

Written Submission for the Pre-Budget Consultations in
Advance of the 2024 Federal Budget

August 4, 2023

SUSTAINABLE SUPPORT FOR A HEALTHY AND
DIVERSE MUSIC INDUSTRY ECOSYSTEM



A Music Ecosystem Based on Independent Small Businesses

The Association québécoise de l'industrie du disque, du spectacle et de la vidéo (ADISQ): An association representing music industry businesses

Approximately 185 independent and committed Quebec businesses operate in the following areas:

- record, show and video production
- record companies
- talent management
- record distribution
- music publishing
- live entertainment
- performance venues and presenters
- media relations and promotion

Our music ecosystem is one of a kind worldwide. Independent entities produce 95% of all records, shows or music videos by French-speaking Canadian artists.

The small market for independent French-language music producers has forced them to diversify, often by producing shows in addition to sound recordings.

Important links in the value chain

A few key facts about Canada's French-language music industry (from SODEC's pre-pandemic study for 2018–2019 entitled [*Situation financière des entreprises du PADISQ*](#) [FRENCH ONLY]):

- In the year prior to the pandemic, businesses supported by SODEC generated \$156 million.
- Of these revenues, 85% were self-generated, and 56% of these were generated by live performances.
- Labour accounted for the sector's largest expense category, amounting to 66% for sound recordings and 77% for live shows.

The business model is based on the venture capital principle: producers can invest a portion of the profits from their successful shows in developing emerging or established artists. This allows them to support a critical mass of performers while catering to a broad range of musical tastes. Developing a performer's career takes time and sustained investment, from creation to distribution.

ADISQ's Call for a Sustainable Recovery Built on Strong Businesses

Increase “*annual contributions to the Canada Music Fund (CMF) to ensure better and more stable funding for the music sector*”¹ to **\$60 million by 2024–2025**²

- This request is based on a commitment made in the 2021 Liberal platform to increase the annual contribution to the CMF to \$50 million by 2024–2025, taking into account inflation, labour shortages and the unique circumstances specific to live entertainment.
- This request echoes the request of our Canadian Independent Music Association counterparts.

Considering our industry's situation, we ask that all funding be allocated without delay starting in 2024–2025.

By directing this support to companies that produce and market sound recordings and live shows, we can maximize its impact while encouraging investments that benefit the entire ecosystem.

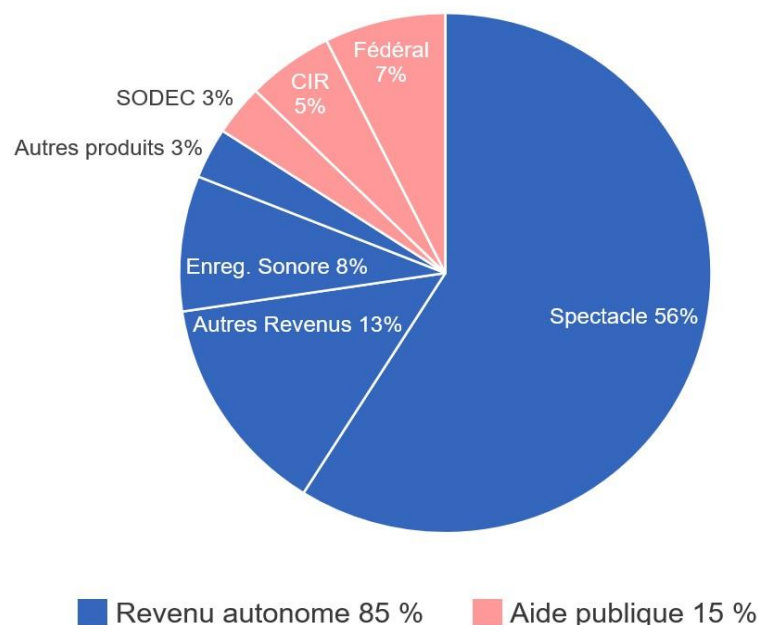
¹ Office of the Prime Minister (16/12/2021). [Minister of Canadian Heritage Mandate Letter](#).

² See page 8 for recommendation details.

Why Support Music Production Businesses?

