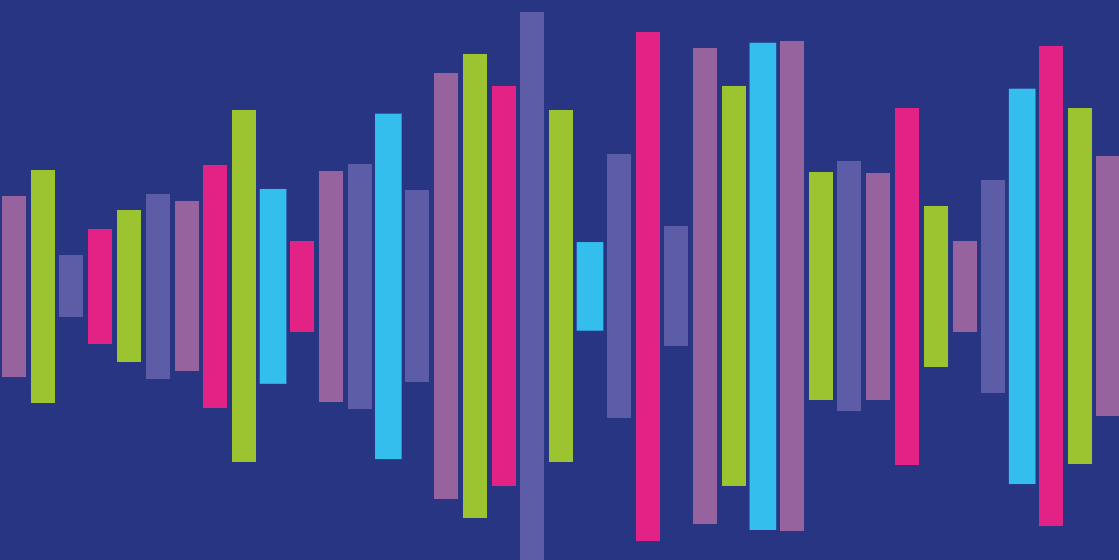


THE ECONOMIC CONTRIBUTION OF THE CORE UK MUSIC INDUSTRY

SUMMARY REPORT



ACKNOWLEDGEMENTS

Economic Contribution of the core UK Music Industry in 2012.
Published December 2013.

This report would not have been possible without the help and support of The Office for National Statistics (ONS) particularly the team at the Inter-Departmental Business Register (IDBR) and the team at the Virtual Microdata Lab (VML).

We are also grateful for help and advice from:

- Department for Culture, Media & Sport - Evidence and Analysis Unit
- Intellectual Property Office - Economics Team
- NESTA - Research Team
- Creative & Cultural Skills - Research Team

In addition, we are hugely grateful for the support offered by Oxford Economics who acted as peer reviewers during the project.

The help and advice of all those listed above is reflected in the final methodological approach used in the report.

Throughout this project, we received support from a wide range of music businesses, music trade associations and individuals who provided their datasets and intelligence which was essential to this analysis. They include the full membership of UK Music and the representatives of the Live Music Group.

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

UK MUSIC MEMBERS

- Association of Independent Music (AIM)
- British Academy of Songwriters, Composers and Authors (BASCA)
- BPI
- Music Managers Forum (MMF)
- Music Producers Guild (MPG)
- Music Publishers Association (MPA)
- Musicians Union (MU)
- PPL
- *PRS for Music*

LIVE MUSIC GROUP

- 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)
- Production Services Association (PSA)

WHAT WE SET OUT TO DO

The project set out 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.
- Exports are the component of this contribution generated by revenues from outside the UK.
- Employment is the number of jobs sustained by this contribution.

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

First, we quantify the music industry's direct economic contribution, not its wider economic impact.

Second, we quantify the economic contribution of the core music industry, which excludes many music-focused businesses.

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.

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.

WHY THIS REPORT IS NECESSARY

The music industry makes a vital contribution 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 the national statistics.

The standard industrial and occupational codes (SIC & SOC) underpinning ONS national statistics do not directly map onto the music industry.

Even within the partial coding system that exists, the music industry is poorly served, resulting in many outputs from music firms being allocated to other sectors of the economy. A UK Music/ONS matching exercise revealed that of 9,435 music businesses (labels & publishers) only 1,319 or 12% were correctly SIC coded and approaching half were not matched to the IDBR (Inter Departmental Business Register). Software issues and incomplete addresses account for a significant proportion of non-matches but it is unknown how many non-matches result from businesses not being present on the IDBR per se.

