



The Digital Media Universe:

Measuring the Revenues, the Audiences, and the Future Prospects

February 18, 2022



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Introduction

Section One

1.1

Study Mandate & Objectives

MANDATE

- To **gather and present data and information on key trends** in 6 creative sectors.
- To **analyze the impact of COVID-19** and forces on the Canadian creative ecosystem.

OBJECTIVES

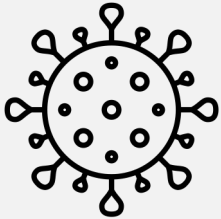
- To set the stage for lively DM@X discussions on policy.
- To do a refresh of the 2020 DM@X report, thus ensuring reporting continuity.
- To stimulate further discussion in other venues based on the full report.

1.2

This Year's Main Themes

Where are we in 2022?

We're facing several simultaneous disruptions.



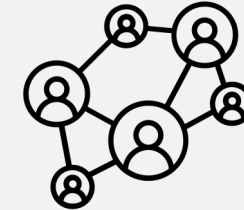
COVID-19

The pandemic has been a challenge to all sectors. Some sectors are **adjusting well**—particularly due to the attention boom in entertainment—while **others face longer periods of adjustment and recovery.**



DIGITAL

Traditional business models have been disrupted, yet digital offers new opportunities. There are new forms of **transmedia ecosystems** emerging. Additionally, **games are becoming center of gravity** in technology & IP.



SOCIAL

Social inequities have risen to the forefront of discourse in recent years. There is heightened **Equity, Diversity, and Inclusion (EDI) awareness** among all sectors, though not necessarily pronounced action.



Film & TV Production

Section Two

Film & TV Production | **Key questions**

1. What has been the **bounce back** for Canadian production from COVID-19?
2. What is happening with **Canadian demand, global demand, and Canada's competitive position**?
3. How are streamers capitalizing on changes in **consumption habits**?
4. Do we have the **human** and **infrastructure** resources and **investment** to continue growth? Are we capitalizing on all our potential talent?
What is the state of **representation in the screen sector**?
5. What **new trends** are on the horizon regarding **technology, e.g. VFX**?

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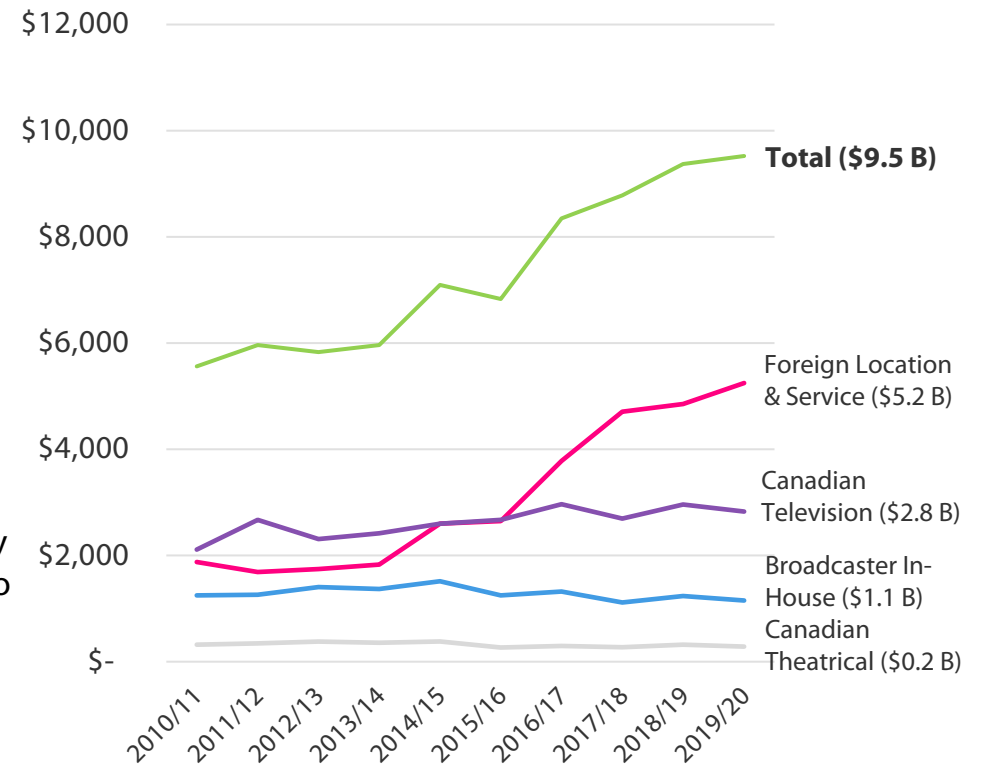
Industry Overview: Production in Canada

Production volume has grown (39% from 2015-2020) led by FLS, with Canadian content television and in-house flatlining.

Source: CMPA, Profile 2020

- There has been **overall growth in the film and television sector in Canada**, with the industry reaching \$9.5 billion in revenue in 2020.
 - FLS appears to be leading this growth**, with total production volume climbing to \$5.2 billion.
 - While Canadian content may account for some of FLS production volume, in general, the **growth of Canadian produced content seems to be plateauing** in comparison to FLS.
 - The global coverage of the major streamers does not leave much market left for producers, especially considering that they often traditionally retained important distribution rights to exploit.
- While there are some Canadian producers who have attracted outside financing and managed to engage in global distribution, any feasible model for **global distribution for small to medium Canadian producers is generally elusive.**

TOTAL PRODUCTION VOLUME IN CANADA (CAD M)



2.3

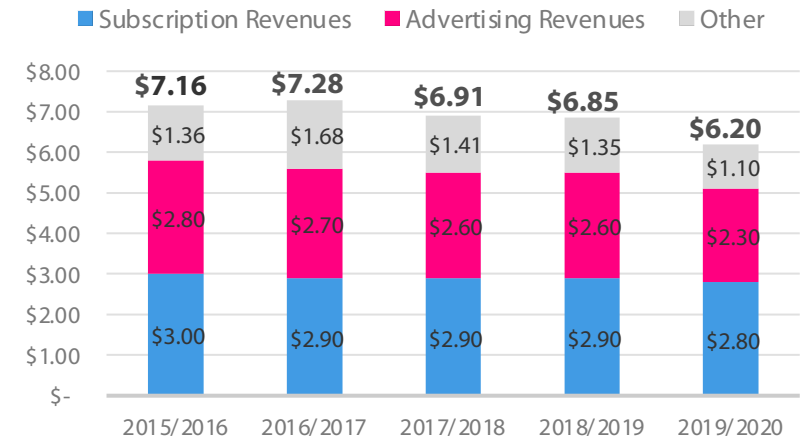
The Continued Advance of Streaming Services

Streaming services are catching up to total regulated TV broadcasting revenue, but traditional broadcasting system hangs in there.

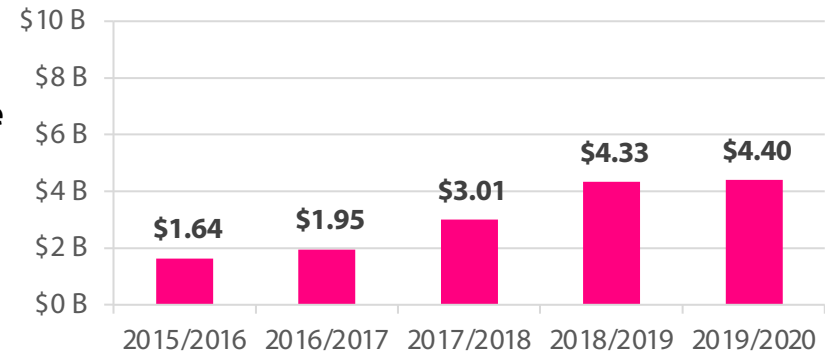
Source: CMPA, *Profile 2020*; CRTC, *Financial Summaries, Communication Monitoring Report 2019*

- Streaming services revenue continues to grow:
 - Internet-based audio-visual services revenue reached \$4.4 billion in 2019/20**, with video services contributing \$3.9 billion.
 - The traditional broadcasting system is still hanging in with a modest decline from 2019, hitting revenues of \$6.20 billion in 2020.
- A central issue is that, **even large Canadian producers are unable to exercise much leverage over global streamers**. Thus, their ability to retain IP to build library assets is limited.
 - However, there is a **potential upside for Canadian producers** in that the streaming services are competing fiercely for market share. That means several will need a **continuous supply of content** to feed their global growth.
- Despite the competitive market, **the streaming bubble has yet to burst**.
 - In 2017, Netflix's TV budget was US\$8.9 billion, and is forecast to have grown to US\$19 billion in 2021. **Netflix holds 45% of the market share in Canada.**
 - Similarly, Comcast's budget in 2017 was US\$10.2 billion and in 2020, climbed to US\$15.9 billion.

CANADIAN TV REVENUE (CAD B)



INTERNET-BASED VIDEO SERVICES REVENUE IN CANADA (CAD B)



2.4

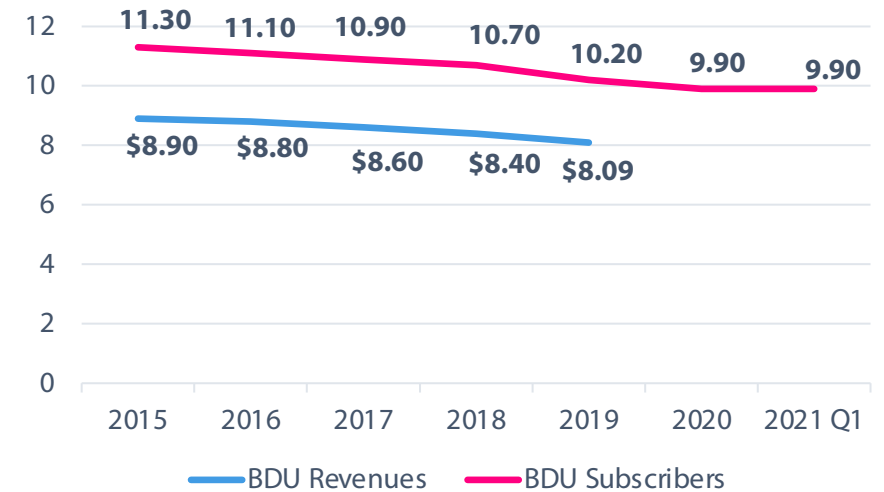
Financing Canadian Content

Current commissioning budgets of Canadian broadcasters are declining, as are the cable/satellite revenues – both trends result in declines in CMF funding support.

Source: CRTC, *Communications Monitoring Report 2019 and 2020*; CMF, *News*

- **There has been a decline in commissioning budgets of Canadian content.** In fact, the CRTC has shown that contributions to Canadian content have dropped to 2009/10 levels.
- There has also been a **decline in advertising and subscription revenues for broadcasting distribution (BDU) over the last few years.** According to the CRTC, the number of BDU subscribers has dropped to 9.9 million as of 2019. BDU revenues have gradually declined to \$8.09 billion in 2020.
 - This **revenue loss leads to less spend on Canadian content**, thus putting **more pressure on producers** to share distribution revenues.
 - While federal funding has been increased (e.g., \$60M over 2021-2023) to cover off the decline in BDU contribution to the Canada Media Fund's (CMF) budget, these declines put the CMF further at the mercy of extra subsidies from the federal government.

BROADCASTING DISTRIBUTION REVENUES (CAD B) & SUBSCRIBERS (M)



2.5

Financing Canadian Content in the Future

While a C-10 equivalent can address many financing gaps, it is not a sure bet, nor is it for tomorrow.

Source: République Française; CRTC, *Communications Monitoring Report 2019 and 2020*

- **Is it safe to place bets on the 2022 version of Bill C-10?**
 - **Bill C-10 was a response to the advancement of streamers in the market to bring them into the regulatory framework.** The purpose of the Bill was to make amendments to the Broadcasting Act, to ensure that online media services are making meaningful contributions to promoting Canadian stories.
- **What are the possibilities of tapping into the Canadian revenues of foreign streaming services if equivalent new legislation becomes law?**
 - Based on an early federal estimate, there is an **estimated potential of \$830 million a year for Canadian production** from streaming services.
 - Using current CRTC requirements for comparable Canadian broadcasters, the **requirement could range from 20% to 30% of streaming service revenues.** That would translate to well over **\$1 billion per year.**
 - **France** is an example of a jurisdiction which exacts expenditure obligations on content for large foreign streamers at **20% of revenues**, rising to 25% if they show first-run films.
- Yet, **a new bill remains to be tabled and passed** relatively intact with instructions sent to the CRTC. New funding mechanisms must then be created and implemented – likely 2-3 years from now.
- As a result, in the short to medium term, **alternative funding mechanisms need to be implemented** and existing mechanisms must be updated as a response to the changing financing dynamics within the sector.

Note: Since the writing of this report, Bill C-10's successor (Bill C-11, the 'Online Streaming Act') has been tabled.

2.6

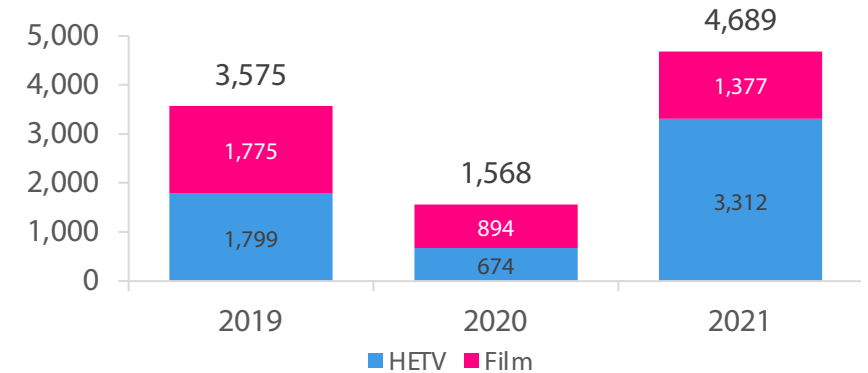
Pandemic Impacts on Production

While lockdowns slowed production in 2020, Canada and the UK bounced back after a period of shutdowns.

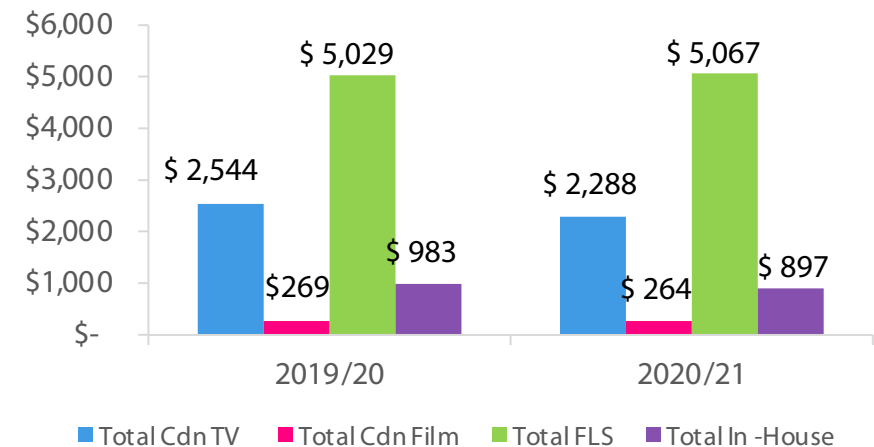
Source: BFI, *Screen Report 2021*; Film L.A., *2021 TV Report*; BC Creates; Ontario Creates; SODEC

- Despite shutdowns due to COVID-19, film and TV productions have remained steady.**
 - For example, the UK saw significant bounce back with revenues of **£4,689 in 2021, after dropping to £1,568 million in 2020**. This showcases exceptional production activity in the UK with 2021 surpassing 2019 in terms of growth.
 - There has been a similar **stability in production volume in Canada**.
 - CMPA *Profile 2021* data to be released later this year will provide more exact figures, however, Nordicity has provided aggregated figures for Ontario, Quebec, and BC. Here, it is apparent that between 2019/20 and 2020/21, there has been minimum impact on the sector.
- A large part of this stability is attributed to early measures put in place to ensure COVID-19 safe productions. Additionally, with support from COVID-19 relief funding, **production companies have been able to weather the storm of the pandemic.**

VOLUME & GROWTH OF TELEVISION SERIES AND FILM IN THE UK (£ M)



AGGREGATED PRODUCTION VOLUME IN ONTARIO, QUEBEC, AND BC (CAD M)



2.7

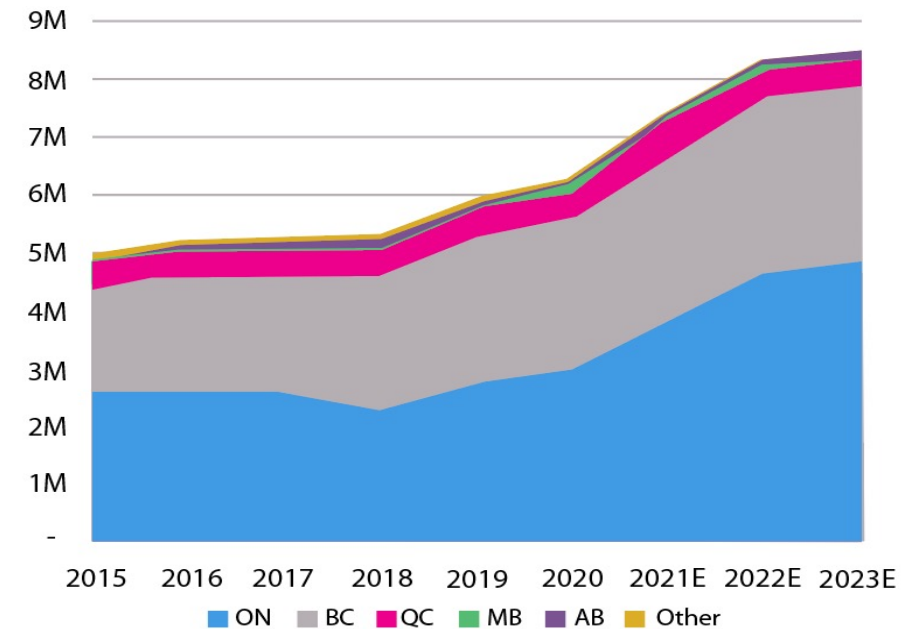
Infrastructure Growth: Production Space

Space shortage is leading to rapid growth in the creation of soundstages across Canada.

