Who Said Disruption Would Be Easy: the economic & strategic challenges of Netflix

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February 2018
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Abstract

The purpose of this paper is to give an overview of the economic and business context surrounding the global media powerhouse Netflix. Since its 2007 launch, the distributor-turned-broadcaster has evolved from a DVD mail-delivery rental service, to an over the top (OTT) on-demand provider of licensed video content, to a full blown studio producing and distributing its own original content. In the meantime, its competitive environment has fluctuated tremendously.

Lately, Netflix's business model and its immediate environment has become even more turbulent, with new players entering continuously and establishing full-on threats against Netflix's business model, this not counting new business models being devised currently. The company has also been instrumentalized by politicians, lobbies and and interest groups, as a sort of scapegoat for all that is wrong with internet regulation.

Our main premise is to deconstruct the firm's current business standing. We will look at the main elements that gave Netflix a competitive advantage in the decade since it became the first widespread subscription-based on-demand OTT provider, as well as document the threats it is facing in the short and long-term. We consulted a great variety of sources and studied the firm's regulatory reports (annual and quarterly). We also had the opportunity to speak with Canadian broadcasters and producers who gave us insights into:

(a) the challenges they must overcome in the face of what is undoubtedly the largest consolidated video content distribution network the world has ever known; and
(b) their options in the face of the market-dominance strategy adopted by the American firm in order to rapidly establish itself as a new major player in the entertainment industry.

Currently the main focus underlying the firm's business strategy is the reorientation of its content strategy, which began when it produced and released its first original program *House of Cards* in 2013, signalling a pivot from a content acquisition and distribution network to a content production and distribution network.

In the end Netflix is well positioned and pursuing a high growth strategy, with the company claiming a presence in 212 distinct territories. This makes it possibly the only, or at the very least one of the rare OTT subscription networks who is in a position to effectively acquire and exploit global rights. This advantage is coming to an end rapidly as new entrants and content providers kickstart their own OTT networks and expand globally; a state of affairs which justifies Netflix’s 2013 pivot and the shift of its focus from its acquisition department to Netflix Studios, the corporation's production division.
Financials

The production of content assets by Netflix is an extremely costly affair. When capital is required to secure the necessary licenses to distribute films and tv series, contracts are paid in full when the asset is utilized (made available for streaming to subscribers). Netflix’s shift to producing original content has put a financial strain on the company, in that original content requires fixed costs be incurred years ahead of it becoming a revenue stream during the creation and development phases. Furthermore, the amount of cash needed to fund the actual production requirements are a strain on any content producers’ cashflow. The level at which Netflix burns though capital to grow its production volume make it an unprofitable company to date.

Since 2011 the company has maintained a debt to asset ratio (total liabilities over total assets) that oscillates between 74% and 81% as seen in the chart below. Although it might seem highly leveraged, it should be noted that the company currently holds cash equivalents valued at nearly 3.5X its first bond reimbursement in three years ($1.4B vs. $400M).

In its January 2018 SEC filings, Netflix’s short-term content obligations amounted to just over $7.5 billion, with the amount growing every year. However, as can be seen in chart, the proportion of total content obligations is decreasing as a portion of the overall content assets, passing from 79% in 2011 to 51% in 2018. This is due to the

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2 Securities Exchange Commission

3 Contracts to acquire and hold distribution rights for non-original content.
debt load being shifted from licensing (money owed to content owners) to bond emissions, meaning long-term debt obligations\(^4\) that Netflix channels into financing the production of original content.

By the onset of 2018, Netflix’s long-term debt had grown to 6.5 billion dollars, amounting to a staggering increase of 91% in one year. However, in the same twelve month period the company had grown its content assets by a value of 3.7 billion dollars (+34%), added 24 million new subscribers (+25%) and grown its revenue from 8.8 to 11.7 billion dollars (+33%), a phenomenal growth rate that minimizes the impact of acquiring such large amounts of debt. Considering this debt is funding programming that will be released in 2018 and 2019, we could presume that Netflix is diversifying its original content portfolio to serve the growing international audiences.

The following chart shows how assets, debt and subscribers are all rising together, particularly how the rise in new international subscriptions is highly correlated with the emission of long-term debt and somewhat justifies the acquisition of the new debt.

