

Digital Media at the Crossroads



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 Objectives

Mandate:

- To gather publicly available data and information on trends in three sectors – **(i) film/tv/broadcasting** (including streaming), **(ii) news media** and **journalism**, and **(iii) the music business**.
- The data support is focused on **advertising** and **subscription revenue, audience shares, and web metrics**

Objectives:

- Provide a **refreshed update** from the 2016 DM@X report by Nordicity.
- Identify **challenges** and **opportunities** to Canadian creative industries presented by changing market structures and industry dynamics.
- Offer new perspectives for consideration in **policy development** in stimulating Canadian content.

1.2 Contrast to previous 2016 study

- **Objective in 2016:** Document the foreign **outflow of revenues/profits** and their impact on reinvestment in Canadian content production.
- **Findings in 2016:** digital distribution networks and digital advertising...are primarily foreign and outside purview of historical policy support models in Canada.
 - OTT takes money out, has no obligation to put money back in – but creates new, global markets for some producers
 - Digital advertising indirectly stunts conventional advertising and doesn't support content like traditional media

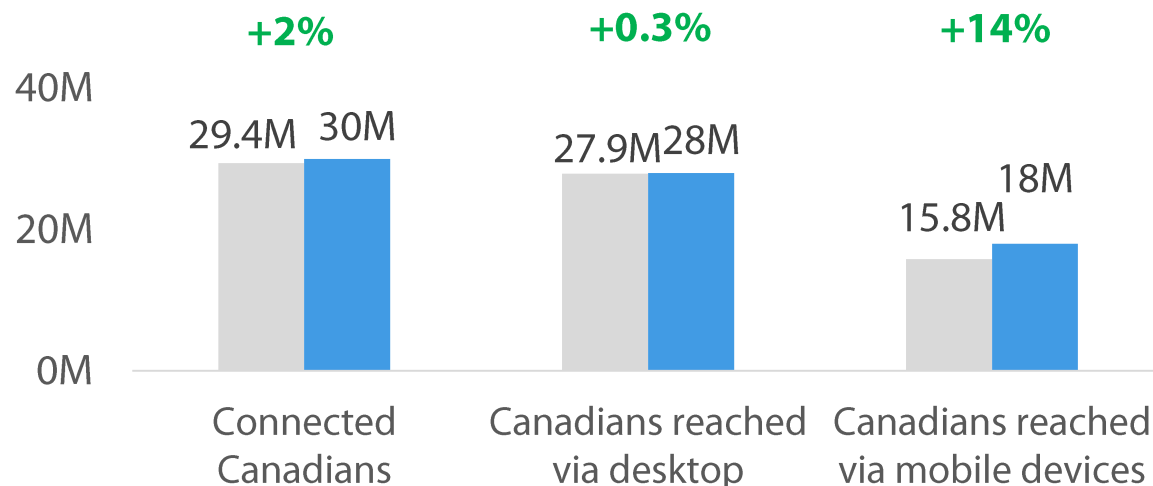
This time...**new paradigms**, but question remains: How to **support creation and distribution** of Canadian content?

2. Digital Advertising Overview

2.1a Growing Digital Population – Mobile and Spend

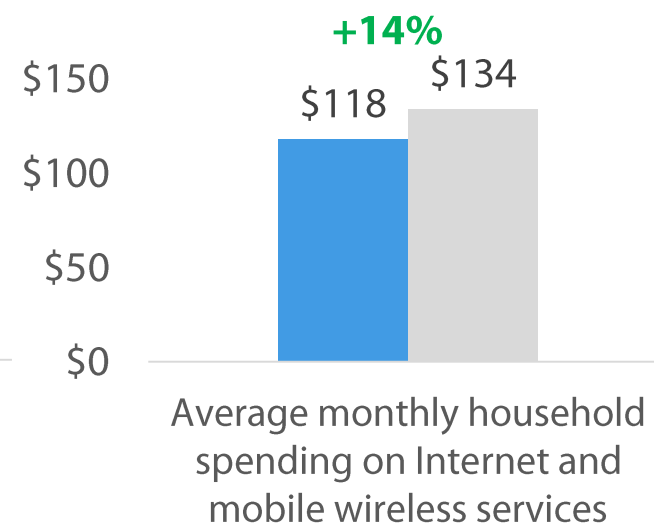
Canadian digital population

(2014-2016)



Digital spending

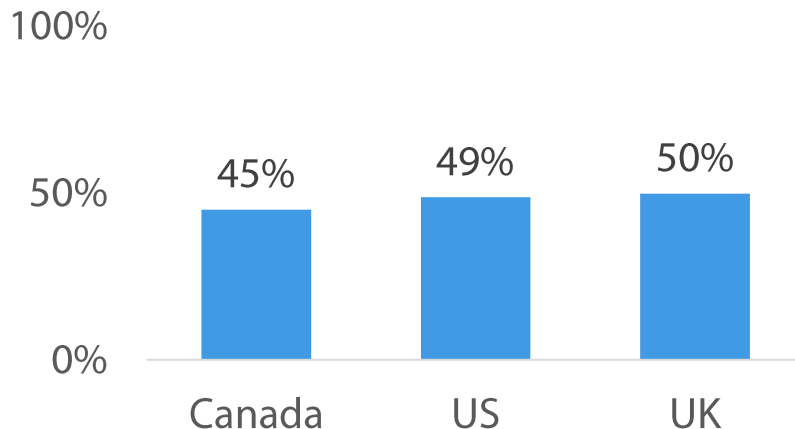
(2014-2015)



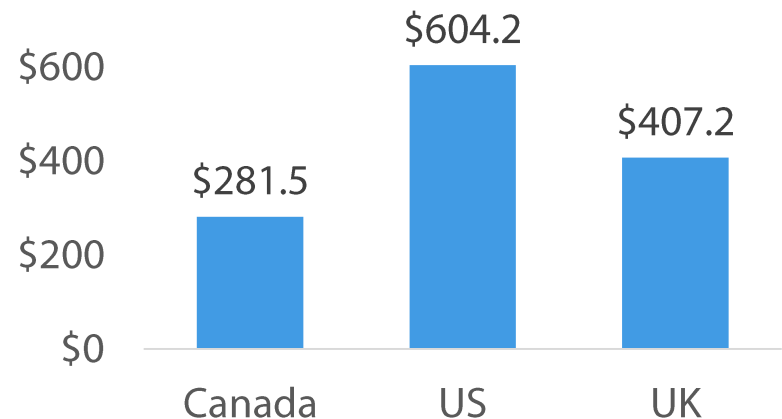
While trending mobile in 2015, it is now more clearly **the fastest growing platform** for information, transactions, and communication.

2.1b Growing Digital Population – Lag Time

Digital's share of total media time (2016)



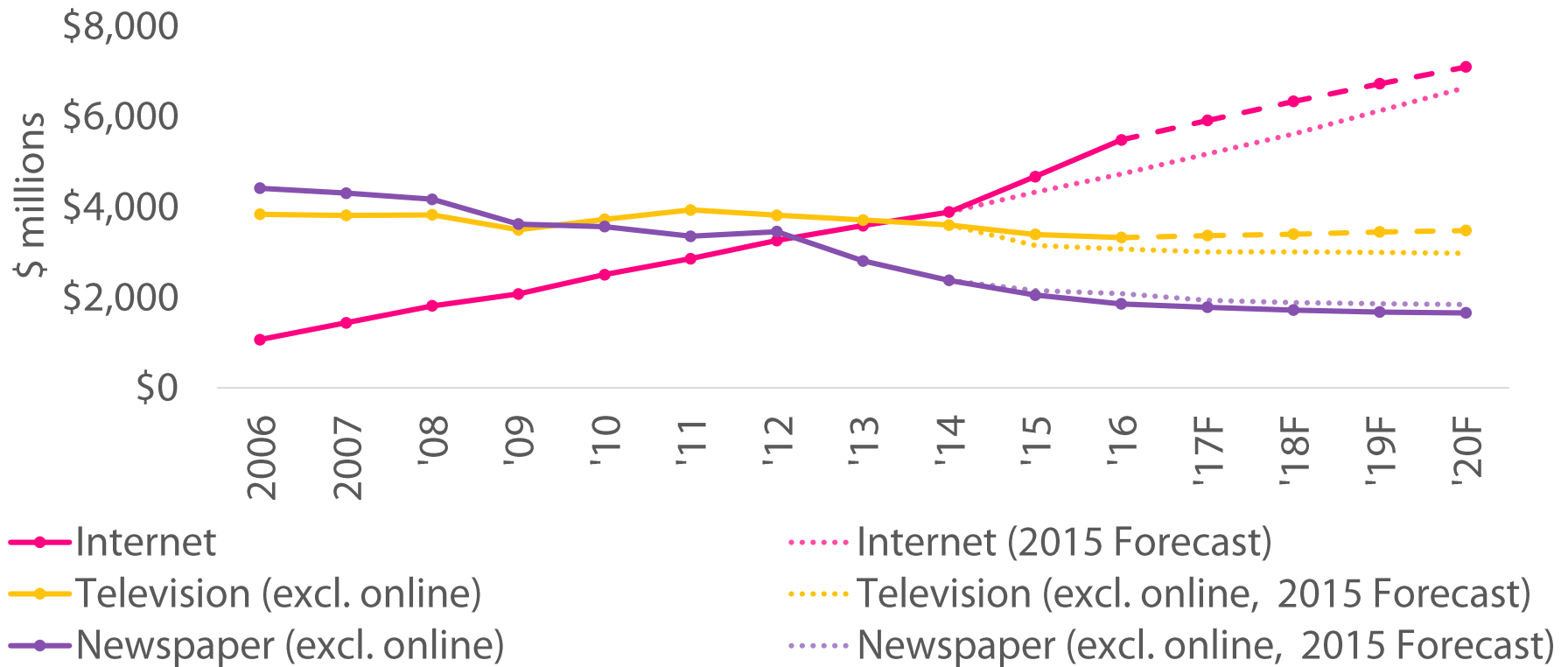
Total advertising spending per capita (2016)



While growing fast, **digital share of media lags US and UK**, as does advertising – and the latter has not changed much over the decades.

2.2 Digital rises faster; TV declines more slowly

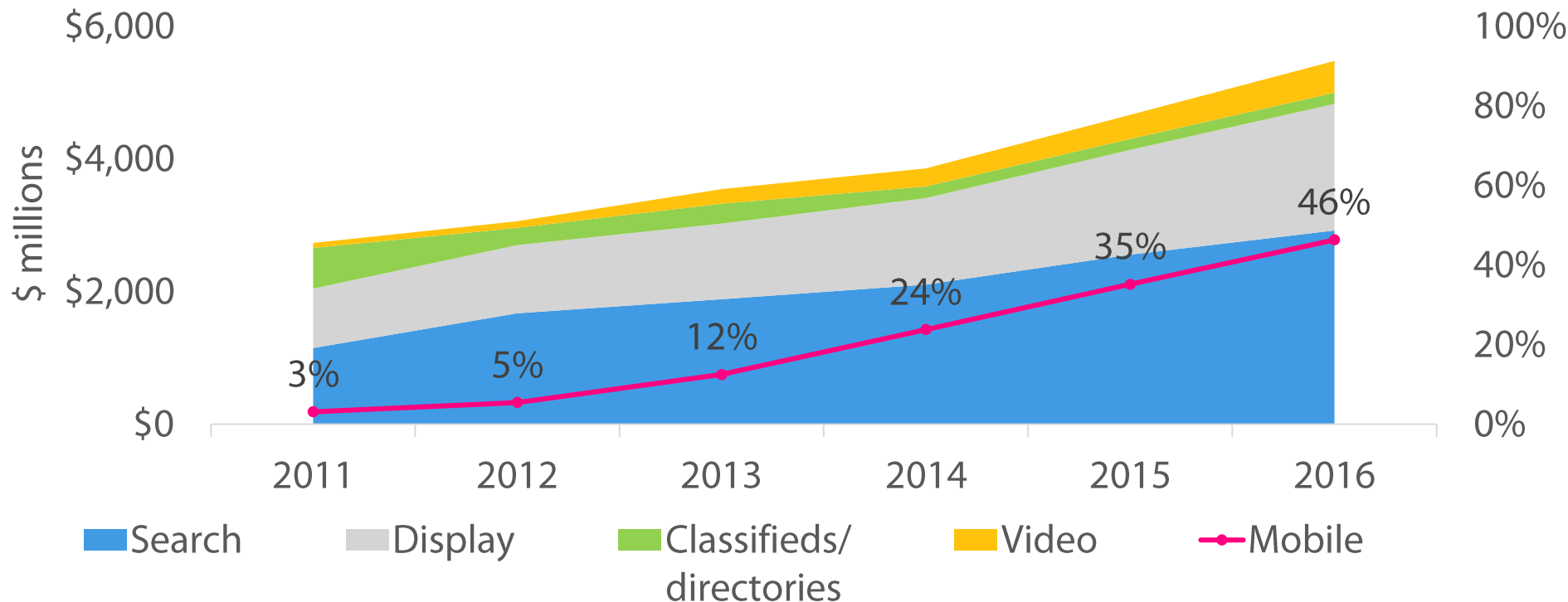
Historical and projected advertising revenue generated by major media



Forecasts two years ago were **too cautious with respect to digital** share growth, but a bit **too aggressive in terms of television decline**.

2.3 Mobile – Almost Half of Internet Advertising

Breakdown of Internet advertising revenue and share of mobile



High volume of Internet ad revenue largely going to channels dominated by **international market leaders**.

3. Broadcasting and Television Content

3.1 Key questions, subjects addressed in this section

- **How are consumers watching television?**
 - TV vs streaming viewership
 - By age – will youth's online penchant persist over time?
 - Franco vs Anglo differences
- **How is OTT affecting tv distribution, i.e. BDUs?**
 - Trends – erosion of BDU subscription revenue
 - Forecasts vs actual comparisons of BDU vs OTT
- **How is digital advertising affecting television ad revenues?**
 - Shift to digital; slow decline of tv advertising
 - Other technological impacts – PVR and addressable television
- **How is OTT disrupting the Canadian broadcasting market?**
 - Private tv's access to the best content
- **How are Canadian content producers faring in this environment?**
 - Programming spend of OTT is through the roof
 - Emergence of the new Canadian distributor-producer
 - Role of foreign financing

3.2 Snapshot of Canada's television sector - trends

- The TV program production, broadcasting and distribution sectors have broadly flatlined over the last 2 years.

