



midasinitiative

EXECUTIVE SUMMARY

Briefing Document - Digital Content Markets
on the Island of Ireland Challenges and Opportunities for SMEs

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1.0 Introduction

This briefing document highlights the findings of a series of market intelligence research reports produced as part of the MIDAS Initiative, a cross-border digital content cluster project for the East Border region of Ireland supported by the EU Interreg IIIA programme for Ireland-Northern Ireland, the International Fund for Ireland and the private sector.

The MIDAS Initiative has been developed to explore new ways to develop the economic and social capacity of the East Border region of Ireland, covering Counties Down, Armagh and Louth, by exploiting the economic potential of the digital content industry.

This document aims to provide a synopsis of the dynamics, challenges and opportunities facing SMEs in the industry drawn from the qualitative and quantitative information presented in the following series of reports which are available for download from the MIDAS Initiative website www.midasinitiative.com.

- Moving Images.
- MIDAS Initiative report into the film, television and video industry in Ireland.
- 2D or not 2D, What Are the Questions?
- MIDAS Initiative report into the animation industry in Ireland.
- More than Shooting Aliens.
- MIDAS Initiative report into the games industry in Ireland.
- What Key are We In?
- MIDAS Initiative report into the music industry in Ireland.
- Digital Content Markets on the Island of Ireland

2.0 Digital Content Markets

The digital content industry, while still at a relatively early stage of development, is emerging as an area of significant global opportunity.

The increased availability of digital technology is enabling the development of a whole range of new products and services, significantly growing market demand for digital content worldwide. The digital content industry encompasses the creation, design, management and distribution of digital products and services and the technologies that underpin these activities.

The industry comprises companies from traditional content, media and entertainment, software and multimedia, and electronic hardware and telecommunications sectors. Convergence among these sectors is being led in large part by the rapid growth in information and communications technologies, the Internet and broadband fixed and wireless access and associated devices, which are driving demand for the electronic distribution of content.

2.1 Film, Video and Broadcast

Film, video and broadcast television are immensely powerful media at the heart of the Ireland's creative industries. The audience for film and television, in virtually every country in the world, continues to grow as new technologies are changing the way we create, watch and pay for moving images.

Overall, the international film industry is growing at a pace second only to computer and mobile games production. Like those other industries however, film and television have to compete with increasing production costs, downward pressure on retail prices and the effects on established indigenous markets from globalisation.

Digital acquisition and post-production technologies are also providing existing film-makers with new cost-effective methods as well as providing new and aspiring film-makers with the means of creating low budget, high quality productions. Digital technologies allow smaller crews to create quality work, at lower (yet appropriate) costs, on an

increasing number of projects, more often and thereby improving the chances of long-term sustainability.

Much of the industry's future plans and estimates are based on the past success of Ireland as one of Hollywood's preferred overseas locations for film-making. Ireland is entitled to hold this optimistic view based on past records but, as other preferred locations include both Romania and the Czech Republic, there are already significant threats to Ireland's competitive position, despite tax incentives, from markets with lower production cost bases.

In many ways, broadcast television remains the most accessible market sector for the film content industries. In the UK television accounts for £10.1 billion revenue, having increased by 8.6% since 2003. The total value of the audio visual industries to the UK economy is 2.4% of GDP relative to the proportion of employment at 1% of the total workforce and this value is set to increase exponentially. (Source: OFCOM, The Communications Market, 2005)

Ireland has a vibrant and strong cultural heritage, richly admired throughout the world. Global success in literature and music has promoted a reputation for story telling that is assumed will translate easily into the development of successful film production. This would appear to be borne out by an Irish national film industry that is currently worth €304 million (Source: Audiovisual Federation), growing at an average annual rate of 18%, contributing €107 million towards annual GDP. (Source: SPI) Film production is labour intensive and currently over 4,300 people are directly employed in the industry. (Source: SPI)

The television industry is however facing an unparalleled period of change. The long-standing business model for broadcast television – the network model – will, in developed countries, steadily be replaced by a complex and diverse media market with potentially greater opportunities.

These changes are being driven by:

- the re-interpretation of the role of public service broadcasting;

2.0 Digital Content Markets cont.

- the digitisation of production and distribution, new technologies giving power to viewers instead of broadcasters;
- multi-channel and audience fragmentation, including new digital channels going free to air, reducing requirement of subscription-based digital television;
- broadband TV (IPTV);
- a redistribution of rights to production companies;
- mergers and acquisitions among independent producers; and
- the increasing globalisation of markets.

