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# A Strategic Study for the Music Industry in Ontario

**Final Report**

Submitted to:  
Ontario Media Development  
Corporation Music Industry  
Advisory Committee

September 12, 2008

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## **Executive Summary**

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These are “interesting times” for the music industry in Ontario. Traditional revenue streams are drying up at the same time as droplets of new sources are beginning to condense. The scourge of Internet enabled downloading has upset the very foundation of the music industry. However, if digital capabilities are harnessed effectively, the music industry could regain what has been taken away in the form of efficiencies in creation, marketing, and distribution.

The key trends for the industry can be summarized as follows:

- Recorded music is selling less, but other revenue streams (e.g. publishing, live performances) in the music industry are holding their own or increasing;
- Digital downloading continues to increase. In Canada as elsewhere, however, the legal revenue-producing component has not caught up to the decline in physical sales;
- Labels, artists, and other members of the ecosystem are finding other revenue streams, but they do not yet fill the piracy gap.

### ***Providing tangible recognition for the music industry***

The 2008 provincial budget gave the creative industry a real boost by identifying “digital media” as a new growth pole for the province. However, content generating industries are not sure where exactly they fit within this context or exactly how they will benefit. No government pronouncements have specifically touted the music industry as any form of priority for provincial government investment.

Therefore, the crucial first element of a music industry strategy is to ensure that the content producing sectors are recognized as vital components in the future social and economic development of the Province, and that the music industry in particular is a desirable place for provincial investment. A tangible demonstration that Ontario backs the music industry is the necessary forerunner to making the industry more robust. Moving briskly ahead on the copyright file at a senior government level in the Province would be one such visible measure.

### ***Targeted support for the transition to digital***

Our analysis of the music industry in Ontario has revealed a complex, and at times contradictory, environment. The industry is a venue for innovation and entrepreneurship, albeit an unproven one in the digital era. While opportunities for the exploitation of

music rights are proliferating with the advent of new content delivery platforms (e.g. video games, various download or subscription services, mobile music content), the ROI of these new business models is not yet known.

The various levels of government have supported the music industry in a variety of programs. However, not enough of these programs are geared to helping the industry through the digital transition. The music industry needs to target its programs to facilitate this transition and requires flexibility in the administration of such programs in order to make them work for the sector. Also, there are parts of the music industry (e.g. managers, songwriters, etc.) that are currently underserved by the present support structure.

While the Internet can become an ally to the music industry, it has largely become a vehicle for the illegal downloading of music – a practice that fundamentally de-values the work of artists. Copyright reform to protect digital rights on new platforms is a fundamental starting point for altering this paradigm.

### ***Growing the export market***

A robust music industry in the future must be export driven as markets are globalized. Canada's competitors are investing in export initiatives. Canada needs an export office for the music sector and Ontario should take the lead in creating one.

### ***Promotion of airplay and live performances***

Domestically, Ontario should be active in promoting policies that encourage radio airplay for emerging artists, for which it will have to operate through submissions to the CRTC. More directly, Ontario should create economic incentives to enhance live performance activity in the major urban areas as well as smaller, underserved centres.

### ***Making the industry more professional and profitable***

Support for the music industry should be aimed at toughening up the sector, so that it can succeed financially. The Ontario government should help create the conditions where more private sector financing is feasible. It should also provide the tools for the industry to upgrade its human capital to meet the exigencies of the digital world. The outcome should be a more economically robust industry sector.

### ***Investing in the capacity of the industry to implement and innovate***

Finally, the implementation of the recommendations requires investment in the capacity of the intermediary organizations, associations, and the like.

In light of the challenging environment, it is the intention of our recommendations that Ontario's music industry should reach a level:

- Where the music industry is recognized as a vital part of the provincial economy and receives support accordingly;
- Where healthy digital entrepreneurship leads to the increased uptake of digital music revenues;
- Where Ontario musicians have ready access to both foreign and domestic markets;
- Where private investment is attracted to the music business;
- Where creators can enjoy a more prosperous and stable livelihood;
- Where the music infrastructure in Ontario reinforces artistic expression and development as well as business success.

Our recommendations are categorized into seven areas of priority focus, which are listed in their order of importance. Within those areas we have recommended strategic initiatives that aim to achieve the above objectives.

#### **1. Government Recognition**

Before any other recommendation can be implemented, it is critical that the Ontario government recognize the value of the contribution made to the economic, cultural and social well-being of that province.

Recommendation:

***We recommend that the Ontario Government recognize the importance of a vibrant music industry in Ontario in a tangible way – such as the announcement of a package of measures designed to support and promote the music industry.***

#### **2. Digital and Internet Innovation**

Given the decline in physical sales of music, labels, publishers and artists will have to maximize the use of digital technologies for the sale, promotion, and management of

music. Additionally, digital assets will have to be protected in a robust copyright framework.

i) Recommendation - New, Market-Driven Online Services

*We recommend that the music industry create made-in-Canada digital music service delivery systems in collaboration with online entrepreneurs and applications developers, leading to R&D, field trials, and other complementary initiatives - and that music rights holders are paid appropriately.*

ii) Recommendation - Online Marketing Support

*We recommend that the existing programs supporting marketing and promotion be reviewed and fine-tuned (or redesigned if necessary) to be more accessible and flexible in order to meet the changing market circumstances, and in order to both encourage and reward innovative online and multi-platform marketing and promotion initiatives.*

iii) Recommendation – “B to B” Services

*We recommend that the OMDC and the music industry assess the value and feasibility of Canadian based aggregators, and canvass who might be the relevant stakeholders to make them commercially viable.*

iv) Recommendation – Asset Protection

*We recommend that provincial ministries engage the Ontario music industry and fellow creative industry representatives in a high level, inter-ministerial forum that would engender an open dialogue around key copyright issues.*

### **3. Export Development**

As a smaller market jurisdiction, Ontario artists have to look abroad for much of their success. The global marketplace, and its appetite for music, is both large and growing.

i) Recommendation – Export Office

*We recommend that the Ontario music industry lead a national, all-music industry initiative to develop a feasible concept for an export office - ideally in collaboration with the federal government from the outset.*

ii) Recommendation – Export Assistance programs

*We recommend that the Ontario music industry engage with the export program support organizations and advocate changes to meet the heightened need for export development.*

#### **4. Domestic Market**

Despite the role of the international market, the domestic market remains key to the development of new talent, and continues to be a vital source of revenue for Ontario artists and (many) labels. Supportive radio (both public and private) airplay and a supply of varied venues (in terms of locale and genre) for live performances are important elements of the development of the domestic market.

i) Recommendation – Commercial Radio

*We recommend that the Ontario government continue to consult with the Ontario music industry and represent its position(s) in CRTC policy proceedings that affect the music industry, especially emerging artists.*

ii) Recommendation – Public Radio

*We recommend that the Canadian music industry (led by Ontario) establish a more strategic relationship with the CBC and advance mutual interests in Canadian music airplay, digital distribution, and public representation.*

iii) Recommendation – Internet Radio

*We recommend private radio and the music industry discuss what steps could be taken to facilitate development of Internet radio as a viable delivery mechanism for Ontario music.*

iv) Recommendation – Live Music Venue Support

*We recommend that a venue-oriented support program be developed to stimulate the following:*

- *live performances in urban venues in the ‘off-season’;*
- *the showcasing of niche genres;*
- *smaller-centre venues featuring non-rock acts.*

## 5. Financial Support

Proper funding for promising musicians and music businesses in Ontario will remain crucial in the near to medium term. That said, the industry and its governmental allies should promote the use of new technologies and market development to best direct this financial support.

i) Recommendation – Canadian Music Fund

*We recommend that the Ontario music industry and the Ontario government strenuously support the renewal, expansion and enhancement of the Canadian Music Fund.*

ii) Recommendation – Targeted Investment around Digital

*We recommend that the Ontario music industry investigate the appropriate support mechanisms for intervening at each stage in the life cycle of music firms and work with OMDC to provide advice to the Ontario government.*

iii) Recommendation – Profile of IP-based Industries

*We recommend that the music industry work with other creative industries and government on building awareness within the financial services sector of the attractiveness of IP-based businesses.*

iv) Recommendation – Corporate Tax Regime

*We recommend that the Ontario music industry re-examine the value of the Ontario Sound Recording Tax Credit, with particular attention to maximizing its efficiency in meeting the corporate needs of the music industry.*

v) Recommendation – Personal Tax Relief for Artists

*We recommend that the Ontario music industry work with other creative sectors to request that Ontario design an adaptive system of personal tax credit relief for artists in all stages of their careers.*

## 6. Human Resource Support

In addition to creators and their music, the key resource in the music business is skilled personnel. Therefore, the attraction and retention of personnel to the music industry will be crucial to its continued health. Also, attention should be paid to the upgrading of current employees' skill sets through professional development and/or formal education.

i) Recommendation – Skills Upgrading

*We recommend that the CHRC collaborate with the Ontario music industry to establish human resource initiatives including the following:*

- *A low-burden mentorship system, using the governmental agencies to relieve some of the administrative and logistical challenges;*
- *An on-going series of skills upgrading workshops, with particular focus on digital technologies and managerial skills, drawing on ADISQ's experience;*
- *More permanent links with Ontario-based business schools to facilitate the formal education of music industry personnel.*

ii) Recommendation – Access to a Broader Range of Talent

*We recommend that the Ontario music industry arrive at a promotional campaign, working with Ontario-based academic institutions and relevant Ontario ministries to attract and retain talented individuals, especially in the digital arena.*

iii) Recommendation – Next Generation of Jobs Fund

*We recommend that the Ontario government re-examine the Next Generation of Jobs Fund with the aim of making it accessible to applications from the music and other content sectors.*

## **7. Co-ordinating Mechanisms**

In order to implement and build upon these recommendations, some form of co-ordinating body will be needed. This need not be an additional organization, but an independent music industry body should be considered for future adoption.

i) Recommendation – Short Term Co-ordination

*We recommend against setting up another Ontario focused organization at this time, and extend the use of existing mechanisms to guide the sector in the implementation of the recommendations.*

ii) Recommendation – Longer Term Co-ordination

*We recommend studying the feasibility for a MusicTank in Ontario concept, with the purpose of facilitating industry (digital) innovation, executive education and cross-industry collaboration.*

# 1 Background and Introduction

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## 1.1 Purpose of the Study and Mandate

The Ontario Media Development Corporation (“OMDC”), on behalf of the Industry Advisory Committee on Music, commissioned Nordicity Group Ltd. (“Nordicity”) to undertake a study of the Ontario music industry. The purpose of this study is to provide both the OMDC and the Ontario music industry with information and analysis leading to the development of a comprehensive sectoral strategy for the music industry in Ontario. Such a strategy would be implemented over a five year period. A sub-committee the Advisory Committee has acted as the Steering Committee for this study.

## 1.2 Methodology and Approach

Nordicity’s overall methodological approach was to conduct primary and secondary research – consisting of key informant interviews and a web/literature search. This research was followed by analysis and a facilitated workshop with industry leaders to drive a consensus on priorities for the music strategies. The following is a brief outline of this approach:

- Set out a broad understanding of growth opportunities, barriers to growth, the emerging value chain in digital (vs. physical) and industry trends;
- Identify key success factors (KSFs) for the music industry and gauge Ontario’s performance relative to these factors;
- Identify relevant international and Canadian jurisdictions, and assess the KSFs that drive these locations’ success (or lack thereof);
- Facilitate a workshop to vet both the assumptions and conclusions, and review options for the Ontario music industry, noting any consensus around areas of priority focus;
- Generate potential strategic options within the identified areas of focus, drawing on the experience of international music industries and government;
- Identify opportunities for synergies between Government departments and programs while at the same time recognizing areas for additional industry initiatives;
- Prepare and vet a report with the study’s Steering Committee and then the full Music Industry Advisory Committee.

## 2 The Context of the Study

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In this section, we situate the music industry within the context of the shift in Ontario's economy, which is defined in part by the growing prominence of the creative industries. We reference this shift, its recognition by the Ontario government, and the music industry's special relevance in this context.

### 2.1 The Creative Industries as Part of Ontario's Aggressive Innovation Agenda

Ontario faces a difficult overall economic environment in the near term, and the manufacturing sector especially is being affected. As articulated in the Ontario Innovation Agenda,<sup>1</sup> the Province will increasingly rely on creativity and innovation to meet the economic challenges of lagging productivity, the high value of the Canadian dollar, and extensive competition from lower-wage countries. Ontario will be investing aggressively to build on its extensive assets in creativity, human capital, and research.

“Ontario's entertainment and creative cluster is a cornerstone of Ontario's new innovative economy.”

– Ontario Budget 2008, page 24.

An explicit component of the Innovation Agenda is the creative and entertainment / media cluster. The creative industries are also cited in the 2008 Ontario budget as key to economic growth in the province. As the music industry is very much part of the entertainment and media cluster, it is relevant to reference the growth of the cluster as a whole in the last several years.

Ontario's 2008 budget noted that Ontario's entertainment and creative cluster created some 80,000 net new jobs between 1999 and 2007 - an increase of 38.3%, compared with a job growth of 17% in the overall Ontario economy.<sup>2</sup> In 2007, total employment in the cluster was about 292,000 or 43% of the total Canadian workforce in this cluster.<sup>3</sup> The cultural media industries – film and television, book and magazine publishing, music

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<sup>1</sup> Seizing Global Opportunities, Ontario's Innovation Agenda, Ontario Ministry of Research and Innovation 2008.

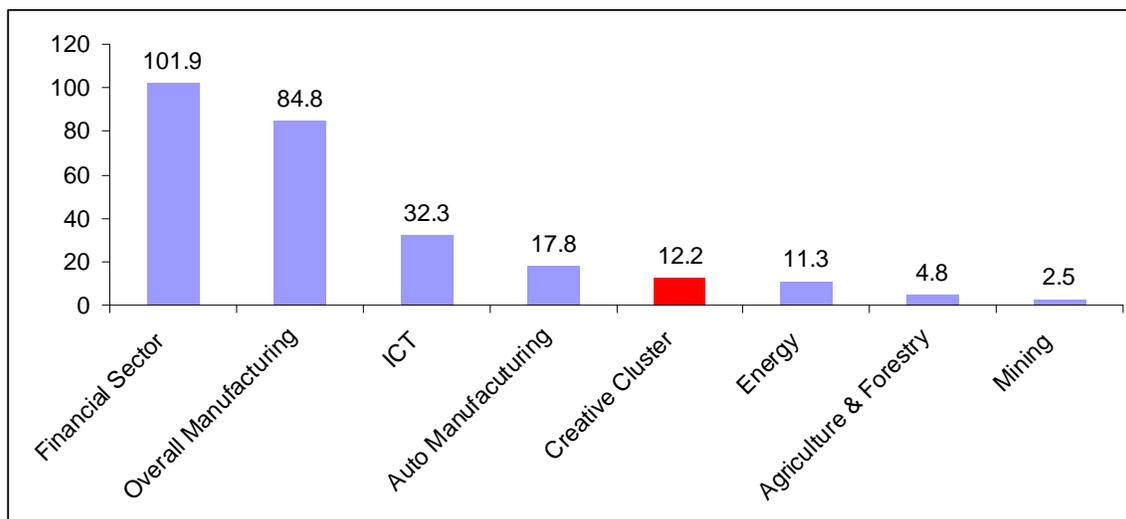
<sup>2</sup> Ontario Budget 2008, pg 25.

<sup>3</sup> Ibid.

and interactive digital media — contribute more than \$6.7 billion to the provincial economy annually.<sup>4</sup>

The creative cluster is one of the major industry groupings in Ontario, as the following graphic shows. It is also one of the most important sectors after Ontario's traditional strengths (i.e. the financial sector and manufacturing). The creative cluster is about 2/3 the size of the automobile sector, and is larger than the resources sectors of agriculture, energy, and mining.

**Figure 1 - 2006 Share of Ontario GDP, in \$billions**



Source: Ministry of Finance (selected sectors aggregated), dollar indexed to 1997.

## 2.2 Specific Investments in Ontario’s Creative Industries

Besides the central place for the creative industries in the Ontario Innovation Agenda, Ontario has made explicit budget provisions for the creative sector. For example, the Ontario Ministry of Culture’s (MCL) funding will be increased by \$63 million over the next four years.<sup>5</sup> In another specific example, the Ontario government committed to provide \$4 million over the next four years in an “International Fund” to support international marketing and touring initiatives, co-productions, and cultural participation in trade missions and fairs to increase the profile of Ontario’s artists and cultural industries on the world stage.<sup>6</sup>

<sup>4</sup> Ontario Ministry of Culture (MCL), “Results-Based Plan 2007/08,” pg 9.

<sup>5</sup> Ontario Budget 2008, pg 24.

<sup>6</sup> Idid. Pg 24.

While these program initiatives demonstrate some concrete government support behind the creative industries, there is no clear bridge between the health and prosperity of the creative sector and its link to the Innovation Agenda. The Innovation Agenda refers to both *digital media* and *innovation and research*. The Agenda document cites the arts and cultural industries as strong points, but does not refer to innovation in the context of content creation and distribution – except that it involves a technology-based innovation.

The specific investments in creative industries as cited above would appear to be relevant to the Innovation Agenda. However, it is not clear whether a growing and prosperous creative industry sector – and its components like the music industry – is considered to be a full partner in the digital media cluster in the Ontario Innovation Agenda. As a vital component of creative media, the music sector has a major stake in the resolution of that question.

### **2.3 Music Industry’s Vital Role in the Creative Cluster**

The music industry is a core component of the creative sector, perhaps more interrelated with other sectors than any other creative industry vertical. Music is a product unto itself, of course, but it is also an integral element of films and TV programming. Moreover, it is increasingly seen as an active component of new media (e.g. in electronic games) and as part of the growing use of video on the Internet.

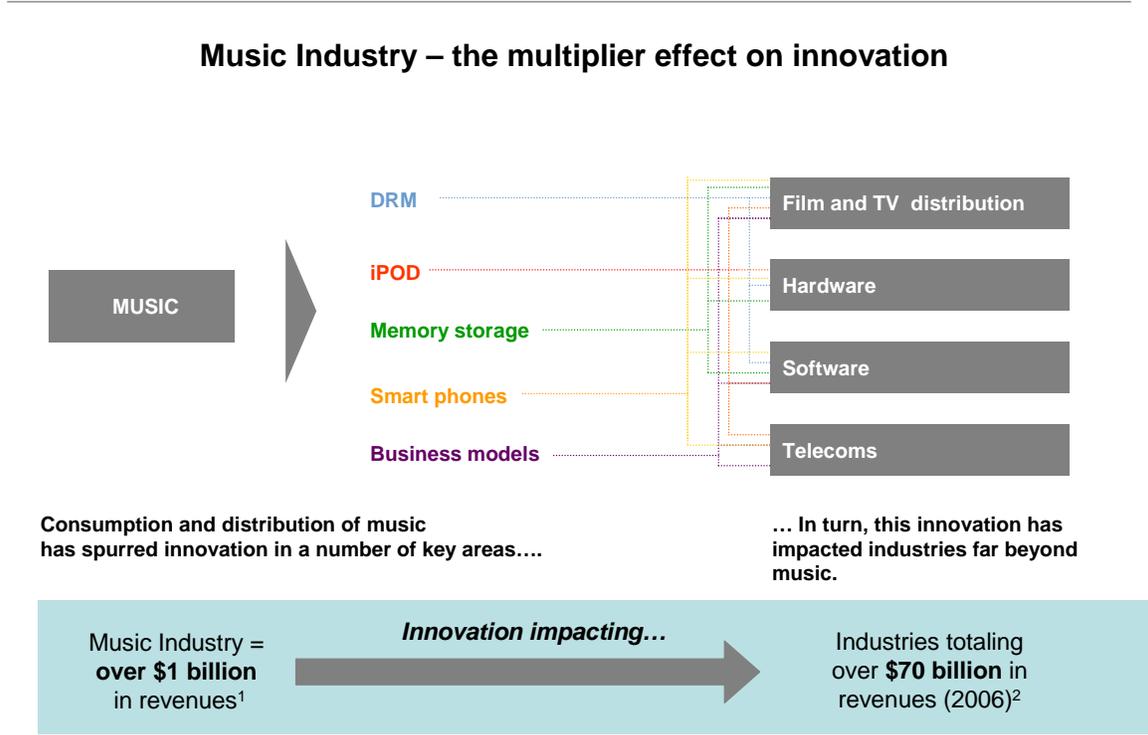
Music should also be considered important within the context of innovation and the transition of individual creative industries to the digital world. It is the creative industry that has most been affected by digital technology. The music industry has been greatly affected by digital technology for many years – longer than other creative industries. The experience of the music industry with digital technologies – both positive and negative – foretells the eventual experience of all creative industries. While the Internet and other digital technologies are available to them, other traditional creative industries have yet to experience the full impact of digital on their production and distribution activities.

Music is squarely at the centre of the creative sector, which is in the crosshairs of the Ontario Innovation Strategy for the future growth of Ontario’s economy. While music is still very much a sector on its own, it is perhaps the creative industry that is most linked to the other creative industries. And it is becoming more so due to the growing ubiquity of music in digital media. Music is a “leading indicator” in the sense that if the music sector can successfully adapt to the digital era, it will bode well for the entire creative sector.

Furthermore, the demand for music has led to substantial technological innovation in platforms and communications - particularly in the distribution of music content, which has had a significant impact of the wider economy. The following graphic illustrates a

small portion of the ‘spin-off’ technologies that have stemmed from innovation in the music business.

**Figure 2 - The Multiplying Effect of Music Innovation**



<sup>1</sup> This rounded amount of national music industry revenues is conservative as it does not capture all the revenues of music in Canada

<sup>2</sup> Industry Canada estimate for the information communications technology industry in 2006 (in 1997 dollars) added to Film and TV figures from the CFTPA

Beyond these contributions to innovation, a strong music industry confers many ancillary benefits to a jurisdiction. For example, noted academic Richard Florida has persuasively argued that a healthy live music scene is critical to preventing – even reversing – trends of urban decay. He contends that by providing creative professionals with entertainment in an urban centre (large or small), the well educated, high-spending, “creative class” will tend to frequent that part of the city, thereby promoting private and public investment.<sup>7</sup>

Further, Florida argues that the “creative class” tends to prefer a wide variety of interesting music venues. Therefore, jurisdictions with vibrant music communities will be

<sup>7</sup> See, for instance, “Rise of the Creative Class: Why Cities without gays and rock bands are losing the economic development race,” *Washington Monthly*, May 2002.

