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Creative Industries Research
global perspectives

The Danish Recorded Music Industry Annual Mapping 2005

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Preface

The present report is part of a series of mappings of Danish creative industries. It has been conducted by staff of the international research network, the Danish Research Unit for Industrial Dynamics, (www.druid.dk), as part of the activities of *IMAGINE.. Creative Industries Research* at the Copenhagen Business School (www.cbs.dk/Imagine).

In order to assess the future potential as well as problems of the industries, a series of workshops was held in November 2004 with key representatives from the creative industries covered. We wish to thank all those, who gave generously of their time when preparing this report. Special thanks go to Jesper Bay, Marketing Director, IFPI Denmark; Jakob Sørensen, Manager, Copenhagen Records, and Jesper Reginal, Manager, Crunchy Frog Recordings. Numerous issues were discussed including, among others, market opportunities, new technologies, and significant current barriers to growth. Special emphasis was placed on identifying bottlenecks related to finance and capital markets, education and skill endowments, labour market dynamics, organizational arrangements and inter-firm interactions.

The first version of the report was drafted by Jesper Fuglsang, Copenhagen Business School, during the autumn of 2004 and finalized for publication by Julie Vig Albertsen, who has done sterling work as project leader for the entire mapping project. Moreover, the project owes much to Lars Frederiksen, the Danish Research Unit for Industrial Dynamics (DRUID) and Department of Industrial Economics and Strategy, Copenhagen Business School, who has put an effort into ensuring the solidity of the present report. Together with similar mappings of a variety of Danish creative industries and summaries of the workshops held, the report constitutes part of the underpinning for the associated policy memo and for subsequent work within *IMAGINE..*

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Executive summary

- The Danish music industry can no longer be considered “pure culture”. The industry has experienced extensive economic development over the last decade. Exports surpassed EUR 83 million in 2001, the total industry turnover was EUR 760 million the same year.
- The mapping of the music industry has been complicated by the lack of precise data. Statistics Denmark’s NACE codes have turned out insufficient to fully describe the more narrow activities of the music industry.
- It has been difficult to get a complete overview of employment in the industry, as the industry is dominated by micro-businesses and self employment. According to estimates made by Statistics Denmark, 2,840 people were employed in the industry in 2002, but the number is most likely substantially higher since the Danish Musicians’ Union (DMF) and the Danish Artists’ Association (DAF) together count more than 7,700 members.
- The Danish market is dominated by small companies with a high degree of specialization and innovativeness, creating short reaction time as well as flexibility and adaptability to changing fads. In other words, focus can be shifted from one category of music to another in a short time. The Danish success stories indicate that the industry is thriving and that the ‘winner’ can take it all, as demonstrated by AQUA, who has sold more than 17 million albums and Saybia, who sold 300,000 copies of their first album.
- The industry creates value through music sales and royalty based licenses—and in case of composers and publishers through the traditional use of property rights (i.e., mechanical royalties from CD sales)—rather than by supplying international artists with songs, or by exploiting music in new media such as movies, games, or ring signals. There are relatively few Danish industries related to the music industry, such as instrument or software producers. This means that a key performance issue for the Danish music industry today is product innovation in a traditional sense, that is, the release of new music albums embracing the difficult task of spotting and developing talents.
- The global music market was estimated to be worth EUR 28.5 billion in 2003. The music industry in general is characterized by great uncertainty. For example, less than two out of 10 albums manage to recoup their production costs. Small independent record companies with less established “star value” therefore have difficulty finding financing, leaving a great share of the market to one of the four global record companies.
- Sweden is a success story in the global music market, demonstrating the potential magnitude of the music industry. Sweden has managed to create a music industry with

exports worth more than EUR 737 million in 2002 and employing more than 15,000 people in 1999. The success of the Swedish music industry has been built on a well-developed infrastructure, professional management and a positive business climate with an attractive financial market.

- In order to secure continual success and growth in the Danish music industry, Denmark needs to make a critical assessment of areas such as management and business education, cross-organizational learning and knowledge sharing between different creative industries, and to ensure the further development of export promotion organizations. It is argued that by focusing on these areas the industry will become more proactive, fertilizing the market, spotting new opportunities, and attracting large income streams from abroad, making it more financially self-sustainable via recuperated income. The future thus holds promise for the industry.

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1 List of abbreviations

COPY-DAN takes care of turnover paid in connection with the photocopying of sheet music and distributes royalties collected via the sale of blank record media such as CD-ROMs.

The four majors comprise the following multinational conglomerates: EMI, Sony/BMG, Universal, and Warner.

Gramex is a joint organization for phonogram producers and performing artists. It collects royalties on behalf of singers, musicians, and record companies, when recorded music is played publicly such as on TV or the radio, in theatres, work places, hotels, discotheques, shops, trains, airplanes, etc. For further information see also www.gramex.dk.

Independent record companies ('indies') are independent in the sense that neither of the major record companies (i.e., EMI, Sony/BMG, Universal, or Warner) owns the company. In a few cases, however, indies have marketing, sales and production agreements with majors. Indies is the predominant type of record company in the Danish music industry.

IFPI, International Federation of the Phonographic Industry, represents the recording industry worldwide. The national association, IFPI Denmark, represents both Danish and foreign record companies in the Danish market, and in Denmark its members account for approximately 95% of all turnover generated from music sales. IFPI collaborates with KODA and Gramex and *distributes* "performance profits" (i.e. royalties) to its members of record companies. For further information see also www.ifpi.dk.

KODA, Composers' rights in Denmark (Komponistrettigheder i Danmark), is a Danish society that administers Danish and international copyrights for composers, songwriters and music publishers, when their musical works are performed in public—that is any work even though it has not been recorded. Through agreements with approximately 26,500 Danish composers, songwriters and music publishers together with reciprocal contracts with foreign sister societies, KODA represents almost the total world repertoire of protected music in Denmark, Greenland and the Faroe Islands. KODA is thus in charge of the administration of the public performing rights. For further information see also www.koda.dk.

Mechanical rights are the rights to record, store and spread music on media such as CDs, DVDs, tapes, and videos.

Nomenclature of economic activities (NACE) is a standardized way of defining different areas of the economy, making it possible to compare industries and activities statistically across countries.

NCB, Nordic Copyright Bureay (Nordisk Copyright Bureau), is a Nordic-Baltic society that in co-operation with copyright societies abroad administers the copyrights in the recording and production of music on cd, dvd, film, video, the Internet etc. on behalf of composers, songwriters and music publishers. That is, payment is collected *from* the record companies when they record and release the work with rights held by the composers, songwriters and music publishers. The payment from the record companies to the artists usually makes up a certain percentage of a music release—at the moment approximately 9%. Thus, NCB represents all forms of protection of music regarding recording, storage and spreading—also known as mechanical rights. For further information see also www.ncb.dk.

Royalties are payments made for the right to use the property of another person for gain. They can take the form of copyright or a patent and are considered wasting assets, as copyrights and patents have limited lives.

2 The Danish music industry

The purpose of this paper is to identify potential areas of growth as well as possible barriers to growth in the Danish music industry. It is demonstrated throughout that there is a significant potential for export and thus of becoming a key contributor to the Danish economy. In order to realize this potential, the industry needs to cope with the high risk inherent to creative businesses. This paper points to several critical conditions for future growth, such as improved network relations, investment opportunities, and education.

The Danish music industry experienced rapid growth in the 1990s, especially with the extreme success of AQUA; more than 17 million copies of their two albums were sold, the first album accounting for 14 million copies alone¹. More than 70,000 copies of the new Saybia album "These are the days" had in October 2004 been sold since its release in mid-September 2004, of which 24,000 copies were sold in Denmark (Schollert, 2004). This tendency points to a significant export potential of the industry. However, the success stories are still exceptions to the rule and there are far from enough of them to create a stable platform for the future success of the music industry on an international level. It is worth remembering that the Danish music industry manoeuvres in a relatively small domestic market embedded in a larger global market valued at approximately EUR 28.5 billion in 2003 with total unit sales (including music video) of 2.7 billion.²³ However, the beginning of the new millennium has proved to be a bumpy road for the Danish music industry, as well as the global music industry. The traditional way of making money has proved insufficient and extremely hard to maintain as new media for storing and copying music are created.

Denmark is highly recognized abroad for the innovativeness and artistic value of its music industry. However, in order to be more successful and less dependent on the comparatively small domestic market, it is important that the music industry develops continuous successes and build up a strong international portfolio or repertoires of bands and songs, in order to create a constant flow of income. This is one of the cornerstones of the highly successful music industry in Sweden, where artists like Ace of Base, Roxette and ABBA continuously

¹ The Copenhagen Post (2001): "You're my Barbie Girl".

² International Federation of the Phonographic Industry (2004): *The recording industry world sales 2003*.

