



HOUSE OF COMMONS  
CHAMBRE DES COMMUNES  
CANADA

# **Standing Committee on Industry, Science and Technology**

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INDU • NUMBER 075 • 1st SESSION • 41st PARLIAMENT

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**EVIDENCE**

**Thursday, June 13, 2013**

**Chair**

**Mr. David Sweet**



## Standing Committee on Industry, Science and Technology

Thursday, June 13, 2013

• (1535)

[English]

**The Chair (Mr. David Sweet (Ancaster—Dundas—Flamborough—Westdale, CPC)):** Good afternoon, ladies and gentlemen. *Bonjour à tous.*

Welcome to this 75th meeting of the Standing Committee on Industry, Science and Technology. We are continuing our study on the adoption of digital technology by Canadian small and medium-sized enterprises.

Before us today, by video conference, is Michael Johnston, president and chief executive officer of TeamSpace Canada.

Ladies and gentlemen, because we are meeting for only one hour, we're going to start with five-minute questions after Mr. Johnston gives his opening remarks, in an effort to try to give everybody who would like it an opportunity to have a question session.

Mr. Johnston, if you would like to go ahead with your opening remarks, please be as brief as possible.

**Mr. Michael Johnston (President and Chief Executive Officer, TeamSpace Canada Inc.):** Thank you very much for inviting me and letting me join you from another cloudy day in Halifax via video conference.

As you mentioned, I'm founder and president of TeamSpace. We're a custom software development and video game studio based here in Halifax. We maintain a full-time staff of roughly 80 people, the majority of whom live here in Nova Scotia, and some in Toronto, the United States, and England. Roughly 13 years old, we've grown steadily. We've been recognized five times as one of the fastest-growing companies in Atlantic Canada, and in 2011 we were named Nova Scotia's export company of the year.

Our core business is software engineering for world-class interactive projects. Many of our clients are global entertainment brands and broadcasters, such as MTV, Nickelodeon, Sony Pictures, Fox, and many others. They drive their businesses forward through the adoption and creative application of emerging technologies. To remain relevant to them, we must do the same.

For our part, in the past we used to maintain a lot of in-house IT infrastructure at TeamSpace. We had racks of servers, co-location facilities, and ran all of our internal systems on those servers. We built a lot of those systems ourselves or bought expensive ones off the shelf. It was costly up front and costly over time: there was constant updating as computers aged and software needs evolved, plus we needed a dedicated IT staff to look after all of that.

As a result we tended to invest a minimum amount required to get by. In recent years we've moved most of our systems to cloud-based offerings, rented monthly as needed from third-party providers. This trend has been game-changing for us and for many of our partners. It has allowed us to try new approaches and to stay current on more leading technologies without a huge upfront capital cost and risk from buying servers and on-premises software licences. We still invest heavily in workstation computers and mobile devices—smart phones and tablets—but the move to cloud services for our core operations has allowed us to keep pace with changes in our market.

We can test different tools to find the best ones for our business. We can afford to change and adopt platforms that our key clients use. This is important because it makes us more attractive to our largest clients because we're using similar platforms to do business and a similar vocabulary about how we work. Our people who work from multiple devices—laptops, tablets, phones—can access information when and where it's needed without complex set-up or technical support.

I would actually argue that at a macro level, we now spend more on IT than we used to under the older on-premises model of infrastructure, but we tend to spend on the right things that fit our business now. We can afford to take risks and try new approaches, helping us realize incremental value without massive capital outlay. To use a metaphor, we sample a lot of things from the menu now, rather than ordering one big entrée that we might not like.

I realize that the numbers show that companies in the U.S. tend to spend more on IT than Canadian firms do. My experience certainly aligns with that data. Perhaps it's an American ethos. Most start-up companies I know, including one that I founded in Boston in 1999, work hard to establish a dominant image from day one. That often means having the cool office space and all the latest gear.

My experience starting companies here in Canada would suggest that similar Canadian firms tend to err on the cautious side. We spend only what's needed to get by, and we build our brand a little bit more slowly. Perhaps that's cultural; perhaps that has to do with a different funding landscape between our countries. In general, there is simply more debt and equity financing available to U.S. companies than Canadian ones, certainly at least Atlantic Canadian ones. Perhaps it's simply because in general new technology is always available earlier in the U.S. than it is here. It generally costs less for the same items. A move to globally priced cloud services may help to erase some of those differences.

Looking at things through a human resources lens, there is a war for talent in many industries, especially the IT sector in which we operate. Companies like Google, who are well known for their office spaces and passion for technology, are defining the new normal for companies like mine. For our own part, we are presently planning an office move to a new, open, more Google-like space in the coming few months, almost entirely to help us attract and retain talent here in the region.

Companies in Silicon Valley, with whom I'm competing for talent, attract talent by posting pictures on their websites of what the employee's desk would look like when they start—loaded with all the latest gear from Apple. We're starting to do more of the same to attract and keep those people. It's costly, but we simply can't afford not to do it. I honestly wish we could do more.

I believe that spending on the right types of IT can drive both efficiency and growth for our company, but we need to see the value first, and then take the risk and invest. I believe our government may be able to help on the cost side of the equation, working creatively to reduce that risk to companies that are considering investing in IT.

