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CIMA

MUSIC IN MOTION

AN ANALYSIS OF EXPORTING
CANADIAN INDEPENDENT MUSIC

Prepared by: Nordicity

Contents

Introduction and Executive Summary

By Stuart Johnston, President, CIMA

Music has no borders – it is a global commodity, product and art. It is an incredible renewable resource that transcends cultures; it speaks to the human spirit, and is arguably the ultimate expression of emotion.

In the modern era, music is ubiquitous in ways that have never before been possible, thanks in large part to technology.

And Canadians are very good at it.

While Canada is the 39th largest country in the world by population, we are the 7th largest music market, according to the latest statistics from IFPI. That speaks volumes about the sheer talent of our artists, the business acumen of the teams that support them and a Canadian society that values and supports the commercial development of our creative class.

Music In Motion – An Analysis of Exporting Canadian Independent Music, is a look at the global strategies employed by Canada's independent record labels, managers and publishers as they help their artists deliver music to the world. This report examines where they go, how they do it, the resources it takes and the costs of doing business.

> **This is a critical time for the music industry; exporting is a vital but expensive proposition**

Music In Motion, conducted by Nordicity and commissioned by the Canadian Independent Music Association (CIMA), arrives at a time when the Canadian government is broadly examining policies and programs designed to assist our creative industries develop and export their work.

Indeed, this is a critical time for the music industry. After suffering a dramatic and steady decline in revenues over the past 20 years, the music industry seems to be finding its footing and is starting to see positive news in its balance sheets. But we can't be complacent. As a small nation, and because music is global, Canada must continually be on the world stage selling its music, pursuing business opportunities and expanding the fan base – be it in the United States, United Kingdom, Europe, Australia, Japan, Latin America or elsewhere.

As *Music In Motion* reveals, exporting is a vital – but expensive – proposition. Fully six out of 10 music companies feel that exports are critical to their survival, and the costs of key activities are reported to be over twice as expensive as conducting similar activities and strategies within Canada. This fact alone is reported by the industry to be the single biggest obstacle they face when investing in artists' careers internationally.

At the same time, music companies have to bear the costs of breaking new artists; they need to move quickly to respond to market opportunities – no matter where on the globe those opportunities are found. *Music In Motion* reveals that music companies spend 21 times more (per artist) on export activities for breakout artists than they do for artists at other stages of their career.

Over the past decade or more, the music industry has experienced a seismic shift in how business is conducted, and continues to make adjustments to keep pace with rapid changes in technology (and hence the global business landscape).

> **Companies are limiting export activities and cannot take advantage of opportunities due to limited resources**

Music In Motion indicates that investing in new markets means higher cost ratios as companies seek to develop reliable revenue streams. Such markets require sustained efforts and therefore a sustained level of expenditures to realize long-term returns for their artists. As a result, many companies are limiting the number of export activities in which they engage (such as by focusing their efforts on only a few artists), or not taking advantage of opportunities because they have limited resources to take on additional financial risks.

This is the reality that the Canadian independent music industry faces, as it is a community of small businesses, almost half of which are sole proprietors and in which access to capital and sustainable cash flow are two of its top challenges to conducting business.

Music In Motion notes that for the majority of the exporting strategies employed by the industry, there is currently insufficient public funding available from government programs, and that the structure of such programs is seen as a significant barrier to success. This is abundantly evident by the high level of demand on existing funding programs for artists and music companies – demand that far exceeds the dollars currently available to invest in our artists.

Clearly there is a need for government to invest in new funding programs. New programs must be flexible to allow music companies and artists to better respond to changing market forces and opportunities.

Public funding enables Canadian music companies to develop new strategies and pursue broader market opportunities

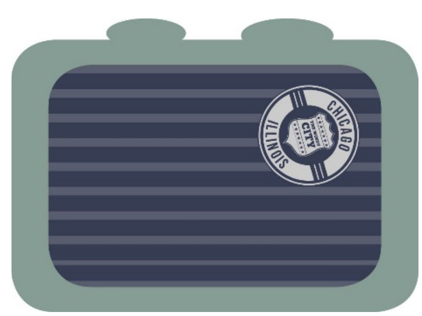
These creator-centric funding strategies must be effective at both launching new artists as well as helping companies to maximize the success of more established artists who require targeted support to 'break through' internationally.

Public funding programs enable Canadian music companies to leverage government investment to develop new strategies and broader market opportunities. Such funding support also allows the industry to maintain the momentum it has created over the years, and to engage their artists on a global scale.

Given the broad needs and challenges faced by the Canadian independent music industry, the *Music In Motion* report outlines several key findings and conclusions that, taken together, will greatly assist our music companies to commercially and artistically capitalize on foreign markets.

Key Findings and Conclusions

- 90% of companies surveyed were small businesses with 15 or fewer FTEs.
- Exports are extremely important to Canadian music companies, representing *at least* a key part of the business plan for 87% of companies, with 59% of companies viewing exports as necessary for their survival.
- Companies spend 21 times more on export activities for breakout artists (per artist) than for other artists.
- Export activities can cost over twice as much as comparable domestic activities.
- An estimated $8 to $10 million of government funding is used to support export activities undertaken by Canadian music companies.
- The available pool of funds to support export activities is limited and continues to become more so, while the demand for export support increasingly exceeds the capacity of funders to provide that support.
- Canadian music companies do not perceive their export activities to be sufficiently supported by the existing suite of government funding programs.
- Given the increasing importance of export activities, limited public resources and declining private contributions, funding is likely to be more limited in the future.
- Prohibitive costs are the most significant barrier faced by music exporting companies, and companies reported that they limit their participation in export activities due to the significant financial risks.
- Export activities are more profitable if they are undertaken as part of a diversified export approach. Prohibitive costs and limited government funding are constraining export opportunities for less diversified music companies.



1. Introduction

This study evaluates the opportunity that music export represents to Canadian music companies, and the support available for export activities through public funding.

1.1 Mandate

As the global market continues to be ever more important to the commercial (and critical) success of Canadian music, so too can be the barriers to reaching – and succeeding in – those markets. At the same time, as Canadian artists, and the music companies that represent them, are establishing themselves in markets around the world, artists and companies from other countries are competing for the very same audiences.

It is in this context – where exporting Canadian music to global audiences is both necessary for growth and frequently challenging – that the Canadian Independent Music Association (CIMA) has commissioned Nordicity to conduct an export study. This study is designed to elucidate a number of key points regarding the export of Canadian music, such as:

- the opportunity that music export represents to Canada;
- the types of export activities undertaken by Canadian music companies;
- the rationale behind companies' export activities;
- the role of funding programs in supporting export activities;
- the costs and return on investment (ROI) of various export activities to Canadian music companies;
- the challenges faced by Canadian companies exporting music; and
- the implications of these findings for programs that support the export of Canadian music.

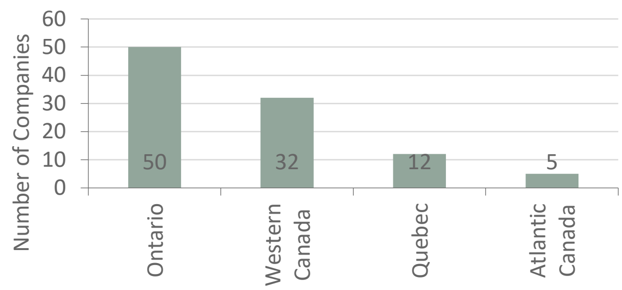
1.2 Methodology

1.2.1 Survey response profile

Nordicity's analysis is based on information obtained via an online survey open in August and September 2016. Using that tool, Nordicity collected 99 survey responses, which represents a response rate of approximately 53%.[1] Respondents were distributed consistently across Canada's major geographical regions, reflecting a diverse range of company sizes. The following information provides an overview of the survey's respondents.

Figure 1 illustrates the number of survey responses received from each geographical region. Ontario and Quebec had sufficient response rates to be reported individually. Western Canada includes responses from British Columbia, Alberta and Manitoba; there were no responses from Saskatchewan. Atlantic Canada is comprised of responses from Newfoundland and Labrador, New Brunswick, and Nova Scotia; there were no responses from PEI.

Figure 1: Survey respondents by geographical region (n=99)



The survey received 99 responses: a response rate of 53%

[1] This estimate is based on the list of target companies provided to Nordicity by CIMA. According to fluidsurveys.com (the online survey platform used for this study), the average email survey response rate is roughly 25%.

Table 1 (below) provides some general information about the types of companies captured in the sample, segmented by company size.[2]

While Statistics Canada defines small businesses as those companies with fewer than 100 full time equivalent employees (FTEs), that definition is too broad to usefully describe Canadian music companies. As such, the analysis employs the segmentation represented below.

Table 1: Company profile, general statistics by company size

Statistic	Company Size			
	Micro (0-5 FTEs)	Small (5.5-15 FTEs)	Medium (15.5-145 FTEs)	All Companies
Number of Respondents	64	25	10	**99**
Average Age of Company (years)	11.1	15.9	21.5	**13.4**
Average Number of Employees (FTEs)	2.6	8.3	57.0	**9.5**
Average Number of Artists Represented	8	48	124	**30**

90% of companies sampled were small businesses with 15 or fewer FTEs

Moreover, the geographical distribution of respondents provides a strong representation of each size of company across in each of the regions across Canada (as shown below).

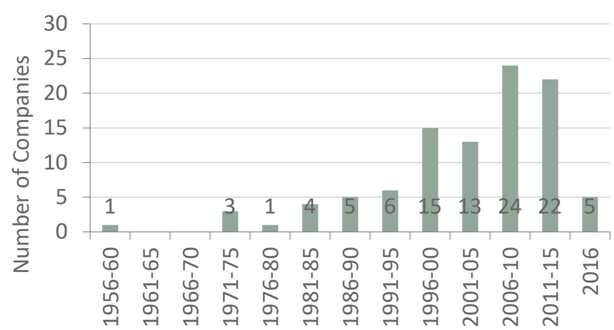
Table 2: Company profile, geographical distribution by company size

Geographical Region	Company Size			
	Micro (0-5 FTEs)	Small (5.5-15 FTEs)	Medium (15.5-145 FTEs)	All Companies
Ontario	34%	9%	7%	**51%**
Western Canada	23%	8%	1%	**32%**
Quebec	4%	6%	2%	**12%**
Atlantic Canada	3%	2%	0%	**5%**
Total	**65%**	**25%**	**10%**	**100%**

As Tables 1 and 2 clearly show, no matter where they are located in Canada, the majority (65%) of music companies in the sample are micro-sized businesses that employ fewer than five FTEs. Moreover, almost all of the sample (90%) are companies of fewer than 15 FTEs.

Figure 2 shows the distribution of dates in which companies were founded. This data was used to estimate the average age of the sampled music companies in Table 1 (13.4 years).

Figure 2: Survey respondents by year founded (n=99)

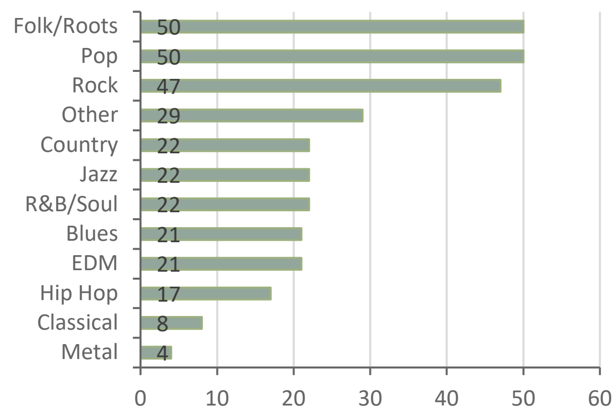


As the above chart shows, the sample contains a cross-section of Canadian music companies at different levels of maturity.

The following chart shows the musical genres in which these companies were active.

[2] Company size was defined in terms of full time equivalent employees (FTEs). FTEs were calculated based on the number of full time, part time, and contract workers reported by survey respondents. This calculation assumes that full time and contract workers represent 1.0 FTEs while part time workers represent 0.5 FTEs.

Figure 3: Genres in which companies are active (n=99)



Each company may have reported activities in multiple genres. In fact, most companies sampled (52%) were active in at least three different genres, as shown below.

Table 3: Companies reporting activities in multiple genres

Number of genres	Number of companies
Few (1 - 2 genres)	47 (47%)
Several (3 - 4 genres)	32 (32%)
Many (5 - 12 genres)	20 (20%)
Total	**99 (100%)**

Out of the sample, 44 respondents reported their total amount of revenue and expenses during the last 12 months. An additional 26 respondents reported at least some combination of: total revenue; expenses; and/or government funding. Using this information, the ratios of funding to expenses and expenses to revenues in the complete responses were used to estimate the missing information.

A full description of this methodology is provided in Appendix A.

1.2.2 Secondary data sources

To establish context for the analysis of the survey, this study also draws upon information collected from organizations that administer government funding across Canada. This information was gathered both directly, through interviews, and through these organizations' annual reports.

At a national level, Nordicity consulted:

- Department of Canadian Heritage (PCH);
- FACTOR; and
- MusicAction.

At the provincial level, Nordicity reached out to the following organizations:

- Alberta Music
- Manitoba Music
- Music BC
- Music New Brunswick
- Music Newfoundland and Labrador
- Music Nova Scotia
- Music NWT
- MusicOntario
- Music PEI
- Music Yukon
- SaskMusic

In addition to these enquiries, context related to trends facing the music and commercial radio industries was drawn from reports by the International Federation of the Phonographic Industry (IFPI) and the Canadian Radio-Television and Telecommunications Commission (CRTC). Information from Innovation, Science and Economic Development Canada informed a broader perspective on the environment in which Canadian small businesses operate more generally.

