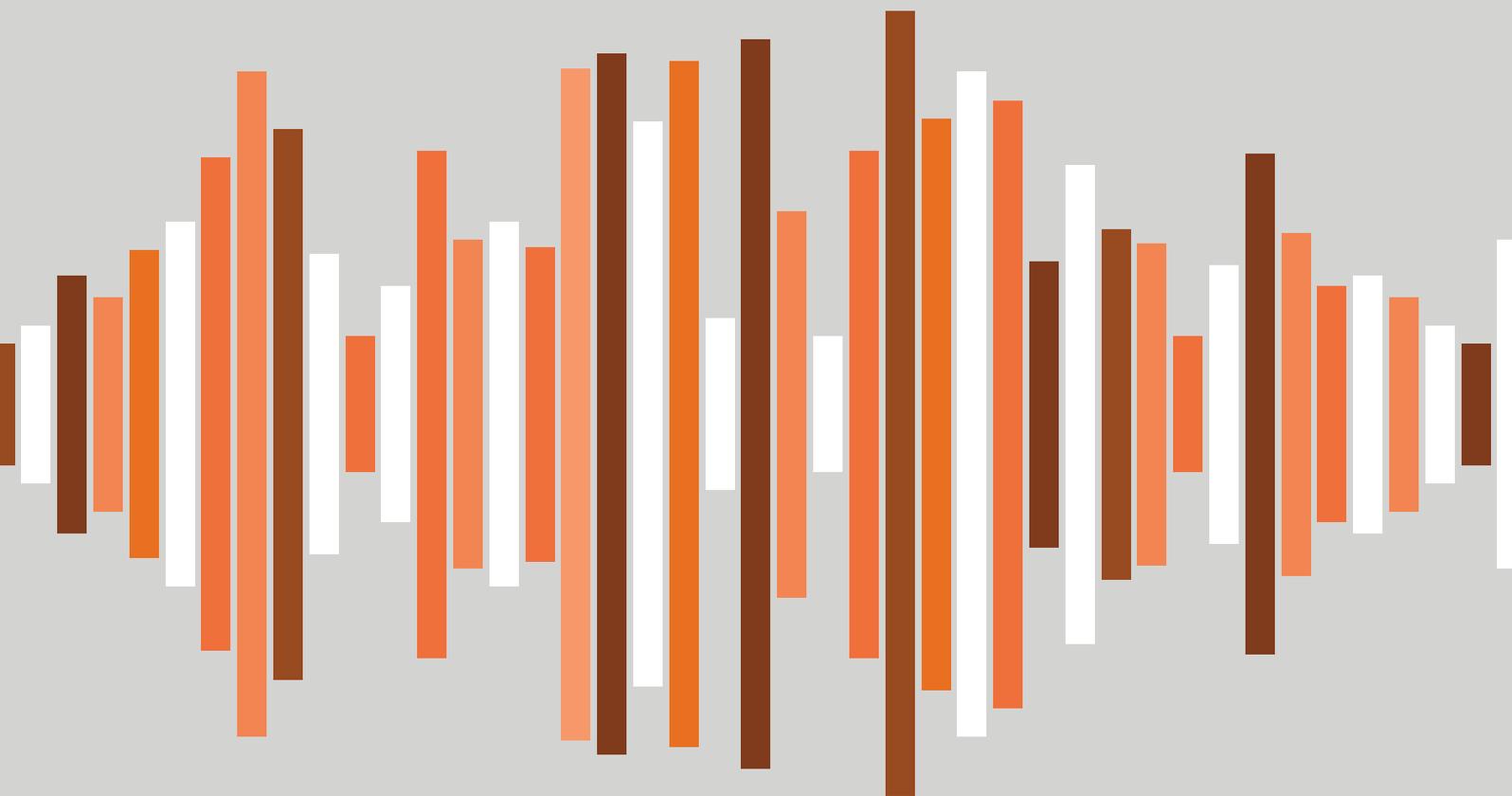


MEASURING MUSIC: METHODOLOGY

2018 REPORT



1. METHODOLOGY

2. DEFINITION

3. APPLYING METHODOLOGY TO THE CORE DEFINITION

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

The methodological steps that have been followed are:

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.