2.2 Animation

Globally, animation is one of the most commercially attractive digital media forms or products. The rapid advancement of technology has made computer animation production and delivery more readily available to mass markets and the animation industry is one of the fastest growing industries around the world. Recent research estimates that the industry was worth \$27.1 billion at the end of 2002 and is forecast to grow to a value of \$33 billion by 2008. (Source: The Roncarelli Report on the Computer Animation Industry, 2003)

Market demand for animated entertainment has expanded with the increase in broadcasting hours by cable and satellite TV along with the growing accessibility of the Internet and offline media.

Full length animated films, specifically computer generated graphics, have become a particularly hot genre over the past few years. Production of animated movies is at an all-time high, buoyed by high box office returns for CGI movies and the strong DVD market. Audience admissions to animated movies were 95 million in the USA and 74 million in Europe in 2003. (Source: Screen Digest)

The expansion of multi-channel digital television has created opportunities for the development of new animation-specific or niche audience-targeted channels, e.g. Nickelodeon, Cartoon Network etc. These in turn require new sources of

programming content, increasing opportunity for the developers and production companies.

Three-dimensional (3D) graphics, photo-realistic animation, cinematic-quality sound and interactive real-time multiplayer games, are being driven by the games industry, with knowledge and expertise feeding into other sectors along the digital value chain, enhancing markets for animated content.

Internationally, competition from larger, more powerful companies outside of the island of Ireland benefiting from economies of scale as well as the new, emerging low-cost suppliers are reducing opportunities for new product development and work-for-hire contracts alike.

Ireland's labour costs are now significantly higher than those of eastern Europe, Asia and the Pacific Rim countries and, in the absence of low cost labour, competitive advantage is increasingly difficult to attain. Without the economic growth from increased market share and profitability it will also be difficult to retain our best talent when faced with competition from other overseas employers, such as the UK and North America where the industry is more mature and labour costs are higher.

Animation companies in Ireland do, however, demonstrate excellent production skills. Education and training is of a high standard and access to production tools and facilities is readily available. The industry mostly consists of relatively small, compact, specialised businesses and individuals that can react quickly to changing market demand. However, the distribution, publishing and promotional infrastructures for indigenous animated content are under-developed and there is therefore limited support for the development of original intellectual property within the industry.

In addition to those considered to be animation film-makers, there are many more digital media production companies and agencies, most often engaged in providing corporate marketing and advertising solutions, that will include both 2D (e.g. Flash web content etc.) and 3D animation in their range of services. These companies provide content management services to companies within indigenous markets.

2.0 Digital Content Markets cont.

2.3 Games Development

The games market is a mature, global industry and within the US, Europe and Japan, annual games software sales are forecast to reach £86 billion by 2007. The majority of this growth will be driven by console games, estimated at an annual growth of 15%, whilst PC games will grow more slowly in value over time. Returns on investment can be significant for successful games developers, despite the high risks involved in producing games, and high risk of market failure.

The scale and cost of games development is already significant and continues to rise as technology drives demand. A typical development project now lasts around 18-24 months and requires a team of up to 20 people with a budget of £1-2 million, compared with a budget of a few hundred thousand pounds for a team of a dozen for 6-12 months in 1992. This increased cost of development has been largely driven by higher production values and is expected to increase by at least five-fold with the release of the latest generation of consoles including Sony's PlayStation 3, Microsoft's X-Box 360 and Nintendo's Revolution.

In 2002, Forfás, the public policy advisory body, published a report A Strategy for the Digital Content Industry in Ireland identifying games as a 'high potential growth sector,' which would be targeted by both the indigenous and overseas development agencies. The report noted that "Ireland's existing strengths lied in the development, design and conversion/packaging of games together with research strengths in both games design and enablers."

There is no current evidence, however, that there is any significant market penetration in games development by Irish companies and little or no activity at all in Northern Ireland though in Havoc and Torc Interactive, Ireland already possesses two of the industry's most successful middleware development companies.

