Economic Contribution of the Commercial Production Industry in Ontario

Final Report

March 4, 2014

Prepared for

Commercial Production Association of Toronto (CPAT)

Prepared by

Nordicity

Nordicity

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Nordicity

Ontario

Ontario Media Development Corporation

Société de développement de l'industrie des médias de l'Ontario

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1. Introduction

Study objective for Nordicity: Undertake an economic profile, an environmental scan, and an economic impact assessment of Ontario's television commercial production and post-production companies.

Study purpose for CPAT: Provide the Commercial Production Association – Toronto (CPAT) with credible industry metrics and a synthesis of issues for the association to better represent its members.

Study rationale: Commercial production and post-production companies focus primarily on the production of digital screen-based and audio advertising content for television, Internet and radio advertisers. In recent years, technological developments and consolidation have altered the media landscape significantly and put increasing economic pressure on the capability of commercial producers to operate successfully in Ontario. In this context, CPAT recognized it was missing crucial information about the industry's size, shape and activities. This report was commissioned in response to this need.

Useful definition for this report
The universe of commercial production and post-production companies in Ontario is composed of both ***independent* companies** and ***conglomerate*** or ***parent* companies** which own and operate multiple **business units**. On the following slides, we summarize results by average **business unit** taking into account that many companies are composed of a single **business unit**.

2. Approach and Methodology

In order to develop this report, Nordicity undertook various primary and secondary research as described in the visual below.

Phase 1: Conducted kick-off + data planning

- Identified key issues & data requirements
- Compiled list of target firms
- Conducted lit. scan of recent/ relevant articles

Phase 2: Designed + deployed survey

- Developed and tested online survey
- Distributed survey to CPAT members and non-members
- Promoted survey participation

Phase 3: Conducted 8 stakeholder interviews

- Interviewed production + post companies, select agencies and the Institute of Communication Agencies / Association of Canadian Advertisers

Phase 4: Assembled + analyzed survey data

- Provided high-level economic impact analysis, expressed in terms of GDP and employment

Phase 5: Prepared high-level overview report

- Nordicity prepared and submitted draft and final reports for review by CPAT
- Presentation at the CPAT AGM

More detail on the technical aspects of the methodology are provided in the following slides and in Appendix A.

2. Approach and Methodology

Survey Methodology and Gross-Up Overview

- The online survey was open to Ontario-based commercial production and post-production companies (both independent firms and parent companies responding for multiple business units).
- The vast majority of the universe of these 78 business units are located in Toronto.
- We received at least revenue, expenditure and employment information on behalf of **35 business units -** as such, our direct response rate was approximately **45%** of the estimated universe.
- Of those 35 responding business units:
  - The majority (and a roughly equal share) were involved in solely production or solely post-production activities. A much smaller share of responding business units were engaged in both production and post-production.
  - Some engage in both commercial and non-commercial production and/or post-production (e.g., production or post-production for film or TV). Where possible, we point out the overlap between these two types of production.
- In order to extrapolate from the collected sample to the universe of potential respondents (or the universe), Nordicity adopted an "average business unit" approach.
- More detail on the gross-up approach, the universe and our survey sample is provided in **Appendix A**.

2. Approach and Methodology

Economic Impact Analysis Approach Overview

- The survey data and other secondary data were used to model the impact that Ontario's commercial production industry had on employment, labour income, gross domestic product (GDP) and tax revenue.
- The modelling produced estimates of the direct and spin-off impacts:
  - **Direct:** The impact on employment and economic activity in the commercial production industry.
  - **Spin-off:** The impact on employment and economic activity in other sectors of the Ontario economy. It includes the **indirect** impact (i.e., the impact in supplier industries such as equipment rental, legal/accounting services) and the **induced** impact (i.e., the impact experienced in the retail, financial services and industries on account of the re-spending of labour income by Ontario workers).
- Economic ratios and average FTE salaries from the Canadian Media Production Association's (CMPA's) *Profile 2013* were used to model the impact of commercial producers' production activities.
- Statistics Canada's provincial input-output (I-O) tables were used to model the impact of commercial producers' post-production activities and capital expenditures.
- Effective tax ratios from Statistics Canada (e.g., corporate tax revenue per $ of GDP) were used to estimate federal and Ontario-provincial tax revenue.

3. Commercial Production Industry Profile

Commercial production and post-production companies principally make TV and Internet commercials for advertising clients. Most of Ontario's commercial production and post-production companies are clustered in Toronto.

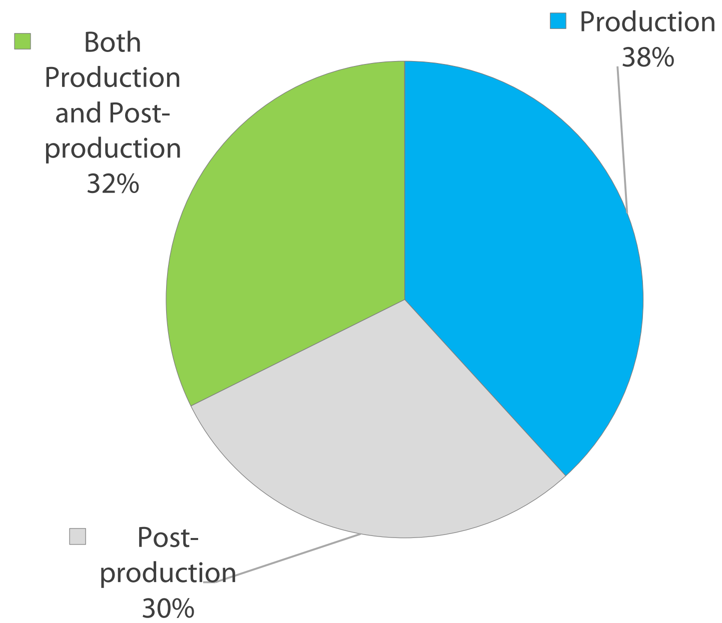
On the following slides, we summarize the survey results which provide key industry profile data for production and post-production business units working in screen-based advertising content.

Note: Some of the commercial production labour force (e.g., part-time workers) may also be employed as freelancers in the non-commercial production industry. Comparisons between this report and other screen-based industry labour information should bear this crossover in mind.

Activity

According to our survey responses, in 2012, **38%** of commercial production company business units were strictly involved in production. The remainder were almost evenly split between those working across both production and post-production **(32%)** and those operating solely in post-production **(30%)** (Fig. 1).

Fig. 1 Commercial Production Industry business units by primary area of activity, 2012 (%)



Source: Nordicity survey of commercial production companies in Ontario, 2013

3. Commercial Production Industry Profile

Total Industry Revenue

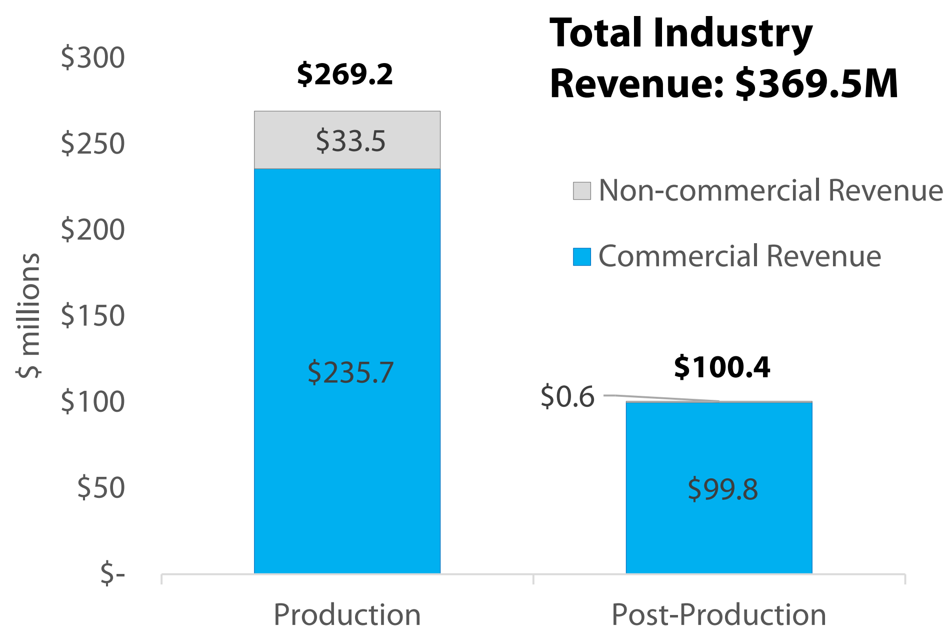
According to our survey results, Ontario-based commercial producers generated a total of **$369.5M** in revenue in 2012.

Of that total revenue, **$269.2M** (or 72.8%) was derived from production activities and the remaining **$100.4M** (or 27.2%) was derived from post-production activities (Fig. 2). Notably, a given business unit can operate in one, the other, or both areas.

Of the $269.2 M of production revenue, **$33.5M** (or 12.4%) was derived from non-commercial production activities (i.e., film and TV production). Less than 1% of post-production revenue reported was attributed to non-commercial projects.

The average total annual revenue per business unit was: **$4.7M**.

