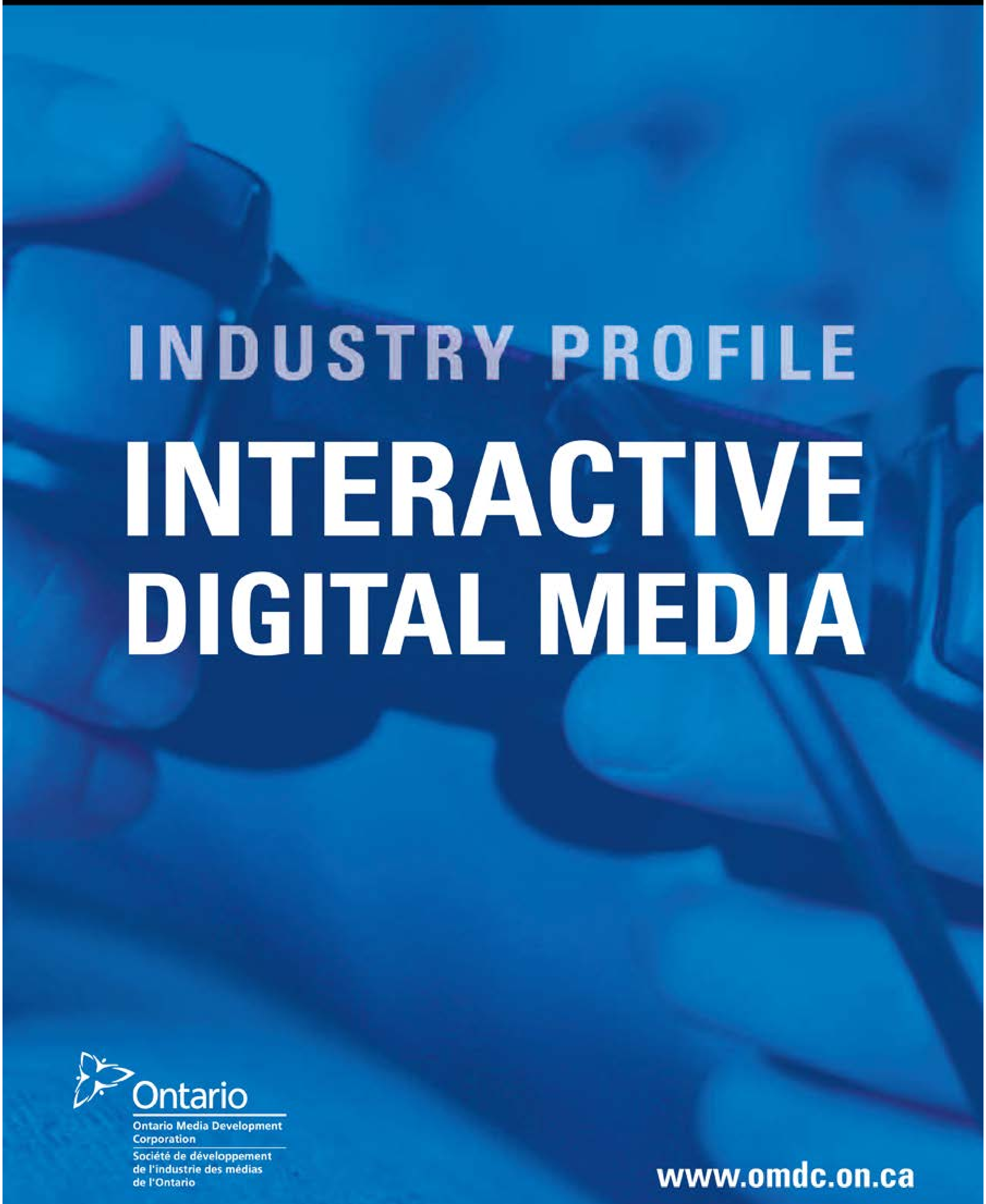
ONTARIO MEDIA DEVELOPMENT CORPORATION



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 (such as an Xbox, Wii or Playstation) and mobile devices. This video and audio content includes, but is not limited to, game design and development, cross-platform entertainment, news and interactive training.

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' ground-breaking game *Superbrothers:Sword & Sworcery* was named as a top ten video game on*Time Magazine's* "The Top Ten of Everything" list for 2011, and 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.

Ontario game developer Digital Extremes was recently selected for the fourth year in a row as one of Mediacorp Canada's Top 100 Employers as well as earning their third award as one of Canada's Top Employers for Young People.

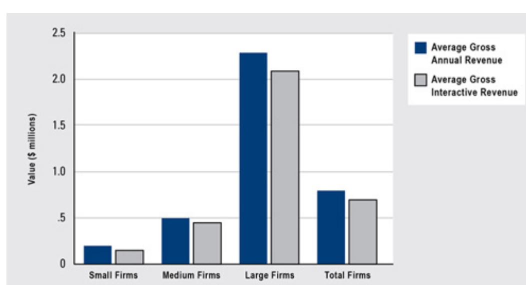
Industry Size and Economic Impact

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]

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 Canadian IDM companies had 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]

- The Entertainment Software Association of Canada (ESAC) estimates that the Canadian computer and video game industry has a direct impact of $1.7 billion on the Canadian economy, with Canada's industry ranking third in the world, based on number of employees.[4]

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.[5]

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 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.[6]

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.[7])

- 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 $1.7 billion — a 4.8% 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.[8]
- ESAC reports that the Canadian computer and videogame industry comprises nearly 350 companies, employing almost 16,000 people. The sector grew by 11% from 2009-2011 and is expected to show 17% growth annually to 2013.[9 and 10]
- 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 and the province is home to the greatest number of micro and small companies in Canada.[11]
- 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 curricula. 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 and prominent social game publisher Zynga have also set up digital gaming studios in Toronto. Investments from the provincial government assist these companies to grow and contribute jobs and economic impact to Ontario.[12]

