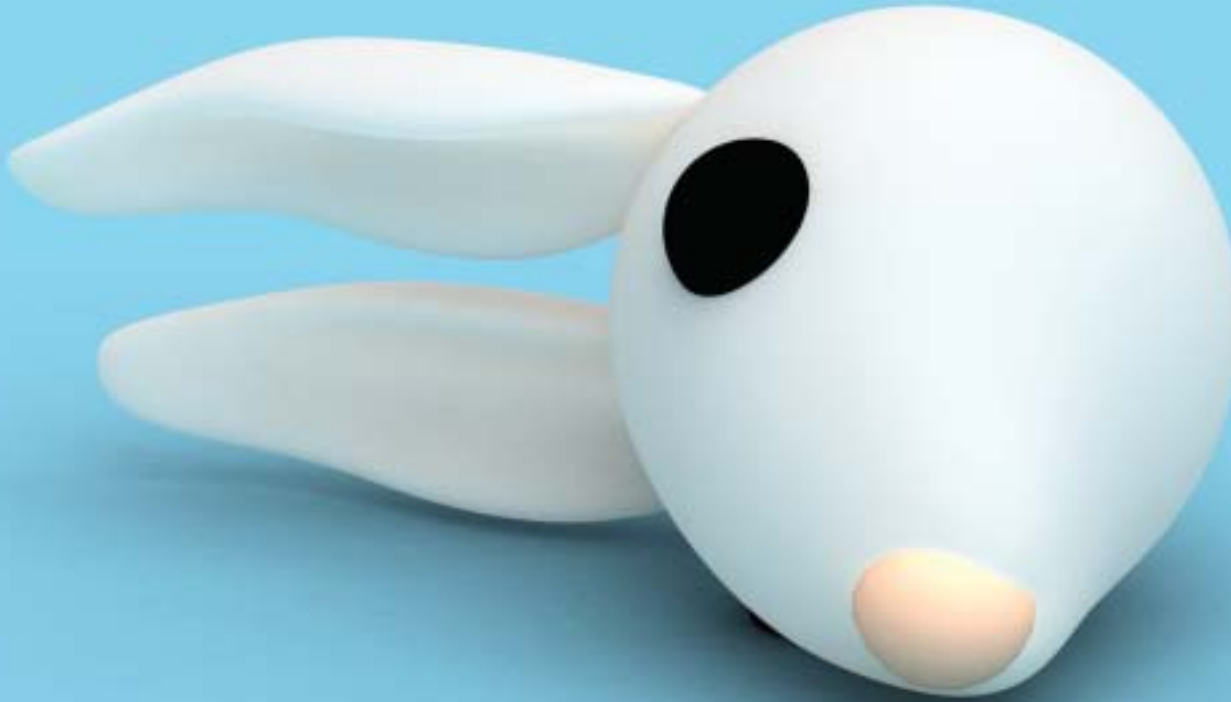




# Digital Inspiration

Strategy for Scotland's Digital Media Industry



## Introduction

One of the abiding truths of all societies is that if you don't innovate you evaporate.

Scotland has a phenomenal track record in scientific, medical and industrial innovation but the towering achievements of the past will not protect Scotland from change in the digital economy. We know only too well that entire industries can disappear in less than a lifetime.

The challenge for each successive generation is to re-ignite our national passion for innovation.

This document addresses an important strand of the modern Scottish economy – digital media – and the way that it is being shaped by technology and increased consumer choice.

The document you are about to read is ambitious. It argues for a step-change in Scotland's engagement with digital media and whilst it recognises the early potential of already successful Scottish companies, it argues for greater ambition across the chain of creativity, distribution and exploitation.

# “ If you don't innovate you evaporate ”



The document provides a market analysis, identifies strengths and weaknesses of the Scottish sector and also acts as a narrative about change and the wave of creative innovation that digital media is undergoing.

Many innovative Scottish companies are mentioned throughout and many more are not. The main purpose is not to promote specific companies but to illustrate the velocity of change, and to provide a snapshot of some of the emergent areas of innovation that Scotland is witnessing.

For example, Cobra Mobile, Digital Goldfish, Dynamo Games and Tag are all Dundee-based companies working in mobile entertainment and games. KeyPoint Technologies is working on systems to improve the quality of mobile media. They are innovating in an era when we expect information and [entertainment on the move](#).

Edinburgh based AdPay.tv is pioneering new ways of using advertising as a form of [online currency](#). Bigmouth Media specialises in search engine optimisation, securing its clients greater visibility online. Both are innovating in areas where [search technologies](#) are challenging conventional forms of advertising. Loc8 Solutions delivers hyper-local mobile entertainment guides whilst Realtime Worlds is

a technology company specialising in [global multiplayer online games](#) and leading in the new entertainment sectors. They are competing in an era where media has become simultaneously more [global and more local](#).

Huzu builds, maintains and sub-licences [social media platforms](#) for communities and global brands taking media and creativity to the heart of business, allowing brands to enrich their customer base or their business networks online.

Mobiqa is a world class company offering [smart ticketing solutions](#) to events and venues in creative and sporting industries where data has value for entertainers, advertisers and venues.

Anarkik3D is innovating in smart 3D [haptic media](#) in an era where entertainment is increasingly interactive and touch-sensitive.

Click is an Aberdeen company building web and ecommerce sites for smart companies in an era of [micro-payment media](#).

None of these companies could have existed ten years ago and all of them are using new technologies to [enrich and enable media and entertainment](#) experiences. Scotland needs more companies like this, it needs companies of greater scale, we need to shorten their

journey to market and increase the value they retain in that market.

To react to the speed of change, the Scottish Government has encouraged the industry to propose achievable actions. This document does that. But it goes beyond its initial brief and advocates a step change in performance. It is longer in length than we originally anticipated because it has much to say, and it is not afraid to point to weaknesses where they exist.

Finally, there is another important point and that is about confidence. Scotland has a remarkable new generation of innovative companies unfettered by the restraints of previous media eras or the problems of spectrum scarcity. An aspiration we have always harboured as a culture has finally come of age – [creativity and technology](#) are now more closely aligned, and that is an opportunity that Scotland cannot fail to exploit.

The report you are about to read is confident about success in an area of innovation where Scotland faces challenges but has a heritage, a reputation and a vision.

This time there is no one to blame.

**Stuart Cosgrove**  
Chair, Digital Media Advisory Group  
[www.digitalinspiration.org.uk](http://www.digitalinspiration.org.uk)



“ A greater and more profitable role for Scottish companies in the chain of distribution and interactivity. ”

## Key Recommendations:

- ➔ increase both the number and scale of digital media companies.
- ➔ a national drive to increase the volume and value of innovative digital media platforms owned or managed from Scotland.
- ➔ a greater and more profitable role for Scottish companies in the chain of distribution and interactivity.
- ➔ a more sophisticated understanding of the value to be derived from digital media as a growing and evolving business sector.
- ➔ a greater commitment to improving the performance of companies in the creative “value-chain”.
- ➔ much more profitable leverage of intellectual property rights.
- ➔ launch a pilot programme of tax and fiscal benefits to support the Dundee Games sector in 2010 to increase its global competitiveness.
- ➔ generate greater investor awareness of digital media as a growth sector and greater investor readiness on the part of emergent companies.
- ➔ cultivate a more ambitious national culture of acquisition, allowing Scottish companies to buy and not always be bought.

# “ To achieve a step-change in Scotland’s global reputation in digital media ”

## Our Vision

Digital Media and its underpinning technologies are increasingly pervasive features of all our lives. Many of the simple things we do everyday are being transformed by digital technologies – from online news and digital photography to music downloads, multiplatform television and social networking, digital media is an integral part of economic and social life.

In economic terms, the rapid development and adoption of new digital communications technologies is fuelling massive global demand for media and entertainment. The scale of this opportunity is clear. The convergence of technologies with new distribution channels creates an unprecedented opportunity for the development of new content, services and platforms in fast growing global markets whose value is measured in trillions of dollars.

For Scotland, these markets offer massive potential. We are known throughout the world for **creativity** and **innovation**. Global media brands such as Harry Potter, Trainspotting and Grand Theft Auto all originated here. The first five instalments of the Harry Potter franchise grossed £2.7bn in global box office sales – more than Star Wars and James Bond – and Grand Theft Auto IV achieved over \$500m in sales in its first week. Due to recurring global demand, Trainspotting, which regularly ranks in the Top 10 British films of all time, was re-issued on DVD yet again, in 2009.

However, despite this success, not enough of the revenue generated returns to Scotland. Scotland needs to not only create and innovate, but also take greater ownership of intellectual property, and of the platforms through which its creative content is distributed.

