

interactiveontario



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Canada Media Fund
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Attention: Valerie Creighton, President and CEO
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Re: 2018 Industry Consultations

On behalf of the Board of Interactive Ontario (“IO”) and the over 330 companies that it represents in Ontario’s Interactive Digital Media (“IDM”) sector, we are pleased to have this opportunity to present to you our written comments as part of the Canada Media Fund (“CMF”) 2018 Industry Consultations. IO participated in the Consultation Tour and the Working Group discussions and found them to be productive. We are following up with the following recommendations and suggestions with a focus on the Experimental Fund, recognizing the limitations of working under the current Contribution Agreement with the Department of Canadian Heritage.

General

The CMF has contributed greatly to the growth of Ontario’s IDM sector, both through the Convergent Fund and the Experimental Fund, though in this submission we are focusing our comment on the Experimental Fund. Some of Ontario’s top studios, such as Big Blue Bubble, Secret Location and Drinkbox Studios, credit CMF Experimental Fund for their ability to get projects off the ground and grow their businesses. Time and time again IO members shared their appreciation for the Experimental Fund and for the CMF and Telefilm staff who help them through the funding and reporting processes.

However, as CMF well knows from its own data, the Experimental Fund is heavily over-subscribed. Further IO has anecdotally heard from members who have given up applying or find the paperwork too demanding for a small studio so in fact the potential demand for CMF

Experimental Fund money is even greater. We strongly advocate for a greater allocation of funds to the Experimental Fund to meet demand and help the IDM sector achieve maximum growth, increased international competitiveness and long term stability. With policy changes that we are advocating below, a more efficient and better funded program could achieve those goals.

Outside the program guidelines, IO encourages CMF to work with trade associations and other industry partners to find more opportunities for producers to meet with analysts to discuss projects before applications are submitted. Currently when these meetings take place the topic is about eligibility and are most helpful to less experienced producers. Established producers would welcome meetings where they can get advice on their project, talk through a project and communicate its innovation and develop a relationship with CMF staff. If notes from these meetings were also then provided to outside evaluators it would improve the evaluator's understanding of the project and particularly its innovation and improve the producers' confidence in the process.

Experimental Fund Structure

IO agrees with the CMF that the breakdown of the fund into C3P and Innovation as it is now does not work. The Innovation program is heavily oversubscribed. However, IO does think that the original idea of comparing more commercial projects to each other and more 'experimental' projects to each other in evaluating applications is a good one so instead of collapsing the two into one program, IO suggests making changes to more clearly differentiate the two programs.

First, there needs to be a better definition of Innovation. The current definition leaves a lot of room for interpretation, which results in producers unsure whether their project will score well under Innovation or not. As mentioned above, the opportunity to have a conversation to be able to communicate, and get advice on how to express a project's innovation would be beneficial. As well, greater detail on what is meant by innovation would provide guidance. For example, it appears as though a revolutionary business model or marketing approach to reach new audiences would not be innovative. No one could dispute that Uber and Netflix are revolutionary and have created market turbulence but was it because of innovative technology or a breakthrough way of interacting with the market?

Eligible Projects must be innovative. Innovation may be expressed in terms of innovative content or innovative technology. The CMF does not define or delimit what is innovative – applicants are encouraged to pursue their own vision of innovation and state how their project is innovative.

The CMF uses the following classification for degrees of innovation, in descending order:

1. Revolution: Never been done before, completely new, breakthrough, creates market turbulence.
2. Differentiation: Paradigm shift for an existing product or service. Brings something existing to another level.
3. Improvement: Adding significant components, or features, that bring new benefits to an existing product or service.
4. Iteration: Refining features, adding content to an existing product or service.

"Revolutionary" projects have the greatest likelihood of receiving CMF financing in the Experimental Stream, while "Iterations" have the lowest likelihood.[1]

A concern was also raised that CMF has been known to fund more than one project that was similarly defined, leading producers to question whether evaluators are aware of previous assessments of innovation. For example, CMF funded Phantom Compass's Auto Age and then

funded Vroom Kaboom by Ratloop Games. They are both online multiplayer car battle games. Phantom Compass questioned how Vroom Kaboom could be innovative based on very similar game mechanics that had just been funded by CMF. They also questioned why CMF would fund a game that would be directly competitive to a game that it had just been funded by them.[2]

Funnel Approach

In the CMF Briefing Note dated October 22, 2018, the CMF proposed a ‘Funnel Approach’ whereby producers would (eventually) go from prototype to production to marketing with a larger number of projects being funded at prototype and with a simpler application system. IO supports the idea of funding more prototypes with a simpler application to fund a greater diversity of projects and encourage access to funds from smaller and emerging studios. However, a strict funnel would discourage producers from self-financing or finding other forms of financing for prototype and then coming to CMF for production or marketing. With so much oversubscription it is common for producers to find other financing solutions or work on their own time while paying the bills with service work, and then returning to CMF for production.