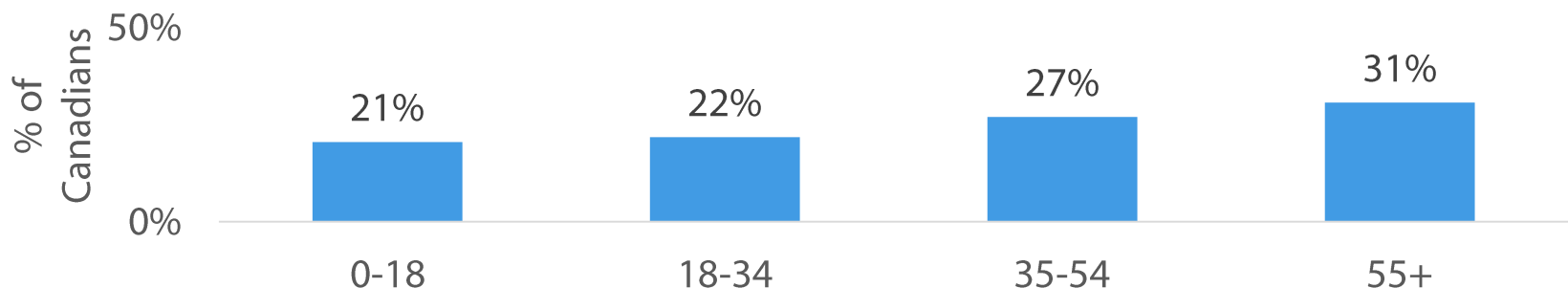
	2013/2014	2015/2016
Total film and television production volume	\$5.96 billion	\$6.76 billion
BDU and television broadcasting revenue	\$16.3 billion	\$16 billion
<i>CBC and Private Conventional</i>	<i>\$3.1 billion</i>	<i>\$2.9 billion</i>
<i>IPTV, DTH, Cable and On-Demand</i>	<i>\$13.2 billion</i>	<i>\$13.1 billion</i>

While many aspects of the business are challenging (e.g. conventional TV advertising) **any dire predictions** about rapid declines in broadcasting, distribution, and content **have not materialized**.

3.3a Consumer behaviour – demographics

- Yes, the Canadian population is aging (see graphic below), but the definite digital preference by younger demographics is remarkable.
 - 55+ is the largest age group, watch more tv than before; younger demos watch less (see slide 3.3b)
 - There are steady increases in the hours watched of streaming overall, and in far greater proportion by younger demos (see slide 3.3c)
 - Same pronounced demo phenomenon for Netflix subscribers and among those who watch exclusively online (see slides 3.3d and 3.3e)

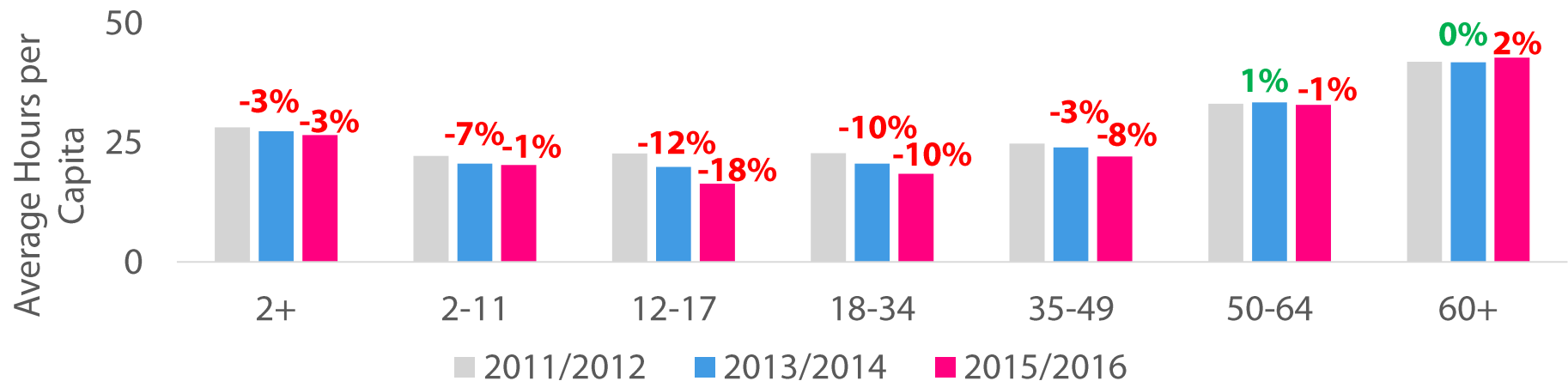
Age distribution of Canadian population



3.3b Consumer trends – TV for Old, Online for Young

- There is a decline in TV watching for all age groups but the over 65 demographic, and not much change for 50-64.

Average weekly per capita hours of traditional TV watched, and period to period change

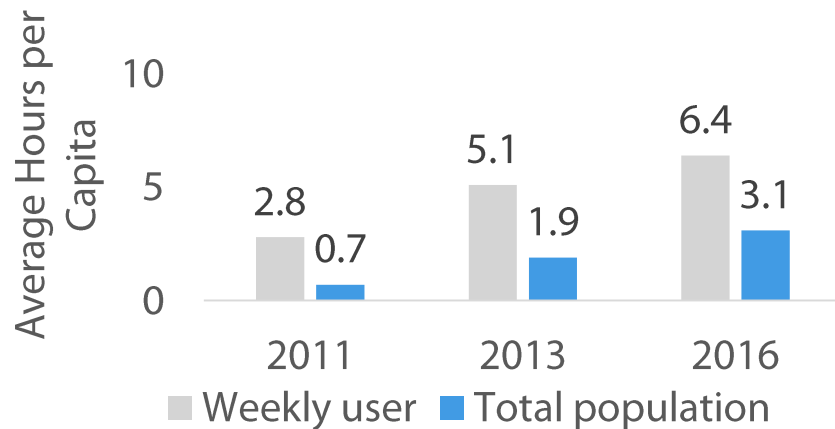


Streaming services would appear to be **siphoning off younger viewers** from traditional TV.

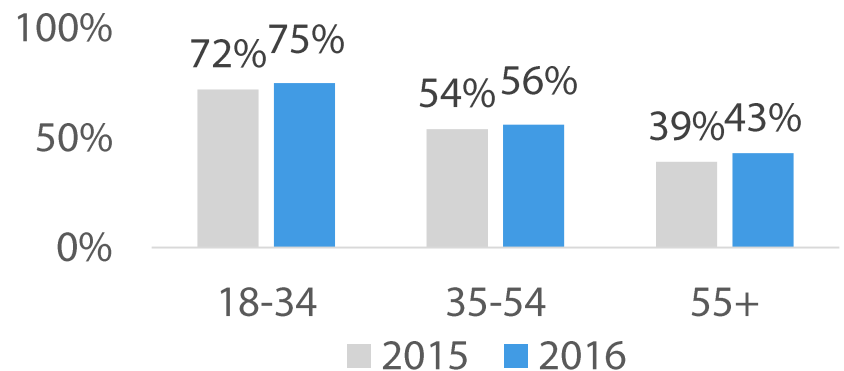
3.3c Consumer trends – TV for Old, Online for Young

- The hours watched on streaming TV services is growing – whether it is heavy viewers, light viewers – or young or old viewers.
- More than half the younger demos watch more than one hour per day.

Average weekly per capita hours of Internet TV watched (18+)



Percentage of the population streaming more than one hour of online video per day

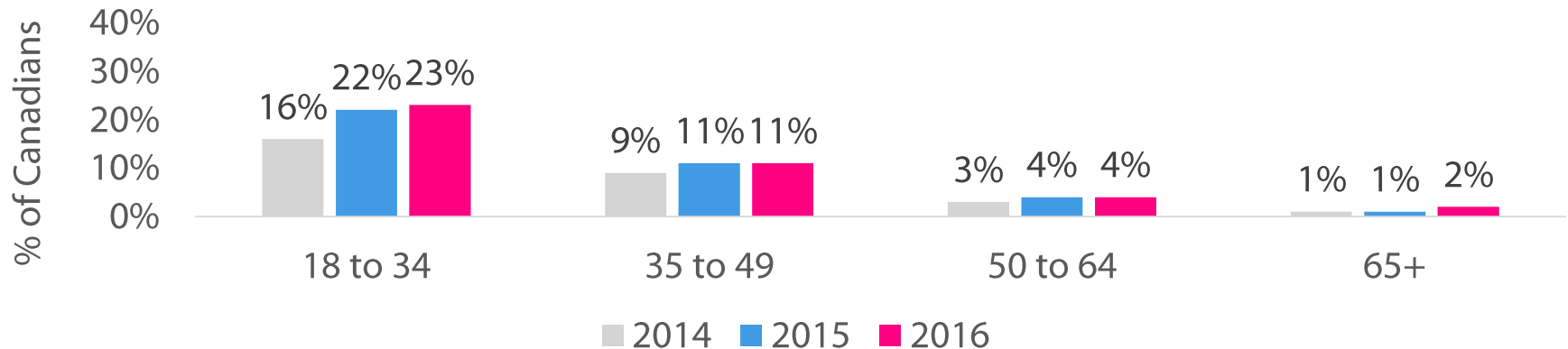


While TV viewing still co-exists with **streaming**, the latter is **growing** across the board.

3.3d Consumer trends – Online growth fueled by youth, young adult, and under 50

- Though a minority, those who watch TV exclusively online are growing and are a significant proportion of the young adult population.

Percentage of Canadians who watch TV exclusively online in Canada, by age group

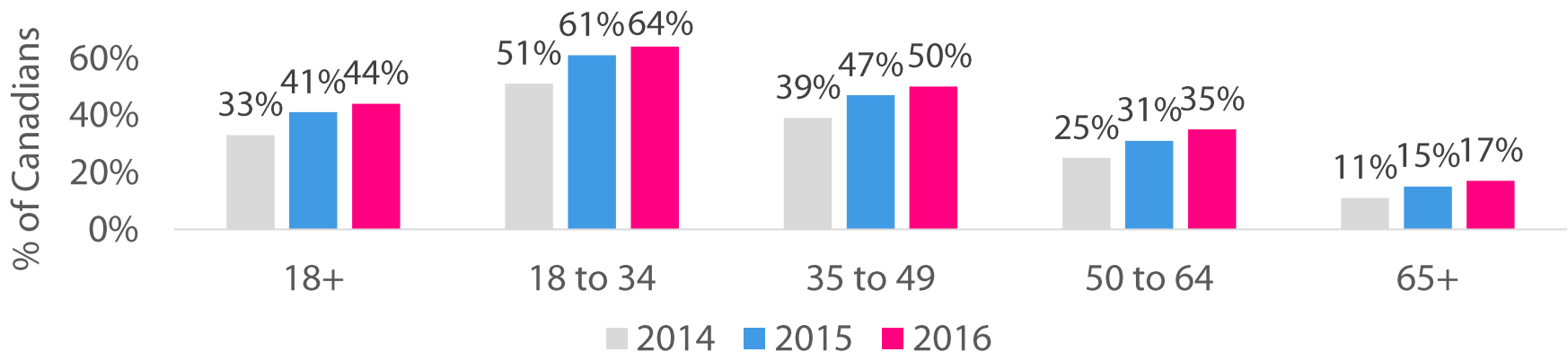


While co-existence with traditional TV is the present state, it appears only a matter of time before **TV's share of households declines.**

3.3e Consumer trends – Online growth fueled by youth, young adult, and under 50 (cont'd)

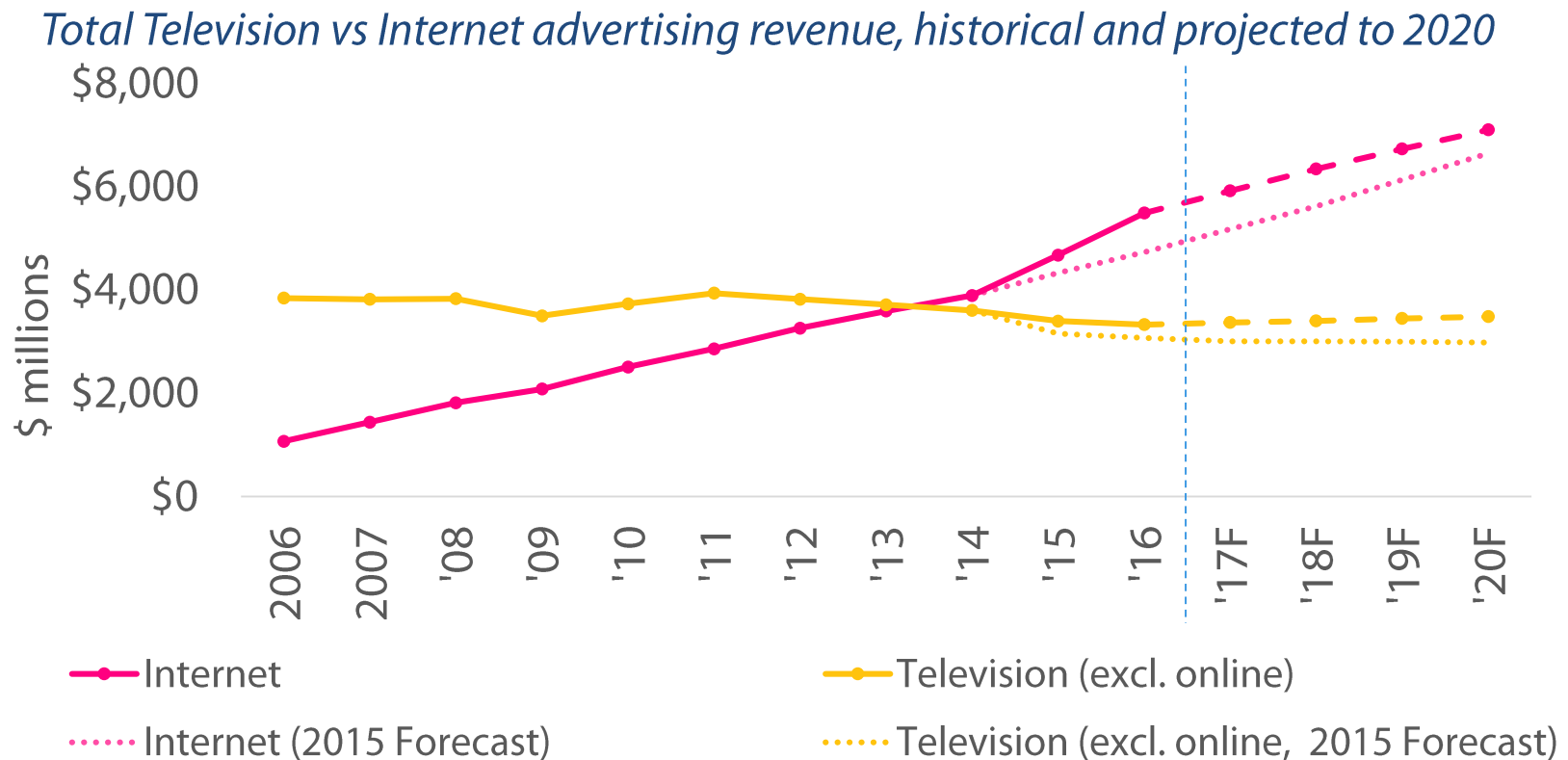
- Netflix seems to be climbing in all groups but this data confirms there is more pronounced take-up in the younger demos.

