of partners across varied lines of business, including games.
- **CBC** – while doesn't rely on US hits as shows, its budget is tiny vs. big media giants
  - GEM and TOUT.TV are their own streaming services – custodian for Canadian content, and growth platform;
  - Innovation in web-tv; specialization on childrens; aggressive on digital; pursuing international global partnerships with other PSBs;



**BLUE ANT**  
media



**Broadcasters are scrambling to pivot from their historical business models.**

## 3.8 Canadian Independent Producers – Challenging Times

- **The conventional financing system for TV programming is disintegrating.**
  - Demand by Canadian broadcasters is weak, and contributions to the CMF from BDUs are softening
  - Harder to finance competitive program production on government tax credits, CMF, broadcaster licence fees and foreign presales – and broadcasters' new penchant for demanding IP rights from their licencing fees
- **To work in face of the streaming impact, indie producers are dividing into 3 camps;**
  1. **Scaled up bigs:** Some of them have acquired private equity financing to enable them **to compete more globally** and thus sell to the growing global demand for programming;
    - some who do not have recourse to private financing still manage to play in international markets – through ingenuity, new partnerships, and pivoting on genres;
  2. **Service producers:** Some work mainly for the **growing service production industry** in Canada, i.e. “content manufacturing”
  3. **Domestic market producers:** But if not in either game, the rest have to fight over a **declining market for strictly Canadian\_content**.
- **All this is occurring in a context of the elimination of distribution market for producers**
  - The globalized streaming environment has introduced different dynamics – streaming services want all rights for a long time. The IP indies had been building up from distribution revenues is drying up.

**Cancon creators need scale or ingenuity and entrepreneurship – or concentrate on foreign location production**

## 3.9 Is Canada competitive in this global market?

- Canada is one of the most attractive place to produce Film and TV content, which explains the growing list of streaming shows shooting in Canada (which drive Foreign Production Volume).
- Canada has all the ingredients for a competitive production ecosystem:
  - Reputation:** A- and B-list events (e.g., TIFF), ever-growing track-record, long-standing relationships with other countries, etc.
  - Public Incentives:** competitive tax credits (ON, BC, QC), film commissions, etc.
  - Labour and Effective Labour Costs:** more than 70,000 direct FTEs in Canada, and tax credit on labour spend
  - Infrastructures:** soundstages, leading-edge post-production facilities and VFX companies
  - Convenience:** BC, ON and QC are short flights from LA, NY...

Examples of SVOD productions shot in Canada (🇨🇦 = official Cancon)

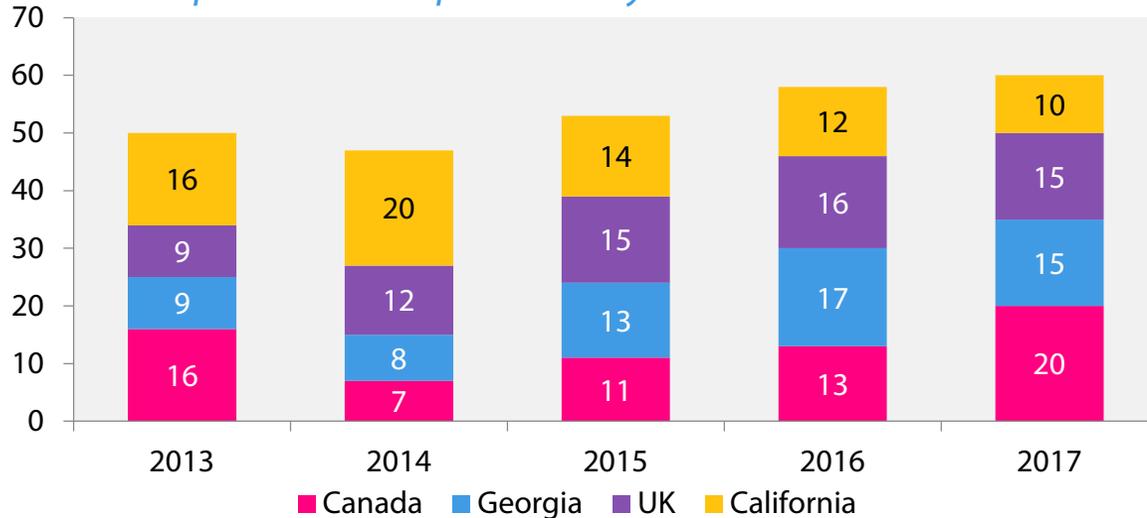
Crave	Letterkenny 🇨🇦	Netflix	Titans	Altered Carbon
	New Eden 🇨🇦		The Umbrella Academy	Lost in Space
Hulu	The Handmaid's Tale		The Bletchley Circle	Fargo
	Shut Eye		Madam C.J. Walker	Death Note
AppleTV+	See		To All the Boys I've Loved Before	Anne with an E 🇨🇦
Amazon Prime Video	Tales from the Loop		Always be my Maybe	Alias Grace 🇨🇦
	The Boys		Trailer Park Boys	Travellers
	The Man in The High Castle		Chilling Adventures of Sabrina	Riverdale
Facebook Watch	Sacred Lies		A Series of Unfortunate Events	

**While no one knows when this streaming demand will level off, Canada is in a good position to remain one of the best places to do production.**

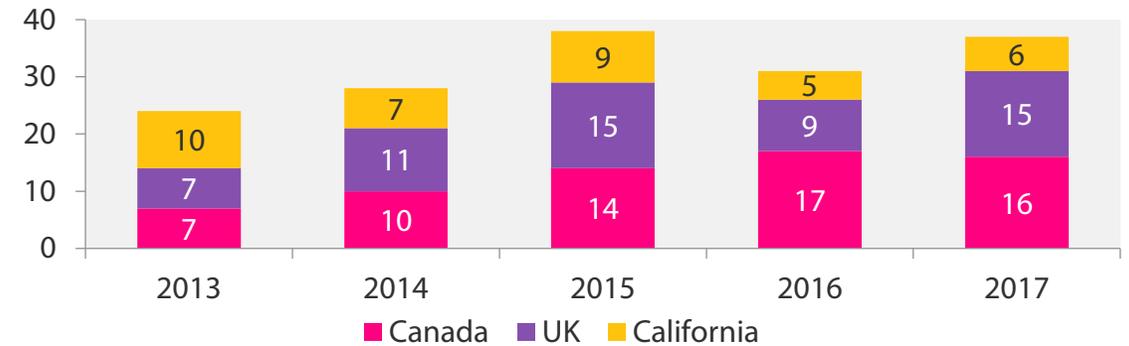
## 3.10 Canada's Competitiveness in Service Production

- Evidence suggests that Canada does quite well as a place for service production.
- Since the major streaming services are still increasing their spend on new product, it looks like continued growth in the near term.

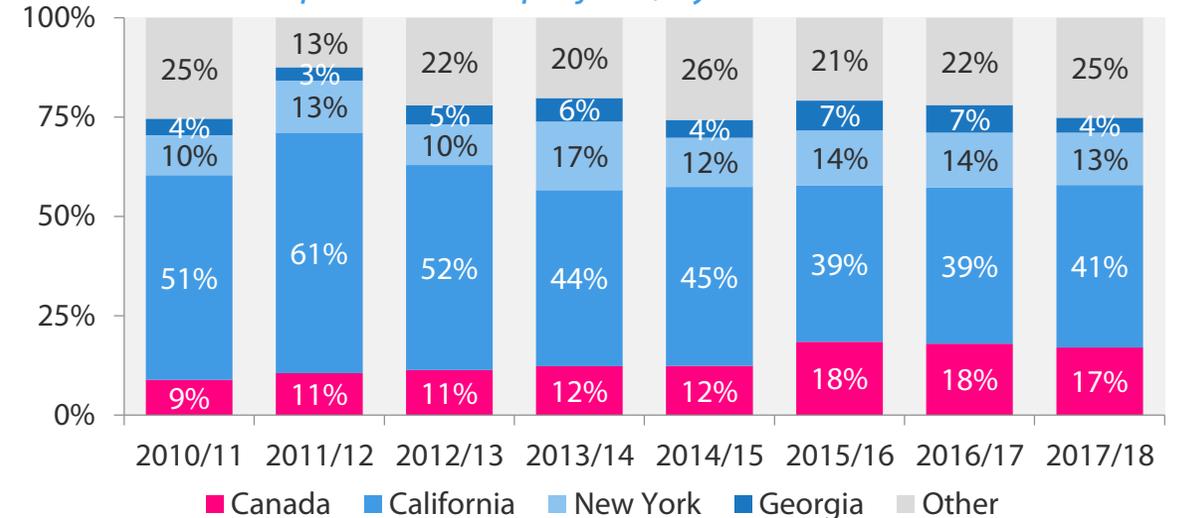
Number of top 100 US films produced by location



Project count for primary VFX work on top 25 live-action films



Share of new US-produced TV projects, by location



**Canada - firmly ensconced in the service market, so should hold share in downturn**

## 3.11 Are we able to generate more IP in Canadian hands?

- New policies may mean **more money**, but they can't ensure retention of IP
- Certainly the “**middle class**” of producers and creators who have delivered Canadian programming for broadcast **won't retain IP** (generally).
- and those in **service production** will prosper but will have **no IP**
- **Large/integrated producers** will try to exploit their IP, but it will be tough sledding – and what IP they do make, **may not be particularly Canadian**

*The scripted business is so expensive from a production and marketing perspective that you **really need scale to be profitable**. That means it will be a very small number of players that will be able to achieve that scale and profitability in the direct-to-consumer business.*

B. Swinburne, Morgan Stanley

**Good policy would help generate more Cancon programming, but not guarantee more IP**

## 3.12 Then there was the BTLRP ....

- Yes, streaming is within the definition of “broadcasting” in the Broadcasting Act, but the CRTC has exempted internet services from regulation since 1999
- The BTLRP Report proposes that all curating streamers making sufficient revenue in Canada should be required to acquire the rights to Cancon (service production would not count).
  - The Report also notes that “credit for the acquisition of rights to [distribute] Canadian programs [in other territories] should count toward spending obligations... This approach would avoid problems related to expense allocation [between the Canadian and global rights] and enhance the opportunities for Canadian programs to reach a global audience.”

