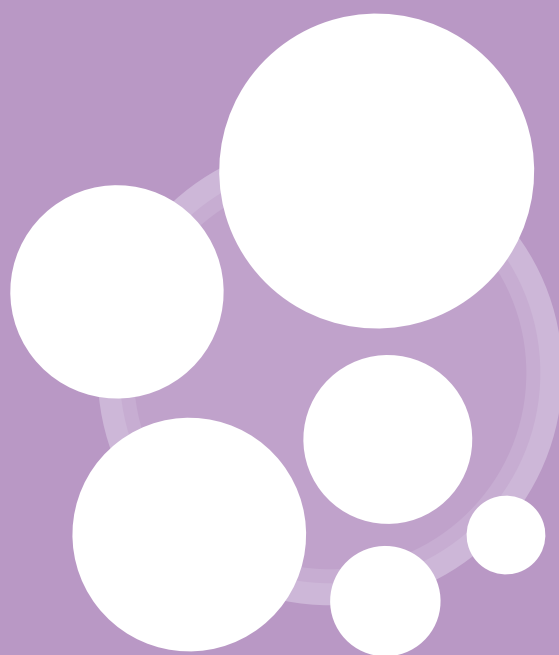




# THE ECONOMIC CONTRIBUTION OF THE CORE UK MUSIC INDUSTRY





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# EXECUTIVE SUMMARY

1.1 UK Music is the umbrella organisation that represents the collective interests of the UK's commercial music industry - from artists, musicians, songwriters and composers, to record labels, music managers, music publishers, studio producers and music licensing organisations, and the live music sector.

1.2 UK Music knows that the work of our members, creators and businesses makes vital contributions not only to the UK's status as a "cultural superpower" but also to the UK's growth, prosperity and employment. These contributions to the "bottom line" of UK PLC are, however, poorly captured in data presently collected by the Office of National Statistics (ONS). This imperfect data is used for policy purposes by the government.

1.3 The importance of music to our economy - to say nothing of our society and culture, as well as the UK's international standing - makes this poor measurement perplexing. The UK continues to face a growth and competitiveness challenge. If the UK is to succeed in the global race, we need public policy based upon data that accurately measures the contribution of different parts of our economy.

1.4 This report significantly improves upon official measurement of music's economic contribution. It presents a robust definition of the core music industry, informed by a clear rationale. It identifies all forms of revenue that are captured within this definition and measures the GVA (Gross Value Added), export and employment directly contributed by these activities.

1.5 Having worked with the ONS, UK Music has constructed a ratio of GVA to Gross Output that is bespoke to the music industry. Ratios that are published in the Annual Business Inquiry (ABI) by the ONS are not so tailored. This is because they are built around Standard Industrial Codes (SICs) that bear little correspondence to today's music industry.

1.6 The SIC codes are intended to provide a detailed and granular picture of the UK economy but imperfectly map the music industry. While the public data suffers from a number of weaknesses, this imprecise mapping is central to these weaknesses.

1.7 Given these weaknesses, we have drawn upon industry data in this study and applied this data to our bespoke GVA to Gross Output ratio. There has been an unprecedented degree of industry collaboration with this data gathering exercise. Never before has the industry comprehensively and transparently convened to define itself and share data that corresponds to this definition.

1.8 The industry has, therefore, made considerable efforts to improve understanding of its economic contribution. We trust that these efforts will be recognised and reciprocated by government. In the near-term, UK Music stands ready to draw upon the research presented here to work with public bodies, especially the BIS, DCMS, IPO, ONS and Treasury, to improve measurement of the economic contribution of music, as far as is possible within the existing SIC code structure.

1.9 Over the longer-term, we hope to work with government to secure a SIC code system better tailored to the music industry. This improved system would result in data held by the ONS providing a much more accurate picture of our industry's economic contribution, and enable public policy affecting our sector to be better targeted.

1.10 We are grateful to the ONS for working constructively with UK Music throughout this project. This process has, though, only served to reinforce our conviction of the inadequacy of data held by the ONS on the music industry. We found that many businesses that are members of UK Music are not being correctly classified by the ONS.

1.11 The most recent DCMS estimates attribute £4,070m in GVA<sup>1</sup>, £286m in exports<sup>2</sup> and 292,536 in employment<sup>3</sup> to the industrial grouping which includes music as well as “visual and performing arts” - activities quite distinct from that of the UK Music membership. We would expect these figures to increase if ONS classification of music firms were to improve.

1.12 The definition of the core music industry used here clearly isolates music from the visual and performing arts. Our analysis suggests that it made the following economic contribution in 2012:

- GVA of £3.5bn
- Exports of £1.4bn
- Employment of 101,680

1.13 These are different from previous estimates of the economic contribution of the category which includes music published by the DCMS because:

- Music cannot be disaggregated in these estimates. While the figures published by the DCMS group music with the visual and performing arts, this study looks at music alone. We feel it is important to understand the contribution of our industry in isolation from others that have little to do with ours.
- Data collection has been better targeted. UK Music provided a database of 9,435 record labels and music publisher companies to the ONS, who then checked to see if these companies were on the national business register and if so, how they were coded. Of the 9,435 businesses, only 1,267 were correctly coded to SIC code 59.20 “sound recording and music publishing activities” - less than 15 per cent. This means that the activities of a majority of music businesses are not presently being allocated to the code that enables their contribution to be attributed to music in the public accounts. In this study we have used data maintained by the industry to construct a fuller picture of the contribution made by those businesses we take to form the music industry.

1.14 Professor Peter Spencer, chief economic adviser to the Ernst & Young Item Club, has recently observed: “The boost from the consumer has pushed the UK economy into a progressively higher orbit, but this now needs to be supplemented by a thrust from the engines of export and investment”<sup>4</sup>. Research published last year by the IPO significantly revised upwards the investment contribution of music,<sup>5</sup> while this research finds that the export contribution of music is equal to 40 per cent of the GVA contribution of music, as oppose to exports being worth 35 per cent of UK GDP in 2012.<sup>6</sup> Music is both investment and export rich. Precisely the kinds of contribution that Professor Spencer now considers most important to the UK’s economic recovery.

1. Table 1, Page 14 in DCMS, Creative Industries Economic Estimates, (2011). This figure is for 2009.

2. Table 2, Page 16, in DCMS, Creative Industries Economic Estimates, (2011). This figure is for 2009.

3. Table 3, Page 18, in DCMS, Creative Industries Economic Estimates, (2011). This figure is for 2010.

4. Financial Times, 14 October 2013

5. IPO, Updating the value of UK copyright investment, June 2012

6. This divides the total exports reported by the ONS in its UK Trade, December 2012 publication of February 2013 by the Gross Value Added (Average) at Basic Prices published in the Blue Book, 2012 Dataset.

## 2 INTRODUCTION

2.1 This introduction begins by giving an overview of the wide support that this research has secured and drawn upon. It then sets out the aims and motivations for the study, placing these in the contexts of the wider public policy environment and the challenges facing the music industry. It concludes by giving an overview of subsequent chapters.

### WIDE SUPPORT FOR THIS RESEARCH

2.2 This report by UK Music is the most comprehensive study on the economic contribution of the UK music industry ever undertaken.

2.3 UK Music is the umbrella organisation that represents the collective interests of the UK's commercial music industry - from artists, musicians, songwriters and composers, to record labels, music managers, music publishers, studio producers and music licensing organisations. The members of UK Music are: Association of Independent Music (AIM), British Academy of Songwriters, Composers and Authors (BASCA), British Phonographic Industry (BPI), Music Managers Forum (MMF), Music Publishers Association (MPA), Music Producers Guild (MPG), Musicians Union (MU), PPL<sup>7</sup> and PRS for Music<sup>8</sup>.

2.4 All members of UK Music supported the aims of this research and have backed this support up by sharing necessary information and data for the purposes of this study. This support also entailed having at least one member of staff from each member organisation participate in the research steering group, which met regularly to discuss conceptual, data and methodological issues involved with this project.

2.5 This support has been matched by the UK Live Music Group, which is comprised of representatives of the live music industry and who are associate members of UK

Music. They are Association of Independent Festivals (AIF), Association of Festival Organisers (AFO), Concert Promoters Association (CPA), Agents Association (AAGB), International Live Music Conference (ILMC), National Arenas Association (NAA), and the Production Services Association (PSA). The UK Live Music Group convened regularly throughout this project to provide strategic input and share data.

2.6 UK Music members and associate members have been closely involved with this research throughout. Never before has the industry come together to define itself and quantify the economic contribution attached to this definition.

2.7 UK Music also sought the endorsement of government and agencies for this research effort. We updated relevant public bodies - Department of Business, Innovations and Skills (BIS), Department of Culture, Media and Sport (DCMS), HM Treasury, Intellectual Property Office (IPO) and the Office of National Statistics (ONS) - throughout the project.

2.8 This included a meeting hosted by the IPO at which the motivations and methodology of this project were examined by economists, statisticians and policy staff from the DCMS, IPO, Nesta and ONS. This meeting occurred mid-project and comments made in this meeting have been reflected in how the research has subsequently developed.

2.9 In addition, we are grateful to the Virtual Microdata Lab (VML), which allowed us to construct a ratio of GVA to Gross Output bespoke to UK Music member firms. We are also grateful to the Inter-Departmental Business Register (IDBR) team for their assistance.

7. PPL is the UK-based music licensing company and performing rights organisation representing over 10,000 record companies or recording right holders and over 65,000 performers.

8. PRS for Music is the home of PRS and MCPS, representing the rights of more than 100,000 members in the UK.

2.10 All research conducted by UK Music conforms to the guidance on good evidence for policy published by the IPO. This report uses clear, accessible language and the research has been conducted in a transparent, collaborative manner. Furthermore, consistent with the guidance, the report has been peer reviewed by Oxford Economics, one of the UK's leading economic consultancies and the author of many, well-regarded comparable studies.

2.11 UK Music is grateful to industry participants, public bodies and Oxford Economics for the time, information and intellectual input that they have all contributed to this project. They have done so in a highly transparent and collaborative spirit.

2.12 We are united by our eagerness to best measure the economic contribution of our industry, which informs the aims and motivations of the research.

## AIMS AND MOTIVATIONS

2.13 The project aims to assess the economic contribution of the UK music industry in terms of GVA, employment and exports. GVA is the contribution by the industry to GDP, employment is the number of jobs sustained by this contribution and exports are the component of this contribution generated by revenues from outside the UK.

2.14 These aims may seem straightforward but three important caveats attach to them.

2.15 First, we quantify economic contribution, not economic impact. These terms are often conflated but they are concerned with an important distinction. Economic contribution adds up the economic activity (GVA, employment) resulting from final demand expenditure, while economic impact estimations show the change

(impact) on economic activity (GVA, employment) resulting from a change in final demand.

2.16 Second, we quantify the economic contribution of the core music industry. This core excludes much that is in various ways linked to, or associated with, music. Our central purpose is to robustly estimate the contribution of that which is definitively the music industry, rather than claiming so much for the music industry that robustness and credibility might be questioned.

2.17 Third, while this constitutes to date the most detailed effort at measuring the economic contribution of the music industry, UK Music stands ready to improve it over subsequent iterations in coming years, in particular increasing the response rate to surveys that form part of the analysis. In some cases, response rates were excellent - for example, three quarters of the music publishing market replied to the survey run with the MPA - and our aim is to get all surveys to this level of response.

2.18 While our central purpose is to provide robust quantification of the core music industry, we also assess how this core is linked to the wider industry and economy.

## RESEARCH CONTEXT

2.19 Two dimensions to the research context should be appreciated: how the music industry considers itself to be evolving and how the music industry is represented in public data and in public policy.

2.20 The music industry was one of the first to experience the digital revolution. By way of comparison, while the onset of 3D printing means that the impact of this revolution is yet to fully feed through into many manufacturing sectors, the music industry has now had over a decade of successful adaptation to digital markets. New music products and services are being

developed all the time. As an increasing number of international markets and revenue streams open up for UK music businesses and artists, new music business models emerge.

**2.21** The creative industries have outperformed the economy as a whole for nearly a decade. They are often cited by analysts as one of the growth sectors of the future. The UK is identified as having a competitive advantage in its creative industries and music is, of course, an integral part of these industries.

**2.22** Investment is often used as an indicator of innovation, and innovation is often cited as a driver of growth. Investment by UK businesses in knowledge and intangibles was 34 per cent greater than tangible investment in 2009 (£124.2bn and £92.7bn respectively, according to a Nesta working paper in July 2012).

**2.23** Investments in creative intangible assets accounted for over 40 per cent of overall investment in intangibles in 2009, compared with R&D which accounted for just 13 per cent, according to the Nesta Manifesto for Creative Economy.

**2.24** Meanwhile, investment in artistic originals was estimated to be £5.1bn in 2009. Investment in music was estimated to be £1.3bn, according to the IPO document: *Updating the Value of UK Copyright Investment* (June 2012).

**2.25** Music, therefore, accounts for one per cent of all UK investment in intangibles, and 25 per cent of all investment in artistic originals. The UK is a net exporter of music, and second only to the United States as a source of global repertoire.

**2.26** The reality of this dynamic is not properly reflected in national statistics. We have identified four respects in which this is the case.

**2.27** First, the basic building blocks of these national statistics - standard industrial codes (SIC) and standard occupation codes (SOC) - do not map on to the music industry with any degree of accuracy. The SIC codes are intended to allow us to break down national output by industrial sector and SOC codes are intended to break down employment by these sectors. They do not allow us to do this in relation to the music industry.

**2.28** The music industry is not easily identifiable in current SIC and SOC. There is just one SOC (musicians) and one SIC (sound recording and music publishing activities). This leads to music industry being under-reported in the current national statistics and therefore undervalued as a contributor to the national economy.

**2.29** ONS wants to make the classifications as representative of the underlying economy as possible; but

- it is constrained by international nature of the classifications;
- it has to see the system as a whole - at national level (ie everybody goes somewhere); and
- it does not know/understand our sector.

**2.30** We recognise the responsibility trade bodies have to help ONS understand particular sectors. UK Music sees this report as a contribution towards assisting ONS in understanding the music industry.

**2.31** We look forward to working with the ONS, as well as other public bodies and trade bodies, both in the UK and internationally, to secure an international system of classifications that better captures our industry.

**2.32** In the meantime, and until this structural reform is possible, music continues to be ill-served by the current SOC codes. When reporting on the economy as a whole, the ONS comments on the importance of its constituent parts. For



example, Economic Review, July 2013 noted that despite suffering a precipitous fall in output during 2008, the motor vehicle industry has recovered more rapidly than the economy as a whole. In contrast, the current SIC codes mean that ONS data provide no robust basis for knowing how the music industry, at least as far as the industry understands itself, is performing relative to the economy as a whole and the contribution which our sector makes to total national output.

2.33 More traditional manufacturing sectors - such as car manufacturing - seem better served by the current SIC codes than the "newer" sectors such as the creative industries and the technology sector.

2.34 To illustrate this point, Britain may have many more technology firms than the government estimates. This is the finding of new research by the National Institute for Economic and Social Research (NIESR). Under the ONS classification the government recognises 187,600 digital companies, while the NIESR research identifies 270,000 such companies in the UK, 40 per cent more than the government estimates.<sup>9</sup>

2.35 During the 1930s depression, governments realised how poorly they understood their economies and the SIC code system was developed as a response to this weakness, limiting their capacity to form policy in response to the depression. It was introduced to the UK in the late 1940s and while it has been gradually revised since, still bears the imprint of having been devised at a time when manufacturing was a much larger feature of the British economy. In the current system there are 281 detailed codes covering the manufacturing sector, but only 49 for the creative industries, as DCMS currently understands them.

2.36 This limited SIC code coverage of the creative sectors has resulted in their economic contribution being under appreciated and poorly understood.

2.37 This report supports our view that the public data has also underestimated the contribution of music to the economy and that the poor mapping between the music industry and the SIC code system is a key contributor to this.

2.38 Second, notwithstanding the imperfect mapping between the SIC codes and the creative industries, our work with the ONS suggests that the music industry has been particularly poorly served, even within terms of the partial coding system that presenting exists.

2.39 In other words, the output of many music firms is presently being allocated to other sectors of the economy by the ONS. This key point is supported by a matching exercise that UK Music ran with the ONS.

2.40 UK Music provided a database of 9,435 record labels and music publisher companies to the ONS, who then checked to see if these companies were on the national business register - and if so, how they were coded. Of the 9,435 businesses, only 1,267 were correctly coded to [SIC code] 59.20 "sound recording and music publishing activities." We do not know to which codes the other businesses were allocated.

2.41 In our matching exercise with the ONS, of the 9,435 businesses submitted, 4,072 were not matched to the national business register (IDBR - Inter Departmental Business Register). Further analysis is required to ascertain why almost half of the businesses on the database were not matched to the IDBR. Some non-matches are due to problems in the matching software used, where lines of address don't tally. Some are due to incomplete addresses being supplied. We do not know how many non-matches are due to the business not being on the IDBR anywhere, because the company does not use a PAYE scheme or is not VAT registered.

9. NIESR, Measuring the UK's Digital Economy with Big Data, July 2013

2.42 The culminating effect of music businesses being either wrongly-coded or not counted at all (because they are not on the IDBR) is that the majority of music businesses will not be included in official measurement of the codes which encompass the music industry.

2.43 Third, one of the major surveys run by the ONS is the Annual Business Survey (ABS). For industries with SIC codes that map accurately on to their business activities, it is, for example, possible to take ratios of GVA to Gross Output, which would indicate the GVA contribution that would follow from an increase in output by a given amount. If the SIC codes for music better captured what the industry does, then we might gather industry data on Gross Output and be able to use the ABS to calculate the GVA contribution that would follow from this output. The poor mapping between the SIC codes and actual industry activities means that this cannot be done. Other industries - many of which do not seem to be any more important to the contemporary economy than music - do not suffer such problems, as more accurate SIC codes make the ABS more useful to them.

2.44 Fourth, the input-output table maintained by the ONS allows us to see how increases or decreases in output in a particular sector impact output in other parts of the economy. It cannot, however, be used to assess the impact upon other sectors of a rise or fall in music output, due to the poor way in which music is captured in the national statistics. We have been unable to devise a quantified methodology for overcoming this limitation. Instead the chapter on linkages provides a largely qualitative account of the way in which change in output in the music sector is likely to feed through to other parts of the economy.

2.45 These are four limitations that we have identified in relation to the way in which music is treated in the national

statistics. This is not simply a matter of academic concern. It is our contention that these limitations risk material damage to our industry and in turn to the economic and cultural wellbeing of the UK. This is because if limitations in national statistics are not overcome then we risk not being able to:

- Understand the economy and its constituent parts.
- Track trends and understand how the economy is changing.
- Design public policy best able to secure desired outcomes, such as economic growth and jobs.
- Prepare the workforce with the education and skills needed to prosper in sectors that data indicates are increasingly important.

2.46 High levels of granularity in data relating to some sectors (but not others) may lead to an over-emphasis on sectors where data is strongest, because needs are most easily apparent (but perhaps not most urgent). The policy needs of these sectors may, therefore, be more apparent than music. However, targeting policy instead upon sectors with less perfect public data, such as music, may be capable of generating more of an impact upon growth and jobs. This additional impact may, though, be underappreciated due to the lacuna and relative lack of data granularity in these sectors.

