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An innovative approach to strategy in the changing Canadian media industry

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The future of Canada's media market is anybody's guess. So why bother guessing at all?

At Deloitte, we don't believe companies should rely on blind luck. That's why we recommend a scenario-based approach called **Strategic Flexibility**. This approach, developed by Dr. Michael E. Raynor, a Toronto-based Distinguished Fellow with Deloitte Research, doesn't try to predict the future. Instead, it helps decision-makers understand the different outcomes that are possible, and then produces a flexible strategy that preserves a company's options and mitigates risk.

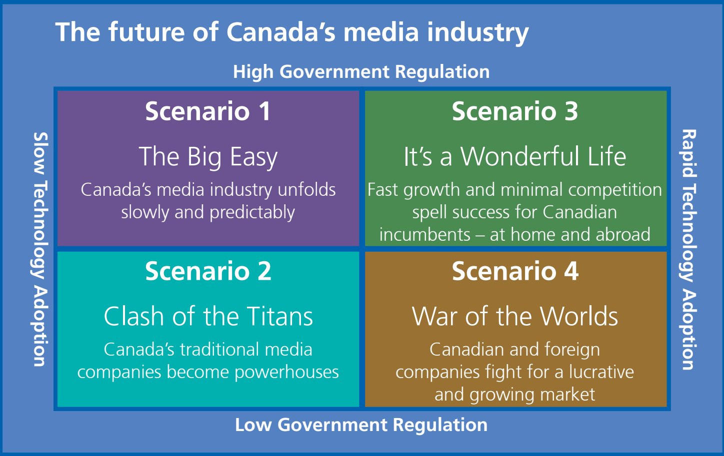
Dr. Raynor describes this innovative approach to strategy in a recent report entitled *Strategic Flexibility in Media and Entertainment*, and in his forthcoming book entitled *The Strategy Paradox: Why committing to success leads to competitive failure (and what to do about it).* Here, we use the principles of strategic flexibility to analyze the future of Canada's media industry.

For the Canadian media market, the two biggest influences over the future of media are **technology adoption** and **government regulation**. **Technology adoption** is the rate at which new media-related technologies are introduced and embraced by consumers. We've used adoption (a demand issue) rather than something like "the state of technology" (a supply issue) as a useful simplifying assumption for the purposes of this illustration. It seems to us that as the supply of new technologies (HDTV, podcasts, wireless smart phones and so on) is tending to exceed demand, the real issues are things like "consumer fatigue" and "willingness to spend" as much as anything else.

Rapid technology adoption creates the need for content on a wide range of platforms and allows people to consume content whenever and wherever they want. While these new forms of consumption could cut into the traditional media business – in some cases any negative impact could be offset by gains in new media consumption. Slow technology adoption, on the other hand, may present less of a threat to traditional forms of media, but may also presents fewer opportunities, leading to overall market growth that is moderate at best.

Government regulation refers to laws and policies that restrict mergers and cross-media ownership, foreign investment, content, and competition from abroad. High government regulation generally protects Canada's media market from outside competition and discourages the concentration of market power through acquisitions – particularly across different media sectors. Low government regulation generally allows market forces to decide how things play out, leading to higher levels of industry consolidation and foreign competition.

Combining these two influences leads to four distinct scenarios:



Scenario 1

The Big Easy

Canada's media industry unfolds slowly and predictably

Scenario 1 | Scenario 3
Scenario 2 | Scenario 4

The Big Easy

Fast growth and minimal competition spell success for Canadian incumbents – at home and abroad

In this scenario, domestic media companies and content remain firmly in control of Canada's media market. Consumers show only a passing interest in new technologies and devices. They don't ignore them entirely, but for the most part they continue to rely on traditional media channels such as cable television, radio, newspapers and books. Government regulations discourage mergers and foreign competition, fostering stability – and in some cases complacency – across the industry. Risk is low, but so is market growth. Media companies succeed primarily by defending their current market position and leveraging their existing strengths – innovating only when necessary to avoid sneak attacks.

Prevailing attitudes

- **Consumers:** "New technology is interesting, but seems like more trouble than it's worth. I'd rather kick back in front of the TV."
- **Government:** "Canada's media industry must be protected."

Industry impact

- Only minor changes from today's industry structure; limited consolidation
- Current media companies continue to dominate; however, their growth is moderate
- Minimal competition from foreign companies

Content impact

- Canadian content flourishes; foreign content is limited
- Canadian producers continue to develop content for traditional media in foreign markets
- Mass media advertising remains the primary source of revenue

Recommended strategies

- **Invest in traditional content.** Although new technologies might be tempting, in this scenario the real money remains in traditional content and media. Take advantage of government protection to develop high-quality content that will appeal to a Canadian audience.
- **Establish a foothold in emerging foreign markets.** Markets such as China and India are hungry for content. Capitalizing on these international opportunities can help you recoup your increased investment in quality content.
- **Dabble in new media.** Although consumers may be slow to embrace new technology, you never know when something that is truly compelling will come along. It's smart to make small investments in emerging areas – new technologies, new types of media, new distribution channels and new revenue sources. Focus particular attention on working with advertisers to find innovative ways to connect with the audience. These investments will ensure you are always within striking distance if a new market starts to take off.