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.

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.

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.

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.

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

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.¹

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.

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.

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.

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).²

In *Measuring Music*, 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

This project has identified and overcome a number of methodological challenges. 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.

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?

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.

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.

Due to unprecedented engagement by the music industry, we have significantly increased the number of survey responses and raw data that this analysis is based upon compared with previous years. In particular, the number of surveys completed by musicians as consistently increased - from 250 in 2014 to 1,007 this year. We complemented these survey responses with anonymous responses from a number of accountants to leading musicians, which is a data source that we did not access in 2013. Moreover, our analysis of the live music industry crucially depends upon accessing ticketing data and from 2014, we were able to draw upon ticketing data held by the BBC for live music events (e.g. the BBC Proms). We are grateful to all those who have shared their data with us to enable this analysis. 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.

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.

¹ <http://www.detini.gov.uk/deti-stats-index/stats-surveys/stats-annual-business-inquiry.htm>

² <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>

GVA

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.

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.

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 poor fit 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.

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.

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.

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.

In the case of some parts of the core - musicians, collecting societies, trade bodies and some parts of the live sector³ - 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

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.

This employment data has 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.

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 was taken from other sources, e.g. BPI provided data on employment by record labels.

³ 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.

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.

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.

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.

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.

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

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”.⁴

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.

In respect of the SOC the ONS state that it is “a common classification of occupational information for the United Kingdom”.⁵ Thus, while the SIC divides the economy into different industries, the SOC divides the

⁴ <http://www.ons.gov.uk/ons/guide-method/classifications/current-standard-classifications/standard-industrial-classification/index.html>

⁵ <http://www.ons.gov.uk/ons/guide-method/classifications/current-standard-classifications/soc2010/index.html>

workforce into different occupations.

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.

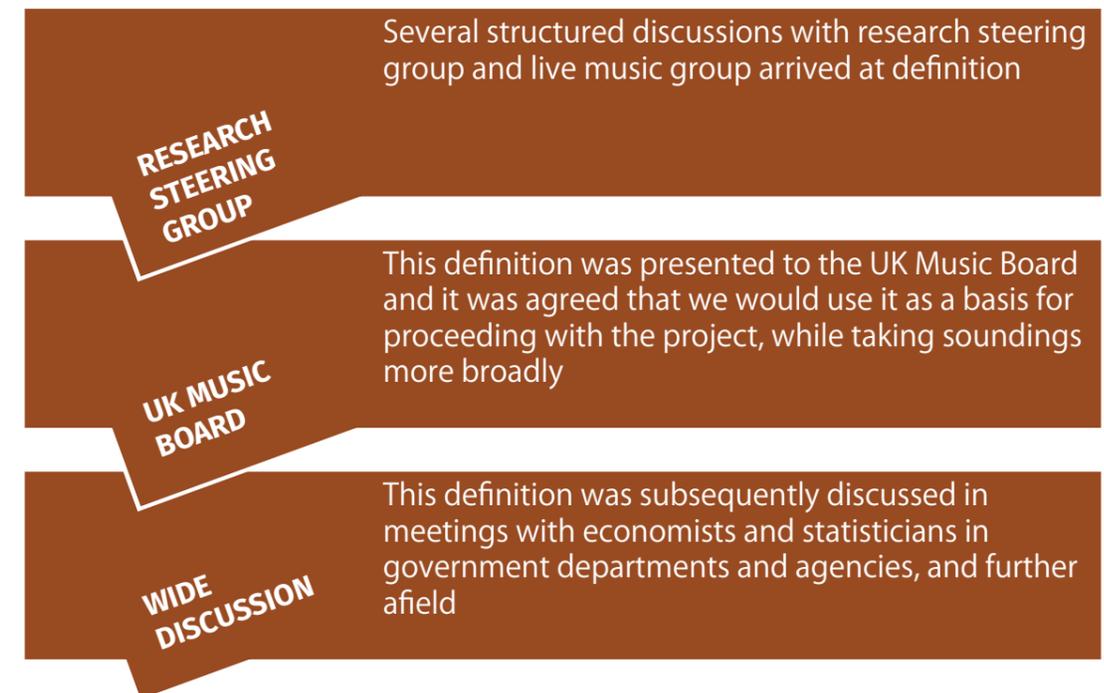
Music is also grouped with the visual and performing arts. These are quite different kinds of activity. They have different audiences, workforces and cultural footprints. Yet grouping music with them means that the output of music is not disaggregated from them in the data presented by DCMS and ONS. Demos has also commented upon these problems.⁶