³ International Federation of the Phonographic Industry (2004): *Recording Industry World Sales 2003*. Note that as IFPI publishes value growths in fixed dollar terms, \$US values in each historical year (i.e. 2002) are re-stated rather than actual. With \$US depreciation against other currencies, the re-stated 2002 figures are inflated at \$US 34.6. Actual \$US value was \$32.3 billion.

generate turnover. Swedish exports from the music industry were estimated to be worth EUR 737 million in 2002, almost eight times more than Danish exports. However, one should bear in mind that the export figures from the Swedish music industry include exports of machines for printing CDs as well, a business that generates a quite substantial income (COWI, 2004).

3 Definitions and data sources

Different sources have been employed in order to get the most accurate picture possible of the industry. The main sources of information have been Statistics Denmark, industry organizations such as the association for composers' and music publishers' rights in Denmark, *KODA*, and International Federation of the Phonographic Industry, *IFPI*, as well as representatives from the industry. Table 1 below seeks to create an overview of the music industry by splitting it into three main categories: first, the main activities of the music industry or the parties directly involved and making a living from music; second, related activities or activities more or less dependent on the main activities (for example, there are close interrelations between artists and record companies on the one hand, and the music press on the other hand); third, related industries characterized by having core activities outside the realm of the music industry, yet with aspects that are related (for example, the music industry is dependent on legal advisers, and radio is dependent on music in order to attract listeners). The government is involved in all three categories either directly (through financial support) or indirectly (through legislation or promotion).

Table 1: Graphical overview of the Danish music industry

Main Activities	Related Activities	Related Industries
<ul style="list-style-type: none"> • Songwriting & composition • Recording • Product development • Artistic management • Distribution & Retailing of sound recordings • Royalty collection • Performance (incl. live performance) • Representation & promotion 	<ul style="list-style-type: none"> • Music press • Instrument production • Multimedia content production • Digital media production • Music production for computer games & film • Art & creative studio production • Distribution & services of musical instrument and recording/studio equipment • Jingle production • Photography • Education & training • Business of concert halls & theatres • Business of dance studios & choreography 	<ul style="list-style-type: none"> • Internet & e-commerce • Television, radio & satellite TV • Film & video • Advertising • Interactive leisure software • Software & computer services • Accounting, legal services, insurance, labour unions & management
<p>← Government →</p>		

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The main focus here is on the companies and organizations involved in the ‘main activities’ as these are central for the development and creative dynamics of the industry⁴. According to Statistics Denmark’s sector categories, the music industry can be narrowed down to the sectors presented in the table below.

Table 2: Music sectors by NACE as categorized by Statistics Denmark

Sector (NACE)	Explanation
22.14.00	Publishers of sound recordings
22.15.00	Other publishers
22.31.00	Reproduction of sound recordings
36.30.00	Production of musical instruments
51.43.30	Wholesales (CDs, tapes, records and videotapes)
52.45.30	Retail sales of records, CDs, cassettes, etc.
52.45.40	Retail sales of musical instruments and music scores
92.31.10*	Performing artists, producers of artistic and literary work

Note: The same definition of the film industry was employed by the Danish Ministry of Culture and the Ministry of Economics and Business Affairs (2000) except NACE 92.31.10 “Performing artists, producers of artistic and literary work”.

Broadly speaking there are three avenues for receiving profits from the production of music (Frederiksen and Lorenzen, 2003):

1. Products: sound recordings like CDs or sound recordings connected with DVDs, music videos, music files sold online, or ring tones for cell phones, etc.
2. Performances: live- or recorded concerts or other gigs. These encompass a large entourage of companies and people and make up an important source of income for Danish artists and performers.
3. Royalties: incomes derived from playing on the radio or TV, or in films and at live performances. It thereby covers the two profit arenas mentioned above.

Live performances are a vital element of turnover in the industry. The Roskilde Festival alone generated a turnover of more than EUR 34 million (DKK 250 million)⁵ in 2004 and was visited by more than 100,000 people, including performers and journalists⁶. However, it is difficult to quantify the economic impact of live performances since they are sometimes just

⁴ The advantage of the table presented is that it encompasses sector organizations such as the music composers’ sector organization, *KODA*, the Nordic Copyright Bureau, *NCB*, or the Danish Rock Council, *ROSA*, that might have been omitted from a traditional industry perspective, even though they are of vital importance and bind the industry together.

⁵ Exchange rate of 01.07.2004 of DKK 1 = EUR 0.13460.

⁶ Musicon Valley (2004): “Back-stage visit at Roskilde Festival” (“Backstagebesøg på Roskilde Festival”).

part of a corporation (for example, PARKEN Sport & Entertainment) or owned and operated by a foundation (for example, Roskilde Festival).

Furthermore, it should be noted that the main source employed in this paper of Statistics Denmark, *General Enterprise Statistics*, in 1999 replaced the former *Enterprise Statistics* produced for the years 1992-1999. Both statistics have gathered information at enterprise level, usually corresponding to the legal unit. But whereas the previous Enterprise Statistics only contain economic and employment information concerning the private sector enterprises registered as compulsory to pay value added tax (VAT), the General Enterprise Statistics embrace all activities and sectors. Moreover, the newer General Enterprise Statistics only cover real active enterprises, where the statistics up to 1999 covered all VAT paying enterprises in the private sector, if they were engaged in even the smallest activity. Active companies include companies that have at least a turnover corresponding to 0.5 full-time equivalent employment registered. Consequently, active enterprises covered for example in 2000 only 284,000 enterprises of the total of 521,000 registered enterprises. This means in principle that only approximately 1 per cent of the VAT turnover is covered.⁷

All in all, this makes up a considerable change in report methods of Statistics Denmark with two major consequences following. First, it obstructs the continuity in enterprise statistics when the period reported starts before 1999. Second, one could expect that the criteria of 'active enterprises' will rule out several of the smaller one-man operations such as freelancers especially predominant in creative industries.

It is also important to bear in mind that some companies might be represented in two different NACE codes and that the number of employees is reported under the company's main activity. Moreover, it should be noted that some sector categories are broad and include both firms that are related and unrelated to the music industry. Examples are NACE code 51.43.30, which includes the wholesale of DVD films, and NACE code 22.15.00, which includes publishers such as marketing companies and magazines.

Numbers and statistics furnished by member organizations such as KODA, NCB and Gramex have been gathered by the organizations themselves, which may naturally lead to biases.

⁷ Statistics Denmark: *Declarations of content: General enterprise statistics*, downloaded from www.dst.dk, January 2005.

4 Industry performance

In 2002 the Danish music industry generated almost EUR 757 million, which covers a growth rate of 22% in the period 1995 to 2002. As other traditional industries reach maturity or outsource production to developing countries in order to reap cost benefits, the music industry maintains production in Denmark and shows a high degree of entrepreneurship.

4.1 Record sales

As is evident from Table 3, in the period 1995 to 2000 the Danish music industry experienced a growth of 29.1% in the number of units sold in the market. The turnover generated by music recordings topped at almost EUR 155 million in 2000, accounting for nearly 0.1% of the turnover of all Danish industries. Unfortunately, the turn of the millennium has thrown a spanner in the works, and record sales have plummeted below 1995 levels and are today valued at a mere EUR 91 million—or 73.4% of the 1995 value. Even more dramatic is the decline in the number of CDs sold to 63.2% of the units sold 1995.

Table 3: International Federation of the Phonographic Industry Denmark member sales of phonograms in Denmark (incl. Greenland and Faeroe Island)⁸

Year	Units Sold (1,000)	Index of unit growth	Value (Million EUR)	Index of value growth
1995	15,708	100	123.5	100
1996	18,353	116.8	147.0	119.1
1997	18,750	119.4	146.5	118.6
1998	18,263	116.3	145.0	117.4
1999	18,805	119.7	150.0	121.3
2000	20,282	129.1	155.0	125.6
2001	15,283	97.3	127.5	103.2
2002	12,242	77.9	107.5	87.0
2003	9,925	63.2	91.0	73.4

Source: IFPI Denmark 2004

Note: Exchange rate of 01.07.2004 of DKK 1 = EUR 0.13460. As this report publishes value growths in fixed euro terms, EUR values in each historical year (i.e. 2002) are re-stated rather than actual—i.e. the values stated throughout does not inflate according to currency exchange changes.

⁸ It is important to bear in mind that the figures in Table 3 relate exclusively to the recording industry. The picture does not look as bleak for the industry as a whole, as will be revealed in Section 4.2.