Fig. 2 Commercial Production Industry Revenue, Production and Post-Production, 2012 ($)



Source: Nordicity survey of commercial production companies in Ontario, 2013

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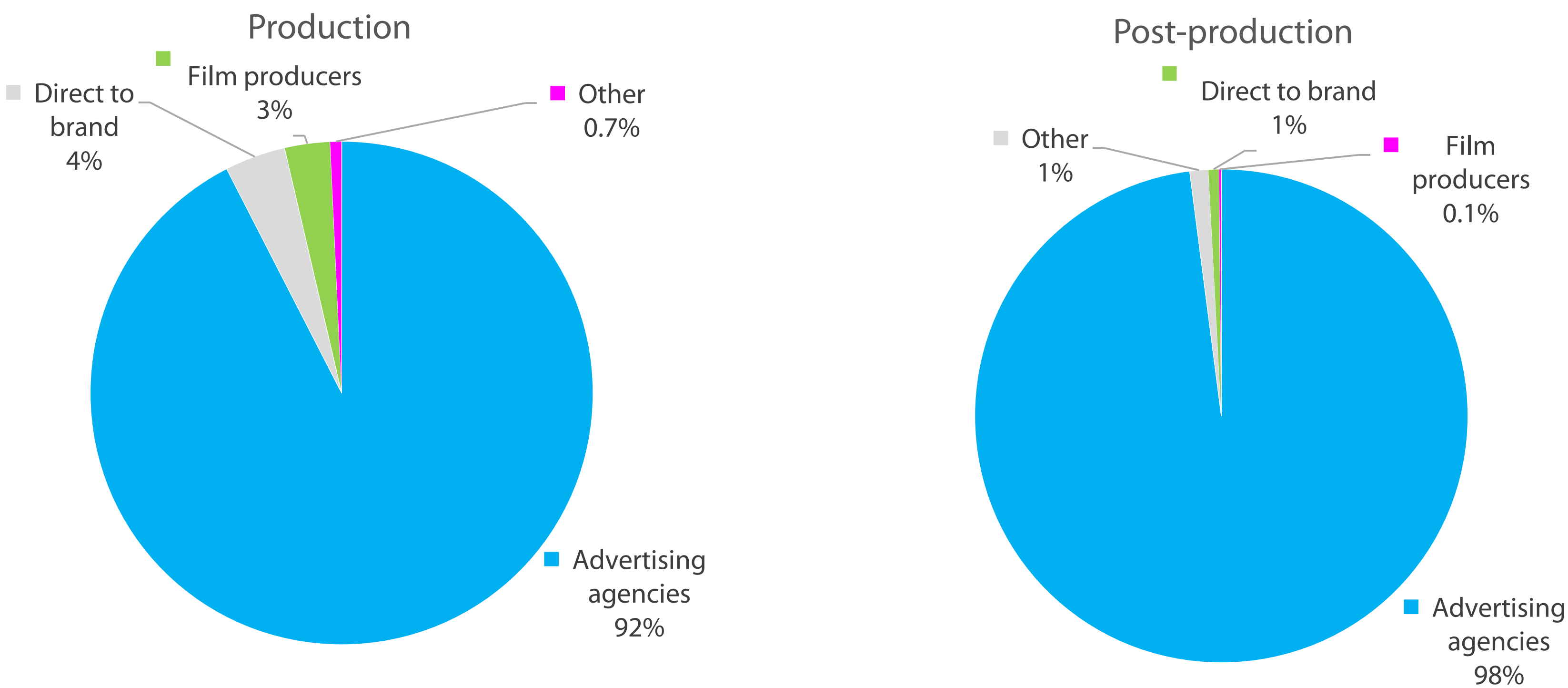
3. Commercial Production Industry Profile

Revenue by Client Type

The vast majority of production company clients are the advertising agencies that work on behalf of advertisers large and small. While several ad agencies are now retaining work "in-house," in 2012, agencies were still very much the most important client revenue source in production **(92%)** and post-production **(98%)** (Fig. 3).

Fig. 3 Commercial Production Industry Revenue by Type of Clients, Production and Post-Production 2012 (%)



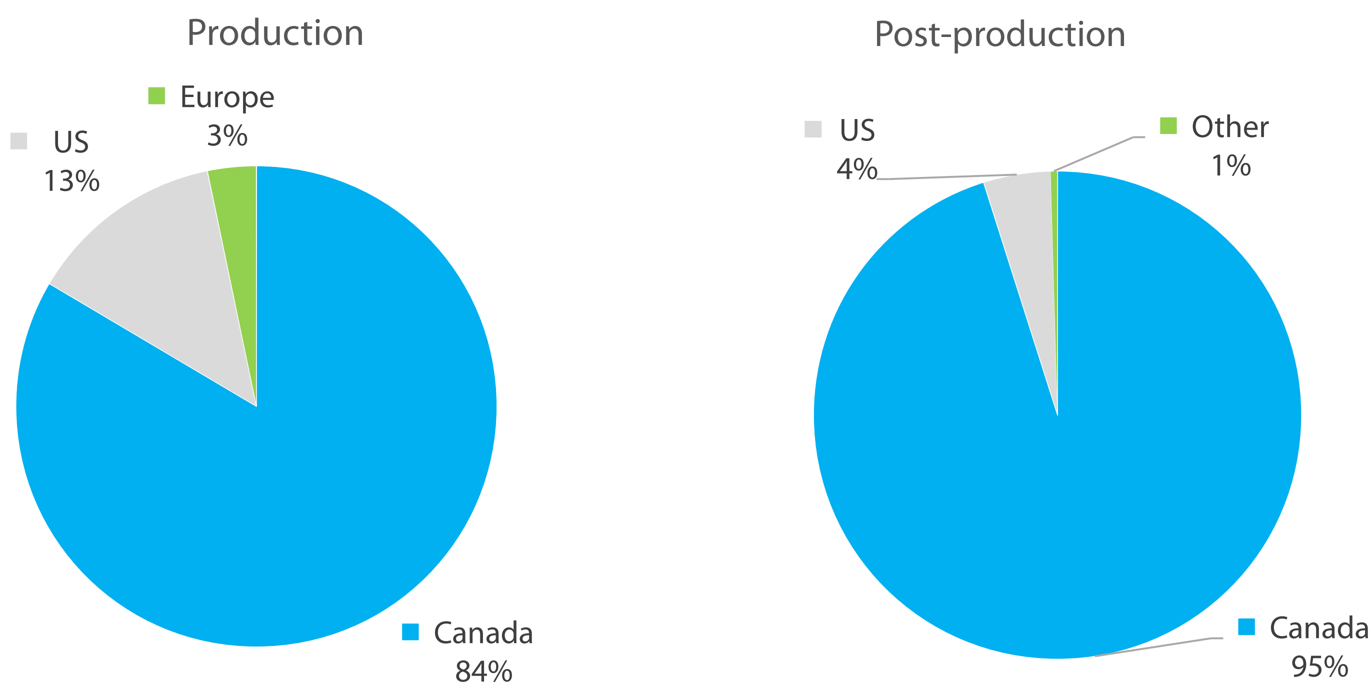
Source: Nordicity survey of commercial production companies in Ontario, 2013

3. Commercial Production Industry Profile

Revenue by Country of Origin

Canadian-based agencies remain the source of the vast majority of annual revenue for both production (**84%)** and post-production business units **(95%)**. However, an important part of the revenue of production business units originates from outside Canada, as Figure 4 demonstrates - **13%** originating from the US and **3%** originating from Europe (Fig. 4).

Fig. 4 Commercial Production Industry Revenue by Project Country of Origin, 2012 (%)



Source: Nordicity survey of commercial production companies in Ontario, 2013

3. Commercial Production Industry Profile

Revenue per Project and Profit Margin

Production:

- In 2012, the average number of projects per production business unit was **61**.
- The average number of shooting days per business unit was **98** – leading to an average shoot length of **1.6 days** per project.
- The average revenue per project was **$110,030**.
- The average overall profit margin in production is **5.3%**.

Post-production:

- The average number of projects per post-production business unit was much higher than in production, some **286** projects in 2012.
- Average revenue per project, however, was much lower than in production – **$9,734** per post-production project.
- The average overall profit margin in post-production is **7.5%**.

These results highlight the different nature, tempo and value of the work undertaken by each type of business unit. In production, the work has typically been lower volume but greater value. In post-production, we observe a higher volume of smaller value projects. Nevertheless, the overall profit margin was approximately **6+%**.

3. Commercial Production Industry Profile

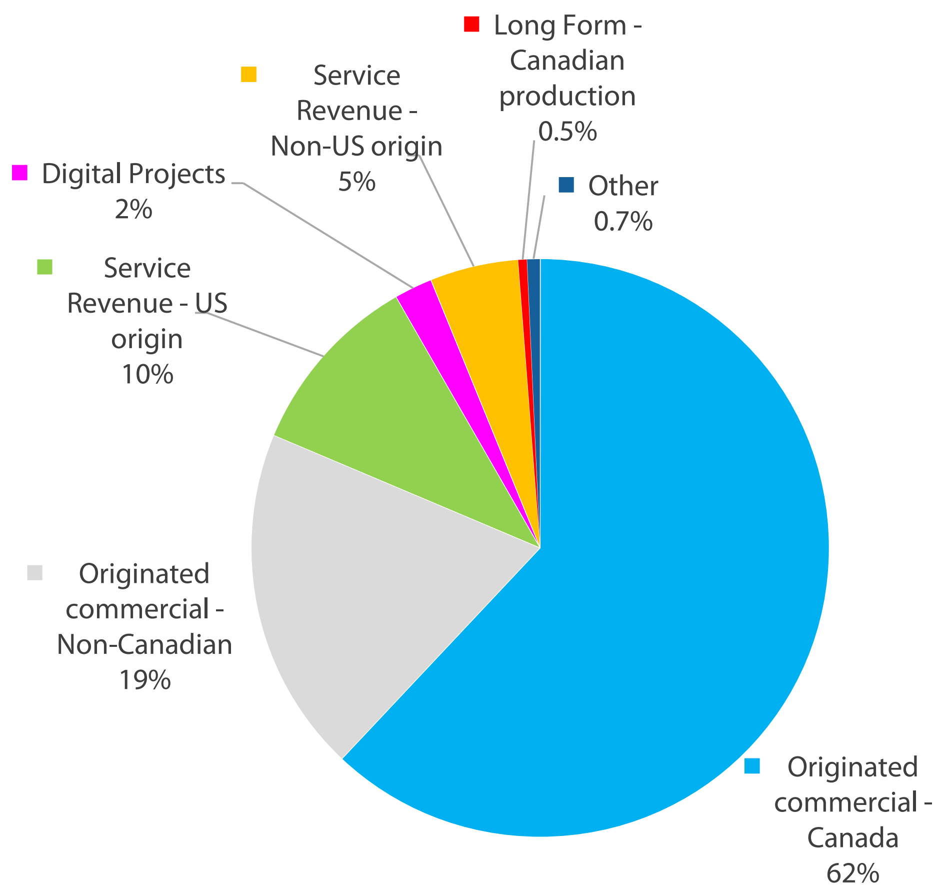
Revenue by Project Type: Production

Production business units work both on "Originated" projects – in which they control and lead all production activities - and "Service" work, wherein they provide services to another, typically non-Canadian, production company.