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.

PROCESS FOR GENERATING DEFINITION

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

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.

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 composition⁷
- **Commercial asset 3:** A live musical performance
- **Commercial asset 4:** An artist him or herself (as a brand, reputation or image)

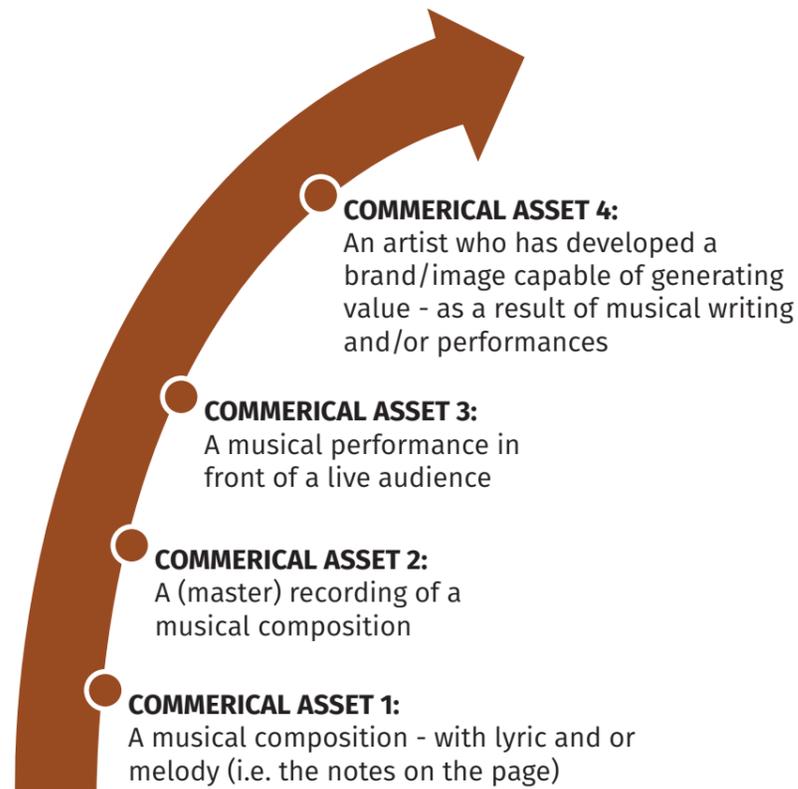
There are two kinds of relationship to these commercial assets that justify inclusion in the core of the music industry:

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.

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.

DIAGRAM 2: TYPICAL RELATIONSHIP BETWEEN COMMERCIAL ASSETS



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.

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.

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.

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

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

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

TABLE 1: THEMATIC GROUPS WITHIN THE CORE MUSIC INDUSTRY

THEMATIC GROUPING	ELEMENTS OF THE CORE
Musicians and singers, composers, songwriters and lyricists	<ul style="list-style-type: none"> • Artists, Musicians, Singers • Composers, songwriters, lyricists
Recorded Music	<ul style="list-style-type: none"> • Record labels • Online music distributors • Design and production of physical product and packaging
Live Music	<ul style="list-style-type: none"> • 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 Publishers	<ul style="list-style-type: none"> • Pop music publishing • Printed music - Classical • Grand rights
Music Representatives	<ul style="list-style-type: none"> • Collecting societies • Music managers • Music trade bodies
Music Producers , Recording Studios and Staff	<ul style="list-style-type: none"> • Music Producers • Recording Engineers

WIDER MUSIC INDUSTRY

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.

