TRENDS REPORT

2017 MID-YEAR UPDATE

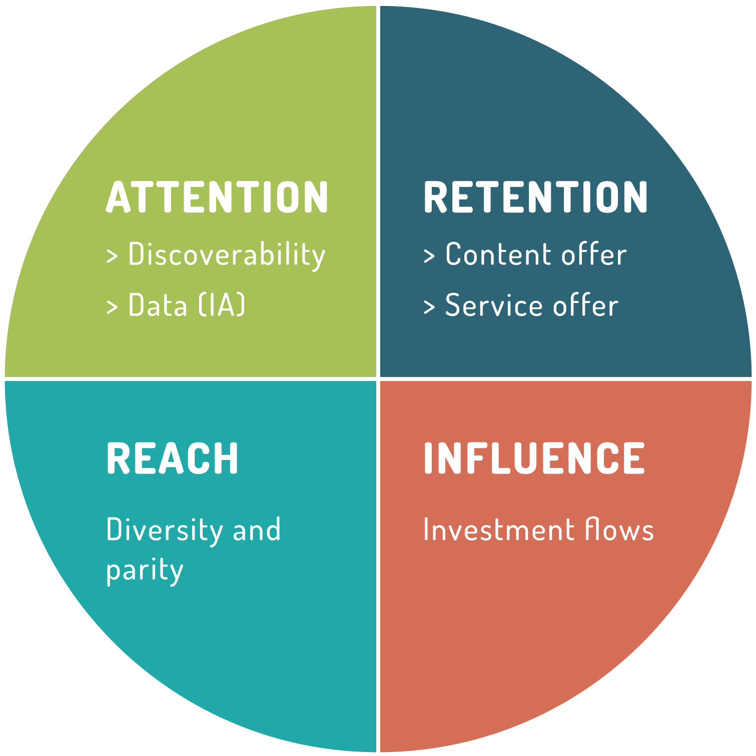
JULY 2017

Canada Media Fund
Fonds des médias du Canada

INTRODUCTION

IN ITS 2017 TRENDS REPORT PUBLISHED LAST FEBRUARY, THE CANADA MEDIA FUND INVESTIGATED THE OPPORTUNITIES THAT LIE AHEAD TO CREATE VALUE IN THE WAKE OF THE RESTRUCTURING OF THE GLOBAL AUDIOVISUAL INDUSTRY.

The report analyzes the current digital environment and the power struggles that various industry players are waging with respect to the issues summarized in the following graph:



One thing is clear from the entire report: there can no longer be any doubt that a handful of giants dominate the globalized environment. Large corporations like Google, Facebook and Amazon control at once the technological infrastructure, user attention and content discoverability. These major players possess enormous material and financial resources to compete against the traditional media players.

Although certain corporations in Asia such as Tencent, Wanda and Alibaba have today become serious competitors, their respective global market shares still remain far from those of the American giants. For example, in May 2017, Google controlled 92% of the global search engine market, all platforms taken together, way ahead of its competitors in China (Baidu: 1.39%) and Russia (Yandex RU: 0.35%).

In the United States, Netflix has just surpassed *all* cable channels in terms of its number of subscribers (50.85 million vs. 48.1 million). Within a few years, Netflix will have surpassed what the media empires took 45 years to build. That is the type of domination that is at play here. It's a domination that can hardly be ignored or reversed.

INTRODUCTION

Does that mean that the game is over? Is there nothing left to do other than obey the rules dictated by these major players? This update explores both the undeniable advantages that come with collaborating with these platforms and the means for exploring niches and reaching audiences without them.The report does provide some good news:

- It may prove to be affordable to reach audiences that have been 'filtered' and targeted by algorithms. That first pool of 'converts' can then facilitate the marketing of content to other audiences.
- Users are increasingly inclined to pay for the cultural and entertainment content that they consume online.
- Despite the impressive number of users on the dominant platforms, large swathes of the population remain to this day poorly served by these major players which offer too little diversity.
- On a global scale, there will be great potential in the French-language market over the coming years, and it's a potential that is worth exploring.
- Creativity and talent rather than technology remain the assets that are most sought out and the most susceptible of creating long-term value. In this regard, Canada is very rich in both creative and technological talent.

There can be no doubt that in the future media will evolve in a technosphere in which the infrastructure, modes of communication and revenue models will be to a great deal imposed by a limited group of major technology players (mostly American, for now). However, that does not take anything away from the responsibility that citizens, users, content creators, broadcasters and decision-makers have to prepare adequately and demonstrate judgment. Among other things, it must be understood that algorithms and platforms feed off our online behaviour patterns and that advertising is the main source of fuel for this new economy. We are all part of this new ecosystem and we need to act responsibly.

Being nimble in the hypercompetitive digital content environment is first and foremost a question of knowing how to play on all fronts. Get space and visibility on mainstream platforms like Facebook, YouTube, Snapchat and Netflix—because they are popular with users and advertisers. But also know how to develop your independence and be able to navigate between the multitude of niches that open up onto more selective audiences.

The impression of being 'too small' can even give rise to a new form of solidarity between local players who may, by working together, manage to counterbalance the power of the market's juggernauts. Two recent examples are the NONIO project (Portugal) and the Emetriq platform (Germany). In both cases, media companies decided to work together to collect and share their user data and collectively reduce their dependence on the advertising ecosystems of Google and Facebook. In short, alternatives exist and they are within everyone's reach. It's up to us to take advantage of them.

Catalina Briceño,
Director, Industry and Market Trends, Canada Media Fund

Chapter 1 : On the TECHNOLOGY AND INNOVATION front

MARKETING YOUR CONTENT IN THE AGE OF AI: UNDERSTANDING THE LIMITS AND LEVERAGING THE OPPORTUNITIES

UPDATE
FROM THE PREVIOUS REPORT:

As noted in the first chapter of the previous report, artificial intelligence (AI) is now concentrated in the hands of a small group of technology players who control the user discovery path from beginning to end. This level of control by a handful of major corporations is a cause for concern. Fortunately, filter bubbles and advances in recommendation and predictive technologies can be used to your advantage if you know how.

> *“ Technology giants, not the government, are building the artificially intelligent future. And unless the government vastly increases how much it spends on research into such technologies, it is the corporations that will decide how to deploy them ”*
>
> - Farhad Manjoo,
> technology columnist, The New York Times, 2017

As things currently stand, artificial intelligence is more a promise for the future than a fine-tuned cluster of technologies. It’s true for the self-driving car and for that virtual assistant who will buy your airplane tickets for you someday. True, too, for the recommendation engine with a Saturday night movie list that you can’t miss. These technologies are still far from perfect and the transitional zone we’re in now is a great opportunity for learning. So how can we better understand the algorithms that track our daily digital doings, analyze our tastes and preferences, predict our needs, and offer us the products and content most likely to grab our attention?

In this update, we shed light on the limits as well as the opportunities of resorting to smart algorithms today. We also shed light on certain AI advancements that impact how media content is marketed and promoted.

MAKING USE OF FILTER BUBBLES

Filter bubbles (as we defined them in our July 2015 *Trends Report*) allow you to reach audiences that are already interested in the types of content you produce at a lower cost. A fruit tree can be used as a good analogy here. Because it costs you virtually nothing to reach the lowest hanging fruit with a filter bubble. For example, selling a horror film to fans of the horror genre can be very cost effective through social networks such as Facebook.