Unlike many other industries, the poor mapping between SIC codes and actual activity within the music industry prevents use of the ONS Annual Business Survey to accurately calculate the GVA contribution that would follow from Gross Outputs.

Music is currently grouped in the national accounts 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.

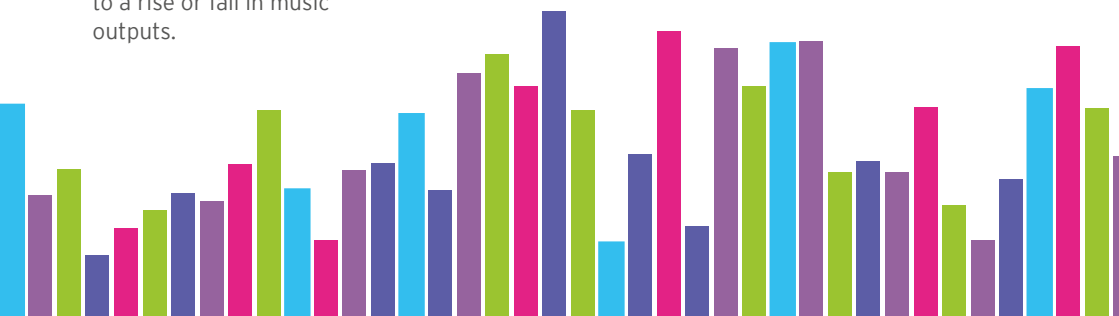
The ONS input-output table demonstrates how shifts in output in one particular sector impacts on other parts of the economy. However, due to the poor way in which music is captured in national statistics, this mechanism cannot be applied in relation to a rise or fall in music outputs.

This imperfect data is used for policy purposes by the Government.

This poor measurement is perplexing given the importance of music to our economy. If the UK is to succeed in the global race, we need public policy based upon data that accurately measures the contribution of the different parts of our economy, especially those like music that are identified as having growth potential.

We see these limitations as far more than an academic concern. 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.



HOW WE WENT ABOUT IT

METHODOLOGICAL STEPS

The methodological steps that have been followed are:

STEP 1

First, the music industry set a clear definition of the economic activities that make up the sector. It is our contention that the music 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. 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



Commercial asset 3: A live musical performance



Commercial asset 4: An artist him or herself (as a brand, reputation or image)

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

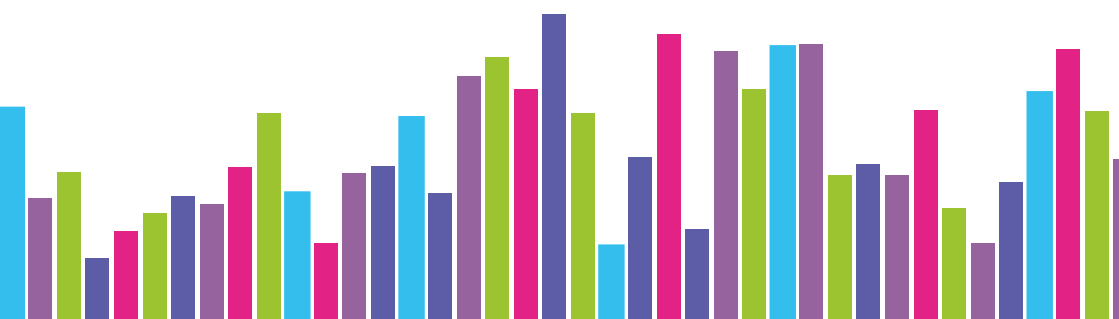
- Economic activities that create these commercial assets. (An example is the creative process of composing, performing or recording music.)
- Economic activities whose primary focus is upon the steps necessary to bring these assets to a position where they are able to be distributed and transacted with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

SOME 'REAL' EXAMPLES OF THESE ASSETS IN PLAY

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).

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.

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.



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. This rationale defines the UK's core music industry as being formed by:

THEMATIC GROUPING	ELEMENTS OF THE CORE
Musicians and singers, Composers, songwriters and lyricists	Musicians, singers
	Composers, songwriters, lyricists
Recorded Music	Record labels
	Online Music Distributors
	Design and manufacture 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

STEP

3

We acknowledge the importance of a much 'wider' music industry, which we define as those economic agents that trade with the core, and so service the core music industry in a variety of ways. Examples would be music retail (music shops and digital download stores), digital music services (streaming, subscription, social networks), music broadcast, manufacture of musical instruments, audio equipment and music software, sale of musical instruments, music photography, music press, and so on.

However, this study reports only on the economic contribution of the core, not the wider music industry.

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.

