



Canada Media Fund Industry Consultation Response of the Canadian Association of Broadcasters

September 4, 2009

CAB Vision: The goal of the CAB is to represent and advance the interests of Canada's private broadcasters in the social, cultural and economic fabric of the country.

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1.0 INTRODUCTION

The Canadian Association of Broadcasters (CAB) is the national voice of Canada's private broadcasters, representing the vast majority of Canadian programming services, including private radio and television stations, networks, specialty, pay and pay-per-view services. The goal of the CAB is to represent and advance the interests of Canada's private broadcasters in the social, cultural and economic fabric of the country. The CAB appreciates the opportunity to comment on the future direction of the Canada Media Fund ("CMF" or "the Fund") on behalf of the majority of our members, some of whom are submitting complementary responses to the CMF's briefing notes.

Private broadcasters have been partners in the Fund since its 1994 inception as the Cable Production Fund. Along with the Government of Canada, independent producers, public broadcasters, broadcasting distribution undertakings (BDUs), and film distributors, Canada's private broadcasters have collaborated in the governance and design of the funds that preceded the CMF. Together, through a governance structure that encouraged extensive discussion of industry issues, collaboration, compromise and consensus, key stakeholders have arrived at shared solutions and policies for the funding of high-quality, popular and identifiably Canadian television programming. While the solutions have not always been perfect for all players, broadcasters, producers and distributors have crafted mutually acceptable policies to license and fund over 25,000 hours of programming over the years. The CAB urges the CMF Board of Directors and staff to recognize these areas of past consensus in implementing the new CMF. In many key policy areas, the industry has already crafted workable, successful solutions. Now is not the time to dismantle them.

Private broadcasting has been critical to the CTF and will be for the future of the CMF. From the initial concept to the final production, private broadcasters are closely and actively involved in the productions they trigger from the Fund, and private broadcasters represent one of the largest financiers of Fund-supported productions. Attracting approximately three-quarters of Canadian television viewing¹, private conventional and specialty and pay television will continue to be essential to delivering on the Minister's objective of supporting programs Canadians want to watch.

At the same time, however, private broadcasters rely more on volatile advertising markets than do other broadcasters. Private broadcasters' ability to sustain significant investments in Canadian programming must be tempered by the fact that a major source of our revenue, advertising, has been decreasing. The picture for 2008-09 will very likely show sustained ad revenue declines for conventional television, and a softening ad market for specialty television². Planning programming schedules and investments is even more challenging in such an economically volatile environment. We urge the CMF Board and staff to be prudent in implementing gradual, incremental changes to CMF policies and guidelines.

¹ Based on BBM's Spring 2009 TV EM Statistics for Canada, persons 2+, excluding PVR, DVD/VCR and "other" viewing.

² Based on TVB data for the first 11 months of the broadcast year.

The CMF consultation is ambitious, addressing 13 issues and over 70 questions for stakeholder feedback. A number of these issues represent, to use the CMF's term, key elements that provide new opportunities, including the convergent stream, video on demand (VOD), marketing and promotion, the experimental stream, broadcaster-affiliated and in-house production, and certain aspects of audience success and return on investment (ROI). These elements that provide for new opportunities have not been addressed by the Canadian Television Fund (CTF) in the past, or they reflect specific directions identified in the March 9, 2009 announcement by Minister Moore. The CAB believes that these elements require considered, inclusive consultation from key stakeholders, to ensure that the CMF's directions are realistic and consistent with the Minister's desired direction.

The challenge for the CMF Board and staff will be to achieve the Minister's objectives, phasing in policy changes that reflect the need for change, while minimizing the inevitable disruption to the industry. Some issues, particularly those "key elements that provide new opportunities", should be addressed on a priority basis for the 2010-11 funding year. Areas for priority consideration in 2010-11 should therefore include the following:

- Digital media and video content for multiple platforms
- Genre allocations and definitions
- Audience and ROI
- Broadcaster-affiliated and in-house production

Each of these areas is addressed below. In addition, the CAB provides responses to each of the CMF's questions in Appendix A.

2.0 DIGITAL MEDIA AND VIDEO CONTENT FOR MULTIPLE PLATFORMS

Canada's private broadcasters are extensively involved in digital media, both as producers and as aggregators of digital content for online and mobile platforms. In our experience, these platforms can serve multiple purposes: they make content more widely available to Canadians at any time, on many devices; they further audience engagement with content and brands that are made available initially on television by making rich content richer; and they enable experimentation with regard to potential future television programs and new forms of community.

A CAB-commissioned report, *A Study of Private Broadcasters' New Media Activities: "Hitting the Right Notes"*, is appended to this submission. The report highlights the many forms and genres of content which broadcasters are making available online and on mobile platforms, organized and funded by private broadcasters, in many cases outside the scope of CTF/CMF-funded programming.

The authors of the report note that online and mobile content and applications are intended "to deepen the consumers' relationship with the broadcast brand in order to maintain or increase their

audiences.”³ Key to broadcasters, then, is to maintain the popularity of the television brand and not fragment it as content is made available in different forms on different platforms.

Indeed, while private broadcasters make significant investments in digital media, linear (conventional and pay/specialty) television remains the most popular means by which Canadians access video content. Canadians who watch video online watch an average of 605 minutes of online video per month or about 2.25 hours per week, and most of this video is currently short-form (often user-generated) content.⁴ Average per capita viewing of television in Canada is 26.6 hours per week, a figure which has increased slightly over the past five years.⁵ Even among adults 18-34, who have the highest levels of viewing of online video, linear television viewing has increased slightly from 20.7 to 21.3 hours of television viewing per capita per week.⁶ Linear television also accounts for an overwhelming share of broadcasters’ advertising revenues. While data are not available for Canada, in the US, broadcasters’ online ad revenues represent 3% of their total ad revenues, of which a portion is from online video.⁷

Broadcasters who have significant online properties are approaching the online world differently, depending on their audiences and the programs being promoted. Broadcasters targeting younger viewers with fiction-based content, such as Family Channel, stream programming online and provide ancillary content such as games, “sneak previews” of television programs, online fan clubs, etc. Broadcasters targeting older demographics, such as Silver Screen Classics, are designed to promote the linear television brand and offer short clips of television content. APTN’s television content appeals to both younger and older viewers; however, APTN’s online strategy has focussed on younger, tech-savvy demographics. The online or mobile content need not be highly interactive to engage audiences. Put simply, then, the online and mobile platforms represent opportunities – albeit nascent opportunities – for broadcasters and their audiences.

Broadcasters’ challenge in the multi-platform world is to engage audiences across platforms, without excessively fragmenting the audiences. Broadcasters need to “reaggregate” the audiences that are splintered across different platforms, in order to monetize the costs of content and to attract advertisers to the broadcaster’s brand.⁸ Where broadcasters can have control over content in its early stages, effective multi-platform strategies can be developed so that the non-television platforms can complement the critical television platform. And for this to happen, broadcasters need to be

³ See Appendix B.

⁴ comScore, “Canada Ranks as a Global Leader in Online Video Viewing”, April 21, 2009.

⁵ BBM, *TV Data Book* 2007-08 and 2004-05.

⁶ *Ibid.*

⁷ SNL Kagan, “Public broadcasters’ reported online revenues grow 17% in Q1’09”, June 12, 2009. “Public” broadcasters in this context are publicly-traded commercial broadcasters.

⁸ Canadian broadcasters share this concern with broadcasters elsewhere. In a recent article on NBC’s online strategy, an NBC executive notes that its content platform strategy involves “gluing back together the audience that has splintered off into different viewing habits and media ... moving away from worrying about making content for a particular device – smartphones, TV widgets – because it’s too often an expensive diversion. The emphasis now is on centralizing output in order to recruit an audience.” (Liz Gannes, “What NBC has Learned about Making Web Content”, *Business Week*, August 30, 2009).

able to acquire multi-platform rights in their licence negotiations with third-party producers, and to produce multi-platform content in-house and through affiliated production companies.

2.1 CMF Program Allocations

As the business models for online and mobile content are emerging, broadcasters observe that linear television remains, and will remain for some time, the principal platform for viewing Canadian video content. With regard to the CMF, therefore, the CAB recommends that the allocation of funding, between linear television and online/mobile content, and between broadcaster envelopes and the experimental stream, follow the evolution of Canadian audience preferences. Initially, most of the CMF's funding should be allocated through broadcaster envelopes to television content, reflecting Canadians' overwhelming preference for video content delivered via linear television.

CAB Recommendations:

- 5% of the CMF's total funds, or about \$15M, could be allocated to the experimental stream, and the remainder allocated to existing special initiatives (Aboriginal-language production, development, versioning, French-language production outside Quebec, and the regional production incentive) and broadcaster performance envelopes.
- The dollar value of funding allocated to special initiatives (the regional production incentive, development, Aboriginal-language projects, versioning, French-language regional production within and outside Quebec, French-language regional development) in 2010-11 should remain the same as in 2009-10.

2.2 “Convergent” Content

The CMF's briefing notes refer to “digital media”, “digital content”, “convergent content” “value-added variables”, “multiplatform distribution models”, and “new media” when referring to the types of non-linear, interactive content that would be supported through broadcaster envelopes. None of these terms are defined in the CMF's briefing notes, which poses challenges for industry stakeholders who wish to provide input on policy development for the CMF's new elements.

Nonetheless, it is clear from Minister Moore's announcement that the CMF is to focus on content Canadians want to watch, on television, online, and on mobile platforms. With regard to online and mobile platforms, the professionally-produced video content Canadians want to watch is essentially the same content they want to watch on television: entire episodes or segments of video programming that has been made available on the television platform, but that is available at different times and on different devices.

Whether the online or mobile content is streamed video of full episodes of television programming, interactive games, behind-the-scenes video clips, contests and quizzes, or other content forms, these additional forms of content have a cost. As noted in the report provided in Appendix B (*A Study of*

Private Broadcasters' New Media Activities: "Hitting the Right Notes"), broadcasters assume many of the costs of making programming available on mobile or online platforms; these costs include:

- Encoding video for screening online
- Streaming costs – the more viewers pulling the content, the greater the cost of bandwidth. High-definition video is even more expensive in this regard
- Rights acquisitions for multiple platforms
- Design and “look and feel” elements of broadcasters’ websites to appropriately highlight the video offering
- The production of ancillary video content
- The development of applications for games, contests, and other interactive content

In most of the cases highlighted in the study, it is the broadcasters themselves who have assumed these costs, while potential revenues have been uncertain at best. The considerable upfront investment is worthwhile for longer-running series or sports events, since the non-television platform is intended to build loyalty and engagement for the television content. Viewer loyalty and engagement are, however, less relevant for one-off and lower-budget programming, since the significant investment in online/mobile content cannot be justified for a program that appears once or occasionally on a television service. Broadcasters have found that series are the most effective television vehicles for presentation on online or mobile platforms.

CAB Recommendations:

- The Broadcaster Performance Envelopes should support linear television and video content on a second platform – VOD, online or mobile. There should be no restrictions as to the type of content made available on the second platform, be it VOD, streamed video, interactive, short-form, long-form, etc.
- The second platform could be online (streamed or other), VOD, or mobile (streamed or other). The second platform content could be *identical* to the television content, it could involve excerpts and new packaging of existing content (*repurposing*), or it could be *original* content, unique to the second platform, but based on the television program.
- If *original* content is to be developed for the second platform, this would be subject to negotiation between the broadcaster, producer and financing partners.
- The costs for the second platform should be included in the application for funding of the television production. The additional budget items associated with the second platform should, however, be isolated in the production budget to comply with the funding rules of other digital media funding programs.