Leveraging government support for maximum impact

Répartition des revenus des entreprises du PADISQ (2018-2019)



FRENCH	ENGLISH
Répartition des revenus des entreprises du PADISQ (2018-2019)	Breakdown of revenues generated by PADISQ businesses (2018-2019)
SODEC	SODEC
CIR	Refundable tax credit
Fédéral	Federal
Spectacle	Shows
Autres Revenus	Other income
Enreg. Sonore	Sound recording
Autres produits	Other products
Revenu autonome	Self-generated revenues
Aide publique	Public assistance

Source: SODEC, Situation financière des entreprises du PADISQ (2018-2019)

Government investment in music produces the leverage that entrepreneurs need to take risks and make investments. By focussing on these entrepreneurs instead of spreading the assistance too thin, we maximize the benefits for the entire ecosystem.

Public support generating major benefits

Independent businesses that produce music and live shows run significant risks.

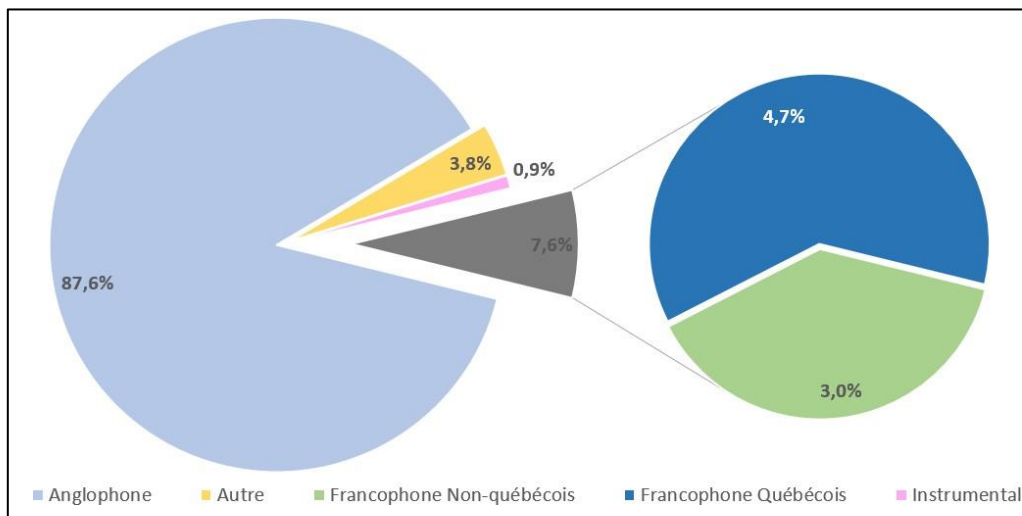
Given its vital importance to a flourishing music industry, the investment cycle must not be allowed to falter in these uncertain times.

We want to:

- Support a critical mass of recording and performing talent, from creation to marketing, along with a host of creative talent, technicians and professionals;
- Encourage a diverse range of original Canadian music productions in both official languages, with a special emphasis on emerging talent (which involves a higher risk);
- Maintain as many independent businesses as possible considering the critical and highly skilled workforce they employ; and
- Sustain an ecosystem of local businesses that generate major economic, territorial and social benefits.

Ongoing Market Imbalance

Breakdown of the top 5,000 streams from online audio platforms in Quebec, by language



Source: Luminata (ADISQ analysis)
Data gathered in Quebec from October 22, 2021 to June 29, 2023

FRENCH	ENGLISH
Anglophone	Anglophone
Autre	Other
Francophone Non-qubécois	Francophone, Non-Quebecker
Francophone Québécois	Francophone Quebecker
Instrumental	Instrumental

In Quebec, French-language tracks by Quebec artists account for only 5% of digital streams. Competing with major international stars backed by enormous resources is not easy. Today, our artists are having an extremely hard time in reaching their audiences.

20 years of diminishing returns

Physical and digital album sales have collapsed, and streaming revenues are slim at best.

