

# Broadcaster and Producer Transitioning to the Digital World

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Peter Lyman,  
Nordicity Group Ltd.

NORDICITY GROUP LTD.

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- With fewer "quids" will the CRTC reduce the "quos"?
- How can policy and regulation help producers make the transition?
- Can regulation be flexible enough to address unfolding scenarios?
- How does spectrum policy affect broadcaster and producer transition?

# Introduction – Unregulated Barbarians at the Gate

- This presentation is about the transitioning of broadcasters and content providers to fully accommodate an environment of multiple digital distribution networks.
- Part I identifies and discusses the threats to the traditional linear broadcasting model, and what the impact is on broadcasters and film and TV program producers
- Part II discusses various policy and regulatory ramifications for broadcasters and content producers, including reference to distribution networks

# Part I: Transition Threats

- Threats to Linear Television
- Threat #1: BDUs Go into Content
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  - Lean back, lean forward, or take your pick – which screen prevails?
- Threat #3: Mobile broadband
- Understanding Consumer Behaviour - Accelerator or Brake
- Advertising and Subscription Revenue Impacts
- HDTV - Costly Diversion or Saviour

# Threats to Linear Television

## #1: On-demand bypass

- Content is increasingly on-demand - via channel time-shift, pay, VOD, and increased PPV
  - Then viewers can bypass Cancon programming of linear television
  - And BDUs can acquire content directly from programming suppliers – US and Canadian

## #2: On-line bypass

- Content will be increasingly available via broadband
  - On-line access by downloading, streaming – can be offered by Cdn. broadcasters, but also by studios, US broadcasters, and eventually i-Tunes
  - Can side-line BDUs, although can boost BDU as a high speed Internet connection service

## #3: Broadband mobile bypass

- Broadband wireless mobile provides yet another distribution system
  - Music downloads, ipods, music radio
  - Weather, news, sports, comedy sketches, how tos, soaps summaries as linear TV
  - And VOD applications expand as capacity expands and new bandwidth is exploited
- Wireless broadband – CRTC still acting under new media exemption order

## CRTC conclusion following its public consultation

- Technology won't reshape broadcasting beyond recognition
- But CRTC tends to react to trends that have matured, and not jump at hot fads and enthusiastic technology forecasts

# Threat #1: BDUs Go into Content

- BDUs move to aggregator role in TV content
  - Rogers offers 6000 titles on VOD, now moving to HD-VOD
    - Now expanding to offer US TV series via VOD platform
    - E.g. *Survivor* has only 1 day broadcast window
  - Videotron proposes to shake up CTF to help finance exclusive VOD content
  - IPTV carrier operators make direct content deals with studios
    - E.g. Sasktel has deals with 8 US studios
- In the VOD world, broadcasters are definitely an unwanted middleman

## Impact

- Decline of linear TV lessens the opportunities for shelf space for Canadian content
  - Cdn. producers face pressure from broadcasters to reduce licence fees, because of flat or declining advertising
  - VOD aggregators will only pay reasonable rates for high demand product, and much less for lower demand product.
    - So, there will be less emphasis on Cancon "tonnage", thus less broadcaster or BDU support for TV programming with weak audience appeal
- OTA networks and specialties get squeezed - some will be shut out altogether as VOD grows

# Threat #2: Content Via On-line

## On-line access

- Broadcasters can bypass BDUs and go directly to the consumer with on-demand delivery of premium content
  - E.g. CTV's degrassi which streams the program before the linear broadcast - thereby making BDUs 'second window' outlets
  - Cdn broadcasters have been able to acquire some of these rights, thus preserving an important- but not exclusive - place in on-line distribution
- While still expensive relative to BDUs, distribution becomes cheaper with new technology developments such as P2P

## On-line content aggregators

- Aggregators, such as iTUNES and Google, bypass the broadcaster and the BDU
  - E.g. iTUNES distributes Degrassi in future, rather than CTV.

## On-line user generated

- UGC e.g. YouTube bypasses traditional BDU, broadcaster, and content producer
- Or will the broadcaster aggregators distribute programming via UGC as a post broadcast release within 7 days?
- Or will broadcasters create communities of UGC networks, and harness them for advertising?

