The Toronto Media Cluster: between culture and commerce

Charles H. Davis, Ph.D.

School of Radio and Television Arts, Faculty of Communication & Design,

Rogers Communications Centre, and

Department of Entrepreneurship and Strategy, Ted Rogers School of Management

Ryerson University

Toronto, Ontario, Canada

c5davis@ryerson.ca

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Introduction

In North America, the media industry is highly agglomerated in two 'alpha' media cities, Los Angeles and New York City (Krätke 2003; Krätke & Taylor 2004). Only one ‘beta’ media city has emerged – Toronto, the historical media capital of English-speaking Canada.[1] Beta media cities are far more common in Europe, where they developed much as the Toronto cluster did, as the principal centre of corporate and public media serving a national market. Montreal and Vancouver, Canada’s other major media metropoles, are smaller and more specialized, the former serving the national French-speaking market and the latter providing production services and other inputs to transnational firms in the film, television, and games industries.

As the principal media centre for English-speaking Canada, Toronto benefits from the numerous programs and policies put in place by the federal government to ensure cultural and political sovereignty by keeping telecommunications, broadcasting, and newspapers in Canadian hands. Toronto also benefits from federal and provincial policies and programs that ensure the production and distribution of indigenous media content, which are motivated by the ongoing challenge of sustaining Canadian English-language media alternatives in the face of the U.S. cultural industries' market power. "Publishing Canadian books is a high-risk, low-margin business conducted on the fringes of empire" observes

[1] The world hierarchy of media cities is defined by the number of corporate headquarters in each city across a range of media industries.

MacSkimming (2006), and the same could be said of many other media content industries in Canada's small domestic market.[2] Domestic market share for many categories of indigenous media products - notably those major carriers of culture, feature films and television drama - is very low. At the same time, open networks may provide opportunities to deliver media products to global audiences. Many observers believe that the Toronto media industry is well placed to make the transition from a largely domestic-oriented media cluster to one that is more successfully outward-looking, without loss of its role of informing and entertaining Canadians. In other words, concern about jurisdictional advantage - place-specific strengths which support enhanced industry performance and which are not easily imitated by competitors (Feldman & Martin, 2005) - has joined concern about cultural sovereignty as a rationale for public investment in indigenous media capabilities in Canada.

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[2] In media and many other matters, Canada and the United States “may be the most extreme case of the ‘big nation, small neighbour’ syndrome” (Mulcahy, 2000). Canada's location on the northern periphery of the British Empire, adjacent to the powerful United States, has made English Canadian political and cultural theorists acutely sensitive to the ways media power underpins political and economic power. Deployment of communication systems in the service of empire is the central theme of foremost Canadian economic historian and founding father of institutionalist political economy of media Harold Innis, and English Canadian political-economic theorising consistently displays a preoccupation with themes of cultural dependence, inauthenticity, and commodification (Kurasawa, 2003).

This evolution of media policy rationale has major implications for the Toronto media cluster.

This chapter focuses on the Ontario Entertainment and Creative cluster, most of the firms of which are located in the greater Toronto region.[3] The core components of this cluster are the book, magazine, film/television, music, and interactive digital media industries. After briefly reviewing the economic and social characteristics of Toronto, I assess the strengths and weaknesses of the Toronto media cluster and its constituent subsectors, and I analyse the principal structural characteristics of the Toronto cluster, including its industrial dynamics, market orientation, and extent of regional agglomeration in the Toronto urban area. I then examine the cluster's growth processes, noting that the cluster's overall orientation to the domestic English-language market is its primary *raison d'être* as well as a major constraint to further development. However, unlike "satellite" production clusters which provide low-cost services to Hollywood, the Toronto cluster possesses a full range of well-developed higher-order media business, creative, and technological capabilities across a

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[3] Although branded as part of the *Ontario* Entertainment and Creative Cluster, approximately three-quarters of Ontario's media firms and supporting institutions are in the Greater Toronto Area (GTA) or a somewhat larger highly urbanized area in southern Ontario that includes small cities adjacent to Toronto, notably Hamilton and the Guelph-Kitchener-Waterloo region an hour west of Toronto. In this chapter I refer to the urban region at the western end of Lake Ontario as the "Toronto region" with the understanding that depending on the particular issue at hand, smaller adjacent urban regions find inclusion in, or exclusion from, the Toronto metropolitan region attractive or unattractive.

range of media industries, providing a potential advantage. A second potential advantage of the Toronto cluster is its co-location with strong technology, finance, and business service clusters. A third potential advantage is Toronto's multicultural population, whose entry into the mainstream of Toronto's media industries could improve the cluster's global outlook and enhance the city's branding as a cosmopolitan place. This configuration of assets and capabilities provides a range of potential growth pathways that concurrently meet Canada's needs for cultural sovereignty and jurisdictional advantage.

Situating Toronto's media industries

Over the past four decades Toronto has emerged as a significant population and economic centre in North America, in the process becoming one of the most culturally diverse cities in the world. Half of Toronto's population is foreign-born, and Toronto has one of the largest urban Aboriginal communities in Canada. With a population of 2.5 million, Toronto is the fifth-largest city in North America. Toronto's regional population (the Golden Horseshoe region, straddling the western end of Lake Ontario) of around eight million represents about a quarter of Canada's population and makes Toronto the fourth-largest urban region in North America and the largest in Canada.[4]

The GTA's Gross Domestic Product of $327 billion is comparable to that of Argentina, Venezuela, South Africa, Ireland, or Finland. Toronto's economy encompasses twelve industrial clusters (defined as higher than average industrial location quotient among Canadian population centres): textiles and apparel, food, automotive, plastics and rubber, bio-

[4] For further details see OECD (2010).

medical, ICT manufacturing, ICT services, finance, business services, creative and cultural industries, higher education, and logistics (Spencer & Vinodrai, 2009). In the North American context, Toronto's top twelve areas of relative specialization are publishing and printing, financial services, building equipment and services, power generation and transmission, business services, apparel, information technology, jewelry, entertainment, and automotive manufacturing (Institute for Competitiveness and Prosperity, 2009).

Toronto and Ontario business and political elites aspire to move Toronto up in the ranks of world cities alongside London, New York, Hong Kong, Paris, Sydney, Tokyo, Singapore, Beijing, and Shanghai.[5] A key component of Toronto's globally-oriented economic development strategy is to compete on creativity. In 2003 Toronto City Council adopted a ten-year *Culture Plan for the Creative City* enacting a "Cultural Renaissance" strategy to guide investment in cultural infrastructure and events, including ongoing waterfront development and eight large iconic architectural projects in the downtown core (Jenkins, 2005; Lehrer & Laidley, 2008). In addition to the built environment the city has fostered a variety of popular cultural festivals such as Nuit Blanche, Caribana, Luminato, Pride, and the Toronto International Film Festival. To mentor Toronto's creative upgrading and help make the city attractive to the footloose creative class, in 2007 the city and province helped to recruit the prominent urban thinker Richard Florida to the University of To-

[5] Many scales for ranking cities are available. According to the Globalization and World Cities Study Group and Network (GaWC) Toronto is already an alpha city, but is subordinate to seven alpha+ and two alpha++ cities.

ronto, where he directs his own regional economic development think tank. Florida's message is that if the city-region does the right things now, it can be outstanding and will be rewarded: "Toronto is at an inflection point, to strive for greatness as one of the world's creative cities or to be a really good second-tier city. All the ingredients are here" (as cited in Authenti-City, 2008).

