Ontario Media Development Corporation: Towards A Strategic Plan

Helping Ontario Firms Compete in the Global Creative Media Market

September 2008

Ontario

Ontario Media Development Corporation

“ Arts and culture are more than just an outlet for creativity. Ontario’s cultural industries support thousands of jobs, build strong, vibrant communities and draw visitors here from all over the world.”

– Ontario Premier Dalton McGuinty[1]

In 2002–03, the total GDP impact of the Canadian-owned publishing industry was estimated to be close to $510 million for Canada and about $428 million for Ontario. The corresponding employment figures are 5,066 for Canada and 4,604 for Ontario.

Source: Economic Impact of the Canadian-Owned Publishing Industry, Pollara, 2004

“ It’s always great to come back here to work. I mean, the Canadian industry is mature enough, and the facilities and the infrastructure are so deep and so broad... it’s no longer just the place to go to get a tax break. It is the place to go because that’s where you’re going to get the best crew. It has always been my hope for the Canadian industry to realize just how good we are.”

– Canadian actor Joshua Jackson, commenting on his experiences in Toronto shooting the Ontario feature film ONE WEEK and the Warner Bros. television pilot FRINGE. (Toronto Star, September 8, 2008)

“ The OMDC has done a great deal to help our business grow since the beginning and programs like the OMDC Export Fund have allowed us to form some of our most important business relationships.”

– Capybara Games

“ The value of the magazine sector in Canada is $1.56 billion. Ontario has over 75% of the activity (jobs/revenue) and exports more than half of magazine production to other provinces and territories.”

– Magazines Canada

“ How lucky we are to have the OMDC! NorthernBlues has had several successes because of the OMDC – signing an advertising deal with Coca-Cola, distribution in Scandinavia, and the production of a CD which earned a JUNO (Paul Reddick’s Revue). Wow!”

– NorthernBlues Music

“ ... the economic footprint of the culture sector was approximately $84.6 billion in 2007, or 7.4 per cent of Canada’s total real GDP...”

– Conference Board of Canada, Valuing Culture: Measuring and Understanding Canada’s Creative Economy, 2008.

[1] Quoted in Moving Forward, Together: The Ontario Liberal Plan for Creative People, Prosperous Province, 2007, p. 1.

Summary of Key Findings

THE CREATIVE MEDIA INDUSTRIES

- The creative media industries – film, television, book and magazine publishing, music, and interactive digital media – have an important role in enhancing Ontario's competitiveness and in driving economic growth.
- Ontario's creative media industries operate in a dynamic environment and they must adapt their competitive strategies and business models to take advantage of emerging technologies and changing markets.
- Ontario's creative media industries confront an array of competitive challenges. The challenges include company size, globalization, and emerging technologies – and they are inter-connected in ways that increase their impact on the competitiveness of Ontario firms.

STAKEHOLDER VIEW OF OMDC

- Stakeholders see the OMDC as Ontario's key agent in their sector and as a catalyst for future growth and development. SECOR Consulting found that stakeholders in the creative media industries are generally satisfied with OMDC. OMDC programs have had and continue to have a major impact on each sector's success, and firms see continued support as essential and even critical in helping them to grow and compete in the years ahead.
- Stakeholders would like more clarity in OMDC's strategy and objectives. The OMDC grew out of the old Ontario Film Development Corporation, which many stakeholders see as having had a clear and more focused mandate.
- Stakeholders would like greater transparency about the criteria by which resources are allocated by OMDC among different sectors, and about the metrics for assessing applicants and for measuring program success.
- Stakeholders would like to see more flexibility on the part of OMDC to adapt and tailor programs to specific objectives and the needs of different sectors.

Ontario Media Development Corporation Towards A Strategic Plan

Helping Ontario Firms Compete in the Global Creative Media Market

In 2007, the Ontario Media Development Corporation engaged in a process to research and inform a strategic plan to ensure the OMDC continues to be relevant and effective in fulfilling its mandate of stimulating employment and investment in Ontario's creative media industries. SECOR Consulting Ltd. was retained to carry out the research, stakeholder engagement and analysis.

The goal was to understand global trends, assess their impacts on Ontario firms, and advise how Ontario might strengthen support for its creative media industries in a fast-changing environment. Consulting with over 100 stakeholders, SECOR found a consensus among stakeholders about the importance of strategic clarity, streamlined programming and long term planning for the OMDC.

This document presents highlights of the findings of this strategic planning work.

