ONTARIO MEDIA DEVELOPMENT CORPORATION

INDUSTRY PROFILE

MUSIC

Ontario

Ontario Media Development Corporation

Société de développement de l'industrie des médias de l'Ontario

www.omdc.on.ca

Introduction

The Canadian sound recording industry includes a wide range of artists and entrepreneurs who create, produce and market original Canadian music. These include musicians, songwriters, record labels, managers, concert promoters and music publishers. The Canadian market is dominated by the large multinational record and publishing companies but also has a strong independent sector composed mainly of small to medium-sized record companies, publishers and managers. The vast majority of Canadian content is commercially released by Canadian-owned and controlled indie labels. The recorded music industry is the engine helping to drive a much broader music industry, worth more than US $130 billion globally. This is over three times the value of the recorded music sector alone.[1]

Ontario's sound recording and music publishing industry is the largest in Canada, with the highest revenues across the board, from record production to music publishing to sound recording studios.[2] Moreover, the Ontario industry produces a huge number of critically acclaimed artists. The 2009 Juno award nominees included acts and albums produced by a long list of Ontario labels like MapleMusic, Arts & Crafts, Last Gang Records, Dine Alone Records, Six Shooter Records, Distort and more. Winners included The Stills (Arts & Crafts) who received trophies for New Group of the Year and Alternative Album of the Year, and Dallas Green (Dine Alone Records), who won Songwriter of the Year. Ontario acts are garnering other accolades as well, such as the 2008 Polaris Prize, awarded to Ontario electronica artist Caribou for his album *Andorra*. Arts & Crafts and Dine Alone Records were also recently recognized among *Billboard Canada*'s Top 25 labels of 2008. Given the label's recent accolades, it comes as no surprise that Arts & Crafts Co-founder and President, Jeffrey Remedios, was identified by *Rolling Stone* as one of nine music industry insiders destined to change the shape of music in the coming years.[3]

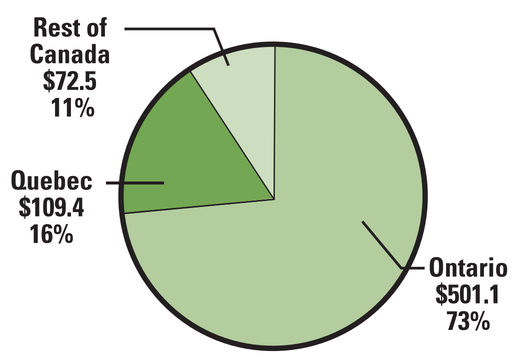
INDUSTRY SIZE AND ECONOMIC IMPACT

Industry Size and Economic Impact

Record labels

- Total operating revenues for Canadian record labels (which include multinational labels operating in Canada) dropped in 2007, falling to $683 million from $712.3 million in 2006. Ontario companies experienced a drop as well, with their revenues falling to $501.1 million in 2007 from $533.4 million the previous year. B.C. showed a similar decline, while the other provinces showed gains between 2006 and 2007. Ontario's 2007 decline followed a significant increase in revenues between 2005 and 2006 (from $479.4 million to $533.4 million)—a period when all other regions showed declines.[4]

Canadian Record Label Operating Revenues by Region, 2007
(expressed in chart as thousands of dollars)



Source: Statistics Canada, "CANSIM Results: Sound recording and music publishing, 2007," Table 361-0005, April 6, 2009.

- The majority of record label revenues, roughly 79%, continued to be generated by foreign-controlled companies in 2006. However, Canadian-controlled labels remained consistent and focused in responding to the competitive challenges that faced them in 2006, growing their total revenues by 6.6% to $144.8 million. As a result, their share of industry revenues grew to 21% in 2006, up from 18% in 2005.[5]

- In 2007, Canadian record labels paid $85.5 million in salaries, wages and benefits for their employees. The bulk of these wages, $65.3 million, were paid in Ontario. Both figures mark a decrease from 2006 levels. This downward trend in salaries paid was replicated across the country, with the exception of Quebec, which showed gains in salaries paid between 2006 and 2007.[6]

Music publishing

- Total operating revenues for Canada's music publishing sector rose 8.2% in 2007 for a total value of $134.5 million. However, profit margins dropped to 8.6% over the same period, from 10.1% in 2006.[7]

Sound recording studios

- Total operating revenues for Canadian sound recording studios rose 25.9% in 2007 to $104.4 million. While operating expenses rose 21.3 % to $88.1 million over the same period, profit margins still increased from 12.5% in 2006 to 15.6% in 2007. This trend held true in Ontario, where operating revenues rose to $41.6 million in 2007 (compared to $34.5 million in 2006), while the operating profit margin increased from 14.3% to 19.0%.[8]