2.47 UNESCO has previously commented on the challenges of measuring the economic contribution of the creative industries. "Statistical methodologies", they argued, "which are so important to provide officials with the information that they need to develop suitable policy to support the creative industries, have yet to catch up with this reality".<sup>10</sup> We contend that, for the most part, at least insofar as they have been applied to our sector in the UK, these methodologies continue to lag behind the reality of our sector. Like UNESCO, we fear the potential policy consequences of this.

2.48 UK Music is eager to work with government to improve public data and avoid policy pitfalls. Consequently, we are working with government to explore how we might overcome, as far as possible, the limitations that have been identified in respect of the way music is treated in the national statistics. We will continue to work with government to further improve and refine how our industry is defined and measured. Ultimately, we would like to see revised SIC and SOC codes, which would correspond to the definition of our industry set out later in this report. We recognise that this is a long-term objective that requires international support. We are committed to working domestically and internationally to build this support. In the meantime, we look forward to working with government to improve the statistics that they keep on our industry.

2.49 This report builds upon previous efforts made by the music industry to measure itself. In particular, the BPI publishes their Yearbook documenting the output of their members and *PRS for Music* have published *Adding Up the Industry*. The BPI Yearbook is drawn upon here, as is *PRS for Music* data. However, *Adding Up the Industry* was an annual report, measuring revenues of the industry, rather than GVA. Having developed a robust definition of the industry, we also measured various music activities not captured in *Adding Up the Industry* and carried this through to GVA estimates, as oppose to focusing on revenue.

2.50 *Adding Up the Industry* was an annual report of net revenue for the industry from a range of data sources (*PRS for Music*, BPI, PPL, live consultants, MPA, FRUKT). The definition of the UK music industry in this report is wider than that adopted in *Adding up the Industry*.

2.51 The depth and rigour of this study into the economic contribution of the music industry stands as testament to our commitment to research accuracy and better understanding our sector.

## OVERVIEW OF CHAPTERS

2.52 Following this introduction, the remaining chapters in this report are:

- a. **Methodology:** This chapter explains the steps that have been followed to generate the results presented here.
- b. **Definition:** A crucial methodological step is to define the music industry. We devote this chapter to presenting how the music industry defines itself and why it does so.
- c. **Investment and Commercial Assets:** This chapter describes the importance of investment to the commercial assets that define the core music industry, as well as the relationship to these assets held by each element of our core.
- d. **Applying methodology to core definition:** This chapter discusses how our methodology has been applied to each element of our core definition, including data sources, to derive the estimates of economic contribution presented in the next chapter.
- e. **Economic contribution of the core music industry:** This chapter presents the economic contribution of each element of the core music industry in terms of GVA, employment and exports.
- f. **Linkages:** This chapter assesses how the economic contribution of the core is linked to the wider music industry and economy, as well as estimating the importance of the contribution of the core to sustaining output and employment more widely.
- g. **Conclusion:** The report closes with a concluding chapter that sets out our results.

## 3 METHODOLOGY

3.1 This chapter sets out the methodology that has been followed to quantify the economic contribution of the UK music industry. It begins by setting out some points of terminology and the methodological steps in the order in which they have been implemented. It then discusses some methodological challenges. It concludes by providing more detail on how the key indicators – GVA, exports and employment – have been determined.

### METHODOLOGICAL STEPS

3.2 The methodological steps that have been followed are:

3.3 First, define the industry. This task provides the industry's answer to the question: What economic activities make up the core music industry? More detail on the process followed to generate the industry's answer to this question is provided in the next chapter on definition.

3.4 Second, identify and quantify sources of revenues. Having established the economic activities that define the music industry, this task involved working with the industry to identify and quantify the revenue streams relevant to these economic activities.

3.5 Third, the export contribution of the music industry was measured by identifying and quantifying those revenue streams that involved transactions between UK businesses or artists and businesses or customers outside the UK.

3.6 Fourth, the employment contribution of the music industry was measured by identifying and quantifying the employment concerned with the economic activities that form the music core industry.

3.7 Fifth, having quantified the revenues generated by the economic activities of the core music industry, it was necessary to transition from these to an

estimate of GVA contribution. There are various methods for making this transition, which we discuss below.

3.8 Sixth, the GVA contribution of the music industry is linked to GVA contributions in other parts of the economy. If the GVA of music were to decline or increase, then the GVA contribution of these linked sectors would also decline or increase. This task identified those linkages, and chapter eight provides some qualitative discussion on their scale.

3.9 Finally, we present our results by industry segments. This is to say that the GVA, employment and export contribution of UK music is presented in terms of the different elements of our definition of this industry.

### TERMINOLOGY

3.10 We define Gross Output, Gross Value Added (GVA) and exports in the same way as the ONS and current accepted economic convention. This means that the following definitions are used:

- Gross Output corresponds to the total value of final sales by the company or industry in the relevant accounting period.<sup>11</sup>
- GVA is the contribution an institution, company or industry makes to Gross Domestic Product (GDP). GVA is most simply understood as the value of sales minus the cost of bought in goods and services used up in the production process. For a company, this is equivalent to the sum of compensation of employees (including both salaries and payments in-kind), earnings before interest, tax and depreciation (EBITDA), and taxes less subsidies on production.
- Exports are the value of final sales to purchasers resident overseas. This is consistent with the Annual Trade in Services Survey run by the ONS.

11. <http://www.detini.gov.uk/deti-stats-index/stats-surveys/stats-annual-business-inquiry.htm>

3.11 GVA measures the contribution to the economy of each individual producer, industry or sector and is used in the estimation of Gross Domestic Product (GDP). GDP is a key indicator of the state of the whole economy.

3.12 When assessing the economic contribution of sectors or the economic impact of a policy change, it is conventional to refer to the GVA impact. This is, therefore, a more widely recognised and used measure of economic contribution than Gross Output. DCMS, for example, report on the GVA contribution of the creative sectors but not their Gross Outputs.

3.13 In the UK, three theoretical approaches are used to estimate GDP: 'production', 'income' and 'expenditure'. The 'production' approach to estimating GDP looks at the contribution of each economic unit by estimating the value of an output (goods or services) less the value of inputs used in that output's production process. The income approach to estimating GDP measures the incomes earned by individuals (e.g. wages) and corporations (for example, profits) in the production of outputs (goods or services).<sup>12</sup>

3.14 In this report, a production approach is used for all categories of activity except the category encompassing musicians themselves, as these are individuals and therefore, their revenues are treated in the same way as wages would be under an income approach.

## METHODOLOGICAL CHALLENGES

3.15 This project has identified and overcome a number of methodological challenges. Some of these challenges were unexpected, given that this was the first time that such a study has been undertaken. Our peer reviewers, Oxford Economics, have a strong track record of studies on broadly comparable sectors - for example, film - and

assisted this study by drawing upon the intellectual capital of these past studies.

3.16 Three kinds of challenge have been confronted:

- Definitional challenges: Have we defined the music industry correctly?
- Data challenges: Have we gathered the most accurate data possible on this definition?
- Technical challenges: Have we used the data appropriately to assess economic contribution?

3.17 We provide more detail on the process that has been followed to arrive at our definition in the next chapter. This process arrives at core and wider definitions of the music industry, which in providing core and wider elements is consistent with the approach used by Oxford Economics in their research on the film industry.

3.18 Gathering data has been challenging because a lot of data is held by small companies and there is significant variation between individual contracts with complex, cross-border revenue flows, as well as plurality of business models and many freelancers.

3.19 The vast majority of music businesses are very small or micro companies, and the music industry has a higher proportion of sole traders and freelance workers than the average sector. They typically earn income from several different sources, for example, through their own company (or as a sole trader), from irregular freelance work, from royalty payments, and/or on a contractual or work-for-hire basis. Together, these payments may sustain a career, but no single source may be significant on its own. Unless a business is VAT registered and employs workers using PAYE, the company is very unlikely to appear on the national business register (IDBR). Our own analysis suggests that a significant number of music

12. <http://www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/national-accounts/gva/relationship-gva-and-gdp/gross-value-added-and-gross-domestic-product.html>

businesses may not appear on the national business register, and so will not appear in any measurement that uses SIC codes.

**3.20** There has, however, been an unprecedented commitment across the music industry to share data with this project. This has resulted in a number of surveys being run as part of the project; many for the first time, which aim to pick up data currently absent from the IDBR.

**3.21** In total 10 surveys were run exclusively for this project with different parts of the music industry. The response rates to these surveys varied and are detailed later in the report. UK Music and its member bodies took every possible step to maximise responses to these surveys. We will do so again when this study is repeated, as there is scope to improve upon the response rates that this study received and this is likely as familiarity with the study increases. The surveys were necessary to quantify the contribution of parts of the industry that cannot be quantified from the existing and well-established data sources (e.g. data held by BPI, PPL and *PRS for Music*).

**3.22** In terms of how these sources of data are used, the main challenge has been around transitioning from Gross Output to GVA data, which we discuss below.

## GVA

**3.23** We have used industry data to quantify the Gross Output of each element of the core music industry. There are transactions within the music industry such that revenues that contribute to output in one part of the industry will in turn contribute to output in another part of the industry (e.g. record company revenue will to some extent be passed on to musicians and in turn from musicians to their managers). That revenue derives from transactions internal to the industry does not alter the Gross Output of various parts of the core industry, which are simply the summed

revenues of companies in these parts, irrespective of whether these revenues derive from sales arising from transactions with other members of the industry or economic agents external to the industry.

**3.24** Three possibilities for transitioning from gross output to GVA data are:

- Revenue data can be applied to the input-output table to generate GVA estimates but this would work poorly for music as the industrial sectors in the input-output table do not correspond accurately to music.
- As discussed in the introduction, another possibility would be to take a ratio of GVA to Gross Output from the ABS. However, again, this would be imperfect for music due to the way that music maps poorly on to the SIC codes.
- Given the problems that music has with the SIC codes, a more bespoke methodology was required. We developed this through accessing the Virtual Microdata Lab (VML) maintained by the ONS.

**3.25** This bespoke methodology had three steps:

- First, UK Music gathered the company registration numbers and VAT numbers of a large number of companies belonging to our member bodies. These details were supplied to the Inter-Departmental Business Register Team (IDBR) team at the ONS.
- The IDBR was able to attach reporting unit numbers to many of these businesses and these reporting unit numbers were submitted to the VML.
- In the VML, UK Music could access these reporting unit numbers without being able to identify which specific firms they related to. We could, however, identify entries in the Annual Business Survey (ABS) corresponding to each of these reporting unit numbers. Each of these entries had a number of data variables attached to it, including Gross Output and GVA. We took a ratio of GVA to Gross Output for those firms that we could match in the ABS to the reporting unit numbers supplied to the VML by the IDBR team.

3.26 By taking this ratio, we have a ratio of GVA to Gross Output for firms which we know to be in the music industry. This is, therefore, a ratio much better tailored to our industry than that which appears in the published ABS, where the poor mapping of the SIC codes to the music industry means that the ratios of GVA to Gross Output that might be calculated would take account of industries other than music.

3.27 Nonetheless, the ratio averages across firms known to be in the music industry. Typically, averages contain variation among the numbers that form it. This means that it is likely that the ratio of GVA to Gross Output that we apply may vary between the different elements of the core music industry. It is bespoke to the core as a whole, not to the component parts of the core. Confidentiality procedures meant that in the VML we were only able to identify companies as being UK Music companies or not, rather than to the more detailed level of particular parts of the core industry.

3.28 In the case of some parts of the core - musicians, collecting societies, trade bodies and some parts of the live sector<sup>13</sup> - we were able to accurately estimate GVA by drawing upon different data sources other than the VML. We applied these estimates in these cases and re-weighted the GVA to Gross Output ratio applied to the rest of the core in light of this.

## EMPLOYMENT

3.29 We have measured the direct employment contribution corresponding to the economic activities within our definition. We have not measured the employment that is indirectly sustained by these economic activities. The former is to measure economic contribution in employment terms and the latter would be to measure economic impact in employment terms.

3.30 These employment data have been gathered by surveying those undertaking the economic activities that are contained within our definition. When undertaking this surveying, we have been careful to avoid double counting (e.g. someone who works both as a producer and a musician) and to capture the many freelancers in the industry as accurately as possible.

3.31 Where surveys were used, they counted part-time staff and freelance staff as equivalent to half a full-time employee. In some cases, employment data were taken from other sources, e.g. BPI provided data on employment by record labels.

## EXPORTS

Exports are revenues from transactions between sellers in the UK and buyers outside the UK. These kinds of revenues have been identified in our surveying of UK Music members and others. In undertaking this survey, we have attempted to apply the same standards and interpretations that the ONS use when undertaking the Annual Trade in Services Survey. Given the significant heterogeneity by contract - differences from contract to contract - that we see in the music industry, an important point that we note is that the Annual Trade in Services Survey seeks to gather data at firm level, rather than by contract.

13. The GVA contribution of collecting societies and trade bodies is equal to their wage spend, as they are not-for-profit organisations. These wage spends were inputted directly. Musicians were treated similarly as sole traders - all revenues being treated as wages and therefore, contributing to GVA. However, we deducted payments to managers, producers and music agents. In respect of the live sector, more accurate estimates of the relation between turnover and GVA were applied, consistent with past research for UK Music by Oxford Economics.

## 4 DEFINITION

4.1 The first step in measuring the contribution the music industry makes to the UK economy is to set the parameters of what “the music industry” includes. This chapter, therefore, establishes how the UK music industry is defined for the purposes of this analysis.

4.2 There is no universally agreed definition of the music industry. Different approaches can be taken to define any industrial sector. There is no ‘right’ or ‘wrong’ way. Different approaches do, however, conceptualise the industry in different ways and take different characteristics to capture the essence of the industry.

4.3 It is our contention that the industry is founded on certain commercial assets and defined by the relationship to these assets. It is these assets that create the value which enables music to be an industry, rather than a hobby, craft or other non-commercial venture. It is the business-to-consumer and business-to-business transactions and the resulting profits that make this a commercial environment and this environment would not be sustainable without the assets of the industry.

4.4 This chapter begins by reviewing the different ways in which music might be defined and then moves on to the process that has been followed to generate the definition presented here. It then explains the approach grounded in commercial assets and the rationale for this approach. It concludes by identifying the different elements contained within the core and wider music industries, according to this approach.

### DIFFERENT APPROACHES TO DEFINING THE MUSIC INDUSTRY

4.5 The SIC and SOC codes are used by the ONS. The ONS note that the SIC “was first introduced into the UK in 1948 for use in classifying business establishments and other statistical units by the type of economic activity in which they are engaged”.<sup>14</sup>

4.6 While the SIC has been subject to various revisions since it was first introduced, it is still thought to better capture more traditional parts of the economy, like manufacturing, than parts of the economy that have since become more prominent, like the creative industries. Nonetheless, the SIC is often used to divide the economy into its component industries.

4.7 In respect of the SOC the ONS state that it is “a common classification of occupational information for the United Kingdom”.<sup>15</sup> Thus, while the SIC divides the economy into different industries, the SOC divides the workforce into different occupations.

4.8 We have reviewed the SIC and SOC codes in detail to assess how different UK Music members ought to be classified with these systems. It is often difficult to map the activities of UK Music members neatly on to the SIC and SOC codes.

4.9 Music is also grouped with the visual and performing arts. These are quite different kinds of activity. They have different audiences, workforces and cultural footprints. Yet grouping music with them means that the output of music is not disaggregated from them in the data presented by DCMS and ONS. Demos has also commented upon these problems.<sup>16</sup>

4.10 Due to the difficulties of mapping music industry activities on to the SIC and SOC codes and the lack of a distinct coding for music, there are limits to what can be achieved through the current national accounts in terms of accurately describing what is constituted by our sector and what its economic contribution is.

14. <http://www.ons.gov.uk/ons/guide-method/classifications/current-standard-classifications/standard-industrial-classification/index.html>

15. <http://www.ons.gov.uk/ons/guide-method/classifications/current-standard-classifications/soc2010/index.html>

16. Demos, Risky Business, (2011)



4.11 While DCMS has recently applied an innovative creative intensity methodology to arrive at a redefinition of the creative industries, the shortcomings of SIC and SOC codes limit this methodology, as the methodology has to work with these codes as given.

4.12 Were there a perfect match between SOC and SIC codes, and the actual occupations and industries as they exist in the real economy, and were the data collected by the ONS better able to identify small and micro businesses, sole traders and freelancers, then the creative intensities methodology would work in the way that it is intended to work.

4.13 The current SIC and SOC code system does not work at all well for the music industry. Any attempt to define and measure the music industry using SIC and SOC codes will be unsuccessful. The problem rests with the underlying classification infrastructure, not with the creative intensities methodology per se.

4.14 For example, someone describing their occupation as running a record label may be coded to SOC code 3545 - "sales accounts and business development managers" because this code encompasses label managers. Many record label managers work for small independents with fewer than 10 employees and many are even smaller, perhaps just two or three people, who carry out a number of functions from the highly creative A&R talent spotting function through to commissioning and managing the production of sound recordings, music videos, music merchandise, album artwork, website, plugging, tour support, and so on. Yet because record label managers will be coded to code 3545, which would not be assessed as a creative occupation within the methodology that the DCMS propose, this creative activity is in danger of not being included within classification and measurement of the creative industries.

4.15 Many others working to promote, protect, or manage a specific catalogue of sound recordings or musical repertoire would very likely fall under the SOC code 4161 - office manager - a code that encompasses managers of copyright. People working in these occupations typically work in record labels, music publishers, music aggregators, and music collecting societies. Code 4161 would, though, be treated in the same way as Code 3545 under the methodology proposed by the DCMS.

4.16 Organisers of festivals such as Glastonbury or T in the Park are coded to 3546 - "conference and exhibition managers" - again, not a creative occupation.

4.17 Many working for music publishers like Warner Chappell or Universal Music Publishing, and music promoters like Live Nation and AEG Live, would also be coded to 3545 - not a creative occupation.

4.18 There is no obvious SOC code to describe the sub-industry formed by music managers, the profession of those who work closely and intimately with an artist across every facet of their lives and which many people work in throughout their working lives.

