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 interactive content available through a variety of digital platforms. This includes but is not limited to 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 companies and individuals were well represented at the 2010 Canadian New Media Awards: Stitch Media picked up an award for Best in Canadian Culture, while Delvinia's Adam Froman took home the 2010 Special Achievement Award; Xenophile Media won Best Kids' Interactive. The 2010 Gemini Awards also saw several Ontario interactive digital media companies picking up trophies: marblemedia for Best Cross Platform project, and Xenophile Media for Best Original Program or Series Produced for Digital Media.

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, and Michael and James Schmalz of Digital Extremes were nominated for a 2010 Ernst & Young Entrepreneur of the Year award. Ontario-based MyThum Interactive has twice been recognized on the Technology Fast 500™, Deloitte's ranking of 500 of the fastest growing technology, media and telecommunications companies.

Industry Size and Economic Impact

Revenues and related figures

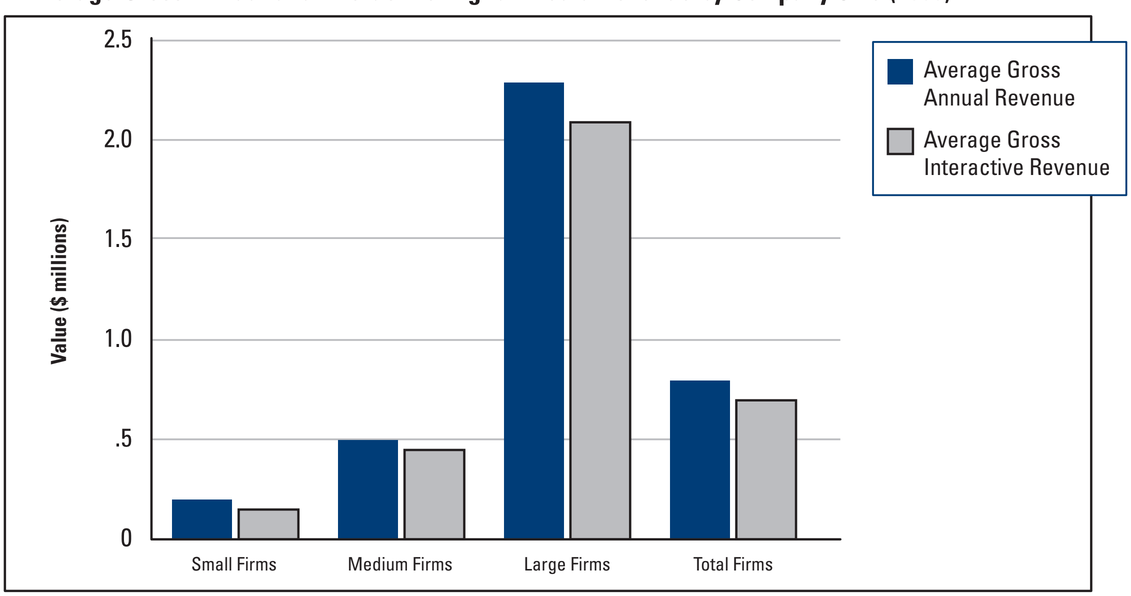
- The Ontario production industry (interactive digital media, film and television) generated direct provincial GDP of $379 million in 2008. An additional $318 million in provincial GDP was generated through spin-off economic impacts, such as post-production services, telecommunications and automobile rentals.[1]

- 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.[2]

- The same survey revealed that these companies completed an average of 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.[3]

- 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, now the Canadian Media Production Association [CMPA]) members indicated that 77% of their cross-platform interactive production volume in 2007-08 involved a television component.[4]

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 according to a study conducted by the CFTPA which included a survey of its Ontario members.[5] The Computer Animation Studios of Ontario (CASO) report that within the wider screen-based industry, the computer animation and visual effects sector employed a total of 1,600-1,900 people in 2007.[6]
- There were approximately 2,960 interactive media companies in Canada in 2008 that 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.[7]
- According to the *Canadian Interactive Industry Profile*, in 2008 in Ontario there were between 950 and 1,050 interactive digital media companies that employed more than 16,000 people. These companies generate between $1.3 and $1.5 billion in annual gross revenue and between $1.1 and $1.2 billion in interactive digital media revenue.[8]