Scenario 2

Clash of the Titans

Canada's traditional media companies become powerhouses

Clash of the Titans

Canada's traditional media companies become powerhouses

In this scenario, Canada's media market is dominated by a few Canadian media giants; however, foreign media companies present a growing threat. The government's "hands-off" approach leads to significant industry consolidation – particularly across different types of media – and to a marked increase in competition and content from abroad. Consumers largely eschew new devices and technologies, and media consumption continues to revolve around old stand-bys such as television, radio and newspapers. Despite limited market growth, individual companies are able to achieve significant growth and economies of scale through acquisitions.

Prevailing attitudes

- **Consumers:** "New technology is interesting, but seems like more trouble than it's worth. I'd rather kick back in front of the TV."
- **Government:** "Let the market decide."

Industry impact

- Significant consolidation; Canada's dominant media companies grow even stronger
- Increased competition from foreigners
- Individual companies grow through acquisition; overall market growth is limited

Content impact

- Canadian content struggles to compete with content from the United States and Europe
- Advertising remains the primary source of revenue

Recommended strategies

- **Grow through acquisition.** In the face of limited market growth and increased foreign competition, the best way to succeed and grow is through acquisition – particularly across different types of media. These deals will expand your footprint, solidify your market position and create significant economies of scale – boosting performance on both the top line and the bottom line.
- **Co-ordinate across different media platforms.** Develop services and content that leverage your expanded footprint – for example, television programming that drives customers to a website, or allows customers to vote by sending SMS messages from their mobile phones. This cross-media approach can reinforce your customer relationships and lead to new forms of revenue.
- **Embrace foreign content.** Partner with media companies from the United States and Europe, and help them import their content into Canada. In many cases, co-operation will yield better results than unbridled competition.

Scenario 3

It’s a Wonderful Life

Fast growth and minimal competition spell success for Canadian incumbents – at home and abroad

It’s a Wonderful Life

Fast growth and minimal competition spell success for Canadian incumbents – at home and abroad

For many Canadian media companies, this may be a very favourable scenario. Consumers embrace new technologies that enable them to consume content during every waking moment – wherever they happen to be. Growth in traditional media is moderate at best, but spectacular growth in new media leads to a massive increase in overall media consumption. Meanwhile, government protection and encouragement for new Canadian media companies keeps foreign competition in check. In this ideal scenario, the greatest challenge for established Canadian media companies is from Canadian start-ups. Technology-hungry consumers need content for their new devices, and if established media companies don’t provide it, someone else will.

Prevailing attitudes

- **Consumers:** “This new technology is so cool. It lets me watch whatever I want – whenever, wherever, and however I want. I especially like all this new Canadian stuff.”
- **Government:** “Canada’s media industry must be protected to take advantage of new technology.”

Industry impact

- Current media companies are positioned to dominate, but only if they can change their business models fast enough to reduce their dependence on mass-market advertising
- New companies emerge to meet the demand for new types of media and content
- Only minor changes in industry structure; limited consolidation
- Minimal competition from foreigners, but increasing competition from new Canadian media companies

Content impact

- Canadian content thrives and is resold across a variety of technology platforms
- Canadian producers take advantage of new technologies to expand their presence in foreign markets
- New revenue sources such as subscriptions, sponsorships, and product placements challenge traditional advertising

Recommended strategies

- **Move quickly.** In this ideal scenario, the key to success for established media companies is to stay ahead of the start-ups. Established players start with major advantages, such as the infrastructure to produce top-quality content, a large catalogue of existing content, and a strong brand. But they also have inertia and a vested interest in the status quo, making it hard for them to react quickly to new opportunities. In this fast-growth environment, that inertia could cause them to miss out on the next big thing.
- **View market fragmentation as an opportunity.** Rapid adoption of new devices and technologies leads to a highly fragmented market where consumers are in control of what, when and how they consume content. Instead of clinging to antiquated concepts such as the mass market and the broadcast network business model, companies should embrace fragmentation as an opportunity to expand the overall market and meet customer needs more effectively.
- **Find new ways to make money.** New revenue streams will steadily supplant mass-market advertising as the primary source of revenue. Subscriptions, sponsorships and product placements will target niche groups – or even individual consumers – delivering messages more efficiently and effectively than traditional ads. At the same time, content owners will capitalize on the expanding array of devices and media formats by reselling the same content in a variety of forms.

