



## KEY FINDINGS

### Key Findings

Whilst small music businesses are similar in many respects to other small creative businesses, there are important differences which give rise to unique problems in raising finance, and contribute towards a ‘funding dilemma’ for Britain’s music businesses.

Difficulties in raising finance are affecting the ability of the music business to grow and prosper.

Particularly worrying is the evidence, uncovered in the report, of a growing trend in recent years, of a lack of confidence in accessing external finance.

The report makes a series of recommendations for developing the industry’s approach to accessing finance and improving the level of understanding between the industry and potential finance providers.



# RECOMMENDATIONS

## Introduction

The recommendations are divided into two main sections. First, the report suggests ways in which both debt and equity funding can be tailored to meet the needs of the music industry. It then sets out some general recommendations for helping music businesses access external finance.

## RECOMMENDATIONS ON THE SUPPLY SIDE

### Debt Finance

- More effort should be spent in improving the level of ‘understanding’ between the music industry and finance-providers. This is particularly important at bank branch level where industry specific information could be cascaded down from regional or head office. The industry could

consider developing and promoting a training seminar ‘roadshow’ that targeted banks at a regional level.

- Regional finance initiatives, such as Local Authority loans, Enterprise Agency initiatives and Community Finance Initiatives could be better publicised within the industry.
- ‘New’ financial instruments, including micro-credit, social credit, organisational credit and Local Exchange Trading Systems (LETS) schemes should be encouraged.

### Equity Finance

- Government/industry support could be channelled towards piloting of music industry incubator units, which benefit from an entrepreneurial learning environment,

access to mentors and investors and visibility in the market place. It is recommended that the industry hold a dialogue with UK Business Incubation (the leading representative body for the business incubation sector) concerning access to the Incubation Challenge Fund, administered by RDAs.

- Formation of sector-specific Business Angel Networks/Investor Clubs should be encouraged.
- Further corporate venturing should be encouraged within the industry.
- ‘Fund champions’ who will understand and welcome applications from the industry should be identified and targeted.
- Appropriate support structures should be put in place to help music entrepreneurs to become ‘investment ready’. A music industry CD Rom/video could be produced to foster best practice in music management.

### **Tailoring Existing Initiatives and Regulations**

- The Institute of Chartered Accountants should review the balance sheet treatment of intangible assets, with a view to establishing more appropriate rules to deal with valuation and auditing of music copyrights.
- Consideration could be given to adapting and tailoring existing Government schemes to meet the needs of the music industry. These include the TCS (Teaching

Companies Scheme), and schemes relating to the ‘knowledge economy’, such as SMART, University Challenge, or the Enterprise Fund, all of which may provide a blueprint for new initiatives for the music industry.

- DTI should reconsider the basis on which musicians are exempt from applying for a Small Firms Loan Guarantee Scheme, as this can send out negative messages to potential music business owners.
- Opportunities for public music performance should be encouraged, for example by the Government’s proposals to reform licensing regulations.

## **RECOMMENDATIONS ON THE DEMAND SIDE**

### **Improving Information/Advice and Training**

- There is a need to disseminate up-to-date and accurate risk/reward data about the music industry. Music management role models need to be identified and publicised as examples of best practice.
- Further research should be commissioned to consider the real nature of risk in the industry. Not every part of a music company’s business is high risk.
- Strategic alliances within the industry, such as between industry sector trade associations, other industry bodies and the Small Business Service, should be promoted.
- The public face of the industry should be coordinated through one central gateway.



This could focus on a UK Music Industry web portal, which is clearly distinct from other creative industry web sites, and which acts as a gateway to music industry sectors.

- Best practice from successful regional music industry initiatives and organisations (e.g. North West Arts Board’s Banking on Culture; Merseyside Music Development Agency; ACME; ACID; Manchester City Music Network; Portabello Business Centre) could be mimicked across the country.
- Management best practice from the dot.com sector could also be promoted in online music businesses, as digital distribution becomes an increasingly important part of the music business’s strategy.

### **Re-positioning the Music Industry**

- The sometimes ‘impoverished’ management image of the industry should be addressed, by publicising the experience and qualifications of new managers in the industry.
- The establishment of “Music Industry Enterprise Awards” could be considered to reward successful entrepreneurial/managerial activity.
- Representatives of the music industry could make more concerted efforts to explain it concisely. This will help to de-mystify the industry to potential investors.
- Attention should be drawn to the ‘opportunity’ that the music industry represents to banks and venture capitalists, in view of the relatively low take-up of funding currently.



## SUMMARY OF REPORT'S FINDINGS

### HOW DO SMALL AND MEDIUM SIZED ENTERPRISES (SMEs) IN THE MUSIC INDUSTRY CURRENTLY ACCESS FINANCE TO FUND THEIR GROWTH?

#### Similarities with SMEs in general

In several respects, the amounts and types of finance used by music businesses are similar to those used by small businesses in general. The high percentage of personal capital and retained profits used by music businesses is broadly in line with the proportion used by small businesses generally. There is only very modest use of equity finance (venture capital), and there appears to be no significant difference between the percentage of music businesses refused bank finance, and the number of small businesses in general refused.

#### Differences with SMEs in general

However, there are clearly some important features of financing that are peculiar to the music industry. Whilst 41% of music businesses use only internal finance to fund their growth, this compares with 26% of small businesses generally. The overall proportion of bank finance (overdrafts and loans) used by music businesses is appreciably lower than the average for small businesses in general. This is particularly evident with respect to bank overdrafts (25% of music businesses compared with 58% of small businesses). There is considerably less leasing or hire purchase carried out in the music industry (11%) compared to the small business sector in general (37%). The use of grants and subsidised loans available to the industry (over 10% combined), however, is at a higher level than for the small business sector overall.