Strategis | **Information Technology and Telecommunications** | Help | What's New | Site Map
 | | Feedback | About Us | Français

GO TO ⇨ Main Menu
         ⇨ Business Information by Sector
         ⇨ Information Technologies and Telecommunications

Search **Strategis**

Case Studies on the Impact of Multimedia Activities on the Film Industry
Summary of Findings

- Introduction
- The Companies Studied
- Highlights of Common Issues and Challenges Raised by the Case Studies
- Future Work

Introduction

The knowledge-based economy is not well understood and information on its impacts is very limited. It has been observed that there are similarities between new media content and traditional content industries that may lead to crossovers between companies. Three case studies were commissioned by Industry Canada, New Media and Entertainment Directorate, in the hopes that they would provide traditional content producers direction in assessing the impact of entering the multimedia market and uncov r the issues and challenges of this new market for them. Specifically, they undertake to study the impact of multimedia activities on audiovisual companies and observe three different strategies for entering the market. The case studies are being used as information tools and will help direct our future efforts in industrial development.

Three audiovisual companies were selected for the case studies: Malofilm Communications, Combined Media Inc. and Heartland Motion Pictures (Pebble Beach Interactive). These firms selected are not "average firms", since no firm is likely to be a representative of the average. Still, we anticipate that the issues and concerns raised by these companies will likely be of interest, generally, to audiovisual companies anticipating a foray into multimedia and to other firms in the market.

These case studies were completed in March 1997 and reflect the situation of the companies at that point in time. As such, they are accurate. However, multimedia is a rapidly evolving, dynamic industry and paradoxically, unexpected change can almost be anticipated. Major changes have already occurred in two of the participant companies, so the information does not reflect the companies as they now operate. This does not make the findings useless. Rather, it makes them more interesting since it demonstrates the volatile nature of the industry that can lead to companies having to change direction as a result of either internal or external forces. Industry Canada hopes to follow up with the firms or principals involved, in the next year, in order to better u derstand the nature of the multimedia market and the way businesses adapt to changes in that market.

It is often asked if the knowledge-based economy is creating growth and new jobs. This cannot be answered by the results from three case studies. But it does appear that if market issues are resolved, opportunities exist in this area for both job creation and growth. Hopefully, additional work being undertaken in this sector will give us some answers to if and when the sector will produce the growth results so anticipated by everyone involved.

Comments/Suggestions/Questions about this document.

98-05409/p

Strategis · Information Technology and Telecommunications | Help | What's New | Site Map | Feedback | About Us | Français

Search Strategis

GO TO   ⇨ Main Menu
         ⇨ Business Information by Sector
         ⇨ Information Technologies and Telecommunications

Case Studies on the Impact of Multimedia Activities on the Film Industry
Summary of Findings

The Companies Studied

Malofilm Communications (now Behaviour Communications)

Malofilm Communications (now Behaviour Communications) is a major Canadian producer and distributor of audiovisual products, and is also involved in animation and interactive productions. In 1994 the new media division was created, and since then Malofilm made several acquisitions to strengthen its position in the multimedia market. These include acquisitions of the Megatoon Entertainment Group, Readysoft, and MMI Multimedia Interactif. In 1996, control of Malofilm was acquired by BHVR Communications. Hence, the company's main strategy for growing its multimedia capabilities has been that of acquisitions.

The multimedia division of Malofilm, Malofilm Interactif produced several different types of multimedia products, mainly games, infotainment titles and entertainment titles. The company was also involved in multimedia publishing and distribution of in-house and third party titles.

One of the reasons Malofilm entered multimedia was because of the potential synergies between its traditional divisions and the new media. It believed that this division would provide another avenue to use content owned by the company. It was hoped that in the future digitized content from audiovisual products would be easily reused in games and interactive programs and vice versa.

The case study was completed in March 1997 and reflected the firm's structure at that time. In May 1997, a major reorganization and restructuring was announced, including a name change (to Behaviour Communications as noted above) and changes to senior management. These changes and any changes in plans or priorities are not reflected in the case study.

Combined Media Inc. (Owl Communications and Mackerel)

Combined Media Inc. (CMI) was created in 1996 by the integration of Owl Communications and Mackerel Interactive. Owl is a publisher of magazines and books and a producer of television programs and Mackerel was an interactive media company designing interactive marketing products and services and consumer products.

These companies brought together knowledge on the production of high quality television, magazines, books and interactive products for children, as well as skills in interactive marketing and interface design services. The integration of the two companies came about as a result of Owl's search for an alliance partner in interactive development to extend to other areas the use of its television concept/characters and Mackerel's interest in ties with a content provider. Each company had skills, experience and resources that met the needs of the other partner.

Owl's decision to seek an alliance as opposed to a one time partnership was based on its experience that had shown that developing long term alliances resulted in more effective working relationships and better products.

In July 1997, 4 months after the completion of the case study, changes were announced that mean the dissolution of CMI as a partnership. Mackerel announced it was closing operations as a result of cash flow

problems, while Owl temporarily suspended its operations while management considers its alternatives, Owl's publishing activities are expected to resume in the fall and Owl's television production resources have been sold to Cosient Group Inc., a Canadian television and film producer. The case study does not cover these events.

Heartland Motion Pictures/Pebble Beach Interactive

Heartland Motion Pictures, founded by Mr. Stephen Onda, is a company specialized in production of light informational and dramatic television and films. To meet the opportunities Mr. Onda's saw in the school and the home market for interactive products and in the area of Computer-based Training (CBT), in 1996, he created a separate company, Pebble Beach Interactive, in collaboration with Leif Storm.

Pebble Beach Interactive (PBI), located in Saskatchewan, is an interactive multimedia production company which produces and distributes educational interactive products. Working with the Department of Education in Saskatchewan, the company planned to use its local market as a jumping off point for producing and distributing educational interactive products to the world market. The company has already created two curriculum-based titles which have been approved for classroom use in Saskatchewan.

Comments/Suggestions/Questions about this document.

Strategis — Information Technology and Telecommunications

Help | What's New | Site Map | Feedback | About Us | Français

Search Strategis

GO TO ⇨ Main Menu
⇨ Business Information by Sector
⇨ Information Technologies and Telecommunications

Author - Groupe Secor   Publication Date - 1998-06-08

Note: This case st completed in March 1997 and reflect the situation of the company at that point in time. As such, it te. However, in May 1997, a major reorganization and restructuring was announced by Malofilm, including a name change (to Behaviour Communications as noted above) and changes to senior management. These changes and any changes in plans or priorities that they involved are not reflected in this case study.

Malofilm: A Multimedia Activity Assessment

Table of Contents

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canada

http://strategis.ic.gc.ca

Strategis | Information Technology and Telecommunications | Help | What's New | Site Map | Feedback | About Us | Français | Search Strategis

GO TO ⇨ Main Menu
          ⇨ Business Information by Sector
          ⇨ Information Technologies and Telecommunications

Author - Groupe Secor

Malofilm: A Multimedia Activity Assessment

Introduction

___

Objective

Industry Canada wants to better understand the transformation of traditional content industries as they enter the multimedia environment, identifying special opportunities for industrial development or training, and the difficulties which are linked with the opportunities of this transformation. Knowing this will help Industry Canada and other government departments to ensure constant development of content and information-based industries, when faced with the challenges posed by the information superhighway, and by knowledge-based industries.

To fulfil this mandate, Industry Canada has asked Groupe SECOR to conduct a case study concerning Malofilm Communications. This study is designed to set out the reasons which have prompted it to penetrate this market sector, as well as document the impacts its multimedia operations have on the business, particularly with respect to strategic planning, employment, and financial performance.

This study also sets out the differences between multimedia activities and the activities traditionally performed by the business, whether these activities concern production, distribution, marketing, and so forth.

Report Structure

This report is divided into five main sections.

1. **History:** This initial section sets out the main events in the evolution of the business, and states those factors which have prompted Malofilm to enter the multimedia market. Particular attention is given to the method chosen to penetrate this sector, and the development strategy chosen.
2. **Multimedia production:** This section describes the production methods used for multimedia applications, the activities performed both inside and outside the business, the technology and equipment required, the area in which each one of the operations is performed, and so forth.
3. **Human resources:** This section deals with the staff assigned to the firm's multimedia operations, skill requirements, as well as the challenges involved in recruiting and training which the business faces.
4. **Distribution:** At this point, the study identifies the various distribution networks used, both for physical distribution and for direct market access, and explains the marketing and promotional strategies favoured.
5. **Finances:** The final section of the report examines the financial aspects of the multimedia activities, primarily the application cost structure, the profit picture for the various products, and the manner in which operations are financed.

Methodology

This study is based primarily on relevant secondary information concerning the business -- annual reports, action plans, press releases, and so forth -- and on interviews with the firm's main managers involved in multimedia activities.

A list of the persons consulted is set out in the appendix to this report.

[::] *Comments/Suggestions/Questions about this document.*

Canada

http://strategis.ic.gc.ca

Strategis | **Information Technology and Telecommunications** | Help | What's New | Site Map
| | Feedback | About Us | Français

GO TO ⇨ Main Menu
⇨ Business Information by Sector
⇨ Information Technologies and Telecommunications

Author - Groupe Secor

Publication Date - 1998-06-09
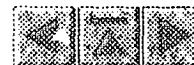
Malofilm: A Multimedia Activity Assessment

General Context

I. Business History
- Mission and raison d'être
- Structure
- Major events since 1995

II. Operating Strategy
- Marketing Extent Strategy
- Entry to the Multimedia Sector
- Entry Strategy
- Choice of Enterprises Acquired and Selection Criteria

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canadä

http://strategis.ic.gc.ca

Malofilm: A Multimedia Activity Assessment

Business History

- Mission and raison d'être
- Structure
- Major events since 1995

Mission and raison d'être

Malofilm Communications is one of the biggest Canadian corporations engaged in the audiovisual entertainment industry. The corporation is actively engaged in development, production, distribution and international sales of full-length feature films, video cassettes, television programs and interactive products.

Malofilm Communications enjoys a top-ranked position among independent producers of video cassettes on the Canadian market, and holds shares in TotalNet, an Internet service provider.

The Corporation's offices are located in Montreal, Toronto, Quebec City, Los Angeles and Paris, and its shares are traded on the Montreal and Toronto stock exchanges.

Over the years, this corporation has been distinguished by its successes, such as the Denys Arcand's feature film, *The Decline of the American Empire*, and in particular, by the position which it enjoys in the area of distribution of full-length feature films and video cassettes, as shown by its exclusive agreements with major content suppliers such as Paramount, Trimark/Vidmark, Samuel Goldwyn, Turner, Hanna-Barbara, Nelvana, Norstar, Savan and International Keystone.

Structure

The business is structured into to two major activity sectors: **production**, an activity which brings together cinematographic and television production, animation and interactive production; and **distribution**.

More precisely, the primary divisions within the business are:

- **Movie and television production**: the division emphasizes projects which are developed by the Corporation in the areas of direct-action productions and, in some cases, on co-productions with existing entertainment product suppliers. Original productions created by Malofilm are distributed through various distribution mechanisms such as movie-theatre distribution, videos, pay-per-view television, cable television, and conventional broadcasting. Since the recent acquisitions of *Filmline International*and *Image Organization*, the production division represented, in 1996, 10% of Malofilm revenue, compared with 2% in 1995.
- **Animation**: this division includes traditional 2-D and 3-D animation groupings, with no division separating the creative activities of these two groups. With the acquisition of *Desclez Productions*, the animation division is an important part of the company, suppling high-quality series for children. Malofilm is currently developing a number of series designed for late-night television broadcasting, which will fill a

need for quality productions designed for this audience group.
- **Interactive productions**: In 1995, the company created Malofilm Multimedia, which distributes CD-ROM titles to the Canadian market. In addition, Malofilm has acquired *Megatoon Studios*, making for an initial incursion into a very promising niche market in interactive multimedia products for desk-top, set-top and direct-access platforms. To advance its multimedia activities, Malofilm has recently acquired *MMI Multimedia Interactif*, a business specializing in the development and production of **Infotainment** titles on CD-ROM, and *ReadySoft*, an industry leader in the development and publication of entertainment software in Canada. The addition of the MMI and ReadySoft infrastructure to the activities already conducted by Malofilm Communications gives it a first-place ranking among combined Canadian corporations for development and publication of interactive digital media.
- **Distribution**: The Malofilm distribution division is responsible for all aspects of distribution and marketing, including the negotiation of contracts by Malofilm in the areas of film, television, video, music, publications and derived products. With an excellent reputation in the area of distribution, Malofilm distributes to theatres nationwide and dominates the markets for rental and direct sale of video cassettes. Property rights, as well as derived rights and the capacity for making use of these rights and distributing them, constitute the primary concern of the division. Knowledge of markets and their potential for growth represents the key for growth of the division, and for its success.

ORGANIZATIONAL CHART - MALOFILM COMMUNICATIONS
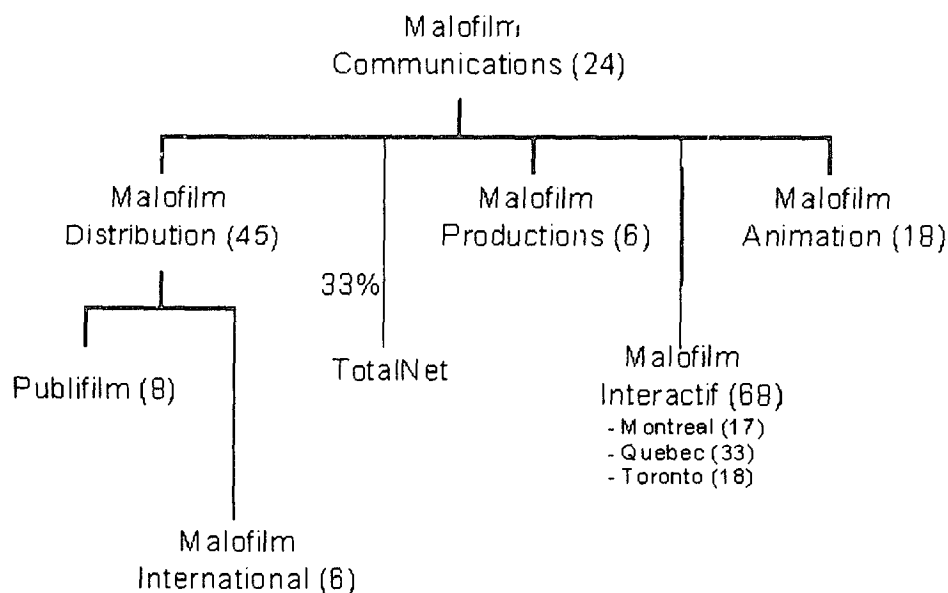
CORPORATE HISTORY

The following "calendar" sets out the major events in the history of Malofilm Communications, from its founding to 1994.

1970
- Image Corporation formed, a business engaged primarily in producing educational films.

1973
- Creation of Films René Malo, a business engaged primarily in film distribution

1982
- Acquisition of 50% of New World Mutual Pictures, and cataloguing of Mutual Films, a major distributor of Canadian films.

1987
- Image Corporation becomes Malofilm Productions.

1988

1988
- René Malo Vidéo and Les Films René Malo become Malofilm Distribution.
- The Groupe Malofilm is created as a parent corporation for Malofilm Productions and Malofilm Distribution.
- Malofilm Distribution acquires 50% of the "remainder" of New World Mutual Pictures, and becomes the sole proprietor.

1991
- Groupe Malofilm sells Malofilm Distribution

1993
- Malofilm Communications created.
- Groupe Malofilm acquires Malofilm Distribution.
- Malofilm Communications acquires Malofilm Distribution and 51% of Malofilm Production. Groupe Malofilm becomes a management corporation, which holds the majority of shares in Malofilm Communications.
- Malofilm Communications completes a public offering of $6.. 5 million.

1994
- Malofilm Communications acquires 49% in Malofilm Production from SPEQ Malofilm.
- Malofilm Communications acquires 5% of the capital of Keystone Entertainment
- Creation of the new media division.

Major events since 1995

Malofilm has experienced spectacular growth, with a gain in gross revenues of more than 30% during the last four years, resulting in an increase from $15 million in 1992 to $48 million in 1996. This growth should continue during the next few years, and the business revenues are expected to be in the neighbourhood of $100 million for the 1997 fiscal year.

All of the firm's areas of activity have experienced this growth. In absolute terms, each of the activity sectors has grown regularly. Since 1995, however, some new sectors have been making significant contributions to this expansion. In particular, the animation section has made a major contribution to the firm's activities, representing 14% of 1996 revenues. By the same token, the multimedia sector has become increasingly important, although remaining limited, with 4% of all of the firm's revenues.

DISTRIBUTION OF MALOFILM REVENUE - 1992-96

	1992	1993	1994	1995	1996
Total Revenues ($M)	14.9	19.1	31.1	38.9	48.3
Production	-	-	4%	5%	10%
Distribution	100%	100%	96%	92%	72%
Animation	-	-	-	-	14%
Multimedia	-	-	-	3%	4%
Total	100%	100%	100%	100%	100%

Source: Malofilm

Malofilm has made a series of investments and acquisitions during the past two years. These investments and acquisitions have contributed to reinforcing its market position, and in affirming its presence as a major player in the multimedia sector. The main transactions are as follows:

MEGATOON INVESTMENT GROUP OF QUEBEC CITY, IN MAY 1995

A digital production corporation specializing in the production of interactive animated games for computers, on-line services and games consoles, acquired for $1 million.

Active since 1992, Megatoon Entertainment Group (now called Megatoon Studios) is at the leading edge of interactive entertainment on CD-ROM platforms. This corporation has earned a solid international reputation for itself, by marketing products such as *Goferwinkle's Adventures,* the first interactive comic strip in the world, as well as the interactive series of comic strips known as *Wallobee Jack*, which have been translated into five languages and are among the most-widely sold titles in the United States.

At present, Megatoon's CD-ROM division is engaged in developing the fifth *Wallobee Jack* title and a game based on *Mighty Machines*, the popular children's television program. Megatoon Studios also intends to revolutionize the on-line entertainment world by introducing *Kryodrones*, a strategic combat-based game. This title, which is intended solely for use by multiple users, will be one of the first to be linked exclusively to the Internet. Megatoon Studios is also developing an all-3-D nonlinear exploration game, *Jersey Devil*, designed for the Sony PlayStation console, the Sega Saturn console and the Windows 95 operating system.

TOTAL INTERNET, MONTREAL DECEMBER 1995

The acquisition of Total Internet was followed up the formation of the TotalNet: a combination of access services held by Megatoon in Quebec City, by Total Internet andby two other Internet access providers in Montreal. Malofilm has a 33% share in this business.

Today, TotalNet is the third-largest supplier of Internet and on-line services in Canada, and the top-ranked supplier in Quebec. The firm is continuing with its record of sustained growth: its initial clientele has been multiplied by five in just six months, with 38,000 subscribers as of late December 1996.

IMAGE ORGANIZATION INC., LOS ANGELES, SEPTEMBER 1996

A production company specializing in distribution in full-length feature films and films for television, acquired for US $4.6 million cash from reserve funds, as well as potential dividends, based on future performance.

This acquisition has added 74 film titles to the Malofilm catalogue, and has provided it with a solid foreign distribution and production infrastructure in the United States. Five films are currently in the production stage: *The Nurse*, *Cupid*, a co-production with the Live Entertainment Company, and *Stranger in the House*, *Man of her Dreams* and *The Listener*.

The addition of Image Organization should increase the gross annual revenues for the company by about $10 million in 1997.

FILMLINE INTERNATIONAL, MONTREAL, IN SEPTEMBER 1997

The biggest acquisition of its history, and the one that places Malofilm among the leaders in the prod·   ,, of full-length features and films for television in Canada.

Filmline was acquired for $2 million cash, as well as a performance premium based on future performance of the firm. The firm was acquired from Nicolas Clermont, one of the most prolific independent producers in Canada.

In 1995, Filmline had an order book for $58 million in the production of full-length feature films, television series, films for television, and so forth.

Among other things, the firm produces the *Highlander* television series, a co-production with Gaumont SA of France. The business is currently shooting *Hellbent*, a $16.2 million production; *Primal Scream*, a full-length feature film produced for $4.7 million, and has recently concluded the production of *Natural Enemy* ($6.2 million) and *Silent Trigger* ($10.5 million), co-produced with Algonquin Productions in the United Kingdom.

This acquisition should add between $20 and $30 million to Malofilm's 1997 revenues.

READYSOFT INC., TORONTO, SEPTEMBER 1996

One of the biggest developers and publishers of entertainment software in Canada, acquired for one million dollars, in the form of cash and Class B shares, in addition to financial considerations based on future returns on the profits of the business.

