

**Ten issues that will shape the future of  
broadcasting ... and two that won't**

Text of an address by

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In May 1920, an experimental private radio station in Montreal, the forerunner of CFCF, broadcast what many believe to be the world's first real radio program.<sup>1</sup> It was one of a series of developments, starting after World War I, and running well into the 1930s, when radio was "new media."

Of course, in 1920, there were only a few radio receivers in Canadian households. Today, more than eight decades later, Canadians have more technology devoted to communications, information and entertainment than at any time in history.

And we have a broadcasting system that has evolved over those eight decades as a uniquely Canadian balance of private initiative and public regulation. In that context, then, there is a strong temptation to hope that the current public policy and regulatory environment will somehow be able to keep pace with changing technology and changing economic realities for broadcasting.

But what if the next 10 years bring with them so many profound changes in broadcasting, that we will be forced to re-think many of the business models, public policies and regulatory tools that have evolved to this point? Let me suggest that we are closer to those kinds of changes than many would like to think. And that means we have to face an important choice: We can tinker around the edges -- a few more dollars here, a new regulation there -- or we can face the hard reality that truly fundamental changes might be required.

The changes that broadcasting now faces are enabled by technology and driven by economics. And from that interplay of technology and economics, here is my list of ten issues that will shape the future of broadcasting ... and two that won't.

### ***1. Fragmentation is the new "normal."***

Fragmentation is at the top of the list of issues, because most of the other issues are, to at least some degree, related to fragmentation, as either a cause or an effect.

The facts of fragmentation are clear -- more content from more places than ever before. But it is important to remember that fragmentation also

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<sup>1</sup> Donald G. Godfrey, "Canadian Marconi: CFCF, the forgotten first," *Canadian Journal of Communication*, September 1982, pp. 56-71 [Internet].

profoundly changes the underlying economic nature of the market that is being fragmented. The reason -- fragmentation puts downward pressure on unit costs.

In 1950, Canada's great economic historian, Harold Innis, made an important observation in his book, *Empire and Communications*. Referring to the economic development of the North American continent, Innis wrote:

"As the costs of navigation declined, less valuable commodities emerged as staples -- precious metals ... timber ... and finally wheat ..."<sup>2</sup>

In other words, Innis saw a relationship between the cost of transportation and the value of the staples that were being transported. We moved from limited and high-cost transportation that could only be justified if the staples were also high in cost, to modern transportation carrying low-cost staples in high volumes.

There is a lesson here for the media. Technology now allows us to lower the cost of "transporting" channels. And that is already putting pressure on the staple those channels carry -- programming.

By simply modifying and replacing some of the words in the quote from Innis, one can see how the sheer volume of channels has an impact on content:

"As the costs of channels declined, less costly programs emerged as staples -- long-form drama ... variety programs ... and finally reality-based shows ..."

All media are facing this pressure on unit costs, because fragmentation can be seen as a phenomenon both within and across the various media.

In television, for example, one of the consequences of the downward pressure on unit costs is the fact that fragmentation makes it more difficult -- and more risky -- to invest in high-quality drama programs.

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<sup>2</sup> Harold A. Innis, *Empire and Communications* (Toronto: University of Toronto Press, 1972), p.6 (originally published in 1950).

Another consequence for broadcasting is that fragmentation also makes it more difficult to do local programming. That is further compounded when the new, fragmented services are also specialized services, which take audiences and revenues away from the local general services that previously offered some of the same types of programs.

And what about media consolidation? That, too, is a response to fragmentation, as media seek to maintain economies of scale by attempting to re-aggregate fragments. However, those re-aggregated combinations rarely achieve the market shares that single services had before the market was fragmented.

And it is fragmentation, not consolidation, which is at the root of the current public concern about "indecent" or risqué content. When there were only a few outlets in the media market, profitability was more certain, so there was little incentive to stretch the boundaries of taste. Fragmentation has changed that equation. It has also contributed to the fulfillment of Andy Warhol's prediction that everyone would be famous for 15 minutes, because one of the other effects of fragmentation is to lower the threshold for celebrity.

## ***2. Borders are eroding -- and not just geographic borders.***

All of the consequences of fragmentation described to this point would represent a fundamental change even if the fragmentation were occurring entirely within a closed system. But it is not. The system is no longer closed. Borders are eroding. And that erosion of traditional borders compounds the problem.

When we talk about borders, we have to remember that we are not only talking about the geographic borders that define countries or markets. While new communications technologies play havoc with geography, they also play havoc with the business borders between broadcasters and advertisers and the content borders between broadcasters and consumers.

We are moving into an era in which your advertisers and your consumers may also be your competitors.