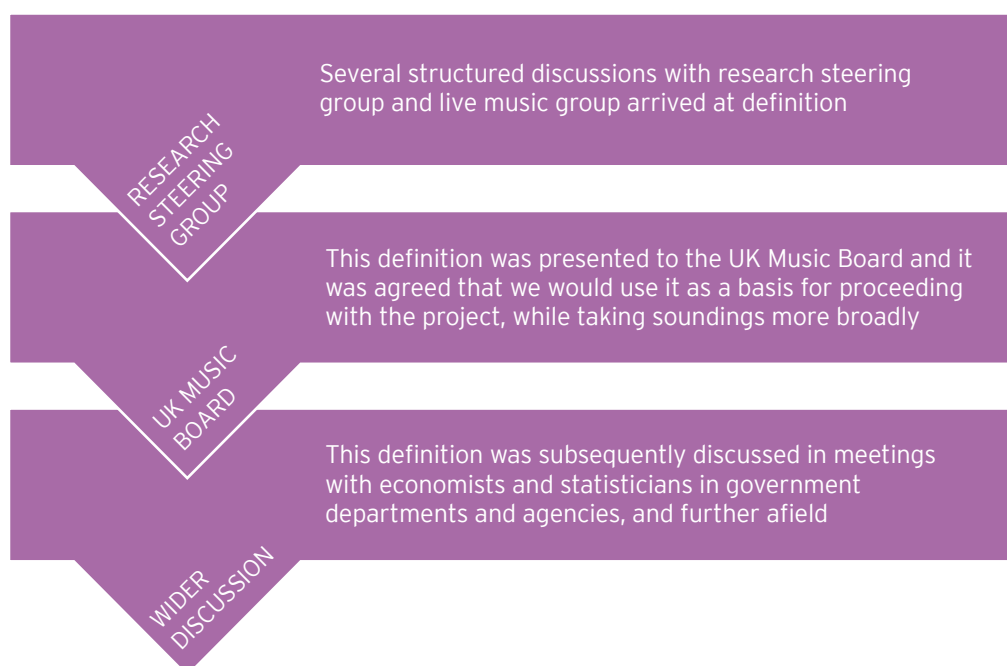
4.19 The 25 SOC occupations considered creative within the methodology proposed by the DCMS excludes a very large number of people working in occupations in the music industry. Many of those working in record labels, music publishing, music promotion, music festivals, and music collecting societies - and perhaps many other music occupations such as artist management -- will be excluded. This is because no dedicated SOC codes exist for such occupations, and so they are shoe-horned into ill-fitting generic SOC codes which are not considered creative.

4.20 This project is motivated by a desire to overcome the limitations of the SOC and SIC codes, to define robustly the music industry and accurately measure its economic contribution.

## PROCESS FOR GENERATING DEFINITION

4.21 We followed a thorough, robust and transparent process for developing a definition of the core, modern music industry. The process that was followed is illustrated in the diagram below.

DIAGRAM 1: PROCESS FOR ARRIVING AT INDUSTRY DEFINITION



### WHY THE MUSIC INDUSTRY IS DEFINED BY COMMERCIAL ASSETS

4.22 The process illustrated above has led to the view that the UK music industry consists of a core industry and a wider industry beyond. The inner core is defined by its relationship to the commercial assets of the UK music industry.

4.23 These commercial assets are:

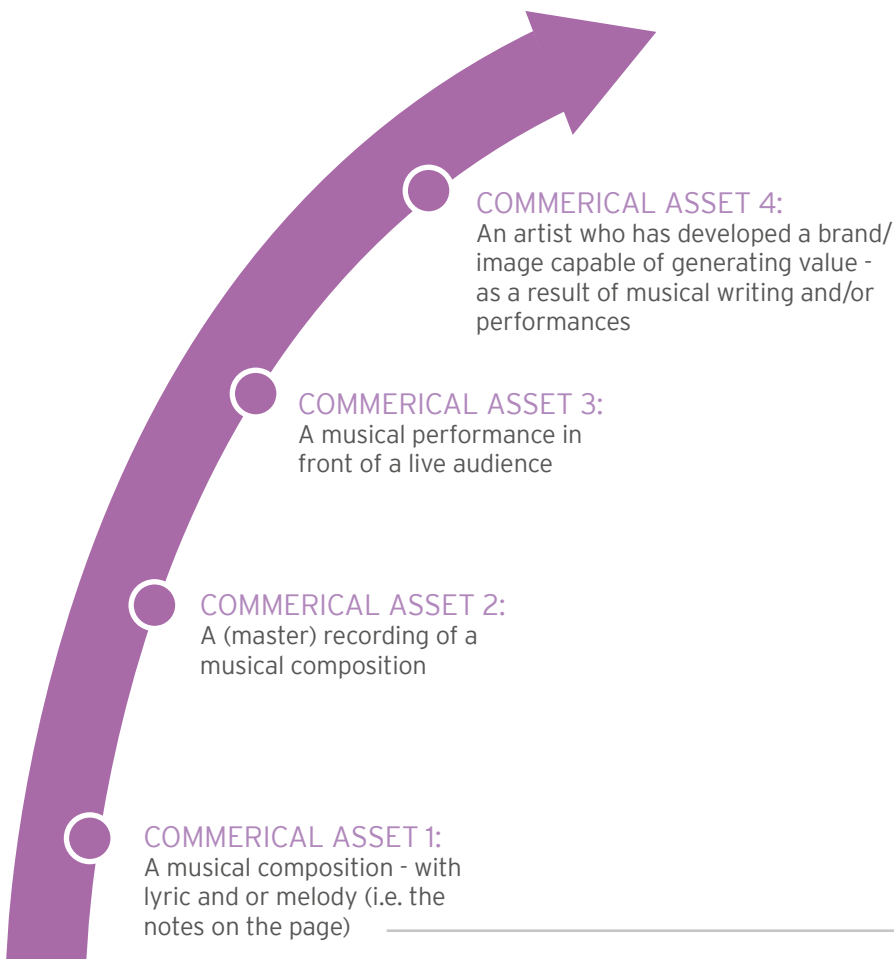
- Commercial asset 1: a musical composition and/or lyrics (the notes on a page)
- Commercial asset 2: A (master) recording of a musical composition<sup>17</sup>

- Commercial asset 3: A live musical performance
- Commercial asset 4: An artist him or herself (as a brand, reputation or image)

4.24 There are two kinds of relationship to these commercial assets that justify inclusion in the core of the music industry:

- First, economic activities that create these commercial assets. (An example is the creative process of composing, performing or recording music.)
- Second, economic activities whose primary focus is upon the steps necessary to bring these assets to a position where they are able to be distributed and transacted with consumers and businesses in one way or another.

### DIAGRAM 2: TYPICAL RELATIONSHIP BETWEEN COMMERCIAL ASSETS



4.25 The commercial assets relate to one another in a typically sequential form. This is illustrated in the diagram below. Musicians performing in front of live audiences will typically be performing compositions that either they or another artist have recorded, and which they or another composer or songwriter has written. In their exposition of commercial assets 1, 2, and 3, the artist can also develop their own brand i.e. commercial asset 4.

4.26 Some artists may have more commercial potential in one or other of the assets. The Rolling Stones, for example, have recorded new music relatively infrequently in recent years. However, they retain tremendous capacity to attract live audiences (commercial asset 3). Equally, David Bowie has released a new album (commercial assets 1 and 2) that has been well received but he has not (as of yet) performed these songs live (commercial asset 3).

17. We note that the use of music in audio-visual productions and/or by brands will draw upon these master recordings.

4.27 There are also some artists - for example, those whose professional careers begin with TV shows like the X-Factor - who have a personal brand (commercial asset 4) that is disproportionately large as compared with their success to-date in developing commercial assets 1 and 2. This does not, though, exclusively apply to acts coming out of such TV shows.

4.28 Many of the most commercially successful artists, however, tend to have their success in commercial assets 1 and 2 build into success in commercial assets 3 and 4, giving them strong commercial potential in respect of all assets. A new album by One Direction, which would draw upon commercial assets 1 and 2, is now inevitably a major cultural and commercial occasion, as is one of their concerts (commercial asset 3) or the release of one of their fragrances, which would draw upon commercial asset 4.

4.29 The potential of artists in respect of these commercial assets is consistently assessed by those investing and working in the industry at all stages of the artist's career. As discussed, artists like One Direction and the Rolling Stones may have differential potential between these commercial assets. But, of course, such major acts more than justify the various investments made which are necessary to bring their products to end customers.

4.30 Less well known artists are more marginal cases. The costs of these investments - whether in the form of time spent in recording studios or negotiation with the other kinds of suppliers that must be engaged to bring their products to market or other kinds of investment - have to be assessed by record companies and music publishers against the likely returns to be generated by these artists in terms of these commercial assets. While the investment costs may vary by artist, what matters in terms of revenue potential is always their capacity relative to the four commercial assets identified.

4.31 It is because these commercial assets are fundamental to all revenues generated by the music industry that we see them as integral to how we define the industry.

## CORE MUSIC INDUSTRY

4.32 The rationale above defines the UK's core music industry as being formed by:

- Musicians, singers
- Composers, songwriters, lyricists
- Music producers
- Recording studios and staff
- Music managers
- Record labels
- Music publishers
- Collecting societies
- Music trade bodies
- Music festival organisers
- Music promoters
- Music agents
- Production services for live music
- Ticketing Agents - the proportion of their activities involved with live music
- Concert venues and arenas - the proportion of their activities involved with live music
- Online Music Distributors - e.g. aggregators and digital distributors that are intrinsically linked to labels, managers and artists in bringing recorded music to market
- Design and production of physical product & packaging

4.33 We group these different elements of the core into various thematic bundles as illustrated in Table 1.

TABLE 1: THEMATIC GROUPS WITHIN CORE MUSIC INDUSTRY

THEMATIC GROUPING	ELEMENTS OF THE CORE
Musicians and singers, composers, songwriters and lyricists	Musicians, singers
	Composers, songwriters, lyricists
Recorded Music	Record labels
	Music producers
	Recording studios and staff
	Online Music Distributors
	Design and production of physical product and packaging
Live Music	Music festival organisers
	Music promoters
	Music agents
	Production services for live music
	Ticketing Agents - the proportion of their activities involved with live music
	Concert venues and arenas - the proportion of their activities involved with live music
Music Publishing	Music Publishing
Music Representatives	Collecting societies
	Music managers
	Music trade bodies
Music Producers , Recording Studios and Staff	Music Producers
	Recording studios and staff

## Wider Music Industry

4.34 We are reporting only on the economic contribution of this core, not the wider music industry. While the wider music industry is considered in the chapter on linkages, we have not made an estimate of its economic contribution.

4.35 The UK's wider music industry is defined as those economic agents that trade with the core, and so service the core music industry in a variety of ways.

4.36 The rationale above defines the wider music industry as being formed by:

- Music retail (shops)
- Music retail (digital)
- Other music-based digital services for consumers (streaming, subscription, recommendations, social networks)
- Music broadcast: radio and television
- Music video production
- Manufacture of musical instruments, audio equipment, and music software
- Retail of musical instruments
- Music photography
- Music press (online and print) - including the proportion of music coverage in non-music focused publications
- Manufacture, sale, distribution of music merchandise
- Artist lawyers
- Artist accountants
- Music teachers (education)
- Music teachers (tuition)
- Security, catering and other services for live music performances/ events
- Music contractors/fixers

## 5 INVESTMENT AND COMMERCIAL ASSETS

5.1 This chapter begins by describing the importance of investment to the core music industry. This investment benefits all members of the core, either directly or indirectly. Having discussed this investment, the chapter moves on to explain the relationship to the commercial assets held by each element of the core.

### THE IMPORTANCE OF INVESTMENT

5.2 The music industry is investment-driven. Record labels invest a high proportion of turnover in developing new talent. The £3.5 billion contribution that the music industry makes to GVA - according to the analysis presented in this report - is a legacy of years of investment made by record labels, music publishers and the rest of the industry in developing the UK's musical talent.

5.3 The huge levels of investment in human talent, and in infrastructure, made today will reap benefits in the future, and these benefits should 'show up' in higher levels of exports and GVA in later studies. The importance of investment cannot be overstated; they are the invisible building blocks upon which the industry is founded.

5.4 An update published by the IPO last year went some way towards improving understanding of the scale and importance of music investment.<sup>18</sup> This suggested that UK investment in copyright was approximately £5.1bn in 2009, or £3.2bn higher (0.3 per cent of GVA) than official data recorded in the UK National Accounts, for the comparable series on pure copyright investment. The contribution of music to artistic originals was increased from £176m in the 2009 National Accounts to £1,331m under the revised methodology used in the update.

### RECORD LABEL INVESTMENT

5.5 Over half of album sales in the UK each year are new releases. Spending on A&R (Artists and Repertoire) is the R&D (Research and Development) of record labels. In total, labels spent £162.9m on A&R in 2011. The figure below illustrates what this A&R spend was composed of. In addition to these A&R expenditures, record labels spent even more - £161.5m - on marketing and promotions in 2011, which is vital to driving music sales. This A&R expenditure corresponds to almost 20 per cent of record label revenues.

### INVESTMENT BY MUSIC PUBLISHERS

5.6 Music publishers also make large investments in new talent. The survey of MPA members run for this project quantifies these at £132.6m in 2012. The figure below provides a breakdown of these expenditures.

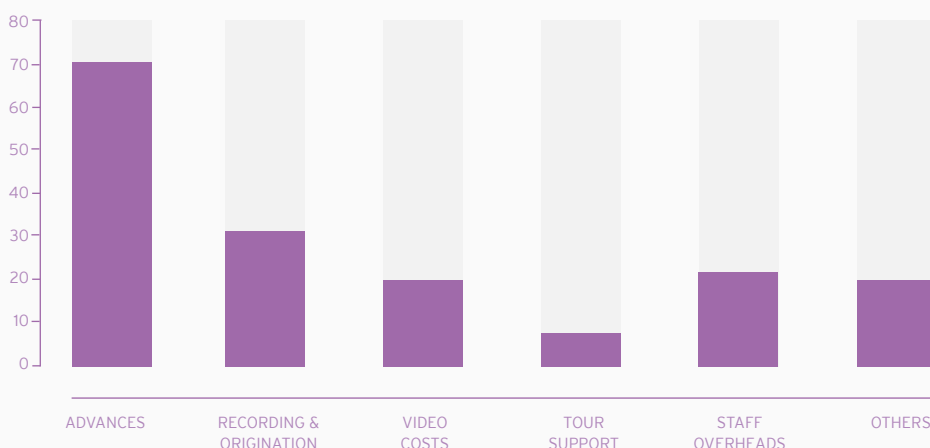
### GLOBAL REPERTOIRE DATABASE

5.7 The Global Repertoire Database (GRD) is a central, authoritative, multi-territorial source of the global repertoire of musical works copyright metadata. The metadata that it will contain includes information about musical works themselves, the creators of the works and their ownership, control or administration. It will be headquartered in London.

5.8 GRD is a powerful example of the way in which investment can increase future GVA, as it financial benefits are intended to include:

- Data management costs avoided across the value chain
- Working capital cost avoided
- Fewer misallocated (and unallocated) royalties
- More funds available to re-invest in more effective licensing
- Revenue opportunity resulting from greater music availability.

FIGURE 1: UK RECORD INDUSTRY A&R EXPENDITURE (2011, £M)



Source: BPI

18. IPO, Updating the value of UK copyright investment, June 2012

## PPL REPERTOIRE DATABASE

5.9 PPL's repertoire database is a central authoritative source of data in respect of sound recordings. The company receives details electronically on a weekly basis for an average of 6,500 new recordings. Once fed into the PPL database, this data is used to ensure the accurate distribution of public performance and broadcast revenues generated by such sound recordings. PPL also provides this data to *PRS for Music* to administer the relevant copying rights on behalf of songwriters, composers and publishers and to the BPI and IFPI to assist with their anti-piracy activities.

FIGURE 2: INVESTMENT BY UK MUSIC PUBLISHERS (2012, £M)



Source: Survey of MPA members for UK Music

5.10 Having reviewed the importance of investment to the creation of the commercial assets that define the core industry, we now review the relationship to the commercial assets held by each of the elements of the core.

## MUSICIANS, SINGERS, SONGWRITERS, COMPOSERS, LYRICISTS

5.11 These are the creative workers at the heart of the music industry.

### RELATIONSHIP TO COMMERCIAL ASSETS

5.12 None of the commercial assets that we use to define the core industry would exist without the activities of these creative professionals.

## RECORDED MUSIC

### RECORD LABELS

5.13 Record labels were integral to the development of the music industry and remain fundamental to the industry today.

### RELATIONSHIP TO COMMERCIAL ASSETS

5.14 The table below reviews some record label functions and their relationship to the commercial assets.

TABLE 2: RELATIONSHIP BETWEEN RECORD COMPANY FUNCTIONS AND COMMERCIAL ASSETS

RECORD COMPANY FUNCTION	RELATIONSHIP TO COMMERCIAL ASSETS
A&R - discovery and development of talent (performers, musicians, studio producers) to create recordings. Includes scouting performances, working with managers and producers, reviewing demo submissions	These activities contribute towards the creation of (master) sound recordings
Commissioning production of sound recordings, via third party recording studios, own recording facilities, record producers, mix engineers, mastering engineers, remix artists/producers	These activities are fundamental to the creation of (master) sound recordings
Commissioning production of music videos (direct, or via third parties, engaged directly or through commissioning services)	Music videos help to develop the artists' brand, which is a relevant commercial asset. They also use and promote the sound recording
Commissioning production of physical sound carriers (CDs and vinyl usually via third parties) - including digitalisation and hosting of recordings for use by licensed online music services	These are all economic activities whose focus is upon bringing the commercial assets to a form where they can be transacted with customers
Production of merchandise and other physical assets (usually via third parties)	
Creation of artwork/visual assets - album artwork, website source/design/artwork, logos, trademarks, designs	
Licensing use of sound recordings to third parties; for example online services & applications as well as for inclusion in films, TV programmes, advertising, games and compilation albums	
Asset management (registering repertoire and managing relationships with entities such as collecting societies to facilitate licensing through these channels) and managing this area on an ongoing basis	
Accounting tasks (managing payments needing to be made to artists, publishers, licensors and other third parties following receipt of statements from retailers (physical and/or digital))	
Marketing and promotion activities - encompassing advertising (TV, radio, print, online), website & social network management, customer relation communications and promotion across all platforms and channels of consumption, including radio, TV and online services such as YouTube	
Infringement/dispute resolution - where recordings have been used without permission eg on unlicensed download and streaming services	
Sales - Negotiating deals and managing relationships with retailers, distributors, streaming services, download sites mobile operators and other commercial partners International - co-ordinating overseas releases of recordings and overseeing many of the functions detailed above	



## ONLINE MUSIC DISTRIBUTORS

5.15 Online Music Distributors are a vital intermediary between those making sound recordings (commercial asset 2) and online retailers. They provide a niche, business-to-business service ensuring the digital file contains all the metadata to enable its commoditisation. Please note that this does not refer to distributors of digital music direct to consumers (e.g. Spotify).

### RELATIONSHIP TO COMMERCIAL ASSETS

5.16 The primary focus of these distributors is on delivering digital content from the owners of master recordings to online retailers. This greatly assists the operation of online retailers, as otherwise online retailers would need to engage directly with the large number of owners of master recordings.

5.17 In addition to this core service, these distributors sometimes provide a number of other services to the owners of master recordings, which assist them in growing the revenues that can be derived from this ownership.

## DESIGN AND PRODUCTION OF PHYSICAL PRODUCT AND PACKAGING

5.18 The design and production of physical product and packaging is necessary to bring sound recordings (commercial asset 2) to a form in which they can be sold to customers. They also tend to develop and reinforce the brand of the artists (commercial asset 4).

### RELATIONSHIP TO COMMERCIAL ASSETS

5.19 The primary focus on these businesses is to design and prepare the packaging that comes with physical music products. CD and vinyl record artwork is designed and prepared before these physical products are shipped to distributors and retailers.

## LIVE MUSIC

### MUSIC FESTIVAL ORGANISERS

5.20 Music festivals are an important part of the music, cultural and tourism landscape of the UK.

### RELATIONSHIP TO COMMERCIAL ASSETS

5.21 If music festivals did not exist then an important venue for live music performances (commercial asset 3) would not exist. The output of music festivals is, therefore, fundamental to the music industry.

