

# Digital Media at the Crossroads - 2020



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



# Order of Presentation Topics

1. **Introduction** - Peter
2. **Newspaper Publishing and Journalism** - Julie
3. **Television** - Peter
4. **Digital Music Business** - Megan
5. **Video Games** - Jocelyn
6. **Observations and Conclusions** - Peter

# 1. Introduction

# 1.1 Study Mandate and Objectives

## Mandate

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

## Objectives

- To set the stage for lively DM@X discussions on policy
- To do a refresh of the 2019 DM@X report – thus ensuring year over year continuity

## 1.2 This year's main theme

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

- support for Cancon;
- Canadian creators' livelihoods; and,
- democracy and society.

All four creative sectors are greatly affected by streaming.

## **2. Newspaper Publishing and Journalism**

## 2.1 Newspaper Publishing and Journalism - Key Questions

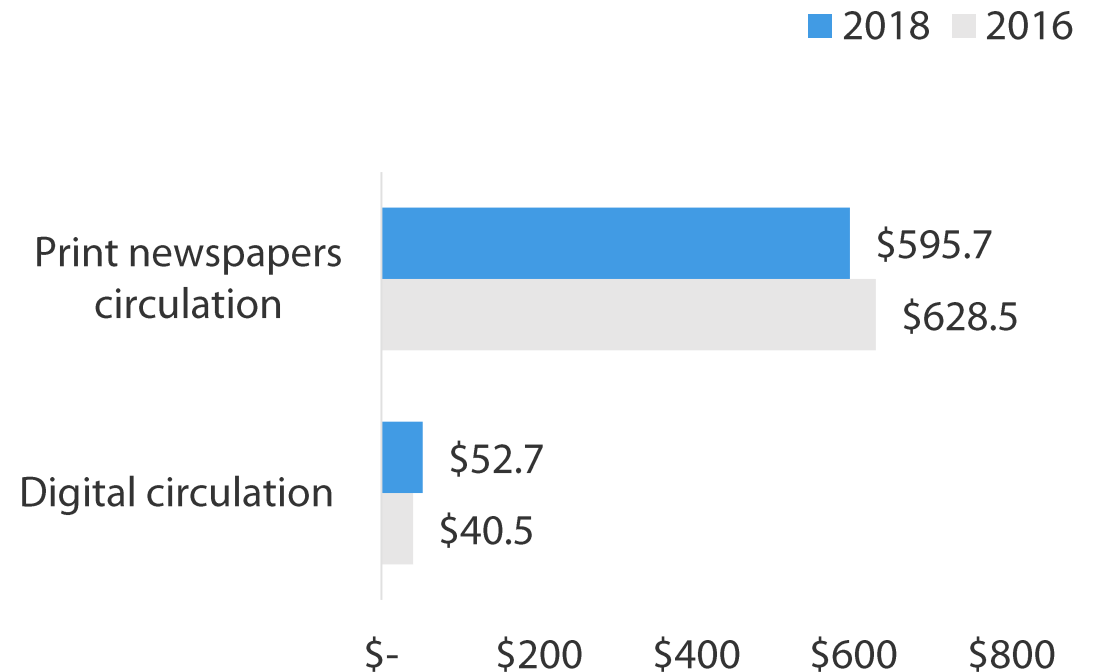
- What is the state of the newspaper business model?
- How is news/information now mainly consumed in Canada?
- What is the state of trust in the news?
- Public intervention update - will these policies have their intended impact?

## 2.2 Business model - A check-in

**\$2.7B**

- Total operating revenue: **\$2.7B** - down 12.9% from 2016
- Profit margin: **3.3%**, down from 5.7% (2016) and 9.3% (2014).
- Paid digital circulation up 23.1% to **\$52.7M**

*Canadian Newspaper Circulation Revenue (2018)*

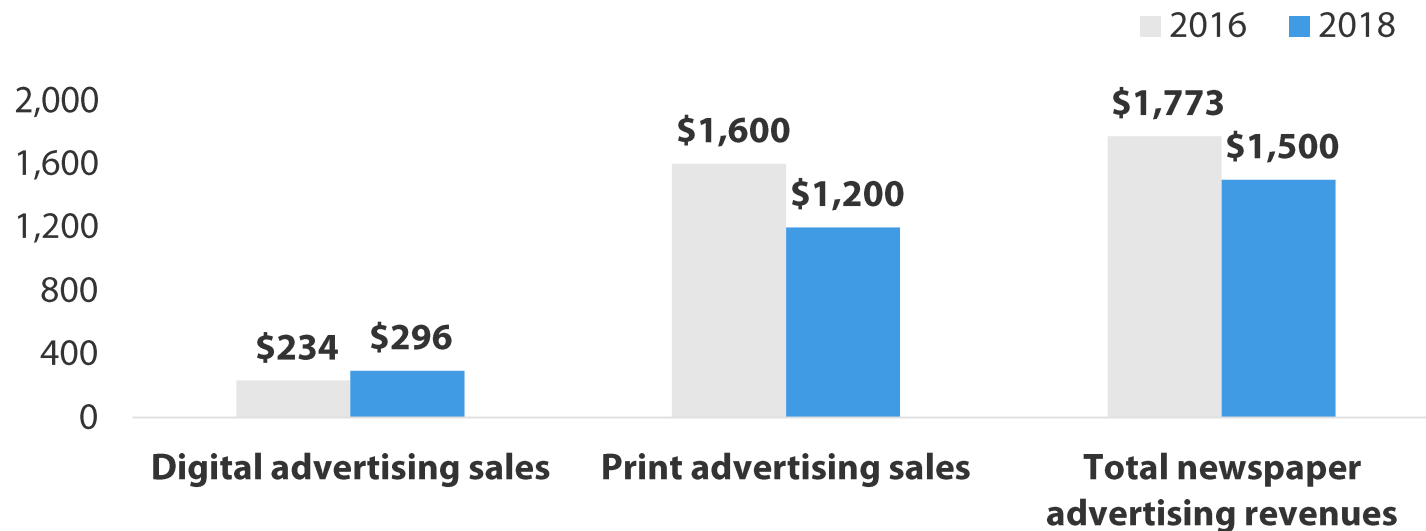


**Growth in digital circulation still not enough to offset declining print revenues**

## 2.3 Business model - A check-in

- Newspaper advertising sales down 18% to **\$1.5b in 2018**
- Print ad sales dropped to **\$1.2b** (down from \$2.1b in 2014)
- Digital advertising grew nearly 21% to **\$295.6m** but may have slowed since 2018

*Revenue from Advertising (2018)*



**Right numbers for 2018, but is it the wrong story for 2020?**

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



WSJ



“Most newspapers, the transition to the internet so far hasn’t worked in digital. The revenues don’t come in. There are a couple of exceptions for national newspapers — The Wall Street Journal and The New York Times are in a different category.”

Warren Buffett in 2016

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

## 2.5 Digital transformation – Challenge for Canadian brands

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



- No weekday print 2015
- All digital 2017
- Converted to NFP 2018



- Micropayments - \$0.27/article generating <100K/year



- Digital subscribers up but still layoffs in 2019
- Cut specialty digital product
- Subscribers can listen to articles in E/FR/MAN



- Cuts to local newspapers and staff



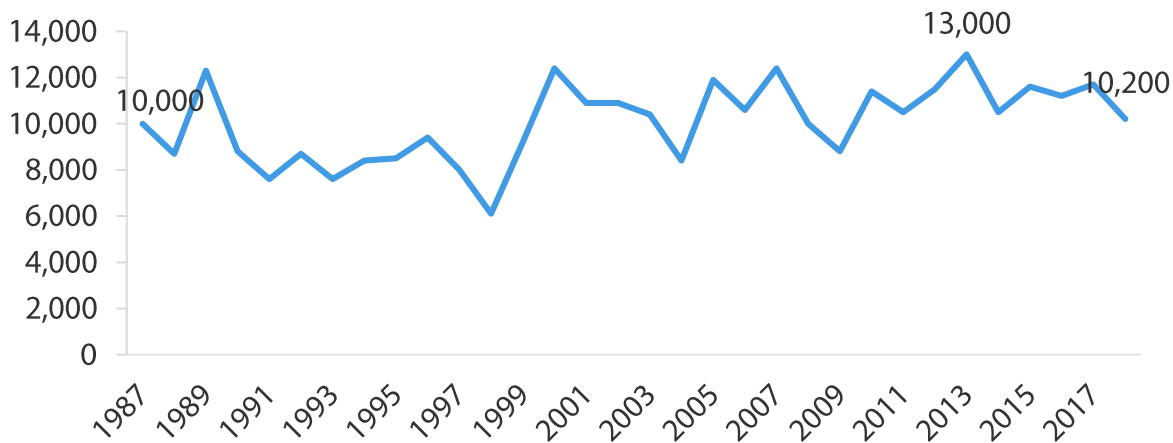
- Cut free Star Metro commuter papers & staff 2019
- Arts section cuts 2020
- Selling Hamilton Spectator building for \$25.5M

