canadian interactive alliance
alliance interactive canadienne

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CIAIC – Innovation Agenda Submission

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House of Commons
Ottawa, On
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c.c. David MacFarlane, Director of Policy
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Re: Canada's Innovation Agenda

Introduction

1. On behalf of the Board of the Canadian Interactive Alliance/Alliance Interactive Canadienne ("CIAIC") and Canada's Interactive Digital Media ("IDM") sector, we are pleased to have this opportunity to share with you the thoughts of our members on Canada's Innovation Agenda and how the IDM sector can continue to help position Canada as a global leader in innovation.

2. The CIAIC is a bilingual not-for-profit trade association formed in 2005 to serve as the voice of Canada's IDM industry. CIAIC's membership is comprised of Canada's seven existing provincial interactive digital media trade organizations: Alliance Numérique, DigiBC, Digital Alberta, Interactive Ontario, New Media Manitoba, Nova Scotia Game Developers Association and SaskInteractive.

3. Canada's digital media companies create a wide variety of interactive digital media products and services including video games, Augmented Reality (AR), Virtual Reality (VR) and Mixed Reality (MR) products, cross-platform content, e-Learning, web series and mobile content. Canada has become one of the global leaders in high quality IDM content, exporting titles such as mobile game "My Singing Monsters", cross-platform children's property "Napkin Man", winning awards with cutting edge technology like "Time Machine VR" and exploring new business models with games like "The Long Dark".

4. Innovation is the central theme of the IDM sector, a growth market created in the past several decades. Its rapidly evolving nature has spurred a culture of innovation that is now renowned worldwide. To the IDM sector, innovation is not just about technology or new forms of code. In addition to those boundaries, IDM companies innovate daily in discovering new business models, distribution and marketing methods and ways to entertain and engage with audiences. Each IDM company experiments continuously as they try to reach new audiences with new forms of content and find new ways to make money, drive down costs and grow their companies to be able to take on bigger and more complex projects. The result has been a growing sector, employing more and more skilled Canadians as they deliver high quality content to Canadians and to markets around the world.

5. From that perspective, CIAIC is pleased to provide you with our ideas on how, with specific targeted initiatives, the IDM sector could not only continue to support the government's Innovation Agenda, increase jobs and exports and drive corporate growth but also collaborate with other sectors to help them make the transition to an innovation economy. Through effective partnership between government and the private sector, Canada's reputation as a leader in digital media innovation can be both encouraged and expanded.

IDM Sector in Canada

6. The growing IDM sector now generates in excess of $3.8 billion in gross annual revenue and includes over 3,000 businesses in Canada[1]. The entire sector supports and creates an estimated over 26,700 high value full time equivalent jobs[2]. The industry is internationally-focused with 57% of the revenue of IDM companies derived from exports.

7. The video game industry alone adds over $3 billion to Canada's GDP each year and in 2015 that represented a 31% growth over the previous year[3].

8. IDM companies have projected 10% to 25% growth, a rate significantly higher than even the average GDP growth rate in Canada[4]. Canada's IDM sector is growing because it is innovative and globally competitive.

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[1] 2012 Canadian Interactive Industry Profile, October 2013
[2] 2012 Canadian Interactive Industry Profile, ibid
[3] Essential Facts About the Canadian Video Game Industry, 2015, Entertainment Software Association of Canada
[4] 2012 Canadian Interactive Industry Profile, op. cit.

Recommendations

<u>Collaboration</u>

9. IDM companies would like to fully leverage the power of partnerships with other companies to take on larger and more complex projects that would allow them to grow, become more competitive, cross-pollinate other economic sectors and enter new markets in Canada and globally. These collaborations could be with other IDM companies that have expertise that they lack, such as VR or animation. Or they could be subject matter experts such as hospitals or book publishers or academic institutions.