Filter bubbles also make it easy to reach your first audience, one that will build a solid foundation for your content, simplifying the acquisition of new fans and even new investments. As Stitch Media producer Evan Jones puts it: *“If you can develop that filtered audience, the latter audience that comes afterward sees the number behind the product and the social proof carries it forward.”*

REMINDER

WHAT IS THE FILTER BUBBLE?

Many people don't realize it but platforms collect a wide range of data (including clicks, interactions, and geographical position) and then, using algorithms, present selected content to the user. As a result, users are less and less exposed to content that doesn't match their preferences or browsing history.

The filter bubble is a 'vicious circle' type of dynamic established between the behaviour of the user making choices and the algorithmic technologies using these choices to profile the user.

In other words, the filter bubble can be extremely effective in narrowcasting to reach niche audiences, build a fan culture, and develop communities. It's a different story, however, when your objective is to be more proactive with the goal of reaching more people, a wider audience, or simply new audiences.

It's definitely more expensive to promote content to an audience that has not already indicated an interest in the category your content belongs in. For example, promoting a documentary series or documentary film about climate change to those skeptical about the concept will cost much more than preaching to the converted, whose faith in the causes of climate change is rock solid.

You only have to go to the pages explaining how to win an ad bid[1] on Facebook to see that the more relevant the content is to the user – that is, the more it matches their filter bubble – the greater your chances of winning the bid to post your message to that audience. On the other hand, trying to reach a new audience of the uninitiated will require more money in terms of putting in a bid with any chance of winning.

Seeing as it is now necessary to reach multiple audiences in their respective 'bubbles' before being able to attract them to your project, you should expect much greater complexity in your marketing activities, including the need to develop a multitude of different messages that will resonate with each targeted filter bubble.

[1] Ad bidding: An online advertising strategy that consists of automating the allotment of advertising space to advertisers based on different criteria such as advertisers' monetary bids and advertising targets as well as, in the case of Facebook, users' browsing histories and preferences.

OTHER BREAKTHROUGHS IN CONTENT MARKETING AND DISCOVERY

> **Object and voice recognition:**

The progress achieved in these fields could soon widen the possibilities for search engines. Google's voice recognition system has hit a word accuracy rate of 95 %, which confirms what many people already take as a given: in the short term, voice recognition technologies are the most promising segment of AI research. According to Eric Scherer of Méta-Média, these technologies "*can help us better index contents to make them easier to find and distribute them in a more relevant manner or even conduct searches within these text, photo or video objects. Following Microsoft and Google, IBM Watson is now proposing to the media a new service that analyzes video metadata in order to more efficiently target excerpts and clips.*"

> **Predictive and recommendation engines**

Existing recommendation engines have to deal with a problem similar to a filter bubble. Algorithms developed from limited data, like recent behaviour or past purchases, for example, create recommendation loops that can sometimes make users feel like their world is closing in on them. As more and more recommendation engines rely on it, AI can now run its analyses on a wide range of online activities and behaviours to produce more comprehensive, holistic user profiles. These new possibilities are based on so-called predictive technologies, capable of providing users with relevant content at just the right moment and on the most appropriate screen.

TOWARD 'AFFECTIVE' COMPUTING

"But technology is moving very fast, and it may well be that it's already sketching out an early solution to the problem of hyper-personalization using techniques for emotion recognition. Affective computing—that's what it's called—should soon enable machines to identify and categorize emotions (ours as well as those expressed in the contents we consume) to better serve our needs. By then, at least, considerations like gender, age, or professional status will no longer be the only criteria used to define us."

- ALEXANDRA YEH,
« RECOMMANDÉ POUR VOUS » : LES ALGORITHMES, ENNEMIS DE LA DÉCOUVRABILITÉ? (RECOMMENDED FOR YOU: ARE ALGORITHMS THE ENEMIES OF DISCOVERABILITY?), MÉTA-MÉDIA, 2017

CONSEQUENCES FOR THE ADVERTISING SECTOR

In the case of Facebook, the algorithmic strategies based on relevance or hypertargeting mentioned above (also used by Google AdWord and SnapAds) seem at first sight to be profitable based on the conversion rates the platform is known for. According to Mary Meeker's *Internet Trends 2017* report, 26% of US consumers who click on a Facebook ad actually make a purchase.

At the same time, the use of ad-blocking software continues to grow. Canadians are the No. 2 users of ad-blockers on computers in the world. The message to advertisers is clear. Users do not appreciate the huge amounts of data being collected on them, especially for the sole purpose of sending more hypertargeted ads their way. The whole process makes them feel like their every move is being watched.

CONCLUSION

All the algorithms and automation promised by programmatic advertising are really still under development. The good news is that the growing awareness of users, coupled with the need for trust and accountability, is beginning to exert overt pressure on the giants of the web. Recent examples include Facebook, which has made its moderation rules public, and Apple, which will add to its Safari browser a new Intelligent Tracking Prevention system to prevent websites from collecting browser data through machine learning and block video autoplay. Without going so far as to expect these giants to become fully transparent, there is, nevertheless, an opportunity for producers and advertisers to get closer to what users really want, in a way that doesn't go blindly hand in hand with so-called intelligent technologies. To do this, we must learn to use these technologies wisely and creatively and always with a healthy dose of human intelligence:

" IN THE ERA OF HYPER-PERSONALIZATION, THE CHALLENGE FOR MARKETERS IN 2017 AND BEYOND WILL BE HOW TO PROVIDE CONSUMERS WITH WHAT THEY DON'T KNOW—WITH MOMENTS THAT BREAK FROM THE EXPECTED AND FAMILIAR, THAT ENABLE DISCOVERY, AND THAT FUEL IMAGINATIVE THINKING.

THE CAPABILITY TO FACILITATE THESE MOMENTS WILL BE INCREASINGLY CRITICAL FOR BRANDS TO DIFFERENTIATE THEMSELVES IN A WORLD OF ALGORITHMICALLY-DRIVEN SAMENESS. SERENDIPITY WILL BE ESSENTIAL TO CREATIVITY AND DISCOVERY, BUT ALSO—CRUCIALLY FOR MARKETERS—TO BUILD TRUST AND AUTHENTICITY."

- JOHN WATTON (ADOBE)

ADBLOCKING PENETRATION (MOBILE + DESKTOP), SELECTED COUNTRIES

Country	Desktop	Mobile
China	1%	13%
India	1%	28%
USA	18%	1%
Brazil	6%	1%
Japan	3%	--
Russia	6%	3%
Germany	28%	1%
Indonesia	8%	58%
UK	16%	1%
France	11%	1%
Canada	24%	--

(PageFair, 2017)