<http://www.washingtonmonthly.com/features/2001/0205.florida.html>

more likely to attract and retain workers engaged in high-value knowledge-based occupations.<sup>8</sup>

Ontario benefits economically from Canada's music industry because the majority of indie labels, managers, and publishers are located in Ontario. As well, many of its support institutions are located in the Province, for example:

- DVD and CD manufacturing – CINRAM is one of the world largest digital disc manufacturers and is located in Ontario;
- Live venue operation - the Air Canada Centre (Toronto), Molson Amphitheatre (Toronto), and Scotiabank Place (Ottawa), all employ numerous staff for live events;
- Most of the national collective rights societies as well as national associations for the music industry are located in Ontario, including SOCAN, CRIA, CIRPA, CMMRA, etc;
- Several post-secondary music training institutions such as Trebas Institute, Harris Institute, Metalworks, and Humber College
- The four multinational labels in Canada are located in Ontario, as well as the largest concert promoters.

With these innovative spin-offs, social importance, and 'trickle-down' industries in mind, we contend that the music industry should be viewed through a wider-angle lens than would appear by merely counting the income of the artists and independent labels. The music industry is composed of an ecology that includes merchandise, booking agents and managers, tour promoters, retailers, musicians, producers, engineers, etc. Thus, music has numerous spinoffs that are unique to the Ontario music sector.

Music is an integral part of the creative industries and a key part of Ontario's emerging digital media cluster. As such, the continued health of the industry (or conversely its demise) will have profound impacts on the cultural, social and economic landscapes of Ontario.

## **2.4 Consumer Habits in Canada**

The final point of contextual relevance to Ontario's music industry is the consumer. Following the advent of Napster and similar peer-to-peer file sharing applications, online piracy has moved into the mainstream. The ease of use of these applications, as

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<sup>8</sup> Ibid.

opposed to piracy via private message boards or Internet Relay Chat (IRC), continues to provide an attractive alternative to paying for digital content online.

Canadian consumers are among the least willing to pay for music product acquired on the net in the world: a 2008 Special 301 Report, issued by the Office of the United States Trade Representative in Washington, D.C., placed Canada on a level with China and Russia as leading piracy jurisdictions.<sup>9</sup> Organisation for Economic Co-operation and Development (OECD) has also identified (in 2005) Canada as having the highest per capita rate of file sharing (1.3 billion illegal downloads in 2006 vs. approximately 20 million legal ones that year). This level of illegal downloading is, in part, facilitated by the extent of Canadians' broadband connectivity. By 2005, more than 50% of Canadian households subscribed to high speed Internet connections (up 43% from the previous year).<sup>10</sup> It is in the context of such rampant illicit file sharing that it is imperative for the Ontario music industry to develop a strategic plan.

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<sup>9</sup> *Playback Daily*, "Canada can do more on piracy, says U.S.," May 13, 2008.

<sup>10</sup> Canadian Heritage, "Economic Profile of the Music Industry in Canada 2006," p 3.

### **3 Industry Trends: Growth Opportunities and Barriers**

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This section provides an overview of key market and business trends in the Canadian music business - including Internet distribution - and then outlines the changing ecology of the music industry and emerging digital models.

#### **3.1 Key Trends**

This report acknowledges some commonly held assumptions about the key trends in the music industry in Canada. These are:

- Recorded music is selling less, but other revenue streams in the music industry are holding their own or are increasing;
- Digital downloading continues to increase, but the legal revenue-producing component has not replaced the decline in physical sales, nor is likely to in the near term;
- The Internet is making it easier for potential music customers to discover and audition new and developing artists;
- Labels, artists, and other members of the ecosystem are looking to other revenue streams to fill the piracy gap.

The strategic question is how the Ontario music industry can respond to the challenges arising from these trends and find ways to grow its revenue base on a profitable basis. Each of these trends is outlined in more detail below.

##### **3.1.1 Declining revenues in record sales**

One clear economic fact about the music industry in Canada is the decline of physical sound recording sales. Revenues for record production companies (labels) were \$703.7 million in 2006 (the last year of available data), down from the banner year of 1998 when \$1.44 billion was generated by the sound recording industry in Canada.<sup>11</sup> Ontario record production companies bucked the downward trend to an extent in 2006, as their revenues rose from \$446 million (in 2005) to \$498 million in 2006.<sup>12</sup> However, they have also suffered from typical industry losses in profits; even though revenues increased in 2006, operating margins declined.

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<sup>11</sup> CRIA, quoted in Douglas Hyatt, "An Overview of the Financial Impact of the Canadian Music industry," Joseph L. Rotman School of Business ("Rotman"), University of Toronto, April 2008. pgs v, 34. It has been noted by industry observers that this study is not comprehensive in terms of all music activities; for example, it did not account for foreign earnings from Canadian music (save for songwriting royalties that flow through SOCAN) nor for merchandizing revenues.

<sup>12</sup> Statistics Canada, "Sound Recording and Music Publishing: Data Tables 2006," March 2008.

While some would argue that it is illusionary to benchmark retail sales to that 1998 banner year, the current numbers still represent a substantial decline from an “average” good year. This retail revenue figure includes digital online sales, which now account for about 12% of total retail sales.<sup>13</sup> From 2006 to 2007, physical recorded music sales continued to erode as they dropped an additional 6.9% in terms of units sold.<sup>14</sup>

This decline affects both majors and indies, and has united the two label segments in common cause against illegal downloading. Moreover, the Canadian subsidiaries of foreign majors are more accepted as part of the Canadian music ecology in view of the role they play in helping the indie labels to distribute their product in Canada.

As the following section shows, labels are responding to the decline in sales by diversifying their revenue streams. However, this expansion has not yet offset lost sales revenue. How the industry will address this challenge is a key strategic element.

### **3.1.2 Canadian Music Exports**

According to one industry insider, Canada is currently the third largest source of successful artists on the international market (behind the US and UK), having recently slipped from second place. Overall though, Canada’s music exports have been fluctuating, though they are growing as a proportion of sales revenues. In 2000, when the impact of file sharing had not yet hit its peak, Canada exported \$144 million, and 2006’s figure had declined to \$123 million.<sup>15</sup> However, given the substantial decline in overall recorded music sales over that period, exports of Canadian music represent a greater proportion of revenues than they did five to ten years ago.

Geographically speaking, Canadian music has been popular in numerous jurisdictions. Specifically, Canadian acts have been particularly successful in the European (particularly UK) market where bands like the Toronto-based Cancer Bats and Pickering-natives Billy Talent have headlined very successful tours.<sup>16</sup> Additionally, CIRPA’s recent trade mission to Japan confirmed that international demand for Canadian music extends to that market. Furthermore, as Canada is home to numerous immigrant communities,

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<sup>13</sup> IFPI, Digital Report 2008.

<sup>14</sup> NielsenSoundscan “State of the Canadian Music Industry,” as presented to Canadian Music Week 2008..

<sup>15</sup> Statistics Canada, “Culture Goods Trade: Data Tables 2006.” Catalogue 87-007-XIE, June 2007, pg 2. Note that StatsCan uses very specific definitions of “exports,” and they tend to underestimate the total export value of music among other creative industry products. However, they are consistent, thus informative re multi-year trends.

<sup>16</sup> Robert Collins, “In London, Canadian Bands are hot,” *Toronto Star* June 15, 2008.

music produced in Canada is finding natural markets in those communities' homeland countries.

### 3.1.3 Other Music Industry Revenue Streams

Other revenue streams for the industry include: live performances, merchandising, recording studio, copyright collectives, music publishing, and services like artist management.

- **Live performances** grossed \$752.8 million in 2005, which is roughly similar to revenues from recorded music in the same year. Much of these revenues are generated by big-name acts and classical music performances. In fact, live performances constitute the “single most important source of income for musicians,” making up 48.5% of the average \$24,837 earned annually by Canadian musicians.<sup>17</sup>

Live music has always been a mainstay of the music business. In the heyday of recorded music, the live show was often viewed by record companies as a promotional vehicle for the sale of recordings. Proceeds were then the domain of concert promoters, agents, management and artists. With less revenue being generated by physical sales of music, labels – who participate in additional income streams through joint-ventures or 360 deals – are looking to live shows, and the merchandising that goes along with them, to supplement falling revenues from CD sales.

- **Merchandising** is another important source of revenue for artists as it is typically derived from live performance activities. Artists typically enter licensing agreements with merchandisers when they have achieved a significant level of success that makes it infeasible to handle their own merchandising. These agreements allow for artists to receive between 30-40% of net merchandise revenues.<sup>18</sup>
- **Recording studios** in Canada generated an income of \$30.5 million (in 2006), up approximately 12% from \$27.3 million in the previous year. However, as technology drives down the cost of recording and editing, it is thought that studios manage to maintain their volume of business by diversifying outside the music sector into games, film, TV, etc.
- **Copyright royalties** collected by organizations like the Society of Composers, Authors and Music Publishers of Canada (SOCAN), who are the collective

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<sup>17</sup> Rotman, pg 10-11.

<sup>18</sup> Rotman, pg 26. This study did not include merchandising revenues when calculating the total size of the music industry in Canada.

responsible for performance rights for composers of music, have risen substantially from \$76.2 million in 2001 to \$165.0 million in 2006 for all of Canada.<sup>19</sup> Radio and TV were major sources of these royalties, at 20% and 22% respectively.<sup>20</sup> As new platforms are subject to compulsory music licensing (e.g. satellite radio and online streaming sites/portals), these revenues can be expected to continue increasing.

- **Music publishing** revenues from the licensing of music constitute a growing source of revenue for the music business as music use spreads across more platforms. As a whole, the music publishing industry in Canada generated just over \$116 million in 2006, an increase of 8.4% over 2005.<sup>21</sup> This growth is expected to increase further as music publishers make closer connections to other markets in other creative industries (e.g. video games, commercial video).

Given the decline in physical recording sales, these other revenue streams assume a relatively greater importance in the music business. Though they represent some diversification for the industry as a whole, their impact differs according to which segment of the industry is involved. The overall result, however, is that the economic situation remains precarious for the creators – musicians and authors/composers - as the following economic data<sup>22</sup> demonstrates:

- 59% of Ontario musicians rely on additional employment to supplement earnings from music, with 41% of this work being done outside of the music industry;
- The average revenue earned by artists in Ontario from music is only \$28,394;
- The net earning of Ontario musicians (i.e. after touring costs, recordings, etc.) averaged \$19,693 per year.

The decline in retail sales and the practice of illegal downloading has decreased the potential investment of labels – majors and indies – in the careers of music artists. They cannot afford to develop and promote as many artists as they could in the halcyon days of the record industry. At least it is not profitable to do so until and if the digital opportunity can be more effectively monetized – whether by the labels, the artists themselves, or new music industry stakeholders.

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<sup>19</sup> SOCAN Annual Report 2006.

<sup>20</sup> Ibid.

<sup>21</sup> Statistics Canada, 87F0008X.

<sup>22</sup> These data are drawn from a Pollara survey conducted between December 2006 and January 2007, as part of the Rotman study. Figures therefore represent earnings during the calendar year 2006 as presented in Rotman pp 10-11.

Presumably, it is easier for digital retailers to “stock” Canadian content, as they are not constrained by the spatial limitations of physical retail. Without effective marketing, however, the sales will not follow. The Ontario music strategy has to address the structural changes in the environment that have led to a deterioration of musicians’ livelihoods.

### **3.1.4 Increase in paid-for and illegal digital downloading**

#### ***The development of legal downloading services***

The legal market for digital music downloads - which notably does not take into account revenues generated through subscription or ad-funded music services - totalled \$2.9 billion worldwide in 2007, up from \$2.1 billion in 2006. Globally, this volume represents approximately 15% of recorded music retail sales.<sup>23</sup> The US digital market is relatively advanced with 29% of total music sales taking the form of digital downloading. In fact, Apple’s iTunes recently become the largest music retailer, surpassing Wal-Mart.<sup>24</sup> The growth of online sales would seem to indicate that, while revenues are still much less than physical sales, online vendors continue to gain momentum.

Canada is the world’s seventh-largest digital music market; however, at roughly 12% it lags far behind the US in market take-up of online sales. Nevertheless, these sales have been growing rapidly, almost doubling in 2007 to 4.5 million digital albums (up from 2.5 million in 2006).<sup>25</sup> In terms of digital track sales, the Canadian digital music market grew approximately 75% over the same period. In 2007, 58% of digital revenues stemmed from online sources (downloads and subscription services), and 42% from mobile (ringtones, ring-backs, and over-the-air downloads).<sup>26</sup> This breakdown shows that the development of digital sales will occur via a mix of business models and distribution approaches. Ontario’s five year music industry strategy should include ways to monetize digital distribution.

#### ***The established practice of illegal downloading***

Illicit downloading (file-sharing) of music continues to be a thorn in the side of most of the music industry.<sup>27</sup> Globally, the lost business attributable to piracy amounts to an

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<sup>23</sup> IFPI, p 2. To place the growth of digital music in context, the value of digital music sales in 2003 was only ~\$20 million.

<sup>24</sup> NPD Group’s MusicWatch, April 2008.

<sup>25</sup> Rotman, pg 32.

<sup>26</sup> IFPI, pg 6.

<sup>27</sup> Rather than fight against it, some elements of the music industry propose measures to recoup the lost revenues. For example, the Songwriters Association of Canada views the sharing of music as inherently

estimated US \$3.7 billion and it is estimated that 20 illegal downloads occur for every legal one.<sup>28</sup>

In Canada, lack of appropriate policy and legislation - as well as spotty enforcement - have done little to improve the integrity of the digital marketplace, or to promote investment in the Canadian digital music industry. The result is that, as reported in one 2006 study, 30% of Canadians downloaded free music (compared to 11% who bought it). Not surprisingly, this figure rose to 68% in the 15-20 demographic (compared to only 23% who paid).<sup>29</sup>

### **3.1.5 Importance of online advertising and promotion**

Despite the plight of physical recorded music sales, the online world is emerging as vital to the promotion of music - from the grass roots, where over 1.2 million rock acts can be found on MySpace,<sup>30</sup> to the major labels' slick web-based promotional campaigns. Promotional vehicles range from the dissemination of free music (as with Coldplay's single "Violet Hill") to contests for the building of online communities around the artist (e.g. Will.i.am's "dipdive").<sup>31</sup>

One issue that has arisen from the proliferation of online music is the lack of filters that can separate the wheat from the chaff in music. The lack of a traditional radio role of filtering music hampers the effectiveness of online music promotion. Perhaps the most effective music "recommendation engines" online are the front pages of major online vendors like iTunes, Puretracks, and Amazon. Of course, this practice creates serious issues from the perspective of a national music industry (like Canada's), whose musicians have to compete with US and other international artists for this "front page" exposure. However, digital retailers do have the virtual shelf-space to provide access to an unlimited number of acts, including emerging Ontario/Canadian artists.

## **3.2 The Changing Ecosystem in Ontario**

Not all parts of the music industry in Ontario are responding in the same way to the challenges and opportunities presented by the on-going digital transition of music. In

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positive, and is promoting an arrangement whereby a levy would be imposed on ISPs (at \$5/month per connection) whose proceeds would be re-distributed to rights-holders (after paying the ISP for the costs of collecting this additional revenue).

<sup>28</sup> IFPI, pg 8.

<sup>29</sup> Canadian Heritage, "The Canadian Music Industry: Economic Profile 2006," 2006, pg 14.

<sup>30</sup> IFPI pg 12.

<sup>31</sup> In fact, hits on Coldplay.com increased 1800% in the three weeks after this free single, making it the Internet's top Band and Artist website (<http://www.marketingvox.com/coldplay-free-single-propels-its-website-to-no-1-among-bands-and-artists-038387/>)

general, it is an exciting, but difficult, time for the music business. Barriers to access have come crumbling down; a Canadian indie can have almost as much clout as a major (e.g. Nettwerk, Arts & Crafts); an artist-owned label can get global distribution (e.g. Loreena McKennitt); an artist can develop a huge following across the world and still remain a niche artist in Canada (e.g. Buck 65); boutique licensors and publishers are re-writing deals and placing independent Canadian music on the biggest shows on TV (e.g. Runaway Music). These examples demonstrate that the Canadian music industry has shown that it is possible to take full advantage of new digital technologies – but anecdotes do not necessarily represent the general condition in the Canadian music sector.

The following table outlines the major changes being experienced by key groups. More detail on these elements can be found in Section 4.

**Figure 3 - Changes in the Music Ecosystem**

Ecosystem Part	Key Changes
Major Labels	<ul style="list-style-type: none"> <li>▪ Main source of revenues (CD sales) declining</li> <li>▪ Exploring new business models, expanding management and publishing arms</li> <li>▪ Large reductions of workforce, including in Canada</li> <li>▪ Less willing to take A&amp;R risks (i.e. invest in artists) due to falling revenues</li> <li>▪ But still important to Canadian music development as the chief distributor and financier/investor for Canadian indie labels</li> </ul>
Independent Labels	<ul style="list-style-type: none"> <li>▪ Improvement in access to talent, owing to reduction in majors' A&amp;R and a growing DIY attitude among artists</li> <li>▪ Building on pioneers experienced in meshing traditional label roles with management and/or publishing (e.g. True North Records)</li> <li>▪ Learning more about licensing and marketing in digital world and exports</li> </ul>
Music Publishers	<ul style="list-style-type: none"> <li>▪ Now able to own (digital) masters</li> <li>▪ Exploiting new revenue sources on new platforms</li> <li>▪ Administration costs increasing due to increasingly complex royalty collection</li> </ul>
Distributors	<ul style="list-style-type: none"> <li>▪ Less physical distribution as more goes online</li> <li>▪ Adding publicity and marketing services to their offerings to labels</li> </ul>

Ecosystem Part	Key Changes
Artists	<ul style="list-style-type: none"> <li>▪ Highly dependent on touring and merchandise, though often playing smaller venues</li> <li>▪ More control over their own careers</li> <li>▪ More options available for business models (e.g. DIY or 360 deals), although success accrues mainly to acts with strong brands</li> <li>▪ Recording costs have decreased, making the market easier to access</li> </ul>
Managers	<ul style="list-style-type: none"> <li>▪ Increased competition from labels, as both parties take on each other's traditional roles</li> <li>▪ Integrating marketing activities into management role, especially in artist-owned label scenarios</li> <li>▪ Required to learn how to administer new revenue sources</li> <li>▪ MMF Canada now active in developing management sector</li> </ul>
Promoters	<ul style="list-style-type: none"> <li>▪ Remains a small, but profitable business in Canada</li> <li>▪ Large(st) promoters taking on some label roles (e.g. Madonna and promoter LiveNation)</li> <li>▪ Smaller niche promoters developing new marketing techniques and sponsorship strategies</li> </ul>
Agents	<ul style="list-style-type: none"> <li>▪ Relying more on established heritage acts for revenue but expanding rosters of emerging acts</li> <li>▪ Brokering increasingly complex deals</li> </ul>
Retailers	<ul style="list-style-type: none"> <li>▪ Big box stores sell music as a 'loss leader'</li> <li>▪ Mid-size chains (e.g. HMV) diversifying content with DVDs and games; disappearance of record retailers (e.g. Sam the Record Man, Music World)</li> <li>▪ Online retail is small, but growing rapidly</li> </ul>
Service Companies	<ul style="list-style-type: none"> <li>▪ Diversifying client base and services</li> </ul>
Other Parties (corporate interests)	<ul style="list-style-type: none"> <li>▪ Some corporate interests moving away from music industry sponsorships (e.g. Molson), while other move in</li> <li>▪ An increasingly active role, beyond sponsorship (e.g. Bacardi and Groove Armada) among new entrants</li> </ul>

One commonality among these changes is that entities such as labels, agents, managers, etc. are attempting to take on additional roles, for which they may or may not be equipped. The disruption of the industry's traditional model has contributed to a confused ecosystem rife with new and untested, yet promising business models.

### 3.3 New and Emerging Business Models

Given the key trends outlined above, there are a number of business models that have emerged as potential alternatives to the traditional, linear model. Some are variations of existing models, for example the "360 deal" has long been available to independent

labels. There are, however, many new ways to promote and sell music that are spawned by digital distribution systems.<sup>32</sup>

The huge challenge is to develop a business model to monetize the distribution of music on the Internet, whether over a broadband landline or via mobile device. One possible future model for Internet distribution is the ‘utility’ or ‘all-you-can-eat model,’ whereby unlimited music is delivered for a subscription fee (whether packaged with a communications service, sold à la carte, or imposed by levy). In this way, music could be viewed as a public resource/utility like water or power.<sup>33</sup> In fact, it was noted by many stakeholders that while consumers may balk at paying for content, they will quite readily pay more to access “free” content.

In our interviews, variations of the utility model were promoted by creators, labels and publishers. However, only one subscription model, Realnetwork’s Rhapsody (only available in the U.S.), has thus far succeeded to any real extent on fixed broadband service, which indicates that the value proposition of this business model has not yet been perfected.<sup>34</sup> New models, however, would require significant commercial initiatives and/or changes in copyright practices – likely in the form of revisions to the Copyright Act in Canada.

In Figure 4, we briefly identify several business models that are in practice or are slated for trial. They are not comprehensive, but illustrate the types of business models currently being implemented. The examples mentioned have not yet been economically validated at this time. Finally, they tend to involve big name acts that already have a presence in the marketplace, and thus can be a bit misleading if emerging acts believe similar initiatives could work for them.

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<sup>32</sup> Sony Corporation’s August 2008 decision to buy out Bertelsmann’s 50% share of the former Sony BMG has been seen as an example of a major record label moving decisively into music distribution outside of the CD market. See, for example: <http://www.guardian.co.uk/business/feedarticle/7703622>

<sup>33</sup> See, for instance, David Kusek and Gerd Leohard’s *The Future of Music: Manifesto for the Digital Music Revolution* Berklee Press, 2005.

