DM@X

Digital Media at the Crossroads

Canadian Media in a Digital Universe

January 2016

DM@X

Nordicity

SPONSORS OF THE DIGITAL MEDIA AT THE CROSSROADS (DM@X) CONFERENCE:

ACTRA	Centre for Innovation Law and Policy, Faculty of Law, University of Toronto	Entertainment, Media and Communications Law Section, Ontario Bar Association	OCAD University	School of the Arts, Media, Performance and Design, York University
Arts and Media Administration MBA Program, Schulich School of Business, York University	Coalition for Cultural Diversity, Montréal	Faculty of Music, University of Toronto	Ontario Media Development Corporation (OMDC)	SOCAN
Canadian Digital Media Network	Digital Media Zone, Ryerson University	Information and Communications Technology Council	Rotman School of Management, University of Toronto	Stratford Campus, University of Waterloo
Canadian Film Centre	Directors Guild of Canada	McLuhan Program in Culture and Technology, Faculty of Information Sciences, University of Toronto	School of Creative Industries, Faculty of Communication & Design, Ryerson University	Ted Rogers School of Management, Ryerson University
				Writers Guild of Canada

Table of Contents

1. Introduction

1.1 Project Overview

Mandate

Nordicity was commissioned by the Digital Media at the Crossroads (DM@X) Conference to gather publicly available audience, usage and financial data on changing revenue trends in the creative industries, based on advertising and consumer spending. The scope of this project includes broadcasting, and television program and feature film production; music; book, magazine and newspaper publishing; and, games.

Objective

Nordicity's objective is to identify the challenges and opportunities to these Canadian creative industries presented by changing market structures and industry dynamics. Of particular concern is the increasing outflow of revenue and profits to foreign companies. Indeed, this outflow was an important trigger for the study. It is, generally speaking, accompanied by decline in reinvestment in the Canadian creative industries and, in turn, has a potentially deleterious effect on the production, promotion and dissemination of Canadian creative content.

1.2 Contextual Overview

Based on overarching trends in distribution and consumption of content via digital platforms globally and in Canada, there is concern about the effectiveness and responsiveness of policy measures to safeguard the creation and distribution of Canadian content. In many of the creative industries discussed in this report, the historical business and policy model for supporting Canadian media and creative industries is via regulation, foreign ownership review, and tax legislation as restrictions. These measures, along with financial incentives, have been designed to ensure there is private as well as public investment in Canadian content creation and distribution. As such, a portion of advertising and subscription revenue accruing to broadcasters, publishers, distributors and retailers has generally been reinvested in Canadian content creation and distribution.

Increasingly, however, much of the growth in revenue across the value chain is derived through digital infrastructure and foreign entities and is thus largely happening outside the purview of government regulation, statute, and other mechanisms of intervention. These trends present a serious threat to the ways in which public interventions support Canadian creative industries.

Even in creative industries where reinvestment is not regulated in the same direct manner that it is in broadcasting, it may be argued that foreign monopolization of distribution channels and consumption platforms negatively impacts the competitiveness of Canadian content and therefore weakens the industry's ability to produce new content. The new landscape is one in which consumers are flooded with a high volume of content, amplifying the challenge of discovery, whereas the traditional value chains inherently contributed to the discovery of Canadian content by consumers.

As well as being a conduit for revenues to foreign companies, it is recognized that the prevalence of digital platforms presents new opportunities for Canada's creative industries – though not without consequence. These benefits (and consequences) include:

- **Lower barriers to accessing markets – in Canada and abroad** – for content producers (however, there are also lower barriers for international competition to enter the Canadian and global markets);
- **A more direct line of access between content producers and their audiences**, and alternative ways of delivering content to the market (however, many of these alternative models are led by foreign-based global corporations such as Google, Amazon, Netflix, Facebook and Apple, and as mentioned, discoverability poses a significant challenge); and,
- **Diversification in sources of investment in Canadian content production** (although at present, digital distribution platforms are not necessarily accounting for a significant portion of investment in Canadian content, nor are they readily accessible to Canadian content creators).

With the aim of facilitating further policy debate, this report articulates some of the incremental **foreign outflows of revenue** arising from this increased prevalence of digital distribution systems as well as the result of other market and industry dynamics in the creative industries. To balance the focus on the outflows, this report concurrently discusses, where relevant, the nature of the opportunities presented by new distribution paths for content producers in the creative industries.

1.3 Cultural Policy in Canada

Historically, Canadian public policy has sought to protect the sector through various cultural policy tools, such as ensuring Canadian ownership, promoting the distribution of Canadian content, and directing the flow of revenue back into content development. Creative industry policy interventions implemented in Canada have included, among others:

- Support of Canadian feature film distributors, who are then financially able to invest in the distribution and marketing of Canadian features;
- Support of broadcasters and magazine publishers through legislation that provides incentives to advertisers to work with Canadian-owned broadcasters and magazines;
- Support of Canadian television production through Canadian content and broadcasting distribution regulation, broadcasting programming expenditure requirements, and other measures to ensure the flow of a portion of BDU[1] revenues to Canadian production; and,

[1] "BDU" is an acronym for Broadcasting Distribution Undertakings, which are cable, IP, and satellite operators.

- Foreign investment review of some transactions in the book, magazine, periodical, newspaper, film, television and radio industries.[2]

Within this context, Canadian policy makers are responding to and continue to consider the changing dynamics in the creative industries. While the purpose of this study is the identification of the quantum and significance of the challenges, rather than policy analysis and policy options development, a debate on such policies would nonetheless be timely. Therefore, the data and insights presented in this report aim to serve as a starting point for such a debate, by highlighting recent trends in, and considering the anticipated future of, the creative industries in Canada.

1.4 About this Document

The remainder of this report will cover trends and impacts in the following three areas:

- **Industry and Market Factors**, including trends in consumer behaviour such as consumption habits and technology use, as well as the technological advancements and digital infrastructure (e.g., devices and bandwidth) that drive many of these trends, and have enabled the evolution of media consumption;
- **Consumer Spending**, including trends across various methods of consumer acquisition of creative content such as unit purchases, paid subscriptions and live media experiences; and,
- **Advertising Spending**, including the general trend or "direction" of revenue derived from ad-supported distribution channels (when applicable to the industry).

Each of these three areas will be discussed, first within the context of the creative industries as a whole, and subsequently in relation to each specific industry (i.e., film and television, music, publishing and games).

In each industry-specific section, the above trends will also be considered in terms of the degree of their impact on the production, dissemination and consumption of Canadian creative content.

---

[2] According to the Investment Canada Act, cultural businesses that may be subject to foreign investment review are those involved in the publication, distribution or sale of books, magazines, periodicals and newspapers (other than those solely involved in printing or typesetting); the production, distribution, sale or exhibition or film, video or music recordings; the publication, distribution or sale of printed or machine-readable music; and, television and radio broadcasting (including cable television, satellite programming and broadcast network services).

2. Cross-sector Impacts on the Creative Industries

Before delving into individual industry impacts, we consider the cross-sectoral creative industry context as far as size, market factors, and consumer and advertising revenues.

2.1 The Size of the Creative Industries

The most recent and comprehensive cross-sector measurement of the size and impact of the cultural industries covered in this report is provided by the Canadian Culture Satellite Account (CSA), developed by Statistics Canada and its partners.

The table below presents the total output, Gross Domestic Product (GDP) and employment for reference year 2010 in each of the industries covered in this report (or the nearest analogous domain as defined by the CSA). In 2010, these industries generated nearly 190,000 jobs[3] and contributed over $19 billion in GDP to the Canadian economy.[4]

[3] Statistics Canada (2015), *Provincial and Territorial Culture Satellite Account, 2010*. According to the PTCSA: "Employment in culture industries is measured by the number of jobs in each of the culture industries. It covers all jobs in the industry required to produce both culture and non-culture output. For example, the performing arts industry may require an individual to collect admissions tickets to a live performance (job from culture activity) and a bartender in the food and beverages services (a job from a non-culture activity). Both jobs are included in the estimate of employment in culture industries." Furthermore, the employment figures include "jobs held by the self-employed, employees and unpaid family workers. It should be noted that a job that exists for only part of the year (e.g., 4 months) counts as only a fraction of a job (1/3 of a job) for the year. It should also be noted that a part-time job at 10 hours a week counts as much as a full-time job at 50 hours a week." In the PTCSA, "a person can have more than one job and those jobs can be in different industries."
[4] Ibid.

Figure 1: Economic Significance of the Creative Industries in Canada, 2010

Industry/Domain	Output ($ million)	GDP ($ million)	Jobs
Film, Video and Broadcasting (incl. radio – as it is not disaggregated in the CSA –, and streamed/downloaded content)[5]	24,542	11,651	98,292
Sound Recording and Music Publishing[6]	1,267	508	12,219
Books, Periodicals and Newspapers[7]	9,775	4,848	58,838
Interactive Media[8]	3,715	2,203	20,638

Source: Statistics Canada (2015), *Provincial and Territorial Culture Satellite Account, 2010*.

The CSA represents a data source for the entire creative sector and parts thereof, thereby allowing comparability and summation of the cultural industries included in this report. However, more recent but also more varied industry-specific economic figures are also available, further revealing the proportions of these industries, for example:

- **Film and television:** In 2013/2014, there was $2.29 billion in Canadian television production volume, and $376 million in theatrical film production. In total, Canadian film and television production generated 57,100 full-time equivalent jobs (FTEs), including 22,500 directly employed as cast and crew.[9]

---

[5] Statistics Canada (2015), *Provincial and Territorial Culture Satellite Account, 2010*. This category includes feature films, short films, live action and animated films, documentaries, videos, and interactive movies, including in HD, digital, streamed and downloaded formats, as well as dissemination services such as film festivals and related events. It also includes broadcasters and service providers of traditional, pay and specialty radio content; cable, pay and specialty television programming; and Internet-based broadcast content such as podcasts, on-line, streamed, and digital radio and television programs.
[6] Ibid. This category includes sound recording services, record production, record reproduction, and distribution, in all formats, regardless of delivery platform, including on-line digital or downloaded music content.
[7] Ibid. This category includes all published content and formats, regardless of delivery platform, including print, audiobooks and eBooks, as well as dissemination services such as book fairs, literary festivals, reading series, and related events, on-line versions, webzines (e-zines), and other digital and electronic publishing and delivery, as well as dissemination services such as magazine fairs and related events. electronic, and web-based newspapers, as well as other digital and electronic publishing and delivery.
[8] Ibid. This category includes console games, on-line games, wireless games, and PC games as well as other related interactive digital edutainment products.
[9] Canadian Media Production Association (CMPA) (2014), *Profile 2014: Economic Report on the Screen-based Media Production Industry in Canada.*

- **Music:** In 2014, total recorded trade value from physical and digital sales in Canada was $345.2 million, and Canada had the seventh largest music market in the world.[10]
- **Books:** In 2014, total value of book sales in Canada was $934 million.[11]
- **Magazines:** In 2014, total advertising revenue for general magazines in Canada was $472 million.[12] In 2013, circulation revenue for the magazine and periodical publishing industry was reported to be nearly $477 million.[13]
- **Newspapers:** In 2014, total advertising revenue for newspapers in Canada was $2.3 billion.[14] In 2012, total circulation revenue for daily and community newspapers was estimated to be $847 million.[15]
- **Games:** Total expenditures by the Canadian video game industry in 2015 were estimated at $2.36 billion, and the industry generated 36,500 FTEs, including approximately 20,400 employed directly by the industry.[16]

As the figures above show, these creative industries sustain hundreds of thousands of jobs and constitute a significant driver of the Canadian economy. These industries are economic engines that continue to attract Canadians into related educational and training programs each year. The stakes are high, both in economic terms and beyond, as the economic significance of these industries only partially reflects their importance – their contribution also comprises their enrichment of lives and reflection and celebration of Canadian culture.

---

[10] IFPI (2015), *Recording Industry in Numbers: The recorded music market in 2014*. Music Canada, Statistics 2014. Note that this figure is not a comprehensive reflection of the size of the Canadian music industry; it only includes sale of CDs and other physical formats such as vinyl, singles and DVDs, and digital sales including downloads, mobile (e.g., ringtones and other personalized mobile products), subscriptions and ad-supported. It does not include other revenue streams such as performance rights and synchronization licenses.

[11] Booknet Canada (2014), *The Canadian Book Market*.

[12] TVB (2014), Net Advertising Revenue; includes general magazines.

[13] Statistics Canada (2015), *Periodical publishers, advertising and circulation revenue, every 2 years*, CANSIM table 361-0052; includes businesses classified under NAICS 511120.

[14] TVB (2014), Net Advertising Revenue.

[15] Statistics Canada (2012), *Service Bulletin: Newspaper Publishers*, Catalogue no. 63-241-X.

[16] Entertainment Software Association of Canada (ESAC) (2015), *Canada's Video Game Industry in 2015*. Note: in any figures cited from this report, reference to data from 2015 is from the 2015 Industry Survey and could refer to data related to the 2014 fiscal year or the current state of business in 2015.

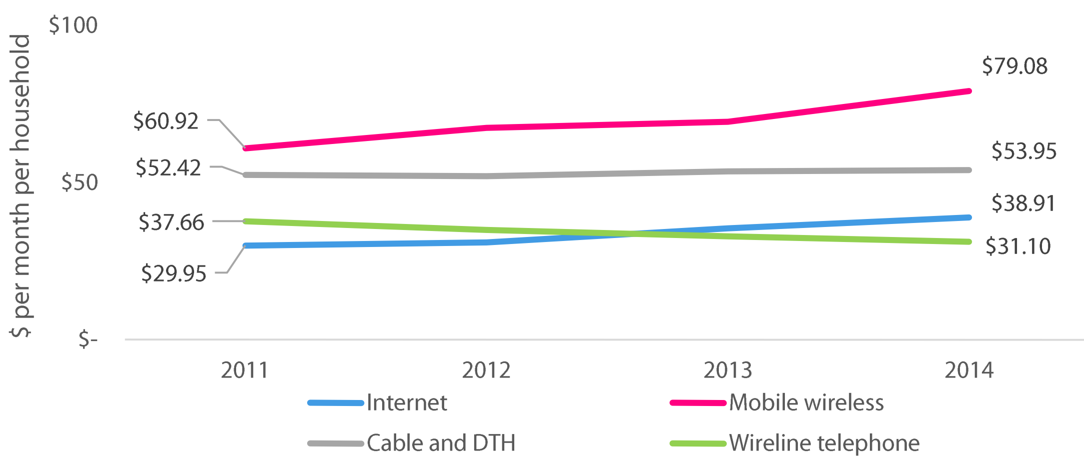
2.2 Industry and Market Factors

The changing technological landscape has had an immense influence on the way the creative industries deliver content to audiences, as well as the way that content is consumed. To begin with, Canadians' access to high-speed Internet and mobile is higher than it has ever been. In fact, in 2014:

- 96% of all Canadians had access to a download speed of at least 5 Mbps (up from 86% only five years prior);
- 66% of Canadian adults owned a smartphone (up from 24% in 2010); and,
- 49% of Canadian adults owned a tablet (up from 39% in 2013 and only 3% in 2010).[17]

Moreover, Canadians' spending on Internet and mobile wireless services increased overall and as a proportion of their total spending on communications.

Figure 2: Monthly Household Communications Expenditures, by Service



Source: CRTC (2015), *Communications Monitoring Report*.

As shown in the figure above, Canadian households spent, on average, $118 per month on Internet and mobile wireless services in 2014, accounting for 58% of their overall communications expenditures. In 2011, total average household spending on these services was just over $90 (nearly a 30% increase over three years) and represented 50% of household spending on communications services.[18]

As a result of this near-ubiquitous level of access to the Internet through a variety of devices, an overwhelming majority of Canadians are poised to access cultural content via digital channels. This

---

[17] Canadian Radio-television and Telecommunications Commission (CRTC) (2015), *Communications Monitoring Report*.
[18] Ibid.

