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Structural change in the Canadian television market: Implications for public policy

PREPARED FOR THE CANADIAN ASSOCIATION OF BROADCASTERS

Introduction

In May 2024, Statistics Canada and the CRTC each released their compilations of the 2023 data for broadcasting in Canada. Those recent releases provide useful reference points for updating the data on the Canadian television market.

This Research Note has been prepared for the Canadian Association of Broadcasters, to help place those newly-available statistics in context, and, in particular, to link the statistical data to the changing structure of the television industry.

The changing structure of the Canadian television industry

Canadian television is undergoing major structural change. After decades of being primarily public and private over-the-air "conventional" television, it saw the expansion of multiple additional channels delivered via cable or satellite. At the same time, revenue sources also changed, as subscription revenues were added to advertising.

In the last decade, Internet-delivered streaming services have added another level of fragmentation and competition, and are beginning to expand into advertising in addition to their initial base of subscription revenues.

All of these changes have had a significant impact on the programming costs in the industry, and on the ability of the legacy television broadcasters (private conventional television) to maintain their profitability and their long-standing regulatory obligations.

As will be documented below, until the early 2000s, the basic economic and regulatory structure of the private conventional television industry in Canada worked. Generally, for English-language television in particular, the revenue surplus on acquired non-Canadian programs was sufficient to cover revenue shortfalls on other programming, including the all-important local newscasts on which Canadians have come to depend.

As the audience and revenues for discretionary (specialty and pay) services grew, the economic health of private conventional television was impacted. Because of the ownership structure within the industry, the internal cross-subsidies within private conventional television evolved into a system in which the profits on discretionary services helped to balance the losses on conventional. In a sense, we went from one form of "balancing act" to another.

However, that second type of balancing act now is being challenged in a number of ways, including:

1. Increased competition for audiences and revenues from streaming services delivered via the Internet;

2. The resulting "cord-cutting" by Canadian subscribers to broadcasting distribution undertakings (BDUs);

3. Increased competition for advertising from a multiplicity of digital services; and

4. Increased programming costs, particularly for non-Canadian programs, as the U.S. television industry in particular feels similar pressures that change the nature of programming and how it is delivered to audiences.

As will be seen from the statistics summarized below, there are signs that the second type of balancing act may not be sustainable.

The statistical analysis

In reviewing the historical statistics, we find that, in 1990, private conventional television had about four times the total revenue of pay and specialty services in Canada.

According to Statistics Canada, it took another 15 years – until 2005 – for the combined revenues of discretionary services to pass the combined revenues of private conventional TV.

To help create useful reference points, we have summarized the state of the Canadian television industry in 2005, and then compared those data, where possible, with similar data for 2023.

Notes on methodology

The data used in this Research Note come from Statistics Canada and the CRTC, along with a number of industry sources. Two important points should be noted in this context:

1. Differences between the Statistic Canada and CRTC reporting of data for television:

There are two main differences between the reporting of data for private television by Statistics Canada and the CRTC. First, Statistics Canada includes the results for the network licence for Hockey Night in Canada in its private conventional television data; the CRTC includes the results for that reporting unit in the data for discretionary services. Second, the calculation of profit before interest and taxes (PBIT) may differ between the two sources in some years, depending on whether contributions from specific funding mechanisms are included as part of operating revenue or as subsequent additional adjustments.

2. The impact of inaccurate annual returns for CBC conventional television:

On July 13, 2018, the CBC issued a news release stating that, for a number of years, up to and including 2016, it had filed inaccurate annual returns with the CRTC for the CBC conventional television services. For the years in question, the CBC had included its non-broadcast digital news services (that compete with newspapers) in its annual returns for conventional television. That had the effect of overstating the data for CBC conventional television, and, at the same time, not revealing the expenditures for the non-broadcast digital services.

Those inaccurate annual returns impact the ability to present consistent data for the CBC – and for any industry totals that include the CBC – for a number of years, likely from about 2012 to 2016. However, we have been able to develop a method for estimating the impact on the advertising revenue component, in order to present total industry advertising trends over time.

Shares of the Canadian television/video market – 2005 and 2023

In Figure 1A (for 2005) and Figure 1B (2023), we have summarized the main components that make up the Canadian television/video market.

(Note: We have focused on estimates for the main components in the relevant market. It should be noted that there may be some smaller components that have not been included. For example, although less than in 2005, there were still sales of physical copies of video programming in 2023.)

The data indicate that private television's share[1] of the Canadian television/video market was as follows for the selected years:

- 2005 63.1 %
- 2023 41.0 %

The changing shares within the television/video market reflect the fact that more content is available from more sources than ever before, but that also has implications for revenue sources (advertising and subscriptions) and the nature, availability and cost of programming.

