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The Philippine Animation Industry Landscape

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Animation is currently one of the emerging outsourcing services offered by the Philippines. With the beginnings of animation in the country being traced as early as the 1980's, this fairly long history lends the Philippines its reputation as one of the stronger Asian players in the global animation industry today.

However, considering that the country had first-mover advantage, its current share of the global animation market remains marginal when compared to the international demand for animation work. This paper seeks to present the possible factors that have hindered the Philippine animation industry from securing a more commanding portion in the global market.

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Animation Industry: A Brief Background

Animation generally refers to the process of setting inanimate objects in motion. It is broadly categorized into three forms namely 2D animation, 3D Computer Generated Imagery (CGI) and 3D Motion Capture.

The oldest and most basic form of animation used up to the present is 2D animation. The process of 2D animation is done by combining multiple sets of two-dimensional hand-drawn objects and placing them in a sequence and in a manner that creates an illusion that the drawn objects are in fact moving. With the advancement of computer technology, 2D animation has evolved into more than just hand-made drawings. Today, these drawings are given more depth by scanning each frame individually and further manipulation and enhancement are processed by software applications. For instance, instead of having an artist draw and scan each page individually, artists now use computer software to generate 2D images and instill layers of animation in a near simultaneous manner.

3D animation in the other hand can be further classified into 3D CGI and 3D motion capture. These forms of animation give a more realistic view of the character because it gives the object the illusion of movement in a three-dimensional perspective. Unlike 2D animation, 3D CGI and 3D motion capture rely more on computer technology rather than the creativity of the artist in drawing an inanimate object. 3D CGI for instance can be done by using three-dimensional animation software alone. Without influence from a non-computer image such as a hand-drawn object, the computer software can generate 3D objects using 2D geometric figures.

3D motion capture also uses advanced software technology. It is similar to 3D CGI however animation in the object created is done by placing several points of reference to a real moving object. The computer software then captures all the possible movements of the object which can then be used by the program to place motion in an inanimate computer generated image.

Of the three forms of animation, most local animation firms in the Philippines are adept in 2D animation rather than the more advanced 3D animation. This is due in part to the prohibitive cost of 3D computer animation software needed to render this kind of service. With limited resources to invest in animation software technologies, Philippine animators have thus enhanced their skills in 2D animation - a process which is less cost-intensive.

Animation in the Philippines as an Outsourced Service

With the rapid development of the animation industry in the west, particularly in the U.S. and Europe, the need for outsourced services in animation increased in Asia. Thus, and with animation's protracted development cycles, wherein 70% to 80% of related costs credited to labor – western animators began to see Asian destinations such as the Philippines, with its cheaper labor and abundant creative talent – as cost-cutting alternatives.

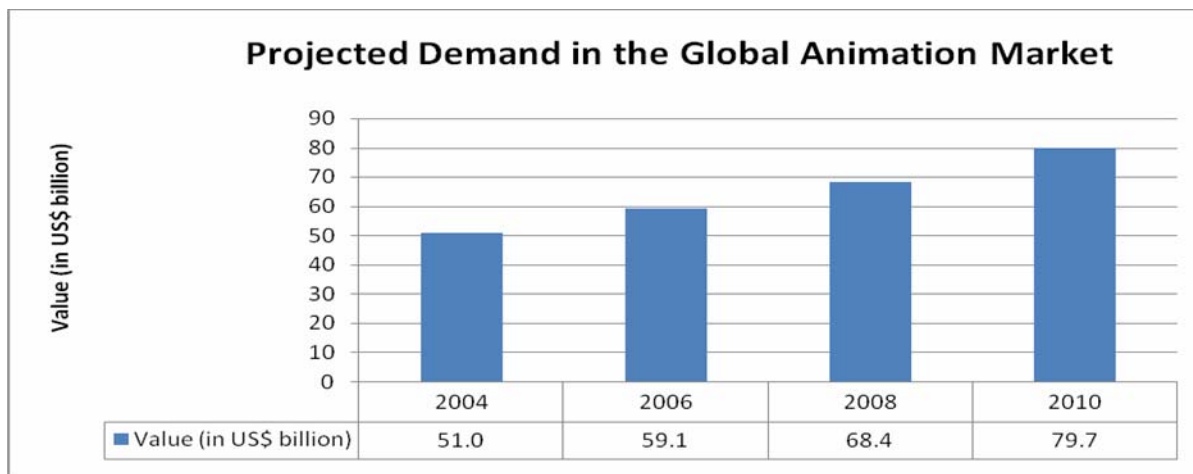
The rise of animation in the Philippines as an outsourced industry began in the early 1980's. Some of the first animation studios in the country included Burbank Animation Inc., Asian Animation, and Fil-Cartoons, all of which were export oriented and provided service to foreign animators. The setting-up