The OMDC would like to thank SECOR Consulting for their thorough and thoughtful research and analysis. The agency would also like to thank senior staff from the Ministries of Culture, Finance, Economic Development and Trade, and Research and Innovation along with our Industry Advisory Committees and stakeholders from across all sectors for their significant contribution to the content, innovative ideas, and themes contained in this plan.

Ontario is home to world-class talent and award-winning creative content.


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Photo: Stephen Scott


Photo courtesy of CARAS/iPhoto Inc.

Clockwise from top left: Sarah Polley's feature debut *Away From Her* garnered seven Genie Awards; Epitome Pictures Inc.'s internationally acclaimed *Degrassi: The Next Generation*; Feist's album *The Reminder* (Arts&Crafts*EMI) won five JUNO Awards; Xenophile Media's *Totally Dramatic Island* series and online game; *This Magazine*, winner of the Best Newstand Issue, Small Magazine, at the 2007 Canadian Newsstand Awards; the annual Trillium Book Award honours Ontario's globally-renowned authors.

Introduction

As newly industrialized nations increasingly move into the manufacturing sector with a significantly lower cost base, employment in the Canadian economy is gradually shifting emphasis from goods-based production industries to knowledge-based service industries. The Province of Ontario is a key player in this economic shift. It is becoming more widely acknowledged that the industries that make up the Entertainment and Creative Cluster are a massive economic engine propelling Ontario's economy forward by creating intellectual capital and product that return investment to the Province today and for the future.

These industries attract and retain our most highly-educated and highly-skilled people in a variety of well-paid and innovative knowledge economy jobs. Compared to the rest of Canada and the United States, Ontario has a higher proportion of those workers,[2] meaning that the Province is well-positioned to remain a centre of excellence in innovation and creative media content creation.

The Government of Ontario is increasingly recognizing the value of investing in Ontario's creative media companies to build their potential as a key economic driver in the Province. The Entertainment and Creative Cluster operates within a global framework; the Province's future success will depend on our ability to maximize the domestic and global opportunities within the Cluster and the global markets of the twenty-first century.

[2] "Toward 2025: Assessing Ontario's Long-Term Outlook," Ontario Ministry of Finance, 2005.

The creative media industries as engines of growth

The importance of innovation and the knowledge-intensive industries to the future prosperity of advanced economies – especially manufacturing economies like Ontario's that are undergoing structural change in the face of global low-wage competition – is no longer news.

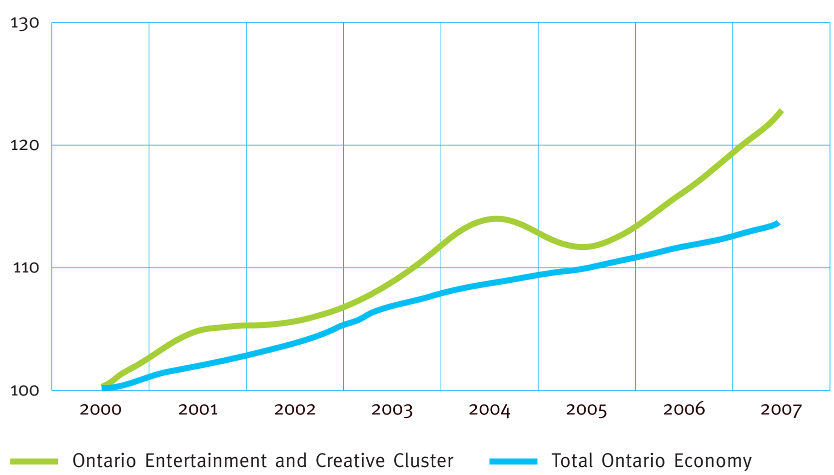
What is new is our understanding of the role of the creative industries – film, television, book and magazine publishing, music, interactive digital – in enhancing competitiveness and driving economic growth.

Not only do Ontario's entertainment and creative industries generate prosperity, contributing nearly $9.9 billion to Ontario's economy in 2006[3] – and the cultural industries are key to this contribution, contributing more than $6.7 billion[4] in revenues – just as importantly, as economist Richard Florida has pointed out, they attract creative people and other knowledge workers to the regions in which they are located.

Ontario's entertainment and creative cluster is a cornerstone of Ontario's new innovative economy and is the third largest in North America by employment after California and New York.

EMPLOYMENT IN ENTERTAINMENT AND CREATIVE INDUSTRIES GROWING FASTER THAN IN REST OF ECONOMY

(Employment Index: 2000=100)



Source: Statistics Canada's Labour Force Survey and Ontario Ministry of Finance

Such creative regions become self-perpetuating engines of growth – because of the creative industries themselves, and because of the educated workers and knowledge-based businesses that talent, diversity and culture draw to Ontario communities.