Tax programs to encourage borrowing for IT expenditures might be considered, as might federal support for labour-based credits by industry. We have digital media and gaming tax credits here. They're administered provincially at the moment, but a look at things like that on the federal level might help to free up capital, which in my sector almost always gets reinvested into IT-driven innovation initiatives. Working across borders to bring costs for technology more in line with other markets might also help.

As a member of a company working in the global marketplace, I'd close by suggesting we need to review Canada's position in a global context, not just relative to the United States. Every month I'm bidding for work against new competitors out of Brazil, Costa Rica, Belarus, India, Israel, and other emerging economies.

I don't have the hard data in front of me. I expect that for now Canadian firms probably do spend more on innovative new IT than do firms in many of those countries, but I also suspect that the spending rates in many of those markets are trending upwards a lot more quickly than they are here in Canada.

Thanks. I'd be happy to open it up to discussion if I can be of any use.

**The Chair:** Thank you very much, Mr. Johnston.

Colleagues, I'm going to have to keep your time much more succinct, if everybody's going to get an opportunity for five minutes during the hour that we have.

Mr. Lake.

**Hon. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC):** Thank you, Mr. Chair.

Thank you, Mr. Johnston, for your testimony.

I just want to go to the basics to start, if I could. I didn't catch this: what exactly does your company do? I want you to elaborate a little bit more.

We have an hour with one witness. It's rare for us to have just one witness. So maybe you can take a couple of minutes to describe what it is your company does exactly.

**Mr. Michael Johnston:** Sure.

We're about 80 people. We're largely a services-driven firm with an original IP game development studio in-house as well.

The bulk of our clients are U.S. based. We have a few in the U.K., but most of our clients are large enterprise media and entertainment companies.

For concrete examples, we have a team of 20, out of our 80, who build almost all of Nickelodeon's and MTV's websites. We build video players that you can watch online video through for FOX, NBC, and a lot of broadcasters. We have a games development team, so we build casual, online, and mobile-based video games and apps for media clients. We have a corporate e-learning group that works for large enterprise, banks, and government. We also do some services work in the aerospace and defence sector.

The interactive technology we work in is very useful across media, entertainment, training, and simulation. We have found clients and partners we work with on a global basis who need that level of software engineering in the interactive space.

● (1540)

**Hon. Mike Lake:** Now I'm really interested in hearing how you got from where you started to where you are now. When did your company start? Of the things you mentioned, what was the genesis of your company?

**Mr. Michael Johnston:** I'm a Nova Scotian boy. I took off to Boston to do a degree in physics and biochemistry at Harvard in the mid to late 1990s. Instead of going to med school, I ended up in IT in Boston in the late 1990s period, in the heyday of the dot-com era.

I built up a portfolio of client relationships and started a dot-com in health care IT in the late 1990s.

The bubble burst. My wife was pregnant with our first kid, and I managed to trick her into letting me start another company as long as it was north of the border, where we didn't have to deal with visa issues.

Back home to Nova Scotia we came. We brought a lot of our client contacts with us and started doing IT services work for customers I already knew out of the U.S. Most of those were in the corporate space. IBM was a big contact for us.

I did a lot of work building out corporate learning and software systems with a very small team here in Nova Scotia and a co-founder in the U.K.

I realized we were building scalable, interactive software in the early 2000s in a way that very few other firms were. I saw there was an opportunity to do that, not just in the corporate e-learning sector but in entertainment, in media, in gaming, in banking, in health care. There were a lot of sectors where rich interactive software that was built in a way that allowed it to scale to an enterprise-quality level was unique and rare. There weren't a lot of companies doing that.

If you combine that with the cost base of doing it from Nova Scotia, we actually had a pretty good global business. We kept our heads down and we hired a bunch of people slowly over time here in Nova Scotia. We have done very little work for Atlantic Canadian companies, very little work for Canadian companies. Most of our work is export-driven, bringing work into the region, employing 65 or so people here in Halifax and 15 or 20 abroad.

We've evolved by word of mouth, largely. We don't have an active sales force. We do interesting work that has an engineering component that's attractive to large companies and to a lot of partners in marketing and branding, and in creative industries, where there's a lack of understanding about how to build good software. We're largely software engineers, and that skill set has made us a valuable partner to a lot of companies that are trying to adopt technology quickly and trying to find creative ways of doing that in an affordable way.

**Hon. Mike Lake:** Thank you.

**The Chair:** Thank you very much, Mr. Lake.

We'll now go to someone from the NDP.

That would be you, Mr. Harris, for five minutes.

**Mr. Dan Harris (Scarborough Southwest, NDP):** Thank you, Mr. Chair. We were going back and forth, figuring out our order.

Thank you for being here, Mr. Johnston.

The first question I want to ask you is this. You brought up the fact that as the company has evolved, you've moved away from all the in-house rack space, for instance, which of course you still have, and onto the cloud.

Where is the actual storage of the cloud computing that you're using? Is it located in Canada, in the United States, or elsewhere? I'm talking about the physical storage.

**Mr. Michael Johnston:** Honestly, for us it's a mix. In some ways we don't care. For the services we use to run our business, I'm not terribly concerned about where they exist. We'll rent a service from

Salesforce for CRM. We're a Google Apps customer for messaging. For file storage, we use Dropbox wherever those servers live.

For our kind of run-the-business operations, it matters less to me where they are located. Honestly, we find it through whatever service is available and most affordable and solves the business need.

For the services we build and sell to our clients, however, it does matter quite a bit. We have health care clients for whom we build websites, or data collection utilities, or serious video games that have a data back-end component. Those health care clients care very much where those servers live, and are very much concerned about keeping them in Canada.

