
Interactive Media Industry Forum 3.0

Focus Group Report: Highlights

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July 2008



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1. CONTEXT

This report deals with comments expressed by the more than fifty representatives of companies from various sectors of the Canadian interactive media industry (game, animation, web, etc.) who took part in one of the five meetings (Toronto, Montréal, Vancouver, Saskatoon and Charlottetown) of the **Interactive Media Industry Forum 3.0**, jointly organized by the Department of Canadian Heritage and Telefilm Canada. It also covers the responses of people who completed a questionnaire posted on the Telefilm Canada website.

Following a Summative Evaluation of the Canada New Media Fund (CNMF), the Department of Canadian Heritage was asked to conduct a study of the needs and evolution of the interactive media industry in order to identify means and actions apt to encourage the creation of interactive digital works as well as the national and international development and promotion of the Canadian industry. To that end, Canadian Heritage and Telefilm Canada engaged an interactive media consultant to organize and report on these meetings.

The roundtables, or focus groups, dealt with three themes in particular:

- Access to financing
- Access to qualified resources
- Innovation, research and development (R&D), and the creation of intellectual property (IP)

Each theme was approached with a few general questions designed to generate open discussion and elicit comments. Participants were asked to share their respective experiences and perceptions in regard to the theme, taking a broad view and without dwelling on the procedures or management of the various CNMF components or any other measure.

Each of the meetings, which lasted an average of 3.5 hours, was led by a moderator from the region concerned. While the moderators generally followed the planned agenda, they each brought a personal touch to the proceedings and asked complementary questions.

Because the meetings were restricted to invitation-only participants, Telefilm expanded the comment pool by hosting a Forum 3.0 portal on its website to gather input from people unable or not invited to attend.

2. REPORT CONTENT

This report comprises **two parts**. The first part presents **highlights** of the comments relative to each theme expressed by meeting participants or received via the Telefilm website. The second part, in table form, consists of a **summary account** of participant remarks presented by meeting and theme. This presentation will allow Canadian Heritage and Telefilm Canada representatives to review the main comments voiced at each meeting and easily discern the commonalities or differences from group to group.

The highlights are presented according to the three themes discussed at the meetings. For the most part, they point to the commonalities among the different groups. From time to time, regional or sector-specific differences (e.g. game vs. web) are noted.

3. HIGHLIGHTS

3.1 General Observations

- In all, 54 participants came to discuss the three themes on the agenda. They are broken down in the following table by meeting location and activity sector. It bears noting that some participants were from outside the city where the meeting was held (e.g. Quebec City, the Mauricie region and Winnipeg in the case of Montréal for French-speaking participants; Edmonton, Winnipeg, Regina and Calgary in the case of Saskatoon; Halifax and Moncton in the case of Charlottetown).

Breakdown of participants by activity sector and focus group location

	Game	Animation	Web/TV	Mobility	Internet	Other	Total
Toronto	3	1	4	1	1	2	12
Montréal	4	0	2	0	5	0	11
Vancouver	3	2	1	1	2	1	10
Saskatoon	5	0	1	0	5	0	11
Charlottetown	5	1	1	1	0	2	10
Total	20	4	9	3	13	5	54

Telefilm Canada and Canadian Heritage representatives also attended the meetings.

- Overall, participants felt the meetings were useful. They said that meetings of this sort should be held more often, because they allow participants to share their knowledge and get a better grasp of each sector's reality, while providing an opportunity to address specific topics with Telefilm Canada and Canadian Heritage representatives.
- The companies have many points in common and operate in similar situations, irrespective of geographic location or activity sector. However, there are differences among the sectors; for instance, the experience of the video game sector does not necessarily have an equivalent in the web or mobility field. This finding holds true even within sectors: the console game sector does not face the same situations as the online or mobile game sector.
- The Vancouver, Toronto and Montréal groups voiced more concern about intellectual property matters than the Saskatoon and Charlottetown groups.
- Some groups were more successful than others at adopting a broad perspective, rather than dwelling on the specific needs of their sector or platform.
- There were many comments about marketing, even though it was not on the agenda. The success of the participant's productions and the growth of their companies depend on marketing, but they lack financial resources and expertise in this area.
- Other topics were also raised: the multiplication of platforms, changes to the value chain, the shift from a supply approach (limited content and distribution networks) to a demand approach (unlimited content available at all times), etc.

