



November 25, 2016

The Honourable Mélanie Joly, M.P.
Minister of Canadian Heritage
House of Commons
Ottawa, ON K1A 0A6
Filed via www.canadiancontentconsultations.ca

Dear Minister,

Re: Canadian Content in a Digital World Consultations (“#DigiCanCon”)

Thank you for the opportunity to participate in the Canadian Content in a Digital World Consultations. Sticky Brain Studios is a member of Interactive Ontario, and supports the submission prepared by the Canadian Interactive Alliance (CIAIC). The intent of our submission is to emphasize key points as digital cultural entrepreneurs, who have dedicated our entire professional careers to the creation of interactive digital media (IDM) content.

Sticky Brain Studios was founded in 2013 to help companies connect with audiences by making interactive games, apps, and digital creative content – specializing in cultural content for children and families. The company founders have a combined 35+ years of experience working in Canada’s interactive digital media industry, including roles as independent producers, entrepreneurs, funding program analysts, Canadian broadcaster digital strategy founder, industry advisors, and post-secondary educator. We have invented new jobs for many colleagues, and mentored talent. Our company is also one of the few Canadian digital enterprises with a female co-founder.

Interactive digital media is a wonderful and fascinating area in Canada’s culture sector because it combines innovation in art, storytelling, design, technology, and business. At times our work must adhere to technical policies, and other times it falls under cultural policies. However, the creation of IDM media content and the realities faced by digital cultural entrepreneurs in the sector requires additional government support in arts and culture if we want to continue to be global leaders.

A look back

Before going forward, it is important to look back, for context. Interactive digital media is no longer “new media”. The first Canadian interactive digital media fund was created 15-20 years ago and fostered under Telefilm Canada as the “Canada New Media Fund”. Government support of IDM was new at the time, and there were no documented business processes, therefore fund administrators were left to devise rules based on existing frameworks from film and television. The Canada New Media Fund, however, was not the first IDM fund in Canada – that honour goes to the Bell Fund, founded in 1997 through Bell ExpressVu with the objective “To encourage the production of world-class Canadian

content for the new media and broadcasting marketplace and to stimulate partnerships between new media and broadcast producers.”¹ At the time, innovation by Canadian entrepreneurs flourished as creators from traditional media were combining their skills with an environment of rapid change in technology to pioneer new forms of content. In the 2000s, digital content creators around the world envied Canada for having the foresight to support an essentially unproven form of content.

Even before these funding program existed, Canadians were developing the original forms of IDM content, video games; the first independent Canadian-made video games were produced in the early 1980s in Vancouver and Ottawa.²

We share the history of IDM to remind Canadians that this isn’t something that happened in the last few years, but rather a movement that has been growing and flourishing for nearly four decades. We now find ourselves in the unfortunate situation where our funds, programs, and incentives have not grown with the sector, or acknowledge Canadians’ love of digital content. The emergence of video games is the greatest cultural emergence in generations, yet we apply to funding that considers them “experimental.”

Going forward

To echo many of the recommendations put forward by the CIAC, we would like to emphasize how Heritage Canada can support digital content entrepreneurs and their businesses, through sustainable funding for digital cultural businesses, support for discoverability of Canadian content by Canadians, and with assistance in researching and reaching international markets. We also recommend initiatives to allow increased collaboration between Canadian cultural sectors and digital cultural content entrepreneurs.

Support for independent Canadian digital cultural content entrepreneurs

Canada is home to a large and vibrant contingency of both small and medium enterprises (SMEs), comprising of independently owned game studios, web series creators, and digital content innovators. There are also very large and major players, but these tend to not be Canadian-owned.

Attracting private investment for independently produced digital content is difficult. Expectations are high, and the market can not guarantee sustained revenue. Making content available in digital form is not the same as creating digital services or businesses, and must not be treated the same when it comes to funding and incentives.