- When unique content is being created, the producer of the second platform could be the same producer as the television production, or a different producer. Broadcasters should be eligible producers of the online/mobile content, as well as of the television content.
- Because broadcasters already assume the vast majority of costs associated with online and mobile versions of television programming, the threshold licence fees paid by broadcasters for CMF-supported content should also include rights for the second platform.
- Entities that can satisfy the current criteria for broadcaster performance envelopes should have access to envelopes in the convergent stream.

2.3 Video on Demand

A number of CAB members provide video-on-demand (VOD) content or services to Canadian viewers. Some offer subscription VOD (SVOD) to subscribers, allowing subscribers to these services to be able to access, for free, some of the same programming that is available on the linear service. The VOD offering in this case is a second window, or a concurrent first window, to the linear television service. In the case of transactional VOD (TVOD), subscribers can either access individual programs for free, or pay on a per-program basis to access films and other content typically in their first television window.

Currently VOD is a second, complementary platform for linear television. Broadcasters – working with BDUs – use VOD to extend viewer engagement to programming and to increase audiences. In this sense, VOD is analogous to other complementary platforms such as online or mobile platforms. It would therefore be appropriate for VOD to be considered an eligible second platform in the CMF’s convergent stream.

CAB Recommendation:

- VOD should be an eligible second platform (after the linear television platform) in the CMF’s convergent stream

2.4 Marketing and Promotion

Broadcasters make a significant investment in the productions supported by the CTF/CMF. Indeed, as the most recent CTF annual report observes, broadcasters are the single largest source of financing of CTF-supported productions, at 34.4%, followed by the CTF at 27.8%. With licence fee thresholds as high as \$315,000 for big-budget English-language drama series (20% of eligible costs for big-budget French-language drama series), broadcasters’ investments in these productions have been growing. As well, since broadcaster performance envelopes are calculated in large part based on broadcasters’ audience success, it is in broadcasters’ interest to achieve the largest possible audiences for CMF-supported television programming. Consequently, broadcasters drive the marketing and promotion of this programming. While these marketing and promotion costs do not

appear in the production budgets submitted to the CTF/CMF, broadcasters devote airtime and obtain advertising on other vehicles to ensure their productions are promoted in the most suitable manner. This can include promotion on broadcasters' websites or on mobile platforms. Indeed, CAB members note that the single most effective way to promote online or mobile content is via television. Similarly, online/mobile content drives viewer engagement with television content.

In broadcasters' experience, there is no "one size fits all" approach to marketing or promoting television programs. For a new program, it is impossible to develop a marketing plan in advance of the production actually being made; the production values, delivery date, financing and many other elements can change from the time the application is received by the CMF to the time the program airs. It would therefore be inappropriate for the CMF to require marketing plans or budgets to be submitted with each television production application. It would be equally inappropriate for the CMF to prescribe specific marketing or promotion costs that could be supported by the CMF.

CAB Recommendations:

- Considerable marketing and promotion of CMF-supported content will be undertaken by broadcasters (as they have done with CTF-supported television programming). No further marketing or promotion should be required for productions to access CMF funding.
- Broadcasters and producers could negotiate additional marketing/promotion costs for individual productions; however, a special initiative at the CMF is not necessary.

3.0 GENRE ALLOCATIONS AND DEFINITIONS

As the CAB observes in the introduction to its submission, the number and scope of the issues being reviewed by the CMF in 2009 is vast. For the upcoming funding cycle, the CAB believes it would be less disruptive to broadcasters and producers to maintain as many policies as possible from the previous CTF guidelines. Consequently, the genre allocations used in 2009-10 should be maintained for 2010-11.

3.1 Documentary Production

The CMF's briefing notes refer to a "market test" that the Government of Canada wishes to apply to documentary, variety and performing arts programming, suggesting that there are some forms of these genres of programming that could not be supported by the market alone.

The *raison d'être* of the CTF has been, as stated in the CTF 2009-10 *Broadcaster Performance Envelope Guidelines*, to provide "support to projects in the under-represented genres of Children's and Youth, Documentary, Drama and Variety and Performing Arts", primarily for Canadian audiences. If CTF/CMF support is required for these genres, it is because they appeal to Canadian viewers; however, to use the language of Minister Moore, the market alone would not support their creation.

This is true of *all* the genres supported by the CMF. There is no reason to revisit the list of genres supported or their definition at this time.

CAB Recommendations:

- The CMF should maintain existing genre allocations for the upcoming funding cycle.
- The genre definitions and types of documentary, variety and performing arts programming supported by the CTF in the past should continue to be supported by the CMF.
- “Lighter” documentaries, such as lifestyle programming, should not be excluded from CMF support.

4.0 AUDIENCE AND RETURN ON INVESTMENT

For several years, all projects funded through the BPE stream of the CTF have been required to meet a number of criteria relating to their scheduling and airing by broadcasters. More specifically, CTF funded productions had to:

- Be “new” productions, i.e. not substantially repackaged versions of previously produced productions
- Be aired within 18 months of completion and delivery to the broadcaster
- Be aired in “peak viewing hours”, i.e. 7 p.m. to 11 p.m., with exceptions for children’s and youth programming

Based on these eligibility requirements, every television production funded through the BPE stream has been original (“new”), first run (aired for the first time within 18 months of delivery to the broadcaster), prime time (aired between 7 p.m. and 11 p.m. except for children’s/youth) programming. In his announcement of the CMF in March 2009, the Minister of Canadian Heritage indicated that the CMF would place the emphasis on “original, first run prime time programming.” The criteria listed above ensure that all CMF funding is, indeed, directed to original, first-run, prime-time programming. In the CAB’s view, no further measures are required to achieve the Minister’s objective.

Additional measures to favour this type of programming, for example, in the calculation of broadcaster performance envelopes, are not feasible across the board. As the CMF briefing notes indicate, some additional steps would be required to determine whether viewers are watching an original, first-run airing of a program. Thus, as the CMF observes, “quite a number of broadcasters do not currently use these [premier, special and repeat flag] data fields in the BBM audience database Infosys, as additional resources would be necessary to provide this level of information to BBM

Canada on a weekly basis, in addition to the actual program schedule for the week that have (*sic*) just concluded.”

Further, even if it were feasible to calculate BPEs based on original, first-run, prime-time programming, such a course of action would run entirely counter to the Minister’s objective of putting all broadcasters on a “level playing field.” The BPE calculation method used by the CTF since 2004 has used the same metrics for all broadcasters. Thus, for example, “audience success” is measured in the same way for conventional, specialty, pay, public, private, English-language, French-language and Aboriginal-language broadcasters: total hours tuned to CTF-supported programming and programming of the type supported by the CTF. This particular metric was analyzed extensively and a number of different approaches have been considered by the CTF in the past several years. While the current approach presents advantages and disadvantages to all broadcasters with performance envelopes, neither CTF staff nor the Board arrived at an alternative approach that could still ensure a level playing field among all broadcasters.

In its briefing note on audience and ROI, the CMF considers whether, and how, “return on investment” could be encouraged for CMF-supported productions. The assumption underlying this consideration seems to be that broadcasters and producers do not take on sufficient financial risk for these productions. From the broadcaster’s perspective, CMF-supported productions already involve considerable risk, in the following ways:

- Licence fee thresholds are high and have been increasing, with no attendant increase in the revenues broadcasters generate from these productions
- BPEs are calculated in part based on licence fees over average, thus moving licence fee levels even higher
- As the principal financiers of CMF-supported productions, broadcasters already assume the greatest level of risk of any private sector financier. The additional investments made by broadcasters in the marketing and promotion of these productions increase the level of risk for broadcasters

From a commercial broadcaster’s perspective, the ultimate measure of “return” on a programming investment is audiences (which in turn generate advertising revenue). The CTF’s focus on “audience success” has been an appropriate measure of broadcaster ROI and should continue.

CAB Recommendations:

- The CTF project eligibility requirements, with their focus on new, prime-time programming, achieve the Minister’s goal of emphasizing “original, first-run, prime-time” programming. No further measures are required.
- The current method of calculating “audience success” for the BPE stream remains effective and ensures a level playing field among broadcasters. This approach should be maintained going forward.

5.0 BROADCASTER-AFFILIATED AND IN-HOUSE PRODUCTION

As indicated in its briefing note on broadcaster-affiliated and in-house broadcaster production, the current CTF/CMF caps on these types of production have been in place since 2004, when the BPEs were introduced. Prior to 2004, up to one-third of CTF funding could have been devoted to broadcaster-affiliated productions. The relatively low levels of CTF funding going to broadcaster-affiliated production have been in part due to CTF rules implemented in 2004, and partly due to CRTC conditions of licence for conventional television, which require this category of broadcasters to source most of their priority programming from independent producers.

At the same time, many pay and specialty services have accepted conditions of licence requiring that priority programming also be sourced from independent producers. These services have, as a result, generally not built their own in-house production capacity.

With the emergence of an increasingly competitive environment for video content and audience attention, broadcasters need to be able to use and repurpose content on whatever platforms are appropriate to their programming. While support to independently produced online or mobile content is one way for broadcasters to have more access to more content, broadcasters also need to have direct ownership over video content and rights. To do so, broadcasters should have the flexibility to use their envelopes to fund productions made by affiliated producers or produced in-house. Such an approach would be consistent with the Minister's affirmation that eligibility for broadcaster-affiliated production would be expanded in the CMF and that broadcaster in-house production would be allowed.

CAB Recommendation:

- The CMF should raise the threshold on the amount of BPE funding that could go to broadcaster-affiliated and in-house production. An appropriate threshold, consistent with past practices of the CTF, would be one-third of the broadcaster's performance envelope for broadcaster-affiliated or in-house production.

APPENDIX A RESPONSES TO CMF QUESTIONS

Briefing Note 1: Program Allocations – Convergent and Experimental Streams

a) *How should the CMF allocate its program funding between the convergent and experimental streams?*

The CAB suggests that, at least for the next two years, 5% of the CMF's total resources be devoted to the experimental stream.

b) *Should there be any minimum percentage of the convergent allocation to go to non-television platforms?*

The convergent stream should be administered with maximum flexibility, so that broadcasters and producers can respond to changing consumer demand, emerging digital media business models, and the evolution of technology. No minimum percentage of the convergent stream should be allocated to non-linear television, online, or mobile content.

c) *Are the current funding allocations to the Special Initiatives (Development, Aboriginal-languages projects, Versioning) appropriate?*

The funding allocations to these Special Initiatives remain appropriate. Given, however, that the Versioning Assistance envelope has been undersubscribed, we suggest that the definition of eligible expenses for versioning be expanded. More specifically, the CAB encourages the CMF to allow the versioning of standard definition productions into high definition.

Briefing Note 2: Convergent Content

a) *What criteria should the CMF consider to determine what original value-added content meets its requirements?*

“Value-added” is video content which expands opportunities for Canadians to watch Canadian programming, when and where they want to do so. This “value-added” content comprises video content on any non-linear television, online or mobile platform. This should include VOD.

b) *Should the criteria be identical for all projects, or should they be varied on the basis of the nature of the content (drama, documentary, children's and youth, variety and performing arts) and the platform used (Web, iTV, mobile, etc.)?*

All productions supported through broadcaster envelopes in the convergent stream should be on two platforms – linear television plus at least one of online, VOD or mobile. The second platform could be online (streamed or other), VOD, or mobile (streamed or other). The content on the second platform could be *identical* to the television content, it could involve excerpts and new packaging of existing content (*repurposing*), or it could be *original* content, unique to the second platform, but based on the television program. The CMF's requirements concerning the type of

content to be put on the second platform (original, repurposed, or identical to the television content) should be flexible.