Another concern with the funnel approach is whether producers would be required to apply for production financing with exactly what was funded at Prototyping. Frequently a prototype is developed that allows the producer to identify what works or doesn’t work, or the market changes and the producer needs to pivot the project. Any funnel approach would have to allow the producer the flexibility to evolve the project during the next phase of financing. To do otherwise would inhibit innovation and force producers to produce projects that are less likely to succeed. For example, the CMF insisted that Rival Books of Aster by Stitch Media should continue to include location-based matchmaking despite user testing demonstrating that the market was not interested.[3]

Currently the funding at Prototyping is 75% of the budget to a maximum of \$250,000. That allows for a budget of approximately \$333,000. Such a healthy budget allows producers to blur the line between prototype and early production and actually get a product into the market. IO members support a lowering of the maximum budget to ensure that true prototypes are built and to spread the funds among a larger pool of producers. IO would welcome the opportunity to discuss with staff an appropriate budget level but even half the amount that is the current maximum would provide producers with enough money to build something that can be tested and presented to potential production funders.

IO would like to suggest a slightly different funnel approach. Set deadlines force projects to apply for funding when they are not ready or to wait to apply and then lose market interest in a project. Unlike television, the IDM market and audience tastes change rapidly in response to evolutions in technology, content, marketing and audience engagement. A delay of a few months could mean the difference between catching or even staying ahead of a trend or missing out on it completely. “One of the challenges is that we had a great idea, we did, but the time between getting it submitted, signed off, cash flow etc., then live, someone else had moved it and done it very well. And then another, etc. etc. So ours was a dud in the end – even though from a neutral point of view we truly did create something very cool, and it should have worked – a year previous.”[4]

IO suggests as one solution that funded prototypes would be automatically eligible to apply for funding from a separate pool of funds with no set funding deadlines. Funding would still be competitive but between projects that had been funded by CMF. A second stream would be available for new projects that are applying for production or marketing without having earlier stages funded by CMF. It would be fairer to have projects that are new to CMF only compete against themselves and not against projects that CMF is already familiar with and to some extent invested in. Another option is to continue to have set deadlines but have 25% of the fund available to projects to be evaluated and funded by CMF staff at their discretion to projects funded at prototype that are ready before the deadline. It is in both CMF and producers' best interests to create a funding system that supports producers ability to rapidly respond to trends in the market in order to maximize potential returns.

IO would also like CMF to consider a completely different approach to address the problem of set funding deadlines. Other jurisdictions, such as Australia[5] and the UK[6], have tried enterprise funding to provide studios with funding for a number of projects or to provide business support (see our comments below on the Accelerator program for further comments on business support). Funding a number of projects would help studios to build a business and pivot in response to market changes, advancing one project or another in response to demand. Unlike slate development, such as currently provided by the Bell Fund, we propose that a studio would be able to kill or suspend a project that wasn't working in favour of projects that had found more market interest. In order to prevent larger, better resourced studios from accessing all funds available with well-developed proposals, there would be two streams of funding, one for smaller studios and one larger and companies would only be entitled to access the program once. Business rather than project investment would help to diversify the studios as well as support growth of the more established studios.

Marketing

Producers are finding that marketing costs are both increasing and being needed at earlier and earlier stages. For some projects studios need to market during production or even at prototype to build interest and maximize the potential audience at launch. Other projects will still use a long tail approach to marketing. IO recommends that CMF allocate more funds to marketing either through increasing the funds to the Marketing program and increasing allowable marketing expenses at prototype and production phases or cancelling the Marketing program and requiring an allocation to marketing at Prototype and Production phases complete with allocations to marketing in both budget templates. Either option would force studios to consider marketing and develop plans at an earlier stage, even if marketing is not implemented until production or after launch. IO would also welcome a slate approach to marketing which would allow companies to move marketing funds around to different projects in response to market interest. IO would also recommend that marketing budgets should have a minimum allocation to discoverability and export activities to ensure that the project finds an audience internationally as well as in Canada.