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

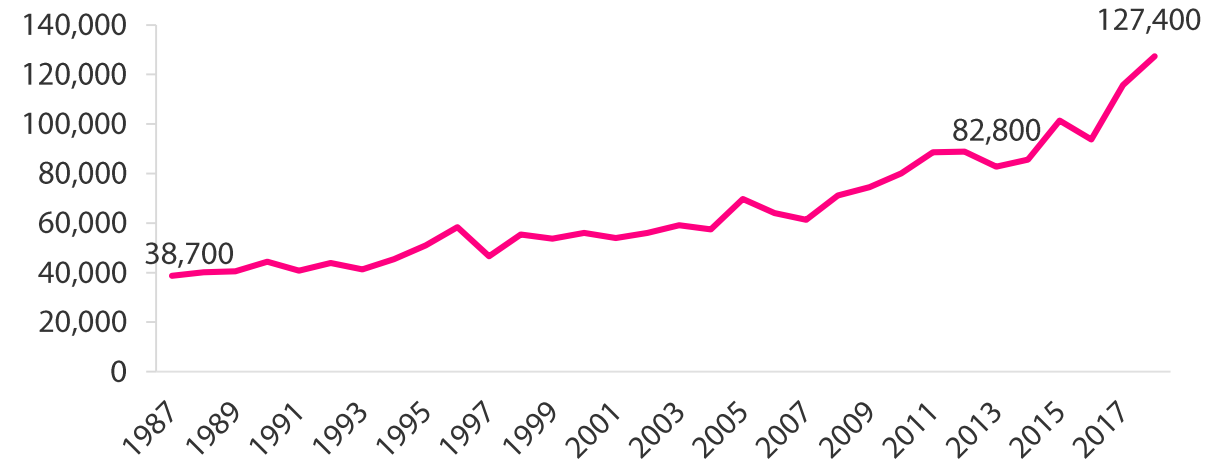
## 2.6 Journalism workforce – ups and downs

- Full-time journalism **jobs dropped by over 20%** from 13,000 (2013) to 10,200 (2018)
- Over the same time-period **PR, advertising and marketing positions mushroomed by 54%**

*Full-time employed journalists*



*Total employed in PR, advertising and marketing professions*



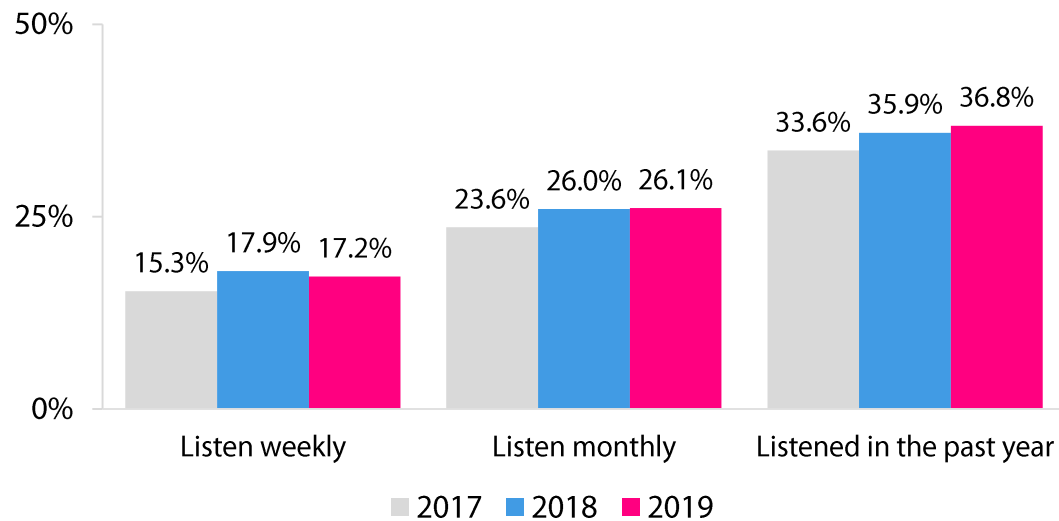
**Reporter's skills-set may support content demands elsewhere**

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

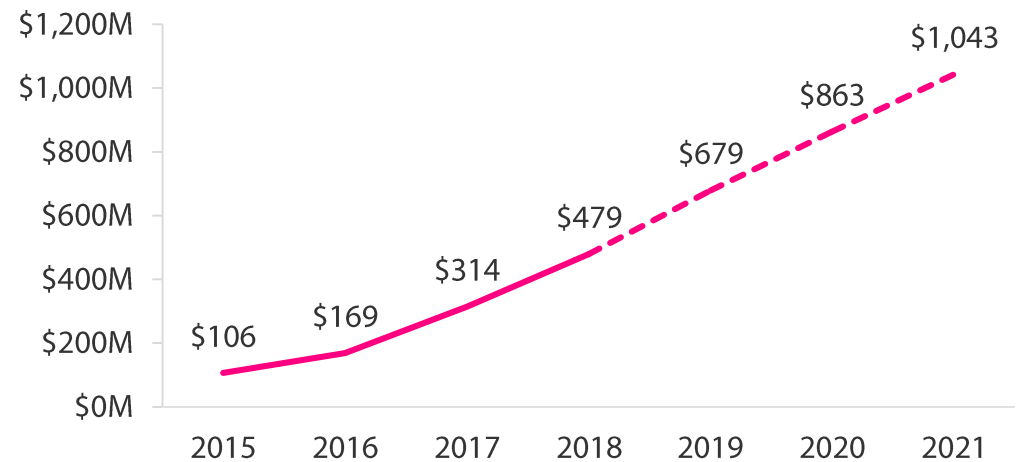
## 2.7 Podcasts – Listening the new reading

- Some **17% of Canadians listen to podcasts every week** via YouTube, Apple Podcasts/iTunes, Spotify and in the US, ad revenue projected to exceed \$1B by 2021
- 23% of Canadian podcast listeners have provided direct monetary support to podcasts

% of Canadians 18+ who listen to podcasts



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



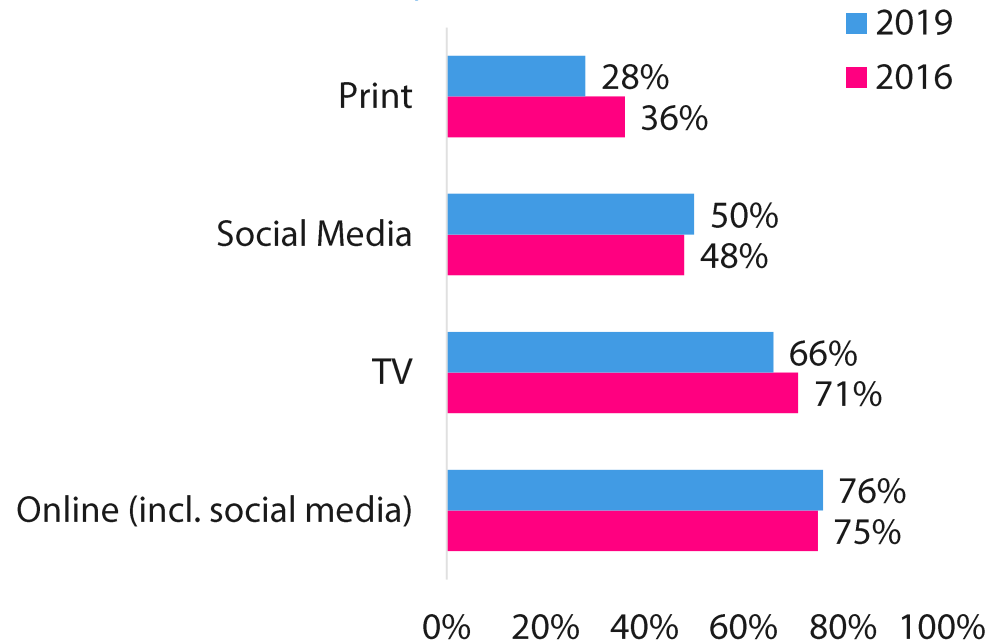
### Can Canadian market sustain a plethora of public affairs podcasts?