1.2.3 ROI calculation

Return on investment (ROI) for the export of music is calculated as the margin earned from expenditures (i.e., the "investment") versus revenue (i.e., the "return") from export sales. It is essentially the net income from sales less expenses, assuming that:

- The revenue is the incremental (marginal) revenue generated from the export activities, through revenue from touring abroad, unit sales, licensing music to foreign distributors, and streaming; and,
- The expenditures are the incremental (marginal) costs for generating revenue from export activities, (i.e., the costs of touring abroad) from promotion and marketing activities, and from other services.

In this study, ROI is discussed in terms of the profit margin on various activities (or the "export return margin"). This figure was calculated as follows:

$$ROI\% = \frac{\$x\ (marginal\ revenues) - \$y\ (marginal\ costs)}{\$x\ (marginal\ revenues)}$$

For example:

$$ROI = \frac{\$100\ (revenues) - \$75 (costs)}{\$100\ (revenues)} = 25\%$$

Therefore, the ROI calculation is strictly related to export revenue and costs. It is independent of the creation of the product and any general marketing/promotion expenditures occurring in Canada, even though the music may be heard by anyone anywhere as long as it is available on the Internet.

Such ROI calculations can be made for the main export activities for the full sample of companies reached by the survey or disaggregated in various ways where the sample is sufficiently large for each category. For this project, the following breakdowns have been considered:

- by type of activity, namely:
  - international performance tours,
  - international showcases and festivals,
  - radio and/or press promotion tours,
  - sales and distribution in foreign markets,
  - licensing of masters/publishing,
  - streaming (free or paid), and
  - general business trips;
- by size of company (micro, small, medium);
- by the level of diversification in companies' export activities;
- by comparing companies' average expenditures on breakthrough artists.

The costs of export sales can be compared to domestic sales costs, especially for a comparable activity, like touring. However, the survey did not try to obtain data on the revenue side of domestic sales.

The analysis focuses on the ROI calculations for different categories of respondents and different kinds of export activities. It also provides some measure of leverage of public funding of export activities.

These activities are linked to the value of public support with respect to its impact on a company's export ROI as a whole, or by export activity to the extent that the data permits.

No attempt has been made to enable the assessment of the effect of any specific public support program on the ROI of companies' export activities, as it would require an in-depth attribution analysis as to which export support activity had what impact. However, given the quality of the sample acquired in this study, observations can be made as to the potential impact of additional public funding for the export success of music companies.

1.3 About this report

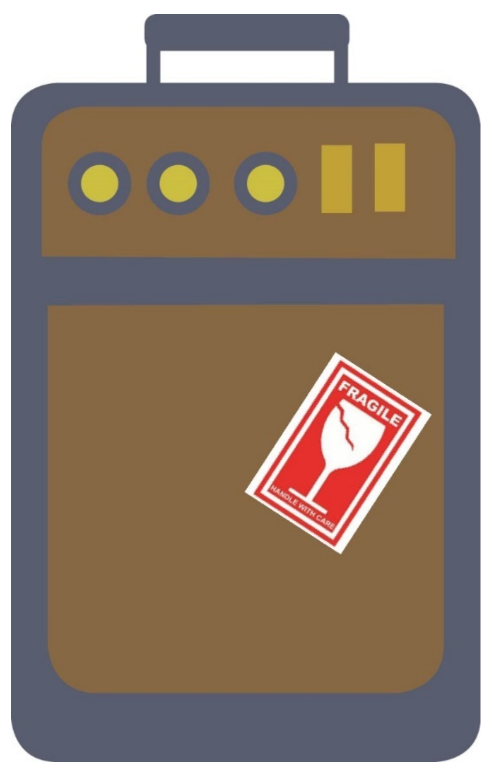
The remainder of this report is organized into a series of sections that present information obtained from the music companies surveyed. Where possible, these data points have been placed in the wider context of the realities of the current music industry.

These sections are as follows:

- Section 2 outlines the export activities undertaken by Canadian music companies and the strategies driving those activities;
- Section 3 presents the importance placed on those activities, and the results of the export initiatives over the last 12 months;
- Section 4 illustrates the geographic spread of Canadian music exports, both now and over the next 12-24 months;
- Section 5 details the role that support programs play in the export of Canadian music;
- Section 6 discusses the financing, planning and ROI involved in Canadian music exports; and,
- Section 7 presents music companies' views on the factors that drive the success of their export programs.

A summary of key findings can be found at the end of each of these sections.

Following the presentation of the contextualized survey data, the report discusses (in Section 8) the implications for those findings on support programs.



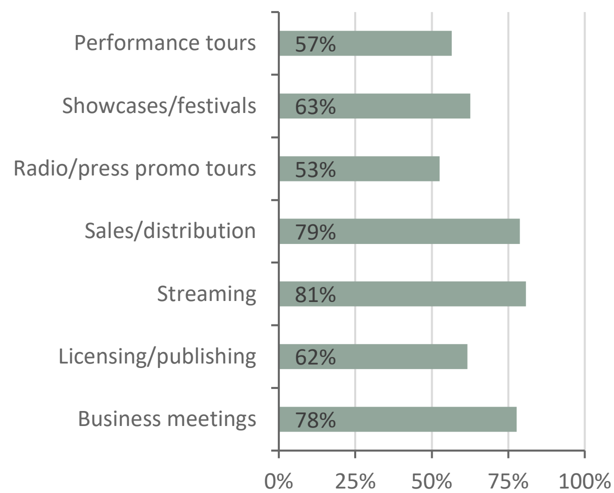
2. Activities and Strategies

Canadian companies rely on business relationships to conduct export activities in foreign markets. Companies cultivate and reap the benefits of these relationships by engaging in a portfolio of activities.

2.1 Export activities undertaken

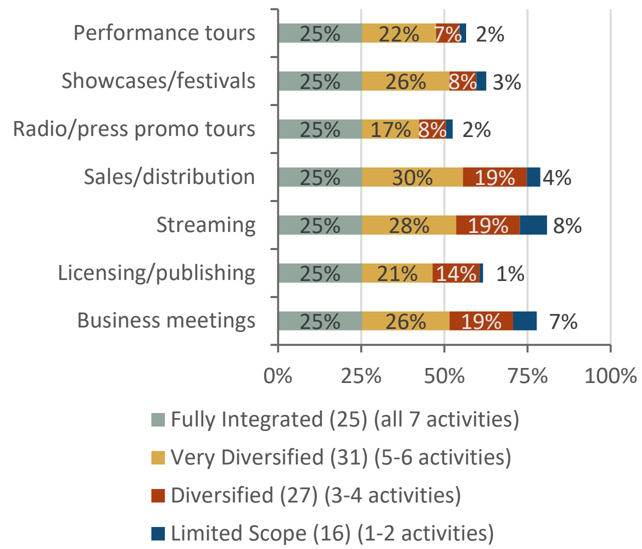
As Figure 4 illustrates, sales, streaming, and business meetings were the most heavily represented export activities undertaken by companies in the sample.

Figure 4: Export activities conducted in the last 12 months, (n=99)



However, companies often undertake several export activities. Indeed, Figure 5 breaks out the number of respondents that engaged in each type of export activity by the companies' level of diversification.[3] Across all companies surveyed, the average company engaged in 4.7 out of the seven export activities identified.

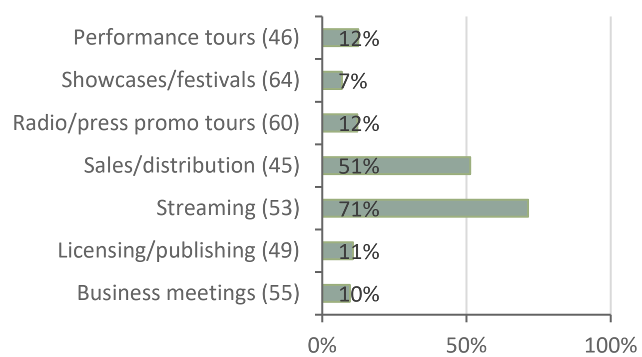
Figure 5: Export activities conducted in the last 12 months, by number of activities (n=99)



As such, the most common export activities (i.e., sales, distribution, streaming, and business meetings) are also the most common activities for companies who engaged in fewer export activities.

If a music company is engaged in a given export activity, it does not mean that all the artists it represents are engaged in those activities. To that end, Figure 6 shows that a significantly greater proportion of artists represented by companies are involved in sales, distribution and streaming activities. This finding is largely consistent with the distribution of companies that conduct each activity (apart from general business meetings, which tended to involve fewer artists than other activities), as illustrated in Figure 6.

Figure 6: Artists involved in each type of activity as a percentage of total artists represented



[3] Level of diversification was defined based on the total number of activities in which each company engaged. Accordingly, the 25% segment of "fully diversified" companies shown to have conducted all seven of the activities in Figure 5 is comprised of the same 25 companies, by definition.

2.2 Breakthrough artists

Breakthrough artists are crucial assets for music companies. Respondents described breakthrough artists as those who have recently developed a reputation on the domestic and international stage. This development is often referred to by respondents as a *tipping point* – that is, it relates to a specific point in time when an artist has an opportunity to harness a sudden burst of forward momentum in their career.

Companies spend 21 times as much on each breakthrough artist as other artists that they represent

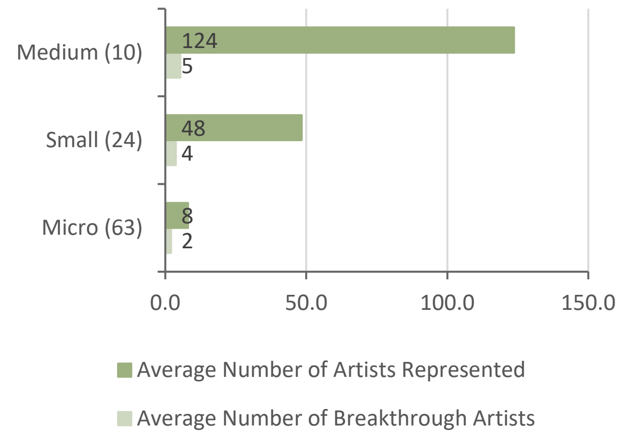
Evidence of an artist 'breakthrough' may include significant radio airtime (i.e., appearing on radio charts), invitations to open for popular artists at concerts and festivals, award wins and nominations (e.g., JUNO, Grammy, etc.), a significant commercial synchronization deal, buzz on digital channels (i.e., impressions, downloads), international streams/sales exceeding domestic metrics, and media coverage.

Respondents further noted that the costs of production and touring increase significantly in order for artists to effectively take advantage of budding international demand for their work. The additional cost of export activities is addressed quantitatively in Section 6.

To leverage this window of opportunity, respondents reported directing an average 45% of their total export expenditures toward activities supporting breakout artists (n=48). This concentration of expenditures means that companies spend on average **21 times** as much on each breakthrough artist as they do on other artists that they represent.

Among all companies surveyed, breakout artists (as identified by the company) make up an average of 9.4% of the total artists represented by a music company. This proportion was higher among micro-sized companies (25.2%) when compared to their medium-sized peers (4.3%). The following chart illustrates the average number of artists represented by companies, compared with the average number of artists that respondents identified as breakthrough artists.

Figure 7: Average number of artists represented by companies and average number identified as breakthrough artists



Although larger music companies may represent, on average, 15 times the number of artists than smaller companies, those smaller companies are more focused on the artists at this 'breakthrough' tipping point. In fact, on average 25% of artists represented by micro-sized companies are breakthrough artists.

Given the additional costs associated with supporting breakthrough artists, smaller companies often bear a more significant financial burden than their larger peers relative to their available resources. Table 4 shows that micro- and small-sized companies directed over 60% of their export expenditures to breakthrough artists. With smaller companies' lower export budgets, this breakdown amounts to a significantly lower expenditure per artist than similar investments by medium-sized companies.

Table 4: Percentage and amount of expenditures on breakthrough artists, by company size

Company Size	% of export expenditures on breakthrough artists	Average spending per breakthrough artist
Micro (30) (0-5 FTEs)	69%	$5,730
Small (14) (5.5-15 FTEs)	61%	$13,752
Medium (7) (15.5-145 FTEs)	32%	$44,365

As such, while medium-sized companies may, on average, spend more per breakthrough artist, that spending represents a smaller share of their overall expenditures on export activities.

Table 5 shows that while companies engaging in a wider variety of export activities spend less of their overall export budget on breakthrough artists, on average, they spend considerably more on each individual breakout artist.