Scotland has world class companies in all areas of digital media, from international leaders in games development and new media platforms to national broadcasters, successful production companies and some of the most creative digital agencies in the UK. We have global centres of **research excellence**, developing next generation technologies to support ongoing growth in the digital media environment, and a well developed infrastructure supporting company growth and enabling the production and distribution of digital media technologies, content and services.

This combination of creative and technological excellence provides Scotland with a significant opportunity to build a globally competitive 21st century digital media industry. However, despite the formidable headline achievements highlighted earlier, and the significant halo-effect that these global media brands deliver, they do not deliver substantial levels of economic value for Scotland.

Addressing the gap between creative development and commercial realisation is a key theme of this document, and a critical issue for Scotland’s creative economy.

We wish to achieve nothing short of a **step-change** in the performance, reputation and profile of Scotland’s digital media industries, to double the industry in three years and build an international reputation for digital innovation. Step-changes in any sector do not happen by chance, or through ‘business as usual’ processes. They require ambition and focus, with the industry coming together to align effort on the areas where Scotland can be truly competitive.

We will build on our core strengths of creativity, diversity and technological excellence to grow a sector that is **ambitious, diverse** and **innovative**, with a **world class** reputation for quality and creativity with a strong business focus.

**Our vision is to create a high growth, world class cluster of content, platform and technology providers, developing and distributing innovative digital content and technologies to global markets.**

As a **high growth** sector, the digital media industries will outperform the Scottish economy, providing valuable return on public and private sector investment, and making an effective contribution to future economic growth.

Scotland has always been **creative**, and content will continue to be a key driver of growth. However, in the future, a narrow focus on content development will leave the sector vulnerable, and there is a need for Scottish businesses to move up the **value chain** through increased exploitation of rights, greater leverage of distribution, and more sophisticated realisation of value in a perpetually changing creative and business landscape.

Scotland's research base and strengths in **technology development**, with the opportunities for innovative new platforms, offer significant potential for growth and access to wider markets.

The media environment is changing. Unlike previous eras of audiovisual content, the digital media universe is not constrained by spectrum or national boundaries.

The rise of new **interactive platforms** has changed forever the relationship between creation and consumption in digital media, offering opportunities to those that can provide market focused content and services, and the technologies that support their delivery. Major new platforms like iTunes and iPhone apps are transforming the industry as mass market platforms for the distribution of content.

This offers significant opportunities for Scotland, but also raises the bar of international competition.

In this changing environment, success will be driven by **innovation** in technology, products, services and business models, illustrating the diversity of opportunity that new digital markets can offer if businesses are creative in development and exploitation.

A vibrant digital media sector needs a diverse mix of companies, large and small, creating and distributing content and technology across **multiple platforms** to international markets. In contrast to other sectors, and received business wisdom, smallness is not necessarily a disadvantage. Many of the most successful social network businesses of the last three years began, and in some case remain, small, agile and restless in their pursuit of the next innovation.

For Scotland, cultivating the best balance of start-ups and growing enterprises means both a consistent flow of **new businesses** with the talent and ambition to engage at global levels, and more companies of scale. It means all of our companies growing either in the scale of their activity or in the smartness of their business methodologies, and moving up the value chain by raising their aspirations, investing in creativity and innovation and accessing **international** opportunities. It also means more sophisticated leverage over intellectual property and the development of new interactive platforms with the potential for rapid international growth.

Achieving these ambitions calls for commitment and investment from the industry and our partners in academia, government and the public sector through targeted effort in five critical areas:

- **Innovation**
- **Interactive Distribution Platforms**
- **Internationalisation**
- **Investment**
- **Infrastructure**



grand  
theft  
auto IV



© Image courtesy of Rockstar Games,  
distributed by Take-Two Interactive,  
developed by Rockstar North, Edinburgh

“ Media in the 20th century was run as a single race – consumption... but media is actually a triathlon, it's three different events. People like to consume, but they also like to produce and share. ”

Clay Shirky, Professor of Interactive Telecommunications, NYU

“ The iPhone has revolutionised everything. It represents an ‘inflective moment’ for the industry, one that necessitates a whole new approach to development and distribution. It’s all about tiny teams making games rapidly and offering them on iTunes at impulse-buy prices. ”

Neil Young of NGMOCO, and former Head of Electronic Arts, LA Studio

## Global Opportunity

Recent years have seen unprecedented growth in the digital media industries. According to recent analysis, the global entertainment and media industry was worth \$1.6 trillion in 2007<sup>1</sup> and is forecast to grow at an average rate of 7% to 2012, with particularly strong growth in the mobile/wireless, internet advertising and video games sectors.

This growth has been driven by a combination of technological advances and changes in consumer behaviour, both of which have pushed significant innovation across digital media sectors.

Most obviously, the convergence of digital technologies has greatly expanded the range of channels and devices through which consumers can now access content, including digital television platforms, broadband internet, mobile phones, games consoles and handheld devices. While much of this is not new, most of these technologies and devices have now reached or passed tipping points in consumer adoption that make them commercial, mass market propositions.

For example, recent analysis suggests that there are approximately 4 billion mobile phone subscriptions in the world, and half of the world’s households are forecast to have digital television by 2013<sup>2</sup>. In the UK, more than 15 million homes now have broadband connections, with next generation networks starting to emerge, and 87% have access to digital television.

The media environment is now truly digital and global.

It is not just technology that is changing the market environment for digital media. Consumer uptake of digital services like broadband internet and digital television continues to grow. Consumers now have more choice and more control over how, when and where they access media content. They are active users rather than passive consumers, and this shift has created opportunities for new services, as evidenced by the very rapid growth in social networking and user generated content (UGC). In turn, this is challenging existing business models in established sectors such as broadcasting and print media.

There are also important structural and market drivers impacting the industries at global level. The digital media industries vary considerably in size, scope and market focus – from small lifestyle businesses to large multinational corporations and across a range of often disparate sub-sectors and supply chains. All creative sectors need small companies and often the most creative and innovative ideas come from companies that are not scaled and can approach the market from either niche activity or areas of innovation that the mass-market has bypassed. Unlike other sectors where scale is a pre-requisite, digital media in its most creative and innovative form can emerge from bedroom programmers, recent graduates or micro start-ups. In order to find scale, Scotland will always need the ignition of fresh ideas, innovative small teams and new entrants. Some of the

most recognisable global brands of the last few years – the micro-blogging technology Twitter and the social network Facebook – remain relatively small in terms of staff but have significant global reach.

Beyond the substantial opportunities in consumer markets, digital media technologies and applications are increasingly used in a wide range of business-to-business markets and across diverse sectors of the economy. From the use of mobile phones and 3D visualisation technologies in healthcare to games simulations in military and police training settings, digital media is increasingly used to add value in other sectors of the economy, offering further opportunities for the Scottish industry.

Change in music has been stark with digital replacing CDs. Scotland has many successful bands such as Franz Ferdinand, Glasvegas, Snow Patrol and The Fratellis, but no major digital download exchange network. However Linn Products, the world renowned sound technology company, has already abandoned CD systems in favour of streaming technology.

This is a complex and competitive environment, with potential for very significant returns. However, while the scale of the global opportunity is clear, so too is the level of international competition. Emergent economies are not only substantial markets – there are 190m mobile phone users in Brazil alone. The competitive threat is no longer based solely on a lower cost base, but is increasingly focused on higher value skills and creativity.



# Digital Media in Scotland

In 2007, the Scottish Government identified a number of key sectors which offer high-growth potential and the capacity to create economic impact for Scotland. The Creative Industries is one of these sectors, with an emphasis on digital content and technologies.

This strategy is focused on the digital media industries, defined as “those industries that contribute to the production and/or distribution of creative media content via digital channels and platforms.” This footprint ranges from the creation and distribution of digital content in areas such as television, games, music, online publishing, digital marketing and design to newer media applications such as social networking and UGC platforms.

The digital media sector already makes an important contribution to the Scottish economy. It employs 42,000 people, with estimated revenues of £3.16bn<sup>3</sup>, and is typically high value, with strong productivity. Scottish games companies, many of them based in Dundee, provide more than 700 high quality jobs and turnover of more than £20m a year. Growth in the sector has been robust, with employment and turnover increasing by 6% and 35% respectively between 2000 and 2006<sup>4</sup>. Even against the backdrop of economic recession, where advertising and marketing spend has decreased, there has still been significant growth in digital media.

These headline figures though give no indication of the rapid change inside the industry, where some areas are experiencing spectacular growth as a consequence of new technology developments – for example in games where wireless games have grown five times faster than traditional platform games. Opportunities for future growth are exceptionally strong as traditional media industries, such as broadcast and print media, take advantage of the increased revenue available from digital platforms where it is interesting to note that online advertising spending in the UK has overtaken television expenditure for the first time.