Size of consumer market

- The global recorded music market—defined as consumer spending on music in physical and digital formats—is anticipated to fall by 3.8% in 2008 to US $32.2 billion. This drop is due in large part to the decline in spending on physical formats. While spending on digital formats continued to increase by 27.9% in 2008, it is not sufficient to counter those losses.[9]

- The Canadian recorded music market is anticipated to fall by 9.7% in 2008 for a total market value of US $627 million. This decline is slightly less than the 11.3% decline experienced in 2007.[10]

- After showing a five year decline, Canada's recorded music exports increased slightly in 2007 to $125.9 million. The vast majority of those exports, $123.1 million, were made to the U.S. [11]

- In 2006, physical album sales in Canada totaled 45.2 million units. When combined with digital sales, 47.7 million albums and digital equivalent albums were sold in 2006.[12]

- In 2005, estimated total live performance revenues in Canada amounted to $752.8 million. *Billboard Magazine* estimates North American gross concert ticket sales to be $3.5 billion.[13]

TRENDS AND ISSUES

Consumption trends

- The global recorded music market is anticipated to be valued at US $32.5 billion in 2012, with a negative compounded annual growth rate of -0.6%. The Canadian recorded music market is anticipated to be valued at US $660 million in 2012, with a compound annual rate of decline of 1.0%.[14]

- According to Nielsen SoundScan, Canadian sales of all types of music from digital and traditional singles to albums and videos increased by 11.5% to 78.5 million units in 2008. This growth was largely driven by a spike in single track sales. Conventional album sales fell by 8.5% in 2008 to 40.6 million albums sold. Moreover, Canadians are buying less music from retail establishments. Retail music sales are declining, down to 58% of all album sales from 63% in 2007.[15]

Technological development

- The migration to digital is in full swing in the music industry. While consumer spending on less expensive digital formats has yet to outstrip that of physical formats, digital expenditures are on the rise, and spending on physical formats is falling. It is anticipated that consumer spending on physical formats will decline globally by a compounded annual rate of 12.2% through 2012. By contrast, consumer spending on digital distribution, including Internet and mobile phone distribution, will grow at a rate of 20.8% through 2012. Estimates show that, dollar for dollar, digital spending will outpace physical spending by 2011.[16]

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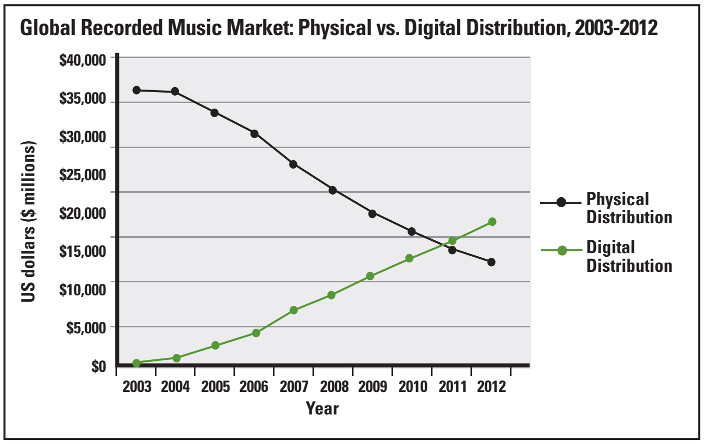
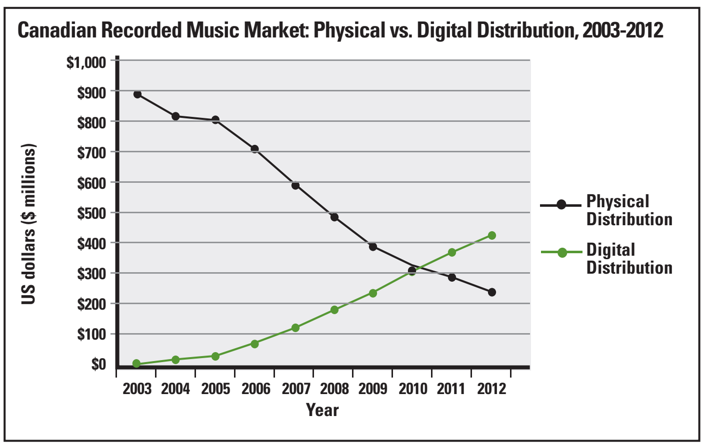
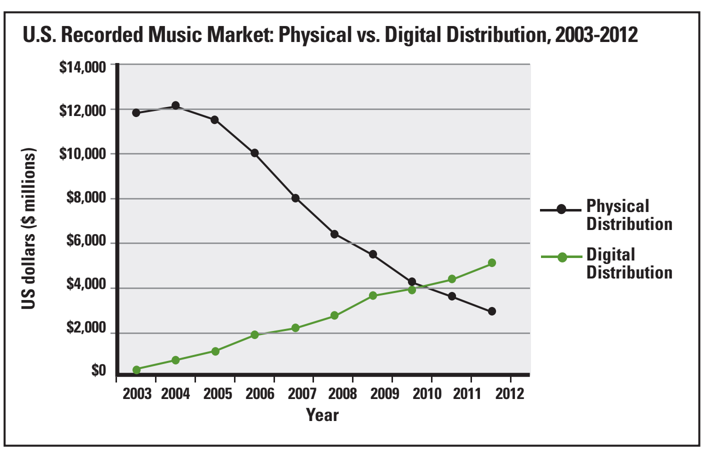