STEP

2

Secondly, having defined the core music industry, we identified and quantified sources of revenue relevant to the economic activities that make up each part.

STEP 4

Fourth, the employment contribution of the music industry was measured by identifying and quantifying the employment concerned with the economic activities that form the core music industry. These employment data were gathered by surveying those undertaking the economic activities that are contained within our definition. We were 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.

We 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.

STEP 5

Fifth, having quantified the revenues generated by the economic activities of the music industry, it was necessary to transition from these to an estimate of GVA contribution.

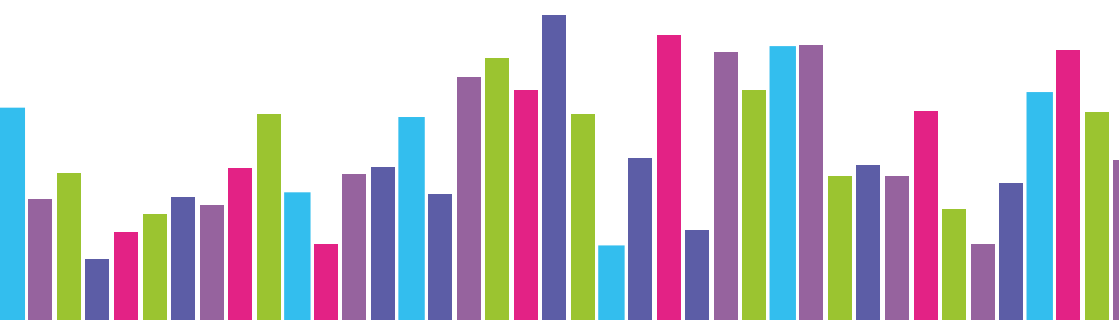
Three possibilities for transitioning from revenues to GVA data are:

- 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.
- Another possibility would be to take a ratio of GVA to gross output from the Annual Business Survey (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.

ACCESS TO VML

- 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.

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.



REPORTING ON THE FINDINGS

STEP

6

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.

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 different thematic groupings within our definition.

There has 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.

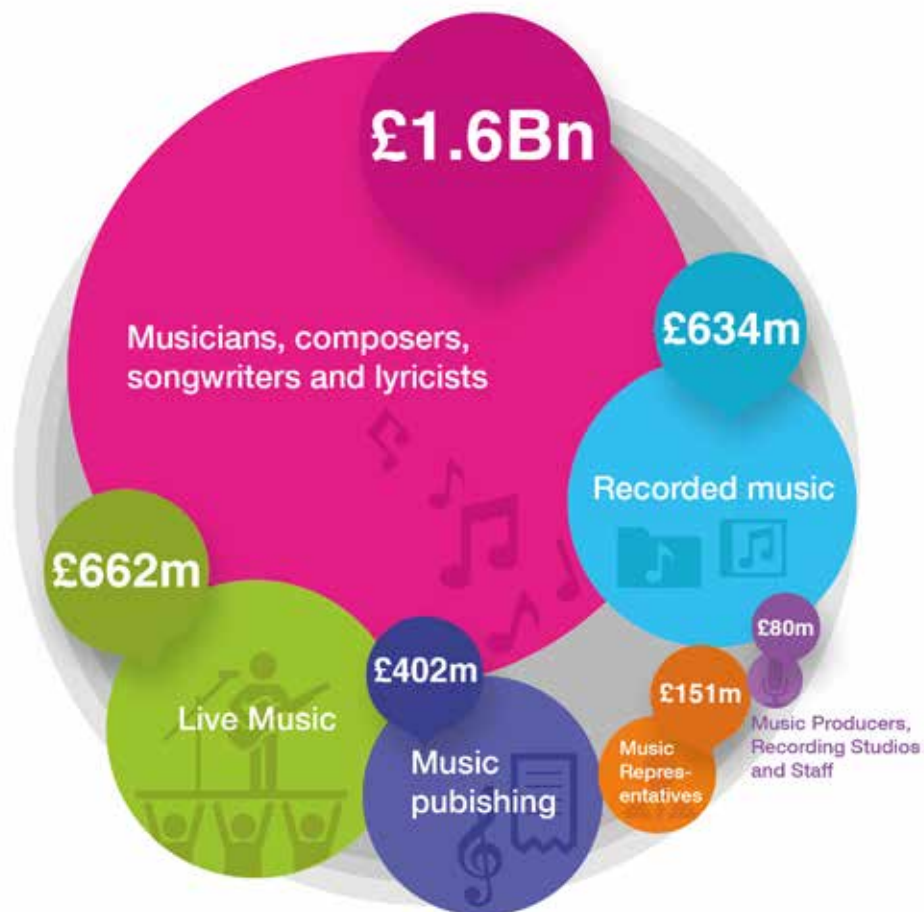
In total 10 surveys were run exclusively for this project with different parts of the music industry. The response rates to these surveys varied and are detailed in the full report. UK Music and its member bodies took every possible step to maximise responses to these surveys. We will do so again when 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*).*

* 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.