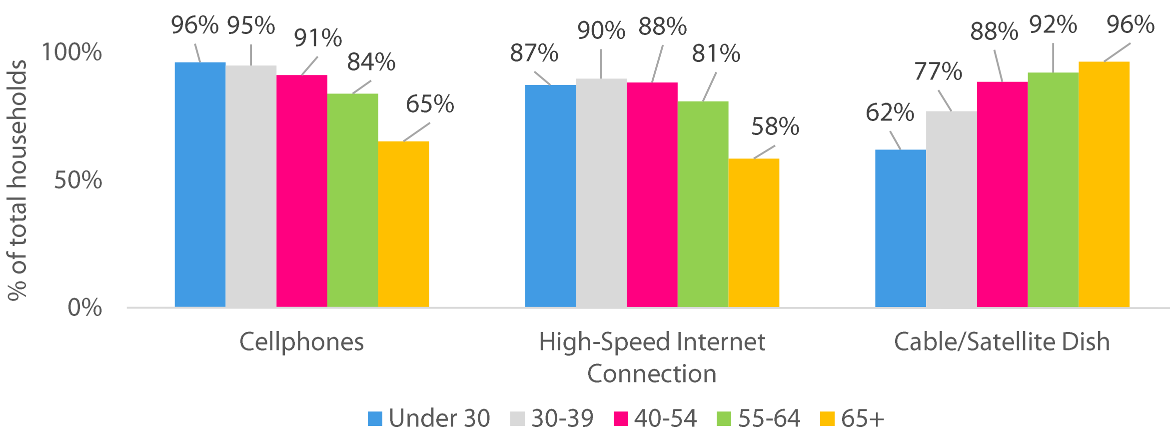
level of access to digital infrastructure facilitates and drives demand for, and access to, content anytime, anywhere, and on any device. In fact, the "total digital population" in Canada had reached 29.4 million toward the end of 2014, including:

- 27.9 million individuals reached through desktop computers, and,
- 15.8 million individuals reached via smartphones and tablets.[19]

The increasingly networked nature of media consumption and communication also means that this growing digital population is reachable by various social media and other digital marketing and promotional channels, many of which have the potential to displace more conventional media channels.

The trend toward digital communication and consumption is more pronounced among younger segments of the population. Older Canadians remain loyal to more conventional content consumption channels while the younger segments of the population have embraced new forms of access.

Figure 3: Percentages of Households with Selected Devices and Services, by Age Group (2013)



Source: Communications Management Inc. (2015), *Canada's Digital Divides*.

For example, as shown in the figure above, households that fall into the over 65 age group have the highest rate of cable/satellite dish access (96%) and the lowest rates of cellphone ownership (65%) and high-speed Internet connection (58%). Conversely, high-speed Internet access is highest among age groups under 55 (87-90% penetration) and cellphone penetration rates are comparably higher for those groups under age 40 (95-96%).

This data set indicates that there has been a decline in the use of conventional platforms among younger consumers, and potentially more imminent ubiquity of mobile and higher bandwidth platforms overall. It should also indicate that lower usage of conventional platforms will possibly not

[19] comScore (2015), *Canadian Digital Future in Focus*. Figures are for 2014 Q4.

happen as quickly as some would think, with a majority of all age groups continuing to have access to a cable/satellite dish connection. Trends among different age groups, where relevant, are discussed in further detail in each industry.

2.3 Consumer Spending

When it comes to consumers accessing creative content, online consumption has now become omnipresent. Beyond the shift toward digital manifestations of creative products, there is now an increasing number and variety of options available to consumers who prefer to pay for *access* rather than *ownership* of content.

Subscription-based, pay-per-use and other alternative revenue generation models have been emerging alongside online consumption in the creative industries, for example:

- In film and television, there are many subscription-video-on-demand (SVOD) services such as Netflix, Shomi and CraveTV, and transactional-video-on-demand (TVOD) – including electronic-sell-through (EST) or download-to-rent (DTR) – services available through set-top boxes or over-the-top (OTT) platforms such as iTunes.
- In music, tracks and albums can be downloaded via iTunes and Google Play, or streamed through subscription services from Apple Music, Spotify and Tidal.
- In publishing, a multitude of paywall and micro-payment models have emerged for newspapers, many magazine publishers deliver issues via in-house apps or aggregate subscription-based platforms such as Texture, and the book industry is experimenting with similar subscription models through platforms such as Scribd and Kindle Unlimited.
- Digital games are increasingly purchased through online platforms such as Steam, Google Play, and the App Store, and revenue models such as in-app purchases are prevalent.

Increased use of these new aggregation, distribution and retail platforms reduce reliance on traditional models, such as brick-and-mortar retail points (e.g., book stores, record stores, video games stores, video rental stores) or traditional subscription models (e.g., cable subscriptions).

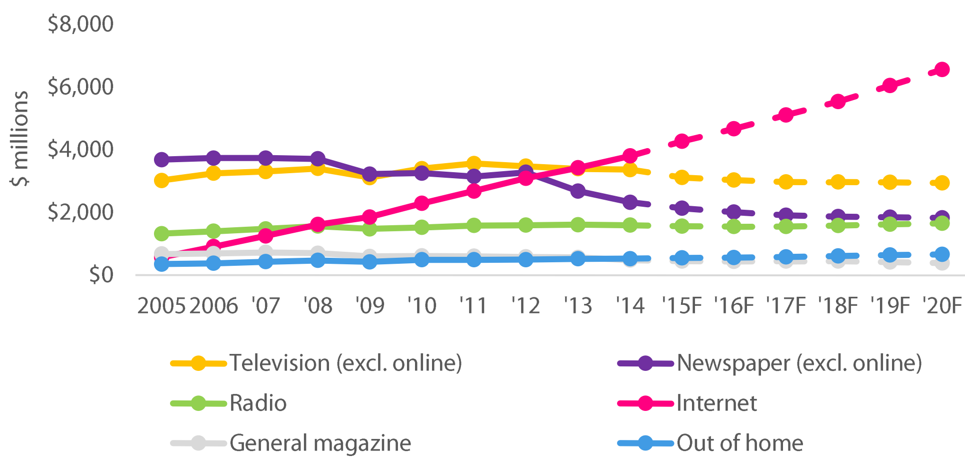
Many of these new distribution and consumption routes are international, and thus redirect the economic activity generated out of Canada, and/or bypass the traditional Canadian distribution system. Such platforms include those noted above, while specifically in television, OTT channels (e.g., international ones such as Netflix, but also Canadian-owned Shomi and CraveTV) further benefit from a blanket exemption from the CRTC.

2.4 Advertising Spending

As "eyeballs" move to online media channels, advertisers have increased their spending in that space. However, advertising revenue in television, radio, and even in print magazines is holding relatively steady.

Total media advertising revenue in Canada climbed to nearly $12.47 billion in 2012, before declining to $12.15 billion in 2013 and further to **$12.05 billion in 2014.**[20] The figure below shows the breakdown of this revenue across various major media, including Internet, both historically and projected to 2020.

Figure 4: Historical and Projected Advertising Revenue Generated by Major Media (2005-2020, CDN$, millions)



Source: Peter Miller and Nordicity (2015), *Canadian Television 2020: Technological and Regulatory Impacts*.

As shown above, not only has advertising revenue remained steady for most traditional media segments over the past decade, it is anticipated to remain **stagnant** to 2020**.** The exception to this trend is newspapers, which have seen a marked **decline** that is expected to continue, although at a slowing pace. Over the period depicted, however, Internet advertising has experienced significant growth, reaching nearly $4 billion in 2014. The segment is expected to continue to grow to over $6.5 billion by 2020. At that point, it will account for just under half (47%) of overall entertainment and media advertising revenue in Canada ($14 billion).[21]

The split between Internet advertising and advertising on conventional media channels overall has significantly changed over the past few years. Internet advertising accounted for 14% of all major media advertising revenue in 2008, and it had grown to nearly a third by 2014 (see table below).

---

[20] TVB (2014), Net Advertising Revenue.
[21] Peter Miller and Nordicity (2015), *Canadian Television 2020: Technological and Regulatory Impacts*.

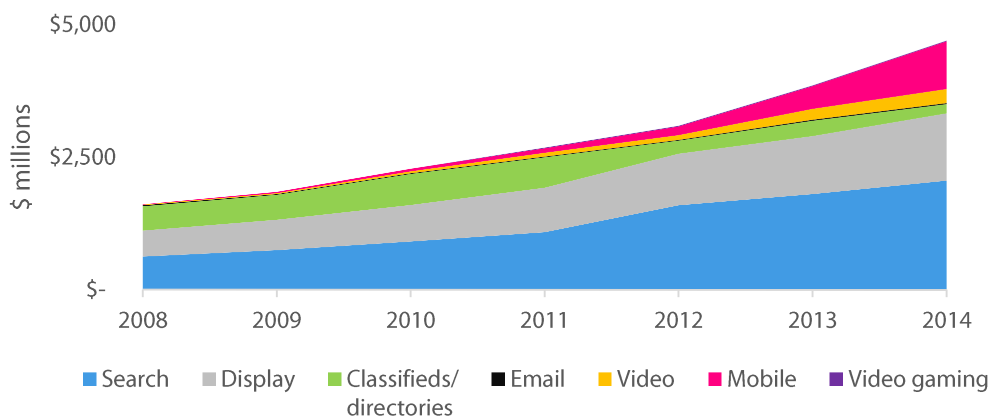
Figure 5: Growth of Advertising Revenue Generated by Internet Channels Compared to Traditional Media in Canada, 2008 to 2014

Media Channel	2008 $ mil	% of Total Internet Advertising	% of Total Major Media Advertising	2014 $mil	% of Total Internet Advertising	% of Total Major Media Advertising
Total Internet Advertising	**1,609**	**100%**	**14.1%**	**3,793**	**100%**	**31.5%**
Search	622	38.7%		2,052	54.1%	
Display	490	30.5%		1,274	33.6%	
Mobile	7	0.4%		903	23.8%	
Video	12	0.7%		266	7%	
Classifieds/Directories	460	28.6%		171	4.5%	
Email	18	1.1%		19	0.5%	
Video Gaming	-	-		11	0.3%	
Total Major Media Advertising (excl. online)	**9,806**		**85.9%**	**8,259**		**68.5%**

Source: TVB (2015), Net Advertising Revenue.

Among Internet advertising channels, display, video and mobile have been the fastest growing segments. Search advertising has and continues to account for the largest portion of Internet advertising revenue in Canada, at more than half in 2014, while display advertising has maintained a one-third share of this revenue. Mobile advertising revenue has experienced tremendous growth, increasing from less than a half-percent share in 2008 to nearly a quarter of total Internet advertising revenue in 2014. The breakdown of revenues in Internet advertising is shown in the figure below.

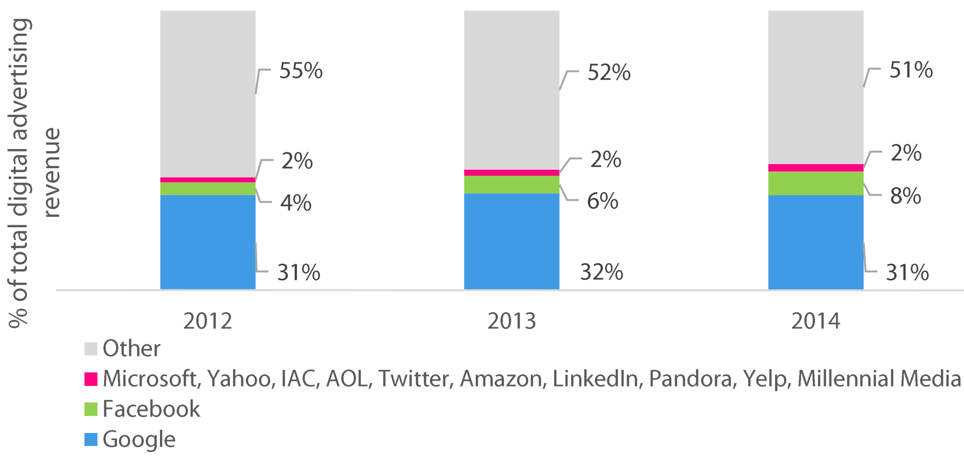
Figure 6: Breakdown of Advertising Revenue Generated by Internet Channels in Canada, 2008 to 2014



Source: TVB (2015), Net Advertising Revenue.

Not only is the share of online advertising spending high and continuously growing, this high volume of spending is largely going outside of Canada. Nearly half of global digital advertising revenue is captured by international online market leaders, while the other half of revenue is shared among smaller players ("other", in the figure below), who may be domestic or international. Google alone maintains approximately **one-third of global digital advertising revenue**, and half of mobile advertising revenue, while Facebook's share of the latter is likely to grow as it focuses more on video.

Figure 7: Net Digital Advertising Revenue Share Worldwide, by Company, 2012-2014



Source: eMarketer (2014), "Microsoft to Surpass Yahoo in Global Digital Ad Market Share This Year."

Assuming that Canada follows a similar revenue breakdown as the global shares represented above, then it can be estimated that roughly **$1.8 billion** – that is, half of the total Internet advertising revenue generated in Canada ($3.8 billion, as shown in Figure 5) – went to foreign entities in 2014. Some (although not all) of this revenue was generated at the expense of spending on other major media channels. This trend means that the rise of digital advertising has not been accompanied by a rise in the demand for content. Although some of these platform companies are spending some on content, they are not OTT operators for the most part. Digital advertising does not need the same kind of content to drive audiences to their platforms as some traditional media like broadcasting, newspapers and magazines and so in turn, does not invest in content creation or acquisition.

2.5 Cross-sector Impacts and Consequences, by Revenue Stream

In the remainder of this report, we will examine more specifically the various areas in which consumer spending and advertising spending are redirected outside of Canada as a result of the evolving dynamics in the creative industries.

Many readers will be familiar with the trends described above and the evolving dynamics of the creative industries (Canadian and global). In the table below, however, we attempt to translate, and to the extent possible quantify, the impact of the consumer and advertising spending that is redirected outside of Canada. Of course, many figures were not readily or publicly available at the time of writing this report. Nonetheless, we examined those that were publicly available and made credible and conservative assumptions when necessary. While not exhaustive, the table below provides a summary of the significant revenue impact. Each of the areas of impact described below are elaborated on in the following sections as we more closely investigate each industry.