Source: PwC, *Global and Entertainment and Media Outlook, 2008-2012*, p. 304



Source: PwC, *Global and Entertainment and Media Outlook, 2008-2012*, p. 344



Source: PwC, *Global and Entertainment and Media Outlook, 2008-2012*, p. 305

- The popularity of downloading music digitally is increasing globally, but the trend is particularly pronounced in Canada. According to a recent Neilsen Soundscan report, over 40 million digital music tracks were purchased in Canada in 2008. This marks a 58% increase over 2007. U.S. digital music sales increased as well, albeit by a more modest 28%, over the same period. This marks the third year in which Canada has outpaced the U.S. in growth of digital music sales.[17] Digital sales are now poised to overtake conventional album sales. In fact, in November 2008, Warner Music Group announced that, for the first time, digital revenues at its Atlantic Records unit had surpassed compact disc sales.[18]

- Ontario has a higher Internet penetration rate than the national average and Ontarians spend more time online than the average Canadian.[19] Given the popularity of music downloading, this has a significant impact on music industry consumer patterns in the province. The average on-line music consumer in Canada purchases 24 tracks per month, compared to 59 tracks for Ontario residents.[20]

- Piracy continues to take a serious toll on the recorded music industry globally.[21] The lost business attributable to piracy is estimated at US $3.7 billion, and it is estimated that there are 20 illegal downloads for every legal one.[22] Increasing levels of Internet and broadband penetration and the development of a variety of file sharing technologies have facilitated the process. While the digital marketplace provides new opportunities for sales, it has also created an environment in which it is extremely difficult to protect intellectual property from piracy. The music sector has been particularly hard hit by this trend and is struggling to identify solutions.

- Digital advances provide exciting new opportunities for online advertising and promotions, both on a grass-roots level—more than 1.2 million rock acts have Myspace pages—and on a major commercial level. However, the proliferation of music and music promotions online makes it difficult to identify the best and brightest from among the masses—a function that used to be fulfilled by radio stations. Ontario recoding companies must therefore find new and innovative ways to attract attention to their online product.[23]

Market access

- Consolidation has created a variety of issues for the music industry. The rise of a few large mass-market retailers has resulted in reduced market access. This trend prevents smaller labels, who are less able to negotiate reasonable deals with large retailers, from getting adequate shelf-space in stores. Recent consolidation among record labels has had a similar effect on the market. Power is currently concentrated in the hands of four major multinational labels. Many small Ontario labels must rely on these corporations' distribution arms for market access. And as with the large multinational retailers, small labels have a hard time negotiating reasonable terms with these companies. [24]

- As a result of stressors like consolidation and piracy, small record labels have been forced to explore other means of generating revenue, such as live performance and related merchandizing. Live performance is a fast-growing sector, worth US $17 billion globally in 2006, up 16% from 2005.[25] Touring was once thought of as a promotional tool for album sales, and proceeds from such performances went to concert promoters, agents, management and artists. Given changes to the market, labels are now looking to access revenue from live performance.[26] Ontario's small labels have been working to build the infrastructure and expertise required to access such alternative revenue streams.

Global financial crisis

- Instability in world markets has exacerbated the financial difficulties already faced by the music industry. Montreal distributor Fusion Distribution III, a company responsible for distributing several hundred independent labels, filed for bankruptcy in December 2008.[27] U.K. indie music distributor Pinnacle met the same fate a few days earlier.[28]

Government assistance[29]

- At the federal level, support to the sound recording industry comes through the Canada Music Fund, administered by the Department of Canadian Heritage. Other organizations and funds such as FACTOR, the Radio Starmaker Fund and federal and provincial arts councils, including the Ontario Arts Council, provide a variety of assistance programs to the Canadian music industry.