## 3.13 Film/TV - Conclusions

- Left alone streaming will exact re-alignment for Cancon:
  1. concentrate on **service production** like the games sector,
  2. enter the **international fray** of selling content concepts to foreign streamers, or
  3. eke out a subsistence with the remainder of **pure Canadian** content
- Even if the **BTLRP Report** recommendations are implemented, the question is whether Canadians will essentially be in the **MANUFACTURING** business, not the creative business that builds IP assets.

# 4. Digital Music Business

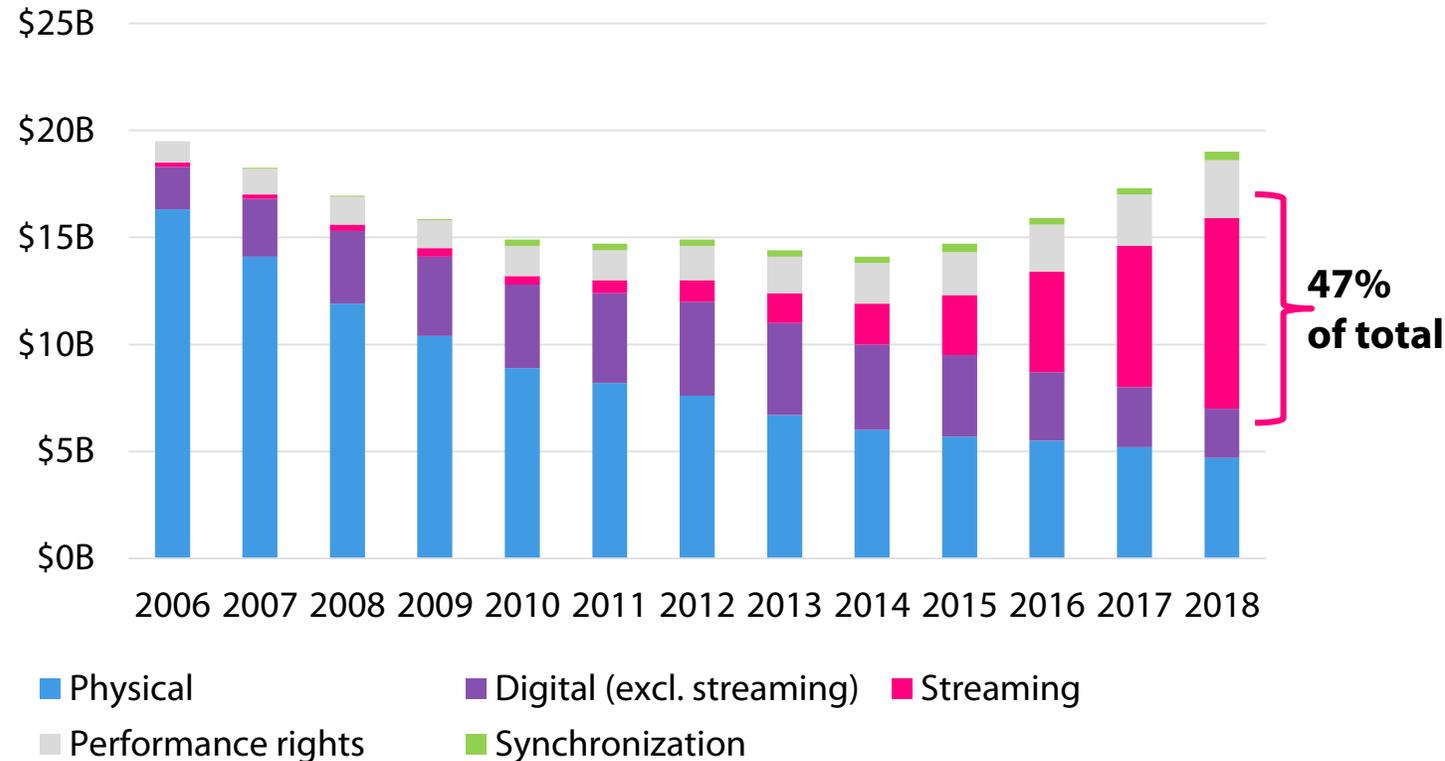
## 4.1 Digital Music Business – Key questions

- How is streaming of music and music on streaming television affecting creators in Canada?
- How do emerging platforms complicate the proper remuneration of rights holders?
- What complexities are contributing to the “value gap”?
- Can tracking technology and AI tools help put more revenues into the pockets of creators?

## 4.2 The global picture for music industry revenues

- **Streaming** account for almost half of recorded music revenue
  - All digital sources represent 60%
  - 97% of streaming is done via mobile
- Leaders of streaming:
  - **Spotify** garners 36% of global subscriptions, 40% of streaming revenue.
  - Apple Music: 18% of global subs, **24%** of global streaming revenue.
  - Platforms are hard to differentiate as they offer more or less the same library
- Room for growth?
  - Globally, only 305M streaming account (paid and ad-supported)
  - **Only 23% of accounts are paid subscriptions.**

Global recorded music industry revenue (US \$ billions)



**Streaming services fuel music revenue growth.**

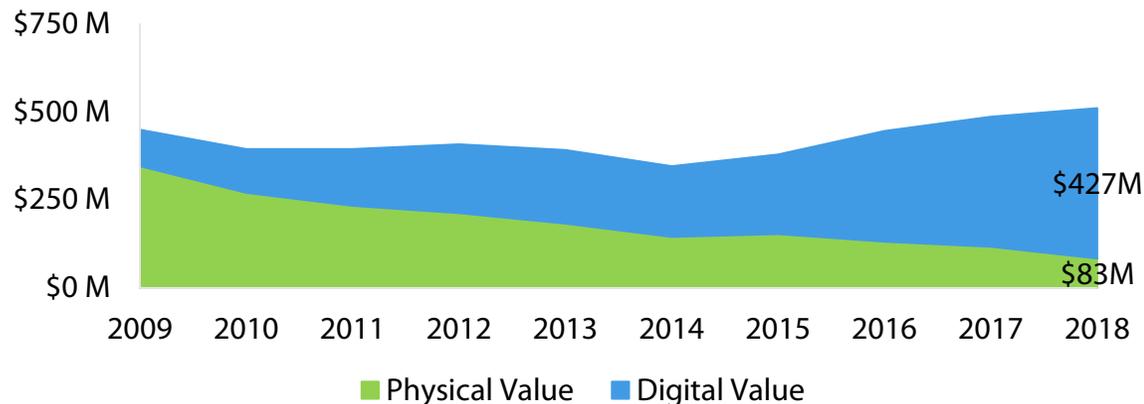
Source: IFPI, Midia Research

## 4.3 Canada

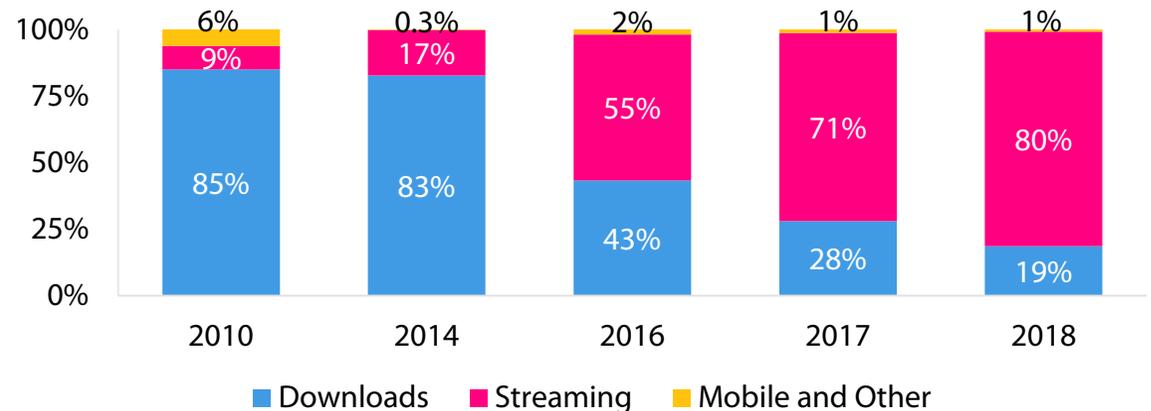
In 2018 in Canada:

- Digital revenue was up 16% from 2017 and accounted for 84% of total recorded music revenue.
- Streaming accounted for 80% of digital music revenue, 67% of total music revenue.
- Total streams increased by 45.2%, revenues from streaming services increased by 32%.
- 10M Canadians streamed music.