If *original* content is to be developed for the second platform, this would be subject to negotiation between the broadcaster, producer and financing partners.

c) Should a minimum licence be required for the new platform component(s) for a convergent project? If so, what should this minimum be?

No minimum licence thresholds should be imposed.

d) Should the licences for the new platforms be separate from the licences associated with television, or could they be combined?

The licences should be combined. All required elements for both the linear television and the VOD, online or mobile platforms need to be included in the licence fee, to ensure that broadcasters can present the content on all required platforms.

e) Should a minimum budget be considered for each component of a convergent project?

Given that every convergent project is different and will be financed differently, it would be inappropriate to impose rules that would attempt to standardize these projects. No minimum budget restrictions are required.

f) Should a level of market interest (financial commitment from a third-party, for example) be required for the new platform component of a convergent project?

Broadcaster participation remains the principal indication of market interest for CTF- and CMF-funded projects. No additional requirements should be imposed.

Briefing Note 3: Video on Demand

a) What is the mechanism to make VOD services an eligible distribution platform to the CMF?

The CMF should allow VOD rights to be acquired by broadcasters who license CMF-supported television productions.

b) In the context of the CRTC making a distinction between TVOD and SVOD, are there considerations for the CMF to take into account? Are there special considerations for the French-language market?

VOD services should not be eligible for broadcaster performance envelopes, but VOD should be considered an eligible second platform in the convergent stream.

- c) *Would making VOD services eligible as distribution platforms mean the creation of a performance envelope system for VOD services providers? What objective criteria should be used in determining allocation of funds? If audience is considered a criterion, how would audiences be measured?*

See the response to (b), above. VOD should also be made eligible for the CMF by allowing broadcasters to acquire VOD rights in their threshold licence fees.

- d) *What considerations should the CMF contemplate in the context of potential new models that would redefine the relationships between independent producer and broadcaster, broadcaster and BDU, independent producer and BDU, and between producers and unions and guilds? Are there special considerations for the French-language market?*

These relationships are governed by contracts, collective agreements and negotiations made among the parties involved, outside the CMF. Similarly, dispute resolution mechanisms exist outside the CMF. There is no need for the CMF to play an additional role at this time.

Briefing Note 4: Audience Success and Return on Investment

- a) *How should “audience success”, for the CMF’s purposes, be defined? How should “ROI”, for the CMF’s purposes, be defined?*

From broadcasters’ perspective, the ultimate test of the success of a production is audience. Broadcasters’ “return” on an investment in a production is the advertising revenue – driven by audience success – that the production generates. The CAB recommends that the definition of “audience success” used in the calculation of CTF broadcaster envelopes be the same for the CMF.

- b) *Should ROI be determined solely in reference to money returned or should other benefits be considered, and if so, what benefits and how should they be measured?*

See the response to (a), above.

- c) *Should the definitions of “audience success” and ROI be different for each CMF-eligible genre, or for the English and French markets?*

“Audience success” should be defined as it currently is, irrespective of genre or language market.

- d) *Given the definitions arrived at, how should the CMF favour projects that have achieved and demonstrated the most potential to achieve success, in terms of audience and return on investment? Should this be done within the current BPE system or within an alternative system?*

The CTF explored, in the past, numerous ways to reward success or to identify projects with the potential to achieve success. Selective decision-making, broadcaster priorities, and other approaches have all been adopted for a time, but have been ineffective. BPEs, on the other hand, have proven to be a very effective way of rewarding audience success, with the marketplace in effect identifying the programs that will be successful.

- e) *Should the CMF adjust its funding formula so as to make more or all of its contributions in the form of an equity investment or review its Standard Reconpmnt Policy?*

The current split between licence fee top-ups and equity investments should be maintained in 2010-11.

- f) *Would ROI increase if producers and/or broadcasters were required to take greater financial risks in their projects, thereby being more motivated to achieve success? If so, should the CMF establish, or change existing rules to increase the financial commitments to projects required from producers and/or broadcasters?*

The contributions made by broadcasters, in the form of licence fees as well as the value of on-air and other broadcaster promotion, are significant. Broadcasters are already providing the largest share of financing of CTF-funded productions. Through these significant contributions, broadcasters assume enormous financial risk in licensing, airing and promoting CTF-funded productions. Licence fee thresholds have reached a level where they represent a greater risk for broadcasters. Should higher licence fee thresholds or financial requirements be imposed on broadcasters, CMF production would become unsustainable.

Briefing Note 5: Marketing and Promotion

- a) *Recognizing that the CMF has a goal to build audience demand for programming that is produced for multiple platforms, how can promotion and marketing activities be encouraged and supported?*

Currently, broadcasters undertake the vast majority of promotion and marketing of CTF-funded productions. On-air promotion of programming is one of the most effective ways to increase viewer awareness of a program and to sustain viewer engagement. Moreover, research demonstrates that cross-platform promotion, which broadcasters already undertake through their television and online/mobile presence, significantly enhances awareness and engagement.

Where appropriate, broadcasters further promote CTF-funded productions via print, outdoor, radio and other advertising media. However, marketing and promotion models vary according to the production, and it is generally impossible for the broadcaster or the producer to be able to anticipate how a production should be marketed or promoted before it is produced.

- b) *Should marketing and promotion costs be made eligible in both the convergent and experimental funding streams, and, if so, should certain caps be considered?*

If the broadcaster(s) and producer agree to undertake a marketing or promotion campaign outside of what the broadcaster itself will do, then these incremental marketing costs could be negotiated in the production budget.

- c) *If marketing and promotion costs are made eligible, should the CMF consider both national and international costs as eligible costs?*

If the broadcaster and producer have agreed to include national or international marketing and promotion costs in the production budget, these costs could also be supported by the CMF.

d) Should marketing and promotion costs remain ineligible but be made a project eligibility requirement?

Marketing and promotion costs should *not* be made a project eligibility requirement.

e) Should marketing and promotion costs be factored into envelope calculations? Should broadcasters be rewarded through their envelope for the marketing efforts they accomplish to promote CTF-funded shows?

The current method of calculating broadcaster envelopes remains appropriate.

f) Should a distinct program be created to fund marketing and promotion activities?

Given the extent to which the CMF is fragmented to support diverse initiatives, including “convergent” projects, there should not be additional funding taken from production to other initiatives, such as marketing and promotion.

Briefing Note 6: Television Content in the Convergent Stream – Allocations by Genre

a) Should the CMF continue to allocate its program budget by genre and continue to allocate individual broadcasters’ BPEs by genre?

The current method of allocating the CTF budget by genre, and of calculating per-genre broadcaster envelopes, is the result of much discussion and deliberation by broadcasters, producers, CTF officials and other stakeholders over the course of several years. By maintaining relatively stable shares of funding to the genres, the CTF has enabled some level of predictability and facilitated planning by broadcasters and producers. It would not be appropriate for the CMF to revisit these decisions.

b) Should the CMF continue to use the same four factors and associated weights in calculating BPEs for all genres, or should these vary by genre?

The four factors remain appropriate across genres.

c) Are the current genre allocations appropriate? Do the current rules relating to flex amounts and transfers provide an appropriate level of flexibility? Or, should the CMF let the market determine which eligible genres receive how much (i.e., should envelope holders be permitted to spend their BPE in any eligible genre at their discretion)?

Given the magnitude of changes already likely to occur with the CMF (due to the introduction of the experimental and convergent streams), it will be important to maintain maximum stability and predictability in other areas of the Fund. For the next year, the CMF should continue to use the genre allocations and broadcaster envelopes by genre.

Briefing Note 7: Documentary Production

- a) *How should the CMF ensure the realization of the Government's intent (i.e. prevent "slippage" of CMF-funded documentaries towards "reality" or "lifestyle" programming)? Should the CMF interpret existing (or modified) definition(s) of documentary more strictly, so as to exclude lifestyle and/or reality programs from funding? Or are other measures required?*

No additional measures are required.

- b) *The Government's decision also places emphasis on projects that "have achieved and demonstrated the most potential to achieve success, in terms of audience and return on investment". Should documentaries in general, or feature length and/or auteur/POV documentaries in particular, be exempt from this approach?*

The same criteria should apply to all genres.

- c) *Given that lifestyle and reality programs often achieve significant levels of audience success, how should the CMF best reconcile this policy intent with the aforementioned directive concerning "slippage"?*

No changes are required to the current policy.

- d) *Are the calculation factors and weightings used to calculate the Broadcaster Performance Envelopes still appropriate for the documentary genre?*

Yes.

- e) *Are the current Essential Requirements still appropriate for documentaries in general, or feature length and/or auteur/POV documentaries in particular?*

The current ERs should be maintained and applied in the same manner that they have been applied in 2009-10.

- f) *Could the introduction of in-house production, combined with the potential for increased access for broadcaster-affiliated production, reduce the number of independently produced auteur/POV documentaries? If so, are there any measures the CMF should take to mitigate this?*

It is unlikely that broadcaster-affiliated or in-house production will significantly decrease the amount of documentary programming licensed by broadcasters.

Briefing Note 8: Canadian Elements of CMF Projects

- a) *Are the four Essential Requirements and genre-specific exceptions still appropriate, do they provide the right balance, or should amendments be contemplated? If so, which, if any, of the following characteristics should the CMF consider:*

- *Who owns and/or controls the project?*
- *Who fills the key creative roles on the project?*

- *Where or by whom is the bulk of the work on the project done?*
- *What is the content/ subject matter of the project?*
- *Others?*

The 4 ERs should continue to be applied in 2010-11, with one modification: productions with 8/10 or more points on the CAVCO scale should be eligible for CMF funding.

- b) *Are these characteristics equally relevant to television projects and digital media/ interactive projects? Should they apply to the convergent stream and the experimental stream?*

Any television production supported by the CMF should be required to meet the 4ERs; consequently, the ERs would also apply to the second platform of productions supported via the BPEs.

- c) *Should the policy objective of favouring projects with potential to achieve success, in terms of audience and ROI, be considered in this discussion?*

No.

Briefing Note 9: Third-Language Production

- a) *In the context of the unique mandate of third-language television broadcasters to serve local communities, what is the most effective way to support third-language production? Through the creation of a Special Initiative stream of funding or through Broadcaster Performance Envelopes?*

While CTVglobemedia Inc. does not agree, the majority of CAB members support the creation of a special initiative to support third-language production.

- b) *What level of support would be appropriate?*

An appropriate level of support for the proposed special initiative in 2010-11 would be \$2 million to \$4 million.

- c) *In what eligible genres of programming is there likely to be demand?*

If supported by the CMF, third-language productions would likely seek funding mainly in the documentary, drama and variety and performing arts genres.

Briefing Note 10: Broadcaster-Affiliated and In-House Broadcaster Production

- a) *What levels should initially be set for access in order to encourage the right mix of broadcaster-affiliated and in-house production and independent production? Over what time period should these levels be gradually increased?*

The CMF should raise the threshold on the amount of BPE funding that could go to broadcaster-affiliated and in-house production. An appropriate threshold, consistent with past practices of the CTF, would be one-third of the broadcaster's performance envelope for broadcaster-affiliated or in-house production.

- b) Are there specific issues to be considered in relation to access by public broadcasters to the CTF either through affiliated companies or in-house facilities?*

Public broadcasters should be subject to the same conditions as private broadcasters.

- c) Given the distinct nature of the French-language market, are there considerations that are particular to French-language broadcasters that should be taken into account?*

The approach proposed in (a), above, would apply to both the English- and French-language markets.

- d) Should any control mechanisms be considered?*

The approach proposed in (a), above, provides sufficient controls and protections for independent producers.

- e) Should the current CTF definitions for broadcaster-affiliated programming be modified?*

No modifications are required.

