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 music 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.

Ontario's music industry is the largest in Canada, with the highest revenues across the board, from record production to music publishing to sound recording studios.[1] Moreover, the Ontario industry produces a huge number of critically acclaimed artists:

- 2011 Juno award nominees and winners include acts and albums produced by a long list of Ontario labels like Fontana North, MapleMusic, Arts & Crafts, Coalition Records, Dine Alone Records, Six Shooter Records and more. Ontario artists among the 2011 Juno winners include Caribou for Electronic Album of the Year (Caribou Merge/F.A.B.) and Deadmau5 for Dance Recording of the Year (Ultra/EMI).
- Ontario artists Timber Timbre (Arts & Crafts), Austra (Paper Bag Records), The Weeknd and Ron Sexsmith (Warner Canada) were all shortlisted for the 2011 Polaris Prize. Past Polaris Prizes were awarded to Ontario bands F__ked Up for their album *The Chemistry of Common Life* in 2009 and Caribou for *Andorra* in 2008.
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- In February 2011, Last Gang Records recording artist Crystal Castles was honored with the prestigious John Peel Award for Innovation at the Shockwaves NME Awards in London, U.K. The award is given out selectively by NME's editors to acknowledge artists that demonstrate a pioneering spirit and uncompromising approach to music. Previous winners of the award include Radiohead, who were acknowledged for their 2008 release *In Rainbows*.
- Ontario-based MapleCore Ltd, Canada's leading independent music distributor, was honoured in September 2011 with the RBC Royal Bank Award for Small Business. This award is given to a company with fewer than 250 employees who are successful in Ontario's economy, for qualities such as leading product innovation and escalating sales and export growth.

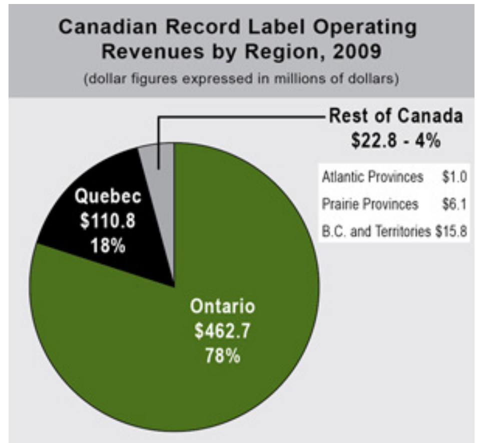
Industry Size and Economic Impact

Employment and wages

- In 2009, Canadian record labels paid $72.5 million in salaries, wages and benefits for their employees. The bulk of these wages, $52.9 million, were paid in Ontario. Both figures mark a decrease from 2008 levels. This downward trend in salaries paid was replicated across the country.[2]

Revenues and related figures

- Total operating revenues for Canadian record labels (which include multinational labels operating in Canada) dropped in 2009, falling to $596.3 million from $619.4 million in 2008. Ontario companies experienced a drop as well, with their revenues falling to $462.7 million in 2009 from $499.4 million the previous year. Most other provinces showed a similar decline between 2008 and 2009. Ontario's recent declines followed a significant increase in revenues between 2005 and 2006 (from $479.4 million to $572.6 million)—a period when all other regions showed declines.[3]



Source: Statistics Canada, "Sound recording and music publishing, 2009," Table 1, March 2011.

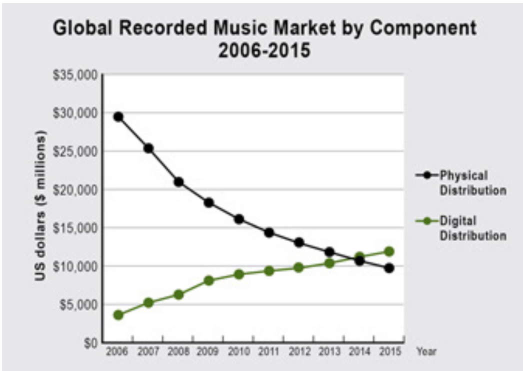
- The majority of record label revenues, 74.8%, continued to be generated by foreign-controlled companies in 2009. However, Canadian-controlled labels remained consistent and focused in responding to the competitive challenges that faced them that year, when the Canadian-controlled industry saw a downward growth trend from 2008 (17.7%)—operating profit actually increased by 9.6% due to a decrease in operating expenses. Foreign-owned labels saw an increase in revenue of 1.7% over the same time period, and an increase in profit of 20%.[4]

- Total operating revenues for Canada's music publishing sector rose 8.3% in 2009 for a total value of $153.5 million. Profit margins also rose over the same period to 10.3%, from 7.3% in 2008.[5]

