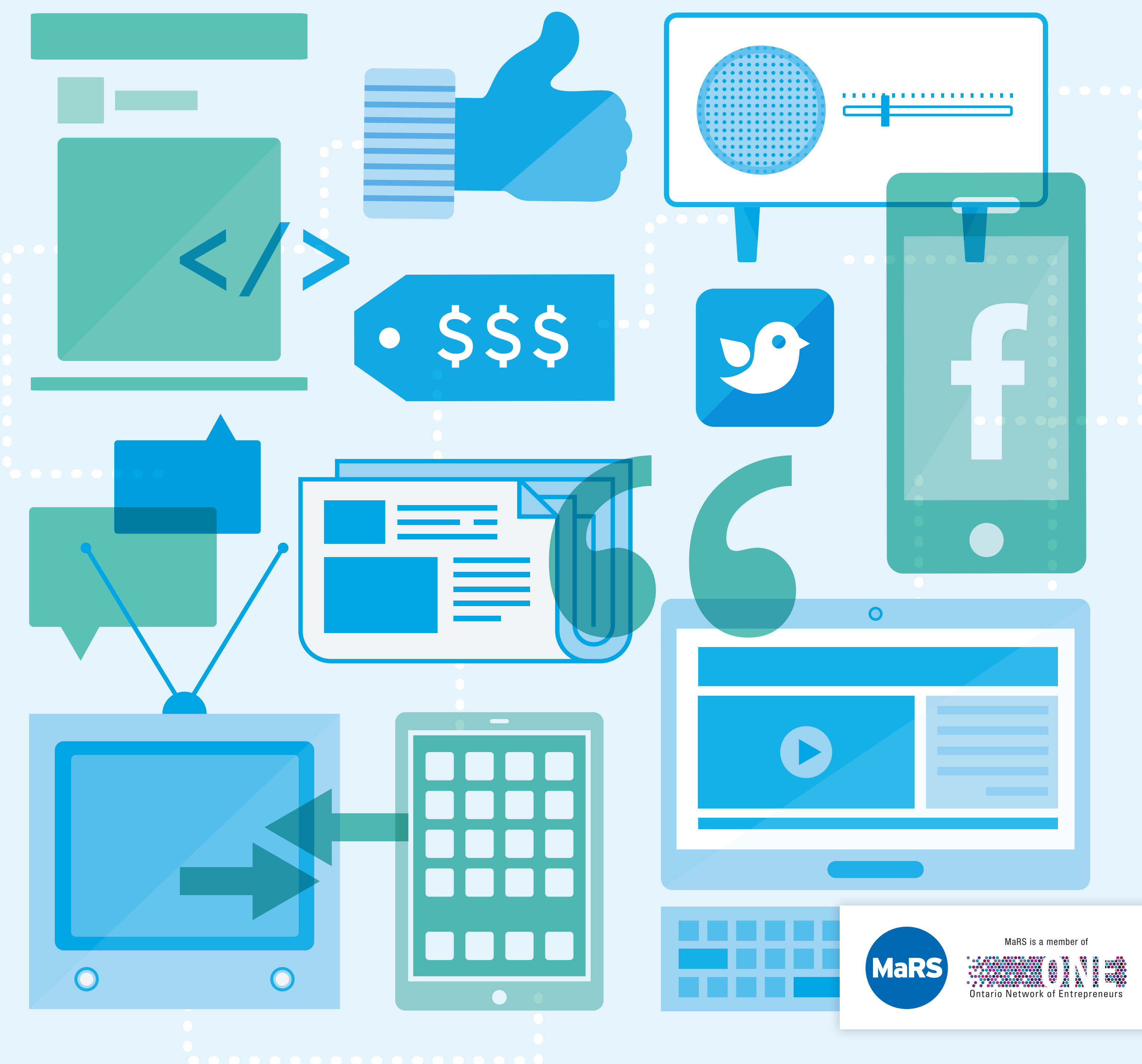
MaRS Market Insights

Digital Transition: Canadian Media Experiments in 2014



MaRS

MaRS is a member of

ONE

Ontario Network of Entrepreneurs

Authors

Claudio Munoz, Sr. Industry Analyst,
ICT, MaRS Market Intelligence
Joe Lee, Industry Analyst, ICT,
MaRS Market Intelligence
Lucas Armstrong, Industry Analyst,
ICT, MaRS Market Intelligence

To download the original report, please visit
www.marsdd.com/news-insights/mars-reports/

For further information, please contact
Claudio Munoz at **cmunoz@marsdd.com**

Table of Contents

1.The world is a lab **04**
1.1 (Not) Breaking news: Ad revenue is declining 05
1.2 Marketers to traditional media: We might "unfriend" you 06

2. State of the media: Television, publishing and radio **08**
2.1 Television 09
2.2 Publishing 09
2.3 Radio 10

3. Consumers **12**
3.1 We want it all and we want it now 12
3.2 Spending on digital media 13

4. Digital strategies: toward new business models **15**
4.1 A story of content creators 15
4.2 A story of old business models 15
4.3 What Canadian Media are doing 16
4.3.1 The concentration and expansion of (multi-) media organizations 17
4.3.2 Digital teams 17
4.3.3 Analytics-driven projects 18
4.3.4 Opportunities in new models 19

5. Canada's digital media innovation cycle **20**
5.1 A process of constant scanning 20
5.1.1 Bringing innovation inside (digital managers as drivers) 21
5.2 Working with startups 22

6. Conclusion: Innovating, media style **23**

References **25**

Interviews **26**

List of Figures

Chart 1 | Digital vs. total media ad spending in Canada 2012 – 2017 **05**

Figure 1 | State of the media (disruption) **06**

Figure 2 | Marketing channels (old and new) **08**

Chart 2 | Average time spent with media (per adult, per day) **12**

Chart 3 | Canada's digital ad spending (projections) **14**

1
The world is a lab.

As an official supporter of the Sochi 2014 Olympic Winter Games, the *Globe and Mail* created a special section within the newspaper that provided the usual coverage: athletes' biographies, competition schedules and related stories. The content of the print edition was determined by the newspaper's printing cycle, which resulted in up to 36-hour delays. The *Globe's* website also had a section dedicated to the Games, which expanded on what appeared in the print version by adding breaking news as they happened. The mobile edition of the *Globe's* Olympic coverage, however, was very different: The newspaper's digital team recognized that fans would be looking for up-to-the-minute results, news and scores. The mobile experience had to be able to provide information quickly, any time, from anywhere.

The digital team created a responsive site that could push out quick social headlines and "blast" news into the web. The team decided against creating a standalone app — an expensive proposition for a two-week project — and against using the *Globe's* main smartphone app, which may have alienated its more general audience. The objective was to create a special experience for sport fanatics and, in doing so, learn from them. Craig Saila, the *Globe's* director of digital products, explains: "We create responsive sites, mobile sites, almost micro-sites from a decade ago, to run these quick experiments that are cost-effective, give our readers what they need, provide the news coverage they want, and also teach us a bit about how our readers expect to receive their news."

Similar to the *Globe and Mail*, many other media organizations are also conducting fast, cost-effective experiments with their digital audiences by introducing concepts such as paywalls, dedicated apps, subscriptions, syndication and partnerships. The objectives are crucial to their survival: Media organizations need to decipher the engagement puzzle imposed by digitally connected customers and then use that understanding to develop valuable products and viable business models.

With new technologies, changing user habits, different audience segmentations and new competitors, the global media industry has been thrown into turmoil — and Canada has not been exempted. In this Market Insights report, we will discuss the latest developments in the Canadian media industry and the changing world of content producers. We will also explore the digital strategies that some organizations are implementing and the mechanisms they use to adopt innovation.

This report focuses on media organizations that base their business models largely on selling advertising, that is, television, publishing (newspapers and magazines) and radio. Other cultural industries, such as film production and book publishing, were not included as their primary revenue models are different.