It seems obvious that Netflix’s strategy is to utilize debt to fund its growth in production volume as much as possible until its first obligations are due for full reimbursement in 2021. It is also possible that due to the small value of the first bond emissions (400M$), the company might keep issuing bonds of a higher face value in order to continue boosting whatever production levels it will have achieved in four years time.

The main advantage is that owned content assets are permanent assets in that the company is free to exploit them into the future, whereas short-term content obligations (licensed content) results in temporary assets that must be written off the balance sheet once the licensing contracts expire. Thus Netflix is incurring large debt, but by the same token acquiring permanent assets and growing and expanding into new markets at a very rapid pace.

\(^4\) Debt issued on money markets as notes or bonds.
The company has substantially grown its global subscriber base in the past six years, passing from 23.5M subscribers in 2011 to close to 118M in January of 2018, which represents a 392% growth over the seven year period (representing a compound annual growth rate of nearly 30%).

As of June 2017 half of all subscribers were in foreign markets (outside the United States of America), a number that rose to 53% by the year’s end. In Netflix’s domestic market the total subscriber growth was 153% between 2011 and 2018, which is obviously good but no longer the main driver of Netflix’s expansion as the firm is evidently reaching market saturation south of our border. The vast bulk of new audiences are now coming from Netflix's entry into international markets, where the audience rose by a factor of precisely 31X in seven years, from a little under 2M in 2011 to 62M subscribers today.

Interestingly enough, this period has also seen the number of overall titles available for screening decrease by 50% (2012 to 2017) and the number of movies decrease by a third (33%) between 2014 and 2017. This is coherent with Netflix’s strategy of providing more original content exclusively on its platform, a strategy that requires more capital but results in high differentiation that will hopefully generate higher customer loyalty for the firm.

It is also worth noting that Netflix is currently not present as a streaming platform in the Chinese market. Well-known for its protectionist attitudes when it comes to national culture and online entertainment, the Chinese government requires that any streaming service have no more than 30% of foreign content. This state of affairs nullifies one of Netflix’s major competitive advantages in that market: i.e. the capacity to exploit global rights for content assets. Netflix has thus joined strengths with Baidu (the Chinese Google) to offer its original content on their iQiyi streaming platform, also known as the Chinese Netflix.

In closing let us note that is clear that Netflix’s growth strategy, which they evidently intend to pursue as can be deduced from their debt emissions, must be fuelled by subscription growth in foreign markets. The question is only for how long the company can sustain this explosive expansion. Under current market circumstances, the willingness of foreign markets to welcome Netflix outside of national regulatory frameworks has also come under fire.

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5 https://www.lexology.com/library/detail.aspx?g=1b3e02f7-a737-462e-afa1-43c998500d2f
Of particular interest are the behaviours of North American subscribers and the choices they made, leading to the unexpected successes of outliers in Netflix’s catalog. To illustrate this argument we will use two examples: the Brazilian sci-fi series *3%* and the American fantasy drama *The O.A.*

The first instance of what might seem like an anomaly is the success of Netflix’s Brazilian series *3%* in North America. Although it has been common for Brazilian productions to be exported to other Latin American countries or Portugal, it is the first time a Portuguese-language series is successful to such an extent in an English-speaking market.

It can be argued that this was a certain time in the making. There are numerous analyses of the success of the Scandinavian model that produced internationally acclaimed TV series such as *The Bridge* (Denmark-Sweden), *Borgen* (Denmark), *Occupied* (Norway) and *Wallander* (Sweden); or movies such as *The Girl with the Dragon Tattoo* (Sweden). Many of these were documented in FG8’s seminal 2016 paper on drama series in smaller markets — National Fictions on the Small Screen.

Several reasons can explain this, but let us speculate that perhaps globalisation has come to align the North American market with the behaviours of foreign markets that have consumed foreign content for many years. It is also coherent with Netflix’s recently announced intention of opening production arms in several countries, including Canada; a development which can be viewed as an opportunity for Canadian production houses to produce series for Netflix’s international distribution network.

The interest in the *3%* success story is twofold, in that: (a) the success the series had in North America was completely unexpected and unplanned, even by Netflix executives; and (b) the success can be viewed as an indicator that English-speaking North American audiences are receptive to an offer of quality foreign content viewed with subtitles or dubbed into English. This is a given pretty much anywhere in the world in face of the Hollywood hegemony, but is a relatively new occurrence in North America where English-speaking audiences have essentially only consumed English-language productions at a mass market level.