## Content Production

Scotland is well represented in content production. In particular, there is a strong and growing cluster of television production companies such as IWC Media, Shed, Matchlight, The Comedy Unit, Tern, Lion Scotland, Keo Scotland, and world class games developers, including Realtime Worlds, Rockstar North, Denki and Tag Games working across console, online and mobile platforms. Historical presence in mainstream publishing is also a strength, although online publishing is comparatively under-developed, less well established and in need of greater growth.

## Production Tools

There is a small but strong cluster of pre-production and post-production companies in Scotland and clear strengths in technologies like CGI and games tools as well as in wider software applications such as Savalas, based in Film City Glasgow, which host the UK’s first Dolby Premier mix theatre, Qmorphic and Codeplay.

## Content Distribution and Services

Scotland has a limited presence in content delivery solutions as well as content services although some notable and innovative companies are emerging such as Huzu, an innovator in social media platforms building communities for international brands.

## Advertising and New Media

Scotland has a vibrant agency sector with a strong reputation for creativity. Interactive agencies are growing, supported by a cluster of creative design and video production firms, and companies like Bigmouthmedia, ISO Design, Dog Digital, Storm, Blonde and TicToc are just some of the smart new companies building strong businesses in this creative space.

## Mobile Solutions and Applications

There is a large cluster of mobile solutions companies, including location platforms, messaging and mobile

payments, and mobile advertising delivery is a growing area in Scotland. As global positioning technology evolves there are increasing opportunities in areas such as entertainment, alternative reality games (ARGs), location specific tourism, adventure services, safety and security.

## Next Generation Academia

The academic community is also a key strength. Higher education feeds innovation, supports new company start-ups and has a wider upgrading influence on the digital media industries, and Scotland has world class provision in this field. Yet again Scotland has global innovators in a sector that is also driving change.

The University of Edinburgh’s Department of Informatics delivers more world-leading research in computing science and informatics than anyone else in the UK – 69% more than its nearest competitor. In Dundee, the University of Abertay was the first in the world to offer degree courses in computer games development, and Glasgow School of Art is home to the second largest art and design research community in the UK, with graduates working in the highest quartile of achievement in industrial design, product enhancement and contemporary art and design.

These institutions sit within a wider academic environment characterised by excellence across all areas of creativity and media production. From the Skillset Screen Academy at Napier University and the Centre for Capitalising on Creativity at St Andrews University to Design and Innovation at Gray’s School of Art and world class computing science research at the universities of Glasgow, Dundee and Strathclyde, Scotland’s higher education sector offers a wealth of research and teaching expertise. At the University of the Highlands and Islands, digital media is transforming the delivery of teaching and learning, though pioneering ICT-enabled models of remote learning across the region.

The further education sector is also very active, with industry focused vocational training available at colleges across

<sup>3&4</sup>This is according to 2006 Annual Business Inquiry data, and is based on selecting digital media sub-sectors from the definition of the creative industries as given by the Scottish Government

“ Scotland has a hard-working set of young companies that are strong in productivity, low in profits and facing a future where the Publisher model is, and arguably has, broken down and alternative enabling mechanisms must be found if we are to retain the talent pool – a talent pool which can benefit all the creative industries if tapped into. ”

David Wightman, Digital Media Entrepreneur

“ Pacific Quay is a perfect location for us. We are next door to our major customers at BBC Scotland and as part of The Hub we are neighbours to the brightest digital innovators in the UK. Our plan is to produce many leading programme brands from Scotland and to develop creative digital content around them for UK and international audiences. ”

Eileen Gallagher, Chief Executive, Shed Productions



© Cobra Mobile, Dundee

the country in subjects ranging from computer animation, digital film production and design to music technology, web development and online media production.

#### Infrastructure and Support

The supporting infrastructure for digital media in Scotland is generally strong. Broadband provision is widespread, and new investment in the physical infrastructure at Pacific Quay in Glasgow and Seabraes Yard in Dundee will help to build high profile concentrations of digital media activity in key locations, whilst recognising another key dynamic of this industry. Most start-ups gravitate to areas of cities or communities where cheap rent, DIY facilities and existing creative communities are available. This is an ‘organic’ process which should not be over managed.

#### Business to Business Opportunities

Whilst Digital Media is a market in its own right, Scotland has core strengths in leading edge research that makes

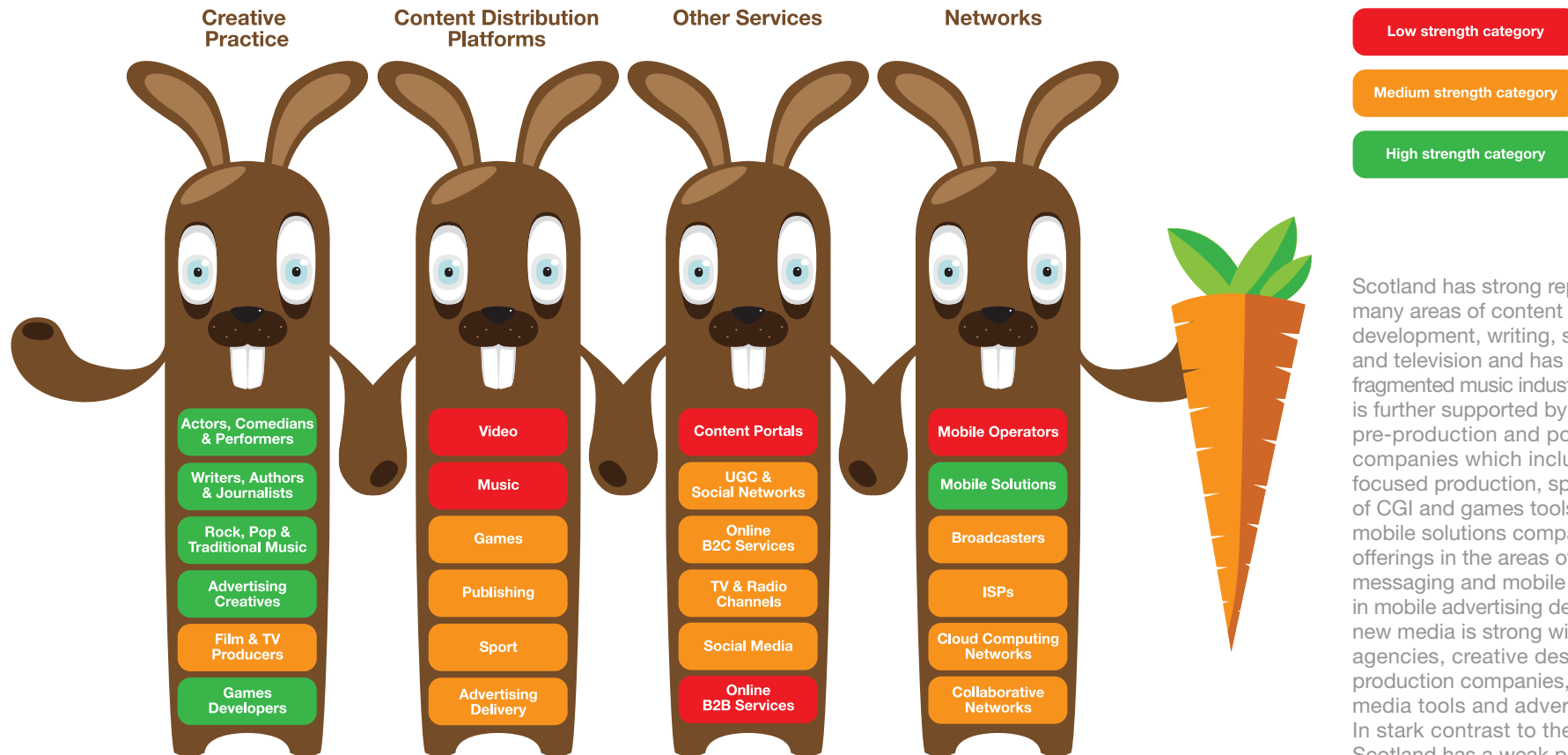
use of digital media technologies and applications in novel industry settings. The Kelvin Institute’s Tell-A-Story project makes use of interactive digital environments to provide a rich context for child psychologists to make patient assessments, and the Digital Design Studio at Glasgow School of Art uses 3D visualisation to provide digital design solutions for clients such as Ford Motor Company and the BBC. The ICEPhone, developed and designed in Scotland, is a mobile phone with accompanying software to support medical emergencies and is used in military and medical settings, and the University of Abertay’s Shoot/No Shoot game is used by police as a training simulator before being faced with problems in the real world. Money Dashboard is using digital media and interactivity to provide smart tools for personal finance management. The IVES project, a collaboration between HI-Arts, Blue Compass and The List, creating a data set with a unique ID for arts venues, is using digital innovation to assist venue owners.