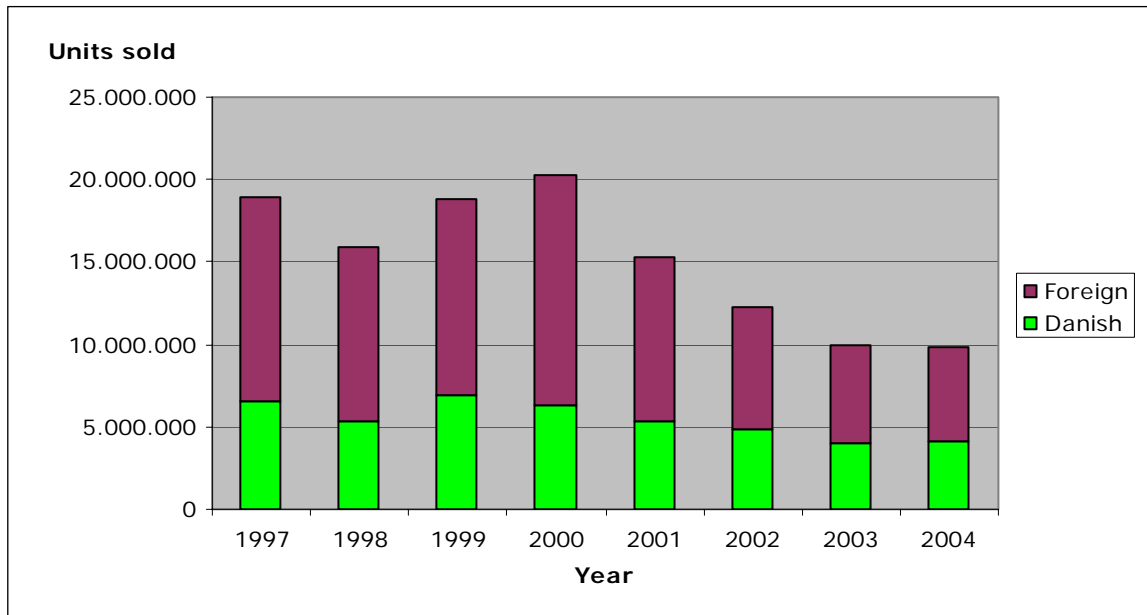
The increase in sales for the period 1995 to 2000 might be explained by an increase in the use of TV commercials, heightened consumer interest and a general increase in disposable income (Frederiksen and Lorenzen, 2003: p. 5). The dramatic decline in sales is probably best explained by the widespread use of the Internet and the possibilities for downloading and sharing music files, along with new methods for storing and playing music (for example, MP3 players). Currently, 52% of people aged 10 – 24 listen to music on their hard drive⁹. Technological developments present a serious threat to the traditional way of making money in the music industry, namely, through royalties and mechanical rights. It is important to bear in mind that it is not just the Danish music industry that is experiencing declining sales; the world market for music has decreased from a high of approximately EUR 35.6 billion in 1999 to EUR 28.5 billion in 2002, representing a decline of 20%.¹⁰

The declining sales of Danish local repertoire is reflected in the figure 1 below. According to IFPI Denmark, sales of music produced in Denmark in the period 1997 to 2004 have declined from a height in 1999 with 6.9 millions units sold to a low of 4 millions units sold in 2003. However, it is remarkable that the most affected or volatile area is foreign music, where sales have fluctuated quite dramatically over the six-year period, from a high of approximately 15 million units in 2000 to a low of around 6 million units in 2003. This fall may indicate a strong and important home market for music produced in Denmark, a market backed by a large pool of talent and dynamic companies with an eye for new talent and for the opportunities presenting themselves due to changes in consumer tastes and preferences. It should however be noted when reading figure 1 that a part of the explanation of declining sales of foreign produced music is that it to a higher extent than the smaller repertoire of Danish music falls victim to illegal downloads. Moreover, IFPI Denmark experiences a still increasing problem with parallel import and thus sales not included in IFPI statistics.

⁹ International Federation of the Phonographic Industry, IFPI (2004): *The recording industry world sales 2003*.

¹⁰ International Federation of the Phonographic Industry, IFPI (2004): *The recording industry world sales 2003*.

Figure 1: Total sales of phonograms in Denmark 1997 - 2004



Source: International Federation of the Phonographic Industry, IFPI (2004): *The recording industry world sales 2003*

4.2 Turnover

Table 4 shows the total turnover in the Danish music industry compared to the total turnover of the total of Danish private sector industries in selected years in the period 1995 to 2002. The music industry accounted for 0.2% of all Danish industries in 2002 and has demonstrated a considerable growth although not as big as the growth in all Danish industries in the same period. The Danish music industry turnover increased by 22% in the period, whereas turnover for all Danish industries increased by 44%. It is however, noticeable that growth in the music industry is volatile and fluctuates from year to year, as is evident from the figures from 1997 to 1999 and 2000 to 2001, which had growth rates of around 10%, and from the decrease between 2001 and 2002.

Table 4: Turnover of the Danish music industry compared to all Danish industries in selected years from 1995 to 2002

Year	Turnover in the Danish music industry (million EUR) *	Index of music turnover growth (1995=100)	Turnover of all Danish industries (million EUR)	Index of all Danish industries growth (1995=100)	Turnover of music as a % of all Danish industries
1995	619	100	223,138	100	0.2
1997	631	102	247,535	111	0.2
1999	702	113	260,922	117	0.2
2000	699	113	302,348	135	0.2
2001	760	123	317,681	142	0.2
2002	756	122	320,949	144	0.2

Source: Statistics Denmark, General Enterprise Statistics

*Statistics Denmark 2002 (converted from dollars at an exchange rate of USD 1 = EUR 0.82)

Note that figures of all Danish industries in the years 1995, 1997, and 1999 are based on Enterprise Statistics, which solely embrace the Danish private sector enterprises covered by activities in which the enterprises are liable to pay value added tax. In 1999 Enterprise Statistics are replaced by General Enterprise Statistics, which cover all activities and sectors, and furthermore only include enterprises which are real active, while the previous statistics covered all enterprises, if they were engaged in even the smallest activity. See chapter 2, *Definitions and data sources* for further detail.

In Table 5 below, turnover in the Danish music industry has been divided into the individual NACE codes for the period 2000 to 2002.

Table 5: Total turnover in the Danish music industry and related sectors from 2000 to 2002

Amounts are in EUR 1,000	2000	2001	2002
Creation			
923120 Performing artists, producers of artistic work	18.170	21.270	25.440
Industry			
221400 Publishers of sound recordings	29.340	20.060	60.570
221500 Other publishers	156.000	167.710	142.810
223100 Industry for the reproduction of sound recordings	-	-	-
Distribution			
511330 Wholesale (CDs, tapes, records, videotapes DVD's)	495.460	562.490	541.090
524530 Retail sales of records, CDs, cassettes, etc.	79.550	76.450	69.050
524540 Retail sale of musical instruments and music scores	50.480	52.760	55.720
Machinery and equipment			
363000 Industry for music instruments	17.230	17.360	17.360
Total turnover of the Danish Music Industry	904.240	982.720	978.140

Source: Statistics Denmark 2004, General Enterprise Statistics.

Note: Exchange rate of 01.07.2004 of DKK 1 = EUR 0.13460.

Publishers of sound recordings (22.14.00) and wholesale (51.43.30) appear to have been the driving forces behind the growth in turnover. The former has shown a development that is rather volatile and difficult to predict, as it decreased by EUR 9.3 million from 2000 to 2001 and increased by EUR 40.5 million from 2001 to 2002. The latter has shown a more smooth development. Using 2000 as a base year, it has grown by EUR 45.6 million or 9.2% for the period.

When looking at the impressive wholesale figures one should bear in mind that DVD films are also included in the category. DVD movies have shown remarkable growth rates all over the world over the past couple of years. In Denmark alone DVD sales have increased by 133.4% from 1.8 million units in 2001 to 4.2 million units in 2002¹¹, and this might blur the picture to some degree. Even though the traditional way of generating turnover in the industry has become increasingly difficult to maintain, the royalty collections have increased in the period 2000 to 2003, as indicated in Table 6 below.

¹¹ International Video Federation (2003): *Western Europe: The industry overview – Buoyant DVD market now worth more than VHS.*

Table 6: Payments of royalties and mechanical rights to Danish artists and composers who are members of KODA or NCB*

Year	KODA Million EUR	NCB Million EUR	Total collection Million EUR	Number of royalty recipients
2000	12.2	N/A	12.2	10.683
2001	17.5	7.1	24.6	11.439
2002	16.5	6.2	22.8	11.327
2003	18.4	5.4	23.8	11.327

Source: KODA annual statements 2000-2003.

* The society of composers' and music publishers' rights in Denmark, *KODA*, administers in Denmark Danish and international copyrights for composers, songwriters and music publishers, when their musical works are performed in public. The Nordic copyright bureau, *NCB*, and the sister organization of *KODA*, is a Nordic-Baltic society that in co-operation with copyright societies abroad administers the copyrights in the recording and production of music on cd, dvd, film, video, the Internet etc on behalf of composers, lyricists and music publishers—i.e., *NCB* administer the so-called mechanical rights. See also "List of abbreviation" for further details.