The second example is how a series with a production value considered sub-par from a network-television viewpoint became a major success for Netflix. The O.A., beyond its admittedly clever premise and unconventional storyline, has been openly ridiculed for bad “everything”; from writing, to acting, to photography, to direction and beyond: criticism has fused about nearly every aspect of the series. Yet despite all these misgivings, the show was a massive success and a second season is slated for release. The major change lies in that if B series productions have known success in the past, they have rarely had access to top tier international distribution such as is the case with Netflix.

Although any attempt to explain why people would accept to watch low quality productions would devolve into open speculation, it could be hypothesized that: (a) watching streamed video and web series, rather than high quality HD/4K cable content or Blu-Ray discs, has made people less hostile to lower quality video; (b) watching a lot of amateur video, vloggers and web series on platforms such as Twitch and YouTube has perhaps endeared audiences to second-rate screen talent and direction; or perhaps (c) the outrageous amount of movies with predictable plot lines being pumped out by Hollywood has made certain segments of Netflix’s audience more attuned to imaginative content rather than slick production values.

From a macroeconomic point of view, the specific explanatory factors behind these successes hardly matter. The significance for secondary production hubs and their producers lies in the potential repercussions that the success of foreign productions such as Okja (Korea), 3% (Brazil) and very recently Dark (Germany) is likely to have. This indicates a potential for the accelerating displacement of production and creativity from Hollywood to various production centres around the world. As Netflix starts feeling the liquidity crunch from licensing prices going up, it logically wants to produce even more original content due to the long-term value it gives the firm and, in following this strategy, foreign markets are a great avenue.

Furthermore, the global success of content with cheaper production standards could bring Netflix to engage in more "light" video production in an effort to generate a greater amount of original content to feed its international distribution networks. By relying on fresh ideas to create original high quality content, rather than high quality productions, small production houses and content creators might be advantaged rather than the usual large players traditionally dominating the global production ecosystem. Oddly, this might put Netflix in a more direct collision course with social media giant Facebook, whose recently announced $1B investment targets precisely this kind of content7.

The bottom line is that in an effort to keep costs low, Netflix will undoubtedly be attracted to:

(a) foreign original series that can be co-produced locally with domestic broadcasters, using local talent as well as written and acted in the local language; and

(b) low-cost English-language series such as The O.A., produced in cheaper secondary production hubs.

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The reality of innovation and disruption is that technology is not a competitive advantage unless it is proprietary. Netflix benefited from a first mover advantage into: (a) first the realm of mail-subscription DVD rentals; and (b) second into OTT video streaming subscription services. However from a technological perspective the barriers to entry into OTT video are moderately low, particularly when faced with competitors with access to vast capital reserves & cashflow, and / or significant media property assets that can be readily exploitable online (read: Amazon, Disney, etc.)

Thus the competitive spectrum facing Netflix is huge. HBO, who Netflix was trying to trump when they pivoted to content creation in 2012\(^8\), has developed its HBO Go platform; though from Netflix’s market dominance perspective it was too little, too late and Netflix has effectively surpassed the Time/Warner division as an economic entity, as can be seen in the chart below\(^9\).

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8 "The goal is to become HBO faster than HBO can become us.” - Ted Sarandos, Netflix Chief Content Officer (January 2013)  

9 HBO financial information being embedded into Time/Warner’s financial reports, it was only possible to obtain precise indicators for years where the corporation chose to make the information available.
Another competitor is Amazon which launched its Amazon Prime Video offering. Although humbler in size and scope, it is backed by one of Silicon Valley’s most determined entrepreneurs and a company with a massive cash flow that is all reinvested in new ventures. Beyond that, there are many OTT on-demand video providers such as Sling and Hulu, specialty channels such as Fandor or Garage, YouTube’s subscription service Youtube Red and so on.