According to the survey results, in 2012, "Originated commercials – Canada" drove the majority **(62%)** of revenue for production companies. This was followed by "Originated commercial – Non-Canadian" **(19%)** and "Service Revenue – US Origin) **(10%).**

Notably, "Digital Projects" – those primarily intended for web-only distribution – constituted **2%** of revenue in 2012 (Fig. 5).

Fig. 5 Commercial Production Industry Revenue by Service Type, Production, 2012 (%)



Source: Nordicity survey of commercial production companies in Ontario, 2013

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Figures may not sum due to rounding

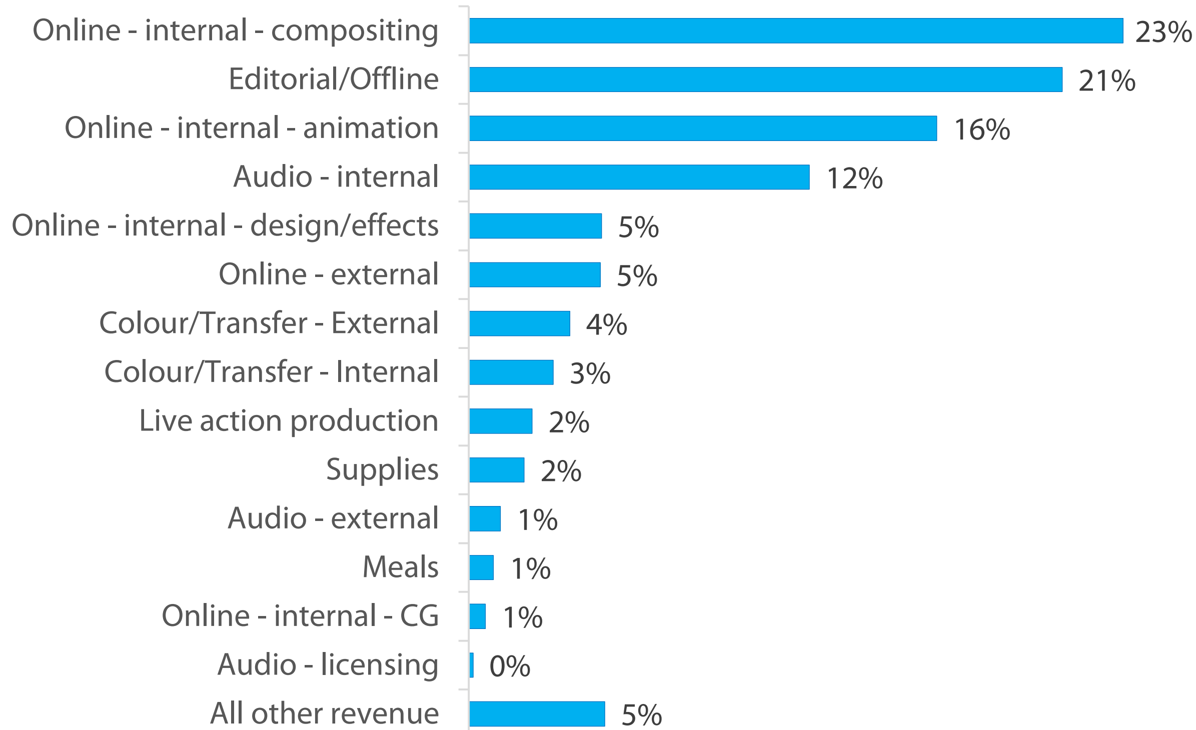
3. Commercial Production Industry Profile

Revenue by Project Type: Post-Production

According to the survey results, in 2012, "Online – Internal – compositing" and "Editorial/Offline" were the two highest revenue categories for post-production business units at **23%** and **21%** respectively. "Online – internal –animation" was the next highest service area and drove **16%** of post-production business unit revenue in 2012 (Fig. 6).

More detail on each category is provided in Appendix B.

Fig. 6 Commercial Production Industry Revenue by Service Type, Post-Production, 2012 (%)



Source: Nordicity survey of commercial production companies in Ontario, 2013

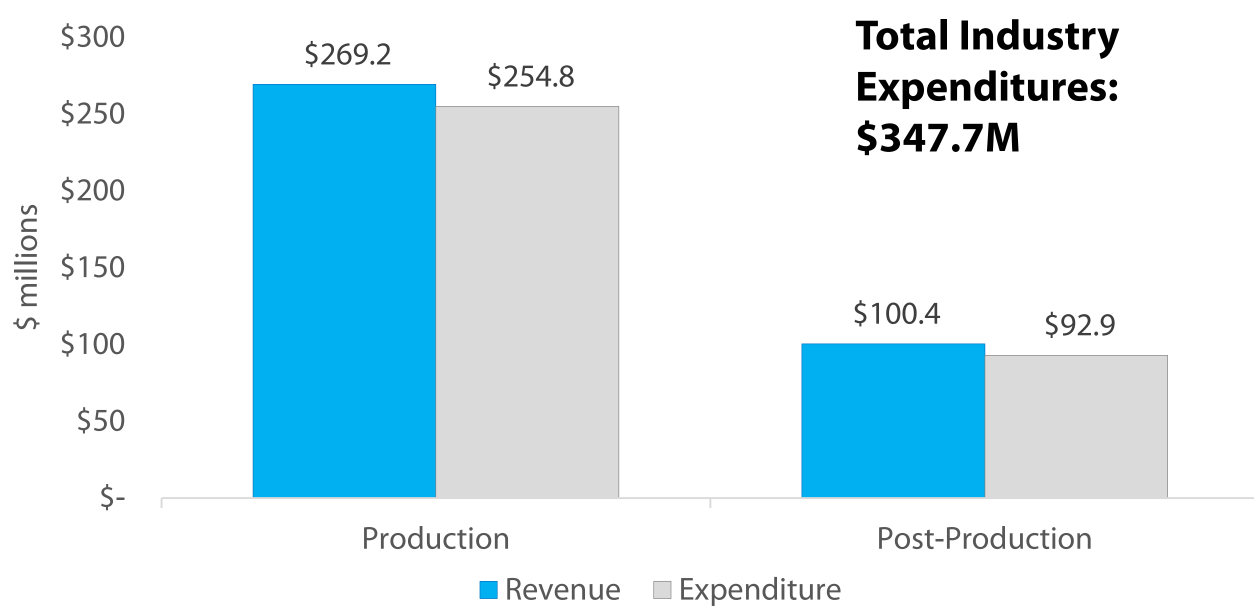
3. Commercial Production Industry Profile

Total Industry Expenditures

According to our survey results, in 2012, the Ontario-based commercial production industry's total expenditures were **$347.7M**.

Production activities accounted for **$254.8M** or **(73.3%)** of total industry expenditures. The remaining **$92.9M** or **(26.7%)** was spent by post-production business units (Fig.7).

Fig.7 Commercial Production Industry Revenue and Expenditures, Production and Post-Production, 2012 ($)



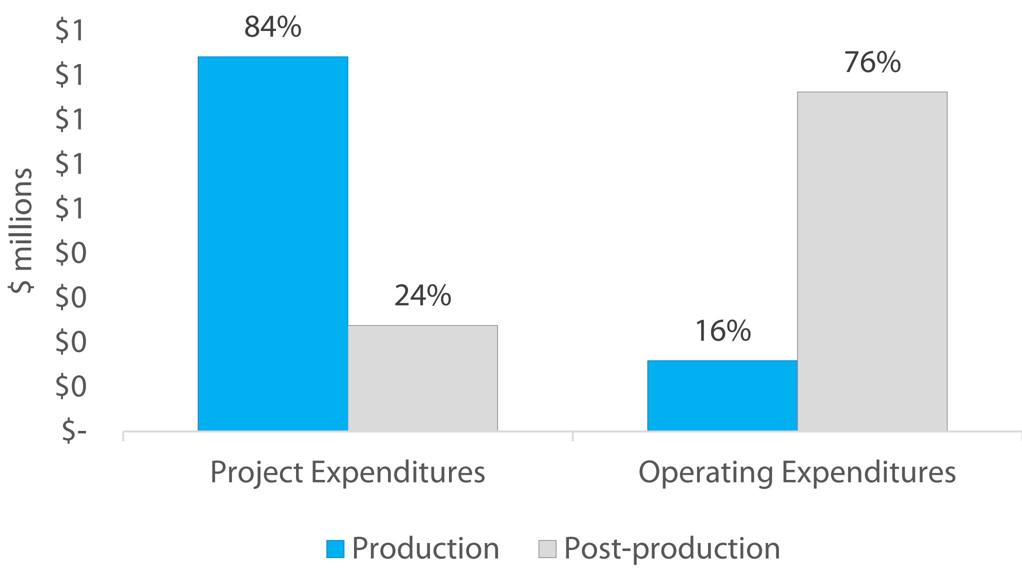
Source: Nordicity survey of commercial production companies in Ontario, 2013

3. Commercial Production Industry Profile

Operating vs. Project Expenditures:

According to survey responses, direct project spending forms a far higher share of expenditures for production business units **(84%)** than for post-production business units **(24%)**. This result aligns with the understanding that the production industry is largely composed of freelance employment and post-production largely permanent workers (Fig. 8).