ReadySoft produces and edits interactive animated action games, including *Space Age*, *Wrath c. the Demon*, *Ishar 3*, *Guy Spy* and *Robinson's Requiem*. ReadySoft's latest titles include *Brain Dead 13*, *Kingdom*, *Shadoan*, *The Music in Me*, *Deus* and a sequel to its initial success, *Dragon's Lair*.

The heart of ReadySoft's activities is animated action and adventure games for digital interactive media. Its

strategy consists of acting as a publisher of content for various "desk-top" and "set-top" platforms. These platforms currently include CD-ROMS for IBM PCS and Macintosh systems, and for Sega Saturn and Sony PlayStations.

ReadySoft has built up a network of distribution partners throughout the United States Canada, Europe, Japan, Australia, the Middle East and South America. ReadySoft is also responsible for the North-American distribution of titles by many Canadian, American and European developers.

ReadySoft should add between $6 and $8 million to Malofilm's revenues in 1997.

MMI MULTIMEDIA INTERACTIF INC., MONTREAL, JULY 1996

A producer of multimedia titles on CD-ROM, primarily *infotainment*.

MMI's development strategy consists of obtaining the rights to content which has a specific commercial value and negotiating distribution agreements, before these applications are developed.

The history of the Montreal Canadiens, co-produced by MMI and Malofilm, has enjoyed a great deal of success and MMI has just finished producing six CD-ROMs, entitled *NHL Original Six*, which set out the histories of the first six NHL teams.

At present, MMI is currently busy producing a series on the WWF (World Wrestling Federation), and a series entitled *PGA Tour*, which deals with professional golf.

MMI should contribute between $1.5 and $2.2 million in revenues for Malofilm in 1997.

DESCLEZ PRODUCTIONS INC. MONTREAL, DECEMBER 1995

Desclez, a producer of television programs for children, was acquired for $5.5 million, $1.3 million in cash and $4.2 million in subsidiary voting shares.

Desclez Productions specializes in producing series of puppet-based television and animation programs designed for young people. These televised series are then distributed throughout Canada and on international markets.

Productions Desclez has made itself known particularly through its children's series *Iris, le gentil professeur*. This series is distributed to about forty countries. Productions Desclez is currently concluding 52 new episodes of *Petite Étoile*, a program intended for use by *Discovery Communications* and *Ravensburger*, and is currently finishing up the French-language version of 26 episodes of *Petite Étoile*, with Radio-Canada. Desclez is currently in a pre-production phase for its two new animation series, known as *Île de la Tortue* and *Mirob*.

In addition, Desclez Productions is currently working on marketing a complete line of products derived from its television programs.

It is anticipated that this acquisition will contribute $7 million in additional revenue for Malofilm in 1997.

OTHER TRANSACTIONS

However, the most significant event during these past few years is not any acquisition which Malofilm has made. Rather, this event is the acquisition of Malofilm (the interest held by René Malo) by **BHVR Communications**, an investment corporation controlled by the shareholders of Discreet Logic, in April 1996, for $21 million.

This transaction has coincided with the departure of René Malo from the company which he founded, and the hiring of Robert Hogan, a tax lawyer with the firm of Stikeman Elliot, as President and Chief Operating Officer.

OTHER STRATEGIC AGREEMENTS

Apart from these main acquisitions, some other important events have marked the recent changes in this business.

In October 1996, Malofilm signed an exclusive three-year distribution agreement with **BMG Video**, a subsidiary

of the BMG Entertainment Division of the German Bertelsmann group, which is involved in distributing and marketing audiovisual entertainment products. This agreement covers the distribution of full-length videos, as well as titles for children and fitness videos for all Canadian media.

Malofilm has also renewed its three-year distribution agreement with **Republic Entertainment**. This agreement gives Malofilm the distribution rights to a number of hit feature-length films. As an example, Republic's catalogue includes such "classics" as *It's a Wonderful Life* and many John Wayne films.

Recently, Malofilm negotiated an exclusive distribution agreement for all pictures owned by the **In Pictures** of New York, for all Canadian media.

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canadä

http://strategis.ic.gc.ca

Author - Groupe Secor

Malofilm: A Multimedia Activity Assessment

Operating Strategy

During the past few years, Malofilm has clearly expressed its desire to position itself as a major supplier of audiovisual content on the Canadian and international markets, distancing itself from its former function as an exclusive distributor, to take on a position as a player in an integrated vertical system. By assuming this new role, Malofilm hopes to enjoy the economic and strategic benefits which result from control over both content and methods of distribution.

In film productions, the recent acquisition of Filmline International and Image Organization has made Malofilm among the main producers of full-length feature films, films for television, television series and mini-series in Canada. As far as programs for children are concerned, the acquisition of Productions Desclez means Malofilm will have access to a major catalogue of existing and future products for distribution in Canada and abroad, and positions Malofilm to realise strong growth and improved profitability.

As far as multimedia is concerned, the acquisition of Megatoon, MMI and ReadySoft has strengthened its position as a developer, publisher and distributer of interactive products.

Finally, Malofilm Communications has consolidated its position among independent Canadian distributors, with a catalogue of more than 8,000 titles, while maintaining exclusive long-term distribution agreements with a number of content suppliers.

- Marketing Extent Strategy
- Entry to the Multimedia Sector
- Entry strategy
- Choice of Enterprises Acquired and Selection Criteria

Marketing Extent Strategy

Malofilm is an example of a business using a wide-ranging strategy to achieve earnings for its shareholders. This strategy requires that the operation of various strategic assets held by the firm -- in this case, its creative competence and its distribution expertise --are maximized over a multitude of distribution outlets. These distribution outlets include:

- Movie theatres;
- Video clubs;
- Pay-per-view television;
- Conventional television;
- Retailers (sales of video cassettes and CD-ROMs);
- The Internet, over the short term, as a means of promotion and ordering video cassettes and CD-ROMs, and over the midterm for on-line distribution.

Being active over these distribution windows gives Malofilm a considerable advantage, since it gives the firm, as a producer and publisher, the opportunity to use the same product or concept in a large number of markets,

maximizing potential revenues.

Entry to the Multimedia Sector

The original decision by Malofilm managers to penetrate the multimedia market was based on two main principles:

- The multimedia market was identified as having the best forecasts for growth of all sectors in the communication industry;
- The convergence of media and platforms created major business opportunities for all owners of media content and creators of such content.

HIGH MARKET POTENTIAL

Studies indicate that, both in residential and commercial consumption, the market for multimedia products on optical media and on-line should show annual growth rates of approximately 15% over the next five years. Such growth is greater than anticipated for all other media, as the following table shows.

EXPENSES PER PERSON PER YEAR - US MARKET (US $)

	1995	1996	1997	1998	1999	2000	CAGR
Television	121.82	133.25	142.42	150.61	158.14	165.58	6.3%
Sound Recording	56.84	59.21	62.36	66.89	72.41	79.90	7.0%
Newspapers	49.85	52.30	54.23	56.14	57.65	59.34	3.5%
Periodicals	36.10	37.24	38.60	39.90	41.53	43.23	3.7%
Books	80.62	85.73	89.87	93.49	97.72	101.57	4.7%
Videos	79.10	82.80	87.55	91.95	94.94	96.80	4.1%
Movies	25.39	25.46	25.69	25.91	26.24	26.66	1.0%
Interactive games	16 86	149.43	22.71	24.14	25.08	26.03	9.1%
Online services	16.24	24.80	32.32	39.61	45.96	45.74	23.0%
Educational games	2.64	3.04	3.69	4.11	4.39	4.50	11.2%
Total	485.56	523.27	559.45	592.76	624.08	649.35	6.0%

*Source: Veronis, Suhler & Associates Communications Industry Forecast. * Compound Annual Growth Rate*

MEDIA AND PLATFORM CONVERGENCE

Entering the multimedia sector represented, for Malofilm, a logical step in its development, following the market penetration model, by allowing it to use new distribution windows accessible through digital techniques. In effect, not only does digitization make it possible to create new types of interactive content, digitization even allows traditional "linear" products to be digitized, and thus have new uses, or to have these products transmitted on digital support media (CD-ROM, CD-I, and eventually DVD), and finally, by direct access.

For example, content produced for television, videos or even the big screen, could be used for multimedia purposes and, inversely, multimedia content could be used on other platforms. As owner of a major catalogue of audiovisual productions and some major internal production capacities, the possibility to conduct "cross-operation" of content on new platforms provides Malofilm with another area where it can generate value added.

Entry strategy

To carve out a position in this new industry, where risks are high and major international players dominate, Malofilm has opted for a strategy based on two leading guidelines:

- Malofilm set a strategy of vertical integration, and wished to take an active part in both development and publishing;
- Market entry should be conducted in a prudent and gradual manner, and through acquisitions, rather than through internal development.

VERTICAL INTEGRATION

An assessment of the financial results for multimedia developers quickly showed Malofilm that it was better for the company to emphasize its role as a publisher.

The fact is, only a small number of multimedia developers are profitable. The development cycle for multimedia products is long, fixed costs are high and the market is limited. As a result, application developers seldom maintain sufficient production volumes to ensure growth and acceptable returns for shareholders. As in the movie sector, small multimedia developers must confine themselves to producing products for major publishers, and cannot obtain any rights for product distribution.

As shown by the model of the US majors, only those publishers which are big enough to take on an extensive portfolio of products can ensure any degree of continuity in their activities, and hope to obtain an appropriate return on their investments. In effect, for any type of production (multimedia or not) where the fixed costs are very high and the revenues are very uncertain, the portfolio concept is crucial for success, because an extensive portfolio ensures that the income generated by the better-performing titles will compensate for the poor performance of other titles. In addition, large production volume makes it possible for the business to:

- Maintain a continuous presence on the market;
- Maintain an adequate cash flow;
- Keep employees motivated.

Finally, as Malofilm already had expertise and a reputation in audiovisual distribution, adding the role of multimedia publisher fit perfectly with the business. The similar primary functions include, negotiating copyright, financing, duplication, packaging, marketing, promotion, rights operation and granting of licences, allowing the corporation to enjoy the benefits of some major synergies among its "traditional" and multimedia activities.

DEVELOPMENT BY ACQUISITION

Malofilm had, from the beginning, encouraged a development approach in the multimedia sector which is based on **acquisitions**, rather than being based on internal development. There are a number of reasons behind this policy, in particular:

- Expertise in this new sector is enjoyed primarily by entrepreneurs who have started up their own businesses. The US majors that have attempted to penetrate this sector through internal development have experienced some astounding failures;
- Timing is crucial. Even in the hypothetical case where internal development does succeed, the time required to develop creative and technical expertise and the distribution networks (which are very different from traditional audiovisual networks) would place the firm at a major strategic disadvantage.

In addition, Malofilm wanted to enter this area on a small scale, that is, by acquiring relatively modest businesses, so as to minimize the risks linked to the market and to technology, among other things.

Choice of Enterprises Acquired and Selection Criteria

The criteria used to choose the enterprises to be acquired included: size, activity sectors (Malofilm wished to limit itself to the consumer market -- a market which it already knows very well) and skill.

According to these criteria, Malofilm has rapidly chosen to orient its activity to interactive production in sectors which already enjoy a certain degree of popularity and which present a moderate degree of risk. These areas of activity are games and infotainment titles.

The managers therefore set their sights on Megatoon of Quebec City, whose strength lay in its capacity to create content, and which was piloted by an award-winning team of 2-D and 3-D animators. This business had the two essential qualities to succeed in multimedia development, creativity and mastery of evolved technologies. In addition, the business was at a stage where it needed additional capital to grow.

Malofilm has also been quick to realize that creative capacity was not enough if it wanted to carve out a place for itself in this rapidly growing field. Malofilm absolutely had to acquire solid management experience in the field of multimedia activities, and to own its own distribution network. Consequently, it decided to acquire MMI

and ReadySoft in 1996.

The acquisition of MMI allowed Malofilm to obtain licences for multimedia products, to diversify into products other than games and, in particular, to acquire the management and financial experience it needed. In addition, the president of Malofilm also comes from MMI.

As for the acquisition of ReadySoft, this was guided primarily by the quality of its distribution network, and by its many contacts on the US market, established primarily through the success of its *Dragon's Lair* title.

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canada

http://strategis.ic.gc.ca

Strategis | **Information Technology and Telecommunications** | Help | What's New | Site Map
Feedback | About Us | Français

Search **Strategis**
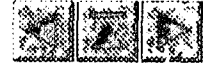
GO TO ⇨ Main Menu
⇨ Business Information by Sector
⇨ Information Technologies and Telecommunications

Author - Groupe Secor

Malofilm: A Multimedia Activity Assessment

Production

I. Description of Multimedia Activities
   · Multimedia Products/Services
   · Applications Components
II. Production Methods
   · Production Cycle
   · Equipment and Technology
III. Malofilm Interactif's Strategy

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canadä
http://strategis.ic.gc.ca

GO TO   ⇨ Main Menu
         ⇨ Business Information by Sector
         ⇨ Information Technologies and Telecommunications

Author - Groupe Secor

Malofilm: A Multimedia Activity Assessment

Description of Multimedia Activities

- Multimedia Products/Services
- Applications Components

Multimedia Products/Services

Malofilm Interactif is engaged in various aspects of multimedia activities, including applications development, multimedia publishing and the distribution of products developed internally, as well as by third parties.

The primary types of products are:

- **Interactive games.** Produced or published by Megatoon in Quebec City, and intended primarily for teenagers and young adults, including such titles as *Jersey Devils, Deus,* and so forth. These games accounted for 76% of Malofilm Interactif sales in 1996.
- **Infotainment titles,** produced or published by MMI in Montreal. These titles include a series of six titles dealing with NHL hockey clubs, a series of titles about the *World Wrestling Federation* and various titles about home issues. These titles accounted for 16% of Malofilm Interactif sales in 1996.
- **Edutainment titles,** originally produced in Quebec City, but now produced in Montreal. Primarily intended for children, with titles like *Wallobee Jack* and *Mighty Machines.* This type of application accounted for 8% of Malofilm Interactif sales in 1996.

The firm has not made any effort to serve the institutional or business markets. Its primary mission is to serve the consumer market, where Malofilm already has a great deal of in-depth knowledge, and enjoys solid contacts with partners engaged in various aspects of the distribution networks.

At the present time, these applications are supplied on optical disks intended for PC and Mac platforms and for games consoles such as Sega and Sony. A number of applications are also designed for kiosks, that is, in games arcades.

DISTRIBUTION OF SALES OF MALOFILM MULTIMEDIA TITLES - 1996

	IBM PC	Macintosh	Sega	Sony	Other	Total
Proportion	46%	2%	13%	37%	2%	100%

Source: Malofilm

Applications Components

SOURCES OF COMPONENTS USED

The primary components used in multimedia applications vary with the type of application.

- **Interactive games and edutainment titles** primarily combine animated images, created by computers. These applications use very little (less than 1% of budget) external content. Only the soundtracks are produced outside the firms.
- For **Infotainment titles**, the content, by contrast, is largely "acquired." The acquisition of content accounts for approximately 35% of the total application's budget. This acquisition is generally performed through granting of licences negotiated with the copyright holders. To this content must be added other types of information created for the interactive product, including graphics, sound, text, and so forth.

COPYRIGHT

The issue of copyright does not constitute a major area of concern for "games"-type applications, owing to the fact that most of this content is created internally. In addition, as the Malofilm's strategy with respect to the production of games and edutainment products is partially based on the use of "traditional" types of content on which it already holds the copyright -- such as is the case with the Desclez productions -- Malofilm does not anticipate any major changes to the current situation regarding applications of this type. However, when such titles require sound tracks, these sound tracks are designed specifically for the application, on request by Malofilm, which then demands exclusive rights to their use.

However, in the case of infotainment titles, the situation is completely different. For example, when it developed its production about the Montreal Canadians, MMI had to acquire/negotiate the rights to use various types of content, which consisted primarily of video extracts from hockey games, existing player interviews, and so forth. This operation turned out to be a long and costly one, as is normally the case for any type of reference production (multimedia or not). As each component of a multimedia work is protected by the Copyright Act, negotiation is conducted in the same way as it would be for the "traditional" use of this content.

The acquisition of copyright to various types of Malofilm content is conducted on an individual basis, and the terms of the agreements vary according to the type of use which people plan to make out of them. The individuals in charge of research make up a specialized team in the area of identifying requirements for content, searching out the origin of these content items and negotiating their use. This same team is also responsible for the external creation of content and supervises the work performed by contracted writers, editors, and so forth.

Generally speaking, rights are negotiated for a specific line of products, rather than for an individual application. In this manner, Malofilm does not have to repeat the process for each title in the series. The use of these titles is, as a result, valid for the entire duration of the series in question.

As for the cost of licences, there is no general rule. Everything is based on the use set out in the agreement.

INTERFACE DESIGN

Malofilm Interactif, through its policy of combining its multimedia production activities, creates its own interfaces. What is more, for the production of animated games, the design of this interface is an integral part of the application, and it is technically and creatively inconceivable that the production of content elements could be dissociated from it.

For infotainment products, although crucial to the success of the application (user-friendly, dynamic, . . .) the interface could technically be subcontracted. Malofilm has chosen to equip itself with internal design capacities to exercise a greater degree of control over the final product.

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canada

http://strategis.ic.gc.ca

GO TO ⇨ Main Menu
       ⇨ Business Information by Sector
       ⇨ Information Technologies and Telecommunications

Malofilm: A Multimedia Activity Assessment

Production Methods

- Production Cycle
- Equipment and Technology

Production Cycle

A "standard" multimedia production in the case of Malofilm Interactif is put together in the following manner:

1. **Design phase:** During the design phase, the general parameters for the project are determined, these parameters being the sources of content and the primary characteristics of the product, such as the "logic" governing the production process (generally, using a summary program indicating the navigation paths), the visual aspect of the interface and the types of data to be included in the program.

   A preliminary assessment of the desired clientele is also performed, as well as the platforms for which the title is intended, the equipment and the software required for production, and a very preliminary assessment of the budget and the timetable.

   At the conclusion of this phase, the project is submitted for approval. The assessment of each of the projects submitted is conducted by a team that evaluates the potential of this title according to four criteria: the quality of the content, the quality of the design, i s competitive advantages and its anticipated profitability.

   Once a project is approved, the production team is set up. This team consists of the artistic director, the producer, the programmer-in-chief, the traditional and 3-D animators, the computer graphics artists and the programmers. Work then proceeds to the next phase.

2. **Research phase**: This second phase applies primarily to infotainment titles. At this point, the origin of the various content items must be identified accurately, and their use must be negotiated (acquisition of rights, granting of licences, and so forth).

3. **Design phase**: During this phase the technical specifications must be set out, the production of a "master list" and the design of the scenario and the storyboard.

   This is the stage when the following elements must be documented in an accurate fashion:
   - the list of content which will be required, including drawings, music and sound effects, programming modules, and all other content features which must be produced;
   - a detailed timetable, stating the interrelationships between the work to be performed by various teams, critical dates, allocation of time and tasks to be performed by each employee;
   - techniques and tools required: equipment and software, including peripherals, video cards, compilers, author software, and so forth, along with any new technologies to be developed or licenced and the catalogues to be acquired;

All the main elements of the application must be created. This creation process is performed through the creation of a "bible," which defines the graphic environment for the application. The contents of this "bible" include the following:

- The interface design, including the navigation screens, the icons, and so forth;
- the main personalities found in the application, specifying the colours, the rotations, the various poses, and so forth;
- The designs and the accessories, with colour references;
- The "story board," as in conventional animation, setting out the manner in which the story unfolds.

At this stage, the final production budget must be set out accurately, in cooperation with the Accounting Department.

4. **Production phase**: During this phase, everything which is specific to the application and which has not been created during the design phase is set out.

At this stage, the media must be created: taking of video images and photos, creation of the computer-generated animation, sound recordings, textual composition, and so forth. The elements specific to the content must be digitized (for example, photographs).

5. **Programming phase**: The interactive program, including the preparation of data and the development of the central "engine" for the application, is prepared during this phase. This "engine" is what will dictate the interactions among all the graphic components of the application, and will create the interface between the software and the peripherals, such as the keyboard, the mouse, and so forth.

As far as the production of "game"-type applications, Malofilm Interactif prefers to develop its own "engines" internally, even though it is a costly proposition. For applications as sophisticated and as "personalized" as the ones it uses, it is not possible to use existing commercial software packages, as these packages do not meet specific application requirements. Consequently, Malofilm Interactif has recently developed a 2-D "engine," using ReadySoft, and is currently developing a 3-D "engine" for on-line games. Malofilm also uses a Sony PlayStation "tool box" to develop applications intended for consoles of this type.

