

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 (IDM) accounts for a range of interactive content available through a variety of digital platforms and devices including computers, game consoles and mobile devices. This content includes but is not limited to game design and development, cross-platform entertainment, news, interactive training, video and audio.

Ontario is home to a vibrant interactive digital media sector, which includes many thriving independent firms creating award-winning products. Ontario's Drinkbox Studios was a finalist for nine 2012 Canadian Videogame Awards, including Best Console Game, Best Downloadable Game and Best Indie Game for *Tales from Space: About a Blob*. Other Ontario multiple nominees for the 2012 Canadian Videogame Awards include March Entertainment and RocketOwl.

Ontario companies are also receiving international accolades and critical acclaim. Capybara Games has garnered acclaim for their groundbreaking game, *Superbrothers: Sword & Sworcery*. *Time Magazine* included it among their "The Top Ten of Everything" list for 2011, and the game won a Game Developers' Choice award and Best Handheld/Mobile Game award at the International 2012 Game Developers' Conference. *Superbrothers: Sword & Sworcery* was also nominated for Canadian Videogame of the Year, alongside offerings from major console game producers such as Ubisoft and Electronic Arts, and picked up five awards.

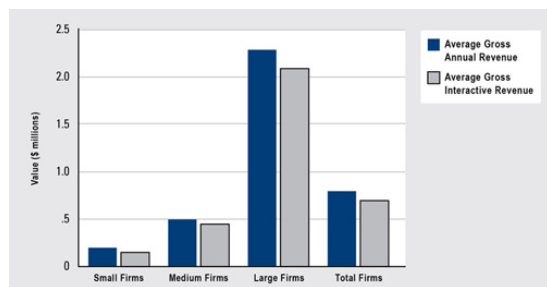
Industry Size and Economic Impact

The following information on revenue, employment and the consumer market should be considered a snapshot of activity in the industry based on the best available information.

Revenues and related figures

- 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.¹
- The same survey revealed that Canadian IDM 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.²
- 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 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.³

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



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

Employment and wages

- 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 billion of which can be attributed to interactive digital media activities.⁴

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, <i>Canadian Interactive Industry Profile 2008</i> , 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 generated between \$1.3 and \$1.5 billion in annual gross revenue and between \$1.1 and \$1.2 billion in interactive digital media revenue.⁵

Digital game industry

(N.B. As of 2012 the North American Industry Classification System (NAICS) includes videogame developers and publishers among their industry classifications; however Statistics Canada data on these industries is not currently available.⁶)

- The digital game industry is a central 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 videogame 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 2015.⁷
- The Entertainment Software Association of Canada (ESAC) reports that the Canadian computer and videogame 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 videogame developers and publishers contribute \$1.7 billion in economic impact to the Canadian economy.⁸

- ESAC also estimates that in Ontario, there were 96 videogame 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 based around traditional console games as other regions such as Quebec—a larger share of Ontario industry resources are allocated to mobile, social and casual games.⁹
- Canada is a major game developing centre. PwC reports that Canada has passed the U.K. as the third-largest developer of videogames, 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 videogame developers, including Ubisoft in Montreal, Quebec City, Toronto and Vancouver, and Electronic Arts in Vancouver, Montreal, Edmonton and Waterloo. French videogame publisher GameLoft has recently set up a digital gaming studio in Toronto, while prominent social game publisher Zynga also opened a studio in Toronto. Investments from the provincial government assist these companies to grow and contribute jobs and economic impact to Ontario.¹⁰

Consumer market

- Globally, consumers are increasingly turning to smartphones, tablets and e-readers to consume digital media content. Each of these devices has its own specific appeal, engaging consumers by offering fast download speeds, excellent visual resolution, portability or relatively low cost. PwC estimates that in 2012, approximately 600 million smartphones will be sold globally, with US \$16 billion in spending on mobile apps. ComScore data reveals that in Canada, smartphone adoption reached 40% in 2011, with 53% of subscribers playing games on their device.¹¹
- ESAC reports that 47% of Canadian households have at least one videogame console, such as an Xbox 360, Wii or Playstation. Roughly 90% of Canadian children aged 6-12 played a videogame 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%).¹²