Source: Nordicity, *National Soundstage Market Study*

- There is an increasing demand for production space.
 - COVID-19 has exacerbated demands for content production with more people staying home to consume content, and an increasingly competitive market amongst streamers.
 - A by-product of this increasing demand for content is a need for more studio space. The problem that arises is not having enough studio spaces to accommodate the demand, however, there is **growth in soundstage square footage**.
 - Forecasts reflect that **Ontario and BC are poised to lead the growth in soundstages**, contributing to Canada's capacity to be one of the big production centres in the entertainment world.

SOUNDSTAGE SQUARE FOOTAGE BY PROVINCE



2.8

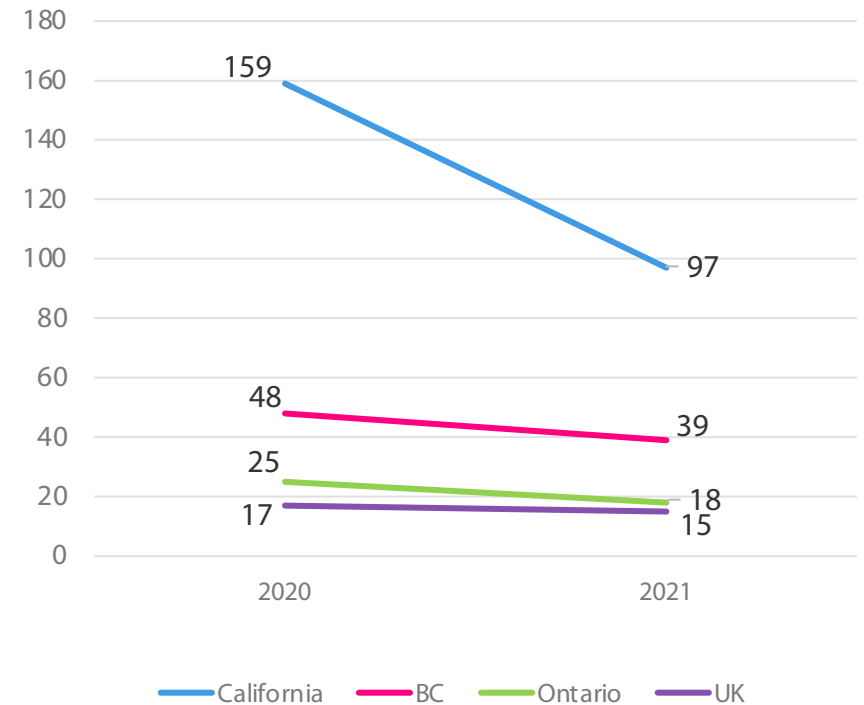
Canada's Success in the Marketplace

Canada is grabbing a big share of streaming service investment, but increased demand strains film talent pool.

Source: Film L.A., 2021 TV Report

- The pandemic has created a **backlog of production**, which has further enhanced **demand on Canada's studio space**. As a result, there is a more urgent need for increased studio space, which points to Canada hosting more productions.
- Despite the downturn in the first year of COVID-19, **Canada has established and maintained itself as a production location for television**, particularly with an increase in projects being hosted in **BC**.
- Even though Canada is behind California, **Canada has seen a less significant drop in projects** hosted from 2020 to 2021. Additionally, Ontario and BC have hosted more projects than the UK.
- Despite this success, there are still some significant **challenges for Canadian writers, directors and other creatives to find work on these productions**. Additionally, the boom in FLS has placed **pressure of the availability of the film crew talent pool**.

NUMBER OF U.S ENGLISH-LANGUAGE TELEVISION PROJECTS HOSTED FOR PRODUCTION



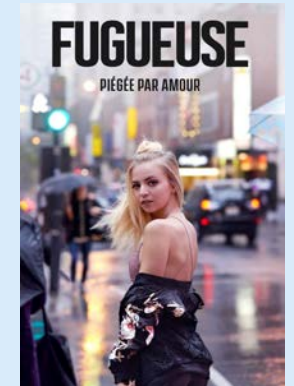
2.9

Shifts in Consumption Habits

Consumers burning through content — how do streamers stay competitive and keep up?

Source: CMPA, *Profile 2020*;
MindShare, *Stuff We Watch Q2*

- **With the rise of streaming, there have been changes in consumption habits. Where broadcasting involved cultivating long term viewership, streaming habits show viewers binge watching short form series.**
 - There is increased demand for content. Canadian viewers are willing to pay an extra \$2 for their subscriptions.
 - Viewers are also looking for exclusive content on streaming services. Streamers are scrambling to keep up with increased demand for new content, such as developing more targeted strategies to push increasingly niche content to larger audiences based on their interests.
- **In the US, major operators are offering tiered programming packages that look like traditional cable operators.**
 - Big distributors are investing in streaming content and packaging streaming services starting with a "basic" service of about \$18 - \$20 a month.
- **Despite consumers' desire for new content, the most binge watched television shows in Canada are older series (e.g., *Grey's Anatomy*, *Friends*, and *Modern Family*).**
 - These shows represent comfort television, where viewers return to series that have been airing for decades.
 - To continue to engage consumers in an oversaturated market, this trend perhaps signals a return or merging of traditional BDU, PPV, and pay-TV strategies, such as weekly releases of television series episodes.
- **Canadian content** series are part of the streaming options of course for international – **led by *Schitt's Creek***, which made a huge splash in 2020 by winning 9 Emmys and securing 19 nominations.



2.10

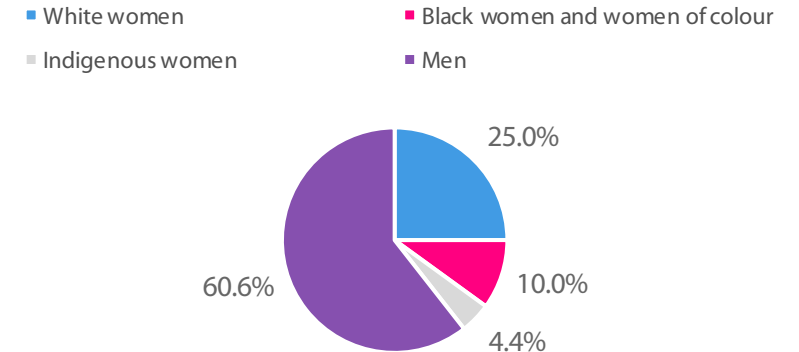
Representation in the Screen Sector

Women have made significant gains in the screen sector, but BIPOC women are still not well-represented.

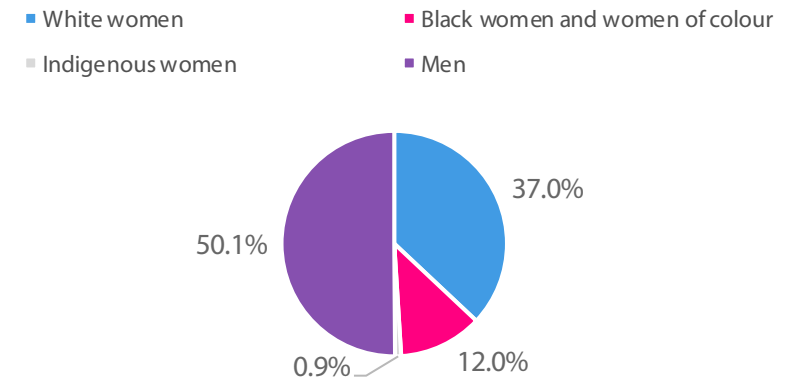
Source: Women in View, *On Screen 2021*

- Women have made significant gains** in film and television over the last several years.
 - As of 2019, **43% of key creative work** in Canada's television industry was undertaken by women.
 - However, only **6.4%** of those roles were held by Black women and women of colour, and only **0.94%** were held by Indigenous women.
- Trends indicate that women in leadership tend to hire more women.**
- Out of productions run by women, women received **79%** percent of writing credits. Similarly, out of shows produced by women, **51%** of directing credits went to women.
 - In contrast, in shows run by men, only **37%** of women received writing credits and **25%** received directing credits.
- Data from Telefilm shows that while more films directed by women are being financed, **the investments being made in them are lower**, particularly for Black women and women of colour.

FILM DIRECTING CREDITS (2019)



TELEVISION DIRECTING CREDITS (2019)



2.11

COVID-19 Relief: Impacts on Equity Seeking Groups

Evolving funding models are positioned to capture the needs of historically marginalized communities.

Source: Telefilm, 2021 Annual Report; CMF, 2021 Annual Report

- **Historically, racialized and underrepresented communities such as women, LGBTQ2+ and people with disabilities have faced barriers to success within the industry.**
 - With COVID-19 emergency relief funding distributed by funders such as CMF and Telefilm, there has been an increased emphasis on ensuring equitable distribution of these funds.
 - However, while companies owned by members of these equity-seeking communities are receiving this support, there is a lack of data to support how much is trickling down to creators.
- **Telefilm has partnered with the Fabienne Colas Foundation in the foundation's *Being Black in Canada Program* that is dedicated to Black Filmmakers.**
 - Telefilm is also now conducting **racialized data collection**. The COVID-19 relief fund has led to Telefilm beginning to capture internal corporate data on diversity.
- **CMF seeks to foster the inclusion of equity-seeking groups.**
 - Current CMF production program guidelines provide an exception for a non-Canadian to play a key role (provided that character is not the main protagonist).
 - **Whether additional exceptions may be considered is unclear.** Some recommend that the CMF should consider increasing the flexibility of their 10/10 CAVCO scale requirement to allow for racialized creators to have opportunities to hire more diversely from the states and the global south. Yet, that also runs counter to the purpose of the current 10/10 stipulation to create opportunities for Canadians.

17%

of CMF COVID-19 emergency relief funding distributed to companies owned by **members of equity seeking groups**.

12%

of Telefilm COVID-19 Emergency Relief funding supported clients of **underrepresented identities and communities**.

\$3.6M

of Telefilm's COVID-19 top-up funding was reserved to help historically disadvantaged groups. **53%** went to companies **majority-owned by an underrepresented group**.

2.12

An Increasingly Digital World

VFX in film allows for greater bounce back through the pandemic, and points to further progression into digital. Canada is on the forefront of this change.

Source: MARZ; Tech Crunch; Deadline

- **COVID-19 has created a growing reliance on digital to keep the sector afloat.**
 - The theatrical window for new releases to be seen on the big screen has been cut short. With theatre closures due to the pandemic, there is an increased reliance on releasing titles simultaneously on streaming platforms and in theatres. This trend, however, may be controversial in how it impacts talent signed on to production whose pay is dependent on box office sales.
 - There has been increase in digital festivals as a response to restrictions on theatrical releases, with **Canadian box office sales dropping to \$8 million in 2020 from \$17 million in 2019.**
- **New AI technologies are also on the rise, such as virtual effects (VFX).**
 - New VFX companies have emerged, such as **Toronto-based start-up MARZ, which raised \$5.3 million to develop AI technology solutions.**
 - **VFX is a metaphor for Canada's familiarity with the latest tech platforms, and as an innovator and leader in audiovisual technology.**
 - The rise of virtual productions contributes to the bounce back we see within the pandemic, as VFX supports a speedy return to production that is both cost effective and pandemic safe.
 - Using digital technology, there is no longer a need to shoot on location, thus saving on travel costs for crew – though these benefits primarily support big budget productions.



Toronto-based tech start up that operates in the VFX space

Projects worked on by MARZ



Film & TV Production | **Observations**

1. **The Canadian broadcasting system support of CanCon is being compromised** by its loss of market share and viewers to streaming services.
2. **Canadian production resources**—although not so much for the creatives in **Canada**—**are benefiting greatly** from the huge demand for streaming programming
3. Carving out new markets to **increase Canada's value add in terms of IP retention faces enormous challenges** particularly in selling rights to global streaming services
4. Offspring of Bill C-10 could be a way to spur investment, but **intervening years should be spent adapting financing support** to fit the new streaming ecosystem.
5. Representation has been growing in the screen sector for women, but still lags behind for BIPOC women. Yet, there are **spirited initiatives** coming from the agencies supporting greater **diversity, equity, and inclusion** in the sector—which can only add to the Canadian talent pool.

Video Games

Section Three



Video Games | **Key questions**

1. How much did the sector **prosper during the pandemic**?
2. Is the Canadian games sector **growing apace with games globally**?
3. How has the **perception of games** changed through the pandemic?
4. How are games becoming more central in the **creative sector's IP assets**?
5. What is the state of the **workforce and Equity, Diversity and Inclusion** (EDI) advances in the industry?

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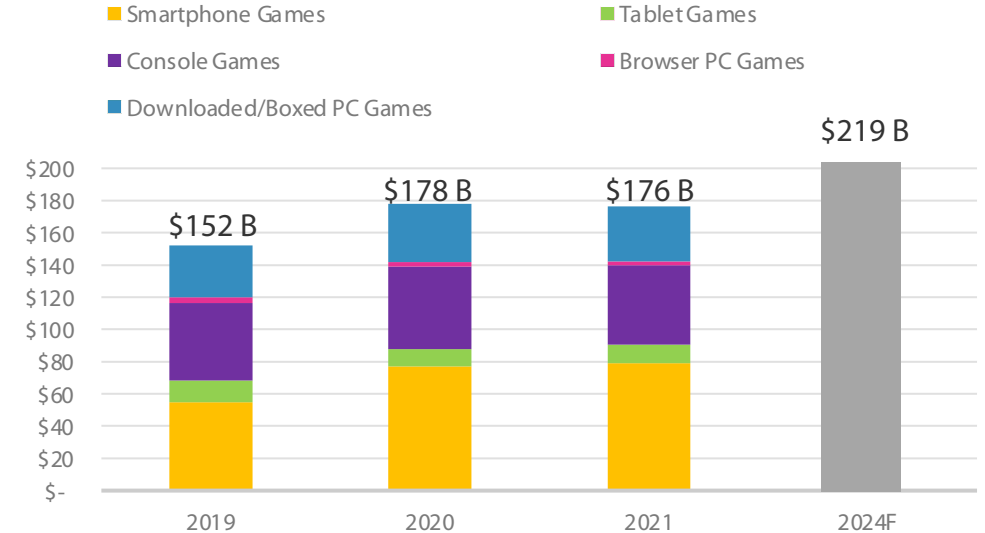
Games on a Global Scale

The global games industry continues to grow — in fact, spurred by COVID-19.

Source: Newzoo, *Global Games Market Report 2021*; MIDiA Research

- The **global video games market continues to grow** steadily during the pandemic.
- However, the pandemic did affect the market's growth in 2021, as development and publishing delays may have caused a **bottleneck in sales**.
- Even so, compared to the pre-pandemic period (2019), revenue generated in 2021 shows **growth of 21% from 2019**. This figure is expected to reach up to US\$219 billion by 2024.
- The pandemic has also been a large contributor to **boosting consumption of video games**. In 2020, 20% of all gamers were new or returning, many due to pandemic-related reasons (e.g., connecting with distant friends and family).
- Overall, **consumption of games also increased by over 30% in 2020**. This jump was the largest in consumption out of all entertainment forms. The increased attention in games is expected to hold after the pandemic, according to MIDiA Research.