Royalty collection by the society of composers' and music publishers' rights, *KODA*, has increased impressively by around EUR 6 million in the period 2000 to 2003. In addition, the number of artists and creators who signed with *KODA* increased from 10,683 in 2000 to 11,327 in 2003, demonstrating the presence of creative talent in the industry.

One might speculate that such a positive development among other things could be due to an increase in broadcasting hours of music on the radio. Today, new radio stations emerge every year, the latest one being Radio 100FM. The widespread use of digital radio (Internet radio) has also escalated over the last couple of years, as indicated in Table 7 below. Broadcasting by *DR* (Danish Broadcasting Corporation)¹² alone has increased by 28,967 hours – in other words, it has more than doubled in just one year. According to a EuroBarometer survey (Frederiksen and Lorenzen, 2002) 60% of all Europeans on average listen to the radio everyday. Denmark is at the top (along with Sweden) with 86.3% of the population listening to the radio every day, which is the highest rate in Europe.

Table 7: Radio broadcasting for DR in 2001 and 2002

	2001			2002		
	Analogue (hours)	Digital (hours)	Total (hours)	Analogue (hours)	Digital (hours)	Total (hours)
Radio broadcasting of music	15,139	27,545	42,684	14,208	42,747	56,955
Radio broadcasting in total	56,634	28,825	85,459	55,912	57,792	113,704
Music as a percentage of radio broadcasting in total			49,9%			50,1%

Source: Statistics Denmark 2004.

¹² DR is Denmark's oldest and still largest electronic media enterprise. It was founded in 1925 as a public service radio and TV production and distribution network.

Unfortunately, the declining unit sales of CDs have had a large impact on the mechanical rights collected by the Nordic copyright bureau, *NCB*, on behalf of songwriters, composers, and music publishers, as the turnover generated has decreased by EUR 1.7 million—an alarming 23.8% drop from 2000 to 2003. Mechanical rights reflect the number of units sold in the market, but since the royalties collected goes *from* the record companies *to* the songwriters, composers, and music publishers, it is for the music industry as a whole more or less a zero-sum game.

4.3 Exports

Music exports are clearly highly volatile. A positive development in exports was experienced from 1997 to 2000, with the export value increasing by almost 30% from EUR 86 million to EUR 111 million. However, exports have decreased significantly since 2001 and today only account for 0.10% of total exports, compared to 0.20% in 1995.

Table 8: Danish music industry export of phonograms and income from abroad in terms of royalties and mechanical rights as registered by the organizations of KODA, NCB and Gramex

Year	Music export (million EUR)	Index of growth in music export (1995=100)	* Income from abroad (million EUR)	Index of growth in income from abroad (2000=100)	** Total Danish export (million EUR)	Music export as share of total Danish export (%)
1995	101.5	100	N/A	N/A	38,789.9	0.26
1997	86.0	84.7	N/A	N/A	43,646.9	0.20
1999	102.6	101.0	N/A	N/A	47,367.9	0.22
2000	111.3	109.7	4.9	100	54,948.9	0.20
2001	83.3	82.1	5.7	116.4	57,160.5	0.15
2002	79.1	78.0	5.7	115.4	59,594.6	0.13

Source: International Federation of the Phonographic Industry Denmark 2004, KODA's annual statements and Statistics Denmark. See "List of abbreviation" for explanation of the organizations, KODA, NCB and Gramex.

* Income from abroad is accumulated from the following organizations: KODA, NCB and Gramex, and encompasses royalties and mechanical rights.

** Total Danish export figures are taken from Statistics Denmark, Statbank Denmark, External Trade Statistics (UH2).

What is noteworthy about Table 8 is the positive development in income received from abroad in the form of royalties and mechanical rights, which increased by 15.4% in the period 2000 to 2002. Nevertheless, this positive development was far from enough to compensate for the severe drop in the general export of music goods in sectors such as sound recording, wholesale of CDs, DVDs, unrecorded media, etc. In addition, there are also income streams related to live performances abroad and from licenses, for example, license fees paid by another company for the promotion or sale of Danish artists work abroad. The figures were estimated at EUR 1.5-2 million and EUR 5.2 million¹³ respectively in 2002

¹³ Exchange rate of 01.07.2004 of DKK 1 = EUR 0.1346.

(COWI, 2004: p. 13). This indicates that there is a quite substantial income from sources other than those depicted in Table 8. However, it is important to bear in mind that the numbers are based on questionnaires submitted by industry players.

When comparing Tables 8 and 9, it should be noted that the number of recipients of royalties from abroad has increased significantly from 2,176 in 1997 to 3,185 in 2003, representing a 46.4% increase for the period. The development indicates that not only do more artists and performers receive payments from abroad, but the amounts they receive have also increased considerably.

Table 9: Number of Danish recipients of royalties collected for their music played abroad 1997 - 2003

	1997	1998	1999	2000	2001	2002	2003
Receivers	2,176	2,489	2,717	2,660	2,696	3,172	3,185

Source: KODA, Annual Statements 2004, www.koda.dk.

The development depicted above indicates that Danish music is gaining wider appeal abroad, as more and more artists and performers get their music played in other countries. The positive development in royalties collected abroad is interesting, as one of the Danish composers whose work is most used abroad, Carl Nielsen, did not enter the public domain until 2000, which makes the development even more impressive. With regard to the export figures it is important to bear in mind that turnover from live concerts or performances abroad are not accounted for.

Despite the substantial export of Danish produced music, Denmark still lags behind Sweden. Sweden has generated quite substantial music exports worth EUR 737 million (COWI, 2004)¹⁴. Sweden excels in two categories in particular: export of goods and income from abroad (i.e. royalties and mechanical rights). The turnover generated by royalties show that Sweden has built up a strong portfolio of international stars over the last 25 to 30 years, including, for example, ABBA, Ace of Base and Roxette (Nordic Industrial Fund, 2003). These performers and artists have been among the main contributors to an income from abroad worth EUR 143 million in 2002¹⁵ and thus considerably more than the corresponding Danish income of EUR 5.7 million¹⁶. The second category of export of goods generated an income of EUR 517 million in 2002,¹⁷ compared to Danish exports of EUR 79.1 million the same year¹⁸ (COWI, 2004). The comparison of the export of goods and income from abroad clearly shows that Sweden surpasses Denmark especially when it comes to generating

¹⁴ Exchange rate of 01.07.2004 of SEK 1 = EUR 0.11.

¹⁵ Exchange rate of 01.07.2004 of SEK 1 = EUR 0.11.

¹⁶ Exchange rate of 01.07.2004 of DKK 1 = EUR 0.1346.

¹⁷ Exchange rate of 01.07.2004 of SEK 1 = EUR 0.11.

¹⁸ Exchange rate of 01.07.2004 of DKK 1 = EUR 0.1346. It should be noted here that the substantial Swedish industry of exporting machinery for printing CDs is included in the Swedish export figures. Hence, the Danish and Swedish figures on export of goods are not directly comparable.

income from abroad such as royalties and mechanical rights. The explanation for this may be the strong portfolio of international hit artists spiced with the fact that Sweden has found a niche in writing texts and music for international stars such as Celine Dion, Backstreet Boys, Britney Spears and Bon Jovi (Nordic Industrial Fund, 2003: p. 79).

4.4 Demand

In terms of taste, the Danish market for music appears to be somewhat mainstream and unlike the other Nordic countries, it is not divided into many sub-markets (Frederiksen and Lorenzen, 2003: p. 9). The Danish charts indicate a strong preference on the domestic market for music produced in Denmark. For example, four out of the top five hits were Danish on the official Danish chart, *Hit-listen* of DR in October 2004. Moreover, single examples stand out such as for example the Danish music group, The Boys from Angora (“Drengene fra Angora”) sold more than 20,000 copies in just two hours, and the single released this summer “Team Easy On” has sold more than 33,000 copies (Borre, 2004). The crucial point is, however, that this is still a highly unusual demand and thus commercial success for a Danish album.

In Denmark, most people listen to the radio every day, and as indicated on Table 7, radio broadcasting has increased substantially over the last couple of years. Although music only accounted for 50.1% of total broadcasting in 2002 compared to 49.9% in 2001, this seemingly small increase represents 28,967 more hours of music played. This stands to some extent in stark contrast with the development in the numbers of CDs purchased by Danish consumers. When CD sales were at their highest in 2000, every person in Denmark bought the equivalent of 3.8 CDs, but by 2002 this had declined to 1.8 per person. This dramatic fall had a negative effect on the traditional way of generating turnover for the music industry.