Scenario 4

War of the Worlds

Canadian and foreign companies
fight for a lucrative and growing market

Scenario 1	Scenario 3
Scenario 2	Scenario 4

War of the Worlds

Canadian and foreign companies fight for a lucrative and growing market

This is the most volatile scenario, with huge opportunities – and risks to match. Consumers are the big winners, with foreign and domestic companies of every shape and size vying to provide content for a never-ending stream of new devices and technologies. Meanwhile, the Canadian government is content to sit back and let the market decide how things will play out. The key to success is establishing a dominant position as early as possible and then doing whatever it takes to maintain it. Given the huge upside potential – and intense competition – it doesn't make sense to hold back.

Prevailing attitudes

- **Consumers:** "This new technology is so cool. It lets me watch whatever I want – whenever, wherever, and however I want. I just wish it was easier to find content I like."
- **Government:** "We can't keep up with the pace of change and shouldn't try to regulate new media."

Industry impact

- Spectacular growth in new types of media
- Traditional media grows slowly, or declines
- Significant consolidation across media sectors in Canada as established players prepare to battle foreign competitors and new media upstarts

Content impact

- Content is re-used across a variety of technology platforms
- Canadian content struggles to compete with content from the United States and Europe
- New revenue sources such as subscriptions, sponsorships and product placements challenge traditional advertising

Recommended strategies

All of the strategies from the "It's a Wonderful Life" scenario are relevant here. In addition, Canadian media companies should:

- **Establish early dominance.** Leverage your strengths – content, brand, market position, financial resources – to establish an unassailable market position. Identify emerging opportunities and position your business to capitalize on them, rather than resisting or holding back. Acquire any pieces you might be missing. This is no time to be conservative.
- **Co-operate – if you can't dominate.** In situations where you can't dominate – either because you are already too far behind or because another company controls a critical resource such a foreign content – establish partnerships to stay in the game. Over time, you may find your other strengths give you the upper hand.
- **Make it easy.** Find ways to make life easy for consumers and advertisers. Consumers will be overwhelmed by choice; help them to sort good from bad, and to find what they want. Advertisers will be daunted by market fragmentation and the dizzying array of platforms; help them find innovative ways to connect with consumers.

Making the right choices

Making the right choices

Scenarios aren't an end in themselves; different sectors of the media industry (and indeed different organizations) will be impacted very differently under these scenarios. You should test your own strategy against each scenario and develop appropriate responses to hedge their strategic risks.

Deloitte offers a wide range of services to help Canadian media companies make informed decisions and manage risk. Our experienced media professionals can help answer your toughest questions, such as:

- What's the right strategy for my media business, and how can we minimize uncertainty and risk?
- How can we use tax credits to subsidize our development activities?
- How do we identify potential acquisitions that will complement our strategy, and what's the best way to achieve a smooth merger?
- What are the tax implications of pursuing new media opportunities outside of Canada?
- In a world of digital content, how do we protect our precious assets from hackers and pirates?
- How do we manage the change that's necessary to take advantage of these opportunities?

The future of Canada's media market is unknown – and unknowable. But that's no reason to rely on guesses or sheer luck. By applying the principles of strategic flexibility, Deloitte can help you develop a clear-cut plan to maximize the performance of your business regardless of how the future unfolds.

For more information, please contact:
John Ruffolo
National Leader
Technology, Media and Telecommunications
416-601-6684
jruffolo@deloitte.ca

Gary Gluckman
Media and Entertainment Leader
Technology, Media and Telecommunications
416-601-6029
ggluckman@deloitte.ca

Richard A. Lee
Partner
Technology, Media and Telecommunications
416-874-3248
richlee@deloitte.ca

Deloitte Technology Media and Telecommunications (TMT) Group
The Deloitte TMT Group is composed of service professionals who have a wealth of experience serving technology, media and telecommunications companies in Canada and throughout the world in areas including cable, communications providers, computers and peripherals, entertainment, media and publishing, networking, semiconductors, software, wireless, and related industries. These specialists understand the challenges that these companies face throughout all stages of their business growth cycle and are committed to helping them succeed. Deloitte Touche Tohmatsu is a leader in providing strategic, financial and operational assistance to its technology, media and telecommunications clients.

For more information, please contact

John Ruffolo
National Leader
Technology, Media and Telecommunications
416-601-6684
jruffolo@deloitte.ca

Gary Gluckman
Media and Entertainment Leader
Technology, Media and Telecommunications
416-601-6029
ggluckman@deloitte.ca

Richard A. Lee
Partner
Technology, Media and Telecommunications
416-874-3248
richlee@deloitte.ca

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