Table 5: Percentage and amount of expenditures on breakthrough artists, by level of diversification

Level of diversification	% of expenditures on breakthrough artists	Average spending per breakthrough artist
Limited Scope (8) (1-2 activities)	88%	$307
Diversified (13) (3-4 activities)	73%	$5,351
Very Diversified (17) (5-6 activities)	71%	$12,593
Fully Integrated (15) (all 7 activities)	36%	$50,732

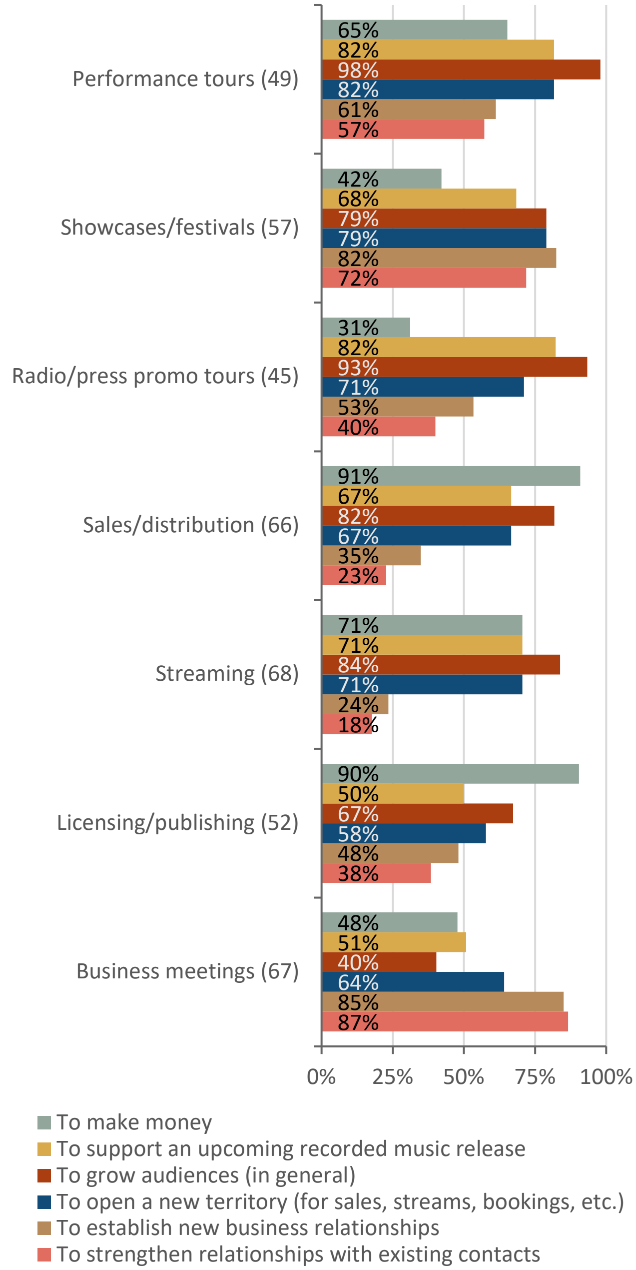
These findings highlight the advantages enjoyed by companies with more diversified export activities, whose export budgets are of a scale to invest more substantial amounts into each promising export opportunity, as embodied by breakthrough artists. Conversely, they also point to the risks borne by smaller music companies who are less able to diversify and invest a larger share of their overall expenditures on breakthrough artists.

2.3 Export strategies

Figure 8 shows the reasons that companies cited for engaging in export activities. Observations that can be made from this information include that:

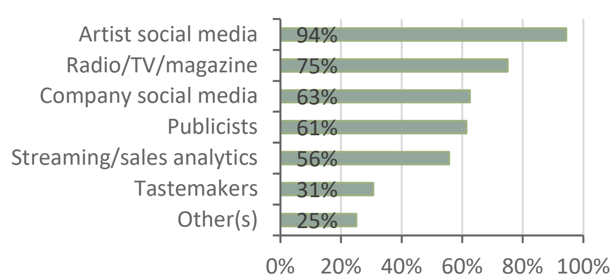
- The most significant reason for participating in international showcases or festivals, and general business meetings was to establish or strengthen relationships with business contacts.
- The most prominent motivation for radio and/or press promotion tours, sales and distribution of recorded music, and streaming was to grow audiences and open new markets.
- Sales and distribution of recorded music, streaming, and licensing of masters/publishing were largely intended to support new releases and to make money.
- Showcases, festivals and business meetings are inroads to cultivate relationships in export markets.

Figure 8: Reasons for engaging in export activities



To achieve the objectives detailed above, music companies use a variety of tools. As Figure 9 illustrates, the greatest percentage of respondents relied on artist social media, and radio, TV, and/or magazine articles to meet their export goals.

Figure 9: Percentage of respondents using various tools to achieve their export goals (n=88)

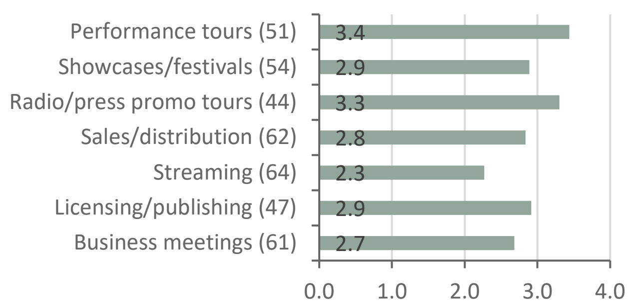


In contrast to the relatively low cost of social media, maintaining a presence on radio, TV and/or magazine articles is likely to require a more significant investment. Additionally, these media require companies to maintain relationships with a number of different businesses in each export market, and may include dedicated market research and lines of correspondence. Despite the challenges, they were used by about three quarters of the sample, second only to artist social media.

The 25% of companies that selected "other" tools specified that they also make use of existing partnerships, blogs, direct email and trade shows to meet export goals.

When in market, Canadian music companies often work with local companies to support their various export activities. Figure 10 shows that the importance of working with foreign partners was rated very highly among survey respondents, with responses clustered around "3: Very Important." Foreign partners were perceived to be most important in conducting international performance tours and radio and/or press promotion tours. Conversely, foreign partners were viewed as relatively less important for streaming, sales, distribution, and general business meetings.

Figure 10: Importance of working with foreign partners for various export activities (4-point scale[4])



Comparing the results in Figure 8, Figure 9 and Figure 10, there appear to be synergies between various export activities. For example, showcases, festivals and general business meetings are less reliant on the presence of a foreign partner, but are widely conducted to strengthen existing and cultivate new business relationships.

The benefits of apparently discrete export activities are seldom enjoyed in isolation and are more commonly mutually reinforcing. This observation helps to explain why companies that engage in more numerous export activities tend to focus more spending toward each breakthrough artist, as shown in Table 4 and Table 5.

Key findings

- Sales, streaming and business meetings are the most common export activities (see Figure 6).
- On average, music companies engage in 4.7 export activities per firm, with 25% of companies engaging in all seven export activities identified in this study.
- Companies directed an average 45% of their total export expenditures toward activities to support breakthrough artists – and spend an average 21 times as much per artist on breakthrough artists than on the other artists that they represent.
- Companies that engage in more numerous export activities directed less of their overall export expenditures to support breakthrough artists (as a percentage of their budget), but spend considerably more per artist (in dollars) than their smaller counterparts (see Table 4 and Table 5).
- Digital channels such as sales, distribution and streaming are the main channels through which Canadian companies export their artists' music (see Figure 6).
- Online activities, such as social media, sales and streaming analytics, are important tools for achieving companies' export goals (see Figure 9).
- About three quarters of companies use radio, TV, and/or magazines as tools to achieve their export goals, ranking second only to artist social media. These media are typically more expensive than digital alternatives such as social media (see Figure 9).
- Foreign relationships are perceived to be very important for most export activities, particularly activities related to touring (see Figure 10).
- Export activities that are less reliant on a local partner tend to be motivated by the desire to strengthen existing and build new business relationships (see Figure 8 and Figure 10). This finding suggests that companies use these activities (showcases, festivals, and business meetings) as inroads to cultivate new relationships in export markets.

[4] This question solicited responses on a four-point scale, expressed as follows: 0) not at all important; 1) not very important; 2) somewhat important; 3) very important; and 4) critically important.

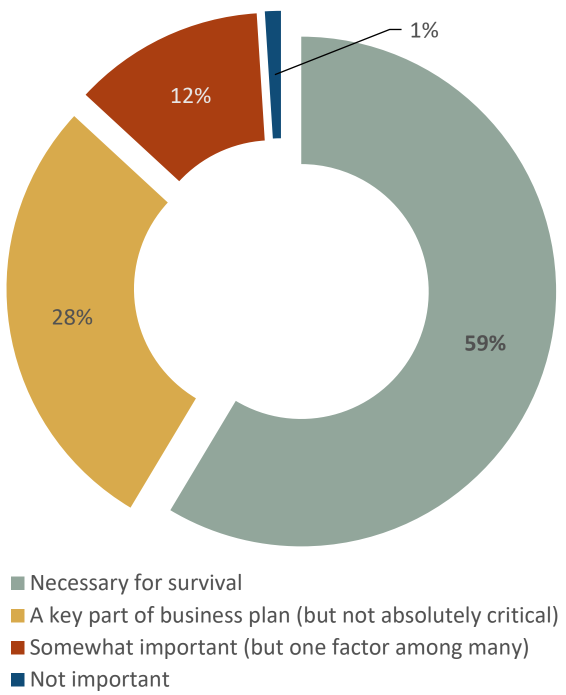
3. Importance and Outcomes

Music companies overwhelmingly view export activities as being very important to their overall success.

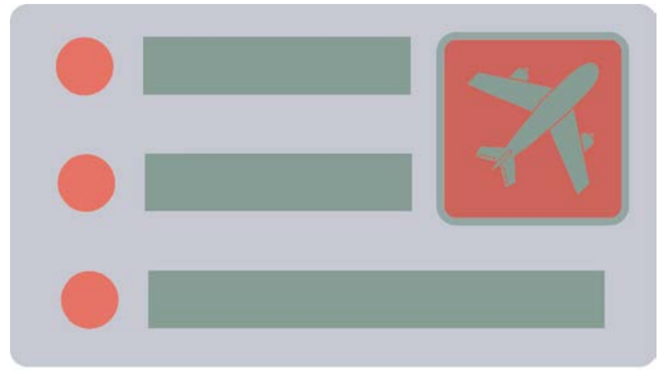
3.1 Importance of export activities

When asked how important export activities are to the success of their overall business, 87% of respondents reported that export activities are either a key part of their business plan (28%) or necessary for their survival (59%).

Figure 11: Importance of export activities to the success of music companies (n=99)



These survey results show that exports are not just additional revenue – the overwhelming majority of respondents (87%) think that exports are a critical or key part of their business. Canadian music companies, whether very small or relatively larger, now place a great deal of emphasis on exports.



This finding is especially interesting, given the role that export activities play among SMEs in Canada's wider economy. Innovation, Science and Economic Development Canada reports that just under 12% of all SMEs (defined as companies employing fewer than 100 FTEs) export their products/service.[5] The same report contends that exporting companies are more likely to be innovators – likely to adapt more quickly to the shifting demands of global consumers.

59% of respondents describe exports as necessary for survival

Accordingly, the micro- and small-sized businesses that comprise the majority of Canada's music industry are far more reliant on the global market than typical small businesses in Canada.

In the context of a mature and highly globalized music industry, exports are a critical avenue of revenue growth for Canadian companies. While artistic careers are founded in municipal, regional and national markets, even operating wholly at a local level puts Canadian companies and artist entrepreneurs in direct competition with well-established music importers from other countries. As a result, traditional business strategies, which might once have been successful within a local or regional market, now compete for market share with diversified entertainment multinationals with global scope and corresponding economies of scale. As such, Canada's domestic music industry must look outward and pursue a strong export

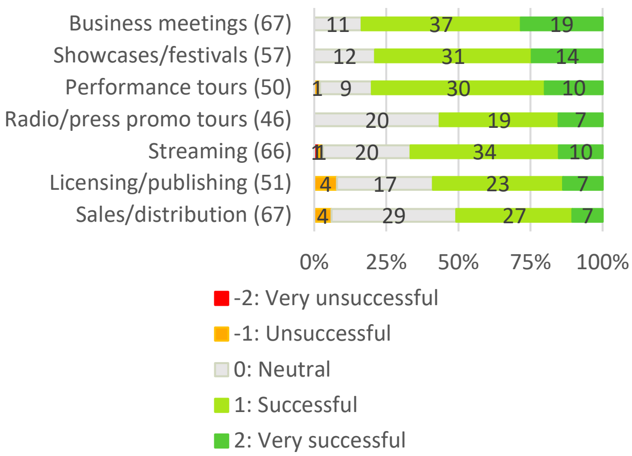
[5] Innovation, Science and Economic Development Canada, *Key Small Business Statistics - June 2016* (18).

strategy to ensure the survival and sustainability of career artists (and supporting companies) within our borders.

3.2 Outcomes of music export activities

Despite this dynamic and challenging business environment, Figure 12 shows that music companies perceived that they were generally successful in conducting export activities. More precisely, general business meetings were viewed as the most successful type of activity, and activities related to touring and performance were perceived to be more successful than sales, distribution and licensing activities.

Figure 12: Success of export activities conducted in the last 12 months



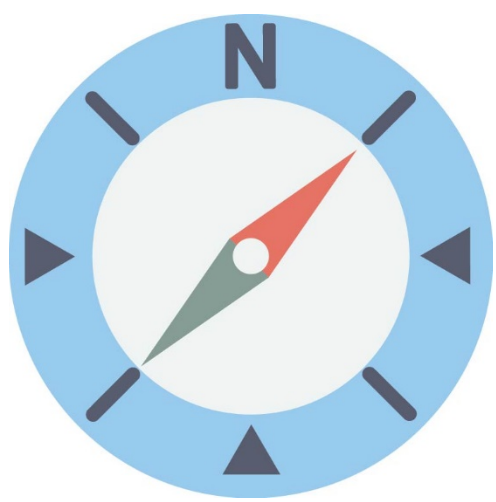
The most successful activities, (i.e., business meetings, showcases, festivals and touring) tend to overlap with those pursued with the intent of cultivating and strengthening business relationships in export markets, as illustrated in Figure 8.