The Toronto media cluster is not the product of unbridled market forces, nor is it the result of cluster policies or creative city policies (each of which is a relatively recent development). It is instead an outcome of decades of Canadian media, telecommunications, and cultural policies that have shaped the evolution of the Canadian media and telecommunications industries and their locational dynamics. The Toronto media cluster probably would not have developed in the absence of longstanding federal policies that ensure Canadian control of telecommunications and broadcasting and, along with provincial programs, provide support to various indigenous cultural industries.[6] Canada has not allowed the domestic broadcasting and telecommunications sectors to follow many other industries into continental integration through trade and investment liberalisation. Adhesion to the UNESCO Convention on Cultural Diversity and claims of exemption for cultural products in trade agreements are additional measures Canada and other countries have taken to ensure latitude for governmental support of indigenous cultural industries (Acheson & Maule, 2004;

[6] In this chapter the term 'indigenous' refers to media firms owned by Canadians resident in Canada, or media content produced by them. 'Domestic' refers to location in Canada. 'Aboriginal' refers to First Nations.

Puppis, 2009, 2008). The Canadian broadcasting and telecommunications industries are subject to national ownership and other regulatory provisions, and indigenous media content industries - film/television, book, magazine, music, and interactive digital media - receive various kinds of public support and protection on the grounds that they constitute an important expression of national cultural identity.[7] Public support measures for “Canadian content” (in the context of screen-based media and music) are based on the nationality of owners of intellectual property and the key creative and executive positions in the production.

Broadcasting receives much greater regulatory attention than other media industries. This is because of broadcasting's historical cultural salience and also because of its policy tractability: the federal government can regulate the broadcast distribution system to ensure investment in, and distribution of, Canadian content in ways that are less feasible in the case of theatrical exhibition of films, retail distribution of recorded music or film, or distribution of content over the Internet.[8] Approximately half the cost of every certified Canadian television program is provided by federal and provincial tax credits and subsidies (Murray, 2002).

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[7] On Canadian cultural policy and the programs that support it see Dowler (1996), Grant & Wood (2004), and Vance (2009).

[8] On the Canadian broadcast-based domestic content regulation regime see Armstrong (2010) and Hunter, Iacobucci & Trebilcock (2010).

Toronto serves as the headquarters for English-speaking Canada's major book, magazine, music, and newspaper publishers, many of its major screen production houses, its principal English-language public broadcasters, and many of its private broadcasters. Of the dozen principal Canadian media conglomerates (Astral, Bell Canada, CanWest, Cogeco, Newcap, Shaw, Quebecor, Telus, Corus, CTVglobemedia, Rogers, and TorStar), the latter four are headquartered in Toronto.[9] Two important public broadcasters are also located in Toronto: the Canadian Broadcasting Centre of the CBC (Canadian Broadcasting Corporation) and TV Ontario, the provincial broadcasting network. All three levels of public policy and program agencies are strongly represented in Toronto, and the cluster encompasses the country's largest concentration of independent screen content producers, specialty broadcasters, supporting institutions, and multitudinous suppliers of "humdrum" services and inputs such as sound recording studios, law firms, post-production services, media marketing and publicity agencies, financial and insurance services, theatrical exhibitors, Internet publishing firms, technical service suppliers, advertising agencies, below-the-line crews and their craft unions, and public and private post-secondary educational programs.

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[9] No single Canadian city, however, predominates as a telecommunications headquarters. Telus is headquartered in Vancouver, Shaw is in Calgary, CanWest is in Winnipeg, and Bell Canada and Quebecor are in Montreal. Decentralisation of telecommunications headquarters in Canada represents a major difference between Toronto's profile as dominant city in the Canadian economy and New York's in the U.S. (Rice, 2006).

Rankings based on various combinations of industries in the Ontario Entertainment and Creative cluster put the city in third place in North America for core copyright industries, artists, and film and video, in fourth place for aggregate Entertainment and Creative industries and music, and in fifth place for publishing, usually following New York and Los Angeles, and in some cases Chicago (A-Line Consultants, 2006). Of greater significance is the comprehensive set of horizontal and vertical media capabilities present in the Toronto cluster, ranging from abundant below-the-line production crews to executive producers, and from screenwriters to media marketers, financiers, and distributors. These capabilities distinguish Toronto from the satellite or “edge” media cities which have emerged to capture outsourced production business (Lukinbeal, 2004; Storper & Christopherson, 1987). Satellite production centres lack creative business capabilities and are unable to create and exploit intellectual property to create value. Canadian media capitals Toronto and Montreal are instead full-function media centres that are comparable to Los Angeles and New York, but smaller.

Measurements of the economic and demographic size of the Ontario Entertainment and Creative Cluster vary widely because of differing definitions of the cluster's composition and boundaries. Nordicity (2008a) calculates the economic size of the Ontario creative sector to be $12.2B, about two-thirds the size of the Ontario automotive sector, one-third the size of the ICT sector, and one-ninth the size of the Ontario financial sector. The Ontario creative sector is about the same economic size as the Ontario energy sector, and much larger than the Ontario agricultural and forestry or mining sectors.

Table 1 compares the book, magazine, film and television, music, and digital media industry subsectors of the Ontario Entertainment and Media Cluster. Based on various published assessments of these six subsectors in Ontario and the percentage of firms in each subsector that are located in the Toronto region, I estimate aggregate revenues of the content-producing segments of the Ontario media industry at $6.2B in 2006-2007, of which around $4.5B in the Toronto region.[10] The six subsectors employ about 56,600 people in Ontario, of which about 40,400 in the Toronto region. The industry supports about 4500 firms in the six subsectors, roughly seventy percent of which are located in the Toronto region. The above numbers do not take into account many thousands of microenterprises or self-employed individuals registered as firms without employees, most of which are located in the Toronto region.

Strengths and weaknesses of the cluster's core subsectors

Ontario's media industries face a number of common challenges - notably, the transition to digital platforms and audience development in an environment of proliferating channels and choices - but they also display significant differences in their strengths and weaknesses.

