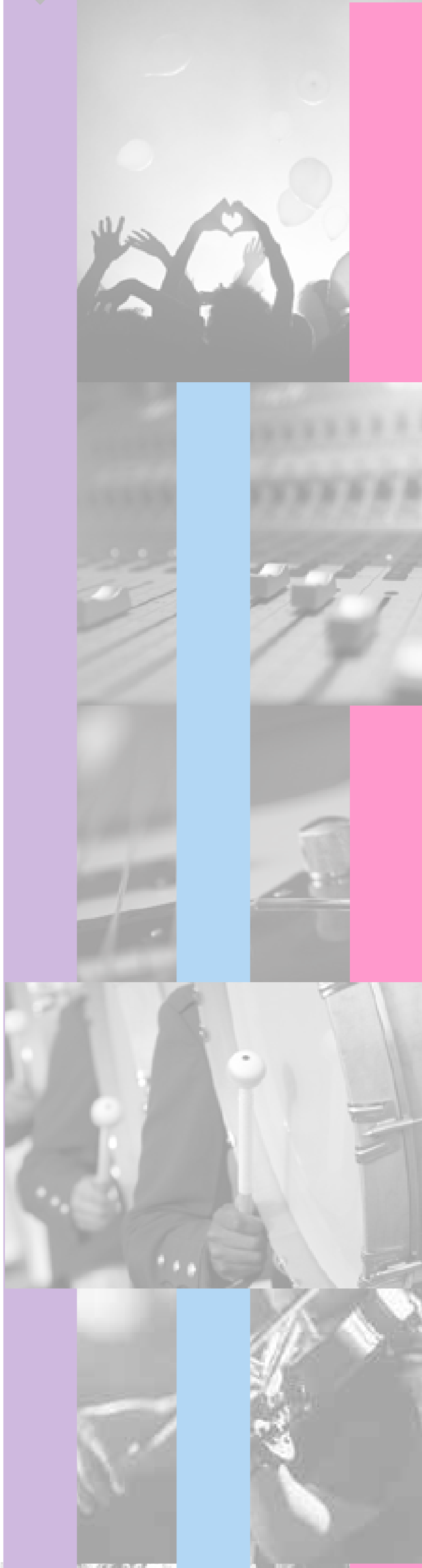
# The Impact of COVID-19 on Canadian Independent Music

Dec. 7, 2020



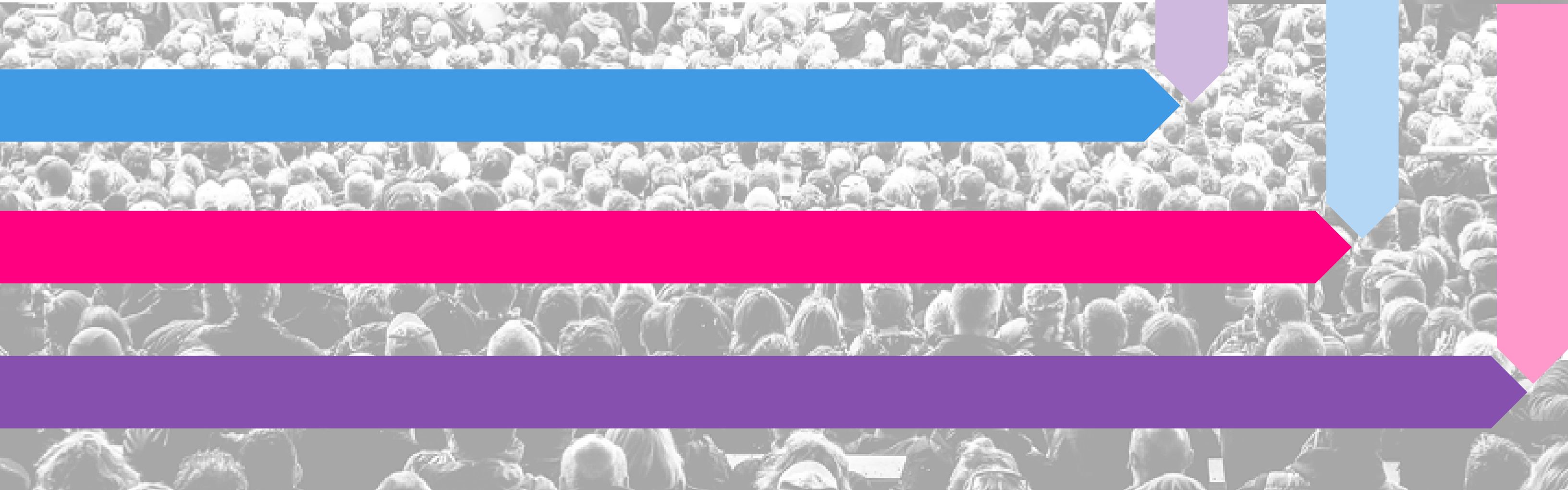

Authored by

Nordicity


Prepared for

CIMA

EST. 1975



Nordicity

This page left intentionally blank

# Contents

# Executive Summary

## Mandate and Methodology

The Canadian Independent Music Association (CIMA) commissioned Nordicity to **assess the impact of COVID-19 on Canada's independent music industry –** defined as primarily the music *business* of the independent sector in Canada. Nordicity assessed the pre-COVID-19 trends, the COVID-19 impact, and the impact of alternative COVID-19 recovery scenarios.

The **methodology** consisted of data and documentation research, industry consultation, scenario planning, and economic modelling. Some 24 interviews and three national workshops were undertaken. Because of the dynamic nature of the music and pandemic environment, the need for a speedy report, and general survey fatigue, no primary data research was part of the plan. Nevertheless, there is sufficient data available to provide a solid analysis.

This study posits several possible futures for a post-COVID world. Based on the assumptions underlying each of these scenarios, Nordicity forecasts the economic impact (GDP, employment, and fiscal) of the pandemic on Canada's independent music industry. The study also forecasts the direct benefits in employment from alternative levels of investment in the sector through macro-economic recovery programs as well as music industry-specific ones.

## Pre-COVID-19 Environment

The major trend in recent years has been the **rapid rise of streaming services**, mainly international (e.g., Spotify, Apple Music), as the primary distribution method. Fierce competition for market share among the large music streaming services has kept subscription prices low, in part resulting in extremely low returns to the rights holders as compared to physical sales. Discoverability is the key to increasing demand for artists and music selections in the streaming environment.

In the early days of music streaming, Canada had a modest lag amongst its peers, but the proportion of streaming revenues has quickly caught with global figures. Today it represents the lion's share (69%) of the revenue from recorded music. In a 2018 study, 75% of the recorded music was attributed to the three global major labels, leaving the rest to the Canadian independent music sector. Since a music streaming world does not favour the independents or artists who are not major brands and thus well-known, the future – even without COVID – was going to be a challenge.

While the "conversations" around gender balance, diversity, and Indigenous representation seem to have improved, the situation has not changed compared to pre-COVID times.

### Canadian Music Economic Profile

The three broad segments of the music sector covered are **live music** (directly employing the equivalent of 30,700 full time jobs, or "FTEs"), **sound recording** (6,900 FTEs), and **publishing** (2,100 FTEs). Prior to COVID-19, the sector was becoming more **export driven**, evidenced in some respects by SOCAN revenues – whereby exports were growing 12% through 2015-18 and domestic by 7%.

In terms of **size of music industry businesses**, some 82% of music businesses consist of sole proprietorships and other owner-operated businesses, and only 2% had more than 20 employees (roughly 25 firms).

There are a variety of **financial support measures** for the music sector, driven by the Canada Music Fund (CMF), whose main instruments are FACTOR and Musicaction. There is also a strong variety of provincial supports for the sector. Private sector investment is generated primarily through selffinancing – with the exception of music publishing which draws on third-party investment because the asset class is secure and its revenues are easier to forecast.

The **geographic distribution** of the music industry shows concentration in Ontario (especially) and Québec, but the degree to which this occurred varied by music segment. Sound recording was dominated by Ontario, with Québec representing about 12% of the value of Ontario over the last three years. However, in music publishing Québec was a little over half of the value of Ontario. Live performance was much more evenly distributed across the country; British Columbia and the Prairies & Territories were each roughly half of Québec and Ontario.

The total trade revenue in 2019 was estimated at $4.2 billion, which generated $4.8 billion in total GDP from a direct GDP impact of $1.9 billion. Total direct and indirect employment was 71,700 FTEs, and the music industry fiscal's impact was $1.5 billion in tax revenues generated – which includes all municipal, provincial, and federal jurisdictions.

### Canadian independent music sector contribution

Nordicity estimates that the Canadian **independent** music publishing and sound recording industry contributed a total of **$601 million** in direct, indirect, and induced **GDP** in Canada in 2019. The total tax revenues in 2019 are estimated at **$171 million.**

The Canadian **independent** music publishing and sound recording industry supported an estimated total **employment** of **7,500 FTEs** in 2019, including direct, indirect, and induced impacts.

## Impact of COVID-19 - Overall

COVID-19 has had an unprecedented impact on the music industry overall. What really stands out is the **critical impact** that the pandemic has had on **independent music**. **Live music** has largely halted across Canada, creating a vacuum for hundreds of independent music venues, bars and festivals, and thousands of technicians, artists, and support staff. In fact, the **impact on live music was equally felt downstream on everyone who gravitates around live music,** including managers, promoters, agents, bookers, etc. Labels that arranged 360 deals (i.e., who have supported marketing, promotion and touring in exchange of a percentage of their artists' revenue), as well as labels who have diversified their operations with management operations have been more exposed to the consequences of the live music shutdown.

Effects were also **much more pronounced on smaller independent acts and emerging artists** who have not already built an audience. With live music being interrupted, independent artists and managers have had fewer opportunities to build an audience base. In that sense, COVID-19 has exacerbated this pre-existing challenge for independent acts. Similarly, industry consultation indicates that **those already more excluded**, or underrepresented, such as women and Indigenous, Black and People of Colour (IBPOC) artists and entrepreneurs also seem to have been **hit the hardest.**

At the same time, some independent artists and businesses have shown ingenuity and propensity to quickly pivot and mitigate, to some extent, the impact of COVID-19. For example,

- Artists with enough followers became online **influencers** – crucial to promotion as media outlets shrink.
- Creation of **hybrid live shows** with limited in-person attendance and simultaneous live streaming – interrupted now by weather (for outdoors), health regulations, and a skittish fan base.

- Time for some **to pursue activities that they did not have time for prior to COVID-19** (e.g., R&D, strategic planning). Some artists and businesses have found this downtime helpful and have used this opportunity to collaborate with other songwriters.

### Revenue and Economic Impact of COVID-19

Overall, Nordicity estimates that the Canadian music industry will generate **$1.6 billion of revenue in 2020** – a **$2.8 billion shortfall** from the industry's 5-year growth trend.[1]

- **Live performance** is expected to see approximately a **79% decline** relative to 2019 revenue
- **Sound recording/distribution** companies are expected to experience a **32% decline.**
- **Music publishing** companies are expected to experience a **44% decline** from 2019 levels.

Nordicity estimates that the Canadian music industry's total **GDP impact will fall short of its potential by $3.2 billion (64%) in 2020**. A greater decline in direct impacts occurred because the industry is taking losses to maintain staffing levels.

The Canadian music industry's **employment impact will decline by 57%** (41,900 FTEs) from its potential in 2020. While the decline is steep, it appears that companies have blunted the impact by maintaining a larger portion of their workforce on payroll than their reduced revenues would seem to have supported – aided by federal wage subsidies.

#### Impact on independent music sector revenues

For **independent sound recording and music publishing companies** in 2020, there will have been an estimated **$233 million drop** representing a **41% decline** in company revenue from 2019. The exclusion of the **live music** segment from these figures produces a less abrupt decline, but it is still quite a dramatic drop.

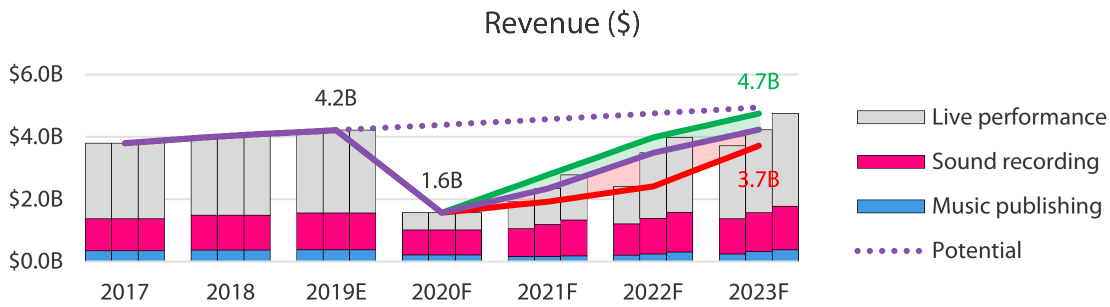
In economic terms, the impact is expected to be down from 2019 for **GDP** by **$241M,** in **FTEs** by **1,650,** and **$55M** in tax revenues.

## Looking Ahead: Potential Recovery Futures

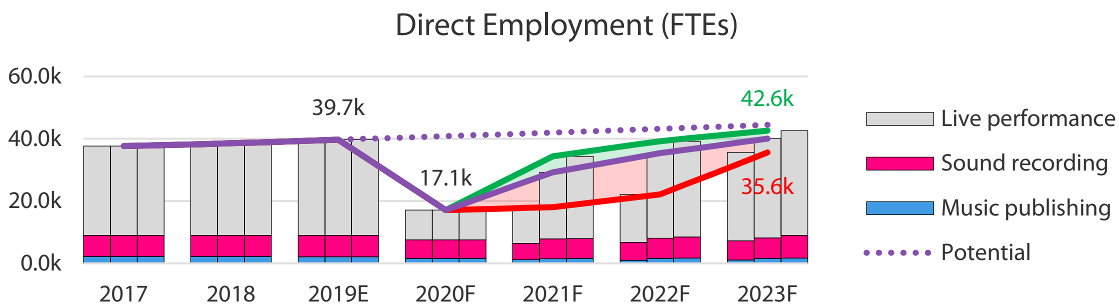
To illustrate the impacts outlined in forecast scenarios, Nordicity developed an economic forecasting model based on revenue and direct employment assumptions for each industry segment. Optimistic and pessimistic forecasts were made based on additional assumptions about certain factors that are beyond the industry's ability to control – in particular, these factors related to the pandemic and near-medium term consumer behaviour with respect to live performances.

The modelling predicts that the **pessimistic and optimistic scenarios envision total industry revenue by 2023 ranging from $3.7 to $4.7 billion**. Note, however, that these projections are based on assumptions that it will take three years to get out of the 2020 trough.

[1] Based on Nordicity's extensive literature review, interviews, and focus groups.



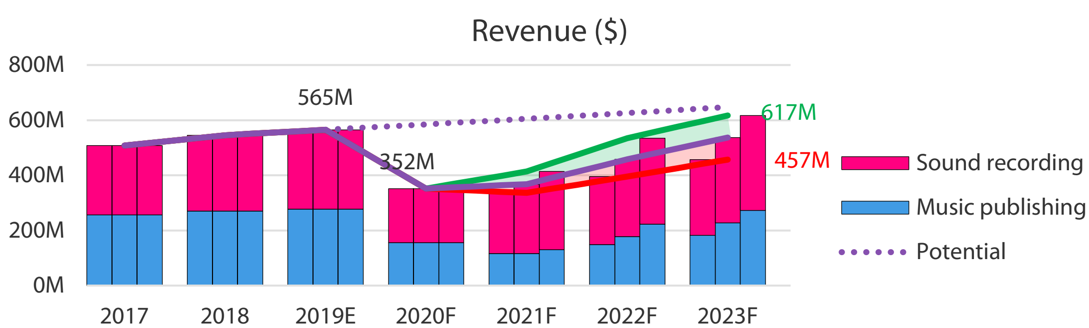

Given that employment is more likely to remain somewhat stable at 2020 levels (or growing) despite the temporary drop in revenues, the direct employment impacts are less severe, but still exhibit a long, painful return to pre-COVID levels. The projections for the **optimistic and pessimistic forecasts for 2023 are 42,600 and 35,600 direct FTEs by 2023.**

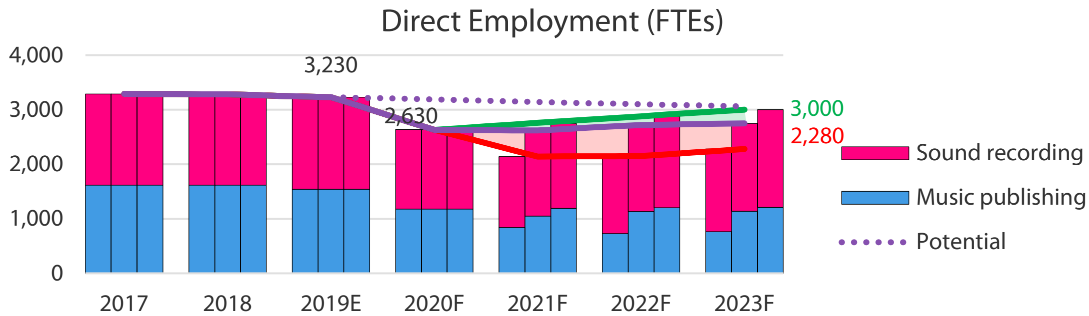



While revenue forecasts presented a fairly wide range of outcomes ($3.7 to $4.7 billion), the **ranges for direct and total (including indirect and induced) GDP are somewhat tighter**. As long as the industry is maintaining excess workers (relative to revenue), labour income will remain comparatively stable and GDP will exhibit less extreme swings than those observed in industry revenue.

### Expected 3 year recovery for the independent music sector

Viewed in absence of the live music segment, it becomes clearer in the trendlines that **independent music publishing and sound recording** are anticipated to have a **more subdued recovery** than the overall industry in 2021 and 2022. The pessimistic scenario assumes a much more severe medium-term impact on employment in the sound recording segment. The pessimistic scenario is based on an assumption that there is no continuation of government support, and companies are therefore forced to adjust employment to levels that revenue can support. If this forecast aligns with actual outcomes, we anticipate that many of the job losses will be permanent due to business failures that would likely occur in this scenario.






### Impact of Different Government Responses

Government responses to COVID-19 play a crucial role in how the music industry responds and ultimately recovers from its devastating impact. Isolating the impact of one set of variables is also difficult to do given how many factors affect the environment in which Canadian independent music companies operate. Nonetheless, it is still important to make such forecasts to help develop public policy for the Canadian music sector. Firstly, scenarios are postulated about the impact of different levels of government intervention that affects the music industry – macro-economic measures and music industry specific measures. Secondly, the impact is isolated to the Canadian segment of the music sector, at least to the extent that this portion can be carved out of the overall impact.

**Wage support (Canada Emergency Wage Subsidy)** - While the music industry has credited CEWS with their ability to retain talent through the shutdowns, the industry's recovery is lagging other industries that are better positioned to return to work more immediately. Nordicity estimates that **870 music industry workers** (5% of the workforce) were being supported by CEWS in the period from Aug 30 to Sep 26, 2020. If CEWS were to be extended through the full calendar year of 2021 for the same group of workers, the program would **cost a total of $14.3 million**.

In light of the music industry's slow anticipated recovery, Nordicity's stakeholder engagement found that many employers are relying on CEWS to retain key talent. Given the comparatively low price of extending this benefit for the music industry and ease of implementation, this mode of support for the industry should be considered.

**Music sector support (CMF, FACTOR, Musicaction) -** While this program is currently funded at a level of $36 million, its 2-year increase of $10 million is due to end March 31, 2021. Nordicity estimates that each $10 million of investment in supporting a range of marketing and other activities by independent music companies would support **$50 million in total GDP**, the employment of **750 FTEs**, and a **fiscal (tax) impact of $15 million** in Canada. As noted in the forecasts above, the return to the 2019 figures will take **three years.** That is consistent with the 2-3-year planning cycle that is the operating timeframe for recording companies and music publishers.

**Freelance talent retention (CERB) -** Nordicity estimates that 17% of the music workforce consists of *key freelance talent*, that is, the portion of the music industry workforce with specialized skills but also typically depends on gig work. Through various further assumptions, a 10% boost in productivity of returning workers drove 2023 revenues about 5% higher than the initial forecasts.

The calculations show that a government investment **would pay for itself if the music industry experiences a fast recovery** because the incremental fiscal impact exceeds the estimated cost of the program (i.e., a positive fiscal return). Conversely, if the pessimistic scenario yields a negative fiscal return, the **support would be well received by the music workforce if the recovery is more protracted**.

## Scenario Planning

The future direction of Canada's music industry is uncertain, but scenario planning enables decision-makers to consider plausible future scenarios. The development of mitigation and stimulation measures is aided by reviewing different industry support options through each of three plausible scenarios derived from three music business roundtables led by Nordicity. The 'best' options for sector support are those that best meet the challenges presented in all three scenarios. While the three scenarios established are plausible, they could end up with variations of each other. Ultimately, the one conclusion that can be drawn from the scenarios is that **public sector intervention can support a faster, more successful recovery** – however it happens, and whatever the timing is.

In conclusion, in the absence of normal revenue sources, **public money that supports the creative and entrepreneurial components of Canada's music sector will have the most positive effect**. The key is to support industry initiatives and tailor the eligibility criteria to keep up with the opportunities – on a quarterly or semi-annual basis.

## Conclusion

This report records the extent of the COVID-19 impact on the Canadian independent music industry. The damage is extensive, though some segments of the business – like live performance – are more devastated than others. Emergency relief programs and greater flexibility of existing music programs in terms of private sector co-financing requirement have been quite helpful in enabling the music sector to survive in these past several months.

While this support has shown government to have been quite responsive, the forecasts in this report show the grim reality of a multi-year recovery prospect. Accordingly, independent music businesses will be challenged to maintain "business continuity" as they endure and recover from the pandemic. Indeed, the typical album (and thus business) cycle is 24-36 months, which is also the time that is projected to take for the industry recover to pre-COVID revenue levels. While some elements of the industry will survive because of the incredible entrepreneurial spirit, without (continued and new) intervention many Canadian independent businesses are likely to fail.

On the other hand, COVID-19 may have afforded the industry an opportunity to not only survive the pandemic's effect, but also use this relative lull in (some) business activity to address some pre-COVID-19 issues (e.g., by including more Canadians in the industry). Doing so will benefit the sector as a whole – and position Canada's independent music industry to be faster out of the gate than international competitors.

In order to achieve this jump start, investment by government would have to sustain and strengthen the business acumen in the music sector – while continue to nurture music talent in Canada. To keep that talent in play – and to help it find audiences – is crucial. The flexibility shown by the CMF and FACTOR/Musicaction in the first 8 months of the pandemic was appropriate to the circumstances. If continued, it will provide the capital that the independent music business needs to be highly competitive in an increasingly international game once the recovery is in full swing.

# 1. Introduction

This first section describes the mandate for this study and its rationale. It also describes the methodology and approach to consultation, analysis, and modelling of the Canadian independent music industry.

## 1.1 Mandate

The COVID-19 pandemic has had significant impact on many parts of Canada's economy. In some cases, it has even proven to have some unexpected benefits, presenting new opportunities – such as in the case of video game or animation production, which have seen unprecedented growth. For other parts of the economy – including those that rely on the physical presence of groups of people (such as hospitality, tourism, and the performing arts) - the COVID-19 pandemic has posed a serious existential threat.

For Canada's independent music industry, given the ecosystem's huge reliance on live performance, the picture is clear. This multi-faceted industry comprises Canadian-owned companies that range from individual managers working with only one artist to robust labels involved in all aspects of the industry. It includes both live music companies such as venues, promoters, bookers, and agents as well as companies engaged in the production (and commercialization) of recorded music. While there is inherent complexity, and thus a complicated impact, the pandemic's impact was swift and fundamental.

Accordingly, the Canadian Independent Music Association (CIMA) asked Nordicity to **assess the impact of COVID on Canada's independent music industry.** More precisely, Nordicity was asked to examine the period leading up to the pandemic (2017 through 2019) to establish a baseline understanding of what the industry looked like before COVID-19. This baseline is expressed in both economic (e.g., GDP, employment) and qualitative trends (e.g., inclusion, skill building, market access).

With that baseline in mind, Nordicity researched the changes to the industry wrought by COVID-19 in 2020. Furthermore, this study posits several possible futures for a post-COVID-19 world. Based on the assumptions underlying each of these scenarios, Nordicity presents forecasts of the economic impact of the pandemic on Canada's independent music industry.

This study is focused primarily on the impacts of COVID-19 on Canadian independent music *businesses*. It is generally acknowledged that music artists and writers form the bedrock of the industry, without whom the independent music business would not be possible. However, CIMA's main constituency comprises businesses which find, develop, invest in, manage, and market music artists and writers. Therefore, the main subject of this analysis is the independent music *business*. Where the impacts on artists and writers are discussed, it is done to illustrate the knock-on effects to the individuals and companies who operate as part of the music industry ecosystem.

## 1.2 Methodology

The information presented in this report is drawn from a combination of one-on-one interviews, industry workshops, and documentation desk research. While many studies of this kind rely on direct data collection – typically by way of an online survey – there was little appetite for such a survey during the study period. Several surveys and studies had been conducted in the months since the onset of the COVID-19 pandemic leading to a sense of "survey fatigue." Accordingly, CIMA and Nordicity opted to illustrate the effects of the pandemic using a combination of statistical data, existing industry reports, and the insights of industry leaders.

The following provides a summary of the data sources used:

- **Interviews:** Nordicity conducted 24 interviews with representatives from across Canada's independent music industry. These interviews included both individuals speaking on behalf of their companies, and leaders from industry associations (e.g., Music Publishers Canada, Canadian Live Music Association) who are positioned to speak on behalf of their segment of the industry.