For designing infotainment and edutainment titles, Malofilm usually uses existing "engines" such as Macromedia Director. These software packages are designed to be adapted to the user's specific requirements, but the essential components governing navigation and system capacity are already established. This makes using them much easier and less costly than creating in-house software packages.

6. **Post-production phase**: Starting with a Beta version, a team gets busy testing and debugging the application. This task is performed by a dedicated team in Toronto, because various types of equipment are required (the software must be able to operate on various types of PCS oron consoles), and also, to gain a sense of objectivity and detachment from the product.

7. **Pressing, duplication and packaging phases**: These are the final phases before the product is distributed, and consist of producing the necessary copies. This responsibility is generally the publisher's. Within the new structure, the Publifilm Division, which traditionally took responsibility for packaging, making product copies and delivering the video cassettes, is also responsible for packaging the CD-ROMs.

Each one of these phases is the responsibility of a different group. Progress with this work must, however, be closely coordinated, owing to the fact that many of these activities are conducted simultaneously and the results of one activity are required to conduct other activities. For example, the programmers begin to develop the program after discussing the overall impact on production with the members of the design and production teams. However, as the work progresses, various validation processes take place, and frequently the program has to be modified to take into consideration constraints imposed by results obtained by other teams.

Equipment and Technology

The production of multimedia applications requires a complete range of sophisticated and expensive equipment and software packages which are not available to all businesses. Specifically, the development of applications

for consumers requires a minimum technological threshold, within which it cannot be claimed that quality applications of any type are being created. The most sophisticated applications, for example, on-line games, require considerable investment for equipment and software.

The following table summarizes the main types of equipment and software required, as well as their cost, broken down by work station use.

EQUIPMENT AND SOFTWARE PACKAGE REQUIREMENTS

	Equipment	Cost	Software	Cost
Animation	- Mid-range and premium Macintosh - Scanner - Animator design table	$6,000 $1,000 $1,000	- Animation software packages (US Animation, Strata, Studio Pro)	$10,000 to $15,000
2-D computer graphics	- Mid-range and premium Macintosh and PCS	$6,000	- Graphic design software packages (Photoshop) - "Painting" software packages	$1,500 $1,500
3-D computer graphics	- Premium PCS - Silicon Graphics work station	$8,000 $25,000	- Modelizing software packages (Light Wave)	$10,000 to $15,000
Programming	- Premium PCS	$8,000	- Programming software packages - Sony toolbox	$5,000 to $10,000 $18,000

Source. Malofilm

As an accredited Apple and Microsoft developer, Malofilm Interactif also enjoys access to a series of software packages, based on an annual subscription.

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canada
http://strategis.ic.gc.ca

Strategis | **Information Technology and Telecommunications** | Help | What's New | Site Map | Feedback | About Us | Français

GO TO   ⇨ Main Menu
⇨ Business Information by Sector
⇨ Information Technologies and Telecommunications

Search Strategis

Author - Groupe Secor

Malofilm: A Multimedia Activity Assessment

Malofilm Interactif's Strategy

Malofilm is in the process of reviewing the structure of its new media development division. The division's mission is as follows:

"... acting as a major supplier of animated interactive active applications on various platforms, intended for the general public on the international scale."

The approach used by Malofilm Interactif in developing new products includes the combination of original concepts with the best available technologies, to create unique, high-quality products -- products which can be applied to the largest possible number of platforms, to maximize their profitability.

The main points around which the Malofilm's development strategy is based are the following:

- Develop "original" animated content, content that can be used in digital and other types of media: television, full-length feature films, videos, printed matter and derived products;

- Emphasize those platforms which offer the most potential. These platforms have the largest penetration rates and have technologicalfeatures which display Malofilm Interactif products to their best advantage;

- Develop exclusive technologies or acquire operating licences to use the appropriate technologies from strategic partners, in order to provide unique, high-quality products;

- Obtain the rights to "properties" which are already highly popular with the general public, and which can be adapted to interactive media, including the operation of content developed by other Malofilm subsidiaries;

- Develop a wide range of products covering markets that show the greatest growth (infotainment products, edutainment products and games) and distribute these products, in such a way as to generate higher margins.

The applications produced should be based on entertainment-based products, interest the general public, and belong to the following categories:

- **"Desktop"** (software packages)
    - PC-based games (with proprietary 3D engines)
    - Edutainment games on PCS
    - Infotainment titles on PCS (with long life expectancy)

- **"Set top"** (video games)
    - Sony PlayStation games
    - Sega Saturn games
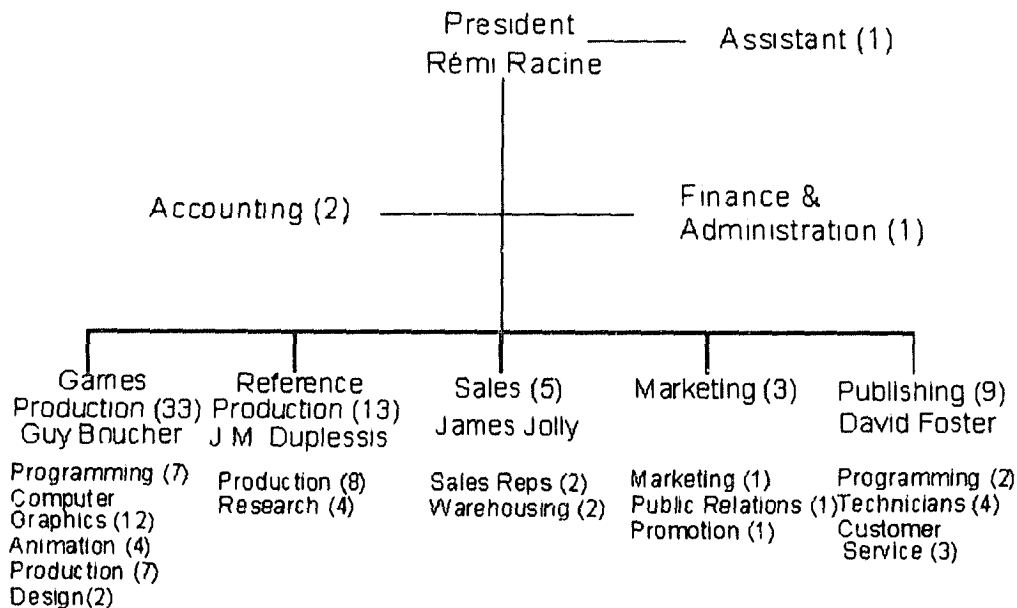   - Nintendo games (Ultra 64)

- **On-line**

- Internet games
- Other entertainment products.

The "original" content includes the titles developed internally by Megatoon, Malofilm Productions, Desclez and other Malofilm creative entities. The "licensed" content includes properties acquired from third parties, and which can be adapted for multimedia uses.

Since the various businesses (Megatoon, MMI and ReadySoft) were acquired, their operations have been reorga.ized, to maximize benefits from the economies of scale and to make best use of the specific competences the various groups. These groups are organized as follows:

- *Interactive games creation* is concentrated in Quebec City, and includes design, artistic production, and research and development;
- *Development of infotainment and educational products* is conductedin Montreal;
- *Testing and debugging* is carried out by a team in Toronto;
- *Editing, technical services and relations with business partners* are concentrated in Toronto;
- *Sales and customer service* is also performed by a team in Toronto;
- *Marketing, public relations and promotion* are conducted in Montreal;
- *Management and financial operations* are based in Montreal.

ORGANIZATIONAL CHART - MALOFILM INTERACTIF

President ———— Assistant (1)
Rémi Racine

Accounting (2) ———— Finance & Administration (1)

Games Production (33) Guy Boucher	Reference Production (13) J M Duplessis	Sales (5) James Jolly	Marketing (3)	Publishing (9) David Foster
Programming (7) Computer Graphics (12) Animation (4) Production (7) Design(2)	Production (8) Research (4)	Sales Reps (2) Warehousing (2)	Marketing (1) Public Relations (1) Promotion (1)	Programming (2) Technicians (4) Customer Service (3)

By conducting business in this structure, Malofilm Interactif considers that it is making the best possible use of an integral process -- a process which extends from design to product delivery -- where the various units make the most of the talents and specific areas of expertise, as well as specific roles.

This structure clearly conveys the complexity of the multimedia operations, as well as the advantage which results from being big enough to assign individuals to specific functions.

GO TO   Main Menu
          Business Information by Sector
          Information Technologies and Telecommunications
Author - Groupe Secor

Malofilm: A Multimedia Activity Assessment

Distribution

- Audiovisual Product Distribution
    - Distributiion of "Traditional" Productions
    - Multimedia Product Distribution
- Distribution Agreements
    - The Malo Interactif Role
    - Primary Characteristics
    - Service Areas
    - Client Groups
- Distribution Networks
    - Physical Distribution
    - On-line Distribution
    - Partnerships/Alliances
- Marketing Strategy
    - Pricing
    - Advertising and Promotion
    - Prestige Image

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

http://strategis.ic.gc.ca
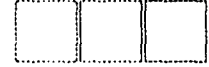
Malofilm: A Multimedia Activity Assessment

Audiovisual Product Distribution

As is the case in the film and television sectors, Malofilm distributes its own multimedia titles, as well as a number of other titles throughout Canada, and on foreign markets.

The distribution on new media is part of a wide variety of distribution windows for audiovisual content, which Malofilm uses as a publisher/distributor.

- Distribution of "Traditional" Productions
- Multimedia Product Distribution

Distribution of "Traditional" Productions

In the case of "traditional" audiovisual productions, the chronology of the various distribution windows and the terms of the distribution agreements are generally known and governed by industry standards.

THE CINEMA MARKET

When a full-length feature film is released into cinemas, the distributor negotiates a sharing of the gross

revenues, under the terms where the operator retains a ' ercentage of the gross receipts, usually between 20% and 65%. The more popular the film and the longer its run, the greater the share for the operator, expressed in terms of a percentage. The distributor gets the remainder.

The distributor then makes a deduction for his own accounting from the quota, the distribution commission for movie houses, as agreed with the producer or the copyright holder. This commission can vary between 15% and 40% (according to the guaranteed minimum paid) of the receipts. The distributor then takes, from the balance, all the distribution costs including, and in particular, costs for advertising, promotion and costs for printing operating copies of the film. The balance is then paid to the copyright holder, where it is used to recover the payments made as a guaranteed minimum.

THE VIDEOCASSETTE RENTAL MARKET

A film generally comes out on videocassette within six months following the initial release in movie houses.

Video rental locations normally purchase video cassettes at the retail price for the rental market. No monies are payable subsequent to this purchase, no matter how frequently each of the titles is rented.

The distributor receives the wholesale price (about 70% of the retail price) fromthe wholesaler, and must generally pay an average levy of between 25% and 30% of the wholesale price to the person releasing the videocassette rental rights, or apply such a levy to recovering the minimum guarantee paid and not recovered. From this balance, the distributor must recover all duplication costs, the cost of packaging, marketing costs and promotional costs.

THE "SELL-THROUGH" MARKET

Distributors operate the market for the direct sale of video cassettes through the conventional wholesaler market, as well as through some intermediaries known as "rackjobbers," who hold exclusive agreements with retailers. Video cassettes are supplied by distributors to the rackjobbers and to wholesale ᵣs at a wholesale price which varies between $8 and $20. The licence fees payable to the copyright holders vary generally between 10% and 20% of the gross price collected. The balance represents the distributor's share.

THE TELEVISION MARKET

The distributor first grants pay television licences for a period of 35 to 40 days following the initial release of video cassettes in video stores. About two-thirds of the revenue originating with consumers goes to the distributor, who retains a commission of 25% to 30% of this amount.

After the pay-per-view television market showings are completed (about twelve months), the distributor may grant licences for these films to conventional television networks. The distributor generally receives a commission of 25% to 20% of the licence fees collected on all sales to television interests.

Multimedia Product Distribution

As far as multimedia applications are concerned, such applications do not yet have a clear place in the distribution chain for audiovisual products, and agreements vary markedly from the ones governing conventional audiovisual products.

At present, multimedia products include primarily new types of applications, which are not the result of traditional audiovisual productions and which are not distributed through other distribution windows operated by Malofilm.

Among the other reasons, the on-line distribution networks -- cable, telephone, satellite, MMDS -- have not yet been modernized and do not have sufficient band width or sufficient bidirectional capabilities to transmit high-speed video images and to allow for interactive exchanges to be conducted. In addition, apart from animated audiovisual content, synergies with a number of traditional products will doubtless be quite slow in materializing.

It is highly probable, however, that over the medium term, an increasing number of traditional productions can be adapted for multimedia use. In this case, distribution by CD-ROM or on-line would then be a part of the

distribution timetable.

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

http://strategis.ic.gc.ca

Malofilm: A Multimedia Activity Assessment

Distribution Agreements

Multimedia distribution is, in fact, the role of **publisher** (the equivalent to the distributor of full-length feature films). The publisher deals with the developer (producer), contributes to financing production, takes care of marketing, packaging and promotional aspects, etc..

- The Malo Interactif Role
- Primary Characteristics
- Service Areas
- Client Groups

The Malo Interactif Role

In addition to its own titles, Malofilm distributes CD-ROM titles in French and English throughout North America, based on agreements signed with major CD-ROM producers, most of whom are American: Trimark Interactive, Technology Dynamics, Image Smith, General Corporation, and many others.

- For its *own titles* - which accounted for 52% of sales in 1996 -- Malofilm Interactif publishes throughout North America and Europe and does business with distributors in each market. For other geographical areas, Malofilm Interactif goes through foreign-country publishers, and does business by granting licences.

- For *titles developed by third parties* (48% of sales), Malofilm Interactif generally requires exclusive North-American distribution rights in the caseof European titles, and worldwide distribution rights in the case of US products.

  Among the titles developed outside Canada, 90% are of the "game" type, such as *Deus*, *Dragon's Lair*, *Shadoan*, *Time Warrior*, and so forth. The remainder is made up of infotainment titles, such as *Tour de France*, a French application for which Malofilm Interactif acts as the publisher.

Primary Characteristics

The model for agreements governing CD-ROMs are completely different from the traditional models used for the distribution of audiovisual products (used for distribution in theatres, on television or for the rental of video cassettes.) The main differences are:

- The publisher does not receive **the guaranteed minimum** for domestic distribution. Contrary to what is the case for the distribution of full-length feature films or televised series, in which the distributor (the equivalent to the multimedia publisher) receives the guaranteed minimums in return for operating rights for geographical areas or distribution windows granted, the multimedia publisher must, rather, sell CD-ROMs according on a consignment agreement, which generally stipulates that all unsold units may be returned to the publisher. In the case of titles for game boards (Sega, Sony, Nintendo, etc.), the conditions are generally more favourable, and only defective units may be returned.

- Only agreements with other publishers covering foreign territories are subject to guaranteed minimums. Malofilm generally requires that foreign publishers purchase a minimum of 10,000 units, of which 50% must be paid for when the agreement is signed and the balance when the products are delivered.

- The formula used to pay licence fees is different from the formula used for distributing full-length feature films or television series, but is related to the formula used for the distribution of video cassettes. The distributor (publisher) does not receive any commissions on gross sales. Rather, the distributor must pay the share for the producer (about 25% of gross sales) and assume the costs for marketing and promotion. The distributor's share corresponds to the balance.

The following diagram sets out the differences in publisher/distributor income, according to the distribution window. The figures are averages.

	Cinemas			Conventional Television			Video cassettes			CD-ROM		
Gross Income $	50	100	150	50	100	150	50	100	150	50	100	150
Distributor Commission $	·	·	·	12.5	25	37.5	·	·	·	·	·	·
Net Income $	·	·	·	37.5	75	112.5	·	·	·	·	·	·
Distributor Expenses $	·	·	·	30	30	30	·	·	·	·	·	·
Producers's Share $	20	40	60	7.5	45	82.5	12.5	25	37.5	12.5	25	37.5
Distributor Revenues $	30	60	90	·	·	·	37.5	75	112.5	37.5	75	112.5
Distributor Expenses $	30	30	30	·	·	·	30	30	30	30	30	30
Distributor Revenue $	0	30	60	12.5	25	37.5	7.5	45	82.5	7.5	45	82.5

Service Areas

Malofilm Interactif distributes its applications internationally. Sales in 1996 were broken down as follows:

DISTRIBUTION OF MALOFILM INTERACTIF SALES BY GEOGRAPHICAL MARKETS - 1996

	Quebec	Rest of Canada	United States	Europe	Asia	Other	Total
Proportion	5%	10%	59%	20%	4%	2%	100%

Malofilm Interactif anticipates that, during the next few years, sales throughout Europe will increase as a percentage of total sales, and that sales in the US geographical area will show a decline. This development is expected as a result of increased representation and more extensive promotional activity in Europe.

Client Groups

All of Malo's titles are intended for use by **consumers**, a market sector in which the firm has already carved out a choice place for production and distribution of audiovisual productions. However, the exact nature of the market segments varies, according to the type of product in question.

- **Educational game productions**, intended for use by children age three to ten years. Such applications include titles such as *Wallobee Jack* and *The Mighty Machines*.

- **"Entry-level" interactive games**, intended for teenagers and young adults (13 to 25 years of age). These games include such titles as *Robinson's Requiem* and *Deus*.

- **"Premium" interactive games** are intended primarily for a clientele age 13 to 40, and who tend to use computers more than the average consumer. Although consumers of these types of applications are mostly men, Malofilm notes that use by women is increasing.

- **Infotainment titles**, designed primarily for male consumers (about 75% of purchasers), since at the current time the themes of these titles are sports-oriented. These titles are intended for use by a much wider audience, in terms of age, than game titles. They are intended primarily for consumers 15 years of age and older.

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

http://strategis.ic.gc.ca

GO TO   <u>Main Menu</u>
            <u>Business Information by Sector</u>
            <u>Information Technologies and Telecommunications</u>
Author - Groupe Secor

Malofilm: A Multimedia Activity Assessment

Distribution Networks

- <u>Physical Distribution</u>
- <u>On-line Distribution</u>
- <u>Partnerships/Alliances</u>

Physical Distribution

The physical distribution of Malofilm multimedia products (today, primarily on laser discs), is performed through wholesalers, rack jobbers, or sometimes directly with the retailer (primarily for major store chains). This type of distribution also includes catalogue sales or orders placed over the Internet (with postal delivery).

Today, the sale of CD-ROMs is conducted primarily through computer retailers, using rack jobbers (60% of sales). However, as multimedia activities become more common, an increase is expected in the number of mass-distribution circuits, such as major retailers, big department stores (Wal Mart, Price Club, and so forth), bookstores, and other such outlets. A small number of CD-ROMs (5% of sales) are purchased from Malofilm Intera   computer manufacturers who offer these items to their customers free of charge in "bundles," with the purchase of equipment.

Distribution Network	Proportion
Computer stores	60%
Mass merchants	20%
Catalogue	10%
Direct Sales (Internet/1-800)	5%
Bundling	5%
TOTAL	100%

Source: Malofilm

On-line Distribution

Malofilm Interactif does not currently distribute its products "on-line." This policy is a deliberate one. According to the firm's managers, digital products that currently enjoy mass commercial success are distributed primarily on laser discs for PCS, for Mac computers, or for gameboards (Sega, Sony, Nintendo . . .), while direct-access distribution is still in the planning stage.

What is more, in Malofilm Interactif's opinion the current potential for on-line distribution is directly linked by the degree of added value provided by the optical support media. Such a value-added option resides, for example, in the ability of a number of users to use one and the same application, in real time. In order to meet such a need, Malofilm is currently completing production of a new on-line action game. Known as *Kryodrones*, this game includes a strong interactive component, allowing for use by a number of users. Malofilm is currently contracting agreements with Web-site operators and Internet service providers to distribute this new production.

Kryodrones will also be available on the Malofilm website.

Partnerships/Alliances

As a publisher of multimedia products, Malofilm Interactif does business with other publishers on foreign markets. The primary reason for these partnerships is, first and foremost, to gain access to the desired territories.

In choosing its partners, Malofilm Interactif bases its activities primarily on the markets which these partners cover (specific geographic territories) and on their profile. When possible, Malofilm Interactif transacts business with firms that already have agreements with Malofilm, something which happens relatively frequently in the case of videocassette distributors in foreign markets.

In terms of new partnerships, Malofilm plans to forge additional alliances with European distributors who hold the operating rights for "portfolios" of products in North America, to forge agreements which are b>neficial to both parties, to "buy" their North American networks in exchange for the European distribution rights to Malofilm Interactif products. Such alliances would enable the partners to more thoroughly make use of their respective areas of expertise (that is, their knowledge of the domestic market) in addition to providing access to a wider geographic area for each of these firms, thereby increasing their sales volume.

http://strategis.ic.gc.ca

GO TO   <u>Main Menu</u>
              <u>Business Information by Sector</u>
              <u>Information Technologies and Telecommunications</u>

Malofilm: A Multimedia Activity Assessment

Marketing Strategy

The Malofilm Interactif strategy is based around elements which are linked to its pricing and promotional policies and to the development of a strong brand image.