The games industry is currently being driven by three technologies: consoles, online gaming and wireless gaming. As these newer areas are growing, they do so at the expense of the personal computer (PC) games market. New platforms such as

interactive television (iTV), mobile and the Internet are emerging but are unlikely to compete directly with consoles, which are expected to remain the dominant platform of choice by the majority of consumers.

Mobile games have perhaps the greatest prospect of success in the future as network operators need to develop new applications for usage beyond voice, and as the capability of the handset increases (including larger colour screens, memory, processing power and operating system harmonisation). (Source: Spectrum)

The industry is increasingly being dominated by more established and already high-profile developers. The trend is that fewer titles are successful in the market and profits from royalty sales for the industry in general are decreasing. Entry-level companies are facing difficult challenges, particularly high barriers to entry and growth and they are therefore unlikely to possess the necessary financial resources, business and company management skills required to succeed. As a result of these difficulties, many of the more proficient and ambitious developers are increasingly moving from their home markets towards employment in the US, lured by higher salaries. (Source: SEEDA)

2.4 Music and Music Technologies

The music and music technologies industries, encompassing composition, publishing, musical instruments (and related equipment) manufacturing, performance, recording and manufacturing, retailing and distribution, and education, is an important contributor the economy on the island of Ireland.

The global music market was worth \$32 billion in 2003 with total unit sales reaching 2.7 billion. The European music market was worth \$11.8m during the same period. (Source: IFPI - 'The Recording Industry in Numbers, 2004'). The market is dominated by four major companies (Universal, Warner, EMI and Sony BMG) who between them control 74.7% of the total world market and 80.6% of the European market.

2.0 Digital Content Markets cont.

The worldwide popularity of Irish music, particularly in Europe, means that it rates fourth after the UK, USA and Canada in terms of record sales. In 2001, 93.6% of the total value of the Irish music market was earned by only the top 20 artists. The earnings of the top five Irish acts, at €192 million, were equivalent to that of the UK's counterparts. However, Irish artists had only a 26% share of the total value of their own domestic market which is low by international standards. (Source: Music Board of Ireland, 'Shaping the Future', 2002)

The music industry is currently experiencing an exciting period of growth around the world. The cost of production methods and tools are decreasing annually due to technological innovation and market competition between manufacturers and music-based products can be easily and inexpensively transported and distributed to potential markets around the world. After years of difficulty, music industry revenues are showing signs of growth in new key sectors, particularly

digital downloads and mobile content. EMI, for instance, has seen digital music revenues quadruple in the first half of the year, expecting the new media to be worth over 25% of all sales within five years. (Source: Adam Klein, EMI, 2005)

The music industry is finally beginning to recognize and embrace the financial benefits of these new distribution channels for singles and albums, as well as new forms of content, such as ringtones, remixes, live recordings, concert videos, merchandising and concert tickets. However, illegal downloads will continue to cost the music industry billions of dollars in lost revenue. (Source: Deloitte, TMT Trends 2005)

According to the Organisation for Economic Co-operation and Development (OECD) Report on the Music Industry, (2005) the rise of online music sales will continue to have massive implications for artists, companies and consumers, both as a new social and cultural phenomenon.

3.0 Market Dynamics and Challenges for SMEs

3.1 Global Competition

The digital content industry is one of the most exciting growth markets around the world. The cost of production methods and tools are decreasing annually due to technological innovation and market competition between producers, and digital products can be easily and inexpensively transported and distributed to potential markets around the world.

However, the domestic and international markets for digital content are already experiencing extreme competition from oversupply. Fragmented and saturated markets, higher quality thresholds and the entrance of new suppliers are reducing the opportunities for our indigenous producers. Traditional markets are fragmenting into smaller, lower value niches that must react to the needs of changing trends, fashions, methods of distribution and business models.

Internationally, competition from larger, more powerful overseas companies benefiting from economies of scale as well as the new, emerging low-cost suppliers are reducing opportunities for new product development and work-for-hire contracts alike. Ireland's labour costs are now significantly higher than those of eastern Europe, Asia and the Pacific Rim countries.

It is becoming increasingly difficult for Ireland to compete globally on a basis of price and the domestic industry should look therefore at other potential sources of competitive advantage. The most likely method will be to identify areas of added value that, in addition to the raw content development product, become an attractive ancillary product feature with which to develop a sustainable competitive advantage.