### ***3. Technology has empowered the consumer.***

Today's teens and 20-somethings represent our first look at tomorrow's consumers, and they approach media in a very different way than previous generations. They don't respect or conform to someone else's ideas of scheduling -- they want to hear or see or read what they want and when they want it. They often consume multiple media at the same time. And they are comfortable with the tools of today's new media, and with peer-to-peer file-sharing in particular.

In fact, peer-to-peer file-sharing represents another profound change in the way we relate to the media, as citizens and consumers. For the first time in history, on a mass scale, the means of production and distribution of information and entertainment products are finding their way into the hands of the consumers.

### ***4. The rules for non-Canadian signals in the Canadian broadcasting system.***

There is no question that borders are eroding. And they may effectively be gone in ten years. But that does not mean that we should move across that decade without any attempt to figure out how Canadian broadcasting might look in that borderless world. So how we handle the question of non-Canadian signals in Canada today could have an enormous impact on how well Canadian broadcasters are able to make that transition.

To this point, non-Canadian signals have been accommodated through a mixture of regulatory tools. But satellite and Internet technology may make those regulatory tools less effective. How do we balance the argument that Canadians should be able to see and hear anything they want, against the economic reality that Canadian services have program obligations that competing non-Canadian services do not have?

And how should we respond to proposals to sell commercials in Canada in the signals of non-Canadian services, which effectively makes those services competitive economic units within Canada?

The questions of more non-Canadian services and the selling of ads in Canada in those services are not isolated issues on the edge of the system, but could impact on the framework for the evolution of the system itself.

### ***5. The changing relationship between content and carriage.***

In the past two decades, the debates about the relationship between content (programming services) and carriage (cable or satellite) have usually been about issues such as whether carriers should be allowed to own programming services and whether they might favour the services they own. Now, a whole new set of issues is emerging. New tools are being developed to target and multiplex commercials, in some cases related to the digital set-top box. The program services (conventional broadcasters and specialty services) have heavy program obligations, and depend, in whole or in part, on advertising. But the new tools to sell that advertising will be in the hands of the carriers. How will we deal with a potential imbalance between program responsibilities and revenue-generating tools?

### ***6. The growing importance of electronic program guides.***

Electronic program guides (EPGs) will increasingly be used to navigate the multi-channel universe, and those EPGs are controlled by the carriers. Research from ESPN in the U.S. found that half of those with EPGs used them most of the time to find out what was on. A survey by Magid Associates in the U.S. found that more and more viewers were consulting electronic program guides. In the U.K., ITN, the news provider, has complained that the position in which it was placed on an electronic program guide has impacted negatively on its audience.

### ***7. The need for Canada's copyright law to reflect broadcast industry realities.***

Copyright is fundamental to the broadcasting industry. But is Canada's copyright law out of sync with new realities? How will copyright function as borders erode even further? And are some of the copyright obligations currently placed on broadcasters unrelated to any logical economic theory? For example, radio stations currently pay authors, composers and performers for the right to use their music. That is logical and fair. But Canada's copyright law also requires those same radio stations to pay extra if they copy a CD onto a hard drive to facilitate its broadcast. That makes no sense, and illustrates how copyright law may be out of sync with new technology.

### ***8. The currency of the currency, or will PPMs meet RFIDs?***

The currency for broadcasting is, of course, audience ratings. And, as markets get ever more fragmented, those ratings have to get ever more precise. Thanks to the leadership of BBM in Canada, we now are moving toward portable people meters, or PPMs. And while that will be an important step, don't think it will stop there. Digital set-top boxes and personal video recorders have data tracking capabilities. And what about RFIDs? RFID refers to radio frequency identification, which is likely to start to replace bar codes as a way of tracking consumer goods. So it may not be too many years before the PPM not only registers what programs are being heard or watched, but also tracks what packaged goods are in the home where the listening and viewing are taking place.

### ***9. The role of the citizen in relation to broadcasting, and how public policy should reflect that role.***

The citizen has many roles in relation to broadcasting -- as consumer, as possible producer, as possible complainant in relation to certain types of content. Public policy has responded with a number of tools, including self-regulation, CRTC regulation of content, laws of defamation, and legislation on hate speech. But do we have the balance right? Should we place more or less reliance on the broadcast regulator, or more or less reliance on the other tools that are available to citizens?

And, of course, the issue of the relationship between the citizen and broadcasting is also connected to the presence of non-Canadian signals in the system. To the extent that we may decide to rely on tools other than regulation, how can we ensure that those signals will fall within a jurisdiction that will allow citizens to use those tools?

### ***10. The role of government funding and government institutions.***

As markets fragment, and as borders erode, it is possible that current regulatory tools may be less effective. And that, of course, brings us to the other part of the process -- the use of the government's spending power.

So here is the tenth issue: In a fragmented marketplace, are the current public institutions -- the CBC, Telefilm, the Canadian Television Fund -- the best ways to achieve the goals of public policy?