The Ontario *magazine (periodical) publishing industry* is stable and viable, successfully retaining 41% of the domestic market - a much higher share than other domestic English-language media industries (TCI, 2008). The industry is confident that it can hold its audience in the face of competition from the Internet, and magazine readership is growing. This industry, however, while benefitting from income from subscriptions, is largely dependent on advertising revenues. Convincing advertisers "that Canadian magazines remain a successful way to reach Canadian consumer and business communities of interest" is

[10] All figures are in Canadian dollars.

proving a challenge (TCI, 2008: 7). The barriers to growth of the indigenous English-language magazine industry are 1) the industry's very slender profit margins, especially amongst the smaller publishers (profits are highly concentrated among the larger magazine publishing companies); 2) dependence on advertising; 3) the small size of the domestic market; 4) vulnerability to rising costs; 5) limited access to capital; and 6) the relative low salience of the indigenous magazine industry in provincial creative industry support programs.

The strengths of the Ontario *book publishing industry* are government support programs and the presence of a strong pool of players in the publishing business ecosystem (authors, domestic producers, multinationals, agents, and distributors). Success factors of average strength are exports, professional development capabilities, and intra-industry co-operation. Success factors of below average strength have to do with migration to digital platforms: online marketing, sales, and distribution; innovation in business models; private investment; and copyright protection (Nordicity, 2008b).

The Toronto Film Board's *Strategic Plan for Toronto's Screen-based Industry* (2007) sees the cluster’s film and television production industry as "seriously wounded" by the 35% decline in production spending since 2001 due largely to competition in the foreign location production business and the regionalisation of Canadian audiovisual production spending for political purposes. The report notes that Toronto has been "caught in the downdraft of globalization of the screen-based industry" in which six factors have come together to form a "perfect storm": a paradigm shift in forms of production, distribution, and finance; the hollowing out of Toronto-based screen industry by provincial and federal incentives to regionalise production; intense tax-based competition for service production in many jurisdictions; improvements in purpose-built studio infrastructure in many locations that draw productions away from Toronto; the rising value of Canada's dollar which has undermined Toronto's cost-based competitiveness; and the unavailability of "new methods of financing" which are "required for a digitized screen world." The Toronto Film Board recommends that "Toronto ... focus on becoming the English speaking world's foremost screen arts centre of excellence," "the best place in the world to practise screen arts in the digital age," and urges governments to align their interventions to develop Toronto as the "national centre of screen-based industry excellence."

Most of the Ontario *music industry*'s key success factors are at average strength or below (Nordicity, 2008a). Strengths are government support programs, business ecosystem capabilities, well-developed production collaboration, and stronger export capabilities than those of other Canadian English-language media sectors. Success factors of average strength are physical retail distribution, online innovation, the live music scene, and capabilities for entry-level training. Weaknesses are digital distribution, absence of a media-driven star system, radio airplay support for emerging artists, professional development for mid- and senior-level personnel, cross-industry collaboration, access to private investment, and copyright protection.

The Ontario *interactive digital media industry* encompasses games designers and developers and interactive software, content developers, distributors, and service providers for education, entertainment, advertising/marketing, and social networking. This industry is the largest in economic size of the six Ontario cluster subsectors (around $1.2 billion), but is also the most heterogeneous.

The Ontario *digital games industry* consists almost entirely of indigenous firms - a small number of console game developers and around eight hundred developers of games for personal computers and mobile platforms, with estimated revenues of $70 million in 2006 (Secor, 2008). Nordicity (2008e) assesses GTA's potential in digital games as merely average on the basis of its population of smaller games firms and development studios, labour pool of around 1450 employees, and modest levels of conference buzz, co-located hardware manufacturers, product lines, access to financing, and capacity for collaboration. Ontario policymakers considered that the GTA digital games industry was suffering from lack of critical mass and low international traction due to the absence of a domestic or international market-leading firm in the cluster. Consequently, Toronto was seen to compare unfavourably with rivals Montreal and Vancouver as a site for the expansion of a digital games industry. Unlike Canada's protected media sectors, digital games are not regarded as carriers of domestic culture and are largely unregulated. Therefore foreign direct investment is an option. Noted a consultant,

> Attracting a multinational publisher to open a studio in Ontario in the short term would be highly beneficial; in particular, the greater scale, capital influx, and legitimacy that a large publisher would bring to Ontario could considerably shorten the industry’s development timeline to achieve critical mass. Ultimately, the spillover effects would contribute to organic growth in the rest of the game community (Secor, 2008).

In 2009 the Government of Ontario announced that Ubisoft, the French video game publisher, had agreed to establish a studio in Toronto that would create 800 jobs over a decade, in exchange for a grant of $263 million.

The Ontario *computer animation and visual effects industry* services the domestic and international film, television, and advertising industries. Approximately three-quarters of its revenues come from customers in these industries, and roughly half its revenues are earned outside Canada (Nordicity, 2008c). The industry consists of approximately 40 firms employing 1600 to 1900 people and generating $170 million to $200 million annually (Nordicity, 2008c). Most are small indigenous firms with around two dozen employees and revenues from one to four million dollars, but the sector also includes a few larger firms, including some under foreign control. Firms in this subsector mainly provide services for fees and most do not originate intellectual property. The subsector is very sensitive to rising competition from animation and special effects industries in low-wage Asian countries, and Ontario firms increasingly outsource production to these countries. Nordicity (2008e) rates the quality of the GTA animation and special effects cluster as good. Toronto is the national leader in animation for television, but its post-production sector is not noticeably strong in animation and visual effects services, although Seneca and Sheridan Colleges are recognized internationally as post-secondary animation and visual effects centres of training excellence.

Oligopoly among wireless carriers in Canada has kept the cost of Canadian wireless data rates among the highest in the world, dampening consumer demand for wireless data services and associated content until recently.[11] A 2008 wireless spectrum auction enabled

[11] Most consumers in Canada have been exposed to mobile applications only since mid-2008. The BlackBerry, produced by RIM in Waterloo, Ontario, served mainly business customers.

new entrants into the Canadian wireless industry, creating competition and lowering prices. This is expected to create significant consumer demand for mobile media in the near term. Players in the Toronto wireless industry are positioning themselves to take advantage of this anticipated acceleration of uptake of mobile services among Canadian consumers. The Toronto mobile media subsector consists of a complete business ecosystem: Canada's three major carriers (Rogers, TELUS, and Bell), network operators, content providers and application developers (of which there are hundreds), services, advertisers and marketers, mobile device manufacturers and equipment suppliers, mobile platform providers, and distribution and content creation tool providers (MEIC, 2009). Following the recent spectrum auction, the Canadian government overruled a CRTC decision and will allow greater foreign investment in the wireless sector.