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

## 2.8 Social media - Rising concerns over loss of privacy and lack of trust

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

*Sources of news, Canada*



*Trust in news source, Canada, 2019*

- **52%** trust in news overall
- **35%** trust in news in online search
- **20%** trust in news on social media

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

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

## 2.9 Intervention Policy - a case to preserve democracy

- Ottawa to release **\$595M over 5 years** to support select news media outlets

### Local Journalism Initiative:

- 5-Year PCH program funds Canadian media organizations to hire reporters in “news deserts”
- \$60,000/year/journalist)
- Includes community TV, radio, English, French and Indigenous print and online news
- In the first call (Dec 2019): **105** journalists were subsidized at **95** host organizations



Local Journalism Initiative  

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Initiative de journalisme local

**Too early to gauge impact and programs will evolve,  
but “total independence” not feasible**

## 2.10 Conclusions

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

# 3. Television

## 3.1 Television Programming in a Streaming Age – Key Questions

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

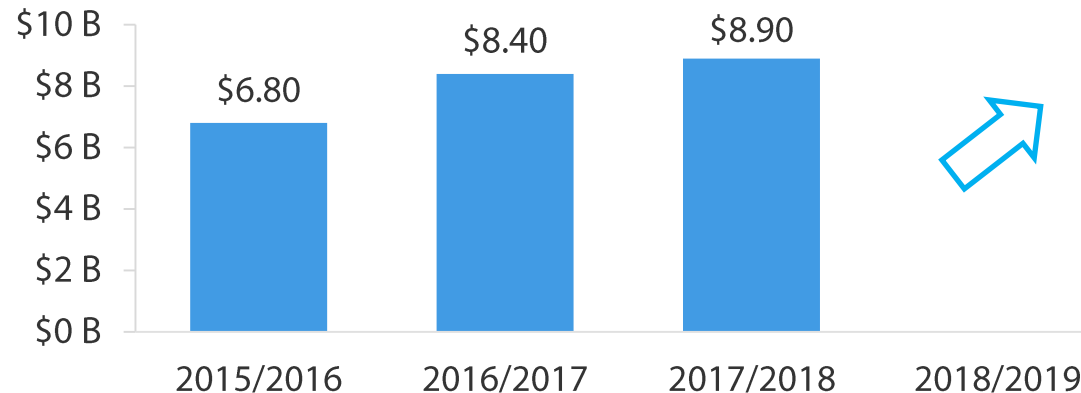
## 3.2 Once upon a time... in Canada

- Film and TV production volume: **+31%**
- Canadian TV revenue: **-4%**
- Streaming services' revenue: **+164%**

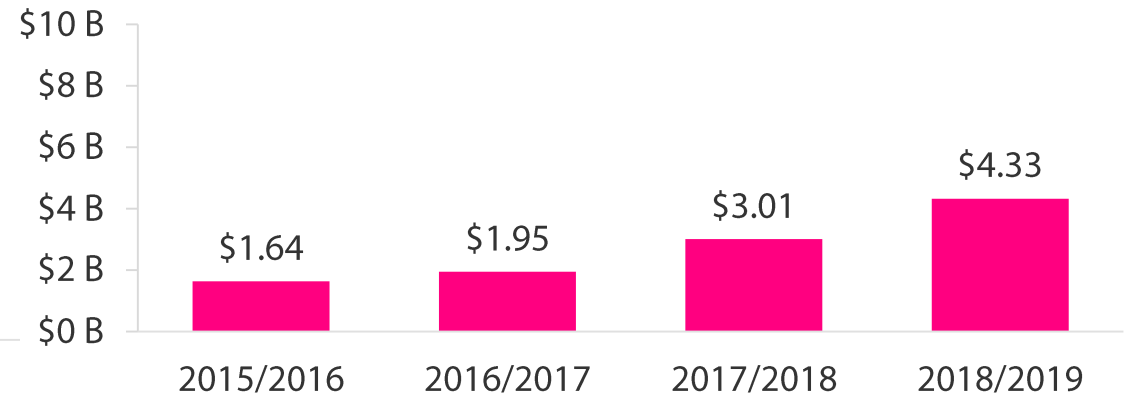
Canadian TV revenue



Total film and television production volume



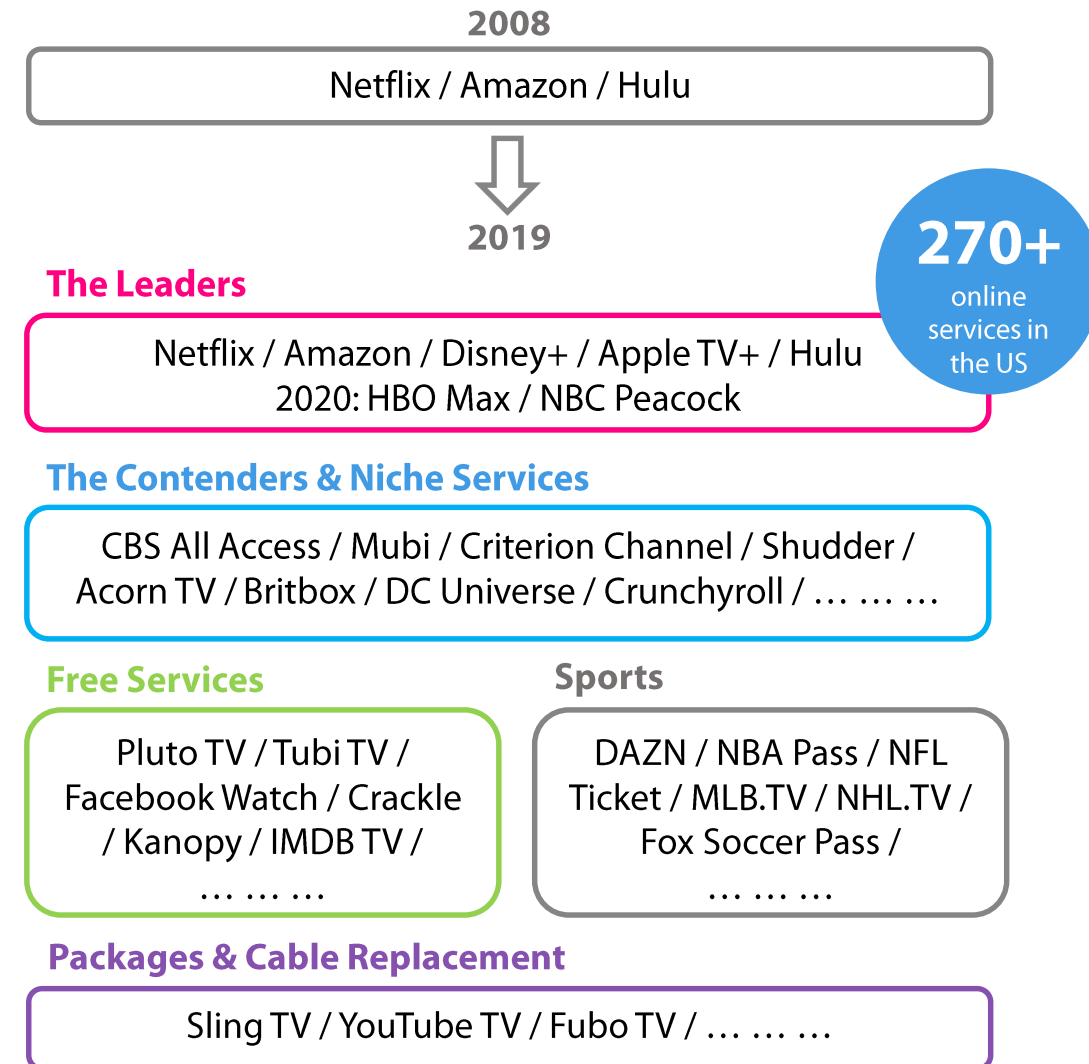
Internet-based video services revenue in Canada