Trade value of the music sector in Canada (\$ million)



Digital Music Trade Value in Canada, by format



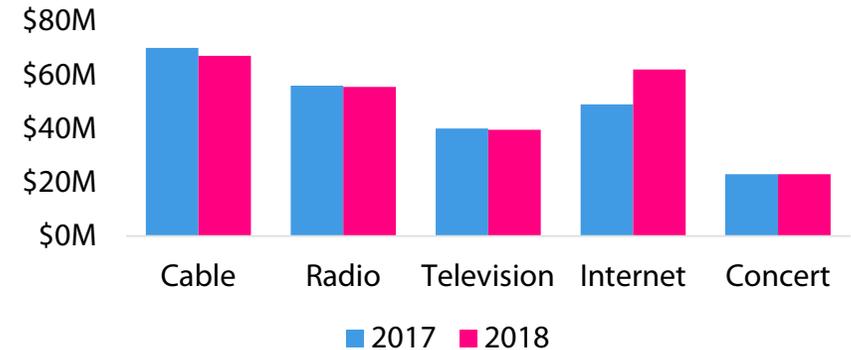
**In Canada, streaming accounts for an even larger % of total industry revenues.**

Source: Music Canada Statistics, Statista; Statista Digital Market Outlook

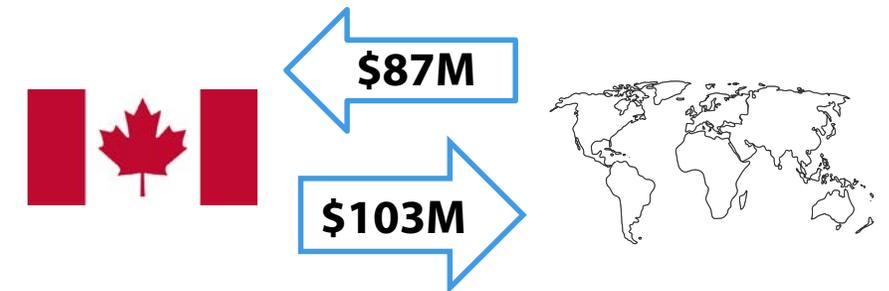
## 4.4 Music rights

- Internet is becoming the first source for performing rights revenues
  - Rise of internet revenue: **+29%** in 2018
  - Slow decline of traditional sources (TV, Cable and Radio): **-4%** in 2018
- Revenue from international collection is growing (**+16%** from 2017)
  - SOCAN redistributes **18%** more internationally than it gets from global royalty collections – better than a **26%** difference in 2017.
  - Tied for 5<sup>th</sup> (with Germany) for royalties received from international collections.
- Overall, the music business has become more complex to navigate, and there are more who share the royalties:
  - In the 1980s, Music Reports found, songs in *Billboard's* Top 10 had an average of two writers and two publishers; this decade, hits typically have four writers and six publishers.
  - There are new platforms, new contact points, new rights to manage streaming services, apps – some difficult to collect

SOCAN domestic performing rights revenues, top five sources, 2018



SOCAN royalty distribution to and collection from international music rights organizations, 2018



**While broadcast and cable (pay, specialty-tv) rights still provide the lion's share of rights, streaming is the only one that is growing.**

## 4.5 Music on Apps

- Illustration of this growing complexity - **TikTok** and **Instagram** music
- These app are **marketing tools** for artists, turning gamification mechanics and virality into discoverability opportunities.
- But they are also diverting revenue away from artists:
  - Big money at stake but payments to rights holders are low: ByteDance, TikTok's parent company, is reportedly the world's most valuable startup, worth three times as much as Spotify.
  - Lack of transparency of these platforms: hard to know the total views, to get data.
  - Tech companies make licensing deals on their own terms: *"It's either you can sign this contract and get paid something, or don't sign the contract and your music's still going to be here but you're not going to get paid anything."*
- Symptom of a larger issue?
  - This story illustrates the issue of finding, negotiating and collecting rights on an increasing number of digital platforms
  - Platforms to watch: ByteDance is reportedly working on its own music streaming service



500+ million monthly active users  
Parent company: ByteDance



1 billion monthly active users  
Parent company: Facebook

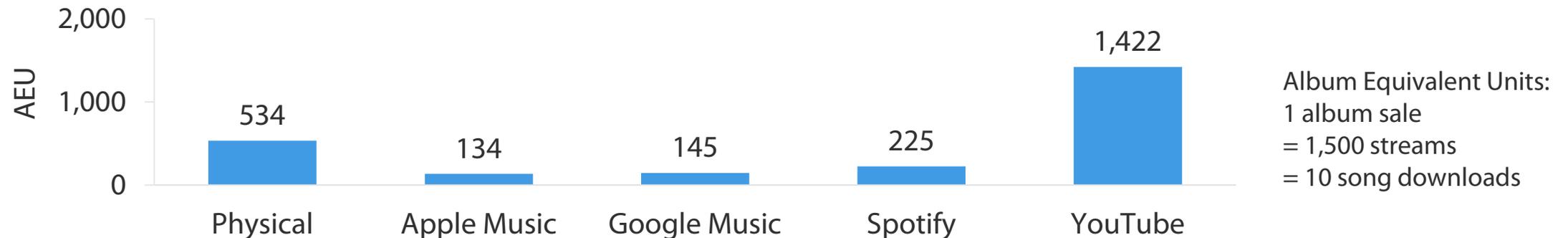
**New apps and platforms can help market - but not likely enrich - music creators.**

Source: Pitchfork, *How TikTok Gets Rich While Paying Artists Pennies*, Feb 12, 2019

## 4.6 Update on music “Value Gap”

- Continued rise of streaming continues to affect revenues for creators
- A lot more complexities to this gap
  - Changes in consumer behaviour (“rent” vs. “own”) – means consumers pay for only what they want to listen to
  - Streaming vs. broadcast and implications on rights – formula for allocating fees among rights holders favours the very top of the artists
  - More platforms result in slippage of reporting - foreign rights organizations not collecting all new kinds of royalties
  - Globalization of streaming - makes it tougher for discoverability
- A changing ecosystem also means more levers to effect change

*Album equivalent units (AEU\*) needed every month for a signed artist to earn the US monthly minimum wage (US\$1,472), 2017*

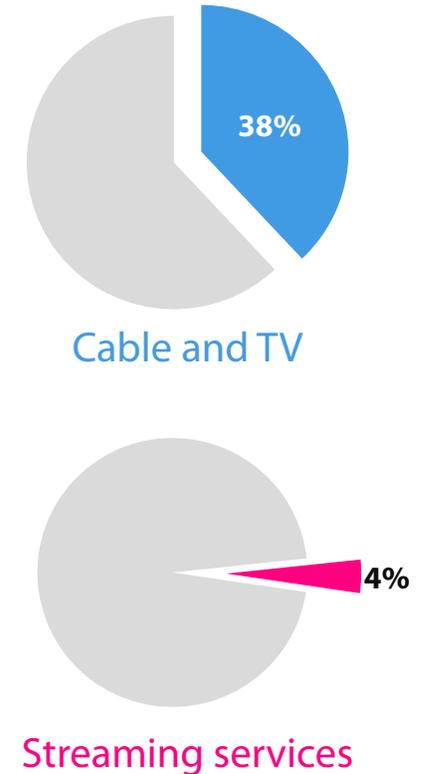


**Not as simple as a “gap”, just more added complexities that fundamentally alter the music ecosystem and thus how revenues are made across the sector.**

## 4.7 Digital complicates revenues for Screen Composers

- Performing rights are associated with music royalties generated through broadcasting or other public performance for screen composers
- Screen composers make much less from streamed tv series as same tv series that is distributed via the broadcasting system
  - But that changes with streaming services. They pay the same total amount in royalties, but the allocation of those revenues across rights holders rewards clicks only – thus disadvantaging all but the top shows
- SOCAN reports that music composers earn 38% of royalty split from broadcasting system, but only 4% from streaming services.
- As long as broadcasting “holds” music composers can do fine – except when they try to sell their catalogues to the streaming services. But if broadcasting goes into steeper decline, screen writer/composers will see sharp declines in their income

*Royalty share returned to SOCAN writers*



**Again, the introduction of streaming plays havoc with the creators' rights revenues**

Source: SOCAN

## 4.8 Potential ways to increase revenues to creators?

- Can **tracking technology and AI tools** help put more revenues into the pockets of creators
  - Lack of an authoritative database that covers all existing music rights: revenue is collected but not redistributed.
  - The use of **blockchain** in the music business allows the creation of a database of music ownership rights and the automation of royalty payments: fair, transparent, undisputable, timely attribution and compensation.
  - This problem and possible solution were identified a couple years ago (Spotify acquired blockchain startup Mediachain in 2017), but it takes time to develop the right tool, and a standard that will be use by the whole industry.
- **Data made available by iTunes and Spotify and other streaming services is helpful to indie labels**
  - But the 3 global music majors still manage to access more granular data and invest in new data analytics tools than indies
- **Private copying**, extended to smartphones could bring in revenues to music creators
  - France's private copy levy is an example of this tool, though it would require amending the Copyright Act
    - Fixed tariff for equipment with integrated hard disk such as audio-visual recorders, set-top boxes and TV sets and smartphones
    - Up to 14€ collected on every smartphone purchase and 45€ on every set-top-box sold.
    - 75% paid directly to rightsholders through collection societies, 25% used to support creation, dissemination and training.