We have to seek out cloud service providers where we can spin up servers for those clients or where we can guarantee the location. Sometimes that works, sometimes it doesn't. Sometimes that's very hard to pin down, in which case we have to go back to the model of buying a physical server and spinning that up in a facility in Halifax so that I can guarantee to Dalhousie University that in fact the data are here in Halifax.

That's certainly a problem. There are a lot of clients here in Canada who are concerned hearing about Patriot Acts and Obama regulations and watching for data sniffing—things that scare people.

So it's a concern. I think there's a lot of room to clarify some of that mysticism and help us as companies do a better job of communicating that to our clients. It changes every day. We don't have good answers, and I think we certainly need them.

• (1545)

**Mr. Dan Harris:** Thank you. That was exactly what I wanted to get an answer on.

Of course, we've heard previously at the committee about a lack of Canadian cloud computing storage space available. We've also heard the suggestion that creating that backbone should part of a digital economy strategy, which the government has promised and we have yet to see. We believe it's leading to Canadian businesses falling behind other jurisdictions in terms of adoption of digital technology; it's just one of the reasons.

Do you feel a cloud computing strategy should be part of an overall digital economy strategy for Canada?

Of course, you also mentioned the possibility of some incentives, for game development and elsewhere, at the federal level. I would think this would also potentially be part of a digital economy strategy, where we are trying to nationally build up this industry, which is a Canadian success story. Some reports were just published about the fabulous work that Canadian game developers are doing and the games they brought out at E3, which is happening right now.

Those are the things I wanted to ask you about, the digital economy strategy and those two elements—and that will probably use up all of my time.

**The Chair:** You have 60 seconds, Mr. Johnston, to answer whatever portion you can, please.

**Mr. Michael Johnston:** That's fine.

On the servers in Canada question, honestly, I would argue that cost is really the more important driver as we move to cloud. One of the biggest values of moving to the cloud now is the fact that we can try a lot of different technologies with a reasonably low barrier to entry.

Just having a service in Canada doesn't necessarily help me if I can ultimately get a cheaper service in the U.S. What I would rather see is this: play into that economy of scale, find services that are of value at a good cost, but help us clarify the regulations and help us understand how we can post information for a Canadian client—a health care provider, a government—on the most affordable service but in a way that we know where that data is living, who can see it, and what the privacy considerations actually are.

On the—

**The Chair:** Thank you very much, Mr. Johnston.

I'm sorry, but that's all the time we have.

**Mr. Michael Johnston:** That's fine.

**The Chair:** Mr. Braid, for five minutes.

**Mr. Peter Braid (Kitchener—Waterloo, CPC):** Thank you, Mr. Chair.

Thank you, Mr. Johnston, for being here this afternoon.

Staying on the topic of cloud computing, could you outline the various factors you weighed in making the business decision to go to cloud computing?

**Mr. Michael Johnston:** Sure. There were a couple, I suppose.

One of the big ones was ultimately cost, of course, but it was cost in the ongoing maintenance of the environment. It's very expensive to build up a server infrastructure, because it's constantly atrophying. The trouble with technology, as we all know, is that the second you buy it, it's out of date. It atrophies quickly. That's very expensive when you're talking about, for example, our company when it was smaller, when it was a company of 10 or 20 people buying expensive servers from IBM or Dell and finding an expensive place to host them.

It's very challenging to build up the base infrastructure needed just to open the doors, to put one piece of software on it, to allow us to run an HR system or something. We're talking about \$10,000 to \$20,000 to get started, whereas with a sort of cloud service, I can rent by the month. I can try before I buy. There are often free trials on software. It allows me to make incremental improvements to how I run my business without having to dedicate a huge capital budget just to give it a go.

It also—

• (1550)

**Mr. Peter Braid:** I have—

**Mr. Michael Johnston:** Go ahead.

**Mr. Peter Braid:** Thank you. I have two more questions, and I just want to make sure I get the next two in.

Still on cloud computing, you mentioned that some of your clients require that the cloud servers be in Canada. You spoke about some of the myths around why clients require that. Are there any legitimate or legal requirements, to your knowledge, to require servers to be in Canada?

**Mr. Michael Johnston:** Honestly, I probably don't have as definitive an answer as I should. Honestly, I'm usually trying to dispel myths. I think it's a condition of fear more than objective facts.

As I mentioned, we have some clients in health care, and they seem to believe that there are certain regulations on HIPAA compliance and tracking user patient data. We do health care gaming and therapeutic tools and things. I've been told, at least, that there are regulations they need to comply with. Personally, I can't speak to that. I tend to answer the more sort of fear-based questions and rumours rather than specific facts.

**Mr. Peter Braid:** Thank you.

Here's my final question. In all the various technology companies that I speak with in my riding of Waterloo, I hear two ongoing issues, concerns, or challenges. One is access to capital. The second is access to talent.

You referenced access to talent as an issue for you. I was just curious to know how you dealt with those two challenges in Halifax.

**Mr. Michael Johnston:** It's a constant challenge. I imagine that's true across Canada, but here, with a lower population base.... At the moment, we're trying to find 10 more mobile developers to satisfy a \$1 million contract ask that I really don't want to lose, and honestly we don't know how to find that talent.

