

# **Harnessing Change Financial Model of the Canadian Audio Sector**

**Prepared for:**

**Canadian Radio-television and  
Telecommunications Commission**

**Nordicity**

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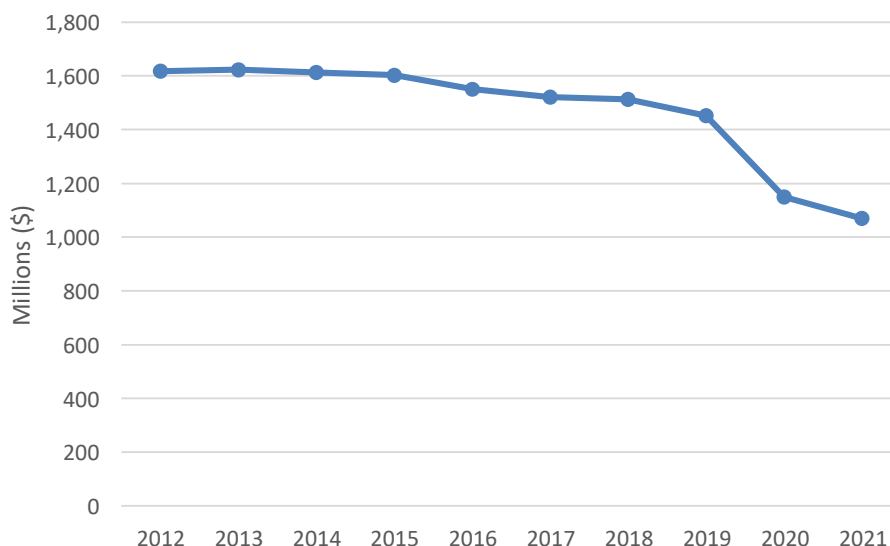
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# 1 Introduction

## 1.1 Background and mandate

1. In May 2018, the Canadian Radio-television and Telecommunications Commission (CRTC) published the online report, ***Harnessing Change: The Future of Programming Distribution in Canada*** (*Harnessing Change*). As part of the development of this report, the CRTC prepared a model that traced the financial inflows and outflows within the Canadian audio broadcasting sector. In particular, the model collated the sources of revenue for Canadian AM/FM radio broadcasters, satellite radio, pay audio services, online radio and transactional online audio. It also captured revenue earned in Canada from sales of music content (i.e. physical sales, downloads and streaming).
2. The model then traced how these audio sector revenues were distributed to Canadian content suppliers, foreign content suppliers and other operating expenditures. It also considered how audio sector revenue supports music funding programs in Canada, such as FACTOR, Radio Starmaker Fund and Musicaction.
3. Since the publication of *Harnessing Change*, Canada’s audio broadcasting sector has continued to experience disruption to its business and revenue models – just as the entire global music sector has experienced. Online platforms – both subscription and ad-driven – have continued to grow. And while most of this growth has come at the expense of physical sales of music, Canada’s commercial radio broadcasting sector has also seen its revenues steadily decline since 2014 (Figure 1). Indeed, in the midst of the Covid-19 pandemic, Canada’s commercial AM/FM radio broadcasting sector saw its total revenue fall by 21% in the 2020 broadcast year (ending August 31, 2020) and decline by a further 7% in 2021.

**Figure 1 Canadian commercial AM/FM radio broadcasting sector revenue (\$ millions)**



Source: CRTC

4. In light of the ongoing trends in Canada’s audio broadcasting sector, the CRTC commissioned Nordicity to update the 2018 Harnessing Change Audio Sector Model. As part of this update, data for 2018, 2019, 2020 and 2021 were added. As well, further research, data collection and modelling was undertaken to update the allocation of total sector revenues across Canadian and foreign content suppliers, Canadian music funds, and other operating expenditures, artists and other rightsholders.
5. The following report presents the resulting financial flow models for 2018, 2019, 2020 and 2021, and outlines the research undertaken to create those models.

## **1.2 Methodology**

6. A variety of data sources were used to derive the estimates of the financial flows. These data sources included statistics published by the CRTC, data found in public financial reports and data available from music rights collectives. The report, *2021 Study of the economic impacts of music streaming on the Canadian music industry*, prepared by Wall Communications Inc. for the Department of Canadian Heritage (“Wall (2021)”), was a particular source of data and was used to derive ratios that could be used to estimate the share of industry revenue flowing to rightsholders and music labels.
7. It should be emphasized that with the exception of the statistics available from the CRTC, most of the financial amounts found in this report are estimates. These estimates were typically derived by developing a ratio (e.g. Canada’s share of North American satellite radio revenue, average operating profit margin in the global music download market, percentage of physical sales revenue flowing to music labels) and then applying that ratio to data gathered directly from secondary sources or data that itself had been estimated from secondary sources.

## **1.3 Outline of report**

8. Section 2 of the report provides a summary of the financial flow model for 2021. It also provides a detailed analysis of those 2021 financial flows – examining how the financial flows vary across the various audio market platforms and between language markets.
9. Section 3 summarizes the temporal trends in the financial flows and, in particular, demonstrates how the temporal shifts in market revenues and shares across platforms is affecting the sources and distribution of revenue within the sector.
10. Section 4 summarizes the key findings of the financial flow modelling and the policy implications of those findings.

## 2 Financial flows in 2021

11. The following section begins with a summary of the financial flows within the Canadian audio sector in 2021. This summary was based on a combination of reported financial data (e.g. Canadian radio broadcasting revenue and sources) and the modelling of financial flows. Summaries of the financial flow models for 2018 to 2020 can be found in Appendix A.

### 2.1 Summary of model results

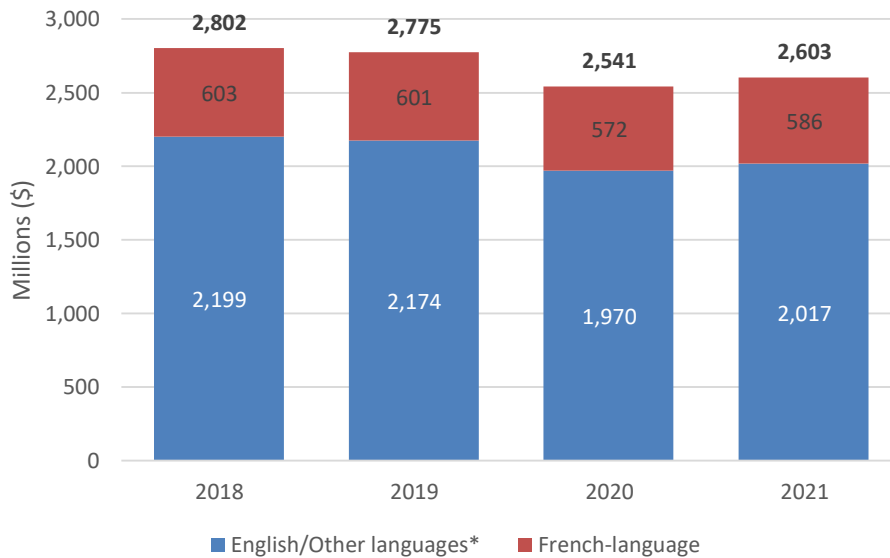
12. For the modelling of the financial flows within the Canadian audio sector, the sector was divided into the following four key tiers.
  - **Sources of revenue:** This tier identifies the proximate sources of the revenue of the various audio-market platforms.<sup>1</sup> It identifies how much revenue originated from advertisers, subscribers (household and businesses), direct consumer purchases, the federal government (i.e. the CBC/Radio-Canada parliamentary appropriation) and other sources.
  - **Audio market platforms:** This tier identifies the key audio market distribution platforms and the total revenue earned by each platform in Canada. It includes Canadian radio broadcasters (AM/FM), streaming audio services, Sirius satellite radio, Stingray pay audio services, download-based audio services and physical sales of CDs.
  - **Distribution of platform revenue:** This tier tracks how the revenue earned by audio market platforms is distributed across four key categories: (i) contributions to funding bodies (i.e. FACTOR, Radio Starmaker Fund and Musicaction), (ii) direct payments to rights collectives and artists, (iii) operating expenditures (iv) and operating profit.
  - **Platform revenue recipients:** This tier provides a further breakdown of the distribution of platform revenue by indicating, in particular, how portions of those revenues were distributed to artists, rightsholders or music labels inside or outside of Canada. The residual expenditures not allocated to these categories are grouped under, operating expenditures and profits category. Amounts from funding bodies and provincial governments flowing to Canadian artists and music labels were also added to this tier.
13. Canada's overall audio market – across all languages – generated an estimated \$2,603 million in revenue in 2021 (Figure 2). This was 2.4% higher than 2020, but lower than the levels reached in 2019 (\$2,775 million) and 2018 (\$2,802 million).

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<sup>1</sup> Note that within this report, the term 'platform' is used as general term to describe the various key technologies and business models used to distribute music to the consumers. In this regard, the physical sales of music media are also considered a distribution 'platform' even though there is no underlying distribution technology that might resemble a platform, per se.



**Figure 2 Total revenue in Canada’s audio market, by language market (\$ millions)**



Source: Nordicity estimates based on data from CRTC, Omdia, Sirius XM and Stingray

Note: Some totals may not sum due to rounding

\* Other languages refers to other non-official languages

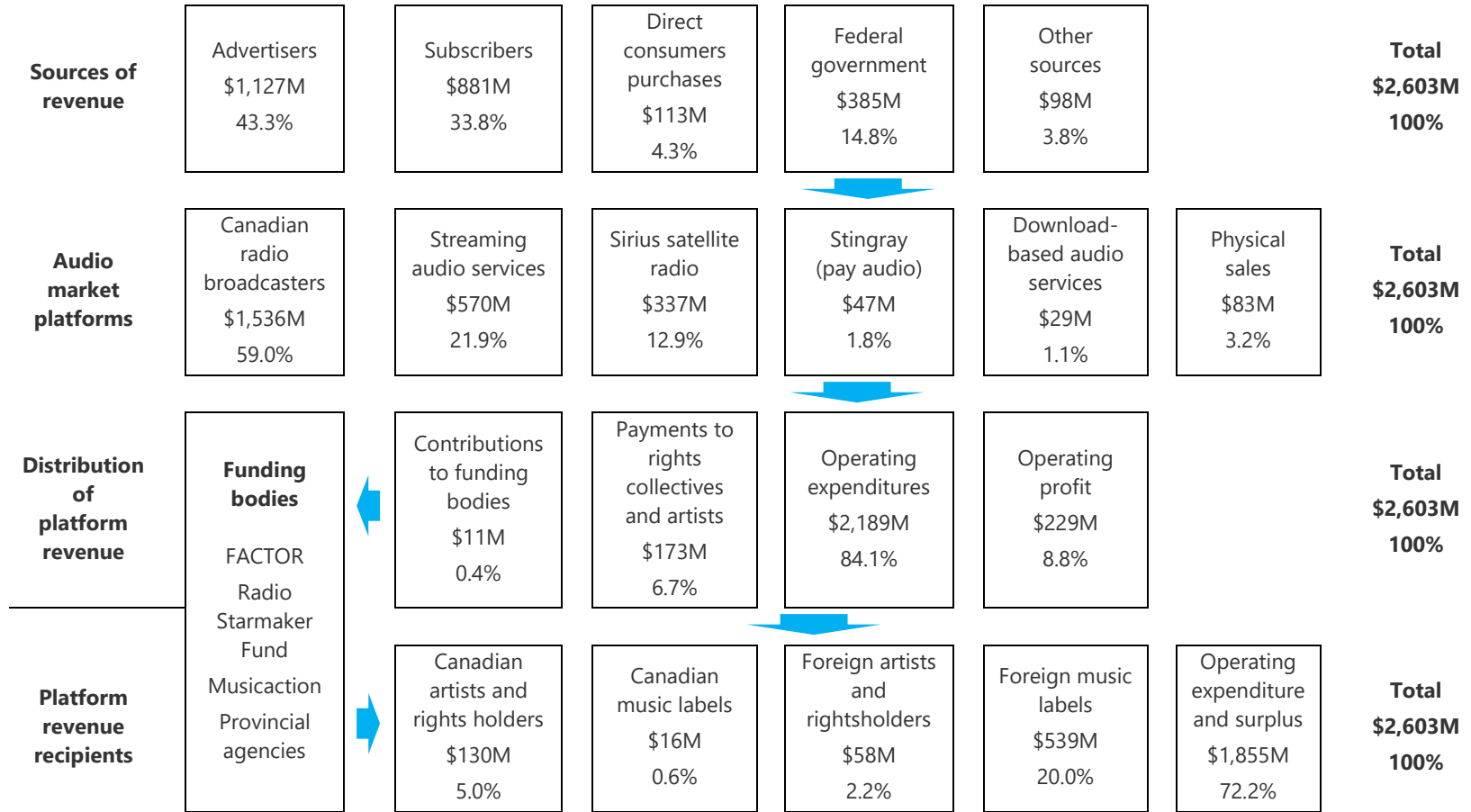
14. Figure 3 provides a further breakdown of these total audio market revenues in 2021. Close to 60% (\$1,536 million) of this total revenue was generated by Canadian radio broadcasters – commercial broadcasters and CBC/Radio-Canada. Radio broadcasting was followed by streaming audio services, which earned an estimated \$570 million in 2021, according to Omdia.<sup>2</sup> Sirius satellite radio earned an estimated \$337 million in Canada in 2021. Physical sales (\$83 million)<sup>3</sup>, Stingray pay audio services (\$47 million) and download-based audio services (\$29 million) accounted for the balance of revenue in Canada’s audio market.
15. **Note that other than the revenue figures for radio broadcasting, all revenue figures are estimates.** In some cases, estimates were sourced by Omdia (e.g. streaming audio services, download-based audio services, physical sales). In other cases, geographic segment information found in public financial reports for global music services were used to derive estimates for the Canadian market (e.g. Sirius satellite radio, Stingray pay audio services).
16. Just over 43% of audio market revenue came from advertisers (\$1,127 million) in 2021. Subscribers to streaming audio services, Sirius satellite radio and Stingray pay audio were the source of 34% of market revenue (\$881 million). Through the parliamentary appropriation for CBC/Radio-Canada, the federal government contributed \$385 million to market revenue. Other sources of revenue accounted for the balance (\$98 million).

