



Department for Culture, Media and Sport

SME Music Businesses: Business Growth
and Access to Finance

Final Report

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1 Executive Summary

This is a report of an online survey of 339 small and medium-sized enterprises in the music industry in England¹. The survey was commissioned by the Department for Culture, Media and Sport (DCMS) in July 2005 and undertaken by the Burns Owens Partnership (BOP). The survey process was assisted by the Music Business Forum (MBF), the umbrella body for the UK's music industry trade associations.

The survey builds on earlier survey research commissioned by DCMS in 2001, *Banking on a Hit*, which focused on the ability of music business SMEs to access finance. The present survey seeks to widen the debate by placing the issue of access to finance within the overall context of business growth and company development.

Characteristics of music business SMEs

- *Small but larger than SMEs in general*: the businesses are predominantly sole traders or micro businesses (1-9 employees), though the size profile in terms of employees is slightly larger than that of SMEs in general in the UK
- *Portfolio working*: a quarter of the music businesses are engaged in income-generating activities outside of the music industry.
- *Multi-function enterprises*: boundaries between segments in the music industry value chain appear relatively fluid, with 31% of businesses undertaking three or more different activities.
- *Technology-mediated businesses*: digital technologies are becoming all pervasive across the music SMEs surveyed, more so than for SMEs in general. 85% of the music businesses have a website and 53% of those with a website are engaged in e-commerce, compared with 60% and 13% respectively for all SMEs.

Economic performance over the last 12 months

- *Employment growth*: a balance of only 7% of music business SMEs increased employment over the last year².
- *Small turnover*: there is a polarisation between a small number of music business SMEs with relatively large turnovers, and a

¹ This is an official classification that refers to businesses employing fewer than 250 employees.

² A 'balance' is a calculation of the percentage of businesses reporting an increase minus the percentage of companies reporting a decrease. It is a commonly used measure in surveys of businesses, particularly for tracking trends over time.

large number with small turnovers. This pattern differs from that of UK SMEs as a whole.

- *Mixed profit performance*: a balance of only 7% of music businesses made a profit over the last financial year. However, profitability is concentrated within the older businesses in the survey, and within businesses involved in performing/composing and arranging/promoting/management. Record labels and publishers struggled over the last financial year, with a balance of 7% these businesses making a loss.

Attitudes and barriers towards business growth

- *Strong intentions to grow*: 93% of businesses express an intention to grow their businesses over the next two to three years. This is a much higher proportion than among SMEs in general where only 47% were looking to grow over the same period.
- *Barriers to growth*: the most commonly reported factor is 'cash flow/lack of money' (66%), which is reported roughly twice as frequently by music businesses when compared to SMEs as a whole (32%). The next most commonly perceived barrier is the 'state/structure of the music industry' itself (53% of those looking to grow).
- *Perceived difficulties accessing finance*: of those music businesses seeking to grow, 34% stated that problems obtaining equity (34%) or debt finance (28%) are a barrier to growth. All other comparative survey evidence indicates that access to finance is a much smaller and declining problem for SMEs as a whole.
- *Perceived difficulties accessing the market*: of those businesses reporting that the 'state/structure of the music industry' is a barrier to growth, 72% state that 'the market power of the major record labels' is a barrier and 62% that 'the buying policies of the major retail outlets' are a barrier.
- *Concerns with digital files and formats*: some music business SMEs do perceive digital music to be a barrier to growth, but it is a more complex picture than simply a worry about piracy. The 'instability and uncertainties surrounding changing digital technologies and standards' (40%) is as likely to be reported as 'illegal downloading' (39%) and more so than 'piracy of hard copy formats' (29%).

Use and awareness of external finance

- *Low usage of debt finance*: only 30% of the music businesses surveyed had applied for any kind of debt finance over the last three years, of which the most common type was a bank

overdraft (27%). Available survey evidence indicates that the music businesses' usage of debt finance is well below that of UK SMEs as a whole.

- *Relatively low awareness of equity finance:* 61% of music businesses surveyed are aware of private sector venture capital, with only a slight majority (53%) aware of business angels.
- *Very few applications for equity finance:* only 9 businesses (2.7%) applied for equity finance over the last three years. However, even here, over half were for very small sums (up to £2,000), suggesting that in these instances what was actually being sought was a short term cash injection, rather than funds for sustained investment in the business.

Business and financial management skills and practices

- *Low levels of training, professional mentoring or coaching in business skills:* only 19% of the owners/managers have had any in their present position.
- *Formal business planning lacking:* a low proportion of the music businesses have formal business plans (29%). This proportion is higher among record labels and music publishers (38%), but still below the numbers of SMEs in general with a business plan (53%).
- *Little evidence of planning for skills and training needs:* only 3% of music businesses surveyed had formal plans for staff training and development, compared with 25% of SMEs in general.
- *Lack of awareness of the value of using basic budgeting and forecasting processes:* only 61% of the music business stated that they find budgets and forecasts useful in the running of their businesses.
- *Lack of financial goals:* despite a widely expressed desire for business growth, only just over half of the music businesses surveyed state that they have clear financial goals for their business (54%).

Conclusions and implications for business support

The findings of the survey raise a number of concerns about the economic performance of the music business SMEs.

- Owner/managers possess relatively low levels of skill in financial and business management and demonstrate limited awareness of/interest in establishing basic business processes around planning, budgeting and forecasting.
- In many cases, there seems to be a gap between the music business SMEs' subjective ambitions and perceptions of the

challenges that they face, and the objective business challenges that they face.

- If this gap persists, it seems likely that many of the music businesses will continue to struggle with the day-to-day running of their businesses, have low profitability and will not be able to achieve their (laudable) ambitions for commercial and, arguably, creative growth.

Implications for business support

- Most of the businesses in the sector would benefit from relatively basic business support, particular around financial skills and management practices.
- There may also be a role for business support related specifically to e-commerce, given its present and future importance for the industry, and the difficulties some music firms have expressed related to the capacity, skills and costs involved in expanding/starting e-commerce.
- Access to equity finance is not an issue that genuinely affects the vast majority of businesses in the music industry. It does, though, remain important to a very small minority of companies and these enterprises are likely to have strong growth potential.
- It is therefore important for those looking to grow and support the sector to be able to identify these companies in order to target specialist support services that will underpin their development and growth.

2 Introduction

In July 2005, the Department for Culture, Media and Sport (DCMS) commissioned the Burns Owens Partnership (BOP) to undertake an online survey of small to medium-sized enterprises (SMEs)³ in the music industry in England. The survey process was assisted by the Music Business Forum (MBF), the umbrella body for the UK's music industry trade associations.

The UK is the third largest market in the world for sales of recorded music, accounting for 10.4% of the global market in 2004⁴. The industry in the UK (as internationally) is dominated by a number of large multinationals – Warners, EMI, Universal, and Sony BMG. However, as DCMS states, '90% of music businesses can be classified as SMEs'⁵ and it is this bedrock of small businesses that has been the foundation of the UK's economic success in music. Clearly, then, the continued vitality and commercial sustainability of music business SMEs is crucial to maintaining the UK's strength in this sector.

In relation to this, the DCMS commissioned a report in 2001, *Banking on a Hit*, that examined the issue of access to finance for music business SMEs and how it affected their ability to grow. *Banking on a Hit* provided equivocal evidence for the degree to which difficulties accessing external finance hinders the development of SMEs in the music industry. The report found that while music business SMEs do face some distinct challenges in accessing finance, 'music businesses are choosing not to seek external finance rather than being prevented from using these sources.'⁶

The present survey seeks to widen the debate by placing the issue of access to finance within the overall context of business growth and company development. This means looking at other factors that may inhibit growth (skills, demand, technology, entrepreneurial motivation, market structure etc.), as well using some benchmarks that investors and other financial institutions would look at to determine the 'investment readiness' of a business. This enables a more rounded assessment to be made of how access to external finance features in relation to the overall commercial development and growth of SMEs in the music industry.

³ This is an official classification that refers to businesses employing fewer than 250 employees.

⁴ BPI (2005) *Statistical Handbook 2005*.

⁵ DCMS music website at http://www.culture.gov.uk/creative_industries/music/

⁶ Quote taken from the Executive Summary of the survey report upon which *Banking on a Hit* was based (Wilson, Stokes and Blackburn, 2001).

The approach adopted in the present survey is one that has been developed and used in relation to surveys of other SMEs in the UK's creative industries. In particular, the report makes direct comparisons (where appropriate) with the findings from a survey of SMEs in the independent TV and film production sector that was also carried out during 2005, and that uses some of the same questions⁷. The survey findings have also been compared with those from *Banking on a Hit* where appropriate. In addition to these 'sector-specific' comparisons, surveys of SMEs in general have also been drawn upon in the following analysis, principally the Small Business Service's (SBS) *Annual Survey of Small Businesses*.

2.1 Methodology and analysis

The questionnaire for the online survey was devised by BOP, the DCMS and MBF members. The survey was tested and piloted, before being going live in October 2005. Dissemination and publicity for the survey was undertaken in the form of:

- emails to the members of the individual trade bodies under the MBF
- publicity in the music trade press (e.g. Music Week)
- links to the survey from the websites of DCMS and MBF members

The precise scope of music activities to be included within the sample of businesses was agreed by DCMS and the MBF and is detailed in the Technical Appendix⁸, though more information is outlined below in Section 3.

An initial 410 responses to some part of the survey were generated. The responses were then checked to ensure they met the criteria of being a SME, being based within England, and trading in one or more of the music activities from the list agreed by DCMS and the MBF. After removing responses that did not meet these criteria and

⁷ This approach, named 'Creative Company Profiling' (CCP) has been developed by CCM Ltd, a joint venture between Pembridge Partners and BOP. The comparisons used in this report come from a survey of 92 independent TV and film production companies undertaken by CCM for Skillset (CCM, 2005, *Indie Business Development Scheme*, report for Skillset). CCP work has been undertaken for a range of other clients in England, e.g. Nesta/the Design Business Association (DBA), Northern Film and Media, Media Training North West, and Wired Sussex. However, other than the Nesta/DBA work (which was a small pilot – 25 businesses), the surveys were not as industry-specific as the present survey, therefore the Skillset survey represents the best comparator.

⁸ Due to difficulties in accurately establishing the size of the music business population as agreed for the project, the results of this survey are fully representative of the music businesses surveyed, not necessarily of the total music industry. More information on this issue is contained within the Technical Appendix.

cleaning the data for duplicates and 'spoiled' responses, the sample analysed in this report totals 339 music industry SMEs.

The data is analysed in a variety of ways. For all sections, results are provided for all music businesses surveyed. Where applicable, and where the sample size is large enough, the data has been analysed according to a number of sub-sectors within the music industry, as well as by size and type of business.

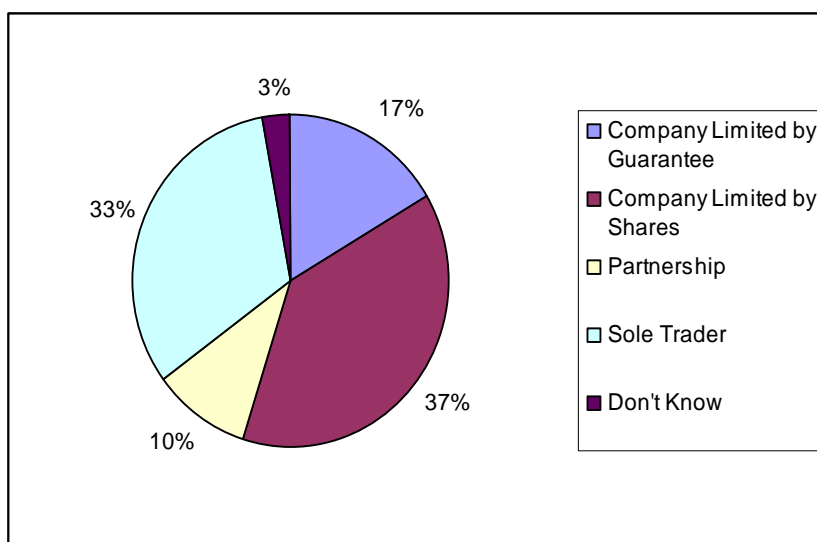
As this is an online survey, it was not possible to ensure that respondents answered all the questions that applied to them, meaning that for some questions, there was not a 100% response rate. When this is the case, we have used the valid percentage number and coded the other results as "missing". In all tables and graphs where this is the case the actual number of responses has been given.

3 Characteristics of music business SMEs

3.1 Type of business

Just over half (55%) of the music businesses surveyed are companies (either company limited by share or guarantee). A high proportion, one third, are sole traders and the remaining 10% are partnerships.

Figure 1: Music business SMEs, by company status



N = 316
 Source: Burns Owens Partnership (2005)

A quarter (25%) of all businesses surveyed are engaged in other income-generating activities outside of music. This number increases to over a third (38%) among sole traders. This indicates the extent to which, particularly for sole traders, working in the music industry can be just one of a 'portfolio' of activities that people undertake in order to earn a living.