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

## 3.3 The streaming torrent

- In 2019 and 2020, an increasingly complex landscape
  - Disney+, Apple TV+, Warner (HBO Max), Universal (Peacock), Quibi, etc.
- And in Canada?
  - With Amazon, Disney, etc. Netflix is now not the only game in town in Canada.
  - Bell (Crave), CBC (Gem, ICI Tou.tv), Videotron (Illico.tv) have unique offerings



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

## 3.4 No Rest for the Consumer

- **Streaming services have mushroomed and evolved**
  - Netflix used to have all the good content – not any longer
  - And now games and UGC platforms like TikTok add to the mix
- **Future streaming packaging will look a lot like cable**
  - Different packages for different consumer personas.
  - But no clear visibility on the outcome

*Estimated monthly spend on SVOD services*

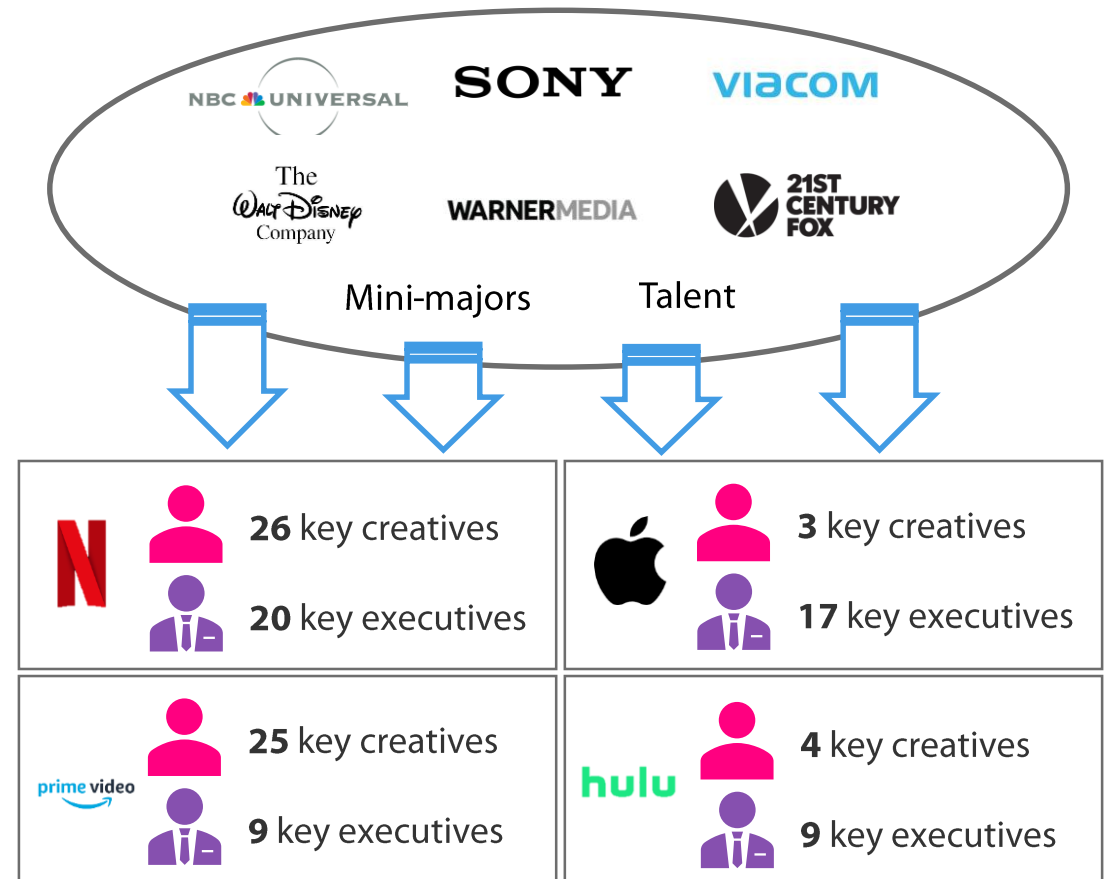
	CAD/month
The Fanatic	\$205
The Omnivore	\$99
The Harried Parent	\$53
The Escapist	\$42
The Connoisseur	\$40
The Frugalist	\$0

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

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

- Streamers are paying big money for **top shows**
- And they are waving big bucks to top **creative executives**
- This creative push is fueled by **big tech money** as well as **big media conglomerates**
- Even large broadcasters like the BBC realize it's a new paradigm.

*Exodus of talent from Hollywood studios to streaming platforms*



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

## 3.6 Has the Canadian Broadcasting Market Collapsed?

- **TV advertising has not collapsed.**
  - -12% since 2013, but still a **\$2.6 billion** market in Canada.
- **Cable subscriptions have not collapsed.**
  - -18% since 2013, but still 6 million subscribers in Canada.
- **Traditional TV viewing has not collapsed.**
  - -8% in traditional TV viewing time since 2015.
- But we all know/think there will be a **tipping point** at some time?



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

## 3.7 Canadian Broadcasters – Not Business as Usual

- **Bell Media** - CTV named network of the year by Playback.
  - Integration of Crave and CTV
  - Loading up on original content
  - Canadian “custodians” of HBO
  - Negotiating for windows when co-financing with a streamer
- **Blue Ant** – Named media company of the year by Playback.
  - Diversification and acquisition – including games
  - Growth driven by unscripted and digital content
  - Omnia generates around 3B views per month across its YouTube, Twitch, FB, Snapchat channels



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

## 3.8 Canadian Independent Producers – Challenging Times

- The conventional financing system for TV programming is **disintegrating**.
  - Weak domestic demand
  - Harder to finance
  - Losing distribution revenues
- But **service production** is booming
  - As reported last year, some **larger Indie producers** have attracted equity investment, established international distribution, and are going after the streaming market.