The overall competitive position of the Ontario Entertainment and Creative Cluster is assessed in Table 2. Briefly, the cluster's strengths are its deep pools of creative, technical, and business talent, its fine public cultural and educational infrastructure, and the high potential for variety creation and innovation due to the range co-located media subsectors along with the co-location of strong IT, financial, and business service clusters. The weaknesses of the Toronto cluster are its embeddedness in the relatively small domestic English-language market, weak export performance, undercapitalization of most indigenous media firms, difficulties experienced by content producers in earning revenues with digital technologies, and poor ability to commercially exploit intellectual property. The threats to the Toronto media cluster are the splintering of consumer and advertising markets, competition for service and production business from low-cost production centres, the development of alliances between foreign technology and content leaders and major media conglomerates, and the undermining of the Canadian broadcast-based domestic content regulation regime by open networks. Growth opportunities for the Toronto media cluster are believed to lie in the emergence of creative convergent media which will shift markets toward multitudes of niches serviced by direct distribution of digital content.

The Toronto media agglomeration's cluster properties

Recent research on the Ontario Media and Entertainment Cluster investigates eight 'cluster' properties of the agglomeration: 1) extent of agglomeration in the Toronto region; 2) areas of localization in specific areas of the city; 3) size composition of the subsectors; 4) industrial dynamics; 5) market orientation; 6) self-awareness and shared identity; 7) digital distribution of content; 8) governance (Davis, 2010; Davis, Creutzberg & Arthurs, 2009; HAL, 2009).

Extent of agglomeration in the Toronto metropolitan region. About seventy percent of the Ontario cluster's principal media firms are concentrated in the Toronto region (Table 1). The degree of concentration in the Toronto region is much higher when the smaller firms, associated firms, and support institutions are included. Of the 2214 firms and organizations in Ontario listed in the 2007 Canada Film Directory, the greater Toronto region encompasses 85% of the 337 film commissions and production companies, 83% of the 97 investment, insurance, and funding organizations, 86% of the unions, guilds, and professional and training organizations, 91% of the 113 production services, 88% of the 222 post-production services, and 89% of the 120 organizations in the distribution segment. Segments and specialties of the film and television industry that are least susceptible to clustering are government agencies, exhibitors, indoor and outdoor cinemas, and training and educational institutions. These actors are unaffected by the project-based networking typical in the production segment of the film, television, and interactive digital subsectors of the media industry.

Concentration in specific areas of the city. The Ontario Creative and Entertainment Cluster displays the mononucleated central city-led pattern of clustering typical of art, culture, and media agglomerations (Currid & Connolly, 2008). Many of the firms in the cluster are located in three central neighbourhoods in downtown Toronto: Liberty Village/Queen West, the Distillery District, and Yonge Street north of Bloor, as shown in the case of film and television production and post-production firms in Figure 1. These three districts can be characterized respectively as the hip new media scene, the night-time entertainment district, and the upscale celebrity district.

Size composition. Approximately 10,000 entities were registered as firms in the Toronto CMA in the NAICS 51 series of industry sectors (Information and Cultural Industries) in December 2008. The pinnacle of the Toronto media cluster is occupied by about 30 large firms, each with more than 500 employees, and by about 140 medium firms with between 100 and 499 employees. This group of about 170 firms includes information service providers, program distributors, broadcasters, wireless and wired telecommunications carriers, Internet hosting services, video and motion picture producers, post-production service providers, and news, book, periodical, and software publishers. The middle of the size spectrum consists of about 800 firms with 10-99 employees. At the low end of the size spectrum, the cluster is alive with about 9000 firms with fewer than ten employees, many of which are in fact self-employed individuals who are registered as firms to comply with Canadian tax requirements (Davis, 2010). Like microenterprises in other industries, most of these tiny firms are neither oriented nor resourced for growth. Small size does not imply small production capability, however, since production firms can manage large projects, and even tiny firms partner with larger firms to engage in translocal media production that spans continents (Davis, Vladica & Berkowtiz, 2008; Davis & Nadler, 2009).

Nearly half of the firms in the Toronto CMA in the NAICS 51 series of industry sectors are in the motion picture and video production segment (NAICS 512110), of which 95% are micro-enterprises (firms with fewer than 5 employees, including firms without employees). This fluid pool of video production microenterprises serves the film and television, advertising, corporate, real estate, wedding, and other industries. Toronto also has pools exceeding 400 firms in the software publishing, periodical publishing, post-production, and data processing segments, and in each case microenterprises constitute 70% or more of the firms. If we include graphic and computer design services (NAICS 5414 and 5415), advertising firms (NAICS 5418), and independent artists, writers, and performers who are registered as firms (NAICS 7115), the number of registered media firms in the Toronto Census Metropolitan Area (CMA) in December 2008 exceeds 42,000.

Industrial dynamics. The cluster displays an apparent low rate of new firm formation via spinouts and spinoffs. The proportion of firms that have spun out of another firm ranges from a low of 8% in film and television production to a high of 18% in interactive digital media (HAL 2009). Apparently most of the firms in the Toronto media cluster did not originate in other firms, although their founders may have had previous contractual relationships with other firms. The process of *ab ovo* firm genesis through self-employment has important implications for the development of firm-level capabilities in the media industry, since key initial advantages typically are inherited from pre-entry resources and capabilities (Helfat & Lieberman, 2002). For example, most successful production firms in Toronto's children's television industry were established by individuals with extensive prior experience in the industry at senior executive levels, not by recent graduates of post-secondary institutions (Davis, Vladica & Berkowitz, 2008).

Market orientation. Most Canadian technology-based clusters display highly extraverted forward market linkages to distant regions (Davis, Creutzberg & Arthurs, 2009; Davis & Sun, 2006). In contrast, the Toronto media cluster is quite oriented toward customers in the domestic English-language market. Firms in the six media subsectors in question earn from 94% (books) to 64% (digital media) of their income in the domestic market. Two factors help explain the introversion of the Toronto media cluster: i) Toronto is headquarters to many corporations, so the national English-language market can be served by Toronto-based content producers with local corporate clients, and ii) indigenous broadcasting and telecommunications conglomerates are generally content importers, not content exporters. Improvement of export capabilities of English-language Canadian media content is a challenge that the Toronto media cluster must learn to meet.

Self-identification among firms as members of a cluster. Most of the firms in the core subsectors of the cluster believe that they belong to an Ontario media cluster (Table 1). This suggests some capacity for collective action and collective branding, a sense of untraded interdependencies among cluster actors, and some shared understanding of parameters of public policy for the industry.

Digital distribution of content. With the exception of some areas of the music and interactive digital media subsectors, most subsectors of the Ontario Entertainment and Creative cluster are not yet strongly affected by digital distribution of content. This is in spite of much policy exhortation and many program incentives to promote production and distribution of cross-platform content. It is true that new technologies, as well as unfamiliar aesthetic conventions of interactive media, can present challenges to traditional content creators. The basic problem, however, is that in many cases digital content does not return sufficient revenue to cover its cost of production, and so must be subsidized by other business activities. Firms that produce films or television programs are increasingly expected by broadcaster clients and funding agencies to prepare complementary cross-platform content. Around 20 firms in the Toronto cluster produce only cross-platform content for film or television (Ibid.). In the Ontario film and television production industry, cross-platform interactive media production provided around 2% of the total volume of $897 million in 2007-2008 (Nordicity, 2009).