Briefing Note 11: Performance Envelopes – Eligible Entities

- a) What criteria should the CMF consider to determine which Canadian distribution entities should have access to performance envelopes in the convergent stream?*

Initially (for the first year or two of the convergent stream), both the television and the online or mobile content should be funded through the BPEs.

- b) Should the criteria be identical for all entities in the convergent stream or should they be varied on the basis of ownership or affiliation (whether or not they are linked to a broadcaster) and the platform used (Web, mobile, etc.)?*

See the response to (a), above.

- c) Insofar as a distribution entity on new platforms is not associated with a broadcaster, what criteria should be used to determine eligibility?*

A project funded through the convergent/BPE stream should be licensed by a broadcaster, who would negotiate the rights and distribution of both the television and the second (mobile or online) platform. If the broadcaster and producer have a contractual agreement for a third party to

distribute the online or mobile production, then the both the television and the online or mobile production should be eligible for funding through the BPE.

- d) *Are the existing performance factors for television projects (audience success, historical access, above-average licences, regional production licences) relevant for the new platforms (convergent projects) or should they be adapted?*

For the first one or two years of the convergent stream, given that online and mobile business models are emerging and these platforms are far less watched than linear television, the CAB recommends that “convergent projects” simply be funded as an additional budget item with the linear television production. In these early stages of convergent content development, the CMF does not need to create separate performance envelopes or introduce metrics for audience or market success.

Briefing Note 12: Audience Success and the CMF – Emphasis on Original, First-Run, Prime-Time Programming

- a) *Should this refer only to the initial airing of each new episode of a program on the first broadcaster, as per industry standards? If not, how should this term be defined and what is the rationale?*

Every production supported by the CTF in the past, and the CMF in the future, must be “new” and aired in prime time. These already existing policies should continue. No other measures are required to favour original, first-run, prime-time programming.

- b) *Should this refer only to the first time each new episode of a program airs on the first broadcaster (i.e. should the terms "original" and "first run" be deemed synonymous)?*

See the response to (a), above.

- c) *Should this refer to the first time each new episode of a program airs, on a broadcaster who co-licensed the project (license fee within the project's financial structure), i.e. second or subsequent window on different broadcasters?*

See the response to (a), above.

- d) *Should this refer to the first time each new episode of a program airs, on a broadcaster who acquired licence fees to acquire the program (license fee outside of the project's financial structure)?*

See the response to (a), above.

- e) *Should this refer to Monday to Sunday 7 p.m. through 11 p.m. for all program genres?*

The current definition of “prime time”, including the exception for children’s and youth programming, should be maintained.

- f) *Should exceptions be made for programs in the children's and youth genre since viewing behaviour for this demographic is vastly different from those of adults?*

The current definition of "prime time", including the exception for children's and youth programming, should be maintained.

- g) *In situations where broadcasters' signals are delivered via a single feed (7 p.m. - 11 p.m. in Ontario and 4 p.m. - 8 p.m. in B.C.) as compared to a broadcaster with an eastern and time-delayed western feed, should prime time be defined by the location of the originating signal, or the location of viewing?*

The definition should be based on the location of the originating signal. This approach mirrors that used by the Canadian Broadcast Standards Council in defining the "watershed" hour of 9 p.m. based on the location of the originating signal.

- h) *In order to meet the new criteria of supporting original, first-run programs in prime time, should the current measure of audience success be modified? Would providing a "bonus" for programs meeting the criteria be one option? What type of weighting would be attributed to "original" telecasts in relation to "repeat" program telecasts? What type of weighting would be attributed to "original telecast in prime time"?*

Bonuses or modified "audience success" criteria are not required.

- i) *If "original" telecasts were to receive an additional bonus in the calculation of total hours tuned towards the audience success factor, would this provide sufficient incentive for broadcasters to provide this level of information to BBM Canada every week? How would this information be verified by a third party for accuracy?*

The incremental effort required on the part of broadcasters, BBM, the CTF and third parties to identify "original" telecasts would be considerable, even if a "bonus" were provided to broadcasters, and the costs would be prohibitive.

- j) *If, in the future, VOD services contribute license fees to an eligible project, how would "original" be defined?*

See the response to (a), above.

- k) *Would a certain "premier period of eligibility" be accorded to the service (wherein all orders downloaded during that window would be considered "original")?*

See the response to (a), above.

- l) *Would an extended "window" be fair treatment when compared against linear television?*

See the response to (a), above.

Briefing Note 13: English-Language Regional Production

- a) *Is there a need to review and modify the definition of “region” and “regional production” with a view to achieving consistency across CTF programs?*

The definitions used by the CTF for its production and development initiatives remain appropriate.

- b) *Should Vancouver be considered to be a region or should BC production outside of Vancouver be considered regional?*

The CMF should continue to consider Vancouver a region for the broadcaster performance envelope (production) stream.

- c) *Does the regional factor weight of 20% require review? Should the factor weight remain the same or should it be adjusted upwards or downwards?*

There should be no changes to the factor weightings in 2010-11.

- d) *Should there be a condition established whereby broadcasters eligible for the regional credit are required to spend these funds on future regional productions?*

No.

- e) *Is the regional factor within the BPEs the most effective vehicle for encouraging regional production in the long term?*

In the longer term it would be useful for the CMF to review the set of measures it has introduced to encourage regional production, including the regional factor in BPE calculations and the regional production incentive (PI). The CAB suggests that this issue be addressed in the CMF’s industry consultations next year.

- f) *Is the PI the most effective vehicle for encouraging regional production in the long term?*

As the CTF observes in its briefing note on regional production, the PI is relatively new and its impact on regional production cannot yet be determined. The CAB considers that the PI should continue for the coming year, whereupon it could be assessed and the CMF could seek industry feedback.

- g) *For the CMF convergent stream, should both components of a project - television and digital - be regional in order to qualify as a regional project?*

No.

Appendix B

A Study of Private Broadcasters' New Media Activities: “Hitting the Right Notes”

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ANNEX 1: BROADCASTERS INTERVIEWEDB-23

A. Executive Summary

At more than any other time, Canadians are dictating the terms by which content will be accessed. The range of offerings Canadians enjoy on internet-enabled platforms is the result of concerted effort by Canadian broadcasters to assure Canadians have the content they seek at the time and place of their choosing. However, private Canadian broadcasters face enormous challenges as they navigate the digital space. On the one hand, the opportunities to extend their brands are limitless; on the other, this must be balanced by gaining access to content that may appeal to an audience and the costs associated with making it available on alternate platforms.

This study seeks to provide a qualitative assessment of the nature and extent of activities being undertaken on alternative platforms by a select number of Canadian private broadcasters and to highlight some of the innovative and diverse applications being deployed online and via mobile networks.

By conducting interviews with senior executives of a select number of private Canadian broadcasters, including conventional, pay, and specialty television, and radio broadcasters operating in French, English, and Aboriginal languages, in both large and small markets, our intention was to provide insight into the experiences of some broadcasters as they adapt to the new media environment. Each broadcaster sets out a unique mix of applications, and situates the opportunity to provide audiences the content they want at the time and place of their choosing as at the heart of their offer. The various strategies employed by the broadcasters we interviewed can be grouped as follows below.

Strategies

1) Platform Remodels: A number of broadcasters have already made, or have plans to make, significant investments in redesigning their online platforms to provide an enhanced user experience for on-demand audio-visual streaming, and to provide opportunities for user engagement and loyalty in a trusted environment.

2) Make Rich Content Richer: Offering audio-visual content online is not simply a matter of posting traditional broadcast offerings (and even this can be a complex legal undertaking). The issues for broadcasters revolve around the kind of user experience their branded platforms can offer as they seek to extend their brands and build loyalty online.

Broadcasters seek to blend rich content with user interaction, making it richer by wrapping new content around streaming video to create a unique destination for a show's audience. Ancillary content is a differentiator for broadband delivery, is a 'value add' for the consumer and provides a compelling reason to visit broadcaster websites.

3) Theme Based Content: Due to rights considerations some broadcasters have developed unique websites that aggregate specialised content, exploiting the search functions of the Web and 3rd party aggregators' platforms to attract niche audiences used to searching for their content online.

4) Pushing the Information: A number of private broadcasters have moved quickly into the mobile space, providing Canadians with opportunities to access information-based content such as news, weather and sports, through proprietary applications.

In addition to information-based mobile broadcasting services, one broadcaster is now offering Canadians primetime drama conceived for mobile platforms.

5) New forms of Community: Creating opportunities for participatory media has been a successful strategy for some broadcasters with a younger audience demographic. Mixing professional and semi-professional content, providing opportunities for audiences to contribute creative content and engage with each other, and extending their broadcast offerings to social networking sites, are earning them credibility with their web-savvy audiences.

News and local content offerings also feature prominently in community building strategies. Citizen journalists and bloggers are engaging in the telling of their own stories, thereby participating in the creation of compelling news narratives online and deepening their experience of news content. Regional broadcasters are extending their local offerings online, providing their audiences with opportunities to stay connected to their communities.

7. Live Streaming: The radio broadcasters we interviewed provide live streams of their radio broadcasts, while television broadcasters have experimented with live video streaming or offer subscription-based broadband simulcast services for some specialty services.

Issues and Challenges

Licensing issues: As owners clarify their rights agreements, broadcasters are gradually acquiring online licenses for their prime time programming. However, online rights to some shows continue to be unavailable or limited. Rights clearances are more easily obtained for more recently produced shows, though new challenges exist in terms of negotiating rights clearance for third party distribution.

Canadian broadcasters are watching as the business model for 3rd party aggregated content emerges. As American rights holders are already in the space with their content, the question for Canadian broadcasters is when and how they may exploit separate Canadian licensing rights on platforms such as Hulu and Kangaroo.

One of the most significant challenges faced by sports broadcasters is the rising cost of online rights to sports content. While league rights to major sports franchises are still affordable, costs for online rights are fast becoming prohibitive.

Production and distribution costs: Adapting broadcast content to the online environment is a complex process that involves numerous considerations that drive costs. In addition, growth is costly. Success online translates to increases in streaming costs. In the end, the broadcaster must balance the desire to do more, with the potential to earn more revenues. The Internet and mobile platforms present a huge opportunity to connect with audiences, providing an indirect value. However, bandwidth costs are high, while online advertising revenues are limited.

Revenue models: Business models are still immature and revenues don't necessarily cover new media broadcasting expenditures. Broadcasters therefore continue to experiment with ways to monetize their online and mobile offerings and work with evolving advertising models. Banner and pre-roll ads, sponsorships and advertising-as-content are some of the strategies being used to support content development and distribution and build return on investment.

B. Introduction

Atlantic Records announced this month that it had reached a milestone that no other record label had hit. For the first time in the history of the music industry in the US, its digital sales surpassed CD's, with more than half of its earnings coming from digital products like downloads on iTunes and ring tones for cellphones. The Chairman of Atlantic Records in commenting on his company making the transition to a digital business observed: "Today you have to be like Leonard Bernstein making sure everyone is hitting the right notes at just the right millisecond. The tipping point, if you will, is when everything converges and your timing with everything is impeccable."⁹

While this statement was made in the context of the changes impacting on the music sector, nevertheless it epitomizes both the exciting and challenging state of new media broadcasting.

Private Canadian broadcasters are exploiting the online environment creatively as they navigate a changing market and its challenges. The range of offerings Canadians enjoy on internet-enabled platforms is the result of concerted effort by them to assure Canadians have the content they seek at the time and place of their choosing. At more than any other time, Canadians are dictating the terms by which content will be accessed.