We invest a lot in technology. As I mentioned in my opening remarks, we're getting to a point now where we're buying a lot of interesting new tech and building another new office space full of interesting technology, including Xbox One devices, virtual reality tools, a theatre room, and arcade consoles, and we have all of the new Apple gear for every new employee, simply so we can attract people to either move here from another region or to come here after school. It's a war for talent and for finding creative ways of doing that.

Usually with young twentysomethings, the things that drive them are money and the ability to play with new toys and use new technology. I get to let them build interesting technology for our clients because they're world leaders in entertainment media, but they want the best tools to do it, and I don't blame them.

On the capital side, yes, there's a huge dearth of capital available here. The lending institutions aren't terribly interested in services companies like mine. The venture capital companies certainly aren't. So it's been a risk. We've grown by bootstrapping, which makes it difficult for us to move everybody.

**The Chair:** Thank you very much.

Mr. Regan, go ahead for five minutes.

**Hon. Geoff Regan (Halifax West, Lib.):** Thank you very much, Mr. Chairman.

I want to thank the witness for joining us from beautiful downtown Bedford, Nova Scotia.

Mr. Johnston, you talked about some of the things you think could help on the cost side. You talked about tax programs, federal support, and labour-based credits, for example.

I see on your website it says:

Using a series of government tax incentives and research grants we are able to keep our development costs down while providing top rate quality.

I guess there are two parts to this. First, can you share your experience with the committee in terms of the kinds of grants you've had? Is there too much red tape? What's worked well? What hasn't worked? What changes would you recommend to make the system that's there more useful to companies like yours? On top of that, could you describe the kinds of things we should be doing in terms of tax programs or labour-based credits?

You can do all that in 20 seconds, right?

• (1555)

**Mr. Michael Johnston:** Yes, that's great. Thanks, Mr. Regan.

It's a horrible cold cloudy day so you're not missing much here.

For our part, because we've been a software engineering firm, over the years we have been part of a number of initiatives and projects that have qualified for the federal SR and ED program. That program has helped us reinvest in new technology, invest in skills that we've used to help grow our business, build new service offerings that we've taken to the market, and, I think, remain globally competitive. That program is getting more difficult to work with and to qualify for.

The sad reality, I suppose, is that we're an 80-person company that builds interactive technology for the world's leading media brands and we've never once had a successful digital media tax credit application in Nova Scotia. We have several applications in the file now that are under way for review yet again, but never has one been successful, for a variety of criteria and considerations. We won't go into all that except to say we've tried to leverage some of those but they are not clearly administered.

I think there's much room for improvement there. If there's room to make it more uniform across the country so we're not competing for projects and for talent with the other provinces across the country, I think Canada probably will be stronger overall. As a country, we're recognized as being a leader in this space, but once people come in across the border, the provinces all fight for the business and we fight for the talent, and I think no one gets any further ahead for it.

**Hon. Geoff Regan:** I should tell you that the weather here is beautiful, sunny and warm, and I'll try to bring this home with me tonight for the weekend.

**Mr. Michael Johnston:** I appreciate that.

**Hon. Geoff Regan:** I just checked the weather. It looks good for Saturday and Sunday at home, so I think I'm going to succeed in that.

I want to ask you about the cloud and the idea of cloud-first policies, because some countries do have those in place, policies in which companies must first consider cloud-computing strategies before implementing other strategies. For instance, in the U.K. they have the G-Cloud model. That involves a government-run online catalogue cloud store. Talk about your experience, if you would, with cloud computing some more, and tell us what you think would occur if the Canadian government developed a cloud-first policy of this sort as a central component of Canada's IT policy?

**Mr. Michael Johnston:** Honestly, I don't know much about the U.K.'s program specifically, but I think just from what you've said I'm actually quite excited about the idea.

I think one of the things that have really been lacking—and it's probably something I've assumed that business should drive, but perhaps government has a role as well—is that the vendors of cloud services haven't done a very good job, in my opinion, of selling the business value of what they're offering to businesses that don't necessarily understand IT.

Traditionally, companies have had to have a technology-minded person who knows what the company needs and goes out to the market and tries to figure out what's available rather than having cloud services communicated in the language of business. If you're running a real estate agency, you shouldn't need a huge on-staff IT department to understand how to get your team set up with a fleet of iPads so you can be responsive to your customers at open houses on Sunday. Selling cloud services from that perspective and using the language of business, and putting those in some centralized place where companies can see what's available and try it, I think is a fantastic idea. I think adoption would skyrocket.

**The Chair:** Thank you very much, Mr. Johnston and Mr. Regan.

Now we'll go to Mr. McColeman for five minutes.

**Mr. Phil McColeman (Brant, CPC):** Thank you, Mr. Johnston, for being with us today.

I want to explore this global context that you talked about in your opening remarks. There were many different levels. I know you touched on human resources a bit with questions from my colleague. Specifically, when you need to fill a position or you're expanding and creating new positions, how exactly do you recruit individuals for those positions?

**Mr. Michael Johnston:** There are a few ways. We've fostered long-standing relationships with a lot of educational institutions. We're on curriculum development boards at universities and community colleges. So we know well in advance who the good students are as they're coming up the line. But we get a new crop every year at graduation time.

We work with recruiting agencies locally and across the country. We have attended a lot of job fairs in international markets, but less so in the last few years now that the temporary foreign worker programs have become more challenging. It's more difficult, time consuming, and costly to attract someone from outside Canada to fill a position.