3.2 Music activities

3.2.1 Range of music activities

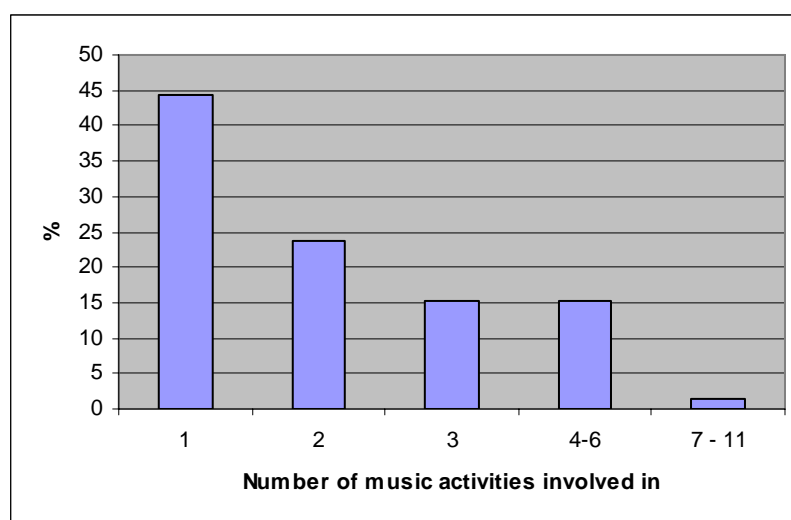
Respondents were asked to indicate what function within the music industry value chain they were engaged in, from a list of 12 possible activities:

- Musician/performer
- Arranging and composition
- Management and promotion

- Recording services
- Music studios/practice rooms
- Commercial music systems
- Record label
- Music publishing
- Instrument manufacture and repair
- Musical instrument and sheet music retail
- CD, DVD, vinyl and tape retail

Over half (56%) of the music businesses are involved in more than one music-related activity. 15% are involved in three different music activities and a further 15% involved in between 4-6 music activities. A very small minority (1%) are involved in more than half a dozen music-related activities. This indicates that the boundaries between many of the segments in the value chain are relatively fluid, as well the fact that small music businesses can be/need to be multi-functional enterprises.

Figure 2: Number of different music activities undertaken by music SMEs



N = 334
 Source: Burns Owens Partnership (2005)

3.2.2 Type of music activity

Figure 3 below details the type of music activities in which businesses are involved. Nearly half of the businesses are involved in some kind of ‘record label’ activity and just under a third involved in ‘music publishing’ to some degree. Another third are involved in some capacity in either ‘management and promotion’ or as a ‘musician/performer’.

The businesses engaged in more than one activity within the music industry value chain were asked to indicate which of their music industry activity represented the main activity (as measured by income). Having asked this question, the three main groups within the sample are record labels (29%), management and promotion (21%) and musician/performer, arranger/composer (22%). Less than a third of the businesses fall outside of these three types of activities. This spread of activities is similar to *Banking on a Hit* in which 29% of businesses stated that record producing was their main activity, 15% music publishing and 24% artist management.

It is not possible to undertake sub-sectoral analysis of the survey results according to these 12 activities due to the small sample sizes. Therefore, in order to undertake some sub-sectoral analysis of the survey findings, the long list of activities (12 in total) has been aggregated into a smaller number of 'industry groupings'. These groupings contain businesses that are involved in music activities that are closely allied in terms of their function within the value chain and/or have similar business models. These industry groupings are therefore 'homogenous' enough to enable analysis as a distinct grouping. This is also indicated by the fact that businesses within these groupings are engaged in more than one of the constituent activities within the grouping. For example, 43% of record labels are also involved in music publishing (Commodification) and 60% of musicians are involved in composing (Talent).

Figure 4 below shows that the two main groupings in our sample are 'Talent' (42%) and 'Commodification' (39%). The other functional industry groupings – 'Infrastructure/Services' (7.5%), 'Retail/ Wholesale/Instrument manufacture (9%) – each account for far smaller numbers of businesses. The Talent and Commodification groupings are large enough to undertake separate analysis and where relevant, this report provides results for these groups.

Figure 3: Breakdown of music business SMEs, by industry function

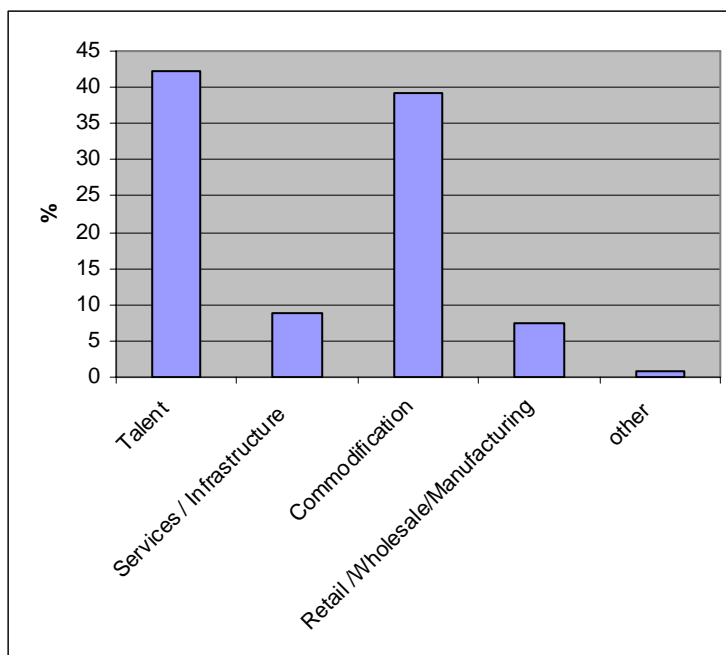
Grouping	Activity	Percentage	
		Main Activity	Any Activity
Creative talent	Musician/performer	12.2	32.2
	Arranging and composition	9.6	23.9
	Management and promotion	20.9	36.6
Infrastructure / Services	Recording services	5.1	18.9
	Music studios/practice rooms	2.7	9.4
	Commercial music systems	1.2	2.4
Commodification	Record label	29.0	48.7
	Music publishing	11.3	31.9
Retail/Wholesale/Manufacture	Instrument manufacture and repair	0.3	1.8
	Musical instrument and sheet music retail	1.8	3.2
	CD, DVD, vinyl and tape retail	5.4	12.7
	Other	0.6	0.9

N = 334

Source: Burns Owens Partnership (2005)

Respondents can give more than one answer so percentages do not equal 100

Figure 4: Breakdown of music business SMEs, by industry groupings



N = 334

Source: Burns Owens Partnership (2005)

3.3 Age and size of businesses

3.3.1 Age of businesses

As Figure 5 below illustrates, a significant number of the businesses are newly established businesses: 36% have been in existence for three years or less. This compares with only 15% of SMEs in the UK in general that have been established for three years or less⁹. Concomitantly, this means that there are comparatively fewer older businesses among those surveyed, with 37% having been established for more than 10 years compared with 60% across SMEs as a whole.

While this probably does reflect genuine differences in the industrial structure between music business SMEs and the general population of SMEs, the survey methodology may also be a factor here. This is because many other surveys – including the Small Business Service (SBS) survey – use sample frames (datasets) to identify respondents and sample frames under represent new businesses (as it takes time for new businesses to come to the attention of both government and commercial data companies and be included on databases). However, for this survey no sample frame was used, with the survey open to all music businesses, making it more likely that this survey will have captured new businesses as compared to other surveys.

Figure 5: Age of music business SMEs

Percent	
Less than one	10
One	10
Two	10
Three	6
Four	5
Five	9
6-10 years	13
More than 10 years	37

N = 327
 Source: Burns Owens Partnership (2005)

The age profile is also relatively consistent across the industry groupings. For example, in Commodification, 32% of businesses have existed for less than four years and 37% have existed for more than ten years. As the age of a business may impact on the

⁹ Small Business Survey (2004) *Annual Survey of Small Businesses: UK 2003*.

firm's ability for instance, to access to finance (i.e. they do not have enough years of audited accounts or have little track record and assets), where relevant, we have included results according to age of business.

3.3.2 Size of businesses

While the survey covered sole traders, micro businesses and small and medium-sized enterprises the vast majority of the businesses are either sole traders (33%) or micro businesses (54%). 8% were small businesses and only 1.3% of businesses that returned the questionnaire were medium-sized. This means that 90% of the music businesses surveyed employ between 0 and 9 employees.

Across all SMEs in the UK, the proportion employing between 0 and 9 employees is higher still, at 95%. The difference is starkest in relation to sole traders. So, while initially it may appear that the music sector seems to have a very high number of sole traders (one third) this is actually less than half the number that sole traders account for across SMEs in general in the UK (70%)¹⁰. Concomitantly, micro (57%), small (9%) and medium-sized music businesses (1.2%) are all 'over represented' in comparison to the distribution of these firms within all SMEs (25%, 4.5% and 0.7% respectively).

Once again, as the size of a business can affect its capacity to undertake particular activities, the survey results have also been analysed by size of business. Therefore where size of business seems to be an important factor separate results have been included.

As Figure 6 below shows, while micro businesses and sole traders may account for the significant majority of businesses, they account for under half of all employment in the music business SMEs in the survey. In contrast, the small businesses (10-49 employees) account for just over a third of all employment.

Two thirds of businesses have had no change in the number of employees in the last twelve months. Approximately 20% had 'increased a little' or 'a great deal', and 13% had 'decreased a little' or 'a great deal'. This means that overall, a balance of 7% of the businesses employed more people over the last year¹¹.

¹⁰ Small Business Survey (2004) *Annual Survey of Small Businesses: UK 2003*.

¹¹ A 'balance' is a calculation of the percentage of businesses reporting an increase minus the percentage of companies reporting a decrease. It is a commonly used measure in surveys of businesses, particularly for tracking trends over time.

Figure 6: Distribution of employment within music business SMEs, by number of employees

	% of Total Employed
0-9 employees	45
10-49 employees	36
50-249 employees	19

N = 309

Source: Burns Owens Partnership (2005)

4 Technology and skills

This section explores how music businesses use the internet for e-commerce activities. The results show that overall, the music businesses surveyed are relatively advanced in their use of online and digital technologies. However, a note of caution should be offered here in that this result may be higher than in the general music industry population because of the online nature of the survey (i.e. the businesses who replied to this survey had to have access to the internet and have basic computer/IT skills to complete it – which may therefore have under represented businesses which make less use of new technology.)

4.1 The internet and e-commerce

The centrality of IT/ICT to all forms of music businesses in the survey can be gauged by the fact that over 90% of music businesses surveyed stated that ‘investment in computer hardware and software’ was either ‘very’ or ‘quite important’ to the competitiveness of their business.

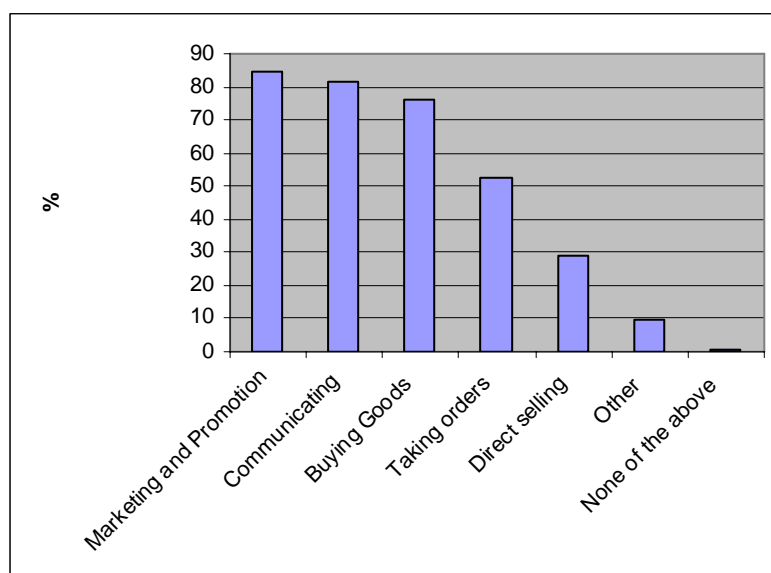
The vast majority of businesses (85%) have a website. This represents an increase of just over 25 percentage points from the figures reported in *Banking on a Hit* in 2001 where 58% of businesses had a website. Also, this 2005 figure is considerably higher than in the general SME UK firm base as a whole, where the latest available ONS data for 2004 shows that 30% of micro companies have a website, rising to 60% for all SMEs¹². Of the 53 music businesses which did not have a website, just under half are planning to establish one within the next six months.

¹² Office for National Statistics (2004) *Information and Communication Technology (ICT): Activity of UK Businesses*.

Figure 7 shows what activities the music businesses use the internet for. Over three quarters (77%) use the internet to purchase goods, for the general SME firm base this figure was considerably lower 49%. Just over half (53%) of all music businesses surveyed take orders for goods from the internet that are then fulfilled through a physical distribution system (e.g. an order for a CD or t-shirt). This is more than three times the national average for the general SME firm base where on average 13% of SMEs sold their goods over the internet¹³.

Perhaps more interesting is the number of businesses which now directly sell their products in a digital, downloadable format from their website. Overall, 29% of music businesses sell their products digitally, with this increasing to 44% of the record labels and publishers that make up the Commodification group.

Figure 7: Music business SMEs' use of the internet



N = 295
 Source: Burns Owens Partnership (2005)

New businesses are marginally more likely to be selling their products in a digital format, with over a third (35%) of the businesses that are less than five years old selling products digitally. This indicates that the barriers to establishing digital sales are relatively low, and perhaps also that new entrepreneurs within the music scene are likely to be more internet 'savvy' compared with more established businesses. Again, these results must be read in the context of the distribution of the survey, and the likelihood that these respondents are perhaps more likely to be ICT literate than the general music business population.

