

Michael McEwen – Director-General NABA

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The View from North America: Change Change Change

I am delighted to be with you today, at least in spirit, via IP technology.

The AIB is an important forum for international broadcasters whose mandate, in an increasingly global community, is both rife with challenges and opportunities. I'm honoured to be invited to add some views which may stimulate your discussions.

As you hear my remarks, I will be in the middle of the North American Broadcasters Association's Annual General Meeting where we focus our time discussing the current and future challenges our industry faces and how we can best prepare to deal with them.

I was trying to think of how best to describe the current environment and state of our industry for broadcasters from Mexico, the US and Canada... and what comes to mind is actually Shakespeare's *Macbeth*. You'll recall the three witches entering the dark cave with a caldron boiling away and ominous thunder resounding in the background. That caldron represents all the elements and torment of change and as the witches chant; "*Double Double Toil and Trouble, Fire Burn and Caldron Bubble,*" it reminds us of the angst and pain of finding the right resolution and the way forward. It is not an easy time right now.

These transformations that we are now enjoying include the Next Generation of Television; IP production, ingest and delivery; a changing work force, and demanding business cases for all of the aforementioned. Yet, this all is happening in the context of a highly fragmented market with flat advertising revenues and yet to be seen profitable IP platforms for broadcasters.

Most of the over-the-air broadcasters have morphed into media companies in the broadest sense of that term, where over-the-air delivery (and cable and satellite retransmission) is just one element of how these media companies reach their audiences.

Comcast-NBCUniversal is a vertically and horizontally integrated company with massive cable and internet delivery, a huge production arm and of course traditional over-the-air broadcasting.

Bell Media in Canada is another example of a company owned by a telephone and mobile supplier with internet services, a direct-to-home satellite system, an array of pay and specialty services, and Canada's largest privately owned television network, CTV.

In Mexico, Televisa is yet another example of a vertically and horizontally integrated company with newspapers, magazines, cable, production and of course the over-the-air networks, which enjoy 50% of the Mexican market.

I could go on with other examples but I think you get the point. Many successful broadcast companies have made substantial changes in their businesses over the last decade that speak to multi-platform and multi-discipline services. In many instances broadcasting doesn't return both the

revenue and profit that other divisions of the company deliver. Who would have thought it?

Even broadcasters who maintain a strong traditional over-the-air business structure like CBS are launching internet service delivery products like *CBS All Access* and multi-platform licensing deals. In my view, our industry has changed enormously over the last 10 years and that change will only speed up over the coming years. Perhaps not as fast as the Moore's Law of the computer world, but the pace of change is becoming quite remarkable.

IP all the time, anytime and anywhere... that seems to be our imminent future. What was notionally an interesting idea a year or two ago has leaped ahead to become a defining revolutionary change in our industry. IP ingest, IP production, IP multi-platform delivery means huge modifications in our broadcast plant and infrastructure, and the workforce to support this activity.

IP promises to deliver a cheaper infrastructure and a lighter less-intensive production facility and delivery system. But not without challenges! IP broadcast technical standards need to be developed in partnership with the manufacturing community, and file transfer and media interoperability remain a constant and expensive problem. However there is industry recognition that this is the way forward, and over the next few years we will bring focus and solutions to these challenges. The potential benefits far outweigh the current difficulties.

One of those challenges is a workforce that is more comfortable in the linear world of television and less comfortable in the IP world that is upon us. This means retraining our current workforce of broadcast engineers, technicians and operations people, while simultaneously pursuing those IT-

trained ones and competing with the Googles and You Tubes of the world for their attention. And oh then, we still have to train them on broadcasting. The news may be anytime, anywhere online - but on the main network it's at 10 p.m. and that's a discipline that is almost unknown in the internet world.

On a positive note, these changes could substantially reduce our operating and capital costs. In fact, as one broadcast executive has noted, we may be able to shrink our asset base and thereby produce more revenue for the bottom line and the creation of further content. It's a pretty exciting thought, even though getting there will not be so easy.

Another thought in all of this IP talk is the increasingly topical issue of cyber security of our media operations. The Sony hack, even though more oriented toward the enterprise part of the company, clearly pointed out the vulnerability of media organizations to hacking.