<sup>34</sup> Real Networks’ Rhapsody earned \$123 million in 2006 revenues, up 21% from the previous year. (Source: Real Networks 2006 Annual Report)

**Figure 4 - New and Emerging Business Models**

<b>Business Model</b>	<b>Description</b>	<b>Example</b>	<b>Parties Involved</b>
<b>“360” Deal</b>	Where labels share in all sources of revenue of an artist from CD/track sales through licensing, live performance and merchandising.	Live Nation’s deals with Madonna, Jay-Z, Shakira and Nickelback	Label Manager/Artist
<b>Brand Funding</b>	Where non-music corporate interests fund and support the creation of music, beyond endorsements. Some brands (e.g. Jagermeister) also support artist development and promotion.	Groove Armada and Bacardi; KRS-One and Smirnoff	(Manager) Artist Corporate Sponsor
<b>Advertising Sponsorship</b>	The creation or licensing of music for a commercial advertising campaign (usually on TV)	Maynard’s candies and Major Maker	Manager/Artist Licensor/Publisher Advertiser
<b>Off deck mobile</b>	Music content sourced online and ‘side-loaded’ on to a mobile device Music is not acquired through the carrier-controlled Wireless Application Protocol (WAP) decks, which is the equivalent of a web page.	Nokia’s “Comes with music”; TXTunes	Artist, Music Aggregator Mobile Carrier/handset maker
<b>Crowd Sourcing</b>	Where unsigned acts upload music to a website, fans vote on bands and invest their own money to support the emerging act	slicethepie sellaband.com	Artist Service Company
<b>“Free” Music</b>	Where music is uploaded to a website or digital distributor for free (by the artist) and fans choose the rate at which they pay	Nine Inch Nails, Radiohead, Coldplay	Artist
<b>Other Platforms</b>	The delivery of music on or through other traditional creative ‘silos.’ Such platforms include video games, online or traditional radio	Rock band and Judas Priest; Artwerk’s partnership with Nettwerk are building exposure through games	Manager/Artist Music Licensor

As these differing business models indicate, elements of the music ecosystem are combining in new and sometimes complex ways. This proliferation can put stakeholders in new positions along the value chain (e.g. labels taking on managerial roles, managers becoming labels, etc.). As such, it will be important that the professional development and training organizations keep pace with the changing roles of the music industry players. As well, the creation of new and innovative business model tends to require ready access to capital, be it public funds or private investment. Future success will

depend on continuous innovation and adaptation to the emerging digital marketplace, as traditional business models become harder to sustain.

## 4 Key Success Factors and an Evaluation of Ontario

In this section we evaluate the music industry in Ontario against criteria for success in the music industry. In fact, these criteria are the key success factors (KSFs) for a vibrant and economically successful domestic music industry. Based on this evaluation we can contrast Ontario with other jurisdictions (see Section 5) and then develop options for creating an appropriate strategy for the music industry in Ontario.

Ontario's music industry does not need a strong showing for all KSFs to be successful. However, all the KSFs are contributing factors to a growing and prosperous music marketplace. The following Figure 6 identifies each key success factor (although not necessarily in order of priority), articulates the goals of the music industry for each success factor, and rates the Ontario's against each KSF. A more detailed description of this analysis can be found in Appendix A.

**Figure 5 - Summary of Evaluation of Key Success Factors for Ontario**

Key Success Factor	Goals of KSF	Ontario Performance
Retail Sector	Diversified, adequate shelf space for new indigenous music product; Strong presence on Internet platforms	<b>Average</b> (Physical) / <b>Below Average</b> (Digital)
Music Exports	A significant part of total revenues derive from exports, numerous internationally successful artists	Comparatively <b>good</b> , but could be much stronger
Online Innovation	Significant use of Internet tools to market and distribute product (for revenues) Strong home-grown services	<b>Average</b> , but no new revenue streams
Live Music Scene	Diversity of opportunities across different genres Lively scene in smaller centres	<b>Average</b>
Media and Star System Support	Supportive media driven star system	<b>Below Average</b>
Radio Airplay Support	Commercial radio is partner in breaking new acts and promoting through airplay	<b>Below Average</b> (esp. for emerging artists)
Professional Development	Good entry-level training Ongoing mid- and senior-level skills development	Intake <b>average</b> <b>Below average</b> in professional development
Government Support	Significant and accessible support programs across multiple intervention points	<b>Good</b> support across 3 levels of government, although value not fully recognized

Key Success Factor	Goals of KSF	Ontario Performance
Strength of Ecosystem	Expertise and capacity in all elements of the value chain from creator through retailers	<b>Good</b> across all elements
Industry Co-operation	History of cross-industry collaboration, Vertical collaboration Strong regional (provincial) representation;	<b>Good</b> across creators, publishers and producers; <b>poor</b> vertical collaboration
Cross-industry Collaboration	Openness to collaborate with other creative industries	<b>Below Average</b> - embryonic at best
Access to Private Investment	Readily available investment capital for start-ups and expansion	<b>Below Average</b>
Copyright Framework	Effective protection of rights arising from new Internet and platforms; industry consensus on copyright position	<b>Below Average</b>

As the above chart outlines, Ontario has the raw materials (the ecosystem) for a healthy music industry and evidently the will to support that industry (government support). However, the province lags in terms of digital retail, supporting media, radio airplay, industry co-operation, cross-industry collaboration, access to private investment, and copyright framework. Of these weaknesses, some are results of Ontario’s proximity to the dominant US music market (e.g. lack of supportive media), while others might be attributed to the weakness of IP protection in Canada because of lack of federal initiative.

However, not all strengths and weaknesses are of equal weighting. For example, it may not be as crucial for Ontario to develop a local retail sector (owing to the small size of the provincial market and the general lack of control over this variable) than it is for Ontario music industry to innovate in web-based marketing and distribution. Furthermore, some KSFs rated as ‘average’ are more essential to the health and competitiveness of the music business than others rated ‘below average.’ Music exports (average), for example, are likely more critical than cross-industry collaboration (below average), at least in the short term.

The results of our research and the contributions of the participants of the music strategy session we conducted in the course of this assignment led us to the following KSFs as priorities – in fact in rough order of priority:

- Online innovation
- Music exports
- Rights protection

- Government financial support
- Radio airplay support
- Professional development
- Industrial collaboration capacity

These areas of improvement, coupled with evidence garnered from the examination of music industries in other jurisdictions, form the basis for the strategic recommendations put forth in Section 6.

## 5 Ontario Compared: The Industry in Other Jurisdictions

In the course of our research, we rated the music industries several jurisdictions, also against the key success factors discussed above. The jurisdictions selected included whole countries as well as particular regions where there appeared to be an active music sector. In this section we summarize our findings in this analysis, presenting the rating and principal KSFs that drive these ratings. For more detailed analysis of the comparison of several foreign jurisdictions, please refer to Appendix B.

**Figure 6 - Summary of Other Jurisdictions**

Jurisdiction	Rating	Driving KSFs
<b>International</b>		
United Kingdom	A	<ul style="list-style-type: none"> <li>▪ Export Programs</li> <li>▪ Industry Collaboration</li> <li>▪ Strong Ecosystem</li> <li>▪ Access to Investment</li> </ul>
France	B+	<ul style="list-style-type: none"> <li>▪ Radio Airplay Support</li> <li>▪ Supportive Media</li> <li>▪ Government Support</li> <li>▪ Export Programs</li> </ul>
Austin (USA)	B+	<ul style="list-style-type: none"> <li>▪ Vibrant Live Music</li> <li>▪ Supportive Regional Media</li> <li>▪ Professional Development</li> <li>▪ Government Support</li> </ul>
Finland	B+	<ul style="list-style-type: none"> <li>▪ Export Programs</li> <li>▪ Government Support</li> <li>▪ Professional Development</li> </ul>
Iceland	B	<ul style="list-style-type: none"> <li>▪ Government Support</li> <li>▪ Export Programs</li> <li>▪ Vibrant Live Music Scene</li> </ul>
Berlin (Germany)	B	<ul style="list-style-type: none"> <li>▪ Industry Co-operation</li> <li>▪ Strength of the Ecosystem</li> <li>▪ Vibrant Live Music Scene</li> <li>▪ Export Offices</li> </ul>
Australia	C+	<ul style="list-style-type: none"> <li>▪ Industry Co-operation</li> <li>▪ Professional Development</li> <li>▪ Export Programs</li> </ul>
<b>Canada</b>		
Quebec	B+	<ul style="list-style-type: none"> <li>▪ Industry Co-operation</li> <li>▪ Government Support</li> <li>▪ Local Retail and Supportive Media</li> <li>▪ Strong Ecosystem</li> </ul>

Jurisdiction	Rating	Driving KSFs
Maritime Canada	C	<ul style="list-style-type: none"> <li>▪ Export Programs</li> <li>▪ Industry Co-operation</li> </ul>

As the above table (Figure 6) indicates, other jurisdictions tend to be active in export programs, professional development, and have generally cooperative industries. This finding would suggest that to remain competitive with these jurisdictions, the Ontario music industry should develop strategies that encompass these KSF drivers. Also, two of these three KSFs (export programs and professional development) were identified above as areas in which the Ontario music industry should pay specific attention. That these particular KSFs are driving the success of other jurisdictions' industries, lends all the more credence to this contention. Moreover, these are two areas in which jurisdictions directly compete with one another.

Beyond these overarching observations, our analysis leads to the following preliminary conclusions as to preliminary 'best practices' for music industries worldwide:

- **Strong export initiatives are vital for all markets:** Every market must look beyond its borders as a means of increasing music income and protecting the future of its talent and companies. Foreign markets can provide new business for existing and emerging artists; however, it is key that the industry understands the market and is able to form suitable partnerships on the ground. Government or industry-funded programs can help provide tools and nurture relationships.<sup>35</sup>
- **Industry cooperation benefits multiple stakeholders:** Many of the most effective music industry programs require significant or sustained funding and are often aimed at a broad cross-section of the industry. In order for this to be achieved, multiple stakeholder groups must have input and, where required, provide a contribution to funding. Although the objectives of certain groups may not be fully aligned, there is more benefit to finding common ground and pooling resources than sticking to positions that advance only their own interests.
- **Government support will make all measures more effective:** Growing and robust markets enjoy strong government support. On a simple level, this can mean significant funding (e.g. France or Finland). On a more complex level, this support can mean maintaining strong connections between industry and government that translate into effective representation of industry before government bodies.

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<sup>35</sup> This conclusion is further supported by the observation from one industry insider that states from Germany to Japan to Iceland are aggressively marketing their music content on the international market and that for Canada to remain competitive it must keep up with this trend.

- **Training and education will empower the overall industry:** In order to stimulate new businesses and innovation, the people part of the industry needs the right business and entrepreneurial skills. Artists, managers, labels, agents, distributors, and service providers will need to adapt to the digital era - providing them with the skills and insights to do so will benefit the industry as a whole.

While each jurisdiction is unique, there are specific projects, initiatives, programs, and regulatory and legislative approaches which are worth examining in the implementation of a music industry strategy. Where appropriate, such specifics are mentioned in the discussion of the strategy development in Section 6.

Finally, the comparison with other countries shows that while there are jurisdictions which are obviously quite successful, Ontario has many assets and advantages. All these jurisdictions are struggling with the aftermath of the Napster revolution, and the Ontario music industry has the wherewithal to chart its own course as well as any of them.

## **6 Strategy: Emerging Recommendations for Ontario**

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In this section, we develop recommendations for the music industry to improve Ontario's position within the music business. These recommendations are based on options generated through research, analysis, and the facilitated work shop with key industry representatives. They are mainly designed to address the deficiencies of Ontario along the key success factors as identified in Section 4, and in face of global competition, as analyzed in Section 5.

We first discuss objectives, the desired state for the Ontario music industry, and how progress toward meeting these objectives should be measured. We then relate how we developed the conclusions, the specific recommendations, and the logical priority for implementing these recommendations. Finally, we set out the rationale for the recommendations, i.e. the challenges the recommendations are to address, and then propose the actual recommendations for the music industry to consider in constructing its five-year strategy.

### **6.1 Goals, Objectives and their Measurement**

The recommendations outlined in this section were developed in the context of a number of premises and objectives for the Ontario music industry. Our basic premise is that developing and retaining IP ownership within the Canadian and Ontario music industries will serve to professionalize the industry, instil increased value, and attract external financing. Strategies that would succeed in doing so will be favoured.

Another premise, as the creative media move more into the digital age, is that there is a growing inter-relationship among creative industries, and this transition guides our options and recommendations. Therefore, while measures that shore up vertical industries like music are important, we look toward a future of increased cross-sector initiatives and leveraging new platform and communications technologies.

The goals of these recommendations are quite broad-reaching, as befits an industry that so permeates the fabric of cultural life in Ontario. As such, it is the intention of our recommendations that Ontario's music industry should reach a level:

- Where the music industry is recognized as a vital part of the provincial economy and receives support accordingly;
- Where healthy digital entrepreneurship leads to the increased uptake of digital music revenues;
- Where Ontario musicians have ready access to foreign and domestic markets;
- Where private investment is attracted to the music business;

- Where creators can enjoy a more prosperous and stable livelihood;
- Where the music infrastructure in Ontario reinforces artistic expression and development as well as business success.

It is expected that government, either Federal or Provincial, will look to performance measures for ensuring a good return on investment of any resources it allocates to this sector.

- One set of performance measures will be economic, i.e. some combination of employment figures, contribution to GDP, exports, attraction of foreign investment and companies, and incremental tax revenue for the province. The economic benefits can also include certain spinoff benefits and activities, e.g. the economic and labour impact on supplier and service industries; and the digital media innovations that have been spawned to create, distribute, and store music;<sup>36</sup>
- Another set of performance measures will be socio-cultural, e.g. the creation of attractive venues and vibrancy of urban life in Ontario; the creation of opportunities for Ontario residents to express themselves in music; and the benefit to Canadian culture from the creative output from home grown composers and performers;<sup>37</sup>

The music industry can deliver substantial benefits to Ontario. Through effective use of digital technologies, the music industry could return to a sales level of five-ten years ago – which would represent a few hundred million dollars contributed to the GDP. Similarly, if exports can reach double-digit growth, similar amounts would be added to the GDP. Finally, if more Ontario-originated and globally successful acts can be attracted to retain their main business functions in Canada, the impact will again be enormous – global superstars generate huge earnings more of which should flow through the Ontario economy. All these industry returns can be assembled in follow-up economic impact assessments to more fully measure the return on Ontario’s investment.

## 6.2 Areas of Priority Focus

We have grouped recommendations within seven areas of priority focus for the improvement of the music industry in Ontario. Within those areas, we outline optional strategies and make recommendations where they can be substantiated through

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<sup>36</sup> Any economic performance measurement must include an improved approach to statistical data collection and analysis that reflects to the totality of artist and/or record label activity.

<sup>37</sup> It should be noted that these performance indicators do not exclude one another. Rather, they should be combined to gauge the overall performance and contributions of the music industry to Ontario.

analysis, data, industry feedback, and other research of domestic and international practices.

The areas of focus were arrived at by comparing Ontario’s performance to the ‘key success factors’ described in Section 4. Those evaluations were then integrated with the priorities designated by key stakeholders at a strategy formulation workshop held at the OMDC. Each of the areas incorporates several of the KSFs identified. Additionally, the areas of priority focus were informed by international competition and best practices in other provinces and abroad.

The following graphic (Figure 7) outlines the seven areas of priority we have identified and rank them in order of importance.

**Figure 7 - Priority Rankings and Rationale**

	Priority Ranking	Ranking Rationale	Areas of Recommendation
 Importance	<b>1. Government Recognition</b>	<ul style="list-style-type: none"> <li>• Prerequisite to the continued support of the industry</li> <li>• Recognition of the music business both as culturally and economically vital to Ontario (and Canada).</li> </ul>	<ul style="list-style-type: none"> <li>• Ministerial Attention</li> <li>• Content in Innovation agenda</li> <li>• Recognition of the value of IP</li> </ul>
	<b>2. Internet and Digital Tech.</b>	<ul style="list-style-type: none"> <li>• Digital sales and management key to future success</li> <li>• Copyright should reinforce these efforts.</li> <li>• Required for success in any market.</li> </ul>	<ul style="list-style-type: none"> <li>• Online Marketing</li> <li>• Business Applications</li> <li>• Online Consumer services</li> <li>• Asset Protection (Copyright)</li> </ul>
	<b>3. Export Development</b>	<ul style="list-style-type: none"> <li>• Canadian domestic market is not large enough to support our talent.</li> <li>• Measures need to be taken to support success abroad.</li> </ul>	<ul style="list-style-type: none"> <li>• Export Office</li> <li>• International Marketing</li> </ul>
	<b>4. Domestic Market</b>	<ul style="list-style-type: none"> <li>• Remains key to development of new acts</li> <li>• Ontario music needs specific support in Canada both on domestic airwaves and in live music venues</li> </ul>	<ul style="list-style-type: none"> <li>• Commercial Radio Airplay</li> <li>• Public Radio (CBC) Partnerships</li> <li>• Internet Radio Environment</li> <li>• Live Music Venue Support</li> </ul>
	<b>5. Financial Support</b>	<ul style="list-style-type: none"> <li>• Remains a critical component of the music business in Canada.</li> <li>• Need to attract private financing and credit</li> </ul>	<ul style="list-style-type: none"> <li>• Targeted working capital funds</li> <li>• Renewing of gov't programs</li> <li>• Tax Incentives (corp. and personal)</li> </ul>
	<b>6. Human Resource Support</b>	<ul style="list-style-type: none"> <li>• The key resource of the music business in transition</li> <li>• Talented individuals crucial to survival of the industry, especially those trained in the exploitation of new media.</li> </ul>	<ul style="list-style-type: none"> <li>• Skills Development/Mentorship</li> <li>• Access to Talented Personnel</li> <li>• Next Gen. of Jobs Fund</li> </ul>
	<b>7. Coordinating Mechanisms</b>	<ul style="list-style-type: none"> <li>• Will help to facilitate any recommendations.</li> <li>• Need to invest in industry capacity to implement</li> <li>• A promotional/coordinating body empowered to perform numerous support functions may prove valuable</li> </ul>	<ul style="list-style-type: none"> <li>• OMDC Advisory Committee</li> <li>• Music Tank Ontario</li> </ul>

For each priority area we provide a brief rationale for its selection and then state the recommendations.

## 6.3 Priorities and Recommendations

### 6.3.1 Government Recognition of the Music Industry

While the Ontario government has identified the creative industries as key to the growth of the provincial economy, the focus seems to be placed on potential technological innovation and thus the technical elements digital media.

It is not clear that Ontario's Innovation Agenda (and 2008 Budget items associated with that Agenda) places an emphasis on the production of content-based creative industries, like music. Nor does it appear to recognize the strong interrelationship between content and technology as digital technologies are adopted in a converged media environment.

#### ***Government Recognition***

The provincial government has supported the music industry through a variety of programs and tax credits. However, it has never explicitly issued notification that the music industry is a priority for the Province, or that its cultural and economic contribution is regarded as very important.

The provincial government has not singled it out in any tangible way as a real strength in the drive to create growth and opportunity in Ontario. Without such explicit recognition, it is unlikely that the remainder of the recommendations set forth in this report will be sufficiently supported to maintain and foster Ontario's music industry.

This recognition could be accomplished through a number of tangible demonstrations ranging from the organization of an "Ontario Music Day", to explicit reference in further statements concerning the specifics of the Innovation Agenda, to a high level dialogue with industry representatives (say on the issue of Copyright). While mention of the music sector among others in new program announcements is normal, music should have its own emphasis – say in an announcement of a music export office (see another recommendation below).

***We recommend that the Ontario Government recognize the importance of a vibrant music industry in Ontario in a tangible way – such as the announcement of a package of measures designed to support and promote the music industry.***

### 6.3.2 The Internet and Digital Technologies

As we arrive at the tenth anniversary of Napster, the major disruption in the music industry continues to be Internet distribution, where over 50 billion illegal downloads in

North America each year create a difficult environment for music distribution. The number one priority in a five year music strategy for Ontario is to address the problems it poses and to find ways to take advantage of Internet promotion and distribution to redress the losses due to illegal downloading. The music industry needs effective strategies – some through collective action; some through collaboration among specific stakeholders; and by individual companies. Within this high priority area, we have developed recommendations in the following components of the emerging music industry value chain:

- Expansion of “B to C” commercially based downloading that is sufficiently attractive to generate payments from consumers;
- Internet marketing and promotion through social networking, website, and other tools;
- “B to B” distribution of copyright owners to wholesalers (“aggregators”) specializing in licensing to digital channels.

A related recommendation that underlines all the above is copyright protection for the music industry that covers the various digital platforms and delivery channels. However, copyright provisions themselves will not be sufficient to secure the digital marketplace for artists, publishers, and labels alike. A stronger copyright regime might attract foreign operations to Canada, but monetizing digital distribution requires innovation and investment - activities which in themselves can be expensive.

### ***Support the Creation of New, Market-driven Services***

An ambitious strategy for the music industry would be to develop one or more innovative new service (or services) that would tackle the direct issue of extracting revenue from individual users who access music (as well as other content) via the Internet.<sup>38</sup> Current consumer habits notwithstanding, there is still the potential for the music (and content) industry to bring forward a way to attract the interest of consumers to pay for a service.

One operating assumption is that an *a la carte* fee for download systems (e.g. iTunes) will only go so far in convincing consumers to pay for individual content selections. Another operating assumption is that consumers have demonstrated their willingness to

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<sup>38</sup> The Songwriters concept of a compulsory license fee (some would call it a levy) for all broadband subscribers to be collected by ISPs is one option.

pay for communications services much more readily than the actual content itself.<sup>39</sup> Another assumption is that consumers have demonstrated their interest in search, classification, and other value added features – and their willingness to pay for access to these features. Therefore, the big opportunity in digital distribution may lie in the bundling of communications and other features with access to content.<sup>40</sup>

One example might be a \$10-\$15/month “all-you-can-eat” model. It would be packaged with some useful and innovative features (e.g. virus protection, better than MPEG3 quality, and user friendly search and store tools). Clearly, the major ISPs would have to be part of the discussion, as would the ICT community required for any technical innovation in the feature set. Ontario happens to be the headquarters for many of the Canadian ISP stakeholders that would need to be involved. The value proposition and pricing would have to be carefully worked out, and of course the terms of payment for the music suppliers would need to be fair.

There may not be only one “big idea” that has all-stakeholder support. It is likely that there are different approaches to the problem, which may include working with ISPs or single organizations like a device provider or the CBC (See below the concept of a download service mentioned in the discussion on marketing and promotion). In the UK, there are signals that ISPs and the music industry are working out arrangements for the licensing of product to file sharing services in order to develop some revenue stream from file sharing. That could represent a major breakthrough in the monetization of the Internet for rights holders.

To facilitate the generation of ideas leading to innovation in this area, the music industry could establish a specific venue that would attract entrepreneurs with new business and technology models. It would be a place (virtual or otherwise) where potential innovators (e.g. recent computer engineering graduates) could pitch various solutions to a technical issue (e.g. an innovative variable price system) to a panel of technical experts and music industry stakeholders. Government ministries (such as MEDT and MRI) and agencies like OMDC could support innovative activities as required.

