



# THE NEXT **BIG BANG**

A New Direction for Music in Canada

**music**   
CANADA



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# EXECUTIVE SUMMARY

This report, commissioned by Music Canada, explores new strategies to support the ongoing growth and contributions of the commercial music industry in Canada. The music industry employs thousands of Canadians, including many young workers. They operate in a highly creative and dynamic field that has undergone massive changes with the shift to digital technologies and platforms.

Over the past dozen years, the Internet and social media have altered the way music companies do business and how artists create music and connect with fans. At the same time, the commercial music industry has experienced sharp declines in revenue in the face of online piracy, along with a widespread erosion of respect for the value of music and the investments required to develop artists' careers. In 2012, however, there was renewed cause for hope as global recorded music revenues went on the upswing for the first time in more than a decade<sup>i</sup>. With the prospect of better times to come, it is an apt moment to examine how Canadian music can best be nurtured to maximize the opportunities ahead.

This report examines five critical areas of focus to reinvigorate the music industry for the digital age: music education, digital innovation, music tourism, export expansion and interconnected tax credits. Music Canada worked with experts in the Canadian cultural industries to develop key recommendations in each of these areas.

## MUSIC EDUCATION

We commence our strategic analysis by examining music education, and its connection to the creation of cultural scenes that support not only a thriving music community but also a deep pool of talent and fertile environment for the information and communication technology (ICT) industries.

Professionals in a wide variety of occupations, U.S. President Bill Clinton and Canadian astronaut Chris Hadfield among them, have attributed, in part, their personal success to their education in music. As quoted in the Globe and Mail, President Clinton said, "I think it is very unlikely that I would have ever become President had I not been involved in school music from the time I was 9 until the time I was 17. It taught me discipline and creativity. It made me see the world in different ways. It made me understand things in different ways."<sup>ii</sup>

Growing evidence points to the contribution music education makes to such skills as critical thinking, spatial reasoning and cognitive development. These skills go hand in hand with training a workforce to succeed in the digital economy. Organizations like MusiCounts, Coalition Music, the Corporation of Roy Thomson and Massey Halls

I think it is very unlikely that I would have ever become President had I not been involved in school music from the time I was 9 until the time I was 17.

*Bill Clinton, the 42<sup>nd</sup> President of the United States*

and many others understand the transformative power music education has to open minds, build collaborative skills and transform lives. This is a major reason why so many of them are undertaking new initiatives in music education.

Exposing young people to music education offers the additional benefit of increasing their appreciation for the creative process. Over the past several years, we have witnessed a material erosion in the respect accorded the creative process by society at large. We believe gaps in music education have contributed to this and that plugging those gaps and restoring music education to its former pride of place will also play a role in restoring respect for creators and their creations. Due to the contribution that music education makes to a highly skilled, innovative workforce, and the creation of vibrant scenes that attract creative employees and employers alike, this report recommends that private music education initiatives be matched by an increased public commitment.

## DIGITAL INNOVATION

As the commercial music industry continues to evolve in the digital age, digital innovation is an increasingly critical building block of future success and therefore forms the second area of exploration in this report.

While there has been considerable progress in digital music innovation in recent years, more work – and additional support – is needed. Music discovery, for instance, has largely migrated online, bypassing some of the traditional methods of promoting Canadian music. Therefore, new ways must be found to encourage consumers to pay willingly for music online. This, in turn, will help to ensure that music companies will continue to have the resources to invest in artistic creation.

Resources must also be dedicated to developing innovative tools that allow monetization of commercial music in the online environment. The music industry must work with traditional partners and actively seek new partnerships in order to secure a prominent place for Canadian music. Sufficient resources must also be allocated to help artists and their affiliated music companies seize new strategies for online exposure.

## MUSIC TOURISM

The third component of this report considers how we can harness the power of live music as an economic asset by developing a comprehensive music tourism strategy.

If you took a snapshot of a musician's income statement in the 1990s, it would differ radically from what you would see today. Previously professional musicians derived their livelihood from

a variety of sources – the sale of music itself constituting the mainstay in many cases. As the market for music products collapsed, musicians were increasingly forced to rely on touring to earn a living. For years this model was sufficient to sustain many bands and seemed to be a stop-gap solution; whether it continues to be, is a question yet to be answered. But for the time being, and while it constitutes such a mainstay for musicians, we felt it was incumbent to examine ways in which we could help to improve the market for live music.

Music tourism has the potential to help ameliorate the situation musicians find themselves in today; however, it is not only good for musicians, it can also be an important economic asset – IF it is developed as part of a comprehensive tourism strategy.

Municipalities and regions are well positioned to create robust music tourism industries that drive local economic activity by engaging existing festivals, venues, music production facilities and a vast body of talent. While larger Canadian centres are, inevitably, better positioned to create year-round tourism driven by commercial music, even small centres stand to benefit if they skillfully exploit their live music assets. The live music industry has extensive experience marketing to a diverse and far reaching fan base using an array of social media tools. The best outcomes in this area can be achieved through public/private partnerships that leverage the knowledge that both government and music industry players bring to the table.

## EXPORT EXPANSION

Having considered what we can do to drive economic activity within Canada, the report next examines how to increase music industry revenues by better exploiting export markets. Canada has a strong international reputation as an incubator of great musical talent. Globally successful artists representing Canada on the world stage add positively and materially to Canada's international "brand". Creating more opportunities for *all* Canadian-based music companies to develop international relationships for the marketing, promotion and touring of Canadian talent will, therefore, benefit the industry as well as the country as a whole.

The limited size of Canada's domestic market means that some of the greatest opportunities for growth and development lie abroad. In the music community, Canadian Blast, under the direction of the Canadian Music Industry Association (CIMA), and other regional music associations have assumed the lead role in export development, with funding from both public and private sources. A more robust program would expand both the volume of music exports and the diversity of export markets. Furthermore, given the forces of globalization, funding models like the Ontario Sound Recording Tax Credit that restrict marketing and promotion support to domestic spending artificially restrict opportunities for growth. Such funding models therefore form a barrier to artists seeking to connect to fans worldwide. These models need to evolve in order to enable the industry to achieve its full growth potential.



## INTERCONNECTED TAX CREDITS

Finally, the report examines how governments can create a more attractive investment climate for music through the implementation of targeted tax credits. Government revenues created as a result of music tax credits in Canada far outweigh program costs. Moreover, the tax credit infrastructure now in place for the commercial music industry significantly lags behind the models established for other industries, including film and television. Effective tax credit systems drive increased production and provide a mechanism for the training and development of Canadian talent. Therefore, we recommend that the government take its cues from the successful film and television tax credit model in order to develop a robust tax credit regime for the commercial music industry.

This report is intended to stimulate a wider conversation, both within the music community and outside it. It is by no means exhaustive. Therefore, in addition to providing key recommendations, the report also points to areas where further exploration may be needed.

The commercial music industry in Canada has often been called a “star factory.” It is true that many Canadian artists have achieved significant success, both here at home and abroad. But it takes much more than a few individual stars to create a vibrant and sustainable galaxy.

We believe that the recommendations outlined in this report, if implemented, will generate greater success for all the stars in Canada’s musical galaxy, from the dim suns in the nascent star factories to the boldest and brightest. We believe the directions we have identified will lead to the next big bang for the commercial music industry in Canada and the country as a whole.

*The authors of this paper would like to thank industry partners who graciously gave of their time to participate in interviews and to lend their professional expertise to the development of this research.*



# INTRODUCTION

**Music is an ancient necessity for humanity**  
**Commander Chris Hadfield<sup>iii</sup>**

This report examines the current state of Canada's commercial music industry and considers the steps needed to ensure it continues to help drive Canada's economy, contributes to its cities, and acts as a point of cultural engagement for its citizens. The commercial music industry involves a wide array of participants. They include major and independent music companies, producers, recording studios, publishers, songwriters, performers, their managers and agents and those who facilitate live performance. The industry is driven by highly skilled professionals and talented musicians – people whose livelihoods depend on the performance, distribution and sale of music.



Johnny Reid, Minister Moore's Music Night  
Photo credit: Denis Drever

The Government of Canada has long recognized that the cultural industries – music, film, television and literature – are key economic drivers that also make important social contributions. The sector's importance was summarized by James Moore, Minister of Canadian Heritage and Official Languages, as follows: "Investing in arts and culture is investing in the economy. Arts and

culture is a \$46 billion (contributor to) the Canadian economy, which is to say it's three times the size of Canada's insurance industry. It's twice the size of Canada's forest industry. (It's) over 600,000 jobs in the Canadian economy. And more than that, it directs our kids. It makes synapses fire. It exposes them to literature and culture and performing arts and music and film...The soul of the city is the arts. And you have to invest in that."<sup>iv</sup> The music industry plays a key role in this sector.

A 2012 PwC study commissioned by Music Canada demonstrated that the major and independent music companies alone made expenditures and investments in Canada exceeding \$398 million in 2011. This contributed almost \$240 million to Canada's GDP generated more than \$178 million in wages and \$43.5 million in tax revenues and sustained over 4100 jobs.<sup>v</sup>

Music and other cultural industries, and the people who work in them, are closely linked to the overall economic health of a region. In *The Rise of the Creative Class*, Richard Florida noted that, "The key to economic growth lies not just in the ability to attract the creative class, but to translate that underlying advantage into creative economic

Investing in arts and culture is investing in the economy.

*The Honourable James Moore, Minister of Canadian Heritage and Official Languages*

outcomes in the form of new ideas, new high-tech businesses and regional growth. ... Most civic leaders, however, have failed to understand that what is true for corporations is also true for city regions; places that succeed in attracting and retaining creative class people prosper, those that don't, fail."<sup>vi</sup>

Much has changed in governmental approaches to the creative economy in the last decade. A 2009 Dalhousie University study observed that, "Where once governments concentrated on "chasing smokestacks", today governments understand that promoting arts and culture provides important foundations for developing economic and social prosperity. Most Canadian and American cities have adjusted their development policies to focus on enhancing their creative potential and to make urban conditions more conducive to attracting talented workers."<sup>vii</sup> This shift in governments' understanding of the relationship between the cultural industries and regional economies provides a critical stepping off point for the discovery and implementation of future policies.



Government support for Canadian music has had a powerful impact both on the country's economy and in shaping Canada's international identity. Artists like Neil Young, k.d. lang, Bryan Adams, Loreena McKennitt, Celine Dion, Cowboy Junkies, Michael Bublé, Justin Bieber, Arcade Fire, Hedley, RUSH, Deadmau5, Drake and Shania Twain are part of a long tradition of

Canadian musicians who have put the country on the global cultural map. Moreover, the music industry has an oversized impact on Canada's GDP compared with other countries. Globally, Canada is the 35th largest country by population, and yet we boast the world's seventh largest music market.<sup>viii</sup> Government investments in music have also helped to launch numerous careers and create a national market of educated and appreciative music consumers.

Support for a vibrant commercial music industry in Canada will continue to play an important role in our country's economy. However, with radical shifts in the foundations of this industry in recent years, it is necessary to re-examine how that support is provided. Perhaps no industry has experienced the consequences of the digital revolution more directly than the commercial music industry. Mechanisms for

distribution, promotion, marketing, sales and remuneration have all been disrupted by the digital revolution. Yet many of the programs now in place to support the industry and its artists were created in the 1970s and 1980s. Changes to that framework have not kept pace with the changes that have fundamentally altered the industry. Programs and policies that were designed to meet the needs of the analog age are ill-equipped to deal with the challenges of today's digital marketplace. It is time to carefully examine existing models to ensure that available resources are effectively and responsibly deployed to meet current music industry needs. There is a strong case to be made that even minor tweaks will have a dramatic impact on the future prosperity of not only the music industry, but also the broader economy.

This report undertakes a considered analysis of the commercial music industry as a driver of economic activity. We have aimed to identify, with an acute sensitivity to the impacts of the digital age, models that support the growth and sustainability of a vibrant commercial music industry and facilitate the many spin-off benefits it can have for regional economies. Accordingly, we have identified five opportunities which we believe are ripe for exploration and investment, and which could serve as catalysts for the industry's ongoing economic contribution:

1. Music Education: Key to an Innovative Workforce and Cultural and Tech Hubs
2. Digital Innovation: Improving the Discovery Process and Driving Revenue
3. Music Tourism: Leveraging our Strong Live Music Traditions
4. Export Expansion: Fostering Growth in New and Existing Markets
5. Interconnected Tax Credits: Stimulating Economic Activity and Attracting Investment

# PART 1: THE EXISTING REALITY FOR COMMERCIAL MUSIC IN CANADA

In order to put the recommendations contained in this report into context, this chapter will describe important trends affecting commercial music companies and artist entrepreneurs operating in Canada.

## DIGITAL CONSUMPTION DRIVING CHANGE

Consumption of music in Canada continues to be driven by both digital and physical sales, with growth in digital bringing it very near to half the market in 2012. For the first time in over a decade, music sales in Canada last year increased over the previous year. This signaled a turning point for the industry after years of losses due in large part to piracy and the shift from sales of albums to lower priced digital singles. Downloads continue to dominate digital sales in Canada though subscription sales and ad supported revenues are on the rise.<sup>ix</sup>

The shift to digital, while positive in many respects, is not without challenges. Digital music sales of music in Canada increased from \$57 million in 2007 to \$196.2 million in 2012. However, this growth has not been enough to offset the decline in CD sales. This is because the revenues generated from digital music distribution are typically less lucrative than revenues from physical media. For example, Spotify, Pandora and Sirius XM all pay recording artists when a song is streamed on their services; Spotify pays \$0.004 per stream, Pandora pays \$0.001 per stream and Sirius XM pays \$0.002 per stream.<sup>x</sup> To put this in perspective, 10,250 streams per hour on Pandora would be needed to provide the minimum hourly wage in Canada for just one band member. Nonetheless, as these services become more popular, they are expected to play a more important role in revenue generation. In Sweden, for example, subscription services are behind a 15% overall increase in per capita spending on music there.<sup>xi</sup>

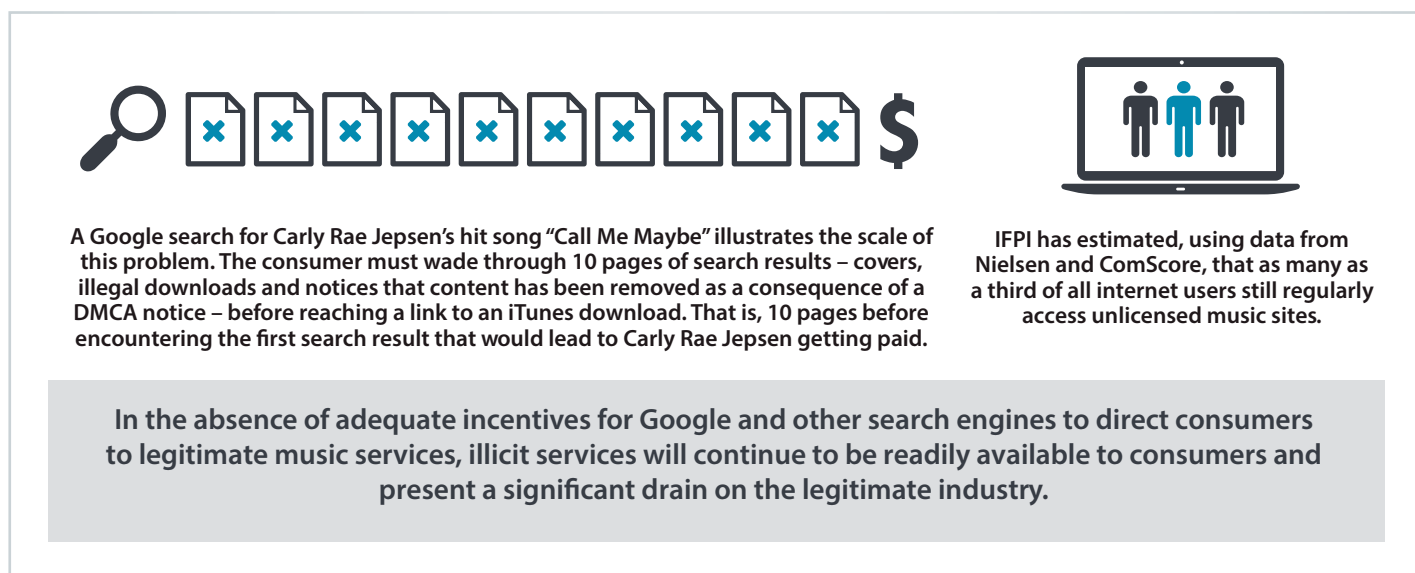
While there are a growing number of licensed digital services in Canada and around the world, it remains difficult for an individual consumer to know if they are accessing music from a site which actually pays the recording artists. As noted by Robert Levine, past executive editor of Billboard, “It has never been easier to distribute a creative work. At the same time, it’s never been harder to get paid for it.”<sup>xii</sup> Online piracy has had an enormous negative impact on Canadian recording artists’ earnings. A Google search for Carly Rae Jepsen’s hit song “Call Me Maybe” illustrates the scale of this problem. The

It has never been easier to distribute a creative work. At the same time, it’s never been harder to get paid for it.

*Robert Levine, Author of  
“Free Ride”*

consumer must wade through 10 pages of search results – covers, illegal downloads and notices that content has been removed as a consequence of a DMCA notice – before reaching a link to an iTunes download. That is, 10 pages before encountering the first search result that would lead to Carly Rae Jepsen getting paid<sup>1</sup>. It is difficult to imagine that the average consumer would take the time to find a licensed source, when so many other sources appear legitimate as a consequence of the Google search. In the absence of adequate incentives for Google and other search engines to direct consumers to legitimate music services, illicit services will continue to be readily available to consumers and present a significant drain on the legitimate industry. In fact, IFPI has estimated, using data from Nielsen and ComScore, that as many as a third of all internet users still regularly access unlicensed music sites.<sup>xiii</sup>

## FIGURE 1: THE SEARCH FOR LEGAL SOURCES



## MUSIC COMPANIES CONTINUE TO INVEST IN A&R

With the decline of music revenues, record companies have been forced to reduce their expenditures across the board. Despite these challenges, the global music industry continues to invest about 16 percent of its total expenditures on artist and repertoire (A&R) development A&R.<sup>xiv</sup> A&R is comparable to research and development in other industries that are heavily reliant on intellectual property as a primary commodity. These investments represent a significant level of risk given the relatively low odds that any one investment will pay off.

