

given to those music businesses refused finance at start-up and development was that of 'too high risk'. Only 4% of bankers disagreed that 'businesses in the music industry represent a higher credit risk than other types of business'.

Despite this, 68% of bankers agreed that 'our branch welcomes applicants for credit/finance from businesses in the music industry'.

It is significant that the most wide-spread reason given to those music businesses refused finance at start-up and development was because of being "too high risk". Whereas 29% of music businesses refused finance at development were given this reason, this compares to just 18% of small businesses generally.

There is clearly a lack of knowledge about the real nature of risk associated with the music industry. More work could usefully be done by the industry to explain the difference between the relatively high risk attached to signing and establishing a new artist and the relatively modest risk attached to, for example, exploiting established catalogue.

### **Industry Image is not an Issue**

The majority of music businesses questioned disagreed with the statement 'financiers do not view the music industry as a 'serious' business. Bankers questioned gave a similarly mixed response. There appears to be no major difference here from the breakdown of small businesses in many other service sectors.

## **STRUCTURE OF THE MUSIC INDUSTRY**



### **Barriers to Entry and Exit**

There is a 'chicken and egg' problem facing new businesses in the music industry. Without a track record indicating success, there is little opportunity to reassure potential investors of unknown musicians/management, and so gain the required finance to build careers and catalogues.

The distribution of music firms' annual turnovers was shown to follow the 'hourglass' shape that is characteristic of cultural industries in general (i.e. many small businesses and some very powerful large businesses, but few medium-sized firms). A 'glass ceiling' seems to make it difficult for small firms to develop into medium or larger-sized businesses. The reasons for this may include management anxiety about growing any bigger, and a desire for early exit routes.

## Sectoral Differences

Whilst there are obvious differences in the activities carried out by different sectors of the music industry, these differences do not translate to markedly different characteristics in terms of accessing finance.

The research indicated that music industry sectors have similar uses of finance, and similar problems accessing it.

Artist managers were the most likely to be refused finance at start-up, and record companies at development.

One significant sectoral factor is the importance of A&R and marketing as key areas of expenditure, in particular for record companies, managers and concert promoters. These types of expenditure are seen as less 'bankable' given the difficulty in quantifying the associated return.

The live music circuit has been seen to reduce in size over the last ten years or so, which has had an impact on the industry as a whole. (DCMS is working with the industry separately to identify and act on ways in which to foster talent in the UK.)

The increasing availability of competitively priced recording equipment has radically altered the way in which recording services businesses operate. Many studios have been forced to scale down their enterprises, or re-focus towards mastering suites and post audio production.

## The Internet

Contrary to popular perceptions of the music industry as being slow to respond to the challenges of new technology, the research emphasised the increasingly widespread use of the Internet for promoting and informing, as well as distributing music.

Overall, the music industry has a larger adoption of websites than the small business sector as a whole. The increasing sophistication of online technology has also had the effect of introducing the music industry to a new set of business managers, whose backgrounds can be seen to facilitate dialogue with finance-providers. For these new entrepreneurs, the perceived 'culture gap' is not an issue.



## DOES LACK OF ACCESS TO FINANCE ACT AS A BARRIER TO GROWTH FOR MUSIC SMEs?

not significantly higher than for small businesses in other industries, it seems that lack of access to finance, whether perceived or real, is a problem that music industry SMEs share with small businesses in other sectors. The good news is that the music industry appears to have a generally positive outlook about its future. It is notable, for example that aspirations for future growth do not seem to be unduly restricted by current funding levels. Indeed, intended future uptake of both equity and debt finance is not based explicitly on current patterns of use. In particular, music businesses' expectations of future growth emphasised plans to use equity finance at a higher level than recorded currently.

Whilst overall refusal rates for music companies are no higher than for the rest of the small business sector, the research outlines a number of specific features of the music industry which have resulted in lower use of bank finance.