Percentage of Canadians subscribed to Netflix, by age group – all of Canada



Netflix is a very successful vanguard for OTT services, so it is likely that **many households** will be subscribing to **more than one** service.

3.4 TV advertising – slower decline than forecast

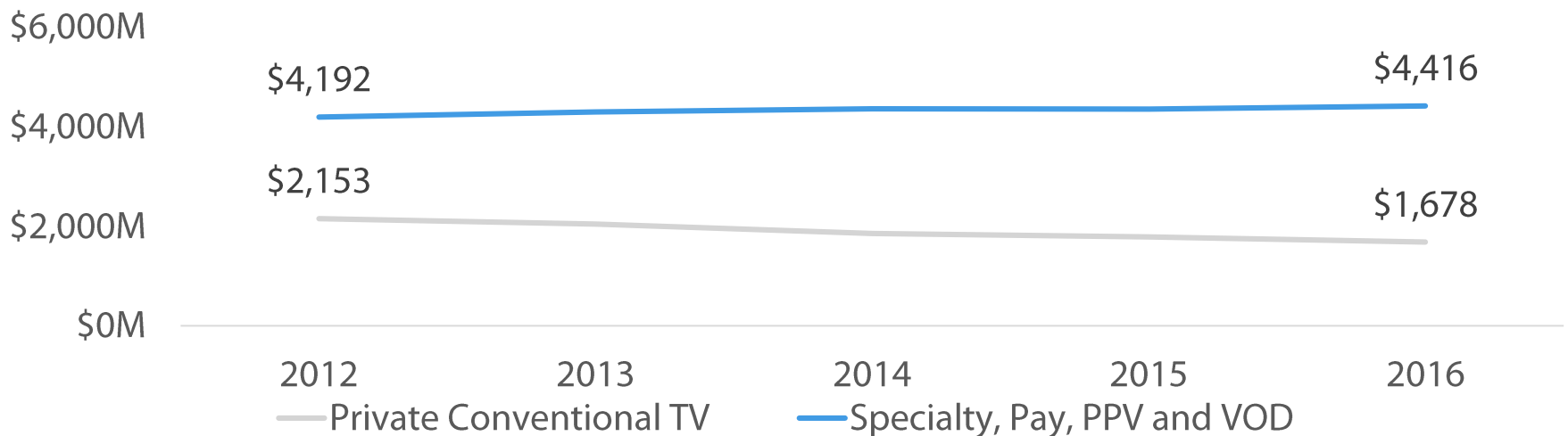


Total advertising on television – pay, specialty, conventional, CBC – decline is **slower than forecast**.

3.5 Conventional TV declining, but pay-specialties are growing

- Total specialty revenues, including subscription, kept up moderate growth;
- Private conventional continues to decline, down \$475M in last 4 year.

Total Revenues television services, by type of service



Ad dependent conventional TV has a declining revenues stream, but so far as a sector **specialty-TV** services are **still growing** modestly.

3.6a Consumer tech impact on TV advertising

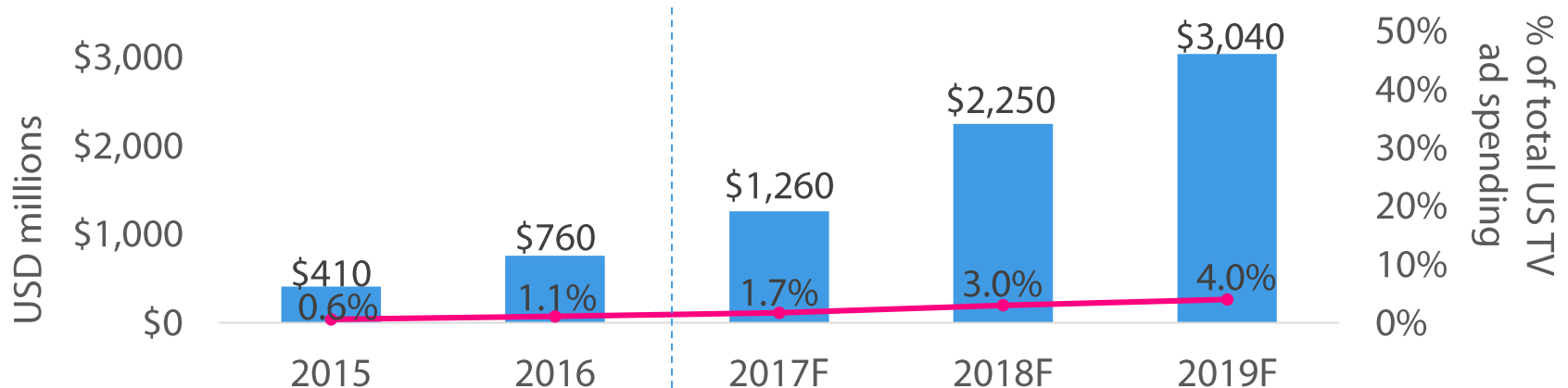
- **PVRs (or DVRs)** are used by many TVHHs in Canada - English (50%) and French (56%), and 90% fast forward through commercials. PVRs are more prevalent in the US – but impact on advertising seems to be not as much as feared.
 - PVRs are about equally prevalent in the US and Canada, but only 50% of households have it and use it for avoiding ads
 - But only 9% of Canadians' viewing is time shifted via PVRs, anyway.
 - There are already many low tech ways of avoiding commercials, e.g. walking out of the room, changing channels, muting the sound.
 - Thus, the impact of fast forwarding on advertising has not been as consequential as many had thought.
- Across all tv and online usage, Deloitte forecasts about 10% of users will be **“adlergic”** in 2018 (using 4 or more ad blocking mechanisms) – and 18% among millennials.

Ad blocking on the internet and **fast forwarding** through PVRs limit advertising reach for sure, but won't cripple ads

3.6b Future Impact of Addressable TV advertising

- **Addressable TV advertising** (or segmented advertising) is hailed as an antidote to digital advertising competition – at least in part.
 - Broadcasters are working with BDUs (e.g. Corus with Cogeco) to install the capability on set-top boxes. “Dynamic ad insertion” for VOD content is being tested in Canada as well.
 - However, forecasts show a fairly long build up period in the US where addressable advertising is more widespread.

Addressable TV Ad Spending



While new, **addressable technology** has some **promise** for the future, but its implementation in Canada is also likely to be slow.

3.7a Less access to 'original' content hits will further handicap Canadian conventional TV

- Historically, **exclusive original content** produced for US broadcasters underpinned Canadian television's ratings success.
- But now **not all the good original content** is commissioned by US conventional TV broadcasters:
 - First, US cable channels created hit shows – think AMC's *Mad Men*, *Breaking Bad*
 - Now, OTT breaks into the top candidates on awards shows as evidenced by Golden Globes and the Emmys
- Also US networks are now launching streaming services into Canada, so are expected to hang on to Canadian market online rights to gain subscriber penetration in Canada.

3.7b Less access to 'original' content hits will further handicap Canadian conventional TV

Major Primetime Emmy Awards by network, September 2017

	Major nominations	Major wins
HBO	46	10
Netflix	27	4
FX	27	2
NBC	17	6
Hulu	7	5

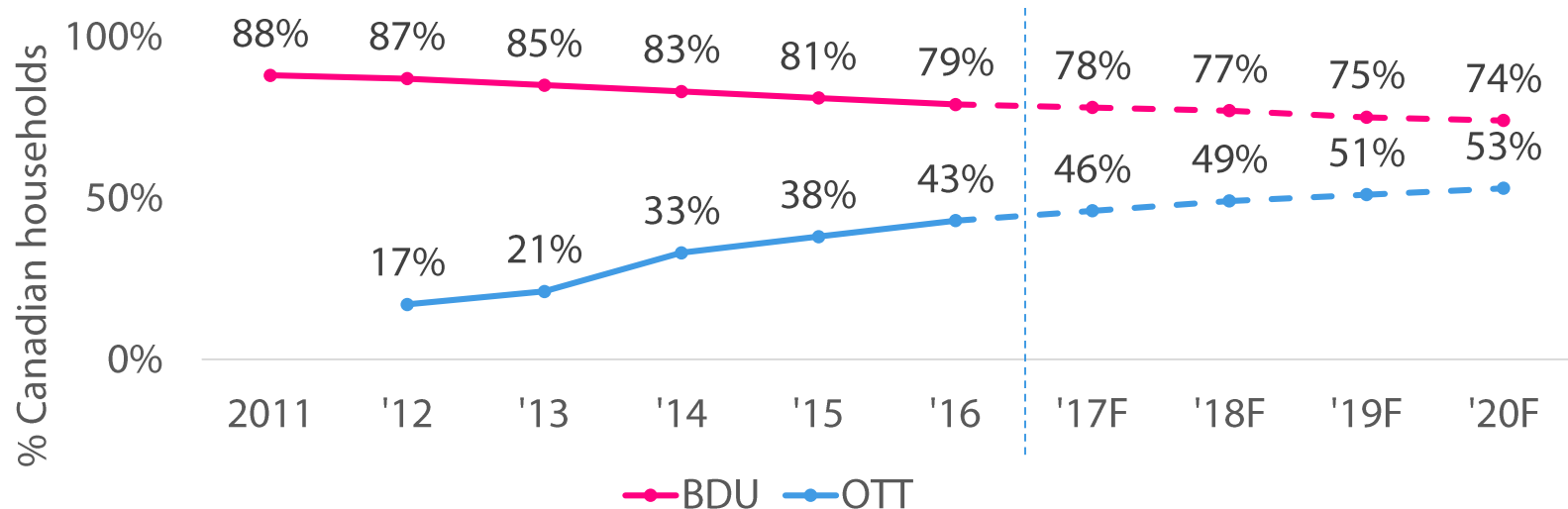
- Streaming services won many of the 2018 Golden Globes awarded to TV shows (Hulu's *The Handmaid's Tale*, Amazon's *The Marvelous Mrs. Maisel* and Netflix's *Master of None* and *Fargo*).

Streaming services like Netflix and Hulu offer **high-end programming** that are **not available** for licencing by Canadian TV networks.

3.8a Rise of OTT – Erodes Cable, Satellite, IPTV

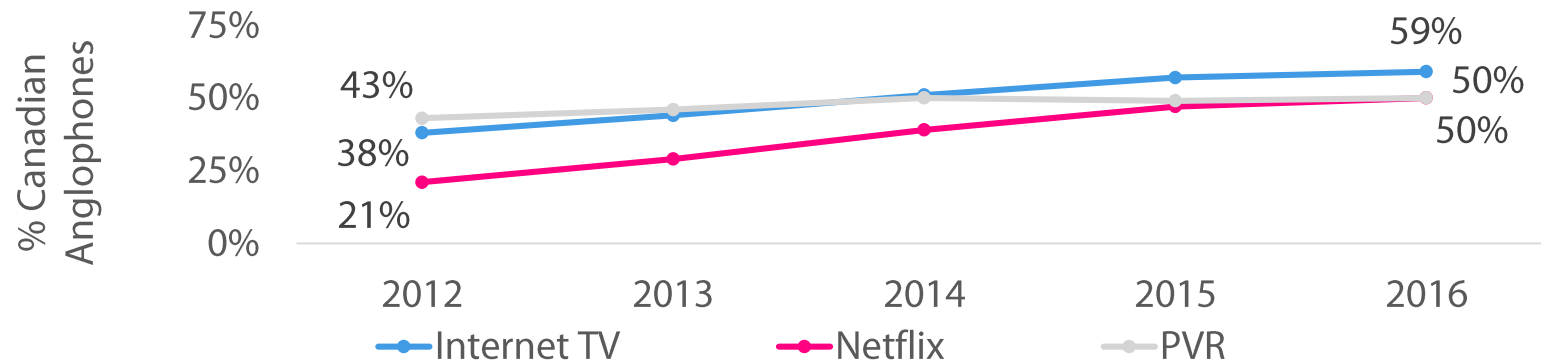
- As shown in Section 2 on consumer habits, not as much time is spent on Netflix as on traditional TV
 - 4 hours on traditional TV per day against 1h30 on Netflix.