The specific successes reported by respondents included unexpected popularity of recorded music on digital distribution platforms, exciting new business contacts, popularity in new markets, new or substantially increasing revenue streams, profitability of touring activities, awards and prizes, popularity among tastemakers, significant licensing/distribution deals, and sold-out attendance at artists' live performances.

While most companies considered themselves successful, some companies experienced less success in their export activities. Such companies largely attributed this outcome to difficulty obtaining sufficient financing, poor returns on sales and/or streaming via digital distribution platforms, low attendance at shows, and difficulty generating media attention.

Key findings

- Exports are extremely important to Canadian music companies (see Figure 11). Exports are *at least* a key part of the business plan for 87% of companies. Overall, 59% of companies view exports as necessary for their survival.
- Music companies are far more likely to engage in export activities than other Canadian micro- and small-sized businesses.
- Companies experienced the most success in activities that involved travel, including business meetings, showcases, festivals and tours (see Figure 12).
- The most successful activities tend to overlap with those pursued with the intent of cultivating and strengthening business relationships in export markets (see Figure 8 and Figure 12).
- The most common reasons that companies cited for unsuccessful export activities related to the difficulty of obtaining financing, and less-than-expected returns on digital sales and streaming activities.



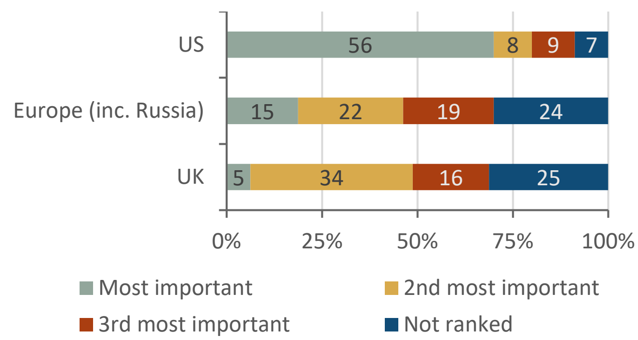
4. Geography of Canadian Music Exports

Canadian companies export music globally, especially to the US, Europe, and the UK. Most companies intend to increase their export activities or enter new markets in the next 12 months.

4.1 Current export destinations

The following chart shows that the US, Europe, and the UK are the three most significant export destinations for Canadian music companies based on respondents' rankings.

Figure 13: Rankings of the top three export destinations (n=80)



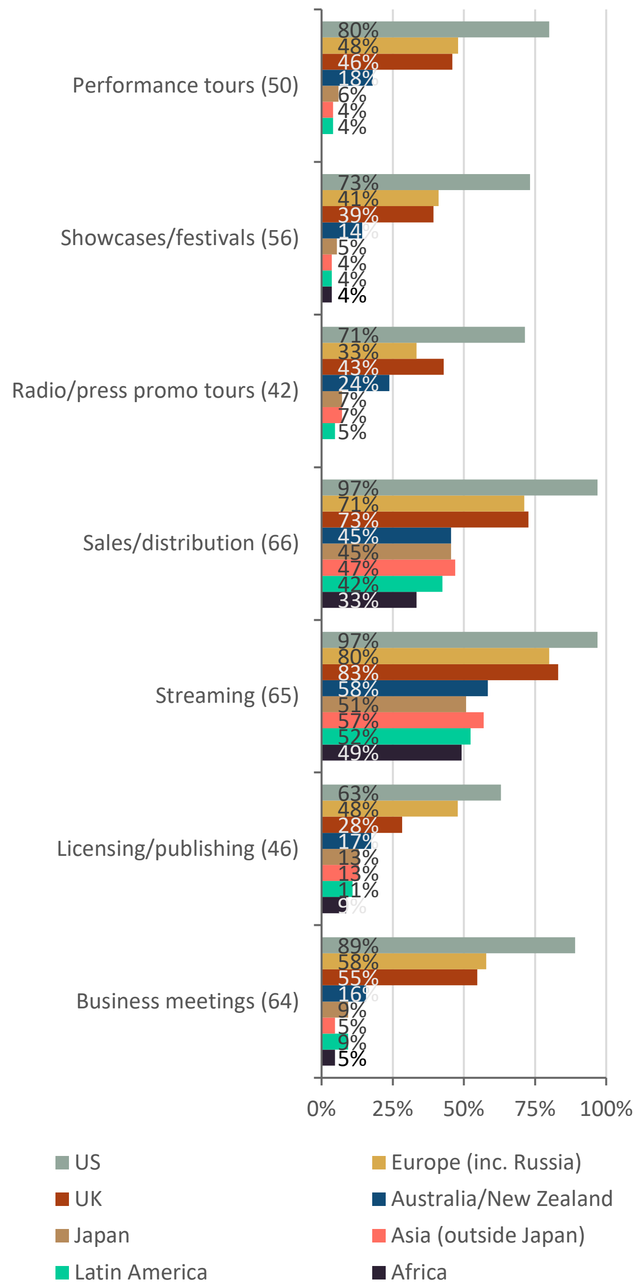
Companies' rankings show that although the US is still the dominant export market for Canadian music, other countries are also important. These markets broadly mirror the export destinations of small businesses in Canada's wider economy.[6]

The top three markets for Canadian music are the US, Europe, and the UK

Explaining their selection of top export markets, respondents cited sales, ease of touring (obtaining visas and/or permits), compatibility of musical style with local market taste, geographic proximity, size of population, demographics, culture, language, strength of the existing regional music market (often genre-specific), relationships with contacts in the local music industry, and an abundance of performance opportunities (e.g., festivals/showcases).

The following chart shows the regions that respondents reached through their export activities.

Figure 14: Percentage of companies that reach an export destination through each activity, out of the total number of companies that reported engaging in that activity



[6] Innovation, Science and Economic Development Canada, *Key Small Business Statistics - June 2016* (19).

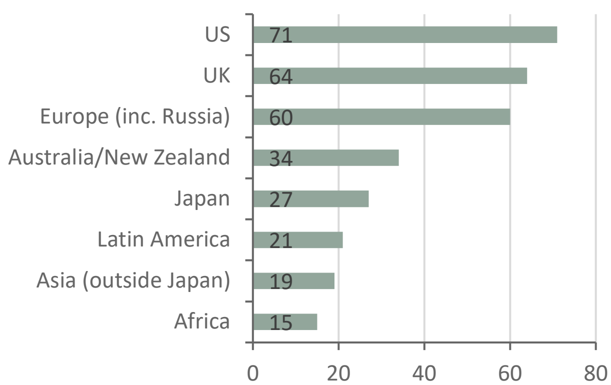
As Figure 14 illustrates, sales, distribution, and streaming are observed to have a wider geographical reach than other activities. These activities are also conducted on behalf of the greatest percentage of artists represented by respondents, as illustrated in Figure 6.

The geographic spread of sales, distribution and streaming activities is likely related to the lower barriers presented by digital file formats, which do not require artists and/or music companies to physically travel to export destinations (unlike tours, showcases/festivals, promotional tours and business meetings).

4.2 Planned export destinations

Over the next 12 months, Canadian music companies most commonly plan to increase export activities in the top three markets, as illustrated in Figure 15.

Figure 15: Planned export destinations (n=82)



While the US tops the list in percentage terms, the UK and the rest of Europe are in the same league, illustrating the increasingly globalized nature of the Canadian music sector.

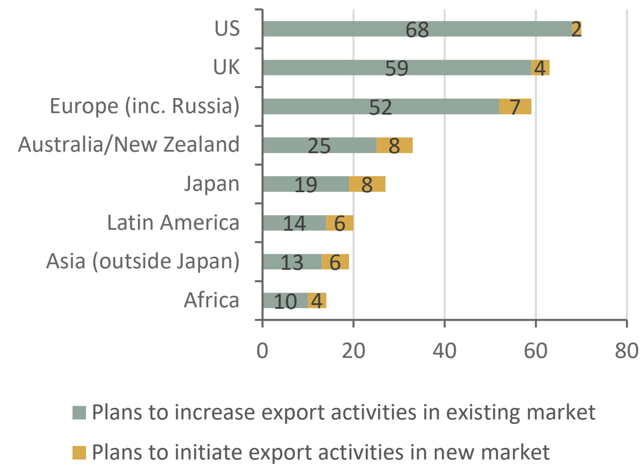
Table 6 shows that companies' expansion plans are most often focused on three to four export markets, with 45% of companies responding as such.

Table 6: Companies planning to expand in multiple markets

Number of Markets	Number of companies
Few (1-2 markets)	22 (27%)
Several (3-4 markets)	37 (45%)
Many (5-8 markets)	23 (28%)
Total	**82 (100%)**

Of the companies that reported plans to increase their export activities, some will be entering new markets to do so. Figure 16 shows companies that are entering markets in which they are not currently active (note that this chart was limited to the set of respondents that answered both questions). Canadian music companies plan to grow more aggressively in regions that are underrepresented among the export markets they currently reach.

Figure 16: Planned export destinations, existing and new (n=80)



As illustrated in Figure 17, music companies use a variety of tools to find new export markets. The most commonly cited tools are social media, success of similar artists, and distribution partners. These tools are followed closely by sales and streaming data, as well as advice from consultants or colleagues. Companies that answered "other" also noted the use of conferences, agents and online resources as tools to find new markets.

Artist social media is the most important tool companies use to identify new markets

Figure 17: Tools used to find new export markets (n=83)

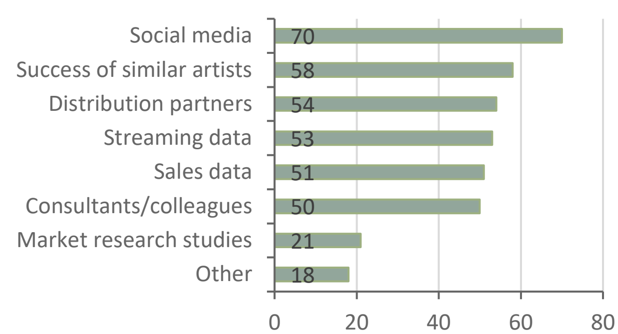


Figure 17 shows that companies make use of data generated through online activities and find this information important to achieving their export goals. This idea is reinforced by Figure 5 and Figure 9, which show that these data-generating online activities are the most prevalent export activities (e.g., digital sales and streaming), and widely-used tools for achieving export goals (e.g., social media and sales/streaming analytics). Together, these observations underscore the need for reliable and understandable data from online activities to identify new export markets.

Key findings

- Respondents' export activities are concentrated in the US, Europe, and the UK (see Figure 13), particularly the US.
- Companies tend to conduct most export activities in the top three markets, although digital platforms enable a broader international reach for companies' sales, distribution and streaming activities (see Figure 14).
- Over the next 12 months, companies plan to expand their export activities in all international markets. These plans favour expansion in regions where companies are already conducting export activities (Figure 16), but also shows a greater emphasis on entering non-US markets.
- Online activities are the most prevalent export activities and the most widely-used tools for achieving export goals. Data collected from these channels, including social media, sales and streaming, are important tools for finding new export markets (see Figure 17).

5. Support for Export Activities

Overall, music companies do not think that current funding programs meet their needs – and the pool of available funding is declining.

5.1 State of support for music export activities

The total amount of government support for export activities is not easy to estimate, given that funding for music businesses provides some flexibility for companies to invest where they anticipate the best return. Some programs are designed specifically to support export-oriented activities, such as travel for business meetings, but that is only a part of the export support.

An estimated $8 to $10 million of government funding is used toward export activities

Based on the information available, it is estimated that approximately $8 to $10 million of government funding (provincial and federal) is used to support export activities conducted by Canadian music companies. In the survey, some $2.5 million of funding was indicated as the amount that survey respondents used to support export activities. Therefore, the survey represents about 25% to 30% of all government support for export activities in Canada. As such, the sample is a reasonable indicator of Canadian music companies' views on the provision of export support.

This estimate of the total funding directed to export activities is based on information collected from the Department of Canadian Heritage (PCH) as well as provincial music industry associations.

- The largest portion of this amount consists of PCH's estimate that $6 million of Canada Music Fund (CMF) funding is used to support export activities. This amount includes funding programs administered directly by the CMF as well as those administered by FACTOR and Musicaction. This amount was in fact proffered by PCH as an estimate across their funding for English and French language music sectors.
- The next most significant portion of this estimate is the Ontario Media Fund (OMF), which administers music programs that provide a total of $14.4 million of funding. Of this amount, at least $2.5 million is explicitly ineligible to support export activities. Out of the remaining $11.9 million, companies have discretion as to the amount used to support export activities. Based on the responses of the Ontario-based music companies, it is estimated that OMF funding is used to support export activities in the range of $1.5 to $3 million.
- The remaining $0.5 to $1 million included in the overall support estimate represents a few targeted export funding programs from provincial music funding agencies. Notable among these are Music Nova Scotia and Music PEI's export development programs worth $330,000 and $26,000, respectively. These amounts are in addition to companies' discretionary use of eligible funding programs to support export activities.

