



midasinitiative

## EXECUTIVE SUMMARY

**we are content...we are not content**

Investigating SMEs in the Digital Content industries on the Island of Ireland

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## 1.0 Introduction and Background

This research has been prepared by Dream Ireland Ltd and the Economic Research Institute of Northern Ireland 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, the International Fund for Ireland and the private sector. The East Border region consists of counties Down, Armagh and Louth.

The MIDAS Initiative has been developed to explore new ways to develop the economic and social capacity of the East Border region of Ireland by exploiting the economic potential of the digital content industries.

The digital content industries offer significant potential for economic and social growth within the knowledge based economy in a number of ways. Firstly, they are embedded within the entertainment industries which provide high volume, high value consumption patterns. Secondly, digital technologies are rapidly driving the knowledge based economy and are essential for continuing growth across many industrial sectors. Thirdly, digital technologies reduce the cost of production and while replacing existing markets, potentially create new, larger, more profitable markets.

Through a combination of primary and secondary research, the report aims to contribute to our knowledge of how that potential may be realised for Ireland. It also aims to identify and interpret the industry and market dynamics that can drive the development of potential in the East Border region.

This research is primarily concerned with profiling the structure, behaviour and performance of **SMEs** within the digital content industry on the island of Ireland and therefore does not take account of the larger companies, such as broadcasters or music companies. This research aims to assess the potential capability of SMEs, from a grass roots level, to contribute to future economic growth. Attention is focused upon five particular sectoral areas of the industry identified as relevant to the development of the MIDAS Initiative: **film and broadcast, animation, games, music technologies and content-related interactive media.**

For the purposes of this research the digital content sector was defined as follows:

*“Those industries and sectors that contribute to the creation, development, distribution and commercialisation of digital content, specifically in the areas of film and broadcast, animation, computer games, music technologies and interactive media.”*

## 2.0 Method of Approach and Response Rate

Two main approaches were used to gather data. The first involved in-depth analysis of cluster participants through detailed case studies that collated both qualitative and quantitative evidence. The second used a computer aided telephone survey to gather targeted data related to benchmarking the digital content industries in Ireland.

Information and data needs were developed for the in-depth case studies and then a condensed version of the questionnaire was developed for the telephone survey. This ensured that both approaches obtained comparable and complementary data. The focus of the survey was to benchmark the digital content industries and obtain information relevant to the clustering framework within the following key areas:

- business activity in the context of sub-sectors, convergence and collaboration;
- size and economic context of industry by revenue and employment;
- economic and social factors relating to location and geography;
- degree, type and nature of collaboration within the prioritised sub-sectors according to specific activity; and

- support mechanisms and relevance to business growth, including identification of business needs.

The telephone survey data was collected by Dream Ireland Ltd and Research & Evaluation Services (RES) and analysed in conjunction with the Economic Research Institute of Northern Ireland (ERINI) from December 2004 to March 2005.

The survey population was drawn from a new comprehensive database constructed by Dream Ireland Ltd and ERINI using a combination of approaches including desk based secondary research, Internet analysis, industry knowledge and a range of existing data sources.

The final survey dataset consisted of 195 responses, out of an identified population of 409 firms. This comprised 177 companies that responded to the survey, plus data from an additional 18 companies interviewed face to face by Dream Ireland during winter 2004–2005.

This equates to an effective **response rate of 48%**.

The survey respondents were found to be representative of the wider population by sub-region and by sector.

## 3.0 Digital Content – An Overview

The global entertainment and media industry is estimated to increase in value from \$1.2 trillion in 2003 to \$1.7 trillion in 2008, at an annual compound rate of 6.3% according to a recent report by PricewaterhouseCoopers. It forecasts that the industry will benefit from faster economic growth during the next five years compared with the 2001–2003 period .

The creative and media industries in the UK currently generate revenues of around £112.5 billion and employ more than 1.3 million people, which is 5% of the total employed workforce. Exports contribute around £10.3 billion to the balance of trade, and the industries account for over 5% of gross domestic product (GDP). The value of the creative industries to UK GDP is therefore greater than the contribution of any of the UK's manufacturing industries.