This study seeks to provide a qualitative assessment of the nature and extent of activities being undertaken on alternative platforms by a select number of Canadian private broadcasters and to highlight some of the innovative and diverse applications being deployed online and via mobile networks. It is a snapshot in time. As such, the anecdotal information conveys the dynamic and fluid nature of the digital environment.

This study also brings into focus the enormous challenges Canadian private commercial broadcasters face on a going forward basis in launching new ventures in terms of business models, ancillary rights, and costs. Canadian broadcasters are embracing these challenges in a manner that allows for rational development of growth in light of uncertainty in the market success of products and applications.

⁹ Tim Arango, "Digital Sales Surpass CDs at Atlantic", *New York Times*, November 25, 2008

C. Approach and Methodology

The goal of this study was to acquire an appreciation of the new media broadcasting activities being undertaken by a select number of Canadian private broadcasters on alternate platforms¹⁰ including third party aggregators. This study is not meant to provide an exhaustive accounting of the quantity of content that these broadcasters are offering online. Rather we have approached the question by considering how private broadcasters are responding to the market realities of the digital space, with a view to providing insights into the business opportunities as they see them and also what obstacles stand in their way.

Our approach included conducting interviews with senior executives of a select number of private Canadian broadcasters, including conventional, pay, and specialty television, and radio broadcasters operating in French, English, and Aboriginal languages, in both large and small markets. These interviews allowed us to gain an understanding of broadcasters' business strategies, ventures, and future plans in the online environment as well as the issues and challenges faced along the way.

The broadcasters interviewed represented CTVglobemedia (CTVgm), Canwest Broadcasting, Astral Media, the Aboriginal Peoples Television Network, Score Media, Pelmorex, Channel Zero, Corus Radio (Splice Interactive), and Radio Nord Communications (RNC Media). (The list of broadcasters interviewed is attached in Annex 1.)

In preparation for the interviews, we reviewed the websites of each of the broadcasters in order to acquire an understanding of their offerings. Our review focused on the key attributes that are commonplace in online broadcasting, such as the type and quantity of content available online and on mobile platforms, the richness of the user experience and opportunity for engagement and the nature of the advertising supporting the delivery of the content.

A brief literature review was also conducted to provide a context for the study that describes the volatile and evolving competitive environment generally facing Canadian broadcasters.

The results of this study are not meant to be representative of all the new media activities of private Canadian broadcasters, but are rather meant to provide insight into the experiences of some broadcasters as they adapt to the new media environment.

¹⁰ Alternate platforms are defined as either a broadcaster broadband Internet website; a 3rd party aggregator (such as a retailer like iTunes, or an online content aggregator like Joost or MoboVivo); or a mobile device connected to a Canadian wireless network. Audio and video content in the survey below refers to content that is not advertising or promotional or a public service announcement.

D. New Media Broadcasting: The Context

This section presents key highlights of the most relevant trends affecting Canadian broadcasters in the evolving digital media environment.

1. *The Explosion in Popularity of Online Video*

Consumers around the world have grown accustomed to viewing video over the Internet and have come to expect a viewing experience that they control. While this has not replaced traditional broadcasting, the trend towards on-demand consumption is clear as the explosion in popularity of online video continues to grow. US broadband Internet Service Providers expect to deliver more than 300,000 Terabytes of data transferred over broadband networks by 2012 - over 25 times the figure in 2006.¹¹

Demand for on-demand video has been fuelled by significant worldwide trends. The broadband Internet has now reached most corners of the world. According to Screen Digest, "Consumer broadband connections in North America, Mexico and Western Europe reached 155m by year-end 2007. 46 per cent of homes in Western Europe were connected, trailing the US with 58 per cent. By 2012, these are set to climb to 68 per cent and 77 per cent respectively."¹² In Canada, penetration has now reached 70% and is expected to continue to grow steadily.¹³

As reported in *Tech Media Reports*, the 2007 Canada Online! survey found that downloading and streaming of online content by Canadians has increased dramatically since 2004. "Downloading and listening to online music is by far the most popular entertainment activity...Topping the list are downloading and listening to music online, visiting television websites, playing games, downloading or watching videos and listening to the radio, followed by other popular entertainment-related activities."¹⁴

Numerous players have moved into this environment, seeking to exploit the potential opportunities that now exist. In the US and Canada, traditional broadcasters have adopted online strategies to extend their offerings to advertisers and audiences. Third party aggregators have also emerged in recent years, seeking to aggregate audiences to advertisers around user-generated content, or content bundled by established and emerging broadcasters and distributors.

YouTube very rapidly established itself as the premier aggregator of audiences to streamed video. Originally a social-networking site dedicated to user-generated content, YouTube has enriched its site with branded channels providing well known professionally produced content. Broadcasters and other content producers, including Canadian producers, now distribute their content on YouTube.

With over 5 billion streams in September 2008, YouTube is far ahead of other aggregators in user popularity. Immediately behind it, Yahoo! delivered less than 300 million streams in the

¹¹ James Garlick, "Will the Internet Break? ISP Economics Assessment to 2012," *Screen Digest*, October 2008

¹² *Ibid.*

¹³ *Canada Online! 2007*, Charles Zamaria and Fred Fletcher, published in 2008 by the Canadian Internet Project

¹⁴ Brian Adeba, "Despite popularity, the Internet doesn't trump traditional media", *Tech Media Reports*, September 24, 2008

same month. Interestingly, the American 3rd party aggregator, Hulu – both an online destination and a distribution network, ranks behind the American broadcaster Fox, but ahead of CNN and MTV in number of video streams delivered in September.¹⁵ Note that content on some of these services is geo-blocked so as to prevent Canadians and other foreign-based users from accessing it.

Other 3rd party aggregators also seek to establish themselves with audiences: the Dutch online broadcaster Joost, and the American aggregator, Veoh, are among the most well known. In Canada, GlassboxTV, owner of BiteTV, has built a business around making use of new technologies to engage audiences by delivering its channels and content across the globe in innovative ways. Bite TV makes its content available on Broadcasting Distribution Undertakings' (BDU) video-on-demand (VOD) offerings; on Bite's own website; on Canada's three main wireless carriers; on Joost; and on YouTube.

The rise of these online services is giving rise to experiments in innovative advertising strategies based on aggregated and disaggregated viral networks of viewers.

2. iTunes – the single most important aggregator of retail content

iTunes has emerged as perhaps the single most important aggregator of retail media content, successfully driving its business by aggregating buyers around its combination of devices – the iTunes Store coupled with the Apple TV set-top box. According to a recent study, in the US alone, Apple iTunes generated 7 million download-to-own (DTO) movie sales in 15 months ending January 2008 and captured a 75% market share of all online movie transactions in US in 2007.¹⁶ It captured 85% of the 2008 annual market share in the UK after being operational only 6 months. American studios now have agreements to release their films for iTunes rental and then download-to-own day-and-date with DVD. Overall, iTunes is now selling over 50,000 movies each day in North America, the UK, Australia and New Zealand. Unfortunately, limited content is available in Canada compared to what U.S. consumers can download.

Other digital retailers with similar business models include Microsoft's Xbox Live, which allows users to buy games and movies; Sony PSP, which sells content from Canal+ and Sky; the Cezzer set-top box, which sells content from TF1 Vision; and Sony's Bravia TV, which allows users to buy amazon.com content.¹⁷

In Canada, MovoVivo is a retailer of *a la carte* content – mostly short form – primarily for download to portable devices, via computer.

3. Mobile Viewing

At 62% penetration, mobile subscriber numbers in Canada appear to be catching up to broadband penetration, currently at 70%.¹⁸ According to a recent national survey of

¹⁵ Nielsen Online. VideoCensus. Note: includes progressive downloads and excludes video advertising.

¹⁶ *Selling online video, the rise of 'value-add' economics*, Ben Keen, Screen Digest Future of Online Media Seminar, June 2008

¹⁷ *Selling online video, the rise of 'value-add' economics*, Ben Keen, Screen Digest Future of Online Media Seminar, June 2008

¹⁸ "Canada's Mobile Penetration Rate Rises to 61.6%," *Cellular News*, September 9, 2008

Canadian online habits, 32% of Canadians are using wireless devices to go online, almost doubling their time spent online from 1.6 hours per week in 2004 to 2.6 hours per week in 2007.

Walled garden subscription-based television services offered by Canada's mobile carriers are losing traction to mobile Internet access of video content. According to a number of reports, consumers are increasingly looking for content 'off deck' on their mobile devices. Fully 10% of Canadians are accessing the Internet through their cell phones.¹⁹

What these trends point to is the multiplication of touch points with the consumer and of potential revenue streams in the online environment. Audiences expect broadcasters to find them when and where they are, and to provide content however they wish to access it.

¹⁹*Canada Online! 2007*, Charles Zamaria and Fred Fletcher, published in 2008 by the Canadian Internet Project. The survey of Canadians' Internet habits compares data obtained in 2007 to a previous survey in 2004.

E. Interview Findings: In Search of the Tipping Point

1. Overview

Canadian broadcasters face enormous challenges as they navigate the digital space. On the one hand, the opportunities to extend their brands are limitless; on the other, this must be balanced by gaining access to content that may appeal to an audience and the costs associated with making it available on alternate platforms. Ultimately, it is the audience that dictates the terms by which it wants to receive content. There are tradeoffs and challenges.

Generally, each of the broadcaster's strategies varies depending on the nature of the services it provides. Each of the broadcasters we interviewed acknowledged the necessity in today's environment to use online and mobile applications to deepen the consumers' relationship with the broadcast brand in order to maintain or increase their audiences. Each broadcaster sets out a unique mix of applications, and situates the opportunity to provide audiences the content they want at the time and place of their choosing as at the heart of their offer.

More importantly, it is in the context of online social norms, and consumer preferences that new business models are emerging. Not surprisingly, these models remain unclear.

With the social networking phenomenon, and its ability to expand market reach, Canadian broadcasters are searching for innovative ways to optimize revenue. Marketers and advertisers are also exploring new ways to tap into this market.

As online video services successfully aggregate audiences to content online, the value of Internet rights is rising. New distribution technologies demand content providers make their content available in multiple formats. Compensation for multi-platform distribution involves complex market-driven negotiations between content providers and content distributors, with both sides seeking to maximize their return on investment. The emergence of viable business models continues to be tempered by rights clearance and other rising costs of Internet rights for some content.

2. Platform Remodels

Broadcasters appreciate the creative and business potential of Web 2.0 applications. They have been learning from their online experiences and fundamentally understand that the new platforms provide opportunities for creative expression and user engagement unlike traditional television and radio. In the past year, CTVgm and RNC Media have invested significantly in redesigning their respective online platforms (ctv.ca and planeteradio.ca) to provide an enhanced user experience for on-demand audio-visual streaming and a unified look and feel to support each of their brands.

CTVgm has invested in a significant reengineering of its online platform, optimizing it for video viewing, in a bid to serve up and monetize its audio-visual offerings. Approaching the development of its alternate platform with a view to rational growth, the broadcaster believes this investment will pay off with audiences.

RNC Media has made significant investments in the past 18 months in its own platform development infrastructure. This will allow it to execute its future plans more efficiently and cost effectively, and provide its regional audience with a sophisticated platform equal in quality to those of larger networks. The objective is to roll out enriched content on new platforms, to stay connected to audiences and create a community of listeners with shared interests.

Rolling out the first phase of RNC Media's alternate platform development plan, the broadcaster launched planeteradio.ca earlier this fall, uniting seven music radio stations under a single brand - Planète. The seven stations, each with its own call letters, share the same online platform developed by RNC Media, providing a common look and feel to the stations with the web audience. To build audiences to its online offering, the broadcaster successfully launched its new Web portal with a contest that was cross promoted with its on-air stations.