Consumer market

- PwC reports that, in 2011, over 400 million smartphones were sold globally, with US $11 billion in spending on mobile apps. ComScore data reveals that, in Canada, smartphone adoption reached 8 million people or 40% of the mobile market in 2011, with 53% of subscribers playing games on their device. As the adoption of newer digital devices increases, consumers have more choice around when and how to consume digital media content. In one recent Canadian consumer study, 48% of those surveyed reported owning a smartphone with a data plan in the fourth quarter of 2012. Eighty percent of smartphone owners used the browser and 63% reported watching a video clip. Between 2008 and 2012, the usage of smartphones in Canada to access video content increased over 500%. Tablet owners in Canada are even heavier media content users, reporting playing more games, accessing more entertainment content and more TV channels or apps than smartphone owners.[13]

- Increasingly, Canadians are using multiple screens and devices to access Internet content. Recent data from Media Technology Monitor reports that half of Canadian Internet users own at least two types of screens, while 3% have four screens available (tablet, computer, smartphone and Internet-enabled TV). These "four screen Canadians" are much heavier users of Internet video and TV than their counterparts. Among Canadians who own gaming consoles, 15% stream video on their console and, for the majority, watching Netflix is the primary activity. As game consoles transition to media hubs, consumers will see more media offerings packaged for distribution on these devices.[14]

- ESAC reports that 61% of Canadian households have at least one game console. The number of game devices in households in Canada (excluding computers) has increased significantly since 2010. Fifty-eight percent of Canadians are gamers, and the percentage rises to 90% among Canadian children and teenagers.[15]

Trends and Issues

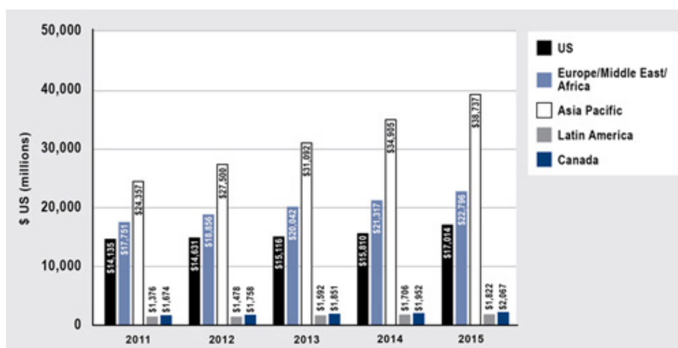
This section provides information on industry growth rates, trends and burgeoning issues for interactive digital media, as well as data on videogames and related advertising.

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.[16]

- 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). 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.[17]

Global Video Game Market Growth 2011-2015



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

- 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.[18]

- Canada's application development industry is in full swing. App development in Canada generates $775 million per year, according to a study by the Information and Communications Technology Council (ICTC). Revenues are expected to reach $2.2 billion for this industry by 2016. ICTC finds that 40% of Canadian app developers focus on service work, while 60% work on both their own original IP and service work for clients. Within Canada, 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.[19]

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 had not been part of the standard series of North American industry classifications and codes (NAICS, NAPCS) tracked by Statistics Canada until the creation of NAICS codes for some digital media activity in 2012. Statistics Canada has no current plans to collect data for these new categories. Industry figures to date for interactive digital media have been captured by a combination of existing categories such as Software Publishing, Internet Publishing and Broadcasting as well as Computer Systems Design and Related Services.[20] The industry is attempting to address this gap itself through the periodic 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.[21]

- 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. A recent research study for the Canadian Interactive Alliance (CIAIC) addressed the issue of financing in this industry, and found that challenges exist, particularly with respect to access to venture capital for seed and early stage growth, across the country. Interactive companies also face barriers to securing loans for operating cash flow. With respect to video games, 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. Many Ontario companies have achieved success on the world stage but, in general, their small size means market access and establishing foreign relationships are often hurdles.[22]

- A recent study by the Mobile Experience Innovation Centre (MEIC) updates research on Ontario's mobile ecosystem, and projects that the province's mobile industry will see continued growth over the next five years. It finds that Ontario mobile companies have an opportunity to be global leaders, in part due to the high quality of local talent, ideal locations with access to major cities and a supportive public sector. Their study found that surveyed firms mainly sell games, followed by productivity apps. It also found that nearly half of the companies export their products and services, primarily within North America, and that they have participated in the mobile market for an average of four years.[23]
- 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.[24] In addition to the lack of predictable sources of seed and interim capital to fund initiatives, 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.[25]
- Crowdsourcing is becoming an alternate source of financing for independent game developers. In the U.S., a dedicated crowdsourcing website for games, 8-Bit, allows indie game developers to pitch their projects 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 $6.2 million) was the game *Star Citizen*, in development by independent game developer Chris Roberts. Funding by crowdsourcing essentially avoids the need to have a publisher in order to get games to consumers.[26]

Government assistance[27]

- 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. Eligible projects under the experimental stream are limited to digital media content or software that is innovative, interactive and connected to the Canadian cultural sector; projects that are associated with a film or television production would be eligible under the convergent stream.[28] Figures from the second round of production support from the CMF's 2012-13 funding year show that more than $10 million was invested in 15 interactive projects in the experimental stream. Since the creation of the experimental stream, the CMF has awarded $69 million to 127 projects that have applied for production support. 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, through 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.[29]

- In 2012-13, Ontario interactive digital media producers have access to public funding through the Ontario Interactive Digital Media Tax Credit, the Ontario Media Development Corporation (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 OMDC-supported 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 November 20, 2012

Endnotes

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