**Music creators need new policy, new technology tools, and industry collaboration**

## 4.9 Music - Conclusions

- While the continuing uptick in streaming revenues and importance to marketing is no surprise, the realization of the **implication of streaming for Canadian music creators is more evident** – and alarming
- The **winners** continue to be the **tech companies** and ingeniously creative platforms like TikTok and they will disrupt the rights identification, tracking, and collections markets even more.
- The “**value gap**” metaphor is a useful concept as long as there is a recognition that
  - consumer expenditures on music per se will not return to what it was in 2000, and
  - new platforms will bring in more revenues for their investors than for the music creators
- **Improving the creators' lot in Canada will take investment in technology, creation of negotiation clout to access distribution and data, and altering current Copyright and Broadcasting policies.**

# 5. Video Games

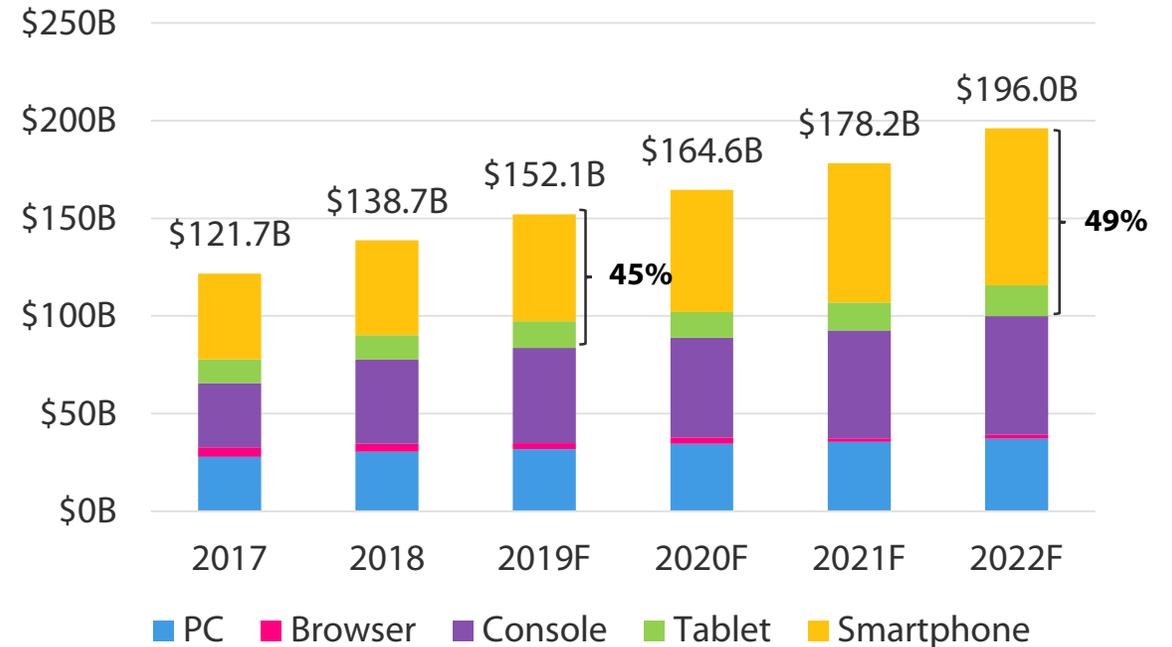
## 5.1 Video Games – Key questions

- Last year refresh: **Who are Canadian gamers?**
  - 64% of Canadians played in the past four weeks.
  - 50% male gamers and 50% female gamers.
  - The average Canadian gamer is 39 years old.
- This year: **Is the sector immune to the disruption observed in other creative industries?**

## 5.2 Global forecast – All fun and games

- Healthy **growth** on every segment.
  - Forecasts indicates that the industry will rise to \$200 billion globally by 2022
- **Mobile** is also king for video games:
  - Mobile and tablet will account for 50% of global revenue in 2022.
- By the end of 2020 a new generation of systems (PlayStation 5, Xbox Series X) will be released, reinvigorating the console market.
- E-sport:
  - The global esports market generated \$1.1 billion in 2019, with a total audience of 454M.
- Live streaming (Twitch, YouTube Gaming, Mixer).
  - In 2018, Twitch users watched 9.36 billion hours of content on the site. Its average viewership has often met or surpassed that of ESPN and cable news networks.

Global video games revenue



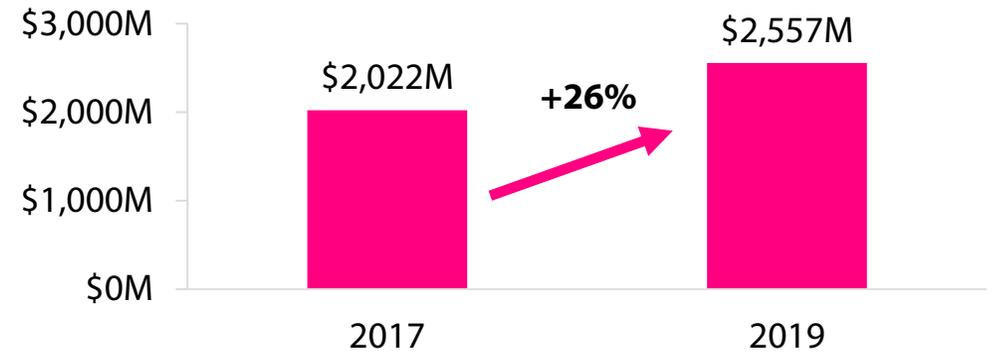
**Mobile games will continue to drive growth.**

Source: Newzoo, *Global games market report 2019*; Newzoo, *Global Esports market report 2019*; Ganesindustry.biz, *Twitch streamers racked up 9.36 billion hours viewed in 2018*, Feb 4, 2019.

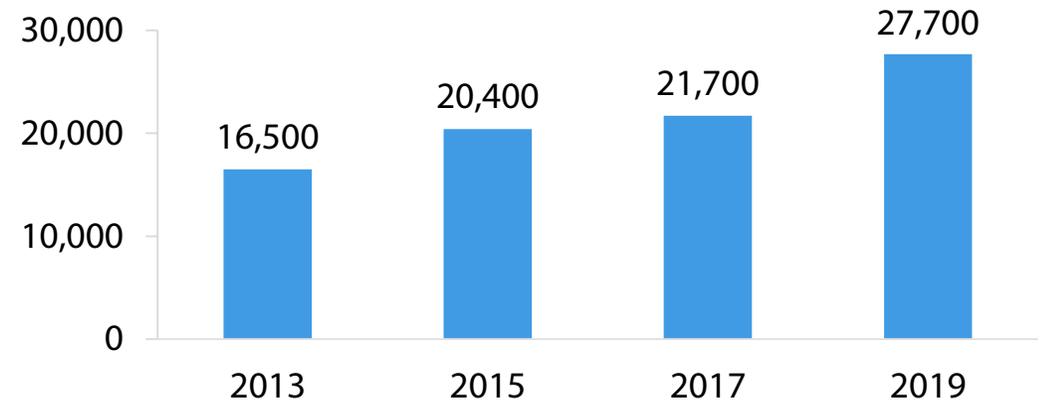
## 5.3 Canada – A leading video games manufacturer

- Canada is the third-largest source of game development in the world, following the U.S. and Japan.
- Canada's video games industry generated an estimated **\$2.6 billion in GDP in 2019**.
  - As a comparison, Film and TV generated \$4.5 billion in direct GDP in 2018.
- Video games companies employ **28,000 Canadians**.
  - Nordicity estimates there are 700 video games companies in Canada in 2019.
  - Most of the activity happens in **BC, ON and QC** (82% of companies, 91% of direct FTEs).
- The largest **35 companies employ 79%** of all FTEs:
  - Global studios like Ubisoft, Activision/Blizzard, Bioware, EA, etc.
  - The IPs behind their success is not Canadian-owned = like for Film and TV, Canada is a competitive manufacturer.

*GDP contribution of Canada's video games industry*



*Direct employment at video games companies in Canada*



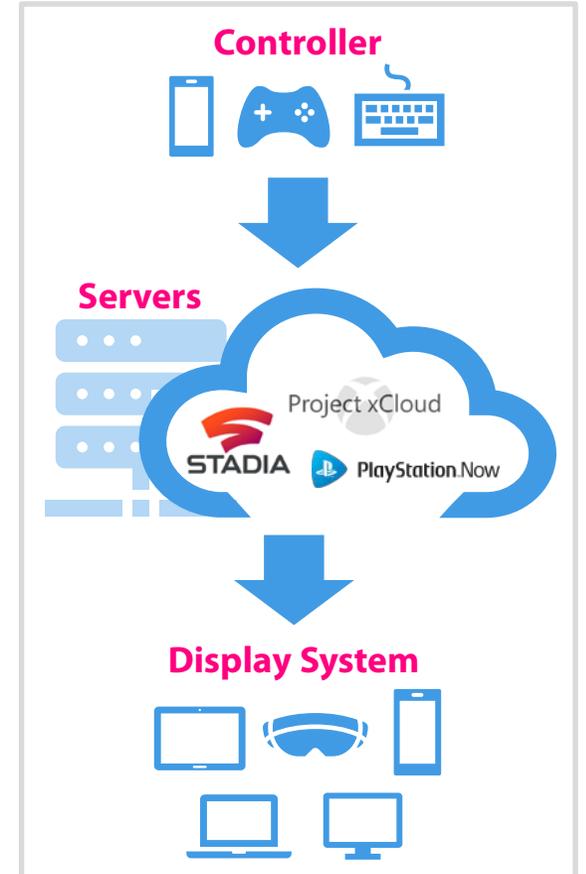
**The video games sector is a top creative industry in Canada in terms of jobs, but what about IP?**

Source: ESAC, *The Canadian Video Games Industry*

## 5.4 Cloud Gaming – Entering the streaming era

- What is it?
  - Seamless high-definition streaming gaming experience on all platforms.
  - Existing services: Google Stadia, Nvidia GeForce Now, Microsoft xCloud, PlayStation Now.
- How does it work?
  - The software runs on remote servers, the game is not installed on the user's device.
  - Two-way streaming in real time: the controller sends information to the cloud, the cloud sends information back to the user's device, be it a smartphone, a laptop or a smart TV.
- What will it change?
  - Virtually renders any expensive hardware obsolete: computing is done in the cloud.
  - Enables cross-platform gaming: players on PC can interact with players on PS4, Xbox, mobile...
  - Impacts business models: subscription fee to access the service, or to access a library of games in the cloud –
- Are we there yet?
  - Google received lukewarm reception for its service Stadia, launched in Nov 2019 (latency issues, limited number of title available, etc.).
  - Cloud gaming requires high-speed broadband.
  - But the whole industry is massively investing in this technology.