In fact, there is very limited national funding available for digital cultural entrepreneurs. The Canada Media Fund (CMF)’s Experimental Stream is limited to \$40 million³. While that may sound like a lot, the program has very specific and narrow requirements for innovation and recoupment. It has been suggested this is due to very narrow terms of the Contribution Agreement between Heritage Canada and the CMF. It is no secret in the industry that even within these narrow terms, the CMF’s Experimental Stream is oversubscribed, leaving many amazing and relevant Canadian digital cultural projects

¹ Bell Fund 1998 Annual Report - http://bellfund.ca/publications_PDF/BFAR1998.pdf

² CBC article: “Canadian traditions: Hockey, double doubles ... and video games?” <http://www.cbc.ca/news/technology/canadian-traditions-hockey-double-doubles-and-video-games-1.772294> ; CBC article: “The evolution of video games in Canada” <http://www.cbc.ca/news/technology/the-evolution-of-video-games-in-canada-1.914304>

³ CMF Annual Report 2015-2016 <http://ar-ra15-16.cmf-fmc.ca/funding/experimental/>

proposed by companies across the country either scrounging for money or being abandoned altogether. Those that are funded are hindered by a variety of CMF policies, including but not limited to:

- The inability to finance, and therefore create, version 2 (“Season 2”) of their content (unlike for television, CMF does not fund iterations of previously funded IP under the Experimental Program.)
- If producers are successful in finding funding for Version 2 of their digital project, the CMF demands recoupment revenue from the new property, thus discouraging the entrepreneur from finding new methods of extending and exploiting their IP.
- The protocol for buying out CMF from funded projects so entrepreneurs can sell their company or be acquired is unclear. This heavily discourages future opportunities.
- They require exceptionally detailed business plans outlining marketing plans, product price points, intended units sold, user acquisition strategies, etc., all of which are difficult if creating a truly innovative product in a quickly shifting environment. For example, virtual reality (VR) is not expected to be mainstream until 2020⁴, so user uptake and preferences are based on assumption and guesswork. This requirement stifles risk.

Digital cultural entrepreneurs receive less future and sustainable funding from their resulting projects compared to film or television producers. Film and television producers are allowed a higher rate of producer fees and corporate overhead in their budgets than do interactive producers (20% + 20% compared to 10% + 10%). The average funded CMF Experimental Stream project has a \$1 million budget⁵, compared to the average \$2.4 million for television projects in CMF’s Convergent Stream⁶. While TV producers make their project then hand it off to others in the supply chain such as broadcasters and distributors to market and release, digital producers in the Experimental Stream often take on their own marketing, promotion, and distribution. Since technology evolves quickly, digital creators are also responsible for updating games and apps to meet new technical requirements of the platforms. And yet, television producers can apply at least \$700,000 from that average budget of \$2.4 million in Producer Fees and Corporate Overhead to sustain their studio, reinvesting in the development of new content. A digital producer takes maybe \$150,000 to not only sustain their studio, reinvest in the development of new content, manage many years of technical updates, retain staff, and keep staff trained for even newer technology that is bound to arise.

A well-run IDM studio has a core team of artists, developers, producers and administrators on staff. Unlike other sectors, it is less ideal for IDM teams to expand and contract on a per project basis. Cohesion and continuity is required to get the best out of the team to develop the most engaging content, and update existing projects. This core team needs ongoing training. Conference attendance is not just for producers to market new products, but they also engage the creative talent and help them further their skills to continue developing innovative and ever-changing projects. New tools, new software, new processes are created yearly, and rather than churn through contract workers it is more desirable to create careers and thus expertise. Digital entrepreneurs struggle to keep up with these demands, which leads to high turnover with anxious employees, and results in a challenging environment to continue to create the best product possible.

⁴ This Week in Startups Podcast, #682: Unity Co-Founder David Helgason on Creating the World’s Leading 2D & 3D Game-Making Platform, Gaming Industry Trends & Challenges & The Future of VR & AR
<http://thisweekinstartups.com/david-helgason-unity3d/>

⁵ CMF Annual Report 2015-2016 <http://ar-ra15-16.cmf-fmc.ca/funding/experimental/>

⁶ CMF Annual Report 2015-2016 <http://ar-ra15-16.cmf-fmc.ca/funding/convergent/>

Many independent Canadian digital content studios are pushed to their financial limits. When we meet other heads of digital studios across Canada, we find a similar story: credit cards are maxed out, there is a reliance on business loans to cash flow precarious budgets, and owners are giving up on creating cultural content and switch to commercial work to keep the lights on. There are mental, emotional, and financial drains on digital cultural content entrepreneurs. We are taking on as much risk as we can, to the point of being overly cautious and reluctant to grow and hire. The Business Development Bank of Canada (BDC) has been doing what it can to provide support by providing low-interest loans and business coaching to Sticky Brain Studios for over a year, and they've been wonderful partners. But when cultural projects are dependent on precarious funding, it is difficult to forecast profits much more than few months ahead. Canadians deserve to see their stories, created by Canadians, supported in the digital marketplace. This will only happen if the opportunities to succeed in the market are fully realized. Asking digital studios to take on more risk will result in more studios closing their doors.

