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 foreign-owned 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—82% of Canada's total. These revenues come from music publishing, sound recording studios, record production and distribution.[1] Moreover, the Ontario industry produces a huge number of critically acclaimed artists:

- 2012 Juno award nominees and winners include acts and albums produced by a long list of Ontario labels like Dine Alone, True North, Arts & Crafts, and more. Ontario artists among the 2012 Juno winners include Arkells for Group of the Year, Feist for Artist of the Year and Dallas Green for Songwriter of the Year.
- Ontario artists also feature prominently on the shortlist for the 2012 Polaris Prize, including Cold Specks, Drake and Feist. Ontario independent labels are well represented, with Arts & Crafts and MapleMusic artists shortlisted.
- Ontario's electronic artist Deadmau5, in addition to receiving three Juno nominations in 2012, was nominated for three Grammy awards including Best Dance Recording and Best Dance/Electronica Album. Deadmau5 also performed at the televised 2012 Grammys.

Along with critical success for their artists, Ontario independent music companies are at the forefront of business innovation, in many cases responding to industry stressors by diversifying their revenue bases. MapleCore is a diversified music company that includes two record labels, a distribution arm, an e-commerce site and a music publisher. MapleCore reports that in addition to revenues from music sales, over 50 percent of their 2011 revenue came from ticketing, some of that from the bands that the company works with.[2]

Industry Size and Economic Impact

The following information on revenue, employment and the consumer market should be considered a snapshot of activity in the industry based on the best available information.

Employment and wages

- In 2010, Canadian record labels paid $73.3 million in salaries, wages and benefits for their employees. The bulk of these wages, $58.4 million, were paid in Ontario. Both figures mark a slight increase from 2009 levels, and represent a marked drop from 2007 expenditures, when the foreign-owned music industry reduced staff to address declining revenues.[3]
- A report commissioned by Music Canada released in 2012 estimates that the national recording industry generated 3,322 direct and indirect jobs in Canada in 2010. Two thousand six hundred and five of those jobs (1,809 direct, 796 indirect) were in Ontario.[4]

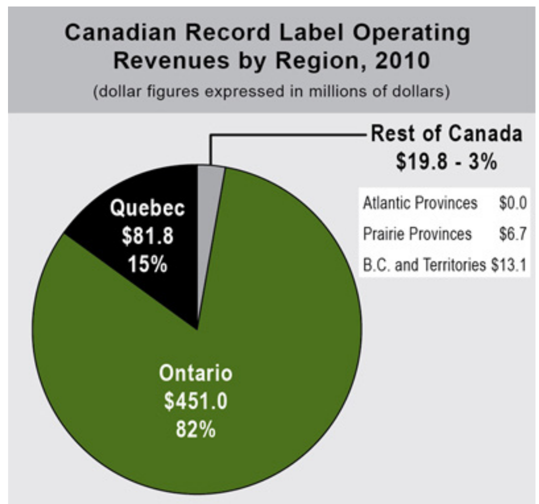
Revenues and related figures

- The Music Canada economic impact study also determined that the Canadian recording industry (including both major foreign-owned and independent, Canadian-owned companies) had a total economic impact output of $400 million in 2010. This includes just over $309 million of impact in Ontario. The independent, Canadian-owned sector had expenditures of $72.4 million in Canada, while the four major foreign-owned recording companies spent $188.8 million. This economic impact differs from industry revenue, as reported by Statistics Canada, in that it represents only economic impact tied to expenditures, and is an estimation of activity based on input-output multipliers.[5]

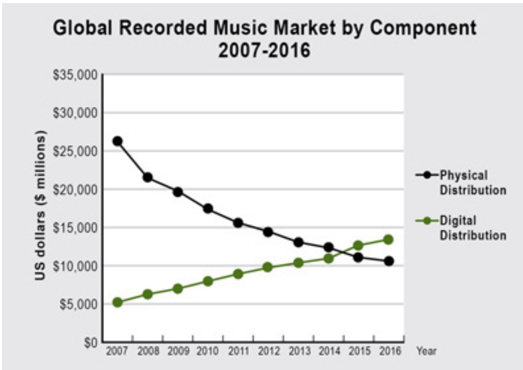
- Total operating revenues for Canadian record labels (which include foreign-owned labels operating in Canada) dropped in 2010, falling to $552.7 million from $590.4 million in 2009. Ontario companies experienced a drop as well, with their revenues falling to $451 million in 2010 from $496 million the previous year, following the trend of most provinces. Revenues combined with a very slight drop in operating expenses (less than one percent) resulted in a drop in profit margins from 16% to 11%.[6]

- Total operating revenues for Canada's music publishing sector dropped 7% in 2010 for a total value of $148.3 million. Profit margins showed an increase over the same period to 10.3%, from 10% in 2009, due to a stronger decrease in operating expenses.[7]

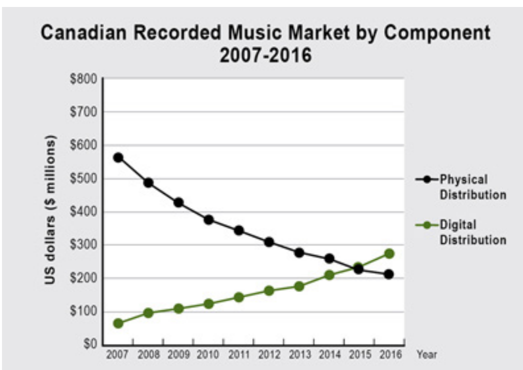
- Total operating revenues for Canadian sound recording studios rose 7.9% in 2010 to $107.3 million. Operating expenses rose over the same period, contributing to a drop in profit margin from 13% to 10.2% from 2009 levels. This trend held true in Ontario, where operating revenues rose $41.4 million in 2010 (compared to $39.5 million in 2009). The operating profit margin in Ontario fell at a similar rate to the national figures.



