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An Overview of the Financial Impact of the Canadian Music Industry

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The views expressed are those of the author. No responsibility for them should be attributed to Ontario Media Development Corporation or the University of Toronto.

Executive Summary

Assessing the true value of music is more than a dollars and cents accounting of the sectors that make up the “music industry”. Music is a central, pleasurable part of everyday life, and intrinsically is not conducive to valuation in narrow monetary terms. But even the accounting exercise of tallying revenues and costs in the music industry is not straightforward. A number of questions immediately arise. How should the music industry be defined? Does the music industry include just the production and sale of recorded music and revenues from live performances? Should the definition be more encompassing and perhaps include users of music, such as broadcasters, and facilitators of the creation of music, such as musical instrument producers and distributors? Is the sale of devices that record music part of the “music industry”?

This study represents a first step toward measuring the direct economic impact of the Canadian music industry. The industry is defined broadly to include the production and sales of recorded music, music publishing, live performances, the use of music in radio broadcasting, and musical instruments and lessons. Existing data from publicly available sources, as well as previously private data and new data collected through original surveys, information gathered with the assistance of industry associations, key informant interviews, and information provided by some of the music rights collectives are presented to begin a sketch of the monetary size of the Canadian music industry. While the primary focus of this study is on the economic impacts of the music industry, it merits noting that non-monetary impacts of the industry, particularly as revealed through the proposed surveys and interviews, are also presented.

The study should be seen as a work in progress. There are some critical components of the music industry for which data are not available and which this study was not able to generate. With the best efforts of all of those who shared their data and experiences in order to advance the study, it is clear that there are some important limitations to the data that underlie this study. Feedback on where the analysis falls short, where data sources have been missed, or where data have been misinterpreted is most welcome.

Musicians and Composers

The music industry begins with the creators of music -- musicians, songwriters and composers. Some musical artists are able to make a living working in music on a full-time basis. Fewer still achieve substantial earnings, and accumulate sizable wealth, from their talents. But for many musicians, a career in music may not be a full-time vocation and may also not be particularly remunerative. There has been very little information available on the work arrangements, earnings and expenses of musicians, songwriters and composers, at a national level, in Canada. This section of the report provides some of this information for a sample of Canadian musicians.

Data on musicians were collected using a web-based survey conducted by POLLARA, with the cooperation of the Canadian arm of the American Federation of Musicians. Informing the design of the survey were interviews with artist managers who provided background on categories of musician revenue sources and expenses, as well as a number of other issues addressed by the survey. The survey was web-based and was conducted during December 2006 and January 2007. In total, 700 musicians, songwriters and vocalists responded to the survey.

The musicians who responded to the survey were primarily American Federation of Musicians (AFM) members, all of them in Canada. It is important to note that a Canadian musician is not required to be a union member to perform or record. While there does not appear to be information available on the number of musicians who are not union members, key informants who provided information for this study suggested that non-union members would number in the thousands. That the survey largely addressed AFM members is a potentially important caveat for interpreting the survey results. Because of a lack of information on non-unionized musicians, there is no basis for evaluating whether the results for the sample of unionized musicians is representative of all musicians.

It should also be noted that, based on the earnings information, there were not any “superstar” musicians in the sample. Nonetheless, the survey results will hopefully provide some perspective on the circumstances of an important segment of the Canadian musician community.

The Musicians Survey paints a portrait of Canadian musical artists as being active in a wide array of endeavours (e.g., live performances, recording, studio work, licensing activities and advertising and commercial work, among others). The talents of Canadian musicians also span a multitude of musical genres.

Live performances represent the single most important source of income for musicians in the sample, accounting for 48.5 percent of the average \$24,837 of total revenues earned by Canadian musicians. On average, Canadian musicians incurred \$8,346 of expenses, a quarter of which (\$2,112) was due to transportation costs and a further 17.8 percent (\$1,486) accounted for instrument purchases.

For the average musician in the sample, their music career is a part-time vocation, consuming 27.8 hours in a typical week. Sixty-five percent of musicians have other jobs in which they work for pay. The annual earnings from this other employment averaged \$20,758.

About 71 percent of musicians view unauthorized file sharing as either a major threat (37.6 percent) or a minor threat (33.3 percent) to the music industry, while 15 percent believed it to be no threat at all. Some 37.6 percent of respondents generally agreed that unauthorized file sharing was bad for artists, while 14.1 percent agreed that unauthorized file sharing isn't bad for artists. Almost a third (34.4 percent) of musicians in the sample viewed unauthorized file sharing as both good and bad for artists. Sixty-seven percent of musicians in the sample believed that copyright owners should have complete control, 27

percent believed the artist should have some control and 1.4 percent believed the artist should have very little control over the use of an artistic work.

Canadian musicians expressed optimism about the future. Eighty-four percent of musicians reported being either optimistic (62 percent) or neutral (22 percent) about their future prospects as a musician. Only 16 percent of musicians described themselves as pessimistic.

Live Performances

Many of the music industry professionals with whom we spoke over the course of this study emphasized the growing importance of live performances, not just as a source of income, but also as one of many tools for building a fan base. This is especially the case in an era where radio play, according to some, has become a less effective tool for new musicians to attain popular recognition or for music fans to discover new music.

As described in the previous section, the Musicians Survey revealed that Canadian musicians depend on live performances for a sizable share – almost one-half – of their music-derived earnings. This section provides information on three key aspects of the live musical performance business. First, the role of agents and the financial arrangements of live performances are described. Second, data from the consumer survey of Canadians' assessment of their expenditures on live performances is presented. Finally, the gross receipts from live performances in Canada are estimated based upon SOCAN live performance copyright tariff revenues (and other sources).

Most Canadian musical artists rely upon themselves for management, but at least some use the services of agents to assist with booking live performances. Booking agents typically receive commissions equal to 10 percent of whatever the artist receives. Canadian booking agent revenues are estimated to be in the \$11 million to \$13 million range, with agent profits equal to between 10 to 15 percent of revenues.

The Consumer Survey undertaken by POLLARA asked Canadians about the extent of their attendance of live performances. Forty-eight percent of Canadian respondents, and an identical proportion of Ontario respondents, indicated that they had attended live shows or live concerts that were primarily musical, including live theatre shows and operas.

Respondents were also asked how much they had spent on live musical performances in the past 12 months. Those Canadians who had reported attending live performances spent an average of \$273 in the past 12 months, slightly less than the \$299 reported by Ontarians who had attended live performances. Averaged across all Canadian and Ontario respondents (i.e., including those who had not attended live performances as well as those who had attended live performances), expenditures on live performances were reported to be \$122 and \$131, respectively.

Consumers' recall of their expenditures on live performances over a 12 month period is prone to inaccuracy. Extrapolating the figures on live music performances based upon the average reported expenditures to the population level results in implausibly large total expenditures. One potential source for estimating at least a (sizable) share of some live performance ticket sales is to use information on SOCAN domestic licensing fees. Statistics Canada also provides some information that can assist with estimating classical music concert and musical theatre revenues.

Gross revenues from live musical performances in 2005 are estimated at \$752.8 million, the bulk of which (\$353.4 million) was derived from general concerts, with the remainder accounted for by classical music concerts (\$312.0 million), musical cabarets (\$80.9 million) and exhibitions (\$6.5 million). While not estimated in this study, there are considerable secondary expenditures for food, beverages, merchandise, parking and a range of other goods and services complementary to the enjoyment of music in these venues.

The Recording Industry

This section of the report brings together information on trends in Canadian recording industry sales, expenditures and profits from three sources: Nielsen SoundScan Canada unit sales data; Statistics Canada's Sound Recording Survey; and new data for major record labels provided by the Canadian Recording Industry Association (CRIA).¹ Unfortunately, a survey of independent Canadian record companies undertaken for this study generated too few responses to provide reliable information on the independents.

The circumstances for Canadian recording companies, as a whole, have changed markedly in recent years. Over the 1998 to 2007 period, CD sales peaked in 1999 at 62,763,500 units. Unit sales of CDs declined by 26.3 percent between 1999 and 2003. Unit sales rebounded modestly in 2004, but still remained 21.1 percent below 1999 levels. Unit sales fell in 2005 from the 2004 level, and continued to decline at accelerated rates to 2007. In 2007, CD sales totaled 41,801,900 units, a 9.6 percent drop from 2006 sales, and 33.4 percent below the 1999 peak for this period. Unit sales for 2007 were below those for the previous low over the period, 46,243,000 units, in 2003.

Retail sales of recordings in Canada declined by 51.2 percent over the 1998 to 2006 period, from \$1,441.5 million in 1998 to \$703.7 million in 2006.

Since the entry into the Canadian market of the Apple iTunes store at the end of 2004, sales of digital albums have been growing. However, digital album sales are not yet fully offsetting the decline in physical CD unit sales. In 2006, 1,029,000 digital albums were sold in Canada, along with 14,887,600 digital singles. Nielsen SoundScan converts digital singles into digital album-equivalents by assuming that there are 10 songs per

¹ CRIA purports to cover about 96% of all recorded music sales in Canada, including indie sales (they are the primary sales channel of indie sales).

album. Consequently, the 14,887,600 digital singles represent 1,488,760 digital album equivalents. In total, $[1,029,000 + 1,488,760 =]$ 2,517,760 digital albums and equivalents were sold in 2006.

Physical album sales in 2006 totaled 45,205,700 units. When added to digital sales, $[45,205,700 + 2,517,760 =]$ 47,723,460 albums and digital equivalent albums were sold in 2006. By this approach, digital sales accounted for $[2,517,760 / 47,723,460 =]$ 5.3 percent of all unit sales in 2006.

Following the same methodology, digital sales as a proportion of all unit sales increased to 10.3 percent in 2007.

The causes of the decline in CD sales have been hotly debated. A recent study by Liebowitz² considered a number of factors that might explain the decline in United States record sales including (at page 21), "... album prices, income, music quality (measured by concerts and radio listenership), markets for substitutes and complements, the opening of new listening venues (portability) and "librarying" – the act of replacing replenishing album collections as formats change, such as replacing prerecorded cassettes with CD's." Liebowitz also assessed the impact of the pre-recorded video market on music sales. Liebowitz argues that these factors played little or no role in the decline of CD sales.

Professor Liebowitz also examined the literature on the impact of file sharing on record sales in the U.S. and concluded that, "The weight of current evidence strongly supports a view that file sharing diminishes the revenues of the recording industry."³

While not everyone agrees on the causes, it is evident to most that the traditional recording industry in Canada has been in an extended period of decline. Sales of physical forms of music have declined and digital sales of music have increased, the increase in digital sales has, to date, been insufficient to offset the fall in physical sales.

Statistics Canada sound recording survey data

Core recording revenues of the Canadian industry as a whole (i.e., both Canadian and foreign-controlled recording companies) grew between 1992/93 and 1998, from \$658.9 million to \$961.9 million, followed by an erosion in core recording revenues to \$762.1 million by 2003. The Canadian recording industry also saw revenues from industry-related activities increase from \$752.2 million to \$1,193.4 million in 2000. Industry-related revenues declined to \$985.4 million by 2003. Total revenues, including revenue from non industry-related activities, increased from \$828.2 million in 1992/93 to \$1,323.9 million in 1998, but total revenues were reported to have fallen in each of the 2000 survey (to \$1,319.3 million) and the 2003 survey (to \$1,029.7 million). EBITDA increased from \$147.8 million in 1992/93 to \$250.0 million in 2000, declining to \$123.5 million in the 2003 survey. The EBITDA margin generally declined between the

² Liebowitz, Stan J., "File Sharing: Creative Destruction of Just Plain Destruction? *Journal of Law and Economics*, vol. XLIX (April 2006), 1-28.

³ See www.utdallas.edu/~liebowit/.

1992/93 survey and the 1998 survey (from 17.8% in 1992/93 to 15.5% in 1998), increasing to 18.9% by the 2000 survey. In 2003, EBITDA as a proportion of total revenues equaled 10.7%.

Data for 2005 and 2006 which, due to changes in the Statistics Canada survey methodology, are not comparable to the earlier data, suggest continuing downward pressure for the Canadian recording industry as a whole.

Total operating revenue for Canadian- and foreign-controlled companies combined fell from \$747.3 in 2005 to \$690.6 million in 2006, a decrease of 7.6 percent. Operating expenses fell 3.4 percent over the same period. Operating profits fell from \$102.2 million to \$67.5 million, while the operating margin shrank 3.9 percentage points, from 13.7 percent to 9.8 percent.

Major label data

The financial profile of the major recording labels in Canada diminished markedly over the 2001 to 2006 period. Total sales (total sales include sales from all sources – CDs, cassettes, DVDs, digital, distributed label fees and royalty income) fell from \$666.0 million in 2001 to \$624.4 million in 2003. Sales rebounded in 2004, rising to \$653.4 million, but fell dramatically in 2005 to \$522.1 million. Sales improved modestly in 2006, rising \$16 million to \$538.1 million. By 2006, major label sales had fallen by 19.2 percent from the level achieved in 2001.

The decline in sales was also reflected in decreased expenditures in Canada by the majors, as well as slowing net new capital asset additions. In 2001, expenditures totaling \$321.4 million, representing 48.3 percent of sales, were paid directly to Canadian suppliers and staff members. By 2006, Canadian expenditures had fallen to \$221.3 million, a 31.1 percent reduction from the 2001 level. Canadian expenditures were 41.1 percent of sales in 2006.

Additions to capital assets fell by 83 percent between 2001 and 2006, from \$7.5 million to \$1.3 million.

Music Publishing

A recent study prepared for the Canadian Music Publishers Association (CMPA) and L'Association des professionnels de l'édition musicale by Paul Audley & Associates Ltd. and Circum Network Inc. (hereafter the "music publishing" study) provides very comprehensive information on the roles of music publishers and copyright collectives in Canada. In addition, the study provides detailed financial information on Canada's music publishing industry.

This chapter summarizes the study and adjusts the figures from the original study to provide an estimate of the financial impact of some of the major, but not all, music publishing activity in Canada.

Canadian music publishers earned over \$103 million in revenues in 2004. The two largest categories of royalty revenues, mechanical rights and performing rights, accounted for \$49.2 million and \$43.8 million, respectively. “Other” revenues of \$10 million were primarily derived from synchronization (\$7.6 million). Music publishers’ expenses amounted to 86.1 percent of total revenues.

Recently published Statistics Canada data for the music publishing industry for 2005 and 2006 show that operating revenues increased by 8.0 percent from \$107.4 million in 2005 to \$116.0 million in 2006. A 15.8 percent increase in operating expenses resulted in a 32.1 percent decrease in operating profits, from \$17.6 million to \$11.9 million. The operating profit margin fell from 16.4 percent to 10.3 percent.

The relative magnitude of the sources of music publishing revenues is likely to have changed from the 2004 study. Mechanical rights royalties are very likely to have declined, in line with declining unit sales of compact discs. Digital reproduction rights revenues (i.e., royalties collected on downloaded singles and albums) are likely to have only partially offset the decline in physical mechanical rights royalties.

The private copying regime was in its infancy during the period relevant to the original music publishing study. Consequently, it might also be reasonably expected that private copying tariff revenues have increased in both magnitude and relative importance to music publishers.

Music Consumption

This section of the report presents recently collected data on music buying as represented by a sample of Canadians. While specific information on expenditures must be treated with caution in light of challenges faced by survey respondents who are required to recall information from an extended period of time in the past, consumers’ responses offer some perspective on tastes and buying habits, as well as future intentions to purchase music.

The data on Canadian consumers are from a survey conducted by POLLARA. The Music Consumers Survey was administered via telephone between August and September of 2006. The survey collected information on the consumption of recorded music, musical instruments and training and attendance and expenditures on live performances. While this section of the report focuses primarily on the information about music consumption collected through the survey, information collected on the consumption of other music-related products and services is presented in other sections.

The Canadian consumers in the sample were asked how often they listened to various genres of music. The most popular genre, classic rock, was frequently (i.e., as often as possible) listened to by 32.1 percent of respondents, while 20.5 percent reported that they never listened to classic rock. For the following music genres, at least 50 percent of survey respondents listened either frequently or occasionally to: Classic rock (62.6 percent); adult contemporary/soft rock (57.4 percent); and rock performers (51.6 percent). Opera and dance music were never listened to by 61.1 percent and 59.2 percent, respectively, of the sample of consumers.

Almost three-quarters of respondents purchased at least one CD or music DVD in the twelve months prior to being interviewed; however, fewer than 20 percent had purchased a downloaded music file. Respondents also reported purchasing ring/mastertones for their cellular telephones: just under 20 percent of cell phone owners purchased a ringtone or mastertone. About 30 percent of respondents purchased gift certificates for music. Only about 10 percent of these purchases were redeemable with on-line music services.

This section also provided some information on the amount of money that consumers spent on recorded music products. However, because of the difficulties associated with recalling amounts spent on past purchases, these figures cannot be reliably used to estimate the music purchases of the Canadian population.

Commercial Radio Broadcasting

Commercial (and public) broadcasters make considerable use of music in the provision of their services. Perhaps the most obvious use of music for broadcast purposes is radio, though other broadcasters are also extensive music users. Other broadcasters who use music include basic and cable television, as well as pay audio services for home listening or as background music in restaurants, taverns and other public spaces. There are also relatively new and emerging broadcasting technologies, such as internet radio, satellite radio, WiMax, and even podcasting, which have the potential to be both complements and substitutes for terrestrial radio broadcasting. Together, the technologies serve to expand the use and reach of music.

Although radio stations may be playing more music today, it is apparent that Canadians are listening less to radio than in the past. Nonetheless, commercial radio broadcasters have demonstrated remarkable resiliency, as reflected in their financial performance, even in light of new and competing technologies such as MP3 players, satellite broadcasting and webcasting to name a few.

With total revenue growth of 5.7 percent compounded annually over the period 2001 to 2005 (from \$1.070 billion in 2001 to \$1.039 billion in 2005), and a total cost compound annual growth rate (CAGR) of 4.3 percent (from \$857.6 million in 2001 to \$1.015 billion in 2005), the profitability of the Canadian commercial radio broadcasting industry improved over the period. Earnings before allowance for interest, taxes, depreciation and amortization (EBITDA) increased from \$212.0 million in 2001 to \$317.3 million in 2005,

a CAGR of 10.6 percent per year. Expressed as a percentage of revenue, EBITDA profits were equal to 23.8 percent of revenues in 2005, up from 19.8 percent of revenues in 2001. Earnings before interest and taxes (EBIT) increased at a CAGR of 12.8%, from \$171.2 million (or 16.0 percent of revenues) in 2001 to \$277.0 million (or 20.8 percent of revenues).

Although the Ontario commercial radio broadcasting industry experienced slower revenue growth over the 2001 to 2005 period than did the Canadian commercial radio broadcasting industry as a whole, it experienced slower growth in expenses as well. So, at approximately 20 percent of revenues, Ontario broadcasters experienced EBITDA margins that were similar to those of all Canadian commercial radio broadcasters. EBITDA margins expanded to 27.2 percent of revenues in 2005, compared to 23.8 percent for Canada as a whole. EBITDA of Ontario commercial radio broadcasters increased from \$81.7 million in 2001 to \$135.3 million in 2005, a CAGR of 13.4 percent. EBIT increased from \$65.5 million (or 16.3 percent of revenues) in 2001 to \$120.8 million (or 24.3 percent of revenues), a CAGR of 12.8%.

Music continues to be a critical input to commercial radio broadcasting. Despite the apparent longer-run trend of less time spent listening to radio, especially by younger Canadians, differences in music listening preferences continue to provide efficiently segmented audiences that attract the interest of demographically targeted advertisers.

The financial performance of commercial radio broadcasters in Canada has remained strong, with revenues, profits and profit margins all expanding over the 2001 to 2005 period.

Musical Instruments, Recording and Live Performance Equipment, and Music Lessons

Although largely overlooked in music industry studies, Canadian sales of musical instruments, recording equipment and public address and lighting systems now rival those of recorded music.

This chapter provides statistical information on the economic and financial profile of this key infrastructure sector of the music industry. Also provided is some information, taken from the survey of Canadian music consumers, on purchases of music lessons and musical instruments.