The estimate of total funding support for music exports is conservative. Music exporting companies have latitude in the use of general purpose government grants, some of which may be used for various export activities. Unless a funding program is exclusively directed at supporting export activities, it is difficult to attribute an exact amount to incremental export expenditures. Likewise, expenditures on common overhead (i.e., managerial salaries, product development, social media, etc.) that are relevant to both domestic and international markets cannot easily or accurately be separated into uniquely import or export expenditures.

Although public funding for music has been modestly increasing because of increased support from specific provinces, the largest music funding organizations in Canada, FACTOR and Musicaction, face budgetary constraints from their two major sources of revenue:

1. They anticipate no forthcoming increase in funding from the Canada Music Fund, based on a five-year contribution agreement negotiated with the Government of Canada in 2015.
2. Levies collected from private radio broadcasters, which provide the majority of support (for FACTOR), have begun to decline.

Private radio broadcasters in Canada contribute to music industry support organizations in two ways. First, they make contributions to Canadian Content Development (CCD). Commercial and ethnic radio broadcasters in Canada that generate more than $1.25 million in annual revenue must contribute $1,000 plus 0.5% of total revenue, with 45% of that amount going to FACTOR or Musicaction. Broadcasters can, should they wish, also make contributions above that amount.

Such added contributions are sometimes included in applications for broadcast licences, and are typically stated as a flat amount.

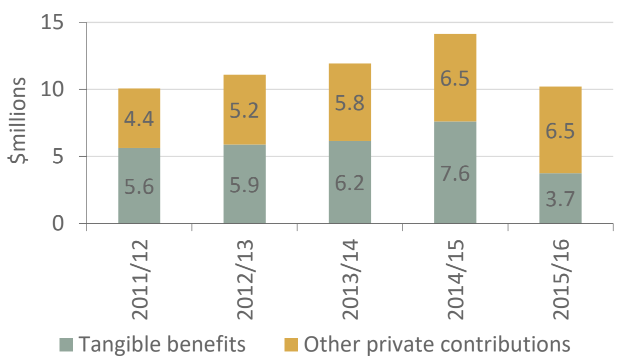
Additionally, when a radio asset (e.g., a station) is sold in Canada, the purchaser must allocate (at least) 6% of the value of the transaction to CCD. That amount is then divided among the various music support organizations.

According to the CRTC, the total CCD contributions made in 2014-15 (the most recent year for which data is available) were almost 20% less than the previous year. Since 2010-11, CCD contributions have declined by an average of 3% per year.[7]

These levies are not being replenished by online platforms that are similar to radio (e.g., Apple Music, Spotify), as these companies are exempt from CCD contributions. As consumers increasingly adopt online, unregulated music platforms, one can expect the CCD contributions coming from Canadian private radio broadcasters to continue to decline.

Not only are overall CCD contributions declining, but tangible benefits have also begun to diminish. Indeed, using FACTOR as an example, Figure 18 illustrates that revenue from tangible benefits has declined significantly in the most recent fiscal year.

Figure 18: FACTOR private revenue sources: tangible benefits and other private contributions, fiscal years ended 2012-16[8]



This reduction in tangible benefits contributions is related to the consolidation present among commercial radio stations in Canada. In fact, CRTC data suggests that the majority (68%) of commercial radio revenue is split between a total of five large companies (BCE, Corus, Newcap, Cogeco, and Rogers).[9] Given that consolidation, it is likely that the component of FACTOR funding (and the funding of similar funding bodies) will continue to diminish over time.

In 2015-16, FACTOR offered 65% of tour support requested

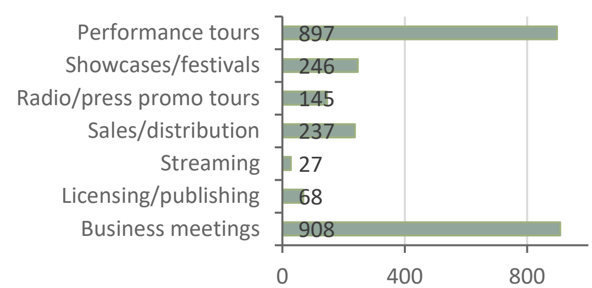
This limited, contracting pool of available funding exists in an environment where the demand for support already exceeds the supply of that support. For example, in 2015-16, FACTOR offered 65% of the tour support requested.[10] A similar rate held for other export-related activities, such as showcases (70% funded), marketing (50% funded) and radio marketing (60% funded).[11]

Altogether, support for music export activities in Canada is under pressure from two directions. First, the supply of funding is finite and diminishing over time; and second, the demand for such support is sharply on the rise. Given the expansion of export activities illustrated in Figure 15, it is very likely that the demand for export funding will increasingly outstrip funders' ability to meet that demand over time.

5.2 Use of support programs

Survey respondents reported receiving a total of $2.5 million in support funding for music export activities, or between 25% and 31% of all public funding used toward music export in Canada. As the following chart shows, the majority of this funding was used by respondents for activities that involved travel, such as touring and business meetings.

Figure 19: Funding received, by activity ($000) (n=43)



In fact, the combined funding for performance tours (36%) and business meetings (36%) accounted for over

[7] CRTC, Communications Monitoring Report 2016, Table 4.1.19

[8] FACTOR Annual Reports for fiscal years 2011-12 to 2015-16

[9] CRTC, Communication Monitoring Report 2016, Table 4.0.2

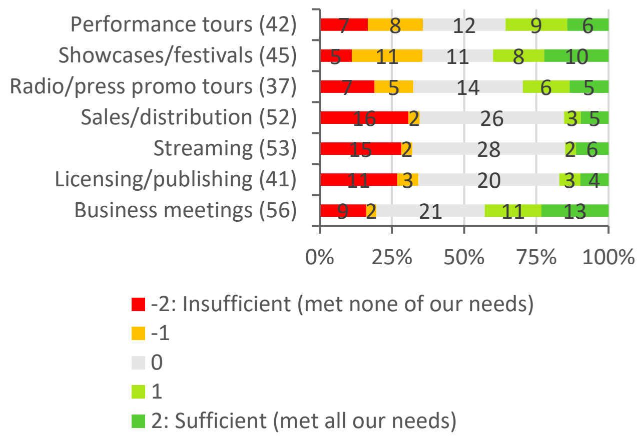
[10] FACTOR Annual Report 2015-16 (32)

[11] Ibid.

70% of the public funding that companies used to support export activities.

The following "heat map" shows how respondents rated the sufficiency of government funding for the export activities in which they engaged.

Figure 20: Sufficiency of government funding, by activity



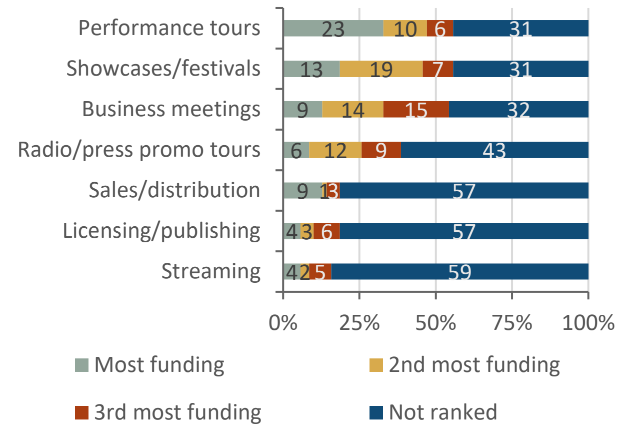
As Figure 20 illustrates, respondents generally do not think that any export activity is sufficiently supported by the existing funding programs. Indeed, over 80% of respondents note that the export portion of sales/distribution, streaming, and licensing/publishing activities do not have sufficient funding. Recalling Figure 4 and Figure 5, these are the most common export activities for Canadian music companies.

A comparison with Figure 19 shows that companies' perception of funding sufficiency roughly corresponds to the actual amount of funding allocated to each activity. This parallel suggests that when music companies can access funding, they are able to use it effectively. However, even in areas where the majority of funding is currently directed (i.e., performance tours and business meetings), the majority of respondents indicated that funding did not meet their needs.

Whereas Figures 18 and 19 illustrate the current state of support, the music industry is by no means static. To illustrate how the demand for support is likely to evolve over the next 12-24 months, the following chart is ranked to show respondents' expectations as to which of their forthcoming export activities will require the most public funding.

Figure 21 shows the activities identified as requiring the most funding in the next 12-24 months. These activities are largely the same as those that currently receive the most funding (see Figure 19). The exception to this correlation is showcases/festivals, which currently receive far less funding than either performance tours or business meetings, but are anticipated to have the second greatest need for funding in the near future.

Figure 21: Activities that will require the most funding in the next 12-24 months (n=70)



These findings also align with the observations made above regarding the current oversubscription of export-related support programs (e.g., FACTOR).

Key findings

- An estimated $8 to $10 million of government funding is used to support export activities undertaken by Canadian music companies.
- The $2.5 million of government funding used by survey respondents to support export activities represents about 25% to 30% of all government support for export activities in Canada. As such, the sample is a reasonable indicator of Canadian music companies' views on the provision of export support.
- The available pool of funds to support export activities is limited and shrinking, while the demand for export support currently exceeds the capacity of funders to provide that support.
- Most (72%) of the support offered to music companies is for performance tours and business meetings.
- No funding for any type of export activity was deemed to be sufficient by a majority of respondents, and significant new spending is expected in the next 12 to 24 months.
- The disconnect between the supply of and demand for support for export activities is likely to grow over at least the next two years. Unfunded (or underfunded) activities represent missed opportunities, some of which may be breakthrough successes.

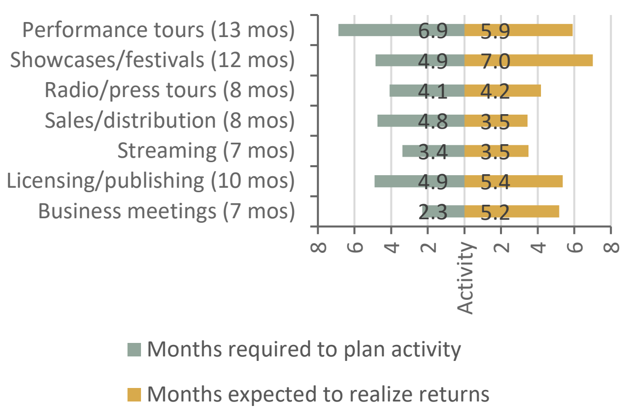
6. Finance, Planning and ROI

Export activities require a long planning horizon and cost considerably more than comparable domestic activities. Overall, music companies find export activities to be profitable.

6.1 Company financials and planning

Figure 22 shows the *average* time required for companies to plan (green) and realize the expected return (gold) on export activities.

Figure 22: Months required to plan for (n=82), and realize returns on (n=81), export activities

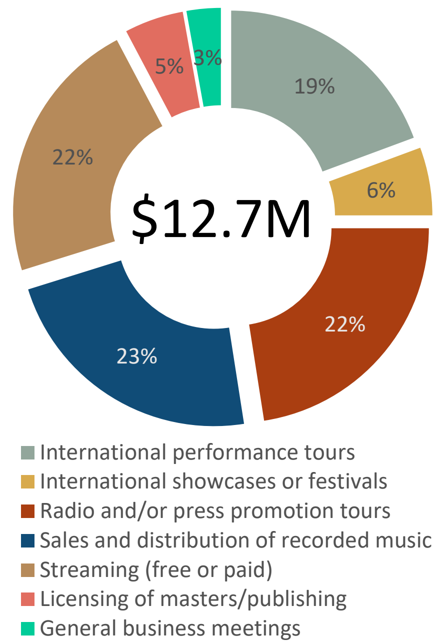


This figure shows that companies spend a considerable amount of time planning their export activities (on average 4 to 5 months for most activities) and returns are not expected until an average of 3.5 to 7 months after the activity is completed. Returns are slowest for activities that are most often motivated by building and strengthening business relationships (see Figure 8 in Section 2).

In practice, these export activities do not occur in isolation. Rather, they are part of promotional plans incorporating a variety of export activities and developed for each artist. For example, business meetings (on average 2.3 months to plan) may lead to a performance tour (on average 6.9 months to plan), which, in turn, could lead to licensing opportunities (on average 4.9 months to plan). In that scenario, the export activities would require at least a 14-month planning horizon. If one factors in the time it takes to realize the expected return from those activities, the timeframe is longer yet. As such, export activities should likely be considered as parts of a whole – where the whole is a plan developed to promote/break a given artist.

Returns from export activities are derived from a variety of sources. The following chart shows the distribution of all revenue generated across respondents' export activities.

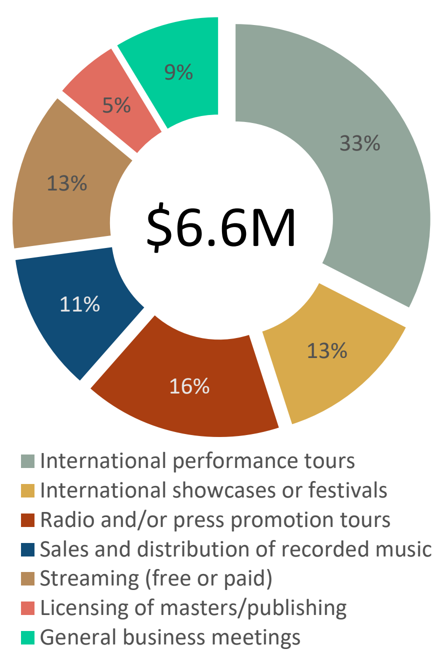
Figure 23: Total revenue from export activities (n=69)



Export revenue is spread across seven major categories, with the majority derived from radio and/or press promotion tours, sales, distribution, and streaming.