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<sup>39</sup> One example that probably typifies this behaviour is a recent decision by university students at McGill University. Apparently, students voted for higher ISP charges to access the “free” music content that they would not otherwise be prepared to pay for.

<sup>40</sup> The mobile distribution channel deserves a brief separate mention. Since 40% of electronic distribution revenues are from mobile platforms, they are clearly a growing part of the market. While accessing and collaborating with mobile operators makes sense, there are “off-deck” applications that operate outside the wireless operator offerings. These new innovators are exemplified by the Google-sponsored, open source-based Android platform application developers.

Whatever the value propositions devised for the consumer, the business model has to include appropriate payment for the content, i.e. for the copyright holder. While the payments formula has to be realistic because of the start-up nature of any new initiative, any revenues garnered by a new service should be split fairly between the distributors and the creators.

*We recommend that the music industry create made-in-Canada digital music service delivery systems in collaboration with online entrepreneurs and applications developers, leading to R&D, field trials, and other complementary initiatives – and that music rights holders are paid appropriately.*

### **Increase Online Marketing Support**

Promotion via the Internet through web sites and social networking has emerged as a great new marketing tool. Yet it requires skill, innovation, and investment if it is to be used as a key marketing tool. However, most indie labels have limited working capital, and the majors have less to invest in promoting artists signed to their labels than they did in the heyday of recorded music and CD sales.

With respect to domestic online promotional vehicles there are, in fact, very few made-in-Canada solutions or applications in the promotion and sales areas of the industry value-chain. Foreign services can have a positive effect in promoting Canadian music and generating virtual fan communities across national and geographic borders. Indeed, larger online social networks like MySpace have Canadian offices because they ‘geo-target’ users, and are able to control what artists are featured to Canadians accessing their site (at least on key areas like the sign-in page and MySpace music homepages).<sup>41</sup> That said the lack of Canadian-developed social networks and other marketing tools handicap the marketing potential of the Internet for Canadian music.

As outlined earlier (Section 3.3), there are many new initiatives afoot to promote music via the Internet and other electronic means – although it is unclear what will emerge as the winning formula. Independent labels, artists, and managers should be supported in the development of web-based marketing vehicles.

The provincial and federal music support programs have recognized the need for financial assistance in the marketing and promotion of Canadian (and Ontario) music in domestic and foreign markets. FACTOR, the Radio Starmaker Fund, and OMDC all

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<sup>41</sup> One exception to this is Puretracks, a Bell Canada property, which has a relatively smaller market share.

back music industry promotion and marketing initiatives now more than ever. Since marketing/promotion techniques are changing constantly, however, it is difficult to keep the programs relevant and fully pertinent.<sup>42</sup> It is also crucial that new and existing marketing and promotion support programs be co-ordinated among funding bodies to best serve the needs of the Ontario music industry.

*We recommend that the existing programs supporting marketing and promotion be reviewed and fine-tuned (or redesigned if necessary) to be more accessible and flexible in order to meet the changing market circumstances and in order to both encourage and reward innovative online and multi-platform marketing and promotion initiatives.*

### **Strengthen access to “B to B” distribution (aggregators)**

Independent labels, artists, and managers maintain there is poor access to the Canadian market via online services. This problem of access specifically relates to marketing Canadian music to foreign music aggregators to reach a Canadian market (say a wireless carrier). Generally, a Canadian rights holder needs to sell rights to these foreign aggregators and licensors even to access the Canadian market.

In order to better represent and provide market access to Canadian artists, one option is to develop Canadian alternatives to foreign aggregators, like Musicindie/Rightsrouter in the UK. The objective would be to provide independent labels (and publishers) access to large content delivery companies (e.g. mobile carriers, large social networks, online digital distributors).

The Independent Distribution Licensing Agency (IDLA) was recently supported by the Entertainment and Creative Cluster Partnerships Fund to develop the capacity to perform a similar function. However, more support is apparently needed to create a technical infrastructure to support multiple coding standards, and to reach a sufficient market level to be economically viable. Such initiatives are not eligible for traditional funding sources like Telefilm’s CNMF or the Bell New Media Fund support, but are

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<sup>42</sup> Some funds have, in the past, not been fully subscribed, in part because they were perceived to be difficult to access, or because they have some other limiting factors. For example, until this year OMDC’s “Music Fund” had not been fully subscribed – partly because the industry has yet to identify the kinds of initiatives that would be appropriate.

obviously eligible for the recently created Partnership program, which financed the IDLA initiative.<sup>43</sup>

There is also a contending perspective that would tend to favour the distribution infrastructure of majors as aggregators to access these large content delivery companies. The Audio-Visual Licensing Agency (AVLA) already performs this task in Canada, and regards IDLA as subsidized (and inefficient) competition. As majors are essential to physical distribution in Canada, then, one option is for them to perform that electronic aggregator role as well.

A third option would be to let the market forces do their work and/or facilitate the advent of foreign aggregators into Canada. Such foreign services could include online services (e.g. Pandora), and aggregators like IODA, Tunecore, and CDBaby in the US. One apparent barrier to the Canadian operations of foreign electronic distributors is that they are leery of Canada, because of the lack of copyright protection. The result is that they do not set up “.ca” operations as readily as they might, given the size of the potential market in Canada. Therefore, copyright reform is important to improving the business environment for foreign online services. Now that the Federal Industry Minister has tabled a new Copyright bill, the debate as to the proper balance of consumer-demands and industry protection has a live context within which to occur.

At this point we can only conclude that further analysis and industry consultation is required to address key questions:

- How critical is it to Canadian music to have well functioning aggregators aimed at the Canadian market?
- Is it sufficient for Canadian music to be served by foreign aggregators in our markets?
- What more could be gained by a Canadian-made solution?
- How feasible is it for a Canadian service to acquire sufficient music assets to attract market attention from users in Canada?
- What is the investment return and payback period for developing a Canadian-based music rights aggregator?
- What vehicle exists for creating such an aggregator or what should be put in place?

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<sup>43</sup> Some backers of PureTracks maintain that lack of public funding when it was formed was a great disadvantage, and led to the ultimate sale of PureTracks to Bell Canada – which does not have the same aspiration for its role in the electronic distribution universe in Canada.

- Who would invest in it, and how much public support should it obtain?

*We recommend that the OMDC and the music industry assess the value and feasibility of Canadian based aggregators, and canvass who might be the relevant stakeholders to make them commercially viable.*

### **Promote Asset Protection (Copyright Framework and Enforcement)**

There is consensus that Canada's current approach to copyright and IP falls short of what is needed to stimulate a strong music industry. However, there is no consensus on what changes need to be made to the existing copyright legislation. There are three reasons for a stronger stance on copyright: the integrity of the digital marketplace, the promotion of private investment in the Canadian music market, and the establishment of reciprocal agreements with foreign jurisdictions. The Ontario government also has major stake in protecting its investment in the content industries like music, i.e. to make sure that they can leverage the maximum economic return.

While there are different stances on copyright reform within the music industry, all parties recognize that there should be a balance between the rights of content creators with the ability of entrepreneurs to innovate in the digital world.<sup>44</sup> The June 2008 tabling of an amended Copyright Act by the federal government, suggests that action to alter the legal copyright framework may well be underway.

Because copyright legislation is a federal matter, the Ontario music industry can only put its position forward among other interests vying for the attention of the Canadian Parliament. At this time the various interests in Ontario are fairly entrenched, so there is no "magic bullet" formula for resolving the copyright issue in the music or creative sector at large. Unlike other cultural sectors, there is even contention among music creators and other rights holders, in addition to different perspectives between users and creators.

There are other areas within provincial jurisdiction in which Ontario can act. For example, as referred to earlier (see Section 2.4) the Canadian consumer – especially the youthful one – has little respect for the value of the IP. Thus, the province could help

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<sup>44</sup> A recent study by the UK Department for Culture, Media and Sport came to the same conclusion, suggesting that even countries that have amended their copyright legislation to be in compliance with the WIPO treaties still have room to make further improvements. See Creative Britain: New Talents for the New Economy; DCMS 2008.

build awareness in the educational system about the rights of IP owners. An educational initiative can take many forms as demonstrated in other jurisdictions.<sup>45</sup>

Other jurisdictions, like Japan, have taken a holistic approach to copyright and IP reform, focusing on inter-disciplinary protection, and study across technology, economy, law, environment, health, ethics and other sectors.<sup>46</sup> One option for Ontario would be to adopt the proposal of the Ontario Chamber of Commerce for a broad-based coalition of IP stakeholders to work with several provincial ministries. Such a coalition would focus on Ontario-based solutions – such as education in schools, compliance measures, and the like.<sup>47</sup>

It could also help develop Ontario's overall position for responding to amendments to the Copyright Act. Presumably, then, its scope would encompass the interests of the full range of stakeholders, including those inside and outside the music industry (e.g. the issue of educational exceptions). From the provincial government side, ministry participants in addition to MCL could include MRI, MEDT, Consumer and Business Services (CBS), and Finance. To better facilitate inter-ministerial communication, it may be necessary to engage the Premier's Office as a coordinating body.

Issues to be resolved in and around this table may include:

- IP education for consumers, businesses, and government;
- Enforcement programs which satisfy privacy concerns;
- Voluntary or legislative compensation accords (e.g. ISP levies, blanket licensing);
- Ongoing updating of copyright frameworks ensuring a flexible framework to ensure continued relevance;
- Monitoring and accessing international precedents (e.g. enforcement, education and flexible legislative solutions, and copyright mechanisms).

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<sup>45</sup> For example, the French have begun a billboard campaign using music stars to promote the purchase of music. The International Federation of the Phonographic Industry (IFPI) has also rolled out a program in the UK entitled "Young People, Music & the Internet," where teaching packs are distributed to schools to educate children on the proper use of IP.

<sup>46</sup> [http://www.cric.or.jp/cric\\_e/csj/csj3.html](http://www.cric.or.jp/cric_e/csj/csj3.html). The Japanese Copyright Office, which is in charge of copyright issues and procedures, has designated strategic fields for developing a comprehensive copyright policy: (1) streamlining laws and regulations, (2) developing smooth distribution systems, (3) dealing with international issues, (4) reinforcing education on intellectual property.

<sup>47</sup> This multi-stakeholder "IP Task Force" was articulated by the Ontario Chamber of Commerce in "Protection of Intellectual Property: A Case for Ontario" 2007.

Additionally, a copyright forum would serve as a venue for the Ontario government to interface with the music industry, thereby establishing links to re-enforce the improved recognition of the industry as recommended above.

*We recommend that provincial ministries engage the Ontario music industry and fellow creative industry representatives in a high-level, inter-ministerial forum that would engender an open dialogue around key copyright issues.*

### 6.3.3 Export Development: International Marketing and Promotion

**“The success of the Canadian music industry depends on its ability to export the products of its abundant talent outside of Canada. Nothing speaks to this more than the recent success of Canadian musical artists in North America and in other offshore markets.”**  
-- Duncan McKie, President and Executive Director, CIRPA.

The growth and prosperity of national music industries is becoming more export-dependent, given trends in music distribution and promotion. The need for exports has been recognized by other countries, some of whom have invested both substantially and effectively in export support and collaborative initiatives.

While interviews tend to indicate that the various federal and provincial government support mechanisms are fairly effective, there appear to be some gaps in the support.

- **Increased coordination under industry leadership:** There are several public and non-profit agencies involved which pursue their own mandates; there is some concern that their efforts are not coordinated, and that they are not sufficiently driven by music industry priorities.
- **Support program suitability:** While export and marketing support has grown as production technologies have lowered the cost of production, some programs are believed to be difficult to access (e.g. they have too onerous matching-funds requirements or the application process itself acts as a barrier). Some of the music industry organizations where commercial radio is an important stakeholder (viz. FACTOR and Radio Starmaker) were thought to have specific restrictions on their funding, which inhibit greater support for export activities.
- **Branding for export:** Other countries place a great deal of emphasis on the national branding of their music. While provincial activities more or less fold under the Canadian brand in representations abroad, there is some concern about the promotion of the provincial brand in circumstances where it confuses foreign buyers.

- **Export readiness:** There is concern expressed that some artists, labels, and managers are not sufficiently “export ready.” The criteria for what it takes to be a qualified potential exporter is rapidly evolving and successful exporters do not necessarily have to be experienced labels. However, export enhancement programs should pay more attention to qualifying the potential of support applicants – and concentrate more resources on fewer applicants.
- **Rights protection:** As mentioned above, a robust copyright protection regime can facilitate exports by offering potential partners in reciprocal trade agreements some measure of assurance against the ‘theft’ of their materials. The perceived lack of such protection in Canada depreciates the value of the Canadian market, thus hurting relationships with foreign distributors.

Identifying, marketing to, and sustaining export efforts require planning and investment. In turn, these requirements imply a consensus among industry funding sponsors that exports are complementary to a vibrant domestic music scene, and that appropriate mechanisms are in place to support exports. It is assumed that the objective is building up the music industry as a business. The export target should be strong double-digit export sales growth.<sup>48</sup>

To develop strategic options for consideration, it is useful to parse the main export activities, as follows:

- **Market intelligence:** Developing a deep understanding of the emerging market opportunities and the ways to access them - including the shifting nature of key customers, distribution channels, and promotion avenues, and the rights and rates practices inherent in all the new business models (revenue sharing, splits, level of advances, etc.);
- **Priority geographic or niche markets:** Selecting and the right target markets and developing the appropriate collaborative initiatives to access these markets; taking advantage of Ontario’s cultural diversity to identify artists and products that can better access international markets (e.g. Indian music produced in Canada for consumption on the subcontinent);
- **Marketing, distribution channels, and sales initiatives:** Developing collective and individual marketing and promotion campaigns that lead to sales follow-up and closing; touring is obviously an important component of marketing as well as a potential revenue-producing activity; licensing to the global digital aggregators and online services are an added dimension in today’s electronic marketplace;

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<sup>48</sup> Note that Finland has achieved a growth of 40% year on year since 2002, resulting in an export sale of some Euros 150M last year in licensing, distribution, and services.

- **Business relationships:** Investing in continuous marketing, promotion and sales campaigns to sustain relationships with foreign markets; developing an extensive and constantly refreshed network of foreign counterparts in the music business.

Beyond resolving copyright issues (discussed earlier), we conclude that there are two broad interrelated approaches that should be pursued: the creation of an export office and revisions to existing support programs.

### ***Creation of an export office***

An export office would place capacity in key foreign locations (e.g. New York and London), but remain flexible to re-deploy where subsequent markets develop. Implementation would involve the use of contract staff (full- or part-time) rather than Foreign Affairs appointments (who would inevitably be drawn into other industries as well).

One important function - that can be done anywhere - is the creation of a large contact data base, and maintaining a robust online presence and publishing a regular online bulletin of market intelligence to the Canadian music industry. Other functions should be designed in support of the export activities described above.

Other countries<sup>49</sup> and other industry sectors in Canada (e.g. the Association for the Export of Canadian Books - AECB) have established export offices. These export offices take the lead in some of the functions now distributed in different agencies like Telefilm Canada, Trade Routes, and in Ontario the OMDC. The export office model has met with some success in Australia, Finland, Iceland, Germany, Sweden, and France.<sup>50</sup> British Music Embassy is another example of an organization that provides funds for high-impact events and targeted networking sessions for its constituency.

An export office need not be a direct extension of the federal government. For instance, the AECB provides an informative, industry-led model for export support; it offers training, funds, and contacts to Canadian publishers seeking to export their products. However, the AECB is centred in Ottawa, and we conclude that it should be located in

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<sup>49</sup> Australia, France, UK, Finland, Iceland, Germany, New Zealand and Japan among others, all have active export offices. Australia has 4 music offices including Vancouver. France has offices in Brazil, Germany, Great Britain, Japan, Mexico, Russia, Spain, and the US.

<sup>50</sup> In July of 2008, the Queensland (a state of Australia) announced that its strategy of funding local music acts abroad was “continuing to pay off,” according to statements made by the state’s ministers of trade and the arts.

the heart of the music business – Toronto. A companion office could also be located in Montreal to be close to the country's next largest music industry.

Whether an extension of, or apart from, the federal government we recommend that the export office should be national. It would focus on the Canada brand (rather than individual provinces or cities) and draw particular attention to recognizable aspects of this brand, such as top artists.

At the same time, provincial interests could be accommodated and indeed encouraged through joint initiatives with the export office. For example, Ontario could create a program to work with the Export Office to open up a market niche of specific interest to a segment of the Ontario music sector (e.g. a genre such as classical jazz, or a linguistic niche such as Portuguese language musicians). Other provinces could climb aboard to expand the resource base as necessary; Ontario could also join other provinces that launch other initiatives, (e.g. Franco-Ontarian music could join with other francophones outside Quebec or even with Quebec).

*We recommend that the Ontario music industry lead a national, all-music industry initiative to develop a feasible concept for an export office – ideally in collaboration with the federal government from the outset.*

### ***Increase export assistance for existing support programs***

As noted earlier, there are some restrictions on existing organizations that could be changed through decisions within the governance structure of each of those organizations, namely FACTOR, Radio Starmaker Fund, etc. Avenues of improvement with respect to these programs could include:

- Lower the requirement for matched funds on a selective basis;
- Increase the frequency of disbursement;
- Improve co-ordination between program administrators;
- Increase the proportion of funds allowed to be spent internationally in current marketing/promotion programs.

Now would be an appropriate time to enter into discussions on guidelines as the two music development funds digest the significant benefit funds arising from the acquisitions of Standard and CHUM radio. A practical step would be to appoint an Ontario representative to the FACTOR advisory committee, now vacant.

*We recommend that the Ontario music industry engage with the export program support organizations and advocate changes to meet the heightened need for export development.*

### 6.3.3 Domestic Market Support

**“In New Music We Trust.”**

-- BBC 1, UK

Ontario creators produce and release a lot of music, and programs such as those run by FACTOR provide financial support for music production. Some would argue that Ontario (and English Canada in general) tries to release too many tracks for the market to bear.<sup>51</sup> Others believe in the “let 1000 flowers bloom” approach, arguing that where the next success will come from is unknown.

Although worthy of discussion, we are not making any conclusions about whether Ontario is producing “too much” music. However, it is clear that if there is no marketing and promotion there is no business success for music. Below we introduce four recommendations to improve the state of Ontario music in the domestic market in the following areas:

- Increased radio airplay of Canadian music, especially the breaking of new acts and their continued support by private radio;
- Increased collaboration with the CBC re support of the Canadian music industry;
- Facilitating the development of Internet radio as a vehicle for promoting Canadian music;
- Stimulating a more diversified and vibrant live performance scene.

#### ***Advocate for Airplay on Commercial Radio***

Because radio stations and networks are more centrally controlled than in the past, they tend to stick primarily to commercial playlists; therefore, it has become even more difficult for emerging artists to obtain exposure via radio airplay. Private radio station groups and the music industry routinely square off in front of the CRTC in the seemingly elusive quest for the proper mix of regulatory stimulus to airplay for emerging (and not so emerging) artists. The recent proceeding regarding the definition of an “emerging artist” is yet one more manifestation of this on-going struggle.

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<sup>51</sup> One back of the envelope calculation by an industry expert was that about 2500 albums are released in Canada every year, based on an estimate from the Music Industry Database.

Ontario hosts the headquarters of national music associations and the main copyright collectives. It is also the home of some of the larger radio groups (i.e. Rogers, Corus, and the radio division of CHUM), although it has lost the Standard group to Montreal-based Astral. There is no real forum for bringing these interests together except in awards ceremonies and separately in front of the CRTC. As the major broadcasting groups tend to be larger, well-financed entities, the Ontario government should act to counter this weight by presenting the position of this province's music industry. In this capacity the Ontario government could become an intermediary between private radio and the music industry.

While Ontario cannot intervene in all CRTC hearings, the importance of radio airplay to the music industry suggests that music interventions should receive higher priority than they have in past. This is, however, not to say that music interventions should divert attention from other Ontario creative industries.<sup>52</sup>

*We recommend that the Ontario government continue to consult with the Ontario Music industry and represent its position(s) in CRTC policy proceedings that affect the music industry, especially emerging artists.*

### ***Collaborate with Public Radio***

Because of the variety of outlets and collective market share, commercial radio remains the workhorse of airplay promotion for Canadian music. However, the Ontario music industry can at the same time engage more effectively with CBC radio. There are three possibilities:

- **Ongoing innovation with Radio 3 online:** Radio 3 has been innovating over the years with its New Music Canada website; programmable playlists; popular podcasts; and soon separate, genre-focused streams of music (hip hop, new rock, etc.).
- **Re-development of Radio 2:** The re-launch of CBC's most widely listened to radio service is to occur in the fall of 2008. Radio 2's new focus is on world music, Canadian singer-songwriters during the popular drive-home period, and live music. While it not be popular for the classical music industry, this thrust presents a significant opportunity for the Ontario and Canadian music industry to derive more support from CBC radio.

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<sup>52</sup> The Ontario government did not intervene in the CRTC proceeding on the definition of the emerging artist, but should consider doing so in important policy proceedings in the future.

- **Ongoing innovation across CBC properties:** Across CBC.ca, through programs like ‘The Hour’ and various aspects of CBC.ca, the CBC is continuously innovating to support Canadian content and a star system.

Because of the recent CBC initiatives, it is an appropriate time to engage more strategically with the public broadcaster. Such collaboration would not be instead of seeking better airplay support by private radio, but rather to complement regulatory initiatives to achieve Canadian music industry objectives. Potential options for future collaboration and mutual support with the CBC include:

- **Joint program and project development:** The CBC works with the industry through individual relationships with labels and artists. However, there is no formal channel to feed in industry input to development of programs and innovation. The Ontario music industry could work with the CBC to continue to innovate and respond to the needs of the industry.
- **Development of a download-to-own site:** The CBC has expressed interest in potentially exploring the development of such a site, possibly as a pilot with the industry. The Ontario music industry could spearhead a national pilot for such a site.
- **A mutually supportive public relationship:** CBC Radio 2 is experiencing vocal protests about the impending schedule changes which might threaten their implementation. CBC would really appreciate the active involvement of the music industry to support its direction in view of the potential contribution to new artist airplay. In return, the CBC could publicly champion Canadian music industry objectives, in addition to showcasing Canadian music in its various delivery platforms.

