

The Great Musical North

The music business is a fascinating example of a creativity-driven industry. Advances in manufacturing and sound recording technology mean that only a small part of the value of the final product – a compact disc or digital download – is generated by manufacturing and distribution. Instead, most of the costs of the music business today are incurred by creative work: writing, producing and performing the music; designing the packaging and branding; and marketing via blogs, magazines, videos and more. This emphasis on creative inputs makes the music industry an excellent research subject for improving our understanding of the geography (and other dynamics) of a broad range of creative industries, from software to medicine to media.

While the public perception exists that Canada is a hot spot for music and musicians (from Neil Young to Shania Twain to Kardinal Offishall), a comparison with the global leader in music production – the United States – will help us to separate perception from reality. The most recent period for which detailed and directly comparable data are available is 2007. This Insight aims to improve our understanding of the dynamics of the business by focusing on one particular aspect: the differences between the music industries of Canada and the United States.

On a per capita basis, Canada's music industry dramatically outperforms the US when it comes to the presence of music business establishments (this category includes record labels, distributors, recording studios, and music publishers). Canada has 5.9 recording industry establishments per 100,000 residents, about five times the US figure of 1.2.

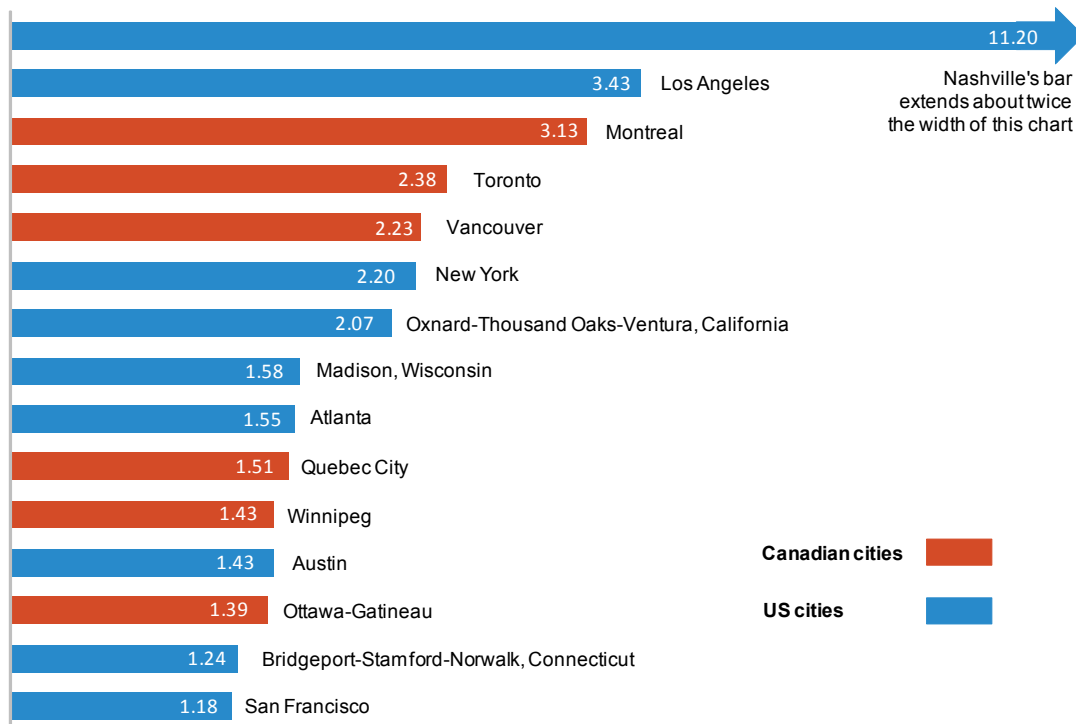
A detailed breakdown at the metropolitan level can help us to better understand what drives this disparity. To make the scope of our analysis more manageable, we focus on city-regions with populations over 500,000, as they are home to 85% of recording industry establishments and about 65% of the North American population.

Using location quotients, a standard industry measure of regional concentration, we find that almost half of the 15 cities with the highest music industry location quotients are Canadian (Exhibit 1). But despite its much lower per capita figure at the national level, the United States has the two top-ranking cities. The first, Nashville, boasts an incredibly high figure due to its heavy specialization in country and pop music. The second, Los Angeles, is the global giant of the entertainment business.

US dominance becomes more apparent when we look at size. Recording industry establishments in the US are slightly larger – they have an average of 5.9 employees each, compared to only 5.7 in Canada. But the difference is dramatically more pronounced when it comes to revenue. US establishments earn average receipts of \$4.1 million per establishment, compared to only US\$540,000 in Canada.

So Canada has considerably greater per capita musical activity than the United States in terms of record labels, recording studios, and licensing houses. But the data tell us that the United States has much higher-earning businesses that are more heavily clustered in fewer places – especially Nashville, Los Angeles, and to a lesser extent, New York.

Exhibit 1: Highest Concentrations of Music Industry in the U.S. and Canada by location quotient (Metro Areas with Population 500k+)



Source: Martin Prosperity Institute analysis of data from Statistics Canada (Annual Survey of Service Industries, 2007) and U.S. Census Bureau (County Business Patterns, 2007).

While this research is preliminary, we can speculate about what drives these differences. Economic geographers, from Jane Jacobs to Allen Scott to the Martin Prosperity Institute's own recent analysis, have long noted that growth in creative industries like music tends to be driven by clustering and economies of scope and scale. The concentration of the American music business in a few key cities likely encourages these forces. In Canada, the fact that the music business is more evenly distributed is certainly a positive thing for musicians looking for opportunities in smaller cities. But failure to cluster in a few key centres may be discouraging the Canadian music industry from growing larger and more internationally competitive.

Further Reading

Music & the Entertainment Economy Research Page
martinprosperity.org/projects/project/music-and-the-entertainment-economy

Music Blog
music.martinprosperity.org

The Martin Prosperity Institute (martinprosperity.org) at the [University of Toronto's Rotman School of Management](http://www.rotman.utoronto.ca/) is the world's leading think-tank on the role of sub-national factors – location, place and city-regions – in global economic prosperity. Led by Director [Richard Florida](http://www.rotman.utoronto.ca/~florida/), we take an integrated view of prosperity, looking beyond economic measures to include the importance of quality of place and the development of people's creative potential.