¹³ Again, UK SME figures in this paragraph provided by ONS (2004), *ibid*.

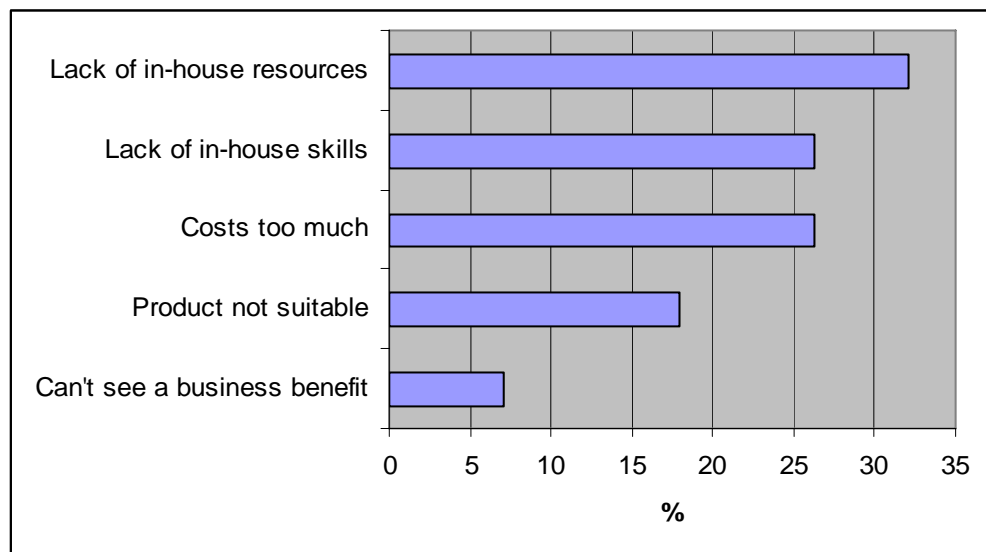
While a significant number of businesses surveyed are selling goods via the internet (either through physical distribution or digitally), at present, this still only accounts for a small percentage of total sales. Of the businesses which sell goods digitally, for approximately 75% of businesses, digital sales account for less than 25% of total sales. The numbers are similar for orders taken via the website and distributed physically, with this method of sales accounting for less than 25% of total sales for 60% of businesses.

Of the 129 businesses not currently using the internet for sales, 20% plan to start within the next six months. Over half (57%) of the 129 have no plans to start. This does not necessarily show unwillingness for the businesses to sell online, rather, many of these businesses are within the Talent group and what they are selling may therefore simply not be suitable for selling digitally.

4.2 Barriers to increasing e-commerce activity

Figure 8 below shows what the music businesses surveyed state are barriers to either increasing or starting e-commerce activity.

Figure 8: Barriers for music business SMEs to increasing/starting e-commerce activity



Source: Burns Owens Partnership (2005)
 Respondents can give more than one answer so percentages do not equal 100

The results show that overall the level of e-commerce activity is not primarily being constrained by a lack of product suitability or an inability to see a commercial advantage in e-commerce. Rather, it is a lack of in-house capacity, skills and resources that is holding back the increasing usage of e-commerce among the music businesses surveyed.

4.3 Training and staff development

Only 3% of music businesses surveyed had formal plans for staff training and development. 26% do have an ‘informal’ plan, but the vast majority of businesses (71%) had no plan at all. This proportion is significantly lower than within the UK’s SME population in general, where a quarter of businesses have a training plan (25%)¹⁴. But the figures for the music businesses are more comparable with other creative businesses. For instance, 66% of the independent TV and film production companies surveyed for Skillset in 2005 had no plans for training and staff development¹⁵.

Despite only 3% of the music businesses surveyed having a formal training plan, 13% have a budget for training. This proportion is much more comparable with UK SMEs as a whole (18%).

Figure 9: Music business SMEs paying for staff training

	Percent
Paid for Training	
Within the last month	10
Within the last three months	7
Within the last six months	8
Within the last twelve months	11
12 months ago or more	14
Never	50

N = 315
 Source: Burns Owens Partnership

As Figure 9 above shows, half of all music businesses have never actually paid anyone to have training, though almost a quarter (24%) have paid for someone to have training within the last six months. It should also be remembered when reading these figures that one third of the businesses surveyed are sole traders, who are unlikely to have training plans or budgets.

¹⁴ Small Business Survey (2006) Annual Survey of Small Businesses: UK 2004.

¹⁵ CCM (2005) *Skillset Indie Business Development Scheme*. It should be noted when reading comparisons with the Skillset survey that it was undertaken by businesses which were applying for a specific business support programmes (the ‘Indie Business Development Scheme’) rather than a survey of the general SME population in the industry (as is the case in the present music survey). Readers should be aware that this may have influenced the findings of this survey such that had the survey been completed from a random sample of SMEs in the film and TV production sector, the results may have differed from those generated by the sample applying to benefit from the Indie Business Development Scheme.

5 Business growth

This section explores music businesses' intentions to grow over the short to medium term (two to three years). Measuring intentions to grow is important as it gives a clear indication of respondents' objectives for their businesses, regardless of factors which may inhibit growth.

Perhaps surprisingly, the vast majority of all the music businesses surveyed (93%) express an intention to grow their businesses over the next three years. To put this in context, it is a much higher proportion than among SMEs in general in the UK, where only 47% were looking to grow over the next two to three years¹⁶.

As Figure 10 below shows, the majority of businesses surveyed are looking to grow through 'increasing turnover', 'introducing new products/improving existing ones' and 'expanding UK markets'. Further, 55% of music businesses surveyed are looking to grow through 'moving into new international markets'. This seems a high proportion of firms, though comparisons are hard to find. It may be that the relatively advanced usage of e-commerce by music business SMEs is an important factor in expectations related to increasing international markets.

Figure 10: How music business SMEs are looking to grow their businesses in the next three years

	Percent
Increased turnover	76
Introduced new products	74
Expand UK markets	70
Move into new international markets	55
Don't Know	1
Other	5

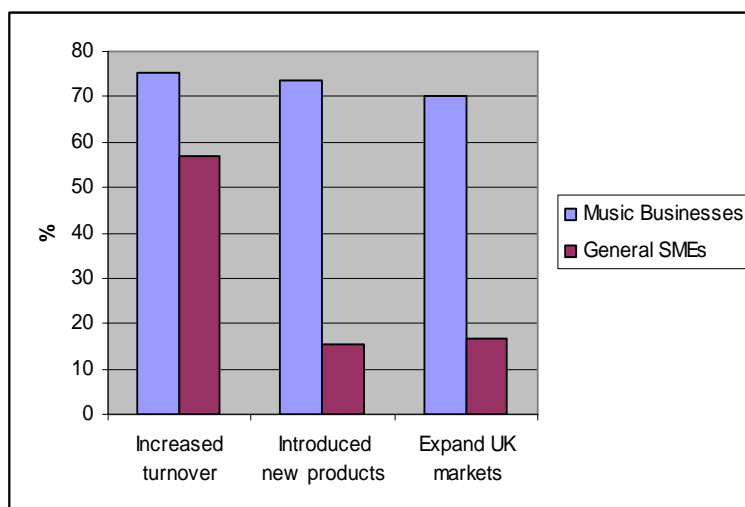
Source: Burns Owens Partnership (2005)
 Respondents can give more than one answer so percentages do not equal 100

Figure 11 below compares the results for the music industry businesses surveyed against those for all SMEs. The figure indicates that the proportions of music businesses surveyed looking to introduce new products or expand existing ones (74%) is far higher than across all SMEs, where less than 20% are looking to do the same¹⁷.

¹⁶ SBS (2004), *op cit.*

¹⁷ SBS (2004), *ibid.*

Figure 11: Means of achieving growth, music business SMEs and all UK SMEs

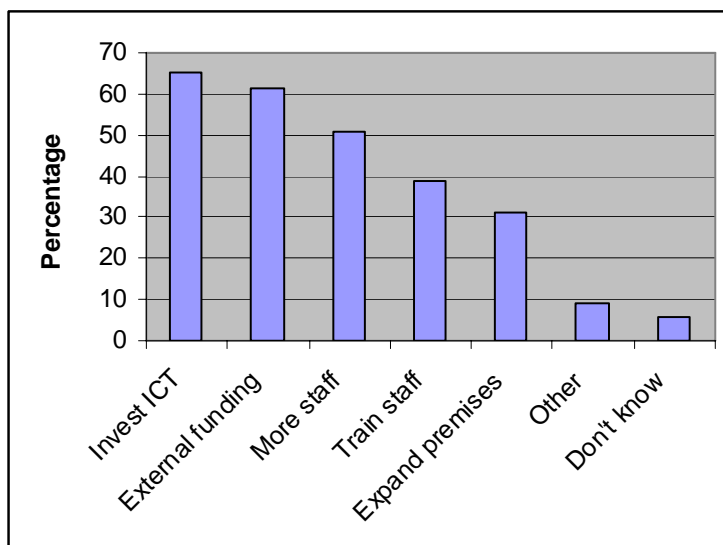


Source: Burns Owens Partnership (2005)
 Respondents can give more than one answer so percentages do not equal 100

This should be interpreted with the understanding that in the music industry, a new album or even a new song can constitute a new product. Thus the inherent rapid turnover of products in the sector may well account for the significant disparity with figures for SMEs in general.

Respondents stating an intention to grow were then asked what was needed to achieve this growth. Once again, the central importance of IT and digital technologies to the sector can be seen in the fact that the single most commonly stated factor required to achieve business growth in the next three years would be ‘investing in ICT’ (65%). 61% stated that ‘external funding or borrowing’ would be required and a further 51% reported that hiring more staff would be necessary to grow their business. Only a very small minority (6%) stated that they wanted to grow but did not know how to achieve it.

Figure 12: Factors required to achieve growth for music business SMEs



Source: Burns Owens Partnership (2005)
 Respondents can give more than one answer so percentages do not equal 100

Comparing these figures with UK SMEs as a whole shows that music business owner/managers perceptions of what will be required to achieve growth in their business differs from SMEs as a whole, sometimes strikingly so. Although there is not a direct comparison for ‘investing in ICTs’, the 2004 SBS Survey asks the same question but has a wider category of ‘investing in capital equipment’ (which includes ICTs). Only 45% of UK SMEs state that investing in capital equipment will be required in order to grow their business.

Conversely, the most commonly reported factor by SMEs in general is to ‘take on staff’ (55%). There is also significant differences regarding finance. So, music businesses are roughly twice as likely to report seeking external finance as necessary to enable business growth (61%), compared with SMEs as a whole (30%)¹⁸.

Businesses looking to grow were also asked how they were intending to fund this growth. Just under half of the music businesses plan to use both external and internal finance to grow. A third stated that they will solely use internal finance (retained profits) to fund this growth, with another 15% stating they plan to only use external finance (either debt or equity finance) to fund growth. Those intending to use only internal finance to fund growth

¹⁸ All UK SME comparisons in this paragraph taken from SBS (2006), *op cit*.

make-up a smaller proportion of the music businesses (33%) surveyed than within the UK's SMEs as a whole (55%)¹⁹.

The relatively high proportion of businesses that plan to use external finance is interesting in light of the relatively low number of businesses which have actually applied for external finance in the last three years (see Section 6.2 and 6.3).

5.1 Reasons for not wanting to grow

As stated above, the numbers of music SMEs reporting that they had no intentions to grow in the next two to three years is very small – less than 10%, or 24 businesses. This compares to a majority of all UK SMEs (53%) in 2003 that stated that they were not looking to grow over the next two to three years²⁰.

Looking at the 24 music businesses that did not want to grow, it seems that internal factors are the main driver rather than external factors stopping growth. Of those not looking to grow, 12 businesses state that they are not currently aiming to grow because they are 'happy to remain at their present size'. The other main reasons given for not growing are also linked to the owners and/or manager's situation and include 'wanting to remain independent' (7 businesses) and 'wanting to close down' (3 businesses). An even smaller number state that external reasons are stopping them from growing, though this does include eight businesses that state the 'state/structure of the music industry'.

5.2 Barriers to growth

The businesses were then asked what they perceive to be the main barriers or obstacles to expanding their trading activities. These findings can be used to indicate where these barriers originate; whether they are internal to the business, relate to finance, or are specific to the state/structure of the music industry or to the economic outlook in general.

Perhaps unsurprisingly for a population of SMEs, the most commonly reported barrier to growth for the music businesses in the survey relates to cash flow, which was identified by two thirds of businesses that were looking to grow. While this is an important issue for SMEs in general, with 32% of SMEs in 2003 reporting cash flow as 'an obstacle to the success of their business'²¹, it is clearly of concern to a much larger proportion of music businesses.

