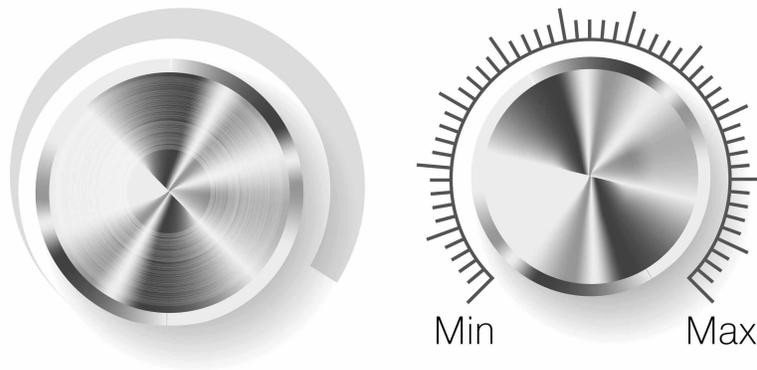




CIMA

Canadian Independent
Music Association



Sound Analysis

An examination of the
Canadian Independent Music Industry

February 2013

Prepared By:



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Canada 

Executive Summary

The Canadian independent music industry has a long tradition of developing and exporting world-class artists and music businesses, and is increasingly finding success in international markets over the last decade.

The Greater Toronto Area (GTA) acts as the unofficial music industry capital of Canada, with primary centres also located in Montreal and Vancouver. A number of secondary centres exist across Canada, including: Halifax, Quebec City, Ottawa, Winnipeg, Saskatoon, Calgary and Edmonton. Tertiary music centres in Canada include St. John's, Regina, Victoria, Yellowknife and Whitehorse. Illustrious Canadian artists and music businesses have hailed from each region of Canada, and together form the style and backdrop that makes Canadian independent music distinctive.

Canada's independent music industry also enjoys remarkable crossover with its fellow creative industries. The sector forms an integral part of Canada's celebrated arts, film, television and digital media (and video game) industries, in its capacity as a supplier of original and licensed musical works.

While there is a growing recognition that Canada's independent music industry is a source of industry growth and employment, the information and data available to the Canadian Independent Music Association (and to policymakers) on its structure and economic contribution is limited and somewhat misleading. As such, there is a clear need for the independent music industry to supplement the deficiencies in the national statistics generated by Statistics Canada, especially in light of the fact that several years have passed since the last profiling initiatives. It is also clear that to be effective, the profile should be based on the collection of primary data from independent producers.

As such, the Canadian Independent Music Association (CIMA) has commissioned this study by Nordicity to fully determine the breadth and scope of the Canadian-owned, independent music industry as a whole, and to measure its importance to both national and provincial economies. While the scope of this study is national in nature, its focus is primarily on the English-language independent music industry in Canada. As such, French-language companies and artists are likely underrepresented in this study.

Previous and current reports such as *Analysis of the Impact of the Ontario Sound Recording Tax Credit¹*, *A Strategic Study for the Music Industry in Ontario²* and *An Overview of the Financial Impact of the Canadian Music Industry³* represent useful guidance for the industry. However, the profile generated by this "Sound Analysis" study provides CIMA with a clear view of the independent segment of the wider music industry with data and info tailored for multiple purposes.

1 Completed by Nordicity in 2011 for CIMA.

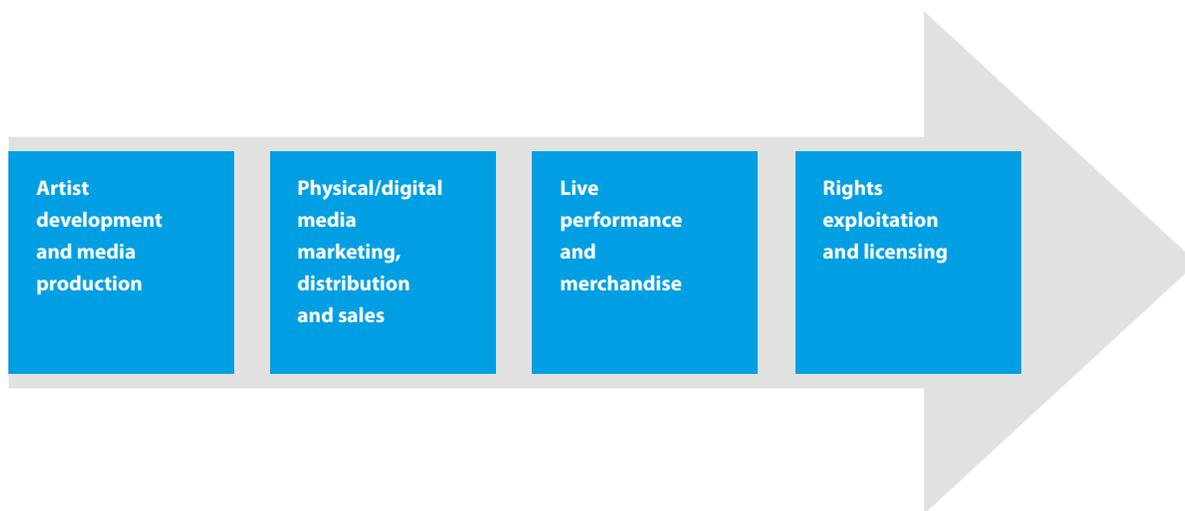
2 Completed by Nordicity in 2008 for the OMDC

3 Completed by PricewaterhouseCoopers in 2012 for Music Canada

While there is some overlap between this report and that produced by PwC for Music Canada, this report speaks to a wider portion of the Canadian independent music industry, whereas the Music Canada report focused its efforts on the sound recording and live performance segments of the industry. At the same time, the Music Canada report covers more than independent firms and includes major labels and venues (e.g., the Air Canada Centre) in its analysis of the sound recording and live performance segments of Canada’s music industry.

Economic Profile

The core of the Canadian-owned independent music sector is the entrepreneurial activity associated with the development, production and distribution of music, including live performances. As the following graphic illustrates, one can think of a music company (traditionally called a “record label”) as having four core functions.



Given that other parties in the music ecosystem – from artists themselves to music publishers to artist managers – are now performing some or all of these functions, this study had to adopt a more nuanced approach to defining Canada’s independent music sector. To this end, the first task of the methodology was to establish these limits. In concert with CIMA, Nordicity concluded that the economic profile should include a wide spectrum of music industry companies. Therefore, the following list was presented to survey participants to select their music-related activities:

- Record Label Activities
- Music Production
- Music Publishing
- Artist Management
- Artist-Agent Activities
- Performance/Tour Promotion
- Recording Studio Operation/Management
- Publicity/PR
- Performance Venue Operation/Management
- Event/Festival Operation/Management
- Professional Services Provision
- Music association/Non-profit Organization
- Physical Retail
- Digital Retail
- Education
- Instrument/Equipment Sales and Services
- CD Duplication, Manufacturing and/or Duplication Services
- Other

The following table outlines the key findings of the profile of Canada's independent music industry:

Subject	Data Point
Music Industry Activities	47% of independent music companies in Canada engage in the creation of music.
Company Structure	The average age of independent music companies in Canada is approximately 10.3 years – 46% of all independent Music companies are sole proprietorships.
Revenue	Companies in the Canadian independent music industry generated approximately \$292.2 million in 2011.
	60% of independent music companies in Canada generate less than \$50,000 - only the top 10% earn more than \$500,000 per year.
	Sound recording sales (25%) and live performances (15%) were the largest sources of revenue in 2011.
	73% of all revenue comes from the Canadian market.
Expenditures	Wages, overhead and equipment account for 47% of all expenditures in the independent music industry.
Industry Activities	Digital singles account for 90% of all single sales, but make up only 47% of the revenue stream. Physical albums and singles continue to make up a much larger share of revenues in proportion to their sales volume.
	Music publishers are signing fewer new artists per year, but more of them are Canadian.
	Artist manager have signed more new artists in each of the past two years (up 64% since 2009), with an increasing portion of them being Canadian (79% in 2009 and 84% in 2012).
Salaries	Employees of music companies earned an average of \$22,250 in wages in 2011.
	Individual artists earned an average of \$7,228 per year from music-related activities in 2011, though they only spent 29 hours per week pursuing such activities.
Artists	Artists generated \$79.4 million in music-related revenue in 2011.
	Artists spent roughly \$52.7 million in music-related expenditures in 2011.
	Most artists (60%) polled produce music in addition to playing it.

Economic Impact Analysis

The following table provides a summary of the key findings of the economic impact analysis:

Subject	Data Point
GDP Impact	The total GDP impact of the Independent Music industry was \$303 million in 2011.
	The largest contributors to the GDP impact were record companies (28%) and artists (24%).
	For every \$10 million of revenue, the independent music industry generated \$8.2 million of GDP impact.
Employment Impact	The independent music industry employed approximately 13,459 FTEs in 2011.
	The majority (67%) of FTEs in the independent music industry are artists.
	For every \$10 million in revenue, the industry employs 362 people.
Fiscal Impact	The independent music industry (companies and artists) generated more than \$93 million in federal and provincial tax revenue in 2011.
	For every \$1 of industry revenue, the independent music industry generated \$0.26 in tax revenue in 2011.
	For every \$1 of government support, the independent music industry generated \$1.22 in tax revenue in 2011.

1. Introduction

This section of the report provides some background on the rationale for the Canadian Independent Music Association (CIMA) to undertake this study at this time. It also sets out the methodology used by Nordicity to conduct the industry profile and economic impact analysis.

1.1 Rationale for this Project

An economic impact assessment of Canada's independent music industry is timely

While there is a growing recognition that Canada's independent music industry is a source of industry growth and employment, the information and data available to CIMA (and to policymakers) on its structure and economic contribution is limited and somewhat misleading. Statistics Canada offers very sparse data on the state of the Canadian-owned independent segment; its focus is on the overall industry. There have been economic profiles of the independent segment, but one of the last comprehensive initiatives (conducted by Nordicity) was in 2004 sponsored by Telefilm. Another attempt in 2008 led by the Rotman School of Management faced data collection issues and appears to have left out significant parts of the industry's revenue.

There is a clear need for the independent segment to supplement the deficiencies in the national statistics generated by Statistics Canada, especially in view of the several years that have passed since the last profiling initiatives. It is also clear that to be effective, the profile should be based on the collection of primary data from independent producers. Pulling together secondary information and data would not be sufficient to document and measure its composition and economic contribution. The challenges remain; e.g., to capture all revenues from touring when there are many parties to the live performance venues. This project is intended to fulfill this need and to establish the framework for the work to consider at future updates.

Whether the intended audience is policymakers or investors, a statistical and economic profile will provide an essential reference for decision-making. From a policy perspective, this statistical and economic profile will help demonstrate the important role that the independent music industry plays within Canada's increasingly knowledge-based economy and creative cluster, and the return on investment it offers to public and private investment in its growth.

Previous studies have not fully identified the independent sector of the music industry

Reports such as *Analysis of the Impact of the Ontario Sound Recording Tax Credit⁴, A Strategic Study for*

4 Completed by Nordicity in 2011 for CIMA.

*the Music Industry in Ontario*⁵ and *An Overview of the Financial Impact of the Canadian Music Industry*⁶ represent useful guidance for the industry. However, the profile that is generated by this “Sound Analysis” study provides CIMA with a clear view of the independent segment of the wider music industry with data and information tailored for multiple purposes.

The most recent study conducted by PwC for Music Canada (“An Overview”) does depict a segment of the independent music industry in Canada – namely independent recording labels. It does not, however, reflect the wider independent music ecosystem, as is described in this report. This report can be viewed as complementary to the Music Canada profile; one that is focused on this broader independent music ecosystem. The following graphic illustrates how this report and that of Music Canada overlap:

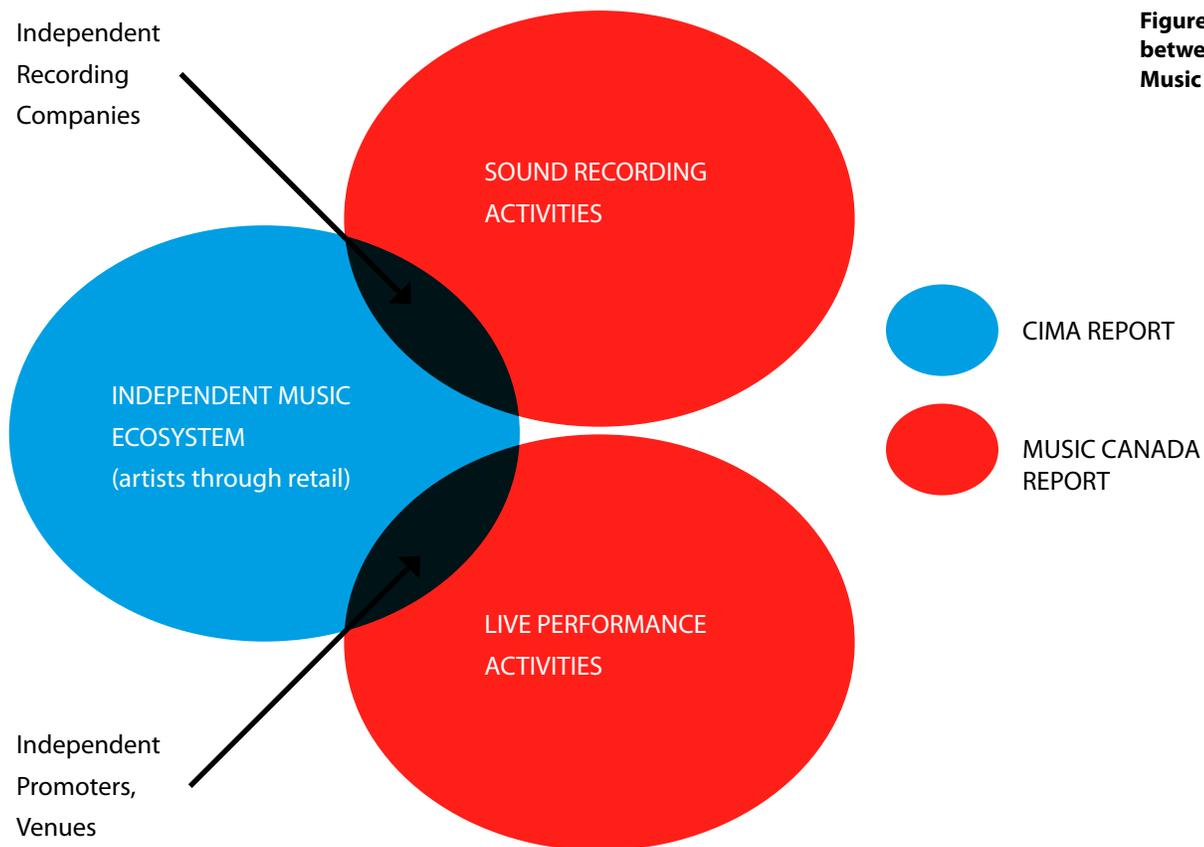


Figure 1 – Relation between CIMA and Music Canada reports

5 Completed by Nordicity in 2008 for the OMDC

6 Completed by PricewaterhouseCoopers in 2012 for Music Canada

As the above graphic shows, while there is some overlap between this report and that produced by Music Canada, this report speaks to a wider portion of the Canadian independent music industry, whereas the Music Canada report focused its efforts on the sound recording and live performance segments of the industry. At the same time, the Music Canada report covers more than independent firms and includes major labels and venues (e.g., the Air Canada Centre) in its analysis of the sound recording and live performance segments of Canada’s music industry.

With this relationship in mind the results of this study should be considered as complementary to, but not additive to the results of the Music Canada report.