- SMEs in the Prairies and the Atlantic Provinces have limited knowledge of the programs (including the CNMF) available to support interactive content industry development in their provinces. These regions are less well equipped with support and representation infrastructure than Montréal, Vancouver or Toronto, where industry and sector-based associations keep companies informed. People would like to see better communication among companies and with the various levels of government.
- SMEs are aware that education and awareness efforts are needed at government levels and in the financial sector (banks, private funds and venture capital) to help people understand the particularities and needs of the interactive media industry.
- A number of participants said that Telefilm Canada and the CNMF have played an essential role in structuring the interactive media industry, especially for companies that develop products unrelated to broadcasting. For these companies, the CNMF is the only way to finance projects, other than tax credits in some provinces. The other funds, such as Bell Fund and Quebecor, are private sources oriented to convergence production.
- Of all the themes, financing generated the most comments.

3.2 Access to Financing

- All of the groups dealt with nearly the same themes in their respective meetings, but each one concentrated on some subjects more than others.
- The comments focused mainly on: lack of financing in many areas, difficulties in putting financing together, the funding application process, the need to adapt the funds to interactive media industrial realities, the fund's objectives, operating on a project-by-project basis, broadcaster-web producer relations, risk-averse financiers, lack of information on existing funds, and a desire to see Internet service Providers (ISPs) contribute financially to content creation. The SMEs also expressed a number of wishes.
- Most of the SMEs stressed the shortage of financing available to support original content creation (particularly in the convergence and serious gaming sectors), corporate start-ups, operating costs, export and marketing. They also pointed to a significant imbalance between the monies allocated to interactive media and the monies for television and film, proportionate to the jobs and revenue these sectors respectively generate.
- Contrary to the TV and film sectors, the interactive media sector does not benefit from a federal tax credit. Furthermore, some provinces do not have tax credits specific to the interactive media industry (Alberta, Saskatchewan, New Brunswick).
- The lack of money and adapted financing tools makes it more difficult to put together solid financing. The projects are modest because the available financing is modest.
- SMEs need long-term (3-5 years) patient capital, because the product development cycles are long.
- The console game industry is based on a single financing model. Everything goes through the publishers, who have the means to invest large amounts in game

production. To access this financing, independent developers are forced to relinquish control of intellectual property.

- Financing French-language content remains problematic due to the limited market, a situation not faced by English-language products.
- The vast majority of SMEs earn revenue by servicing clients. This revenue goes to finance content or intellectual property development.
- Timing and timeframes are critical for SMEs. The longer it takes to analyze a project and make a decision, the more a project can lose its original or innovative appeal. This results in missing good opportunities for companies and the industry.
- SMEs want the funding application process simplified so that it takes less of their time and energy. They say that interactive projects are scrutinized more closely than others. And that they work harder for less money than in other sectors. They also want to see the terminology used by governments brought up to date.
- Access to venture capital is very limited. Few venture capitalists understand the interactive media industry and how it works. They tend to invest in technologies or companies, rather than projects. Also, they are very demanding.
- SMEs are dissatisfied with the per-project operating model. The notion of annually completed projects does not reflect reality in this industry, where projects are ongoing. Furthermore, unlike the film industry, which uses freelancers, the interactive media industry is staff-based. The per-project model is hard to manage, as well, because funding is received only when the project is 75% completed, and it takes time before revenue comes in. As a result, companies need solid working capital in order to pay their employees and avoid losing them.
- What objectives should the CNMF pursue? Should it favour cultural (original Canadian content creation, intellectual property control), industrial (job creation, sustainable industry) or commercial (revenue, audience) objectives?
- Web content and 3D animation producers said that their projects do not fit the current funding programs because they do not correspond to the definitions of new media and interactivity.
- A number of SMEs need information on industry assistance and support programs. They would like to have access to a descriptive directory (eligibility criteria, obtainable amounts, procedures) covering all assistance and support programs available and useful to their industry.
- Most would like to see ISPs and mobile phone operators contribute to financing the interactive media industry, the way cable operators do in the television sector.
- In the convergence product sector, broadcasters are said to have too much influence in triggering and financing projects.
- Among the wishes expressed by SMEs:
 - More money
 - Financial support for working capital
 - Increased Telefilm share in projects