The digital content industry has been classified for analysis purposes as part of a number of sectors that make up the creative industries in

the UK. Definitions are inherently difficult especially when attempting to quantify the value and economic impact of particular sub-sectors, particularly in the context of the convergence along and across the digital value chain.

According to Forfas , the digital content industry in Ireland is relatively small, with companies engaged in a range of activities from content creation to the development of related technologies. The entire entertainment and media industry in Ireland was valued at over €1.9 billion in 2003 and is forecast to rise by 5.5% per annum to over €2.4 billion by 2006.

Forfas estimated that the industry comprised over 280 companies in 2002, mostly indigenous, and employed between 4,000 and 4,500 people in total. However, the Forfas definition of the digital content industry is much broader and includes the large broadcasters, the wireless sector, related software and telecommunications.

1. PWC Global Media and Entertainment Outlook 2004 – 2008.
2. DCMS Creative Industries Mapping Document (2001).
3. Forfas 2002: op.cit.

## 4.0 Key Findings

The digital content industry on the island of Ireland is relatively small but growing rapidly. Companies are engaged in a range of activities from content creation to the development of related technologies. Activity is spread across a range of entertainment, education, consumer and business publishing sectors but, in general, the industry is fragmented and SMEs are small in scale with only limited export markets.

Key statistics from the survey are as follows:

- Total permanent employment in 2004 was approximately 2,600 in over 400 companies
- On average companies employed 6.5 permanent staff.
- 54% of firms had 3 or less employees; 15% of companies employed more than 10; 8% of companies employed more than 20.
- Collectively companies reported a 16% growth in permanent employment from 2003 to 2004 and anticipated a further 10% rise in employment from 2004 to 2005.
- There is also significant use of freelancers in the industry.
- Total turnover of the 400+ companies in 2004 was approximately €220 million
- The average turnover was €550,000.
- More than half of companies earned less than €250,000 in 2004, though the top sixth of firms earned more than €1 million.
- Collectively companies reported a 21% growth in turnover since 2003 and anticipated a 35% rise in turnover in 2005.
- There was extensive collaboration between and across sub-sectors in the industry; over 80% of companies collaborated with other digital content companies on the island.
- The most important reason for collaboration was content creation (cited by 76% of collaborating companies), followed by product development (46%).
- Nearly 40% of companies reported that they had considered re-locating within Ireland.

### Key economic indicators

	Industry as surveyed	Industry grossed up to total population	Cluster companies as surveyed
No. of companies	195	409	18
Total turnover	€107	€224m	€3.6m *
Average turnover	€500,000	€500,000	€240,000
Employment	1,251	2,628	51
Average staff	6.4	6.4	2.8
Average revenue per employee	€85,000	€85,000	€85,000

(\* only 15 companies reported turnover information)

## 4.0 Key Findings cont.

The results of the survey and subsequent statistical analysis indicate that SMEs in the industry employed more than 2,600 people and had a turnover of over €220 million in 2004.

A breakdown of the results indicates that the film and broadcast sector represented 33% of employment and 42% of turnover; animation 16% of employment and 10% of turnover; games development 12% of employment and 6% of turnover; music technologies just 2% of each; and interactive media the balance, 36% and 39% respectively.

This must be placed in context and although there are no comparable figures for Northern Ireland, FAS (2004) estimates that the entire Irish media and entertainment industry was valued at just over €1.9 billion in 2003. Similarly, Forfas estimated that the digital content industry employed between 4,000 and 4,500 people in 2002, yet the Forfas definition of the digital content industry is much broader and includes the large broadcasters, the wireless sector software and telecommunications.