However, the biggest threat Netflix faces presently comes from Disney, who announced last summer the launch of its own streaming service and the removal of its films from Netflix by 2019. It is unclear at this point if Disney will also remove its ABC Studios, Lucasarts (Star Wars and Indiana Jones) and Marvel properties from Netflix and other OTT video services in order to exploit them exclusively — thought the recent acquisition of 21st Century Fox, and a controlling stake in Hulu, seems to signal an all out war between the two giants, a view strongly advocated by Quartz’s Ashley Rodriguez.\(^\text{10}\)

This development comes at a tremendous cost to Netflix as Disney's platform will be capable of challenging Netflix’s dominance on a global market and Disney is bringing with it decades of original content that can be exploited and distributed exclusively for years to come. The impact of the end of Marvel's various popular series on Netflix’s subscriber base also needs to be evaluated, but from a pure business perspective trying to retain those series would probably cost Netflix too much to justify the investment, which is undoubtedly already the case as content acquisition costs have been rising while the average cost per title\(^\text{11}\) rising from \$85,000 in 2012 to over \$600,000 in 2017. The same can be said of Pixar and Lucasfilms properties, and with the acquisition of 21st Century Fox, the popular Avatar, Simpson, Family Guy and X-Men franchises as well.

\(^{10}\) RODRIGUEZ, A. (2017, Dec. 14th), Disney’s massive Fox acquisition is all about defeating Netflix, Quartz, https://qz.com/1156596/disneys-deal-to-buy-fox-is-all-about-netflix/

\(^{11}\) Rough estimate calculated by dividing the total current content liabilities (financial obligations under one year) by the number of titles. It doesn’t take into consideration that Netflix now has a certain number of original assets available, but the number is negligible in relation to the overall Netflix offering.
This brings us to the endgame which is, of course, IP and how it is generated, developed, managed, held and exploited over many years. The bottom line being that if the tech that streams the video is an easily reproducible advantage, the content that is streamed is a much harder advantage to replicate.

Importantly, we are faced with a potential paradigm shift in the case of intellectual property protection that could take place in the coming years. In 1998 the state of California gave an extension to copyrights, protecting a series of pieces of intellectual property including Gershwin’s Rhapsody in Blue and an early Walt Disney creation called Mickey Mouse. The Copyright Term Extension Act, also known derisively as the Mickey Mouse Protection Act, gave an additional 20 years of protection to many creations that are owned and exploited by the Disney Corporation. The additional protection provided by the bill runs out in 2018 and it will be interesting to see if the extension is renewed. With the Mickey Mouse franchise running as far back as 1923, this would in practice signal that entertainment intellectual property is in effect protected beyond the symbolic 100-year mark. Should this be the case — and the current political situation in the United States indicates that this is likely to be the case — we can surmise that we have effectively entered into an era of permanent IP detention by corporations, where right holders will have the possibility of exploiting that IP indefinitely.

For incumbent content producers such as Netflix or Amazon (or Apple & Facebook, who both seem to be jumping into the fray), the strategy is inevitably to invest and develop their own original IP that can become the content farms that the Disneyworld, Lucasarts and Marvel universes are for the Disney Corporation, or the DC and Looney Tunes universes are for Time/Warner (to put forth only these two examples).

To do so Netflix has chosen to acquire Millarworld, the comic book company and rights holder to the many universes developed by Mark Millar. Although many of Millar’s universes have already been licensed (Kickass, Kingsmen), Netflix is betting that Millar’s creativity will yield results not unlike what Stan Lee’s feverish imagination provided for Marvel, or George Lucas’ for the StarWars and Indiana Jones franchises.

Concurrently, Netflix’s investment in development in pre-production has exploded fivefold from 34M$ in 2016 to 158M$ in 2017. This is happening at the same moment when reports from Quebec distributors indicated that Netflix had cancelled all, or most, of its local (Quebec/Canada) acquisitions budget. This pivot in Netflix’s strategy is confirmed by the lack of acquisitions at the recent Sundance festival. With Amazon following suit, it becomes obvious where the two giants plan to collide.

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12 [https://en.wikipedia.org/wiki/Copyright_Term_Extension_Act](https://en.wikipedia.org/wiki/Copyright_Term_Extension_Act)

The following table shows Netflix investment and content assets:

<table>
<thead>
<tr>
<th>PRODUCED CONTENT, NET (in thousands)</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Released, less amortization</td>
<td>335 400 $</td>
<td>1 427 256 $</td>
</tr>
<tr>
<td>In production</td>
<td>1 010 463 $</td>
<td>1 311 137 $</td>
</tr>
<tr>
<td>In development and pre-production</td>
<td>34 215 $</td>
<td>158 517 $</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1 380 078 $</strong></td>
<td><strong>2 896 910 $</strong></td>
</tr>
</tbody>
</table>

With the Millarworld acquisition and the massive investing in pre-production and development, we can expect the production levels in 2018 and 2019 to explode. Netflix is indeed shifting it’s resources to Netflix Studios and the development of original IP.