- <u>Pricing</u>
- <u>Advertising and Promotion</u>
- <u>Image</u>

Pricing

Under current marketing conditions, the pricing policy with respect to high-quality CD-ROM issues intended for use by the general public absolutely must be developed on the basis of market pricing. Contrary to what is the case with marketing video cassettes, where the manufacturer may decide to "flood" the market by offering a very low sale price, CD-ROM consumers generally associate low prices with low quality. The "loss-leader" tactic or an approach based on rapid market domination is, consequently, not appropriate for the multimedia marketplace.

However, manufacturers such as Malofilm must respect certain "price thresholds," which are generally established on the basis of the prices charged by bigger producers such as Sega, Sony or Microsoft.

On average, CD-ROM children's games (2D) sell for about $15 US by the producer, resulting in a price of about $25 US retail. For 3D games, the average producer price is $35, which corresponds to a retail price in the area of $60 US. As for infotainment and educational games, prices are in the neighbourhood of $30 US, with a producer price of about $20 US per title.

Advertising and Promotion

In North America, Malofilm Interactif generally assumes responsibility for its own advertising campaigns. On occasion, Malofilm does business with US public relations firms.

As far as geographical areas outside North America are concerned, foreign producers are responsible for marketing the product, including product advertising.

As for the promotional strategy for the business, this is based primarily upon asustained presence within the principal industry "markets." As is the case with traditional audiovisual productions, most of these transactions take place during such events. Malofilm, in consequence, takes part in the MILIA, in Cannes, and in the Montreal International Multimedia event (MIN), and other such events. However, Malofilm invests almost the entire advertising budget (80%) during the US E3 market, because this industry gathering is the major event for the types of applications which it produces, that is, "game"-type applications and edutainment products.

Image

Malofilm Interactif would like to increase the prominence of its image, to stand out from its competitors and develop its own strong identity, with which consumers will associate quality, reliability and credibility.

In order to do so, each one of its three product lines -- games, infotainment and educational games -- will be positioned according to fit its market, in terms of age, gender, revenue, and so forth. The same policy holds true for the new on-line products that the firm will be marketing. Keeping in mind the fact that the current profile for the average web user is male, young and with an above-average level of education, Malofilm Interactif will position this new line of products to meet the requirements of this segment.

The marketing tools used to reinforce the image of these products include promotional activities conducted in stores, direct mailings, catalogues and brochures, advertising in specialized publications, newsletters, advertising on the Internet and direct marketing using data banks on consumers.

Each of these tools will be adapted and personalized to respond to the characteristics of various target client groups, so as to place greater emphasis on the differences among various product lines. For example, Malofilm Interactif plans on targeting sport stores to promote its infotainment titles dealing with the NHL, the WWF, golf, and so forth.

GO TO   Main Menu
                 Business Information by Sector
                 Information Technologies and Telecommunications
Author - Groupe Secor

Malofilm: A Multimedia Activity Assessment

Human Resources

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

http://strategis.ic.gc.ca

Author - Groupe Secor

Malofilm: A Multimedia Activity Assessment

Multimedia Staff

- S' f Members
- 'oyee Profile
- v. ـes and Salaries

Staff Members

At the present time, approximately 68 people are involved in multimedia at Malofilm. This staff level represents a clear-cut increase over the original staffing levels for each of the businesses purchased in the sector (Megatoon, ReadySoft and MMI), which came to a total of 55 people. These staff members work out of three cities:

- **In Quebec City**: 33 people, who are active primarily in research and computer programming, animation and 2-D and 3-D computer graphics;
- **In Montreal**: 17 people, who are active primarily in development and production, programming and 2D and 3D computer graphics, as well as marketing, accounting, finance and administration;
- **In Toronto**: 18 people, who are active in systems transfers, programming, testing, debugging and sale

The following table sets out a detailed breakdown of the Malofilm Interactif staff members, according to the of position.

MALOFILM INTERACTIF STAFF

Position	Number
Production/Programming	19
Computer Graphics	11
Design	2
Technical research	8
Management	5
Support and research	6
Animation	3
Technical services	3
Production management	4
Marketing and sales	7
TOTAL	68

Employee Profile

Almost all Malofilm Interactive employees occupy permanent full-time positions. In addition to these employees are about ten freelancers, hired on a contract basis to perform specific tasks for period which last for several

months: photo digitizing, researching content, sound effects, writing and publishing commentaries, reviewing and editing texts, and so forth.

Owing to the fact that the multimedia production cycle is a lengthy one -- each application extends over a period of six to 18 months -- it is relatively easy for the business to determine exactly what its labour needs will be, something which makes it easier to hire full-time employees. This is helpful for Malofilm, since it prefers to retain the resources which it has trained.

Among the 68 positions in the multimedia sector, 85% are held by men and 15% by women, who perform duties linked primarily to creation, as well as support functions. The average age is around 27 in the team which produces the games application and 32 for the team in charge of the infotainment titles. The average age of research staff tends to be somewhat higher.

Half of the positions require university education, these positions include senior programmers, production managers, research managers, and creative heads, while the other half (primarily made up of production positions) require community-college training instead: junior programmers, animators, computer graphics artists, and ʳ ᵢ forth.

At Malofilm Interactif, 80% of staff members have university training.

Wages and Salaries

The salaries paid by Malofilm Interactif vary a great deal, according to the type of position and the experience of the individual employee. In effect, the annual wages and salaries paid to Malofilm employees range from $20,000 to more than $100,000.

Among the best-paid positions are those of the managers, senior programmers and production managers. The next best paid are marketing and research staff, followed up by intermediate programmers, animators and computer graphics artists.

It is very difficult to compare these various positions with the positions in the remainder of the organization. The characteristics specific to multimedia production are such that a number of types of jobs -- programmers, 2-D and 3-D animators, computer graphics artists, etc. -- do not have any equivalent in Malofilm's other divisions.

As for positions of a "generic" nature, such as marketing, promotion, management, sales, etc., salaries in the multimedia division are entirely comparable with those paid in Malofilm's other activity areas.

GO TO   Main Menu
                  Business Information by Sector
                        Information Technologies and Telecommunications
Author - Groupe Secor

Malofilm: A Multimedia Activity Assessment

Skills/Expertise

- Skills Required
- Training
- Recruitment

Skills Required

Malofilm Interactif is distinguished primarily by the quality of its human resources. Malofilm hires only staff who is among the best in their business. The reputation which the firm has built in Canada and abroad is also something which makes it possible to recruit top-flight staff.

The specific skills which Malofilm Interactif is looking for include:

- **Creative**: Designing a multimedia application requires a very good command of nonlinear "scenarioization," as well as a knowledge of the capacities and limits of the engines or software packages which will be used to develop these applications. These skills are not always found among traditional creators, because the "logic" underlying multimedia productions must be designed by developing a number of progressions in parallel. These progressions are sometimes linked to specific elements, but which do not necessarily arrive at the same conclusion.

- **Design**: The skills required vary according to the type of product, as well as the graphic elements to be included with the product. Generally speaking, graphic designers have an in-depth knowledge of a number of design or image-processing software packages, such as the Photoshop, Illustrator, or others. The design stage may call on skills as varied as those of Illustrator, cartoonist, colourist or modeller (for 3-D operations).

- **Production**: Tasks which are more specific are, generally speaking, included in this category. Once again, skills are directly linked to requirements. In this category, we find sound technicians, digitizers, nonlinear assemblers, linear assemblers, video assemblers, special effects employees and 2-D and 3-D animators. The producer must have the necessary project-management skills, with skills in activity coordination, monitoring the timetable and the budget, and so forth. The producer must also have a very good knowledge of multimedia technology.

- **Programming**: These positions are for senior-level computer scientists, in the case of research and development, programming generators and debugging applications, and at the junior level for assembly operations. When these applications are developed using software developed in-house, experience counts for more than does academic training. In mostcases, these individuals are self-taught.

Training

Each of the two main divisions of Malofilm Interactif (Games and Infotainment and educational games) provides

new employees with training based on methods of production which are specific to the types of applications being created.

This training is offered internally by other employees in the business, is considered essential, since programs provided by academic institutions are still not yet properly adapted to meet industry needs.

In effect, according to statements made by managers of a number of businesses engaged in multimedia production, the multimedia programs offered by educational institutions are too compartmentalized and do not provide enough students with sufficient opportunities to combine their studies with relevant experience, including all aspects of multimedia production, the creative aspects of multimedia work, the computer-related and interactive aspects, and the management challenges which these aspects involve. In Quebec, it is possible to find highly qualified computer graphics, animation and computer graduates, but very few of these graduates are familiar with the entire production process, and just what kind of teamwork this process involves.

In addition, industry personnel are unhappy with the fact that schools and institutions do not always have equipment which is at the leading edge of technology. As a result, businesses have to conduct training operations themselves, using new tools and technologies available to them.

All of Malofilm Interactif's staff members enjoy the benefits of continuing education. This education is provided in-house. Training of this kind is essential in the multimedia sector, owing to the fact that equipment, technology and methods are changing very rapidly.

Malofilm Interactif is in the process of setting up a training program which will make it possible for staff with the most potential to receive training sessions provided directly by equipment and software manufacturers. These firms are generally located in San Francisco, Los Angeles, San Diego or New York. There is no training program available in Canada which is sufficiently specialized to satisfy Malofilm's requirements.

Recruitment

Out of the total number of employees assigned to multimedia activities (68 employees), the great majority of them (more than 80%) come from the staffs of the firms that Malofilm acquired (MMI, Megatoon and Readysoft). Since these acquisitions, a number of positions have also been filled through external recruitment. None of the Malofilm Interactif staff members comes from another sector of the organization, even atmanagement level. This situation reflects the gap which exists between traditionally activities of the firm and the multimedia activities.

Over the longer term, however, Malofilm Interactif plans to use some of the firm's other resources, primarily those resources involved in the animation sector, as the preliminary stages in the creation of multimedia products are quite similar. As for staff members who are active in the areas of film and television, the differences appear to be too great to justify the transfer or retraining of these employees to take up multimedia duties.

Malofilm recruits staff members primarily among graduates of the National Animation and Design (NAD) Centre, from Quebec's *Institut d'informatique*, and from various post-secondary institutions.

It is still difficult to fill some types of positions in Quebec, such as production manager and games programmer, owing to the degree of expertise required and the absence of a pool of people with these skills in Quebec. As well, as Malofilm Interactif is practically the only player in this sector (games), the firm must sometimes look for staff outside Canada. As a result, Malofilm recently hired two US staff members -- an on-line game programmer and a producer of interactive games.

According to Malofilm management, recruitment problems should become less severe in the coming years, as training programs adapt to the needs of the industry and the activity level of businesses create a critical mass of people who have experience in the various aspects of multimedia production.

http://strategis.ic.gc.ca
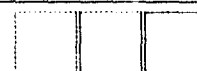
Author - Groupe Secor

Malofilm: A Multimedia Activity Assessment

Future Needs and Challenge

- New Resources
- The Challenge of Putting Everything Together

New Resources

If the predictions for growth for Malofilm in the multimedia sector become a reality, the company anticipates that it will need about a dozen new employees during the upcoming year, primarily employees for its programming and animation sectors.

To meet the production volume projected for the next two years, the firm is looking for:

- three to five programmers
- two to five 3-D artists
- a technical director
- an assembler (junior programmer)
- a computer graphics artist
- a researcher
- a production organizer.

About three new contract positions will also be created for tasks specifically linked to research and to content processing, such as digitizing photographs.

Malofilm Interactif anticipates that all of these positions will be filled in Canada.

The Challenge of Putting Everything Together

The fact that Malofilm has acquired a number of businesses during a relatively short period of time has resulted in some problems getting the staff members to work together as a unit. When a self-contained small-scale business is transformed into a bigger business, equipped with established management systems and having to meet the demands of public shareholders and a Board of Directors, then changes and adaptations will inevitably be necessary. Such changes and adaptations can result in obstacles for some individuals.

In fact, whether growth results from acquisitions or from internal development, the problems experienced by entrepreneurs or creators are completely predictable in nature, and are even inevitable. The change from a small, self-administered business to a bigger corporation never occurs without difficulties. What is more, when this process takes place as a result of mergers and acquisitions, the shocks frequently come faster and more brutally than is the case when the business grows through internal development. As well, cultural and personality clashes frequently results from the marriage of a number of organizations.

In the case of Malofilm, the firm had to deal with a number of departures when the various businesses were acquired (Megatoon, ReadySoft and MMI). However, most of the staff stayed on, and were appreciative of the

advantage of belonging to a larger integrated group seeking new challenges.

Comments/Suggestions/Questions about this document.

http://strategis.ic.gc.ca

Author - Groupe Secor
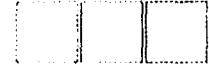
Malofilm: A Multimedia Activity Assessment

Finances

Owing to the novelty of the multimedia market and of the quick and constant change which impacts both supply and demand, the financial aspects of multimedia production and distribution, such as revenue and cost structures, profitability, financing structures, are also constantly changing. This phenomenon is characteristic of emerging industries.

The economic models created as a result of certain specific changes are as follows: industry consolidation, a widening of the consumer base, a decrease in production and distribution costs as technology changes, and so forth. These models can show marked differences from the current models.

I. Multimedia Applications of Cost Structure
II. Financing a Multimedia Production
   - Main Sources of Financing
   - Financing Structure
III. Profitablilty
   - Relative Profitability of the Sector
   - Economies of Scale
   - Vertical Integration
   - Synergies

http://strategis.ic.gc.ca

GO TO   Main Menu
           Business Information by Sector
           Information Technologies and Telecommunications
Author - Groupe Secor

Malofilm: A Multimedia Activity Assessment

Multimedia Applications of Cost Structure

The budget and the structure for the costs of a multimedia application vary enormously from one type of application to another. The applications which cost the least to produce include corporate presentations, training applications and reference titles. Games applications are found at the other end of the spectrum.

The average budgets for applications produced by Malofilm are:

- **Premium games:** $1 to $2 million
- **Educational game titles:** $0.5 million
- **Infotainment titles:** $0.125 million

These figures are, of course, just averages. Considerable variations in budget size are noted within each one of these categories.

The same thing hold true for the cost structure per se. For example, game-type applications (including educational games) require a much bigger part of their budgets for programming and for post-production, with post-production including all testing operations, all debugging operations, and so forth, than do infotainment titles. By contrast, infotainment titles require greater proportional expenditures for the design component, owing to the research work required. Costs for images, music, video components, and so forth, are also higher for infotainment titles, since copyright must be acquired when existing content is being used.

PRODUCTION COST BREAKDOWN

Activity	Game/Educational game	Infotainment
Development		
Script	3%	10%
Design	12%	10%
Subtotal	15%	20%
Production		
Production team	10%	25%
Graphics, sound and video	15%	25%
Programming	35%	10%
Other	10%	10%
Subtotal	70%	70%
Postproduction	15%	10%
Total	100%	100%

Source: Malofilm

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

http://strategis.ic.gc.ca

Author - Groupe Secor
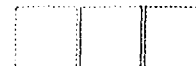
Malofilm: A Multimedia Activity Assessment

Financing a Multimedia Production

- Main Sources of Financing
- Financing Structure

Main Sources of Financing

In traditional audiovisual productions, producers have access to a wide number of sources of financing for specific projects. These sources generally make it possible for producers to assemble all necessary financing before starting production. The main sources of financing for Quebec productions include the following:

- **Canadian and foreign distributors**, who generally contribute a major portion of financing, varying between 10% and 30% of the budget, through the pre-sale of distribution rights;

- **Quebec tax credits**, which are refundable and which can be used to finance up to 18% of the production budget;

- **Telefilm Canada** investment, which is authorized to inject funds totalling up to 49% of the production budget;

- Funds from the **Société de développement des entreprises culturelles(SODEC)**, which is authorized to invest a maximum of 60% of the production budget, up to $600,000;

- Funding originating from a number of **other sources**, such as the *National Film Board*, the *Fund to Underwrite Canadian Drama*, the *Maclean-Hunter Television Fund* and private investment.

Financing of multimedia productions is generally much more difficult and risky, owing to the following factors:

- There are no *project-based financing mechanisms* in the multimedia sector. As a result, multimedia enterprises which do not have the funds required to finance all development and production costs themselves, must go to outside sources of financing (risk capital, private investment). They must then surrender part of the control over their businesses.

- *Public financing is virtually non-existent* for multimedia enterprises. Although Telefilm and SODEC have both recently assumed budgetary envelopes intended to finance multimedia productions ($1 million Canada-wide for Telefilm and $1 million for SODEC), these sums of money are still negligible, when compared with the sums available for audiovisual producers, especially in view of the size of budgets for the production of multimedia applications intended for consumers. A tax credit for French-language multimedia productions has recently been introduced in Quebec (financing up to 30% of production costs), but there is still no federal equivalent to this credit;

- *There is no pre-sale mechanism.* While the financing structure is quickly completed with the help of pre-sales in the event of production of full-length feature films or televised series, multimedia developers

must assume responsibility for the entire budget and for the entire risk.

For these reasons, only those operations which are capable of financing multimedia projects out of revenues generated by other markets (as is the case with Malofilm) are in any position to carve out a strategic niche for themselves in this industry.

Financing Structure

The following table emphasizes the differences in the average financing structures for television, cinema and CD-ROM productions, and in particular, the area where funding originates and the impact for producers. While producer investment in the case of conventional audiovisual productions is in the neighbourhood of 5% to 9%, Malofilm must invest approximately 50% of the necessary budget for multimedia applications from its own capital. The firm must also incur a considerable debt to cover the necessary financing, and as a result, assumes almost all (90%) of the financial risklinked to an application. At present, Malofilm finances only 10% of its multimedia production budgets from public funds (through the Quebec multimedia production tax credit), while public funding accounts for 75% of the total budget for full-length feature films.

This current financing situation is expected to change. It is anticipated that the financing structure for multimedia applications will be changing rapidly during the next few months, and that public financing will assume greater importance.

BREAKDOWN IN FINANCING BY PRODUCTION TYPE - QUEBEC - 1995

	Television Series	Feature Film	CD-ROM*
Private Funds			
Advances by distributors/broadcasters	26%	12%	-
Producers' own funds (including teams and services)	9%	5%	50%
Other	12%	8%	-
Public Funds			
Telefilm	31%	35%	-
SODEC	2%	17%	-
Tax credits	18%	18%	10%
Other	2%	7%	-
Debt	-	-	40%
Total	100%	100%	100%

*Sources: Telefilm, Malofilm. * The financing structure for CD-ROMs is based on Malofilm Interactif productions.*
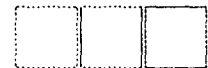
Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

http://strategis.ic.gc.ca

GO TO   Main Menu
         Business Information by Sector
         Information Technologies and Telecommunications

Author - Groupe Secor
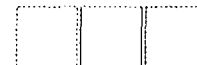
Malofilm: A Multimedia Activity Assessment

Profitablilty

- Relative Profitability of the Sector
- Economies of Scale
- Vertical Integration
- Synergies

Relative Profitability of the Sector

As we emphasized in a previous section, the financial models for multimedia productions are constantly changing. The variance between the market value of the enterprises which are active in this sector and the book value illustrates the expectation, on the part of entrepreneurs and shareholders, that they should obtain some worthwhile medium-term results, despite the fact that this sector of activity provides virtually noprofits at present.

Data from US consultants confirm this fact: only 4% of US multimedia application developers succeed in making any profits.

This fact is not surprising if reference is made to North American marketing statistics. According to these statistics, only 25 CD-ROMs intended for consumers generated sales of more than 10,000 units in 1995, out of 1,700 new titles published. This data indicates, in effect, that 99% of these titles sell fewer than 7,000 copies, a sales volume which is clearly less than the break-even point -- the sales volume required to recover the fixed costs incurred. This sales volume is generally about 20,000 copies.

However, those businesses which are producing titles which enjoy market success, such as Malofilm, can enjoy some worthwhile profit margins.

Economies of Scale

As is the case with movie theatre productions, multimedia productions for consumers fall within the category of "hit business". As a result, multimedia productions are generally better managed by the major players, which enjoy the benefit of major development funds and can take on a wide portfolio of titles whose performance has an overall effect on all productions, markets and distribution windows.