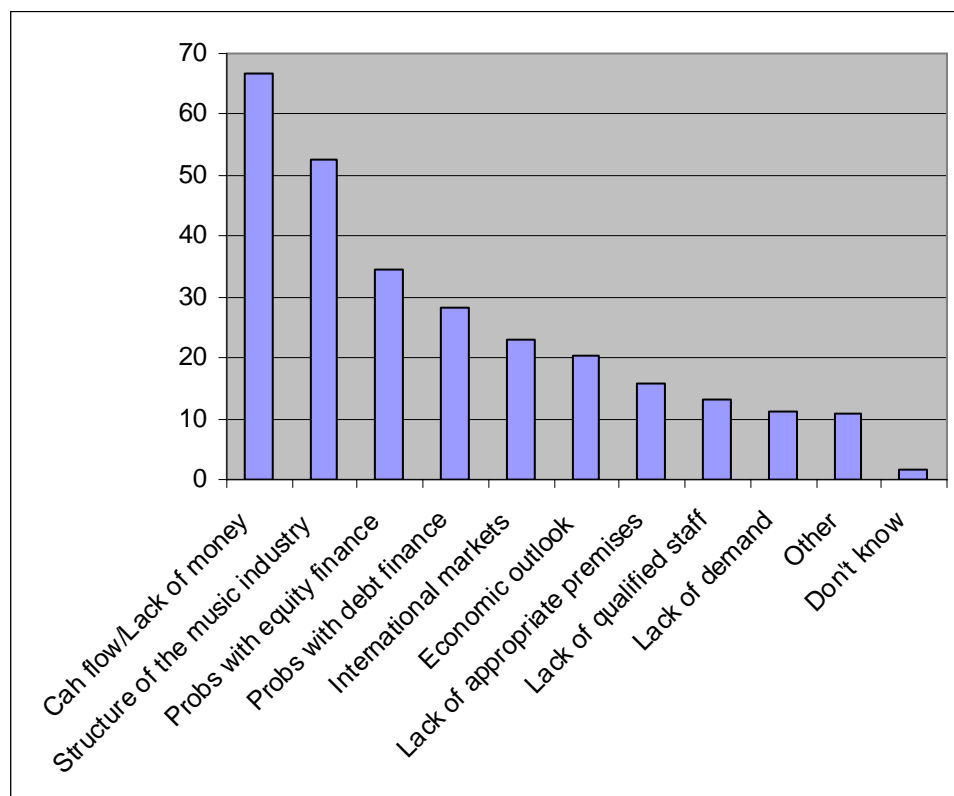
¹⁹ SBS (2006), *op cit.*

²⁰ SBS (2006), *ibid.*

²¹ SBS (2004), *ibid.*

This could be related to one or a combination of factors. For instance, the structure of royalty payments in the sector, the sometimes long lead times (and therefore upfront costs incurred) associated with producing a product (e.g. an album), or the ability of businesses to manage their finances and cash flow in general.

Figure 13: Music business SMEs' perceived barriers to growth



Source: Burns Owens Partnership (2005)
 Respondents can give more than one answer so percentages do not equal 100

The second most commonly perceived barrier is a surprising one: the 'state/structure of the music industry' is identified as a barrier to growth by over half of the businesses (53%) that are looking to grow (this issue is explored in more detail below in Section 5.4.1). Interestingly, this finding contrasts with the overall 'economic outlook', which is relatively low down in the factors identified as a barrier to growth (reported by just over 20% of the music businesses). For SMEs in general, this rates highly as an obstacle to the success of the business, with 41% of SMEs in 2003 identifying this as an obstacle²².

Given the relatively high numbers of businesses that report that they are looking to grow through 'moving into new international

²² SBS (2004), *ibid*.

markets' (55%), the numbers of businesses that encounter difficulties in expanding international markets is much lower at 28%. This may mean that many music businesses that are engaged in working and selling internationally encounter few difficulties in operating in these markets, or it may reflect the attitudes of businesses that are looking to start exporting but have not already done so.

Approximately one third of the businesses that are looking to grow stated that perceived problems obtaining either equity (34%) or debt finance (28%) was a barrier to growth, and the proportions are roughly comparable across the industry groupings. These findings are surprising in light of music business SMEs' own awareness and experience of accessing finance (see Section 6.2 and 6.3), as well as the experience of SMEs in general, in which access to finance is a much less pressing issue overall, and is also one that has declined in significance over the last decade.

Only 12 % of SMEs in the SBS Survey in 2003 reported the more widely defined issue of 'obtaining finance' *per se* as an obstacle to the success of their business, while a survey undertaken for the Bank of England's report on *The Financing of Social Enterprises* (2003) found that only 7% of SMEs cited 'obtaining external finance' (a more accurate comparison) as a barrier to increasing their trading activity. The same survey did find that, in contrast to the SMEs in the survey, 32% of the social enterprises cited problems obtaining external finance as a barrier to their trading activity (a roughly comparable figure to the music businesses). This may suggest that in this regard, music business SMEs have more in common with the social enterprise sector than with other small and medium-sized enterprises.

The declining significance of access to finance for SMEs is discussed in the Special Article contained within the Bank of England's 2004 report *Finance for Small Firms*. The article charts a number of improvements that have been made on the supply-side in providing finance to small firms over the period and draws on data from the quarterly Small Business Omnibus Survey that indicates a declining significance in access to finance as a barrier to growth, with only 1% of SMEs in autumn 2002 reporting it as a barrier, down from 6% in the summer of 2001²³.

Together these findings indicate that music business SMEs' own perceptions regarding the importance of access to finance as a barrier to business growth may not be accurate representation of

²³ Bank of England (2004) *Finance for Small Firms – An Eleventh Report*. It should be noted that this is not strictly a direct comparison as these SME figures exclude sole traders.

the issues. Further examination of this issue is given in Sections 6 and 7.

5.2.1 The structure/state of the music industry as a barrier to growth

Over the last ten years, and particularly since the introduction of broadband internet access, there has been much concern expressed by industry bodies both in the UK and internationally, about the rise of illegal file-sharing and downloading, and also piracy of hard copy music formats (particularly in emerging markets). Given that over half of the businesses that want to grow report that the ‘state/structure of the music industry’ itself is a barrier to their growth (i.e. 159 businesses), one might have expected issues of piracy to have featured highly. However, while it is clearly a concern for a number of SMEs in the industry, other factors figure higher in the list of barriers to growth, as shown in Figure 14 below.

Figure 14: Perceived barriers to growth related to the current state/structure of the music industry, music business SMEs looking to grow

	Percent
Market power of the major record companies	76
Buying policies of the major retail outlets	62
Consolidation in retail channels	40
Instability/market uncertainties concerning changing digital technologies and standards	40
Illegal downloading and file-sharing	39
Decreasing number of venues/opportunities for live music	38
Piracy of hard copy formats	30
Other	18

Source: Burns Owens Partnership (2005)
 Respondents can give more than one answer so percentages do not equal 100

In particular, issues that centre upon access to market and competition are the most commonly reported barriers by music business SMEs.

Just under three quarters (76%) state that ‘the market power of the major record labels’ is a barrier. The increasing domination of a small number of large businesses within the retail sector for recorded music – both ‘specialist’ retailers such as HMV as well as the supermarkets – is also perceived to be a significant barrier, with 62% of the businesses that are looking to grow stating that ‘the

buying policies of the major retail outlets' and 'consolidation in retail channels' (40%) are barriers to growing their businesses.

Music business SMEs do perceive issues around digital music to be barriers to their growth, but it is a more complex picture than a simple concern with the opportunities for piracy related to digital music. The 'instability and uncertainties surrounding changing digital technologies and standards' (40%), for instance, is slightly more commonly identified than 'illegal downloading' (39%) or 'piracy of hard copy formats' (29%) as a barrier to growth.

However, the characteristics of the music industry in the UK that are identified by businesses that are looking to grow as barriers to growth, do change significantly according to where businesses are placed within the music industry value chain. Perhaps understandably, concerns with piracy – whether downloading and file-sharing or hard copy formats – is more of a barrier to the record labels and publishers in the survey that want to grow. 55% of the Commodification grouping state that 'illegal downloading' is a barrier and 52% also report 'instability and uncertainties surrounding changing digital technologies and standards' as a barrier to growth. But even for the Commodification grouping, this issue is still somewhat behind concerns related to market access, with 83% of the record labels and publishers reporting that the 'buying policies of major retail outlets' are a barrier to growth.

For the Talent grouping, these issues are less likely to be viewed as barriers, with only 22% of businesses stating illegal file-sharing and downloading is a barrier, and 47% stating that the 'buying policies of major retail outlets' are a barrier.

6 Finance

This section explores two main issues:

- the recent economic performance of the music businesses SMEs
- their awareness and experience of different types of external finance (debt, equity, and public sector and charitable funds)

6.1 Turnover and profit

It is often difficult to provide accurate and comprehensive data on company finance through surveys. Respondents are often unwilling to provide financial data due to concerns over confidentiality, while some respondents may also simply not know the exact financial figures required. In the present survey, 40% of respondents (or 136 businesses) did not answer these questions, making sample sizes smaller. However, a greater proportion were willing to answer when asked to report their financial data in the form of financial bandings. For these reasons, we have provided grouped bandings for turnover and profit rather than absolute figures.

Figure 15 below indicates turnover levels for all the music businesses surveyed and by industry grouping. As the present survey specifically excludes large businesses within the sector, the characteristic hourglass structure of the music industry is less pronounced²⁴. But there is still significant divergence across the sample with 36 % of the music businesses surveyed having a turnover of less than £30,000 and 8% having a turnover of more than £2 million. There is some variation by industry grouping, particularly in relation to businesses with higher turnover levels. As perhaps should be expected, there were proportionally more record labels and music publishers (Commodification) with a turnover of more than £2 million (11%) and proportionally less Talent businesses (0.8%).

²⁴ This is a visual description of the distribution of turnover across firms within the music industry, i.e. the bottom of the hourglass is the turnover accounted for by the very large number of small businesses with low levels of turnover, the middle is the relatively small turnover in the medium-sized categories (due to the limited numbers of firms in this category), and then the top of the hourglass is the very large turnover generated by the handful of large businesses in the sector (Hackett and Ramsden, 2000).

Figure 15: Turnover of music SMEs, by financial band (2003/04 or 2004/05)

Percent	Overall	Talent	Commodification
Less than £10,000	23	26	26
£10,000 - £29,999	13	17	11
£30,000-£59,999	10	16	5
£60,000 - £99,999	6	8	5
£100,000 - £249,999	13	10	15
£250,000 - £499,999	12	8	10
£500,000 - £1.99m	3	2	2
£2m - £4.99m	5	1	8
£5m - £50m	3	0	3
Don't know	4	2	7
Unwilling to answer	10	11	11

N = 312

Source: Burns Owens Partnership (2005)

The polarisation in terms of turnover between a small number of music business SMEs with relatively large turnovers and a large number with small turnovers is not characteristic of the UK's SME firm population in general. Rather, there is a more even distribution across the bandings. For instance (and while it is not an absolutely direct comparison) 46% of the music businesses in the survey have a turnover under £60,000 compared with only 12% of SMEs in the UK with a turnover of up to £56,000. Similarly, in the next banding where 19% of the music businesses in the survey have a turnover of between £60,000 and £250,000, 30% of SMEs in the UK have a turnover of between £56,000 and £250,000²⁵.

Overall this means that, while the music businesses in the survey are, on average, larger in terms of the number of the employees than UK SMEs in general (see Section 3.3.2 above), they have (on average) smaller turnover figures than SMEs in the rest of the economy.

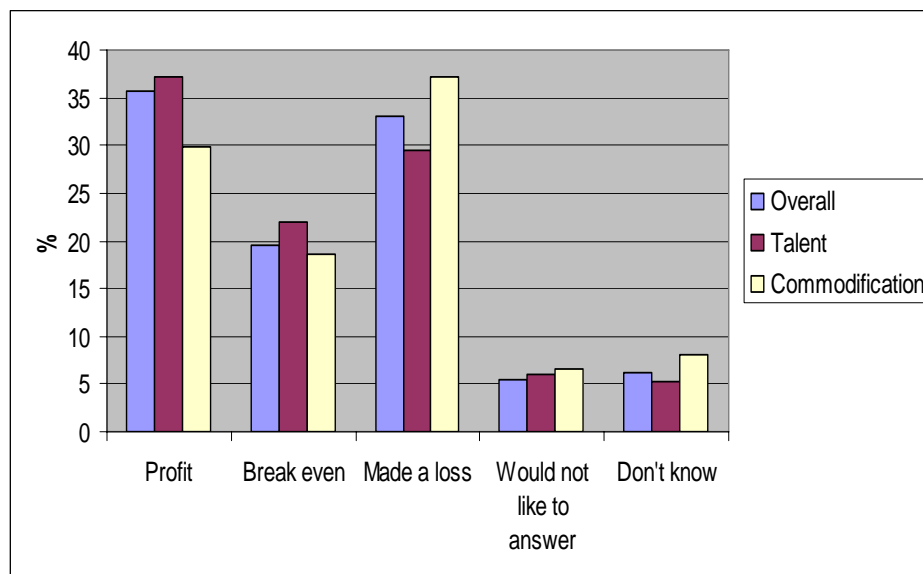
Respondents were then asked about whether they had made a profit, loss or had broken even over the most recent financial year for which they had accounts (2003/04 or 2004/05). Figure 16 below shows that approximately 36% of businesses made a profit, with some significant differences between the industry groupings.