If we believe, as a society, that public intervention has a place, surely we have an obligation to craft the form of that intervention in the most efficient and effective manner. So I think we have to pose the following three sets of questions:

**First:** Given the realities of today's broadcast marketplace, if those public institutions did not exist, what would be missing? Sports? News? Documentaries? Drama?

**Second:** As a society, to what extent are we prepared to use the public spending power to supply what would be missing? The federal government currently spends about \$1.4 billion per year on broadcasting,<sup>3</sup> of which about two-thirds goes to the CBC. Should we spend more? Should we spend less?

**And finally, the third question:** What is the best way of spending that money to achieve the goals we have set?

I do not have the answers to those questions. But my concern today is that, at a time of profound change in broadcasting, those questions are so rarely asked.

So there are 10 issues that will shape the future of broadcasting in Canada. I'm sure we could all add other issues to the list, but I think you will find that most of those other issues are connected in some way to the ten I have listed.

If we want to deal with those issues, we have to make sure that we are doing so within the correct framework for both private and public policies. And if that's going to happen, then we have to recognize that there are two issues that will not be very useful in shaping the future of broadcasting.

The first of those issues is spectrum scarcity. The idea of spectrum scarcity has been at the root of public policies and public institutions for broadcasting in almost every country in the world. And when public policy was first set for broadcasting in Canada, in the late 1920s and early 1930s, the assumption that there could only be a limited number of channels,

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<sup>3</sup> Statistics Canada, *The Daily*, January 7, 2004, "Government Expenditures on Culture 2001/02."

because of spectrum scarcity, was one of the principal determinants of public policy.

Remember, this was before we learned how to make better use of the radio frequency spectrum, before cable, before satellites, before the Internet, before the transmission of video over telephone lines, and before cell phones became devices for many forms of content.

So it may be time to re-think policies and institutions that are still rooted in those old assumptions of spectrum scarcity.

And the second issue that will not be very useful in shaping the future of broadcasting is the issue of so-called media “concentration.” In fact, media “concentration” is one of the first great myths of the 21<sup>st</sup> Century.

I mentioned earlier that consolidation is a response to fragmentation, as media seek to maintain economies of scale by attempting to re-aggregate fragments, and that those re-aggregated combinations rarely achieve the market shares that single services had before the market was fragmented.

The Toronto radio market is a good example. In 1975, one station, CFRB, had a 28.5 per cent share of tuning. By 2003, no single station had a tuning share greater than 9 per cent, and no commonly owned group of Toronto radio stations had a combined tuning share greater than 20 per cent.<sup>4</sup>

For television, we have compared tuning by ownership in 1970, in 2002 and 2003-2004. We then applied something called the Herfindahl-Hirschman Index (HHI), which is commonly used in competition law analyses of whether or not markets are concentrated. The Index is derived by squaring the market shares of each owner in a market, and then adding up those results. An Index under 1,000 is considered unconcentrated, and an Index from 1,000 to 1,800 is considered moderately concentrated.

In 1970, the HHI based on tuning to television in Canada was 725. In 2002, the HHI was 672 -- lower than it was in 1970. The data for 1970 and 2002 were based on BBM diaries, so I also did the same kind of calculation for the first half of the 2003-2004 TV season, using Nielsen meter data. Based

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<sup>4</sup> Source: BBM.

on meters, the HHI for television tuning today is 633 -- again, lower than in 1970.

There are more radio stations than ever before. And about 60 per cent of Canadian households are connected to the Internet, which provides access to many thousands of additional radio stations and newspapers.<sup>5</sup>

The advent of television in the late 1940s and early 1950s had a fragmenting effect across media. In other words, even before the television market itself fragmented, it was fragmenting the markets for magazines, radio and newspapers. TV forced radio to change the nature of its programming. And the time consumers spent with television began to eat away at the time they were prepared to spend with newspapers.

It is clear that we have moved from a time of media scarcity to a time of media fragmentation. It is equally clear that the issue of so-called media “concentration” is based more on mythology than on a solid statistical analysis.

But a discussion of spectrum scarcity and so-called media “concentration,” and the fact that they should not shape the future of broadcasting, tells us something important about the formation of public policy. Many years ago, the idea of spectrum scarcity became the framing proposition for a regulatory system that now must evolve quickly to keep pace with a rapidly changing industry. We are at the point where public policy needs a new framing proposition to set the course for at least the next decade.

All of you will be part of that new framing proposition as you develop specific corporate strategies to meet these new realities. But none of us can afford to ignore the larger debate over broadcasting policy that will take place over the next year or two. I would challenge all of you to get involved in that debate, to ensure that the course that is set for broadcasting in Canada is based not on the myth of “concentration” but on the facts of fragmentation.

Thank you.

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<sup>5</sup> Communications Management Inc., and data from the CRTC and Statistics Canada.