In FG8’s opinion the production expenses in 2018 could reach as much as 2.5B$ from a value of 1.3B$ last year (as seen above).
Competitive advantages

The greatest competitive advantage Netflix has is a long-standing, and exclusive, data-based understanding of what motivates its clients. Thanks to an inconceivably large database of clients' expressed preferences, intentional appreciations, conscious choices, unconscious reactions and behavioural patterns, Netflix owns a part of its viewers psyche. In a business where failures outnumber successes at an astoundingly high rate, Netflix managed in its first attempt at original content to produce *House of Cards*, which became one of the most successful series in recent history. Within five years of jumping into the series production game, Netflix can claim four spots on the IMDB\(^{14}\) top ten most popular television series list.

For an upstart in the game of tv and film production, this is unheard of and it is at the core of what drives the financing decisions Netflix is making. What critics of the firm fail to understand, when insinuations of share overvaluation are made, is that there is no way to calculate the goodwill value of the ten years of analytics Netflix is sitting on. This is the type of knowledge that makes it possible to apply agile development to TV production.

For instance, in the time that Stranger Things comes out and broadcasters and producers the world over realize there is a market for that type of dreamy, spooky, 80s nostalgia, Netflix has already greenlighted programs with similar aesthetics worldwide. In fact, long before shows get released, internal focus groups whose members' behavioural patterns are picked to represent Netflix's audience tastes, have already told Netflix the show will be a hit and why it will be a hit. Netflix can then deconstruct the program into core elements and recombine them to form different offering which are onscreen by the following season\(^{15}\), while the competition is still vetting scripts.

This without mentioning that new programs developed by Netflix are original IP, with value that will be maintained on the balance sheet and exploited into the decades to come.

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\(^{14}\) International Movie Data Base

\(^{15}\) i.e. Netflix's German series Dark, launched in the fall of 2017.
In this vein, and to many observers’ surprise, Netflix’s CEO Reid Hastings even went on record\(^{16}\) stating that the company’s hit ratio was « way too high », claiming the low cancel rate signals a need to perhaps engage in more risk-taking and daring behaviour in coming years. Few media executives are known to complain of being « too successful », yet, this goes to show how the convergence between creating original content and constantly analyzing data is being exploited by Netflix in a way and to an extent that’s unequaled in the industry.

For Netflix, another major competitive advantage lies in its capacity of acquire and exploit global rights. This makes it enormously difficult for regional OTT video services to compete with the global behemoth who can show up at MIPTV\(^{17}\) in Cannes, buy global rights for the best available content and leave crumbs for everyone else. The advantages are multiple for all parties involved in these deals. From the producer’s perspective, the sales work is reduced from making a dozen small deals to a single big one while at the same time getting their content exposed to 118 million households worldwide. From Netflix’s perspective the cost is spread over such a large base, that the premium they pay for buying worldwide rights is amortized.

From the perspective of national OTT services, the fallout is brutal. They may be left vying for leftover content franchises — content Netflix has passed on — instantly making them second-tier players as far as streaming or broadcasting licensed foreign content goes. In response it’s sensible that the strategies of regional OTT producers are, like Netflix, based on the development and distribution of their own original content.

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\(^{17}\) Global TV and digital content market.
Conclusion

Netflix is a high growth company applying the same tactics employed to great success by Jeff Bezos at Amazon, which means an aggressive reinvestment of all company revenue into fuelling its own growth. However, the most significant difference between the two is that Amazon is a company dealing with massive incoming cashflows from products being constantly bought and sold rapidly and efficiently, whereas Netflix deals exclusively in products whose assets may take several years to develop and commercialize. This results in an unusually leveraged company (80%)\(^{18}\), who can only sustain this debt level because it is growing massively.