Taking account of those that made a loss, the net result for the music businesses within the survey as a whole is positive, with a

²⁵ Again, UK SME figures taken from SBS (2004), *ibid*. It should be remembered that the data for the SMEs in general is weighted and represents the whole UK SME population whereas this is not the case in relation to the music business SMEs.

balance of 7% of music businesses making a profit over the last financial year. However, within the Commodification grouping – which contains many of the larger businesses within the sample – a balance of 7% of firms made a loss over the same period.

Figure 16: Profitability of music business SMEs, last financial year



N = 311
 Source: Burns Owens Partnership (2005)

Largescale surveys of small businesses, such as the SBS Survey, generally avoid asking companies questions related to profit and loss. However, the survey of independent TV and film production companies applying for Skillset’s Indie Business Development Scheme does offer a comparison within the creative sector. Two thirds of the TV and film businesses made a profit over the last financial year, with approximately half this number making a loss (34%). This means that overall, a balance of 32% of the TV and film production companies made a profit, compared with only 8% across the music business SMEs.

6.2 Debt finance

Debt finance comprises various types of borrowing: bank overdrafts, loans (secured and non-secured), hire purchase/leasing and factoring/invoice discounting. Debt finance is the main type of finance used by SMEs and businesses in general. It is much more widely available than equity finance, provides greater flexibility in both the amount borrowed and the repayment terms, and also comes with fewer restraints on the direct running of the business (as compared with equity finance).

But there are concerns about the purposes for which debt finance should be used. In particular, small businesses can become over reliant on short-term, overdraft type finance. Indeed, a tendency to use short-term overdraft finance to fund everything from working capital to long term investment projects, rather than seeking more varied and long-term external finance solutions, has been identified as a weakness of UK SMEs in the past²⁶.

However, providing businesses are not 'misusing' overdraft type finance in this way, the fact that a business has an overdraft facility or a loan demonstrates that it has met the initial criteria of a lending institution, shown discipline to maintain the facility, has a track record of repayments, and is generally committed to running the business along commercial lines. In this way, potential equity investors are more likely to view the fact that a business is using debt finance in a positive light (providing it is being used appropriately).

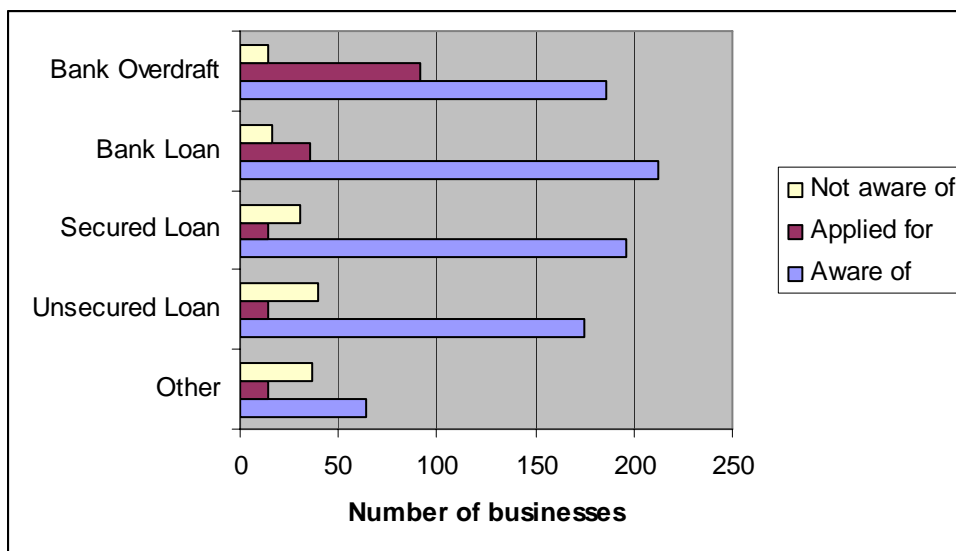
6.2.1 Awareness and applications for debt finance

The survey asked respondents about their awareness of different types of debt finance, and whether they have applied for them in relation to their music activities within the last three years. Unsurprisingly, there is a relatively high awareness of debt finance, with between 83% and 95% of businesses answering these questions as aware of, or having applied for, the four main types of debt finance²⁷. These results are broadly in line with those in *Banking on a Hit* which found that just under 100% of music businesses surveyed in 2001 were aware of bank loans, overdrafts and loans from other financial institutions.

²⁶ Specifically this was identified in relation to UK SMEs use of debt finance in the early 1990s, but evidence over the last decade suggests that this is no longer the case/the situation has lessened considerably (the Special Article, Murphy (2004) 'The financing environment for smaller firms over the last decade', contained with Bank of England, (2004), *op cit*).

²⁷ The project Steering Group decided that to reduce the complexity and length of the questionnaire, HP and factoring would not be included within the debt finance options. These forms of debt finance were considered to be less relevant to the music industry due to the lesser importance of capital equipment and the nature of rights streams respectively. Also, respondents were, of course, able to state HP and factoring/invoice discounting under the 'Other' category.

Figure 17: Awareness of, and application for, debt finance among music business SMEs



Source: Burns Owens Partnership (2005)

However, only 30% of the music businesses surveyed had applied for any kind of debt finance over the last three years. This means that 70% have not applied for any type of debt finance within the last three years. Of the music business SMEs that have applied for debt finance, the majority applied for more than one type: 83% of the 78 businesses which applied for loans or other types of debt finance had also applied for a bank overdraft.

A bank overdraft was the type of debt finance most commonly applied for, but even here, the proportion applying over the last three years was only 27% of all the businesses in the survey. Again, this is broadly in line with the findings in *Banking on a Hit*, in which 25% of music businesses reported using a bank overdraft 'during development'.

Finding appropriate comparisons within surveys of UK SMEs across the economy is difficult, due primarily to differences in the exact questions asked. The closest comparison in terms of the type of finance involved and the duration over which the question applies is provided by the Federation of Small Businesses *Biennial Membership Survey* in 2004. The survey, based on over 18,600 responses from small businesses, found that over the immediately preceding two years, 51% had used a bank overdraft facility and 30% a bank loan²⁸. These figures are obviously considerably in excess of the level of take-up of debt finance within the music businesses surveyed.

²⁸ Cater, Mason and Tagg (2004) *Lifting the Barriers to Growth: The FSB Biennial Membership Survey 2004*, report to the Federation of Small Businesses.

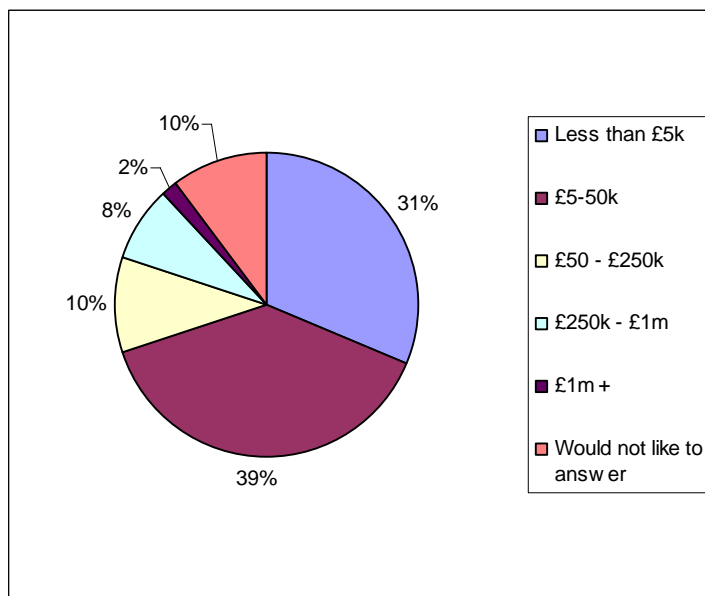
The figures for the industry groupings show little difference to the total sample, though the Talent group has a slightly lower proportion of businesses applying for any kind of debt finance (27%). Sole traders were also slightly less likely to have applied for debt finance, with 29% of this group having applied for debt finance over the last three years.

In relation to the age of business, younger businesses were less likely to have applied for debt finance. Of the music business SMEs under five years old in the survey, only 21% applied for any kind of debt finance. Conversely, businesses older than ten years are slightly more likely to have applied for debt finance over the last three years (32%) than the sample of businesses as a whole.

6.2.2 Size of debt finance applications

Of the 30% of businesses in the survey applying for debt finance (103), the vast majority (70%) applied for less than £50,000. Once again, comparisons with other SMEs in the UK are problematic due to different questions being asked in different surveys. However, from the SBS survey findings it would seem that proportionally more music business SMEs apply for the smallest amounts than across UK SMEs as a whole, in which 59% applied for less than £50,000 (as opposed to 70% for the music businesses).

Figure 18: Size of borrowing applied for by music business SMEs



N = 113
 Source: Burns Owens Partnership (2005)

It is worth noting that this is not an exact comparison as the SBS figures cover those applying for both debt and equity finance,

though the figures should not be unduly distorted in this instance as those applying for equity finance account for less than 1% of the numbers applying for external finance.

Comparisons for music businesses in the other size bandings have not been made due to the small numbers involved (which affects the reliability of the results), but the percentages of music businesses applying for more than £50,000 are given above in Figure 18.

As Figure 19 below illustrates, the majority (69%) of music businesses surveyed that applied for debt finance were successful. This is only slightly lower than for UK SMEs in general, where 74% had no difficulties obtaining finance from the first source they approached²⁹.

Figure 19: Success rate for music business SMEs applying for debt finance

	Percent
Successful	69
Partly Successful	16
Refused	15

N = 113
 Source: Burns Owens Partnership (2005)

Sample size issues restrict full analysis below this level but the results suggest that when applying for debt finance, the age of a business is a more important factor than the music activities in which it is involved, with those in business longer more likely to have been successful

Similarly, looking at the success or not of applications for debt finance by the amount applied for is also subject to inaccuracies related to small sample sizes. The survey findings suggest that those music businesses applying for less than £5,000 are less likely to be successful than those applying for larger sums.

As the numbers of music SMEs that were either refused or only partly successful is small (32 businesses in total), it is difficult to draw any valid conclusion as to why they were refused or only partially successful.

²⁹ SBS (2004), *op cit.*

6.3 Equity finance

Unlike debt finance, equity finance involves selling an ownership interest in a business, usually represented by the shares of stock which are held by individuals or corporations. Among all businesses equity finance is much less widely used than forms of debt finance, and particularly within SMEs. Further, the use of equity finance by SMEs is less well established in the UK than in the US. In the UK, many venture capital deals focus on 'larger, later stage deals', such as Management Buy-outs (MBOs), due to:

the transaction costs associated with the provision of small amounts of capital, a shortage of available exit options and the historically lower returns gained from early stage investment.³⁰

This means that equity finance is only ever going to be a viable option for a fraction of all SMEs. For instance, the number of private venture capital deals in the UK involving early stage companies (i.e. SMEs) in 2003 across the whole economy totalled just 398, according to figures collated by the British Venture Capital Association (BVCA)³¹.

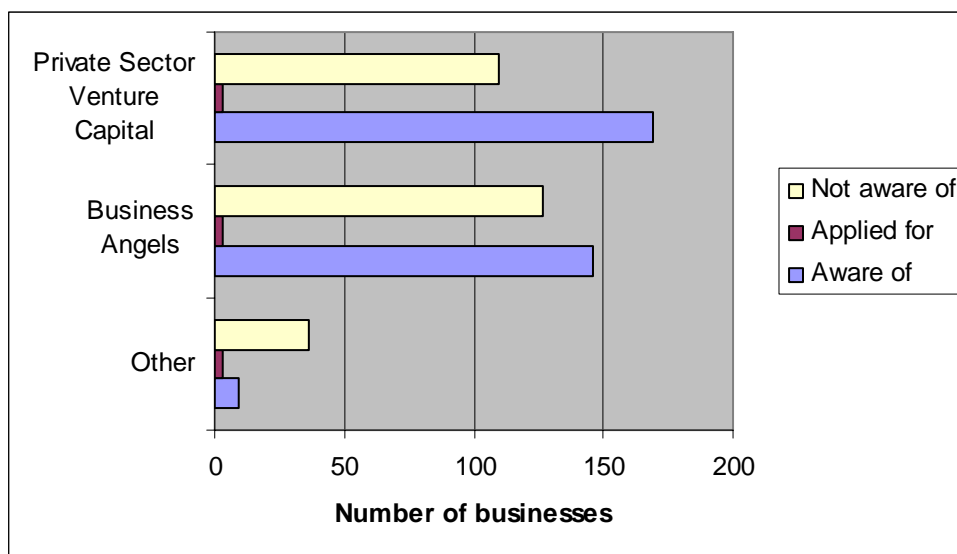
Unsurprisingly, then, awareness of the provision of equity finance among the music businesses surveyed is substantially lower than the awareness of debt finance options. 61% of music businesses surveyed are aware of private equity finance, with only a slight majority (53%) aware of business angels.

The awareness of private venture capital seems to have fallen since the time of *Banking on a Hit* (2001). In the previous survey, 82% of music business SMEs were aware of private venture capital, though the proportion that were aware of business angels is much more comparable with the present 2005 figures (59%). Given that the survey research for *Banking on a Hit* was conducted during 2000/1, it is tempting to view the levels of awareness of private venture capital at that time to have been 'artificially' inflated due to the 'dot com' and stock market bubble of the time, rather the present figures representing any kind of significant decline. However, this remains conjecture in the absence of longitudinal figures that pre-date the dot com/stock market boom of the late 1990s.