BDU and OTT subscription trends, historical and projected to 2020

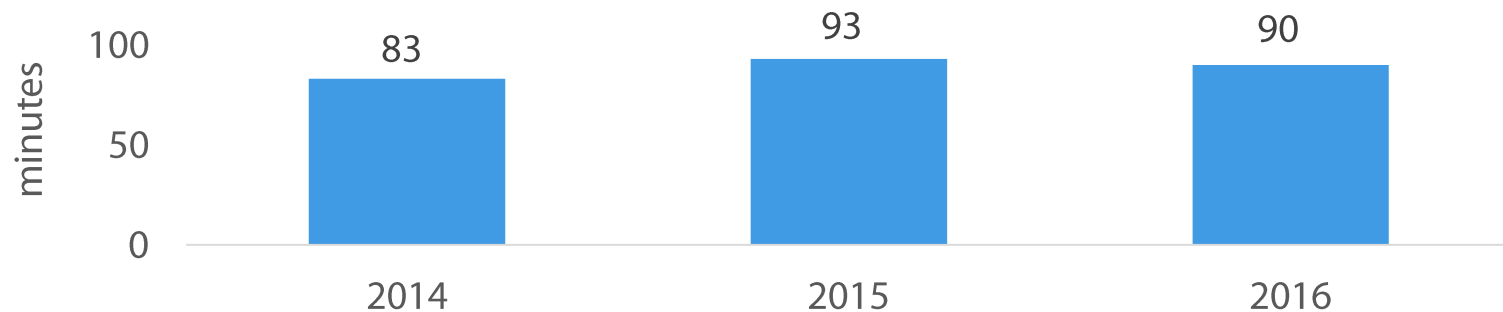


3.8b Rise of OTT – Erodes Cable, Satellite, IPTV

Adoption rates of video technologies by Canadian Anglophones, 18+



Average time spent on Netflix per day by worldwide users

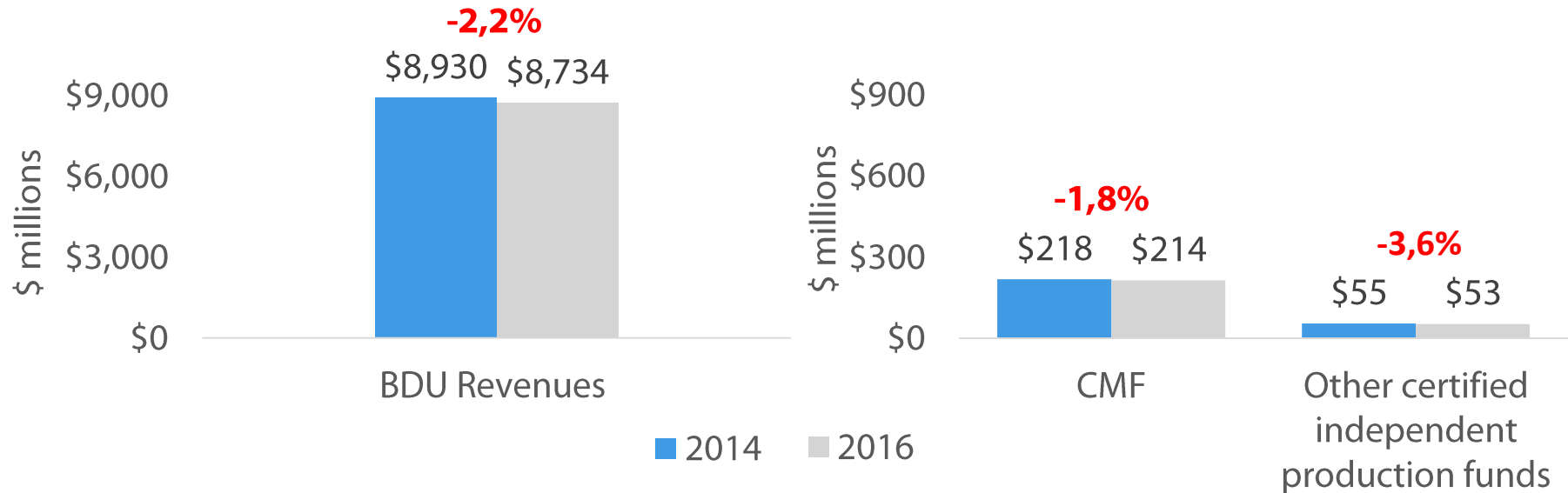


As shown in the reporting on the demographic impact on digital services, OTT growth is being **fueled by younger demographics**.

3.9 BDU revenues

- There will be declining contributions to the CMF and production funds, and a slight decline has been noted over the past 2 years.

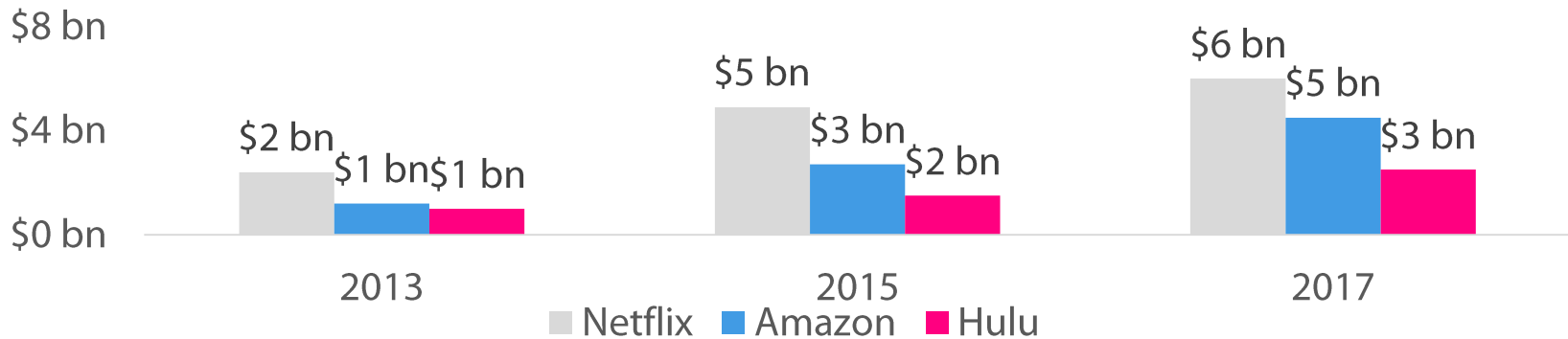
BDU Revenues and BDU contribution to CMF and independent production funds



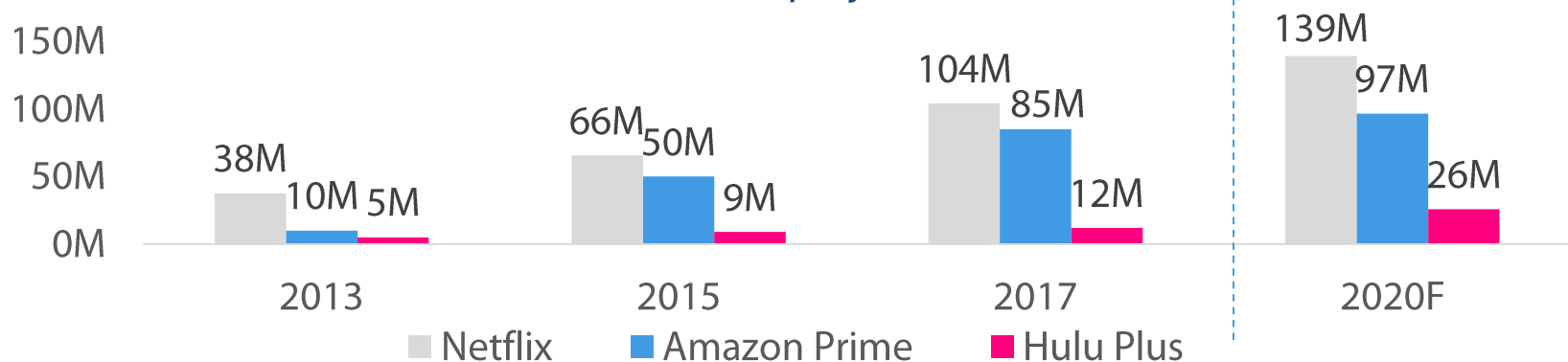
Given that the source of **funding to the CMF** is crucial to Canadian content, even a **slow decline** is concerning.

3.10a Global Streaming Services – Big Spenders

Budget spent on content by major OTT services (USD)



Worldwide subscriber base, historical and projected to 2020

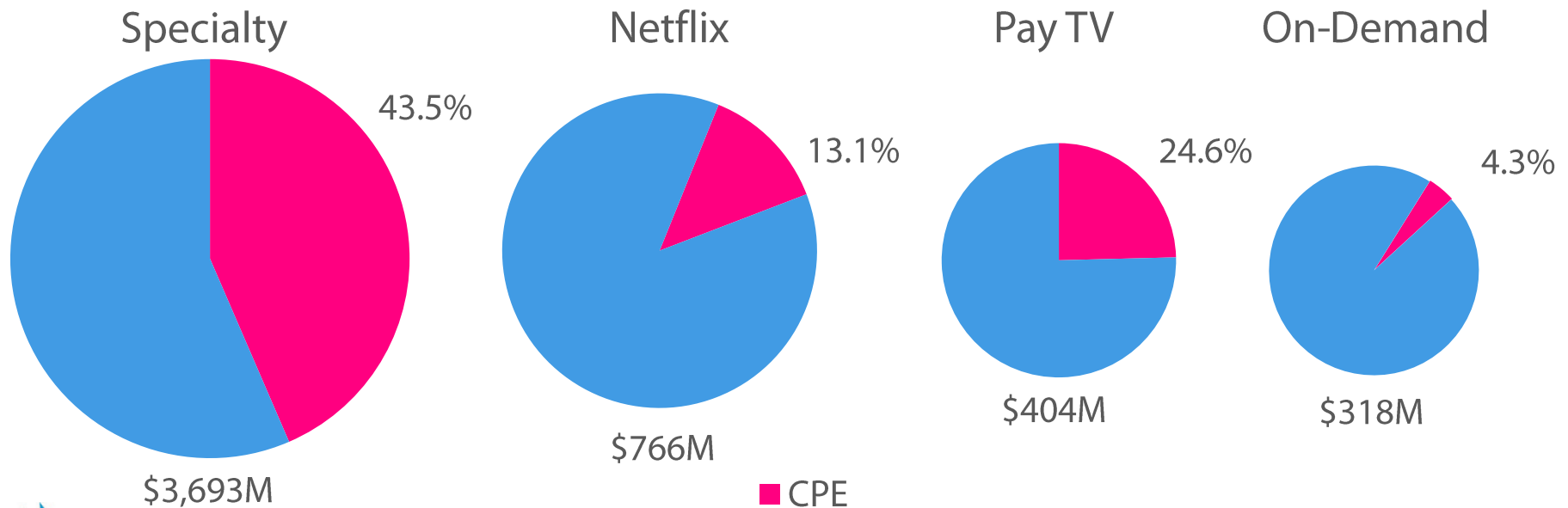


The expenditures of the **major OTT services** are huge by any measure, and is evidence of the larger providers' drive for **market share**

3.10b Netflix deal in Canada

- Netflix has committed to invest \$500M in Canada (content and production services) over 5 years.
 - \$100M invested in production would have represented a 13.1% CPE in 2016, or 1.3% of its global spending on programming.
 - Service production carried out in Canada counts towards the Netflix commitment.

CPE as a share of total Canadian revenue (assuming \$100M spent on content by Netflix)



3.11 Canadian producers get into the action as well

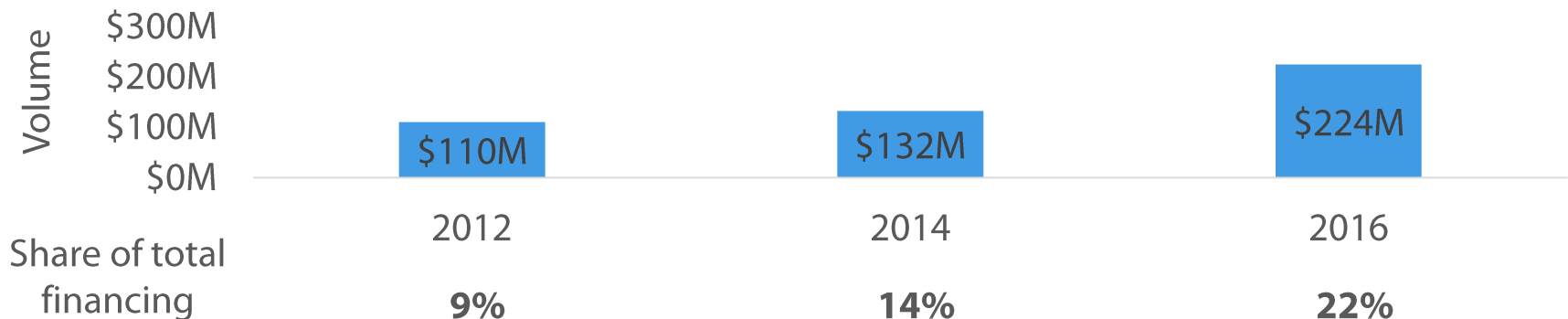
- Canadian producers are retaining a chunk of the IP in foreign location production.
- Canadian producers are creating programming for the global market, including OTT services, e.g.



3.12 Foreign financing

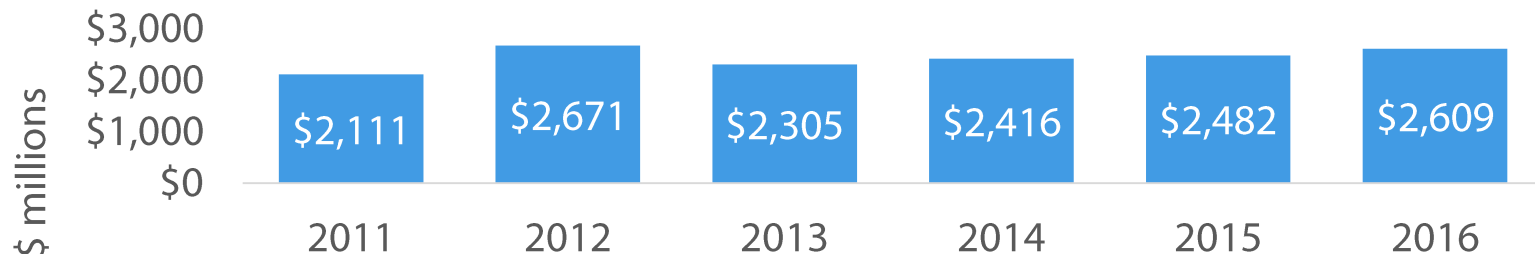
- There has been a large increase over the last two years, though the 4 year trend is up.
 - Foreign financing is now the first source of financing of English-language TV fiction, ahead of tax credits and licence fees, but not ahead of government subsidy/tax credits overall.
- Part of this trend is due to Netflix:
 - The sharp growth in foreign financing coincides with the launch of Netflix's original programming strategy (2013).
 - Canada is the 3rd largest market for Netflix commissioned original productions.