Governance of the cluster. The cluster does not lend itself to straightforward policy actions or monitoring with a small number of indicators (Davis, Creutzberg & Arthurs, 2009). This makes the strategic management of the cluster a challenging proposition.

The governance of the Toronto media cluster is organized largely on subsectoral lines. Coordination and steering of activities in the Toronto media cluster take place via a governance network centred around federal and provincial agencies, industry associations, educational institutions, and certain key firms. Horizontally, the cluster encompasses a range of subsectors whose principal common features (reliance on copyright and increasing use of digital platforms to distribute cultural content) do not overpower older sectoral patterns of organization. Thus each industry or subsector has its own industry association and often its own subsector-specific programs, legislation, and training institutions. The interactive digital media subsector is exceedingly heterogeneous. Its components (web 2.0 applications, games, advertising, animation and special effects, and mobile applications) mainly have in common the use of broadband and digital technologies. When a new sub-sector such as mobile media emerges, it establishes its own networks and support infrastructure. The result is a very diverse and dynamic local industrial environment that constantly challenges the monitoring, coordination, and institutional capabilities of associations, governments, and service providers.

Furthermore, although the three major Canadian communications conglomerates (Telus, Bell, and Rogers) earn the majority of their revenues from telecommunications services, each is also increasingly involved in broadcasting and other forms of content delivery. The economic and political power of these players is considerably greater than that of content-producing subsectors.

Vertically, the Ontario Entertainment and Creative Cluster falls under the jurisdiction of all three layers of government: metropolitan, provincial, and federal, with the latter responsible for broadcast and telecommunications regulatory matters, tax incentives, R&D support, intellectual property legislation, international trade, immigration, and national industry policy such as it is. The provincial government is largely responsible for education and training, active promotion of priority industries through programs and tax credits, and overall policy leadership in the area of creative industries. The Toronto metropolitan government provides land use planning and real estate development coordination, local promotion, advocacy, certain cultural programs, and various services to industrial actors. Of the three levels, the Ontario Government is the principal architect of the idea that the various cultural, creative, and media industries form an Entertainment and Creative Cluster, and is by far the principal policy champion for the development of a regional cluster for purposes of regional economic expansion (McKinnon, 2008). The core policy and program agency, the Ontario Media Development Corporation (OMDC), whose unambiguous motto is “culture is our business,” is an arm of the Ontario Ministry of Culture.

A relatively small number of educational institutions, public policy and program agencies, trade associations and private firms are network nodes in the Toronto media cluster. In a recent survey, several hundred firms in the Ontario film, television, interactive media, books, and magazine segments were asked to mention specific institutions with which they discuss R&D, marketing, human resources, partnering, or economic development issues. The top ten institutions, accounting for about 27% of mentions, include two public funding agencies (the OMDC and Telefilm Canada), two trade associations (the Canadian Film and Television Production Association and Interactive Ontario), three institutions of higher education (Ryerson University, Humber College, and Sheridan College), and three broadcasters (CBC, CTV, and CanWest).

Specialisation, spillovers, and growth processes in the Toronto media cluster

The Toronto media cluster’s development opportunities involve an innovation landscape and growth processes that go well beyond the model of industrial upgrading which has attracted much attention in research on North American media clusters: induced development through film and television production service linkages. This line of research focuses on the emergence of satellite production centres that have attracted "runaway" or outsourced production from Hollywood (Lukinbeal 2004; 1998; Miller et al., 2005; Scott, 2002; Scott & Pope, 2007). Canada pioneered the tax-incentive-based production services business in the

1980s as a way to bring revenues into the domestic film and television production and post-production sectors, and raise the quality of Canadian film and television production crews and infrastructure (Davis & Kaye, 2010). The foreign location production business boomed in Canada in the early 2000s but has since become very crowded. Presently Toronto and other Canadian cities compete with many new entrants around the world, most of which offer attractive tax and infrastructure benefits, for outsourced film and television production and post-production business from Hollywood (Christopherson & Rightor, 2010; Davis & Kaye, 2010; Miller et al., 2005).

Film and television production outsourcing is motivated primarily by cost considerations and it engages mainly local "humdrum" inputs: below-the-line crews and various infrastructure and service providers, not above-the-line creative talent or high-level business functions. Thus satellite production centres are entry-level clusters, the media equivalent of maquiladoras. Of theoretical as well as practical interest is how satellite centres can evolve from contract production centres to more autonomous creative media clusters by developing higher-order creative, business, marketing, financing, and distribution capabilities. The Vancouver film and television cluster, which depends in majority on foreign location production, is the most closely analyzed case of evolution of a satellite production centre (Coe 2000, 2001; Davis & Kaye, 2010; Gasher, 2002; Scott & Pope, 2007; Tinic, 2005). Foreign location production has declined substantially in Ontario since the early years of the decade, returning film and television production spending in 2008 to its level of ten years earlier (Figure 2). Management of the state-of-the art downtown Filmport studio, a prestige infrastructure project, has been quietly transferred to UK-based Pinewood Studios. Indigenous production, not foreign location production, remained the mainstay of the Toronto film and television industry in 2008.

Investigation of media production outsourcing and other international business linkages helps counter the tendency in much cluster research to attribute competitiveness to local externalities (see e.g. Aksoy & Robins, 1992; Coe & Johns, 2004; Miller et al., 2005). Few authors have examined Toronto's global-local linkages in the media industry, however. Notable among these is Vang and Chaminade's (2008) application of an analytical framework drawn from international business theory to the Toronto feature film industry. They show that innovation cluster analysis using Marshallian and Jacobs frameworks (which emphasize local externalities) cannot explain the failure of the Toronto cluster to leverage its involvement as a production services provider to grow a viable indigenous feature film industry. They recommend a strategy of distinctive differentiation (using the Danish film movement Dogma as an example) as a way to avoid price-based competition. This is an important theoretical improvement, but it needs to focus on more than leveraging service linkages. The Toronto media cluster did not originate as a satellite centre and is not organized primarily to provide production services. In Toronto's model, service production complements indigenous production. Toronto already possesses very well-developed higher-level media creative, business, and distribution capabilities. The Toronto media cluster should in principle already have considerably stronger absorptive capacities than those of a satellite production centre, and in principle these absorptive capacities should facilitate the development of successful media products, including feature films. Yet service production, not media content, remains the major source of Toronto's - and Canada's - audiovisual export revenues. Of the nearly $2 billion in export revenues earned by the Canadian film and television production industry in 2007-08, nearly 90% was earned through service production, not through licensing of intellectual property (CFTPA, 2009). Most of this export revenue is earned by production services firms, not by independent film and television production firms (Davis & Kaye, 2010; Nordicity, 2009). Most of Toronto's export revenues from Canadian-owned IP in film and television are earned in specialized niches, especially children's and youth programming (Nordicity, 2009).