1.1 (Not) Breaking news: ad revenue is declining and not coming back

According to Forrester Research[1], advertising has three components: context (the content around an ad), audience and format (such as text, video or banners). Traditional media consolidated these three elements into, basically, a single product: newspaper, magazine, television or radio ads. For many years, advertising revenue reigned supreme.

In digital contexts, the three components of advertising are not necessarily aligned creating a more complex and competitive environment. Thanks to the eruption of apps, online properties (such as Craigslist or Workopolis) and new technologies, such as smartphones and tablets, marketers have found new ways to connect with consumers. As a result, their advertising budgets are now being distributed among a plethora of digital solutions in addition to the traditional areas of spending.

Digital advertising has been growing steadily, while traditional media revenue from ads shrinks. The market research company eMarketer projects that in 2014, global digital ad spending will be more than US$137 billion, while total global ad spending is predicted to reach US$542.73 billion[2]. This means that 2014 global advertising revenue is expected to increase by roughly 6.5% over the year before[3]. North America accounts for close to 35% of the market (US$51 billion in digital ad spending), with Canada accounting for 10% of the North American share[4]. According to the latest Interactive Advertising Bureau (IAB) figures, Canadian Internet (that is, online and mobile) advertising revenues were worth $3.1 billion in 2012, up by 15% compared to $2.7 billion in 2011[5].

Spending on digital advertising now accounts for close to a quarter of the total spending on advertising in Canada (see Chart 1) [6].

Chart 1 | Digital vs. total media ad spending in Canada 2012 – 2018

Digital vs. Total Media** Ad Spending in Canada, 2012-2018 (billions of C$ and % of total)*

	2012	2013	2014	2015	2016	2017	2018
Digital* ad spending	C$3.09	C$3.38	C$3.72	C$4.05	C$4.35	C$4.64	C$4.92
Total** ad spending	C$13.24	C$13.72	C$14.26	C$14.73	C$15.17	C$15.61	C$16.05
Digital % of total	23.30%	24.60%	26.10%	27.50%	28.70%	29.70%	30.60%

Source: eMarketer, March 2014

Methodology: Estimates are based on the analysis of various elements related to the ad spending market, including macro-level economic conditions; historical trends of the advertising market; estimates from other research firms; and consumer media consumption trends.

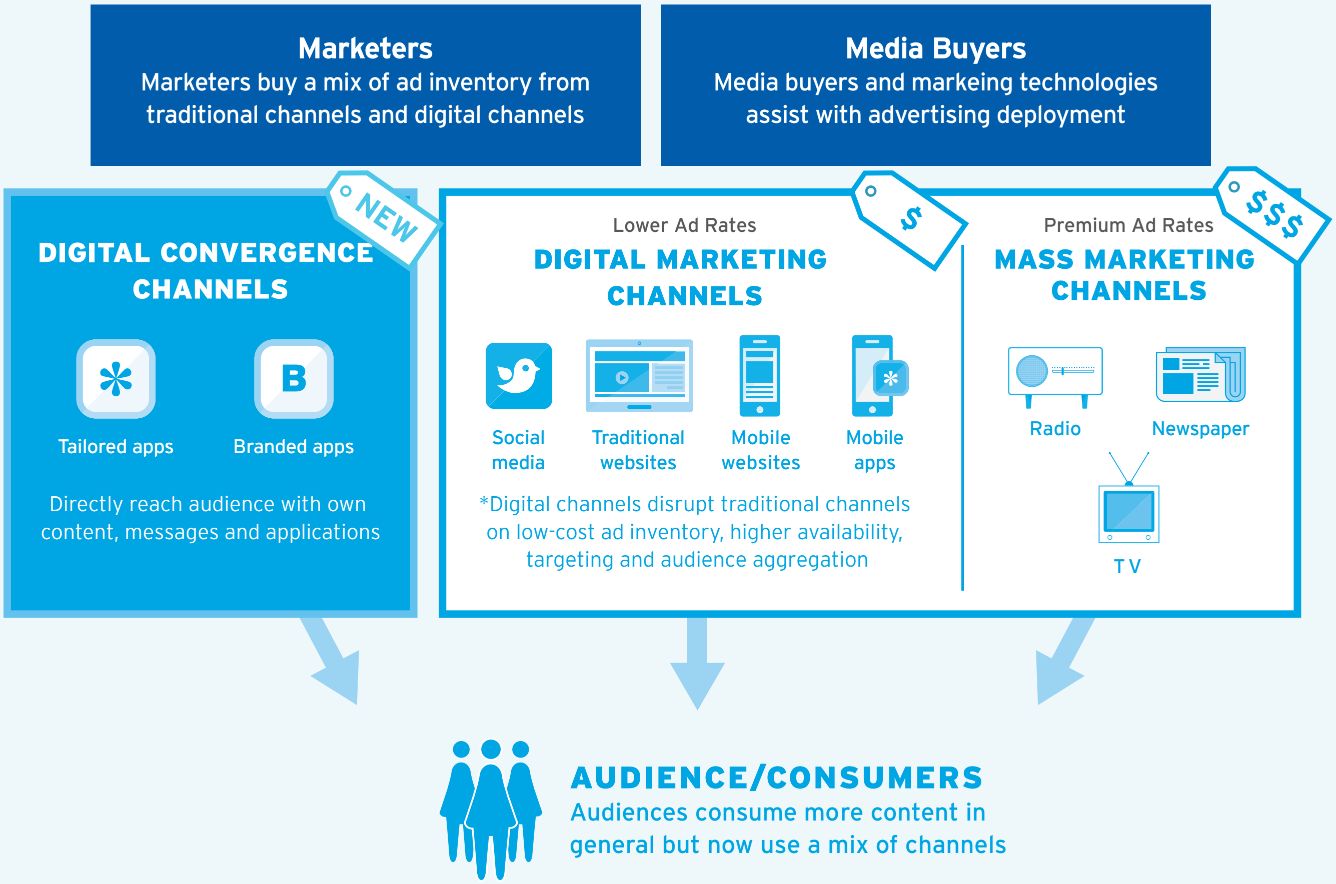
*Note: *includes banners and text links, classifieds and directories, direct response/lead generation, email (embedded ads only), rich media, search, sponsorships and video; includes mobile; **includes digital (online and mobile), directories, magazines, newspapers, outdoor, radio and TV*

Thanks to digital technologies, content production costs can be very low, which has helped to vastly increase the number of "publications" (websites) online; in turn, ad inventory has exploded. New buying methods have been created, resulting in price erosion. For example, ad networks and media buyers quickly adopted new technologies that allowed them to bid on a publisher's audiences. These tools can give advertisers access to high-value audiences at bargain-priced cost per mille (CPM)[7]. Big data and analytics, although not yet entirely refined, support advanced digital measurement models, which in turn encourage ad buyers to shift their spending to favour online advertising budget shifting. Ad networks don't spend much on remnant inventory, which does not benefit digital publishers.

As a result of the shift to digital, advertising was commoditized: bulk ads bought at a very low price. Traditional media outlets not only have to recapture ad volume, but they also need to find mechanisms to replace lost revenue. Google, Facebook and other juggernauts of the digital world are taking an increasingly bigger piece of the pie.

In other words, digital advertising is not only growing exponentially, but it is also cheaper than traditional advertising.