(In defining the television video/market, we took note of the definition of "relevant market" from the European Union: "A relevant product market comprises all those products and/or services which are regarded as interchangeable or substitutable by the consumer, by reason of the products' characteristics, their prices and their intended use."[2])

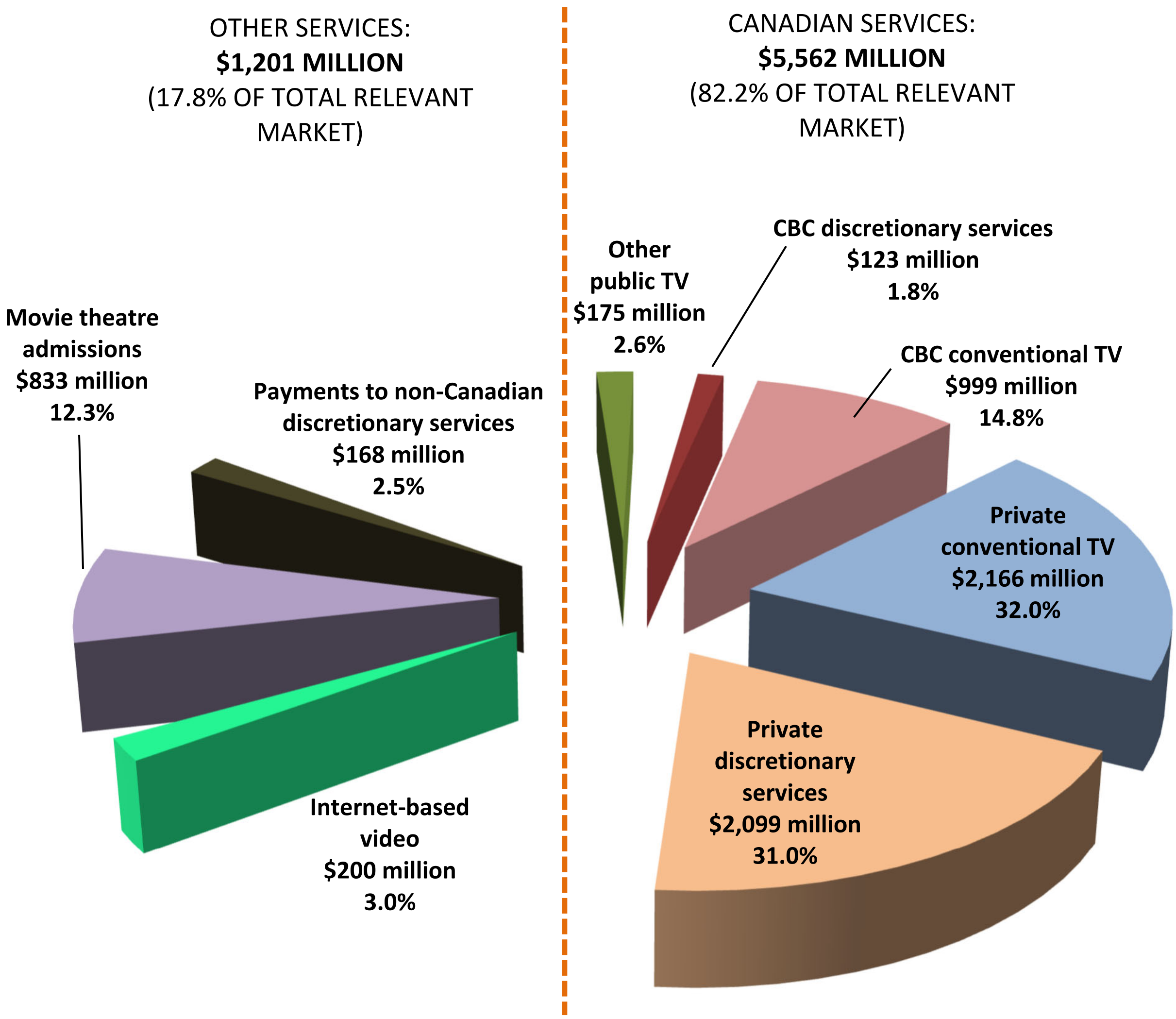
Text continues on page 6 …

[1] Based on the combined data for private conventional television and private discretionary (specialty and pay) television services.

[2] *Official Journal of the European Communities*, "Commission Notice on the definition of relevant market for the purposes of Community competition law" (97/C 372/03), 9 December 1997 [accessed online at http://eur-lex.europa.eu].