Foreign financing of English language Canadian television production, fiction

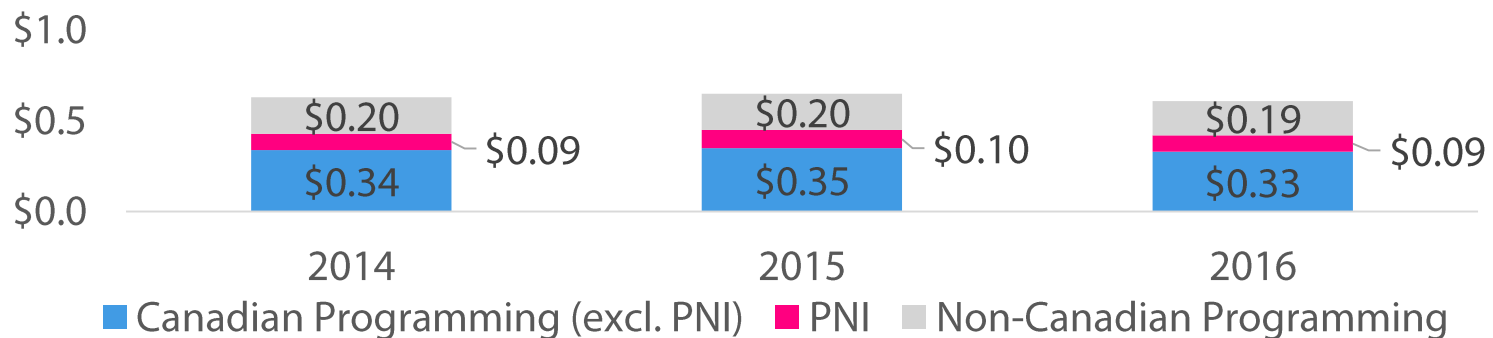


3.13a Canadian production rolls on

Total volume of Canadian television produced (excl. broadcaster in-house, news, sport and current affairs programming)



Programming expenditures by broadcasters per revenue dollar (excl. VOD, PPV and not-for-profit conventional TV)

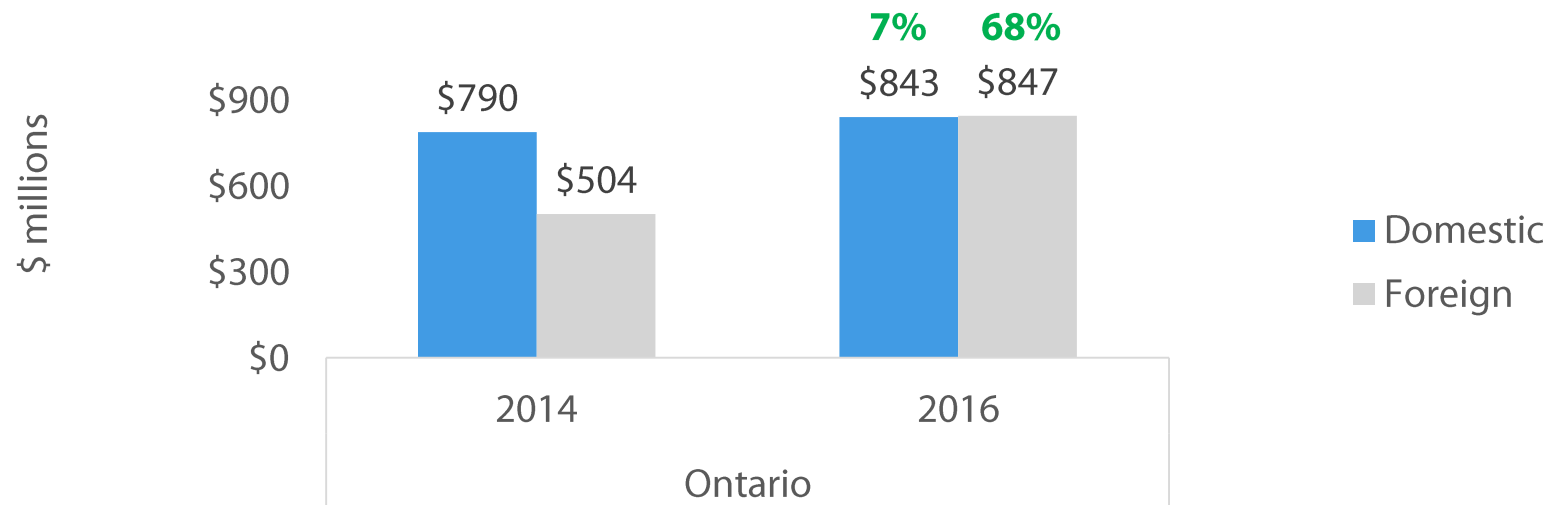


So far, over the last 2 years **Canadian programming content** has remained steady, in fact **rising slightly**.

3.13b Provincial reporting of film/tv production

- Early provincial figures for 2017 fiscal year show huge growth in location production in Ontario over last 2 years, and a smaller growth in domestic production.

Domestic and location production value and growth, Ontario



It is clear that a chunk of that rise the global demand is **flowing to Canada as location production**, but also some **domestic** production

3.14 From “light grim” to “scary global”

- 2016 report conclusion: “**light grim**” for Cancon production
 - *Creative Canada* shows we have placed bet on OTT agreements vs. regulation – while some other countries are setting conditions for entry of OTT
 - OTT doesn’t have content requirements – but has created a global market
 - However, that market is mainly accessible only to strong Canadian production companies with growing global reach
- Conventional TV advertising still in decline; though not yet specialties – while tv will be fighting back via addressable advertising, it is losing access to significant foreign content

Newspaper Publishing and Journalism

4.1 Key questions, subjects addressed in this section

- **How fast is newspaper in print form sinking?**
 - Canada vs US, UK
- **What is the impact of online competition on news media business?**
 - Google and Facebook advantages
- **What is the toll on journalism and newsrooms?**
 - Loss of journalist and newsroom jobs
 - Impact on TV news
- **What has been the impact on the quality of journalism?**
 - Print journalist jobs in decline
 - Impact on tv journalism
 - Lack of trust of news from digital sources
 - Traditional journalism vs. digital-style journalism
- **What measures are available to improve the quality of journalism?**

4.2a News media in print form - falling pretty fast

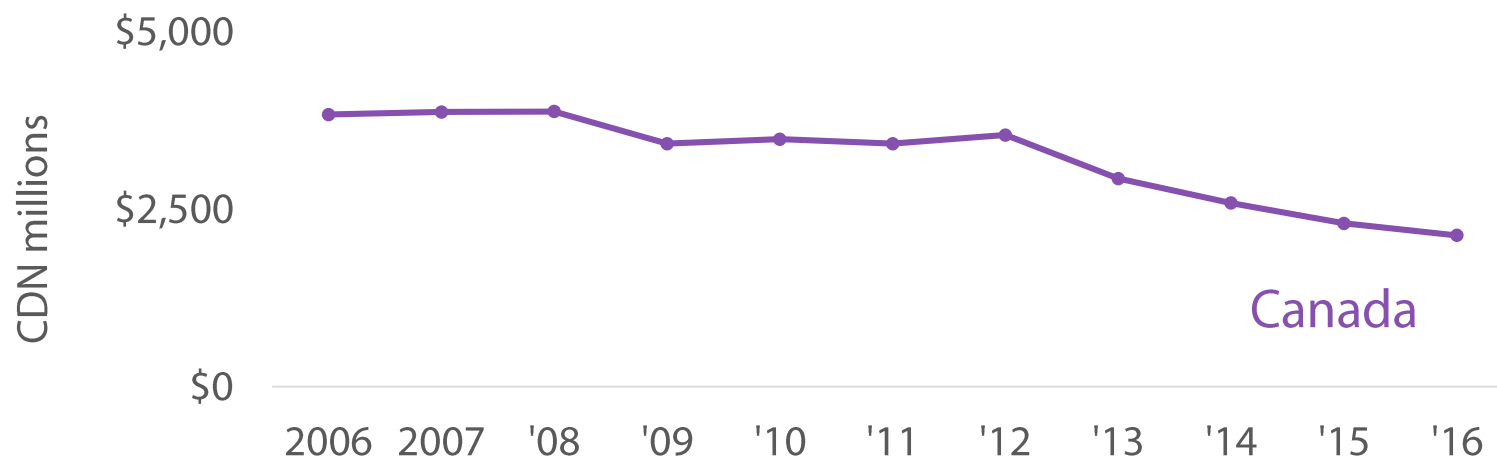
- Two years ago, news media in print form had declined to 41%, down from 46% in 2010
 - But digital readership had tripled in the same period to 31% - and almost 75% for 12-34-year olds (Vividata, 2015)
 - A quarter of total readers consumed *only* digital editions.
- That trend continues today (see 4.3a).

Print will not likely rebound like books – and it will seem unlikely for a digitally savvy readership to return to print as they age.

4.2b News media ad revenue has declined rapidly

- From a gentle decline starting a decade ago, the slope of this slide became worse in 2012.
- News media ad revenues declined 45% from \$3.8B to \$2.1B in Canada, much more than tv advertising, for example.

News media (excl. broadcast) advertising revenues, historical (Canada)

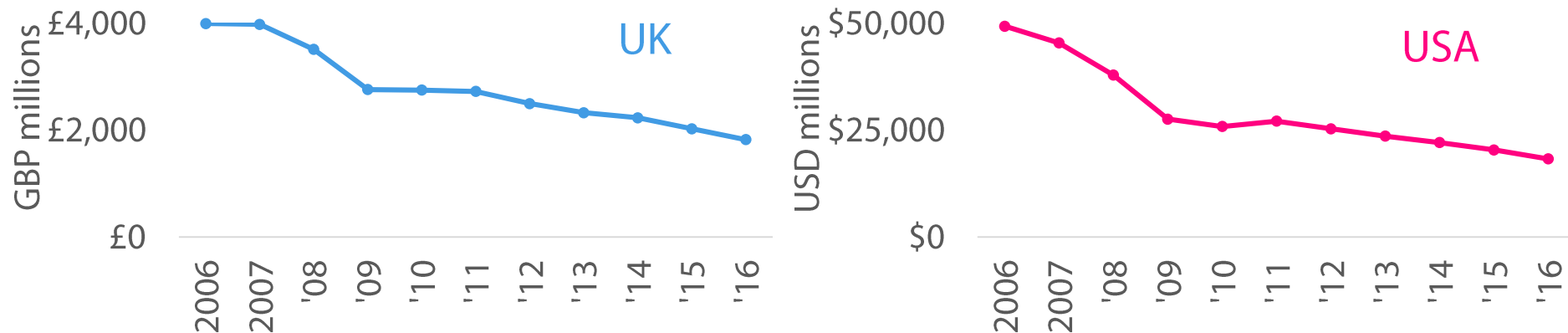


While **online advertising is flourishing**, it is mainly due to search or scale that are **not available to traditional news media**.

4.2c The ad skid has occurred in the US and UK

- The same trend is noted both in the US and the UK, as their ad revenues have declined as in Canada.
- The result is a constant round of cost cutting in traditional newspapers across the world.

News media (excl. broadcast) advertising revenues, historical (UK and USA)

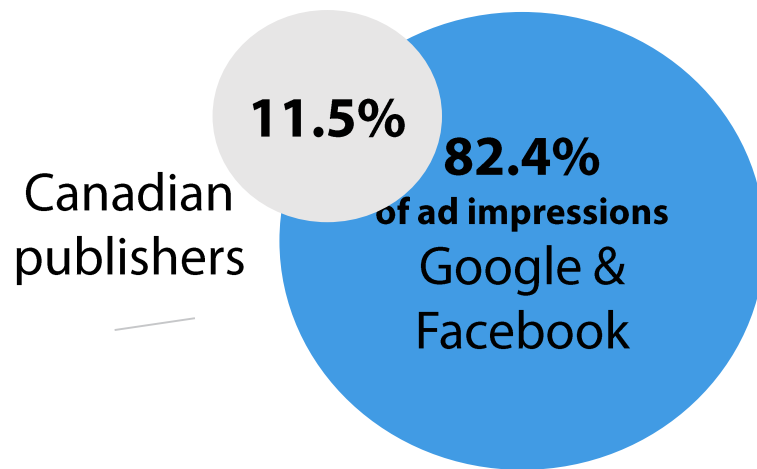


While this decline may be levelling off a tad – it is very **difficult to “right size”** a traditional news media operation and maintain its brand.

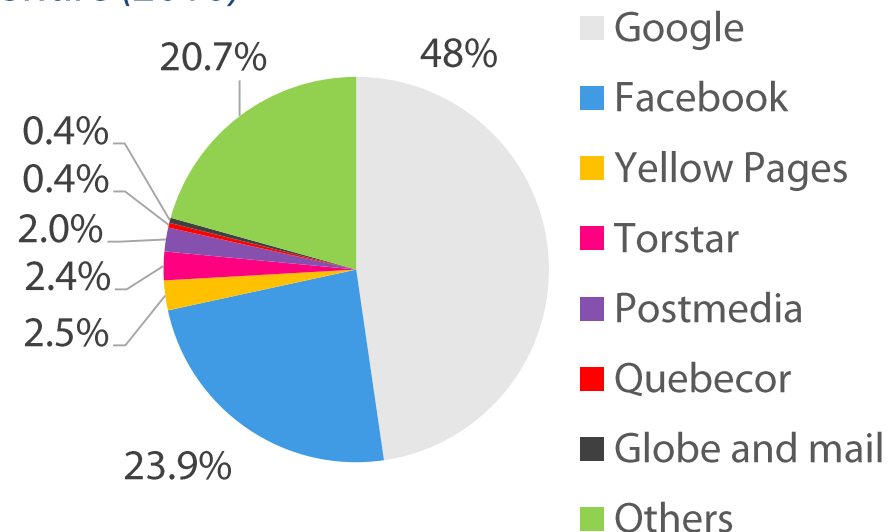
4.3a Google and FB dominate digital advertising

- Digital revenues for all news media and TV programs represents about **one seventh** of Google and Facebook's digital advertising revenue in Canada.