<sup>1</sup> Search conducted December 31, 9:58 EST

Many artists continue to seek recording deals with music labels to tap their expertise in all aspects of the industry, from A&R to marketing, and their willingness to invest. By employing business managers, booking agents and other experts, artists can better focus on the creation and performance of great music and improve their odds of success. A survey of 2000 artists conducted by Digital Music News in 2011 found that more than 75 percent of recording artists still wanted to work with a professional recording company.<sup>xv</sup> Placido Domingo, Chairman of IFPI, noted the many reasons for this: “Even in the age of the Internet, where self-publishing is so much easier for artists than in the past, technology alone cannot ensure an artist’s work is heard and appreciated. That is why artists continue to work in partnership with record companies, management and others to develop their careers and bring their music to the widest possible audience”.<sup>xvi</sup> Recording artist Trent Reznor of Nine Inch Nails, who famously left his record label in 2007, signed with a label in 2012. In his own words, “... to have a team of people that are better at that [marketing and distribution] than I am worldwide...that felt like it was worth slicing the pie up monetarily.”<sup>xvii</sup>

## LIVE PERFORMANCE BECOMES AN INCREASINGLY IMPORTANT SOURCE OF INCOME



Because of digital piracy, live performance has become more critical as a means for artists to reach an audience, develop a fan base and earn a living. In effect, we have returned to the performance industries of the 1800s. Jaron Lanier, in his book *You Are Not a Gadget*, describes the shift this way:

“There was a time, before movies were invented, when live stage shows offered

the highest production values of any form of human expression. If canned content becomes a harder product to sell in the Internet era, the return of live performance – in a new technological context – might be the starting point for new kinds of successful business plans.”<sup>xviii</sup> A 2008 study of the Canadian music industry found that “[l]ive performance represents the single most important source of income for musicians in the sample, accounting for 48.5 percent of the average \$24,837 of total revenues earned by Canadian musicians.”<sup>xix</sup> However, the high costs of touring make it as hard as ever for emerging artists to earn a living from live performance. *Hey Rosetta!* drummer Phil Maloney commented that during the band’s first tour, “We were sleeping on the floors of friends of friend’s apartments. We had \$10 per day for food, no per diem. We were definitely pinching pennies.”<sup>xx</sup>

## MARKETING EVOLVES IN THE ONLINE ENVIRONMENT

As with almost all other aspects of the music business, the marketing of music has shifted dramatically in the digital era. There has always been a certain magic to music marketing, and that has not changed. However, the digital environment has made it possible for artists and their marketing teams to reach their fans more directly and pervasively than ever before. Yet there are new challenges as well, as described by Billboard Senior Correspondent Alex Pham in a recent white paper: “Converting casual listeners to paying fans starts with discovery – the spark that occurs when someone falls in love with the music flowing through his or her ears. Though the value of discovery may be obvious, getting those magical moments to reliably happen on digital platforms, however, is much harder than it seems, as evidenced by the numerous efforts that are out there for catching serendipity in a bottle.”<sup>xxi</sup>

The most successful music marketing today takes full advantage of social media, including Facebook and Twitter, and uses other tools available in the current media mix to connect artists with their fans, whether in Canada or around the world. This is reflected in changes to advertising and marketing spends on music promotion. According to IFPI, in a 2012 report, “The media mix used to promote artists to existing and potential fans has changed dramatically over the past few years. Social media channels now complement traditional gatekeeper media such as radio and television. The head of one record company estimates that just four years ago 80 percent of his marketing spending was aimed at broadcast advertising, but this proportion has now fallen to 60 percent as resources are diverted to online promotion and that he expected the balance between broadcast and online would be 50:50 before long.”<sup>xxii</sup>

Converting casual listeners to paying fans starts with discovery – the spark that occurs when someone falls in love with the music flowing through his or her ears.

*Alex Pham, Billboard  
Senior Correspondent*



## CASE STUDY: SOCIAL BREAKTHROUGH - VICTORIA DUFFIELD



Victoria Duffield  
Photo Credit: Warner Music Canada

Warner Music Canada recording artist Victoria Duffield made a huge splash on the Canadian music scene in 2012. Helping fuel her rise to fame was a focus on Social Media, particularly YouTube.

After the initial success of Victoria's first song, "Shut Up and Dance" and the accompanying video (which hit 1 million views on YouTube by the end of 2011), Warner's challenge was to grow this new audience and keep them engaged through follow-up singles leading to her debut album release.

Warner Music Canada's digital strategy focused on providing unique and complementary content for Victoria's next music videos, focusing on her dance routines. A series of "Learn

The Moves" videos was created for her single "Break My Heart." Rather than upload these instructional "videos separately, they were made available at the end of the official video itself, using YouTube's in-video annotation tool. Fans could immediately access the first of three "Learn The Moves" clips, but the second and third clips could not be "unlocked" until the video reached 50,000 and 100,000 views respectively. This focused fans' attention on the official video itself, and intense sharing quickly helped push it past the targets. The video ultimately surpassed 1 million views.

In addition to YouTube, Victoria and Warner Music Canada engaged and attracted fans via unique social sharing tools. For example, by using the Decksy Social Gaming platform, Victoria's fans could collect, play and share all of her content in a new and fun application. Victoria says, "This is a great way for my fans to collect my official music, pictures and videos, but in a totally new and fun way that they can share with their friends online!"

The "Official Victoria Duffield Collection" was made accessible across multiple social networks and mobile platforms, including iOS (for iPhone and iPod Touch devices). Fans could build their "collections" by logging in daily to access new content, trade collectibles, and send gifts to their friends. The resulting activity delivered thousands of impressions on Facebook to the friends of Victoria's fans via their Facebook timelines, helping fuel new fan discovery.

## DISCOVERY MOVES ONLINE

The Internet, and especially social media platforms, is becoming an ever more important place for fans to discover new music and new artists. As online discovery continues to grow, existing programs and policies designed to support Canadian culture are at risk of becoming outdated and ineffective.

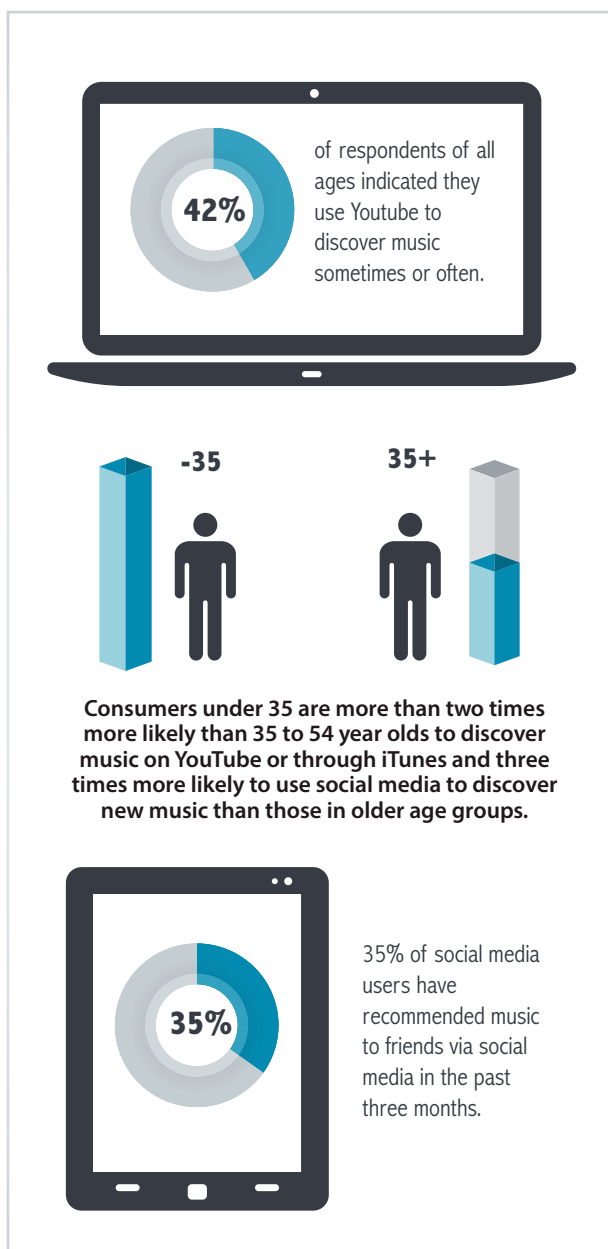
Several decades ago, Canadian policymakers turned to regulation as a principal means of promoting Canadian music, or Canadian Content (CanCon) as it is better known. Under the *Broadcasting Act*, for example, Canadian broadcasters are required to “encourage the development of Canadian expression by providing a wide range of programming that reflects Canadian attitudes, opinion, ideas, values and artistic creativity by displaying Canadian talent in entertainment programming.”<sup>xxiii</sup> This provision of the *Act* led to the introduction of radio air play requirements for Canadian music. As a condition of licence by the Canadian Radio-television Telecommunications Commission (CRTC), commercial radio stations are generally required to include at least 35 percent Canadian musical content in their broadcasts.<sup>xxiv</sup> By ensuring that Canadian artists get radio play, this provision has played an important role for many years in exposing consumers to Canadian music and helping Canadian artists to build successful careers.

Today, however, with the pervasive influence of the Internet, the importance of the *Broadcasting Act* in CanCon promotion has diminished. In a study for the Canadian Independent Music Association (CIMA), Nordicity concluded that “[w]hereas consumer discovery of new artists traditionally took place in the domestic market via radio broadcasting, that medium increasingly exhibits more established Canadian artists (generally in order to satisfy Canadian Content regulations). Accordingly, consumers’ discovery of new artists is now derived using social media ... in addition to through live performance.”<sup>xxv</sup>

When determining how music discovery and purchasing habits have changed, it is important to focus on consumers under age 35, as they account for 80 percent of music purchases.<sup>xxvi</sup> Correspondingly, a recent study commissioned by the Department of Canadian Heritage made some significant findings on how Canadians under 35 discover new music.<sup>xxvii</sup> (Though the study excluded households that rely solely on cellular services, thereby limiting 18 to 34 year olds to only 14 percent of respondents, the data that it provides on young Canadians is informative):

- “Web-based sources such as online radio stations, social networks and online music stores have officially entered the mainstream when it comes to unearthing new music, with YouTube leading the pack. 42 percent of respondents of all ages indicated they use YouTube to discover music sometimes or often.”<sup>xxviii</sup>
- Consumers under 35 are more than two times more likely than 35 to 54 year olds to discover music on YouTube or through iTunes and three times more likely to use social media to discover new music than those in older age groups.<sup>xxix</sup>
- 35 percent of social media users have recommended music to friends via social media in the past three months.<sup>xxx</sup>

## FIGURE 2: MUSIC IS SOCIAL



Other surveys have found that more teens listen to music on YouTube than through any other source. According to a recent Nielsen study, 64 percent of teens listen to music using YouTube, while only 56 percent listen to music using radio.<sup>xxxi</sup> Artists and their marketing teams have recognized the importance of social media in achieving audience access. “The problem is that those platforms have become so full of musicians it is hard to stand out from the crowd and harder to convert an online following into a career.”<sup>xxxii</sup> Thus, it has become essential for the industry to help Canadian artists develop a distinct online identity.

The Canadian Heritage study clearly demonstrated that Canadians continue to feel that access to Canadian music is important, and for Canadians

who are not actively engaged with YouTube or other social media, radio continues to be an important vehicle.<sup>xxxiii</sup> However, for consumers who are not listening to radio, the question arises, how to modernize policies to effectively promote Canadian music?

Before exploring answers to this question, it is important to look at existing policies to promote Canadian music beyond the radio CanCon rules outlined above.

Development of CanCon involves the cultivation of both markets for Canadian talent and the talent itself. To this end, the *Broadcasting Act* requires that “each element of the Canadian broadcasting system shall contribute in an appropriate manner to the creation and presentation of Canadian programming.”<sup>xxxiv</sup> This provision is designed to ensure that broadcasters fund and contribute to the development of Canadian music. The CRTC has mandated that contributions from radio broadcasters “should be used to fund initiatives that lead to the creation and promotion of audio content for broadcast using Canadian resources. This is achieved by support, promotion, training and development of Canadian musical and spoken word talent.”<sup>xxxv</sup> More specifically, CanCon development is funded through three streams: licence renewals, transfers of ownership and applications for new licences. This funding is then administered to English language artists and independent recording companies<sup>2</sup> through the Radio Starmaker Fund (Starmaker), the Foundation to Assist Canadian Talent on Recordings (FACTOR) and other initiatives.

According to the CRTC, “other qualifying initiatives” include audio content initiatives that further advance the fulfillment of the objectives of the Canadian broadcast system provided in the *Act*.<sup>xxxvi</sup> As noted previously, radio is no longer an effective tool for the discovery of emerging Canadian artists among younger audiences that account for the bulk of music purchases. Nonetheless, the funding that radio broadcasters provide should be utilized to promote Canadian music and fulfil key objects of the *Act* including to “serve to safeguard, enrich and strengthen the cultural, political, social and economic fabric of Canada”<sup>xxxvii</sup> and to “be readily adaptable to scientific and technological change”<sup>xxxviii</sup>, by supporting initiatives that provide prominence for CanCon online thus easing the discovery process for Canadian consumers. Studies commissioned by the Canadian Association of Broadcasters have suggested that radio broadcasters generally view the Internet as a complementary way to connect with their listeners.<sup>xxxix</sup> Consequently, they should be supportive of initiatives that secure prominence of place for Canadian content in online music discovery tools.

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<sup>2</sup> The agencies that distribute funding to French Language artists and recording companies are Musicaction and Fonds RadioStar.

How the development and promotion of Canadian music should be funded in the digital age is a complex matter that warrants further research by the music industry and other stakeholders.

As noted by Charles Spearin, a founding member of indie band Broken Social Scene, “[r]adio play was never a big deal... It was never a serious part of the equation for Broken Social Scene. Most of our fans hear about us from the Internet.”<sup>xi</sup>

The CRTC has made it clear that although it has the power under the *Broadcasting Act* to regulate broadcasting content over the Internet, it has chosen not to do so.<sup>xii</sup> Yet, as discussed above, it has also made clear that promotion of Canadian music is a worthwhile initiative that should receive funding. In any case, the capability of the CRTC or any other body to regulate Internet content is questionable in a borderless Internet.

For that reason, the most effective way to place and prioritize Canadian music and other content online is not through regulation, but rather through partnerships and strategic initiatives. This approach will be further explored in this study, as will the need for more research to assess the effectiveness of existing policies and to develop additional policy alternatives for today’s digital environment.

## PART 2: OPPORTUNITIES FOR INNOVATION, SUPPORT, GROWTH AND DEVELOPMENT

Having described some of the major trends affecting the commercial music industry in Canada, this paper will now explore five key areas for innovation, support, growth and development.

1. Music Education: Key to an Innovative Workforce and Cultural Tech Hubs
2. Digital Innovation: Improving the Discovery Process and Driving Revenue
3. Music Tourism: Leveraging our Strong Live Music Traditions
4. Export Expansion: Fostering Growth in New and Existing Markets
5. Interconnected Tax Credits: Stimulating Economic Activity and Attracting Investment

### THE FIVE OPPORTUNITIES

#### MUSIC EDUCATION



### PART 2.1: MUSIC EDUCATION: KEY TO AN INNOVATIVE WORKFORCE, AND CULTURAL AND TECH HUBS

*Contributed by: Jeff Leiper - Information and Communications Technology Council*

Massive technological change over the past 20 years has created new opportunities for Canadians, including new ways to fulfill their cultural and economic needs. The emergence of mobile technologies, cloud network and storage architectures, digital platforms and digital content is changing the economy of Canada. For many, it is changing both the work that they do and how they get it done.

In a global economy, the emergence of the Internet and related technologies has hastened a century of transformation in the labour force. More than ever, the greatest economic potential is associated with jobs that require innovative thinking and strong digital competencies. Multiple jurisdictions globally compete for these jobs and for the companies that provide them. As manufacturing declines and work becomes more creative, it is critical that Canada foster the conditions to attract innovation-based companies, in order to maintain its place as a global leader in innovation and

productivity. Just as importantly, it is essential that workers in Canada are prepared to take on these jobs with a combination of the right training and the best educational foundation for success.

Music is a sometimes overlooked, but still important, foundational component both to preparing workers with the necessary skills and competencies to take part in the digital and creative economies, and to attracting and retaining them in vibrant cultural scenes. This analysis by the Information and Communications Technology Council (ICTC) elaborates upon the critical link between music education, cultural scenes, and economic success at the individual and macro levels.

The central findings of our research, which has included a review of the relevant literature, economic analysis, and interviews with technology workers and companies, indicate that music is playing an important role in Canada's success in the global digital economy. Global and local enterprises leverage several important music scenes in Canada to support the retention of creative talent. The best of that talent has often had a lifelong involvement with music through education and training as a creative outlet. Evidence-based research demonstrates that creative and innovative people are attracted to vibrant music scenes. The presence of a rich ecosystem of music sellers, performance venues, music press and, most importantly, working musicians in close contact with one another is one of the key determinative factors in attracting high-tech employers and employees. ICTC confirms, based on its significant research in the ICT ecosystem, that there is a strong correlation between vibrant music scenes and tech clusters. This leads to the conclusion that governments and organizations that support rich cultural environments are better positioned to attract employers in the high-tech sector, thus providing more high-paying, skill driven jobs for their citizens.

In Austin, Texas the connection between the cultural scene, and business and talent retention and attraction, is well documented: "Austin is a place that appreciates creativity and culture in a variety of evolving forms, which serves to both attract and retain talented people. This in turn has a significant impact on business recruitment, retention, and expansion, as well as local entrepreneurship."<sup>xlii</sup>

Music education is critical to the sustainability of these scenes, but has even more important benefits: healthy music programs in schools, from the early school years on, contribute to the development of the innovative and skilled workforce required in the digital economy. There is growing evidence surrounding the impact of music education, not only on the development of soft skills or personal strengths, but also on hard skills, such as math, logic and cognitive processing that are most important in highly innovative sectors such as technology and digital media.

Austin is a place that appreciates creativity and culture in a variety of evolving forms, which serves to both attract and retain talented people. This in turn has a significant impact on business recruitment, retention, and expansion, as well as local entrepreneurship.

*The Economic Impact of the Creative Sector in Austin, 2012 Update*



## Canada's Music Scenes

Commonly, it has been accepted that Toronto, Montreal and Vancouver have the largest music scenes in Canada, due to their high concentrations of musicians, music business establishments, music associations, music venues and festivals and all the other factors that contribute to the development of a music scene.

In a recent study commissioned by Music Canada, PwC found that an overwhelming majority (79%) of the economic activity of the sound recording industry in Canada takes place in the Greater Toronto Area.<sup>xliii</sup>

Furthermore, Richard Florida and his team have concluded that Toronto, Montreal and Vancouver have become music industry centres rivalling New York, Los Angeles and Nashville.<sup>xliv</sup> This conclusion was based on the concentration of music business establishments—including record companies, distributors, recording studios and music publishers—in American and Canadian urban centres with populations over 500,000. The trio of Canadian cities—Montreal, Toronto, and Vancouver—took third, fourth and fifth place. Florida found that “Places with flourishing music scenes have underlying economic and cultural systems that are open to new ideas and that enable technology entrepreneurs, as well as musicians and artists, to mobilize the resources they need to realize their dreams and visions.”<sup>xlv</sup>

In light of this, ICTC does not believe that it is a coincidence that Toronto is a major tech hub in Canada, but that it is also considered one of the greatest music cities in the world.<sup>xlvi</sup>

Toronto, home to a community of artists and musicians, provides a music experience across a range of venues and festivals, celebrating a diversity of musical expressions, styles and ethno-cultural traditions. Permanent venues, many steeped in musical history, play host to world-class performers every day of the week, year round. *Canadian Music Week* (CMW) is recognized as one of the premier entertainment events in North America. The *North by Northeast* Festivals and Conference (NXNE) in Toronto is the Canadian festival destination for emerging artists, major music company headliners, and digital and interactive innovators who aim to bridge the gap between technology and the arts. In addition to these major festivals, Toronto's large multi-cultural community has created tremendous opportunities for other cultural and economic events to take place each year. By welcoming people from all cultures,<sup>3</sup> Toronto has fostered an environment where ethnicities mingle, and as a result, many of the cultural festivals in the city are based on these diversities, contributing to a rich musical heritage.

Places with flourishing music scenes have underlying economic and cultural systems that are open to new ideas and that enable technology entrepreneurs, as well as musicians and artists, to mobilize the resources they need to realize their dreams and visions.