GLOBAL VIDEO GAMES REVENUE (USD)



20%

of gamers were new or returning in 2020

30%

increased consumption (hrs played) in 2020

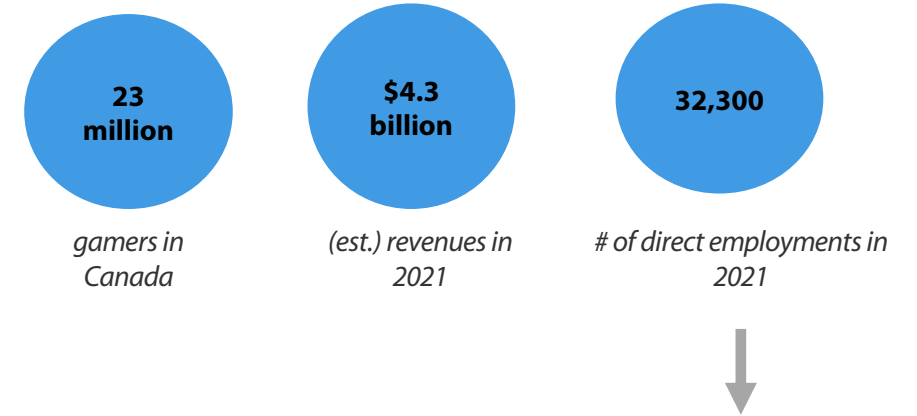
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Games in Canada: A Snapshot

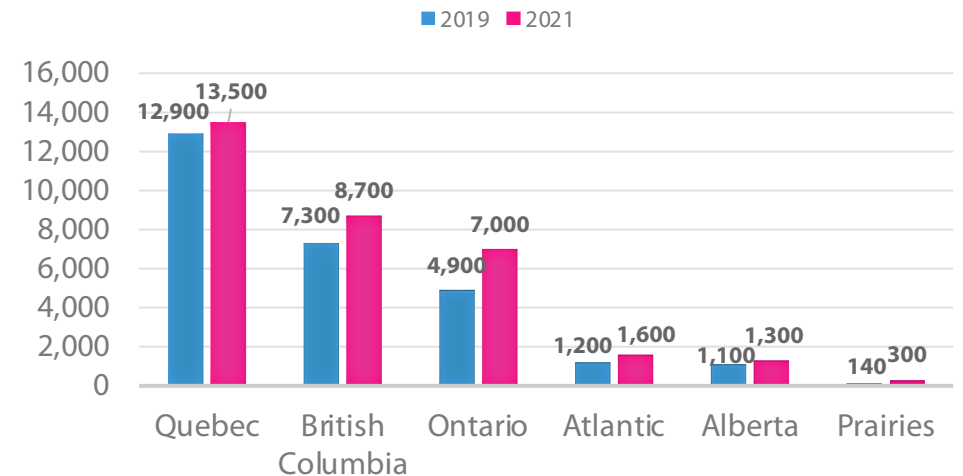
Like the global industry, Canada's video game industry continues to grow with most activity taking place in Quebec, Ontario, and BC.

Source: ESAC and Nordicity, *The Canadian Video Game Industry 2021*

- The growth of games is also similarly experienced in Canada, where almost 2/3 of all Canadians are gamers (23 million total).
- Revenue for 2021 is estimated at **\$4.3 billion (+21% from 2019)**, reflecting the global market growth.
- Video games companies also employ over 32,300 Canadians (**+17% from 2019**).
- This employment growth is seen across various provinces from 2019, with the **most significant gains in Ontario (+43%) and British Columbia (+19%)**, though most employment still occurs in Quebec.
- The **number of video games companies also increased (+35% from 2019)**, reaching up to 937 companies in 2021.
- The growth in revenue and employment also allowed the industry to **contribute \$5.5 billion to Canada's GDP in 2021 (+23% from 2019)**.



DIRECT EMPLOYMENT AT VIDEO GAME COMPANIES (CANADA), BY REGION



3.4

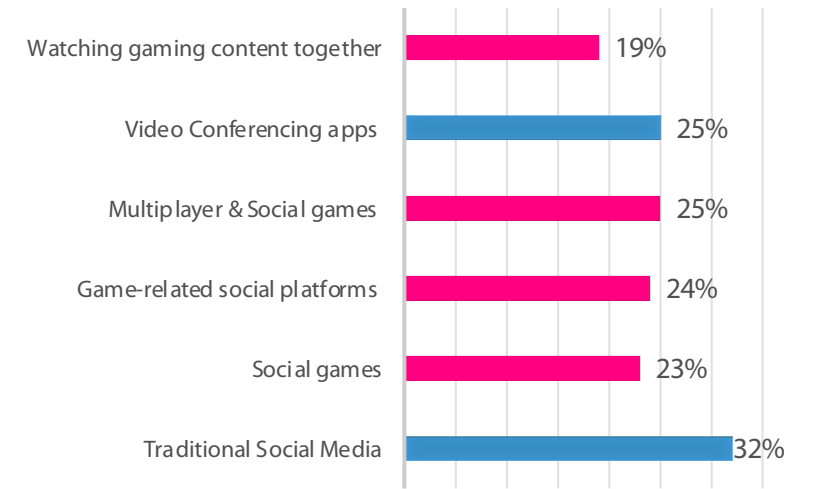
Games as a Social Connector

Games are not just about games anymore—they're about connection and engagement.

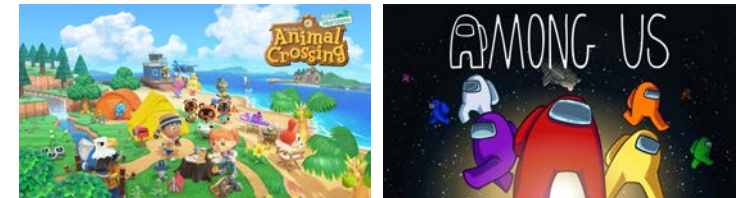
Source: Newzoo and Google for Games, *Beyond 2021: Where does gaming go next*; NPD; Nintendo
Accenture, Gaming: The Next Super Platform

- Throughout the pandemic, gamers turned to games that offer a means to socialize with friends and family digitally. An Accenture survey shows that **75% of gamers used video games to socialize during the pandemic.**
- Various games-related platforms (e.g., Discord, Twitch, YouTube) and **social games/multiplayer games**, which are digital social activities, **are keeping pace with the increased usage of video conferencing tools and traditional social media.**
- As further illustration of this phenomenon, two such pandemic-hit games that were not *designed* to capitalize on the socialization trend, yet found a huge following during COVID-19, include:
 - Animal Crossing*** by Nintendo: a DIY island simulator game where you can invite your friends and have a multiplayer experience. The launch of the game coincided with Nintendo's largest boost in Switch console sales (which doubled) in March 2020.
 - Among Us***: an online "social deduction game" that allows friends to connect and have fun while using the game's voice chatting system.

INCREASED ACTIVITY ON SOCIAL PLATFORM (2020)



Examples of Top Pandemic Games



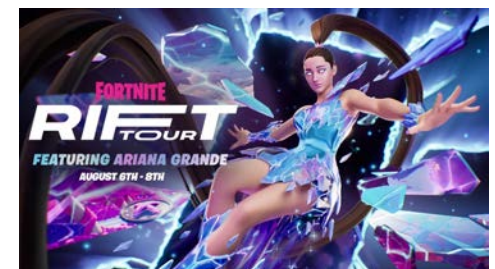
3.5

In-Game Concerts

The trend towards socialization is not going unnoticed by developers (and artists) who are moving to capitalize on this trend.

Source: Gamesindustry.biz; Newzoo, *Newzoo's Games Trends to Watch in 2021*; The Verge

- In-game concerts is one large example of the industry taking note of the power of social connection. This trend also illustrates the **cross-over of music and games worlds**.
- This trend was propelled by COVID-19, due to gathering restrictions and the cancellation of tours.
- Since the first in-game concert (Travis Scott's Astronomical concert on *Fortnite* in April 2021), more in-game concerts have emerged:
 - Scott's performance brought in **US\$20 million in revenue, which included merchandise, compared to US\$1.7 million** in his highest single-night performance for his 2019 Astroworld Tour.
 - The in-game concert grossed large attendance numbers, with 28 million players attending in game (i.e., in *Fortnite*), over 16 million livestream views, and more than 180 million VOD views.
 - As a result of this success, more collaboration has occurred with established artists (e.g., Anderson Paak, Ariana Grande), and popular artists across the globe (e.g., Hamaki, Emicida).
- *Fortnite's* success with in-game concerts has led other similar games platforms, such as *Minecraft* and *Roblox*, to invest in developing concert space in their own in-game universe.



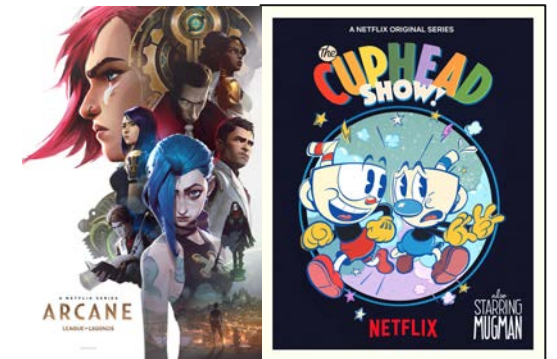
3.6

Games in the IP Ecosystem

Games not only offer an avenue for monetizing IP, but are a key way of building larger fan bases around existing IP.

Source: Newzoo, *Newzoo's Games Trends to Watch in 2021*; The Verge; New York Times

- Games have always been one method of further monetizing IP (e.g., Marvel creating Avengers' video games). However, **games are now taking a more central role** in the IP ecosystem.
- Previously, Hollywood had struggled to adapt games-based IP into other successful media (e.g., the 1993 *Super Mario Brothers* movie). While there are some successes, like the 1995 *Mortal Kombat* movie, film and tv adaptations of video games have been a hit or miss.
- Now, the **growing cultural impact of video games in mainstream** society allows film and TV producers to invest more into games-based IPs for film or television content.
- The Witcher*, as an example, started as a fantasy book but gained mainstream traction when the IP was turned into a trilogy of games by CD Projekt RED. As IP with a built-in fan base attracts investors, Netflix adapted *The Witcher* into a successful television series.
- Other titles have followed suit, with Netflix adapting other game IP into television series, such as *League of Legends*, *Assassins Creed*, and the Canadian-made game *Cuphead*.
- The film and television industry is now waking up to the **profitability of game IP** and realizing that game content well suits the narrative structure and pace desired in a blockbuster hit.



3.7

Games as a Service (GaaS)

The shift from 'traditional' games to GaaS is capturing the attention of investors.

Source: SuperData, 2020 Year in Review: Digital Games and Interactive Media

- Investors have also been attracted to games due to a shift from 'traditional' games—games that have a single ship release—to games as a service (GaaS).
- The GaaS model entails continued development even after the initial commercial release of the game. The game, its universe and features keep expanding over time.
- Why does the GaaS model attract investors?
 - The revenue structure for traditional games is a one-time monetization opportunity, whereas **GaaS offers the potential for endless monetization opportunities and exponential revenue growth** through microtransactions or subscription fees.
 - The GaaS-type business model promises **larger and longer returns for investors**. The potential for exponential growth also allows tech investors to easily understand and more readily provide necessary funding for these groups.
 - Additionally, many GaaS games can also be played without a console, and only require internet. Therefore, it is an **easier entry point for new gamers**.
 - According to SuperData, the global games revenue for GaaS is almost **5 times the size of traditional games**, indicating where the revenue opportunity and consumer demand lies.



Traditional Games	Games as a Service (GaaS)
Single ship release	Continuous updates and new content on a single IP
One-time payment	Often Free to Play (F2P), with microtransactions or part of a subscription-based service
Unit sales are a 1:1 basis, revenue growth is linear	May not have unit sales, but with continuous on-going purchases, revenue growth is potentially exponential
Global 2020 revenue: \$21.4 billion US	Global 2020 revenue: \$101.3 billion US

3.8

Investment Boom in Gaming

The business world has woken up to the lucrative world of games. Global firms are shifting to build transmedia ecosystems, but Canada lags behind.

Source: GamesIndustry.Biz; The Esports Observer; Netflix

- With the increasing adoption of the GaaS business model and the growing importance of game IP in entertainment, there has been a **surge in investment activities in the industry** over the past two years.
- In 2021, M&A and investments totalled to **\$85 billion — 3 times the transaction value of 2020**. Video games related transactions reached 1,159 deals in 2021, including 299 M&A, 718 private placements, and 142 public market deals.
- Even as recent as January 2022, the games world reached more record breaking investment goals with the acquisitions of **Activision-Blizzard by Microsoft for \$68.7 billion US and Bungie Studios by Sony for US\$3.6 billion** (this marks Sony's largest video games acquisition to date).
- These trends suggest that companies may be trying to achieve a **'pan-entertainment' strategy** (much like Disney); desiring to encompass all forms of entertainment.
 - For example, Chinese tech company **Tencent** invests in game IP, but it also owns stake in other media industries such as music (Spotify, QQ Music), television and cinema (Tencent Pictures), and video games. The company is currently partnering with Universal Beijing Resort to explore new experiences and business models by combining their games and e-sports IP with theme park concepts.
 - **Netflix is also expanding** its entertainment offering beyond its video streaming service to games (called Netflix Games).
- **M&A and investments are also happening in Canada**, such as the recent acquisition of Ludia Inc. by Netmarbles (from South Korea) for \$165 million. Yet, **few Canadian companies seem to be adopting this pan-entertainment strategy** in a large scale so far.

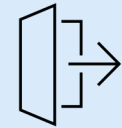
3.9

Challenge in the Workforce

While there is often a wealth of new talent looking to enter the industry, competition for mid-career and senior talent globally is fierce.

Source: IDGA; GDC; Axios

- While the Canadian game industry employs total over 32,000 people total (+17% from 2019), there is a **talent shortage in the industry – not just in Canada, but also globally.**
- The global talent shortage stems not from a shortage of junior talent, but rather a relative lack of mid-career and senior talent. The International Game Developers Association (IGDA) 2021 survey points out that the **average age of a developer is 36 years old.**
- Similarly, the Game Developer Conference reports that **57% of developers have less than 10 years of experience**, and the number of experienced developers beyond 10-years drops off sharply.
- These indicators reveal that there is a **significant need to attract and retain more middle and senior talent** to help guide and develop junior developers in the industry if the industry is to continue to grow in Canada.
- Reasons for the challenge in securing this talent can be attributed to a few factors. For instance, the **pandemic has increased demand for the tech skills of developers** (e.g., VFX in film, or app development for banks) and as a result, some are shifting careers. Additionally, although it is not practiced by all games studios, **crunch culture** can lead to burn out where it exists.
- To address these challenges, games companies in Canada are looking for ways to increase retention and attract more mid and senior level talent, which often involves **inviting more diversity into the fold.**



Other Industries
growing demand for tech skills



Young(ish) Industry
not as much time as other industries
to develop careers

3.10

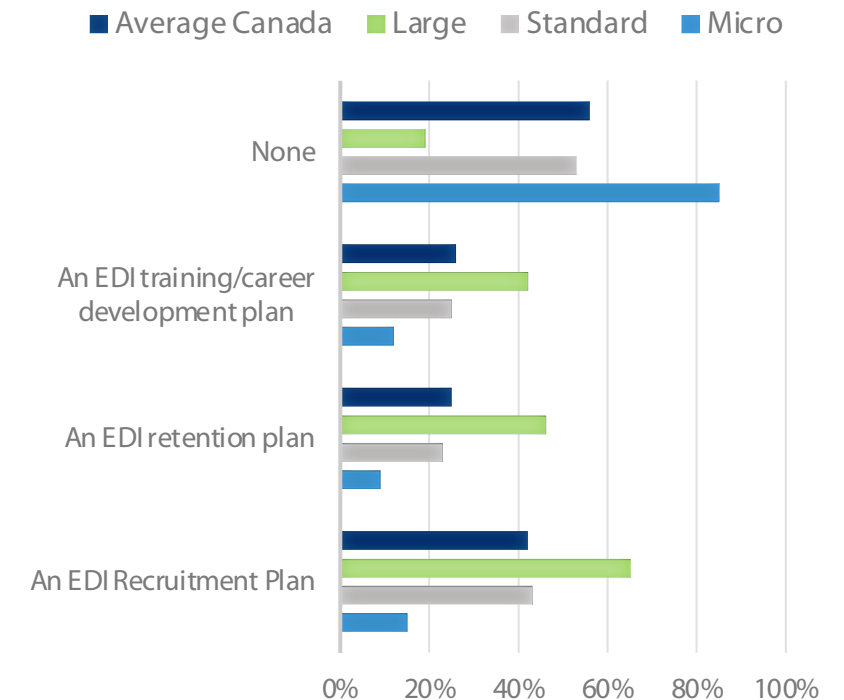
The State of EDI in Games

Gender parity remains a challenge in the industry. Some companies have developed EDI plans to help address this issue.