<sup>2</sup> Omdia (2022), *Canada Music Industry Update, May 2022*.

<sup>3</sup> Omdia (2022), *Canada Music Industry Update, May 2022*.

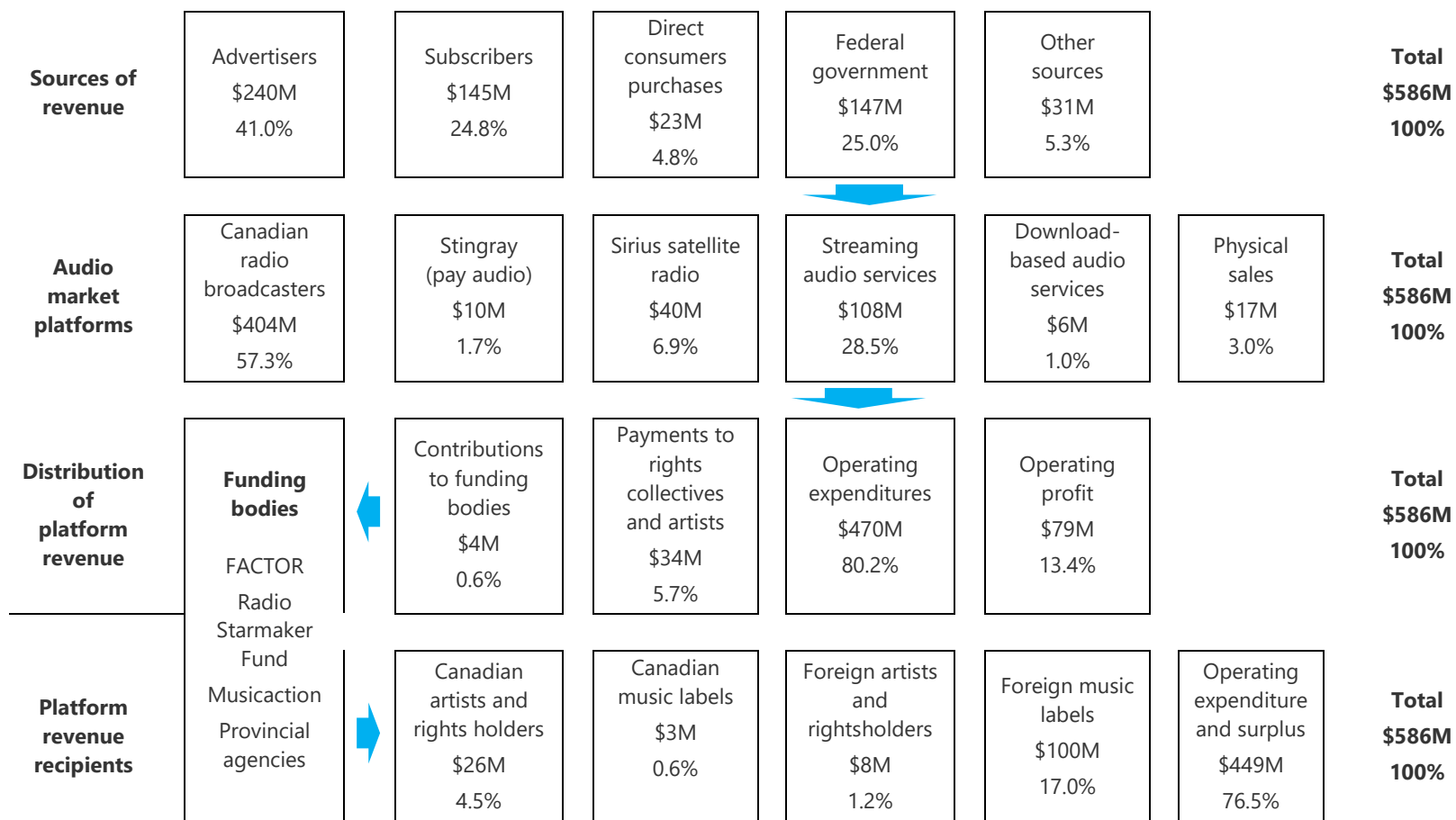
17. Radio broadcasters and other licensed platforms contributed \$11 million to Canadian funding bodies. According to the CRTC, \$141 million of radio-broadcasting industry revenue was paid to rights collectives or directly to artists. The remaining market revenue was split between operating expenditures incurred by each of the platforms to deliver their audio services in Canada, including the technical, administrative and marketing functions of those platforms in Canada (\$2,230 million); and the estimated value of the operating profit earned by each of the various platforms (\$219 million).
18. Figure 4 provides estimates of the financial flows within Canada's French-language audio market. In 2021, the French-language market accounted for \$586 million in total revenue. Figure 5 provides estimates of the English and other (non-official) languages market ("English/Other languages market"). In 2021, that language market accounted for \$2,017 million in total revenue.

**Figure 3 Financial flows within Canada’s audio market, all languages, 2021**



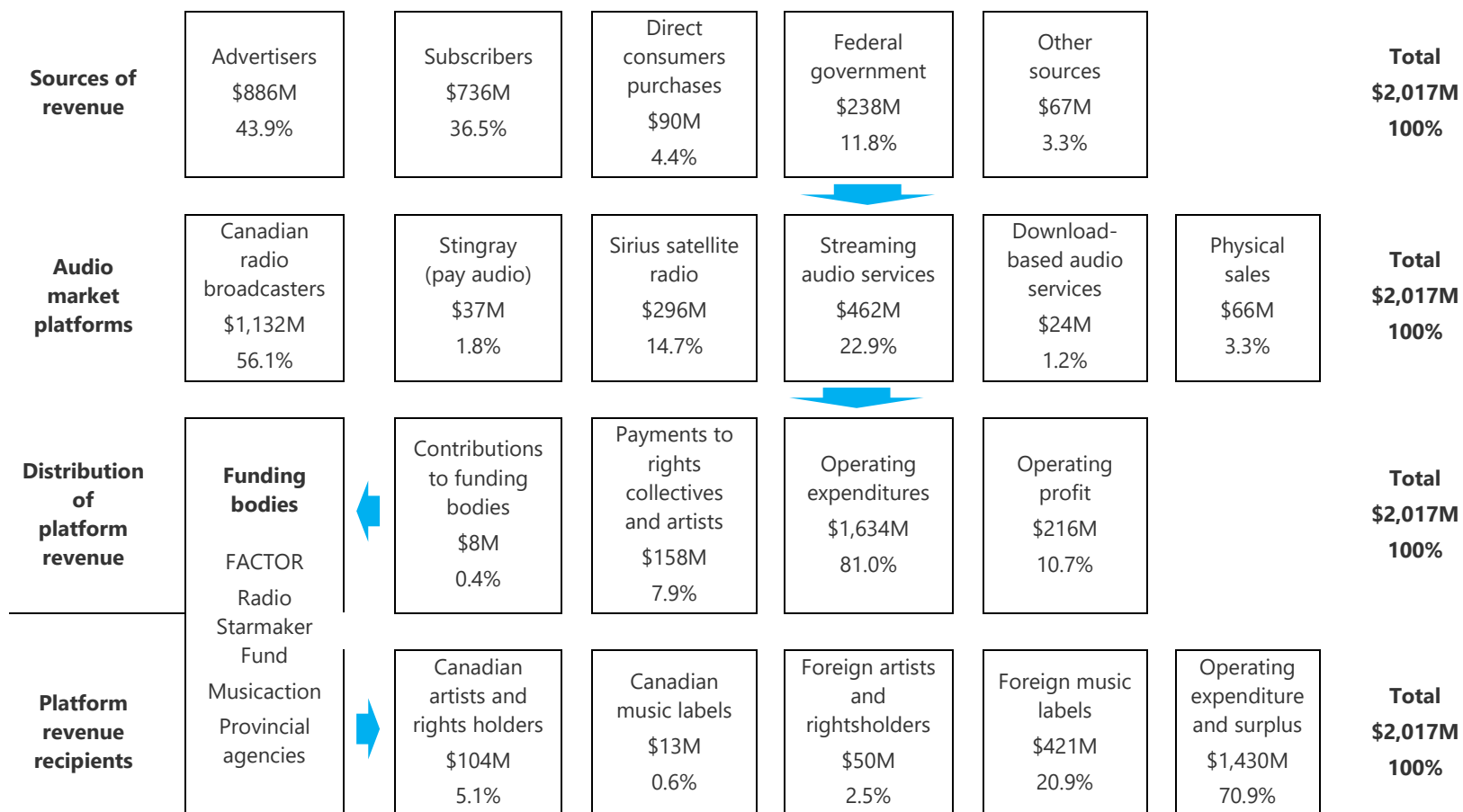
Source: Nordicity estimates based on data from CRTC, Omdia, SiriusXM, Stingray, Spotify and Wall (2021)

**Figure 4 Financial flows within Canada’s audio market, French-language, 2021**



Source: Nordicity estimates based on data from CRTC, Omdia and Wall (2021)

**Figure 5 Financial flows within Canada’s audio market, English/other language, 2021**



Source: Nordicity estimates based on data from CRTC, Omdia and Wall (2021)



## 2.2 Analysis of financial flows

19. In the following sub-section, we examine in more detail the financial flows between the various tiers and segments of Canada's audio market in 2021.

### 2.2.1 Sources of platform revenue

20. Table 1 indicates how the sources of revenue vary by platform in Canada's audio market. The vast majority of advertising revenue is earned within the radio broadcasting segment. Streaming audio services also earned an estimated 12% of their revenue from advertising. This 12% share is based on Spotify's global financial performance in 2021.<sup>4</sup>
21. The vast majority of subscription revenue was generated by streaming audio services (\$501.9 million), followed by Sirius satellite radio (\$332.2 million) and Stingray pay audio (\$47.1 million). Direct consumer purchases consisted of physical sales (\$83.2 million) and download based audio services (\$29.4 million). Federal government funding consisted entirely of the portion of the annual CBC/Radio-Canada parliamentary appropriation allocated to radio services (\$384.7 million).

