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 across 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 for any platform. Content enablers comprise platforms, technologies and companies that support, facilitate or distribute this content.

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 and Xenophile Media won Best Kids' Interactive. The 2010 Gemini Awards also saw 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. Digital Extremes' game Retro Pinball garnered the number one spot in the iTunes Canadian App store in June 2011, having been downloaded more than two million times. The game was also a top ten download in North America and many European countries.

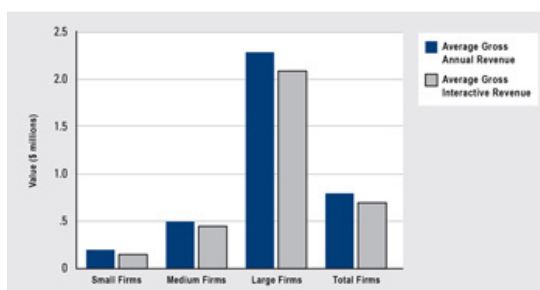
Ontario companies are receiving other accolades as well. IGN.com, an influential gaming and entertainment website, recently published a list of the Top 100 Modern Video Games. Ontario's Capybara Games had two of their games, Might & Magic: Clash of Heroes and Superbrothers: Sword & Sorcery make the list. Ontario casual game developer Vast Studios was nominated for the Up and Coming Developer award at the Great Game awards at the Casual Connect conference in 2010.

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]

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



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

- 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]

- A national study of Canada's digital economy found that nearly half of the surveyed companies made between three-quarters and 100% of their gross revenue from interactive digital media. Nearly 30% of surveyed firms said they are projecting a significant increase in revenue for 2011 over 2010.[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, 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.[5]

- eLearning is an increasingly important segment of the interactive digital media industry in Ontario. A 2010 survey estimates that there are upwards of 200 eLearning firms operating in the province, producing academic, corporate and casual online learning products. Half of these companies reported that they had total revenues of less than $1 million in the 2009 calendar year.[6]

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.[7] The Computer Animation Studios of Ontario (CASO) reports 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.[8]

- 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.[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		

- 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.[10]

Digital game industry

- The digital game industry is an important component of the interactive digital media sector. The latest data from PricewaterhouseCoopers (PwC) states that the global digital game market is anticipated to be worth US $59.3 billion in 2011, up 6.8% from 2010. In previous years, market growth in North America had been slower than that of the rest of the world, with negative growth in 2009. It is estimated that in 2011, the Canadian video game market (including console/handheld games, online and wireless games and PC games) was worth US $1.6 billion—a 1.6% increase above 2010. The United States is projected to show even more growth for 2011 at $14.1 billion, an increase of 3.9% from 2010, however the Canadian market will catch up with a higher annual increase than the U.S. by 2015.[11]
- The Entertainment Software Association of Canada (ESAC) reports that the Canadian computer and video game industry comprises nearly 350 companies, employing almost 16,000 people. The sector grew by 11% in the past two years, and is expected to grow 17% annually over the next two years. Canadian video game developers and publishers contribute $1.7 billion in economic impact to the Canadian economy.[12]
- ESAC also estimates that in Ontario, there were 96 video game companies operating in 2011, employing 2,600 people and spending an estimated $238 million. Historical growth for this industry in Ontario has been 20%, with an expected growth of 21% for 2011. Ontario’s industry is not as centred on traditional console games as other regions such as Quebec—a larger share of Ontario industry resources are allocated to mobile, social and casual games.[13]

- Canada is a major game developing centre. PwC reports that Canada has passed the U.K. as the third-largest developer of video games, after the U.S. and Japan. 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, Quebec City, Toronto and Vancouver, and Electronic Arts in Vancouver, Montreal, Edmonton and Waterloo. It has also been announced that French video game publisher GameLoft will set up a digital gaming studio in Toronto, while prominent social game publisher Zynga will also be opening a studio in Toronto. Silicon Knights, based in St. Catharines Ontario, is also a major game developer in the province, employing over 120 people. Investments from the provincial government, including existing tax credits, assist these companies to grow and contribute jobs and economic impact to Ontario.[14]

Consumer market

- Canadians are well-positioned to be consumers of interactive digital media content. A 2009 study by comScore shows that Canadians spend more time online than any other developed country – an average of 42 hours a month surfing the Internet, compared with 30 hours for online Americans in that year. Nearly half of this time was spent watching online video. There were more than 24.5 million unique Canadian online users each month, the highest rate of Internet usage worldwide.[15]
- 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.[16]
- ESAC 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%).[17]

