Nordicity Group Ltd.
Le Groupe Nordicité ltée

Profile of Small and Medium-sized Enterprises in the Canadian Cultural Industries

Nordicity Group Ltd.

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Department of Canadian Heritage

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About Nordicity Group Ltd.

Nordicity Group Ltd. (NGL) (www.nordicityl.com) is the rebirth of a successful strategy and policy consulting firm that merged in 1998 with Coopers and Lybrand. NGL started operations in 1981. Prior to its acquisition by Coopers and Lybrand (and subsequent merger with PricewaterhouseCoopers), NGL was one of Canada's leading business and policy consulting firms in the entertainment and media domain.

In 2002, NGL re-launched its operations as one of Canada's pre-eminent communications and media business consulting firms. NGL's principals bring considerable experience from PricewaterhouseCoopers with new skills, talent, and relationships, and now offer a greater range of solutions for enterprise transformation.

The new NGL helps organizations transform their business through sound strategic decisions, shrewd investments and resource commitments, and effective changes in processes. NGL also works with the public sector to assess the economic and business impacts of business conditions and policy or regulatory developments.

The new NGL has offices in Toronto and Ottawa, with associates in other Canadian cities. We also offer global delivery of our expertise through affiliations with international professional services firms.

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Executive Summary

Introduction and Background

Small and medium-sized enterprises (SMEs) have become a dynamic and important part of the Canadian economy. In the cultural industries, SMEs have traditionally played a key role in advancing the development of the Canadian cultural sector and the public policy objectives within the sector.

- Cultural SMEs are noteworthy for telling Canadian stories to Canadians, showcasing Canadian artistic and technical talent, and reflecting Canadian values back to Canadians.

- Cultural SMEs have traditionally been an efficient vehicle for the development of artistic and technical talent for larger Canadian and multinational entertainment companies.

- Cultural SMEs are a significant generator of skills-based jobs as part of Canada's knowledge-based economy, as well as a major contributor to innovation, economic activity, and job creation.

- To further understand the economic contribution of cultural SMEs and the issues and challenges they face, the Department of Canadian Heritage commissioned Nordicity Group Ltd. to develop a profile of SMEs in the cultural industries.

Scope of this Study

The research and data in this profile provide a snapshot of economic and financial conditions of SMEs in the cultural industries, including

1. ***Book publishing,***
2. ***Commercial art galleries,***
3. ***Film and video distribution,***
4. ***Film and video production,***
5. ***New media,***
6. ***Periodical publishing,***
7. ***Sound recording, and,***
8. ***Television and radio broadcasting.***

The profile also offers a sector-wide review and assessment of the main challenges facing cultural SMEs with respect to company financing, human resources, management expertise, content and product development, and access to foreign markets.

- Throughout most of the research, a SME was defined as any firm with annual revenues of less than **$25 million and fewer than 300 employees**. This definition was consistent with definitions used by other government departments and agencies, and allowed for easy comparison with other research of SMEs in Canada. In some cases, alternative definitions were used where industry structure, data availability, or data confidentiality provisions prevented the use of the standard definition and size threshold.

Research

Over 400 representatives from the cultural sector provided input to the project research and formulation of the cultural-SME profile.

- The project team **interviewed 52 industry thought leaders** from the cultural industries, including entrepreneurs, industry associations, crown corporations, provincial-government agencies, as well as key financial institutions including the RBC Capital Markets, Business Development Bank of Canada, and Export Development Canada.

- **385 companies** in the cultural industries participated in the online survey administered by the project team.

- Special tabulations data from **Statistics Canada**, and the **Canadian Radio-television and Telecommunications Commission,** augmented by new media industry data from **Delvinia Inc.** were used to estimate the economic contribution of the cultural industries and create a financial profile of cultural SMEs.

Economic Contribution of Cultural SMEs

There are over 3,600 cultural SMEs in Canada earning approximately $3.4 billion in annual revenue and employing over 33,500 people.

- Based on data taken from several different sources, NGL estimates that cultural SMEs earn about **$3.4 billion** in annual revenue and employ approximately **33,500** people.

- NGL estimates that cultural SMEs account for **22 percent of the $15.7 billion** in annual revenue earned by the cultural industries (commercial art galleries, book publishing, film and video distribution, film and video production, new media, periodical publishing, radio and television broadcasting, and sound recording), and about **39 percent of the approximately 87,000 persons** employed in these industries.

- Like most industries, SMEs in the cultural industries comprise most of the firms, but account for a small share of industry revenues. According to Statistics Canada, 99.7 percent of employer businesses in Canada had fewer than 500 employees in 2002, and thus could be classified as SMEs.

Main Issues

While each of the cultural industries faces very different challenges, several key issues are common across the cultural industries; many others are prevalent in most cultural industries.

- In several cultural industries, foreign competition was cited as a main challenge. Book publishers, periodical publishers, and sound recording companies all indicated that foreign competition, particularly from American companies was a threat to their growth. Many called for government intervention to ensure that Canadian companies have the presence needed in the domestic market so that Canadians are aware and can acquire their products.

- At the same time, SMEs in many of the cultural industries recognized that the long-term success of their firms and industries is largely dependent on their ability to earn revenues in foreign markets. Many viewed access to foreign markets as an area where the government can continue to play an important role in supporting SMEs.

- For English-language book publishing SMEs, one of the main issues was the drastic shift in industry structure that has occurred with the merger of Indigo and Chapters. This merger has concentrated buying power in Canada and created a critical threat to Canadian book publishers that rely on the domestic market.

- Cultural SMEs would like to see the federal government play a larger role in ensuring that they have a level playing field on which to compete with American companies and a more equitable share of industry profits among content creators, distributors, and retailers.

- Many of the cultural industry entrepreneurs that we spoke with suggested that government programs be designed to reward cultural SMEs that are successful, rather than seeking to spread financial resources too thinly across the industry.

- Cultural SMEs must continue to find and exploit underserved niche markets in order to be viable. In today's economy, many of the successful cultural SMEs are those who can also successfully exploit alternative content distribution models. For example, some periodical publishers have been successful by extending their brand to specialty television programs or Web sites.

- Commercial art galleries, in particular, indicated that demand for art in Canada is below that of other developed economies, and called for greater government investment in public art institutions as a key tool for stimulating demand. Commercial art gallery owners also noted that government must continue to invest in tools that allow them to market Canadian artists outside of Canada.

Financing

Cultural SMEs pointed to access to capital as one their most important challenges.

- Some of the research data indicate that cultural SMEs are just as successful as all Canadian SMEs when it comes to obtaining debt financing. Among cultural SMEs that applied for debt financing during the last two years[1], **approximately 80 percent** had their requests approved by their financial institution. This is comparable to the approval rate of 80 percent for all SMEs in Canada.[2]

- What is more, the approval rate of 80 percent was somewhat better than the approval rate of 70 percent for SMEs in the knowledge-based industries in Canada.[3]

- While the data suggest that cultural SMEs have a similar experience than other SMEs, in terms of debt approval, the research data do not offer an insight as to whether cultural SMEs have been successful in obtaining the total amount of capital they are seeking or whether the capital they have obtained is at rates that are favourable to them.

- Even with access to bank financing, a large share of cultural SMEs find themselves using personal savings to operate their businesses. Approximately 50 percent of cultural SMEs that obtained external private financing during the last two years also used personal savings as a form of financing. Approximately 42 percent of cultural SMEs that were successful in their debt applications also used personal savings to finance their company's operations.

- Many cultural industries have become highly dependent on government policy and funding to support their financing. Approximately **54 percent of cultural SMEs** obtained some type of public financing during the last two years. This funding ranged from direct grants to refundable tax credits. Most entrepreneurs agreed that some form of financial assistance was essential for Canadian cultural SMEs to compete in the domestic market. However, the role of government in creating globally competitive creative industries was less evident.

- Cultural SMEs report that it is difficult to obtain normal commercial terms for corporate financing. Cultural SMEs' main asset is intellectual property, and often, financial institutions do not have ready methods to value it or cannot effectively assess the risk in cultural businesses. Currently, among cultural sectors, only in film and television production, do banks have a well-established loan portfolio and even then, this is limited to only certain banks with lending dependent on producers first obtaining tax credits and the sale of exhibition rights. In most cases, the owners of cultural SMEs pledge personal assets in order to obtain bank financing. Almost half of all cultural SMEs surveyed used a personal line of credit to finance their businesses during the last two years.

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[1] This is not representative of all SMEs as those applying for corporate third-party financing represent a relatively small percentage in both cases, as typically only the more successful SMEs apply.

[2] Industry Canada, *Small and Medium-sized Enterprise Financing in Canada*, 2002

[3] *Ibid.*

- Financial institutions often view cultural SMEs as high-risk borrowers with limited corporate management, uncertain cash flows, and susceptibility to changes in government policy and funding.

- Some cultural entrepreneurs who were interviewed complained about the inequities in government financing among industry sectors.

- While government financing is an effective financing source in the short term, it creates considerable uncertainty for cultural SMEs in the long term, and thus adds another layer of risk to the industry. Government financing can disappear quickly; this makes dependence on it highly risky. This added risk may serve to inhibit private-sector financial institutions from making long-term investments.

Managing Growth

SMEs must manage the change from individual founders and partners into corporate entities.

- SMEs that grow successfully are able to:
    - Resolve their financing based on the generation of a continuing royalty stream from a substantial catalogue of titles or other intellectual property;
    - Structure management into departments;
    - Corporatize their knowledge base; and,
    - Retain stable professional teams.

- Most SMEs are not able to resolve the key financing, management and skills issues that would allow them to grow. They are constantly focused on the day-to-day cash flow decisions and a project-by-project approach. In cases where the micro-enterprises have been in existence for decades and continue to work 'on a corner of the kitchen table', this can be attributed to personal choice – the cultural activity is as much an avocation as a business. However, there is a continuing danger that cultural SMEs will remain segregated between a few larger financially successful, globally competitive firms and a large number of very small firms continually dependent on assistance programmes.

- For many cultural industries, financing problems can be traced to **structural issues** within each industry, which severely dampen the economic prospects of Canadian companies, and Canadian SMEs in particular. **Book publishers** have a weak position in the industry because of the concentration of buying power with Indigo-Chapters. **Commercial art galleries** operate in a market where domestic demand for art is below where it should be in comparison to other countries, and where generating international demand for Canadian art requires a long-term financial investment in building international relationships. For **film and video production and distribution**, international demand for Canadian television series has weakened significantly during the last several years. **New media** is in emerging industry in which most firms are still grappling to find stable business models in what continues to be very much a project-oriented industry. In the **periodical publishing** industry, the Internet and computing power has led to very low barriers to entry, and a highly competitive market environment.

This is compounded by newsstand competition from American publications. **Independent record labels** are threatened by the dominance of major American labels and piracy that affects the global industry.

Human Resources

Cultural SMEs expressed a high degree of difficulty in finding well-trained employees.

- Approximately 46 percent, of cultural SMEs reported that they found it difficult or very difficult to find well-trained employees. In the periodical publishing, new media, and book publishing industries, about one-half of surveyed SMEs indicated that they found it at least difficult to find well-trained employees.

- Most of the employee training among cultural SMEs is on-the-job. Because of this, cultural SMEs told us that they need people who are good critical thinkers and not over-trained, so that they can adapt to shifting technical and business demands of the workplace at a cultural SME.

- Cultural SMEs told us that they found it difficult to retain high-calibre, highly motivated people due to low pay and cash flow fluctuations. The best people were often hired away by large firms or even foreign companies, and with them, a significant opportunity to build a corporate knowledge base.

Management Expertise

About one-half of cultural SMEs believe that they are experiencing a shortage of management expertise.

- Like SMEs in other industries, cultural SMEs tend to lack many people with the management capabilities that can help them grow. Many people who start a business in the cultural sector do it primarily to pursue their artistic interests on a commercial basis. As such, cultural-sector entrepreneurs often lack important business and management skills.

- Like many other segments of the economy, SME baby boomer owners and managers will be retiring in ever increasing numbers in the coming years. While companies of all sizes face these challenges, the lack of corporate knowledge bases will result in the loss of decades of accumulated skills and experience in SMEs across the cultural industries.

- For cultural SMEs, leadership/vision, as well as business planning and financial skills are the management capabilities that are considered most important.

- In several of the cultural industries, SMEs are making use of training programs sponsored by industry associations in order to train their managers. While these programs are considered very useful, they are often out of reach of most SMEs because of the financial and time costs associated with them.

Content and Product Development

With the exception of SMEs in the commercial art galleries industry, almost all cultural SMEs are involved in the development of intellectual property.

- Cultural SMEs' opinions on what the biggest challenges are to the development of Canadian content varied considerably, depending on the industry. For SMEs in the book publishing and commercial art galleries industries, the lack of domestic demand was the biggest challenge.

- New media and periodical publishing SMEs highlighted the lack of effective government support programs as the biggest challenge to their development of Canadian content.

- For film and video production and distribution SMEs, regulatory rules regarding Canadian content, the lack of effective government support, and the lack of international demand for Canadian content were all cited as key challenges to their development of Canadian content.

- Cultural SMEs were very much split on whether federal government policy should emphasize the production of Canadian content over the growth of Canadian companies that produce content.

Foreign Markets

With the exception of broadcasting and periodical publishing industries, cultural SMEs acknowledged that foreign markets are very important to their growth within a relatively limited domestic market.

- Cultural SMEs acknowledged that they did not face any legal obstacles to entering key foreign markets. However, they did point to a lack of financial resources as the main reason why they may have not been able to maximize their opportunities outside of Canada.

- For cultural SMEs in many industries, alliances provide one of the best routes for foreign market entry. However, Canadian cultural SMEs must be consistently present at international trade events in order to forge these alliances.

1 Introduction

1.1 Background

Small and medium-sized enterprises (SMEs) have become a dynamic and important part of the Canadian economy. During the 1990s, SMEs were the engine of job growth in Canada, accounting for 80 percent of employment growth.[4] Today, there are an estimated two million SMEs (firms with revenues over $30,000)[5] in Canada employing over six million people[6], or just over 35 percent of all employed persons in Canada.

SMEs have traditionally played a key role in advancing the development of the Canadian cultural sector and the public policy objectives within the sector. Cultural SMEs are noteworthy for telling Canadian stories to Canadians, showcasing Canadian artistic and technical talent, and reflecting Canadian values back to Canadians.

Cultural SMEs typically provide both the gateway for new talent entering the industry – absorbing talent and technical expertise from drama, communications, journalism, music, writing, and technical educational institutions. Cultural SMEs often provide the early staging ground for Canada's artists.

Cultural SMEs in Canada have shown to be resourceful in:

- Identifying new market niches;
- Adapting content, talent and technologies from one media platform to the next;
- Building real and virtual teams on a project-by-project basis;
- Assembling a mix of public and private financing; and,
- Controlling administrative and other overhead.

Cultural SMEs have traditionally been an efficient vehicle for the development of artistic and technical talent for larger Canadian, U.S. and other multinational entertainment companies such as the major record labels.

Cultural SMEs are a significant generator of skills-based jobs as part of Canada's knowledge-based economy, as well a major contributor to innovation, economic activity, and job creation.

SME success stories in the cultural industries often originate with the nexus of personal contacts that favour the discovery of opportunity and the matching of that opportunity to talent. In some cases, these contacts were formed among entrepreneurial artists and technical talent at schools or in larger firms. In other cases, larger Canadian media companies have fostered the development of SMEs through a variety of commercial arrangements including:

- Arms-length SME venture funds,
- Direct equity investment,
- Co-location, sharing of talent and other 'hot houses' arrangements, and,
- Supplier arrangements and other long-term partnership arrangements.

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[4] Industry Canada, *Small Business Policy Branch Strategic Plan*, 2000/01 to 2003/04.

[5] *Ibid*.

[6] *Ibid*.

For the most part, these commercial arrangements have been successful in developing innovative and cost efficient content because they are tailored to the individual talents and market opportunities.

In addition to sharing numerous issues with SMEs across the Canadian economy, SMEs in the cultural industries face significant problems in attaining financial stability:

- SMEs typically lack the cash flow to develop a more permanent structure with management and specialized talent.
- Canadian cultural SMEs face a fragmented marketplace due to the cultural, linguistic and geographic realities of Canada.

In many cases, the success of the business activities of Canadian SMEs' business, career management and promotion is dependent on the success of a stable of Canadian artists, authors and composers. The English-language Canadian cultural marketplace is dominated by American product in film, magazines, television and other media. This is due to a number of business and cultural factors:

- Dominance of the distribution chain by large multinational media companies;
- Lack of cross-promotional vehicles: While the careers of French-language sound recording, television and print artists are supported by a variety of publications, television shows and other cross-media promotional vehicles, media venues outside Quebec are few; and,
- Preference for American television, film and recording product especially among younger audiences world-wide.

In contrast, Quebec audiences have a much higher rate of consumption of indigenous cultural products across all media than English-language Canadian audiences.

In some industry sectors, such as recorded music, only a small portion of authors and composers make a full-time living from their craft. Typically, both artistic and technical careers are truncated by the need for employment outside the industry. For SMEs involved in developing new talent and establishing firms, the loss of talent is a critical weakness in the development of the firm.

It can be argued that artistic and technical excellence and corporate financial stability in some forms of cultural expression and entertainment are truly based on a global marketplace. For example, some specialized Webzines have designed their product for global audiences from the start. Canadian SMEs have been very successful in providing product and artists to multinational entertainment firms such as Vivendi, Sony, and Disney.

However, the global marketplace is the source of market and business changes which exert pressure on the financial stability of SMEs. With the emergence of dominant global multimedia conglomerates, fewer artists are developed and promoted and even fewer can depend on a long-term career. For SMEs, fewer corporate players mean fewer potential corporate partner opportunities and potential competitors with very deep pockets.

For cultural agencies, this instability of cultural enterprises means a continuing loss of entrepreneurial individuals that have industry experience, business contacts, and knowledge of agencies' programs. This ongoing turnover means training new entrepreneurs in the objectives and parameters of the various programs and building the personal relationships in order to maintain a critical mass of projects.

1.2 Rationale and Mandate

The Department of Canadian Heritage wants to help strengthen the resilience and financial performance of Canadian cultural SMEs and ultimately strengthen their role in generating attractive and innovative Canadian content across all media platforms.

In order to do this, the Department of Canadian Heritage required a deeper understanding of what the characteristics of cultural SMEs are, and what challenges they face.

The Department of Canadian Heritage's objective in this study is to better understand the business and wider economic issues facing SMEs in the cultural industries, and in particular, how the role and usefulness of government programs might be improved.

To this end, the Department of Canadian Heritage commissioned Nordicity Group Ltd. to prepare a profile of cultural SMEs.

The key objectives of the study are:

- The development of a detailed profile of the cultural SMEs and their characteristics;
- An examination of the main issues and challenges facing SMEs in the Canadian cultural sector;
- An evaluation of SMEs' ability to access financing; and,
- An assessment of the gaps and weaknesses in the current array of private and public sector financial instruments that support cultural SMEs.

For this project, the cultural industries under examination are:

1. Book publishing,
2. Commercial art galleries,
3. Film and video distribution,
4. Film and video production,
5. New media,
6. Periodical publishing,
7. Sound recording, and,
8. Television and radio broadcasting.

In realizing the mandate of this project, the Department of Canadian Heritage and NGL have created a report that combines, for the first time, key economic information form eight different cultural industries.

1.3 Data and Research Issues

In developing this profile of cultural SMEs, one of the biggest research challenges was to actually quantify the size of the sector. The process did not simply involve the summation of economic and financial data for each of the eight industries under examination.

For six of the eight cultural industries, comprehensive data were available from Statistics Canada or the Canadian Radio-television and Telecommunications Commission (CRTC). For the new media industry data were not available from Statistics Canada, but were available from Delvinia Inc., which conducts an annual survey of the Canadian new media industry (Interactive Media Producers Survey). While the data from the Delvinia Inc. survey may not be completely comparable to that offered by Statistics Canada, they did provide the information needed to construct estimates for the size of the segment of the Canadian new media industry for which the focus is on the creation of intellectual property.

For the commercial art galleries sector, there was very little data available from Statistics Canada or other sources. This presented a significant challenge in estimating the size of the industry. To arrive at an estimate of industry size, NGL combined data collected through an online survey with some secondary research related to the number of commercial art galleries in Canada.

Even where data were available from government sources such as Statistics Canada or the CRTC, the surveys of the various cultural industries and the publishing of survey results were not synchronized. One could obtain financial statistics for Canadian broadcasters for the 2002 broadcasting year (September 2001 to August 2002), however, for other cultural industries, the most recent year of available data was as late as 1998-99.

2 Approach and Methodology

2.1 Definition of Cultural SMEs

One of the key challenges in a rigorous analytical approach is establishing a definition for a cultural SME. NGL reviewed a variety of SME definitions that are currently utilized by Canadian statistical agencies, media regulators, cultural agencies, funds and financial institutions.

Our review indicated that there is a wide range of SME definitions being used by organizations. There are differences in both the choice of the key size measure and the thresholds used within the measure. Some organizations use thresholds based on number of employees, while others use total revenues. In the case of periodical publishing, circulation size is also used as measure for defining a SME. It should also be noted that the SME definition may also vary across the various industries of the cultural sector.

In our analysis, we paid particular attention to the SME definitions developed by Statistics Canada, as this agency is often used as the reference point for quantitative research and analysis.

Statistics Canada's Small Business and Special Surveys Division conducts an ongoing research program that collects data on SMEs in Canada. It defines a SME as any business establishment with 0 to 499 employees and less than $50 million in gross revenues. With a minimum of zero employees, this definition includes self-employed persons who operate businesses without employees. At the same time, by capturing firms with up to 499 employees, this definition is capturing some relatively large organizations. Indeed, a firm with 499 employees may be considered large within the cultural sector. While this definition served as a suitable goal post it became somewhat impractical when collecting data from secondary sources.

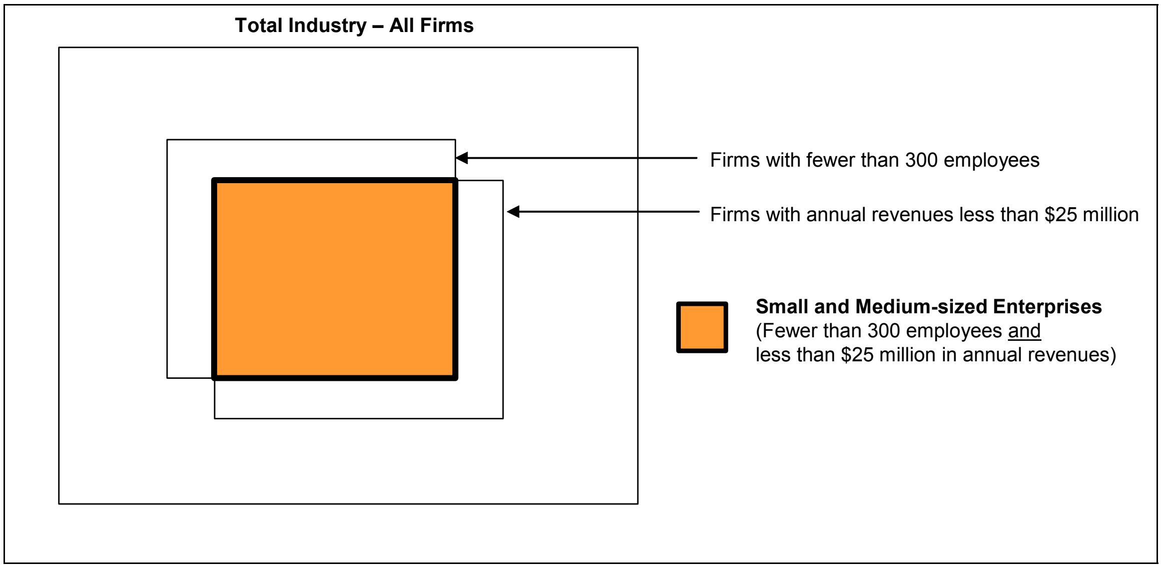
Statistics Canada's definition is designed to be applied across several different industries. Programs geared towards the cultural industries utilize much lower thresholds. For example:

- The Canada New Media Fund uses a $25 million revenue threshold to define a SME.
- The Book Publishing Industry Development Program (BPIDP) uses a $20 million revenue threshold.
- The Canadian Radio-television and Telecommunications Commission (CRTC) considers broadcasting licensees with less than $10 million in revenues as "small market" broadcasters.
- Statistics Canada's periodical publishing data is collected on the basis of title rather than corporate entity with titles with total circulation under 100,000 often considered SMEs.

In developing a definition for cultural SMEs, it was important that the definition be both comparable to other industries, while at the same time reflecting the structure and economics of the cultural industries. With this in mind, we developed the following definition of cultural SMEs for the profile:

300 employees and **total revenues of $25 million** as the upper limit for cultural SMEs.

Figure 1 Definition of Small and Medium-sized Enterprises



For some of the cultural industries, we scaled the SME definition to the industry structure and data sources related to that particular industry.

- In the broadcasting industry, a SME was defined as any broadcast licensee that was not owned by a broadcasting company with annual revenues of over $25 million.
- For the periodical publishing industry, a SME title was defined as any periodical title with circulation of less than 100,000.
- Due to data confidentiality rules, the threshold for the definition of a sound recording SME was set to $10 million rather than $25 million.
- For the new media industry, a SME was defined as any firm with fewer than 100 employees. This was the definition used by Delvinia Inc. in its Interactive Media Producers Survey (IMPS).

2.2 Secondary Research and Data Sources

A considerable body of literature has been built up on the topic of SMEs, and the cultural industries. NGL reviewed numerous reports on SMEs in Canada, the cultural industries, and across other sectors. The reports provided valuable insights into many of the issues facing SMEs in Canada and cultural SMEs in particular. A list of research references is contained at the back of the report.

A considerable amount of primary data was collected through an online survey (discussed below). While this data was useful in developing the profile of cultural SME characteristics, comprehensive statistical economic data was also required to estimate the economic contribution of the cultural SMEs and add even more detail to the profile.

With the exception of broadcasting, new media and commercial art galleries, the statistical economic data were sourced from special tabulations prepared by Statistics Canada. The special tabulations were composed using data collected through Statistics Canada's various industry survey programs. In each case, Statistics Canada generated key financial and economic data for the subset of survey respondents with revenues less than $25 million and fewer than 300 employees.

The economic and financial data for the television and radio broadcasting industry were produced by the CRTC, and were based on data from the annual financial statement returns submitted by licensed broadcasters.

Statistics Canada was not able to provide data for the new media and commercial art galleries industries. Thus, the study team was obliged to find other sources for these sub-sectors.

- The data for new media were sourced from IMPS conducted by Delvinia in 2002. These data provided a useful basis upon which an estimate could be constructed for the portion of the industry specializing in the content creation. It also provided the key metrics needed to estimate the share of industry activity attributable to SMEs.

- The data for commercial art galleries was largely based on data from the online survey.

For the television and radio broadcasting industry, the best data was available from the Canadian Radio-television and Telecommunications Commission.

As noted above, there was a lack of synchronization in the data sources. The data for each industry was collected through separate surveys and these surveys were administered and collected on different schedules. Some surveys are annual, while others are biennial. As such, the data for each many of the cultural industries correspond to different years.

Table 1 Secondary Statistical Data Sources

Industry	Data Source	Operational SME Definition
Book Publishing	Statistics Canada custom tabulations based on data collected through Statistics Canada, *Survey of Book Publishers and Exclusive Agents*, 2000/01	Revenues < $25 million and employees fewer than 300
Commercial Art Galleries	NGL estimates based on data collected through Department of Canadian Heritage, *Survey of Cultural SMEs*, 2003	Revenues < $25 million and employees fewer than 300
Film and Video Distribution	Statistics Canada custom tabulations based on data collected through Statistics Canada, *Film, Video and Audio-visual Distribution and Videocassette Wholesaling Survey*, 2000/01	Revenues < $25 million and employees fewer than 300
Film and Video Production	Statistics Canada custom tabulations based on data collected through Statistics Canada, *Film, Video and Audio-visual Production Survey*, 1999/00	Revenues < $25 million and employees fewer than 300
New Media	NGL estimates based on data from Delvinia Inc., *Interactive Media Producers Survey*, 2002	Fewer than 100 employees
Periodical Publishing	Statistics Canada custom tabulations based on data collected through Statistics Canada, *Periodical Publishing Survey*, 1998/99	Total title circulation of less than 100,000
Sound Recording	Statistics Canada custom tabulations based on data collected through Statistics Canada, *Sound Recording Survey*, 2000/01	Revenues < $10 million and employees fewer than 300
Television and Radio Broadcasting	Canadian Radio-television and Telecommunications Commission custom tabulations based on data collected from annual survey of broadcasting licensees	Licensees not controlled by a broadcasting group with more than $25 million in revenues

2.3 Executive Interviews

NGL conducted executive interviews with 52 industry executives, including representatives from cultural sector companies, industry associations, crown corporations, provincial government agencies, as well as key financial institutions including the RBC Capital Markets, Business Development Bank of Canada and Export Development Canada. The table below lists the executives interviewed for this report.

In order to have some degree of regional representation, for each of the cultural industries we interviewed at least one person in each industry from a French-language region of Canada.

Table 2 List of Interviewees

Industry	Interviews Completed
Film and Video Production and Distribution	• Linda Schuyler, Epitome Pictures • Chris Zimmer, ImX Communications • Luc Wiseman, Avanti Ciné Vidéo Inc. • Andrea Nemtin, PTV Productions • Jacquelin Bouchard, Pixcom • Jacques Blain, Cirrus Communications • Sylvia Jonescu Lisitza, Moving Images Distribution
Broadcasting	• John Levy, Headline Media Group • David Nostbakken, The Green Channel • Blair Dagget, CHCD Radio
Sound Recording	• Earl Rosen, Marquis Classics • Mario Labbé, Groupe Analekta Inc. • Jim West, Justin Time Records Inc. • Donald Tarlton, DKD Disque • Holger Peterson, Stony Plain Records
Book Publishing	• Jim Lorimer, Formac, James Lorimer & Co. • Scott McIntyre, Douglas and McIntyre • Shane Kennedy, Lone Pine Publishing • Valerie Hussey, Kids Can Press • Herve Foulon, Les Editions Hurtubise HMH • Anna Porter, Key Porter • Lise Bergevin, Leméac Éditeur
Periodical Publishing	• John Hinds, Canadian Community Newspaper Association • Bev Murphy, Anglican Journal • Jacqueline Howe, Avid Media • Greg MacNeil, St. Joseph Media • Barbara Zatyko, GEIST • John Thompson, Canadian Geographic Magazine • Felix Maltais, Publication BLD • Roland Bellrose, Aboriginal Times
New Media	• Raja Khanna, Snap Media • Steven DeNure, Decode Entertainment • Tanya Claussens, Kutoka Interactive • Wayne Clark, Unlimited Digital • Marc Boutet, De Marque Inc. • Steve Comeau, Collidescope Digital Productions
Commercial Art Galleries	• Yves Trepanier, Trepanier Baer Gallery • Ian Muncaster, Zwickers Gallery

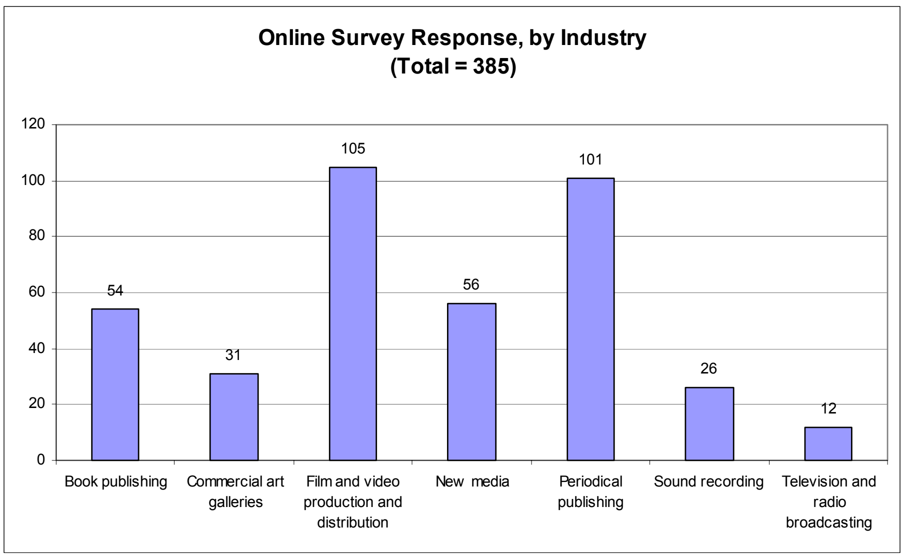
Industry	Interviews Completed
Industry Associations	• Guy Mayson, Canadian Film and Television Production Association (CFTPA) • Phil Boyd, Canadian Business Press (CBP) • Brian Chater, Canadian Independent Record Production Association (CIRPA) • Marc Blondeau, Association Quebecoise des editeurs de magazines (AQEM) • Jean Louis Fortin, Association nationale des éditeurs de livres du Québec (ANEL) • Richard Paradis, Canadian Association of Film Distributors and Exporters (CAFDE)
Crown Corporations	• Richard Stursberg, Telefilm Canada
Financial Institutions	• Charles Bernier, Business Development Bank of Canada • Kim Matheson, Export Development Canada • Sandra Macdonald, Canadian Television Fund • Jane Henderson, RBC Capital Markets
Provincial Agencies.	• Kristine Murphy, Ontario Media Development Corporation (OMDC) • Stephane Cardin, Société de développement des entreprises culture (SODEC) • Daniel Boismenu, Alliance numériQC

2.4 Online Survey

NGL administered an online survey to collect data form cultural SMEs. The Department of Canadian Heritage's departmental and interdepartmental SME working groups played key roles in the design of the online survey questionnaire, survey process, elaborating the communications strategy, and in conveying the context and benefits of the study to industry associations.

The online survey was distributed by e-mail to cultural SMEs via industry associations. Eighteen industry associations participated in the survey. For the new media industry, the online survey was distributed based on an e-mail list compiled by the Department of Canadian Heritage. In total, 385 cultural SMEs from across Canada responded to the online survey.[7]

Figure 2 Online Survey Response, by Industry



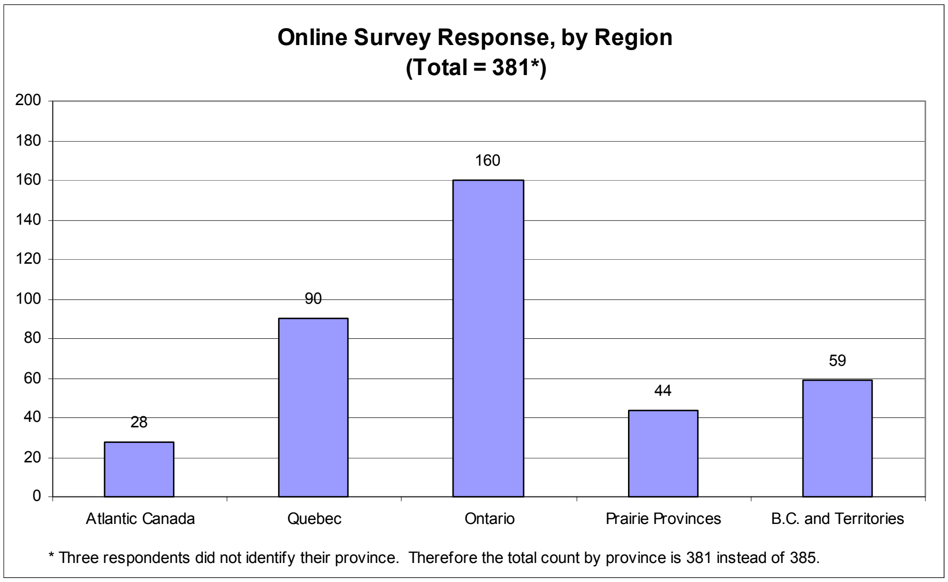
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

[7] Based on a sample size of 385 and a total population of 3,600 cultural SMEs, the online survey results have a maximum sampling error of 4.0 percent at a 90 percent confidence interval. The sampling error is higher for data subsets and certain questions with lower response rates.

Of the 385 respondents, 381 identified their province of location. And of this amount:

- 160 were from Ontario;
- 90 were from Quebec;
- 59 were from British Columbia and the territories;
- 44 were from the Prairie Provinces; and,
- 28 were from Atlantic Canada.

Figure 3 Online Survey Response, by Region



3 SMEs in the Cultural Industries

3.1 Economic Indicators

In order to arrive at an overall estimate of the size of the cultural SME sector, data were collected from different sources, including Statistics Canada, the CRTC, Delvinia Inc. (new media), and the online survey of cultural SMEs conducted as part of this project.

The survey cycle for various cultural industries is not consistent, and as such the data used to arrive at an overall estimate of the size of the industry and the economic contribution of cultural SMEs is derived from different years. Financial and economic data for SMEs in the periodical publishing industry, for example, corresponds with 1998/99. While the data are from different time periods, together they provide an overall approximation of the size of the cultural SME sector.

Table 3 Summary Economic Indicators for Cultural SMEs

	Number of Firms	Total Revenues ($ millions)	Total Employees	Data Year
Book Publishing	631	706.4	4,512	2000/01
Commercial Art Galleries	250	166.0	1,124	2002
Film and Video Distribution	191	339.9	1,257	2000/01
Film and Video Production	708	678.8	11,561	1999/00
New Media	331	182.0	2,739	2002
Periodical Publishing	918	734.6	6,645	1998/99
Sound Recording	318	141.4	1,097	2000/01
Television and Radio Broadcasting	257	440.4	4,580	2001/02
Total Cultural SMEs	**3,604**	**3,389.5**	**33,515**	**--**

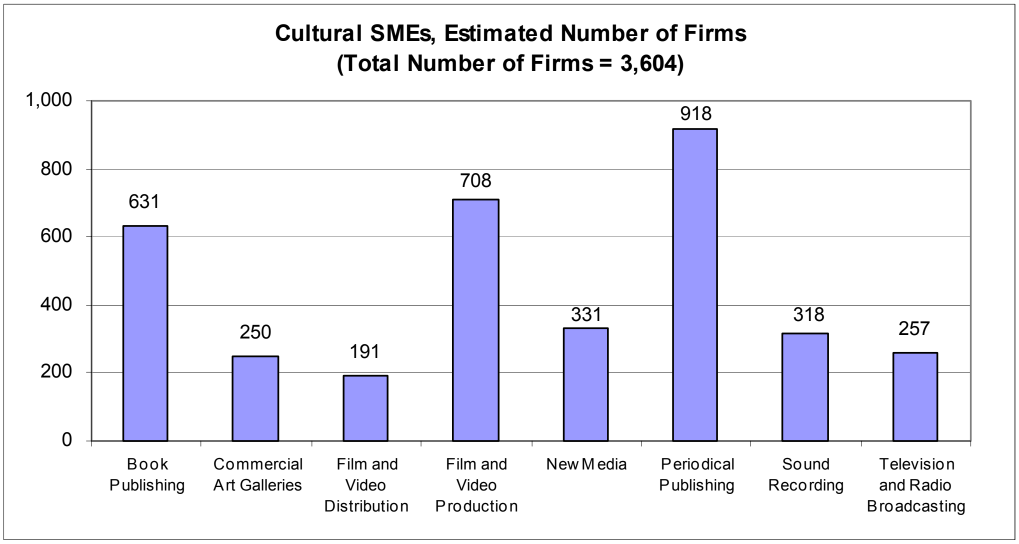
Note: Some totals may not add due to rounding.

Source: Data for television and radio broadcasting are from CRTC. Data for film and video production, film and video distribution, sound recording, book publishing and periodical publishing are from Statistics Canada custom tabulations. Data for number of periodical publishing firms are from Statistics Canada, *Financial Performance Indicators for Canadian Business: Volume 2-3, National, Small and Medium Firms*. Data for new media are from NGL calculations based on data from Delvinia Inc., *Interactive Media Producers Survey 2002*. Data for commercial galleries are NGL estimates based on data from Department of Canadian Heritage, Survey of Cultural SMEs, 2003.

3.1.1 Number of Firms

Based on the data collected from various sources, there are an estimated **3,604 firms**[8] that can be classified as SMEs in the cultural industries.

Figure 4 Cultural SMEs, Estimated Number of Firms



Source: Data for television and radio broadcasting from CRTC. Data for film and video production, film and video distribution, sound recording, and book publishing are from Statistics Canada custom tabulations. Data for periodical publishing are from Statistics Canada, *Financial Performance Indicators for Canadian Business: Volume 2-3, National, Small and Medium Firms*. Data for new media are NGL calculations based on data from Delvinia Inc., *Interactive Media Producers Survey 2002*. Data for commercial galleries are NGL estimates based on data from Department of Canadian Heritage, Survey of Cultural SMEs, 2003.

The largest number of SMEs can be found in the periodical publishing industry (918), film and video production industry (708), and book publishing industry (631). The smallest number of SMEs can be found in the film and video distribution industry (191), commercial galleries industry (250), and the new media industry (331).

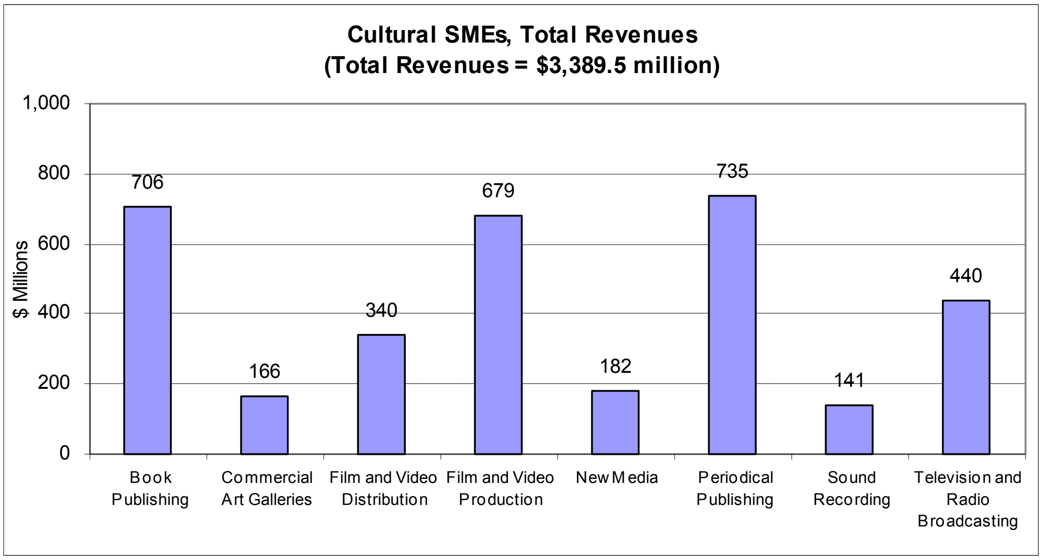
The process used to estimate the number of SMEs in each industry is discussed on more detail in subsequent sections of the report.

[8] While the term “firm” is used to denote the unit measure, a more accurate term would a “business”. That is, there 3,604 SME *businesses* in Canada. Whereas a “firm” typically demotes an enterprise with several employees, the term “business” has a broader connotation that can include businesses with or without employees. Instead of using the term “business” throughout the report, we will use the term “firm” to denote any companies or SMEs with an ongoing business, whether it does or does not have employees.

3.1.2 *Total Revenues*

Cultural SMEs generate approximately **$3.4 billion** in annual revenues.

Figure 5 Cultural SMEs, Total Revenues



Note: Total may not add due to rounding.
Source: Data for television and radio broadcasting are from CRTC. Data for film and video production, film and video distribution, sound recording, book publishing, and periodical publishing are from Statistics Canada custom tabulations. Data for new media are NGL calculations based on data from Delvinia Inc., *Interactive Media Producers Survey 2002*. Data for commercial galleries are NGL estimates based on data from Department of Canadian Heritage, Survey of Cultural SMEs, 2003.

Periodical publishing and book publishing are the largest cultural industries in terms of SME revenue.

In 1998/99, periodical publishing SMEs (periodicals with circulation under 100,000) reported revenues of $735 million. In 2000/01, book publishing SMEs earned $706 million in revenues.

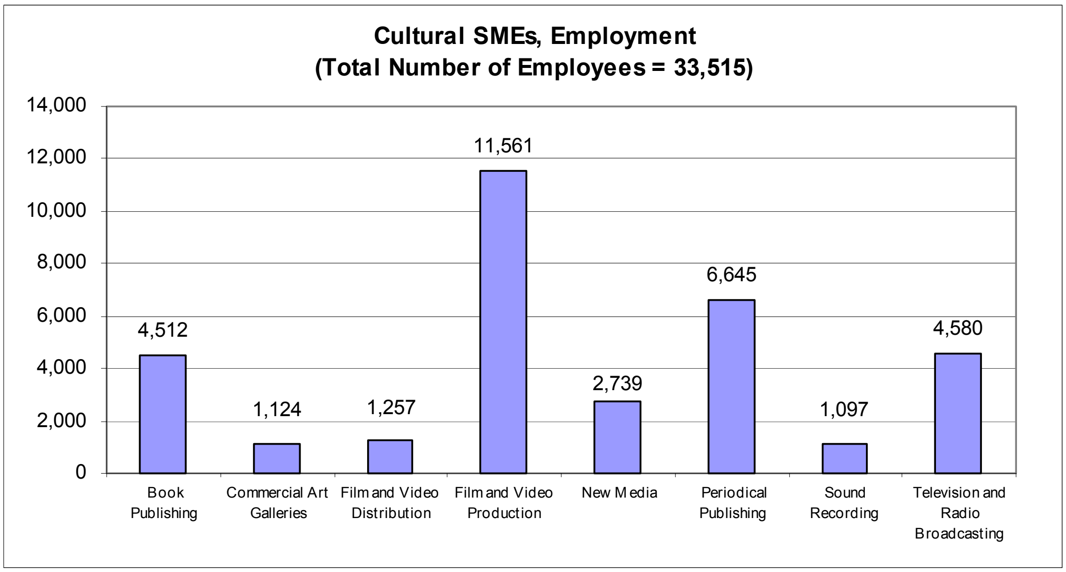
The smallest cultural industries in terms of SME revenues are sound recording, new media, and commercial art galleries.