3.2 Financing Production

Access to finance for digital content development remains a significant barrier to production. The scale and cost of games and film development in particular are already huge and rising and, increasingly, the costs of even lower budget works often far exceed their earning potential in both domestic and international markets combined. Without market profitability the prospects of financial investment, especially for new works by unknown producers, are more limited.

Government and venture capital sources of finance for digital content production are still relatively scarce, compared to other industries that are perceived to have greater economic importance and social value.

Companies in Ireland traditionally have to rely on relatively low levels of start-up capital, including their own personal money and informal investment from friends and family. Bank lending is seen as essential but difficult to obtain as the traditional institutions prefer to shy away from the high risks attached to the industry. The VC and business angels sectors, while much more established in the Republic of Ireland than in the North, are still relatively immature compared to other competing markets and are not, in general, being fully utilised. (Source: InterTrade Ireland)

Clearly, there is an opportunity to develop the commercial sources of financing, including bank lending, venture capital etc. in order to better realise the potential value of the digital content industries in Ireland.

Support from a large, but currently dormant, investment and venture capital sector is readily available but will require greater awareness building from both sides as to each other's needs. Investors will need to feel secure in their participation and the involvement of formal R&D, marketing planning analysis, realistic business projections and proven business acumen are all essential.

3.0 Market Dynamics and Challenges for SMEs cont.

3.3 Intellectual Property Creation

The importance of original intellectual property (IP) development as a sustainable source of income and wealth is central to the development of the industry and yet almost all of the profitability of the Irish digital content industries is currently created from contractual work-for-hire or from corporate communications services production that creates little or no residual value for either the producer or the economy as a whole.

In common with all sectors of the digital content industries in Ireland, there is potential for stimulating and supporting the development and/or exploitation of original or existing content. Ireland is historically considered to be a land of poets and storytellers but does not channel enough of this natural, national talent into the creation of sustainable, exploitable intellectual capital.

The development of new, unique, valuable intellectual property is critical to the future of the industry. The industry's reliance in licensed IP from existing and previously successful works is a major component in the high (and increasing) cost of content production. New, innovative themes, storylines, characterisation, gameplay etc. are highly sought after.

A formal R&D process will be increasingly essential to the development of new, market-ready ideas. One area of immediate potential opportunity may be with the development of Ireland-centric and/or Irish language content.

3.4 Publishing, Promotion and Distribution

The publishing, promotion and distribution infrastructure for the digital content industries in Ireland is significantly under-developed. Without this infrastructure in publishing, distribution, promotion etc., SMEs are faced with significant barriers for exploiting both original and existing content.

A major issue for the content industries in Ireland is the same as in any other territory, i.e. the spiralling costs of production linked to the relentless advances of new technology – in particular those associated with games and film markets. This issue is particularly pertinent for Ireland however as these costs would normally be otherwise met by a publishing company for whom the developer is ultimately creating the content for onward sale to the market.

In a global market, dominated by only a very few publishers and a large number of development companies, Ireland does not have its own indigenous publishing and distribution capability with which to specifically represent and support the local development community. The major global companies are not particularly helpful in their treatment of Irish talent.

Common to most international, non-US, territories is the question of how to improve competitive potential. I.e. should Ireland try to develop an alternative distribution and promotional infrastructure with which to try to win back an appropriate market share or should we just try harder to compete for the attentions of the current dominating distributors and publishers?

With the increasing costs of development (especially for console games and films) a publishing and distribution deal is seen as crucial in being able to access the necessary funding for content development. The local digital content production industries appear to have to either compete for this insufficient and diminishing resource or hope that a new form of commercial publishing and distribution support mechanism can be created to serve their particular interests in the market, in competition with the established giants of the industry.

While exports are desirable (and ultimately necessary to continued and sustainable growth) home markets are essential to local developers. There needs to be a new and specific initiative to develop an indigenous publishing capability, if only to bring locally-produced content to the home market, where otherwise they would almost certainly be overlooked. (Source: SEEDA)

3.0 Market Dynamics and Challenges for SMEs cont.

3.5 Distribution Technologies

In recent years, new media technologies have increasingly provided opportunities for digital content to reach potentially huge audiences. Mobile and Internet delivery of content does seem to provide an alternative, relatively low-cost, channel for distribution and financial reward for digital content in the future although, as always, the competition for the customers' attentions will develop and become more intense accordingly.