*We recommend that the Canadian music industry (led by Ontario) establish a more strategic relationship with the CBC and advance mutual interests in Canadian music airplay, digital distribution, and public representation.*

### **Create an Environment Amenable to Internet Radio**

Radio has traditionally been among the main forums for consumers to encounter new music. Beyond commercial and public radio lie satellite radio, Internet radio, an embryonic wireless radio, and other emerging forms of transmission. These “newcomers” to the radio business illustrate how traditional radio is moving into new formats, new radio distribution models, and distribution systems. In particular, Internet radio is important to the music industry because radio stations/networks have brands that attract listeners to their websites, and their contribution to experimentation and breaking new acts could be enhanced via the web.

However, Internet radio is handicapped as an innovator for marketing and promotion of new talent because of the potential copyright liability pending the resolution of an appropriate tariff. When determining tariff rates, and other forms of artist/label remuneration, stakeholders should take into account the nascent, fragile nature of this sector. While both content creators and rights exploiters should, of course, be compensated for their work a flexible model should be established that allows for (and perhaps even promotes) investment in, and the growth of, Internet radio properties.

Given the growth of the digital consumption of music, coupled with the extension of the Internet to mobile devices over third and fourth generation protocols, cutting Internet radio off at the roots will do no service to the music industry in Ontario. There should be talk and discussion to see how the music industry (represented by its appropriate collectives) and private radio can work together on the setting the conditions for more innovation in web-based radio.

*We recommend that private radio and the music industry discuss what steps could be taken to facilitate development of Internet radio as a viable delivery mechanism for Ontario music.*

### **Support Live Music Venues**

As was identified in previous sections, live music in Ontario tends to be focused in large urban centres and to privilege the ‘rock’ genre. Accordingly, it was reported that acts in alternative genres (e.g. folk, hip hop, and jazz) have difficulty locating venues in which to play in urban centres and that these groups, for the most part, find it impossible to play in smaller centres. At the same time, while the summer months see a plethora of music festivals (e.g. Jazz Fests in Toronto and BluesFest in Ottawa), the winter months (or “off-season”) can be quite lean.

In the present economic situation, an increasing proportion of an artist’s income is derived from live performances. As well, a robust and diversified live performance scene adds immeasurably to the vibrancy of life in Ontario. Thus, it is timely to consider specific measures to support music venues in Ontario.

The Quebec Council for the Arts and Letters (CALQ) stands as an example of a program that provides financial support for music venues in that province. In Ontario, the emphasis should be for certain genres (e.g. urban, world and folk music), for jurisdictions outside of major urban centres, and for seasons other than summer.

The Ontario Arts Council currently offers support to individuals and organization touring outside of major urban centre.<sup>53</sup> In order not to duplicate this support we propose that new support programs be geared to the support of music venues.

Such a program could disburse funds for either the creation of new venues or the upkeep of existing ones, rather than support for touring artists. This approach would provide additional play-dates for artists touring in Ontario, and would increase economic activity in smaller Ontario towns.

*We recommend that a venue-oriented support program be developed to stimulate the following:*

- *live performances in urban venues in the 'off-season';*
- *the showcasing of niche genres;*
- *smaller-centre venues featuring non-rock acts.*

#### **6.3.4 Financial Support**

There are various parts of the financial support infrastructure for the music industry in Ontario which will need to be bolstered to ensure a vibrant industry for years to come. There are several challenges in the financing support infrastructure for the music industry, including the following:

- Uncertainty in the renewal of the critically important Canada Music Fund by the federal government in 2009;
- Lack of financing for capitalizing on digital technologies at the firm and industry-wide level;
- Lack of support from the financial services industry for working capital, equity investment, and credit availability for IP-based assets;
- Under-utilization of the tax credit incentives for music industry projects;
- Lack of financial incentives for encouraging creators to stay in the industry, companies to build their corporate base, and for established creators to retain their businesses in Ontario.

#### ***Support the Renewal of the Canadian Music Fund***

A critical component of existing financial support programs is the federal Canada Music Fund (CMF). For instance, the Music Entrepreneur Component (MEC) program is

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<sup>53</sup> See the detail of this program at <http://www.arts.on.ca/Page108.aspx>

aimed at experienced Canadian labels and music publishers.<sup>54</sup> More broadly, however, the entire range of the CMF support programs is vital to the music sector. Given the uncertainty about support for the cultural sector in Ottawa, it is imperative for the Ontario music industry to push for the renewal of the CMF in 2009.

Beyond the primary objective to get the CMF renewed there are amendments to it that would benefit the industry, particularly in the export area. If the Ontario music industry is to focus on developing entrepreneurship across the music industry, it should work with the federal government on its guidelines and a possible re-design over the next year as it advances toward renewal. Ontario programs should dovetail with federal ones and even pick up the slack in areas where there is some deficiencies in the CMF, e.g. more flexibility for export marketing and market development initiatives.

*We recommend that the Ontario music industry and the Ontario government strenuously support the renewal, expansion and enhancement of the Canadian Music Fund.*

#### ***Increase Targeted Investment for Mobilizing around Digital***

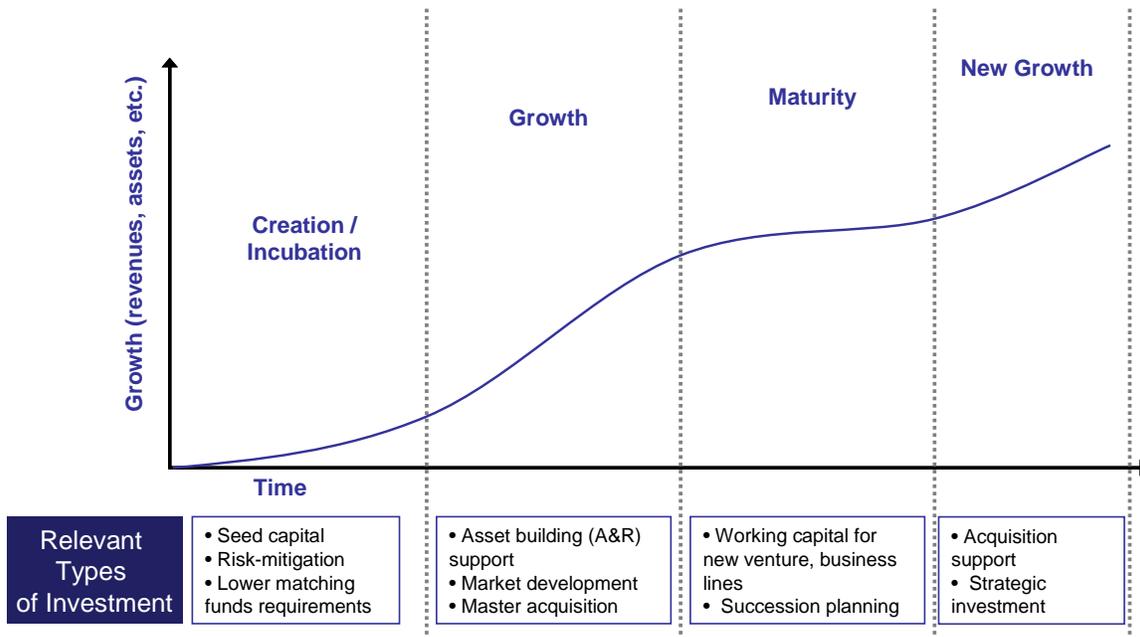
The firm-level capitalization deficiency is manifested in several ways - including not having sufficient capital to invest or innovate in digital platforms, distribution, or marketing and promotion. A more profitable music industry that attracts capital is the primary objective, but it will need public support to gear itself to the new digital age. The challenge, then, is to organize public support around building better businesses.

While the specific nature of public funding requires further consultation between the OMDC and Ontario music industry, the following graphic illustrates the intervention points in the growth of music company at which funding may be most pertinent.

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<sup>54</sup> The federal government has sought to assist the industry at the firm level directly, first through the MEP program, and now through a re-organized Music Entrepreneur Component (MEC) program. Eligible companies are experienced Canadian labels (and now music publishers are eligible); the funds can be allocated to projects for production, marketing, touring, and other project- support activities, or to corporate upgrading (including IT systems, digital rights tracking, etc.). The MEC is part of the CMF program, which is up for renewal in 2009.

**Figure 8 - Investment in Music Companies along the Corporate Lifecycle**



Important industry-wide initiatives will likely depend on public funding; sometimes this funding can be difficult to access because criteria have not caught up to the needs of applicants.<sup>55</sup> Support for significant music industry collaboration would be in addition to the firm level interventions to be addressed for companies at different stages in the maturity curve as indicated above.

Funding for these programs need not come exclusively from government expenditures. For example, a chunk of the proceeds of the significant benefits package arising from the sale of Standard and CHUM radio groups will start flowing through the music industry. This new influx of funds may be used to partially support the financing of new initiatives and corporate investments, obviously as long as they respect the ‘significant benefits’ regulations of the CRTC.<sup>56</sup>

<sup>55</sup> The failure of the industry to obtain public investment in PureTracks is considered by some observers as the principal reason for the failure to develop a serious alternative to iTunes.

<sup>56</sup> “Significant public benefits” refers to the commitments from the acquiring broadcasters that the CRTC extracts from the transfer of ownership of media properties in Canada. These commitments are intended to serve the interests of the overall content production environment and typically comprise up to 6% of the value of transaction.

*We recommend that the Ontario music industry investigate the appropriate support mechanisms for intervening at each stage in the life cycle of music firms and work with OMDC to provide advice to the Ontario government.*

### ***Increase the Profile of Intellectual Property to the Financial Services Sector***

As the music industry spawns more profitable enterprises it should work on attracting private sector investment. Given the current marginal financial performance of the music business, this will be a challenge. However, the dominant industry in Ontario is financial services and there is a growing understanding that the creative industry is a business of the future. It probably would make sense, therefore, for the music industry to cooperate with the other sectors in a campaign to educate and attract the financial services sector – for lines of credit, interim financing, IP asset valuation, risk capital, and succession planning.

The objective would be more than simply to educate, obviously. The desired outcome would be commitments by the financial services industry in the music industry. For example on the equity front, one result could be to design unique private sector funding models to inject equity into artists and labels. In the UK, there is a new investment vehicle being launched by a venture capital group that is designed to invest in a broad range of UK music talent. The fund plans to invest in 20 to 30 artists from both emerging and heritage acts. In this model each artist becomes a standalone "profit and loss", business operation which moves away from the antiquated advance/recoup model.<sup>57</sup>

*We recommend that the music industry work with other creative industries and government on building awareness within the financial services sector of the attractiveness of IP-based businesses.*

### ***Re-examine Corporate Tax Credits Regime***

Ontario benefits from tax credit regimes for four cultural sectors – books, music, digital media, and film/video (plus animation and digital effects). While imperfect as

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<sup>57</sup> This new fund is being launched by venture capitalist outfit Power Amp Music, and is seeking to raise £10 million as an Approved Investment Fund under the Enterprise Investment Scheme. By investing directly in artists' careers, investors can participate in all revenues available to artists, including recording, publishing, live gigs and merchandising. See Music Week article by Robert Ashton, Feb. 8, 2008. For more info on the EIS program that provides tax breaks to support high risk funds, see:

<http://www.eisa.org.uk/render.aspx?siteID=1&navIDs=21,97>

mechanisms to support companies as opposed to projects, they can help stabilize the financial structure of companies.

Unfortunately, the Ontario Sound Recording Tax Credit (OSRTC) has historically been under-utilized according to the accounts of the industry and the OMDC administrators. It is not clear whether it is sufficiently high enough, marketed effectively, has too stringent eligibility requirements, or is lacking interim financing vehicles (e.g. banks active in the business). It should be reviewed for potential improvements to inject capital into labels and other music value chain elements.<sup>58</sup>

The Ontario music industry should consider its available resources and, if possible, form a standing committee to ensure that the levels and administration of tax credits remain efficient and effective means of support for the music industry in Ontario.

*We recommend that the Ontario music industry re-examine the value of the Ontario Sound Recording Tax Credit, with particular attention to maximizing its efficiency in meeting the corporate needs of the music industry.*

### ***Establish a Tax Relief Scheme for Artists***

The continued low earnings of musicians are a disincentive to staying in the business; some would say that the talent will out, but musicians and creators, like any other profession, can perform better if they can afford to dedicate themselves to their work.

At the other end of the scale, top artists invariably sign with major labels for international distribution, and typically move their businesses to lower-tax jurisdictions. For instance, Avril Lavigne has her revenues, including royalty proceeds, flow to her Los Angeles-based personal management company. If top-end artists are encouraged to keep their royalty revenue flowing through Canada, it would be an important earnings recovery for reinvestment in the business, not to mention the return to the economy.<sup>59</sup>

Therefore, the tax regime for individuals should be examined for possible tax relief for both creators in the early stage of their career, for artists in the middle stages of their careers and for the very small group of established performers/songwriters with global success. Levels of tax relief would vary according to the needs of these three groups of

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<sup>58</sup> One such improvement could be the simplification and clarification of the application process, done in collaboration with Ontario's independent music labels.

<sup>59</sup> A back of the envelope calculation by an industry veteran estimated that Avril Lavigne has personally earned about \$30 million in total revenue per year over the last few years. Flowing three years of these earnings through the economy is the equivalent of 5 years of a successful TV drama series.

artists. The Irish model for this type of scheme is certainly one to review, as it addresses both these issues – providing tax relief for artists at a certain income level to foster development, and to attract foreign earnings back to the Republic.<sup>60</sup>

It is likely that the music industry alone would not merit tax authority attention. It would therefore be preferable to seek multi-sector creative industry buy-in for changes in the personal income tax regime. Besides OMDC, the obvious ministries to involve in the implementation of these recommendations are Finance, Economic Trade and Development, and Small Business and Entrepreneurship (MSBE).

*We recommend that the Ontario music industry work with other creative sectors to request that Ontario design an adaptive system of personal tax credit relief for artists in all stages of their careers.*

### **6.3.5 Human Resource Support**

Unless it is the object of a special study, the quality of the training and skills of the human resources in all elements of the music sector value chain does not make any “top three” priority list. However, the transition to digital cries out for the ability to learn new business models, adopt new technology, and understand a more complex commercial world.<sup>61</sup> There is a definite correlation between building better businesses and learning, and this is therefore proposed as an area of need – similar to all of the creative industry sectors. In this context, four recommendations are proposed to address the following challenges:

- Lack of skills appropriate for the digital age and of time and resources of the industry to invest in upgrading them;
- Lack of consideration of music industry opportunities by science and business graduates;
- Inaccessibility of the Next Generation of Jobs Fund for the music and other creative sectors;

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<sup>60</sup> In 2007, such an exemption was proposed in Ireland and consists of a 50% tax reduction on income derived from certain artistic works (e.g. sound recording) among high-income earners (over 250,000 Euros), with total exemption for lower income earners.

<sup>61</sup> The need at this time is eloquently stated in a forthcoming report on a national training strategy by the Brock + Chaloux Group.

### ***Promote Skills Upgrading***

Skills upgrading covers many elements, including professional development, formal education, interns/apprenticeships, and mentoring. The professional development component should borrow from the best practices of ADISQ in Quebec, which has years of experience in the delivery of such programs. The formal education component should link to the appropriate community colleges and one of Ontario's business schools, like York's Schulich, which has an Arts and Media MBA option. An internship program component could borrow from another sector like film and TV production, where the CFTPA has experience in managing this kind of program.

To supplement these initiatives, the music industry could also establish a mentorship program so that music professionals could start to look at music-related jobs as a career.<sup>62</sup> Such programs would make use of mentors in various entry-, mid-, and senior-level positions. However, it should be noted that there are significant administrative and financial implications to the establishment of a mentorship/internship program – especially for the understaffed indie label, manager, agent, or other music industry stakeholder. It is recognized that the lack of time is a constraining factor and that it should be fully taken into account in program design.

Because of its expertise and recent study of the subject, the Ontario music industry should work with the Cultural Human Resources Council (CHRC) in the design and implementation of HR upgrading programs.

***We recommend that the CHRC collaborate with the Ontario music industry to establish human resource initiatives including the following:***

- ***A low-burden mentorship system, using the governmental agencies to relieve some of the administrative and logistical challenges;***
- ***An on-going series of skills upgrading workshops, with particular focus on digital technologies and managerial skills, drawing on ADISQ's experience;***
- ***More permanent links with Ontario-based business schools to facilitate the formal education of music industry personnel.***

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<sup>62</sup> While it is true that Ontario is home to a number of post-secondary training organization (e.g. Trebas and Harris Institutes), these schools provide good access to entry-level personnel. However, there appears to be a gap in skills at the management level.

### ***Access a Broader Range of Talent***

Since technology is rapidly transforming the way music is created, marketed, and delivered, there is plenty of opportunity for innovation. Much of it will come from the nexus of business, technology, and music. Accordingly, the music industry should expand its horizons in terms of new talent in the digital era.

In fact, there is a wealth of technically proficient talent that is produced yearly by the province's post secondary institutions. Interfacing with these institutions in programs not traditionally associated with music, like computer science or business administration, may provide the industry access to new sources of talent. Moreover, such talent would be particularly useful in areas in which the industries skills are currently deficient.

*We recommend that the Ontario music industry arrive at a promotional campaign, working with Ontario-based academic institutions and relevant Ontario ministries to attract and retain talented individuals, especially in the digital arena.*

### ***Amend Next Generation of Jobs Fund***

The last Ontario budget featured a "Next Generation of Jobs" Fund (training and development), a five-year, \$1.15 billion strategy. This fund presents an excellent opportunity to design an Ontario training strategy in partnership between the music and other IP-based content sectors and the first-rate post-secondary and other training institutions in the Province.

Apparently, the Fund is currently set to target the digital media and ICT elements of the creative industries. How content-focused creative industries' (like music) will be involved is less clear. The Fund also requires a large contribution from the partner sector, which may prove difficult for creative sectors like the music industry.

The Fund's criteria aim to:

- Secure good jobs for Ontarians;
- Help establish Ontario as a global leader in an emerging market;
- Build on existing expertise in areas in which Ontario has a strong research and commercialization base or create new expertise;

- Create synergies among researchers, business people and entrepreneurs.<sup>63</sup>

In line with our first, overarching recommendation (for the province to better recognize the importance of the music industry – see above), it is suggested that alterations be made to the program so as to render it accessible to the music industry.<sup>64</sup>

*We recommend that the Ontario government re-examine the Next Generation of Jobs Fund with the aim of making it accessible to applications from the music and other content sectors.*

### 6.3.6 Coordination Mechanisms

“Nobody knows everything but having an information network that can feed upwards, downwards, sideways and across all sectors – [it] can only be a fantastic springboard for our future generation of creators.”

-- Maggie Crowe, External and Educational Affairs, BPI

Since many of the recommendations proposed involve more work by the Ontario music industry, it is appropriate to address the issue of organizational capacity. The main challenges are:

- The issue of representation for the Ontario music industry in various organizational and consultative fora;
- The need for capacity development in music industry organizations to enable the implementation of the recommendations proposed.

#### ***Maximize use of Existing Music Support Mechanisms***

One representation option would be the creation of an Ontario Music Association, akin to ADISQ in Quebec or MARIA in Manitoba. Ontario, on the other hand, is in the unique position of being the centre for national associations for English Canada, and these associations are well positioned to carry out an informal dual function of addressing provincial and national needs. While Ontario music industry representation could be beefed up on important boards (FACTOR and OMDC were singled out), the creation of an Ontario music association is not recommended.

Accordingly, it is thought that the recommendations could be implemented using existing support mechanisms. For example, we have made explicit recommendations to that effect with respect to upgrading the tax credit and other financial support interests.

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<sup>63</sup> See [http://www.ontario-canada.com/ontcan/en/progserv\\_ngjf\\_en.jsp](http://www.ontario-canada.com/ontcan/en/progserv_ngjf_en.jsp)

<sup>64</sup> See [http://www.ontario-canada.com/ontcan/en/nextgen\\_jip\\_en.jsp](http://www.ontario-canada.com/ontcan/en/nextgen_jip_en.jsp)

Additionally, maximizing the utility of current support mechanisms could include establishing a better working relationship between the Ontario music industry (in general) and the Ontario Arts Council, which has long been a supporter of Ontario musicians.

Thus, it would appear to make sense to make the best use of the currently available supports structures and resources. Several stakeholders expressed “stakeholder fatigue,” and maintained that a lack of available resources would further mitigate against adding “another layer” to the machinery already in place (e.g. an Ontario music association). The existing infrastructure, if properly exploited, is likely the best course of action for the short term.

*We recommend against setting up another Ontario focused organization at this time, and extend the use of the existing mechanisms to guide the sector in the implementation of the recommendations*

### ***Establish MusicTank Ontario in Medium Term***

A more ambitious plan for the medium term would to create the capacity to bring in other relevant stakeholders to address common problems and seize initiatives. There are simply more organizations to deal with to take advantage of Ontario’s interest in building up the creative media sector. So, multi-stakeholders in industry deliberation and consultation will require new forms and forums in the medium term. While we do not favour a new industry association, there are other organizational structures that should be considered.