Figure 1 – State of the media (disruption)[8]



1.3 Marketers to traditional media: We might "unfriend" you

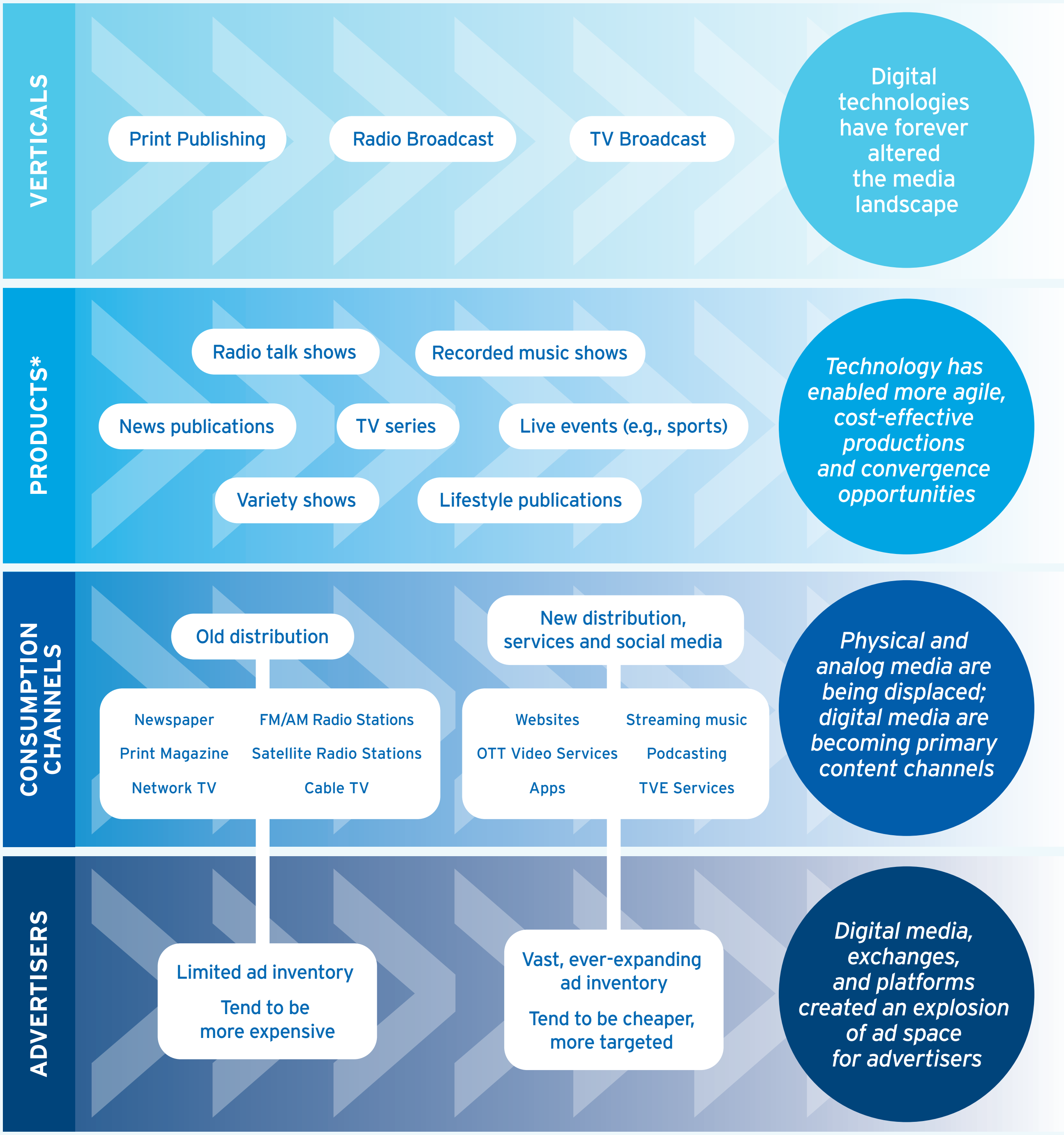
For marketers, the digital world presents both challenges and opportunities in terms of engaging consumers. While this paper will not explore current marketing and advertising issues extensively, one thing is clear: Marketers no longer need to rely heavily on mass-marketing channels offered by traditional media to carry their messages. As seen in Figure 1[8], above, marketers have plenty of ways to deploy their advertisements through mass and digital marketing channels. In fact, in order for marketers to connect with consumers—issuing the right offers and calls-to-action, on their favourite digital devices, at the right moment—marketers might need solutions beyond traditional media-based advertising. One such solution is to create a branded app as a way to open a direct communication channel to consumers. For example, early this year, McDonald's expanded its mobile couponing effort through its own branded app, available to its US customers[9]. Now, the company's franchises can tailor offers around users' preferences, while bypassing all media channels, and communicate directly to its customers.

Over time, the commercial interest alignment between marketers and traditional media may decrease rather than increase.

2

State of the media: Television, publishing and radio

Figure 2 | Marketing channels (old and new)[10]



* Not a comprehensive list

2.1 Television

Television and its bread-and-butter linear programming model continue to experience significant turmoil as TV becomes more interactive and customized for individual viewers. Nonetheless, TV is still the keystone of marketer's media and communication strategies because of its storytelling power (with sight, sound and motion) and its ability to deliver reach at an incomparable scale at a specific time and date[11].

IBIS World expects the sector to grow by 1.7% ($40.8 billion) between now and 2018[12]. Meanwhile, the demand for streaming TV is growing strongly. For example, 27.2 million smartphone and 21.7 million tablet owners in the US were streaming TV shows and movies monthly in 2012.

In Canada, almost 99% of households have a TV, with 85% of households accessing digital TV. Ad spending through this medium could reach $3.6 billion in 2014, which represents a 1.4% increase over the previous year. It is still the highest spending of all media[13].

There are two main trends in the TV business, both driven by digital video services:

Over The Top (OTT) offerings: According to the research firm IDC, many content owners view OTT services such as Hulu and Netflix as a distribution and revenue generation vehicle for both catch-up and back-library content. Maximizing OTT revenue opportunities is balanced by a general desire to maintain the traditional pay-TV value proposition. Increased competition within this category is an important facet of the market, as video providers look to differentiate services via pricing, packaging and exclusive content.

TV Everywhere (TVE) offerings: TVE provides various combinations of live and on-demand content to viewers using an assortment of devices. Although content owners are still experimenting with their offerings, TVE is fast becoming a leading priority for these owners throughout the world (IDC)[14]. A good example of TVE is CTV's iPad app, which requires users to sign in to gain access to content; access is tied to a cable subscription. Other providers, particularly cable operations such as HBO, ESPN or Showtime, are also starting to provide content streaming to customers with cable or satellite subscriptions. In some ways, this is an attempt to lessen "cord-cutting" – consumers giving up their cable subscriptions. Nonetheless, this mode of delivery exposes viewers using laptops, PCs, tablets, smartphones, Internet-enabled TVs, game consoles and other connected devices to ads they might not see if those companies did not extend viewing capabilities to digital platforms[15].

2.2 Publishing

In the publishing sector, consumers and marketers have almost completed the migration toward digital products (publishers and advertisers). As readers opt for free online news and real-time reporting, advertisers are spending less money on print and more on web-based campaigns. Even though publishers have mostly embraced a "digital first" strategy, which has rapidly increased their web-generated revenue, the new revenue stream has not offset the deficit in print advertising revenue. According to IBISWorld, in the five years leading to 2014, advertising revenue in the newspapers industry only has decreased at an annualized rate of 4.4% to $31.7 billion, including an expected decrease of 4.6% by the end of 2014[16].

A similar phenomenon has occurred in Canada. Various research groups predict that, despite layoffs, organizational transformation, consolidated production and syndication, the Canadian publishing sector's revenue will continue to decline. Excessive advertising space in print publications, the prevalence of online advertising (that is, low-cost ads) and a weak economy are all contributing to the decline.

Newspaper publishers are battling the decline by re-installing paywalls, offering online subscriptions, segmenting audiences and implementing many other digital strategies, including mobile platforms. Regardless, attracting advertisers online is still a challenging proposition. A similar situation occurs with magazines, which have also experienced steady losses. According to Gartner, magazines "remain in experimental mode, faced with competing consumer platforms, devices, and business models, which had a chilling effect on the path to a digital future".[17]

Some of the trends in the publishing sector include the following:

Dedicated apps: This allows organizations to segment content by offering apps (or other formats) that focus on one topic, such as financial information or sports.

