ONTARIO MEDIA DEVELOPMENT CORPORATION

INDUSTRY PROFILE

INTERACTIVE DIGITAL MEDIA

Ontario
Ontario Media Development Corporation
Société de développement de l'industrie des médias de l'Ontario

www.omdc.on.ca

Introduction

The term interactive digital media includes several types of content available through a variety of digital platforms. Interactive digital media includes content such as video games, computer software, interactive CD-ROMs and websites. This content can be delivered via a variety of devices including computers, video game consoles and mobile phones.

Interactive digital media companies can be divided into two sub-sectors: the entities that create the media content (creators) and the entities that allow the media to be manipulated to facilitate distribution to the user (enablers). Content creators produce interactive content. Content enablers deal in activities such as software development, digital compression technologies, Internet applications and interactive television, among others.

Ontario is home to a vibrant interactive digital media sector, which includes many Canadian industry leaders. Ontario-based Xenophile Media has won multiple prestigious awards for its work in the sector, including two Emmy awards, two Gemini Awards, two Banff World Television Awards and a number of Canadian New Media Awards. Ontario companies and individuals were well represented at the 2008 Canadian New Media Awards. Ontario-based marblemedia received top honours as Company of the Year and its partner/producer Mark Bishop received Producer of the Year. Other Ontario winners included Smiley Guy Studios' *www.OddJobJack.com*, which was recognized for Excellence in Cross Platform, Kensington Communications Inc.'s *Diamond Road Online*, recognized for Excellence in News/Information and Evert Pot, lead programmer for Ontario's Filemobile, who won Programmer of the Year. Ontario companies are receiving international accolades as well. MyThum Interactive Inc., an Ontario-based mobile and interactive media technology provider, was ranked 44th on Deloitte's 2008 list of fastest growing North American tech, media and telecommunications companies, thanks to its posted 6,820% growth.[1]

INDUSTRY SIZE AND ECONOMIC IMPACT

Employment numbers and industry size

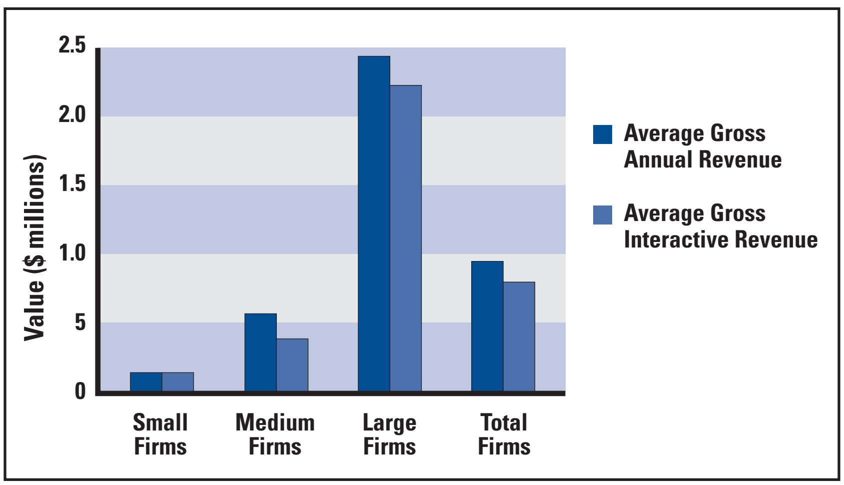
Size of Interactive Digital Media Industry Ontario and Canada, 2008

	Canada	Ontario
Number of Companies	2,960	950 to 1,050
Employment (Full-Time Equivalents)	51,000 to 52,500	16,000
Gross Revenue	$4.7 billion	$1.3 to $1.5 billion
Interactive Digital Media Revenue	$3.8 billion	$1.1 to $1.2 billion

Source: Nordicity, *2008 Canadian Interactive Industry Profile*, p. 9 and 97

- There were approximately 2,960 interactive media companies in Canada in 2008 who employed the equivalent of 51,000 to 52,500 staff through a combination of full- and part-time employees and subcontractors. These firms generated approximately $4.7 billion in gross revenue, $3.8 million of which can be attributed to interactive digital media activities.[2]
- In Ontario, there were between 950 and 1,050 interactive digital media companies that employed more than 16,000 people in 2008. These companies generate between $1.3 and $1.5 billion in annual gross revenue and between $1.4 and $1.2 billion in interactive digital media revenue.[3]