EXPENSES AND INCOME FOR A MULTIMEDIA TITLE

FOR RELEASE TO CONSUMERS

Units Sold	10,000	20,000	30,000	40,000
Revenues	300,000	600,000	900,000	1,200,000
Development	300,000	300,000	300,000	300,000
Marketing (incl. Duplication and packaging)	300,000	318,000	330,00	345,000
Administration	30,000	60,000	90,000	120,000

| Total expenses	630,000	668,000	720,000	765,000
Profit	-330,000	-68,000	180,000	4?5,000
Net Margin	-110.0%	-11.3%	20.0%	36.3%

Source: Malofilm

The large-scale players also enjoy the benefit of the "advertising machine", as well as access to the appropriate distributic n networks, and can thus maximize revenues for a hit title. This process of maximizing revenues has a direct impact on operational profitability, in view of fixed production costs.

The following table clearly indicates the variations in profitability for one and the same production, based on the number of units sold.

By the same token, it is generally appropriate, from an economic standpoint, to feature the same concept over a series of titles, so as to maximize the performance of the investment.

The following graph illustrates the variance in unit production and distribution costs encountered when a single title is produced, or when a series of 5 titles is produced. The break-even point thus drops from about 55,000 units to 40,000 units. It should be mentioned, however, that such is a strategy is equally as risky because, in the event of low sales volumes, this strategy will result in bigger losses, in absolute terms.

Cost to develop a single title and a series of five titles
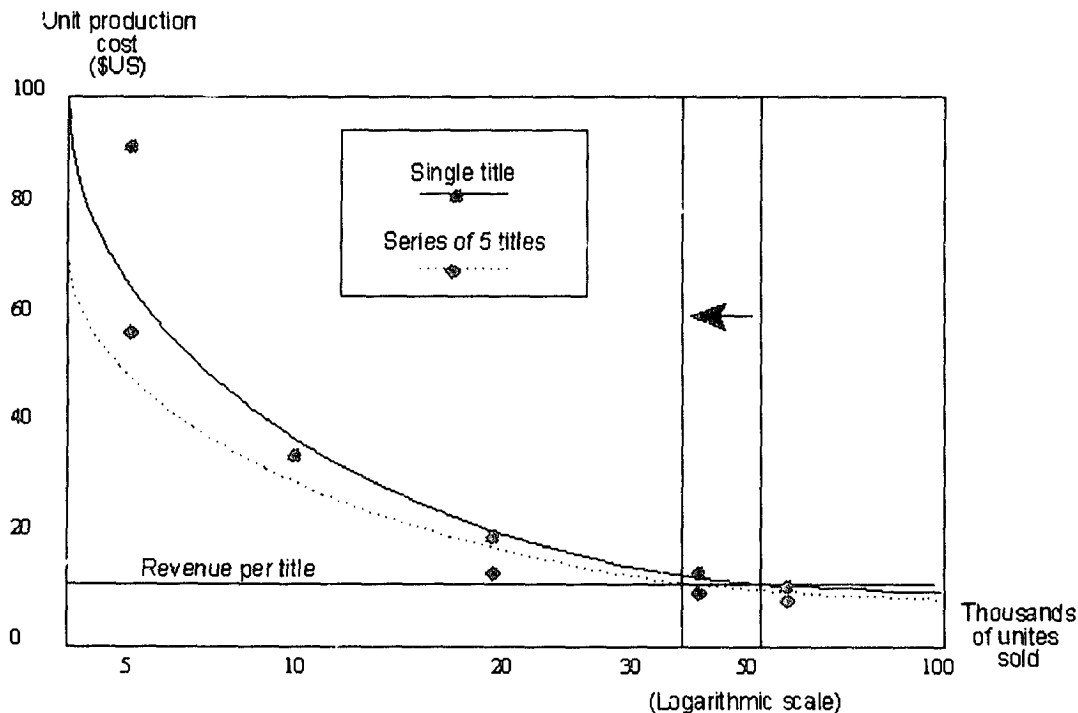
Source: Malofilm Communications

Malofilm was quick to identify this phenomenon, which is similar to the phenomenon encountered when producing several episodes of the same television program, or encountered when sequels to successful full-length feature films are made. Malofilm counts on enjoying the benefits of such economies of scale, by producing series of titles on a single theme or a single concept, when it is possible to do so, and when such a policy is a profitable one.

By way of example, the series of infotainment titles on the National Hockey League make it possible to obtain a return on the investment made. Considered individually, the first title in this series -- the title on the Montreal Canadiens -- although it was very popular, did not break even. By adding additional titles based on a similar theme, targeted at the same consumer group and sold by the same distribution network, it thus becomes possible to hope to obtain an overall annual performance on the investment in the series, in the neighbourhood

of 20%.

The development costs for the first title were $225,000, while it was possible to produce subsequent titles at a cost of $85,000 each.

With respect to the on-line productions which Malofilm Interactif is counting on distributing within the immediate future (*Kryodrones*), some major economies of scale can also be realized over the long term, based on the production volume. In effect, the considerable expenses incurred for the development of a powerful and rapid game-board server cannot be amortized on the basis of a single application. This server can be adapted and used for new categories of on-line games. The same thing holds true in the case of "engines" developed to produce *Kryodrones*, which can be re-used to design multi-user environments.

Vertical Integration

As we have previously stated, it was of utmost importance for Malofilm managers to be active in both multimedia production and distribution, and to retain their roles as developers and pub iers.

This vertical integration makes it possible to obtain performance levels which could not be obtained solely through development activities, while ensuring that distributors receive adequate supplies and ensuring that contents can be controlled. What is more, internal production can be better controlled than is the case with acquisitions. Internal production allows the publisher to ensure that activities are better managed and to ensure that optimum output levels are reached.

The impact on product profitability can be illustrated using the series of six titles on the NHL, which MMI produced. As a developer, the break-even point is at about 85,000 units, making for a sales volume which is sufficient to allow commissions to cover development costs. (The producer does not have any other expenses to cover, as the publisher is in charge of placing the product on the market). When distribution activitiesare associated with it, the break-even point drops to 44,000 units. The break-even point is thus to approximately half of what is was.

CALCULATION OF THE BREAK-EVEN POINT TO THE DEVELOPER

Gross revenue (85,000 units at $26) $2,210,000
Developer's share (25%) $ 550,000
Development costs $ 550,000
                           0

CALCULATION OF THE BREAK-EVEN POINT TO THE PUBLISHER

Gross revenue (44,000 units at $26) $1,144,000
Administrative expenses (10%) $ 114,400
Marketing expense $ 300,000
Packaging expense $ 180,000
Development costs $ 550,000
                           0

The principal difference comes from the fact that, as both the developer and the publisher, Malofilm Interactif retains all gross revenue originating from the sale of its titles. Once development, administration and marketing expenses are covered, Malofilm recovers the balance, in its capacity as publisher.

Synergies

CONTENT-BASED SYNERGIES

At present, Malofilm gets only a small benefit from the synergies between its multimedia activities and its traditional activities. In effect, although there are, in theory, a number of analogies between the various types of audiovisual products and multimedia products, and the fact that Malofilm already has a solid basis for its creative activities and owns a number of copyrights on televised series, animated series, full-length feature films, and so forth, synergies based on **content** will materialize only in the next few years, when Malofilm will be

marketing multimedia productions based on television/animation properties and productions for television based on interactive applications.

The firm is currently evaluating each of the titles (or series of titles), as a free-standing project which must be profitable, without taking into account the effects on the other activities which Malofilm conducts. This is to say that the product must assume a fair share of the fixed costs, in the same manner as do the other types of productions, and must generate sufficient profits, based on the perceived risk.

Over the medium term, the firm plans to obtain synergy by adapting productions or concepts originating from televised or animation series for multimedia use. Malofilm anticipates that, over the medium term, about half of its television program content (programs designed for children and teenagers) and all its animation contents can be adapted for multimedia use.

Some adaptation projects are currently underway:

- A televised series based on the *Jersey Devils* interactive game;
- A CD-ROM based on the concept used for the *Mighty Machines* television series;
- Development of edutainment CD-ROMs based on a Desclez series.

Over the longer term, any and all audiovisual products could be adapted for multimedia use. When all audiovisual content is digitized, and when the production, storage and distribution modes are digitized as well, then any and all excerpts from films or television or video productions could be re-used to make games or any other kind of interactive program available on CD-ROM or on-line.

Such an approach could prompt a re-examination of the financial and business methods used for multimedia titles and for other audiovisual products. This business logic is related to the commercial use of products, concepts and personalities contained in audiovisual products, in the same way as these products, concepts and personalities are used by the American majors. Under these circumstances, the *a priori* value of a production is established on the basis of the revenues which can be generated in the form of sales or the rights to all distribution windows – television series, video cassettes, CD-ROMs and products derived from these distribution windows. Gross assets are no longer the audiovisual production. Rather, these assets are the concept or the personality which has been created.

OTHER SYNERGIES

Apart from the sharing of administrative costs (finance, accounting, legal services, etc.) and infrastructure costs (facilities, office equipment, computer equipment and supplies, etc.) some operational synergies have been obtained among Malofilm's multimedia activities and its other activity sectors.

Some distribution and marketing operations are common to the distribution of CD-ROMs and the direct sale of video cassettes.

The distribution of CD-ROMs is, in many ways, similar to the distribution of video cassettes for the sell-through market – that is, sales directly to consumers. Malofilm Interactif may, as a result, enjoy benefit of expertise and contacts with networks of retailers (shopping centres, major stores, super stores, toy stores, etc.) and with intermediaries, such as wholesalers and rack jobbers. Although it is impossible to quantify the effect of this synergy for Malofilm Interactif's overall profitability, it is evident, according to Malofilm management, that this preferred access to distribution networks represents a considerable strategic advantage.

Malofilm Interactif also shares the services of the Publifilm graphics studio with the Malofilm videocassette distribution sectors. These services include those involved in filling orders: duplication, printing, packaging, storage and delivery. Malofilm Interactif's management consider that this sharing of resources allows them to reduce their unit distribution costs by almost 20%, resulting in a saving of about 2% on the total cost of the product.

http://strategis.ic.gc.ca
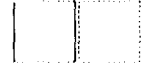
GO TO   Main Menu
            Business Information by Sector
            Information Technologies and Telecommunications
Author - Groupe Secor

Malofilm: A Multimedia Activity Assessment

List of Persons Contacted

- GUY BOUCHER, Vice President of Creative Services, Malofilm Interactif
- JEAN-MAURICE DUPLESSIS, Vice President of Reference and Educational Products, Malofilm Interactif
- ROBERT HOGAN, President and Chief Opreating Officer, Malofilm Interactif
- JAMES JOLLY, Vice President of Sales, Malofilm Interactif
- RÉMI RACINE, President, Malofilm Interactif
- STEVEN TACASCY, Premier Vice President and Head of Financial Management Services, Malofilm Communications

---

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

http://strategis.ic.gc.ca

Note: In July 1997, four months after the completion of this case study, changes were announced that meant the dissolution of CMI as a partnership. Mackerel announced it was closing operations as a result of cash flow problems; and, Owl temporarily suspended its operations while management considered financing alternatives. Owl's publishing activities are expected to resume. Owl's television production resources have been sold to Cosient Group Inc., a Canadian television and film producer. The current case study does not cover these events. As a result, an update is underway and an addendum that discusses the problems that lead to CMI's closure will be added. The revised case study should be available on this site in January 1998.

Case Study of Combined Media Inc. (CMI)

Table of Contents

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canadä

http://strategis.ic.gc.ca

Case Study of Combined Media Inc. (CMI)

Introduction

Combined Media Inc. (CMI) is a Canadian owned, internationally focused, multiple media company. It was created in August 1996 by integrating two proven and recognized companies, Owl Communications and Mackerel Interactive. Together they produce high quality, innovative television, magazines, books and interactive products for children and families and offer leading edge interactive marketing and interface design services to corporate clients.

In February of 1997, CMI completed a three year strategic plan. Its mission statement is:

> "Our reputation is earned from our high value, content driven products and services produced under the Owl and Mackerel brands. Our growth is achieved by increasing the depth and breadth of our company in both our lines of business: entertainment and fee for service agency work. Our goal is to build Combined Media to an enterprise with five time current revenues and a presence in the marketplace far beyond our size."

- *CMI creates properties, products and services our customers enjoy that are fresh, effective, intelligent and fun.*
- *CMI commits to delivering to our shareholders a substantial rate of growth with demonstrated strength in current and potential cash earnings.*
- *CMI provides its employees an environment where they can have "serious fun" and share in the successes of the company.*

In November of 1996, Industry Canada approached CMI requesting that the company share its experience in the form of a case study.

The New Media and Entertainment Directorate recognized that the transition of traditional content industries into a multimedia or interactive media environment is new and without guidelines. With the development of case studies such as this, the government hopes to provide direction as to the impact of interactive media, its challenges and opportunities, to others interested in this emerging area.

In this particular instance, they asked that the focus of the business case be on interactive media and its effect on CMI's television division.

The case study that follows is presented in four parts:

1. *Background:* what led CMI to interactive media.
2. *Decision:* the integration of Owl and Mackerel.
3. *Impact:* the effect it has had on the company.
4. *Future Plans:* what's next.

This report is prepared by J. M. Johnston & Associates.

Comments/Suggestions/Questions about this document.

Canadä
http://strategis.ic.gc.ca

Strategis | **Information Technology and Telecommunications** | Help | What's New | Site Map | Feedback | About Us | Français

GO TO ⇨ Main Menu
⇨ Business Information by Sector
⇨ Information Technologies and Telecommunications

Search Strategis

Case Study of Combined Media Inc. (CMI)

Background

CMI and its involvement in television and interactive media is the story of its two founding companies, Owl Communications and Mackerel Interactive. It was Owl's search for an interactive developer partner and Mackerel's interest in an alliance with a content provider that formed the beginning of what eventually became an integrated company.

- OWL
- Mackeral

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canadä
http://strategis.ic.gc.ca

Case Study of Combined Media Inc. (CMI)

Background - Owl

Owl Communications began in 1976 as a not for profit publisher of children's magazines. It had two employees, a $5000 loan and office space provided by Key Publishers. Its first magazine was OWL. Over the past two decades, the company added to its activities book publishing, three more magazines and, in 1988, television production.

OWL COMMUNICATIONS INC. 1995

```
                          ┌─────────────┐
                          │  President  │
                          └──────┬──────┘
         ┌───────────────┬───────┴───────┬───────────────┐
   ┌─────┴─────┐   ┌─────┴─────┐   ┌──────┴──────┐  ┌─────┴──────┐
   │    EVP    │   │    SVP    │   │  VP Finance │  │  Director  │
   │Publishing │   │Television │   │     and     │  │Development │
   └───────────┘   └───────────┘   │Administration│ └────────────┘
                                   └─────────────┘
```
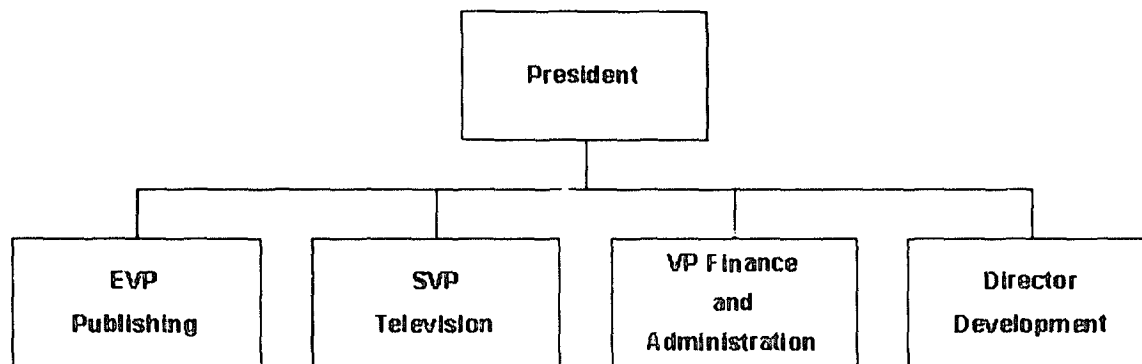
By 1996 Owl Communications had grown to become an acclaimed worldwide creative communications enterprise committed to entertaining children from the perspective of the child. This mandate led them to look regularly at new means and creative ways to reach children. As the company approached ten million dollars in revenues the focus has been on growth and profitability.

In 1992, this led to the development of a five year strategic plan focused on growth. An area identified for further exploration was new technologies. It was the logical next step.

- Strategically, Owl was committed to creative excellence in communicating to children through whatever medium they used. New technologies were an emerging new medium.
- New technologies built on a core asset. Interactive media developers were searching for content. Owl had two decades of content from its books, magazines and television properties.
- Finally, interactive media was becoming increasingly relevant to the business of television. Television deal making had been focusing increasingly on 'rights', the ownership of the television concept/characters extended to other areas. Rights were now moving to include interactive products and services and Owl did not have the capability to participate in this 'downstream' revenue opportunity should it choose to do so.

Accordingly, Owl decided to explore the area and in late 1993 conducted a study into the market. *Market segments* were growing and still being defined, the *installed base* was in its early stages, but growing fast, *channels of distribution* were evolving, *competition* was evolving. The basics were coming together.

Owl then assessed the relevance of new technologies in terms of the specific business requirements. Was there a fit?

- *Audience*. New technologies had a particularly receptive audience in children and young people, Owl's target group.
- *Markets*. New technologies opened up new markets in the area of entertainment, Owl's market.
- *Business*. New technologies merged publishing and television, Owl's core lines of business.
- *Product*. New technologies were actively seeking producers with reputations for high quality content such as Owl produced.
- *Strategic Fit*. New technologies provided opportunities for growth in new directions, a key strategy for Owl.
- *Culture*. New technologies offer exciting potential for entrepreneurs.

The company determined that despite the risks, for producers the balance lay on the side of opportunity. It was a question of timing. By 1995, Owl was ready to begin the search for potential interactive media partners. The search led to Mackerel Interactive.

Case Study of Combined Media Inc. (CMI)

Background - Mackerel

Mackerel began in 1989 as a graphic design house, with two employees, two used computers and less than $5,000 in capital. Its efforts to market the company via an interactive promotion disk transformed them into an interactive media company. The Mackerel Stack, its marketing calling card designed to promote the graphics business, quickly won major interactive awards and attracted the attention of corporate clients. Companies such as Toyota soon came calling on Mackerel to design interactive marketing products and services for them.

By 1992, Mackerel was focused almost entirely on interactive media. It had organized its services into digital marketing and interface design and was winning international awards for its work.

While the corporate fee for service business was growing, Mackerel was looking for further expansion in the development of interactive consumer products. By 1995 it had set up a separate consumer products group and entered this market as a service provider. Its plan however was to develop its own properties.

By 1995, Mackerel was actively seeking an alliance with a content provider and Owl was looking for an interactive media partner. Both were concerned with corporate "fit", creative skills and financial issues.

MACKEREL INTERACTIVE 1995

```
                            ┌─────────────┐
                            │  President  │
                            └──────┬──────┘
   ┌──────────┬──────────┬─────────┼─────────┬──────────┬──────────┐
┌──┴───┐ ┌────┴────┐ ┌────┴────┐ ┌──┴───┐ ┌───┴───┐ ┌────┴────┐ ┌───┴────┐
│  VP  │ │VP Digital│ │VP Digital│ │Creative│ │VP Digital│ │Production│ │On-line │
│Corporate│ │Marketing│ │Consumer │ │Director│ │  Sales  │ │ Manager │ │Manager │
│Development│ │         │ │Products │ │       │ │         │ │         │ │        │
└──────┘ └─────────┘ └─────────┘ └──────┘ └───────┘ └─────────┘ └────────┘
```

Comments/Suggestions/Questions about this document.

Case Study of Combined Media Inc. (CMI)

Decision

Owl's first decision was that it would seek an alliance as opposed to a one time partnership. There were several reasons for this. Owl had made a strategic commitment to interactive media. It had twenty years of content, a major asset to build from and one to protect. While it knew its market - children and families, the company was new to interactive digital. Perhaps most important, their experience had shown that developing long term alliances resulted in more effective working relationships and better products.

Accordingly, the next step was to develop a set of criteria upon which to choose the partner. In Owl's case they consisted of:

- Interactive skills
- Related experience
- Agreement as to rights
- Financial resources
- Interest

The search considered partners across the country. Mackerel and Owl proved to be a good fit. Mackerel's interactive skills were acknowledged throughout North America; their experience included work with the Royal Ontario Museum where Mackerel designed kiosks had to attract, teach and entertain kids and families; they had been involved in the development of CD-ROMs for kids and for families; and interest on both sides was strong.

At this time however, events were moving the search beyond an alliance. In the fall of 1995, Owl, led by its President Annabel Slaight, and supported by board member and acting CFO John Davidson, had determined that growth required more capital than it currently had access to. Mackerel had come to the same conclusion.

