CIAIC/TELEFILM CANADA SECTOR PROFILES

CONSOLE GAMES

SECTOR PROFILES

These Sector Profiles are an initiative of the Canadian Interactive Alliance/l'Alliance interactive canadienne, the national voice of interactive digital media in Canada. They have been financially supported by Telefilm Canada, an agency of the Canadian government charged with promoting interactive digital media, film and television both within Canada and abroad.

There are four Sector Profiles in this series, each of which deals with an interactive digital media format where Canadians have had notable success: Mobile Entertainment, Convergent Properties, Content-Rich Online Communities, and the following profile, Console Games.

WHAT ARE CONSOLE GAMES?

Quite simply, console games are interactive software developed to run on hardware built primarily for gaming and entertainment. At present, the major manufactures of console game hardware are Japan's Sony Corp. and Nintendo Company Ltd., and Microsoft Corp. of the U.S.

CANADIAN BACKGROUND

Canada has a game development history stretching back more than three decades. Most famously, Canada produced Distinctive Software Inc., a game studio that was acquired by Electronic Arts, Inc. of Redwood City, Calif. in 1991 and now serves as the nucleus of that company's Canadian operations.

In 2006, Canada overtook Great Britain to become the third-largest games-producing country in the world, according to U.K. game developer association Tiga. While Tiga asserts this leap is largely due to favourable incentives provided by government, the fact is that Canada is also fortunate to have a relatively low cost of living compared with other developed nations as well as an excellent quality of life, including universal healthcare, a diverse population, and low crime rates.

Many of the groundbreaking game studios founded in Canada have now been acquired by foreign firms – notably Vancouver's Radical Entertainment (now owned by Activision Blizzard, Inc.) and Edmonton's BioWare Corp., which along with sister developer Pandemic Studios set a record valuation for a console game company when Electronic Arts bought both in 2007.

However, homegrown Canadian developers continue to flourish, with more being created every year. This is largely due to a phenomenon where senior producers and designers leave their studios post-acquisition and start new ventures.

While several of the console game developers interviewed stated that being based in Canada had conferred no tangible benefit, others were quick to point to the rich talent pool available in Canada, public funding supports and tax credits, and assistance in attending game conferences and festivals abroad as beneficial facets of life here. In addition, one Ontario firm said its location outside of Toronto was helpful in attracting employees averse to hectic city living, while another mentioned that Japanese developers looking to break into the North American market often look to partner with Canadian firms.

COMPANIES INTERVIEWED FOR THIS PROFILE

Artificial Mind and Movement/A2M (Montreal, QC; www.a2m.com)
Big Blue Bubble (London, ON; www.bigbluebubble.com)
Jet Black Games (Vancouver, BC; www.jetblackgames.com)
Next Level Games (Vancouver, BC; www.nextlevelgames.com)
NorthCastle Creative Media (Winnipeg, MB; www.northcastlemedia.com)
Silicon Knights (St. Catharines, ON; www.siliconknights.com)

The companies completed their surveys between May and October 2008.

COMPANY BASICS

The companies interviewed largely develop games based on original intellectual property (IP). Even the one respondent that identified as a third-party developer has a sister company devoted to executing in-house concepts. All are majority-owned and controlled by Canadians.

Interestingly, while the game development industry in British Columbia and Quebec tends to be concentrated in the largest cities in those provinces (Vancouver and Montreal respectively), Ontario's game community is much more decentralized. Both of the Ontario companies featured in this profile are headquartered in smaller cities in southwestern Ontario.

Each respondent indicated they developed titles for more than one company's platforms, with six distinct platforms being the highest. Windows-based personal computers also figured prominently among the platforms listed.

Average employee base of the companies interviewed, where employment levels were available, was 132, making the Console Games segment the largest employers of interactive media talent of all four Sector Profiles. This labour intensity is likely due to the complex nature of game development, which demands specific skills and training for each facet of design and production.

TABLE: AVERAGE EMPLOYEE HEAD COUNT FOR EACH SECTOR PROFILE SEGMENT

CONSOLE GAMES	132
Convergent Properties	38
Content-Rich Online Communities	16
Mobile Entertainment	15

Average age of the companies interviewed (where available) was nine years, making Console Games also one of the most established industries included in these Sector Profiles.

TABLE: AVERAGE COMPANY AGE FOR EACH SECTOR PROFILE SEGMENT

CONSOLE GAMES	2000
Mobile Entertainment	2003
Convergent Properties	2003
Content-Rich Online Communities	2004

INDUSTRY RECOGNITION

- Canadian New Media Awards
- Canadian Awards for the Electronic and Animated Arts

FINANCING/FUNDING

While all independent, companies in this space reflect a wide variety of business models. In one instance, a console manufacturer owns a minority stock position in the company. For the most part, however, Canada's console game developers are management-owned and financed either through friends and family or angel investors, or through bootstrapping revenue from sources including fixed contracts, royalties, work-for-hire arrangements and consulting fees.