Content plus experience ("freemium" models): Some organizations charge for content on some platforms, but provide it for free on others. Typically, the information is freely available on the organization's website, but tablet applications require a subscription fee.

Digital assets production (extended services): Some media organizations are providing marketing, design or advertising consulting services to clients, managing their digital assets.

Subscription: Different organizations are exploring different subscription models, depending on readers and their habits (monthly, yearly, by device, print only and so on.)

Paywalls: A subscription is required in order for readers to access the website. Typically, organizations allow readers to access a limited number of products for free.

2.3 Radio

Radio has struggled for years to stay a relevant piece of the marketing mix. With aggressive competition from digital offerings, marketers are shifting toward online properties, and the perceived lack of interactivity of the medium has resulted in a particularly harsh environment. Nonetheless, since the 2008 economic crisis, when many marketers decided to cut or discontinue radio advertising, some rebound has happened, with an expected 1% increase in revenue for the 2013–2018 period in the US market[18].

Canadians spend more than 13 hours every week listening to radio[19]. Radio's reach extends to listeners in automobiles, 30% to 60% of radio listening occurs in cars, depending on the day and time and in public places[20]. Most of the time, though, consumers are listening to digital radio: eMarketer estimates there will be 159.8 million digital-radio listeners in 2014, and that figure will grow to 183.4 million in 2018. Smartphones (70%) and tablets (45%) are quickly gaining on desktops and laptops (78%) as listeners' favourite device for "tuning" in to digital radio[21].

Talk radio has also emerged as a game-changer in terms of staying competitive in the radio space. There are countless radio stations, both traditional and digital, that provide the same musical experience; high-quality talk or news radio can provide original programming for listeners who are looking for something unique to listen to. Talk and news radio currently accounts for 12.6% of the traditional radio market in the US[22].

Research indicates that more and more consumers are opting to stream music online instead of downloading it, thanks in part to the rise of newer forms of music-streaming, such as Pandora, Spotify or Songza.

Advertising trends in the radio sector include:

Banner ads: The most common form of advertising (and generating revenue) on Internet radio is banner display on screens[23]. Users access more information by clicking on the ad.

Subscriptions: The other important form of revenue for Internet radio is paid online subscriptions.

As the US digital radio landscape matures, several other trends are taking hold:

Two modes: There is strong demand for two dominant listening modes: personal stations that provide playlists based on users' preferences, existing digital music collections and prior listening activity, and digital extensions of over-the-air stations.

Mobility: There's a strong shift toward using nondesktop devices, such as smartphones, tablets, in-car systems and other consumer electronics embedded with digital radio apps.

Mixed monetization: A mix of monetization models, ranging from free access on an ad-supported basis to premium tiers that cost up to $10 per month for ad-free, unlimited listening.

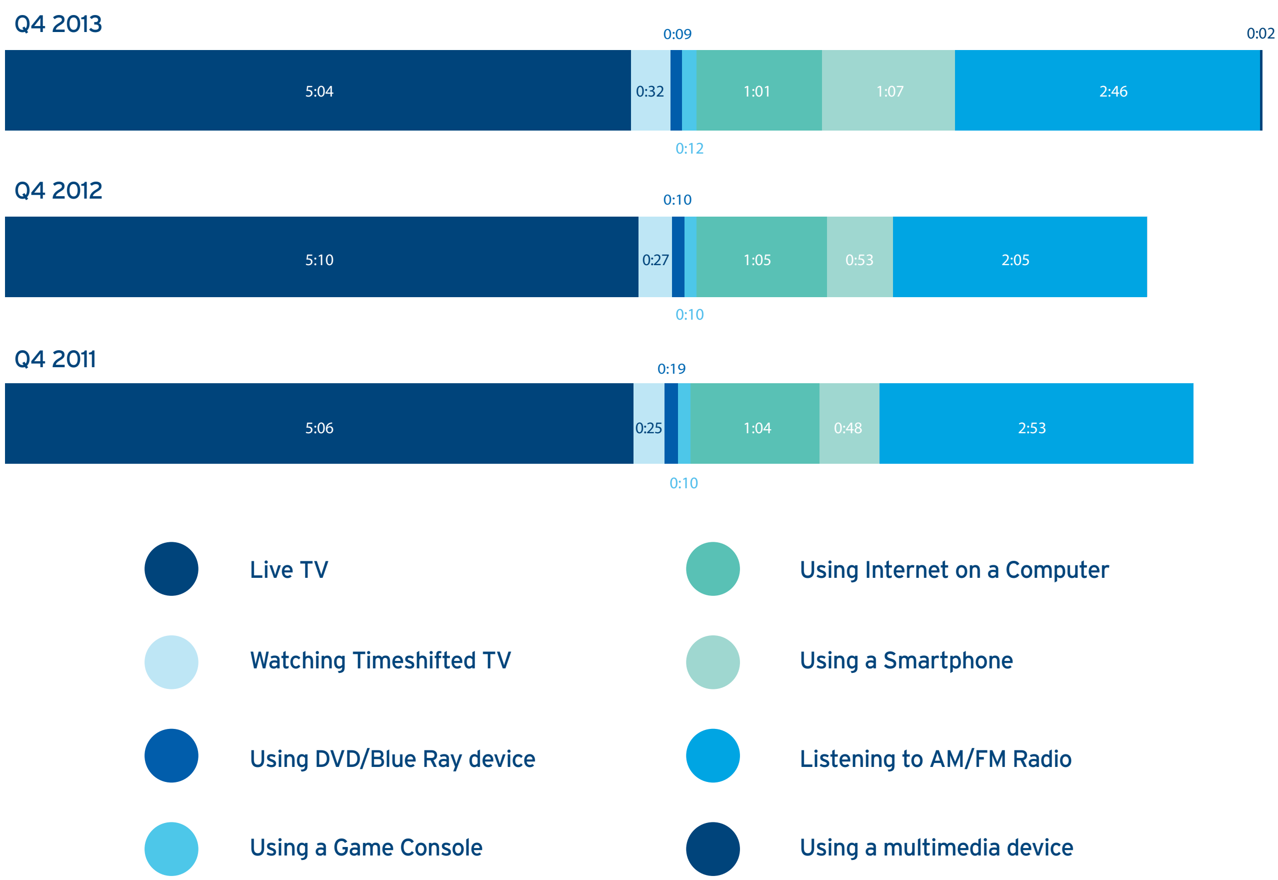
3
Consumers

3.1 We want it all and we want it now

It is a weekday morning and commuting to work is as mundane as it gets. Glowing iPads and smartphones barely illuminate somnolent passengers on subway cars and crowded buses. For those working in media, every morning commute is a reminder of the greatest challenge of all: people who used to read the paper or listen to a radio show are now looking at a screen.

"There's none of that brand awareness [of the past]," says Saila, referring to that traditional image of a commuter unfolding the *Globe and Mail's* sports section in the morning. "Once you break that habit of consuming a particular brand, especially a legacy brand, it's hard to get it back. And that's a big disruption."

Chart 2 | Average Time Spent per Adult 18+ per Day [24]



Source: Nielsen, An Era of Growth: the Cross-Platform Report , March 2014

Devices, however, are merely facilitators. "Mobile" refers to the users and the way they consume information. While in the first days of smartphones and tablets, digital strategies tended to focus on devices, today, the strategies are all about understanding users' habits, usage and information needs. In this context, digital strategies are researched, designed and implemented with the objective of balancing what the audiences are interested in at particular times and places with the editorial objectives of each organization. Segmentation, user profiles and types of content are constructed, explored and tested based on these parameters.