Figure 8: Summary of Cross-Sector Impacts, by Revenue Stream

Industry	Consumer Spending	Advertising Spending
Film and Television	▪ For film and television programs, subscription spending redirected out of Canada by Netflix is estimated at **$445 million** (for 2014). Netflix dominates the SVOD market despite two recent domestic entrants, but is still in many cases an add-on rather than replacement of a BDU subscription. ▪ Feature film distribution revenue is also affected – because Netflix directly competes with VOD licensees and subscription-based pay TV, which are subject to regulations and Canadian content requirements.	▪ The attractiveness of digital platforms and Internet advertising diverts revenue from and has significantly softened the market for conventional and specialty television advertising. The lack of growth and even loss of total television advertising can be directly attributable to the vigorous growth of digital advertising. ▪ YouTube takes out more potential advertising revenue, and generally shares 45% of that revenue with the rights holder. An estimated **$22.5 million** of Canadian digital advertising revenue went to YouTube (in 2014).
Music	▪ Retail portion of music sales displaced by iTunes and Google Play's prominence as points of sale, with these retailers' share estimated at **$50 million.** ▪ Subscription streaming on the rise, but dominated by foreign companies like Spotify and Apple. The segment accounting for **$15 million** of the Canadian music industry (2014).	▪ Ad-supported streaming is growing, and also dominated by foreign companies. The segment's revenue accounted for **$19 million** in Canada (2014).
Publishing	▪ Revenue derived from Canadian bricks and mortar retailers displaced by online retailers such as Amazon. ▪ Publishers derive lower profit margin/return from e-book sales. ▪ Newspaper print subscription figures declined as younger segments (and increasingly all segments) access newspaper content via digital channels (and for the most part, for free).	▪ Growth in online advertising significantly displaced print newspaper and magazines. ▪ Brands/entities divert advertising spending from "traditional media" and even desktop consumption to non-Canadian-based social networks (e.g., Facebook, Twitter), Google and other recipients. ▪ Estimated to be some $432 million loss, half of which (**$216 million**) is likely diverted to foreign-controlled online entities.
Games	▪ No direct impact	▪ No direct impact

To put the magnitude of these impacts intro perspective, a tally of *only* those impacts that we were able to quantify puts advertising and subscription revenue flowing out of the regulated system somewhere in the range of $700-800 million. As noted above, impacts were quantified only where data was readily available. It is thus no surprise that Canadian policy makers continue to face the challenge of safeguarding the creation and availability of Canadian content.

Aside from the diversion of revenue and the corresponding decline in commitment to source or invest in Canadian content, other consequences of these changing dynamics include the following:

- **Discoverability** is an increasingly significant challenge for Canadian content creators as new platforms, foreign distributors and retail services dominate access to audiences.
- In a globalized marketplace, domestic products, services and platforms face increased **international competition** for audiences.
- In industries where investment in Canadian content is regulated, new (digital) platforms are **exempt from reinvestment** in content production (and in some cases, taxes), and so have a competitive upper hand.
- The creative industries, at risk from increased competition, have less revenue from traditional channels to reinvest in Canadian content production, and private distributors will likely continue to make a case for **decreasing existing commitments** to Canadian content.

The consequences of these consumer and advertising trends are the result of technology, and the natural rise of enormous powerful media organizations – at present, none of which are in Canada. One could argue that the cultural toolkit, which has well served this country thus far, has fewer options in these circumstances. Clearly, reflection on this trend and the future potential of policy will challenge industry stakeholders for years to come.

The remainder of this report discusses the above-described factors in terms of each industry, and expands on the impacts and consequences of the changing media landscape.

3. Film and Television Production

Snapshot of Canada's Film and Television Industry

- In 2013/14, total film and television production volume in Canada was $5.86 billion, and the industry generated 125,400 direct and spin-off FTEs.[22]
- BDU and television broadcasting revenue totaled $15.7 billion in 2014.[23]
- Box office revenue in Canada totaled $1.04 billion in 2013.[24]

3.1 Industry and Market Factors

One of the most significant shifts in the film and television industry is that today, video content is being produced at record levels and increasingly available through a multitude of online channels. For example:

- Roughly 400 hours of video content are uploaded to YouTube every minute.[25] Very little of that is "professional," yet the platform is being used more and more by content producers to generate income through ad-supported mechanisms.
- Spending on original programming is a strategic focus for top OTT players such as Netflix, Hulu, and Amazon (and now YouTube), and total spending on content acquisition among Netflix, Amazon and Hulu was estimated at US$6.5 billion in 2015.[26]

As a result, the marketplace for content is saturated, and while producers can reach audiences though a variety of channels, many of these are often unpaid and/or unregulated.

In tandem with the increased availability of content, viewing habits are also changing, in particular shifting from appointment television – e.g., over-the-air (OTA), specialty and pay TV – to on-demand and online channels, as well as binge-watching and multi-tasking. For example:

- Canadians, on average, watched 24.6 hours of video online monthly in 2014, up 36% from 2013 (and 5.1 hours more than their US counterparts).[27]

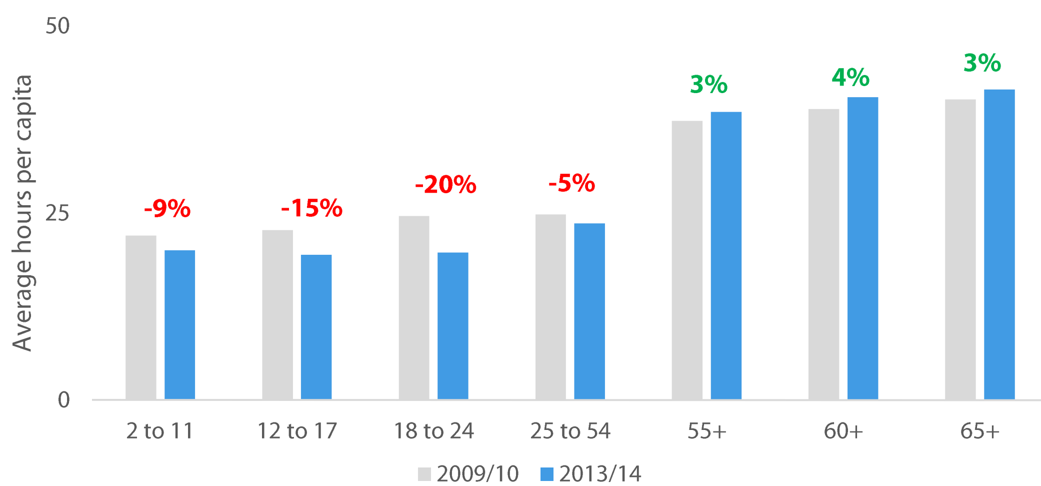
---

[22] *Profile 2014*; figures include television production, theatrical feature film production, foreign location and service production, and in-house production by broadcasters.
[23] CRTC (2015), *Communications Monitoring Report*; revenue figure includes conventional (CBC and private) television, discretionary services, cable and IPTV, DTH/MDS undertakings and non-reporting BDUs. CBC revenue includes advertising and other commercial revenue, but does not include Parliamentary appropriations.
[24] Ibid.
[25] YouTube Statistics, as of March 2015.
[26] RBC Capital Markets, as reported by Wall Street Journal (June 16, 2015) "Hulu Steps up its fight against Netflix. "
[27] comScore (2015), *2015 Canada Digital Future in Focus*.

- In 2013, 64% of Anglophone Canadians aged 18-35 reported having "binge-viewed" a series (compared to 50% across all age groups and only 27% of those aged 65+)[28]; and,
- An estimated 32% of smartphone subscribers used their phone while watching television in 2014, and 35% of those with tablets used their tablet while watching television.[29]

Despite these indicators of changing habits, viewers watched only slightly less television in 2013/14 than they did in 2009/10, with audience data showing a 3% drop in average weekly hours per capita over that period (from 27.7 to 26.9).[30] While that drop represents average viewing among audiences of all ages (i.e., 2+), the figure below shows the difference in viewing trends across different age groups.

Figure 9: Average Weekly Per Capita Hours of Television Watched, by Age Group, % Change between 2009/10 and 2013/14



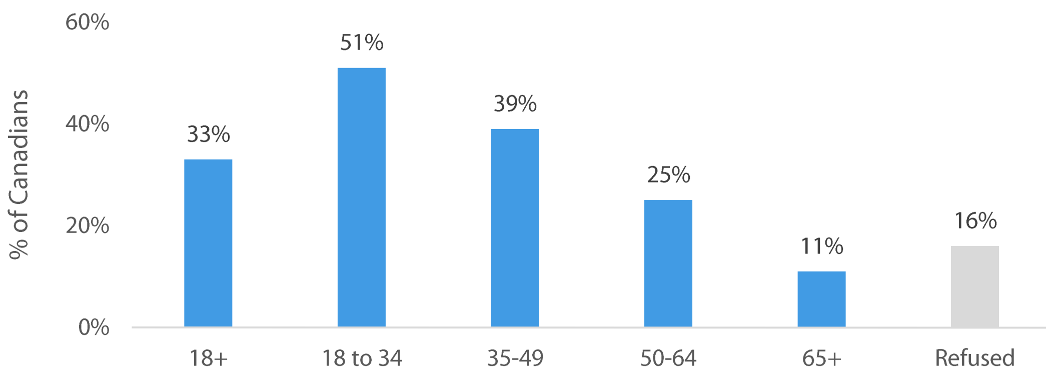
Source: TVB (2015), PPM Audience Statistics.

Despite the decline overall in viewing hours, older Canadians watched more television in 2013/14 than they did four years prior. Younger demographics, on the other hand, demonstrated a higher than average decline in their viewing hours over that period, with the 18-24 group watching 20% less hours of television per week. In 2013/14, Canadians 18 to 24 years of age watched an average of 19.7 hours per week per capita while those over 65 watched more than twice as much, at an average of 41.5 hours per week.[31]

[28] Media Technology Monitor (2014), *Fall 2013: Top 5 Sneak Peek.*
[29] comScore (2015), *2015 Canada Digital Future in Focus.*
[30] TVB (2015), PPM Audience Statistics.
[31] Ibid.

OTT subscription rates are in line with the trends discussed above, including changing viewing habits, greater penetration of smart phones and access to higher bandwidth, and usage social media and the like among younger audiences. As the figure below illustrates, Netflix's penetration rate is highest among the 18 to 34 cohort, with over half of Canadians in that age group subscribed to the service in 2014.[32]

Figure 10: Percentage of Canadians Subscribed to Netflix, by Age Group (2014)



Source: CRTC (2015), *Communications Monitoring Report.*

With access to content anytime, anywhere and on any device, what is it that keeps audiences (particularly older generations) loyal to "traditional" television – that is, OTA, specialty and pay TV? Looking at viewing habits by genre, it seems that that the demand for broadcast television has been somewhat sustained by drama/comedy, reality, sports and news programming. These four categories of programming constituted nearly 85% of weekly viewing hours for Canadian programs broadcast by Canadian television services in the 2013/14 broadcast year (as shown in the table below).

Figure 11: Average Weekly Viewing Hours for Canadian Programs Broadcast by Canadian Television Services, by Program Category

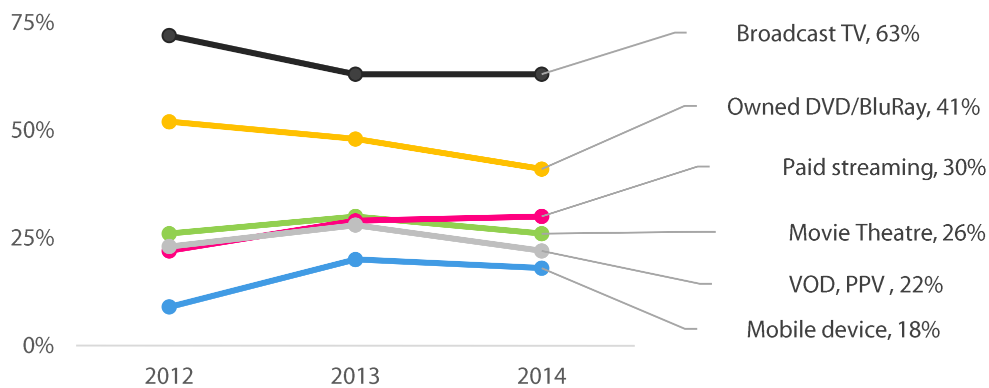
Program Category	Million hours viewed in 2013-14 (% of total)
Drama and comedy	227.5 (38.1%)
General entertainment / Human interest / Reality	97.6 (16.3%)
Sports	95.5 (16.0%)
News	84.4 (14.2%)
Other informational	50.2 (8.4%)
Long-form documentary	11.2 (3.9%)
Game show	9.1 (1.5%)
Music, dance and variety	9.0 (1.5%)
Other	4.1 (0%)

Source: CRTC (2015), *Communications Monitoring Report*.

[32] CRTC (2015), *Communications Monitoring Report.*

Broadcast television is also a popular platform for accessing feature films. In 2014, it was estimated that 63% of Canadians watched a movie on broadcast television, although that figure had declined from 72% in 2012.

Figure 12: Use of Movie Viewing Platforms, at Least once a Month, 2012-2014



Source: Telefilm Canada (2014), *Canadians and Films*.

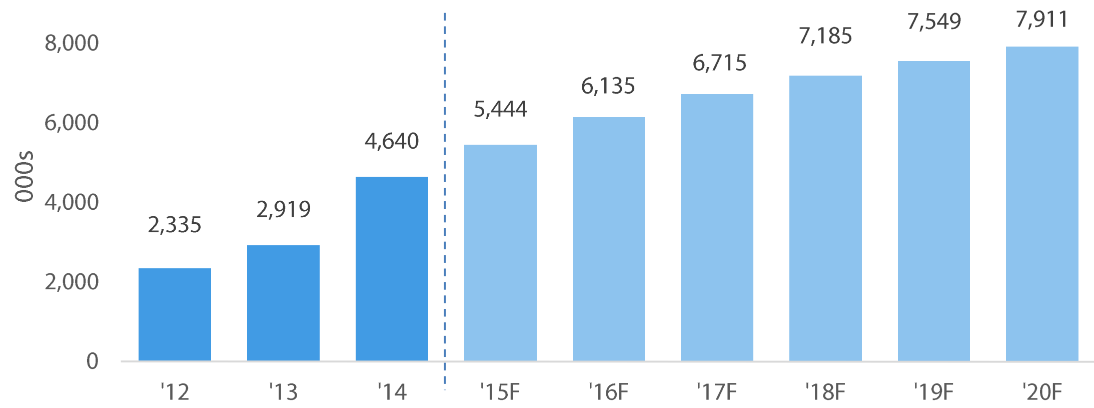
Not surprisingly, over that same period, Canadians increased their use of paid streaming and mobile devices to watch films, the latter of which increased in penetration from 9% in 2012 to 18% in 2014.[33] Therefore, while online and OTT channels may be threatening the penetration rates of broadcast television, they provide new paths of distribution for feature films.

3.2 Consumer Spending

With the ongoing shift toward online television viewing, consumer spending has been redirected to OTT subscription services. Recent Canadian entrants Shomi and CraveTV have joined market leader Netflix in this segment and are contributing, although still minimally, to the segment's growth. The figure below shows the historical growth in the number of OTT subscribers in Canada, as well as the segment's projected growth to 2020.[34]

[33] Telefilm Canada (2014), *Canadians and Films*.
[34] Peter Miller and Nordicity (2015), *Canadian Television 2020: Technological and Regulatory Impacts*.

Figure 13: Number of OTT Subscribers in Canada, Historical and Forecast to 2010

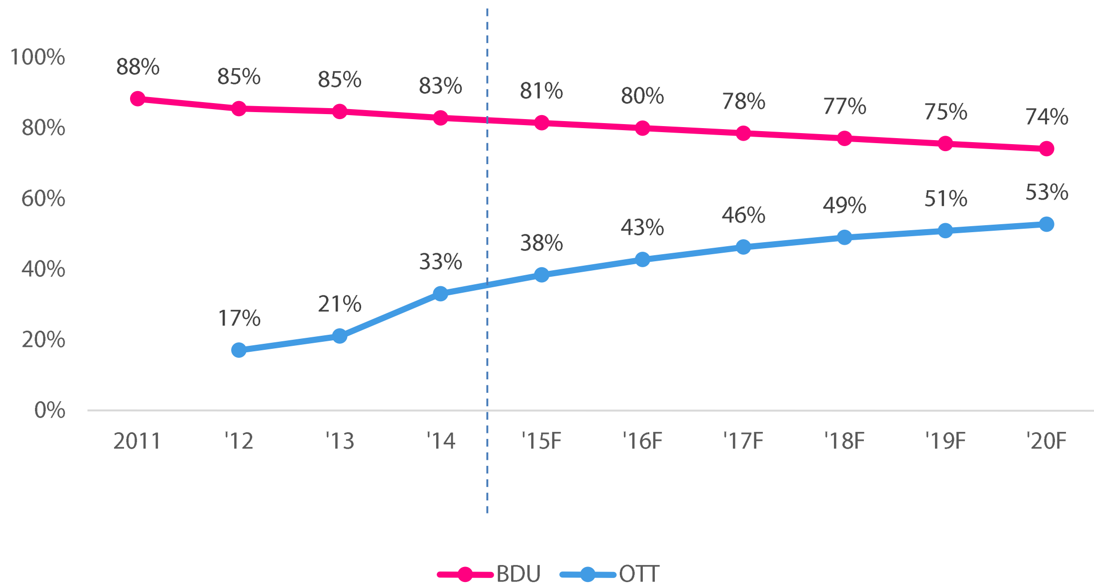


Source: Peter Miller and Nordicity (2015), *Canadian Television 2020: Technological and Regulatory Impacts*.