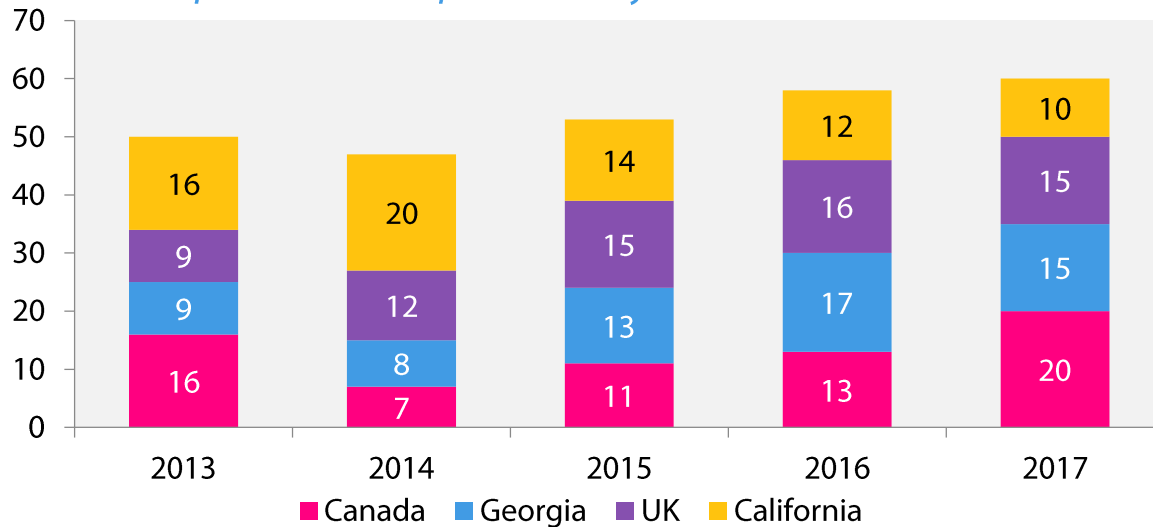


**Cancon creators need scale or ingenuity and entrepreneurship – or concentrate on foreign location production**

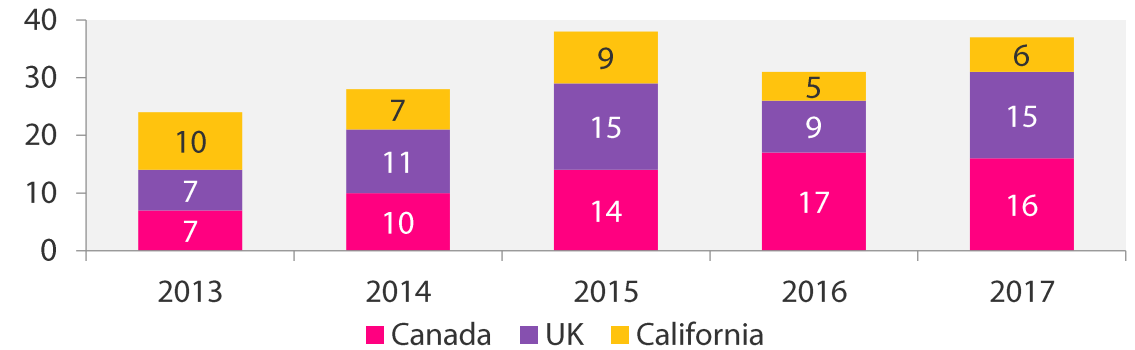
## 3.9 Canada's Competitiveness in Service Production

- Top 100 US films
- Top 25 live action films (VFX)
- New US TV series for broadcast and streaming.

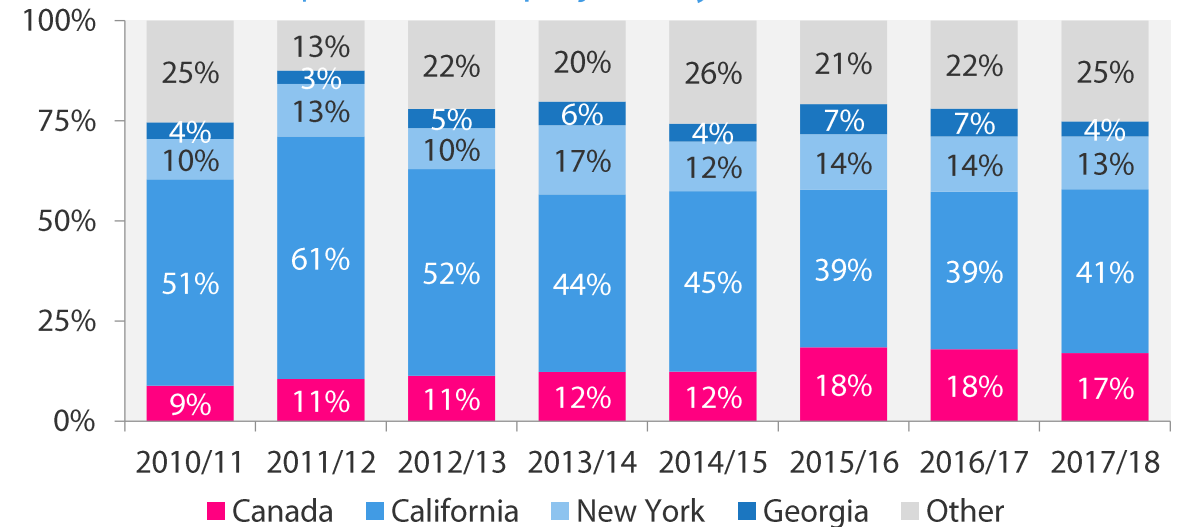
Number of top 100 US films produced by location



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



Share of new US-produced TV projects, by location



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

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

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

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

B. Swinburne, Morgan Stanley

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

## 3.11 Conclusions

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

# 4. Digital Music Business

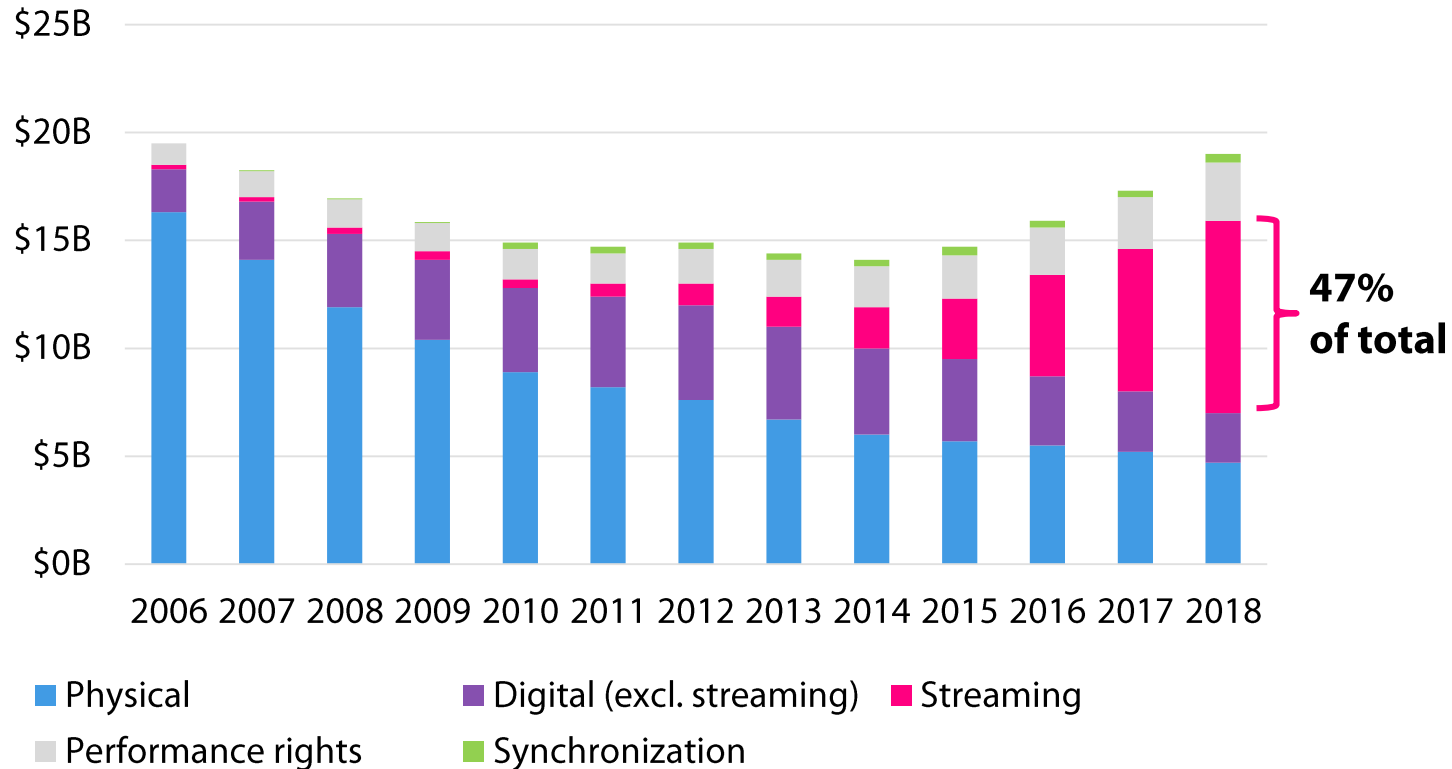
## 4.1 Digital Music Business – Key questions

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

## 4.2 The global picture for music industry revenues

- **Streaming** account for almost half of recorded music revenue
- Room for growth
  - Globally, only 305M streaming accounts
  - **Only 23% of accounts are paid subscriptions**