Average Gross Annual and Interactive Digital Media Revenue by Company Size (2008)



Source: Nordicity, *2008 Canadian Interactive Industry Profile*, p. 100

Sources of revenue

- A 2008 poll of Canadian interactive digital media companies revealed that, nationwide, average gross revenues range from $116,000 for the 99 small companies that responded to nearly $3 million for the 72 large firms that responded. Average revenue generated solely from interactive media activities ranges from $86,300 to $2.4 million.[4]

- The same survey revealed that these companies completed an average 15 projects in the last year based on their own intellectual property (IP), 3 based on acquired IP and 6.6 based on externally held IP. In comparison, Ontario companies produced an average of 29 projects per year. Sixty-five percent of their projects were based on internally-developed IP, which is slightly above the national average.[5]

Digital game industry

- The digital game industry is an important component of the interactive digital media sector. The global digital game market is anticipated to be worth US $48.3 billion in 2008, up 15.2% from the previous year. While the growth of the market has slowed somewhat in North America compared to the rest of the world, it is still estimated that the Canadian digital game market will be worth US $1.53 billion in 2008, up 14.2% from the previous year. Only the United States will show slower growth for 2008, at 13.7%.[6]

- In Ontario, there are approximately 80 digital game companies employing approximately 850 digital game developers. These companies engage in a variety of activities, including console game development and the development of online games. These companies generated approximately $70 million in revenue in 2006.[7]

Internet and mobile advertising

- Online business opportunities are also increasing. The global Internet and mobile advertising market is estimated to be valued at US $63.2 billion in 2008. This represents a 27.7% increase from 2007. In Canada, the Internet advertising market is projected to reach US $1.69 billion in 2008, a 27.9% increase from the previous year.[8]

Consumer patterns

- Canadians are well-positioned to be consumers of interactive digital media content. In 2007, more than three-quarters of all Canadians aged 12 years and older indicated that they currently use the Internet. More than 82% of all Canadians reported having been online in the past year. This remarkable level of penetration places Canada in the top echelon of Internet engagement — a status it shares with only a few other countries around the world.[9]

- Ontario has one of the highest Internet penetration levels in the country. Eighty-two percent of Ontarians have Internet access and 80% have broadband access. British Columbia, Alberta and the Prairie provinces have similarly robust levels of Internet penetration, while Quebec and the Atlantic provinces have much lower levels, at 67% and 72% respectively.[10]

TRENDS AND ISSUES

Growth rate

- Globally, the digital game and the Internet and mobile advertising industries are expected to experience high growth rates over the next five years. The global video game sector is projected to grow at a rate of 10.3% compounded annually to reach US $68.35 billion by 2012, and the global Internet and mobile advertising market is anticipated to grow at a rate of 19.5% compounded annually to US $120.4 billion by 2012. While spending on mobile advertising remains less than Internet advertising, it is the faster growing component, with a compound annual growth rate of 44.0%.[11]

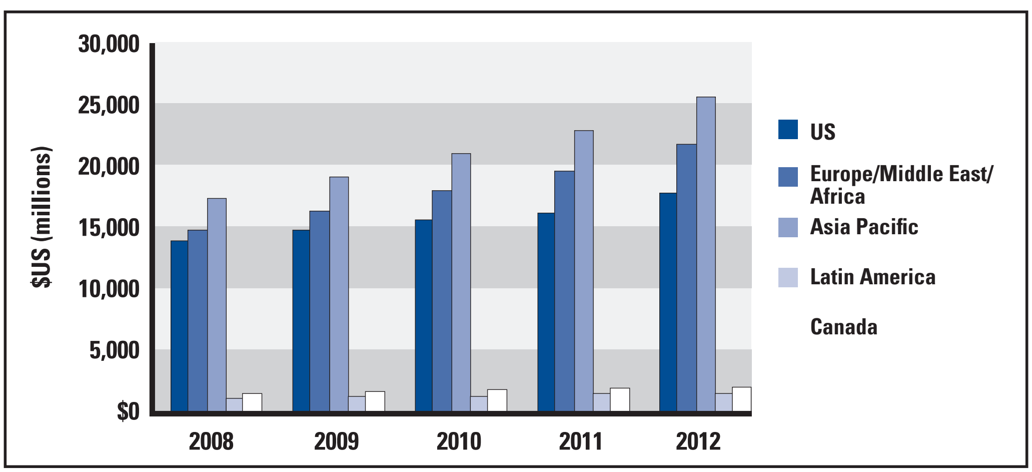
- Between 2006 and 2008, Canadian interactive digital media companies experienced a 17.4% increase in average gross revenue and a 50.9% increase in revenue associated with interactive digital media activities. Gross annual revenue is up for all company sizes, with the exception of large firms. Companies also showed an increase in staff levels in 2008 compared to 2006.[12]