Fig.8 Direct Project vs. Operating Expenditures, Commercial Production and Post-Production Companies, 2012 ($)



Source: Nordicity survey of commercial production companies in Ontario, 2013

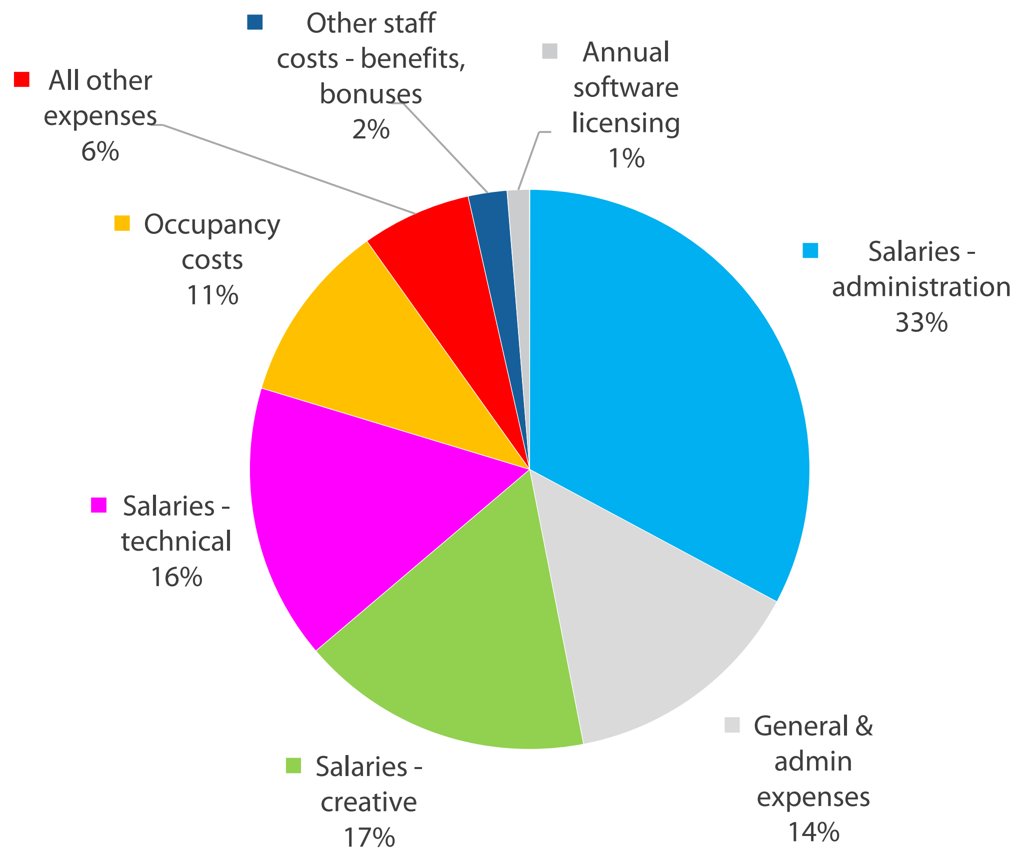
3. Commercial Production Industry Profile

Operating Expenditures: Production

Salaries accounted for the vast majority **(66%)** of the production industry's operating expenditures in 2012. In Fig. 9, salaries are broken out into three categories: "Creative" (**17%),**"Technical" **(16%)**, and "Administrative" **(33%)** which included Executive Management, Marketing, Sales, IT, and other support workers.

"General and admin" (**14%**) costs and "Occupancy costs" (**11%)** were other significant expenses for production business units in 2012 (Fig. 9).

Fig.9 Operating Expenditures by Category, Production, 2012 (%)



Source: Nordicity survey of commercial production companies in Ontario, 2013

3. Commercial Production Industry Profile

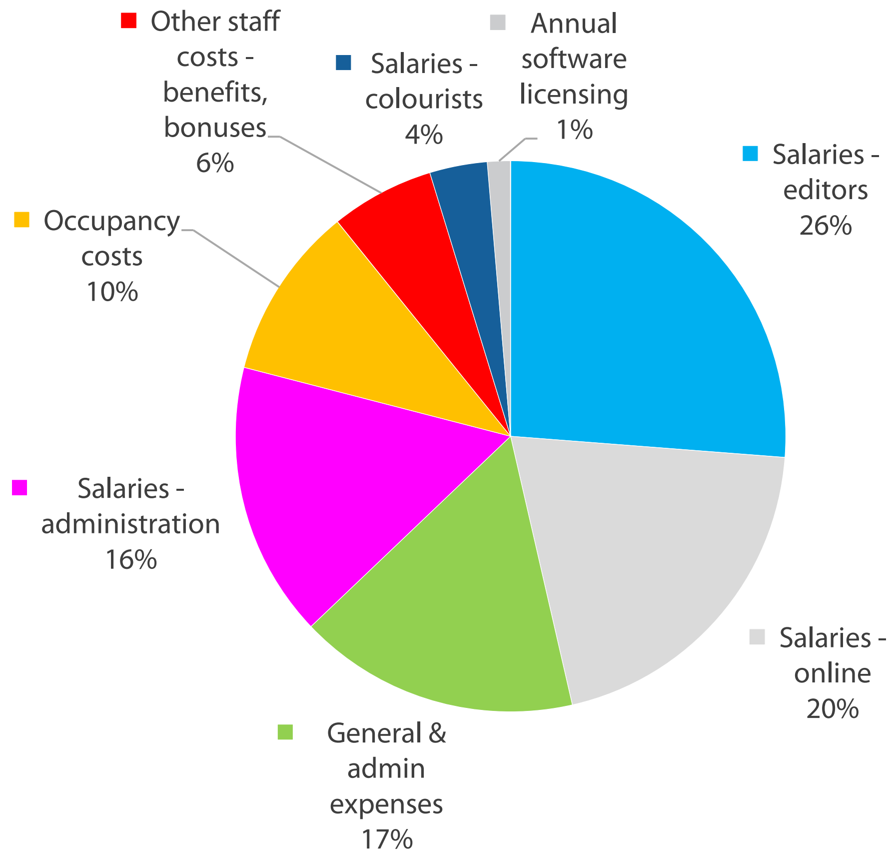
Operating Expenditures: Post-production

Like the production business, salaries accounted for the largest share of 2012 expenditures **(66%)** for post-production business units.

In Fig. 10, salaries are broken out into four categories. From largest share to smallest these were: "Editors" (**24%)**, "Online" **(19%)**, "Administration" **(15%)** and "Colourists" **(3%)**.

"General and admin" costs **(15%)** and "Occupancy costs" (10%) were other significant expenses for post-production business units in 2012 (Fig. 10).

Fig.10 Operating Expenditures by Category, Post-production, 2012 (%)



Source: Nordicity survey of commercial production companies in Ontario, 2013

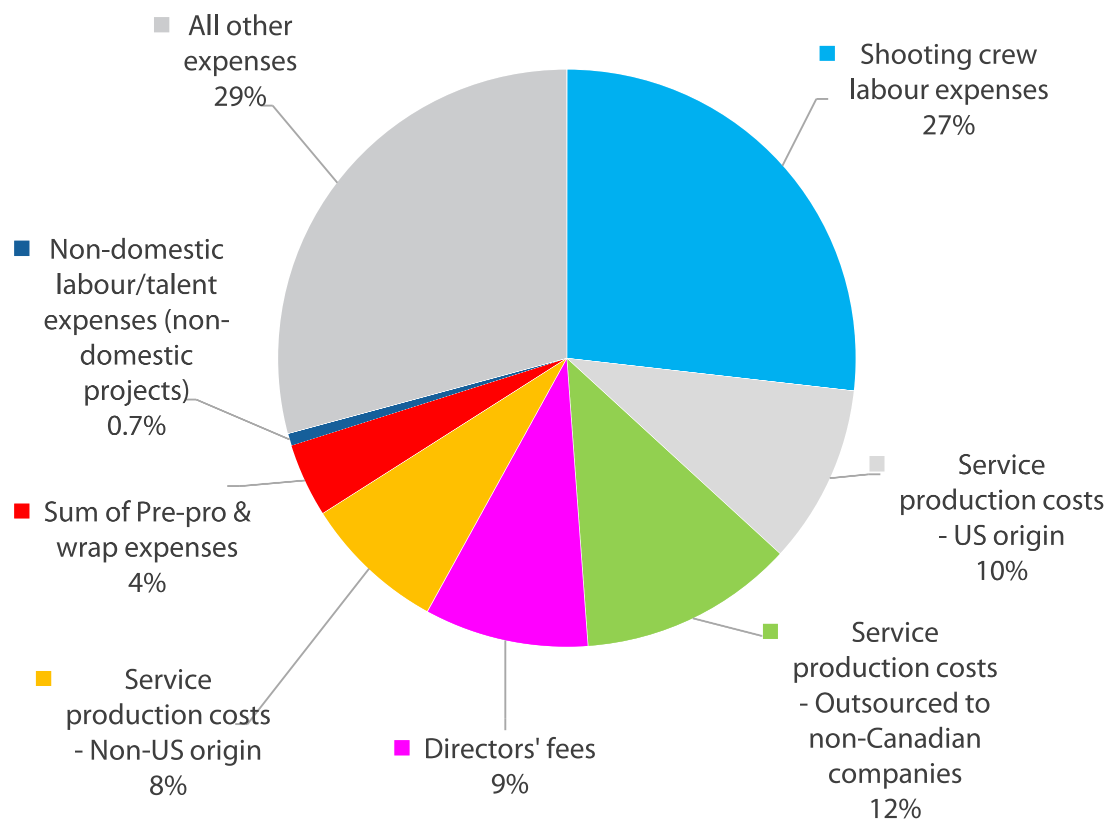
3. Commercial Production Industry Profile

Direct Project Expenditures: Production

According to the survey responses, some **29%** of direct project expenditures in 2012 were spent on “Other expenses” such as location, equipment rental & wardrobe.