**Table 1 Sources of platform revenue, all languages, 2021 (\$M)**

	<b>Canadian radio broadcasters</b>	<b>Stingray (pay audio)</b>	<b>Sirius satellite radio</b>	<b>Streaming audio services</b>	<b>Download based audio services</b>	<b>Physical sales</b>	<b>Total</b>
Advertising	1,058.4	0.0	0.0	68.4	0.0	0.0	<b>1,126.8</b>
Subscribers	0.0	47.1	332.2	501.9	0.0	0.0	<b>881.1</b>
Direct consumer purchases	0.0	0.0	0.0	0.0	29.4	83.2	<b>112.6</b>
Federal government	384.7	0.0	0.0	0.0	0.0	0.0	<b>384.7</b>
Other	93.4	0.0	4.5	0.0	0.0	0.0	<b>97.9</b>
<b>Total</b>	<b>1,536.4</b>	<b>47.1</b>	<b>336.7</b>	<b>570.3</b>	<b>29.4</b>	<b>83.2</b>	<b>2,603.0</b>

Source: Nordicity estimates based on data from CRTC, Omdia, SiriusXM, Stingray, Spotify and Wall (2021)

22. Table 2 indicates how each platform's share of revenue accounts for total market revenue. For example, advertising revenue earned by radio broadcasters accounted for 40.3% of total audio market revenue in 2021. All sources of advertising revenue accounted for 43.3% of total audio market revenue.
23. Table 3 indicates the key differences between the two language market. In particular, it indicates the variances in percentage of total market revenue between the French-language and English/Other language markets. A positive figure indicates that the market share is higher in the French-language market than the English/Other language. A negative figure indicates that the percentage was lower in the French-language market. The variances greater than +/- 2.00% have been highlighted in green or red to show how

<sup>4</sup> Spotify Technology S.A. (2021), *Form 20-F*, p. F-25.

particular financial flows may be over- or under-represented within the French-language market.

24. The language market variances in Table 3 indicate that the French-language market was less reliant on advertising revenue and relatively more reliant on federal government funding in 2021. In the French-language market, advertising revenue accounted for 35.0% of total market revenue. While in the English/other language market it accounted for 46.4%. In other words, the market share in the French-language market was 11.4 percentage points lower than the share observed in English/other language market.
25. The share of total audio market revenue derived from the federal government was 8.3 percentage points higher in the French-language market than in the English/other language market.

**Table 2 Sources of platform revenue, percentage of total market revenue, all languages, 2021**

	Canadian radio broadcasters	Stingray (pay audio)	Sirius satellite radio	Streaming audio services	Download based audio services	Physical sales	Total
Advertising	40.7%	0.0%	0.0%	2.6%	0.0%	0.0%	<b>43.3%</b>
Subscribers	0.0%	1.8%	12.8%	19.3%	0.0%	0.0%	<b>33.8%</b>
Direct consumer purchases	0.0%	0.0%	0.0%	0.0%	1.1%	3.2%	<b>4.3%</b>
Federal government	14.8%	0.0%	0.0%	0.0%	0.0%	0.0%	<b>14.8%</b>
Other	3.6%	0.0%	0.2%	0.0%	0.0%	0.0%	<b>3.8%</b>
<b>Total</b>	<b>59.0%</b>	<b>1.8%</b>	<b>12.9%</b>	<b>21.9%</b>	<b>1.1%</b>	<b>3.2%</b>	<b>100.0%</b>

Source: Nordicity estimates based on data from CRTC, Omdia, SiriusXM, Stingray, Spotify and Wall (2021)

**Table 3 Language market variance in revenue percentages, 2021\***

	Canadian radio broadcasters	Stingray (pay audio)	Sirius satellite radio	Streaming audio services	Download based audio services	Physical sales	Total
Advertising	-11.53%	0.00%	0.00%	0.12%	0.00%	0.00%	-11.41%
Subscribers	0.00%	0.08%	0.58%	0.88%	0.00%	0.00%	1.55%
Direct consumer purchases	0.00%	0.00%	0.00%	0.00%	0.17%	0.47%	0.64%
Federal government	8.26%	0.00%	0.00%	0.00%	0.00%	0.00%	8.26%
Other	0.96%	0.00%	0.01%	0.00%	0.00%	0.00%	0.97%
<b>Total</b>	<b>-2.31%</b>	<b>0.08%</b>	<b>0.59%</b>	<b>1.00%</b>	<b>0.17%</b>	<b>0.47%</b>	<b>0.00%</b>

Source: Nordicity estimates based on data from CRTC, Omdia, SiriusXM, Stingray, Spotify and Wall (2021)

\* French-language market minus English/other language market



## 2.2.2 Distribution of platform revenue

26. Table 4 indicates how each audio market platform's revenue is distributed in terms of contributions to funding bodies, payments to artists and rights collectives, and the platforms' own operating expenditures and profits.
27. Table 5 indicates how revenues are distributed within each platform. The results indicate, for example, that, on a percentage-of-revenue basis, payments to artists and rights collectives are highest on download-based services (63.0%), followed by physical sales (16%), streaming audio services platforms (10.3%), Sirius satellite radio (6.5%) Canadian radio broadcasters (3.9%) and pay audio (1.0%).<sup>5</sup>
28. Table 5 also indicates which platforms contribute to funding bodies in Canada – specifically Sirius satellite radio and radio broadcasters. It also indicates how the operating profit margin varies across the platforms.<sup>6</sup>

**Table 4 Distribution of platform revenue, all languages, 2021 (\$M)**

	<b>Canadian radio broadcasters</b>	<b>Stingray (pay audio)</b>	<b>Sirius satellite radio</b>	<b>Streaming audio services</b>	<b>Download based audio services</b>	<b>Physical sales</b>	<b>Total</b>
Contributions to funding bodies	6.0	0.0	5.5	0.0	0.0	0.0	<b>11.5</b>
Payments to artists and rights collectives	60.1	0.5	21.9	58.9	18.5	13.3	<b>173.3</b>
Operating expenditures	1,354.1	38.1	231.5	494.3	7.6	63.3	<b>2,188.9</b>
Operating profit	116.2	8.5	77.7	17.1	3.3	6.6	<b>229.3</b>
<b>Total</b>	<b>1,536.4</b>	<b>47.1</b>	<b>336.7</b>	<b>570.3</b>	<b>29.4</b>	<b>83.2</b>	<b>2,603.0</b>

Source: Nordicity estimates based on data from CRTC, Omdia, SiriusXM, Stingray, Spotify and Wall (2021)

<sup>5</sup> No specific data was available on the share of revenue from physical sales and download-based audio services flowing to artists and rights collectives; however estimates were derived based on secondary research of the financial models for these platforms.

<sup>6</sup> Operating profit margins were not available for revenue earned in the physical sales and download-based audio services platforms; however, estimates were derived based on secondary research.

**Table 5 Distribution of platform revenue, all languages, 2021**

	<b>Canadian radio broadcasters</b>	<b>Stingray (pay audio)</b>	<b>Sirius satellite radio</b>	<b>Streaming audio services</b>	<b>Download based audio services</b>	<b>Physical sales</b>	<b>Total</b>
Contributions to funding bodies	0.4%	0.0%	1.6%	0.0%	0.0%	0.0%	<b>0.4%</b>
Payments to artists and rights collectives	3.9%	1.0%	6.5%	10.3%	63.0%	16.0%	<b>6.7%</b>
Operating expenditures	88.1%	80.9%	68.8%	86.7%	25.9%	76.1%	<b>84.1%</b>
Operating profit	7.6%	18.1%	23.1%	3.0%	11.1%	7.9%	<b>8.8%</b>
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Nordicity estimates based on data from CRTC, Omdia, SiriusXM, Stingray, Spotify and Wall (2021)

29. Table 6 indicates how all the revenue across Canada’s audio market is distributed by platform and revenue-distribution flow. For example, it indicates that contributions to funding bodies only accounted for 0.4% of total market revenue in 2021, while platforms’ operating expenditures absorbed 84.1% of total market revenue.

**Table 6 Distribution of platform revenue, percentage of total market revenue, all languages, 2021**

	<b>Canadian radio broadcasters</b>	<b>Stingray (pay audio)</b>	<b>Sirius satellite radio</b>	<b>Streaming audio services</b>	<b>Download based audio services</b>	<b>Physical sales</b>	<b>Total</b>
Contributions to funding bodies	0.2%	0.0%	0.2%	0.0%	0.0%	0.0%	<b>0.4%</b>
Payments to artists and rights collectives	2.3%	0.0%	0.8%	2.3%	0.7%	0.5%	<b>6.7%</b>
Operating expenditures	52.0%	1.5%	8.9%	19.0%	0.3%	2.4%	<b>84.1%</b>
Operating profit	4.5%	0.3%	3.0%	0.7%	0.1%	0.3%	<b>8.8%</b>
<b>Total</b>	<b>59.0%</b>	<b>1.8%</b>	<b>12.9%</b>	<b>21.9%</b>	<b>1.1%</b>	<b>3.2%</b>	<b>100.0%</b>

Source: Nordicity estimates based on data from CRTC, Omdia, SiriusXM, Stingray, Spotify and Wall (2021)

30. Table 7 highlights the key variances between the two language markets. In particular, it indicates that radio broadcasting operating expenditures were higher in the French-language market compared to the English/other language market. In fact, the operating expenditure margin was 4.48 percentage points higher in the French-language market. At

the same time, operating profits were higher (i.e. 8.24 percentage points) in the French-language radio broadcasting market in 2021 and the overall audio market (2.64 percentage points higher).

**Table 7 Language market variance in revenue-distribution percentages, 2021\***

	<b>Canadian radio broadcasters</b>	<b>Stingray (pay audio)</b>	<b>Sirius satellite radio</b>	<b>Streaming audio services</b>	<b>Download based audio services</b>	<b>Physical sales</b>	<b>Total</b>
Contributions to funding bodies	0.06%	0.00%	0.19%	0.00%	0.00%	0.00%	0.24%
Payments to artists and rights collectives	-0.05%	-0.01%	-0.77%	-1.12%	-0.15%	-0.05%	-2.15%
Operating expenditures	4.48%	0.00%	-3.55%	-1.67%	-0.06%	0.06%	-0.74%
Operating profit	8.24%	-0.16%	-3.70%	-1.69%	-0.03%	-0.02%	2.64%
<b>Total</b>	<b>12.72%</b>	<b>-0.16%</b>	<b>-7.84%</b>	<b>-4.48%</b>	<b>-0.23%</b>	<b>-0.29%</b>	<b>0.00%</b>

Source: Nordicity estimates based on data from CRTC, Omdia, SiriusXM, Stingray, Spotify and Wall (2021)

\* French-language market minus English/other language market

### 2.2.3 Platform revenue recipients

31. In this sub-section, we provide a further breakdown of the distribution of platform revenue by tracing how recipients of platform expenditures. In particular, we examine the degree to which payments to artists and rights holders were retained in Canada or flowed outside of Canada.
32. Table 8 details the breakdown of platform revenue by recipient grouping. Canadian artists and rightsholders received an estimated \$129.6 million in 2021, with most of that income originating from the audio streaming, radio broadcasting and Sirius satellite radio platforms. Canadian music labels earned an estimated \$16.2 million from the Canadian audio market, with the vast majority of that revenue coming from the streaming platform.
33. Foreign artists and rightsholders earned an estimated \$58.1 million within the Canadian audio market in 2021. The foreign (or global) music labels earned \$520.7 million in Canada in 2021, with 87% of those earnings coming from streaming platforms.
34. The balance of market revenue (\$1,878.4 million) was devoted to operating expenditures and profits within the audio market.

**Table 8 Platform revenue recipients, all languages, 2021 (\$M)**

	<b>Canadian radio broadcasters</b>	<b>Stingray (pay audio)</b>	<b>Sirius satellite radio</b>	<b>Streaming audio services</b>	<b>Download based audio services</b>	<b>Physical sales</b>	<b>Total</b>
Canadian artists and rightsholders	44.0	0.4	23.9	50.1	1.9	9.3	<b>129.6</b>
Canadian music labels	0.0	0.0	0.0	4.6	11.0	0.7	<b>16.2</b>
Foreign artists and rightsholders	22.1	0.2	8.9	22.1	0.8	4.0	<b>58.1</b>
Foreign music labels	0.0	0.0	0.0	451.7	4.7	64.3	<b>520.7</b>
Operating expenditures/profit	1,470.3	46.5	303.9	41.9	10.9	4.9	<b>1,878.4</b>
<b>Total</b>	<b>1,536.4</b>	<b>47.1</b>	<b>336.7</b>	<b>570.3</b>	<b>29.4</b>	<b>83.2</b>	<b>2,603.0</b>

Source: Nordicity estimates based on data from CRTC, Omdia, SiriusXM, Stingray, Spotify and Wall (2021)

35. Table 9 indicates how platform revenue recipients varied by platform. In the radio broadcasting, pay audio and satellite radio segments, the vast majority of revenue was devoted to operating expenditures and profit. In contrast, on the audio streaming, download and physical sales platforms, music labels – particularly foreign labels – were the main recipients, accounting for approximately 80% of platform revenue.