[3] Figure developed by Ministry of Finance for the 2006 Ontario Budget, based on Statistics Canada's North American Industry Classification reports.

[4] Economic Impact of Cultural Industries in Ontario, Statistics Canada, Standard Table, Industry and Special Reports.

Ontario is in a strong position to benefit from the transformative economic and social potential of the creative media industries:

- Ontario has had an exceptional history of support to the creative industries through its pioneering tax credit regime. In order to maintain international competitiveness it will be important to develop innovative approaches to financing and investment in the industries.

  With a diverse entertainment and creative cluster that includes film and television production, music, book and magazine publishing, and digital media (for example, digital special effects and interactive products such as video and computer games), and with individuals and firms that are recognized international stars, Ontario's creative media cluster has the critical mass to become a global player.
- The Government of Ontario has recognized the growing economic importance of its knowledge-based, copyright and content-producing sectors by striving to create an innovation culture across the province. The Ontario Ministry of Finance has identified the entertainment and creative industries as one of three sectors that are projected to have faster-than-average employment growth over the next twenty years. With employment of 292,000, Ontario's Entertainment and Creative Cluster is already the third largest such cluster in North America, after California and New York.

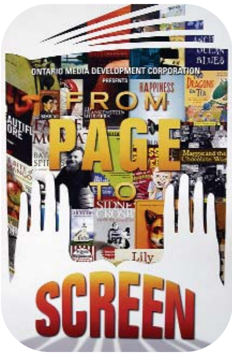
Between 1999 and 2007, Ontario's entertainment and creative cluster created over 80,000 net new jobs, an increase of 38.3 per cent, compared with 17 per cent in the overall Ontario economy. In 2007, Ontario employment in the cluster totalled approximately 292,000 people – 43 per cent of Canada's total workforce in this cluster.

- Ontario as a matter of policy supports research, innovation and the knowledge-intensive sectors – of which the creative media industries are a part – a priority that was reaffirmed in the 2008 Provincial Budget.
- In the Ontario Media Development Corporation, Ontario has an experienced and respected leader in delivery and development of programs and industry research that can serve as catalyst for the global competitiveness of the sector.

The OMDC as the focal point for Ontario's creative media industries...

Ontario's creative media industries must continue to adapt their competitive strategies and business models to take advantage of emerging technologies and changing markets.

OMDC's From Page to Screen event brought together over 40 Ontario publishers and film and television producers to promote potential screen adaptation of Canadian fiction, nonfiction and children's literature from Ontario publishers. The successful event allowed OMDC to leverage some of the relationships it has been building across publishing, film and TV industries.



Deborah Bjorgan, VP Marketing and Sales, Maple Tree Press with Frank Siracusa, Executive Producer, Whizbang Films

Ontario's creative industries: The competitive challenges

All of Ontario's creative media industries confront the same kind of competitive challenges. The issues have to do with size, globalization, and emerging technologies – and they are inter-connected in ways that increase their impact on the competitiveness of Ontario firms.

ECONOMIES OF SCALE

Smaller firms and firms with smaller domestic markets have higher unit costs than firms which can spread their expenditures (including distribution costs and investments in new technologies) over larger production runs and across larger consumer markets. Firms without economies of scale must charge higher prices or accept lower margins.

Scale is particularly an issue for Ontario's book and magazine publishers, music, film and television producers, and the interactive digital media sector.

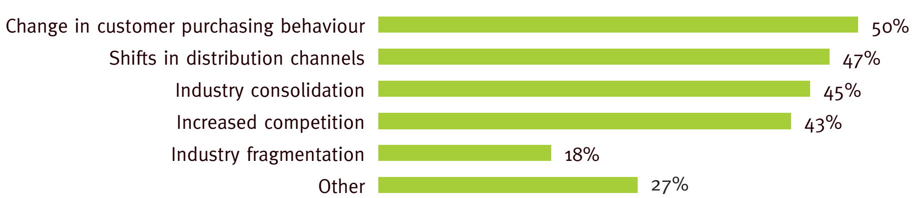
The scale problem is compounded for creative media industries because it means they can't pay as much for their key resource: talent. For example, Canadian authors who achieve success are likely to migrate from Canadian firms to multinationals which pay more and have easier entrée to larger markets. The same holds true for talent in other media.

Canada accounts for just 3% of the $500 billion global market for entertainment and media. Small market size and the small scale of our firms can make it difficult for them to grow into internationally competitive players.

When asked if their sector had undergone major transformation in the last five years OMDC's clients confirmed that their industries were experiencing significant change in a number of areas.