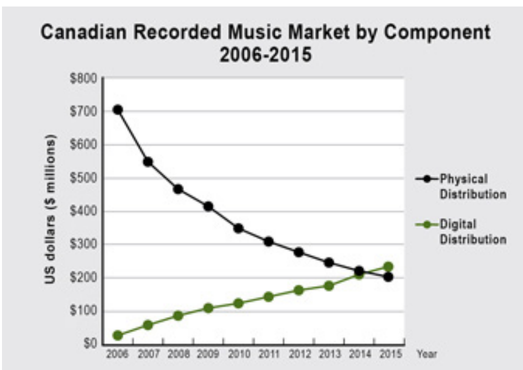
- Total operating revenues for Canadian sound recording studios dropped 16.5% in 2009 to $98.7 million. Operating expenses dropped 16.4% to $85.5 million over the same period, while at the same time profit margins fell very slightly from 13.6% in 2008 to 13.5% in 2009. This trend held true in Ontario, where operating revenues fell to $39.5 million in 2009 (compared to $48.1 million in 2008). The operating profit margin in Ontario rose in 2009 from 10.5% to 13.6% due to lower operating expenses.[6]

Consumer market

- According to the International Federation of the Phonographic Industry (IFPI), global recorded music sales, which include physical sales, digital sales and performance rights, totaled US $17.0 billion in 2009, a decline of 7.2% from 2008. On a retail basis, the global recorded music market was worth an estimated US $25.4 billion in 2009.[7]

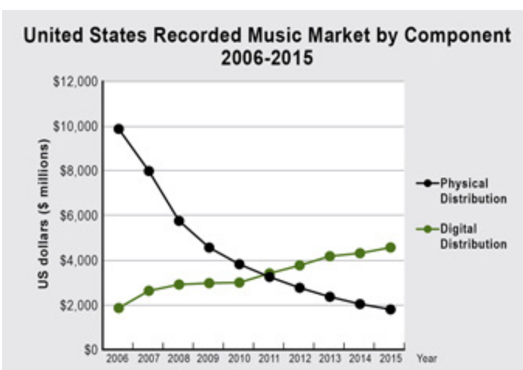


- PricewaterhouseCoopers (PwC) projects that the global recorded music market—defined as consumer spending on music in physical formats and digital distribution, music videos and streaming services—is anticipated to fall 5.7% to US $22.1 billion in 2011. This drop is due in large part to a slowdown in the growth of spending on digital in the past two years, as well as the continued decline in spending on physical formats. Moderate overall declines are projected over the next several years, with small gains expected in 2014 and 2015. Global spending on digital music is anticipated to overtake spending on physical formats in 2014 (2015 in Canada).[8]



- The Canadian recorded music market is anticipated to fall by 6% in 2011 for a total market value of US $464 million. This decline is slightly less than the 7.5% decline experienced in 2010. Because physical sales are a larger component of the market in Canada than in the U.S., future declines in this area have a greater impact. Therefore, PwC projects that the Canadian market will decline at a faster rate than the U.S. over the next five years.[9]

- Recorded music sales in Canada were at US $394 million in 2010. This represents a drop of 13.5% from 2009 levels, mainly driven by a decline in physical sales (22%), although Canada's physical market has held up better than that of the U.S. in the past three years. Digital sales in Canada grew from US $99.8 million in 2009 to US $113.5 million in 2010. This represents 67.9 million single digital tracks sold (up from 58.2 million in 2009) and 6 million digital albums (up from 4.9 million in 2009).[10]



- In 2010, physical CD sales in Canada totaled 25.9 million units. When combined with digital album sales, this represents 31.9 million album equivalents. Of all recorded music sales in Canada that year, 66% were from physical formats, while 29% were digital. The remaining 5% were from performance rights, from uses such as broadcasting, Internet and live performance.[11]

- In 2005, estimated total live performance revenues in Canada amounted to $752.8 million. *Billboard Magazine* estimated North American gross concert ticket sales to be $3.5 billion that year. In general, the recent economic downturn has translated to a drop in concert revenues in North America, however in 2010 Pollstar reported that Canada was faring better than the U.S. in this regard, with the Toronto market holding its own particularly well.[12]

Trends and Issues

Growth rate and industry trends

- The global recorded music market is anticipated to be valued at US $22.1 billion in 2015, with a compounded annual rate of decline of -1.1%. The Canadian recorded music market is anticipated to be valued at US $424 million in 2015, with a compound annual rate of decline between 2011 and 2015 of -11% for physical formats, and compound annual rate of growth in the same time period of 11.4 % for the digital market.[13]

- While consumer spending on less expensive digital music formats has yet to outstrip that of physical formats, digital expenditures are on the rise. It is anticipated that consumer spending on physical formats will decline by a compounded annual rate of -9.8% through 2014. By contrast, consumer spending on digital distribution, including Internet and mobile phone distribution, will grow at a rate of 16.0% through 2014.[14]

- The popularity of downloading music digitally is still increasing globally, with digital distribution increasing from US $7.2 billion in 2010 to a projected $12.4 billion in 2015. Physical distribution will decline worldwide because of continued competition from legitimate digital services as well as piracy. However, declines in spending on physical formats will eventually moderate, as people in the expanding over 45 demographic still prefer music in physical formats.[15]

- Globally, new digital content delivery technologies, services and devices are radically changing the way consumers access music entertainment. Social networks, smartphones and music subscription services, as well as the new cloud-based music streaming services, offer more choice and ease of access to music than ever. However, piracy continues to dramatically erode music industry revenues worldwide—in most countries, even those with comparatively low usage levels of unlicensed services, the volume of unauthorized music consumption largely overshadows the volume of legal music consumption.[16]

- As piracy continues to take a serious toll on the recorded music industry globally, 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.[17] Piracy trends vary markedly by country—Brazil and Spain are among the markets with the highest number of users accessing unlicensed services.[18] 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.