Recommendation 1: Review the Contribution Agreement with the CMF, and remove all limitations that block incentives for digital producers to grow and monetize their IP.

Recommendation 2: Expand the mandate of the CMF with additional funding, to allow for a greater variety of digital cultural projects to be created. We also recommend the reconsideration of the "innovation" requirement under the currently named Experimental Program banner. The Bell Fund removed their requirement for innovation over 10 years ago because it was causing digital studios to focus on innovation which often wasn't what Canadian users actually wanted to use or liked, and hindered marketability to the world. In 2016 the CMF added the Commercial Projects sub-program to Experimental, but that emphasizes recoupment and business expectations even more, while still requiring demonstration of innovation. These two goals are often in conflict. One option for consideration is to have an innovation program for creators to explore and try new methods of storytelling or content distribution, a revenue generation program for projects with clear paths to monetization, and a more general digital content envelope with a focus on the creation of quality Canadian digital experiences with reasonable exploitation goals.

Recommendation 3: Creation of an IDM Tax Credit and/or Activity Tax Credit that covers labour-based activity aimed at creating Canadian owned and created IDM, as proposed by the CIAIC in their submission.

Recommendation 4: Creation of an Enterprise Fund that targets small and medium-sized cultural enterprises, and/or 'Slate Development', as both are proposed by the CIAIC in their submission.

Recommendation 5: In collaboration with the other digital funding agencies across Canada such as provincial organizations like OMDC and private funds like Bell Fund, expand the Producer Fee and Corporate Overhead percentage to be in line with that of film and television budgets.

Recommendation 6: Fund the ongoing growth and training of interactive digital media professionals (entrepreneurs, staff professionals, and freelancers) to ensure a skilled, current talent pool.

Support with discoverability

As audiences fragment into niches, finding and reaching our targets is becoming increasingly difficult. It requires a great degree of strategic and tactical planning and the labour to implement effectively. While other submissions have suggested the creation of incentives for advertising on Canadian broadcaster websites, the logistics and cost to that are out of reach of independent creators, and may not reach intended audiences.

Timelines for promotion of digital products are very different than for traditional media and cultural content. Because digital cultural projects have smaller, more wide-spread audiences, and consumption habits are different, promoting only for launch is not enough. Marketing starts as soon as production commences, and continues for well past a year after release. Digital content is often an ongoing relationship built between creators and audience, and must be nurtured accordingly.

Promotion is more than simply buying ads. It's social media outreach that requires creation of additional content. It's maintaining relationships with a long list of bloggers and influencers, in addition to traditional media. The days of just preparing and sending a media kit around are past. Now, it's important to send updates and show people the product frequently and often in the hopes that at some point they will profile your project and transfer their audience. For some projects, it includes community management; engaging fans, users and potential consumers to not just buy the game or watch the show, but have conversations through social media. These activities require support by people close to the content teams. Some creators are lucky to have distributors or publishers supportive of this approach, but those organizations tend to only take up projects with "hit potential". Creators are more often overseeing community management themselves.

Recommendation 7: From CIAIC's submission - Create a marketing fund that would encourage Canadian content creators, both IDM and non-IDM, to use digital strategies such as online and mobile ad buys, social media campaigns, analytics tracking and search engine optimization for promoting content and finding audiences.

Recommendation 8: Building on Recommendation 7, ensure any new marketing fund created recognizes the very wide window required for marketing of content, and allows for a range of activities, not just traditionally large launch events. Allow funding for ongoing communication efforts on social media, preparation of a range of materials to share with bloggers, journalists and influencers at multiple points in the production and distribution lifecycle.

Recommendation 9: Building on Recommendations 1, 2, 5, 7, and 8, explore increasing the marketing and promotion caps in digital media project budgets. This must be done in collaboration with the other digital funding agencies across Canada (provincial organizations like OMDC, private funds like Bell Fund) who have their own regulations for marketing and promotion expenses.

Recommendation 10: Should the CBC be fully funded by the government of Canada no longer requiring advertising revenue to cover operating expenses, it would make available slots for independent cultural content producers to promote directly to Canadians on television, online, radio and podcasts.

Assistance in researching and reaching international markets

Just as Canadian audiences are fragmented and marketing requires a long tail approach, international audiences are also niche in their own ways. All the challenges of discoverability for Canadian audiences is replicated in every territory worldwide.