### 4.1 Key Findings of the Survey

#### (a) Employment

- The industry is characterised by a combination of permanent staff and freelance labour.
- Total permanent employment in 2004 was approximately 2,600 in over 400 companies.
- The majority of companies (54%) employed 3 permanent staff or fewer in 2004. The average company in the survey employs 6 to 7 people (mean = 6.5), with a quarter of companies either sole traders or employing one person. Just under a sixth of companies employed more than 10 people.
- More than half of permanent employment was in the Greater Dublin area, with a quarter in Northern Ireland (29%) and nearly 7% of firms and 3% of employment in the East Border region.
- There was slightly more freelance staff employed by companies in 2004 than permanent staff, which reflects the project-to-project

based transient nature of production activity in the industry.

- From 2003 to 2004, companies reported a 16% growth in permanent employment, though at the level of the individual firm, for 57% of companies employment had remained stable with 31% increasing employment and levels falling in 12%.
- Similarly 56% of companies did not anticipate increasing employment levels from 2004 to 2005, though 34% planned to recruit more staff leading to a cumulative predicted growth in employment across the industry of 9%. However, in the same period anticipated employment growth in terms of freelance staff was 24%.
- There was an increase in aggregate permanent employment in the industry of 48% from 2000 to 2004 which is a significant growth rate. Established companies accounted for 18% of the growth in employment since 2000 and new entrants accounted for 30%.
- Average permanent employment varied significantly between sectors, being highest in games development (14.5) and interactive media (8.6) and lowest in music technologies (1.5). The highest average number of freelance employees was in the film and broadcast sectors (12.1 people).

#### (b) Turnover

- Total turnover of the 400+ companies in 2004 was approximately €220 million
- Overall average turnover was €550,000 but more than half of companies earned less than €250,000 in 2004, although the top sixth of firms earned more than €1 million
- The highest average turnover was among games development companies (€700,000) and interactive media companies (€693,000) with the lowest music technologies (€150,000) but these differences were not statistically significant.
- From 2003 to 2004, companies reported an aggregate 21% growth in turnover. They

## 4.0 Key Findings cont.

collectively anticipated a 35% increase in turnover from 2004 to 2005.

- There was an increase in aggregate turnover in the industry of 57% from 2000 to 2004 which is a significant growth rate. Established companies accounted for 24% of the growth in employment since 2000 and new entrants accounted for 33%.
- On average, in 2004, firms obtained nearly 83% of their turnover from the island of Ireland (unweighted geographical breakdown). Therefore, exports off the island accounted for just over 17% of turnover, with exports to Great Britain accounting for nearly 8% of that figure. Therefore, it follows that under 10% of turnover actually came from markets outside of UK and Ireland, with just under 7% of that coming from outside Europe.
- 57% of firms generated some of their turnover in 2004 from sales outside the island (i.e. exporters), but only 28% of firms generated sales outside the UK and Ireland, and only 21% of firms generated sales outside Europe.
- In aggregate, exports ('off the island') were estimated to be worth over €60 million in 2004 (around a quarter of total turnover).

### (c) Collaboration

- The digital content industry is characterised by inherent inter-dependencies between companies within the traditional sub-sectors in terms of converging technologies, skills, expertise, knowledge, networks and markets.
- There are significant industry dynamics that highlight the nature of and potential for collaboration to take advantage of the key inter-dependencies and inter-relationships that exist along and across the digital value chain for the production and commercialisation of digital content, and crucially, how these interact with consumer markets.
- Two-thirds of companies thought collaboration with other companies in the industry was important or very important for growth. Over 80% of surveyed digital content companies

were actually collaborating with other digital content companies on the island.

- Companies most commonly collaborated with other digital content firms on the island, in the film and broadcast sector (57%), with interactive media the second most important sector for collaboration (40%) followed by music technologies (33%) animation production (26%) and games development (14%).
- The main areas for collaboration are content creation (76%), product development (46%), joint marketing (34%), distribution channels (29%), research and development (29%) and intellectual property (24%).

## 4.2 Key Findings of the Case Studies

The data is based upon detailed information from 18 companies participating in the MIDAS Initiative.