Economics and politics provide the best explanation of how Toronto came to develop strong higher-order media capabilities while experiencing difficulty in climbing the ladder in the international division of cultural labour to positions of higher value-add and more effective value capture in export markets. Canadian producers of English-language content face the economic reality that the relatively small domestic market does not support investment in screen media product development on a scale comparable to the U.S. (Grant, 2009; Puppis, 2009). Linguistic and cultural proximity to the U.S means that American products are, in many cases, legible and appealing to English-speaking Canadian audiences (Olson, 1999). American products enjoy a significant competitive advantage in English-speaking Canada because of their much higher production and marketing budgets, visibility through the star system and consequent attractiveness to advertisers and exhibitors, and availability for licensing in Canada at far below production cost (Grant, 2009). Given the availability of American media products, domestic broadcasters and exhibitors have no economic incentive to screen English-language Canadian feature films or television drama, let alone invest in indigenous production. Canadian broadcasters invest less in Canadian content production than in acquisition of programs in Hollywood, where their arrival in town during purchasing season with generous acquisition budgets is duly noted in the trade press (Vlessing, 2007).

Survival of Canadian film and television content producers would be problematic without subsidy of indigenous production and a regulatory framework that reserves air time for Canadian media content. Even with considerable public support and protection, Canadian English-language television drama attracted just 14% of peak-period viewing of all drama programming on Canadian TV in 2008. Canada produces around 70 feature films annually, but Canadian feature films captured just 1.1% of the English-language market box office in 2008 (CFTPA, 2009). Canada does not impose national origin quotas on theatrical exhibitors, a policy which is directly attributable to pressures and threats from the U.S. film industry and its domestic Canadian allies, the exhibition industry (Magder, 1993; Mills, 2009). Consequently, most of the time Canadian feature films can hardly be found in theatres even by eager cognoscenti. That Canadian feature films are not more readily obtainable on domestic broadcast television, however, is a shortcoming of Canadian television policy (cf. Grant & Houle, 2009).

Conclusion: cultural sovereignty, jurisdictional advantage, and the Toronto media cluster

Over time, American entertainment products have shaped preferences and expectations among English-speaking Canadian audiences to such an extent that American products do not suffer much of a “cultural discount” or loss of economic value when crossing the cultural boundary between the U.S. and English Canada (Hoskins and Mirus, 1998). Thus it is now perfectly normal for Canadians to consume large quantities of American film and television products, especially drama. But the relationship is asymmetrical, and most media content - especially screen content - produced for Canadian English-language audiences does not export well to the U.S. Frequently U.S. distributors require the removal of Canadian markers and signifiers from media products imported from Canada. For example, the film *How She Move,* which was written, located, and shot in Toronto, was edited for distribution outside Canada to portray a generic midwest American city. International co-productions, a favoured internationalisation pathway for Canadian production companies, are particularly prone to cultural discount in the U.S. market. The Canada-France co-produced youth comedy *Family Biz* would have been more appealing to Hollywood distributors had it included fewer Canadian cultural markers and greater product placement and merchandising opportunities (Davis & Nadler, 2010). Toronto's involvement in the production services business has led it to specialize in "placelessness" - a nondescript, shapeshifting locale that can represent other places, especially New York City, Chicago, and Washington, D.C. (Matheson, 2004). For example, the film *Chicago* was shot in Toronto. A *Hulk* film was recently shot on Yonge Street made to look like New York City. The downside is that Toronto rarely gets to play itself. In nearly 700 film and television productions between 1999 and 2006, Toronto played itself only about five percent of the time (Davis & Kaye, 2010). This strategy works for foreign location shoots but it does not help Toronto to develop place-specific advantages based on "look and feel" that brand the city in creative products such as tourism experiences, fashion, cuisine, and live performance (cf. Currid & Connolly, 2008). It is also regarded as a major constraint on storytelling by Canadian screenwriters (Kaye & Davis, 2010).

What is the potential for Canadian content to satisfy American and other audiences? Canadian English-language television producers have known periods of strong demand from cable and syndication markets in the U.S., mainly for inexpensive generic fare (Tate, 2007). But some well-known Ontario media products do appeal to American audiences. The award-winning teen drama television series *Degrassi: the Next Generation*, produced and shot in Toronto, has a distinctive style in its category and has proven attractive in the U.S. The show, which "successfully negotiates the tension between national specificity and universality" (Levine, 2009), was proclaimed by a *New York Times* critic to be "tha Best Teen TV N da WRLD!" (Neihart, 2005). The television police drama series *Flashpoint*, produced and shot in Toronto and featuring views of the city's recognizable skyline, aired in a primetime CBS slot in 2008-2009. Another example of an internationally successful Ontario cultural product is Lynne Johnston's comic strip *For Better or For Worse,* which is read by hundreds of millions of people worldwide. It portrays life in a fictitious small city near Toronto and contains abundant Canadian references and signifiers.

A contrasting business model for cultural production in Canada is provided by Harlequin Enterprises, the world's largest publisher of romance novels and Canada's most successful indigenous book publisher. Harlequin romances are not intended to showcase Toronto, make significant contributions to Canadian cultural sovereignty, or make profound artistic statements, and they are dismissed by cultural nationalists, discounted by literary theorists, and ridiculed by feminists. An analysis of more than 15,000 Harlequin titles finds the eight most prevalent themes to be marriage, reproduction, Western (as in cowboys and ranches), wealth, medicine, Christmas, royalty, and professional or corporate life (Cox & Fisher, 2009). Harlequin sold 130 million books in 2008. The Toronto-based company (owned by TorStar) publishes 110 romance titles per month in 28 languages and has offices in seventeen cities around the world. Ninety-five percent of the firm's revenues are generated outside Canada. Harlequin has led the adaptive diffusion of mass-market romance publishing around the world not by exporting from its mothership in Canada but by establishing separate publishing companies to produce books in local languages, using a network of over a thousand authors (McWilliam, 2009). The romance genre is the product, and the Canadian value-add is to organize the creation of extensive variations on the genre to appeal to tastes in a specific demographic segment.