### MUSIC PROMOTERS

5.22 It is the responsibility of music promoters to draw audiences to live music events.

### RELATIONSHIP TO COMMERCIAL ASSETS

5.23 Live music events (commercial asset 3) would not be viable without the audiences that promoters draw to them.

### MUSIC AGENTS

5.24 Music agents are retained by live music acts to secure live bookings.

### RELATIONSHIP TO COMMERCIAL ASSETS

5.25 Live music acts (commercial asset 3) would not occur without bookings made by music agents.

## PRODUCTION SERVICES FOR LIVE MUSIC

5.26 The importance of production services for live music to the music industry has grown as live music has grown in cultural and economic significance.

### RELATIONSHIP TO COMMERCIAL ASSETS

5.27 It would not be possible to stage live music events (commercial asset 3) without specialist production services, which ensure that professional sound systems, lighting and staging are all functioning as they should be.

## TICKETING AGENTS

5.28 Ticketing agents work with the live music venues and promoters to provide the box office system.

### RELATIONSHIP TO COMMERCIAL ASSETS

5.29 It would not be possible to stage ticketed live music acts (commercial asset 3) without the systems devised and implemented by ticket agents.

## CONCERT VENUES AND ARENAS

5.30 Concert venues and arenas are integral to the live music industry.

### RELATIONSHIP TO COMMERCIAL ASSETS

5.31 These venues and arenas are necessary to stage music performances in front of live audiences (commercial assets 3).

## MUSIC PUBLISHING

5.32 Music publishing is the business of creating, promoting, administering and exploiting musical compositions. The music publishing business predates the recording music industry by hundreds of years.

### RELATIONSHIP TO COMMERCIAL ASSETS

5.33 Music publishers perform a vital function in creating and commoditising songs and musical compositions (commercial asset 1) and maximising the value that is derived from this commercial asset. The details of what this entails are illustrated in Table 3.

TABLE 3: RELATIONSHIP BETWEEN MUSIC PUBLISHING COMPANY  
FUNCTIONS AND COMMERCIAL ASSETS

PUBLISHING COMPANY FUNCTION	RELATIONSHIP TO COMMERCIAL ASSETS
<p>A&amp;R - Finding new talented songwriters and composers, supporting them as they develop their skills, providing them with the facilities they need to produce music, offering advice and guidance in writing for particular markets, and arranging collaborations</p>	<p>These activities are fundamental to the creation of new musical works</p>
<p>Securing commissions for new works</p>	
<p>Licensing the use of music, whether directly in the case of individual and special usages (eg synchronisation deals) or via the collecting society network</p>	<p>These activities are fundamental to the commercial exploitation of musical works</p>
<p>Producing promotional materials, including sampler CDs, study scores, brochures etc</p>	
<p>Producing and licensing the production of printed music</p>	<p>These are all economic activities whose focus is upon maximising the potential of commercial assets</p>
<p>Promoting composers and songwriters and their music to performers, broadcasters, record companies and others who use music on a commercial basis</p>	
<p>Producing demo recordings and, in the case of contemporary classical music, performance materials (score and parts etc)</p>	
<p>Registering the works of songwriters and composers with all appropriate collecting societies and agencies, eg <i>PRS for Music</i> in the UK</p>	
<p>Monitoring and tracking the use of the music they own and ensuring proper payment is made for all licensed uses</p>	
<p>Making royalty payments to songwriters and composers in respect of the usage of their music</p>	
<p>Taking appropriate action against anyone using music without the necessary licence</p>	

## REPRESENTATIVES OF MUSICIANS

### *PRS FOR MUSIC*

**5.34** *PRS for Music* is owned by PRS and carries out its licensing and rights management business for PRS on behalf of their songwriters, composers and music publisher members. It provides licensing and rights management services to MCPS under a service level agreement. It issues licences to organisations to record, play, perform or make available musical works on behalf of members and overseas societies, distributing the royalties to them fairly and efficiently. PRS and MCPS seek to promote and protect the value of copyright.

### RELATIONSHIP TO COMMERCIAL ASSETS

**5.35** The work of *PRS for Music* is fundamental to commoditising and maximising the value arising from the exploitation of musical compositions (commercial asset 1).

### PPL

**5.36** PPL is a society of record producers and performers. It licenses recorded music played in public or broadcast on the radio (including internet radio) or TV and then distributes the fees to its performer and record company members.

### RELATIONSHIP TO COMMERCIAL ASSETS

**5.37** The work of PPL is fundamental to ensuring that the value of sound recordings are commoditised, maximised and fairly distributed.

## MUSIC MANAGERS

**5.38** Music managers perform four kinds of function for their clients:

- Negotiate
- Enable
- Communicate
- Administrate

**5.39** This makes them a key part of the teams of workers that support a musician's career.

### RELATIONSHIP TO COMMERCIAL ASSETS

**5.40** The economic activity of music managers falls within the category of those whose primary focus is upon the steps necessary to bring these assets to a position where they are able to be distributed and transacted with consumers and businesses in one way or another (i.e. one of the two relationships to the commercial assets that our definition takes as justifying inclusion in the core). This is because the commercial assets are created by the clients of music managers and the music managers assist them in bringing these products to market.

## MUSIC TRADE BODIES

**5.41** Music trade bodies, representing each part of the core industry, seek to articulate and protect the interests of their members. They are active in all parts of the industry.

### RELATIONSHIP TO COMMERCIAL ASSETS

**5.42** Music trade bodies seek to defend the interests of their members in all aspects of their work, so their work is fundamental to growing the value of all of the commercial assets at the core of the industry.

## MUSIC PRODUCERS, RECORDING STUDIOS AND STAFF

**5.43** This element of our core definition covers a number of different roles and titles:

- Record producers
- Co-writing record producers
- Performing record producers
- Recording engineers
- Assistant engineers
- Programmers
- Mix engineers
- Mastering engineers

**5.44** All of these activities are, however, involved with working with artists and writers to improve and in particular record their output.

### RELATIONSHIP TO COMMERCIAL ASSETS

**5.45** One of the commercial assets that form our definition is a (master) recording of a musical composition. The professionals and businesses that form this part of the core definition create a master recording of a performance of a musical composition. Typically, this occurs in a recording studio. However, live music performances may also be recorded. These recordings transform one of our commercial assets (a musical performance in front of a live audience) into another (a master recording of a musical composition). Both recordings made in studios and at concerts may be released for sale to businesses and customers, both in physical and digital formats.

## 6 APPLYING METHODOLOGY TO THE CORE DEFINITION

6.1 This chapter works through our thematic groupings to explain the application of our methodology to each element of our core definition.

### MUSICIANS, SINGERS, SONGWRITERS, COMPOSERS, LYRICISTS

#### REVENUES GENERATED

6.2 UK Music worked with BASCA and the MU, as the representative bodies of these creative workers, and identified that they generate the following revenues:

- Royalties and rights payments from collecting societies (*PRS for Music*/PPL)
- Royalties from music publishers
- Session fees from record companies
- Royalties from record companies
- Payments in association with a ticketed concert
- Commissions for new works
- Sponsorship/brand endorsements
- Payments for music tuition
- Payments for non-ticketed corporate gigs/pub performances/private parties
- Session or buy-out fees, e.g. for TV bookings, computer games and film companies

#### GVA

6.3 We surveyed BASCA and MU members to gather data on the revenue streams above and then used PPL and *PRS for Music* data to gross up from the BASCA/MU survey to an estimate for the UK as a whole. Over 250 members responded to this survey. These revenues were treated as wages and therefore, as contributors to GVA. However, we substituted from this costs incurred by musicians that we are modelling as revenues to elsewhere within the industry (i.e. payments to managers, music agents and producers). As a result, what we report here as their GVA contribution is net of these costs.

#### EXPORTS

6.4 The BASCA/MU survey asked them what proportion of their revenues arises from overseas and this proportion was applied to our measure of total revenues of musicians to come to an export measure.

#### EMPLOYMENT

6.5 The BASCA/MU survey found that the average earnings of respondents were just under £28,000. Given our measure of total revenues, this implies that there are 68,000 professional musicians in the UK.

### RECORDED MUSIC

#### REVENUES GENERATED

6.6 UK Music worked with AIM and BPI, which represent record labels, to identify the following revenue streams:

- a. Sales
  - Physical formats
  - Online and mobile downloads
  - Subscriptions
  - Ad-supported
- b. Public performance and broadcast
- c. Synchronisation
  - Film/TV/Advertising
  - Games
- d. Premiums
- e. Digital exploitation of audio/visual content, e.g. You Tube channel
- f. Artist Related Income
- g. Other - including merchandise, live events

#### GVA

6.7 BPI runs a survey across all kinds of record labels - both majors and independents - which gather data on the revenue above.

6.8 Data is collected on invisible imports and exports, employment, A&R investment and marketing and promotion expenditure. In order to represent the whole recording sector, adjustments are made to the survey returns to account for the remainder of the independent sector.

Measurement of the rest of the independent sector was undertaken by Media Research Publishing Ltd (MRP), whose estimates are based on company by company analysis for the leading 30 labels, utilising accounts disclosures, published market share data from the Official Charts Company and knowledge of the relevant businesses.

6.9 The total revenue figure reported by the BPI was applied to our ratio of GVA-to-Gross Output to move to GVA.

#### EXPORTS

6.10 These were taken from the BPI measure.

#### EMPLOYMENT

6.11 Similarly, employment is as reported in the MRP research for the BPI.

### ONLINE MUSIC DISTRIBUTORS

6.12 Online Music Distributors are a vital intermediary between those making sound recordings (commercial asset 2) and online retailers. They provide a niche, business-to-business service ensuring the digital file contains all the metadata to enable its commoditisation. Please note that this does not refer to distributors of digital music direct to consumers (e.g. Spotify).

#### REVENUES GENERATED

6.13 Online Music Distributors generate revenues from the following activities:

- Deliver content
- Sales and marketing
- Royalty consolidation

#### GVA

6.14 We worked with AIM to identify firms offering these services and circulated a survey among them. We estimate that operators responsible for 12% of the activity of online music distributors in the UK responded to our survey. These survey responses were grossed up in line with market intelligence on market shares held by these respondents, according to the

respondents themselves. The leading companies in the UK responded to the survey.

6.15 This is a rapidly evolving area of the industry and what falls within scope was subject to some debate. It was determined that only those operating “pure delivery” models should fall within scope - those whose business model only involves delivering tracks, not taking ownership of rights. This has the effect of excluding firms that others may consider to be within scope. It is, therefore, a very narrow interpretation of scope and a cautious estimate of contribution.

6.16 The total revenues estimated by our survey were applied to the GVA-to-Gross Output ratio to derive a GVA measure.

#### EXPORTS

6.17 Survey respondents were asked what proportion of their revenues come directly from non-UK clients.

#### EMPLOYMENT

6.18 Survey respondents were asked for their employment contribution and this was grossed up in line with the market shares that they were thought to hold.

### DESIGN AND PRODUCTION OF PHYSICAL PRODUCT AND PACKAGING

6.19 The design and production of physical product and packaging is necessary to bring sound recordings (commercial asset 2) to a form in which they can be sold to customers. They also tend to develop and reinforce the brand of the artists (commercial asset 4).

#### REVENUES GENERATED

6.20 The revenues of these businesses that are relevant to this study are those that they derive from:

- Design of CDs and records/vinyl
- Production of CDs and records/vinyl

#### GVA

6.21 We worked with AIM's affiliate members ('Friends of AIM') to identify businesses providing these services and circulated a survey among them, which market leaders in the UK responded to. While two leading businesses replied to this survey, improving this response rate is something that we will seek to do in future versions of this report. These responses were then grossed up in line with the proportion of independent label albums released in 2012 that could be accounted for by the activities of our survey respondents. These total revenues were applied to our GVA-to-Gross Output ratio to derive a GVA measure.

#### EXPORTS

6.22 Survey respondents indicated what proportion of their revenues come from non-UK clients.

#### EMPLOYMENT

6.23 Survey respondents provided employment measures, which were grossed up in line with market share held by respondents, as a proportion of independent label album released in 2012.

## LIVE MUSIC

6.24 Research by Oxford Economics for UK Music on music tourism allowed us to identify:

- Total ticket sales for all kinds of live music events - both festival and non-festival
- Total spend at these live music events by attendees

6.25 In addition, research by FRUKT on behalf of *PRS for Music* measures live music sponsorship.<sup>19</sup>

6.26 Using these measures of total ticket sales for live music events, total spend at live music events and live music

sponsorship, we allocated these revenues to each part of the live music sector as we describe below.

## MUSIC FESTIVAL ORGANISERS

#### REVENUES GENERATED

6.27 We worked with the Association of Independent Festivals to identify the following forms of revenue generation by music festivals:

- Ticket sales
- Food and beverage sales
- Merchandise
- Venue parking
- Camping fees

#### GVA

6.28 Total ticket sales for festivals and total ancillary spend at festivals were allocated to festivals as revenues, as well as a proportion of the live music sponsorship. These revenues were applied to our GVA-to-Gross Output ratio to derive a GVA measure.

#### EXPORTS

6.29 The research by Oxford Economics for UK Music identified what proportion of festival attendees were foreigners. Their spend on tickets and ancillary items was allocated to festivals as their export contribution.

#### EMPLOYMENT

6.30 We calculated a ratio of employment to turnover from survey responses from AIF members. We used this ratio to measure total full-time employment for festivals, given our measure of their total turnover for festivals as a whole.

## MUSIC PROMOTERS

### GVA

6.31 Promoters are central to the live music industry, bringing together all the different industry participants needed to put on live music events and tours. While precise arrangements vary from firm to firm, they tend to hire venues, book acts through music agents, put in place ticket agents and commission production services.

6.32 Music promoters pay those whom they contract mainly through ticket sales, while aiming to retain a profit from the ticket income for themselves and also gaining revenues through live music sponsorship.

6.33 We have worked with the Live Music Group to build up a picture of revenues gathered by music promoters, drawing upon the typical form of contracts that they work to. Major promoters responded to a survey - operators responsible for over 10% of the market replied - that provided data to this picture, while our understanding of live music sponsorship was informed by past research for *PRS for Music* commissioned from FRUKT.<sup>20</sup>

6.34 The revenues of promoters derive from ticket sales and live music sponsorship with the total value of these revenues being applied to our GVA-to-Gross Output ratio to derive GVA.

### EXPORTS

6.35 The export contribution of promoters is taken to be equal to the number of foreigners buying tickets for the live music events that they promote, which is taken from the Oxford Economics research for UK Music.

### EMPLOYMENT

6.36 We calculated a ratio of employment to turnover from survey responses from promoters - leading UK promoters replied to this survey. We

used this ratio to measure total full-time employment for promoters, given our measure of their total turnover.

## MUSIC AGENTS

### GVA

6.37 Music agents earn a percentage of the live fees earned by the live music acts that they have secured bookings for. The average for this percentage was taken from responses to a survey to which leading music agents replied. This average was then applied to our measure of total live music ticket sales to measure the total domestic revenues of music agents. In addition, we added their export revenues - discussed below - to the domestic revenues to come to a measure of total revenues, which was applied to our GVA-to-Gross Output ratio.

### EXPORTS

6.38 Respondents to our survey of music agents quantified the proportion of their revenues that come from bookings for their clients outside the UK. Respondents hold in total a market share of over 15% in the UK music agents market.

### EMPLOYMENT

6.39 We calculated a ratio of employment to turnover from survey responses from agents. We used this ratio to measure total full-time employment for agents, given our measure of their total turnover.

## PRODUCTION SERVICES FOR LIVE MUSIC

### GVA

6.40 The firms that provide production services for live music sometimes do so in relation to non-music performances as well (e.g. comedy). We have worked with the PSA to distinguish revenues gained by their members for music performances from other kinds of performance.

20. FRUKT, UK Brand Spend in Music, 2012



**6.41** We ran a survey among PSA members and used the *PRS for Music* data to move from these survey responses to a picture for the UK as a whole. 51 PSA members - holding together a market share of over 30% of the UK market for music production services - responded to this survey. The *PRS for Music* data told us the total number of live music events in the UK in 2012 and our survey of PSA members told us how many of these had been serviced by PSA members, as well as the revenues that they derived from these activities. This gave us a measure of domestic revenues to which we added export revenues - as below - and applied our GVA-to-Gross Output ratio to move to a GVA measure.

#### EXPORTS

**6.42** PSA members quantified the proportion of their revenues that come from servicing live music events outside the UK.

#### EMPLOYMENT

**6.43** We calculated a ratio of employment to turnover from survey responses from PSA members. We used this ratio to measure total full-time employment for production services, given our measure of their total turnover.

### TICKETING AGENTS

#### REVENUES GENERATED

**6.44** Ticketing agents generate various kinds of revenue:

- Development of the in-house box office system gives them certain rights in terms of numbers of tickets they can access.
- Commission they charge is added to the ticket price and within that there will be fees paid back to the venues.
- Licensing their box office systems, which comes in the form of an annual fee, versus the number of tickets sold or a nominal per ticket royalty.

#### GVA

**6.45** We worked with leading ticket agents to understand revenues to ticketing agents, given the contractual arrangements typically in place between agents, promoters, artists and venues. As these arrangements typically correspond to ticket sales, these were also grossed up in line with data on total ticket sales. This gave us a measure of domestic revenues to which we added export revenues - as below - and applied our GVA-to-Gross Output ratio to move to a GVA measure.

#### EXPORTS

**6.46** The ticket agents that were consulted quantified the proportion of their revenues that come from servicing live music events outside the UK.

#### EMPLOYMENT

**6.47** We calculated a ratio of employment to turnover from survey responses from the ticket agents consulted. We used this ratio to measure total full-time employment for production services, given our measure of their total turnover.

### CONCERT VENUES AND ARENAS

#### REVENUES GENERATED

**6.48** The revenues that concert venues and arenas gain from hosting these live music events come from:

- Venue hire
- Food and beverage sales
- Merchandise sales
- Venue parking

#### GVA

**6.49** Venues are typically hired for a percentage of ticket sales. An average for this percentage was agreed with representatives from the UK's leading concert venues and arenas and our measure of total ancillary spend at non-festival live music agents was added to their revenues, which were then applied to our GVA-to-Gross Output ratio.

## EXPORTS

**6.50** Spending by foreigners at music venues - taken from the Oxford Economics research for UK Music - is taken as the export contribution by concert venues and arenas.

## EMPLOYMENT

**6.51** We calculated a ratio of employment to turnover from information provided by the NAA. We used this ratio to measure total full-time employment for venues and arenas, given our measure of their total turnover.

# MUSIC PUBLISHING

## REVENUES GENERATED

**6.52** We worked with the MPA to identify the following revenue streams for music publishers:

- a. Payments from collecting societies
  - Broadcast (radio, TV etc)
  - Online (downloads, streaming etc)
  - International
  - Public Performance (shops and businesses etc)
  - Live
  - Recorded Media (CDs, vinyl etc)
- b. Direct licensing
  - Synchronisation licensing (for the use of a musical work in visual media)
  - Grand rights licensing (for the use of a musical work in a dramatic performance)
  - Print licensing and permissions
  - Production music (the licensing of library music direct to music users)
- c. Other receipts
  - Affiliates
  - Sub-publishers
  - Print hire (the hire of scores and parts for performance)
  - Printed music sales

## UK MUSIC SURVEY ON GVA, EXPORTS AND EMPLOYMENT

**6.53** We ran a survey of UK music publishers through the MPA, which received a high response rate, including from all majors and the largest independents, corresponding to a total market share

of over 70% of the UK music publishing market.