While some of these music products are destined for the professional market, sales to professional musicians alone would not be sufficient to sustain the industry. The music products industry relies on the non-professional market – primarily young people who are learning to make their own music, either as part of a school program, or outside of the school system through private instruction. Also, as the population ages, the music products industries expect to see the continuation of a trend toward the older demographic groups reinvigorating their interest in recreational music making. Recent

experience in the industry has seen older Canadians either picking up an instrument for the first time or, perhaps more commonly, returning to a musical instrument that they had explored when they were younger and had either lost interest or lacked time in light of other pursuits. As more of their time becomes their own again, many older Canadians have moved from passive listening to participating in making their own music.

Canada is the seventh largest market in the world for music products, with retail sales exceeding \$900 million in 2005. While professional musicians account for some of these sales, the industry relies on individual “recreational” musicians for the bulk of sales. Measured on a *per capita* basis (i.e., retail sales of music products divided by population), Canada ranked second in retail sales of music products. On average, each Canadian spent over \$29 on music products in 2005, second only to Americans, who spend almost \$32 each. The average per capita spending on a global basis in 2005 was \$7.68 expressed in Canadian dollars (or \$6.34 U.S.)

The music products industry has been experiencing steady growth over the past decade. In 2005, the retail sales of Canadian music products suppliers totaled just over \$924 million (expressed in Canadian dollars), rivaling retail sales of recorded music.

Canada is a significant importer of music industry products. According to the Music Industries Association of Canada (MIAC), approximately 10 percent of retail sales are attributable to Canadian-based manufacturers, or about \$94 million dollars in 2005. Further, Canadian manufacturers exported in the range of \$80 million to \$100 million of music products to the rest of the world.

Consumption of musical instruments and lessons

The musical products industry relies on individual music enthusiasts, more so than professional musicians, for their customer base. The Consumer Survey administered by POLLARA collected information on the purchase and rental of musical instruments. Specifically, the survey asked Canadians whether, during the past year, they had bought or rented a musical instrument for themselves or someone in their family. Twenty-three percent of all Canadians, and 24 percent of Ontarians, reported having purchased or rented a musical instrument, with 30 percent of those who did purchase or rent a musical instrument indicating that the instrument was for someone else in the family. The remainder purchased or rented the instrument for either themselves or both themselves and others in the family.

About thirty percent of those who reported spending on musical instruments were not able to recall how much they spent. About 40 percent of all Canadians, and an equal proportion of Ontario respondents, spent less than \$300 on instruments, while 33 percent of Canadians and 28 percent of Ontarians reported expenditures in excess of \$300. Those Canadians who bought or rented musical instruments in the past year reported spending \$664 (\$608 in Ontario).

Many of those purchasing musical instruments also purchased sheet music and other support materials to accompany their musical instruments or lessons. The average expenditure by all Canadian musical instrument buyers/renters was \$59. The average expenditure on these items for Ontario instrument buyers/renters was \$39. It merits emphasis that almost 40 percent of all Canadian, and Ontario, musical instrument consumers reported having spent nothing on sheet music and support materials in the past year.

It has proven extraordinarily difficult to find information on how much Canadians spend on musical instrument lessons and/or voice lessons. Consequently, the Consumer Survey asked respondents to indicate whether they had purchased music lessons or singing lessons for themselves or for someone in their family during the last year. Fifteen percent of all Canadians and 13 percent of Ontarians purchased such lessons, with about 62 percent of both all Canadians, and only Ontarians, reporting that they purchased the lessons for just themselves or for both themselves and other family members. The remaining 38 percent of lesson buyers purchased the lessons for another family member.

Those Canadians purchasing music/voice lessons for themselves spent \$578, compared to the \$512 spent in the last year by Ontario music lesson purchasers. Among those purchasing music lessons for other family members, the average amount spent was \$439 (\$326 in Ontario). Thirty percent of Canadians who purchased music or voice lessons, and 40 percent of Ontarians, reported paying nothing for those lessons.

The Consumer Survey provided information on the purchase of musical instrument and voice lessons for themselves and family members, the purchase or rental of musical instruments and the purchase of support materials, such as sheet music. While the amounts Canadians reported spending for each of these categories must be treated with caution due to the difficulty of recalling such expenditures, the information suggests that a considerable proportion of the Canadian population is actively engaged in making, or learning to make, music.

It should be noted that the majority of costs associated with music education in schools and post-secondary institutions are unlikely to be captured in the responses of survey participants.

Introduction

Is it possible to truly measure the contribution of music to the Canadian economy? For most Canadians, music is a welcome and pervasive part of their lives. We devote time to listening to recorded music from our collections of compact discs, digital music files, vinyl records or other media. We hear great new songs for the first time, or an old favourite, on a terrestrial radio, satellite or internet broadcast, attend live performances, or create music on our own. Music heightens the experience of watching a motion picture, playing a video game, or even waiting on hold when we call the doctor's office. We can experience music individually or we can share it with friends.

Clearly, the value of music is more than a simple dollars and cents accounting of the sectors that make up the "music industry". But, even the accounting exercise is not straightforward. The exercise must begin with a definition of the "music industry". Does it include just the production and sale of recorded music and revenues from live performances? Or, should the definition be more expansive?

Two further central questions that must be addressed are what data are necessary to measure the industry, however defined, and where and how will these data be sourced.

There have been a number of excellent studies of the Canadian music industry. In general, the studies have each focused on a particular aspect of the industry, for example, music publishing, recording, and the contributions of the recording industry to Canada's balance of trade. Another set of excellent studies have estimated the contribution of the music industry as more broadly defined, but these have typically focused on a single province or jurisdiction.

This study represents a first step toward measuring the direct economic impact of the Canadian music industry. The music industry is defined broadly to include production and sales of recorded music, music publishing, live performances, the use of music in commercial radio broadcasting, and musical instruments and lessons. Existing data from publicly available sources, as well as previously private data and new data collected through original surveys, information gathered with the assistance of industry associations, key informant interviews, and information provided by some of the music rights collectives are presented to begin a sketch of the monetary size of the Canadian music industry. While the primary focus of the study is on the economic impacts of the music industry, it merits noting that non-monetary impacts of the Canadian music industry, particularly as revealed through surveys and interviews, are also presented.

This study should be seen as a work in progress. Even with the best efforts of all of those who shared their data and experiences in order to advance the study, it is clear that there are some important limitations to the data that underlie this research. Feedback on where the analysis falls short, where I have missed data sources or where I have misinterpreted the data that I have presented is most welcome.

Where there is a lack of data, which is commonly the case, I have sometimes relied upon key informant interviews and, sometimes, judgment calls to construct some of the data in this report. Of course, I welcome any comments and criticisms about my approach and any insights as to how the numbers might be improved to more accurately reflect what is happening in the music industry.

What has been included, or not, as components of the Canadian music industry is certain to be a source of criticism, and justifiably so. In some instances, there simply was not enough information available, in the time available to capture it, to provide any picture of key aspects of the music business. In other instances, I may have completely missed something. I will rely on readers to point out these shortcomings. I will make every effort to address the criticisms in future work.

To say that the music industry is dynamic and undergoing a constant evolution to new business models is trite. But it also means that any study of the industry is out of date before it is set to paper. This study is no exception.

With all of these caveats, what follows represents an attempt to provide an economic sketch of key elements of the Canadian Music Industry. The sections to follow are:

- Musicians and Composers
- Live Performances
- The Recording Industry
- Music Publishing
- Music Consumption
- Commercial Radio Broadcasting
- Musical Instruments, Recording and Live Performance Equipment, and Music Lessons

Musicians and Composers

The music industry begins with the creators of music -- musicians, songwriters and composers. Some musical artists are able to make a living working in music on a full-time basis. Fewer still achieve substantial earnings, and accumulate sizable wealth, from their talents. For many musicians, a career in music may not be a full-time vocation and may also not be particularly remunerative. There has been very little information available on the work arrangements, earnings and expenses of musicians, songwriters and composers, at a national level, in Canada. This chapter of the report provides some of this information for a sample of Canadian musicians.

This chapter contains the following sections:

- Data collection
- Demographic characteristics
- Business arrangements
- Music business activities – past and future
- Management
- Artistic profile
- Financial profile of musicians – all of Canada
 - Revenues
 - Expenses
 - Margin
- Earnings from other employment – all of Canada
- Financial profile of musicians – Ontario
- Comparison to musician earnings from the Census of Canada
- Recording
- Touring
- Career satisfaction
- Summary

Data Collection

Data on musicians was collected using a web-based survey conducted by POLLARA, with the cooperation of the Canadian branch of the American Federation of Musicians. Informing the design of the survey were interviews with artist managers who provided background on categories of musician revenue sources and expenses, as well as a number of other issues.

The survey was conducted over the period spanning December 2006 to January 2007. In total, 700 musicians, songwriters and vocalists responded to the survey.

The artists who responded were primarily American Federation of Musicians (AFM) members. AFM has 15,000 Canadian members.⁴ It is important to note that a Canadian musician is not required to be a union member to perform or record. While there does not appear to be information available on the number of musicians who are not union members, key informants who provided information for this study suggested that non-union members would number in the thousands. That the survey largely addressed AFM members is a potentially important caveat for interpreting the survey results presented below. Because of a lack of information on non-unionized musicians, there is no basis for evaluating whether the results for the sample of unionized musicians is representative of all musicians.

It should also be noted that, based on the earnings information, there were not any of the probably very small number of “superstar” musicians in the sample. Nonetheless, the survey results will hopefully provide some perspective on the circumstances of an important segment of the Canadian musician community.

Demographic Characteristics

Two-thirds of the sample of musicians is between the ages of 35 and 64. Only about one-quarter of musicians surveyed are under the age of 34, while 7 percent are 65 years of age or older. The musicians are mostly male (70.7 percent). Twenty-six percent of the sample is female and about 3 percent of respondents preferred not to disclose gender information.

Seventy percent of the musicians are married (or equivalent), 22 percent are single and 8 percent are divorced. The majority of survey respondents (60 percent) have no dependent children, while one-third of the sample has 1 or 2 dependent children and 6 percent have 3 or 4 dependent children.

Almost half (48 percent) of musicians in the sample are located in Ontario, with a further 16 percent located in Alberta and 13 percent located in British Columbia. Only 11 percent of the musicians in the sample are located in Quebec. Manitoba musicians represent 5 percent, Nova Scotia musicians represent 4 percent, Saskatchewan musicians

⁴ *Directory of Labour Organizations in Canada*, Human Resources and Social Development Canada – Labour.

2 percent and Prince Edward Island musicians about one-half of one percent of the sample. There were no respondents who are located in New Brunswick, Newfoundland, Yukon, Northwest Territories or Nunavut.

Eighty-one percent of musicians are based in urban centres, and 6 percent are located in rural areas. Almost 13 percent of respondents did not know whether they are located in an urban or rural area, or they refused to answer the question.

Approximately two-thirds of respondents report owning their own home and 80 percent own a motor vehicle, either personally, through their business, or both.

Business Arrangements

Ninety-two percent of survey respondents describe themselves as active in the music business. Almost 7 percent are semi-retired, and the remaining 1.4 percent are completely retired from the music business.

Those currently active in the music business have been so for an average of 22.3 years. The retired and semi-retired musicians have been away from the music business for an average of 8 years.

All survey respondents were asked to describe their current business arrangement by selecting from a range of options. Their responses are summarized in Table 1.1. Sixty-four percent are sole proprietors, 15.3 percent are employees and 10.4 percent are either (federally or provincially) incorporated, or have structured their businesses as a limited partnership.

Table 1.1
Current Music Business Arrangement

<u>Business Arrangement</u>	<u>%</u>
Employee	15.3
Sole proprietor	64.4
Limited partnership	3.9
Incorporated provincially	5.1
Incorporated federally	1.4
Freelancer	2.7
Student/teacher	1.6
Band member/performer	0.6
Contractor	1.0
Retired	0.7
Hobby	0.7
Other/don't know/refused	2.5

Music Business Activities – Past and Future

The musicians who responded to the survey were asked which music business-related activities they undertook in the past year, and which they expect to undertake in the coming year. As summarized in Table 1.2, the most common activity, undertaken by 88.7 percent of respondents, was performing in a local bar or concert hall. A similar proportion of musicians, 88.1 percent, reported having performed at a local event in the past year and 65.6 percent played further from home, either regionally/nationally and/or internationally (35.3 percent). Some 21.4 percent of respondents toured as a solo or lead act, and 7.9 percent toured as an opening act for another group. (As will be shown later in this chapter, live performances represent the largest source of income for Canadian musicians). Close to half (47.4 percent) of the sample of musicians made a recording for sale to the public.

Table 1.2
Music Business-Related Activities in the Past Year

<u>Music Activities in the Past Year:</u>	<u>%</u>
Played or performed in a bar or concert hall locally	88.7
Played or performed at an event locally	88.1
Played or performed regionally, nationally	65.6
Made a recording for sale to the public	47.4
Played or performed regionally, internationally	35.3
Toured as a solo or lead act	21.4
Toured as an opening act for another group	7.9

It appears that musicians expect to be similarly active on almost all dimensions in the coming year, as shown in Table 1.3. Of note, a slightly higher percentage of musicians plan to record, tour as a solo or lead act, and tour as an opening act for another group, in the coming year compared to the past year.

Table 1.3
Music Business-Related Activities in the Coming Year

<u>Music Activities in the Coming Year</u>	<u>%</u>
Play or perform in a bar or concert hall locally	88.7
Play or perform at an event locally	88.9
Play or perform regionally, nationally or internationally	69.9
Make a recording for sale to the public	52.7
Tour as a solo or lead act	26.4
Tour as an opening act for another group	13.4

Management

The musicians were asked, “And who, including yourself, is mainly responsible for conducting your business affairs, including your engagements or bookings etc.? [select more than one if that applies].” Their responses are shown in Table 1.4.

Table 1.4
Person/Entity Mainly Responsible for Management

<u>Mainly Responsible for Management</u>	<u>%</u>
Myself	92.3
Spouse	5.3
Agent or agency	10.0
Record label	2.6
Manager	3.1
Lawyer	1.3
Accountant	4.7

Over 90 percent of respondents indicated that they themselves were mainly responsible for their management, and 5.3 percent indicated that their spouse assumed primary management responsibility. Use of professional management, agents or agencies, managers, lawyers and accountants was reported by 19.1 percent of the sample of musicians. Their record label was a primary form of management for 2.6 percent of respondents.

When asked if they are satisfied with their representation, 64 percent of responding musicians reported that they are satisfied, and the remaining 36 percent are not satisfied.

Artistic Profile

Musicians were asked whether they consider themselves to be a songwriter, a musical performer/musician, or a vocalist, and to select all of these possibilities that they felt were applicable. Slightly more than one-third of respondents indicated that they are songwriters, 96 percent reported that they are musical performers/musicians, and 25.3 percent classified themselves as vocalists (although, it should be noted, not necessarily primarily songwriters, musicians or vocalists).

Table 1.5
Roles in Music

<u>Role:</u>	<u>%</u>
A songwriter	35.3
A musical performer, musician	96.0
A vocalist	25.3

When asked to choose, 81.0 percent of those in the sample indicated that they are primarily a musical performer, 3.7 percent responded that they are primarily a songwriter, and 15.3 percent responded that they are both musicians and songwriters equally.

Survey respondents were asked which genres of music they compose, perform or publish, and were asked to select up to four categories. Their responses, summarized in Table 1.6, reveal a wide diversity of musical interests and specialties.

Table 1.6
 Genres of Music Composed, Performed or Published

<u>Genre</u>	<u>%</u>
Classical	47.9
Jazz	37.0
Pop	22.1
Other	18.1
Independent	15.8
Folk	14.9
Blues	14.4
Adult contemporary	12.7
Classic rock	12.1
World music	10.6
Contemporary jazz	10.3
Country	9.9
Rhythm and blues	8.6
Latin	7.4
Soundtrack	7.3
Roots, Americana, bluegrass	6.9
Dance music/club play	6.6
Top 40	5.6
Christian	4.9
Hard rock	4.1
Electronic	3.0
New age	2.1
Gospel	1.6
Punk	1.0
Hip-hop	0.9
Reggae	0.7
Rap	0.3

Almost half (47.9 percent) of survey respondents report that they compose, perform or publish classical music. The five next most frequent responses are jazz (37.0 percent),

pop (22.1 percent), other (18.1 percent), independent (15.8 percent) and folk (14.9 percent).

Financial Profile of Musicians – All of Canada

Revenues

Table 1.7 shows the revenues (from music) earned and expenses incurred by the sample of Canadian musicians (for those musicians who reported their earnings and expenses). The top panel of the table shows revenues by source. On average, musicians in the sample earned \$24,837 in the past year. Musicians earned 48.5 percent, or \$12,050, of the music-related revenue from touring/performing at live venues. Revenue from studio work or as a hired musician accounted for 17.4 percent of revenues, or \$4,319 per year. Performance right royalties (i.e., SOCAN royalties) and publishing royalties accounted for 4.6 percent (\$1,138) and 1.0 percent (\$236) of revenues, respectively. Fees from advertising and commercials averaged \$1,404, or 4.7 percent, of total revenue.

Royalties from CD/DVD sales averaged \$277 and direct CD/DVD sales averaged \$563. In total, only 3.4 percent of the revenues earned by musicians in the sample were derived from CD/DVD sales. Royalties from downloading services averaged \$33, while direct download sales averaged \$9. Licensing music for TV/video games and films amounted to \$299 on average.

Merchandise sales, not including direct sales of CDs and DVDs, amounted to \$83 on average. Other sources, including sponsorships and grants from various sources, also provided modest contributions to revenues earned by musicians in Canada. “Other” revenue of \$3,811 represented 15.3 percent of the total.

For perspective on the revenue figures, the average musician in the sample was engaged in music business work for 27.8 hours in a typical week.

Expenses

On average, musicians in the sample incurred annual expenses of \$8,346. The largest category of expense was transportation, amounting to 25.3 percent of total expenses, or \$2,112 per year. Instruments (17.8 percent; \$1,486), technology (10.2 percent; \$849), non-music supplies (8.6 percent; \$721), and equipment (7.7 percent; \$644) round out the top five expenditure categories. Marketing and advertising expenses averaged \$358 per musician, equal to 4.3 percent of all expenses.

Margin

The difference between revenues and expenses provides a measure of the margin, or “profit”, before allowance for income taxes and other expenses such as depreciation amortization and perhaps interest payments or other financing costs. The figures

presented in Table 1.7 indicate that, on average, the musicians in the sample earned a margin of [\$24,837 - \$8,346 =] \$16,491. This margin is 66.4 percent of total revenue.

Table 1.7
Musician Revenues and Expenses – All of Canada

Revenues		
Royalties from performance rights	\$ 1,138	4.6%
Royalties from CD/DVD sales	277	1.1%
Royalties from download sales	33	0.1%
Licensing music for tv/films/games	299	1.2%
Touring/live show income	12,050	48.5%
Direct CD/DVD sales	563	2.3%
Direct download sales	9	0.0%
Studio work/hired musician	4,319	17.4%
Sponsorships	41	0.2%
Merchandise sales other than CD/DVD	83	0.3%
Advertising and commercials	1,404	5.7%
Grants/loans/other support	308	1.2%
Grants from private sources	266	1.1%
Other	3,811	15.3%
Royalties from publishing rights	<u>236</u>	<u>1.0%</u>
Total Revenues:	\$ 24,837	100.0%
Expenses		
Instruments	\$ 1,486	17.8%
Supplies not including music	721	8.6%
Technology	849	10.2%
Marketing/advertising	358	4.3%
Transportation	2,112	25.3%
Rent	574	6.9%
Staff	535	6.4%
Published sheet music	117	1.4%
Studio time	255	3.1%
Lessons	232	2.8%
Equipment	644	7.7%
Performance clothing	<u>463</u>	<u>5.5%</u>
Total Expenses:	\$ 8,346	100.0%

Earnings from other Employment – All of Canada

Almost two-thirds (65 percent) of musicians indicated that they have another job or jobs, other than songwriting and/or performing, where they work for pay. On average, musicians earned \$20,758 from “other employment”.

Of those reporting income from other employment, when describing their other job (or the job where they spend most of their time if they have more than one other job), a total of 63.0 percent of musicians in the sample indicate that they are either professionals/owners, self-employed or white collar workers.

Table 1.8
Description of Other Employment

<u>Other Employment:</u>	<u>%</u>
Professional, owner	27.0
White collar	15.8
Technical, non-professional	5.1
Clerical	4.8
Blue collar	4.2
Laborer	3.1
Self-employed	20.2
Other	19.8

Most of the musicians (59 percent) who indicated that they have another job or jobs, apart from songwriting and performing, where they work for pay report that their other employment is related to music. The jobs range from other work in the music business to being a music teacher to working in radio. The types of music industry-related jobs reported by the musicians are shown in Table 1.9.