Another indication of increasing demand for and interest in music is exemplified by the many entertainment shows for amateurs on TV such as “Star for a night” (Stjerne for en aften), “Idols”, and “Popstars”, all of which reported many participants and viewers across Denmark. These shows have created new stars in Denmark, either directly, via the contract offered to the winner, for instance, James Sampson, or indirectly, as in the case of Julie, who did not win, but who was given a contract with EMI. Both of these artists have shown good sales figures. However, media attempts at creating stars based on awareness and mass advertisement rather than hard work on the road has commercialized the music industry and changed its direction.

5 Industry structure

The Danish music market is characterized by many small players and a few multinational players, for example, publishers, recording companies, or booking agencies. Like other creative industries, the music industry is characterized by a high degree of uncertainty with regard to payouts once the product hits the market. The uncertainty arises from the unpredictability surrounding the value the end user will ascribe to the product. A record that is expected to have great potential on the market may flop upon its release. Casual estimates suggest that as many as 80% of all albums and 85% of single records fail to cover their initial costs (Caves, 2000).

In the Danish music industry, the record company plays a vital role, and moreover, as opposed to the US or UK system, they also assume the main risk. In the US/UK music industry, artists sign a contract for the production of several albums and often pay the production out of their own royalties. This means that in cases where the first album fails to recoup, the turnover generated for the second album is used to cover the initial costs of both albums, thus reducing radically any royalties paid to the artist. In the Danish system, on the other hand, it is the record companies that undertake the risk and responsibility for profits, thereby securing the artist an income. A mutual dependency is thus created between the artist and the record company in that the record company is dependent on the artist for the creative input and income, and the artist is dependent on record companies for the promotion.

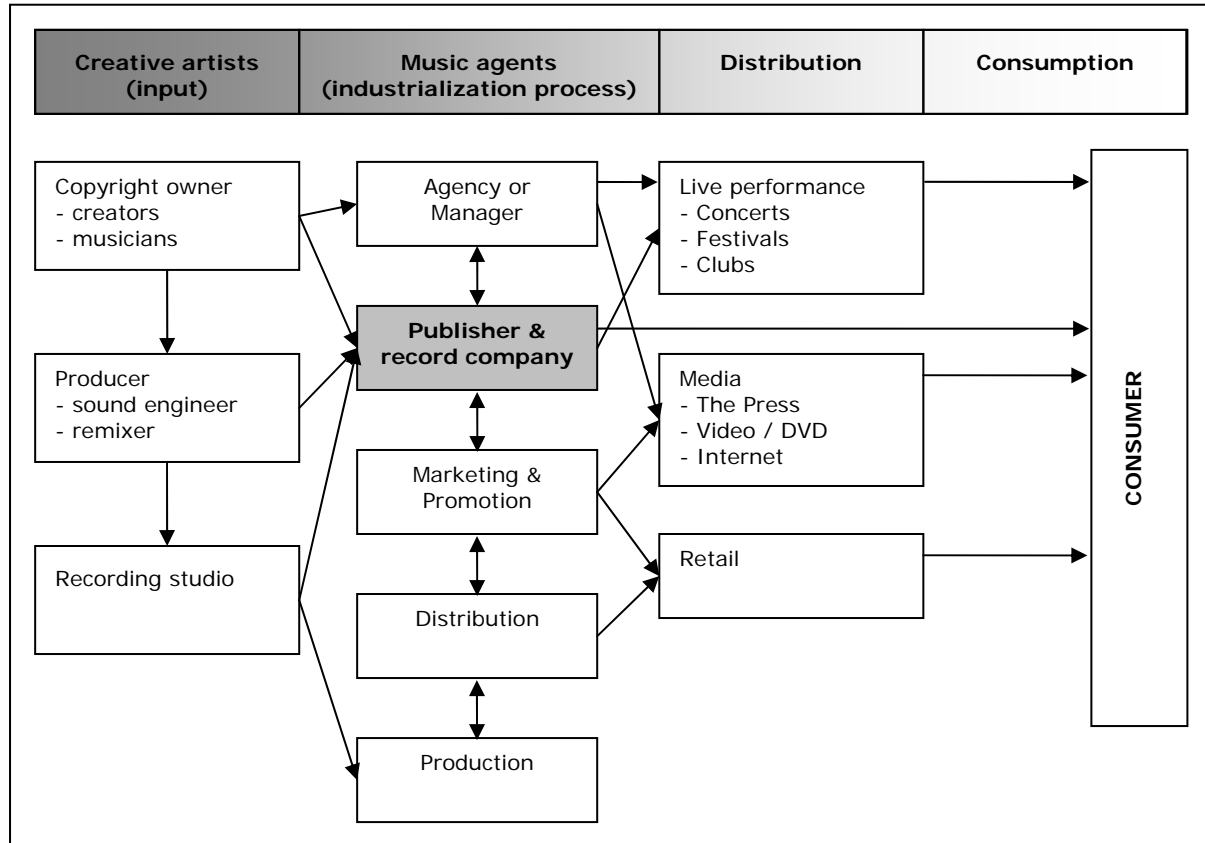
Moreover, the artists and record companies are also dependent on various gatekeepers, such as the press, agents, publishers, and support organizations. For example, consumers tend to listen to 'expert' opinions, and therefore, the press plays an important role in determining the success of a product. While making art is always a quest to define and solve new problems, a major breakthrough is not made until consumers embrace a novel style. With or without promotion by certifiers, the willingness of many consumers to pay for a new style is thus an essential element of the innovation process (Caves 2000). Companies and artists continuously need to refine and innovate in order to satisfy the needs and desires of the market.

5.1 Value chain

There seem to be considerable interdependencies in the industry among different categories of players. With regard to the value chain it is important to bear in mind that some

participants might interact differently, but in general, the illustration shown below is a good reference point for understanding the interdependencies that exists in the industry.

Figure 2: Value chain of the Danish music industry



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Although the support organizations mentioned above are part of the glue that binds the industry together, their presence in almost all of the areas depicted in the figure make them difficult to place in the value chain. The section with music agents is dominated by recording companies, which undertake many of the value-adding tasks of recording, producing and marketing. Besides record companies, agents and managers are also active in this section, often carrying out the crucial functions of discovering talent and organizing tours, negotiating contracts, and so on for artists and performers. In contrast with a mere couple of years ago, record companies today are able to use more advanced technology to print CDs and distribute them to the end consumer via the Internet or directly to the retailer at much lower costs. An example is the Danish record company, Crunchy Frog, which is linked to an online shop selling CDs produced by the company.

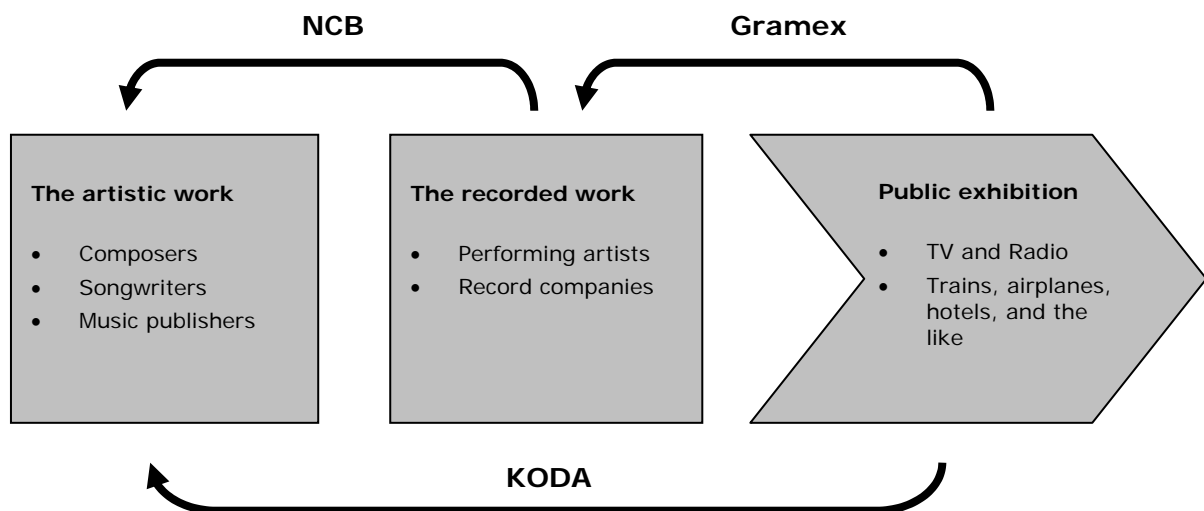
As the Danish music industry consists of many small companies, it can be characterized as both highly specialized and flexible, making it easier to meet the changing demands and tastes in music that dominate the market today. The 'indies', which create niche productions and are highly aware of market changes, fit these characteristics well. The Danish music industry is dominated by vertical specialization in the value chain, whereby major

multinational conglomerates—the so-called majors—function as specialists in the areas of marketing, financing and distribution, whereas the Danish-based indies work within their niche of developing talent and promoting artists on a smaller scale and often on the domestic market. Once the talent is ready for the big market or foreign markets, the indies, often out of necessity, cooperate with one of the majors. Alternately, in return for a certain amount of compensation and on the basis of contractual arrangements, the indies hand over the artist to one of the majors, which then takes care of further promotion. Hence, the indies enjoy a large degree of freedom in the artistic sense; however, they are dependent on the majors for greater success. The majors, in contrast, concentrate on mainstream music and international stars and therefore often rely on the indies to breed new talent.