Figure 1A.
The Canadian television/video market in **2005**:[3]

[TOTAL RELEVANT MARKET: **$6,763 MILLION**]

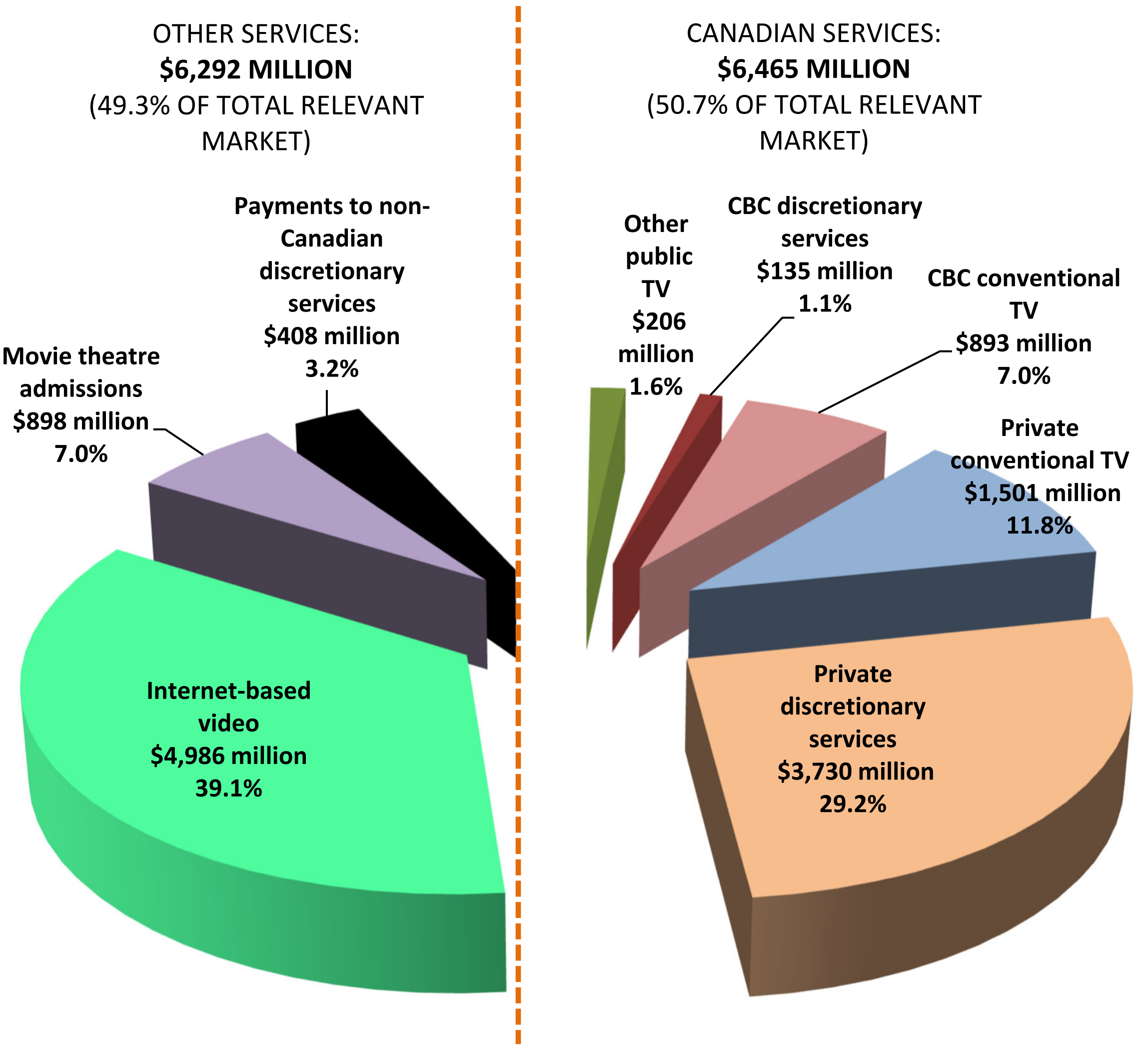


SOURCE: CRTC; Statistics Canada; Communications Management Inc.

[3] Based on total operating revenues for the components shown.

Figure 1B.
The Canadian television/video market in **2023**:[4]

[TOTAL RELEVANT MARKET: **$12,757 MILLION**]



SOURCE: CRTC; Statistics Canada; Communications Management Inc.

[4] Based on total operating revenues for the components shown.