Mobility impacts the nature of the content directly and dramatically. "A lot of our experimentation is around content, how it's created, how it's presented, and what means that it's delivered in each platform" says Ali Rahnema, vice-president of digital media at the *Toronto Star*. "So, maybe articles should have a video associated with them, not just a clip, but a 60-second version of the article in a video format, because that's the best way to reach people on a tablet or on a smartphone. Those are the kinds of things we're experimenting with," he explains.

In this context, "digital first" — as discussed by reports from vendors like Gartner[25] — does not make sense. Consumers do not either watch TV or read an article online. They do both. "There's a whole lot of competition for whether that's the magazine I want to read or if it's a TV show I want to watch," says Rahnema. "It's not print-versus-TV-versus-digital anymore — not that it ever was — but I think the process is forcing us to think around what's the best way to make our brands and our content available for consumers."

TV doesn't necessarily mean the box in the middle of the living room. For many users, TV content no longer relates to an event in time, with the particular exemption of some live events. According to Paul McGrath, an executive producer for CBC, "What you're seeing now, with the shift to over-the-top consumption on YouTube and Netflix, is that content has become unhinged from a time-based distribution mechanism. You can watch it whenever you want." The power of these changes is clearer when looking at the trends of younger viewers. "Boys under the age of 12 are not watching TV," says Caitlin O'Donovan, director of digital products for Corus Kids at Corus Entertainment. "They're not really watching linear content as much."

So, revenues streams were shaken, old business models proved useless and users are now in charge. Commuting to work will never be the same again— at least not for media organizations.

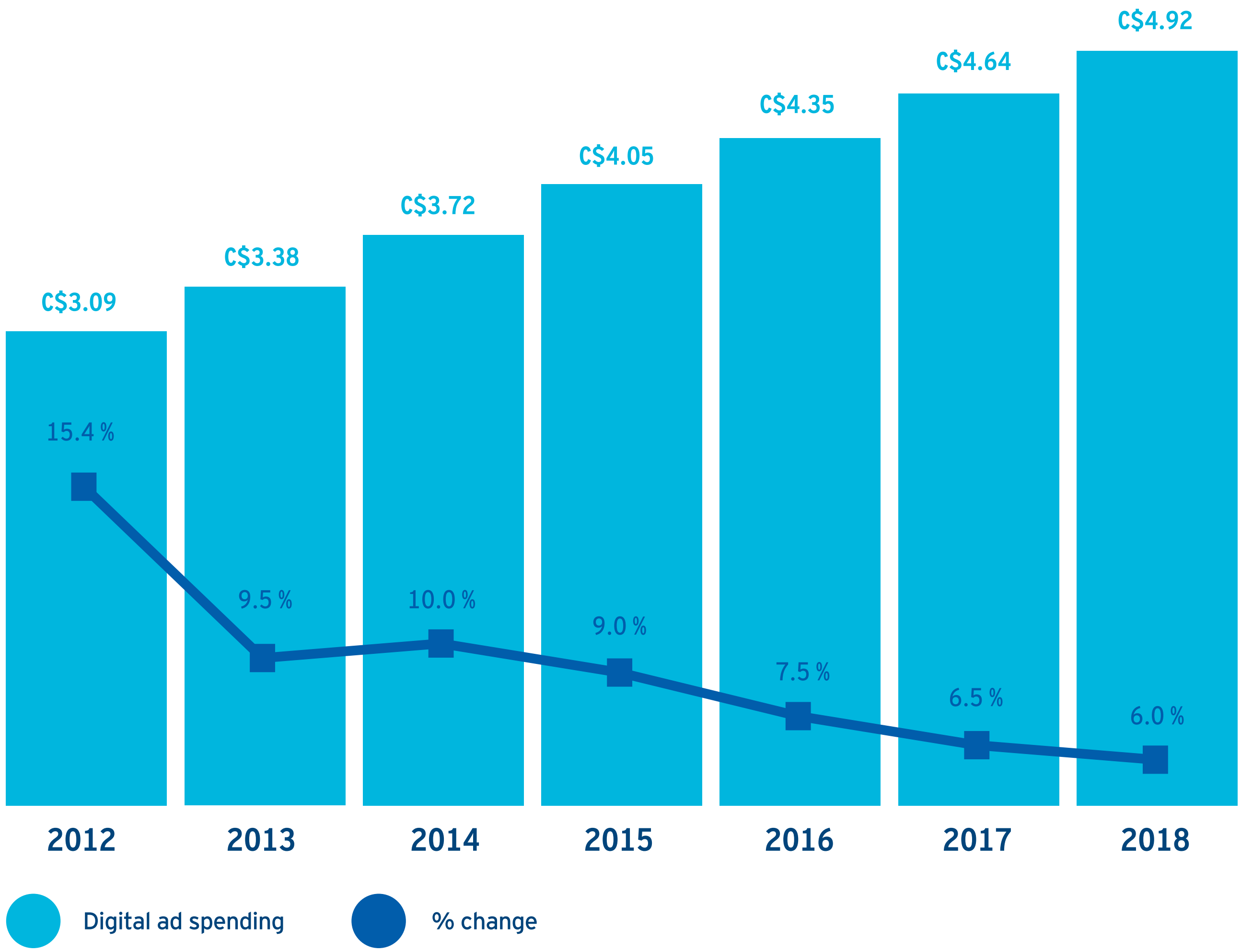
3.2 Spending on digital media

Canadians of all ages are digital consumers: 78% of Canadians were expected to go online at least once in 2013[26]. As in the rest of the world, younger Canadians are more active across digital categories, but most Canadians use digital devices to complement their consumption of traditional media sources, particularly TV.

As a result of the adoption of smart phones and tablets, marketers are planning to increase advertising spending on mobile by 50%, reaching more than $14 billion in 2014. By 2017, that amount is projected be close to $35 billion.[27]

Chart 3 | Canada's digital ad spending (projections)[28]

Digital Ad Spending in Canada, 2012-2018 (billions of C$ and % change)



Source: eMarketer, March 2014

Methodology: Estimates are based on the analysis of various elements related to the ad spending market, including macro-level economic conditions, historical trends of the advertising market, estimates from benchmark source the Interactive Advertising Bureau of Canada (IAB Canada) and other research firms, and consumer internet usage trends.

Note: includes banners and text links, classifieds and directories, direct response/lead generation, email (embedded ads only), rich media, search, sponsorships and video; includes mobile; CAGR (2013-2018)=7.8%

4
Digital strategies: toward new business models

Changes in consumer habits, ad spending and revenue models can present entrepreneurs with an opportunity to create new ventures. To offer a glimpse of the industry and better understand potential opportunities, we talked with thought leaders, digital directors and producers about the new Canadian media ecosystem.

4.1 A story of content creators

The type and intensity of change varies according to the medium and industry. For example, publishing has suffered tremendously due to the commoditization of content and advertising; anyone can start a blog and, to varying degrees, compete with established publications. As a result, content has become cheaper—even free, for publications such as the *Huffington Post.* In the case of television, however, the value of the content is still "protected," because the resources necessary to create a prime product—such as HBO's *Game of Thrones,* for example—are still beyond the reach of most content-creating enthusiasts. In addition, the revenue a content producer can earn from a YouTube channel is still far less than what a traditional successful TV show would earn.

Content creators have also been heavily affected in this new scenario. Even though they truly have more opportunities to promote their work, they also receive a lot less money for their work. "Spotify, Pandora, BBC Music…they're paying pennies for streaming music, compared to radio," explains Steve Billinger, a former executive at CBC and BSkyB. He believes that the digital format "has really commoditized content in a very dramatic way," he says. "The business model in terms of how you acquire content does not change. If anything, it's commoditized and lowered the price of content."