In 2000, sound recording companies with total annual revenues of less than $10 million earned total revenues of $141 million. New media companies (focussing on the development and production of intellectual property), and with fewer than 100 employees, earned an estimated $182 million in revenues in 2002. SMEs in the commercial art galleries industry earned an estimated $166 million in annual revenues in 2002.

3.1.3 Employment

Cultural SMEs employ approximately **33,515 persons** altogether–on a full-time and part-time basis. This employment estimate also includes any persons employed as freelancers by cultural SMEs.

Figure 6 Cultural SMEs, Employment



Source: Data for television and radio broadcasting from CRTC. Data for film and video production, film and video distribution, sound recording, book publishing and periodical publishing are from Statistics Canada custom tabulations. Data for new media are NGL calculations based on data from Delvinia Inc., *Interactive Media Producers Survey 2002*. Data for commercial galleries are NGL estimates based on data from Department of Canadian Heritage, Survey of Cultural SMEs, 2003.

The largest employment is in the film and video production industry, where 11,561 persons were employed by SMEs in 1999/00. A large share of this employment was comprised of freelance artists in the industry.

Relatively high employment levels are also found among SMEs in the periodical publishing industry (6,645), the broadcasting industry (4,580), and the book publishing industry (4,512).

The smallest industries in terms of SME employment are film and video distribution, commercial art galleries, and sound recording.

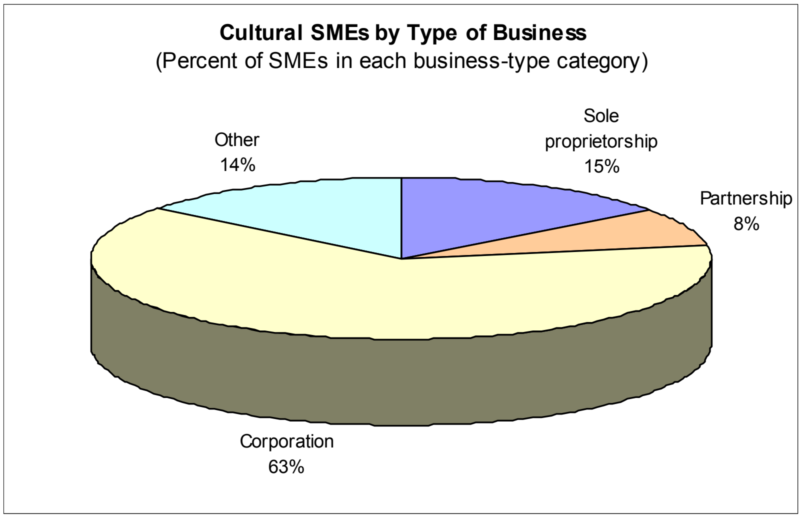
In 2000/01, film and video distribution SMEs employed 1,257 persons. In 2000, sound recording companies with total annual revenues of less than $10 million employed 1,097 persons. SMEs in the commercial art galleries industry employed an estimated 1,100 persons in 2002. SMEs in the new media industry employed an estimated 2,739 persons in 2002.

Nordicity Group Ltd.
Le Groupe Nordicité ltée

3.1.4 Type of Business

The majority of cultural SMEs are incorporated companies, or corporations. Among those cultural SMEs surveyed, 63 percent indicated that they were incorporated companies.[9] Only 8 percent of surveyed cultural SMEs identified themselves as partnerships.[10]

Figure 7 Cultural SMEs by Type of Business



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Approximately 15 percent of cultural SMEs identified themselves as sole proprietorships – that is, businesses with a single owner operator. Unlike an incorporated business, a sole proprietor accepts all of the profits and all of the liabilities of the company.

Approximately 14 percent of cultural SMEs classified themselves under the category of 'other'. Within the category of 'other', most cultural SMEs indicated that they were not-for-profit organizations.

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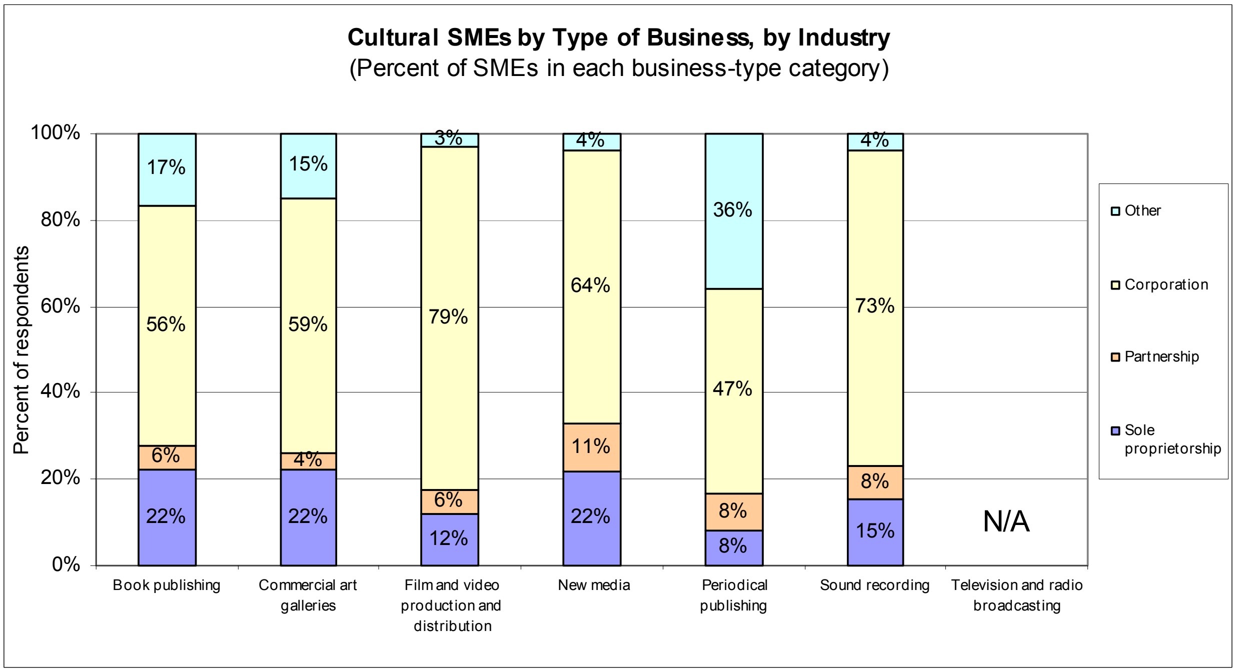
9 An incorporated company is a legal entity that is distinct from its shareholders. It limits the liability of the shareholder usually to the amount of capital invested in the company. As such, a creditor with a claim against the company, in most cases, does not have legal recourse against the shareholders' assets. A corporation also offers perpetual existence, so that the company can continue to exist regardless of who the shareholders are.

10 In contrast to an incorporated company, a partnership typically does not offer its shareholders limited liability. It also does not, in most cases, offer continuity of the company; when the shareholder composition changes, the partnership must be dissolved.

Figure 8 Cultural SMEs by Type of Business, by Industry



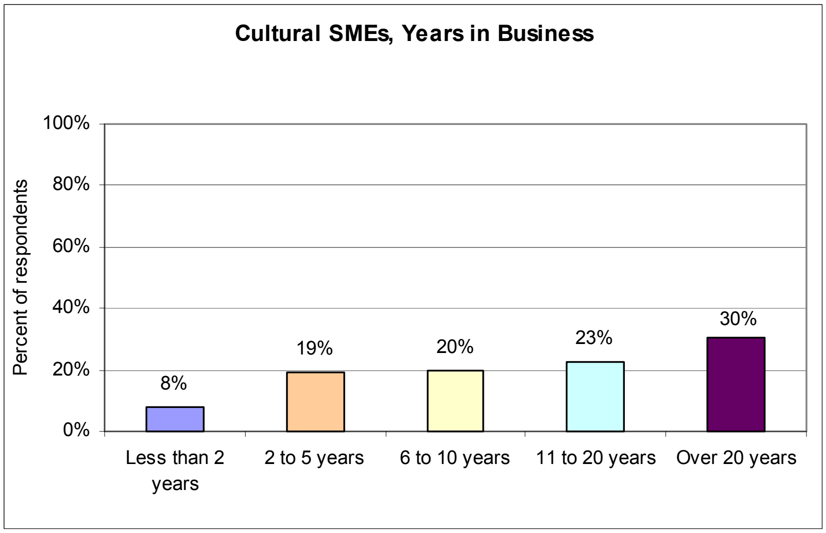
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Across all of the cultural industries, the corporation is the dominant type of business among SMEs. The profile of cultural SMEs in terms of their type of business was, for the most part, similar across of the cultural industries; the only exception was the periodical publishing industry where 36 percent of SMEs classified themselves under the category of ‘other’. The majority of the periodical publishers in the ‘other’ category are not-for-profit organizations.

3.1.5 *Years in Business*

Approximately 30 percent of cultural SMEs have been operating for more than 20 years, and over one-half (53 percent) of cultural SMEs have been operating for more than 10 years.

Figure 9 Cultural SMEs, Years in Business



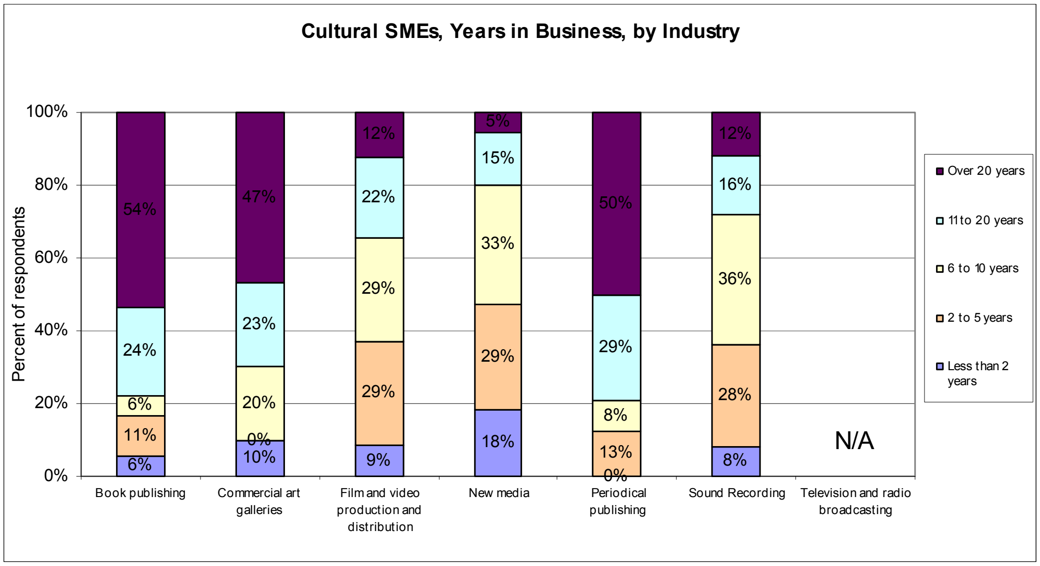
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The industries with the oldest business populations, in terms of age of firm, appear to be book publishing and periodical publishing. The majority of SMEs in these industries have been in business for more than 20 years.

The commercial galleries industry also has a relatively older business population. Nearly one-half (47 percent) of surveyed commercial gallery SMEs reported that they have been in business for more than 20 years.

The youngest industries appear to be new media, sound recording, and film and video production and distribution, where approximately 40 percent of SMEs reported that they have been in business for five years or fewer.

Figure 10 Cultural SMEs, Years in Business, by Industry



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

3.1.6 Stage of Corporate Development

In addition to profiling cultural SMEs in terms of the number of years in business, we sought to profile them in terms of their stage of corporate development.

In order to classify cultural SMEs, we used to following framework and definitions. This same framework and corresponding definitions were adapted from other studies which profile SMEs on the basis of their phase of corporate development.

Table 4 Stages of Corporate Development

Start up: An entrepreneur (or group of entrepreneurs) with an idea organizes to turn the idea into a product or service. Capital is typically obtained from internal sources such as personal savings, family, or friends.

Early stage: The entrepreneur has successfully developed the product or service and is now in a position to begin marketing and selling the product or service. The entrepreneur may require a line of credit, working capital loans, or lease financing for the purchase of equipment. At this stage, the entrepreneur may have to seek external capital from banks or other investors. Venture capital may be available for some entrepreneurs at this stage.

Fast growth: The launch of the product or service has been successful. The entrepreneur must now finance the growth of the company. The entrepreneur may seek additional investors to finance the fast expansion. The company will establish marketing and sales, finance, and other functions. There is rapid hiring of creative, technical and support personnel to fill functional needs. In some cases, financial institutions agree to finance growth based on a portfolio or even corporate basis rather than individual projects. External equity financing may also be accessible during this stage.

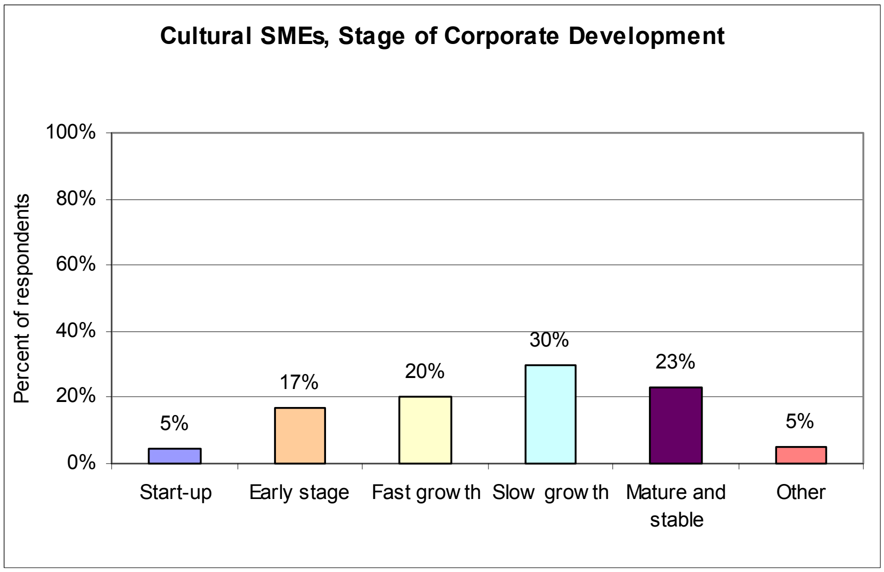
Slow growth: The company's growth begins to slow as it reaches market saturation, or competitors begin to enter its market segment. The enterprise has fully exploited its particular professional core competence and / or intellectual property. The enterprise dominates the industry in its segment and further growth prospects must be generated from other market segments. The enterprise consolidates its corporate structure and adjusts its corporate strategy.

Maturity: The enterprise has reached its full potential. Growth in the market is slow or declining. Further growth must come from acquisitions of competitors or expansion into other markets. The company may be in a position to finance this growth from retained earnings that have been built up during years of growth.

For the online survey, respondents were provided with these definitions and asked to select the one that best describes their company.

About one-half (53 percent) of all cultural SMEs classified themselves as either 'slow growth' or 'mature and stable' companies. Approximately 42 percent of all cultural SMEs classified themselves as either 'start-ups' or 'fast-growth' companies.

Figure 11 Cultural SMEs, Stage of Corporate Development



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

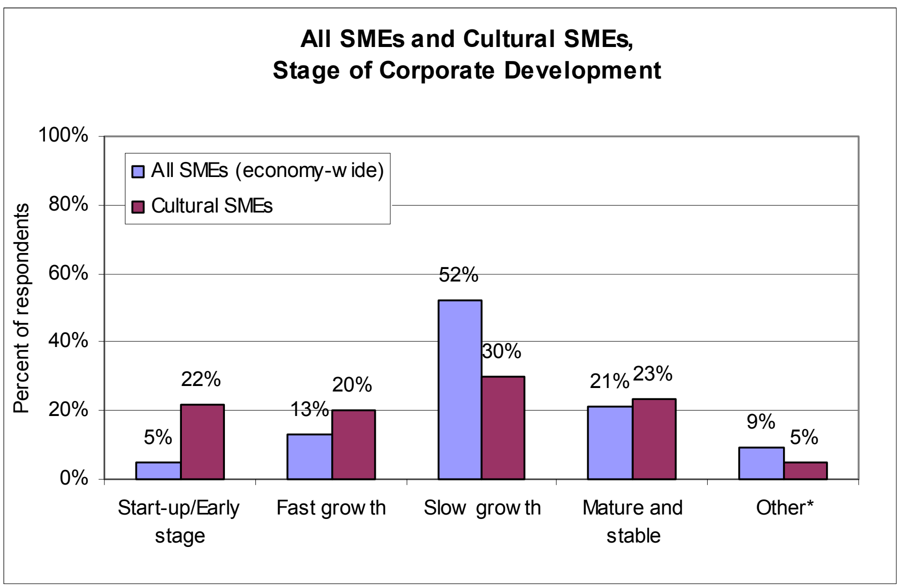
Approximately 5 percent of survey respondents did not classify their corporate development under any of the categories provided in the questionnaire. Some of these 'other' respondents described their corporate development as in "decline", "in transition", or "mature but vulnerable".

When the profile of cultural SMEs in terms of corporate development is compared to the profile of all SMEs across the economy, it appears that cultural SMEs are more likely to be in the early stage or fast growth phases of corporate development, and less likely to be in the slow growth phase of corporate development.

While 42 percent of cultural SMEs were in the start-up, early stage, or fast growth phases of corporate development, only 18 percent of all SMEs (economy-wide) were in these stages of corporate development.[11] Within this grouping, 22 percent of cultural SMEs were in the start-up or early stage of corporate development, while only 5 percent[12] of all SMEs were in either of these stages.

At the other end of the corporate development spectrum, 30 percent of cultural SMEs reported that they were in the slow growth stage of corporate development, while 52 percent[13] of all SMEs reported that they were in this stage.

Figure 12 All SMEs and Cultural SMEs, Stage of Corporate Development



* For all SMEs (economy-wide), the 'other' category represents SMEs that reported that they were in the 'decline' stage of corporate development. For cultural SMEs, the 'other' category represents respondents that did not select one of the other categories. Some of these respondents did indicate that they were in the 'decline' phase of corporate development.

Source: Data for all SMEs (economy-wide) from The Research Institute for SMEs, Université du Québec a Trois Rivières, *Financing SMEs: Satisfaction, Access, Knowledge and Needs, 2001* commissioned by Industry Canada, 2002. Data for cultural SMEs from Department of Canadian Heritage, *Survey of Cultural SMEs*, 2003.

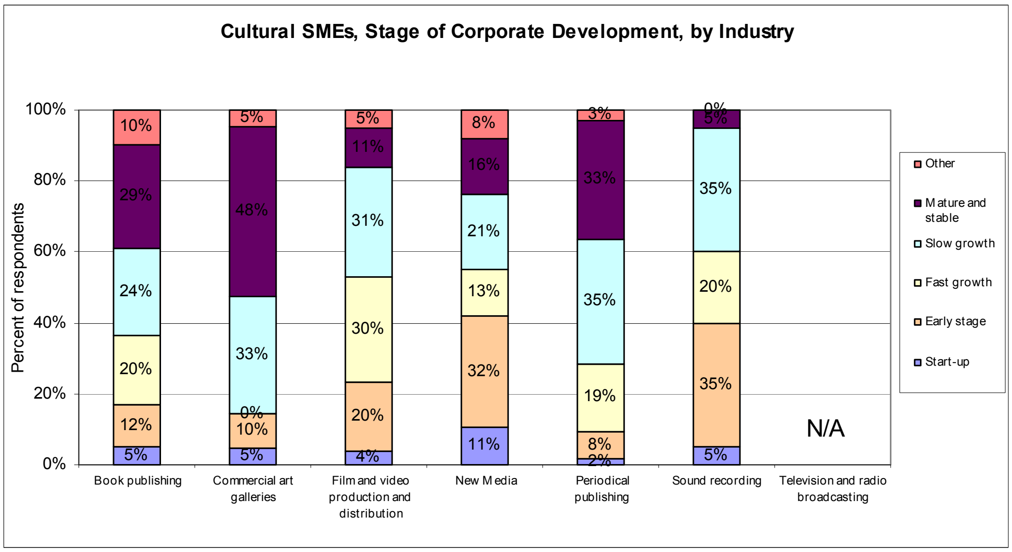
[11] The Research Institute for SMEs, Université du Québec à Trois Rivières, *Financing SMEs: Satisfaction, Access, Knowledge and Needs, 2001* commissioned by Industry Canada, 2002.

[12] *Ibid.*

[13] *Ibid.*

The cultural industries displayed considerable variance in terms of their profiles on the basis stages of corporate development. The new media and sound recording industries had the highest share of SMEs in the 'start-up' or 'early-stage' of their corporate development. About 42 percent of new media SMEs considered themselves to be 'start-up' or 'early stage' companies. Approximately 40 percent of sound recording SMEs reported that they were either 'start-up' or 'early-stage' companies.

Figure 13 Cultural SMEs, Stage of Corporate Development, by Industry



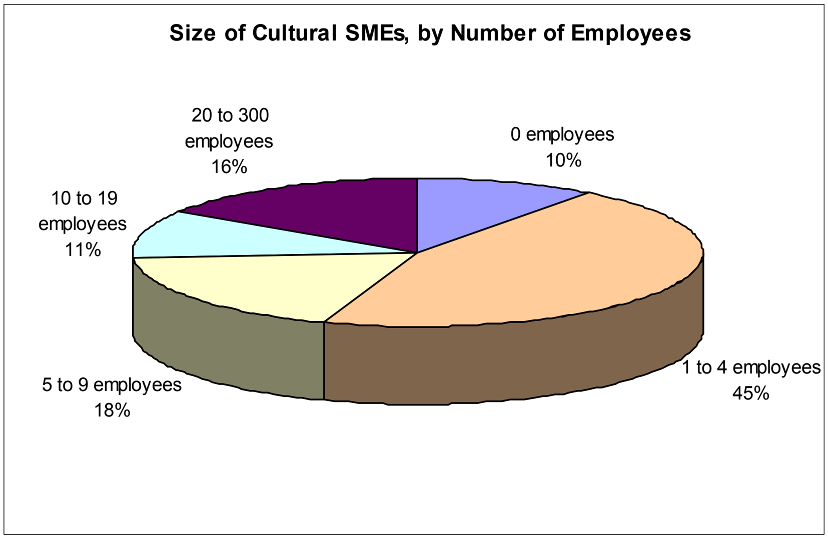
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The most mature companies in terms of corporate development were in the book publishing, periodical publishing, and commercial galleries industries. In the book publishing industry, 54 percent of SMEs reported that their companies were in either the 'slow growth' or 'mature and stable' phase of corporate development. In periodical publishing, 68 percent of SMEs classified themselves in these two categories; and in the commercial galleries industry, 81 percent of SMEs classified themselves as 'slow growth' or 'mature and stable'.

3.1.7 Size of Firms (Number of Employees)

About 55 percent of cultural SMEs reported that they had fewer than five employees. Indeed, 10 percent of cultural SMEs reported that they had no employees.

Figure 14 Size of Cultural SMEs, by Number of Employees



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

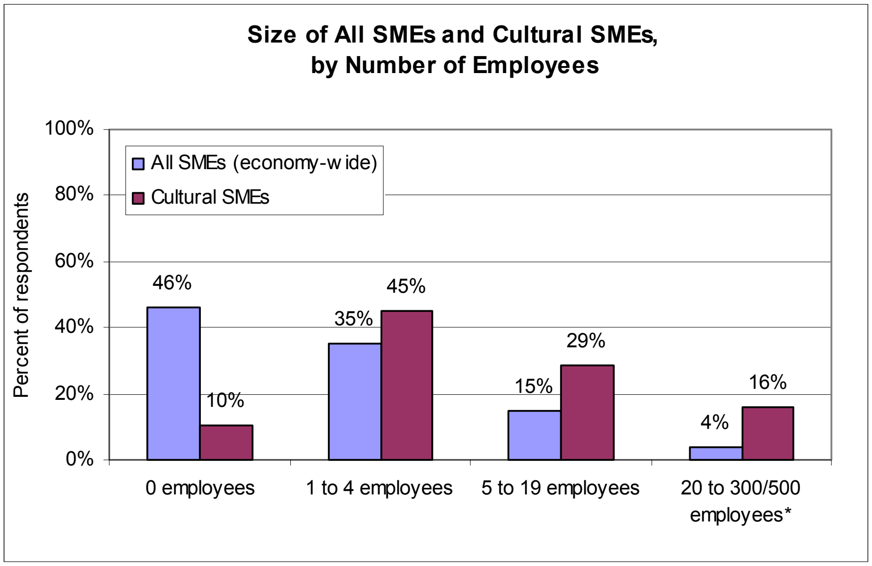
When the survey results are compared to data from the overall economy, it would appear that cultural SMEs tend to be larger in terms of the number of employees. While 10 percent of cultural SMEs reported that they have no employees, 46 percent of all SMEs in the economy reported that they have no employees.[14]

While 45 percent of cultural SMEs had 1 to 4 employees, 35 percent of all SMEs were of this size in 2000.

About 29 percent of cultural SMEs had 5 to 19 employees; while 15 percent of SMEs in the overall economy were of this size.

[14] Statistics Canada, *Survey on Financing of Small and Medium-sized Enterprises*, 2000.

Figure 15 Size of All SMEs and Cultural SMEs, by Number of Employees



* An upper threshold of 300 was used to define cultural SMEs; while an upper threshold of 500 was used by Statistics Canada to define SMEs on an economy-wide basis.

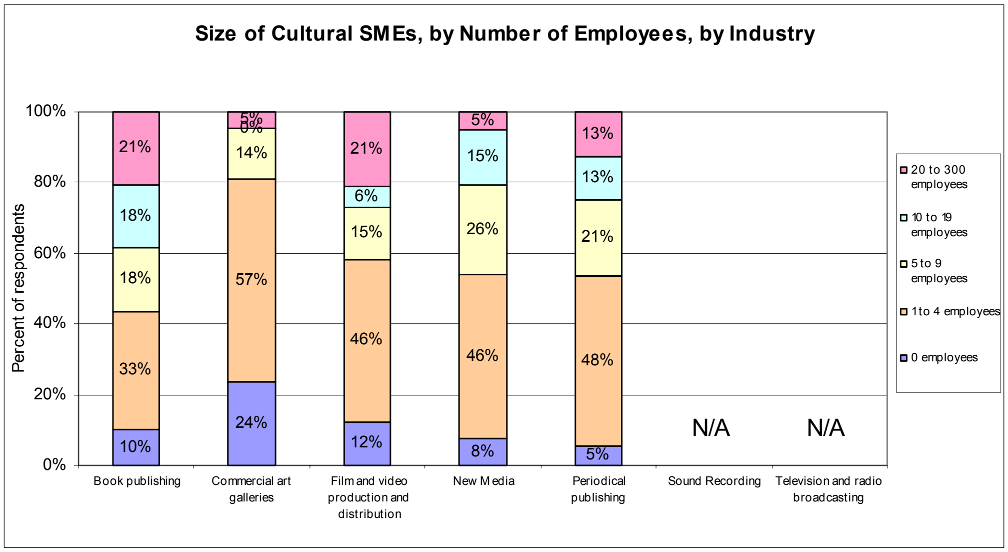
Source: Data for all SMEs are from Industry Canada, *Small and Medium-sized Enterprise Financing in Canada*, 2002, Table 19 and are based on data from Statistics Canada, *Survey on Financing of Small and Medium-sized Enterprises*, 2000. Data for cultural SMEs are from Department of Canadian Heritage, Survey of Cultural SMEs, 2003.

Cultural SMEs tended to be distributed at the larger end of the size spectrum. While 4 percent of all SMEs had 20 to 500 employees, 16 percent of cultural SMEs had 20 to 300 employees. Note that a different upper threshold was used to define a SME. Statistics Canada used an upper threshold of 500 employees applied across all industries. For this cultural industry analysis, the project team used an upper threshold of 300 employees.

According to the online survey results, commercial art galleries have the highest likelihood of having no employees. About 24 percent of commercial galleries reported that they had no employees. This was the highest rate among the cultural industries.

The largest SMEs appear to be in the book publishing industry. Approximately 39 percent of book publishing SMEs reported employing between 10 and 300 employees.

Figure 16 Size of Cultural SMEs, by Number of Employees, by Industry

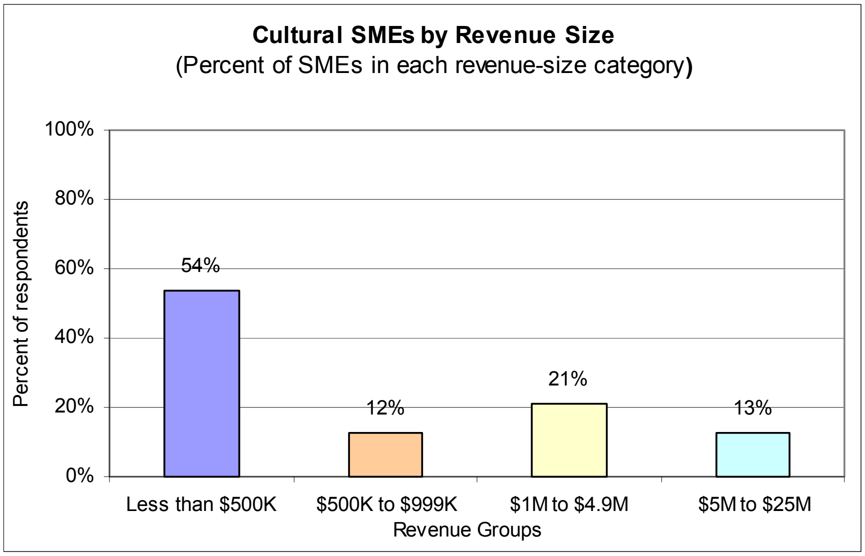


N/A - data not available due to low sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

3.1.8 Size of Firms (Annual Revenues)

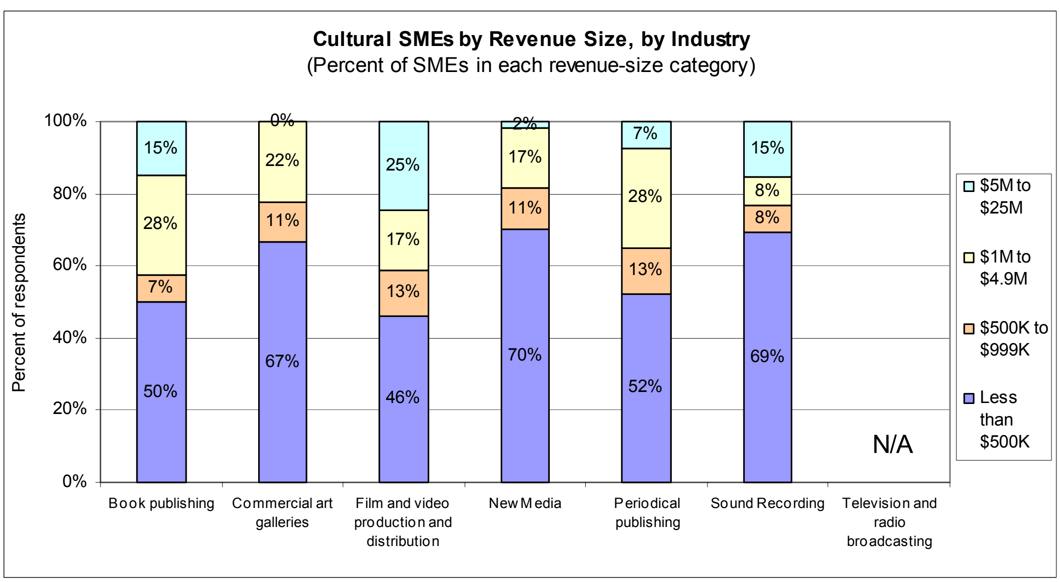
More than one-half (54 percent) of all cultural SMEs earn annual revenues of less than $500,000. Approximately 34 percent of SMEs had revenues of $1 million or higher in 2002.

Figure 17 Cultural SMEs by Revenue Size



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Figure 18 Cultural SMEs by Revenue Size, by Industry



N/A - data not available due to low sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The largest SMEs, in terms of annual revenues, can be found in the book publishing industry, and film and video production and distribution industry. Among survey respondents, book publishing has the largest concentration of SMEs, 43 percent, with $1 million or more in annual revenue. Approximately 42 percent of film and video production and distribution SMEs had more than $1 million in revenues in 2002.

The periodical publishing industry also has a high share of SMEs with revenues above $1 million. About 35 percent of periodical publishing SMEs had revenues of more than $2 million in 2002.

The smallest SMEs appear to be concentrated in the new media and commercial galleries industries. In the new media industry, 69 percent of SMEs have revenues of under $500,000. In the commercial galleries industry, 67 percent of SMEs have annual revenues of under $500,000.

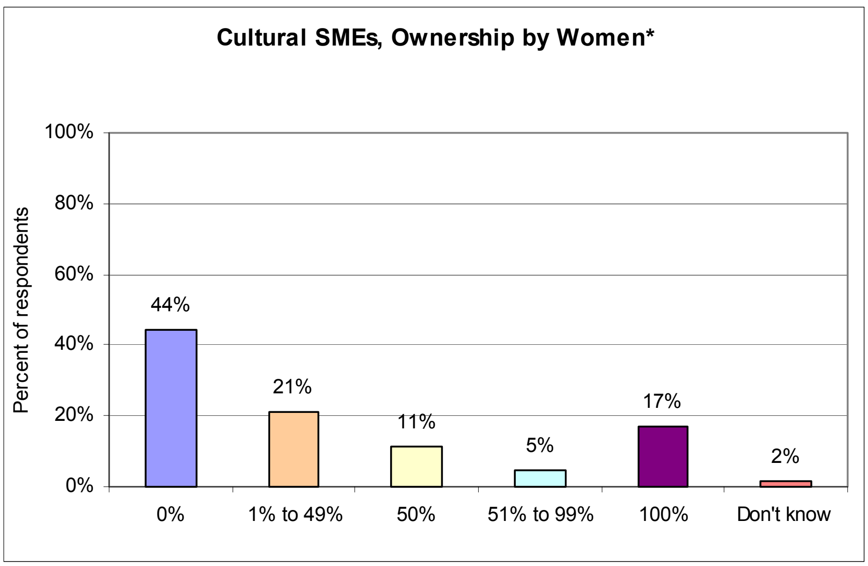
3.1.9 Ownership by Women

To profile the ownership by women of cultural SMEs, we examined ownership data from SMEs which identified themselves on the online survey as sole proprietorships, partnerships, or corporations.

As of December 31, 2002, approximately 22 percent of cultural SMEs had more than 50 percent of their ownership held by women. An additional 11 percent of cultural SMEs had 50 percent of their ownership held by women.

Approximately 21 percent of cultural SMEs reported that women held a minority ownership interest; while 44 percent of all cultural SMEs had no ownership by women.

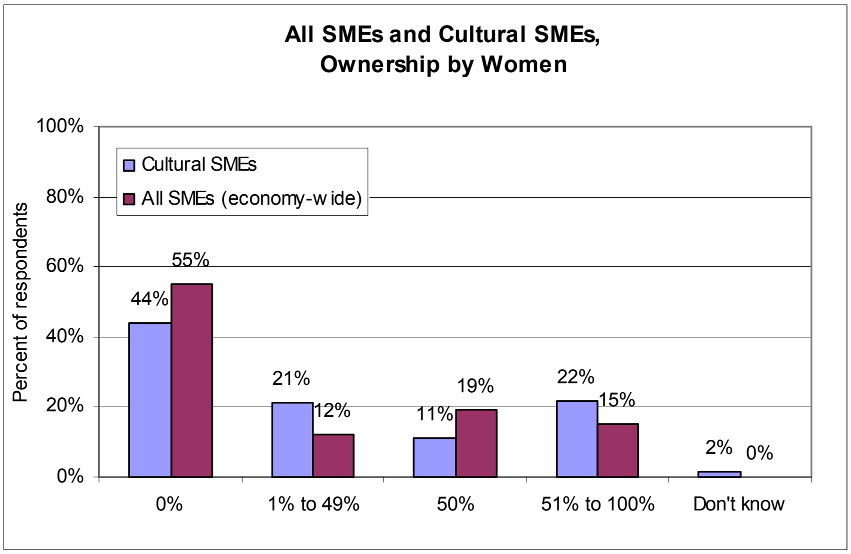
Figure 19 Cultural SMEs, Ownership by Women



* The results only include responses from SMEs that are sole proprietorships, partnerships, or corporations. The results exclude responses from SMEs that selected the ‘other’ category of business type, including SMEs that indicated that they are non-profit organizations.
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

When compared to all SMEs in the economy, it would appear that cultural SMEs have a somewhat higher rate of ownership by women. The percent of cultural SMEs with no ownership by women was 44 percent, while the rate among all SMEs in Canada was 55 percent. [15] Furthermore, 22 percent of cultural SMEs had majority ownership by women, while the rate among all SMEs was 15 percent.[16]

Figure 20 All SMEs and Cultural SMEs, Ownership by Women



Note: Some totals may not add due to rounding.
Source: Data for all SMEs are from Industry Canada, *Small and Medium-sized Enterprise Financing in Canada, 2002*, Figure 30 and are based on data from Statistics Canada, *Survey on Financing of Small and Medium-sized Enterprises*, 2000. Data for cultural SMEs are from Department of Canadian Heritage, Survey of Cultural SMEs, 2003.

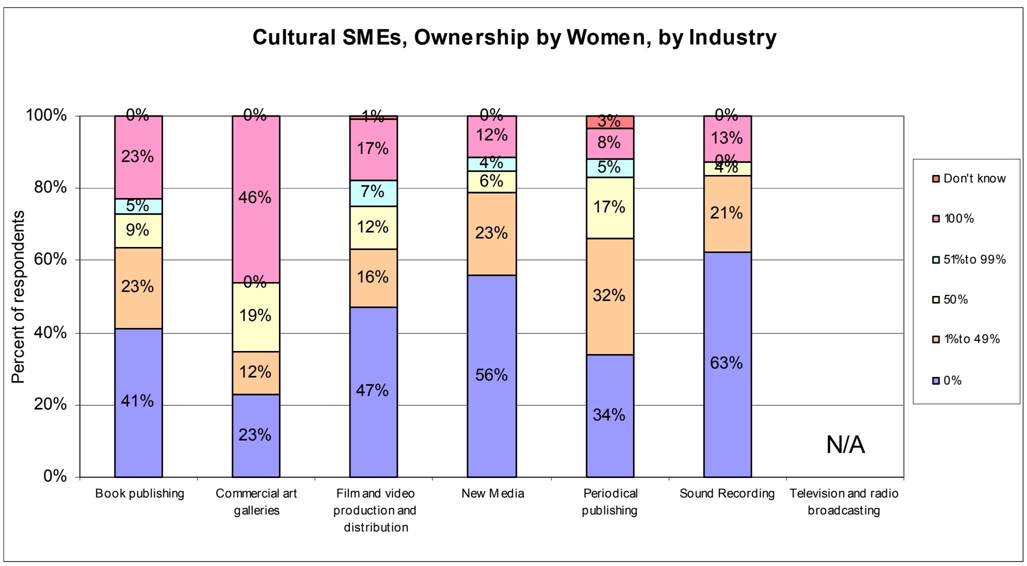
[15] Statistics Canada, *Survey on Financing of Small and Medium-sized Enterprises*, 2000.
[16] *Ibid.*

The commercial galleries industry had the highest rate of ownership by women – with 46 percent of SMEs having majority female ownership, and 77 percent of SMEs with some female ownership.

The sound recording and new media industries had the lowest rates of female ownership. In both industries, over one-half of SMEs had no female ownership. In the sound recording industry, 63 percent of SMEs had no female ownership. In the new media industry, 56 percent of SMEs had no female ownership as of December 31, 2002.

The periodical publishing and sound recording industries had the lowest rates of majority ownership by women. In both the periodical publishing and sound recording industries, only 13 percent of SMEs reported that they had majority female ownership.

Figure 21 Cultural SMEs, Ownership by Women, by Industry



N/A - data not available due to low sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

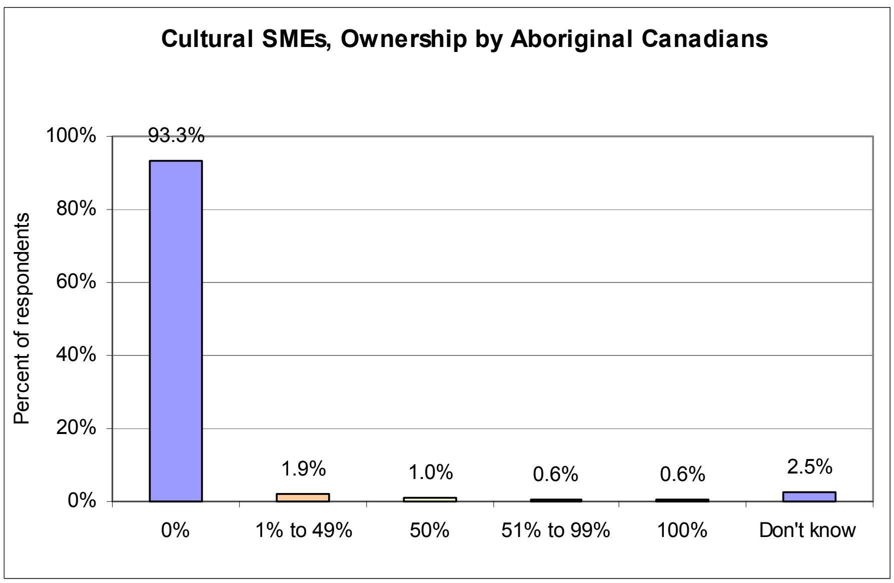
3.1.10 Ownership by Aboriginal Canadians

To profile the ownership by Aboriginal Canadians of cultural SMEs, we examined ownership data from SMEs which identified themselves on the online survey as sole proprietorships, partnerships, or corporations.

As of December 31, 2002, an estimated 1.2 percent of cultural SMEs had majority ownership (more than 50 percent) by Aboriginal Canadians. This compares to 1.4 percent of SMEs on an all-industry basis.[17]

An estimated 4.1 percent of cultural SMEs had either majority or minority ownership by Aboriginal Canadians.

Figure 22 Cultural SMEs, Ownership by Aboriginal Canadians

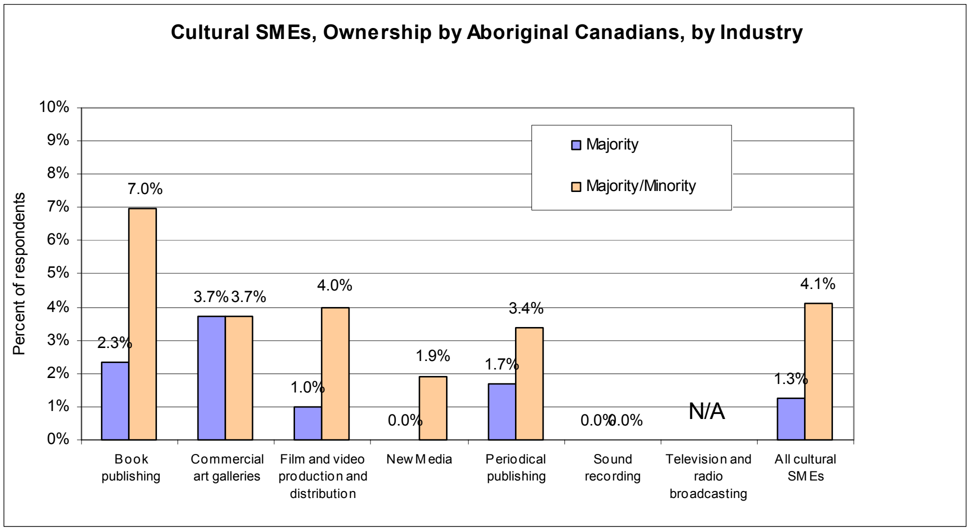


Note: Totals may not add to due rounding
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

[17] Industry Canada, *Small and Medium-sized Enterprise (SME) Financing in Canada*.2002.

Aboriginal ownership (majority or minority) ranged from zero percent in the sound recording industry to 7.0 percent in the book publishing industry.

Figure 23 Cultural SMEs, Ownership by Aboriginal Canadians, by Industry



N/A - data not available due to low sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The highest rate of Aboriginal ownership was in the book publishing industry, where 7.0 percent of SMEs had either minority or majority ownership by Aboriginal Canadians.