The evolution of the advertising market from 2012 to 2022

Advertising-supported television competes in two overlapping markets:

1. The television market (versus other video options); and
2. The Canadian advertising market (versus other advertising options).

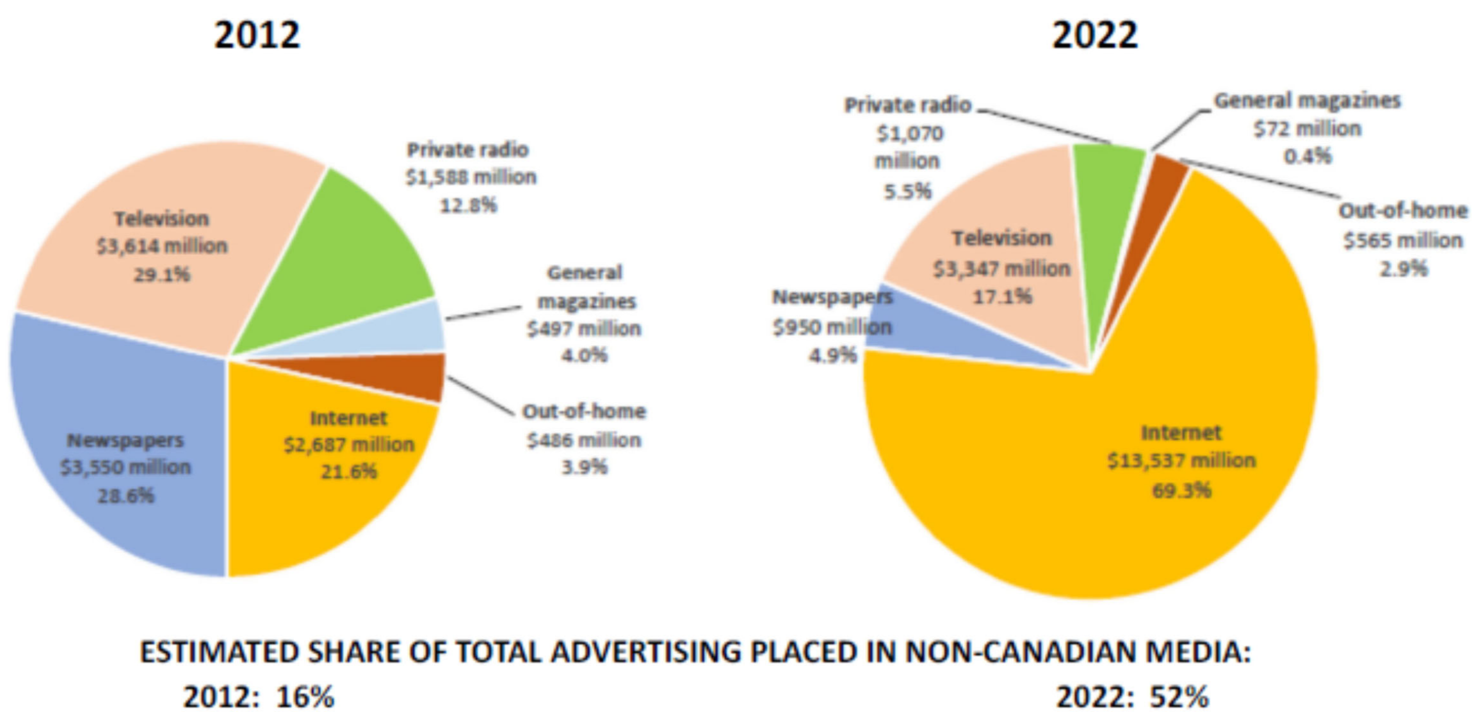
Market share comparisons are presented here for the Canadian advertising market. The advertising data by medium are another important indicator of the changing structures in the television/video market, and in the media market generally.

Shares of the Canadian advertising market, by media – 2012 and 2022

To indicate television's share, and also the dramatic changes that have occurred, we have presented the data in Figure 2. (Data for some of the non-broadcast media are only publicly-available up to 2022.)

(Note: In order to be able to compare the data over time, we selected the main advertising media for which data were consistently available. Note also that the data for "newspapers" include daily and community newspapers.)

Figure 2.
Advertising market shares for selected media, Canada, 2012 and 2022:



SOURCE: ThinkTV; Statistics Canada; Communications Management Inc.

As can be seen in Figure 2, the changes in market shares from 2012 to 2022 are significant:

- Internet advertising jumped from 21.6 per cent to 69.3 per cent;
- Print media (newspapers and magazines) advertising fell from 32.6 per cent to 5.2 per cent; and
- Television advertising fell from 29.1 per cent to 17.1 per cent.