Multiple assessments of the Toronto media cluster's subsectors, reviewed above, demonstrate that the cluster's foundations of jurisdictional advantage in the protected but relatively small English-speaking domestic market provide limited scope for further growth. Further, the keystone policy instrument ensuring jurisdictional advantage, the Canadian content provisions in the broadcast regime, is losing traction. The tension between policy objectives aiming at cultural sovereignty and those promoting jurisdictional advantage is now an inherent feature of the Canadian English-language media policy regime. The defining characteristic of the Toronto cluster is, however, its unique mix of assets and capabilities which should provide the basis for innovation and expansion. The Toronto new media sector has proven especially resilient (Britton, 2007). Production spending in the Ontario screen industry, after nearly a decade of stagnation, increased dramatically in 2009 (figure 2). Migration to digital platforms and distribution systems, development of specialisations, spillovers within the urban cultural economy, entry of persons from Toronto's multicultural population into the media industry, extensive translocal and transcluster personal linkages, access to a variety of global production networks, and abundant creative, technical, and financial talent provide potential for many new combinations and growth pathways for this promising media cluster.

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Table 1: size and composition of the Toronto media cluster

Media industry	Revenues of Ontario firms	Profit margin in industry	Ontario employment	# of firms and agencies in Ontario	% of firms / agencies in GTA	Exports as % of revenues	Self-identification as part of a cluster
Book publishing	$1.362B[a]	10%-12% [f]	4,729[k]	479[p]	80%[u]	22%[z]	95%[ee]
Magazine publishing	$1.2B[b]	10.9% [g]	9,389[l]	416[q]	61%[v]	6%[aa]	86%[ff]
Film-tv	$2B[c]	8%[h]	23,550 [m]	2,214 [r]	71%[w]	27%[bb]	80% and 74%[gg]
music	$498M[d]	8.6% and 19%[i]	3030[n]	393[s]	72%[x]	16%[cc]	65%[hh]
Interactive digital media	$1.1B - $1.2B[e]	unknown[j]	16,000[o]	950-1050[t]	75%[y]	36%[dd]	73% and 47%[ii]
total	$6.21B		~56,800	~4500	71.8%	21.4%	74.3%

a. 2007 data from Statistics Canada "Book Publishers 2007," Catalogue no. 87F0004X, Table 1, April 2009.

b. Statistics Canada 2006 Periodical Publishing Survey cited in "The Daily", March 19, 2008, as reported in HAL (2009).

c. David Coish (2004). *Census Metropolitan Areas as Culture Clusters*. Ottawa: Statistics Canada. Catalogue no. 89-613-MIE, No. 004.as reported in HAL (2009).

d. Number refers to record label operating revenues, from the OMDC funded "Strategic Study of the Magazine Industry," citing Statistics Canada, "Sound Recording and Music Publishing: Data Tables 2006," March 2008. Ontario music publishers had 2007 revenues of around $95M and Ontario sound recording studios had 2007 revenues of around $41.6 million (Ibid.).

e. The number refers to revenues attributed to interactive digital media. OMDC, *Industry Profile: Interactive Digital Media*. www.omdc.on.ca.

f. Statistics Canada, "Annual Survey of Service Industries: Book Publishers, 2004," Catalogue no. 87F0004XIE, Tables 3 and 6, June 2006, as reported in *OMDC, Industry Profile: Book Publishing*. www.omdc.on.ca. Ontario book publishers had an operating profit margin of 12.5% in 2007 (Ibid.). Nordicity (2004) reports book publisher profit margins of .5% - 6.9% in 2000-2001 and based on Statistics Canada data. The lower range refers to SMEs and the higher range refers to larger firms

g. Statistics Canada, The Daily: Periodical Publishing, 2006, March 19, 2008, as cited in OMDC, *Industry Profile: Magazine Publishing*. www.omdc.on.ca.

h. Nordicity Group Ltd., *Analysis of Canadian Broadcaster Financial Performance and Programming, prepared for the CFT*PA, September 2006, p. 14 (regarding Canadian film and television production companies). Co ish (2006) reports 2.8%.

i. Profit margins of music publishers in Canada in 2007 were 8.6%. Profit margins of Ontario sound recording studios were 19% in 2007. OMDC, *Industry Profile: Music*. Profit margins of record labels are not indicated.

k. Statistics Canada, "Survey of Service Industries: Book Publishers 2005," Table 1, March 29, 2007. as reported in OMDC, *Industry Profile: Book Publishing.* www.omdc.on.ca.

l. Average number of direct and indirect jobs in the industry in Ontario between 1997 and 2005 according to Informetrica Limited et. al., *Economic Contribution of the Canadian Magazine Industry*, December 2006, as cited in as cited in OMDC, *Industry Profile: Magazine Publishing.* www.omdc.on.ca. .

m. FTE direct and indirect jobs. Estimated from OMDC, *Industry Profile: Television,* www.omdc.on.ca.

n. This figure refers to the number of persons employed in sound recording (NAICS 5122) in the Toronto Census Metropolitan Area (average 2003-2007). Source: Toronto Economic Development (2009). Toronto CMA Industry Profiles. Based on Statistics Canada's Labour Force Survey.

o. OMDC, *Industry Profile: Interactive Digital Media*. www.omdc.on.ca.

p. Statistics Canada, "Annual Survey of Service Industries: Book Publishers, 2004," Catalogue no. 87F0004XIE, Tables 3 and 6, June 2006, as reported in *OMDC, Industry Profile: Book Publishing*. www.omdc.on.ca.

q. Number of periodical publishers (NAICS 511120) in Ontario in December, 2008 according to the Business Register. Excludes indeterminate firms (i.e. those without employees).

r. Estimated from the *Canada Film and Television Production Guide* (2007).

s. As reported in HAL (2009).

t. OMDC, *Industry Profile: Interactive Digital Media*. www.omdc.on.ca.

u. As reported in HAL (2009).

v. Periodical publishers (NAICS 511120) in the Toronto Census Metropolitan Area as percentage of periodical publishers in Ontario in December, 2008 according to the Business Register. Excludes indeterminate firms (i.e. those without employees).

w. Estimated from the Canada Film and Television Production Guide (2007).

x. HAL (2009).

y. HAL (2009), p. 130.

z. This number refers to the percentage of export revenues in firm revenues among book publishing firms surveyed. HAL (2009), p. 119.

aa. This number refers to the percentage of export revenues in firm revenues among GTA magazine publishing firms. HAL (2009), p. 99.

bb. This number refers to the percentage of export revenues in firm revenues among film-television production and post-production firms. HAL (2009), p. 83.

cc. This number refers to the percentage of export revenues in firm revenues among music firms surveyed. HAL (2009), p. 51.

cc. This number refers to the percentage of export revenues in firm revenues among music firms surveyed. HAL (2009), p. 139.

ee. The number refers to book publishing firms. HAL (2009), p. 122.

ff. The number refers to GTA magazine publishing firms. HAL (2009), p. 101.

gg. The numbers refer to production and post-production firms respectively. HAL (2009), p. 84.

hh. The number refers to music firms in GTA. HAL (2009), p. 51.