THE RESULTS

GVA

£3.5Bn

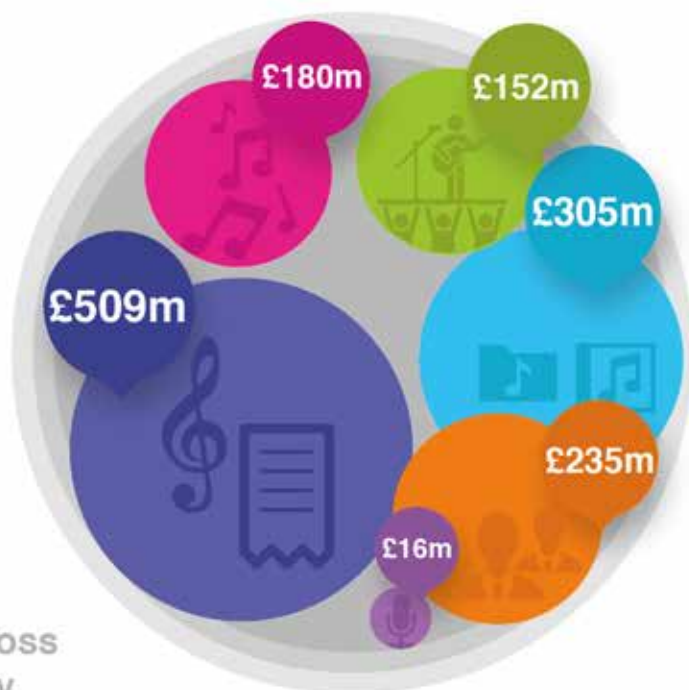


Exports

£1.4Bn

40% =

Exports as a percentage of GVA, which is 5% higher than the average across the UK economy.



Thematic Grouping

Musicians, composers, songwriters & lyricists

- Artists, musicians, singers
- Composers, songwriters, lyricists

Music Representatives

- Collecting societies
- Music managers
- Music trade bodies

Recorded music

- Record label
- Online music distributors (providing niche metadata services for digital music files)
- Design and manufacture of physical product and packaging

Music publishing

- Music Publishing

Live Music

- Music festival organisers
- Music promoters
- Music agents
- Production services for live music
- Ticketing Agents, Concert venues and arenas

Music Producers, Recording Studios & Staff

- Music producers
- Recording studios & staff

CONTEXTUALISING THE RESULTS

AN INVESTMENT INTENSIVE SECTOR

Music is one of the most investment-intensive industries in the economy. 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 - investing up to 20% of revenue in artists and repertoire. In 2012, labels and publishers invested more than £450 million in artist and repertoire. In addition, music collecting societies are investing significantly into repertoire databases and other data infrastructure to keep the UK's competitive advantage in global digital markets.

IMPORTANCE OF MUSIC AS A NET EXPORTER

The UK is a net exporter of music. Our 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 percent of UK GDP overall in 2012.



Investment

Today's investment ensures tomorrow's success.

VALUE OF MUSIC TO UK BRAND

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.

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.



↑ **£72 million**
IN 2012

NEXT STEPS

This report is the most exhaustive study to date on the economic contribution of the core UK music industry.

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 has data been gathered in a structured fashion from the industry that corresponds to this definition. Additionally, this project was able to access the Virtual Microdata Lab maintained by the ONS to construct a bespoke GVA to gross output ratio for the music industry - all groundbreaking achievements.

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

UK Music sees making these improvements as a shared responsibility between ourselves and government. This corresponds to near and longer-term improvements.

Improvements in the near-term should take place before the next SIC code revision, which means working 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.

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. 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.

We would support the ONS to:

- Find means of better capturing in their data the many freelancers and micro businesses that operate in the music industry
- Allocate to the music SIC code of 5920 all the music businesses that should be allocated to this code and are presently not.

UK Music 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.

The longer-term solution is clear: a set of SIC codes that much better maps on to what the music industry now is.

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 widely considered to be attributable to other sectors.

UK Music intends to update the report each year, using the latest industry data and seeking to improve it wherever possible.

This is a summary report of the Economic Contribution of the Core UK Music Industry in 2012. The full technical report is available to download from UK Music's website: www.ukmusic.org



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