Table 1.9
Relationship of Other Job to Music Industry

<u>Relationship of Other Job to Music Industry:</u>	<u>%</u>
Not related to music	40.9
Work in the music business	26.2
Music teacher	15.6
Education (non-specific)	8.8
Sales/service industry	1.8
The arts (non-specific)	1.5
Booking/venues/studio owner	1.1
Technical (non-specific)	0.9
Instrument repair	0.7
Work in radio	0.7
Roadie	0.7
Other	1.3

Of those who had other employment apart from songwriting and performing, 34.3 percent indicated that the income they earn from music has increased in the last three years. 25.3 percent reported that the income they earned from music had decreased over the past three years, and the remaining 40.4 percent say that their income as musicians has remained the same.

Forty-four percent of musicians who hold other jobs report that they have become more reliant over the past three years on income from sources other than music to support themselves. A further 10 percent said they have become less reliant on income from other sources, and 46 percent indicate that there has been no change in their reliance on income from sources other than music over the last three years.

Financial Profile of Musicians – Ontario

The revenues and expenses of Ontario-based musicians who responded to the survey are reported in Table 1.10. Total revenues of Ontario musicians averaged \$28,394, which is 14 percent greater than the average total revenue of \$24,394 earned by all Canadian musicians in the sample.

The relative importance of each of the revenue sources for Ontario-based musicians is broadly similar to those for all Canadian musicians. Touring and live performances is the largest single income source and, as was the case for all Canadian musicians, accounts for just under half of all revenue. Ontario-based musicians reported working 28.4 hours in the music business in a typical week, compared to 27.8 for all Canadian musicians in the sample.

Total expenses equaled \$8,701 for the average Ontario musician, which is 4.3 percent higher than total expenses of \$8,346 for the sample of all Canadian musicians. As was the case with revenue sources, the cost breakdowns for Ontario-based musicians are very much in-line with those for the all Canada sample. The largest cost item is transportation (\$2,388 for Ontario musicians and \$2,112 for all Canadian musicians). The similarity in total expenses, and specific categories of expenses, such as instruments, technology, marketing and advertising and others, suggests that there is probably a significant fixed cost component to the total cost structure of musicians.

The margin earned by Ontario-based musicians, of \$19,693, was 19.4 percent higher than the average for all Canadian musicians (\$16,491). The Ontario-based musicians' margin amounts to 69.4 percent of total revenues, compared with 66.4 percent for the full sample of musicians.

Ontario-based musicians also reported earning \$22,555 from other employment, compared to \$20,758 for all musicians in the sample.

Table 1.10
Musician Revenues and Expenses – Ontario

Revenues		
Royalties from performance rights	\$ 1,844	6.5%
Royalties from CD/DVD sales	361	1.3%
Royalties from download sales	59	0.2%
Licensing music for tv/films/games	439	1.5%
Touring/live show income	13,086	46.1%
Direct CD/DVD sales	468	1.6%
Direct download sales	9	0.0%
Studio work/hired musician	5,167	18.2%
Sponsorships	72	0.3%
Merchandise sales other than CD/DVD	90	0.3%
Advertising and commercials	1,092	3.8%
Grants/loans/other support	164	0.6%
Grants from private sources	309	1.1%
Other	4,838	17.0%
Royalties from publishing rights	396	1.4%
Total Revenues:	\$ 28,394	100.0%
Expenses		
Instruments	\$ 1,462	16.8%
Supplies not including music	744	8.6%
Technology	869	10.0%
Marketing/advertising	348	4.0%
Transportation	2,388	27.4%
Rent	581	6.7%
Staff	472	5.4%
Published sheet music	112	1.3%
Studio time	300	3.4%
Lessons	230	2.6%
Equipment	684	7.9%
Performance clothing	511	5.9%
Total Expenses:	\$ 8,701	100.0%

Comparison to Musician Earnings from the Census of Canada

There is very little available information on the earnings of all Canadian musicians from other studies, and therefore there is no point of reference for the results presented in this study. It might seem that one approach to providing some perspective on the earnings information from this study would be to compare the annual earnings presented above

with those from the Census of Canada. Unfortunately, the Census data and the musicians survey data are not comparable because the methodologies of the surveys are very different.

Importantly, the Census asks respondents to report the occupation in which they were employed during a reference week. If the person was employed in more than one occupation, they were instructed to report the occupation in which they worked the most hours. Census respondents were also asked to report total earnings in all occupations, not just the occupation in which they worked the most hours. An implication of the Census approach to reporting occupation and earnings is that part-time musicians who were also employed in a different occupation at which they spend more time during the reference week were not counted by the Census as musicians. A further implication is that the earnings of those who spent most of their time as a musician during the reference week, but who were also employed in other occupations, will reflect not only their earnings as a musician, but also their earnings in any other occupations in which they are employed.

Recording

Those musicians who responded that they had made a recording for sale to the public in the last year were asked for further information about their recording arrangements. Only about 13 percent of those who had recorded in the past year (which was 47.4 percent of all responding musicians) had a recording contract with a record label. When asked how satisfied they were with their recording contract, 83.4 percent were either somewhat or very satisfied with their current arrangement with the record label, while the remainder were either not very or not at all satisfied with the arrangement with their label.

Table 1.11
Satisfaction with Record Label Arrangement
(among those with label contracts)

<u>Level of Satisfaction:</u>	<u>%</u>
Very satisfied	31.0
Somewhat satisfied	52.4
Not very satisfied	14.3
Not at all satisfied	2.4

Those musicians who recorded in the past year were also asked where they did most of their recording. The majority (57.2 percent) recorded in rented studios. Recording in the musician's own studio in their home (30.7 percent) and the musician's own studio outside their home (7.5 percent) were the next two most common recording venues. Only 4.5 percent of those musicians who recorded in the past year did so in the label's recording space.

Musicians used a diversity of sources to finance their recording. Musicians were asked how they usually fund their recording expenses, and were asked to identify all sources that apply if financing is derived from multiple sources. Almost 70 percent of musicians who recorded in the past year self-financed all or part of their recording costs. About a quarter (26.2 percent) of musicians reported receiving funding from government or other organizations. About 11 percent of musicians borrowed money from family and friends and just under 10 percent received label funding.

Table 1.12
Funding Sources for those Recording in Past Year

<u>Funding Source (all that apply):</u>	<u>%</u>
Musician's own money	69.6
Grants from government or other arts organizations	26.2
Borrowing from friends and family	11.4
Label funding	9.9

Touring

As described earlier, musicians in this sample earn almost half of their music business-related income from touring and live venue performances, and the largest single component of expenses is transportation costs. Those musicians who toured in the past year (about 23 percent of the sample) reported being away from home for an average of 18.5 weeks.

In addition, many Canadian musicians have an interest in touring in the United States in order to expand the awareness of their music. To tour in the United States, musicians require a visa that permits them to work for pay. Access to visas has become an issue for a number of touring musicians. Of those musicians who toured, 71 percent did at least some of their touring in the United States. Almost 42 percent of those musicians who tour in the United States report that it has become much more difficult to obtain a visa to enter that country, while a further 39 percent say that it is just as difficult as ever to obtain a U.S. visa. Only 3 percent say that it has become easier to obtain a U.S. visa, and the remainder (about 16 percent) say that it is just as easy as ever to secure a visa.

There are a variety of ways that musicians might be paid for live venue appearances. The musicians who responded to the survey were asked to report all of the compensation arrangements they negotiate for live performances. Their responses are presented in Table 1.13. Overwhelmingly, the most common form of payment arrangement for the musicians in the sample is on a pay-per-performance basis. This form of payment was reported by almost 80 percent of all survey respondents.

About 10 percent of musicians have received a guaranteed amount plus a percentage of ticket sales. Ten percent of musicians have self-presented, which means that they received all of the gate receipts. A further 9 percent have been paid a portion of ticket sales. Four percent did not know what the payment arrangements were for live performances.

Table 1.13
Live Performance Payment Arrangements

<u>Payment Arrangement:</u>	<u>%</u>
Paid a fee for performance	80.0
Get a guarantee plus a percentage	9.9
Self present (all the gate)	10.0
Paid a percentage of the gate	8.7
Don't know	4.0

Unauthorized File Sharing

Musicians were asked, “Overall, do you think unauthorized file sharing poses a major threat to the music industry, a minor threat, or that it poses no threat at all?” The responses of the survey participants are shown in Table 1.14. Almost 71 percent of musicians view unauthorized file sharing as either a major threat (37.6 percent) or a minor threat (33.3 percent) to the music industry. A further 15 percent believed it to be no threat at all and 14.1 percent responded that they did not know.

Table 1.14
Threat to the Music Industry of Unauthorized File Sharing

<u>Threat to the Music Industry:</u>	<u>%</u>
Major threat	37.6
Minor threat	33.3
No threat at all	15.0
Don't know	14.1

Musicians were also asked about their attitude to unauthorized file sharing services. When asked, “Which of the following statements comes closest to your own opinion, even if neither is exactly right?” the survey participants responded as follows:

Table 1.15
Attitude Toward Unauthorized File Sharing

<u>Attitude Toward Unauthorized File Sharing:</u>	<u>%</u>
Unauthorized file sharing services are generally bad for artists because they allow people to copy or use an artist's work without getting permission or compensating the artist.	37.6
Unauthorized file sharing isn't really bad for artists since they help promote and distribute an artist's work to a broad audience.	14.1
I agree with both statements equally.	34.4
I disagree with both statements	2.9
Don't know	11.0

Some 37.6 percent of respondents generally agreed that unauthorized file sharing was bad for artists, while 14.1 percent agreed that unauthorized file sharing isn't bad for artists. Almost a third (34.4 percent) of musicians in the sample viewed unauthorized file sharing as both good and bad for artists. The remaining respondents either disagreed with both statements (2.9 percent) or did not know (11.0 percent).

When asked, "Once a piece of art is produced – whether it is a song, a painting a quilt or a sculpture – how much control do you think the copyright owner should have over its use?" 67.3 percent of musicians in the sample believed the artist should have complete control, 27 percent believed the artist should have some control and 1.4 percent believed the artist should have very little control. The remainder (4.3 percent) did not know.

Career Satisfaction

Just over 86 percent of survey respondents report being either satisfied (58.0 percent) or very satisfied (28.1 percent) with their careers as musicians. A further 12.7 percent of musicians were either not very satisfied (10.0 percent) or not at all satisfied (2.7 percent).

Table 1.16
Satisfaction with Career as a Musician

<u>Satisfaction with Career:</u>	<u>%</u>
Very satisfied with accomplishments	28.1
Satisfied but feel they could do more	58.0
Not very satisfied	10.0
Not at all satisfied	2.7
Don't know/not sure	1.1

Musicians expressed a number of thoughts on key factors that would make their careers more satisfactory. Almost 19 percent of musicians would like to have more and/or better work opportunities, and 16.1 percent would be more satisfied if they earned more money and had more job security. Table 1.17 presents the wide range of other responses which include more practice, better business and marketing skills, and more interaction with other musicians.

Table 1.17
What Would Make Your Career more Satisfactory?

<u>Factors that would Improve Satisfaction:</u>	<u>%</u>
More/better work opportunities	18.8
More money/job security	16.1
More effort/harder work/practicing	8.2
Better education/earlier exposure to music	6.7
Better business sense/more marketing	5.0
More support/recognition	4.0
Wider audience	3.4
Greater success	3.2
Better/adequate funding	3.0
Nothing/can't think of anything	2.6
Improved performance/more talent	1.6
Better management	1.6
Moving to a larger center	1.7
Self-promotion/confidence	1.6
Interaction with other musicians	1.4
Less discrimination/prejudice	0.7
Better benefits/treatment	0.3
Taking more risks	0.9
Better health/no drugs, alcohol	0.6
Other	6.7
Don't know/refused	11.9

All musicians were asked their opinion on whether the music business has improved, stayed the same or gotten worse over the last two years. Only 16 percent of the musicians felt that the music business has gotten better. Forty-three percent believe it has gotten worse, and 41 percent felt that the music business has stayed the same.

The 92 percent of surveyed musicians who reported being actively engaged in the music business (i.e., not retired or semi-retired) were asked, "Taking all things into consideration (artistic success, financial success etc.), would you say that you are optimistic or pessimistic about your personal prospects as a musician?" Almost 62

percent of musicians are optimistic about their prospects as a musician and 22 percent are neutral. Only 16 percent are pessimistic.

Summary

The Musicians Survey paints a portrait of Canadian musical artists as being active in a wide array of activities (e.g., live performances, recording, studio work, licensing activities and advertising and commercial work, among others). The talents of Canadian musicians also span a multitude of musical genres.

Live performances represent the single most important source of income for musicians in the sample, accounting for 48.5 percent of the average \$24,837 of total revenues earned by Canadian musicians. On average, Canadian musicians incurred \$8,346 of expenses, a quarter of which (\$2,112) was due to transportation costs and a further 17.8 percent (\$1,486) accounted for instrument purchases.

For the average musician in the sample, their music career is a part-time endeavour, consuming 27.8 hours in a typical week. Sixty-five percent of musicians have other jobs in which they work for pay. The annual earnings from this other employment averaged \$20,758.

About 71 percent of musicians view unauthorized file sharing as either a major threat (37.6 percent) or a minor threat (33.3 percent) to the music industry, while 15 percent believed it to be no threat at all. Some 37.6 percent of respondents generally agreed that unauthorized file sharing was bad for artists, while 14.1 percent agreed that unauthorized file sharing isn't bad for artists. Almost a third (34.4 percent) of musicians in the sample viewed unauthorized file sharing as both good and bad for artists. Sixty-seven percent of musicians in the sample believed that copyright owners should have complete control, 27 percent believed the artist should have some control and 1.4 percent believed the artist should have very little control over the use of an artistic work.

Canadian musicians expressed optimism about their futures. Eighty-four percent of musicians reported being either optimistic (62 percent) or neutral (22 percent) about their future prospects as a musician. Only 16 percent of musicians describe themselves as pessimistic.

Live Performances

Many of the music industry professionals with whom we spoke over the course of this study emphasized the growing importance of live performances, not just as a source of income, but also as one of many tools for building a fan base. This is especially the case in an era where radio play, according to some, has become a less effective tool for new musicians to attain popular recognition or for music fans to discover new music.

The Musicians Survey revealed that Canadian musicians are dependent upon live performances for a sizable share – almost one-half – of their music business earnings. This chapter provides information on three key aspects of the live musical performance business. First, the role of agents and the financial arrangements of live performances are described. Second, data from the consumer survey of Canadians' assessment of their expenditures on live performances is presented. Finally, the gross receipts from live performances in Canada are estimated based upon SOCAN live performance copyright tariff revenues and other sources.

Agents

As described in the previous chapter, the overwhelming majority (92.3 percent) of musicians surveyed indicated that they themselves are primarily responsible for their own management, including booking their live performances. Also, according to the Musicians Survey, 10 percent of musicians use the services of an agent or agency as their primary source of management, presumably for booking their live performances. It may also be the case that more than 10 percent of musicians use the services of agents, although perhaps not as a primary form of management. This section describes the role of agents. But before doing so, since musical artists may hire a wide array of professional representation, agents are distinguished from other types of management services. This section also describes some of the more typical contractual arrangements related to live performances.

Professional representation

Musical artists, depending upon the stage in their career and their level of success (or potential success), may engage the assistance of a range of professionals to manage their affairs and to provide advice. These professionals can include:⁵

Personal managers. Personal managers are largely responsible for developing and implementing the long-term strategy to be pursued by musical artists. Typical functions of the personal manager might include assisting with securing recording and music publishing deals; finding a record producer; finding, co-ordination and

⁵ For an excellent review of the roles of these professionals, see Donald S. Passman, *All You Need to Know About the Music Business*, 5th edition, (New York: Free Press), 2003. Although this is an American source, my discussions with Canadian personal managers suggest a broadly similar approach to the arrangements for engaging professional assistance across the two countries.

oversight of the activities of lawyers, accountants, business managers, and agents; oversight of touring-related arrangements; and, myriad other activities that are primarily associated with the creative and promotional advancement of the artist's career.

Personal managers generally receive compensation based upon a percentage of gross earnings of the artist. This is typically in the order of 15 percent. However, there can be considerable variation in the compensation arrangement for personal managers, with the variation coming in the form of the percentage rate and the earnings base against which the percentage rate is applied. In some instances, personal managers may obtain a rate higher or lower than 15 percent, depending upon the earning potential of the artist or group. Also possible is a percentage rate that changes as the earnings of the artist achieves agreed upon milestones. The earnings upon which the personal manager's commission is based may be "net" earnings as opposed to "gross" earnings. The difference reflects the extent to which artists are able to exclude certain sources of revenues from the earnings base or the extent to which certain costs may be deducted from the earnings base. In some instances all of the artist's expenses may be excluded from the earnings base or, under the so-called "modified net earnings" approach, only particular items agreed upon by the parties are deducted from gross earnings.

All of these variations from the "15 percent of gross" model are naturally issues for negotiation. The (unsurprising) basic rule driving the variation across deals is that whoever has the most bargaining power will typically enjoy, at least while they have the bargaining power, the more favourable terms. Of course, these are intended to be long-term relationships and therefore there is an incentive for the parties to treat each other reasonably.

Business Manager. Most of the significant financial transactions for the artist or group, such as accounting, preparation of taxes, and investments are performed or supervised by the business manager. Payments to business managers appear generally to be 5 percent of gross earnings, but as with personal managers, fee structures can vary widely, and may also be based upon hourly fees, and flat fees (both possibly with minimum and/or maximum total billings amounts).

Agents. Agents represent artists with respect to live performances, usually in collaboration with the artists' personal and (sometimes) business managers. Agents deal with concert promoters, live venue operators and club managers. Agents can represent artists on a worldwide or territory-by-territory basis. Typically agents receive a commission of 10 percent of gross earnings, but this percentage can be lower if, for example, the artist is a top star. Also, the term "gross" earnings for the purposes of calculating the fee paid to the agent means something different from gross ticket sales, as will be described later.

A live performance in a sizable venue might be arranged as follows:

1. The agent would contact a promoter (or vice-versa for high drawing potential acts) to arrange a concert date;
2. The promoter would rent a venue or concert hall from the owner of the venue;
3. The price of tickets would be determined, usually in collaboration with the agents, managers and promoters;
4. The artist might receive a guaranteed minimum (the precise amount of which is a matter of negotiation and will obviously depend upon the act in question), a percent of “net profits” or some combination of the two;
5. Net profits are determined by subtracting from ticket sales (ticket sales do not include sales taxes and selling fees such as ticket agent charges and credit card fees) promoters’ expenses. These can include rental costs of the venue, advertising and promotional costs, equipment rental, insurance, licensing fees (i.e., SOCAN public performance tariffs) and, sometimes, an additional promoter profit margin;
6. The artist will generally receive 85 percent of this net profit amount. Some of the artist’s payment may have been in the form of a guarantee. If 85 percent of the net profit exceeds the guarantee amount paid to the artist then the artist will be paid the difference. If the opposite is true, the artist receives only the guarantee, and the shortfall will be absorbed by the promoter;
7. The agents fee is generally 10 percent of whatever the artist receives (i.e., 10 percent of either the guarantee or 85 percent of net profit, whichever is greater);
8. In some instances, the agent’s fee is based upon the guarantee amount or the 85 percent of net profits, whichever is greater, but after deducting certain of the artist’s or bands’ costs. Which costs are considered, of course, is a point of negotiation. I understand that it is fairly common for bands that provide their own sound and light systems to reduce the earnings base for the purposes of paying the agent by the amount of the rental cost of the sound and light equipment.

Of course, this example of booking a live performance is relevant only for the more successful touring artists (and items 6 and 8, in particular, would only typically apply to headline artists). For artists that are not playing larger venues, bookings can be as little as \$200 per night or less, and the arrangement may or may not provide for a guarantee. Further, while the process of using an agent and promoter for live performances

described above is “common”, it is not the only avenue. In some instances, live venue managers, rather than renting the venue to a concert promoter, may book the acts themselves, or enter into a co-production arrangement. Concert halls will be discussed in greater detail below.