Generally, I need someone quickly. To find someone in the U.K., Armenia, or pick a country, it's now taking me six months on average to figure out the legal obstacles and help them relocate. I don't know what my world is going to look like three months from now, let alone six to nine.

I try to attract expats from the region to come back home and do interesting work here. I try to hire graduates locally and train them. We do a lot of ground-up building of resources, and that takes serious capital investment.

● (1600)

**Mr. Phil McColeman:** You mentioned your connections to Boston, Silicon Valley, and such. Is there talent in those areas? Out of your 80 active employees, how many are Canadians, and how many were brought in internationally?

**Mr. Michael Johnston:** I have to think how it breaks down. I would say that out of those 80, we have about 65 or so here in Nova Scotia. Probably between 5 and 10 are from outside of Canada. They are folks we've brought into the region. We have half a dozen or so in Toronto. We have three or four who sit in the U.K. They're U.K. citizens, and they work from there under the corporate structure we've set up in that country. And we have eight or nine Americans who work from home offices, whom we bring in as full-time resources. So it's kind of a mix.

It depends on the specific type of talent. For the more junior resources, I try very hard to bring them here to Nova Scotia to learn from the team and build a base of skills. For the senior, hard-to-find technical resources, I find them wherever I can and hire them wherever they sit, so I can serve the clients.

**Mr. Phil McColeman:** Shifting gears to the global context of being competitive as a Canadian business, I want to make sure the committee understands what your competitive advantages might be. You've relayed to the committee through your comments and some questioning that you're a price-driven company. In other words, if someone from Argentina or other parts of the world can provide a similar product of equal quality, consumer demand is based on price. Is that accurate, or are there other factors? We know the reasons people do business with others. But is price right up there as the number one issue?

**Mr. Michael Johnston:** No, I'm sorry if I miscommunicated there. If we build a website, we need to host that on a server. Absolutely, we're looking for the best cost on the cloud-based infrastructure we use to deliver the service we provide. But actually, it's quite the opposite: if we compete on price, we lose every time.

Every offshore jurisdiction that can rent people at \$15 an hour is going to beat us every time on price, if we're looking at unit value.

We tend to be more valuable to clients who are looking for a slightly better cost than they can get in New York, Boston, Atlanta, or L.A. But they come to us with problems that aren't fully formed—that fuzzy area of trying to drive their business forward, to create a new technology. They need a friendly partner from the north they can sit down with and solve a problem on the back of a napkin. They trust us to deliver in a cost-effective fashion, but they realize that if they have a specification for software already built they can hand that off to an offshore company for cheaper. It's the cutting edge of new business that they need us for.

**The Chair:** Thank you, Mr. Johnston.

Mr. Stewart.

**Mr. Kennedy Stewart (Burnaby—Douglas, NDP):** Thank you, Mr. Chair.

Thank you, Mr. Johnston, for coming today.

I grew up outside of Wolfville. My sister lives in Bedford. It's nice to have another Maritimer in today.

Just following on that, you said you've had companies in Boston, and Halifax, and maybe other places. I guess you had a company in Boston first and then you moved to Halifax. I'm just wondering, why did you move back to the Maritimes? I love it there. I understand it's a beautiful place, but from a business perspective, why the Maritimes?

● (1605)

**Mr. Michael Johnston:** Quite honestly, my wife and I had our one-month-old baby, our life packed up in a one-way moving van, and literally the day before we were deciding whether or not to turn left to Toronto or turn right to Halifax.

I set up a services company serving U.S. clients. Quite honestly, it didn't matter at all where I sat. That's the nature of the business. Even to this day I have a lot of clients I've never seen face to face.

We wanted to be close to family. We wanted the cost of living, the rabbits in the backyard, the experience of being near home and the grandparents. I needed a phone and an Internet connection. As long as I had that, I could serve global clients. They look for talent wherever they can find it. My answer was, why not here?

Quite honestly, I've been glad—

Go ahead.

**Mr. Kennedy Stewart:** Can I just extend that a little bit? I am now in Burnaby. We have EA Sports there, and Ballard fuel cells, and lots of high-tech companies. When I meet with them, I often ask them, what makes your employees stay? Of course, it is global. You say that talent is very hard to find. Why do you think your employees stay with you? What keeps the talent in Halifax?



**Mr. Michael Johnston:** I've actually asked them some of that. One thing that drives them to stay is the work. We do really interesting work for clients, which they can be proud of and tell their friends about. The second is the quality of life. I think we've tried hard as a company to allow them to enjoy the quality of life here. We don't work every evening and weekend. We live in Nova Scotia, where people can go canoeing in the evenings. We've tried to build a business, price our work, manage it accordingly so people can actually come here, do a good day's work that they can be proud of and then actually go out and enjoy the Nova Scotia environment.

We've all travelled a lot to many places in the world. I've never heard anyone who's had a bad thing to say about this part of the world; it draws people in. Clients want to come here to see the place and understand what keeps people so loyal here. We have almost no turnover. We've never laid anyone off.

There's a loyalty to the place and a loyalty to the company, if we treat them right—we think, anyway. We've been trying hard to build on that.

**Mr. Kennedy Stewart:** I like contrasting the two places. In Burnaby, some of the companies say their employees are leaving because housing prices are too high, so we focus a lot on tax credits and those government policies, but it seems to me that some of it comes at the local level and that what we do in cities seems to matter as well.