- Two-thirds of companies had been in business for less than five years.
- The majority of companies employed one or two people, with average employment being 2.8. The total number of permanent employees was 51 in 2004, but staff levels were predicted to increase by 60% by the end of 2005, with half of the companies expected to hire new staff.
- Fifteen companies reported turnover data for 2004 which amounted to €3.6 million, though two-thirds of companies turned over less than €150,000 in 2004 or in the last 12 months of trading. The outlook for growth was also positive with 62% of companies expecting an increase during 2005.
- Export activity was significantly underdeveloped and even though a number of companies were selling or marketing products outside of the island of Ireland, particularly to North America or Europe, this was primarily marketing activity and not actual product sales. Most sales activity occurred within indigenous markets and only half the companies engaged in some form of cross-border trade.

## 4.0 Key Findings cont.

- Over half the companies expressed the development of export market networks as highly desirable for business growth, illustrating that activity is currently concentrated in local markets. Indeed, more than four-fifths reported that personal networks were a main source of attracting market intelligence and new business indicating that sales and marketing channels are usually internalised, with owner managers generating most of their own business (89%).
- Location within the region was reported as a lifestyle choice with four-fifths of companies citing work-life balance as the primary reason for working from the region. However, nearly as many companies (67%) reported that location had a negative impact upon potential business opportunities.
- The nature and extent of collaboration reveals that while nearly three-quarters of companies do collaborate (72%), most of that activity is along the digital value chain in the form of sub-contracted services. However, in terms of value, collaborative activity is relatively low with 70% reporting that they had either not sub-contracted in the previous year or that activity accounted for less than €10,000.
- There was nevertheless a significant willingness and desire to collaborate and co-operate with other companies within the industry. There was also recognition that such collaborative or clustering activity could help generate new business opportunities (78%), improve access to skills and knowledge (72%), lead to better resources (67%) and enhance networks (33%).

## 5.0 Market Dynamics and Opportunities

There are a number of key structural characteristics within the markets for digital content that impact significantly upon the potential for the industry. These characteristics act either as a dynamic for growth or as an inhibitor to potential growth yet they are central to our understanding of the key economic drivers within the industry.

The relationship between service and product based activities in the digital content industry is often blurred by the perceived, transient nature of the end product, by the convergence of once distinct markets driven by technology, and by the multi-platform demand for new, quality content.

Much of the industry's products serve the entertainment industry and as such acquire a perceived 'prestige' that drives aspiration and ambition for individuals within SMEs, usually at the expense of quality and hence market success. It is a central feature of the industry that for most small companies, revenues and profits are more usually driven by providing services to corporate markets than by providing products to entertainment markets.

The major structural characteristics can be summarised as follows:

- An increasing level of expertise is required to maintain competitive advantage, with companies having to multi-skill and increase capability to offer products and services across a range of different platforms and in converging markets.
- Fragmented markets are driven by the increasing range of distribution and consumption platforms with decreasing consumer bases and access to large consumer groups purchasing homogenous product.
  - Increasing consumer knowledge of value-price relationships.
  - Increasing competition from overseas particularly for products and services requiring specialist expertise.
  - Increasing competition in indigenous markets as access to skills and technologies increases.
- Increasingly difficult to differentiate products and services in markets that are maintaining volume but decreasing in value.
- Traditional markets are driven by lower costs at the expense of quality – functionality and usefulness are more important than aesthetic.
- Similarly, the demand for the versionisation of content to adapt and fit different platforms generates new technical challenges, some largely unproven and at early stage development. Hence end-user markets are often at demonstration stage, and characterised by strong branded content.
  - Versionisation of content for different platforms – it doesn't have to be developed solely for broadcast.
  - Adaptability of content for different industries – it might not be an entertainment product.
  - Identification of new markets for developing content – it might work better in the health sector for instance.
- There is increasing competition along the digital value chain as technologies, end markets and suppliers converge.
  - New models of financing that take account of the potential for return at different points along and within the digital value chain.
  - New product and services developed for clients at different stages of the value chain.
- Innovative activities could therefore be developed that address new processes, new partnerships and new business models as well as new products.
  - The formation and implementation of new business models to exploit content in new ways and to reach emerging markets.
  - New forms of inter-firm collaboration based upon trust, shared vision, shared capabilities and shared intellectual capital.