Canadian ads served up with digital news (2016)



Canadian Internet Advertising Market Share (2016)

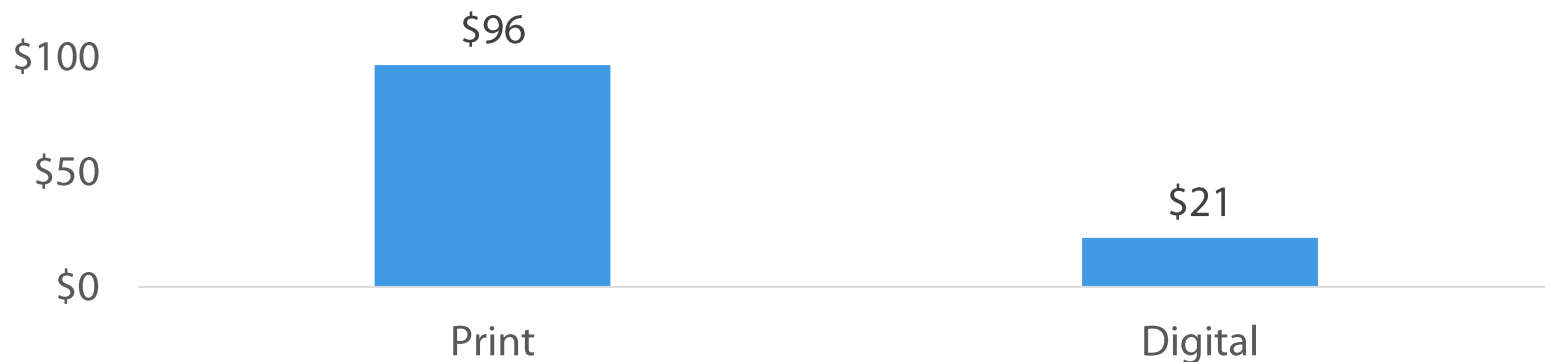


Clearly, Google and Facebook offer advertisers something that **news media cannot do as effectively.**

4.3b The scale of a Facebook or Google overwhelms most news media

- Advertisers of online readers pay much less than for ads in print editions. So, you need scale to compensate.

Estimated annual advertising revenue per reader based on weekly reach, 18+, any newspaper, Print and digital reader

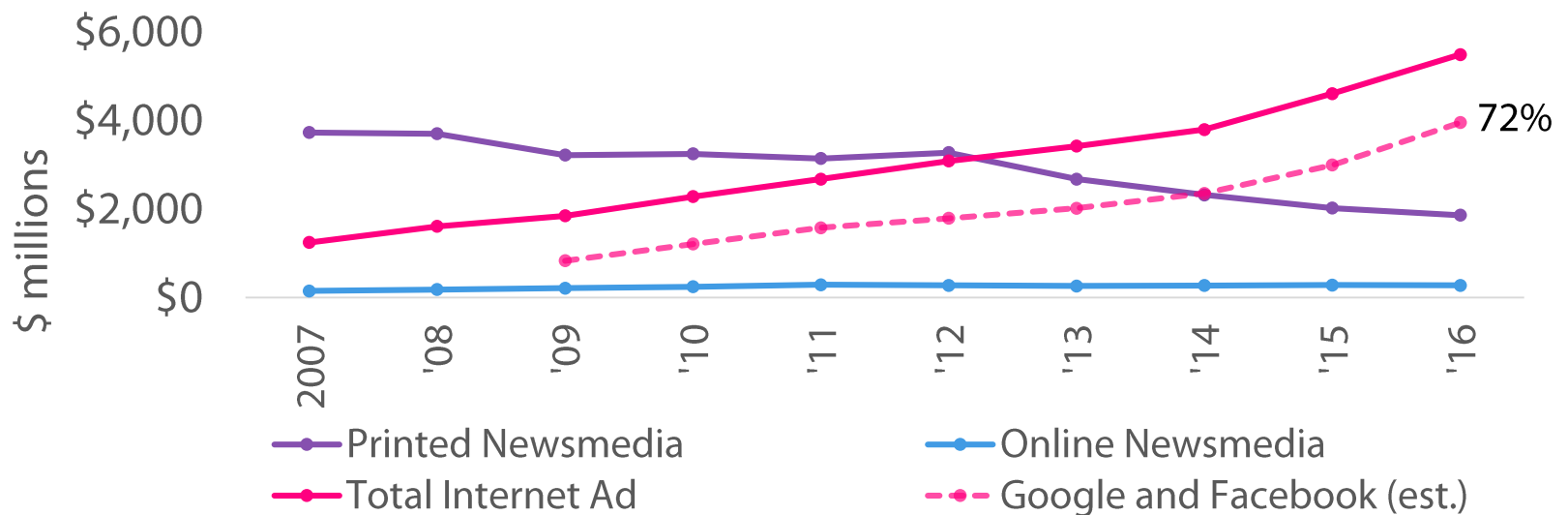


While some news media **paywall strategies** maintain subscriber revenue, it is highly **unlikely that online advertising revenue** will replace print ad losses.

4.3c Online ads - just not replacing print ad loss

- Facebook and Google have dominated digital advertising because they can offer unique services to advertisers that are not readily available in newsbrands' online editions.
- While there are some online successes, news media online platforms cannot mimic Facebook's social exchange, offer Google's search features, or Craigslist's convenience.

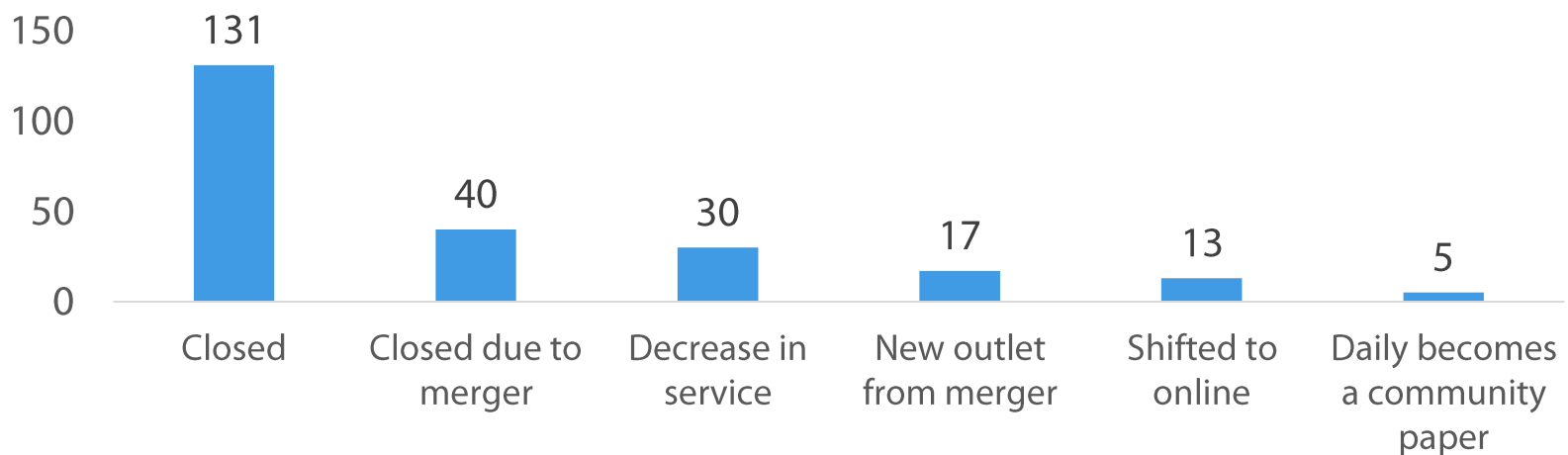
Advertising revenues for news media (print & digital), and total Internet revenue, Canada



4.4a Print journalist job losses and closures

- Canada lost at least a third of its print journalists over the last 6 years. While some may have moved to digital journalism, its low cost structure means lower wages.
- More recent reports of job losses:
 - PostMedia and Torstar announced in November 2017 that their deal to swap struggling publications will result in the closing of 36 newspapers and in 291 jobs discontinued.

Changes to local media outlets since 2008, as of October 2017



4.4b Loss of investment and jobs in news media

- Applying a UK analysis over the last 4-5 years to the Canadian market, the newsroom loss is around 3500 (includes more than journalists).

UK FTEs involved in journalism and content creation in the news media industry, 2016 (39% of total FTES in the news industry)	11,200
UK advertising revenue, excluding online, 2012 (CAD)	\$4,229M
UK advertising revenue, excluding online, 2016 (CAD)	\$3,082M (-27%)
UK estimated FTEs involved in journalism and content creation in the news media industry (2012)	15,300
UK estimated FTEs loss, 2012-2016	4,100

Canada estimated jobs involved in journalism, 2011	8,805
Canada advertising revenue, excluding online, 2012 (CAD)	\$3,272M
Canada advertising revenue, excluding online, 2016 (CAD)	\$1,858M (-43%)
Canada estimated job loss, 2011-2016	3,500

Census 2011 figures should be taken with caution as they are reported as jobs, not FTEs.

4.4c Loss of investment and jobs in TV news rooms

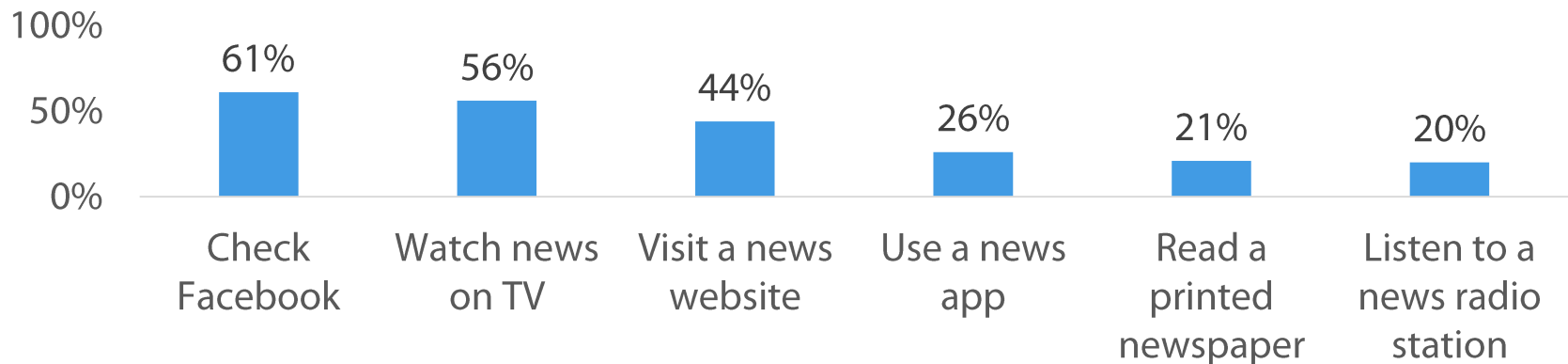
- There is **ad decline pressure** on conventional television as well, including its news programming.
 - CanadianTV spent \$590M investment in news and public affairs in 2016, down from an estimated \$616M in 2012 (a 4.3% decline).
 - Local news programming has suffered in smaller communities more than in larger ones, but the CRTC has established a fund to help offset the decline in advertising.
 - While the major broadcasting groups are committed to airing roughly the same amount of original news programming, broadcasters have pared staff, including in the newsrooms.
- Television operates within a regulated environment with different support policies and compliance obligations

The **decline of news media's news** output also **negatively affects TV news** as the latter depends on newspapers for stories

4.5a Where Canadians get their news

- Canadians get news mainly by checking Facebook – a news aggregator – and watching TV, followed by online news websites – but only one fifth get it from printed newspapers.

Percentage of Canadians who do the following every day

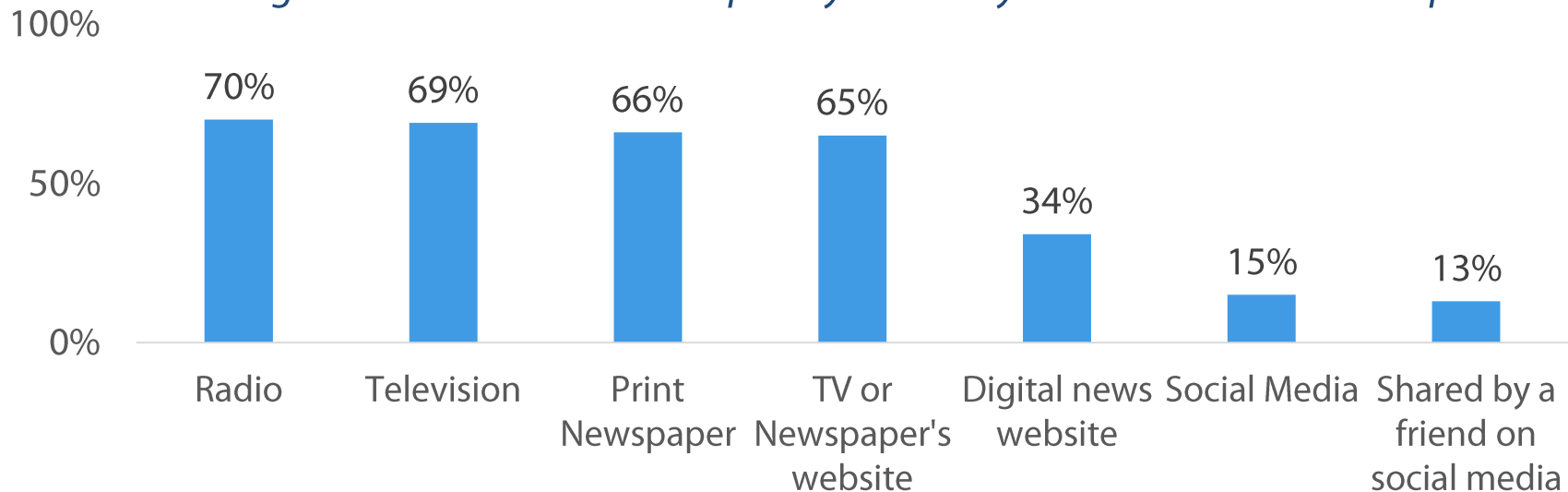


Print newspapers collectively are the direct source of news only about **one third** as much as those checking **Facebook**

4.5b While online is growing fast, it lacks trust

- Canadians trust traditional news sources, including print newspapers twice as much as digital news websites.