While it is extraordinarily difficult to find publicly available financial information on the agent business in Canada, discussion with agents suggest that the following assessment might provide some perspective. Gross bookings of Canadian booking agents are likely to be in the order of \$110 to \$130 million. From this amount a 10 percent fee would be paid to the booking agent, representing total agent revenues of \$11 million to \$13 million. The agency business’s profit margin might reasonably fall in the range of 10 to 15 percent of revenues, or \$1.1 million to \$1.9 million.

Concert Halls

Concert Hall information is also very difficult to obtain. It is not evident that it is tracked and available from public sources. A further challenge with sorting out concert hall revenues is that not all events at all concert halls are music. Concert halls also host plays, comedic performers, inspirational and lifestyle speakers, acrobats and myriad other non-musical performances.

As alluded to briefly earlier in this report, live venue owners can either rent out their facility to a promoter (or perhaps a symphony orchestra) or they can book the performers on their own (or through a co-producing arrangement). Booking shows themselves can be significantly riskier for venue owners because they assume the risks associated with poor ticket sales and must incur all of the costs (guaranteed fees for performers, marketing, etc.) that would otherwise be borne by the promoter.

Venue owners may also have additional revenue sources, including:

- Parking fees;
- Catering and beverages;
- Gift shop sales;
- Merchandise sales for the performer (which can amount to 20 percent of gross merchandise sales; 30 percent if the venue’s staff is employed to sell the merchandise). It should be noted however, that the venue may not receive any cut from merchandise sales.

When venues book performers, it is generally the case that, at the set ticket price, 70 percent of seating capacity must be filled in order for the venue to break-even. A rough break-out of the splits for a venue that books performers on its own, and breaks even on the performance, would be:

Payment to the artist:	50 %
Marketing expenses:	20 %
Production costs:	15 %
Profit (rental opportunity cost):	<u>15 %</u>
TOTAL:	100 %

If there is an “overage” because of better ticket sales, the artist might expect to receive up to 80 percent of the overage amount, with the venue receiving the remaining 20 percent. It should be noted that the percentage presented above, and the splits of the overage amounts, are intended to be illustrative, and that they will vary from performer to performer.

Merchandise Deals

Merchandise sales at live performances have become an important revenue source for superstar performers and bar bands alike.

Acts that have achieved a level where it is not feasible for them to sell t-shirts, posters and autographed memorabilia at the side of the stage or from the back of their car may choose to enter into a merchandising deal with a “merchandiser”. Royalties paid to the artists are in the range of 30 to 40 percent of gross sales (sales net of sales taxes and possibly credit card fees). Some merchandisers use “hawkers” that travel from venue to venue since this approach may result in better sales compared with possibly more passive venue sales staff. However, merchandisers do not necessarily sell the merchandise themselves. A merchandiser may pay the venue owner a commission of 20 to 30 percent to sell the merchandise, with the precise percentage depending upon the resources and staff required of the venue to sell the merchandise. It should be noted that, in some instances, the venue receives no commission or payment from merchandise sales.

Royalties paid to artists:	30%	to	40%
Venue sales commission:	<u>20%</u>	to	<u>30%</u>
TOTAL:	50%	to	70%

The merchandiser receives the remaining 30% to 50% of gross revenues from merchandise sales, from which manufacturing, distribution and other merchandiser costs of doing business are deducted to arrive at the merchandiser’s profit.

Live Performance Expenditures

The Consumer Survey undertaken by POLLARA asked Canadians about the extent of their attendance of live performances. Forty-eight percent of Canadian respondents, and an identical proportion of Ontario respondents, indicated that they had attended any live shows or live concerts that were primarily musical, including Broadway shows and operas.

Respondents were also asked how much they had spent on live musical performances in the past 12 months. Those Canadians who had reported attending live performances spent an average of \$273 in the past 12 months, slightly less than the \$299 reported by Ontarians who had attended live performances. Averaged across all Canadian and Ontario respondents (i.e., including those who had not attended live performances as well as those who had attended live performances), expenditures on live performances were reported to be \$122 and \$131, respectively.

Table 2.1
Attendance at Live Shows and Expenditures
All of Canada and Ontario

	Canada		Ontario	
Attended live shows, live concerts that were primarily musical	48%		48%	
	Population	Conditional	Population	Conditional
Amount spent in last 12 months	\$122	\$273	\$131	\$299

Consumers' recall of their expenditures on live performances, or on other goods and services, over a 12 month period, is prone to inaccuracies. Extrapolating the figures on live music performances based upon the average expenditures reported in Table 2.1 to the population level results in implausibly large total expenditures. One potential source for estimating at least a (sizable) share of the live performance ticket sales is to use information on SOCAN domestic licensing fees. Three tariffs merit particular attention: Tariff 3A, relating to live music cabarets; Tariff 4A, relating to live music concerts; Tariff 4B1, relating to classical music concerts; and, Tariff 5B, relating to concerts at exhibitions and fairs. Table 2.2 sets out the rates associated with each of these tariffs.

Table 2.2
SOCAN Live Performance Tariff Schedule

Tariff 3A: Cabarets – Live Music	Annual fee of 3% of compensation for entertainment (minimum annual fee of \$83.65)
Tariff 4A: Popular Music Concerts	Per concert fee: (a) Where admission is charged: 3% of gross receipts from ticket sales, exclusive of sales and amusement taxes (minimum \$20.00 per concert). (b) Where no admission is charged: 3% of fees paid to singers, musicians, dancers, conductors and other performing artists (minimum \$20.00 per concert).
Tariff 4B1: Classical Music Concerts	Per concert fee: (a) Where admission is charged: 1.56% of gross receipts from ticket sales, exclusive of sales and amusement taxes (minimum \$20.00 per concert). (b) Where no admission is charged: 1.56% of fees paid to singers, musicians, dancers, conductors & other performing artists (minimum \$20.00 per concert).
Tariff 5B: Concerts at Exhibitions and Fairs	Per concert fee: 3% of gross receipts from ticket sales, exclusive of sales and amusement taxes less adult general grounds admission.
Source: "SOCAN tariffs approved by The Copyright Board of Canada." http://www.socan.ca/jsp/en/resources/tariffs.jsp	

To estimate ticket sales to popular music concerts and concerts at exhibitions and fairs, we use SOCAN tariff revenue information, and applying the tariff rates from the previous table arrived at approximations of live performance revenues in Canada in both 2004 and 2005. Classical music concerts, which for the purposes of the estimates presented here, also includes musical theatre and opera, are based upon Statistics Canada's "Selected financial statistics for performing arts by industry, 2005 and 2005". The classical music

concert estimates was also influenced by discussions with key industry informants. It is important for the reader to use these figures with caution.

I estimate that live performance revenues were equal to almost \$753 million in 2005, consisting of \$80.9 million from live cabarets; \$312.0 million from classical music concerts (and musical theatre); \$353.4 million from general (popular music) concerts; and \$6.5 million from concerts at exhibitions and fairs.

The estimated total live performance revenues of \$752.8 million in 2005 was 2.4 percent less than the \$771.1 million estimated to have been achieved in 2004. As revealed in Table 2.3, the revenue decline was entirely due entirely to classical music and musical theatre. Revenues from all other categories of live performances were greater in 2005 compared with 2004.

Table 2.3
Estimated Gross Revenues from Live Performances

	2005	2004
Cabarets – live music	\$ 80,900,000	\$ 81,700,000
Concerts:		
Classical	\$312,000,000	\$ 360,000,000
General	\$353,400,000	\$324,700,000
Exhibitions and fairs	\$ 6,533,000	\$ 4,700,000
TOTAL:	\$752,833,000	\$771,100,000

The figures presented in Table 2.3, especially the “general” (or popular music) concert category corresponds reasonably well with data from other sources. For example, Billboard Magazine estimated North American gross concert ticket sales to be \$3.5 billion in 2005 (expressed in U.S. dollars). The general concert revenue estimate presented in Table 2.3 would suggest that Canadian concert revenues account for slightly less than 10 percent of total North American concert revenues.

Summary

Most Canadian musical artists rely upon themselves for management, but at least some use the services of agents to assist with booking live performances. Booking agents typically receive commissions equal to 10 percent of whatever the artist receives. Canadian booking agent revenues are estimated to be in the \$11 million to \$13 million range, with agent profits equal to between 10 to 15 percent of revenues.

Gross revenues from live musical performances were equal to \$752.8 million in 2005, the bulk of which (\$353 million) was derived from general concerts, with the remainder

accounted for by classical music concerts (\$312.0 million), musical cabarets (\$80.9 million) and exhibitions (\$6.5 million).

While not estimated in this study, there are considerable secondary expenditures for food, beverages, merchandise, parking and a range of other goods and services complementary to the enjoyment of music in these venues.

The Recording Industry

The circumstances for Canadian recording companies, as a whole, have changed markedly in recent years. Table 3.1 documents the decline in sales of pre-recorded compact discs in Canada over the 1998 to 2007 period. Over this period, CD sales peaked in 1999 at 62,763,500 units. Unit sales of CDs declined by 26.3 percent between 1999 and 2003. Unit sales rebounded modestly in 2004, but still remained 21.1 percent below 1999 levels. Unit sales fell in 2005 from the 2004 level, and continued to decline at accelerated rates to 2007. In 2007, CD sales totaled 41,801,900 units, a 9.6 percent drop from 2006 sales, and 33.4 percent below the 1999 peak for this period. Unit sales for 2007 were below those for the previous low over the period, 46,243,000 units, in 2003.

TABLE 3.1
Trend in Sales of Sound Recordings, 1998 to 2007

Year	Albums Sold	Annual % Change
1998	61,759,800	--
1999	62,763,500	1.6
2000	61,503,900	-2.0
2001	59,302,700	-3.6
2002	49,638,500	-16.3
2003	46,243,600	-6.8
2004	49,505,500	7.1
2005	48,610,600	-1.8
2006	46,234,800	-4.9
2007	41,801,900	-9.6

Source: Neilson SoundScan

Since the entry into the Canadian market of the Apple iTunes store at the end of 2004, sales of digital albums have been growing, although these sales remain modest in absolute terms. (Note that the unit sales information reported in Table 3.1 includes digital albums commencing in the sixth week of 2005.) In a sense, the album sales reported in 2005 is particularly noteworthy because it suggests that digital album sales have not offset the decline in physical CD unit sales.

Table 3.2 presents data on the unit sales of digital music and shows the relative size of digital versus physical (CD) sales. The data are shown for 2006, the first full year that digital sales figures were recorded, and 2007.

In 2006, 1,029,000 digital albums were sold in Canada, along with 14,887,600 digital singles. SoundScan converts digital singles into digital album-equivalents by assuming that there are 10 songs per album. Consequently, the 14,887,600 digital singles represent

1,488,760 digital album equivalents. In total, $[1,029,000 + 1,488,760 =] 2,517,760$ digital albums and equivalents were sold in 2006.

Physical album sales in 2006 totaled 45,205,700 units. When added to digital sales, $[45,205,700 + 2,517,760 =] 47,723,460$ albums and digital equivalent albums were sold in 2006. By this approach, digital sales accounted for $[2,517,760 / 47,723,460 =] 5.3$ percent of all unit sales in 2006.

Following the same methodology, digital sales as a proportion of all unit sales had increased to 10.3 percent in 2007.

Table 3.2
Digital Music Sales, 2006 and 2007
Number of Units

	2006	2007
Digital albums	1,029,000	1,988,900
Digital singles	14,887,600	25,779,400
Album-equivalent singles	1,488,760	2,577,940
Total digital albums	2,517,760	4,566,840
Physical albums	45,205,700	39,813,000
Total albums	47,723,460	44,379,840
Digital as a proportion of total album sales	5.3%	10.3%

It should be noted that there is some debate about the proper way to convert digital single sales into digital album equivalents. One of the elements of the debate is the assumption regarding the number of tracks per CD. While SoundScan assumes 10 tracks per CD, other figures have been suggested including 13 tracks (based upon a recent Copyright Board of Canada decision in the CSI online music tariff) and 15 tracks per CD based upon other studies. The implication for the calculation of the relative importance of digital sales to total album sales is that as the number of tracks per CD increases, the relative importance of digital sales falls. For example, if the appropriate number of tracks per CD is 13 rather than 10, then the share of digital music falls from 5.3 percent to 4.6 percent in 2006, and from 10.3 percent to 9.1 percent in 2007. If 15 tracks per CD is the correct figure, then the share of sales accounted for by digital is 4.3 percent of total sales in 2006, and 8.5 percent of total sales in 2007.

Further evidence on the decline of unit shipments of recorded music in Canada, as well as the value of shipments of recorded music are presented in Table 3.3. Total units shipped of CDs, DVDs and other formats declined from 68,856,000 units, valued at \$762.4 million in 1998, to 42,036,000 units valued at \$431.0 million by 2007. This represents a

38.9 percent decline in units shipped and a 43.5 percent decrease in the value of these shipments over the 1998 to 2007 period.

Table 3.3

CRIA Unit Sales and Value of Sales, 1998 to 2007

Year	Units Shipped (in thousands)				Value of Shipments (\$'000s)			
	CD	DVD	Other	Total	CD	DVD	Other	Total
2007	38,763	3,152	121	42,036	\$384,662	\$45,519	\$850	\$430,991
2006	46,625	3,702	223	50,550	482,068	52,782	1,164	536,014
2005	49,921	4,028	313	54,262	544,101	63,409	1,198	608,708
2004	51,324	4,573	888	56,785	562,231	65,500	4,336	632,067
2003	48,971	3,697	1,868	54,536	559,753	58,085	9,203	627,041
2002	50,880	1,446	2,667	54,993	609,514	25,310	16,048	650,872
2001	54,005	887	3,187	58,079	645,810	16,643	21,593	684,046
2000	57,298	239	4,441	61,978	690,341	4,694	31,020	726,055
1999	58,353	0	8,913	67,266	699,971	0	61,278	761,249
1998	57,964	0	11,162	68,856	686,939	0	75,447	762,386

Source: Compiled from Canadian Recording Industry Association, www.cria.ca/stats.php#archives
 "Other" includes CD singles, cassette singles, cassettes, VHS music videos and DVD-audio.

Table 3.4 shows retail sales of recordings in Canada over the period 1998 to 2006. Because data presented in the Heritage Canada study are different in some years than the data provided by CRIA and the International Federation of the Phonographic Industry, both data series are shown in the table. Retail sales of recordings in Canada declined by 51.2 percent over the 1998 to 2006 period, from \$1,441.5 million in 1998 to \$703.7 million in 2006.

Table 3.4
Retail Sales of Recordings in Canada, 1998-2006
(millions of dollars)

Year	Heritage ^a	CRIA/IFPI ^b
2006	--	\$703.7
2005	--	757.8
2004	\$901.9	809.7
2003	946.4	851.1
2002	974.6	922.5
2001	1,064.0	1,022.0
2000	1,130.7	1,130.7
1999	1,316.1	1,316.0
1998	1,441.5	1,441.5

(a)Source: *The Canadian Music Industry 2005 Economic Profile*, Canadian Heritage, 2006.
(b) Source: Canadian Recording Industry Association (CRIA) and International Federation of the Phonographic Industry (IFPI). Includes digital sales beginning in 2004.

The causes of the decline in CD sales have been hotly debated. A recent study by Liebowitz⁶ considered a number of factors that might explain the decline in United States record sales including (at page 21), "... album prices, income, music quality (measured by concerts and radio listenership), markets for substitutes and complements, the opening of new listening venues (portability) and "librarying" – the act of replacing replenishing album collections as formats change, such as replacing prerecorded cassettes with CD's." Professor Liebowitz summarized his findings (at page 21) as follows:

The findings were (1) that list prices adjusted for inflation have been virtually constant for the last decade, disallowing price (as far as we can measure it) as an explanation of the sales decline. (2) Real GDP (and disposable income) was related to record sales, but the recession of 2001 was insufficient to account for even a small part of the sales decline and cannot explain the continued sales decline. (3) Trends in videogame receipts and movie box office receipts did not change in or around the year 2000. (4) The increased portability of prerecorded music brought about by audiocassettes (and CDs) appears to have played an important role in the increased sales of pre-recorded music, but there has been no ascertainable decrease in the portability, and the rise of the iPod would make such a claim risible. (5) There was no noticeable impact of librarying, whether from LPs to cassettes or cassettes to CDs. (6) Although overall radio listenership has fallen over this period, the decline

⁶ Liebowitz, Stan J., "File Sharing: Creative Destruction or Just Plain Destruction? *Journal of Law and Economics*, vol. XLIX (April 2006), 1-28.

was centered on categories of old music; the audience for contemporary music actually increased.

Further, Professor Liebowitz found, at page 24, that, "... the evidence from the pre-recorded video market, as was the case with other substitutes, does not support a claim that consumers suddenly abandoned music for alternative forms of entertainment."

Professor Liebowitz also examined the literature on the impact of file sharing on record sales in the U.S. and concluded that, "The weight of current evidence strongly supports a view that file sharing diminishes the revenues of the recording industry."⁷

While the causes of the decline in CD sales may be debated, it is evident to most that the traditional recording industry in Canada has been in an extended period of decline. While sales of physical forms of music have declined and digital sales of music have increased, the increase in digital sales has, to date, been insufficient to offset the decline in physical sales.

The financial performance of the Canadian recording industry has, on aggregate, reflected the decline in unit sales of CDs. In an earlier report⁸, Statistics Canada data from the Sound Recording Survey for 1998, 2000 and 2003 were summarized as follows:

- the number of new releases for all artists, Canadian and foreign, declined by 16.5%, from 6,728 in 1998 to 5,609 in 2003;
- the number of new releases by Canadian artists declined by 11.6%, from 1,023 in 1998 to 904 in 2003;
- of the total new releases by Canadian artists, Canadian-controlled companies accounted for 804 in 2003, compared to 821 in 1998 and 868 in 2000. Foreign-controlled companies accounted for 100 in 2003, down from 202 in 1998 and 166 in 2000;
- total revenue derived from music industry-related activities declined 13.4%, dropping from \$1.14 billion in 1998 to \$985.4 million in 2003;
- between 1998 and 2003 the revenue derived from the sale of non-Canadian sound recordings declined by 21.8%, while the revenue

⁷ See www.utdallas.edu/~liebowitz/ for Professor Liebowitz review of the literature and links to the major research papers, including the well-known paper by Felix Oberholzer-Gee and Koleman Strumpf, "The Effect of File Sharing on Record Sales: An Empirical Analysis." *Journal of Political Economy*, vol. 155 (February 2007), 1-42, which finds no impact on sales. Liebowitz offers an extensive critique of this paper, also available on the Liebowitz website.

⁸ Paul Audley and Douglas Hyatt, "A Proposal to Revise the CRTC's Canadian Talent Development Policy for Commercial Radio Broadcasters." A Report to ADISQ for the CRTC Commercial Radio Broadcasting Review.

derived from the sale of sound recordings by Canadian artists declined by 28.4%;

- Canadian-controlled companies reported that their sales of recordings by Canadian artists declined by 15.8% between 1998 and 2003, while foreign-controlled companies reported that such sales declined by 41.4% over the same period;
- the EBIT margin of Canadian-controlled sound recording companies declined from 9.2% in 1998 to 2.0% in 2003; and
- the EBIT margin of foreign-controlled sound recording companies declined from 15.5% in 1998 to 10.8% in 2003.

For a longer-term perspective, financial data from the Sound Recording Survey over the period 1992-1993 to 2003 are presented in Table 3.5 for Canadian-controlled companies, Table 3.6 for foreign-controlled firms and Table 3.7 for both Canadian and foreign-controlled (i.e., all) record companies. Some highlights of these data are as follows:⁹

- Revenues of Canadian-controlled recording companies from core recording revenues which include sales of sound recordings, sales of masters, licensing fees, and mechanical/publishing royalties, reached a peak in 1993/94 at \$139.8 million, falling to \$127.0 million by 2003. This general downward trend in core recording revenues was broken only temporarily in 2000 when such revenues reached \$134.1 million. Canadian-controlled recording companies accounted for 17% of core sound recording revenues in 2003. Revenues from all industry-related activities, which included core recording revenues and other revenues from industry-related activities, increased from \$146.6 million in 1992/93 to \$173.5 million in 1995/96. Industry-related revenues declined to \$160.1 million by 1998, but rebounded in both 2000 and 2003, reaching \$237.6 million in 2003. Total revenue, which includes revenue from non industry-related activities increased from \$164.1 million in 1992/93 to \$193.4 million in 1993/94, but was successively lower in each of the 1995/96 and 1998 surveys, falling to \$170.6 million in 1998. In each of the two subsequent surveys, total revenues increased to \$188.9 million in 2000 and \$237.6 million in 2003.
- Profits of Canadian-controlled record companies, as measured on an EBITDA (earnings before interest, taxes, depreciation and amortization) basis increased from \$16.2 million in 1992/93 to \$21.2 million in 1993/94. In each of the subsequent three surveys (1995/96, 1998 and 2000), Canadian-controlled industry profits remained at a level between \$17.6 million and \$18.0 million. By the 2003 survey, Canadian-controlled industry profits were halved, to \$8.6

⁹ This summary was originally presented in, "The Value of the Use of the Repertoire of CSI by Online Music Services." By Paul Audley and Douglas Hyatt, April 2006.

million. The EBITDA margin (EBITDA expressed as a percentage of earnings) ranged between 9.4% and 11.0% between 1992/93 and 2000. The EBITDA margin fell to 3.6% in 2003.