One international model worthy of consideration is the UK MusicTank. It is “a business development network for the UK music industry, owned and operated by the University of Westminster - its purpose; to engage with industry, innovation and change across the music business.”<sup>65</sup>

Structured as an avenue to air differences but work toward a common goal, this concept could help bring together industry partners to agree on positions and/or develop joint ventures. It could also provide professional development seminars around the newest

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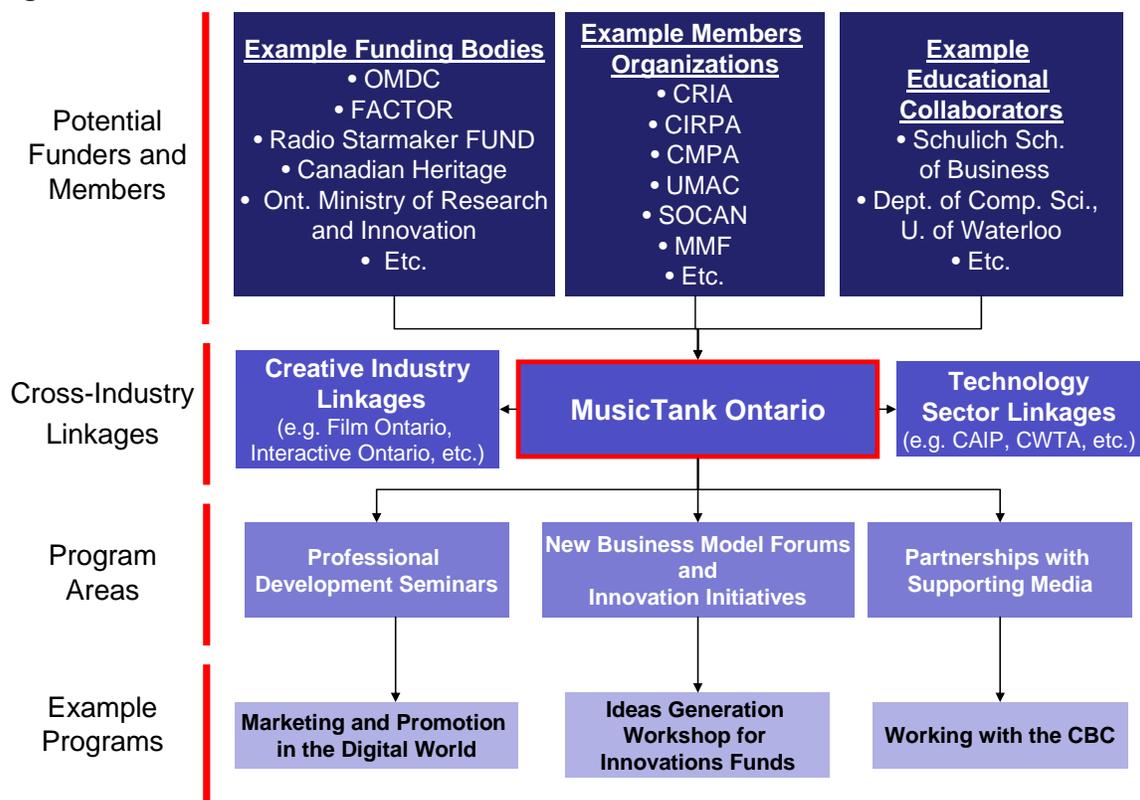
<sup>65</sup> From MusicTank home page: <http://www.musictank.co.uk/>. It brings together 14 UK music industry bodies including rights collection agencies, educational bodies and industry associations. Music Tank brings “into sharp focus [hot topics and helping pinpoint the opportunities created by disruptive technologies, it aims to not only address challenges the music industry faces, but aspires to] innovative ideas, best practice and cutting-edge strategies to increase innovation and productivity across the music industry (<http://www.musictank.co.uk/about>)

marketing techniques and hold forums to connect innovative marketers with artists and music industry executives. When revved up, MusicTank could even commission cutting-edge research and actively promote technical innovation in the management and distribution of music.

It is recognized that Ontario music industry companies and their representatives have limited resources (both in terms of time and funds) to support the creation of this type of organization. Also, it takes a considerable amount of time to initiate such a body. It is for these reasons that we suggest MusicTank Ontario as a longer term goal, towards which the Ontario music industry can work.

The following graphic illustrates the potential structure and function of this proposed new industry body:

**Figure 9 – Potential Ontario MusicTank**



As Figure 9 shows, MusicTank Ontario would be composed of existing industry organizations, rather than directly by individual members, and would not establish itself as a traditional industry association. Instead, the Ontario MusicTank would become an ad hoc forum across all elements of the industry, and galvanize (but not deliver) support programs in training, financing, and common industry investments.

One potential partner in the creation of an Ontario MusicTank could be the Lloyd & Delphine Martin Prosperity Institute (MPI), a think tank located at the University of Toronto. This organization could leverage their existing infrastructure and networks to mitigate the costs of creating a new music-related think tank. This think tank, currently headed by Richard Florida, is principally concerned with “unleashing the full creative potential of each and every human being, sustaining human and natural resources, and developing diverse and inclusive social structures.” In principle, then, the Prosperity Institute could be a good fit for partnership in this endeavour.<sup>66</sup>

In sum, an “Ontario MusicTank” would be part think tank, part social network, part industry representative, and part professional development agency. It would host events similar to the “digital days” put on by the Association of Independent Music in the UK, produce reports used to make representations to governments, and/or connect the music industry to other creative (and supporting) industries (e.g. by hosting ‘licensor events’ or application development contests).

*We recommend studying the feasibility for a MusicTank in Ontario concept, whose purpose would be to facilitate industry (digital) innovation, executive education and cross-industry collaboration.*

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<sup>66</sup> See <http://www.rotman.utoronto.ca/prosperity/>

## 7 Future Directions

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In this section we discuss our recommendations for the music industry strategy in a wider context. First we refer to implications for the OMDC's potential role. This discussion leads to consideration of the wider implications for the Ontario government. Finally, we propose some potential next steps for the music industry to prepare its strategy.

### 7.1 Direction for the Industry and Potential Role of the OMDC

The strategy options and recommendations proposed in this document basically constitute a direction for the music industry along the following lines:

- Intelligent engagement with digital technologies, particularly for marketing, promotion, distribution, and export development;
- Promotion of innovation and investment, and the development of the music industry as more of a business than an activity; upgrading of skills and company balance sheets as a result;
- As an IP-based business, establishment of a copyright framework that will stabilize the investment environment.

The music industry has been under siege for several years, but the industry cannot throw out the traditional business models entirely (i.e. physical distribution of CDs). Other revenue streams from publishing/licensing, touring, merchandise and copyright royalties are becoming more important, especially in the digital age. Intersection with other creative industries will also be part of the growth and development of the music industry.

The recommendations made for consideration by the music industry suggest a larger role for Ontario and a great deal of collaborative work by the music industry and related stakeholders. Because the capacity of industry associations is quite thin – and they mostly have a national mandate – an enhanced role for the OMDC seems appropriate.

### 7.2 Opportunities for Efficiencies and Synergies Across Provincial Government Ministries

Given that the options developed for the music industry touch on a wide number of functional areas, there are opportunities for participation by other ministries in Ontario. The following highlights some of those possibilities in addition to the OMDC:

- **Ministry of Culture (MCL):** This ministry is core to advising the Minister regarding the role of the OMDC, developing policy in music and other creative industries, and as the rallying point for copyright positions.

- **Ministry of Economic Development and Trade (MEDT):** Export promotion and support, incentives for music stars to keep their business in Canada, and representation of the industry as an important economic contributor to the Ontario community; access to the Next Generation of Jobs Fund;
- **Ministry of Small Business and Entrepreneurship (MSBE):** Bringing a business viewpoint to the development of a business culture in the music industry;
- **Ministry of Research and Innovation (MRI):** The music industry's future growth in a digital environment will require innovation that draws from the ICT as well as from the content component of the music industry;
- **Ministry of Training, Colleges, and Universities (MTCU):** The skills development component is recognized as important to the enhancement of the business skills among the managers, labels, and service providers;
- **Ministry of Finance (MOF):** Any change in the tax credit regime will of course involve Finance, as will the creation of some form of tax relief for early-stage creators and the music industry superstars – to entice them to retain their businesses in Canada;
- **Ministry of Government Services (MGS):** This ministry and others would be involved in a cross-ministry approach to the protection of copyright for the music and other IP-related industries;

The Next Generation of Jobs Fund is among the programs that could contribute to the strategic plan for the music industry. Engaging with this fund would require the industry to think more in terms of employment, skills, and career development. As per our recommendation, it would appear that the Fund's criteria should be re-examined in order to be made more accessible and, in addition, to determine if the Fund can be leveraged by the music and other content industries.

Thus, there is potential for the participation of other Ontario ministries, many of whom would not have considered the music industry as high on their relevancy list. However, if the overall case of the creative media can be made to complement the digital media priority of MRI, for example, there will be some clear benefit for the music industry.

### 7.3 Conclusions

If the proposed set of recommendations is implemented by governments and the music industry, Ontario will benefit from a very high profile success story, which will have repercussions in attracting tourism and corporate headquarters to the province. Toronto will become another Nashville albeit across a broader range of music genres besides country. Toronto is already rich in music ecosystem resources as the headquarters of

almost every English language market institution and the bulk of the creative talent in the country. Implementing these recommendations will reward the province in many cultural and economic dimensions, and contribute to the vitalization of great urban centres of the Province.

### ***Recognizing the contribution of music industry***

The critical overarching recommendation is that Ontario should explicitly recognize the importance of the music industry to the life and prosperity to the Province. This recognition should take a tangible form and lead to priority attention from the Ontario government. A high level inter-ministerial committee on resolving Ontario's copyright policies would be a great demonstration step.

### ***Making sure Ottawa remains a critical partner***

The federal government is a vital stakeholder in the Ontario music industry. Thus, the renewal of the Canada Music Fund is fundamental to any strategic plan for the Ontario music sector.

### ***Leveraging the Internet for marketing and distribution***

The main challenge facing the industry is the digital one – how to recover from and even exploit the Internet's role in the marketing and dissemination of music. The dynamics are changing every day, and entrepreneurs around the world are exploring how to profit from these changes. Accordingly, government programs should be made more flexible and recognize the need for investment in the digital transition. Government can also help persuade creators and users to work together to ensure a stronger Canadian music presence in the marketplace.

### ***Regaining second place in music exports***

A dozen other countries are focusing on the music industry to become export leaders. Canada is still ahead of most of them, but is not putting in the same investment to maintain and strengthen its exports. Creating an export office and aligning existing programs with an export thrust is a priority for Ontario's music industry.

### ***Harnessing radio and live performances***

The domestic market can be enhanced through more effective support of private and public radio, including the new forms of Internet radio. The live music scene, while an Ontario strength, should be expanded to fill some holes – in smaller centres, in niche genres, and in the off-season in major centres.

### ***Development of the business capacity in music***

The Ontario music needs to become more of a business and attract outside financing, both equity and expanded lines of credit. The key objective is to make the industry more

profitable so that it can attract the attention of the financial services sector. At the same time the tax system can be marshalled to sustain artists through lean years and to encourage the global superstars to maintain Canada as their business base.

***Toning up the human resource capital***

An important component in developing the competitiveness of the music industry is to tone up the human resource base through better training, better mentoring, and the intake of kids as familiar with computer sciences as with the guitar. The Next Generation of Jobs Fund should be aligned to the needs of the music and other content sectors.

***Implementing the recommendations***

Many recommendations contemplate industry collaboration, and we believe that more design is required to flesh out how this collaboration is to be managed. In the development of options, the concept of an Ontario Music Tank, modeled on the UK organization of the same nature, was proposed as a longer term goal. In the meantime, the existing music support infrastructure is sufficient to get started on the implementation of the recommendations.

## Appendix A: Detailed Key Success Factors

Each of the Key Success Factors (KSFs) described in the main report is further discussed in this appendix. This appendix draws on research and the interviews of key informants. First we identify the importance of each KSF to the music industry, and second we ascribe a performance rating and the rationale for that performance rating.

Performance ratings are three basic categories: below average, average, and good (above average), where “average” is a notional concept implying a typical western democracy urban community of similar economic size.

### A.1 Retail Sector

#### Importance to the Music Industry:

- Provides strong and diverse points of contact with audiences.
- Also critical to provide shelf space to local, regional and/or national products

#### Performance:

**Average** (Physical) / **Below Average** (Digital)

#### Rationale:

In terms of overall sales, Ontario accounts for 32% of physical sales and 43% of digital sales in Canada (it makes up 38.8% of the population).<sup>67</sup>

In general, physical retail is struggling, with ever smaller shelf space, reduced “skus” and lower prices. However, the picture is better in the context of the Canadian vs. the US market, in that there are still some strong music chains in Canada (notably HMV). Although many outlets have had strong brands as music retailers, none have developed digital stores (e.g. there is no HMV Online). Big box stores (e.g. Wal-Mart) tried but failed. Big box physical stores in Ontario utilize a reduced number of hits as loss-leaders to drive traffic or as impulse items.

There are, however, a few excellent specialized local retailers like Soundscapes, Criminal Records, and L’atelier grigorian. Beyond simply being vendors of CDs, these stores are also hubs of knowledge and local “filters” of music; they generate a community around a genre or ‘scene.’ Although sales data at this micro segment level is not readily available, anecdotal evidence points to reasonably good business (e.g. one local store reported only a 1% annual decline in physical CD sales, far above the industry average).

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<sup>67</sup> Sales: NielsenSoundScan March 2008; Population: January 2008 figures from Statistics Canada.

In terms of digital retail, there are few Canadian digital retail outlets, and Canada lags significantly behind the US in terms of digital revenues (at 12% of total revenues), though it fares somewhat better against the international average of 15% of revenues. Digital revenues, while still small, are rapidly growing (i.e. a 73% increase in digital track sales from 2006 to 2007)<sup>68</sup>.

## A.2 Music Exports

### Importance to the Music Industry:

- Most domestic markets cannot support artists who only appeal in their home market.
- The global music market is becoming more interest-based than geographically dependant - so exports are critical to business viability.

### Performance:

Comparatively **good**, but could be much stronger

### Rationale:

Given the limited and geographically fragmented market, exports are typically necessary to reach a revenue level that can give the label, artist, etc. a decent living. Some Ontario-based and Canadian independent labels have achieved quite reasonable export success (e.g. Arts & Crafts, Six Shooter Records, Maplemusic, and Nettwerk Records). Data indicates that music is among Canada's (and Ontario's) key cultural exports. Like successful artists from other small to medium size market countries, high-profile Canadian artists gravitate to the major labels to achieve maximum international distribution and sales. Many (but not all) also tend to set up their business and personal situations to keep their earnings outside the Canadian tax system.

Although in the aggregate it is generous, government support for the export promotion is believed to be constrained in some important ways. For instance, some initiatives require matching funds from companies with little cash flow. Others have restrictions on the amount of marketing support that can be dedicated to export initiatives. The constraints appear to be most obvious in the range of support programs for international promotion and marketing (as opposed to support for attendance of conferences and trade fairs).

As is true with governmental programs, accessing the funding is administration-heavy. While there is support from the federal and Ontario governments, there does not appear to be a concerted export strategy for Canada or for Ontario. Multiple levels of government are active in multiple initiatives; although there are efforts to coordinate programs to support common initiatives, the coordination tends to be tactical than strategic. There is also an industry sense that the priorities in trade promotion investments are being set without being driven by music industry priorities.

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<sup>68</sup> NielsenSoundscan 2008.

### A.3 Online Innovation (Distribution, Promotion and Infrastructure)

#### Importance to the Music Industry:

- Access to the digital marketplace (nationally and internationally) is crucial in the face of declining physical sales
- This is increasingly an important point of (promotional) contact and a method of new music discovery (e.g. Last.fm).
- Digital infrastructure facilitates better management of the increasingly complex rights regime(s)

#### Performance:

**Average**, but no new revenue streams

#### Rationale:

While there is no shortage of small to mid-size players in the online digital retail space in Ontario (e.g. MapleMusic's store, Zunior.com and other small retailers), Ontario (and Canada) have yet to see significant investment in our digital marketplace. Likely reasons for this lack of investment include the somewhat antiquated copyright regime, the small size of the Canadian market, and the proximity of that market to the established US digital marketplace (i.e. why do we need an iTunes Canada if most Canadian's buy US artists?). Indeed, these factors may, in part, account for the lagging digital market overall; however, it should be noted that Ontario outperformed the rest of Canada in terms of digital sales (see section 4.1 of the main report).

In terms of promotion or infrastructure, there has been little innovation in Ontario in this space. The Independent Digital Licensing Agency (IDLA), an independent digital licensing collective, attempted to fill this role, but has not yet established a viable alternative avenue for music rights holders to access digital markets.

### A.4 Live Music Scene

#### Importance to the Music Industry:

- Live performance opportunities are critical to the livelihoods of the creators
- A vibrant music scene can generate 'buzz' around a jurisdiction's music industry
- It can be a vital grass-roots marketing tool, and can boost merchandising revenues
- Venues themselves must also be available. There should be more venues in the larger metro areas that cater to the full range of music genres.

#### Performance:

**Average**

#### Rationale:

While several interviewees reported that the quality and quantity of live music in Ontario was excellent, others cautioned that this positive view privileges major urban centres (e.g. Toronto, Ottawa, London) and certain genres of music (e.g. alternative rock). A folk musician playing in Thunder Bay, for instance, may not have a particularly easy time finding a venue. This deficiency significantly reduces the ability of artists in those genres and smaller urban locations to earn significant revenues from touring.

Another concern expressed was that the amount being paid to artists per live show has shrunk in recent years. Some acts are even reduced to ‘passing the hat’ to support their tours.

## A.5 Media and Star System Support

### Importance to the Music Industry:

- Promotion within the domestic market is critical to support artists and gain mind share with the audience base. Such media coverage is especially important given increased global competition.

### Performance:

**Below Average**

### Rationale:

According to interviews, the star system in Ontario still largely based on making it big in the US, and then being reflected back to Canada via US media (mainly TV, magazines, and the Internet). In terms of Canadian television, there is now less shelf space for music videos and music promotion than a decade ago on music television stations (e.g. MusicMusic and Much More Music). Lifestyle and entertainment shows exhibited by Canadian networks - like eTalk and ET Canada - tend to focus on commercially successful established artists, when they focus at all on Canadian entertainment acts. The CBC remains an exception and opportunities may be improving as a result of the schedule revamping on CBC 1 and the development of CBC 3, its Internet radio service.

In print, there are one or two music monthlies of note, but there is no consumer/industry trade journal akin to NME (New Music Express) in the UK. However, the major urban centres are covered adequately by daily and weekly newspapers, including ones specialized in entertainment offerings (e.g. Now in Toronto). However, daily newspapers are in the relative decline and cost-cutting measures tend to reduce the coverage of all media, including music.

## A.6 Radio Airplay

### Importance to the Music Industry:

- Radio remains among the first points of contact consumers have with music; it is key to support new (emerging) and established (legacy) artists, and airplay is regarded as critical to retail sales of music and its promotion generally.
- Regardless of the growing number of people learning and spreading the word about artists online, commercial or private radio is still one of the primary “filters” in the consumer introduction to new music.
- Airplay is key to support of both new (emerging) and established (legacy) artists.

### Performance:

**Below Average** (esp. for emerging artists)

### Rationale:

The general view of the industry is that commercial radio is not supporting new and emerging artists, but is instead filling their Canadian content quotas with tried and true hits and major international, established Canadian acts (e.g. Celine Dion, Bryan Adams, and Avril Lavigne). In contrast to music sales, moreover, private radio in Canada seems to have grown in economic strength over the last few years with profit margins rising from \$81.7 million in 2001 to \$135.3 million in 2005.<sup>69</sup>

Despite recent efforts at changing CRTC regulations to include requirements that radio showcase new/emerging Canadian artists more frequently, performance has proven to be unsatisfactory for the Canadian music industry<sup>70</sup>. While the CRTC is undergoing a public hearing on this subject, it is not likely that a highly satisfactory resolution to this issue for the Canadian music industry will emerge.

## A.7 Professional Development

### Importance to the Music Industry:

- Artist management is increasingly complex, and so are the skills necessary to manage rights, deals and business models.
- It is also important to have (access to) the technical skills required to take advantage of digital opportunities.

### Performance:

Intake **average**

**Below average** in professional development

### Rationale:

According to interviewees, Ontario has good private music schools (e.g. Humber, Metalworks) but there are few professional resources. This lack of resources is particularly true in terms of marketing and (non-artist) management. Given the proliferation of new business models, particularly in the digital space, professional development on an ongoing basis would help to ensure an up-to-date and innovative industry.

Also, as a result of economic constraints, many Ontario-based independent labels report that they rely too much on a 12-week cycle of interns and as a result are constantly training and not getting traction with their people.

<sup>69</sup> Douglas Hyatt, "An Overview of the Financial Impact of the Canadian Music Industry," Rotman School of Management, April 2008, pp 72 -73..

<sup>70</sup> See "Broadcasting Public Notice CRTC 2008-16" which outlines the CRTC's preliminary position on the status of the emerging artist.

## A.8 Government Support

### Importance to the Music Industry:

- Government support has been increasingly important in national music development to facilitate growth, protect copyright, and reduce risk in innovation.
- Support can be made more effective by adapting to changing industry needs, particularly in light of the digital impact on the music industry.

### Performance:

**Good** support across 3 levels of government, although value not fully recognized

### Rationale:

Government support in Canada (and in Ontario) is widely considered generous relative to other countries' contributions to their domestic music industries. In these changing times, some programs are perceived to be somewhat out of step with today's needs (e.g. those that facilitate the production of 'masters' are less relevant in the digital age). Other elements of the value chain were considered better candidates for additional government support, including small/developing labels (including those involved with non-mainstream genres like world music), management companies, publishers and technology/digital delivery companies. New start-up and/or innovative activities related to the marketing and distribution of music via the Internet were considered appropriate candidates to support.

Most government programs and most money available to musicians (or their companies) in Ontario are federal in nature, although the OMDC's programs are highly valued. Ontario recipients received more than half of all FACTOR funding (53.37%) in 2006-7 amounting to \$2.4 million. This high proportion of Ontario's participation indicates that the effectiveness of programs that are federally financed is very much a concern of the Ontario music industry.

## A.9 Strength of the Ecosystem

### Importance to the Music Industry:

- All parts of the ecosystem are important; this includes previously external entities (e.g. corporate funders, receptive licensors, etc.).

### Performance:

**Good** across all elements

### Rationale:

Ontario is home to a wide bevy of artists, managers, agents, publishers, smaller retailers and labels (independent and major), ISPs and wireless carriers, corporate sponsors, service companies, and public and private radio. Indeed, according to one count, 57% of Canadian artists are located in Ontario, while at the same time Ontario-based record producers earned 63% of the total revenues in the Canadian music market in 2005.<sup>71</sup> Most of these stakeholders are highly competent in their current areas of activities. However, they have to innovate and even diversify

<sup>71</sup> The Daily, Statistics Canada, November 2007.

to maintain their business performance. They also face new competition from outside the province, like iTunes and new corporate entities like the Jagermeister Music Tour.

It is important to note that Canadian independent labels are (still) dependent on majors for distribution (e.g. Network Records' (Vancouver) deal with Sony BMG; Arts and Crafts with EMI; and Universal Music with Toronto-based Paperbag Records, Alma, and Last Gang).<sup>72</sup>

## A.10 Industry Co-operation

### Importance to the Music Industry:

- A unified voice is more successful in making representations to government policy makers.
- Some business initiatives require cross-sector collaboration to fill a gap in the market.

### Performance:

**Good** across creators, publishers and producers; **poor** vertical collaboration (with broadcasters/users)

### Rationale:

During our interviews, it was often mentioned that there is no overall music industry body in Ontario that would provide a unified voice to the industry (to government, and other sectors – like ISPs). Such a body, it was envisioned, would be somewhat like ADISQ in Quebec, or MARIA in Manitoba.

