

Working The New Audio-Visual Ecosystem

An Address to the CMPA

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This is my third year addressing you and as I look back I see a coherent and evolving story. In the first year I spoke of the necessity of a national digital strategy. In the interim there has been some movement in that direction. Perhaps not as fast as we would like and as I think necessary. However, Minister Moore has been a real champion in this (and other) regards. The CMF launched less than a year ago was an important step in the right direction but it is only one piece of a larger puzzle. In the meanwhile the speed of change has neither paused nor slowed down. If anything it has accelerated and introduced even greater uncertainty to an industry in radical flux.

Last year I told the story of how a venerable institution anchored in traditional media was able to make substantial changes and take leadership in the world of digital distribution and creation. Our online and mobile audiences have not plateaued; they keep growing month over month. Today we are also at a point of saying, that in addition our traditional strengths in classical documentary and animation we have an ongoing critical mass of original digital work. This is work that is being recognized for forging the new art and entertainment forms of the future with accolades literally coming from around the world.

Over the past three years as I spoke of the impact of the digital revolution I tended to get the same set of quizzical responses: yes, it's all well and good enough for you as a public agency but for us in the private sector there's no business model. Our traditional businesses are being called into question without any bridge to new ways of doing business. Today I want to address some of those issues. I would like to do so by examining how we are responding to the business challenges and see if there are some conclusions that may be more broadly applicable.

First of all being a public agency did not mean that resources were to hand to adapt to new ways of doing business. The NFB has been suffering financial erosion year after year with a cumulative decline of about 25% in purchasing power over the last decade. It was clear that in time of budget restraints there was not going to be any new money for digital investment and nor could we explore the options available in the private sector whether through private investment, borrowing or going to the capital markets. We had to find the resources internally from our ongoing operating funds. We are now in the fourth year of an ongoing, rigorous fiscal exercise to reallocate funds internally to our two fundamental priorities: programming and accessibility.

That kind of fiscal reallocation would have gone to nought if we had not at the same time rethought and changed our organizational structures and working methods to be more supple and responsive to the demands of new forms of producing and distributing. I will just point out one fundamental shift which

was a necessary foundation to everything else we are doing: our digitizing process. We invested in new equipment and evolved an innovative way of structuring the process that is attracting attention at the major technical congresses around the world and is increasingly featured in the leading technical trade press. The most recent article will be coming out in *Computer World* next month.

With all the intense and detailed work we have laid the foundations over the last three years for new ways of working, new ways of producing and new ways of distributing. The time is now ripe for us to rethink our business model.

Historically, between 7 to 8% of our annual budget comes from our distribution revenues, roughly between five and a half to six and a half million dollars. The variances would depend on production cycle or an outlier in any given year could boost revenues. Roughly 40% of our revenues come from the educational and institutional market and the bulk of the rest from television sales domestically and internationally. Over the last four years we've seen a steady erosion of our traditional television business. This is not unique to the NFB. We are a specialized producer of POV one-off documentaries and auteur animation. Both have become victims of the increasingly fragmented television landscape.

There has been a disappearance of slots and where slots are retained they have been moved off prime time. We've seen a significant shift of broadcaster's doc resources to series and factual entertainment. The ecosystem which allowed for a thriving niche of the single doc has tilted out of balance. CMPA's 2010 Profile underscores that TV doc output has decline sharply with most of the decline coming from the English language market. When this year's figures are compiled we will see how the decline is affecting French language markets as well. But it's not just Canada. What is happening here is reflected elsewhere. One of our most important American clients used to be the Sundance Channel. Last summer, they pulled the plug on documentary slots. In France CNC released a study showing similar consistent decline over the last three years with a 10% decline in sales and pre-sales in 2009 over the previous year. We hear the same story from other jurisdictions at the international markets like MIP.

I want to make clear that this is not about a lack of audience interest. We only have to look at the remarkable double-digit growth of audiences for a festival like Hot Docs. Our own experience of steady, continual growth in our on-line audiences. This isn't just audiences who click, look and leave. We have a remarkable 40+% viewing completion rate and among the top hits are full length documentaries as much as the short animation.