Shomi, which is owned by Rogers and Shaw, was made available to all Canadians as a stand-alone service in August 2015, and CraveTV followed suit in January 2016. While there is no data yet available on the number of *paid* subscribers, it was reported that CraveTV had already accumulated **727,000** subscribers in its first seven months of service. At this point, Netflix continues to dominate the SVOD market in Canada – in 2014, even if we assume that all subscribers in Canada subscribed to the lowest subscription tier at $7.99 per month, with 33% of Canadians subscribed to Netflix, Canadians would have spent approximately **$445 million** on Netflix subscriptions.

The figure below juxtaposes the projected penetration of BDU and OTT subscriptions, reflecting a slow decline in BDU subscriptions as a result of cord-cutting. At the same time, it shows continued growth in OTT subscriptions in part due to the introduction of Canadian services.

Figure 14: BDU and OTT Subscription Growth, Historical and Forecast to 2020[35]



Source: Peter Miller and Nordicity (2015), *Canadian Television 2020: Technological and Regulatory Impacts*.

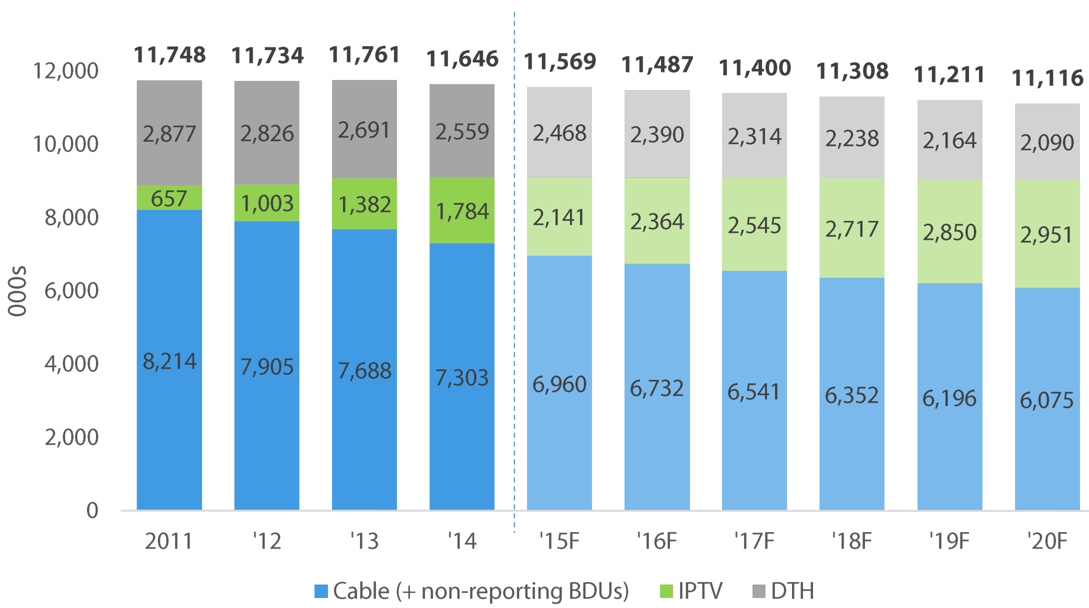
It seems that the impact of consumer spending on OTT services is mitigated by the fact that for most BDU subscribers, OTT is an add-on to rather than a substitute for their existing subscriptions. As a comparison, a recent study showed that most (84%) OTT subscribers in the US also subscribe to pay TV, while only 49% of pay TV users have subscribed to Netflix.[36]

[35] The penetration rates presented in Figure 14 have been calculated in order to be as consistent as possible with the approach adopted by the CRTC in its calculation of historical penetration rates for BDU services (see 2015 Communications Monitoring Report, p. 132). The CRTC calculates BDU penetration on the basis of the total number of BDU subscribers (i.e., BDU subscriptions) ÷ the total number of households in Canada. In this case, the total number of BDU subscribers will not be equivalent to the total number of households subscribing to BDU services, since the subscriber amount will also include commercial BDU subscribers (e.g., bars). The penetration rate for OTT services has been calculated on the same basis as for BDU services – estimate/forecast of the total number of OTT subscribers (rather than subscriptions) ÷ the total number of households in Canada. Technically, one would have used the number of OTT "subscriptions "in order to be purely consistent with the calculation of BDU penetration rates. However, such an approach would fail to recognize that a single household may have multiple OTT subscriptions but typically only has one BDU subscription (to authorized Canadian BDU services, at least).

[36] The Diffusion Group (TDG), "Pay-TV Use among Netflix Streamers Relatively Stable, While Netflix Streaming among Pay-TV Users Up 33%."

It should also be noted that BDU subscribership is and will continue to be somewhat sustained by growth in the IPTV segment, while cable and DTH subscriptions are projected to decline. The breakdown of BDU subscriptions is depicted in the figure below.

Figure 15: BDU Subscribers by Segment, Historical and Forecast to 2020



Source: Peter Miller and Nordicity (2015), *Canadian Television 2020: Technological and Regulatory Impacts*.

While OTT channels present a new point of access for films, Canadians continue to spend money at the box office. In 2013, box office revenue remained above the $1 billion mark for the fifth year in a row, although only around 2% of that revenue came from Canadian films.[37] As mentioned above, the proliferation of digital platforms as a means of accessing video content has made it possible for films to be accessed in a variety of new ways, presenting new *additional* opportunities for distributors beyond theatrical release and DVD.

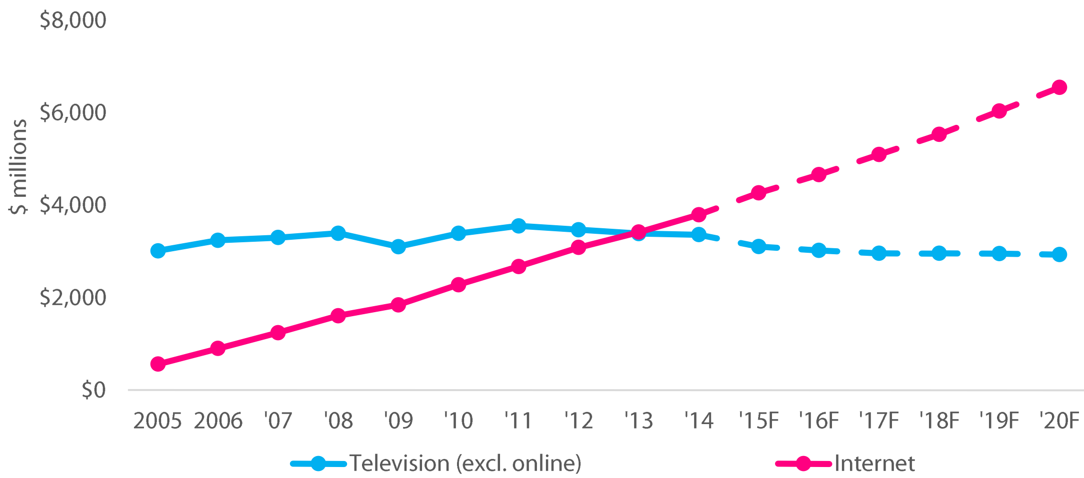
The dominance of Netflix in the Canadian market is also accompanied by peripheral fiscal revenue losses. Unlike domestic OTT platforms, Netflix avoids sales and corporate income taxes. Based on the revenue estimate above, the resulting loss in federal sales tax revenue alone would have been over $22 million in 2014.

[37] CMPA, *Profile 2014.*

3.3 Advertising Spending

The impact of advertising revenue on the television industry is partly a result of the shifting consumer habits toward on-demand platforms. It is also partly the result of the advertisers' shift toward digital media that is more likely to reach younger populations, a coveted segment of the market for advertisers. Below, the historical stagnancy and projected gradual decline in television advertising is shown against the significant growth of Internet advertising. Conventional TV, of course, suffers from any diversion of revenue away from advertising because advertising is the only real source of revenue for the segment.

Figure 16: Advertising Revenue Generated by Television and Internet, Historical and Forecast to 2020



Source: Peter Miller and Nordicity (2015), *Canadian Television 2020: Technological and Regulatory Impacts*.

As discussed in Section 2.4, a large proportion of Internet advertising is placed on non-Canadian channels, with Google accounting for about one-third of total digital revenue. In the US, YouTube accounts for 19% of Internet video advertising revenue.[38] If it were assumed that the same proportion applies in the Canadian context, over $50 million of advertising revenue would have gone to YouTube in Canada in 2014.[39] If in every case, the Canadian content provider received a 55% share of that revenue, in accordance with the company's general revenue-sharing model, YouTube would still capture $22.5 million.

Therefore, while television advertising has and will continue to experience a slow decline, the growth of digital advertising has no doubt made an impact. Beyond the diversion of advertising revenue to online (primarily foreign) entities, these trends have resulted in the softening of the market for television advertising, most significantly impacting those platforms that are highly dependent on advertising revenue (i.e., conventional television).

---

[38] eMarketer (2015), "YouTube Owns Nearly 20% Share of US Digital Video Ads."
[39] Total video Internet advertising revenue in 2014 was $266 million; TVB (2015), Net Advertising Revenue.

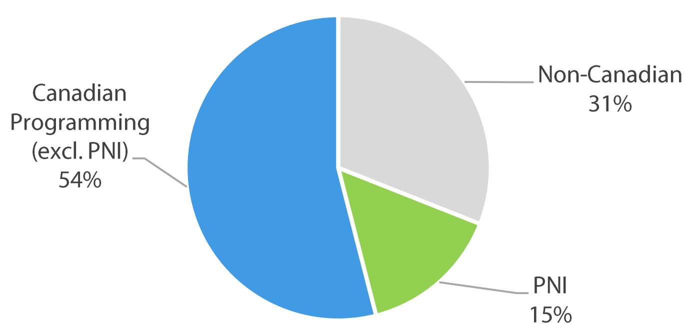
3.4 Investments in Canadian Film and TV Production

Beyond the diversion of subscription and advertising revenue, the trends discussed in the sections above have the potential to significantly impact the volume of Canadian film and television production. A decline in licensed broadcaster revenue means less regulated investment in Canadian content. Broadcasters have commitments to spend a portion of their revenue on Canadian Programming Expenditures (CPE) and within that requirement a minimum percentage to Programs of National Interest (PNI).

CPE commitments are lower for licensed VOD services – although obviously still more than those of OTT services (whether emanating from Canada or abroad). Therefore, a rise in VOD at the expense of conventional or pay and specialty TV services translates into less spending on Canadian programming.

In 2014, television programming expenditures totaled $4.2 billion, across all types of programming.[40] The breakdown of this total is shown in the figure below.

Figure 17: Television Programming Expenditures by Licensed Canadian Broadcasters, 2014



Source: CRTC (2015), *Communications Monitoring Report*.

There was nearly $3 billion in Canadian programming expenditures by conventional, pay, and specialty TV services in 2014. Another $475 million was spent by BDUs toward various Canadian programming commitments (e.g., Local Programming Improvement Fund, CMF, community television, and other independent funds, etc.) made in the 2013/14 broadcast year. In fact, broadcasters spent $0.43 of every dollar of revenue on Canadian programming (including PNI).

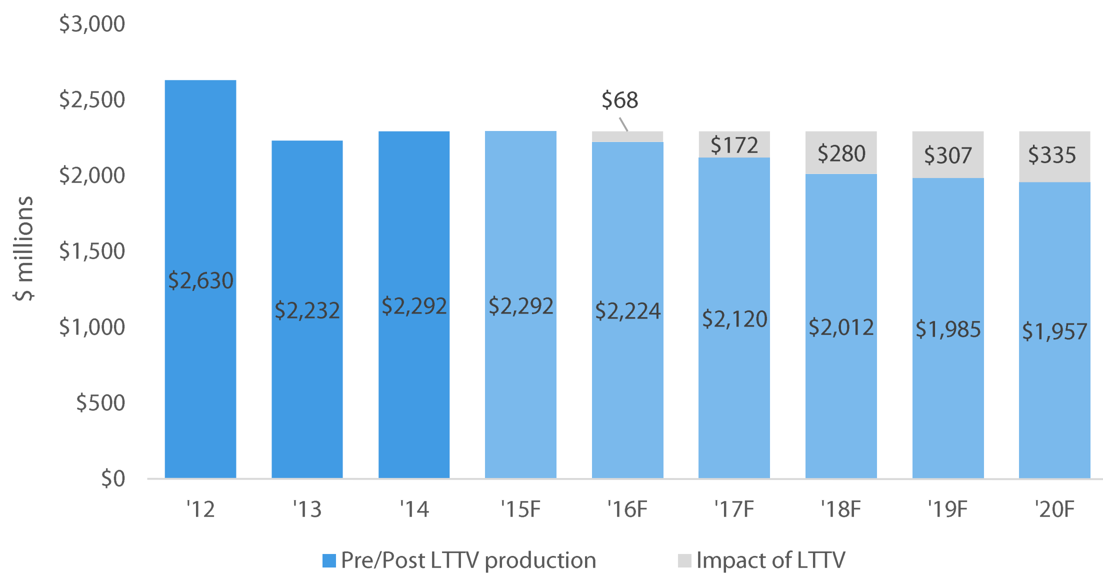
Industry revenue trends are likely to increasingly impact regulated support of the production sector by broadcasters over the coming years. Due to the continued incursion of OTT, it is estimated that by 2020, CPE contributions by BDUs and programming services would drop by roughly 5%, from where they stood in 2014. Over the same period, PNI contributions are estimated to see a slightly higher

[40] CRTC (2015), *Communications Monitoring Report.*

decline (7%).[41] The estimates were based on forecasts of the behaviour of BDUs, programming services, and TV viewers in response to the current and changing climate in the industry.

However, this same study forecast that the impact would be much more severe if the CRTC's "Let's Talk TV" (LTTV) decisions were to be implemented as intended. The projected impact of these changes on independent production of television programming is presented in the figure below.

Figure 18: Impact of LTTV Decisions on Independent Production Levels



Source: Peter Miller and Nordicity (2015), *Canadian Television 2020: Technological and Regulatory Impacts*.

It projected that the impact of current digital platform trends will be compounded by regulatory change, with the LTTV decisions resulting in a decline of $399 million in CPE by 2020. This decline, in turn, is projected to reduce independent production by $335 million (as shown above), approximately 15% below current levels.[42]

3.4.1 Value of Foreign OTT Services

Although difficult to quantify and even more challenging to project, the emerging international platforms are a new source of investment in Canadian content, as they acquire and commission programming. While the investment in Canadian content is not a figure that Netflix discloses, the nature of its investments thus far can provide some insights.