This may be particularly so for mobile games, music and animation where development costs are significantly lower and so offer a more accessible market entry point. In Ireland, as elsewhere in the world, mobile and wireless gaming is increasingly seen as a massive potential opportunity. The global mobile games market is forecast to grow to a value of \$17 billion by 2006 (Source: Digital Hub) and despite relatively uncertain revenue models (including pay-for-play and advertising/sponsorship-based) offers relatively low development costs that should be attractive to new market entrants.

In response to, or perhaps a key driver of, the surge in domestic uptake of broadband Internet connectivity, new distribution channels for animated content are beginning to appear with both atomfilms.com and ifilm.com being particularly successful examples of web-based distribution and exhibition companies.

New distribution technologies will obviously provide opportunities for new products and solutions. Developments in distribution and playback mechanisms (e.g. broadband internet, 3G mobile telephony, High Definition broadcasting and next-generation DVD etc.) will all require new or repackaged content development and the convergence of film, computing, and digital media is a significant opportunity for the Irish industry.

The expansion of multi-channel digital television is creating new opportunities for the development of niche audience-targeted channels which will require new sources of programming material, stimulating the development and production companies.

Mobile content has perhaps a particularly good prospect of success in the future, already a significant factor of growth in the music sector, as network operators need to develop new applications for usage, beyond audio, and as the capability of the handset increases to include larger colour screens, memory, processing power and operating system harmonisation. (Source: Spectrum) The development costs of mobile games titles, for instance, are significantly lower than for consoles and so offer a more accessible market entry point.

One of the factors that might help to define the commercial future of online distribution may come from the link between delivery of content to the handset and payment via the telephone billing process matures. Certainly, as the market for ringtones, music, video clips and games starts to take off, customers are accepting relatively small payments for the delivery of content included on their phone bills in addition to the normal line rental and call charges. These micro payments, while in themselves tiny compared to the costs of buying traditional media forms are more available to more of the international market providing an opportunity to derive profitability through sheer volume - the amounts charged appearing to be relatively insignificant to consumers' normal budgeting decisions.

3.6 Piracy and Digital Rights Management

New digital production and distribution technologies are enabling increased piracy and bootlegging of digital content. The protection of the vital IP remains fundamental to the sustainability of the industries and yet the very technologies that enable independent distribution threaten the existence of the traditional business models that provided economic sustainability.

Alongside the burgeoning success of the digital music market, for instance, are the problems of serious and ongoing piracy. IFPI, the organisation representing the music recording industry, announced 963 new court actions in 11 countries in Europe and Asia, bringing the total number of

3.0 Market Dynamics and Challenges for SMEs cont.

cases against illegal file sharers to 11,552. In Europe, 248 people sued by the music industry for illegal downloading have paid average fines of €3,000. (Source: IFPI)

One contributory factor to the whole issue of downloading is that, if anything, the process of downloading music – legally or illegally – is too easy. As bandwidth and mobile accessibility increase, the traditional barriers of file size versus time (perhaps the only true cost) are being removed and, of course, the obvious conclusion is that this will surely become an issue for the film and games industries too in the relatively near future.

3.7 Skills Development

There are always opportunities, even in a saturated market, for skilled creative technicians who are the 'best' in their field of expertise. Increasingly these opportunities are found in niche markets, e.g. a particular form or style, or within specific content formats (film soundtracks, games etc.) although the importance of networking and marketing planning are as crucial as ever to identify the opportunities and support the production skills.

The technology revolution is impacting on all areas of digital production and distribution and particular opportunities exist in:

- High Definition filming and editing
- CGI animation and special effects
- interactive television (iTV) content development
- content repackaging for interactive DVD (inc. HD)
- content development and repackaging for Mobile (3G+) distribution

However, while there may be no particular shortage of technical skills on the island of Ireland, the current needs are for business and management skills in the industry such as:

- financial management
- intellectual property management

- project management
- production management
- sales and marketing

3.8 New Markets

New markets driven by opportunities from new technologies are continually appearing and some are starting to mature. As bandwidth and consumer uptake increases, the Internet and mobile telephony markets will become important customers for new content production although, as yet, there are few examples of successful business models.

Particular opportunities for games development appear to be developing around the use of Macromedia's FlashLite product, a cut down version of the vector-based low bandwidth animation software that is beginning to be shipped on the latest generation mobile phones. Games-focussed Web sites are continuing to prove to be valuable resources for talent showcasing and, as mobile networks and downloading matures financially there should be opportunities for commercial publishing.