5.2 Collecting societies

At the heart of the music industry is the institutional system that confers royalties to the holders of rights. In Denmark the main institutions involved within this area encompass KODA, Gramex, NCB, and Copy-dan. The figure below provides an overview of the division of labor among the main collecting societies KODA, Gramex, and NCB.

Figure 3: Danish system of royalty collections



Gramex is a joint organization for phonogram producers and performing artists. It collects royalties on behalf of singers, musicians, and record companies, when recorded music is played publicly such as on TV or the radio, or in theatres, work places, hotels, discotheques, shops, trains, airplanes, etc.

The society of composers' and music publishers' rights in Denmark, *KODA*, and the Nordic copyright bureau, *NCB*, collect royalties on behalf of composers, songwriters and music publishers when their artistic work is used. Having exclusive rights in its geographical territory, *KODA* administers copyrights for composers, songwriters and music publishers, when their musical works are performed in public—no matter whether their work is

recorded or not. In 2002, KODA collected royalties of the value of EUR 50 million (DKK 370 million) of which approximately 96% were redistributed, while some of the collected money was distributed as subsidies for music projects. NCB administers the so-called mechanical rights, which are paid by the record company to the artist when recording, storing and spreading the artist's work. The payment from the record companies to the artists usually makes up a certain percentage of a music release—at the moment approximately 9%. Thus, NCB protects the recording, storage and spreading of music—also known as mechanical rights—whereas KODA collects performance royalties. Finally, Copy-Dan takes care of copyright holders' interests related to photocopying of sheet music.

5.3 Number of firms

A fairly stable level of 1,100 companies seems to have been reached in the music industry in the period 2000 to 2002. In 1995 the average number of employees employed by each company was 3.7, whereas in 2002 it was 2.7. This would seem to indicate the predominance of smaller companies, micro-business, and self-employment combined with high entrepreneurship.

Table 10: Number of firms in the Danish music industry and related sectors in selected years from 1995 to 2002

Numbers are based on industry definition NACE codes	1995	1997	1999	2000	2001	2002
Creation						
923120 Performing artists, producers of artistic work	180	185	219	304	324	330
Industry						
221400 Publishers of sound recordings	150	219	244	102	98	99
221500 Other publishers	464	434	417	333	327	304
223100 Industry for the reproduction of sound recordings	19	33	39	21	26	22
Distribution						
514330 Wholesale (CD's, tapes, records, videotapes, dvd's)	85	106	107	68	65	61
524530 Retail sales of records, CDs, cassettes, etc	127	128	158	87	78	84
524540 Retail sales of musical instruments and music scores	224	208	196	109	107	102
Machinery and equipment						
363000 Musical instruments industry	120	116	115	59	64	58
Total number of firms in the music industry	1,374	1,434	1,502	1,087	1,096	1,066
Total number of firms in Denmark	328,634	325,854	279,037	284,446	284,166	281,653

Source: Statistics Denmark 2004, General Enterprise Statistics.

However, a comparison of these figures with the total number of employees in specific areas, reveals discrepancies. For example, the category of performing artists and producers of artistic work (NACE code 92.31.20) seems to have more companies than employees. An explanation might, of course, be that an artist may create a company for each record or sound production. Another discrepancy is found in the number of record companies. For example, according to Statistics Denmark, 99 companies accounted for 136 employees in 2002, whereas according to Greens online, the four major companies together employed 169 people. These discrepancies seem to support the claim put forth previously that far more people are employed in the Danish music industry than are measurable.

5.4 Entrepreneurship

In general the industry is recognized as exhibiting a great deal of entrepreneurship. Music enthusiasts usually find some form of self-employment or another job related to the industry, which might also be one of the reasons that the numbers of employees in the industry as well as the number of firms are underestimated. Table 11 below supports the notion of a high degree of entrepreneurship in the Danish music industry. For example, 24 new companies within the area of sound recording publishing were established in 1999 and 39 were established in 2001, representing nearly 40% of companies in this area that year.

Table 11: Number of start-ups* within the Danish music industry in selected years from 1995 to 2001

	1995	1997	1999	2001
221400 Publishers of sound recordings	33	26	24	39
221500 Other publishers	25	30	18	22
363000 Industry for music instruments	5	2	4	2
514330 Wholesale (CDs, tapes, records, videotapes, DVDs)	8	6	8	8

Source: Statistics Denmark 2004, General Enterprise Statistics.

* Start-ups include all companies established within the previous year. The figures solely embrace actually newly established companies—that is, companies that have not formerly experienced different owners or ownerships or operated under jurisdiction of other companies or another personal owner, already registered for VAT activities.

It is important to bear in mind that the above figures are not accumulated figures; in other words, they give no information about how many companies left the industry in the same period. Nevertheless, the numbers gives us a good indication of the creative spirit prevalent in the industry. The entrepreneurial spirit in the music industry is noteworthy, considering the high rate of failure mentioned in the introduction (80 to 85% of all albums fails to recoup their initial costs).

Often highly uncertain industries, where costs are sunk and hard to recoup, have a difficult time attracting venture capital, even though the rewards can be substantial for those lucky enough to hit the jackpot, such as AQUA, which has sold 17 million copies worldwide. In order to sustain or increase the entrepreneurial spirit in the Danish music industry, a more investment-friendly environment must be created with better access to funding and more

support given to those wishing to set up and run a professional business. As indicated by industry representatives, one of the main entry barriers to start-ups is not the cost of equipment, but rather the fact that the industry is highly network driven and relies on tacit knowledge embedded in single persons (Frederiksen and Lorenzen, 2003: p. 9).

5.5 Employment

Today, it has become easier to start and operate a sound studio or even produce a record since the barriers to entry have been gradually eroded and are currently considered low. Due to the fast development of the Internet and changes in technology, distribution has become less expensive. However, marketing and release costs have increased over the last couple of years. This may explain why indies have been successful at developing new talent for the home market, but have had a hard time promoting this talent abroad, where the penetration of markets seems to require large marketing budgets. Often, the indies have chosen to work with one of the four major companies dominating the global scene when wishing to promote the artist or band abroad or to increase the number of units sold.

Direct employment

As indicated in the table below, there has been a gradual decrease in the number of people employed in the music industry as defined by the NACE codes mentioned in Section 2.

Table 12: Number of full time equivalents employed in the Danish music industry in the period 2000-2002.

	2000	2001	2002
Creation			
923120 Performing artists, producers of artistic work	131	148	152
Industry			
221400 Publishers of sound recordings	84	75	136
221500 Other publishers	863	908	833
223100 Industry for the reproduction of sound recordings	366	361	350
Distribution			
514330 Wholesale (CDs, tapes, records, videotapes, DVDs)	652	615	643
524530 Retail sales of records, CDs, cassettes, etc	304	313	296
524540 Retail sales of musical instruments and music scores	229	233	243
Machinery and equipment			
363000 Musical instruments industry	128	190	183
Total number of employees in the Music Industry	2,757	2,843	2,836
Total number of employees in Denmark	2,759,000	2,773,000	2,782,000

Source: Statistics Denmark, General Enterprise Statistics.

The most noticeable change shown in Table 12 is in the area of publishing of sound recordings, where employment has increased by almost 62%. Total employment seems to have settled at around 2,840 employees. Total employment in the music industry is small compared to total employment in Denmark. Nevertheless, the 2,840 people employed in 2002 generated a total turnover of EUR 756 million. Performing artists and producers of artistic work have experienced a slight growth in total employment for the period 2000 to 2002. It is noteworthy that the category has increased only slightly, as more and more artists and performers receive royalties, both for performances at home and from abroad (see Table 6). It should be noted that especially the figures on employment originating in the VAT statistics compiled by Statistics Denmark cannot provide an accurate picture of actual employment. This is mainly because the production of music is related to micro-business concerns, such as self-employment, part-time employment, freelancing and semi-professionals, and employment in the grey economy. These are not captured by Statistics Denmark's VAT statistics, which take their point of departure in registered firms.

Figures from Danish Musicians' Union (DMF) and Danish Artists' Association (DAF) illustrate the lack of precision in the data available in Statistics Denmark's VAT statistics. Thus, in the category of "performing artists and producers of artistic work", Statistics Denmark has registered 152 employees, whereas DMF and DAF alone sum up to 7,700 organized members with music as their profession. This makes it seem probable that the number of people dependent on music as their main source of income is much higher than the above table indicates.