*Competing on Creativity,  
Placing Ontario's Cities in  
North American Context*

<sup>3</sup> According to the last census, 47 percent of its citizens are visible minorities, and nearly half the population is foreign-born.

Toronto also boasts the third largest ICT cluster in North America.<sup>xlvii</sup> There are more than 173,000 ICT professionals employed in the Toronto region. Moreover, there is a steady pipeline of talent from the region's multitude of academic institutions, regional and national migrants and global networks. The Toronto region hosts a world-class teaching and research base, comprised of over 470 university faculty directly involved in ICT research. Institutions such as the Ontario College of Art and Design University and the University of Ontario Institute of Technology add to the region's rich education sector, joining the University of Toronto, York University, Ryerson University and several colleges of applied arts and technology. Together, they link organizations to almost 200,000 students who represent tomorrow's workforce. Toronto also attracts one-third of total recent immigrants to Canada, including over 25,000 international students enrolled in colleges and universities.

Montreal is also a chosen destination for a large number of immigrants and international students, and is home to another significant Canadian music scene. Renowned as one of Canada's biggest cultural centres, Montreal hosts a vibrant arts community, including an active and influential independent music cluster, with many bands and artists playing in venues large and small throughout the area. One of Canada's best known festivals, Osheaga, takes place in Montreal each summer. The city is considered as the third strongest in North America in concentration of music-industry businesses.<sup>xlviii</sup>

Montreal's music industry businesses get a further boost from locally emerging and expanding technologies which include multimedia, audiovisual and digital sound. Each of these sub-sectors is contributing to a rich cultural and creative ecosystem that helps attract, retain and integrate dynamic tech talent in the new innovative knowledge based economy.<sup>xlix</sup>

Montreal boasts nearly 120,000 ICT workers working in manufacturing, software, electronic data processing services, telecommunications, interactive digital media, audiovisual/digital sound, and digital arts. Thousands more are enrolled in ICT studies at the post-secondary level. As in Toronto with its Digital Media Zone at Ryerson University and MaRS Innovation Centre, incubators and innovation centres such as the CentreNAD or the Notman House in Montreal bridge academic studies in technology with ICT industry leaders and with the cultural sector.

These major Canadian cities boast a wide availability of cultural offerings, including music, which in combination with expanding economic opportunities, become extremely appealing to a creative and innovative workforce. Music is an important

part of the cultural variety present in Canada’s cities, large and small, and serves as an important factor in attracting and retaining talented people.

FIGURE 3: TECH HUBS MATCH MUSIC SCENES



## The New Economic Competitiveness

More and more people are building a lifestyle around their creative experiences, and as creativity plays a larger role in our day-to-day lives, these experiences become more valued.<sup>i</sup> Thus, the economic benefits of the arts extend beyond the traditional economic factors. The ability to maintain creativity and innovation requires access to a vibrant cultural environment. There have been many studies that have documented the benefits of exposure to different forms of arts, and they generally conclude that, as one of the studies states: “people cannot create when they work and live in a culturally sterile environment”.<sup>ii</sup> Communities that offer a wide variety of cultural amenities are more likely to attract quality workers. Businesses, too, are starting to recognize the value of an investment in the arts, and more specifically in music. Thus, they often aim to create an office environment that includes music space, aiming not only to influence how their employees work, but also to give them a place and chance to unwind.

“Successful communities are those that are multidimensional and diverse; in addition to offering employment, they offer a wide range of lifestyle amenities and a climate that encourages and cultivates creative expression. Cultural offerings such as music, are a strong draw for creative workers... a flourishing arts scene seems to suggest a region values and supports creativity in all its forms – technological and economic as well as artistic and cultural.”<sup>iii</sup>

## Music Education

Ongoing ICTC research into the link between music and economic success also demonstrates that music education is an important contributing factor to national and individual economic success. As the Canadian Music Education Research Cooperative has noted, “[e]very person in society participates in music-making or consumerism of music to a significant degree, and music education holds a pivotal position in ensuring the future creation of new artists, genres, and informed responders. While healthy music programs are essential to the continuation of a dynamic and vital society, music education serves to educate and support creators of, performers and responders to music. In addition to its importance in societal health and well-being, the arts industry represents a significant component of the Canadian economy and the role that music education plays in maintaining the arts is vital.”<sup>iii</sup>

Just as importantly, music education, in ICTC’s consideration, creates a broad and beneficial competitive advantage. As outlined below, the benefits of music education with respect to improving the cognitive functioning and creativity of the future workforce are clear.

Increasingly, the most stable, highest paying jobs in the Canadian economy, both within ICT and in general, require higher-functioning skills that have been tied to an education in music. In global value chains, Canada is seeking to retain and create value at the highest

Cultural offerings such as music, are a strong draw for creative workers... a flourishing arts scene seems to suggest a region values and supports creativity in all its forms – technological and economic as well as artistic and cultural.

*The Economic Impact of the Cultural Sector in Austin*  
(2006)

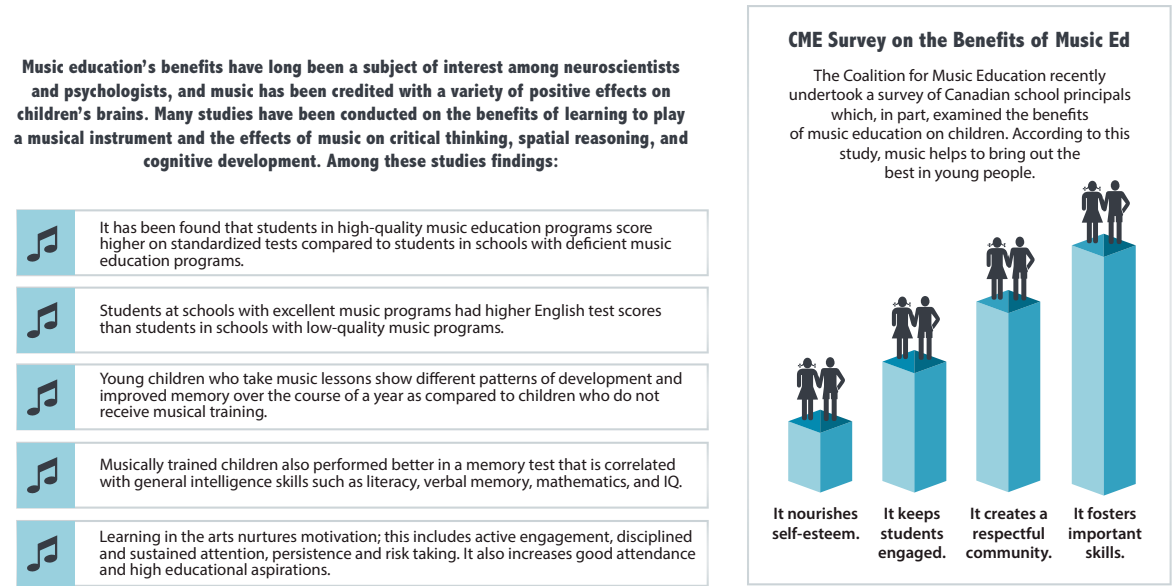
levels of the knowledge-based economies. Digital economy companies rely on innovations with respect to digital platforms, analytics, interface, user experience design, product design, and the creation of new services and applications. These tasks require that workers have more than basic training in technical fields. Entrepreneurs in emerging technologies must be able to do more than simply write code in a globally competitive environment in which lower-value activities are increasingly migrating off-shore.

Benefits of Music Education

Music education’s benefits have long been a subject of interest among neuroscientists and psychologists, and music has been credited with a variety of positive effects on children’s brains. Many studies have been conducted on the benefits of learning to play a musical instrument and the effects of music on critical thinking, spatial reasoning, and cognitive development. Among these studies findings:

- It has been found that students in high-quality music education programs score higher on standardized tests compared to students in schools with deficient music education programs;<sup>liv</sup>
- Students at schools with excellent music programs had higher English test scores than students in schools with low-quality music programs;<sup>lv</sup>
- Another study measuring the development of the brain reveals that young children who take music lessons show different patterns of development and improved memory over the course of a year as compared to children who do not receive musical training;<sup>lvi</sup>
- Musically trained children also performed better in a memory test that is correlated with general intelligence skills such as literacy, verbal memory, mathematics, and IQ;<sup>lvii</sup>
- Furthermore, learning in the arts nurtures motivation; this includes active engagement, disciplined and sustained attention, persistence and risk taking. It also increases good attendance and high educational aspirations.<sup>lviii</sup>

FIGURE 4: MUSIC EDUCATION MAKES A DIFFERENCE



In addition to the extensive benefits noted above, music education also impacts children's soft skills in a number of ways. The Coalition for Music Education recently undertook a survey of Canadian school principals which, in part, examined the benefits of music education on children.<sup>ix</sup> According to this study, music helps to bring out the best in young people. It nourishes self-esteem, keeps students engaged, and creates a respectful community. The researchers found that "Arts programs can connect with students in ways that other studies don't. For some students, the opportunity for this form of creative expression keeps them coming back to school. Arts education also fosters important skills, such as creativity and innovation. There is evidence to demonstrate a link between mathematical reasoning and expression, and music."<sup>ix</sup>

### *The State of Music Education in Canada*



Serena Ryder at MusiCounts Band Aid Announcement at Woodbine Junior High. Photo credit: Barry Roden

While the benefits are clear, there are many challenges facing music education in Canada – all of which can be tied to insufficient funding. One is the use of qualified music teachers. There is no requirement for a music specialist to teach music education. In response to the question "Who teaches music in your school?" 38 percent of responding elementary schools across

the country indicated that a classroom teacher with no music background is performing in that role.<sup>ixi</sup> In the Atlantic provinces, four out of five responding schools have a music specialist delivering the curriculum. In stark contrast, within Ontario 58 percent of those teaching elementary music have no music background.<sup>ixii</sup> While there is concern in Canada regarding generalist teachers delivering the music curriculum, studies in the UK reveal that while some non-music specialists are uncomfortable teaching music, there are others who, with support from a music consultant and continued experience, feel confident teaching primary music education.<sup>ixiii</sup>

The same survey points out that, for most of the past decade, student participation in music has been rising while overall funding for music education has been falling.<sup>ixiv</sup> In addition to teaching challenges, funding deficiencies create a lack of proper resources such as music rooms with well-maintained instruments, insufficient class time, and a limited variety of musical opportunities. Private sector-led efforts, including MusiCounts, the music education charity of the Canadian Academy of Recording Arts and Sciences (CARAS), and Sistema Toronto, are injecting resources into schools.

There is evidence to demonstrate a link between mathematical reasoning and expression, and music.

*Reach Every Student:  
Energizing Ontario's  
Education, 2008*

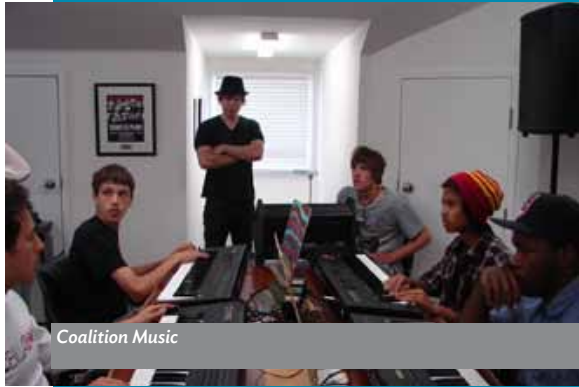
MusiCounts, with a significant donation from Music Canada, provides musical instruments to schools across the country while Sistema Toronto supplies instruments and instruction, albeit at just two schools in Toronto at the present time. However, given the size of the deficit, these efforts will not be sufficient to address the problems.

Correcting these deficiencies involves governmental funding commitments. It also requires will and a belief that music can change young lives.<sup>lxv</sup> More than 10 years ago, Richard Florida noted, “What we really need in order to prepare our children for the creative economy is a comprehensive education, something that takes them from aesthetics to algebra without pretending that the two are mutually exclusive. We need to see to it that, from an early age, our entire population is encouraged to develop its people skills with its multiplication tables and its creative and entrepreneurial potential with its reading abilities.”<sup>lxvi</sup> Music has a key role to play in this approach.

Where there is a clear commitment to music education, innovative music programs that embrace 21st century learning models can generate impressive results, as demonstrated by the partnership initially launched between Coalition Music and the Toronto Catholic District School Board.



## CASE STUDY: COALITION MUSIC - INDUSTRY CONTRIBUTION TO MUSIC EDUCATION



Coalition Music is an artist management firm that is at the leading edge of music education. Driven by an observed gap in the business knowledge of artists who were seeking its services, Coalition launched its three-pronged education initiative, including an artist entrepreneurship program, an approved curriculum program for high school students and a touring and technical skills program offered through a private career college.

Coalition's educational programming teaches students about the music industry as well as general business, using a subject matter that is both engaging and stimulating. High school students experience hands-on learning, gaining music skills like composition, song writing and recording, while also learning about the business of music, music publishing, entertainment law and contracting.

One of the students who recently completed the high school program noted, "Definitely worth the time and effort to attend each class. Real life, hands-on experience and knowledge gained. Allowed me to meet and collaborate with many other creative people. Gave me the opportunity to try something I would not have normally tried." This kind of student engagement is invaluable. George Brasovan, one of the registered teachers who developed the curriculum and delivers the course with the support of those at Coalition Music, has noted,

"All children in a creative, interesting, challenging program learn a lot. They are the students who will be the next generation of musicians, technologists and marketers. Through programs like this you can give them the tools for a career, whether that is expressing themselves musically or learning what they can do with technology."<sup>lxvii</sup>

*George Brasovan, Educator*

Paul Adams, the Vice Principal of St. Patrick's Catholic Secondary School, whose students have had an opportunity to participate in the program, speaks highly of the curriculum, noting, "The program at Coalition Music is a prime example of 21st century learning. Students have the opportunity to engage in hands-on learning with technology that is geared toward today's business reality and experts who know how the industry really works. They come away from the program knowing their options for careers in music and the skills required for success."<sup>lxviii</sup>

Coalition offers a more advanced curriculum to artists in the music business looking to gain the skills necessary to take their career to the next level. Through a 240-hour course, Coalition teaches business fundamentals including partnership agreements, managing an online presence and music publishing. It has now launched a certified technical training program for those who want to manage and crew live performances, filling a gap that many of their own artists perceived when starting their touring careers.

In its office space in Toronto, Coalition offers a venue where students have access to recording, rehearsal and performance space, where they can be mentored by those who are already making a career in the music industry and where they can make connections with publishers and distributors whose services they may require later in their careers. This incubator for talent and development is a model that is deserving of replication. They have, in effect, created their own micro-scene, including an online portal where participants in the programs can exchange ideas and share experiences.

One might ask, what motivates Coalition to offer these programs? There is no requirement that artists enter into a management contract with the organization or engage in any other relationship with them. According to Vel Omazic, Director, Coalition Music Education, "Coalition Music saw a gap in the education and training of musical talent. Changes in the recording industry, driven by changing economics, have caused artists to take greater ownership of their own training and development. We were concerned that without proper training and development great Canadian talent would fall into the void, become frustrated by a lack of support, and abandon the music industry before their careers even got started."<sup>lxix</sup>

The next challenge for Coalition is securing the funding to enhance its programs and expand its reach to students and artists outside the Toronto catch basin.

## The Role of Information and Communications Technology in Music Education

Information and communications technologies provide a range of tools that can significantly extend and enrich teachers' instructional strategies and support students' learning in the arts. The integration of technology into the arts curriculum represents a natural extension of the learning expectations associated with each art form.

Music education includes the use of analog and digital technology. Many music activities engage researchers and students in the use of current technologies both as research tools and as creative media. In Montreal, Matralab at Concordia University is a unique example of an interdisciplinary music and sound research facility where artists “jam” to conduct research and experimentation with and through music. ICT tools are also useful for teachers in their teaching practice, both for class instruction and for the creation of curriculum units that contain varied approaches to learning, meeting diverse student needs.

Although there is an acknowledgement of the importance of the ICT technologies in the Ontario curriculum,<sup>xxx</sup> many schools are further challenged by the fact that teachers are not educated on how to fully exploit innovative technology to deliver the curriculum. In order to address the gap in technological understanding, and the resource gaps previously identified in this paper, the government needs to make a conscious and significant investment in music education. As previously explained, there is a strong correlation between music education and the creation of a skilled and technically savvy work force – the workforce that Canada will need to ensure its place on the international innovation stage. It is certainly worth making this investment.

## CONCLUSION AND RECOMMENDATIONS

ICTC's research demonstrates the benefits of both music education and the presence of music scenes as drivers of important competitive advantages for Canada as it seeks to maintain its role at the highest levels of global value chains in ICT. Workers who have been trained in music as youth are more creative, better problem-solvers, and possess soft skills that are critical in the digital economy. Canadian cities that have vibrant music scenes attract and retain these workers. Policy measures that encourage and support music education, as well as the community of individuals and entities that make up urban music scenes, are, in ICTC's estimation, a critical component to maintaining Canada's digital advantage. Government must be encouraged to make this investment. We believe there is an opportunity for further research in this area.

### **Recommendation #1**

Given the impact that cultural scenes have on the attraction and retention of top-notch talent and quality ICT employers, municipal and provincial governments are well advised to focus on the quality and diversity of their cultural industries as a tool for economic development.

### **Recommendation #2**

Provincial governments need to make a conscious and significant investment in music education that supports a 21st century curriculum, provides properly trained teachers, and incorporates technological advancements in the teaching tools. Other levels of government should look for innovative ways to support music education because of the broad economic benefits it creates.



## PART 2.2: DIGITAL INNOVATION: IMPROVING THE DISCOVERY PROCESS AND DRIVING REVENUE

*Contributed by: Darlene Gilliland Tonelli*

If it is true, as Steve Jobs said, that “[i]nnovation distinguishes between a leader and a follower,” then without a doubt, Canada has been a leader. Our innovative approach to funding music through public/private partnership has created a commercial music industry in which Canada punches well above its weight on the world stage. Our task now is to continue and build on this success in a new digital environment in which the same pace of change that demands constant innovation from the music industry also demands constant innovation in our music funding programs and policy framework.

The music industry is no stranger to innovation – creators of music have always embraced technology as a means of improving or easing the task of making music. In 2013, truly successful artists and music companies must be masters of using the tools and strategies of the digital age to build fan engagement.<sup>4</sup> To continue to sign the superstars of the future, Canadian music companies must handle traditional record company functions while also sustaining an authentic relationship with fans through new technology. Innovation is the cornerstone of the industry’s ability to do this, and key to the future sustainability of Canada’s music industry. Policy, practice, and planning must reflect this. To this end, re-orientations in existing funding programs are needed to:

1. Make innovation a centrepiece of existing funding models;
2. Leverage industry partnerships to jointly exploit emerging opportunities; and
3. Create healthy markets for the sale of music, and new models for monetization.