³⁰ Quote from the Special Article, Murphy (2004) 'The financing environment for smaller firms over the last decade', contained within Bank of England (2004), *op cit*.

³¹ BVCA figures are the most reliable source of data on equity finance in the UK, covering the vast majority of private equity and venture capital. The figures are cited in Bank of England (2004), *ibid*.

Figure 20: Music business SMEs awareness of, and application for, equity finance³²



Source: Burns Owens Partnership (2005)

As with debt finance, respondents were then asked whether they had applied for any form of equity finance in the last three years. Unsurprisingly, the numbers that have applied for equity finance over this period is very low: only nine businesses in total (2.7%). Looking at the amounts applied for across this group, five businesses applied for amounts of up to only £2,000. The very small sums sought suggests that in these instances, what was actually being sought was a short term cash injection, rather than the larger sums needed to fund sustained investment in businesses. In these cases, it is likely that some form of debt finance would have been more appropriate.

Again, direct comparisons are difficult, but the SBS Survey suggests that despite these small numbers, this figure is higher than for UK SMEs in general. In 2003, 16% of the 8,693 businesses included in the SBS Survey had sought external finance within the last 12 months and 0.8% of these had sought equity finance. This means that only 0.13% of the total SME population had sought equity finance over the last year³³. Assuming that this rate stayed constant every year, only 0.4% of UK SMEs would have sought equity finance over the last three year period (to provide an exact comparison with the music survey, which asked about the last three years).

³² The survey also asked respondents about their awareness of the public sector VC funds that have been established. Unfortunately, due to a technical problem with the online survey, we are not confident of the accuracy of the figures related to public sector venture capital and have accordingly not published them in this report.

³³ SBS (2004), *op cit*.

Despite the fact that the numbers of music business SMEs applying for equity finance is higher than in the general SME population, the figures regarding awareness of, and application for, equity finance, need to be considered in light of respondents' perceptions of barriers to growth (Section 5.4). While just 61% of the music businesses surveyed are aware of private sector venture capital and only 2.7% have applied, 39% of the music businesses surveyed state that access to equity finance is a barrier to growth.

In terms of equity finance, this indicates a major gap or discrepancy between what music businesses report to be a barrier to growth and their actual experience of this type of finance. It is interesting to speculate as to whether the music businesses in the survey would actually have identified 'access to equity finance' as a barrier to growth in such relatively high numbers had the question been unprompted. As it is, the response of music businesses seems to contradict their own awareness and experience of equity finance. It also potentially indicates a worrying lack of understanding about the role and appropriateness of this type of financing among a significant number of the music businesses in the survey.

Although those applying for equity finance were asked further questions relating to whether they were successful or not – and if not, what were the reasons given for being refused or partly refused – the very small numbers applying for equity finance mean that further analysis would not produce valid or reliable results.

6.3.1 Individual and company investors

Looking at whether the founders have actually invested cash in the business themselves is one indication of how committed they are towards the business, as it is about giving up something now for the prospect of a return later. Using this indicator, music entrepreneurs are clearly very committed to their businesses, with 86% of the founders having put actual cash into their businesses. This is broadly comparable with the survey for Skillset of independent TV and film production companies, where 82% of the founders had put cash into the business³⁴. Far fewer businesses had approached other investors, only 13%. Of this number, only a minority believed that they had been refused investment because of the 'absence/non availability of tax relief'.

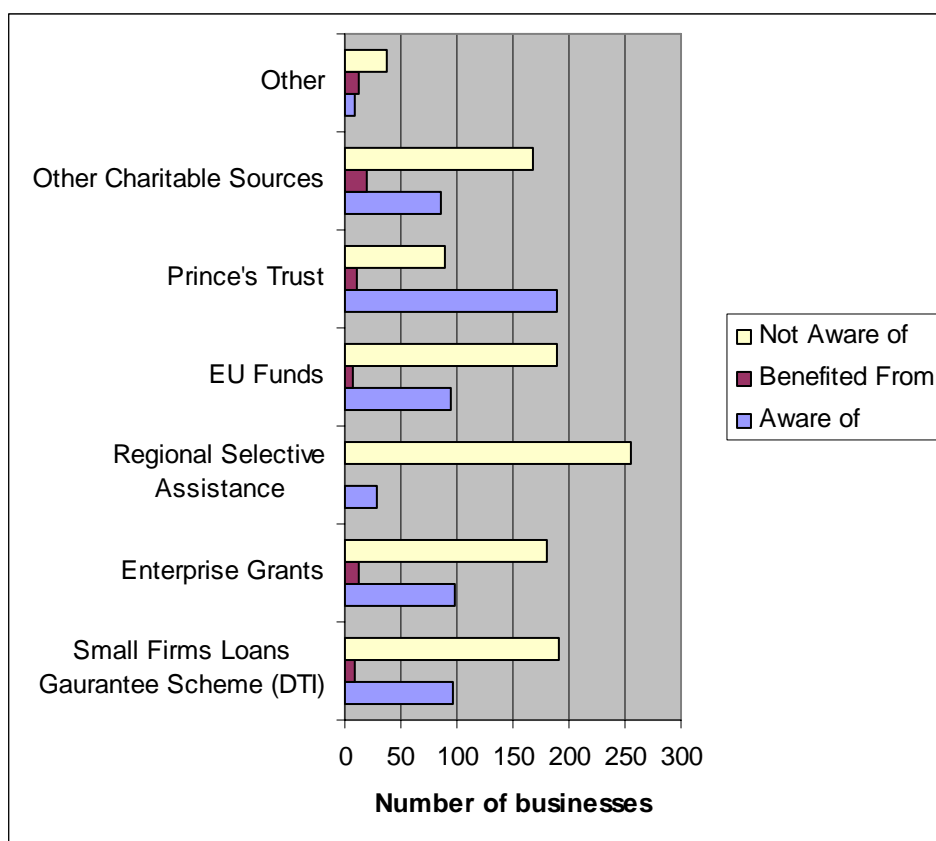
³⁴ CCM (2005), *op cit*.

6.4 Alternative sources of funds and information

Despite recent significant investment by public bodies in raising awareness of alternative sources of funding opportunities among the music industry (e.g. publications such as the DCMS commissioned *Money Map*), levels of awareness remain relatively low.

Figure 21 below shows the awareness of a number of different types of potential alternative funding opportunities (public and charitable). Across all but one, the level of awareness and the numbers of businesses that have benefited from them is relatively low. For example, only 29% of businesses are aware of Enterprise grants, 28% aware of the DTI’s Small Firms Loan Guarantee Scheme, and 28% aware of EU funding. Awareness is particularly low for Regional Selective Assistance (8%). The one exception to this pattern is the Prince’s Trust, where 56% of businesses surveyed are aware of its existence.

Figure 21: Music business SMEs’ awareness of alternative sources of funding (public and charitable)³⁵



³⁵ Due to technical issues, the results for community development finance initiative and local area development funds are not published

Source: Burns Owens Partnership (2005)
Respondents can give more than one answer so percentages do not equal 100

As well as awareness being relatively low, very few of the music businesses surveyed are actually benefiting from these potential funding opportunities. There are only 88 instances where the music businesses surveyed have benefited from these sources of funding. The most used source of this type of funding is 'other charitable sources', from which 19 businesses have benefited.

When looking for general advice on borrowing money or raising capital in the first instance, the most popular source of advice is banks (55%). This finding echoes the results from *Banking on a Hit*, in which 48% of businesses approached banks for advice on borrowing and raising capital. Almost a third (31%) of businesses in the present survey report that they use 'informal networks', while 27% would specifically approach another music business.

Smaller numbers of businesses would approach publicly funded organisations, with 23% stating that they would approach Business Link (though this represents an increase of 10 percentage points from when the question was asked in the *Banking on a Hit* survey in 2001), and 9% state that they would approach their local authority. A fifth of the businesses would contact a 'music industry trade body'; up from 7% in *Banking on a Hit*. 15% would contact another source, mainly accountants or other types of financial intermediaries and advisors.

7 Planning, capacity and goals

It is sometimes claimed that a significant number of businesses within the creative industries are so-called 'lifestyle businesses'; a term which is rarely defined but rather thought to be self evident. Perhaps a more useful way of examining this issue is that some of the businesses within the creative sector may be constituted simply as the most appropriate legal vehicle in which the owner(s) can continue their creative work. In this way, they could be described as businesses that are set up 'by accident', as there is no intention of building intrinsic value in the business itself³⁶.

The next section examines how characteristic this may be for the music businesses in the survey, by looking at the motivations of the music entrepreneurs and the extent to which the owner/manger(s) have put in place processes and developed capacity that will enable them to achieve their commercial goals.

7.1 Business skills and planning

Three quarters of the music businesses in the survey are managed or run by people working full-time. However, a quarter of all businesses surveyed are run by individuals working part time. The relatively high level of businesses run by people working part-time is probably a reflection of the number of businesses that are involved in activities outside of music (25%).

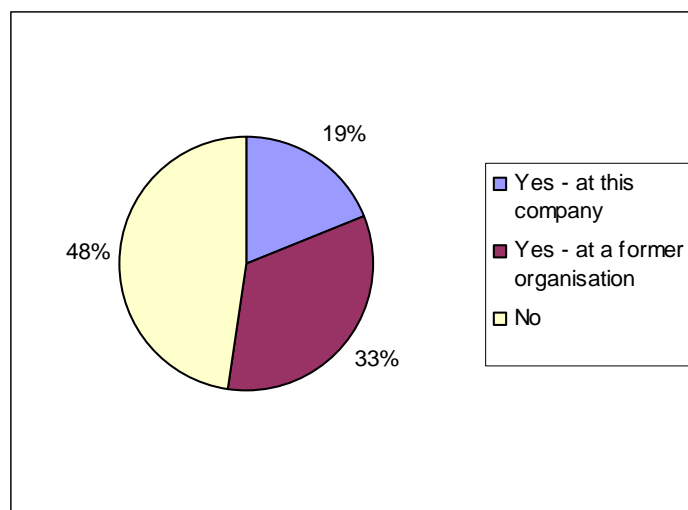
As Figure 22 below illustrates, only 19% of the owners or managers have had any training, professional mentoring or coaching in business skills in their present position. A third of the owners or managers have had some training, mentoring or coaching at a previous company, but 48% have never had any business skills training, professional mentoring or coaching. The proportions do not vary significantly across the Commodification and Talent groupings.

The low numbers of owner/manager(s) that have benefited from some form of professional development related to business skills echoes findings from *Banking on a Hit* in which 70% of the music businesses surveyed had no business-related qualification or training; a higher level than in the present survey but a tighter definition (i.e. a qualification as opposed to training/mentoring). These findings are also similar to those from the survey for Skillset of independent TV and film production companies, in which 53% of

³⁶ C.f. discussion of these issues in CCM (2005), *op cit*.

the owners/managers had never had business training, 25% at a former organisation, and only 22% at their present organisation³⁷.

Figure 22: Number of music business SMEs in which the owner/manager has had professional mentoring, coaching or training in business skills



N = 303
 Source: Burns Owens Partnership (2005)

Interestingly, for businesses more than ten years old, 62% of managers and owners have never had any training, but for businesses less than five years old, this figure falls to 38%. This may yet indicate that the level of business skills will increase within the industry, though it is perhaps worth remembering that the younger businesses at present are also less likely to be in profit.

Given the relatively high numbers of owners/managers that have not been benefited from training, professional mentoring or coaching in business skills, it is perhaps not surprising that a relatively low proportion of the music businesses surveyed have formal business plans (29%). A higher proportion (36%) stated that they ‘had some ideas written down but nothing formal’, with the remaining 35% having no business plan at all. It should be noted that the level of companies with a business plan remains constant across those businesses with employees (i.e. excluding the sole traders), and only increases by one percentage point to 30% when looking at the businesses with the sample that earn all of their income from music activity (i.e. excluding the portfolio workers and businesses).

There is, however, significant variation across the industry groupings. Across the musicians, composers, promoters and

³⁷ CCM (2005), *ibid.*

managers in the Talent group, the proportion with a business plan falls to 17% and the percentage without a written business plan rises to 45%. In the Commodification group, the percentage with a formal business plan rises to 38% and those without a formal plan falls to 27%. Among sole traders, only 13% have a formal plan and 45% have no plan at all.

To put these figures in context, 53% of SMEs in the UK have a business plan³⁸. The figures for the music businesses surveyed are also lower than across the independent TV and film companies that applied for Skillset’s ‘Indie Business Development Scheme’, in which 44% of businesses had formal business plans. However, as discussed above, this may be related to the fact that the profile of those applying for the Skillset scheme may be different from the general population of independent TV and film companies.

Figure 23: Music business SMEs with a business plan

	Percent
Yes - a formal plan	29
Yes - some ideas written but not formal	36
Nothing written down yet	35

N = 303
 Source: Burns Owens Partnership (2005)

For a business plan to fulfil its function it must be up-to-date. However, approximately half of the businesses in the survey had not updated their plans within the last six months (53%).

7.2 Financial management

Respondents were then asked questions about the management and running of the company financial accounts. Over a quarter of the music businesses surveyed (28%) have financial accounts that are managed by someone within the management team with no training. This figure rises sharply among sole traders, where 42% manage their own financial accounts with no training.