- Broader interpretation of the concept of project
- Revised definitions
- Business incubators
- Centralized information on assistance and support programs
- Simplified, faster processing of funding applications

3.3 Access to Qualified Resources

- To different degrees, all regions and all industry sectors (game, web, animation, and mobility) are suffering from a shortage of experienced, qualified labour. Several types of expertise and skills are lacking: middle and senior managers, marketing and project management specialists, experienced professionals (level designers and advanced programmers), legal and financial specialists, administrators with a keen business sense and knowledge of best industry practices, etc. The shortage is forcing companies to turn down jobs, hindering their growth and development of the Canadian interactive media industry.
- SMEs work hard to retain employees and key talent who can take advantage of the shortage to move to another company offering better conditions. They cannot afford to lose such employees, because it produces an industrial and strategic knowledge drain and alters the team dynamic. Some companies, namely in the console game sector, even risk hiring before they have signed agreements to produce a game.
- Some regions (Prairies and Atlantic Provinces) find it difficult to retain their best talent, either because they lack financial resources or because people prefer to work in large Canadian or American urban centres that boast a critical mass of companies and interesting projects. It is even harder to attract key talent from other areas, since they are not naturally inclined to work in these regions.
- SMEs in the web, convergence and mobility sectors cannot compete with conditions offered in the game sector.
- In terms of salaries, SMEs are under considerable pressure from multinationals like Ubisoft in Quebec, which takes advantage of tax credits to offer better wages to graduates from other provinces, recruiting them straight out of school.
- The project-by-project financing and operating model is not conducive to maintaining and retaining a staff. It takes resources (working capital) to keep people on between projects. Companies in all regions are feeling the need to cooperate.
- Conventional employee prospecting is costly and does not produce good results. SMEs are developing new approaches and making increasing use of the Internet (e.g. Gamasutra) to recruit candidates. They also take advantage of events like the Game Developers Conference (GDC) to attract applicants. Efforts are being made to draw more women to the game sector, particularly to the creative end of the business.
- SMEs are not very enthusiastic about outsourcing. They often take this approach out of necessity (lack of personnel, cost cutting, production imperatives, tight delivery deadlines). A number of companies prefer to handle projects in-house or to use

Canadian suppliers with recognized skills, rather than foreign companies with less efficient work methods and work quality not up to industry standards.

- A new trend in British Columbia. Partners form a pool of top-flight talent to work from project to project, and the less specialized jobs are outsourced. This cuts costs, since the companies save on salaries when there is no production.
- Participants said they would like to see government incentives for Canadian companies that outsource within Canada, because they help create businesses and keep expertise at home. They would also like to have a national database of Canadian companies to facilitate finding suppliers.
- Companies mainly outsource production operations and focus their energies on product development and marketing.
- In most regions, the education system does not meet the industry's needs or expectations. There are not enough programs, and the existing college and university training programs are too general. The graduates are insufficiently trained, and most of them lack basic skills (versatility, the ability to work in a multidisciplinary team). The teaching institutions do not seem to understand SME needs. Across the country, SMEs stressed the importance of working with the education community to raise standards. Some companies are in contact with teaching institutions to help them develop suitable programs.
- The programs currently available or in development are primarily targeted to the game industry, which drains most of the graduates. This leaves little choice for companies in other sectors.
- Few steps have been taken to get young people interested in the industry's professions. In Quebec, the game sector has organized and created information and promotion tools (macarriereenjeu.com). In Saskatchewan, the Job Start program helps companies hire and train young newcomers. The federal Department of Human Resources should be more active in this area.
- To make up for the lack of training, experienced SME employees have to devote much of their time to mentoring and coaching. However, some SMEs in the Atlantic Provinces say they do not have the human and financial resources to do this. The government should recognize the efforts of companies that provide in-house training.
- The internship model is not satisfactory. The internships are too short and budgets are too tight to allow for them. Some SMEs said that this is a place where government should step in.
- Jobs in the Canadian industry are not yet properly classified and defined. The existing classification (North American Industry Classification System under NAFTA) is not designed for emerging industries and will not be reviewed until 2012. This has economic and administrative impacts.
- Among the wishes expressed by SMEs:
 - Build a national database of Canadian companies
 - Support Canadian companies that outsource to other Canadian companies
 - Develop internships in companies
 - Recognize company efforts to train employees (coaching, mentoring, etc.)