The highest rate of majority Aboriginal ownership was in the commercial art galleries industry where 3.7 percent of SMEs reported majority ownership by Aboriginal Canadians.

The lowest rate of Aboriginal ownership appeared to be in the sound recording industry, where none of the surveyed SMEs reported Aboriginal ownership as of December 31, 2002.

3.2 Book Publishing

Table 5 Book Publishing - Key Statistics

Description
The book publishing industry includes firms and persons who publish the works created by authors or copyright holders and then sell the works through various distribution channels. A book publisher typically bears the risks associated with the production and sale of an author's work.

The book publishing industry includes book publishers and exclusive agents. The latter do no publishing of their own, but distribute and sell the works published by another firm, by acting as sole representative.

The Canadian book publishing industry includes both Canadian- and foreign-owned firms that publish and distribute works created by Canadian and foreign authors.

Key Statistics, 2000/01

	SMEs	Total Industry	Percent SME
Number of Firms	**631**	672	**94%**
Total Revenues ($ millions)	**706.4**	2,416.0	**29%**
Employees	**4,512**	10,273	**43%**
Export Revenue ($ millions)	**92.1**	222.3	**41%**
Profit Margin (% of Total Revenue)	**0.5%**	6.9%	--

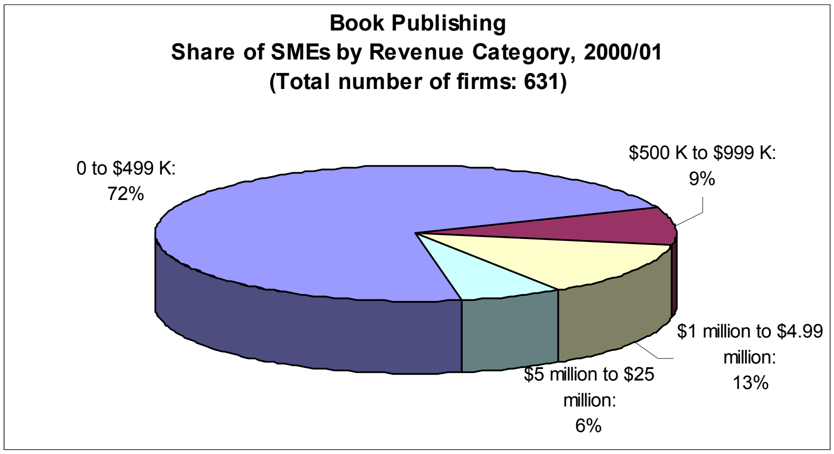
Source: NGL calculations based on data from Statistics Canada custom tabulations

- In 2000/01, there were **631** book publishing SMEs in Canada with **total revenues of $706 million** and **4,512 total employees**.
- Book publishing SMEs comprised 94 percent of all firms in the book publishing industry in Canada in 2000/01, 29 percent of total revenues, and 43 percent of total industry employment.
- Book publishing SMEs earned export revenues of over $92 million in 2000/01, and recorded an aggregate net profit margin of 0.5 percent.

In 2000/01, a total of 631 book publishing SMEs .generated $706 million in total revenues and published a total of 9,900 titles. Of these 631 SMEs,

- 453 SMEs, or 72 percent, had total revenues of less than $500,000.
- 55 SMEs, or 9 percent, had total revenues of between $500,000 and $999,999.
- 82 SMEs, or 13 percent, had total revenues of between $1 million and $4.99 million.
- 41 SMEs, or 6 percent, had total revenues between $5 million and $25 million.

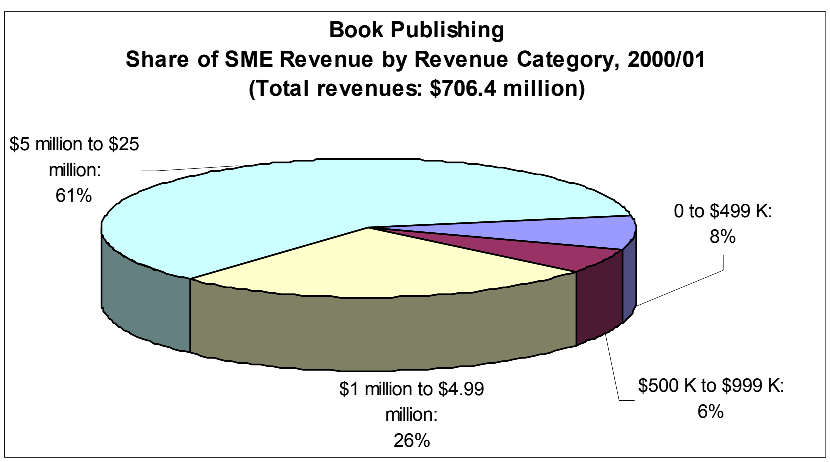
Figure 24 Book Publishing, Share of SMEs by Revenue Category



Source: NGL calculations based on data from Statistics Canada custom tabulations

Approximately 61 percent of total SME revenue in 2000/01 in the book publishing industry was earned by SMEs with annual revenues of between $5 million and $25 million. Firms with revenues of $1 million to $4.99 million accounted for 26 percent of total SME revenue in the book publishing industry.

Figure 25 Book Publishing, Share of SME Revenue by Revenue Category



Source: NGL calculations based on data from Statistics Canada custom tabulations

Firms with annual revenues of between $500,000 and $999,999 accounted for 6 percent of total SME revenue; while the smallest SMEs, with annual revenues of less than $500,000, accounted for 8 percent of total revenues among SMEs.

In terms of geographic distribution, in 2000/01,

- 234 SMEs, or 37 percent of total SMEs, were located in Ontario.
- 208 SMEs, or 32 percent, were located in Quebec.
- 156 SMEs, or 25 percent, were located in Western Canada.
- 33 SMEs, or 5 percent, were located in Atlantic Canada.

Table 6 Book Publishing SMEs, Regional Statistics

	Atlantic Canada	Quebec	Ontario	Prairies	B.C. and Terr.	Total Canada
Number of firms	33	208	234	86	70	631
Titles Published	239	4,990	2,789	722	1,160	9,900
Total revenues ($ 000s)	14,245	285,600	294,254	51,092	61,180	706,371
Cost of sales ($ 000s)	7,639	153,110	164,264	24,491	33,624	383,128
Total operating expenses ($ 000s)	6,736	131,144	134,332	27,405	25,508	325,124
Before-tax profit margin ($ 000s)	(130)	1,346	(4,341)	(804)	2,048	(1,881)
As a percentage of revenues (%)	-0.9	0.5	-1.5	-1.6	3.3	-0.3
% of firms with profit	39.4	61.1	52.6	52.3	61.4	55.6
Exports ($ 000s)	1,555	21,626	40,491	5,846	22,615	92,134
Other Foreign Sales ($ 000s)	0	272	6,055	1,365	3	7,694
Personnel						
Full-time employees	114	1,690	1,127	373	295	3,599
Part-time employees	34	359	384	79	57	913
Total Personnel Expenses ($ 000s)	4,252	66,999	57,900	13,216	10,537	152,904

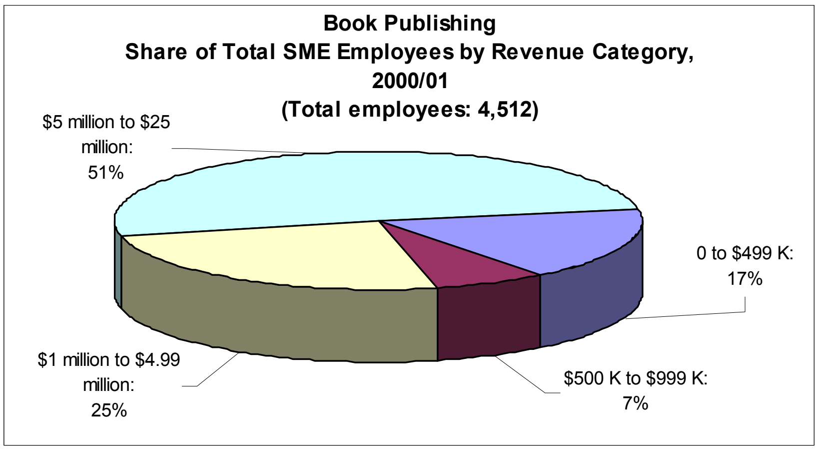
Source: Statistics Canada custom tabulations

Of the $706 million in total revenues earned by book publishing SMEs in 2000/01, SMEs in:

- Ontario accounted for 42 percent, or $294.3 million.
- Quebec accounted for 40 percent or total SME revenues, or $285.6 million.
- Western Canada accounted for 16 percent, or $112.3 million.
- Atlantic Canada accounted for 2 percent, $14.2 million.

Over one-half (51 percent) of the 4,512 persons employed by book publishing SMEs in 2000/01 were employed by the largest SMEs with annual revenues of between $5 million and $25 million. Approximately 25 percent of SME employees in the book publishing industry were employed by firms with annual revenues of between $1 million and $4.99 million. Approximately 7 percent of SME employees were employed at firms with revenues in the range of $500,000 to $999,999. The smallest SMEs, with annual revenues of under $500,000, employed 17 percent of the SME workforce.

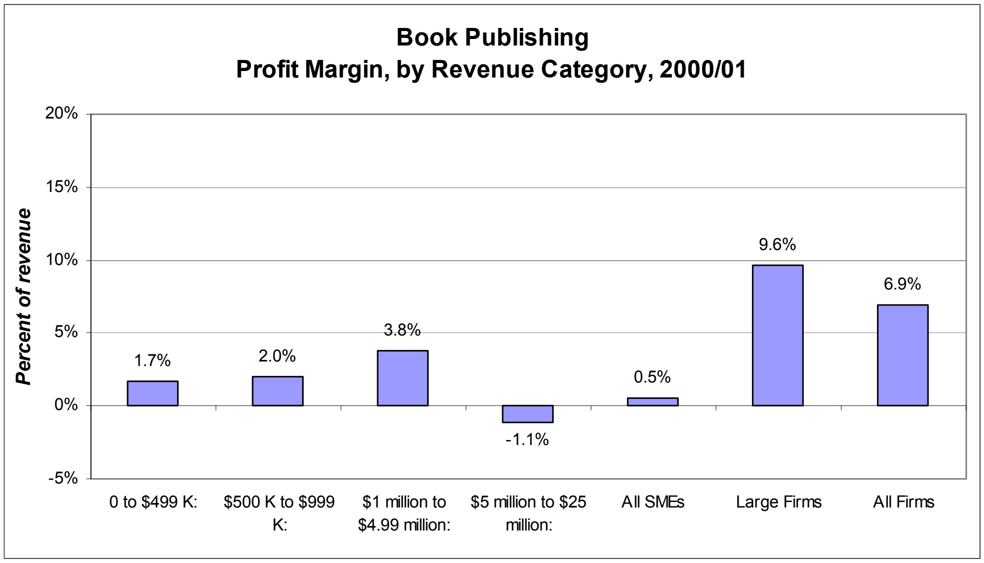
Figure 26 Book Publishing, Share of Total SME Employees by Revenue Category, 2000/01



Source: NGL calculations based on data from Statistics Canada custom tabulations

The financial performance of book publishing SMEs was well behind that of large book publishers in 2000/01. In 2000/01, large book publishers had average net profits (before taxes) equal to 9.6 percent of total revenues. This was significantly higher than the average net profit margin of 0.5 percent across all SMEs. The smallest SMEs, with annual revenues less than $500,000 actually had an average net loss in 2000/01. Among SMEs, firms with annual revenues of between $1 million and $4.99 million had the best financial performance; they recorded an average profit margin of 3.8 percent in 2000/01.

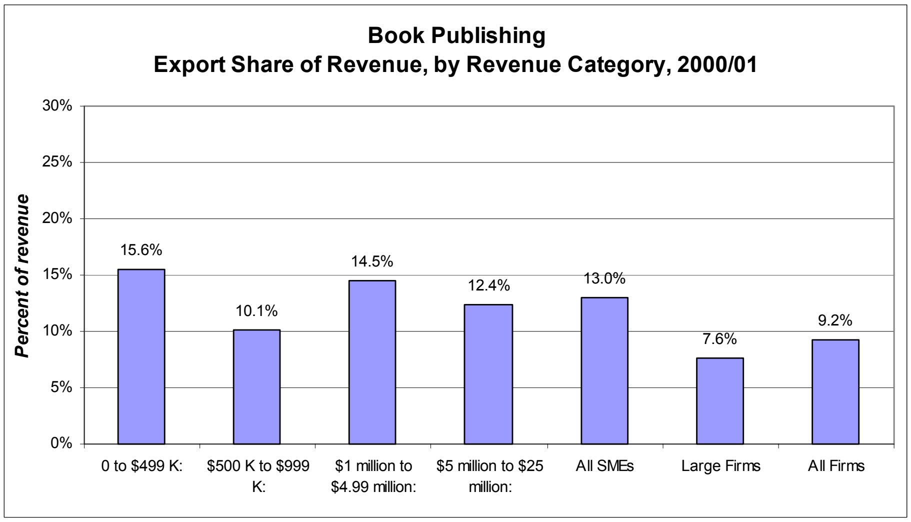
Figure 27 Book Publishing, Profit Margin, by Revenue Category, 2000/01



Source: NGL calculations based on data from Statistics Canada custom tabulations

SMEs in the book publishing industry are more dependent on export revenues than larger book publishers. In 2000/01, 13.0 percent of revenues earned by book publishing SMEs were attributable to foreign sources. By comparison, for large book publishers, 7.6 percent of revenues were derived from export sales. The smallest book publishers with annual revenues of less than $500,000 earned 15.6 percent of their revenues from outside of Canada.

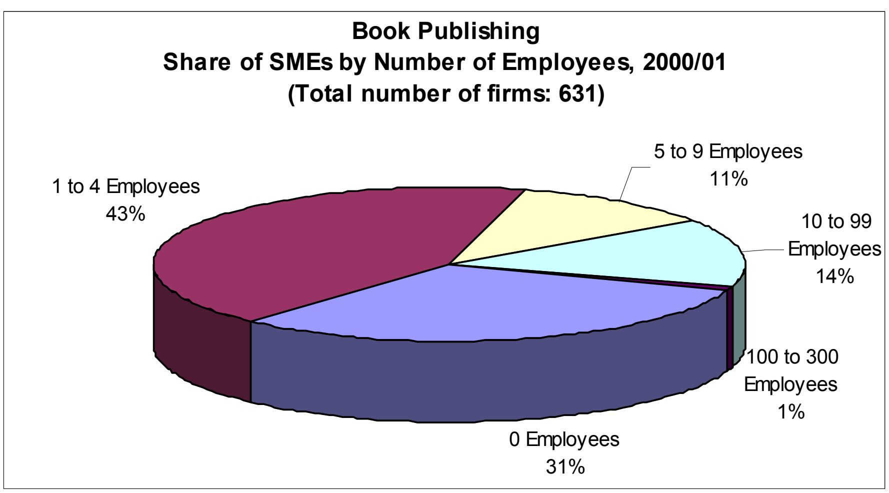
Figure 28 Book Publishing, Export Share of Revenue, by Revenue Category, 2000/01



Source: NGL calculations based on data from Statistics Canada custom tabulations

In 2000/01, 31 percent of book publishing SMEs had no employees, and 74 percent had fewer than five employees. Approximately 11 percent of book publishing SMEs employed between 5 and 9 persons; 14 percent employed between 10 and 99 persons. In 2000/01, 6 book publishing SMEs, or 1 percent, employed between 100 and 300 persons.

Figure 29 Book Publishing, Share of SMEs by Number of Employees, 2000/01



Source: NGL calculations based on data from Statistics Canada custom tabulations

3.3 Commercial Art Galleries

Table 7 Commercial Art Galleries - Key Statistics

Description
The commercial art galleries industry includes firms and persons that exhibit and market original works of art for sale to the public.

The commercial art galleries industry excludes public galleries and museums that only display art but do not seek to sell art. It only includes art galleries and dealers that market original works of art and excludes retail establishments that sell mass-produced prints or replicas of works of art.

Commercial art galleries are integral to the development of Canadian artists. They represent an important channel for distribution of Canadian artists' works in Canada and to international clients.

Key Statistics

	SMEs	Total Industry	Percent SME
Number of Firms	**250**	250	**100%**
Total Revenues ($ millions)	**166**	166	**100%**
Employees	**1,124**	1,124	**100%**
Export Revenue ($ millions)	--	--	--
Profit Margin (% of Total Revenue)	--	--	--

Source: NGL calculations based on data from Department of Canadian Heritage, Survey of Cultural SMEs, 2003, Art Dealers Association of Canada, Association des galeries d'art contemporain, and www.artistsincanada.com.

- NGL estimates that, in 2002, there were approximately **250** commercial art gallery SMEs in Canada operating on a commercial basis.
- Based on the results of the survey of cultural SMEs, NGL believes that all commercial art galleries in Canada can be classified as SMEs.
- NGL estimates that commercial art gallery SMEs in Canada earned **revenues of $166 million** in 2002, and employed about **1,124 persons** on either a full- or part-time basis.

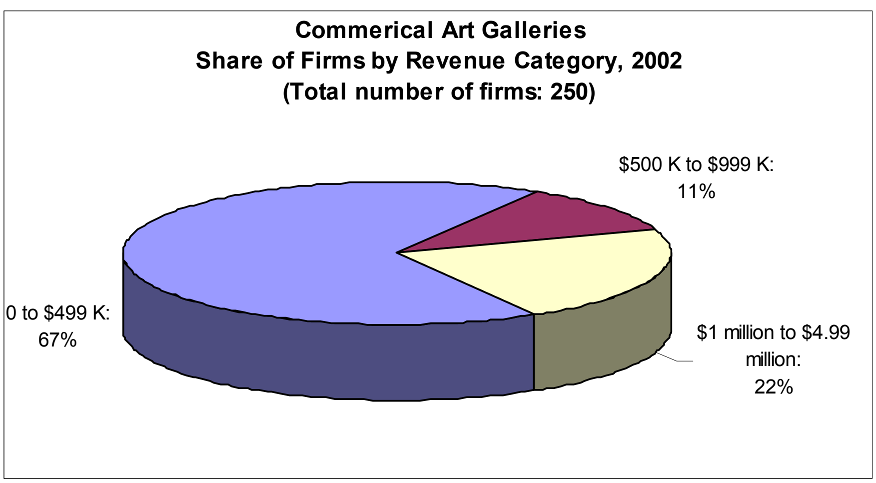
Very little comprehensive statistical economic data is available for the commercial art galleries sector. Statistics Canada does conduct an annual survey of art dealers (NAICS 45392 Art Dealers) as part of its annual retail store survey. Based on this survey, art dealers had total revenue of $419 million in 2001. These statistics, of course, include the art store at the local mall, which is primarily engaged in selling mass-produced prints of artistic works. According to Statistics Canada, there were 1,200 locations in Canada where art was being retailed in 2001.

Given the lack of data, NGL used secondary research and the information collected from the cultural SME online survey[18] undertaken for this study, to develop some general estimates of the size of the commercial art galleries industry in Canada.

To establish the total number of commercial art gallery SMEs in Canada, we reviewed three lists of galleries in Canada: (1) the member ship list for the Art Dealers Association of Canada (ADAC), (2) the membership list for Association des galeries d'art contemporain (AGAC), and the national directory of art galleries at www.artistsincanada.com. Based on these three lists we arrived at an estimate of 250 for the total number of commercial art galleries in Canada.

To estimate the size of the industry, NGL used the data collected through the online survey of cultural SMEs. In terms of total revenues, approximately 67 percent of survey respondents reported that they earned less than $500,000 in 2002. Approximately 11 percent had revenues between $500,000 and $999,999, and 22 percent had revenues between $1 million and $4.99 million. No respondents had revenues of between $5 million and $24.99 million.

Figure 30 Commercial Art Galleries, Share of Firms by Revenue Category, 2002



Source: NGL calculations based on data from Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Given that no respondents reported annual revenue of more than $5 million, NGL further assumed that there were no commercial galleries with annual revenue above $25 million. As we assumed that all 250 commercial galleries in Canada were SMEs.

[18] A total of 31 commercial art galleries provided data for this survey.

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The estimate for the total number of commercial art galleries and distribution of these galleries by revenue categories were combined with average revenue data to arrive at an estimate for the industry size.

To estimate the average revenue of SMEs within each revenue category, NGL used the average revenue across the other cultural industries.[19] For example $146,000 represents the average revenue of cultural SMEs with less than $500,000 in revenues. The estimated number of SMEs in each revenue category was then multiplied by the average revenue figure to arrive at an estimate of total SME revenue within each revenue category, and then these estimates were summed to arrive at an estimate for all commercial art gallery SMEs.

Table 8 Commercial Art Galleries, Estimate of Total Revenues

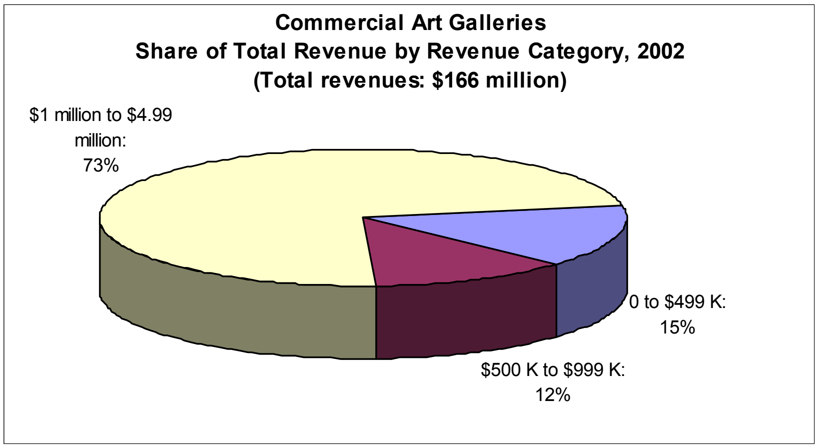
Revenue Category	Percent of SMEs	Estimated Number of SMEs	Average Revenue	Total Revenues
Less than $500,000	67%	167	$145,000	$24,215,000
$500,000 to $999,999	11%	28	$725,000	$20,300,000
$1 million to $4.99 million	22%	55	$2,210,000	$121,550,000
$5 million to $24.99 million	0%	0	$10,275,000	0
Total	**100%**	**250**	**-**	**$166,065,000**

Source: NGL calculations based on data from Department of Canadian Heritage, Survey of Cultural SMEs, 2003, and custom tabulations from Statistics Canada. See methodological notes for more information.

[19] The average revenue figures were calculated based on data from the book publishing, film and video distribution, film and video production, and television and radio broadcasting. Data from the periodical publishing, sound recording and new media industries were too limited to be used in the calculation of the averages.

Based on this approach, NGL estimates that commercial art gallery SMEs in Canada earned annual revenues of approximately **$166 million** in 2002.

Figure 31 Commercial Art Galleries, Share of Total Revenue by Revenue Category, 2002



Source: NGL calculations based on data from Department of Canadian Heritage, Survey of Cultural SMEs, 2003, and custom tabulations from Statistics Canada.

About 73 percent of commercial art gallery SME revenue was earned by galleries with annual revenues of between $1 million and $4.99 million. SMEs in the size category of $500,000 to $999,999 accounted for 12 percent of industry revenues. SMEs with annual revenues of less than $500,000 accounted for an estimated 15 percent of total SME revenues in 2002.

An estimation approach similar to that used to estimate industry revenue, was used to estimate the total employment of commercial art galleries in Canada. Again, the firm-level employee size data from the online survey of cultural SMEs was combined with an estimate of 250 commercial art gallery SMEs in the industry. Instead of using the actual average number of employees, however, the mean of the employee category was used. For example the mean of 1 to 4 was 2.5, so this was rounded to 3, and used as the multiplier for SMEs with 1 to 4 employees.

Table 9 Commercial Art Galleries, Estimate for Total Number of Employees

Employee Category	Percent of SMEs	Estimated Number of SMEs	Average Number of Employees	Total Number of Employees
0 employees	24%	60	1	60
1 to 4 employees	57%	143	3	429
5 to 9 employees	14%	35	7	245
10 to 19 employees	0%	0	15	0
20 to 49 employees	5%	13	30	390
50 to 399 employees	0%	0	225	0
Total	**100**	**250**	**-**	**1,124**

Source: NGL calculations based on data from online survey and custom tabulations from Statistics Canada. See methodological notes.

Based on this approach, NGL estimates that there were approximately **1,124 persons** employed by SMEs in the commercial art galleries industry in 2002. This estimate of 1,124 employees includes self-employed gallery operators who reported zero employees at their firm.

3.4 Film and Video Distribution

Table 10 Film and Video Distribution - Key Statistics

Description

The film and video distribution industry includes firms and persons that distribute films, video and television programs to motion picture theatres, television broadcasters, and commercial exhibitors. This industry also includes companies that wholesale pre-recorded video cassettes and digital video disks (DVDs).

Film and video distribution companies invest in film and television productions or pay producers so as to acquire the rights to distribute a film or video production. These rights may limit a distribution company to certain geographic areas or time periods.

The Canadian film and video distribution industry includes Canadian-owned companies that distribute Canadian- and foreign-produced films and videos. It also includes foreign-owned companies based in Canada that distribute foreign-produced films and videos in Canada.

Key Statistics, 2000/01

	SMEs	Total Industry	Percent SME
Number of Firms	**191**	216	**88%**
Total Revenues ($ millions)	**339.9**	2,813.1	**12%**
Employees	**1,257**	3,563	**35%**
Export Revenue ($ millions)	61.5	222.3	27%
Profit Margin* (% of Total Revenue)	12.5	12.3	--

* Operating profit margin

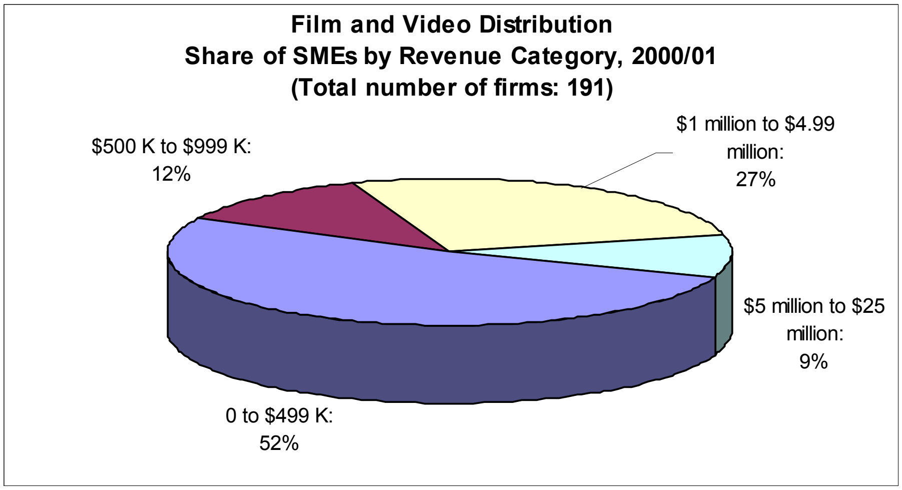
Source: NGL calculations based on data from Statistics Canada custom tabulations

- In 2000/01, there were **191** film and video distribution SMEs in Canada with **total revenues of $340 million** and **1,257 total employees**.
- Film and video distribution SMEs comprised 88 percent of all film and video distributors in Canada in 2000/01, 12 percent of total revenues, and 35 percent of total industry employment.
- Film and video distribution SMEs earned export revenues of over $61 million in 2000/01 and recorded an operating profit margin of 12.5 percent.

In 2000/01, a total of **191** film and video distribution SMEs generated **$340 million** in total revenues. Of these 191 SMEs,

- 99 SMEs, or 52 percent, had total revenues of less than $500,000.
- 23 SMEs, or 12 percent, had total revenues of between $500,000 and $999,999.
- 51 SMEs, or 27 percent, had total revenues of between $1 million and $4.99 million.
- 18 SMEs, or 9 percent, had total revenues between $5 million and $25 million.

Figure 32 Film and Video Distribution, Share of SMEs by Revenue Category, 2000/01

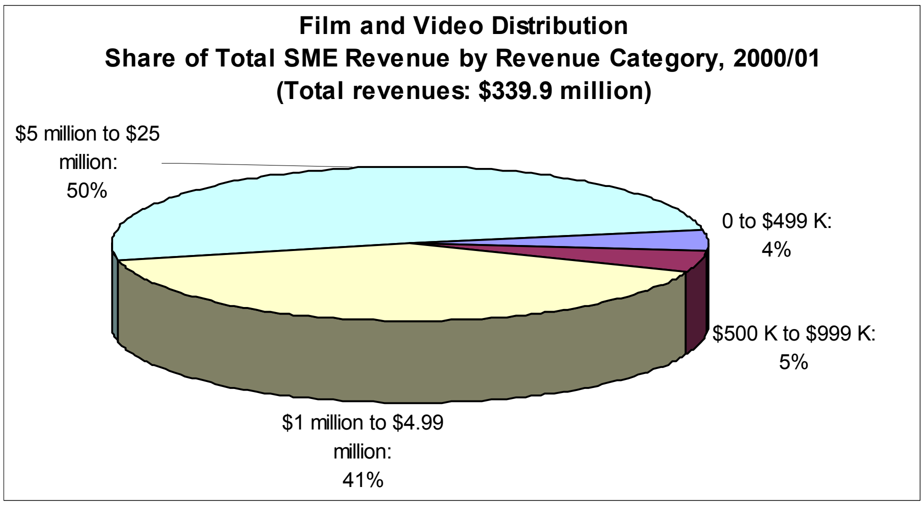


Source: NGL calculations based on data from Statistics Canada custom tabulations

Large firms clearly dominate the economic activity in the film and video distribution industry – more than in any other of the cultural industries. In 2000/01, large firms earned 88 percent of total industry revenues of $2.8 billion (see Table 10); SMEs accounted for 12 percent of total industry revenues. The distribution of industry revenues reflects an industry structure in which a few large companies dominate the industry. The Canadian subsidiaries of the large integrated American motion picture companies, along with the Canadian company, Alliance-Atlantis Communications Inc., dominate the industry.

Among the SMEs in the film and video distribution industry, the larger firms captured the lion's share of revenues in 2000/01. The smallest film and video distributors with less than $500,000 in revenue accounted for 4 percent of SME revenues. The largest SMEs, with revenues of between $5 million and $25 million in annual revenues accounted for 50 percent of the $340 million in SME revenue in 2000/01.

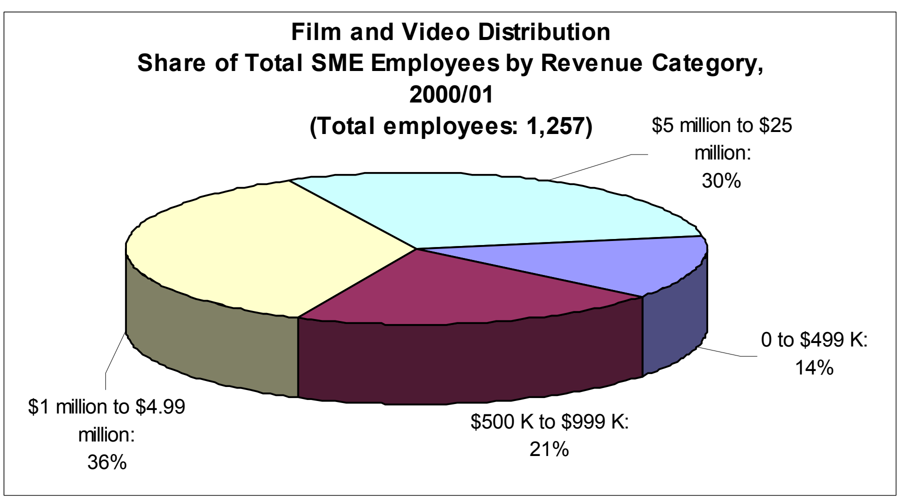
Figure 33 Film and Video Distribution, Share of Total SME Revenue by Revenue Category, 2000/01



Source: NGL calculations based on data from Statistics Canada custom tabulations

Approximately 35 percent of the film and video distribution industry's 3,563 employees were employed at SMEs in 2000/01 (see Table 10).

Figure 34 Film and Video Distribution, Share of Total SME Employees by Revenue Category, 2000/01



Totals do not sum due to rounding
Source: NGL calculations based on data from Statistics Canada custom tabulations

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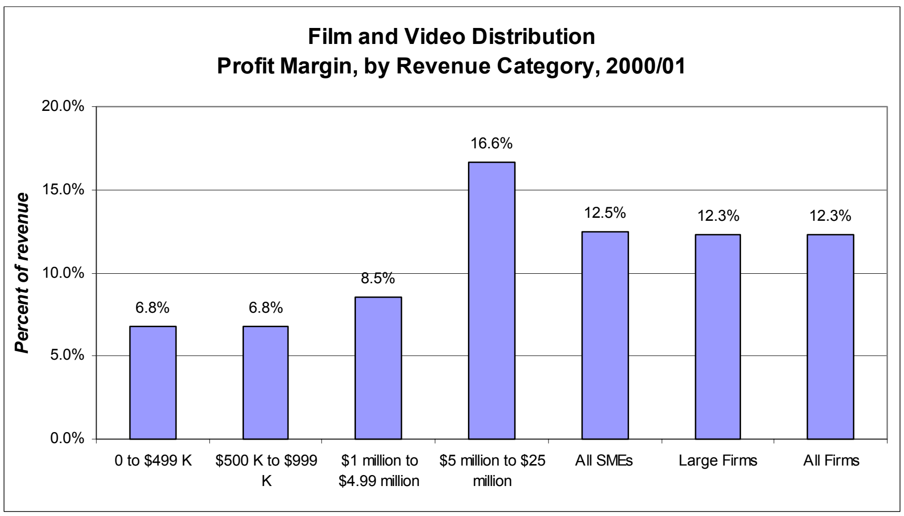
Le Groupe Nordicité ltée

Of the 1,257 persons employed by film and video distribution SMEs, 36 percent were employed by firms with annual revenues of between $1 million and $4.99 million. Approximately 30 percent of SME employees were employed by the largest SMEs with between $5 million and $25 million in annual revenues. SMEs with revenues of between $500,000 and $999,999 employed 21 percent of total SME employees, while the smallest SMEs with revenues under $500,000 employed 14 percent of total SME employees.

In terms of financial performance, the profitability of most film and video distribution SMEs was about one-half that of large firms. SMEs earning less than $1 million in annual revenues had an average operating profit margin of 6.8 percent in 2000/01; while large firms reported operating profit margins of 12.3 percent.

Figure 35 Film and Video Distribution, Operating Profit Margin by Revenue Category, 2000/01



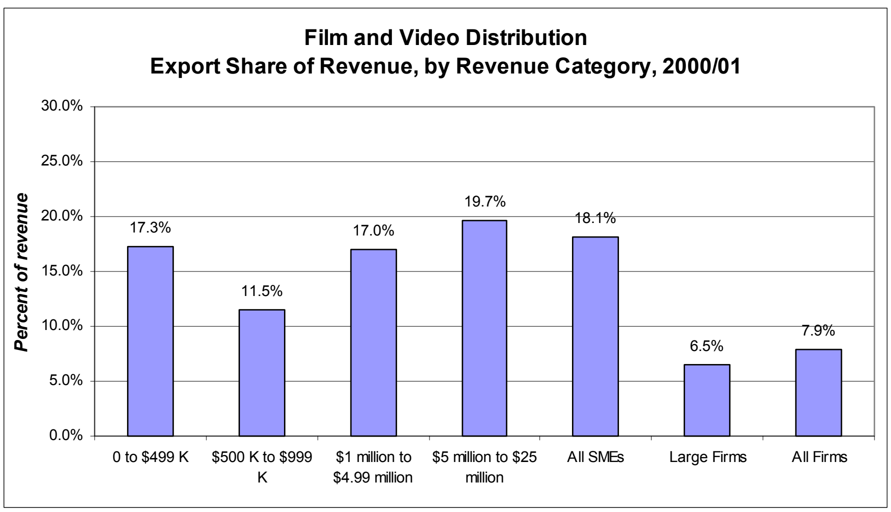
Source: NGL calculations based on data from Statistics Canada custom tabulations

Overall, however, film and video distribution SMEs had a profit margin that was actually on par with large firms largely because of the better-than-average financial performance of medium-sized firms. Film and video distribution companies with total revenues between $5 million and $25 million had the highest operating profit margin among all sizes of film and video distribution companies. SMEs in this category had an operating profit margin of 16.6% in 2000/01.

Film and video distribution SMEs were much more active in foreign markets than large firms in the industry. Again, this is reflective of an industry in which large Canadian subsidiaries of American distributors dominate the large-firm segment, and are primarily importers of American and other foreign films. Overall, film and video distribution SMEs earned about 18.1% of their total revenues from foreign sales. By comparison, large firms in the industry only had 6.5% of their revenues attributable to foreign sales.

The smallest film and video distribution firms had nearly the same rate of foreign earnings than medium-sized companies. While medium-sized companies (revenues of $5 million to $25 million) earned 19.7 percent of their revenues from foreign sales in 2000/01, firms with under $500,000 in annual revenues earned 17.3 percent of their revenues from foreign markets. The lowest rate of foreign earnings was among the 23 firms with annual revenues of $500,000 to $999,999; only 11.3 percent of their revenues were attributable to foreign sales.

Figure 36 Film and Video Distribution, Export Share of Revenue, by Revenue Category, 2000/01



Source: NGL calculations based on data from Statistics Canada custom tabulations

The 191 film and video distribution SMEs generated just under $340 million in total revenues in 2000/01. About 51 percent of SME revenues in the film and video distribution industry were earned by firms based in Ontario; SMEs in Quebec accounted for $123 million, or 36 percent, of total SME revenues in 2000/01. SMEs in other regions of Canada accounted for the remaining $42 million, or 12 percent, of total SME revenues in this industry.

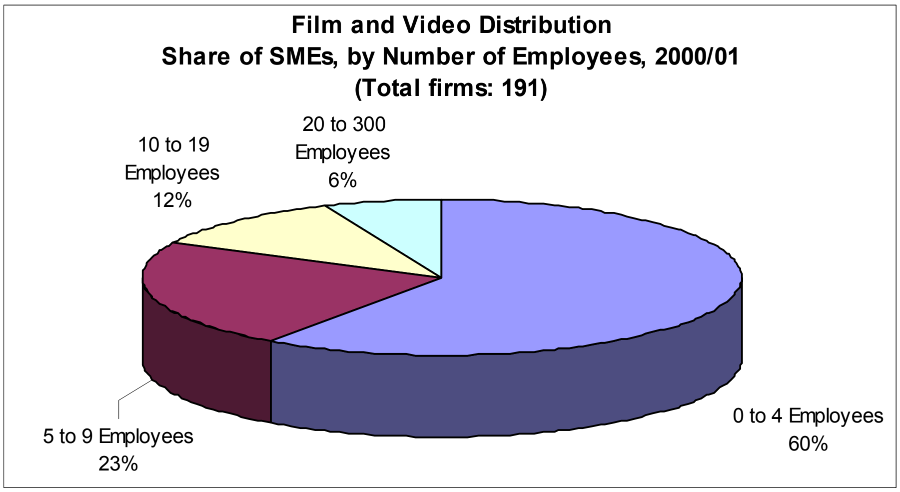
Table 11 Film and Video Distribution SMEs, Key Industry Data by Region, 2000/01

($ 000s)	Ontario	Quebec	Other	Total Canada
Revenue - domestic distribution				
Theatrical	17,042	3,386	13	20,440
Pay-TV	23,306	9,989	2,948	36,243
Conventional TV	49,557	7,093	6,378	63,027
Home video	8,069	5,687	3,735	17,490
Non-theatrical	17,590	2,354	422	20,366
Sub-total domestic distribution	115,564	28,509	13,496	157,566
Revenue from foreign clients	32,387	19,683	9,467	61,538
Total distribution revenue	147,951	48,190	22,963	219,103
Other revenue	26,827	74,834	19,111	120,772
Total revenue	174,778	123,024	42,074	339,875
Expenses				
Licensing costs (rights, royalties and other fees)	53,983	27,632	7,064	88,679
Salaries and benefits	24,171	15,475	5,119	44,765
Other costs	54,703	83,920	25,427	164,049
Total expenses	132,857	127,027	37,610	297,493
Operating profit	41,921	(4,003)	4,464	42,382

Source: Statistics Canada custom tabulations

The majority of film and video distribution SMEs had fewer than five employees in 2000/01. Approximately 59 percent of film and video distribution SMEs employed zero to four persons in 2000/01. Approximately 23 percent of film and video distribution SMEs had between 5 and nine employees, while 12 percent employed between 10 and 19 persons. Twelve firms, or 6 percent of film and video distribution SMEs, employed between 20 and 300 persons.

Figure 37 Film and Video Distribution, Share of SMEs, by Number of Employees, 2000/01



Totals do not sum due to rounding
Source: Statistics Canada custom tabulations

3.5 Film and Video Production

Table 12 Film and Video Production - Key Statistics

Description

The film and video production industry includes firms and persons that develop and create film and video productions for motion picture theatres, television broadcasters, and commercial exhibitors.

The Canadian film and video production industry includes Canadian-owned companies which produce films and television programs and other videos for which the copyright is held by Canadians or foreigners.

Of the total of 732 film and video producers in Canada, approximately 200 specialize in the production of theatrical feature films and television programs. The majority of Canadian production companies specialize in other areas of production such as industry videos, government and education videos, and advertising.

Key Statistics, 1999/00

	SMEs	Total Industry	Percent SME
Number of Firms	**708**	732	**97%**
Total Revenues ($ millions)	**678.8**	2,345.8	**29%**
Employees*	**11,561**	32,977	**35%**
Export Revenue ($ millions)	**89.9**	671.8	13%
Profit Margin** (% of Total Revenue)	**3.6**	4.7	--

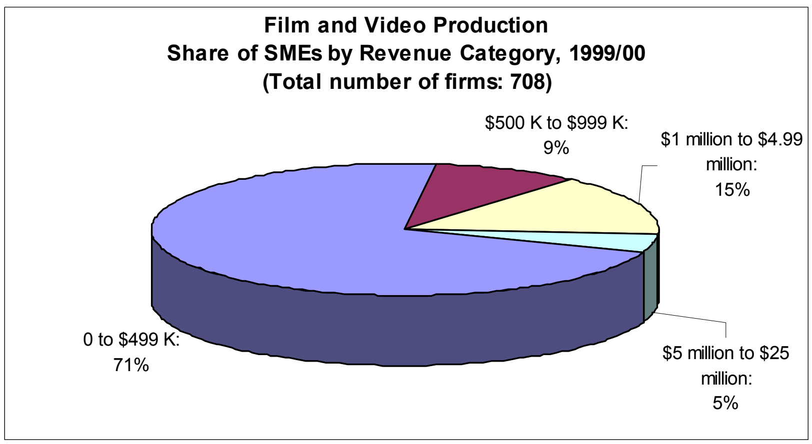
* Employment statistics include full-time and part-time employees as well as freelancers and proprietors.
** Operating profit margin
Source: NGL calculations based on data from Statistics Canada custom tabulations

- In 1999/00, there were **708** film and video production SMEs in Canada with **total revenues of $679 million** and **11,561 total employees**.
- Film and video production SMEs comprised 97 percent of all film and video producers in Canada in 1999/00, 29 percent of total industry revenues, and 35 percent of total industry employment.
- Film and video production SMEs earned export revenues of nearly $90 million in 1999/00 and recorded an operating profit margin of 3.6 percent.

Film and video production SMEs comprised 97 percent of all film and video production companies in Canada in 1999/00 (see Table 12).

Among the 708 film and video production SMEs in Canada in 1999/00,
- 71 percent had revenues of less than $500,000.
- 9 percent had revenues of between $500,000 and $999,999.
- 15 percent had revenues of between $1 million and $4.99 million.
- 5 percent earned revenues of between $5 million and $25 million.

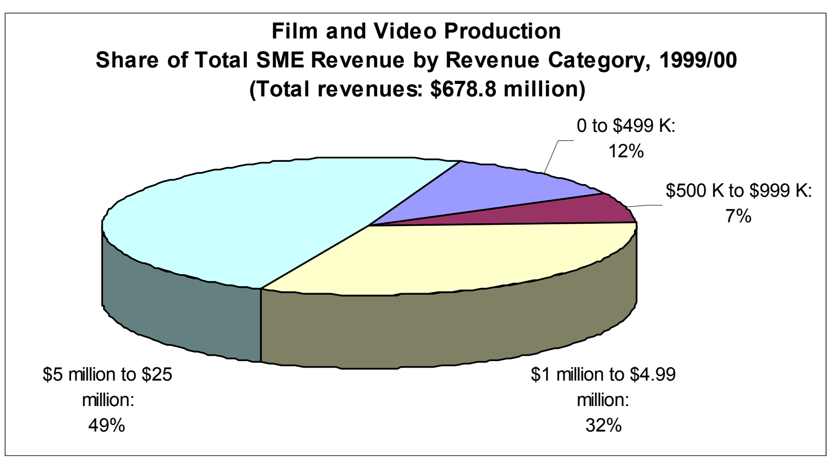
Figure 38 Film and Video Production, Share of SMEs by Revenue Category, 1999/00



Source; NGL calculations based on data from Statistics Canada custom tabulations

Of the $679 million in total revenues earned by film and video production SMEs in 1999/00, 49 percent was earned by the largest 32 SMEs with between $5 million and $25 million in annual revenues.