That being said, most of music's national bodies (e.g. CRIA, CIRPA, and CMPA) are located in Ontario, and their resources are area already spread too thin. Creating a separate provincial association that brings together all the music sector interests could be a distraction, when all that is needed is more coordination among the existing associations. However, in some cases a single voice or common purpose organization would be more effective.

## A.11 Cross-industry Collaboration

### Importance to the Music Industry:

- Content industries (e.g. film and TV, gaming, etc.) are increasingly integrated as convergence takes hold and digital platforms proliferate.
- Cross-industry activity is an important avenue for new business models and industry growth.

### Performance:

**Below Average** - embryonic at best

### Rationale:

<sup>72</sup> Larry LeBlanc, "The Music Distribution Industry in Canada 2006," Canadian Association of Broadcaster, August 2006. p 8.

In the digital world, of course, music is but a form of content, like television, films, and even video games. While music has a long history of licensing this content to other platforms (e.g. synchronization rights), new music business models seem to require a re-conceptualization of music's relationship to other creative industries. It seems that the music industry is gradually realizing the value of such up-front concept development in Ontario, in part thanks to initiatives like Interactive Ontario and some (OMDC-funded) creative cluster activities. As of yet though, the music industry in Ontario remains an entity in and of itself, and may not recognize the benefits of greater collaboration with other creative industry sectors.

## A.12 Access to Private Investment

### Importance to the Music Industry:

- Sufficient financial resources are necessary to invest in artist development, promotion, and new distribution channel innovation.
- Matching funds are often necessary to access forms of government funding, and the poor working capital position of most labels means that such conditions remain a real barrier.

### Performance:

**Below Average**

### Rationale:

As with most content creators in Canada (and Ontario), it is difficult to secure outside private or public equity investment based on the earnings record of music producers. The falling revenues stemming from steep drop-offs in physical music sales are a further disincentive for investors to put money into a business that depends on music sales. The cost of entry into the market has fallen with the proliferation of digital recording technology. However, marketing, promotion, touring, merchandising, and even the production of CDs all still require substantial investment.

Since digital technologies can be and are being deployed in the music industry, there is even greater need for new venture investment. The possibility of pay-offs have also risen for concepts that break through current business models to establish new Internet and other services.

## A.13 Copyright Framework

### Importance to the Music Industry:

- A copyright framework should set out the ground rules for the legitimate marketplace for the use of IP, the protection of IP assets, and the reduction of uncertainty.
- A properly balanced copyright regime should protect the rights of IP owners in the new digital markets, but also allow for users to innovate. It should have effective complementary compliance mechanisms.

### Performance:

**Below Average**

### Rationale:

Canada's copyright regime lags behind many other nations with advanced IP economies, because we have failed to follow up the signing of the WIPO treaties with revisions to the

Copyright Act that take into account the new digital distribution systems and platforms. Unfortunately, there is little evidence to suggest that the Ontarian consumer – like consumers everywhere – is sympathetic to the rights of the IP owner, so that new copyright law revisions will not by themselves change the behaviour of illegal downloading.

Moreover, there is concern that the tariff setting mechanisms in Canada are not as effective as some other countries. The Copyright Board is overloaded as it copes with ever increasing applications for tariffs on new platforms. Some issues go beyond the Board and get caught up in the legal system. This latter situation is evidenced by Tariff 22's long ten years at the Board and the courts and results in stifling development of web radio in Canada. The industry's lack of ability to come to an agreement on licensing arrangements and fees threatens to overwhelm the Copyright Board for an expanding array of music and other content platforms.

## Appendix B: Rating of International Jurisdictions

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### B.1 International Jurisdictions

A summary of the ratings of international jurisdictions is presented in the main report. This appendix expounds on the factors that were considered in this rating process, and draws on selected interviews with international experts.

#### B.1.1 United Kingdom

**Rating: A**

##### ***Summary of music industry***

In line with the global music industry trend, the UK has experienced a downturn in recorded music revenues and tough times for traditional retail since 2001. However, the overall industry has managed to maintain momentum; the recorded music and publishing business have seen some consolidation (e.g. the purchase of Sanctuary and V2 by Universal Music Group), but the role of digital distribution and promotion is now fully on the agenda of all relevant stakeholders. The UK is the 3<sup>rd</sup> biggest digital market in the world (behind the US and Japan), and is a hotbed of market innovation.

The live performance sector has grown significantly since 2004, indicative of a vibrant and active industry. In 2007, the UK live music market will be worth an estimated £743 million in ticket sales alone, up by eight per cent on 2006.

##### ***Highlights of Key Success Factors***

Much of the UK's success in supporting its music industry can be attributed to the pairing of a healthy private sector with sustained strategic Government and industry initiatives.

- **Collaboration:** On both domestic and export agendas many activities exist only because various interests and organizations within the industry work together, pool budgets and agree on common strategies.
- **Exports and collaboration:** The most recent successful example of government-industry collaboration was the British Music Embassy presence at 2008's South By Southwest conference in Austin, Texas. The combined private and public support allowed for a high impact campaign, with multiple touch-points for export partners and targeted networking activities.
- **Eco-system:** The UK's internal ecosystem also plays a large part in its continued success. There are strong players throughout the value chain and across sectors. In addition to this existing base there is continuous emergence of new entrepreneurial activities which have helped the industry capitalise on new

revenue streams – digital rights aggregators, digital delivery suppliers, online music marketing agencies, brand/music partnership brokers, etc.

- **Investment incentives:** Changes in investment regulation have also encouraged a growth in private sector investment into music initiatives. A number of Venture Capital Trusts and Enterprise Investment Schemes have launched that have championed 360 artist deals and non-traditional business models (e.g. Edge VCT, and PowerAmp EIS).

## B.1.2 France

**Rating: B+**

### **Summary of music industry**

The French recorded music market has been hit particularly hard by the global downturn of the overall industry; physical shipments declined in 2007 by 19.2%. However, the digital market has begun to establish itself, growing 16% in 2007 and now representing 7.4% of total sales. At the same time two locally operated digital retailers, Fnac and Virgin Mega have started to offer serious competition against iTunes. Domestic repertoire has also continued to dominate the charts and airways, making up around 60% of recorded music sales. The live music scene has remained healthy over the past few years, particularly in major cities and the established festival circuit.

### **Highlights of Key Success Factors**

- **Radio airplay support:** Legislation was introduced in 1994 (and amended in 2000) which dictates that all French music stations music play at least 40% French language music per day, with 20% consisting of new French bands. The quotas for stations with younger listeners have been slightly reduced due to complaints from the industry. The measures have definitely helped boost awareness of local repertoire and have protected its dominance in recorded music sales.
- **Supportive media:** In addition to the radio legislation, there is also a highly supportive domestic media which evangelizes French culture and limits the exposure to foreign acts.
- **Government support:** There are 4 government bodies that provide funds to music industry initiatives. There is also high level lobbying, most recently on the issues of iTunes market, dominance/consumer rights, and the proposal to force levies on Internet service providers (ISPs) to compensate for P2P usage. A levy system already exists of blank recordable media.
- **Exports:** The French government and music industry bodies provide significant and sustained funding to music export initiatives. There are currently 5 offices

### B.1.3 Austin, Texas

**Rating: B+**

#### **Summary of music industry**

The music scene of Austin is famous around the world, primarily due to the annual SXSW conference/festival but also because of the high number of bands from the city that gain exposure internationally. There is an established music community, a strong infrastructure, and a significant state government commitment to music. The financial benefits to the city have been substantial; a 2001 government funded study concluded that music related activity amounted to US \$616m in economic activity, 11,200 jobs and over \$11m in City tax revenues per year.

#### **Highlights of Key Success Factors**

- **Vibrant live music scene:** Austin benefits from a large student community and a loyal base of local music patrons across broader demographics. There is a large number of live music venues downtown and several festivals throughout the spring and summer. SXSW alone is estimated to pump US \$90m into the local economy each year.
- **Supportive media:** The PBS show Austin City Limits is syndicated around the US and internationally and showcases local talent and events. The Austin Music Network was a non-profit independent music channel that was broadcast between 1994 and 2005 and focused on non-mainstream music. Austin also receives strong support for local acts from local media.
- **Creative personnel support:** Austin Music Foundation is a non-profit organisation with 3,000 members and an advisory board of 21 industry experts. It provides a series of educational seminars, networking events and an Austin Music Incubator which provides grants (up to \$15,000) and mentoring for those creating and marketing new music.
- **Government support:** The creative Industry Loan Guarantee Program is open to non-profit and profit based organisations with the loans being guaranteed by the City (under certain terms), The Austin Music Commission is the advisory board to the city government that helps direct funding and investment towards the most appropriate areas.

#### B.1.4 Finland

**Rating: B+**

##### **Summary of music industry**

Domestically, the Finnish music market has experienced slow but significant decline; sales of physical units fell by 5% in 2007. The digital market has been slower to take off than other markets - growth was around 5% in 2007. Despite the downturns at home, Finnish music has grown in terms of export at around 40% year on year since 2002. Many government supported initiatives have helped support this growth.

##### **Highlights of Key Success Factors**

- **Exports:** As mentioned above exports have become a major growth area for the Finnish music industry. The music export office (Musex) has focused efforts on the most attractive foreign markets and has organised a series of trade missions and showcases.
- **Government support:** Over €200m has been pledged for cultural export support for 2007-2011, with music being a core pillar of this activity. Three different government departments have worked together to secure and coordinate this funding.
- **Creative personnel support:** Musex and other industry bodies provide strong music business education programs. There is also support for touring and recording via the Ministry of Education.

#### B.1.5 Iceland

**Rating: B**

##### **Summary of music industry**

The Icelandic domestic music industry is very small and not officially measured in IFPI figures. It's assumed that Icelandic music has experienced a similar downturn in physical sales and a gradual rise in digital retail. Live music, particularly festivals has grown in importance and size. Since 2006 Iceland has formalized much of its effort to grow the export market through the formation of Icelandic Music Export (IMX).

##### **Highlights of Key Success Factors**

- **Government support/exports:** Government support funded the music export body (IMX) in 2006. The government has also supported an innovative scheme with the domestic air carrier, *Reykjavík Loftbrú*. Artists can apply every month for part of a bursary to support flights and equipment shipping for international touring.

- **Vibrancy of live music:** Although most activity (65%) is based around the capital city region, there has been a surge in festivals outside the capital, many of which are drawing international attendees. The Airwaves festival injects around \$5m into the local economy every year.

### **B.1.6 Germany (Berlin region)**

**Rating: B**

#### ***Summary of music industry***

The German music industry has experienced huge digital piracy over the last 5 years and a falling market share for domestic artists. Against this wider negative industry scenario the Berlin music stakeholders have worked together on a number of levels to help support their local music scene. Data is not available to measure specific growth within the sectors, but insiders claim the collective support has proved invaluable.

#### ***Highlights of Key Success Factors***

- **Industry co-operation:** Labcom, the local office of the independent label association (VUT) has fostered local cooperation, digital promotion, education programmes and lobbies for the Berlin region on a national and international level.
- **Strength of eco-system:** excluding manufacturing, there are strong independent entities within core value chain segments – labels, management, promoters, etc.
- **Vibrancy of live music:** the electronic music scene is very active in the region; it provides multiple showcasing platforms for emerging artists and larger names, and draws visitors from across Germany and the EU.

### **B.1.7 Australia**

**Rating: C+**

#### ***Summary of music industry***

The Australian music industry has been relatively stable during the past few years; physical units dropped 3.6% between 2005 and 2006, lower than many other markets. Digital sales now make up around 5% of all recorded music sales and the market is developing via a number of large fixed line and mobile retailers. Domestic repertoire is very important in the market, representing 35% of sales. However, Australia is a net importer of music and has begun to ramp up investment targeted at improving its domestic performance. The industry is also quite fragmented and lacks a culture of information sharing within the domestic industry; both these characteristics hinder the growth and stability of the Australian music scene.

### ***Highlights of Key Success Factors***

- **Industry Co-operation:** The contemporary music working group (CMWG) was formed in 2003 and brought together all main existing industry bodies and major service providers from the country. It has produced a series of reports and lobbied collectively for increase government funding. It has put the importance of improving music exports fully on the government's agenda and has been instrumental in coordinating a consolidated Australian approach at trade fairs (often via its members, e.g. AIR). The CMWG has also helped launch education, information sharing and private sector investment initiatives.
- **Education:** The work of the CMWG recognised the lack of market knowledge or basic industry data among many smaller players, particularly those based away from major cities. The CMWG has coordinated efforts with local arts organisations in offering free education to industry professionals and musicians.

## **B.2 Canadian Jurisdictions**

### **B.2.1 Quebec**

***Rating: B+***

#### ***Summary of music industry***

The (French-language) music industry in Quebec is a highly integrated and well supported music industry. Through the industry body *L'Association québécoise de l'industrie du disque, du spectacle et de la vidéo* (ADISQ) the music industry is afforded a single voice. The provincial agency equivalent to OMDC *la Société de développement des entreprises culturelles* (SODEC) provides significant support for various elements of the music industry.

As well the local media in Quebec really promotes Quebec artists as a full-fledged star system. While these strengths make the Quebec music industry an interesting model to examine, it is important to note that Quebec music, unlike English Canadian music, has an advantage against the overwhelming US cultural influence – although is far from immune to it. With respect to French language music, the competition in international markets for French language music tends not to be as stiff as with English music markets. The CRTC imposes French language music quotas on French language radio stations to limit the amount of English popular music that can be played.

### ***Highlights of Key Success Factors***

- **Government Support:** The SODEC is a well-funded and effective support mechanism for the creative industries in Quebec, including music. In 2006,

- SODEC issued over \$7.7 million in grants, credits, and other disbursements to the music industry in Quebec. Notably, SODEC offers financial support (in varying levels) for music companies and specific projects. As with most other jurisdictions, Quebec also has an 'Arts Council' which provides additional support to the music industry (though primarily to artists).
- **Industry Co-operation:** ADISQ is the integrated music industry body in Quebec, invested with the mandate to advocate on behalf of the industry as whole. Currently, the association is primarily geared to the promotion of Quebecois music in domestic and international markets. That said, it also advocates in the following areas, while also acting as the negotiation and administrative body for artist associations:
    - General policy in the recording industry, live music and music videos
    - The financing of those industries
    - The protection of producers' rights
    - The regulation of broadcasting, particular radio
  - **Retail Sector:** While Quebec is not fully developed in terms of digital retail, the physical portion of this sector has done relatively well. The physical retail market is dominated by Archambault (which is a division of Quebecor) which has roughly a 40-65% market share in the province.<sup>73</sup>
  - **Exports:** In addition to the support of ADISQ mentioned above, SODEC provided over \$1.4 million in exports assistance to Quebec-based artists and labels, which amounted to just over 30% of the total export funds distributed.<sup>74</sup>
  - **Live Music:** While there is only anecdotal evidence that the live music scene is healthy in Quebec (i.e. more so than other provinces); it is supported by the Quebec Council of Arts' <\$20,000 grant (both single- and multi-year) available for music venues.

## B.2.2 The Maritime Provinces

**Rating: C+**

### **Summary of music industry**

Canada's Maritime Provinces find themselves in a difficult position with respect to their music industries. There is significant support available both within individual provinces (though industry associations), and between them (through the East Coast Music Association - ECMA). However, the Maritimes represents a very small market and thus

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<sup>73</sup> Larry Leblanc, "The Canadian Music Distribution Industry 2006," Feb 2006, pg 4.

<sup>74</sup> SODEC Annual Report 2006-2007, p 16.

is heavily dependant in the exports of music to other markets more so than other larger regions in Canada.

### ***Highlights of Key Success Factors***

- **Industry Co-operation:** The individual provinces in Maritime Canada have music associations that nominally represent the industries as whole. Their mandates are all roughly similar. For instance, Music Nova Scotia and MusicNL list exports, web presence and education as key activities and both underscore the importance of creating a business climate amenable to the private funding of music projects. However, the principal organization for the promotion of Maritime music is the East Cost Music Association. Beyond the (albeit important) promotion provided by the ECM Awards, the ECMA identified in its latest strategic plan four additional areas of focus:
  - Identity and marketing
  - International Exports
  - Partnerships with other industries
  - Education and professional development<sup>75</sup>
- **Exports:** Export funds in the region are exemplified by MusicNL's "Market Access" fund which provides small sums of support money to touring artists (up to \$4000 for international tours). That program is coupled with a (up to) \$2500 international marketing fund.
- **Government Support:** Government support of the music industry in the Maritimes is largely administered through funding support of industry association and through provincial Arts Councils.

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<sup>75</sup> ECMA Strategic Plan 2003-2006, pg 6..

## **Appendix C: Interview Guide and List of Interviewees**

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### **C.1 Interview Guide**

Note that General Questions and Key Success Factors questions in Ontario will be posed to all interviewees, while topical question sets will be addressed, as appropriate, to particular interviewees.

#### **C.1.1 General Questions:**

- What is your view on the overall health of music and recording industries in Ontario? Are they separate industries?
- What do you see as the most exciting recent developments in the music industry generally? Is anything going well?
- What do you see as the biggest challenge in your particular end of the music business today?
- How do you see existing government programs for music funding? Which ones have been the most/least effective in your view?
- In what areas of the music business are you active? Do you plan to expand into others?
- What are the key directions or investments for your organization in the next 12 months?
- Do you export? How, if at all, are government programs helping your export business? How could they be improved?
- Have you seen examples of support in other jurisdictions which demonstrate what Ontario could do to support the industry?
- What do you see as the role of the Major Record Labels in the future of the music industry? What is the role of the 360 deal?
- Do you have access to the right talent, management, and/or skilled personnel as relevant to your part of the music industry?
- How do you or your firm generate revenues from music? How has this changed over the last 5 years? Where do you see the most potential for growth in the future?
- Do you see Canadian copyright law as a hindrance to monetizing music and how can this be resolved?

**C.1.2 Key Success Factors for Ontario:**

- How would you rate the strengths and weaknesses of the live music scene in Ontario? Are we supporting our own artists? What are the major labels doing in the live performance space?
- How effective is the retail sector – physical and electronic – at supporting the Ontario/Canadian music industry?
- Are we improving in terms of the development of a star system that helps Ontario (and Canadian) artists, or are we still swamped by border spill-over?
- Do the local and national media in Ontario adequately support the promotion of Ontario/Canadian music? Radio? TV entertainment shows and music television services/programming? Newspaper dailies and local attractions papers? On-line social networks and web portals?
- How successful is the Ontario music industry in selling to foreign markets? Do our big stars signed by major labels contribute to the Ontario music industry?
- Do we adequately address the skills training and development needs of the music industry – outside supporting artistic development?
- What is the effectiveness of each level of government’s support of the music industry in Ontario? What programs are missing, or what is missing in the existing support programs?
- How effective is the music industry in collaborative initiatives? With whom does your firm work and in what capacity?
- Does the music industry obtain government support (federal/provincial) as much as other cultural industries – through tax credits, project financing, international marketing, broadcasting regulation, copyright protection and rights remuneration, innovation, etc.

**C.1.3 Artists:**

- How active are you in the day-to-day management of your business?
- What % of your revenue comes from:
  - Touring
  - Publishing
  - Merchandise
  - Recording Sales
  - Other

- What would you like to see from music funding agencies in Canada?

#### **C.1.4 Labels:**

- How have you offset the decline in recorded music sales?
- What other music-related assets do you monetize?
- What new business models are you exploring or looking to explore?
- How can funding organizations best adapt to your changing needs with specific initiatives?
- Are you well-capitalized with positive cash flow?
- How are you financed? Personal/private/public.

#### **C.1.5 Managers:**

- How do you manage the information flow across the various touch points and business models that your artist
- How do you manage the myriad of monetizable assets that an artist now has on the market?
- What are the critical success factors and best practices in your business?
- How can funding bodies better support the needs of today's music manager?

#### **C.1.6 Publishers:**

- Do you see Canadian copyright law as a hindrance to monetizing music and how can this be resolved?
- What is your view on new platforms for on-demand, streaming music content and where do you draw the line between promotion and paid usage?
- How are publishers offsetting the mechanical rights reductions due to declining record sales?
- Many independent artists are now moving to administration deals that also exploit copyrights, allowing in their view for more flexibility in copyright usage.
- How is the publishing community adapting to and developing new models as many independents opt for admin only, admin + exploitation, non-exclusive deals etc...
- How are you incorporating new technologies in the management and exploitation of music copyrights?

- What threats do you see to the value of copyrights, especially in the digital realm?

#### **C.1.7 Agents:**

- How is the role of the agent changing in the digital realm?
- How has technology changed the agent and promoter's measurement of a band's potential draw – social networking, geo-based networks like eventful, Google analytics...
- What are the biggest challenges facing the live music business in Canada. Internationally?
- What new business models or deals have developed between agent and promoter?
- How can funding bodies better support the needs of Canada's touring artists here and abroad?

#### **C.1.8 Promoters:**

- What new tactics are you utilizing to measure the draw of an artist, find the audience and bring them out to your events?
- What new technologies/tactics are you using/exploring to enhance the audience experience at live events?
- What new revenue sources / business models are you using/exploring?
- How healthy is the live scene in Canada and internationally? What opportunities are there, what threats do you see?
- How can funding bodies enhance your objectives?

#### **C.1.9 Integrated Companies (Management, Publishing, Label etc...)**

- How do you balance the various business interests in your company?
- What % of revenue/profit comes from each of the various activities?
- How do you deal with potential conflicts of interest?
- How can funding bodies better support integrated music companies?
- How are you developing the human resource/training component to manage your various businesses?

#### **C.1.10 Digital Retail – Digital Services Provider**

- Given the price pressure on digital music, what value added components are you giving the consumer?
- How is the relationship with distributors/aggregators evolving?
- What tactics/new business models are you exploring?

#### **C.1.11 Digital Retail – Mobile Services Provider**

- How do you see the market for music-related mobile products expanding?
- Is side-loading a huge threat to the mobile music content business?
- Currently, MSPs deal only with major labels and aggregators, will there be a DIY future for indie artists to upload and sell content via your network?
- How do you see the future for off-deck, third party music content?
- Where is the Canadian mobile market going in comparison with other jurisdictions – Japan, Europe, and China?
- What tactics/new business models are you exploring?

#### **C.1.12 Physical Retail**

- What is the future for physical music retail?
- How have you offset the decline in recorded music sales?
- What value-adding, experiential tactics are you using to brand the retail experience?
- How do you communicate with the buying public?