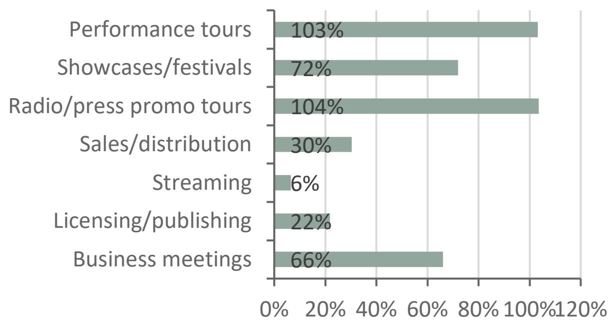
In order to reap those rewards, exporting music companies first have to invest in such activities. The following chart shows the distribution of all expenses incurred in relation to respondents' export activities.

Figure 24: Total expenses related to export activities (n=69)



Music companies do not only spend on export activities. Figure 25 shows how much more costly it is to conduct export activities than similar activities in Canada.

Figure 25: Additional cost of conducting export activities, compared with that of equivalent domestic activities[12]



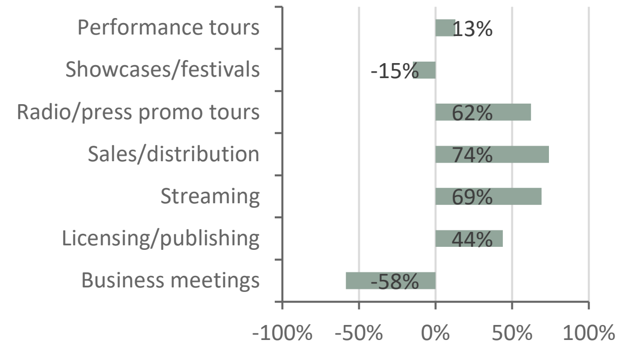
Activities that require physical travel are much costlier than domestic equivalents

Of the three activities that relate to performance and travel (i.e., performance tours, showcases and festivals, and radio and/or press promotion tours), showcases and festivals the least expensive relative to comparable domestic activities. Although showcases/festivals was reported to be the least profitable (in terms of dollars) category in that group of activities, it is also the most strongly associated with building and nurturing business relationships and building audiences (see Figure 8). Showcases and festivals perform much the same function as general business meetings and they also exhibit similarly low returns (but are seen as important strategies and investments in artists' careers).

The export activities identified as most costly (as compared to their domestic equivalents) are those identified as requiring the most support over the next 12-24 months (in Figure 21).

The following chart shows the implied profitability of each export activity based on the revenue and expense data collected from music companies.

Figure 26: Implied profitability of export activities (n=69)



The activities most often associated with making money in Figure 8 (referring to sales and distribution, streaming, licensing and publishing) were found to be the least expensive relative to similar domestic activities; these activities also had the best returns overall.

Moreover, a comparison of Figure 26 with information presented in previous sections suggests that the most prevalent export activities among companies (see Figure 4) tend to include those with:

- the highest export return margin (i.e., sales, distribution and streaming) *and* the lowest cost relative to domestic activities (see Figure 25); or,
- the highest level of government funding relative to expenditures (i.e., general business meetings) (see Figure 19).

This observation shows that companies preferentially pursue export activities that offer the highest returns and those that are best supported by funding programs. As such, funding may be an effective means to enable companies to build a portfolio of activities that strengthen their overall export position.

[12] Results are weighted in proportion to companies' expenditures on each activity.

6.2 ROI analysis

In analyzing the ROI of various export activities (or their respective "export return margins"), it is important to attempt to understand the factors that drive positive (and negative) results. To that end, data provided by the sampled music companies was analyzed according to:

- company size (by employment),
- geographic regions,
- number of export activities undertaken, and
- expenditures on breakthrough artists.

These findings were then linked with the amount of funding that companies received from funding bodies in support of their export activities.

While the results of that analysis are summarized below, they are fully documented in Appendix B.

Overall profitability: Broadly speaking, the last 12 months have been quite successful, with companies experiencing a **48% overall profit margin on their export activities**. Overall, respondents reported that public funding supported 38% of their export expenditures. As such, exporting is a key source of revenue – and profit – for Canadian music companies.

Impact of company size: Larger music companies spend more on export activities, but have more resources to do so. Due to the scale of their resources, larger companies tend to engage in more export activities than smaller companies, which have fewer available resources. Similarly, government support makes up a smaller (yet still significant) proportion of larger companies' available resources than smaller companies. This finding indicates that larger companies have the capacity to better leverage government funding with more of their own resources (than their smaller counterparts).

On the other hand, smaller companies see higher margins on their export activities (51% for micro-companies and 69% for small companies) than larger companies (7%), likely due to smaller companies' more limited capacity to invest in export activities in the first place.

Geographic regions: Music companies in most parts of Canada experienced positive returns on their export activities. Exporting seems to be somewhat more profitable in Ontario (45% margin) and Quebec (75% margin). On average, Ontario-based music companies receive higher than average government funding (as a share of their spending on export activities) and are most likely to be satisfied with the funding they receive.

Number of export activities: With the exception of the very largest and most mature firms, companies that undertake more numerous export activities tend to experience a significantly better return on those activities relative to the level of investment. Such firms also use less government support (as a proportion of their available resources), than companies engaging in fewer export activities.

This finding supports the notion (introduced in Sections 2.2 and 6.1) that export activities are commonly part of a wider promotional plan for a given artist. As such, by undertaking a number of mutually-reinforcing activities, the efficacy of all of the export activities is improved.

At the same time, those companies that undertake several different export activities spend significantly more (and proportionately more of their own funds) on those activities than companies with fewer export activities. Accordingly, it is likely that the smaller companies that represent the vast majority of music companies in Canada lack sufficient resources to execute fully-integrated export plans – despite the benefits of doing so.

Ideally, government funding would address this gap. However, as programs are currently oversubscribed (see Section 5.1) and funding levels are already perceived to be insufficient (see Figure 20), it is unlikely that the existing pools of funding will be able to help smaller companies diversify their export activities to the extend they need.

Spending on breakthrough activities: As illustrated in Section 2.2, as companies become larger they spend, on average, more on breakthrough artists (per artist) – but that spending makes up a smaller share of their overall export expenditures.

Companies that spend relatively less on their breakthrough artists (i.e., smaller companies) experience a larger margin on their export investments (81%) than the overall average (48%) – likely due to the modest size of their initial investments. As such, while larger companies are more likely to have profitable export activities in general, smaller companies seem better able to leverage (i.e., realize returns on) their investments in breakthrough artists. This finding supports the notion (illustrated in Figure 7) that smaller companies are more focused on breakthrough artists than larger companies.

Key findings

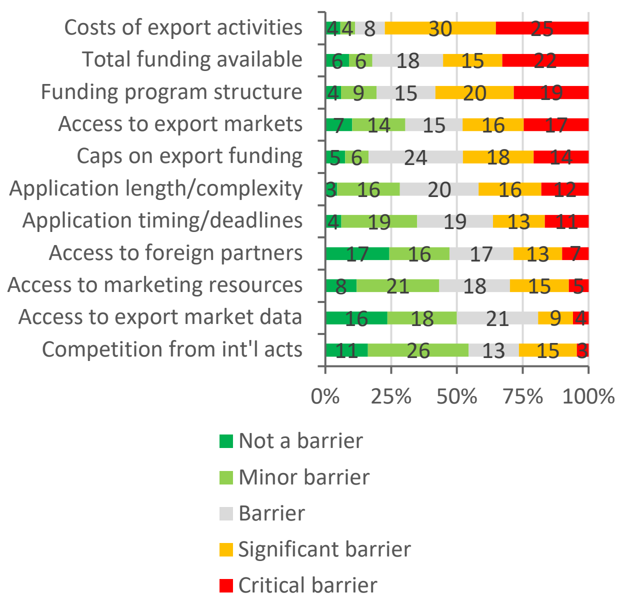
- Most export activities require 4 to 5 months of planning (see Figure 22), and a significantly higher initial investment than equivalent domestic activities (see Figure 25). The returns from most activities are expected to be realized in 3.5 to 7 months.
- Export activities are typically combined into the larger promotional plan for a given artist. As these plans are often multi-year in nature, stability in counting on funding to support export initiatives is important.
- Revenue is derived from seven major export activities, with the majority derived from radio and/or press promotion tours, sales, distribution, and streaming (see Figure 23).
- The last 12 months have been quite successful, with companies experiencing a 48% overall profit margin or ROI on their export activities (see Appendix B).
- As music companies generally show a positive ROI for their investment in export activities (except for going to business meetings which is more of a long run play), any funding gap impedes companies' success.
- Larger companies (on average) spend more on export activities, use less government funding (relative to their expenses), but see smaller export return margins than smaller companies.
- Music companies in most regions across Canada see positive returns on their export activities, although music companies in Ontario and Quebec had the most profitable export activities. Companies in Ontario are the most likely to see their support as meeting their needs.
- Export activities are more profitable when companies do more of them, but only larger companies can afford the costs required to undertake diversified export strategies.
- Smaller companies that are more focused on breakthrough artists, but spend less (in dollars, per artist) see larger margins on export activities, highlighting the ability of smaller companies to leverage limited investments.

7. Success Factors in Exporting Music

High costs are the most significant barrier experienced by music exporting companies. Companies also reported that they limit their participation in export activities due to significant financial risks.

Respondents overwhelmingly reported that the cost of export activities is the most significant barrier that they face. This finding is consistent with the finding that some export activities cost over 100% more than equivalent domestic activities (see Figure 26 in Section 6). Apart from cost, respondents cited the total amount of funding available, the structure of funding programs, and access to export markets (e.g., visas, permits, etc.) as the most significant barriers to export.

Figure 27: Barriers to export (n=71)

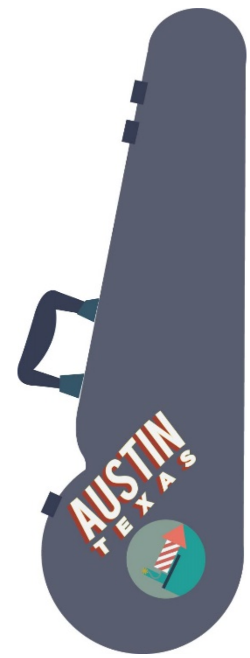


These factors can be considered in the context of broader issues that face many small businesses in most industry sectors – including those in the music industry. Particularly, issues of access to capital and cash flow remain persistent in small business generally, including the music industry. Indeed, the 2013 *Sound Analysis* report listed "Access to affordable capital" as the barrier most impeding the growth of music companies in Canada. Aside from the emergence of some greater support from provinces, availability of working or investment capital has not improved since that time.

In an environment where capital is scarce, respondents elaborated on the impact the various barriers have had on their respective businesses, as summarized below:

Costs of undertaking export activities: Companies noted that new markets have higher cost ratios as they develop reliable revenue streams. Regional markets require a sustained level of expenditures to realize long-term returns. The most frequently cited example was the cost of travel, accommodation and per diems. As a result of these costs, many companies are limiting the number of export activities in which they engage (e.g., focusing on only a few artists), and/or turning down opportunities because they do not have the resources to take additional financial risks.

Total amount of funding available: Companies noted that government funding is a critical contributor to exporting high quality performances, and managing financial risk. Moreover, many respondents feel that the current level of government funding and the success rate in the application process is not proportional to the amount of time and effort required to apply for grants. The funding process is perceived as highly competitive and funding caps are too low to support the type of touring activities that are most important in breaking into new markets.



Structure of funding programs: Many respondents were critical of funding deadlines that do not accommodate the timeline on which companies plan their export activities (i.e., touring schedules are often planned after a funding application deadline has passed). Others pointed out that eligibility requirements are too stringent, such that specific projects or artists are often ineligible. Given the pace of change of the music industry and consumer tastes, music companies benefit from the ability to capitalize on export opportunities for whatever artist is gaining traction at a given time. By limiting the types of artists who are eligible, it is possible that some compelling export opportunities are missed.

Funding caps can choke off funding at a critical point for breakthrough artists

Access to export markets: Paralleling their commentary about the structure of funding programs, music companies reported difficulties accommodating the long time-frame and high costs required to apply for work visas, particularly in the US, with various responses referring to 90 to 120 day backlogs in the approval process. Respondents also noted the difficulty of obtaining visas in the UK and Europe.

Caps on export support funding: Companies reported that caps limited the available funding to a level that is inadequate for touring and constrained the number of destinations that could be reached on a tour. Companies also noted that some programs have a limit on the amount of total funding that can be spent on costlier export activities. As such, caps can arbitrarily choke off funding at a critical point, thereby stalling the momentum gained by a breakthrough artist.

Complexity of the application process: Respondents indicated that applications for funding have become too complex and require too much time to prepare. A common theme voiced by respondents is that the value of time spent preparing applications often rivals the value of the grant itself. As such, many felt that the net benefit to their subsequent activities was considerably less than what the dollar value of funding would suggest.

Timing/deadlines of funding applications: Some respondents were frustrated that costs are not eligible if incurred outside of the window permitted by funding programs. In some cases, the inflexibility of deadlines can make it impossible to have all of the expenses related to an activity funded. It was suggested that rolling deadlines could reduce long response times from funders and reduce the number of missed opportunities, for which companies had inadequate lead time to prepare an application.