Source: n=153, study by Nordicity for ESAC

- The games industry has made slight movement towards more diversity and inclusion in recent years.
- Women comprise **23% of the Canadian workforce**, which represents a modest improvement (+4%) from 2019.
- According to a 2021 ESAC survey, the majority (**56%**) of companies have not adopted any EDI plans into their workplace.
- Yet, **81% of large companies** (companies with 100 people or more) have adopted at least one type of EDI program.
 - As large companies hold the most employment in the industry, this means that the **majority of the Canadian games industry workforce is working under some form of EDI policy.**
 - The survey also suggests that smaller companies without any EDI plan may not have the necessary resources or capacity to develop or enact formal EDI policies or strategies.
- Again, these efforts can be part of the solution to the global talent shortage facing Canada's games industry.

SHARE OF VIDEO GAME COMPANIES (CANADA) THAT HAVE IMPLEMENTED EDI PLANS (2021)



Video Games | **Observations**

1. Games are a **powerful cultural force and growing**, partly thanks to COVID-19. The increased consumption of games is likely to stabilize past the pandemic.
2. Games are becoming a **socialization phenomenon**, with a **huge music cross-over**—and earning the **investment interest** of major entertainment companies due to GaaS and a more centralized place in the IP ecosystem.
3. The global **talent shortage of mid-career and senior staff** is limiting the ongoing growth of the industry. Efforts to **improve gender parity and the broader inclusion of more diverse people** could help to alleviate that challenge.

Music

Section Four

Music | Key questions

1. How has the **music industry managed** throughout the pandemic? How is the 'average' or emerging artist impacted compared to top talent?
2. How are **digital trends impacting music and audio consumption, rights**, and the way creators are **finding new monetization and discoverability opportunities**?
3. In what ways is government helping the industry progress and stay afloat amidst the pandemic, and what advances have been made towards **greater equity in the industry**?

4.2

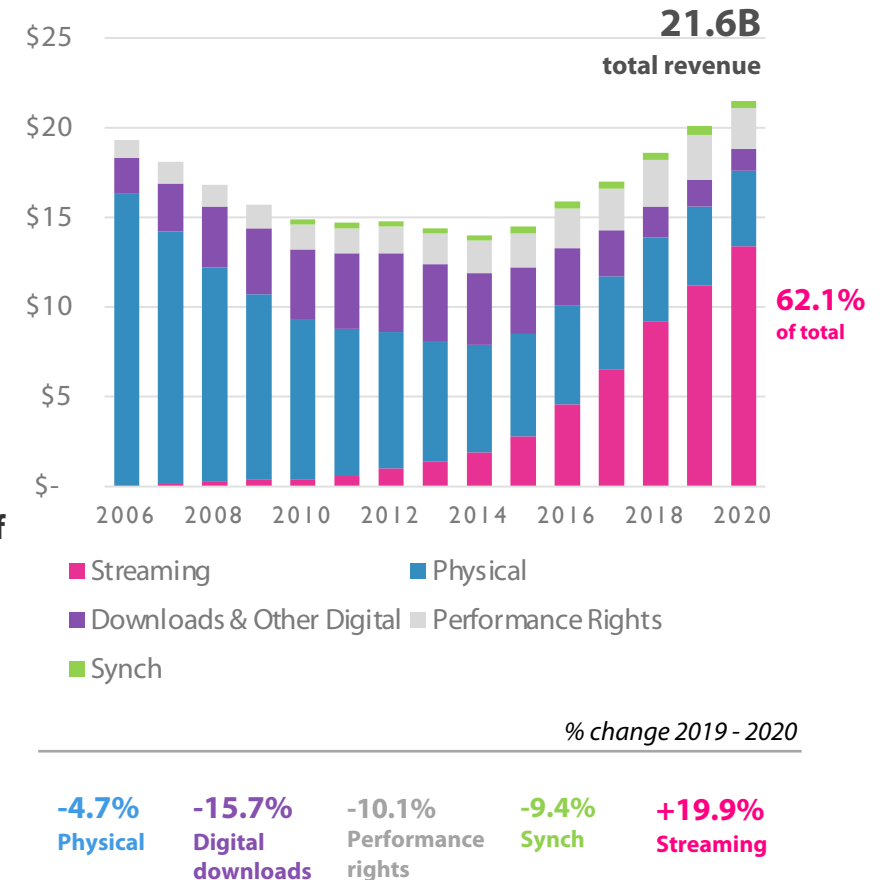
Snapshot of the Global Recorded Music Industry

Global recorded industry revenues continue to grow despite pandemic challenges, fueled by streaming.

Source: IFPI, *State of the Industry (2021)*; Statista; MIDiA Research

- The global recorded music industry is in **its sixth year of growth**, reaching revenues of \$21.6 billion US in 2020.
- Yet, **most segments have shown a decline** from 2019 to 2020:
 - Physical and digital downloads continue a downward trajectory.
 - Performance rights and sync both declined, respectively due to the loss of live music and production delays as a result of the pandemic.
- The **growth in streaming** (+19.9% from 2019 to 2020) has more than made up for all declines. Streaming now constitutes 62.1% of all recorded industry revenues.
- Streaming growth is fueled by **further adoption of subscription services**, which accelerated during the pandemic.
 - As of Q2 2021, there are 523.9 million global music subscribers (+26.4% from Q2 2020).
 - Spotify** remains the market leader. The platform's subscriber base grew 50% over the pandemic (from Q1 2019 to Q3 2021), and now boasts more than 172 million subscribers.

GLOBAL RECORDED MUSIC INDUSTRY REVENUE (US BILLION)



4.3

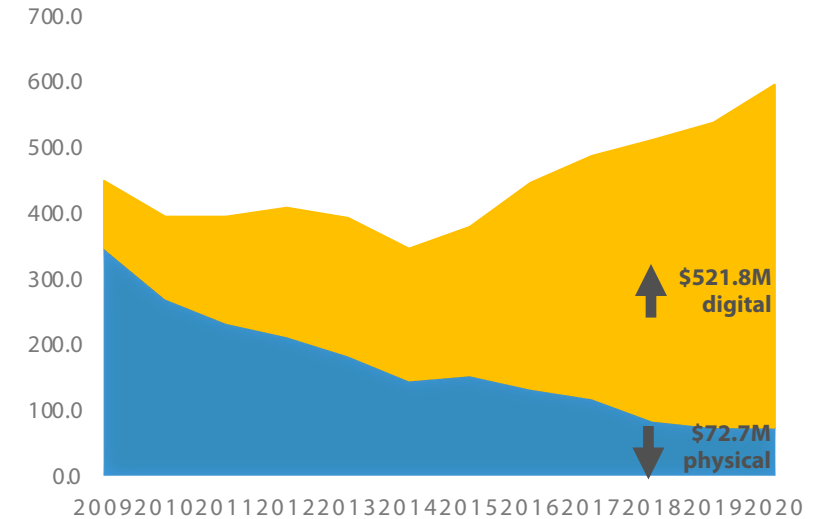
Music Streaming in Canada

Streaming continues to grow in Canada, with catalogue music taking the lead. A tough road ahead for unsigned Canadian artists.

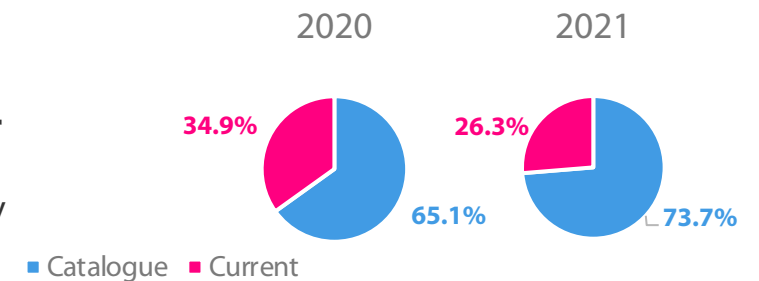
Source: Music Canada Statistics; MRC Year-End Report Canada 2021; TikTok Report

- Streaming also grew rapidly in Canada. **Digital comprised the majority of Canada's trade value** in 2020. Within that, **streaming makes up 92%** (+88% from 2019).
- According to MRC, on-demand **streaming grew to a new record in 2021** (+9.5% from 2020), to reach 106.7 billion streams.
- Within the streaming trend, Canadian audiences are listening to more **catalogue music** (older than 18 months; +17.4% from 2020) compared to current music (the inverse; -5.3% from 2020). **2021 marks the first year in which current music has seen a decline.**
 - The rise in catalogue listening is due to a number of trends, such as older generations migrating to streaming;
 - Consumers craving nostalgia amidst the pandemic, similar to trends seen in TV consumption; and,
 - Social media (primarily TikTok) resurfacing and re-popularizing older tracks. TikTok trends tend to correlate to top charting tracks on Billboard Hot 100.
- These trends indicate a **challenge for the 'average' or emerging artist, who often have small catalogues.** Artists with large pre-existing catalogues, supported by major labels who can help them navigate streaming services, fare better in comparison.

TRADE VALUE OF MUSIC IN CANADA (CAD M)



SHARE OF CATALOGUE VS CURRENT AUDIO STREAMS



4.4

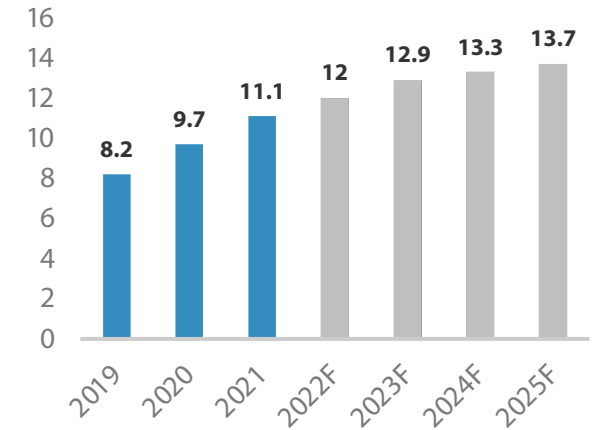
Digital Audio Trends – Platforms & Podcasts

Podcasting is a prominent business in the audio landscape. With increased activity in Canada, there is future opportunity to sell more digital advertising on digital audio platforms.

Source: eMarketer; Interactive Advertising Bureau; The Globe and Mail; MIDiA Research; Podcast Insights

- It is not just music consumed on streaming platforms—podcasts are a growing media form that are competing with music for share of listening.
- Similar to SVOD services in TV, more **platforms are creating original podcast content as a point of differentiation** in their vast, similar libraries of licensed music. The pandemic saw a **boom in podcast creation**—there are now more than 48 million podcast episodes worldwide (up from 18.5 million in 2018).
- As podcasts merge with the news landscape, some high profile Canadian artists (Neil Young and Joni Mitchell) are removing their catalogues from Spotify in protest of podcasts promoting misinformation. This echoes the question around the **self-regulation/curatorial duties of platforms** often discussed in relation to news.
- The growth in podcast listening may also point to room for **further growth in advertising on digital audio platforms.**
 - Podcast listening in Canada continues to grow, with 11.1 million in 2021, and projected to reach 13.7 million in 2025.
 - Despite this growth, the IAB reports only **1% of digital ad spend is currently spent on digital audio in Canada.**
 - A Westwood report also shows that ads in podcasts are least likely to be skipped compared to other media.

PODCAST LISTENERS IN CANADA (M)



TOTAL DIGITAL AD SPEND IN CANADA (2020)

1% spent on digital audio ads



4.5

COVID Pulse Check

With continued closures due to the emergence of new variants of COVID-19, recovery is now expected to surpass 2023 in Canada.

Source: CIMA and Nordicity, *Impact of COVID on Independent Music*; Ontario Creates

- COVID-19 led to an overall decline in the industry. Mapped by Nordicity and CIMA, industry revenues were \$4.2B prior to the pandemic, and were projected to take a significant **hit to \$1.6B in 2020**.
- The largest impact is the **decline of live performance**. Prior to COVID-19, **live performance comprised the majority (~63%) of industry revenues in 2019**.

Since March 2020:

- Slight Bounce Back in the Industry**

Organizations shifted online, there were slow openings to live, and music publishing and sound recording industries began to recover (revenues grew from \$102.7M in 2020 to \$143.1M in 2021).

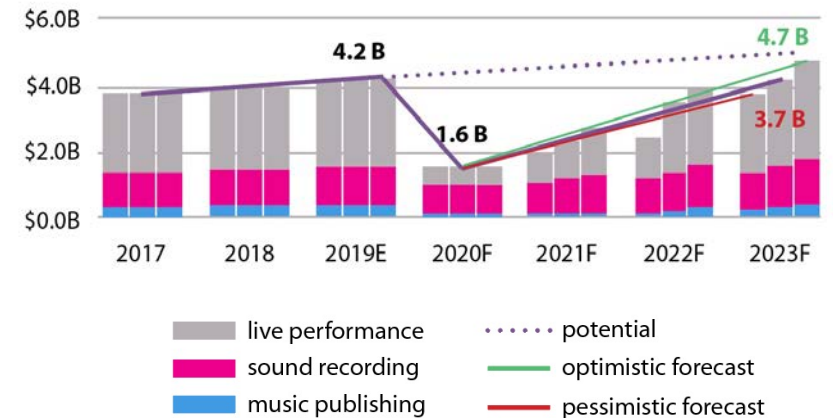
- Emergency Relief Funding**

Government and industry support (e.g., CERB, CEWs, grants from CMF, FACTOR, SOCAN, among others) helped to keep the industry afloat. While welcome interventions, this support cannot sustain the industry in the long run.

- Continued Closures Beyond 2021**

Nordicity projected that the industry would recover by 2023, if restrictions lifted in 2021. As that is not the case, the recovery horizon is expected to be much longer than represented.

**MUSIC INDUSTRY REVENUE IN CANADA
PANDEMIC PROJECTIONS (CAD B)**



4.6

The Domino Effect of Venue Closures

Loss of space is a significant challenge for revenues and for the creation of new music “product”.

Source: CLMA #ForTheLoveOfLive; Spotify; The New York Times

- The loss of venues across Canada augments the impact of shutdowns on live performances. The **impact of these closures is seen throughout the music value chain.**

Impact of performance venue closures:

- There are fewer performance opportunities for artists to generate revenue and build a following. This is particularly challenging for emerging artists.
- Artists rely on touring and performing as a major revenue stream. Streaming is not an alternative source of income (e.g., 97% of artists on Spotify received less than \$1,000 in 2020).
- Loss of performance revenue also impacts those who generally take a cut, such as managers and labels with 360 deals.

Impact of rehearsal venue closures:

- The closure of rehearsal venues significantly impacts artists’ ability to create and rehearse new music.
- A lack of new music leads to a lack of material to record or produce, eventually impacting distribution channels and publishers.