  The information derived from the interviews was used in two ways. Most obviously, it helped to inform issues facing the industry before the pandemic (see Section 2.3) and how COVID affected those issues (see Section 3.3). At the same time, the interviews were used to help Nordicity create extrapolations from the available statistical and industry data.

- **Industry Workshops:** Nordicity also conducted a series of three industry workshops in which the future of Canada's independent music industry was discussed – in light of the on-going pandemic. To do so, these sessions explored a series of scenarios each considering elements of potential futures (e.g., the availability of public funding, potentially changing consumer habits). These scenarios are discussed in Section 4.1 and used as the basis for developing the assumptions underlying the impact forecasts presented there.

- **Statistical Data:** Given the lack of up-to-date financial data from independent music companies operating in Canada, Nordicity looked to the statistical data available from Statistics Canada's Provincial and Territorial Culture Indicators (an offshoot of the Provincial and Territorial Culture Satellite Account - PTCSA) to quantify the industry between 2017 and 2018. The project team then extrapolated from that data (with adjustments based on interview feedback) to forecast the industry's possible economic impact in 2019 (and beyond).

- **Industry Studies and Documents:** In addition to statistical sources, Nordicity drew upon industry reports to inform subjects not covered by more formal data sources. While Nordicity recognizes the limitations of these reports (be they geographic and/or methodological), they nonetheless represent the best available data on many topics.

More detail on the methodology used to produce this report can be found in the Appendix.

## 1.1 About the Music Industry

Before getting into the impact of COVID-19 on the independent music industry in Canada, it is important to understand (at a basic level) what comprises the industry. More precisely, it is crucial to know what types of companies operate in the music business and how they make money.

As an *a priori* point, it should be noted that the material in this report (mostly) reflects Canada's for-profit music industry, which is commonly contrasted with the non-profit music industry (i.e., symphonies, chamber music groups, etc.). That said, this distinction is not always perfect and can be problematic from a policy perspective (as is discussed in Section 2.2.2).

At a high level, music companies can be categorized into three main components of the music industry:

1. **Live music companies** involved with the staging and execution of live events in which music is prominently featured, and

2. **Recorded music companies** involved with the production, distribution, and/or monetization of recorded music (i.e. streams, downloads, CDs).

3. **Music publishing companies** which find and nurture music creators (composers and songwriters, who are often performing artists) and search opportunities for exploiting the music rights of creators (via performance, mechanical and synchronization rights)

Of course, any individual company might perform a variety of music-related activities. For example, it is quite common for a record label to undertake management and/or publishing activities for artists that they sign. Additionally, artists themselves have been increasingly asked to assume a greater number of business-related activities (and thus are sometimes referred to as "artist entrepreneurs").

The following table presents a non-exhaustive list of music businesses and how each have trended towards revenue generation revenue:

**Table 1. Types of music businesses and their revenue sources**

| Type | Industry Segment(s) | Typical Revenue Source(s) |
|---|---|---|
| Artist / Music Manager | Live music<br><br>Recorded music | Received a share of artists income from both live (e.g., touring) and recorded music (e.g., streaming) |
| Music Agent<br><br>Booking Agent | Live music | Paid by artist representatives to book tour dates/events |
| Music Venue | Live music | Generates event revenue (mostly beverage sales) |
| Music Booker | Live music | Paid by venues to book artists |
| Music Promoter | Live music | Paid by artist representative to arrange and market live events |
| Music Festival | Live music | Combines the roles of venue, booker, and promoter<br><br>Revenue generated by ticket sales, sponsorships and vendors/vending |
| Record Label | Recorded music | Generates unit sales and streaming revenue |
| Music Recording/ Mastering Studio | Recorded music | Paid by artist representatives to record the music and make a "master recording" |
| Music Publisher | Recorded music | Monetizes performance, mechanical and synchronization rights on behalf of rightsholders (e.g., copyright owners incl. songwriters, composers) |
| Digital Music Platform | Recorded music<br><br>Live music | Generates revenue from subscriptions and/or advertising from recorded music<br><br>Generates revenue from subscriptions, ticket sales and/or advertising from live streaming |

## 2. The Lead-in: The Music Industry Before COVID-19

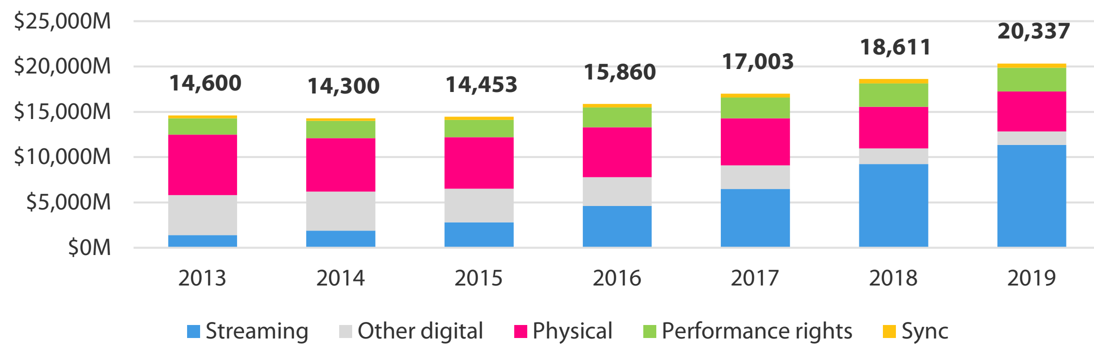
The first component of this study describes the economic, technological, and business trends that characterized the global music business just prior to onslaught of the COVID-19 pandemic.

### 2.1 The Global Music Industry

In this section, Nordicity provides an overview of the global music industry, Canada's relative position in it, and global revenue trends. This section also briefly discusses challenges and difficulties that independent music stakeholders across the globe were already facing before COVID-19.

Recorded Music revenue has been growing since reaching a record low of $14.3 billion in 2014. This growth has been significantly driven by **streaming revenue which accounted for 56%** of the total revenue in 2019 (against 13% of the total in 2014).

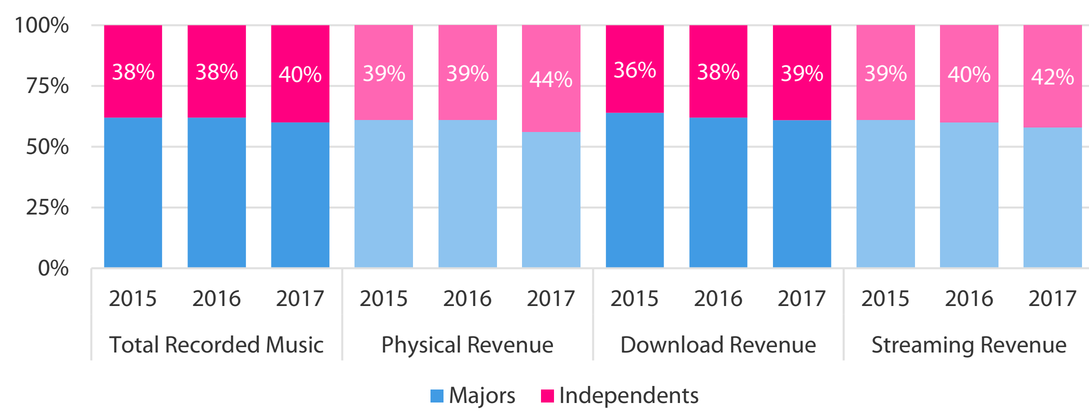
**Figure 1. Global Recorded Music Trade Value (US $M)**




Source: IFPI, *Global Music Report 2019*

However, this growth trend does not accurately reflect the reality of the independent music business. In fact, according to a WIN/MIDiA Research study, the "Big Three" (majors Sony, Warner and Universal) garnered 60.1% of the global recorded music revenue. One can note the slow but steady progression of **independents' market share**, from 20% of the total global recorded music revenue in 1998 to **40% in 2017**. These global shares are somewhat distorted by the weight of independents in large markets such as the US, Japan or South Korea, where indie labels represent 44%, 69% and 88% of the total revenue respectively. In reality, the share of independents broadly varies from one market to another.

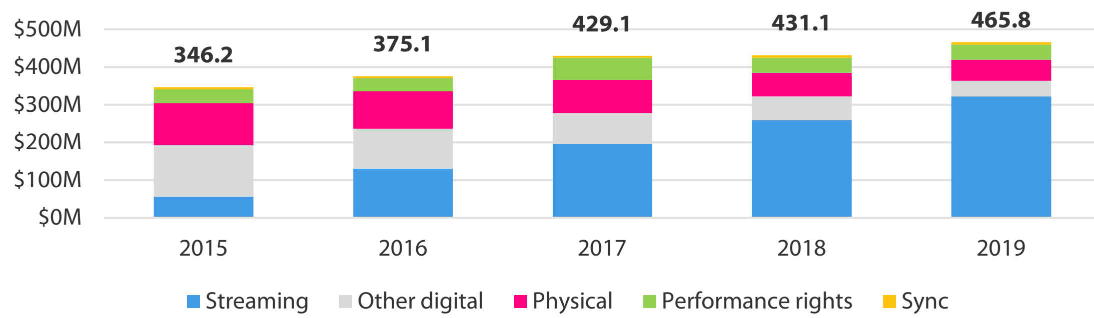
**Figure 2. Global Music Revenue Share, Majors vs. Independents, by Format**




Source: WINTEL, *Worldwide Independent Market Reports*

**Canada ranks as the eighth market in terms of total recorded music revenue**[2] **and the Canadian independent music market is the ninth largest**[3]**.** As per the figure below, the Canadian revenue mix follows the same trend as global revenue: an overall continued growth at a CAGR of 8% for the 2015-2019 period (CAGR of 9% for global revenue over the same period), predominantly driven by streaming revenue, which made up 69% of the 2019 Canadian total.

**Figure 3. Recorded Music Trade Value, Canada (US $M)**




Source: IFPI, *Global Music Report 2019*

Zooming in on the share captured by the **independent labels** in Canada, the following chart shows that majors have even more weight in Canada. The **independent labels accounted for only 25%** of the total 2017 Canadian recorded music revenue. It is a four-point growth from 2015, but the growth in share might have been blunted by the recent rise in streaming as a % of revenue (Figure 3). Since streaming seems to significantly benefit larger music businesses, it would be reasonable to expect that the indie share of total revenue might have also declined or plateaued from the 2017 period.

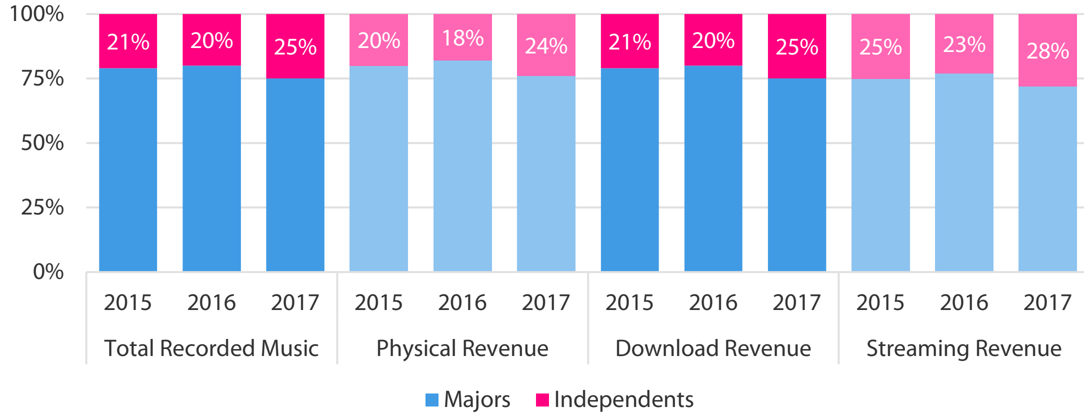
It should be noted that of the top 19 music markets listed by the WINTEL report, Canada's independent labels have the sixth lowest market share when it comes to streaming revenue (28%). Obviously, the proximity of the US market for English Canada enables a stronger hold by the majors over the Canadian market. However, it should be possible to develop strategies to raise the indie market share closer to the mean of these 19 markets.

---

[2] IFPI (2020), *Global Music Report 2019*

[3] WIN/MIDiA Research (2018) *WINTEL Worldwide Independent Market Report 2018*

**Figure 4. Canadian Music Revenue Share, Majors vs. Independents, by Format**

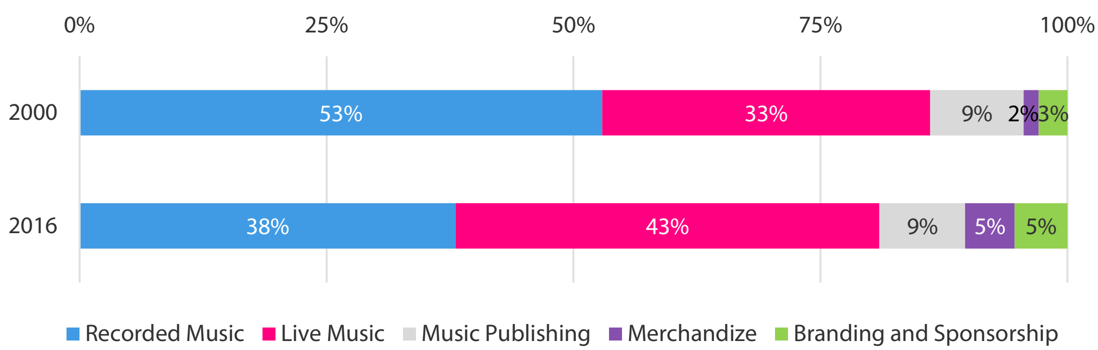



Source: WINTEL, *Worldwide Independent Market Reports*

**Live music has become an increasingly prevailing segment** within the total global music industry revenue over the past 20 years, as illustrated by Figure 5. With the erosion of recorded music revenue between 2000 and 2014, the global music sector has seen a growing reliance on live music. The crucial role of performing live and touring has not lessened with the return to growth in recorded music revenue observed in Figure 1. In fact, most of this streaming revenue – supporting this return to growth – is captured by the big majors and by the most popular artists.

A 2017 study by the Finnish Music Publishers Association concluded that the top 0.4% of artists on Spotify garner 10% of the revenue redistributed by the platform. The narrow opportunity to generate revenue through streaming for independent labels and artists imposes a greater reliance on live music.

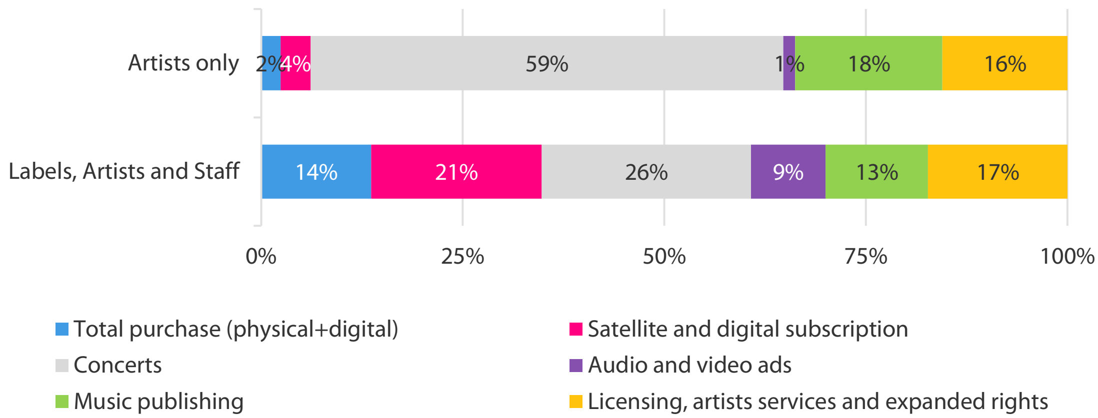
**Figure 5. Global Music Industry Revenue Mix, 2000-2016**




Source: MIDiA

Figure 6 below further illustrates this dependency on live music revenue. The chart breaks down the portion of US music revenues available to labels, artists and staff (e.g., personal managers, record producers, concert promoters, etc.) in 2017. The revenue mix further demonstrates the importance of live music for the overall music ecosystem in the US – particularly for the artists (live music accounts for 59% of the total revenue available to artists).

**Figure 6. Breakdown of revenue sources for labels, artists, and support staff in the US, 2017**




Source: Citi GPS (2018), *Putting the band back together: remastering the world of music*

The changing profile of the global music revenue mix also raised new questions with regards to the fair distribution of digital revenue. The fact that streaming accounts for such low portion of artists' and labels' revenue hints at the complexity of the digital music industry: an increasing number of intermediaries; the low cost of access to music (driven by virtually free user-generated platforms like YouTube, and the low price points and family plans of streaming subscriptions); a global discoverability challenge; the growing power of majors and streaming services in negotiations; and the leak in digital value returned to rights holders.

**The Value Gap / Transfer of Value**

"The value gap describes the growing mismatch between the value that some digital platforms, in particular online user upload services, such as YouTube, extract from music and the revenue returned to the music community – those who are creating and investing in music.

It is currently the biggest policy challenge facing the music industry. For music to thrive in a digital world, those that are creating and investing in music must be able to negotiate fair commercial terms for its use. Furthermore, digital music services that are licensing music on freely negotiated terms, must be allowed to compete on a level playing field – something they currently do not have."

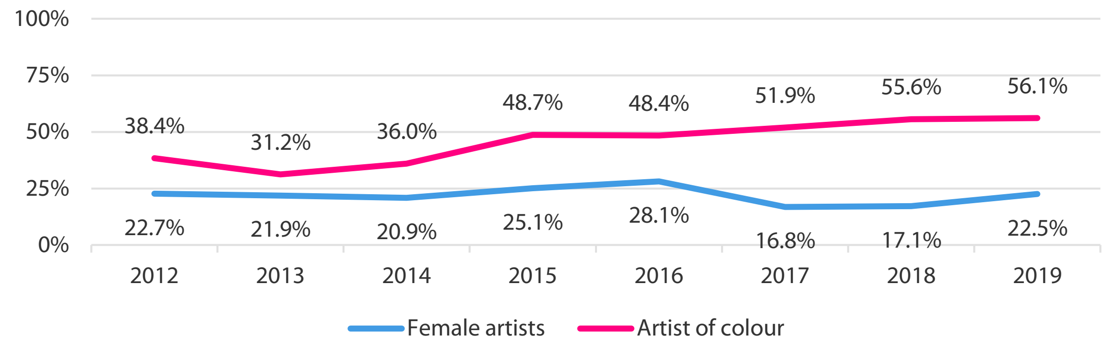
*IPFI, Fixing the Value Gap, Global Music Report 2018*

The prominence of streaming as a revenue source for recorded music reinforces the "**gatekeeper culture**" for independent music businesses. Platform curators can make and break successes by programming an artist on popular playlists. Streaming (either through human curation or algorithms) tends to favour major labels and mainstream artists, making it even more difficult to develop the career of an independent artist. A 2019 survey of 300 US industry professionals conducted by The Creative Independent indicated that 35% of industry professionals and 27% of musicians feel that one of their greatest challenges in pursuing a rewarding career in the music industry was the persistent "nepotism and unfair gatekeeper culture."[4]

[4] The Creative Independent (2019) [Music Industry Investigation Report]

Another important factor is the global conversation about **lack of equity, diversity, and inclusion** in the music community in the past years. While the industry celebrates the growing awareness around Indigenous, Black and People of Colour (IBPOC) and female artists, stakeholders also acknowledge that there is still a long way to go, specifically when it comes to the representation of women in the charts, as suggested by the figure below.

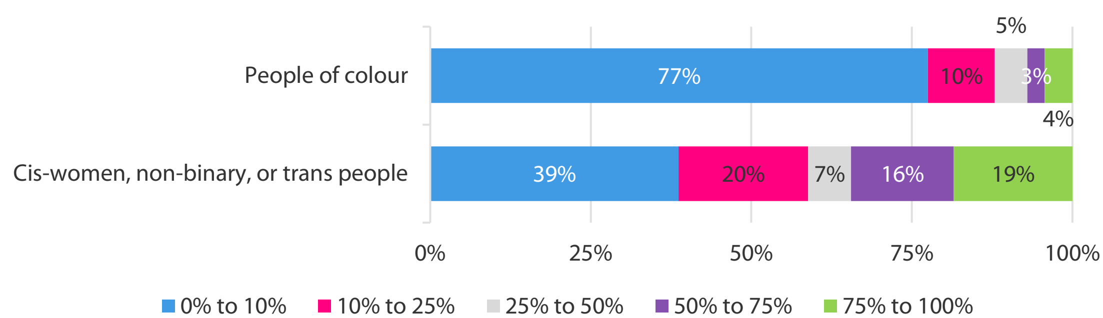
**Figure 7. Prevalence of female artists and artists of colour across the annual top 100 popular songs**




Source: Dr. Stacy L. Smith, Dr. Katherine Pieper, Hannah Clark, Ariana Case & Marc Choueiti (2020). *Inclusion in the Recording Studio? Gender and Race/Ethnicity of Artists, Songwriters & Producers across 800 Popular Songs from 2012-2019*

The diversity gap is not a concern solely for artists, but also a major concern for music entrepreneurs. The Creative Independent survey mentioned above also revealed that the lack of diversity at the executive level is still a persistent reality. As illustrated by Figure 8 below, 61.4% of respondents indicated that three quarters or more of the leadership positions in their organizations are held by cisgender men, and that people of colour make up at least one quarter of the executive team in only 12.2% of participant organizations.

**Figure 8. What percentage of leadership/executive-level positions in your company/organizations are held by cis-women, non-binary, trans people, or people of colour? (2019, US, n=300)**




Source: The Creative Independent

In conclusion, the pre-COVID world was a world of growth and opportunities, but also a world whose trends were not entirely favourable to the independent music business – nor to a fair, artist-centric model that would benefit the whole ecosystem. Independent artists and businesses often feel that they were increasingly disadvantaged in a sector dominated by growing power of global majors and streaming services.

## 2.2 Canada's Independent Music Industry

The following paragraphs provides a brief profile of the Canadian music industry, its stakeholders, impacts and challenges, prior to the COVID-19 pandemic.

Starting from this section, the following icons in the margins will help the reader identify whether the figures and tables refer to the overall Canadian music industry () or focus on the Canadian independent music sector ().

### 2.2.1 About the Industry

For the purposes of this study, the Canadian independent music industry can be understood to comprise of three core segments:

- **Music publishing** – mainly consisting of independent music publishers, although there are several Canadian independent labels which have publishing arms.
- **Sound recording** – development, production, management, distribution, and promotion of artists by labels, management companies and all the support services; and,
- **Live performance** – both indoor and outdoor (and a nascent online digital sector), in small and large venues, in Canada, the US, and abroad; considered necessary for artists to earn a living, promoting and capitalizing on recorded works, and for generating revenues for the music business

#### Number of companies

As outlined in Section 1.2, because there was no recent or reliable study of companies operating in Canada's independent music industry, Nordicity turned to the data available from Statistics Canada. This first table presents the number of music businesses in Canada, by region, for 2015 and 2018 in the four following NAICS codes:

- Music publishers (512230);
- Sound recording studios (512240);
- Record production and distribution (512290); and,
- Other sound recording industries (512290).

**Table 2. Business counts for music industry segments by region**

| Region | 2015 | 2018 | Change |
|---|---|---|---|
| Ontario | 811 | 851 | +5% |
| Québec | 559 | 572 | +2% |
| British Columbia | 322 | 334 | +4% |
| Prairie Provinces + Territories | 189 | 163 | -14% |
| Atlantic | 66 | 69 | +5% |
| Total | 1,947 | 1,989 | +2% |

Total

Source: Statistics Canada, Business Register 2018

A significant part of the Canadian music industry is consolidated in **Ontario and Québec**. These provinces were home to 70% of the total businesses in the four NAICS codes segments in 2015. This share increased to **72% of total businesses in 2018.** Another notable trend is the gradual closure of businesses in the Prairies and Territories (-14% from 2015 to 2018). The dominance of the Toronto and Montréal concentrations seems to be increasing.

Unfortunately, Statistics Canada does not provide information regarding the main language in which these businesses operate. Most Québec businesses are assumed to operate in French. Including the francophone presence outside of Québec, the francophone music businesses could represent about one third of the companies included in this count. Several French language companies and some artists would operate in English and aim for the global markets through English language lyrics.

It should be noted that this statistical data only captures a portion of the Canadian music industry as defined above (mainly because live music is not included). More importantly, these NAICS code groupings include more companies than what could be categorized as being part of the "independent music industry".

The following table suggests that most of the companies included in this count are independent and breaks down the distribution of companies by number of employees, by NAICS code.

**Table 3. Business counts for music industry segments by size (number of employees)**

| Segment | NAICS | Year | Total number of companies | Without employees | 1-4 | 5-9 | 10-19 | 20-49 | 50+ |
|---|---|---|---|---|---|---|---|---|---|
| Music publishing | 512230 - Music publishers | 2018 | **523** | 81% | 13% | 3% | 1% | 1% | 1% |
| | | *2015* | ***508*** | *78%* | *17%* | *3%* | *0%* | *1%* | *1%* |
| Sound recording | 512240 - Sound recording studios | 2018 | **643** | 76% | 17% | 4% | 2% | 1% | 0% |
| | | *2015* | ***608*** | *76%* | *17%* | *4%* | *2%* | *1%* | *0%* |
| | 512250 - Record production and distribution | 2018 | **485** | 81% | 14% | 2% | 1% | 1% | 1% |
| | | *2015* | ***546*** | *80%* | *15%* | *3%* | *1%* | *1%* | *1%* |
| | 512290 - Other sound recording industries | 2018 | **338** | 95% | 4% | 0% | 0% | 0% | 0% |
| | | *2015* | ***285*** | *95%* | *4%* | *0%* | *0%* | *0%* | *0%* |
| **Total** | | **2018** | **1,989** | **82%** | **13%** | **3%** | **1%** | **1%** | **0%** |
| | | ***2015*** | ***1,947*** | ***80%*** | ***15%*** | ***3%*** | ***1%*** | ***1%*** | ***0%*** |

Source: Statistics Canada, Business Register 2018

Total

Notably, this data indicates that the music business in Canada consists of **many sole proprietor and other owner-operated businesses**, as a large majority of companies in the Canadian music industry are "without employees", a category that includes both contract workers and individual

The Lead In

entrepreneurs.[5] Most of the rest have only a few employees, and only 2% of businesses employ 10 or more people (about 40 companies in 2015 and 2018). The data shows that independent music businesses form the majority of these four segments. Again, it should be noted that this data does not include the live music business. Based on BC and Ontario live music studies, there are a combined 2,143 businesses in both provinces, which represent about a half of Canada's population.