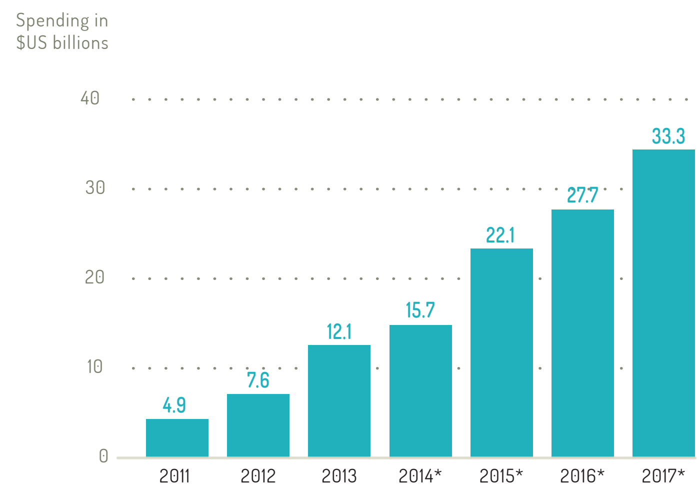
THE ADPOCALYPSE

In the advertising sector, the use of AI and algorithms basically translates to an increased use of 'programmatic' advertising. But advertiser confidence in giants Google and Facebook, which dominate the digital advertising market, has been shaken in recent months in what is now known as the Adpocalypse. In February, in response to advertiser concerns, both Google and Facebook agreed to audits of their marketing metrics, mere weeks after Procter & Gamble, the largest US advertiser, slammed digital platforms for their lack of transparency. In March, industry heavyweights globally (AT&T, Johnson & Johnson, PepsiCo, Wal-Mart, L'Oréal, Toyota, ...) suspended digital advertising on Google's YouTube over concerns that programmatic ads were appearing on channels that broadcast offensive videos. Analysts predict the boycott will cost Google $750 million US. The Canadian impact doesn't appear to be as far-reaching, but Canada's ad industry stakeholders remain cautious about programmatic advertising overall: "Many still worry about fraud and brand safety when algorithms make media decisions," writes Jeromy Lloyd of Brunico, which conducted a survey of Canadian marketers and agencies earlier this year.

"2016 will be the first year in which more than half of digital display ad dollars in Canada will be transacted programmatically. In two years' time, that share will surge to three-quarters, eMarketer expects."

– eMarketer, Canada Programmatic Ad Spending Forecast 2016, 2016

GLOBAL PROGRAMMATIC SPENDING 2011-2017
(in billion U.S. dollars)



(© Statista 2017, Magnaglobal)
*Forecast

Chapter 2 : On the CONSUMER HABITS front

DIGITAL PLAYERS ARE EXPANDING THEIR CONTENT OFFER WHILE THE RACE FOR KILLER CONTENT IS IN FULL SWING

UPDATE
FROM THE PREVIOUS REPORT:

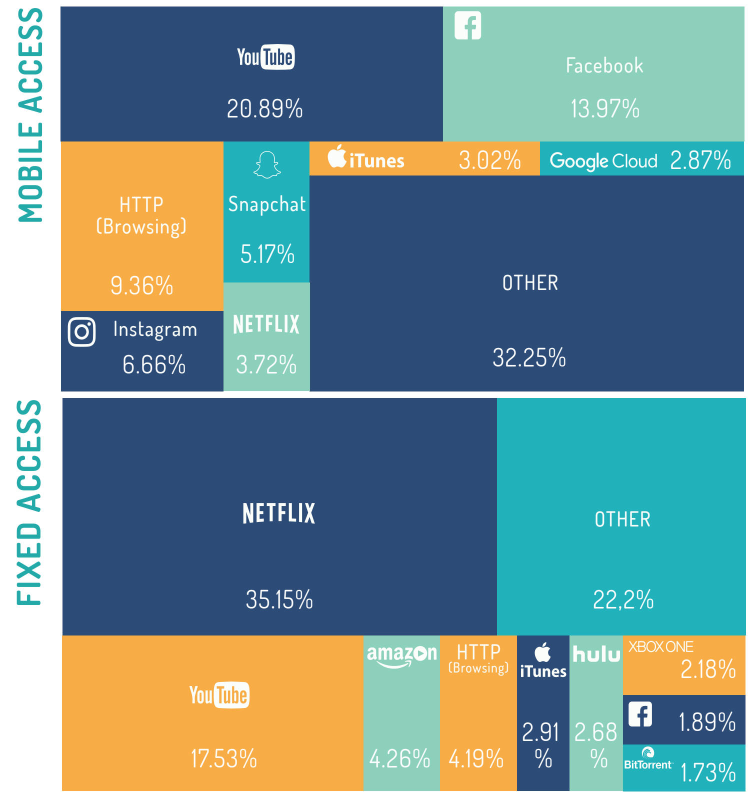
In the past months, social networks have accelerated their acquisition of live broadcasting rights, whereas over-the-top (OTT) television platforms continue to invest in drama series and youth programming. In their ongoing quest for new audiences, the giants are now adapting their strategies by investing in new content verticals. Digital platforms are thereby expanding their offer, becoming more attractive to consumers and increasing the pressure they exert on the content ecosystem.

> *" It's about the diversity. We'd love to get a couple shows in some key genres that are smaller cable-size swings, a few in the middle range and then a couple of really big swings "*
>
> - Brandon Riegg, Director, Alternative Programming, Netflix

ONLINE VIDEO CONSUMPTION IS INCREASING EXPONENTIALLY

The viewing of online videos continues to grow. In 2016, the consumption of audio and video content amounted to 71% of evening online traffic on fixed broadband networks in North America according to Sandvine. This proportion has doubled in the past five years. It is no surprise to learn that Netflix, YouTube and Amazon Video score highest in the list of applications that monopolize this traffic. The same goes with respect to the global mobile network: video took up 60% of data traffic in 2016, and that percentage should reach 78% by 2021 according to Cisco. Here at home, close to 80% of Canadians watch online videos (close to 100% in the 18-to-34 age bracket).

BREAKDOWN OF PEAK PERIOD INTERNET TRAFFIC IN NORTH AMERICA BY APPLICATION



(Sandvine, 2017)

Chapter 2 : On the CONSUMER HABITS front (continued)

Consumers not only view more and more videos online, but they also appear to be more and more inclined to pay for content. According to IDC, consumers are now spending more and more money to access online content, and proportionally less on the devices used to consume it. Consumers' content expenses around the globe will increase at an annual rate of 12.6% between 2015 and 2020, whereas spending on devices will increase at an average annual rate of 1.6%.

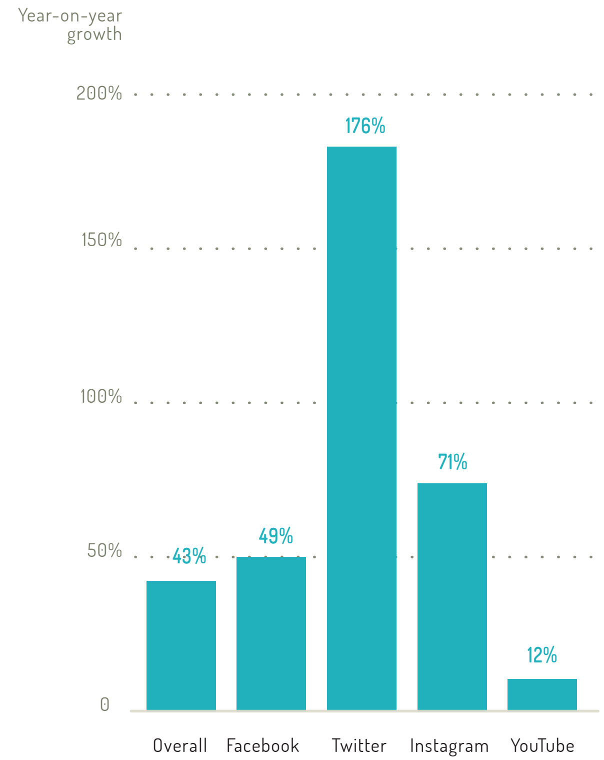
The device-based economy is rapidly transforming into a content-based one, and video streaming is becoming the method of choice for consumers. The digital giants are redoubling their efforts to carve out their share of this market.