10. Federal funding such as the Canada Media Fund (CMF) often allow for collaboration between IDM companies but have restrictions on the types of collaborations allowed. For example, the CMF is a cultural media fund so cannot support non-cultural collaborations with other sectors, or those with combined goals (e.g. using video games to meet therapeutic goals). The nature of federal program funding is that it is departmentalized by Ministry and then further broken down into programs for specific sectors. However, a broader mandate for these programs and the CMF in particular would allow companies to be innovative in partnerships, audiences, content forms and revenue streams. IDM companies should be encouraged to think outside the box for potential collaborations without worrying about whether they will be offside with funding programs or that they need to artificially redesign their business structure in order to qualify. With fewer barriers to collaboration, businesses in many sectors could benefit from the expertise that IDM has developed and will continue to develop in creating engaging digital content, digital business models and digital distribution.

> **Recommendation 1:** The federal government should review federal funding programs to find ways to reduce barriers to collaboration or set up flexible funding programs that will support and encourage collaborations. Specifically, it should broaden the mandate of the CMF to allow projects that combine cultural and non-cultural goals to be eligible for funding. Government departments should find ways to introduce their stakeholders to the stakeholders of other departments, furthering opportunities for collaboration.

Risk-Taking

11. One of the prerequisites for innovation is the ability to take risks and fail,
    sometimes multiple times, before succeeding. In Canada we tend to have
    insufficient resources so have to make every dollar count. For example, IDM
    projects funded by the Canada Media Fund's Experimental Fund must be
    completed and delivered to the audience even if during the course of production
    technology changed, audiences lost interest in the topic or any other reason
    which could result in the finished project being unable to find a market. More
    money then has to be spent to prevent the producer from being in default and the
    producer no longer being able to access that fund for future projects.

12. Projects clearly need to be completed to ensure that taxpayer funded production
    can be enjoyed by taxpayers, but the government could encourage risk-taking by
    funding innovation activity as well as projects. Funding that allows a producer to
    take risks, fail, throw the project out and start again, is funding that fosters
    innovation. As innovation changes a project, with activity-based funding that
    project would be able to pivot without waiting for approval or could avoid having
    to proceed needlessly to avoid being in default.

13. Canada has a risk-averse investment community and the screen-based
    industries are risky investments due to impossible to predict variables such as
    audience demand. Risk-averse investors tend to discourage risk-taking and
    failure as a necessary part of innovation as they look for a more stable
    investment. Canadian companies therefore end up relying on their own limited
    resources while both the government and the private sector wait for the 'sure
    thing' before getting involved.

14. Government support encourages IDM studios to be innovative to a degree that
    they cannot when they are dependent on the existing market to fund them
    through a distributor or publisher. Too often these market representatives look
    for more of what is already successful and are unwilling to take a risk on new
    products. The CMF Experimental Fund has been supportive of IDM innovation
    but it is a selective jury-based program. An objective labour-based tax credit
    would ensure that a wide range of IDM projects were supported

Recommendation 2: The federal government implement an Activity Tax Credit for IDM
based on qualified labour (innovation-focused activities) over the year, regardless of
whether the project was finished or not. There would have to be safeguards to ensure
that companies are actually trying to complete projects but they would not be penalized
should they decide not to complete a failed project. Other jurisdictions such as the UK or
France have IDM or video game-based tax credits which could be used in part as models.

> **Recommendation 3:** CIAIC encourages the federal government to explore tax policy that would encourage a more risk-friendly private sector through, for example, incentives for existing entrepreneurs to reinvest their funds in new start-ups, to allow the younger companies to take advantage of both the experience and the funds from the more experienced entrepreneurs.

Enterprise Funding

15. Traditional cultural funding such as the Canada Media Fund has supported specific projects. Funding that supports companies and not just projects will help those companies grow, innovate, develop new products and reach new markets. Enterprise funding can be targeted to early start-up stages and help develop business plans, help develop a minimum viable product (MVP), test MVPs in the market, and help develop growth strategies. Funding targeted to mid-stage companies can help them scale up, i.e. reach new markets, diversify their products, attract foreign investment, hire missing talent such as business manager, sales executive or marketing professional. In other jurisdictions where enterprise funding has been implemented, such as Australia, it has been demonstrated as an effective tool to help creative enterprises to become more sustainable and require less government assistance. These companies have gone on to hire more employees and increased their foreign sales.