Cloud gaming concept



**Cloud gaming, even in its infancy is a major revolution that is reshaping the industry.**

## 5.5 Games As A Service (GaaS)

- With the Games as a Service, games can be monetized for a longer lifespan through expansion packs and subscription services.
- Example: Electronic Arts (*FIFA, NHL, Battlefield*)
  - EA launched Access during summer 2019, a subscription-based gaming service offering early access and discount on new releases, and free access to older titles.
  - Electronic Arts generated \$2 billion from its GaaS models in 2018.
- Example: Fortnite
  - Free-to-play with a community of 300 million players.
  - Battle-Pass: a monthly subscription to access updates and discount on character customization elements
  - In-game purchases: costumes, emotes, etc.
  - Total revenue of \$1.8 billion in 2019
- Example: Apple Arcade
  - Apple's subscription service to access 100+ games for \$6/month.

### GaaS monetization

#### Initial purchase



Physical copy



Digital copy



Cloud gaming

#### Services



Subscription  
(e.g., *World of Warcraft*)



Ad-free version  
(e.g., mobile apps)

#### Micro-transactions



Power-ups  
(e.g., extra lives)



Cosmetics  
(e.g., clothing, emotes)

#### Expansions



New game modes



Additional playable content  
(e.g., maps, story, ...)

**Despite recurrent critics from the community, GaaS has become a major source of revenue for game developers.**

Source: SuperData 2019 Year in Review

## 5.6 Games Open the Conversation

The video games community is not isolated from political and social concerns:

- Blizzard faced public outcry following the ban of a professional *Heartstone* gamer after he showed support for the Hong Kong protests. #BoycottBlizzard trended for several days, many users deleted Activision/Blizzard titles.
- Public and industry backlash about the “**crunch culture**” at global studios like Rockstar, BioWare, Epic Games. Several titles expected for H1 2020 have been postponed (*FFVII*, *Marvel’s Avengers*, *Cyberpunk*) to alleviate pressure on dev teams.
- **Inclusion** of women, people of colour and people on the LGTBQA spectrum, within the games’ storylines, within development teams and on the e-sport scene.
- Last May, the WHO officially classified "gaming disorder" as a behavioral addiction. While controversial, the decision illustrates the ongoing debate on **the impact (positive or negative) of video games on health**, notably amongst young gamers.

**Social responsibility also moves the lines of the video games industry.**

## 5.7 Video Games – Conclusions

- Now, Canada is a video games service production centre, employing thousands. Is it possible to move towards more IP generation and monetization?
- Just as Film and Music, streaming -in a slightly different form- is disrupting the video games industry.
- As such, big tech companies like Google, Amazon or Facebook (Facebook Gameroom, Oculus) are poised to take more important roles in this sector.
  - Amazon Web Services: servers management, cloud gaming, etc.
  - Google: cloud gaming (Stadia), and video game development (Typhoon Studios acquisition), etc.
  - Facebook: VR/AR/MR (Oculus), Facebook Gameroom, social games, etc.
  - **Video games will have to be part of the broader Canadian policy conversation.**

# 6. Observations and Conclusions

## 6.1 Conclusions

- The advent of **streaming** across all four sectors presents huge challenges to Canadian content
  - Canadian creators in **music and television**, as well as **journalists, and games developers**
  - Canadian entrepreneurs - **producers, labels, and games studios**
- Reynolds Mastin at the CMPA Prime Time conference in Ottawa – Is Canada able to recognize its negotiating leverage vis-à-vis the US and be bold enough to implement new measures as recommended by the Review Panel? Or will **big media and big tech** successfully lobby to resist such changes?
- **Big tech** is now facing problems involving consumer data privacy, fake news/lack of trust, and anti-competitive practices - which may provide openings to change their mode of operations and accept new policy measures.

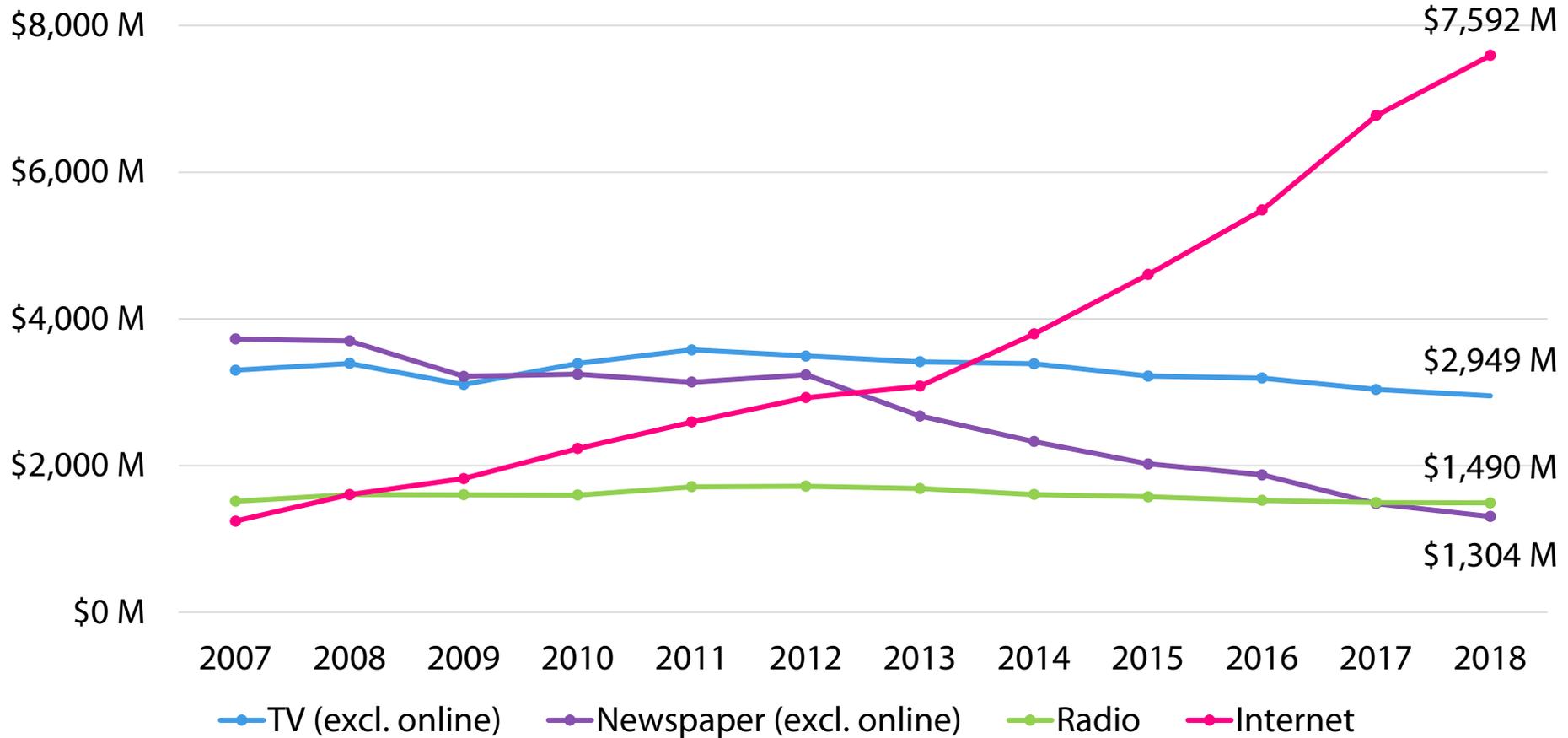
## 6.2 In Sum...