of a few large, high-profile companies in the Philippines eventually led to opportunities for the Philippine animation industry to be recognized globally.

Global Animation Industry – The Global Playing Field

Outsourcing in the animation industry is one of the more promising business process outsourcing services today with a current world market valued at about US\$68.4 billion. This figure is expected to rise to almost US\$80 billion by 2010. With a projected 16.5% growth in two years' time, this displays the extensive opportunity the industry has.

The increase in demand may be attributed to the continued production of animation in the entertainment sector which accounts for 74% of total revenues in the global animation industry. In 2006 for example, the entertainment sector of the animation industry generated about US\$43.7 billion out of the total US\$59.1 billion. This percent in share is expected to climb up to 77% in 2010 - which also shows the vast opportunity of animation services particularly in the entertainment sector.



Source: NASSCOM, 2007

The continued demand in the global animation market has allowed the Asia-Pacific region to further emerge as a premier destination for animation outsourcing. The major players in the region include China, India, Singapore, South Korea and the Philippines.

China

With reported revenues of about US\$1.4 billion in 2007 and approximately 10,000 animation professionals, China is considered as one of the stronger players in the animation outsourcing industry. Although this figure may largely be in part of China's local animation market, the continued development of this sector in their country may further strengthen their position as one of the leading providers of outsourced animation services in the near future. China's strength may be attributed to the availability of good infrastructure and strong government support in developing the industry.

India

The Indian animation industry on the other hand was estimated to have a value of US\$354 million in 2006 which is estimated to reach about US\$900 million by 2010. With about 300 Indian animation

studios, approximately 70% of the industry's total revenues come from outsourced services. The industry in India currently employs about 12,000 animation workers with nearly 3,000 working as freelance animators.

An extensive number of labor pool – which is one of the strengths of India as an outsourcing destination – is not required in the animation industry (and process per se). However, with this in consideration, the Indian animation industry still managed to position itself to be a major market player in the animation outsourcing industry with only 12,000 employees working full-time for the industry. A key factor for this is India's significant cost advantage coupled with strategic investments in the country's animation infrastructure.

Singapore

Another emerging destination for outsourced animation services is Singapore. With a strong backing from its government, the Media Development Authority was created in 2003 as an entity mandated to instigate policies and programs to help foster the growth of its animation industry. Singapore also invested more on the development of its infrastructure, especially in terms of policy and regulations, to help local players develop and safeguard original IP projects. With the growing opportunity in the global animation industry, Singapore may soon be one of the better players as its government continually supports the development of the sector. However, the fundamental concern of a limited talent pool remains for Singapore.