Percentage of Canadians who completely or mostly trust the news on each platform

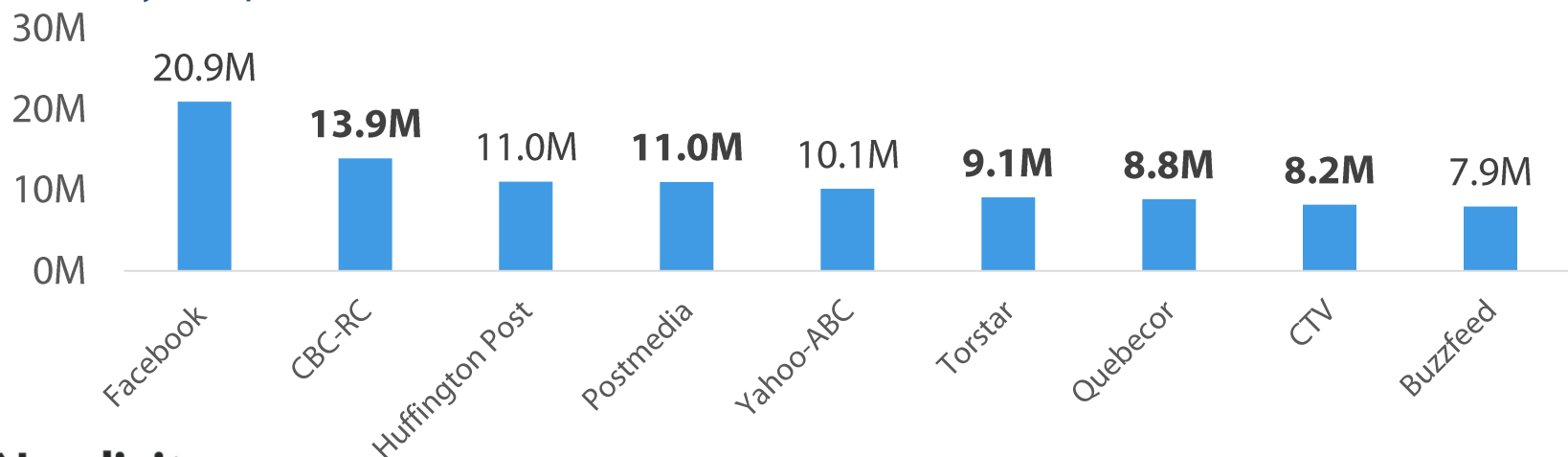


While **news media** are not the most frequent source of news, at least directly, they are still among the **most trusted**.

4.6a Facebook service delivers different breed of news

- FB, Google, and other aggregators offer convenience of access.
- Like any media, they seek to drive audience, and have unique features (and algorithms) that bring content fitting the user's perspective.
- **Such news lacks curation** as Google and FB are not news editors. Hence, it results in more opportunities for extreme views, misrepresentation, and fake news.
 - Facebook does intend to prioritize friends and family are sharing over content from publishers and other brands – in part to defuse allegations of prioritizing fake news.

Monthly unique visitors in Canada (2015)



4.6b Incentives around online revenue can make for lower quality journalism and fake news

System A journalism – Traditional media, including online news media run	System B journalism – Aggregators only (not curators) or digital version only
Journalists chase stories, editors curate content	Developers create innovative ways to access content
Physical presence in community	Display of content governed by algorithms to maximize views
Verification	Sensation generates traffic
High engagement (time spent with content) encourages critical analysis of stories and builds trust with outlet	Focus on interaction (comments, likes shares) creates entertainment, regardless of source of information
Truth responsibility	Truth neutrality at best
Echo chamber as experts engage in debate and amplify message	Filter bubble as users view content shared by like-minded peers

4.7 Approaches to restoring news quality

- **Restoration of news quality approaches - domestic**
 - Higher payments for system A journalism content:
 - News media friendly Fair Dealing provisions in Copyright Act revisions
 - S. 19 tax treatment of digital advertisers or cable-like levy
 - Access to philanthropic funding
 - Access to government subsidies
 - Greater platform accountability, e.g. election laws, privacy/anonymity,
 - Truth neutrality towards truth responsibility
- **Restoration of news quality approaches – international**
 - Rounds of anti-competitive behaviour: Google's \$2.7bn fine by EU regulators
 - Negotiation objectives - Some recognition by Google that it should change its practices with respect to the use of news articles and rev sharing
 - International standards - Global Trust Project to create industry standards for online journalism

4.8a Summary of digital impacts on news media

- **News media are suffering** from dominance of data-driven platforms for advertising and user fees. Emerging digital news media ecology is not sufficient to replace traditional news media
- The **tech platforms are capitalizing** on providing convenience and communications services to consumers, and not through producing/marketing content
 - The quality of news – reporting, standards, fact-based – is suffering as a result;
- There are **international public policy options** to make news brands more robust, collect more payments for their content
 - Governments are exploring anti-competition measures as a stick to make platforms responsible
 - Copyright reform is being considered in Canada at this time
 - News media are negotiating better terms with the platforms, which could be encouraged through governments deploying anti-trust tools;

4.8b Summary of digital impacts on news media

- **Canada's has some direct plays**
 - Copyright Act changes,
 - Initiation of anti-trust actions - harmonized through international collaboration,
 - Negotiation or joint venture R&D with tech platforms
- While Canada can change s. 19, and consider subsidizing news media through levies, there is no broad public support for it and little public awareness;

Digital Music Business

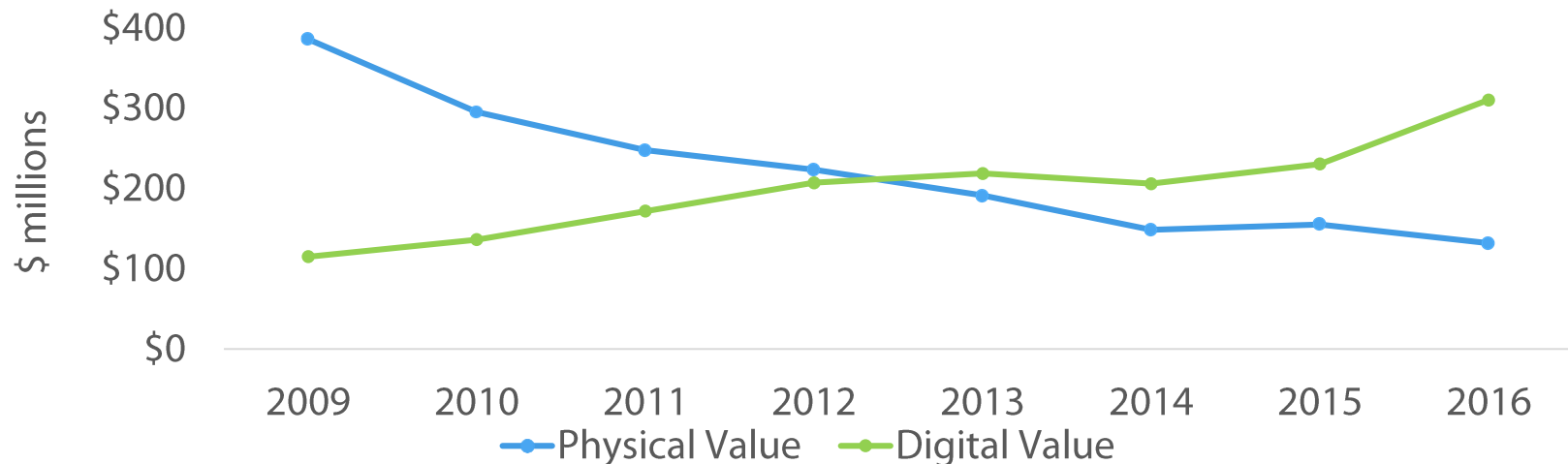
5.2 Key questions, subjects addressed in this section

- **Is streaming now the dominant form of music consumption?**
 - Digital sales now way past physical sales in Canada
 - Access (streaming) vs. own (download or physical)
- **Who benefits from the streaming revenues?**
 - Collective societies and majors
- **What is the value to artists from streaming services?**
 - Comparative returns from different streaming approaches
 - Impact of streaming in historical context of technology and music
- **What can be achieved?**
 - International action
 - Focus on analytics and discovery tools

5.3 Digital sales divergence from physical

- It has been *five years* since digital sales surpassed physical sales of recorded music in Canada.
- The lower average unit price of physical albums and the tendency to purchase individual tracks have impacted artists' revenue.

Total trade value of the music sector in Canada



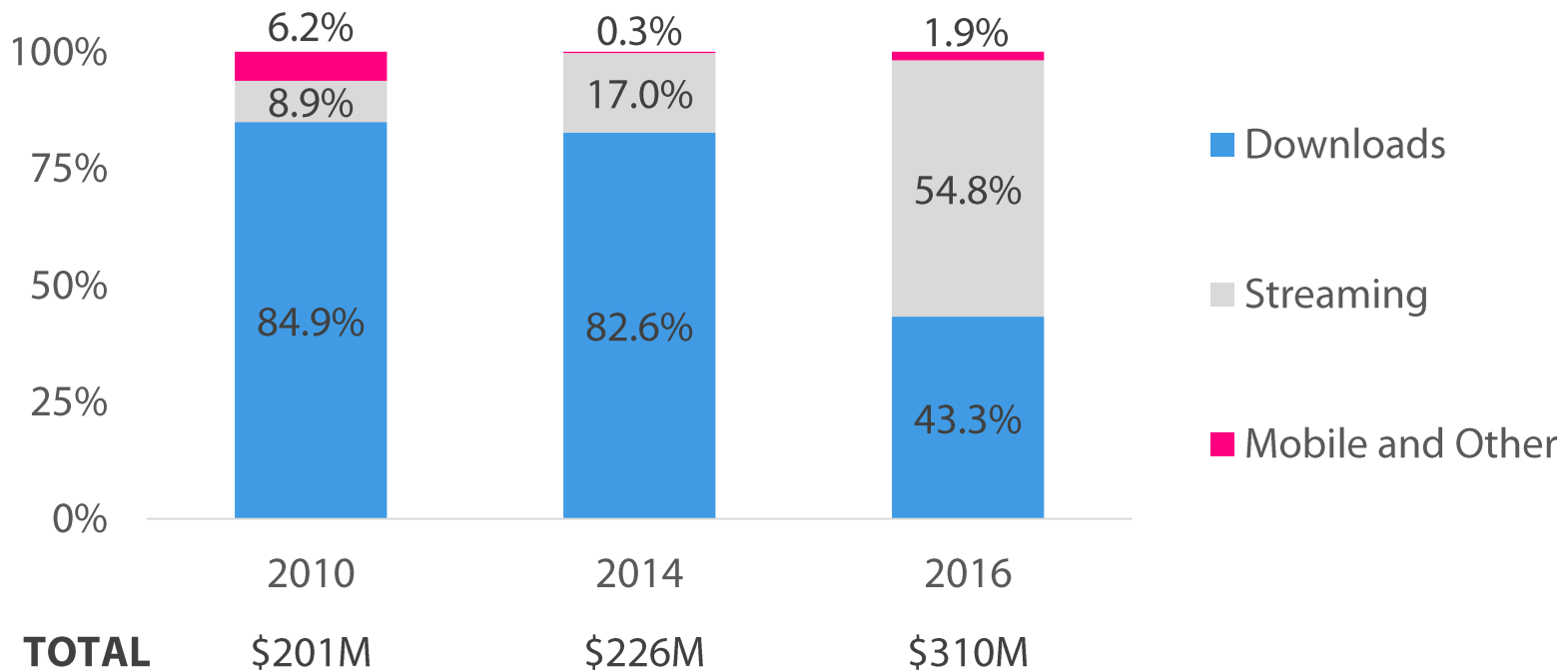
Digital formats have significantly diverged from physical formats in terms of total trade value in Canada – especially in the last year.

5.4 Streaming is on the Rise

- There are more than **400** digital music services worldwide that are streamed. (IFPI)
- Canada
 - **55%** of Anglophone Internet users accessed music videos on YouTube in 2016 , while **67%** listened to music online;
 - **28%** of Anglophone Canadians used personalized online music services in 2016 – another 22% stream AM/FM radio (via an online app).
- Globally
 - In 2016, **112 million** people were paying for music streaming subscriptions globally, an increase of **66%** from the year before, and **eight** times what it was in 2010.
 - Spotify paid users accounted for more than **one third** of global subscriptions.

5.5a Ad-Supported and Subscription Streaming

Digital trade value (\$) of the music sector in Canada



There has been a dramatic shift in the last two years as **streaming is now larger than downloads** in Canada.

5.5b Latest results in 2017 confirm continued growth of streams over last 2 years

BuzzAngle

- **135M** streams a day in Canada
- **61M** songs downloaded in a year in Canada
- Canadians streamed **309%** more music in 2016, and **86%** year over year in 2017 = 30 billion songs streamed

Nielsen

- **107M** streams a day in Canada
- **60M** songs downloaded in a year
- Canadians streamed **71%** more on-demand streaming in 2017 – including free and paid

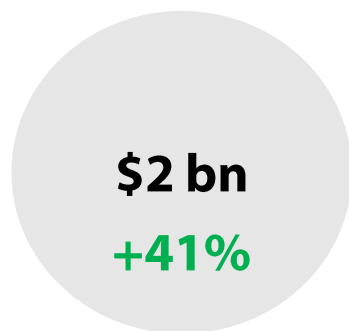
Although measuring methodologies differ, **streaming has raced past downloads.**

5.6 At First, a Positive Overview of the streaming impact in the industry in North America

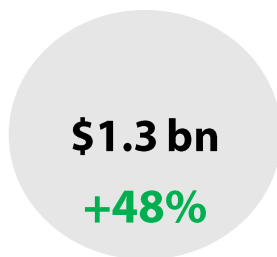
- Record-breaking streaming revenues for **major labels**.
- Another record year for **collective societies**: revenues are up by 62% over 5 years, driven by digital (+400% over 5 years).