- 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. A 2008 study of the financial impact of the Canadian music industry found that the average on-line music consumer in Canada purchases 24 tracks per month, compared to 59 tracks for Ontario residents.[20]

- In June 2010, the federal government introduced copyright reform legislation to amend the Copyright Act after a series of consultations with Canadians, and several earlier attempts to adopt a new bill.[21] Music Canada (formerly the Canadian Recording Industry Association, CRIA) and Canadian Independent Music Association (CIMA) have both reacted favourably to the intent of the Bill, and have worked to ensure that the legislation is amended to protect the rights of artists and other rights holders to make a living from their work.[22] The earlier bill died on the order paper when a Federal election was called in March 2011, and was re-introduced unchanged as Bill C-11 in September 2011.

- Digital advances provide exciting new opportunities for online advertising and promotions, both on a grass-roots level and on a major commercial level. More than 1.2 million music acts have Myspace pages, and services like Facebook and Soundcloud are increasingly being used as music marketing vehicles. In early 2011, Soundcloud reported surpassing three million users. 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 recording companies must therefore find new and innovative ways to attract attention to their online product.[23]

Global and domestic issues

- In 2010, the music subscription model established itself in many countries worldwide, presenting both opportunities and disruption for the music industry. Subscription offerings such as Spotify, Pandora, Slacker and Rdio offer either free, ad-supported services or premium, paid services to consumers. Most subscription and cloud-based streaming music services have not yet launched in Canada nor have announced plans to do so. However, Rdio launched in both the U.S. and Canada in August 2010. To date, Spotify has garnered over 750,000 paying users across all of its services, and as of November 2011 was available in several European and Scandinavian countries, the U.K. and U.S. The nascent "cloud services" model has also launched in some markets, in response to a growing desire on the part of consumers for connectedness and music sharing. Cloud services like Sony's "Music Unlimited" offer access from remote servers to either a catalogue of music, or the users' own library, across different devices.[24]
- 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. Consolidation among record labels has also had effects on the market.[25] The four major multinational labels have the largest share of the global and domestic markets, and many small Ontario labels negotiate deals with these major labels to distribute their products. Other distribution alternatives outside of the major labels are also available for independent labels, particularly in the digital arena.
- 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 merchandising. Live performance is a growing sector, worth US $19.8 billion globally in 2009, up 3.7% from 2008.[26] 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 and merchandising as well as licensing and other revenue sources through 360 deals.[27] Ontario's small labels have been working to build the infrastructure and expertise required to access such alternative revenue streams.

Government assistance[28]

- At the federal level, support to the sound recording industry comes through the Canada Music Fund, administered by the Department of Canadian Heritage. In 2009 it was announced that this fund was to be increased by $9.85 million annually, to $27.6 million a year until 2014. The Canada Music Fund has been restructured, eliminating the Canadian Musical Diversity and Support to Sector Associations streams and adding specialized support for digital and international market development.[29] 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 2011-12, Ontario record labels, music publishers and artist management firms have 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 also provides funding to trade and event organizations in the music industry through the Industry Development Program for events and activities that stimulate the growth of the industry.
- OMDC Music Fund recipient Six Shooter Records have garnered success with their act Luke Doucet, who is both a Juno and Polaris Prize nominee, as well as winner of the Contemporary Album of the Year award at the 2008 Canadian Folk Music Awards. In November 2011 Doucet, recognized as one of Canada's premiere guitarists, curated the inaugural Sleepwalk Guitar Festival, featuring concerts, workshops and clinics.[30]
- Ontario artists SoundBluntz were chart toppers in the U.K. thanks in part to relationships that their Ontario label, Awesome Music, were 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 CIMA'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 November 17, 2011

Endnotes

1 Statistics Canada, "Sound Recording and Music Publishing 2009," Catalogue no. 87F0008X, Tables 1, 2 and 3, March 2011.
2 Statistics Canada, "Sound Recording and Music Publishing 2009," Table 1.
3 Statistics Canada, "Sound Recording and Music Publishing 2009," Table 1; Statistics Canada, "Sound Recording and Music Publishing 2007," Catalogue no. 87F0008X, Table 1.
4 Statistics Canada, "Sound Recording and Music Publishing 2009," p. 1, Tables 1 and 16. Statistics Canada does not include the smallest firms in their estimates for revenues earned. These firms account for a relatively small portion of total industry revenues.
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25 SECOR Consulting, *Ontario Media Development Corporation: Towards a Strategic Plan,* September 2008, p. 10.
26 PwC, p. 24.
27 Nordicity, pp. 22-3, 29.
28 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.
29 "Moore restructuring Canada Music Fund," *cbcnews.ca*, July 31, 2009.
30 News Release, "Sleepwalk Guitar Festival," www.sixshooterrecords.com.