Our funding models must continue to promote creativity and fan engagement, while also acknowledging that the creation of music does not exist in a vacuum – it is intimately tied to the health of the marketplace for the sale of music. To sell music, concert seats or merchandise,

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<sup>4</sup> Some of Canada’s most successful independent record companies are helmed by founders who have been recognized as visionaries and innovators. In 2009 Billboard named Jeffrey Remedios one of 9 music industry insiders to change the shape of music in the coming years, and named in 2013 as a Globe Catalyst by the Globe and Mail. Grant Dexter founder of Maple Music launched maplemusic.com, an e-commerce site that now provides online stores for more than 1000 artists, including Martha Wainwright, Kathleen Edwards, Chantal Kreviazuk. Maple Music won an Ontario Business Achievement Award for small business in 2011. Coalition Music has developed an innovative incubator for emerging music businesses in Toronto.

artists and music companies must promote their music in a place where the new digitally savvy fan is looking for it. From there, the music industry must forge new partnerships to create a variety of legal new music retailers and distributors. The sale of music completes the cycle so that additional investment can be devoted to creating new music. Unless all parts of the puzzle are in place, the process for discovery and promotion of Canadian talent may be lost.

### **Making Innovation a Centrepiece**

The traditional focus of Canadian funding programs for the commercial music industry has been to subsidize the creation of sound recordings and videos by individual artists or their Canadian-owned independent record companies, and fund the related costs tied to marketing, touring, publicity and promotion of the sound recording. This tried and true framework is ripe for an overhaul that, while preserving the best of what it has to offer, will catapult our music community into the future.

Investment should be focused on companies that innovate, because they are the ones that will have the strength to weather the storms of technological disruption and continue to attract the artists that will help Canada maintain its position as a leader in the global music market. The goal of funding agencies should be to encourage innovations that fundamentally improve a music company's core business functions – to create breakthroughs in existing processes, fan experiences, and business models.<sup>boxi</sup> To this end, “Innovation Criteria” should be added to funding programs like those offered by FACTOR and the Ontario Media Development Corporation (OMDC). Innovation Criteria would track, measure and reward innovative activities by artists and companies in Canada, first to assess the current level of innovation across the Canadian music industry, and eventually to improve access to the type of funding needed to sustain innovation. Companies and artists that innovate continuously should be rewarded by more predictable funding streams for ongoing initiatives, and the ability to access higher levels of funding to take projects to the next level. Through ongoing use and monitoring of innovation criteria in funding applications, over time, the “structured approach to experimentation”<sup>boxii</sup> that innovation requires would be fostered throughout the industry. In this way, the traditional risk/reward analysis is reversed, and the risk of not innovating as an applicant for public funding would be much higher than the risk of innovating. It is also worth remembering that innovation is a sometimes poorly misunderstood term that is often misused. Innovation is not to be confused with invention. We use innovation in its traditional and strictest sense, in which it is all about extracting *commercial value* from knowledge or ideas.

This idea is not without precedent. FACTOR recently implemented an approach in which artists are rated, at least partially, on criteria that include significant press history and social media presence. FACTOR's system also rates artists on a comparison basis with their peers, by reference to what others in the industry are doing, thereby allowing artists who push boundaries to have access to different, or more substantial, funding than those who do not.<sup>boxiii</sup>

The only reason to invest in companies of the future is their ability to innovate, to differentiate.

Jeffrey Immelt,  
General Electric

When funding rewards a track record of innovation, innovation necessarily becomes a core value of companies and artists. As this happens, innovation moves from the periphery, funding for a one-off digital project, to the core, encouraging the incorporation of new technologies in traditional areas of focus for the music industry, (i.e. marketing analytics, such as premium tools offered by Salesforce) that are today out of reach to all but the most well financed music companies. As well, this funding would address the reality that success in the digital world requires time-intensive ongoing, even daily, communication with fans, and a level of authenticity and direct communication that goes well above and beyond traditional album promotion.<sup>lxiv</sup> As noted by the Manager of the band Tennis, “Fans expect things to come directly from the artist. You have to get yourself to the next gig and do a good gig and do your social media stuff. And there are still only 24 hours in a day”.<sup>lxv</sup> Funding the hiring of well-educated, tech savvy staff to manage artist brand, profile and web properties year round would fill this need for 24/7 presence (i.e. running an artist website and direct to fan e-commerce store), that does not track neatly with the ebbs and flows of traditional album cycles. In the current environment, this activity may be just as important in reaching new fans as playing the song on the radio once was.

These are the types of technology and management resources that artists today and in the future will be looking for in deciding where to sign, and thus fundamental to the ability of Canadian companies to compete on the global stage. More fluid funding, allocated according to criteria that reward a constant push toward finding innovative ways to do business better, and predictable renewal guidelines for projects and staff requiring long-term funding, would go a long way to securing a place for Canada on the leading edge of digital innovation.

### **Leveraging Partnerships** <sup>lxvi</sup>

Music creators are part of a broad ecosystem that includes other non-music industry actors that should be incentivized through innovative partnerships to build technology for Canadian music companies, and to bring the same level of exposure to Canadian music in new digital services that CanCon requirements may once have secured on traditional radio playlists.

As the EMI case study, detailed below, demonstrates, major music companies, have recognized that in certain cases terrific impact can be achieved by “democratizing” access to their music and opening up their catalogues to skilled developers to create innovative new music products. A similar initiative for Canadian music could be helpful in creating incentives for local developers to feature Canadian music in new technology and applications.



## CASE STUDY: OpenEMI – THE POWER OF COLLABORATION

Major music companies are at the leading edge of digital innovation for the delivery and marketing of music. They have recognized the importance of giving consumers various points of entry and that they need to do this through online platforms in order to continually access new markets for emerging artists and their extensive back catalogues. The ground-breaking OpenEMI initiative is a prime example of the efforts and investments the major music companies are willing to make to provide the best content to their consumers.

Through partnerships with The Echo Nest, EMI has made thousands of songs from its catalogue available to developers around the world. The developers can use these works to experiment and create new digital tools for EMI artists through OpenEMI.<sup>[xxxvii]</sup> Content from EMI's catalogue is organized into various sandboxes. Some sandboxes provide access to thousands of audio tracks from multiple artists. Other sandboxes focus on a single artist, providing broader content types like audio, video, artwork, photos and more. The intent is to provide the developer community with the resources to create new and innovative applications and services.<sup>[xxxviii]</sup> EMI describes the development process as follows:

- EMI and The Echo Nest make content available via API
- Developer signs up for The Echo Nest API
- Developer uses content to shape and hone ideas, test concepts
- Developer submits a proposal for an application
- Proposal is reviewed by EMI, The Echo Nest, and the relevant artist (if it's an artist specific application)
- If the proposal is taken forward the Developer builds a beta version
- Beta is reviewed by EMI, The Echo Nest, and the relevant artist (if it's an artist specific application)
- If the beta matches the agreed proposal then the Developer builds a production version
- EMI will publish the production version in the relevant application store <sup>[xxxix]</sup>

In addition to providing access to content, OpenEMI improves and streamlines the music licensing process for developers and incorporates a unique revenue sharing structure.<sup>[xxx]</sup> If an app is successfully produced, 40 percent of the revenues are shared between the developer and The Echo Nest and 60% of the revenues are split between all rightsholders.<sup>[xxxi]</sup>

The Blue Note app for iPad, released in October 2012, was the first to be commercially released through the initiative.<sup>[xxxii]</sup> This app, and another similar program for Spotify, allows listeners to discover classic recordings for Blue Note's extensive jazz catalogue by performer, album, style, instrument or year, providing easy ways to explore the music archive.<sup>[xxxiii]</sup>

Opportunities for made-in-Canada innovations exist when local technology companies enter partnerships with Canadian artists and music companies to build innovative products that would be difficult or not cost-effective for either the developer or the artist/music company to build on its own. Infrastructure to support these initiatives is growing in Canada through digital incubators such as Ryerson's Digital Media Zone. Funding is also available for innovative projects that drive collective benefit. Two projects funded through FACTOR's Collective Initiatives fund, Volu.me and the Cardboard Box Project (CBP), provide examples of how this could work. CBP innovates by providing an ecosystem of resources that addresses many of the common pitfalls artists experience while touring, and allows numerous artists to tap into the same infrastructure and backend systems.<sup>xxxxiv</sup> Volu.me, similarly, innovates by acknowledging that mobile applications are not cost-effective to create for most artists on a one-off basis, and provides a platform that allows numerous artists to tap into the same technology to offer apps in a cost-effective manner.

Another avenue to obtain capital for development is through venture capital investment. Venture capital investment has not traditionally been available in the music industry, where many innovations have been funded through investments by the major music companies and government. Identifying strategies and opportunities for venture capital investment are an area where the music industry could conduct further research.

Funding models should create incentives for new music services launching in Canada that are not subject to traditional CanCon requirements. As new music services launch in Canada, they provide new places for Canadians to discover music. Whereas traditional over-the-air radio is governed by CRTC CanCon regulations, new web radio and other music streaming services are borderless, and not subject to CanCon requirements. Fortunately in the last two years, three services with Canadian roots have been launched (Stingray Galaxie, CBC Music, and zik.ca). As web radio becomes more prevalent, more and more "radio" listeners will be primarily exposed to playlists programmed without CanCon restrictions, many from outside Canada. As an example, a free mobile app called TuneIn Radio, is easily accessible through app stores in Canada, and allows access to simulcasts of traditional radio station broadcasts from over 70,000 different radio stations all over the world. TuneIn's description in the iTunes App Store aptly describes itself as a "new way to listen to the world". Although TuneIn features simulcasts of terrestrial radio broadcasts, where web radio applications involve programming music for listeners, we must work with these services, rather than rely on regulation, to encourage them to feature Canadian music at appropriate levels across their services.

Partnerships can also be structured with these entities to better understand the listening preferences of their consumers. A number of these new music services rely heavily on automated recommendation engines to drive music discovery. Some web radio companies, including Last.fm, Pandora, and the Echo Nest, are best known for using powerful data and algorithms to understand the relationship between songs and listeners.<sup>booxv</sup> As more and more services with this functionality launch in Canada, funding could also be applied to partner with these companies to conduct analyses of the listening habits of Canadian users in these new models, seeding appropriate established and emerging Canadian music in their playlists and gaining new insight into the actual habits of Canadian listeners when it comes to CanCon.

Additionally, some new platforms, like Spotify (though not yet launched in Canada), offer app platforms within their music service on which developers can create applications that help subscribers discover new music. These app platforms have been created “as a way to address one of the biggest problems many subscription services face: How do I decide what to listen to?”<sup>booxvi</sup> Accordingly, if funds were allocated to creating apps designed to promote and contextualize Canadian music within these services, or provide Canadian users with apps that assist them to discover Canadian music, this would be another low cost way of providing exposure to Canadian music on new platforms.

### **Monetization**<sup>booxvii</sup>

The vast majority of today’s funding initiatives focus on the front end of the music equation - providing funding to Canadian makers, producers and creators of sound recordings, with less attention or investment in what happens to that sound recording “downstream”, at the level of retail and on-line distribution. The assumption has been that if the music can be created, the legal market in which customers can buy or listen to that music is in place to ensure a return on that investment.

This philosophy made sense in the era when traditional physical music retailers sold music in stores that were easily accessible across Canada. But as sales from these traditional retailers continue to shrink, and more and more of the new digital music retailers in the world are based outside Canada, our policy framework should also focus on making Canada a desirable place to launch and base operations for a variety of new

mainstream legal outlets for the sale and distribution of Canadian music. If new music retailers launch in Canada, it follows that Canadian artists and music companies will have more outlets to generate revenue from the sale of their music, and it will be easier for Canadian music listeners to find and purchase that music.



As far as new music subscription services go, “[a]ll players in the subscription business agree the ‘holy grail’ is scale”.

<sup>booxviii</sup> Revenues from these new services remain small, and services are generally not spending money on marketing their brand or the service, educating consumers on how to use subscription services, or establishing a physical presence in Canada. As a result, scale for these services remains elusive and makes it difficult for these services to generate meaningful revenue for artists and music companies. Sweden is one market in which the scale of subscription services (primarily Spotify) is now generating significant revenue for artists and music companies. IFPI recently published information showing that streaming services accounted for 57.5 percent of all music sales in

that country, as well as a 14 percent total overall sales growth rate in 2012.<sup>booxix</sup>

Another concern is that, despite aggressive efforts from within the music industry to attract new services to Canada, a number of international digital music services that generate significant revenue for musicians in other countries are not yet available in this country. Amazon Mp3, for example, which launched in the United States in January 2008, will be live in at least seven markets before it launches in Canada. Google Play’s launch roadmap for its music service looks very similar – Google Play first launched in the United States in November 2011, and will be live with music in at least six international markets before Canada. Subscription streaming services that have enjoyed immense popularity in other countries, including Spotify and Rhapsody, are also not yet live in Canada. For these players, a launch in Canada is low on their priority list, despite the fact that Canada is one of the largest music markets in the world. In interviews conducted with Canadian and international digital service executives in 2011, respondents demonstrated confusion about the Canadian market and regulatory environment and expressed frustration with the uncertainty and elongated process required to license music in Canada. This research led Music Canada to publish a Digital Music Licensing Guide for Canada.

Providing traditional business incentives to encourage new music retailers to launch sooner in Canada, and to establish offices in Canada (preferably in each of English and French Canada) could assist in bolstering the health of the Canadian music industry

as a whole by generating additional revenue for artists, and additional choices for consumers. Incentives may be necessary, as new digital retailers, not limited by the need for retail space and offices in Canada to facilitate physical distribution, are able to operate music services in Canada from anywhere in the world, without hiring any Canadian employees. Amazon.com, for example, although an increasingly important global online retailer of physical and digital music, has no operations in connection with its physical business (other than distribution) in Canada.

The Apple iTunes store, by contrast, highlights the impact that a local Canadian office can have on the weight that an international service places on profiling Canadian music. The iTunes music store operates an office in downtown Toronto and has French-speaking employees in Montreal. The employees on the music team are all Canadian, and were hired based on their deep wealth of Canadian music industry experience. The programming for the Canadian iTunes store is done in Canada, and provides a solid focus on Canadian music, both French and English, in all available promotional and editorial opportunities. iTunes also creates new content for Canadian artists to sell on the iTunes store in the form of its “iTunes Sessions,” which have featured Lights, Sam Roberts, Sarah Harmer, Kathleen Edwards, and many more. For iTunes, this is simply part of good business practice, rather than something they do to meet regulatory requirements. As the market leaders they are setting the example for other services to emulate when launching in this market.

A more recent market entrant, France-based Deezer, has signaled a promising commitment to establish a Canadian footprint as explained by Managing Director of Deezer Canada, Justin Erdman, in an interview for this report: “Deezer Canada is making a physical and financial commitment to Canadian music because we’re Canadians - we grew up here playing in bands and working for music media and record labels.” Deezer is available in over 182 countries across the globe and is locally tailored to deliver relevant content to support local artists and to make appropriate recommendations to local music fans. This unique structure ensures that a consumer accesses personalized content, so when a Canadian visits Deezer.com they will experience a service that is a true reflection of the country’s musical landscape. Erdman also noted that “This approach sounds simple, but you’d be surprised to find that it’s unique to us and we know it creates real, tangible benefits for artists, music fans and the music industry.”<sup>xc</sup>

We cannot lose sight of the fact that one of the world’s most well-known technology companies, BlackBerry, is proudly Canadian. Over the last several years it has continued

Deezer Canada is making a physical and financial commitment to Canadian music because we’re Canadians - we grew up here playing in bands and working for music media and record labels.

*Justin Erdman, Managing Director, Deezer Canada*



BLACKBERRY® Z10  
Photo credit: BLACKBERRY

to make strides into the digital music arena. Recently, with the launch of BlackBerry 10, the company has delved further into the realm of digital music with the global re-launch of their BlackBerry App World. Now simply branded BlackBerry World, the core and pre-loaded application has become the central spot in which users can access a myriad of top content including a highly

robust and competitive à la carte digital music download store. BlackBerry now offers its users a more seamless way to browse, search, sample, share, and most importantly purchase music right from their devices.

Commercial music industry stakeholders and government should take the steps necessary to incentivize and facilitate other Canadian and international businesses to profile Canadian music in their stores and services to the greatest possible extent, as part of the overall strategy to create diverse and healthy markets for the sale of the music we produce.

Already, several promising steps in the right direction by government and industry have proven capable of bringing new services to market. The common factor in each case is that the actions taken provided clarity and predictability that was previously lacking. The first important advance in this regard was modernizing Canada's copyright regime. Additional advances have also been made by the industry in rights licensing.

In the past 18 months there are examples in which the recording industry and new service providers were able to come to collective agreements on mutually acceptable rates through a simplified and streamlined licensing process. These initiatives, beginning with an innovative deal that would see the launch of the first Canadian-owned commercial-free mobile streaming music service, Galaxie Mobile by Stingray Digital, ultimately led to the launch of at least three significant music services in Canada, and demonstrate that the industry itself has a key role to play in introducing innovative techniques to overcome traditional barriers to entry for new music services willing to pay fair compensation to creators, and seeking speed to market.

# CASE STUDY: CBCMUSIC.COM: AN INNOVATIVE CANADIAN SERVICE



Media companies are willing to make the investment necessary to deliver music to Canadians in innovative ways, even where the entry costs of such innovations are high. CBC Music is a free digital music service launched in early 2012. It offers access to 40 web radio stations, a vast array of music and blog posts by CBC personalities through a website and via mobile apps.<sup>xcvi</sup> In advance of the launch of the service, CBC executives indicated “What we’re going to launch is us reimagining what that mandate means in the 21st century, in a world where consumption of music and music content has shifted dramatically through digital technology.”<sup>xcvii</sup> The launch of this service was an acknowledgement by the CBC that the industry was shifting and that it was important

to provide access to consumers in different ways. Chris Boyce, Executive Director of Radio and Audio for the CBC acknowledged, “If you look at the music industry, it’s been in essence turned on its head in the last decade. Technology has profoundly changed how people consume music content. For us, this is about adapting to how the listening experience has changed. Part of what we’re trying to do is reflect Canada to Canadians...This is an opportunity to reflect a wider range of music than you’re able to do on a single terrestrial radio channel.”<sup>xcviii</sup>

Unlike other service providers, under the *Broadcasting Act*, CBC has a mandate of delivering Canadian content to Canadians. In support of this mandate it has designed a service that puts the best of Canadian content online, alongside the best international music. Working with the Audio Video Licensing Agency (AVLA), representing its full membership at that time of almost 1000 major and independent music companies, the licensing deal behind the service required imaginative and nimble business thinking and was the first of its kind in Canada for online streaming and podcasting of radio and online digital music programming.<sup>xcix</sup> In a letter to the editor first published on CARTT.ca Kirstine Stewart CBC’s EVP English Services, indicated, “On that note, an important piece of our strategy involves showcasing Canadian artists side-by-side with the best in international music. It allows us to promote Canadian talent effectively to a broad audience of music fans, it’s consistent with how people consume music and most importantly, it’s what the artists and their labels have told us they want from CBC.”<sup>xc</sup> In the first three months following the launch of the service, over 29,000 Canadian musicians had signed on and created artist pages on CBCMusic.ca and had uploaded over 140,000 Canadian songs. Additionally, there are over 500 concerts on the site, 95 percent of which are Canadian. Of the 40 web radio stations that are available on the service, several of them are exclusively Canadian, featuring the work of Canadian composers and songwriters.<sup>xcvi</sup> The service has been hugely successful from a listener perspective, with 7.8 million visits on the web since launching. Users have streamed 17.6 million hours of music.<sup>xcvii</sup>



In addition to offering innovative licensing, the industry has acknowledged that there is a need to reduce business uncertainty for services that rely on rates set by the Copyright Board of Canada for the use of music. For these services, tariffs may not yet be certified at the time they wish to launch, which can create a deterrent effect. This is particularly true given that often times proposed rates filed at the Copyright Board are higher than those eventually certified. For example, for non-interactive services, no certified tariff rate exists for the communication right in sound recordings. Despite the fact a tariff was filed on March 31, 2008, these rates will remain uncertain until at least the fall of 2013, as they remain under consideration by the Copyright Board, and that tariff will only cover up to 2012; the Board hasn't begun to consider the tariff for 2013 and on.