LIVE CONTENT, AND NOW ORIGINALS

The battle to secure live broadcasting rights waged by social media has accelerated in the past months, especially when it comes to sporting events. Twitter lost some ground to Amazon when the latter won the bid to live broadcast the NFL's Thursday evening games. However, Twitter has not been left behind seeing as it has reached several major agreements, including partnerships with sports leagues and a contract with Bloomberg Media to live stream news 24 hours a day, 7 days a week.

In their quest for audiences—and advertising dollars—technology giants now seem willing to diversify their content offer and are betting on original productions. This could accelerate audiences' transition from television to the web. At NewFronts, YouTube announced a new skewer of original content showcasing stars like Kevin Hart and Ellen DeGeneres and viewable free of charge. Snapchat has ordered original content and reached deals with several media groups for the creation of content based on existing intellectual properties. In June 2017, Apple officially jumped on the original content bandwagon with its first TV reality show, *Planet of the Apps*, which Apple Music subscribers can view for free.

ANNUAL VIDEO CONTENT GROWTH ON SELECTED SOCIAL NETWORKS FROM 2015 TO 2016



(© Statista 2017, Shareablee)

Chapter 2 : On the CONSUMER HABITS front (continued)

For its part, Facebook has announced its intention of ordering original content to generate loyalty among its two billion users. According to Ricky Van Veen, Facebook's head of global creative strategy, the giant intends to cast a wide net and produce several types of contents: "*We're exploring funding some seed video content, including original and licensed scripted, unscripted and sports content, that takes advantage of mobile and the social interaction unique to Facebook. Our goal is to show people what is possible on the platform and learn as we continue to work with video partners around the world.*" Although Facebook has yet to make a formal announcement, some observers say that the social network may start distributing original content on its platform by the end of this summer.

OVER-THE-TOP (OTT) TELEVISION SERVICE PROVIDERS EXPAND THEIR CONTENT OFFER, TOO

OTT services are today's champions when it comes to high-budget drama productions. They have increased drama's value to the point that traditional players are now focusing on unscripted content instead. It's the case of A&E which, after the finale of its successful *Bates Motel* series, decided to stop producing drama and focus on non-fiction. There again, the competition risks intensifying seeing as OTT services have conquered the drama and youth programming segments and now have their eyes set on non-fiction, including reality TV, docusoaps, talk shows and comedy shows.

Amazon is slowly building up its non-fiction catalogue by investing in several formats, including the highly publicized *Grand Tour*. As for Netflix, it took its first steps with the *Chelsea* talk show in 2016. Efforts have accelerated since then: no less than 20 original non-fiction programs have been announced for 2017, and a new comedy show will be launched weekly.

Several reasons explain OTT services' sudden rush toward non-fiction. The format allows them to diversify their original programming offer and thereby secure and widen their subscriber bases. Non-fiction is also a real bargain for platforms seeing as it is less costly to produce than dramas. Given their global scope, platforms generate major economies of scale by adapting formats to suit the tastes of local audiences. For example, Netflix is producing six localized versions of its obstacle race competition *Ultimate Beastmaster*.

STREAMING WINS OVER AUDIENCES' HEARTS

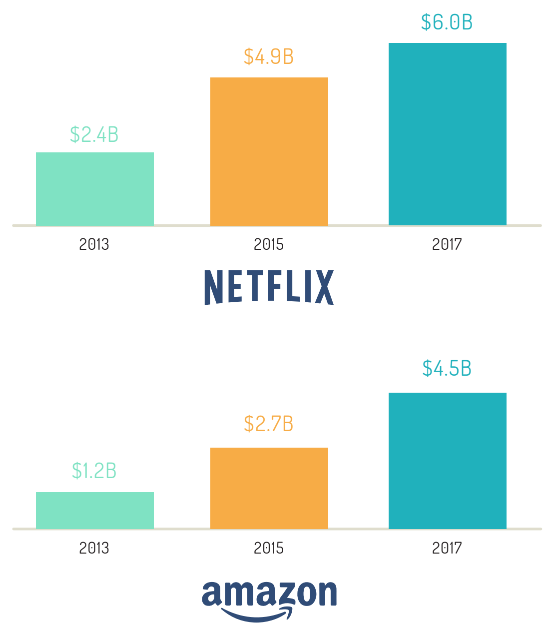
There is every reason to believe that steaming has become the preferred mode of consumption of online content in North America.

In the United States, a new threshold has been reached: there are now more adults who use paid or free streaming services (68%) than there are pay TV subscribers (67%). Also in the US, there are more households that subscribe to Netflix (54%) than there are that possess a personal video recorder (53%). Furthermore, Netflix now is the television brand that Americans are most hesitant to abandon.

The spending shift towards streaming services can also be observed in Canada, where spending on Internet access has been higher than spending on cable TV subscription since 2015. According to the CRTC, this situation is due to the soaring demand for streaming video and music services.

To ensure they stay on top, on-demand video giants are investing massively in original content and have global ambitions. At the end of 2016, Amazon took on Netflix in the conquest of international markets by expanding its video service to 200 countries, including Canada.

ESTIMATED ANNUAL VIDEO CONTENT BUDGETS OF NETFLIX AND AMAZON
(original and licensed content)



(© Statista 2017, IHS Markit, Netflix, JPMorgan)

2013 and 2015 estimates by IHS Markit;
2017 estimates given by Netflix and JPMorgan (for Amazon)

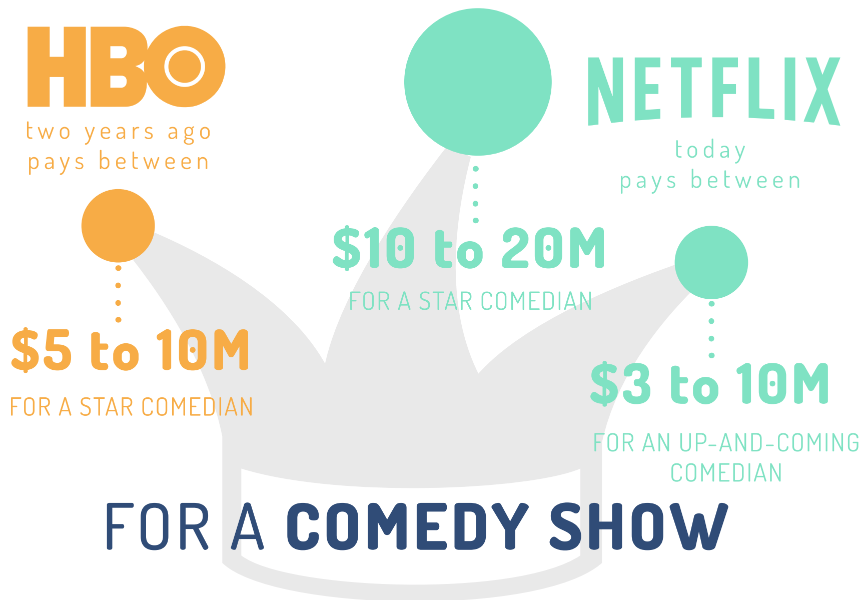
Chapter 2 : On the CONSUMER HABITS front (continued)

As they once did with drama, OTT services are entering the non-fiction market and taking out their chequebooks, thereby positioning themselves as fierce competitors. Celebrities and well-known brands are essential to generating public interest for non-fiction content in the VOD universe, and OTT services are willing to pay the price.