For example, Netflix pays well for the international rights for **library product** and invests in ***some*** **original content.** Indeed, some Canadian programming rights owners have made significant sales of

[41] Peter Miller and Nordicity (2015), *Canadian Television 2020: Technological and Regulatory Impacts.*
[42] Ibid.

library product (i.e., titles that have already been released through the various exhibition windows). In addition, some Canadian producers have sold original programming to Netflix (e.g., the *Degrassi* youth TV series franchise has migrated from US cable channels as a first window in the US to Netflix). Other rights holders of kids programming (animation), drama series, movies and documentaries have also sold key global rights to Netflix. Netflix also represents another Canadian market for inbound feature films for Canadian distributors – a competitor to Canadian pay TV.

However, in reality, Netflix is **not much different from a foreign network or distributor**, in the sense that it is an exclusive rights buyer for specific or global markets. While Netflix is an OTT network, and not a broadcaster, it still competes for rights in major markets. Therefore, in some ways, Netflix **displaces** the role of US networks or other large foreign broadcasters/distributors.

As such, Netflix is not strictly an incremental market. It is nonetheless beneficial to Canadian content creators by providing opportunities for Canadian producers to access foreign markets. There are **partnership or major investment aspirations** for Netflix as a partner among some content developers in Canada. Since Netflix typically acquires global rights, it can be a real trade-off decision for the Canadian TV rights owners – whether to sell all/most territories for several years in exchange for a large payment, or to retain specific markets in order to optimize the return to the rights holder.

Finally, while Netflix may buy original content**,** it does not necessarily invest in the *development of new programming* or support emerging and innovative areas of content creation. That aspect of the industry continues to be locally supported by Canadian producers and other partners.

The extent to which foreign OTT platforms will invest in Canadian content remains to be seen and the incremental revenue losses to the Canadian television broadcasting system as a result of OTT's emergence will continue to diminish regulated investment in Canadian productions.

3.5 Summary of Impacts on Film and Television

The table below summarizes the impacts on Canada's film and television industry described in the above sections.

Area of Impact	Consequences and Benefits
Consumer Spending	▪ For film and TV programs, subscription spending taken out of Canada by Netflix (estimated to be $445 million in 2014), which dominates the SVOD market despite two recent domestic entrants. OTT is still, in many cases, an add-on rather than replacement of BDU subscription. ▪ Feature film distribution revenue is also affected, as Netflix is directly competitive with VOD licensees and subscription-based pay TV, which are subject to regulations and Canadian content requirements. However, OTT provides an additional distribution path for films, and Canadians are still spending money at the box office.
Advertising Spending	▪ The attractiveness of digital platforms and Internet advertising has diverted revenue from and significantly softened the market for conventional and specialty television advertising. Thus, the lack of growth and even loss of total TV advertising can be directly attributable to the vigorous growth of digital advertising. ▪ Online video channels take out more potential advertising revenue. In 2014, it is estimated that roughly $22.5 million of Canadian digital advertising revenues (accounting for revenue shared with content providers) went to YouTube.
Content Production	▪ The rise of OTT negatively impacts regulated investment in Canadian productions. ▪ While a potential source of additional investment, little is known (or can be projected) in terms of OTT platforms' contribution to Canadian content creation. ▪ In combination with regulatory changes coming out of the CRTC's LTTV decision, independent Canadian television production is projected to decline by 15% by 2020 (from 2014 levels).

4. Music

Snapshot of Canada's Music Industry

- Canada is the **seventh largest** music market in the world.[43]
- Total recorded music revenue from physical and digital sales in Canada was **$345.2 million**, with music acquired in digital formats accounting for **58%** of that figure.[44]

4.1 Industry and Market Factors

Consumer demand, and in turn the prevalent business models, in the global recorded music industry have been driven by the overarching shift from *ownership* to *access*. Service providers continue to innovate in order to provide consumers with better access to more content, and better curation of that content. In 2015, it was estimated that the total number of digital music services worldwide exceeded 400.[45] In turn, consumers are increasingly turning to these digital services for their music. Across the world's top 13 music markets:

- 57% of Internet users accessed music/music videos on YouTube;
- 38% accessed music streaming sites;
- 26% used download services.[46]

In Canada, the entry of streaming companies has been delayed, with Spotify[47] offering its services to the Canadian

Market leader Spotify alone has over 20 million subscribers and 75 million active users globally.

Apple Music, which launched in June 2015 and began collecting subscription fees from users at the beginning of October of that year, claimed to have over 6.5 million paid users (15 million users in total) globally.

[43] Music Canada, Statistics 2014. Note that this figure is not a comprehensive reflection of the size of the Canadian music industry; it only includes sale of CDs and other physical formats such as vinyl, singles and DVDs, and digital sales including downloads, mobile (e.g., ringtones and other personalized mobile products), subscriptions and ad-supported. It does not include other revenue streams such as performance rights and synchronization licenses.
[44] Ibid.
[45] IFPI (2015), *Digital Music Report 2015: Charting the Path to Sustainable Growth.*
[46] Ibid.
[47] Spotify subscriber info from Spotify website: https://press.spotify.com/ca-en/information/

market in 2014, joined by Apple Music's[48] launch later year. The entry of these digital streaming platforms followed on the heels of the Copyright Board of Canada's decision respecting Re:Sound's Tariff 8 on streaming royalty rates. Regardless of the late entry of these platforms into the Canadian market, it was estimated that in 2015, 71% of Canadians streamed music, and streaming volume had increased by 94% from 2014,[49] evidence that Canadians as consumers are quickly adopting the new distribution system.

Streaming services generally benefit from two revenue streams, which in combination follow a freemium model: ad-supported free use of the platform, and paid subscriptions. The increase in the use of streaming services is, interestingly, combined with a relatively high willingness to pay on the part of users. In fact, in 2014, it was estimated that 41 million people were paying for music streaming subscriptions globally, an increase of 46% from the year before and five times what it was in 2010.[50]

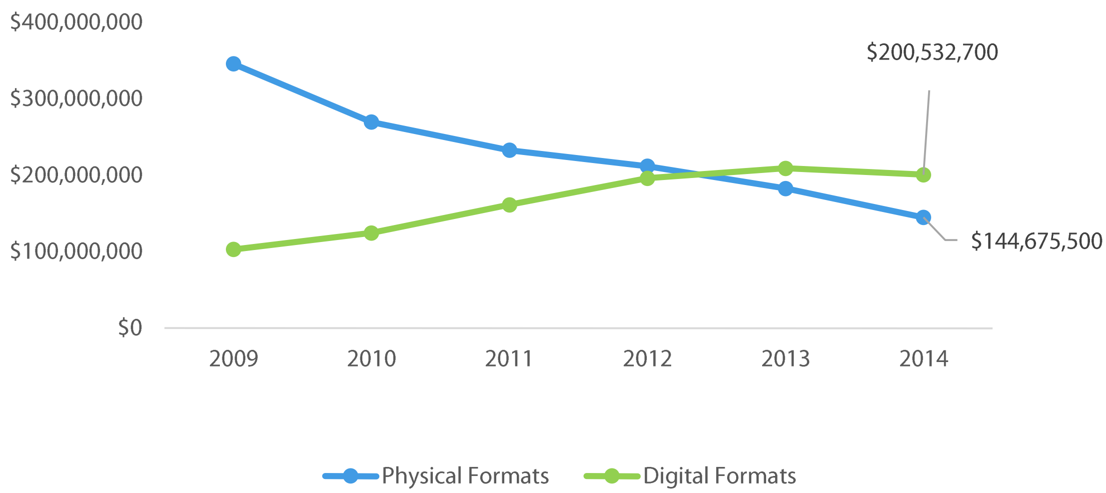
While the reception of streaming services has been positive from the consumers' perspective, there are implications for artists, who face ongoing challenges around discoverability on such platforms. They also receive royalties that have been criticized as being relatively lower than artists receive in other markets, such as the US. With royalty rates equal to only fractions of a cent per stream,[51] streaming has become an important revenue source only to a few market leaders in music.

4.2 Consumer and Advertising Spending

Physical music sales have experienced a continuous decline in recent years. In fact, 2013 marked the first year in which digital formats exceeded physical formats in terms of total trade value in Canada.

[48] Apple user info from Re/code (2015), "Apple Music Has 6.5 Million Paying Subscribers," http://recode.net/2015/10/19/apple-music-has-6-5-million-paying-subscribers/
[49] Neilsen, (2015), "What moves today's teenage Canadian music fan?"
[50] IFPI (2015), *Digital Music Report 2015: Charting the Path to Sustainable Growth.*
[51] Re:Sound (2014), "Copyright Board Certifies Re:Sound Tariff 8 – Non-Interactive and Semi-Interactive Webcasts (2009-2012).

Figure 19: Total Trade Value of Recorded Music in Canada, by Format



Source: Music Canada Statistics, 2014.

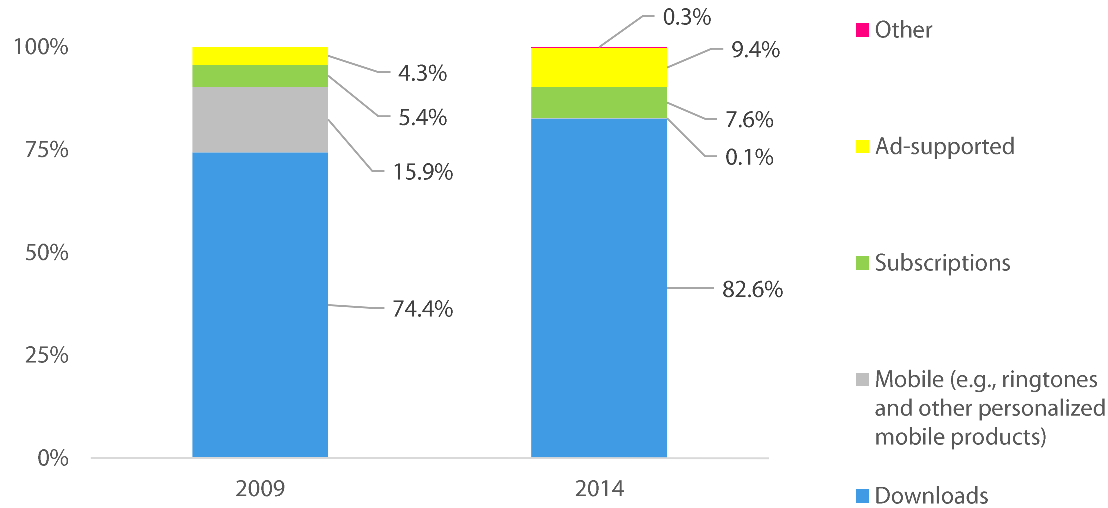
While digital sales overall have been on the rise, the drivers of that growth have shifted as new distribution models have emerged. As shown in the figure below, downloads account for the highest proportion of digital music sales. In 2014, this segment accounted for $165.6 million[52] in sales in Canada, yet after years of growth saw a decline of 10% from the previous year.[53]

The primary channels available to consumers for music downloads are foreign retail platforms such as iTunes Google Play. iTunes keeps 30% of each music download transaction.[54] Therefore, the continued prevalence of download music purchases is potentially displacing $50 million in the retail component of the music industry (that would have otherwise remained in the Canadian system if it were purchased according to the same terms through a Canadian retailer).

---

[52] Music Canada, Statistics 2014.
[53] IFPI (2015), *Recording Industry in Numbers: The Recorded Music Market in 2014.*
[54] TuneCore (2015), "Sell your music on iTunes."

Figure 20: Digital Music Sales Breakdown, as a Proportion of Total Digital Sales



Source: Music Canada Statistics, 2014

Looking at the breakdown of digital sales across the other segments, there was significant growth in both subscription and ad-supported channels, both of which can be expected to continue to grow alongside the availability and variety of streaming options available to Canadians. Subscription services in Canada captured over $15 million, while ad-supported reached nearly $19 million in 2014.

The demand for mobile music products, such as ringtones and other personalized music for mobile devices, has significantly declined. As such, the segment accounts for a minimal portion of digital sales (0.1%, as shown above), compared to 15.9% five years prior. The consumption of music via mobile devices, however, is strong in other segments, in particular streaming. In 2014, it was reported that half of Spotify users access music via their mobile device.[55]

Whether it is downloads or streaming, the vast majority of music consumption in Canada goes through a (large) foreign entity (e.g., Spotify, Apple Music, iTunes, Google Play). Even a Canadian label, selling a Canadian band to a Canadian consumer pays a surcharge. Not only are these services displacing retail/advertising revenues from Canada, but they also do not charge HST on their services to consumers, thereby resulting in a loss of potential fiscal revenue.

[55] IFPI (2015), *Digital Music Report 2015: Charting the Path to Sustainable Growth*

4.3 Investment in Canadian Music

Unlike film and television, investment in the creation of music by Canadian artists is not as directly linked to industry revenue. In fact, the only direct impact that the likes of iTunes and Spotify have on the Canadian music industry is that they displace the portion of the sales revenue that could have otherwise been captured by a Canadian retailer or streaming service. However, there is no Canadian "Apple" that could have created a download market.

Even if the digital downloads, for example, were purchased through a Canadian retailer, there would not be any additional contribution toward the creation of Canadian music. The only argument that might be made is that a Canadian retailer might have showcased more Canadian content on the Canadian platform.

Foreign streaming services and retailers do pay artists, although mainly to highly popular artists. Globally, Spotify has paid $3 billion in revenue to rights holders ($300 million in the first three months of 2015).[56] Emerging artists, and artists who are not at the very top do not yet benefit much from streaming. In addition, royalty rates are perceived by many industry stakeholders to be relatively lower in Canada compared to other jurisdictions. Combined with lower retail values of digital songs and albums (compared to historical prices for physical products), the most prevalent and growing revenue streams in the music industry – streaming and downloads - have resulted in a lower total amount of revenue given back to the artists. Furthermore, streaming sites, unlike private radio broadcasters in Canada, are not required to and do not re-invest in Canadian content development through contributions to organizations such as FACTOR and Musicaction.

The massive volume of music created also shifts emphasis towards discoverability and marketing/promotion. Streaming and download channels present challenges to marketing, especially for emerging music. Promotion and marketing of music has new tools – for example, social media – but puts pressure on artists to sustain a direct relationship with their fans. YouTube and Vevo continue to be used as discoverability tools by artists, despite not being significant revenue generators for most artists. In fact, in the first half of 2015 in the US, 57% of music streams were video.[57]

With the decline in revenue from recorded music, there has also been an increased emphasis on live performance and merchandise. Live music activities in Ontario alone were estimated to generate $628 million in gate and sponsorship revenue in 2013.[58] Live music represents an additional source of revenue for artists and labels and also serves as a discoverability tool, supporting more traditional revenue streams such as album and single sales (which now primarily occur online).

---

[56] Spotify website: https://press.spotify.com/ca-en/information

[57] Neilsen, as cited by Music Business Worldwide (2015), "YouTube is the No. 1 Music Streaming Platform – and Getting Bigger."

[58] Music Canada (2015), *Live Music Measures Up: An Economic Impact Analysis of Live Music in Ontario*.

4.4 Summary of Impacts on the Music Industry

The table below summarizes the impacts on Canada's music industry described in the above sections.

Area of Impact	Consequences and Benefits
Consumer Spending	▪ Retail portion of music sales displaced by iTunes and Google Play's prominence as a point of sale, with these retailers' share estimated at $50 million. ▪ Subscription streaming on the rise, but dominated by foreign companies like Spotify and Apple, with the segment accounting for $15 million of the Canadian music industry in 2014.
Advertising Spending	▪ Ad-supported streaming also dominated by foreign companies, and accounting for $19 million of the Canadian music industry in 2014.
Content Creation	▪ Low royalty rates and lower retail values of digital songs and albums reduce the total amount of revenue given back to the artists and labels, which reduces ability to reinvest in creating music. ▪ Increased competition and volume of content available via digital channels compounds the challenge of discoverability for Canadian artists and labels and emphasizes promotion and marketing more than ever before. ▪ Streaming sites do not re-invest in Canadian content development through contributions to organizations such as FACTOR and Musicaction.