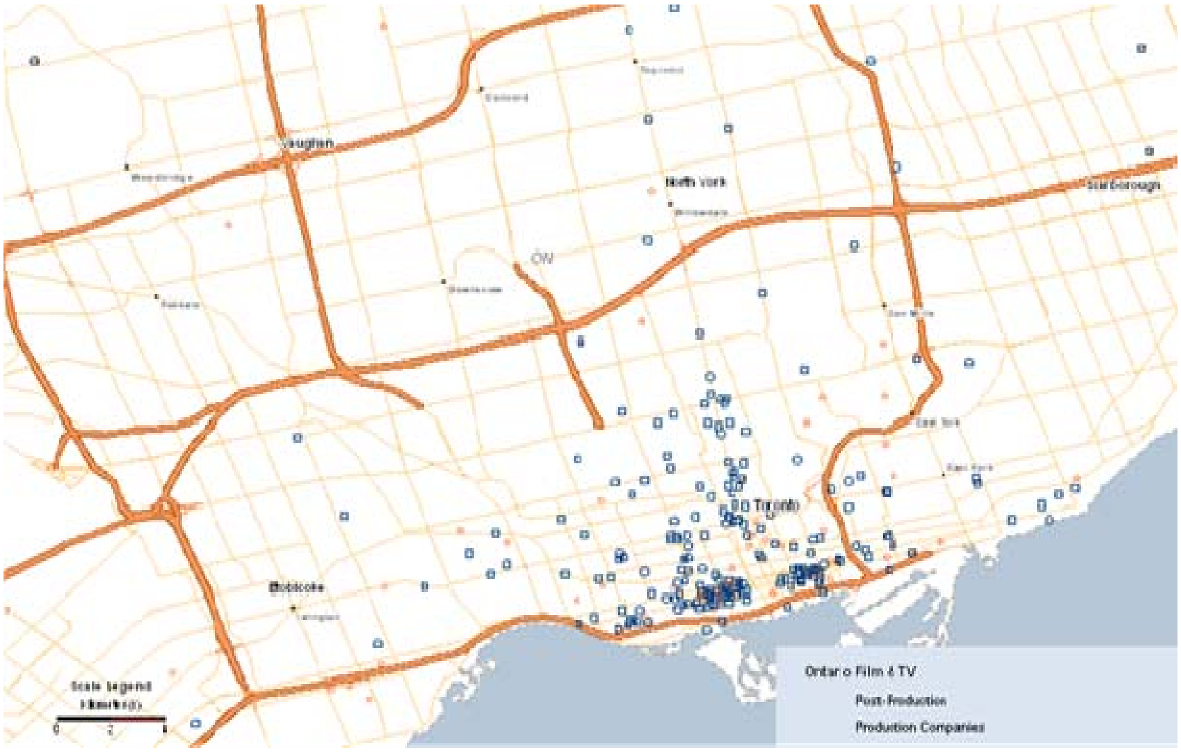
ii. The numbers refer to IDM firms in downtown Toronto and the rest of the GTA, respectively. HAL (2009), p. 140.

Table 2: Ontario Entertainment and Creative Cluster: Strengths, Weaknesses, Opportunities, and Threats

Strengths • High quality creative talent and technical skills • High cluster density: #1 in Canada, #3 • in North America • Optimal mix of sectors represented • World-class educational institutions • “Indie” niche content creators and producers with global market potential • Excellent infrastructure (healthcare, public arts institutions, telecom) • High quality related clusters: Information Technology and Financial Services	Weaknesses • Undercapitalized firms • Small domestic market • Poor technology adoption by traditional content firms • Generally poor global market performance • Poor ability to develop and retain • intellectual property • Loss of top tier talent to more vibrant • clusters • Lack of star system for creative talent • Public funding dependency
Opportunities • Technology disruption of mass consumer media • Digital technology lowering barriers to entry for innovative new companies • Market shifting towards niche content delivered through multiple channels • New models for direct distribution or one-to-one web advertising relationships	Threats • Global players are taking the technology lead: Yahoo, Google, Apple & Microsoft partnering with the multinational media conglomerates • Open network technologies threaten CRTC content regulation regime • Innovative competitor firms can be from anywhere: US, Europe, Asia • Low-cost production centre status is under threat from currency • fluctuations and competing jurisdictions globally • Traditional domestic mass consumer market is splintering • Advertising dollars are splintering with the consumers

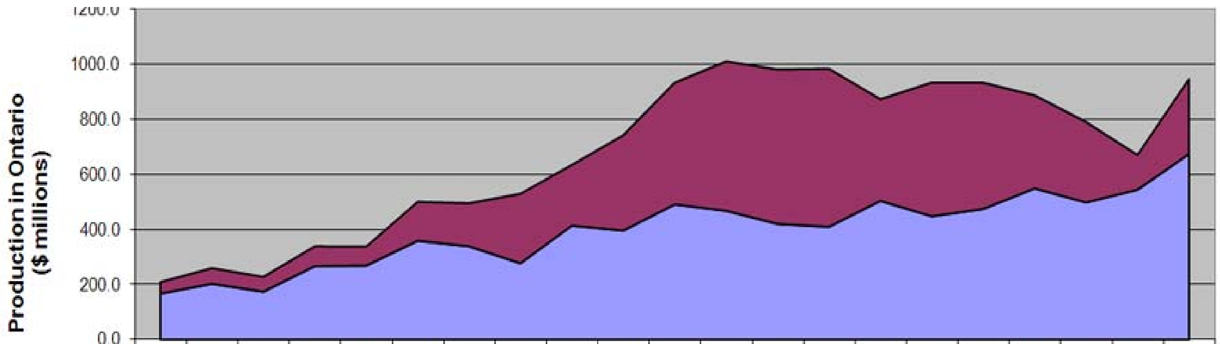
Source: A-Line Consultants (2006)

Figure 1: location of film and tv production and post-production firms in dowtown Toronto



Source: HAL, 2009

Figure 2: Film and television production in Ontario - foreign vs. domestic, 1989-2009



	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total Foreign	42.0	56.8	54.1	72.0	68.9	142.0	157.0	252.8	220.8	347.0	442.7	543.0	561.1	574.4	369.9	486.3	458.8	338.7	292.4	126.6	272.1
Total Domestic	167.4	203.0	174.3	267.0	269.0	359.0	339.0	277.4	414.3	396.2	491.3	468.2	420.5	410.1	504.2	448.2	475.1	549.4	498.6	544.6	674.4
Total Production	209.4	259.8	228.4	339.0	338.0	501.0	496.0	530.2	635.1	743.2	934.0	1011.2	981.6	984.5	874.1	934.5	933.8	888.1	791.0	671.2	946.4

The chart above represents productions shot in Ontario which have received facilitation services and/or applied for tax credits from the OMDC.

http://www.omdc.on.ca/Page3417.aspx