Most writers, artists and content creators might find themselves trending on Twitter or profiled on the front of page of Reddit without gaining major economic benefits. There are exceptions: Psy's "Gangnam Style" video—which was viewed 1.23 billion times—generated more than $8 million in ad revenue.

4.2 A story of old business models

Contrary to some predictions, the disruption of media business models has not stopped and won't be doing so anytime soon. Even as the industry has been able to understand and, to a certain point, address the challenges that it has already faced, the experts we talked to believe that: a) nobody has really figured out the new business models, b) disruptors can be (and will be) disrupted as well and c) there will be new challenges.

The reasons are fairly obvious. In this new ecosystem, one of media's biggest challenges is the commoditization of advertising, or "dimes per dollar," between traditional and digital advertising.

Tessa Sproule, digital director at CBC, explains that traditional media won't be taking enough of the digital ad revenues to replace missing dollars from declining ad sales elsewhere. "New players, such as Google and Facebook, will be taking a big piece of digital ad revenue as the dollars shift from traditional sources," she says. "It means we have to be leaner, which isn't a bad thing—just different."

Sproule explains that the real task is to understand why users are coming to media organizations, and trying to anticipate the content they might like. "Right now we are programming digital the same way that we would have programmed TV," she says. "We say, 'We've spent a lot of money on that [content], so we have to put it up high and prioritize it.' That is not the way to program the digital space at all."

In addition, the Canadian media context is vastly different from both the UK and US. The American media industry is capable of scaling, so it can insulate itself from external factors (more effectively than the Canadian market, at least). On the other hand, UK organizations have a stronger subscription base. Saila explains: "In the Canadian market, we look to the American market as the leader, the canary in the coal mine. We're about 18 months to two years behind in terms of industry cycles. You see advertising shifts that happen in the US take a year to reach the agencies in the Canadian market, and that takes another six to eight months for it to hit the agency-buy on the publication side." There may be an advantage to this delay. When Canadian newspapers decided to implement paywalls, *The New York Times* and *Washington Post* had been doing it for months. The American organizations provided examples of how to implement paywalls, and how to segment the market.

Nonetheless, disruption happens so quickly that media organizations must constantly revise their business models. "A two-year plan is an absurdity in the media sector," Rahnema says. "You can have a general view of what three years from now could look like, but it would be impossible for me to predict, any more than three years ago I could have predicted all the things that have happened in the last three years."

What can happen now? O'Donovan believes that disruption is inevitable and that no one has the answer. "The only organizations that may have figured out the new models might be in a very niche area, or their business hasn't been disrupted yet," she says. "It's a new ecosystem. It's a new environment where disruption is almost becoming rather the norm." And potential disruptors are everywhere. To illustrate some of the disruptive trends Saila is thinking about, he showed us his banking app, installed among dozens of others on his iPhone. He explained that an app is a perfect way for a company such as a bank to reach to its clients directly. The app knows who the users are and precisely what they want—which makes it easy to advertise new products. "As a company wanting to advertise and speak to my audience, why would I want to use an agency or a publisher to reach out to once I've got them engaged on a product that they can use on a regular basis?" he asked.

4.3 What Canadians are doing

For entrepreneurs, understanding how media organizations are evolving is a key part of developing a new venture. Media organizations, as potential partners or clients, don't have the resources to engage in developing businesses that do not solve a particular problem or that do not integrate with current strategies.

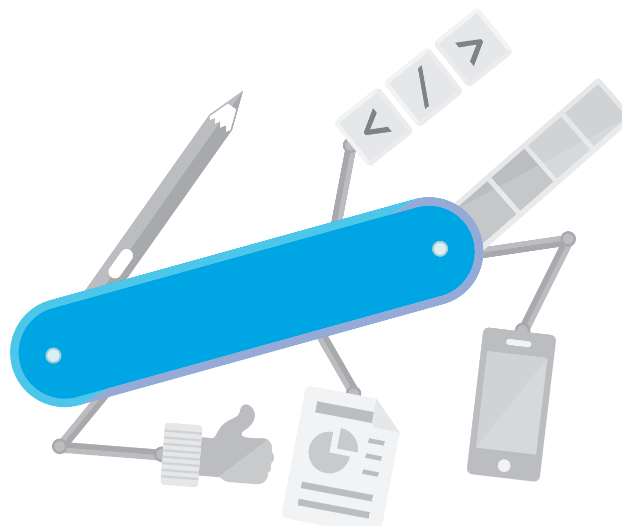
4.3.1 The concentration and expansion of (multi-) media organizations

Not all of the media industry has changed or is losing revenue, particularly when it comes to the so-called big players. Big holdings such as Bell and Rogers, which own networks, content and distribution channels, are not in dire straits. If anything, they are more aggressive and are looking to make money from different sources, as demonstrated by recent deals such as Rogers acquiring the NHL broadcasting rights and Rogers and Bell purchasing a majority stake of Maple Leaf Sports and Entertainment (which owns major sports franchises such as the Toronto Maple Leafs and the Toronto Raptors). Billinger says, "All of the major Hollywood studios are still major Hollywood studios. All of the major record labels are still major record labels. All of the major stars are still major stars."

O'Donovan explains that the big players are trying to get bigger, buying other companies and protecting their market positioning by consolidating verticals. "I think that is one strategy and, from a buyer standpoint, I would say it's the only strategy that had a chance of succeeding," she says. "You can either go the protectionist route, setting yourself up into a sunset industry...or you can acquire and grow."

Furthermore, traditional organizations stopped looking at themselves as exclusively newspapers, radios or TV stations a long time ago. They morphed into more complex, content-rich and format-agnostic media organizations. They are no longer just newspapers or broadcasters: newspapers have TV channels, radio stations have video offerings in addition to music streaming and TV channels have online documentaries or blogs. They all have social media pages and mobile apps, work on cross-platform integration and provide varied user experiences.

There are multiple motivations behind this transformation, but essentially, media organizations are looking for new sources of revenue. For example, when newspapers such as the *Globe and Mail* and the *Toronto Star* adopted video, it was not necessarily the result of the power of a digital platform to provide users with more sophisticated experiences. "Almost every single non-broadcast news organization is getting into video," Saila explains. "It's not being necessarily driven by editorial, it's being driven because the ad rates on video are so much higher than they are on web ads. As a result of that, we've got a lot of energetic, enthused product and editorial people creating a great video experience, but that driver is because of the revenue opportunities that exist within video ads."



4.3.2 Digital teams

Media organizations have dedicated digital teams, usually a department within the organization, typically made up of developers, designers and project/product managers. For years these teams were responsible for the website and some digital products, such as working on ad campaigns. But the nature of these teams has changed, as has their mandate. Organizations are now hiring professionals with the necessary digital skills, regardless of their professional background. "What's started to happen in the past decade is that you've had people coming in who have different digital experience; they may have worked at ad agencies, running a blog for a number of years, and now they're hired as editorial [staff]," Saila explains.

In some cases, digital teams operate as intrapreneurs, looking for innovative solutions in a lean, forward-looking fashion. Their mandate includes developing new ads, working with agencies and executing cross-platform user experiences. Some organizations have transformed themselves into digital-first products, such as CBC Radio, which according to Steve Pratt, the director of digital at CBCMusic.ca, tries to operate more "as a digital startup." He goes on to say, "We think more really and purely about what the needs of the users are on cell phones or on computers, regardless of the fact that we may have a national television network and two national radio networks."

CBCMusic works in "agile" mode, even trying to apply that methodology to editorial production. "We can be nimble and reactive and know we can iterate a lot and move as things keep changing," says Pratt. "If we can set up our environment so that it's friendly to change rather than adverse to change, it works really well."

Regardless of the format, digital teams have multiple challenges: Even if they are creative and develop superb experiences, they need to find the right partners, such as ad agencies that have clients who are willing to experiment. At the Globe and Mail, the idea is to create a new paradigm. "We're looking at creating more of a purchase funnel experience than a single page experience," says Saila, "so you have brand awareness, information about it and then the call to action within that page."