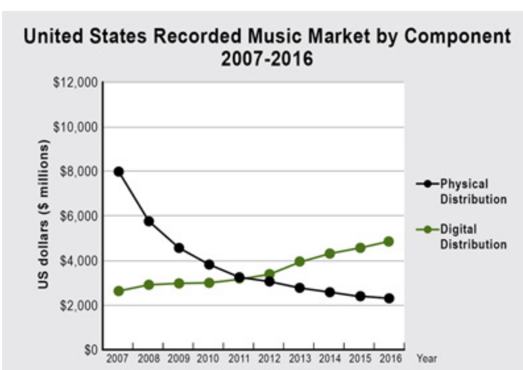
Source: Statistics Canada, "Sound Recording and Music Publishing, 2010," Table 1.



Source: PwC, *Global and Entertainment and Media Outlook*, 2012-2016, p. 44



Source: PwC, *Global and Entertainment and Media Outlook*, 2012-2016, p. 280



Source: PwC, *Global and Entertainment and Media Outlook*, 2012-2016, p. 42

Consumer market

- 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 rise 2.5% to US $51.1 billion in 2012. This rise, the first gain in many years, is attributed to the slowing of the decline of recorded music sales, as well as gains in revenue from concerts and festivals. After falling dramatically from 2006-2010, global recorded music sales are leveling off, and fell less than one percent in 2011. The largest music market in the world in 2012 is EMEA (Europe, Middle East and Africa) while PwC anticipates that Asia Pacific (excluding Japan) will see the most growth on average to 2012. Global spending on digital music is anticipated to overtake spending on physical formats in 2015 worldwide, and also in Canada.[8]

- The Canadian recorded music market is anticipated to fall by 2.4% in 2012 for a total market value of US $486 million. This decline is less than the 4.6% and 6% declines experienced in 2011 and 2010, and PwC expects that the decline will start to reverse in 2015.[9]

- Recorded music sales in Canada were at US $434 million in 2011. This represents a gain of 2.6% from 2010 levels, mainly driven by a bump in digital sales (31%). This represents 94.2 million single digital tracks sold (up from 67.9 million in 2010) and 8.3 million digital albums (up from 6 million in 2010).[10]

- In 2011, physical CD sales in Canada totaled 24.1 million units. When combined with digital album sales, this represents 32.4 million album equivalents. Of all recorded music sales in Canada that year, 59% were from physical formats, while 41% were digital.[11]

- Notably, synchronization or "synch" revenue in Canada, which comes from licensing the use of music in films, television programs and digital media, rose nearly 200% in 2011 from US $5.5 to $16.1 million. Revenue from this activity is expected to continue to grow, helping to offset the decline of recorded music sales. Revenue from performance rights, which are associated with public performances of music, declined slightly from $20 to $19 million in the same period.[12]

Canadian Recording Industry Revenues 2007-2011

Source: Music Canada, Economic Impact Analysis of the Sound Recording Industry in Canada, p. 2

Trends and Issues

This section provides information on industry growth rates, trends and burgeoning issues for the Canadian music industry.

Growth rate and industry trends

- The global recorded music market is valued at US $51.1 billion in 2012, and is anticipated to be valued at US $59.7 billion in 2016, with a compounded annual growth rate during that period of 3.7%.

- The Canadian recorded music market is valued in 2012 at US $486 million, and is anticipated to be valued at US $491 million in 2016, with a compound annual rate of decline between 2012 and 2016 of -9.1% for physical formats, and compound annual rate of growth in the same time period of 12.8% for the digital market.[13]

- Globally, new digital content delivery technologies, services and devices continue to change the way consumers access music entertainment. One of the areas of focus for the Canadian music industry is in the area of streaming and subscription services. PwC expects that music streaming services will continue to boost digital spending as smartphone and tablet penetration continues to grow worldwide. Music subscription services such as Spotify as well as partnerships between music companies and ISPs are increasingly offering the music industry ways to increase legal music consumption.[14]

- Pressure from the global music industry to curb piracy has grown in the last few years. Industry pressure in 2011 was a factor in the shuttering of file sharing site Limewire, as well as the blocking of The Pirate Bay into Italy and Denmark, while in January 2012 the Hong Kong-based filesharing site MegaUpload was shuttered by the U.S. government. The International Federation of the Phonographic Industry (IFPI) projects that more than a million jobs will disappear from the creative industries in Europe by 2015 if piracy is not curbed.[15]