*Global recorded music industry revenue (US \$ billions)*



**Streaming services fuel music revenue growth.**

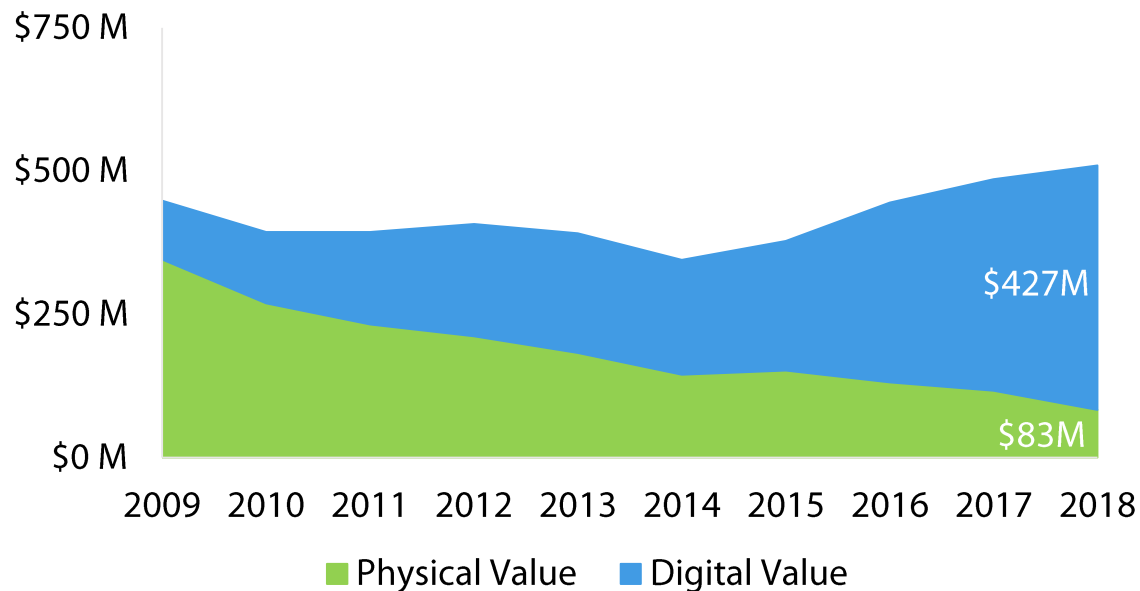
Source: IFPI, Midia Research

## 4.3 Music in Canada

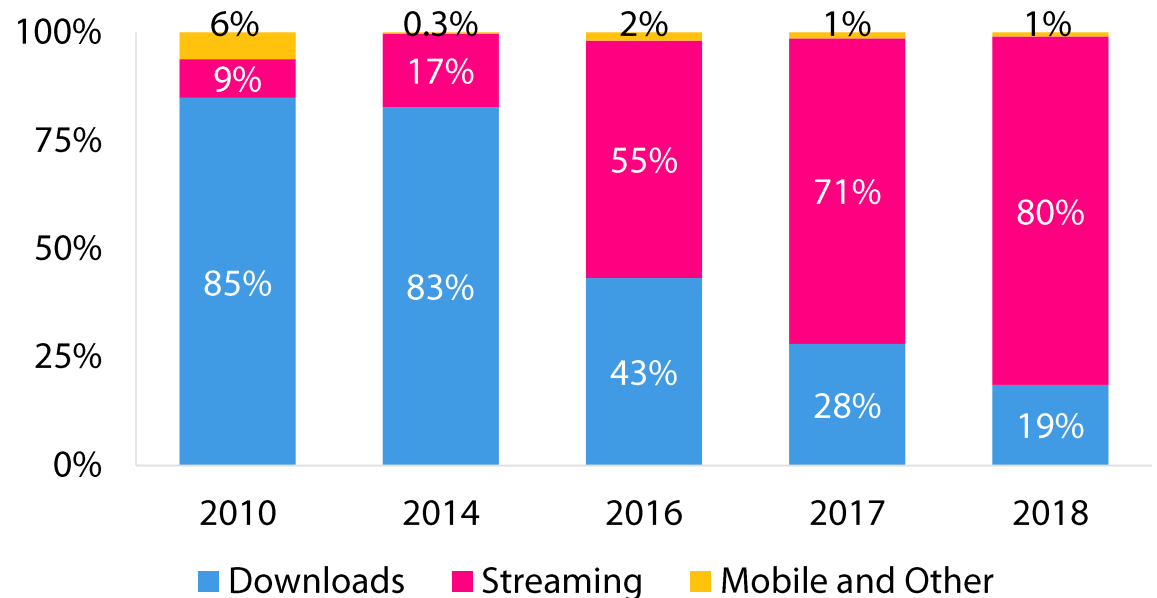
In 2018 in Canada:

- Digital revenue up 16% from 2017 = 84% of total recorded music revenue.
- **Streaming** = 80% of digital music revenue = **67%** of total music revenue.

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



Digital Music Trade Value in Canada, by format



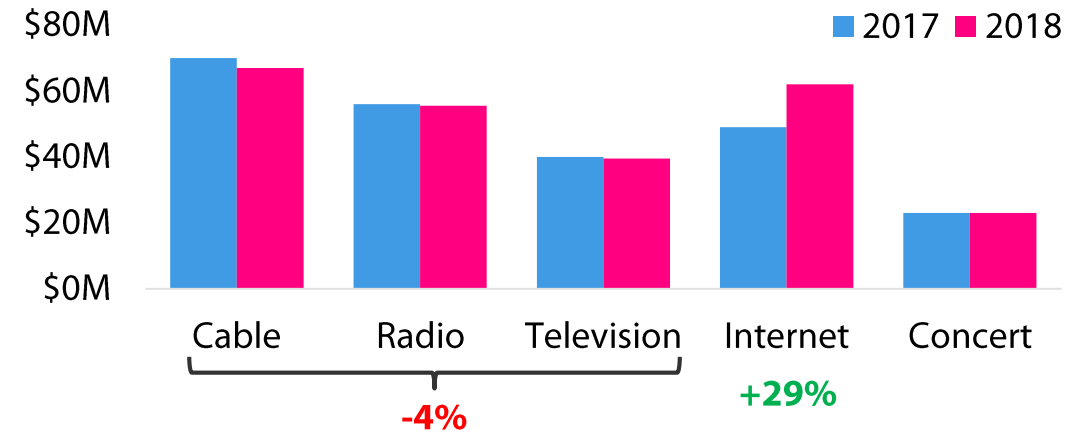
**In Canada, streaming accounts for an even larger % of total industry revenues.**

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

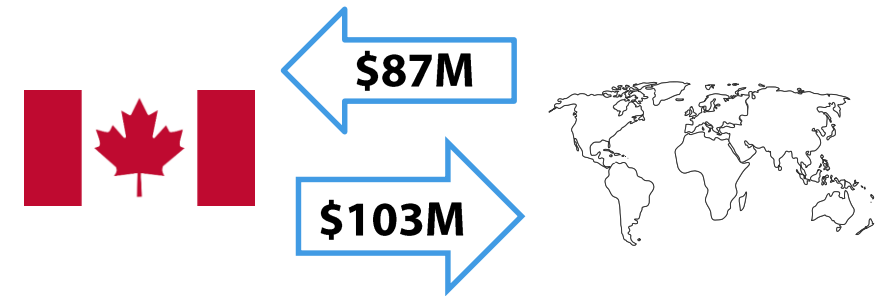
## 4.4 Music rights

- Internet is becoming the first source for performing rights revenues
- Revenue from international collection is growing: **+16%** from 2017
- Canada is (tied for) 5<sup>th</sup> globally in terms of royalties coming in from collections abroad

*SOCAN domestic performing rights revenues, top 5 sources, 2018*



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



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

Source: SOCAN 2018 Annual Report

## 4.5 Music on Apps

- Illustration of this growing complexity - **TikTok** and **Instagram** music
- **Marketing tools** for artists.
- But they are also diverting revenue away from artists:
  - Big money at stake but payments to rights holders are low
  - Lack of transparency
  - Tech companies make licensing deals on their own terms
- Symptom of a larger issue?