The Canadian independent music industry needs to capitalize on emerging business

One aspect of the study requirement is for the identification of forward-looking business models, market intelligence, and trends that would help the Canadian independent music sector. This prospective is developed separately from the economic profiling of the sector, although it is derived in part from the primary research that includes canvassing the views of a range of stakeholders in the independent ecosystem. The results also feed into the overall economic profile, in the sense that these trends help identify the potential for growth in the sector – and thus lead to an increased economic contribution; one that triggers a higher Return on Investment (ROI) on the public investment the industry receives.

1.2 Methodology

This sub-section of the report outlines the various methodologies used in the development of this report, namely the survey methodology, the “gross-up” methodology regarding the survey results, the interview methodology and the economic impact methodology.

1.2.1 Survey Methodology

The majority of the data needed for this report was obtained using an online survey, hosted on the Canadian-based site fluidsurveys.com. The survey was open to respondents in the music industry from March through June of 2012. It was made available online to music industry practitioners across Canada. While the scope of this study is national in nature, its focus is primarily on the English-language independent music industry in Canada. As such, French-language companies and artists are likely underrepresented in this study.

To encourage intended respondents to complete the survey, Nordicity and CIMA partnered with provincial music industry associations, and with other music industry organizations. Their promotion and encouragement of their constituencies ensured that everyone active in Canada’s independent music industry had the opportunity to complete the online questionnaire.

Due to this open-ended approach, it is not possible to ascertain the “completion rate” of the survey. That said, when the survey closed useable responses were gathered from 1563 individuals representing 502 music companies and 1094 artists (33 respondents answered as both a music company and an artist). The total potential number of respondents is probably ten times that number, but that size of sample means that the response rate represents a statistically significant sample of the independent music industry in Canada.

Given that this survey attempted to examine segments across the independent music industry, survey data was not as fulsome for each such segment. To account for this issue, Nordicity grouped companies into categories large enough to be examined. For this reason, several segments of the music industry value chain are combined into the “Rest of Sample” category. Each of these segments was “grossed-up” separately, as described below.

1.2.2 “Gross-up” Methodology

Given the challenges to fully gather data on the entire independent music industry in Canada, Nordicity was required to develop a methodology to “gross up” the sample of data collected to reflect the size of the entire universe. To do so, Nordicity created a “gross-up factor” based on the extent to which the collected sample represents the wider universe, then multiplied all absolute values by this factor (e.g., revenue generated; number of employees). For example, if sales of all the labels were x% of the totals obtained by Statistics Canada, the figures were grossed up (i.e., applied a weighting factor) to take the sample up to the universe.

Thus, the gross-up factor for each music industry segment for which sufficient survey data was available was calculated. Those segments garnering less than 10 survey responses were grouped into the “Rest of Sample” segment. Artists were analyzed separately. The gross-up factors and their sources are presented in the following table, which also shows the source of the data that depicts the universe of each sub-sector:

Table 1 - Gross-up factors and sources

Music Industry Segment	Source of Data	Gross-up Factor
Record Companies	Music Canada, Economic impact of the Sound Recording Industry in Canada, based on data from Statistics Canada Catalogue no. 87F0008X	2.76
Music Publishers	Statistics Canada Catalogue no. 87F0008X	3.24
Artist Managers	Music Managers Forum Membership	1.31
Music Promoters`	NAICS Code 7113 (for 2010)	8.42
Recording Studios	Statistics Canada Catalogue no. 87F0008X	13.17
Rest of Sample	Weighted average of all other segments	3.38
Artists	Manitoba Music Industry Study	3.78

It should be noted that music creator, performer and production companies were not analyzed as separate segments as Nordicity's analysis treated these segments as recording company expenditures.

1.2.3 Interviews

In addition to the quantitative data generated, Nordicity gathered qualitative information regarding the independent music industry in Canada through a series of one-on-one interviews. To that end, Nordicity conducted a series of 28 interviews with independent music companies across Canada.

1.2.4 Economic Impact

For the economic impact analysis, Nordicity prepared estimates of the direct, indirect and induced impacts of the Canadian independent music industry on the economy as a whole. For each type of economic impact, estimates of the total jobs, household income and gross domestic product (GDP) attributable to the economic activity stimulated by the Canadian independent music industry were prepared.

Like many other industries, the music industry is actually a composite of numerous sub-industries, including artists, record companies, music publishers, artist managers, recording studios and a variety of other segments. Each of these segments operates slightly differently in the Canadian economy (e.g., record companies are more likely to spend on physical media production than artist managers). Accordingly, Nordicity could not develop a single economic multiplier for the entire music industry

in Canada. The approach, then, was to assess the economic impact originating from six key segments of the ecosystem: record companies, music publishers, artist managers, music promoters, recording studios and artists. Nordicity also included estimates of the economic activity associated with other participants in the Canadian independent music industry that could not be classified to any of the six segments of the ecosystem.

The direct economic impact refers to the jobs, household income and GDP generated within the Canadian independent music industry itself, including the six key ecosystem segments (listed above). This economic impact is largely in the form of wages, salaries and other income earned by music industry workers and artists. It also includes royalties paid to rights holders, as well as the operating surplus (i.e., operating profits and sole proprietors' income) earned by music industry companies. To estimate the direct economic impact requires reliable statistics on companies' revenue and operating expenditures, as well as data on artists' income. This data was obtained from the survey of the Canadian independent music industry.

The indirect economic impact refers to the increase in GDP, household income and employment in the industries that supply inputs to the Canadian music industry (e.g., accounting and legal, travel, advertising). These purchases of goods and services increase income and employment at the supplier companies; in turn, they also increase demand for other upstream suppliers – i.e., the suppliers' suppliers. To estimate the indirect economic impact, the expenditure breakdown obtained from the survey in combination with Statistics Canada's Input-Output (I-O) Tables for the Canadian economy were used to construct a model that could be used to estimate the GDP, wages and jobs created by increased demand in the suppliers' industries.

The induced economic impact refers to the increase in GDP, household income and employment that can be attributed to the re-spending of income by Canadian households that earned income at both the direct and indirect stages of the economic impact process. Nordicity applied its own induced impact economic multiplier to derive estimates for this analysis. This multiplier is based on Nordicity's estimates of the marginal propensity to consume (MPC) and marginal propensity to import (MPM). The derivation of the MPC and MPM is based on data for consumption activity and international trade available from Statistics Canada.

In order to arrive at an industry wide total, Nordicity first had to add the component industry segments (see Section 1.2.2 above). In so doing, Nordicity needed to ensure that respondent companies were not double counted if they were engaged in multiple music industry activities (e.g., record label and publishing activities). Accordingly, Nordicity adopted a cascading approach, in which all companies that indicated some recording label activities were treated as recording labels (for the purposes of economic analysis). Next, Nordicity analyzed all those respondents that identified themselves as music publishers less those that were previously identified as recording labels. Nordicity iterated this approach for the remaining segments. Finally, the artist segment was added as artist data was supplied separately in the survey tool.

Glossary of Key Terms

Independent, Canadian music company: A company owned and controlled by a Canadian, operating in Canada, that is not owned or controlled by a major international music firm (e.g., Universal Music) or Canadian integrated media firm (e.g., Bell Media).

Canadian Music: Music created by a resident of Canada or by a band in which 50% or more of the members are residents in Canada.

GDP Impact: The degree to which an industry contributes to the Canadian economy. In other words, it is the portion of the Canadian economy that would disappear if the industry did not exist.

Full-Time Equivalents (FTEs): A measure of employment commonly used in government and economic reports. An FTE is a statistical equivalent of a full time employee and is typically generated by dividing the total wages and benefits expended by an industry by the average industry salary. It is also possible to arrive at a FTE figure by converting part time employees in to FTEs by multiplying the number of part time employees by the percentage of the standard (37.5 hour) work week worked.

Fiscal Impact: The impact an industry has on the government purse, be it federal and/or provincial, in tax revenue. This impact is typically portrayed as a “net impact” which is to say the total tax revenue generated minus the total government expenditure on the industry (e.g., in tax credit, support programs, etc.)

Intensity Ratio: A figure generated to compare industries – or parts thereof – to one another. These ratios are typically calculated on a “per \$1” or “per \$10 million” basis and are used to determine on a relative basis how industries (or industry segments) compare. For example, the indicator “jobs per \$10 million of economic activity” can be used to measure the relative employment impact of various industries (or parts thereof).

2. Economic Profile of Canada's Independent Music Industry

The first part of the economic profile consists of a description of the independent music industry sector, defining which segments of the music industry are included in Nordicity's analysis.

The second part constructs a profile of the industry, drawing on the results of the online survey conducted for this project, allowing Nordicity to take the survey results and gross them up from the sample of completed respondents to the full independent music industry in Canada. For that profile, figures are generated for music companies (as opposed to artists), unless otherwise specified.

2.1 Defining the limits of the Independent Music Sector

In developing the online survey questionnaire, it was important to determine the boundaries of Canada's independent music sector. In other words, to describe which kinds of economic activity would be sought to capture in the online survey.

The core of the independent music sector in Canada is the entrepreneurial activity associated with the development, production and distribution of music, including live performances. As the following graphic illustrates, one can think of a music company (traditionally called a "record label") as having four core functions.

Figure 3 - Simplified Music Value Chain

Source: Nordicity analysis



Given that other parties in the music ecosystem – from artists themselves to music publishers to artist managers – are now performing some or all of these functions, this study had to adopt a more nuanced approach to defining Canada’s independent music sector. To this end, Nordicity’s first task in developing methodology was to establish these limits. In concert with CIMA, it was concluded that the economic profile should include a wide spectrum of music industry companies. Therefore, the following list was presented to survey participants to select their music-related activities:

- Record Label Activities
- Music Production
- Music Publishing
- Artist Management
- Artist-Agent Activities
- Performance/Tour Promotion
- Recording Studio Operation/Management
- Publicity/PR
- Performance Venue Operation/Management
- Event/Festival Operation/Management
- Professional Services Provision
- Music association/Non-profit Organization
- Physical Retail
- Digital Retail
- Education
- Instrument/Equipment Sales and Services
- CD Duplication, Manufacturing and/or Duplication Services
- Other

Table 2 - Economic activities captured for companies and artists”, and update the subsequent table numbers

Companies	Artists
Company activities (per the above);	Demographic data: age, gender, language.
Company structure, ownership and age;	Top line income and expenditure data (to inform the economic impact analysis).
2009-2011 revenue, by source, by jurisdiction and by type of music (i.e. independent Canadian vs. others);	Sales data for 2011 of albums and singles.
2009-2011 expenditures, by commodity type;	Growth projections, including new areas of activity and barriers to growth.
Company activity:	
For managers and agents: size and growth of the “stable” of artists, and live performance data.	
For record labels: number of releases and sales channels.	
For promoters: performance data (e.g., average split of event proceeds).	
For publishers: number of new signings, 2009-2011;	
Employment data, including number of employees, hours of work per week, and average salary.	
Growth projections, including new areas of activity, jurisdictions of interest and barriers to growth.	
Top line income and expenditure data (to inform the economic impact analysis).	
Sales data for 2011 of albums and singles.	
Growth projections, including new areas of activity and barriers to growth.	

For the companies and artists profiled, Nordicity sought to capture the following types of economic activity:

Finally, it is important to note that for this survey, the “independent music industry” is defined to include all revenue generated by independent music companies and artists, rather than only looking to capture the economic impact of music created by independent Canadian artists (which would reflect only a portion of the activities of Canadian music companies). For example, Nordicity did not exclude revenue generated by independent Canadian record labels from the sale of non-Canadian acts from its analysis.

2.2 About the Canadian independent music industry

The Canadian independent music industry has a long tradition of developing and exporting world-class artists and music businesses, and still benefits from having garnered major international attention over the last decade.

The Greater Toronto Area (GTA) acts as the unofficial music industry capital of Canada, with primary centres also located in Montreal and Vancouver. A number of secondary centres exist across Canada, including Halifax, Quebec City, Ottawa, Winnipeg, Saskatoon, Calgary and Edmonton. Tertiary music centres in Canada include St. John's, Regina, Victoria, Yellowknife and Whitehorse. Illustrious Canadian artists and music businesses have hailed from each region of Canada, and together form the style and backdrop that makes Canadian music distinctive.

Canada's music industry also enjoys remarkable crossover with its fellow creative industries. The sector forms an integral part of Canada's celebrated arts, film, television and digital media (and video game) industries, in its capacity as a supplier of original and licensed musical works.

Subject	Data Point	Sub-section
Music Industry Activities	47% of independent music companies in Canada engage in the creation of music.	2.3
Company Structure	The average age of independent music companies in Canada is approximately 10.3 years – 46% of all independent Music companies are sole proprietorships.	2.3
Revenue	Companies in the Canadian independent music industry generated approximately \$292.2 million in 2011.	2.4
	60% of independent music companies in Canada generate less than \$50,000 - only the top 10% earn more than \$500,000 per year.	2.4
	Sound recording sales (25%) and live performances (15%) were the largest sources of revenue in 2011.	2.4
	73% of all revenue comes from the Canadian market.	2.4
Expenditures	Wages, overhead and equipment account for 47% of all expenditures in the independent music industry	2.5
Industry Activities	Digital singles account for 90% of all single sales, but make up only 47% of the revenue stream. Physical albums and singles continue to make up a much larger share of revenues in proportion to their sales volume	2.6.1
	Music publishers are signing fewer new artists per year, but more of them are Canadian	2.6.2
	Artist managers have signed more new artists in each of the past two years (up 64% since 2009), with an increasing portion of them being Canadian (79% in 2009 and 84% in 2012).	2.6.3

The following table presents key figures drawn from the subsequent sub-sections:

Table 2 - Summary of Key Profile Data Points

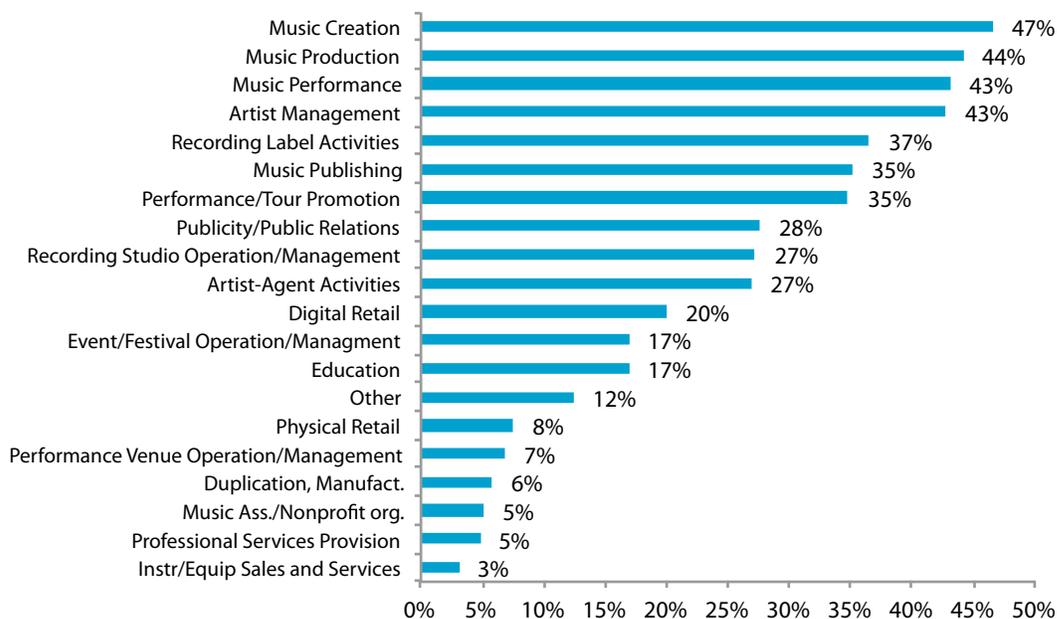
Subject	Data Point	Sub-section
Salaries	Employees of music companies earned an average of \$22,250 in wages in 2011.	2.7
	Individual artists earned an average of \$7,228 per year from music-related activities in 2011, though they only spent 29 hours per week pursuing such activities	2.7
	Artists generated \$79.4 million in music-related revenue in 2011.	2.9
Artists	Artists spent roughly \$52.7 million in music-related expenditures in 2011.	2.9
	Most artists (60%) polled produce music in addition to playing it	2.9.1

2.3 Industry Structure

Perhaps the first question that might be asked of the Canadian independent music industry relates to the activities of the companies in the industry. Figure 3 (below) depicts the percentage of all music companies that engage in the various music industry activities that make up the ecosystem. As Figure 3 shows, nearly half (47%) of independent music companies in Canada engage in the creation of music (e.g., songwriting, composing, etc.). At the other end of the spectrum, only 3% of firms sell and/or install equipment or instruments.