Trends and Issues

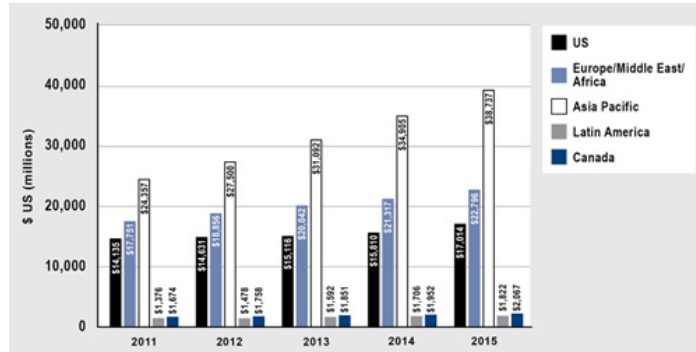
This section provides information on industry growth rates, trends and burgeoning issues for interactive digital media, as well as data on videogames and related advertising.

Growth rate and industry trends

- The global videogame market is projected to have risen 6.8% in 2011 and to continue to expand to US \$82 billion in 2015. Newer 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.¹³

- According to PwC, most of the growth in the digital games market stems from online games, the wireless games sector and videogame 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).

Global Video Game Market Growth 2011-2015



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

- 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. Videogame 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 2015.¹⁴
- 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%.¹⁵
- 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 videogame 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. Videogame advertising in Canada will see strong growth, being closely associated with the U.S. market, which is the largest in the world. Revenues from videogame advertising are projected to reach US \$248 million by 2015.¹⁶
- 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 2006.¹⁷
- Ontario is 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. The *Ontario Business Report* estimates that there are 750 companies in the Greater Toronto Area (GTA) alone working in mobile content development. Companies include Xtreme Labs, which developed best-selling apps such as *Urban Spoon* and BlackBerry's *Groupon* app; Bump Technologies, which Google purchased for a reported \$35 million in 2010; and Social Graph Studios, whose Facebook apps have more than 9 million users.¹⁸

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 has not been part of the standard series of North American industry classifications and codes (NAICS, NAPCS) tracked by Statistics Canada, although videogames will be tracked by 2012. Industry figures for interactive digital media are currently captured by a combination of existing categories such as Software Publishing, Internet Publishing and Broadcasting as well as Computer Systems Design and Related Services.¹⁹ The industry is attempting to address this issue through the publication of the *Canadian Interactive Industry Profile*, which previously surveyed the industry in 2006 and 2008 in an attempt to acquire baseline data about the industry on which to build.²⁰
- 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 videogames, many Ontario companies are highly export-oriented—a study for ESAC reports that over 50% of surveyed firms rely on foreign sales for 90-100% of their revenues.²¹ 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.²²
- Funding and access to capital are also significant issues in this sector. In many cases, companies must sacrifice ownership of their intellectual property—and therefore potential future revenue streams—to ensure that their projects actually reach completion.²³ Ontario's interactive media creators often 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.²⁴
- Crowdsourcing is becoming an alternate source of financing for indie game developers. In the U.S., a dedicated crowdsourcing website for games, 8-Bit, allows independent game developers to pitch their project to site users, gathering microfunding from users in exchange for "perks" such as a special thank you in credits, or pre-orders of games. On the crowdsourcing website Kickstarter, the project which raised the most money to date (US \$3.3 million) was an independently developed game called *Double Fine Adventure*. Funding by crowdsourcing essentially skirts around the need for a publisher to get games to consumers.²⁵

Government assistance²⁶

- Funding is available for interactive digital media projects from the Canada Media Fund (CMF). 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. Figures from the second round of the CMF's 2011-12 funding year show that more than \$16 million was invested in 39 interactive projects. Since the creation of the experimental stream, the CMF has invested \$59 million in 165 projects. In March 2011, the CMF announced the creation of a Convergent Stream Digital Media Incentive, with an annual allocation of just over \$7 million. This incentive was created to further encourage the production of value-added digital media content that is associated with CMF-funded television productions. In 2012-13 for this incentive, the CMF will contribute up to 75% of eligible costs. For the 2012-13 fiscal year, the CMF program budget has been increased by \$4 million.²⁷