Games Stream

In the Briefing Note the CMF proposed creating a stream for games and another for all other IDM to balance what is currently a high percentage of funding for games. IO members are of the opinion that the high percentage of games in the Innovation stream is due to the emphasis within

the evaluation criteria on business models and innovation, which are easier for games to demonstrate. Should the CMF wish to fund more IDM then it would be less problematic to tweak the evaluation criteria. IO recognizes that landing on fairer definitions is a complicated exercise and would be willing to work with the CMF to achieve that goal. More importantly, it would be difficult to define game and non-game IDM clearly, particularly with so many IDM projects that have elements of game mechanics in their structure. Defining projects as game or non-game would limit innovation particularly with narrative gaming and other developing genres. There is a concern that established game evaluators would emphasize more mainstream game genres such as first person shooters. This kind of emphasis would be a particular detriment to those trying to target underserved audiences. “It could limit real innovation in story and experience and discourage diverse teams from doing different things from mainstream.”[7]

If there were to be two separate streams, it is expected that producers would define their projects as the format that they feel is easier to get funded or which has less competition. A game and non-game IDM stream would also not be consistent with the CMFs stated intention to eventually be platform and content agnostic.

Access to the Experimental Fund by TV-Related IDM Content

CMF has proposed that IDM content that is related to television no longer be ineligible from the Experimental Fund. In principle IO members support this proposal provided that the IDM content can stand on its own and is not dependent on the broadcast component to be experienced by the audience. The Experimental Fund is about developing original intellectual property so it would be consistent with that logic if tv-related but original IP could access the fund. However, this would put additional pressure on the Fund so should only be implemented if additional money is allocated to the Experimental Fund. A final concern is that tv-related IDM should have no involvement from the Canadian broadcaster to ensure that the broadcaster is not pushing the application as a way to leverage CMF for additional promotion of the television program. The Producer must own and control the IDM and its exploitation rights and be focused on leveraging audiences outside Canada and extending the domestic audience for the producer’s sole benefit.

Web Series

IO understands that web series are under the Experimental Fund due to the limitations of the Contribution Agreement, which requires a broadcast trigger for funding under the Convergent Fund. That being said, it is not a natural fit and does take funding away from IDM. IO members do produce web series and would welcome an expansion of CMF funding to first seasons and development and marketing support but only if there was additional money so that such support did not mean less money for IDM. In principle, web series would benefit from development support just as other forms of content and that includes specifically investing in the crucial first season of a web series which establishes the existence of an audience.

Recoupment

IO consulted with a number of members about their experiences with recoupment negotiations. In general, it was felt that the initial negotiations and definition are not the problem. The formula as it is, is easy to understand and implement. The problem is when projects find distributors or

other investors and their discussions with CMF at that point become problematic and they would like to find solutions that will clarify and simplify CMF's role at that point.

Based on their experience negotiating with CMF with their project "Rollers of the Realm", Tony Walsh and Erica Evans of Phantom Compass advocate for a much more defined recoupment policy. In their experience the terms were too vague and open to interpretation, leaving the producer unsure of what they could or could not do. At one point it took a year of negotiation to confirm that a publisher advance was part of the production financing and not revenue. In addition, they would like to see a greater definition of what is considered the 'project' so that they know which elements, or lines of code, they can use in future projects or service work without triggering payments to CMF. Unlike television, it is common for IDM studios to build a library of digital assets which are owned by them and used in future projects to avoid reinventing code each time. They want CMF to earn their appropriate revenues from spin offs or sequels without inhibiting a producer's business.[8]

Paul Pattison of Relish found that the lack of detail in the guidelines too often meant that CMF staff relied on their television experience to handle situations. "Weirdwood Manor" was funded for development. Relish used their own funds earned from service work to produce a minimum viable product (after being turned down for production funding), which was launched to test the market. CMF took the position that a finished product had been launched and therefore had triggered repayment of development funds. There was no money to pay CMF. A negotiated agreement converted the development contract into a production contract with production recoupment terms and Paul Pattison believes that this is now policy for these situations. While that specific problem has been solved, he encourages the CMF to continue to adapt to the digital marketplace and avoid a reliance on television business methods.[9]

One suggestion to help CMF staff with their understanding of the rapidly evolving digital marketplace was to find a way to have industry experts on call for consultation by both staff and producers. Industry experts who are actively engaged in IDM exploitation would be able to advise if deals being offered really were good for a particular project at that date. This would benefit all parties.