Canwest is also making significant investments in its online offerings, rewarding online users with a rich user experience, through program portals that offer full episodes and behind-the-scenes footage, such as that available through the "Kink cam" feature on its portal for the Canadian program, *da kink in my hair*. Canwest's recently launched portal for *The Young and the Restless*, which features full episodic video on demand and a fresh new design, gives a taste of where Global is going as it rolls out new content portals for its programs.

The broadcaster's online strategy for Global TV is to get its content to where the audiences are, building around its brand to create a trusted environment (globaltv.com) where viewers can engage with it. At the core of the strategy is a belief that strong online video content is a driving factor for why audiences visit the website.

For its part, Astral is preparing for the redesign of its Family Channel website (family.ca) by conducting research on how children use its online content offerings.

The broadcaster is investing in developing a deeper understanding of how children and young people consume its content: through which screens, and during which kinds of activity. For Astral, it's important to understand this audience and its habits and assure that online offerings are in sync with possible uses.



3. Making Rich Content Richer

The two most common ways that Canadian broadcasters make content available over broadband are video portals, providing access to a number of shows, and individual program portals. Offering audio-visual content online is not simply a matter of posting traditional broadcast offerings (and even this can be a complex legal undertaking). The issues for broadcasters revolve around the kind of user experience their branded platforms can offer to assure loyalty among viewers. Ancillary content often includes behind-the-scenes information, blooper reels, and 'minis' or 'mobisodes' – short stories that are done with the same actors and either extend the storyline or explore different directions. This type of

content is a differentiator for broadband delivery, is a 'value add' for the consumer and provides a compelling reason to visit broadcaster websites.

CTVgm has taken a very active approach to moving audiences across platforms, extending its brand by building unique opportunities for viewer engagement and feedback. The strategy is to blend rich content with user interaction, making it richer. Wrapping new content around streaming video creates a unique destination for a show's audience. With a view to responsible growth that will lead to return on investment, CTVgm takes a case-by-case approach to the development of enriched content for alternate platforms. In the hope that unique content will be more easily monetized, CTVgm has focused its efforts on enriching its most popular brands, taking as much content as is commercially reasonable and making it available on demand.

Its strategy has been to lead with its hit Canadian programs: *Degrassi TNG*, *Flashpoint* and *So You Think You Can Dance Canada*. There is a better chance of finding a critical mass of



viewers online with successful broadcast properties. For example, *Degrassi TNG*, a hit with younger viewers, has a very large and loyal online



community. There is also an advantage to working with Canadian programming, in that the broadcaster has a more immediate relationship to the development of the content.



CTV has invested significantly in the online portal to *So You Think You Can Dance Canada*, a success on TV and online. The show, a dance contest, is built around engaging viewers to participate by voting for the dancer of their choice. The online portal extends the user experience through on-demand episodes, clips, bios, program recaps, news, photos, music, blogs, a community page and an assortment of "fun stuff" (wallpaper, quizzes, etc.)

The recent hit *Flashpoint* provides another opportunity for users to engage more deeply with the show at ctv.ca. The show's online portal is rich with full episodes, clips, photos, cast bios, music and program news. The reality based show, *Canada's Next Top Model*, which will be returning for its third season, is now fully integrated with the web and prospective competitors can apply online for a spot on the show.

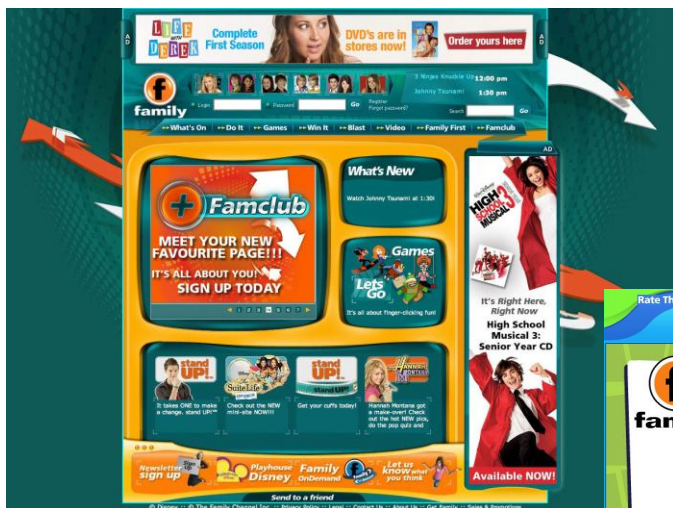
At Canwest, the aim is to exhibit online all major shows acquired or commissioned by the broadcaster wrapped in rich for-the-Web content on its program portals. While there is an

audience for video on the Internet, Canwest recognizes that audiences want to do more. A good example is The Food Network, whose audiences are not interested in watching full-length episodes online nearly as much as in short content, such as how-to videos created for the Web and downloading recipes.

Canwest recently announced it has secured the online rights to some top Fox programs popular with Canadians such as *Prison Break*, *Family Guy*, *Bones* and *24*. Individual episodes and full seasons will be accessible at globalTV.com and eonline.com. In addition, viewers will have access online to exclusive behind-the-scenes footage and video extras, offered on dedicated program portals for each show. Canwest will soon be posting over 60 of their broadcast titles, both conventional and specialty, offering full seasons of on-demand video.

Overall, the suite of properties owned by Canwest and CTVgm offer viewers a vast amount of Canadian content online. Canadian content is also available from all three major Canadian mobile providers.

The Family Channel's brand essence, "never a dull moment" shapes the offerings on its website, designed to extend the brand into the online world and drive viewership to its paid



television broadcasting service. Geared to the 8 to 18 year old demographic, the strategy is to offer children their favourite programming along with a host of activities and ancillary program content to keep them close to the brand.



Games are central to Astral's strategy of online offerings for The Family Channel. Though they may be more expensive to produce, games have a longer shelf life with users when associated to hit shows. For example, the game associated with the Canadian show *Life with Derrick*, created in 2006, continues to enjoy significant monthly plays.

Key to the success of Astral's online strategy is how it positions its television video offerings online. For example, Family.ca offers a significant number of on-demand videos. The broadcaster has also experimented with day-after catch up programming as well as with sneak previews of new shows and upcoming broadcasts, to see what best engages its audiences. The broadcaster is finding success with online offerings of sneak previews of televised content, which are driving viewers to television airings.

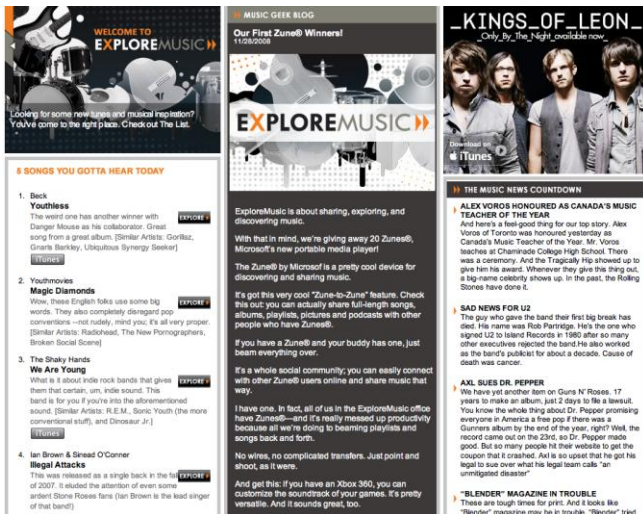
Score Media is a niche player appealing to sports fans through multiple platform offerings including specialty television broadcasting, a branded website, thescore.com, and mobile

services. The broadcaster has also invested in wrapping rich online content around material originally aired on television. Blogs, betting pools and forums enable users to engage more deeply with their favourite sports and teams and in some cases with live television broadcasts, creating their own participatory media at thescore.com. The aim is to use online platforms to increase users' participation in the broadcaster's media, a strategy that is in line with Score Media's positioning with young adult audiences.

4. Theme Based Content

Corus Radio and Channel Zero have developed unique websites that aggregate specialised content for fans of new rock music and independent short films, respectively. Responding to the challenge it faces in not owning online rights for the music it broadcasts over the air, Corus Radio has developed an innovative approach that offers its listeners extended search capabilities online for the music that interests them. By contrast, Channel Zero exploits the large catalogue of films for which its distribution company, Ouat Media, owns the rights, offering short films on its specialised destination portal and out to 3rd party platforms.

Working with Splice Interactive Media, the interactive arm of Corus Radio, Corus has created an innovative website to further engage its listeners that steers clear of costly online rights. Launched in October of this year, ExploreMusic.com is associated with a popular syndicated



on-air show and its host Allan Cross, one of Corus Radio's star personalities and a trusted music expert.

As there is an infinite choice of music on the Web, the concept is to help people navigate the choice, by providing a radio show and online destination guided by the show's host, a recognized opinion on what's worth listening to among his numerous fans. The website exploits search engine optimization techniques popular on the web and points people to music they are interested elsewhere on the web. The website also promotes local independent bands.

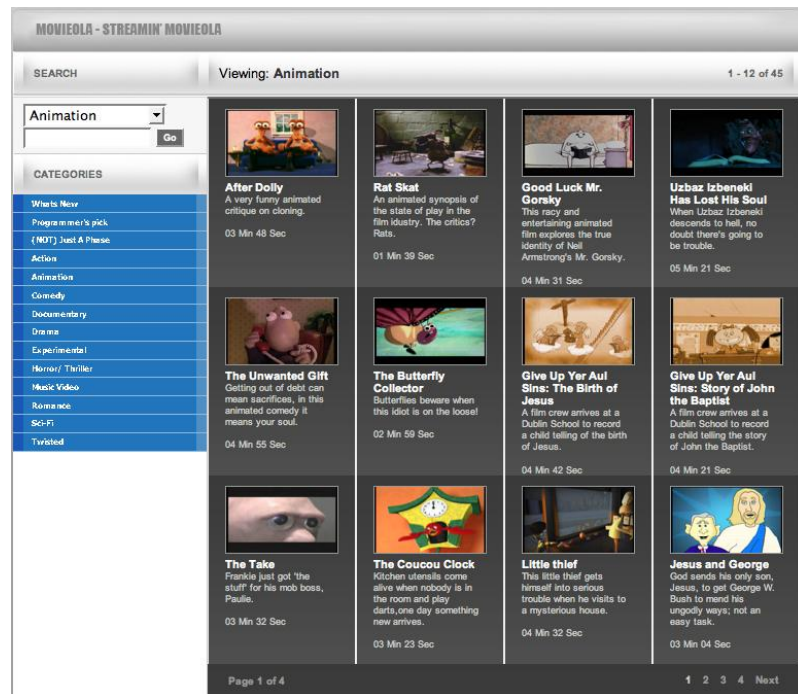
Rather than streaming audio or video directly, the website provides a jumping off point to access music through iTunes or YouTube. In this way, the broadcaster is also shielded from rising bandwidth costs associated with the popularity of streaming content. Original content created for the website includes music news, interviews with established and emerging artists and behind-the-scenes information.

For entirely different reasons, Channel Zero has also created a theme based website to appeal to users searching for short film content. Channel Zero is unique amongst broadcasters in that it also owns Ouat Media, a film distribution company that supplies the broadcaster with content. The broadcaster may also commission content. Either as producer or through the acquisition of distribution rights, the broadcaster owns the content it offers on its various platforms. Fully half of Ouat Media's catalogue is Canadian content.

Through Ouat Media, Channel Zero supplies content to its two television properties, Movieola and Silver Screen Classics, and to its online services, movieola.ca and silverclassics.com. The two websites, movieola.ca and silverclassics.com, are differently designed, tailored to the two services' different audience demographics.