- In a word, what do we conclude about this bright new decade?
- DM@X 2016 – “light grim”
- DM@X 2018 – “scary global”
- DM@X 2019 – “intervention imperative”?
- **DM@X 2020 - “adapt and be bold, Canada”**

# Appendix

# Advertising Overview

Net advertising volume, Canada

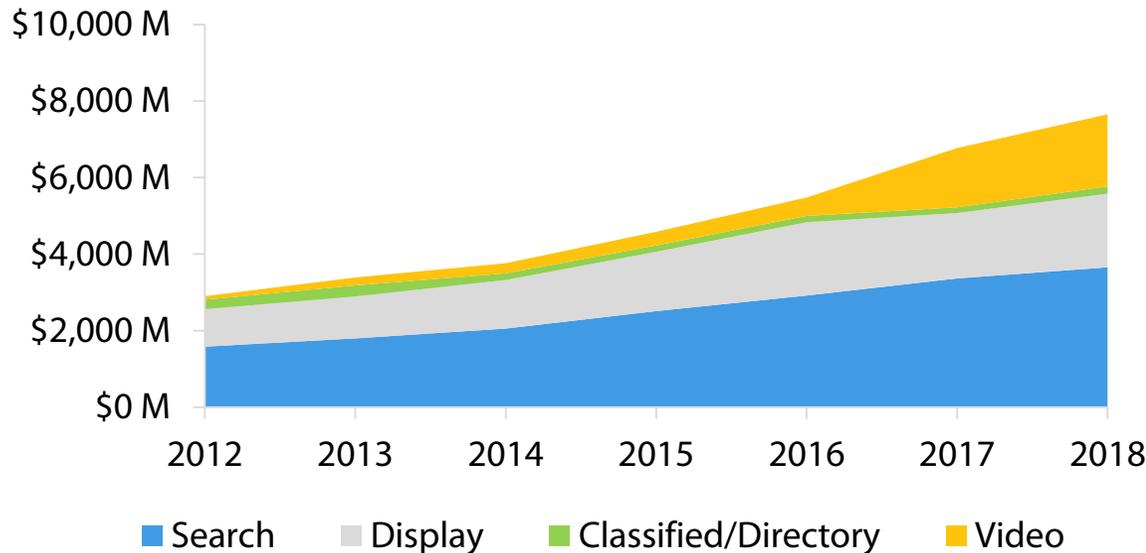


Source: IAB Canada, 2018 Actual + 2019 Estimated Canadian Internet Advertising Revenue Survey - ThinkTV, Net Advertising Volume Dec 2018

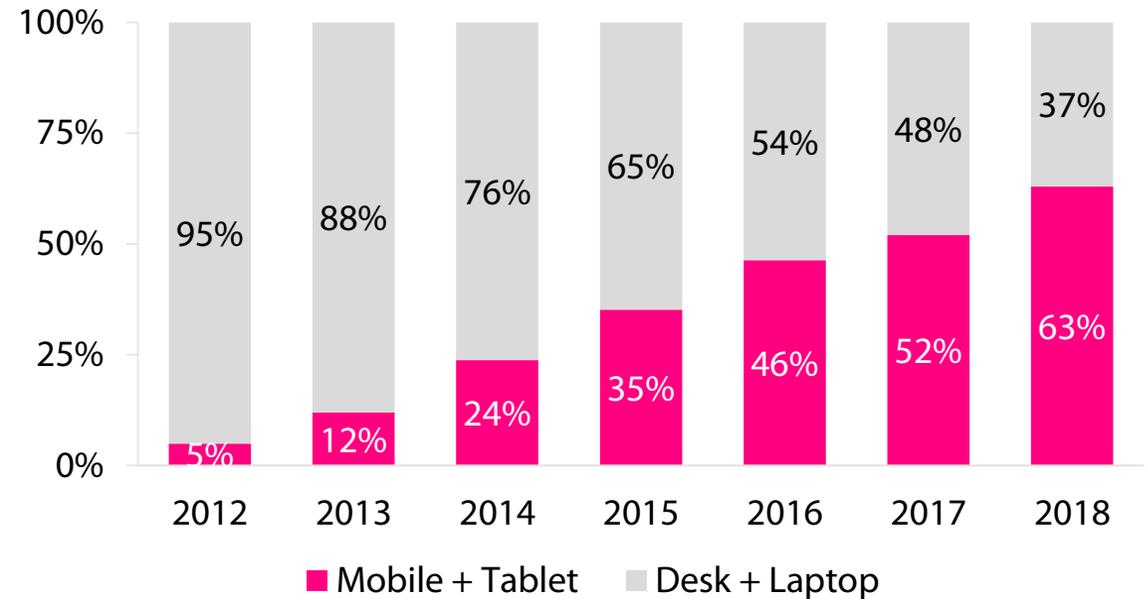
# Digital Advertising

- Two thirds of Canada’s digital ad revenue is generated on mobile.
- Video now accounts for 24% of total digital ad revenue.

Internet ad revenue, by format, Canada



Share of total internet ad revenue by platform, Canada



Source: IAB Canada, 2018 Actual + 2019 Estimated Canadian Internet Advertising Revenue Survey - ThinkTV, Net Advertising Volume Dec 2018

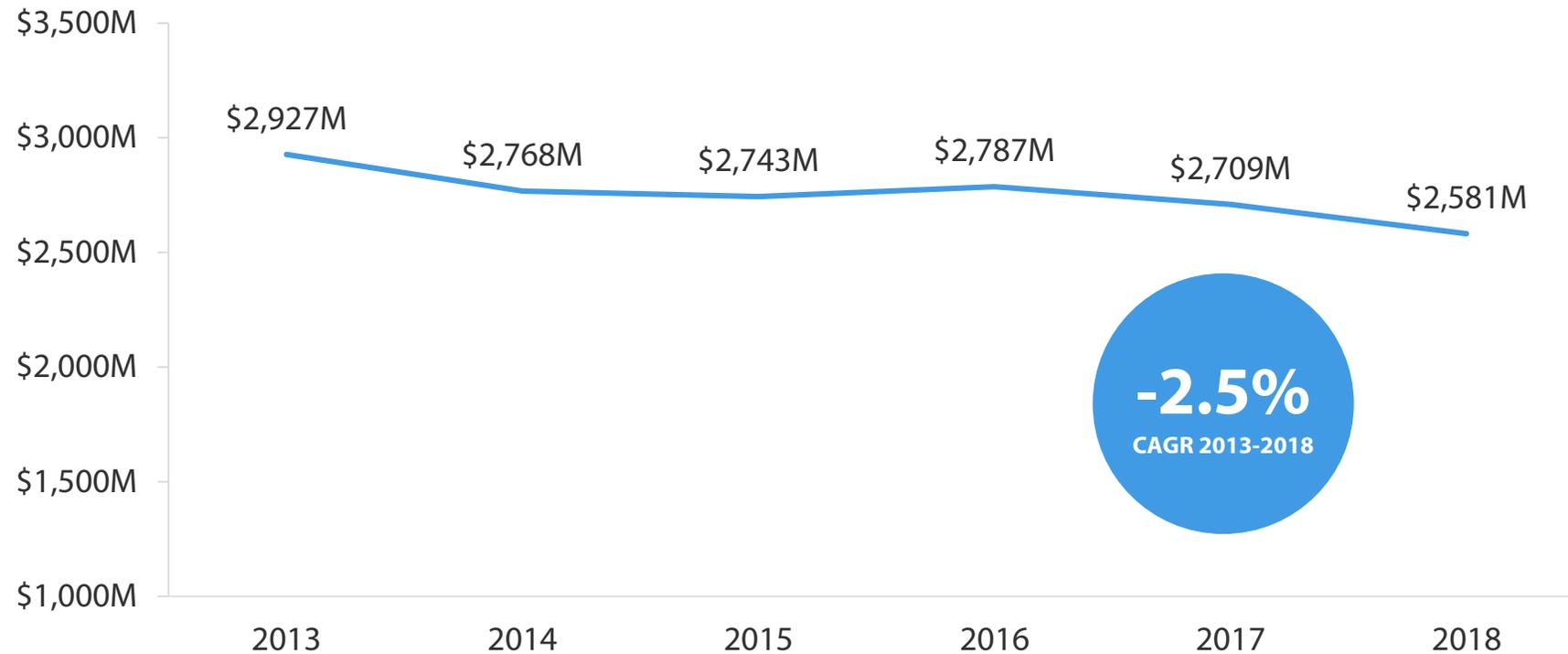
# Overview of the Canadian Film and TV

	2015/2016	2016/2017	2017/2018	2018/2019
Total film and television production volume	\$6.8 billion	\$8.4 billion	\$8.9 billion	
TV revenue	\$7.16 billion	\$7.28 billion	\$6.91 billion	<b>\$6.85 billion</b>
<i>CBC and Private Conventional</i>	<i>\$2.9 billion</i>	<i>\$2.9 billion</i>	<i>\$2.5 billion</i>	<i>\$2.6 billion</i>
<i>Discretionary and On-Demand</i>	<i>\$4.3 billion</i>	<i>\$4.4 billion</i>	<i>\$4.4 billion</i>	<i>\$4.2 billion</i>
Internet-based video services revenue	\$1.64 billion	\$1.95 billion	\$3.01 billion	\$4.33 billion
<i>SVOD revenue</i>	<i>\$0.89 billion</i>	<i>\$1.05 billion</i>	<i>\$1.63 billion</i>	<i>\$2.52 billion</i>
<i>TVOD revenue</i>	<i>\$0.39 billion</i>	<i>\$0.42 billion</i>	<i>\$0.45 billion</i>	<i>\$0.50 billion</i>
<i>AVOD revenue</i>	<i>\$0.36 billion</i>	<i>\$0.48 billion</i>	<i>\$0.93 billion</i>	<i>\$1.31 billion</i>

# TV Advertising Revenue

- -12% since 2013, but still a \$2.6 billion market.