5. Books, Magazine and Newspaper Publishing

Snapshot of Canada's Publishing Industry

- In 2014, 52 million books were sold in Canada at a total value of $934 million.[59]
- In 2014, newspaper advertising revenue, including online advertising, was $2.6 billion.[60]
- In 2012, total circulation revenue for daily and community newspapers was estimated to be $847 million.[61]
- In 2014, general magazine advertising revenue was $472 million.[62]
- In 2013, circulation revenue for the magazine and periodical publishing industry was reported to be nearly $477 million.[63]

5.1 Industry and Market Factors

5.1.1 Books

Canadians are increasingly buying their books online. In fact, in 2015, books were among the top goods or services purchased online by Canadians, with 36% of those who shop online buying a book (print or digital) online.[64] Notably, print books have continued to maintain their dominance over digital or e-books. Between 2013 and 2015, print books accounted for 79% of all book sales.[65] E-book sales remained constant as a proportion of overall book purchases at 17%, while audio books saw a slight increase in proportion, although from a small base – from 1.3% in 2013 to 2% in 2015.[66]

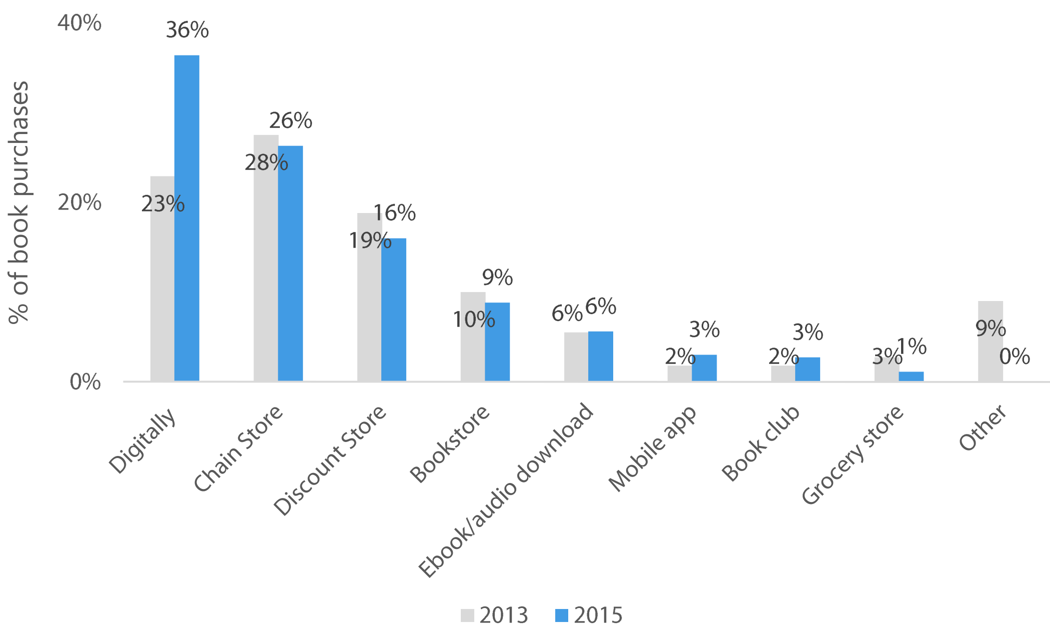
Some studies have shown that the preference for print books remains strong among younger generations, although the same group has a higher rate of access to devices such as laptops, smartphones, tablets and e-readers.[67] One US survey found that nearly half of 16-34 year-olds did not predict that e-books would ever replace physical books for them. Reasons for this preference have been commonly suggested as, for example, the "smell" of a real book, the allure of having a

[59] Booknet Canada (2014), *The Canadian Book Market*.
[60] TVB (2014), Net Advertising Revenue.
[61] Statistics Canada (2012), *Service Bulletin: Newspaper Publishers*, Catalogue no. 63-241-X.
[62] Ibid.
[63] Statistics Canada (2015), *Periodical publishers, advertising and circulation revenue, every 2 years*, CANSIM table 361-0052.
[64] Canadian Internet Registration Authority (2015), *Factbook 2015 | The Canadian Internet*.
[65] Booknet Canada (2015), *The Canadian Book Buyer 2015*.
[66] Ibid.
[67] For example, a poll of 2,000 consumers between the ages of 18 and 34 in the US and UK fount that twice as many had read a print book than an e-book. For more detail, see Publishing Technology, "Print still king for so-called digital natives."

bookshelf, or even the ability of a printed book cover to convey something to others about the reader's personality.[68]

Regardless of the reason, readers – young and old – continue to read print books. Still, the industry as a whole is grappling with the impact of online retail point dominance, in particular Amazon. Amazon.ca has been selling print books to Canadians from the US since 2002. In 2010, the Canadian government effectively overruled its own foreign ownership rules and allowed Amazon to set up its own distribution centre in Canada. The Kindle and Kindle e-books have been available to Canadians since 2009. As shown in the figure below, in 2015, more than one in three book purchases were made digitally.

Figure 21: Location for Purchasing Books, 2013 and 2015



Source: Booknet Canada (2015), *The Canadian Book Buyer's Guide*.

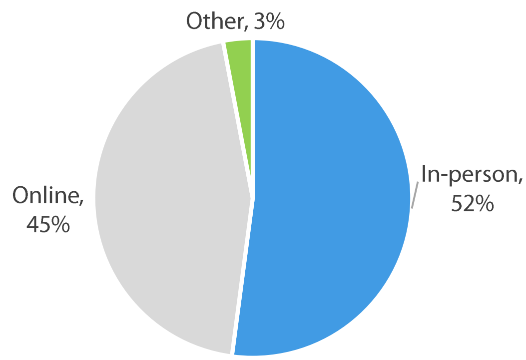
When it comes to online purchases, the biggest challenge facing publishers is often discoverability – that is to say, the means by which readers find/locate the books they wish to buy. Browsing was the top method of discoverability among Canadian book buyers in 2015, with 19% having purchased a book after seeing it while browsing an online or physical store.[69] Consequently, online retailers hold the key to a large proportion of book sales in Canada. Book publishers (and those authors who choose to self-publish) are thus at the mercy of Amazon's algorithms. These algorithms are in part driven by

---

[68] Harper Collins USA survey from 2013, as cited by Deloitte (2015), *Technology, Media & Telecommunications Predictions 2015*.
[69] Booknet Canada (2015), *The Canadian Book Buyer 2015*.

geolocation and thus not entirely detrimental to Canadian books being discovered by Canadian readers. A book's prominence on Amazon may also be influenced by way of marketing and promotional spending by publishers.

Figure 22: Method of purchasing books of all formats, 2015



Source: Booknet Canada (2015), *The Canadian Book Buyer's Guide*.

Authors continue to play a significant role in the discovery of their written work by readers and have more tools at hand to do so. In 2015, nearly 6% of book buyers discovered the title they purchased through following the author or series online, 3% through an author event or interview, and 18% through having previously read work by the author or in the series.[70]

Direct access to their readers, combined with the ability to bring their work to market without the involvement of a publisher has enabled authors – established and emerging – to be more entrepreneurial. The Internet has no doubt enabled the emergence of self-publishing in the book industry, whether it is through selling via Amazon, a website, or other digital platforms such as Wattpad. In fact, Wattpad is one instance of Canadian success at the platform level, which as discussed in other sections of this report, is not often the case in the creative industries. Yet, even with new platforms and promotional tools such as social media available at little to no cost to entrepreneurial publishers and authors, discovery remains a challenge.

5.1.1 Newspapers

Canadian newspapers have faced near-constant flux in recent years, with many struggling to cover high fixed costs amid declining advertising revenue and plateau-ing readership. In 2015, 56% of Canadian adults reported that they read a newspaper "yesterday," up from 50% in 2010. However, the figure is lower for younger Canadians, at 38% for teens.[71]

---

[70] Booknet Canada (2015), *The Canadian Book Buyer 2015*.
[71] Vividata (2015), "Vividata Launches with Release of Fall 2015 Study."

Printed copies, specifically, were read by a smaller portion of Canadians (41% in 2015 and 46% in 2010). Digital newspaper readership, on the other hand, nearly tripled over the same period to 31%, and was at almost 75% for 12- to 34-year olds. Of the total daily newspaper readers, over a quarter stuck to *only* digital editions.[72] In the US, the digital audience for newspapers grew overall by 10% from August 2014 to August 2015, with a higher rate of growth among 18-24 and 35-44 age groups (16%), while those 55+ only grew by 2%.[73]

In line with these trends, significant newspaper market changes have appeared in three main guises. First, the advent of online-only news sources such as Huffington Post Canada and VICE. These digital-only entities appeal to new generations of readers, are perceived to be both deeply responsive to audience preferences and more technically advanced than traditional newspapers, owing to roots which lie as much in engineering talent as in journalism. Second, perhaps more than any other media, national newspapers have struggled to monetize readers on mobile devices – an increasingly large share of all readers. Finally, traditional newspapers have found themselves in competition with major technology firms such as Apple and Facebook (especially in mobile). These and other technology companies are "coming after" traditional newspapers in the form of products such as Facebook's Instant Articles and Apple News – which may result in widening the gap between newspapers and their reading audience.

5.1.2 Magazines

Magazine readership in Canada has remained constant, with data from 2015 showing that 73% of Canadians are magazine readers.[74] Looking at consumption across age groups, readership among teens is slightly above the national average at 75%, while young adults (18-34) fall below at around two-thirds.[75] The data suggests that the decline in print readership has been countered by an increase in digital. Of those Canadians who read magazines, on average:

- 42% read magazines in both print and digital formats;
- A much higher proportion (nearly two-thirds) of Canadians between the ages of 12 and 34 read a magazine online; and,
- 9% access magazines only via digital platforms.[76]

The majority of digital readers (70%) access magazine and newspaper content (the latter of which is discussed in further detail below) via their mobile devices.[77] This important segment has become an area of focus for magazines, with many developing mobile apps as a means of providing cross-platform access to their readers.

---

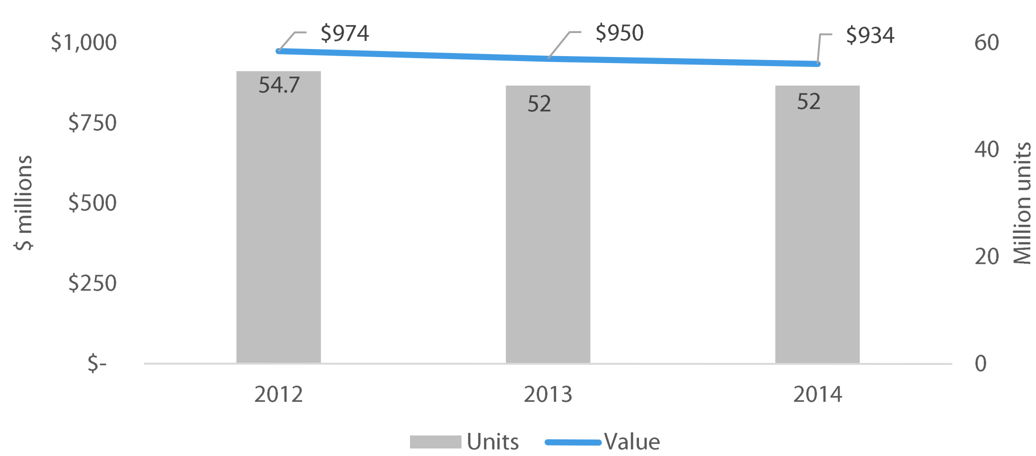
[72] Vividata (2015), "Vividata Launches with Release of Fall 2015 Study."
[73] Newspaper Association of America (2015), "Newspaper Digital Audience Grew Twice as Fast as the Internet in the Past 12 Months."
[74] Vividata (2015), "Vividata Launches with Release of Fall 2015 Study."
[75] Ibid.
[76] Ibid.
[77] Ibid.

5.2 Consumer and Advertising Spending

5.2.1 Books

Over the past several years, there has been a slight decline in the overall book sales market in Canada, although the number of book units sold remained virtually unchanged from 2013 to 2014.

Figure 23: Canadian Book Market, Units Sold and Total Value of Sales, 2012 to 2014



Source: Booknet (2013, 2014), *The Canadian Book Market*.

Perhaps the most significant shift has occurred in the retail component of the book market. Amazon has displaced sales from traditional (and domestic) retail channels:

- In 2013, Amazon was estimated to have **$1.5 billion** of total revenue in Canada.[78]
- In 2015, book sales were estimated to account for **40%** of total revenue at Amazon.ca.[79]

Based on the 2013 revenue figures (which are likely to have grown over the two-year period) Amazon is likely to have sold roughly $600 million in books in Canada last year, potentially accounting for over 60% of Canadian retail book sales.

The prominence of Amazon and other online retailers have resulted in the displacement of revenue from Canadian bricks and mortar retailers. Online and e-book sales have squeezed book publisher margins through a combination of diminished unit prices and higher costs (to publish electronically as well as in physical formats). There has also been a consolidation of publishers around international majors – most notably the global merger between Penguin and Random House in 2013. In addition, independent book stores – which accounted for 9% of book sales in 2015 – have struggled to

[78] BMO Capital Markets, as reported by CBC News (October 16, 2014), "Amazon.ca dominates Canadian e-commerce with 7% share."
[79] Global News (November 2, 2015), "Amazon isn't keeping Canada's big retailers up at night: report."

compete while retail chains have introduced non-book or “lifestyle” items to remain relevant to consumers.

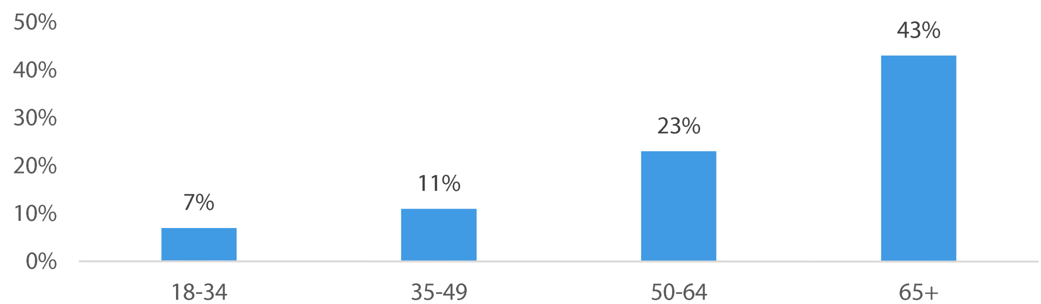
5.2.1 Newspapers

Revenue from advertising – including classifieds - has long been the largest and most important source of revenue for the newspaper industry. Newspaper advertising revenue has been on the decline, in absolute terms, since 2009. In 2008, newspaper revenue was at nearly $3.9 billion; that number had dropped just under $2.6 billion by 2014.[80] In fact, similar to magazines (discussed in the next sub-section), the decline started far earlier if looked at proportionately to *total* major media advertising revenue, which dropped from 38% in 2005 to 22% in 2014.[81]

Furthermore, these figures include online advertising revenue in the newspaper segment, which accounted for some 10% ($273 million) of overall newspaper advertising revenue in 2014.[82] This breakdown, combined with the rapid growth in Internet advertising revenue in other segments, suggests that newspapers have not been able to capture much of the advertising that has gone online. The likely cause is displacement by non-newspaper online platforms that provide services previously offered by newspapers, such as classifieds (e.g., Kijiji and Craigslist).