- Establish training programs adapted to industry needs

3.4 Innovation, R&D and Intellectual Property

- All SMEs from all regions consider it important to have R&D activities; R&D enables them to stay at the forefront of developments in their sector and gives them a competitive edge over Canadian and foreign competitors.
- R&D is perceived as a lengthy (18-36 months to develop a prototype) and financially high-risk process. Timing is crucial, because an idea too far ahead of the market or based on a waning technology can result in failure. The right to make mistakes is not yet well rooted in industry practices, nor accepted by the financial sector.
- The vast majority of SMEs make use of provincial or federal R&D tax credits. Relatively simpler to obtain than other forms of assistance, these credits are the main source of public funding in many cases. They have enabled some SMEs to develop and become what they are today. They also can facilitate the search for complementary financing.
- One company said that Canadian companies in the interactive media industry do not invest enough in R&D, claiming that they devote less than 10% to this activity when they should be investing at least 30%.
- The companies that do not have a technological line and thus do not qualify for R&D credits would like to see the equivalent for R&D in content or strong brand creation.
- The government must ensure an environment conducive to R&D and innovation if Canada is to maintain a competitive edge on the international scene.
- R&D and innovation should not be supported by companies and governments alone. There should be private financing as well. Education is needed in this regard.
- All participants clearly understood the advantage of developing and owning intellectual property: a success can be very profitable and provide the means to develop another. To do this, they must have the ability to identify market trends.
- There is no need for everyone to own and exploit intellectual property. It requires substantial investment, and IP is worth nothing if the company lacks the means to take advantage of it. And it takes mechanisms to effectively protect IP, in Canada and abroad. In this regard, SMEs lack technical knowledge of the markets. They would also benefit from an entity to help them negotiate more favourable agreements.
- The Quebec SMEs, particularly in the web sector, are more concerned with the idea of IP ownership.
- To develop intellectual property, SMEs in all sectors draw on revenue derived from service activities.
- The idea of wanting to develop and retain intellectual property will lead chiefly to foreign publishers buying up independent developers. There are no real Canadian publishers.
- It is easier to retain technology IP than content IP. However, the former is much less valuable than the latter.

- It is easier to control IP in the web field than in other sectors, namely the console game sector, where most independent producers cede the IP rights to their products to foreign publishers with the means to invest in projects costing an average of \$10 million. Independent developers are counting on online distribution to set them free from publishers one day.
- The notion of intellectual property is hard to grasp and define in the web 2.0 sector, where open source technologies are employed and users often contribute to content creation.
- In this multiplatform exploitation context, Canadian SMEs recognize that they must revisit their business plans and find better ways to share intellectual property.
- Collaboration between the university community and the industry seems to work better in some regions of Canada (Toronto, Vancouver) than in others. However, working with universities presents a challenge, since their agenda differs from the SME agenda when it comes to marketing and making money from the projects. There should be more partnerships like Mobile MUSE (BC) to provide university researchers and SME talent with an environment that encourages innovation. SMEs and teaching institutions need to forge closer ties in several regions.
- Some participants pointed out that Telefilm has little flexibility as to the number of projects it can support.
- Among the solutions proposed by SMEs to encourage IP development and control in Canada:
 - Extend R&D credit to content creation.
 - Relax project submission rules, particularly for proven SMEs, and adopt the procedures for TV where choices are based on pilots.
 - Increase the per-project funding amount for development.
 - Establish a publisher for Canadian companies, similar to what exists for film (National Film Board) and television (Canadian Broadcasting Corporation).
 - Invest in projects with strong commercial potential.
 - Develop incentives to keep IP in Canada.