**Table 9 Platform revenue recipients, percentage of platform totals, all languages, 2021**

	<b>Canadian radio broadcasters</b>	<b>Stingray (pay audio)</b>	<b>Sirius satellite radio</b>	<b>Streaming audio services</b>	<b>Download based audio services</b>	<b>Physical sales</b>	<b>Total</b>
Canadian artists and rightsholders	2.9%	0.8%	7.1%	8.8%	6.6%	11.2%	<b>5.0%</b>
Canadian music labels	0.0%	0.0%	0.0%	0.8%	37.4%	0.8%	<b>0.6%</b>
Foreign artists and rightsholders	1.4%	0.4%	2.6%	3.9%	2.8%	4.8%	<b>2.2%</b>
Foreign music labels	0.0%	0.0%	0.0%	79.2%	16.1%	77.3%	<b>20.0%</b>
Operating expenditures/profit	95.7%	98.8%	90.3%	7.3%	37.0%	5.9%	<b>72.2%</b>
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Nordicity estimates based on data from CRTC, Omdia, SiriusXM, Stingray, Spotify and Wall (2021)

36. Table 10 provides an overall breakdown of all platform revenue within Canada’s audio market, based on revenue recipients. For example, foreign music labels’ share of audio streaming platform revenue accounted for 17.4% of all audio market revenue. When other platforms are included, the foreign music labels’ share rises to 20%.

**Table 10 Platform revenue recipients, all languages, 2021**

	<b>Canadian radio broadcasters</b>	<b>Stingray (pay audio)</b>	<b>Sirius satellite radio</b>	<b>Streaming audio services</b>	<b>Download based audio services</b>	<b>Physical sales</b>	<b>Total</b>
Canadian artists and rightsholders	1.7%	0.0%	0.9%	1.9%	0.1%	0.4%	<b>5.0%</b>
Canadian music labels	0.0%	0.0%	0.0%	0.2%	0.4%	0.0%	<b>0.6%</b>
Foreign artists and rightsholders	0.8%	0.0%	0.3%	0.8%	0.0%	0.2%	<b>2.2%</b>
Foreign music labels	0.0%	0.0%	0.0%	17.4%	0.2%	2.5%	<b>20.0%</b>
Operating expenditures/profit	56.5%	1.8%	11.7%	1.6%	0.4%	0.2%	<b>72.2%</b>
<b>Total</b>	<b>59.0%</b>	<b>1.8%</b>	<b>12.9%</b>	<b>21.9%</b>	<b>1.1%</b>	<b>3.2%</b>	<b>100.0%</b>

Source: Nordicity estimates based on data from CRTC, Omdia, SiriusXM, Stingray, Spotify and Wall (2021)

37. Table 11 indicates how the market shares in Table 10 vary between the language markets. In general, there were few, if any, significant differences between the two language markets. However, this may, in part, be due to the fact the modelling of financial flows used national averages in estimating the share of revenue flowing to artists, rightsholder and music labels.

**Table 11 Platform revenue recipients, variance between language markets, 2021\***

	<b>Canadian radio broadcasters</b>	<b>Stingray (pay audio)</b>	<b>Sirius satellite radio</b>	<b>Streaming audio services</b>	<b>Download based audio services</b>	<b>Physical sales</b>	<b>Total</b>
Canadian artists and rightsholders	0.10%	0.00%	-0.32%	-0.48%	0.00%	0.04%	-0.68%
Canadian music labels	0.00%	0.00%	0.00%	-0.04%	-0.01%	0.00%	-0.05%
Foreign artists and rightsholders	-0.09%	0.00%	-0.27%	-0.63%	-0.02%	-0.08%	-1.08%

Foreign music labels	0.00%	0.00%	0.00%	-3.50%	-0.11%	-0.21%	-3.82%
Operating expenditures/profit	12.86%	-0.15%	-7.21%	0.23%	-0.08%	-0.02%	5.63%
<b>Total</b>	<b>12.87%</b>	<b>-0.16%</b>	<b>-7.80%</b>	<b>-4.42%</b>	<b>-0.23%</b>	<b>-0.28%</b>	<b>0.00%</b>

Source: Nordicity estimates based on data from CRTC, Omdia, SiriusXM, Stingray, Spotify and Wall (2021)

\* French-language market minus English/other language market

### 3 Trends analysis

38. In the previous section, we summarised our estimates of the financial flows within Canada's audio market in 2021. We also examined in detail how these financial flows varied across audio platforms and language markets. In this section we examine the year-to-year trends observed within Canada's audio market between 2015 and 2021 – the years covered by *Harnessing Change: The Future of Programming Distribution in Canada* (2018) and this report.<sup>7</sup>

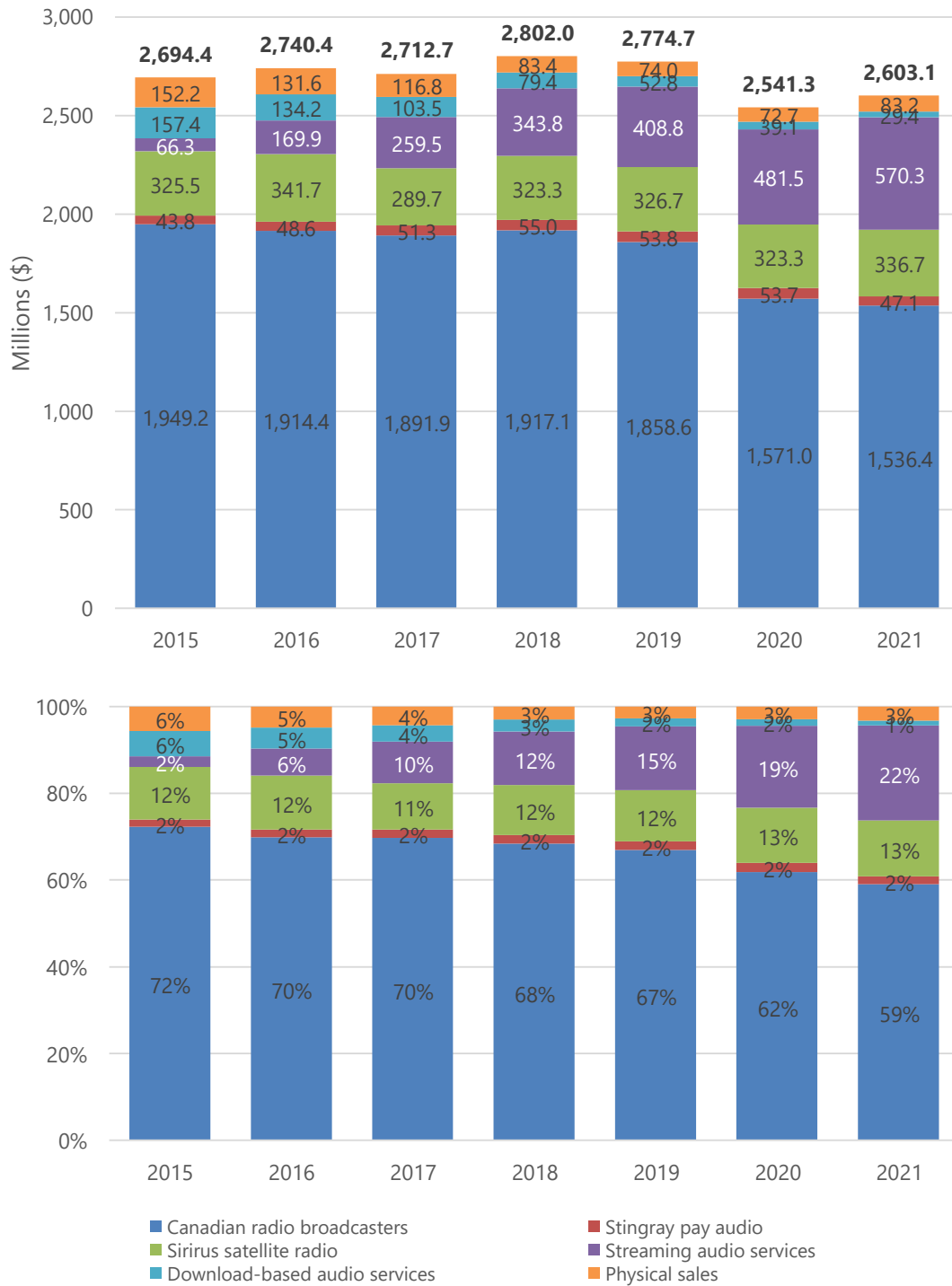
#### 3.1 Sector revenue

39. Our analysis indicates that total revenue in Canada's audio market hit a seven-year peak of just over \$2.80 billion in 2018 before dipping by one percent in 2019 (Figure 6). With the onset of the Covid-19 pandemic, total revenue fell by 8.4% to \$2.54 billion in 2020, before partially recovering by 2.4% to \$2.60 billion in 2021.
40. While overall market revenue was relatively stable between 2015 and 2019 before being dampened by the economic effects of the pandemic, the audio sector continued to undergo significant changes in the platform-by-platform composition of revenue.
41. Canadian radio broadcasting revenue was at its highest in 2015, and has been in decline ever since. The pandemic hit the Canadian radio broadcasting platform more than any other audio platform. Its revenue fell by 15.5% in 2020 and declined by a further 2.2% in 2021. Canadian radio broadcasters' share of total audio market revenue fell from 72% in 2015 to 59% in 2021. As noted in Section 1.2, the fall in revenue experienced by commercial radio broadcasters in Canada was even steeper – falling by 21% in 2020 and 7% in 2021 (see Section 1.2, Figure 1).
42. As the radio broadcasting platform has contracted, the audio streaming platform has expanded rapidly. Its revenues grew from only \$66.3 million in 2015 to \$570.3 million in 2021 – a compound annual growth rate (CAGR) of 43.1%. As a result, audio streaming services' share of audio market revenue in Canada increased from only 2% in 2015 to 22% in 2021.
43. Revenues in the satellite radio and pay audio platforms remained relatively stable between 2015 and 2021. Satellite radio's share of market revenue was 12% in 2015 and 13% in 2021. The pay audio platform's 2% share of market revenue in 2015 was unchanged by 2021.
44. Both download-based audio services and physical sales, however, fell between 2015 and 2021. Download-based audio services' share of sector revenue fell from 6% to 1% between 2015 and 2021. Physical sales' share fell from 6% to 3%.

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<sup>7</sup> In some cases, data for specific breakdowns of audio market revenue were only available back to 2018 – i.e. the scope of this study.