Thanks to digital content platforms, releasing content directly into international markets is easier than ever. However, for a successful release, content may not only need to be translated or subtitled, but cultural differences may require revisions to a game's story, art, character descriptions, or if releasing something like web series, require some specially tailored supporting videos.

Like domestic markets, simply finding an international publisher or distributor is a challenge. Self-distribution requires research to properly find regional influencers, bloggers and journalists, and understanding the local social media best practices is key.

Global Affairs Canada, under their former banner DFAIT, has helped in matchmaking Canadian companies with international partners, but the lack of funding to the representatives overseeing IDM has made it difficult for them to fully understand industry needs. We are very lucky in Ontario to have Interactive Ontario as our industry association. Among their many activities, they have reached out to the Canadian Trade Commissioner service, bringing Trade Commissioners to local events to meet members, and helping connect members to the Commissioners whose portfolios support IDM worldwide.

Industry Associations like Interactive Ontario are fantastic for small, independent digital cultural entrepreneurs. Examples include their research studies on the forms of digital co-production for IDM ⁷. If market research funding and export assistance funding could extend to industry associations, it will take the strain off smaller digital enterprises from undertaking their own often expensive research. With input from members on recurring concerns or interests, Interactive Ontario and CIAIC can ensure market research is current and relevant. Interactive Ontario's GameON:Ventures 2016⁸ was programmed in response to members asking for more potential international partners to be present for the event, a very efficient way to facilitate international collaboration.

Recommendation 11: Support CIAIC recommendations for expanded export assistance, the creation of a localization fund, and modernization of PromArts and Trade Routes.

Recommendation 12: In addition to Recommendation 11 above, we want to emphasize that creation of such programs allows for funding of important activities by industry associations. Industry associations support digital enterprises by undertaking generalized market research, the development of international contact lists relevant to members, and aiding with networking, among other activities. To achieve this, funding should allow them to undertake research, travel to trade shows, markets and festivals, and must subsidize the cost of bringing in international partners for local events.

Initiatives to allow for collaboration with non-IDM organizations and other agencies

While digital cultural content isn't new to Canadians in 2016, there are many new opportunities for cultural organizations to collaborate with digital creators.

Heritage Canada used to oversee some excellent programs that allowed cultural institutions and community organizations to expand their services into digital. The most recent iteration was called The Canadian Interactive Fund, which was abruptly cancelled only a few years ago. Before that it was the Partnerships Fund. Resurrection of these sorts of programs and the creation of new incentives are exciting opportunities for digital content entrepreneurs and other areas of Canadian culture for collaboration to build new cultural content and experiences. These organizations are struggling to make their mark by creating relevant digital content with small budgets squeezed out of their operations or marketing funding.

Recommendation 13: Reinstate the Canada Interactive Fund / Partnerships Fund to provide funding for collaboration between digital cultural producers and cultural organizations, including but not limited to First Nations Tribal cultures, Inuit organizations and Métis Organizations, Canadian educational

⁷ International Digital Co-Production: A Guide for Canadian Companies http://interactiveontario.com/wp-content/uploads/2015/12/GuideForCanadian-Companies_English.pdf and 2016 expansion on Asian and Latin American markets http://interactiveontario.com/wp-content/uploads/2016/11/GuideForCanadian-Companies_Final_EN_SM.pdf

⁸ GameON:Ventures website <http://gameonventures.io/>

institutions, and provincial, territorial or municipal government institutions (e.g. museums, cultural associations).

Recommendation 14: Heritage should encourage the CBC and the NFB to allocate more resources (including financial) to collaborate with private sector creative enterprises for mutually beneficial production.

Recommendation 15: Further to Recommendation 7, if non-IDM companies access digital marketing funding, they should be encouraged use the funding to collaborate with experienced IDM studios or professionals. This will not only ensure that they deploy a strong marketing strategy, but it allows for the cross-pollination of cultural ideas between non-IDM and IDM professionals.

Conclusion

We feel very strongly that Canadian culture must be supported as the world embraces interactive digital media. Canada is a world leader, known for innovative content, superbly skilled craftspeople and forward thinking companies. Yet for digital cultural enterprises to continue to thrive, it is urgent that companies be supported and nurtured, ensuring a diverse Canadian workforce be in place, now more than ever.

Sincerely,



Sasha Boersma
Co-Founder/Producer
Sticky Brain Studios



Ted Brunt
Co-Founder/Producer
Sticky Brain Studios