



OTT Impact on Value Chains

Rights, Realities, Regulation

Peter Miller

IIC Ottawa

November 28, 2011

Overview



- Canadian Rights Market
- Internet Network Infrastructure 101
- OTT Business Advantage
- Evolution of (foreign) OTT in Canada
- Leading Indicators
- What could mid-level CRTC intervention look like?

Canadian Program Rights Market

- Fundamental to Canadian Broadcasting System
- 2 key characteristics
 - Separate & held by Canadians
- OTT threatens both ... more the latter now
 - VOD alone is a game changer for system
- Health Rating: 8.5/10
 - Paramount vs. NBCU Pay TV deals
 - First window rights staying with broadcasters followed by domestic OTT

Internet 101

- Not a network but a network of networks
- Relies on “peering” arrangements between interconnected networks
 - Eg. Rogers to Bell to AT&T to Level 3 etc
 - Assumes symmetric traffic volumes
 - Where volumes out of synch, transit fees apply
- P2P file sharing & OTT
 - 40% capacity increases annually
 - 50% + of “prime time” traffic is now real time video
 - CDNs deliver content efficiently, but asymmetric

OTT vs. Broadcast Costs

| Cost Category | BDU/Broadcast | OTT |
|---------------------------------------|---|--|
| Content Acquisition | Comparable, but ... | Cheaper with secondary windows; corporate synergies to outbid, possibly bundle |
| Transport/Network | BDU recovered from consumer | Largely defrayed to consumer/ISP (UBB) |
| Interconnection or "content delivery" | Relatively low (<10% of broadcast revenue) - satellite uplink | Relatively low - CDN costs |
| TV Interface/STB | BDU/consumer (legacy equip) | Defrayed to consumer |
| GST | 13% in Ontario | None |
| Regulatory Contribution | 30% of brdcst revenue 15% of BDU revenue | None |

OTT 1.0 Characteristics

- Material market presence (10%) of only one major foreign player
 - Mostly library movies & post broadcast window TV
 - Netflix shares down 70% from peak
- Strong, free domestic broadcaster/BDU OTT
- No conclusive evidence of negative impact “on the ability of the system to achieve the policy objectives of the *Broadcasting Act*”
 - Polarized views on regulatory response ... from impose traditional regulation to deregulate traditional providers
- CRTC wait and see

OTT 2.0 Characteristics

- Material impact (within 3-5 years)
 - General or specific ... probably Pay TV but could be specialty
 - Multiple foreign providers/platforms with non and exclusive content ... Google, Apple, Roku etc
- 2 Key Industry responses:
 - TV Everywhere authentication "walled garden"
 - Network Management - UBB and CDN
- Potential for min/mid level CRTC intervention
 - but could get away with doing nothing

OTT 3.0 Characteristics

- Tipping point -- 5 yrs to never
 - Impact jeopardizes system not just players
 - Rights market breaks down
 - 20-30% OTT penetration??
- Could be independent of what happens in US
 - Eg. HBO ... have built brand; here get half of wholesale; in U.S. get half of retail ...
- Without CRTC/Gov't intervention (and maybe notwithstanding) broadcasting system is over
 - Canadian ownership; subsidy to Canadian programming most at risk

Leading Indicators

- OTT penetration; viewership etc.
- U.S. Market trends
 - US VI entities can not discriminate against OTT
 - If OTT takes off in U.S., Canada will follow
 - If OTT fizzles, Canada still not immune
- Deployment of TV Everywhere in Canada
 - Replacement of legacy cable STBs or embracement of alternatives
- Canadian Program Rights Market
 - Extent of bypass

Possible CRTC Intervention

- Prohibit exclusive OTT rights
 - Consistent pattern of precedent
 - Simulcast, foreign services, VOD, PPV, VI
 - Consumer fairness plus Rights Market protection
 - Interpretation of NMEO undue preference?
- “Priority carriage” for Canadian OTT
 - Apply s. 27(2) & s. 28 of the *Telecommunications Act* (no unjust discrimination subject to *Broadcasting Act*) to allow ISPs to employ traffic management practices that favour Canadian OTT



OTT Impact on Value Chains

Rights, Realities, Regulation

Follow-up: info@petermiller.ca

Peter Miller

IIC Ottawa

November 28, 2011