Do you get any rumblings of that at all? I know Halifax housing prices aren't quite as bad as in Burnaby or Metro Vancouver, but are those the kinds of things your employees are focused on as well?

**Mr. Michael Johnston:** Less so. It's more on the availability of public transit, the critical mass. We've had people come here from Toronto and leave because they were bored. People are honestly scared to move here because they think if something doesn't work out with TeamSpace, as their employer, there's nothing else in Halifax for them to do. They've moved my family. I don't believe those rumours are true, but those are certainly some of the rumours we deal with.

Once people get here, I think they're very happy. We tend to lose most of our talent—if we ever do—to poaching between companies in the region. A lot of the companies here are export driven; we're all serving external clients. We poach on dollars, so if I lose people it's because someone down the street offered them \$10,000 more in salary.

**Mr. Kennedy Stewart:** Chair, how much time do I have?

**The Chair:** You have 40 seconds.

**Mr. Kennedy Stewart:** Just quickly, Mr. Regan touched on this, but are there any initiatives you would propose that we could do federally to help you grow?

**Mr. Michael Johnston:** Honestly, I quite liked his idea about services to help me help my clients understand what some of the services are. Ultimately, people can rent cloud infrastructure, but they ultimately need a service provider to help them implement and understand that. That certainly helps me.

Yes, getting some more clarity around industry-based labour tax credits to help them be more uniformly applied, I would certainly welcome any help in that regard out here on the east coast.

**The Chair:** Thank you very much, Mr. Johnston and Mr. Stewart.

And by the way, Mr. Regan never looks bored here at the committee.

Now on to Madam Gallant, for five minutes.

**Mrs. Cheryl Gallant (Renfrew—Nipissing—Pembroke, CPC):** Thank you, Mr. Chairman.

To our witness, you mentioned that you provide services to the aerospace industry, and perhaps the defence industry. What types of services do you provide to that sector?

**Mr. Michael Johnston:** We provide mostly media and software development. We tend to work for the larger primes who have defence contracts and have IRB offset obligations to fulfill, and we'll help do 3D graphics development or e-learning courseware development, those kinds of things, including Unity 3D, mobile development for a simulation that needs to run on a mobile device. Those are the sorts of projects we do. The services are very similar to what we provide to media clients, but in this case to aerospace and defence primes.

•(1610)

**Mrs. Cheryl Gallant:** What is an Xpage?

**Mr. Michael Johnston:** Xpage is actually a Java-based framework that IBM has built. It allows for a sort of Java script front-end ability to build a more structured webpage to communicate with others.

**Mrs. Cheryl Gallant:** Provide the service in utilizing that Xpage. ...

**Mr. Michael Johnston:** I'm sorry. Could you repeat that? The beginning was cut off.

**Mrs. Cheryl Gallant:** I was just looking up your company and it has different references to using the Xpages. Do you provide the service of using that framework for your clients?

**Mr. Michael Johnston:** That's right, yes. For example, the Xpages framework from IBM is something that if a client invests in back-end server infrastructure, we'll build the custom applications for that client on top of that technology, such as a learning management system, a corporate collaboration tool, a workflow system, using those building blocks.

**Mrs. Cheryl Gallant:** You had mentioned that for digital media and gaming, there are some provincial programs that support your industry.

Would you please describe those?

**Mr. Michael Johnston:** Here in Nova Scotia, there is a digital media tax credit administered by the Nova Scotia Department of Finance. It's called a digital media credit, but really it's a video game development credit. It's a labour-based credit that allows us to claim labour expenses, providing an overhead uplift, and some marketing expenses for a qualifying project that is really a stand-alone video game. It needs to meet certain criteria of interactivity and adaptability. There's a book of guidelines we need to comply with. If it qualifies, if it's approved by the department, we can attract labour-based tax credits at a certain percentage.

**Mrs. Cheryl Gallant:** With the cloud-based programs that some companies are using, there seems to be more of a lag time getting from one page to the next, or one section of the application to the next.

In gaming, one would expect you to be using as close to real time applications as possible. How has your company seemed to overcome that lag that exists in many other cloud-based applications?

**Mr. Michael Johnston:** Right. A lot of the games we build tend to have local client installs that only use services in the cloud for things that aren't sensitive to the time response. We'll build games that run on your mobile device, but only then push your top score to the cloud, or allow you to post something to Facebook, the kind of service where it doesn't matter if it takes an extra half-second of lag time. I fully agree that there are a lot of online gaming tools through some of the consoles, such as Xbox Live, where a millisecond of lag time means the difference between getting a flag or not. We build fewer of those kinds of games.

On that side, we're more concerned about building video delivery engines. We build a lot of video players for media clients who are very much concerned about the lag time on delivering streaming video for a music video, a live event, an awards show. We do a lot of development work where we build out tools that can adapt to the available bandwidth and break down packets and only send every other image down the wire—things that help the client overcome that sort of limitation of bandwidth at different client locations.

**The Chair:** Thank you very much, Madam Gallant and Mr. Johnston.

Now on to Mr. Harris, for five minutes.

**Mr. Dan Harris:** Thank you.

I'm getting a chance to follow up on my previous line of questioning, since we didn't get it finished.

I notice you've been writing down some of the questions.

Do you still have the one I was asking about gaming and what could be done at the federal level? We weren't able to get to that part in your answer.