**Live music businesses** are often **hybrid entities** that may overlap with companies already counted above.[6] Although there has been no Canada-wide study of the live music industry, past Nordicity works in different provinces can give a sense of the size of this segment. An economic impact assessment of live music in Ontario conducted in 2015 established that there were 1,240 live music businesses.[7] A second study conducted in British Columbia determined that there were 903 live music business in the province in 2017.[8] These two provinces cover about half of the Canadian population. Using these data points and the distribution of music businesses detailed in Table 2, Nordicity estimates that there were more than 3,850 live music businesses in Canada in 2019. These businesses are likely to include companies already captured in the tables above, as well as artist-entrepreneurs.

### Canadian artists representation on indie music rosters

There is limited quantitative data on the proportion of Canadian representation on independent music company rosters. However, some fragments of information can give an indication of an overall trend. For instance, a 2018 Nordicity study of the economic impact of live music in BC showed the prevalence of Canadian artists on provincial company rosters. In fact, almost **90%** of the artists managed by BC companies were **local artists**.

Canadian music companies seem to increasingly focus on home-grown talent. As an example, the average number of Canadian artists represented by labels that accessed the Canada Music Fund's Music Entrepreneur Component increased by 23.3%, suggesting that they increasingly invest in the development of Canadian artists.[9]

The *National Indigenous Music Impact Study* (2019) commissioned by APTN also provides anecdotal evidence of music companies working with artists in their communities. Music companies that worked in the Indigenous music community in 2018 collaborated with 43 musicians on average, of whom, **45% were Indigenous musicians**. Artist managers and booking agents managed four artists in total on average, two of whom were Indigenous.

---

[5] Companies without employees, as reported in Statistics Canada's Business Register, include all businesses that generated more than $30,000 in revenue. These counts include (but are not limited to) registered businesses that did not file a T4 and instances in which T1 self-employment revenue reported to the Canada Revenue Agency exceeded $30,000. As such, establishments without employees are understood to represent both contract workers and individual entrepreneurs who earned meaningful income through contract work or a small business. Note that such workers may or may not also be employed at other companies.

[6] For instance, the study *Live Music Measures Up: An economic Impact Analysis of Live Music in Ontario* (2015) showed that 53% of live music companies are engaged in two or more music activities.

[7] Nordicity (2015) *Live Music Measures Up: An economic Impact Analysis of Live Music in Ontario*

[8] Nordicity (2018) *Here, the Beat: The Economic Impact of Live Music in BCs*

[9] Evaluation of the Canada Music Fund (2012-13 to 2017-18). During this period, 20 labels representing at least 30 Canadian artists received funding from the CMF's Music Entrepreneur Component each year.

On a higher-level note, Canadian artists account for 21% of sound recording and music publishing revenue in Canada.[10] Of course, this observation should be balanced with the knowledge that these artists include some of the world's most popular acts such as Drake, The Weeknd, Justin Bieber and other Canadian bestselling artists who are typically signed to non-Canadian labels. That further suggests that the music business in Canada operates based on nurturing and promoting Canadian artists who generate only a small percentage of the sound recording and publishing sales in Canada.

**Table 4. Sales of recordings by Canadian artists (in millions)**

| | 2013 | 2015 | 2017 |
|---|---|---|---|
| Total sales of recordings | 351.6 | 296.5 | 413.2 |
| Canadian artists | 19% | 22% | 21% |
| Non-Canadian artists | 81% | 78% | 79% |

Total

Source: Statistics Canada

### Representation of women and IBPOC leaders

According to a recent study: *Empowering Diversity: A Study Connecting Women in Leadership to Company Performance in the Canadian Music Industry, a* report commissioned by Women in Music Canada, only 28.1% of senior roles were held by women. The study also notes differences between the various segments: management and agency companies are more gender diverse (40%) than record labels/producers (24%). One-third of companies analyzed had no women within leadership, and **9% of music organizations are headed by a female leader** (CEO, President and Owner titles). Since the **overall Canadian entrepreneurship community shows that 16% of SMEs** in Canada were majority female-owned (2017),[11] the music industry's figure of 9% shows that gender diversity in the music industry is clearly lagging the overall presence of women owners/CEOs across industries in Canada.

According to the *National Indigenous Music Impact Study* from 2019, **companies in the Indigenous music community are primarily Indigenous owned (65%)**. Indigenous companies seem to offer more opportunities to female entrepreneurs: more than half of the companies (58%) reported having at least one owner that identifies as female.

While stakeholders welcome the various initiatives to offer equal opportunities for Black entrepreneurs in the music industry, significant work remains to provide more equity for Black-owned music businesses. Recent announcements reflect the increased consideration of the Black community, following the tragic events of 2020. About **7% of Black-owned businesses** in the Greater Toronto and Hamilton Area (GTHA) **operate in the Information and Cultural industries**. For young entrepreneurs (age group 18-34), the proportion is much higher (12%).[12] In July 2020, the City of Toronto committed to spending $300,000 on workforce development initiatives that accelerate

---

[10] Statistics Canada. Table 21-10-0080-01 Sound recording and music publishing, total sales of recordings by country of control (x 1,000,000)

[11] Innovation, Science and Economic Development Canada (2017) *Survey on Financing and Growth of Small and Medium Enterprises*

[12] Black Business and Professionals Council Advisory Body of the City of Toronto (2017) *Black-led Businesses In Toronto: Building Opportunities for Growth and Prosperity*

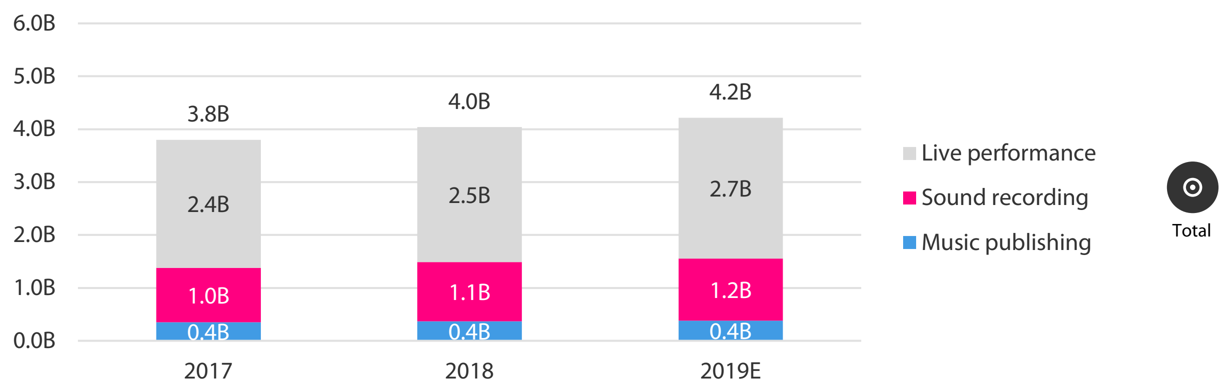
career pathways for Black youth in the creative industries.[13] Following this announcement, a partnership between the City of Toronto, the Slaight Family Foundation and Advance has committed to investing $2 million over four years to support the entry, retention and advancement of Black professionals in Toronto's music industry.[14]

While these programs are intended to help under-represented groups gain access to careers in the music industry, they need to translate into concrete increases in minority participation at all career levels, particularly in leadership positions. This growth in representation is critical in the expansion of the independent music industry in Canada.

### 2.2.2 Industry Economic and Employment Profile

This section focuses on the economic contribution of the Canadian music industry between 2017 and 2019. In terms of revenue, Nordicity estimates that the music industry earned $4.2 billion in 2019. As the figure below shows, industry revenue was $3.8 billion in 2017, implying a compound annual growth rate of 5.3% over the 2017-2019 period. **Almost two-thirds (63%) of the revenue earned came from the live music segment.**

**Figure 9. Overall music industry revenue in Canada**




Source: Statistics Canada Provincial and Territorial Culture indicators, Nordicity research

To focus on a portion of the industry that is more representative of CIMA's constituency, the following chart drills down to the estimated Canadian independent portion of the data shown above. This illustration shows 73% of music publishing and 25% of sound recording (henceforth: *the Canadian independent music publishing and sound recording industry*) as the Canadian independent portion. The assumption of 73% used for music publishing is based on the combined revenue of $277 million for Music Publishers Canada (MPC) and the *Association des professionnels de l'edition musicale*'s (APEM) membership in 2019, as reported in MPC's *Fall 2020 Pre-Budget Consultations*. As a share of the total

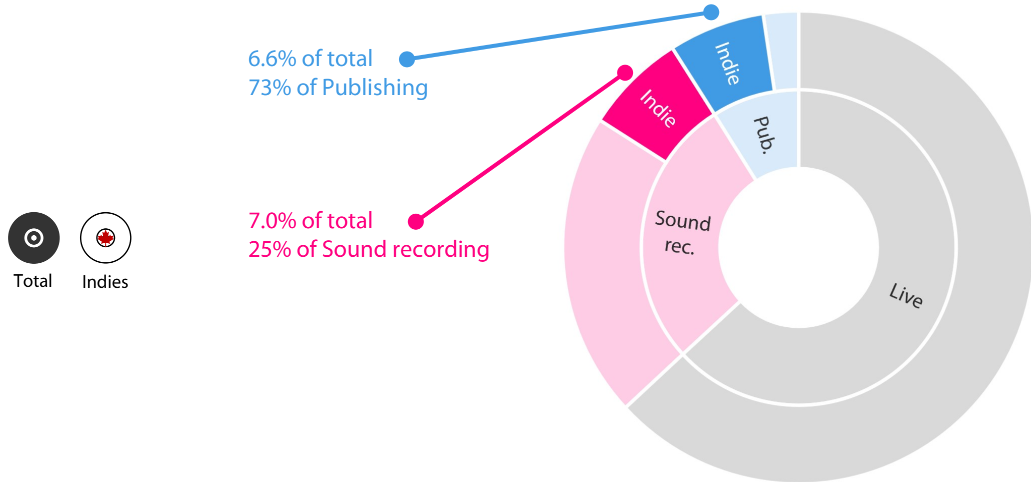
---

[13] City of Toronto. (2020, July 24). *City of Toronto commits more than $1.2 million in cultural and economic investments to confront anti-Black racism*. Retrieved November 11, 2020, from https://www.toronto.ca/news/city-of-toronto-commits-more-than-1-2-million-in-cultural-and-economic-investments-to-confront-anti-black-racism/

[14] City of Toronto (August 10, 2020), *Mayor John Tory announces $2 million partnership with the Slaight Family Foundation and Advance to support Black professionals in Toronto's music industry*. Retrieved November 11, 2020 from https://www.toronto.ca/news/mayor-john-tory-announces-2-million-partnership-with-the-slaight-family-foundation-and-advance-to-support-black-professionals-in-torontos-music-industry/

music publishing revenue in Canada in 2019 ($379 million in 2019), that figure represents 73% of the total music publishing industry in Canada. Note that this estimate is likely conservative, as there may be Canadian independent publishers that are not members of MPC or APEM.

**Figure 10. Independent Share of the Canadian Music Industry (est.)**

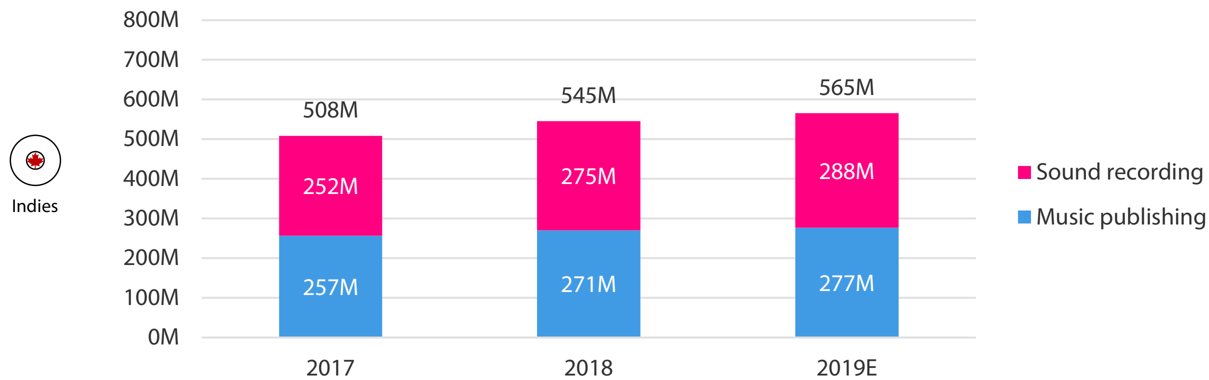



Source: Statistics Canada Provincial and Territorial Culture indicators, WINTEL, *Worldwide Independent Market Reports*, Nordicity research

The sound recording assumption of 25% is based on the 2019 *Worldwide Independent Market Report* which estimated that the Canadian independent sound recording sector accounted for a 25% share of Canadian recorded music revenue in 2017, as noted in Section 2.1.

There is limited data available on the split between the independent part of the Canadian music sector and the majors or other international components. However, this illustration helps to show the portion of the market occupied by the independent companies represented by CIMA.

**Figure 11. Canadian independent music industry revenue (est.)**

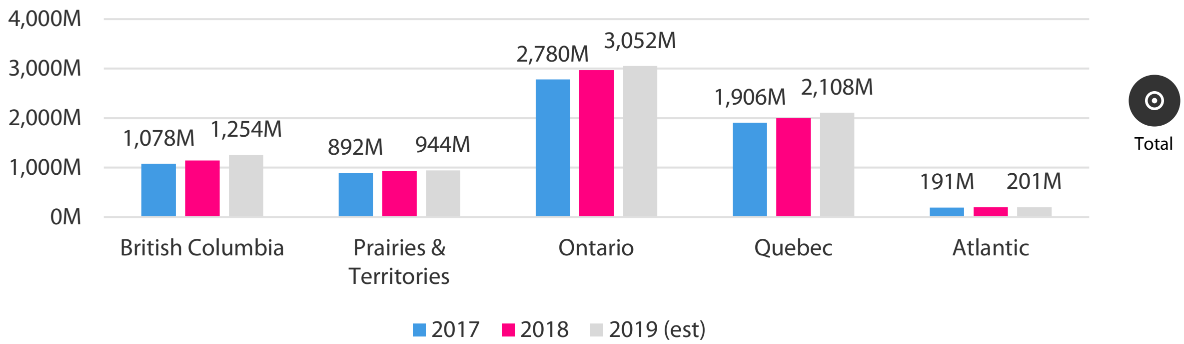



Source: Statistics Canada Provincial and Territorial Culture indicators, WINTEL, *Worldwide Independent Market Reports*, Nordicity research

The World Independent Network (an international coordinating body for national independent trade associations representing the recorded music industry) notes that independent recorded music companies have recently been gaining market share against large, multinational competitors. All else being equal, the growth potential of the independent segment in Canada may exceed the current rate of growth due to the increasing market share of independent companies.

All regions in Canada experienced growth in overall industry revenue over the same period.

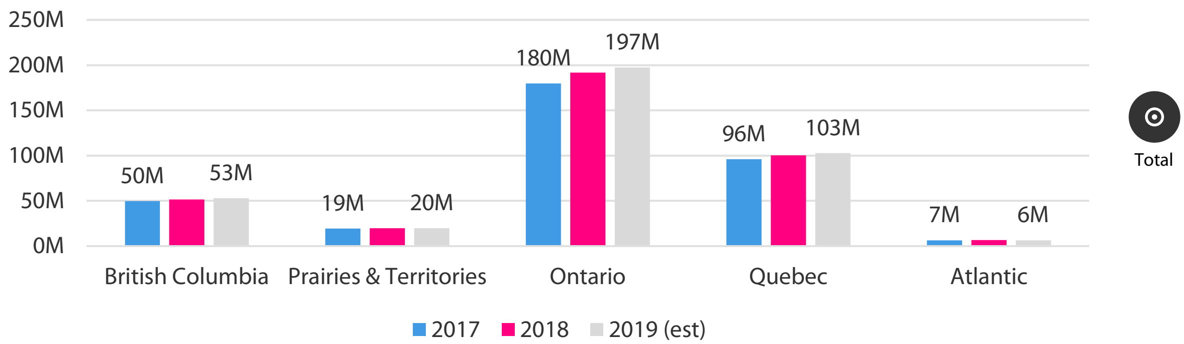
**Figure 12. Overall music industry revenue, by region**




Source: Statistics Canada Provincial and Territorial Culture indicators, Nordicity research

By breaking out the regional revenue by the three major segments of the industry, a more nuanced story can be observed. While live music exhibited similar growth across regions, most of the **growth in publishing and sound recording was driven by Ontario.** Of the $28 million increase in music publishing industry revenue, Ontario contributed $18 million. Similarly, of the $149 million increase in sound recording industry revenue, $118 million came from Ontario.

**Figure 13. Music publishing revenue, by region**

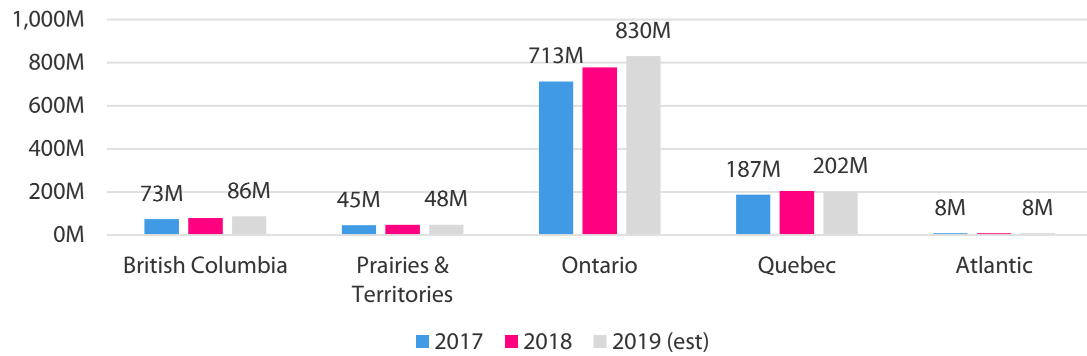



Source: Statistics Canada Provincial and Territorial Culture indicators, Nordicity research

**Publishing** revenue in Canada grew from $351 million to **$379 million** (estimated), and **sound recording revenue** grew from $1.03 billion to **$1.18 billion** (estimated). As with music publishing, overall revenue growth was mainly driven by outsized increases in Ontario, and to a lesser extent, British Columbia and Québec. As noted in the discussion that preceded Table 3 (in Section 2.2.1), music publishing and sound recording businesses are most concentrated in these three regions; in combination, these findings show that publishing and sound recording revenue growth has been accruing to regions in which these segments of the industry are most concentrated.

**Figure 14. Sound recording revenue, by region**

Total

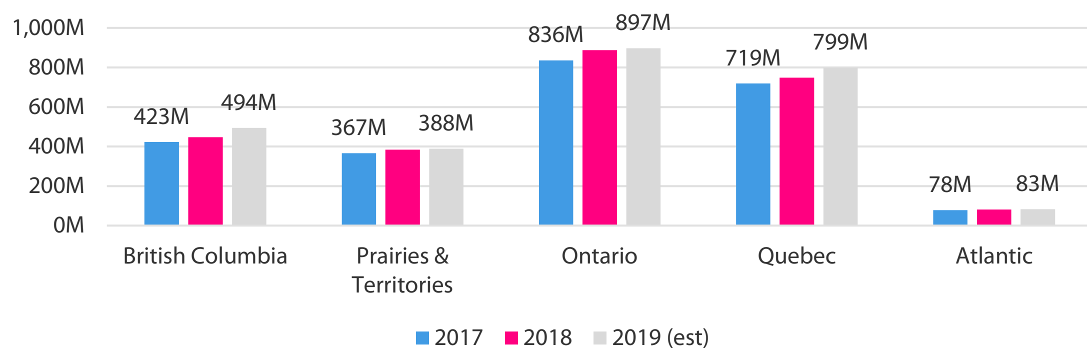



Source: Statistics Canada Provincial and Territorial Culture indicators, Nordicity research

Revenue from live music sectors grew from $2.4 billion in 2017 to $2.7 billion in 2019 (estimated). As stated earlier, all regions experienced a growth in live music revenue.

**Figure 15. Live performance revenue, by region**

Total




Source: Statistics Canada Provincial and Territorial Culture indicators, Nordicity research

### Export revenue

In a CIMA-Nordicity survey conducted in 2016, 59% of respondents indicated that **exports are necessary to their survival**. Insight gleaned from interviews and focus groups conducted for this study suggest that this reliance is still the case. The domestic market is too small to financially support most Canadian artists and businesses. As such, a significant part of the growth lies in foreign revenue. However, marketing and promotion of music by Canadian business activities can cost over twice as much as reaching domestic markets. Similarly, the importance of live music revenue to the music industry – and to the independent music industry in particular – means that international touring and festivals are typically core elements of many Canadian music business' growth strategies.

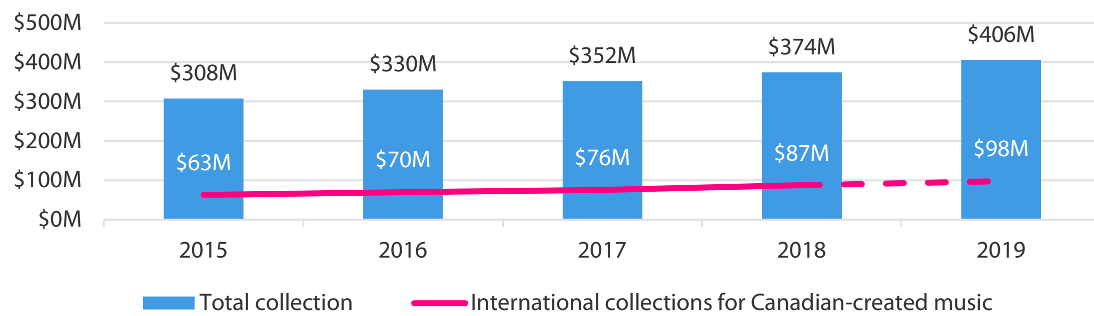
Exports have become especially critical for music publishers over the last decade. A report from the Canadian Music Publishers Association/Music Publishers Canada (*Export ready, export critical: music publishing in Canada*) highlights that **68% of the music publishing** royalty revenue came from **foreign sources** in 2016. A 2005 profile of the Canadian publishing industry indicates that foreign sources accounted for less than one-third.

Another reason for prioritizing exports is that the online market is a two-way street. Foreign music enters Canada through streaming services, and foreign music business interests compete for

Canadian talent by leveraging their larger budgets to provide substantial advances to promising Canadian artists. For the same reason, foreign music businesses are more easily able to compete for music work, e.g. synch revenue opportunities. Thinking globally helps strengthen Canadian music businesses so they can compete in a much larger market.

The following chart shows that SOCAN revenue from international sources is growing at a slightly faster rate than overall collection. **The compound annual growth rate for 2015-2018 for international revenue is 12%** while the **total collection grew only at a 7% annual rate**.

**Figure 16. SOCAN total collection and international collections (estimated data for 2019)**




Source: SOCAN Annual Reports

Labels also see opportunities in foreign markets. The US, UK and Europe are the top export destinations. A record label executive shared with Nordicity that they only promote their talent for live music gigs in Europe. They claimed that European markets offer better fees and provide artists better accommodation and living expenses (compared to other markets). As well, the logistics of touring Europe are more convenient as multiple venues can be reached in a few hours by car, which translates to more performances within a given timeframe.

Consultation has revealed that some genres are more dependent on exports than others. For instance, the lack of outlets and platforms for R'n'B and hip-hop artists in Canada requires managers and labels to focus on the US market, an expensive strategy.

### Public support (by source) 2017 to 2019

Public support for Canadian music companies at the federal level primarily comes from three national sources focused on supporting the Canadian music sector, including the Canada Music Fund, Foundation Assisting Canadian Talent on Recordings (FACTOR), Fondation Musicaction (Musicaction) and the Radio Starmaker Fund. On a provincial level, some provincial governments provide their own support for the music sector through agencies such as Creative BC and Ontario Creates. This section details the amount of funding received by companies in the industry. It should be noted that it is not intended as an exhaustive list of public support, but an assessment of publicly available funding sources for which Nordicity could find adequate quantitative data about amounts disbursed.

- **Canada Music Fund (CMF)** is mainly delivered through Foundation Assisting Canadian Talent on Recordings (FACTOR) for the English-language sector of the music industry, and the Fondation Musicaction (Musicaction) for the French-language sector. Since 2012-13, the CMF's annual resources have ranged between \$25.0 million and \$28.7 million.[15] In the 2019

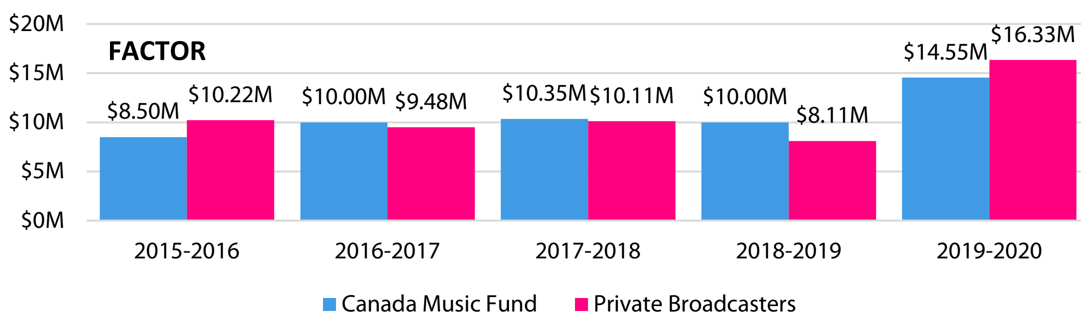
[15] Evaluation of the Canada Music Fund 2012-13 to 2017-18, July 2019.