What we are witnessing is a ferocious battle in the broadcast world for position and eyeballs. The threat from on-line services seems to heat up almost weekly. The arrival of Netflix sowed a certain amount of panic. Whatever happens with usage based billing, we are only seeing the thin edge of the wedge. The Consumer Electronic Show last month had a major emphasis on connected TV's. No need to plug into your large screen via your computer or X-Box. Direct connections and services like Google TV and Apple TV are ready to veer audiences away from the traditional broadcast/cable world.

In this environment broadcasters are going for the jugular to retain and, if possible, grow audiences. The ratings bar has shifted; a respectable audience figure is no longer good enough. Then there are the

other considerations such as ease of marketing and ability to amortize marketing costs across a series as opposed to individual docs.

Now, television isn't going away anytime soon. In terms of dollars it will dominate for quite a few years yet. But the predictions of growth from Deloitte's or PriceWaterhouseCooper focus on the aggregate picture. They are not indicative of growth possibilities in the niche segments in which we operate.

So it seems a pretty gloomy picture. I'm looking at year over year revenue declines in the context of overall financial erosion at the very time when we need to keep investing in new technologies and new ways of doing things. There is a limit to how much we can do by internal economies and reallocations and, frankly, we've just about reached those limits. Yet in this context I am working on financial projections that will see a 25% increase in revenues over the next three years. So am I being foolhardy or just plain stupid?

I think I'm being both prudent and conservative. We're moving into the next phase of our adaptive mechanisms to the profound disruptions of the digital era. Our revenues have depended on an organizational structure and practices that were anchored in our self-conception as a television and film distributor. It is how we realized our legislated mandate to distribute the works we produce and in the world of the orderly market place it made sense and we knew how to carve out and maintain our place in that world and to live and work in symbiosis with the private sector. Over the last year even as we were moving in other areas of the organization to seize hold of the digital revolution we started to put in place a different notion of our role; one in which the classic distributor was only part of a larger and different whole. We have been putting together a new strategic business plan; not a distribution plan. A business plan. One which has been taking a hard-eyed look at our changed eco-system and figuring out how we can respond to it and grow our revenues. We did this with certain non-negotiable criteria. The most crucial was that we would not distort ourselves; we had to remain true to our mandate and our values. We had to continue to operate in areas of market failure. We would not start producing series or factual entertainment because that is where the market has gone. We would continue to experiment and to value essential work which could not be done in the private sector whether in the classic forms or in the evolving digital forms.

Here are some of the main elements of what this business plan looks like:

1. I've mentioned that the educational and institutional market accounts for about 40% of our revenues. It is not an easy market. School budgets are constrained; curricula vary by province and purchasing decisions are often highly decentralized to school board level. Now, as schools are increasingly becoming wired there are some major American players with vast digital catalogues pushing to enter the Canadian market. We have been able over the last couple of years to licence NFB.ca at the province wide level as well as to individual school boards. Trusted, Canadian bilingual content gives us a competitive edge. But it's not enough. Later this year we will be launching Education +. It will be a password protected subscription based service for educators with a range of pedagogic features. We have worked with teachers to map our works against curricula province by province. We've added functionalities that will make ease of use in the classroom easier including bookmarks and teacher's

guides. We're adding the ability to work with the material in different kinds of ways and to share it both within a school and among schools. We'll be adding on-line and in-situ workshops for teachers on how to work with such material. Down the road we will be ready to work with non-NFB Canadian material provided that a private-sector Canadian educational distributor will not take it on. We will be rolling this out for the next school year and we will look at creating export opportunities in the States and elsewhere.

2. Partnerships. Consumption of on-line video is a growth area. We have been working with partners in Canada and around the world to make NFB content available, wherever possible as a distinct channel. We have partnerships in place with YouTube, Hulu, Netflix (US and Canada), Dailymotion, Sony Playstation and others. The deals are on a revenue share basis. This will not generate a lot of revenue in the short term but it will plant a flag and claim territory in the digital space and as the network of our digital relations spread these deals will become important.

3. Television. Even with the decline there are still opportunities here; there are new markets such as in the Middle East, Asia and Latin America. The decay of the traditional orderly market may allow one to configure windows in different ways and thus leverage revenues. Social networking built into the production process can create an audience appetite that broadcasters will not want to ignore. And flagship programming can still command premium prices. Incidentally, in the Canadian market we have stepped back significantly from taking coveted doc slots to ensure that the private sector can trigger the financing they need for their projects.