Imagine a hacker successfully getting into the distribution system of CBS or Fox and the kind of havoc they could wreck on multiple feeds and distribution platforms. Some have said that IP is more vulnerable than linear broadcast plants - not only susceptible to hacking but to failing in time of natural physical disasters like hurricanes, floods, fires, etc. This is something we are taking seriously and encourage our colleagues around the world to do so as well.

Finally, in the time remaining, I would like to talk about the Next Generation of Television in the North American context. As soon as Next Gen TV is mentioned everyone immediately jumps to the notion of Ultra High Definition (4K or 8K). And certainly 4K could be an immediate benefit, but there are other considerations. These include IP, mobile, interactive, wider

colour gamut, high dynamic range, and higher frame rates to mention just a few. There are some that would argue that just adding a wider colour gamut and HDR would dramatically improve an HD picture today and would also make a huge visual difference for 4K.

So there are a lot of options for deliberation and I'm not sure whether the industry has reached a common view yet about what should be implemented and when. It is clear though that with the introduction of a new transmission standard (and all the related production and infrastructure standards that go with it) that it will not be backward compatible with the existing HDTV standard receivers. The CE manufacturers need to be partners in this process.

At the end of the day this will probably all come down to what's the best business case for a particular broadcaster in a particular market. To that end we are taking up the issues associated with multiple transition scenarios. And believe me it's complicated. At the core of any transition strategy is available spectrum for over-the-air delivery.

The available spectrum for a transition and eventually a full implementation of the new standards has been made more complicated by the US, Canadian and Mexican administrations deciding that co-primary sharing of mobile services in the UHF broadcast band *will* take place. This is even before the World Radio Communication Conference ("WRC-15") in November of this year decides on the issue, and where the global broadcast community is arguing for "No Change" in the UHF broadcast bands.

While Mexico may be a few years away from an operating impact, NABA's US members face immediate challenges including an incentive auction

where the government hopes that broadcasters will give up their spectrum for compensation. US members then face a repacking of what is left in an attempt to accommodate both broadcasters and mobile services. The immediate concern is: will there be enough spectrum to accommodate existing broadcast services? And then will there be enough to accommodate the transition to over-the-air delivery of ATSC 3.0, which is the Next Generation transmission standard? A similar proposal is developing in Canada for sharing the broadcast UHF band with mobile.

On a personal note, I find it strange and somewhat of an outrage that those North American administrations are proceeding with this approach without a carefully planned and negotiated resolution with the broadcast community about spectrum. Broadcasting has been a successful business for decades and certainly the US sells its content around the world, but that business model is based on a strong domestic market. Mexico is the largest producer of Spanish speaking programs in the world and even Canada has had some recent successes internationally, but they all depend on viable domestic markets to launch this creative content.

It is understandable that the excitement attached to the mobile internet world would capture government attention and the expectant revenue from spectrum auctions is not a bad thing either. But to deliberately hurt one business for another, whose voracious appetite for spectrum has been seriously questioned just doesn't seem in the public interest.

The percentage of the home audiences now using over-the-air delivery is in the single digits in Canada and in the teens in the US. While some may say it's not worth the cost to maintain transmission infrastructure when cable, satellite and the internet (including mobile LTE) can deliver to most of the audience with much cheaper infrastructure, the vast majority of North American broadcasters *still* think transmitted over-the-air services are core

to their delivery. With an anticipated spectrum crunch, the Next Generation of Television, and continued market fragmentation, these discussions are likely to move from the business of broadcasting to the arena of public policy. That won't be dull, but still another unknown for the industry's future.

I hope that I have given you a sense of our broadcast environment today and the challenges we face in North America. I would also argue these challenges will soon be playing in your own local theatres. There are exciting opportunities and some significant challenges and all of them are boiling away in that caldron the witches from Shakespeare's *Macbeth* watch over.

"Double, Double, Toil and Trouble"...indeed. Perhaps we need to add a little more innovation, flexibility, and acceptance to inevitable change to that boiling Caldron and as the phrase that ends the scene from *Macbeth* goes: *"Then the Charm is Fair and Good."* Thank you!