- Growth rates in Canada are expected to mirror global patterns, with greater rates of growth coming in the Internet and mobile phone advertising markets. The Canadian digital game sector is anticipated to grow at a compound annual growth rate of 9.2% to US $2.08 billion by 2012. The Canadian Internet and mobile phone market is projected to grow to US $3.45 billion by 2012, with a higher than average compound annual growth rate of 21.1%.[13]

Access to industry information

- In spite of its economic importance, recognition of interactive digital media as a distinct sector has lagged behind some of the other creative industries. Interactive digital media is not yet part of the standard series of North American industry classifications and codes (NAICS, NAPCS) and is therefore not routinely tracked by Statistics Canada. Industry figures are generally captured by a combination of existing categories such as Software Publishing, Internet Publishing and Broadcasting as well as Computer System and Design.[14] The industry is attempting to address this issue through the publication of the *Canadian Interactive Industry Profile*, which surveyed the industry in 2006 and 2008 in an attempt to acquire baseline data about the industry on which to build.

Global Video Game Market Growth 2008-2012



Source: PwC, *Global Entertainment and Media Outlook: 2008-2012*, p. 44.

Economies of scale

- As with most creative industry sectors, Ontario's interactive digital media companies cannot depend on the small Canadian market for sustainability. Content creators in this sector must therefore look to foreign markets for revenue opportunities. Many Ontario companies have achieved success on the world stage, but in general their small size means they often face hurdles of market access and establishing foreign relationships.[15]

Access to capital

- Funding and access to capital are also significant issues in this sector. Ontario's interactive media creators do not have a predictable source of interim capital to fund initiatives, and the development timetable can be quite long and expensive. For example, developing a console game takes an average of two years and $4 to $5 million to complete. Companies often live from project to project and are therefore unable to make significant capital re-investments in their companies. These capital challenges mean that companies have very little negotiating leverage, particularly with international players, when selling their products. In many cases they must sacrifice ownership of their intellectual property – and therefore potential future revenue streams – to ensure that their projects actually reach completion.[16]

Global financial crisis

- As with other cultural sectors, the interactive digital media sector has been hit by the global economic downturn. In December, international video game giant Electronic Arts announced that it would be eliminating 1,000 jobs or 10% of its workforce and closing nine of its fifty studios and publishing locations.[17] Continued economic instability in world markets threatens to prolong this trend in Ontario and internationally.

Government assistance[18]

- Federal government assistance programs are currently undergoing several changes. For 2009-10, the Telefilm Canada New Media Fund (CNMF) will remain at current funding levels.[19] However, changes are in store for the 2010-11 fiscal year. In addition, the Canadian Television Fund's (CTF) Digital Media Program will be renewed for the 2009-10 in the amount of $10 million.[20]

- In March 2009, the federal government announced major changes to the CNMF and CTF. Beginning in the 2010-11 fiscal year, these funds will be amalgamated to create a new fund called the Canada Media Fund (CMF). While guidelines have yet to be established, some details were provided. Major changes to the existing structures include a new, smaller board that will be nominated by the funders—major cable companies and the Department of Canadian Heritage (DCH). The new Fund will also require that projects are available across a minimum of two distribution platforms.[21] While the exact details of the Fund have yet to be developed, industry associations expect to see a pure interactive stream of the Fund to be devoted exclusively to funding new platform ventures in interactive entertainment, participatory media and applications that support content.[22]

- The Canadian Radio-television and Telecommunications Commission (CRTC) has recently completed hearings for their review of the Canadian New Media Broadcasting environment,[23] which may have a significant impact on the funding and regulatory landscape for the industry. While this review may provide new funding mechanisms for interactive digital media content, it may also introduce additional regulation into the industry that could be restrictive.