Figure 3 - Company Activity (% of All Companies)

Source: Nordicity survey data 2012



As Figure 5 indicates, almost half of the Canadian independent music industry is comprised of sole proprietorships, reflecting an industry primarily made up of micro-sized companies.

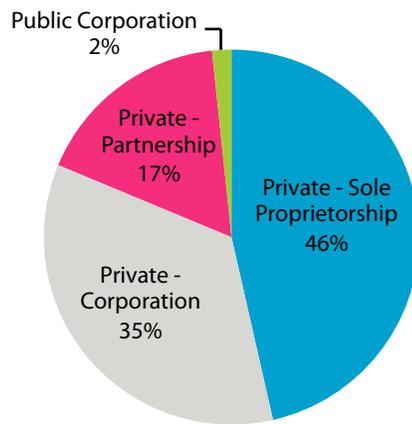


Figure 5 - Company Ownership

Source: Nordicity survey data 2012

However, while industry companies may be small, they are fairly stable, as shown in Figure 5, 43% of companies are more than 12 years old. Indeed, the average age of independent music companies in Canada is approximately 10.3 years.

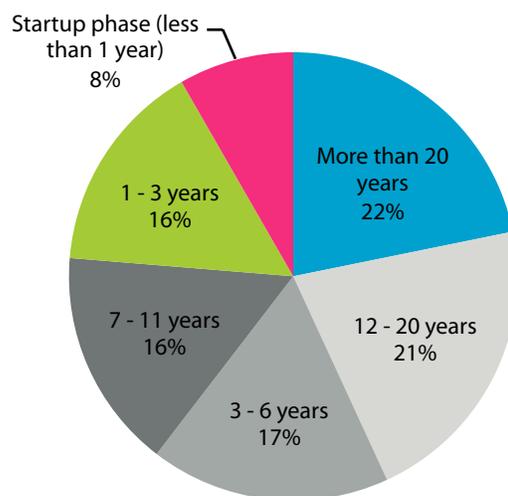


Figure 6 - Age of Companies

Source: Nordicity survey data 2012

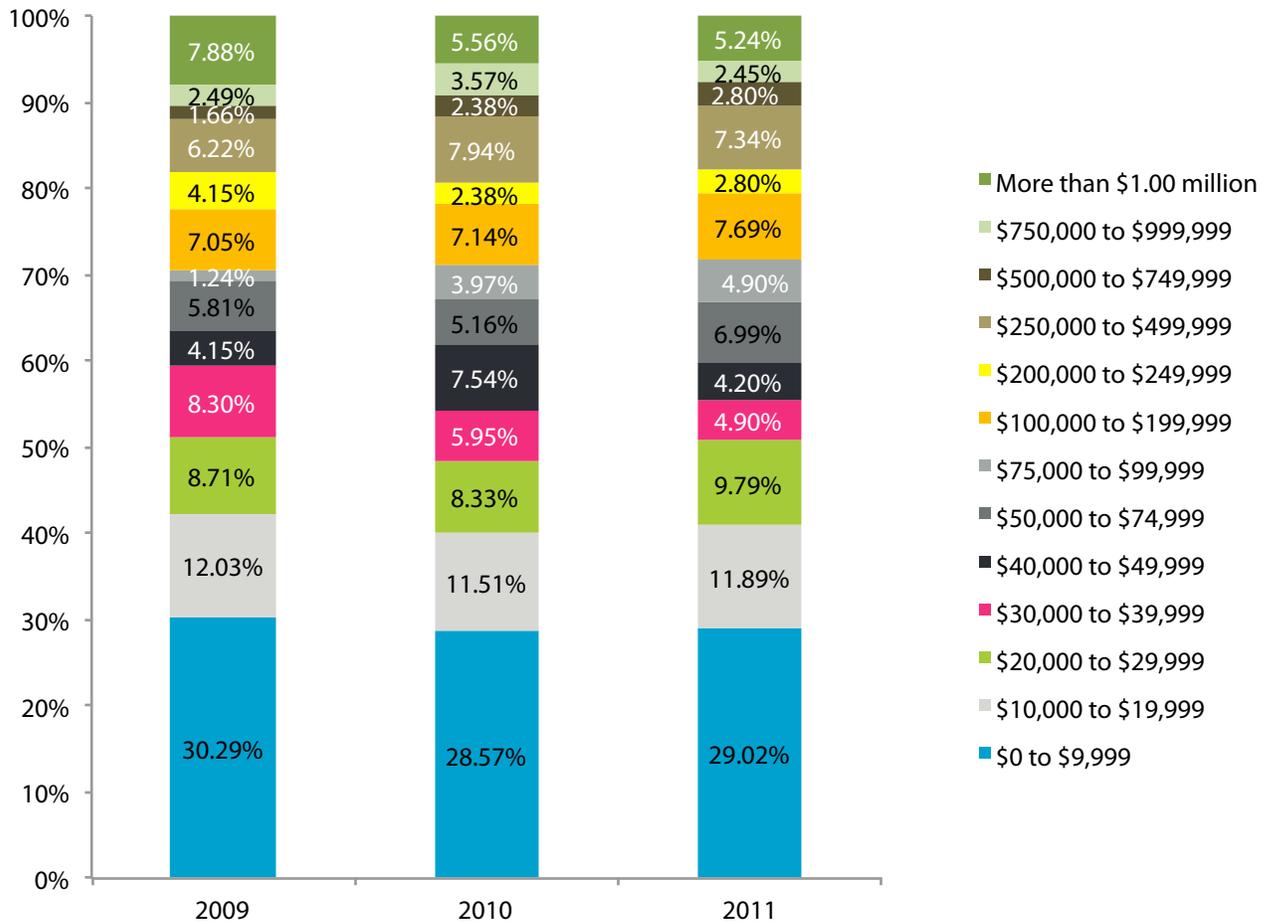
2.4 Industry Revenue

One of the most important indicators of the success of the independent music industry in Canada is the overall level of revenue that it generated in a given year. This section will detail the level of that revenue, and how it is generated.

In total, the independent music industry in Canada is largely comprised of companies that generate less than \$50,000 per annum, as shown in Figure 7. Indeed, from 2009 to 2011, roughly 60% of independent music companies in Canada generated less than \$50,000, with only the top 10% generating more than \$500,000 per year.

Figure 7 - Size of Companies (by Revenue) 2009-2011

Source: Nordicity survey data 2012



In total, companies operating in the independent music industry in Canada generated approximately \$292.2 million in 2011. This figures does not include revenue (income) generated by independent music artists and represents a 20.5% increase in revenue from the \$242.4 million generated in 2010 and a 16.6% increase on the \$250.6 million generated in 2009.

As shown in Figure 8, sound recording sales (25%) and live performances (15%) are the two music activities that generated the most revenue in 2011.

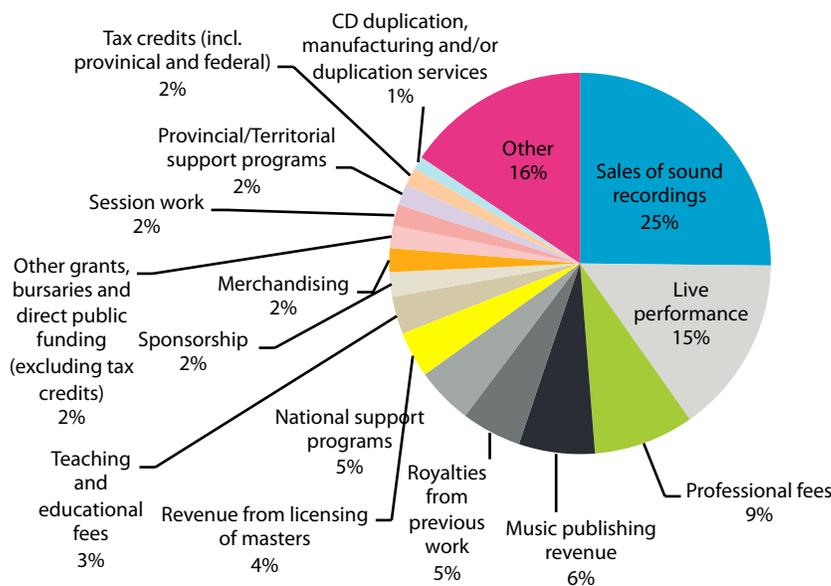


Figure 8 – Music Company Revenue per Activity (2011)

Source: Nordicity survey data 2012

Furthermore, as Figure 8 shows, the clear majority (64%) of the revenue earned by the Canadian independent music industry was derived from sale and/or exploitation of Canadian independent music. Interviews revealed that the decline in music sales over the past decade has been among the biggest changes for many Canadian independent music businesses.

Importantly, only 8% of all music company revenue in 2011 came from public sources, indicating that, while public support is important, it by no means is the largest source of music company revenue. Notably, this level of support does not include that support offered to independent artists (e.g. from various Arts Councils) or support offered to industry support bodies (such as CIMA).

Due primarily to declining physical sales, for many companies interviewed, album sales show no signs of increasing in the future. For some interviewees, this overall decline may be attributed to a downward pressure on album prices and the prevalence of streaming and piracy. Conversely, digital sales have

continued to grow throughout this time (mainly through iTunes), although not at a rate that sufficiently offsets the loss in physical sales. Meanwhile, physical sales of DVDs and vinyl have proven a valuable and growing revenue stream for many companies, particularly in smaller or niche markets.

That said, some interviews revealed that repurposed content generates a sizeable revenue contribution for some Canadian artists and independent music businesses. This content, often in the form of singles, compilations and re-releases of catalogue content has generated new revenue for some artists and music businesses.

In addition to recorded music revenue, live performance and touring has never been more critical for many artists and independent music businesses, and now represents roughly 15% of all revenue generated. A trend that has persisted over the last decade, many artists and music businesses (primarily managers) interviewed have come to rely on live performances as a mainstay of their revenue. As consumers shift their spending habits away from physical sales, they have turned to the live experience.

At the same time, the sale of merchandise has become a small (2%) but important contributor to music business revenue in the independent sector. Mirroring the trend towards live performances, many interviewees have noted the increasing importance of merchandizing to their revenue streams.

Streaming Music: An Emerging Revenue Stream?

Interviews for this study revealed that some independent music companies, predominantly those with strong cash flow, expect to invest in streaming initiatives. However, businesses are divided on the impact of streaming. Some view streaming as an important source of revenue for the future, while others expect streaming to continue eroding sales revenues, and that the paltry revenues derived from streaming will not offset such losses.

Interviews also revealed that for those companies generating notable revenues from streaming, the majority come from markets outside of Canada, such as the US, UK and Europe. However, these companies expect the still nascent streaming market in Canada to prosper as mature companies such as Spotify enter the marketplace.

Not included in the above breakdown of revenue, so-called “exclusive offerings” have begun to provide some Canadian artists and independent music businesses with a wholly new revenue stream. Indeed, some interviews revealed that exclusive offerings, often in the form of VIP passes or treatment at gigs, exclusive events and private live performances, limited edition releases, merchandizing and souvenirs, have come to be a lucrative means of generating revenues previously not exploited by many artists and music businesses.

In all, independent music companies in Canada appear to be diversifying their revenue streams. Indeed, while Figure 8 represents the diversity of revenue streams across the entire industry, it is also coming to represent how revenue is generated within individual companies. No longer relying upon a single primary revenue stream, interviews revealed that companies are continuing to seek revenues from new sources while working to retain their existing revenue streams. Many interviewees suggested that Canadian independent music companies have developed their services to extend well beyond their original core functions. With companies increasingly taking on the functions of label, publisher and manager, the traditional individual roles played in the industry are becoming indistinct. Interviews identified that the reasons for the convergence have come from both music companies’ expansion and the wider music industry.

Many companies have seen the broadening and expansion of their services as an opportunity to diversify and enhance their existing revenue streams. While some companies needed only to leverage their existing in-house capacity and skill sets in order to provide these new services, others have made strategic investments in staff recruitment and investment in infrastructure to do so.

At the same time, many companies have responded to an under-supplied requisite in the market, where investment has decreased, by providing these additional services out of necessity. Interviews suggest that this trend may have given rise to the now ubiquitous ‘360 deal’, or full service (hybrid) company.

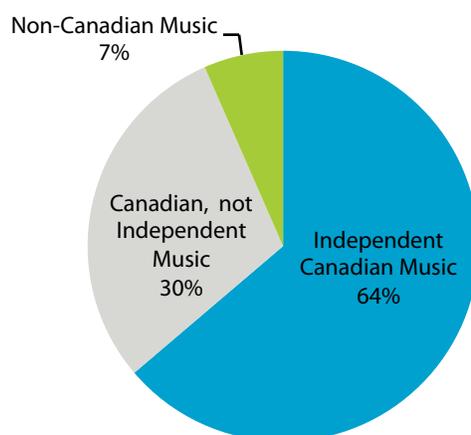


Figure 9 - Revenue by Music Origin (2011)

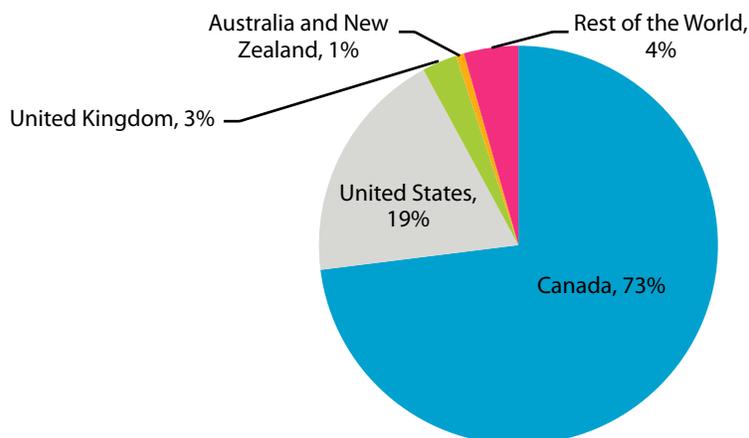
Source: Nordicity survey data 2012

That said, almost 40% of revenue from the Canadian independent music industry is derived from music that is not independent (or not Canadian). This situation likely reflects the earnings of independent music producers, recording studios and promoters (among others) whose clients may include artists that are not Canadian or not independent (or both). The above chart also indicates that some independent music industry companies in Canada are importing foreign artists' content to exploit in Canada (or abroad). This activity indicates that Canada's independent music industry is, to some degree, part of an international marketplace.

Furthermore, the independent music industry in Canada appears to depend heavily on the Canadian market for its revenue, as depicted in Figure 9. With almost three quarters of all independent music revenue coming from Canada, the industry as a whole is largely a domestic one. That said, sizeable revenue (19%) is derived from the US market. Despite the relatively large dependence on the Canadian market, some interviewees did suggest that international expansion is among their key strategic objectives for the future.