> " IT'S A FEEDING FRENZY TO GET THE BEST PEOPLE. "
>
> - JEFF GREENBERG, CASTING DIRECTOR, 2017

OTT services only invest a minute portion of their production budgets in non-fiction, but these investments could nevertheless cause costs to explode throughout the industry as the battle for talent rages on: executives, performers, stage technicians, producers, etc. Netflix has already charmed over several experienced non-fiction producers by offering them upfront deals for the full run of a show. It is a model that is appreciated because it eliminates some of the financial risk traditionally taken on by producers.

Faced with escalating costs, traditional players will need to redouble their efforts to discover new (and less expensive) talent. NBCUniversal, for example, reached a deal with Toronto-based Wattpad, a social media site where users can share their stories with the community. The idea is to search through the platform's 300 million online stories for the most popular and promising ideas for new TV shows.



Chapter 3 : On the BUSINESS MODELS front

FOCUS ON CONTENT AND SERVICE ACCESSIBILITY TO REACH WIDER AUDIENCES

UPDATE

FROM THE PREVIOUS REPORT:

As we pointed out in our previous report, focusing on cultural diversity and on gender equality makes it possible to reach wider audiences. However, for this strategy to truly pay off, other approaches are needed to make content accessible to as many people as possible.

" Internet companies have largely focused on people with reliable access to the internet, credit cards and bank accounts. By overlooking consumers without such advantages, media and tech companies are missing out on a potential population of 50 million Americans. "

- Michael Wolf
as paraphrased by The Wall Street Journal, 2016

There are several obstacles that prevent a service or content from reaching all potential consumers in Canada and throughout the world. Thousands of people do not have access to a connection that is either fast or reliable enough to view TV content over the Internet. Others do not possess a device enabling them to connect to the Internet or yet again they hit a language barrier. If multiple obstacles exist, there also exists a host of solutions to make content more accessible and transform these challenges into business opportunities.

MANY AMERICANS DON'T MEET AT LEAST ONE OF THESE REQUIREMENTS

> 34 Million (M) people don't have access to broadband at home.

> 32M are cellphone dependent to go online.

> 18M households don't have a computer at home.

> Over 20M are underbanked (poor access to mainstream financial services), and an additional 40-50M may be underbanked.

> 4M people don't speak English.

> 11M people are undocumented.

(Activate analysis, American Community Survey, Federal Reserve, Gates Foundation, Huffington Post, NTIA, Pew Research, U.S. Census Bureau, 2016)

Chapter 3 : On the BUSINESS MODELS front (continued)

INTERNET CONNECTION SPEED

On a global scale, the average Internet connection speed (fixed access) was 7.2 MB/s during the first quarter of 2017, which is slightly faster than the 5 MB/s recommended to stream video in HD. However, mobile connections—which could account for 71% of Internet use in 2017 according to Zenith—are much slower. In fact, 45% of mobile connections today still use a 2G network. For a large number of consumers, this situation makes it very difficult or even impossible to use certain mobile applications or to stream television content or videos.

In Canada, the average download speed is 21.7 MB/s according to the Canadian Internet Registration Authority. However, there are major disparities between urban and rural areas. The objective pursued by the CRTC is to provide a download speed of 50 MB/s to all Canadians within the next 15 years. There are currently about 2 million Canadians without access to such a speed.

To reach these users without access to a fast and reliable connection, many social networks have decided to focus on the development of 'light' versions of their mobile applications. Facebook Lite, Messenger Lite, Instagram Lite, Twitter Lite and YouTube Go consume less data, take up less space on a hard drive and—first and foremost—do not require the use of a highly powerful or state-of-the-art device to operate properly. It's no secret: the web's giants hope to conquer an enormous market that is in full expansion before competitors like Snapchat, whose application is very data intensive and requires a fast and reliable connection to operate properly. For social networks, this strategy is all the more necessary considering that highly developed markets are becoming increasingly saturated.

Emerging markets are responding positively. A year and a half after its launch, Facebook Lite is available in a hundred or so countries and now boasts more than 200 million users. Moreover, these 'light' services go beyond simply improving accessibility in emerging markets. Following the launch of the light version of its mobile website, Twitter experienced a sharp increase in engagement levels among **all** of its mobile users. The speed of the new service led to a 75% increase in the number of tweets sent.

.

METHODS OF PAYMENT

The methods of payment proposed to access content and services can also be problematic. Credit cards are the most widespread method of payment for goods and services purchased online, but they are not accessible to all. According to data compiled by Statista, 73% of the world's population aged 16 years and up held no credit card in 2016. This situation is not exclusive to developing countries. Once again according to Statista, 21% of Canadians and 38% of Americans aged 16 and up didn't own a credit card in 2016.

Major American players, such as OTT services like Netflix and HBO Now as well as the STARZ pay television channel, decided to tackle the problem head on by proposing the purchase of gift cards or prepaid cards for the purpose of accessing their content.

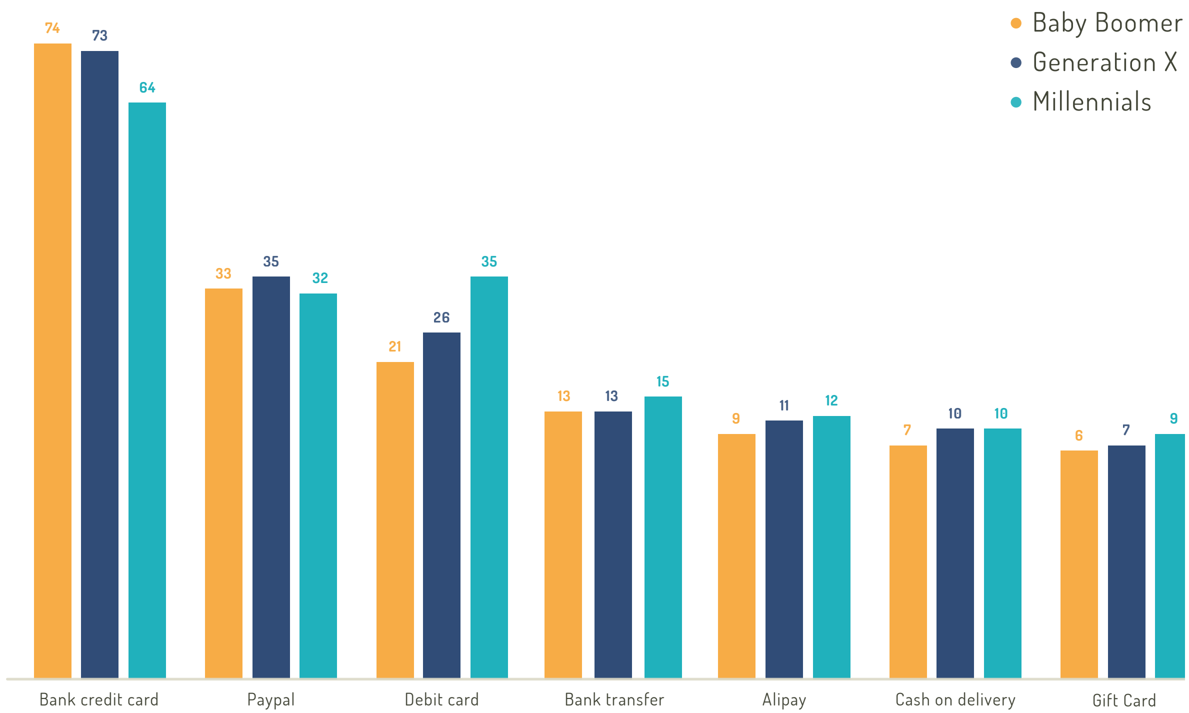
Chapter 3 : On the BUSINESS MODELS front (continued)

However, the use of these cards raises serious challenges, including audience loyalty and fraud risks. Several analysts are therefore placing a lot of hope in alternatives such as blockchain technology[1], a tool that could secure transactions and reduce their cost, as well as cryptocurrencies such as the Bitcoin that can be used everywhere on the planet. However, we'll have to wait until these technologies gain in popularity before they become viable alternatives to currently available payment options.