**Mr. Michael Johnston:** Right. That's true. You mentioned some of the announcements at E3, I suppose, hadn't you?

• (1615)

**Mr. Dan Harris:** Yes. Canadian game developers seem to be doing quite well and succeeding. How do we keep that going and continue growing it? I ask because, of course, we do have the gaming hubs in Toronto, Montreal, and Vancouver, and we have

hubs growing in Edmonton and Winnipeg. With a company like yours in Halifax, how do we keep that going?

**Mr. Michael Johnston:** I think we've touched on a couple. We spearheaded some of the announcements at E3 by the Entertainment Software Association of Canada. We know that group well and we're part of that survey process, so some of those results reflect some of our information as well.

I like to think that sectors like video gaming are in some ways a bit of a bellwether for the future of the entertainment and IT sectors in this country. I find that the talent we use to build video games is the same talent we need to use to build websites, health care applications, HR tools, corporate learning applications, and defence simulations. The technology landscape is blended. I use the same type of person, sometimes the same person by name, to do all those different types of projects because the technology is very transportable.

I worry that if we can't keep that talent in this country, a lot of other sectors beyond video gaming are going to suffer. It's an attractive sector. People understand it. Some tax credits are geared to try to grow that sector. I think if we use that as a bellwether and allow ourselves to attract and retain some of that talent and grow that sector, there will be a lot of ripple effects that we as an economy will feel because of that. Whether that's provincially administered the way it is now—and I would argue not as well as it could be—or if there's room for more of a federal role, I'd certainly love to talk more about that.

I think some of the other issues we deal with at a national level, such as talent in general and immigration, have been more difficult. I've gone from hiring a couple of people—two, three, or four a year—from outside of Canada to not having hired anyone outside of Canada within the last two years because the process is just too slow and costly. There's also lack of understanding of and a lot of change in the copyright regulations and trademark understandings, and the process and cost of registering that. As we build more original games ourselves, the cost and process for registering those marks and protecting that IP across the world is confusing, expensive, and a bit daunting. So some help there would certainly be welcome as well.

**Mr. Dan Harris:** It's ironic that you bring up copyright and trademark and intellectual property because our previous study was on intellectual property, and the next thing this committee will be dealing with is the bill on copyright and trademark that just passed second reading very late last night. So we'll be coming back to that hopefully on Tuesday.

I had brought up the digital economy strategy before, and we didn't really get a chance to go into that. Do you find Canada to be lacking a vision and strategy for the digital economy, and that we should be pushing that forward so we have a vision of where we want to go and how and what we want to do with that?

**Mr. Michael Johnston:** Not to put too fine a point on it, I think the digital economy touches every sector of our national economy. Point to any company now that doesn't have a billing system, an e-mail system in the cloud, and laptops, tablets, and smart phones, they need people who can understand how to get value out of them. I think if we don't have a national strategy to drive that forward, to structure, to make it cost-effective and understandable to businesses not just like mine.... I speak technology, and we do this all day. I hire people who tear apart Xboxes at home under their bed, but there are a lot of companies out there for whom technology is daunting, but they really need to invest in this area to grow forward. Yes, if there's room to help every sector of our economy to understand how to apply ICT in a more creative and cost-effective way, I think we'll all be the better for it.

**Mr. Dan Harris:** Thank you, and yes, I'm out of time.

Coming from an ICT background myself, I share your challenges.

• (1620)

**The Chair:** Thank you.

Mr. Carmichael, you have five minutes.

**Mr. John Carmichael (Don Valley West, CPC):** Thank you, Chair.

Thank you, Mr. Johnston, for your testimony today.

I'd like to go back to a part of your opening remarks. I'm familiar with a company that is in the technology world and originated in Calgary and has moved much of its operation to Newfoundland. It found that, outside of the lifestyle—and you've addressed that as a cost of doing business—people were more readily available and more competitive. The opportunities presented to it made it worthwhile for it to take advantage of some of the provincial opportunities.

When you talk to my colleague's previous comment about the various digital hubs across the country, the various digital environments in so many of the major centres across Canada, can you tell us how you compete one for one with those in your industry when you look at Toronto, Montreal, Winnipeg, Edmonton, etc? That is the first part.

The second part of that would be to get a better understanding of this. It seems to me you're dealing on a global basis, certainly a North America-wide basis, with very specific skill sets. You're highly specialized. You bring a product to the market that is unique, from what I understand from your testimony. I'm not sure if that's fair or accurate, but could you speak for a minute about competitiveness across Canada, for starters, with those thoughts in mind?

**Mr. Michael Johnston:** I honestly think in some ways I've tried to avoid that by selling to non-Canadian clients. We do competitively bid on projects to our American and European clients with other Canadian firms. We've lost a couple of jobs to some great companies.

Sorry?

**Mr. John Carmichael:** That's more what I'm relating to, other Canadian companies that might play in the same space as you do.

**Mr. Michael Johnston:** I think in many ways we're all part of the near shore trend. None of us can win on price on the global stage, so we compete on the specialized value we can bring.

A lot of the competitors in my space don't build finished product. We're services players that offer a specialized skill in the supply chain. For one client I'll build a very specific video delivery platform, but ultimately, the end client puts the final wrapper on that and sells that to its customer.

I think, honestly, there are a lot of companies in Canada with whom I compete that do similar things. We find our specialized niche and can sometimes partner, and sometimes we have to acknowledge we're head to head. But realistically, we're paying similar salaries, we're working on similar technology bases, and we speak the same languages.

