

## CONVERGENT PROPERTIES



### 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: Console Games, Mobile Entertainment, Content-Rich Online Communities, and the following profile, Convergent Properties.

### WHAT ARE CONVERGENT PROPERTIES?

Convergent Properties exist at the juncture of interactive media and traditional television broadcasting. While the intellectual property is often – but not always – controlled by a television producer, an interactive media firm adds additional platforms such as the Internet and mobile devices to the distribution strategy, and extends the content beyond linear narrative to create additional audience engagement. The interactive content may include games, “make-your-own-episode” or remix engines, and other similar products.

### CANADIAN BACKGROUND

Canada's regulated broadcasting system is a study in free-market principles kept in check by regulation. The Canadian Radio-television and Telecommunications Commission, which regulates broadcasting and telecommunications in Canada, has at its disposal two acts and a number of regulations that aim to ensure Canadians have access to broadcast and telecom networks, and that Canada's culture is reflected in the content carried on those networks.

In its earliest days, interactive content in Canada was an outgrowth of either or both of these systems. Indeed, convergent properties dominated discussion of Canadian “new media” for most of the 1990s and early 21<sup>st</sup> Century. Recently however, traditional “old media” broadcasting firms – such as CTVglobemedia, Alliance Atlantis and Corus Entertainment – that had previously played a pivotal role in creating this content have stepped back from the interactive space, and have reduced or eliminated in-house teams devoted to interactive. This, of course, creates opportunity for independent producers to flourish; where Convergent Properties have traditionally been seen as a marketing adjunct to the broadcast franchise, interactive media is increasingly an equal partner at the content table.

Where the seven companies included in this Sector Profile answered the question “Can you think of any time being a Canadian firm has conferred any tangible benefit on your business over the past 12 months?” in the positive, the overwhelming number of responses had to do with access to funds such as the Telefilm Canada New Media Fund and the Bell Broadcast and New Media Fund. As one respondent put it:

“Because we can create high-quality content through the use of government programs, tax credits and subsidies, export opportunities exist that we may not otherwise have. With product development support, and partnering market support from provincial agencies, we are in a great position to bring revenue back into Canada in the form of investments.”

## COMPANIES INTERVIEWED FOR THIS PROFILE

BiteTV (Toronto, ON; [www.bite.ca](http://www.bite.ca))

Cookie Jar Entertainment Inc. (Toronto, ON; [www.thecookiejarcompany.com](http://www.thecookiejarcompany.com))

LifeCapture Interactive (Toronto, ON; [www.lifecaptureinc.com](http://www.lifecaptureinc.com))

Marblemedia (Toronto, ON; [www.marblemedia.com](http://www.marblemedia.com))

Tribal Nova (Montreal, QC; [www.tribalnova.com](http://www.tribalnova.com))

Xenophile Media (Toronto, ON; [www.xenophile.ca](http://www.xenophile.ca))

Zinc Roe Design (Toronto, ON; [www.zincroe.com](http://www.zincroe.com))

The companies completed their surveys between May and September 2008.

## COMPANY BASICS

Content partnerships with some form of licence fee payable to the interactive media company are the most prevalent business model in the Convergent Properties category. While some interactive firms are able to exploit their own original IP and turn it into a broadcast property, most are performing fee-for-service work for broadcasters. However, in at least one instance, early efforts at creating original IP-based content have served as a “calling card” and brand-builder for fee-for-service work.

Average employee base of the companies, where employment levels were available, was 38, making firms in the Convergent Properties category the second-most labour-intensive group surveyed as part of these Sector Profiles:

### CHART: 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 approximately five years, placing the Convergent Properties group on par with their peers in Mobile Entertainment.