Federal Budget, the Department of Canadian Heritage committed an additional $20 million to be spent over the two years starting in 2019-20. The future budget of the Fund beyond 2021-22 will decline by $10 million annually unless this investment is renewed by the Federal government.

- **FACTOR** disbursed $11.3 million over 2016-17 - 2018-19 to Canadian music companies through the Comprehensive Music Company program for record labels, and Support for Eligible Music Companies program for record labels, artist managers, distributors, and music publishers. FACTOR has other programs to which both music companies and artists can apply, but funding amounts for those programs are not disclosed separately for companies and artists. As such, the total funding disbursed including those programs is over $58 million.[16]
- **Musicaction** provided $6.1 million over 2016-17 - 2018-19 in funding to francophone music companies, organizations, and artists-entrepreneurs through a several programs that support production, promotion, exports, and management.[17]

The following two charts show the contributions received by Musicaction and FACTOR from the Canada Music Fund and private broadcasters. Prior to the 2019-2020 increase that doubled private contributions to FACTOR, the participation of private broadcasters was declining (-21% between 2015-2016 and 2018-2019), tipping the balance between public and private contributions.

**Figure 17. Annual contributions to FACTOR and Musicaction**



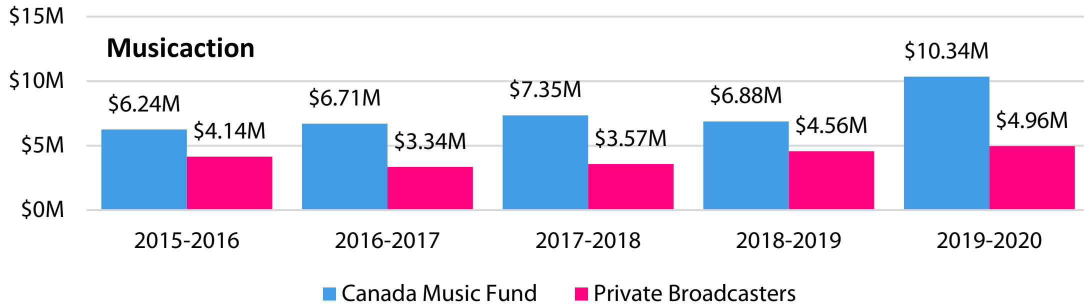

Musicaction too has seen a significant increase in the contribution from CMF in 2019-2020, with private contributions also steadily increasing in the last four years (+48% between 2016-2017 and 2019-2020).[18]

---

[16] This total does not include the Songwriter's Workshop program.

[17] This amount does not include the "Auteurs Compositeurs" component which directly targets artists and is therefore out of scope. Other Musicaction programs are open to companies, organizations, and artists. While it may not be possible to disaggregate the total funding amounts to determine the funding received only by companies, these artists are likely to be artists entrepreneurs and therefore, the total of these programs has been included in the funding considered in this section.

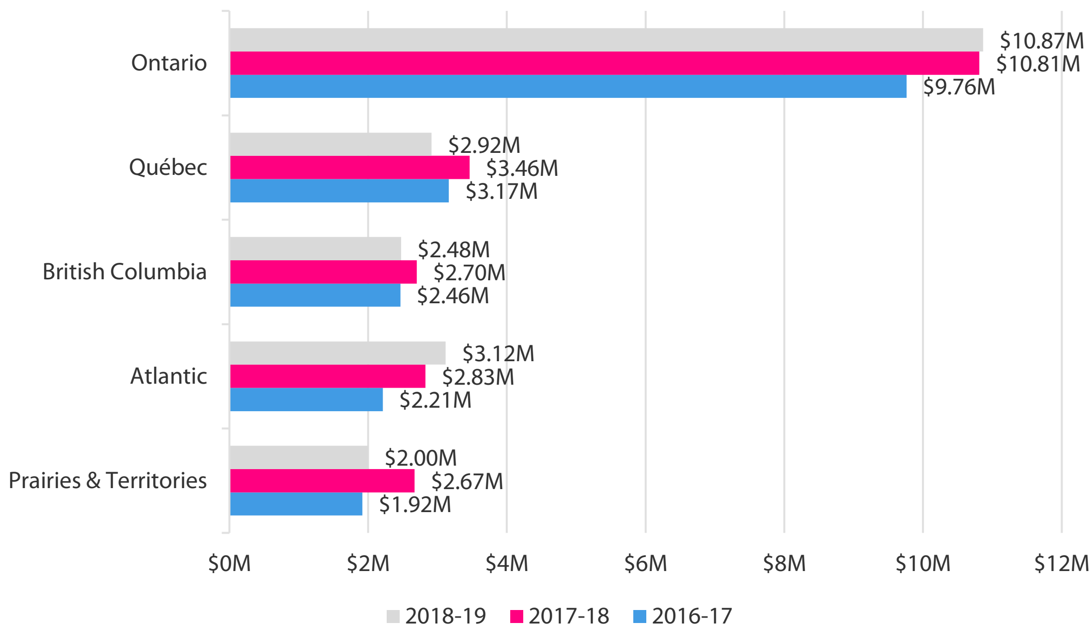
[18] The increase in private contribution in 2019-2020 is in part due to revisions of Stingray Radio and Sirius XM contributions. This upward trend is not expected to continue in future years.




Source: FACTOR and Musicaction Annual Reports

The figure below shows funding amounts disbursed by FACTOR and Musicaction by province or territory. Notably, Ontario, Québec and British Columbia receive a large portion of federal funding. The figure does not capture all funding programs, but provincial funding is far from offsetting the low federal contribution in other provinces.

**Figure 18. FACTOR and Musicaction funding by region (2016-17 to 2018-19)**




Source: FACTOR and Musicaction Annual Reports

- **Radio Starmaker Fund (RSF)** is intended to "make a substantial and discernable difference to the careers of Canadian artists" by providing substantial incremental investment where the artist has established a proven track record and his or her label is making a significant investment in their future career. The fund primarily receives applications from artists, but also provides funding to record labels specifically for marketing expenses. RSF reported that between 2016-17 and 2018-19, "indie" labels received over $18 million in grants awarded to artist and company applicants.
- Between 2017 and 2019, **Ontario Creates** administered over $21 million in funding through the Music Company Development program for domestic music companies, and the Music Futures program for Music Promoters/Presenters and Booking Agents.

- Between 2017 and 2019, **Creative BC** administered almost $6 million in funding through the Music Company Development and Sound Recording programs.[19]

Other provincial/territorial supports include:

- **Music Nova Scotia** provides international business development support and funds to cover marketing expenses and business travel expenses for export-ready music companies in Nova Scotia.
- **Music/Musique NB** provides support for the production of New Brunswick sound recordings, marketing and business development.
- **Manitoba Film & Music** and **Manitoba Music** provide support for music production, business development, marketing, touring and professional development.
- **Music PEI** provides artist development, export and business growth support.
- The Government of **Yukon** provides funding to recording studios and recording labels for professional full-length sound-recordings.
- **Alberta Music** operates a fund with the Alberta Cultural Industries Association for companies in the cultural industries.
- **Creative Saskatchewan** provides business capacity funding to music companies in Saskatchewan.
- **SODEC** provides funding for Québec music organizations (including labels, management companies, promoters, industry associations), for projects or collective initiatives and music exports. SODEC also administers the three refundable tax credits (audio recording, live show production and multimedia event production for touring outside Québec).

### Private investment

The Canadian independent music sector maintains a rather low-profile when it comes to private investment. There is very limited data on private sector participations apart from required contributions from broadcasters.

Discussions with the music industry reveals anecdotal evidence that **third-party investment is a rarity for the independent sector**, and that the more established record labels decide when and what to invest through some form of P&L analysis. The outcome of such an analysis in pandemic times may be reduced research & development spending (i.e. labels may not acquire and develop new talent). The cycle of re-investment into the business is conditioned by the expectation of returns, so companies may be cautious at this time if COVID-19 lowers potential revenues.

Where significant private investment does occur, it is often drawn to music publishing (e.g., the Royalty Exchange). The reason why capital may be drawn to investment in rights is that royalties are an asset class that investors can understand, as they typically follow a reasonable predictable sales pattern (early success then a long tail), with regular payments from reliable organizations (i.e., performing rights organizations). While substantiating this practice, the *EXPORT READY, EXPORT*

---

[19] These programs were open to artist applicants as well as music companies, and as such it may not be possible to disaggregate the total funding amounts to determine the funding received only by companies.

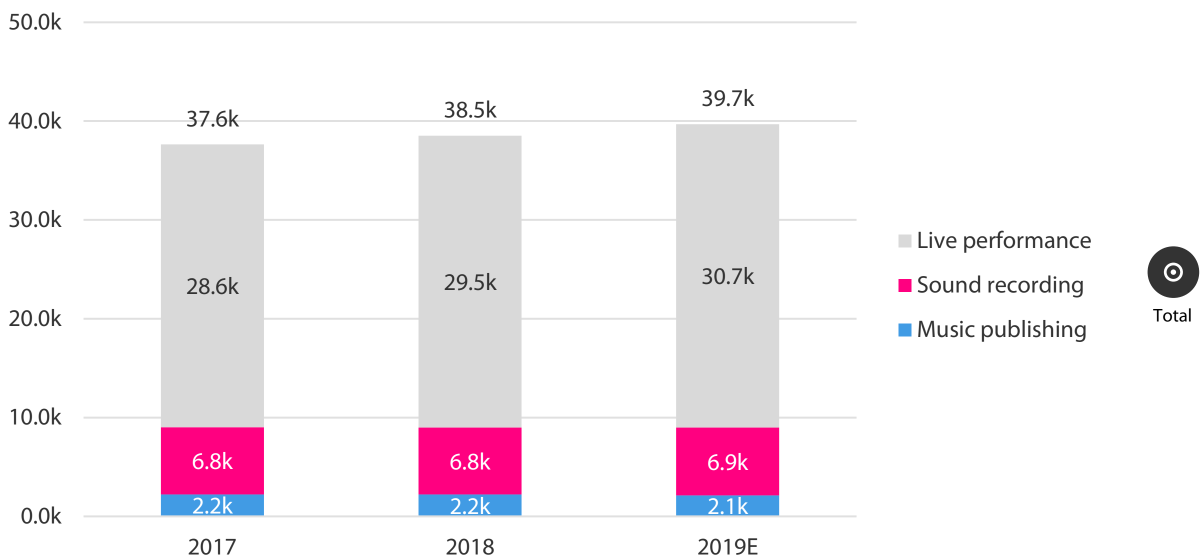
*CRITICAL*: report sponsored by Music Publishing Canada noted that Canada lacked the kind of private investment that other countries seemed to generate for buying libraries.[20]

## Industry Employment

In 2019, Nordicity estimates that the Canadian music industry employed 39,700 full-time equivalents (FTEs). The overall music industry's direct employment grew at a compound annual growth rate of 2.7% from 2017 to 2019.

Though live performance accounts for 63% of overall music industry revenue, its direct employment accounts for 77% of total employment in the industry.

**Figure 19. Overall music industry direct employment (FTEs)**



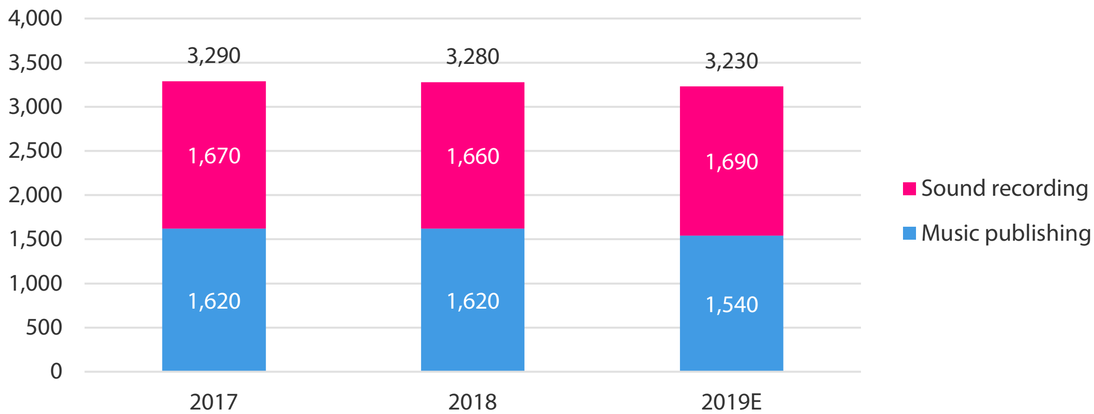

Source: Statistics Canada Provincial and Territorial Culture indicators, Nordicity research

Assuming again that the **independent** music industry represents 73% and 25% of the music publishing and sound recording industry segments respectively, the following chart illustrates employment at these companies. One striking aspect of this illustration (in contrast to the broader growth trend presented in the previous chart) is the declining employment in the music publishing segment of the industry. Because publishing represents a larger share of the total in this chart (compared with its relatively small share of the overall music industry in the previous chart), its decline in employment is large enough to drive a corresponding decline in the total employment for the Canadian independent sector.

[20] Export Ready, Export Critical: Music Publishing In Canada

**Figure 20. Canadian independent music industry employment (est.)**

Indies

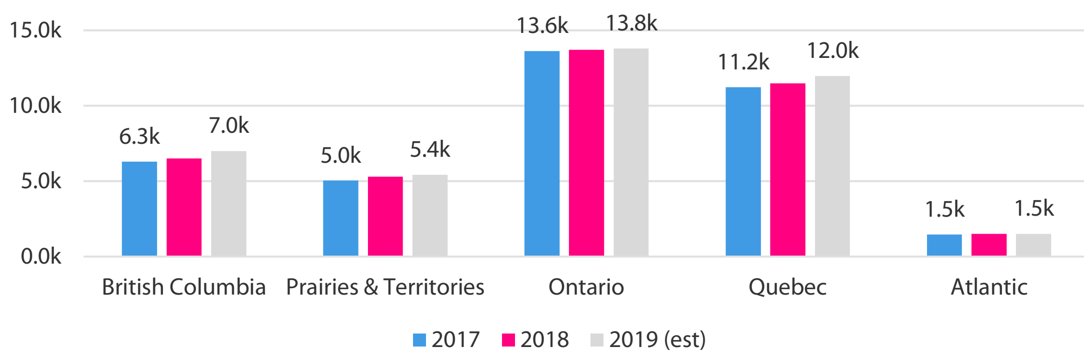



Source: Statistics Canada Provincial and Territorial Culture indicators, WINTEL, *Worldwide Independent Market Reports*, Nordicity research

As with revenue, the overall music industry exhibited employment growth in all regions. In contrast to its notable growth in revenue, employment in Ontario's music industry was relatively flat. As suggested previously, much of the revenue growth was driven by sound recording and publishing, which (unlike live music) does not have a linear relationship to employment. British Columbia and Québec showed some growth in employment, but Atlantic Canada and the Prairies were flat and modest respectively.

**Figure 21. Overall music industry employment (FTEs), by region**

Total



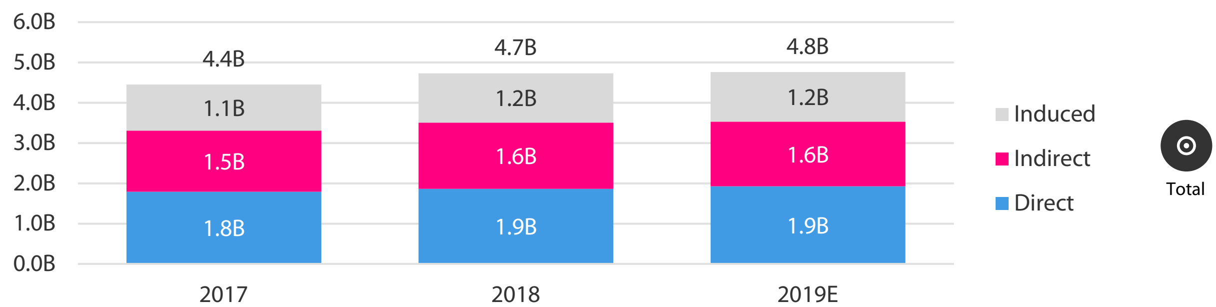

Source: Statistics Canada Provincial and Territorial Culture indicators, Nordicity research

### Economic Impact from 2017 to 2019

Nordicity estimates that the music industry generated a total **$4.8 billion GDP impact in 2019**. Of this amount, $1.9 billion was direct GDP. The relatively high ratio of spin-off (i.e., indirect and induced) to direct impacts is largely due to the thin profit margins and very high portion of GDP derived from labour income in the live music segment, which accounted for 63% of total industry revenue in 2019.

These factors combine to produce larger spin-off impacts than a typical industry, because a greater share of revenue is spent at suppliers (driving indirect impacts) or spent on labour in the direct and indirect stages of the model (driving induced impacts). For example, a touring artist will hire Canadian staff (tour managers, promoters, technicians, roadies, etc.) and engage local service companies (sound, lights, publicity, venues, etc.) to put on a series of concerts across Canada. With very low margins (on average), this kind of activity circulates a lot of money in the local economy and drives spin-off spending.

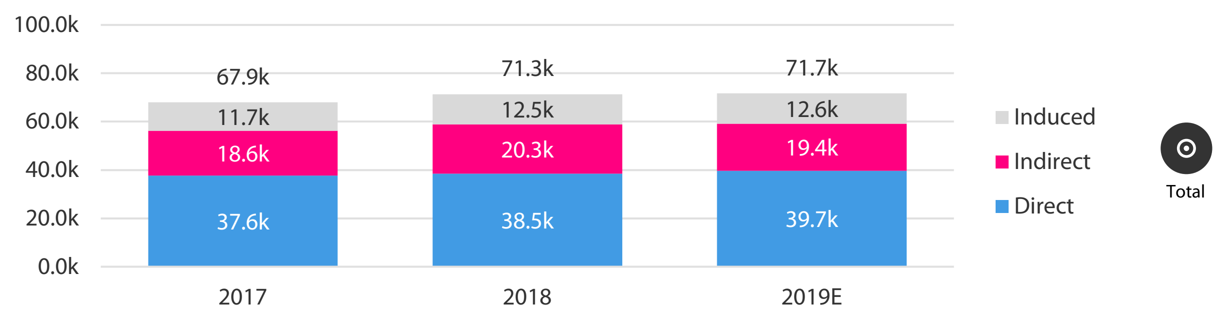
**Figure 22. Total music industry gross domestic product (GDP) impact**




Source: Statistics Canada Provincial and Territorial Culture indicators, Industry Canada Financial Performance Data, Nordicity research

Overall, Nordicity estimates that the music industry supported the employment of 71,700 full-time equivalents (FTEs) in the Canadian economy in 2019. Of this amount, 39,700 FTEs were employed in the music industry.

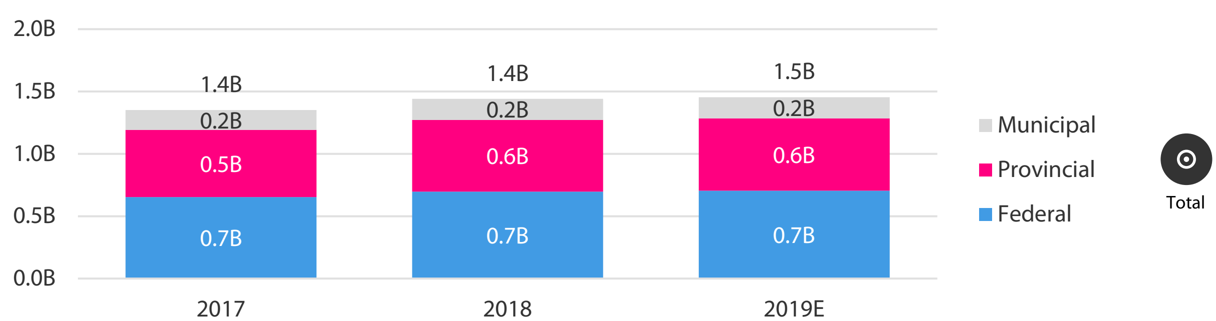
**Figure 23. Total music industry employment impact (FTEs)**




Source: Statistics Canada Provincial and Territorial Culture indicators, Industry Canada Financial Performance Data, Nordicity research

The total economic impacts outlined above generated an estimated $1.5 billion in combined tax revenues collected by federal, provincial and municipal governments.

**Figure 24. Total music industry fiscal (tax) impact**

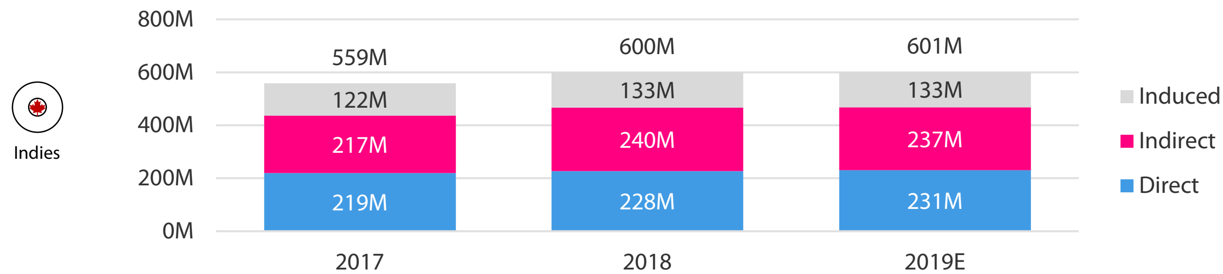



Source: Statistics Canada Provincial and Territorial Culture indicators, Industry Canada Financial Performance Data, Nordicity research

Paralleling the approach used in the previous sections (by isolating 73% of music publishing and 25% of the sound recording segments), the following charts illustrate the estimated impacts of the Canadian independent music industry that CIMA represents.

Nordicity estimates that the Canadian independent music publishing and sound recording industry contributed a total of $601 million in direct, indirect and induced GDP in Canada in 2019.

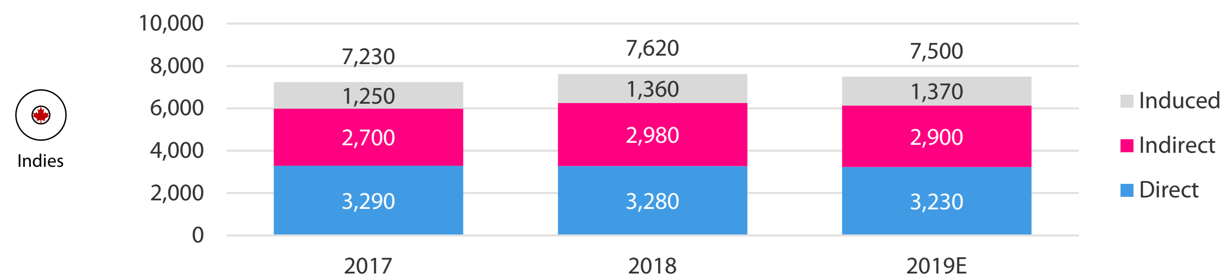
**Figure 25. Canadian independent music industry gross domestic product (GDP) impact (est.)**




Source: Statistics Canada Provincial and Territorial Culture indicators, Industry Canada Financial Performance Data, WINTEL, *Worldwide Independent Market Reports*, Nordicity research

The Canadian independent music publishing and sound recording industry supported an estimated total employment of 7,500 FTEs in 2019, including direct, indirect and induced impacts.

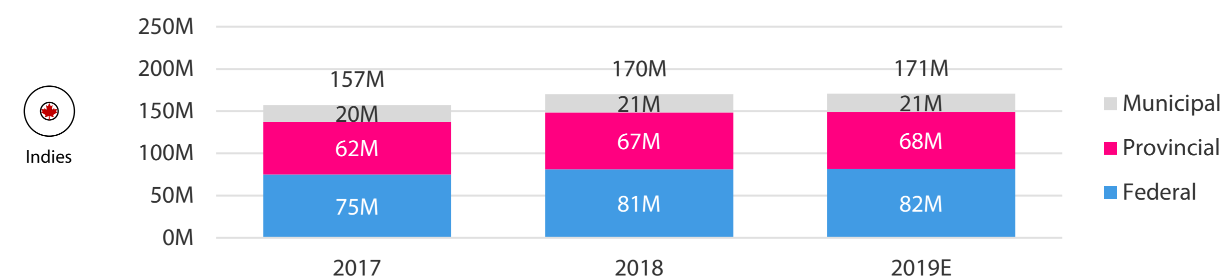
**Figure 26. Canadian independent music industry employment impact (est. FTEs)**




Source: Statistics Canada Provincial and Territorial Culture indicators, Industry Canada Financial Performance Data, WINTEL, *Worldwide Independent Market Reports*, Nordicity research

The total economic impacts outlined above generated an estimated $171 million in tax revenues, including the combined amounts collected by federal, provincial and municipal governments.

**Figure 27. Canadian independent music industry fiscal (tax) impact (est.)**




Source: Statistics Canada Provincial and Territorial Culture indicators, Industry Canada Financial Performance Data, WINTEL, *Worldwide Independent Market Reports*, Nordicity research

The following breakout boxes summarize the impacts presented in Section 2.2, first for the overall Canadian music industry, followed by the contribution of Canadian independent music publishing and sound recording companies.