The business applications of digital media are many and diverse, opening up substantial global market opportunities. However, not enough is known about Scotland’s strengths in these areas, and further work will be required to provide an audit of those areas where digital media and interactivity are transforming other sectors. Recognising that there may be opportunities in other areas, and pursuing this further, will be an important early action for the IAG and its partners. It may also be that value is unnecessarily ‘leaking away’ from Scotland because companies are unaware of the strengths of digital interactivity on their own doorstep.

The relative strengths of Scotland’s digital media industries across the industry supply chain are summarised in the schematic map on the following page.



# Digital Media Industry Map



Scotland has strong representation in many areas of content production, games development, writing, some areas of film and television and has a significant, but fragmented music industry. Content production is further supported by a strong cluster of pre-production and post-production companies which includes technology-focused production, specifically in the areas of CGI and games tools. A large cluster of mobile solutions companies exists with offerings in the areas of location platforms, messaging and mobile payment and growth in mobile advertising delivery. Advertising and new media is strong with interactive design agencies, creative design and video production companies, and growth in social media tools and advertising solutions. In stark contrast to these strengths, Scotland has a weak presence in content delivery solutions and distribution platforms. Ownership of content delivery is key to future economic growth.

“ By creating something worthwhile which people want to be a part of, perceived value can translate into real value and sustainable business. ”

Joe Tree, Blipfoto



© WeeWorld digital avatars

## Moving up the Value Chain

Scotland's long heritage of creative excellence and innovation is internationally recognised. This is a key asset, and the industry must work to ensure that this international reputation is leveraged to the benefit of the whole media sector. The theory that it was the Scots who "invented the modern world" is reassuring as history and national nostalgia but it is a story that needs to be constantly updated. Invention and innovation are not the same – Scotland has always produced world class creative talent and inventions but it has traditionally lacked capability in distribution, has a persistent supply chain gap and faces some significant strategic challenges.

Due to significant barriers to entry, and spectrum scarcity, distribution has historically been the preserve of large media companies, publishers and broadcasters. However, in a converged Web 2.0 marketplace, there is real opportunity to move up the value chain by developing new **interactive platforms** with the potential for rapid international growth – Facebook, Spotify and Flickr are all examples of this. Companies like WeeWorld, HubDub and Realtime Worlds show that Scotland also has the indigenous capacity and expertise to develop these platforms. Platforms like these can operate on a global scale from a base anywhere, and anchoring their **centre of gravity** in Scotland is an important strategic goal.

Scotland's digital media sector is dominated by very small companies and whilst this can have valuable competitive advantages, the lack of larger businesses is a strategic issue for the sector as a whole. In addition, while the supporting environment is generally strong, digital media companies are not always well connected to the sources of **innovation** and **investment** that can help the sector to move up the value chain.

In other prominent Scottish sectors such as life sciences, there is a clear and unambiguous relationship between industry and the research base. In digital media this is less clear cut, it can seem patchy and needs to be further developed. Links between the company base and research and technology expertise, particularly in the academic sector, are poor, and the uptake of traditional innovation support schemes is relatively low. Boosting innovation is crucial, and addressing these issues will be an important objective.

The sector is also under capitalised and, in particular, there is a lack of specialist investors with knowledge of digital media markets. However, not enough digital media companies are 'investor ready' and this has a constraint on deal-flow and sector growth. Equity investment is necessary but in itself is not sufficient to catalyse sector growth. There is an accepted need for more project-based

finance to meet the needs of start-up and early stage production companies.

New business planning methods, business models and routes to profitability are also opportunities for significant innovation.

While the scale of the global opportunity in digital media is clear, Scotland faces intense international competition, and current levels of engagement in international markets by Scottish companies are variable. Scotland also has limited profile in media-related inward investment, and this affects the sector's links to global supply chains.

A number of key opportunities for growth can be found within the digital media sub-sectors. In television, for example, recent broadcaster commitments to increase commissioning spend in Scotland offer growth potential, and greater connections between technology providers and creative producers can drive development of new media opportunities<sup>5</sup>. The opportunities of exploiting digital media technologies in other sectors, such as life sciences, energy and tourism, should not be underestimated, and the exploitation of strengths across sectors needs to be explored more fully.

Finally, digital media has substantial potential to add value across a range of other sectors from digital design

<sup>5</sup>Building the Platform for Success: Economic Development Strategy for Scotland's Broadcast Sector, Scottish Enterprise, March 2009



© Canongate's world class titles go digital

in advanced manufacturing to the use of 3D visualisation technologies in healthcare, from geological visualisation to simulation of fluid flow in oil and gas. Better connections between the digital media sector and the wider economy can help realise some of these opportunities. There is a perception that too much value unnecessarily leaves Scotland when the skills and creativity exist here, but may be 'invisible' through either lack of profile or under-capitalisation in areas such as marketing and sales.

The key strengths, weaknesses, opportunities and threats for Scotland's digital media industry are summarised on the following page. Scotland must engage with these challenges and ensure maximum impact for its investments.

What is clear about the Scottish digital media sector in 2010 is that companies are emerging in virtually every area of interactive technology and creative platform activity. There is a real strength in this diversity, and there is recurring evidence of a nation pursuing value in innovation, by exploiting platform development more aggressively and by finding new ways of taking services, products and experiences to global audiences and customers.

For example:

- ➔ **Brightsolid**, the online genealogy company has acquired Friends Reunited<sup>6</sup>, positioning itself to be the UK's leading genealogy business.
- ➔ **Canongate Books**, which secured the world rights to Barack Obama's books, plans to digitise its entire back catalogue, making 450 titles available as downloadable e-books.
- ➔ **Clash**, the dynamic independent media group, has established award winning platforms in print and digital media offering independent music media to global consumers.
- ➔ **110sport.tv**, the sports management firm, has moved into pay-per-view online television with a deal to broadcast the Shanghai Masters snooker event, innovating in a niche pay platform with great potential in the burgeoning South East Asian markets.
- ➔ **Indigo Vision** is a leading manufacturer of end-to-end video security solutions with installations in locations such as airports, banks and casinos using digital media innovation for private and public space security.
- ➔ **ISO** recently launched Central Station, the world's first dedicated online white-studio for student artists,

taking social networking into a richer media space. Based in Glasgow, the focus for expansion is art-rich cities like New York and Berlin.

- ➔ **Realtime Worlds** launched its multi-player phenomenon APB, creating a global entertainment brand with Electronic Arts, whilst advancing the company's own community-rich global platform development strategy.
- ➔ **Red Kite** is a leading animation studio developing and selling properties across all key digital animation genres, for children and young people of all ages.
- ➔ **Tern Digital** develops multiplatform 'transmedia' content from children's to drama to gaming including the community Slabovia TV, and the Screen Media studio team.
- ➔ **TotalizeMedia** is a pioneer in interactive design and develops electronic products and state-of-the-art 3D graphics creating commercial simulators based on gaming technology.

These companies are indicative of a sea-change in technology-enabled creativity in Scotland, and in many cases they are innovating in new markets, new territories and with new business models. Scotland expects them to succeed, thrive and influence others.

<sup>6</sup>Subject to clearance by the Competition Commission

# Scotland the SWOT

## Strengths

Good company base with leading business key segments.  
Research strength in games, infomatics and digital design.  
Strategic focus.  
Industry leadership.  
Reputation for creative excellence.



## Weaknesses

Not enough large companies.  
Weak presence in distribution.  
Limited focus for content topics.  
Low ambitions for growth in many companies.  
Lack of specialist investors.  
Poor connections between research and company base.



## Opportunities

Infrastructure investment.  
Next generation technologies.  
Barriers to market low.  
Digitally sophisticated customers.  
Links to exploit digital media in other industries.  
Regional spend targets for broadcasting.



## Threats

Other nations and regions investing heavily in the sector.  
Lack of supply of good propositions.  
Distribution and large companies not embedded in the local economy.  
Talent competition.

“ Market segments have opened up from health and education, to security, military applications and transport.”

## Innovation

Innovation is the lifeblood of the digital sector and is a fundamental requirement for successful engagement in fast moving global markets. Rapid innovation is transforming the potential for the sector, with speed to market and implementation key to success. Innovation in digital media is driven by technology development, by changes in markets and by increasingly demanding, sophisticated and digitally aware consumers.

Innovation is the successful exploitation of new ideas, and can take a number of forms in the digital media industries.

### Technologies

Technology based innovation in the digital media industries is widespread and complex. From games hardware and development tools, to production and post production technologies in television, and the vast capabilities offered by Web 2.0 applications, digital media continues to be a leading technology exploiting sector. The UK Technology Strategy Board is making significant investments in the sector and Scotland's digital media sector must ensure it is positioned to take full advantage of these opportunities.