- Foreign-controlled recording companies in 2003 represented some 83% of the total domestic recording industry as measured by revenues from core recording revenues. Core recording revenues increased from \$554.4 million in 1992/93 to a peak of \$832.7 million by the 1998 survey, and declined thereafter to \$635.1 million in 2003. Foreign-controlled recording companies posted industry-related revenue increases in each of the 1992/93, 1993/94, 1995/96, 1998 and 2000 surveys, from \$605.6 million in 1992/93 to \$1,016.7 million in 2000. Industry-related revenues of foreign-controlled firms fell markedly, to \$773.0 million in the 2003 survey. Total revenues increased from \$664.1 million in 1992/93 to \$1,153.2 million in 1998, falling to \$915.6 million in the 2003 survey.
- EBITDA of foreign-controlled record companies increased between the 1993/94 and 2000 surveys, from \$129.7 million in 1993/94 to \$232.2 million in 2000. EBITDA fell to \$144.9 million by the 2003 survey. The EBITDA margin reached a high for the period of 20.5% in 2000, but fell to 12.5% by the 2003 survey, the lowest EBITDA margin over the entire 1992/93 to 2003 reporting periods.
- In summary, core recording revenues of the Canadian industry as a whole (i.e., both Canadian and foreign-controlled recording companies) grew between 1992/93 and 1998, from \$658.9 million to \$961.9 million, followed by an erosion in core recording revenues to \$762.1 million by 2003. The Canadian recording industry also saw revenues from industry-related activities increase from \$752.2 million to \$1,193.4 million in 2000. Industry-related revenues declined to \$985.4 million by 2003. Total revenues, including revenue from non industry-related activities, increased from \$828.2 million in 1992/93 to \$1,323.9 million in 1998, but total revenues were reported to have fallen in each of the 2000 survey (to \$1,319.3 million) and the 2003 survey (to \$1,029.7 million). EBITDA increased from \$147.8 million in 1992/93 to \$250.0 million in 2000, declining to \$123.5 million in the 2003 survey. The EBITDA margin generally declined between the 1992/93 survey and the 1998 survey (from 17.8% in 1992/93 to 15.5% in 1998), increasing to 18.9% by the 2000 survey. In 2003, EBITDA as a proportion of total revenues equaled 10.7%.

Financial information for 2005 and 2006 are presented in Table 3.8. These data are reported separately from the other years because, as Statistics Canada notes, “Data for 2005 and 2006 should not be compared with previously published data on sound

recording due to significant changes in coverage and methodology in the new survey.”¹⁰ The figures in the table represent, according to Statistics Canada, 95 percent of total industry revenue (what Statistics Canada terms the “survey portion” of the industry).

Revenues of Canadian-controlled recording companies increased by 6.7 percent, from \$135.9 million in 2005 to \$144.8 million in 2006. Operating costs grew at a more rapid 12.5 percent, resulting in a halving of profits from \$12.6 million in 2005 to \$6.1 million in 2006. The operating profit margin fell from 9.3 percent to 4.2 percent

Foreign-controlled record companies saw revenues decrease from \$611.4 million in 2005 to \$545.8 million in 2006, or 10.7 percent. Operating costs fell by 7.1 percent, while operating profits declined by 31.5 percent, from \$89.6 million in 2005 to \$61.4 million in 2006. The operating margin fell from 13.7 percent to 9.8 percent over the period.

Total operating revenue for Canadian- and foreign-controlled companies combined fell from \$747.3 in 2005 to \$690.6 million in 2006, a decrease of 7.6 percent. Operating expenses fell 3.4 percent over the same period. Operating profits fell from \$102.2 million to \$67.5 million, while the operating margin shrank 3.9 percentage points, from 13.7 percent to 9.8 percent.

¹⁰ Statistics Canada, Sound Recording and Music Publishing: Data Tables 2006. Catalogue number 87F0008X.

Table 3.5
Profile of Canadian-Controlled Recording Companies

	1992-1993	1993-1994	1995-1996	1998	2000	2003
Number of companies	172	196	239	263	315	287
Revenue \$' 000						
Sales of recordings-Canadian content/artists	29,986	41,337	55,599	78,541	63,932	66,149
Other sales of recordings	60,143	77,063	65,876	24,907	48,179	42,526
Sales of masters, licensing fees, and mechanical/publishing royalties	14,313	21,403	13,871	25,781	22,005	18,334
Total core recording revenues	104,442	139,803	135,346	129,228	134,116	127,009
Other revenue from industry-related activities	42,150	28,581	38,130	30,870	42,643	85,387
Total revenue from industry-related activities	146,592	168,384	173,476	160,098	176,759	212,396
Revenue from non industry-related activities	17,525	25,004	13,123	10,548	12,123	25,165
Total revenue	164,117	193,388	186,599	170,646	188,882	237,561
Expenses \$' 000						
Cost of goods sold	93,189	104,286	102,875	84,806	96,104	122,900
Other operating expenses	54,714	67,888	65,736	68,208	74,995	106,019
Total expenses	147,903	172,174	168,611	153,014	171,099	228,919
EBITDA	16,214.00	21,213.70	17,987.70	17,632.00	17,782.90	8,642.00
Margin	9.9%	11.0%	9.6%	10.3%	9.4%	3.6%
Depreciation	1,680	2,398	2,003	1,979	2,846	4,007
EBIT	14,534.00	18,815.90	15,984.90	15,653.30	14,937.00	4,635.00
Margin	8.9%	9.7%	8.6%	9.2%	7.9%	2.0%
Interest	1,921	2,254	1,933	1,553	1,481	3,555
Profit/loss before taxes	12,612.80	16,561.70	14,051.50	14,100.60	13,456.50	1,080.00
Margin	7.7%	8.6%	7.5%	8.3%	7.1%	0.5%

Sources: Statistics Canada: Sound Recording Survey 1992-2003, catalogue no 87F0008XIE.

Table 3.6
Profile of Foreign-Controlled Recording Companies

	1992-1993	1993-1994	1995-1996	1998	2000	2003
Number of companies	15	14	15	17	16	13
Revenue \$' 000						
Sales of recordings-Canadian content/artists	41,494	51,403	71,564	75,507	74,037	44,217
Other sales of recordings	501,894	568,215	682,097	712,691	675,254	555,831
Sales of masters, licensing fees, and mechanical/publishing royalties	11,049	12,479	24,272	44,516	34,992	35,067
Total core recording revenues	554,437	632,096	777,932	832,714	784,283	635,115
Other revenue from industry-related activities	51,149	60,204	94,470	144,945	232,382	137,919
Total revenue from industry-related activities	605,586	692,300	872,402	977,659	1,016,664	773,034
Revenue from non industry-related activities	58,542	68,139	78,878	175,575	113,718	142,610
Total revenue	664,128	760,439	951,280	1,153,234	1,130,382	915,644
Expenses \$' 000						
Cost of goods sold	3142,98	342,569	447,526	553,659	482,501	407,349
Other operating expenses	218,226	288,163	339,130	412,276	415,704	393,404
Total expenses	532,524	630,731	786,656	965,935	898,205	800,753
EBITDA	131,604	129,708	164,624	187,299	232,177	114,891
Margin	19.8%	17.1%	17.3%	16.2%	20.5%	12.5%
Depreciation	4,550	4,875	7,422	8,929	12,756	15,676
EBIT	127,054.40	124,832.60	157,202.10	178,370.70	219,421.40	99,215.00
Margin	19.1%	16.4%	16.5%	15.5%	19.4%	10.8%
Interest	2,983	1,237	2,107	2,633	75,312	69,751
Profit/loss before taxes	124,071.80	123,595.40	155,095.40	175,737.50	144,109.70	29,464.00
Margin	18.7%	16.3%	16.3%	15.2%	12.7%	3.2%

Sources: Statistics Canada: Sound Recording Survey 1992-2003, catalogue no 87F0008XIE.

Table 3.7
Financial Profile of Canadian and Foreign-Controlled Recording Companies

	1992-1993	1993-1994	1995-1996	1998	2000	2003
Number of companies	187	210	254	280	331	300
Revenue \$' 000						
Sales of recordings-Canadian content/artists	71,479	92,740	127,163	154,048	137,969	110,366
Other sales of recordings	562,037	645,279	747,973	737,598	723,433	598,357
Sales of masters, licensing fees, and mechanical/publishing royalties	25,362	33,881	38,143	70,297	56,997	53,401
Total core recording revenues	658,879	771,900	913,278	961,942	918,399	762,124
Other revenue from industry-related activities	93,299	88,784	132,600	175,816	275,024	223,306
Total revenue from industry-related activities	752,178	860,684	1,045,878	1,137,758	1,193,423	985,430
Revenue from non industry-related activities	76,067	93,143	92,001	186,122	125,841	167,775
Total revenue	828,245	953,827	1,137,879	1,323,880	1,319,264	1,153,205
Expenses \$' 000						
Cost of goods sold	407,487	446,855	550,402	638,465	578,605	530,249
Other operating expenses	272,940	356,051	404,866	480,484	490,700	499,423
Total expenses	680,427	802,906	955,267	1,118,949	1,069,304	1,029,672
EBITDA	147,818	150,922	182,612	204,931	249,960	123,533
Margin	17.8%	15.8%	16.0%	15.5%	18.9%	10.7%
Depreciation	6,230	7,273	9,425	10,907	15,602	19,683
EBIT	141,588	143,649	173,187	194,024	234,358	103,850
Margin	17.1%	15.1%	15.2%	14.7%	17.8%	9.0%
Interest	4,904	3,491	4,040	4,186	76,792	73,306
Profit/loss before taxes	136,685	140,157	169,147	189,838	157,566	30,544
Margin	16.5%	14.7%	14.9%	14.3%	11.9%	2.6%

Sources: Statistics Canada: Sound Recording Survey 1992-2003, catalogue no 87F0008XIE.

Table 3.8
Financial Profile of Canadian and Foreign-Controlled Record Production and Integrated Record Production
and Distribution Industry, 2005 and 2006

	Canadian-Controlled		Foreign-Controlled		Total Canadian and Foreign	
	2005	2006	2005	2006	2005	2006
Operating Revenue \$' 000						
Sales of goods and services	120,168	135,589	584,576	519,349	704,744	654,938
Royalties and rights	7,907	x	25,286	x	33,193	28,564
Other revenue from industry-related activities	7,815	x	1,581	x	9,396	7,145
Total operating revenue	135,891	144,841	611,442	545,807	747,333	690,647
Operating Expenses \$' 000						
Cost of goods sold	27,966	x	126,190	x	154,156	168,695
Royalties, rights licensing and franchise fees	18,647	x	190,433	x	209,080	172,380
Salaries, wages and benefits	16,436	18,808	69,775	71,416	86,211	90,223
Advertising, marketing and promotions	12,254	x	49,406	x	61,660	59,316
Professional and business service fees	6,215	x	16,409	x	22,624	15,038
Outsourcing	4,561	x	2,514	x	7,075	13,229
Other	37,240	37,865	67,071	66,411	104,312	104,276
Total operating expenses	123,320	138,739	521,798	484,419	645,118	623,158
Operating profit	12,571	6,102	89,644	61,388	102,215	67,489
Operating margin	9.3%	4.2%	14.7%	11.2%	13.7%	9.8%

Source: Sound Recording and Music Publishing: Data Tables, 2005 and 2006, Catalogue no. 87F0008X.

x indicates that data were suppressed by Statistics Canada to meet the confidentiality requirements of the *Statistics Act*.

The figures in the table represent, according to Statistics Canada, 95 percent of total industry revenue (what Statistics Canada terms the "survey portion" of the industry).

Major Label Data

The financial profile of the major recording labels in Canada diminished over the 2001 to 2006 period. As shown in Table 3.9, total sales (total sales include sales from all sources – CDs, cassettes, DVDs, digital, distributed label fees and royalty income) fell from \$666.0 million in 2001 to \$624.4 million in 2003. Sales rebounded in 2004, rising to \$653.4 million, but fell dramatically in 2005 to \$522.1 million. Sales improved modestly in 2006, rising \$16 million to \$538.1 million. By 2006, major label sales had fallen by 19.2 percent from the level achieved in 2001.

The decline in sales was also reflected in decreased expenditures in Canada by the majors, as well as slowing net new capital asset additions. Table 3.9 summarizes Canadian expenses. In 2001, expenditures totaling \$321.4 million, representing 48.3 percent of sales, were paid directly to Canadian suppliers and staff members. By 2006, Canadian expenditures had fallen to \$221.3 million, a 31.1 percent reduction from the 2001 level. Canadian expenditures were 41.1 percent of sales in 2006.

Expenditures declined for each line item. Importantly, artist and repertoire investment fell by one-third, from \$14.9 million in 2001 to \$9.9 million in 2005, although A&R investment experienced a revival in 2006, rising to \$13.4 million, the highest level since 2001. The changes in other Canadian expenditures between 2001 and 2006 were as follows:

- Marketing and promotion: -20.4 percent
- Manufacturing: -55.3 percent
- Distribution: -19.4 percent
- Publishing: 1,458.8 percent
- Overhead: -52.4 percent
- Salaries and benefits: 62.8 percent

For perspective, it should be noted that the increase in salaries and benefits between 2001 and 2006 reflects the impact of severance payments in 2006. Between 2001 and 2005, salaries and benefits expenses fell from \$22.9 million to \$21.0 million. Also, the sizable percentage increase publishing-related revenues highlights a jump from \$250,000 of such revenues in 2001 to \$3.6 million in 2006. In the intervening years, publishing revenues were around \$200,000 per year.

Additions to capital assets, shown in the bottom panel of Table 3.9, fell by 83 percent between 2001 and 2006, from \$7.5 million to \$1.3 million.

It is clear that the economic impact of the major recording labels has diminished markedly over the five years to 2006. Based upon the unit sales data presented earlier in this chapter, it is unlikely that the financial prospects of the majors have improved in 2007.

Table 3.9
Major Label Summary Financial Information
2001-2006
(\$'000s)

	2006	2005	2004	2003	2002	2001
Annual Sales						
Total sales	\$538,105	\$522,094	\$653,447	\$624,249	\$658,823	\$665,983
Annual Expenditures						
Artist & repertoire	\$ 13,425	\$ 9,942	\$ 9,869	\$ 9,192	\$ 13,048	\$ 14,934
Marketing and promotion	\$ 67,069	67,469	67,990	77,121	82,676	84,248
Manufacturing	\$ 54,780	55,039	70,613	72,319	78,245	122,594
Distribution	\$ 22,023	23,568	23,641	26,834	27,980	27,335
Publishing	\$ 3,642	171	197	217	173	250
Overhead expenses	\$ 23,417	37,154	35,130	40,601	45,743	49,236
Salaries and benefits	\$ 36,962	21,006	2,513	22,188	22,455	22,851
TOTAL	\$221,317	\$214,349	\$209,953	\$248,472	\$270,320	\$321,448
Capital Asset Additions						
Capital asset additions	\$ 1,273	\$ 778	\$ 2,194	\$ 2,925	\$ 3,267	\$ 7,458
Source: Information provided by the Canadian Recording Industry Association (CRIA).						

Independent Label Data

As part of this study, an on-line survey conducted by POLLARA was administered to members of the Canadian Independent Record Production Association (CIRPA).

Key information that was to be collected by the CIRPA survey included:

- Business functions performed (record label, publishing, management, other)
- Location
- Gross revenues by detailed source
- Proportion of revenues from Canadian sources
- Number of titles in “active catalogue”
- Number of titles in “back catalogue”

- Expenditures by detailed category
- Proportion of direct expenditures in Canada
- Record label full-time equivalent employment
- Number of acts under contract
- Publishing revenues and expenses
- Publishing business full-time equivalent employment
- Management revenue and expenses
- Management business full-time equivalent employment

Unfortunately the data collected from the CIRPA survey was not adequate for this study. There were too few usable responses – that is, the respondents answered very few of the questions.

The Manufacturing and Non-Traditional Sector

There are a number of other major Canadian firms that have a significant presence in the recorded music sector, both at home and internationally. These companies serve “non-traditional” music markets, such as the budget music sector, and non-traditional retailers. Among the larger of these companies are Madacy Entertainment and Somerset Entertainment.

Madacy Entertainment, based in Montreal, Quebec, is active in both music and video. On the music side of the business, Madacy produces compilation albums, based upon various lifestyle themes and music genres. Madacy describes the market they serve as the budget and mid-priced recorded music sector. In fiscal 2006, Madacy generated net sales of U.S. \$57.9 million in the combined budget and mid-priced sectors. In fiscal 2005, the company had net sales of U.S. \$59.2 million in these sectors.

Somerset Entertainment is a Toronto-based producer and distributor of specialized music products that are sold at non-traditional music retailers, such as specialty gift shops. In 2006, Somerset had net sales of \$34.7 million (Canadian), up from \$30.7 million in 2005.

Cinram, of Markham, Ontario, is “... the world’s largest producer of pre-recorded multimedia products and related logistics services.” In 2005, Cinram earned revenues of U.S. \$295.8 million from the audio CD segment of their business, and another \$5.7 million of audio cassette revenue. Another \$290.3 million of revenues was generated from distribution activities, only some of which are attributable to the distribution of audio CDs. Note that net sales equal about 20 percent of Cinram’s revenues.

Entertainment One is a Brampton, Ontario-based wholesaler and distributor of DVDs, CDs and video games throughout North America. Net sales of wholesale music were equal to \$91 million in 2005.

Music Publishing

A recent study prepared for the Canadian Music Publishers Association (CMPA) and L'Association des professionnels de l'édition musicale by Paul Audley & Associates Ltd. and Circum Network Inc. (hereafter the "music publishing" study) provides very comprehensive information on the roles of music publishers and copyright collectives in Canada.¹¹ In addition, the study provides detailed financial information on Canada's music publishing industry.

This chapter summarizes this study and, as will be discussed, adjusts the figures from the original study to provide an estimate of the financial impact of some of the major, but not all, music publishing activity in Canada.

What Music Publishers Do

Old Hollywood movies portray the music publisher as a cigar-chomping go-getter looking for the next snappy tune to promote to a recording star who will turn the song into the next boffo hit. In even older movies, the music publisher hopes to sell the song, in sheet music form, to be played in parlours all over the country.

Of course, the role of the music publisher has evolved with technology and the evolution of the music and recording industries. As noted by the music publishing study (at pages 4-5):

The primary role of a music publisher is to act on behalf of authors of musical works, based upon an assignment of rights, an agency or administrative agreement, or otherwise. This involves representing the copyright holders in their dealings with users of their works, collecting royalties on their behalf from copyright collectives or individual users, and seeking to achieve the most extensive and profitable use of their works that is possible (while respecting the author's moral rights). Active music publishers also participate in the songwriter's creative development and the most active music publishers are increasing their involvement in this activity. As technology has changed the music industry, from the introduction of cylinder recordings, to radio in the 1920's to, CD's, and now online distribution, music publishers have worked to adapt to their changing environment...

A publisher can now be involved in a wide range of activities on behalf of his authors. He may play an active part in all stages of an author's career and creative development (particularly where the author is also a

¹¹ A *Statistical Profile of the Canadian Music Publishing Industry*. A Report Prepared for: Canadian Music Publishers Association (CMPA) and L'Association des professionnels de l'édition musicale by Paul Audley & Associates Ltd. and Circum Network Inc, December 13, 2005.

recording artist), participate financially and artistically in the production of the works they publish, actively participate in the domestic and foreign marketing of musical works, and attend to the protection and administration of related copyrights worldwide. A number of publishers now are actively involved in the important role of artists and repertoire (A&R development, previously carried out almost exclusively by the record labels). Active publishers may also seek out opportunities for musical works to be used in audio-visual productions, ringtones and even video games.