- In 2008-09, Ontario interactive digital media producers had access to public funding through the Ontario Interactive Digital Media Tax Credit, the OMDC Interactive Digital Media Fund, the

OMDC Export Fund, the one-time OMDC Screen-based Content Initiative and the Entertainment and Creative Cluster Partnerships Fund.

- OMDC Interactive Digital Media Fund recipients are being recognized for their creativity and innovation in a variety of platforms. Ontario's QuickPlay Media and Galafilm Inc. received a 2008 Gemini award for Best Cross Platform Project for their innovative online product, *Race to Mars Interactive*. And Ontario-based Capybara Games, another Fund recipient, was broadly recognized for its mobile game, *Critter Crunch*, winning Game of the Year and Achievement in Audio at the IGF Mobile Awards and Best Puzzle Game and Biggest Surprise at IGN's Best of 2007 Awards.

- Ontario's Entertainment and Creative Cluster Partnership Fund, co-administered by OMDC and the Ministry of Culture, supports strategic partnerships that develop fresh approaches and solutions to the priorities and needs of the cluster, including the interactive digital media industry. Recent recipient nGen – the Niagara Interactive Media Generator – is a hub for interactive media project and business growth, aimed at the development of an economic cluster in interactive media in Niagara. nGen's programs are designed to retain talent in Niagara and attract and assist new business in a Niagara context where creators and entrepreneurs can thrive.

Profile current as of March 31, 2009.

(Endnotes)

[1] "Fewer Canadian tech companies growing quickly: Deloitte," *cbc.ca*, November 12, 2008.
[2] Nordicity, *2008 Canadian Interactive Industry Profile*, February 2009, p. 9.
[3] ibid, p. 97.
[4] ibid, pp. 34.
[5] ibid, pp. 38 and 102.
[6] PricewaterhouseCoopers (PwC), *Global Entertainment and Media Outlook: 2008-2012*, p. 44.
[7] SECOR Consulting, *Ontario 2012: Stimulating Growth in Ontario's Digital Game Industry*, August 2008, p. 21.
[8] PwC, p. 37.
[9] Charles Zamaria and Fred Fletcher, Canadian Internet Project (CIP), *Canada Online! The Internet, Media and Emerging Technologies: Uses, Attitudes, Trends and International Comparisons*, Year Two Report 2007, p. 38.
[10] ibid, pp. 38-41.
[11] PwC, pp. 37 and 44.
[12] Nordicity, p. 52.
[13] PwC, pp. 37 and 44.
[14] Nordicity, pp. 10-11.
[15] SECOR Consulting, *Ontario Media Development Corporation: Towards a Strategic Plan*, September 2008, pp. 9-10.
[16] ibid, p. 11.
[17] Dawn Chmielewski and Alex Pham, "Electronic Arts to cut 1,000 jobs, close facilities," *LA Times*, December 20, 2008.
[18] The information included in this section is an overview of some of the government assistance to the interactive digital media sector. This is not intended to be a comprehensive list of government assistance available.
[19] Department of Finance Canada, *Canada's Economic Plan Budget 2009*, January 27, 2009, p. 176.
[20] Press Release, "Canadian Television Fund Increases Program Funding for 2009-2010," CTF, March 2, 2009.
[21] Press Release, "Minister Moore announces Canada Media Fund to give viewers what they want, when they want it," Department of Canadian Heritage, March 9, 2009.
[22] Press Release, "A Letter from Ian Kelso, President IO, CIAC," Interactive Ontario, March 10, 2009.
[23] CRTC Broadcasting Notice of Public Hearing 2008-11: *Canadian broadcasting in new media*, 15 October 2008.