### New Channels

The proliferation of media channels creates the opportunity for content to be repackaged and re-engineered for exploitation in different platforms, leading to a blurring between broadcast, online and mobile services and content. The most successful companies use all channels to leverage maximum value.

### New Markets

As demonstrated in the earlier examples, digital media has moved beyond information and entertainment. Diverse market segments have opened up from health and education, to security, military applications and transport.

### Business Models

New markets and channels including online distribution and production are challenging traditional business models, and the opportunity to capture and exploit intellectual property. Creative businesses in the digital media sector are finding new ways to capture and sell value. Scotland should be open to the active engagement of 'amateur and hobby based' web media. Good businesses have grown from passions and Scotland should always seek to professionalise and support 'bedroom' companies. This is an area of innovation that established media and traditional investors struggle to fully comprehend although it is increasingly clear that professionalism can have profitable roots in creative amateurism.

### Communities

The increase in online communities and social networking activity offer opportunities for testing, launching and even co-developing new products, taking open source approaches into all aspects of digital media and again democratising access to distribution, allowing new entrants and outsiders to break into the market.

## Platform and Business Model Innovation

The internet allows media companies to have a more direct relationship with consumers. One of the most common forms of new digital media is **participation**, where the audience is both consumer and creator. For example, the Scottish genealogy site Findmypast.com – part of the brightsolid group – allows you to discover your family history and build your family tree. Findmypast.com has millions of UK family history records, from 1538 through to 2006 and allows users to view births, marriages and deaths; migration, military and parish records to participate in social and family history, building their family tree and exploring their own heritage.

Findmypast.com was created by brightsolid, a Dundee based company which is a leading independent provider of IT business services including utility and cloud computing services. The company's online publishing platforms are an example of world class expertise, building an innovative online business around 'people and places' which is based in Scotland but global in its reach and future potential.

findmypast.com  
family history in the making™



Old Image. New Media.

“ Developing, acquiring and anchoring new interactive platforms in Scotland is at the heart of our strategy, and will be a key emphasis for investment and support. ”

## Interactive Distribution Platforms

In an age of spectrum scarcity, media was mainly controlled by large broadcasters and publishers with strong market power, and Scotland has long lagged behind its competitors in terms of access to distribution. Now, the freeing up of the digital spectrum and the rapid growth of the global internet are fragmenting distribution, creating opportunities for the development of new channels and platforms that provide users with the opportunity to interact with each other and with media content in new and innovative ways. These channels are not constrained by national boundaries, and the global success of platforms such as Facebook in social networking and iTunes in digital content distribution are clear examples of this in practice.

In this environment, the large media incumbents no longer hold all the cards, and creative media companies have the potential to create, own and control **interactive distribution platforms** through which users can engage with new media content and technologies.

This is a substantial opportunity for Scotland's digital media industry to shift away from solely producing content for others to distribute, and to move up the value chain by exploiting and leveraging distribution and rights. Rather than rescuing struggling traditional models of distribution, this is about seizing the opportunities to take greater control of distribution in an increasingly complex yet open media environment.

Although Scotland has yet to produce an interactive channel of the scale and global reach of Facebook or

iTunes, companies as diverse as blipfoto, Hubdub and Realtime Worlds are all creating next generation media platforms in different fields – online photo diaries, news prediction and massively multiplayer online games respectively – and brightsolid recently acquired Friends Reunited, enhancing its position in online genealogy. Developing, acquiring and anchoring new interactive platforms in Scotland is at the heart of our strategy, and will be a key emphasis for investment and support.

### Prioritising Investment

The creation of new interactive distribution channels and platforms will be a critical element of Scotland's strategy, and will be a priority area for investment.

### Marketing and Promotion

It is not enough simply to develop a channel through which users can access media content – marketing is essential in a crowded and competitive landscape, driving users to the site and developing viable revenue streams. Expert support and advice for innovative marketing strategies will be a critical component of success in this area.

### Skills and Talent

Successful development in this area requires the effective combination of creative talent and technological ability, and ensuring a consistent flow of appropriately skilled people is an important priority. Marketing is essential to grow the platforms, and as such digital media marketing is itself a highly innovative space that needs to flourish.

## Owning Distribution

Realtime Worlds is a software technology company specialising in the entertainment sector. The team has a long history of creating some of the world's best selling video games, including the 2007 double-BAFTA winning hit Crackdown, and the global hit franchises Lemmings and Grand Theft Auto.

Spotting the huge opportunity in online games at an early stage, Realtime Worlds' next outing is the highly-anticipated All Points Bulletin™ (APB) which they will bring to PC in 2010. The game takes the universal theme of criminals and enforcement and brings it to a persistent, open world multiplayer setting in a modern, crime-ridden city.

For this new venture Realtime Worlds announced an exclusive marketing and distribution agreement for North America and Europe with Electronic Arts. What is important for both the company and for Scotland's creative development is that Realtime Worlds has pursued a strategy which gives the company more control over distribution.



realtime  
worlds



“ In a global economy in which knowledge is the key economic resource, it is crucial that Scottish companies can trade and create new knowledge assets in collaboration with world leaders. ”

## Internationalisation

Digital media is a fast growing, global industry, with massive potential for further expansion in established and emerging international markets. Many parts of the sector have to be ‘born global’ and engage internationally from the outset. As well as being linked to external markets, Scotland also needs to be attractive to investment from global companies if the sector is to sustain long term growth.

### Exporting

Although less well recognised than traditional manufactured goods, many parts of the digital media industry are actively engaged in exporting products and services. Internationalisation is often about accessing global supply chains and selling to business customers, and market intelligence is key. The online environment is inherently international, offering global platforms for interaction, rather than specifically ‘exporting’.

### Foreign Direct Investment (FDI)

Historically Scotland has not benefited from the global growth in media FDI. A clear strategy for attracting investment is required, aligned with knowledge about the sector to target specific supply chain gaps. Embedding inward investors in the local sector is essential to anchor activity in the Scottish economy. Mergers and acquisitions are also a potential source of growth, bringing in key aspects of supply chain development.

### International Collaboration

Collaborative networks and international partnerships are increasingly prevalent models across the global media

industries, and are closely aligned to the changes in innovation models. This could be international co-production in film and TV, content and technology collaboration to develop new platform opportunities, or engaging users across the world in product and service innovation.

### Knowledge Collaborations

In a global economy in which knowledge is the key economic resource, it is crucial that Scottish companies can trade and create new knowledge assets in collaboration with world leaders. Knowledge collaborations such as the Edinburgh Stanford Link provide Scotland with essential links to global leaders in technology and content development, adding significant value and supporting access to wider market opportunities.

### Digital Media Diaspora

The creativity and expertise of Scots in the digital media sector is not restricted to Scotland. Many international companies have significant players with roots and ties to Scotland. Opportunities for catalysing that diaspora for the success of the digital media sector in Scotland will be explored. Online social networks have much to contribute here, and real world networks like Global Scots can play a more affirmative role too. There is an opportunity for Global Scots to diversify from its traditional heartlands in North America and tap into alumni and affinity-Scots, especially in digital media centres in Bangalore, Singapore, Korea and China, where digital innovation and mobile media is thriving.

## Experiment then Commercialise

Mount Rushmore and Microsoft are two iconic images of American success but they also tell a story of smart collaboration in the digital media industries in Scotland.

Recently, The Digital Design Studio which is part of Glasgow School of Art, announced a project to create 3D documentation for world heritage sites around the world. Work is now being carried out at Mount Rushmore in the USA that will produce a 3D model to preserve the deteriorating granite surface of the sculptures. Meanwhile a spin-out of the University of Edinburgh’s world famous Informatics Department, Wolfson Microelectronics, is a leading supplier of electronic components highly acclaimed portable media player, the Zune HD.

The Digital Design Studio is a leading edge research centre which has established a world recognised reputation for advanced 3D digital technologies focusing on application areas in the automotive, architectural, education, medical, TV and entertainment and oil & gas industries. Edinburgh Informatics – the study of how natural and artificial systems store, process and communicate information – draws on computer science, artificial intelligence, linguistics, cognitive science, neuroscience, psychology and biology.

All of these areas of advanced computer-aided innovation are stretching and re-defining the very term **digital media**, presenting Scotland with unrivalled opportunities to experiment and to commercialise new ideas.

# Digital Coiffure



# Investment

Achieving scale and long term growth requires good ideas, strong management and smart investment. Financial incentives have been used to good effect elsewhere, most notably in Canada through very competitive tax breaks for games development. Work by the UK trade body for games development, TIGA, estimated that extending the tax benefits currently available for film production in the UK to games development could create 1,400 new jobs in the sector and increase investment by games studios by £146m. Given that Scotland punches above its weight in games, measures such as this could disproportionately benefit studios in Scotland.