To address such business uncertainty, Re:Sound took the proactive step of offering licensing agreements on behalf of its members to innovative new services such as Songza, which are already available in other territories. This allowed new services to launch prior to the certification of a tariff but with certainty as to the rates they would need to pay Re:Sound in the interim. As an added bonus, Re:Sound created a revenue stream for its members earlier than if the service were to wait to launch until the tariff was certified. Early reaction has been positive - for Re:Sound, for its members, and for Canadian consumers - as Songza attracted one million new users in Canada within 70 days of its 2012 launch. To the extent that rightsholders across the music industry can be encouraged to take this type of approach, new services could launch faster for the benefit of the Canadian music industry as a whole. The Copyright Board of Canada is under-resourced and driven almost completely by the tediously slow process of litigation. If the Government of Canada is serious about a digital economic strategy, it must equip agencies like the Copyright Board, which are gatekeepers to the establishment of innovative new music services, with the appropriate tools, personnel, and financing to facilitate the fast-moving digital economy. We cannot compete on the global stage when tariffs are filed at the Board in a given year and not certified for three to four years hence. Instead of a barrier to entry and innovation, the Copyright Board could be re-imagined as something analogous to a "business development office".



## RECOMMENDATIONS

The Canadian commercial music industry has a proud history of innovation. Small changes in the way funding is allocated can ensure that Canada has a position as an innovation leader into the future. Traditional and non-traditional partners should be engaged to ensure that Canadian music continues to be easily discovered by Canadians and takes up a place of prominence in the online environment where our talent can be effectively showcased beside the best talent in the world.

### **Recommendation #3**

More fluid funding, allocated according to criteria that reward a constant push toward finding innovative ways to do business, should be implemented and would help secure a place for Canada on the leading edge of digital innovation.

### **Recommendation #4**

Design models that support the discovery of Canadian music online through partnerships and strategic initiatives. Efforts dedicated to innovative technologies that support Canadian talent should be favored over those that are tied to old technology or which support of services that do not promote Canadian music.

### **Recommendation #5**

Provide incentives to encourage new music retailers to launch and establish offices in Canada. This would assist in bolstering the health of the music industry in Canada as a whole by generating additional revenue for artists and additional choices for consumers.

### **Recommendation #6**

The Government of Canada should provide a renewed vision for the Copyright Board of Canada as a “business development office” and equip it with appropriate tools, personnel and financing.



### PART 2.3: MUSIC TOURISM: LEVERAGING OUR STRONG LIVE MUSIC TRADITIONS

*Contributed by: Nikki Rowling - Titan Music Group, and Music Canada*

#### **The Benefits of a Tourism-Driven Music City**

Music tourism and marketing offer rewarding opportunities for economic growth and brand development at the provincial, regional and city levels. Some cities with strong commercial music and live event offerings have achieved spectacular results through successful music tourism development strategies. There are opportunities to replicate those successes in many cities and provinces across Canada.

The benefits of a vibrant commercial music scene on a city's quality of life and on attracting and retaining creative workers and businesses were outlined earlier in his report. Vibrant music scenes can also have a dramatic impact on a city's bottom line through a sustained, strategic focus on music tourism. Tourism has an outsized effect on economic development as well as generating both tax and music industry revenues, and creating permanent, high-quality jobs. A 2009 report on the future of tourism in Ontario found that tourism is the largest employer of young people in the province.<sup>xcviii</sup> Part of the unique advantage of music tourism is that any region with a legitimate, authentic music scene of substance can brand itself globally through careful articulation of its unique cultural gems, then strategically broadcast that brand to prospective tourists in Canada and around the world.

A good publicity and promotion strategy, along with a sustained commitment from all stakeholders to support that strategy, can create a snowball effect. This can increase a city's or region's brand recognition worldwide, thereby producing a very high rate of return per dollar of investment. The economic development and cultural gains result in permanent, year-round benefits.

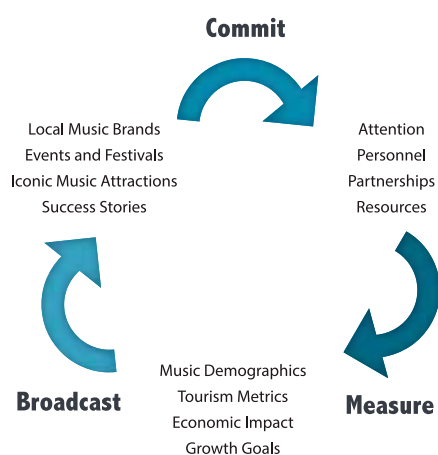
Cities and regions tend to develop unique characteristics including distinct music scenes. Montreal, for instance, has become well-known for its TD International Jazz Festival and its diversity of music venues. As such, music tourism strategies are usually most effective when focused around a particular city or region in conjunction with local governments and music industry operators, rather than a one-size-fits-all approach at the federal level. The music tourism industrial strategy presented here therefore follows a regional model. The intent is that the model can be replicated in any size regional market by tapping local government and private industry resources.

### Austin, Texas: An Example of Music Tourism Done Well

Vibrant music cities can be found around the world – Toronto, Melbourne, Chicago, Austin, New Orleans, Nashville, London, Montreal, Rio de Janeiro, and more. Global cities like these gain significant economic benefits from music tourism. Unsurprisingly, therefore, the market for music tourism dollars is extremely competitive.

Austin, Texas is among the most successful cities anywhere at leveraging its private industry and government infrastructure to promote its music brand – the “Live Music Capital of the World.” This, in turn, attracts numerous visitors to the city along with lucrative economic spinoffs. Austin’s population is about one-third the size of Toronto, or roughly equivalent to the population of Ottawa or Edmonton. However, the economic impact of its commercial music industry – at \$1.6 billion a year<sup>xcix</sup> – is roughly 2 ½ times the annual impact of Toronto’s music industry. Music tourism accounts for nearly half that total – a contribution that has grown from almost \$730 million in 2005 to just over \$806 million in 2010.<sup>c</sup>

FIGURE 5: MUSIC TOURISM CYCLE IN AUSTIN<sup>5</sup>:



**Commit** – To secure the benefits that come from music tourism, a city must commit to capitalizing on and growing its music tourism infrastructure, and dedicating the resources necessary to achieve a high profile music brand identity. This commitment requires participation from both private industry and government. A brand can be created, cultivated and then marketed through diverse sources.

<sup>5</sup> A detailed examination of Austin’s strategic plan to use music-as-tourism and its impact can be found in Section IV of the study “Accelerating Toronto’s Music Industry Growth: Leveraging Best Practices from Austin, Texas.”

**Measure** –Consistent and thorough measurement of the financial and cultural impact of music tourism programs enables the articulation of growth goals, quick and accurate course correction when needed, and the targeting of previously overlooked growth opportunities. Measurement also enables the articulation of goals and numerical benchmarks, providing a common understanding among all stakeholders of their collective efforts, and motivating them to work together towards an agreed goal.

**Broadcast** –Music tourism initiatives should identify and employ innovative ways to promote a local music identity as a hub for its distinctive festivals, events and other musical assets. The identity should focus on what is musically unique about the region, and on specific success stories (festivals, venues, studios, etc.). In turn, the marketing effort should promote a unified brand as a promotional foundation. This brand can be shared between multiple public and private stakeholders.

With this framework in mind, we can then turn to specific, proven music tourism practices, and devise.

### **A Model for Maximum Impact: Developing Canadian Music Industry Tourism**

The Canadian Chamber of Commerce recently concluded that uncompetitive travel and tourism strategies were one of the top 10 barriers to Canada’s competitiveness in international tourism. The Chamber noted that “Canada has slipped from seventh place among the world’s tourism destinations to 18th place in just a decade. A huge industry, critical in every region, is struggling with its competitiveness and needs public policies that are forward looking and supportive.”<sup>ci</sup> Music tourism strategies, specifically, could help Canada regain some of that competitiveness.

Canadian cities like Montreal and Toronto already have large numbers of artists and performers, major festivals, iconic venues and cultural corridors, and other important musical assets that provide a solid foundation for music tourism. There are also opportunities for regions with less intensively developed music assets. Events such as BC’s Shambhala Music Festival or Alberta’s Big Valley Jamboree can provide sizeable tourism draws. However, having these assets and successfully exploiting them are two different things. As the Ontario Arts Council notes, “Turning the potential of a comparative advantage into effective implementation will require careful evaluation and appropriate commitment. Cities like Austin, Seattle and Nashville have built strong city brands and billion-dollar economies on the music industry. They demonstrate what is possible for those that believe in music.”<sup>cii</sup>

Cities like Austin, Seattle and Nashville have built strong city brands and billion-dollar economies on the music industry.

*Ontario Arts and Culture  
Tourism Profile*

## CASE STUDY: SMALL FESTIVALS HAVE A LARGE IMPACT: SHAMBHALA AND CAVENDISH BEACH MUSIC FESTIVALS

The success and positive economic impact of small music festivals across Canada demonstrates the benefits of exploiting musical assets, irrespective of a community's size.

Salmo, BC, a town of 1,200 people, is home to the annual Shambhala Music Festival, an event attracting 10,000 music fans and 1,000 volunteers.<sup>ciii</sup> Just 500 fans strong 15 years ago, the event now contributes an estimated \$20 million to the economy of BC's West Kootenay region.<sup>civ</sup> Shambhala is held on private property and does not accept corporate sponsorships.

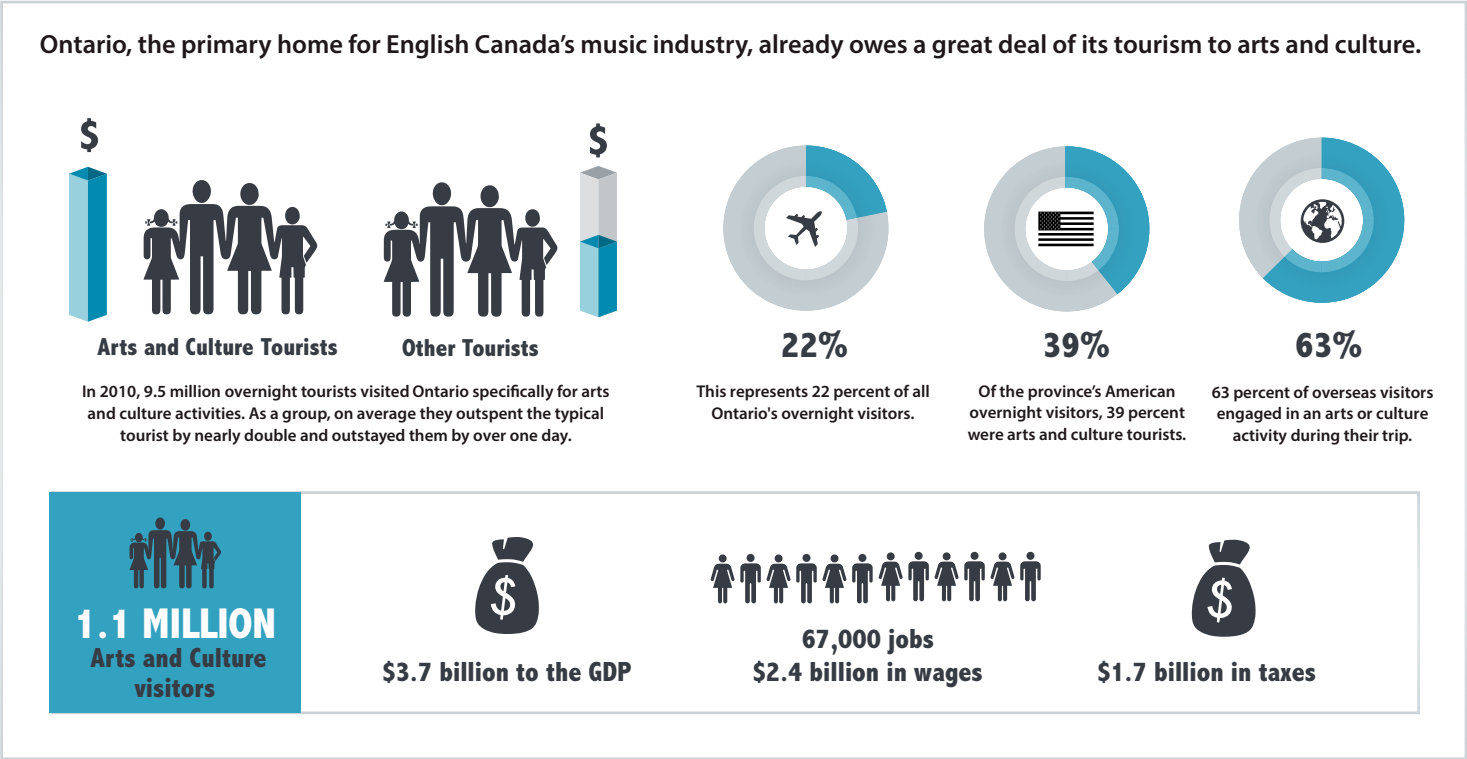
The festival organizers are committed to giving back to the community. In 2011, Shambhala announced a five-year commitment to fund the purchase and installation of new lighting and sound equipment at Selkirk College's Nelson campus. The organizers see a direct benefit in supporting music education, technically advanced performance space and music appreciation in their community. Corrine Zawaduk, production manager for the festival, told the Nelson Star, "We hope to inspire great young minds and we benefit from that because they bring the ideas for the future."<sup>cv</sup> In addition to investment in music education, the festival has supported the construction of local skateboard parks, and provided support for local food banks, local public libraries and community youth and family centres.<sup>cvi</sup>

Similarly, Cavendish, PEI gains positive economic benefits from the tourism generated by the Cavendish Beach Music Festival, which contributes an estimated \$14 million annually to the local economy.<sup>cvi</sup> In a province where tourism is a key economic driver, the provincial government has recognized the economic importance of such festivals and the return that can be garnered from investing in them. PEI Premier Robert Ghiz has noted, "Promoters worked with government to utilize the Build Canada Fund, and built infrastructure which was a great investment in the Cavendish area. The government of Prince Edward Island is pleased to support initiatives like Cavendish Beach Music Festival, which assists in the growth and sustainability of tourism, one of our primary industries."<sup>cvi</sup>

Though individual music festivals alone may not be enough to create a year-round music tourism industry, they do drive positive economic contributions to the communities in which they are located, create jobs and generate many spin-off benefits. Communities that do not fully exploit the value of these commercial music resources are leaving a valuable asset on the table.

Ontario, the primary home for English Canada’s music industry, already owes a great deal of its tourism to arts and culture, although measurements related specifically to music tourism are unavailable because they are wrapped in the larger cultural tourism metrics. In 2010, 9.5 million overnight tourists visited Ontario specifically for arts and culture activities. As a group, on average they *outspent the typical tourist by nearly double and outstayed them by over one day*. This represents 22 percent of all Ontario’s overnight visitors.<sup>cix</sup> Of the province’s American overnight visitors, 39 percent were arts and culture tourists. Even more impressive, “63 percent of overseas visitors engaged in an arts or culture activity during their trip.”<sup>cx</sup> This accounts for 1.1 million overnight arts and culture visitors, which contributed \$3.7 billion to the provincial GDP, 67,000 jobs, \$2.4 billion in wages, and \$1.7 billion in taxes.<sup>cxii</sup>

FIGURE 6: ARTS AND CULTURE TOURISM PAYS OFF



To be most effective, a new industrial music tourism strategy for Canadian regions should focus on other centres’ experience and best practices in four areas:

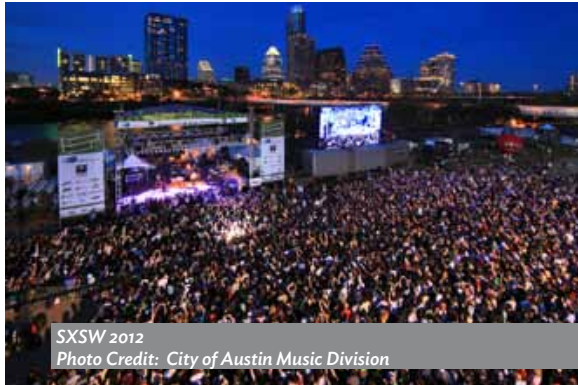
1. Leveraging Existing Assets: festivals, iconic venues, & other assets
2. Municipal and provincial participation
3. Strong public-private collaboration
4. Music as a tool for tourism

Regardless of city size or cultural assets available, this model can create measurable and sustainable momentum.

## Best Practices for Music Tourism Growth

### Leveraging Existing Assets from the Commercial Music Industry Assets

Any region's existing musical assets, whether they are large annual music festivals and concerts, noteworthy or iconic music venues, a rich musical history, hip music stores, or simply the presence of a large and thriving musician population, provide the foundation from which to build and expand music tourism. Through assets like these, the commercial music industry already contributes to the tourism economies of cities and provinces across Canada.



The extensive intellectual capital and industry experience offered by local music industry operators and entrepreneurs is invaluable to efforts to expand a region's music tourism base. The music business is highly competitive, and thrives on innovative promotion to reach consumers and generate sales. Industry players, therefore, are well positioned to make

a valuable contribution to music tourism initiatives. When it comes to a region's music brand development, the particular type and flavour of existing festivals, events and venues provides the best foundation. The brand can then be communicated and promoted worldwide.

As a first step, the public sector players involved in music tourism development, whether at the provincial or municipal level, should assess the available existing music assets – festivals, events, concerts, stores, live music venues, recording studios and others – and identify the entrepreneurs behind them. These businesses are likely already creating significant economic and branding benefits wherever they exist, and present good partnership opportunities for government. Festivals in particular provide powerful branding opportunities for cities and are attractive tourism draws. Private companies in Canada already create world-class festival experiences that attract fans worldwide.



A few examples help illustrate success to date and accrued benefits to respective municipalities:

- The **Montreal International Jazz Festival** sponsored by TD Bank boasts two million annual attendees and generates over \$125 million in economic activity annually. Much of this total is contributed by tourists,<sup>cxii</sup> who bring \$72 million in new spending.<sup>cxiii</sup> The festival contributes close to \$64 million to the province's GDP - the equivalent of more than *\$12 for every dollar in subsidies that it receives*.<sup>cxiv</sup>
- The **Ottawa Bluesfest** averages 350,000 attendees who generate \$29.8 million in economic activity for the City of Ottawa each year.<sup>cxv</sup> Perhaps more importantly, *62 percent of tourists attending the Bluesfest claimed they would not have visited Ottawa other than to go to the festival*.<sup>cxvi</sup>
- Although smaller in scale than the Montreal and Ottawa festivals, **Halifax Pop Explosion** has a big impact that continues to grow: in 2012, the five-day festival hosted 22,000 attendees and 2000 industry delegates *up 26 percent from the previous year*.<sup>cxvii</sup> Perhaps even more striking, the festival has a significant online presence, with more than 51 million total online impressions in 2012, helping place Halifax as an important tourism destination with benefits to Nova Scotia and Canada as well.<sup>cxviii</sup>

Iconic live music venues can also be compelling tourist attractions and strong branding tools for cities. If marketed with a clear and consistent image, a venue of significant heritage or reputation has the potential to draw music fans based purely on its legacy or buzz. Venues catering to specific genres of music or cultural groups can also appeal to tourists.