- Are there indeed "tipping points" that will dramatically alter the structure of television?
  - Will Google ("GoogTube") and other search engines dominate the on-demand distribution of video content vs. the BDU/IPTV configured networks?
    - At this time, the content is mainly user generated, but Google will be working out the rights issues for high end TV content
  - Or will the iTunes model of accessing high end content prevail, i.e. user pays small fee for streamed content?
    - While it is not available to a Cdn. IP address, a Cdn. presence is expected soon

## Impact

- Broadcasters can be by-passed, but can also use on-line to bypass BDUs (and preserve the ads by avoiding the PVRs of BDU subs)
- Content providers will be paid less by broadcasters, except for premium programming, and may not make it up via sale to on-line aggregators
  - Currently, producers are seeking to consolidate their place within the traditional broadcasting system - "terms of trade", minimum Cdn. programming expenditures, etc.

# Lean back, lean forward, or take your pick – which screen prevails?

## Lean back – TV wins?

- Just as movie theatres have withstood rise of home video because for social reasons, TV is a comfort experience
  - HD TV, large screens, and home entertainment will keep attracting viewing
  - Viewers will gravitate to more convenience and choice – via linear channel time shift, PVRs, and occasional catch up on-line, the TV entertainment and editing function will remain
  - Viewing trends: TVHH hours of viewing is on the rise
- So, linear TV and VOD TV will have their niche, but TV broadcasters and producers will need to adapt
- BDUs will need to regain youth who buy high speed, and then use it to access TV programming rather than subscribe to the pay-TV platform

## Lean forward – PC wins?

- Led by the youth segment, broadband will become the dominant platform for viewing TV programming material, on an increasingly on-demand basis
  - CTV filed focus group evidence in the OTA hearing showing that many viewers prefer accessing content on demand on their own computers
  - Peer to peer and storage technology will greatly expand the broadband throughput, thus attenuating Internet bottlenecks

## Broadband feeds “lean back” TV

- Even if programming is accessed via broadband, technology will enable seamless viewing on family HDTV system (Apple TV, TiVo/Amazon, etc.)
- So, producers will need to find some way of deriving revenue from TV content sourced on broadband, even if displayed on TV

# Threat #3: Mobile broadband

- Mobile access is another platform with an existing business model
  - DAB, DVB-H, as well as 3G and next, 4G – represent the next broadband pipe
  - Wireless operators have conditioned the market to pay for usage, and are learning how to “publish” or aggregate content
- Mobile content will be quite different from TV, since the display device is small and users will “snack” content on the go
  - But it will act as a pipe for accessing larger displays in fixed locations (like the living room),
  - and there is a user base (youth) which will prefer to consume content on the smaller device, namely iPhone and imitators
  - While some content will remain linear, much will be downloaded or streamed on demand
- So far, mobile broadband is the preserve of the mobile wireless carriers, but others will try to obtain a piece of the business
  - Wireless carrier “broadcasters” can by-pass BDUs and traditional broadcasters (except as content providers) and go directly to the content suppliers
  - And broadcasters (radio + TV) may use their digital spectrum to enter the mobile content business

## Impact

- Broadcasters will have to move quickly to retain a packaging and advertising role – and consider using digital spectrum
- Content providers will have another distribution outlet, but as yet there is little revenue, and it will require investment to program for mobile exhibition

# Understanding Consumer Behaviour – Accelerator or Brake

- **Consumers are used to acquiring content on-line free or cheap**
  - Music industry is still recovering, painfully, from the Napster phenomenon.
  - So, extracting value from packaging and protecting the value of rights holders are major challenges
  - iTunes shows that it can be done, one selection at a time, but it does not compensate for lost CD album sales
- **Consumers are used to paying usage charges for mobile, and will pay for ring tones (ego?)**
  - But youth keeps charges low with text messaging; even in more advanced markets like the UK, carriers are still trying to figure what content pays;
  - Canada does not have the same social context drivers as Japan (long commutes), and mobile users will need to be educated to accessing content
    - E.g. CHUM finds that content usage is mainly for streamed linear scheduled TV programming as it is a known quantity to users

- **User generated content (UGC), social communities, and Internet enabled games will siphon off TV viewing time**
  - UGC is a big movement, as consumer electronics industry gears to make production and uploading more accessible for video
  - Social community organizers and aggregators are attracting advertising, thus drawing from other media, including broadcasting
  - Gaming is moving on line big time, and is part of the displacement of time and advertising

## Impact on broadcasting and producers

- Youth culture: choose broadband over BDU and access programming via broadband (or mobile) when/where wanted – leading to disintermediation of broadcaster and BDU
  - But will youth mature into current patterns among older demographics?
- Broadcasters understand advertising and still control a powerful promotional medium, but UGC is different; and can they create popular UGC sites with global appeal?
- While some content creators can cross-over to gaming and concepts to aggregate communities, it is a real stretch for most