**6.54** Responses were subdivided into three groups, reflecting three distinct kinds of music publishers and their business models:

- Pop publishers, who operate across the majority or all of the business areas in Table 3.
- Publishers that specialise in printed music/classical music.
- Publishers that specialise in grand rights licensing.

**6.55** The picture of the UK music publishing market as a whole was built up by treating the survey responses that came from these three groups differently:

- Total *PRS for Music* and MCPS payments were kindly provided by these organisations themselves. We subtracted from these totals the amount of *PRS for Music* and MCPS payments attributable to grand rights and printed music/classical music publishers. We then grossed up the pop publisher responses in line with the total *PRS for Music* and MCPS payments remaining after these subtractions.
- The survey responses of publishers that specialise in printed music/classical music were grossed up proportionately to the market share of the printed music/classical music market held by these publishers, according to market share estimates held by the MPA.
- The survey responses of publishers specialising in grand rights were grossed up proportionately to the proportion of ticket sales in 2012 at West End theatre attributable to shows written by holders of these grand rights.

**6.56** Once the survey responses from publishers were grossed up in line with these three different methodologies we had Gross Output, export and employment measures. The GVA measure derives from applying our GVA-to-Gross Output ratio.

## REPRESENTATIVES OF MUSICIANS

### PRS FOR MUSIC

#### REVENUES GENERATED

6.57 We worked with *PRS for Music* and identified the following revenue streams into *PRS for Music*:

- Broadcast
- Online
- International
- Public Performance
- Recorded Media

#### DATA

6.58 *PRS for Music* was able to provide full data on all revenues into *PRS for Music* and payments out by *PRS for Music*. This was vital to understanding, quantifying and building up a wider picture of the industry from the other data that this project gathered.

#### GVA

6.59 This is taken to be equal to the wage spend of *PRS for Music*, as it is a not-for-profit body.

#### EXPORTS

6.60 These are the international royalties collected by *PRS for Music*.

#### EMPLOYMENT

6.61 This is an employment measure provided by *PRS for Music*.

### PPL

#### REVENUES GENERATED

6.62 PPL collects the following kinds of payment on behalf of its members:

- (a) PPL (domestic and international)
  - Public performance
  - Broadcast revenues
  - Dubbing
- (b) VPL (domestic and international)
  - Public performance of videos

- Broadcast of videos
- Dubbing rights for videos

#### DATA

6.63 PPL provided data on payments in and out of the society, which allowed us to understand its work and helped build up a picture of the industry as a whole.

#### GVA

6.64 This is taken to be equal to the wage spend of PPL, as it is a not-for-profit body.

#### EXPORTS

6.65 These are the international royalties collected by PPL.

#### EMPLOYMENT

6.66 This is an employment measure provided by PPL.

### MUSIC MANAGERS

#### REVENUES GENERATED

6.67 We have established by working with the Music Managers Forum (MMF), which represents managers, that managers are paid either as a percentage of the earnings of artists or sometimes as a fixed salary by the artist.

#### GVA AND EXPORTS

6.68 The revenues of these managers were estimated by combining the results of the MMF survey with our results on revenues to musicians. 56 MMF members responded to this survey. We know that managers are typically paid a certain proportion of their clients' earnings - this proportion being estimated in the MMF survey - and this proportion was multiplied by our estimate of the earnings of musicians as whole. The same method was applied to estimate the export contribution of music managers. Total revenues - both domestic and international - were applied to our ratio of GVA-to-Gross Output.

## EMPLOYMENT

6.69 We worked with the MMF to survey their members. This survey covered the number of workers employed by MMF members. The average number of employees per MMF member was multiplied by the number of music managers advertising in the Music Week Directory 2013 to estimate the total employment contribution of music managers.

## MUSIC TRADE BODIES

6.70 Music trade bodies are financed by fees paid by their members, largely on a not-for-profit basis. All trade body members of the UK Music and the Live Music Group have shared data with this project.

## GVA

6.71 This is taken to be equal to the wage spend of the trade bodies, as they are not-for-profit bodies.

## EXPORTS

6.72 Trade bodies do not contribute directly to exports.

## EMPLOYMENT

6.73 This is an employment measure provided by the trade bodies.

## MUSIC PRODUCERS, RECORDING STUDIOS AND STAFF

### REVENUES GENERATED

6.74 UK Music worked with the Music Producers Guild (MPG), as the representative body of those covered by this element of the core definition, and identified the following revenue streams:

- Royalties and rights payments from *PRS for Music*, music publishers and labels (as co-author)
- Royalties as 'eligible studio producer'/performer (PPL)

- Payments from the managers of musicians for services as a music producer
- Payments from merchandise companies for services as a music producer
- Payments from record companies for services as a music producer
- Studio rental to those in the music industry
- Studio rental to those outside the music industry
- Soundtrack/jingle work (e.g. for advertising, film companies, TV companies)
- Voiceover/speech work
- Music consultation services
- Other

## GVA

6.75 We conducted a survey of MPG members on the revenue streams above and used *PRS for Music* data to gross up from this data to data for the UK as a whole. 35 members responded to this survey. We have a measure of one category of these revenues from the BPI - payments from record companies for services as a music producers - and how proportionately important this category of revenues is to producers as a whole from the MPG survey. We used this BPI measure and the proportion from the MPG survey to move to total revenues for producers, which was then applied to our GVA-to-Gross Output ratio to derive a GVA measure.

## EXPORTS

6.76 The MPG survey asked respondents to indicate what proportion of their revenues came via sales to non-UK customers and this was used as our measure of the export contribution of producers.

## EMPLOYMENT

6.77 The MPG survey told us the average earnings in 2012 of those who responded. This was used to derive an estimate of the total number of producers, given the total revenues to producers that

we had calculated. The MPG survey also told us the average number of staff per studio and these staff - who are assumed to be various kinds of assistants to producers - were added to the number of producers to come to a total employment estimate.

## 7 ECONOMIC CONTRIBUTION OF THE CORE UK MUSIC INDUSTRY

7.1 This chapter sets out the economic contribution of each element of the core UK music industry in terms of GVA, employment and exports. It, therefore, presents the results of applying the methodology described over previous chapters. It begins by setting out and discussing the overall economic contribution of the core music industry. It then moves on to discuss the extent and form of this contribution in respect of each element of this core.

### OVERALL ECONOMIC CONTRIBUTION OF CORE

7.2 The economic contribution of the core industry is shown in the figure below.

7.3 The total economic contribution of the core music industry in 2012 was:

- GVA of £3.5bn
- Exports of £1.4bn
- Employment of 101,680

TABLE 4: THE ECONOMIC CONTRIBUTION OF THE CORE INDUSTRY

THEMATIC GROUPING	GVA (£M)	EXPORTS (£M)	EMPLOYMENT
Musicians and singers, composers, songwriters and lyricists	1547	180	68,000
Recorded Music	714	321	16,850
Live Music	662	152	13,490
Music Publishing	402	509	1000
Music Representatives	151	235	2340
Music Producers, Recording Studios and Staff	80	16	7500
<b>Total</b>	<b>3477</b>	<b>1398</b>	<b>101,680</b>

### MUSICIANS, SINGERS, SONGWRITERS, COMPOSERS, LYRICISTS

7.4 These are the creative workers at the heart of the music industry. Our analysis found that there are 68,000 of such workers in the economy, contributing £1,547m to GVA and £180m to exports. This export contribution is estimated on the basis that, according to the survey of BASCA and MU members, just under 10 per cent of revenues derive from clients outside the UK.

7.5 It should be noted, however, that this employment measure understates the many part-time and amateur musicians in the UK. For example, almost 90 per cent of PRS writer members earn less than £740 annually from PRS.

## RECORDED MUSIC

7.6 The thematic group of recorded music is composed of the following elements of the core music industry:

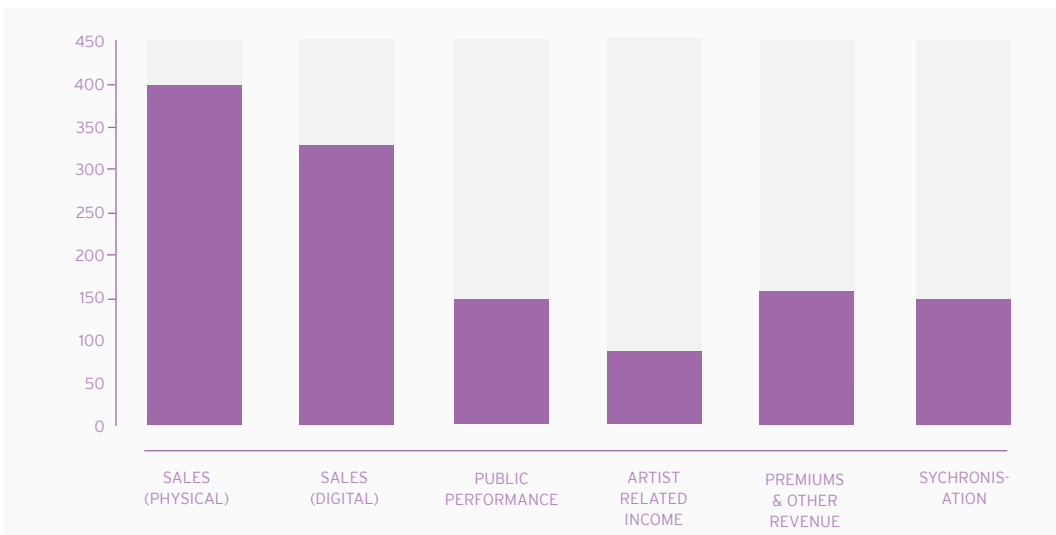
- Record Labels
- Music Producers, Recording Studios and Staff
- Online Music Distributors
- Design and manufacture of physical product and packaging

## RECORD LABELS

7.7 Record labels were integral to the development of the music industry and remain fundamental to the industry today - not least as they remain the largest investors in music talent. The latest BPI figures report them employing over 4,000 people, split almost exactly evenly between major and independent record labels.

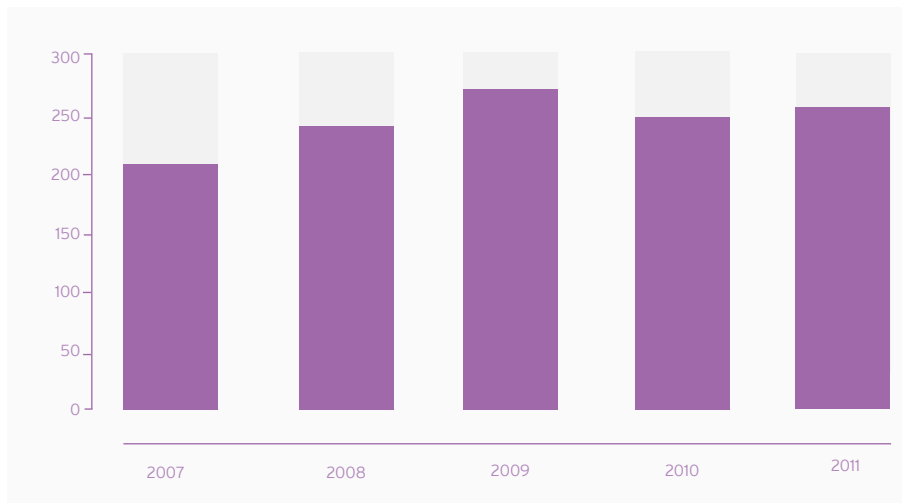
7.8 Having identified the revenue streams of record labels in the previous chapter, the figure below presents the latest annual data on each of these categories. This corresponds when applied to our bespoke GVA-to-Gross Output ratio to a GVA contribution of £412m. The revenue streams are illustrated in the figure below.

FIGURE 3: RECORD LABEL REVENUES (2011/12, £M)



Source: BPI - Figures for 2012 in sales (physical) and sales (digital). For 2011 in other categories.

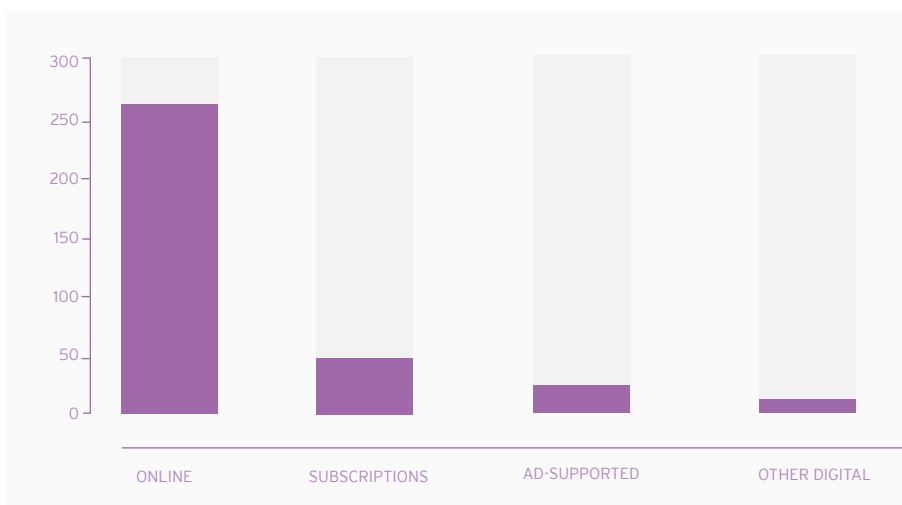
FIGURE 4: RECORD LABEL EXPORT REVENUES (2011, £M)



Source: BPI

7.9 The export contribution of recording labels in 2011 (the last year for which data was available) was £253m and, as the figure to the left shows, has consistently held-up over the past 5 years.

FIGURE 5: RECORD LABEL REVENUES FROM DIGITAL SALES (2011, £M)



Source: BPI

7.10 The role of digital sales in supporting the economic contribution of record labels is growing and the form in which these sales occurred in the UK in 2011 is illustrated in the figure to the left.

7.11 The figure to the right provides evidence to support the growing importance of commercial asset 4 in our definition - an artist him or herself (as a brand, reputation or image). Many of the revenues that labels derive additional to the sale of albums and singles are based upon the strength and attractiveness of this asset. That the additional revenues earned by labels are growing as a proportion of their income, as shown in the figure below, shows the increasing importance and relevance of this asset to the industry.

FIGURE 6: ADDITIONAL INCOME AS A PROPORTION OF RECORD LABEL INCOME

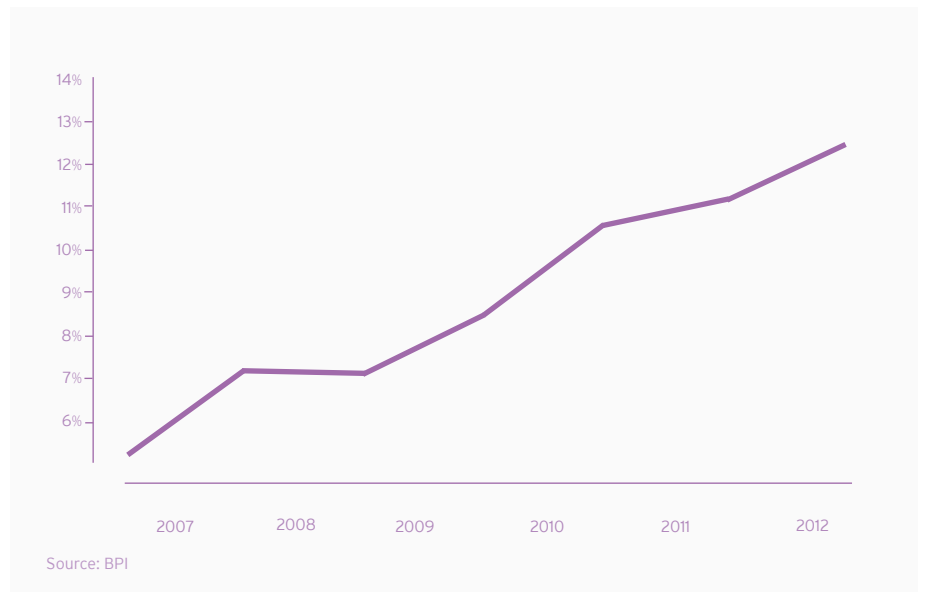
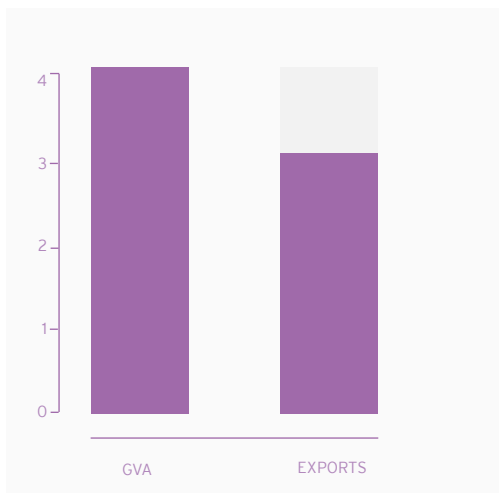


FIGURE 7: THE ECONOMIC CONTRIBUTION OF ONLINE MUSIC DISTRIBUTORS (2012, £M)



Source: UK Music Survey

### ONLINE MUSIC DISTRIBUTORS

7.12 According to our analysis, they employ 70 people and also make the economic contribution shown in the figure to the left. It should be noted, however, that this is a fast paced and rapidly evolving part of the industry, so these figures can be expected to grow in coming years.



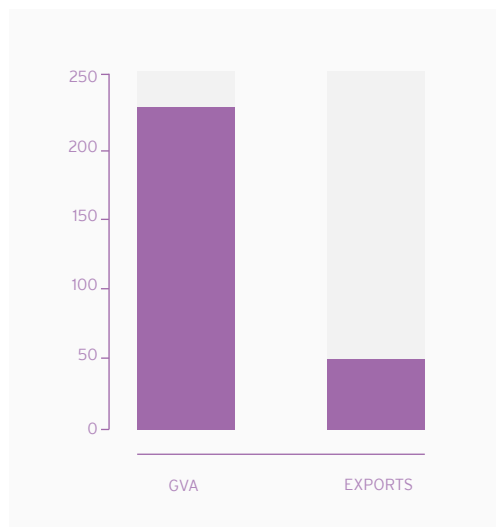
### Design and production of physical product and packaging

7.13 The design and production of physical product and packaging involves the employment of 4,900 people, according to our analysis. Many of these are self-employed or working in very small companies. There is, therefore, a very “long tail” of activity in this part of the core.

7.14 The BPI report that vinyl LP sales have reached their highest level in a decade. More than half a million LPs had already been sold this year - the first time that threshold has been reached since 2003. The design and art work of these physical products is part of their appeal.

7.15 This part of the core makes the contribution illustrated in the figure below.

FIGURE 8: THE ECONOMIC CONTRIBUTION OF DESIGNERS AND PRODUCERS OF PHYSICAL PRODUCT (2012, £M)



Source: UK Music survey of designers and producers of physical product

### LIVE MUSIC

7.16 The thematic group of live music is composed of the following elements of the core music industry:

- Music festival organisers
- Music promoters
- Music agents
- Production services for live music
- Ticket agents
- Concert venues and arenas

### MUSIC FESTIVAL ORGANISERS

7.17 Music festivals are an important part of the music, cultural and tourism landscape of the UK. Glastonbury is one of the most famous and renowned music festivals in the world. It is joined by a wide variety of other music festivals, up and down the country.