### The Economic Impact of Canada's Music Industry in 2019

Nordicity estimates that Canada's music industry generated the following outputs in 2019:

**$4.2B** in revenue

**$4.8B** in GDP

**71,700 FTEs** in employment

**$1.5B** in tax revenue

Total

### The Impact of Canada's Independent Music Industry, 2019

Nordicity estimates that Canada's independent music publishing and sound recording industry generated the following outputs in 2019:

**$565M** in revenue

**$601M** in GDP

**7,500 FTEs** in employment

**$171M** in tax revenue

Indies

## 2.3 Industry Challenges

In this section, Nordicity presents preexisting challenges that undermined the growth of the Canadian independent music industry before the COVID-19 pandemic.

### Skills, Talent & Inclusion

Pre-COVID-19, several challenges persisted (and many remain) in relation to industry entry and development pathways for artists. In terms of **professional development**, many independent music companies report a lack of **digital skills** in terms of effectively leveraging emerging online marketing, as well as streaming and social media-related opportunities. As wealth is shifted away from creators into technologically-driven intermediaries, many music companies are also lacking a comprehensive understanding the **complexity of the copyright royalty streams** so as to reap (often minimal) dues owed from the digital environment in which the industry now operates.

In terms of inclusion challenges pre-COVID-19, IBPOC-led music companies and IBPOC artist managers reportedly faced ongoing and historical injustices related to under-compensation, appropriation of works, under-representation, and lack of awareness of funding opportunities. Respondents relayed that, generally, it has been difficult for **IBPOC creators** to access the music industry – from a proportional lack of access to music education and training, to a lack of awareness of funding (particularly on the business/entrepreneurial side), to limited access to venues, to grained assumptions that funding "isn't for them". For **Indigenous artists** particularly, a reported 'tokenism' was still being experienced across the industry. As one Indigenous representative expressed, "Sure, there's a greater appreciation of Indigenous music, but artists do not want to be pigeonholed."

**Women** also face numerous challenges across the Canadian music industry such as lack of workforce diversity, inequitable compensation practices, low exposure to boardrooms/executive levels, systemic gender discrimination (see Section 2.2.1). While stakeholders have increasingly become aware of the systemic challenges facing women (and female-presenting people), there remained a lack of awareness of existing policy and programmatic levers which are well-positioned to advance parity and influence positive change. Concerns related to **artist and audience safety** also pre-dated COVID-19. Venues, festivals, and bars have been slow to adopt and promote safe-space guidelines and anti-harassment policies.

Certainly, some **positive indications** of change were already on the rise pre-COVID. Organizations like SOCAN, Women in Music-Canada, and Across the Board have advocated for more gender representation through initiatives supporting women musicians and professionals across the country. As one outcome, last year, CARAS experienced the highest submission ever of Juno nominations from women. In terms of further inclusion gains, 42 music organizations/companies signed onto the Canadian Creative Industries Code of Conduct in 2019, committing themselves improving and implementing policies to keep the music community safe. The CLMA's Raising the Bar training is another example of promoting proactiveness and fostering industry-wide dialogue about misconduct.

### Income, Business & Finance

Canada's independent music ecosystem has long faced challenges in securing fair remuneration for the works it creates. Where some of the challenge stems from piracy, it is also related to the **"value gap"** already discussed in Section 2.1. Music Canada's 2019 report on the topic noted that while music consumption in Canada had never been higher (with 90% of Canadian listening to music for an average of 24 hours per week), payments to music companies operating in Canada had not grown commensurately.[21] As a consequence, while some music that attracts large online audiences do generate significant revenue from these platforms, it is not a reliable source of revenue for many labels.

The ability of Canadian music companies to generate revenue has also been hampered by elements of the **copyright framework.** More precisely, the 'radio royalty exemption' allows commercial radio stations to not pay royalties on sound recordings for their first $1.25 million in revenue. For larger acts

[21] Music Canada (2017) *The Value Gap: It's Origin, Impacts and A Made-in-Canada Approach*, pg 6.

(which are typically represented by non-Canadian entities), this limitation may not always pose a significant challenge. However, for companies representing smaller and/or emerging acts it can mean that little royalty revenue is generated from commercial radio play. Similarly, the Copyright Act exempts royalty payments to performers when recordings are used in an audiovisual soundtrack, leading to another lost opportunity for revenue generation.

At the same time, the copyright issues with audiovisual content are not the only challenge in the arena. Indeed, music composers, songwriters – thus music publishers – are seeing **lower percentage of royalties stemming from streaming platforms** (e.g., Netflix, Amazon Prime) than they were used to receiving from traditional clients. For example, in 2018, **30%** of writers' royalties collected from traditional audio platforms were paid to Canadian SOCAN writers. In contrast, the percentage of royalties paid out to Canadian SOCAN writers for music played on an audio internet platform (i.e. music streaming services), was just **11%** of the total writer royalties. This discrepancy illustrates that international content is being consumed much more on music streaming platforms by Canadians than Canadian content.

Given that Canadian talent is the lifeblood of Canadian labels, managers, and publishers, that talent must be able to exist sustainability in the music industry for the ecosystem to thrive. Unfortunately, it is **increasingly difficult for music composers, songwriters and musicians to earn** what some have called **a "middle" class living** from music. The low barriers to entry into the music ecosystem has, in general, led to the growth in the number of artists – thereby making it easier to make *some* money from music. However, that same low barrier – combined with digital platforms that are available across the globe – mean that competition for music audiences has never been greater. As the SOCAN data and interviews attest, it is even harder than ever to earn a sustainable living from music (as a writer, or as an artist). If artists cannot sustain themselves, they may leave the industry (e.g., to be able to support a family)– and thus some of the lifeblood will be lost.

### Market & Audience Development

As one interviewee put it, "it's not the music business; it's the fan business." While that statement may be somewhat hyperbolic, given that the primary sources of revenue are streaming and live performances – and both require the aggregation of audiences, it seems somewhat apt. Indeed, the challenges of market and audience development has confronted Canada's independent music industry throughout the reference period. It has been accentuated through the rise of live streaming.

For many independent labels, the audience development challenge is most directly related to their ability to amass large fan bases who stream the music of their artists – often. As the individual payments for song plays are small, sustainable revenue is generated by aggregating a large audience. Those labels with very well-known artists who have large existing following (such as major labels) can use those audiences to drive listeners to more emerging acts. Conversely, what was heard during interviews and roundtables tells that those labels with smaller rosters and/or without large existing following found it **difficult to generate substantial revenue from streaming** in the pre-COVID reference period.

For artist managers, the challenge in market and audience development was linked to their ability to leverage **digital skills to grow an online audience** (which is further expanded upon the in Skills, Talent & Inclusion subsection). At the same time, managers have long used touring as a critical means to develop an artist's audience. As such, the **decline in the availability of suitable venues** across

Canada in the pre-COVID period made audience development more difficult.[22] At the same time, the reliance on touring for revenue (given the difficulties with streaming) has been reported by interviewees to have led to **concerning health impacts** for artists and crews. So, even in the pre-COVID days, the stability of live events as a revenue source was challenging for many independent music companies.

Those venues and festivals themselves faced key challenges over that period too. Indeed, some found it difficult to **understand and adapt to changing audiences**. For example, shifting urban demographics, audiences' willingness to pay, and ever-increasing competition with other forms of entertainment have posed significant challenges in attracting (and thus monetizing) audiences.

Another pre-COVID challenge to building an audience in the pre-COVID world was **Canada's geography.** More specifically, there is a concentration of stakeholders in Toronto and Montréal (see business counts in Section 2.2.1). There are relatively few stakeholders outside of these areas. Moreover, for emerging artists and businesses, interviewees reported that it is often difficult to get in "the system", even when established in Toronto or Montréal (more so if one is a member of a marginalized group). Some jurisdictions (e.g., Manitoba) have created programs (e.g., Manitoba Film and Music's Music Business Development Fund) to address this issue, but they have not been overly successful in attracting or creating new music businesses.

### Broader Policy Environment

Pre-COVID, it is important to note that there was **ongoing uncertainty** related to long-term music funding. At the national level, the amount of investment from the federal government earmarked for the Canada Music Fund remained uncertain past 2021 (as it still does). Provincially, the Ontario Music Investment Fund (OMIF) was cut by $8 million to $7 million in 2019. In BC, while the Province has maintained its $7.5 million commitment to the Amplify BC music funding, its status after 2021 is unknown – reflective of several other provincial funding dynamics.

Another notable element of the pre-COVID environment was the **rise of music cities** and growing interest in the nighttime economy – a recognition at the City-level of the positive impact that can be generated from music sector. The ability of the music industry to support viable urban cores, employee retention and thriving tourism economies, led to Canadian cities such as Toronto, Ottawa and Vancouver creating **music strategies** in recent years. However, a long-standing lack of public **support for for-profit venues** was a critical contradiction to this trend. Commercial venues (and their representatives like the CLMA) have long argued that live music venues should have access to the same types of funding as performance arts centres (e.g., from the Canada Council, Canadian Cultural Spaces Fund, etc.). Such a lack of public support has contributed to sub-par facilities, including green rooms, lighting, sound, etc., as some venues have not been able to invest in maintenance.

Also, at play before the pandemic was the **2019 Copyright Act review**, outlining key challenges and recommendations on issues involving copyright and music. These include addressing discrepancies in the definition of "sound recording"; narrowing the radio royalty exemption, and: ensuring the Copyright Act allows for transparency to the benefit of the rights-holders. Policy challenges in the Canadian music industry were also being highlighted pre-COVID by the **Broadcasting Telecommunications Legislative Review Panel (BTLRP)**, published just before the pandemic broke

[22] See for instance Spacing Toronto (May 2019), *Vanishing venues: new funding models favour festivals over small music clubs* ; Now Toronto (Mar 2017), *Vanishing music venues: three months into 2017 and we've already lost seven*; and Vancouver Magazine (Jun 2016), *Vancouver's music venue crisis*.

The Lead In

out (further discussed in Section 4.2). Given the ubiquity of online music streaming, recommendations argued that this outdated legislation no longer reflects the Canadian music industry and the various actors within it. The Panel's recommendations also outlined the need for its scope to be widened to incorporate new business models and evolving consumer demands.

## 3. The Drop: The Impact of COVID-19

On January 27, 2020, Canada recorded its first confirmed case of COVID-19. The spread of the virus disrupted the global economy, putting a hold on all public gatherings. In this section, Nordicity assesses the toll COVID-19 has had on the Canadian independent music businesses. In the first part of this section, the overall impact is portrayed, followed by a quantification of the revenue declines resulting from COVID-19, and their subsequent economic impact. Finally, the effects of COVID-19 are described in the text in terms of skills, income, market, and broader dimensions of the music business in Canada.

### 3.1 Overall Impact

This first section provides an overview of how COVID-19 has affected the Canadian independent music industry.

What really stands out is the **critical impact** that the pandemic has had on **live music**, which has largely halted across Canada. At the time of writing, eight months after the implementation of the first COVID-related public health measures, Québec and Ontario have still not allowed live performances, and in other provinces, the less acute situation has allowed for very limited concerts in the same period. This dramatic shutdown has created a vacuum for hundreds of music venues, bars and festivals, and thousands of technicians, artists, and support staff.

In fact, the **impact on live music is equally felt downstream on everyone who gravitates around live music,** including managers, promoters, agents, bookers, etc. Labels that arranged 360 deals (i.e., who have supported marketing, promotion and touring in exchange of a percentage of their artists' revenue), as well as labels who have diversified their operations with management wings have been more exposed to the consequences of the live music shutdown.

Effects are also **much more pronounced on smaller acts** and emerging artists who have not already built an audience. With live music being interrupted, artists and managers have fewer opportunities to build a fan base. In that sense, COVID-19 has exacerbated this pre-existing challenge for more modest acts. Similarly, industry consultation indicates that **those already more excluded**, or underrepresented, such as women and IBPOC artists and entrepreneurs also seem to have been **hit the hardest.**

During these unprecedented times, some independent artists and businesses have shown ingenuity to quickly pivot and mitigate, to some extent, the impact of COVID-19. The following list provides anecdotal evidence of this adaptation.

- For some artists who are able to maintain an online presence, promotional activities are now centred on them being **influencers**. While this is a very different approach to promotion, one that requires greater involvement from the artists, it seems to have allowed artists and managers to grow their fan base. This way to promote talent is crucial as **media outlets** have been **disappearing** (music critics in newspapers have been cut, and broadcasting ad revenues have declined).
- To build on this last point, some companies have been **pivoting to other revenue streams**: for instance, traditional publicists have moved away from traditional media towards digital marketing/social media management.
- Some businesses have managed to put on **hybrid live shows** with limited in-person attendance and simultaneous live streaming. Live streaming remains anecdotal and does not generate enough revenue to become a viable, mainstream solution. Moreover, outdoor

venues are not appropriate in cold weather; while there was fan enthusiasm, there was also a lot of hesitation (it is not rare that up to 20% of tickets holders do not show up).

- Others have seen this unplanned interruption of their activity as an **opportunity to pursue activities that they did not have time for prior to COVID-19** (e.g., R&D, strategic planning). Some artists have found this downtime helpful and have used this opportunity to collaborate with other songwriters. Record labels and management companies have taken the time to explore creative marketing tactics to build their audience (e.g., TikTok).
- Some labels were aggressively going after **Europeans markets for 2021** live events, as Canadians were allowed into these countries (Americans were not), but now Canadians are also restricted.

**Hotels Live: offering the live experience in COVID-times**

Hotels Live is a venture founded by award-winning Canadian music industry veteran Rob Cyrynowski. In collaboration with the Ramada Plaza Calgary, Livestar Entertainment Canada and ticketing company Showpass.

Hotels Live transforms rooms in hotels with balconies overlooking a pool or patio into private box seats for up to four persons. A band/artist play in the patio while the audience can watch the show from the balconies. This series of hotel concerts in Calgary has been really successful and the company is looking to expand to other cities and provinces. Hotels Live is a great illustration of a resourceful, innovative live industry. However, this type of experiences is likely to remain marginal.

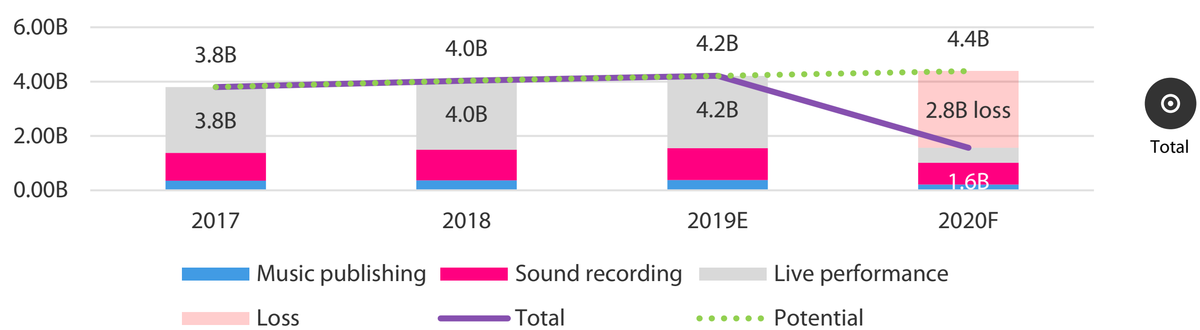
## 3.2 The Economics of Music in a COVID World

This subsection summarizes the economic impact of the pandemic on Canada's independent music industry.

### Revenue changes

Based on an extensive literature review, interviews, and focus groups, Nordicity estimates that the Canadian music industry will generate **$1.6 billion of revenue in 2020 – a $2.8 billion shortfall from the industry's 5-year growth trend**. The following chart illustrates Nordicity's forecasts.

**Figure 28. Overall music industry revenue, COVID-19**




Source: Statistics Canada Provincial and Territorial Culture indicators, Industry Canada Financial Performance Data, Nordicity research

This $2.8 billion loss in revenue can be broken down by the three core segments that form the Canadian music industry. Although all segments of the industry have been affected by COVID-19 in several ways, the hardest hit was the **live performance segment**, which is expected to see approximately a **79% decline** relative to 2019 revenue. The live music sector has been able to generate some – marginal – revenue in the first quarter 2020 and has registered some – very limited – successes in terms of drive-in concerts, other outdoor, or hybrid experiences. The live sector, deprived of almost all summer revenue (usually the most active season with the highest number of concerts and festivals), has had to count on experimental alternatives, hoping for the curve to flatten and for an easing of the health restrictions.

The arrival of a second COVID-19 wave – at least as serious as the first one – does not send a comforting signal for the remaining months of 2020 and the beginning of 2021 for live music stakeholders. Consultation suggests that the lack of live revenue has led to the collapse of management revenue. Overall, a 90% revenue drop is expected for 2020, with a similar effect envisioned for expenses (i.e. virtually $0 to touring).

**Sound recording/distribution** companies are expected to experience a **32% decline.** Nordicity's estimate matches the anecdotal forecasts made by interviewees and focus group participants. This segment is doing relatively better than the two other segments in facing this crisis. Labels are still releasing new music, although appear to have scaled back because of fewer opportunities to market and promote during the period after the music release.

While streaming services seem to have benefitted from lockdowns, it is not clear who benefited from it. Nielsen estimates in their *2020 Midyear Canada Music Report* that on-demand music streaming has increased by 14% between March 13 and July 2, 2020.[23] However, anecdotal evidence indicates that people tuned into the "comfortable and familiar", preferring catalog music to new discoveries. The report also indicates that the volume of catalog consumption (older than 18 months) has increased by 11% from 2019 while current music consumption has seen a 2% decrease from 2019.[24] Once again, one must note that streaming revenue primarily flows towards more established artists and COVID-19 has reinforced this trend.

Physical sales are continuing their steady decline, albeit more rapidly with COVID-19 (-21.4% from 2019). That said, physical remains a non-negligible source of revenue for the independent music business in Canada, but the low ROI on these products and the challenges related to shipping during lockdown has made things more complex.

**Music publishing** companies are expected to experience a **44% decline** from 2019 levels, an estimate that is supported by a joint survey by CIMA/Music Publishers Canada that showed that publishers anticipate a drop in revenue of about 50% from their 2019 revenue.

To dive deeper into publishing revenue, SOCAN foresees a decline in total Canadian revenue of 11% in 2020, compared with 2019. The following table shows that the impact of COVID-19 is already being experienced with respect to royalty collections by SOCAN.

[23] Nielsen Music / MRC Data (2020) *Midyear Report Canada 2020*

[24] Ibid.

**Table 5. SOCAN Royalty Payments Outlook, August 2020**

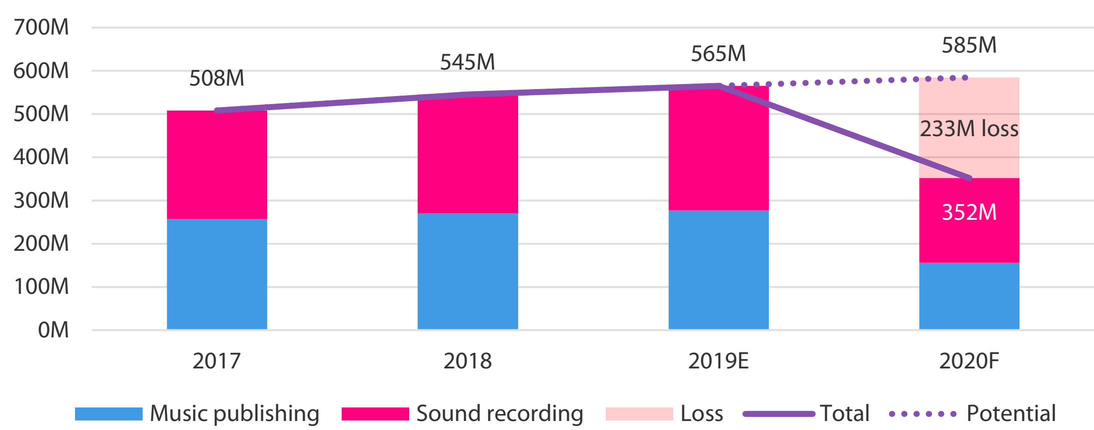
| | Projected Impact | | 2020 expected percentage of domestic revenue | 2019 percentage of domestic revenue |
|---|---|---|---|---|
| Revenue stream | May-20 | Jul-20 | | |
| TV | -14% | -5% | 14% | 13% |
| Cable | -14% | -11% | 23% | 23% |
| Radio | -12% | -21% | 15% | 17% |
| Internet – Streaming | 15% | 13% | 17% | 13% |
| Internet – AV Online | 20% | 21% | 13% | 10% |
| General Licensing | -63% | -48% | 4% | 6% |
| Concerts | -74% | -81% | 1% | 7% |

Source: SOCAN

However, Canadian publishers are even more concerned by 2021 and beyond as royalties can lag 12-15 months. The hit taken by the top 15 foreign markets for Canadian music publishers are expecting a stronger impact on their revenue, which will eventually have repercussions on the Canadian market. Moreover, with film and TV production on hold or reduced activity most of the year, publishers will be deprived of a major source of revenue.

The following chart illustrates the estimated revenue impact of COVID-19 on Canadian **independent music publishing and sound recording companies**. The exclusion of the live music segment translates into a less abrupt decline than if it were included. However, the **$233 million drop** still represents a **41% decline** in company revenue from 2019, an event that would represent an existential threat to a large share of companies in *any* industry.

**Figure 29. Canadian independent music industry revenue, COVID-19 (est.)**



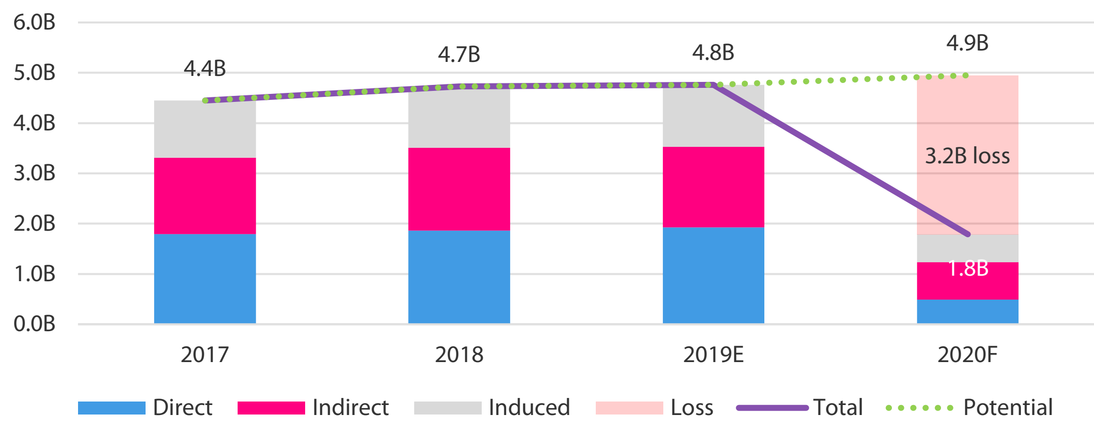

Indies

Source: Statistics Canada Provincial and Territorial Culture indicators, Industry Canada Financial Performance Data, WINTEL, *Worldwide Independent Market Reports*, Nordicity research

### Economic Impact in 2020

Nordicity estimates that the total GDP impact of the Canadian music **industry fell short of its potential by $3.2 billion (64%) in 2020**. The greater decline in direct impacts occurred because the industry is taking losses to maintain staffing levels.

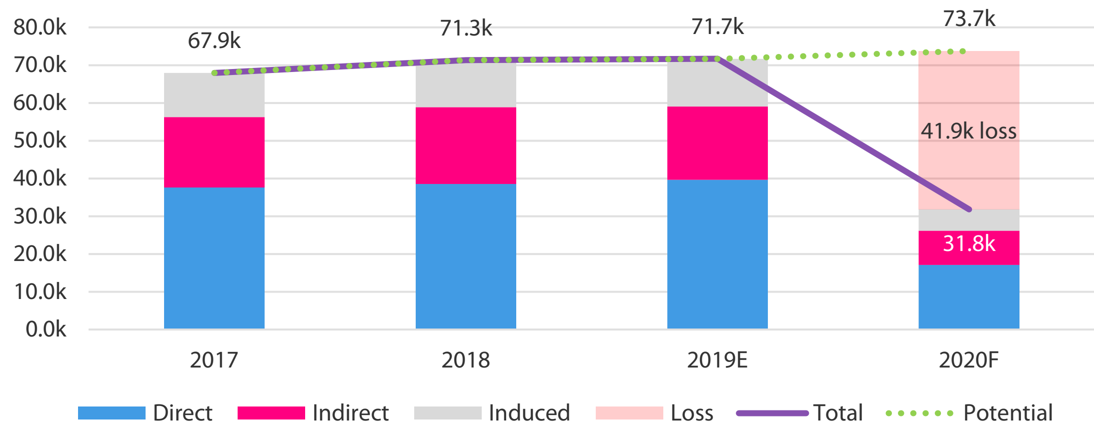
**Figure 30. Total music industry gross domestic product (GDP) impact, COVID-19**




Source: Statistics Canada Provincial and Territorial Culture indicators, Industry Canada Financial Performance Data, Nordicity research

Nordicity estimates that the Canadian music industry's **employment impact will decline by 57%** (41,900 FTEs) from its potential in 2020. Though the industry's employment impact declined steeply, it appears that companies in the industry have blunted the impact by maintaining a larger portion of their workforce on payroll than their reduced revenues would seem to have supported. Stakeholders reported that federal government subsidies were effective at allowing them to retain staff despite the severe drop in revenue.

**Figure 31. Total music industry employment impact (FTEs), COVID-19**




Source: Statistics Canada Provincial and Territorial Culture indicators, Industry Canada Financial Performance Data, Nordicity research

Nordicity estimates that the total economic impacts of the Canadian music industry will generate $0.6 billion in tax revenues in 2020, a **60% decline from the industry's potential**.