As far as publicly funded sources of funding go, the most important source for companies in this segment are tax credits. At the national level, the Scientific Research and Experimental Development Tax Incentive Program (SR&ED) offers tax credits to help offset the cost of research and development, while various provinces also offer labour tax credits.

All but one companies included in this Sector Profile had applied for provincial or federal tax credits at some point; four had received them, while one was waiting for approval. When asked to list any tangible or perceived benefits to being a Canadian-headquartered firm, the one company that had not yet applied for nor received tax credits mentioned them as a tangible benefit.

The Canadian government also provides a limited amount of funding for interactive digital media through the Telefilm Canada New Media Fund (a sponsor of this series of Sector Profiles), which falls under the ambit of the Department of Canadian Heritage. In November 2006 Telefilm Canada launched the Great Canadian Video Game Competition, which offered $1 million in development funding to the finalist and boosted the fund's commitment to the game development industry in Canada.

Four out of the six game developers surveyed received funds from Telefilm Canada at some point, with two companies using Telefilm Canada monies for works currently in progress. In some cases Telefilm Canada funds were deployed in tandem with provincial funds. One company hadn't accessed Telefilm Canada funds, but had received funding from a provincial market access fund.

Finally, another prominent source of funding for the interactive media industry in Canada as whole is the Bell Broadcast and New Media Fund, an independent production fund which receives contributions from the regulated broadcast system. Because this fund requires interactive media projects to be tied to a television production, it's not surprising that few Console Games companies have accessed Bell Fund monies. Where console game titles are based on TV properties the tendency is toward U.S.-owned ones, as is the case with one developer surveyed.

PLANS FOR GROWTH

Since none of the companies in this Sector Profile are publicly traded – and the game development industry is a highly competitive one – data on growth plans and strategies is hard to come by. On balance, however, companies in this space are optimistic about their future growth, and many cited moving into additional international markets as the lynchpin of their plans. One company has already set up an office in China. Some quotes:

> "Average year-to-year growth in revenues is 88% (518% cumulative in last four years) and it is about to continue at the same rate. Company cash flow is based on multiple sources, spread across the different platforms as well as types of income."
>
> "We have a very aggressive growth plan, and we are looking into expanding in other markets."

INDUSTRY TRENDS

The most common answer given to the question "In the past 12 months, what has been the biggest thrill for you in terms of your industry?" dealt with the broadening demographic of gaming. Respondents cited Nintendo's platforms, especially the Wii, and the rise of casual games as positive forces influencing this trend. One firm said that the increased possibilities for developers to bypass publishers and reach consumers directly was also a beneficial trend. Not surprisingly given the stress and hard work involved in bringing a title to market, several companies mentioned finishing projects!

When asked to indicate any negative industry trends over the past year, responses were much more varied. Some game developers cited difficulty in finding qualified talent in their local market, while others mentioned a perceived lack of originality in high-grossing AAA titles and a corresponding lack of recognition for innovative but small-budget games. Other answers included the state of patent and copyright law in the United States, and delayed launch of new titles.

DOMESTIC MARKETS

With Canada's relatively small population base it is understandable that all respondents expected the role of the domestic market to remain constant in the near future, much as it had done in the past. However, the availability of domestic publicly funded support mechanisms such as those mentioned above was highly prized, with four respondents saying they were "very important" and the remaining two "somewhat important."

EXPORT MARKETS

The United States was unanimously cited as the most important export destination, both at present and in the foreseeable future (the next 12 months). Many respondents said their relative ranking of foreign markets corresponded to the locations of important publishers.

TABLE: EXPORT MARKETS IN ORDER OF PERCEIVED FUTURE IMPORTANCE

United States
Europe (no countries specified)
Japan/Asia

ABOUT THE CANADIAN INTERACTIVE ALLIANCE/L'ALLIANCE INTERACTIVE CANADIENNE

Formed in June 2005, the Canadian Interactive Alliance/l'Alliance Interactive Canadienne is a not-for-profit association and the authoritative voice for Canada's interactive digital media industry on the national stage. Its membership is composed of seven provincial interactive media associations: Alliance Numérique, Digital Alberta, Interactive Media Alliance of PEI, Interactive Ontario, Manitoba Interactive Digital Media Association, New Media BC, and SaskInteractive.

ABOUT TELEFILM CANADA

Telefilm Canada is a federal cultural agency dedicated to the development and promotion of the Canadian audiovisual industry. It acts as one of the Canadian government's principal instruments for providing strategic leverage to the private sector, supplying the film, television and new media industries with financial and strategic support. Telefilm's role is to foster the production of films, television programs and cultural products that reflect Canadian society, with its linguistic duality and cultural diversity, and to encourage their dissemination at home and abroad.