Figure 10 - Revenue by Jurisdiction (2011)

Source: Nordicity survey data 2012



2.5 Industry Expenditures

In terms of the annual expenditures incurred by independent music companies in Canada, Figure 10 shows that employee wages (and associated costs) account for the largest segment of company expenditures (25%), with royalties and non-employee labour costs accounting for 13% and 12% of annual industry expenditure in 2011, respectively.

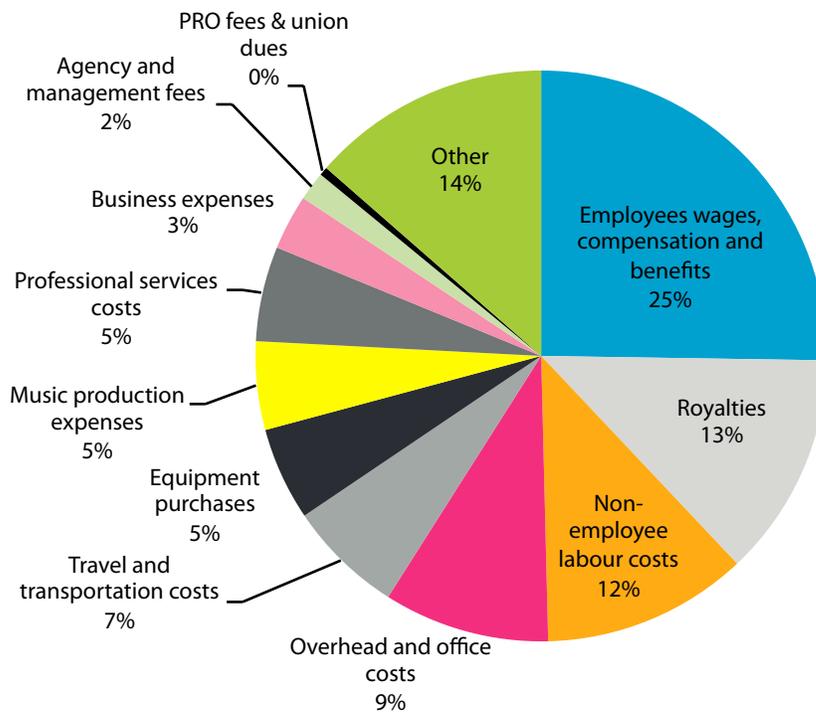


Figure 11 - Company Expenditures by Type (2011)

Source: Nordicity survey data 2012

One major change in industry expenditures over the last five years has been in physical CD production costs, and in how such costs are categorized. In this time, the primary function of the CD has begun to shift towards becoming a promotional tool due to a decline in demand for physical CDs, and downward pressure on their value. For many music businesses, the CD has become a break-even or loss leader proposition. However, as a compulsory expense for the development and promotion of artists, the challenge in recouping these transformed expenses can be detrimental to music businesses.

Additionally, live performance and touring costs have increased for many artists and music businesses. With the increased roles of Canadian independent music businesses has come an increase in live performance and touring costs. According to many interviewees, independent music companies have had to bear more of the costs and risks associated with live performances and touring. Meanwhile, they also stand to gain a greater Return on Investment from these expanded activities.

While they make up roughly 13% of all industry expenditures, music production costs have seemingly stratified. In other words, low-end production costs have lowered to unprecedented levels while high-end production costs have increased to equally unprecedented levels. Indeed, the barriers to entry in producing music have decreased significantly as a result of the pervasiveness of low-cost production technology. The pervasiveness of affordable home computer recording technologies has led to a flooding of the market, and further downward pressure on licensing rates. Meanwhile, interviews

revealed increased costs of high-end music production as a result of a stratification of the music business. This has led to greater barriers for the production of high-quality sound recording.

As a result of this profusion of new artists, interviews revealed, artists and music businesses have had to enhance their licensing business development initiatives. The increased costs include hiring new staff, investing in content management and distribution technology, developing means of exploiting catalogue material and marketing in the face of growing competition.

In terms of marketing and promotion costs, industry interviews reveal that they have increased in recent years. Following the retrenchment in the market by the majors, artists and independent businesses have had to absorb greater marketing and promotional costs. Since they now bear more of the risk in developing an artist, artists and managers must make significant investments in touring and marketing in order to develop the artist to become 'label ready'. Typical costs include marketing around live performances and through social media campaigns to prove the potential value of an artist through their fans and following.

At the same time, marketing and promotional costs have shifted from traditional to new media. While fluctuating somewhat, the major development in the cost of marketing and promotion has been the trend away from print and linear mediums towards digital and interactive mediums. Such budgets are now largely directed online, and require a significantly larger amount of time and attention from artists and music businesses; managing social media presence, digital media campaigns and engaging with 'tastemakers'.

2.6 Music Industry Activity

In this sub-section, output of the independent music industry broken down into its various segments is outlined: record labels, publishers, managers and promoters/event managers.

2.6.1 Recording Label Activities

As Figure 12 indicates, 38% of independent music industry companies in Canada perform some music label activities.

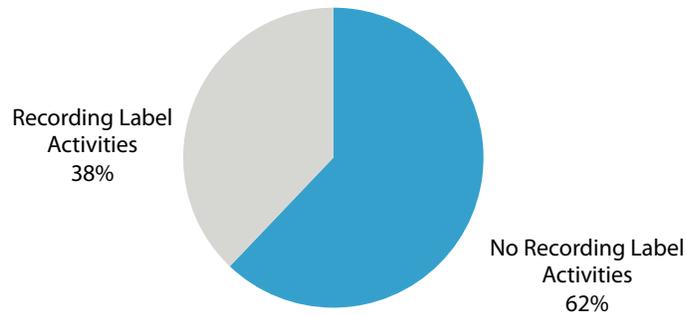


Figure 12 - Companies with Recording Label Activities

Source: Nordicity survey data 2012

Among those 38% of all music companies, roughly half of the new releases each year are from Canadian artists. Furthermore, as Figure 13 indicates, the number of record label releases each year has remained fairly constant since 2009 (rising by approximately 4% over that period).

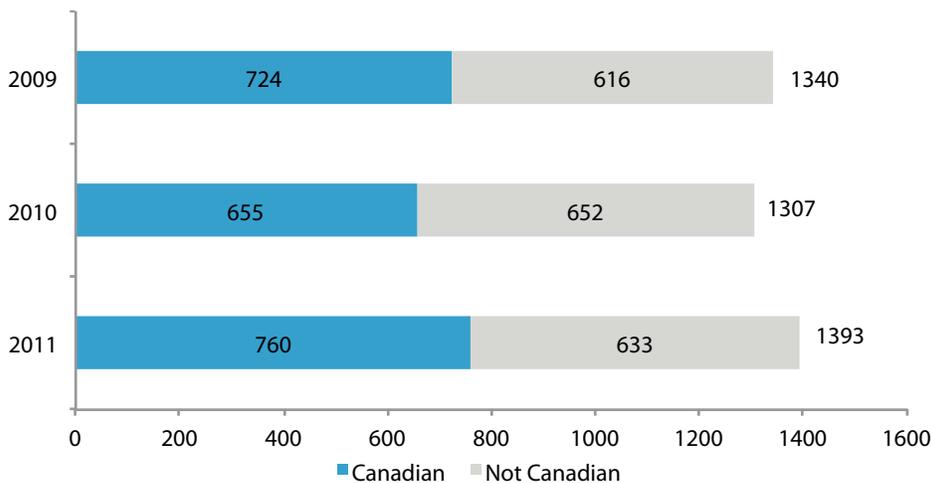


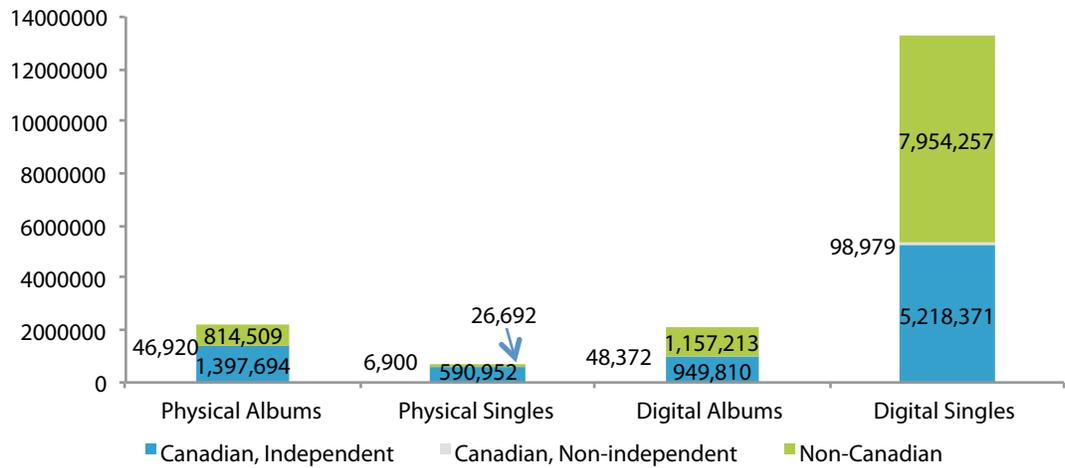
Figure 13 - New Record Label Releases of Music per Year (2009-2011)

Source: Nordicity survey data 2012

When considering all titles on the market in the fiscal year ending in 2011, independent record label companies in Canada sold almost 2.5 times as many singles as albums, as shown in Figure 14.

Figure 14 - Number of Units Sold by Record Labels (2011)

Source: Nordicity survey data 2012



Furthermore, while digital singles accounted for almost 90% of all single sales, only 49% of the albums sold in 2011 were sold in digital formats. At the same time, while 62% of physical album sales and 95% of physical singles sales made by independent Canadian music companies were of independent Canadian artists, only 44% of digital albums and 39% of digital singles were of independent Canadian artists.

This clear shift towards the sale of digital singles (e.g., from iTunes) is a symptom of the wider digital disruption experienced by Canada's independent music industry. A source of opportunities and threats, the ultimate direction of digital music and its ensuing impact on the music ecosystem in Canada has yet to be determined. However, according to interviews, the major impacts of digital disruption to the music industry are likely to include:

- Proliferation of artists and content;
- Erosion of traditional business models;
- Eventual development of new business models;
- Flattening and democratization of the industry value chain; and
- Opportunity to develop new ways of undertaking old activities.

Turning to the revenue generated from those sales, Figure 14 shows that physical sales still accounts for almost half of all sound recording revenue in 2011.

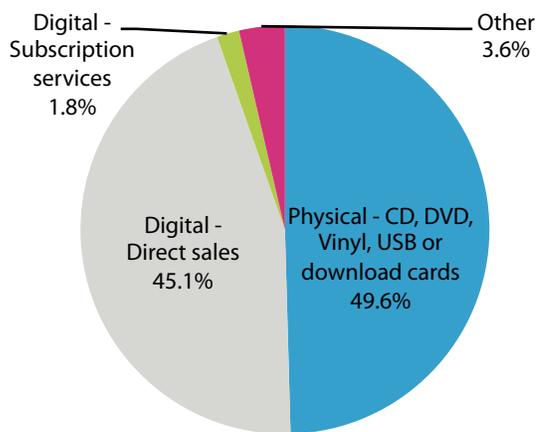


Figure 15 - Sound Recording Revenue by Sales Channel

Source: Nordicity survey data 2012

Interestingly, digital subscription services accounted for less than 2% of sound recording revenue in 2011.

2.6.2 Publishing Activities

As depicted in Figure 15, 29% of independent music companies in Canada perform some publishing activities.

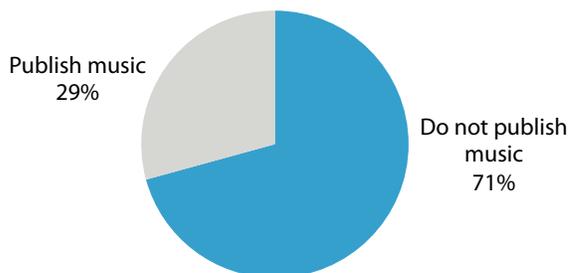


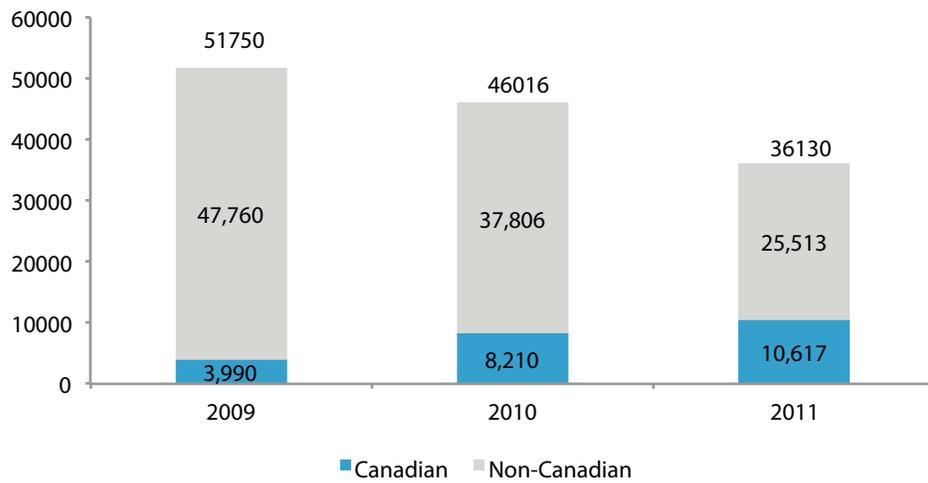
Figure 16 – Companies with Music Publishing Activities

Source: Nordicity survey data 2012

Over the last three years, these publishers have, on an overall basis experienced a decline in the number of artists they have signed to publishing deals, as shown in Figure 17.

Figure 17 - Number of Musical Works or Songs Signed to Publishing Deals (2009-2011)

Source: Nordicity survey data 2012



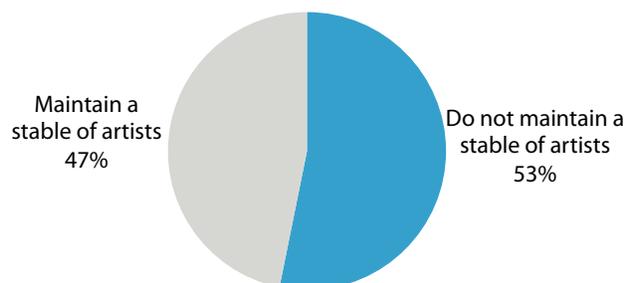
That said, the portion of signings that are Canadian has grown from 8% of all signings in 2009, to 29% in 2011.

2.6.3 Management Activities

As depicted in Figure 18, 53% of all independent music companies in Canada maintain a stable of artists. Typically this group includes music managers, agents, and other companies (e.g., labels) that perform management-type functions. For the purposes of this report, it is assumed that these companies are predominantly music management firms.

Figure 18 - Companies that Maintain a Stable of Artists

Source: Nordicity survey data 2012



Of the artists that are currently under contract to these firms, the majority of them are located in the same province as their management company, as shown in Figure 19.

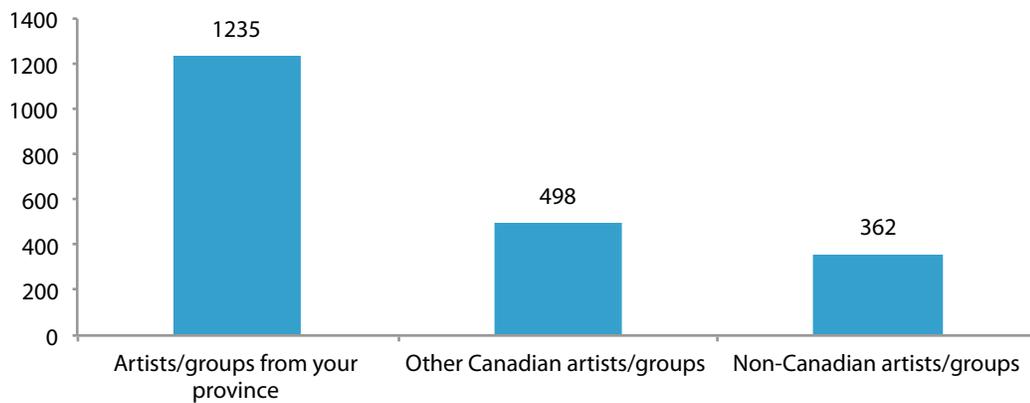


Figure 19 - Artists Under Contract (2011)

Source: Nordicity survey data 2012

As Figure 20 indicates, the number of new artist signings has grown by 60%. Over that period of time, the share of those signings that is Canadian has grown from 79% to 84%.