It's also worth noting that the diversification of payment options makes it possible to reach not only the least fortunate of consumers, but also the youngest consumers who are less inclined than their elders to use a credit card.

.

METHODS OF PAYMENT USED WORLDWIDE
(% of consumers)



(Global Online Consumer Report, KPMG International, 2017)

[1] For more information on blockchain technology, read our Trends Report: 2016 Mid-Year Update.

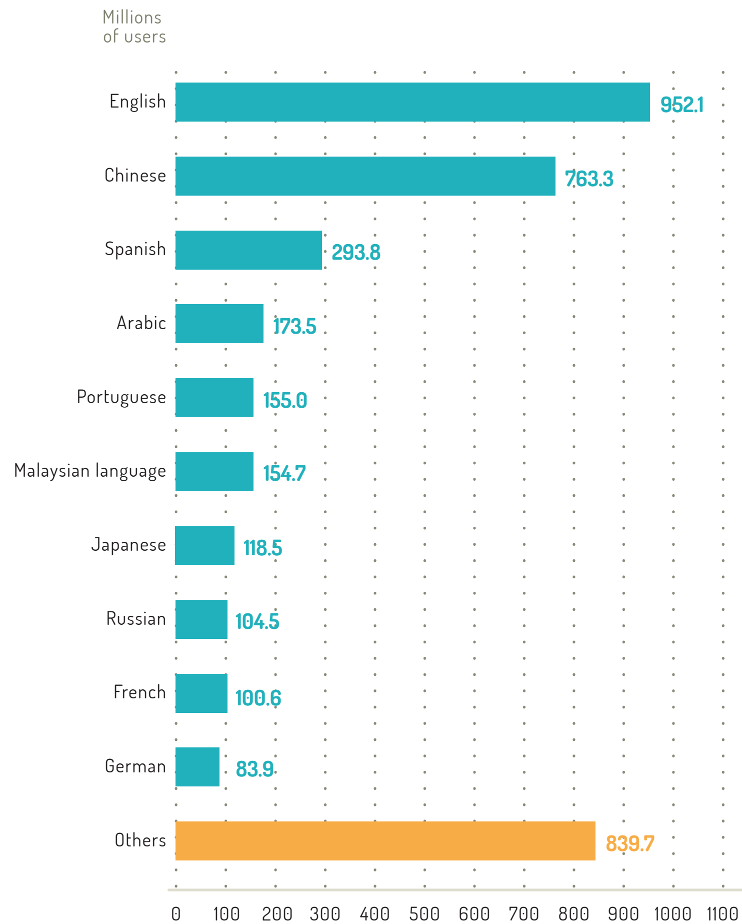
ACCESS TO CONTENT IN ONE'S OWN LANGUAGE

A last but not least barrier is the preponderance of certain languages such as English and Mandarin on the Internet, despite the multitude of languages spoken throughout the world. In Africa alone, more than 2,000 languages are spoken. This multiplicity is also significant here, given 20% of Canadians in 2011 declared neither English nor French as their mother tongue.

Although it is true that the majority of internet users use English or Mandarin when they are online, the use of several other languages has increased sharply on the web between 2000 and 2017. Over the course of this period, the number of people using Arabic on the web went up by 6,800% and the number of people using Russian increased by 3,200%.

Another language that could be increasingly used on the web is French. According to the Observatoire de la langue française (OLF), the number of Francophones will double in the coming decades, increasing from 274 million to more than 700 million in 2050, representing 8% of the world's population. This increase would be attributable namely to Africa's demographic growth.

TOP TEN LANGUAGES ON THE INTERNET
IN MILLIONS OF USERS
(March 2017)



(Internet World Stats. Copyright © 2017, Miniwatts Marketing Group)

AFRICAN FRANCOPHONIE

Over 85% of the world's population for whom French is the official language will live on the African continent by 2065. It is mainly in Sub-Saharan Africa that the increase in the number of French-speaking Africans will be the strongest, in countries such as Burkina Faso, Cameroun, Madagascar, Niger, the Democratic Republic of the Congo, the Republic of the Congo and Senegal among others.

Africa's Francophone populations present enormous potential namely because of the growth in the consumption of mobile telephony services and the emergence of a middle class. Furthermore, it is becoming easier and easier to access this market through digital technology which is gradually erasing national boundaries and replacing them by linguistic zones.

Daily French speakers by major geographical area

Africa	54.7%
Europe	36.4%
America and Caribbean	7.6%
Middle East	0.9%
Asia and Oceania	0.3%

The French Language Worldwide, Observatoire de la langue française, 2014

Chapter 4 : On the MARKETS AND COMPETITION front

TOWARDS A NEW GLOBAL PLAYING FIELD: THE QUEST FOR THE FINEST TALENTS AND MOST RENOWNED CREATIVE BRANDS

UPDATE
FROM THE PREVIOUS REPORT:

Our previous report shed light on the emergence of new global centres of influence in terms of technology, media production and content consumption. The opportunities made available to Canadian companies are numerous on a global level, but the competition is intensifying. To benefit from this global market race, industry players are increasingly betting on **talents** and **strong brands.**

"As the entertainment and media industry becomes more and more technology-intensive, and with audiences consuming huge amounts of content via mobile devices and social media, Canada's creative players may discover there's a big advantage to be gained from having quick, streamlined access to first-rate global tech talent."

- Lorraine P. D'Alessio, Immigration Lawyer, 2016

It's a well-known secret: Canadian creativity has been highly exportable since decades. In recent years, take the formidable success experienced by director Denis Villeneuve in Hollywood or yet the recent adaptation of Margaret Atwood's celebrated novel *The Handmaid's Tale* by Hulu, an American subscription-based VOD service. However, in a world where content and technology are increasingly intertwined, what happens to our technological talents?

It is a pressing issue and it is essential to **develop and retain the brightest technologists** to enable Canada to develop its competitive advantage. The Canadian government intends to act, as demonstrated in its 2017 budget and by the launch of Canada's Global Skills Strategy.