The overall value proposition of movieola.ca is to be a destination for independently and professionally produced short content. By providing some content online for free, the intention is to entice users to watch more on satellite and cable.

In bringing its content offerings to alternate platforms, the broadcaster's strategy for its Movieola property is to exploit the potential of its three platform layers: longer offerings on television (up to 45 minutes), short videos no more than 20 minutes in length online, and shorter 2 to 3 minute videos on mobile devices. Movieola's "shorts" can be streamed at movieola.ca, enticing viewers to subscribe to the specialty service. The strategy will go deeper in the coming year, when movieola.ca will offer live programming, with a host introducing featured movies. By providing content geared to them, as well as a rich online experience, the broadcaster's online and mobile offerings are intended to attract a younger more web-savvy audience.



The Silver Screen Classics channel appeals to an older audience, and its website offerings are designed accordingly. The website is designed primarily to promote the broadcaster's television offerings on Silver Screen Classics. Film clips offer a glance at television content, pointing visitors to the TV channel where the films are playing. The strategy is successful in that the website's online schedule is popular with visitors.

5. Pushing the information

A number of private broadcasters have moved quickly into the mobile space, providing Canadians with opportunities to access information-based content through proprietary applications.

The Pelmorex broadcast group operates the broadcasting licences for The Weather Network and MétéoMédia. The Weather Network is primarily an information provider and its online platform provides the broadcaster with the opportunity to complement the weather information it broadcasts on television with a variety of other applications, such as additional

alphanumeric weather information, user-generated content and videos produced for the website.

The broadcaster's strategy on alternate platforms extends to downloadable PC applications such as the Weather Eye, interacting with consumers through email and SMS, and video offerings including user-generated content. As the multi-platform strategy evolves to include active news content online, video will play a larger role. Future plans also include adding more content to the sites' dynamic mapping content application.

Pelmorex offers its viewers PC applications intended to drive traffic to its online platforms and aggregate audiences to advertisers. The Weather Eye can be installed on the user's computer, bringing the user back to the brand through temperature updates, short and long term weather forecasts and weather warnings.

The broadcaster's Mobile Weather offering provides weather forecasts for over 5,000 cities and specific daily 'made for mobile' video forecasts for 25 Canadian cities and 4 'regional' clips. This and the TrafficEye mobile applications allow users to access local weather and traffic information, including traffic and weather updates, maps and live video streams, on their iPhones or Blackberries.

Pelmorex is optimistic about the revenue potential in the mobile space, if issues surrounding data costs to consumers can be resolved. As it is expected that location-based devices will soon do what computers can do, the broadcaster would like to develop more location-based applications to send localized weather information content to users on different platforms through ad-driven alerts.

The screenshot shows the 'Weather 2GO' mobile website. At the top, there's a navigation menu with links for Weather, Travel, Roads, Home & Garden, Activities, and Health & Environment. Below the menu, the main heading is 'Mobile: Weather To Go'. The central part of the page features the 'WEATHER 2GO' logo and a hand holding a mobile phone displaying weather data. To the right of the phone, there's a list of services: Mobile Web, Downloads, Text Messaging, and Video. Below this, there's a section titled 'Don't be undecided anymore!' with the sub-heading 'Plan a perfect day with WEATHER and Traffic at your fingertips.' This section includes text about getting weather warnings and traffic updates on a mobile phone. At the bottom, there are two columns: 'Mobile Web' and 'Downloads', each with a small image of a mobile device and text describing the services available on those platforms.

Score Media's mobile platform strategy revolves around downloadable applications for mobile devices, including the iPhone, which it says has been a game changer. Score Media's two mobile applications allow Canadians to receive their content on-demand through a range of wireless network partners. Score Mobile Video enables users to watch videos from the various portals as well as game highlights from the 2008-09 Barclays Premier League, while ScoreMobile for iPhone and iPod is a free application that allows users to access game scores and other statistics.

First to market with the application, Score Media now has a significant user base throughout North America. The broadcaster is also planning future expansion of the features of the current application, capitalizing on fan requests for feature upgrades and the smartphone market.

Other broadcasters also recognized the value of distributing news, sports and weather information to their audiences over mobile networks. Video-enabled cell phone users can watch CTVgm news and weather, updated regularly. CTVgm also pushes non-video news and sports to cellphones, BlackBerrys, PDAs and other mobile devices.

RNC Media has plans to develop mobile applications for its urban, information based radio stations, where it is in a position to provide exclusive content that works well in this market. Corus Radio also intends to increase its current offerings, through new mobile applications

that can be installed on computers and phones to keep Corus radio stations as a choice with consumers, as well as offering new web services and RSS feeds.

In addition to information-based mobile broadcasting services, Canwest is now offering Canadians primetime drama conceived for mobile platforms. The broadcaster has just launched a new mobile campaign to offer 120 exclusive webisodes of 24 to mobile subscribers.

6. New forms of Community

The Aboriginal Peoples Television Network (APTN) has spent the past 18 months investing in the transition to high definition broadcasting, and laying the foundation for a significant push to develop its online offerings over the coming 18 months. The broadcaster has a unique challenge in developing its online broadcasting strategy, in that its audience is almost evenly divided between the younger demographic (25 – 30 years and younger) and those who are older. The broadcaster's online strategy is to reach out to the younger demographic and build loyalty amongst them through its online offerings. Key to the strategy is building a web environment that mimics many of the characteristics of a social networking site.

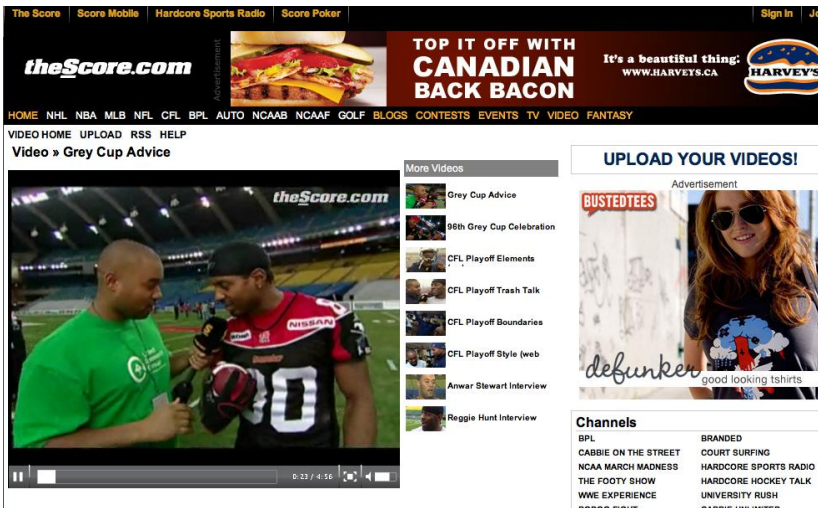
The digitaldrum.ca and digitaldrumpro.ca portals, two recent initiatives launched on the broadcaster's website, aptn.ca, showcase a mix of professional and non-professional user-generated video content. Digitaldrum.ca offers users the opportunity to share, network, and hopes to bring elders together with younger viewers. Users can upload their own original materials or stream past APTN broadcasts of significant cultural and historical value.

Digital Drum Pro is also a youth inspired initiative, designed to capture the younger demographic by providing a forum for emerging filmmakers to share their work and showcase it to interested buyers. Now that the architecture is launched, the ground campaign will roll out this winter to entice film students across the country to produce content for the platform through a national contest, cross-promoted on television.

The broadcaster is currently developing a new online platform, Digital Nation, in partnership with the Banff Centre for the Arts, Telefilm Canada and the National Film Board, that will support several layers of interactivity for users on both computers and

cellphones. Originating as content produced for the website, videos produced for Digital Nation online will also serve as content for APTN TV. New videos for the platform are currently in production. In addition, the broadcaster intends to extend its broadcast offerings through more regionally representative content online. In this regard, news programming will form a greater part of its online offerings over the coming year and a half.

Creating opportunities for participatory media has been a successful strategy for Score Media, earning it credibility with its younger sports fans. The website's use of semi-professional Canadian sports critics is popular with sports fans, helping to position the broadcaster with its younger base. A recent example of this type of successful positioning with audiences is thescore.com's Independent Sports Network, which aggregates semi-professional bloggers' websites for users and advertisers, with whom the initiative has also been a success. These partnerships with sports fans websites have increased traffic to thescore.com, and earned the website credibility with its online consumer base. A deal is also in the works to launch a branded YouTube channel, furthering the broadcaster's reach



through participatory social networks.

Central to RNC Media's online strategy for its radio stations is the fact that it is a regional broadcaster. Based in Montreal, the broadcaster owns stations in Quebec City, in the Outaouais region, Abitibi-Témiscamingue, Saguenay-Lac-Saint-Jean as well in Eastern Ontario.

The online strategy is therefore to focus on local content, giving it importance on each individual station's website. In this way, the broadcaster intends to stay connected to its audience, inviting its audience to find enriched local information online than enhances the information transmitted over the airwaves.

Playlists, contests, blogs, podcasts of pre-recorded programs, musical artists' pages, and song request applications provide numerous opportunities for listeners to engage with their community radio station. To assure that listeners can access their favourite radio station wherever they may be, and thereby stay connected to the brand and to their community, each station's programming can also be streamed live from its website.



Corus Radio has also successfully engaged citizen journalists at its iNews880 radio station in Edmonton. The goal is to engage listeners from six different Edmonton neighbourhoods, providing a greater granularity of news. Most traffic to the site occurs on days when something happens in a neighbourhood.

Canwest's initiatives with news broadcasting have been particularly successful. News programming online is about community for Canwest. The broadcaster provides extensive local news programming, which viewers can download as podcasts to a variety of portable media and stay connected with their community. In addition, citizen journalists can deepen their experience by uploading their own news stories to the website's *Assignment Desk*.

During the recent national election, reporters blogged on their cellphones, filing stories that resonated with audiences. Online broadcasting took the best of what was recorded and used it to open up the conversation with the audience, inviting the audience to participate on the website. The debates were streamed online accompanied by live blogging.

Global's news strategy will evolve for mobile platforms, in response to demand for news clips when and where consumers want them. At the current time, daily newscasts are downloadable to iTunes.

7. Live Streaming

Most Internet content is delivered on a one-to-one model, transmitted separately to each viewer. The more viewers, the costlier the transmission costs. Live streaming, or simulcasting, over broadband can take advantage of one to many communication technologies over IP networks, thereby mitigating bandwidth costs. The solution is affordable for live radio streaming, compared to the point-to-point signal and the radio broadcasters in our sample (Corus, RNC Media, Score Media and Astral) provide live streams of their radio broadcasts. APTN and Score Media have experimented with live video streaming while CTV offers paid broadband simulcast services for some of its specialty services on a monthly subscription basis.

8. Issues and Challenges – the Value Conundrum

Licensing issues

Rights to recently produced shows are more easily cleared today than even just two years ago, though new challenges exist in terms of negotiating rights clearance for third party distribution. Broadcasters are acquiring online licenses for their prime time programming as owners clarify their rights agreements. However, online rights to some shows continue to be unavailable or limited. For example, Canwest has recently acquired online rights to approximately 50 programs, which it will distribute online for windows typically limited to 24 days, in accordance with recent deals inked with American talent guilds. These windows allow audiences opportunities to “catch up” on their viewing but do not include 3rd party distribution.

A wider syndication model extending to third parties would allow for more revenue streams. The challenge for broadcasters licensing American content is that American broadcasters are already in the space with their content. The question for Canadian broadcasters is when and how to exploit separate Canadian licensing rights on platforms such as Hulu and Kangaroo.