2016-2017 revenue from streaming services and year to year change

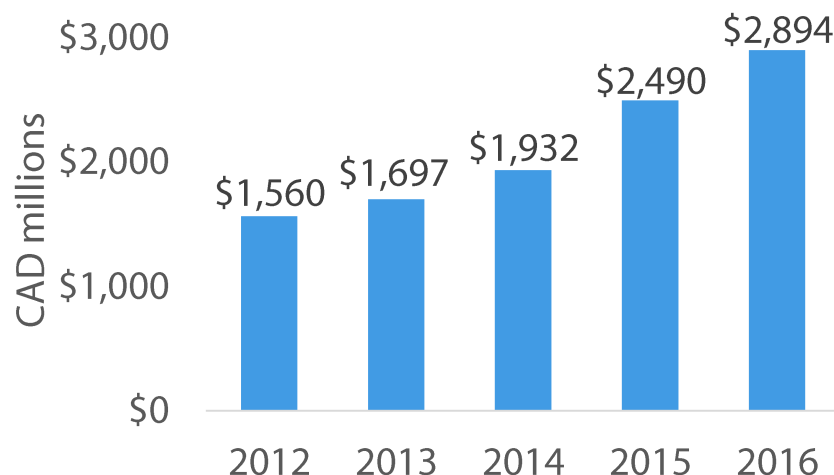
Universal Music



Warner Music



Total value of music repertoire collections in Canada & USA



5.7a New Measuring Norms

Returns to rightsholders (see top graphic on next slide)

- Just over 200 million paid and ad-supported subscribers generated almost \$4 billion in revenues;
- Some 900M units of uploaded content (UUC) generated just over half a billion dollars in revenues.

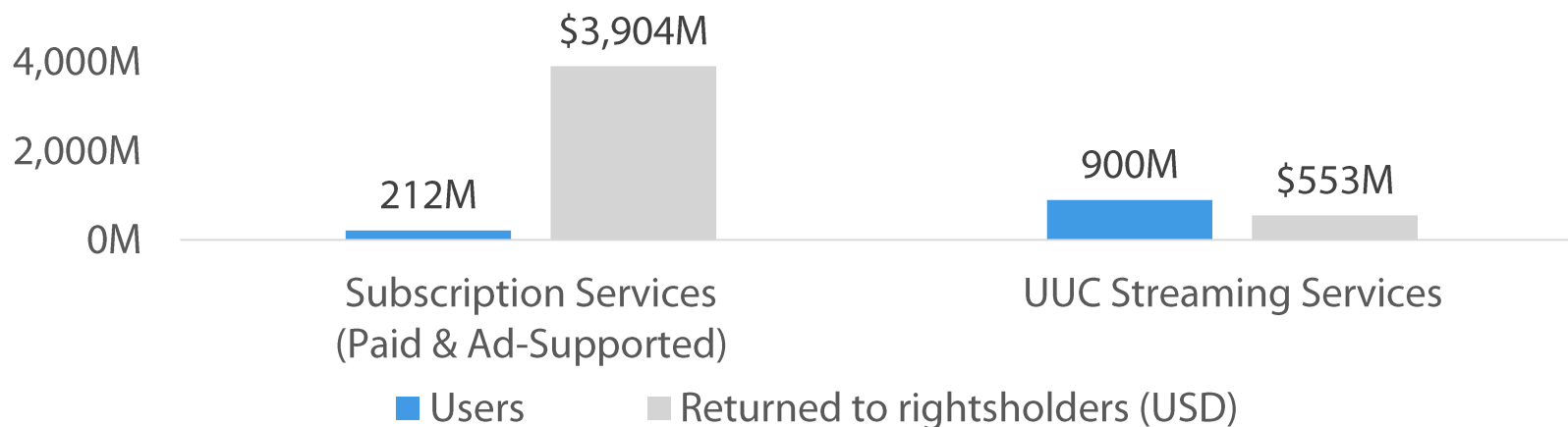
Streams per month required to provide artist minimum wage (\$US 1472/mo.)

- It would take just over 500 sales of an album (=10-12 tracks), which of course is less and less an alternative;
- But it would take at least 200,000 streams from subscription-based services to achieve the same end – and over 2M YouTube plays.

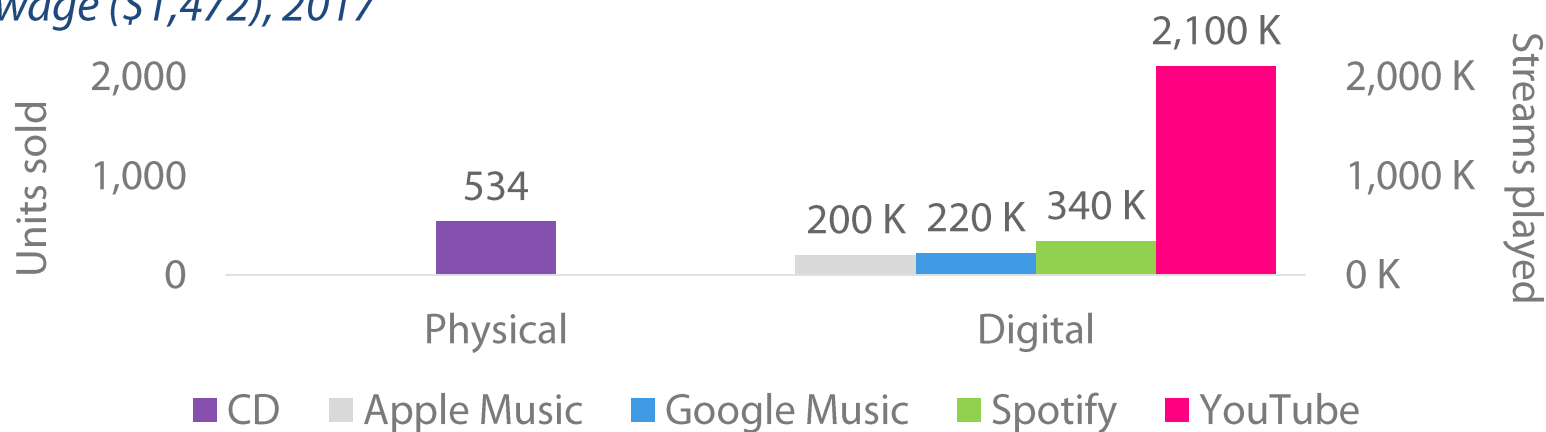
While the total revenue picture for rights holders from digital services looks impressive, it takes **a vast number of streams for an artist to earn a sustainable income.**

5.7b New Measuring Norms

User bases and amount returned to rightsholders, by service (2016)



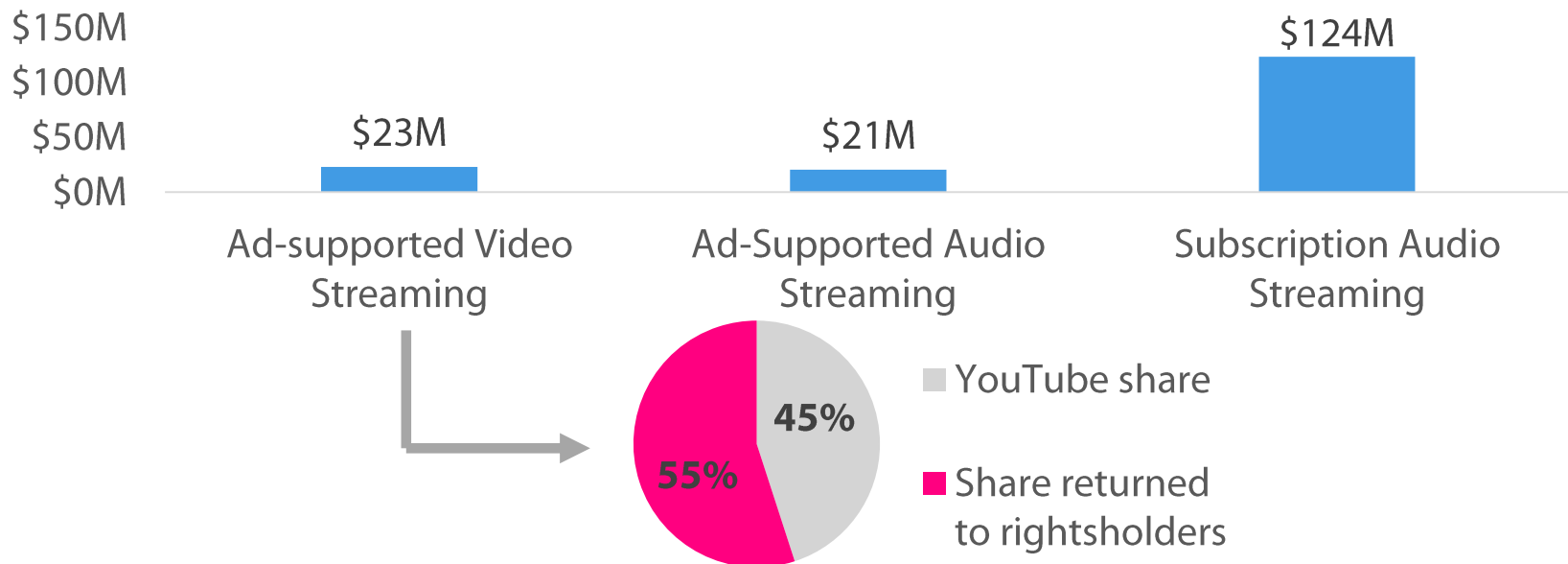
Units/streams/plays needed every month for a signed artist to earn the US minimum wage (\$1,472), 2017



5.7b New Measuring Norms

- In Canada, subscription-based streaming generates 4 times the revenue of ad-supported video and audio streaming
 - Rightsholders are trying to get more from YouTube, but ad-based revenue models are much less beneficial than paid subscriptions

Revenue generated by music on streaming services in Canada, 2016



5.8 Role of technology in music: a brief history

- **iTunes** makes digital a market, and rescues music from illegal downloading;
 - Downloading on the wane, as Apple moves into streaming service.
- **Spotify** and other streaming services provide new digital revenues;
 - Revenues of streaming platform increase; number of hours streaming music increase; but fee per stream generally decreases. (Spotify ARPS: –36% in 5 years).
- **YouTube** helps stave off piracy, and claims not to cannibalize the music market;
 - But UUC Platforms have 4 times more users than Subscription services yet return 7 times less licensing fees – of course as a free service.

We must remember that technology first almost decimated music, but is turning out to be more benign – but **most artists are not yet seeing much benefit.**

5.9 Towards a balanced allocation of revenues

- Tech platforms go from **passive platforms to recommendation engines** that earn money from advertising and selling user data – *how can artists benefit more from it?*
- **YouTube, and other UGC** services use “**Safe Harbour**” as shield and market power to keep license fee costs low – *is there a better split?*
- **ISP/hosting/search engine** services use “Safe Harbour” to avoid the burdens of combatting content infringement – *can they be made to take more responsibility? What role will block chain DRM play?*
- The **music majors** earn most of the revenue from digital streaming – they also access data that is not typically available to individual artists or indies – *can data be made more available and artists/indies more skilled in its use?*

5.10 Growing Recognition and Willingness to Act

- While Spotify and YouTube are not yet operationally profitable, they have huge market value for their potential to dominate their markets (e.g. Spotify's market value is about US \$20 billion, according to Bloomberg News)
- There appears to be momentum growing to provide a better balance between the artists and the international stakeholders holding the cards – the technology platforms, the streaming providers, and music majors.
 - Canada - revise the Copyright Act
 - Europe – negotiate through anti-competitive regimes
 - USA – revise the Digital Millennium Copyright Act (DMCA)

5.11 And the policy solution in Canada is.....

- Canada and some provinces (notably Ontario and BC) are backing companies who are trying to grow via public investment in the music industry .
- The independent music sector seeks more support for the export of Canadian music.
- Acting in concert with international efforts as per the IFPI's continuing efforts to address what it sees as a "market flaw".

Observations and Conclusions

6.1 Overarching Trends Affecting Canadian Creative Industries – digital advertising

- In the 2016 report, Nordicity concluded that **there is no going back** – consumers are not going to “outgrow” digital platforms, although how they use them will evolve.
- In 2016, we also noted the rise of **digital advertising** – and the digital market share has risen faster than predicted since then.
 - Digital advertising is dominated by Google and Facebook.
 - Unlike print and broadcast media, they are **not motivated to re-invest in content**. It’s not their business model.
 - They provide a **different and appealing service** to consumers, effectively making money off of content created by others;
 - **Normal principles of traditional journalism are not relevant or applied** in such services– which could be said to undermine and debase journalism, as news media advertising plummets

6.2 Overarching Trends Affecting Canadian Creative Industries – OTT's impact

- In 2016, it was noted that **OTT** takes a piece of subscriber revenues from BDUs, as well as from pay/specialty broadcasting services.
 - OTT services continue to grow, and there are now more of them, e.g. Amazon Prime.
- Newly recognized is both the disruptive impact on private television, and also the opportunity for content producers:
 - The **disruptive OTT impact on private conventional tv services** because they have depended on licensing the best US content on an exclusive basis in Canada. As more top programming is “aired” online, it becomes unavailable to Canadian TV broadcasters.
 - At the same time the OTT services **add new program financing** opportunities for Canadian producers, because of their extensive commissioning of original programming.

6.3 Overarching Trends Affecting Canadian Creative Industries – discoverability

- In 2016 it was noted that we are in an era of content plenty, where the big challenge is **discoverability**.
 - **The challenge is most acute for music, and** requires access to data and skills in data analytics, and execution capability.
- **Self-publishing** and **artist entrepreneur** models work for some, but place huge marketing burden on creators.
 - But such efforts won't make up the business loss for news media, and not all creators can be artist entrepreneurs.
- FAANG can provide enormous service to the creative industries, but Canada and the world have to rebalance the transactions to earn more from IP – and reinforce journalism principles.