CMI % Revenue by Business
1997

Interactive

TV

Publishing
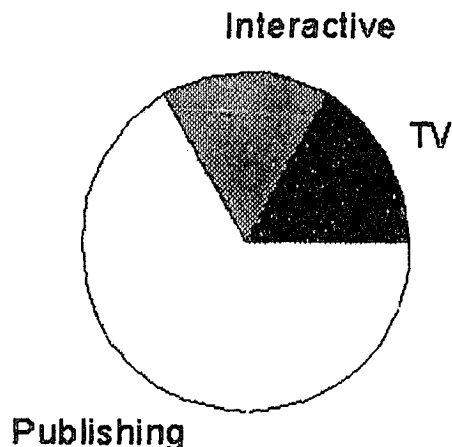
At the same time Gord Haines, the former chief operating officer at Alliance Communications Corp. was looking to set up a new communications company. He was looking to create a company "that would harvest the opportunities flowing out of the information and communication revolution", one based on an integrated multiple media concept.

Mr. Haines had already advanced discussions with Owl. He was looking for a group to complete the concept. Owl had already conducted a targeted search that led to Mackerel. The introduction was made and discussions proceeded with the four partners at Mackerel led by its President, Gord Gower.

Owl and Mackerel had already done an excellent job of penetrating markets. With little operating capital, both had proven capable of generating positive investment returns. In August of 1996 a multiple media companyactive in television, publishing and interactive products and services was created.

The new company, Combined Media Inc., now had improved access to capital, could generate operating synergies, bolster management strength, preserve creative excellence and support the company's natural entrepreneurial spirit.

The focus of its first year was in three key areas.

1. Deliver immediate business plan targets,
2. Develop a strategic plan for the next three years, and
3. Create and implement the organization.

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canada

http://strategis.ic.gc.ca

Strategis | Information Technology and Telecommunications | Help | What's New | Site Map
Feedback | About Us | Français

Search Strategis

GO TO ⇨ Main Menu
⇨ Business Information by Sector
⇨ Information Technologies and Telecommunications

Author - J.M. Johnston & Associates

Case Study of Combined Media Inc. (CMI)

Impact

As with any company's entry into new areas, there are internal impacts. For Combined Media they included:

I. Impact on the Operations of the Business

    The two Lines of Business: Entertainment and Fee For Service Agency.
    Business Affairs
    Marketing & Sales

II. Impact on the Organization
    Culture
    Technology / Systems
    Structure
    Human Resources

III Financial Impact

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canada

http://strategis.ic.gc.ca

Case Study of Combined Media Inc. (CMI)

Impact on Operations

Lines of Business

As CMI's plans developed it became apparent that there were two key lines of business - entertainment and fee for service agency. One delivers multiple media entertainment products to a variety of markets but primarily to children and families. The other provides interactive marketing products and services to corporate customers on a feefor service basis. CMI's plans called for interactive media to become a major factor in the first and comprise the whole of the second.

As the two lines of business operate as separate groups and profit centres within CMI, the impact on operations is modest. Within the entertainment business, however, each division impacts the other.

CMI has set up three divisions within its entertainment business: publishing, television and interactive products. (We note again that although CMI's entertainment businesses, television, book and magazine publishing and interactive, are highly interconnected, this case study focuses only on television and interactive.) Each division operates with plans and targets that assumes 1) delivery of its own projects and 2) delivery of interrelated properties.

Projects are individual to each division. Properties cross divisions. A potential property may originate anywhere within the company. They offer significant long term potential and add value to the Owl and Mackerel brands.

CMI's initial experience was gained with a property called Mighty Mites; three young teens who, when miniaturized, go on variety of adventures. Mighty Mites is a successful series within Owl magazine. With Combined Media it was developed and launched in April of 1997 as an on-line interactive area through AOL Canada to AOL International. It is now in the final stages of development as an international television series.

As CMI learned, the concept is not without difficulties. Properties impact business affairs, creative and marketing. They raise issues relating to management of resources, creative decisions, sharing of costs and revenues.

Like others in the industry, CMI's experience is that when a concept crosses media, a focal point or 'property manager' is needed. This works to ensure proper business case development, effective cross divisional business planning, management of relationships, appropriate consistency to creative development and an integrated marketing effort.

CMI dealt with all these issues and made a point of learning from the experience. A workshop with the key participants in Mighty Mites led to further assessment. CMI is now developing processes that will maximize the benefits and minimize the pitfalls in multiple media activities. The following shares some of their findings:

Findings: Business, Production, Marketing

Business:

- *The Business Plan:* A well thought out business plan is the start of any activity. Multiple media projects absorb significant resources over the long term. What is the cost:benefit? How substantial is the potential

- financial, future business, added value to the brand, creative development of people?
- *Rights:* Which division will hold the rights and therefore deal future usage and determine potential partners? How are potential properties identified early in order to retain or control rights? In which projects are rights a disposable asset?
- *Management:* Management review with a designated project manager is needed from the outset. It should be at a senior level and include representatives of each media group who may be involved.

Creative/Production

- *Creative/Concept:* Each media has different creative requirements. Who will manage between media and determine appropriate levels of consistency or change?
- *Production:* How can efficiencies be maximized from concept to "bible" to use of visuals, text, sound? Repurposing of materials is cost effective. However, simple repurposing is not always feasible. It may run counter to creative excellence, limit customer appeal and therefore long term success. The best production efficiencies may result from integrated preproduction planning.

Marketing

- *Marketing:* An integrated approach can enhance marketing efforts. Typically, television is a primary driver of any multiple media venture as the television show itself is the best marketer of other products. At the same time, related interactive products, can provide added value to a television buyer who may be looking for ways to enhance the show. Who positions and who markets the products?

CMI worked through these operational issues in the development of Mighty Mites. The company continues to refine its learning in order to be able to produce more, more effectively and more efficiently. This is essential to their growth targets. It is also essential to delivering on the founding concept articulated in their name - Combined Media.

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canada

http://strategis.ic.gc.ca

http://strategis.ic.gc.ca/SSG/it04208e.html

6/12/98

Case Study of Combined Media Inc. (CMI)

Impact on the Organization

For Combined Media the impact on the organization was significant. The formation of the company was based on the integration of Owl Communications and Mackerel Interactive, the integration of television, interactive media and publishing.

This impacted culture, technology and systems, structure and human resources. CMI created change and created jobs.

Culture & the Business Environment

Perhaps the most underestimated challenge in bringing two organizations together is the impact of culture. Culture in any organization is behaviour and behaviour is generally formed around common language, means of communication, accepted business disciplines, common processes and measurements.

In this case, while the "fit" between the two founding companies was strong, issues arose around a number of areas. In particular, they included structure, business case development and assessment, business style and to some extent communication.

The television group had more years experience, was more structured and operated in a deal driven, transaction based environment. The interactive media group was less structured and generally not accustomed to television business models. Their operation was more fluid, more team driven and they were more questioning of traditionally structured environments. In terms of communication, language used across the groups - producer, development, production - were similar but the meaning or work involved was not always the same.

As expected, business disciplines were different. Owl had been a not-for-profit company. Mackerel had been a closely held company. CMI was a for-profit company with a wider shareholder base. This demanded more stringent business disciplines with related training and support requirements.

Similarly, measurements and processes that were appropriate for the individual companies had to be reconsidered in order to be relevant to both. They included areas such as financial controls, contract negotiations, management checkpoints, authority levels, project tracking and the development of comparable data. The establishment of CMI, led to a review, still ongoing, of all processes and all measurements.

The integration of Owl and Mackerel, television, publishing and , into CombinedMedia impacted most elements of the business environment.

Technology/Systems

In order to be able to manage the business, common systems had to be put in in key areas. The first priority was to ensure that accounting systems and communications links were integrated. Management growth, integration of the two companies, the ability to report accurately, reliably and on a timely basis to management, were critical to the success of the company.

CMI was fortunate to have the technological skills and resources of Mackerel. Their business was electronic communication and problem solving. These were augmented by consulting resources. CMI needed to ensure

the fastest possible implementation with low risk, affordable solutions. User needs were assessed, corporate requirements defined, existing Owl and Mackerel technology reviewed, and options presented.

Solutions were found and the implementation using proven technology was completed in a matter of months.

Structure

The formation of the company changed the senior level structure and operating relationships of Owl and Mackerel. At the corporate level, a Founders Committee was established composed of Gord Haines, Annabel Slaight, Gord Gower and John Davidson. The four founders of CMI then took key operating roles: Gord Haines CEO and COO; Annabel Slaight, President of Owl, Owl International Inc. and "Property Manager and President of Magic" CMI; Gord Gower, Senior Vice President Interactive Media CMI; and John Davidson CFO of CMI.

The Founders Committee also took advantage of the particular strengths of Annabel Slaight and Gord Gower. As head of interactive media, Gord Gower contributes both his knowledge of the medium and his understanding of the industry he and his partners helped to pioneer, to whatever opportunities arise.

As President of "Magic", Annabel Slaight contributes her exceptional understanding of how to communicate with and entertain children across the various businesses within CMI. Where multiple media properties such as Mighty Mites are involved, she leads the work as "Property Manager".

In terms of the relationships between television and interactive, they come togetherprimarily as potential properties are assessed and/or developed. Both groups continue to operate independently in terms of their own projects which form the bulk of their activities.

Human Resources
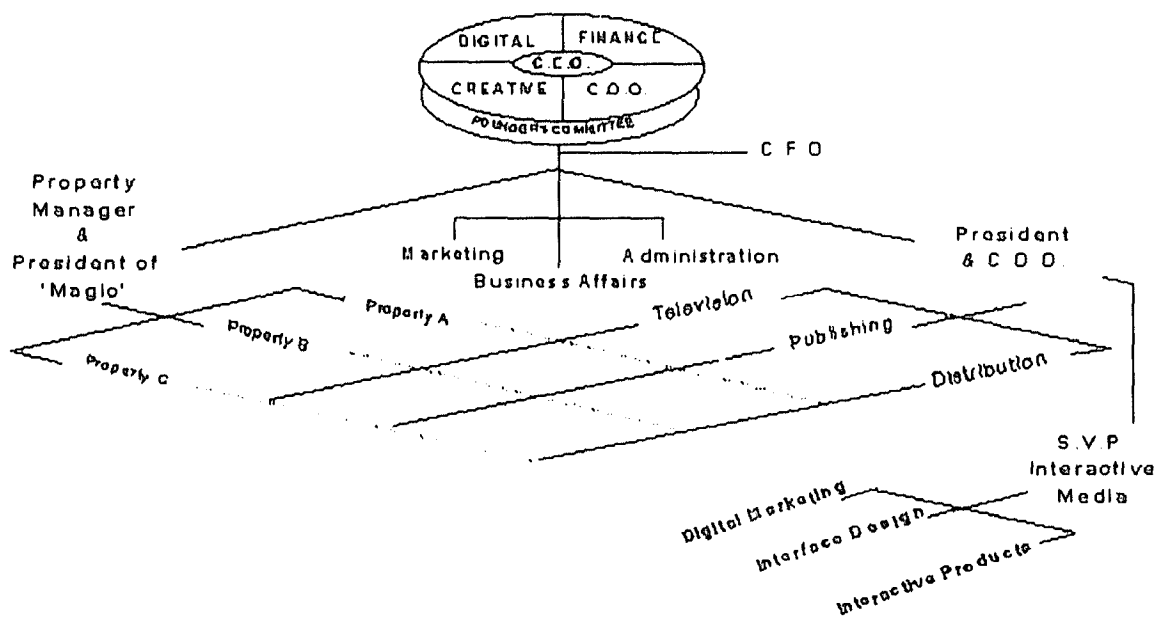
Prior to forming Combined Media, growth in both companies was constrained by limitations in the numbers and depth of full time staff. Owl Television had five permanent positions, representing approximately three to four full time equivalents. Staff levels fluctuated depending on the projects in hand. Human resource needs were met primarily on a contract basis and as required by the creative demands of the projects in hand. This is the essential television model. Owl's dilemma was insufficient resources to build the critical mass of projects needed to develop the company further.

Mackerel managed human resource needs to a different model. Additional staff was hired carefully to meet client needs. If and as staff exceeded work at hand, Mackerel adapted not by releasing employees but by adjusting salaries until workload increased.

With the formation of CMI, the company added executive resources, an integrated senior level staff group, and the financial resources to staff to business development needs. Between January 1996, prior to CMI and January 1997, six months following the formation of CMI, full time staff in television and interactive media increased by 75%.

CMI GROWTH - NUMBER OF EMPLOYEES TELEVISION AND INTERACTIVE
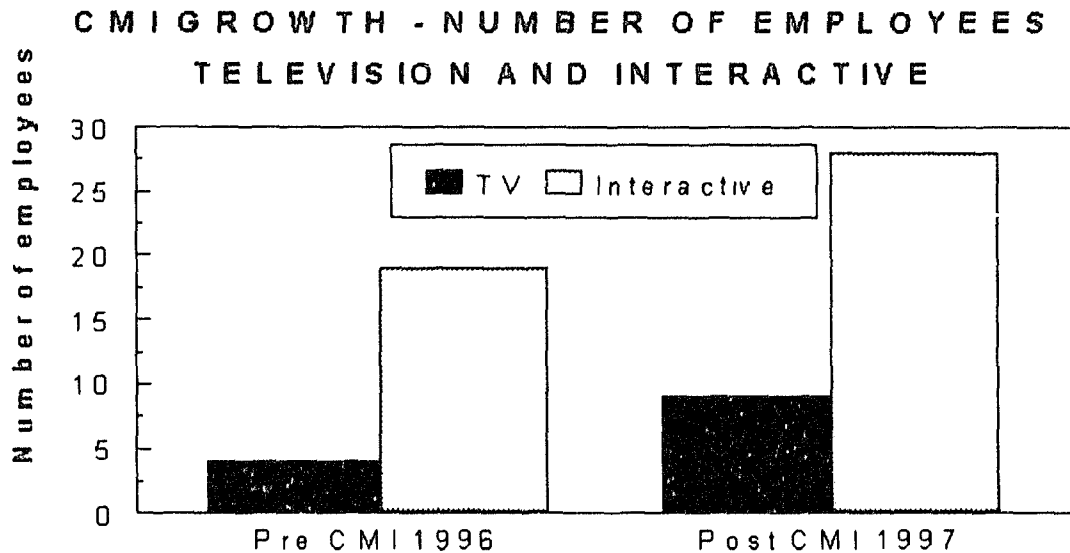
Equally importantly, as the businesses grew, became more sophisticated and interrelated, a higher level of business skills were involved. The people added were chosen not simply for their creative or technical skills. Business skills, project management skills, client service skills, became a prerequisite for many of the new jobs.

Here the multiple media concept of CMI provided an advantage. The logic and appeal of the concept, the reputations of Owl and Mackerel, the corporate strength of CMI, proved a benefit to recruitment in a highly competitive industry.

Job growth at CMI had another impact. The company grew out of its physical space. New and larger premises had to be found. In March, 1997, CMI almost doubled its space as it moved into 370 King Street.

[ ] *Comments/Suggestions/Questions about this document.*

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canada
http://strategis.ic.gc.ca

GO TO ⇨ Main Menu
⇨ Business Information by Sector
⇨ Information Technologies and Telecommunications

Case Study of Combined Media Inc. (CMI)
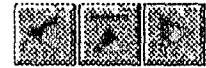
Financial Impact

The financial impact of interactive media on television is yet to be proven. The first project, Mighty Mites, is just now being launched.

What is known to CMI is that the concept has appeal to the industry. Television buyers are excited by the Mighty Mites interactive demo and found the fact that it will be an AOL web site to be an added reason for considering the show. AOL was attracted by the concept's success in publishing and the potential for television support.

CMI REVENUE GROWTH BY BUSINESS
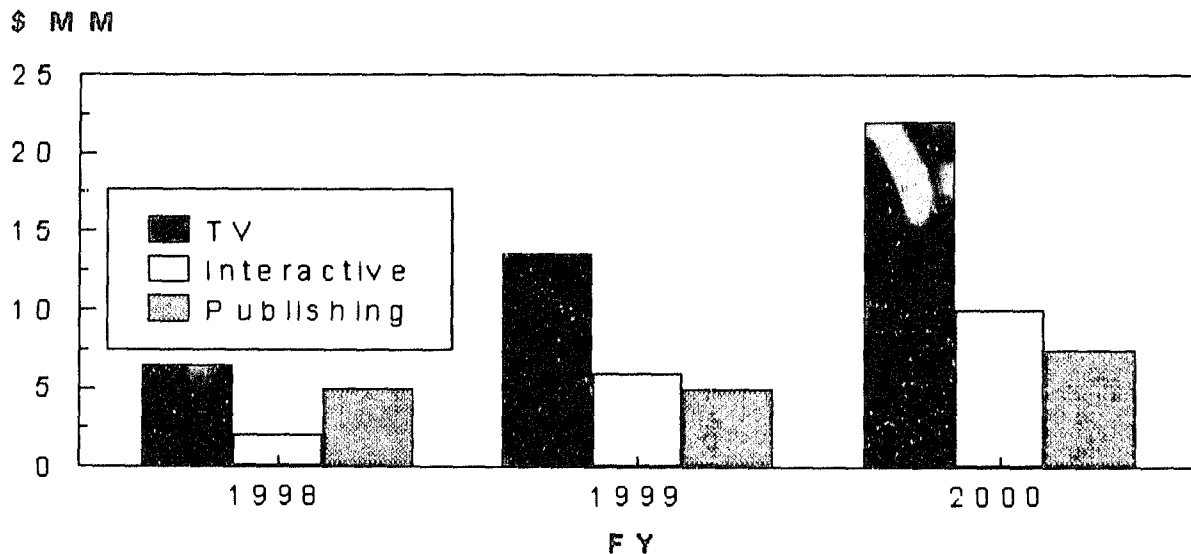
This approach is outside the norm and illustrates another way in which interactive can impact television financially. Typically, projects begin in television then migrate to interactive. In this instance, Mighty Mites began in publishing, moved to interactive and, as a marketing tool, is supporting the opportunity for television. Combined Media believes that this variable synergy of concepts and media will drive successful projects in the future.

Looking beyond CMI's entertainment business, its fee for service interactive agencybusiness has proven results. Market growth, expanded resources, improved business disciplines, and the sales and production skills of the division will more than treble revenues in 1997 over the previous year. By the end of 1999, revenues are forecast almost to treble again.

The decision to include as part of the Combined Media concept was both a market and financially driven decision.

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canadä
http://strategis.ic.gc.ca

Strategis Information Technology and Telecommunications

Help | What's New | Site Map
Feedback | About Us | Français

Search Strategis

GO TO ⇨ Main Menu
⇨ Business Information by Sector
⇨ Information Technologies and Telecommunications

Author - J.M. Johnston & Associates

Publication Date - 1997-04-30

Case Study of Combined Media Inc. (CMI)

What's Next

What's next is growth and delivery of an aggressive business plan. In February 1997, CMI completed its three year corporate strategy. It is now developing integrated operating strategies for its agency and entertainment businesses.

The company has articulated in detail its direction and priorities for the next three years. In summary, 1997 will be focused on positioning for growth and delivering products and services across multiple media. 1998 will focus on more growth as the company builds value and expands into new areas. And 1999 to 2000 will be focused on managing a growing company five times larger than it is today.

CMI % Revenue by Business

2000

TV

Publishing

Interactive
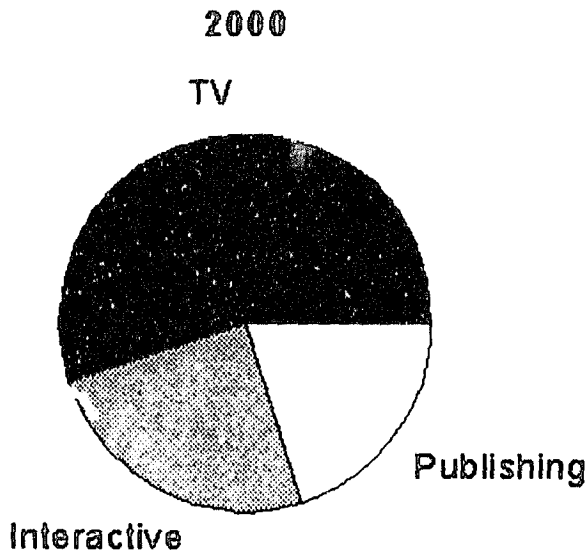
CMI believes in the worldwide opportunities open to integrated multiple mediacompanies. The company was created to deliver the opportunities. It has gathered together some of the best creative minds and business expertise in key areas to ensure success. They look enthusiastically to the future.

Comments/Suggestions/Questions about this document.