*Advertising revenue of private conventional television stations and of discretionary and on-demand services*

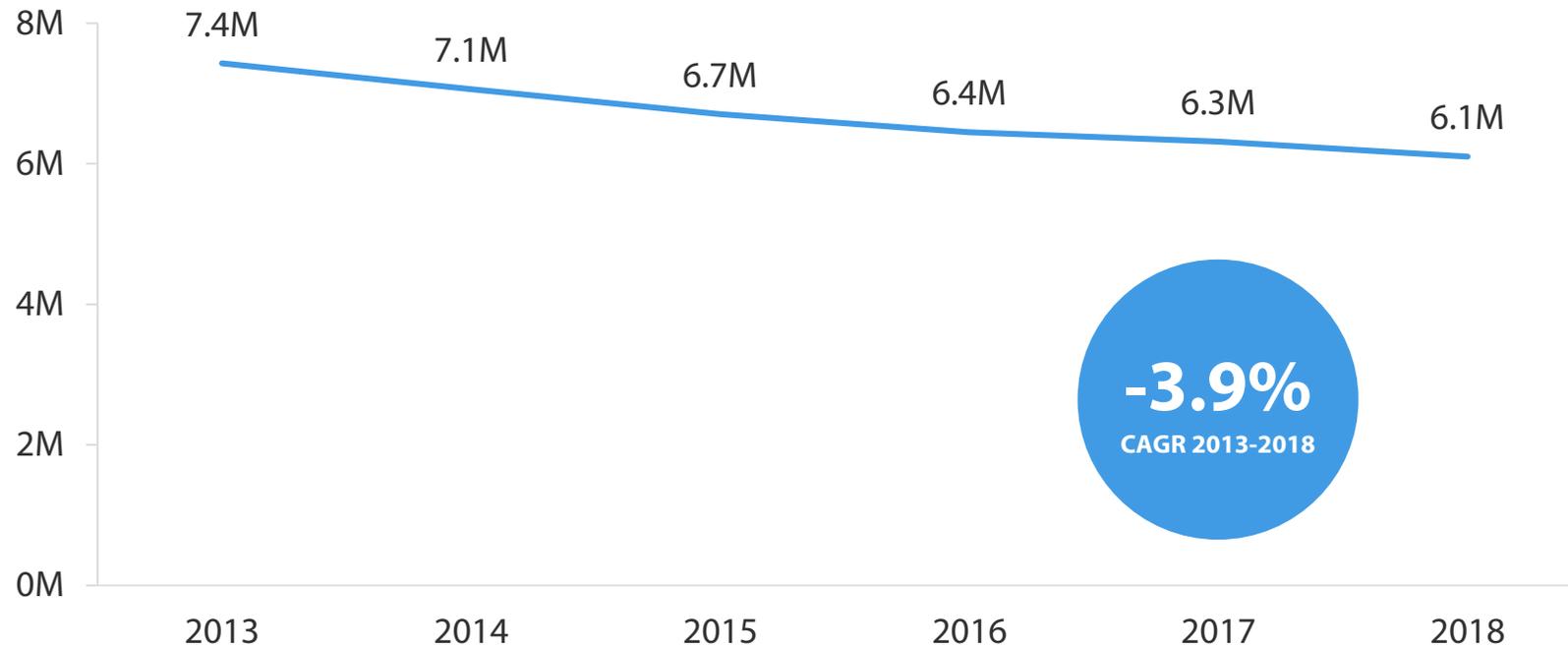


Source: CRTC, *Communication Monitoring Report 2019*

# Cable Subscriptions

- -18% since 2013, but still a 6 million subscribers.

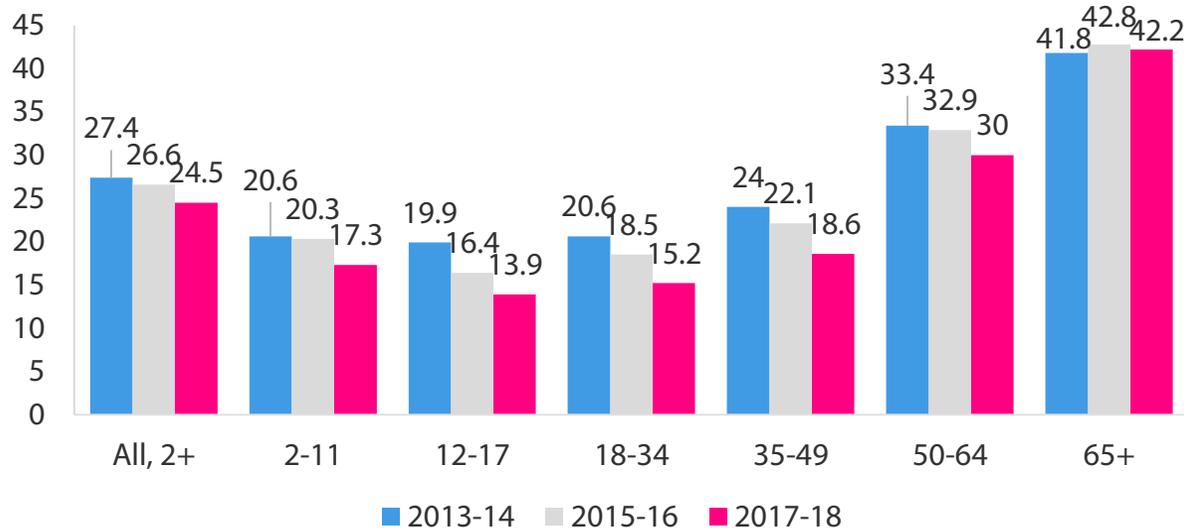
*Cable subscription numbers – Basic and non basic services*



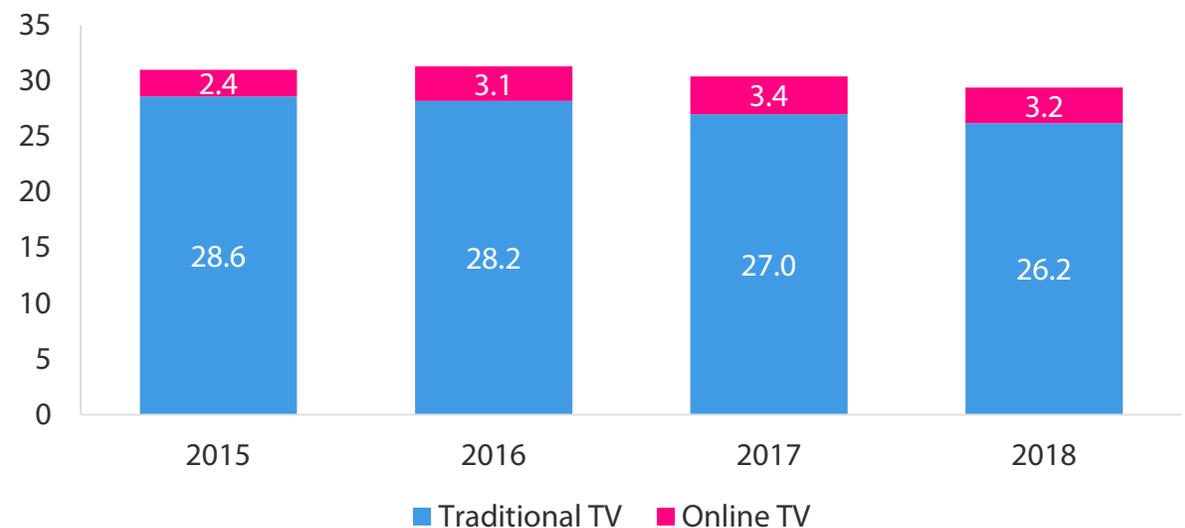
# TV Viewing Numbers

- Traditional TV viewing dipped, especially with younger groups, but Online TV is still far from overcoming Traditional TV.
- In Canada, 2019: 6.5M Netflix subscribers (+11% from 2018), 3M Crave subscribers.
- Continued growth: In the US, streaming will account for 60% of all video viewing in 2020, compared with 56% in 2018, and is poised to account for 70% in 2024.

Average number of hours Canadians watched traditional TV each week, by age group



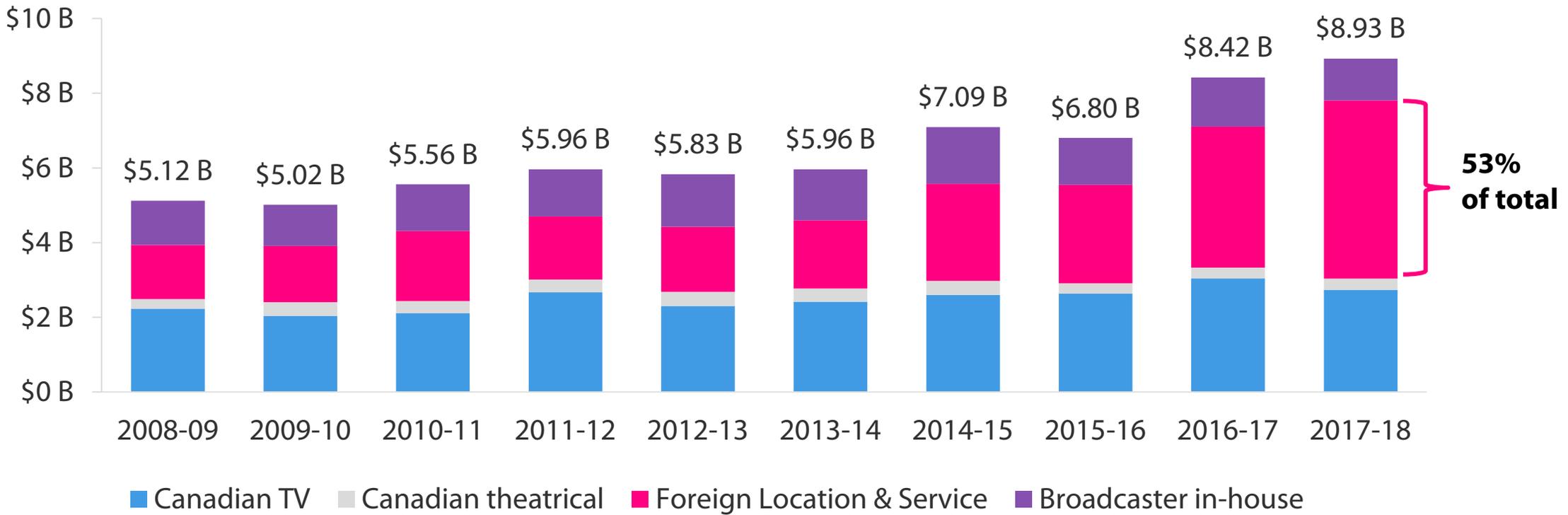
Average number of hours Canadians 18+ watched TV and Internet-based TV each week