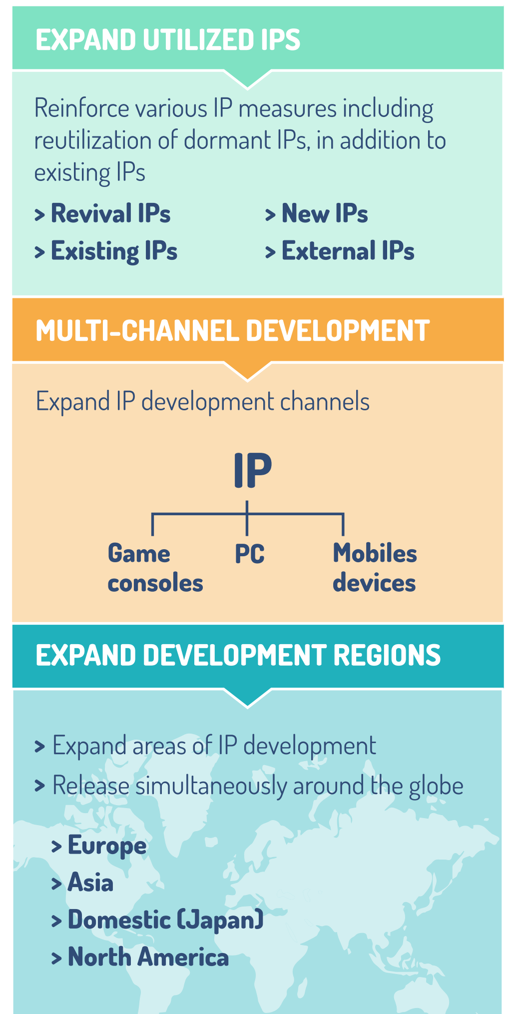
REVERSING THE TECH BRAIN DRAIN IN CANADA

Steve Lohr of the New York Times remarked that Canadian researchers laid the foundations of today's AI boom long before Google and Amazon got in the game, but that Canada lost many of its best to Silicon Valley. In fact, Google and Amazon continue to chase after Canada's AI talent to this day. Recent initiatives by the Canadian government and other organizations like the Vector Institute, Launch Academy and the ICTC may help reverse the brain drain. The goal now is to fill the skill gaps that, as reported by KPMG in its 2017 *Global Technology Innovation Hubs* study, continue to hamper the adoption of disruptive technologies in Canada. **Those technologies are crucial to the Canadian media sector**, as our Trends Reports have long asserted: they are fundamentally transforming the way content is created, produced, marketed, discovered and consumed.

This global hunt for the best technological talents combines with the **mad dash to acquire the most highly renowned works and brands on the planet.** Landmark intellectual property (IP) is at the heart of the catalogue development strategies of many of the entertainment industry's largest players. In the video game sector, Nintendo's case is emblematic. The Japanese giant's famous Mario Bros. brand is constantly being reborn with every advancement in technology and continues to reap a great deal of success. Even more revealing is the case of Sega, another celebrated Japanese studio. In its *Road to 2020* strategic plan, Sega announces that it intends to revive its mythical brands and develop new ones as well as to acquire external brands that have global reach.

The acquisition and exploitation of landmark brands is also a strategy put forward by giants such as Time Warner (which owns DC Entertainment) and Disney (which acquired Marvel in 2009 and Lucas Entertainment in 2012). Thanks to its acquisitions of emblematic brands such as Captain America and Star Wars, Disney reached the top of the box office in 2016. Like Sega, Disney is betting on a diverse portfolio of new ventures and tried-and-tested brands.

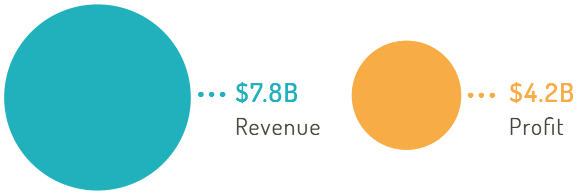
SEGA'S IP MODEL



(Sega, 2017)

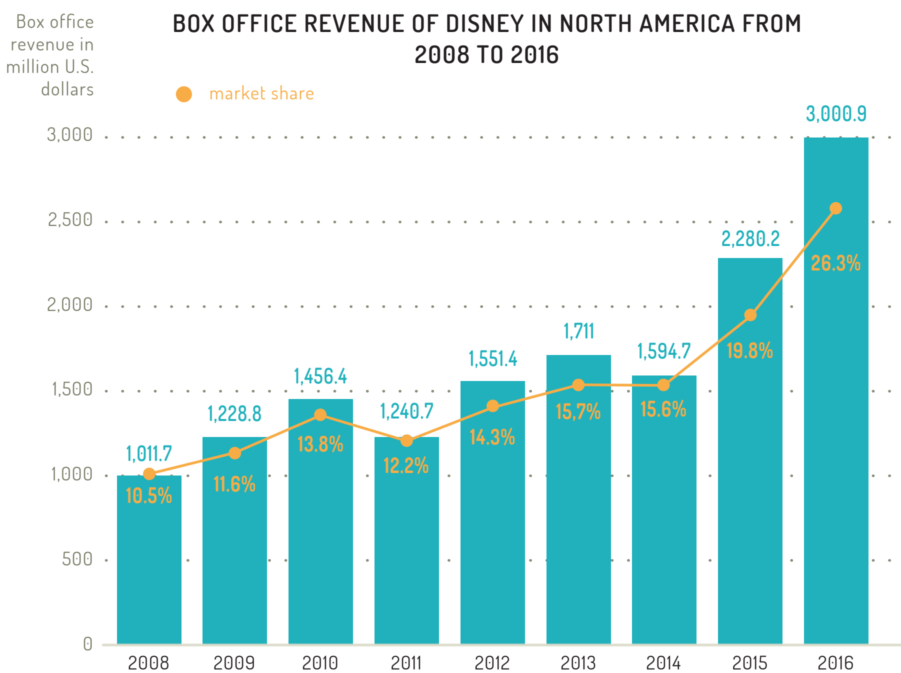
DISNEY'S REVENUES AND BOX OFFICE SHARE HAVE RISEN SUBSTANTIALLY SINCE ACQUIRING TOP MARVEL AND LUCAS ENTERTAINMENT BRANDS

REVENUE AND PROFIT GENERATED BY DISNEY'S STAR WARS SEQUEL TRILOGY AND ANTHOLOGY SERIES WORLDWIDE FROM 2015 TO 2019
(in billion U.S. dollars)



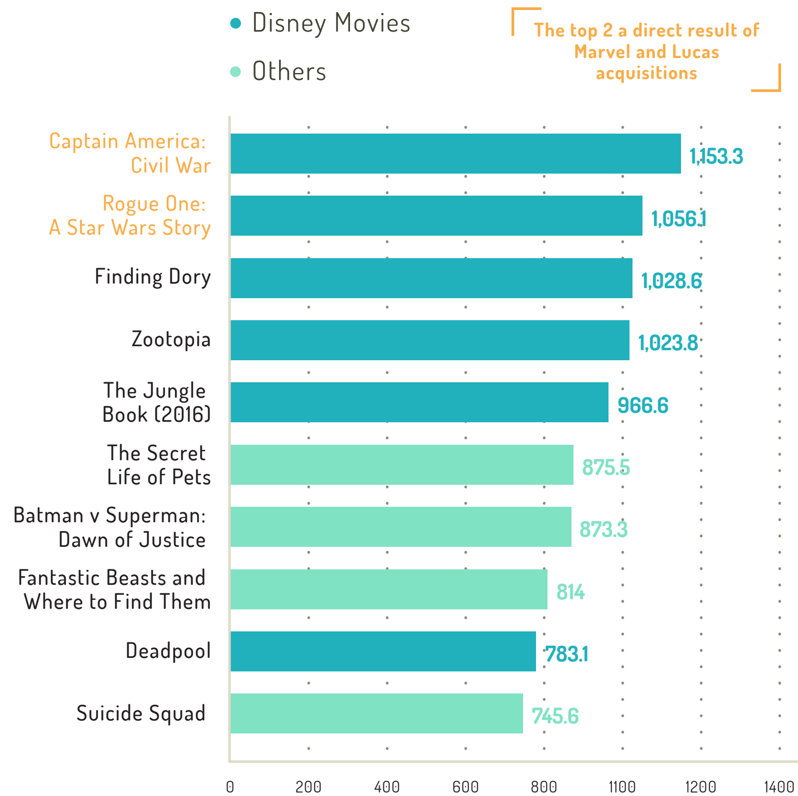
(© Statista 2017, Crédit Suisse; Bloomberg)