47% of music businesses use external accountants or bookkeepers to manage their financial accounts. While external accountants ensure that all legal obligations are met, in some cases it can mean that a company’s management are not completely aware of the finances of the business (and therefore its direction).

³⁸ SBS (2006), *op cit.*

Figure 24: Music business SMEs' management of financial accounts

	Percent
External accountant	38
Internal accountant	4
External book keeper	9
A financial director	9
Member of the management team - some training	22
Member of the management team - no training	28

Source: Burns Owens Partnership (2005)

Respondents can give more than one answer so percentages do not equal 100

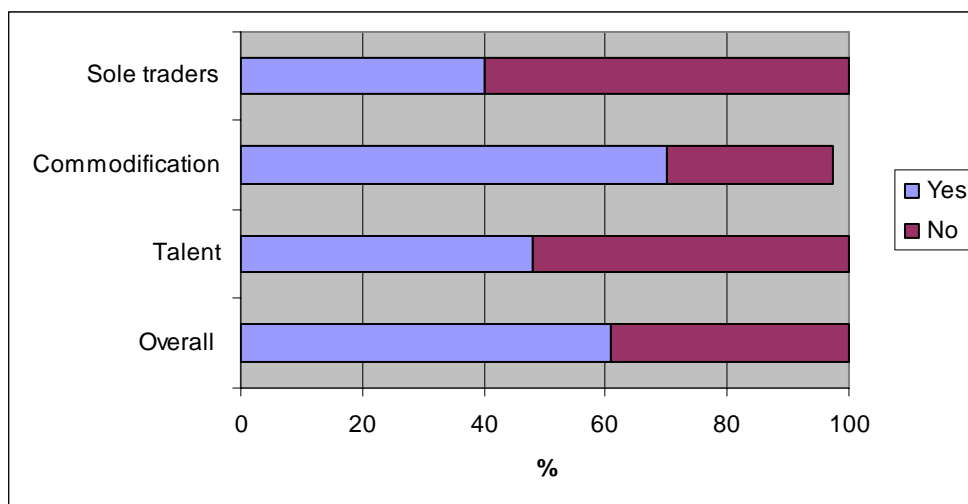
Unlike financial accounts, management accounts are rarely (if ever) made public. Rather, management accounts provide a range of internal information that supports the day-to-day running and decision-making of a business. This could include the calculation of overheads and other costs, cost per unit calculations, and budgeting in general. Less than half (45%) of all businesses surveyed use management accounts. Their use is, though, significantly higher across the record labels and music publishers within the Commodification grouping (57%), and much less so across the Talent grouping (32%).

The respondents were then asked a much more general question about their attitudes to running and managing the finances of their music businesses: 'do you find budgets and forecasts useful to manage your organisation's finances?'. Surprisingly, 39% of the companies said that they do *not* find budgets and forecasts useful in the running of their businesses.

There is, however, major variation across the industry groupings in relation to this question as can be seen in Figure 25 below. While only 61% of all business state that they find budgets and forecasts useful in the running of their businesses, this rises to 70% across the Commodification grouping and falls to 48% within the Talent grouping. Among the sole traders in the survey, this figure is lower still, with only 40% stating that they find budgets and forecasts useful in running their music businesses. But across the music businesses as a whole, and across all of the sub-populations identified above, the percentage of businesses that find budgets and forecasts useful is lower than in the comparator group of independent TV and film production companies, in which 79% of the businesses stated that they find them useful³⁹.

³⁹ CCM (2005), *op cit*.

Figure 25: Percentage of music businesses that find budgets and forecasts useful



N = 303
Source: Burns Owens Partnership (2005)

7.3 Financial goals

As Figure 26 below illustrates, only just over half of the music businesses surveyed have clear financial goals (54%). 18% state that ‘it’s not about making money’, and a larger component that they, ‘haven’t thought about it’ (29%).

Figure 26: Financial goals of owners/managers in music business SMEs

Percentage	Sole traders			
	Overall	Talent	Commodification	Sole traders
Clear financial goals	54	44	61	40
No - Haven’t thought it through	29	34	21	38
No - It’s not about making money	18	22	18	21

N = 301
Source: Burns Owens Partnership (2005)

Again there is some important variation across the industry groupings, and this follows the pattern of the rest of the questions related to financial management, business skills and planning. The record labels and music publishers (Commodification) are relatively more concerned with financial goals. 61% have clear financial goals, with fewer businesses having ‘not thought about it’ (21%).

However the numbers within the Commodification grouping reporting that 'it's not about the money' is comparable with all businesses within the survey (18%). While the figures for music businesses that do not have clear financial goals seem high, it is interesting to compare them with SMEs in the UK in general. In the 2004 survey of SMEs, the SBS asked businesses whether 'the primary purpose of your organisation is to pursue a social (including environmental) goal?'. Almost a third (32%) of SMEs stated that their primary purpose was to pursue a social and/or environmental goal, 61% that that they were not (meaning implicitly that they are primarily pursuing commercial goals) and a further 7% undecided⁴⁰. All of which means that in this respect at least, music business SMEs do not differ as much from UK SMEs in general as the figures would perhaps imply.

Of those music businesses with financial goals (54%), approximately half have either an annual target for profit margin (58%) or an annual target for the value of sales (50%). 29% had a medium to long term strategy to sell the business or part of it.

8 Awareness of business and industry-specific support

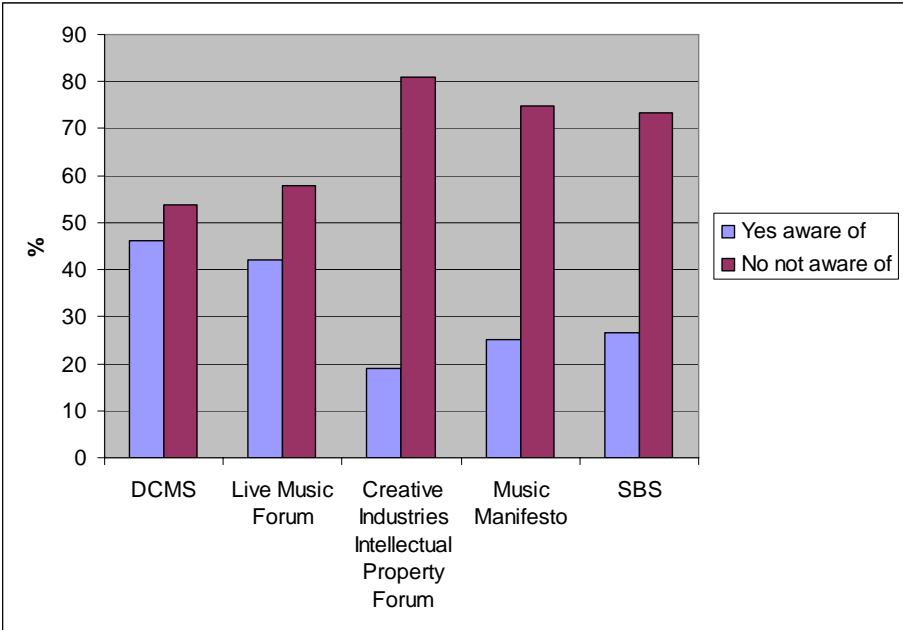
Within the music businesses in the survey there are relatively low levels of awareness of both the industry-specific initiatives within central government and the small businesses support infrastructure (Figure 27 below).

Music businesses were also asked their opinions regarding whether they are aware of tax incentives that are available to other creative industries but not available to those in the music industry. The vast majority of businesses are not aware of any. Of the 17% that did state that they are aware of tax incentives that apply to other creative industries, most cited those that apply to the film industry.

Finally, respondents were given an open question that asked for their own views and opinions on how central and local government could help small music businesses in the UK. These results have not been included in the present analysis, but are given in Appendix I below.

⁴⁰ SBS (2006), *op cit*. Please note, we are awaiting clearance from the SBS on the usage of these figures relating to social goals.

Figure 27: Music business SMEs' awareness of business and industry-specific support



Source: Burns Owens Partnership (2005)
Respondents can give more than one answer so percentages do not equal 100

9 Conclusions and implications for business support

Economic performance

There are a number of aspects of the economic performance of the music businesses surveyed that should be of concern to public agencies and trade bodies that are concerned with the health of the sector. In particular:

- *Profitability*: the balance of companies making a profit is slender and it is negative for record companies and publishers, a group of businesses that in other ways are the most commercially-oriented within the sample.
- *Productivity*: the music businesses also have turnovers that are, on average, smaller than SMEs in general, despite employing more staff on average than SMEs (i.e. they are less productive per employee)
- *Survival*: they appear to have much greater difficulties than other SMEs in managing the day-to-day issue of cash flow.

Business and financial management skills and practices

The findings of the survey raise a number of concerns about the economic performance of the music business SMEs.

- Owner/managers possess relatively low levels of skill in financial and business management and demonstrate limited awareness of/interest in establishing basic business processes around planning, budgeting and forecasting.
- In this context, for many of the music businesses in the survey, any commercial success is likely to be due at least as much to good fortune as to good judgement. Similarly, without possessing basic systems and competencies in financial and business management, the businesses will struggle to build on their strengths or to learn from their weaknesses.

Intentions and barriers to growth

- In many cases, there seems to be a gap between the music business SMEs' subjective ambitions and perceptions of the challenges that they face, and the objective business challenges that they actually face.
- This is perhaps best illustrated by the numbers of businesses in the sample that perceive that a lack of equity finance is constraining growth, while simultaneously having few of the pre-

requisites that equity investors would look for – sound financial and business planning processes and skills, a track record of having met the requirements of a lending institution, commitment and discipline to maintaining a repayment plan, and so on.

- If this gap persists, it is likely that many of the music businesses will continue to struggle with the day-to-day running of their businesses, have low profitability and will not be able to achieve their (laudable) ambitions for commercial and, arguably, creative growth.

Implications for business support

- Most of the businesses in the sector would benefit from relatively basic business support, particular around financial skills and management practices.
- In order to achieve this, however, it may also require some of the music businesses surveyed to re-appraise their reasons for being a commercial enterprise.
- There may also be a role for business support related to the more specific area of e-commerce, given its present and future importance across the music industry, and the difficulties some music firms have expressed related to the capacity, skills and costs involved in expanding/starting e-commerce.
- Access to equity finance is not an issue that affects the vast majority of businesses in the music industry. However, it does remain important to a very small minority of companies, and it seems that there may potentially be relatively more SMEs that could benefit from this type of finance than across the SME firm population in the UK as a whole. These enterprises are likely to have strong growth potential.
- It is therefore important for those looking to grow and support the sector to be able to identify these companies in order to target specialist support services that will underpin their development and growth.

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11 Appendix I: Open ended question responses

The survey closed with an open question for businesses:

“In no more than 100 words, what more could central and local Government do for businesses like yours?”

The only comments that have been edited are those that were incomplete and/or nonsensical.

BUSINESS SUPPORT & SKILLS
Sort out the truly awful SFLG scheme. The banks hate it, and it's useless for companies with a trading history. Advertise in Music Week about the scheme available, tell AIM and the BPI
Take a look at the Canadian government initiative FACTOR and put the same thing into process here. Govt of Canada invests without interfering in the competitiveness of their firms.
Massively simplify the business loan guarantee scheme, we were the only successful applicant that Barclays Media Centre in Soho Square had ever had (out of about 100) in my manager's time there. It was a long tortuous process
I spent considerable time working with Business Link, many hours of my time was spent developing plans to their format
Low interest loans or seed funding with holiday repayment periods that relate directly to release cycles. More information on the current funding available
Low-cost or free-of-charge business skills training and support for people running not-for-profit music development organisations.
Make arts subsidy mandatory for local government increase provision to Arts Council allow gift aid on cultural attendance encourage more business sponsorship and donation
Make criteria for funding easier to apply for. To enable those from ethnic minorities to gain funding
Make different financial support
Make funding for sole traders easier. Giving specific funding that could only be used with a venue. Support for training and awareness of business practice. A funding data base.
Make grants available to assist the smallest operations to expand to the next one or two levels.
Much more in funding specific job related staff training.
Offer focused and personal initiatives for leads and expansion into other markets. Offer more financial support in terms of travel grants so that we can more easily visit customers in overseas territories.