FIGURE 9: NUMBER OF MUSIC FESTIVALS IN 2012 BY UK REGION



Source: PRS for Music

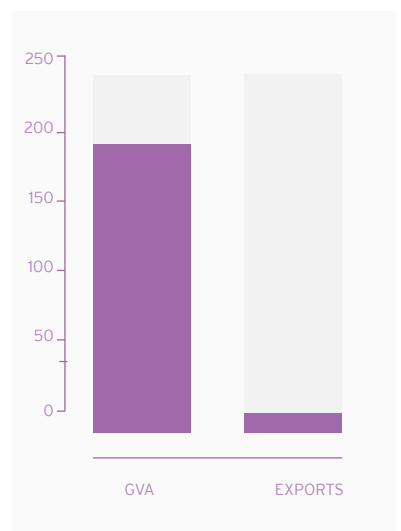
7.19 This study found that festivals generated revenues of around £456m in 2012 with around £20m of this spending derived from foreign tourists - and, therefore, a contribution to exports. When our bespoke GVA to Gross Output ratio is applied, these revenues imply a GVA contribution of £189m, while the study found that festivals are responsible for 3,800 FTE jobs.

### MUSIC PROMOTERS

7.20 It is the responsibility of music promoters to draw audiences to live music events. Our analysis suggests that promoters employ 1260 people and make the exports and GVA contribution shown in the figure below. Unlike other parts of the industry, however, at least according to survey responses we received, this element of the industry seems largely focused on the UK and its export contribution comes from foreign tourists buying tickets for its live music events in the UK. We are told that the expertise of promoters exists in domestic markets and they focus on these. While promoters like AEG and Live Nation do operate promotions globally, they are executed territory by territory.

7.18 The figure to the left shows that a large number of festivals took place in the UK in 2012, even though an unusually large cultural and social focus was on the London Olympics and Paralympics that year. We also see that these music festivals are taking place across the length and breadth of the country. While some parts of the music industry are more concentrated in certain parts of the country, this is a part of the industry that is bringing jobs to all parts of the UK.

FIGURE 10: ECONOMIC CONTRIBUTION OF MUSIC PROMOTERS (2012, £M)

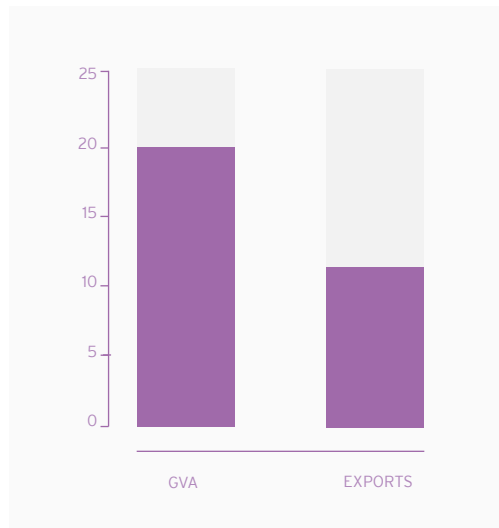


Source: UK Music analysis based on survey of promoters

### MUSIC AGENTS

7.21 Music agents are contracted by live music acts to secure bookings and our analysis suggests that 500 people are employed in this way. They make the economic contribution illustrated in the figure below - including a contribution to exports through the booking of gigs at venues outside the UK.

FIGURE 11: THE ECONOMIC CONTRIBUTION OF MUSIC AGENTS (2012, £M)

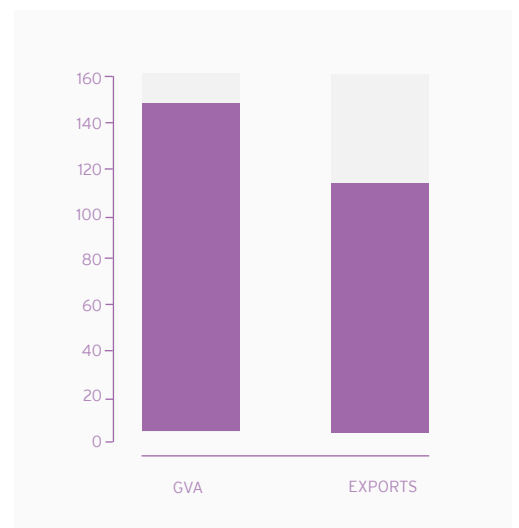


Source: UK Music analysis based on survey of music agents

### PRODUCTION SERVICES FOR LIVE MUSIC

7.22 The importance of production services for live music to the music industry has grown as live music has grown in cultural and economic significance.

FIGURE 12: ECONOMIC CONTRIBUTION OF PRODUCTION SERVICES FOR LIVE MUSIC IN TERMS OF GVA AND EXPORTS (2012, £M)



Source: UK Music calculations based on UK Music survey of PSA members

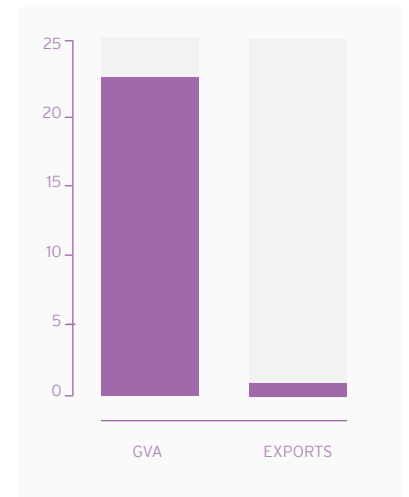
7.23 56 per cent of the sales of production services firms surveyed by UK Music came from live music events. The rest of their sales came from other kinds of live and corporate events. Almost 70 per cent of these live music events were in the UK.

7.24 Given the total employment of these firms and the proportion of live music events in the UK attributable to them, we calculate that such firms in total contribute 6000 jobs to the employment contribution of the core of the music industry. The revenues, GVA and export contributions of these firms is illustrated in the figure below.

### TICKETING AGENTS

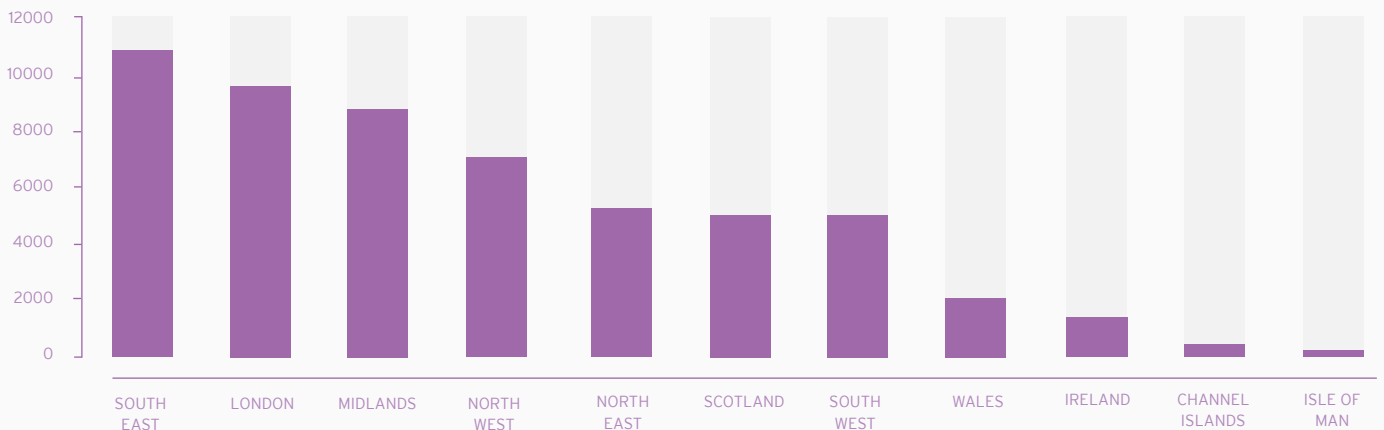
7.25 Ticketing agents work with the live music venues to provide the box office system. Our analysis suggests that they employ 390 people and make the economic contribution illustrated in figure 13.

FIGURE 13: THE ECONOMIC CONTRIBUTION OF TICKETING AGENTS (2012, £M)



Source: UK Music analysis based on survey of music agents

FIGURE 14: NUMBER OF NON-FESTIVAL MUSIC EVENTS IN 2012 BY UK REGION



Source: PRS for Music

## CONCERT VENUES AND ARENAS

7.26 Concert venues and arenas are integral to the live music industry. They are to be found all over the UK, in large numbers, as the figure below illustrates.

7.27 *PRS for Music* data allows the total ticket sales of the events illustrated in the figure above to be calculated. The Oxford Economics research for UK Music is able to attribute a proportion of these ticket sales and associated ancillary spend to foreign and domestic tourists.

7.28 Attributing the spending of foreign tourists (both on tickets and ancillary spending, to exports), up-rating the employment and revenue findings of the Oxford Economics study in line with the proportion of ticket sales that are not attributed to foreign and domestic tourists (to account for the impact of the spending of locals), and applying the total revenue figure to our bespoke GVA to Gross Output ratio implies the following economic contribution:

- GVA of £77m
- Exports of £2m
- Employment of 1,540

7.31 The venues themselves will make larger economic contributions than this. The analysis has only focused on that part of their activity attributable to live music.

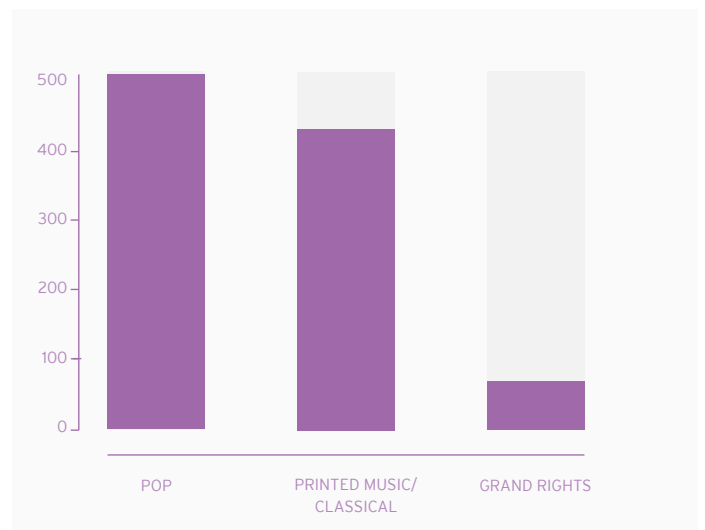
## MUSIC PUBLISHING

7.30 Music publishing is the business of acquiring, protecting, administering and exploiting the rights in musical compositions. Having divided music publishing into the three categories presented in the previous chapter, the figure below shows the employment contribution of each of these categories.

7.31 The combined economic contribution of these three categories of music publishing is as follows:

- GVA of £402m
- Exports of £509m
- Employment of 1,000

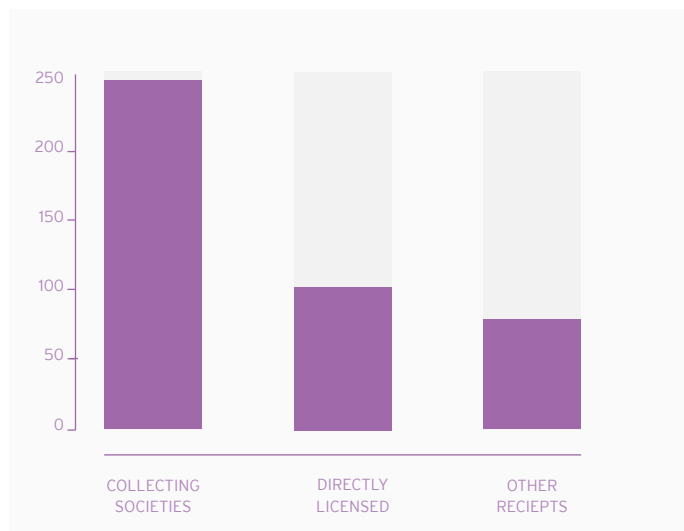
FIGURE 15: EMPLOYMENT BY MUSIC PUBLISHERS BY CATEGORY OF MUSIC PUBLISHER (2012)



Source: UK Music survey of MPA members

7.32 Our analysis finds that music publishers generated almost £400m in revenue in the UK in 2012. These revenues fall within the categories shown in Figure 16.

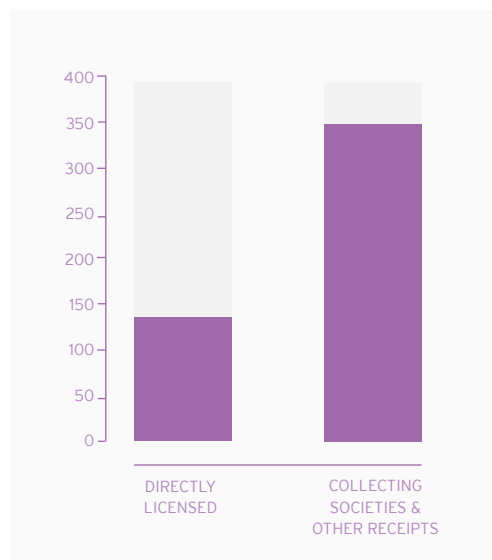
FIGURE 16: UK REVENUES FOR MUSIC PUBLISHERS (2012, £M)



Source: UK Music survey of MPA members

7.33 The importance of the collecting societies (MCPS/PRS for Music) to domestic revenues is shown in figure 16. However, the sub-publisher networks mean that payments to UK music publishers via non-UK collecting societies are much lower. Nonetheless, international revenues to UK publishers, as shown in figure 17, from other receipts and collecting societies are larger than direct licensing - with payments from affiliates (at almost £300m) being particularly important among the other receipts.

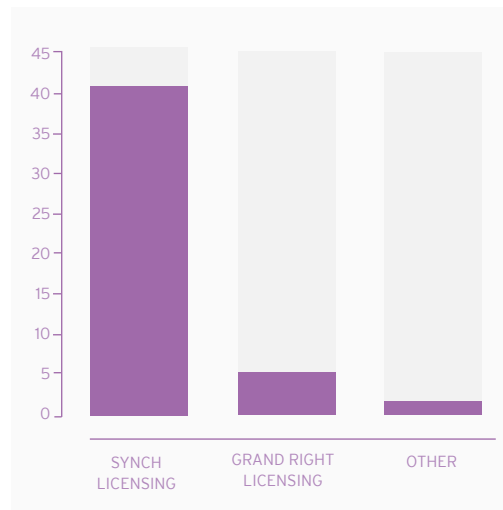
FIGURE 17: INTERNATIONAL REVENUES FOR MUSIC PUBLISHERS (2012, £M)



Source: UK Music survey of MPA members

7.34 Figure 18 shows that among the category of pop publishers, synchronisation, or 'sync' licensing is by far the largest domestic revenue generator among the different forms of direct licensing.

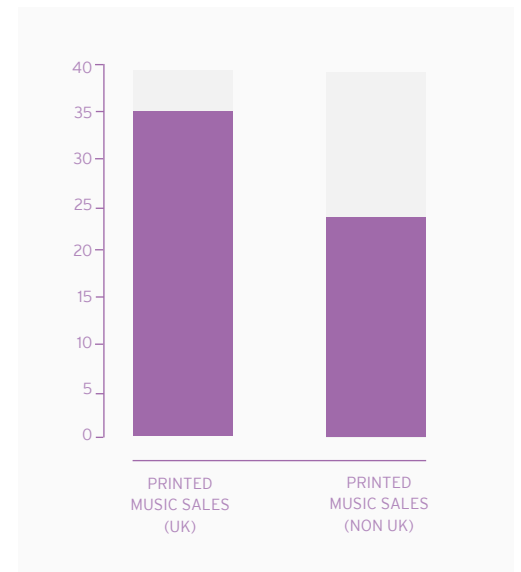
FIGURE 18: UK REVENUES FOR POP PUBLISHERS FROM DIRECT LICENSING (2012, £M)



Source: UK Music survey of MPA members

7.35 The figure below shows that printed music sales - almost by definition - are a significant source of revenues to printed music/classical music publishers, both inside and outside the UK.

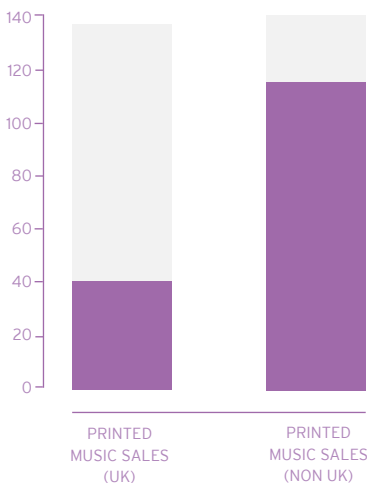
FIGURE 19: DOMESTIC AND INTERNATIONAL REVENUES FOR PRINTED MUSIC/CLASSICAL MUSIC PUBLISHERS FROM PRINTED MUSIC SALES (2012, £M)



Source: UK Music survey of MPA members

7.36 Our analysis suggests, as illustrated in the figure below, that international grand rights payments to grand rights publishers are making a significant contribution to UK exports - over £120m. These grand right payments are a derivative of ticket sales. Musicals attract many visitors to London and London is the origin of many musicals that successfully tour internationally. The Society of London Theatre (SOLT) notes in its Box Office Data Report 2012 that: “Despite a number of one-off special events, including the Queen’s Diamond Jubilee and the Olympic and Paralympic Games, as well as the overall economic situation, 2012 was again a record-breaking year for London theatre”.

FIGURE 20: DOMESTIC AND INTERNATIONAL REVENUES FOR GRAND RIGHTS PUBLISHERS FROM GRAND RIGHTS LICENCES (2012, £M)



Source: UK Music survey of MPA members

## MUSIC REPRESENTATIVES

7.37 The thematic grouping of music representatives is composed of the following elements of the core music industry:

- Collecting societies
- Managers
- Trade bodies

### COLLECTING SOCIETIES

7.38 UK collecting societies are not for profit, which means the GVA-to-Gross Output ratio derived from the VML and applied to most of the other elements of the core is not appropriate to apply to the collecting societies. We have worked with them to understand the size of their activity that contributes to GVA, as well as measuring their employment and export contribution via collections from overseas.

7.39 On this basis, the economic contribution of the collecting societies in 2012 was 1,000 full-time equivalent employees with GVA contribution of £40m and an export contribution of £214m.

7.40 However, this understates the contribution of collecting societies. They are an important catalyst to the economic activity of other parts of the industry, via the collections and payments that they make. These payments dwarf the operating costs of the collecting societies and are vital revenue sources for other parts of the industry. We now present some data provided by *PRS for Music* and *PPL* that helps to illustrate this importance.