Key findings

- The high cost of export activities causes companies to limit the number and scale of export activities in which they engage. This finding suggests that additional government funding will help music companies increase the scope and scale of export activities.
- Receiving government funding encourages companies to diversify their export revenue, which, if it leads to marketplace success, enables greater leverage of government funding.
- Respondents indicated that applications for funding have become too complex and require too much time to prepare. Increased competition for a limited number of grants has also led to poor success rates. As such, the value of time invested into the application process offsets the actual benefit of receiving funding.
- If an application is successful, caps on funding can prevent grants from adequately funding the activities that have been approved. For example, companies noted that the quality and scope of tours are affected when adequate funding is not available.

8. Implications for Supporting the Export of Canadian Music

Additional public funding for the export of Canadian music will help music companies foster relationships and establish secure, sustainable operations in international markets.

As noted in Section 5, an estimated $8 to $10 million of government funding is used to support export activities conducted by Canadian music companies. The $2.5 million of government funding used by survey respondents to support export activities thereby represents about 25% to 30% of all government support for export activities in Canada.

Based on that sample, the following section details the implications of the findings of this report for the funding environment that support export activities.

8.1 Trajectory of Canadian music revenue

To understand the role that export support programs play in the Canadian music industry, it is important to know the role that exporting has in the wider health of the industry. Put simply, export activities are extremely important to Canadian music companies (see Figure 11). Such activities are *at least* a key part of the business plan for 87% of companies. Indeed, 59% of respondents view exports as *necessary for their survival*.

It is unlikely that streaming revenue will offset declining unit sales

That finding should be considered in the context of a trend toward declining unit sales in the music industry at large. In the five years from 2010 to 2014, physical unit sales declined 38%, while digital unit sales peaked in 2013 in Canada.[13]

This trend looks likely to continue, with global streaming revenue continuing to grow exponentially (45.2% in 2015, and increasing more than four times over the five years up to 2015). This growth occurs against digital and physical unit sale declines of 10.5% and 4.5% (respectively) in 2015.[14]

The adoption of paid streaming is becoming more important over time. Streaming services are used by 37% of all internet users around the world – and 18% of internet users *pay* for their streaming service.[15] Given that the growth of streaming services seems to be driven by young people (16-24), it is likely that streaming will become an important revenue stream for Canadian music companies in the future. However, as of 2015, global streaming revenue has reached only $2.9 billion, or 19% of the industry's global revenue, a development that has yet to offset the cumulative pain of an industry after two decades of persistent revenue declines.[16]

While the increasing adoption of paid streaming subscriptions may lead to a sustainable source of revenue, significant challenges remain. For example, the IFPI contends that the music industry is grappling with a worsening 'value gap.' The term refers to the disconnect between consumers' increasing access to free recorded music (on platforms like YouTube and other user-upload services), and the ability of rights holders to monetize that content. One prominent issue is the "safe harbour" regime designed to limit user-upload services' exposure to liability related to the content they host. In effect, those rules currently exempt user-upload services from the same licensing rules as other music distribution platforms. Music companies therefore argue that safe harbour rules should be removed or amended so that user-upload platforms share more of the advertising revenue they collect against user-uploaded music.

As such, while streaming revenue is likely to be an important part of the future of music, the music industry contends that its value to artists and companies will also depend on the adoption of more favourable royalty rates in Canada and other jurisdictions. Therefore, issues like safe harbour and royalty regimes will need to be resolved.

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[13] IFPI, Recording Industry in Numbers 2015 (64)

[14] IFPI, Global Music Report 2016

[15] Ipsos/IFPI, Music Consumer Insight Report 2016 (6)

[16] IFPI, Global Music Report 2016

Companies need to build and maintain a touring presence in international markets

Accordingly, it is unlikely that the growth in streaming revenue will offset the decline in unit sales in the near term. In response to this trend, music companies have become ever more dependent on touring income, and more broadly, all revenue generated from international markets. This industry-wide response to declining unit sales has profoundly changed the business model of Canadian music companies. They now need to build and maintain a physical touring presence in international markets – with all the costs associated with such a presence (see Figure 25).[17]

Surveyed companies reported that their activities have been broadly successful in the last 12 months (see Figure 12). They have experienced a 48% overall export profit margin (see Table 8). The survey results data presented in this report suggests a number of implications for programs that support the export of Canadian music.

8.2 Pressures on current government funding programs

As outlined in Section 5, there are two key pressures placed on the funding environment. First, at the federal level, the *supply* of funding is growing modestly and, in some cases (e.g., from levies collected from conventional broadcasters that are directed to FACTOR), is increasingly diminishing. Meanwhile, despite the fact that support programs are currently oversubscribed, the *demand* for export support increases steadily. This increased demand can be linked to expansion in export markets around the world and/or increased export activity in more traditional markets (see Figure 16).

Given these two pressures, unless new funding is provided, it is reasonable to expect that a smaller portion of export support applications will be funded and/or that successful applications will be funded to a lesser degree than is currently the case.

Given the pressures facing the funding apparatus, it follows that music companies, by and large, said that they do not receive sufficient funding to meet their exporting needs (see Figure 20).

With funders under pressure, companies maintain that there is insufficient funding

While activities requiring international travel are the most funded, they are also identified as needing the most funding over the next 12 to 24 months (see Figure 21). As such, even where funding may appear sufficient today, it is unlikely to meet music companies' needs in the future. The result is potentially lost opportunities for Canadian companies and their artists to grow and prosper.

8.3 Barriers to exporting Canadian music

When asked about barriers to export, respondents highlighted three main categories of hindrances:

1. Lack of stable funding to offset some of the higher risk in export activities;
2. Flexibility of funding programs – expenditure caps and artist eligibility; and
3. Timing of application windows.

Each of these barriers has an implication for how export support can be offered.

8.3.1 Available funding and risk tolerance

Music companies associate export activities with a high degree of financial risk. Some activities, like foreign touring, cost over twice as much as comparable domestic activities (see Figure 25). Meanwhile, most companies assuming these costs are small businesses

[17] FACTOR Annual Report 2014-15 (4)

that are seldom well capitalized (see Figure 2 and Section 7).

To partially offset the risk, companies use funding support to export high quality performances, while enabling their survival if an artist's work does not deliver the expected return. However, if the pool of music export support is too limited, companies are less likely to take those risks, be they entering a new market, breaking new artists and/or taking on a new line of business. If those risks are not taken, the industry may be missing out on the next big international success story.

In some ways, applying for support also presents risk factors. In fact, a portion of respondents feel that the current level of government funding and the lower success rate in the application process is not proportional to the amount of time and effort required to apply for grants. In other words, the risk of lost effort in the application process is not always worth the expected return of funding. Given this perception, it stands to reason that some promising export opportunities may not be pursued as a result.

Moreover, if the demand for support continues to increase faster than the supply of support, the likelihood of a successful application will decrease, thereby exacerbating this concern. As respondents explained that they are already very selective about the number and scale of export activities in which they engage, they would likely become even more cautious. Again, the result is a suppression of quality applications.

8.3.2 Flexibility of funding programs

While the overall amount of funding available is important to Canadian music companies, so too are the structure and cap of those programs (see Figure 27).

As Figure 22 shows, export activities can take several months to plan for and execute – and are often part of a bespoke promotional plan for any given artist. Moreover, music companies are, at any given time, representing a number of artists engaged in export activities (see Figure 7) and typically have a variety of export activities underway. As such, the ability to offset export costs for more artists for a longer period (i.e., multi-year funding) would allow companies to better support the artists they represent.

A cap on funding for export activities for individual applicants reduces the opportunity to take advantage of success. Companies reported that capped funding can impede their ability to capitalize on the momentum generated by breakthrough artists. For example, caps can limit the number of destinations that could be reached on international tours or the number of distinct export activities that can be undertaken in a given year.

8.3.3 Timing of application windows

The music business moves very fast – many respondents noted that funding deadlines are not conducive to the timeline of activities that funding is intended to support.

For example, companies directed an average 45% of their total export spending to support the window of opportunity uniquely available to breakthrough artists, spending 21 times as much per artist (on export activities) as other artists that they represented (see Section 2.1).

Additionally, companies' expenditures for travel-related activities do not always fall within the eligible funding windows (e.g., prepayment for flights, room reservations, etc.), particularly for programs that are administered semi-annually, and exporters cannot forego discounted reservations while waiting for (uncertain) funding approval.

Whereas marketing plans for Canadian music once followed a predictable path from single release, through radio promotion, to album release and supporting tour, marketing/promotional plans are now as varied as the artists for which they are created. Sometimes a tour leads to an album; sometimes a sync license leads to a tour. Moreover, not only are they varied, but they need to be able to change swiftly to adjust to consumer/fan demands. Companies are becoming increasingly responsive to real-time developments in consumer taste using social media, and online sales and distribution. Competitiveness in the global music industry requires more dynamic responses from companies to capitalize on emerging opportunities.

Finally, export expenses are up-front costs incurred by music companies – at times long before the return on that investment is realized.

For the above reasons, it is reasonable to expect that more frequent application deadlines (or rolling deadlines) – and prompt response times – would contribute to the efficacy of export activities undertaken by Canadian music companies.

8.4 Effects of increased (and flexible) funding

As illustrated above, the return on export investments is critical to the success of Canadian music companies – especially given the trajectory of music revenue. Industry data and survey results indicate that export activities will only become more important over time.

In that context, the increasing scarcity and uncertainty of export support (driven by soaring demand and modestly increasing supply) is limiting the often risky investments made by Canadian music companies in exporting Canadian music.

Similarly, some of the structural limitations of the funding programs (e.g., caps, timing of disbursements, etc.) are also having the effect of limiting the number and diversity of applications for support. By allowing for a larger pool of more flexible, timelier support, it is likely that music companies will take greater risks in more numerous international markets.

When companies' export activities *are* supported, survey data suggests that they are more likely to engage in a wider variety of mutually-supportive activities. As companies' export efforts become more numerous, not only do they see a greater return on their investment (on export activities), but they are also more likely to take risks on (more) breakthrough artists.

9. Conclusions

Exports are extremely important to Canadian music companies, the majority (90%) of which have 15 or fewer FTEs. Moreover, exports are *at least* a key part of the business plan for 87% of these businesses, with 59% of companies viewing **exports as necessary for their survival**.

Exporting, while challenging at the best of times, is particularly difficult for the micro- and small-sized businesses that comprise the clear majority of music companies in Canada. Compounding these more general challenges, the music industry is simultaneously weathering a structural shift away from unit sales, increasingly relying on international touring and streaming revenue to support their business. Some of these industry challenges – such as the decline of radio revenue – result in less funding available for the music industry (e.g., via FACTOR).

While export activities are clearly very important to Canadian music companies, these endeavours can **cost over twice as much** as comparable domestic activities. Canadian music companies do not perceive their export activities to be sufficiently supported by the existing suite of government funding programs.

While an estimated $8 to $10 million of government funding is currently used to support export activities, the **pool of funds supporting export is limited and continues to become more so**. At the same time, the demand for export support increasingly exceeds the capacity of funders to provide that support.

Most export activities require 4 to 5 months of planning, and returns from most activities take 3.5 to 7 months to realize. In practice, these activities comprise only parts within a broader strategy for developing an artist's career, which can require a more substantial investment over a longer, **multi-year horizon**.

Accordingly, **high costs are the most significant barrier** faced by music exporting companies and many reported that they limit their participation in export activities due to the significant financial risks.

Breakthrough artists – performers who have recently achieved notoriety on the global stage – represent a time-sensitive investment opportunity that can yield lucrative returns. In fact, **companies spend 21 times as much per breakthrough artist** as other artists they represent. However, data suggests that even with limited spending on breakout artists, music companies can leverage support funding with good effect.

Companies that conducted a wider variety of export activities were more profitable and received proportionately less government funding. This level of success likely reflects export activities' mutually-supportive nature.

Overall, structural changes in the music industry have increased music companies' reliance on export revenue, particularly that revenue derived from international touring. The findings of this study suggest that companies undertaking fewer export activities are likely foregoing promising export investment opportunities due to insufficient funding. By contrast, well-supported companies tend to develop a much wider range of export activities; in doing so, these companies become better positioned to leverage that funding.

In assessing the needs of Canadian music companies, several shortcomings were noted with respect to the structure of existing export funding programs. Key concerns voiced by respondents include:

1. Lack of stable funding to offset some of the higher risk in export activities;
2. Flexibility of funding programs – expenditure caps and artist eligibility; and
3. Timing of application windows.

In using government funding programs to offset the higher costs and risks associated with export activities, companies are experiencing declining success rates due to increased competition for limited funds. Additionally, the complexity of funding applications requires that companies invest a significant amount of time. As a result, applicants are finding that benefits received through funding programs are not proportional to the amount of time and effort required to apply.

In representing a number of artists engaged in various export activities, companies need a secure commitment from funders to offset costs for more artists for a longer period of time. **Multi-year funding programs** would allow companies to better support the artists they represent. Companies also reported that **funding caps** can impede their ability to capitalize on the momentum generated by breakthrough artists.

In the fast-paced music industry, many respondents noted that the current structure of funding deadlines are not conducive to the timeline of activities that funding is intended to support. To support the time-sensitive opportunities embodied by breakout artists, for example, companies may not be able to plan tours, incur eligible expenditures, or apply for funding within the designated windows that funding programs currently require.