Accelerator Programs

In the Briefing Note, CMF suggested that a lack of applications to the Accelerator Program was due to poor industry awareness of the program. However, IO members consulted were all aware of the program but did not feel that the Accelerators that were a part of the program were a good fit. These accelerators are more interested in and structured for technology companies and have less interest in content companies. IO members agree with the CMF that the CMF could be very helpful in supporting the development of IDM studios but would prefer to see a different program. See footnote 5 above with the reference to the Creative England business support programs. IDM producers know how to produce content but they often lack the skills to get the product to market, explore corporate financing, address human resources issues and negotiate complex legal agreements. Access to vetted experts with an understanding of content companies through a subsidized or funded program would be extremely beneficial and help IDM companies grow. One suggestion is to fund provincial trade associations (such as Interactive Ontario) and/or other appropriate organizations with an understanding of the companies needs and the sector to

find, organize and manage the expert resources and access to them under whatever guidelines CMF deemed appropriate.

Convergent Program

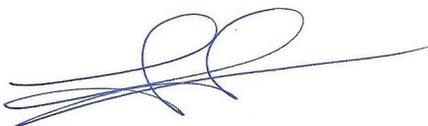
IO understands that CMF is considering removing the Digital Media Component Obligation under the Convergent Program. While this step cannot be taken under the current Contribution Agreement with Canadian Heritage, IO wishes to confirm its position that affiliated digital media is an essential element in the discoverability of many broadcast programs and an effective tool for international exploitation. Therefore, simply removing the DM Obligation could have a significant negative impact on the television industry. IO wishes to work with the CMF and the television industry on mechanisms that will encourage the production of convergent digital media components that add value to the television IP, its discoverability and commercialization.

Conclusion

IO has proposed a number of ideas in this submission which we recognize require further thought and discussion. We have always appreciated the ongoing dialogue that we have had with CMF and hope that we can continue to work out the details of any of the suggestions that CMF would like to explore. In particular we would be happy to organize a meeting with IO members should CMF wish to explore some of the practical aspects of proposals made in this submission or other process suggestions and concerns that were made but not included in this submission on the guidelines.

We would like to reiterate the message that we heard from members repeatedly. They are grateful for the existence of the CMF Experimental Fund. Their projects and their businesses have benefitted from it over the years. CMF staff have been helpful and the guidelines and contracts have improved year to year. These suggestions are intended to help make the Fund even better with the goal of working with the CMF to maximize the growth and international competitiveness of the Canadian IDM sector.

Yours Truly,



Lucie Lalumière
President & CEO
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cc: Board of directors of Interactive Ontario

[1]Para 3.2.2.2 of Experimental Fund Guidelines 2018-19

[2]From discussion with Tony Walsh and Erica Evans of Phantom Compass, November 30, 2018

[3]From email from Evan Jones of Stitch Media, November 20, 2018

[4]Email from Colin Ferguson, SHG Studios, December 3, 2018

[5]Screen Australia funded investment in screen businesses from 2009-2014. After a review, which will be forwarded as a separate document, it was decided that Australia was at capacity for the number of screen businesses and the program was revised to fund content under Enterprise Ideas or people under Enterprise People. Screen Australia is currently reviewing its Enterprise program and a new program is expected shortly.
<https://www.screenaustralia.gov.au/funding-and-support/industry-development/businesses/past-initiatives/enterprise-ideas>

[6]Creative England supports film, technology and game companies outside London through their Creative Enterprise program through workshops, business investment and/or subsidized one on one mentoring.

<http://creativeengland.co.uk/investment/creative-enterprise>.

[7]Note from Sasha Boersma, Sticky Brain Studios/Possible Futures, November 27, 2018

[8]From discussion with Tony Walsh and Erica Evans of Phantom Compass, November 30, 2018

[9]Discussion with Paul Pattison, Relish Studios, November 30, 2018