Offer grants to create product and for publicity and marketing
Offer grants to pioneer new projects, e.g.: new distribution channels, promotional films, artist websites, recording budgets for culturally important projects
Offer management / financial training specific to industry. Offer grants for developing business. Offer help with overseas business (this does currently happen to some extent via dti initiatives but more help would be good. Mentoring schemes.
Offer rent reduced spaces for creative industries below a certain turnover. This would aid the companies and bring like minds together. help companies get access to the funding that is out there.
Provide better support for individual artists and creators who are our suppliers.
Provide cheap/affordable business premises for small businesses like ours. Provide funding for staff for the start up period of a business, as it is a time where sales are still building up.
Provide funding for smaller labels/management with proven track records to identify and develop new talent at a level that is beneath the radar
Provide incentives, training & support more transparently
provide interest free loans for growth or grants; sponsor mentors
Provide more funding to enable us to trade overseas (both live touring and recording)
Provide proper training for industry people updating on facilities available to increase growth of smaller companies.
Provide subsidised premises, music-industry-oriented business training and business networks
Recognise the cultural and economic value of music businesses, and support small businesses with more available grant funding/support - Arts Council isn't enough - very much depends on your face fitting etc
Recognise the value added to children's education by our work, and provide funding and support to help us formulate and pursue plans for capacity building, e.g. website, new funding applications, marketing and publicity.
Set up a funding initiative to release grant money for promotional purposes. This would reduce the financial risk to individuals
We can run workshops at least 10hr a week to local artistes and young budding musicians to enable them learn how the music industry is run, how it works, and its highs & lows
Provide grants for various undertakings

INFORMATION, ADVICE & GUIDANCE
I guess inform us better and not via the 'major' controlled arenas - e.g. Music Week
Include us on forums, initiatives and debates that relate to what we do.
Inform us directly (via email through some sort of registration system) of the support services financial and otherwise on offer.
Information is key - but small businesses are not necessarily going to see adverts for support. There's no easy answer - it's down to the companies to look for assistance but when you're running a company you have no time to look for assistance.
Make it more clear what incentives and schemes are available to Record Labels.
Make it much easier and less time consuming to source funding for projects.
Make sure I have access to the previously mentioned services, and more information on funding opportunities.
Make the application forms for grants etc. less complicated and in English!
Make the process of applying for Lottery funding simpler to make it more easily accessible
Provide a clear route to market for online and offline products and a transparent service that will allow us to reach the public directly.
Provide advice and clearer routes to funding.
Provide better information and training. Access to better communication for the music industry.
Provide information on funding available from Governmental sources. Support a training programme
Provide more information through organisations such as AIM
Provide support and information about the "official" business side of the music industry e.g. VAT, tax etc.
Take time to discover them and take interest. Make their services more available. e.g. advertise etc
Tell me more about what benefits are available to a small and medium businesses
Through the various forums, like MMF, make a package of the various services and funds that are available for small businesses.
We need information about all the schemes available to help small businesses including but not limited to investment. We have no idea where to get this information and it appears to be somewhat secretive.

REGULATION & COMPETITION
Introduce legislation to protect composers' royalties. At the moment I have to hand over 50% of my royalties to the commissioning media company, and at the moment this is a non-negotiable clause in my contracts.
Prohibit by legislation the coercion of media composers by broadcasters
Protect my right to keep control of my music copyright.
Provide acknowledgement of the importance of live music. Relax restriction on Live Music venues and provide incentives
Push forward the rights of creators to be treated fairly by users
Enforce existing legislation throughout the industry. We abide by Health & Safety, Employment Legislation, transport, VAT legislation, our competitors don't, this puts us at a financial disaster
Listen! major corporations are killing small music businesses, the OFT are aware and choose to do nothing (restricted by budgets!!!)
I wish they would stop the EU making so many directives and stop making us spend so much time on paperwork for imports and exports. Performance licensing (especially for schools) should be abolished.
Less bureaucratic admin; tax breaks for investors
Less regulation (so many rules that we don't have any idea what exists let alone whether we are following the rules!)
Modernise and strengthen copyright in a digital age
Most importantly the Government could outlaw the scandalous practice of TV companies and production houses ripping off musicians
New copyright act.
Prevent the further lack of competitiveness in the music industry by preventing further mergers and make vertical integration subject to competitive test (through the monopolies commission for example)
Prevent the monopolies of banks and insurers who penalise small businesses in line with the larger players. Insurance has increased by 600% in three years despite a reduction in accidents. Bank charges increase year on year above inflation
Reduce paperwork, reduce regulations, simplify taxation
Reduce the need to keep up to date with constantly changing legislation, as with any business.
Reduce the number of changes in legislation.
Regulate eCommerce and make it easier for small businesses to use eCommerce.

Sort out the Health Safety aspects for live events. We need a future proof system we all know what we are working towards. Need to ensure the publics safety while still keeping live events viable commercially.
Support blank tape levy in order to counteract loss of revenue from illegal copying of music
Support live music more through better licensing, do more to make us aware of support options, do more to support independent music outlets to avoid the takeover in the high street. of the likes of HMV
The music business is a legal minefield
TAXATION
Help with tax rules to enable more filmmakers to use UK music facilities and UK musicians. More help for up-and-coming artists, musicians and composers.
Introduce more tax breaks like Ireland for creative individuals and organisations. Cut down on bureaucracy and make business make sense !
Introduce tax credit for overseas sales and marketing costs e.g. 150% like R&D tax credit, replacing the pitiful SESA
Less tax, more incentives
Low rate tax relief for individuals and small businesses who's sole income is from creative pursuits making less than £100 000 in profit. The UK exports a lot of creative product throughout the world and this should be encouraged.
Lower the tax burden
Make it more attractive for music and film to be carried out in the UK with better Tax incentives, I am already losing work due to the recent changes with Tax incentives to the film industry.
Offer tax breaks for people who invest in theatre. Stop the large companies such as BBC Worldwide coercing composers into publishing deals.
Provide initial tax breaks on setting up a music related business and understand the piecemeal basis of work for a live performer
Provide tax incentives and where applicable funding for research & development, and over all business growth.
Reduce Corporation Tax to enable us to re-invest in the business.
Reduce Rates and rents which are killing small traders.
Reduce rates, stop building out of town supermarkets.
Relieve the VAT burden
Tax breaks for film-makers

Tax breaks like the ones offered in the UK film industry. Follow the French government model of giving funding to labels for UK signed talent i.e. for videos.
Tax incentives for creating i.e. commissioning new works. VAT/Duty free on importing foreign music goods
Tax relief for small businesses with low turnovers.
Tax/levy all ISP's & telecoms companies
They could help us in the same way that the film industry is helped, but on a far smaller scale. Most SME's only require moderate funding in the £50,000 - £250,000 range
VAT on arts tickets has made events much harder to make a profit on. Theatres pass on all added expenses to promoters/artists but ticket prices cannot go up much.
Help with start ups and finance and cheap accommodation help with artists development and to help create a link between the music colleges and small labels to forge a partnership so both can benefit.
I personally do not think that there is much that you can do other than providing financial help in terms of tax breaks etc. Any issues I have are directly related to the industry.
MISCELLANEOUS
Local Government could use us as a supplier and encourage others to make use of our services.
Promote it.
I don't know.
Provide a better way to exploit international markets, currently impossible due to exchange rates. Entering into the euro for one.
I don't really know.....I brought out a charity CD for The UK Sickle Cell Society.....manufactured 2,000, all my money
I think we feel that at this stage of our development it is all about what we can do for ourselves and the greatest restriction we currently experience is with time and money.
Insist that banks accept intellectual property as securitisable
Make more effort to understand that the freelance creative worker is the most vulnerable in the free market.
Nothing. There is no real place in creative industries for government
Our business can potentially be very big. we have been held back from growing due to finance.
promote themselves more widely across media
Protect me & offer me as much help as possible. I find business rates way too high & they seem to be easy money for the local government as I feel I do not get much in return

Try to persuade the banks that intellectual property has some value. Provide loans against intellectual property????
Publicise their services more actively. Provide cheaper/subsidised office space. Help with networking. Withdraw planned extension of Congestion Charge which will kill my business
Realise that we put a lot in to society and the local area mostly not measurable in financial terms.
Run training sessions, maintain competitiveness of music sector, and provide grants for overseas music fairs.
Sponsorship of live venues, grants.
Stop cutting arts budgets!
Support I.P across new digital platforms.
Take a more industry focussed approach, don't clump all creative industries together. Music is a completely different area to that of film or TV which sometimes gets forgotten.
Take the market in which is trades more seriously in terms of its contribution to the economy. This contribution is drying up due to external forces and the incubators of new talent (the SMEs) will dry up with it.
The main problem we face as small promoters is with creating greater awareness of what we do. Sponsored promotion would help a great deal. Flyering, posters, adverts in listing magazines.
there needs to be more investment at ground level - as an individual I have invested thousands of pounds in the company - but without a real initial funding the ability to promote and compete is impossible
There seem to be grants and financial help out there
They could stop asking us to fill in stupid forms.
This small business publishes mainly neglected British music of the 20th and 21st century for a limited and specialised market.
Though [name of company] has been very successful in the past, we are currently building a new roster and are not as yet making any money. I do not see government funding as being relevant right now.
Try to ensure that there are more venues for live music
Venues to allow performance of music that doesn't cost an arm and a leg Festivals for non-famous performers! Grants to help with non-commercial music ventures
We are a start up label so at this stage not really able to answer this objectively.
We receive annual funding through Arts Council England. We need a higher level of funding in order to increase our core staff.

12 Appendix II: Technical appendix

DEFINING THE POPULATION AND SAMPLE

To define the population for this study, the Steering Group were presented with a ‘long’ list of possible music activities that music business SMEs could undertake. The Steering Group narrowed this long list down to 12 types of business by activity. Some of the music activities that were excluded from the study include: businesses which hire out music equipment (juke boxes, hire services-functions); music teachers, and night clubs, discos and dance halls.

Table 1 below lists the twelve types of music businesses chosen to be included in this study. These music businesses can be aggregated into four larger industry groupings, ‘Rights /Commodification’, ‘Talent’, ‘Wholesale/Retail/ Manufacture’ and ‘Technical Services/Infrastructure’. Each one of these groupings has a distinctive role and function within the music industry value chain.

Table 1: Music business activities included within the study

Grouping	Type of Music Activity
Rights/Commodification	Record Companies Music Publishing
Talent	Music Arrangers & Composers Musicians Music Management and Promotion
Wholesale/Retail Manufacture	Musical Instrument Manufacturers & Wholesale CD, DVD, Record & Tape Retailers Musical Instrument & Music Shops Instrument Makers & Repairers
Technical services/Infrastructure	Recording Services-Sound Music Studios & Practice Rooms Music Systems-Commercial

The survey only covered small and medium businesses (including sole traders), and excluded educational establishments and charitable trusts. The survey was specific to the music industry in England, so any responses that were received from businesses in Wales, Scotland and Northern Ireland were excluded.

In any sample-based survey, it is important to try and establish an understanding of how representative survey results are of the total population. To do this, it must be possible to identify the total population and then establish weights. Weighting the data means attributing a 'weight' to a specific response according to how many like it there are in the total population. Weighting the data ensures that the survey results are an accurate reflection of the total population with no one particular type of response over or under represented. Therefore this study needed to try and identify the music industry population.

The most reliable sources used to identify populations for analysis are national datasets. In the case of business surveys of firms and sole traders, the Annual Business Inquiry (ABI) and the Labour Force Survey (LFS) are two of the most commonly used national datasets. These surveys are classified according to the Standard Industrial Classification (SIC) in the case of the ABI (which defines employment and businesses by type of firm activity), and the Standard Occupational Classification (SOC), which codes (which defines employment by individuals type of activity).

However, it is extremely difficult to quantify and measure the music industry using these sources and classification systems. The ABI and LFS do not provide enough information or go into enough detail, to identify many specific music activities. For example, the SIC code 92.31 'Artistic and literary creation and interpretation', includes musicians and musician arrangers and composers, but also visual artists, dancers, writers, actors, illustrators etc. Similar difficulties exist in relation to SOC codes. Therefore this study was unable to make use of these sources to identify the music industry population. Other possible data sources, such as music trade lists, are not a comprehensive list of music businesses and often do not give enough information to identify specific types of music businesses.

In light of there being no reliable source of data to provide comprehensive counts of the music industry population in England as defined for the study, the Steering Group, in agreement with the consultants, decided not to apply weights to the survey data. This means that the survey results may not be representative of all music industry SMEs in England.

QUESTIONNAIRE

Questionnaire Design

The questionnaire for the online survey was devised by BOP together with the Steering Group. Where possible, questions were designed to enable comparison with findings from other surveys of

SMEs. The comparative questions were drawn principally from the following sources:

- Small Business Service (SBS) Annual Survey of Small Businesses
- Learning and Skills Council's Employer Skills Survey
- Bank of England's Finance for Small Firms
- Bank of England's Survey of Finance for Social Enterprises
- Office for National Statistics Annual Business Inquiry
- Create Consult Media (CCM) Creative Company Profiling Survey of Independent TV and Film Production Companies for Skillset's 'Indie Business Development Scheme'

Pilot Stage

Prior to going live, the questionnaire was piloted with ten music businesses. This helped to clarify the content of the questionnaire, question order and wording, and also to identify and solve technical issues associated with the online platform. Final changes were then made in agreement with the Steering Group.

Distribution

The questionnaire was distributed and completed online. This meant the questionnaire was available to the widest number of potential respondents. Awareness was built-up through the following channels:

- emails to the members of the individual trade bodies that comprise the Music Business Forum (e.g. AIM, BPI)
- publicity in the music trade press (e.g. *Music Week*)
- links to the survey from the websites of DCMS and MBF members

Response Rate

An initial 410 responses to some part of the survey were generated. The responses were then checked to ensure they met the criteria of being a SME, being based within England, and trading in one or more of the music activities from the list agreed by DCMS and the MBF. After removing responses that did not meet these criteria and cleaning the data for duplicates and 'spoiled' responses, the sample analysed in this report totals 339 music industry SMEs.

Data Analysis

The survey data was analysed using SPSS 14.0 which facilitates the generation of the descriptive statistics.