In many ways, yes, we do compete head to head; and sometimes it comes down to the specialized skill we can offer and the last two projects we did in our portfolio that are relevant. Honestly, most of our discerning clients only really care about the last couple of things we did that they can build on to move their business forward.

**Mr. John Carmichael:** You're obviously an entrepreneur, you've been successful in your business, you've got a highly specialized workforce, and you know where you fit in your food chain, if you like, as you compete in the marketplace. Based on your comments, am I right in assuming then that, as you run your business, there are competitors out there that would compete directly with you, or can you move that anywhere you want to move it, if you were so inclined?

In other words, the geography doesn't matter. We're now doing cloud computing. We're dealing with a higher level of technology and new technology, and it strikes me that outside of the cost of infrastructure and where it's located, it's portable and it's competitive wherever it's located.

**Mr. Michael Johnston:** Yes and no, honestly.

We have a couple of different lines of business. One, we're building original product ourselves, games that are our IP, in which case, yes, I fully agree with you. Finding the right cost base for the infrastructure we use, it doesn't matter where we find that.

But we're also a services business, and I think what's made us successful is the quality of the people, and that's hard to move. That is a unique Canadian value-add that I haven't been able to find anywhere else in the world. We have the kind of people here who go the extra mile, think on their feet, ask the right questions; they're well educated, can solve problems and do so with a smile and a kind of loyalty to the client first. My people are more loyal to the client and the project than they are to me sometimes, and that's a wonderful factor in our success. That's made us competitive.

• (1625)

**The Chair:** That's all the time we have.

Now to Madam LeBlanc for five minutes.

[Translation]

**Ms. Hélène LeBlanc (LaSalle—Émard, NDP):** Good afternoon, Mr. Johnston. It's a pleasure for me to talk to you about the beautiful province of Nova Scotia.

My father was born in Nova Scotia. So I was lucky enough to spend my summers there. I also studied in Nova Scotia. Strangely enough, I am less familiar with Halifax, as my father hails from southwestern Nova Scotia. I know that the province is dotted with wonderful villages along the coast. They're very beautiful.

Based on your expertise, what kind of Internet access is available in those villages, especially when it comes to small and medium-sized companies? Those villages do have a number of small and medium-sized businesses operating in various fields of activity, such as fishing and tourism.

Are many of your clients located in Nova Scotia and the Maritimes? Could you give us an overview of the situation with regard to Internet access, the costs involved and the level of computer literacy in small and medium-sized companies?

Thank you.

[English]

**Mr. Michael Johnston:** I may not have the most concrete answers in that regard. Most of our clients are outside the region, most of them are large international companies in major urban centres. Speaking from my perspective, I moved back here 13 years ago—as old as my firstborn—and we couldn't get an Internet connection 15 minutes outside of Halifax. That's a dozen years ago. It almost made us pack up and move to Toronto after all, before we unpacked the moving truck. In the end we installed a satellite dish. It was complicated and it wasn't that long ago. You know, it's something we take for granted now.

I know that provincially here in Nova Scotia there have been issues about getting Internet connectivity across the province. I think that's absolutely essential. I mean, the notion of not having high-speed Internet available in every corner of the province seems unfathomable to me at this point.

[Translation]

**Ms. Hélène LeBlanc:** I would like to discuss another issue, Mr. Johnston, as your answers are always very good and detailed.

We recently learned that the famous auction of the 700 MHz spectrum would be postponed to January 2014. Will that have any repercussions on your company?

After all, the 700 MHz spectrum is the equivalent of beachfront property in the area of broadband, as it makes it possible to overcome obstacles and serve larger regions.

[English]

**Mr. Michael Johnston:** For the sort of direct services work I do for media companies, no. It may have a trickle down effect for me, but not directly.

For the gaming projects that I'm part of and the original IP, yes, I think so. Most of our growth is in mobile. Almost every project we get asked to bid on has a mobile component. Every game we build has to target mobile first. There is a voracious demand for mobile access and connectivity. That's only going to skyrocket in terms of bandwidth and cost and competitiveness in that landscape. The number of devices has grown exponentially and their capabilities are skyrocketing. We need to have a lot of bandwidth if we're going to stay relevant, much more than I think anyone is probably estimating at this point.

[Translation]

**Ms. Hélène LeBlanc:** As my colleague mentioned briefly, we are still waiting for a Canadian digital strategy. We are talking about a digital economy strategy because our study concerns the adoption of technologies by small and medium-sized companies. We see that as a way to help our economy grow and prosper.

Do you think Canada should adopt a digital strategy, as a number of OECD countries have done? Such a strategy would establish major guidelines and make the Internet more accessible in the regions. That kind of a roll-out would help highlight programs that could help small and medium-sized companies like yours provide even more services and grow.

•(1630)

[English]

**The Chair:** Very, very briefly, Mr. Johnston, please.

**Mr. Michael Johnston:** Yes, absolutely. As I mentioned earlier, every company in every sector uses IT at some level. The more ready the access those companies have to cloud services, to other options to help them drive and grow their business, the more readily they'll be able to experiment and build efficiencies and grow. You know—

**The Chair:** Thank you very much, Mr. Johnston. We appreciate your time here today. I'm sorry that I've had to be very diligent in keeping everybody to the time, but we greatly appreciate your being with us and we appreciate your very fulsome and informative answers.

We're just going to pause for a moment and then go into camera for some brief committee business, colleagues.

[Proceedings continue in camera]







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