Figure 39 Film and Video Production, Share of Total SME Revenue by Revenue Category, 1999/00

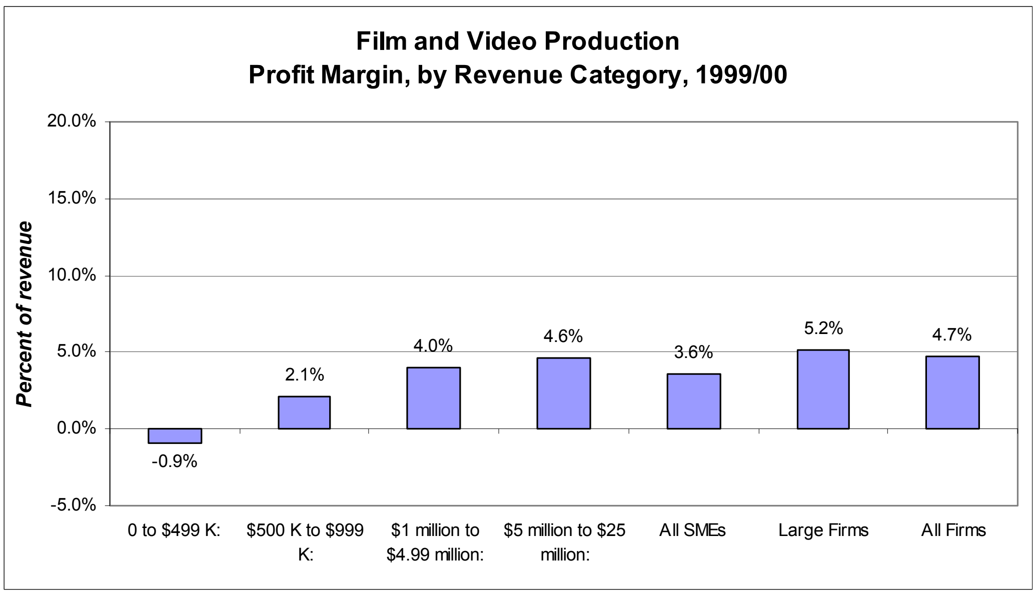


Source; NGL calculations based on data from Statistics Canada custom tabulations

Approximately 32 percent of SME revenue was earned by firms with total annual revenues of between $1 million and $4.99 million. Film and video production SMEs with annual revenues of between $500,000 and $999,999 accounted for 7 percent of total SME revenues. The smallest film and video production SMEs, numbering 506 firms, with revenues of less than $500,000, accounted for 12 percent of total SME revenues.

In 1999/00, the profitability of film and video producers was directly related to their size. Large production companies posted an operating profit margin of 5.2 percent in 1999/00, while the average operating profit margin across film and video production SMEs was 3.6 percent.

Figure 40 Film and Video Production, Profit Margin, by Revenue Category, 1999/00



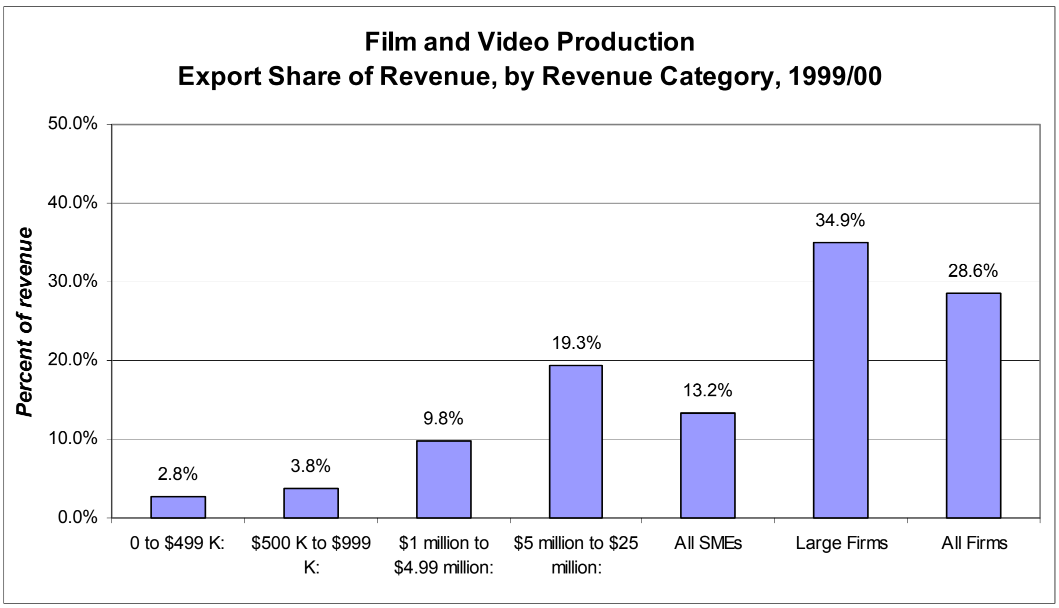
Source: Statistics Canada custom tabulations

The largest film and video production SMEs with revenues of between $5 million and $25 million had an operating profit margin of 4.6 percent in 1999/00. The smallest film and video production SMEs with revenues of under $500,000 actually had an average operating loss equal to 0.9 percent of revenues in 1999/00.

Participation in foreign markets as measured by export revenue share of total revenues was also directly related to firm size in the film and video production industry in 1999/00. For large firms with over $25 million in annual revenues, export revenues accounted for just under 35 percent of total revenues in 1999/00.

For the largest SMEs with revenues of between $5 million and $25 million, export revenues comprised just over 19 percent of total revenues in 1999/00. By comparison, for film and video production SMEs earning less than $500,000 in annual revenues, export revenues accounted for under 3 percent of total revenues.

Figure 41 Film and Video Production, Export Share of Revenue, by Revenue Category, 1999/00

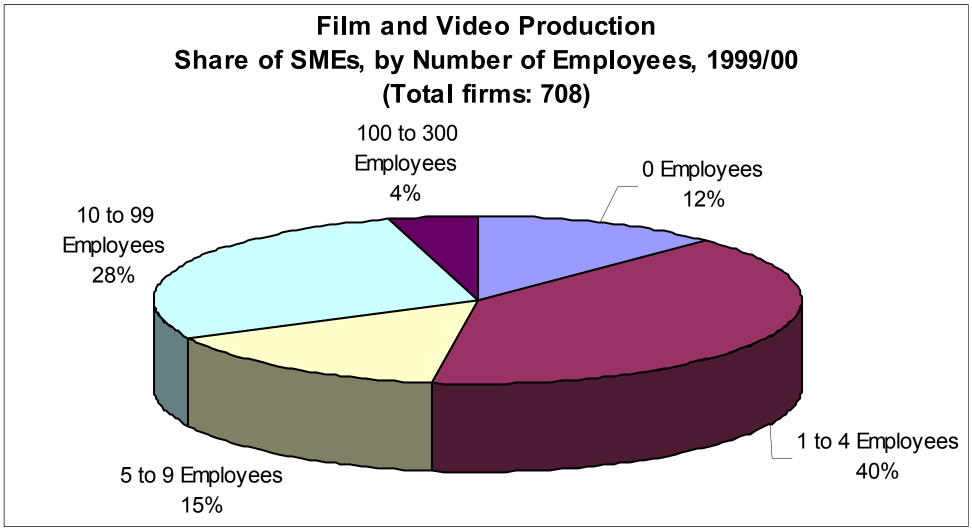


Source: Statistics Canada custom tabulations

Among the 708 film and video production SMEs in Canada in 1999/00,

- 12 percent had no employees.
- 40 percent employed between 1 and 4 persons.
- 15 percent employed between 5 and 9 persons.
- 28 percent employed between 10 and 99 persons.
- 4 percent employed between 100 and 300 persons.

Figure 42 Film and Video Production, Share of SMEs, by Number of Employees, 1999/00



Totals do not sum due to rounding
Source: Statistics Canada custom tabulations

3.6 New Media

Table 13 New Media - Key Statistics

Description
The new media industry includes firms and persons engaged in the development and production of services and products, interactive or not, that make use of video, audio, graphics and alpha-numeric text.

The new media industry includes firms and persons involved in the creation of electronic games, animation videos, e-learning products, streaming media, Web site design and development, digital content publishing, visual effects and post-production for film and television, and Internet marketing.

For the data included in this report, NGL focused on new media firms that create intellectual property, rather than new media firms that are involved primarily in Web site development or services, Internet marketing, or other services that do not involve the creation of intellectual property.

Key Statistics, 2002

	SMEs*	Total Industry	Percent SME
Number of Firms	**331**	345	**96%**
Total Revenues ($ millions)	**182.0**	443.9	**41%**
Employees	**2,739**	6,579	**42%**
Export Revenue ($ millions)	**--**	--	--
Profit Margin* (% of Total Revenue)	**--**	--	--

*Firms with fewer than 100 employees
Source: NGL estimates based on data from Delvinia Inc., *Interactive Media Producers Survey*, 2002.

- NGL estimates that there were approximately **331** new media SMEs (firms with fewer than 100 employees) focusing on activities involving the creation of intellectual property in Canada in 2002.
- These 331 SMEs earned total revenues estimated at **$182 million** and employed over **2,700 persons** in 2002.
- New media SMEs accounted for 96 percent of all new media firms in 2002, 41 percent of total industry revenues, and 42 percent of all total industry employees.

At the present time there are very little comprehensive economic data for the new media industry available from Statistics Canada. One of the best sources of industry economic data is the annual Interactive Media Producers Survey (IMPS) conducted by Delvinia Inc.. We have used Delvinia as the best available source for the profile of new media SMEs. The data from Delvinia's IMPS was supplemented by the industry demographic data collected through the online survey of cultural SMEs.

Delvinia estimates that there were a total of 1,500 interactive media companies in Canada in 2002.

The new media industry includes a broad range of companies that produce or provide interactive media services. For this analysis, we were most interested in the segment of the industry involved in the development and production of cultural content, or intellectual property.

In order to arrive at an estimate of economic activity among new media firms that are primarily involved in the creation of intellectual property, we classified new media firms based on the proportion of the their business activity related to the creation of intellectual property. According to the IMPS, approximately 23 percent, or 345 of the 1,500 interactive media companies in Canada in 2002, derived 50 percent or more of their product revenue from the development and production of intellectual property.

Table 14 New Media Industry, Economic Data, 2002

	SMEs (< 100 full-time employees)	Large Firms (100+ full-time employees)	All Firms	Percent SMEs
Number of Firms				
Total number of new media firms	1,440	60	1,500	96%
Percent of firms that derive 50 percent or more of their product revenue from the development and production of intellectual property	23%	23%	23%	
Number of new media firms primarily engaged in the development and production of intellectual property	**331**	**14**	**345**	**96%**
Total Revenues				
Total revenues of new media firms	$791,300,000	$1,138,700,000	$1,930,000,000	41%
Average revenue per firm	$549,514	$18,978,333	$1,286,667	
Total revenues of new media firms engaged primarily in the development and production of intellectual property	**$181,999,000**	**$ 261,901,000**	**$443,900,000**	**41%**
Total Employees				
Average number of employees per firm	8.3	256.0	18.2	
Total employees of new media firms engaged primarily in the development and production of intellectual property	**2,749**	**3,533**	**6,282**	**44%**

Source: Delvinia Inc., *Interactive Media Producers Survey*, 2002, and Nordicity calculations based on data from Delvinia.

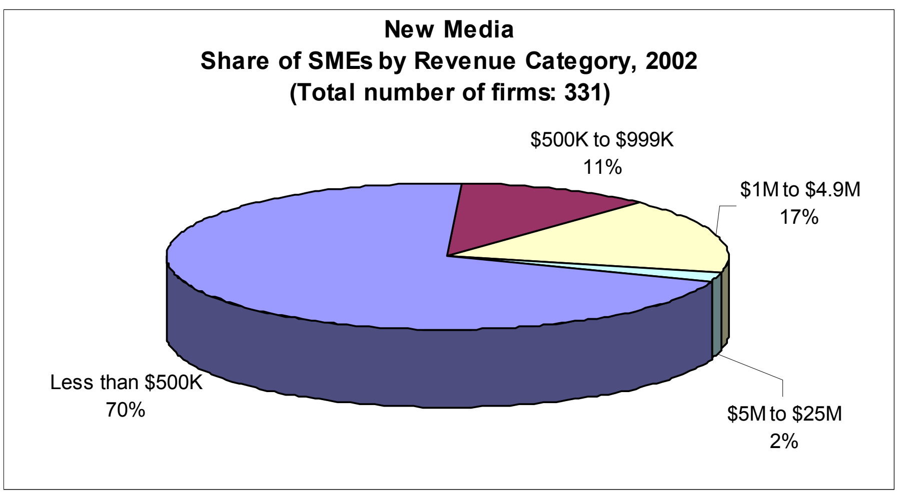
The IMPS also classified interactive media companies in terms of size (based on their number of employees). In the IMPS, firms with fewer than 100 employees were classified as SMEs. According to the IMPS, 96 percent of interactive media firms employed fewer than 100 persons in 2002. We applied this 96 percent rate to the estimate of 345 firms primarily engaged in the creation of intellectual property to arrive at an estimate of 331 new media SMEs in Canada in 2002.

The results of the IMPS point to interactive media revenues totalling $1.93 billion in 2002. Of this total industry revenue, 41 percent, or $791 million was earned by SMEs with fewer than 100 employees. With this information, and with the estimates for the total number of firms, we calculated that the average revenue of each large interactive media firm was $18,978,333 in 2002. The average revenue for each SME was $549,514. As such, the 331 new media content producing SMEs generated an estimated $182 million in revenue in 2002.

To estimate the total number of persons employed by new media SMEs, we applied the IMPS finding that firms with fewer than 100 employees employed an average of 8.3 persons in 2002. Based on the assumption, the 331 new media content producing SMEs employed 2,749 persons in 2002.

According to data collected through the online survey of cultural SMEs, approximately 70 percent of new media SMEs earned less than $500,000 in annual revenues in 2002. Approximately 11 percent of new media SMEs earned between $500,000 and $999,999, while 17 percent had revenues of between $1 million and $4.9 million. Only 2 percent of new media SMEs earned revenues of between $5 million and $25 million in 2002.

Figure 43 New Media, Share of SMEs by Revenue Category, 2002

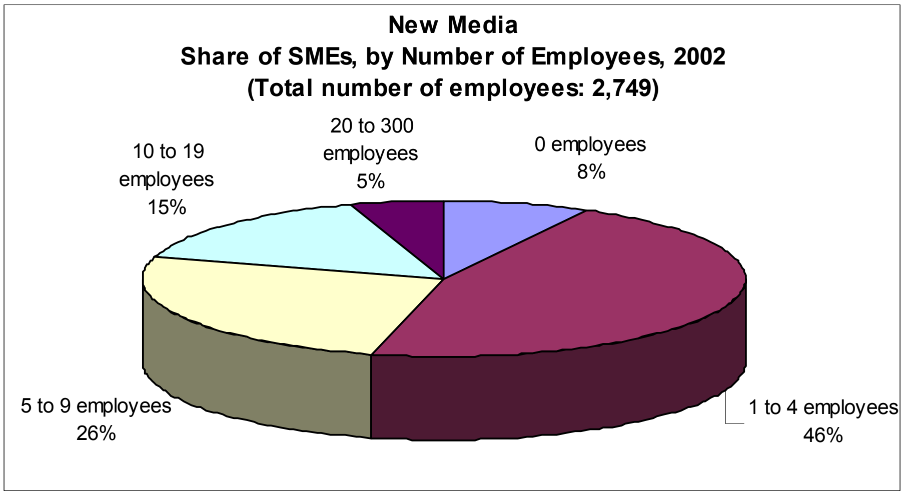


Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The data collected through the online survey also indicate that, in 2002,

- 8 percent of new media SMEs had no employees.
- 46 percent employed between 1 and 4 persons.
- 26 percent employed between 5 and 9 persons.
- 15 percent employed between 10 and 19 persons.
- 5 percent employed between 20 and 300 persons.

Figure 44 New Media, Share of SMEs, by Number of Employees, 2002

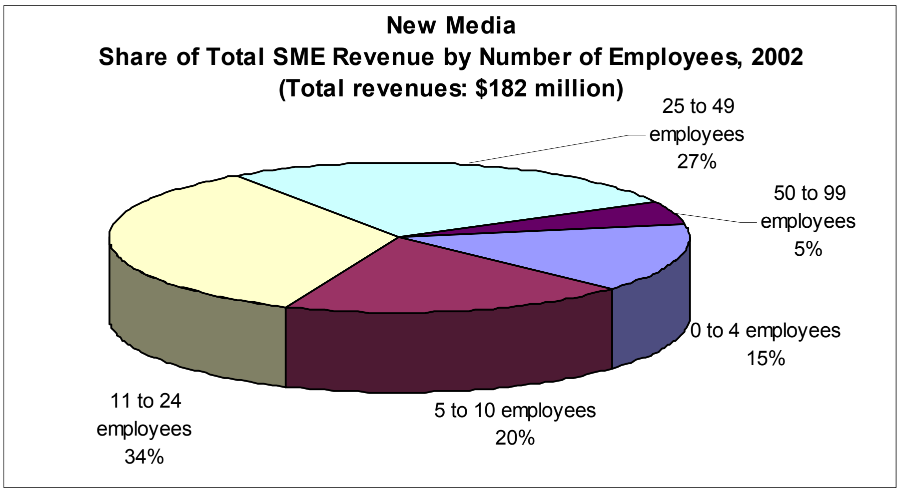


Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The data from the IMPS offer some indication of the how SME revenues may be distributed based on the size of the firm. According to IMPS, among firms with fewer than 100 employees,

- 15 of revenues were earned by firms with between 0 to 4 employees.
- 20 percent of revenues were earned by firms with between 5 and 10 employees.
- 34 percent of revenues were earned by firms with between 11 and 24 employees.
- 27 percent of revenues were earned by firms with between 25 and 49 employees.
- 5 percent of revenues were earned by firms with between 50 and 99 employees.

Figure 45 New Media, Share of Total SME Revenue by Number of Employees, 2002



Totals do not sum due to rounding
Source: NGL estimates based on data from Delvinia Inc., *Interactive Media Producers Survey*, 2002.

3.7 Periodical Publishing

Table 15 Periodical Publishing - Key Statistics

Description

The Canadian periodical publishing industry includes firms, organizations and persons that create or acquire content, edit content, and produce a document or media on a periodic basis for distribution to the public.

Periodicals earn revenues from advertising sales, subscription fees, and newsstand sales.

The periodical publishing industry includes general consumer periodicals, special interest periodicals, business and trade periodicals, farm periodicals, religious periodicals, and scholarly periodicals. The periodical industry excludes daily newspapers, government publications, catalogues, directories, publications with more than 70 percent advertising content, and publications printed in Canada but published outside of Canada.

Key Statistics, 1998/99

	SMEs*	Total Industry	Percent SME
Number of Periodicals[20]	**1,899**	2,027	**94%**
Total Revenues ($ millions)	**734.6**	1,268.4	**58%**
Employees	**6,645**	8,264	**80%**
Export Revenue ($ millions)	--	--	--
Profit Margin** (% of Total Revenue)	10.5	10.2	--

* Annual circulation under 100,000
** Profit before taxes
Source: NGL calculations based on data from Statistics Canada custom tabulations

- In 1998/99, there were **1,899** periodicals in Canada with annual circulations of less than 100,000. These SME periodicals accounted for 94 percent of periodicals published in Canada in 1998-99.
- SME periodicals earned **total revenues of $735 million** and employed **6,645 persons** in 1998/99.
- SME periodicals accounted for 58 percent of all revenues earned in the Canadian periodical publishing industry and 80 percent of all persons employed in the industry in 1998/99.
- On an aggregate basis, SME periodicals had a before-tax profit margin of 10.5 percent in 1998/99.

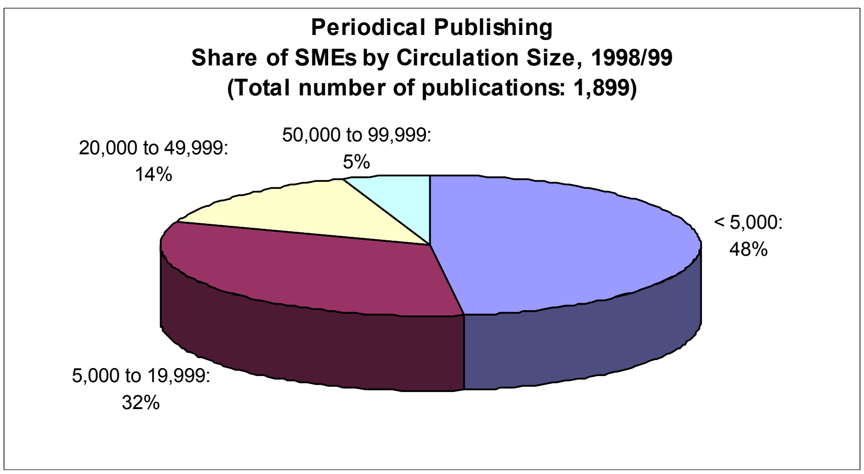
[20] These data refer to the number of periodical *titles*. In section 3.1.1, the data for the periodical publishing industry refer to the total number of *firms* of 918.

The analysis of periodical publishers differs in a couple ways due to the way in which industry data is collected and disseminated by Statistics Canada.

- First, the unit of analysis is the periodical title rather than the actual company or firm.
- Second, the SME threshold has been set in terms of total periodical circulation. For this analysis, a SME is defined as any title with total circulation of less than 100,000. The SME size categories have also been set in terms of total title circulation rather than total revenues.

Nearly one-half (48 percent) of SME periodical titles had circulation under 5,000 in 1998/99. Approximately 32 percent of SME periodical titles had circulation of between 5,000 and 19,999. Periodicals with circulation of between 20,000 and 49,999 accounted for 32 percent of all SME periodical titles; titles with circulation of between 50,000 and 99,999 represented 5 percent of SME periodical titles in 1998/99.

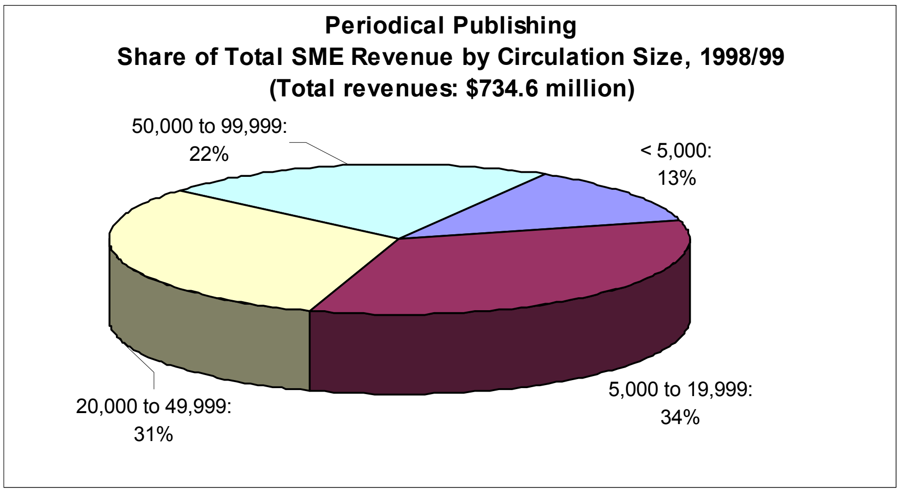
Figure 46 Periodical Publishing, Share of SMEs by Circulation Size, 1998/99



Totals do not sum due to rounding
Source: NGL calculations based on data from Statistics Canada custom tabulations

SME periodicals earned total revenues of just under $735 million in 1998/99, or 58 percent of total industry revenues of over $1.2 billion (see Table 15). Among SME periodicals, the largest share of revenue was earned by SME periodicals with circulation of between 5,000 and 19,999; they accounted for 34 percent of SME revenues in 1998/99. Approximately 31 percent of SME revenues was earned by periodical titles with circulation of between 20,000 and 49,999. The largest SME periodicals, with circulation of 50,000 to 99,999, accounted for 22 percent of SME revenues; the smallest periodicals, with circulation of less than 5,000, accounted for 13 percent of total SME revenues in 1998/99.

Figure 47 Periodical Publishing, Share of Total SME Revenue by Circulation Size, 1998/99

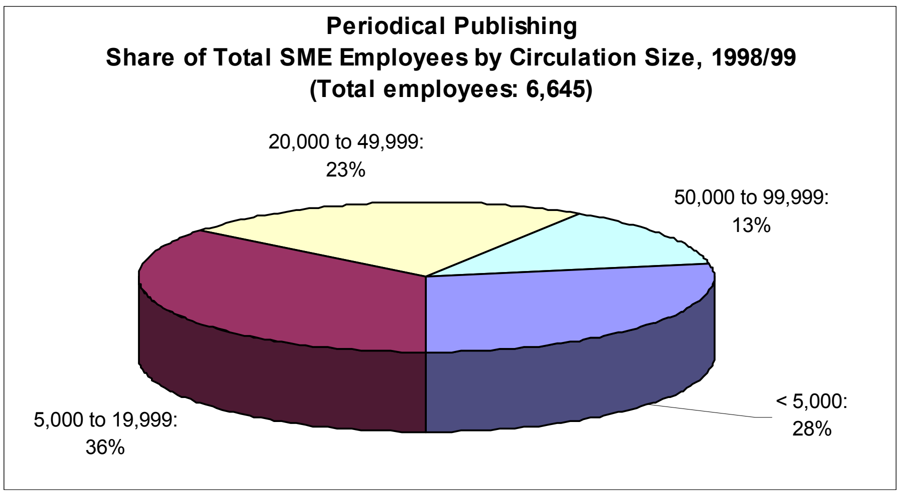


Source: NGL calculations based on data from Statistics Canada custom tabulations

SME periodicals employed a total of 6,645 persons in 1998/99, accounting for 80 percent of the 8,264 persons employed in the periodical publishing industry.

SME periodicals with circulation of 5,000 to 19,999 employed 36 percent of the SME workforce. SME periodicals with circulation of 20,000 to 49,999 employed 23 percent of the SME workforce. SME periodicals with circulation of 50,000 to 99,999 employed 13 percent of the SME workforce, while SME periodicals with circulation of fewer than 5,000 persons employed 28 percent of the SME workforce periodical publishing industry in 1998/99.

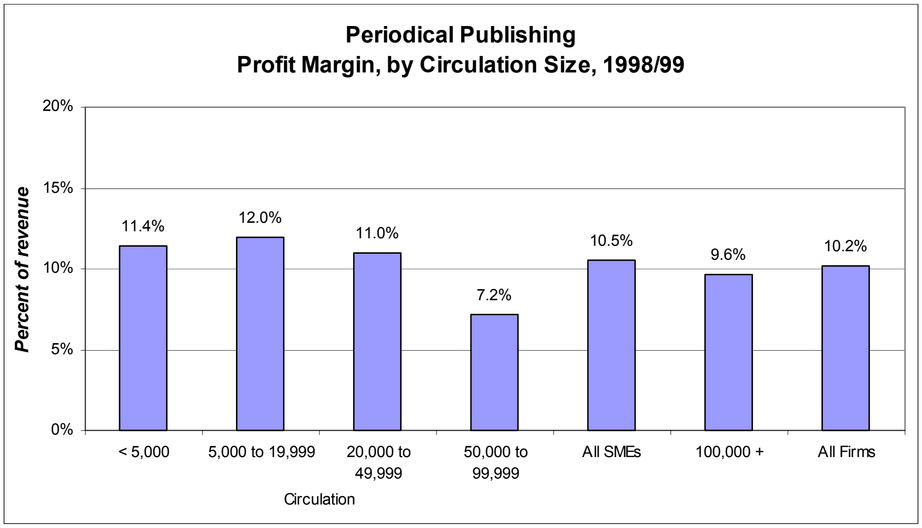
Figure 48 Periodical Publishing, Share of Total SME Employees by Circulation Size, 1998/99



Source: NGL calculations based on data from Statistics Canada custom tabulations

With the exception of SME periodicals with circulation of 50,000 to 99,999, SME periodicals actually posted slightly better financial performance than large-circulation periodicals in 1998/99. Large-circulation periodicals (circulation of over 100,000) had a profit margin of 9.6 percent, while SMEs had a profit margin of 10.5 percent. The smallest periodical SMEs (circulation under 5,000) had a profit margin of 11.4 percent in 1998/99. Periodicals with circulation of 5,000 to 19,999 had the highest profit margin, 12.0 percent.

Figure 49 Periodical Publishing, Profit Margin, by Circulation Size, 1998/99



Source: NGL calculations based on data from Statistics Canada custom tabulations

3.8 Sound Recording

Table 16 Sound Recording - Key Statistics

Description

The Canadian sound recording industry includes firms that have sales and/or releases of recorded media such as compact disks. These recorded media are manufactured from master tapes that are either owned by the firm or leased from others. The industry also includes the companies that earn revenues from the lease, sale or consignment of master tapes.

The Canadian sound recording industry includes Canadian-controlled and multinational companies which produce and distribute recorded musical works in Canada.

The integrated multinational record companies control 80 percent to 90 percent of the Canadian market, with Canadian sound recording companies sharing the rest of the market.[21]

The integrated multinational record companies are the primary distributors for Canadian-controlled independent record labels in all provinces except Quebec.[22] In Quebec, Quebec-controlled companies dominate the distribution of domestic releases.[23]

Key Statistics, 2000

	SMEs*	Total Industry	Percent SME
Number of firms	**318**	331	**96%**
Total Revenues ($ millions)	**141.4**	1,319.3	**11%**
Employees	**1,097**	3,305	**33%**
Export Revenue ($ millions)	**9.6**	25.4	38%
Profit Margin** (% of Total Revenue)	5.4	11.9	--

* Annual revenue under $10 million
** Profit before taxes
Source: NGL calculations based on data from Statistics Canada custom tabulations

- In 2000, there were **318** sound recording SMEs in Canada with **total revenues of $141 million** and **1,097 total employees**.
- Sound recording SMEs comprised 96 percent of all sound recording companies in Canada in 2000, 11 percent of total revenues, and 33 percent of total industry employment.
- Sound recording SMEs had export revenues of $9.6 million in 2000 – accounting for 38 percent of total industry export revenues.
- Sound recording SMEs recorded a net profit (before taxes) margin of 5.4 percent in 2000.

[21] Source: *Sound Recording Market Profile* at www.cirpa.ca.
[22] *Ibid.*
[23] *Ibid.*

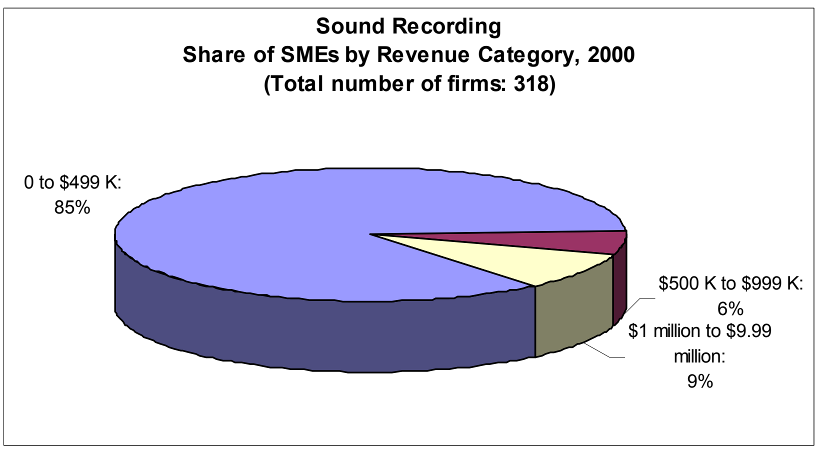
Due to data confidentiality rules[24], the threshold for the definition of a sound recording SME was set to $10 million rather than $25 million. Based on this definition, there were a total of **318** sound recording SMEs with total revenues of $10 million or less in 2000, according to Statistics Canada.

Sound recording SMEs (also known as "record labels") earned total revenues of just over $141 million and net profits before taxes of $7.6 million in 2000. Sound recording SMEs employed close to 1,100 persons, and spent over $27 million on employee salaries and benefits in 2000.

Sound recording SMEs comprised 96 percent of all sound recording companies in Canada in 2000.

The vast majority (85 percent) of sound recording SMEs earned annual revenues of less than $500,000 in 2000. Approximately 6 percent of all sound recording SMEs earned revenues of between $500,000 and $999,999, and 9 percent earned between $1 million and $9.99 million in 2000.

Figure 50 Sound Recording, Share of SMEs by Revenue Category, 2000



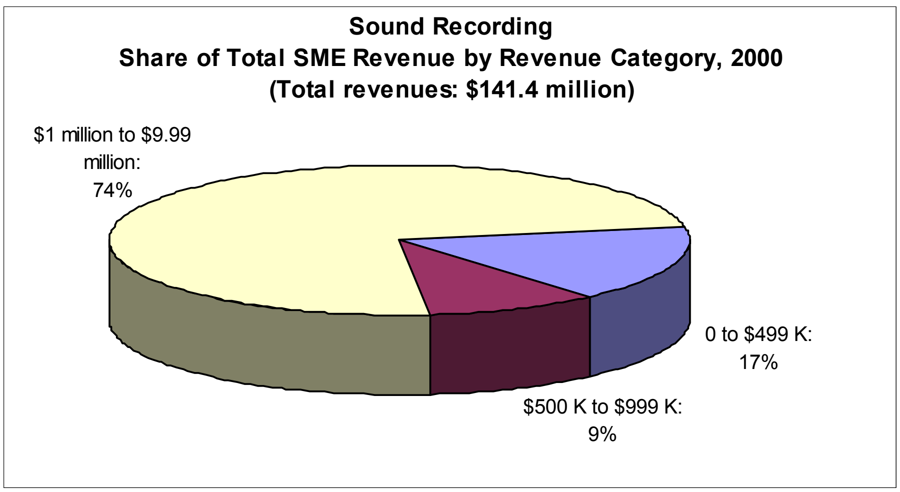
Totals do not sum due to rounding
Source; NGL calculations based on data from Statistics Canada custom tabulations

24 The small number of firms with annual revenues of $10 million to 25 million would result in easy identification of financial data for these firms.

In 2000, large companies dominated the economic activity in the sound recording industry. Approximately 89 percent of the industry's $1.3 billion in revenues were earned by the 13 companies with over $10 million in annual revenues (see Table 16). Within this group, the Canadian operations of the major multinational companies captured the lion's share.

Among SMEs, sound recording companies with revenues of $1 million to $4.99 million accounted for 74 percent of the $141 million earned by SMEs. Sound recording SMEs with revenues of between $500,000 and $999,999 accounted for 9 percent of total SME revenues, while sound recording SMEs with revenues of less than $500,000 earned 17 percent of total SME revenues in 2000.

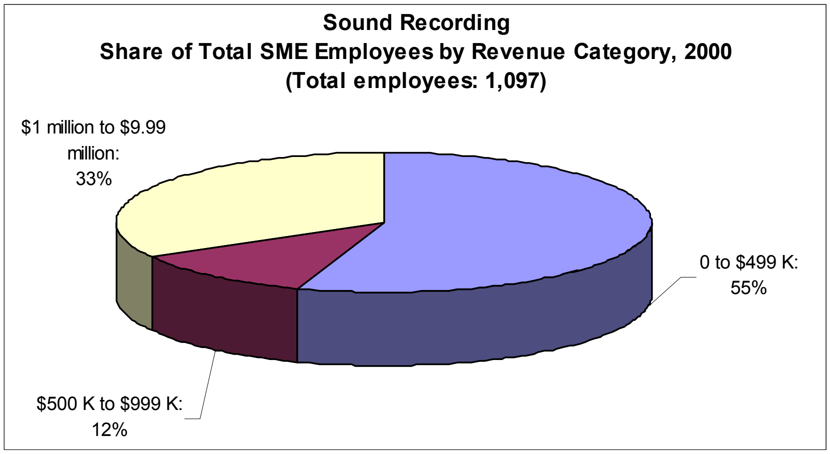
Figure 51 Sound Recording, Share of SME Revenue by Revenue Category, 2000



Source; NGL calculations based on data from Statistics Canada custom tabulations

The majority of persons working at sound recording SMEs were employed by firms with less than $500,000 in total revenues; they accounted for 55 percent of total SME employees in 2000. Sound recording SMEs with revenues of $500,000 to $999,999 employed 12 percent of the SME workforce of 1,097, while the largest SMEs, with revenues of $1 million to $9.99 million, employed 33 percent of persons employed by sound recording SMEs in 2000.

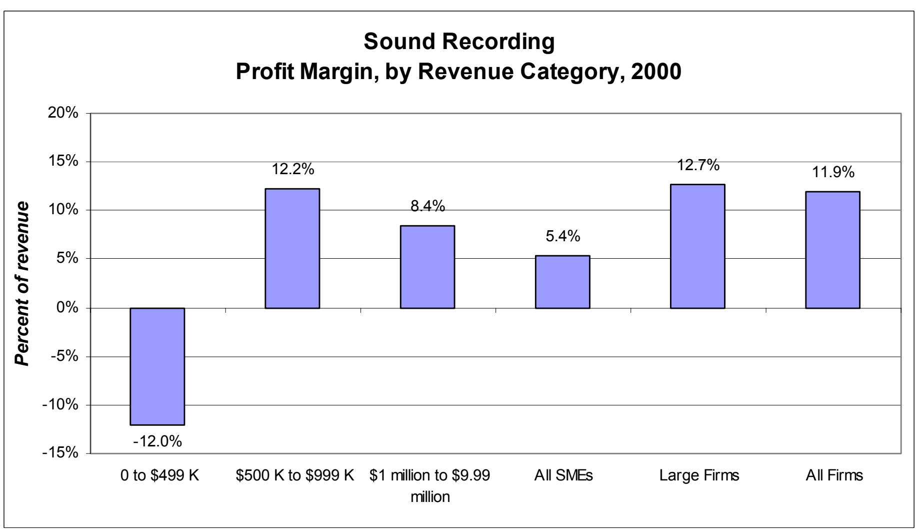
Figure 52 Sound Recording, Share of SME Employees by Revenue Category, 2000



Source; NGL calculations based on data from Statistics Canada custom tabulations

Overall profitability at sound recording SMEs was lower than at large firms largely because of the poor financial performance among the smallest firms – with under $500,000 in annual revenues. While the profit margin for all SMEs was 5.4 percent, the profit margin for the smallest companies was actually negative 12 percent.

Figure 53 Sound Recording, Profit Margin, by Revenue Category, 2000

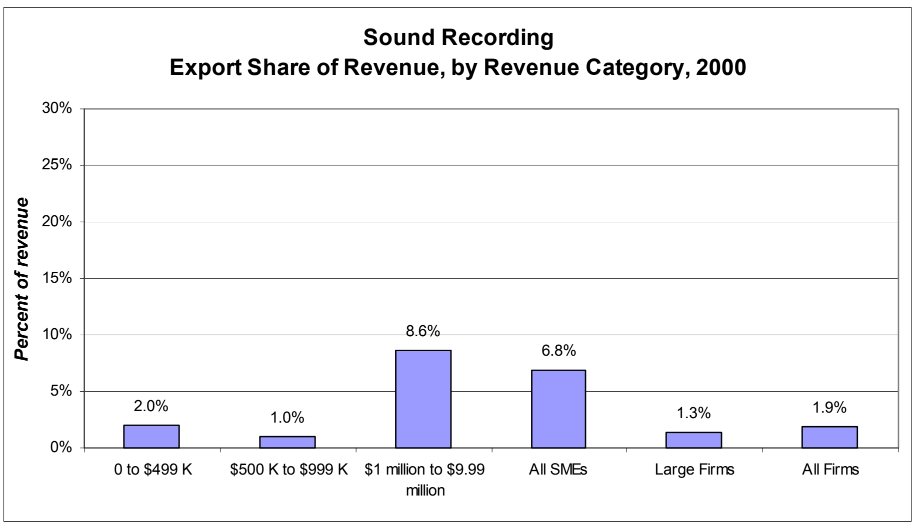


Source; NGL calculations based on data from Statistics Canada custom tabulations

Larger SMEs posted better financial performance in 2000. Sound recording SMEs with revenues of between $500,000 and $999,999 had a profit margin of 12 percent; SMEs with revenues of between $1 million and $9.99 million earned net profits before taxes equal to 8.4 percent of 2000 revenues. The differences in profit margins reflect the relative ability of the sound recording firms to access consumers and leverage assets – in this case, the brand recognition of artists by consumers. Smaller record labels tend to carry newer, lesser-known Canadian artists while the major international labels capture the well-established Canadian and international artists whose careers have already been heavily promoted by international media.[25]

Export earnings were very low across all size categories of sound recording companies, however, the largest SMEs, with revenues in the $1 million to $9.99 million actually earned 8.6 percent of total revenues from export sales.

Figure 54 Sound Recording, Export Share of Revenue, by Revenue Category, 2000

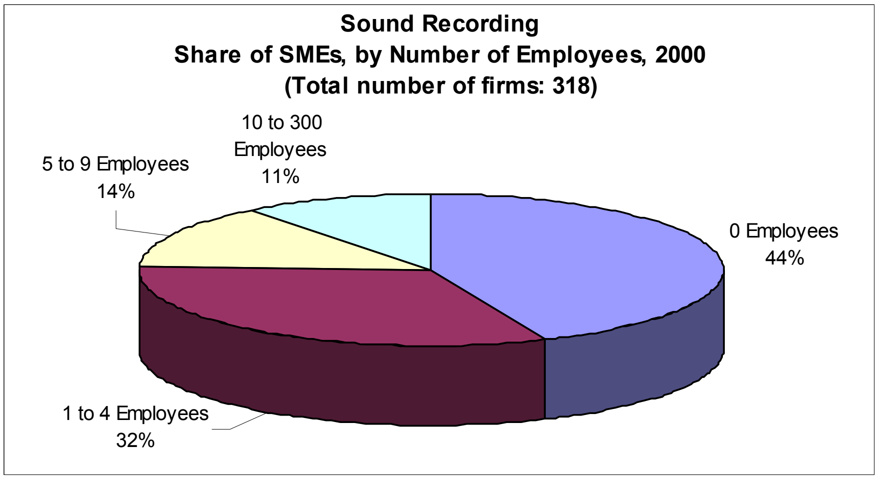


Source; NGL calculations based on data from Statistics Canada custom tabulations

[25] A significant portion of Canadian artists re-sign with the major record labels once they attain international recognition, as this simplifies rights clearance and provides a cachet of having 'arrived' in the global music scene.

Approximately 44 percent of sound recording SMEs reported that they had no employees in 2000. Approximately 76 percent of all sound recording SMEs had fewer than five employees in 2000. Sound recording SMEs with between 5 and 9 employees represented 14 percent of total sound recording SMEs in 2000.

Figure 55 Sound Recording, Share of Firms by Number of Employees, 2000



Totals do not sum due to rounding
Source; NGL calculations based on data from Statistics Canada custom tabulations

By and large, most sound recording SMEs were small in terms of annual revenues and number of employees. Only 34 firms, or 11 percent of all SMEs, had more than 10 employees in 2000 and annual revenues of less than $10 million.

3.9 Television and Radio Broadcasting

Table 17 Television and Radio Broadcasting - Key Statistics

Description
The television and radio broadcasting industry is comprised of companies licensed by the Canadian Radio-television and Television Commission to provide broadcast services to Canadians. The industry includes radio stations, and television stations that reach viewers with off-air broadcast signals, or over cable or satellite distribution services. The industry also includes specialty-television and pay-television services that are only available on cable-television or satellite distribution services.

All Canadian broadcasters are controlled by Canadians.

Key Statistics, 2002

	SMEs	Total Industry	Percent SME
Number of Firms	**257**	732	**35%**
Total Revenues ($ millions)	**440.4**	4,690.8	**9%**
Employees	**4,580**	21,339	**22%**
Export Revenue ($ millions)	--	--	--
Profit Margin* (% of Total Revenue)	-4.6	15.1	--

* Profit before taxes
Source: NGL calculations based on data from Statistics Canada custom tabulations

- In 2002, there were an estimated **257** broadcasting SMEs in Canada with **total revenues of $440 million** and **4,580 total employees**.
- Broadcasting SMEs comprised 35 percent of all broadcasting services in Canada in 2002, 9 percent of total industry revenues, and 22 percent of total industry employment.
- In 2002, broadcasting SMEs actually recorded a net profit margin before taxes of negative 4.6 percent. At the same time, the overall broadcasting industry, including both SMEs and large firms, posted a net profit margin before taxes of 15.1 percent.

In the 2002 broadcasting year (September 2001 to August 2002), there were a total of 257 television and radio broadcasting SMEs with corresponding revenues of $440 million.