AN INDUSTRY IN TRANSITION

"Has your sector undergone major transformation in the last 5 years?"



Over 70 attendees from all six cultural media industries were presented with highlights from recent OMDC-supported research at OMDC's inaugural "Did You Know?" Research Showcase event.

Mark Jamison, President of Magazines Canada, presents *Economic Contribution of the Canadian Magazine Industry*.

MARKET ACCESS AND DISTRIBUTION

Both domestically and internationally, distribution channels for the creative media industries are increasingly dominated by a small number of large players as a result of mergers and acquisitions. Globalization augments the trend, making it difficult for Ontario firms to connect and build relationships with customers.

For example, distributors for film and television are often foreign-owned and tend to favour mainstream (such as Hollywood movies) over local and innovative content. As a result, foreign product has flourished in domestic markets – contributing further to the scale problem of Ontario producers and reducing their capacity to enter foreign markets.

In music, the rise of a few mass-market retailers has reduced the availability of shelf space for smaller producers and publishers. And on the content side, decisions about development, marketing and royalties are now concentrated in the hands of just four major international labels.

Foreign product also dominates our newsstands, forcing domestic publications to target niche markets – which offer limited opportunities for market and revenue growth.

In publishing, retailer consolidation has also reduced market access. Most Ontario publishers rely on retailers as their main avenue to consumers and will consequently have to look to new distribution channels, such as on-line, and new business models, such as print-on-demand.

THE DIGITAL FUTURE

The digital revolution has given birth to an entirely new and high-growth creative media sector in Ontario: the interactive digital media (IDM) industry. The potential is enormous.

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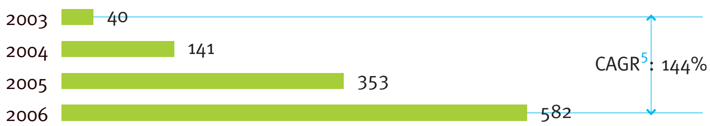
MUSIC MAKES IT! was an initiative of North by Northeast Music Festival and Conference (NXNE) and OMDC, presented in partnership with CIRPA, CMPA, DOC, IO, PRO and in association with CFTPA-OPP, DGC Ontario and WIFT-T. In a half-day more than 700 one-on-one meetings took place between participants from the music industry and the film, TV and interactive digital media industries. The event also included panels, a networking lunch, an evening reception and six showcase performances by Ontario artists.

From left to right: OMDC's Andy Shin with NXNE's Matthew Waite; Grand Analog one of the performers at *Music Makes It!* Temi Kerr of Warner Music Canada meets with film and television director Bruce McDonald.

But the rise of digital media connected via the Internet has been disruptive for other creative media sectors, bringing, for example, declining revenues from traditional distribution channels (especially in the music industry).

THE DIGITAL THREAT TO ALBUM SALES



North American downloads (millions of tracks)

While the digital marketplace is freely accessible, it is a more complex market and more loosely regulated than traditional media, particularly in the area of protection of intellectual property and trade rights.

Being able to deliver content through various channels – particularly on-line – is becoming essential for all the creative media industries. Ontario firms will need to develop new approaches and skills to tap new markets if they are to take full advantage of the digital future.

ACCESS TO CAPITAL

Creative industries have always had more difficulty than other sectors in attracting capital. For example, financial institutions don't recognize film and television intellectual property as marketable assets, so firms can't leverage such property to raise capital.

Project or hit-based, "lumpy" revenues can make it difficult for creative firms to raise capital, both internally and from investors. In the IDM sector, development of a video or console game takes an average of two to three years and four to five million dollars to complete, during which time the firm may have few other sources of revenue, and no guarantee that the game will be a hit.

Access to capital problems are exacerbated by the other issues already identified – lack of scale economies, market access and distribution challenges, and change in the global and digital environment.

And, like limited market access, lack of capital can make it more difficult to develop and retain Canadian talent.

Artech Digital Entertainment's
Aces of the Galaxy.

[5] CAGR = Compound Annual Growth Rate

Stakeholder view of OMDC Programs and Services

Certain key issues emerged when the consultants engaged industry stakeholders about OMDC programs. Amongst the strongest findings were suggestions for improvements in the timeliness of funding and in application processes. Stakeholders thought that the impact of some initiatives – particularly tax credits – could be optimized with less complex processes and shorter waits and that payouts could be more consistent with production schedules. Stakeholders thought that the program could perhaps be made more flexible by advancing financial support for producers to the start of a production.

Stakeholders thought that the impact of other programs could be improved by increasing the dollar value of individual grants. In the Industry Development Funds and Content and Marketing Support Programs, firms say the funding is often too small to make a significant difference.