There are a number of arrangements between songwriters and music publishing firms that emerged over time, however, it merits emphasis that not all songwriters are affiliated with music publishing firms. Some authors of musical works may manage their rights themselves or, alternatively, enter into arrangements with music publishers that fall somewhere on the continuum between no relationship with a music publisher to a full service, “traditional” songwriter- music publisher relationship.¹²

What Copyright Collectives Do

As described in the music publishing study, much of the revenue from music publishing is derived from copyright tariff payments by users of the author’s rights in a song (at page 4):

The Copyright Act confers on authors of musical works (songwriters, composers and lyricists) a copyright for the duration of their lives plus a period of fifty years after their death. This copyright includes the exclusive right to reproduce the work, to perform the work in public, to communicate the work to the public by telecommunication, to publish the work in printed form, to translate or adapt the work and to authorize any such acts. The Act also confers on such creators moral rights. Moral rights are not transferable, but may be waived, and apply for the same term as the copyright.

In Canada, four copyright collectives collect and distribute copyright royalties to authors and music publishers. These are:¹³

SOCAN: The Society of Composers, Authors, and Music Publishers of Canada.

SOCAN collects royalties for public performance of musical works, whether the performance is live, on television, radio or otherwise broadcast, or communicated

¹² For a description of the four main types of publishing agreements (the Standard Music Publishing Agreement; the Co-Publishing Agreement; the Administration Agreement; and, the Sub-publishing Agreement), see the Music Publishing Study, pages 5-6.

¹³ A more complete description of the collectives can be found in the Music Publishing Study, pages 8 to 16.

via telecommunication. SOCAN is the largest of the authors' and publishers' collectives.

CMRRA: The Canadian Musical Reproduction Rights Agency. CMRRA collects and distributes mechanical licensing royalties (i.e., payments for copies made of the song) on behalf of its member music publishers. It will also undertake synchronization licensing (use of the song in, for example, motion pictures or video games).

SODRAC: Société du droits de reproduction des auteurs, compositeurs et éditeurs au Canada. Performs mechanical licensing functions, like those performed by the CMRRA, in Quebec. CMRRA and SODRAC have formed a joint venture, CSI, with regard to particular tariffs, including online music services.

CPC: The Canadian Private Copying Collective. CPC collects and distributes private copying royalties to the above collectives, as well as those collectives that represent performers and makers of sound recordings. CPC royalties are then distributed by the relevant collectives to their members. The collectives representing authors and music publishers currently receive 66 percent of CPC's distributions.

According to the Music Publishing Study (2005), these collectives together had revenues of \$290 million in 2004 (derived from both Canadian and foreign sources), and distributed approximately \$100 million to music publishers in Canada. Another approximately \$60 million was distributed directly to authors of musical works.¹⁴ A sizable portion of the distributions are paid to affiliated foreign collectives.

An important component of the Music Publishing Study (2005) was the collection of data from active music publishers in Canada. The sample that was analyzed for the study included 37 companies that "... represent a substantial majority (approximately 85%) of the revenues of active music publishers currently operating in Canada, including the revenues in Canada of all of the major multinational publishers." (At page 19).

Since the focus of the study was on active music publishing companies, excluded from the study were individual songwriters who were not affiliated with a music publishing firm, as were "... music publishing companies owned or controlled by a songwriter/composer whose own musical works comprised the majority of the works in the catalogue of the company." (At page 19).

Further, the study did, "... not deal with the publishing of music in printed form, except where this activity is a secondary source of revenues for the companies surveyed." (At page 17).

¹⁴ SOCAN and SODRAC distribute an author's share of their interest in a musical work directly to the author, and the music publisher's share to the music publisher. CMRRA distributes both shares to the music publisher.

Finally, the study does not comprehensively address "... music publishing activities related to film and television production or multimedia activity..." (At page 17).

Table 4.1 shows the revenues, by source (performing rights, mechanical rights and other) and by jurisdiction of origin (i.e., whether the revenue source was domestic or foreign). The figures in Table 4.1 were taken from the Music Publishing Study (2005), but were adjusted upward by 15 percent since the Music Publishing Study collected information that was believed to comprise approximately 85 percent of the revenues of active music publishers.

Table 4.1
Music Publishing Royalty Revenues by Source and Jurisdiction of Origin, 2004¹⁵

	Domestic		Foreign		Total	
Performing Rights						
SOCAN	29,433,719	39.8%	4,823,578	16.5%	34,257,297	33.2%
Other (direct licensing of Grand Rights, revenue from foreign sub-publishers and other foreign sources)	33,945	0.1%	9,516,365	32.6%	9,550,310	9.3%
Subtotal: Performing Rights	29,467,664	39.9%	14,339,943	49.2%	43,807,607	42.5%
Mechanical Rights						
Direct licensing	5,638,298	7.6%	4,413,064	15.1%	10,051,362	9.8%
CMRRA	28,749,379	38.9%	181,666	0.6%	28,931,045	28.1%
SODRAC	2,959,388	4.0%	28,175	0.1%	2,987,563	2.9%
Other (revenue from foreign sub-publishers and other foreign sources, etc)	112,061	0.2%	7,147,054	24.5%	7,259,115	7.0%
Subtotal: Mechanical Rights	37,459,126	50.7%	11,769,959	40.4%	49,229,085	47.8%
Other Revenues						
Synchronization	5,622,729	7.6%	1,943,062	6.7%	7,565,791	7.3%
Print licensing	23,436	0.0%	3,978	0.0%	27,414	0.0%
Other rights (video games, ringtones, etc.)	121,275	0.2%	22,029	0.1%	143,304	0.1%
Private copying	1,123,169	1.5%	89,582	0.3%	1,212,751	1.2%
Broadcast mechanical	89,062	0.1%	1,003,702	3.4%	1,092,764	1.1%
Total Other Revenues	6,979,671	9.4%	3,062,353	10.5%	10,042,024	9.7%
Total Royalties	73,906,461	100%	29,172,255	100%	103,078,716	100%

As Table 4.1 shows, \$43.8 million, or 42.5 percent of total music publisher revenues of \$103.1 million came from performing rights royalties. A further \$49.2 million was derived from mechanical royalties, representing 47.8 percent of total revenues. Other revenues, which

¹⁵ Adapted from the Music Publishing Study (2005), Table 7, page 25.

includes, primarily, synchronization licensing amounted to \$10.0 million or 9.7 percent of total revenues.

Note that the royalties, shown toward the end of the table, for private copying and broadcast mechanical, likely understate the royalties that music publishers would have derived from these sources in 2004. This is because (Music Publishing Study, at page 25):

... survey respondents reported for the year ending between September 1, 2003 and August 31, 2004. During this period most of the revenue derived from the CSI commercial radio tariff had not yet been distributed. That tariff ... generated \$6.7 million in 2004. Similarly, it must be kept in mind that most of the revenue generated by the private copying levy ... had not yet been distributed. A total of \$35.6 million in royalties is available for the calendar year 2004, with 66% of this total available to music publishers and authors. As a result, both the broadcast mechanical tariff and the private copying royalties represent a far more important source of revenue ... [than the revenue data for the study suggest].

Expenses of Music Publishers

The Music Publishing Study (2005) reports the expenses incurred by music publishing companies. These expenditures, expressed as a percentage of total expenses, are presented in Table 4.2.

Table 4.2
Expenses of Firms Primarily Involved in Music Publishing¹⁶

Expense	% of Total Cost	% of Total Revenue
Royalties/advances paid out	88.0%	75.9%
General operating expenses	2.4%	2.0%
Marketing/promotion	0.5%	0.4%
Demo/master recording costs	0.7%	0.6%
Stock music library expenses	0.1%	0.0%
Interest/bank charges	0.2%	0.1%
Depreciation/amortization	0.6%	0.5%
Other music publishing expenses	0.8%	0.6%
Employee wages/salaries/benefits	5.9%	5.0%
Non-music publishing expenses	1.1%	1.0%
Total Expenses	100.0%	86.1%

¹⁶ Source: Adapted from Music Publishing Study (2005), Table 23, page 44.

The largest single category of expenses is royalties/advances paid out. These royalty payments amount to 88.0 percent of total expenses, and 75.9 percent of total revenues. Although not shown in the table, approximately 29.4 percent of advance and royalty payments are paid to Canadian authors (27.7 percent) and other Canadian music publishers (1.7 percent).¹⁷

Employee wages, salaries and benefits is the second largest expense category, amounting to 5.9 percent of total expenses and 5.0 percent of revenues.

The pre-tax profit of music publishing firms was about 14 percent of revenues.

Data for 2005 and 2006

Statistics Canada has recently published financial data for the music publishing industry for 2005 and 2006, summarized in Table 4.3.

Table 4.3
Profile of the Music Publishing Industry, 2005 and 2006

	2005	2006
Operating Revenue \$' 000		
Sales of goods and services	7,321	10,900
Royalties and rights	95,258	99,123
Other revenue	4,869	5,988
Total operating revenue	107,447	116,012
Operating Expenses \$' 000		
Royalties, rights or franchise fees	49,929	58,569
Salaries, wages and benefits	14,785	18,898
Commissions paid to non-employees	6,013	2,776
Cost of goods sold	3,760	2,623
Amortization of tangible and intangible assets	5,905	5,570
Other	9,477	15,648
Total operating expenses	89,870	104,085
Operating profit	17,577	11,927
Operating margin	16.4%	10.3%
Source: Sound Recording and Music Publishing: Data Tables, 2005 and 2006, Catalogue no. 87F0008X.		
The figures in the table represent, according to Statistics Canada, 95 percent of total industry revenue (what Statistics Canada terms the "survey portion" of the industry).		

¹⁷ Derived from Tables 14 and 15 (pages 33 and 34) in the Music Publishing Study (2005).

Operating revenues increased by 8.0 percent from \$107.4 million in 2005 to \$116.0 million in 2006. A 15.8 percent increase in operating expenses resulted in a 32.1 percent decrease in operating profits, from \$17.6 million to \$11.9 million. The operating profit margin fell from 16.4 percent to 10.3 percent.

Summary

This chapter summarized and adjusted the results of an earlier study, *A Statistical Profile of the Canadian Music Publishing Industry*. That report, dated December 13, 2005, was prepared for the Canadian Music Publishers Association (CMPA) and L'Association des professionnels de l'édition musicale by Paul Audley & Associates Ltd. and Circum Network Inc., on the roles of music publishers in Canada as well as their financial statistics.

Canadian music publishers earned over \$103 million in revenues in 2004. The two largest categories of royalty revenues, mechanical rights and performing rights, accounted for \$49.2 million and \$43.8 million, respectively. "Other" revenues of \$10 million were primarily derived from synchronization (\$7.6 million). Music publisher's expenses amounted to 86.1 percent of total revenues.

Recently published Statistics Canada data for the music publishing industry for 2005 and 2006 show that operating revenues increased by 8.0 percent from \$107.4 million in 2005 to \$116.0 million in 2006. A 15.8 percent increase in operating expenses resulted in a 32.1 percent decrease in operating profits, from \$17.6 million to \$11.9 million. The operating profit margin fell from 16.4 percent to 10.3 percent.

The relative magnitude of the sources of music publishing revenues is likely to have changed from the 2004 study. Mechanical rights royalties are very likely to have declined, in line with declining unit sales of compact discs. Digital reproduction rights revenues (i.e., royalties collected on downloaded singles and albums) are likely to have only partially offset the decline in physical mechanical rights royalties.

The private copying regime was in its infancy during the period relevant to the original music publishing study. Consequently, it might also be reasonably expected that private copying tariff revenues have increased in both magnitude and relative importance to music publishers.

Music Consumption

This chapter presents recently collected data on music buying as represented by a sample of Canadians. While specific information on expenditures must be treated with caution in light of challenges faced by survey respondents who are required to recall information from an extended period of time in the past, consumer's responses offer some perspective on tastes and buying habits, as well as future intentions to purchase music.

This chapter contains the following sections:

- Information about the survey;
- Demographic information;
- Musical genre preferences;
- Recorded music purchases – physical and digital formats;
- Intentions of on-line and physical purchasers for future on-line and physical purchases;
- Music on cellular telephones;
- Giving and receiving gift certificates;
- General entertainment spending patterns.

About the Survey

The data on Canadian consumers are from a survey conducted by POLLARA. The Music Consumers Survey was administered via telephone between August and September of 2006.

The survey collected information on the consumption of recorded music, musical instruments and training and attendance and expenditures on live performances. While this section of the report focuses primarily on the information on music consumption collected through the survey, information collected on the consumption of other music-related products and services is presented in other sections. Some of the results from the Consumer Survey are reported in other chapters in this report.

Demographic Information

Table 5.1 provides a breakdown of the sample by gender and age. Women comprised 52 percent of the sample and, of course, men the remaining 48 percent. Some 20.6 percent of respondents were between the ages of 12 and 17, 22.6 between the age of 18 and 34, 41 percent between the ages of 35 and 64, and 14.8 percent were 65 years of age or older.

Table 5.1
Age and Gender of Consumer Survey Respondents

<u>Gender and Age</u>	<u>Percent</u>
Women:	
12 to 17	9.9
18 to 34	11.8
35 to 64	21.9
65 and over	8.5
Men:	
12 to 17	11.7
18 to 34	10.8
35 to 64	19.1
65 and over	6.3

As shown in Table 5.2, slightly fewer than 27 percent of those surveyed had not completed a high school education. Twenty percent had graduated from high school, and 17.1 percent had completed vocational or technical training a college diploma or CEGEP. A further 5.9 percent of survey respondents had completed some university but not graduated, and 17.8 percent of respondents had graduated from university. Almost 11 percent of respondents had education beyond a first degree, including 3.5 percent who had completed some post-graduate work and 7.4 percent who had a graduate degree.

Table 5.2
Education of Survey Respondents

<u>Education Level</u>	<u>Percent</u>
Grades 1 to 8	7.6
Some high school	19.2
Graduated high school	20.0
Vocational/tech/college/CEGEP	17.1
Some university	5.9
University graduate	17.8
Some post-graduate	3.5
Post-graduate degree	7.4
Don't know/refused	1.5

Respondents from Atlantic Canada comprised 7.7 percent of the sample. Twenty-four percent of those surveyed were from Quebec, 38 percent from Ontario, 7 percent from Manitoba and Saskatchewan, 9.9 percent from Alberta and 13 percent from British Columbia.

Table 5.3
Region of Residence of Consumer Survey Respondents

<u>Region</u>	<u>Percent</u>
Atlantic	7.7
Quebec	24.0
Ontario	38.0
Manitoba and Saskatchewan	7.0
Alberta	9.9
British Columbia	13.0
Territories	0.4

Musical Genre Preferences

The Canadian consumers in the sample were asked how often they listened to various genres of music. Their responses appear in Table 5.4. The most popular genre, classic rock, was frequently (i.e., defined in the survey as “as often as possible”) listened to by 32.1 percent of respondents, while 20.5 percent reported that they never listened to classic rock. For the following music genres, at least 50 percent of survey respondents listened either frequently or occasionally to: classic rock (62.6 percent); adult contemporary/soft rock (57.4 percent); and rock performers (51.6 percent).¹⁸ Opera and dance music were never listened to by 61.1 percent and 59.2 percent, respectively, of the sample of consumers.

¹⁸ The Consumer Survey distinguished the four rock-related genres by providing respondents with examples of performers associated with the genre as follows: alternative rock artists – Evanescence, Coldplay, Radiohead, Sum 41, Simple Plan, White Stripes; rock performers – Our Lady Peace, Nickelback, Audioslave, Pearl Jam; adult contemporary/soft rock – John Mayer, Celine Dion, Sarah McLachlan, Dido, Sheryl Crow, Michael Buble, Josh Groban; classic rock – Bruce Springsteen, Foreigner, Arrowsmith, The Who, Rolling Stones, Led Zeppelin.

Table 5.4
Frequency of Listening to Various Music Genres

Musical Genre:	Listening frequency:				
	Frequently	Occasionally	Seldom	Never	Don't Know/Refused
Alternative rock artists	26.3	21.8	13.8	37.0	1.0
Rock performers	27.2	24.4	15.9	31.9	0.6
Adult contemporary/soft rock	25.1	32.3	19.0	23.3	0.3
Urban or hip hop artists	16.7	15.1	20.6	47.3	0.4
Rhythm & blues artists	13.6	20.6	22.6	42.2	1.0
Dance artists	6.9	13.6	19.0	59.2	1.2
Top 40 artists	20.0	28.9	20.6	29.5	1.0
Classic rock	32.1	30.5	16.4	20.5	0.5
Jazz artists	17.9	25.9	19.2	36.8	0.2
Opera	5.7	15.8	17.4	61.1	0.1
World music	17.6	28.6	23.4	29.5	0.9
Broadway shows/musicals	10.4	25.5	22.5	41.4	0.2
Classical music	21.7	26.0	20.2	32.0	0.1
Country music	22.5	21.8	19.9	35.6	0.3

Recorded Music Purchases – Physical and Digital Formats

Physical Formats

The Consumer Survey asked Canadians about their purchases of music in physical formats (CDs, DVDs that contain primarily music, and combinations of music CDs and music videos). Seventy-four percent of Canadians surveyed indicated that, within the last 12 months, they had “purchased a physical album or DVD that contains primarily music. This could be a music DVD or video and could be purchased online and delivered or in person in a retail store like HMV or Archambault.” Seventy-two percent of Ontario respondents reported that they purchased one of these physical recorded music products within the past 12 months.

Of those Canadians who purchased music in one of the physical formats, 97 percent purchased a CD, 31 percent purchased a music DVD, 28 percent purchased a combination audio CD and video DVD, and 20 percent purchased a music video. The corresponding percentages for Ontario physical format music purchasers were: CDs 97%; music DVD 29%; combination CD/DVD 29%; and, music video 20%.

Table 5.5
Physical Format Music Purchases in Last 12 Months
All of Canada and Ontario

	Canada	Ontario
Made a purchase of CD/music DVD	74%	72%
<u>Of those purchasing, the percentage who bought:</u>		
Compact Disc	97%	97%
Music DVD	31%	29%
Combination audio CD video DVD	28%	29%
Music video	20%	20%

On average, Canadians 12 years of age and older reported spending \$21.49 per month on physical music formats. The average Ontarian spent \$25.93 per month on music CDs, DVDs, combination CDs and DVDs and music videos. Note that these averages include those individuals who did not purchase music in physical formats in the previous 12 months.

Of those Canadians who actually purchased music in one of the physical formats, the average amount spent per month was \$33.11. Ontarians who purchased physical music products in the past year spent an average of \$39.85 per month. As shown in Table 5.6, about a quarter of Canadians spent \$10 or less on physical music products per month, and an equivalent proportion spent between \$11 and \$20 per month. Some 37 percent of Canadians spent in excess of \$40 per month on physical products. Expenditure patterns in Ontario differ little from those for all of Canada.

Table 5.6
Expenditures on Physical Music Products,
All of Canada and Ontario

<u>Average monthly expenditure:</u>	<u>Canada</u>	<u>Ontario</u>
\$10 or less	25%	27%
\$11 to \$20	26%	26%
\$21 to \$40	21%	21%
More than \$40	16%	16%
Don't know/refused	12%	10%

Digital Format Purchases

Of those Canadians surveyed, 18.3 percent indicated that, in the last year, they had, “Paid for and downloaded a music file from a website like Puretracks, Archambaultzik, iTunes, Napster and others?” A similar proportion (19.1 percent) of Ontario survey respondents reported that they had purchased and downloaded a digital music file in the past year.

Those consumers who indicated that they had purchased a music download in the past year were also asked to report the number of tracks they had downloaded in the past month. Thirty-one percent of Canadians who had purchased a download in the past year had not purchased any tracks during the month prior to the survey. Thirteen percent of downloaders had purchased between 1 and 3 tracks in the past month, 21 percent purchased between 4 and 12 tracks, and 23 percent had purchased more than 12 tracks. Eleven percent did not know how many downloaded files they had purchased, or refused to answer the question. As shown in Table 5.6, this pattern of paid downloading activity was broadly similar for Ontario consumers.

Table 5.6
Number of Paid Downloaded Music Tracks in the Past Month
All of Canada and Ontario

<u>Number of tracks downloaded:</u>	<u>Canada</u>	<u>Ontario</u>
None	31%	30%
1 to 3	13%	12%
4 to 12	21%	23%
More than 12	23%	27%
Don't know/refused	11%	9%

The spending patterns of those who purchased at least one downloaded music file in the month prior to the survey are summarized in Table 5.7.