For the broadcasting industry analysis, a SME has been defined as any broadcast licensee that is not controlled by a broadcasting company with annual revenues of over $25 million. Based on this approach any radio station or television service (conventional television broadcasters, specialty television service, or pay-television service) that belongs to one the following ownership groups was excluded from the universe of broadcasting SMEs:

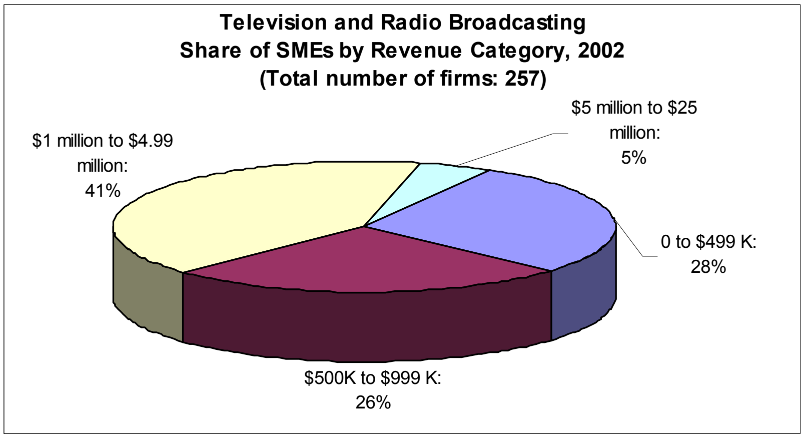
1. Alliance Atlantis Communications Inc.
2. Astral Radio Inc.
3. Bell Globemedia BCE/CTV
4. CanWest Global Communications Corp.
5. CHUM Ltd.
6. Corus Entertaiment Inc.
7. Craig Broadcasting
8. Fairchild TV
9. Golden West Broadcasting (Hildebrand Group)
10. Jim Pattison Industries
11. Maritime Broadcasting Ltd.
12. Newcap Broadcasting Inc.
13. Quebecor Inc. (TVA Inc.)
14. Pelmorex Inc.
15. Rogers Communications Inc.
16. Standard Broadcasting Corp. Ltd.
17. TQS Inc.

Given the manner in which broadcasting industry SMEs were defined, it is not surprising to find that the majority of licensees (65 percent) were controlled by broadcasting companies with over $25 million in total annual revenue.

Among SMEs (which excludes television and radio stations owned by the large companies),

- 28 percent earned less than $500,000 in annual revenues.
- 26 percent earned between $500,000 and $999,999 in annual revenues.
- 41 percent earned between $1 million and $4.99 million.
- 5 percent earned between $5 million and $25 million.

Figure 56 Broadcasting, Share of SMEs by Revenue Category, 2002

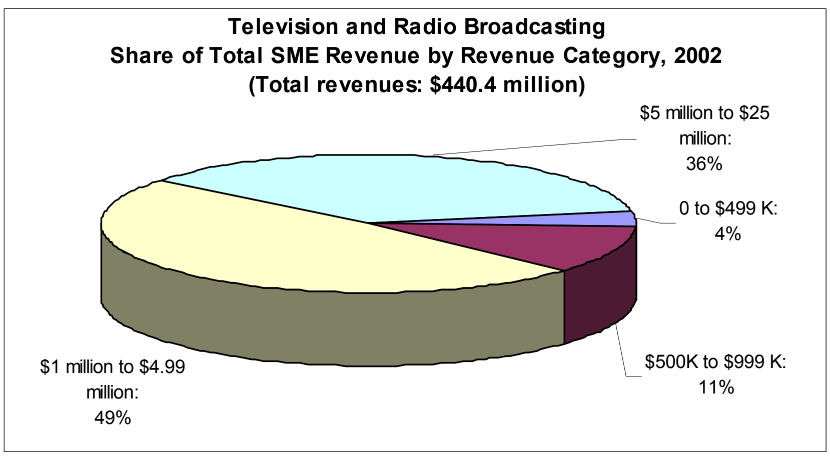


Source: NGL calculations based on Canadian Radio-television and Telecommunications Commission custom tabulations

With ownership of 65 percent of broadcasting licensees, large broadcasting companies controlled the lion's share of broadcasting industry revenues in 2002. In that year, large broadcasters earned 91 percent of the industry's total revenues of just under $4.7 billion (see Table 17). The remaining 9 percent of industry revenues were actually concentrated among the group of broadcasting SMEs with annual revenues of $1 million to $4.99 million.

The largest broadcaster SMEs, with total revenues of $5 million to $25 million accounted for 36 percent of the $440 million earned broadcasting SMEs. Broadcasting SMEs with between $1 million and $4.99 million in total revenues earned 49 percent of total SME revenues. Broadcasting SMEs with annual revenues of $500,000 to $999,999 accounted for 11 percent of total SME revenues in 2002, while broadcasting SMEs with less than $500,000 in annual revenues accounted for only 4 percent of total SME revenues.

Figure 57 Broadcasting, Share of Total SME Revenue by Revenue Category, 2002

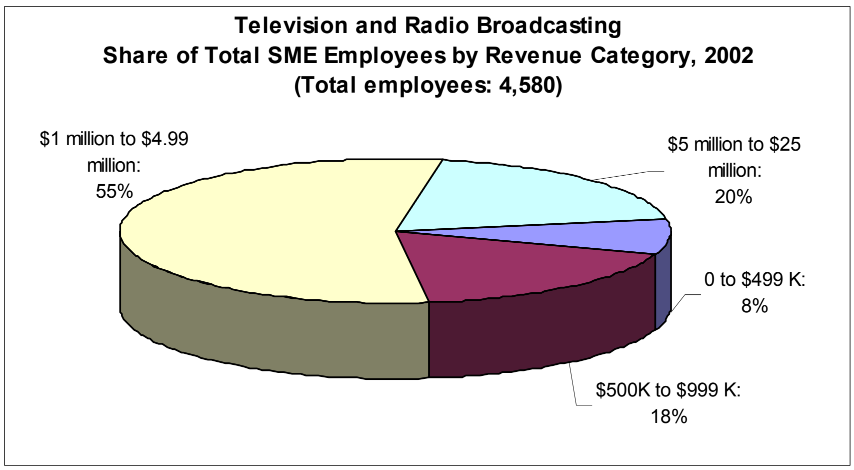


Source: NGL calculations based on Canadian Radio-television and Telecommunications Commission custom tabulations

Broadcasting SMEs accounted for a larger share of employees than implied by their revenue share. While broadcasting SMEs earned 9 percent of total industry revenues, they employed 22 percent of the broadcasting industry's 21,339 employees (see Table 17). Again SMEs in the $1 million to $4.99 million revenue range had the largest share of employees among broadcasting SMEs. More than one-half (55 percent) of SME workforce in the broadcasting industry was employed at broadcasters with annual revenues of between $1 million and $4.99 million.

The largest broadcasting SMEs with annual revenues of $5 million to $25 million employed 20 percent of the 4,580 persons employed at broadcasting SMEs in 2002. Broadcasting SMEs with under $500,000 in annual revenue employed 8 percent of the SME workforce.

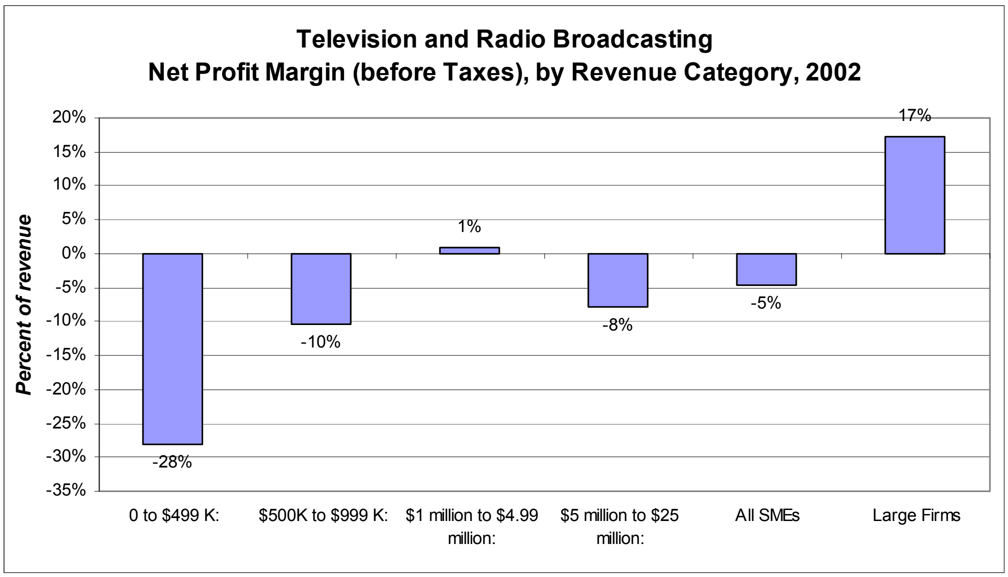
Figure 58 Broadcasting, Share of Total SME Employees by Revenue Category, 2002



Totals do not add due to rounding
Source: NGL calculations based on Canadian Radio-television and Telecommunications Commission custom tabulations

The financial performance of broadcasting companies was strongly correlated with firm size. In 2002, broadcasting licensees with annual revenues under $500,000 posted a net loss (before taxes) equal to 28 percent of total revenues. This extremely poor financial performance may largely be attributable to the fact that several specialty-television broadcasters launched services in the new digital cable tier. In their inaugural year, most of these new broadcasters, whether or not owned by a large broadcaster, had low revenues while incurring significant losses.

Figure 59 Broadcasting, Profit Margin, by Revenue Category, 2002



Source: NGL calculations based on Canadian Radio-television and Telecommunications Commission custom tabulations

None of the category of SMEs recorded profit margins as high as large firms, which had an average operating profit margin of 17 percent. Even medium-sized licensees with annual revenues of between $5 million and $25 million had a net loss equal to 8 percent of total revenues. Licensees with annual revenues of between $1 million and $4.99 million recorded a slight net profit of 1 percent in 2002.

It should be noted that changes in the advertising and broadcasting industry have favoured larger broadcasting groups. In the conventional broadcasting sector, ownership has become significantly more concentrated in the last decade. In order to build multi-station broadcast groups that could offer national and regional advertisers viewer coverage, the larger players bought out ‘mom and pop’ radio and television stations. The remaining single stations have witnessed significant revenue erosion as larger advertisers have concentrated advertising budgets on the multi-station groups and larger metropolitan markets.

A similar process of concentration is occurring among specialty channels, where the larger specialty players, Atlantis-Alliance Communications Inc. and CanWest Global Communications Corp. appear to be able to better respond to advertisers and to capture cost efficiencies and synergies in programming rights and cross-promotion.

4 Financing of Cultural SMEs

4.1 Financing Activity of Cultural SMEs

In this section we present a profile of the financing of cultural SMEs. We examine the types of internal, external private, and government sources of financing currently obtained by cultural SMEs.

For the purposes of this financing analysis, we divided SME financing into two general categories: internal financing and external financing. While all financing is in someway derived from an external source, we wanted to make the distinction between financing primarily derived on personal basis as opposed to financing derived on the basis of the corporate entity's financial standing. In this regard, internal financing is comprised of financing supplied by the owners, the company itself, or friends or family. External financing is comprised of financing supplied by private-sector financial institutions or the public sector. This financing is often supplied after evaluation of the company's credit worthiness, risk and return prospects, or fulfillment of public policy goals.

<u>Internal Financing Sources:</u>

In the early stages of development, SME entrepreneurs often find a variety of creative means to finance the enterprise internally, that is, from sources that do not involve independent third party (whether public or private) decision makers from outside the firm. While in some cases, this is because internal financing is more expeditious and cost effective, in many cases, SMEs lack credit history or track record for third party financing. Internal financing sources include personal investment, investment by family and friends, personal lines of credit, personal credit cards, and loans financed by household mortgages.

Internal financing also includes corporate savings, or the retained earnings of the company. Retained earnings are often the primary source of financing for companies – large and small. Retained earnings offer one of the most economical forms of financing, particularly when debt costs exceed the returns earned by the financial investments made with retained earnings. Companies can tap into retained earnings without incurring debt obligations, diluting company ownership, and in many cases, obtaining shareholder equity (more applicable for larger companies).

<u>External Financing Sources:</u>

External financing sources can be separated into two major categories: private and public sources.

Private financing sources are broadly divided into debt and equity financing. Debt financing may include bank loans, lines of credit, and equipment lease financing. Equity financing may include venture capital, angel investor equity, private share offerings and public share offerings.

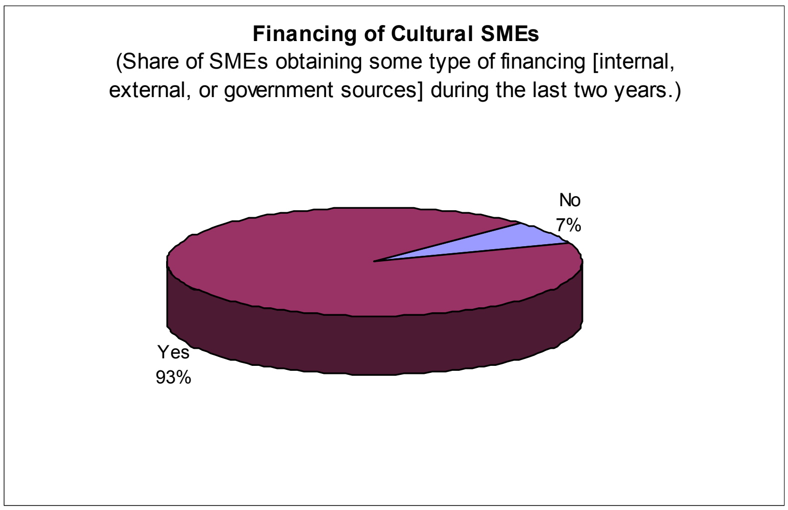
Public sources include debt, equity, and other funding from government and non-government agencies. Government sources include funding from various government or Crown agencies such as the Canadian Television Fund, Telefilm Canada, Canada Magazine Fund, or Business

Development Bank of Canada. Non-government sources generally include investments from not-for-profit institutions such as foundations or family trusts.

In contrast to internal financing, external financing often comes with certain obligations. It may require that SMEs pledge company assets, offer ownership, or in the case of public external financing, operate in a manner consistent with government policy goals.

Approximately 93 percent of cultural SMEs reported that they obtained some type of financing during the last two years. This included internal sources and external private sources.

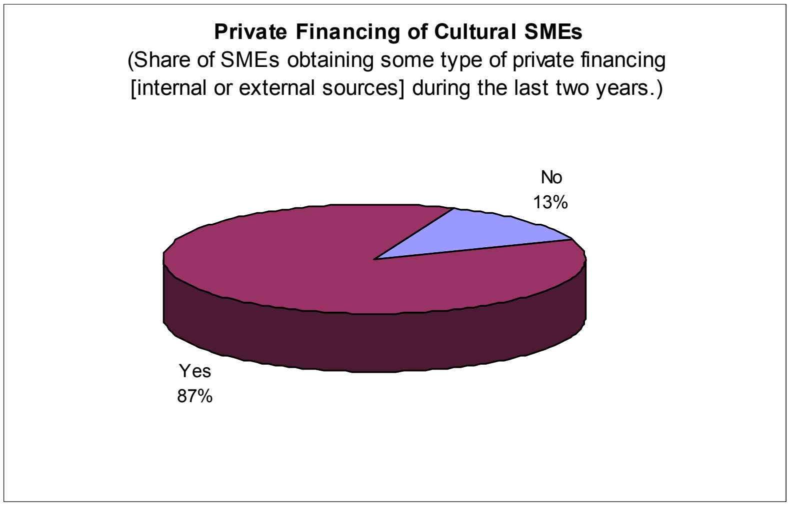
Figure 60 Financing of Cultural SMEs



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Putting aside government financing, 87 percent of cultural SMEs obtained some type of private-sector financing during the last two years. This included either internal sources, external sources, or both.

Figure 61 Private Financing of Cultural SMEs



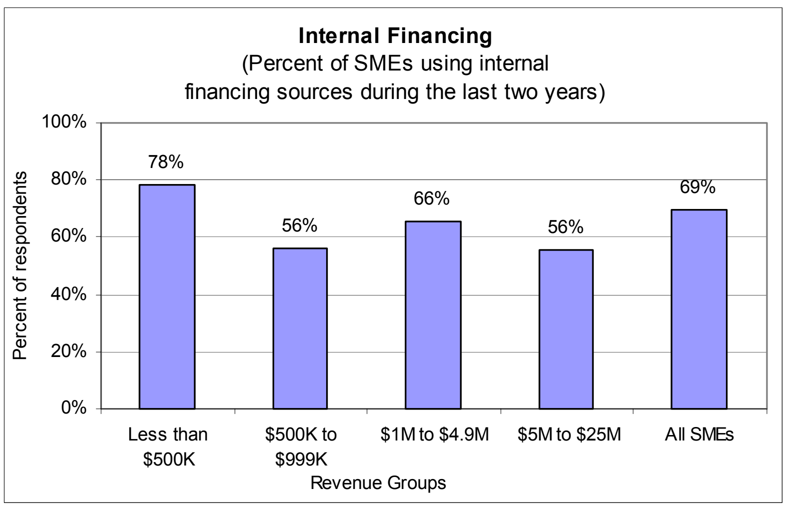
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

4.1.1 Internal Financing

Internal financing is one of the most critical and often most economical forms of financing for SMEs. For all small businesses, internal private financing forms the primary source of start-up and ongoing capital. Internal private financing includes all forms of financing that are obtained from the actual business or from the personal assets of the business owners. The retained earnings of the company are one source of internal financing. Personal savings, loans from family and friends, and bank loans secured by personal assets are other forms of internal financing.

Approximately **69 percent** of cultural SMEs reported the use of internal private financing during the last two years.

Figure 62 Internal Financing

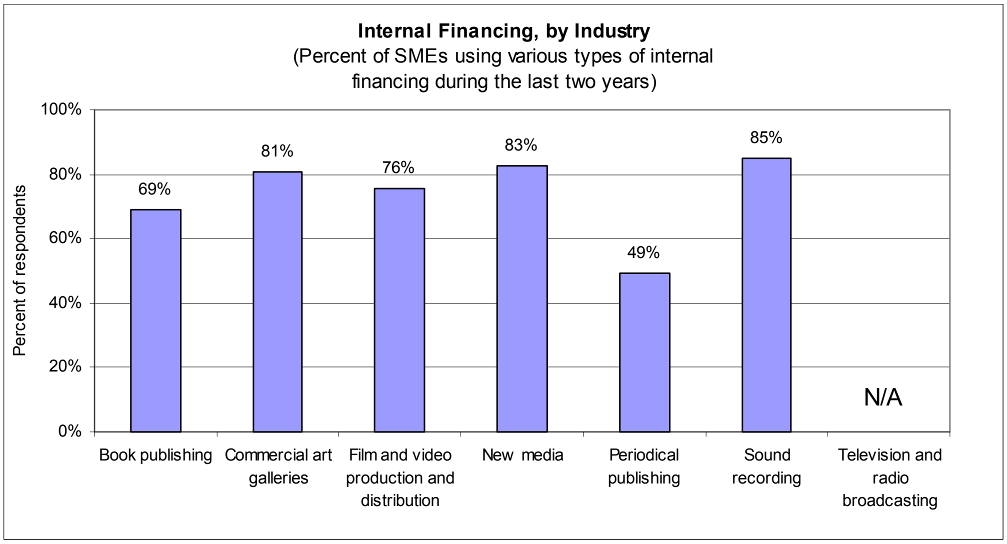


Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Smaller firms reported a higher tendency to use internal financing sources. About 78 percent of cultural SMEs with annual revenues of less than $500,000 in 2002 reported that they used some form of internal financing during the last two years. In the higher revenue groups, a smaller share of firms reported that they used internal financing, although the rates were still high. The rates should be high, as internal financing includes retained earnings, which is often the most economical source of capital for any company–small or large.

SMEs in most of the cultural industries showed a high rate of use for internal financing sources. The only exception was periodical publishing, where only 49 percent of SMEs reported some use of internal private financing during the last two years. It would appear that even where SMEs have developed access to third party financing, they continue to employ internal financing as a critical element in their financial stability. The high rates of internal financing among cultural SMEs may point to limited access to external financing.

Figure 63 Internal Financing, by Industry



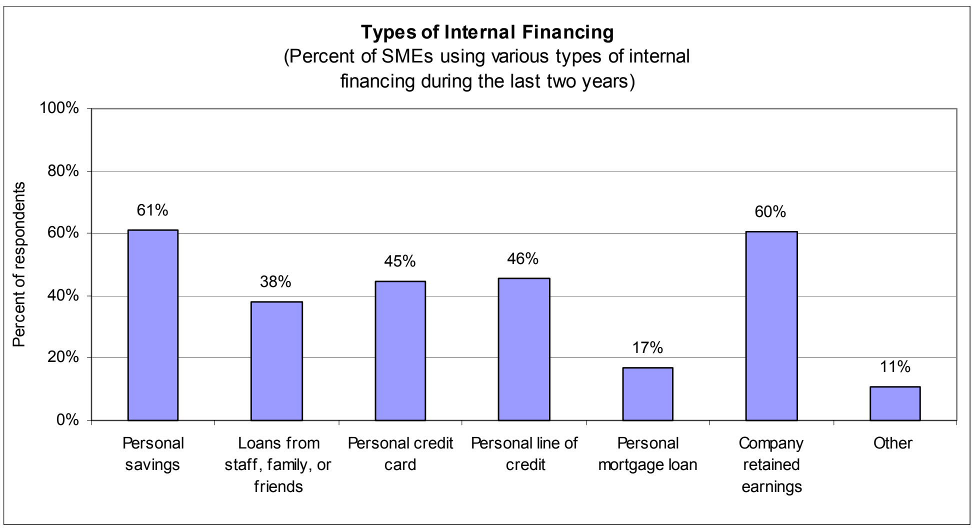
N/A - data not available due to small sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

In terms of the types of internal financing used, cultural SMEs reported that personal savings and company savings (company retained earnings) were the primary types of internal financing. Among cultural SMEs that utilized internal financing during the last two years, 60 percent used company retained earnings, and 61 percent used personal savings.

Personal lines of credit, personal credit cards, and loans from staff, family and friends were also highly utilized. Among cultural SMEs that utilized internal financing during the last two years,

- 46 percent used personal lines of credit,
- 45 percent used personal credits cards as a financing tool, and,
- 38 percent obtained loans from staff, family or friends.

Figure 64 Types of Internal Financing



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Personal mortgage loans were the least-utilized form of internal financing among cultural SMEs. Approximately 17 percent of cultural SMEs reported that they used personal mortgage loans as a type of corporate financing for their businesses. While this incidence of personal mortgage usage is lower than other forms of internal financing, it is higher than the incidence in the overall economy. According to Industry Canada, only 10 percent of SMEs *requested* a mortgage loan for company financing in 2000.[26]

[26] Industry Canada, *Small and Medium-sized Enterprises (SMEs) Financing in Canada*, 2002.

When examined on the basis of size of SME, several aspects of SME internal financing emerge. Among larger firms, company retained earnings are the primary source of retained earnings. Not surprisingly, other types of internal financing become less important for larger SMEs.

Table 18 Types of Internal Financing, by Size of Firm

	Less than $500K	$500K to $999K	$1M to $4.9M	$5M to $25M
Personal savings	76%	70%	30%	25%
Loans from staff, family, or friends	45%	13%	40%	25%
Personal credit card	53%	48%	30%	25%
Personal line of credit	47%	61%	40%	30%
Personal mortgage loan	14%	26%	23%	10%
Company retained earnings	53%	48%	83%	75%

Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Personal savings as a financing tool is more important for smaller firms. While 76 percent of SMEs with less than $500,000 in annual revenues used personal savings, only 25 percent of SMEs with over $5 million in revenues used personal savings.

Some differences in terms of the use of internal financing exist across industries. New media companies are more likely to use internal financing than other cultural industries. New media SMEs had particularly higher usage of personal savings and loans from staff, family or friends as a source of internal financing. About 82 percent of new media SMEs used personal savings during the last two years. This compares to an overall rate of 61 percent for all cultural SMEs. About 58 percent of new media SMEs used loans from staff, family or friends, compared to 38 percent for all cultural SMEs. These higher rates of usage of internal financing sources reflect the relatively early stage of development of the new media sector. The entrepreneurs are younger, their companies have been in existence at the most for just a few years, and there are ongoing turnover in management and companies in the new media sector in comparison with other cultural industries.

Table 19 Types of Internal Financing, by Industry

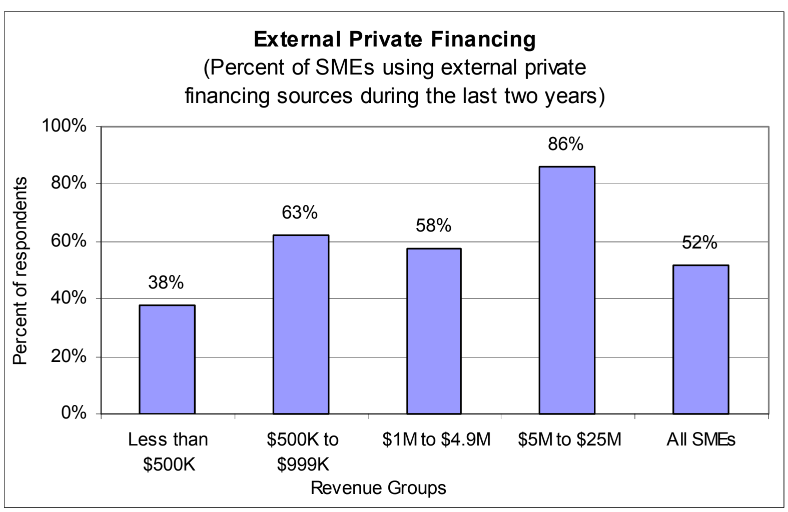
	Book publishing	Commercial Art Galleries	Film and video production and distribution	New Media	Periodical publishing	Sound Recording	Television and Radio Broadcasting
Personal savings	52%	N/A	55%	82%	56%	N/A	N/A
Loans from staff, family, or friends	34%	N/A	32%	58%	31%	N/A	N/A
Personal credit card	41%	N/A	50%	48%	34%	N/A	N/A
Personal line of credit	34%	N/A	56%	55%	44%	N/A	N/A
Personal mortgage loan	17%	N/A	13%	18%	22%	N/A	N/A
Company retained earnings	45%	N/A	69%	70%	59%	N/A	N/A

N/A - data not available due to small sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

4.1.2 External Private Financing

Internal sources of financing – typically limited in size and dependent on income generated by the SME owners – are insufficient to funding significant growth. This limitation forces SMEs that are in a growth phase to turn to external private sources such as banks, insurance companies, and other financial institutions. External financing is also preferred in larger SMEs as a way of limiting the personal financial liability of company principals. In this section, we profile cultural SMEs' use of external financing from private sector sources.

Figure 65 External Private Financing



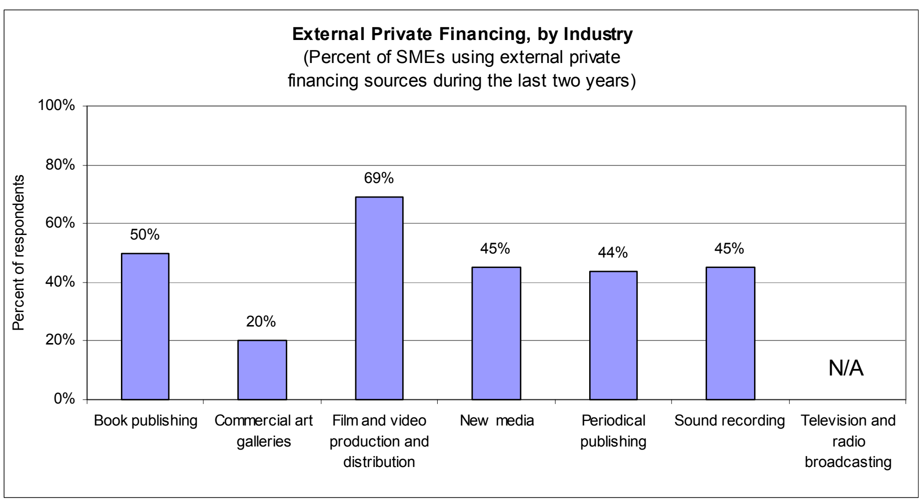
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Larger cultural SMEs are more likely to use external private financing. While 52 percent of cultural SMEs reported use of some type of external financing during the last two years, 86 percent of cultural SMEs with revenues over $5 million reported use of external private financing. At the other end of the size spectrum, only 38 percent of firms with less than $500,000 in revenues used some type of private external financing. This is to be expected, as smaller SMEs often lack the professional resources in financing and accounting that would enable them to approach financial institutions for funding.

The highest rate of utilization of external private financing was in the film and video production and distribution industries. Approximately 69 percent of SMEs in this industry used some type of external private financing during the last two years. This is well above the cross-industry average of 52 percent. This higher rate of access for film and video SMEs would appear to be a reflection of well-established direct and indirect public funding programmes for the sector. Federal and provincial film and television production tax credit schemes are used by film video and television producers to access financing from major financial institutions. It might also reflect corporate links between major production studios and smaller independent producers in the industry value chain.

The lowest rate of private external financing was in the commercial art galleries industry, where only 20 percent of SMEs reported use of any external private financing during the last two years.

Figure 66 External Private Financing, by Industry

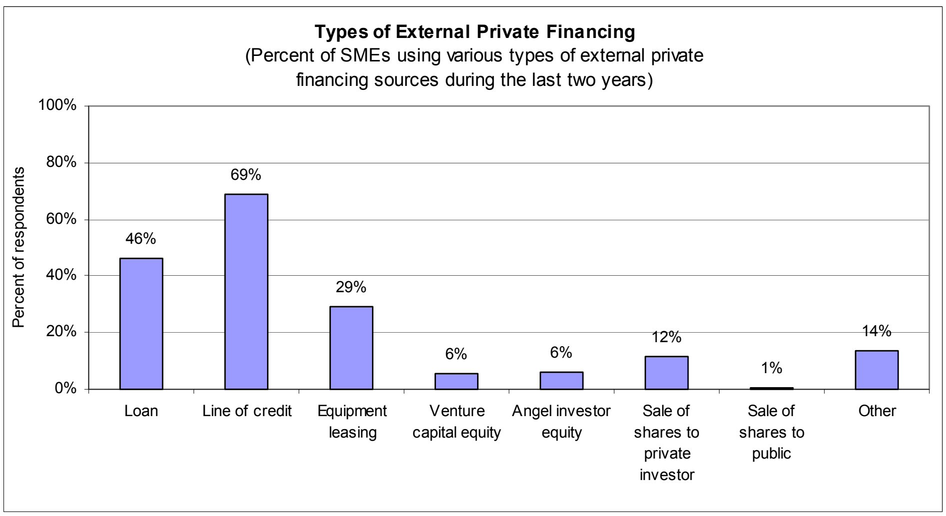


N/A - data not available due to small sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Corporate lines of credit and loans were, by far, the most utilized types of external private financing by cultural SMEs. Among cultural SMEs that used external private financing during the last two years, 69 percent used a line of credit. Approximately 45 percent obtained a loan to meet their financing needs.

Another highly utilized form of private external financing was equipment leasing. Approximately 29 percent of cultural SMEs used equipment leasing as a financing tool for acquiring equipment for their businesses. In most cultural industries, including film and television production, and publishing, the SME typically uses the services of specialized equipment management companies in order to undertake projects, thus minimizing the need for capital outlays.

Figure 67 Types of External Private Financing



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The incidence of equity-type financing among cultural SMEs was low in comparison to the use of debt instruments. While 12 percent of cultural SMEs sold shares to private investors during the last two years, less than 10 percent obtained venture-capital or angel-investor equity for their companies. Only 6 percent of cultural SMEs obtained angel-investor equity, and only 5 percent obtained venture-capital equity. Only one of the surveyed cultural SMEs reported that it obtained external private financing through sales of shares to public investors. This respondent had revenues of between $5 million and $25 million.

The use of various types of external private financing is fairly uniform across firm size – with some exceptions. Larger firms are more likely to use corporate lines of credit. About 82 percent of cultural SMEs with revenues between $1 million and $4.99 million use corporate lines of credit, the rate among firms with between $5 million and $25 million was 74 percent. In contrast, 58 percent of SMEs with less than $500,000 in annual revenue used corporate lines of credit.

Table 20 Types of External Private Financing, by Firm Size

	Less than $500K	$500K to $999K	$1M to $4.9M	$5M to $25M
Loan	47%	48%	32%	58%
Line of credit	58%	68%	82%	74%
Equipment leasing	29%	20%	32%	32%
Venture capital equity	0%	4%	3%	19%
Angel investor equity	4%	12%	6%	6%
Sale of shares to private investor	11%	12%	12%	13%
Sale of shares to public	0%	0%	0%	3%

Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Venture capital equity was another form of external private equity that was more likely to be utilized by larger firms. While no cultural SMEs with less than $500,000 in revenues obtained venture capital equity, the rate among firms with more than $5 million in revenues was 19 percent. . It should be noted that the period of the survey in 2003, represented a nadir in venture-capital funding for many SMEs following the meltdown of the high-technology sector.

4.1.3 External Public Financing (Government Funding)

External public financing refers to any funding or financing obtained from public sector organizations and financial institutions. Federal and provincial governments offer cultural-industry companies an array of direct and indirect financing instruments. The direct financing includes government funding programs administered by government departments (e.g., Canada Magazine Fund, Publications Assistance Program, Book Publishing Industry Development Program, New Media Research Networks Fund). The indirect financing sources include the tax credit programs offered by the federal and provincial governments, and funding programs administered by Telefilm Canada (Canadian Television Fund [Equity Investment Program], Canada Feature Film Fund, Music Entrepreneur Program Canada New Media Fund).

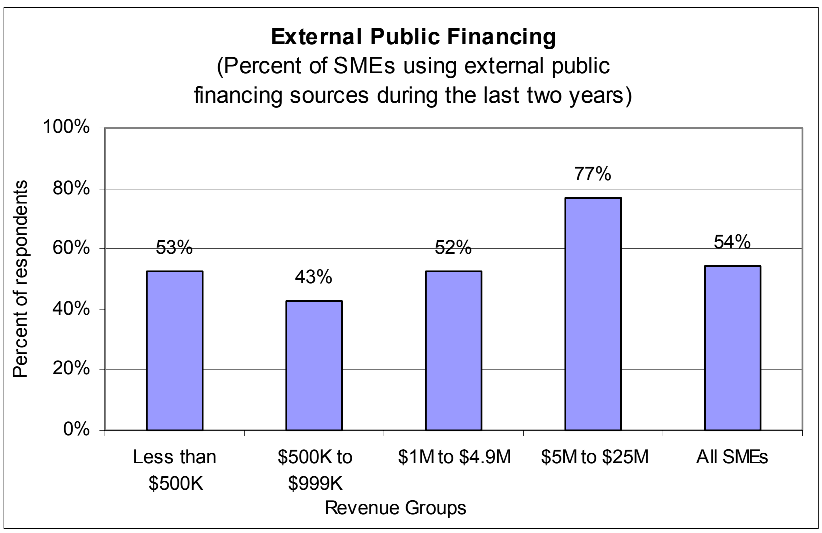
External public financing also includes financing obtained by cultural SMEs from crown corporations such as Business Development Bank of Canada, Export Development Canada, and Telefilm Canada. While these financial institutions apply private-sector approaches to their investment-decision process, this analysis recognizes that their initial capitalization came from the government.

It is generally agreed that cultural industries in Canada need some form of assistance if they are to:

- Grow strong enough to compete for audiences / readers with the large multinational media firms at home and abroad;
- Provide a range of Canadian voices and creative content; and,
- Convey the Canadian national experience.

Just over one-half, or 54 percent, of cultural SMEs used some type of external public financing during the last two years. Interestingly, the highest incidence of use was among the largest SMEs. Approximately 77 percent of SMEs with revenues between $5 million and $25 million used some type of external public financing. By contrast, among firms with less than $500,000 in revenues, about 53 percent used some type of government funding.

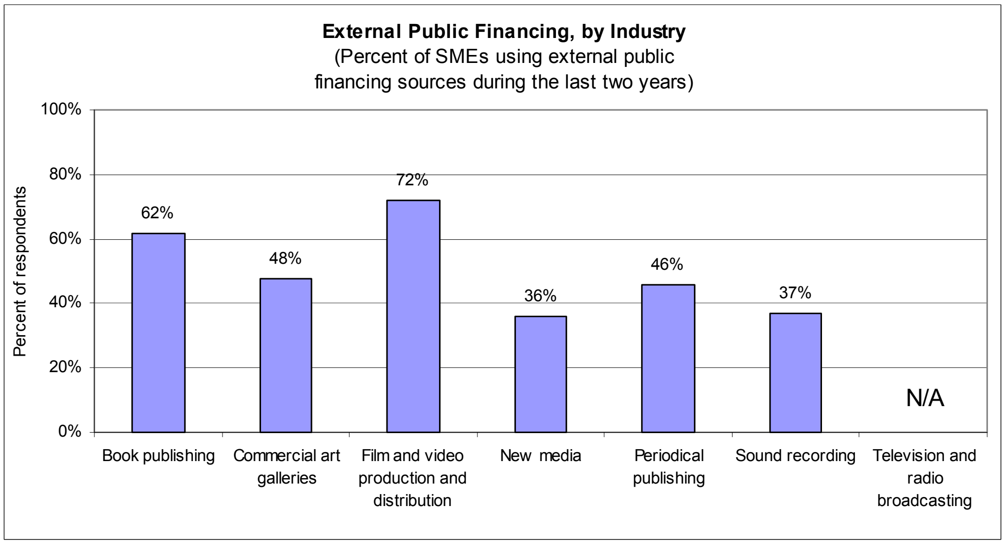
Figure 68 External Public Financing



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The highest rates of government funding use were found in the film and video production and distribution industry, and the book publishing industry. Nearly every film or video production made in Canada is eligible for some type of federal tax credit. For this reason, the usage of indirect government financing is high in this industry, and this is reflected by the finding that 72 percent of film and video SMEs received some type of public financing during the last two years.

Figure 69 External Public Financing, by Industry



N/A - data not available due to small sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

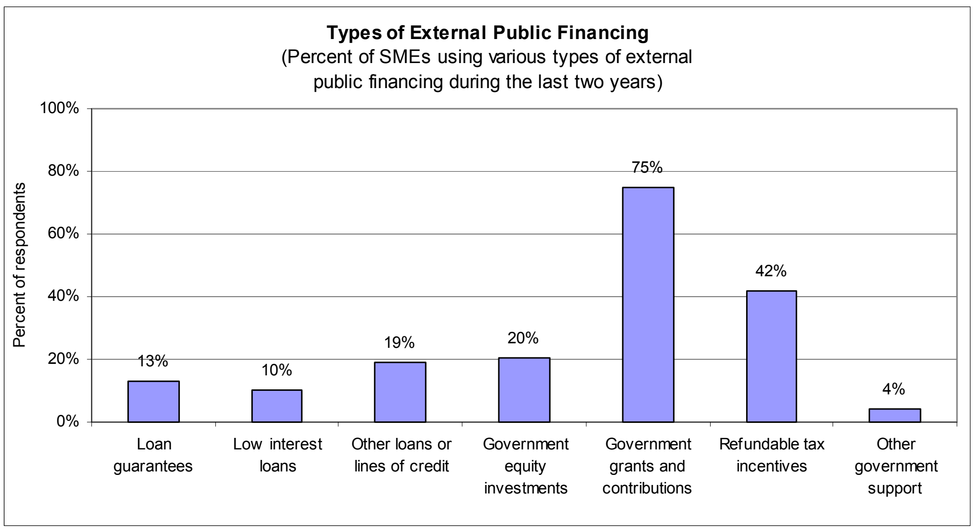
In the book publishing industry, approximately 62 percent of SMEs obtained some type of public financing during the last two years. The relatively high rate of government financing in book publishing can be attributed to the federal government's Book Publishing Industry Development Program (BPIDP). In 2001, BPIDP provided $24.8 million in support to 213 Canadian book publishers as part of the *Aid to Publishers* program with BPIDP. In total, BPIDP provided $30 million in assistance to book publishers and industry associations in 2001.

The lowest rates for use of government financing were in the new media and sound recording industries. Approximately 36 percent of new media SMEs used external public financing during the last two years. This may indicate that either government funding is being directed to larger new media companies or that government funding levels for new media may be below where they should be in order to offer broad access by SMEs. Two of the largest programs are the Canada New Media Fund, administered by Telefilm Canada, and the Department of Canadian Heritage's Culture Online program. Some provinces also have tax credits targeting new media companies. But beyond these programs the amount of public funding for new media production is very limited.

The use of external public financing was also low in the sound recording industry, where 37 percent of SMEs reported using government funding during the last two years. Like new media, the sound recording industry has recently had a fund set up under the administration of Telefilm. The Canada Music Fund-Music Entrepreneur Program provides funding to selected eligible sound recording companies. As well, the main funding program in the sound recording industry, FACTOR/MusicAction is funded by a levy on the value of transactions involving the sale of radio stations in Canada, and is therefore, funded directly by private-sector sources, even though the program was the creation of the CRTC.

The usage of various types of external public financing reflects the predominance of the major industry support programs in the cultural industries. Direct grants and contributions are the most utilized type of external public financing. This form of financing typically does not have to be repaid. Approximately 75 percent of cultural SMEs, that obtained external public financing, used government grants and contributions.

Figure 70 Types of External Public Financing



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Approximately 42 percent of cultural SMEs used refundable tax credits. This is largely due to use of the federal tax credits available to film and video producers, and provincial tax credits available to many of the cultural industries.

For other types of external public financing, the rate of use was relatively lower. Loan guarantees, low-interest loans, and other loans were all used by less than 20 percent of cultural SMEs (that obtained external public financing during the last two years). About 20 percent of cultural SMEs used government equity investments. This likely reflected the equity investments made by Telefilm Canada in Canadian film and television productions.

When the types of financing are examined on the basis of firm size, it becomes apparent that the high rate of government funding among larger cultural SMEs can be traced back to the use of refundable tax credits. Approximately 68 percent of cultural SMEs with revenues over $5 million used refundable tax incentives during the past two years.

The use of government grants and contributions actually decreases with the size of the SME. About 83 percent of cultural SMEs with less than $500,000 in revenues used government grants and contributions compared to 64 percent of cultural SMEs with revenues of $5 million or higher.

Table 21 Types of External Public Financing, by Firm Size

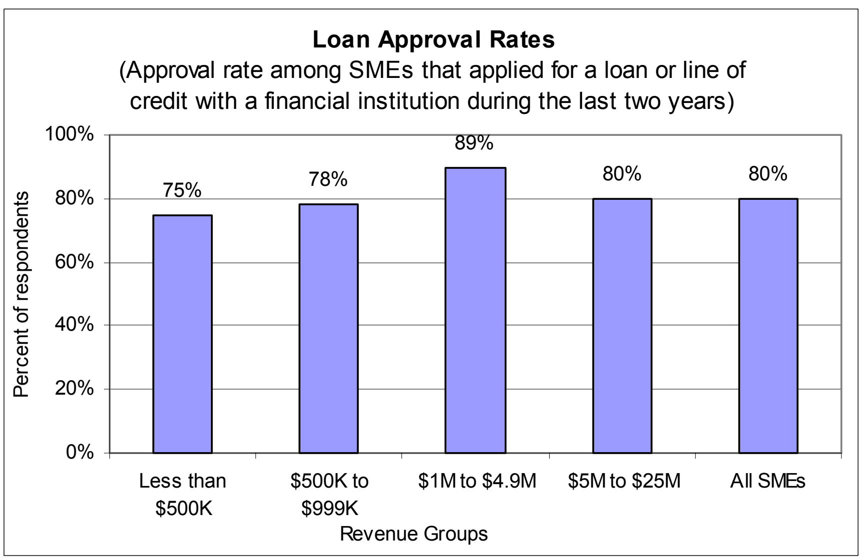
	Less than $500K	$500K to $999K	$1M to $4.9M	$5M to $25M
Loan guarantees	11%	24%	9%	15%
Low interest loans	4%	29%	13%	11%
Other loans or lines of credit	15%	29%	19%	22%
Government equity investments	22%	18%	19%	19%
Government grants and contributions	83%	76%	66%	63%
Refundable tax incentives	33%	47%	38%	67%
Other government support	7%	0%	3%	0%

Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

4.1.4 Debt Financing

Among cultural SMEs that applied for a loan or line of credit with a financial institution during the last two years, approximately **80 percent** had their loan **approved**. The rate varied very little by size of company. However, the loan approval rate for cultural SMEs with revenues between $1 million and $4.9 million was as high as 89 percent.

Figure 71 Loan Approval Rates



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The loan approval rate for cultural SMEs was also consistent with data for SMEs across the Canadian economy. According to Industry Canada, in 2000, 82 percent of all SMEs had their loan applications approved.[27] For knowledge-based industries[28], the rate was actually 70 percent.

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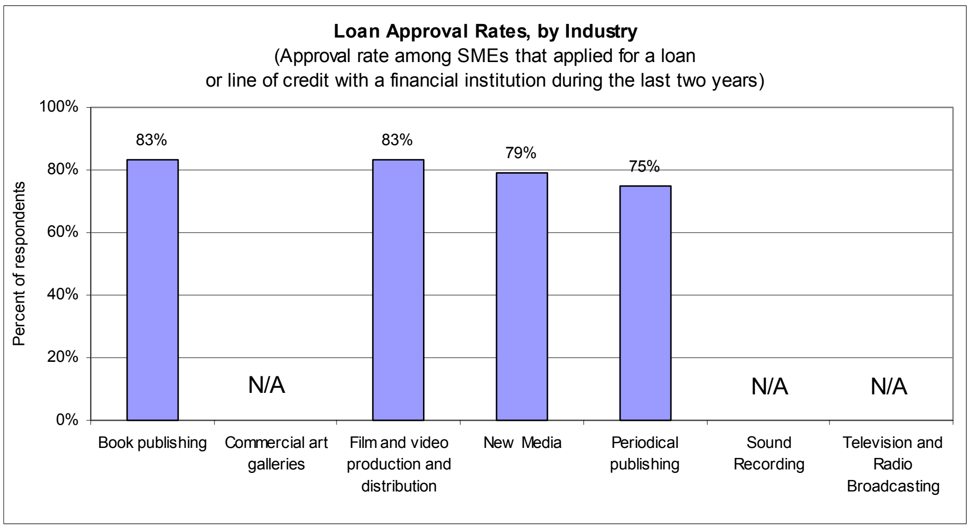
[27] Industry Canada, *Small and Medium-sized Enterprises (SME) Financing*, 2002.