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 $58.2 billion in 2010, up 10.8% 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 video game market (including console/handheld games, online and wireless games and PC games) will be worth US $1.53 billion in 2010, up 7.8% from the previous year. The United States is projected to show very similar growth.[9]
- The Entertainment Software Association of Canada reports that the Canadian computer and video game industry comprises 247 companies, employing 14,000 people. The sector grew by 30% in 2009, and is expected to grow 29% annually over the next few years. Canadian video game developers and publishers contribute $1.7 billion in annual revenue to the Canadian economy.[10]
- Canada is a major game developing centre. A large pool of talent exists, in no small part due to the presence of several post-secondary institutions with game development programs or curriculum. Canada is home to several top video game developers, including Ubisoft in Montreal and now Toronto, and Electronic Arts in British Columbia. PricewaterhouseCoopers reports that approximately 20% of the top selling games in North America were developed in Canada.[11]
- At last count, in Ontario there were 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.[12]

Consumer market

- Canadians are well-positioned to be consumers of interactive digital media content. A recent study by comScore shows that Canadians spend more time online than any other developed country. In 2009 Canadians spent an average of 42 hours a month surfing the Internet, compared with 30 hours for online Americans. Nearly half of this time is spent watching online video. There are more than 24.5 million unique Canadian online users each month, the highest rate of Internet usage worldwide.[13]

- Data from 2007 showed that Ontario has one of the highest Internet penetration levels in the country, with 82% of Ontarians having Internet access and 80% having broadband access. British Columbia, Alberta and the Prairie provinces had similarly robust levels of Internet penetration, while Quebec and the Atlantic provinces had much lower levels, at 67% and 72% respectively.[14]

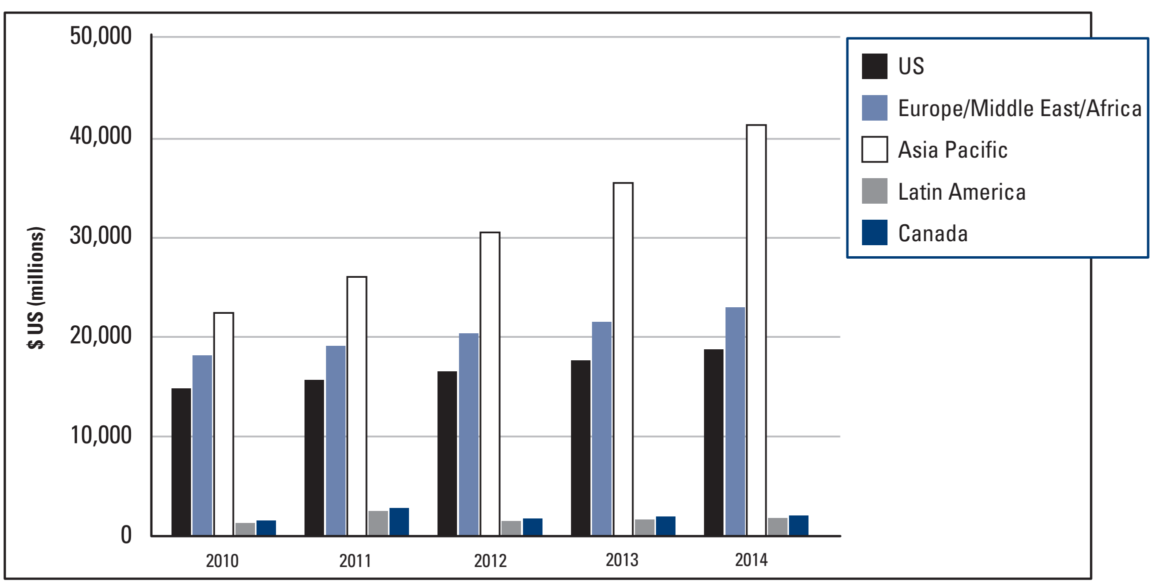
- The Entertainment Software Association of Canada reports that 47% of Canadian households have at least one video game console, such as an Xbox 360, Wii or Playstation. Roughly 90% of Canadian children aged 6-12 played a video game within a four week period, while those numbers were lower for 13-17 year olds (roughly 80%), 18-34 year olds (roughly 70%) and 35-54 year olds (roughly 50%).[15]