In the face of declining advertising revenue, traditional newspapers have attempted to increase revenue from subscriptions in print and online. The results have been mixed globally and in Canada, as newspapers experiment with paywall models to various degrees of success. Today, some 19% of Canadian adults subscribe to a newspaper.[83] These subscriptions, however, are far more prevalent among older Canadians than those under age 50, as evidenced by Media Technology Monitor data from 2014 (figure below).

Figure 24: Newspaper Subscriptions, by Age Group (2014)



Source: Media Technology Monitor (2015), *Fall 2014: Top 5 Sneak Peek*.

---

[80] TVB (2014), Net Advertising Revenue.
[81] Ibid.
[82] Ibid.
[83] Media Technology Monitor (2015), *Fall 2014: Top 5 Sneak Peek*.

Among all subscribers, the majority (67%) were subscribed to a paper copy only, while nearly a quarter (22%) were subscribers to both an online and hard-copy of the same paper. One out of ten (11%) newspaper subscribers had only an online subscription.[84] Ultimately, subscription revenue alone is not enough to make up the gap in the decline in advertising revenue. As well, with so many substitutes available for free, many newspapers have dropped paywalls in fear of losing readers.

As mentioned previously, much advertising spending on the part of brands, governments and other entities, is shifting away from traditional newspapers and towards companies such as Facebook, Google and Twitter.

5.2.2 Magazines

Magazines have been somewhat more successful than newspapers in mitigating the challenges of digital content consumption. Diversification has been central to this success. That being said, for the past several years, general magazine advertising revenue has been on a decline, dropping from a peak of $718 million in 2007 to $472 million in 2014.[85] In terms of proportion of overall media advertising revenue, the decline in the magazines segment goes back as far as 2005, when it accounted for 6.9% and continuously decreased to 3.9% in 2014.[86]

In response, many magazines have moved to digital spaces and continue to build their brand around their content across a variety of platforms, including online and experiential (i.e., events), rather than just their printed issues. As such, they've been able to capture some of that advertising that has shifted to digital spaces. In doing so, however, they have faced a new range of competitors, including online-only content sources.

Native advertising (the modern and often highly sophisticated advertorial) is one element of diversification. Native advertising is often perceived to be a better fit for magazines than newspapers because magazines face lower expectations with regard to editorial independence.

5.3 Investment in the Publishing of Canadian Content

5.3.1 Books

As discussed above, despite the fact that e-book sales seem to have somewhat plateaued, they remain a significant revenue stream for publishers, albeit at lower per-unit prices and smaller margins. Combined with the high bargaining position held by Amazon as a prominent retail point, Canadian publishers face a harsh climate in which their profit margins are drastically reduced.

One result of this pressure has been consolidation and closure of publishers, both global and Canadian. While difficult to quantify, the presence of fewer publishers, and far fewer smaller publishers, in the Canadian creative ecosystem very likely has a negative impact on the volume, and diversity, of books by Canadian authors that are brought to market.

---

[84] Media Technology Monitor (2015), *Fall 2014: Top 5 Sneak Peek.*
[85] TVB (2014), Net Advertising Revenue.
[86] Ibid.

Furthermore, the Canadian content that does get produced faces significant challenges when it comes to discoverability online. It may be argued that Amazon puts Canadian books at a disadvantage compared to independent book stores or even domestic chains such as Chapters Indigo, which are presumed to carry and display more Canadian titles, promote Canadian authors through events or recommendations, and generally be more accessible to Canadian publishers.

Adding to the complexity of the book marketplace is publishers' reliance on Amazon and its role in maintaining or potentially growing the book market overall. For example, as Amazon continues to leverage geolocation technology and combine it with the vast amount of consumer data it collects and its embedding of reviews and recommendations, it may be able to promote content that is not only Canadian, but also targeted to reading preferences and with readily available supplementary information, thus perhaps contributing to the discoverability of Canadian content as much as (if not more than) a domestic retailer would have previously.

5.3.2 Newspapers

The consolidation theme or trend is very much part of the Canadian national and community newspaper landscape. From a public policy standpoint, Canada has long recognized the importance of telling local Canadian stories on the one hand, while on the other hand attempting to monitor concentration in media power. The approval of Postmedia's $316-million acquisition of 175 Sun Media English language newspapers, specialty publications and digital properties from Quebecor in 2015, suggests that the era of government policy ensuring a wide base of ownership and competition is or has already faded. For many newspaper publishers facing enormous debt-loads, consolidation is perceived to be one way to compete with both declining advertising revenue and the likes of Google and Yahoo. The impact of publisher consolidation on Canadian news content is presumed to be a decline in demand (from publishers to journalists) as the number of publications shrinks and more content is shared from a central source.

Similarly challenging to pinpoint is the current impact of the presence of foreign-owned entities with substantial (and growing) bases in Canada, such as Huffington Post Canada (four offices in Canada), VICE, Buzzfeed and others. Today, these entities are undoubtedly employing journalists and telling Canadian stories, despite their foreign ownership. The degree to which these entities are covering Canadian stories is somewhat provocative and depends greatly on one's definition of and expectations from strong, local, Canadian news journalism. Whether these entities are telling "enough" Canadian stories, and whether they will continue to do so remains to be seen. For now, Huffington Post Canada, Buzzfeed Canada and VICE Canada appear to be committed to Canadian news, despite smaller employment footprints and foreign ownership.

5.3.3 Magazines

Canadian magazine publishers more readily access support from Canadian government funding sources the Canadian Periodical Fund, for example) – as compared with newspapers – because their credibility relies less on editorial independence. In this context, a certain degree of publisher demand for, or investment in, Canadian content will remain protected. Nonetheless, like newspapers, magazines face enormous pressure online to provide new, fresh content on a near-constant basis. Magazine publishers tend to rely on a small number of permanent writers and large number of freelance writers to fulfill this demand for content.

5.4 Summary of Impacts on Publishing

The table below summarizes the above-described impacts on Canada's publishing industry revenue.

Area of Impact	Consequences and Benefits
Consumer Spending	▪ Revenue derived from Canadian bricks and mortar retailers displaced by online retailers such as Amazon ▪ Publishers derive lower profit margin/return from e-books (e.g. Amazon, iTunes, Chapters/Indigo, Kobo) ▪ Newspaper print subscription figures decline as younger segments (and increasingly all segments) of the population access newspaper content via digital channels (and for the most part, for free).
Advertising Spending	▪ Growth in online advertising discussed in Section 2.4 significantly displaced print newspaper and magazines. Brands/entities divert advertising spending from "traditional media" and even desktop consumption to non-Canadian-based social networks (e.g., Facebook, Twitter), Google and other recipients.
Content Production	▪ A decline in the number of Canadian publishers (particularly smaller publishers) impacts the volume and diversity of books brought to market. ▪ Books that do make it to market face incredible challenges when it comes to discoverability via online channels ▪ With smaller share of the retail, independent book stores and domestic chains have limited ability to promote Canadian titles, although Amazon continues to leverage geolocation technology and data-driven tools to target book buyers based on geography and preferences. ▪ Increased international competition, combined with domestic consolidation, threatens the production of Canadian newspaper content by Canadian publications, while foreign-controlled entities such as VICE and Huffington Post produce Canadian content via their presence in the country. ▪ Canadian content in magazines faces somewhat lower risk, though demand for high volumes of online content is often met by employing freelance content creators.

6. Games

Snapshot of Canada's Games Industry

- In 2015, there was an estimated 472 games companies operating in Canada.[87]
- In 2015, the Canadian video game industry directly employed 20,400 FTEs, and in total generated 36,500 FTEs (direct, indirect and induced).[88]
- In 2010, the cultural output of the interactive media industry was estimated at $2.8 billion.[89]

6.1 Industry and Market Factors[90]

The video games industry in Canada feeds a highly globalized international market – and is dominated by large (typically foreign-controlled) companies. Despite the fact that 85% of games companies in Canada are Canadian-owned, these firms make up a small minority of games industry employment. Indeed, while large companies (i.e., with 100+ employees) only make up 5% of the number of games companies in Canada, they account for 89% of employment. That said, 78% of those employed at these large companies hold creative or technical positions, with the remainder in marketing and communications, and operations and administration – suggesting that Canadian-based employees of larger firms tend to be engaged in making games. Therefore, it seems that while games are being developed here in Canada, most of the business (and IP) is owned by the foreign-controlled major game publishers.

Over the last few years, there been immense growth in the number of micro-firms (195% between 2012 and 2014 alone[91]), which is related to the relatively low barriers to entry in some parts of the games industry (notably mobile games). At the same time, where barriers are higher (as with the console game market), the industry in Canada has experienced some consolidation.

---

[87] ESAC (2015), *Canada's Video Game Industry in 2015.*
[88] Ibid.
[89] Statistics Canada (2015), *Provincial and Territorial Culture Satellite Account, 2010*; includes console games, on-line games, wireless games, and PC games as well as other related interactive digital edutainment products
[90] ESAC (2015), Canada's Video Game Industry in 2015.
[91] Ibid.

The games industry comprises three primary segments:

- **Mobile games:**
    - Have a high penetration rate among gamers (35% of gamers in the US use smartphones to play);[92]
    - Are solely distributed through foreign-owned "storefronts" (i.e., Google Play, App Store);
    - Represent a space in which many Canadian companies operate, with 70% having made games for mobile in 2014 (down from 86% in 2012 as the market becomes crowded);[93]
    - Cover the majority (65%) of projects completed by Canadian companies in 2014 was for the mobile platform;[94] and,
    - Are a significant contributor to Canadian industry revenue, at 31% in 2014 (up from 11% in 2012).[95]
- **Console games:**
    - Have a higher penetration among gamers, with 56% of US gamers using dedicated consoles to play;[96]
    - Are primarily distributed through foreign-owned "storefronts" (other than small physical retailers);
    - Represent a significant area of activity in the Canadian games industry, with half of Canadian games companies having made games for consoles in 2014 (little change from 2012);[97] and,
    - Are a declining portion of company revenues in Canada, at 35% in 2014 (down from 67% in 2012), but still remain the highest category in terms of project expenditures (84%).[98]
- **Games for PC/Mac:**
    - Have the highest penetration rate among gamers, with 62% of US gamers using PCs to play;[99]

---

[92] Entertainment Software Association (ESA) (2015), *Essential Facts about the Computer and Video Game Industry*.
[93] ESAC (2015), *Canada's Video Game Industry in 2015*.
[94] Ibid.
[95] Ibid.
[96] ESA (2015), *Essential Facts about the Computer and Video Game Industry*.
[97] ESAC (2015), *Canada's Video Game Industry in 2015*.
[98] Ibid.
[99] ESA (2015), *Essential Facts about the Computer and Video Game Industry*.

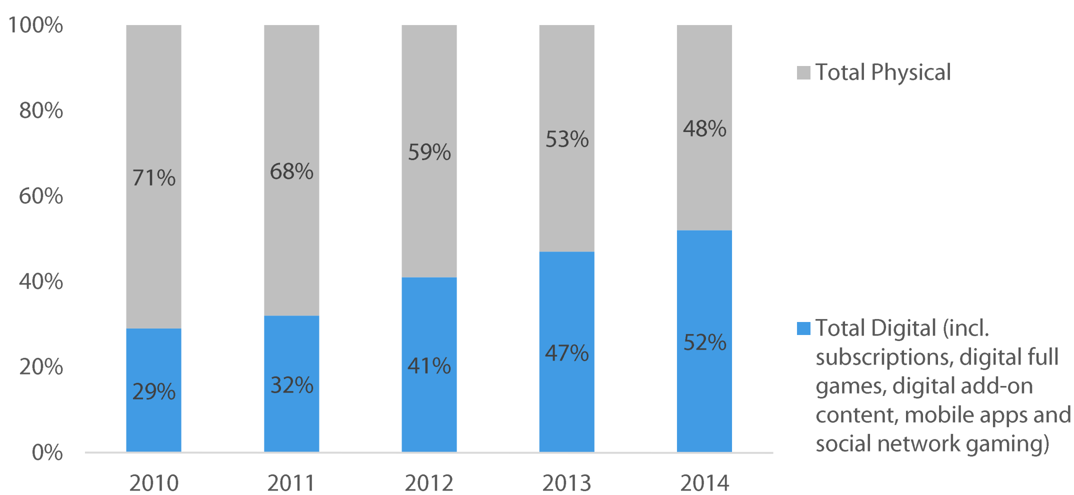
- Are primarily distributed through online, foreign-owned "storefronts" (e.g., Steam);
- Are a growing area of activity among Canadian companies, with 71% having made games for PC/Mac/Steam in 2014 (up from 66% in 2012);[100] and,
- Represented 25% of companies' revenue in 2014 (up from 25% in 2012).

In addition to the above three segments, in 2014, Canadian games companies also created games for in-browser, social networks, virtual reality, kiosk and standalone, and other platforms. In total, these other segments accounted for a combined 15% of completed projects, and approximately 9% of overall revenue.[101]

6.2 Consumer Spending

As shown in the figure below, and as with the other creative industries discussed in this report, games are increasingly being accessed and played via online channels. In 2014, sales of digital games in the US surpassed physical games to reach 52%, up from 29% in 2010.[102]

Figure 25: Physical and Digital Sales Breakdown (US)



Source: Entertainment Software Association (2015), *Essential Facts about the Computer and Video Game Industry*.

For Canadian companies, whose revenues are highly dependent on sales in large markets such as the US, the trend is very clearly reflected in the breakdown of their revenue, as shown in the figure below.

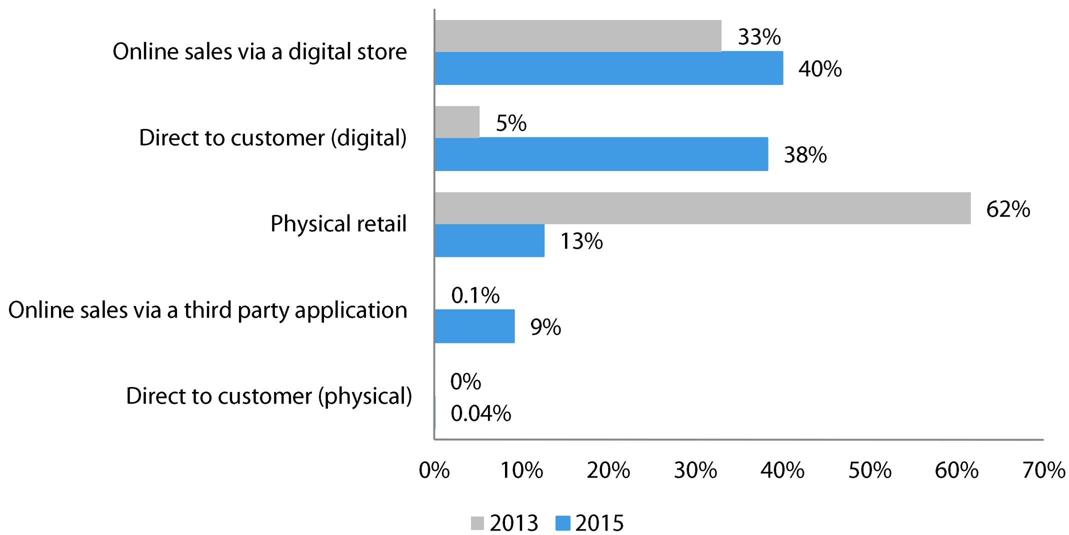
---

[100] ESAC (2015), *Canada's Video Game Industry in 2015*.

[101] Ibid.

[102] ESA (2015), *Essential Facts about the Computer and Video Game Industry*.

Figure 26: Video Game Revenue by Sales Channel



Source: ESAC (2015), *Canada's Video Game Industry in 2015*.

As Figure 26 shows, the large majority of the revenue of Canadian games companies come from digital products sold directly or through online channels, while the proportion of revenue from physical retail has seen a significant decline, from 62% in 2013 to only 13% in 2015. Notably, few (if any) Canadian-owned companies participate in digital sales.