South Korea

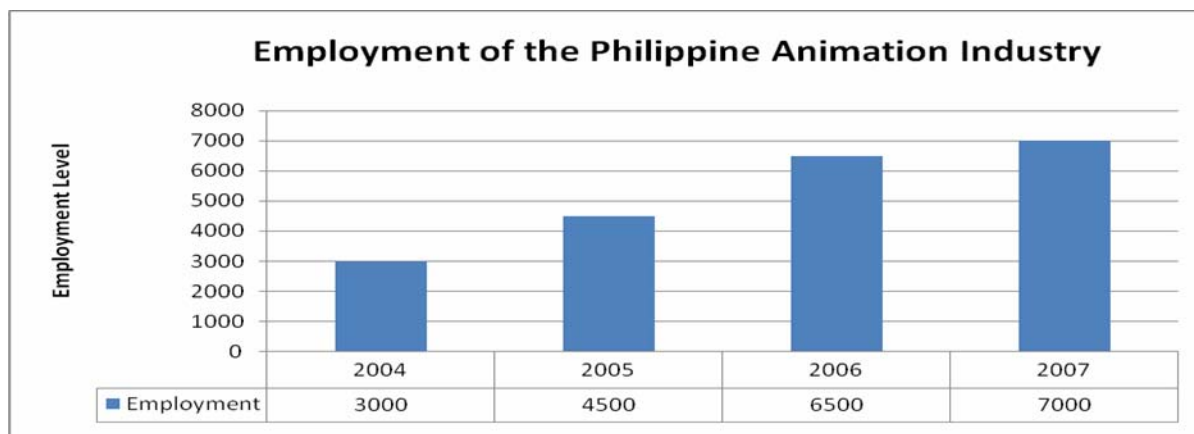
Perhaps one of the largest in number of animation studios in Asia, Korea houses about 200 animation studios. Valued at almost US\$88 million in 2003, the outsourcing animation industry in Korea is also prominent with over 90% of its revenues going into export services. Korea boasts of strong technical training in animation, with over 60 colleges contributing to an already skilled labor force for the industry. Despite its relatively high cost of production work, it is able to leverage the high quality service which the country provides. Government has also been noted to provide solid support for industry development.

Current State of the Philippine Animation Industry

The above-mentioned countries are some of the closest competitors the Philippines has in the global animation outsourcing arena. With internationally recognized companies such as Walt Disney, Warner Brothers, Hanna-Barbera, Marvel Comics and Cartoon Network subcontracting animation work in the Philippines, it is fair to note that the Philippines is one of the stronger players in the field of animation.

Currently, the Philippines houses more than 50 animation companies - most considered as small and medium sized outfits. According to a recent BPO Mapping study undertaken by Tholons in 2008, some of the larger animation companies located in the Philippines are TOEI Animation, Roadrunner and Toon City Animation Inc. These three production houses total a combined employment capacity of roughly 1,300 animators/artists. With a total estimated 7,000 employees working for the animation sector, these three companies comprise about 18% of the total labor pool for the Philippine animation industry.

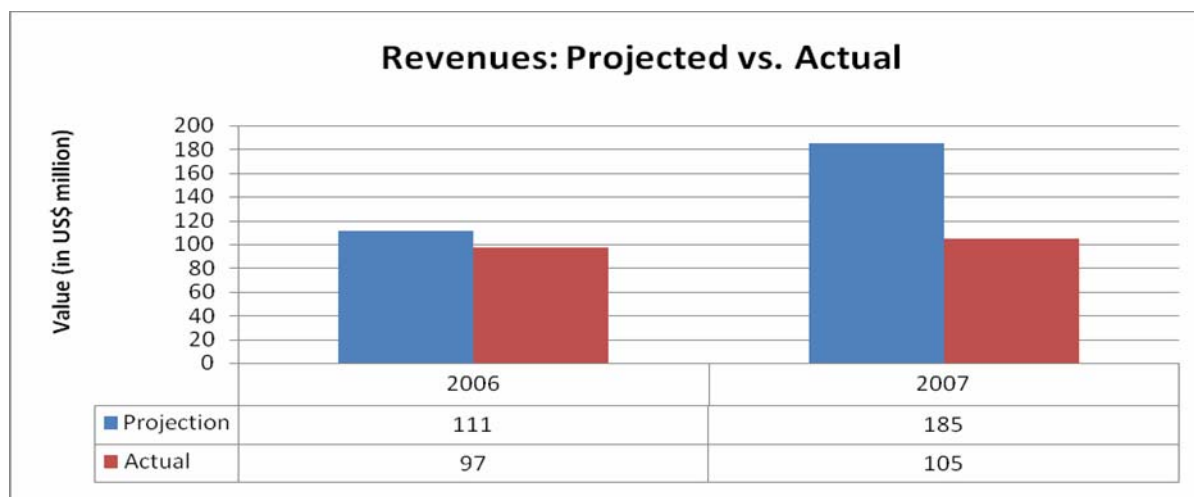
Employment in the Philippine animation industry from 2004 to 2007 accounted for a year-on-year growth of 34%. This is a considerable uptrend in employment for the sector. However, a sharp decline in industry employment rate in 2007 was apparent with the total industry employment growth rate declining from 44.4% in 2006 to only 7.7% in 2007.