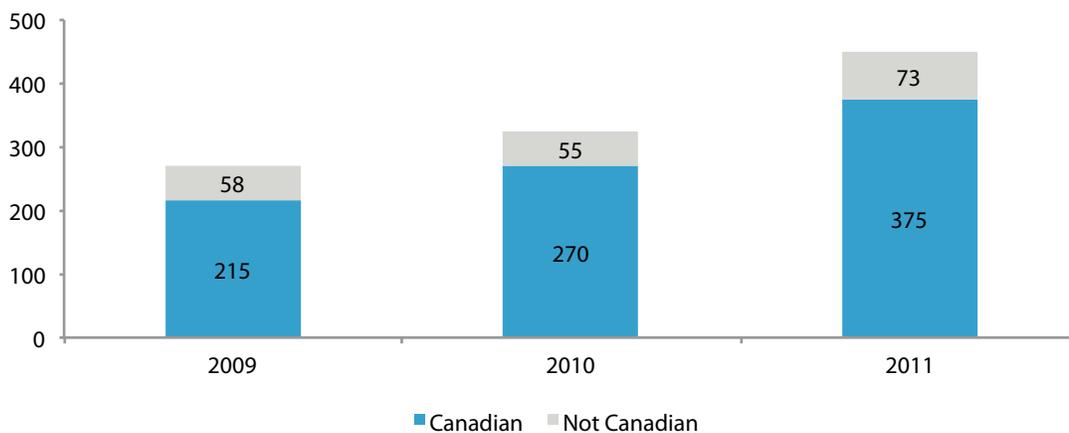


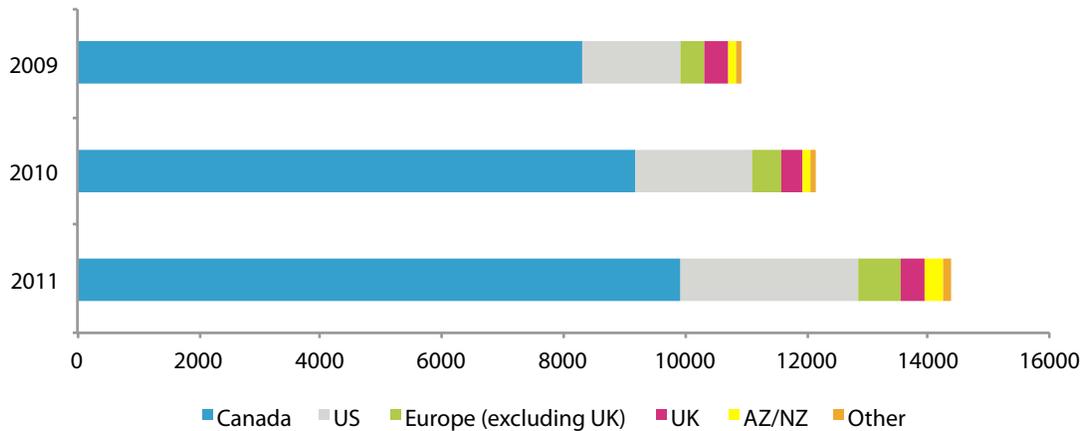
Figure 20 - New Artist Signings per Year

Source: Nordicity survey data 2012

One of the key tasks of these management firms (and agents) is booking and/or managing live performances. As Figure 21 shows, the overall number of performances put on by artists managed by independent Canadian management firms has grown in each of the last two years (by 11% and 18%, respectively). In all years, the clear majority of performance dates were in Canada, ranging from 76% in 2009 to 69% in 2011. This change indicates that artists managed by Canadian firms have increased the degree to which they tour outside of Canada over the last year by approximately 30% from 2009 to 2011. That said, only a small minority of dates (11%) in 2011 occurred outside of North America.

Figure 21 - Live Performances by Managed Artists

Source: Nordicity survey data 2012



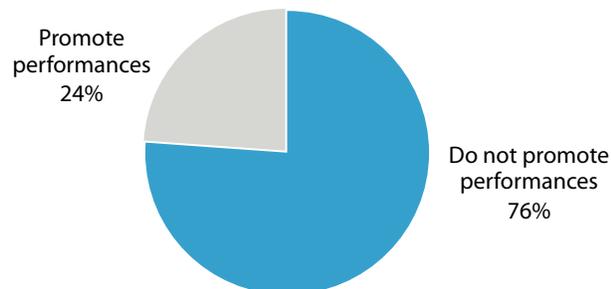
In 2011, the average audience size of a live performance (regardless of jurisdiction) was 749 people.

2.6.4 Touring and Promotion

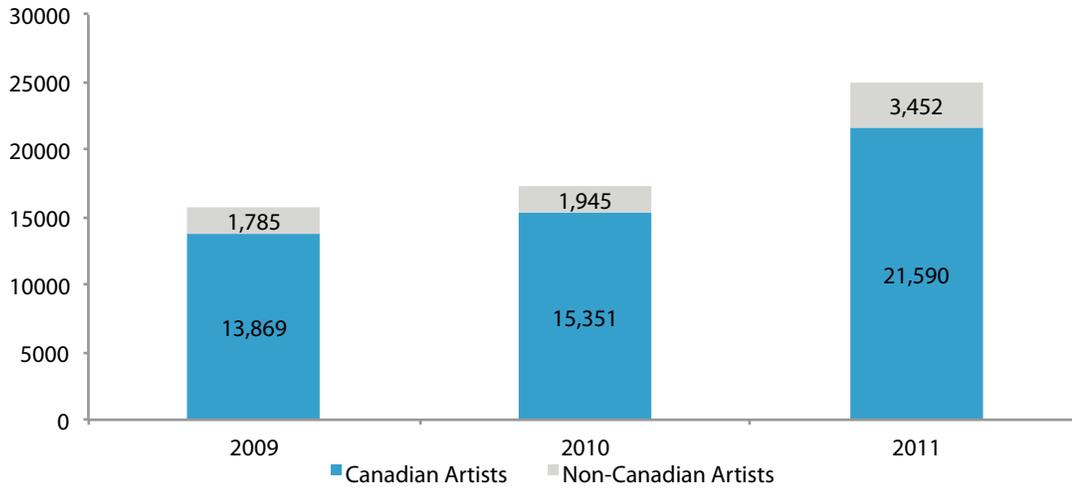
As shown in Figure 21, 24% of independent music companies in Canada engage in some tour/performance promotion activities for artists not under contract to their firm.

Figure 22 - Companies that Promote Performance

Source: Nordicity survey data 2012

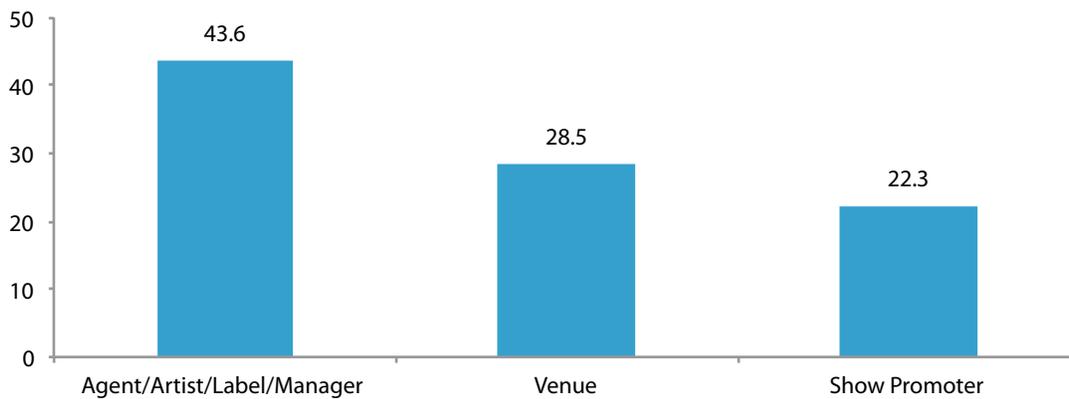


Of the performances promoted, Figure 23 shows that the vast majority were for Canadian artists.



**Figure 23 - Events/
Performances Promoted
(2009-2011)**

Source: Nordicity survey
data 2012



**Figure 24 - Live
Performance Revenue
Breakdown (%)**

Source: Nordicity survey
data 2012

For each of the performances, the combination of the agents, artists, label and managers appear to take the biggest slice (43.6%), as displayed in Figure 23.

2.7 Salaries and Wages

While employment figures will be presented in the economic impact section (see Section 3.2), the survey did reveal that the average industry wage for employees of independent music companies in 2011 was approximately \$22,250. It also revealed that the average music industry full-time employee worked an average of 33 hours per week, with part time employees working an average of 7.7 hours per week.

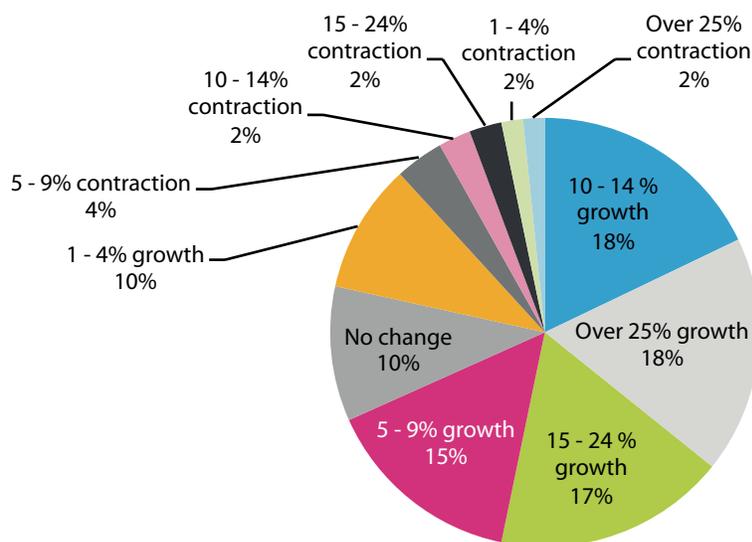
For artists, the average income earned from music-related activities in 2011 was approximately \$7,228. However, it should be noted that these artists only spent approximately 29 hours per week on music-related activities. When examined on the basis of Full Time Equivalents (FTEs), the average music-related income from artists rises to an estimated \$9,336 (in 2011).

2.8 Growth and Barriers

When asked to forecast their growth trajectories over the next 2 years, most (53%) independent music companies in Canada indicated that they expect their business to grow by 10% or more, as shown in Figure 25.

Figure 25 - Two Year Growth Projection

Source: Nordicity survey data 2012



In terms of the music industry segments in which companies wish to grow, there is no clear preference, though music publishing, record label activities and music creation (e.g., composition) appear to top the list (see Figure 26).

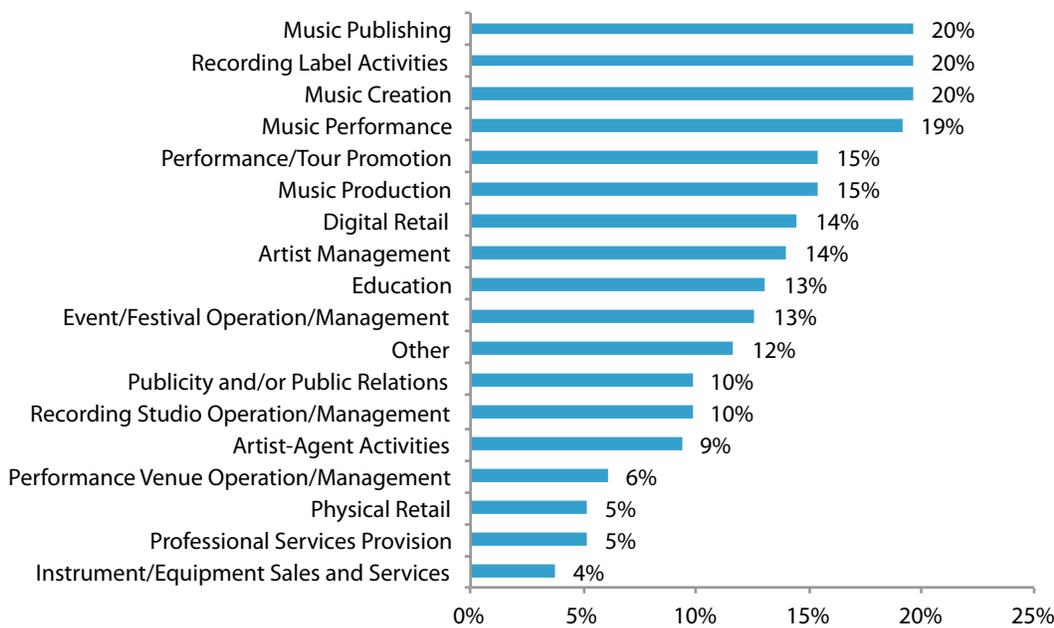


Figure 26 - Music Segment for Growth (% of Companies)

Source: Nordicity survey data 2012

In terms of the jurisdiction in which music companies in Canada see themselves growing, Figure 27 indicates that most firms see themselves continuing to grow in Canada (which befits the significantly domestic nature of the independent music industry in Canada). However, close to half of companies also seek to grow in the United States.

Figure 27 - Growth Jurisdictions (% of Companies)

Source: Nordicity survey data 2012



Interviews further revealed that international expansion is integral to the growth and development of many successful Canadian independent music companies. Concerted business development initiatives in target markets, such as the US (California, New York, Tennessee and Texas), the UK and Europe (France and Germany) have generated significant monetary and branding returns for some companies.

The expansion to foreign markets has, according to interviews, had several positive effects on Canadian independent music companies, including:

- Diversification of revenues (exports);
- Increased national and international press and exposure;
- Increased brand value;
- Attraction and retention of Canadian and international artists;
- Increased sales, distribution and licensing deals; and
- Increased streaming revenues.

Finally, in terms of the barriers that stand in the way of this potential growth, companies indicate that access to affordable capital and changing business models are the factors that most limit their growth.