CTVgm has begun to push content to 3rd party aggregators in an *ad hoc* manner. However, the business models are still in development and the broadcaster must be careful not to compete against its own premium brands to protect the core value of its business.

As bandwidth costs are considerable and movieola.ca is not geogated, Channel Zero has developed links to many content delivery partners to mitigate streaming costs. The broadcaster pushes content to partner platforms that have more robust mechanisms to monetise it, such as Babelgum, Viral Frog, VUZE, Sling Media, Apple TV, Joost, Hulu and more. The platform strategy also extends to Air Canada, which buys programs for airing on its airplanes, with every platform getting a slightly different mix of content. Though usually staggered, distribution on different platforms may not always be mutually exclusive and rights to its content may be exploited on more than one platform at a time.

One of the most significant challenges faced by sports broadcasters is the rising cost of online rights to sports content. While league rights to major sports franchises are still affordable, costs for online rights are fast becoming prohibitive. Rights holders worldwide have become much more insistent on negotiating online rights separately, unlike a decade ago, when they would have likely been included with on air rights. Some major league online rights are now four times more expensive than their television rights.

Even when not directly monetized, Internet rights are becoming increasingly valuable, exploited either as a complement to matches aired on TV, or transmitted simultaneously. When online sports video rights are exploited simultaneously to the live TV broadcast, users have access to the sports event without need of a television set.²⁰

While at the present time bandwidth costs are within reason due to the short nature of the clips offered on thescore.com, the broadcaster wonders how demand for high definition programming will impact on streaming and storage costs for its content.

Monitoring bandwidth and production costs

Adapting broadcast content to the online environment is a complex process that involves numerous considerations that drive costs. For example, it is critically important to the success of CTVgm's strategy to secure the cross platform rights for the content it seeks to exploit. Content for the Web must be produced in-house, driving costs. User-generated content must be reviewed before posting, and in some cases commentary is also produced for it, again driving production costs. Finally, the broadcaster must encode content to the specific requirements for screening online.

In addition, growth is costly. Success online translates to increases in streaming costs. Due to the Internet's point-to-point transmission model, the more viewers pulling the content, the greater the cost (of bandwidth). High Definition video, with its higher bandwidth consumption, will also drive up costs. Current funding programs such as the Bell Fund and the Canada New Media Fund are described as archaic by some broadcasters. They are not well suited to Web 2.0 applications.

APTN is responding in interesting ways to the rising costs of production and rights for online broadcasting. To meet the challenge of production costs, the broadcaster is partnering with other organizations to share costs and has created an in-house production company to navigate rights and public funding realities. In addition, the broadcaster is working with

²⁰ *Online Sports Video: Rights, Revenues and Forecasts*, Aresh Amel, Published in February 2008 by Screen Digest Limited

emerging professionals to produce online content, where rights can be balanced against professional opportunities for creators.

Score Media prefers to adapt its own in-house production to the online environment because of the prohibitive cost of program rights for online distribution, and the temptation by rights holders to bundle content that may not be appropriate for online distribution. Astral too invests in in-house production where possible, though the broadcaster does not have the infrastructure to produce its own games. Astral has had great experiences working with Canadian independent producers and values the exchange of ideas and shared shaping of projects.

Corus Radio also manages the growth of its online business carefully, applying finite resources to risky and costly development. In a profit-driven business, there is little room for unproven business models. For these reasons, Splice Interactive (Corus' interactive development arm) finds it easier to focus on developing applications for its member radio stations, rather than developing new content. In this context, ExploreMusic.com is an accomplishment the company is proud of.

As RNC Media has ramped up its own in-house production capability, it has been important to control costs, to assure it can meet its operational costs in the future. To roll out live streaming, bandwidth costs had to be carefully projected. The roll out of the online strategy has therefore been incremental. Now that the online architecture is in place, the broadcaster must assume new production costs, working with its in-house producers to fill the pipes with enriched content.

Assessing risk in the mobile space

In the mobile space, deals from carrier to carrier and year to year have been radically different for CTVgm and the broadcaster is still investigating where the right fit is in terms of platforms for its content. In moving into the mobile space, the brand is perceived as multiplatform. CTVgm has entered the mobile content market to learn, increase the visibility of its brands and earn incremental revenues. However, profitability is an issue for the time being.

Astral will also need to study the mobile market as at the present time, penetration of smart phones amongst children is low.

A balancing act for value

RNC Media would like to provide its audiences with a deeper experience about the music they are listening to, but online rights costs are a concern. In the end, the broadcaster must balance the desire to do more, with the potential to earn more revenues.

This is also true for CTVgm, which must balance building its online audiences with moving its business model from TV to multiplatform broadcasting, closely monitoring costs.

While Pelmorex's online video strategy overall is beginning to have impact, it is still a relatively small part, in terms of usage and revenue generating capacity, of its overall interactive platforms and products. Bandwidth is not inexpensive, and the online video advertising market is neither large nor sturdy. In addition, as existing television content may not work well online or on mobile, new production costs must be incurred to either adapt it, or to create content specifically for alternate platforms.

The challenge for Canwest is to consider what value is in this changing environment. The Internet and mobile platforms present a huge opportunity to connect with audiences, providing an indirect value. However, bandwidth costs are high, while online advertising revenues are limited.

Revenue models

Canadian broadcasters told us that while their new media activities are very much a work in progress, with business models still immature and the revenues not necessarily covering their costs, it is clear that there is no turning back. Broadcasters therefore continue to experiment with ways to monetize their online and mobile offerings and work with evolving advertising models. Cross-platform sponsorships, advertising-as-content, and viral advertising models are some of the strategies being used to support content development and distribution, enhance CPM value and increase return on investment.

The trend in online sports video is towards online ad buys, in keeping with the rising value of online sports video content. In sports media advertising, brands are now launching their own portals and content plays. Advertising on thescore.com is in line with the trend, tending to online ad buys for full portal advertisements and integrated programming with branded extreme sports events. Sophisticated advertising strategies such as the Drambuie campaign on thescore.com (where a series of Drambuie action video advertisements can be accessed through numerous content menus on the site) mimic the broadcaster's sports content offerings, having the effect of blending with them.

Corus Radio's revenue strategy for ExploreMusic.com is to go with overall website sponsors rather than ads, in keeping with the values of the younger demographic using the website. In addition, sponsorships with record companies support information about bands featured on the website. Astral is also moving towards custom sponsorship for its online Family Channel offerings. Believing that deep engagement with a brand should drive value Astral is moving towards a model where it hopes that "time spent" by users with their content across platforms will be the new currency.

Advertisements are hard to sell on movieola.ca, as, without a geogating policy, traffic to the site is worldwide, of lesser appeal to advertisers typically interested in more targeted audiences. Channel Zero is therefore concentrating on deals with 3rd party aggregators that must also result in revenues for the broadcaster. While varied, deals involve minimum revenue guarantees beyond sharing in advertising-based revenues, as viewership is not large enough to support a strictly ad-based strategy.

While these innovations are driving increased revenues, growth has been slow and uneven. There is much talk of the growth of audiences online, however audiences for radio broadcasters have been growing more slowly. RNC Media has found its regional advertisers have been slower to move to the Internet, though the interest is there. The broadcaster is also concerned not to merely shift on-air revenues to the Internet.

Canwest's recent acquisition of online rights for some 50 programs may help the broadcaster capture some lost TV ratings due to fragmentation, as it continues to struggle with the cost structure of broadband vs. TV and other digital media.²¹ Canwest is considering the user

²¹ Jonathan Paul, "Canwest fighting fragmentation with big-time streaming," *Media in Canada*, August 28, 2008

experience in its deployment of pre-roll ads to assure the best possible viewing experience for its audience.

One of the most interesting new developments in ad-based revenue strategies is linked to online distribution strategies that combine syndication with viral circulation of content. Leading American online television services, like NBC and Hulu, blend syndication and viral distribution to maximize eyeballs to their videos online. Video distribution originating on the broadcaster's core site is pushed out to affiliate sites and to aggregators like Hulu, which then push it further to social networks of bloggers and private individuals sharing the video virally. The resulting "disaggregated advertising" deals are built on a cross-content sponsorship model, covering all videos, not just the ones delivered on the core site. Screen Digest estimates that more than half of Hulu's revenue comes "off-site".

As Hulu learned from YouTube, distributing content virally dramatically grows the audience. Viral distribution taps into a disaggregated audience, extending the broadcaster's reach virally as audiences share video amongst their own networks.

The challenge for Canadian broadcasters is that licensing deals to the Canadian market within this flow have not yet been defined. When they are, broadcasters in Canada will need to be prepared technologically to take advantage of this opportunity. Earlier this year, it was reported that Hulu was still comparatively bogged down by tech costs, making up more than 40% of its gross margin.²²

²² *The economics of free*, Arash Amel, Screen Digest Future of Online Media Seminar, June 2008

F. Conclusion

In the introduction to this Report, we began with an observation by the Chairman of Atlantic Records as apt in capturing some of the challenges facing Canadian private broadcasters in the digital space. We have seen that broadcasters are reaching out to their audiences with new content for new platforms, when and where they want it, and experimenting with business models along the way. Setting aside the obvious differences between the music sector and the broadcasting sector, *hitting the right notes at the exact millisecond* and arriving at the *tipping point when everything converges* implies an alignment of all the variables. It's about timing. And serendipity. Too early, too late or just right?

The broadcasters interviewed for this study fundamentally understand that the new platforms provide opportunities for creative expression, user engagement and new revenue streams unlike traditional television and radio. From their perspectives, there is no turning back. At the same time, there is no magic formula for what will succeed with consumers. It's a question of experimentation and trial and error.

In music as in business, a great performance is a lot more than just hitting the right notes. Depending on the style of music, expressive gestures like scoops, bends, vibrato and more each contribute to the overall effect. Broadcasters have noted that their success stories depend on a deep understanding of the consumer who decides what they watch, at the time they want, wherever they want, on the device of their choosing and often simultaneously in conjunction with other activities. They are the drivers in this new space. To engage their audiences, broadcasters are making rich content richer, offering theme-based content, pushing information to their mobile devices, and inviting them into online community spaces they can trust.

Hitting the right note also depends on other variables. You need to bring the notes together into a well-orchestrated sound. Licensing issues, bandwidth costs, production budgets and uncertain revenue models are the white noise of online broadcasting. Because of the uncertainty of what will succeed in terms of applications and content, there is a wait-and-see attitude from many advertisers and investors.

As in music, the importance of developing good listening skills is critical. Serious time and effort is needed to become a good musician. In the digital space, broadcasters are listening actively to their audiences who know what they want. They are conducting the score, deciding which notes to play at what time. Broadcasters are responding accordingly with new content and applications in the hope that they are hitting the right notes at the right time.

Annex 1: Broadcasters Interviewed

We wish to thank the broadcasters who made themselves available for this study and for sharing their insights about the success stories and the challenges they face as they navigate in the digital space.

1. Stephan Argent, Vice-President, Digital Media, CTVglobemedia and Richard Kanee, Director, Digital Business Development, CTV Digital
2. Pary Bell, Vice President, Digital Media, Canwest Broadcasting
3. Barbara Bailie, Director of Interactive, Astral Television Networks
4. Taylor Emerson, Vice-President and General Manager, Interactive Services Division, Pelmorex Media Inc.
5. Earl Veale, Director of Operations, Splice Interactive Media, Corus Radio Interactive Group
6. Marc Giguère, Director of Operations, Radio Nord Communications (RNC)
7. Cal Millar, Vice-President and General Manager, Channel Zero
8. Jonathan Savage, Vice President, Digital Media, Score Media
9. Peter Strutt, Director of Programming, Aboriginal People's Television Network, (APTN)