Table 5.7
Expenditures on Paid Downloads in the Past Month
All of Canada and Ontario

<u>Average monthly expenditure:</u>	<u>Canada</u>	<u>Ontario</u>
\$6 or less	20%	20%
\$7 to \$20	31%	27%
\$21 to \$30	9%	7%
More than \$30	20%	19%
Don't know/refused	20%	27%

Twenty percent of Canadians spent \$6 or less, 31 percent spent between \$7 and \$20, 9 percent spent between \$21 and \$30 and 20 percent spent more than \$30 on paid downloads. A further 20 percent did not know how much they spent or refused to answer. Once again, the responses of Ontarians were similar, however a noticeably larger proportion of Ontario downloaders did not know how much they spent or refused to respond (27 percent of Ontario respondents versus 20 percent of all Canadian respondents).

While similar proportions of Canadians and Ontarians reported acquiring music from paid on-line music services in the month before the survey, purchases by Ontario on-line music patrons were considerably larger than those of all Canadians. Ontarians, on average, purchased almost 60 percent more tracks in the month prior to the survey in comparison to the average for all Canadians (5.7 tracks in Ontario versus 3.6 tracks in all of Canada) and, correspondingly, spent 50 percent more per capita on downloaded music files. The average on-line music consumer in Canada purchased 24 tracks in the month, compared to 59 tracks for Ontario on-line consumers. The average expenditure during the month for on-line service users was \$37.65 in all of Canada and \$58.70 in Ontario. A summary of paid downloading activity in Canada, and separately for Ontario, is provided in Table 5.8.

Table 5.8
Purchases of Downloaded Music Files in the Past Month
All of Canada and Ontario

	Canada		Ontario	
Paid for a downloaded file	18%		19%	
Quantity of purchases:	Population	On-Line Purchasers	Population	On-Line Purchasers
No. of tracks (last month)	3.9 tracks	24.2 tracks	5.7 tracks	32.6 tracks
Amount spent (last month)	\$3.77	\$37.65	\$5.76	\$58.70

Intentions of On-line Purchasers for Future On-Line and Physical Purchases

A widely reported trend in music retailing has been the steady decline in sales of music CDs. The survey asked Canadians who, during the past year, paid for and downloaded a music file from a website like Puretracks, Archambaultzik, iTunes, Napster and others what their future intentions are with respect to (a) purchasing from on-line music services, and (b) purchasing physical music products.

About three-quarters of all Canadian paying downloaders, and a similar proportion of Ontario paying downloaders, indicated that they intend to purchase either the same or more music

through paid on-line sites. Sixty-four percent of on-line music buyers indicated that they will purchase either the same or a greater number of physical music products.

Table 5.9
Future Purchasing Intentions by Paying Downloaders
All of Canada and Ontario

<u>Intentions for purchasing :</u>	<u>Canada</u>		<u>Ontario</u>	
	<u>On-Line</u>	<u>Physical</u>	<u>On-Line</u>	<u>Physical</u>
More	22%	16%	22%	16%
About the same	53%	48%	54%	47%
Less	20%	31%	21%	32%
Don't know	4%	5%	3%	5%

Music on Cellular Telephones

The potential for digital formats to create new products and new markets for music has been aptly demonstrated by the emergence of ringtones and mastertones which play segments of musical works (either in monotonic beeps in the case of ringtones, or as excerpts of actual sound recordings in the case of mastertones) when an appropriately equipped cellular telephone rings.

Fifty-seven percent of Canadians in the survey reported owning a cell phone. Of those who did own a cell phone, 17 percent reported that they had purchased ringtones or mastertones for their cell phones within the last twelve months, and spent about \$22 each on ringtone and mastertone purchases. Across the entire Canadian population, the average expenditure on ring/mastertones was \$1.65.

Ontarians exhibited similar cell phone and ring/mastertone consumptions patterns as did Canadians as a whole. Fifty-eight percent of Ontarians owned a cell phone, and 19 percent of cell phone owners had purchased ringtones or mastertones during the last twelve months. Ontario cell phone owners spent about \$19 each on ring/mastertones, or about \$1.88 per capita.

Giving and Receiving Gift Certificates

The growth in popularity of gift certificates for many retailers, including physical and on-line music retailers, has become evident in recent years in analyses of holiday shopping sales. It has become much more difficult to measure the size of holiday retail sales because the sales of gift certificates do not contribute to retail sales until the certificate is redeemed. There is even a nascent industry in combining and reselling unused gift card credits.

Almost 27 percent of Canadians report having purchased a music gift certificate for someone else (i.e., not themselves) that is redeemable at either a physical store or an on-line store during

the year prior to the survey. Of those purchasing a music gift certificate, 10 percent were for on-line music services. Among those who purchased music gift certificates, the average amount spent on the music gift certificate was \$67, and the average amount spent on music gift certificates for on-line music stores was \$60.

Thirty percent of Ontario respondents purchased a music gift certificate for someone else in the past year, but of those purchasing music gift certificates, only 5 percent were redeemable at on-line music stores. Ontarians who bought music gift certificates spent an average of \$67 for both physical and on-line stores, and \$50 for on-line store music gift certificates.

Smaller proportions of all Canadians and Ontarians (18% and 19% respectively) reported that they had received a music gift certificate in the last year. The gift certificates they received had an average value of \$66 (\$79 in Ontario). An identical proportion (20%) of all Canadians and Ontarians had not yet spent all of the gift certificate, with an average of about \$35 remaining to be spent.

General Entertainment Spending Patterns

While this chapter has focused exclusively on physical and paid downloaded music products, the survey also asked Canadians about spending patterns with respect to other entertainment categories. For additional perspective on recorded music purchasing patterns, especially Compact Discs, this section reports the responses of survey participants on their changing entertainment expenditure patterns.

When asked, “How, if at all, have your entertainment spending patterns changed in the past 12 months?” the majority of consumers (61.1 percent) indicated that their entertainment spending patterns have remained the same. Entertainment spending has increased somewhat or increased significantly for 19.2 percent of respondents and has decreased somewhat or decreased significantly for 17.9 percent of consumers.

Table 5.10
Changes in Entertainment Spending Patterns in the Past 12 Months

<u>Change in Spending:</u>	<u>%</u>
Increased significantly	4.4
Increased somewhat	14.8
Stayed the same	61.1
Decreased somewhat	11.3
Decreased significantly	6.6
Don't know/refused	1.7

The 19.2 percent of consumers who indicated their entertainment spending had increased, and the 17.9 percent of consumers whose spending had decreased (for a total of 37.1 percent of the sample of consumers) were asked to indicate how their spending patterns had changed. Their responses are summarized in Table 5.11.

Table 5.11
How Entertainment Spending Patterns have Changed

	Increased	Decreased	Stayed the Same	Don't Know/Refused
Buying CDs from retailers	29.1	35.0	32.4	3.5
Buying CDs online	7.5	35.6	35.3	21.7
Tickets to see live music	22.2	37.8	35.1	4.8
Restaurants	40.3	27.7	30.9	1.1
Renting video games	10.5	42.3	29.6	17.6
Buying video games	12.6	38.5	31.8	17.2
Theatre/stage shows	20.3	39.5	32.9	7.4
Sporting events	15.4	38.9	35.4	10.4
Motion picture theatres	33.4	36.2	26.7	3.6
Movie rentals	30.9	31.1	32.6	5.3

Thirty-five percent of those whose spending entertainment patterns had changed in the past year report spending less on CDs from retailers, while 29.1 percent reported increasing such purchases. Only 7.5 percent of “spending pattern changers” said that they increased purchases of CDs online while 35.6 percent reported reducing CD purchases from online retailers. A larger proportion of entertainment spending pattern changers reduced their expenditures on live music performances (37.8 percent) than increased their spending on live music shows (22.2 percent).

Spending on restaurants was the only category of entertainment where a larger proportion of those indicated changed spending patterns for which more respondents said their spending had increased rather than decreased.

Summary

This chapter provided some information on the music listening and purchasing behaviours of Canadian consumers. Canadians enjoy a wide variety of music. Almost three-quarters of Canadians purchased at least one CD or music DVD in the twelve months prior to being interviewed, however fewer than 20 percent had purchased a downloaded music file. Canadians

also reported purchasing ring/mastertones for their cellular telephones: just under twenty percent of cell phone owners purchased a ringtone or mastertone.

About 30 percent of Canadians purchased gift certificates for music. Only about 10 percent of music gift certificate purchases were redeemable at on-line music services.

While this section also provided some information on the amount of money that consumers spent on recorded music products but, because of the difficulties associated with recalling amounts spent on past purchases, these figures cannot be reliably used to estimate the music purchases of the Canadian population.

Commercial Radio Broadcasting

Commercial (and public) broadcasters make considerable use of music in the provision of their services. Perhaps the most obvious use of music for broadcast purposes is radio; however other broadcasters are extensive music users. Other broadcasters who use music include basic and cable television, as well as pay audio services for home listening or as background music in restaurants, taverns and other public spaces. There are also relatively new and emerging broadcasting technologies, such as internet radio, satellite radio, WiMax, and even podcasting, which have the potential to be both complements and substitutes for terrestrial radio broadcasting. Together, the technologies serve to expand the use and reach of music.

As evidenced by some of the submissions made to the Canadian Radio-television and Telecommunications Commission (CRTC), there is disagreement about the impact of commercial radio on breaking new performers and songs. What is clearer, however, is that the use of music by Canadian commercial radio broadcaster has increased. In its commercial radio Tariff 1A decision, the Copyright Board of Canada (at pages 20-21 and 24-25) found that:¹⁹

Commercial radio now uses more music than the Copyright Appeal Board concluded it did in its 1987 decision. This is confirmed both by direct evidence and by inferences to be drawn from the record of these proceedings.

In preparation for these proceedings, the collectives asked Erin Research Inc. to analyse the use of feature music on music format commercial radio stations. According to NRCC, the methodology is unprecedented in its precision: never before has music use been monitored and measured second-by-second. This was done by listening to logger tapes of the programs broadcast by 27 stations on each of a Saturday, a Sunday, and a sample weekday, usually a Wednesday.

Results of the study were reported in two parts: the first tabulates the use of sound recordings as feature content broadcast between 06:00 a.m. and midnight; the second also includes music used in other contexts such as with-in programming, in-station IDs and promos and in commercials, for the entire 24-hour day. The main conclusion of the study is that the use of sound recordings as feature content represents 76.1 per cent of overall program content. Based on the study, and taking into account the fact that music use has increased more during peak times than off peak, NRCC concludes that commercial radio uses 10.6 percent more music than the figure the Board retained in 1987.

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¹⁹ *Statement of Royalties to be Collected by SOCAN and NRCC in Respect of Commercial Radio for the Years 2003 to 2007*. Decision of the Copyright Board of Canada, October 14, 2005. Note that this decision was re-examined by Copyright Board, commencing June 26, 2007, following a Federal Court of Canada review. The subsequent Copyright Board decision was issued on February 22, 2008.

A number of other indicia further support the conclusion that radio uses more music now than in 1987.

First, broadcasters are now allowed to use less spoken word content. Between 1984 and 2001, 99 stations applied to the CRTC for permission to change their spoken word content; of those, 90 stations wanted to reduce it. It is not unreasonable to conclude that this resulted in an increase in music content.

Second, the number of FM stations has increased more than the total number of stations. This is the result of AM stations converting to FM. There have been well over 60 such “flips” since 1998. New FM licences have been added; very few new AM licences, if any, have been issued. Since FM is a better technology to transmit music, it would be reasonable to conclude this has led to an overall increase in the use of music on radio.

.....

The Board concludes that the 10.6 per cent NRCC derives from the Erin music study represents a minimum for any increase on this account. An adjustment of 13 per cent or more might better reflect the actual increase in music use.

Although radio stations may be playing more music than in the past, it is apparent that Canadians are listening less to radio than in the past. Nonetheless, commercial radio broadcasters have demonstrated remarkable resiliency, as reflected in their financial performance, even in light of new and competing technologies such as MP3 players, satellite broadcasting and webcasting to name a few.

This chapter focuses primarily, though not exclusively, on commercial radio broadcasting because it has traditionally had a synergistic relationship with the recording industry – it has been a central vehicle for breaking new hits. The chapter reviews recent listening trends, summarizes the recent financial performance of the commercial radio broadcasting sector and concludes with an estimate of commercial radio broadcasting’s financial contribution, through copyright tariffs and talent development funds.

Listening Trends

Some 92.1 percent of Canadians 12 years of age and older listened to at least 15 minutes of radio per week in the fall of 2005. This changed only modestly from 94% in 1998. Per capita listening hours fell by 1.4 hours per week, from 20.5 hours per week in 1999 to 19.1 hours per week in 2005.²⁰

²⁰ Source: From CRTC, *Broadcasting Policy Monitoring Report*, 2006, page 12.

Table 6.1
Radio Listening Trends

Per Capita Average Weekly Listening Hours By Age Group, All Persons 12 years of age and older (5:00 AM to 1:00 AM)								
Year	All Persons 12+	Teens 12-17	Adults					
			18-24	25-34	35-49	50-54	55-64	65+
1999	20.5	11.3	17.3	21.3	21.6	21.6	23.2	22.7
2000	20.3	10.5	18.1	20.6	21.8	21.9	22.8	22.4
2001	20.1	10.1	17.3	20.5	21.6	21.6	22.7	22.3
2002	20.2	9.4	16.7	20.1	21.7	22.3	23.1	22.8
2003	19.5	8.5	16.3	19.3	21.3	21.8	21.9	22.3
2004	19.5	8.5	15.7	19.3	21.5	21.6	22.1	22.3
2005	19.1	8.6	15.2	18.1	21.0	21.5	21.9	21.6
Change	-1.4	-2.7	-2.1	-3.2	-0.6	-0.1	-1.3	-1.1

Source: From CRTC, *Broadcasting Policy Monitoring Report, 2006*, page 11, Table 2.1. Note that the figures in the table include commercial radio and non-commercial (CBC/SRC, specialty services, other public, educational, religious, and not-for-profit services).

As Table 6.1 shows, radio listening over the 1999 to 2005 period has fallen the most for younger people. Nonetheless, radio stations appear to be using music in a more “efficient” manner – that is, using music to better segment listeners into demographic groups of interest to particular advertisers. These issues were canvassed in a recent presentation to the CRTC. The following excerpts provide some perspective:²¹

In hearings in May 2004 before the Copyright Board of Canada in the matter of SOCAN and NRCC Tariffs 1.A Commercial Radio Stations (2003-2007), one commercial radio executive testified:

The most obvious decline has come in teen tuning, for a host of reasons. They embrace technology at a far faster rate than certainly I do, so their listening habits have changed quite dramatically and tuning has declined.

In truth, that is in part the responsibility of radio because we have abdicated that trying to reach that audience (sic) because they were migrating away from it and because there was no money really spent behind that demographic.

(Transcript, page 1101)

²¹ This section cites and quotes extensively from, *Canadian Commercial Broadcasting Industry: Historical Financial Performance and Projections*. Prepared for L'Association Québécois de l'industrie du disque, du spectacle et de la Vidéo (ADISQ) and the Canadian Independent Record Production Association (CIRPA), by Paul Audley and Douglas Hyatt, March 15, 2006.

The point was elaborated upon further as follows:

The problem we have, however, is that there just simply is not enough money spent against the demographic for us to focus a licence on that target, despite the issues of longer term revenue potential and audience degradation. (Transcript, page 1114)

Another witness provided an example:

When multiple licence ownership came, we were licensed in Toronto and we had (a radio station), which my kids loved, but the reality was there just didn't seem to be enough money in that demographic for us to remain. (Ibid.)

It would appear that commercial radio broadcasters recognize that advertising geared to teenagers is concentrated in television, and not radio. As noted by one radio executive at the Copyright Board hearing:

Teens clearly do buy and clearly do spend money, huge amounts of money, but the advertising agencies tend to use, as I have said, television is their core medium to reach that audience. (Transcript, page 1113)

This “abdication” of the youth audience is clearly a strategic decision on the part of some commercial broadcasters, however, there is a recognition that this strategy is not without risk in the longer term. This was highlighted in the radio executives testimony before the Copyright Board:

Why do we care? Because those teens become 18 to 34s, 25s to 54s, 25 to 64s and 55-pluses ultimately, and if their learned habit is not to use radio as one of their core media we would have a longer term problem. So the teen tuning is a very severe issue for us, a very serious problem because it can dramatically impact the longer term results of radio. (Transcript, page 1102)

Nonetheless, commercial radio broadcasters have emphasized that even though listening may be declining somewhat, the real focus for radio is to reach the most sought-after, and therefore lucrative, demographic for advertisers. When asked the following question in the course of the copyright Board hearing:

Would you agree with me, then, that what advertisers, and therefore what the radio stations are really interested in, is not maximizing listening hours, but really maximizing the target they are trying to reach? (Transcript, page 1117)
Executives participating in the panel responded in the affirmative:

I think that is an extraordinary understanding of a business that frankly I have taken quite a long time to get a grasp of. (Ibid.)

And
You nailed it. (Ibid.)

The executives did, however, note that while the importance of reaching a target group for advertisers is of critical importance to radio broadcasters, listening hours are not irrelevant:

What might draw them (advertisers) to the medium, however, is whether that medium is growing in terms of reach potential and whether it is a growth medium or a shrinking medium. That can colour their view of the medium and the use of the medium. (Transcript, page 1118)

Nonetheless, the strategy of focusing on targeted demographics, other than the teens, appears to have been carried out to great effect by commercial radio broadcasters, in light of good financial results. Indeed, the Radio Market Bureau, in their *2005-2006 Radio Marketing Guide*, note in the introduction that:

Research also clearly demonstrates that radio advertising drives sales and brand awareness alone or as part of an integrated campaign. It is the leading medium to deliver frequency quickly and efficiently, yet also offers excellent reach potential. With its ability to target by demographics, station, environment, market, or daypart, radio – the oldest electronic media – has proven itself to be a lasting component of today’s media environment.

The ability of broadcasters to use music to deliver more precise demographic audiences to advertisers helps, in part, to explain why in the face of declining listenership, commercial radio broadcasters have experienced sound financial performance.

Commercial Radio Broadcasters Financial Performance

Table 5.2 summarizes financial results for Canadian commercial radio broadcasters over the 2001 to 2005 period. Table 5.3 shows the financial results for only those commercial radio stations located in Ontario. The central financial trends for the Canadian commercial radio broadcasting industry are:

Revenues - Canada

- Commercial radio stations saw revenues from the sale of air time (to advertisers) increase at a compounded annual growth rate (CAGR) of 5.7 percent, from \$1.048 billion in 2001 to \$1.309 billion by 2005. Royalties paid to authors and publishers of songs, performers and makers of sound recordings are based upon a percentage of advertising revenue (to be discussed in further detail below).
- Revenue from production and other sources, which is a relatively small component of total commercial radio station revenues (approximately 2 percent of total revenues), increased from \$21.5 million in 2001 to \$23.4 million in 2005.
- Total commercial radio revenues, which in addition to airtime sales include revenue from production and other sources, also increased at a CAGR of 5.7 percent, from \$1.070 billion in 2001 to \$1.332 billion in 2005.

Operating Expenses - Canada

- Total expenses of commercial radio stations, which include programming, technical services, sales and promotion and administration and general costs, increased from \$857.6 million in 2001 to \$1.015 billion in 2005, a CAGR of 4.3 percent. As a proportion of total revenues, commercial broadcasting expenses fell from 80.2 percent of total revenues in 2001 to 76.2 percent in 2005.
- The fastest growing component of total costs were sales and promotion expenses, which increased at a CAGR of 5.0 percent over the 2001 to 2005 period, followed by administration and general expenses (4.4 percent), program expenses (4.0 percent) and technical services (1.2 percent).
- Though not shown in the table, total salaries paid to employees of commercial radio stations increased from \$460.9 million in 2001 to \$542.4 million in 2005. Total remuneration represented 43.1 percent of total revenues in 2001, and 40.7 percent of total revenues in 2005.
- Employment at Canadian commercial radio broadcasters increased over the 2001 to 2005 period, from 9,015 to 9,303.
- Average remuneration was \$51,129 in 2001, growing at a CAGR of 3.3 percent to \$58,309 in 2005.