It is recommended that the Scottish Government gives urgent consideration to a workable package of fiscal benefits that can give the games industry in Scotland greater competitiveness. Whilst ministers have made it clear that they do not intend to use their power to vary income tax during the lifetime of the current Parliament that would not preclude a pilot programme of work to be launched in 2010 which could identify an achievable package of actions that might include tax variation and non-domestic rates relief. The latter have previously benefited other key regional industries, such as north-sea fisheries. Any actions would be expected to harmonise with any changes to tax variation brought about by further devolution of powers, and any announcement that may emerge from the UK government which is currently considering the prospect of extending the tax benefits available to feature films, to include games.

Scotland also needs to develop a sophisticated investment culture in the digital media sector. Although the digital media industries have been successful in attracting investment in the past, this remains a challenge for early stage companies, particularly in an increasingly risk averse environment. Another innovative Scottish sector, Life Sciences, is light years ahead in this respect.

## Investment Readiness

Even with a suitable supply and variety of investment options, businesses must be investment ready. The importance of this cannot be under-estimated, as much of the investor decision is based on the quality of the management team and the investor's belief that they can deliver.

## Entrepreneurship

Scotland's digital media sector must encourage entrepreneurship and have the capacity and ambition to rise to the investment challenge. This means focusing creativity on commercial opportunity at an early stage, and nurturing and supporting entrepreneurial talent through appropriate advice, support and investment.

## Content versus Platform

Many digital media companies are focused on content development for specific projects. As such, equity investment can be a challenge, even where intellectual property is seen as protectable and exploitable. Increasingly, the act of creating content often involves the development of enabling platforms to support distribution across new channels. Convergence is blurring these lines, and a range of investment options is needed to support new and emerging business models.

## Knowledgeable Investors

Linked to the different types of investment is an awareness and understanding from the investment community of the potential returns from the digital media industry. Scotland has to cultivate a more informed investor base in order to exploit the opportunity in digital media. Knowledgeable investors are a key element in successfully building a suitable supply of investment capital, and the right investors will bring valuable expertise as well as finance.

## Mergers and Acquisitions

Scotland needs to become more acquisitive in digital media and needs to build the investment support vehicles to enable this. So far the levels of acquiring or merging with target companies at home and abroad to deliver scale are relatively low, and investment support to change that profile is required.

## Visibility to investors

In order to attract investment for digital media companies there must be seen to be a critical mass of investable propositions flowing from the Scottish industry. As such, investors will be attracted to multiple opportunities and Scotland will be seen as a vibrant growth area. Showcasing Scotland's potential in this area will be important, and we wish to create a window for the promotion of Scottish digital media opportunities to international investors. Similarly, the public sector needs to realign itself to understand the speed and dexterity of the digital media sector and encourage appropriately responsive investment provision.

## New Finance

Mainstream business finance is an important catalyst in all dynamic sectors of the Scottish economy. But having access to equity from venture investors is not always the best mechanism for growing small and volatile businesses in new markets. Scotland is growing and developing a range of new investment opportunities for the digital media sector to complement its strong angel investor syndicates.

The Digital Media IP Fund, a partnership between Scottish Enterprise and the Creative Scotland Innovation Fund, will stimulate the development and production of innovative, non-broadcast interactive content that encourages co-investment from the private sector and is capable of generating revenue for Scottish based companies. Significantly, the fund does not take an 'equity' stake allowing companies to retain the greatest share of their IP rights, whilst testing companies to submit a robust business plan. The fund will provide £3m, which combined with a further £3m from partner investors, will provide a total package worth at least £6m over three years for the sector. This makes it the biggest non-equity based innovative digital media fund in the UK.

Channel 4 has launched "4IP", an innovation fund which has made several investments in Scottish projects and has committed further new money to digital media in 2010, in line with its changing public remit. So far, the broadcaster has committed up to £20 million on a pilot basis across the UK.

Par Equity, which coordinates an angel investment syndicate based in Edinburgh, launched a new venture capital fund, Par Innovation Fund and has made several early investments in digital media.

Finally, digital media companies, such as Realtime Worlds, NX Vision, HubDub and Kowalski TV, have secured investment through the Co-Investment Funds managed by Scottish Enterprise in partnership with private sector fund managers. These funds recently welcomed Channel 4, STV and Par Equity as investment partners.

Boy meets girl



 MUSIC

“ For Scotland to flourish as a world class centre for digital media there must be a strongly integrated and supportive business environment to nurture talent and support the growth of smart companies.”

## Infrastructure

In order to grow it is essential to develop innovative, internationally ambitious and investable businesses. However, this is necessary but not sufficient. For Scotland to flourish as a world class centre for digital media there must be a strongly integrated and supportive business environment to nurture talent and support the growth of smart companies.

### Place

Paradoxically, place matters in the digital economy. Concentrations of talented people and institutions support the generation and exchange of new ideas and innovative processes. It is also increasingly apparent that talent is attracted to places that offer both professional opportunity and a high quality of life, and it is critically important that Scotland presents a strong and positive image both as a centre for digital media activity and as an appealing place to live.

Richard Florida, one of the most respected academics in the field of ‘creative cities’ has identified *Glas-burgh* as one of a number of thriving European mega-regions. These are typically cities situated near each other which can draw and capitalise on their mutual strengths. With the addition of Dundee, a triangle of cities in Scotland offer a compelling proposition as an international digital media centre with a vibrant cultural and business life. What is clear is that these three cities are not in competition with each other but with other city-regions globally. Disputes or false wars between Scottish cities are a diversion, a waste of time and counter-productive. The competition is increasingly Vancouver, Palo Alto and Bangalore. Grudges against London or ambitions that only stretch the length of the M8 seem like relics from a previous media era. Place matters, and can be a significant benefit in recruitment. Whether it’s attracting high end games developers from Eastern Europe, Executive Producers from London or clients

from the USA or Japan, improved ‘quality of life’ in areas that are significant to our tourist infrastructure can play a role – restaurants, hotels and residential development help digital media as much as technology itself.

### Physical Infrastructure

Growing companies need a suitable infrastructure to support their growth. This is both for flexible business accommodation, and for transport and telecommunications infrastructure. Physical infrastructure must be aligned with appropriate business development services, and flagship initiatives can also facilitate collaboration and act as an attractor for FDI.

### Education and Skills Infrastructure

Potentially more than any sector, the digital media industry is built on the creativity, expertise and reputation of its people. The ability to attract and retain key talent is essential in developing critical mass and supporting ongoing innovation and growth. Close working between industry, higher and further education, training providers and public sector stakeholders can help build a robust and thriving company base that is seen as the place to be for up-and-coming digital media professionals.

### Business Networks

Networking and collaboration are integral to the new ways of working exemplified by the digital media industry. Scotland must build and support the capacity for social capital to flourish and exploit real value. Networking in this sector is not just a ‘nice to have’ – it permeates and supports delivery across all the key themes. Aligned to this, a strong entrepreneurial culture needs to thrive, mentoring a building capacity in all companies. There is a strong angel network and developed informal mentoring networks in Scotland but are they doing enough?

## Economic Geography

Dundee is changing and innovating for Scotland. Paul Krugman, the Nobel Prize-winning economist, has identified centres like Dundee as indicative of a new kind of ‘economic geography’ where creative wealth is being created in new or surprising centres. Dundee’s journey from post-industrial urban decline towards a knowledge based and vibrant economy is one in which the digital media sector has both played a key role and benefitted.

Alongside massive improvements in the public realm, the growth of higher education and a vibrant cultural infrastructure, the global success of Dundee’s games developers has helped to boost the city’s image and put it on the global media map. The city has not only reinvented itself, it has a significant reputation in games development in the UK and internationally. But competitor-regions particularly in Canada and France benefit from tax relief. This is a real and present threat to Dundee and needs to be addressed rather than merely acknowledged.

Grand Theft Auto originated in Dundee, and the city remains home to a thriving cluster of games developers, supported by the University of Abertay’s world renowned digital media courses. The global reputation of Dundee’s talented games developers and its leading higher education institutions has contributed significantly to an increasingly positive image. In an internationally competitive talent market, it is essential that Scotland can promote its key cities as vibrant, culturally diverse and appealing places to live and work. Place is a crucial part of the mix.



# Areas for Action – Let’s get Moving

Digital media is a frantic industry. New companies, new platforms and new opportunities spring up daily. This makes long-term planning challenging and means that strategic support by either government or agencies can often lag behind the industry itself. But to do nothing and become bewildered by the speed of change is not an option. So this document will offer a three-year perspective, but will be reviewed on an annual basis to ensure that it is consistent with changing market conditions.