Trends and Issues

Growth rate and industry trends

- The global video game market rose only slightly in 2009, well below increases in the double digits during the previous three years, as the global recession cut into spending. Some large developers have delayed the release of high-profile games due to the downturn, and PricewaterhouseCoopers expects the release of some of these games, in addition to general economic recovery, to contribute to a rebound in 2010 and beyond. The global video game sector is projected to grow at a rate of 10.6% compounded annually to reach US $86.7 billion by 2014.[16]

Global Video Game Market Growth 2010-2014



Source: PwC, *Global Entertainment and Media Outlook*: 2010-2014, p. 36 and 383-418.

- According to PricewaterhouseCoopers, most of the growth in the digital games market stems from online games, the wireless games sector and video game advertising. Online games are set to see major growth (21% compounded annual growth by 2014) due to the increase in broadband penetration worldwide, and the increasing popularity of massive multiplayer online games. 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 12.3% through 2014. Video game advertising, including dynamic in-game advertising, is emerging as an additional revenue stream within the global digital games market; it is projected to show one of the highest compound annual growth rates, increasing by 12.9% through 2014. In North America, in-game advertising represents a large growth area, with a compound annual growth rate of 12.9% through 2014.[17]
- The global Internet advertising market is anticipated to grow at a rate of 11.4% compounded annually to US $103.8 billion by 2014. While other categories of advertising declined by double digits in 2009, Internet (including mobile advertising) and video game advertising fared better, growing by 4.3% and 16.2% respectively.[18]
- Growth rates in Canada are expected to mirror global patterns, with greater rates of growth coming in the online and wireless games, and mobile phone advertising markets. The Canadian video game sector is anticipated to grow at a compound annual growth rate of 6.6% to US $1.95 billion by 2014. Online games are projected to grow at a compound annual rate of 7.5% through 2014, while wireless games will see a growth rate of 9.0% in the same time period. Video game advertising in Canada will see strong growth, being closely associated with the U.S. market, which is the largest in the world. Revenues from video game advertising are projected to reach US $224 million by 2014.[19]
- 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.[20]
- The emergence of a virtual goods economy is becoming one of the most lucrative business models for online, social and mobile games. Online virtual “worlds” such as Second Life contain economic activity in the form of virtual items that are bought and sold between individuals for actual money. Users on social networking sites such as Facebook can also purchase virtual goods, such as gifts or items used in playing online games. Individual virtual goods sales are generally for relatively small sums, and users are more and more willing to make these “bite-sized” purchases. Large and small game developers are turning to this business model as it is rapidly growing in relative importance versus advertising. *Techcrunch.com* recently reported that the global virtual goods industry is expected to generate $7.3 billion in revenue in 2010.[21]
- Ontario is increasingly becoming a hub for mobile application development. A July 2010 *Wall Street Journal* article drew attention to Toronto as one of the biggest clusters of world-class mobile application developers in the world, and highlighted the work of companies like Polar Mobile and Xtreme Labs, who develop games and applications for various platforms, including the iPhone, iPad, Blackberry and Android.[22]

Global and domestic issues

- 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.[23] 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 has 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.[24]

- 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. Particularly with respect to video games, many Ontario companies are highly export-oriented–a recent study for the Entertainment Software Association of Canada reports that over 50% of surveyed firms rely on foreign sales for 90–100% of their revenues.[25] 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.[26]
- Funding and access to capital are also significant issues in this sector. A 2008 strategic plan for OMDC identified that interactive digital media 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.[27] 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 downloadable console game can take years to complete, and current anecdotal estimates suggest that the cost can be up to $800,000, while boxed retail console games can cost upwards of $15 million to develop.