Profitability - Canada

- With total revenue growth of 5.7 percent compounded annually over the period 2001 to 2005, and a total cost CAGR of 4.3 percent, the profitability of the commercial radio broadcasting industry improved over the period.
- Earnings before allowance for interest, taxes, depreciation and amortization (EBITDA) increased from \$212.0 million in 2001 to \$317.3 million in 2005, a CAGR of 10.6 percent per year.
- Expressed as a percentage of revenue, EBITDA profits were equal to 23.8 percent of revenues in 2005, up from 19.8 percent of revenues in 2001.
- Earnings before interest and taxes (EBIT) increased at a CAGR of 12.8%, from \$171.2 million (or 16.0 percent of revenues) in 2001 to \$277.0 million (or 20.8 percent of revenues).

Table 5.2
Private Radio Broadcasters, Revenue and Expense Statement, All Stations,
Canada, 2001-2005

Canadian Commercial Radio Industry Historical Financials: 2001 – 2005 (in \$000s)					
	2001	2002	2003	2004	2005
Revenue					
Local	811,160	844,773	899,532	937,617	987,275
National & Network	236,907	235,087	269,223	271,420	322,097
Air Time Sales	1,048,067	1,079,860	1,168,754	1,209,038	1,309,372
Other	21,539	22,872	20,851	17,206	23,365
<i>Total Revenue</i>	1,069,606	1,102,732	1,189,605	1,226,244	1,332,737
Operating Expenses					
Programming	303,271	312,831	323,735	333,508	355,137
Technical	37,023	36,101	37,099	38,009	38,750
Sales & Promotion	269,483	274,637	298,482	318,074	327,139
General & Administration	247,850	265,603	260,174	273,328	294,434
<i>Total Op. Expenses</i>	857,627	889,172	919,490	962,919	1,015,459
EBITDA	211,979	213,560	270,115	263,324	317,277
% Margin	19.8	19.4	22.7	21.5	23.8
Depreciation & Amortization	40,740	38,146	40,719	39,679	40,305
EBIT	171,239	175,414	229,396	223,645	276,972
% Margin	16.0	15.9	19.3	18.2	20.8

The corresponding summary of financial trends for Ontario-based commercial radio broadcasters are as follows (for convenience, and where most relevant, the Ontario results are compared to the results for all of Canada):

Revenues - Ontario

- Ontario commercial radio stations had air time sales revenues of \$490.7 million in 2005, up from \$398.0 million in 2001. Air time revenue growth increased at a CAGR of 5.4 percent over the period, which was slower than the 5.7 percent airtime revenue growth experienced by Canada as a whole. Ontario accounted for 37.5 percent of total Canadian air time sales in 2005.
- Production and other revenues increased from \$4.7 million in 2001 to \$7.2 million in 2005.
- Total revenues for Ontario's commercial radio broadcasters increased at a CAGR of 5.5 percent (compared to 5.7 percent for all of Canada). Ontario commercial broadcasters' total revenue amounted to \$498.9 million in 2005, which is 37.4 percent of total Canadian commercial radio revenue of \$1.332 billion in that year.

Operating Expenses - Ontario

- Total expenses of Ontario commercial radio broadcasters, grew at a CAGR of 3.1 percent over the 2001 to 2005 period, a considerably slower rate of growth in expenses than the 4.3 percent CAGR for all Canadian broadcasters recorded over that period. Ontario commercial broadcaster's expenses increased from \$321.0 million in 2001 to \$362.5 million in 2005, when it equaled 72.8 percent of total revenue. This compares to expense costs of 80.2% of total revenues for all Canadian commercial radio broadcasters in 2005.
- All of the cost components, except programming, grew at a slower rate in Ontario over the 2001 to 2005 period than for Canadian commercial radio broadcasters as a whole. Sales and promotion expenses grew at a CAGR of 3.3 percent (5.0 percent for all of Canada). Administration and general expenses grew by 3.3 percent (4.4 percent for all of Canada), while program expenses grew by 4.4 (4.0 percent for all of Canada), and technical services expenses grew at a CAGR of 0.4 percent (1.2 percent for all of Canada).
- Salaries paid to employees of Ontario-based commercial radio broadcasters totaled \$167.1 million in 2001, and grew to \$197.5 million by 2005, a CAGR of 5.2 percent. Total remuneration was equal to 40 percent of total revenues in 2005, comparable to the 40.7 percent for all Canadian commercial radio broadcasters.

- Ontario's commercial radio broadcasters employed 3,093 workers in 2005, up from 3,088 in 2001.
- Average salaries for Ontario commercial radio employees was \$54,123 in 2001, increasing to \$63,844 in 2005, growing at a CAGR of 4.2 percent.

Profitability - Ontario

- Although the Ontario industry experienced slower revenue growth over the 2001 to 2005 period than did the Canadian commercial radio broadcasting industry as a whole, it experienced slower growth in expenses as well. So, while at approximately 20 percent of revenues, Ontario broadcasters experienced EBITDA margins that were similar to those of all Canadian commercial radio broadcasters. EBITDA margins expanded to 27.2 percent of revenues in 2005, compared to 23.8 percent for Canada as a whole.
- EBITDA of Ontario commercial radio broadcasters increased from \$81.7 million in 2001 to \$135.3 million in 2005, a CAGR of 13.4 percent.
- EBIT increased from \$65.5 million (or 16.3 percent of revenues) in 2001 to \$120.8 million (or 24.3 percent of revenues), a CAGR of 12.8%.

Table 5.3
Private Radio Broadcasters, Revenue and Expense Statement, All Stations,
Ontario, 2001-2005

Ontario Commercial Radio Industry Historical Financials: 2001 – 2005 (in \$000s)					
	2001	2002	2003	2004	2005
Revenue					
Local	312,967	324,246	339,434	358,666	382,707
National & Network	85,040	85,654	92,022	94,407	107,992
Air Time Sales	398,007	409,900	431,456	453,073	490,699
Other	4,701	4,011	4,156	4,063	7,151
<i>Total Revenue</i>	402,708	413,911	435,612	457,136	497,850
Operating Expenses					
Programming	107,943	115,507	114,208	119,255	128,218
Technical	14,723	14,642	14,409	14,035	14,946
Sales & Promotion	107,946	109,551	116,315	122,493	122,710
General & Administration	90,377	95,776	84,960	93,245	96,661
<i>Total Op. Expenses</i>	320,988	335,477	329,892	349,028	362,535
EBITDA	81,720	78,434	105,720	108,109	135,315
% Margin	20.3	18.9	24.3	23.6	27.2
Depreciation & Amortization	16,262	15,160	14,842	13,485	14,470
EBIT	65,458	63,274	90,878	94,623	120,845
% Margin	16.3	15.3	20.9	20.7	24.3

Copyright Tariff Payments and Talent Development Funding

Commercial radio broadcasters pay copyright tariffs to authors, performers and makers of sound recordings for the use of music in the provision of their services. These tariffs are certified by the Copyright Board of Canada, and may be reviewed through a formal proceeding in front of the Copyright Board at the behest of the rights holders or the broadcasters. The tariffs are as follows:

	On the first \$1.25 million of revenue	On revenues over \$1.25 million
Communication to the public by telecommunication of a musical work (SOCAN):	3.2%	4.4%
Communication to the public of published sound recordings embodying musical works and performers' performances (NRCC):	1.44%	2.1%

So-called “low use” stations – stations that broadcast music less than 20 percent of the time (example talk stations) – pay 1.5 percent of advertising revenues to SOCAN and 0.75 percent of advertising revenues to NRCC.

Commercial radio broadcasters also pay a “broadcast mechanical” tariff for the reproduction of musical works (typically on the stations’ song storage servers). The tariff is paid to CMRRA (SOCAN in Quebec). The tariff paid depends upon whether the radio stations is, or is not, a low music use station. The tariffs are as follows:

	On the first \$625,000 of revenue	On the next \$625,000 of revenue	On revenue over \$1.25 million
Low use stations:	0.12%	0.23%	0.35%
All other stations:	0.25%	0.53%	0.80%

Total copyright tariffs amount to approximately 6 percent, or slightly more, of total advertising revenues across all radio stations.

Contributions to Canadian Talent Development

As conditions of their licence, and in some instances voluntarily, commercial radio broadcasters contribute to the development of Canadian talent. According to the Canadian Radio-television and Telecommunications Commission (CRTC), contributions to Canadian talent development in 2004 (the most recent available data) amounted to almost \$7.1 million, apportioned as follows:

Factor:	\$1,911,609
Musicaction:	393,200
Music organizations:	876,548
Performing arts groups:	1,991,407
Schools or scholarships:	717,767
Other:	<u>1,191,792</u>

Total: \$7,077,323

Other Broadcasting-Related Music Revenues

While this section of the report has focused on commercial radio primarily because, as a sector, it is a significant user of recorded music, it is not the only user of music for broadcast purposes. Television broadcasters and pay audio services are also significant users of music.

In 2005, SOCAN reported domestic licensing fees of \$45.2 million from broadcast television and \$40.3 million from cable television. A further \$3.1 million was collected from Canada's pay audio services.

Two satellite radio services, sometimes referred to as subscription services, XM and Sirius, have begun operations in Canada. The tariffs for the use of music rights in the delivery of this service will be determined by the Copyright Board of Canada through a hearings process that took place in November and December of 2007.

Summary

Music continues to be a critical input to commercial radio broadcasting. Despite the apparent longer-run trend to less time spent listening to radio, especially by younger Canadians, differences in music listening preferences continue to provide efficiently segmented audience that attract the interest of demographically targeted advertisers.

The financial performance of commercial radio broadcasters in Canada has remained strong, with revenues, profits and profit margins all expanding over the 2001 to 2005 period.

Musical Instruments, Recording and Live Performance Equipment, and Music Lessons

Although largely overlooked in music industry studies, sales of musical instruments, recording equipment and public address and lighting systems now rival those of recorded music.

This chapter provides statistical information on the economic and financial profile of this key infrastructure sector of the music industry. Also provided is some information, taken from the survey of Canadian music consumers, on purchases of music lessons and musical instruments.

The Music Products Industry

The music products industry consists of goods that fall into the following categories:²²

- Fretted instruments and accessories, including amplifiers;
- Portable mixers, speaker enclosures, powered mixers, cables and microphones;
- Signal processing gear;
- DJ products;
- Acoustic and digital pianos;
- Organs;
- Printed music;
- Woodwinds, brasswinds and stringed instruments;
- General accessories;
- Electronic musical instruments and accessories;
- Multi-track recorders;
- Software and consumer music products;
- Karaoke; and,
- Percussion

While some of these music products are destined for the professional market, sales to professional musicians alone would not be sufficient to sustain the industry. The music products industry relies on the non-professional market – young people who are learning to make their own music, either as part of a school program, or outside of the school system through private instruction. Also, as the population ages, the music products industries expect to see the continuation of a trend toward the older demographic groups reinvigorating their interest in recreational music making. Recent experience in the industry has seen older Canadians either picking up an instrument for the first time or, perhaps more commonly, returning to a musical instrument that they had explored when they were younger and had either lost interest or their time had to be diverted to other pursuits. As more of their time becomes their own again, many

²² Source: “Measuring the World Markets”, Music Trades, December 2006, page 76, and discussions with Mr. Al Kowalenko of the Music Industries Association of Canada (MIAC).

older Canadians have moved from passive listening to music to participating in making their own music.

Innovations in recording technologies and software have opened opportunities for both professional and casual musicians to create their own high quality sound recordings. For those aspiring to make music a career, these advances have served to empower musicians who have not been able to secure a traditional recording contract, or who seek to further their careers by making their own sound recordings for promotional purposes. For the casual musician, these technologies and their favorable price points, make it possible to create their own sound recording to enhance the enjoyment of making music and to share their music with others.

The music products industry has been experiencing steady growth over the past decade. In 2005, the retail sales of Canadian music products suppliers totaled just over \$924 million (expressed in Canadian dollars), rivaling retail sales of recorded music. As shown in Table 7.1, this level of retail sales places Canada 7th in the world ranking of music product sales.

Table 7.1
Retail Sales of Music Products by Country, 2005

	Expressed in \$US	Expressed in \$CDN
United States	\$7,833,357,000	\$9,491,146,009
Japan	\$2,746,060,800	\$3,327,215,139
Germany	\$981,840,718	\$1,189,629,633
United Kingdom	\$899,000,000	\$1,089,257,168
France	\$810,395,904	\$981,901,610
China	\$768,640,774	\$931,309,758
Canada	\$762,675,200	\$924,081,678
Italy	\$350,129,880	\$424,228,567
Australia	\$343,548,240	\$416,254,041
South Korea	\$270,483,760	\$327,726,779
Netherlands	\$196,827,977	\$238,483,075
Russia	\$192,369,600	\$233,081,163
Brazil	\$185,654,436	\$224,944,856
Spain	\$171,017,501	\$207,210,277
Mexico	\$167,915,520	\$203,451,817
Source: "Measuring the World Market." Music Trends, December 2006, page 75 and calculations by the author. The Canadian/US exchange rate is \$1 US = \$1.211632, which is the average during 2005 according to the Bank of Canada.		

Measured on a *per capita* basis (i.e., retail sales of music products divided by population), Canada ranked second in retail sales of music products. As shown in Table 7.2, on average, each Canadian spent over \$29 on music products in 2005, second only to Americans, who spend almost \$32 each. The average per capita spending on a global basis in 2005 was \$7.68 expressed in Canadian dollars (or \$6.34 U.S.)²³.

Table 7.2
Per Capita Retail Sales of Music Products by Country, 2005

	Expressed in \$US	Expressed in \$CDN
United States	\$ 26.33	\$ 31.90
Canada	\$ 24.21	\$ 29.33
Japan	\$ 21.50	\$ 26.05
Australia	\$ 17.44	\$ 21.13
Hong Kong	\$ 17.18	\$ 20.82
United Kingdom	\$ 16.67	\$ 20.20
Switzerland	\$ 15.16	\$ 18.37
Belgium	\$ 14.88	\$ 18.03
Norway	\$ 14.81	\$ 17.94
Denmark	\$ 14.54	\$ 17.62
Source: "Measuring the World Market." Music Trends, December 2006, page 75 and calculations by the author. The Canadian/US exchange rate is \$1 US = \$1.211632, which is the average during 2005 according to the Bank of Canada.		

Canada is a significant importer of music industry products. According to the Music Industries Association of Canada (MIAC), approximately 10 percent of retail sales are attributable to Canadian-based manufacturers, or about \$94 million dollars in 2005. Further, Canadian manufacturers exported in the range of \$80 million to \$100 million of music products to the rest of the world.

Employment created by the industry is challenging to estimate because there are few detailed sources for this information. However, a reasonable estimate of the number of employees at Canadian music products manufacturing and distribution firms is approximately 2,000. A further approximately 5,000 Canadians are employed in store front music retailers. In total, some 7,000 Canadians are employed in manufacturing, distributing and retailing music products.

²³ Source: "Measuring the World Markets", Music Trades, December 2006, page 76

Table 7.3 summarizes the economic contributions of the Canadian music products industry. Of course, as with all cultural industries, this raw accounting does not reflect the enormous benefits that are derived by individuals, and society as a whole, that come with empowering an interest in creating and sharing their own music.

Table 7.3
Economic Contributions of the Music Products Industry

Value added:	\$350 to \$370 million
Exports:	\$80 to \$100 million
Employment:	7,000

Consumption of Musical Instruments and Lessons

As noted earlier in this chapter, the musical products industry relies on individual music enthusiasts, more so than professional musicians, for their customer base. The Consumer Survey administered by POLLARA, and described in the “Music Consumption” chapter, collected information on the purchase and rental of musical instruments. Specifically, the survey asked Canadians whether, during the past year, they had bought or rented a musical instrument for themselves or someone in their family. Twenty-three percent of all Canadians, and 24 percent of Ontarians, reported having purchased or rented a musical instrument, with thirty percent of those who did purchase or rent a musical instrument indicating that the instrument was for someone else in the family. The remainder purchased or rented the instrument for either themselves or both themselves and others in the family.

As shown in Table 7.4, about 30 percent of those who reported spending on musical instruments were not able to recall how much they spent. About 40 percent of all Canadians, and an equal proportion of Ontario respondents, spent less than \$300 on instruments, while 33 percent of Canadians and 28 percent of Ontarians reported expenditures in excess of \$300. Those Canadians who bought or rented musical instruments in the past year, reported spending \$664 (\$608 in Ontario).

Table 7.4
Musical Instrument Expenditure Categories for Instrument Purchasers
All of Canada and Ontario

<u>Expenditure on musical instruments:</u>	<u>Canada</u>	<u>Ontario</u>
\$125 or less	19%	18%
\$126 to \$300	19%	22%
\$301 to \$700	16%	16%
More than \$700	17%	12%
Don't know/refused	29%	32%

Many of those purchasing musical instruments also purchased sheet music and other support materials to accompany their musical instruments or lessons. The average expenditure by all Canadian musical instrument buyers/renters was \$59. The average expenditure on these items for Ontario instrument buyers/renters was \$39. It merits emphasis that almost 40 percent of all Canadian, and Ontario, musical instrument consumers reported having spent nothing on sheet music and support materials in the past year.

It has proven extraordinarily difficult to find information on how much Canadians spend on musical instrument lessons and/or voice lessons. Consequently, the Consumer Survey asked respondents to indicate whether they had purchased music lessons or singing lessons for themselves or for someone in their family during the last year. Fifteen percent of all Canadians and 13 percent of Ontarians purchased such lessons, with about 62 percent of both all Canadians, and only Ontarians, reporting that they purchased the lessons for just themselves or for both themselves and other family members. The remaining 38 percent of lesson buyers purchased the lessons for another family member.

As reported in Table 7.5, those Canadians purchasing music/voice lessons for themselves spent \$578, compared to the \$512 spent in the last year by Ontario music lesson purchasers. Table 7.6 shows that among those purchasing music lessons for other family members, the average amount spent was \$439 (\$326 in Ontario). Thirty percent of Canadians who purchased music or voice lessons, and 40 percent of Ontarians, reported paying nothing for those lessons.

It should be noted that the majority of costs associated with music education in schools and post-secondary institutions are unlikely to be captured in the responses of survey participants.

Table 7.5
 Music/Voice Lessons (for self) Expenditure Categories
 All of Canada and Ontario

<u>Expenditure on music/voice lessons for self:</u>	<u>Canada</u>	<u>Ontario</u>
\$50 or less	22%	27%
\$51 to \$200	22%	17%
\$201 to \$600	20%	19%
More than \$600	20%	11%
Don't know/refused	20%	26%
Average expenditure:	\$578	\$512

Table 7.6
 Music/Voice Lessons (for family members) Expenditure Categories
 All of Canada and Ontario

<u>Expenditure on music/voice lessons for family:</u>	<u>Canada</u>	<u>Ontario</u>
\$0	30%	40%
\$1 to \$150	14%	13%
\$151 to \$500	21%	20%
More than \$500	20%	21%
Don't know/refused	14%	6%
Average expenditure:	\$439	\$326

Summary

In addition to purchasing and listening to recorded music, Canadians are also active in creating their own music. Canada is the seventh largest market in the world for music products, with retail sales exceeding \$900 million in 2005. While professional musicians account for some of these sales, the industry relies on individual “recreational” musicians for the bulk of sales.

The Consumer Survey provided information on the purchase of musical instrument and voice lessons for themselves and family members, the purchase or rental of musical instruments and the purchase of support materials, such as sheet music. While the amounts Canadians reported spending for each of these categories must be treated with caution due to the difficulty of recalling such expenditures, the information suggests that a considerable proportion of the Canadian population are actively engaged in making, or learning to make, music.

The following two Tables, 7.7 and 7.8, summarize the Consumer Survey data on the purchase of musical instruments and lessons presented in this section.

Table 7.7
Percent of Respondents who Purchased Instruments and Lessons
All of Canada and Ontario

	<u>Canada</u>	<u>Ontario</u>
Purchased/rented an instrument	23%	24%
For:		
Oneself	55%	57%
Family member	31%	30%
Both	15%	13%
Purchased instrument/voice lessons	15%	13%
For:		
Oneself	49%	51%
Family member	38%	38%
Both	13%	11%

Table 7.8
Expenditures on Instruments, Support Materials, and Lessons
All of Canada and Ontario

	<u>Canada</u>	<u>Ontario</u>
Purchased/rented an instrument	\$664	\$608
Sheet music and other support	\$59	\$39
Music/singing lessons for:		
Oneself	\$578	\$512
Family member	\$439	\$326