**Figure 6 Audio sector revenue in Canada by platform (\$M)**



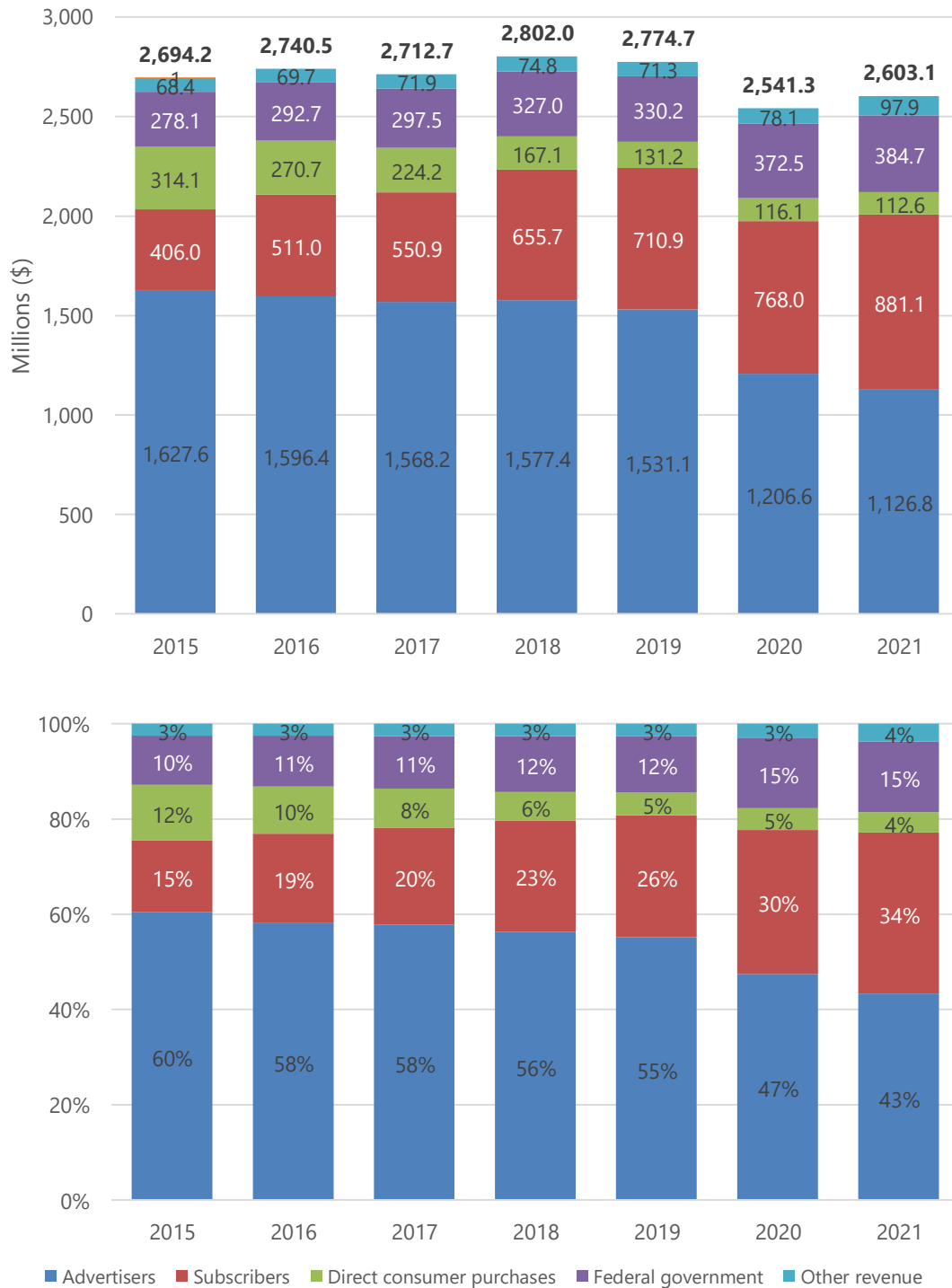
Source: Nordicity estimates based on data from CRTC, Omdia, SiriusXM, Stingray, Spotify and Wall (2021)



### 3.2 Sources of revenue

45. The underlying shifts in various platform's market shares within the overall Canadian audio market have contributed to shifts in the sources of revenue within the sector. As recently as 2015, advertising accounted for 60% of total market revenue; by 2021 it was down to a 43% share (Figure 7). This drop was largely due to the decline in the radio broadcasting platform's share of market revenue during that period.
46. The share of audio market revenue accounted for by direct consumer purchases also fell between 2015 and 2021 – from 12% to 4% (Figure 7).
47. The proliferation and growth in audio streaming services meant that subscription revenue in the Canadian audio market increased by \$475.1 million between 2015 and 2021 (Figure 7). Its share of audio market revenue, meanwhile, increased from 15% to 34%. The growth in subscription revenue, however, only partially offset the loss of advertising revenue and direct consumer purchases. In fact, the increase subscription revenue between 2015 and 2021 (\$475.1 million) was equivalent to approximately two-thirds of the combined drop in advertising revenue and direct consumer purchases over that period (\$702.3 million).
48. The federal government's contribution to audio market revenue also increased between 2015 and 2021 – both in percentage and absolute terms. Federal government funding for CBC/Radio-Canada's radio operations increased from \$278.1 million to \$384.1 million, or 10% to 15% of total audio market revenue (Figure 7).

**Figure 7 Source of audio sector revenue in Canada**

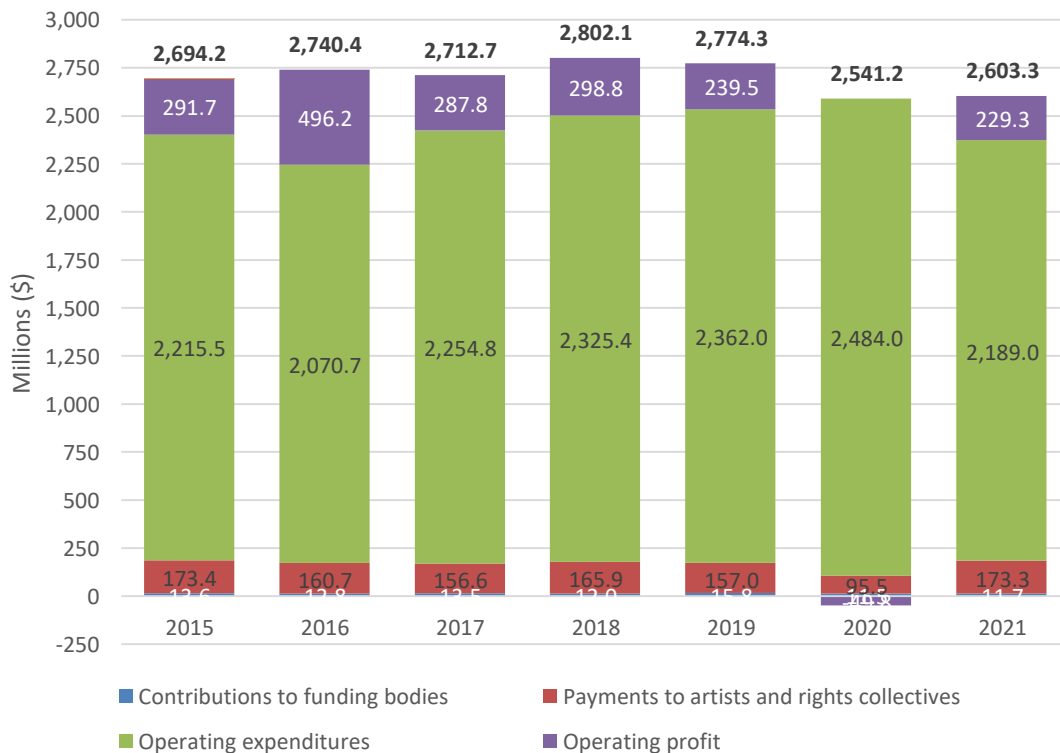


Source: Nordicity estimates based on data from CRTC, Omdia, SiriusXM, Stingray, Spotify and Wall (2021)

### 3.3 Distribution of platform revenue

49. Figure 8 displays the temporal trends in terms of the distribution of platform revenue. The year-to-year profile in the distribution of platform revenue was relatively unchanged between 2015 and 2021. The vast majority of revenue flowed to the operating expenditures (i.e. technical, administrative and marketing costs) required to operate the platforms in Canada. Operating profits did fluctuate somewhat – peaking at \$496.2 million in 2016 and dropping to negative \$49.8 million in 2020.
50. Contributions to funding bodies were consistently in the range of \$11 million to \$16 million annually. Prior to the pandemic, payments to artists and rights collectives were consistently above \$155 million annually, but in 2020 dropped to under \$100 million before recovering to just over \$140 million in 2021. These trends in the contributions to funding bodies, and payments to artists and rights collectives largely reflect the underlying shifts in platform revenues. As market revenue shifts from radio broadcasting to audio streaming, there is a lower revenue base subject to regulation-mandated contributions to funding bodies or specific copyright tariffs.

**Figure 8 Distribution of audio sector platform revenue (\$M)**

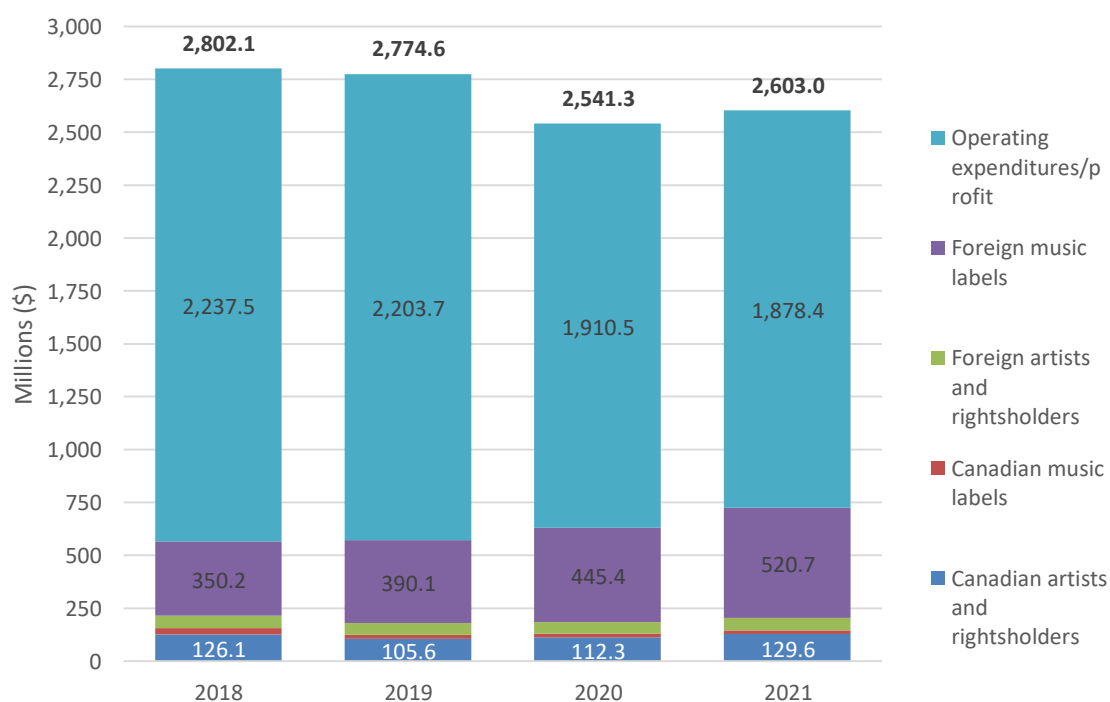


Source: Nordicity estimates based on data from CRTC, Omdia, SiriusXM, Stingray, Spotify and Wall (2021)

### 3.4 Platform revenue recipients

51. Figure 9 provides a breakdown of platform revenue recipients back to 2018. In particular, it shows how foreign music labels have captured an increasing share of audio market revenue, as audiences and market revenue have shifted from radio broadcasting to the audio streaming platforms. It also shows how the estimated levels of payments to Canadian artists and rightsholders temporarily dropped in 2020, as market revenue also dropped, but recovered in 2021. Payments to foreign artists and rightsholders also followed the overall trends in market revenue.

**Figure 9 Platform revenue recipients, 2018-2021\* (\$M)**



Source: Nordicity estimates based on data from CRTC, Omdia, SiriusXM, Stingray, Spotify and Wall (2021)

\* Data not available on this basis prior to 2018.