Stakeholders would like to see greater transparency about the criteria by which resources are allocated among different sectors, and about the metrics for assessing applicants and the measures of program success.

Stakeholders would also like to see more flexibility on the part of OMDC to adapt and tailor programs to specific objectives and the needs of different sectors. In the case of Tax Credits – one of the most popular and successful OMDC programs and the largest by dollar value – improving application turnaround times was seen as important.

OMDC Film Fund features continue to garner critical acclaim.

Award-winning director/screenwriter Sarah Polley celebrates with lead actor Gordon Pinsent. Two OMDC Film Fund features were invited to screen at Cannes: Rhombus Media's *Blindness*, which opened the 2008 festival, and Atom Egoyan's feature *Adoration*.

© 2008 Miramax Films

Photo: Sophie Giraud

Emerging Themes

A number of themes, potential interventions and areas for further exploration have emerged through this consultation.

1.

DIGITAL EVOLUTION

The rapid emergence of connected and digital media across all the creative sectors has been a disruptive force for Ontario's cultural media companies – but also presents a tremendous opportunity. In particular, companies in the creative sectors need assistance to evolve their business models to capture new revenue streams, repurpose content, create content for new platforms, distribute through new channels, ensure that their product is 'discoverable' by new customers across a widening array of digital platforms, and respond quickly to rapidly emerging new technologies.

2.

CONTENT DEVELOPMENT AND MARKET ACCESS

Today's creative industries are becoming increasingly global in scope – in part because of the emergence of digital distribution – forcing Ontario companies to compete in unregulated and crowded markets at home and abroad. At the same time, as a result of consolidation, companies across all media sectors have a decreasing number of channels for the distribution of creative content, as well as greater competition for audience share across all platforms and types of media. As a result, many companies in the creative industries are struggling to access, develop and capitalize on both foreign and domestic markets for their content. Companies require support to access new markets in this increasingly 'borderless' international context, to maintain or increase their domestic market share and to develop quality content. The marketing of the province of Ontario and its companies, products and services is crucial to maintaining and expanding our market share.

3.

NEED FOR MARKET INTELLIGENCE

Companies require easy access to market information and strategic intelligence to make sound business decisions. Collecting this information is often a challenge for the smaller Ontario media companies which lack the capacity and resources required to collect and analyze the information. Regular access to current data, trends, best-practices, infrastructure, other jurisdictions, gap analysis, and a central repository of data, tools, expertise, as well as information on intellectual property legislation and other policy and regulatory issues, would increase the competitiveness of Ontario media companies.

4. ACCESS TO CAPITAL

The majority of companies in the cultural media industries in Ontario lack the scale and access to capital needed to compete effectively with large multi-national competitors. Companies in these industries cannot always access traditional financing tools. Strategies are needed to enhance Ontario firms' competitive position including strategies to attract and leverage private equity, high-impact investment strategies, slate-based funding, and tax credit streamlining.

5. CROSS SECTOR COLLABORATION AND COMMUNICATION

Collaborative opportunities augment productivity, increase innovation, and stimulate new business opportunities. Increasing and facilitating opportunities for cross-sector collaboration in Ontario's media industries and clear communication by the industries of issues of importance to municipal, provincial and federal governments will strengthen companies' competitive position in the marketplace.

Clockwise from top left: Ontario Filmmaker Deepa Mehta and OMDC Film Fund recipient for HEAVEN ON EARTH featured speaker at OMDC's *Celebrate Ontario* event held during 2008 Toronto International Film Festival®; Ontario singer/songer Sarah Slean performs at *Music Makes It!*; Neil Davison and Cheryl Quiacos from Fast Motion Studios demonstrating a fight move using the motion capture system; Ron Estey talks about Computer Animation Studios of Ontario (CASO) study at OMDC's *"Did You Know?"* Research Showcase event; IFF Country Spotlight on Sunday, Sept. 7th, left to right: Alan Maher (Irish Film Board), Philip Alberstat (49 North Media), Guilherme Anders (Cesnik, Quintino & Salinas Advogados), and Sérgio Sá Leitão (Ancine – Agência Nacional do Cinema).

Next steps

Following on the consultation that has already been undertaken with industry, OMDC will continue to work with the OMDC Industry Advisory Committees, the Ministry of Culture and the Government of Ontario to further develop these directions and identify potential program initiatives.

Ontario Media Development Corporation (2007)

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Research undertaken by: SECOR Consulting

book publishing,
film and television,
interactive digital media,
magazine publishing, and
music industries.

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