4.3.3 Analytics-driven projects

In a digital world, data is everywhere. Media organizations are using data as they take an iterative approach to design new products. The main benefit of analyzing the data is the opportunity it allows them to discover user patterns, which then enables them to develop and offer better experiences.

In the past, a media organization would have published a piece of content and then relied on surveys, questionnaires and reviews to help them evaluate their work. "In the past, rewind 30 years, in the print world, you'd publish an article and you'd have conduct general research that would say how people generally feel about your product," says Rahnema. "Then you'd have readership research, based on a sample, that would tell you how many people read your newspaper on average."

Today, usage data, marketing data, social data are all analyzed and used to inform decisions. "We are getting more data to more people in our team than we have ever done before," says Pratt. "We have a system that delivers real-time data about what's happening on the website and what people are clicking on and where they are coming from, that any member of our team can use. Some of them keep this system open on their desktops, so they can react [to users' activities], and monitor how content is doing in real time."

Similarly, editors in the *Toronto Star's* newsroom look at data about content, making decisions based on usage. If an article is doing well, it is left alone; if not, a discussion starts to evaluate whether to drop the piece or rework it and do it better. "That's a major culture shift from a journalism point of view," Rahnema says. "Back in the day, [we] would have been much more focused on a traditional waterfall product development. Now, we have no choice. We run an agile shop, not just for technology development, but even for product development and commercial opportunities."

Data-driven projects are highly influenced by search-engine optimization (SEO) and social metrics. "People are constantly monitoring what is working and what isn't. They are getting smarter and smarter all the time," says Saila. "For us, it's become one of the most interesting ways to grow our audience – by creating things that people like to share."

4.3.4 Opportunities in new models

As we discussed previously, in Canada bigger telecoms get bigger and bigger, expanding their media offerings by acquiring new organizations. Concentration has resulted in more complex ecosystems and the development of holistic digital strategies.

In terms of production, most of the work revolves around cross-platform publishing. The process is not easy, as content can't just be pushed into different devices. "The opportunities emerge [when you ask] 'How do I easily publish to multiple platforms?'" explains McGrath. "Say I'm trying to service Yahoo! Plus, YouTube, Amazon, Netflix, Hulu as well as publishing on my main net, my website, my apps, and to various devices, tablets, phones.... Do we have a solution in order to do that easily and monetize it? I think there are opportunities in that space."

Despite Canada's relatively small market size, Canadian media may be able to play a unique role in international markets. By leveraging the quality, sophistication and know-how of local media professionals, Canadian media organizations could act as "brokers" for other countries. For example, popular Chinese games could be tested on the smaller Canadian market before entering the more competitive US market, as it happened with "Puzzle and Dragons".

The brokering role is one of many business opportunities Corus Entertainment is exploring. "We reach over 90% of (Canadian) kids every week because all of our linear channels and all of our online channels, apps, everything," Caitlin O'Donovan explains. "Whether they're app, websites or games developers that want to launch in the States, they can come and partner with us." She points out that digital platforms can also expand other business, citing as an example Monster High, which did in 18 months what Barbie took years to achieve. "We're in talks with many different toy partners who want to try (digital strategies) instead of investing millions of dollars in a TV strategy," says O'Donovan. "They want to hit the goal of driving toys, so let's do digital first. Let's do games. Let's do shorts. Let's do YouTube."

5

Canada's digital media innovation cycle

Besides experimentation, Canadian media organizations also engage in new strategies to identify and incorporate innovation into their offerings. Information on these strategies may help entrepreneurs develop new products and partnerships, and explore competitive advantages.

5.1 A process of constant scanning

Changes in the digital world happen quickly—technologies are adopted even if the benefits are not instantly clear. Media organizations, like other companies working in the digital realm, keep a close eye on their competitors, new features from established platforms, new technologies, innovation and even startups. "Certainly we follow what our colleagues close to home [are doing]. We also look at what other traditional media, print and otherwise, are doing in other parts of the world," says Rahnema. Saila agrees. "We all look to each other within the news industry. We look to what *USA Today* is doing, *CNN* is doing, *The New York Times,* obviously, *The Guardian, Financial Times, Wall Street Journal,* because they all have slightly different models," he says. "You need to be aware of what your peers are doing, especially given how fast things are changing."

Exploring what's new is conducted through Facebook conversations, Twitter hashtags, blogs, LinkedIn groups, conferences and events, but also through more formal and tailored research. Traditionally, media organizations conduct post-mortem analysis (collecting anecdotal data about their products) and rely on primary research experts to help them better understand the ecosystems and their work. *CBC,* for example, partners with the Media Technology Monitor, which conducts research on technology ownership and use. "This research gives us information about the adoption rates for smart phones and what people use the smart phones for," says McGrath. "It's tailored specifically for the television industry, so users will get questions like, 'How often do you use your smart phone to interact with television programming?'" In addition, the CBC also has an internal research division that supplies either show-specific research relating to audience feedback or strategic research relating to audience trends and behaviours.

Some organizations have a more comprehensive approach to evaluating the new ecosystem, using formal and informal methods to keep track of what's new. Companies such as Corus Entertainment participate in a number of investor groups, for example. "They are fantastic in terms of staying on the front line with what's being pitched, what are the priorities, the selection process," O'Donovan explains. The company has also partnered in other initiatives such as Idea Boost and the Canadian Film Centre, looking at technology and content solutions.

There's also a permanent influx of data that media and other organizations are capturing to inform digital strategies. Some events, for example, require special efforts and represent unique opportunities—such as the Olympic Games, the FIFA World Cup or the Pan Am Games. Due to the interest they create and the traffic they generate, these events present media organizations with valuable opportunities for learning, testing and exploring sources of revenue. The digital strategy of the Pan Am Games in Toronto, for example, is based on information from past games: what worked and what did not. According to Shannon Clement, senior manager of digital content for the Toronto 2015 Pan/Parapan American Games Organizing Committee, the digital agency the committee hired "looked at key performance indicators and benchmarks and used that information to influence the recommendation they made on our overall digital strategy. They looked at the London Games, the World Cup, and [the 2010 Winter Olympics in] Vancouver. We just got some information back on Sochi and then we'll be getting information back on the Glasgow Commonwealth Games." As more data becomes available, the digital strategy evolves.

To keep up with trends, some organizations also have dedicated groups that analyze trends and potential disruptors. Sproule explains that CBC has a strategy group that studies trends, what's happening in the world and how it might impact CBC directly or indirectly. Right now, for example, they are discussing technological trends such as the "Internet of everything" and connected cars, as these technologies might affect the media in some ways in the near future.

5.1.1 Bringing innovation inside (digital managers as drivers)

Whenever the relationship is informal, digital directors or managers are good drivers of innovation. And they have an interest in understanding what's coming up.

Sproule, for example, has connected entrepreneurs with departments within CBC that might benefit from the relationship. For example, she introduced a startup working in the social analytics space to a group within the CBC that works in the platform. "Now they are a vendor we work with to help us narrow the social fire hose around our content. And that's exactly how it works: if we have got a problem and a company comes and says, 'This is something we can help you solve,' I will introduce them to that group."

The relationship between startups and media organizations varies, depending on the culture of the company and the personalities of those in charge of digital projects. It also depends on the products and solutions that the entrepreneurs are working on, along with the technologies involved. "For instance," McGrath explains, "I know some startups that provide software services to the television industry that have grown immensely in the last three or four years. But it's not like they're a startup in a mold of creating an app and owning that product. I think that is a difficult road in the TV industry. The networks generally have a pretty good sense of what they need from a technology point of view or what they want."