Figure 2 also includes data for the "estimated share of total advertising placed in non-Canadian media" in 2012 (16 per cent) and 2022 (52 per cent). Those calculations refer to the totals for the advertising in each of the two years, not just the Internet-related portions, and they provide an additional illustration of how the growth of Internet-based alternatives has impacted the total Canadian advertising market.

Television advertising is no longer tracking GDP

In Figure 3, we have presented data that track the trends for private conventional TV advertising, total TV advertising on Canadian services, and GDP.

As indicated in Figure 3, the growth rate for private conventional TV advertising fell below the GDP growth rate after about 2000, and the growth rate for total TV advertising fell below the GDP growth rate after about 2011. Both have continued to lag.

The advertising-GDP linkage shown here reflects:

1. The changing structure of the television market; and
2. The increase in the number of competitors, first from discretionary services (pay and specialty channels), and more recently from digital OTT alternatives.

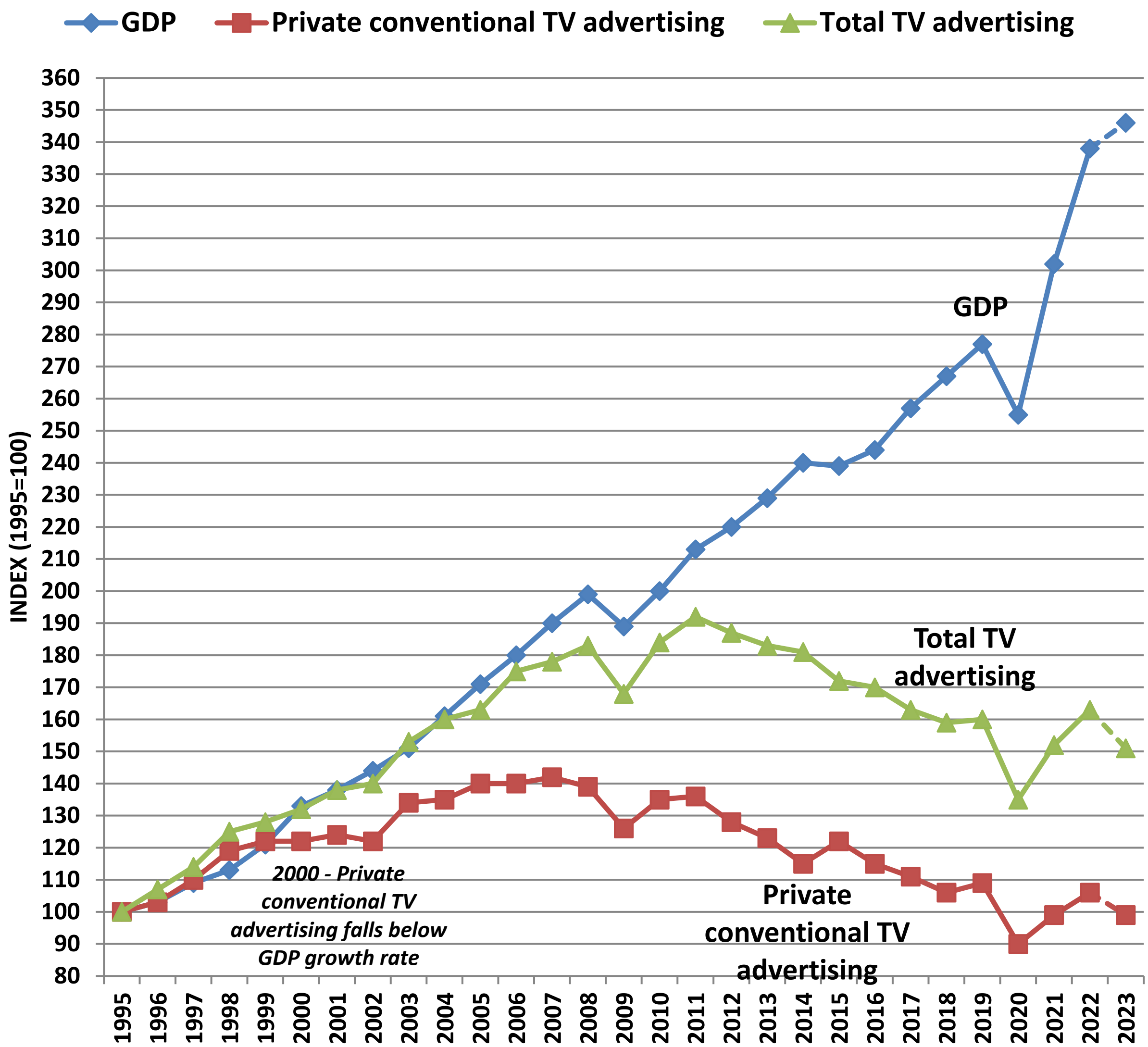
Projecting advertising revenues – "cyclical" or "structural"?