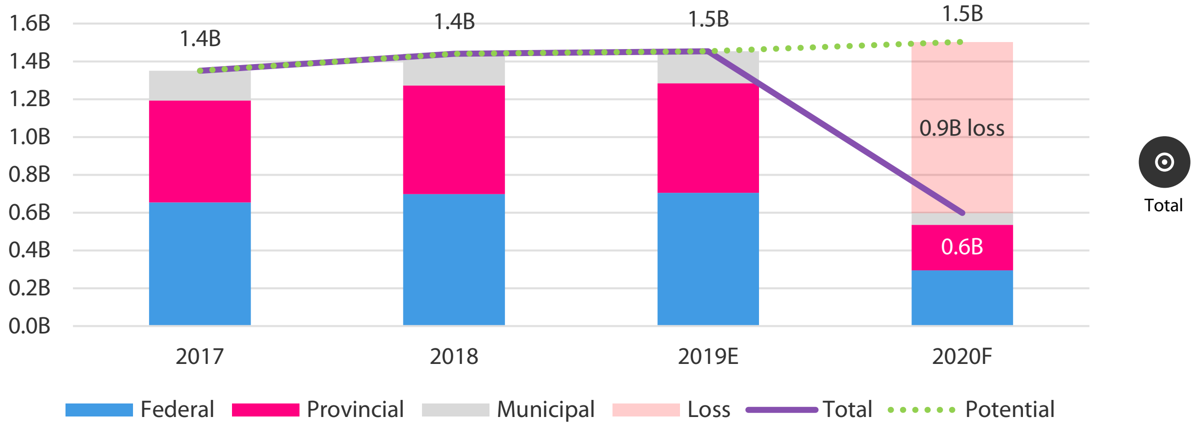


Total

Total

The Drop

**Figure 32. Total music industry fiscal (tax) impact, COVID-19**

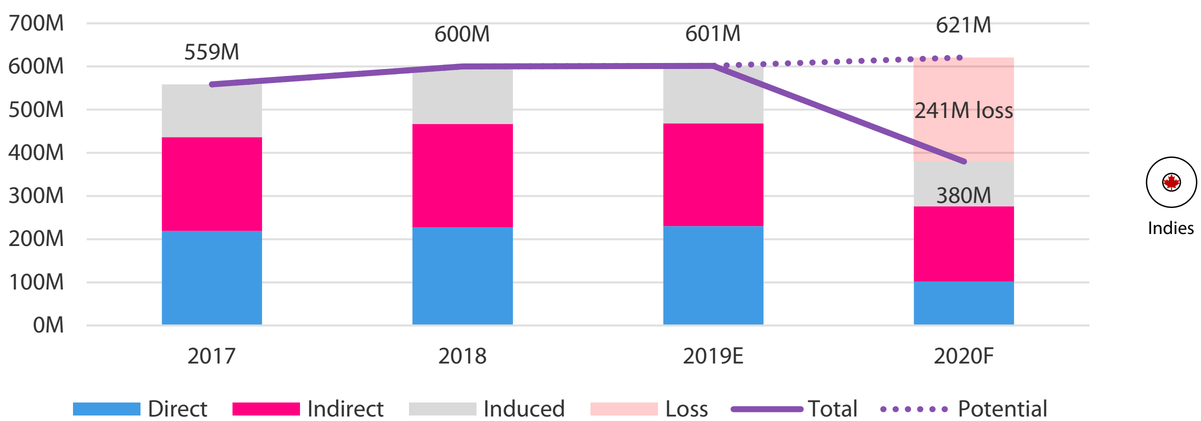



Source: Statistics Canada Provincial and Territorial Culture indicators, Industry Canada Financial Performance Data, Nordicity research

As in previous sections, the following charts illustrate estimates of how these overall impacts translate to the Canadian **independent music sector**.

The following chart shows that the Canadian independent music publishing and sound recording industry contributed an estimated **$241 million loss of GDP** in 2020, a 40% decline from its contribution in 2019.

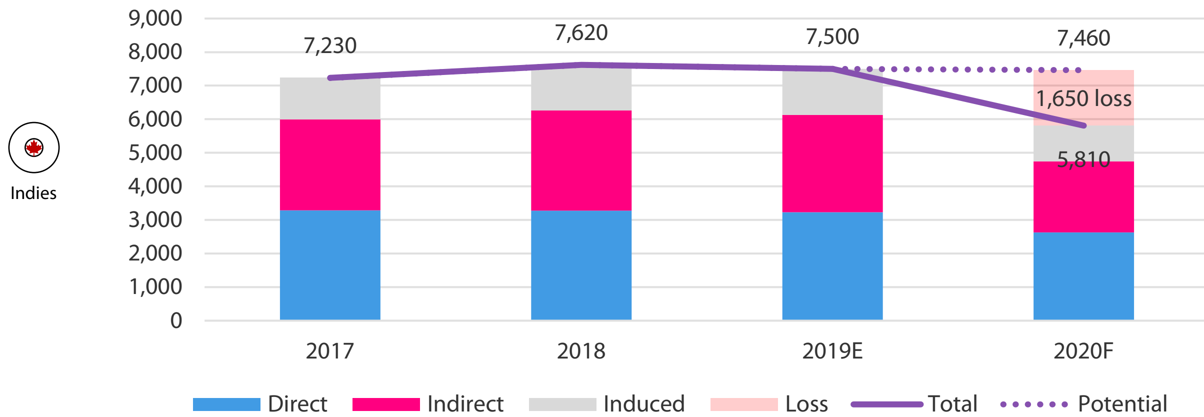
**Figure 33. Canadian independent music industry gross domestic product (GDP) impact, COVID-19 (est.)**




Source: Statistics Canada Provincial and Territorial Culture indicators, Industry Canada Financial Performance Data, WINTEL, *Worldwide Independent Market Reports*, Nordicity research

As noted in the discussion above, the **drop in direct GDP is much more dramatic than the decline in employment** because companies are prioritizing the retention of employees over short-term profit. This observation is more pronounced in the following chart because the music publishing and sound recording segments of the music industry were more able to retain talent due in part to their greater eligibility for the Canada Emergency Wage Subsidy (CEWS) than the live music segment. Note that the 1,650 FTE loss does not double-count any employment losses that were already implicit in the publishing segment's five-year trend of declining employment.

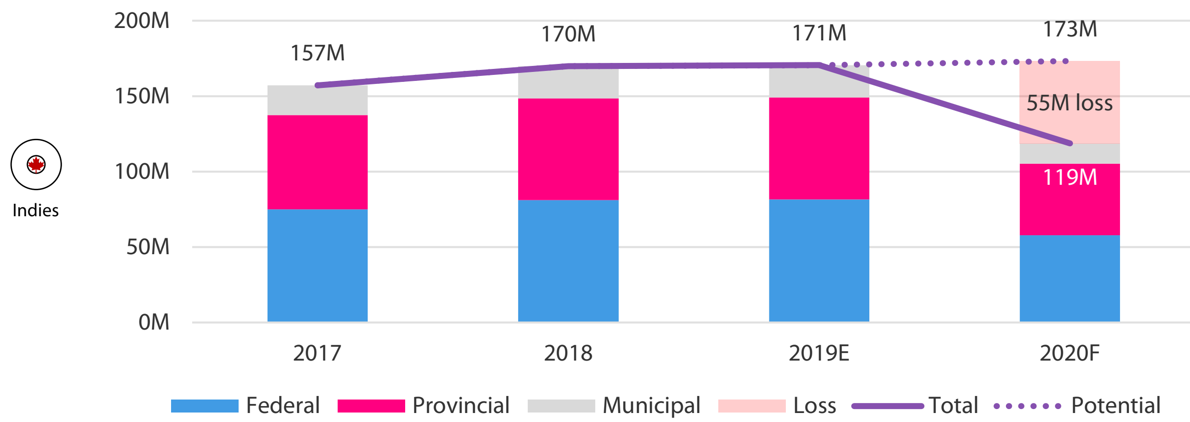
**Figure 34. Canadian independent music industry employment impact (FTEs), COVID-19 (est.)**




Source: Statistics Canada Provincial and Territorial Culture indicators, Industry Canada Financial Performance Data, WINTEL, *Worldwide Independent Market Reports*, Nordicity research

The economic activity estimated above corresponds to a loss of $55 million in tax revenue (declining 32% from 2019), as illustrated in the following chart.

**Figure 35. Canadian independent music industry fiscal (tax) impact, COVID-19 (est.)**




Source: Statistics Canada Provincial and Territorial Culture indicators, Industry Canada Financial Performance Data, WINTEL, *Worldwide Independent Market Reports*, Nordicity research

The following breakout boxes summarize the impacts of COVID-19 on the Canadian music sector and on Canadian independent music companies, respectively.

### The Overall Economic Impact of COVID-19 in 2020

Nordicity estimates that the pandemic will result in the **following shortfalls** for the Canadian music industry in 2020:

**$2.8B** in revenue

**$3.2B** in GDP

**41,900 FTEs** in employment

**$0.9B** in tax revenue

Total

### The Impact of COVID-19 on Independent Companies

Nordicity estimates that the pandemic will result in the **following shortfalls** for Canadian independent music publishing and sound recording companies in 2020:

**$233M** in revenue

**$241M** in GDP

**1,650 FTEs** in employment

**$55M** in tax revenue

Indies

## 3.3 The Effects of COVID-19

Nordicity discusses in this section the manifold impacts of COVID-19 on the various links of the music value chain.

### Skills, Talent & Inclusion

More than ever before, **digital and "influencer" skills** are critical to success for music companies and artist managers. In the era of COVID, digital marketing and advertising is the lifeblood of musicians (and the companies behind them), and the need for upskilling – so as to become noticed in a sea of content – has become more crucial than ever. As one respondent noted, "Quality, and the ability to share content in new, creative ways will be the key factor. Most creatives will have multiple skill sets going forward, more than before." It was noted that those companies that managed **digital platforms** prior to the pandemic have (in general) been the fastest to adapt to the new digital economy.

The plight of **emerging artist managers** has certainly worsened in the wake of the pandemic. On top of the magnitude of industry entry and retention challenges existing prior to COVID, as noted above, this group has been hit harder than established artists. Indeed, **established artists and the companies behind them** can easily still connect with fan bases and reap the reward of film and television placements, pay-per-view streaming offers, and presenters and promoters open to supporting online content, etc.

A promising development is that some funders are directing their initiatives to **counter this trend**. The OMIF, for example, is specifically supporting music business that take risks discovering and developing talent (especially emerging artists). Many organizations have also been running online bootcamps/workshops since the outbreak to support **digital skills development** needs, as well as initiatives that advance diversity and gender parity. Indeed, it was reported that the **equity conversations** happening now are more constructive in tone today than prior to COVID-19. More transparency and more solutions-based conversations are taking place across the board – a shift (likely) influenced by broader awareness of long **entrenched sector inequities**.

### Income, Business & Finance

As has been discussed earlier in this section, the most obvious (and perhaps most impactful) effect of the COVID-19 pandemic has been the **decimation of revenues from live music**. With venues unable to host events, continual (and unpredictable) lockdowns in Canada largest centres (most notably Toronto and Montréal), and the cancellation of major festivals across the country, this critical source of industry revenue has all but disappeared. From interviews there was anecdotal evidence that some larger (and more business-oriented) venues have laid off staff, rather than accessing the available wage subsidy programs. While some activities have shifted towards live online streaming of performances (see vignette below), these alternative revenue streams have not come close to making up for the loss of access to traditional venues and festivals.

**Side Door Access: a Canadian musical unicorn?**

Side Door was created by musical entrepreneur Laura Simpson and Juno Award winner Dan Mangan in 2017. Originally created for in-person shows, the platform matched hosts/spaces with artists based, virtually eliminating gatekeepers and intermediaries. The audience can also directly buy tickets on the platforms.

With COVID-19 putting live performance on hold, Side Door Access expanded to online shows. The platform started including ticketed live-streamed shows in March 2020, creating a sustainable model for artists. Dan Mangan himself used Side Door Access to hold charity concerts. On March 28 for instance, more than 600 ticketholders joined Mangan for a performance on Zoom.

Of course, Side Door Access remains an exception within a sector wiped out by the pandemic but there are learning to be drawn from this quick pivoting and from the loyalty of music fans that adapted to this new way of supporting their favorite artists.

Property **insurance** had been expensive for venues to obtain before COVID-19, and rates in major cities have been skyrocketing amid the pandemic.[25] In some cases, it is impossible for venues to obtain insurance at any cost, which prevents them from operating at all. One problem in the time of COVID-19 is that music venues are lumped into a high-risk hospitality industry classification that includes adult entertainment and night clubs. Some 29 music venues/clubs in Toronto have bonded together to form Love You Live, which is being highly proactive by working with the insurance bureau and lobbying municipal and provincial governments.

One other consequence from this loss of revenue is that **the relationship between the live and recorded music segments of the industry has never been clearer.** While (as illustrated in Section 1.3) the two elements have historically been separated, the loss of live revenue – and its impact on managers, promoters, and others had led to the development of a more integrated perspective on Canada's music ecosystem.

Despite the impact of the precipitous decline in live revenue, some aspects of the industry have fared better, although still in decline. For instance, **licensing, advertising, and streaming revenue have proven more stable**. Even corporate sponsorship around events have continued and remain consistent, though that may be because sponsorship budgets were allocated before the pandemic hit. As such, elements of the industry that rely primarily on those revenue sources (e.g., labels, PR firms, distributors, etc.) have been more insulated from the worst effects of the pandemic.

One exception to that stable revenue relates to the audiovisual production industry – which largely shut down in the early months of the pandemic. That halt in activity led to **a backlog of score-writing contracts and a decline in placements (i.e. synchronization rights)**. The pipeline is soon to be cleared, but revenue declined sharply for several months for rights holders. Indeed, interviewees suggested that music is one of the first parts of the screen sector to be cut/reduced – meaning that this element of the industry remains vulnerable should another shutdown occur.

Finally, some interviewees pointed to **concerns with how the music industry-specific relief funds were allocated.** When corporate support was issued (e.g., via the Department of Canadian Heritage) it was provided as a linear top up to the previous year's funding. As such, it logically, accrued mainly to those companies that already received substantial funding. In this way, this relief funding did not (by itself) redress any structural inequalities present in the funding process.

While organizations like ADVANCE were (in part) created to help address issues of funding inequity, the pandemic illustrated (to interviewees) that significant work remains to make the core funding blocks (e.g., FACTOR's Comprehensive Music Company program) more accessible to marginalized communities. Indeed, some interviewees (who do not regularly access FACTOR/Musicaction funding) reported that the most effective COVID-19 support for Canada's independent music industry came from broader, non-music interventions, such as CERB, which allowed many artists to keep making music (and thus generating IP that can be monetized by Canadian music companies).

Nonetheless, the optimal support situation would be one where both industry-specific and more general support worked in combination to support Canada's independent music ecosystem – and the individuals who make it work.

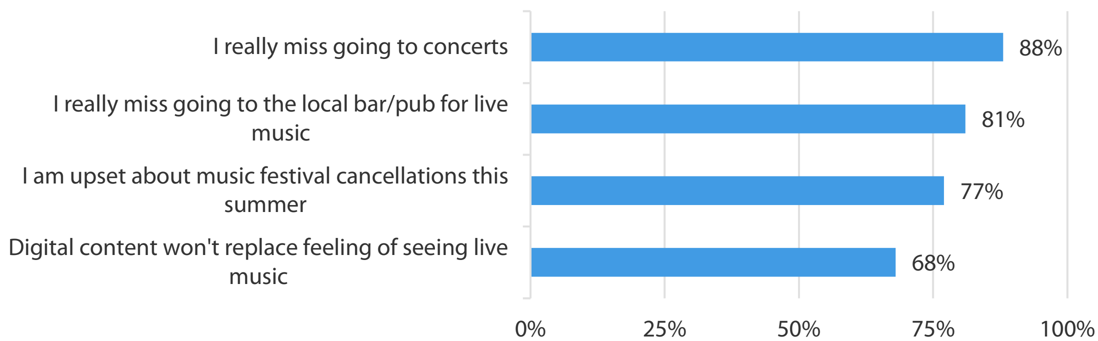
---

[25] From the *Venues – A Case and Path Forward for Toronto's Live Music Industry* commissioned by the Canadian Live Music Association: "Many venues have reported increasing challenges in securing competitive quotes for insurance renewals in recent years," the report reads. "With pressure already mounting due to escalating taxes, insurance renewal and the lack of competition in the insurance marketplace may pose an existential threat to already financially precarious venues."

### Market & Audience Development

The following chart provides several learnings regarding Canadians' position vis-à-vis live music during the pandemic. First, it looks like fans are eager to go back to live shows, with more than 80% missing local music events and concerts. Second, online alternatives to live shows are poor substitutes to the real thing for most respondents (68%). This survey by Music Canada/Abacus Data also indicates that only 43% discovered new artists during the pandemic which further supports the increased challenge of discoverability discussed previously.

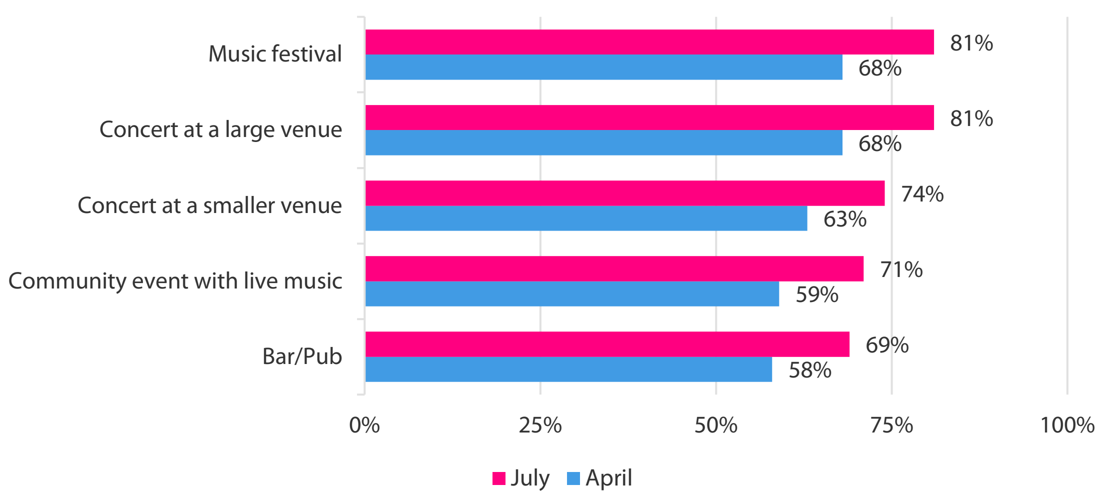
**Figure 36. Respondents who agree with the following statements (n=2000)**




Source: Music Canada/Abacus Data (August 2020), *COVID-19 Impact Study on Live Music Events, Wave 2*

The same study provides additional insights on how soon they would go to live music events, if physical distancing measures allow for such events (Figure 24). More than 80% of respondents indicated that they would wait at least six months to consider returning to a large music event or festival. Across the board, concerns have risen during summer and an increase portion of respondents does not feel comfortable returning to live music events any time soon.

**Figure 37. Percentage of respondents who will need six months or more to attend the following events, once physical distancing restrictions are lifted (n=2000)**




Source: Music Canada/Abacus Data (August 2020), *COVID-19 Impact Study on Live Music Events, Wave 2*

From a business perspective, there has been a **shift to online showcasing and digital business-to-business networking**. Events like Canadian Music Week were initially postponed (from May to

September)– and eventually cancelled. Absent such in-person events the ability for industry professionals to see (and then sign) new acts has been limited.

More broadly, some interviewees have expressed a growing concern regarding a **potential far-reaching economic crisis** on the horizon. Stakeholders worry that consumers will reduce their spend on streaming services or on show tickets (when such events return).

### Broader Policy Environment

In addition to general policy challenges and uncertainties before the COVID-19 pandemic, there are also resulting policy implications. With the federal government providing support for individuals (e.g., CERB) and businesses (e.g., CECRA, CEBA), more focus has been placed on artistic practice and small business support, with some calling the pandemic an 'art boom'.[26] As a result, there are increasing calls for longer term support for a **universal basic income** (living wage earnings) for Canadian independent music companies and artist managers. This movement echoes broader, global calls for flexible, **sustenance-based support** than traditional project-based support, as creators and businesses both benefit from such income stability.

The pandemic has also revealed the critical importance of **live music** in the value chain for creators and music businesses. Without places for musicians to play or businesses to promote shows, the ripple effects have been felt throughout the sector. The expectation is that venues will continue shutting their doors and that it will take years before we see a return to pre-crisis levels of activity. It is estimated that in Toronto alone shuttered venues have cost the city's economy nearly $100 million in GDP and 1,500 jobs.[27] Even as the economy starts to recover, as noted above, research indicates that many will remain **reluctant to attend live music** events at busy venues.[28]

In terms of broader social impacts, the pandemic, and the parallel fight against racial injustice across North America, has shone a light on the **inequalities that existed in plain sight**, well before the crisis. The highlighting of such injustices has allowed music companies and audiences alike, the time and space to reflect on such issues, as well as **raise awareness**. In Canada, for example, current events have highlighted the ongoing need for reconciliation with Indigenous peoples, and the need to address the **oppression of Indigenous, Black, and People of Colour (IBPOC) in Canada**. As has been discussed previously (e.g., in Section 2.3), Canada's music industry has historically underrepresented these groups, so the broader conversation about racial justice has rightfully made its way into the music industry.

On the other hand, the COVID-19 pandemic has already tangibly worsened the gap in opportunities across the Canadian independent music sector. **Underrepresented demographic groups** often face **additional barriers to discoverability and monetization** of their work, making it harder for associated music companies to survive, while others with sustained access to funding and advanced digital literacy may gain. Furthermore, intrinsic challenges related to Indigenous artists across the country are exacerbated by the pandemic, impacting artists' abilities to thrive due to a

---

[26] B. Cohen, National Post (Sep 30, 2020), *The CERB art boom: How government cash is helping many creatives win the pandemic*. Retrieved Nov 11, 2020 from https://nationalpost.com/news/canada/the-cerb-art-boom-how-government-cash-is-helping-many-creatives-win-the-pandemic

[27] Nordicity/CLMA (October 2020), *Re:Venues: A Case and Path Forward for Toronto's Live Music Industry*

[28] Abacus Data (July 2020), *Crowded out: what Canada's professional musicians say the impact of the pandemic has been on their lives, art, and work.*

disproportionate – and historically sustained – lack of support.[29] With increased unemployment and the downfall of the 'gig economy' in 2020, many Indigenous artists reliant on existing audiences and platforms (such as festivals) may now be in need of additional support to mitigate the risk of them **exiting the industry** entirely.

[29] APTN/NVision Insight (2019), *National Indigenous Music Impact Study*

## 4. The Reprise: Canadian Independent Music After COVID-19

In this section, the economic and employment consequences of COVID-19 are modeled, according to a set of explicit assumptions about the kind of recovery that might occur. Revenue and direct employment forecasts are made for each of the three revenue segments of the music business: live performance, sound recording, and music publishing.

Since the forecasts are based on many interrelated assumptions, whose very validity is based on a series of unknowns, the forecasts are translated into high/optimistic and low/pessimistic ranges. Each forecast is then translated into total GDP, total employment, and fiscal impact.

First, scenarios are postulated about the impact of different levels of government intervention that affects the music industry – macro-economic measures and music industry specific measures. Second, the impact is isolated to the Canadian independent segment of the music sector, at least to the extent that this portion can be carved out of the overall impact.

While the modelling of the impact of COVID presents a great policy tool, it is always subject to a high level of unknowns regarding the effects of COVID, its timing, and the effectiveness of recovery measures. Accordingly, three scenarios of the future are presented, based on inputs from a series of workshops held to develop plausible scenarios.

The development of mitigation/stimulation measures is aided by reviewing different industry support options through each of the three plausible scenarios. The best options are those that best meet the challenges presented in all three scenarios, not the one that only works very well with one or two scenarios. Some confidence in the design of mitigating measures can be developed through such analysis.

### 4.1 Looking Ahead: Potential Futures

To illustrate the impacts outlined in forecast scenarios, Nordicity has developed an economic forecasting model that accepts independent inputs in the form of revenue and direct employment assumptions for each industry segment. Refer to the Economic Modeling and Forecasting section of the Appendix for more detail about the methodology.

The following charts provide a summary of Nordicity's optimistic, baseline and pessimistic forecasts for the Canadian music industry.

- Each of the forecasts is described in more detail in the discussion and summary table below the charts. In each chart, the clusters of bars break out the projected revenue or employment for each segment of the industry.
- Each cluster of three bars shows the pessimistic, baseline, and optimistic forecast from left to right. The overlaid lines and shaded areas correspond to the totals for the music industry as a whole – pessimistic is shown in red, baseline in purple, and optimistic in green.
- To provide a frame of reference for all forecasts, the dotted purple line ("potential") is a trendline based on the industry's compound annual growth rate from 2015 to 2019.

Broadly speaking, the baseline forecast (purple) represents Nordicity's assessment of what industry representatives anticipated to be the most likely outcome for the Canadian music industry over the next three years. The optimistic and pessimistic forecasts make additional assumptions about certain factors that are beyond the industry's ability to control – in particular, these factors related to the public health situation (i.e., how long and severe the pandemic is) and consumer behaviour.

Concluding in 2023, the **pessimistic (red), baseline (purple) and optimistic (green) scenarios envision industry revenue at the end of the post-COVID recovery at $3.7, $4.2 and $4.7 billion**

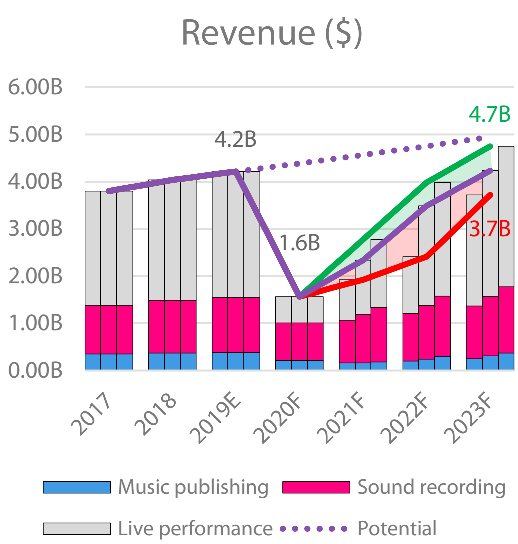
**respectively**, a $1.0 billion range between the optimistic and pessimistic scenarios, depending on a variety of factors.