While cultural SMEs highlighted a lack of capital as one their biggest challenges, the data on loan approval rates indicate that their access to debt capital is similar to SMEs across the Canadian economy.

Loan approval rates for several of the cultural industries were similar to the overall average for cultural SMEs. The loan approval rates in the book publishing, new media, periodical publishing, and film and video industries were near the average of 80 percent for all cultural SMEs.

Figure 72 Loan Approval Rates, by Industry



N/A - data not available due to small sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

For the 20 percent of cultural SMEs that did have their loan application rejected by a financial institution during the last two years, the following were cited as the primary reasons for the rejection.

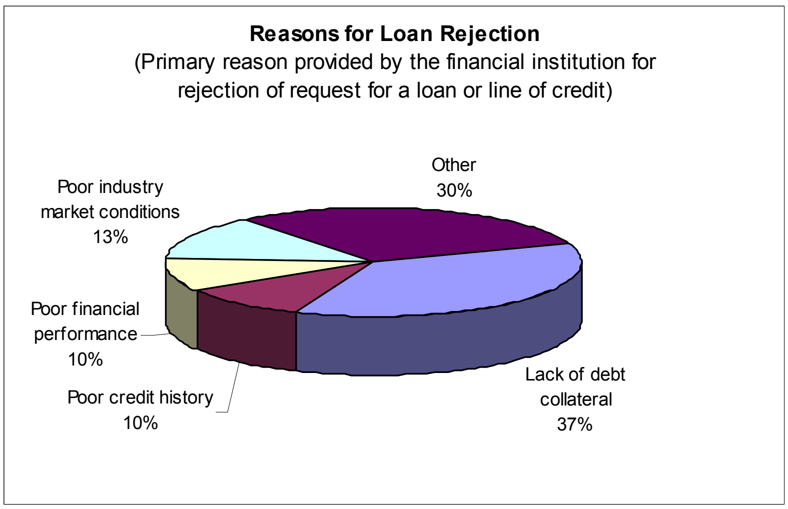
- Lack of debt collateral, 37 percent.
- Poor industry market conditions, 13 percent.
- Poor financial performance, 10 percent.
- Poor credit history, 10 percent.

[28] According to a definition developed by Industry Canada and he Business Development Bank of Canada, knowledge-based industries include industries with science and technology based firms composed of knowledge producers, and industries with high-knowledge firms that, based on measures of research and development and knowledge worker inputs, could be considered to be business innovators and high-knowledge users. Please see Industry Canada, *Small and Medium-sized Enterprises (SME) Financing*, 2002, Appendix A for more information.

In addition, 30 percent of cultural SMEs with rejected loan applications cited other reasons for their loan rejection, including the following:

- "Firm too small".
- "Early stage of business, not yet profitable".
- Financial institution's "lack of understanding of firm's business".
- "Bank doesn't support publishing sector or has a policy of not providing loans to publishing companies".
- Financial institution "not interested in sound recording industry".

Figure 73 Reasons for Loan Rejection

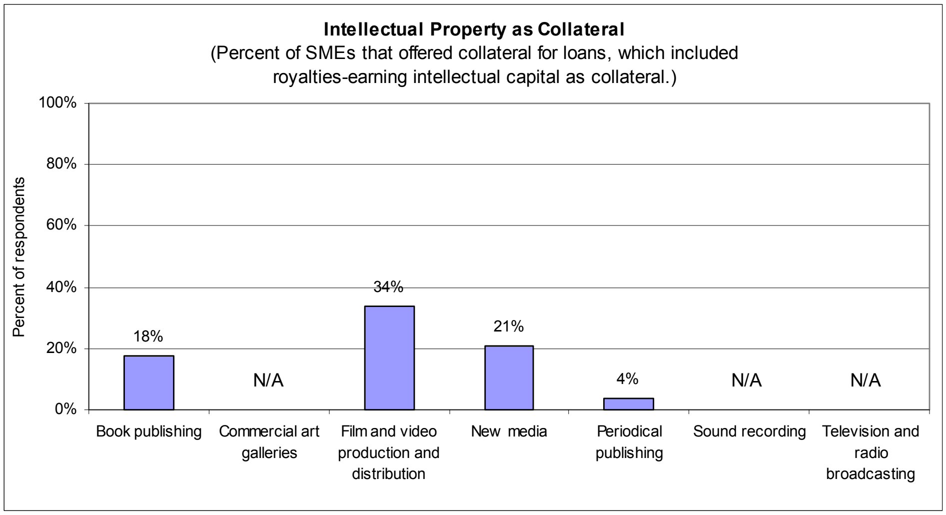


Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Only a small share of cultural SMEs offered royalties-earning intellectual capital as collateral for their loans. In general, financial institutions put very little, if any, economic value on intellectual property of cultural firms. As such, cultural SMEs find it difficult to leverage their most valuable asset to obtain loans.

Overall, 23 percent of cultural SMEs that had their loans approved, pledged intellectual property as collateral for the loan. Among the cultural industries, film and video producers and distributors were most likely to pledge the rights to their film and television productions as collateral for loans.

Figure 74 Intellectual Property as Collateral

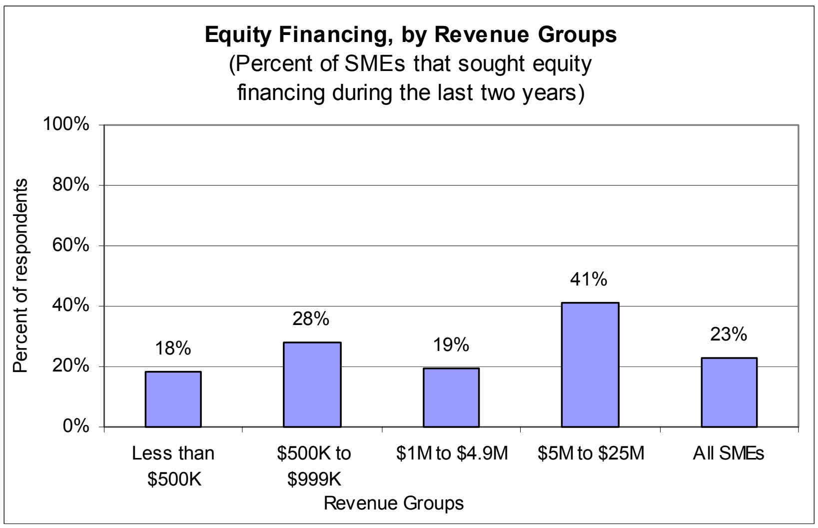


N/A - data not available due to small sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

4.1.5 Equity Financing

Approximately 23 percent of cultural SMEs sought equity financing from private investors, public investors, venture capitalists, angel investors, or government during the last two years. While the rate of equity financing was not completely directly correlated with firm size, SMEs with revenues of $5 million to $25 million were most likely to seek equity financing.

Figure 75 Demand for Equity Financing, by Revenue Groups



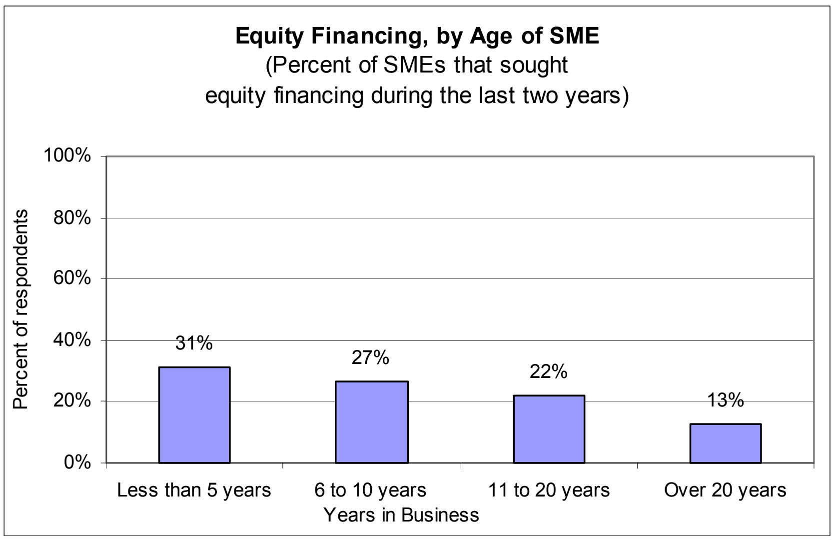
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

In comparison, only 2 percent of all SMEs sought equity financing, or risk capital, in 2000.[29]

[29] Industry Canada, *Small and Medium-sized Enterprises (SME) Financing*, 2002.

The demand for equity financing among cultural SMEs drops somewhat with the age of the SME. Among cultural SMEs that have been in business for less than five years, 31 percent sought equity financing during the last two years. The rate was 27 percent for cultural SMEs that have been in business for six to ten years, and 22 percent for cultural SMEs that have been in business for 11 to 20 years. Among cultural SMEs that have been in business for more than 20 years, 13 percent sought equity financing during the last two years.

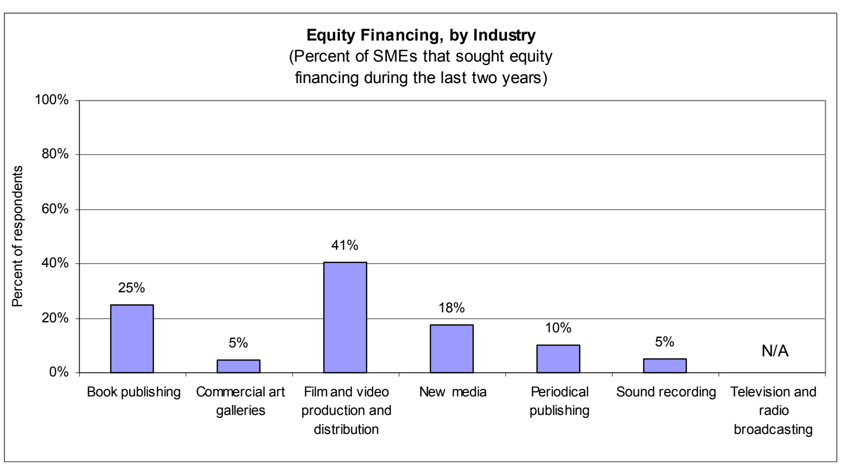
Figure 76 Equity Financing, by Age of SME



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

SMEs in the film and video industry showed the greatest demand for equity investment. During the last two years, 41 percent of film and video production and distribution SMEs sought some type of equity financing. This high rate reflects the nature of the industry to a large degree, as investors in a film or television production often take an equity investment in the production.

Figure 77 Demand for Equity Financing, by Industry

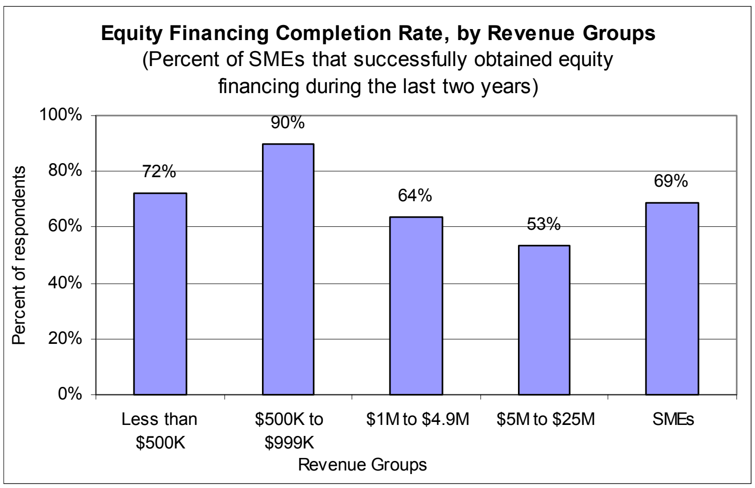


N/A - data not available due to small sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

SMEs in the commercial art galleries, sound recording, and periodical publishing industries had the lowest demand for equity investment.

Among cultural SMEs that sought equity financing during the last two years, 69 percent successfully completed their equity financing. The rate of successful equity financing completion was actually lower for larger cultural SMEs. Cultural SMEs with revenues between $5 million and $25 million had an equity completion rate of 53 percent – well below the industry average.

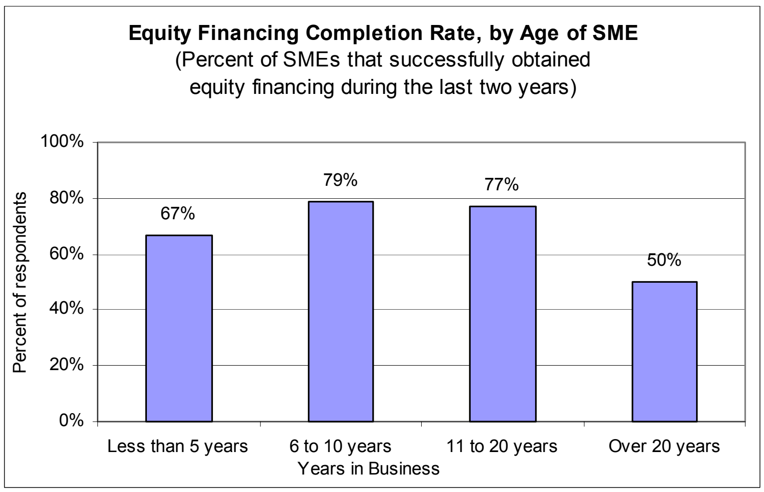
Figure 78 Equity Financing Completion Rate, by Revenue Groups



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Cultural SMEs that have been in business for six to ten or 11 to 20 years had a somewhat higher equity financing completion rate than either the youngest or oldest cultural SMEs. Cultural SMEs in operation for six to ten years had an equity completion rate of 79 percent. Cultural SMEs in business for 11 to 20 years had an equity completion rate of 77 percent during the last two years. Approximately 67 percent of cultural SMEs that have been in business for less than five years completed their equity financing during the last two years. The rate among cultural SMEs that have been in business for more than twenty years was found to be 50 percent.

Figure 79 Equity Financing Completion Rate, by Age of SME



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Poor industry or market conditions were cited as the primary reason why SMEs were unable to obtain the equity capital that they sought. Other reasons included:

- "Unpredictable future in terms of profits and grants".
- "Film production packages not as competitive as other investments".
- "Investment considered too highly speculative".
- "Capital too expensive–equity turned down".
- "Investor industry suffered contraction".

4.2 Profile of Financing Cycle for Cultural SMEs

SMEs go through a financing cycle as they move through the various stages of corporate development. In the following table we describe the financing characteristics of SMEs at each stage of corporate development. Keep in mind that at each stage of corporate development, a cultural SME will have access to certain forms of external public financing available to firms in its particular industry.

Start up: A start-up company will typically obtain capital from internal sources such as personal savings, family, or friends.

Early stage: To augment the personal investments made at the start-up stage, an early stage company will typically seek a line of credit, working capital loans, or lease financing for the purchase of equipment. At this stage, the company may also seek external capital from financial institutions or other investors. Venture capital may be available for some companies at this stage.

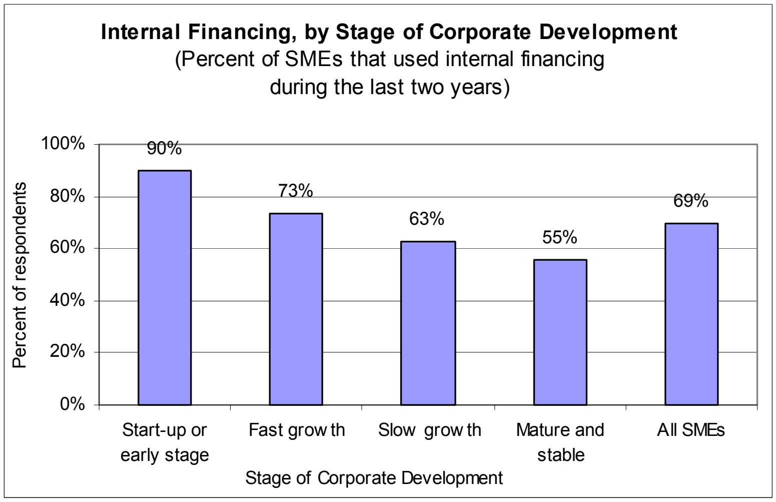
Fast growth: As the company begins to grown more quickly, the owners may seek additional investors to finance the fast expansion. The company's faster-growing revenues allow it to access a wider array of external private financing available from financial institutions. This includes loans, lines of credit, and equipment leasing loans. The company's fast growth may also allow it to raise external financing risk capital from in the form of venture capital, or sales of shares to public or private investors.

Slow growth: As the company's growth begins to slow, risk capital becomes less accessible. Instead, the company must look to debt capital from financial institutions and corporate savings in the form of retained earnings.

Maturity: With a halt in growth, the company must become more reliant on financing using corporate savings in the form of retained earnings. Debt financing in the form of lines of credit may also be available for short term financing requirements.

Cultural SMEs in the start-up or early stage of their corporate development are more likely to use internal financing. About 90 percent of cultural SMEs in these stages of corporate development used some type of internal financing during the last two years.

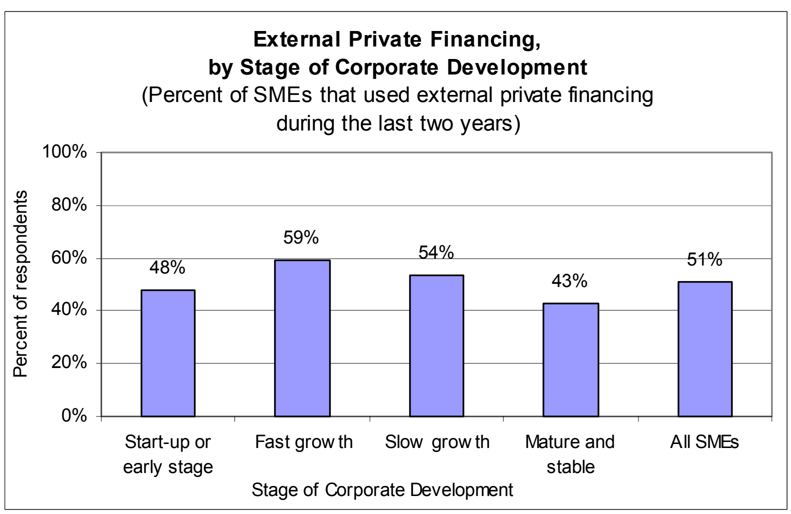
Figure 80 Internal Financing, by Stage of Corporate Development



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Cultural SMEs in the fast-growth stage of corporate development have a slightly higher utilization rate for external private financing. Approximately 59 percent of fast-growth cultural SMEs used external private financing during the last two years, compared to an overall average of 51 percent across all cultural SMEs.

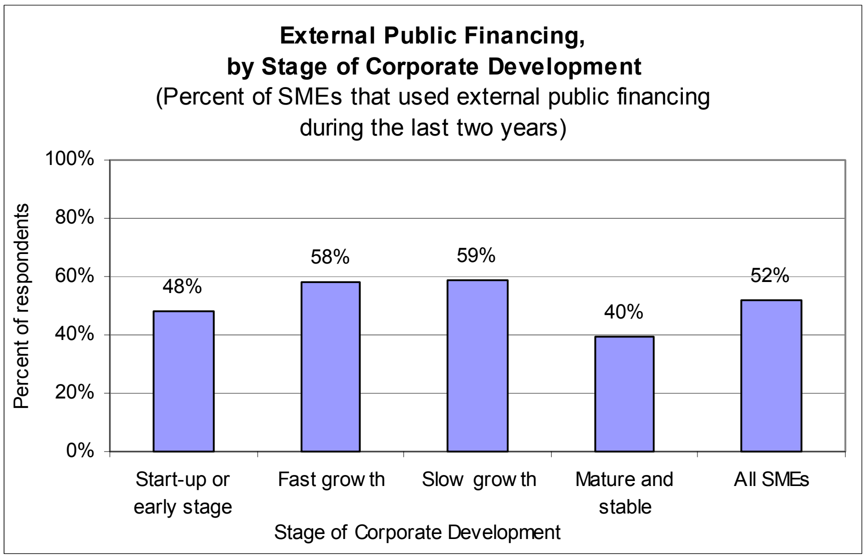
Figure 81 External Private Financing, by Stage of Corporate Development



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The use of external public financing, or government funding, is somewhat higher among cultural SMEs in the fast- or slow-growth stages of their corporate development. Among cultural SMEs in the fast-growth or slow-growth stages of corporate development, 58 percent and 59 percent, respectively, used external public financing during the last two years. The rate of use among start-up or early-stage companies, and mature companies was somewhat lower at 48 percent and 40 percent, respectively.

Figure 82 External Public Financing, by Stage of Corporate Development



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The data appear to demonstrate that start-up and early-stage companies, as well as fast-growth companies have the highest use of financing. But while SMEs at each of these stages of corporate development have high financing needs, their sources are markedly different. Start-up and early-stage companies clearly have to seek financing from internal sources, including loans supported by personal assets. Fast-growth companies, in contrast, obtain financing from both internal and external sources. The same is true of slow-growth cultural SMEs as well.

Table 22 Types of Internal Financing, by Stage of Corporate Development

	Start-up or early stage	Fast growth	Slow growth	Mature and stable	All SMEs
Personal savings	76%	54%	58%	39%	59%
Loans from staff, family, or friends	35%	37%	48%	22%	37%
Personal credit card	45%	37%	46%	39%	43%
Personal line of credit	40%	49%	56%	31%	45%
Personal mortgage loan	9%	20%	15%	19%	16%
Company retained earnings	45%	63%	65%	64%	59%

Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Table 23 Types of External Private Financing, by Stage of Corporate Development

	Start-up or early stage	Fast growth	Slow growth	Mature and stable	All SMEs
Loan	41%	48%	50%	33%	45%
Line of credit	38%	73%	80%	78%	69%
Equipment leasing	21%	48%	18%	26%	28%
Venture capital equity	0%	18%	2%	4%	6%
Angel investor equity	7%	12%	0%	7%	6%
Sale of shares to private investor	17%	18%	5%	7%	11%
Sale of shares to public	0%	0%	0%	4%	1%

Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Table 24 Types of External Public Financing, by Stage of Corporate Development

	Start-up or early stage	Fast growth	Slow growth	Mature and stable	All SMEs
Loan guarantees	11%	19%	13%	13%	14%
Low interest loans	7%	19%	11%	9%	12%
Other loans or lines of credit	11%	22%	28%	9%	19%
Government equity investments	22%	28%	22%	9%	21%
Government grants and contributions	67%	63%	87%	70%	74%
Refundable tax incentives	37%	63%	37%	30%	43%

Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Table 25 Loan Approval Rate, by Stage of Corporate Development

	Start-up or early stage	Fast growth	Slow growth	Mature and stable	All SMEs
Loan approval rate	74%	79%	82%	88%	80%

Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

4.3 Key Financing Issues for Cultural SMEs and Gaps in Private and Public Financing

Our assessment of the financing issues facing cultural SMEs and the gaps in private and public financing has been organized into two sections. The first section looks at the financing issues common to all of the cultural industries comprising our analysis. The second section focuses on the issues and financing gaps specific to each of the cultural industries.

As cultural industry entrepreneurs have noted, obtaining financing can be difficult, particularly for smaller companies, our research examined the underlying industry conditions or causes of the difficulties in accessing financing.

4.3.1 Cross-Industry

On one level, cultural SMEs appear to be innovative and reasonably successful in financing their businesses. As borne out by the survey results,

- SMEs utilize a variety of internal and external financing sources.

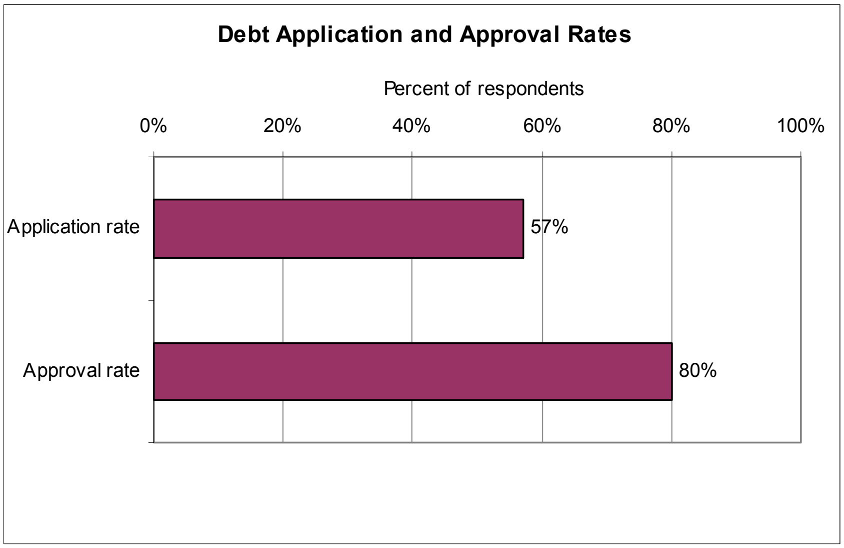
Table 26 Internal and External Financing, Rate of Use among Cultural SMEs during the Last Two Years

Sources of Financing	Percentage of SMEs Using Different Sources of Financing	Sources of Financing	Percentage of SMEs Using Different Sources of Financing
Internal Financing		External Financing	
Personal savings	60%	Bank loan	46%
Loans from staff, family or friends	38%	Bank line of credit	69%
Personal credit card	44%	Equipment leasing	29%
Personal line of credit	46%	Venture capital equity	5%
Personal mortgage loan	16%	Angel investor equity	6%
Retained earnings	60%	Sale of shares to private investor	11%
		Sale of shares to public	1%
		Government equity investments	21%
		Government grants and contributions	75%
		Refundable tax incentives	42%

Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

- Approximately 57 percent of cultural SMEs sought debt financing during the last two years, and of this share, 80 percent were successful in obtaining debt capital from financial institutions.

Figure 83 Debt Application and Approval Rates for Cultural SMEs



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

While the data suggest that cultural SMEs have a similar experience to other SMEs, in terms of debt approval, the research data do not offer an insight as to whether cultural SMEs have been successful in obtaining the total amount of capital they are seeking, or whether the debt capital they obtain is at rates that are favourable to them.

The research also did not address other questions around SME financing, such as:

- What was the cost in terms of professional services (accounting, financial planning, legal) required to prepare the documentation for external financing (loan and equity)?
- Whether those SMEs that declared that they had sought external financing were better structured and organized from a corporate point of view?
- Whether those SMEs that declared that they had sought external financing underrepresented the true number of SMEs actually seeking financing, i.e., whether the declared refusal rate is accurate?

Even with access to bank financing, a large share of cultural SMEs find themselves continuing to use personal savings as a significant source of funding to operate their businesses. According to the online survey results, approximately 50 percent of cultural SMEs that obtained external private financing during the last two years also used personal savings. Approximately 42 percent of cultural SMEs that were successful in their debt requests also used personal savings to finance their company’s operations.

Many of the cultural SMEs we interviewed, as well as those who responded to the survey, provided us with two overriding explanations for why they experience difficulty in obtaining financing.

- First, cultural SMEs claimed that financial institutions put very little, if any, value on the intellectual property of cultural products.

- Second, cultural SMEs suggested that investors and financial institutions, particularly banks, were not interested in investing or making loans to companies in the cultural industries. Some attributed this low level of interest to a lack of understanding of the industry.

According to many cultural SMEs we spoke with, the fact that their primary asset is an intangible asset, that is the intellectual property of the artist, makes it very difficult to obtain financing. Despite the economic importance of intellectual property to cultural entrepreneurs, it does not make it is easier to obtain financing. Many cultural entrepreneurs noted that financial institutions will not loan against intellectual property. This is borne out by the online survey results that showed that only a small number of SMEs used their intellectual property to secure loans.

Fundamentally, financial institutions are not interested in the intellectual property and its merits as an asset, but rather prefer the revenue-generating capacity of an asset regardless of whether it is tangible or intangible. Like other industries then, the borrowing capacity of cultural SMEs, is defined by their balance-sheet receivables and inventories. In many ways, financial institutions are merely applying traditional financial ratio techniques used in most industries to the cultural industry. For financial institutions, receivables are a much better indicator of future revenues than any other asset. For certain industries, inventories are also an indicator of future revenues, and offer some residual value. By basing credit decisions on receivables and inventory, cultural SMEs are forced to generate sales before they can obtain credit.

Potential causes of Difficulties in Accessing External Funding

The causes of difficulties in obtaining funding for cultural SMEs can be grouped into two broad categories:

- Internal vision and focus of SMEs
- Lack of familiarity or interest by financial institutions in cultural SMEs

Internal Issues to SMEs that Limit Access to External Financing

Many SMEs would not consider funding from financial institutions for a variety of reasons related to their internal vision and focus.

<u>'Small is beautiful' business model</u>

In certain cases, the SMEs have attained a level of success and stability in a specific market niche or corporate size and owners are adverse to the risks of further growth. In some cases, partnerships or sole proprietors have worked successfully 'from the kitchen' table on a 'project-by-project' approach for decades[30]. The cultural SME is more a work of love or avocation than a business. However, it should be recognized that this business model provides stability for some of the best creative people.

'Too disorganized to ask for help'

In many cases, SMEs would like to grow further but lack the internal resources and organization necessary either to put their financial statements in order or to sustain the level of effort necessary to approach financial institutions or other sources of financing (venture capitalists, angel investors, private investors).

'Its not worth the bother'

In some cases, SMEs have the necessary corporate resources but consider the whole external financing exercise more trouble than it is worth, and a distraction from the necessary focus on day-to-day business.

In the above cases, ongoing financial needs are met by internal financial sources.

External Issues Limiting SME Access to External Financing

Cultural SMEs face many issues in finding external financing with SMEs in other industries. In addition, they face external financing issues that are specific to the cultural industries.

In common with SMEs in almost all sectors, the lack of familiarity and / or interest in all SMEs on the part of financial institutions and investors is a major barrier for SMEs to access external financing. In most cases, third party financial parties consider SMEs as 'high risk, modest return' lending.

The administration costs for establishing and processing a lender's file, undertaking financial due diligence and administering a loan are not that much different for a multi-million dollar loan to a large corporation than a $10,000 line of credit for a SME, yet the financial return is significantly larger and the risk factor lower, for the larger loans. Secondly, the risk factor in loaning to small businesses is higher than for businesses in general and banks perceive an additional risk, thus cost to lending to SMEs whose principal asset is an intangible[31]. Thus financial institutions typically prefer to weight their loan portfolio towards larger companies with well established credit records. Without public agency loan guarantees or offset programmes such as tax credits, financial institutions will typically limit their exposure to SMEs and cultural SMEs in particular.

The other side of external financing is equity financing; this, however, is limited to even a smaller portion of SMEs than is debt financing.

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30 Source: This 'kitchen table' enterprise model was mentioned on a number of occasions in interviews with sound recording SMEs and lenders in the Quebec sound recording industry.

31 It would be useful to test out the hypothesis whether default rates are higher for cultural SMEs using intellectual property as an asset, than it is for SMEs with tangible assets. This research would have to be carried out in co-operation with financial institutions.

The principal reason for this is that private investors including angel investors or venture capitalists are typically not interested in most cultural or other types of SMEs as they typically do not have a unique product based on technological advantage or barriers to entry. Where private investors have shown interest in SMEs, these are typically firms that have a track record, including a revenue flow generated by intellectual property catalogues (sound recordings, television programmes, book titles) rather than 'start-ups'. In the cases that private investors are interested in cultural SMEs, they typically ask for majority equity interest or very restrictive financial covenants which the SMEs find unacceptable.

Government Tax Credits and Direct Funding Programmes for Cultural SMEs

In many countries, cultural industries have traditionally benefited from government support due to their importance in the providing platforms to tell stories that reflect national values, and in general, to assist in the development of a national culture and consciousness.

Certain cultural industries have benefited more than others from direct and indirect support programmes from government. While this has raised questions about the equity of treating cultural sectors differently, there are a number of reasons why these programmes have been established, and worked better in some sectors than in others.

The film and video production industry has benefited from a number of direct and indirect programmes. The federal and provincial governments have attempted to address the financing issues faced by film and television producers through well structured tax credit and direct financing programmes. Policy makers have recognized that film production requires large investments; a one-hour episode of a Canadian television drama can cost in upwards of $1 million to produce. Thus, government support such as tax credits have been designed to mitigate this investment hurdle to some degree.

Tax credits are commonly the keystone in setting up the financing packages used by smaller film and television production companies. Some of the interviewed industry players indicated that all cultural industries should be treated equitably and that support structures and dollars provided to firms in the film and television production industry should be provided to other sectors.

Once a preliminary ruling has been obtained from agencies that administer the tax credit programmes, and / or rights have been sold to television / film distributors, the producer is able to obtain short-term or gap financing from financial institutions. Other cultural sectors have asked for similar tax credit programmes for their producers and these have been established in some of the larger provinces for the publishing industry.

The Department of Canadian Heritage has worked with the major banks to create:

- Specialized lending teams staffed by loans officers who are knowledgeable of the cultural industries, their funding needs, government programmes, industry cycles, and types of collateral.
- Systems to 'corporatize' the procedures and knowledge base required for efficient operations.
- Designated loan portfolios for the cultural industries.

Financial institutions that lend to SMEs tend to treat them as any other small business and follow the same conservative approach to lending based on:

- Steady cash flow, and,
- Securing loans against tangible assets (fixed assets and equipment).

Qualifying for financing can be a considerable challenge for cultural SMEs that typically have variable cash flows based on completion of specific projects and intellectual property (titles) rather than inventory and fixed assets.

The net effect of the direct and indirect government funding has been to lower the financial risk for third party financial institutions and lenders and consequently, the cost of financing of film and television production companies. There are numerous SMEs in the film and television production industry value chain from producers to post-production houses that work in association with the larger companies, so even if they are not the direct beneficiaries of the tax credit or funding programmes, they benefit from new business opportunities.

Other cultural industry sectors have questioned the usefulness of having direct and indirect support programmes for some but not all sectors. In any case, direct and indirect funding programmes will increasingly have to take balance of a wide variety of factors in the allocation of resources, including:

- convergence of multimedia and traditional media products;[32]
- multi-platform releases of product;
- the popularity of the cultural product;
- the initiative of the industry associations; and,
- political trade-offs with value judgements about national cultural values.

[32] For example, electronic games are increasingly incorporating scripted programming into their product, while on line multi-player gaming – originated in South Korea, is increasing blurring the lines between programming and gaming as this product moves from the Web to digital media.

Research Results on the Relative Success of Cultural SMEs in Obtaining Necessary Financing

On one level, cultural SMEs which responded to our survey, appear to be innovative and reasonably successful in financing their businesses.

- Most SMEs utilize a variety of internal and external financing sources.
- Even once SMEs have the ability to access external funding, they often continue to rely on personal financing instruments.
- Of the firms that do apply for debt financing, 80% were successful.

However, from comments received from the survey and from interviews with key industry players, there appear to be fundamental problems due to lack of access to external funding:. Most SMEs cannot access funding to develop new content or technologies that would allow them to compete on a global or even regional basis. This would appear to indicate that SMEs would not necessarily pursue external financing if they knew that the likelihood of success was low.

It should be recognized that for certain SMEs – such as the 'kitchen table' artist, external financing is not an issue, and these will continue to be an essential part of the cultural industry in any case. In this profile, funding is generated from ongoing cash flow and personal financing sources.

Among the potential solutions that might be considered are the following:

- Review the access to direct and indirect public funding mechanisms and in particular, tax credits for cultural SMEs to ensure equitable treatment of all sectors.
- Provide mentorship and training programmes in financial management to SMEs.
- Encourage various financial institutions to better understand the needs of cultural SMEs and create loan portfolios for them.

4.3.2 Issues Specific to Individual SME Sectors

In the following section, we examine issues that are specific to individual SME sectors.

Book Publishing

In both the online survey and interviews, English Canadian book publishers identified two major structural issues that weaken their position and thereby weaken their ability to raise financing.

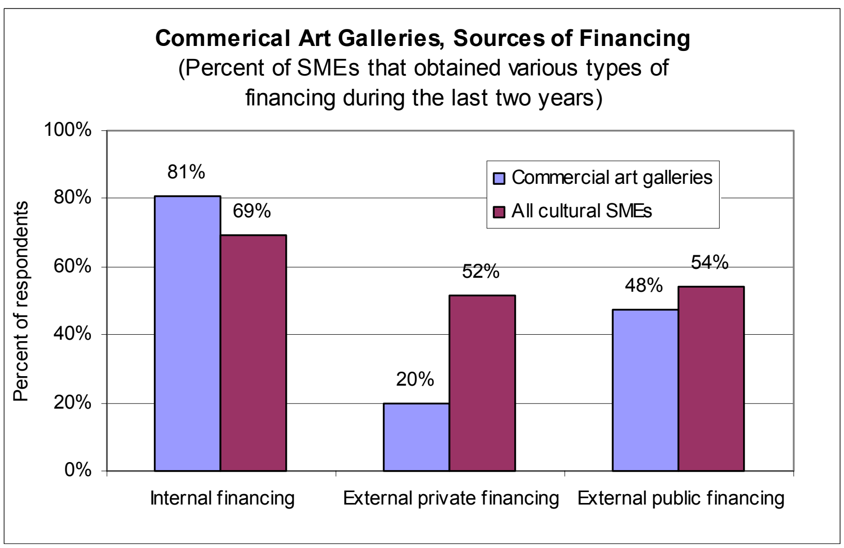
One structural issue was the dominance of Chapters/Indigo in the English-language Canadian book market. With one dominant book retailer, book publishers are in a weaker trade position. This has eroded the quality of the receivables and inventory on their balance sheet, and thus hampered their ability to borrow against these assets. Chapters/Indigo has demonstrated an inclination to return large volumes of unsold books thus lowering the likelihood that inventory or receivables will be converted to revenue. In Quebec, the legislated terms of access to the major retailers' shelf space for independent Quebec-based book publishers provides some measure of financial security.

The other major structural issue for English-language Canadian book publishers has been the competition from American publishers and the pricing pressure generated by this competition. With smaller publishing runs, Canadian publishers are forced to compete against American product that is produced for a much larger market and then sold into Canada. As such, English-language Canadian book publishers lack much pricing power; product prices are essentially set by American publishers. This has applied further negative pressure to the economic prospects of English-language Canadian book publishers and weakened their ability to raise financing.

Commercial Art Galleries

Among the cultural industries, commercial art galleries displayed the highest reliance on internal financing. Approximately 81 percent of commercial art galleries used some type of internal financing during the last two years. This included personal savings and bank loans, and lines of credit obtained on the basis of personal collateral. The rate of use for internal financing among all cultural SMEs was somewhat lower at 69 percent.

Figure 84 Commercial Art Galleries, Sources of Financing



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Commercial art galleries also displayed one of the lowest likelihoods of obtaining external private financing. While 52 percent of cultural SMEs obtained some type of external private financing during the last two years, only 20 percent of commercial art galleries did so.

External private financing includes equity financing as well as debt financing obtained on the basis of a particular SME's corporate financial capital.

It appears that commercial galleries, more than any other cultural industry, have difficulty obtaining external financing on the basis of their corporate assets. This was corroborated in our interviews with commercial gallery owners. They told us that "banks don't' understand [the] art [industry]", and that it is not uncommon for art dealers to have to use personal guarantees for loans or credit lines.

Close to one-half of commercial galleries obtained some type of external public financing during the last two years. Most of this external public financing was in the form of grants and contributions from federal and provincial governments.

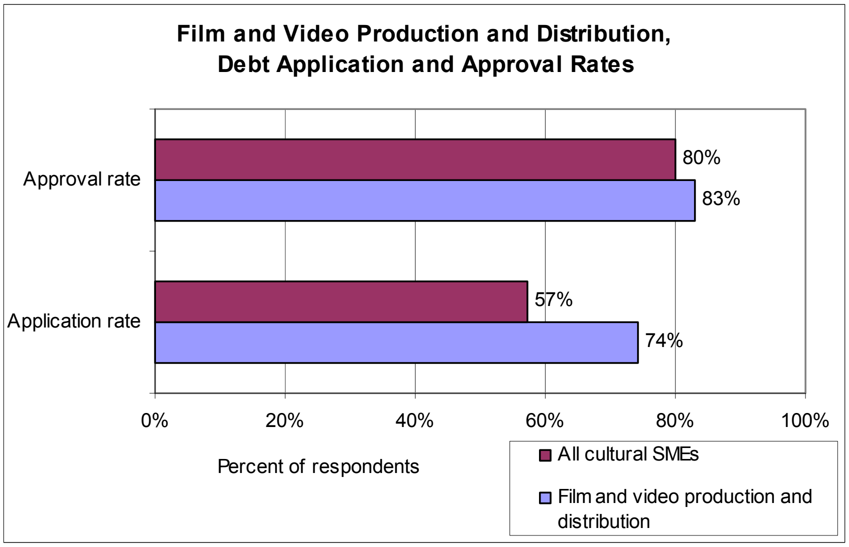
Film and Video Production and Distribution

For film and video producers, the most significant financing issue continues to be the project-by-project pattern of financing in the industry. Film and video production is by its very nature a project-oriented business. In this industry, the financing cycle – that is, the acquisition of financing and spending – is tied to the development of an audio-visual product such as a film or television program. In order to raise financing for such projects the producer or developer will often sell the revenue-generating rights to the cultural product. For example, a television producer will grant a television broadcaster a licence to exhibit the program and sell advertising to be shown with the program. Because financing closely follows the project cycle, it makes it difficult for SMEs in the industry to capitalize or corporatize and thus grow.

The tax credits, so widely used in the industry, were introduced with the intention of helping film and video production SMEs capitalize and grow. However, instead of fulfilling this purpose, the tax credits have become a key component of a film and video production's budget. The project-oriented nature of the industry and rules limiting the amount of government funding for producer overhead costs continue to make it difficult for small producers to corporatize themselves. While the production tax credits introduced in the mid-1990s were supposed to alleviate the lack of corporate continuity, they have, instead become an essential component of the project financing plan for a film or video production.

To further the development of SMEs in this industry, film and video producers told us they would like to see policies that return the tax credits to their original purpose. Film and video producers would also like to see more government support for development of scripts.

Figure 85 Film and Video Production and Distribution, Debt Application and Approval Rates



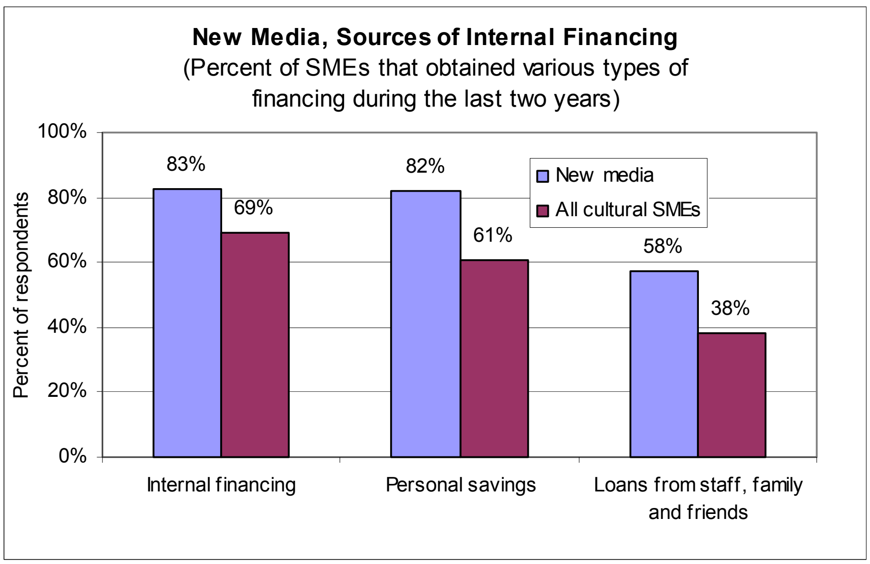
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Film and video distributors would like to see the government intervene to set up a banking facility to finance assets such as intellectual property or certain long-term receivables, which commercial banks will not lend against. Film and video distributors also indicated that they would benefit from capital to finance the foreign rights to Canadian films and television programs.

New Media

New media companies appear to be more reliant than other cultural SMEs on internal financing and particularly personal savings, and loans from staff, family and friends. Approximately 83 percent of new media SMEs used some type of internal financing during the last two years; this is 14 percentage points higher than the rate of 69 percent across all cultural SMEs. The differential is even wider with regards to the use of personal savings. While 61 percent of cultural SMEs used personal savings to finance their businesses during the last two years, 82 percent of new media SMEs used personal savings. Similarly for loans from staff, family and friends, the usage rate was 38 percent among all cultural SMEs, but 58 percent among new media.