The second highest expenditure category in 2012 was “Shooting crew labour expenses” **(27%)**, followed by “Service production costs – US origin **(21%)** (Fig. 11).

Fig.11 Project Expenditures by Category, Production, 2012 (%)



Source: Nordicity survey of commercial production companies in Ontario, 2013

Figures may not sum due to rounding

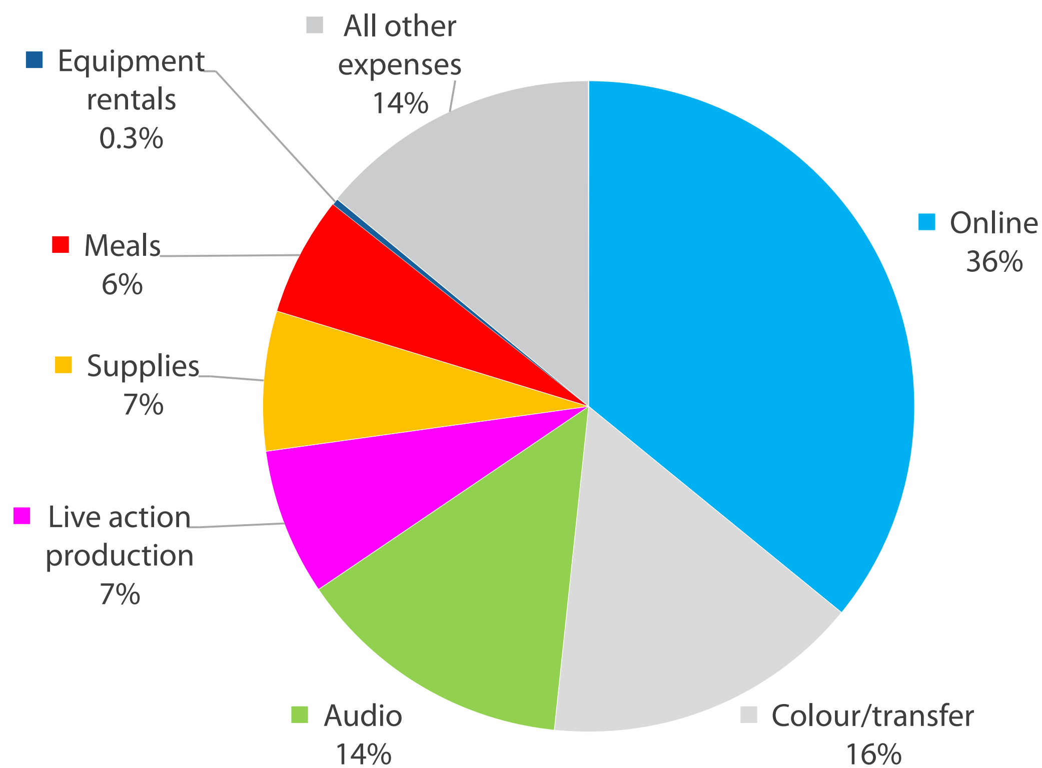
3. Commercial Production Industry Profile

Direct Project Expenditures: Post-production

According to our survey results, in 2012, the largest direct project expenditure category for post-production business units was "Online" expenses **(36%)**, followed by "Colour/transfer" expenses **(16%)**.

"Audio" and "Other" expenses each accounted for **14%** of post-production company expenditures (Fig. 12).

Fig.12 Project Expenditures by Category, Post-production, 2012 (%)



Source: Nordicity survey of commercial production companies in Ontario, 2013

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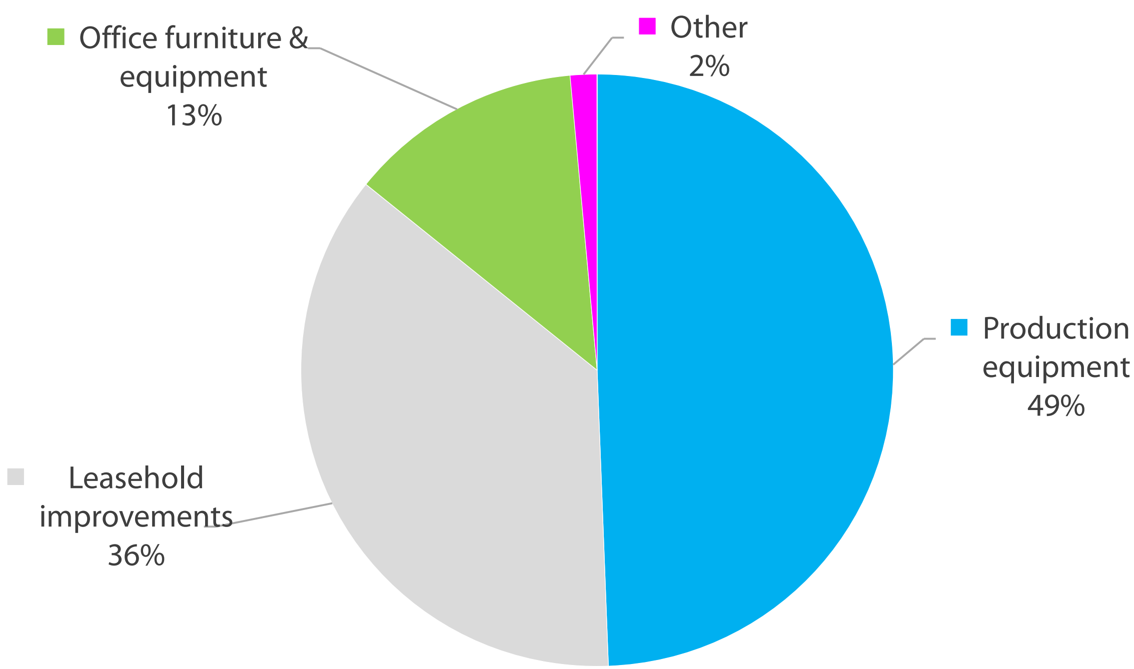
Figures may not sum due to rounding

3. Commercial Production Industry Profile

Capital Expenditures

In 2012, the total commercial production industry's capital expenditures were **$2.28M**. The largest share (**49%)** of these purchases was on "Production equipment" followed by "Leasehold improvements" **(36%)**. "Office furniture and equipment" accounted for **13%** of the commercial production industry's capital expenditures in 2012 (Fig. 13).

Fig.13 Commercial Production, Total Industry Capital Expenditures, 2012 (%)



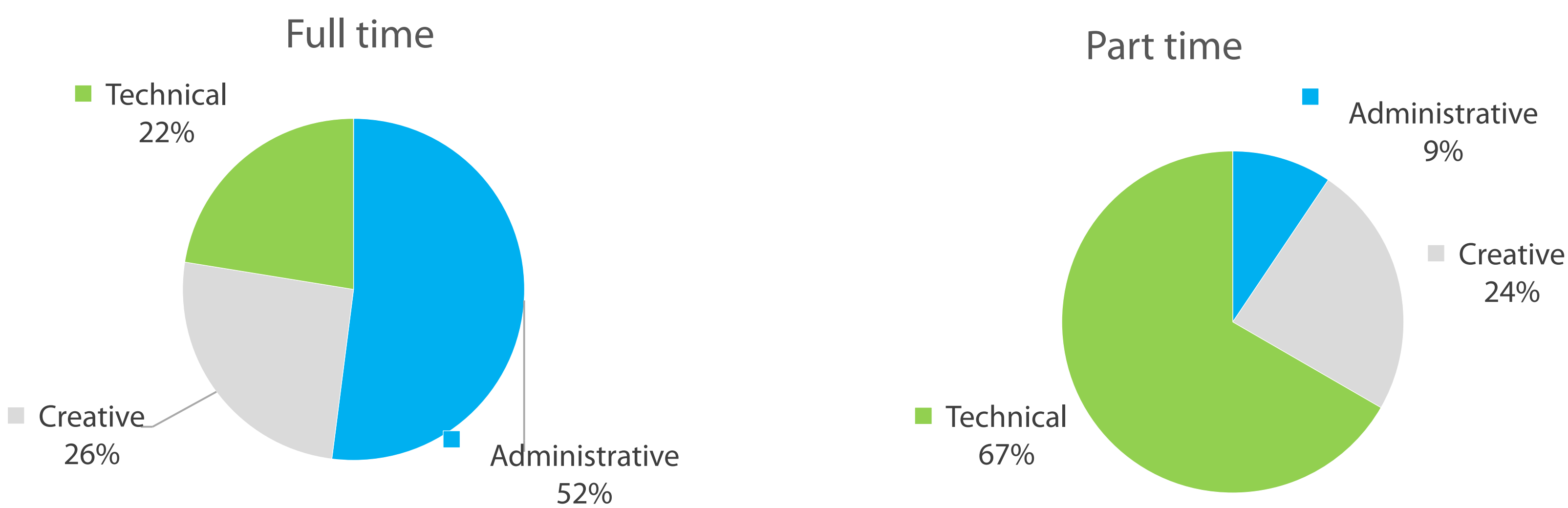
Source: Nordicity survey of commercial production companies in Ontario, 2013

3. Commercial Production Industry Profile

Employment: Production

"Administrative" workers such as Executive Management, Marketing, Sales, IT, and other support workers accounted for the largest share **(57%)** of full-time employees in production. "Technical" workers accounted for the highest share **(67%)** of part-time production business unit employees (Fig. 14).[2]

Fig.14 Employment by Role Full-time vs. part-time, Production, 2012 (%)



Source: Nordicity survey of commercial production companies in Ontario, 2013

[2] It is possible that the "Administrative", "Creative" and "Technical" categories were not interpreted consistently between companies.