75 + venues closed since March 2020, reported by CLMA

Creation of music
“the product”

loss of spaces to create and rehearse



Recording & Production



Distribution of music
(e.g., performance, streaming, physical sales)

fewer performance opportunities — even post pandemic

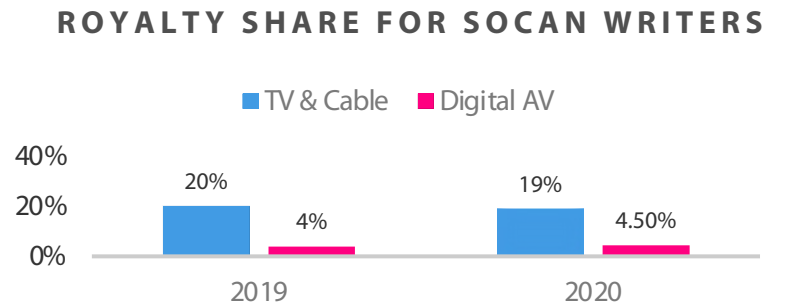
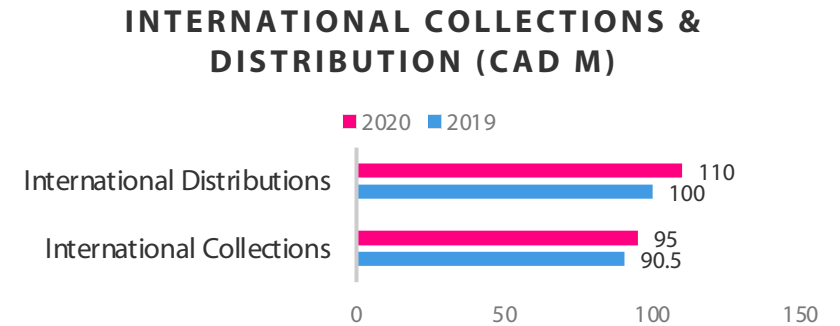
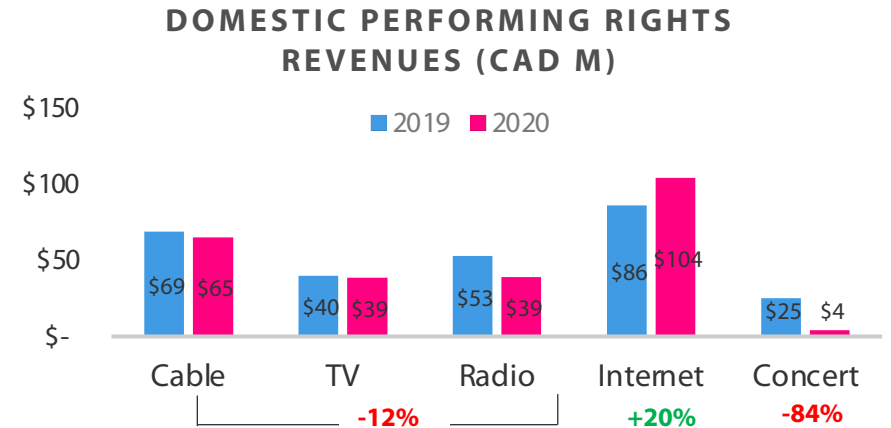
4.7

Music Rights Online

Despite shifts to capture more royalties online, digital is a tougher market than conventional broadcast for writers.

Source: SOCAN

- SOCAN domestic performance rights revenues illustrate that royalties are **shifting from conventional sources (cable, TV, radio – down 12%) to online (+20% in internet)**. There has been an unsurprisingly large decline (-84%) in concert rights due to the pandemic.
- Growth in internet rights revenues may be boosted by the fact that **SOCAN began paying out royalties for online concerts in 2020**.
- International trade is increasing on a whole, though there is a **slight trade imbalance in favour of outbound royalties** compared to collections.
- The rise in streaming and digital trends remains a challenge for creators. **Canadian writers make a much smaller share of royalties from online** (about 4.5%) compared to conventional services (19%).



4.8

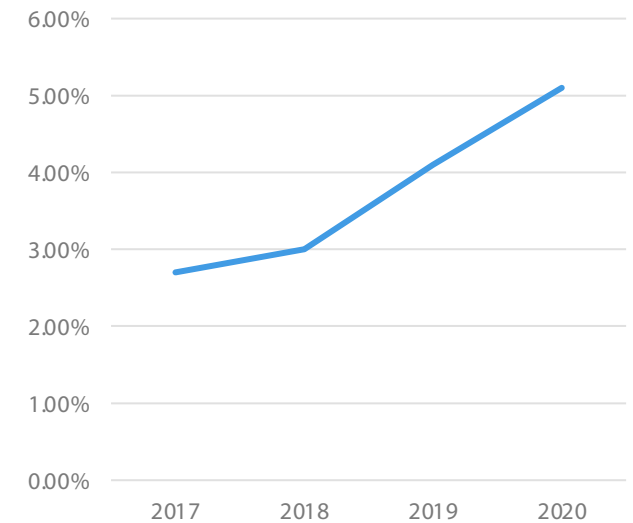
The Rise of the Artist Entrepreneur

Despite challenges in the industry brought on by digital shifts and the pandemic, artists remain resourceful.

Source: MIDiA Research, *Global Label Market Share*; Nordicity research; TikTok, *Year on TikTok: Music Report 2021*

- The pandemic has further propelled a shift towards self-producers. This trend is born from **digitization and decreasing production costs** that make it possible to record and produce music at home.
- While still a minority share (5.1% share in 2020), the self-producer trend is **growing exponentially** (24% growth from 2019 to 2020).
- Artists may choose this path to **retain creative freedom and the rights to their masters**, or out of necessity because they **do not possess a portfolio or following** large enough to attract a label.
- A **shift in the label-artist relationship** is occurring due to this trend. Traditionally, labels have provided recording and distribution assistance. Now, some artists have the time and skills to undertake the management, promotion, and digital marketing themselves or with other third-party suppliers.
- Artists are also seeking other **opportunities around content creation** (e.g., Twitch, YouTube), and **discoverability** (e.g., TikTok)—where viral sensations can launch careers, yet the latter is not a viable method for artists to rely on.

GLOBAL GROWTH OF SELF-PRODUCERS (% OF GLOBAL RECORD MUSIC MARKET SHARE)



4.9

Big Money for Rights to Catalogues

The path is tough, but there is money in the industry—particularly value in owning masters for (potential) future gains.

Source: New York Times; Rolling Stone; CBC; Digital Music News; Hipgnosis Investor Report; MRC, *Year End Report Canada 2021*

- There has been significant activity in **catalogue sales** in 2020 and 2021, partly due to the pandemic. High profile artists are looking for ways to increase cash flow in light of touring shutdowns, yet this revenue source is not an option available to emerging artists, or the ‘average’ artist with a small catalogue.
- Reasons that these valuations are increasing is attributed to the increase in catalogue consumption, and disruptors like Hipgnosis Song Fund competing with the Majors and other publishers for catalogue rights.
 - A UK-based investment company, **Hipgnosis Song Fund has acquired \$1.7B worth of rights**, including 50% of Neil Young’s catalogue, among other artists with “proven hit record[s]”. Pop music comprises 46% of their portfolio.
- For Canadian artists, this trend is illustrative of three points:
 - The **critical importance of IP ownership for future value.**
 - The **continued challenge for artists working in less commercially popular genres.**
 - The **significance of negotiating contracts.** As a case example, Taylor Swift faced legal battles in trying to regain the rights to her first 6 albums, which were being sold by Big Machine Records via Scooter Braun. She has since re-recorded two of these albums.

Examples of Catalogue Deals



Bob Dylan
600 songs sold to Universal (~\$300 M)



Neil Young
50% of catalogue sold to Hipgnosis (\$150 M)



Taylor Swift
Rights to 6 albums sold by Scooter Braun (~\$300 M)

4.10

Shedding Light on Diversity in Music

Inequities have come to the forefront—Canada is moving in the right direction, but we're still in the early stages.

Source: MRC; Rolling Stone; ADVANCE, Ontario Creates; Music Canada; CLMA; APTN

- There has been more recognition of equity-seeking groups in music – particularly for Black, Indigenous, and artists of colour. Many artists have been coming forward to express the severe disparity and exploitation in the industry.
- Ultimately, there is a **call for not just recognition at this stage, but for action.**
- In response, Canada has been moving towards addressing these issues. Some examples include:

Initiatives ADVANCE, Canada's Black Music Business Collective, is a cross-Canada collective that provides advocacy, mentorship and community outreach for Black professionals.

Studies More research studies are underway to investigate the severity of inequities and gaps existing in the industry. Two such studies include Music Canada's "Diversity and Inclusion in Canada's Music Industry" and CLMA's study "Closing the Gap".

Programs Increased programs are emerging, such as Ontario Creates' AcceleratiON – a program to assist Black and Indigenous-led music businesses through project grants (\$2,500 - \$20,000) and APTN's Indigenous music accelerator program, which offers professional development.

Music | Observations

1. **Continuing shut-downs** are creating an uncertain near-term future for live music – a major impediment to the sector in Canada (except for very established artists).
2. **Digital is clarifying its huge impact on the music industry** propelled by the pandemic, such as increased adoption of subscription services. Additionally, **podcasts are continuing to grow** as a digital audio form, and indicate an opportunity for increased digital audio ad spend.
3. With larger digital shifts occurring as a result of the pandemic, the **specific “roadmap” of how emerging talent can break through is less clear. Collections of streaming rights** continues to present a challenge for creators and publishers.
4. The industry remains **resourceful and resilient** as demonstrated through entrepreneurship. Action around **equity, diversity and inclusion is still in the early stages**. These activities should continue to be **supported by nimble government support programs and professional development**.

Book Publishing

Section Five

Book Publishing | Key questions

1. Has the boom in reading during the pandemic led to a **book sector bounce**?
2. Where do books fit into the growth picture – **growing, flatlining, or declining**?
3. How has Canadian book publishing been **affected by digital**? How are Canadian authors and book publishers **leveraging technology platforms**?
4. What is the demand for **more representation** in books? What moves has the industry made?

5.2

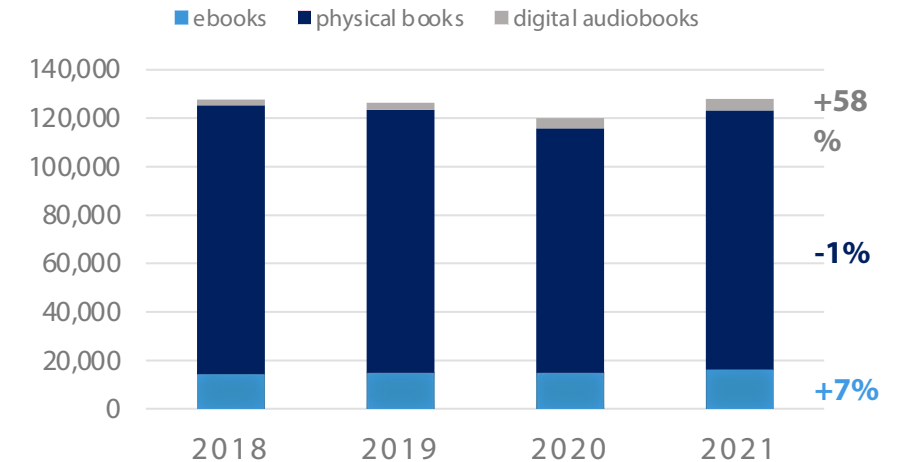
Books on a Global Scale

Print is still the largest revenue source, but growth is apparent in eBooks and especially in audiobooks.

Source: Statista; Omdia; BookNet; MIDiA; Linchpin SEO

- Global book revenues dipped slightly in 2020 but have seen a **bounce back in 2021**.
 - There was a nominal decline in print books from 2019 to 2021 (-1%).
 - There has been **growth in eBooks and audiobooks over the pandemic**. Digital audiobooks experienced a 58% increase from 2019 to 2021. Yet, revenues are still small in comparison to print books in the global industry.
- Overall, **the industry has seen little growth over the past three years** with print books being the largest revenue source.
- The global industry has also seen **major consolidations over the past five years**.
 - For instance, Clarivate bought ProQuest for \$5.3 billion, and Penguin Random House attempted to acquire Simon Schuster.
 - These consolidations are a **sign of the industry reaching maturity**, with companies looking to mergers and acquisitions for growth.

GLOBAL BOOK REVENUE BY SEGMENT (USD M)



5.3

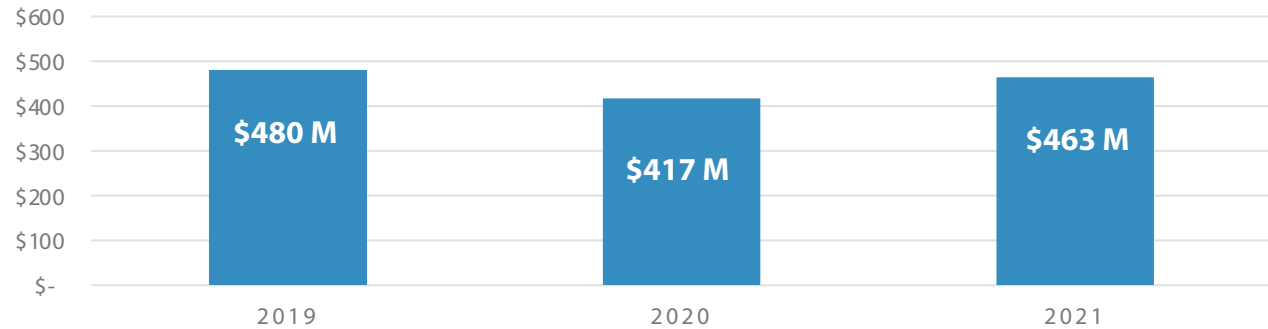
Sales Trends in Canada

The book market in Canada is still running behind 2019, but like the global market, the industry has largely bounced back to pre-pandemic revenues.

Source: Goodereader; Global2go

- In Canada, the book revenue trend aligns with the global industry.
- **Print sales for the first six months of 2021 showed a significant increase of 11% from 2020.**
- Even though the total six-month revenue in 2021 (\$463M) still runs behind 2019 revenues for the same period, the market has **gained back much of the COVID-19 related losses** that occurred at the start of 2020.

THE FIRST SIX MONTHS SALES REVENUE (CAD)
(PHYSICAL ENGLISH-LANGUAGE BOOK MARKET IN CANADA)



5.4

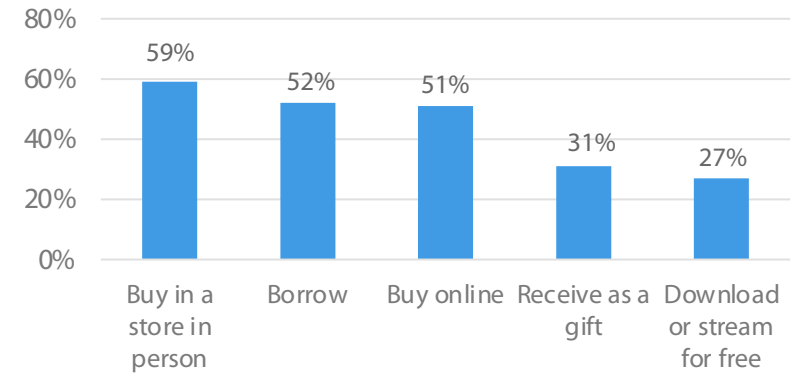
How are People Buying Books?

In person book stores are still the most popular way of acquiring books. Yet, the pandemic accelerated a shift towards online purchases.

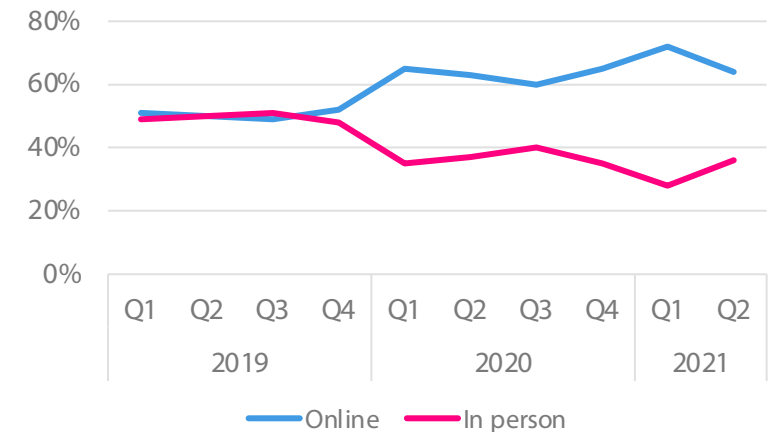
Source:
Statista; BookNet, *On Diversity – A Survey of Canadian Readers 2021*; Indigo, *Annual Report 2021*

- In 2020, **purchasing books from a bookstore in-person (59%)** was still the most popular way of acquiring books based on a survey conducted by BookNet.
- Yet, buying books online is becoming more popular. 51% of BookNet survey respondents purchased books online in 2020.
- Additionally, **purchasing online is becoming the primary way of acquiring books.**
 - Looking at purchases by channel, offline and online purchasing has gone from an equal split to 30% and 60% between 2019 and 2021.
- **Book acquisition and sales were also impacted by supply chain challenges.**
 - Canadian publishers faced logistical challenges around delayed shipments, as a result of the pandemic.
 - Indigo—the largest Canadian book retailer—identified supply chain logistics as a key factor that negatively impacted their business and financial results in their 2021 annual report.