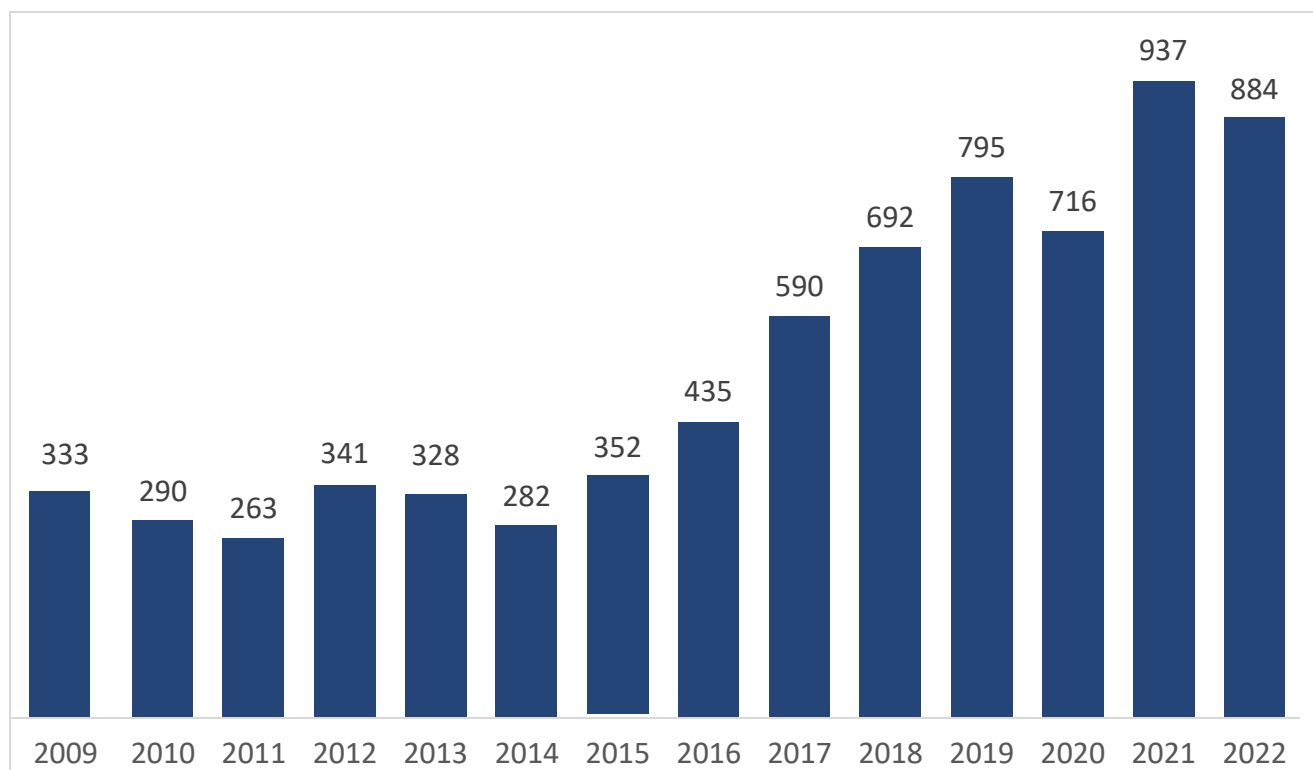
The effects of the newly amended *Broadcasting Act* will not be felt for a considerable time. Meanwhile, online music services remain under no obligation to showcase or financially support local production.

Since 2012, amendments to the *Copyright Act* have cost the industry tens of millions of dollars.

As they rise to these challenges, our businesses also have to keep up with considerable marketing and promotional demands to be able to compete in the big leagues and grow their digital business intelligence.

A Wide Selection Makes It Hard to Stand Out

Quebec album releases, 2009–2022



Source: ADISQ

The abundance of musical content is not limited to our market.

About 100,000 music tracks are downloaded from Spotify every day.

A few top stars, however, capture a share of streams.