#### **C.1.13 Third Party / Value Adding Firms**

- What is your role in adding value to the music ecosystem?
- As the re-orientation of the business continues what future do you see for value-adding services?
- How can funding bodies enhance the prospects for third party companies? Is there even a role for government?

#### **C.1.14 Funding Bodies**

- How is your organization responding to the dramatic changes in the industry?
- What major changes have you made in light of the above?

- Is there a deliberate R&D or innovation strategy in place at your organization with respect to the music industry and its evolving needs?
- Is your funding secure?
- What threats / challenges do you foresee in the future with respect to your constituency?

#### **C.1.15 Associations**

- How is your organization adapting to the changes in the industry?
- How have the changes in the business impacted your membership?
- What specific changes is your organization implementing to build a stronger future for your members?
- What are the biggest threats and opportunities facing your membership?
- How are you using technology to achieve the objectives of the organization?

#### **C.1.16 Content**

- Music-related content makes up how much of your overall content offering?
- Is streams/consumption on the rise and by how much?
- How is Canadian independent music content faring in comparison to others?
- Are you paying content suppliers and using what models? Rev-share, per-stream, promotional only?
- Are you getting enough content and is it delivered to your specs and communicated well?
- What challenges have you encountered in getting/generating content?

#### **C.1.17 Social Networks and Online Communities**

- How are you helping artists build community?
- What new initiatives are you undertaking to develop the platform?
- How well is Canadian independent music represented in the network?
- What can the artist/manager/label community do better? Best practices.
- How can artists monetize assets through your network?

### C.1.18 Media

- How do choose with content to cover / feature?
- How does Canadian / Ontario indie music fare in comparison with other sources of music?
- What are the key strengths of the Canadian/Ontario indie music community?
- Is there an overwhelming stream of submissions/content or a steady, manageable component.
- Are you developing other initiatives that enhance the brand? IE – festivals, label, additional content/assets?
- How do you grow your audience?

### C.1.19 Licensors

- What are your sources for new music?
- How do these sources breakout in % - publishers, labels, management...
- Are you working with Canadian indie music?
- What new models for licensing music are you using/exploring?
- What key factors need to be present for you to license music?
- What % of licensing revenue is generated from commercials, TV, film, gaming? Are they rising, falling or steady?
- What, if anything, can a funding body do to enhance licensing opportunities for Canadian/Ontario independent music internationally?

## C.2 List of Interviewees

Interviewee Name	Company Name	Interviewee Group
Arnold, Kevin	Independent Online Distribution Alliance	Digital Retail/Distributor
Burgess, Andy	Somerset Entertainment	Label
Davis, Greg	Soundscapes	Physical Retail
De Cartier, Shauna	Six Shooter Records	Integrated Company
Dexter, Grant	Maple Core	Label
Finkelstein, Bernie	Finkelstein Management	Manager

Interviewee Name	Company Name	Interviewee Group
Henderson, Graham & Aaron Sawchuk	Canadian Recording Industry Association	Industry Association
Hersenhoren, Amy	Root Mean Square	Promoter
Hetherman, Brian	Curve Music/Ceberus Management	Integrated Company
Hutchinson, Sean	EMI Music Canada	Label
James, Ralph	The Agency Group	Agent
Kelly, Russell	Canada Council of the Arts	Funding Body
Kipelainen, Ville	Music Export Finland	Industry Association
Klitz, Eva	<i>Verband unabhängiger Tonträgerunternehmen (VUT)</i> (indie association), Germany	Industry Association
Lalonde, Pierre	Department of Canadian Heritage	Funding Body
Lennox, Randy	Universal Music Canada	Label
Llerena, Felipe	iMusica	Digital Distribution
Mair, Alexander	MHL Communications	Third Party Firm
McKie, Duncan	Canadian Independent Record Production Association	Industry Association
Messingham, Andrew	British Arts Council	Industry Association
Muir, Cherith, Kristine Murphy & Monica Szenteszky	Ontario Media Development Corporation	Funding Body
Neale, David	Telus	Digital Retail/Distributor
Nishimura, Lloyd	Outside Distribution	Integrated Company
Ostertag, Heather	FACTOR	Funding Body
Paterson, Phil	UK Trade and Industry	Industry Association
Paterson, Stuart	Association of Independent Record Labels (AIR), Australia	Label

<b>Interviewee Name</b>	<b>Company Name</b>	<b>Interviewee Group</b>
Ratchford, Donna & John Parsons	Ontario Ministry of Culture & Leisure	Funding Body
Remedios, Jeffrey	Arts & Crafts	Label
Rosen, Aaron	Kill the 8	Third Party Firm
Rosen, Earl	Marquis	Label
Saxberg, Catherine	Canadian Music Publishers Association	Industry Association
Seguin, Bob	Ontario Ministry of Economic Development and Trade	Funding Body
Strickland, Will	Urban Music Association of Canada	Industry Association
Sutherland, Chip	Radio Starmaker Fund	Funding Body
Taylor, Chris	Last Gang Records	Label
Tobias, Tony	Pangea Media and Music	Publisher
Wanagas, Larry	Bumstead Productions	Integrated Company

## Appendix D: Interview Summary

In this appendix we summarize the interviews conducted above, highlighting areas of contention and points of industry agreements. We will provide some comments on the “General Questions” asked to each interviewee, and then proceed to summarize the responses given to questions that correspond to the Key Success Factors (KSFs) for the music industry in Ontario. Where questions overlapped in scope, preference was given to the KSF-related questions, as responses to these questions directly informed Nordicity’s assessment of the industry in Ontario. Indeed, the summary presented below was integral to the assessment of the KSFs, as shown in Appendix A and Section 4.

Note that the statements below reflect the responses of the interviewees listed in Appendix C. They are, accordingly not necessarily the views or judgements of Nordicity or its associates.

The following table summarizes the levels of agreement/contention present among interviewees on key topics for the music industry. .

Topic / KSF	Level of Agreement
<b>General Questions</b>	
Overall health	Low
Exciting development	High
Biggest challenge	Low
Area of Expansion	High
Lessons from other jurisdictions	Not applicable
Future Role of the major labels	Low
Access to skilled personnel	Low
Revenues generated over the last 5 years	Moderate
<b>Key Success Factors</b>	
Retail sector	Moderate
Music exports	High
Online innovation	Moderate
Live music and its support	Moderate to Low
Media and star system support	High
Radio airplay	Moderate
Professional development	Moderate
Government support	Moderate
Strength of the ecosystem	Moderate
Music industry co-operate	Moderate to Low
Cross-industry collaboration	Moderate
Access to private investment	High
Copyright legislation	Moderate

As the above table suggests, the general health of the industry, the biggest current challenge and (correspondingly) the future of the major labels proved to be the most contentious topics of discussion

## **D.1 General Questions**

### **1. Views on the overall health of the music and recording industry in Ontario/English Canada**

#### Points of Agreement:

- Ontario music is nearly synonymous with the music of English Canada
- The recording industry is in trouble as a result of falling physical sales
- Other sectors like live and publishing are relatively healthy
- The industry is adjusting to the shift to digital, but has not yet balance the lost income
- Revenues from new sources remain thin

#### Points of Contention

- Little agreement on whether the music industry is in dire straits
  - Labels tended to see a more pessimistic outlook
  - Publisher, managers, and 3<sup>rd</sup> party services tended to perceive a more positive situation
- Several responded that it may even be “a golden age” of artistic creation
- Some suggestions that the indie sector is doing better than the rest of the recording industry
- Some suggest that the rock and alternative genre are fairing better than the average

Overall Level of Agreement: Low

### **2. Most exciting recent development in the music industry**

#### Points of Agreement:

- Digital content, distribution and marketing, which has effect including:
  - Gives creator easier access to the market – the “democratization of the industry”
  - Empowerment of the fans and their closer relationships with the artists

- Reduces the cost of distribution
- Potential for new business models
- Direct artist to fan and back communication
- Music publishers can own 'masters'

#### Points of Contention

- There are varied levels of enthusiasm for digital
- Some also note the growth of merchandising and touring revenues
- Other point out the perceived success of the indie label (e.g. Feist, Billy Talent winning at the Junos)
- A small minority (mostly labels) could not think of anything positive

Overall Level of Agreement: High

### **3. Biggest challenge in the music business**

#### Points of Agreement:

- Declining physical revenues is forcing the industry to change
- How to monetize the above opportunities presented by the digital revolution

#### Points of Contention:

- Recording industry: the current copyright environment/piracy/downloading environment makes a profitable business next to impossible
- Managers: handling the volume of work
  - too many assets and stakeholders to manage,
  - too many business models of which to keep track
  - Nonetheless generally confident that they will be able to adapt to changing reality of music in Ontario
- Publishers: properly taking advantage of the new opportunities emerging (e.g. synch rights, music for advertising, etc.)
- Some pointed out that the attitude towards "the demise of the CD" is perhaps as challenging as the decline of physical sales itself
- A small group pointed to the lack of access to radio airplay for new, "emerging: artists

Overall Level of Agreement: Low

#### 4. Areas of expansion

Points of Agreement:

- Most were expanding into areas in which they had not previously been active
  - Labels moving into management (more) and publishing (more)
  - Managers taking on more publishing and label activities
  - Retailers getting into live music, concert ticket sales
  - Expansion into export markets is increasingly accessible and necessary
- Agreed that this was needed given declining revenues from traditional streams

Points of Contention:

- Few had a set out a strategic plan for this expansion

Overall Level of Agreement: High

#### 5. Lessons from other jurisdictions

Points of Agreement:

- “They (France, Iceland, Finland etc.) have export offices; we do not”
- General perception that the UK and Quebec (through SODEC) have done well for their music industries, though details were sparse.

Points of Contention:

- Not applicable

Overall Level of Agreement: N/A

#### 6. Future role(s) of the major labels

Points of Agreement:

- The majors are not going out of business any time soon
- They will have to change their approach to the music business, expanding into new elements of the value chain and new revenue streams

Points of Contention:

- Two major trains of thought:

- 1) Majors are diminishing in importance due to lower barriers to entry and their reduced investment and retrenchment; they are also seen to be more vulnerable to declining CD sales.
- 2) Majors will continue to perform key roles in the music business, funding smaller labels (loans, advances, etc.) and tours. They will also remain key to the distribution of music (e.g. because of existing relationships with distribution channels and/or volume/bargaining clout; this is seen to be especially true in an Ontario context

Overall Level of Agreement: Low

## **7. Access to skilled personnel**

### Points of Agreement:

- A critical issue for the music industry as it is perhaps more reliant on its personnel than other industries
- Some specialized skills are hard to come by (e.g. digital skills for music and business skills)

### Points of Contention:

- Successful companies and associations: little problem attracting talent
  - They note that there is a steady supply of young people with the right skill set
- Smaller and/or struggling companies: difficult to find good people who are willing to work for smaller than average wages; noted 'revolving door' of interns; little money to invest in quality (or more senior) personnel

Overall Level of Agreement: Moderate

## **8. Generating revenues and changes over the last 5 years**

### Points of Agreement:

- Recordings sales revenues is down, though it tends to continue to make up the majority of labels' revenue
- Touring is stable
- Digital revenues increasing licensing (esp. foreign) and on new platforms (ads, ringtones, etc.)
- Synchronization/licensing revenue increasing

Points of Contention:

- Variety of revenue generation mechanisms changes per interviewee

Overall Level of Agreement: Moderate

## **D.2 Key Success Factors**

### **1. Retail sector**

Points of Agreement:

- Physical retail in Ontario is (overall) struggling, but unlike the US there is still a viable (basically) music chain - HMV
- Big box and multi-media stores carry less SKUs offer less shelf-space (for Canadian/emerging artists and) and often sell music as an ancillary 'loss-leader'
- Digital retail is weaker than in other jurisdictions, lags the US in particular, and comes no where near to replacing lost physical sales

Points of Contention:

- Some maintain that smaller, local, more specialized stores will thrive by building a community around their store – Soundscapes, Grigorian

Overall Level of Agreement: Moderate

### **2. Music exports**

Points of Agreement:

- Because we have a very good product we are having some success at selling in international markets; we have to export to be viable, and we should be doing more of it
- Ontario is generally well-supported
- Government support exists for activities like showcase support and travel to trade shows
- There is a perceived gap in terms of export funding for international marketing or for doing business internationally
- The best way for this (as seen by interviewees) is a well-supported export office
- Export should be branded as Canadian, rather than provincially (e.g. Ontarian)
- Those that have been very successful in music exports have tended to have had to 'go it alone'

Points of Contention:

- Opinion differs slightly as to whether an export office should be run by government or industry

Overall Level of Agreement: High

### **3. Online innovation**

Points of Agreement:

- It is perceived that there is little ‘home-grown’ online innovation
- A gap is also seen in terms of government support for these kinds of initiatives (e.g. Puretracks came up empty when it sought funding, and then finally sold to Bell – and it could have been another iTunes)

Points of Contention:

- Some contention as to whether it is Canadian initiatives are important or whether foreign operations in Canada can provide useful services.

Overall Level of Agreement: Moderate

### **4. Live music and its support**

Points of Agreement:

- Wide consensus exists that live performances are increasing in importance (stable revenue stream in contrast to declining physical sales)

Points of Contention:

- Some suggest that the live scene is relatively vibrant
- There was a minority opinion that the live music scene is nearing the point of market saturation (i.e. number of shows)
- Others point out that touring in Canada is limited to rock acts and mainly in larger centres (noting the lack of government support in geographic areas outside of Toronto and for niche/emerging genres – e.g. urban, folk, jazz); they also note that artists are not (on average) earning very much from the shows they do (less than previously)

Overall Level of Agreement: Moderate-Low

## 5. Media and star system support (excluding commercial radio)

### Points of Agreement:

- There are a few Canadian acts that obviously enjoy a good deal of media buzz, but it is always difficult to get above the clutter to break an act
- Weekly, local papers are good sources of music information; some dailies are also good
- Online social networks are key both for promotion and for the discovery of new music – and will become more so in future
- Success is usually met with a departure from Canada (e.g. to Los Angeles)

### Points of Contention:

- Some question the utility of online promotion given the proliferation of artists, and the associated problem of filtering
- Some point out the communities of music (e.g. Pitchfork.org) that have arisen online as new filtering mechanisms – these are not often Canadian

Overall Level of Agreement: High

## 6. Radio airplay

### Points of Agreement:

- General consensus that (commercial) radio's interests are not aligned with those of the music industry (i.e. "Radio is in the advertising business, not the music business; all we do is help them sell ads")
- Radio airplay is so governed by centralized playlists for specific formats, that there are increasingly few occasions to break in new acts or feature emerging artists

### Points of Contention:

- Some think that the emerging artist should be the primary focus of Canadian content regulations, and that radio is still important;
- Others think that radio airplay is declining as a key element to build and promote an artist's career. (given online radio and music communities)

Overall Level of Agreement: Moderate

## 7. Professional development

### Points of Agreement:

- General consensus is that there is a lack of skilled (and willing) personnel; however, schools produce talent, and there are some good training organizations for the music side of the business (e.g. Trebas and Harris)
- Few resources are perceived to exist re: skills development beyond a small number of industry conferences/events (e.g. Canadian Music Week)
- Gap is perceived in business and digital skills training (esp. for rights management)

### Points of Contention:

- Some choose to highlight these gaps, while others do not think the lack is very important
- Some maintain that the specialized schools are not supplying the correct kind of training (i.e. only entry-level)

Overall Level of Agreement: Moderate

## 8. Government support

### Points of Agreement:

- General perception that Ontario (and Canada in general) is a well-supported jurisdiction, by international standards. The resources in terms of overall funding are there.
- Many mentioned that the use of that funding needs to adapt/change/be flexible to the new and ever-changing realities (again). (i.e. the gaps in export funding/international marketing).

### Points of Contention:

- Some maintain that parts of the current funding regimes are too slow moving to remain relevant, or that they fund the wrong kinds of initiatives (e.g. project funding vs. enterprise funding, domestic funding vs. international, label vs. management support)
- Some issues with matching funding were also perceived
- A small minority view government support as promoting dependent businesses (“They seem to reward failure”)
- Others have nothing but praise

Overall Level of Agreement: Moderate

## 9. Strength of the music ecosystem

### Points of Agreement:

- Creation is our chief strength
- Some successful indie labels
- Strong live sector (promoters/agents)
- Lack of experienced managers

### Points of Contention:

- Some suggest that there are challenges in terms of management of rights (owing to the steep learning curve)
- Managers do not share this concern
- Little agreement as to the fate of the major labels

Overall Level of Agreement: Moderate

## 10. Music industry co-operation

### Points of Agreement:

- General agreement that the industry is working better together than previously, perhaps due to the challenging nature of the times (“Huddling together in the storm”). This is thought to be especially true of indie and major labels.
- National organizations are perceived to work well together.

### Points of Contention:

- Some dissenters point out the lack of initiatives/meaningful change resulting from this co-operation.
- Others question the ability of the industry to work together at all.

Overall Level of Agreement: Low to moderate

## 11. Cross-industry collaboration

### Points of Agreement:

- Don’t want to be forced into cross-industry collaboration
- Recognize the need for more lateral thinking and relationships

Points of Contention:

- Not a lively topic for many

Overall Level of Agreement: Moderate

## **12. Access to private investment**

Points of Agreement:

- There are virtually no private or institutional funds (banks) available to entrepreneurs in the music business
- Many had to invest their own or family resources
- This challenge is seen to be compounded by the fact that support funding tends to require matching funds and/or funds projects (rather than companies)

Points of Contention:

- None, although majors remind the industry that they perform the banker role as distributors of most of indie music

Overall Level of Agreement: High

## **13. Copyright legislation**

Points of Agreement:

- Canada is generally perceived to have a very weak IP regime, and one that is poorly enforced
- Consensus exists that this is a negative aspect of doing business in Ontario
- It appears that the proposed new Copyright bill does not suit the music industry at all although the jury is still out

Points of Contention:

- No agreement exists as to what should be done to amend the legislation
- Opinion widely varies as to the importance of the legislation (i.e. “Will a stronger copyright regime lead to a strong Canadian music market?”)
- Labels (particularly majors) tended to be the strongest proponents of stricter laws
- Some mentioned an ISP levy as a source of funds for the industry.

Overall Level of Agreement: Moderate

## Appendix E: Bibliography of Secondary Sources

The secondary research focused on two types of publications with the aim of understanding business models, the ecosystem, and forms and effectiveness of government support – generally, as well as specifically in Ontario and ‘best practices’ from other jurisdictions.

1. **Aggregated data and synthesized reports:** These are synthesized reports analyzing industry issues and trends, size of the industry, and analysis and recommendations for forms of government support. These reports provided insight on trends, but primarily on the state of the industry in Ontario and the effectiveness of existing government programs, as well as some insight into best practices from other jurisdictions.

Name of Publication	Source	Type	Year
An Overview of the Financial Impact of the Canadian Music Industry	Douglas Hyatt	Study	2008
A Statistical Profile of the Canadian Music Publishing Industry	CMPA	Study	2005
A Survey of Music in England and Wales in 2007	BRMB Social Research	Study	2007
BPI Annual Report	BPI	Annual Report	2005-2007
Broadcast Policy Monitoring Report (x3)	CRTC	Report	2005-7
Canada Music Fund – Annual Report 2005-6	Cdn. Heritage	Annual Report	2006
Canadian Music Industry: Economic Profile 2004	Cdn. Heritage	Profile	2004
Canadian Music Industry: Economic Profile 2006	Cdn. Heritage	Profile	2006
Culture Good Trade: Data Table	Stats. Can.	Data Table	2006
FACTOR Annual Report (x3)*	FACTOR	Annual Report	2004-7
Global Forum: Summary and Analysis	Cdn. Music Week	Study	2007
IAEL Yearbook	IAEL	Report	2005-2007
IFPI Digital Music Report (x3)	IFPI	Study	2006-8
Making Music with Mobile*	Music Tank/Juniper	Whitepaper	2008
Music Use Study	CRTC	Study	2005
Music Watch	NDP Group		2008
Ontario Budget 2008		Report	2008
Oslwang Consumer Convergence Survey		Study	2007
Radio Starmaker Fund Annual Report (x3)	RSF	Annual Report	2004-7
Results-Based Plan 2007/08	Ontario Ministry of Culture	Report	2007-08
Seizing Global Opportunities, Ontario's Innovation Agenda	Ontario Ministry of Research and Innovation	Report	2008
SOCAN Annual Report	SOCAN	Annual Report	2007
Sound Recording: Data Table	Stats. Can.	Data Table	2005
State of the Canadian Music Industry	Nielson Soundscan	Presentation	2008

Name of Publication	Source	Type	Year
Status Quo...? An exploration of the Status of Composers, Performers, and Songwriters in the UK's Creative Economy	Andrew Missingham	Report	2006
Summary and Interventions to CRTC Radio Policy Review	CRTC	Summary	2006
The Australian Contemporary Music Industry	CMWG	Report	2007
<i>The Black Swan</i>	Nassim Nicholas Taleb	Book	2007
The Canadian Independent Music Industry: An Examination of Distribution and Access	Shelley Stein-Sacks	Study	2006
The Cult of the Amateur: How Today's Internet is Killing Our Culture	Andrew Keen	Book	2007
The Daily: Sound Recording and Music Publishing	Stats. Can.	Data Table	2005
<i>The Future of Music</i>	Dave Kusek and Gerd Leonhard	Book	2005
The Impact of Music Downloads and P2P File-Sharing on the Purchase of Music: A Study for Industry Canada	Andersen and Frenz	Study	2006
The Music Distribution Industry in Canada	Larry Leblanc	Study	2006
The Netsize Guide			2008
<i>The Pirate's Dilemma</i>	Matt Mason	Book	2007
The Recording Industry Piracy Report	IFPI	Study	2006
The Technology Digest 2005	CIRPA	Report	
Total Market Value and Structure of Finnish Music Exports in 2006	Media Clever Oy	Report	2006
What's Right for Music	SOCAN	Study	2005

**2. Magazines, press releases, and other publications:** Articles from magazines and online publications gave us examples of case studies around the world from which to base further analysis on emerging trends in business models, and changing relationships within the ecosystem. Publications include:

Name of Publication	Source	Type	Year
Brands Bands Fans			
Digital Music News		Website	
FiveEight	FRUKT	Magazine	2007-8
In London, Canadian Bands are hot	Toronto Star	Newspaper	2008
Indie911.com		Website	
Newsletters from Independent Producers			
NME – New Music Express		Magazine	
PaidContent.org		Website	
Strut Magazine		Magazine	to Current
SXSWorld	SXSW	Magazine	2007
The Lefsetz letter		Blog	to Current