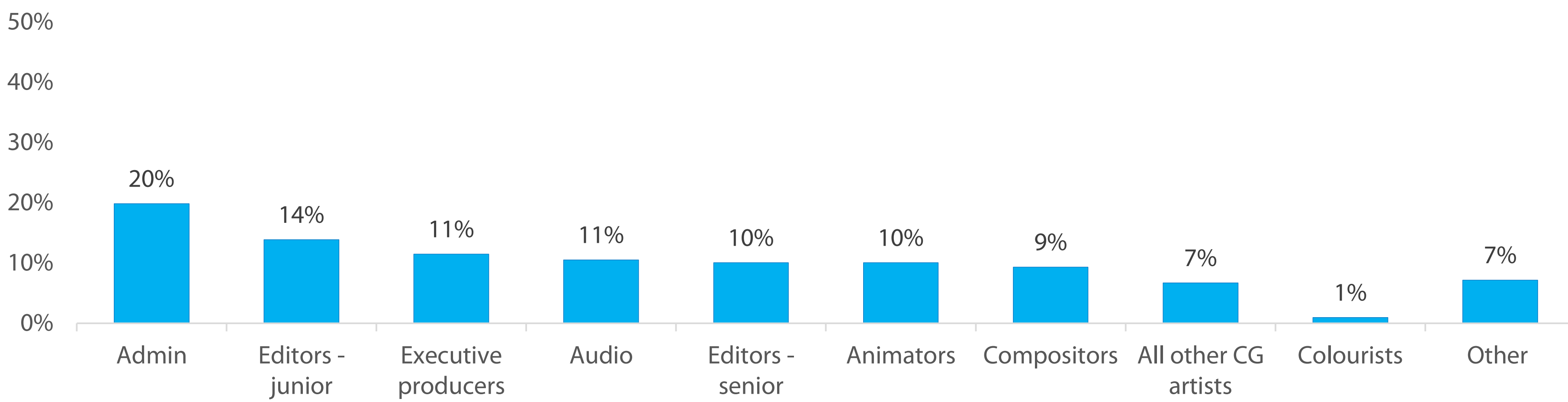
3. Commercial Production Industry Profile

Employment: Post-production

According to the survey responses, the largest portion of post-production workers were in "Admin" **(20%)** and "Editors-Junior" **(14%)**. The next highest shares were fairly evenly split across five role categories as depicted in the visual below. The smallest share of post-production workers **(1%)** were classified as "Colourists."

If the two "Editor" categories are combined, they would constitute the largest share and nearly one quarter of post-production business unit employment **(24%)** (Fig. 15).

Fig.15 Employment by Role of Worker, Post-production, 2012 (%)



Source: Nordicity survey of commercial production companies in Ontario, 2013

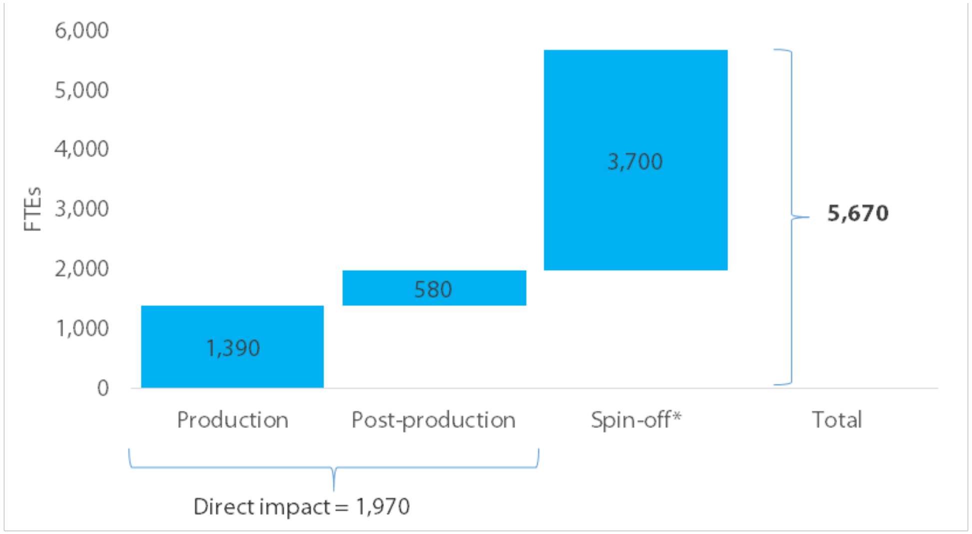
4. Economic Impact of the Commercial Production Sector in Ontario

Employment

Ontario's commercial production industry generated **5,670 full-time equivalents (FTEs)** of employment in the Ontario economy in 2012. This total employment impact included:

- **1,390 FTEs** in production roles (including freelance cast and crew);
- **580 FTEs** of post-production employment at commercial production companies; and,
- **3,700 FTEs** of spin-off* employment in other sectors of the Ontario economy, including sectors that supply goods and services to the commercial production industry.

Fig.16 Commercial production industry's impact on employment in Ontario, 2012



** The spin-off impact includes the indirect impact (i.e., the impact in supplier industries such as equipment rental, legal/accounting services) and the induced impact (i.e., the impact experienced in the retail, financial services and industries on account of the re-spending of labour income by Ontario workers).*

Source: Nordicity survey of commercial production companies in Ontario, 2013, CMPA Profile 2013, Statistics Canada
Note: Figures may include employment in non-commercial production.

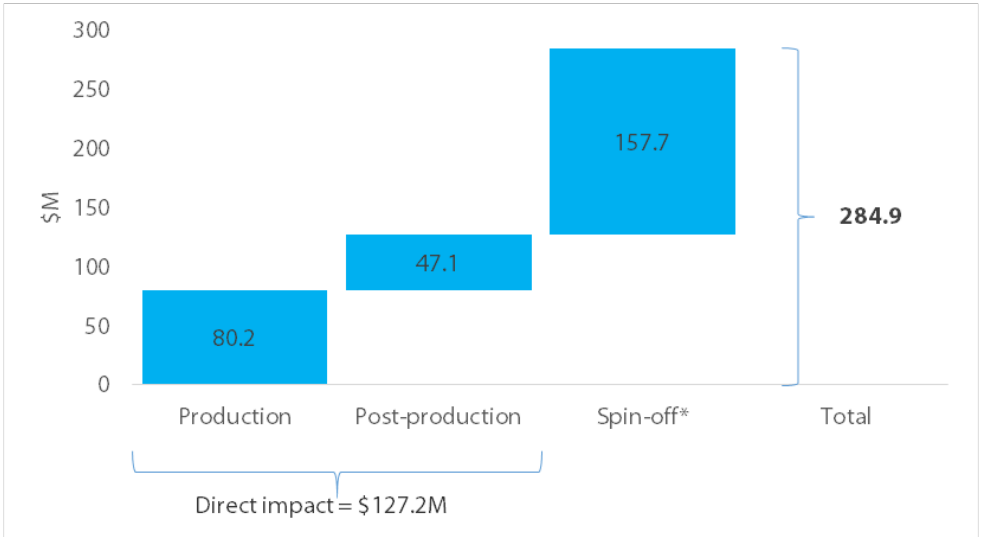
4. Economic Impact of the Commercial Production Sector in Ontario

Labour income

Ontario's commercial production industry generated **$284.9M** in labour income for Ontario residents in 2012. This total labour-income impact included:

- **$80.2M** in labour income earned by production workers (including freelance cast and crew);
- **$47.1M** in labour income earned by post-production employees at commercial production companies; and,
- **$157.7M** in spin-off* labour income in other sectors of the Ontario economy.

Fig.17 Commercial production industry's impact on labour income in Ontario, 2012



Source: Nordicity survey of commercial production companies in Ontario, 2013, CMPA Profile 2013, Statistics Canada.
Note: Figures may include employment in non-commercial production.

** The spin-off impact includes the indirect impact (i.e., the impact in supplier industries such as equipment rental, legal/accounting services) and the induced impact (i.e., the impact experienced in the retail, financial services and industries on account of the re-spending of labour income by Ontario workers).*

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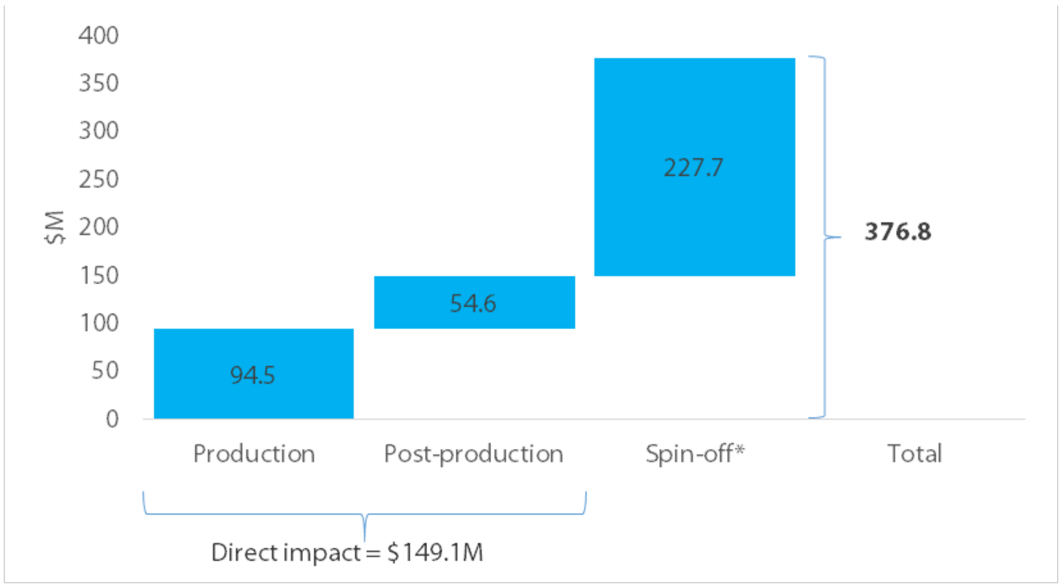
4. Economic Impact of the Commercial Production Sector in Ontario

Gross domestic product (GDP)

Ontario's commercial production industry generated **$376.8M** in GDP for the Ontario economy in 2012. This total GDP impact included:

- **$94.5M** of direct GDP generated by commercial production;
- **$54.6M** of direct GDP generated by post-production activities at commercial production companies; and,
- **$227.7M** in spin-off* GDP generated in other sectors of the Ontario economy.

