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 games, news, stories, comedy, videos and audio. This content can be delivered via a variety of devices including computers, game consoles and mobile devices.

Interactive digital media companies can be divided into two sub-sectors: the entities that create the 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.

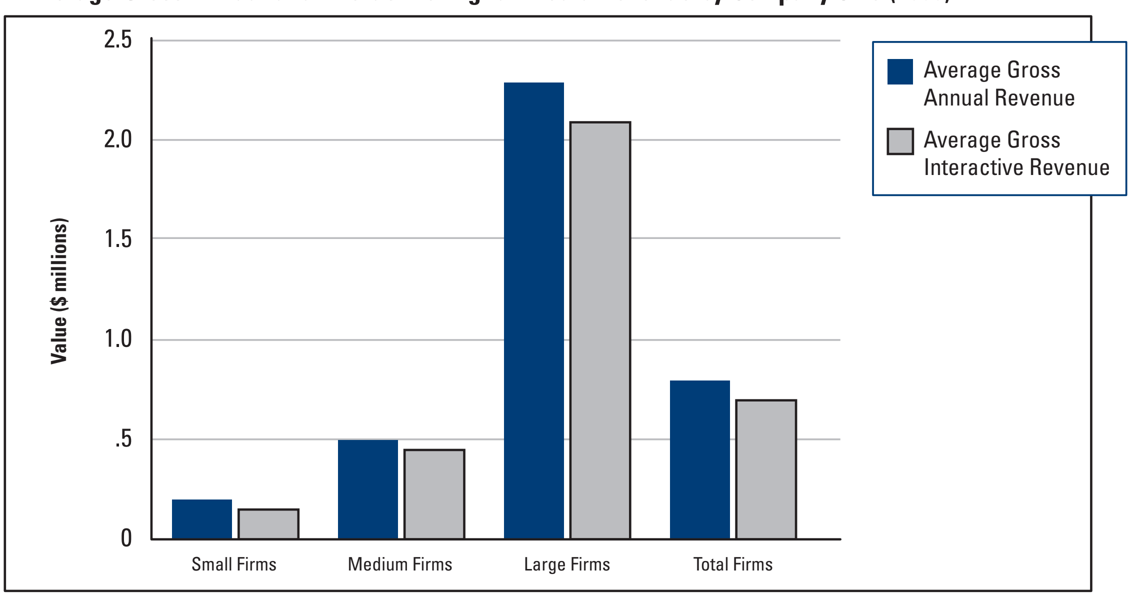
Ontario is home to a vibrant interactive digital media sector, which includes many Canadian industry leaders. Ontario-based Xenophile Media has won multiple prestigious awards for its work in the sector, including two Emmy awards, two Gemini Awards, two Banff World Television Awards, a number of Canadian New Media Awards and a nomination for a 2009 Interactive Emmy. Ontario companies and individuals were well represented at the 2009 Canadian New Media Awards. Ontario-based Cyberplex, Inc. received top honours as Company of the Year, while Ontario-based Syncapse won Promising New Company of the Year. Ontario's ChickAdvisor.com and Addictive Mobility picked up awards for Hottest New Digital Kid on the Block and Best in Mobile Marketing, respectively. Ontario companies are receiving other accolades as well. Digital Extremes was recently selected as one of Canada's Top 100 Employers for 2010 by Mediacorp Canada, in the Canada's Top 100 Employers competition.[1]

Industry Size and Economic Impact

Revenues and related figures

- The Ontario production industry (interactive digital media, film and television) generated direct provincial GDP of $379 million in 2008. An additional $318 million in provincial GDP was generated through spin-off economic impacts, such as post-production services, telecommunications and automobile rentals.[2]
- 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.[3]
- 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.[4]
- Interactive digital media plays an important role in overall production activity in Ontario and has many synergies with other screen-based activity. For example, a recent survey of the Canadian Film and Television Production Association's (CFTPA) members indicated that 77% of their cross-platform interactive production volume in 2007-08 involved a television component.[5]

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



Source: Nordicity, Canadian Interactive Industry Profile 2008, p. 25

Employment and wages

- The screen-based industry in Ontario (comprising film, television and interactive digital media production) led to the creation of 6,500 full-time equivalent jobs in 2007-08.[6] Within the wider screen-based industry, the computer animation and visual effects sector employed a total of 1,600-1,900 people in 2007 and has estimated revenues between $170 million and $200 million on an annual basis.[7]
- 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.[8]
- 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.[9]