There are three things that are obvious: (a) the debt Netflix acquires is tightly controlled as the debt ratio has hovered around 80% for many years, meaning Reed Hastings is well aware of the risks associated with such high levels of debt; (b) if Netflix’s growth ever stalls, the company could potentially face very intense pressure from creditors and apply a sudden freeze to expenses, whether in production or acquisition; (c) Netflix’s leveraged growth has coincided with an unusually long period of unusually low interest rates, a situation that has seemingly come to an end in recent quarters.

On the other hand, as was previously mentioned, the first bond payments\(^{19}\) due in three years’ time are for relatively small amounts which Netflix could pay today using its cash reserves. In that context it is probable that Netflix’s bet is to push hard to grow its market share and, more importantly, its production level until 2021, then brake hard on the expansion, sustain production and begin reimbursing debt for the following decade using the cash flows from its subscriptions.

The greatest source of uncertainty at this point is obviously coming from Disney, whose hostility towards Netflix is nothing but apparent. The company has massive cash reserves\(^{20}\) and a collection of content assets worth billions, including the Marvel universe which has given Netflix some of its greatest hits in the past. At the time of this writing, the announcement of the 21st Century Fox acquisition is adding to this catalogue to a degree never before seen in the entertainment industry. The decisions it makes in regard to its OTT video service could impact Netflix greatly, particularly if it decides to jump into the licensing game or expand the activities of Hulu in which it now has a controlling share.

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18 Investors normally look for companies with debt ratios between 30% and 60%, which is generally considered high.

19 In 2021 Netflix will be reimbursing bonds worth 400 million dollars.

20 4.6 billion dollars in its latest quarterly report.
Naysayers have lately been criticizing Netflix, all the way from its debt ratio to claiming its shares are overvalued to challenging content decisions and even real estate choices made by the firm. Our only observation is that the company is led by Reed Hastings, a man who disrupted not one but two industries, and who up to now has proven he is thinking several steps ahead of the skeptics questioning his decisions, by consistently making the right choices as to the mission of his firm, the direction it follows and the acquisitions it engages in.

In order to try to understand where the company is headed, Netflix observers and investors will want to keep their eyes on a few indicators. The first one is the growth of the subscriber base. For Netflix’s bet to work, the rate of growth needs to remain high. The second would be Netflix’s rate of debt acquisition in order to test the company’s view on the latter. If it slows it is because the firm has decided it is nearing its target audience, if it keeps emitting bonds at recent levels, it is betting it still has gains to be made. The third is the extent to which the Federal Reserve will start unwinding stimulus by incrementally increasing interest rates, making debt acquisition more costly for highly leveraged firms such as Netflix.

Whatever happens, from here on in Netflix’s foreign market is larger than its domestic market. The next big step is when Netflix’s non-English-speaking market becomes larger than its English-speaking market. At that point it is a given that its original production will be following its user base and many series and films in foreign languages will begin appearing in users’ catalogs. How will audiences react? How will consumers’ preferences change? Could it be that the greatest opener of people’s minds with regard to foreign cultures is a commercial content distributor?

Answers to these questions are impossible to know in advance, but recent examples highlighted above have perhaps provided a glimpse into the new scope of Marshall McLuhan’s Global Village. As the shrinking entertainment planet comes down to the size of a town square, the new normal might be eyes in Chennai looking at content imagined, scripted and produced in Boise, Idaho and, more importantly perhaps, eyes in Boise looking at content from Chennai; content in both cases scripted and created by global citizens with global considerations producing for global audiences, a reality made possible by a merged distribution network and production studio unlike anything we have ever seen before.
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Yuani Fragata graduated in Communication Studies from Concordia University, proceeded to obtain an MA in Interactive Multimedia from UQAM and an MBA from HEC Montreal. He held various roles at CBC / Radio-Canada over fifteen years, as a journalist, director, producer and executive producer. He notably headed the latter’s media and technology lab, Bande à part, for 6 years. As part of its experiments he explored a number of disruptive technologies that enabled him to update key internal processes, as well as develop and implement innovative practices throughout the organisation. Since 2013 he has held consulting roles focusing on the business and media strategies of many firms including the Montreal Symphony Orchestra, MUTEK, the National Film Board of Canada, the Business Development Bank of Canada, the Phi Centre, Real Ventures, Lune Rouge and many others. He sits on the Montreal Symphony Orchestra’s Digital Strategy Committee.

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