> **Recommendation 4:** An Enterprise Fund that targets one or both of start-up and mid-stage companies. The fund could establish targets for the company and require that the company meet those targets before receiving further funding. There can be concrete performance measures such as revenue growth, number of new hires, projects developed or export contracts concluded.

> **Recommendation 5:** 'Slate Development' is another form of enterprise funding as it funds a company to develop a slate of projects. Funds are recouped when a project enters production but there is no penalty if the project fails during the early stage phase. Funding of a slate encourages risk and diversification and allows a company to develop projects based on their natural life, prioritizing projects as the market demands, and not in response to artificial funding deadlines. The CMF could easily be adapted to include a slate development program using similar to its existing Broadcaster Performance Envelope system, such as audience success and historic performance. Slate development programs have been successfully implemented in Australia and the European Commission.

Skills Gap

16. In order to be innovative, companies must have access to the best talent possible. Unfortunately, in a number of IDM job categories there is not a large enough skilled talent pool to meet the demand. There are many new graduates but not enough mid-level to senior staff in positions such as animators, illustrators, programmers and usability experts. Training existing junior staff is the cheapest and easiest solution but takes time. Short term, IDM companies often bring in employees on contract through the Temporary Foreign Worker Program but the administration of that program is cumbersome and time consuming. IDM companies often have a core staff but hire more on contract to work on specific projects once they are financed. Workers often cannot be brought in fast enough under the Temporary Foreign Worker Program to be able to demonstrate that a company will have the capacity to undertake a new contract. Companies then lose business. The other option is training experienced staff from other sectors, such as manufacturing, to adapt to IDM. Mid-career training can help to move employees from shrinking sectors into the high growth IDM sector.

17. Additionally, most IDM companies are small to medium-sized enterprises that do not always have the time and resources to train and integrate new graduates, making it harder for them to get established and enter a career path in IDM. Highly skilled but frustrated talent have easily transferable skills which they could use in a number of other jurisdictions.

Recommendation 6: Improve the Temporary Foreign Worker Program to make it faster and easier to bring in skilled IDM employees on short term contracts. Simplify the process for Temporary Foreign Workers already here to become landed residents and permanently increase the skilled talent pool.

Recommendation 7: Fund mid-career training both on the job and through partnerships with academic institutions for new graduates and those in other sectors, to help meet the demand short term and long term for a skilled talent pool.

Recommendation 8: Private-public partnerships to create internship jobs for IDM-trained new graduates to reduce the risk for employers in training new staff thereby helping new graduates gain skilled employment in Canada. CIAIC would be happy to coordinate such a program between its members and government resources.

Employment and Social Development
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18. In addition to the current skills shortage, it has been predicted[5] that there will be a significant shortage of skilled labour in Canada in the future unless steps are taken to add more Canadians to the skilled labour pool. Long term planning to minimize that shortfall should include improving the skills of students within the K-12 setting so that all or most Canadians are both equipped for the jobs of tomorrow and equipped to innovate jobs we have not yet even thought of.

Recommendation 9: Implement coding and computer literacy skills within the K-12 curriculum so that all have a basic understanding of coding and computer literacy regardless of the field that they are going into, to ensure that they have long term employability. More of those students will then go on to advanced computer science degrees and innovate in those fields but all Canadians will have core computer literacy competencies.

Recommendation 10: Teach entrepreneurialism and innovation from an early age to foster a culture of risk-taking and to encourage the creation of small businesses. Parents and educators need to role model innovative careers and businesses and not just traditional careers such as doctors, lawyers and teachers.

Conclusion

19. CIAIC would be happy to provide more detail on any or all of the Recommendations contained in this submission. We hope that this public consultation is the start of a dialogue and a new way of working with industry to support and encourage a wide range of innovation.

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[5] Miner, Rick, "The Great Canadian Skills Mismatch", 2014 where he predicts a shortage of 2.3 million skilled labour by 2031

As mentioned above, the IDM sector is already pursuing an Innovation Agenda as a way of doing business. Canada's IDM sector is world-renowned and making a name for Canadian creative innovation. With government support and targeted programs, IDM can help advance the government's Innovation Agenda and further develop the IDM industry to become a world leader.

Yours truly,

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