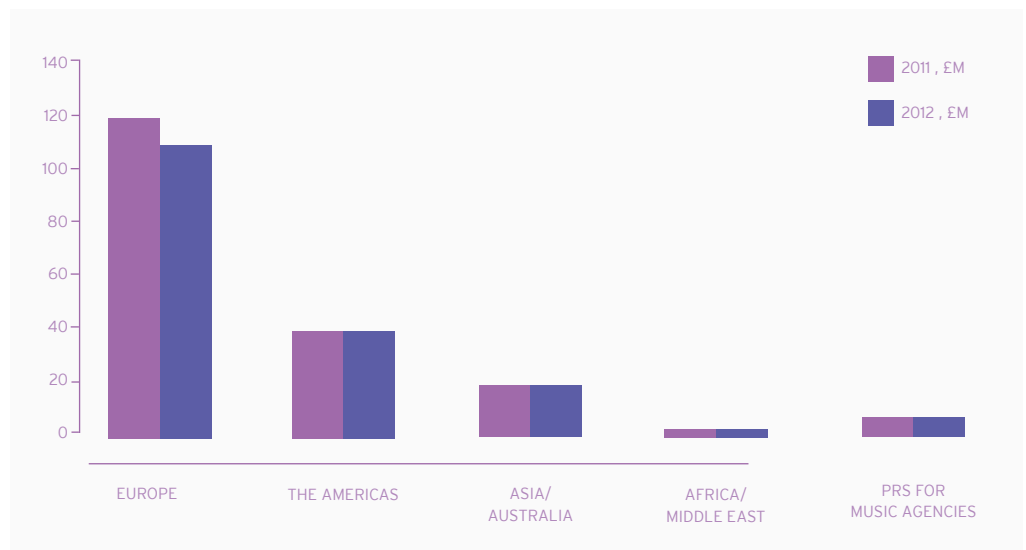


## PRS FOR MUSIC

7.41 *PRS for Music* collects revenues in respect of the usage of musical works and distributes such revenues to songwriters, composers and music publishers. *PRS for Music* payments are an important source of revenue to many industry participants and its data provides an overview of the industry.

7.42 The figure below illustrates the truly global nature of the UK music industry with *PRS for Music* collecting payments from all parts of the globe. Collections from Europe were the most sizeable of any of these geographical areas but the fall-off in collections from Europe between 2011 and 2012 might suggest that music has not been immune to the general economic problems facing Europe.

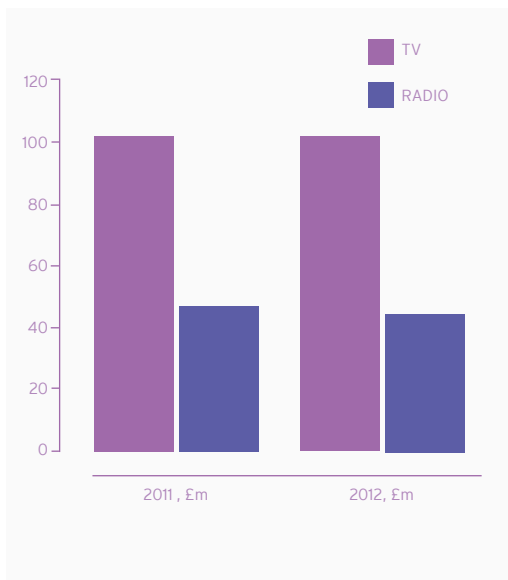
FIGURE 21: PRS FOR MUSIC ROYALTIES FROM INTERNATIONAL MUSIC USE



Source: *PRS for Music*

7.43 The figure below shows that royalties from broadcast - both TV and radio - increased between 2011 and 2012. This is a resilient performance, given the generally difficult economic context over this period.

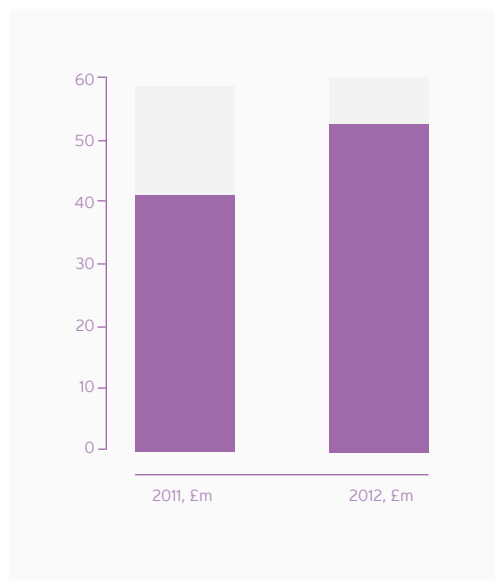
FIGURE 22: PRS FOR MUSIC ROYALTIES FROM BROADCAST



Source: PRS for Music

7.44 The figure below shows the growing importance of online revenues to the music industry and the capacity of the industry to collect such revenues, as we see royalties from online service increase by almost £13m in the figure below.

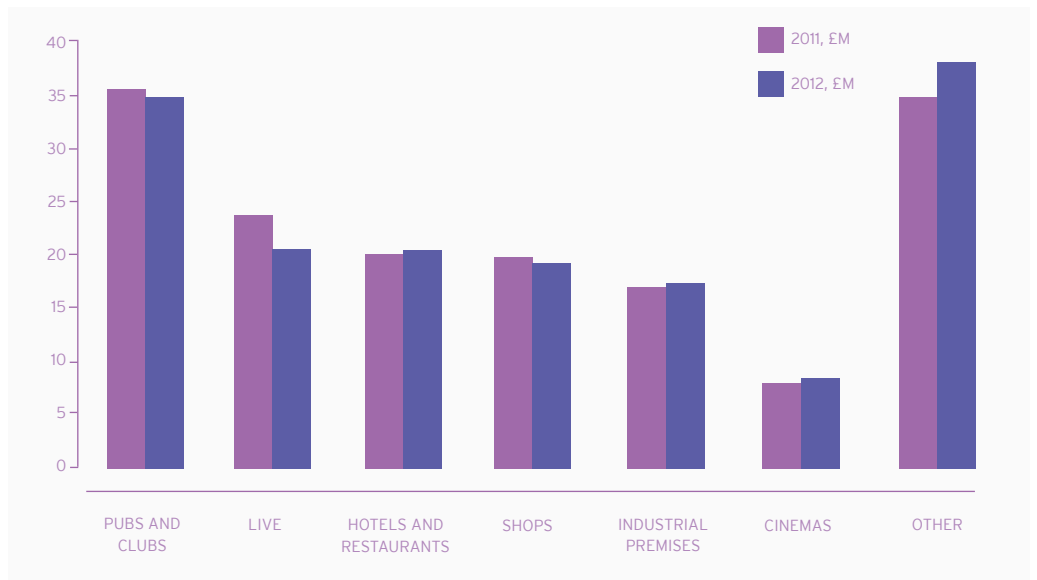
FIGURE 23: PRS FOR MUSIC ROYALTIES FROM ONLINE SERVICES



Source: PRS for Music

7.45 Royalties from public performance and live rose by £0.8m between 2011 and 2012. There was some variation in this rising trend between categories, as illustrated in the figure below.

FIGURE 24: PRS FOR MUSIC ROYALTIES FROM PUBLIC PERFORMANCE AND LIVE

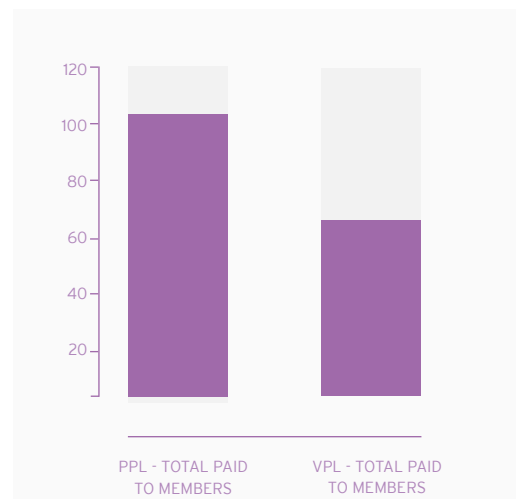


Source: PRS for Music

PPL

7.46 PPL licenses recorded music played in public or broadcast on the radio (including internet radio) or TV and then distributes the fees to its performer and record company members. An associated company, VPL, licenses similar rights in respect of broadcast and public performance of music videos. The distributions of PPL and VPL revenues are illustrated in the figure below.

FIGURE 25: PPL AND VPL PAYMENTS TO PPL MEMBERS (2012, £M)



Source: PPL

7.47 PPL also collects broadcast and public performance revenues from similar music licensing companies around the world. Although PPL only makes such collections on behalf of some UK record producers and performers, the international nature of the UK music industry and the scale of such collections is illustrated by the figure below. Collections are largely in Europe but we also note large collections from the USA and Japan, which seem vitally important, mature markets.

## MUSIC MANAGERS

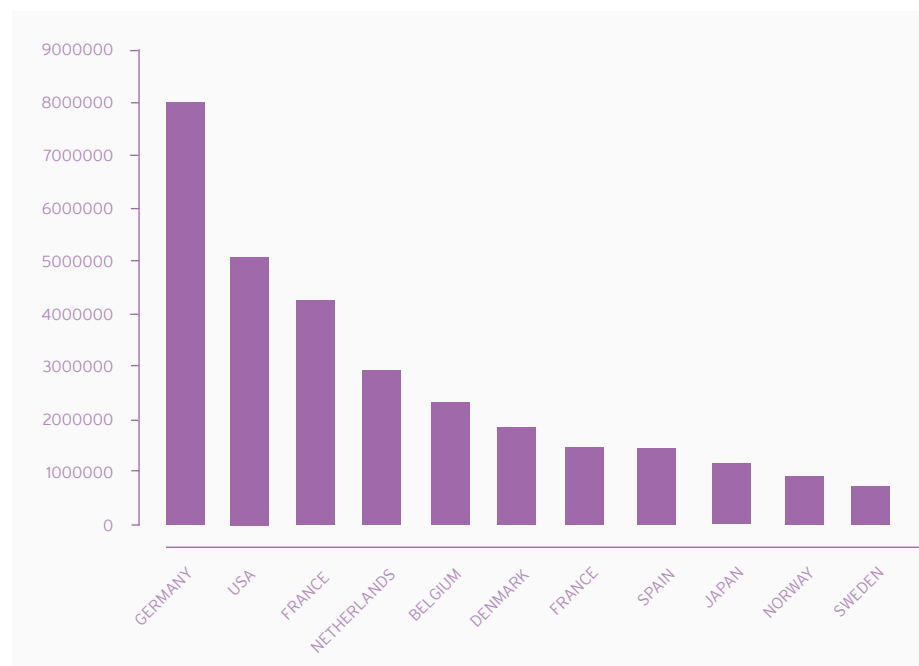
7.48 The number of acts managed by the managers in the UK Music survey ranged from 1 to 8 and the number of full-time staff employed from none to 16. They, therefore, vary quite significantly in their size and scale. However, as with many relatively small businesses, the employment of freelancers is quite common with around half of those managers surveyed by UK Music engaging them.

7.49 This amounts to an employment contribution of 1,200 full-time equivalent employees with a GVA contribution of £102m and an export contribution of £21m.

## MUSIC TRADE BODIES

7.50 Music trade bodies make up the membership of UK Music and the Live Music Group. They are active in all parts of the industry. They are run on a not-for-profit basis and employ 140 people.

FIGURE 26: PPL INTERNATIONAL COLLECTIONS BY COUNTRY (2012, £M)



Source: PPL

## MUSIC PRODUCERS, RECORDING STUDIOS AND STAFF

7.51 As part of the UK Music survey, these workers were asked to describe their skills. Answers included the following:

- “Creative use of technology, good organiser, tolerance, initiative, imagination, vision, patience.”
- “Good ears! An ability to listen, to see the whole picture before it’s finished, create, develop, involve. Understand an artist and their project, communicate, be innovative, the list is endless....”
- “I own and operate a multi studio

complex in west London. This means I’m the studio manager, in house engineer & producer & assistant, tech support, etc....”

7.52 It seems, therefore, a creative and entrepreneurial profession with a large diversity of tasks and a considerable degree of risk-taking required on the part of its participants. We found that these workers and their staff amount to 7,500 workers. They contribute £80m to GVA and £16m to exports.

## 8 LINKAGES

8.1 This chapter qualitatively analyses how the core music industry links to the wider economy.

8.2 The core industry links to the wider economy in a number of ways:

- The spending of the core links to the wider economy.
- Some spending in the wider economy by consumers and businesses is on products and services complementary to the products and services of the core industry - if the core industry were to be smaller, this spending would also reduce.

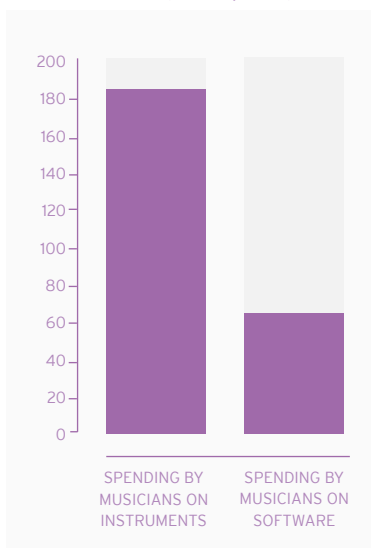
8.3 We now review both of these kinds of linkage.

### SPENDING BY MUSICIANS

8.4 The spending by musicians on instruments and music software in 2012 was considerable, as illustrated by figure 27.

21. DCMS, Government Tourism Policy, March 2011

FIGURE 27: SPENDING BY MUSICIANS ON INSTRUMENTS AND MUSIC SOFTWARE (2012, £M)



Source: UK Music survey of BASCA/MU members

### MUSIC TOURISM

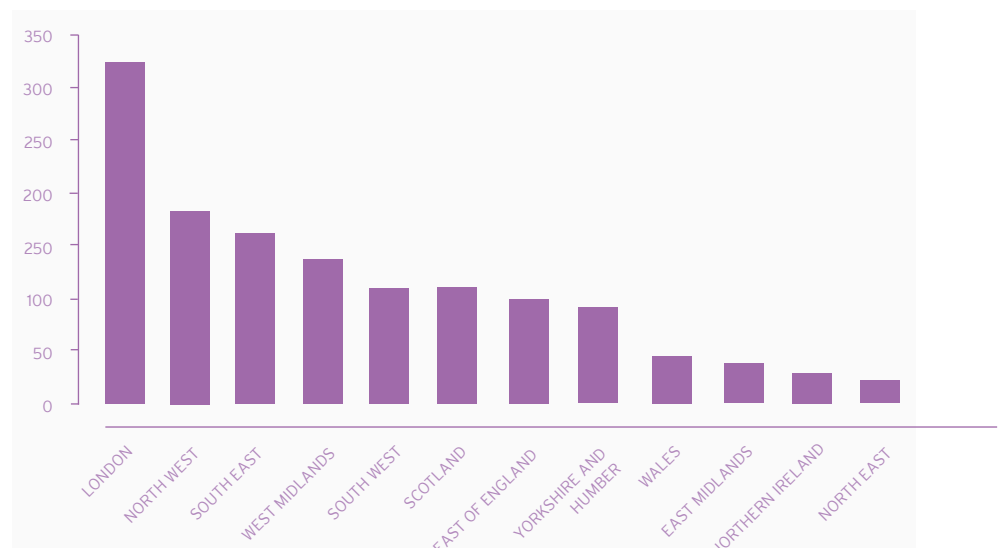
8.5 The Chancellor of the Exchequer has described tourism as “one of Britain’s most important industries. Our landmarks, monuments, countryside and culture are magnets for visitors from all over the world.”<sup>21</sup> Music tourism forms part of this magnet.

8.6 Live music festivals and concerts do not only link to the wider economy through their own spending but also through the spending that they induce in others. The figure below illustrates that music tourism contributes significantly to the economies of all UK nations and regions.

### MUSIC RETAIL

8.7 Like tourism, retail is a sector that the government privileges as being a key growth engine. And, like tourism, this is a sector that has important linkages to the music industry, as is illustrated in the figure below.

FIGURE 28: MUSIC TOURISM SPENDING BY UK REGIONS (2012, £M)



Source: Oxford Economics analysis for UK Music

**8.8** While this figure shows that the majority of revenues to music merchandise firms in the UK derive from sales at live music events, it also shows that much more music merchandise is sold in general high-street stores, rather than in specialist music retailers. The closure of some HMV stores might suggest that such specialist retailers are struggling but music merchandise firms are increasingly succeeding in selling their products through general retailers. The importance of this revenue source was, for example, illustrated earlier this year by Rihanna winning a £5m case against Topshop.<sup>22</sup>

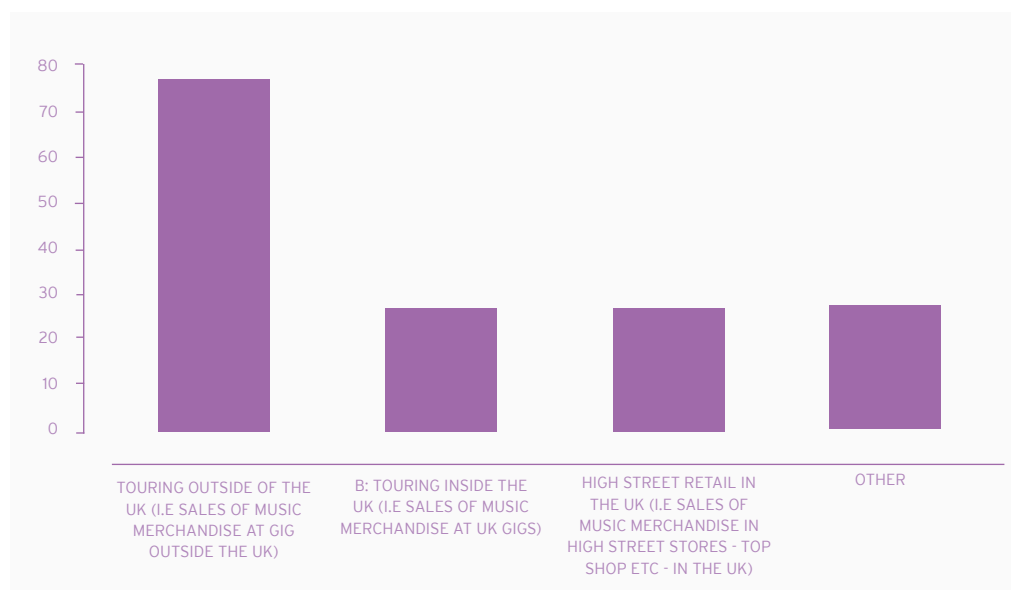
**8.9** The numbers in the figure below derive from a confidential survey of UK music merchandise firms. The survey results were grossed up in line with the proportion of live music events with a capacity over 1,500 attendees covered by the surveyed firms.

**8.10** When applied to our bespoke GVA Gross Output ratio, the overall economic contribution of music merchandise firms that this analysis results in for 2012 is as follows:

- GVA of £70m
- Exports of £70m
- Employment of 220

**8.11** These figures do not form part of the economic contribution of the core music industry. However, having had a survey completed by leading merchandise firms, we are able to present their contribution in the same format as we presented the economic contribution of the core, i.e. GVA, exports and employment.

**FIGURE 29: SOURCES OF REVENUE FOR UK MUSIC MERCHANDISE FIRMS (2012, £M)**



Source: UK Music analysis based on PRS for Music data and confidential survey

<sup>22</sup> Rihanna claimed that Topshop had attempted to pass off t-shirts bearing a photograph of the singer from her We Found Love single campaign as products authorised by her. Judge Mr Justice Birrs ruled that the sale of the products in question was an act of passing off in this instance and represented a loss of control of the artist's reputation in the fashion arena.