Half of those music businesses questioned considered lack of access to finance to be a significant barrier to the growth of their own businesses. Considerably more (78%) felt it was a significant barrier to growth in the industry, emphasising the extent to which perceptions about finance in the industry can override personal experience. Given that overall refusal rates are

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## USEFUL CONTACTS

### DCMS

2-4 Cockspur Street  
London SW1Y 5DH  
Tel: 020 7211 6200  
web: [www.culture.gov.uk](http://www.culture.gov.uk)

Small Business Research Centre  
Kingston University  
Tel: 020 8547 2000 extn: 5506  
web: [www.kingston.ac.uk/sbrc](http://www.kingston.ac.uk/sbrc)

### Banks/Finance Sources

Allied Irish Banks  
web: [www.aib.ie/global](http://www.aib.ie/global)

Bank of England  
web: [www.bankofengland.co.uk](http://www.bankofengland.co.uk)

Bank of Ireland  
web: [www.bankofireland.ie](http://www.bankofireland.ie)

Bank of Scotland  
web: [www.bankofscotland.co.uk](http://www.bankofscotland.co.uk)

Barclays Bank plc  
web: [www.barclays.co.uk](http://www.barclays.co.uk)

British Bankers Association  
web: [www.bankfacts.org.uk](http://www.bankfacts.org.uk)

British Venture Capital Association  
web: [www.bvca.co.uk](http://www.bvca.co.uk)

Clydesdale Bank  
web: [www.cbonline.co.uk](http://www.cbonline.co.uk)

Co-operative Bank  
web: [www.co-operativebank.co.uk](http://www.co-operativebank.co.uk)

First Trust Bank  
web: [www.ftbni.com/ft/home/](http://www.ftbni.com/ft/home/)

HSBC Group  
web: [www.hsbc.co.uk](http://www.hsbc.co.uk)

Lloyds TSB Group  
web: [www.lloydstsb.co.uk](http://www.lloydstsb.co.uk)

National Business Angels Network  
web: [www.nationalbusangels.co.uk](http://www.nationalbusangels.co.uk)

National Westminster Bank plc  
web: [www.natwest.co.uk](http://www.natwest.co.uk)

Royal Bank of Scotland  
web: [www.rbos.co.uk](http://www.rbos.co.uk)

Ulster Bank  
web: [www.ulsterbank.com](http://www.ulsterbank.com)

### Trade Associations

Association of Independent Music  
Lamb House  
Church Street  
London, W4 2PD  
Tel: 020 8994 5599  
Fax: 020 89945222  
web: [www.musicindie.org](http://www.musicindie.org)

British Music Rights  
British Music House  
26 Berners Street  
London, W1T 3LR  
Tel: 020 7306 4446  
Fax: 020 7306 4449  
e-mail: [britishmusic@bmr.org](mailto:britishmusic@bmr.org)  
web: [www.bmr.org](http://www.bmr.org)

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web: [www.bpi.co.uk](http://www.bpi.co.uk)

Music Managers Forum  
1 Glenthorne Mews  
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Music Publishers Association  
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Fax: 020 7839 7776  
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web: [www.mpaonline.org.uk](http://www.mpaonline.org.uk)

### Musicians Union

60/62 Clapham Road  
London, SW9 0JJ  
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web: [www.musiciansunion.org.uk](http://www.musiciansunion.org.uk)

### Business Support

National Business Link Contact Centre  
Tel: 0845 600 9006  
web: [www.businesslink.org](http://www.businesslink.org)

London Business Link  
6 New Bridge Street,  
London, EC4V 6AB  
Tel: 0845 6000787  
Fax: 020 7010 0000  
e-mail: [hotline@bl4london.com](mailto:hotline@bl4london.com)  
web: [www.bl4london.com](http://www.bl4london.com)

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Tel: 0141 248 2700  
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web: [www.scottish-enterprise.com](http://www.scottish-enterprise.com)

Business Connect Wales  
Principality House  
The Friary  
Cardiff, CF10 3FE  
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Fax: 029 2082 8775  
e-mail: [executive@businessconnect.org.uk](mailto:executive@businessconnect.org.uk)  
web: [www.businessconnect.org.uk](http://www.businessconnect.org.uk)

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Ledu House  
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