WHERE READERS ACQUIRE THEIR BOOKS



PURCHASES BY CHANNEL



5.5

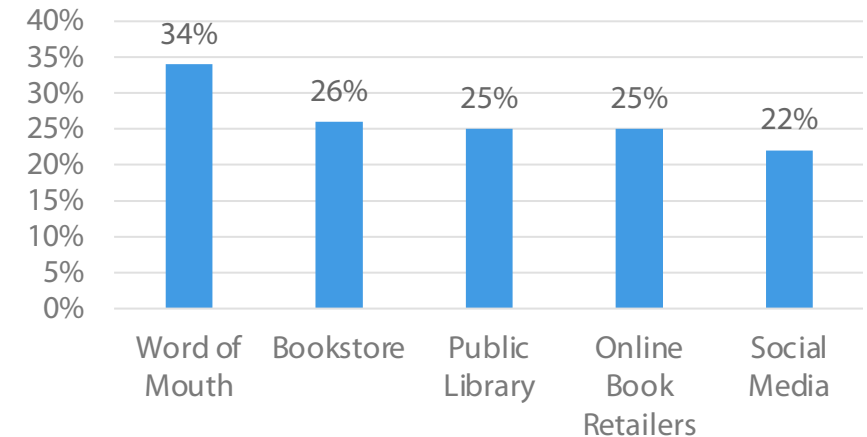
How are People Discovering Books?

Pre-pandemic signs of shift in discoverability to online – suggests greater attention to online promotion and marketing.

Source: BookNet, *Canadian Leisure & Reading Study 2020*

- According to a survey that was compiled by BookNet in early 2020, **word of mouth (WOM) is still the top way people are discovering books in Canada.**
- BookNet data also illustrates a change in the discoverability of books, where consumers are **shifting away from traditional methods to online.**
 - Between 2019 and 2020, **discoverability on social media has grown by 4%, and online media has grown by 2%.**
 - In contrast, discoverability in bookstores has declined by 4% and public libraries by 4%, between 2019 and 2020.
 - As this data was fielded prior to the pandemic, it is expected that these numbers are now much more divided in favour of online.

BOOK DISCOVERY IN CANADA (2020)



5.6

Books on Social

New digital social media platforms are driving user-generated content, fueling a new surge in teen reading habits and resurfacing many previous-released titles.

Source: Indigo 2022 Q1 Analyst Conference Call

- Social media is a growing phenomenon in terms of discoverability and publicity in book publishing.
- In addition to Bookstagram and BookTube, **BookTok is a popular method of generating publicity** for book titles – publicity that is organic and user-generated.
 - As a subcommunity on TikTok, #BookTok focuses on books and literature. Creators make videos around reading, recommendations and reviews.
 - There are currently over 29.1 billion views on the #BookTok hashtag on TikTok.
 - As Indigo noted in their most recent analyst conference, **the popularity of reading on TikTok has fostered a whole new level of reading excitement, particularly for the teen demographic.**
- Similar to the way in which TikTok trends are resurfacing catalogue music, TikTok trends are also resurfacing classic titles in literature, bringing new revenue to old books.

“

*The Print business experienced strong demand, notably driven by a younger demographic and the popularity of reading on TikTok. **This evolution of social commerce in the book space is exciting.***

- Indigo Latest Analyst Conference Call

5.7

A Growing Uptake of Technology

Book publishers and authors are looking for, and finding new, creative ways to engage and promote sales online.

Source: Writers' Trust of Canada; Twitter; Collision

- The pandemic has resulted in a significant loss of in-person activities, giving further rise to digital trends in book publishing.

Book launches and publicity are going virtual

- The loss of in-person book tours and in-store launches has majorly impacted book publishing in Canada. As a result, virtual book launch and publicity events emerged, leveraging social media and other platforms for publicity.
- In 2020, Margaret Atwood made an appearance at North America's fastest growing tech conference Collision in 2020.

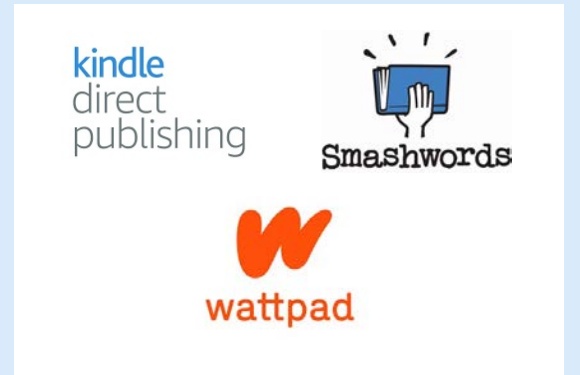
The self-publishing trend continues

- Similar to self-producing trend in music, **a growing number of authors are going the self-publishing route.**
- This has been made easier through digital shifts and platforms. One such platform is Wattpad – an online social reading platform that where user read and write original stories – that has in recent years (2019) launched a publishing imprint (Wattpad Books).
- As a result of this trend, authors are emerging with independent publishing businesses, owning and trading in their own intellectual property on a non-exclusive basis.

Margaret Atwood @ Collision



Platforms leveraged by self-publishers



5.8

Export of Titles & Rights

Stories that travel - the future of books in an evolving entertainment world.

Source: Variety; Businesswire

- Digital streaming platforms, such as Netflix, have begun looking to **source creative content for adaptation and acquiring book IPs**.
 - HBO's TV series Station Eleven is an example of this trend. Based on the 2014 best-selling novel by Canadian novelist Emily Mandel, the book IP fared well on the international stage in terms of international rights.
 - Station Eleven has seen reception in many international markets including, but not limited to, the UK, Germany, France, Turkey, Italy, China, Korea, and Portugal.
 - Station Eleven's success was a **testament to successful Canadian literary IPs** on the international stage.
- On the national level, Canada was the **Guest of Honour (GoH) for the 2021 Frankfurt Book Fair**.
 - The Frankfurt Book Fair is the world's largest trade fair for books, social dialogue and cultural exchange.
 - As a testament to Canada's success, **350 Canadian titles were translated into German** — almost double the expected demand.



5.9

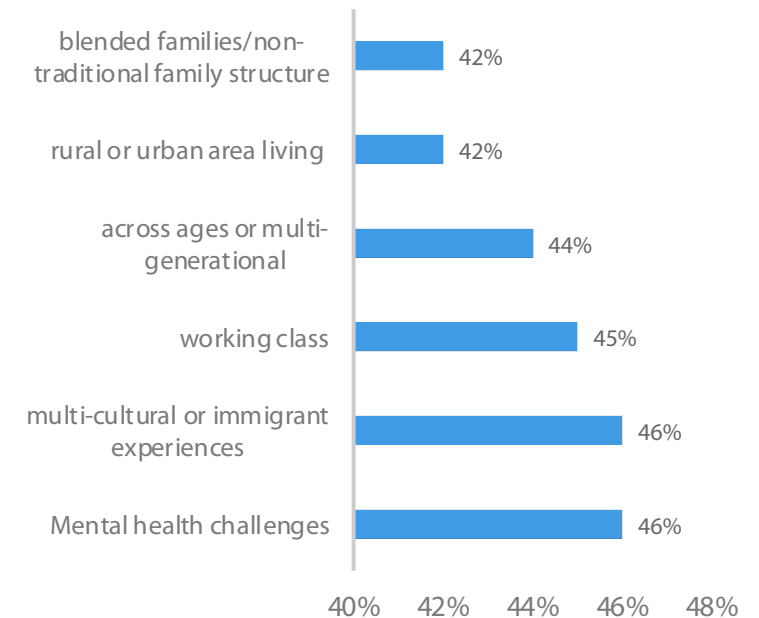
A New Chapter on EDI in Books?

The demand for diversity is still out there for Canadian readers.

Source: BookNet

- With racial inequities shifting to the forefront in recent discourse, **there is greater awareness and movement in the book publishing industry for more representation and inclusion.**
- Yet, **Canada currently lacks EDI related data on writers.**
 - In the US, a study on authors at major publishing houses showed that diversity has increased in recent years, though white writers still dominate. **White people account for 60% of the US population, but wrote 89% of the books.**
- Initiatives in Canada are emerging to address diversity challenges, some examples include:
 - The **Writers Union of Canada** held a meeting in 2021 to table recommendations from Black writers to improve equity.
 - The **Writers' Trust** established '**Amplified Voices**' which highlights BIPOC authors and increases their discoverability due to the lack of in-person events as a result of COVID-19.
- Canadian publishers saw **a high rate of positive return on investment for books by and about diverse audiences** in 2019 according to BookNet data, including **89%** of books by and about Black, Indigenous and people of colour, **79%** of books by and about women, **78%** by and about LGBTQIA+ people, and **63%** by and about people with disabilities.
- Readers also desire to see more diverse authors and more diverse stories (as depicted in the chart to the right).**

WHAT CANADIAN READERS WANT TO SEE MORE OF IN THEIR BOOKS



Book Publishing | **Observations**

1. Lack of growth and increased consolidation suggests **book publishing has reached maturity**.
2. The former model of community book sellers + big chain outlets + authors' tours has been disrupted by digital, and the trend towards **online purchasing accelerated during COVID**.
3. People read more during COVID-19, but **supply chain issues resulted in lower revenues**.
4. Leveraging social media, online sales, and other platforms are fundamental to replacing traditional activities, suggesting more **attention to upgrading book publishing tools and practices** in this direction.
5. The evolving **entertainment ecosystem brings book IP new opportunities** to be adapted and shared.

Newspapers

Section Six

Newspapers | Key Questions

1. What is the **state of the newspaper business model**? How is news now mainly consumed in Canada?
2. How has **COVID-19 impacted newspapers and journalism**?
3. What is the **state of trust** in the news? Can Google and Facebook be reined in?
4. **Public intervention update**—will these policies have their intended impact? What about direct payments from social media like Google and Facebook?

6.2

Global Newspaper Revenues

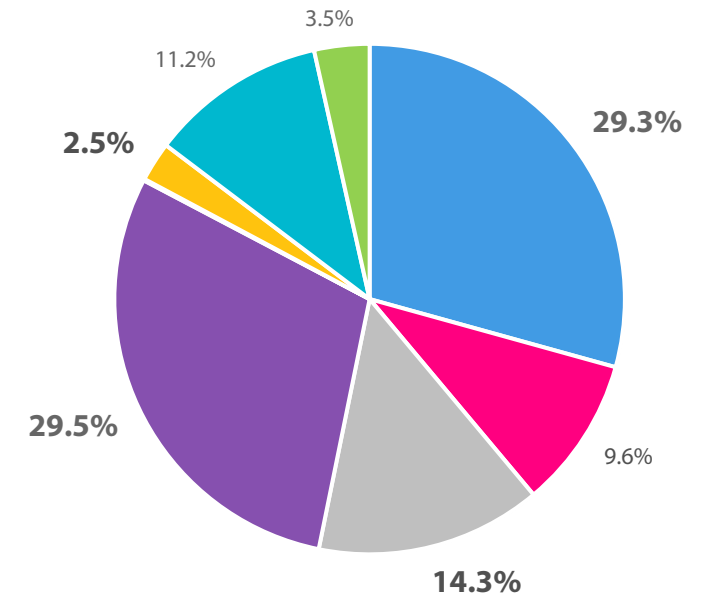
Digital and other revenue has not made up for the reduction in print ad and subscription revenue.

Source: IBISWorld; iPolitics

- Newspapers are in a constant state of flux, and have been significantly **affected by the rise of digital advertising** in Canada.
- While some newspapers have made strides to adapt to the growing digital landscape, the main revenue source of many papers in Canada and abroad continues to be **daily circulation and advertising (58.8% total)**.
- In comparison, digital revenues are still a small piece of the pie:
 - **Digital circulation and digital ads constitute less than 17%** of total revenue of newspapers worldwide.

**GLOBAL NEWSPAPER REVENUE
(% OF TOTAL)**

- Daily newspaper advertising
- Digital ads
- Community newspaper circulation
- Distribution of flyers and inserts
- Community newspaper advertising
- Daily newspaper circulation
- Digital circulation
- Other



6.3

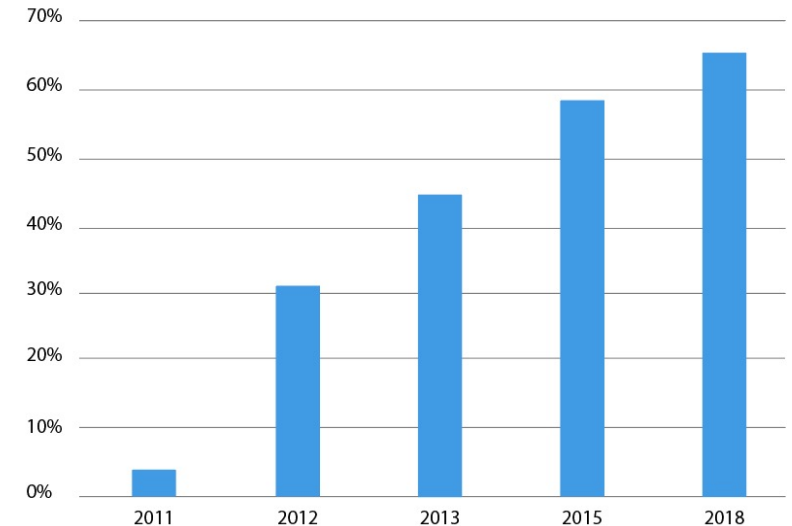
Newspaper Business Models Today

Most Canadian newspapers are putting their content behind a paywall, but overall revenues are still declining.

Source: IBISWorld; iPolitics; Newspaper Canada, *Daily Circulation Report*

- **Paywalls continue to be one of the most popular forms of revenue generation** for newspapers. Paywalls offer a way of only granting access to content for paying subscribers on a recurring basis. Some flexible paywalls also give readers access on an article-by-article basis.
- The use of paywalls has increased significantly from 2011. **Paywalls have now been adopted by more than 70% of newspapers worldwide.**
- Yet, despite increased adoption of paywalls, newspaper revenues have not increased proportionately.
- In fact, from 2018 to 2020, revenue for Canadian newspapers **decreased by 22% from \$2.7B to \$2.1B.**

PERCENTAGE OF NEWSPAPER CIRCULATION BEHIND A PAYWALL



6.4

COVID-19 Impacts on Canadian Newspapers

Newspapers were already decimated by digital advertising. This has only been further exacerbated by COVID-19.

Source: Local News Research Project,
COVID-19 Media Impact Map for Canada

	Total # of media outlets	Closed/ temporarily closed	Cancelled some/ all print editions	Layoffs/ job losses
Canada Total	271	69	51	183

- The effects of COVID-19 on the local and national newspaper industry have been significant. Since March 2020:
 - **25% of all Canadian papers closed, either permanently or temporarily.**
 - **2/3 of all outlets experienced layoffs and job losses.**
 - **About 20% of newspapers experienced cancellations of some or all print editions.**
- With the exception of layoffs and decreased circulation experienced similarly across the country, the COVID-19 impacts on newspapers were not felt equally across the provinces:
 - Outlets in smaller provinces (i.e., provinces with less than 25 outlets) are **closing at a rate 2x that of large provinces.**
 - Larger provinces are perhaps faring better as a result of COVID-19 related support in these provinces, for instance, Ontario's Small Business Support grants.

6.5

Adapting to Digital — Village Media

Basically most existing newspapers have downsized or closed, yet there are some digital success stories in Canada.

Source: Village Media; D&B

Amidst the closures and affected operations faced by most newspapers in 2020 and 2021, there are some examples of digital success stories such as **Village Media**.

- As a local digital newspaper, Village Media **adapted technologies** to fit their demand.
- For instance, the local paper created their own **demand server platform** that allows advertisers to bid on where they want to appear, while offering users relevant and local content. They give local advertisers analytics to view the performance of their ads – **similar to Google and Facebook**.
- Village Media has now **partnered with larger organizations** – such as Rogers Media and Glacier Media – to continue **growing their business across small towns in Canada**.
- Village Media's operations **grew by 50%** in 2021, with approximate revenues of \$2.71 million US.