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, Canadian Interactive Industry Profile 2008, pp. 25-6 and 97

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 $55.1 billion in 2009, up 7.2% from the previous year. Market growth in North America is slower than that of the rest of the world, however it is still estimated that the Canadian digital game market will be worth US $1.60 billion in 2009, up 6.5% from the previous year. Only the United States will show slower growth for 2009, at 6.0%.[10]
- 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.[11]

Consumer market

- 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.[12]
- 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.[13]

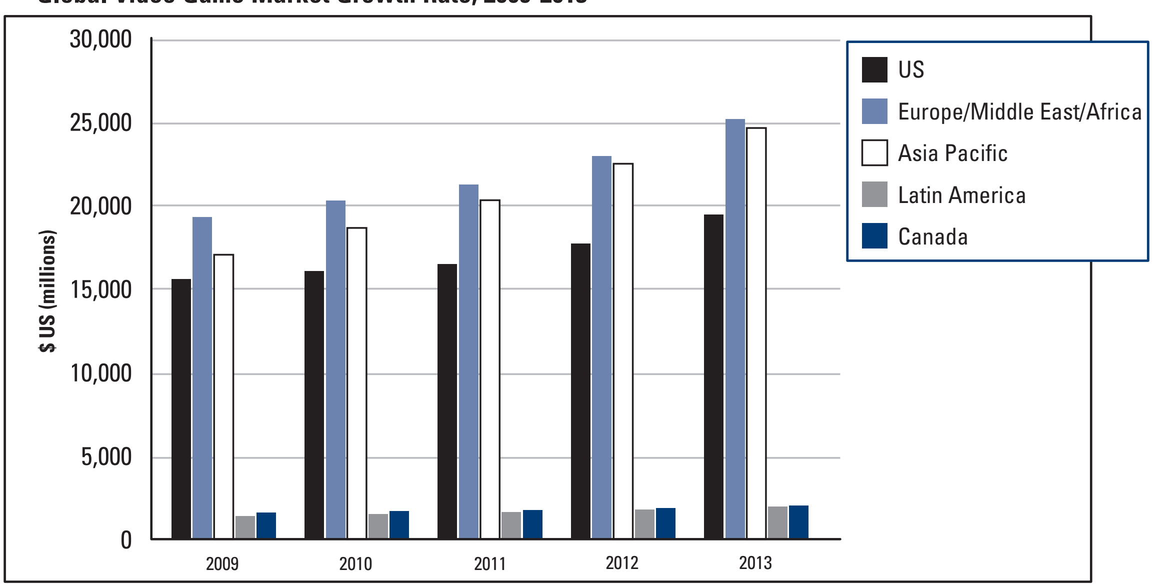
- Twenty-six per cent of Canadians report having played a computer or video game during a four week period in 2009 and 48% have played a few days a week during that time. Half of all users played on a computer, while 36% played on a console, such as Xbox 360, Wii or Playstation.[14]

Trends and Issues

Growth rate and related trends

- After several years of double-digit growth rates, the global digital game market is expected to moderate somewhat in the coming years. It is anticipated to show steadily decreasing growth rates through 2012, when a spike in the console games market due to the expected release of the next generation of console systems is projected to push growth in the overall sector. The global video game sector is projected to grow at a rate of 7.4% compounded annually to reach US $73.5 billion by 2013.[15]
- Most of the growth in the digital games market stems from the wireless games sector and video game advertising. Thanks to improvements in mobile phone handsets and 3G networks, more and more users have access to wireless games. As a result, the wireless games sector is projected to grow at a compound annual rate of 13.8% through 2013. Video game advertising, including dynamic in-game advertising, is emerging as an additional revenue stream within the global digital games market. While it is still the smallest component of the market, it is projected to show one of the highest compound annual growth rates, increasing by 13.8% through 2013. In North America, in-game advertising represents the largest growth area by far, with a compound annual growth rate of 13.0% through 2013. Wireless games, the second largest growth area, are projected to grow only 8.0% in North America over the same period.[16]

Global Video Game Market Growth Rate, 2009-2013



Source: PwC, Global Entertainment and Media Outlook: 2009-2013, p. 44 and 354.