Fig.18 Commercial production industry's impact on GDP in Ontario, 2012



Source: Nordicity survey of commercial production companies in Ontario, 2013, CMPA Profile 2013, Statistics Canada
Note: Figures may include employment in non-commercial production.

** The spin-off impact includes the indirect impact (i.e., the impact in supplier industries such as equipment rental, legal/accounting services) and the induced impact (i.e., the impact experienced in the retail, financial services and industries on account of the re-spending of labour income by Ontario workers).*

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4. Economic Impact of the Commercial Production Sector in Ontario

Fiscal impact (tax revenue)

Ontario's commercial production industry generated an estimated **$122.1M** in tax revenue for Canadian governments in 2012.

This total tax impact included:

- **$59.3M** in federal tax revenue; and,
- **$62.7M** in tax revenue for the Ontario provincial government.

Fig.19 Commercial production industry's impact on federal and Ontario provincial tax revenue, 2012 ($M)

	Federal	Ontario	Total
Personal income taxes	40.0	25.6	65.6
Corporation income taxes	8.2	4.6	12.8
Consumption taxes	11.2	16.4	27.6
Local property taxes and other fees	--	16.2	16.2
Total	**59.3**	**62.7**	**122.1**

Source: Nordicity estimates based on data from survey of commercial production companies in Ontario, 2013, CMPA Profile 2013, Statistics Canada

5. Commercial Production Industry Challenges

Through its interviews, Nordicity was able to identify a range of issues and shared challenges faced by Ontario's commercial production company business units. In the following slides we characterize each issue or challenge in brief:

1. Increased competition in the marketplace for shrinking budgets
2. Agencies and major advertisers retaining work "in-house"
3. Untenable pricing practices

5. Commercial Production Industry Challenges

1. Increased competition in the marketplace for shrinking budgets

Agencies and production companies agreed that overall, advertising budgets are shrinking but the creative demands are not. Advertisers are routinely expecting top quality creative content execution for less money.

Perhaps in response, production companies are diversifying, sometimes expanding into post-production or digital work (as a production company). Digital marketing agencies are expanding too, attempting to win visual effects work. This diversification can contribute to a sense of a crowded industry bidding for a declining number of projects (with declining budgets).

A possible outcome could be industry consolidation, as well as innovative ways to make commercials cheaper.

"Business has been sluggish. Actually, the dollar sales are about the same but our margins are much lower. There's a lot of smaller jobs, which are just as time-consuming as the bigger projects but the budgets are much smaller."
Production Company Representative

"The pressure goes from the client to the agency, from the agency to the production company. In the last five years, we've become a commodity… But clients are also being tougher on the agencies. Everyone is looking for more work or better work for less money. .. We live month-to-month. No pensions, no security. We all grew up this way (in the business)."
Production Company Representative

"Competition should be hard, but not this hard."
Post-production Company Representative

5. Commercial Production Industry Challenges

2. Agencies and major advertisers retaining work "in-house"

The diversification highlighted in the previous slide is also occurring at the agency and advertiser-level.

As shown earlier, production and post-production companies are extremely reliant on agencies for work (representing 94-95% of revenue).

As agencies and brands retain work "in-house" it obviously reduces the potential volume in the marketplace for commercial producers.

"A number of [agencies] have set up digital production teams in-house. They take on the smaller projects themselves. I'd say we've lost about 20% of business to them."

Production Company Representative

"While it is not a new problem, it has been getting worse over the last couple years. It is similar to what happened in print ads…

While not all agencies do it, those that *do*, are doing it more."

Production Company Representative

5. Commercial Production Industry Challenges

2. Agencies and major advertisers retaining work "in-house" cont'd

The following dynamics are important to consider in addressing this challenge:

1) Some agencies believe that as work is brought "in-house," quality suffers. As well, agency creatives do not enjoy being "handcuffed" to their in-house talent. However, they struggle to justify the need/benefit for top, independent talent at a higher cost.

2) Many of the agencies are US-owned, meaning that when work is conducted "in-house" it may be done in the US, or involve adapting US-originated creative work.

"We're essentially buying expertise in production.

It comes down to deciding what we are in.

We're in the creative content business, and the work is executed by our production and post-production partners and overseen by us."

Agency Representative

5. Commercial Production Industry Challenges

3. Untenable pricing practices

The survey results indicated an overall industry profit margin of **6%**. Interviewees described, however, a perplexing practice of companies reacting to increasing competition and shrinking budgets by **charging too little** for their work to breakeven.

This practice is not only untenable from a business model perspective but also contributes to encouraging agencies and advertisers to believe that the same high-quality work can be delivered for less.

"Multi-national companies are bringing smaller budgets to the table. I can't say no to my clients.

If I call everyone and no one can do [the job] for the cost? Fine, but someone always says yes."

Agency Representative

"I disagree with my colleagues that charge low for digital and bump up for broadcast.

Digital is only less expensive because the agencies have told us it is. We should charge what the marketplace says."

Production Company Representative

5. Commercial Production Industry Challenges

3. Untenable pricing practices (cont'd)

Possible motivations for this practice included:

1) Being presented with a low budget (from agency/ brand-holder) and the sense that a discount was required to be awarded the project.
2) Creating an expectation of more work to follow on as a reward for a "favour" delivered now.
3) The assumption that work intended for distribution online should be priced lower than work for traditional distribution channels, even though the production costs do not vary based on distribution.
4) The work was creatively interesting, high profile and/or augmented the commercial producer's portfolio.

"Too many production companies are too quick to do jobs with unrealistic budgets.

What would help is more cooperation amongst the production companies and an agreement to not do jobs for less than they're worth.

But… There's always someone who will do it."

Production Company Representative

6. Commercial Production Industry Opportunities

Through its interviews, Nordicity was able to identify a range of opportunities for the future of Ontario's commercial production companies which could be driven under leadership from CPAT. In the following slides we characterize each opportunity in brief:

1. Enhance and coordinate local and global marketing efforts
2. Shared support services and greater transparency
3. Digital development and innovation

6. Commercial Production Industry Opportunities

1. Enhance and coordinate local and global marketing efforts

Enhanced coordination of marketing and PR activities at an industry-level was raised in three contexts:

1) The need to educate US customers that Canada is the low-cost, quality alternative even when the dollar is at par. In other words there are more reasons to choose to shoot in Canada than simply the exchange rate. The industry could do a better job of communicating its value.

2) For animation work, some agencies will take larger budgets to "big-name" firms in the US. For non-animation, however, the Toronto-based post companies *are* the brand leaders with the highest cachet. How to expand or leverage that reputation (e.g., an awards program, marketing support)?

3) Work more closely with agencies to help them convey the value of working with external producers to major advertisers (e.g., in terms of access to top-tier talent and expertise).

"We're here to deliver stellar work and it's up to creative teams to deliver on that stellar work. It becomes an internal industry challenge.

Talk to a client about top-tier editors vs. good editors, they don't see difference.

It is very difficult to explain how much better it could have been if [the work] went outside [the agency]."

Agency Representative

"We could align more with our US counterparts facing similar issues."

Post-production Company Representative

Nordicity

6. Commercial Production Industry Opportunities

2. Shared support services and greater transparency

Interviewees raised two areas where industry alignment/ coordination (perhaps led by CPAT) could ease the burden of doing business and enhance transparency:

1) Post-production companies lamented the lack of budget transparency across the value chain and propensity for fixed budgets which can lead to "working for free." Suggestions included exploring how budgets could be more transparent from brand holder to agency to production company.

2) The need for shared support was especially evident in terms of legal services, financial documentation and contracting. In some cases, interviewees admitted they do not have the time or expertise to digest extensive contracts and purchase orders from multi-national companies. More industry support in this matter could also contribute to addressing the perceived lack of transparency between agencies and production companies.

"There used to be a few meetings a year at which ICA and CPAT talked about process what it takes to bid for a job. We could use more professional dialogue between the two associations and the producers on each side."
Production Company Representative

"We need a better baseline and best-practices of what a 'shoot day' or 'digital shoot day' costs. We need a level playing field. If the suppliers get together and agree on what they will and won't do, agencies and clients will be forced to adhere to that."
Production Company Representative

Nordicity

6. Commercial Production Industry Opportunities

3. Digital development and innovation

Interviewees were split on the benefits of traditional commercial producers diversifying into sometimes low-budget/short turnaround/web-first-distribution commercial production.

In this context, firms repeated earlier statements about the importance of costing projects based on the work involved, and not the distribution platform, observing that there is high-quality/production value commercial content which is intended for online distribution and/or viral success (in other words, online distribution is not synonymous with low-quality advertising content).

However, larger and more established production companies appeared less motivated to diversify into this space, recognizing not only that 1) such activity lies outside of their core competencies but also that 2) it is not high revenue/margin work.

"There are two main areas of focus: **traditional commercial production,** where there's a huge amount of expertise needed to bring creative ideas to life. But an equally big portion of work comes out of **the digital space**, which is not complex in terms of execution… I separate those two things because they're different animals.

The production community does a great job of providing expertise for traditional work. They don't do such a good job for lower end content work (in the digital space).

Agencies are building capabilities to look after that, or clients are taking care of it themselves.

Agency Representative

6. Commercial Production Industry Opportunities

3. Digital development and innovation (cont'd)

In some cases, the low-budget, rapid turnaround projects for online distribution, however, appeared more enticing to smaller firms and post-production companies. It may be that these firms are more "nimble" in these instances, helping to render such projects worthwhile.

Ultimately, agencies agreed that the digital space is evolving rapidly and growing in importance for advertisers.