# Advertising and Subscription Revenue Impacts

## Advertising impact

- Internet advertising is already 6% market share in Canada, and growing rapidly (Hon. Bev Oda, Jan. 22, '07)
  - In UK it has already reached 14%, and it is expected to be 20% by 2009 (Economist, Dec.16, '06)
- Decline of linear TV makes advertisers more creative,
  - e.g. working with BDUs to drop ads into set-top boxes;
  - E.g. giving mobile users more airtime in exchange for advertising
- Investment by Cdn. broadcasters and advertisers into campaigns which exploit cross-platform channels may extend the broadcaster franchise
  - E.g. radio uses email lists compiled from web presence to sell events
- In UGC Canadian broadcasters can only hope to acquire or build social communities that are basically Cdn., e.g. Alliance-Atlantis has created "blogTV.ca" as a Canadian YouTube

## Subscriber impact

- On broadband, consumers are paying for some subscriptions, but iTunes, etc. will not likely compensate for the loss of BDU revenues for disconnects or basic only connects.
  - BDU disconnects could be exacerbated if free digital terrestrial TV is introduced
- TV viewers are conditioned to buy linear channels and VOD services through their BDUs – but BDUs will need increasingly to compete against free or near free
- Digital migration will lead to lower subscriber counts for analog Cdn. specialty-TV services
- As BDUs are pressured to provide value, they will apply pressure on specialties to give up some of their wholesale fees
- So, some pay/specialty services will cease; some will survive with less Cancon; some may find the right formula for connecting communities
- And the producer faces a declining market and lower margins

# HDTV - Costly Diversion or Saviour

- Competition is forcing broadcasters to migrate to HD
  - HD production costs are declining
  - But OTA TV faces major capital costs in transmitters
  - And pay/specialties face major annual transmissions costs
- HD ups the ante for broadband, but will it act as a bulwark against competition from broadband?
  - There is a capacity shortage in intermediate term in Canada; it will lead to by-pass by other delivery means, HD-DVDs, etc.
  - And broadband capacity may advance enough over the next few years to deliver HD cheaply
- Analog switch-off (ASO) would speed up conversion, and latitude as to use of HD spectrum could spark innovation

## Impact on broadcasters

- Not clear that all local stations or regional time zones will be carried nationally in HD – but US services, with higher HD content, are being given time shift precedence by BDUs
- Conventional broadcasters will likely have to deliver terrestrially for at least major centres
- The weaker specialty-TV services will be shoved aside by BDUs to create space for the HD versions of the stronger specialty-TV services

## Impact on producers

- Increases the pressure to produce fewer programs, but in higher quality – demand for episodic programming on weaker specialties will decline

# Part II: Regulatory and Policy Implications

- Will new regulations loosen restrictions on broadcasters and BDUs?
- If it looks like a duck, quacks like a duck, should it be regulated?
- With fewer “quids” will the CRTC reduce the “quos”?
- How can policy and regulation help producers make the transition?
- Can regulation be flexible enough to address unfolding scenarios?
- How does spectrum policy affect broadcaster and producer transition?

# Will new regs loosen restrictions on broadcasters and BDUs?

- How far will CRTC go to take account of new technologies?
  - Will it make incremental steps in the name of caution and precedent, or will it contemplate major changes?
    - e.g. end of competitive licensing, genre protection for specialties, or tiering & linkage regulations
  - Will it give up certain historic protections for programming and distribution licensees, since regulation cannot protect broadcasters or BDUs as in the past?
  - Will CRTC be flexible on over-the-air HD transmission?
- Broadcasting Act objectives:
  - S. 3(1)(e): "...each element of the Cdn. Broadcasting system contribute in an appropriate manner to the creation and presentation of Cdn. programming;"
  - S. 5(2)(c): "...Cdn. Broadcasting system should be regulated and supervised in a flexible manner that is readily adaptable to scientific and technological change;"
  - S. 5(2)(f) "...that does not inhibit the development of info technologies and their application or the delivery of resultant services to Canadians."