## Innovation

- ➔ Scotland needs to increase its IQ – its **innovation quotient** – by recognising the historic opportunity that digital media and technologies offer.
- ➔ Companies should be encouraged and supported to innovate in their areas of competence to **find new markets and opportunities**.
- ➔ Digital media is more than consumer concepts like games and mobile apps. There are untapped opportunities in business-to-business services. Is a company in the right market? Support to **increase business-to-business media** is another area for development.
- ➔ More support for **collaboration** between digital media businesses, with technology providers, content producers and academia to encourage new kinds of innovation in services, content and technologies.
- ➔ Digital media is challenging traditional business models. We need to encourage and support **innovation in business models** and communicate this within the public sector and investment community.

## Interactive Distribution Platforms

- ➔ Scotland must improve its place in the **network of distribution** and companies should seek to be an owner/distributor/platform innovator, and not only ‘guns for hire’.
- ➔ Investment to **support the development of new interactive platforms and channels** owned in Scotland is mission-critical.
- ➔ Scottish companies should **improve their place in the value chain** by securing IP, extracting value and leveraging their ideas and creativity.
- ➔ Scotland must **align inward investment effort** with the key strategic goal of anchoring more distribution power in Scotland.
- ➔ In a fragmented media universe, the **marketing and promotion** of interactive distribution platforms and their unique creative properties, is equally important.
- ➔ Scotland needs to align higher and further education to develop education and training provision to support this strategic priority, creating more opportunities for **high quality interactive technology skills**.
- ➔ Inward skills investment is important in games and social media. The Scottish government should encourage a pro-active culture of **high value inward migration** to Scotland, to support key sectors.

## Internationalisation

- ➔ Digital media is not the same as ‘mass-media’ – it is **an industry of many marketplaces**. Companies should be encouraged and supported to find new niche opportunities globally.
- ➔ Priority should be given to supporting the creative activity of companies that are **born global and are native to the internet**.
- ➔ It is important that companies are **more alert to global markets** and that Scotland offers exceptional support to digital media companies to internationalise.
- ➔ International companies should be encouraged to come to Scotland. It is vital that all agencies are aligned to promote **inward investment**, and Scotland’s competitive advantages in digital media.

## Investment

- ➔ More companies should **make use of existing R&D Tax Credits** and understand how to access them.
- ➔ Secure greater **investment for growth** in digital media companies and encourage more companies to seek equity or investment to grow, develop or diversify their business.
- ➔ Merger and acquisition are catalysts of growth and an area where Scotland is relatively weak. We need to stimulate **a more acquisitive culture** in digital media and work with the investment community to deliver comprehensive and suitable investment products.



- ➔ Develop a better **pipeline of investment** propositions from Scottish digital media companies and provide support and mentoring to ensure investor readiness.
- ➔ Attract **specialist investors** by showcasing Scottish digital media capability more assertively.
- ➔ That industry works with Scottish government to explore and **deliver new fiscal measures**, to enhance Scotland's competitive advantage in games development.
- ➔ Specifically, create **a pilot programme of tax and fiscal benefits** for the Dundee Games sector in 2010 to increase the sector's global competitiveness.

## Infrastructure

- ➔ Encourage the growth of **organic communities of digital media**, design and interactive arts in areas where 'low rent' or 'lifestyle' makes the area attractive to start-ups and new business.
- ➔ In digital media **distance is shrinking**. Creative communities have evolved in diverse geographic communities in e.g. Skye, Nairn and the Scottish borders. This is an evolving strength from Scotland.
- ➔ **Attract and retain talented individuals** and build the reputation of the sector in Scotland as aspiring, ambitious and with world-class quality of life.
- ➔ Build active communities and **collaborative networks** across the digital media industries and with technology sectors and academia to support innovation and internationalisation.
- ➔ Promote the value of Scotland's **tri-city central area** Dundee, Edinburgh and Glasgow, promoting their shared-values and minimising damaging local competition.
- ➔ Develop and promote the Digital Media Quarter at Pacific Quay in Glasgow and Seabraes Yard in Dundee, as international hubs of digital media activity.

## Education Sector

- ➔ The Higher Education sector should **enable speedy and profitable partnerships** with the digital media industry in research, knowledge transfer, consultancy and training provision.
- ➔ Subject delivery aligned to the main strategic aims needs to be a priority, and realistic pricing structures for **tertiary education** courses need to be established.
- ➔ Emerging and **pervasive technologies** such as computer games and communications software development should be demonstrated within the curriculum, to equip young people with appropriate expertise and attract them to future vocations.
- ➔ Media literacy should be further promoted within the school curriculum, to establish new levels of **Scottish prowess in digital media** for the future.
- ➔ The **economic value of the creative arts**, especially technologically-mediated subjects, need greater promotion in curricular provision. The appropriate policy partnerships need to drive priorities to produce the practitioners of the future.

## Public Sector

The Digital Media Industry Advisory Group recommends that the public sector in Scotland delivers actions that provide effective and coordinated support to the sector.

- ➔ To **promote the value of the digital media sector** to the overall Scottish economy, forcefully and consistently.
- ➔ To **increase the pace and value** of the support.
- ➔ To promote **a ladder of support** for Scottish digital media companies from start-up to trade sale.
- ➔ To **prioritise investment** and support for Scottish-owned or Scottish based interactive distribution platforms.
- ➔ To be **more transparent** about support and how to access it – face outwards to the sector not inwards to the system.
- ➔ To ensure that investment funds are more visible, better understood and **more dynamic** in their response to the specific market conditions within which digital media uniquely operates.
- ➔ To ensure that complex processes and **confusion of agency roles** are minimised.
- ➔ To ensure that public investment is **a support not a burden** and reduce heavyweight bureaucracy, which is a significant impediment that needs to be removed. It is crucial that this is delivered not simply acknowledged.

To network and discuss go to [www.digitalinspiration.org.uk](http://www.digitalinspiration.org.uk)

# To Boldly Go

With commitment and the right investment, the digital media industries in Scotland can achieve long-term, sustainable growth and make a significantly increased contribution to the Scottish economy.

Our target is to **double** the value of sector revenues to £6.3bn by 2012. In developing this target, we have considered the likely growth of the sector if we do nothing – a ‘base case scenario’. Recent work by NESTA<sup>7</sup> estimates that the creative industries (of which digital media is a subset) will grow by an average of 4% per annum to £85bn by 2013, taking account of the current recession.

We know that Scotland accounts for approximately 7% of the UK creative industries, and that digital media accounts for approximately 65% of the Scottish creative industries<sup>8</sup>. On this basis, the base case scenario is for the Scottish digital media sector to be worth approximately £3.8bn by 2012.

To achieve our target of doubling sector revenues to £6.3bn by 2012, we need to drive up growth rates in the sector to 15% from 2008 to 2010 and then again to 20% for 2011-2012. This is the ‘if we realise our ambitions’ scenario shown on the opposite page.

In practice, this means is that the actions we take must support the creation of an additional £2.47bn in revenues for the sector between now and 2012.

This is a deliberately ambitious target, but one that we believe is achievable if the actions contained here are realised.

Breaking down this target requires further work, and the Digital Media Advisory Group will continue to develop appropriate measures to track the progress of the strategy. We expect that these will include more specific targets relating to:

## Increasing the Number of Companies







Digital media is a new and emerging sector, and it is important that Scotland has diversity and scale within its company base. Growth in this sector is as much about growing the number of companies as it is about increasing employment in existing businesses. It is worth reasserting that digital media will not grow through a few scaled companies and corporate aggregation but through diverse success and scale.

## Increasing the Number of Companies of Scale

A vibrant and successful digital media industry needs a mix of large and small businesses operating across supply chains. Larger businesses can be both important sources of investment and key routes into global markets, as well as anchoring talent in Scotland.

## Moving Companies Up The Value Chain

The successful growth of Scotland’s digital media industry will depend on our ability to move up the value chain. This means:

-  securing appropriate investment for growth;
-  increasing the development, ownership and exploitation of commercially valuable IP;
-  developing a global reputation for innovation and business excellence, as well as creativity;
-  capturing premium markets demographics and subscribers;
-  engaging successfully in global markets; and
-  growing and anchoring new interactive media platforms in Scotland.

Companies will move up the value chain by investing in innovation and engaging in new markets. Therefore, we will expect an increase in exports as well as more new products and services, and growing investment in innovation across the sector. This will translate into increased value creation within companies and higher rates of productivity, leading to increased revenues and profits.

## Increasing Employment

We expect that some of the growth achieved will be jobless growth, at least initially. However, over the medium to longer term, we expect employment in the sector to rise as Scotland’s digital media companies expand their markets.