Source: JETRO Philippine IT Industry Update, 2008

This figure also differs from the employment projection made by the Business Process Association of the Philippines (BPA/P). In 2004, BPA/ projected 10,000 employees under the animation sector for 2007 – this figure being 30% higher than the current inter-industry figure.

In the same year, BPA/P also made revenue projections for the animation industry and like employment projections, revenue projections for 2006 and 2007 again differ from inter-industry estimates.

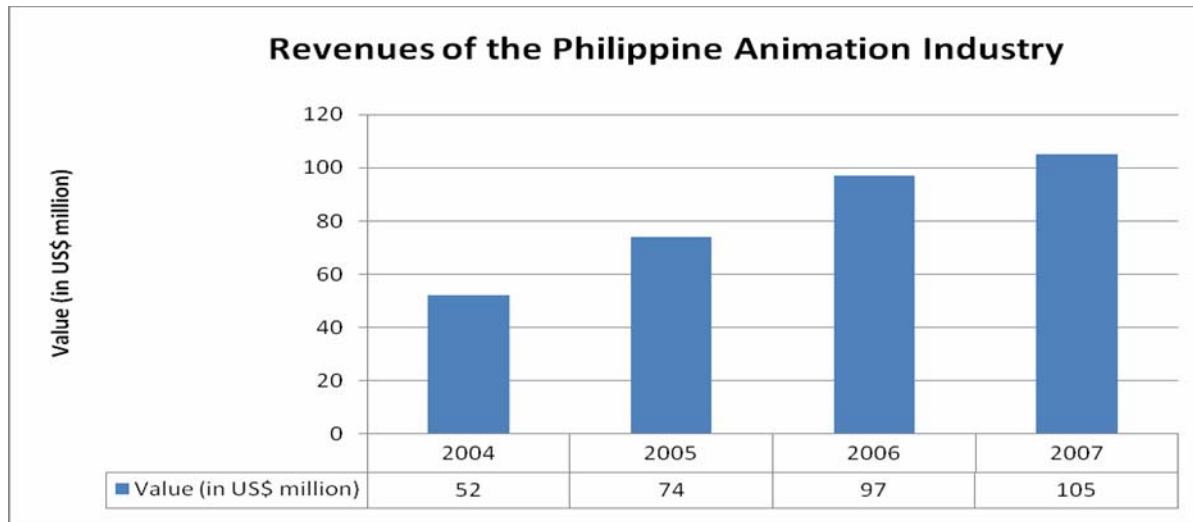


Source: BPA/P Projected Revenues, 2004, JETRO Philippine IT Industry Update, 2008

In terms of revenue generation, the industry generated up to US\$97 million and US\$105 million in 2006 and 2007 respectively. The figure in 2007 reflects a decent year on year growth of 8.2%. However, this percentage also reflects a drastic drop in the industry growth rates of previous years – 42.3% in 2005 and 31.1% in 2006.

The disparity in figure may be attributed to the lower number of large-sized (and more lucrative) projects being accepted by local players and particularly in 3D animation. It has been noted that the

current capacity and scale of the local industry is not able to meet global demands coming from the entertainment sector (74% of total demand) which requires mostly 3D animation. Furthermore, the industry has noticed in recent years that large scale projects are often ‘turned down’ by the smaller Philippine animation companies due to lack of capacity and resources to meet client requirements.



Source: JETRO Philippine IT Industry Update, 2008

Revenues for local animation companies in the Philippines rely heavily on the international market. In a survey conducted in 2006 by PEARL2 (Private Enterprise Accelerated Resource Linkages Project Phase 2), a project funded by the Canadian International Development Authority, major export markets for the Philippine animation industry include the U.S., Europe, Japan and Australia. In 2005 and 2006, total sales to these countries account for 75% and 92% respectively of the total sales export.

Given the high market demand and the willingness of international clients to pursue outsourced animation services in the country, it is interesting to note that the projected figures for the industry has a considerable gap with the actual figures. This may be an indication that the animation industry to date has not been given the necessary attention and support by relevant institutions and Government bodies - as the disparity between figures show.