**8.12** Music merchandise continues to evolve and move into more diverse areas. Daft Punk, for example, has not only enjoyed a hit summer single in 2013, 'Get Lucky', but has released a range of condoms by the same name. A shop has also been set up by Pete Doherty to sell Libertines and Babyshambles memorabilia, as well as other items from the singer's life in Camden, London.

**8.13** As impressive as the economic contribution of music merchandise firms is, the choice of Camden as the location for this venture suggests a further significant, intangible impact of music upon retail. So many of those drawn to Camden are surely drawn there by the association between the area and music. Yet this linkage between the industry and commercial life of the area - not simply music merchandise but many other forms of retail in Camden - is not fully captured in the data above on music merchandise firms, as this linkage is much broader and more nebulous than music merchandise alone.

**8.14** Camden is home to various music venues. In 2012, as The Economist recently reported, the government lifted restrictions on certain forms of spontaneous live entertainment. In some urban areas, The Economist notes, councils actively welcome informal music performances—knowing that in their wake will follow the cafés, bars and yuppie flats that increase the value and attractiveness of localities.<sup>23</sup> These cafes, bars and new property developments abound in Camden and are the stuff of the intangible linkage between the area and the music industry, which goes well beyond music merchandise.

## VALUE OF MUSIC TO UK BRAND

**8.15** Branding plays an important role in the UK music industry. The images and associations consumers make in respect to music are important both in terms of

their decision to actually consume music and to the enjoyment they get from those purchases. Given that branding plays such an important role in the UK music industry, the concept of brand equity - the value of a brand name - is of obvious importance in measuring industry value.

**8.16** Past work by economists such as Corrado et al (2006) in the United States and Marrano & Haskel (2006) of the ONS and Gil & Haskel (2008) in the UK has allowed for the development of a measure of brand equity using existing national accounts data. Analysis by Oxford Economics for UK Music built upon this past research and the data generated in this study to produce a brand equity estimate for the core UK music industry of £72 million in 2012.

## MUSIC PRESS

**8.17** In addition to these specialist music publications, all national newspapers regularly review live music events, new albums and interview artists and others connected to music.

**8.18** The Press Gazette in August 2013 reported the music press as having the following average circulations:

- Mojo: 79,345
- The Fly: 70,866
- Q: 58,980
- Uncut: 56,894
- Kerrang: 37,603
- New Musical Express: 20,011

**8.19** These publications communicate the latest news and opinion on music to fans, while Music Week is a publication targeted on those working in the industry. It provides news, analysis and opinion to this end.

**8.20** The past decade has seen considerable growth in music blogs and other online resources. AMG and Pitchfork, for example, provide in-depth information about a large number of musicians and

23. The Economist, 17 August 2013

albums. In fact, the website <http://music-favourites.blogspot.co.uk/> attempts to provide a comprehensive overview of music blogs and has allocated 351 different blogs to 98 different music genres. This large number of blogs and genres is testament to the interest and engagement that music inspires.

## MUSIC TECHNOLOGY

8.21 Of course, music merchandise and the music press are not the only forms of music retail. Technologies are another important form of consumption linked to the core music industry. Ofcom's Communications Market Report (2013) recently noted:

- BBC Radio 4 Extra and BBC 6 Music tie for digital-only popularity among radio stations. Both services have seen year on year increases in weekly reach. Over an average seven day period across the year each service attracts 1.7 million listeners. Purchases of digital radios to listen to BBC 6 Music and similar stations are driven by a desire to listen to the output of the core music industry.
- Around half of consumers "media stack" - conducting unrelated media tasks while watching TV. 12% of these consumers "media stack" by listening to music/radio, as they watch TV. Where this media consumption involves listening to music, it links the core industry not only to devices for listening to music but also to TVs. This music listening, while watching TV, occurs via smartphones (in 46% of cases), non-smartphone mobiles (7%), tablets (11%), laptops/netbooks (28%), and desktops (7%).
- 39% of tablet users and 44% of smartphone users use them to listen to music videos.
- Music TV channels enjoyed a 6% increase in their revenues over 2012 to £118m.
- 83% of local commercial radio station listeners and 40% of local BBC radio station listeners do so to listen to music.

8.22 The Ofcom report also noted the percentages of adults accessing various music services, which are shown in Table 5.

TABLE 5: PROPORTION OF ADULTS ACCESSING MUSIC SERVICES IN THE PAST THREE MONTHS

MUSIC SERVICE	PERCENTAGE OF ADULTS +16 USERS
YouTube	40
iTunes	29
Spotify	11
Amazon Cloud Player	5
Last FM	4
Google Play	4
SoundCloud	3
MySpace	2

Source: Ofcom, Communications Market Review, 2013

8.23 According to figures recently published by Fortune Magazine, the value of YouTube is estimated as being between \$15.6 billion and \$21.3 billion. Given the considerable numbers of people that access this service to listen to the output of the core music industry, to some extent at least, such value is driven by the core music industry.



**8.24** Technology continues to evolve - with evidence suggesting that these advances are being ever more utilised by consumers to access the output of the core music industry. The number of mobile phone music listeners, for example, in the US almost doubled between 2011 and 2012, according to new research. This report concludes that the number of American mobile phone music listeners went from 30.9 million in 2011 to 60.5 million in 2012.<sup>24</sup>

**8.25** The integration of music and technology is well illustrated by the way in which O2 launched its 4G offering in London with a multi-platform Plan B gig live-streamed across the city. Plan B played an exclusive set at the O2 Shepherd's Bush Empire in August this year, which streamed to three digital media locations in Kings Cross Station, Victoria Station and The Wall at Westfield Shepherd's Bush. Audiences at these locations had headphones to experience the gig as a live-streamed silent disco.

## MUSIC AND LIFESTYLE

**8.26** While the sponsorship revenues of musicians are captured in the revenues covered in our analysis of the core music industry, these sponsorships link the core industry to a wide range of products and services. This often serves to associate these products with certain styles and lifestyle - helping to drive their sales.

**8.27** British singer-songwriter Rita Ora has signed a deal with Rimmel which will see the star release a colour cosmetics capsule in February 2014. "With this new collection", Rimmel's Friedemann Schmid has explained, "we are combining both the London street vibe with Rita's amazing style and we look forward to sharing the amazing result." The pop star has also recently appeared on the runway for DKNY - the fashion house - in New York City.

**8.28** Live music can also be used to attract a particular kind of client or build a certain brand. For example, Virgin Atlantic's recent announcement that live music events will feature on their domestic flights in future may be indicative of a wider trend for royalties to be payable following live music events in ever more varied locations. The airline wants to "shake up domestic flying in the UK" with the new entertainment programme.<sup>25</sup>

## CONCLUSION

**8.29** The activities of the core music industry continue to evolve, as do the ways in which it links to the wider economy. It is a highly innovative and dynamic sector, as are those sectors with which it enjoys the strongest linkages.

**8.30** From property developments to smartphones, from tourism to high street shops, these linkages are many and various, often as intangible as they are important, linking the core music industry to a wide range of economic sectors, many of which are thought to be important to the UK's future growth prospects.

**8.31** However, just as the SIC codes do a poor job of measuring the contribution of the core music industry, the tools often used to measure the strength of linkages - for example, the input/output table - are of limited relevance, precisely because of rapid pace of evolution in the nature of these links.

24. This research was recently published by eMarketer

25. The Telegraph, 7 August 2013

## 9 CONCLUSION

**9.1** This report is the most exhaustive study to date on the economic contribution of the core UK music industry. It reviews the research steps that have been followed to generate its results. It then describes the uses that these results may be put to and sets out a series of steps that could be taken to further refine understanding of the economic contribution of music. We consider this vital to inform public policy on a vital growth sector in the UK economy in the best possible evidence base.

**9.2** Never previously has the music industry been so carefully defined in terms of a clear rationale and a transparent, collaborative and industry-driven process for arriving at this rationale and definition. Nor, of course, has data been gathered in a structured fashion from the industry that corresponds to this definition. Equally, ratios of GVA to Gross Output published in the ABI have not taken any account of whether the firms captured in these ratios consistently and exclusively capture music industry companies.

**9.3** All of these things have been done for the first time in this project, which makes it truly ground-breaking. It provides a robust industry definition, attaches industry data on revenues to this definition, and transitions from these revenue data to GVA data by applying a bespoke GVA to Gross Output ratio. Data gathering with the industry has enabled quantification to be attached to the economic contribution of the core industry in terms of GVA, exports and employment.

**9.4** The report also identifies important linkages between the contribution of this core and the wider economy, including in terms of high street retail, tourism and technology. In other words, sectors that are widely considered to be important to the UK's overall economic performance are in part driven by music.

**9.5** The economic contribution of the core industry is shown in the table below, which is a duplication of Table 4 shown earlier in this report.

**TABLE 6: THE ECONOMIC CONTRIBUTION OF THE CORE INDUSTRY**

THEMATIC GROUPING	GVA (£M)	EXPORTS (£M)	EMPLOYMENT
MUSICIANS AND SINGERS, COMPOSERS, SONGWRITERS AND LYRICISTS	1547	180	68,000
RECORDED MUSIC	662	152	13,490
LIVE MUSIC	634	305	9350
MUSIC PUBLISHING	402	509	1000
MUSIC REPRESENTATIVES	151	235	2340
MUSIC PRODUCERS, RECORDING STUDIOS AND STAFF	80	16	7500
<b>TOTAL</b>	<b>3477</b>	<b>1398</b>	<b>101,680</b>

**9.6** These results are an important step forward in our understanding of the music industry. As such, they lay the foundations for improving both our understanding of the industry still further and public policy decisions and strategies that impact upon the sector.

**9.7** UK Music sees making these improvements as a shared responsibility between ourselves and government. We are clear about what we will do to secure this improvement and what we look forward to working with government to do.

9.8 This corresponds to near and longer-term improvements. Improvements in the near-term should take place before the next SIC code revision. The longer-term solution is clear: a set of SIC codes that much better maps on to what the music industry now is.

9.9 UK Music will make two kinds of contribution towards this longer-term solution:

- Bringing the music industry together to agree the industry's recommendations for a revised set of SIC codes. This will build upon the definition of the music industry used in this report.
- Building as wide a coalition of support behind our recommendations as possible. This will include equivalent bodies to UK Music in other jurisdictions. This will also include representatives of other parts of the economy, particularly the creative industries, as we are keen to ensure that we do not claim for the music industry forms of economic activity that are considered to be attributable to other sectors.

9.10 Beyond this, we anticipate working with UK public bodies to build the coalition of international support that will be necessary to bring this longer-term solution. It would enable international comparability of the music industry's economic contribution, as well as a much clearer sense of what we contribute to the UK economy.

9.11 This is the longer-term objective, however, and improvements must also be sought in the nearer-term, which means within the limitations of the current SIC code system. While we see no 'silver bullet' that will deliver these improvements by itself, we see a series of measures that should bring incremental improvement.

9.12 Many of these improvements will be enabled by gathering new information on the economic contribution of music from new sources to build a more complete industry picture.

9.13 This report has been structured around a new and different definition of the music industry as compared with the existing SIC codes, and is the most robust and comprehensive source of information on the economic contribution of music.

9.14 Given that it draws upon an unprecedented effort by the industry to better measure itself and provides a richer picture than any previous analysis, we would encourage ONS and DCMS to make reference to it and its results when reporting upon the economic contribution of music. We trust that it will also be a useful information source for those conducting impact assessments on proposed policy changes relevant to the music industry.

9.15 UK Music intends to update the report each year, using the latest industry data and seeking to improve it wherever possible - in particular, we will seek to maximise responses to surveys, especially where they were relatively weak this year, as in the case of the designers and producers of physical music products.

9.16 We have built a strong network of supporters and advisers across the industry - both through UK Music's research steering board and the Live Music Group that UK Music brings together. This expertise is invaluable in understanding the industry, its continued evolution and the best sources of data on its economic contribution. We will be making the most of this expertise in producing our annual report on the economic contribution of music in the UK.

9.17 ONS has committed to opening dialogue with HMRC to see if estimates can be made for music from their survey of personal incomes. This would be a further information source on the economic contribution of music. It would advance understanding by better capturing output by the many freelancers or small businesses working in the music industry and not picked up by the IDBR, as their income falls below the VAT threshold.

9.18 ONS is also investigating those UK Music businesses on the IDBR but not matched to the music code of 5920. It may be that trends emerge in these unwatched businesses; common themes that suggest changes to the computer system that allocates businesses to codes within the IDBR, which would increase the number of matches.

9.19 Finally, there is the possibility for the ONS to manually recode businesses to the music code of 5920. We would welcome all UK Music firms being so assigned. We also stand ready to provide guidance to these firms on how they should be completing returns to Companies House and HMRC to maximise the probability of them being correctly coded.

9.20 This report, and the great efforts by many industry participants that have made it possible, is testament to the importance that we place in getting measurement of our economic contribution as accurate as possible. We, therefore, appreciate all efforts that the ONS and other public bodies can make to further improve this measurement in the nearer-term.

9.21 We recognise, however, that the accurate, comprehensive and granular measurement that we seek from public data will not be possible with the current SIC codes. Improving their fitness for purpose is long overdue and something that we will be advocating and campaigning for in earnest.

## 10 ANNEX 1: SURVEY QUESTIONS

10.1 This annex reviews the questions that were asked in the various surveys that were run as part of this project.

### MUSICIANS, SINGERS, COMPOSERS, SONGWRITERS, LYRISTS

10.2 Members of BASCA and the MU were asked:

- Which music trade bodies are you a member of? (This question provided a tick box with the option to tick each trade body in the UK Music membership).
- What were your gross music related earnings in 2012 (before any tax payments, e.g. VAT and corporation tax)?
- What percentage of these earnings came in the form of? (This question provided a list of revenue sources to attach percentages to).
- Please indicate what percentage of your commissions for new works in value terms come from the following sources: (List of sources provided).
- How much did you spend in 2012 on music instruments and music software?
- What percentage of your earnings in 2012 derived from following activities? (This question provided two options: 'activities inside the UK' and 'activities outside the UK').
- Which local authority area do you live in?

### MUSIC PRODUCERS AND RECORDING STUDIO STAFF

10.3 Members of the MPG were asked:

- What are your job role/skills as a music producer?
- Which music trade bodies are you a member of? (This question provided a tick box with the option to tick each trade body in the UK Music membership).
- Do you work a.) Full Time or b.) Part Time?
- How many people do you employ in your studio?
- How many singles that you produced were released in the UK in 2012?
- How many albums that you produced were released in the UK in 2012?
- How much did you earn in 2012 as a music producer (before tax)?

- What percentage of these earnings came in the form of? (This question provided a list of revenue sources to attach percentages to).
- Which local authority area do you live in?

### MUSIC MANAGERS

10.4 Members of the MMF were asked:

- What did you earn in your last accounting year?
- How many music acts do you manage?
- How many paid staff do you employ on a.) Full Time basis, b.) Part Time basis, c.) Freelance basis?
- Are you paid as a percentage of the earnings of the acts that you manager?
- If yes, what is this percentage typically?

### MUSIC PUBLISHERS

10.5 Members of the MPA were asked to:

- Indicate revenues received in 2012 from the following sources:
  - a) Direct from societies
    - MCPs
    - PRS
    - Non-UK collecting societies
    - Total
  - b) Directly Licensed to UK Licensees
    - Synch licensing
    - Grand Rights licensing
    - Direct licensing (include permissions but not include print licensing)
    - Production Music (non-society)
    - Other
    - Total
  - c) Directly Licensed to non-UK Licensees
    - Synch licensing
    - Grand Rights licensing
    - Direct licensing (include permissions but not include print licensing)
    - Production Music (non-society)
    - Other
    - Total
  - d) Other receipts

Affiliates (assumed non-UK)  
 Sub-publishers (assumed non-UK)  
 Print hire (UK)  
 Print hire (non-UK)  
 Printed music sales (UK)  
 Printed music sales (non-UK)  
 Other (Please specify)  
 Total

- Indicate how many people they employ.
- Indicate how much they spent in 2012 on investment in writers/composers (advances).

## MUSIC PROMOTERS

10.6 Music promoters were asked:

- How many live music shows did you promote in 2012? (For tours, count each date as a show, for festivals, count the festival as a show).
- What was the turnover of your company in 2012?
- What percentage of your business is concerned with promotion for live music, as oppose to other kinds of live entertainment?
- As regards the percentage of your business concerned with promotion of live music, what percentage of box office do you typically earn per live music event?
- As regards the percentage of your business concerned with promotion of live music, what percentage of these activities are generated through music shows in the following geographies?
- How many paid staff do you employ on a.) Full Time basis, b.) Part Time basis, c.) Freelance basis?
- Which local authority are you based in?

## MUSIC AGENTS

10.7 Music agents were asked the following questions:

- For how many clients did you act as an agent in 2012?
- What was the turnover of your company in 2012?
- What percentage of your business is concerned with provision of agent services

to musicians, as oppose to other kinds of performers (e.g. comedians)?

- As regards the percentage of your business concerned with agent services for musicians, what percentage of a musicians fee do you typically earn per live music event?
- As regards the percentage of your business concerned with agent services for musicians, what percentage of these activities are generated through music shows in the following geographies?
- How many paid staff do you employ on a.) Full Time basis, b.) Part Time basis, c.) Freelance basis?
- Which local authority are you based in?

## PRODUCTION SERVICES FOR LIVE MUSIC

10.8 Members of PSA were asked:

- How many live music shows did you provide production services for in 2012? (For tours, count each date as a show, for festivals, count the festival as a show)
- What was the turnover of your company in 2012?
- What percentage of your business is concerned with production services for live music, as oppose to other kinds of live entertainment?
- As regards the percentage of your business concerned with production services for live music, what percentage of these activities are generated through music shows in the following geographies? (There are two options: inside the UK and outside the UK).
- How many paid staff do you employ on a.) Full Time basis, b.) Part Time basis, c.) Freelance basis?

## TICKETING AGENTS

10.9 Ticketing agents were asked:

- How many live music shows did you provide ticket agent services to in 2012?
- What was the turnover of your company in 2012?
- What percentage of your business is concerned with provision of ticket agent

services for live music, as oppose to other kinds of live entertainment?

- As regards the percentage of your business concerned with ticket agent services for live music, what percentage of box office do you typically earn per live music event?
- As regards the percentage of your business concerned with ticket agent services for live music, what percentage of these activities are generated through music shows in the following geographies?
- How many paid staff do you employ on a.) Full Time basis, b.) Part Time basis, c.) Freelance basis?
- Which local authority are you based in?

#### ONLINE MUSIC DISTRIBUTORS

10.10 Online Music Distributors were asked:

- What was your turnover in 2012?
- What proportion of your 2012 turnover was generated via sales to non-UK clients?
- How many people do you employ?
- What proportion of your 2012 turnover came via each of the following sources? (List of options provided)
- How many tracks did you deliver digitally in 2012?
- What is your estimate of the total number of tracks delivered digitally by UK based Online Music Distributors in 2012?
- Which local authority are you based in?

#### DESIGN AND PRODUCTION OF PHYSICAL PRODUCT AND PACKAGING

10.11 These designers were asked:

- What was the turnover of your company in 2012?
  - What proportion of your 2012 turnover was attributable to: a.) Music industry clients in the UK, b.) Music industry clients outside the UK?
  - For how many albums released in 2012 did you provide the artwork and packaging?
  - How many paid staff do you employ on a.) Full Time basis, b.) Part Time basis, c.) Freelance basis?
-



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