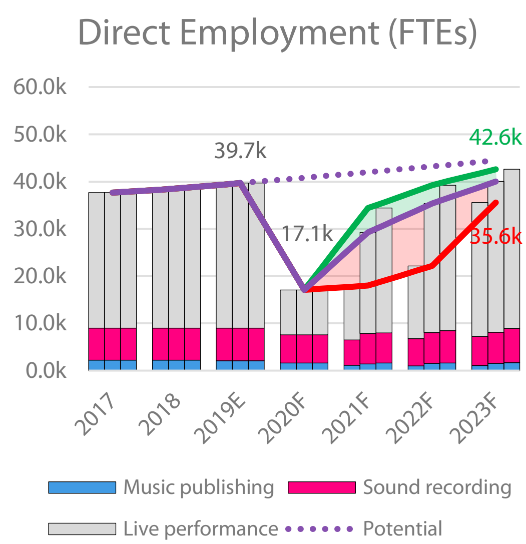
In general, the employment assumptions reflect stakeholder views that employment is more likely to remain somewhat stable at 2020 levels or growing despite the temporary drop in revenues. The projections for the **original baseline, the optimistic, and pessimistic forecasts for 2023 are 42.6k, 40.0k, and 35.6k FTEs by 2023.**

Most companies agree that retaining talent is a key ingredient to fuel their recovery to sustainable business operations once the worst of COVID passes. That said, the pessimistic scenario considers the effect on employment impact should companies reach a point at which they can no longer afford the luxury of talent retention in the face of sustained low revenues. In this case, employment is assumed to decline further to reach an equilibrium with the level of revenue required to maintain payroll.

Looking to the three industry segments illustrated by the stacked bars, each is subject to different assumptions about the trajectory of its revenue and employment. While the impact on **live music** has been abrupt and severe, stakeholders anticipated a more delayed effect on **publishing** revenues. As a result, the trends affecting this segment of the industry are subject to more of a lag compared to live performance. **Sound recording** falls between live performance and music publishing in terms of the timing of COVID impacts – there has been a mixed bag of challenges and opportunities for this segment. Many labels have held back album release/promotion activities that are traditionally integrated with live music performances (e.g., tours, showcase performances, awards ceremonies, etc.), although many are finding new opportunities to connect with fans during lockdown.

Total




Although the baseline scenario represents consensus expectations for the industry, it is impossible to assess the relative probability of each forecast. The main reason for this is the uncertainty in COVID-19 progression, vaccine, and consumer confidence. That said, each forecast represents a coherent, self-contained illustration of a feasible future for the industry, reflecting different sets of risks and opportunities articulated by industry stakeholders. Through these potential futures that we then consider how the industry might move forward with different types of support without committing to a particular outlook.

As shown in these forecasts, there is a deep trough in 2020, reflecting the impact of the pandemic, as discussed in detail in Section 3.2. Since we are in the middle of the pandemic, it is not clear what exactly has been the impact for the three broad revenue segments in 2020, although the estimates are likely reasonable given that the effects on live music have consisted of a full shutdown since mid-March. Moreover, there are known unknowns affecting the future recovery, principally because of how COVID-19 and subsequent vaccines affect the return of live performances – and indeed, regain the confidence of audiences.

Accordingly, alternative forecasts are essentially a form of pessimistic and optimistic ends of the spectrum – or low/baseline/high. The alternatives are formed from a set of plausible assumptions, whose main ingredients for the high and low alternatives are the following:

- **High/optimistic assumptions**
    - Full government support from the macro-economic perspective and music-sector specific support throughout the pandemic.
    - COVID-19 recovery sufficient enough to "save" the summer of 2021 for touring at least for many venues; a fuller recovery in 2022 for many forms of live and in many but not all major markets; and a more or less full scale recovery in 2023; it would assume that attendees might be wary in 2021, but more confident in 2022-23;
    - The music business in Canada comes through more or less intact, but with some losses as some elements exit the music business and do not return.
    - The progress toward inclusion continues, thereby expanding the pool of talent and entrepreneurs in the music sector.
- **Low/pessimistic assumptions**
    - Government support at the macro-economic level does not take into account music industry particularities, and does not match the needs of the sector; no new funds are injected into the music sector, and the programs are not fine-tuned to support the sector.
    - COVID-19 recovery is slow, stalls indoor touring and keeps much of the lid on outdoor touring in 2021; recovery and regaining the confidence of concert goers becomes a multi-year proposition.
    - The music business in Canada comes through the pandemic with a few who are successful in survival, but with little investment to take full advantage of the recovery; many artists/creators as well as support businesses exit the music sector and do not return.
    - The progress toward inclusion stalls as the pandemic stifles hiring, investment in emerging music, and increasing diversity incentives are not effective at changing the situation.

The table below further describes the forecast assumptions by industry segment – adding a "baseline" middle set of assumptions which represent the industry consensus of the most likely outcome.

**Table 6. Descriptive summary of forecast assumptions by industry segment**

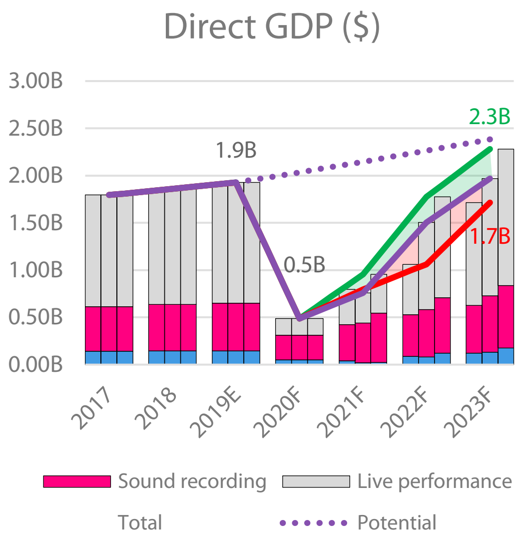
| Industry segment | Optimistic | Baseline | Pessimistic |
|---|---|---|---|
| Overall | The pandemic passes quickly; in the interim, the industry is relatively successful in developing alternative sources of revenue. | The recovery aligns with industry expectations, based on Nordicity's series of interviews, roundtables and review of secondary sources. | Worsening public health conditions slow the recovery; the sustained low revenue drives further employment losses. |

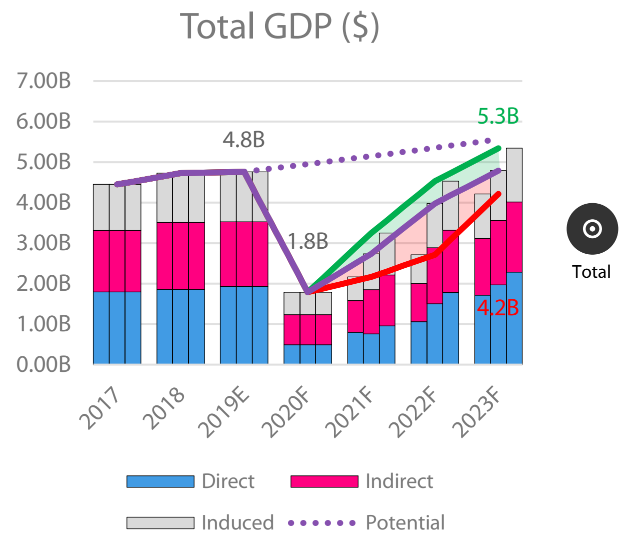
| Industry segment | Optimistic | Baseline | Pessimistic |
|---|---|---|---|
| Live performance | Virtual performances and alternative formats (drive-ins, balcony performances, etc.) and higher ticket prices offset some of the lost revenue due to shutdowns, which in turn supports more jobs and a faster return to normal. | Live performance returns to 2019 levels of activity by 2023 with a steady recovery. Businesses' desire to retain talent keeps direct employment at a slightly higher level than the revenue recovery. | Intermittent public health shutdowns persist for an additional year, with the recovery only starting in 2022. Sustained low revenues cause companies to lay workers off and many more companies go out of business. |
| Sound recording | The shutdowns provide an opportunity for companies to pursue a faster record cycle and marketing artists; in this forecast, we assume that such efforts are successful at returning revenue to levels projected from the pre-pandemic trend. | Sound recording is not hit as hard as live music, but the shutdowns disrupt key marketing channels for recorded music. To some extent, companies adapt to these conditions in the short term and the return of live music drives a recovery to slightly above 2019 levels but still below the 5-year trend. | Disruptions to key marketing channels have a larger impact on revenue than that reflected in the baseline scenario; sound recording companies trim employment to levels that are better aligned with their revenue levels. |
| Music publishing | A vibrant recovery in other segments of the industry drives a faster rebound in publishing – though there is a lag in publishing revenue which accounts for the slowdown during COVID. | Music publishing will experience its revenue drop later than other segments of the music industry, bottoming in 2021. Stakeholders expect a slower, more gradual recovery for this segment. | Without ongoing support, the slower recovery forces companies to tighten their belts more significantly; employment declines to levels that sustained lower levels of revenue can support. |

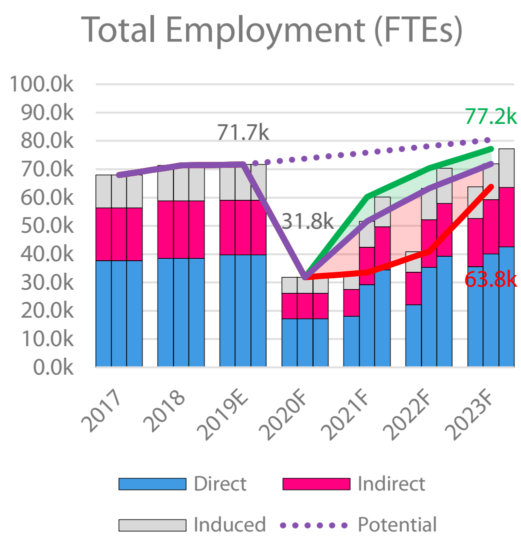
The forecasts described above correspond to the economic impacts illustrated in the following charts. To generate indirect and induced impacts, the forecast model uses the revenue and employment assumptions presented above to calculate the corresponding level of expenditures to: labour income; supplier industries; and overall profitability.

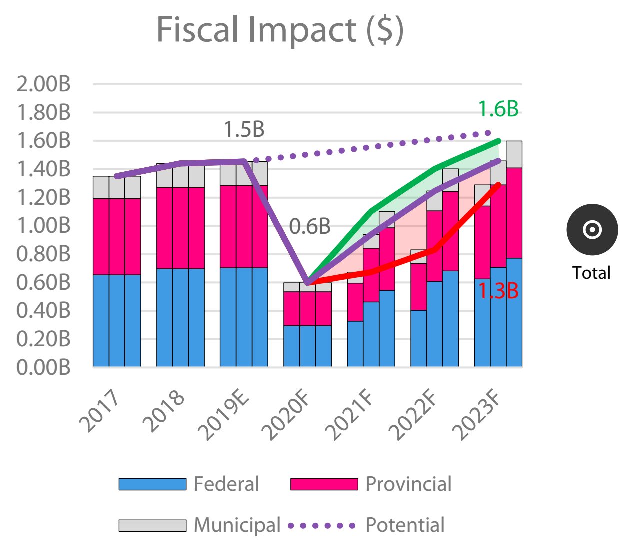
While revenue forecasts presented a fairly wide range of outcomes ($3.7 to $4.7 billion), the **ranges for direct GDP are somewhat tighter**. The **direct GDP** impact in 2023 is forecast to be **from $1.7 to $2.3 billion** and the **total GDP** is projected to be **from $4.2 to $5.3 billion**. The ranges for **total employment and fiscal impact for 2023 are respectively from 63.9k to 77.2k FTEs and $1.3 to $1.6 billion.**

As long as the industry is maintaining excess workers (relative to revenue), labour income will remain comparatively stable and GDP will exhibit less extreme swings than those observed in industry revenue. Total GDP and total employment shows slightly more variation, as indirect impacts (both GDP and employment) track the trajectory of revenue. This result amplifies the impact of revenue changes on the overall impact of the industry.



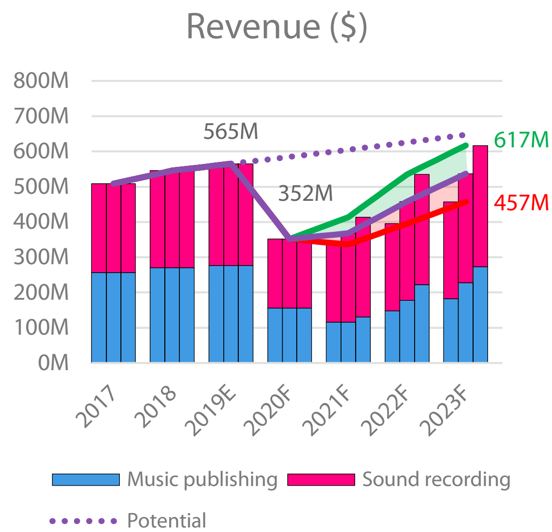



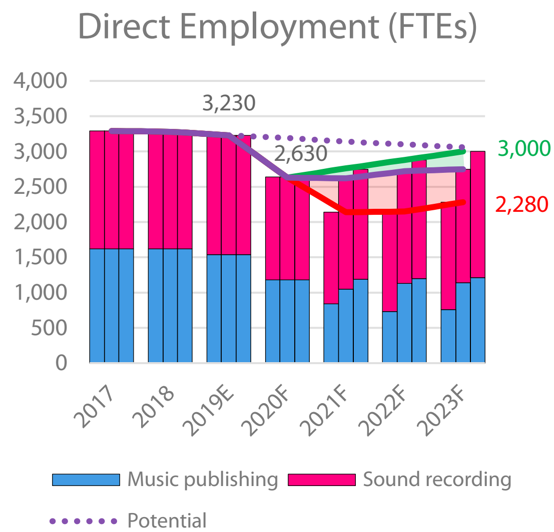




Continuing the approach followed in previous sections of this report, the following charts illustrate how these trends apply to the **independent** music sector portion of the industry. Viewed in absence of the live music segment, it becomes clearer in the trendlines that independent music publishing and sound recording are anticipated to have a more subdued recovery than the overall industry in 2021 and 2022.

Another notable feature of this drilldown is that the pessimistic scenario assumes a **much more severe medium-term impact on employment** in the sound recording segment. The pessimistic scenario is based on an assumption that there is no continuation of government support, and companies are therefore forced to adjust employment to levels that revenue can sustain. If this forecast aligns with actual outcomes, we anticipate that many of the job losses will be permanent due to business failures that would likely occur in this scenario.

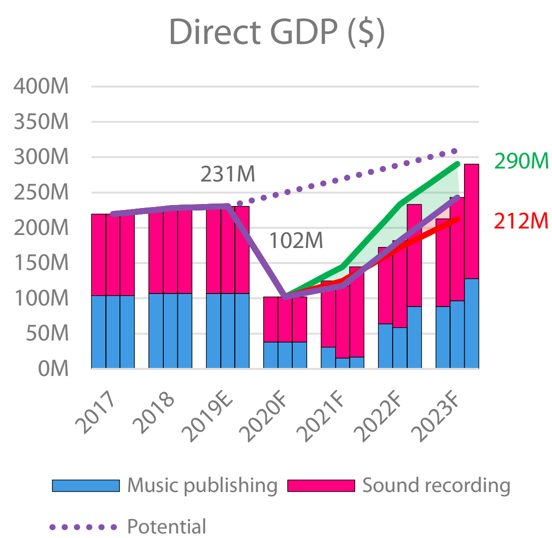
Indies

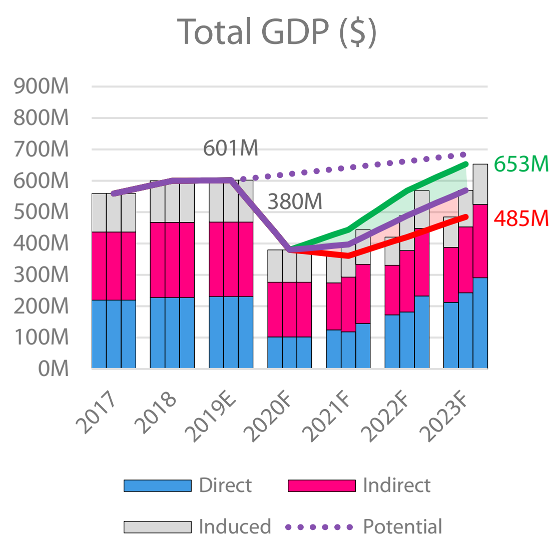


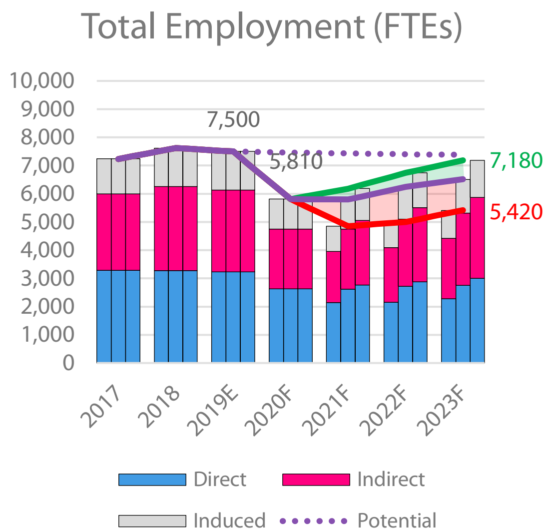



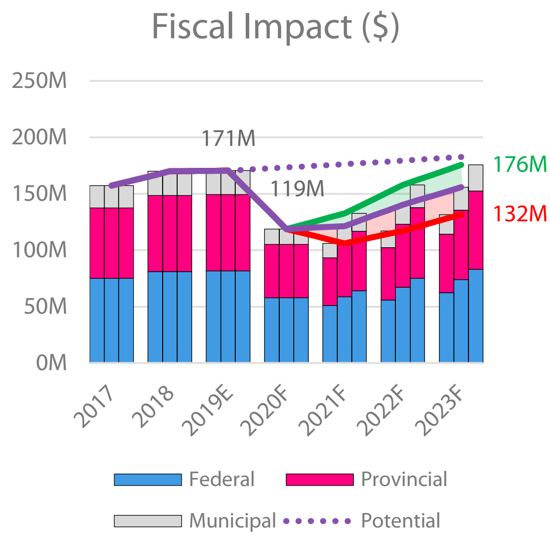

The following charts summarize the economic impacts of the Canadian **independent music publishing and sound recording industry** corresponding to the forecasts illustrated above.

Indies






Indies

**Impacts of different government responses and level of financial support**

While isolating the impact of one set of variables is difficult to do with confidence, it is important for program design and determining funding amounts for the Canadian music sector. First, scenarios are postulated about the impact of different levels of government intervention that affects the music industry - macro-economic measures and music industry specific measures. Then, the impact is isolated to the Canadian segment of the music sector, at least to the extent that this portion can be carved out of the overall impact.

The following discussions address three types of government support:

- **Wage support (CEWS)** – The Canada Emergency Wage Subsidy (CEWS) program provided wage support for companies with a demonstrable revenue drop due to COVID-19 to help them maintain employees on payroll.
- **Audience development support (CMF, FACTOR, Musicaction)** – The CMF Music Entrepreneurship Component provides funding (administered to the music industry by FACTOR and Musicaction) to music companies for a variety of activities based on industry demand.
- **Freelance talent retention (CERB)** – The Canada Emergency Response Benefit (CERB) provided simple flat-rate cash payments of $2,000 per four-week period to individuals who were ineligible for Employment Insurance.

In the following discussion, it is important to remember that the music industry is complex and interconnected – an integrated ecosystem extending from creation to distribution and from artists to consumers. To understand the full, holistic impact of targeted government support for specific part(s) of the sector, we emphasize that the interconnected nature of the industry will lead to benefits accruing not only to the direct recipients of the support, but also other nodes in the broader system. As summarized in the preceding points, support initiatives focused on talent retention, revenue generation, and direct artist support are each likely to yield knock-on benefits through the symbiotic relationships between different types of music businesses (e.g., touring is a distinct line of business for the live performance segment of the industry, but it also represents an essential marketing tactic for sound recording businesses).

**Wage support (CEWS)**

While the music industry has credited CEWS with their ability to retain talent and support employees' livelihoods through the shutdowns, the industry's recovery is lagging other industries that are better positioned to return to work more quickly. This discussion considers the cost and employment impact of extending CEWS specifically for music businesses in Canada.

Nordicity estimates that **870 music industry workers** (5% of the overall workforce) were being supported by CEWS in the period from Aug 30 to Sep 26, 2020. To put this 5% in a broader context, it is important to recognize that the support provided by CEWS was made available to employers based on:

- A demonstrated drop in revenue;
- The number of eligible employees; and,
- The eligible remuneration paid to those employees.

As a result, not all businesses were eligible for this type of support. In the music industry, Table 3 showed that 82% of businesses in the music publishing and sound recording segments were "without employees," which occurs due to high incidence of owner-operated businesses and/or independent contractors. Moreover, CEWS was specifically geared to provide support to the set of employers that were hardest hit by the pandemic.

Though 5% may seem like a relatively small portion of the overall industry workforce, CEWS' objective is to protect the livelihood of the 1 in 20 employees that was the most vulnerable to layoffs as a result of the pandemic. The program therefore provides a high leverage investment to sustain key parts of the music industry until a broader recovery takes hold. If CEWS were to be extended through the full calendar year of 2021 for the same group of employers and workers, Nordicity estimates that the program would **cost a total of $14.3 million**.

**Table 7. Estimated cost and employment impact of one-year CEWS extension for eligible employment in the music industry**[30]

| | Employees supported by CEWS | Total industry employment | % of total employment supported by CEWS | Average CEWS per supported employee | Total support | Duration of reference period |
|---|---|---|---|---|---|---|
| **NAICS 51** Information and cultural industries, Aug 30 – Sep 26, 2020 | 39.200 | 774k | 5% | $1,264 | $49.5M | 28 days |
| **Music industry**, full year of 2021 | **870** | 17.1k | 5% | $1,264 | **$14.3M** | 365 days |

Sources: Government of Canada, CEWS statistics (PDF), Table 2: Approved Canada Emergency Wage Subsidy (CEWS) claims by period and industry sector, Canada; Statistics Canada, Table 14-10-0023-01, Labour Force Characteristics by Industry, annual; Statistics Canada Provincial and Territorial Culture indicators; Industry Canada Financial Performance Data, Nordicity research

[30] In order to account for company eligibility for the program, this estimate is based on an assumption that the percentage of employees supported by CEWS in the music industry is the same as the percentage of employees supported in *NAICS 51 Information and Culture Industries* as a whole. It also assumes that the average value of support per employee is the same as NAICS 51.

In light of the music industry's slow anticipated recovery, Nordicity's stakeholder engagement found that many employers are advocating for an extension of CEWS so that they can continue to retain key talent. The workers described as "key talent" are, by extension, relying on CEWS for their job security. Given the comparatively low cost of extending this benefit for the most vulnerable elements in the music industry and its ease of implementation, this mode of support for the industry should be considered.

**Audience development support (CMF, FACTOR, Musicaction)**

While CMF funding allocations to FACTOR and Musicaction are currently funded at a level of $36 million, it is slated to decrease to $26 million in 2021. CIMA has proposed an increase of $10 million to retain funding at current levels, in part, to provide much-needed relief for the disruptions facing Canada's music industry.

To develop an analysis based on clear and reasonable assumptions, Nordicity fundamentally assumed that incremental funding will principally be used to support audience development activities. The CMF's funding allocations are administered to the music industry based on demand from applicants across FACTOR and Musicaction's full portfolio of programs, and of the activities supported by these programs, Nordicity posits that the value of support directed to:

- Recording is not likely to vary significantly from historical levels. Though some musicians have found opportunity to focus on the creation of new music during the pandemic, many others have been struggling to make ends meet as their performance income plummets – though COVID-19 has had enormous impacts, both positive and negative, on artist creativity and productivity, this analysis assumes that these effects will roughly balance out;
- Touring, travel, performance, events and showcases is likely to remain attenuated for as long as shutdowns (and uncertainty about future shutdowns) prevent companies' ability to plan and deliver on public gatherings; and
- Audience development, which was already a pain point for the independent music industry before the pandemic, will increase significantly as companies seek to boost existing revenue and establish new sources of income.

As a result, this analysis models the economic and fiscal impact of a **$10 million investment in audience development activities** to illustrate the likely public benefit if CIMA's proposal is accepted.

Overall, Nordicity estimates that a $10 million investment in marketing at music companies would support **$50 million in GDP**, the employment of **750 FTEs**, and a **fiscal (tax) impact of $15 million** in Canada. The following table shows the derivation of these estimates. The top row calculates the estimated revenue generated per marginal dollar of paid marketing in 2019. The second row calculates the GDP, employment and fiscal impacts associated with $10 million of music industry revenue in 2019. The final row calculates the estimated revenue increase ($44 million) associated with $10 million of support directed to marketing and then calculates the GDP, employment and fiscal impacts associated with this amount of revenue.