Support organizations and indirect employment

The above-mentioned discrepancy between the official information on employment and the information provided by musicians' and artists' organizations indicates that there are large numbers of people employed in the industry indirectly or in ways that are immeasurable for Statistics Denmark. As Table 13 below shows, there is a substantial number of professional organizations surrounding and supporting the core players in the industry. Some of the streams of money paid arrive as small lump sums, for example, royalties paid when the song is played on the radio, etc. The efficient collection of these numerous small-value rents poses an organizational problem for owners of royalties (Caves, 2000). Hence, this makes the support organizations like KODA and Gramex even more important, as they specialize in capturing these multiple small-value rents.

Table 13: Support organizations in the Danish music industry

Core sector	Supporting organizations
Composers, artists etc. (i.e. creators)	KODA (composers' and music publishers collecting society for public use of musical work)* NCB (Nordic copyright bureau)* GRAMEX (collecting society for public use of recorded music)* Danish Musicians' Union (DMF) Danish Artists' Association (DAF) Danish Songwriters' Guild (DPA) Danish Composers' Society Danish Council of Performing Artists' Organization Council of Danish Artists The Danish Arts Agency The Danish Music Council The Danish Rock Council (ROSA) The Danish Society for Jazz, Rock and Folk Composers (DJBFA) Fajabefa (the association for amateur rhythmic musicians)
Record companies, publishers etc. (i.e. industrialists)	International Federation of Phonographic industries (IFPI)* Danish Independent Record Companies (DUP) Spillested.dk Society of Danish impresarios Association of Danish music festivals Association of art bureaus in Denmark (FKD) Danish Music Publishers' Association
Distribution	GDC A/S

Source: Frederiksen and Lorenzen (2003), with own emphasis.

* Further details in "List of abbreviations"

In the above table, the industry is divided into three sectors. Each of the sectors has support organizations that perform some kind of task for the industry players, such as the KODA, which collects royalties, and the Danish Musicians' Union, which represents the artists and performers. KODA is probably the largest of the organizations, having approximately 90 full-time employees and generating EUR 55 million¹⁹ in 2003. Besides KODA there are several other organizations, such as NCB, Gramex, and COPY-DAN, which all have full-time employees and generate substantial turnover unaccounted for in the section on direct employment—but nevertheless hinging upon the size and success of the core of the industry since they live from the intellectual property rights generated at the core.

The important organizations mentioned above account for some of the indirect employment. Another example is the Roskilde Festival, the largest festival in the Nordic countries, with a total turnover of approximately EUR 34 million²⁰ and more than 3,500 volunteers working every year. These volunteers receive money from the Foundation running the festival. Hence, the money earned at the Roskilde Festival is redistributed to organizations and used

¹⁹ Exchange rate of 01.07.2004 DKK 1 = EUR 0.1346.

²⁰ Exchange rate of 01.07.2004 DKK 1 = EUR 0.1346.

to upgrade or improve the facilities of many clubs and other cultural institutions in Denmark. The above-mentioned organizations have both social and economic benefits that are statistically hard to capture and quantify.

The externalities of the music industry are moreover significant. Music underpins various other sectors, including a vast array of media. Where would the printed press, TV, radio, satellite TV or the Internet be without music?

6 Dynamics of the market

Denmark is far from a dominant player in the global market for music, as the Danish market is valued at EUR 1.2 billion compared to a global market valued at EUR 28.5 billion²¹. According to the report by Danish Ministry of Culture and the Ministry of Economics and Business Affairs (2000), *The Creative Potential of Denmark (Danmarks Kreative Potentiale)*, one of the reasons for the lack of success in the international market is that a lot of the music published by Danish companies is in Danish and hence, it is aimed at the domestic or perhaps the Scandinavian market. On the other hand, music produced in Denmark does have a strong presence in the country, with a market share of 41.5% of total sales in 2004. In October 2004 the sales of Danish repertoire had gained 11% in market share compared to the same month the previous year. For the same period, international repertoire declined by 24%; hence, aggregate sales decreased by 13%.²² If Denmark wishes to increase its exports within the music industry, one might suggest that the Danish music industry needs to place a much greater focus on producing music in English with a broader audience. This could be a reason why Saybia chose to write and perform their songs in English—a strategy that has proven highly successful with more than 46,000 out of 70,000 copies of their album “The Second You Sleep” sold abroad (Schollert, 2004).

Danish success abroad may also be hindered by the dominance of a few global players on the Danish market. The major players hand over potentially successful talented bands or artists to their foreign subsidiaries who then undertake the task of promotion in their respective markets. The Danish companies are therefore prevented from acquiring extensive knowledge of the relevant markets, making it increasingly difficult for smaller independent companies to penetrate new markets. This could be facilitated further by the introduction of a professional management education with a substantially broader reach than just the music industry. In addition, there could be many potential spillover effects of cooperating across the creative industries, for example, exploiting the export experience of the film or furniture industry. Nevertheless, if the music industry starts to focus on some of the issues mentioned above, most notably the accumulation of knowledge of foreign markets, and take advantage of the opportunities presented by the Internet, it will have great potential for success. The pool of talent is large and groups such as AQUA, Michael Learns to Rock, or Safri Duo, to name but a few, have proven that Danish music can be successful in foreign markets.

²¹ International Federation of the Phonographic Industry (2004): *The recording industry world sales 2003*.

²² Pladebranchen.nu (2004): “Continuing positive trends in Danish music sales” (“Fortsat positiv tendens for salget af dansk musik”), 11 October 2004.

6.1 Public funding and flows

Public support for the Danish music industry has increased in recent years. In 2000, for example, a total of EUR 97 million was spent on music alone, and by 2003 this had increased to EUR 133 million. The main contributors in 2003 were the Government, which provided EUR 63.8 million, the counties, which provided EUR 7 million, and the municipalities, which provided EUR 59.4 million. *Dansk Tipstjeneste* (pool betting) and The Greater Copenhagen Authority (HUR) sponsor the remaining EUR 2.8 million.

Table 14: Public support of the Danish music industry 2003 in million EUR

	Support in million EUR
The Government	63.8
The Counties	7
The Municipalities	59.4
'Dansk Tipstjeneste' and The Greater Copenhagen Authority	2.8
Total public support of the Danish music industry	133

Danish Ministry of Culture (2003): *The Culture Money 2003* (Kulturpengene 2003)

Note: Exchange rate of 01.07.2004 of DKK 1 = EUR 0.13460.

As is customary for the public support of the music industry, most of the funding is aimed at supporting institutions such as the music conservatories, which received EUR 28 million in government support in 2003, and the 232 music schools all over the country with their approximately 133,000 pupils, which received EUR 10.4 million in 2003. Besides these institutions, the Danish national symphony orchestras received EUR 12.4 million, and concert halls and regional facilities for the performance of music in public spaces received EUR 4 million. The main emphasis of public support in the music industry is concentrated on the education of artists and performers and the creation of professional surroundings and institutions for them (Danish Ministry of Culture, 2003).

According to Danish Ministry of Culture and the Ministry of Economics and Business Affairs (2000), *The Creative Potential of Denmark* (Danmarks Kreative Potentiale), the Danish music industry has developed professionally. The substantial success of the core companies in the Danish popular music industry has occurred without the help of public funding. The positive development has been created by combining the Danish creative and performing talent with a network of dynamic and creative artists, producers, managers, agents, record companies, studios, etc., and not least, with the strong preferences for Danish music and loyalty on the part of Danish consumers, as without the dominant and steady domestic market, it would be much harder to reach the international audience.

7 Critical conditions for growth

The current trend of moving traditional jobs to Eastern Europe or Asia makes it imperative to look for other ways of creating growth. According to the Confederation of Danish Industries (DI) more than 350,000 Danish jobs are in danger of being moved abroad within the foreseeable future (Ulveman, 2004). The creative industries in Denmark have experienced a positive development over the last decade, where the music industry alone has grown by 22.1% compared to 17.1% for the general economy. Currently, the predominant focus of public support in the music industry is on creating new talent via conservatories and music schools, symphony orchestras and the running of certain concert halls. For the Danish music industry to sustain its positive development in Denmark, as well as increase its presence in a global market worth EUR 28.5 billion (\$US 32 billion), certain initiatives have to be taken or further developed. In order to make the best possible suggestions inspiration has been drawn from previous work conducted on the Danish music industry including (e.g., Danish Ministry of Culture and the Ministry of Economics and Business Affairs, 2000 and Nordic Industrial Fund, 2003). The following sections will elaborate on some of the issues already proposed along with new ideas.