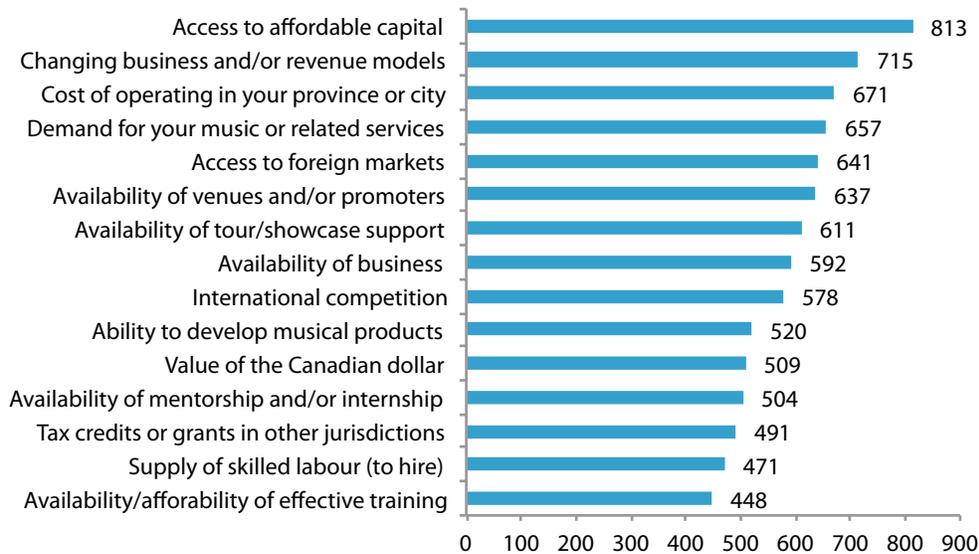


Figure 28 - Barriers to Company Growth (by Score)⁷

Source: Nordicity survey data 2012

On the point of changing business models, interview data suggests that the role of the independent music company (and thus its business model) has changed in Canada in recent years. More specifically, Canadian independent music businesses appear to have experienced an enlarged role in the industry. Over the last decade, there appears to have been a sizeable retrenchment in investment from across the music industry. In response, some Canadian independent music businesses have had to enlarge their role within the industry to maintain the flow of the value chain. This enlarged role brought independent music businesses larger expenditures, higher risk, and the potential for greater Return on Investment. The greater roles, expenses, risks and opportunities stem from some of the following activities:

⁷ Respondents were asked to rate each of these potential barriers in terms of their relative impact on corporate growth. The responses were then weighted to produce the “score” depicted in this chart.

- Live performance and touring
- Licensing
- Advertising and branding
- Streaming
- Repurposed content

2.9 Music Artists

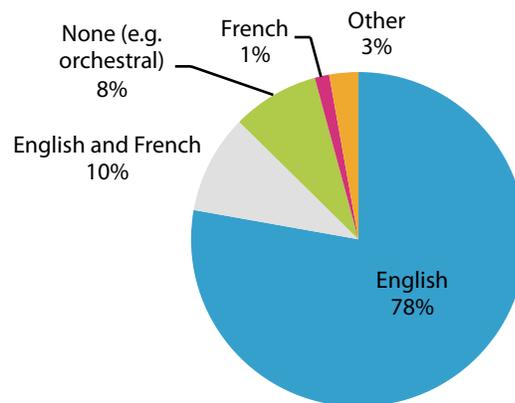
Turning to artists, this sub-section provides a quick snapshot as to the profile of the music artist community in Canada. In 2011, artists generated approximately \$79.4 million in music-related revenue and spent \$52.7 million in music-related expenditures.

2.9.1 Artist Demographics

The average artist in Canada is approximately 39.5 years old and 73% of artists are male. As Figure 29 indicates, the clear majority (78%) of artists in Canada perform in the English language. On average, artists spend 29 hours per week working on their musical endeavors.

Figure 29 - Language of Music (% of Artists)

Source: Nordicity survey data 2012



2.9.2 Artist Activity

Furthermore, only 18% of artists have incorporated as companies. In addition to their performing activities, Figure 29 indicates that music production (60%) and performance/tour promotion (59%) are the most common additional activities.

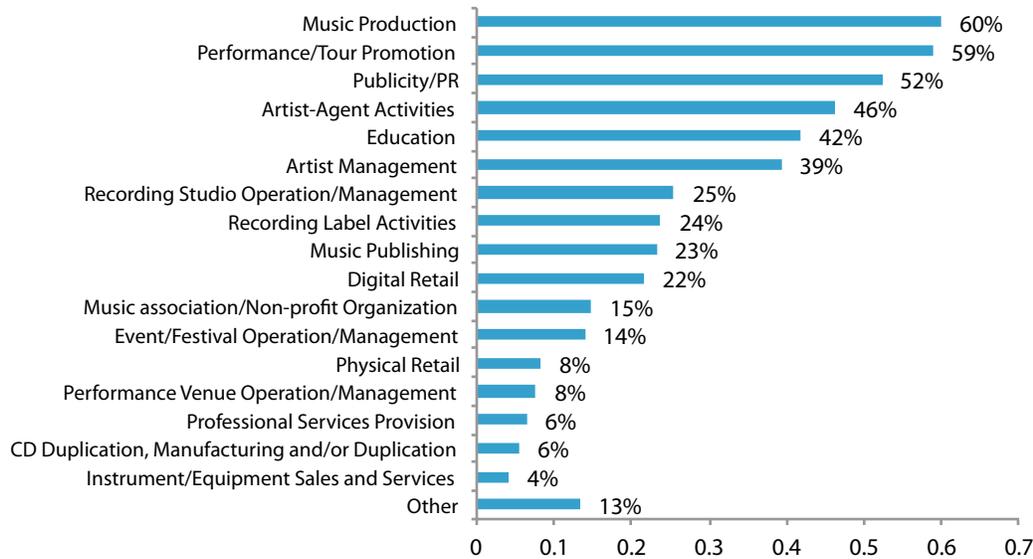


Figure 30 - Other Artist Activity (% of Artists)

Source: Nordicity survey data 2012

As Figure 30 indicates, Canadian artists sold 2,384 albums and 1,684 singles in 2011. Most of the albums (79%) and the singles (61%) sold by artists in 2011 were sold directly, bypassing the label (or other music company).

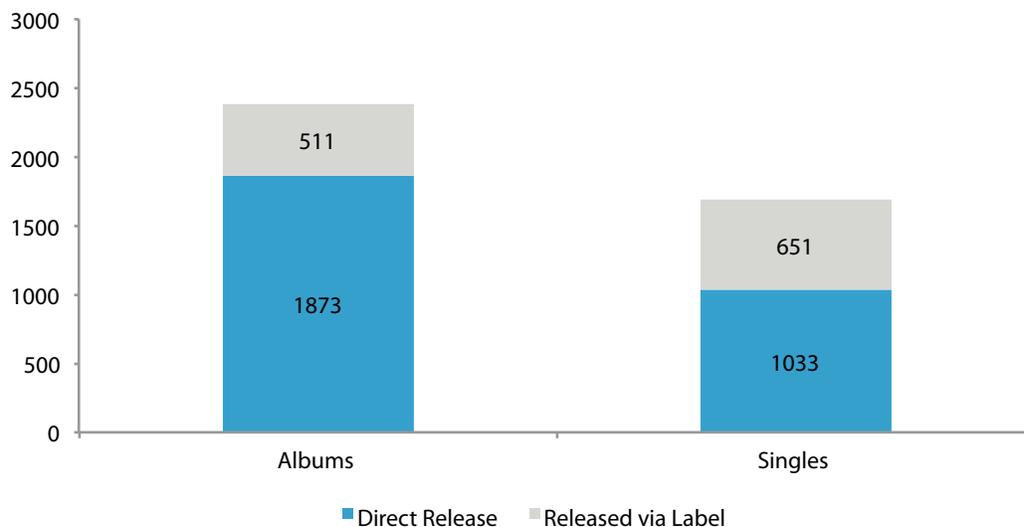


Figure 31 - Artist Albums and Singles Sold

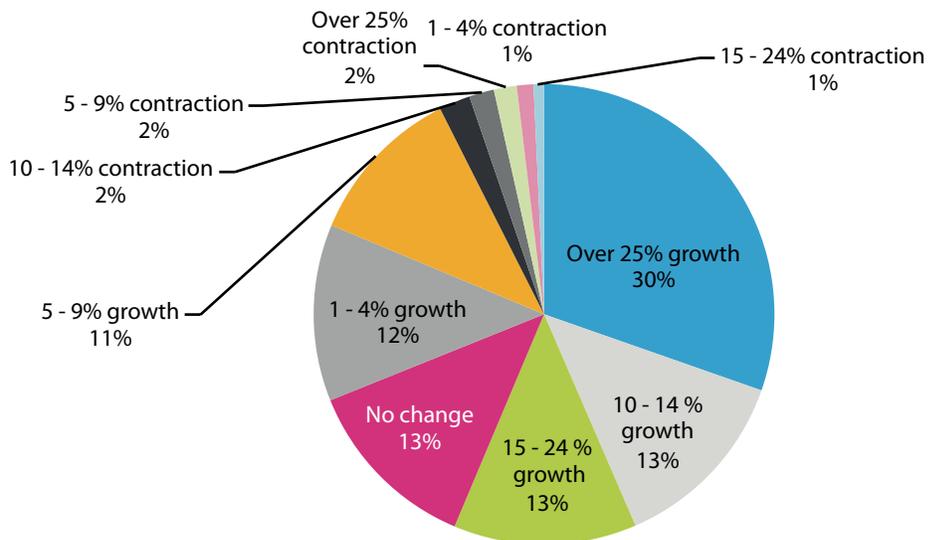
Source: Nordicity survey data 2012

2.9.3 Artist Growth

When asked to project their growth over the next 1-2 years, the majority (56%) of artists indicated that they expected their income from music-related activities to grow by more than 10%, as depicted in Figure 32.

Figure 32 - Artist Growth Projection (% of Artists)

Source: Nordicity survey data 2012



When asked to indicate what might stand in the way of that growth, Figure 33 shows that the most pressing issues appear to be the availability of venues and/or promoters, along with the availability of touring/showcase support and access to affordable capital. This emphasis on live performance (either in terms of venue or in terms of support) aligns with the importance to the industry of live performance revenue (see Section 2.4).

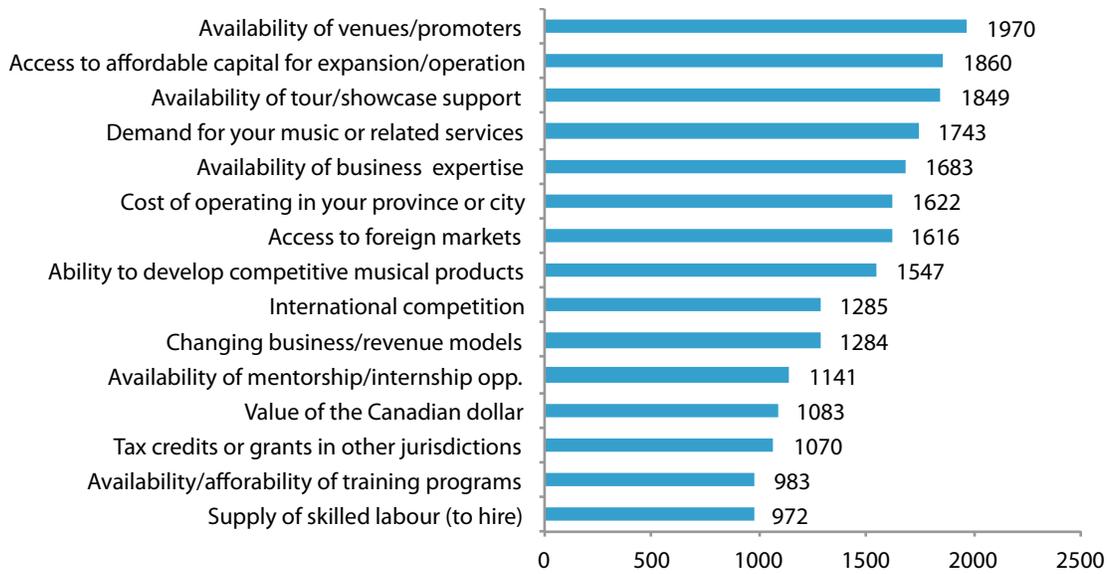


Figure 33 - Barriers to Artist Growth (by Score)

Source: Nordicity survey data 2012

3. Economic Impact Analysis

As outlined in section 1.2, there are three important indicators of the economic impact of an industry: **GDP impact** (the amount the industry contributes to the economy), the **employment impact** (how many people it employs) and the **fiscal impact** (the taxes the industry generates).

This section will outline the impact of the independent music industry in Canada in each of these areas. For each, this section will also present the absolute figures, and the “intensity ratios,” or the impact of the independent music industry on a per \$10 million basis. These intensity ratios can be used when comparing Canada’s independent music industry to other sectors of Canada’s economy.

As expanded upon in Section 1.1, the figures in this section partially overlap with those presented in PwC’s report for Music Canada on the economic impact of the music industry in Canada. That said, the overlap is not complete as the figures presented in this section account for a larger portion of the music industry supply chain, while omitting the economic impact of the major labels (and of other non-independent companies). As such, the figures from the two reports can neither be summed nor are they to be directly compared.

3.1 Summary of Key Economic Impact Findings

The following table provides a summary of the key findings present in the following sub-section

Subject	Data Point	Sub-Section
GDP Impact	The total GDP impact of the Independent Music industry was \$303 million in 2011.	3.2
	The largest contributors to the GDP impact were record companies (28%) and artists (24%)	3.2
Employment Impact	The independent music industry employed approximately 13,459 FTEs in 2011.	3.3
	The majority (67%) of FTEs in the independent music industry are artists	3.3
Fiscal Impact	The independent music industry (companies and artists) generated more than \$93 million in federal and provincial tax revenue in 2011.	3.4
	For every \$1 of government support, the independent music industry generated \$1.22 in tax revenue in 2011	3.4

3.2 GDP Impact

Figure 33 shows that the total impact of the Canadian independent music industry on the Canadian economy was \$303 million in 2011. In other words, if the independent music industry in Canada were to disappear, Canada’s overall economy would be \$303 million smaller. Of that total, the largest portion

is derived from record companies (and integrated record companies), which have a combined GDP impact of \$85.7 million (or 28% of the total GDP impact). The next largest segment is artists, which contributed \$72.4 million (or 24% of the total GDP impact) to Canada's GDP in 2011.

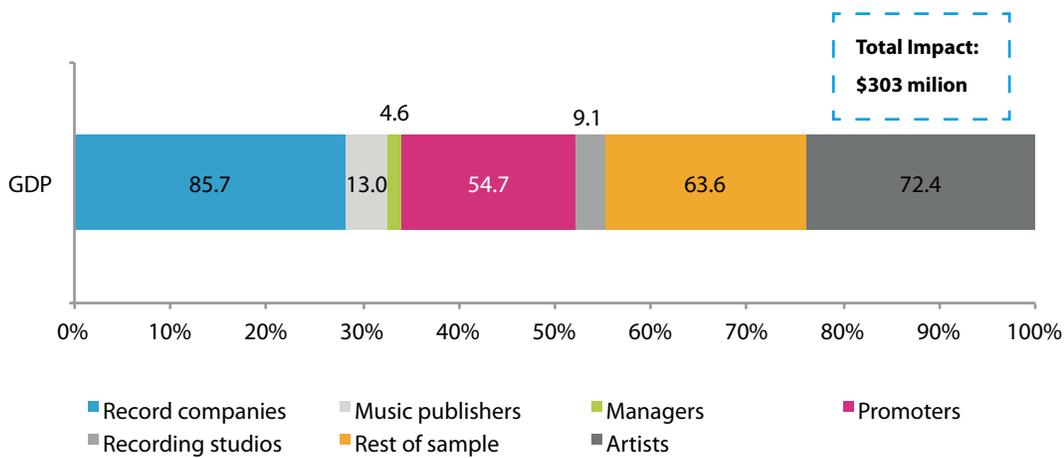


Figure 34 - GDP Impact by Industry Segment (2011)

Source: Nordicity survey data 2012

While Figure 33 accounts for the total GDP impact, that impact is comprised of the direct economic impact (company operating profits and household income of employees and freelancers), the indirect impact (the expenditure made by the independent music industry in Canada in other sectors of the economy) and the induced impact (the downstream spending enabled by the independent music industry's expenditure). Figure 35 provides a depiction of these types of economic impact.