- In late June 2012, the Copyright Modernization Act received royal assent and was passed into law, after four attempts to pass revised copyright legislation. The associated bill must still proceed through an order-in-council process, which could take into late 2012. The Act will provide a measure of certainty around the liability for the online infringement of copyrighted materials, including music. The Act includes a "notice and notice" mechanism, whereby online service providers must respond to a claimed infringement by giving notice to the person who posted the allegedly infringing content, although they are not forced to remove content. This differs from the "notice and takedown" provisions in the U.S. *Digital Millennium Copyright Act,* where the service provider can avoid liability by removing the offending content from their service. In general, Canadian music industry associations such as Music Canada and the Canadian Independent Music Association (CIMA) have reacted favourably to the content of the revised legislation.

Global and domestic issues

- In 2011, the music subscription model continued to grow in many countries. IFPI reports that there are now over 400 licensed music subscription services worldwide, offering 13 million music tracks. New social media elements and recommendation functions have also been added to existing services, driving digital music consumption. Digital music channels now reportedly make up 29% of overall recorded music revenues wordwide. Most subscription and cloud-based streaming music services, such as Spotify and Pandora, have not yet launched in Canada, however, Rdio launched in both the U.S. and Canada in August 2010. The Canadian Broadcasting Corporation (CBC), Astral Radio and Shaw Media are filling this gap in Canada with the launch of their own online services. CBC Music, which launched in February 2012 is a free service, and is available as a website or mobile app. CBC Music has garnered both acclaim from the public and criticism from the broadcasting industry since its launch; some of the operators of the other recently launched Canadian online music platforms object to the perceived unfair advantage the CBC has in competition with other services due to their non-profit status and lower royalty fee payments.[16]

- The Canadian music industry continues to look for ways to monetize online music consumption. A recent consumer study by the Songwriters' Association of Canada (SAC) which surveyed Canadians on their music consumption habits found that a majority of those surveyed would be willing to pay an additional license fee on their Internet bill in order to legally music file share. The SAC proposes that music creators and rights holders could form a partnership with ISPs in order to legitimize and license music file sharing and collect revenue from the activity.[17]

- In 2011, CIMA researched the impacts of the Ontario Sound Recording Tax Credit (OSRTC) on the music industry in the province. The research looked at the contribution the OSRTC has on the Ontario economy, its role in developing the independent music industry in the province, and ways of improving its impact. The study shows that the economic impact of the OSRTC reaches well beyond the production and marketing expenditures it supports.[18]

Government assistance[19]

- 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.[20]

- In 2012-13, 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 and the OMDC Export 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 Dine Alone Records has garnered critical and commercial success with their act Dallas Green, an acclaimed songwriter who records as City and Colour, and is also a member of the band Alexisonfire. City and Colour have been nominated for seven Juno awards since 2007 and won three, while Alexisonfire's sophomore album went platinum in 2005.
- 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 various international music missions with CIMA like London Calling, U.K., as well as support to Canada Stands at major markets including MIDEM, POPKOMM and SXSW.

Profile current as of July 17, 2012

Endnotes

1 Statistics Canada, "Sound Recording and Music Publishing 2010," Catalogue no. 87F0008X, Tables 1, 2 and 3, March 2012.
2 Diane Jermyn, "Diversifying beyond music helps MapleCore hit the right notes," www.theglobeandmail.com, June 29, 2012.
3 Statistics Canada, "Sound Recording and Music Publishing 2010," Table 1; "Sound Recording and Music Publishing 2009," Table 1.
4 Music Canada, *Economic Impact Analysis of the Sound Recording Industry in Canada*, April 12, 2012, p. 21.
5 Music Canada, pp. 18, 20-22.
6 Statistics Canada, "Sound Recording and Music Publishing 2010," Table 2.
7 Statistics Canada, "Sound Recording and Music Publishing 2010," Table 2.
8 PricewaterhouseCoopers (PwC), *Global Entertainment and Media Outlook 2012-2016*, pp. 57, 270 and 272.
9 ibid, p. 271.
10 International Federation of the Phonographic Industry (IFPI), *Recording Industry in Numbers 2012*, p. 40.
11 ibid.
12 ibid.
13 PwC, pp. 57 and 271.
14 PwC, p. 266; IFPI, *Digital Music Report 2012*, p. 3.
15 IFPI, *Digital Music Report 2012*, p. 3.
16 IFPI, *Digital Music Report 2012*, pp. 6 and 8; www.cartt.ca, "Commentary: Why CBCMusic.ca is Unfair," May 15, 2012.
17 Songwriters' Association of Canada (SAC), *Monetizing Music File Sharing: A New B2B Model*, November 2011, p. 4.
18 Canadian Independent Music Association (CIMA), *Analysis of the Impact of the Ontario Sound Recording Tax Credit*, May 13, 2011.

19 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.

20 FACTOR administers funds from the federal government, as well as from Canada's private radio broadcasters' contributions towards Canadian Content development. The Radio Starmaker Fund was established by the Canadian Association of Broadcasters, and is funded by contributions from Canadian private radio broadcasters.