	2018	2019	2020	2021
<b>\$M</b>				
Canadian artists and rightsholders	126.1	105.6	112.3	129.6
Canadian music labels	29.4	18.5	17.5	16.2
Foreign artists and rightsholders	58.9	56.7	55.6	58.1
Foreign music labels	350.2	390.1	445.4	520.7
Operating expenditures/profit	2,237.5	2,203.7	1,910.5	1,878.4
<b>Total</b>	<b>2,802.1</b>	<b>2,774.6</b>	<b>2,541.3</b>	<b>2,603.0</b>



## 4 Summary of key findings

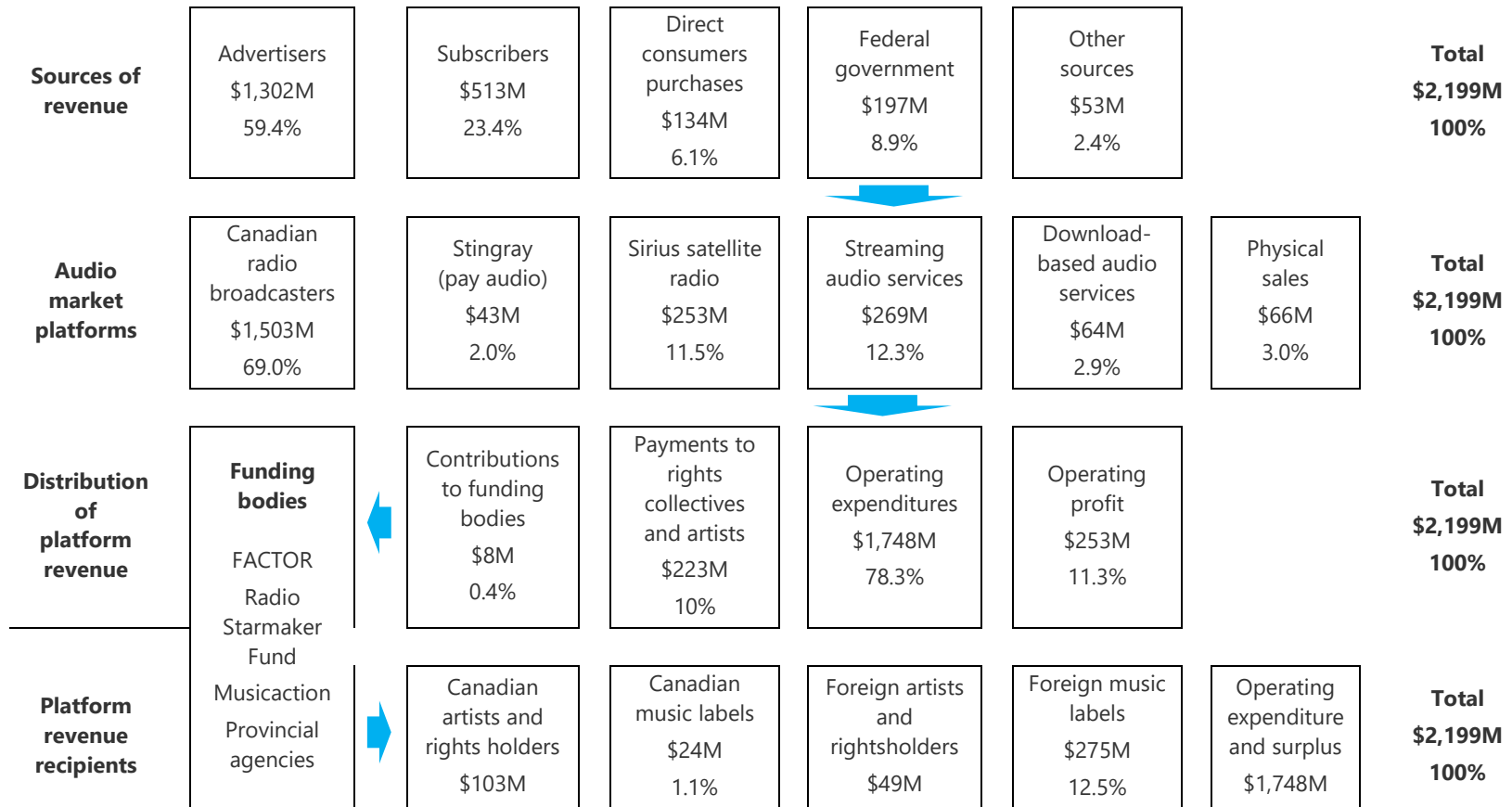
52. The preceding analysis provides a detailed examination of the financial flows within Canada's audio market between 2015 and 2021. In particular, it examines how the key audio platforms – radio broadcasting, audio streaming, satellite radio, pay audio, physical sales and audio-download services - accounted for revenue within Canada's audio market.
53. Among other things, the results of the financial flow research and modelling clearly show that the Canadian radio broadcasting platform has been steadily losing market share to audio streaming platforms. This shift in audiences and market share appears to have been accelerated by the Covid-19 pandemic. The physical sales and audio download platforms have also been contracting and losing market share.
54. What's more, the declines in revenue experienced by the radio broadcasting, physical sales and audio-download platforms are not being entirely offset by the gains observed in the audio streaming market. In fact, our research indicates that the expanded revenue in the audio streaming market between 2015 and 2021 only covered two-thirds of the losses in revenue experienced in the declining platforms.
55. This underlying shift in platform market shares appears to have implications for the financial flows to Canadian artists. The regulation of the radio broadcasting platform in Canada means that it is required to contribute to funding bodies that subsequently fund Canadian artists. As radio broadcasting platform revenue declines, so will those contributions to funding bodies, unless contribution rates are raised or the sources of contributions is widened to encompass platforms that are not currently regulated.
56. Our research also indicates that the shift from radio broadcasting to audio streaming platforms may lead to increasing leakages of revenue outside of Canada. In contrast to radio broadcasting, music labels benefit directly from audio streaming revenue. Since audio streaming platforms are not subject to content regulation, the vast majority of these payments to music labels are flowing to foreign music labels.
57. The above trends observed in the audio market between 2015 and 2021 appear to be affecting both of Canada's language markets in a similar fashion. Our research indicates that the various audio platforms have similar market shares in the French and English/other language market. For that reason, both language markets are experiencing the shifts away from regulated to unregulated platforms. That being said, some of the data used to model the financial flows was only available on a national basis, so this analysis was unable to truly observe the key differences in the language markets. For example, it was unable to discern if the revenue flowing from audio streaming platforms to foreign music labels was, in fact, lower in the French-language market on account of the fact that Francophone Canadian artists are typically more popular in Canada's French-language than Anglophone Canadian artists are in Canada's English-language market.



## 5 Appendix A: Summary of model results (2018-2020)

### 5.1 2018

Figure 10 Financial flows within Canada's audio market, English/other language, 2018

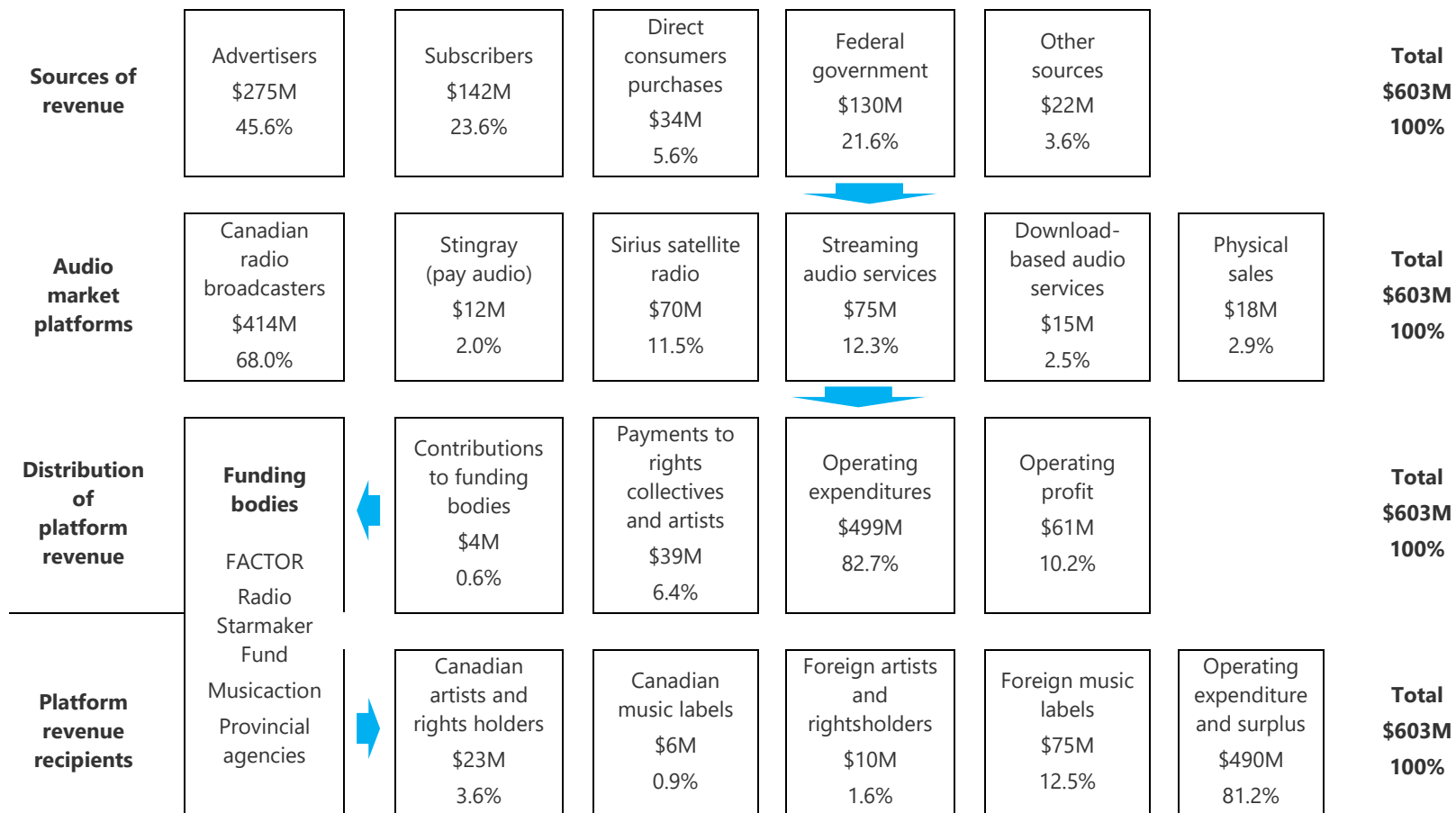




	4.7%		2.2%		79.5%
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Source: Nordicity estimates based on data from CRTC, Omdia and Wall (2021)

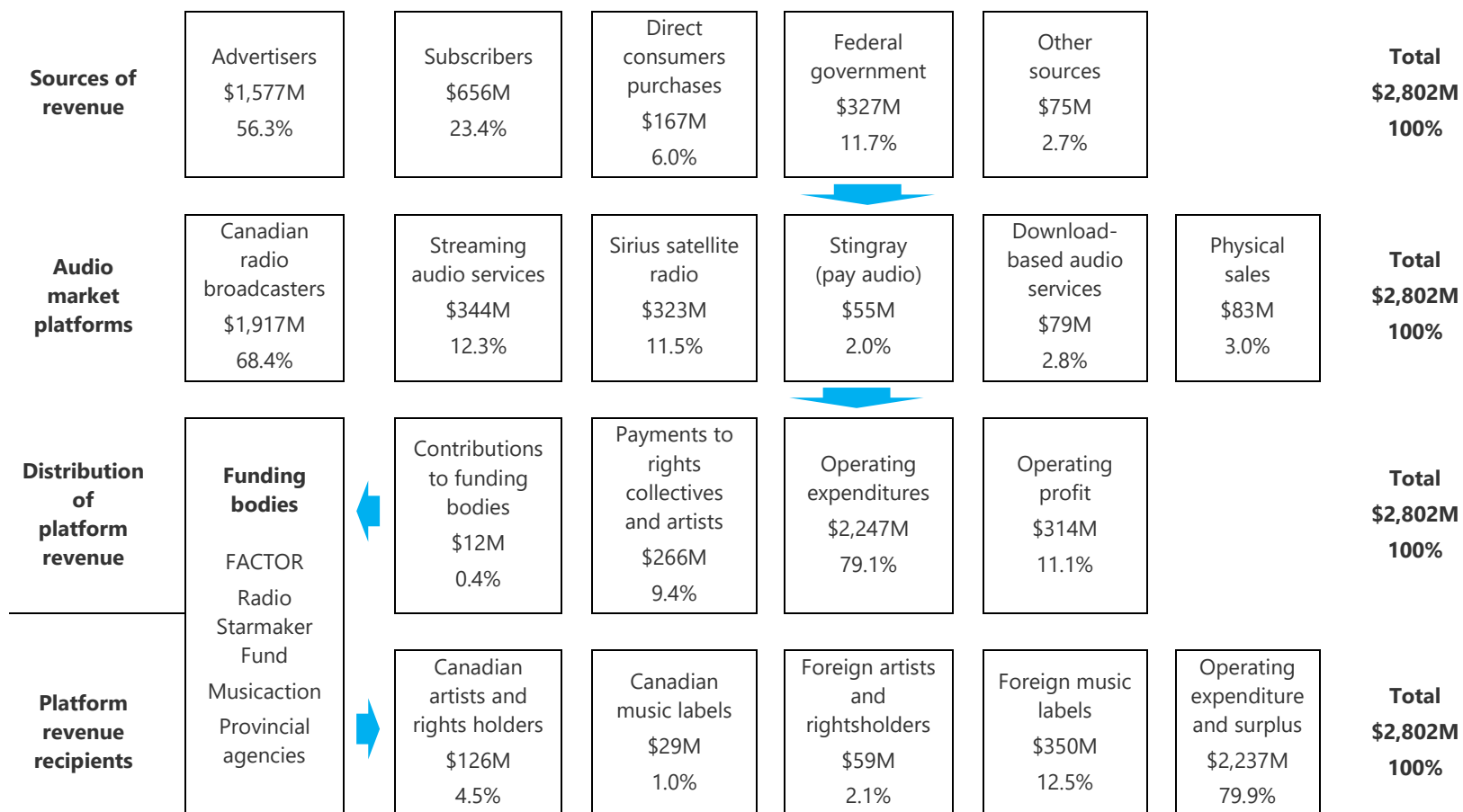
**Figure 101 Financial flows within Canada's audio market, French-language, 2018**