As the market develops mass appeal, developers should become aware of and begin to cater for the different needs of the newer, perhaps less experienced consumers. New technologies may introduce new customer types (e.g. female mobile users) and conventional 'engineering' wisdom may have to be overlooked in light of these new users' less demanding needs.

(Source: SEEDA)

While the games industry is already successful in the UK, particularly in the European market, the reasons for this are not particularly understood. It is important therefore that these lessons are learned and applied to the industry in Ireland allowing it to enhance its competitive position in Europe and develop into the US. Given that there is virtually no prospect of success for overseas developers to succeed in the almost closed Japanese market, this market may be best left to others to try to compete initially.

3.0 Market Dynamics and Challenges for SMEs cont.

Although the markets for music content production have traditionally been sales of recordings, broadcast of these recordings and live performances, the most popular source of music listening (in hours) is now neither CDs nor radio, but video games. (Source: Peter Spellman, the Future of Music Careers, 2003) Music production for games, film, television etc. is now crucially important for financial success in the industry and, while there is currently little evidence of sustainable activity in Ireland's indigenous film and games sectors, television in particular is promising to be a valuable source of business opportunities.

Television is currently anticipating a period of future growth, largely due to the effects of the public service broadcast charter applicable to Northern Ireland and the rest of the UK. It is anticipated that content production requirements in Northern Ireland, Scotland and Wales will need to increase by between 100% - 200% to accommodate new regional targets and there will undoubtedly be opportunities for collaboration with production companies from the Republic of Ireland.

An additional opportunity for the distribution of film and animation content would appear to be the DVD sell-through market, with growing evidence of consumer interest, critical acclaim and financial sustainability. The requirement for and substantial costs of promotion and distribution, however, remain significant limiting factors.

Finally, there are undoubted opportunities for digital content to look beyond the traditional entertainment markets and into education, corporate marketing etc. where the strengths of learning through audio visual programming, interactive gameplay etc. might find new applications. Additionally, there may be opportunities in relatively untested, non-entertainment markets, e.g. healthcare, architecture, the legal profession etc., where visualisation through animated content is useful in the absence of actual video footage being available or even possible.

3.9 New Business Models

In addition to the effects of digitisation on the content industries there are structural implications for the wider economy, where the

meanings of work, career and job are being rewritten. The Internet has allowed artists direct access to a global audience previously controlled by large publishing and distribution companies and their rigid corporate imperatives, enabling artist development at the expense of business development.

One challenge is to ensure that Irish companies design, create and publish new media products based on either original content or by adding value to existing products, harnessing the new opportunities for publishing and distribution to bypass existing industry bottlenecks to develop successful new business models that maximise sustainable earnings. (Source: FAS, 2005)

Digital technologies have transformed the copyright environment and given rise to a potentially huge market for intellectual content, but consumers are reluctant to pay for the property. The market has to be convinced that high quality content must eventually be paid for and that protecting intellectual property creates value added for consumers also.

Most of the new online and mobile distribution technologies are still controlled by the traditional record companies, driven by costly promotional communications via press and television advertising, who remain the largest financial beneficiaries. However, as choice increases and the consumer is able to select a more individually rewarding product, prices will inevitably fall.

The relative lack of success of Wireless Application Protocol (WAP) services in the

UK has led the mobile operators to examine economic models that stimulate content creation specifically for the platform. The example of the media-rich NTT DoCoMo service in Japan, where content creators and mobile operators share revenues, seems to be the favoured model today but is not yet said to be generating significant revenues in comparison with the massive investment and acquisition costs.

Micro payments and increased delivery of digital content to hybrid music phones may provide additional opportunities for independent

3.0 Market Dynamics and Challenges for SMEs cont.

producers although these models are not yet mature. Telephone-based payment is proving to be increasingly attractive to wider markets, including ticket sales, grocery shopping and other functional applications in addition to the simple payment for delivery of media content. Although still very much in its infancy, the system is widely expected to become ubiquitous in the near future and will, no doubt, attract the interest of the established financial institutions as well as the traditional mobile network operators.