Figure 86 New Media, Sources of Internal Financing

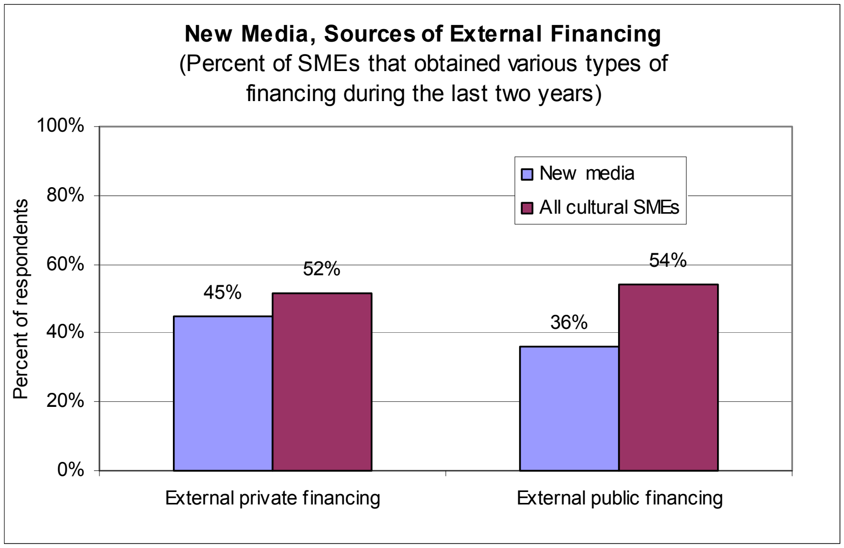


Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

While new media SMEs were more intensive users of internal financing, their use of external private financing was on par with other cultural SMEs. During the last two years, 45 percent of new media SMEs used some type of external private financing, compared to 52 percent of all cultural SMEs.

Where new media SMEs lag other cultural SMEs is in their ability to tap into public sources of external financing. During the last two years, 54 percent of cultural SMEs used some type of external public financing, however only 36 percent of new media SMEs did. As one new media interviewer pointed out, the “interactive content industry is so new that it is hard for government programs to create appropriate policies” for it.

Figure 87 New Media, Sources of External Financing



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Emerging new media companies face the same project-by-project financing dilemma that film and video producers do. And while they do not have access to as many tax credits as film and video producers, they can supplement their intellectual property development with service work that focuses on developing interactive products rather than cultural content development.

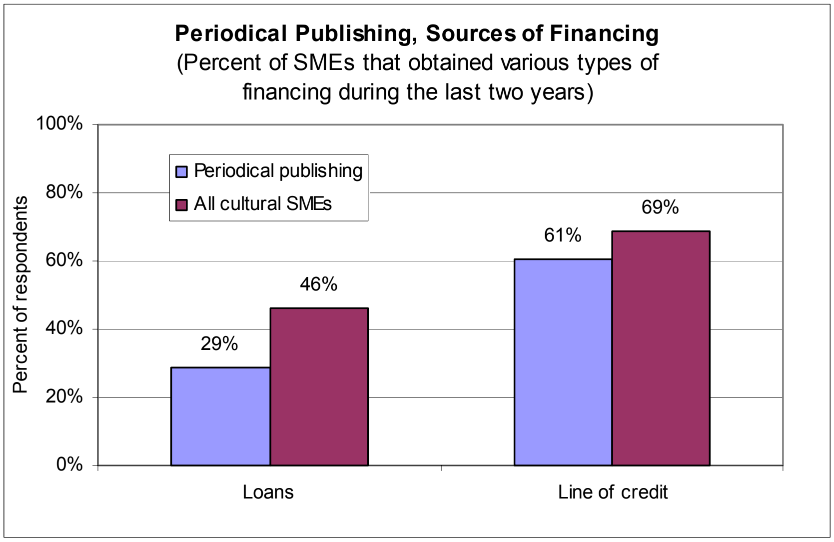
Periodical Publishing

All of the periodical publishers we spoke to indicated that SMEs in the industry have not been very successful in obtaining commercial financing from financial institutions. Some suggested that a key reason is that banks do not understand the periodical publishing business model. The difficulty in obtaining financing is borne out by the data.

During the last two years, the rate of use of loans and lines of credit by periodical publishing SMEs was below that of other cultural SMEs. The differential was most significant for loans. Whereas 46 percent of cultural SMEs used loans during the last two years, only 29 percent of periodical publishing SMEs did so.

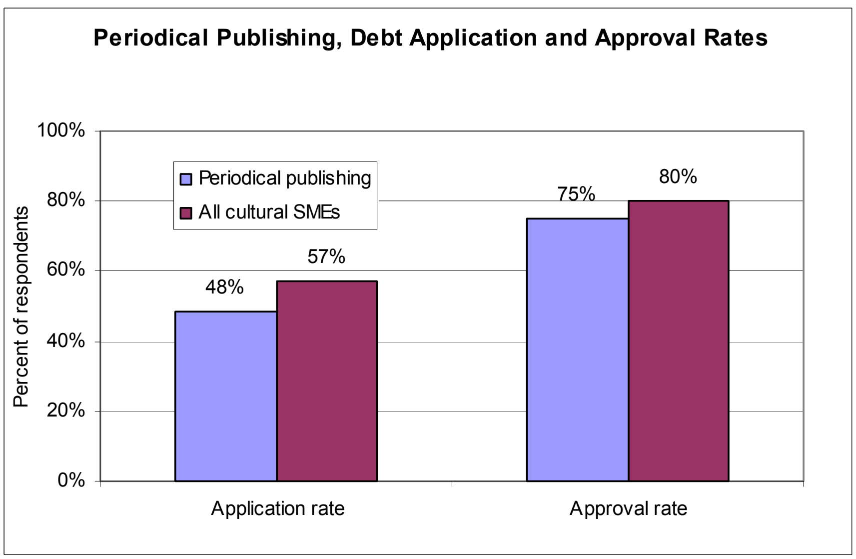
The debt (loans and lines of credit) application and approval rates also point to some limited access to financing for periodical publishing SMEs. While the debt approval rate of 75 percent is only somewhat lower than the rate for all cultural SMEs, the debt application rate of 48 percent for periodical publishing SMEs suggests that, in comparison to all cultural SMEs, not as many SMEs are even seeking debt financing to begin with.

Figure 88 Periodical Publishing, Sources of Financing



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Figure 89 Periodical Publishing, Debt Application and Approval Rates



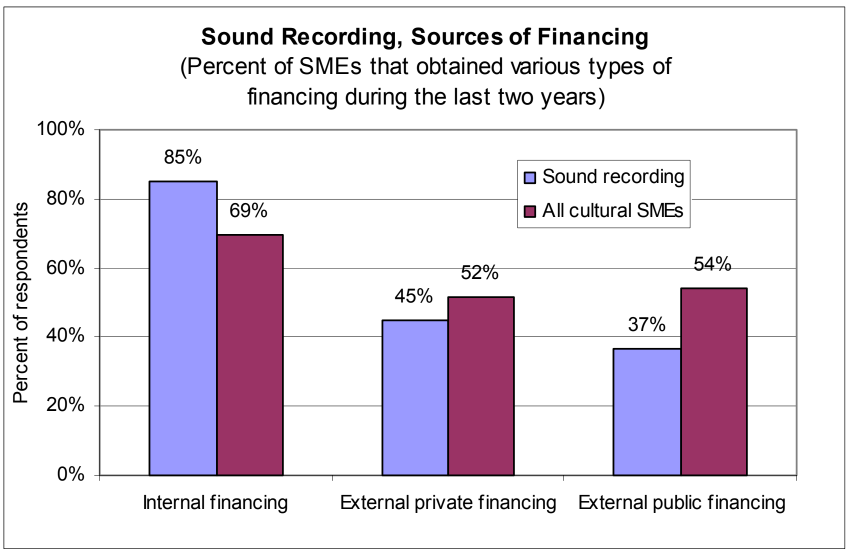
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Sound Recording

The sound recording industry is also faced with numerous structural issues, which have had a negative impact on the independent record labels' ability to obtain financing. Increased competition for the Canadian affiliates of the major American labels and the proliferation of illegal distribution have made small Canadian record companies vulnerable. In cases where a small Canadian label can sign and develop a successful artist, that artist often holds much of rights to their musical works, which is a departure from the past in which the label held all of the rights, and the artist was locked into multi-year contracts. With the emergence of illegal downloading as a revenue drain, independent Canadian labels have had to change their business plan radically and diversify their revenue streams to include DVDs, concert promotion. The financial uncertainty in the industry for small and large firms has made external financing even more difficult for this sector.

Sound recording SMEs appear to have been more intensive users of internal financing during the last two years. During the last two years, 85 percent used some type of internal financing, compared to 69 percent for all cultural SMEs. For external private financing, the usage rate of 45 percent among sound recording SMEs was comparable to the rate of 52 percent for all cultural SMEs.

Figure 90 Sound Recording, Sources of Financing



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Sound recording SMEs also appear to have less access to external public financing. However, government support for this industry is primarily in terms of ensuring airtime on Canadian radio stations and thereby exposing Canadian audiences to artists' works so as to stimulate demand for their recorded products.

Television and Radio Broadcasting

Through our interviews we learned that small broadcasters experience significant difficulty in raising financing. Broadcasters that have been awarded a new licence will often have difficulty obtaining bank financing to purchase broadcasting equipment. In the banks' eyes, broadcasting equipment has little financial value. Banks are looking for cash flow before they will extend any credit to broadcasters. In effect, a broadcaster's assets have little value until the broadcaster can amass a list of advertisers or subscribers that provide it with income and cash flow. Until the broadcaster can establish such a revenue base, the owners often have to pledge personal assets to obtain bank credit.

Broadcasting is a capital intensive industry which requires production and transmission equipment before operation can begin. There appears to be a need for improvements in equipment financing for small broadcasters as there is not currently an effective system for emerging broadcasters to raise this type of financing. This will increasingly be an issue with the emergence of the digital-tier broadcasters and hybrid Web-based, community/campus and specialty television broadcasters.

5 Human Resources

5.1 Human Resources Issues Facing Cultural SMEs

In the cultural industries human resources play an extremely important role. Like all knowledge-based industries, an organization's skilled technical and creative talent are the primary source of the company's competitive advantage and economic value. While technology, regulations, market opportunities all play an important role in affecting the performance of cultural companies, technical and professional talent stand out as the source of ideas for developing, producing and distributing cultural products. Cultural SMEs are typical of the 'knowledge economy' in which intellectual property (IP) is the main asset of the firm and this IP is intimately associated with the knowledge of key individuals in the firm.

The importance of human resources issues should be better recognized in culture industry companies, and cultural SMEs, in particular. In this section, we identify and discuss the key human resources issues facing cultural SMEs. We assess how issues such as employee turnover and retention, training, and skills shortages are affecting the growth and performance of cultural SMEs at various stages of corporate development.

While skilled and creative talent is important to cultural companies, our research indicates that cultural SMEs do not consider human resources to be a key barrier to growth. While some firms indicated that attraction and retention of experienced personnel was an issue, in general, SMEs across all of the cultural industries indicated that they did not have difficulty finding talented and skilled people for their companies. The only key skill shortages were in the areas of finance and business management, but these will be addressed in Section 6.

5.1.1 Employee Turnover and Retention

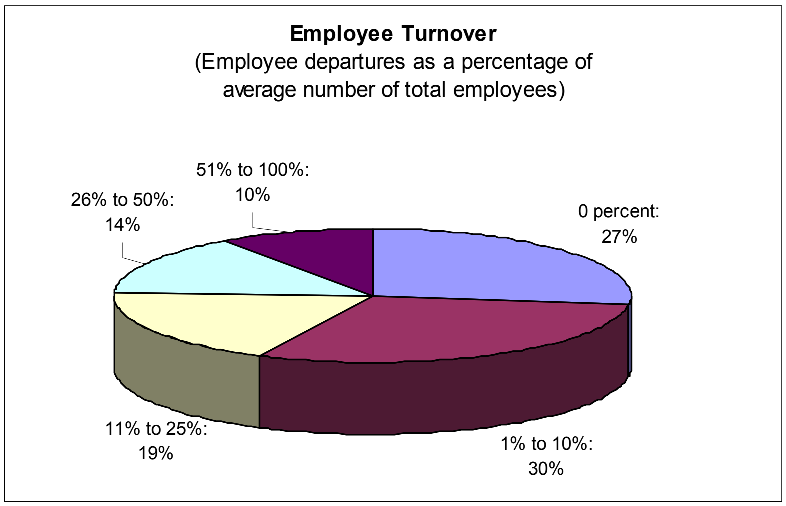
High employee turnover and low employee retention can be a detriment to growth for any organization because it diverts resources from other business activities and erodes the human capital or corporate memory. High turnover can lead to an underinvestment by firms in employee training because these firms are less likely to internalize the benefits of their training expenditures as employees leave at a high rate. At the same time, employee turnover can be a source of growth in many industries. The new employees that often replace departed employees often bring fresh ideas and skills that have been influenced or stimulated in other companies or an academic environment.

To measure employee turnover, cultural SMEs were asked to estimate how many employees departed their firms during the last two years, and express this as a percentage of the average number of people they employed during this period. Cultural SMEs that reported that they have zero employees were excluded from the analysis.

As a whole, cultural SMEs had the following turnover rates during the last two years:

- 27 percent reported zero percent employee turnover;
- 30 percent reported an employee turnover rate between 1 and 10 percent;
- 19 percent reported an employee turnover rate between 11 and 25 percent;
- 14 percent reported an employee turnover rate between 26 and 50 percent; and,
- 10 percent reported an employee turnover rate between 51 and 100 percent.

Figure 91 Employee Turnover



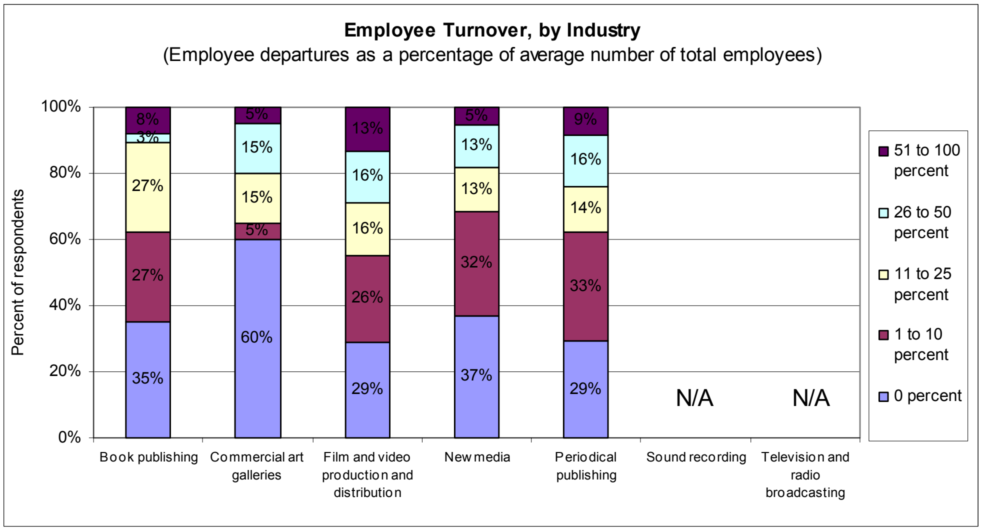
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

It should be noted that the average employee turnover rates across the economy (among firms of all sizes) was 22 percent in 2001.[33] While the online survey does not provide us with the average turnover rate for cultural SMEs, it would be appear that average turnover is lower given that nearly three-quarters of surveyed firms reported that employee turnover was 25 percent or lower.

[33] Statistics Canada, *Workplace and Employee Survey*, 2001.

Employee turnover rates were fairly uniform across the cultural industries with the exception of commercial art galleries. About 60 percent of commercial art galleries reported that they had employee turnover of zero percent. This was over double the share of respondents that reported zero percent employee turnover for the cultural sector as a whole.

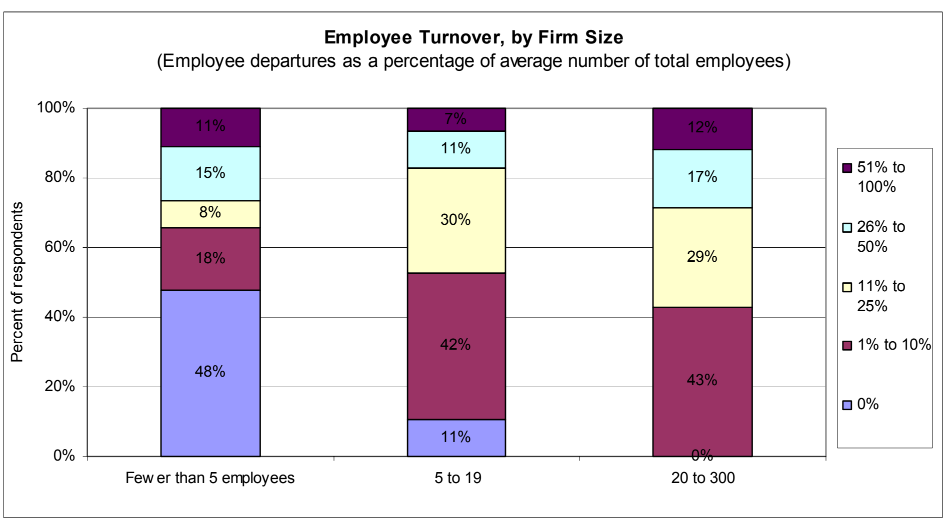
Figure 92 Employee Turnover, by Industry



N/A - data not available due to small sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The low employee turnover among cultural SMEs was concentrated with the smallest firms that have fewer than five employees. Approximately 48 percent of cultural SMEs with fewer than five employees reported employee turnover of zero percent during the last two years.

Figure 93 Employee Turnover, by Firm Size



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Employee turnover rates are higher for larger companies. Among the largest SMEs (with 20 to 300 employees), 42 percent reported employee turnover of 10 percent or lower.

While the employee turnover rates collected through the online survey did not suggest that there existed major differences across the cultural industries – with the exception of commercial galleries – our interviews with industry representatives did suggest that some cultural industries saw employee turnover as an issue. In the book publishing, broadcasting, and sound recording industries, our interviews indicated that SMEs faced a “buyer’s market” in terms of finding and retaining employees.

The book publishers interviewed did not have any problem retaining personnel because there were few employment opportunities for people who want to enter the industry. The only hiring and retention issues were at the senior levels. Some of the book publishers we spoke with had difficulty hiring professional managers because they could not offer competitive salaries.

The broadcasters we spoke with noted that there was no shortage of talented young people and that the talent is getting better and better every year. Again, advertising sales was one area where it was difficult to find and keep people because they can potentially earn more in other industries.

The new media companies we spoke with considered their employee turnover to be relatively low. One new media producer worried that skilled people may become disenchanted and leave the new media industry, if they see that their career is not progressing. Employee retention was a problem for new media SMEs and other cultural industries during the dot-com boom, but since the dot-com shakeout, the availability of skilled people has come to resemble a “buyer’s market”.

Most of the periodical publishers we spoke with indicated that there were difficulties in retaining people. People leave the industry because of the high workload and low wages.

Two periodical publishers interviewed noted how many junior people who are groomed by their companies will move to bigger companies as soon as they gain enough experience.

In general, people enter many of the cultural industries because they have some artistic or creative abilities that they would like to develop on a commercial basis. According to the SMEs we interviewed, over the last decade there has been a significant increase in supply of new talent produced by community college and university communications and fine arts programmes. This new entry has continued to expand despite relatively low salaries, long hours and high workload that accompany employment at cultural SMEs. However, there are indications the younger generation of talent view employment on a more short-term proposition and are less willing to work for years at low salaries.

There are fundamental contextual differences in the human resources decision framework for cultural SMEs between those firms that work on a project-by-project basis, such as sound recording, film and TV production and those that have more stable revenue flows, such as book publishing, magazines and commercial art galleries. In the former, most of the creative and management talent are brought in for specific tasks for a determinant timeframe – usually a few months – and then flow onto the next project, while only a small core staff remain in the firm for corporate memory.

Finally, the lack of financial resources among cultural SMEs makes it difficult to attract and retain experienced professional talent for management, marketing and information technology functions that are essential to growth.

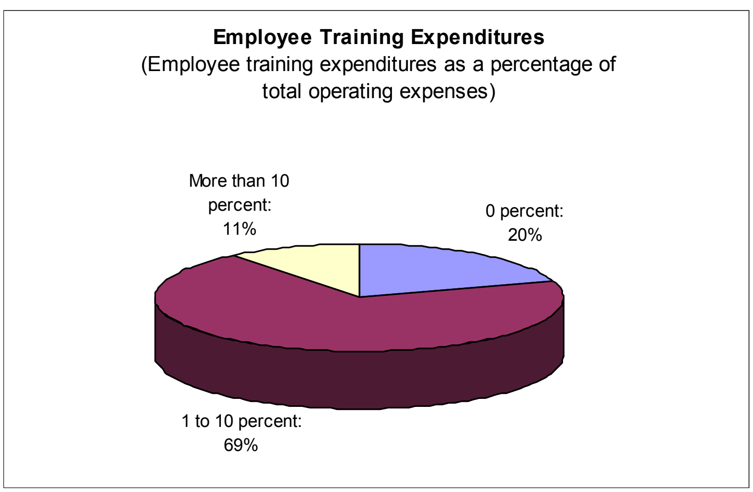
5.1.2 Training

Through our interviews cultural SMEs told us that, in general, expenditures on training are relatively low, as many SMEs lack the financial resources to develop and maintain formal training programmes for their personnel. In common with SMEs in general, a significant amount of training is provided in the workplace on an informal basis. Finally, industry associations are increasingly developing training programmes for their members, although these do not always target the needs of SMEs.

In order to measure the intensity of employee training among cultural SMEs, we asked them to report the percentage of their total operating expenses spent on employee training during the last two years.

- Approximately 20 percent of cultural SMEs with at least one employee spent zero percent of their operating expenses on employee training.
- The vast majority of cultural SMEs, 69 percent, spent somewhere between 1 and 10 percent of operating expenses on employee training.
- Approximately 11 percent of cultural SMEs reported that their employee training expenditures averaged more than 10 percent of operating expenses during the last two years.

Figure 94 Employee Training Expenditures



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Across the economy, all firms in Canada spent a total of $3.8 billion on employee training in 2001. This was equal to 0.23 of one percent of total operating expenses.[34]

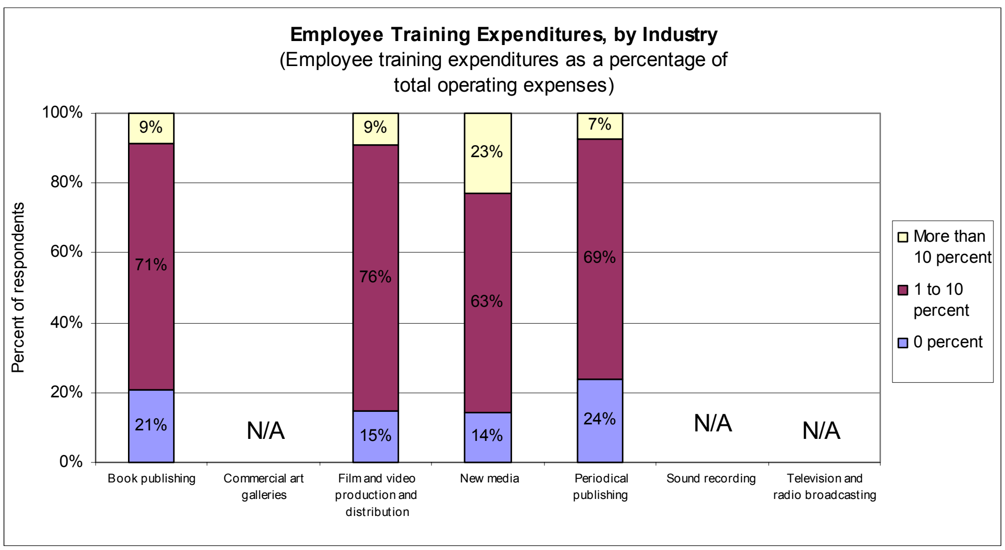
[34] Statistics Canada, *Workplace and Employee Survey*, 2001.

Some differences emerged when training patterns were examined across the cultural industries. While book publishing and periodical publishing SMEs displayed similar profiles in terms of training expenditures, commercial galleries had a somewhat lower intensity of training; while new media SMEs had a somewhat higher intensity level than cultural SMEs overall.

Periodical publishers were more likely than other cultural industries to make no employee training expenditures. About 24 percent of periodical publishers (with employees) did not make employee-training expenditures during the last two years. This was slightly higher than the cultural sector average of 20 percent.

By contrast, new media SMEs were more likely than other cultural SMEs to devote financial resources to employee training. Approximately 24 percent of new media SMEs (with employees) spent more than 10 percent of operating expenses on employee training during the last two years.

Figure 95 Employee Training, by Industry



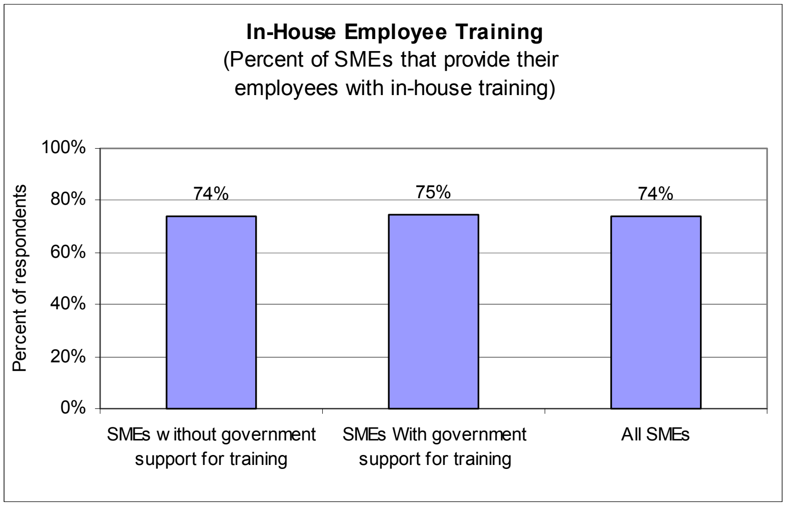
N/A - data not available due to small sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

SMEs across the cultural sector indicated that most training is done "on-the-job". In some cultural industries, industry associations have set up training programs which association members, including SMEs, can use. The Canadian Film and Television Production Association and Canadian Magazine Publishers Associations were mentioned as two associations that offer training programs to their members.

For the most part, employee training at cultural SMEs is done internally – that is, in-house training. Close to three-quarters of cultural SMEs reported that they conducted some type of in-house training for their employees. This in-house training may consist of internal courses, or on-the-job training.

The likelihood of in-house training was not a function of government funding for training. Cultural SMEs that did and did not receive government support for training were equally likely to offer in-house training to their employees.

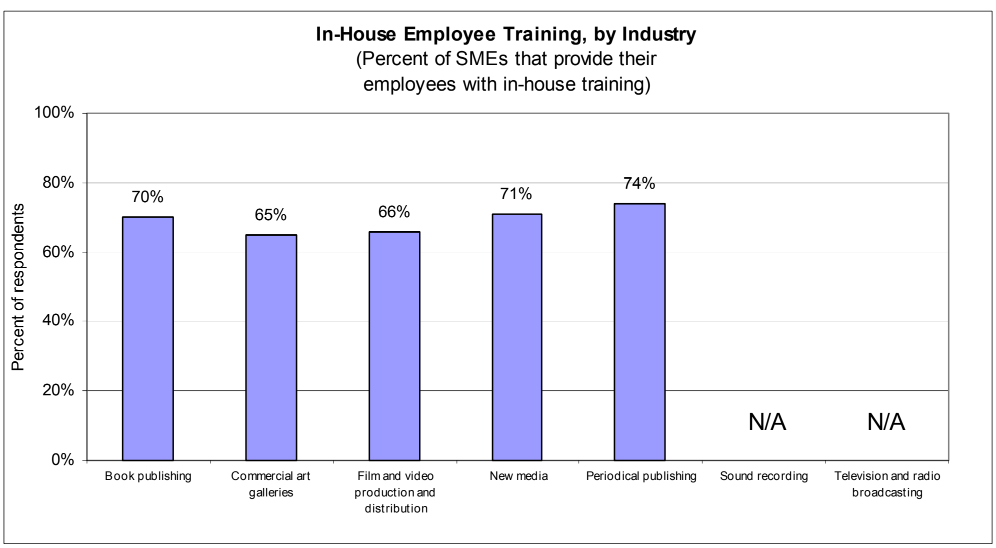
Figure 96 In-House Employee Training



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The likelihood of in-house training was fairly uniform across the cultural industries. In each of the cultural industries, at least 65 percent of SMEs provided their employees with some type of in-house training.

Figure 97 In-House Employee Training, by Industry



N/A - data not available due to small sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

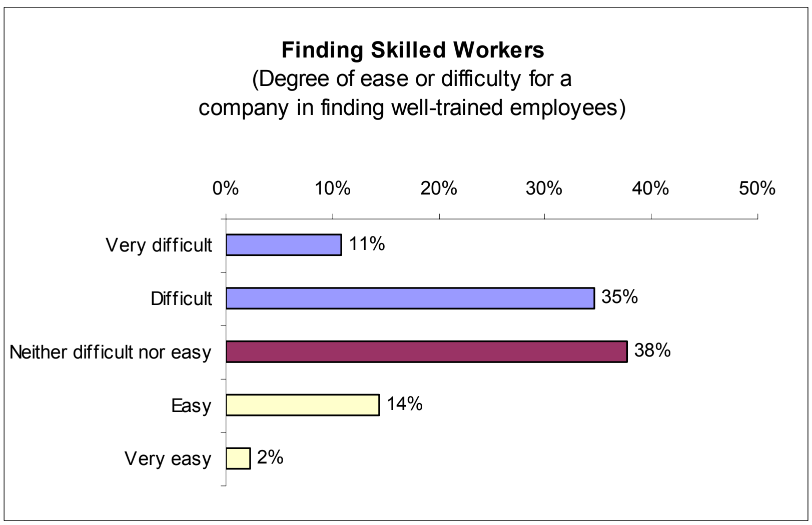
5.1.3 Skill Shortages

As indicated previously, while there is an increasing flow of new talent into cultural industries, in some cases, cultural SMEs face difficulties in attracting and retaining experienced staff with critical technical and business skills.

When we asked cultural SMEs about the degree of ease or difficulty in finding well-trained employees, the majority expressed a high degree of difficulty.

- Approximately 46 percent, of cultural SMEs reported that they found it difficult or very difficult to find well-trained employees.
- Approximately 38 percent of cultural SMEs were neutral on the issue of finding well-trained employees.
- Approximately16 percent of cultural SMEs reported that it was easy or very easy to find well-trained employees.

Figure 98 Finding Skilled Workers



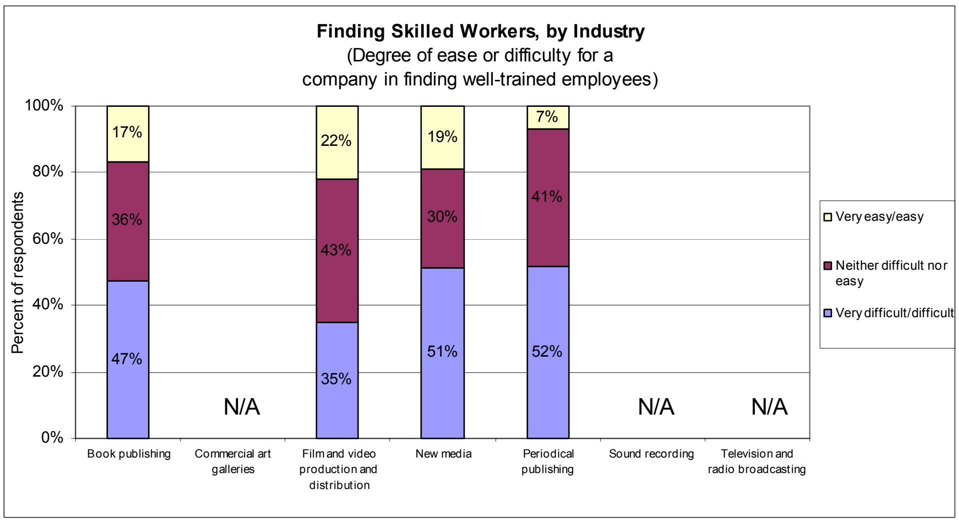
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The degree of difficulty and the existence of skill shortages varied across the cultural industries.

SMEs in the periodical publishing industry expressed the highest level of difficulty in finding well-trained or skilled employees. Approximately 52 percent of periodical publishing SMEs indicated that they found it very difficult or difficult to find well-trained employees. This was the highest rate among cultural industries. While 52 percent indicated that they were facing skill shortages, 48 percent of periodical publishing SMEs were either neutral on the issue or found it easy or very easy to find skilled employees. Our interviews with periodical publishers corroborated the survey findings. Among the eight periodical publishers interviewed, five indicated that the industry was experiencing skilled shortages that impeded the growth of SMEs in the industry. Interviews expressed that it was “hard to find qualified and motivated people” and that “excellence [was] in short supply”. Even those periodical publishers who had not observed skilled shortages conceded that it was difficult to find people with expertise in circulation management or marketing.

Book publishing SMEs also expressed a high level of difficulty in finding skilled employees. Nearly one-half, or 47 percent, indicated that they found it difficult or very difficult to find well-trained employees. Still, the other half did not experience skill shortages. Among the seven book publishers interviewed, only two clearly said that the industry was not experiencing any skill shortages. The other seven indicated that were either general industry-wide skill shortages, or skill shortages in certain fields or geographic areas. For example, one interviewee commented that there was a serious shortage of skilled people in the children's-books field. Another interview observed that it was more difficult to find people in Halifax or Toronto.

Figure 99 Finding Skilled Workers, by Industry



N/A - data not available due to small sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

SMEs in the film and video production and distribution industry did not experience the same level of difficulty in finding skilled employees. The majority of survey respondents from the film and video industry, or 65 percent were either neutral on the issue or found it easy to find well-trained employees. Still 35 percent of film and video SMEs indicated that they found it difficult to find well-trained employees. Our interviews with film and video industry representatives pointed to skill shortages that are seasonal or in certain areas of the business. The film and video producers we spoke with suggested that they found it most difficult to find skilled people during periods when American studios are filming in Canada, and thus utilizing much of the creative and technical crews. Some of the film and video producers we spoke with suggested that the biggest shortages were in the areas of financing and accounting. They found it very difficult to find people who could manage this aspect of the business. This is discussed in more detail later in the report.

The new media industry was one where the survey research and interview research were contradictory. While close to one-half of survey respondents, or 51 percent, indicated that they found it difficult or very difficult to find well-trained employees, none of the six new media entrepreneur we spoke with pointed to any skill shortages. Indeed, they said that it was not difficult to find good people, and that there may be too many people trained in the new media area.

The online survey did not provide information to make observations regarding any skill shortages in the sound recording or commercial galleries industries. Our interviews, however, did offer a look into the issue in these industries. Our interviews with commercial gallery owners suggested that there are no general skill shortages in this industry. One interviewee suggested that art schools may be “graduating too many artists”. Another interviewee indicated that art colleges produce graduates with the right schools. The only area where a skill shortage may exist may be in the framing.

Our interviews with sound recording companies suggested that while there is no shortage of creative people wanting to enter the industry, there is a “lack of trained personnel…to step into administrative positions” and a “lack of skills at the senior management level”. One interviewee pointed out that “people go into the music business for the wrong reasons”, and there is therefore a general lack of business skills.

5.2 Strategies Being Used to Address Human Resources Issues

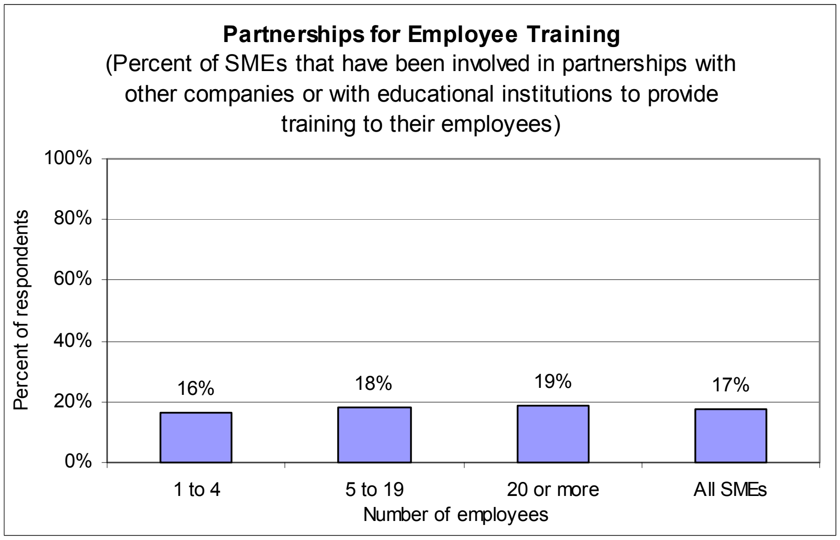
Overall, human resources issues such as employee retention, training, and skill shortages do not appear to pose significant problems for cultural SMEs. The cultural sector has access to a substantial pool of skilled technical and artistic talent. This talent can be brought into a cultural SME and trained on the job. When cultural SMEs require their employees to gain new skills, they will often turn to courses offered by academic institutions or industry associations. For many of the cultural industries, training programs sponsored by industry associations offer one of the best routes for employee training, although these programmes are not always scaled to the needs of SMEs, i.e. too specialized or don’t reflect the multi-tasking prevalent among SME employees. Where SMEs are experiencing difficulties in attracting and retaining experienced staff with technical and business skills, this might reflect the overall lack of financial resources of SMEs, as well as the long hours and heavy responsibilities which are endemic among their employees.

Many organizations, particularly small ones may be reluctant to train employees if there is a high likelihood that this training will make them more desirable in the marketplace and result in their leaving the company. One periodical publisher that we interviewed suggested that periodical publishers may be reluctant to send junior employees on training because the trained employees would then move on to other companies. Two other periodical publishers interviewed noted how many junior people who are groomed by their companies will move to bigger companies as soon as they gain enough experience.

To enhance training opportunities, some industries and companies will enter into partnerships with other companies or academic institutions to provide the type training that can enhance the skill level of the industry.

Approximately 17 percent of cultural SMEs reported that they were involved in some type of partnership with another company or educational institution to provide training to their employees. What is more, the rate of participation in training partnerships was fairly constant with the size of SME.

Figure 100 Partnerships for Employee Training



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

In addition to partnerships, cultural SMEs we interviewed mentioned that they were using numerous tools and approaches to training employees.

When asked about employee training, the book publishers we spoke with mentioned university courses, on-the-job training, internships, mentorships and association-organized training as the main approaches. One book publisher felt that too much training was concentrated in Toronto, while another thought that association training programs could be improved.

In the commercial galleries sector, interviewees noted that most training is on-the-job. To this end, one gallery participates in a program with a local art college in which a senior art student spends a term working in a gallery. In this case, the student is not an employee but still benefits from the experience.

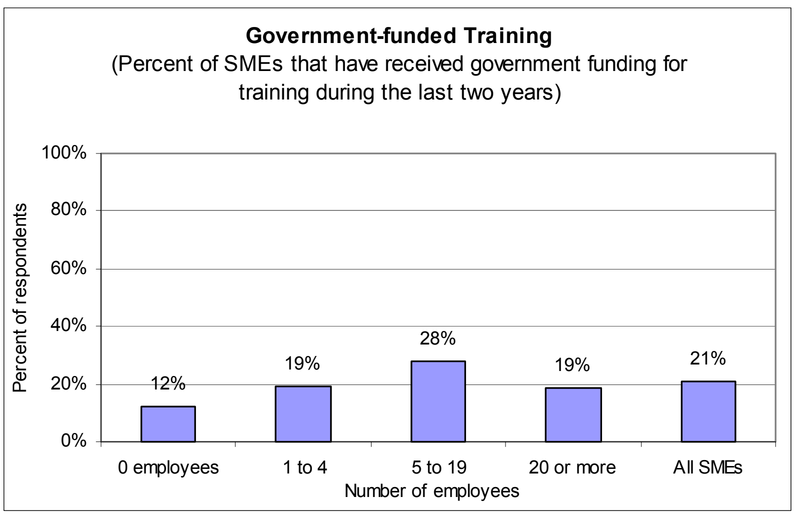
5.3 Role of Government in Addressing Human Resources Issues in the Cultural Industries

Governments at both the federal and provincial level offer a wide range of programs to assist cultural industry SMEs in training their employees.

Among cultural SMEs, 21 percent reported that they received government funding for training during the last two years. This government funding may flow directly to the SME, or indirectly through the use of training programs offered by industry associations and supported by government finding.

Government-funding for training appeared to be most important for SMEs with between 5 and 19 employees. About 28 percent of SMEs in this category reported that they had received funding during the last two years.

Figure 101 Government-funded Training

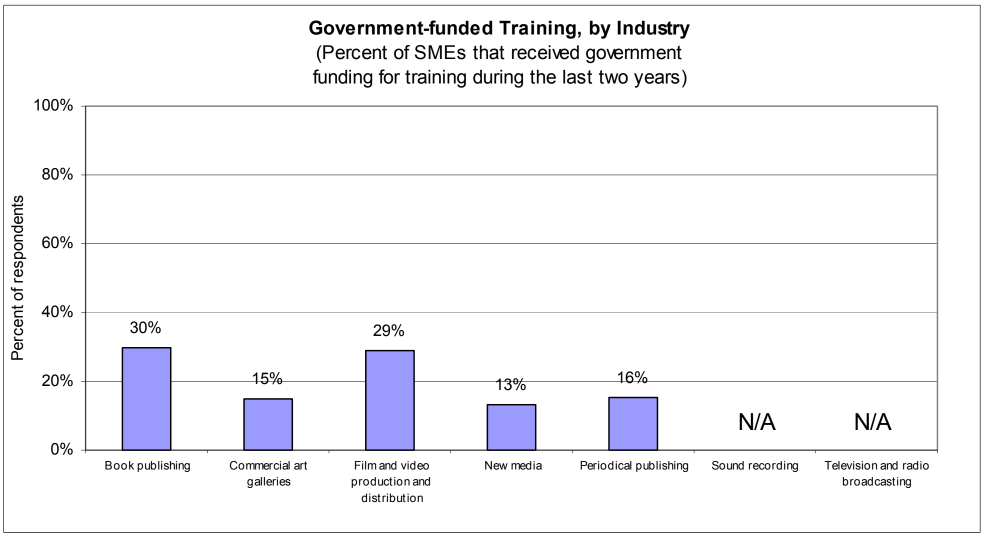


Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Book publishers and film and video producers and distributors among cultural SMEs reported the highest incidence of government funding for training. Approximately 30 percent of SMEs in book publishing and 29 percent in film and video production and distribution reported that they received government funding for employee training during the last two years.

In contrast, in the new media, commercial art galleries, and periodical publishing industries, about 15 percent of SMEs received government funding for training.

Figure 102 Government-funded Training, by Industry



N/A - data not available due to small sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

While it was not in the scope of this project to assess the efficiency of government and industry-run programmes, some issues were raised by interviewees anecdotally in the course of the assignment that would suggest areas for further development. According to some interviewees, these programmes do not always reflect the needs and circumstances of SMEs. As indicated in Section 5.1.2., most SMEs provide on-site training for their staff often to gear up for the delivery of specific projects. In the cultural industries in which work is on a project-by-project basis, both personnel and technology turn over rapidly. Interviewees suggested that some training programmes are either out-of-date or designed for the needs of larger firms whose personnel are specialized by specific functions rather than the multi-functional staff of SMEs.

6 Management Expertise

6.1 Management Skills Required by SMEs

One of the biggest challenges for SMEs is the lack of management skills. Strong management skills are extremely important for SMEs to grow from being small companies to being medium-sized companies. Yet the best managers are often attracted by the higher salaries and opportunities at larger companies.

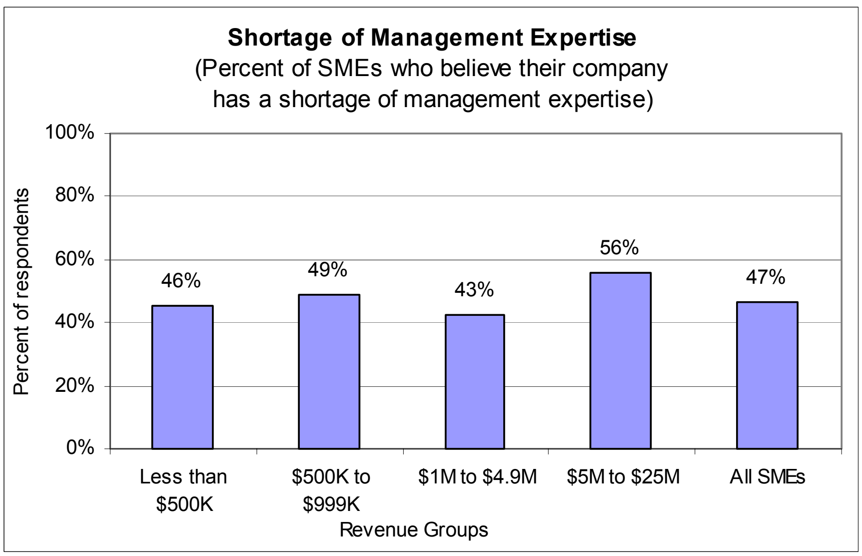
Many cultural SMEs are started by creative people with entrepreneurial ambitions who are seeking to productize and market their abilities. They enter the industry without the business skills that may be found in other industries. It is this aspect of the cultural sector that may keep management skill levels below where they should be. Many of the cultural entrepreneurs that we spoke to supported this observation and cited it as one of the main reasons why management skills may be lacking in cultural SMEs. Still, several industry representatives who we interviewed argued that while one does not require a great deal of management ability to enter the industry, to be successful and grow does require high-calibre management skills.