## 5.0 Market Dynamics and Opportunities cont.

- The capitalisation of networks as part of the intellectual property chain.
- New intellectual property models based upon the potential value of return before commercial exploitation, not upon perceived value at end-user stage.
- The capitalisation of production, distribution and marketing capability through brokerage structures that add value and manage collaborative activity.
- Access to networks is increasing difficult as new content, product and services, driven by technology and consumer demand competes in crowded market-places where differentiation and perceived value is largely untested by new groups of potential consumers with unproven business models.

## 6.0 Actions and Recommendations

This research establishes for the first time some baseline facts about the digital content industry on the island of Ireland. It also analyses the key factors that are influencing the development and future of the industry, with a view to informing regional economic policy about the potential for driving growth. In particular, the opportunity for developing the industry in the East Border region through the MIDAS Initiative and other similar economic interventions has been identified within this report.

There is certainly a case for a specific range of hard and soft interventions at local, regional and national government level to help support the development of the digital content industry in the Republic of Ireland, Northern Ireland or on an all Ireland basis. There is, however, also a range of existing business development programmes for SMEs in general, that are equally applicable to the digital content industry.

Specific interventions are set out as actionable recommendations below:

### (a) Collaboration

#### **Recommendation 1**

The public sector should be proactive in providing access to national digital resources and assets at low cost for the local industry collaborations to license manage and exploit, particularly for export markets.

#### **Recommendation 2**

The public sector should encourage the formation of local consortia or collaborative ventures to bid for public sector contracts for digital products.

### (b) Education, Knowledge and Skills

#### **Recommendation 3**

Subsidised access to specialist intellectual property expertise and legal services should be made available to SMEs in the industry.

#### **Recommendation 4**

There should also be subsidised access to specialist financial expertise for SMEs, particularly focused upon raising investment and capitalising intellectual property rights.

#### **Recommendation 5**

The market intelligence and knowledge generated within the industry should be widely and effectively disseminated among SMEs.

#### **Recommendation 6**

A focused skills development programme should be developed for the industry that provides project management, sales and marketing and business training for SMEs and attracts professionals from other sectors to interact with the industry on a freelance not a consultancy basis.

### (c) Investment

#### **Recommendation 7**

New methods of bespoke and quasi-financing should be underwritten that mix both public and private sector investment including proof of concept or proof of commercial potential, and financing models that can be adapted along the value chain of production.

#### **Recommendation 8**

The current system of tax credits, financial incentives for R&D in both the Republic of Ireland and Northern Ireland should be maintained and refined to take account of the specific nature of R&D for original content and to promote innovation at SME level.

### (d) Intellectual Property

#### **Recommendation 9**

Support should be made available for the development of bespoke mechanisms to share intellectual capital and manage and exploit intellectual property, which favour collaboration across and within the industry.

## 6.0 Actions and Recommendations cont.

### **Recommendation 10**

Financial assistance for the acquisition and management of digital rights to indigenous content for collaborative ventures should be made available to SMEs.

### **(e) Networks**

### **Recommendation 11**

Brokerage structures should be promoted through existing trade bodies and agencies, using experienced

industry professionals to help develop commercial networks and manage collaborative activity.

### **Recommendation 12**

New kinds of support for export development that are more focused upon developing overseas network linkages and distribution channels than upon the traditional sales, marketing and showcasing activities should be provided.

## 7.0 Conclusion

This research has set out to benchmark and profile SMEs in the digital content industry in the Republic of Ireland and in Northern Ireland. The report has highlighted the underlying market dynamics and key developmental factors to inform the development of an effective, coherent strategy to promote regional economic development.

It also provides an analysis of the behaviour and performance of SMEs and sets out a series of actionable recommendations to support and grow the economic, social and cultural potential of the digital content industry.



# INFORMATION...

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