6.3 Summary of Impacts on Games and Canadian Content Production

The key difference between the games industry and the other creative industries covered in this study is that the largest games companies in Canada (e.g., Ubisoft, Electronic Arts), and the owners of the platforms on which games are played (e.g., Sony, Microsoft, Nintendo), are foreign-controlled. As a result, although the industry employs a significant number of Canadians, the bulk of the profit flows out of Canada. Where profit is retained, it is in the smaller, Canadian-owed companies.

Canadian provincial governments have intervened in the industry principally through tax credits, as well as targeted incentives for inbound investment by majors.[103] The objective of these interventions seems to have been to incent employment, with the hope that an industry would grow around the major "anchor tenants". The degree to which this approach as been successful is still being measured.

[103] For example, the Government of Ontario is reported to have provided a $263 million grant to Ubisoft for the company to open a new studio in Toronto. (http://www.thestar.com/news/ontario/2009/07/07/ubisoft_to_open_toronto_studio.html)

At the same time, there has been less intervention related to the production of *Canadian content*, if defined other than “content made by Canadians” (although some examples do exist). It should be noted, however, that “telling Canadian stories” is a somewhat more nebulous concept in this medium. Regardless, as many of the Canadians employed by the games industry are in creative positions at major firms, they are very much involved in the creative process.

Unlike some other media, Canadian-owned games companies are not necessarily identifiable from a consumer perspective, even if Canadian games developers are producing an abundance of games content. For example, it is less common to find a “Canadian-made games” section in a digital storefront than a “Canadian films” or “Canadian music” section in film or music storefronts.

The Canadian games industry shows one possible outcome for other creative industries. While there are cases of independent games developers hanging on to the IP of successful game products, the norm is for games to be owned and distributed by foreign entities. Canadian creators are employed or contracted to design games for the global market (i.e., almost all of the industry is “foreign service location” in nature). The global games developers have invested in studios in Canada, and by doing so have more permanence than film location projects. The games industry model is one way to evolve for the film and television sector, for example, as the regulatory structure’s effectiveness recedes.

7. Observations and Conclusions

This report sets some groundwork of the impact of technology on the creative industries, in particular the growing financial flows outside Canada as one major consequence. It is designed to stimulate public policy debate, but not address policy issues directly. Nevertheless, to help this process along, we make some observations and conclusions on the policy front that derive from the documentation of trends affecting the creative industries.

This section puts forward two sets of observations:

1. **Technology disruption in the creative industries** – we summarize where there are technology disruptions, and conclude that some are more meaningful to the creative industries than others. We also show that the disruption leads to a large reduction in the labour workforce in the physical distribution and retail of creative products.
2. **Public interventions in creative industries**– we outline by industry the manner in which public policy can intervene, and thus point to which policy options are more available now than in the past.

7.1 Technology Disruption

While each of the creative industries has been disrupted by technology, the impacts have been quite different. It is useful to begin with some observations about the differing impact as it shapes what might be the priorities for policy makers.

- The first, rather obvious observation is that any serious examination of the trends in audience habits, consumer purchases, and communications platform usage leads to an important conclusion - that the platforms by which creative industry content is accessed and consumed are undergoing transformation. **There is no "going back**." While games consoles, physical books and television as we know it will be significant forces for the delivery of content for a long time, there is no doubt about the transition to on-demand and online services, with mobile being increasingly important. This shift is very much a generational phenomenon.
- The rise of **digital advertising** has had a major impact across the media sectors, thus indirectly impacting film and television (because of advertising's importance in broadcasting), magazines, and newspapers. We have detailed the relative decline in market share for non-digital media – although actual declines have been felt mostly by newspapers. Advertising on television broadcasting and magazines are only stagnant, although actual declines are being recorded more recently in conventional TV.
- Unlike broadcast and print media, which invest in content, digital advertising flows mainly to entities like Google, which do not generally create content. Therefore, most digital advertising revenues are not reinvested in content creation, let along Canadian content.
- Digital advertising can support content distributors and certainly enhance promotion using social media tools. Branded entertainment is abetted by digital advertising and social media as well, and so contributes back to content although in a limited way. Then, too, revenue-sharing agreements with YouTube and other platforms are turning into interesting revenue

generators for content suppliers who have retained ownership of their content libraries. Nevertheless, diversion of digital advertising revenue to digital platforms is a structural outcome that is mainly unhelpful to the development of Canadian content.

- The disruptive effect of **OTT services** (whether SVOD, TVOD or a hybrid) is also substantial in terms of direct impact on the film and television industries. OTT is having a disruptive impact on the whole Canadian television broadcasting system, not only the series television and movie-driven pay TV services, which compete directly with OTT. Moreover, there is no publicly mandated mechanism for some of the OTT revenues to be ploughed back into Canadian content as there is for the distributors/retailers which remain part of the broadcasting system.
- The emergence of the **international online retailers** for **books, games, DVDs,** and **CDs** and other merchandise of the creative industries has also resulted in substantial retail revenues exiting the country. While the physical distribution and retail sector for these physical cultural products were never direct financial contributors to content creation, the local retail sector has played a promotional role helpful for discovery. Many independent book sellers, for example, are the keenest promoters of Canadian books, but their numbers have been decimated by online retailers.
- The main impact of online distribution for **book publishing** is probably not the money flowing out of Canada and going to Amazon et al. The main impact is on the structure of the book publishing sector itself – putting downward pressure on book prices and narrowing the margins of book publishers. E-books have been part of that pressure, of course, but have not themselves been any kind of death knoll for physical books. Online distribution has been an important contributor to the consolidation of the book industry internationally, and shrinking margins and outright losses have led to the demise of all medium-sized ("large" in Canadian terms) Canadian book publishers.
- While digital sales have not made up for the loss of physical sales for the **music** industry, they have attenuated the rampant piracy of music by individuals abetted by Napster and later forms of piracy. The trend away from ownership toward access, as we noted earlier, has changed the original consumer practices of acquiring music via digital downloads. Digital streaming is on the rise, and a few streaming companies like Spotify have grabbed much international market share. It is not so much that Spotify, Apple and the like are taking revenues outside Canada with no reinvestment in Canadian content, though that is an issue especially in terms of copyright. It is, more importantly, that rights holders make very little from digital streaming at the present time, unless the music is already well known.
- Another issue in an era of huge content plenty is **discoverability**, or lack thereof, in music, book publishing, film, and all creative industry art forms to some degree. For music artists and labels, radio airplay was traditionally key to exposure and generating a buzz for certain acts and recordings. While radio networks are more formulaic in generating playlists, at least they were local and accessible. With a major exception to CBC's music services, the major streaming services are less accessible.
- For books, in terms of discoverability, one could argue that had Amazon been Canadian, or had a Canadian online retailer dominated the market, then there would have been more

attention paid to stocking and featuring Canadian books. Does or did Canadian-originated Kobo feature Canadian selections more frequently than Amazon? However, as Amazon has started to cater to national/local audiences (e.g., through Amazon.ca and other forms of geolocation), there is more opportunity to highlight Canadian books coinciding with the various award events, for example.

- The rise of the self-publishing model has been aided by the Internet, and Wattpad shows Canadian ingenuity can prevail at the platform level. Self-published works were a large contributor to the rapid drop in sales for the largest book publisher in Harlequin, according to some accounts, but more as a consequence of the Internet itself rather than an outflow to a foreign wholesaler.
- The **feature film** component of the creative industries has been compromised by the trends documented in this report, at least to the extent that is supported by the broadcasting system. However, that support has waned in recent years. Pay TV is less driven by feature films and more by hit television series that it can exclusively air. Netflix and the other OTT operators do compete directly with pay TV, and offer another domestic market alternative for the feature film product of Canadian distributors. Conventional TV broadcasters and most specialty-TV channels have more difficulty with the business model for airing movies, so are less important customer segments for feature films.
- Canadian feature films have not ever been competitive with blockbuster, big-budget movies mainly coming out of Hollywood. As we see with the Oscar nominations, Canadian films can compete to some extent in audience terms, especially as part of treaty co-productions, which have larger budgets. Although not yet fully developed in Canada, the “broken window” practice in distribution harnesses the multiplying online platforms for “smaller” feature films. In that context, there is more potential for Canadian features to improve their distribution.

These few observations show that the impact of current trends is far more involved than an accounting of the money flows out of the country. First, there is an implicit hierarchy in the importance of outflows – for example, OTT’s impact is more significant than book retailing. Second, the nature of the disruption, as in the case of the rise of digital advertising, is as equally important as whether or not money flows out of the country, even though the impact may not be direct. As previously mentioned, digital advertising’s impact is through its softening of the market for media expenditure in Canada; it is where advertising is growing, and it does far less than traditional media to finance content. Third, there are differing impacts depending on the creative industry sector and the structure of public support for them – a subject explored further below in Section 7.2.

7.1.1 Peripheral Employment Impacts

Beyond the impact on the creation of Canadian content production, which is the primary focus of this report, the displacement of physical distribution of content has also had a peripheral impact on employment in the non-creative aspects of these creative industries. A selection of impacts below illustrates that there are also substantial costs to the retail employment in the creative industries.

In **film and television**, this employment impact has involved the disappearance of points of sale/rent for physical video. In 2011, total direct, indirect and induced employment in the film and television sector was estimated at 262,700 FTEs, with 18,300, or 7% of those related to DVD/Blu-ray sales and rental, and an estimated 8,500 FTEs directly supported by DVD/Blu-ray sales.[104] However, the closure of over 400 Blockbuster locations in Canada in 2011 resulted in the loss of roughly 4,000 jobs.[105]

Similarly, in **books, music and games,** the shifting of digital and physical purchases online has resulted in a decline in brick-and-mortar bookstores. It is estimated that Amazon employs 14 people for every $10 million in revenue, compared to 47 employees in brick-and-mortar retailers.[106] As such, the changing purchasing patterns could mean a 70% decline in jobs in the books retail sector. However, in games, the impact on retail stores has been somewhat tempered by their role as a gathering place for people with shared interests.

7.2 Public Interventions in the Creative Industries

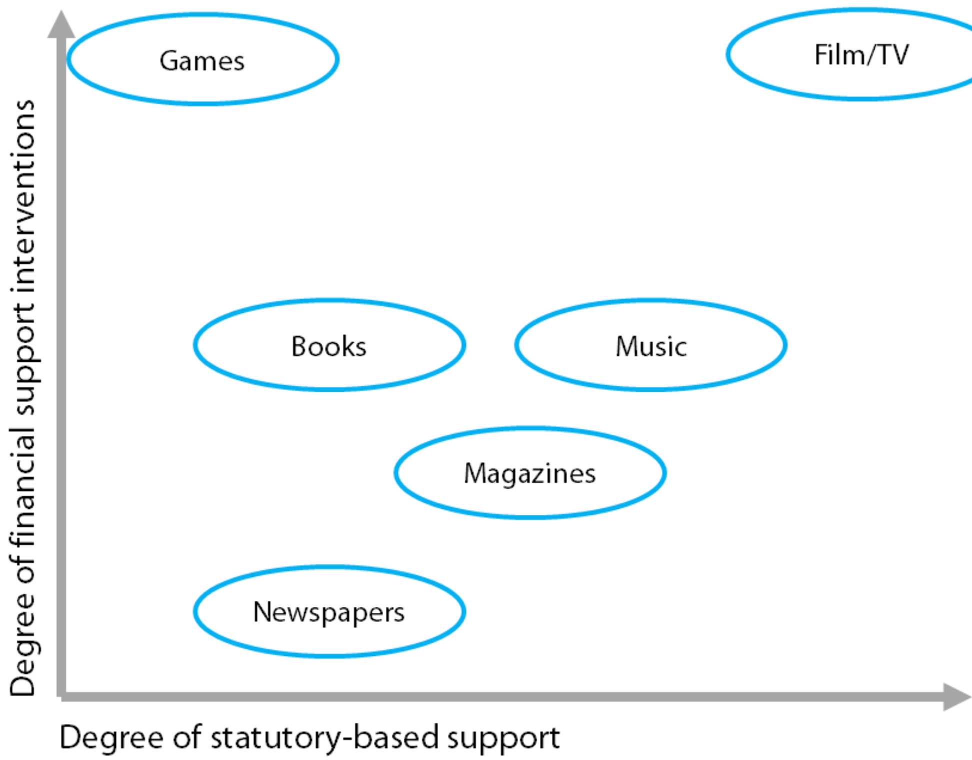
In reviewing the individual creative industries, one can see the kind of interventions that characterize each of them will be affected differently by technology and the resulting market disruption. For the purpose of illustration, we have broadly plotted the industries in terms of the manner in which they are supported by public policy intervention.

In the schematic below, there are two axes going from little or no public intervention to ever greater degrees of impact:

- On the horizontal axis, it is the degree of statutory based support - regulation and other (e.g. foreign investment review, tax incentives for advertisers, copyright);
- On the vertical axis, it is the degree of financial support interventions (e.g. through tax credits, grants and other subsidies).

[104] Motion Picture Association of Canada (2013), *The Economic Contribution of the Film and Television Sector in Canada*.
[105] The Globe and Mail (August 31, 2011), "Blockbuster to pull plug in Canada;" CTV News (May 24, 2011), "1,400 Blockbuster Canada workers could lose jobs."
[106] Forbes (February 10, 2014), "Amazon vs. Book Publishers, by the numbers."

Figure 27: Public Interventions in the Creative Industries in Canada



Film and TV are in the upper right quadrant as they are supported through broadcasting and distribution regulation and financially through tax credits, public broadcasting subsidy, film agencies, and grants and licence fee top ups at the federal and provincial levels.

Games are high in terms of financial support, mainly incentives to attract foreign direct investment for job creation reasons at the provincial level. The independent Canadian games developers receive other financial and mentoring or incubator support as well. There is very little statutory support.

Book publishing is supported financially by federal and provincial governments, as are authors. There is some statutory support in that book publishers fall under foreign ownership review, but not much else.

Magazines have some public financial support and some statutory support (e.g. split run and advertising incentives); **newspapers** obtain very little public support, other than foreign ownership reviews.

The Canadian **music** industry is supported by governments and to a limited extend through contributions by radio owners because the latter are under regulation, which was also crucial for ensuring Canadian music airplay. Individual musicians are further supported by government and agents of government (FACTOR and Musicaction). Copyright arbitration for solving rights fees is also quite important (and frustrating) for the music sector.

This brief description of where public support comes into play may help structure policy thinking, although across the board solutions are not the norm. Some of the common areas that can be identified at a high level are the following:

- **Recapture** of a portion of the distribution revenues for developing Canadian content, which is particularly relevant to film and TV, although the precise mechanisms are hard to define.
- **Regulatory adjustments** in the broadcasting sector, which will continue to have an enormous effect on the amount and nature of spending on Canadian content.
- **Corporate development** support for independent Canadian film/TV producers, music labels/publishers/managers, games developers, book publishers, magazine owners, and cultural entrepreneurs –, which can support capturing of new opportunities, forging of new relationships internationally, and investment in creative products for global markets.
- **Artist entrepreneurs** support across the main creative industries, to address the challenges of discoverability and sustaind marketing practices in addition to pure creative development. Preparation for new copyright legislation should also be part of the support systems around the creators.
- **Ecosystem reinforcement** measures to encourage collaboration and the building of institutions that will support the financial and skills level needs of the creative industries sector. There will be more interaction across sectors as well as constant innovation and development (e.g., the potential growth of virtual and augmented reality as a new content area in itself).

While these buckets of potential measures are no different from what exists today, they are mentioned as flowing from the analysis of technology, consumer, revenue and market structure trends described in this report.