"I think we could probably go further than we are," says Pratt. "At some point, I would love to do an open hackathon with our products and have people come in and build off what we are working on. It may sound crazy, but what would happen if we open-sourced CBC Music and have people building products off different pieces of that?"

5.2 Working with startups

Traditionally, media organizations have partnered with other, similar organizations (news to news organizations, for example), sharing content and resources. This relationship has stayed unaltered over the years and it even intensified with the rise of digital platforms – this is why, for example, there are videos from the Canadian Press on the *Globe and Mail* website. In addition, media has adopted or partnered with some early disruptors that have now become more established, such as YouTube, and incorporated that into their own offerings. This process of adoption, however, depends on the perceived benefits of such a relationship.

When it comes to startups, the situation is more complex. For media organizations, it can be hard to measure the value of working with entrepreneurs that might or might not succeed. Solutions in search of a problem are usually hard to support, and are most likely to be ignored by media organizations. Some organizations engage with startups more informally, and only when there's a valuable and interesting proposition. "There are a number of initiatives that have come out of the Toronto Star that are our own innovations" Rahnema says. "Then there's a group [of companies] we've been followers or we've acquired. We put behind them our marketing [resources] and the audience reach of our assets, whether the *Star* or the Metroland papers, to accelerate them."

There are some partnerships in place at the *Globe and Mail,* as well. "We're in partnerships with ScribbleLive [a real-time engagement platform from Toronto], doing a lot of work with them," Saila says. "We worked with Xtreme Labs, now Pivotal Labs, when they were smaller. We were working with Facebook when it was still smaller, and also Twitter."

Depending on the company and if there's investment involved, Corus Entertainment gets directly involved with startups – for example, they are working with Fingerprint Digital, a mobile gaming startup. "One of the perks of my job is that I'm the liaison person for Fingerprint. So what we do is we make sure that we're able to leverage everything that Corus has, linear, radio, online, apps, content and intellectual property, to help that company grow and be a success", O'Donovan says.

6 Conclusion: Innovating, media style

Last February, Sproule was working in her office at CBC headquarters in Toronto when she saw on Twitter that the American actor Philip Seymour Hoffman had just died. She saw George Stroumboulopoulos tweeting about it, remembering an interview he had conducted with Hoffman on his CBC talk show. "He must have been sitting at home and seen the same tweets as I did," Sproule says. "And he said, 'What tragic news, what a great actor, I am just rewatching the interview I did with him back in 2010 and am reminded of what a great guy and what a huge loss this is,' and he tweeted the link to a YouTube video."

The new digital ecosystem provides media organizations with a unique opportunity to connect with audiences directly, which enables media to experiment more effectively with the creation, curation and aggregation of content. Canadian media organizations are testing and refining their work more than some critics may suspect. The impact is still uneven at best.

This first part of this study of the media sector in Canada has looked at the main drivers of change and their consequences within the sector. As Sproule says, Canadian media organizations "are operating in a business environment landscape where the models are old. Digital didn't exist when we started to refine how we work with independent producers, or how we acquire content, TV formats and that kind of thing. Digital wasn't there at the beginning."

Users' changing habits, powered by new devices, and the new ecosystem that subsequently changed how marketers spend their budgets, have resulted in the commoditization of both content and ads, the media industries' main source of revenue. Some content, particularly written, is cheaper than before; meanwhile, traditional advertising investments are steadily declining, while digital advertising revenues do not generate equal value.

As a result, the media sector has been forced to experiment and find new viable business models. This change in paradigm has led to a further concentration of big media holdings (including content creators and providers, Internet service providers and so on), more syndication and a plethora of digital initiatives.

The process of finding new business models has not been easy. Internal processes, relationships and partnerships have all been modified—and continue to be. Media organizations operate in a changing environment, conscious of the fact that the next disruption is still to come.

The task is also complex due to advertising cycles, international economic pressures, our relatively small market size and government policies regarding content production and funding. The constant monitoring of the international media industry allows Canadian players to reduce the risk of failure associated with finding new business models. With notable exemptions, it seems that Canadian media organizations are waiting for other players to find a path for them to follow.

As we have seen, media organizations are willing to take the risk of working with startups if the project is right—if the startup solves a real, current problem. But it is hard to stay ahead of the curve if the focus is solely on fixing current issues.

Our research found that some organizations have sophisticated mechanisms to reach out and discover innovative solutions, while others rely on their own employees to bring innovation in from the outside—that is, from the startup community at large. The process is difficult. We believe such difficulty is exactly the reason why The Walt Disney Company partnered with Techstars, a premier startup accelerator, to launch Disney Accelerator in February 2014[29].

We would like to join the conversation and help media companies "zoom out" and see those startups at the outskirts of the ecosystem. At MaRS, we work with thousands of startups from all over Ontario. We see "solutions in search of a problem" on a daily basis. We spend time understanding the potential impact of their products and solutions on a daily basis. We see entrepreneurs try new ideas, fail, change and try again. And often, we see them getting it right.

In our next report on the media industry, we will introduce you to some of those companies. And we will discuss why we believe they can help get Canadian organizations experimenting in different ways. We will discuss innovation, integration and disruption from within.

Stay tuned.

References

1 Forrester (2011) The New Digital Publisher Monetization Model

2 eMarketer (2014) Digital Ad Spending World wide, by Region, 2012-2018 (billions)

3 Magna Global forecast (2013) Media in Canada - Ad revenues to grow 6.5% in 2014

4 eMarketer (2013) The Global Media Intelligence Report: North America, 2013

5 Interactive Advertising Bureau (2013) Canadian Internet Advertising Revenue Survey

6 eMarketer (2014) Digital vs. total media ad spending in Canada 2012 – 2017

7 Forrester (2011) The New Digital Publisher

8 MaRS Market Intelligence (2014)

9 Johnson, Lauren (2014) Mobile Commerce Daily - McDonald's doubles down on mobile couponing via branded app

10 MaRS Market Intelligence (2014)

11 Forrester (2013) Digital Disruption Rattles the TV Ad Market

12 IBISWorld (2013) Television Broadcasting in the US

13 eMarketer (2013) The Global Media Intelligence Report – North America

14 IDC (2012) Worldwide and U.S. Multiscreen Video 2013 – Top 10 Predictions

15 eMarketer (2013) Digital TV and Movie Streaming – A Rising Tide of Devices, Content and Viewing

16 IBISWorld (2014) Newspaper Publishing in the US

17 Gartner (2013) Hype Cycle for Media and Entertainment

18 IBISWorld (2013) Radio Broadcasting in the US.

19 eMarketer (2013) The Global Media Intelligence Report: North America, 2013

20 IBISWorld (Aug 2013) Internet Radio Broad casting in the US

21 eMarketer (2014) Digital Radio: Usage Grows, but Lack of Scale Remains a Challenge

22 IBISWorld (2013) Radio Broadcasting in the US

23 IBISWorld (2013) Internet Radio Broadcasting in the US

24 Nielsen (2014) The Cross Platform Report Q4 2013

25 Gartner (2013) Predicts 2014: Media Industry

26 eMarketer (2013) The Global Media Intelligence Report: North America, 2013

27 ibid

28 eMarketer (2014) Canada's digital ad spending (projections)

29 TechCrunch (2014) Disney is Launching its Own Startup Accelerator, With Help from Techstars

Interviews

Ali Rahnema, Vice-president of Digital Media
The Toronto Star

Caitlin O'Donovan, Director of Digital Products
Corus Kids at Corus Entertainment

Craig Saila, Director of Digital Products
The Globe and Mail

Paul McGrath, Executive Producer
CBC

Shannon Clement, Senior Manager of Digital Content
Toronto 2015 Pan/Parapan American Games Organizing Committee

Steve Billinger, Former Executive
CBC and BSkyB

Steve Pratt, Director of Digital
CBCMusic.ca

Tessa Sproule, Digital Director
CBC