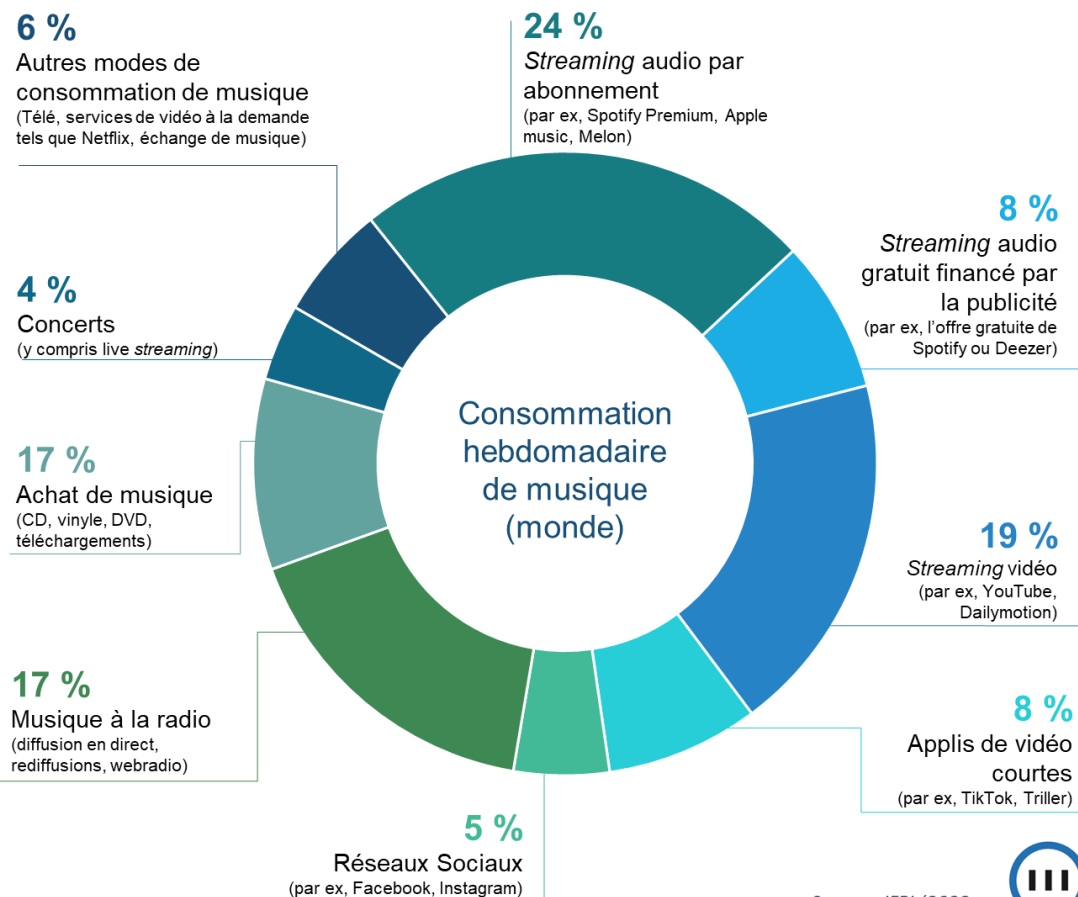
For performers working in a small market, standing out can be a challenge.

Changing Listening Practices are Challenging Cost-effectiveness

Our companies not only work in a business environment where competition is increasingly fierce, they also have to deal with more complex and diverse listening practices.

Revenues are limited, and reaching audiences is more complicated than ever.

Higher investments are yielding lower returns.



FRENCH	ENGLISH
Consommation hebdomadaire de musique (monde)	Weekly Music Consumption (Worldwide)
24 % <i>Streaming</i> audio par abonnement (par ex, Spotify Premium, Apple music, Melon)	24% Subscription audio streaming (e.g., Spotify Premium, Apple Music, Melon)
8 % <i>Streaming</i> audio gratuit financé par la publicité (par ex, l'offre gratuite de Spotify ou Deezer)	8% Ad-supported audio streaming (e.g., ad-supported tiers of Spotify and Deezer)
19 % <i>Streaming</i> vidéo (par ex., YouTube, Dailymotion)	19% Video streaming (e.g., YouTube, Dailymotion)

8 % Applis de vidéo courtes (ex., TikTok, Triller)	8% Short-form video apps (e.g., TikTok, Triller)
5 % Réseaux sociaux (ex., Facebook, Instagram)	5% Social media platforms (e.g., Facebook, Instagram)
17% Musique à la radio (diffusion en direct, rediffusions, webradio)	17% Music on the radio(broadcast live, catch-up, Internet radio stations)
17 % Achat de musique (CD, vinyle, DVD, téléchargements)	17% Purchased music (CDs, vinyl, DVDs, digital downloads)
4 % Concerts (y compris live <i>streaming</i>)	4% Live music (including livestreaming)
6 % Autres modes de consommation de musique (Télé, services de vidéo à la demande tels que Netflix, échange de musique)	6% Other forms of music listening (TV, on-demand video services like Netflix, music swapping)

Source: IFPI (2022)

Live Performances are Making a Difficult Comeback

- COVID was a significant blow to our already shrinking live performance sector.
- Audience behaviour has changed. The slow return to theatres is affecting emerging artists and representatives. Because audience members are unsure what might happen in the near future, they buy fewer tickets and/or increasingly wait until the last minute. This situation creates uncertainty.
- Lastly, our producers are competing against international shows with enormous budgets.