Governments have the opportunity to leverage famous landmarks like Massey Hall and the Horseshoe Tavern, partnering with the venue owners to create mutually beneficial promotional campaigns.

#### Municipal and Provincial Music Tourism Involvement

It has been widely acknowledged by numerous members of parliament, premiers, provincial ministers, and city councillors that financial investment in commercial music festivals and events generates large multiples of return on investment, tax revenues and permanent jobs. Funding by governments across the country has played a key role in the development and growth of some of these events, and as such is already playing a role in developing music tourism. However, there are other, less obvious but just as critical ways for governments to commit, measure, and broadcast music tourism development, as outlined below.

Both provinces and municipalities should play a central role in building music tourism. Their efforts should include creating an industry-focused strategic plan encompassing development of new marketing and tourism initiatives; the strategic use of existing programs, partnerships and other assets; identifying gaps and growth opportunities; and fostering strong public/private development programs. To do this, governments will need to:

- a) Set goals for annual tourism growth and establish measurement tools – Quantifiable annual goals for the growth of music-related tourism, promotion and economic development will encourage quick action and the adoption of a material, step by step growth plan. Setting goals will provide an incentive for action along with benchmarks to measure program success and ROI.
- b) Identify new measurement tools – Music tourism is not consistently identified as a separate line item from the more general “cultural” tourism measurements. Existing tourism data can be utilized to develop specific criteria for growth, inform the development of new growth strategies, and identify gaps in measurement needed to capture music-related tourism. Many provinces already gather data on marketing performance, brand tracking travel outlook and demographics – data used to inform marketing strategies. Additional metrics are needed to measure the impact of music-related tourism generated by festivals and events, including: festival and event attendance; person visits; increased hotel occupancy rates; length of stay; total visitor spending; and music tourism-related employment.
- c) Brand development – Existing city or regional brands should include and/or highlight music tourism assets. This involves reviewing existing websites, web portals, digital apps, promotional materials, and other marketing tools to ensure that they highlight music events, venues and other related assets, and that these assets receive significant attention and placement with a consistent brand messaging. If a music brand doesn’t currently exist, priority should be given to building a brand in partnership with local private music industry operators. Paid and unpaid media can be leveraged to promote the music brand year-round.
- d) Leverage existing resources and identify programming gaps – Government departments and agencies should leverage existing activities and programs to support music tourism development. These departments and agencies should coordinate their activities with a singular, sustained focus on building music tourism rather than creating a series of one-off projects. For example, regional tourism development agencies can work with communications and special event departments to identify and create music tourism programs. These can be tailored to the particular flavour of local music events and festivals.

- e) Similar opportunities also exist at the provincial level to coordinate activities across ministries and agencies. In addition, music tourism can be highlighted and explored by provincial tourism ministries and agencies at annual tourism conferences or summits. These events provide yearly opportunities to explore areas of under-utilized capacity, present successful music tourism case studies, and more. Working together, provincial and city governments can also explore ideas and develop integrated programs to use music to drive convention business.
- f) Review and align policies for music tourism growth – Governments should identify new policies to support music tourism, plus review existing policies and modify them as necessary to create new growth opportunities. Ideally, the policy review will involve all relevant departments and encompass policies related to creative clusters, tourism, development, taxation, and other areas that impact music tourism development. The results of the review can then be put to work to develop policy recommendations that build a unified and integrated music tourism approach.

The province of Ontario is already moving in this direction. Michael Chan, Ontario's Minister of Tourism, Culture and Sport, recently announced a live music strategy designed to make Ontario one of the most successful music destinations in the world. In announcing the strategy, he remarked, "Cultural tourism is a powerful force that is transforming global travel and trends. Our diverse arts, culture and heritage has helped us attract visitors from within our borders and beyond to explore and experience our exciting province. Our government is committed to evolving our tourism strategy to align with our cultural assets – for example, harnessing live music experiences that will drive our economy and firmly place Ontario on the international stage as a premier cultural travel destination."<sup>cxix</sup>

Toronto will, by virtue of its vibrant music scene, anchor the provincial tourism initiative. Already, a group of music industry leaders led by Music Canada is developing a program encompassing many of the recommendations above. Other Ontario communities, including London, Peterborough, Guelph, Niagara and Hamilton, are following suit.

#### Strong Public-Private Collaboration

Best practices developed in music cities across North America have demonstrated that perhaps the single most effective way to build a strong and sustainable music tourism base is to develop effective public-private partnerships. These partnerships should include commercial music sector operators and local and/or provincial governments. Well-crafted and implemented public-private partnerships often deliver returns that multiply the dollars and efforts invested by all parties. For example, Ontario's live music

Our government is committed to evolving our tourism strategy to align with our cultural assets – for example, harnessing live music experiences that will drive our economy and firmly place Ontario on the international stage as a premier cultural travel destination.

*The Honourable Michael Chan, Ontario Minister of Tourism, Culture and Sport*

strategy has been developed over the past year in conjunction with an industry working group comprised of 21 Ontario-based commercial music industry professionals along with the OMDC, the OAC and the Ontario Tourism Marketing Partnership Corporation. Ongoing and systematic communication between government and private industry via an industry working group is an efficient way to leverage the knowledge, experience, and activities of all parties, and to create a larger industry impact.

Private industry can contribute most effectively by working closely with government departments and agencies and by adding their business knowledge and entrepreneurship to provincial or municipal music tourism initiatives.

Specific joint activities can include regional music brand development, identifying existing assets that can drive music tourism, and exploring new opportunities for growth in gap areas. The private and public sectors can work together to articulate what is special and unique about regional music scenes in order to create or enhance a brand identity. Together, they can develop an authentic and exciting representation of the area's unique character. That messaging can then carry through all music-related marketing and promotion activities by the public and private sector participants. With appropriate government support, the music industry can also identify opportunities for collaboration and cross-promotion with other industries that share similar target markets.

Finally, by working together with the private sector, governments can gain industry feedback on the effectiveness of its cultural marketing and tourism programs, and recommend policy and strategy changes as appropriate.

### **Technology as a Tool for Tourism**

In the digital age, the use of social media and other consumer-oriented technology tools is an important component of marketing to and building connections with consumers. These tools are particularly important in developing music tourism. The savvy use of technology can have a particularly dramatic impact on festival and event attendance, regional music brand building, and consumer loyalty-building. Most of the younger consumers who typically attend festivals and live events are already immersed in online life, purchasing music downloads, listening to Internet radio, following bands on Facebook, Twitter and other social media platforms, etc. Moreover, the relatively low cost of Internet and mobile communication and marketing programs, combined with the global reach of the Internet, makes it a potent tool for finding and cultivating relationships with potential music tourists.



The most successful music festivals have embraced the marketing power of well-designed websites, social media strategies and promotional campaigns. In doing so, they not only serve their own interests, but those of the cities that host them through the branding and broader economic spinoffs described above. There are significant online cross-promotional opportunities for cities and music festivals

that can be maximized through well-organized, focused and cooperative efforts. The results can be impressive. For example, in just one year, the Austin City Limits Festival and the Austin Convention and Visitors Bureau together generated over two billion online impressions for the keyword “Austin.” The festival generated free advertising for the City of Austin valued at more than \$20 million.<sup>xxx</sup> Successful festival operators have become savvy users of online and mobile marketing tools to increase attendance. While the tools and campaigns used to promote music tourism should be determined by local needs, some best practices are broadly applicable:

- a) Leverage social media year-round to support music tourism branding, messaging and consumer interaction – An effective online marketing and branding strategy will consistently promote a fun and open community that celebrates music from past, present and upcoming events. Fuelled by positive messaging, the online community can experience a city’s passion for all things music and learn about other elements that make the city a great place to visit. Social media platforms are ideal for promoting a city’s distinct music characteristics, and provide a unique level of immediacy, access and scope. Images, language and promotions can be tailored to appeal to target audiences, and thereby most effectively support music festivals, events and venues.
- b) Fostering community among music festival goers and attracting new music tourists – Some cities and festivals offer services and online platforms that create a sense of community among the festival attendees and cultivate interest among prospective tourists. For example, SXSocial is a SXSW Conference registrant tool that allows users to search for and message other SXSW attendees, update contact information, and book hotel accommodations.
- c) Effective music event websites are also a hotbed of marketing and branding activity aimed at capturing fan interest, creating a one-stop place for like-minded people to interact in a community, and cultivating new attendees for the following year’s event. Additionally, carefully selected images and messages can help build a city’s image as a diverse and fun destination that truly loves music. The benefits go not only to the festival’s own bottom line, but also to the city and the many businesses that cater to festival-goers.

- d) Accelerated learning: using metrics and analytics to reach target audiences - The most successful music festival operators understand the critical importance of data-driven analytics and marketing, and are constantly testing and utilizing cutting-edge technologies to attract new customers and maintain relationships with existing ones.
- e) Using analytics software, experts in data analytics can identify specific characteristics of attendees. This information can then be used to create innovative online campaigns to find and attract more like-minded music tourists. These tools can also help festival operators judge their festival's reputation within various online communities and, as necessary, adapt their outreach and marketing strategies on the fly. The end result is that the festival operator can offer more focused online fan experiences while maximizing the positive impact of their brand.

## RECOMMENDATIONS

### **Recommendation # 7**

Implement a Commit – Measure – Broadcast strategy for all music tourism stakeholders. Ensure this model incorporates measurement tools, is open to review to ensure best practices are implemented, and ensures optimal deployment of resources.

### **Recommendation # 8**

Stakeholders in the commercial music industry are experts at fan engagement and community building. This expertise should be leveraged to build and engage with a community of active music tourists.

### **Recommendation #9**

Make sophisticated use of technological tools and social media to build a distinct music brand with target audiences, and leverage these tools to foster fan engagement and attract new music tourists.



### PART 2.4: EXPORT EXPANSION: FOSTERING GROWTH IN NEW AND EXISTING MARKETS

*Contributed by: Virginia Jones and Music Canada*

“In my role as president of CIMA, I learned that the Canadian artist who makes it in the international market is a cultural ambassador for the Country. Music provides us with an international voice in a way that other things do not. Music opens doors. This is an aspect of the music economy that is not naturally evident. Our musicians point to a vibrant creative scene and a culturally diverse landscape – things that make Canada attractive to international investment.”

*Duncan McKie, Interview January 14, 2013*

Diversifying and growing exports is a key priority at all levels of government in Canada. In a recent report by Ontario’s Jobs and Prosperity Council, it was noted that fewer than seven percent of small and medium size enterprises (SMEs) export. Given the growth in emerging markets and relative stagnation in our traditional markets, the report emphasizes the importance of export expansion to the overall health of the economy.<sup>cxix</sup>



Saïdah Baba Talibah, Reeperbahn Festival  
Photo Credit: CIMA

Independent music companies share this view according to a recent study by Nordicity, commissioned by CIMA. Interviews conducted with independent companies revealed that they see international expansion as an important avenue to growth. While target markets remain largely limited to the US, United Kingdom and Europe, these firms identified a series of benefits to global expansion including diversification of revenues, increased press exposure, brand value, attraction and retention of Canadian and international artists, increased sales, distribution and licensing deals and increased streaming revenues.<sup>cxixii</sup>



In addition to the economic benefits that accrue from exporting, Canadian artists who find success in international markets are an integral part of our national identity and “Brand Canada”; they are “exports” who vocally promote their homeland and often act as de facto “ambassadors”.

Artists who achieve global success secure a place for Canadian culture on the world stage, and provide role models for young aspiring artists. Bands like Great Big Sea, Leonard Cohen, Shania Twain and the Sheepdogs reflect the cultural diversity of the country and its component regions. Industry research has shown “out-of-province (international) marketing is essential for the development of an emerging artist and their audience base. Indeed, an unexpected advantage of international marketing channels is the reach to both domestic and international markets.”<sup>cxixiii</sup> As an industry, efforts must be taken to ensure that artists with the potential for international success have access to export markets and the kind of support needed to succeed abroad. International partnerships and strategic relationships ensure that Canadian talent, and the related businesses back home, share in the revenue available from the international music market, maximizing the economic potential of the commercial music industry.

The ancillary benefits of international artist success are many. Artists who continue to call Canada home and find international success bring income tax revenue back into the country. They provide jobs to Canadian colleagues who tour with them, manage them and promote their careers. “Sound recording production is, in essence, the R&D of the music industry, particularly concerning emerging artists. Indeed, the development of emerging artists shares many of the characteristics of scientific R&D and is consequently subject to significant economic spillovers.”<sup>cxixiv</sup> However, if artists, for whatever reason, move to Nashville or Los Angeles to build or continue their careers, some of these benefits stand to be lost to other jurisdictions. In the 1990’s all it took was for one Canadian artist to secure a major international hit record (selling roughly 10 – 15 million records outside of Canada) and that artist’s taxes *alone* would fund the precursor to the Canada Music Fund for years.

The recent success of South Korean pop star, Psy, is a strong demonstration of the impact that a single recording artist can have on the cultural identity and economy of an entire country. Studies have correlated Psy’s international success directly with an economic impact within South Korea. “Even as the South Korean economy struggled through 2012, there was one bright spot, K-Pop sensation Psy’s “Gangnam Style” – that helped bring a record number of tourists to the country, boosting tourism revenues to a new high. According to a report from HSBC, if the momentum in tourism continues, it could support the country’s economic recovery in 2013.”<sup>cxixv</sup> Psy’s success has led to a concerted effort by the South Korean government to leverage music as a component of international trade, particularly in Seoul, which branded itself as the ‘Hub of Hallyu’

Sound recording production is, in essence, the R&D of the music industry, particularly concerning emerging artists. Indeed, the development of emerging artists shares many of the characteristics of scientific R&D and is consequently subject to significant economic spillovers.

*Analysis of the Impact of the Sound Recording Tax Credit*



(K-Pop music) in 2008 and plans to spend as much as \$1 million US marketing this image to international visitors.<sup>xxxvi</sup> South Korea has embraced the concept noted by Duncan McKie above: that music success points to a culturally diverse landscape that makes a country attractive to international investment. Me Young-Sam, the Ambassador for Public Diplomacy at the Korean Foreign Ministry, has specifically noted, “As foreigners pay more attention to singers, slowly they develop a liking for Korea....and if they like Korea, they will buy more Korean things. That is what we are trying to promote.”<sup>xxxvii</sup>

An excellent homegrown example can be found in Stratford, Ontario where the Stratford Tourism Alliance generated a jump in tourism visits by as much as 25% with the creation of a map showing places visited by their famous native son, Justin Bieber.<sup>xxxviii</sup>

The current government investment in the export of Canadian music provides a tremendous economic return. In 2010-2011, investments made through the Canada Music Fund facilitated B2B and showcasing opportunities for Canada’s independent music companies at three of the industry’s largest conferences: MIDEM in Cannes, France; SXSW in Austin, Texas; and PopKomm in Berlin, Germany. In total, CIMA, which refers to itself as the de facto export market office for Canadian music, was able to involve 98 Canadian music companies that negotiated a total of 678 business deals at these events. From a federal investment of \$227,000, CIMA members were able to leverage business deals in the order of \$10.55 million. In other words, for every \$1 invested by the federal government, there was a \$46.50 return.<sup>xxxix</sup> Though CIMA largely supports independent Canadian music companies, it should be noted that the net benefit to the Canadian economy is the same whether an artist is signed with an independent or major music company – in either case the success of Canadian talent internationally drives business and revenue back into the country.

As foreigners pay more attention to singers, slowly they develop a liking for Korea.... and if they like Korea, they will buy more Korean things. That is what we are trying to promote.

*Me Young-Sam, the Ambassador for Public Diplomacy, Korean Foreign Ministry*

FIGURE 7: CANADIAN BLAST GETS RESULTS



There is vast opportunity for growth and development in key export markets. Currently, 73 percent of domestic industry revenues are generated from Canada, 19 percent from the United States, 3 percent from the UK, 1 percent from Australia and New Zealand and 4 percent from the rest of the world.<sup>cxxx</sup> While the United States will likely continue to be the primary export market on account of its size, close proximity and similarities in terms of language and cultural traditions, Canada must trade with the world. Trading agreements like the Comprehensive Economic and Trade Agreement between Canada and the European Union may pave the way for increased cultural exports. The Canadian Government should be commended for pursuing such treaties so aggressively.

As we continue to extend the economic impact of the commercial music industry it becomes essential that we support efforts to tap into new markets with sophisticated marketing strategies that leverage existing relationships and rely on existing industry knowledge to access those markets.

### **Building a Strategy for Export Success**

There are three critical components to a well thought out export strategy:

1. Artist/Producer and Product Market Readiness;
3. Export Market Entry; and
4. Growth and Export Market Expansion.<sup>cxxxi</sup>

### **Preparing the Artist and Product for the Export Market**



Karkwa, Minister Moore's Music Night  
Photo credit: Greg Teckles

For the artist, there is a lot of work involved in getting ready to tackle the export market. The artist has to develop a repertoire of music, a fan base, a strong stage presence and an ability to deal with an array of business issues in the international market. The need for infrastructure is reflected in FACTOR's definition of an "Export Ready Artist", which requires, among other things, that

an artist have a management team in place that can support them through business meetings and promotions on the international stage.<sup>cxxxii</sup> For artists in smaller Canadian centres, it can also be important for them to tour and showcase in larger Canadian centres with substantial music infrastructure. Centres like Toronto, Montreal and Vancouver offer access to a larger base of producers and managers that artists need to boost their careers to the next level.

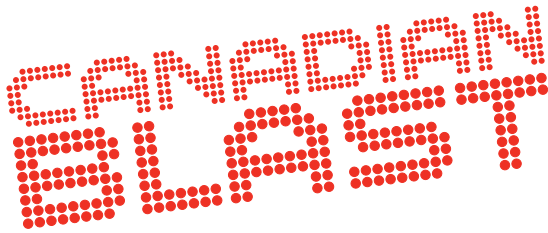
Many industry associations are attempting to ensure that artists have the infrastructure to find success. Sara Stasiuk, president of Manitoba Music has noted that the association engages in artist education programs that are focused on export preparedness training, as it is important that artists come back from international showcases with new business and new connections that are essential to career development.<sup>cxoxiii</sup> As noted in the section on music education, artist management firms such as Coalition Music have also initiated education programs for musicians that aim to provide the knowledge and skills required to manage and direct their own careers.

Unexpected partners have also emerged in this space. For example, the Corporation of Roy Thompson and Massey Halls has created a program of audience and artist development. Part of this program involves the corporation partnering with artists and their managers to build long-term career plans, help them create electronic press kits, and prepare them to play increasingly larger venues.<sup>cxoxiv</sup> The program contributes in a positive way to the knowledge and experience of emerging Canadian talent while also helping fulfill the corporation's goal of developing a pool of artists with a sufficient fan base to fill its performance venues.

### **Export Market Entry**

Export market entry is achieved by Canadian artists in a number of ways. Some artists will move to major international music such as New York, London, Paris, Nashville or Los Angeles to launch their careers. For artists who choose to maintain their home base in Canada, export market entry is frequently facilitated by industry-supported touring and showcasing. This, in turn, creates a powerful economic engine for the music industry in Canada. Canadian Blast, described at length in the following case study, is a prime example of how the music industry and governments have come together to help music companies access international markets and promote Canadian talent.