In this context, production companies could benefit from monitoring the digital advertising landscape more closely and marketing their proven ability to adapt and evolve, without compromising their core competencies.

> "In a way, it's an exciting opportunity for production companies. They're no longer tied to the 30-60 second TV spot. Longer viral ads get so much more exposure...
>
> If I were a production company I'd be building that up. It's not director expertise... Digital requires a collective of different skill sets."
>
> **Agency Representative**

7. Summary

Industry Profile

The Ontario-based commercial production industry's 2012 revenue was **$369.5M**. Some **72.8%** of which was derived from commercial production activities and the remaining **26.7%** was derived from post-production activities. The industry's total expenditures in the same year were **$347.7M** leading to an overall profit margin of **6+%.**

The average total annual revenue per commercial production industry business unit was **$4.7M**.

While several ad agencies are now retaining work "in-house," in 2012, agencies were still very much the most important source of client revenue for production **(92%)** and post-production business units **(98%)**.

For production companies, the second highest direct project expenditure category in 2012 was "Shooting crew labour expenses" **(27%)**. It is widely recognized that the commercial production workflow model is very similar to that of film production, hence the overlap of crew between the two industries. The post-production model is quite the opposite; in other words, largely composed of permanent staff.

7. Summary

Total Economic Impact Analysis

In 2012, Ontario's commercial production industry generated an estimated:

- **5,670 full-time equivalents (FTEs)** of employment in the Ontario economy;
- **$284.9M** in labour income for Ontario residents;
- **$376.8M** in GDP for the Ontario economy; and,
- **$122.1M** in tax revenue for Canadian governments.

Looking Ahead

The commercial production industry faces numerous challenges including increased competition for shrinking budgets and a trend towards untenable pricing practices. There is also, however, an appetite for greater coordination and leadership in terms of shared support services and local and global marketing efforts. The challenges and opportunities presented by the digital advertising landscape need, as always, close monitoring and proactive knowledge sharing within the industry.

8. Appendix A: Full Methodological Notes

Survey Methodology and Gross-Up Overview

The Universe

- The online survey was open to Ontario-based commercial production and post-production companies (both independent firms and parent companies responding for multiple business units).
- Our understanding is that the universe of these companies is composed of 78 business units operating in Ontario (the vast majority of which are located in Toronto).
- Of those 78 total business units, 42 are production business units, while 36 are post-production units.
- Some of the business units surveyed engage in both commercial and non-commercial production and/or post-production (e.g., production or post-production for film or TV). Where possible, we point out the overlap between these two types of production.

8. Appendix A: Full Methodological Notes

The Sample

- We received at least revenue, expenditure and employment information on behalf of **35 business units.**
- As such, our direct response rate was approximately **45%** of the estimated universe of 78 business units operating in Toronto/Ontario.
- Of those 35 responding business units, the vast majority (and a roughly equal share) were involved in solely production or solely post-production activities. A much smaller share of responding business units were engaged in both production and post-production.

8. Appendix A: Full Methodological Notes

The Gross-Up

- In order to extrapolate from the collected sample to the universe of potential respondents (or the universe), Nordicity adopted the "average business unit" approach.
- As such, for each question (e.g., production revenue, post-production revenue, production employment, post-production employment, etc.), Nordicity established what the average production or post-production business unit would look like.
- This task was accomplished by simply dividing the total sample obtained by the number of business units reporting.
- The universe was then estimated by multiplying the average business unit by the number of total business units in the universe.
- For example, if the raw survey data indicated a total of $100M of revenue among production business units with 13 reporting units, the average revenue would be approximately $7.6M. With 42 production business units, the resulting estimate would be $319.2M (**Note:** this is example data only).
- To ensure that conglomerate companies (with multiple business units) did not skew the sample, each such company was assigned a weighting based on its number of business units. These companies' responses were then divided by this weighting thereby accurately reflecting each company's weight in our sample.

8. Appendix A: Full Methodological Notes

The Gross-Up (cont'd)

- Where a business unit's response was incomplete (in terms of revenue and expenditure data), Nordicity imputed a value in line with the average across the whole sample. For example, if a company only provided overall expense data, but did not indicate how much of those expenses were devoted to labour costs, we used the overall average across all companies to estimate labour costs.
- In our sample, however, there was one very large company (with multiple business units) that, if left unaccounted for, would have skewed the results of this approach.
- To account for this issue, Nordicity excluded the company (and its business units) from the gross-up process. In other words, we removed its data from our sample, and its business units from the universe, and proceeded to extrapolate from the sample data (to the remaining universe) in its absence.
- Once the gross-up was complete, we added the outlier company to the result of each calculation.
- As such, the final gross-up calculation can be expressed as: ([Sample Data] / [Sample Business Units]) * [Universe Business Units] + [Outlier data].

8. Appendix A: Full Methodological Notes

Economic Impact Analysis Approach Overview

- The survey data and other secondary data were used to model the impact that Ontario's commercial production industry had on employment, labour income, gross domestic product (GDP) and tax revenue.
- The modelling produced estimates of the direct and spin-off impacts:
  - **Direct:** The impact on employment and economic activity in the commercial production industry.
  - **Spin-off:** The impact on employment and economic activity in other sectors of the Ontario economy. It includes the **indirect** impact (i.e., the impact in supplier industries such as equipment rental, legal/accounting services) and the **induced** impact (i.e., the impact experienced in the retail, financial services and industries on account of the re-spending of labour income by Ontario workers).
- Economic ratios and average FTE salaries from the Canadian Media Production Association's (CMPA's) *Profile 2013* were used to model the impact of commercial producers' production activities.
- Statistics Canada's provincial input-output (I-O) tables were used to model the impact of commercial producers' post-production activities and capital expenditures.
- Effective tax ratios from Statistics Canada (e.g., corporate tax revenue per $ of GDP) were used to estimate federal and Ontario-provincial tax revenue.

8. Appendix B: Post-Production Revenue Category Explanations

Post-Production Revenue Categories	Notes (various sources)
Editorial/Offline	Revenue from offline and linear video editing processes
Colour/Transfer - External	Revenue from colour correction and transfer processes
Colour/Transfer - Internal	
Online - external	Revenue from online and non-linear editing systems processes (which occurs after offline editing work has taken place). Types include: • Compositing: Combining visual elements from separate sources into single image • Animation: Work in animated cartoons • CG: Computer generated graphics, imagery • Animatics: Testing concepts and storyboards before full production • Design/effects: Visual effects
Online - internal - compositing	
Online - internal - animation	
Online - internal - CG	
Online - internal - motion graphics	
Online - internal - animatics	
Online - internal - design/effects	
Online - internal - other	
Audio - external	Revenue from audio processes such as addition of music and sound to a production (e.g., sound mixing, sound design).
Audio - internal	
Audio - licensing	
Live action production	Revenue for live action production activities (e.g., non post-production activities)
Supplies	Revenue derived from mark-ups on supplies and meals (on-set).
Meals	

8. Appendix C: Interview Guide

Interview Questions for Commercial Producers (CPAT Members & Non-Members)

Background

1) Please describe your firm, its size (by headcount and annual revenue) as well as your unique selling proposition, typical client-base or niche.
2) What is the approximate geographical breakdown of your client-base?
3) How is business? (e.g., sales performance, margins, employee/headcounts and layoffs).

Infrastructure analysis: business climate strengths challenges

1) Do you consider being based in Ontario a strategic advantage from a business climate perspective, say as compared to other Canadian cities or outside of Canada? Why/why not?
2) How would you describe the working relationship between commercial production companies and agencies (domestic or foreign)? How have those relationships and/or business arrangements evolved in recent years?
3) Do you perceive competition from outside of Ontario to be increasing? If yes, have you observed more business/commercial production work going outside Ontario? (e.g., work sourced in Ontario but leaving Ontario). If yes, how much business do you estimate you have lost to non-Canadian/Ontario companies in the past 12 months?
4) Have you observed agencies bringing/conducting more commercial production work in-house? If yes, how much business do you estimate you have lost to in-house production teams in the past 12 months?
5) Have you observed predatory business practices on the part of agencies (e.g., re: payment terms, taking advantage of scope of work/scope creep, bidding process issues, and/or other concerns)? If yes, how are you coping with such practices? What measures have you introduced to protect against such practices?
6) What additional support would help you to succeed in the face of such business practices, should they exist? What are your thoughts on the development of some kind of Terms of Trade agreement between agencies and production companies?

8. Appendix C: Interview Guide

Interview Questions for Commercial Producers (CPAT Members & Non-Members) cont'd

Infrastructure analysis: business climate strengths challenges cont'd

1) What additional advantages, tools, facilities, infrastructure would add to the sector's competitiveness (in Canada and internationally)? Does the availability of new production and editing tools change the business climate for your firm - for the better or the worse?

Growth and opportunities

1) What growth expectations do you have for the next 12-18 months? (i.e., growth in terms of revenue, volume of work and/or employment) How will you manage that growth?
2) What new market opportunities (e.g. territorial/geographical, product lines, areas of expertise or other) are you pursuing for future growth? Are there any barriers you face in increasing/decreasing that type of work?
3) How would you characterize your access to capital (i.e. credit [bank loans, lines of credit for working capital, etc.] and equity [private investment, angel investors, etc.])? Are you adopting any alternative funding models, partnering or international links to finance your business needs and/or growth?

Support/Needs

1) What programs or support mechanisms have you accessed (if any) in the past? Consider both non-government as well as government-led initiatives.
2) In an ideal world, what kind of support would be in place for your growth targets and strategic objectives to succeed?
3) What, if anything, keeps you awake at night in terms of the success of your company and the growth of the commercial producers in Ontario? Can you think of anything else you would like to add related to the strategic development of the Ontario commercial producers industry?

Nordicity

nordicity.com

Toronto
416.657.2521

Ottawa
613.234.0120

London, UK
+44 751 197 9022