500+ million monthly active users  
Parent company: ByteDance



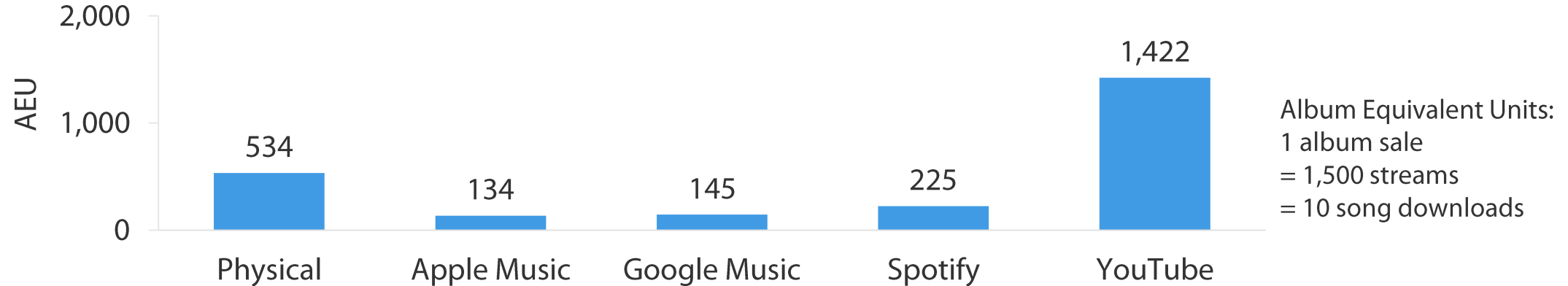
1 billion monthly active users  
Parent company: Facebook

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

## 4.6 Update on music “Value Gap”/“Transfer of Value”

- A lot more complexities to this gap
  - Changes in consumer behaviour (“rent” vs. “own”)
  - Streaming vs. broadcast and implications on rights
  - More platforms result in slippage of reporting
  - Globalization of streaming

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



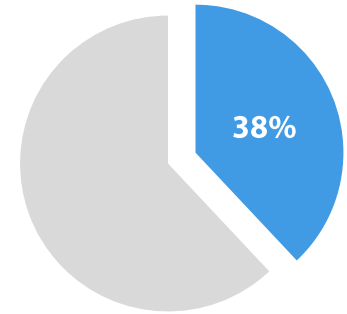
**Added complexities that fundamentally alter the music ecosystem and thus how revenues are made across the sector.**

Source: Information is Beautiful, *Money Too Tight To Mention*

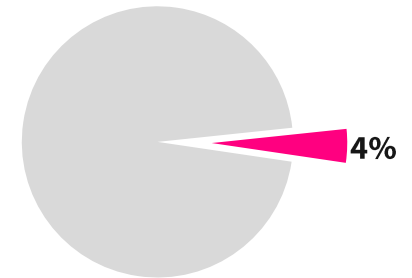
## 4.7 Digital complicates revenues for Screen Composers

- Screen composers/writers make much less from streamed TV than broadcasting
- Changes with streaming services: the same total amount in royalties, but the allocation rewards clicks.
- As long as broadcasting “holds” music composers can do fine.
- If broadcasting goes into steeper decline, screen composers will see sharp declines in their income

*Royalty share returned to SOCAN writers*



Cable and TV

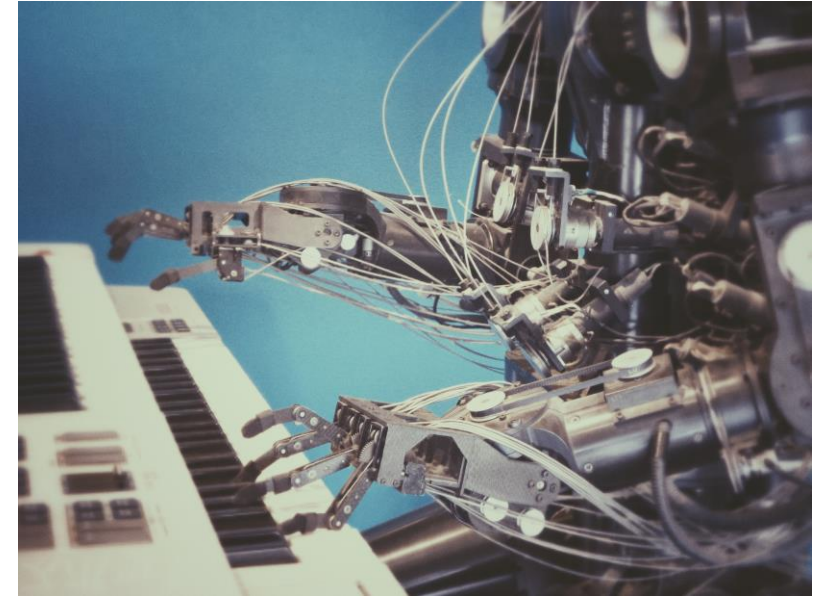


Streaming services

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

## 4.8 Potential ways to increase revenues to creators?

- Can **tracking technology and AI tools** help put more revenues into the pockets of creators?
- **Data made available by iTunes and Spotify and other streaming services is helpful to indie labels**
- **Private copying**, extended to smartphones could bring in revenues to music creators



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

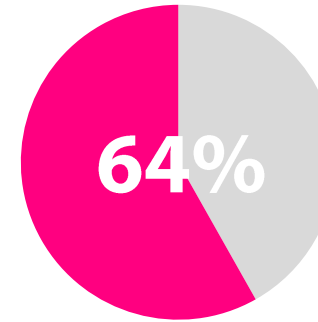
## 4.9 Conclusion

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

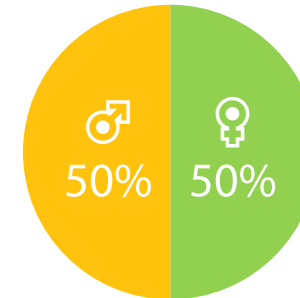
# 5. Video Games

## 5.1 Video Games – Key questions

- Last year: **Who are Canadian gamers?**
- This year: **Is the sector immune to the disruption observed in other creative industries?**



64% of Canadians played in the past four weeks.



50% male gamers and 50% female gamers.



The average Canadian gamer is 39 years old.