- In 2008-09, Ontario record labels had access to public funding through the Ontario Sound Recording Tax Credit, the OMDC Music Fund, the OMDC Export Fund and the Entertainment and Creative Cluster Partnerships Fund.

- OMDC Music Fund recipient Arts & Crafts enjoyed success with the release of Feist's latest album, *The Reminder*. The album was a runaway success, going double-platinum on Canadian Soundscan. It also received critical acclaim, garnering five Juno awards in 2008, including Album of the Year and Artist of the Year, and four Grammy nominations including Best New Artist and Pop Vocal Album.

- Ontario artists SoundBluntz were chart toppers in the U.K. thanks in part to relationships that their Ontario label, Awesome Music, was able to build at international music market MIDEM. Awesome Music received financing from the OMDC Export Fund in order to attend the event.

- In addition to direct company support, OMDC also provides assistance for export development initiatives for the music industry through support of international missions, such as CIRPA's Canadian Music Mission to Asia in 2007 and 2008 and London Calling, U.K., as well as support to Canada Stands at major markets including MIDEM, POPKOMM and SXSW.

Profile current as of March 31, 2009.

(Endnotes)

[1] Gabriela Lopes, "The Broader Music Industry," *www.ifpi.org*, p. 1.
[2] Statistics Canada, *The Daily: Sound Recording and Music Publishing, 2006,* March 18, 2008.
[3] Brian Braiker, et al., "How to Save Rock & Roll: Nine insiders who are reshaping the music biz for 2009 and beyond." *Rolling Stone,* January 6, 2009.
[4] Statistics Canada, "CANSIM Results: Sound recording and music publishing, 2007," Table 361-0005, April 6, 2009 and "Sound Recording and Music Publishing, Data Tables 2006," Catalogue no. 87F008X, Table 1, March 18, 2008.
[5] Statistics Canada, *The Daily: Sound Recording and Music Publishing, 2006,* March 18, 2008.
[6] Statistics Canada, "CANSIM Results: Sound recording and music publishing, 2007," Table 361-0005, and "Sound Recording and Music Publishing, Data Tables 2006," Table 1.
[7] Statistics Canada, "CANSIM Results: Sound recording and music publishing, 2007," Table 361-0005, and "Sound Recording and Music Publishing, Data Tables 2006," Table 2.
[8] Statistics Canada, "CANSIM Results: Sound recording and music publishing, 2007," Table 361-0005, and "Sound Recording and Music Publishing, Data Tables 2006," Table 3.
[9] PricewaterhouseCoopers (PwC), *Global Entertainment and Media Outlook 2008-2012*, pp. 40-41.
[10] ibid, p. 40.
[11] Statistics Canada, "Culture Goods Trade: Data Tables, 2007," Catalogue no. 87-007-X, Tables 1 and 2, October 2008.
[12] Douglas Hyatt, *An Overview of the Financial Impact of the Canadian Music Industry,* May 2008, p. 32.
[13] ibid, p. 29.
[14] PwC, pp. 40-41
[15] "Canada dancing to digital tunes," *cbc.ca,* January 8, 2009.
[16] PwC, p. 41.
[17] "Canada dancing to digital tunes."
[18] Ryan Nakashima, "Digital sales boost Warner Music profit," *globeandmail.com*, November 26, 2008.
[19] Charles Zamaria and Fred Fletcher, Canadian Internet Project, (CIP), *Canada Online! The Internet, Media and Emerging Technologies: Uses, Attitudes, Trends and International Comparisons*, Year Two Report 2007, pp. 38 and 56.
[20] Hyatt, p. 59.
[21] PwC, p. 40.
[22] Nordicity in association with Cuto and FRUKT, *A Strategic Study for the Music Industry in Ontario*, September 12, 2008, pp. 24-5.
[23] ibid, p. 25.
[24] SECOR Consulting, *Ontario Media Development Corporation: Towards a Strategic Plan,* September 2008, p. 10.
[25] Lopes, p. 2.
[26] Nordicity, pp. 22-3.
[27] Robert Thompson, "Bankruptcy Protection for Canada's Fusion III," *Billboard.biz*, December 9, 2008.
[28] Andre Pain and Tom Ferguson, "Pinnacle Collapse a 'Nightmare' For Indies," *Billboard.biz*, December 4, 2008.
[29] The information included in this section is an overview of some of the government assistance to the music industry. This is not intended to be a comprehensive list of government assistance available.