# Volume of Film and TV in Canada

Volume of foreign production keeps growing, other categories are stable.  
 FLS CAGR 2008-2017: 14%

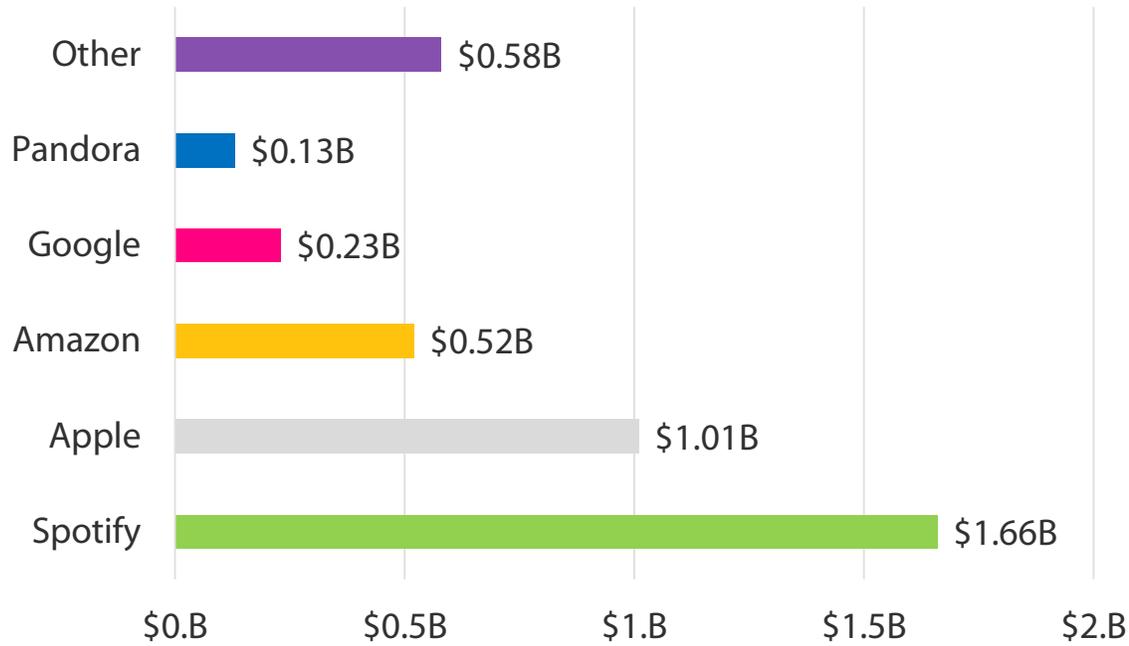
Total volume of film and TV production in Canada



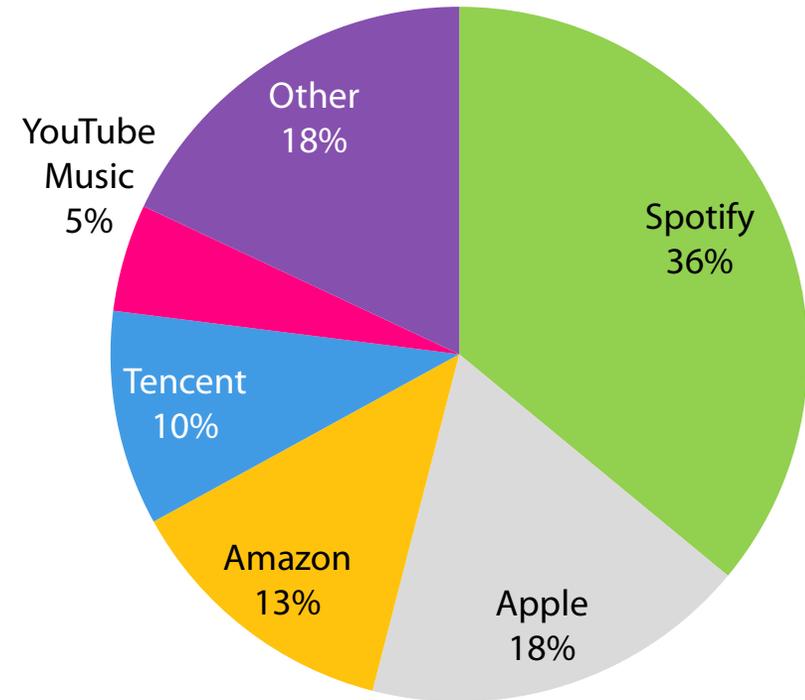
Source: Nordicity estimates based on data collected from CAVCO, CRTC, CBC/Radio-Canada and the Association of Provincial Funding Agencies. ; CMPA, Profile

# Global Music Streaming Revenues

Music subscription global revenue by service, H2 2019



Market share of global audio streaming subscriptions

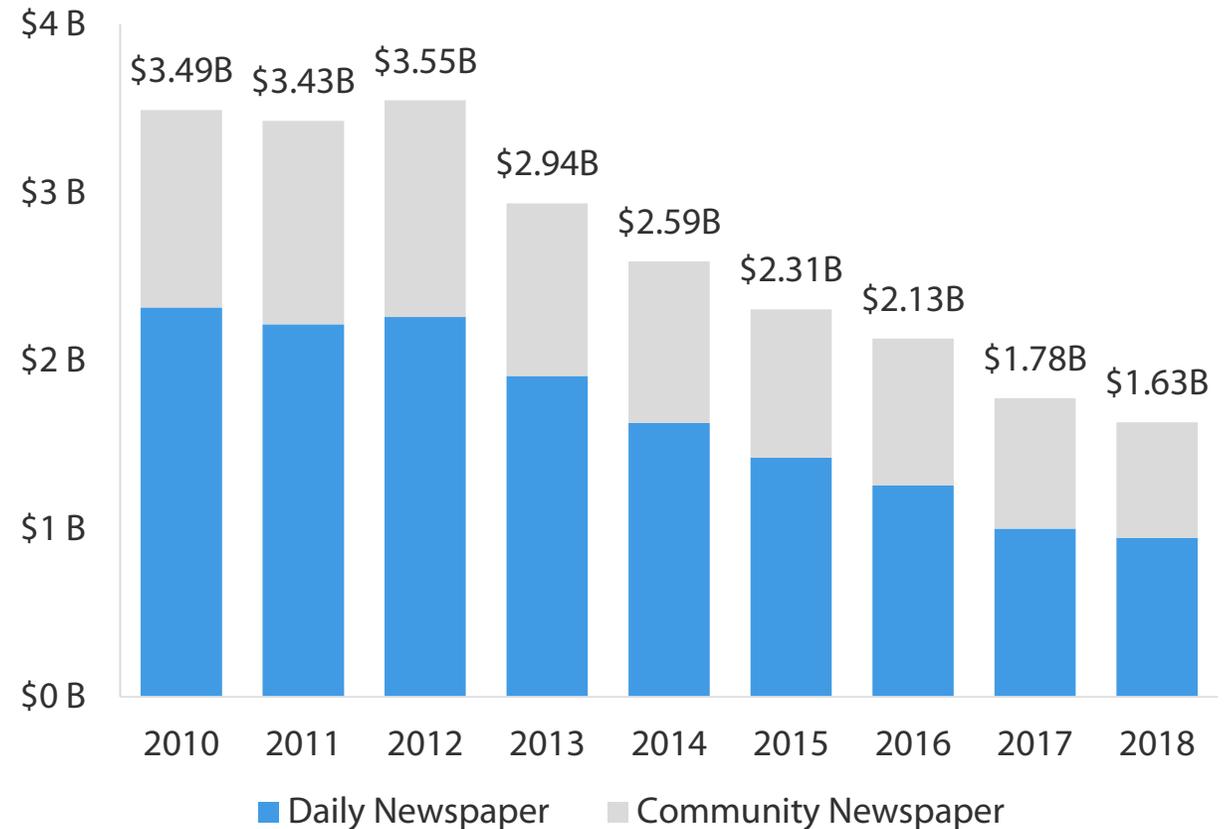


Source: Midia Research

## Newspaper Revenue Trends

- Total revenue was **\$5.3B** in 2000.
- A **53%** decrease in total revenue since 2010:
  - Daily newspaper revenue fell from \$2.3B to \$1.0B.
  - Community newspaper revenue fell from \$1.2B to \$0.7B.

*Newspaper total revenue (including online revenue)*



Source: ThinkTV, Net Advertising Volume Dec 2018