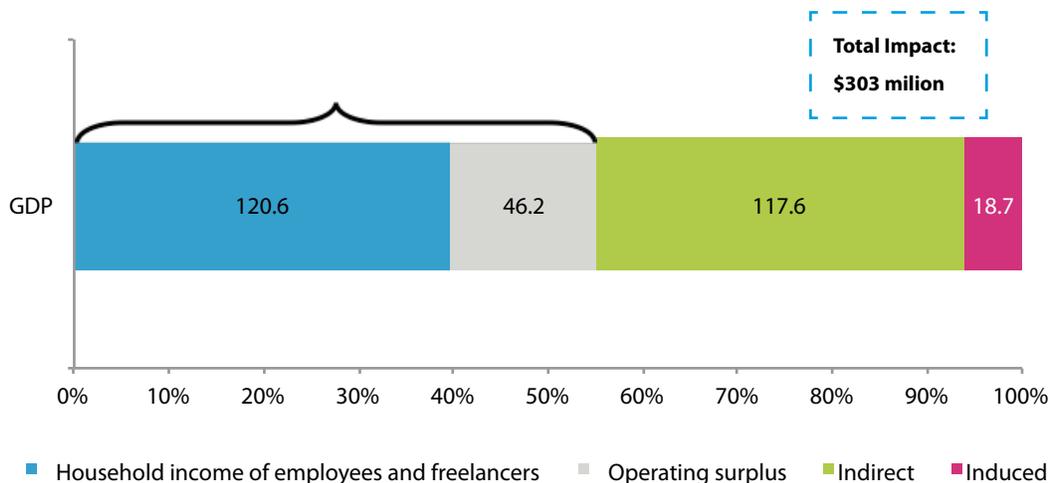


Figure 35 - GDP Impact by Type of Impact (2011)⁸

Source: Nordicity survey data 2012

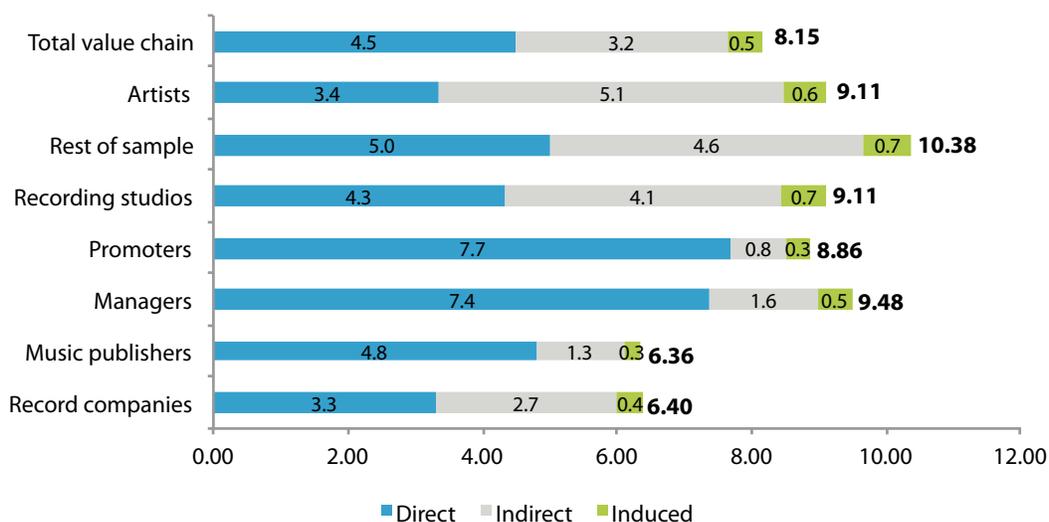
8 Definitions for the various types of GDP impact (i.e. direct, indirect, and induced) can be found in Section 1.2.4.

When considered as an intensity ratio (i.e. GDP per \$10 million of revenue), one can gather a sense of the relative impact of the segments within Canada’s independent music industry. In other words, one can see how much of the \$10 million in revenue was retained by the Canadian economy. In total, the industry had a GDP impact of \$8.2 million per \$10 million of industry revenue, meaning that for every \$10 million of revenue generated, the independent music industry added \$8.2 million to the Canadian economy.

As Figure 36 shows, the “Rest of sample” segment (i.e. the aggregate of retailers, agents, and other segments too small to examine on their own) has the highest relative GDP impact, followed by recording studios and artists.

Figure 36 - GDP Impact Intensity by Industry Segment (\$ millions per \$10 million in revenue, 2011)

Source: Nordicity survey data 2012



3.3 Employment Impact

In terms of employment, a number of Full-Time Equivalents (or FTEs) was derived from the survey data on employment, combined with a calculation of the number of freelance employees based on the total amount paid to freelance employees in 2011 (also derived from survey data). As Figure 36 indicates, most (67%) of industry employment is derived from artists, while record companies (14%) and promoters (8%) also employ a significant number of Canadians.

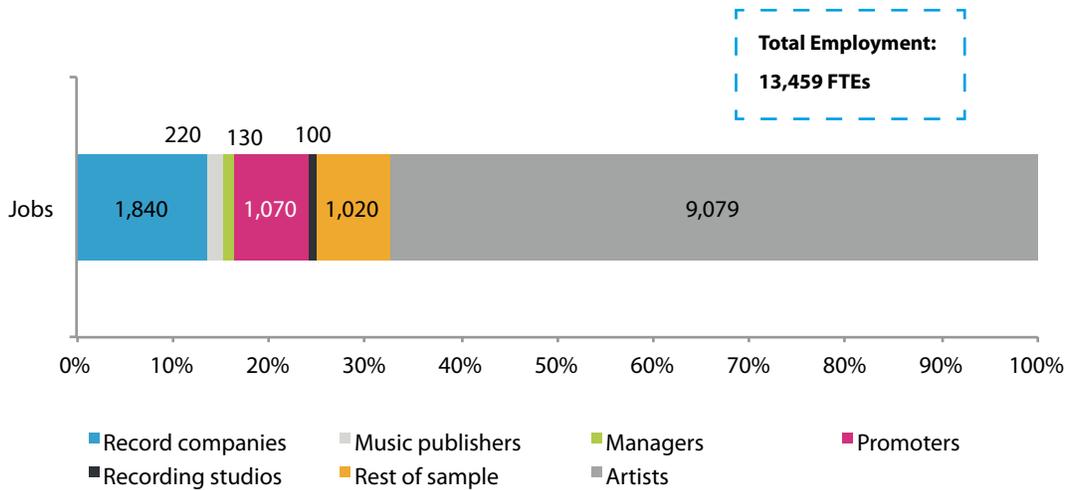


Figure 37 - Jobs by Segment (2011)

Source: Calculations based on Nordicity survey data 2012

As with GDP, the employment impact of an industry includes both direct jobs (those employees and freelancers in the music industry), indirect jobs (those employed in industries that supply the music industry) and induced jobs (those enabled by industry spending in the overall economy).

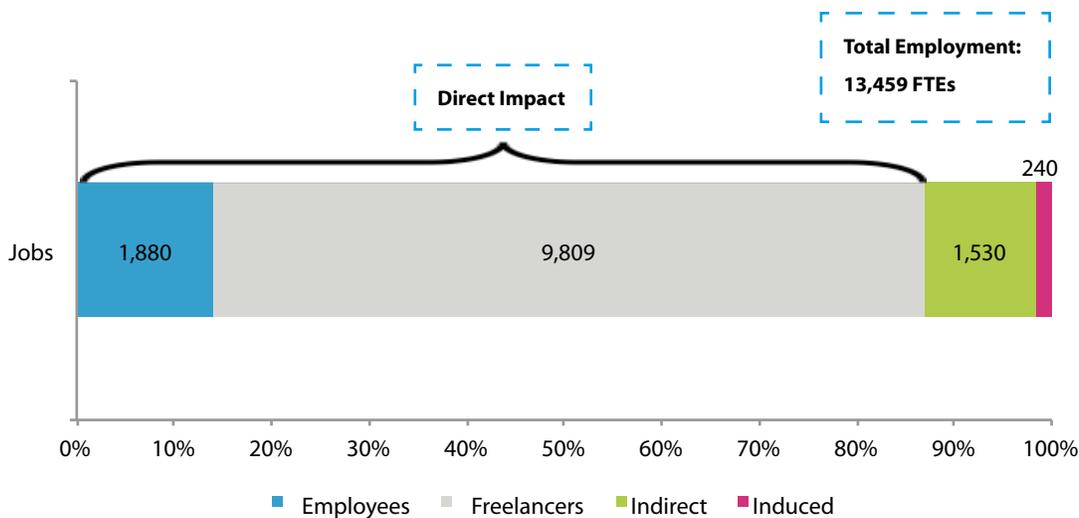


Figure 38 - Jobs by Type of Impact (2011)

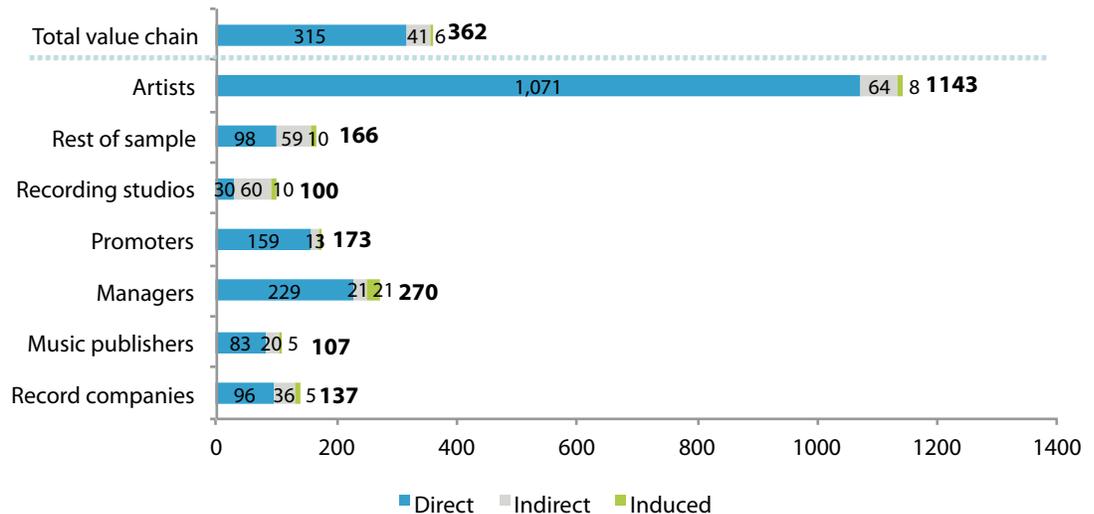
Source: Calculations based on Nordicity survey data 2012

As Figure 37 indicates, the majority (73%) of employment in the independent music industry in Canada is undertaken by freelance and contract employees.

When considered as an intensity ratio, Figure 38 shows that while across the independent music value chain approximately 362 people are employed per \$10 million of industry revenue, artists have (by far) the most employment per \$10 million – likely as a result of the low annual wages of many artists. On the other hand, recording studios appear to employ only 100 employees per \$10 million of revenue – and have the highest level of indirect and induced employment among music industry segments.

Figure 39 - Employment Intensity by Industry Segment (Jobs per \$10 million in revenue, 2011)

Source: Calculations based on Nordicity survey data 2012



3.4 Fiscal Impact

The third component of the economic impact analysis is the fiscal impact, or the taxes generated by Canada’s independent music industry. There are two important ways to view the fiscal impact of an industry: the “gross impact” and the “net impact.” The former is a simple count of the taxes paid to provincial and federal governments, while the latter subtracts the government spending on the industry from the tax revenue generated to arrive at the Return on Investment for the governments involved. To that end, the following two sub-sections expand upon the gross and net fiscal impacts of Canada’s independent music industry.

3.4.1 Gross Fiscal Impact

The first step in determining the fiscal impact of an industry is to establish in the amount paid to government in taxes. To that end, Figure 39 indicates that the independent music industry contributed roughly \$93.2 million to the provincial and federal governments in 2011.

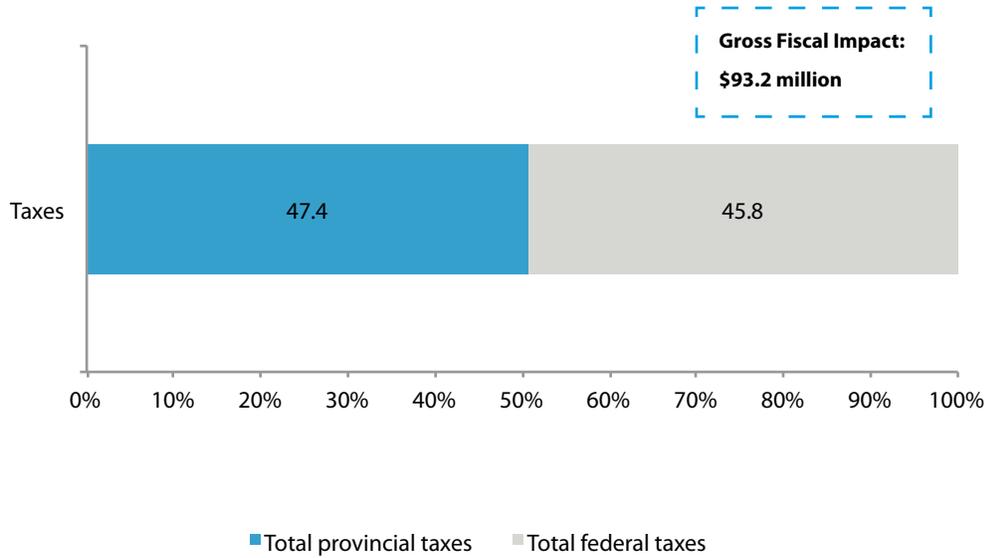


Figure 40 – Gross Fiscal Impact Overview (\$ millions, 2011)

Source: Calculations based on Nordicity survey data 2012

The individual segments of the music industry each contribute to this total in different ways (e.g., artists tend to pay fewer property taxes than recording studios). Figure 41 and Figure 42 depict the provincial and federal taxes paid by various industry segments.