High-risk projects face a heightened threat

Riskier projects are most vulnerable in this situation, including:

- **Francophone productions**
- **Original productions**
- **Emerging artists**
- **Niche artists**

The diversity and sustainability of our musical landscape hangs in the balance.

A Challenging Economic Situation Affecting our Businesses and Their Margins

A labour shortage affecting the music industry

Every sector is confronting labour shortages made worse by COVID, and the music industry is no exception. The total shutdown caused many people to leave the industry, quite a few of them for good. Whether in administration, accounting or communications, no sector has gone untouched, and business operations are paying the price.

Faced with rising wages (including hikes of 15% to 20% in some fields), small, independent businesses operating with limited resources are having a hard time attracting workers.

This problem is compounded by the fact that attracting a skilled workforce is vital to stay competitive, especially in a digital world.

Inflation: the “price scissors” effect

Inflation has hit our industry hard. The cost of daily operations and performances has spiralled (raw materials, travel and technicians), while margins remain extremely tight.

At the same time, generating more revenues is difficult. Sound recording revenues are dismal, and as far as French-language concerts go, the margin for raising ticket prices is zero.

According to the Observatoire de la Culture et des Communications du Québec, in 2019, the average price of a ticket to a French-language concert was \$34, compared to \$61 for an English-language concert. In 2021, the average price of a ticket to a French-language concert was \$33, compared to \$71 for an English-language show. Despite the higher costs, the price of French-language concert tickets has barely changed, while big-name productions are charging astronomical ticket prices.

Finally, inflation could cause families to focus their spending more on basic needs and less on culture and recreation.

A Situation Requiring Long-Term Support for Our Industry

- **Pressure on the Musicaction foundation is affecting support for the French-language music industry**

Musicaction’s financial difficulties partly result from the termination of the emergency measures, the non-renewal of the Creative Export Strategy mandate, and lower broadcaster contributions, as the adoption of Bill C-11 will take time to make an impact. Furthermore, the \$10-million extension of annual funding will end in the current fiscal year (2023–2024). In its 2023–2024 budget, **Musicaction had to reduce its funding to recipients** to protect the fund’s medium-term financial sustainability.

- **Supporting a business model that serves our ecosystem**

The current context clearly shows that our businesses need the kind of predictability that comes with appropriate and stable support. This support should consist of **production and especially marketing assistance** to help our businesses stand out in a crowded market and stand up to foreign competitors with deep pockets.

Considering the difficult circumstances facing our businesses, they need **sufficient resources** to set themselves apart and engage in long-term talent development.

- **Develop leading-edge expertise that serves artists**

This support should also **contribute to the operations of businesses** that employ skilled teams and that support the career development of a critical mass of artists, considering their higher human resource costs and needs.

- **Adequate support for live shows**

Connecting with audiences during shows through products with audience appeal is vital. As margins become increasingly tight, show producers need **adequate production and marketing resources** to develop, promote and tour with a high-quality product.

Call for a Healthy and Diverse Ecosystem in Challenging Economic Times

Increase “annual contributions to the Canada Music Fund to ensure better and more stable funding for the music sector” to **\$60 million by 2024–2025**.

- Recommendation 1: Financial support for **the production and marketing of recorded music: \$30M**
- Recommendation 2: Additional financial support for **the production and marketing of shows**, especially of benefit to emerging artists: **\$12M**
- Recommendation 3: Additional financial support for operations aimed at **workforce retention and training: \$12M**
- Recommendation 4: **Export** support: **\$6M**

Distribution according to the historical ratio of 40% for Musicaction and 60% for FACTOR. These requests represent \$24 million for the French-language market.