Philippine Animation Industry: Drivers and Inhibitors

Due to the high trend of market demand reaching a projected US\$80 billion in 2010, there is considerable potential for growth specifically in export services in the animation industry. With the continuous trend of the global demand escalating, it is expected that countries which can cater to this demand should in fact be following the trend – these countries include the major animation players in Asia such as India, China, Taiwan, South Korea, Singapore and the Philippines.

However, the brief overview of the Philippine animation industry above shows that the local industry is slowly and inadvertently veering away from this opportunity. Listed below are some of the drivers and inhibitors of growth for the Philippine animation industry.

Drivers

Despite the sharp declines in employment and revenue growth in 2007, the Philippines still manages to remain ‘top-of-mind’ when it comes to animation related services. This may be attributed to the following – the established local animation industry with an impressive résumé of animators in the country, the rise of the BPO industry in the Philippines, and the presence of a creative talent pool.

- **Established Philippine Animation Industry**

One of the drivers for the growth of the industry is that it has already in place for the past 20 years. With more than two decades in existence, the industry is already an established sector with renowned international clients seeking services in the country. Furthermore, local animators have built an impressive portfolio - *a sign of experience* that is essential for clients who are looking to outsource animation services.

- **The Rise of the BPO Industry**

Another driver of the animation industry is the rise of the BPO industry in the Philippines. With outsourcing phenomenon materializing in the late 1990s and continuing today, the Philippines has developed into one of the more viable destinations for outsourced services behind India. As the country positioned itself to be a top player in the BPO industry, the awareness of international clients towards the Philippines as a BPO service provider also increased. This occurrence paved way for the Philippine animation industry to be placed in the map as one of the destinations for outsourced service in the sector.

With the BPO industry in place, several organizations have been formulated to assist industries attain international recognition for their outsourcing services. For the local animation industry, the Animation Council of the Philippines, Inc. is the lead overseeing and coordinating body for Philippine animators, and is further supported by the Business Process Association of the Philippines.

- **Creative Talent Pool**

The inherent creative talent pool found in the Philippines is also a driving factor for the animation industry. Filipino animators are known for their creativity and innovativeness which are looked upon in high regard by international clients, and particularly those from the U.S. These characteristics found in Filipino animators are a good match with their familiarity in western humor and nuances, a combination that is preferred by major clients. This affinity is a primary reason why large U.S. companies such as Walt Disney, Warner Brothers and Hanna-Barbera, are at present looking at outsourcing in the Philippines.

Inhibitors

With these drivers in place, the potential for the local animation industry to capture a larger portion of the market remains high. However, this potential has not been realized in recent years. Factors inhibiting the growth of the animation sector may be attributed to the following – financial constraint, lack of skilled animators and lack of widespread industry support.

- **Financial Constraint**

One of the major constraints for the animation industry to realize its potential is the lack of financial investment made by the animation firms to improve operational capacity. For instance, lack of investments to acquire animation software is prevalent within local animation companies.

Because of the prohibitive costs that software needed for more advanced services such as 3D animation (averaging US\$2,000 to US\$3,000 per license) only small number of animation companies in the Philippines can offer the whole slew of 3D services. This inability to purchase needed infrastructure may attribute to the size of the animation companies, as most are small and medium sized. It may also be attributed to the mentality of animation firms that investments in more advanced 3D software may not needed since they are 'already' meeting the demands of their existing clients, who are mostly subscribing to 2D animation services.

- **Lack of Skilled Animators**

Another inhibitor for the growth of the sector is the lack of skilled animators specifically in 3D services. This is directly correlated to the first point. Since there are minimal investments in 3D infrastructure, skilled animators in 3D work are minimal – or vice-versa. The infrastructure should be placed so that 3D animators will emerge, in either case, one or both must make progress in order for the industry to capture the lost market of 3D animation.

Likewise, an inhibiting and contributing factor for this category is the gap between the training institutions and the required needs of the industry (specifically technical skill-sets). The gap is seen as a hindrance to the development of the industry because of the high training cost it places in the hands of the animation companies. Instead of being able to use new professionals and graduates as soon as possible, the company normally needs an average of 6 months to train these employees before they can produce for the company. As such, new animation graduates are often not 'ready for production.'