In the case of television advertising, the advertising levels fell from 2019 to 2020, but then recovered in 2022 to about the same levels as they had been in 2019. It might therefore be tempting to assume that the initial decline was mainly pandemic-related (cyclical) and that the bounce-back to 2022 might lead to longer-term growth.

We would caution against that assumption for two important reasons:

1. First, the longer-term declining trend indicated in Figure 3; and
2. Second, the most recently-available industry tracking data, for the first 10 months of the 2024 broadcast year, are indicating a decline in television advertising revenues.

Figure 3.
GDP and advertising on Canadian television services, 1995-2023,
Index basis (1995=100):



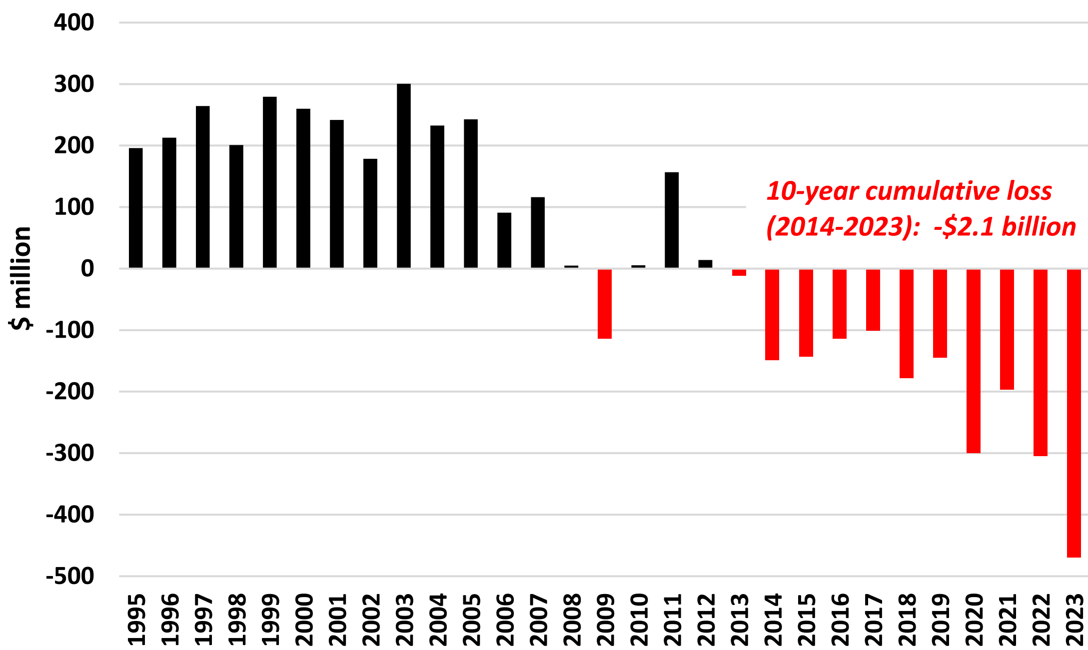
SOURCE: Statistics Canada; Communications Management Inc.

The impact on industry profitability

As noted above, the greatest structural impact within the television industry has been felt by private conventional television.

Figure 4 summarizes the profit before interest and taxes (PBIT) for the private conventional television industry in Canada, from 1995 to 2023.

Figure 4.
Profit before interest and taxes (PBIT), private conventional television, Canada, 1995-2023:



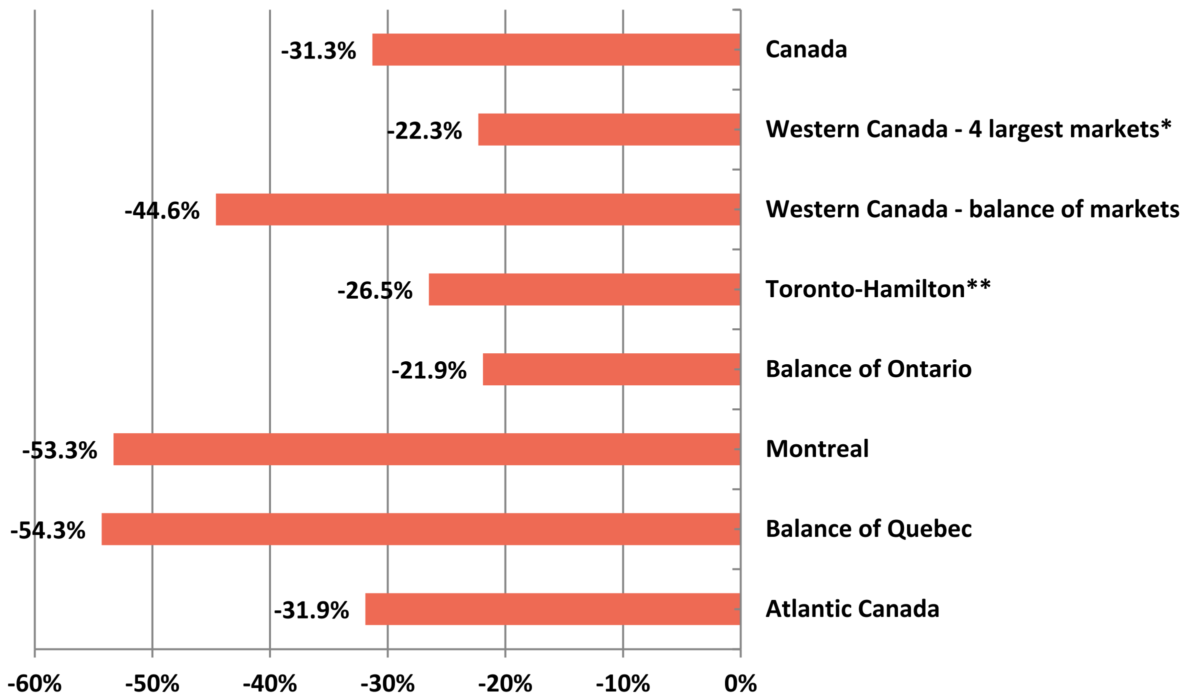
SOURCE: Statistics Canada; Communications Management Inc.

As indicated in Figure 4, the 10-year cumulative loss for private conventional television from 2014 to 2023 was $2.1 billion. (We noted above that the CRTC uses a slightly-different methodology in its data for television. If we use the CRTC data for 2014 to 2023, the 10-year cumulative loss in PBIT was $1.8 billion.)

In the case of private discretionary services, they were still profitable in 2023, but one could see the impact of a number of the general trends, and, in particular, the impact of "cord-cutting" on subscription revenues.

Figure 5 indicates the PBIT percentage for selected private conventional television markets across Canada.

Figure 5.
PBIT as % of total operating revenue, private conventional TV, selected areas, 2023:



* The 4 markets are Vancouver-Victoria, Calgary, Edmonton, and Winnipeg.
** Data for Toronto-Hamilton include some regional services.

SOURCE: Statistics Canada; Communications Management Inc.

According to Statistics Canada, in 2023, 84 per cent of private conventional television stations had negative PBIT.

Overall industry profitability – the "apparent overall PBIT"

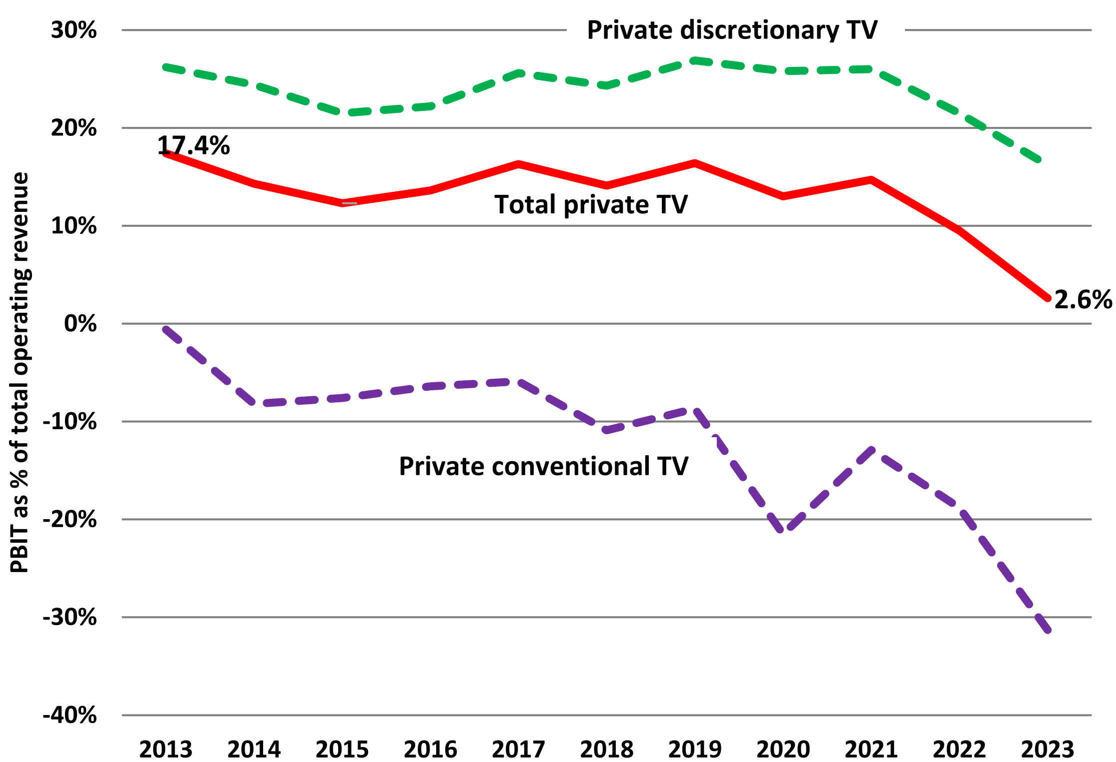
Clearly, an important observation within this Research Note is that the historical internal cross-subsidies within private conventional television evolved into a system in which the profits on discretionary services helped to balance the losses on conventional.