# If it looks like a duck, quacks like a duck, should it be regulated?

- Will the CRTC decide to regulate when service is broadcaster-like?
    - Possibly like the proposed EU directive to regulate linear and non-linear programming?
    - But Canadian twist protects Cancon loaded broadcasters and Cdn. programming
    - It would mean backing off the New Media Exemption order, and could inhibit innovation in the communications sector
  - Regulatory options are limited in an on-demand environment however delivered
    - Move from Cancon quotas toward (i) more competition among distributors and (ii) expenditure commitments by distributors?
  - Extending regulation probably also means reducing regulation over linear TV
- **EU proposed new directive** for Internet video (“audiovisual media services”)
    - Updates and relaxes 1989 “Television without Frontiers” directive
    - Objective: “to modernize and simplify the regulatory framework for broadcasting or linear services, and introduce minimum rules for non-linear A-V media services”
    - Non-linear means programming selected by the user to be transmitted by a media service provider from its inventory of programming.
    - “...Directive would create a comprehensive framework for any form of electronic delivery of A-V services....Non-linear services would be subject only to a basic tier of rules.”
    - Rules concern advertising, protection of minors, incitement of hatred, etc. (Not clear if applied to national production quotas, for example)

# With fewer “quids” will the CRTC reduce the “quos”?

## ■ **Broadcasters** worry about:

- losing audiences, advertisers, and content to new platforms,
- losing the benefits of regulation (e.g. simultaneous substitution, genre protection, big basic carriage),
- being stuck in a heavily regulated world with burdensome Cancon obligations,
- Having to migrate to HD with no incremental revenue to show for it.

## ■ **Broadcasters want**

- Fewer restrictions on meeting their Cancon obligations
- A new source of revenue (fee for carriage),
- No restrictions on tapping into new platforms
- Revenue sharing models, not restrictive terms of trade with producers

## ■ **BDUs** worry about

- Too many hands in their pockets (or their subscribers' pockets)
- Held back by regulation in the on-demand battle with GoogTube – advertising, carriage conditions, etc.
- Imposing broadcasting regulation of the Internet – i.e. going back on the new media exemption order

## ■ **BDUs want reduced reg stipulations – consumer-demand approach to meeting broadcasting obligations**

## ■ **Producers/Creators** worry about:

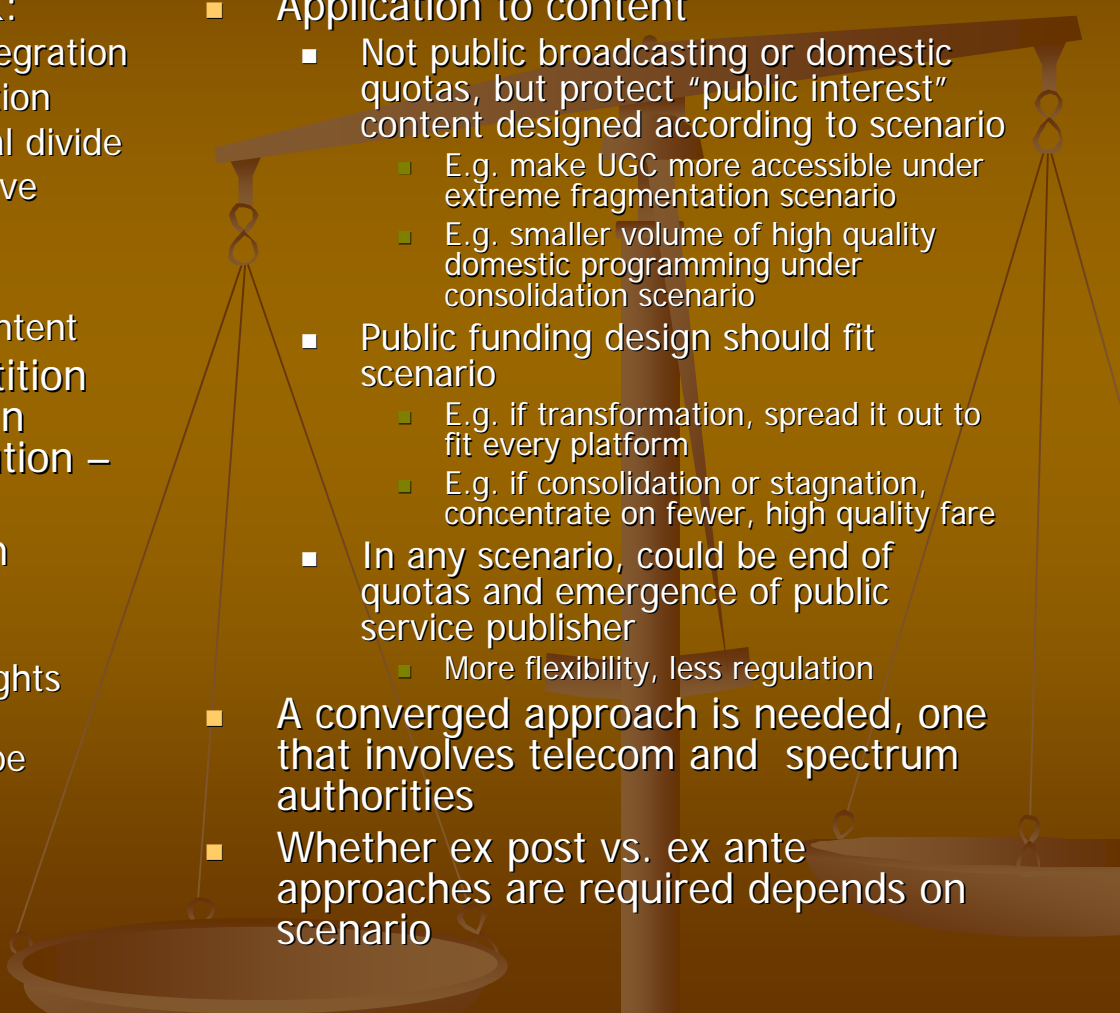
- Watering down of obligations for expenditures, exhibition, promotion, and license fees – on a false doom