4. Original digital content. We are currently devoting about 20% of our programming dollars to original digital content for on line and mobile platforms. This is content that is not predicated on or annex to traditional documentary or animation work. As we were making these shifts I had a very concerned distribution department. They were worried that we may be reducing our regular televisual work and consequently affect even more our revenues. In the short term this may happen but there are new and distinct revenue opportunities with this work. We are currently assembling a catalogue of our original digital work which will have an advance premiere at SxSW and then a full formal launch at MIP in April. Two objectives. The first is to licence the work in the way you would television programming. We have already had some success as broadcasters search to find distinctive content to attach to their programming. If strong enough the original content, even though not directly linked to a particular program, becomes attractive added value. The second, and possibly more interesting possibility, is to create a format business parallel to the television format business. Let me give you an example. We have a project called Sacrée Montagne - Holy Mountain in English. It is a very local story about the magic of Mount Royal; it allows users to explore and share stories and memories while building an overall narrative. It is a lovely engaging piece of work which continues to have a great deal of success. The story may be local but there is nothing local about the back-end. The format, the architecture, the work flows etc can be transported anywhere and be filled in with whatever the local story is, say Central Park in New York or Mt Fuji in Japan or the Eiffel Tower in Paris. You buy the format, you get the complete package and very quickly you can launch your version. The market is not limited to broadcasters. A telco may wish to attract its customers; a tourist board may see it as a fundamental to their marketing and so on. Obviously, not everything will be susceptible to formats but we are going to

explore this terrain and start to put in place the business models—pricing, contracting, maintaining editorial standards and so on.

5. Transactional. From the beginning I have been committed to giving Canadians free access to content. The works on NFB.ca are available to view for free—by streaming. You have to be connected and you watch it in the moment. What you cannot do is download to own and to add to your personal library or to package and give as a gift. This is about to change. The streaming option will remain but very shortly we will offer our audiences the option to purchase to download on their computers or mobile devices. It has been a year-long project to put in place a very sophisticated infrastructure. The transactional system also allows for VOD and subscription; it is this backend that is making our Education+ possible. When we launch we will have 500 titles available for purchase and the number will grow over time. It also opens possibility for other ways of offering value to interested consumers such as gift packages, related merchandising, special offers and so on.

6. Our fully transactional site will be the first such Canadian system for Canadian programming and it is completely bilingual. It is another way we can serve Canadians and help increase revenues. And, of course, what we will remind Canadians is that every cent they spend at NFB will be reinvested in programming for them and for their children. There is the possibility that we can work in partnership with the private sector to develop a clone of the transactional site to make a full panoply of Canadian programming available for Canadians, a Canadian iTunes. Currently, there is limited availability of online offerings in Canada and those that exist are predominantly American. I-tunes and Netflicks offer Canadians access to digital content delivery but they do not provide independent Canadian content providers access nor positioning within their offerings. Neither provide content in French. Using NFB's infrastructure, expertise and management we could create a Canadian online offering for independent content producers.

There are other things in the works; but I have to keep some surprises in store for later. Are there any lessons in this for the private sector. Let me suggest a few as well as make a number of proposals:

1. Adaptive change is possible but it will require rethinking how you operate. It may mean that smaller and medium sized companies will need to collaborate in various ways to reduce your overall costs, find ways to invest in the new technologies and to leverage a broader and more diverse catalogue of material.

2. There are other market possibilities beyond the traditional broadcast world. But we also need to explore fully international opportunities. I propose that we convene an industry think tank to explore a high-level strategy to better exploit internationally our auteur documentaries and animation and digital work.

3. The consultations on co-productions opens possibilities for streamlining those agreements but we must ensure that they include digital work.

4. As I noted, we would like to enter into discussions about creating a Canadian i-Tunes for independent Canadian programming. The infrastructure is there and ready to go.

5. For all the stresses on our system, we still have one of the best financing regimes in the world and particularly for exploring digital media. That gives you enormous strength in the market place.

Finally, we need to find ways of constructing the audio-visual ecosystem of tomorrow; one that values the diversity of Canadian programming and allows for the full creative and financial flowering of our industry well into the future.

Thank you.