## CASE STUDY: CANADIAN BLAST – A MODEL FOR EXPORT EFFICIENCY



Canadian Blast

The existence of Canadian Blast affirms the importance to Canada's music industry of placing Canadian talent in export markets. Canadian Blast, an initiative of CIMA, is the result of a public-private partnership that receives support from the Government of Canada (Department of Canadian Heritage/Department of Foreign Affairs and International Trade Canada-GOA), Harvard Broadcasting, the Radio Starmaker Fund,

the Music Manager's Forum, SOCAN, Canada's major music companies, CMW, FACTOR and OMDC.<sup>xxxxv</sup> The program, in turn provides support to its member music companies and artists to access international markets and develop export relationships. Knowledge and relationships that are cultivated through Canadian Blast are enhanced by strategic relationships with other music industry organizations. For example, Canadian Music Week (CMW) works with Canadian Blast to target key export markets, showcasing those markets during CMW and thereby creating additional exposure for Canadian talent.

With representatives in Toronto, London, Singapore and Los Angeles, Canadian Blast has facilitated the development of international business and the exposure of Canadian talent at South by Southwest, MIDEM, Popkomm and Reeperbahn – to name a few. The strong presence of Canadian Blast provides increased profile for Canada, giving rise to additional leverage explains Stuart Johnson, President of CIMA, "Canadian Blast is a brand with international credibility for the export of Canadian music. Though we have limited resources to support the export of Canadian talent and to drive the business of music export, Canadian Blast is regularly approached by festivals around the world to bring its platform, and our great pool of talent, to their markets. Clearly our efforts in the export market are paying off. Participants who engaged in Canadian Blast export initiatives have negotiated more than \$105 million worth of deals from just six key missions in each of the years 2007-2012."<sup>xxxxvi</sup> Because Canadian Blast has become so attractive to international festivals, CIMA is able to negotiate better representation for Canadian talent, even if they are not playing as part of a showcase at Canada House. These additional performance slots give Canadian artists a distinct advantage over their international peers.

Canadian Blast is about much more than providing a platform for artist exhibition. It provides in-market intelligence to the companies that are participating in each initiative, creates a venue for B2B speed dating and international matchmaking. In doing so, it helps Canadian companies build strategic alliances in important markets, develop new contacts, access new sales territories and distribution networks and, overall, gain a better understanding of international markets. Critical to their approach in the export market is providing a platform where connections and new business opportunities can evolve. Through their website, they provide a platform where fans can track Canadian acts and determine where they are touring internationally. This platform also provides a plethora of information to international managers, producers and music companies who may be interested in signing Canadian talent.

Export market entry is also facilitated by regional music associations across the country. For instance, as part of East Coast Music Week, the East Coast Music Association provides an International Export Buyers Program comprised of an Export Buyers music showcase alongside two days of pre-scheduled business development “Live Performance Pitching” sessions.<sup>cxviii</sup> Regional associations are able to compound the work done by Canadian Blast with international export missions during the year showcasing regional talent.

### **Growth and Export Market Expansion**

Without question, the area most in need of attention is the growth of musical exports and the diversity of their destination markets.

The major funding agencies have recognized the importance of helping artists to access international markets. For example, in the past two years, FACTOR has increased overall tour support program funding by \$750,000<sup>cxviii</sup>. It currently commits more than four times more money to international touring than domestic touring.<sup>cxix</sup> Programs and funding commitments like this reflect a broad recognition that, as noted by Stuart Johnston, “[m]any artists do not have business and exporting skills or the time or interest to develop them. They need assistance in acquiring these skills or hiring professionals who can advise and mentor them.”<sup>cxl</sup>

SOCAN, the agency that collects royalties from international markets for distribution to Canadian artists, also recognizes the importance of ensuring the success of Canadian talent outside our borders. Inspired by a French initiative, Francophonie Diffusion, SOCAN is exploring ways to get Canadian music into the hands of influential radio DJs and bloggers around the world who have an interest in Canadian music. The intent of this program is that the music would be free to industry professionals, in exchange for feedback to Canadian talent and managers regarding what music was and wasn’t successful in their markets. SOCAN sees this as a systematic tool that Canadian artists could use to determine which markets would be economically viable for touring and other promotional activities.

In the absence of a government agency leading the effort of Canadian music companies, Canadian Blast, as managed by CIMA, and other regional music associations and initiatives have filled the void, fueled by both private and public funding. Canadian Blast has developed significant experience, international reputation, expertise and contacts in key markets around the world. As previously noted,

government export support programs earn strong returns on each dollar invested. With increased, stable government funding, a well-defined private-public partnership could be designed to establish a true national export office.

This arrangement would not be unprecedented. Currently, the Ontario Chamber of Commerce provides, in partnership with the Government of Ontario, a service designed to help SMEs increase their access to global markets. While the program, Export Market Access (EMA), is set up largely to administer and measure the results of a government funding program designed to increase export sales, the office also provides consultation services and market intelligence to Ontario companies. Generating millions of dollars in export sales, EMA has been an efficient delivery system for government funds.<sup>cxli</sup>

An appropriately resourced national export office could hire an experienced export development officer to work with music companies and artist entrepreneurs to expand their export capacity. Among other things, this officer would assist clients in accessing government and industry support programs, provide market intelligence on traditional and emerging markets, and connect Canadian music companies to key international contacts. In addition, to expand access to the American market, a more consistent and higher profile presence in Los Angeles for Canada's *entire* commercial music industry would be a useful investment. As well as helping Canadian music companies expand their exports to the U.S., an LA-based representative could help attract more international music recording activity to Canada's world-class studios. Improved music industry representation in Los Angeles is supported by the findings of a recent industry study.<sup>cxlii</sup>

In this mandate, it would be incumbent on the national export office to provide services to music companies equally across the country. This would ensure that its export efforts leverage and support Canada's entire talent pool to achieve the best possible economic return.

In order to build an international fan base, Canadian artists and their business teams must have access to marketing resources that include the tools they need to stand out in the online environment. As CIMA President Stuart Johnston notes, "Social media is a double-edged sword. On one hand, it is a cost effective way for artists to discover their fans. On the other, it is very easy to get lost in the noise on the Internet. Each band needs to find the strategy that helps them stand out. We have to ensure that there is sufficient funding available to support the use of social media as an overall strategy, and help industry identify and leverage tactics that will work to reach their target audiences."<sup>cxliii</sup>

Social media is a double-edged sword. On one hand, it is a cost effective way for artists to discover their fans. On the other, it is very easy to get lost in the noise on the Internet.

Stuart Johnston,  
President, CIMA

To achieve success, it is no longer sufficient for an artist to market and promote themselves in their city or region alone. They also need to build a significant online presence so that they can connect with their fans, promote their music and plan their careers.

## RECOMMENDATIONS

Music can be an extremely effective tool to enhance a country's international reputation and broader trade activities, as South Korea's experience with Psy's global stardom attests. A successful music export strategy must begin with market readiness training, and market entry. Only then should efforts be focused on export growth and market diversification. In Canada, public and private efforts have largely succeeded in the first two stages. We can build on this success by utilizing existing expertise in music export development, providing sufficient resources, and ensuring funding programs are not artificially limited to domestic markets. In this way, Canada's music industry will be well positioned to boost export sales of Canadian music to more international markets, and thereby enhance Brand Canada.

### **Recommendation # 10**

Government funding of export programs should be enhanced and directed in order to create a national export office with the resources to assist all music companies and artist entrepreneurs across the country. The export office would provide information on support programs, market intelligence on traditional and emerging markets, and connections to international business partners.

### **Recommendation # 11**

Funding should be provided to enhance Canada's music industry representation in Los Angeles, to support export growth to the U.S., Canada's largest music export market, and to attract additional recording activity to Canada's world class recording studios.

### **Recommendation # 12**

Canadian talent must have the tools at its disposal to build an international fan base. Jurisdictional restrictions on promotion and marketing spends imposed by funding agencies unduly restrict the development potential and economic reach of Canadian talent and should be relaxed to ensure that there is maximum flexibility to reach a broad fan base and derive revenue from the international market.

### **Recommendation # 13**

Consideration should be given by cities, provinces and the federal government to appointing musicians to act as good-will ambassadors to the world and involving them in trade missions. This is something Austin has done to great effect.





## PART 2.5: INTERCONNECTED TAX CREDITS: STIMULATING ECONOMIC ACTIVITY AND ATTRACTING INVESTMENT

*Contributed by Peter Lyman and Dustin Chodorowicz - Nordicity*

Canada was one of the first countries to make refundable tax credits the centrepiece of government support for the creative industries. This form of tax credit is rebated to an eligible recipient no matter whether they are paying corporate income taxes or not. Quebec introduced a tax credit for film and TV production in 1991; other provinces soon followed. And in 1996, the federal government introduced tax credits for film and TV production in order to replace the tax shelters (Capital Cost Allowance), which had been in place to encourage private investment in film and TV projects. Given the substantial experience in the film and TV sector – and some experience in the music sector – is a tax credit system an effective way to encourage investment in the music industry?

### **The Benefits of Tax Credits: Market-driven, Predictable and Flexible**

Western governments' preference for tax credits over direct subsidies or tax shelters in most cases can be put down to several advantages. First of all, tax credits remove elected officials or public servants from the decision-making process as is the case for direct subsidies. Second, tax credits are market-driven. Third, tax credits are much more efficient than many of the tax shelter schemes that they replaced.<sup>6</sup> Finally, tax credits minimize the potential for abuse. Unlike many forms of direct funding, tax credits are paid well after recipients make eligible expenditures, so governments have the opportunity to audit the expenditure before cutting a cheque.

<sup>6</sup> Tax shelters such as Canada's Capital Cost Allowance and the UK's Sale and Leaseback Scheme often involved numerous intermediaries (including high-net worth investors, financial advisors and lawyers). As a result, only a portion of the tax benefit often made it on screen.

Unlike direct funding, tax credits are quite predictable; so qualifying firms can be somewhat certain of their receipt and can plan their business accordingly. If you are eligible, you qualify, rather than being subject to uncertainty because of a budget cap in any fund. Tax credits also offer a high degree of flexibility to recipients. Recipients can usually spend their tax credit refunds on the goods and services that they need for a project or even reserve them as working capital for future projects.

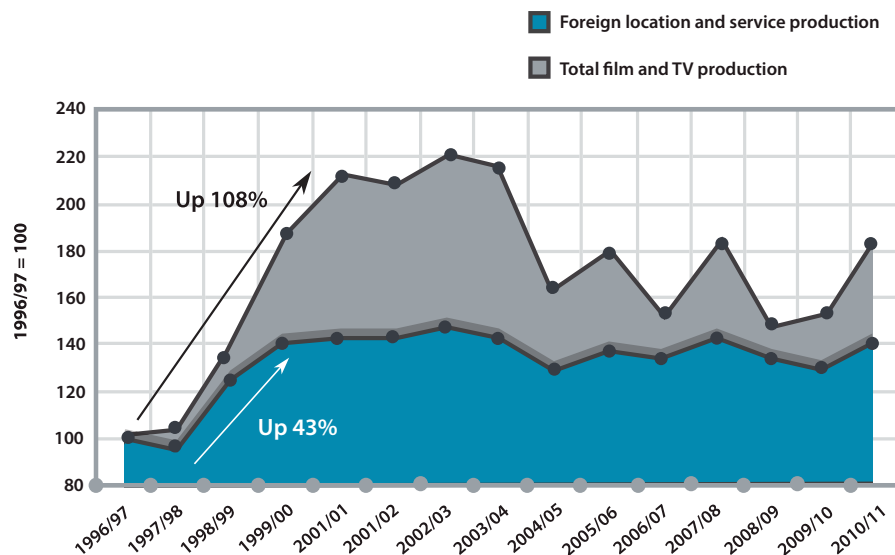
### **Tax Credits as a Driver of Industry Growth**

Tax credits have played a critical role in underpinning rapid growth in the film and TV industry, where they have been in place for the longest and their use has been most widespread. In just four years after the federal government's introduction of film and TV tax credits in 1996, the *real* (inflation-adjusted) value of film and TV production in Canada rose by 43 percent. During that same four-year period, Canada's foreign location and service production sector more than doubled in real-dollar terms (108 percent increase).

The growth in Canada's film and TV production industry has moderated somewhat since those early breakout years following the introduction of tax credits. However, the ongoing modernization of film and TV tax credits by many governments in Canada has helped the industry to successfully weather the onslaught of competitive forces - the appreciation of the Canadian dollar, the proliferation of tax credits in the US and other jurisdictions, and the 2008-2009 recession.

The experience of Canada's film and TV industry demonstrates that a well-designed tax credit can lead to strong positive economic benefits; more importantly, they can also have significant positive structural impacts, which inject some stability into the industries that they support. The commercial music industry also has the potential to be a significant source of economic benefits for Canada, with a similar type of tax credit regime.

FIGURE 8: TRENDS IN VOLUME OF FILM AND TV PRODUCTION (1996/97=100)



Source: Canadian Media Production Association and Statistics Canada

A Department of Canadian Heritage study concluded that tax credits for domestic film and TV production were indeed incremental: they did lead to higher levels of production and did not simply crowd out of private financing.<sup>cxliv</sup> The film and TV tax credits in Quebec, British Columbia and Ontario – as well as provinces with smaller production clusters – have played an important role in helping these centres build substantial film communities.

## CASE STUDY: POSITIVE IMPACT OF EFFECTIVE TAX CREDITS – MULTI-LAYERED TAX CREDITS AND THE FILM INDUSTRY

A combination of federal and provincial tax credits has lent support to a robust film and TV production sector in Canada. In 2011, it was estimated that film and television production contributed \$5.5 billion in production value and added 128,000 jobs to the Canadian economy.<sup>cxlv</sup> A significant portion of this amount was driven by foreign location and service production, i.e. multinational companies filming and producing in Canada, which contributed \$1.87 billion of this amount and 43,700 jobs.<sup>cxlvi</sup>

The tax credits have been designed to support the two distinct aspects of production. There is a combination of production-spend and labour-spend tax credits that are available for Canadian-located production companies. Additionally, there are tax credits available for multinational companies, though typically at a lower level, based on the production spend or labour expenses they incur in the Canadian jurisdictions with the tax credit regimes. The availability of tax credits for multinational companies encourages them to produce in the Canadian jurisdiction, provides job opportunities for skilled film technicians, and enables training opportunities for these technicians that may not otherwise be available in Canada (or that part of Canada where the project is located). For example, BC Film + Media has noted the meaningful consequences of tax credits, “From a fledgling local industry 20 years ago, BC-owned companies have developed to the point that they are creating proprietary product that is being sold nationally and internationally.”<sup>cxlvii</sup>

In addition to a federal tax credit system that supports both Canadian and multinational companies, all provinces except Alberta and Saskatchewan have additional tax credit regimes to support film and television production. Alberta has a rebate system, which operates much the same as a tax credit system with some advantages and disadvantages. However, Saskatchewan cut its fairly long standing film and TV tax credits in 2012, and the response was swift and critical. Steve McLellan, CEO of the Saskatchewan Chamber of Commerce noted that “The film sector as part of Saskatchewan’s creative industries should play a prominent role in the future of Saskatchewan business,” further noting that the Chamber supported the \$1 million cost of the tax credit in support of the 850 jobs it created.<sup>cxlviii</sup> The tax credits that are available at the provincial level are robust and can be as high as 65 percent of qualified labour in Manitoba for Canadian producers or 25 percent of all production spends in Quebec and Ontario for foreign-service productions. Film offices in Ontario and Quebec have been proactive in addressing the move of film to the digital media, introducing special tax credits for digital post production and animation work.<sup>cbxx</sup>

Tax credits that support international production in Canada are not available in the music industry, although the major multinational music companies all have offices in Canada, employ Canadians as managers, lawyers and distributors, and support the development and promotion of Canadian talent. In addition to creating a federal tax credit that could drive multinational music production in Canada, provincial tax credits should be reviewed to identify potential enhancements. Independent research commissioned by Music Canada has estimated that in Ontario, which is home to the headquarters of the Canadian multinational music companies, an expansion of the existing music tax credit to include foreign-owned companies, would generate \$60 million dollars in increased economic activity and create about 1300 jobs.<sup>cl</sup>

Changes could also be made to existing tax credits in other sectors to support the inclusion and promotion of Canadian musical talent. The Canadian Film or Video Production Tax Credit was designed “to encourage Canadian programming and to develop an active domestic production sector.”<sup>cll</sup> Accordingly, qualifying productions must have a certain contribution from key members of the Canadian production sector. In order to qualify for this tax credit, key participants in the production must be Canadian citizens. A possible improvement to that system that would benefit the music industry would be allocation of additional points if the music composer were Canadian.<sup>cll</sup> At present, however, points for the music composer are only available if the music is an original composition for the production, and does not encourage the inclusion of previously produced Canadian content or including some Canadian music even if all of the music used in the work is not Canadian. Thus, more could be done inside the existing film tax credit regimes to ensure there is incentive for film producers to make use of all available Canadian talent, including Canadian musicians.

## The Economic Rationale for Tax Credits

The economic rationale for tax credits for the creative industries in Canada remains as strong today as it ever has. Unlike many industries, the creative industries are susceptible to very high degrees of demand uncertainty. In other words, the consumer or audience demand for creative content is unknown until the content has been created. Music companies must make extensive investments in A&R development without any certainty that these investments will lead to economic return.

Each film, book or music recording is unique. As a result, there is very little potential for market research or pre-testing of the content before production. The producer and investors have to commit the vast majority of the cost of creation and production before the public's appetite for the content is known. This demand uncertainty can lead to what is known in economics as "market failure". To address this market failure and mitigate the high degree of business risk that accompanies demand uncertainty, many creative industries consolidate both horizontally (i.e. increase scale) and vertically.

In Canada, creative industries businesses are limited from achieving large enough scale, due to the relatively small size of the domestic market. Furthermore, vertical integration can sometimes run counter to government policies designed to foster independent and diverse voices (e.g. Canadian broadcasting policy). Many creative businesses also remain subject to technology risk and especially the impact of the rise of the aggregators, like iTunes or Google. Tax credits are one tool through which the government helps creative businesses in Canada - particularly content creators - mitigate the challenges of scale, vertical integration and technology risk. These challenges cannot easily be surmounted.

## The Role of Tax Credits in the Music Industry



*Sultans of String Symphony session - Studio A Revolution Recording*  
Photo Credit: Kevin Kelly

Demand uncertainty is still an issue for the music sector. Furthermore, much of the A&R activity in the music industry is fundamentally a form of R&D. Therefore, it deserves some type of public support akin to the Scientific Research and Experimentation Development (SR&ED) Tax Credit available to R&D intensive industries in Canada.

Industries that make extensive investments in R&D have traditionally been supported by tax credits in Canada and elsewhere. The reason is that the R&D investors themselves (e.g. companies) often have difficulties capturing the full economic benefits that arise from their R&D.

Global competition, technology and knowledge flows often mean that, even with intellectual property protection, innovators only capture a portion of the economic return from their new products and services. By mitigating this market failure, governments encourage innovation and subsequently the long-term economic, fiscal and social benefits that accompany it.

The risks associated with capturing the economic benefits from A&R are higher than they have ever been. With a tax credit, Canadian governments can mitigate part of this risk and create an environment where the music industry in Canada has more certainty that it will have a fair chance to recover its increasingly risky A&R investments.

In such an environment, the industry and the Canadian music scene can grow and flourish, bringing economic, fiscal, social and cultural benefits to the affected jurisdictions.