6.6

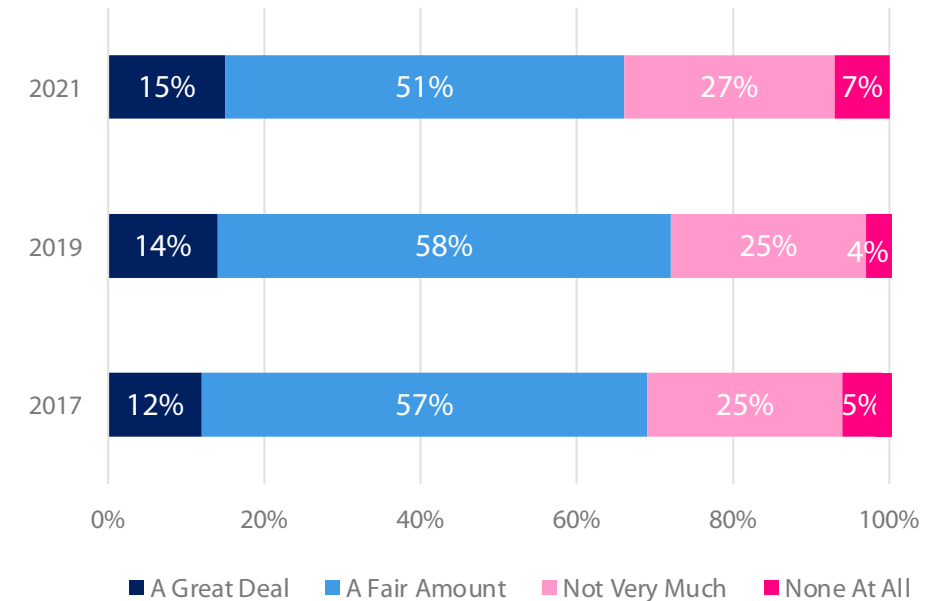
State of Trust — Impact on Democracy

Trust in news remains strong, but with more pronounced polarization, the world is realizing social media giants' business model endangers democracy.

Source: Ipsos, n=1,001; University of Oxford x Reuters Institute; WeForum

- Trust in traditional news media remains strong at 66%.
- Yet, there is **more polarization** in 2021 compared to 2019.
- Social media is changing the way audiences are perceiving and consuming news**, particularly among younger audiences.
 - A University of Oxford and Reuters Institute report illustrates that **internet personalities and word of mouth constituted the majority of ways those under 35 consumed news** (~50%), while mainstream news media was comparable with smaller news sources (~15%).
- The increased consumption of news on social media is a major challenge for democracy. The business model of social media platforms are not conducive to the maintenance of journalistic principles and offer a means to spread misinformation.

TRUST IN TRADITIONAL NEWS MEDIA IN 2021 (CANADA)



6.7

State of Trust — Government Interventions

Newspapers and journalism are facing an existential threat, and countries are mobilizing to level the playing field, but at slow speed.

Source: WeForum; Luminate Group; CNN; Global News

- With the rise of the tech giants, **global concern around journalistic censorship and the extinction of news** organizations is becoming more prevalent.
- To preserve the integrity of news and protect journalism, countries such as Singapore, Canada, and Norway are looking to **subsidize the sector via funds**.
- Additionally, news organizations are trying to find new ways of combating the rise of these companies.
- Some of the ways that countries are creating a more even battle ground between news suppliers and the tech giants are as follows:

France

Copyright laws improved for publishers – publishers are paid for snippets of news stories in search results based on new copyright laws.

Australia

Bargaining power increased – a law passed in 2021 that allows media companies to bargain collectively or individually with digital platforms to address the imbalance.

Canada

To take Australia's lead? Canada's Minister of Heritage stated he will follow Australia's example as "publishers must be adequately compensated for their work". Additionally, the Canada Periodical Fund (CPF) is shifting in 2021-22 to fund investment in "editorial and journalistic content" in magazines and newspapers produced on any channel, as opposed to print circulation statistics.

Newspapers | **Observations**

1. Newspaper **revenue continues to decline**. COVID-19 has had a significant impact on an already at-risk industry. In Canada, the impact is felt even more so in smaller provinces.
2. **Tech giants (e.g., Google) continue to monopolize industry profits**. The business models currently employed by many newspapers (e.g., paywalls) are not necessarily helping to promote stronger revenue performance across the industry. Yet, there are some companies that are incorporating technology to be competitive for advertisers and readers.
3. Social media has changed the news landscape. Specifically, the consumption and perception of news has largely changed, with **social media propagating “fake news” and divisive headlines**, contributing to further polarization.
4. **What’s next for Canada?** Will it be laws to make news more competitive? Regulation of the tech giants? The direction Canada should and will take remains to be seen.



Magazines

Section Seven

Magazines | Key Questions

1. Are magazines **hemorrhaging advertising and circulation** revenues like newspapers?
2. What impact did **COVID-19** have on the Magazine sector?
3. How are they making the **digital transition**? Are readers?
4. Is the **labour force** diverse?
5. Are magazines part of our **defence of democracy**?

7.2

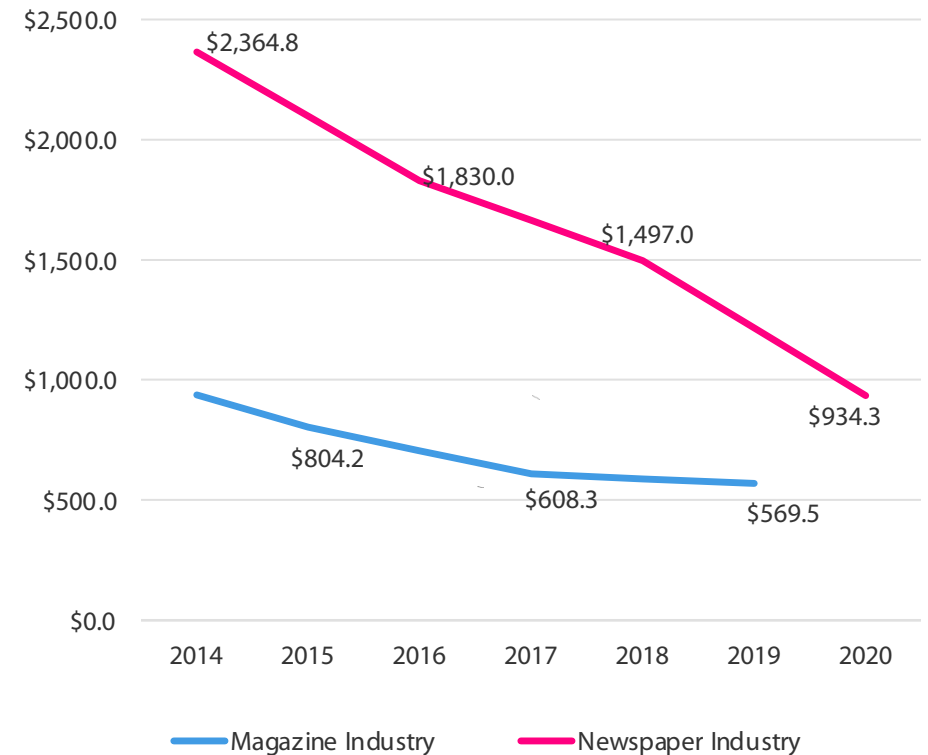
Ad Revenue Deserting Print-Based Media?

Magazines and newspapers both suffered substantial declines — but the decline for magazines has been less sharp than for newspapers.

Source: Statistics Canada

- Hundreds of millions of **advertising dollars have left print media** in the past five years.
- Canadian magazine advertising revenue **declined by 29%** from 2015 to 2019.
- In a similar time frame (2014-2018), **newspaper ad revenue declined by 37%**.
 - Newspaper ad revenue declined a **further 38%** between 2018 and 2020, reflecting damage done by the **COVID-19** pandemic.
 - Magazine data is not yet available after 2019, as Statistics Canada reports newspaper and magazine data in alternating years. Magazine data for 2021 should become available at a later date.

**TOTAL ADVERTISING REVENUE
(CAD M)**



7.3

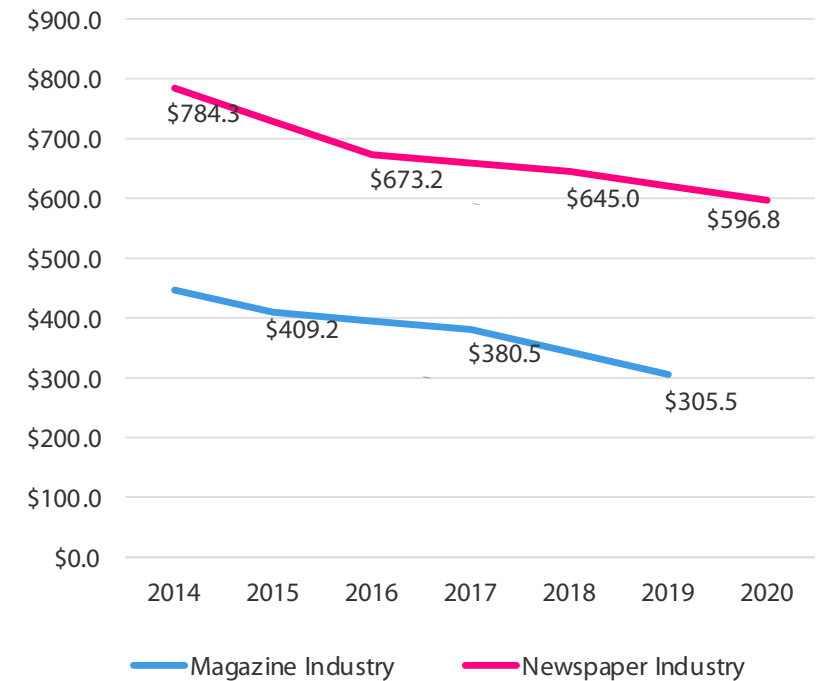
Circulation Revenue

The decline in circulation revenues afflicts print media. Not as bad as ad decline, but still pretty bad.

Source: Statistics Canada

- Both the magazine and newspaper industries are seeing **circulation revenues decline**, though this trend is **not as sharp** as the drop in advertising revenue.
- Canadian **magazine** circulation revenue **declined by 25%** from 2015 to 2019.
- In a similar time frame (2014-2018), **newspaper** circulation revenue **declined by 18%**.
 - The **COVID-19** pandemic does not appear to have significantly accelerated this trend for **newspapers**. Newspaper circulation revenue declined by **7% between 2018 and 2020**.
 - Magazine data is not yet available after 2019 from Statistics Canada.

**TOTAL CIRCULATION REVENUE
(CAD M)**



7.4

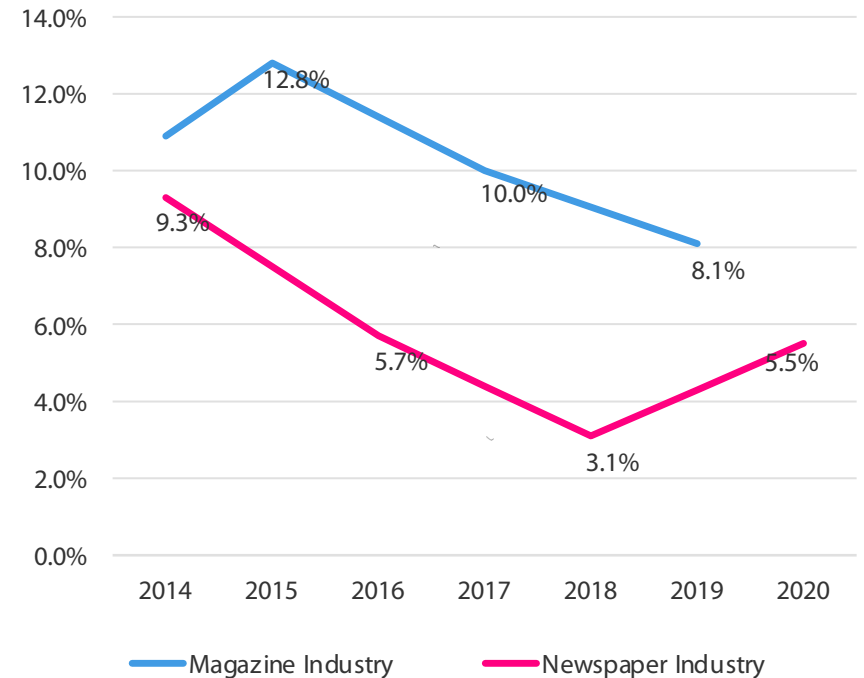
Shrinking Profit Margins

Magazines fare better than newspapers in operating margin, but still declining.

Source: Statistics Canada

- In addition to the decline of total revenues, magazines and newspapers have also been facing **diminishing profit margins** for years. This trend has continued throughout the pandemic.
- Yet, **magazines** have been operating with **higher margins than newspapers**, but both industries are seeing margins shrink.
- **Newspapers** managed to **reverse this margin decline** between 2018 and 2020. It remains to be seen whether magazines have been able to do the same.

OPERATING PROFIT MARGIN



7.5

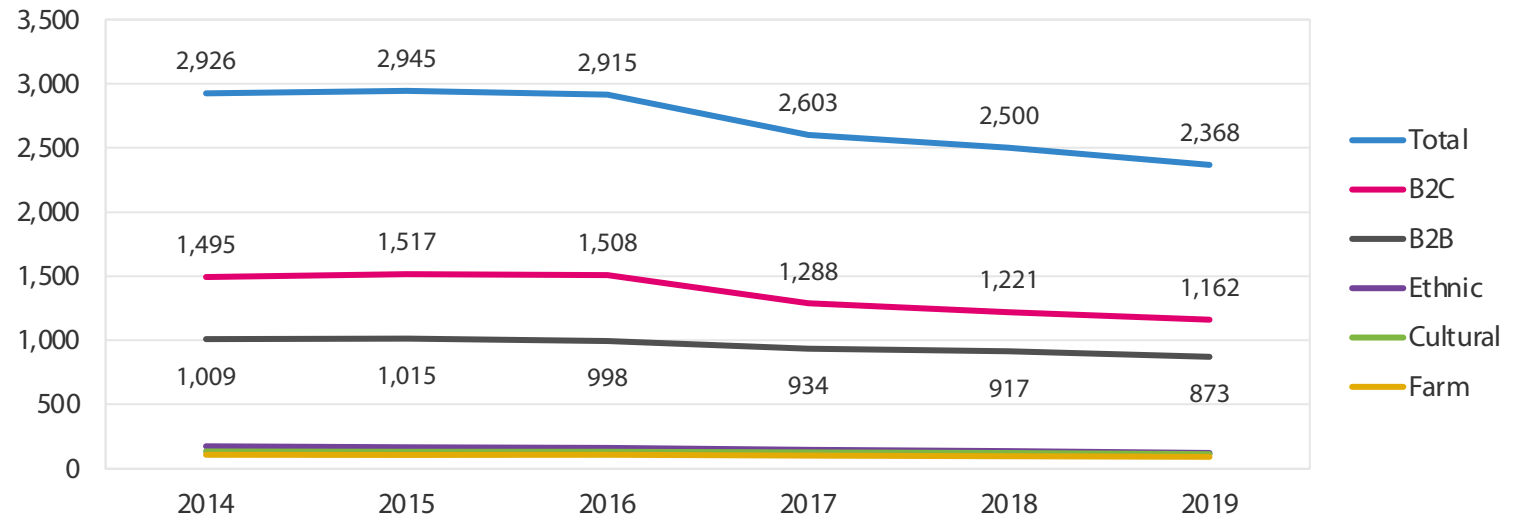
Magazine Industry Size

The total number of magazine titles has declined in the last 4 years in all categories.

Source: Magazines Canada Industry Data Project 2014-2019

- The magazine industry is challenged by declining revenues. As the total revenue collected by the magazine industry decreases, **magazine closures are outpacing new launches.**
- In fact, the **total number** of magazine titles **declined by 19%** from 2014 to 2019.
 - **B2C** closures were most prevalent (-333 titles, **-22%**).
 - **B2B** closures totalled 136 titles (**-14%**).

NUMBER OF MAGAZINES IN CANADA BY TYPE



7.6

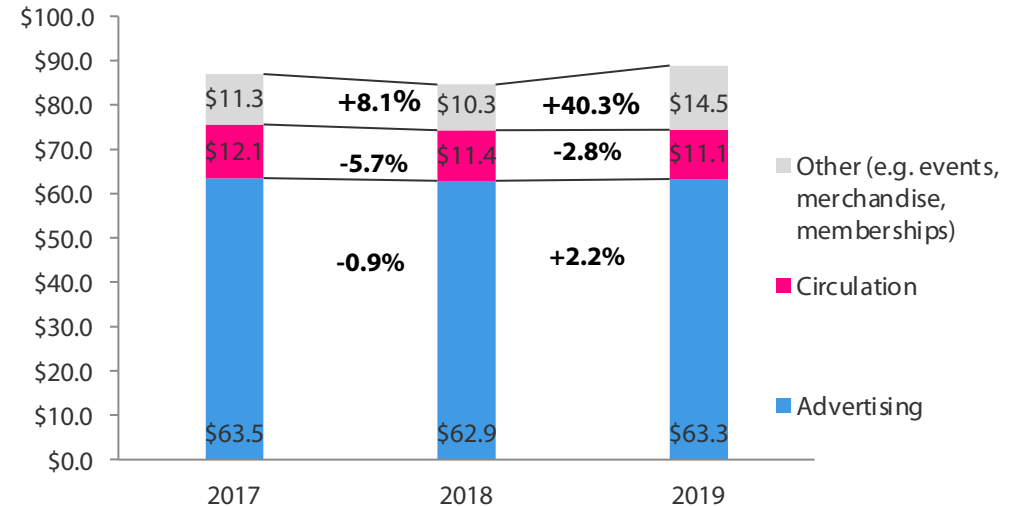
Surviving Magazines are Finding Ways to Succeed

While the number of titles and total revenue are in decline, surviving magazines are holding steady, and even finding new revenues.