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.

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

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

UK Music worked with BASCA, PRS for Music, PPL 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

We surveyed BASCA, PRS for Music, PPL 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 survey to an estimate for the UK as a whole. The survey had 1,007 responses, and in addition we had aggregated and anonymised responses from a number of accountants of leading musicians. 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

The 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

The survey found the average earnings of the respondents given our measure of total revenues, implies that there are 81,153 professional musicians as a full-

time equivalent (FTE) based in the UK.

RECORD LABELS

REVENUES GENERATED

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

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

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

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.

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

EXPORTS

These were taken from the BPI measure.

EMPLOYMENT

Similarly, employment is as reported the BPI.

ONLINE MUSIC DISTRIBUTORS

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

Online Music Distributors generate revenues from the following activities:

- Deliver content
- Sales and marketing
- Royalty consolidation
- GVA

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.

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.

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

EXPORTS

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

EMPLOYMENT

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

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

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

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 2017 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

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

EMPLOYMENT

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 2017.

LIVE MUSIC

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

In addition, research by FRUKT on behalf of PRS for Music measures live music sponsorship.⁸

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

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

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

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

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

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.

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.

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.⁹

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

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

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

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

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

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

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.

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. 238 PSA members responded to this survey. The *PRS for Music* data told us the total number of live music events in the UK in 2016 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

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

EMPLOYMENT

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

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

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

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

EMPLOYMENT

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

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

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

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

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

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

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 75% of the UK music publishing market.

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.
- Publishers that specialise in printed music/classical music.
- Publishers that specialise in grand rights licensing.

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.

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

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

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

DATA

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

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

EXPORTS

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

EMPLOYMENT

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

PPL

REVENUES GENERATED

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

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

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

EXPORTS

These are the international royalties collected by PPL.

EMPLOYMENT

This is an employment measure provided by PPL.

MUSIC MANAGERS

REVENUES GENERATED

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

The revenues of these managers were estimated by combining the results of the MMF survey with our results on revenues to musicians. 67 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

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 2018 to estimate the total employment contribution of music managers.

MUSIC TRADE BODIES

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

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

EXPORTS

Trade bodies do not contribute directly to exports.

EMPLOYMENT

This is an employment measure provided by the trade bodies.

MUSIC PRODUCERS, RECORDING STUDIOS AND STAFF

REVENUES GENERATED

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

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. 93 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

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.

ACKNOWLEDGEMENTS

EMPLOYMENT

The MPG survey told us the average earnings in 2017 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.

PUBLISHED 2018

Throughout this project we have received support from all parts of the music industry with this research. Without their collaboration and enthusiasm this report would not be possible.

Each member of UK Music has granted us access to their data and permission to survey their own membership directly. In addition, accountants of some of the UK's leading music acts have provided unprecedented insight into their clients' earning structures.

We are grateful for the information from the Entertainment Retail Association (ERA) and to Audiencenet for their analysis of the music streaming market.

We are pleased to continue working with the Intellectual Property Office (IPO), The Department for Digital, Culture, Media and Sport (DCMS) and the Office for National Statistics (ONS) on this project.

We are especially grateful to the ONS for allowing us access to the Virtual Microdata Lab (VWL) which has enabled us to apply a bespoke methodology for the calculation of the music industry's GVA.

The project is managed by **Natalie Williams**, Head of Research at UK Music. A full methodological statement can be found on the UK Music website.

UK MUSIC MEMBERS

- Association of Independent Music (AIM)
- British Academy of Songwriters, Composers and Authors (BASCA)
- BPI
- FAC (Featured Artists Coalition)
- 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)
- Music Venues Trust