7.1 Better access to venture capital and financing

Despite the high degree of innovativeness and the entrepreneurial spirit of the industry, it is still difficult for the small companies, such as the indies, to retain talented artists and develop them into star status. One of the main reasons for this is the increased cost of promoting and marketing the albums, an area where the four majors enjoy considerable economies of scale. This often leaves the indies no other option but to hand over the artist for further development to one of the four majors in return for compensation in the form of a license agreement.

This tendency could easily be held in check by enhancing capital and funding opportunities. Since the four majors are mostly occupied with nurturing foreign or Danish established bands/artists, it is of vital importance that the indies gain better access to capital if they are to be able to nurture and retain talents and improve their product pipeline. Hopefully after the potential of the upcoming artist has been confirmed in the market, and a smaller record company has acquired the potential to further promote the artist, the competitiveness of the smaller companies will increase and make the industry more dynamic than it already is. Usually, venture capital enters the market once a product has proven successful. However, it is difficult to predict who will make it and how far they will go, as uncertainties abound in

the industry regarding consumer preferences and tastes. Hence, initiatives have to be taken in order to attract capital to the highly uncertain music industry, not just for the sake of the record companies, but also for the studios and the artists themselves, as this will allow companies to focus more on their core capabilities and give them more room and time to grow.

The reason for the additional focus on the music industry is that Denmark has a large pool of talent and is recognized for its high artistic quality and innovativeness. However, more is needed; Denmark has not yet been able to create an extensive portfolio of international hits that could form the basis on which it could generate a constant flow of turnover from abroad, which in turn could be reinvested in the industry. To get this cycle of positive prosperity going, the industry needs guidance and better access to finance for the marketing, development and nurturing of talents needed, both in Denmark and abroad. For instance, Sweden earned SEK 1.3 billion from abroad in 2002, or approximately 25 times more than Denmark.

7.2 Cross-industry organizations

In general, organizations could benefit from further cross-industry organization or cooperation. The music industry could easily encompass all creative industries in Denmark as they share many common traits, including innovativeness, specialization, and a flexible, highly educated and enthusiastic workforce. For instance, mixing the best from the electronic games industry with the music industry could prove advantageous, not just because game developers need music scores or soundtracks for their newly invented games, but also because the game producers have capabilities in software development that, along with the Internet, could help the music industry become proactive rather than reactive in reaping the benefits of the "online" world. Film and music also play well together. Why not make a stronger link with the highly successful Danish film industry and use more music produced in Denmark in new films, as was, for example, done in the Danish, original edition of the film "Night Watch" ("Nattevagten"), which is now almost synonymous with *Sort Sol*. An initiative in this direction has been undertaken in Sweden, where the Industrial Development Centre for the Swedish Music and Creative Industry in Hultsfred AB was founded in 2000. The purpose of the centre is to bring together the different participants in the Swedish music industry along with players from other industries in order to develop the industry (Nordic Industrial Fund, 2003).

A step in the right direction has been initiated by the Danish Ministry of Cultural Affairs along with participants from the Danish music industry with the development of an export platform called "Music Export Denmark" (MXD). The Ministry of Cultural Affairs will support the initiative with EUR 471,000 (DKK 3.5 million) annually in the period 2004 to 2007 (Danish Ministry of Culture, 2000). For the MXD to succeed, it is important that the initiative be promoted extensively in Denmark, as it needs to be supported by all participants in the industry if it is to have the optimal effect. MXD could also become a platform for promoting Denmark as a country that provides the framework for production. Hence, it could be used to attract international companies as well as talent to Denmark in order to further utilize the

investments made in sound studios, concert halls, etc. This could also help create new and important contacts abroad with other young upcoming people in the industry, for example, between artists and companies or producers and companies. However, it is important that MXD's focus remains on music, rather than on promoting Denmark as a 'nice country to visit', as this will inevitably divert focus away from what should be the main objective of the organization, namely to promote music produced in Denmark on an international scale, attract foreign investments to the Danish music industry and create international contacts and networks.

7.3 Cross-indie organization

It seems as if the indies today are left outside the core of the majors that are all organized in International Federation of the Phonographic Industry (IFPI) and representing—along with a sum of indies—almost 95% of the market²³. If possible, a closer and more specialized cooperation among the indies, in which their interests are not represented alongside with the majors, would make them more resilient against pressure. A way ahead could be to further the use of independent sector organizations such as for example Danish Independent Record Companies (DUP).

The indies are important for the creation and nurturing of talent in Denmark. As mentioned earlier, they are excellent breeding places for new talent and are usually highly specialized in certain niches such as funk, soul, techno, classical, rock, pop, and jazz music, to name but a few. The indies, due to their specialization, are more vulnerable economically, as they do not have the same portfolios of foreign and established Danish stars that the dominant players have; hence the small record companies have more volatile turnover streams. DUP's membership in the Independent Music Companies Association (IMPALA) could be further cultivated in order to learn more about the European market for music and form important links to other record companies. These links are essential in the network-oriented music industry, in which knowing the right people are a vital asset.

7.4 Specialized creative industry management education

There is a need for strategic creative talent in the industry. The record companies are currently seeking in particular talented employees who have a business education combined with musical skills. The new higher education programme in "Music Management" was only recently introduced at the Rhythmic Music Conservatory in Copenhagen as a 3-year Bachelor's degree and at the Royal Academy of Music in Aarhus as a 2-year higher education degree. Members of the industry have welcomed the educations enthusiastically. The Music Management programmes focus on the financial, marketing, production and management aspects of the industry. In addition, the programmes are oriented towards practice as internships are mandatory, and study trips including visits at several European music fairs are parts of the programme. In extension to these programmes, it might be valuable to create

²³ International Federation of the Phonographic Industry (IFPI), www.ifpi.org, 2004

the option of a Master's degree, as this will further increase the credibility of the programmes at an international level and make it appeal to international students, thereby creating closer ties to the international music scene/industry.

Table 15: List of Danish institutions offering music educations

Public education institutions	The Royal Danish Academy of Music Rhythmic Music Conservatory The Carl Nielsen Academy of Music The West Jutland Academy of Music The Royal Academy of Music in Aarhus The North Jutland Academy of Music
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In addition to educational programmes aimed directly at the music industry, cross-industrial programmes, that is, programmes spanning across various creative industries, could also have great potential. There is no reason why skills acquired in one industry cannot be leveraged in another industry. The Music Management programmes may be able to bring a more elaborate business focus to the music industry. This focus is otherwise lacking from many of the other programme offered by the various educational institutions, which seem more focused on creating artistic talent than on combining it with the business skills necessary to survive in a fierce competition.

An attempt to start a cross-creative industry education has been attempted at Roskilde University (RUC) in the winter of 2004. The aim is to equip students with the necessary balance of creative and managerial skills to better understand and service customers in the creative industries.²⁴ Tuition fees are demanded for this two-year part-time Master's programme, which precludes the possibility of receiving the Danish State Educational Grant and Loan Scheme (SU). This will make the programme most attractive to people currently employed within the industry.

Graduates with a broader business view of the music industry should have a better understanding of the market forces and the potential benefits of pursuing different strategies in order to steer the industry in new directions. In other words, graduates with this background should be better at creating new markets and spotting new opportunities. This is in no way intended to belittle the industry today, which is extremely flexible and able to divert into new fields/areas within a very short time span. Once again, Sweden is an excellent example, as they have managed to attract renowned foreign stars to record their albums or music videos in Sweden, due to the high standards and professionalism of the industry, built up through their educational institutions and by the presence of international stars and songwriters.

In addition to the above-mentioned educations, study trips to other countries could be facilitated in order to ensure that students acquire knowledge and information about the

²⁴ Musicon Valley (2004): "Back stage visit at Roskilde Festival" ("Backstagebesøg på Roskilde Festival"), *Musicon Valley*: 1-3.

conditions in other markets. There is most notably a need to gather knowledge about dominant markets like the UK and the US, but the Nordic countries are also of great interest, as there is much to learn from both Sweden and Norway.

7.5 Cooperation between ICT institutions and the Danish music industry

One of the current threats to the music industry in general is the illegal copying of music on different digital media. How these obstacles can be overcome and how pit-falls created by developments in Information Communication and Technology (ICT) can be avoided in future are issues that must be addressed. A stronger cooperation between the music industry and institutions focusing on ICT, such as the Danish Technical University (DTU), the IT University of Copenhagen and Aalborg University might help the music industry to better understand and prevent negative impacts of ICT on the industry, but also to harvest the great potential that ICT brings to the industry (for example, Internet, MP3 format) if it is understood and used appropriately. To be at the forefront of technological development, exploiting it as an expansion of the notion of carriers of experiences, has proven successful. Nevertheless, it was not the global majors within music that exploited the MP3 format, but the computer company Apple. The majors have proven weak when it comes to exploiting technological developments. This could become a vital advantage for Denmark in the future.

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