## ■ **Producer/creators want some continued market guarantees, and to share in cross-platform benefits**

# How can policy and regulation help producers make the transition?

- While medium term revenue forecasts indicate little trouble to sustain existing regs, should there be a shift in ways to support Cancon?
- Parallel policy approach:
  - Adapt regs to on-demand distribution without jettisoning existing tools;
  - Create new financial incentives for content providers to transition to a more innovative rights development and rights management business;
- **Darren Entwistle, CEO, Telus**
  - "...CRTC-mandated levies on distributors should be directed to all manner of production funds.... new funds to support creators working with new media. We need to incent a stronger Canadian presence in this emerging arena."
- **Nordicity Green Paper**
  - "...integrated set of measures that would facilitate the development of more competitive television programming (in an era of) new platforms"
- **CFTPA**
  - Use regulation to increase funding from broadcasters, viz. use of significant benefits, higher priority hours commitment, and programming expenditure commitments

# Can regulation be flexible enough to address unfolding scenarios?

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- Scenarios posed for DCMS in UK:
    - Transformation - no vertical integration
    - Consolidation – vertical integration
    - Extreme fragmentation – digital divide
    - Stagnation – slow, less innovative
  - Broadcasting objectives
    - Universal access
    - Availability of public interest content
  - Proposed more effective competition policies to encourage creativity in content, packaging, and distribution – as well as faster adoption
  - Stimulate content cross platform
    - Prevent too powerful platform gateways
    - Provide access to new media rights (e.g. through rights factory?)
    - Use spectrum allocation to shape distribution market
  - Application to content
    - Not public broadcasting or domestic quotas, but protect “public interest” content designed according to scenario
      - E.g. make UGC more accessible under extreme fragmentation scenario
      - E.g. smaller volume of high quality domestic programming under consolidation scenario
    - Public funding design should fit scenario
      - E.g. if transformation, spread it out to fit every platform
      - E.g. if consolidation or stagnation, concentrate on fewer, high quality fare
    - In any scenario, could be end of quotas and emergence of public service publisher
      - More flexibility, less regulation
  - A converged approach is needed, one that involves telecom and spectrum authorities
  - Whether ex post vs. ex ante approaches are required depends on scenario

# How can spectrum policy affect broadcaster and producer transition?

## ■ Broadcasting spectrum:

- “HD” allocation morphing into digital terrestrial bypass?
  - But no licensed broadcaster would dare confront BDUs
  - But if new entrant(s) could access HD programming rights...it might lead to quasi digital terrestrial (DTT) application
- ASO date within a unique Cdn. model to avoid huge infrastructure cost?
- “DAB” spectrum becomes standalone content bypass?
  - Controlled by who?  
Partnered with carriers?

## ■ Telecom spectrum:

### ■ Competition policy as shaping the industry – all with major impacts on broadcasting:

- Is there a need to encourage a wireless broadcaster distribution network?
- Does it provide for wireless carriers and others too much leverage over broadcasters?
- Does competition in orbital slots encourage lower rates and faster entry of HD?
- Do terrestrial BDUs need more spectrum for wireless to participate in Quadra play?

### ■ Innovation agenda – is there a framework to promote development of non linear programming & non programming content?