For SMEs, there are significant opportunities in embracing new business models to gain competitive advantage along and across the digital value chain. SMEs in the industry are generally small and have the capacity to react quickly to new niche markets and, crucially, new ways of generating business.

Increasing levels of convergence within the industry are driving growth across content sectors and for SMEs, niche and specialist markets are continually evolving that can prove lucrative for the small content provider. In particular, business models that exploit the benefits of the version-isation of content across platforms are focused upon generating revenue streams from a variety of markets and consumer groups.

Similarly, new, successful business models are flexible and can adapt easily to changes in technologies, in distribution and in demand. SMEs in the industry should be prepared to adopt new approaches to business development, and invest in creating alternative routes to market. In this context, collaborative approaches to managing and exploiting content among SMEs are key to attaining critical mass by sharing expertise, resources and providing access to commercialisation networks.

SMEs should concentrate upon the exploiting existing skills and capability inherent in the industry by using the project based nature of activity, together with their access to a pool of experienced freelancers, to develop new business models centred on collaboration across sectors and along the digital value chain. This will help to companies to maintain competitive advantage by developing new products and applications that enable them to move from 'early adopter' to 'early follower' in emerging markets.

Ultimately, one of the opportunities for the industry is that business models are largely unproven, can often be highly profitable, and at SME level, the relationship between risk and return can be positive within niche markets.

4.0 Opportunities

There are significant opportunities for SMEs in the digital content industry to take advantage of current market dynamics. Due to the relatively small scale of the industry, there is potential in developing collaborative approaches that bring small companies together with individuals in enterprise frameworks that share intellectual property, financial and human resources, business and commercialisation networks and cross traditional, sectoral boundaries.

In examining the current strengths, weaknesses, threats and opportunities facing the Irish digital content industries, many of the issues relate to the small-scale nature of the sector, a lack of influential relationships with the major international markets and current financial powerlessness to bring about the desired changes. A solution to these issues might be to develop a greater sense of partnership within the industry and an appreciation that collaboration within a content sector cluster could enable the attainment of the common goals.

Collaboration and repeated contact helps build up a relationship of trust leading to new networking arrangements to encourage and spread best practice and the results of research and development. It is a key requirement for facilitating the growth of a cluster that firms are encouraged to take advantage of collaboration and to demonstrate that by working together their performance and financial sustainability will improve. Collaboration may result in a wide range of benefits to both the businesses themselves and the wider economy including:

- increased expertise;
- complementary skills;
- economies of scale;
- the creation of new ideas and new businesses;

- opportunities to bid for new sources of employment; and
- the development of a more mature industry infrastructure, including professional, legal, financial and other specialist services.

SMEs should also seek to exploit opportunities outside core market segments and develop content-related products and services for other markets and industries, as well as for emerging sectors. For instance, there is significant opportunity to develop products and services for the education sector or the health industry. Often, participation in the digital content industry is aspirational with many SMEs generating more revenue and profits from providing corporate services.

The SME digital content sector must concentrate upon markets outside of the island of Ireland if it is to achieve high levels of sustainable growth. This can be achieved through collaboration and economic partnership, working within new, creative business models that can react quickly and profitably to market demand.

In essence, the following developmental concepts can offer significant opportunity for SMEs in the industry:

1. The exploration of market opportunities for managing and producing content for 'non core sectors' such as health, education, engineering and more traditional industries.
2. The development of economic linkages across the island of Ireland to exploit existing resources and opportunities within physical and virtual clusters.
3. A willingness to collaborate with other companies and individuals both within and across sub-sectors to build trust and share knowledge, expertise and experience.
4. An understanding of where to maximise return on investment within the digital value chain.
5. A willingness to share and provide access to networks for collaborative ventures that is focused upon opening export opportunities, not protecting indigenous markets.

4.0 Opportunities cont.

6. A reduction of the traditional over-reliance on government to provide financial assistance in the form of grant aid and to capitalise intellectual property at a much earlier stage to raise investment, though partnership with economic development agencies.
7. A change in the perceived value of original as opposed to existing content that is linked to potential market demand at an earlier stage in the IP generation process.
8. A willingness to attract early stage finance to acquire, manage and exploit intellectual property which is aimed at attracting equity based investment in companies, not simply in specific projects. This will significantly build industry capacity.

This list is by no means exhaustive, but serves to highlight some strategic opportunities for SMEs in the digital content industry on the island of Ireland.

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