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- In 2012-13, Ontario interactive digital media producers have access to public funding through the [Ontario Interactive Digital Media Tax Credit](#), the [OMDC Interactive Digital Media Fund](#), and the [OMDC Export 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. [XMG Studio](#), Canada's largest independent mobile videogame developer, was nominated for seven trophies at the 2012 Canadian Videogame Awards, including Game of the Year, Best Downloadable Game, Best Game Design and the Innovation Award. Their mobile game *Cows vs. Aliens* was first developed as part of an internal "hackathon" where artists and developers spent several days creating without any limitations. The game has also received critical acclaim, including receiving "Best of Show" at Macworld 2011 from *Beatweek Magazine*, and a "Week's Best iPhone App" mention from influential online magazine *gizmodo.com*.

Profile current as of April 30, 2012

Endnotes

- 1 Nordicity, *Canadian Interactive Industry Profile 2008*, pp. 34-37.
- 2 Nordicity, pp. 40 and 105.
- 3 CFTPA, *Ontario Profile 2009*, p. 19.
- 4 Nordicity, p. 10.
- 5 Nordicity, p. 97.
- 6 Statistics Canada, *Conceptual Framework for Culture Statistics, 2011*, pp. 45-48.
- 7 PricewaterhouseCoopers (PwC), *Global Entertainment and Media Outlook: 2011-2015*, pp. 59 and 392.
- 8 Entertainment Software Association of Canada (ESAC), *Canada's Entertainment Software Industry in 2011*, p. 6; Hickling Arthurs Low, *Canada's Entertainment Software Industry: The Opportunities and Challenges of a Growing Industry*, March 2009, i.
- 9 ESAC, *Canada's Entertainment Software Industry in 2011*, p. 11.
- 10 PwC, p. 393; Etan Vlessing, "Game Time for GameLoft In Ontario As French Player Opens Local Studio With Tax Credit Coin," *Hollywood Reporter*, July 15, 2011; Liana B. Baker, "Games publisher Zynga buys Canadian mobile aps co," www.reuters.com, July 8, 2011.
- 11 PwC, p. 29 and 30; comScore, "Smartphone adoption reaches 40% in Canada," www.comscore.com, November 30, 2011.
- 12 ESAC, *2010 Essential Facts About the Canadian Computer and Video Game Industry*, pp. 4-5.
- 13 PwC, p. 63.
- 14 *ibid*, pp. 387-393.
- 15 *ibid*, p. 167.
- 16 *ibid*, pp. 396-401.
- 17 Nordicity, p. 52.
- 18 Stuart Weinberg, "Toronto Becoming a Hub for Mobile-Apps Companies," *Wall Street Journal*, July 23, 2010; Ontario Business Report, "T-APP: Toronto's ever growing app market," www.ontariobusinessreport.com.
- 19 Nordicity, pp. 11-12.
- 20 Statistics Canada, "Revision of the North American Industry Classification System," www.statcan.gc.ca.
- 21 Hickling Arthurs Low, i. 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).
- 22 SECOR Consulting, *Ontario Media Development Corporation: Towards a Strategic Plan*, September 2008, pp. 9-10.
- 23 *ibid*, p. 11.
- 24 ESAC, *Canada's Entertainment Software Industry in 2011*, p. 10. The ESAC notes that the sample size used for gathering data on the cost of developing console games is small, and results should be interpreted with caution.
- 25 www.crowdsourcing.org; Chad Sapieha, "Is Kickstarter a new way to cut game publishers out of the picture?," *The Globe and Mail*, March 23, 2012.
- 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.
- 27 Canada Media Fund (CMF), News Releases, "CMF invests \$16.8 million in 51 new interactive projects," July 5, 2011; "Canada Media Fund announces preliminary program budget and performance envelopes for 2011-2012, and the creation of a new Convergent Stream Digital Media Incentive," March 31, 2011; "CMF Announces New Two Year Program Guidelines and 2012-2013 Program Budget," April 3, 2012.