Government assistance[28]

- In March 2009, the federal government announced major changes to the Canada New Media Fund (CNMF) and Canadian Television Fund (CTF). These funds were amalgamated in the 2010-11 fiscal year 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 CMF has two streams: a conventional stream, which requires that projects are available across a minimum of two distribution platforms (one of which is television), and an experimental stream, which is geared toward projects that would have formerly applied to the Canada New Media Fund. Figures from the second round of the CMF show that the demand for experimental stream funding was $72 million, requested across 200 funding applications. This demand was against $10.8 million in available funding.[29]
- In 2010-11, 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 pilot 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 company zinc Roe won a World Mobile Summit Award for its series of mobile applications, called *Tickle Tapp Apps*. marblemedia's *Taste Buds* won a 2010 Gemini Award for Best Cross-Platform Project, while Xenophile Media's *Love Letters to the Future* won Best Original Program or Series.
- Ontario's Entertainment and Creative Cluster Partnerships Fund, co-administered by OMDC and the Ministry of Tourism and 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 Algoma University, in partnership with the Digital Arts and Technology Association, Brock University, Cerebral Vortex Games, Digital Extremes and PlayBrains Inc. has developed the Ontario Digital Games Business Incubator Network. This project creates a network of business incubators and related institutions serving the digital game development community in Ontario.

Profiles current as of March 1, 2011.

(Endnotes)

[1] 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.

[2] Nordicity, *Canadian Interactive Industry Profile 2008*, pp. 34-7.

[3] ibid, pp. 40 and 105.

[4] CFTPA, *Ontario Profile 2009*, p. 19.

[5] ibid, p. 7.

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

[7] Nordicity, p. 10.

[8] ibid, p. 97.

[9] PricewaterhouseCoopers (PwC), *Global Entertainment and Media Outlook 2010-2014*, pp. 44 and 354.

[10] ESA, *2010 Essential Facts About the Canadian Computer and Video Game Industry*, p. 16; Hickling Arthurs Low, *Canada's Entertainment Software Industry: The Opportunities and Challenges of a Growing Industry*, March 2009, i.

[11] PwC, p. 385.

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

[13] comScore, *The comScore 2009 Digital Year in Review*, April, 2010.

[14] 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, pp. 38-41.

[15] ESA, *2010 Essential Facts About the Canadian Computer and Video Game Industry*, pp. 4-5.

[16] PwC, pp. 44-45.

[17] ibid, pp. 47 and 382.

[18] ibid, p. 31.

[19] ibid, pp. 383-390.

[20] Nordicity, p. 52.

[21] Dave Rosenberg, "The virtual goods economy is booming," www.cnet.com, October 10, 2008; Ted Sorum, "The Year in Virtual Goods By The Numbers,"www.techcrunch.com, December 31, 2010. Yue Guo and Stuart Barnes, "Why People Buy Virtual Items in Virtual Worlds With Real Money," in The DATA BASE for Advances in Information Systems: Volume 38, Issue 4, November 2007.

[22] Stuart Weinberg, "Toronto Becoming a Hub for Mobile-Apps Companies," *Wall Street Journal*, July 23, 2010.

[23] Nordicity, pp. 11-12.

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

[25] Hickling Arthurs Low, *Canada's Entertainment Software Industry: The Opportunities and Challenges of a Growing Industry*. This study surveyed firms in the larger entertainment software industry, which comprises video game developers, middleware producers (tools, software and applications) and game services (support services, including custom advice to game players).

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

[27] ibid, p. 11.

[28] 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.

[29] Canada Media Fund, informational email, "CMF receives nearly 200 Experimental Stream applications," December 8, 2010.