BOX OFFICE REVENUE OF DISNEY IN NORTH AMERICA FROM 2008 TO 2016



(© Statista 2017, Box Office Mojo)

BOX OFFICE REVENUE OF THE HIGHEST GROSSING MOVIES WORLDWIDE IN 2016
(in million U.S. dollars)



(© Statista 2017, Box Office Mojo)

Chapter 4 : On the MARKETS AND COMPETITION front (continued)

Canadian companies are keeping in step. Several of them are gaining traction on the global entertainment IP market, namely through acquisitions. DHX already owns the Teletubbies (purchased in 2013) as well as the cultish Canadian property Degrassi (acquired with the purchase of Epitome Pictures in 2014) and it continues to see big. In May 2017, the Canadian giant announced that it was acquiring the entertainment division of US-based Iconix Brand Group, thereby adding the venerable Peanuts and Strawberry Shortcake brands to its catalogue. Another Canadian giant, eOne, continues for its part to make it big on international markets with its Peppa Pig brand, acquired in 2015 in the aftermath of the purchase of 70% of the shares in British animation studio Astley Baker Davies. That same year, eOne acquired 51% of Mark Gordon Co., a major producer of Hollywood films and successful television series including *Grey's Anatomy* and *Criminal Minds*. eOne also completed in 2016 its acquisition of the Secret Location content studio, a world-renowned Canadian crown jewel in the virtual and augmented reality sector.

Major brands like Star Wars, Mario Bros. and The Avengers (Marvel) are—to use the popular expression—full-fledged universes. They often take on several different forms, from comics and video games to films, TV series and merchandising. **In the digital age, these brand universes not only survive, they thrive**: technology is their ally. That is testimony to their remarkable creative power and the audience's attachment to them. The example of Canadian series Degrassi speaks volume. Created close to 30 years ago, broadcast in some 150 countries to this day and critically acclaimed, the Degrassi universe has built up, thanks to the web and social media, a community of admiring fans that extends way beyond Canada's borders. And today the Degrassi adventure continues—on Netflix.

In May 2017, Guy Laliberté, cofounder of Cirque du Soleil, and Alexandre Amancio, former creative director at Ubisoft, announced the founding of a new content studio called Reflector Entertainment: "We are not a video game, film, television or print company. We are a universe company." Their philosophy? "Develop good stories first and then decide on the best way to tell them on various platforms."

UPDATE: HAS THE BOOM IN CHINESE INVESTMENT ALREADY COME TO AN END?

Our previous *Trends Report* highlighted how China was increasingly becoming a key co-production and investment partner for media and entertainment. The Chinese government's recent crackdown on overseas investment, however, and the rising tide of protectionism in the US have many wondering whether or not Chinese financing will indeed continue to flow. That uncertainty has been fuelled by several recent events, including the commercial flop of the Hollywood-China co-production *The Great Wall* and the collapse of major billion-dollar deals involving Paramount, Dick Clark Productions, Wanda and Shanghai Film Group.

Is Chinese investment drying up for good? Most likely not. Commenting on the government's new outward investment restrictions, entrepreneur Hagai Tal points out: "The message the Chinese government is sending isn't exactly 'no' so much as 'not so fast,' and the expectation, at least in the Chinese business community, is that the clamp-down at the end of last year will begin to loosen sometime this summer." Case in point: China's Wanda signalled earlier this year that it would be setting aside $5 to $10 billion US annually for overseas investments, focusing in particular on entertainment and sports.

Canada is certainly positioning itself to take advantage of opportunities in the Chinese market. New co-production and export agreements have been signed recently, an especially promising collaborative route given that China is looking to boost its own creative industry: new Canada-China co-production treaty (2016), Memorandum of Understanding between the Alberta Media Production Industries Association and Guangdong Province (2017). And in January 2017, Heritage Minister Mélanie Joly travelled to Beijing and Shanghai to reinforce cultural trade relationships between the two countries. Canadian content companies have been making significant inroads into the Chinese market, as illustrated in our previous Trends Report. Strong brands have featured prominently in those deals. The latest example: the recently revamped Teletubbies brand, for which DHX has secured deals with major Chinese online platforms and a Hong Kong-based brand facilitator.

CHALLENGES

- A small group of large players basically control all investments in AI. They are the players that dictate how AI is developed and deployed (chapter 1).
- Given this increasing concentration, developing and retaining technological talents is a major issue for the development of Canada's competitive advantage, including in the audiovisual industry (chapter 4).
- Producers and creators need to make their contents and services more accessible if they hope to reach a greater number of consumers (by proposing multiple methods of payment, reducing file sizes, etc.) (chapter 3).
- However, it may be time-consuming and costly to reach new audiences and make new contents visible because of the filter bubbles that tend to favour content that is already preferred, shared, liked, etc. (chapter 1).
- The intensification of the production of original content by digital giants could lead to an escalation of costs throughout the content industry (chapter 2).
- In addition to this increasing pressure on costs, revenue streams are threatened. Despite increased possibilities in terms of targeting and personalization, users are increasingly resorting to ad blockers. This jeopardizes the advertising model which is the digital economy's main source of fuel (chapter 1).

OPPORTUNITIES

- In a world that is becoming homogenized because of an excessive use of technology and automation, originality and creativity are becoming highly sought-after assets (chapter 1).
- Moreover, creativity and technology are allies, as demonstrated by strong creative brands that last and prosper in the digital universe. These brands represent major assets in Canadian companies' content catalogues (chapter 4).
- Not only do consumer view more and more online videos, but they are also more inclined to pay for this content (chapter 2).
- The progress of AI could support this growing consumption by increasing content discoverability through higher performing recommendation, search and indexing engines (chapter 1).
- Seeing as AI is still in its early stages of development, there is no time like the present to better learn, understand, and incorporate its new technologies before they become the norm (chapter 1).
- Large spans of the population remain to this day poorly served by the traditional media and dominant web players: there are business opportunities that are worth exploring (chapter 3).
- The French-language content market could experience strong growth. At a global scale, the number of Francophones will double in the coming decades (chapter 3).
- Despite a few setbacks, China remains a promising market for Canadian content companies (chapter 4).

Published by
the Canada
Media Fund

RESEARCHED AND WRITTEN BY :

Catalina Briceno
Director, Industry
and Market Trends
cbriceno@cmf-fmc.ca

Pierre Tanguay
Analyst, Industry
and Market Trends
ptanguay@cmf-fmc.ca

Sabrina Dubé-Morneau
Analyst, Industry
and Market Trends
sdmorneau@cmf-fmc.ca

Gaëlle Engelberts
Editorial collaborator
gengelberts@cmf-fmc.ca