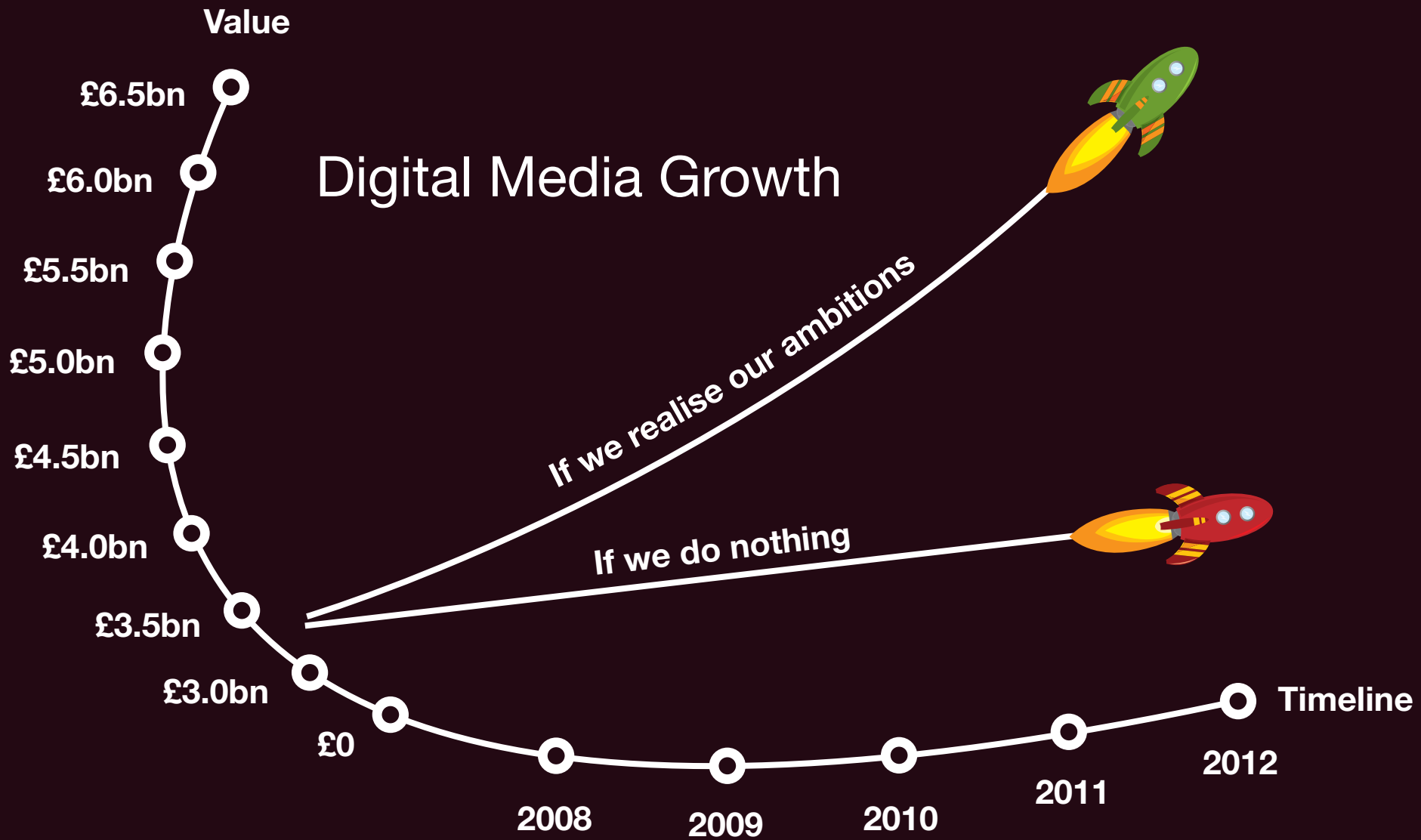
## Growing Our Reputation

Reputation is critical to success in digital media. Peer recognition for creativity as well as international reputation for innovative business solutions are both valid and important goals. Reputation in digital media is not purely about scale and turnover. It can be via smaller companies working to the highest standards of excellence and delivery, reflected in everything from awards, to new and renewed contracts. Sometimes Scotland can be too shy and can be hyper-critical about its own achievements, it’s a luxury we cannot afford going forward, and there are too many good stories to only tell them to ourselves. Growing our reputation for quality and business success is not just about a warm-glow, it will lead to increased private investment in the sector and growth in inward investment. They are both equally important and will be key measures of success.

<sup>7</sup>Demanding Growth, NESTA, March 2009

<sup>8</sup>Based on data from the Annual Business Inquiry

# Boring graph jazzed up with rockets



# The Strategy in a Nutshell



To achieve a step-change in Scotland's global reputation in digital media, by increasing both the number and scale of companies, encouraging them to leverage, own and exploit the platforms on which they operate, and extract more value from intellectual property rights.



Scotland's companies need to become more innovative, more international and more acquisitive. They need to increase the scale and quality of investment into their businesses.



They should seize the opportunities in mobile, search-based and participative media, and take Scotland's reputation for innovation into new and unimagined forms of media and entertainment.



To do that we need to back talent and improve the level and quality of investment in the sector by aligning education, the public sector and the investment community to help Scottish companies and our most creative people to return value to Scotland now and for the next generation.



# Acknowledgement: The Wisdom of the Crowd

## The Digital Media Industry Advisory Group

The Scottish Digital Media Industry Advisory Group (IAG) was established in July 2008 to shape and inform the priorities for growth in the sector, and provides crucial strategic leadership and advice to the industry and its public sector partners.

Chaired by Stuart Cosgrove, the IAG draws its members from across the breadth of the digital media industry in Scotland: from games and animation to broadcast and TV production and publishing, to marketing and design in new media. The IAG has representation from across industry, government and the academic community.

The IAG has been instrumental in defining the priorities to support growth in Scotland's digital media industries, and will continue to monitor progress against the strategy in partnership with the key public agencies.

The IAG meets on a quarterly basis to discuss and address the issues of national significance for the growth of the digital media sector in Scotland. For more information on the IAG and its activities, please see [www.digitalinspiration.org.uk](http://www.digitalinspiration.org.uk).

## Digital Media Industry Advisory Group Members

David Archer (STV), Alastair Brown (STV), Dòmhnall Caimbeul (MGA Alba), Stuart Cosgrove, Chair (Channel 4), Simon Dessain (The List), Paul Farley (TAG Games), Manju Fernando (Zamsana), David Jones (Realtime Worlds), Steve Leach (Bigmouthmedia), Matthew Lee (BBC), Colin McDonald (Realtime Worlds), Simon Meek (Tern Interactive), Kenny Shaw (Screen Media), Damien Smith (ISO Design), Chris van der Kuyl (brightsolid) and David Wightman (Private).

## With Thanks

The Digital Media Industry Advisory Group would like to extend its thanks to those who contributed to the development of this document:

Greg Allan, Robbie Allen, Paul Atkinson, Caroline Cawley, Darcie Condie, Carri Cusick, Mark Daniels, Paul Durrant, June Edgar, George Falconer, Donna Fordyce, Sara Friel, Adrian Gillespie, Ian Hamilton, David Hartley, Sandra Hawes, Ken Hay, Pascal Holt, Craig Hunter, Terry Hurley, Karen Jackson, Graham MacLachlan, Joyce Matthew, Gerry McCusker, Ewan McIntosh, Aileen McKechnie, Jackie McKenzie, Brian McLaren, Andy McLaughlin, Janine Merrylees, Nicola More, Claire Scally, Mike Shiel, Nick Simons, Carol Sinclair, Angela Smith, David Smith, Madeline Smith, Maurice Smith, Joe Tree, and Richard Wilkins.

Also, the members of various Scottish Industry social networks including 38minutes, Central Station, ScottishGames.biz, the Pocket Place Network, Interactive Tayside, Dare to be Digital and the staff and students of Abertay University.

Alongside our work in Digital Media is a concurrent group focused on Broadcast Television, chaired by David Strachan (Tern). Many of the comments made in this document are applicable to the broadcasting production sector, which has also been the subject of sustained analysis through the work of the Scottish Broadcasting Commission (SBC). Key themes emerging there are the need to ramp up network production, build and grow companies that can handle scale, volume and returnable programme brand, and create deeper value from the exploitation of content and format rights.

[www.digitalinspiration.org.uk](http://www.digitalinspiration.org.uk)



[www.digitalinspiration.org.uk](http://www.digitalinspiration.org.uk)

Produced by The Scottish Digital Media Industry Advisory Group (IAG)

Designed by BRANDSavvy.co.uk



WHAT'S  
NEXT?