**Table 8. Estimated economic and fiscal impacts of a $10 million investment in music industry marketing**[31]

| | Marketing expense | Revenue | Portion of revenue attributable to paid marketing (est.) | Revenue generated per dollar of paid marketing (est.) | Total value of support | Total GDP | Total employment (FTEs) | Total fiscal (tax) impact |
|---|---|---|---|---|---|---|---|---|
| Music industry, 2019 | $239M | $4.2B | 25% | **$4.41** | | | | |
| Impact per million dollars of revenue, 2019 | | $10M | | | | **$11.3M** | **170** | **$3.4M** |
| Impact of $10M from CMF (est.) | $10M | $44M | | $4.41 | $10M | $50M | 750 | $15M |

Sources: Statistics Canada Provincial and Territorial Culture indicators; Industry Canada Financial Performance Data, Nordicity research

Overall, these findings suggest that the government could realize significant economic benefits, *in addition to* recouping more than its initial investment in the sector through incremental tax revenue.

### Freelance talent retention (CERB)

Although CEWS has been well received by the music industry, a large portion of the skilled talent pool in the music industry is ineligible for this type of support because they work as contractors or "gig workers." Recognizing that a large and important portion of the music labour force consists of freelance/gig/contract workers, this section evaluates the extension of a CERB-like program targeted to support qualified types of talent in the music industry.

In order to assess the benefits attributable to this program, we first propose that the gig workers who are unable to work in the music industry due to the disruptions caused by COVID-19 may find alternative modes of employment if the music industry is slow to recover. Conversely, if these workers are supported with a CERB-like program, they may experience less urgency to pursue alternative career paths and continue to seek work in the music industry until the industry returns to full employment. **Should key freelance talent leave the industry, the industry's recovery will face the headwind of needing to develop new creative and technical talent** in a comparatively less experienced workforce.

[31] To reach this estimate, Nordicity assumed that 25% of music industry revenues were attributable to paid marketing. Although there is no empirical data to support an exact number, this estimate recognizes that a) paid marketing is only one of many ways that music is marketed (i.e., word-of-mouth, artist social media, playlists, live performances, radio play, media coverage, etc.), and b) marginal dollars of advertising spending are likely to be less effective than the overall average realized by the industry as a whole.

Nordicity estimates that **17% of the music workforce consists of *key freelance talent***[32], that is, the portion of the music industry workforce with specialized skills that typically depends on gig work. In this analysis, such workers have been defined as musicians, singers, and sound technicians because good census data is available for these occupations. That said, there was some uncertainty about the precise headcount of such workers, so Nordicity presents the results as a range from low to high, with low/high representing the lowest/highest number of workers based on analysis of available date.

Using the three forecasts illustrated at the beginning of Section 4.1, Nordicity assumed that key freelance talent works in the industry in proportion to their overall share of the industry workforce (i.e., 17%). Additionally, the team assumed that when workers re-entered the industry during the recovery, these hires drove 10% more revenue generation (applied to the share of revenue corresponding to their share of the total workforce). This assumption recognizes that workers with previous experience in the industry will be more productive at revenue generation. In short, these assumptions mean that giving key workers one year of additional breathing room while they wait for the industry to recover is expected to result in the industry's new hires being 10% more efficient and effective at generating revenue after they enter the workforce. Overall, this is a conservative assumption, as many of the key skills of creatives and technicians are developed over years, if not decades.

In this set of forecasts, we kept the assumptions about direct employment identical to those presented in the original forecasts, however, the revenue was modified as described above. These tables evaluate the *cumulative* difference between the two sets of forecasts from 2021 to 2023. In each forecast, the **10% boost in productivity of returning workers drove 2023 revenues about 5% higher** than the initial forecasts, ranging from 4.64% to 5.05%.

The following tables summarize the results of the analysis. The results were calculated for each of the three forecasts presented at the beginning of Section 4.1. The analysis found that in **an optimistic scenario, offering a CERB-like program for key freelance talent** would cost the government between $29 and $56 million and yield a fiscal impact of $94 million. As such, the net impact of an optimistic scenario would be positive, returning between $38 and $65 million to the government. That is a positive ROI.

Conversely, a **pessimistic scenario** (with more severe unemployment) would cost between $98 and $191 million and yield an incremental $43 million in fiscal impact. As such, the pessimistic scenario would lead to a **significant net cost** (of $54 to $148 million). However, this scenario would at least keep more talent in the game, and lead to a more robust recovery when conditions are more fertile.

[32] To reach this estimate, Nordicity calculated the number of workers in two occupational categories (NOC 5133 Musicians and singers and NOC 5225 Audio and video recording technicians) in three industries (NAICS 5122 Sound recording industries, NAICS 7111 Performing arts companies, and NAICS 7115 Independent artists, writers and performers) in Statistics Canada's 2016 Census, and expressed these workers as a percentage of total employment in those industries. There is some uncertainty about the actual *headcount* of these people among the COVID layoffs, which are modelled as full-time equivalents (FTEs). To address this uncertainty, we express the results of this analysis as a range between 6,900 FTEs and the 13,400 headcount of key freelance talent, as reported in the 2016 Census.

**Table 9. Incremental fiscal impact assessment of providing a CERB-like program targeted at key freelance talent (musicians, singers and sound technicians)**

| | Eligible headcount, 2021 | | | Cost ($2,000 per 4-week period) | | |
|---|---|---|---|---|---|---|
| | **Optimistic** | **Base** | **Pessimistic** | **Optimistic** | **Base** | **Pessimistic** |
| **Low** | 1.1k | 2.0k | 3.8k | $29M | $51M | $98M |
| **High** | 2.2k | 3.8k | 7.3k | $56M | $100M | $191M |

| | Total fiscal (tax) impact | | | Net fiscal return (tax – cost) | | |
|---|---|---|---|---|---|---|
| | **Optimistic** | **Base** | **Pessimistic** | **Optimistic** | **Base** | **Pessimistic** |
| **Low** | 94M | 76M | 43M | 65M | 24M | -54M |
| **High** | 94M | 76M | 43M | 38M | -25M | -148M |

To sum it up, this **modest proposal would pay for itself if the music industry experiences a fast recovery** because the incremental fiscal impact exceeds the estimated cost of the program (i.e., a positive fiscal return). Conversely, if the pessimistic scenario yields a negative fiscal return, the **support would be well received by music workers if the recovery is more protracted**. In a way, this approach allows the government to provide net stimulus if the support is needed, yet it will recover that money through taxation if the industry does better than its current baseline expectations. The baseline forecast comes close to balancing costs with returns, indicating that the public treasury will essentially break even if the industry performs at a level that is consistent with stakeholders' current expectations.

### The most effective intervention measures

As indicated above, forecasts at this time are fraught with uncertainty. In anticipation of this state of affairs, the project team held three workshops with music industry participants in a modified **scenario planning exercise.** (See Appendix for list of workshop attendees). The purpose was to discuss various future scenarios that could help clarify the thinking behind assumptions about the future and help develop potential mitigation/stimulation measures.

The workshop participants first discussed the factors affecting the future, drawn from their knowledge and experience pre-COVID, as well as how COVID had affected their business. They were then asked to react to three sets of alternative scenarios. The scenarios were in the form of two-by-two matrices postulating two ends of a spectrum for each variable in the scenario. The specific scenarios used are shown in the Appendix.

While the modelling of the impact of COVID presents a great policy tool, it is always subject to a high level of unknowns regarding the effects of COVID, its timing, and the effectiveness of recovery measures. Accordingly, three scenarios of the future are presented, based on those workshops.

- **Early COVID recovery, but fans wary** of live events; music industry gets quite creative in hybrid online and live, and in promotion; music industry invests artists and music, and Canadian music emerges from COVID more quickly than international competitors. IBPOC artists and music business folks regain their positive upward trajectory.
- **Slower COVID recovery, but fans return**, and music industry focuses on live events, though they are restricted; music industry designs appealing shows for music – live and hybrid – which drives promotion and hence more attractive to streaming audiences. IBPOC is part of it but suffers more because of the duration of COVID.

- **Slower COVID recovery, and cautious fans**, so music sector focuses on recording business and publishing, but faces substantial international competition. Live streaming is integrated into promotion and there is more creativity to get on streaming services playlists. However, IBPOC representation is not excluded and represents some of the more successful music entrepreneurs.

The development of mitigation/stimulation measures is aided by reviewing different industry support options through each of the three plausible scenarios. The best option is the one that best meets the challenges presented in all three scenarios, not the one that only works very well with one or two scenarios. While the three scenarios presented are plausible, they remain quite arbitrary, and could end up as bits and pieces of each other. However, the one conclusion that can be drawn is that **public sector intervention can support a faster, more successful recovery** – however it happens, and whatever the timing is.

Whether the public interventions are macro or sector specific, if they are flexible and updated on a regular basis, they will improve the recovery's performance of the music industry. Clearly, the lack of a robust live segment will tax the ingenuity of the industry to be creative and entrepreneurial. However, public investment, whether in job/business continuity or in financial support of innovation in operating in COVID times, can be effective no matter what scenario comes to pass.

As the future unfolds, there will be early signals that should indicate which scenario – or version thereof – is coming to pass. That would give decision-makers the option to make useful adjustments to any stimulus. Systematic review on a periodic basis would ensure that any stimulus remains fair and goes to the most successful path toward employment, innovation, and diversity objectives.

The conclusion of this modest scenario planning initiative is that absent big chunks of the revenue sources, **public money that supports the creative and entrepreneurial components of the sector should have the most positive effect**. The key is to support industry initiatives and revise the eligibility criteria to keep up with the opportunities – on a quarterly or semi-annual basis.

## 4.2 Issues to Watch

This final sub-section outlines the issues that will continue to shape Canada's independent music industry as it emerges from the COVID-19 pandemic. To greater and lesser degrees these topics will be relevant to all the scenarios explored above.

### Skills, Talent & Inclusion

In the wake of the pandemic and, arguably, the civil rights movement of our time, the attention to **diversity, inclusion, equity, and capacity-building** across the music industry has never been more profound. As it happens, there are several mutually reinforcing dynamics at play. As key stakeholders (e.g., policy makers, industry leaders) gain a better understanding of the true demographic picture of the industry through advanced data monitoring (i.e., who is being supported and who is not), **accountability mechanisms** will likely increase in effectiveness. It will result in more transparent and meaningful interactions and more efficient levers to ensure equity, diversity and inclusion across the value chain. That said, where music companies are experiencing a hiring freeze, the ability to fulfill their own HR **diversity objectives** weakens.

While live performance opportunities remain stalled, another notable issue to watch is the advent of opportunities to support artist managers ad music companies in building new skills, particularly around **digital marketing and digital rights** literacy. For example, bootcamps for marketing and discoverability platforms, generating play for streaming services, how and when to plan touring, the complexities of copyright negotiations and publishing, are all priority themes for upskilling. This time has also been reportedly an opportunity for music professionals and creators to improve **overall health and wellbeing** given the historical (over) reliance on live touring, which was untenable to many artists. Similarly, unusual time to reflect and strategize has promoted **entrepreneurial shifts** in companies' approaches to their work, and new business models are being activated which better reflect the new realities at play.

The importance of sufficient support to artists cannot be understated as Canadian music companies depend on artists as the source of their business income – and are thus directly (and indirectly) affected by any decline in the total income to these Canadian creators. Of course, there remains the real potential **loss of artist talent** (and thus the creative capital on which the industry is based), should artists leave the industry altogether. The live sector is still dark, and 'going digital' is simply not an easy solution for everyone or effective for many. Many musicians report steep learning curves with technology and dissatisfaction with the lack of connection a digital experience creates between them and their audiences.[33]

### Income, Business & Finance

Given that the most significant change to the economics of Canada's independent music industry during COVID has been the loss of live music revenue, the ability of the industry to recover will, to a large extent, rely upon the re-opening of venues (and the existence of festivals). Where venues may have permanently closed, new venues may open to serve the demand for live music. However, as illustrated in Section 3.3, exactly when (or if) that demand will return remains uncertain.

While the existence of venues is indeed a key issue to watch, one should also examine the existence of the underlying **"feeder" companies that enable venues.** From lighting equipment providers to sound engineers, if those companies cease to exist (or decline significantly in number) re-opened venues will have yet more of a challenge operating. Equipment will be harder to come by and/or be more expensive.

As indicated previously, the regulatory environment in Canada (including its application to large, non-Canadian digital platforms) posed a challenge in the pre-COVID world. The recently tabled Bill C-10 by Heritage Minister Guilbeault adopted the Broadcasting Telecom Legislative Review Panel's recommendation that the CRTC should regulate international music streaming services. Besides **increasing future funding requirements on the streaming services** – likely to the benefit of independent labels in Canada. However, the impact will only be felt in at least 18 months as the journey of much contested legislation in a minority government is indeed tortuous.

In a similar vein, audiovisual production (film/tv/games) may provide to be somewhat a boon to the industry. This type of content production is expected to increase as consumers stay indoors, which will increase the demand for scores and placements. However, as explained above, the flow of revenues to Canadians is lower than when the same TV productions appear on traditional broadcasting outlets in Canada.

Finally, given the deepened reliance on digital skills and techniques, companies' investment in – and ability to leverage – digital will likely enable a faster recovery.

---

[33] Abacus Data (July 2020), *Crowded out: what Canada's professional musicians say the impact of the pandemic has been on their lives, art, and work.*

### Market & Audience Development

The principal issue to watch, as it relates to market development is **consumer demand for live music**. If it recovers, live music revenue will likely recover, if not many independent music companies in Canada may have to reconsider the ways they develop audiences – likely by use of digital means.

While the CRTC may mandate international streaming services to increase the exposure to Canadian music, there are discoverability measures that are available to Canadian music business right now. For example, smart companies undertake best practices in **search engine optimization (SEO)**. An initiative that focuses on such discoverability techniques could be mounted for the music business.[34]

On a related note, the uneven global recovery may shift the attention of Canadian acts from the United States to other markets (e.g., Europe).

Finally, while industry events (like the 2021 edition of SXSW) are likely to continue to adopt an online or hybrid approach to their programming, it is not yet clear how effective such events are absent the physical presence.

### Broader Policy Environment

In terms of the broader policy environment, affecting all stakeholders, a few key trends are worth following. Firstly, the unprecedented **shift away from directive funding** has already garnered positive feedback, on a national level. As a result, from a federal perspective, a move towards flexible funds that allow companies and artists to survive with record low (to no) revenues may be a pathway to sustain. With continued, focused assistance to those who are most vulnerable – the 96% of CIMA music survey business respondents who stated they will not be able to keep their business going for a year – the Canadian music support system has the opportunity to be a **global leader** in championing low restriction funding, if not a universal basic income (UBI) for the cultural workforce.

The federal **support for live music** companies in Canada from Canadian Heritage (as of July 2020) is significant and unprecedented. As such, sustained, large-scale compensation for the commercial side of live music may likely continue, particularly given the raised awareness of how **intrinsically linked** the live music sector is to the broader economy and, more generally, our quality of life.

Finally, the recent recommendations on **modernizing legislation governing Canada's communications sector** (including the reviews of the Broadcasting Act and the Telecommunications Act) will undoubtedly impact the Canadian independent music industry. The need for **CRTC-mandated supports for creatives** (and their IP) will allow our domestic music industry's ability to not only survive, but thrive, in the era of borderless streaming platforms. Whether this produces music support fund levies on internet and mobile data plans, and/or requires streaming platforms to contribute directly to funds to promote Canadian artists, proposed regulatory changes seek to, at long last, level the playing field – the impacts of which would far outlast the pandemic period.

---

[34] An example is the DigiArts Toronto discoverability initiative involving 15 arts organizations in Toronto through the Digital Strategy Fund (Canada Council is the prime funder). A top digital marketing agency has been contracted to examine the SEO practices of these arts organizations and lead them through a process to upgrade their own practices.

## Appendix - Economic Modeling and Forecasting

The basic process for estimating the full direct and spin-off economic impacts of the music industry involved the following major steps:

1. Isolate music in Statistics Canada's Provincial and Territorial Culture Indicators (PTCI)
2. Develop expenditure profiles and calibrate labour spending to reconcile with the PTCI
3. Implement model based on independent revenue and employment inputs
4. Estimate 2019 and 2020 revenue and employment, and prepare forecasts

The following subsections describe each of these tasks in turn.

### 1. Isolate music in Statistics Canada's Provincial and Territorial Culture Indicators (PTCI)

Prior to developing an economic model, Nordicity needed to establish a historical series for major segments within the music industry. To this end, Statistics Canada's PTCI was selected as the most reliable, well-established source to use as a starting point. The PTCI reports on industry output, employment, and GDP for culture "domains" and "subdomains," each representing the complete value chain for a segment of the culture sector, as defined in the Canadian Framework for Culture Statistics (Statistics Canada).

Of the data series reported in the PTCI, music publishing and sound recording were both aligned with definitions required for this study. Live performance, on the other hand, was reported for all of the performing arts. As a result, Nordicity's first analytical task was to disaggregate live music performance from the live performance series.

To estimate music's share of live performance, Nordicity used several provincial-level industry studies which provided information about the output, employment and/or GDP of the live music sector at a particular point in time. Each of these results was compared to the figures in the PTCI and Nordicity calculated the weighted average percentage representing live music performance as a share of total live performance. This process was performed using six provincial studies and for each measurement reported by the PTCI. The results are summarized in the following table.

| Metric | Output ($) | Employment (FTEs) | GDP ($) |
|---|---|---|---|
| Studies | 6 | 6 | 6 |
| Average live music (from studies) | 1,608,172 | 18,318 | 782,882 |
| Average live performance (from PTCI) | 3,630,336 | 44,121 | 1,800,067 |
| Live as % of live music | 44% | 42% | 43% |

Although live music's share of live performance varied considerably from study to study, and from metric to metric within each study, the overall share of live music consistently worked out to between 42% and 44% of the total live performance metrics.

### 2. Develop expenditure profiles and calibrate labour spending to reconcile with the PTCI

In order to calculate spin-off economic impacts using an Input-Output model, Nordicity needed to determine how each segment of the music industry spends money. Nordicity uses the term *expenditure profile* to refer to an aggregated income statement for an industry. For this engagement, Nordicity selected the following sources to use as expenditure profiles for the three major segments of the music industry:

- **Music publishing:** Industry Canada's *Financial Performance Report* for *NAICS 51223 Music Publishing*. Nordicity prepared a dollar-weighted average expenditure profile accounting for the distribution of companies in the $30k – $5M and $5M to $20M revenue brackets.
- **Sound recording:** Industry Canada's *Financial Performance Report* for *NAICS 5122 Sound Recording* (excluding NAICS 51223). As noted above, Nordicity prepared a dollar-weighted average expenditure profile accounting for the distribution of companies in the $30k – $5M and $5M to $20M revenue brackets.
- **Live music performance:** Nordicity's BC Live Music Economic Impact Assessment (EIA) expenditure profile, prepared on behalf of the Canadian Live Music Association (CLMA)

The next significant analytical task was to ensure that the expenditure profiles were calibrated to align with the data reported by the PTCI series. The first step in this process was to calculate labour income by deducting the profit margin and depreciation in the expenditure profiles from output in the PTCI. Profit margins were as follows.

- **Music publishing: 13%**, per Industry Canada data for *NAICS 51223 Music Publishing*
- **Sound recording: 12%**, per Industry Canada data for *NAICS 5122 Sound Recording* (excluding NAICS 51223)
- **Live music performance: -1%**, per Nordicity's CLMA BC live music EIA study

Using this figure, labour income was divided by employment to establish the average salary for each segment. Nordicity then adjusted the expenditure profile to make aggregate payroll calculated from revenue using the expenditure profile match GDP less the profit margin and depreciation from the expenditure profile for 2018, the last year in the PTCI series. For music publishing and sound recording, this adjustment was performed by allocating a portion of "Purchases, materials and sub-contracts" reported by Industry Canada to labour as *contract workers*, which were counted in direct employment. For live music, the overall share of labour/non-labour expenditures was adjusted from 53% to 48%, with each type of expenditure being adjusted in proportion to its share of labour or non-labour expenditures, as applicable.

### 3. Implement model based on independent revenue and employment inputs

The economic model was built to accept independent assumptions for revenue and employment (e.g., the forecast model can calculate economic impacts for declining revenue amidst increasing employment if one wanted). The reason for creating this functionality is that music companies have retained staff despite declining revenue. Because GDP is a function of profitability -and- labour income, the model needed to determine the impact on profitability of an industry that is maintaining payroll despite lower revenue.

To model the financial/economic dynamics underlying this situation, Nordicity set up the model to calculate three types of industry expenditures based on the inputs:

- **Labour expenditures** are calculated by assuming a constant salary per FTE (i.e. *labour expenditures = employment x average salary*)
- **Non-labour variable expenses** are the portion of expenses that are assumed to correlate directly with changes in revenue. These expenses are the portion of the expenditure profile allocated to "Cost of goods sold", "Marketing", or "Purchases, materials and sub-contracts"

that were not allocated to labour in the Industry Canada expenditure profiles. The values range from 34% to 45% of non-labour expenses depending on the industry segment.

- **Non-labour fixed expenses** are the portion of expenses that are assumed to correlate with changes in labour costs. The basic rationale for this treatment is that things like rent, amortization, repairs, etc. are probably more correlated to changes in a company's workforce than anything else (i.e., if the company has the money to expand their workforce, they are likely to build infrastructure to accommodate them).

For each year on the forecast horizon, the model therefore calculates each of these figures based on the inputs for revenue and employment. Finally, the expenditures for each industry segment are then converted into a detailed set of expenditures using the expenditure profile. This data is run through Nordicity's proprietary MyEIA model to calculate direct, indirect and induced economic impacts, as well as the fiscal impact.

**4. Estimate 2019 and 2020 revenue and employment, and prepare forecasts**

As described in the preceding subsections, the economic model was carefully calibrated to provide historical spin-off impacts associated with the music industry segments identified in the PTCI as well as produce a contiguous series extending from the PTCI into the future based on revenue and employment inputs. The next step of the process involved developing estimates for 2019 (to extend from the last 2018 data points in the PTCI to represent the 2019 pre-COVID picture), and 2020 (to estimate the decline due to COVID), project historical growth trends (to state the 2020 decline in terms of lost potential), and develop several forecast scenarios.

To start this process, Nordicity first used the five-year compound annual growth rate of the industry to inform revenue and employment estimates for 2019. These results were cross-referenced against the information collected through interviews, roundtables, and secondary sources reviewed as part of the engagement. Overall, there was not sufficient evidence to suggest a revision to the five-year trends to 2019, so these were ultimately used as the basis for producing the 2019 estimates.

In considering the impact of COVID-19 on industry revenue and employment, Nordicity heavily relied on the input of stakeholders and secondary research, as well as analytical validation of the proposed model inputs. Several logical considerations that influenced the development of the 2020E to 2023F assumptions included:

- The economic and health response to COVID-19 was initiated in Canada in mid-March. As such, there was likely no impact on industry performance for the first two and a half months of a normal year.
- That two-and-a-half-month period is typically a slow period in live performance, so this observation was not excessively weighted into the assumptions.
- As the functionality of the model would suggest, music businesses tended toward a preference to retain staff. CEWS helped businesses retain staff despite plunging revenues. That said, a significant portion of the music industry workforce is employed as independent contractors (i.e., gig workers), so although there was some stability in the portion of the industry with employee-employer relationships, many workers lost employment when events ground to a halt.
- The longer the industry is unprofitable, the more likely it is to lay off employees. While staff have been tasked with work exceeding their normal job functions, the industry will not continue to employ staff indefinitely if they cannot be deployed to generate revenue. This dynamic was considered whenever developing scenarios based on independent revenue and employment assumptions.

In developing the forecasts, Nordicity applied the above considerations to the following findings drawn from the scenario planning sessions.

- **Health regulations and consumer behaviour:** Nordicity heard a variety of opinions about the likely impact of health regulations (especially in the context of live music), as well as how the shutdowns related to the pandemic have contributed to ongoing changes in consumer behaviour. There are a wide range of possible outcomes faced by each segment of the music industry, including the potential for and cost of implementing health/safety measures as well as the duration of the pandemic. Any consideration of these issues requires cross-matching the health and safety considerations against potential consumer behaviour during recovery – as suggested in live music consumer surveys. For practical purposes, the baseline forecast represents Nordicity's best representation of industry consensus about the most likely outcomes, with the optimistic and pessimistic forecasts providing a realistic assessment of how industry stakeholders' expectations for the magnitude of more/less favourable developments in the area of health, regulations and consumer behaviour.
- Factors considered in the forecast include:
    - Varying levels of consumer comfort with live events; possible transition of some/many live music performances from in-person to online/streaming. Small adaptations/innovations such as 'drive in' concerts, balcony performances and socially distanced indoors live performances. Ticket prices increase. In general, this consideration contributes to optimistic range, although the magnitude of success with alternative performances is likely to be small. That said, live music will see a small boost if they are able to realize this partial recovery.
    - Artists and labels shift from the 3-year record cycle towards year-round content producers of all forms (social media, monthly singles releases, merchandise, written form, video/web-series, etc.). This consideration contributes to the optimistic range – such a focus could lead to a faster recovery in recorded music as the industry boosts these efforts.
    - Many music and theatre sector stakeholders expect that festivals will not resume in 2021 and it will likely now be 2022 before they resurface. This consideration contributes to the pessimistic scenario – the baseline 2020 slump in live music is assumed to persist through 2021 and recovery only begins in 2021. An additional consideration is that some of the retained staff are likely laid off beyond the levels seen in 2020 as cumulative losses begin to add up.
- **The policy environment and investor confidence:** These scenarios were layered on the previous scenario's assumptions considering the related effects of government support for the music industry and investor confidence. While the industry has retained as much staff as it can to date (thanks, in part, to emergency funding programs), the phasing out of such support measures leaves investors to foot more of the expense and risk of betting on a fast recovery. With live music (in particular) already operating on thin margins before the pandemic, well-tailored government support will be critical to build investor confidence required to help the industry rebound from its present slump.

This page left intentionally blank

Nordicity

**Toronto | Ottawa | Vancouver | London (UK)**

Nordicity.com
@NordicityGlobal