Source: Magazines Canada Industry Data Project 2014-2019

- While the industry as a whole is losing advertising revenue, a Magazines Canada survey of active publishers suggests that **surviving brands have maintained – and even grown** – their advertising revenue.
- Even among these more resilient brands, **circulation revenue has shrunk**.
- Many publishers have had **success diversifying their revenue**.
 - New revenue streams opened up rapidly in 2019 (+40% in “other revenue” such as events, merchandise and memberships).
- Total revenue** collected by the surveyed brands actually **increased by 2%** between 2017 and 2019.

AGGREGATE REVENUE TOTALS
(190 TITLES SURVEYED, CAD M)



7.7

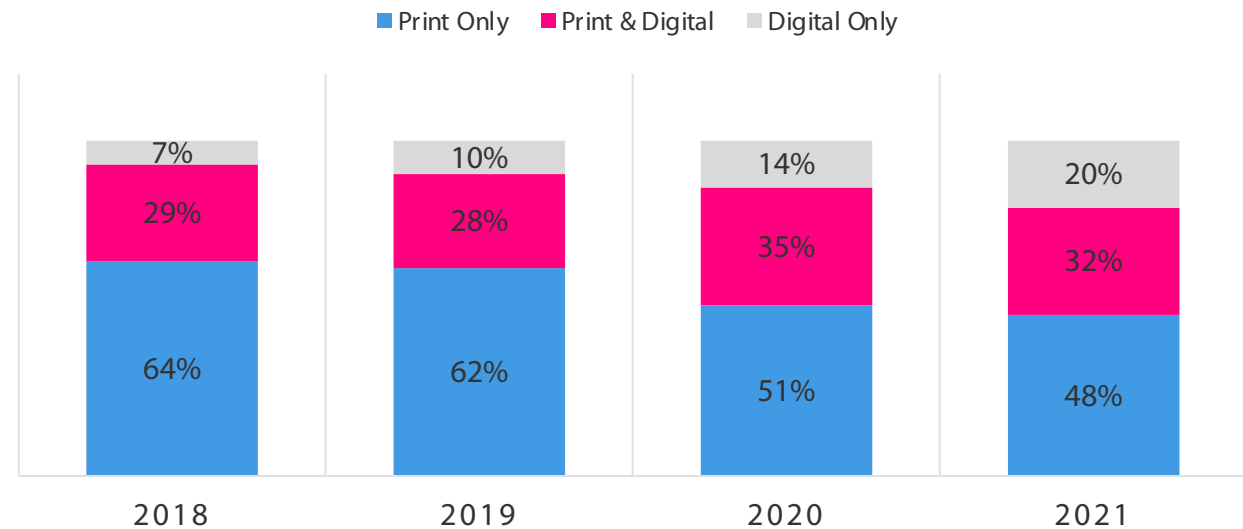
Canadian Readers Transition — Spurred by COVID-19?

Canadians are increasingly reading magazines in digital format.

Source: Vividata, *Overview of Results: Fall 2021 Study; Overview of Results: Fall 2020 Study; Overview of Results: Fall 2019 Study; Overview of Results: Fall 2018 Study*

- An ongoing trend towards **more digital consumption of magazines** was further accelerated throughout the pandemic, with more readers moving away from print in 2020 and 2021.
 - The percentage of **print-only magazine readers** dropped by **2%** in 2019, then again by **11%** in 2020.
 - At the same time, the proportion of **digital magazine readers** rose above **50%** for the first time in 2021.

MAGAZINE READERS BY PLATFORM



7.8

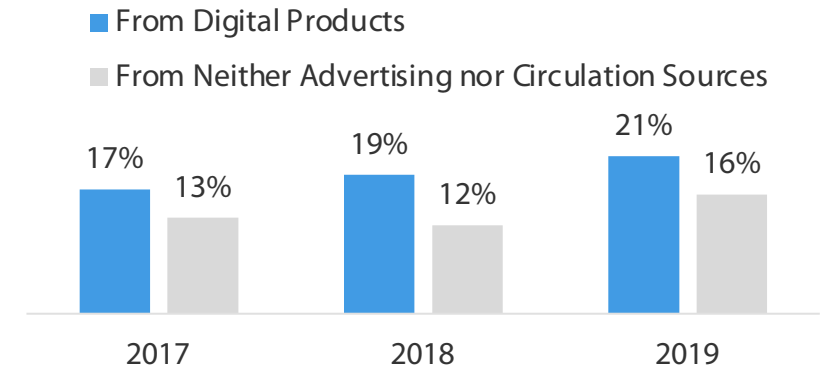
Digital and "Other" Revenue

- Digital and "other" revenues are **growth areas for magazines**. "Other" includes any revenue that is not related to advertising or circulation (e.g., memberships).
- Despite this trend, the magazines surveyed still earned **almost 80%** of their revenue **from print products** in 2019.
- As with magazines, **newspapers** are deriving **an increasing portion of their revenue** from digital products.
 - The digital revenue data for magazines was sourced from Magazines Canada while the newspaper data was sourced from Statistics Canada. The available information covered different years, but the trend is similar.

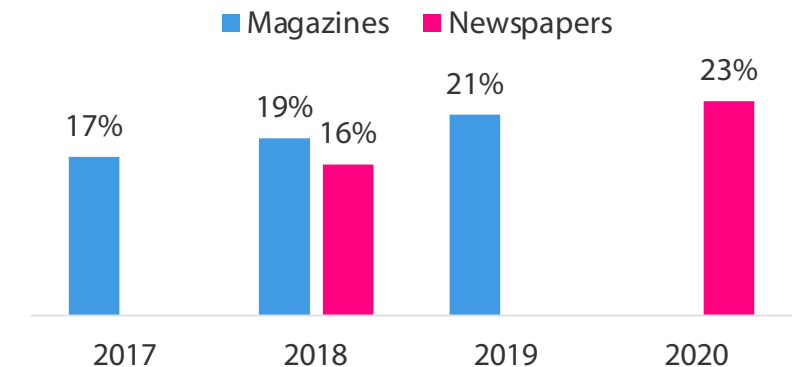
While print revenue still dominates, the share of digital and "other" revenue is growing steadily.

Source: Magazines Canada, *Industry Data Study 2017-2019*; Statistics Canada

SHARE OF TOTAL MAGAZINE REVENUE



SHARE OF REVENUE FROM DIGITAL PRODUCTS



7.9

“Other Revenue”

Successful magazine brands are diversifying their revenue to replace, at least in part, ad revenue losses.

Source: Magazines Canada, *Industry Data Study 2017-2019*

- Large and small magazine brands alike have turned to **membership programs** to enhance reader revenue and engagement. Some examples include:

Toronto Life

Toronto Life, published by St. Joseph Communications, offers exclusive extras for a fee with its TL Insider program. TL Insiders get access to food & drink experiences, virtual fireside chats with Toronto luminaries, contests, giveaways and other perks that fit with the Toronto Life brand.

Peeps

The independent digital magazine *Peeps* appeals to its readers’ **sense of community** to sell memberships.

Peeps has **no subscribers**, offering the most recent issue on the magazine website for free. A reader can purchase a **membership** that opens access to article discussions and comments, plus a complete content archive. Members are also invited to offer their feedback to help shape future issues.

Canadian Business

St. Joseph Communications **re-launched** 95-year-old brand *Canadian Business* with a new strategy and identity – with print only quarterly.

The relaunch includes a corporate **membership program**, CB Insider, and access to **virtual Fireside Chats**, a dedicated **community slack channel** and **networking events**. This **legacy brand** with a **fresh strategy** will be a story to watch in 2022.

7.10

EDI and The Magazine Labour Force

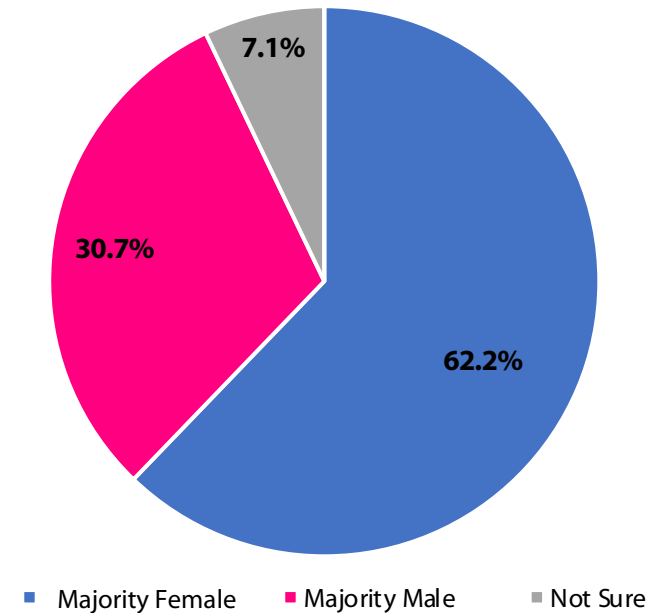
Most magazines employ more women than men – but no data on executive ranks.

EDI important, but no data on employment.

Source: Magazines Canada, *Industry Data Study 2017-2019*; Zenev and Associates, *The State of Diversity, Inclusion and Equity in the Canadian Magazine Industry: Survey Report (Summary)*, 2021

- Most Canadian magazines generally employ a **higher proportion of women than men**. That said, it is not known what percentage of upper management positions are held by women.
- A **survey of Canadian magazine professionals** showed that **equity, diversity and inclusion are important** to magazine workers, but that they see a need to do more.
 - **82%** agreed that **EDI is important** to the organizations they worked for.
 - **70%** said that their organizations had taken **concrete steps to promote EDI**.
 - **56% did not agree** that the Canadian magazine industry **currently reflects the diversity of Canadian society**.
- Demographic data showing employment of other equity-seeking groups, such as Black, Indigenous, and other racialized groups in Canadian magazines was not available for this report.

% MAGAZINES WITH MAJORITY FEMALE/MALE WORKFORCE



7.11

Magazines & The Defense for Democracy

While less central as a news and information medium than in the past, magazines still have an important place in reporting on Canadian topics.

Source: Magazines Canada; Canada Periodical Fund; Canada Council for the Arts

- Magazines bring coverage of **Canadian news and current events**.
- In fact, brands such as *Macleans*, *The Walrus*, and online magazine *The Tyee* publish news and commentary. Their format and publication cycle allow for **long-form journalism** and careful **fact-checking**.
 - The original rationale for **Bill C-58** in 1976 incentivized Canadian advertisers to support Canadian magazines. *Macleans* increased its frequency to **weekly** in 1978. In 2017, its print schedule was reduced to monthly.
- To inoculate its members against disinformation, **Magazines Canada** published the whitepaper, “You Cannot Ignore the Disinformation Crisis: a Call to Action for Canadian Magazines” (2019).
- As a testament to magazine’s place in national discourse, the sector received **substantial funding amid COVID-19**:
 - Canada Periodical Fund (CPF) Aid to Publishers** subsidies **increased by 25%** in 2020 and 2021.
 - The **CPF** also introduced the **\$45 million Special Measures for Journalism** fund in 2020 and maintained it in 2021. This fund extended support to magazines that did not qualify for Aid to Publishers funding, such as free distribution titles.
 - In 2020, the **Canada Council for the Arts** distributed **advance payments** of 35% of core grants to recipients, including arts & literary magazines.



7.12

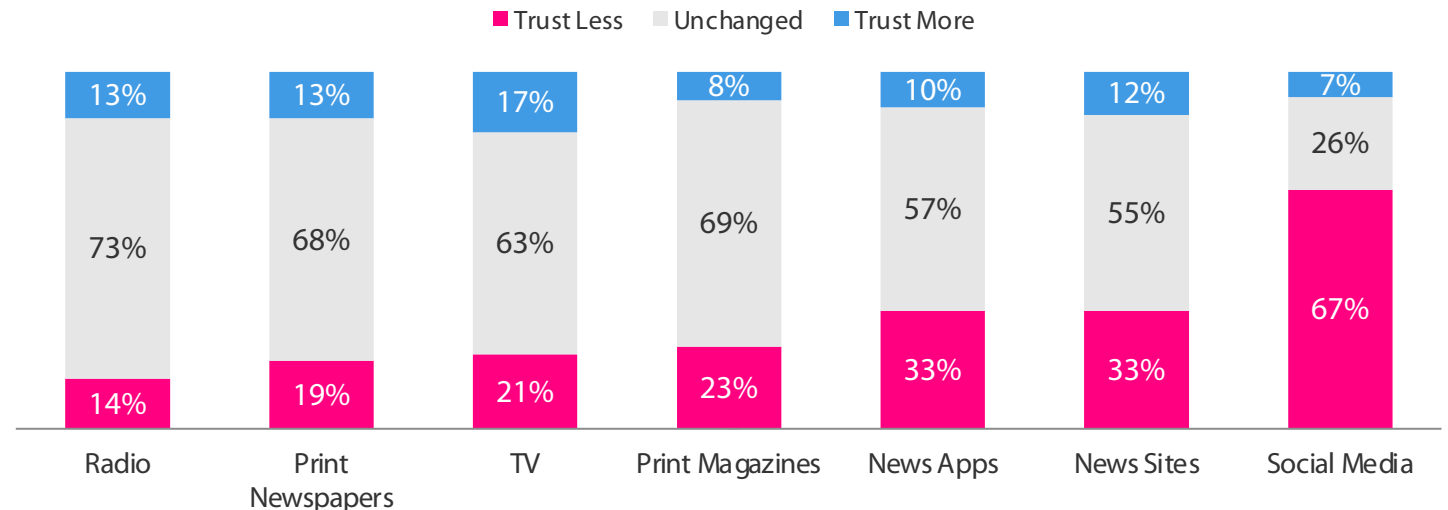
The Media Trust Picture

While magazine publishers rightfully pride themselves on strong reader trust, it has eroded because of online misinformation. But there is still more trust in magazines than for online news and social.

Source: Vividata, *Overview of Results: Fall 2021 Study*

- Despite trust remaining strong in traditional news media (as seen in Newspapers), there is an overall **erosion of trust** affecting all news media.
- **Print magazines** appear to be moderately affected by this trend, with **23%** of survey respondents trusting magazines less and only **8%** trusting more.
- **Digital magazines** would also be accounted for in the **News Apps** and **News Sites** categories, both of which saw **33%** of respondents lose trust in these sources.
- Trust in **social media** suffered greatly in 2021, likely a result of the pandemic.

CHANGE IN TRUST IN NEWS *



*Among Canadians 18+ that consume news at least weekly

Magazines | Observations

1. Like newspapers, **magazine sector revenues and margins have declined** big time over the last 5 years, but **not as precipitously**.
2. While there are fewer titles today than before, the ones which are still standing are **holding firm**.
3. There is a transition by readers and by the publishers toward more **online reading and revenue generation**, possibly spurred on by the pandemic.
4. Magazines are **trusted more than online news and social**, and so are part of the defense of democracy.

Overall Observations & Conclusions

Section Eight

8.1

Overarching Observations

- **COVID-19 acted as a catalyst** for many trends existing prior to the pandemic, particularly digital trends.
- The responses and pandemic bounce-back across sectors has varied, but overall, there is an undeniable **resilience and adaptation** across the board.
- Additionally, while issues around EDI have become more prominent, there is a lack of recent data in most sectors. Each sector has made some level of movement towards greater diversity and inclusion.
- Additionally, it is apparent that the creative industries world is divided:
 - **Film/TV, games, and music by high profile talent are ascending**, in light of pandemic challenges and a wider adoption of digital.
 - **Books, newspapers, and magazines** have declined, or flatlined – and **cannot as easily harness digital platforms**. Music is also generally challenged by digital shifts.
- What the creative industries need includes:
 - **ingenuity in finance and IP value;**
 - **agile government support; and,**
 - further support for **emerging and diverse talent.**

End of Report

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