- **Animation: An Overshadowed Outsourcing Industry**

The growth of the Philippine BPO industry and the strong showing of the Contact Center space are considered as a driver for the development of the local animation industry. However, it may also be a hindrance to the development of the industry. As mentioned in the previous section, the animation industry does not need a large pool of workers. In fact, it needs a relatively small number of workers with specific skills in animation. In 2007, a total of 300,000 are employed in the Philippine outsourcing industry and only 7,000 or 2% of the total labor pool were employed in the animation sector. Because of the larger opportunity in employment in other sectors of the outsourcing industry, such as the Contact Center industry (198,000 employed in 2007) and Back-Office Processes (40,156 employed in 2007), investors as well as the local government have concentrated resources to developing these higher profile industries – leaving smaller yet equally promising sectors such as medical transcription and animation, seemingly overshadowed.

Philippine Animation Industry: Future Challenges

The Philippine animation industry has gained substantial position in the global animation outsourcing industry. However, the country will slowly lose its position as one of the more competitive destinations for outsourcing animation services if challenges in the sector are not addressed properly. Below are some of the challenges the industry needs to address to be able to meet the industry potential and level-off industry threats.

1. Collaboration of Industry Players

One of the major challenges of the Philippine animation industry is the lack of large animation companies capable of supporting and fulfilling large international clients. Since most of the companies are small and medium in scale, the industry is seen to be fragmented with small players doing their individual work without minding the collective capacity of the industry.

With the opportunities available, the industry needs to find a way to consolidate its efforts in order to bring in the bigger contracts which will be ultimately beneficial for the industry as a whole.

2. Infrastructure Investment

Near term investment in the industry is also seen as a challenge for the industry. With its Asian competitors making significant investments to develop their animation sectors, the Philippine animation industry should follow suit in this developmental path if it wants to sustain its place as a major competitor.

In terms of infrastructure investment, the industry must be able to attract local as well as foreign investors in order to boost infrastructure development. The challenge is also for the animation companies to take the risk of investing in infrastructure, more specifically in the acquisition of new animation software and related hardware technologies.

3. Developing Talent Pool

The industry also faces the challenge of investing more to improve its local talent and meet the needs of the animation industry for more skilled workers. Despite the large number available graduates to work in the industry, the number of skilled animators is still low. Considerable investment in time and resources are needed in order to hone the skills of new animators. This dilemma is largely attributed to lack of training in relevant animation skill-sets of graduates and entry-level employees.

Further, with an average pay of US\$250 to US\$300 per month, local animators in the Philippines will continue to seek higher paying jobs outside the country. With an already low number of available skilled animators, this condition will further deplete the available talent pool.

4. Government Assistance

In order to neutralize the growing competition in the global animation space, the Philippine animation industry needs stronger backing from the government. The challenge is for the industry to convince officials that investments by the government in the industry will help the country achieve economic gains with revenues from the global animation industry.

Assistance may be in form of addressing the pressing needs of the animation industry through legislative action, tax incentives, or IP policy regulation. If the government is able to provide an enabling legislative environment for the local animation industry, in terms of policies that provide incentives (whether economic, financial or physical), then investment in the animation sector is expected to follow.

Conclusion

With the growth in demand globally for outsourced animation services, the opportunity for Philippine animation providers remains high. The Philippine animation industry remains a strong player in the sector because of its established reputation for quality work and its inherent and creative talent pool. However, if the Philippine animation industry remains static in the short term, its share in the global animation market will be easily captured by regional competitors who are accelerating development at a pace faster than the Philippines. Most notably, competitors are quickly addressing infrastructure, evolving client requirements and preferences and aligning industry capacity to meet current market demands.

About Tholons

Tholons is a Services Globalization and Investment Advisory firm that combines "Best of Breed" consulting experience with deep execution expertise and investment insights to deliver truly effective services to its clients. Tholons offers a detailed understanding of business processes and combines it with practical hands-on expertise in executing the strategy. Tholons draws upon the considerable experience of a hand-picked team, which has successfully formulated and executed globalization strategies to unlock value for Global Fortune 1000 companies. Service providers leverage Tholons expertise to optimize their global delivery model. Tholons advisors also engage with government bodies to build compelling strategies for making countries attractive destination for outsourcing.

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