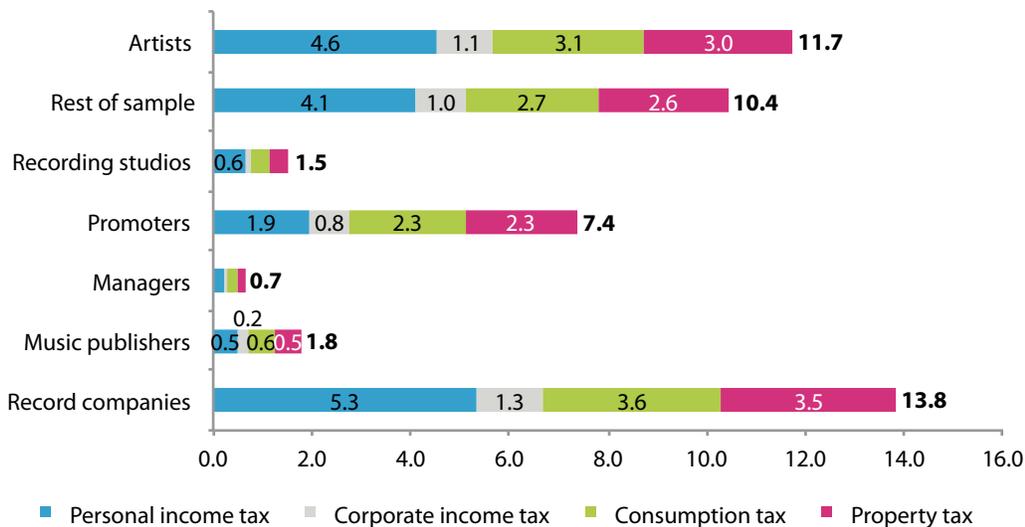
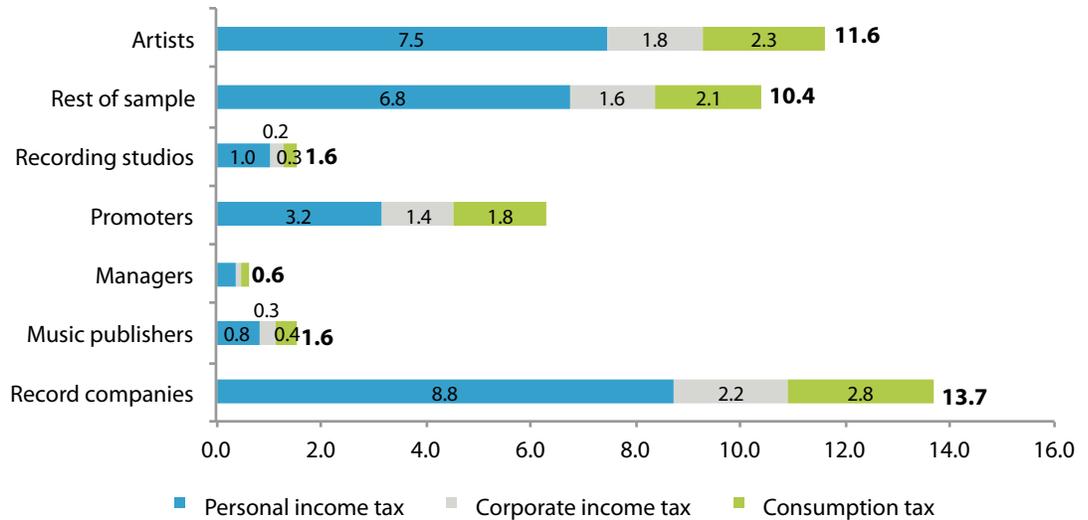


Figure 41 - Provincial Tax Impact by Type of Tax and Industry Segment (\$ millions, 2011)

Source: Calculations based on Nordicity survey data 2012

Figure 42 - Federal Taxes by Type of Tax and Industry Segment (\$ millions, 2011)

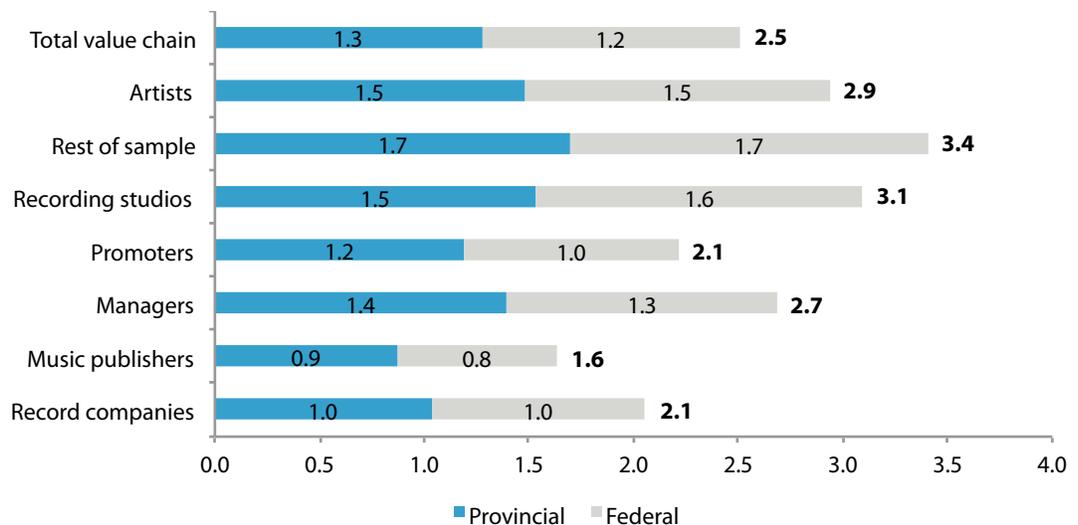
Source: Calculations based on Nordicity survey data 2012



When viewed as an intensity ratio, Figure 43 shows that the total fiscal impact for the industry as a whole is approximately \$2.5 million per \$10 million in industry revenue. In other words, the public coffers gather roughly \$0.25 in taxes for every \$1 earned by the independent music industry in Canada. Figure 43 also shows that (excluding the “Rest of Sample” segment), on an intensity basis, more tax revenue is generated by recording studios (\$3.1 million per \$10 million) and by artists (\$2.9 million per \$10 million in revenue) than by other segments of Canada’s independent music industry.

Figure 43 - Fiscal Impact Intensity by Industry Segment (\$ millions per \$10 million in revenue, 2011)

Source: Calculations based on Nordicity survey data 2012



Note: some figures may not add up due to rounding.

3.4.2 Net Fiscal Impact

This section adds government outlays to the gross fiscal impacts presented above. To that end, the following table presents the most recent, publicly available data on public contributions to Canada's music industry. Where publicly available information was not forthcoming, Nordicity asked the provincial music industry association to provide an estimate of the public support provided by their respective provincial governments.

Please note that the figures present below should not be compared to the public support revenue figures previously presented in Figure 8, as the fiscal impact is calculated including both music companies and artists, while Figure 8 only accounts for music company revenue.

Table 3 – Estimated Government Contributions to English-Language Music Companies and Artists (by Program)

Organization	Program or Tax Credit	Federal Funding	Provincial Funding	Year Counted
Department of Canadian Heritage	New Music Works Program	\$ 6,268,184	--	2010/11
Department of Canadian Heritage	Collective Initiatives Program	\$2,165,663	--	2010/11
Department of Canadian Heritage	Creators' Assistance Component	\$939,829	--	2010/11
Department of Canadian Heritage	MEC - Sound Recording	\$8,500,000	--	2010/11
Department of Canadian Heritage	MEC Music Publishing	\$500,000	--	2010/11
Department of Canadian Heritage	MEC - National Music Industry Service support	\$1,007,500	--	2010/11
Department of Canadian Heritage	Funding Provided to MusicAction	\$1,234,857**		
Canada Council	Music Department	\$22,344,449+	--	2010/11
OMDC	Music Fund	--	\$851,048	2010/11
OMDC	Export Fund	--	\$286,873	2010/11
OMDC	Sound recording tax credit	--	\$1,476,031	2010/11
Ontario Arts Council	Organization and Individual	--	\$10,670,685	2009/10
SODEC	Music Support Programs	--	\$2,147,628**	2010/11
SODEC	Sound Recording Tax Credit	--	\$270,658**	2011
CALQ	Professional Artist Grants	--	\$345,123**	2010/11
CALQ	Organization Support	--	\$3,362,186**	2010/11

Organization	Program or Tax Credit	Federal Funding	Provincial Funding	Year Counted
Manitoba Music	Market Access Program	--	\$222,121	2010/11
<i>Manitoba Music</i>	<i>Internship Support</i>	--	<i>\$41,000</i>	<i>2011</i>
<i>Manitoba Music</i>	<i>Strategic Consulting</i>	--	<i>\$11,000</i>	<i>2011</i>
Manitoba Film and Music	Music Programs	--	\$526,803	2010/11
Manitoba Arts Council	Funding for music organizations	--	\$1,299,000	2010/11
Alberta Foundation for the Arts	Music Program (individual, Organization, project and operating)	--	\$6,000,000	2011
<i>SaskMusic</i>	<i>Commercial Music Industry Support</i>	--	<i>\$880,000</i>	<i>2011</i>
Saskatchewan Arts Board	Sum of Music Grants (to individual and org)	--	\$1,019,300	2010/11
<i>Music BC</i>	<i>Music Assistance program</i>	--	<i>\$50,000</i>	<i>2011</i>
BC Arts Council	Funding for music organizations	--	\$2,411,235	2010/11
Arts NB	Music	--	\$170,997	2010/11
Music NS	Music Export, Emerging Business, Community presenters assistance	--	\$685,000	2010/11
<i>PEI Council of the Arts</i>	<i>Support for Music</i>	--	<i>\$15,000</i>	<i>2011</i>
<i>PEI Department of Culture</i>	<i>Industry Support</i>	--	<i>\$138,000</i>	<i>2011</i>
NL & Labrador Arts Council	Music	--	\$57,218	2011/12
<i>MusicNL</i>	<i>Various programs</i>	--	<i>\$350,000</i>	
Total Funding		\$42,960,482	\$33,286,906	

Source: Funding agency annual reports and/or websites

Italics: denote an estimated figure.

* Estimated as 20% of total funding for export programs

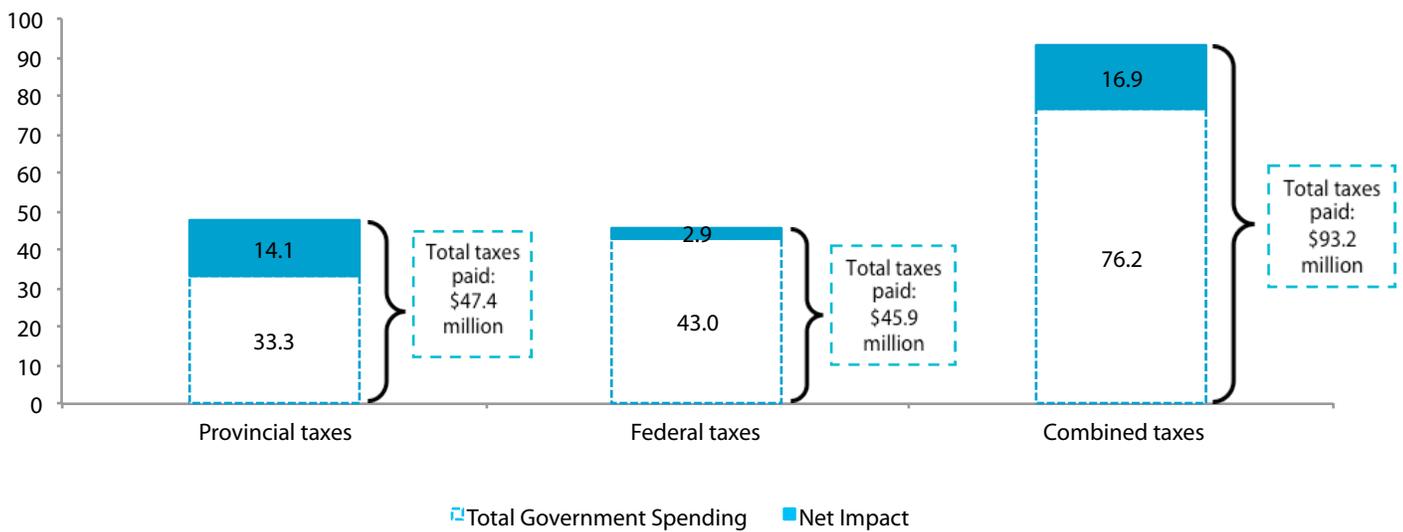
** Estimated at 20% of the total funding to reflect support for English-language production

+ Includes funding to French-language production, which has been discounted from the published total

Given the above table, one can create an estimate of the Return on Investment (ROI) that Canada's independent music industry brings to Canada's various provincial and federal governments. As the following Figure 44 shows, the music industry returned an estimated \$14.1 million in 2011 to provincial coffers across Canada, and \$2.9 million to federal government coffers, in excess of what those governments offered in support to those industries.

Figure 44 - Net Fiscal Impact (2011)

Source: Calculations based on Nordicity survey data 2012



3.5 Economic Impact Highlights

Based upon the preceding analysis, the following statements can be made:

- The Canadian independent music industry generated \$303 million in GDP impact in Canada in 2011.
- For every \$10 million of revenue, the independent music industry generated \$8.2 million of GDP impact.
- Over 13,400 people are employed by the independent music industry in Canada.
- For every \$10 million in revenue, the industry employs 362 people.
- In 2011, the independent music industry generated \$93.2 million in taxes to the various provincial and the federal governments, which amounts to \$0.26 for every \$1 in revenue generated by Canada’s independent music industry.
- Looking at the net fiscal impact, it is estimated that for every \$1 of industry support provided by government in 2011, the industry generated an average of \$1.22 in tax revenue.

4. Staging for a Growth Spurt

In this section, Nordicity revisits trends that it has identified earlier and illustrate the potential for the independent sector to grow. Also noted are financial issues that have to be overcome to enable the independent music industry to grow and take advantage of the new opportunities.

The underlying theme in this section is the recasting of the music industry's value chain as presented in Section 2.1. The changes largely reflect the impact of digital technologies on the music industry. While the foreign-owned music companies (major labels) have also had to adjust, it is the Canadian-owned independent sector where there is opportunity for a growth spurt.

4.1 Promising Trends

This sub-section summarizes the trends observed from the preceding research that may serve to enable growth in Canada's independent music industry.

A. Growth of new revenue streams and diversification

As evidenced by the wide variety of revenue streams available to independent music companies in Canada, and the expansion of many such companies into new elements of the music value chain, it is clear that Canada's independent music companies have never been so diversified. With the rise of the "360 deal," the retrenchment of music industry investment (e.g., by the major labels), and the demise of traditional business music industry models, Canadian independent music companies are occupying greater and more varied roles. While such change may indeed be difficult, it does provide companies with significant benefits.

For example, by engaging in multiple lines of business, firms are more adaptable to the continued changes in the industry. As one revenue stream declines (e.g., physical recorded music sales), companies will be able to rely more on others (e.g., live performances). As a consequence, companies are less exposed to the risk of the decline of a particular revenue source, although of course it depends on how fast companies can make up for the declines. Moreover, the practice of having multiple revenue streams prepares management for the process of continued adaptation that is likely to represent the future of the music industry in Canada – and abroad.

B. International Expansion

As illustrated in Section 2.8, many independent music companies in Canada view international expansion (largely into the United States) as key to their success. While only 27% of industry revenue is currently generated outside of Canada, almost half of companies maintained that they expected to grow their business in the United States (and over one quarter looking to expand to the United Kingdom). As such, the research shows that there is a clear desire for companies to expand

internationally. In fact, given that independent music companies have to manage a greater portion of their artists' international commitments, this increased attention to foreign markets may as much a necessity as it is an opportunity.

C. Lower barriers to entry

While costs may be rising for some music-related activities (see below), the barriers to entry for lower-end music production are decreasing. Accordingly, the industry appears to be experiencing significant growth among less formal and self-published artists. While such artists may not generate overwhelming amounts of revenue, some will succeed and embark on careers where they are successful in earning revenue.

4.2 Issues to Overcome

This sub-section outlines the most pressing issues noted in the research and subsequent analysis conducted for this study.

A. Accessing Affordable Capital

As survey data on barriers to growth indicates, Canadian independent music companies have difficulty accessing affordable capital – or any capital at all – to finance new activities and/or operating expenses. While this circumstance might be true for many industries, it is particularly troublesome in the music industry. Given the constantly shifting nature of music industry business models, companies routinely require access to capital to finance the expansion of their businesses into new areas. For example, if a company wants to expand into the digital retail business to diversify their revenue base, that expansion will require a substantial investment in a website, an ecommerce solution, and so forth. As such, only those companies that have access to sufficient capital will be positioned to grow into the diversified, agile music companies described above.

B. Rising Costs

As expanded upon in Section 2.5, many interviewees indicated that they are experiencing rising costs in the production, licensing, touring and promotion of Canadian independent music. Many of these increased costs result from the changing role of independent music companies. For example, the growth in touring and promotional costs is likely related to independent Canadian companies taking over these activities. At times, these costs are balanced with the potential for greater returns (e.g., for touring costs), but an overall rise in the costs structure renders companies somewhat less able to weather large dips in revenue.

C. Working Smart

Further to rising costs is the challenge to spend well, or at least to take full advantage of the new tools to support changing business models. Knowing the value of rights in new markets, keeping track of rights, and negotiating with users/suppliers (whether digital streaming; exploitation in commercials; etc.) is one area where new knowledge and skills are required. Continuous learning of new tools and software programs that support e-marketing and merchandising are essential to the independent music business. New ways of financing (e.g., crowdfunding) will become available to music entrepreneurs only if they are open to learning how such financing mechanisms can work – and, conversely, how such financing tools can be limited.