Source: Nordicity estimates based on data from CRTC, Omdia and Wall (2021)



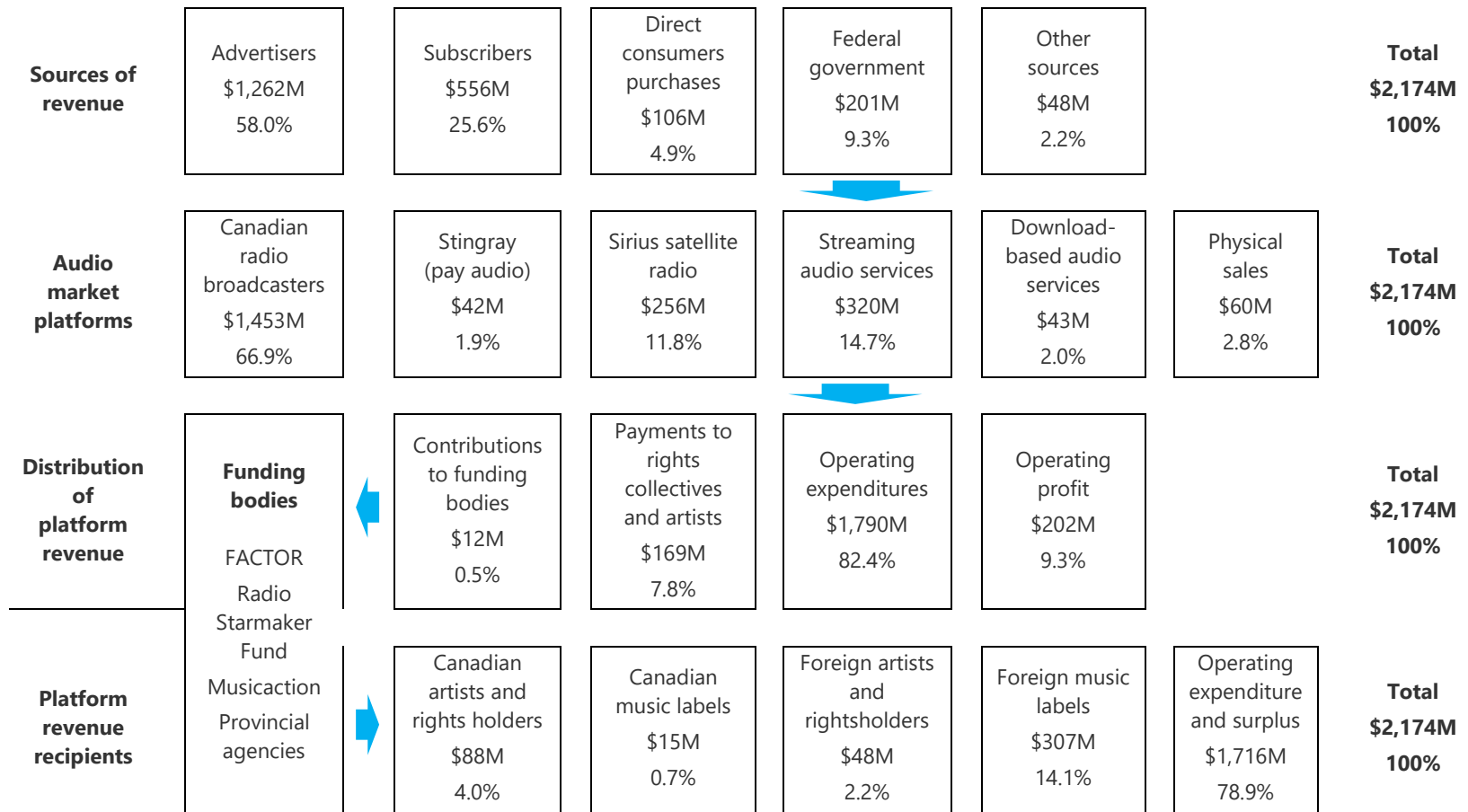
**Figure 112 Financial flows within Canada’s audio market, all languages, 2018**



Source: Nordicity estimates based on data from CRTC, Omdia and Wall (2021)

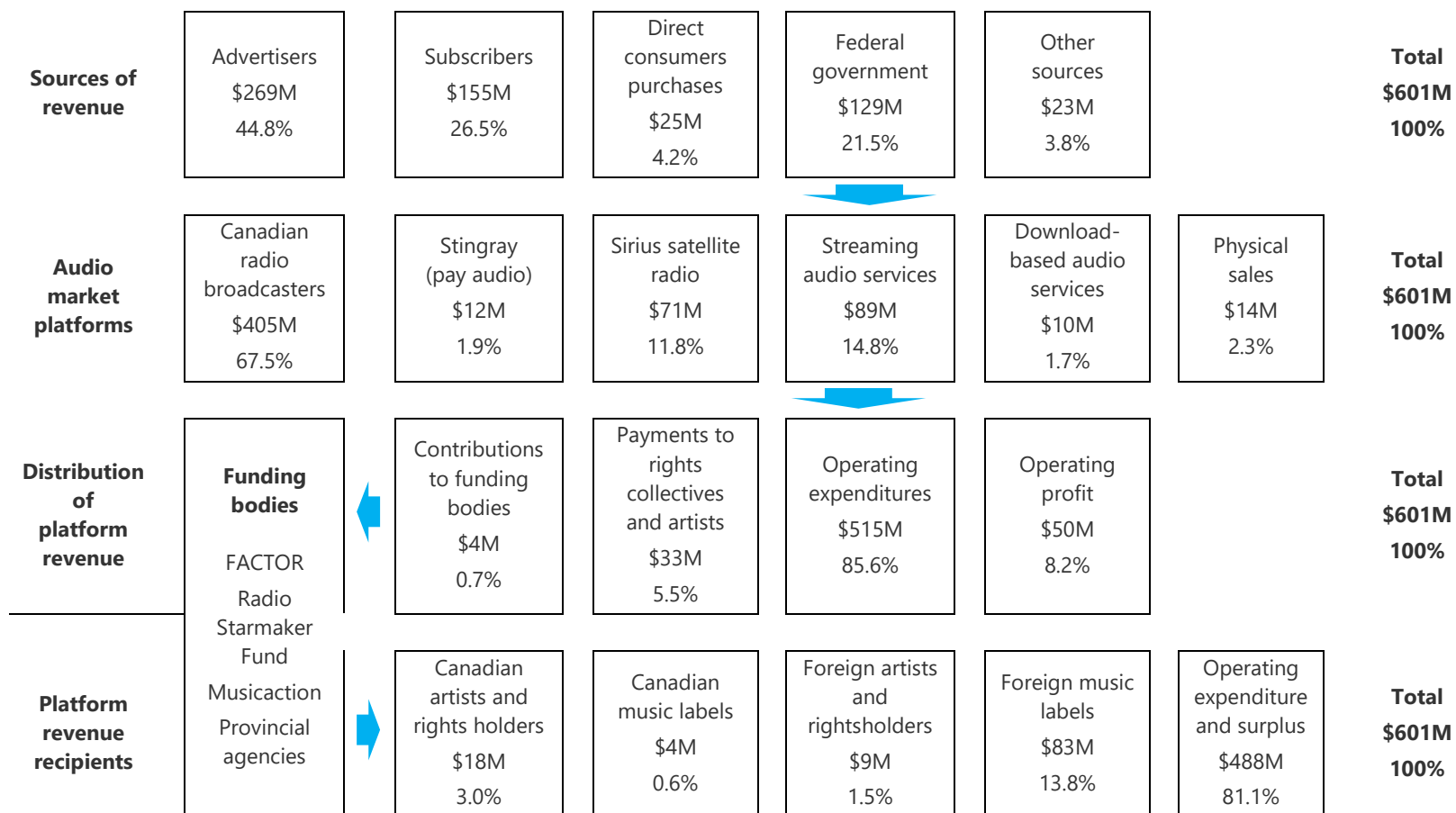
## 5.2 2019

Figure 123 Financial flows within Canada's audio market, English/other languages, 2019



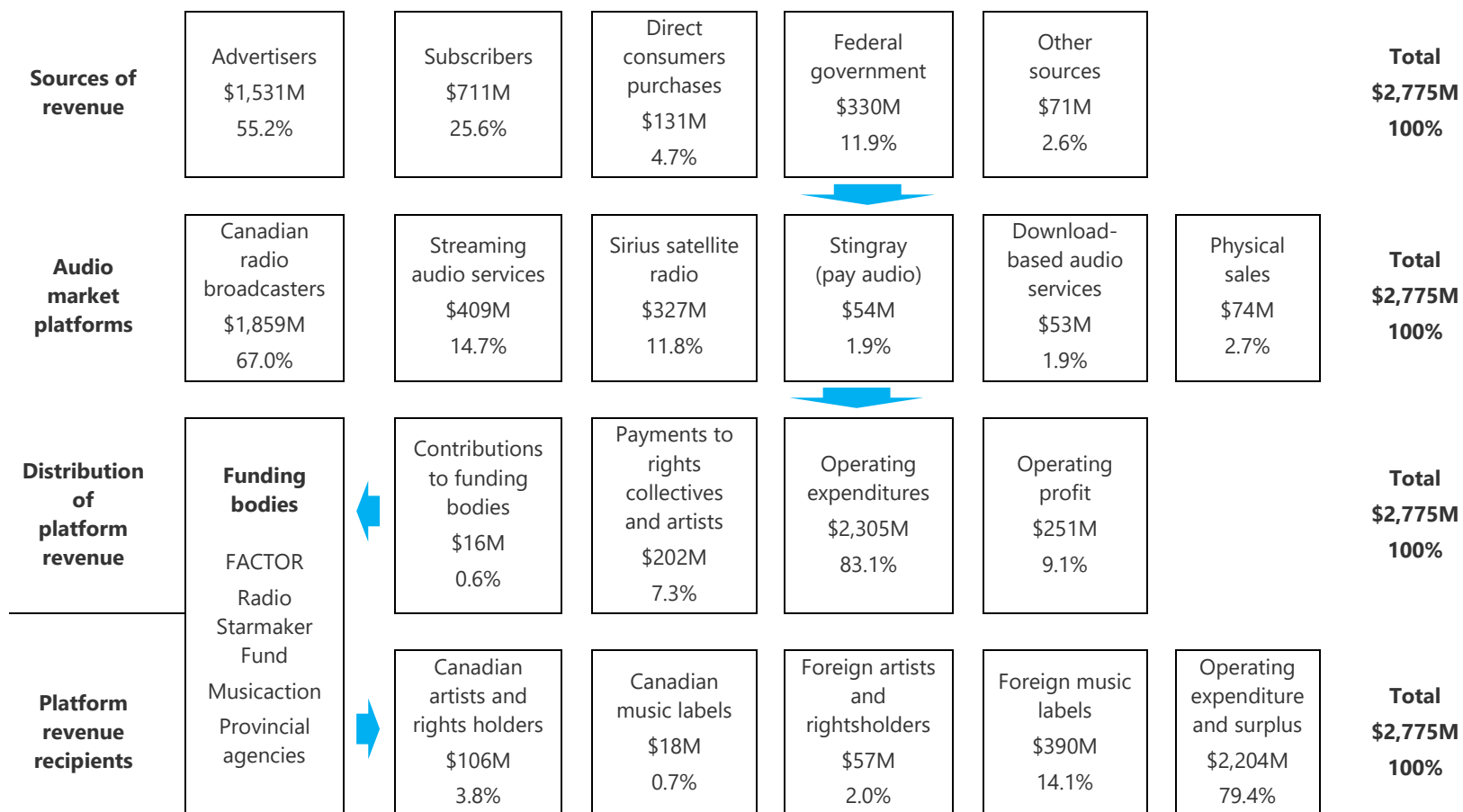
Source: Nordicity estimates based on data from CRTC, Omdia and Wall (2021)