## 5.2 Global forecast – All fun and games

- Healthy **growth** on every segment
- **Mobile** is also king for video games

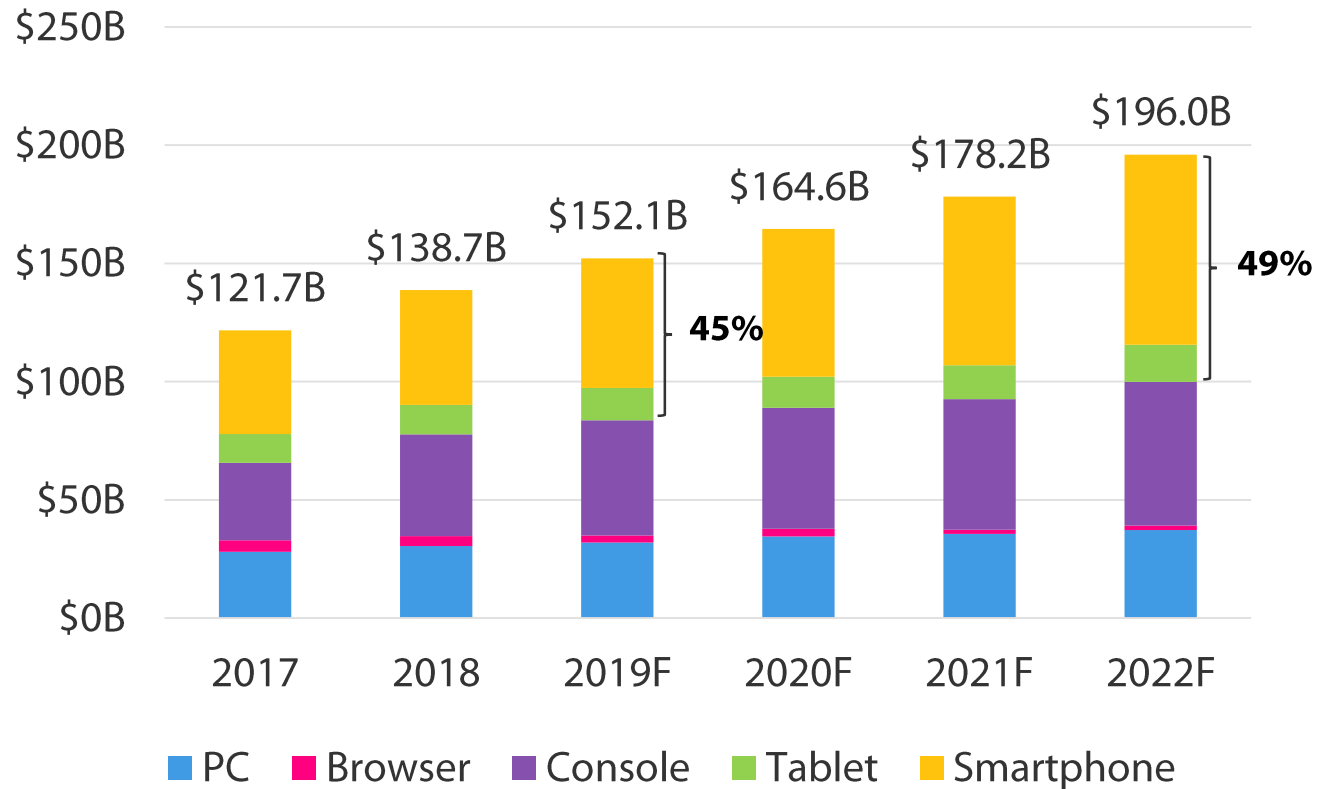
### E-Sport

**\$1.1B**  
in 2019

### Live streaming

**9.4B**  
hours  
in 2018

*Global video games revenue*

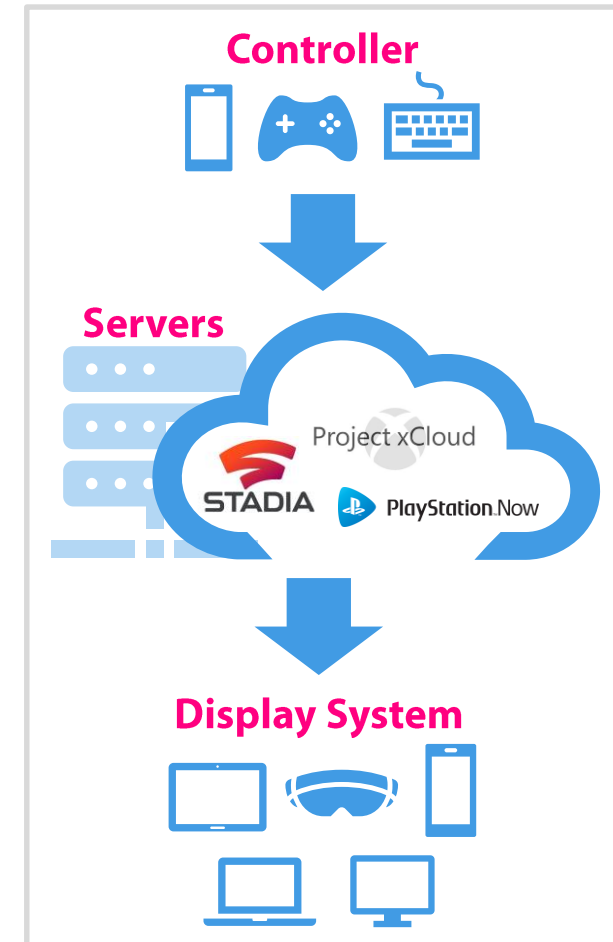


**Mobile games will continue to drive growth.**

## 5.3 Cloud Gaming – Entering the streaming era

Cloud gaming concept

- What is Cloud Gaming?
  - Seamless streaming gaming experience on all platforms.
- What will it change?
  - Virtually renders any expensive hardware obsolete.
  - New business models: subscription fee to access the service = an example of **Games as a Service**.
- Early days of the Cloud Gaming
  - Massive investment
  - **Google** Stadia, Nvidia GeForce Now, **Microsoft** xCloud, PlayStation Now, **Facebook** PlayGiga, upcoming **Amazon** cloud gaming platform.

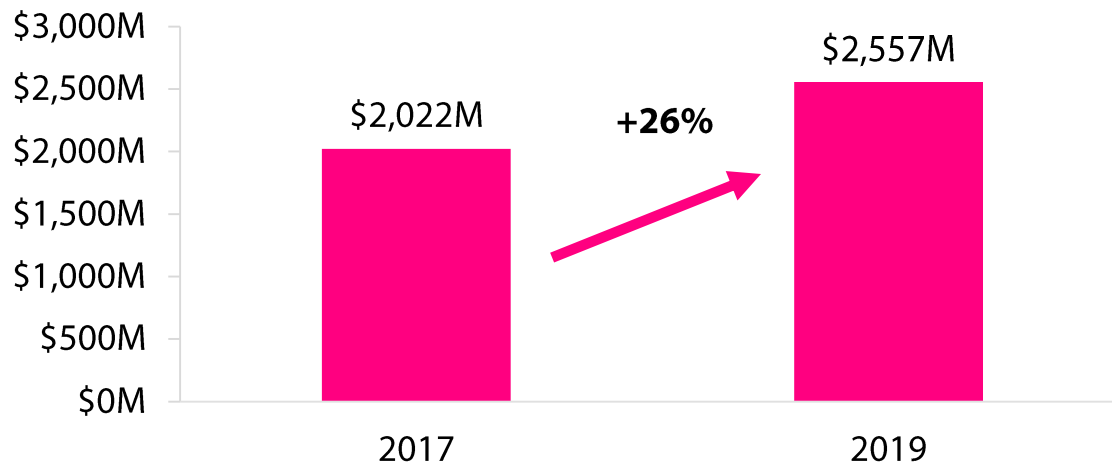


**Cloud gaming is a major revolution that will reshape the industry in the next decade.**

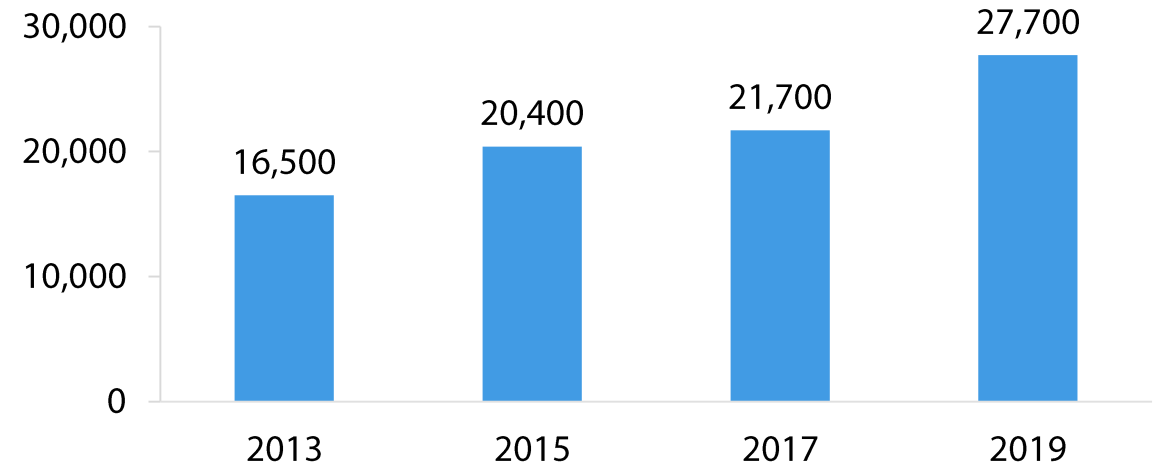
## 5.4 Canada: a game manufacturer

- Canada = 3<sup>rd</sup> source of game development in the world.
- Canada's video games industry generated an estimated **\$2.6 billion in GDP in 2019**.
- Video games companies employ **28,000 Canadians**.
- The largest **35 companies employ 79%** of all FTEs

*GDP contribution of Canada's video games industry*



*Direct employment at video games companies in Canada*



**Video games are a possible preview to the future of the Film/TV sector**

## 5.5 Video Games – Conclusion

- Now, Canada is a **video games service production centre**, employing thousands, but not generating IP.
- Just as Film and Music, streaming -in a slightly different form- is disrupting the video games industry.
  - Big tech companies like Google, Amazon or Facebook are poised to take more important roles in this sector.
  - **Video games will have to be part of the broader Canadian policy conversation**

# **6. Observations and Conclusions**

## 6.1 Observations and Conclusions

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

## 6.2 In Sum...

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

**DM@X**



**Questions?**

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