



Subscription streaming services are growing fast in Canada, will dominate

By: Linda Stuart

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TORONTO - While there's no question over-the-top video services such as Netflix have become a "phenomenon" in Canada, the same can't be said about subscription music streaming services, which have not been taken up to the same degree by consumers.

However, that may be about to change, according to digital media experts who spoke at the Digital Media at the Crossroads conference held on the University of Toronto's downtown campus on Saturday.

Mark Allen, director of research and analysis for the CBC, outlined some recent trends in digital media in Canada, citing research from Numeris and the CBC's own Media Technology Monitor reports.

Saying "old habits die hard", Allen said Canadians on average spend 27 hours a week watching television and, according to Numeris, 85% of the time they're still watching linear TV. He said Media Technology Monitor research agrees with the Numeris figure, estimating 84% of TV viewing by Canadians is via regular, linear cable and satellite services. Non-linear TV viewing is still in the minority, accounting for about 12% of Canadians' TV consumption (7% playback on PVR and 5% viewing on the Internet).

"So my takeaway is that TV channels are good enough for most TV viewers most of the time, and that's not going to change, I don't think, any time soon," Allen said.

However, the adoption of Netflix in Canada is proof consumers can and will change their behaviour. "Netflix is a phenomenon globally, it's a phenomenon in Canada," he said. According to Media Technology Monitor research, about one-third of English Canadians subscribe to Netflix. "For a researcher, this is astounding," he added.

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On average, Netflix subscribers spend 8 hours a week watching Netflix, "so they're watching it a lot, and this behaviour is not going away. It has really lit a fire under existing players, and you can see in

their business plans how they're changing to try to capitalize on this new behaviour of people, particularly bingeing," Allen said, pointing to the emergence of new services such as TMN Go, CraveTV from Bell, and shomi from Rogers and Shaw.

On the radio side, AM/FM music listening has been declining slowly over the last several years, while news talk radio listenership has remained relatively flat. Overall, the decline in radio listenership has been seen most strongly in the under-34 demographic, whose radio listening has declined by about 40% since the beginning of the century. Online music services such as Spotify and Songza are offering music listeners more choice now. "It's become very common, listening to music online. Almost two-thirds of Canadians do it and it's been growing," Allen said.

"Interestingly, YouTube is the most popular place to listen to music online," he continued, adding that personalized online audio sources, such as Spotify, Songza and Rdio are "far less popular than just streaming YouTube online."

According to Gregory McClary, an MBA student at York University's Schulich School of Business, digital music revenues in Canada currently come predominately from digital downloads and not streaming services. He drew a comparison between the online digital music markets in Canada and Sweden, Spotify's country of origin. "The proportion of digital revenues generated in Canada by paid downloads is the lion's share of digital revenues. In comparison to Sweden, we see exactly the opposite situation with the subscription streams accounting for the vast majority," McClary said.

However, citing research from non-profit Music Canada, McClary suggested the adoption of music streaming is rising slowly and steadily in Canada. Subscription-based digital media services, ranging from Spotify and Netflix to Next Issue for magazines, are changing consumer behaviour, added Shelley Stein-Sacks, Montreal-based chief strategic officer for management consulting firm Praesentia Inc.

"Oh my God, I'm all over Spotify. It has changed dramatically how I listen to things," Stein-Sacks said. "I fell in love with it and discovered music. I give them \$10 a month, and I'm very happy to give it to them."

When Stein-Sacks signed up for Netflix, he dropped the Movie Network on Bell Fibe. "Streaming is going to happen because it's giving me access to everything that I want, even more than I want, in ways that I never thought possible," he said, adding that discovering new movies or music is what streaming services allows subscribers to do.

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Catherine Moore, professor of music business at New York University's Steinhardt School, said streaming services companies are currently trying to compete by differentiating on price. "That may or may not be sustainable, depending on where the rest of the revenue comes from," she said. "Valuations of companies are very, very hard when business models are changing, when pricing is changing, when your revenue structure for advertising is changing."

New business models that try to increase customer engagement are emerging in what Moore calls a consumer-to-business or C2B market. "To make consumers real stakeholders, get money on the table," Moore said.

Two companies that "are doing some really, really interesting things" are Legitmix, based in Ottawa and Slicethepie based in the UK, she added. Legitmix enables music remix artists to sell their remixes through its online service, while Slicethepie pays its users for their online music reviews. A consumer-to-business model is "a way to get people coming back and stay on your website," Moore said.

Paul Hoffert, co-founder of the 1970s Canadian rock band Lighthouse, and now adjunct professor of intellectual property and digital media in the faculties of music, information and law at the University of Toronto, offered his insight into the music industry. He's also chair of the Bell Fund and chair of the Screen Composers Guild of Canada.

"The music industry is incredibly thriving. Consumers are using more music than they ever used before," Hoffert said. New music industry companies, such as Google and Apple, "are making a fortune," he continued. Using the example of streaming music service Pandora, according to the company's last filing with the U.S. Securities and Exchange Commission, Pandora's CEO earned \$29 million that year, while its CFO earned \$8.5 million.

However, according to the same company filing information, Bette Midler received \$456 in royalties from Pandora during the same year, while David Lowery and his band Cracker received \$67 from Pandora that same year, Hoffert said. Something seems out of whack there.

Stein-Sacks said digital media companies in general lose a lot of money, but they've managed to convince venture capitalists that they will be good investments down the road. "Some will crash and burn," he said.

"iTunes was down 21% last month, and it's not going to go back up," Stein-Sacks said. He added that "once the genie is out of the bottle" and people realize digital downloading is dead, they will move to streaming. "When the record industry decided that vinyl was over, vinyl died in 30 days," he added. "Once you get people into it (music streaming), you can come up with the next best thing after streaming, but you're not going to go back to what it was."