## CHART: AVERAGE COMPANY AGE FOR EACH SECTOR PROFILE SEGMENT

Console Games	2000
Mobile Entertainment	2003
CONVERGENT PROPERTIES	2003
Content-Rich Online Communities	2004

## INDUSTRY RECOGNITION

Companies in this space have garnered kudos from contemporaries both at home and abroad. Some of the honours bestowed upon them include:

- International Emmys
- Digital Marketing Awards
- Interactive Media Awards
- Alliance for Children and Television Awards of Excellence
- Canadian New Media Awards

## FINANCING/FUNDING

None of the companies interviewed were publicly traded at present, although one was the recipient of a \$2-million investment by another interactive media firm, itself publicly traded, in 2007. Another was acquired by former management with the aid of private equity partners in 2004.

As mentioned earlier, the limited amount of funding the Canadian government provides for interactive digital media through the Telefilm Canada New Media Fund (a sponsor of this series of Sector Profiles) was highly regarded by the participant companies. Another influential source of investment is the Bell Broadcast and New Media Fund, an independent production fund which receives contributions from the regulated broadcast system. Because this fund is at its core about convergence – it requires interactive media projects to be tied to a television production – it's not surprising that six out of seven companies in this profile had applied to either the Bell Broadcast and New Media Fund or the Telefilm Canada New Media Fund. In many cases, the same production was submitted to both funds; one company claimed an 80% success rate with its applications over the past seven years.

Finally, while the federal government's Scientific Research and Experimental Development Tax Incentive Program (SR&ED), which provides tax credits for R&D-intensive businesses, has proven valuable to companies in other Sector Profiles, its use was far outweighed by that of provincial labour tax credits for companies in the Convergent Interactive Content space. One company said that its provincial labour tax credit program allowed it to claim more expenses and returned more money in general.

## PLANS FOR GROWTH

On balance, firms in this segment of interactive media were positive about future prospects. Said one company president:

“Having experienced approximately 230% growth and achieved \$2mIn in sales over this past year, [we are] strongly positioned to continue upon our organic growth path doubling in size year over year.”

Some were more cautious. Senior management at another firm remarked:

“Revenue growth has been stable year after year. However, future growth plans and a sustaining business plan are still being developed.”

Many firms said they were looking to hire new staff, with one firm moving to new premises in part to accommodate a larger workforce and another firm estimating it would double its staffing level by the end of 2009.

## INDUSTRY TRENDS

A common theme among companies in the Convergent Properties segment was the evolution of their business models and the excitement and opportunity therein. However, this progression was also a source of trepidation; some firms lamented the low revenue afforded to interactive producers under existing licensing models, and worried that the move to more equitable deal structures was not happening quickly enough.

More than one firm also remarked on incredible uptake of interactive technologies and the Internet among members of its core demographic. Lingering uncertainty surrounding the status of the Telefilm Canada New Media Fund was also a concern for one company, which said the initiative had “truly had a long lasting structuring effect on the industry.”

## DOMESTIC MARKETS

Most Convergent Properties companies have grown up servicing the domestic market; indeed, one firm surveyed referred to Canada as “our company’s backbone”, and another has worked with Canadian clients exclusively to date and hopes to expand abroad in the near future. As a result, most respondents said the role of the Canadian market was relatively constant in the past year, and they expected to remain so in the 12 months to come. One firm expected Canada to become increasingly important in the near future.

The importance of Canada to companies’ business plans is in no small part due to the funding supports mentioned earlier in this Sector Profile, with all but one company saying that the Telefilm Canada New Media Fund, the Bell Broadcast and New Media Fund and various tax incentives were “extremely important” in their estimation.

## EXPORT MARKETS

Given the narrative-heavy nature of many Convergent Properties, it’s not surprising that most firms overwhelming listed English-speaking countries as targets for future growth. Where a firm had bilingual capacity, France was also mentioned. In terms of continents, while Europe featured prominently in answers, just one respondent listed Asia as a likely future export market.

### CHART: EXPORT MARKETS IN ORDER OF PERCEIVED FUTURE IMPORTANCE

- United States
- All English-language markets/France/Europe
- Asia

## ABOUT THE CANADIAN INTERACTIVE ALLIANCE/L'ALLIANCE INTERACTIVE CANADIENNE



canadian interactive alliance  
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.