Strategis | **Information Technology and Telecommunications** | Help | What's New | Site Map | Feedback | About Us | Français

Search Strategis

GO TO ⇨ Main Menu
⇨ Business Information by Sector
⇨ Information Technologies and Telecommunications

Case Study of Heartland Motion Pictures & Pebble Beach Interactive Inc.

- Executive Summary
- Background and Objectives
- Heartland Motion Pictures and the Emergence of Pebble Beach Interactive
- Strategic Direction of Pebble Beach Interactive
- Pebble Beach Products
- Product Development
- Marketing and Distribution
- Competitive Environment
- Financials
- Major Challenges
- Strategies for the Future

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canada

http://strategis.ic.gc.ca

Case Study of Heartland Motion Pictures and Pebble Beach Interactive

Executive Summary

Stephen Onda established Heartland Motion Pictures more than a decade ago to produce light informational and dramatic television and films. Over the years, Heartland has won Gemini awards, CanPRO awards and lists award-winning movies and television series that are syndicated around the world. Heartland has a staff of three (3) full-time and twenty (20) part-time employees that have developed strengths in co-production and development.

In 1996, Stephen Onda and Leif Storm established a second firm, Pebble Beach Interactive(PBI). Recognizing the increased use of computers in the school and the home, and the growth in Computer-based Training(CBT), the firm used its close working relationship with the department of Education in Saskatchewan as a springboard to producing and distributing Educational Interactive Products to a world market. The company has been able to produce two curriculum-based titles which have been approved for use in the class room.

The market for educational products is the fastest growing area of support software in North America today. Researches have reported year over year increases in the market at over 125 % and projected to be more than $1 billion by the year 2000.

Producing products for that market however encounters several challenges. First there is the shortage of skilled personnel in Saskatchewan, and the ability to retain those that are trained in the province and the company. Second there are the challenges of a new company with a new product targeted at a new /emerging market. This combination has made it difficult to access long-term financing for the company's growth.

The company has been able to secure some 18 skilled workers and with help from the federal department of Human Resources and the provincial department of Education Pebble Beach has developed and instituted an Adaptive Systems Training Initiative which trained its staff and provided for training of other potential workers for the industry. All of the workers in the company were re-trained for the specific needs of the company. They are now all full-time with skills in the areas of creativity, writing, graphic design, animation/VR, digital audio/video, programming and adaptability. PBI expects to employ another 12 people full-time before the year 2000. None of the employees were recruited from Heartland.

PBI seeks to maximize the in-house content of the multimedia products it develops. A significant portion, 40 percent is created specifically for products being developed. The percentages of how much of the material is generated in-house and from external sources varies with the project. However, with the commitment to develop material in-house, there is a need for professional and well trained staff to execute this strategic plan.

A key strength of the PBI group is their co-production and distribution alliances. This strength, developed from the film and television experience, has led to new models for accessing the education market, sourcing appropriate content and distributing directly into the school system.

This is a long-term business. The opportunity has been identified. It is not yet a profitable venture. However, the company does project significant growth through the year 2000 as it targets and produces product for the Canadian, North American and World markets in competition with some established firms such as Davidson and Associates, Learning Company, Broderbund and Microsoft.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canada

http://strategis.ic.gc.ca

Case Study of Heartland Motion Pictures and Pebble Beach Interactive

Background and Objectives

Industry Canada has commissioned CYROJUS Management Services to undertake a case study of Heartland Motion Pictures and Pebble Beach Interactive Inc., to ascertain the impact of multimedia activities on the growth path, the organizational structure and the business and marketing strategies on companies that have focused on delivering traditional content.

Specifically, Industry Canada wishes to determine the nature and number of jobs that are impacted and the skills that are utilized in the "new" activities of the company, whether these are obtained readily inside of the company or out. Industry Canada is interested in identifying specific opportunities for, or challenges impacting on, industry development or training so that the government can be effective in supporting the development of the content and information industries in the emerging knowledge-based economy.

Comments/Suggestions/Questions about this document.

Canada

http://strategis.ic.gc.ca

Strategis | Information Technology and Telecommunications | Help | What's New | Site Map | Feedback | About Us | Français

Search Strategis

GO TO ⇨ Main Menu
⇨ Business Information by Sector
⇨ Information Technologies and Telecommunications

Case Study of Heartland Motion Pictures and Pebble Beach Interactive

Description of Heartland Motion Pictures

Heartland is an award-winning Saskatchewan film and television production company. Over the past 10 years, it has been producing light informational and dramatic television and films

Stephen Onda is the CEO of Heartland which he incorporated in July 1988. He has been an entrepreneur for over 13 years. His first company, Framework Productions, based in Regina, created a wide range of award-winning industrial videos and documentaries. Building on the success of Frameworks Productions, Onda created Heartland Motion Pictures Inc.. Heartland Motion Pictures has won three Gemini Awards, and four CanPRO awards. Heartland's informational and documentary series play across Canada, New Zealand, the UK, and into the US. Included in its list of award-winning successes is the 1994 movie *Guitarman* which was licenced around the world, and the Television series, *Utopia Cafe* which is now syndicated in several countries, including Australia.

The strategic focus of Heartland is to pursue movie and television projects increasingly through international co-production. In 1995, Heartland derived 100% of its revenues from Television revenues. In 1996, the ratio of television to motion pictures was split 50/50. The projected ratio in 1997 is 60/40 for Television and Motion pictures. Heartland's success is measured primarily by its "ability to meet payroll" according to Onda.

Onda was the executive producer of " *Ideas and Inspiration*", and "*Stories in Season*", Saskatchewan's first CD-ROM products distributed by PBI. He feels that a sign of his success is that after all these years, he "is still here."

Profile of Pebble Beach Interactive

Pebble Beach Interactive Inc. (PBI) is a separate multifaceted, interactive multimedia production company which was incorporated in 1996. It is based in Regina, Saskatchewan, and produces and distributes Educational Interactive Products, Learnware and Courseware to a world market. PBI was formed to produce top quality educational multimedia products in conjunction with top educational content providers. Its principals and shareholders are Stephen Onda and Leif Storm.

Leif Storm has been an entrepreneur for over 15 years. He established one of the first satellite receiving system companies in Saskatchewan in 1982, two years before that market matured. Telescan Inc. was a wholesaler and retailer of satellite systems across Canada, with peak sales of $2 million annually.

As owner of New World Leisure Inc., Storm designed and manufactured satellite receiving systems, and established a wholesale network acro⌐ ⌐da and into the US. Then, as President of Coyote Entertainment Group he produced international tours ⌐orth America, Europe and Asia, and award-winning audio CDs. He also established licensing arrangemt⌐ or CDs and Controlled Compositions around the world.

Leif is the designer and producer of Pebble Beach Interactive "*Ideas and Inspiration*", and "*Stories in Season*". These are Saskatchewan's first CD-ROM products. He also served as the director and production manager for these titles.

Leif Storm is also the creator of the Adaptive Systems Training Initiative, an accredited, federally funded work-based training initiative in multimedia production.

Introduction of Multimedia Activities

The Opportunity

Onda and Storm identified the opportunity to utilize the skills and experience developed in the film industry, in the multimedia industry. Their research indicated that the low overhead in Saskatchewan, their understanding of the machinations of co-production and co-development of film and video titles and the scope of their technical expertise including computer based training, could be effectively employed in multimedia. They chose the educational products because of their close working arrangements with the Saskatchewan Department of Education and their understanding of the potential of the computer-based learning in schools and in the home.

Computer-based training (CBT) is quickly becoming the preferred mode of instruction by parents, students and teachers. This approach to education is in evidence as schools and parents expand their purchases of computers, and use more and more computer-based materials to complement the learning of students in and out of the school. PC Data, the leading researcher of trends in the software industry, reports that home education software sales rose at a faster rate than any other category including spreadsheets and word processors.The trend towards CBT is also in evidence among adults, high school students, and students in remedial programs, especially in remote locations. They employ more interactive models for their learning, as research shows that learners retain significantly more of the experience than when using other models.Onda and Storm were convinced that new computer technologies are changing the entire foundation of computer-based education. "Computers and the other information technologies a re changing what children need to learn as well as how they learn it.."

Education Products - the Fastest Growing Markets

The market for educational multimedia products is the fastest growing area of support software today. Current research has led PBI to believe that the school market will eventually eclipse the home market. This persuaded PBI to focus on the educational rather than the entertainment market.

Onda and Storm investigated the existence, scope and growth potential of the school-based education multimedia industry. They ascertained that the educational software industry in North America is projected to increase in the next 5 years. At the same time, the Software Producers Association, estimated that the year over year growth of the home education market in 1995 was 128 % , higher than any other category of software that is tracked by the industry.In Canada, Maclean's magazine commented that the expected growth in educational software is estimated at 40% per year. These findings were confirmed by the discussions which Onda and Storm had with the Saskatchewan Department of Education. The department expressed a willingness to co-develop titles and assist in funding this development. The department's interest in this project provided Storm and Onda the chance to employ their experience in co-development and co-production refined in motion picture development.

The Approach

While Heartland remains the same firm pursuing it's strategic direction, it's principal Stephen Onda, and Leif Storm, decided to incorporate Pebble Beach Interactive. Consequently, Pebble Beach Interactive and Heartland Motion Picture share many common threads, the most important of which is a common founder. However, Pebble Beach Interactive is not a subsidiary of Heartland. This is a case of the portable skills of the principals developed in the film and motion picture industry, being transferred to the new multimedia industry. There are plans for joint creative marketing of specific film and CD-ROM titles in the future.

Objectives

Onda decided to incorporate a separate company to enter the multimedia field. He chose this approach because of:

- his ability to source funds for a specific project that he had identified,

- the clear identification of a growing market segment that Heartland was not equipped to enter, and
- the year-round i.e. non-seasonal nature of multimedia, which was significantly different from the seasonal nature of film and television production in Saskatchewan.

Current Strategies

The multimedia opportunity for Onda and Storm represents a new direction which includes:

- new markets,
- a new product niche,
- new opportunities and
- the chance to parlay their co-production and strategic alliance building expertise developed in film, in a new marketplace.

At the same time, the firms have many features in common:

- a common shareholder - Onda,
- space in their current building and
- a symbiotic relationship.

The two companies complement each other very well: Pebble Beach brings the graphics component to the products, while Heartland provides the post-production capability for the two firms. The common thread also allows them to market together, for example, a television series complemented by a CD-ROM series, into specific markets.

Challenges

In moving into the multimedia arena, Onda and Storm faced several challenges. Their experience in film and television production served them in good stead, in understanding and working with the multimedia economy.

The primary challenge however was finding, and keeping appropriate human resource skills. In the early days, PBI lost several trained and competent contractors. These contractors were lured away to larger firms in Vancouver and Toronto. This required the company to hire and train new contractors and employees.

Selling the concepts of multimedia/interactive learning and the approach the company was taking, to financiers, distributors and public sector agencies proved another significant challenge. To date, even though they have approached and "educated" several financiers in the public and private sectors, they have not been able to secure appropriate long-term financing.

Decision-Making

The decision-making process in Pebble Beach is independent of the decision-making process at Heartland. Because they operate as two separate companies, there was r   ge in the decision-making process at Heartland as a result of the establishment of the second company by Onda and Storm. However, with a common shareholder and sharing space, there is ample opportunity for complementary decision-making and exchange of ideas and processes. There is however an intense desire to retain separate processes for the two companies.

Strategis | Information Technology and Telecommunications | Help | What's New | Site Map | Feedback | About Us | Français |

GO TO ⇨ Main Menu
       ⇨ Business Information by Sector
       ⇨ Information Technologies and Telecommunications

Search Strategis

Author - CYROJUS Management Services

Case Study of Heartland Motion Pictures and Pebble Beach Interactive

Strategic Direction of Pebble Beach Interactive

PBI Mission Statement

Pebble Beach Interactive Inc. has set its goal to become the leading producer of high quality Interactive Educational Products in the world market.

Pebble Beach has determined that it will become one of the leaders in North America in the production of quality interactive educational resources. To achieve this, PBI has to:

- source the best available personnel,
- obtain and employ the most creative and appropriate financing strategies, and
- develop and maintain key strategic alliances for production and distribution of its titles.

The success of the company will be measured by the extent to which it is an industry leader in Canada and North America. The potential market for the multimedia industry in North America has been estimated as the current size of the television market today in terms of dollar volume.

PBI Human Resource Profile

Skill Requirements

Pebble Beach utilizes many types of skills in the company. This includes skills in project management, creative production, multimedia design writing, interactive authoring/integration, graphic design, animation, and digital audio/video programming in several computer languages.

Profile of Workforce

The average age of the workforce is 26 years and the employees are predominantly male. All of the employees have some post-secondary education and are hired for their creative skills and energy.

The staff is now all full-time. Over the year in operation, the company has grown from 1 full-time employee through several contract employees to 18 full-time employees. At its inception, the company began using contractors and part-time persons. However, after it had lost several of its contractors, it discovered that it the needed to provide a means of attachment and commitment both to the contractor, and from the contractor to the company.

There is tremendous pressure to lure experienced contractors away from Regina to the larger centres which have larger pools of multimedia professionals and work opportunities. This led to the decision to secure full-time employees who would be committed to the company. Many of the initial full-time employees were hired from service related industries such as retail(Wal-Mart); and educational institutions (the University of Regina and the Saskatchewan Institute of Applied Sciences and Technology(SIAST)).

Recruitment and Training

None of the PBI employees were recruited from Heartland. Four of the current employees have been hired for typical management activities. All of the others were employed for specific multimedia activities. The primary concern with the labour pool in Regina and Saskatchewan, is that there does not appear to be enough qualified people. When qualified people are identified, it is a challenge to retain them in Regina. In the early stages of the Company, several qualified persons were lured away to Vancouver and Toronto. Consequently all of the remaining staff are new hires. These new hires have all had some of the required skills, but have been re-trained into the needs of the multimedia company. The specific skills the company requires the employees to possess include creativity, writing, graphic design, animation/VR, digital audio/video, programming and adaptability.

Composition of Present Workforce

The present personnel of PBI (18 persons) include:

- two curriculum developers,
- a former SIAST instructor, and
- the instructor and project manager for the Campbell Collegiate/Sask. Tel Fibre Optics test project.
- writers, graphic designers
- interactive authoring technicians
- modeling/animation/VR personnel
- programming and digital audio video personnel

The academic credentials of the staff indicates PBI's interest in personnel with post secondary education. One member of the staff has a masters degree. Six other staff members have bachelor degrees. These include three with bachelor of fine arts degrees, two with computer science degrees and one engineering degree. The employees were trained using in-house training programs, in the use of the new software and creativity packages used by the company.

PBI expects to employ another 12 people full-time before the year 2000.

Changes in the Workforce

The principals of the company estimate that the major changes in the workforce over time will be the acquisition of more graphics and computer-based skills. This would include graphic designers, animation and authoring technicians. These are not in abundance in Regina. However, given the difficulty of finding qualified people for the current stage of the company, i.e. the development of the initial titles, there is concern about finding people with the required job skills for the growth of the company. They expect to be doing significant training and retraining of new hires, hence the establishment of the Adaptive Systems Training Initiative.

Comments/Suggestions/Questions about this document.

Case Study of Heartland Motion Pictures and Pebble Beach Interactive

Pebble Beach Products

Current Titles

Pebble Beach has developed two major titles with several others in the development stage. The first CD-ROM title, *Ideas and Inspiration; An Introduction to Contemporary Canadian Art*, was produced in conjunction with The Saskatchewan Department of Education. It was designed to support the study of visual arts in high schools and post secondary classes. It is a bilingual, English and French compilation of the contemporary work of 100 Canadian artists in the fields of architecture, fine arts, craft, comic book illustration, graphic and fashion design organized in four multimedia interactive galleries. Visitors to the galleries are encouraged to explore and experiment in the media with hands-on involvement in a range of interactive activities. Their passage through the galleries is complemented by music, sound effects and contextual information.

The second title *Stories in Season*, is a CD-ROM interactive product designed to complement reading skills of students from Kindergarten to Grade 2. It is a talking storybook presented in the form of a collection of interactive storybooks designed to enhance language arts, basic computer skills and at the same time provide a glimpse into the culture and lifestyle of Canada's First Nations.

Stories In Season are four multi-lingual illustrated stories told in the English, French, Saulteaux, Dakota, Dene and Cree languages. These stories tell tales simply and with striking illustrations. The stories were developed in partnership with the Saskatchewan Department of Education as a part of the English language Arts and French and Indian Language Curricula in elementary schools.

Both titles play on IBM compatible and Macintosh formats and are accompanied by informative teacher guides. Neither of these titles is related to work or projects currently underway at Heartland Motion Pictures.

Source of the Content

In Pebble Beach Interactive, 40 percent of the content of the multimedia products is new, created specifically for the products being developed. Of this share, 90 percent is created in-house while 10 percent is acquired from external sources.

60 percent of Pebble Beach's content materials are derived from materials in the public domain. The percentages of how and where content material is generated, differs from project to project. Generally however, 10 % is acquired from proprietary sources. These materials include images, video, music, text and animation. Content is acquired from global sources as may be pertinent to the global market that is being targeted.

With such a large portion of their material created in-house, the skills and the capability to work with new products and techniques and technologies is paramount. Further, PBI is not using any of the content material produced by Heartland as it has not been suitable or related to the projects currently undertaken by PBI. This has meant that they have encountered every type of production and development related issue.

There were no precedents that were available for PBI to follow. Consequently, PBI built from the ground up, all of their arrangements: agreements, contracts, decisions on people and protocols, what to lease or what to

purchase. This process of trial and error has been costly and time-consuming for the company.

Ownership of Intellectual Property

PEI seeks to own the rights to all of the intellectual property it develops and employs. When it is appropriate, the company purchases or pays for the rights to the property it employs and obtains from external sources.

A key strategy of the company is to do as much of the production as possible in-house and to contract out as little as possible. This enhances its claims to the intellectual property and the company's protection of these rights. At present, 60 percent of the production work is done in-house and the remainder contracted out.

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canada

http://strategis.ic.gc.ca

Case Study of Heartland Motion Pictures and Pebble Beach Interactive

Product Development

PBI has several distinct advantages. In an industry where location is irrelevant, PBI is situated in a low overhead part of the world.

To address the need for trained personnel, PBI, with funding from Human Resources Development Canada(HRDC) and Saskatchewan Department for Post-Secondary Education and Skills Training, has developed the Adaptive Systems Multimedia Training Program. This initiative is intended to develop a pool of new media specialists to meet the needs of PBI and the needs of the industry. PBI will be a training depot for Adobe, Macromedia, and develop it's own curriculum for Adaptive Systems training. This is a work-based training initiative, which will soon be accredited. The program is administered by HRDC on behalf of both the federal and Saskatchewan governments.

PBI has already demonstrated the capability to produce good interactive products, and by training in-house, plans to expand on that creative vision.

The interactive new Media production capabilities of Pebble Beach involve a broad spectrum of electronic media applications including Adobe Photoshop, Illustrator, Premier, Pagemill, After Effects and Pagemaker and the Macromedia's Director 5, Sound Edit 16, Deck II, KTP tools, Black Box, Astound, Studio Vision, Pro Tools MovieFlo, Final Effects, Debabelizer, MacFlow, database, word-processing and spreadsheet programs in production.

Pebble Beach focuses its efforts on the educational market. The two segments of the market that it has targeted are:

- the formal K-12 market, and
- professional applications for the corporate training market.

CD-ROM is currently the only format which can accommodate interactive video, VR and newer emerging technologies. It has the advantage of being inexpensive to reproduce, large enough that it is uneconomical to pirate, and is now a universal format. Consequently, PBI products are produced on CD-ROM platforms. The company is working to prepare itself for the on-line distribution of its applications.

Authoring is done on the Macintosh platform, with a plethora of software, non-linear editing, high-volume storage devices and all units linked by a high speed Ethernet system. Testing, some production, and management are all performed on the PC platform, with Ethernet connections and file sharing programs. This allows everyone to exchange files with ease.

Production Strategy

By starting its market penetration and product identity at this early stage, PBI plans to establish itself with a solid base in the emerging school market so as to achieve annual revenues of between $25 and $50 million annually.

To compete in this new educational marketplace, PBI will focus on producing for the North American and

International market, rather than the Canadian market. There will however, be some titles targeted exclusively to the Canadian market.

🖼 *Comments/Suggestions/Questions about this document.*

Case Study of Heartland Motion Pictures and Pebble Beach Interactive

Marketing and Distribution

PBI is using an aggressive approach to the Interactive Educational marketplace. This will include co-venturing with content providers, both private and public to develop interactive educational products with the highest level of content and quality.

The strategies being employed by PBI are intended to see its products and titles distributed around the world with the aid of its distribution partners and alliances. Consequently, while it has an initial North American focus, the objective is international distribution.