**Figure 134 Financial flows within Canada’s audio market, French-language, 2019**



Source: Nordicity estimates based on data from CRTC, Omdia and Wall (2021)

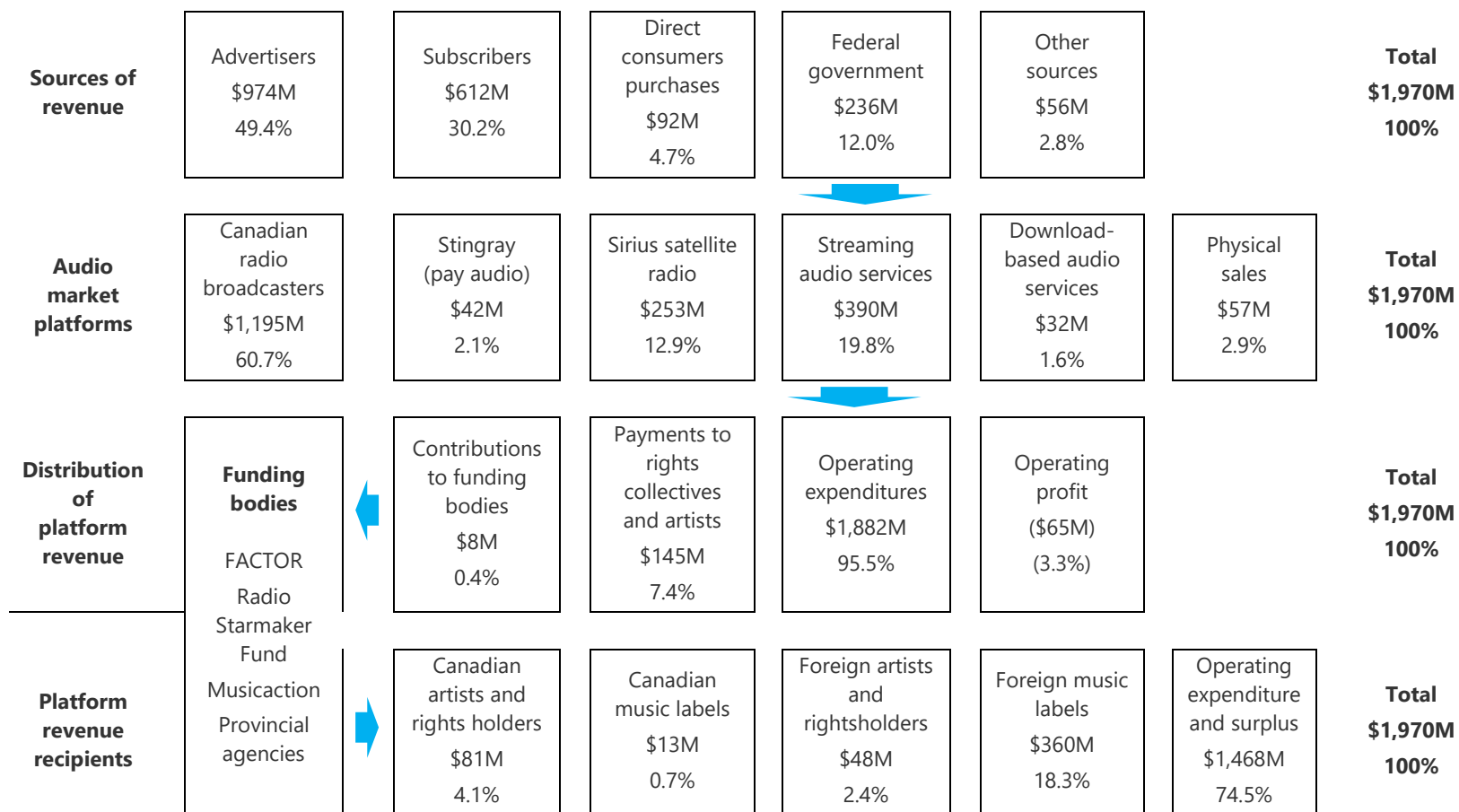
**Figure 15 Financial flows within Canada’s audio market, all languages, 2019**



Source: Nordicity estimates based on data from CRTC, Omdia and Wall (2021)

### 5.3 2020

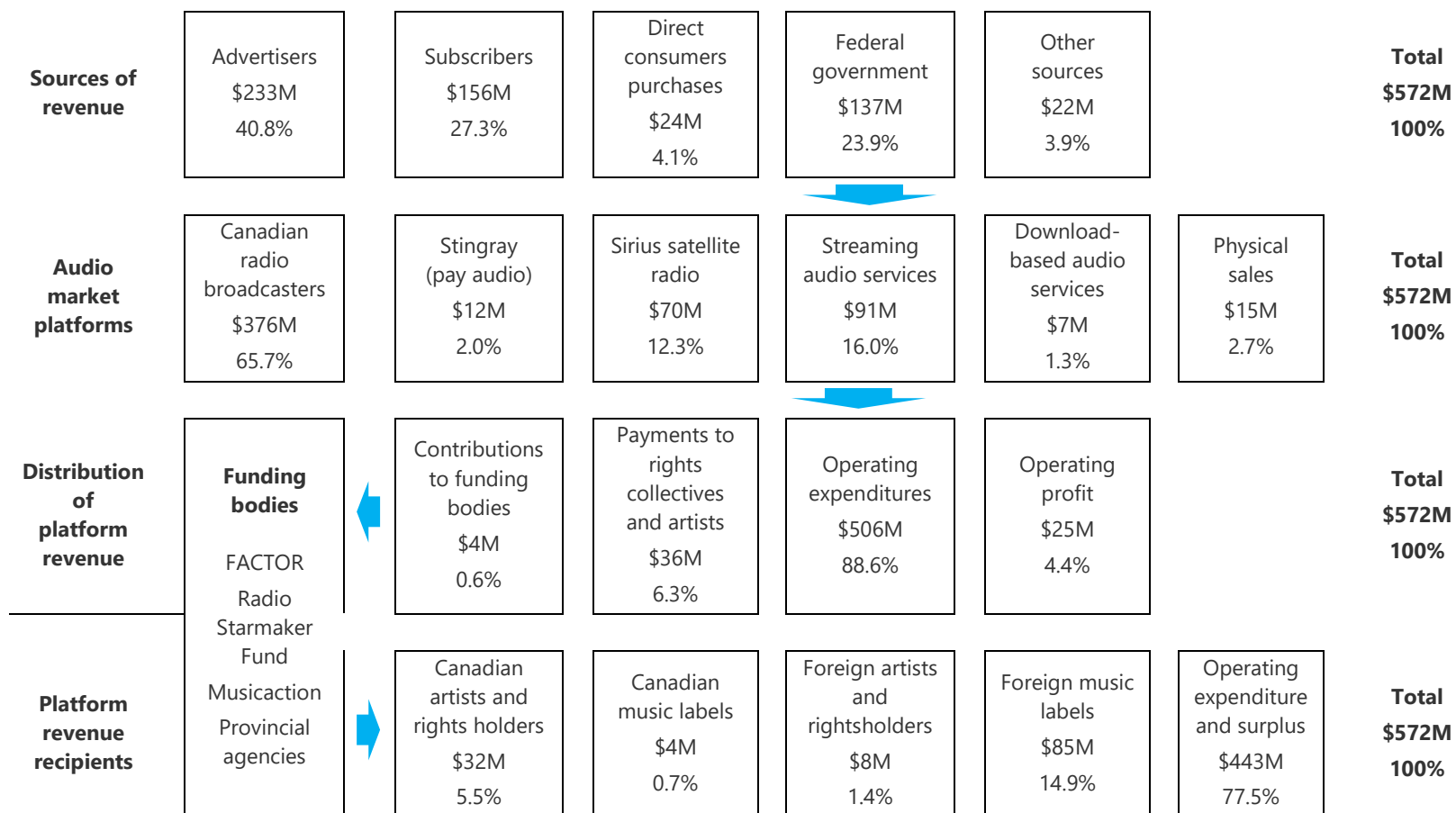
Figure 146 Financial flows within Canada’s audio market, English/other languages, 2020



Source: Nordicity estimates based on data from CRTC, Omdia and Wall (2021)

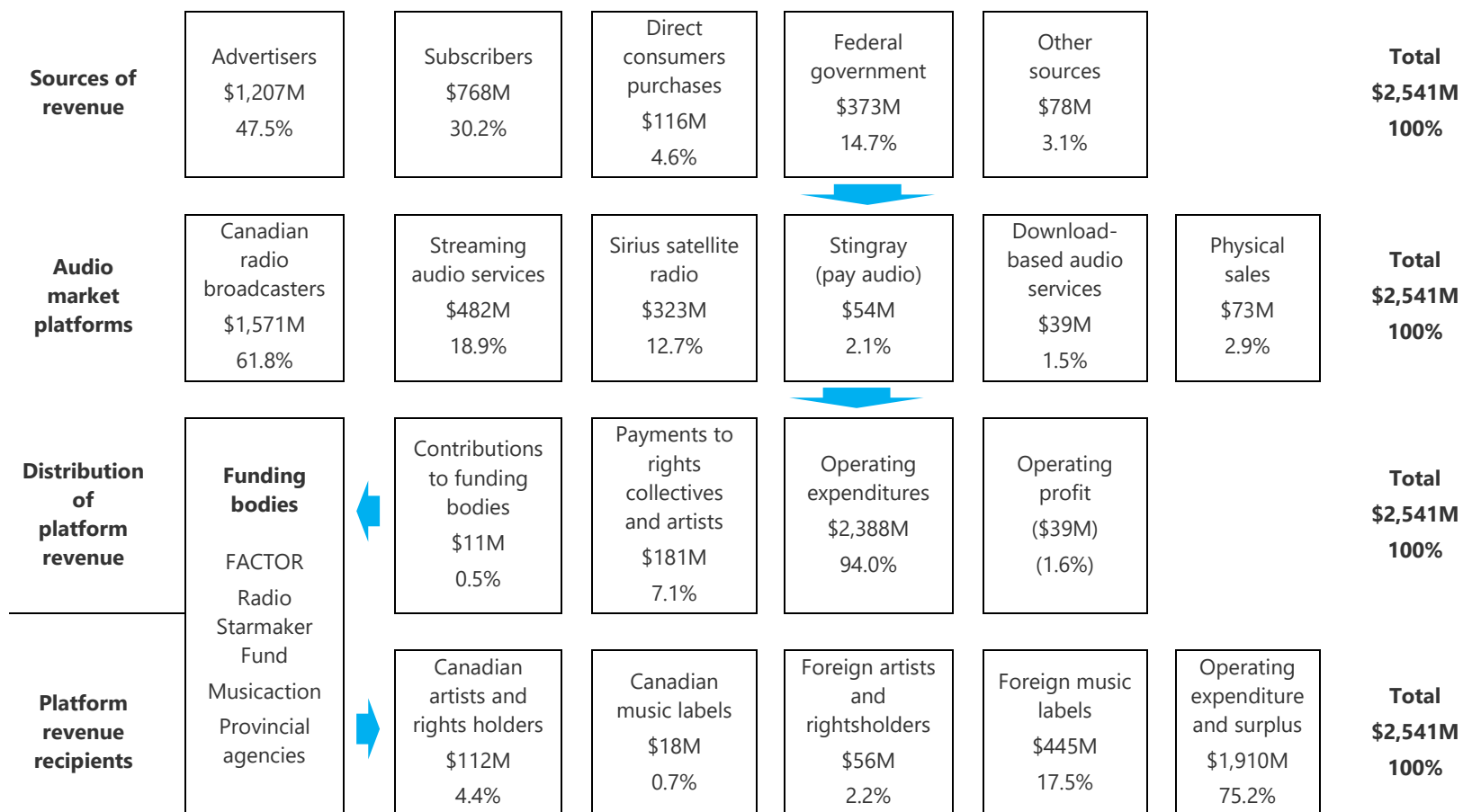


**Figure 17 Financial flows within Canada’s audio market, French-language, 2020**



Source: Nordicity estimates based on data from CRTC, Omdia and Wall (2021)

**Figure 18 Financial flows within Canada’s audio market, all languages, 2020**



Source: Nordicity estimates based on data from CRTC, Omdia and Wall (2021)