Tax credits can be designed to support export initiatives, as they do (in part) in Ontario for the music sector. This support is critical in the music world of today where music is a more global industry, and must be promoted within a broader global context than in the past.

### **Provincial Governments have Taken the Lead in Supporting the Music Industry through tax credits**

Governments in Ontario and Quebec already recognize that tax credits can help remedy the market failure that exists in the Canadian commercial music industry.

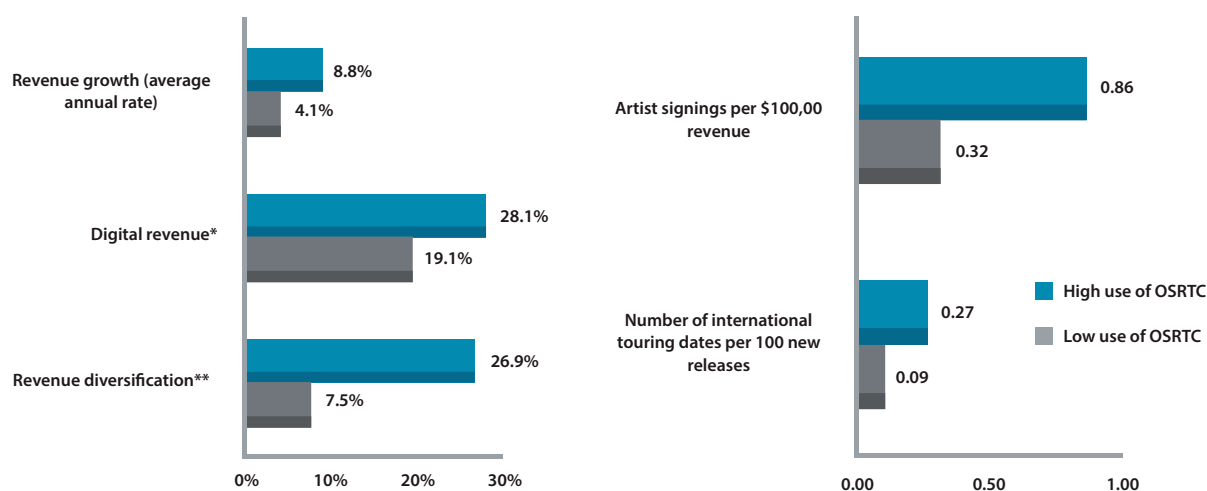
- Quebec's sound recording tax credit reimburses 35 percent of eligible labour expenditures up to a maximum of 17.5 percent of the total production costs incurred by Quebec-based companies.<sup>cliii</sup>
- The Ontario Sound Recording Tax Credit (OSRTC) reimburses Canadian-controlled sound recording companies for 20 percent of the qualifying costs they incur to produce a sound recording by an *emerging* Canadian artist when that recording is made in Ontario. The OSRTC also reimburses 100 percent of the marketing expenditures incurred in Ontario and 50 percent of those incurred outside of Ontario.

Nordicity's 2011 analysis of the OSRTC demonstrates that although it has a limited scope (i.e. it only applies to emerging Canadian artists), it pays for itself and delivers a

net fiscal benefit for the provincial treasury. Nordicity's analysis found that for every dollar the Ontario government invests in the sound recording industry in the province through the OSRTC, it receives \$1.27 in tax revenue.<sup>cliv</sup>

Ontario's tax credit is also having a positive effect on business development at sound recording companies that use it. Nordicity's analysis found that there was a positive relationship between use of the OSRTC and the rate of revenue growth, share of revenue from digital platforms and revenue diversification (i.e. share of revenue from different lines of business).<sup>clv</sup> Greater use of the OSRTC was also accompanied by higher rates of artist signings and higher rates of international touring.<sup>clvi</sup>

## FIGURE 9: IMPACT OF OSRTC ON MUSIC COMPANIES' BUSINESS PERFORMANCE



Source: Nordicity, *Analysis of the Impact of the Ontario Sound Recording Tax Credit*, 2011, p. iv.

\*Share of total revenue from digital-platform sales

\*\*Share of total revenue from sources alternative to physical and digital sales

### Tax Credits Should be the Centrepiece of Effective and Efficient Value Chain Support

Tax credits are increasingly preferred by governments as a means for supporting cultural industries and yield benefits for both sides – government and industry. However, in the music industry, as in other industries, there are often instances where more traditional forms of industry support by government are better suited. For example, certain types of experimentation with new digital technology or new business models for music distribution may require some type of direct funding that is allocated on a competitive basis – similar to governments complementing their R&D tax credits with R&D grants. In one respect, the application process that accompanies tax credits can be onerous



to smaller industry development endeavours. There is a wait involved in tax credit schemes, a wait necessary for the audits of tax filings to take their course. As such direct funding that underwrites 50 percent (or even more) of a project or initiative's costs may represent a more effective form of industry support. Thus, direct subsidies can complement a strategy where tax credits are the primary way to stimulate growth.

### **The Long-Term Benefits of Tax Credits: Skills Transfer and Foreign Direct Investment**

While the short-term fiscal performance of tax credits is a key consideration, it is also important not to lose sight of the longer term structural benefits that also accompany tax credits – as evidenced from the experience of film and TV. In that industry, tax credits have attracted considerable foreign location production to Canada (\$1.5 to \$2.0 billion annually over the past decade) which has contributed to skills transfer to Canadian talent and technical crews. Canadian film and TV crews are now highly skilled and thereby help Canada maintain its share in the global location-shooting market, even as the Canadian dollar rises and competition from other jurisdictions becomes more intense every year.

Similarly, in music, the creation of an infrastructure that attracts highly regarded performers to play or record in major music centres like Toronto, Vancouver and Montreal could help create an Austin and Nashville-like brand. In fact, some of the major cities in Canada have the studio infrastructure and music company communities that are conducive to the development of music clusters that will attract musicians from the US and abroad to record in Canada. Consequently, a properly structured tax credit would attract “foreign service production” in the music industry as it has in the film industry. The scale may be smaller, as production budgets for major acts are in the \$1-2 million range, but the principle is the same. This type of expanded music tax credit could help drive foreign investment and skills transfer in much the same way as the service tax credits have done for the film and TV production industry.

Such a tax credit regime would be characteristically different from the current one employed in Ontario, for example, where only “emerging artists” qualify for tax credits. Expanding it to established artists would be attractive for both Canadian and foreign controlled labels. It could mean enticing back internationally acclaimed Canadian musicians (think Justin Bieber, Drake, Celine Dion, etc.), as well as bringing non-Canadian star artists to record in Canada.

In spite of falling revenue in the consumer recording segment, the live performance segment is key to sustaining the economics of the music sector. A music tax credit could also be designed to encourage foreign tours to engage local crews and equipment suppliers when in Canada.

Tax credits in other creative industries could also be modified to help promote the Canadian music industry. Tax credits that are calculated on the basis of all eligible projects expenditures (i.e. “all-spend” tax credits) could be designed to ensure that only the costs associated with Canadian music (as defined by the *Broadcasting Act*) would qualify as an eligible expenditure. Alternatively, tax credits for other creative sectors could adopt a sliding scale for their refund rates, whereby the rate rises as the preponderance of Canadian creative contributions from other media increases. In much the same way as the film and TV tax credits in certain provinces reward producers for frequent filming or filming outside major cities, a sliding scale tax credit would reward the use of Canadian music in films, TV, videogames or other digital media.

## RECOMMENDATIONS

Tax credits have become an indispensable part of industrial strategy in the creative sector in Canada and elsewhere. Indeed, tax credits have been very effective in other creative industries. For example, they helped fuel growth in Canada’s film and TV sector in the late 1990s and keep the industry globally competitive in recent years.

### Recommendation # 14

Artist and Repertoire development needs to be treated in the same manner as R&D in other intellectual property industries, to ensure sufficient dedicated funding is available for artist professional education. Public support akin to the Scientific Research and Experimentation Development (SR&ED) Tax Credit available to R&D intensive industries in Canada should be explored.

### Recommendation # 15

The evidence from Ontario shows that tax credits not only help the music industry develop, they are also fiscally sound. The OSRTC should be expanded to reimburse qualifying companies for a higher rate of eligible costs, and should also support export marketing activities at the same rate as domestic marketing.

### **Recommendation # 16**

Similar to the film and TV industry in Canada where there are tax incentives for both Canadian and foreign-controlled companies, existing music tax credits and any new tax credits, should be expanded to go beyond support of domestically owned companies. They could be constructed to provide incentives for foreign-owned companies to further invest in using Canadian studio facilities, undertaking the associated music videos in Canada, and employing the music eco-system of sound engineers, graphic artists, music videos, marketing services and the like.

### **Recommendation # 17**

A federal tax credit should be implemented that mirrors the existing film and TV tax credits, which would bolster industry, and given the federal tax system, would also be fiscally sound. Provinces with significant music clusters should also consider establishing a tax credit system like Quebec and Ontario.

# CONCLUSION

The commercial music industry in Canada has undergone major disruptions in the digital age. Music companies, artists, funding agencies and government officials engaged in this arena are all well aware of the industry's challenges and the need to respond positively to ever-changing consumer demands. Continuous innovation is needed for the industry to remain economically viable. It is widely recognized that, to achieve this, music companies and artists must receive adequate support through well-targeted policies, programs and funding. With the right support, Canadian music can attain greater success not only inside our country but also by reaching a larger fan base, standing out from the crowd online and, ultimately, expanding its presence on the international stage.

By closely examining the state of the industry today, we can identify the areas where change is most needed. Looking forward, it is clear that we must intelligently reallocate funding to ensure that Canadian music has more prominence in online environments and export markets. Another area requiring attention is music education, which requires a re-injection of funding after years of cuts and inattention. New funding sources are also needed to strengthen the development of music-based tourism and the economic spinoffs it generates. Maximizing the success of these initiatives will require strong and sustained partnerships between the music industry, government stakeholders and technology and telecom partners. In this way, all stakeholders and Canada as a whole can share in the economic and cultural benefits.

This report has identified and detailed five key catalysts for future success. These catalysts are tightly interconnected. Success in music tourism requires strong music scenes while festival and event promoters need to reach more consumers. Strong music scenes must be supported by tax credits to facilitate a vibrant music recording industry and attract international investment. Effective digital innovation will provide tools that music companies and artists need to monetize their work so that more investment is available for emerging talent. A solid foundation must be built through music education and an expanded pool of recognized artists, strengthened by greater support of Canadian talent in export markets.

Our intention is to initiate a public discussion about how we can best build the right business framework for music in Canada. We do not pretend to have all the answers. Other recommendations will likely emerge as others contribute their thoughts. We could not possibly have covered every possible area that is ripe for re-examination.

However, we believe that at a minimum, implementing the recommendations in this report, we can help produce the next big bang for Canada's commercial music industry, ensuring that it continues to be a powerful economic driver and a point of pride for Canadians both here and abroad. Canada's history of effective public-private partnerships demonstrates the impressive results that can be achieved when governments and industry work together. Collectively, we have the knowledge, skills and talent to ensure that Canadian music continues to be a strong cultural and economic contributor to our country.

Jobs and economic growth are critically needed in Canada. Wise investments like those recommended in this report will help the music industry grow and prosper, enabling music to help Canada in return. We all win.

# RECOMMENDATION SUMMARY

## **Recommendation #1**

Given the impact that cultural scenes have on the attraction and retention of top-notch talent and quality ICT employers, municipal and provincial governments are well advised to focus on the quality and diversity of their cultural industries as a tool for economic development.

## **Recommendation #2**

Provincial governments need to make a conscious and significant investment in music education that supports a 21st century curriculum, provides properly trained teachers, and incorporates technological advancements in the teaching tools. Other levels of government should look for innovative ways to support music education because of the broad economic benefits it creates.

## **Recommendation #3**

More fluid funding, allocated according to criteria that reward a constant push toward finding innovative ways to do business, should be implemented and would help secure a place for Canada on the leading edge of digital innovation.

## **Recommendation # 4**

Design models that support the discovery of Canadian music online through partnerships and strategic initiatives. Efforts dedicated to innovative technologies that support Canadian talent should be favored over those that are tied to old technology or which support services that do not promote Canadian music.

## **Recommendation # 5**

Provide incentives to encourage new music retailers to launch and establish offices in Canada. This would assist in bolstering the health of the music industry in Canada as a whole by generating additional revenue for artists and additional choices for consumers.

## **Recommendation # 6**

The Government of Canada should provide a renewed vision for the Copyright Board of Canada as a “business development office” and equip it with appropriate tools, personnel and financing.

**Recommendation # 7**

Implement a Commit – Measure – Broadcast strategy for all music tourism stakeholders. Ensure this model incorporates measurement tools, is open to review to ensure best practices are implemented, and ensures optimal deployment of resources.

**Recommendation # 8**

Stakeholders in the commercial music industry are experts at fan engagement and community building. This expertise should be leveraged to build and engage with a community of active music tourists.

**Recommendation #9**

Make sophisticated use of technological tools and social media to build a distinct music brand with target audiences, and leverage these tools to foster fan engagement and attract new music tourists.

**Recommendation # 10**

Government funding of export programs should be enhanced and directed to create a national export office with the resources to assist all music companies and artist entrepreneurs across the country. The export office would provide information on support programs, market intelligence on traditional and emerging markets, and connections to international business partners.

**Recommendation # 11**

Funding should be provided to enhance Canada's music industry representation in Los Angeles, to support export growth to the U.S., Canada's largest music export market, and to attract additional recording activity to Canada's world class recording studios.

**Recommendation # 12**

Canadian artists and music companies must have better access to the tools they need to build an international fan base. Currently, some funding programs restrict promotion and marketing spends to the Canadian market, thereby unduly constraining the development and economic reach of Canadian talent. These restrictions should be relaxed to ensure that promotion and marketing support helps artists reach a broader fan base and generate revenues in international markets.

**Recommendation # 13**

Consideration should be given by cities, provinces and the federal government to appointing musicians to act as good-will ambassadors to the world and involving them in trade missions. This is something Austin has done to great effect.

**Recommendation #14**

Artist and Repertoire development needs to be treated in the same manner as R&D in other intellectual property industries, to ensure sufficient dedicated funding is available for artist professional education. Public support akin to the Scientific Research and Experimentation Development (SR&ED) Tax Credit available to R&D intensive industries in Canada should be explored.

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# AUTHOR BIOGRAPHIES

## AUTHORS

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Virginia obtained her law degree from Dalhousie University and her MBA from the Schulich School of Business. She also has a B.A. (English) and a B.Sc. (Biology) from Memorial University. She is a member of the bar in both Nova Scotia and Ontario.

**Don Hogarth** is a communications consultant with more than 20 years experience in public relations and print journalism. His PR career has spanned the corporate, agency and political environments, and his work has garnered several PR industry awards. Don's skills and experience include: strategic communications counsel; corporate, product and program announcements to the consumer and business markets; news releases and other media materials; media relations; event management; speechwriting; issues management; and crisis communications. Previously, Don was Vice President of the Advanced Technology practice at Environics Communications. Before joining Environics, Don managed external relations at Bell Canada/BCE, where his primary responsibility was PR and media relations. He has also worked as Deputy Press Secretary to the Premier of Ontario and as a reporter and columnist at the Financial Post. Don holds a Bachelor of Science degree from McGill University and a Master of Business Administration from INSEAD.

**Amy Terrill** is the Vice President of Public Affairs at Music Canada. Amy plays a key role in the development and implementation of Music Canada's government and stakeholder relations efforts. She is also responsible for developing and implementing Music Canada's communications and media relations strategies. Prior to joining Music Canada, Amy worked with the Chamber of Commerce network in Ontario, most recently as Vice President Communications & Marketing at the Ontario Chamber of Commerce and prior to that, as the General Manager of a local chamber of commerce. Amy comes from a journalism background with almost nine years in broadcast journalism experience. She has a Bachelor of Arts degree with a major in Political Studies from Queen's University in Kingston.

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Prior to Universal Music, Darlene was a lawyer at Goodmans LLP in Toronto. Darlene graduated from the University of Toronto Faculty of Law in 2001, and was called to the bar in 2003.

**Jeff Leiper** is the Chief Policy Advisor for the Information and Communications Technology Council. Jeff leads ICTC's policy development initiatives. His work helps establish a strong foundation for policy discussions and advancement of the digital economy agenda in Canada. Jeff has held successively senior positions in the ICT industry, including Editor-in-Chief at Decima/Evert Communications, Director of Canadian Consumer Research at the Yankee Group in Canada, and more recently as an executive in the Policy Development & Research sector of the Canadian Radio-television and Telecommunications Commission. Jeff brings a wealth of knowledge and experience in policy elaboration and advocacy, economic and technology research and business relations. He has also published several authoritative industry research reports and policy submissions to the Government of Canada. He holds a Bachelor of Arts in History and English, respectively, and a diploma in Print Journalism.

**Peter Lyman** is a Senior Partner with Nordicity. Peter is an internationally recognized expert in the cultural, media and communications sectors with 30 years of consulting experience. He has participated in all facets of the regulatory, policy development/evaluation, strategic planning and business strategy formulation with respect to the wireless and fixed telecom/cable sector and the content and creative industries, broadcasting, cable, satellite, content, and cultural industries in Canada and abroad. Peter is co-founder of Nordicity, and after its merger with PwC in 1998 was appointed national lead partner for the Information Communication and Entertainment/Media practice at PricewaterhouseCoopers Consulting. Since 2002 he has led Nordicity's re-emergence and development as a standalone consultancy, specializing in the transformation of the cultural, media and communications sectors as a result of the impact of new digital technologies.

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**Dustin Chodorowicz** is a Partner at Nordicity. He has 15 years of international experience as an economist, financial analyst and management consultant. At Nordicity, he leads consulting teams that provide creative sector clients with financial analysis, valuation and economic-modelling solutions, which enrich their understanding of the impact of market developments and government policy.

Dustin is one of Canada's leading authorities on the economic impact of the cultural industries and the role of fiscal mechanisms in the cultural sector. Over the past decade, he has led several studies of the impacts of tax credits in Canada's cultural industries, including studies of the Ontario Sound Recording Tax Credit, the Canadian Film and Video Production Tax Credit and provincial film and TV tax credits in Manitoba and Nova Scotia.

Prior to joining Nordicity, Dustin was a consultant at PricewaterhouseCoopers. He has also held positions with the Government of Canada and Statistics Canada.

**Nikki Rowling** is the founder and President Titan Music Group and is also the lead author of Music Canada's *"Accelerating Toronto's Music Industry Growth: Leveraging Best Practices from Austin, Texas"*. Titan Music Group provides strategic planning, tactical execution strategy, and policy development for a variety of private companies, public entities and nonprofit organizations. Nikki is also a Board and Executive Committee member of Austin Music People, Policy Committee member of the Grammys Texas Chapter, and the Co-Founder and former Executive Director of the Austin Music Foundation. Her prior work experience includes very early placement in two early-stage high-tech companies, including Pavilion Technologies, Inc., a business-to-business neural network data optimization and data mining software company, where her responsibilities included business development, development of new vertical markets, and negotiation of corporate partnership and channel deals.

Nikki holds a B.A. from The University of Texas at Austin's Plan II Honors Program. Nikki's work was supported Theo Mathien, a Toronto native who is currently residing in Montreal, where he is finishing a doctoral degree in music at the Université de Montreal. Theo has worked for the Austin Music Foundation providing program development assistance, and provides production assistance to C3 Presents during Lollapalooza and Austin City Limits Music Festival.

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