Because that has obvious and important implications for future viability, we think it is important to try to assess what we have called the "apparent overall PBIT" of Canadian television. We have summarized those data in Figure 6, for the years 2013 to 2023.

Figure 6 presents data for private conventional television, for private discretionary television, and for "total private TV" – the combined results for private conventional and discretionary TV.

Essentially, this represents a measure of how successful the "balancing act" was in each year, because the data represent the overall PBIT level after balancing the losses in some units against the profits in other units.

Figure 6.
The "apparent overall PBIT" of the Canadian private television industry, 2013 to 2023:



SOURCE: Statistics Canada; Communications Management Inc.

As indicated in Figure 6, the "overall PBIT" percentage in 2023 was a fraction of what it was in 2013, confirming the diminished ability of discretionary services to compensate for losses in the conventional television sector.

The future of news on Canadian television

Private television makes significant contributions to society and the economy, across many categories, including programming on its services, and "multiplier" effects on the broader economy.

Within those benefits, one of the most important is the contribution to Canadian news, and to local news in particular.

Table 1 summarizes the spending on news by Canadian television in 2023.

Table 1.
Spending on News* by Canadian television, 2023.

CONVENTIONAL TELEVISION:

(In $ million)	Private conventional television	CBC/SRC conventional television	Total
British Columbia**	67.3	10.0	77.3
Prairie provinces	100.8	14.7	115.5
Ontario	131.3	31.9	163.2
Quebec	60.5	45.8	106.3
Atlantic provinces	19.7	12.5	32.2
CANADA	**379.5**	**114.9**	**494.4**

** B.C. includes the Territories

DISCRETIONARY TELEVISION:

(In $ million)	Private television	CBC/SRC television	Total
CANADA	**148.1**	**92.8**	**240.9**

TOTAL TELEVISION:

(In $ million)	Private television	CBC/SRC television	Total
CANADA	**527.6**	**207.7**	**735.3**

* Note: The amounts shown above are based on the 'Canadian programming expenses' within the 'News' category. In addition to these amounts, a further amount of about $1.4 million was reported as 'non-Canadian programming expenses' within the 'News' category.

SOURCE: CRTC; Communications Management Inc.

Within these numbers, the single largest component is the spending on news by private conventional television. It is also a good proxy for local news.

But the economic reality also looms over these numbers – the largest single spender on local news is the industry component with the largest current and accumulated losses.

The geographic distribution of that spending is also important. As indicated in Table 1, private conventional television not only accounts for 72 per cent of the total private spending on television news, but private TV's spending on local news is meaningfully distributed across the country.

Implications for public policy:
Finding a new balance for public service, viability and sustainability

We believe the data on the preceding pages clearly indicate that there is a structural imperative to develop and implement the next phase of the "balancing act" for television in Canada. While the need is particularly acute today for private conventional television, it is clear that new structure-related policies are required across the television industry, including, but not limited to:

1. An assessment of the amounts and criteria for specific assistance programs to support local news;

2. Within the promised overall mandate review of the CBC, a specific review of the logic of having CBC/SRC television continue to distort the advertising market; and

3. A general need to rebalance programming obligations and revenue potential across the Canadian television industry.

In presenting the data in this Research Note, it is our hope that we can help create an updated context for the discussion of those "next steps" in the policy development process.