The return on export investments is critical to the success of Canadian music companies, especially given the trajectory of music revenue. Industry data and survey results indicate that export activities will only become more important over time. However, these activities are significantly costlier than their domestic equivalent and are increasingly spread across the globe. For Canadian musicians and music companies to continue to succeed on the international stage, they must be supported in a manner that properly reflects the fast-moving, global music market.

Appendix A. Estimates and Assumptions

Out of 99 total valid responses to the survey, 44 respondents reported both revenue and expenses, and all but one respondent itemized these amounts by activity.

Two respondents did not allocate total revenue or expense amounts by activity. The profit margins for each activity from the complete portion of the sample was used to allocate total revenue and expenses to specific activities for these incomplete responses. This adjustment was applied to $5,000 of revenue and $5,000 of expenses, as reported by two different companies respectively. This estimate did not result in a change to the aggregate revenue or expenses of the entire sample.

One respondent reported their total revenue but no expenses. The profit margins for each activity from the complete portion of the sample was used to estimate the related expenses. This estimate resulted in a $376,947 increase in expenses.

Thirteen respondents reported their total expenses but no revenue. The profit margins for each activity from the complete portion of the sample was used to estimate the related revenue. This estimate resulted in a $3,231,877 increase in revenue.

Eleven respondents reported government funding but neither expenses nor revenue. The ratio of government funding to total expenses for each type of activity was used to estimate expenses. If a company specified an allocation of their expenses across activities, this expenditure profile was used to allocate the amount of estimated expenses to each activity. This method is downwardly biased because the total expenses are likely to be much higher for each activity than the total amount that could be estimated based on government funding. This estimate added $991,853 to total expenses in the sample. Using the same methodology as used for respondents that reported expenses but no revenue, this subgroup contributed an additional $1,912,782 in revenue to total revenue.

In summary, 44 complete responses were used to drive estimates to develop a complete data set for an additional 26 partially complete responses in the sample. The following table reconciles all amounts that were included in the total – any estimates that changed the total amount of revenue or expenses reported in the sample are shown in red text.

Table 7: Summary of government funding, revenue and expenses, all estimated amounts appear in red

	n	Funding	Revenue	Expenses
Respondents that reported funding, revenue & expenses, allocated by activity	25	1,921	4,220	3,065
Respondents that reported funding, revenue & expenses, not allocated by activity	1	0	5,000	0
Respondents that reported revenue & expenses but no funding, allocated by activity	18	0	855	390
Subtotal: Complete responses	**44**	**1,921**	**5,080**	**3,455**
Respondents that reported revenue but no expenses	1	0	2,500	377
Respondents that reported expenses but no revenue	13	170	3,232	1,770
Respondents that reported government funding but neither revenue nor expenses	11	439	1,913	992
Subtotal: Data reported in incomplete responses	**26**	**609**	**2,500**	**1,770**
Subtotal: Total estimated amounts	**26**	**0**	**5,145**	**1,369**
Total Adjusted Sample	**69**	**2,530**	**12,725**	**6,594**

Appendix B. ROI Analysis

This appendix provides detail about the analysis of ROI and impact of public funding for export activities of Canadian companies. This assessment discusses ROI in terms of the profit margin on various export activities (or the "export return margin"), which is applied separately to subsets of companies that are identifiable based on information collected in the survey (i.e. size, region, number of export activities, and expenditures on breakthrough artists) and links these findings with other characteristics of the companies.

Information presented in this appendix excludes any respondents that did not provide amounts for their revenue, expenses and/or government funding.

Company size

Table 8 summarizes the average financial performance of companies that have been classified by size based on the number of employees (FTEs) at each firm.[18] This breakout shows that micro- and small-sized companies both exhibited significantly better returns from their export activities than larger firms. That result may reflect the longer planning horizon of larger companies, or perhaps that companies with more employees tend to allocate more labour costs to export activities.

Larger companies also have a much lower proportion of government support (relative to export expenditures) than smaller companies. Although medium-sized firms exhibit a lower export return margin, these companies also invest significantly more into their export activities. Their willingness to invest more private funds at lower rates of return suggests that larger companies have developed more mature export operations. Altogether, this analysis suggests that firms increasingly leverage government support to develop more expansive and stable export operations as they grow.

Table 8: Export return margin, by company size

Company Size	Government Funding (per company, $000)	Export Revenue (per company, $000)	Export Expenses (per company, $000)	Government Funding/Expenses	Export Return Margin
Micro (42)	33.0	64.7	31.4	105%	51%
Small (20)	42.8	323.3	98.7	43%	69%
Medium (7)	41.0	505.7	471.7	9%	7%
Total (69)	36.7	184.4	95.6	38%	48%

The following table provides additional information about the set of respondents that provided revenue, expense and/or government funding information, *and* answered the questions used to calculate the statistic presented in each row. As such, this breakout highlights a subset of the sample described in Section 1, using only responses that provided enough information to perform the calculations below.

The following subsections (which address different subsets of respondents) use the same methodology and are similarly structured. Each section first presents a table summarizing the average financial performance of the companies, followed by more descriptive statistics about the companies whose performance is under review.

Table 9: Company profile, by company size

Statistic	Company Size		
	Micro (0-5 FTEs)	Small (5.5-15 FTEs)	Medium (15.5-145 FTEs)
Number of Respondents	42	20	7
Average Age of Company (years)	10.6	17.5	19.0
Average Number of Employees (FTEs)	3	8	66
Average Number of Artists Represented	8	58	80
Average Revenue per Company ($000)	64.7	323.3	505.7
Average Number of Export Activities	5.9	5.4	6.9
Average Sufficiency of Funding (Score -2 to 2)	0.54	0.07	0.45

Table 9 (above) presents the characteristics of the sampled companies by size. Medium-sized companies are older, have more employees, represent more artists, and report greater export revenue. Reflecting the observations above, medium-sized companies also have many more employees who are likely to be doing more than export activities.

[18] Full time and contract workers were assumed to represent 1.0 FTEs, while part time staff were assumed to represent 0.5 FTEs.

Geographic regions[19]

Although most respondents originate from Ontario (see Figure 1 in in Section 1), some regional variation does appear to exist.

Table 10: Export return margin, by geographical region

Region	Government Funding (per company, $000)	Export Revenue (per company, $000)	Export Expenses (per company, $000)	Government Funding/Expenses	Export Return Margin
Ontario (37)	45.2	167.8	91.8	49%	45%
Western Canada (21)	13.8	155.6	95.4	14%	39%
Quebec (6)	41.3	487.5	122.8	34%	75%
Atlantic Canada (5)	64.0	65.0	91.6	70%	-41%
Total (69)	**36.7**	**184.4**	**95.6**	**38%**	**48%**

On a geographical basis, companies in most regions (except Atlantic Canada) were profitable in their export activities. Companies in Quebec and Western Canada reported receiving the least amount of government funding relative to their total expenditures on export activities.

Table 11: Company profile, by geographical region

Statistic	Geographical Region			
	Ontario	Western Canada	Quebec	Atlantic Canada
Number of Respondents	37	21	6	5
Average Age of Company (years)	13.6	12.0	14.8	16.4
Average Number of Employees (FTEs)	13	7	15	5
Average Number of Artists Represented	34	30	27	5
Average Revenue per Company ($000)	167.8	155.6	487.5	65.0
Average Number of Export Activities	6.4	6.4	4.7	6.5
Average Sufficiency of Funding (Score -2 to 2)	0.61	0.17	-0.21	0.16

Companies in Western Canada are, on average, younger and employ fewer workers than their counterparts elsewhere in the country. Companies in Quebec engaged in notably fewer export activities.

Taken together, the preceding information shows that Ontario-based companies have, on average, relatively high profit margins, and are well-funded in terms of government support for export activities. The latter characteristic is likely due to the substantial amount of funding available through the OMF, the largest provincial music funder in Canada. Accordingly, companies in Ontario tend to perceive government funding to be, comparatively, more sufficient for their needs than respondents in other regions. Conversely, those companies with less profitable activities and/or less extensively funded export activities in other regions tended to perceive government funding for export to be less sufficient.

Diversification of export activities

Another factor that may contribute to a positive ROI on export activities is diversification (i.e., the number of export activities undertaken by a given company). Table 12 categorizes companies by the diversification of their export activities based on the number of export activities that they conducted in the last 12 months.

Table 12: Export return margin, by diversification of export activities[20]

Level of diversification	Government Funding (per company, $000)	Export Revenue (per company, $000)	Export Expenses (per company, $000)	Government Funding/Expenses	Export Return Margin
Limited Scope (10)	3.1	5.0	6.5	47%	-29%
Diversified (18)	45.8	190.5	45.7	100%	76%
Very Diversified (23)	31.6	162.6	53.8	59%	67%
Fully Integrated (18)	52.7	305.9	248.3	21%	19%
Total (69)	**36.7**	**184.4**	**95.6**	**38%**	**48%**

[19] Note that low sample sizes for companies in Quebec and Atlantic Canada may not provide a reliable representation of all companies' financial performance in these regions. This issue limits the reliability of comparisons across regions.

[20] Level of diversification was defined in terms of the number of export activities that companies engaged in. Limited scope companies conducted only 1-2 categories of export activities, diversified companies engaged in 3-4, very diversified companies conducted 5-6 activities, and fully integrated companies engaged in all seven activities.

The most notable aspect of these subsets of companies is the differences in government funding and export return margins between "diversified" (3-4 activities) and "very diversified" (5-6 activities) companies. While government funding for export activities is lower (per firm) for the very diversified companies, these firms pay a larger amount of the export cost with private funds and achieve comparable returns. Moreover, "fully integrated" companies generate the most revenue and invest the most in export activities (per firm).

In combination, these findings suggest that conducting a wider range of export activities increases companies' ability to leverage government funding – assuming that funding programs support companies' progress to greater diversification. In turn, this finding supports the notion (discussed in Section 2.2) that export activities are typically part of a wider campaign to support the development of artists' careers. If a company is supported to engage in a number of mutually-reinforcing activities, *each* activity is more likely to be successful.

Table 13: Company profile, by level of diversification

Statistic	Level of Diversification			
	Limited Scope (1-2 activities)	Diversified (3-4 activities)	Very Diversified (5-6 activities)	Fully Integrated (all 7 activities)
Number of Respondents	10	18	23	18
Average Age of Company (years)	11.0	15.2	12.0	14.8
Average Number of Employees (FTEs)	3	7	7	24
Average Number of Artists Represented	4	20	43	36
Average Revenue per Company ($000)	5.0	190.5	162.6	305.9
Average Number of Export Activities	1.8	3.9	5.4	7.0
Average Sufficiency of Funding (Score -2 to 2)	-0.15	-0.38	-0.09	0.62

As illustrated above, more diversified companies tend to employ more workers, represent more artists, and generate more revenue. More diversified companies tend to perceive government funding to be more adequate for their needs and supplement it with more private investment. It may simply be the case that only larger companies have the scale and resources needed to enjoy the benefits of being 'fully integrated.'

However, as most music companies in Canada are micro- or small businesses, many do not have sufficient resources to engage in all export endeavours – despite the benefits of doing so. Coupled with the high cost of initiating new export activities, this need will likely lead to additional requests for funding to support those activities. Given that programs are currently oversubscribed and funding levels are perceived to be satisfactory by only a minority of respondents (as discussed in Section 5), additional efforts to establish more diversified export activities will place added strain on existing funding systems.

Expenditures per breakthrough artist

This subsection groups companies based on how much they spend per breakthrough artist. Note that this subset of companies excludes firms that did not identify how many breakthrough artists they represent and how much they spend on breakthrough artists overall.

Table 14: Export return margin, by level of expenditures per breakthrough artist

Level of expenditures per breakthrough artist	Government Funding (per company, $000)	Export Revenue (per company, $000)	Export Expenses (per company, $000)	Government Funding/Expenses	Export Return Margin
Low (17) ($0-4,999)	9.8	192.2	37.3	26%	81%
Medium (17) ($5,000-12,499)	17.1	42.4	31.8	54%	25%
High (17) ($12,500+)	115.0	449.1	284.5	40%	37%
Total (51)	**47.3**	**227.9**	**117.8**	**40%**	**48%**

Companies with the lowest level of expenditures per breakthrough artist had the most profitable export activities and received somewhat less government funding relative to their export expenditures. This finding highlights the potential benefit of supporting companies that have demonstrated success in identifying and capitalizing on their artists' breakout potential. These companies' relatively high returns on smaller investments (on a per-artist basis), demonstrate their potential to leverage government funding to build more sustainable operations.

Table 15: Company profile, by level of expenditures per breakthrough artist

Statistic	Level of Expenditures per Breakthrough Artist		
	Low ($0 - $4,999)	Medium ($5,000-12,499)	High ($12,500 +)
Number of Respondents	17	17	17
Average Age of Company (years)	13.1	11.1	17.8
Average Number of Employees (FTEs)	7	5	29
Average Number of Artists Represented	11	11	89
Average Revenue per Company ($000)	192.2	42.4	449.1
Average Number of Export Activities	4.6	4.8	5.9
Average Sufficiency of Funding (Score -2 to 2)	0.11	-0.02	0.50

On average, companies with higher levels of expenditures per breakthrough artist were older, had more employees, and represented more artists. These companies tend to be more diversified and perceive government funding to be more sufficient relative to their needs. Similar to Section 6.2.2, which addressed Geographical region, the perceived sufficiency of government funding declined in tandem with the profitability of a company's export activities.

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