An important strategic focus of the company is working with a variety of platforms to assist in managing the shift from CD-ROM to networks. This process has seen PBI engaged in forging new pathways.

Partnerships

The management of PBI has an extensive history of co-developing projects with partners and of creating marketing strategies for specialized markets. These strengths and talents have already provided PBI with a strong foothold in the industry in Canada.

PBI has established a unique co-production arrangement with the Saskatchewan Department of Education, to create a multimedia resource. PBI has co-produced its first two titles with the Saskatchewan Department of Education which has resulted in these titles being established as approved interactive curriculum materials in Saskatchewan schools. This is a first in Canada.

Further titles in development are being partnered with Saskatchewan Department of Education and additional co-development scenarios are being explored with other content providers across the country.

Distribution

PBI has engaged Prentice Hall Ginn to distribute its first two titles in Canada. PBI and Prentice Hall Ginn are finalizing production and distribution arrangements to co-produce titles to complement existing curriculum print materials. This collaboration will result in a complete package with a multimedia component placed in schools across Canada.

This approach eliminates the requirements of marketing directly to school boards and enhances PBI's credibility through its association with Prentice Hall Ginn. The marketing muscle of the largest curriculum resource developer in the world will be the vehicle to piggy-back PBI products right into the classroom.

The CD-ROM titles will be packaged with teacher guides and activity material to assist both the teacher in the classroom and the individual student.

PBI is also seeking other mechanisms to facilitate the placement of the PBI products directly into the school boards and education mechanisms where there are no arrangements with Prentice Hall Ginn.

Foreign Markets

Interactive products can be easily developed in language versions. When designed properly, a new language can be inserted in a series of text and audio files, and with minimal programming, and the same content can reformat itself for the new language. This makes it possible for Pebble Beach to develop product titles such as the *Talking Book* in several languages in Canada and internationally.

Comments/Suggestions/Questions about this document.

Strategis

Information Technology
and Telecommunications

Help | What's New | Site Map
Feedback | About Us | Français

Search Strategis

GO TO ⇨ Main Menu
⇨ Business Information by Sector
⇨ Information Technologies and Telecommunications

Case Study of Heartland Motion Pictures and Pebble Beach Interactive

Competitive Environment

The curriculum based school market is an emerging market. The window of opportunity to establish co-production and distribution relationships is wide open and must be exploited quickly. However, educational materials take time to reach the market. They must be evaluated, recommended, and piloted in the classroom, before they can be purchased.

This means that titles being developed now will not be in use for at least a year and a half. Consequently companies should have long-term plans, well defined strategic partnerships and versatile and creative mechanisms to enter the market and the evaluation process. This defines the competitive environment for this industry.

Educational material providers, interactive producers, government, and educational institutions across the board have seen the opportunities emerging in new media, and are working to identify new ways of teaching and learning.

Competitors and Market Share

There is a large group of game publishers, that will likely move into the educational marketplace as that market expands. Establishing the connections for co-development of titles and distribution within the institutional educational marketplace will be a large hurdle for any existing production facility. The time delay in overcoming these hurdles could put their market entry back several years.

By focusing on establishing market share in the institutional segment of the educational market, Pebble Beach, along with the present educational title producers, will have a clear lead in the marketplace.

In the international marketplace in 1994, the top four companies combined secured 40 % of the total educational software sales:

- **Learning Company** is number one in the market with 14 % of total sales revenues and 11 % of all units sold. They build families of products co-ordinated in the educational system by age groups such as the *Rabbit* family (age 2-8), *Treasure* family (age 5-9), *Supersolver* family (age 7-9) and the *Action Adventure* family (age 10 and up). The company is going more fully into educational titles and pre-school.
- **Broderbund** is the success story behind *Carmen San Diego*. In 1993 it delivered 44 titles and had sales of $96 million. It is strong in the early learning activity programs e.g. the Play Room, the Tree house, and the Backyard.
- **Davidson & Associates** had $60 million in sales in 1993. Its chief line is the *Blaster* series - the *Math Blaster*. It has a strategic partnership with Fisher Price to enter the pre-school mark et with strong acceptance and name recognition. Davidson also has deals with Addison-Wesley for interactive textbooks and Paramount(Viacom) for interactive projects with Paramount's curriculum corporation, which is a leader in integrated learning systems.
- **Microsoft** is based primarily on the *Encarta* and *Bookshelf* series. It has a joint venture with Scholastic to enter the kid specific market under the Microsoft Home label. It has a strategic focus on schools through its *Cool Tools for Schools* series and partnership with Disney.Microsoft is always a force to be reckoned

with, as their inherent advantage in supplying the windows platform allows them to bundle software and capture other marketing advantages.

Comments/Suggestions/Questions about this document

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canada

http://strategis.ic.gc.ca

Strategis — Information Technology and Telecommunications

Help | What's New | Site Map
Feedback | About Us | Français

Search Strategis

GO TO ⇨ Main Menu
⇨ Business Information by Sector
⇨ Information Technologies and Telecommunications

Author - CYROJUS Management Services   Publication Date - 1997-05-31
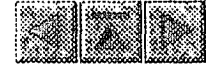
Case Study of Heartland Motion Pictures and Pebble Beach Interactive

Financials

The statistics for educational interactive products do have enlightening trends. The average revenue generated by a CD-ROM based title for the educational market can be as high as $1.2 million over the life of the title. The life of the title depends on the market segment and the currency of the material. However, the average revenues of titles produced by the eight leading CD-ROM-based publishers in the year 1995, for the year 1995, was $346,000 US per title.

Financing Pebble Beach

Pebble Beach financed its early development with shareholders loans (up to 25 percent), pre-sales of its two titles (up to 30 percent), and grants from public sources (up to 45 percent).

The process of pre-sales will form a model for the financing of specific projects, especially where there is a pre-determined market and distribution arrangement in place.

PBI also accessed project funding from provincial and federal government sources, and through discussions with government officials was able to secure funding for developing and running the specialized training program for multimedia trainees and future employees.

Obtaining financing for PBI was more challenging than obtaining financing for Heartland. Heartland is a known company, in a known market, with a demonstrated history in the film production business. The main areas of concern which potential financiers had with financing Pebble Beach were: new products, by a new company in a new market. This combination did not lead to an abundance of offers.

Financiers were clearly unfamiliar with the sector and its marketplace. They also had few mechanisms and models on which to base their risk analysis. Consequently, the process of raising financing is predominantly one of education of the financiers with the hope of reducing their perception of the risks, and increasing their understanding of the opportunity the educational multimedia sector presents.

Profitability

PBI is not yet profitable. Its profitability will be directly influenced by the share of the market it procures, the number of projects it can successfully complete and the extent to which it can link into content providers and distribution arrangements which reduce the uncertainty and risk in developing products which will be successfully placed in the classroom.

At this point, the multimedia activities of Pebble Beach Interactive have had a positive return on the company's cashflow. However, as a separate company, it has not directly impacted the financial performance of Heartland.

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canada
http://strategis.ic.gc.ca

Strategis | Information Technology and Telecommunications | Help | What's New | Site Map | Feedback | About Us | Français | Search Strategis

GO TO ⇨ Main Menu
⇨ Business Information by Sector
⇨ Information Technologies and Telecommunications

Case Study of Heartland Motion Pictures and Pebble Beach Interactive

Major Challenges

The major challenges facing Pebble Beach Interactive today are not significantly different from those typically faced by new companies. They face the need for:

- stable long-term financing,
- strategic short-term financing and,
- with an increasing emerging market, they require adequate cashflow to fund developing and emerging opportunities.

Pebble Beach's main challenges are: a) long-term financing, b) the risks involved in the longer evaluation period for acceptance of products, and c) the availability of skilled workers.

Long-term Financing

Accessing long-term stable financing e.g. three to five year capitalizing of the company is a major challenge for the company. It has been more successful in securing project funding than long-term financing. Despite several promising discussions, this remains a major sticking point. Being related to Heartland, provided a door opener and led to some initial financing and project financing. However, it has not yet led to PBI being able to secure long-term financing.

Two approaches have been advanced to secure long-term financing. First, block equity or debt financing for a specified amount say $5 million over a five year period. Second, an implicit commitment to fund a specified list of projects, which would take three to five years to complete. Both of these arrangements which would be subject to appropriate approvals, are under active consideration.

Longer Gestation Time for the Market

Potential risks are found in several different areas. There is the possibility that the educational market will take longer to develop than anticipated. There are also risks involved in aligning with a specific distributor. Given the length of time for development, evaluation, piloting and final decisions by school boards and Education Department officials, there is a further risk that these can negatively the company.

Skilled Employees

Qualified multimedia personnel are in high demand. The experience of PBI is that the allure of the big cities and the scope of the big companies can be sufficient to draw employees from the firm and from Regina. With the increasing interest in multimedia development across Canada and the USA, there is need to be able to source competent skills and be able to train people in the appropriate skills for the company and the industry. PBI has determined that to address this challenge, the ongoing training at PBI will have to be matched with an employee incentive plan to reduce the costs of losing trained team members.

Comments/Suggestions/Questions about this document.

Case Study of Heartland Motion Pictures and Pebble Beach Interactive
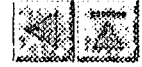
Strategies for the Future

Pebble Beach Interactive plans to become a leading producer and developer of world-class educational multimedia materials. Its strategy for the future is to focus on specific markets, which it can enter through the co-production and co-development of targeted products and its content and distribution relationships. It has begun addressing its human resource needs through the introduction and use of the Adaptive Systems Multimedia Training Initiative. The pieces of the puzzle appear to be largely in place. What remains is to secure a satisfactory long-term financing arrangement to cover the next 3-5 years of its growth and expansion phase.

Comments/Suggestions/Questions about this document.

Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canada

http://strategis.ic.gc.ca

GO TO ⇨ Main Menu
⇨ Business Information by Sector
⇨ In- mation Technologies and Telecommunications

Case Studies on the Impact of Multimedia Activities on the Film Industry
Summary of Findings

Highlights of Common Issues and Challenges Raised by the Case Studies

The multimedia industry is a new, rapidly growing part of Canada's economy. Most companies in the industry were created in the 1990s and two-thirds of them are non-dedicated firms (i.e., firms that also produce other products). Of the companies profiled in the case studies, Malofilm and Combined Media are non-dedicated firms, since they derive revenues from audiovisual and/or publishing activities, while Pebble Beach Interactive, founded by Stephen Onda of Heartland Motion Pictures, is a dedicated company, whose sole source of revenues is multimedia production.

In 1995, the Interactive Multimedia Arts and Technology Association (IMAT), in association with Industry Canada, conducted a survey of the multimedia industry and identified some of the key emerging issues. The industry reported being limited by the scarcity of skilled labour and the inadequacy of educational programs in providing a skilled workforce. Financing was also a concern, with almost two-thirds of the companies surveyed feeling that their business was inadequately financed. These are also areas of concern for the audiovisual industry, though it has better access to public financing and a different labour market.

Based on the IMAT survey, the picture of a "average" multimedia firm is a privately held company, with an average of 74 employees (the average is 21 employees for dedicated developers and 106 for non-dedicated firms). The firm is serving Canada and likely the US market (though 31% are also serving other foreign markets.) The typical firm in the Canadian industry is very different from this average, most firm are very small, 50% have less than 10 employees and two-thirds have less than 30 employees. Typically firms target the business market, most companies target it (73%), while 66% target education and 41% the home market.

Human Resources Issues

In many high-tech fields, labour shortages and retaining skilled employees are areas of concern for managers. This is also true for multimedia development which requires employing a number of highly skilled specialists. In the IMAT survey human resources issues were identified as critical. These same issues are raised by the companies involved in the case studies.

Multimedia companies appear to use a different employment model than film and television production companies. The staff tends to be full-time, occupying permanent positions with a more limited use of freelance and contract workers than is seen in audiovisual firms. All the companies in the studies reported maintaining full-time staff to meet their multimedia requirements. This creates higher overhead costs than audiovisual firms are used to, and requires a constant flow of projects since idle workers are very expensive.

The case studies confirmed that, for multimedia development, a variety of skills are required, such as project management, creative skills, design/graphic design, writing, programming and animation. Companies must pull together multi-disciplinary teams to meet these needs. As the companies grow, it also becomes important that they have workers with strong business skills, not just technical and creative skills. For some skill areas (e.g., games developers), a company may be forced to look outside of Canada for the right experience and training. While these skills have plenty in common with the skills used in the audiovisual market, they do not map exactly, especially technical skills, so, few workers can be used in common across a company (assuming it has multimedia and audiovisual divisions.) In our case studies at least, companies did not use staff interchangeably

from audiovisual production to multimedia production: Pebble Beach had to train staff for their specific needs and Malofilm could not use it s audiovisual workers in multimedia projects.

Firms in the case studies reported that since the labour pool is limited for multimedia, hiring is more difficult, especially outside larger urban areas. This has two important implications, one for training costs and one for retaining employees. Since most new hires only have some of the skills needed, companies must provide in-house training to give employees the full skill-set they need. As technology is constantly changing, ongoing training is also required to keep workers up-to-date on technology. Retaining employees thus becomes important, since a large investment is being made in their skills. It appears that companies in smaller centres have concerns with employees being drawn to larger urban areas where greater job opportunities exist. This ties back to the tendency to offer full-time employment, a way to ensure greater loyalty of the workforce.

A complaint both in the case studies and the IMAT survey seems to be that educational institutions do not produce graduates with the correct mix of skills and that they are not trained on the latest technology. On the other, workers need a high degree of training, typically obtainable only from University or College, to gain employment. It is hoped that the labour shortage will decrease as the industry grows, and more graduates are produced or skilled workers transfer to the industry.

Financing

Financing multimedia projects is very different from financing audiovisual projects. In the audiovisual sector there are numerous sources of financing, including pre-sales/advances, public funding (e.g., Telefilm Canada), tax credits and others. The level of financial risk taken by the production company can be very small (less than 10%). Based on the reporting of the firms in the case studies, multimedia production risk exposure is typically much higher, up to 90% for consumer titles.

For multimedia consumer-based titles there is no project based funding available, little public funding and no pre-sale mechanism. Thus a company must provide much of the capital itself, and use debt (risk capital, private investments, etc.) to raise funds. Audiovisual companies are not used to this type of financial arrangements. In financing multimedia educational products, it is possible to have some pre-sale funding when a predetermined market and distribution arrangements exist. While public funds may be higher for multimedia educational products when compared to the consumer market (especially if being produced for public schools/Ministry of Education.), it is still more difficult to raise money for a multimedia project than for an audiovisual one. PBI, which specializes in educational products, has successfully established co-production agreements with the educational establishment (specifically the Saskatchewan Department of Education).

Some of the difficulties mentioned in the case studies in raising funds from lenders include newness of the market (unproven areas scare lenders), unfamiliarity with the sector and lack of expertise in risk analysis. There is a belief that lenders need educating on the multimedia market, so they can better understand the risks (reduce perceived risk) and improve their comprehension of the market opportunities. This is consistent with the results from the IMAT survey, where it appeared that a significant proportion of the firms were not satisfied by their institutions' ability to understand the industry's needs.

Markets

Educational Segment

The educational market for interactive products is similar to the educational market for audiovisual products. According to the PBI case study, educational multimedia products are the fastest growing area of support software, this is why PBI targeted it as their niche market. Co-production arrangements are also possible, guaranteeing a market and source of funding. PBI used this method to create its first two titles with the Saskatchewan Department of Education. By arranging a direct sale, in advance, much of the risk associated with development is overcome.

Entertainment & Information Segment

The entertainment and information segment of multimedia is a similar market to the home entertainment market for audiovisual products (those products likely to be accepted by conventional broadcasters and pay services.) These multimedia titles are aimed at the general public, and as such offer the greatest potential reward and the greatest risk. Malofilm Interactive and Combined Media both targeted this market with their

multimedia products, aiming at the same market as their audiovisual products.

Business Segment

In multimedia much of the production is aimed at businesses in the form of special applications (presentations, kiosks, training tools, etc.) This does not map well against audiovisual markets, though it would be most similar to advertising work or corporate videos. Combined Media perceived Mackerel's fee for services division as a more stable source of revenues to help support its other multimedia projects.

Distribution

Like the audiovisual industry, the multimedia industry is developing international markets. In 1995, 53% of recent multimedia start-ups reported that they were serving the international market. This is probably necessary since the Canadian market is likely too small to support the costs of developing new titles, particularly for the consumer market, similarly as it is too small to support the continued development of large budget audiovisual productions.

This necessary international focus, however, makes distribution more complicated. PBI and Malofilm Interactive described plans to use partners and alliances to distribute their products around the world. Already, the majority of Malofilm Interactive's sales revenues are generated in export markets. Small developers may need to partner with publishers to reach distribution channels. Malofilm acts as publisher, distributing other developers products in North America while PBI has arranged for Prentice Hall Ginn (a major educational publisher) to distribute its titles in Canada.

According to the IMAT survey the most popular methods of distribution were direct sales (especially for the business market), retail distribution, direct mail, on-line and OEM bundling. On-line and retail distribution was expected to increase in importance. In the case studies, Malofilm reported using all of these methods to distribute its products, while PBI had started with direct sales and plans to expand its methods (as mentioned above.) It seems that the distribution channels are very different from those used for audiovisual products and that experience in that sector might not provide the right types of contacts for distributing multimedia titles, though Malofilm reported being able to use videocassette distributors in many foreign markets.

Intellectual Property

Both multimedia and audiovisual industries are creators and users of content, or intellectual property. Both require expertise in clearing rights. How companies acquire and use content is part of their own unique strategy. A common theme in the case studies seems to be to derive as much material as possible in-house or to have new content created for the projects on a contract basis. Another source of material identified in the case studies is content that is in the public domain. When operating as a developer, the idea seems to be to own as much of the intellectual property used as possible. In the IMAT survey the most popular strategy for content development was entirely in-house development and the costs of clearing rights was considered too high by 57% of firms. This is consistent with the actions and attitudes reported in the case studies.

The case studies reveals that, at the present time, little of the audiovisual content already owned by the companies was adapted for multimedia products. Synergies between the audiovisual and multimedia activities and products were part of firms 'long term plans' in order to leverage existing properties.

Profitability

According to the IMAT survey, it typically takes two years for multimedia companies to become profitable. Approximately half of the companies surveyed (53%) were operating profitably, though all were very optimistic as to the prospects for future profits and revenue growth. According to data presented in the Malofilm case study, only 4% of US multimedia application developers make any profit. It is reported that only 25 consumer CD-ROMs generated sales of more than 10,000 units in 1995, with 1,700 new titles published. According to this data, 99% of titles sold less than 7,000, while a typical break-even sales volume would be around 20,000 copies. Malofilm Interactif seems to have enjoyed some success, in its case study it was noted that companies like them, that are producing successful titles, can enjoy worthwhile profit margins. Like many companies in the multimedia market, PBI is not yet profitable. This venture is seen as a long-term business, t o meet a well-defined opportunity. The company is optimistic and projects significant growth through the year 2000. CMI's case study does not report any information about its profitability.

Comments/Suggestions/Questions about this document.
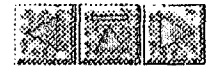
Help   What's New   Sitemap   Feedback   About Us   Français   Top of Page

Canada
http://strategis.ic.gc.ca

Author - Industry Canada   Publication Date - 1997-10-07

Case Studies on the Impact of Multimedia Activities on the Film Industry
Summary of Findings

Future Work

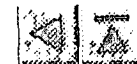### Industry profile and cross-sectoral analysis

Industry Canada commissioned Statistics Canada to develop a business data registrar of information technologies and content industries, including the multimedia industry We anticipate that the data will give us a firmer idea of the size of the multimedia industry, its growth and importance to the economy. Over the next six to eight months, we plan to undertake a series of research projects based on this data. Look for a profile of the multimedia industry along with a series of cross-sectoral analysis pieces on issues such as human resources and financing. These documents and some of the basic data tables will be published on Strategis (Industry Canada's homepage) as they are completed.

Possibility of more case studies

Depending on the response to the case studies discussed in this document, Industry Canada plans to undertake additional case studies. The goal of these studies will continue to be to further our understanding of the transition of traditional content industries to the multimedia environment and the impact of such a move on a firm's performance. The new studies would be similar in format to the previous ones, analysing the overall impact of multimedia activities in terms of company growth, changes in jobs, employment and level of skills. It is hoped that the new case studies may identify specific opportunities for industry development and, thus, assist Industry Canada, and other departments, in the elaboration of a strategy on the content and information industry development in response to challenges of the information highway and the governments efforts to build the information society.

Please contact us at MediaE@ic.gc.ca with your comments on the case studies and their value as business information. Any suggestions you have for improving their focus would be greatly appreciated.

Comments/Suggestions/Questions about this document.