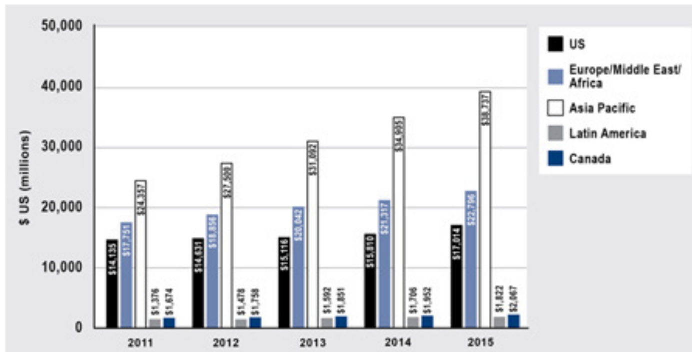
Trends and Issues

Growth rate and industry trends

- The global video game market is projected to rise 6.8% in 2011 and to continue to expand to $82 billion in 2015. New platforms for games such as tablets are expected to stimulate the development of more sophisticated wireless games, while increases in broadband penetration and the growth of social networking games will also stimulate the market.[18]

- According to PwC, 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 the most growth (14.9% compounded annually by 2015) due to the increase in broadband penetration worldwide, growing digital distribution of content and the increasing popularity of massive multiplayer online games (MMOGs). Thanks to an increase in smartphones and tablets and their accompanying app stores, 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 11% through 2015. 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 strong compound annual growth rates, increasing by 10% through 2015. In North America, in-game advertising represents a strong growth area, with a compound annual growth rate of 8.0% through 2015.[19]

Global Video Game Market Growth 2011-2015



Source: PwC, Global Entertainment and Media Outlook: 2011-2015, pp. 390-392.

- The global Internet advertising market is anticipated to grow at a rate of 13% compounded annually to US $130 billion by 2015. While other categories such as television advertising are projected to have slower growth in 2011, Internet (wired and mobile) advertising will fare better, growing by 13.6%.[20]

- Growth rates in Canada to some extent mirror global patterns, with greater rates of growth projected for Internet advertising, which is the second fastest growing entertainment and media category in the country. The Canadian video game sector is anticipated to grow at a compound annual rate of 5.3% to US $2 billion by 2015, outpacing many other entertainment and media categories. Online games are projected to grow at a compound annual rate of 7.3% through 2015, while wireless games will see a growth rate of 8.4% 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 $248 million by 2015.[21]

- 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.[22]

- The emergence of a virtual goods economy is becoming one of the most lucrative business models for online, social and mobile games. This new business model represents one segment of the emerging “free-to-play” or “freemium” model of games, which differs from conventional models by offering free games, while earning revenue by monetizing the user base in some way. The virtual goods economy in such games as Second Life contain economic activity in the form of virtual items that are bought and sold between individuals for actual money. Large and small game developers are turning to these business models as they are growing rapidly in relative importance versus advertising. Techcrunch.com recently reported that the global virtual goods industry was expected to generate $7.3 billion in revenue in 2010.[23]

- 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.[24]

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.[25] 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.[26]

- 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 ESAC reports that over 50% of surveyed firms rely on foreign sales for 90–100% of their revenues.[27] 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.[28]

- 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.[29] 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 cost between $20,000 and $3 million, while boxed retail console games can cost up to $30 million to develop. Both types of games can take more than a year to complete.[30]

Government assistance[31]

- 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 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 convergent 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. Since the creation of the experimental stream, the CMF has invested $44 million in 132 projects. In March 2011, the CMF announced the creation of a Convergent Stream Digital Media Incentive, with an annual allocation of $7.3 million. This program, running in 2011-12, was created to further encourage the production of value-added digital media content that is associated with CMF-funded television productions.[32]
- In 2011-12, 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. 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. All of these projects received support through the OMDC Interactive Digital Media Fund.
- 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 University of Ontario Institute of Technology, in partnership with other academic institutions and a consortium of interactive digital media companies, is researching the user impact of stereoscopic 3D on game development and will establish game design parameters that will be shared with the larger industry.

Profile current as of August 24, 2011

Endnotes

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31 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.
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