- The double digit growth enjoyed by the global Internet and mobile advertising industries will not be matched in the next couple of years. The economic downturn is projected to slow growth in this sector for the next couple years as the world economy struggles out of decline. The global Internet and mobile advertising market is anticipated to grow at a rate of 7.7% compounded annually to US $82.7 billion by 2013. While spending on mobile advertising remains less than Internet advertising, it is the faster growing component, with a compound annual growth rate of 19.7%.[17]
- 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 6.2% to US $2.03 billion by 2013. The Canadian Internet and mobile phone advertising market is projected to grow to US $2.10 billion by 2013, with an average compound annual growth rate of 8.6%.[18]
- 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 was up for all company sizes, with the exception of large firms. Companies also showed an increase in staff levels in 2008 compared to 2006.[19]

Global and domestic issues

- As with other cultural sectors, the interactive digital media sector has been hit by the global economic downturn. For instance, there has been a slow but steady decline in the growth of video game sales in 2009,[20] and several video game studios have been forced to close or restructure resulting in job losses.[21] Continued economic instability in world markets threatens to prolong this trend in Ontario and internationally.
- 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.[22] 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. Statistics Canada recently engaged stakeholders in a consultation process with respect to the NAICS code system in general, but any potential changes to interactive digital media codes will not be seen until 2012.[23]
- 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.[24]
- 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.[25]

Government assistance [26]

- In March 2009, the federal government announced major changes to the Canada New Media Fund (CNMF) and Canadian Television Fund (CTF). Beginning in the 2010-11 fiscal year, these funds will be amalgamated to create a new fund called the Canada Media Fund (CMF). Consultation was undertaken to determine the exact structure of CMF guidelines, but certain policy issues were decided in advance. The new Fund will have two streams: a conventional stream, that will require that projects are available across a minimum of two distribution platforms (one of which is television), and an experimental stream, which will be geared toward projects that would have formerly applied to the Canada New Media Fund.
- In 2009-10, Ontario interactive digital media producers have access to public funding through the Ontario Interactive Digital Media Tax Credit, the OMDC Interactive Digital Media Fund, the OMDC Export Fund and the Entertainment and Creative Cluster Partnerships Fund. The Intellectual Property Development Fund launched in December 2009. OMDC also provides funding to trade and event organizations in interactive digital media through the Industry Development Program for events and activities that stimulate the growth of the industry.
- OMDC Interactive Digital Media Fund recipients are being recognized for their creativity and innovation in a variety of platforms. Ontario's Quick Play 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 Partnerships 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.

Profiles current as of December 23, 2009.

(Endnotes)

1 Canada's Top 100 Employers: National Competition, http://www.canadastop100.com/national/

2 Canadian Film and Television Production Association (CFTPA), *Ontario Profile 2009: An Economic Profile of Domestic Film, Television and Interactive Media Production in Ontario*, p. 30.

3 Nordicity, *Canadian Interactive Industry Profile 2008*, pp. 34-7.

4 Nordicity, pp. 40 and 105.

5 CFTPA, *Ontario Profile 2009*, p. 19.

6 CFTPA, *Ontario Profile 2009*, p. 7.

7 Computer Animation Studios of Ontario, *Economic Profile of the Ontario Computer Animation and Visual Effects Industry*, 2008, p. 7.

8 Nordicity, p. 10.

9 ibid, p. 97.

10 PricewaterhouseCoopers (PwC), *Global Entertainment and Media Outlook: 2009-2013*, pp. 44 and 354.

11 SECOR Consulting, *Ontario 2012: Stimulating Growth in Ontario's Digital Game Industry*, August 2008, p. 21.

12 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.

13 ibid, pp. 38-41.

14 Entertainment Software Association of Canada, *Essential Facts About the Canadian Computer and Video Game Industry*, pp. 5-6.

15 PwC, pp. 44-45.

16 PwC, pp. 45 and 354.

17 PwC, p. 36.

18 PwC, pp. 152 and 354.

19 Nordicity, p. 52.

20 Tor Thorson, "NPD: US Game Industry Slips 16% in August, PS3 Sales Nearly Double". Gamespot, September 10, 2009.

21 Edwin Chan, "Videogame industry prays for resilient 2009", Reuters, June 4, 2009.

22 Nordicity, pp. 11-12.

23 Statistics Canada, "Revision of the North American Industry Classification System," www.statcan.gc.ca.

24 SECOR Consulting, *Ontario Media Development Corporation: Towards a Strategic Plan*, September 2008, pp. 9-10.

25 ibid, p. 11.

26 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.