SMEs that are started by entrepreneurs who have left larger corporations often bring with them management abilities, and are not as vulnerable to the management skill weaknesses that most cultural SMEs face.

6.2 Assessment of the Shortage of Management Expertise among Cultural SMEs

Overall, just under one-half (47 percent) of all cultural SMEs believe that their company has a shortage of management skills. When examined on the basis of firm size, the rates were uniform, with the exception of firms in the highest revenue category, $5 million to $25 million. Approximately, 56 percent of SMEs with total revenues of between $5 million and $25 million believe that their company has a shortage of management skills. Firms in this size range have grown to a stage where a strong management team has become more important to the company's further development.

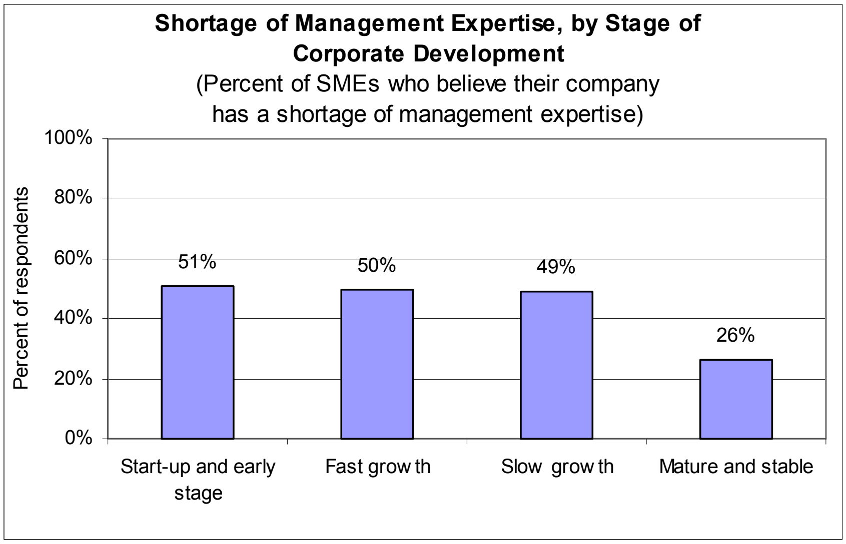
Figure 103 Shortage of Management Expertise



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

At every stage of corporate development, except at the mature stage, about half of cultural SMEs believe that their company has a shortage of management expertise.

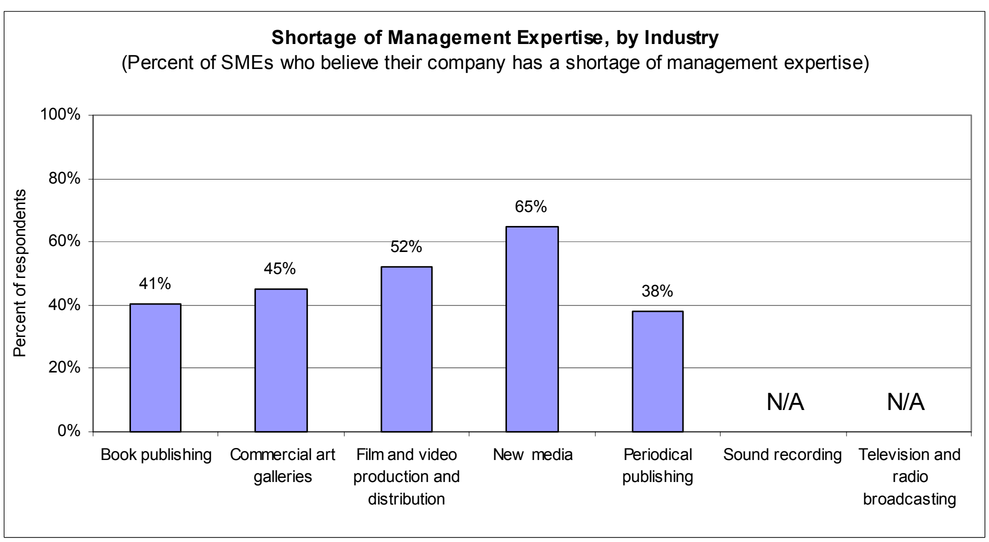
Figure 104 Shortage of Management Expertise, by Stage of Corporate Development



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

SMEs in the publishing industries and the commercial art gallery industry were less likely to believe that their companies have a shortage in management skills. About 52 percent of SMEs in the film and video production sector believe that they have a shortage of management expertise in their companies. In the new media industry, 65 percent of SMEs believe that they have a shortage of management expertise.

Figure 105 Shortage of Management Expertise, by Industry



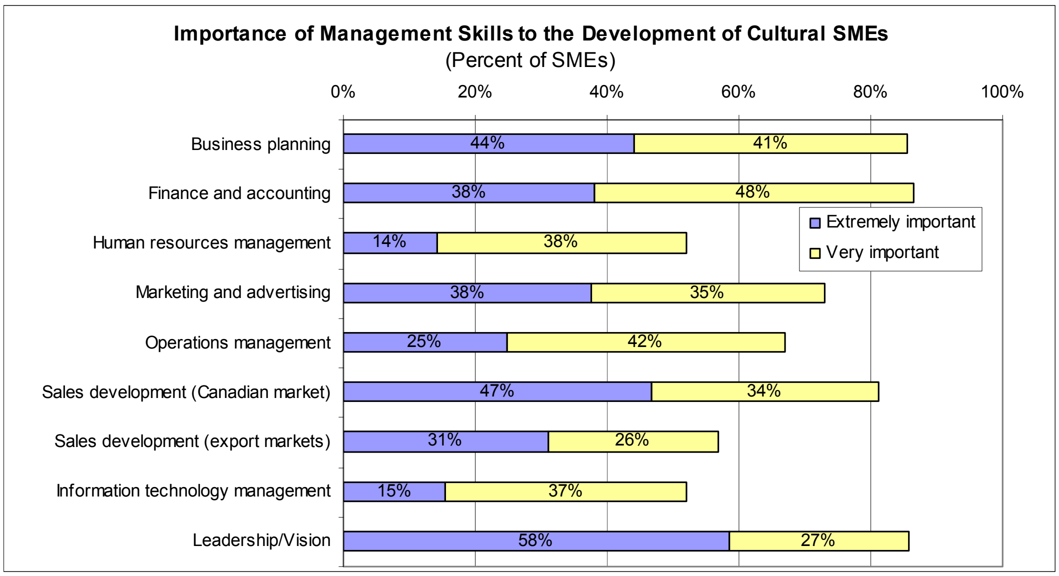
N/A - data not available due to small sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

6.3 Management Skill Requirements for Corporate Success

According to cultural SMEs, **leadership and vision** are the most important management skills or traits to their company's development. Approximately 58 percent of cultural SMEs rated leadership and vision as *extremely important* to their company's development. Another 27 percent rated it as *very important*.

Finance and accounting skills, business planning skills, and sales development abilities for the domestic market were also considered important. For each of these skills, more than 80 percent of cultural SMEs rated them as *extremely important* or *very important*.

Figure 106 Importance of Management Skills to the Development of Cultural SMEs



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

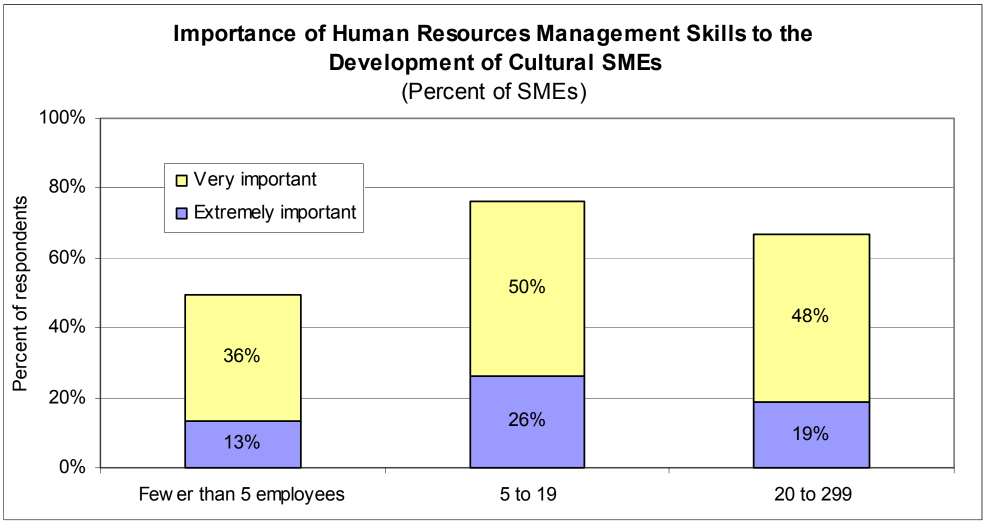
Information technology management, export-market sales development, and human resources management were rated as the least important to the development of cultural SMEs. The relatively lower importance of these management skills reflects the nature of SMEs and cultural industries. Because SMEs are small companies, they often do not have the information technology requirements that larger companies have. Financial systems required for billing, payroll, customer management, and supplier management can be outsourced or performed with small-business software packages.

Only 14 percent of cultural SMEs considered human resources as extremely important. This low rating may be attributable to the fact that SMEs typically have fewer employees, and therefore less complex human resources issues

Not surprisingly, SMEs with fewer than five employees rated human resources management with less importance than larger SMEs. As the SME's employee base grows, the importance of human-resources management increases. This is borne out by the fact that among cultural

SMEs with between 5 and 19 employees, 76 percent rated human resources management skills as *extremely important* or *very important* to their company's development.

Figure 107 Importance of Human Resources Management Skills to the Development of Cultural SMEs



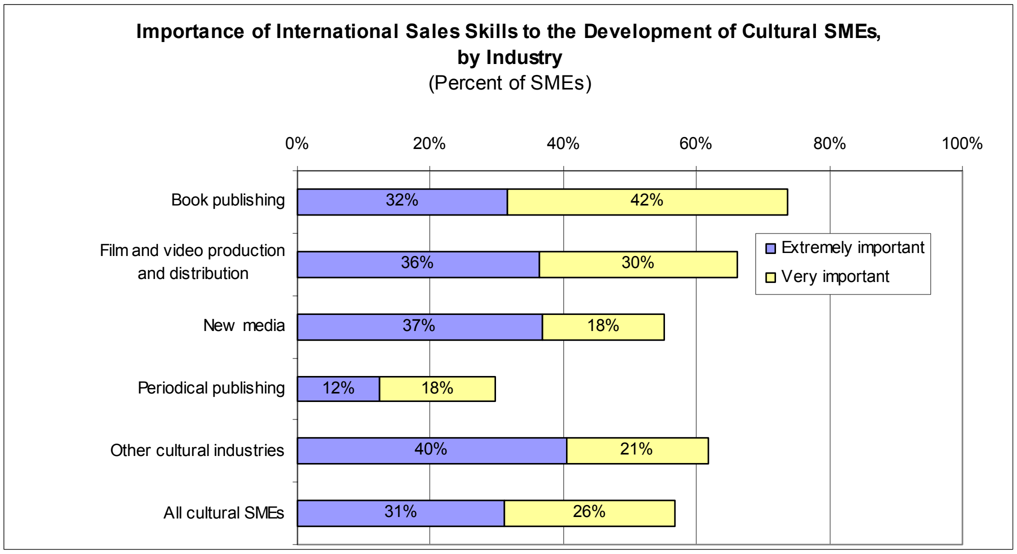
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The low rating for export sales skills is surprising since SMEs in many of the cultural industries consider foreign markets important because they offer SMEs the opportunity to expand beyond the relatively slow-growing Canadian market.

When examined on an industry basis, international sales skills are most important to book publishing SMEs. About 74 percent of SMEs in book publishing rated international sales skills as *extremely important* or *very important*. In contrast, in periodical publishing, only 31 percent of cultural SMEs rated international sales skills as at least *very important*.

In the other cultural industries, the rating of the importance of international sales development was similar to the rating by cultural SMEs on an overall basis.

Figure 108 Importance of International Sales Skills to the Development of Cultural SMEs, by Industry



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

6.4 Management Skills in Short Supply

SMEs in many of the cultural industries identified financing skills as one of the management skills that is in short supply. The uniqueness of financial processes in some of the cultural industries was cited as one of the reasons why it was so difficult to attract talented financial managers for comptroller or chief financial officer positions.

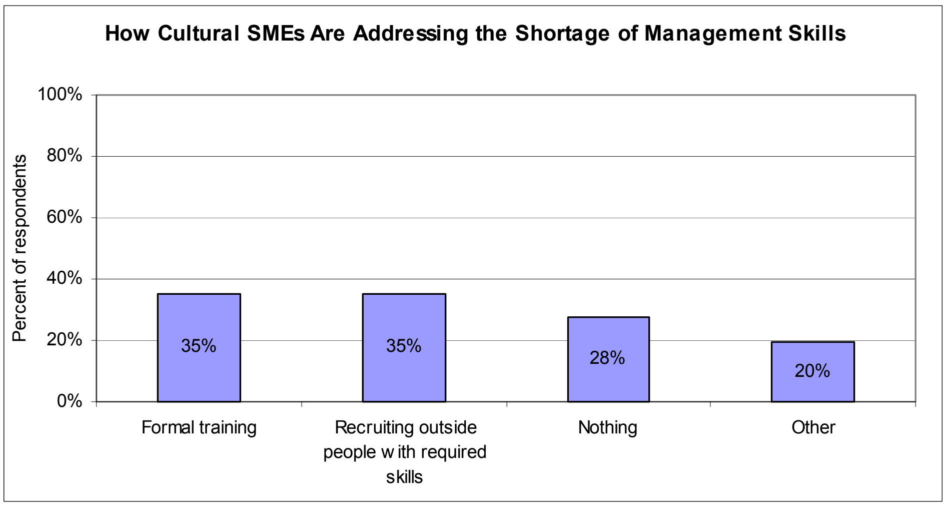
In film and television production, for example, the financial processes and transactions are very unique. The film and video producers we interviewed pointed out that financial professionals in their industry require an in-depth understanding of industry-specific financing approaches, rules and regulations, and government funding sources. And while this is true of all industries, the knowledge gained in the film and video industry was less transferable to other industries. This uniqueness diminishes the value of a financial professional's investment of time at a film and television production company because the skills learned cannot be readily applied to other industries such as consumer packaged goods or financial services. Financial professionals are generally not keen to move into an area that may limit their future career paths.

Managers with sales development abilities were another group that were in high demand by cultural SMEs. Again, cultural SMEs pointed out that the very best sales people are often attracted to larger organizations with much larger product and client bases.

6.5 Strategies for Addressing Shortages of Management Expertise

Among cultural SMEs which believe they have a shortage of management skills, 35 percent were providing formal training to their employees in order to develop their management capabilities. Approximately the same share was looking outside to fill any gaps in management; 35 percent recruited outside people with the required skills to fill management skill gaps.

Figure 109 How Cultural SMEs Are Addressing the Shortage of Management Skills



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

About 28 percent of cultural SMEs reported that they were doing nothing to address their management skill gaps. This could be due to a lack of resources for training or even recruiting.

About 20 percent of cultural SMEs reported that they were following approaches other than formal training and recruiting to address their management shortage. In the survey, cultural SMEs identified the following alternative approaches:

- Use of consultants
- Mentoring
- Contract or project-based employment
- Collaboration with other organizations

Many cultural SMEs indicated that they do not have the financial resources to address their shortage of management skills.

One survey respondent from the book publishing industry pointed out that any lack of skilled management is largely because the industry is too small and too fragile. The size and fragility means there are too few opportunities for individuals to gain skills, making it unattractive for skilled managers in certain areas of management. In other management areas, the skill level is exceptionally high in the book publishing industry. Nevertheless, this is often not in areas where skills are easily transferable to other sectors, again making the industry unattractive for someone to invest their career in, when it does enhance his or her opportunities in other industries.

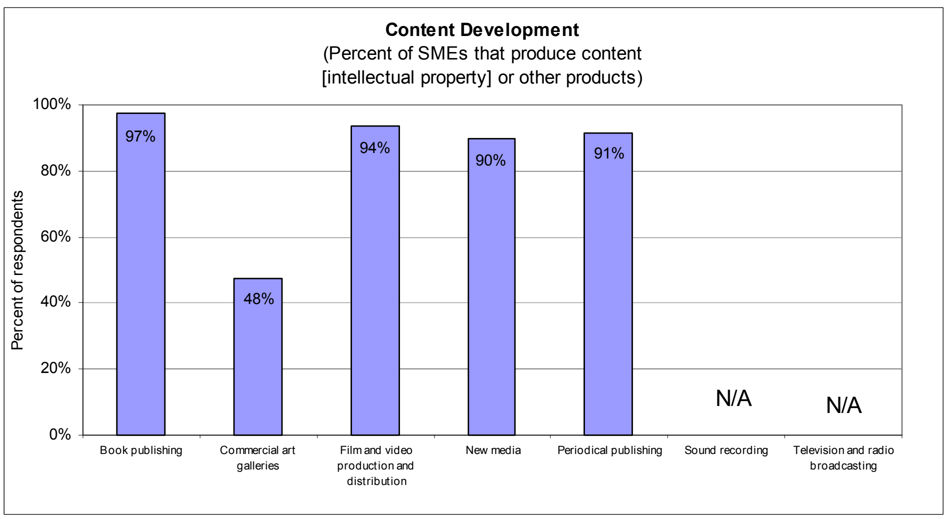
7 Content and Product Development

7.1 Content and Product Development Activities of Cultural SMEs

The creation of intellectual property or the development of other types of products is the main source of value creation and growth in the cultural industries, and is essential to any business's ongoing growth and development.

With the exception of commercial art galleries, nearly all surveyed SMEs reported that they were involved in the creation of intellectual property or other product development. Commercial art galleries were largely marketing the intellectual property of visual artists, and as such, only 49 percent reported that they were actually producing intellectual property.[35]

Figure 110 Content Development



N/A - data not available due to low sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

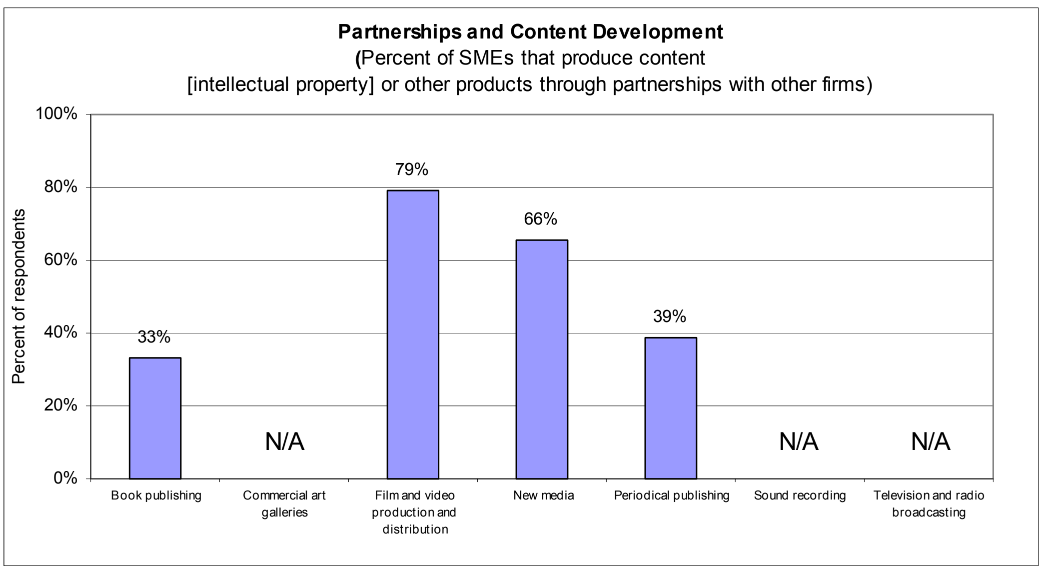
[35] The figure of 49 percent for commercial art galleries is still rather high for an industry that is largely involved in the distribution and sale of artists' intellectual property. One explanation is that responding art galleries interpreted the question such that they were reporting their involvement in the development of artists' careers and thereby the development of the intellectual property of artists.

Partnering to develop intellectual property or other products was most common in film and video production and new media.

Film production is characterized by a whole array of partnerships. Often screenwriters and producers will join together to develop a script and raise the financing for a production. This aspect of the industry was reflected by the fact that 80 percent of responding SMEs reported being involved in some type of partnership to produce intellectual property.

New media is also characterized by partnerships with other creative fields such as publishing or film and television production to develop a product that combines intellectual property. About 65 percent of new media SMEs reported being engaged in partnerships with other companies to develop intellectual property.

Figure 111 Partnerships and Content Development



N/A - data not available due to small sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Book publishing and periodical publishing SMEs were less likely to partner with other companies in the development of intellectual property or other products. Approximately 33 percent of book publishing SMEs reported being in involved in partnerships to create intellectual property; in periodical publishing, the rate was 39 percent.

While there was very little survey data from commercial art galleries, our interviews with art galleries indicated that there was a fair amount of risk sharing that occurs between artists and the art dealers who market their work. The artist's reputation is always at risk. The art dealer takes considerable financial risk when they put forward the work of the artist.

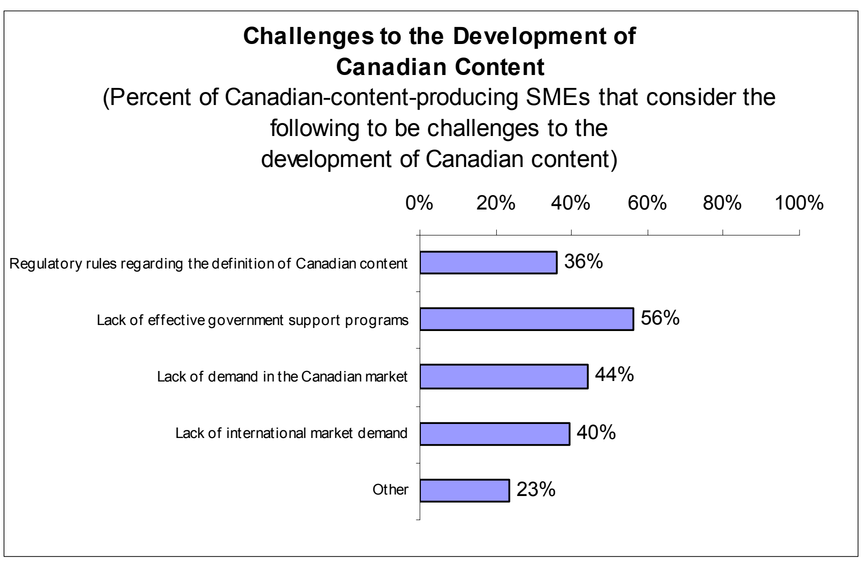
7.2 Key Challenges in the Development of Content and Products for Cultural SMEs

At the heart of the Canadian cultural industries is the creation of Canadian content. Canadian content is any form of intellectual property, whether it is a sound recording, film or video, book, or magazine article that has been created by Canadians. In most industries the definition of Canadian content is clear – it is something created by Canadian artists. In some industries, such as film and video production or sound recording, where many individuals participate in the development, production and performance components of an artistic work, the definition of Canadian content is subject to rules set by the government. These rules are warranted by the fact that Canadian content is given preferential treatment at the broadcasting stage of the industry value chain.

Our research focused on examining what SMEs consider to be the biggest challenges to the development of Canadian content. For SMEs in the periodical publishing sector, this meant editorial content written by Canadians; similarly, in book publishing it meant books written by Canadian authors. For commercial art galleries, it referred to the creation of artistic works by Canadian artists.

In film and video production and distribution, the definition of Canadian content is more elaborate. It refers to a production that scores six or more Canadian content points and therefore is eligible as Canadian content for Canadian broadcasters. Similarly, in sound recording Canadian content refers to a musical work that fulfils at least two of the categories on the MAPL system (Music, Artist, Production, Lyrics), and therefore qualifies as Canadian content for radio broadcasters. For a new media production to be eligible for Canada New Media Fund funding, 75 percent of a particular project's budget must be spent on Canadian elements.

Figure 112 Challenges to the Development of Canadian Content



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

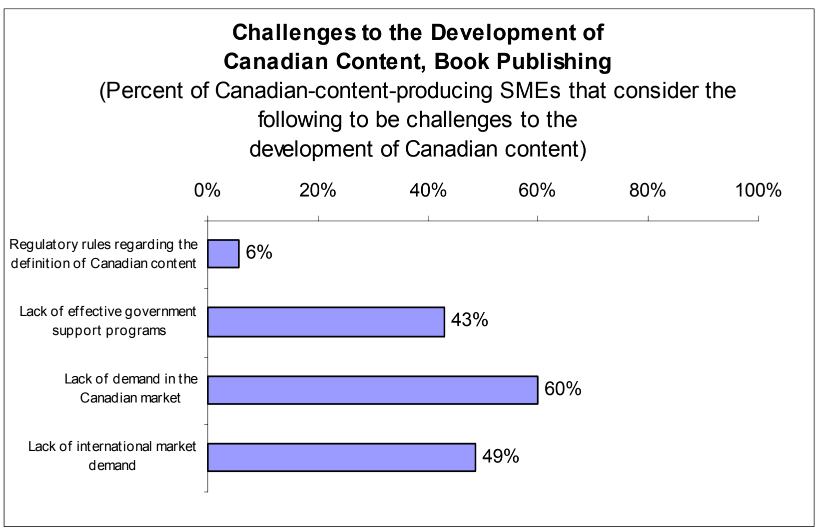
The lack of effective government support programs was cited by 56 percent of cultural SMEs as a challenge to the development of Canadian content. Approximately 44 percent of cultural SMEs cited lack of demand in the Canadian market as a challenge. About 40 percent considered the lack of demand in international markets for Canadian content as a challenge. About 36 percent cited regulatory rules as a challenge.

The overall results, however, mask the fact that there were significant variations across the cultural industries in terms of the primary challenges.

7.2.1 Book Publishing

Book publishing SMEs cited a lack in both domestic and international demand for Canadian books as two of the most important challenges to the development of Canadian authors and books. Through our interviews with book publishers we did not hear that the Canadian economy was too small or that Canadian books were not as attractive to readers. What we did hear was that Canadian book publishers must share a fraction of the Canadian market because American publishers hold such a large share of the market. It was this aspect of the Canadian market that dampened demand. In international markets, Canadian book publishers pointed out that is was extremely difficult to market and sell Canadian content.

Figure 113 Challenges to the Development of Canadian Content, Book Publishing



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

This lack of government support for Canadian book publishers and authors was also highlighted as a challenge.

7.2.2 Commercial Art Galleries

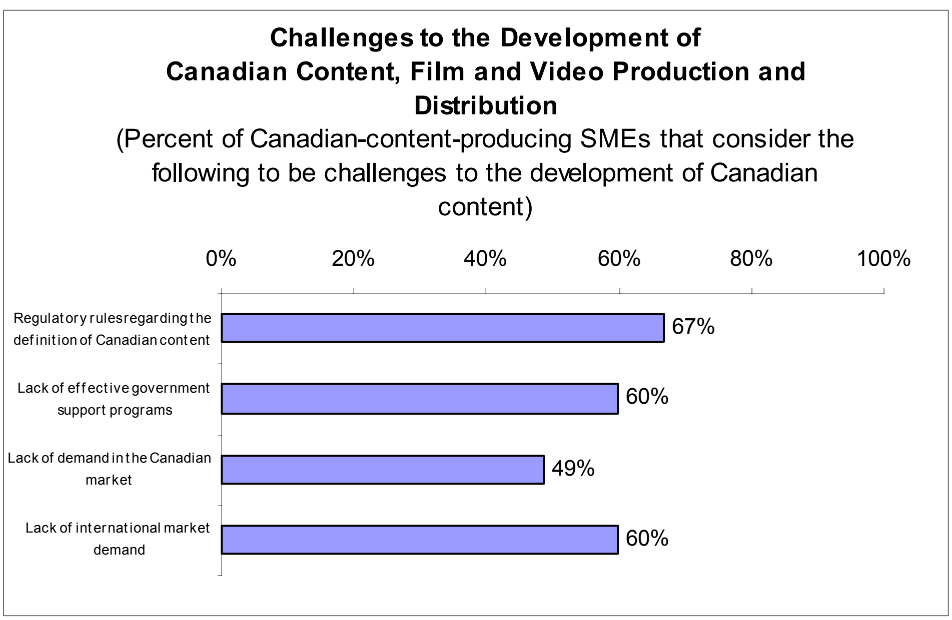
While the online survey did not provide considerable insights to this topic, our interviews with commercial art galleries did point to some challenges. The commercial art gallery operators pointed to the underdevelopment of the Canadian art market. As they saw it, Canadians spend far less on a per capita basis then persons in other countries, such as the U.S. or Australia, on art. And while some parts of the country such as Quebec and Newfoundland are more developed, the market is still, for the most, part underdeveloped. This underdevelopment makes it difficult to market Canadian content in the domestic market. Gallery owners suggested that the underdevelopment may be a function of relatively low investment by the government in public art institutions. Again, gallery owners claimed that Canada's public spending on art also trails that of other developed economies. In the opinion of the art gallery owners we interviewed, in order to develop the domestic market, a region needs a good public art infrastructure.

In addition to the lack of domestic demand, the lack of international demand was also cited as a factor. According to the commercial art gallery owners we spoke with, the lack of international demand was not due to the quality of Canadian artists' work, but rather the lack of resources available to art dealers to market Canadian art in international markets. Gallery owners saw the need for greater government support for attendance at international fairs (This is discussed in more detail in Section 8.).

7.2.3 Film and Video Production and Distribution

SMEs in the film and video production and distribution industries identified several major challenges to the development of Canadian content. Approximately 67 percent considered the regulatory rules regarding Canadian content to be a challenge to the development of Canadian content. About 60 percent viewed the lack of government support and international market demand as challenges. And nearly one-half (49 percent) of all SMEs identified the lack of domestic demand for Canadian film and television series as a challenge to the development of Canadian content.

Figure 114 Challenges to the Development of Canadian Content, Film and Video Production and Distribution



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The results are not surprising considering the current environment in the film and video production industry. Demand by Canadians for Canadian content is dampened by the fact that television and feature film audiences in English-language markets tend to prefer higher-budget American productions. International demand for Canadian television series, which was strong in the late 1990s, has weakened in recent years further eroding the economic base of Canadian producers.

Producers continue to hold the view that more government support to compensate for the lack of Canadian broadcaster investment in Canadian television programs. The economics of Canadian television programs definitely works against Canadian producers and creates the need for government to make up the economic shortfall. Canadian broadcasters have found it very difficult to earn profits on Canadian programs and therefore seek American programming for their television schedules.

Finally, the rules regarding Canadian content, have, for many years, made it difficult for Canadian producers to make films and television programs with leading actors and writers from outside Canada.

SMEs in the film and video production industry also cited government policies as creating challenges to Canadian content creation. The uncertainty regarding the Canadian Television Fund was highlighted as a problem. The Canadian Television Fund is renewed on an annual basis. Producers felt that the government needed to make a long-term commitment to funding Canadian film and television production.

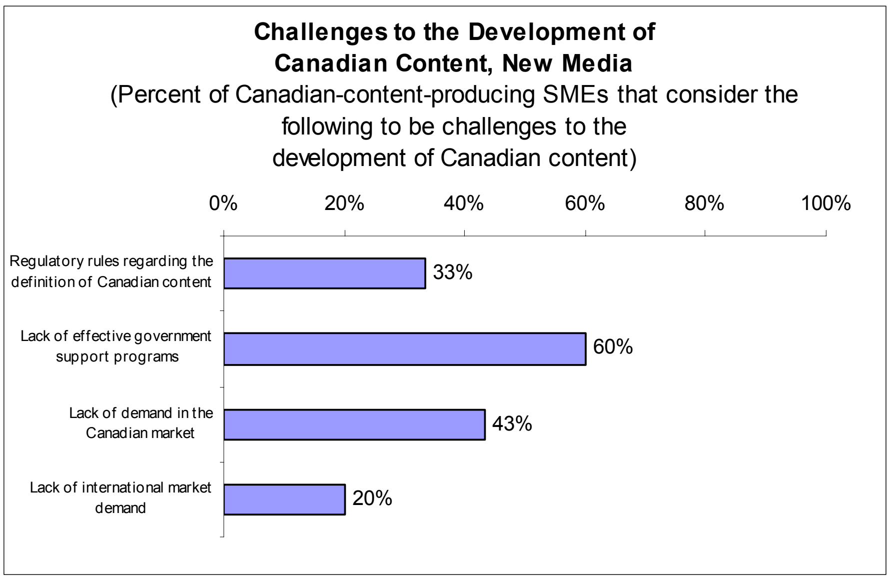
A government policy that encourages film and television production across the country was also mentioned as a challenge. In the U.S., there are basically two major production centres, Los Angeles and New York. Two survey respondents commented that, in Canada, policies tied to government funding which are meant to encourage production outside of Montreal and Toronto, are, in turn, “penalizing” producers for making films or television series in these cities. The Canadian Television Fund, for example, offers incentives to projects that qualify as regional productions because they are made outside of Montreal or Toronto.

7.2.4 New Media

The responses from new media SMEs reflect the recent reductions in industry funding and the relatively lower support received by new media in comparison to other cultural industries. Nearly 60 percent of cultural SMEs identified the lack of effective government support as a challenge to the development of Canadian new media products.

In July 2003, Bell ExpressVu announced that it was diverting funds from the Bell New Media Fund to the new fund for local programming.[36] This will reduce a major source of industry funding and create a greater need for government funding support.

Figure 115 Challenges to the Development of Canadian Content, New Media



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

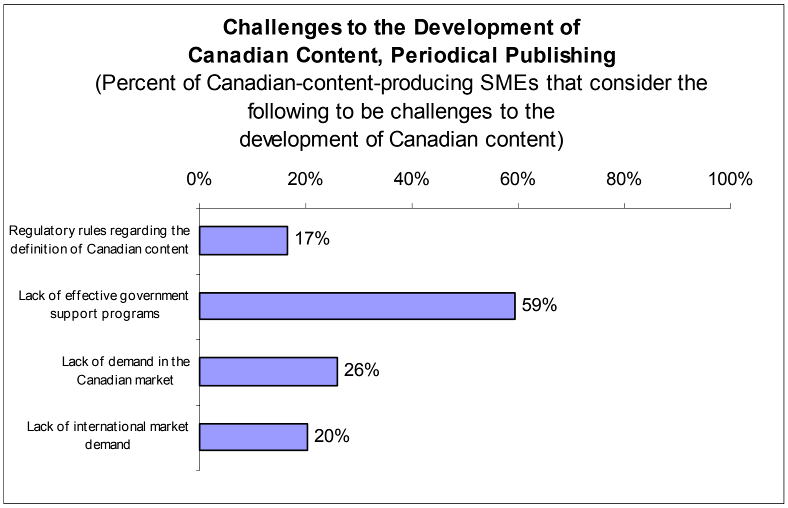
New media also cited the lack of demand in the Canadian market as a challenge. In comparison to other industries, such as film and video production and sound recording, there are no rules that generate domestic demand for their products. In both film and video and sound recording, content rules fuel domestic demand for Canadian content.

[36] Decima Publishing Inc., "Bell Broadcast and New Media Fund faces 40% cut as a result of CRTC decision", in *Canadian New Media,* July 24, 2003.

7.2.5 Periodical Publishing

For periodical publishers, the lack of government support was cited as the biggest challenge to the development of Canadian editorial content. This response is likely a reaction the federal government's recent decision to reduce the Canada Magazine Fund from $35 million annually to $16 million in 2006/07.

Figure 116 Challenges to the Development of Canadian Content, Periodical Publishing



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The periodical publishers we interviewed as well as those that responded to the survey noted that Canadian geography puts them at a disadvantage vis-à-vis American periodicals. The geographically dispersed Canadian population forces Canadian periodical publishers to divert resources to distribution and away from content creation.

7.2.6 Sound Recording

Although the online survey did not provide data on this topic for the sound recording industry, some of the comments received on the online survey and through our interviews did offer some insights into the concerns of sound recording companies and their development of Canadian content.

Sound recording companies indicated that the lack of government support made it difficult to develop Canadian content. With increased competition from American record labels and the structural issues facing Canadian independent labels, Canadian sound recording companies called for an expansion of programmes such as the Music Entrepreneurs Program (MEP) to assist in the development of Canadian musical artists.

Some sound recording companies pointed to the regulatory rules regarding the broadcasting of Canadian musical artists as posing both a problem and a tool for strengthening the development of Canadian content. Sound recording companies called for revisions to the rules so that resident artists had priority over non-resident Canadian artists. As it stands now, Canadian radio stations overplay non-resident Canadian artists at the expense of emerging Canadian artists.

Canadian sound recording companies also called for an increase in the share of Canadian content on the radio airwaves by increasing the Canadian content quotas for radio broadcasters.

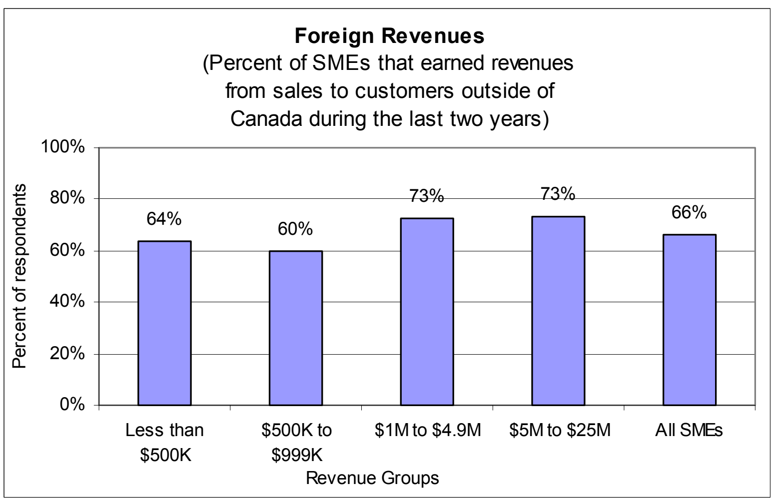
8 Access to Foreign Markets

8.1 Importance of Foreign Markets to Cultural SMEs in Canada

Foreign markets are important to Canadian SMEs because they offer growth opportunities outside of the slowly growing Canadian economy. About two out of every three SMEs (66 percent) in the cultural industries report that they were selling to customers outside of Canada during the past two years.

Larger cultural SMEs appeared to have a slightly higher rate of foreign earnings than smaller cultural SMEs. Approximately 73 percent of cultural SMEs with revenues over $1 million had foreign earnings; while, among firms with revenues of between $500,000 and $999,999, 60 percent had foreign revenues. Among SMEs with revenues of less than $500,000, 64 percent had foreign revenues during the last two years.

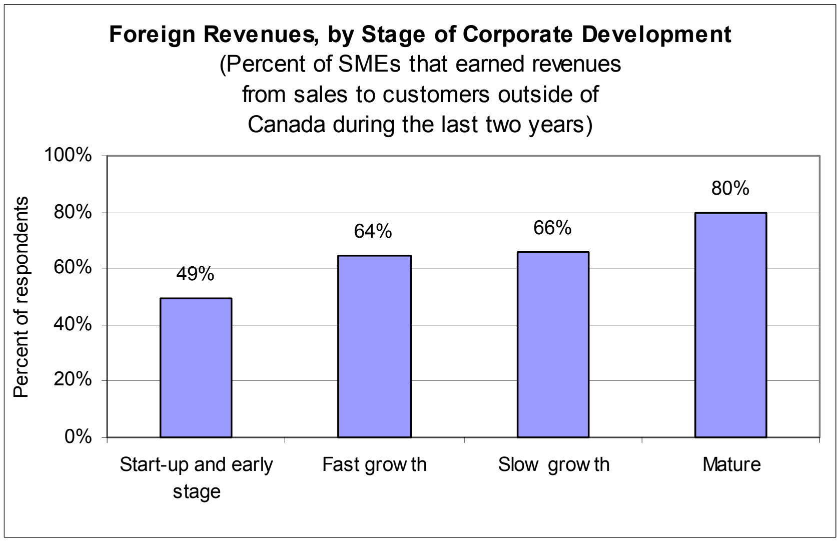
Figure 117 Foreign Revenues



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

There appears to be a strong correlation between the incidence of foreign revenues and a cultural SME's stage of corporate development. Approximately 80 percent of cultural SMEs that classified themselves as mature reported some foreign revenues during the last two years. For start-up and early-stage cultural SMEs, the incidence of foreign revenues was 49 percent.

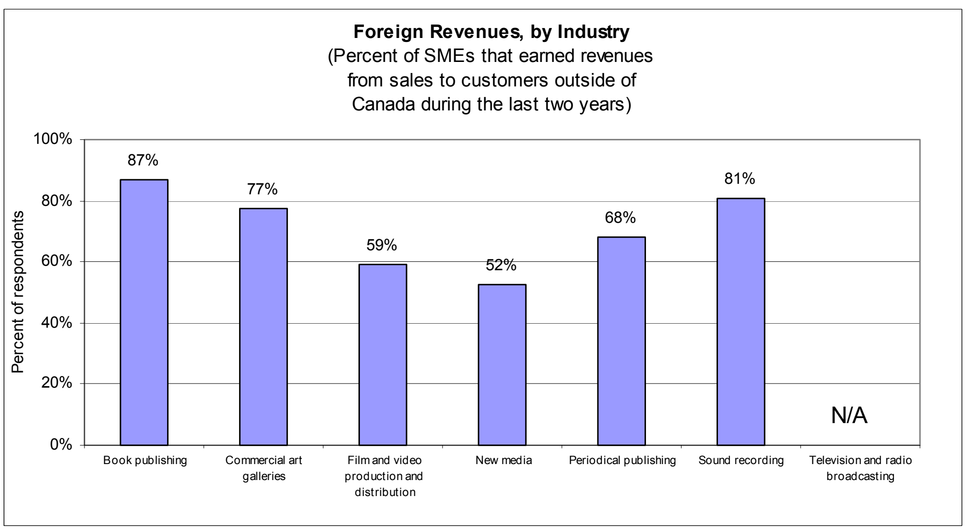
Figure 118 Foreign Revenues, by Stage of Corporate Development



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The incidence of foreign earnings was highest among book publishers, commercial galleries, and sound recording companies. About 87 percent of book publishing SMEs reported some foreign revenues during the last two years.

Figure 119 Foreign Revenues, by Industry



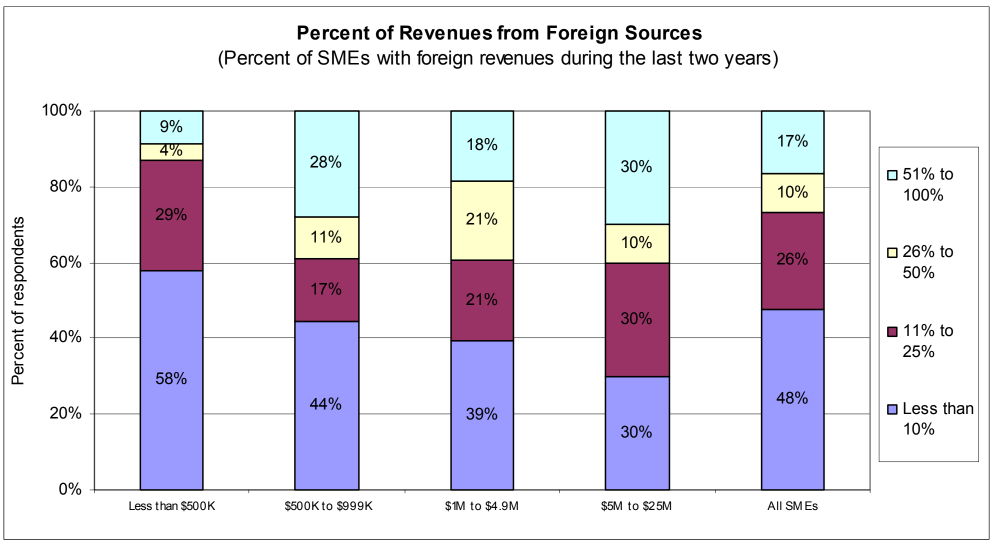
N/A - data not available due to small sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The lowest incidence of foreign earnings among cultural SMEs was in the new media industry, where 52 percent of SMEs reported foreign earnings. In the IMPS, Delvinia Inc. actually found that 60 percent of new media companies were engaged in export activities.[37]

8.2 Profile of Export Activity of Cultural SMEs

While 66 percent of cultural SMEs had some foreign revenues during the last two years, for nearly one-half (48 percent) of these SMEs, foreign revenues comprised less than 10 percent of total revenues.

Figure 120 Percent of Revenues from Foreign Sources

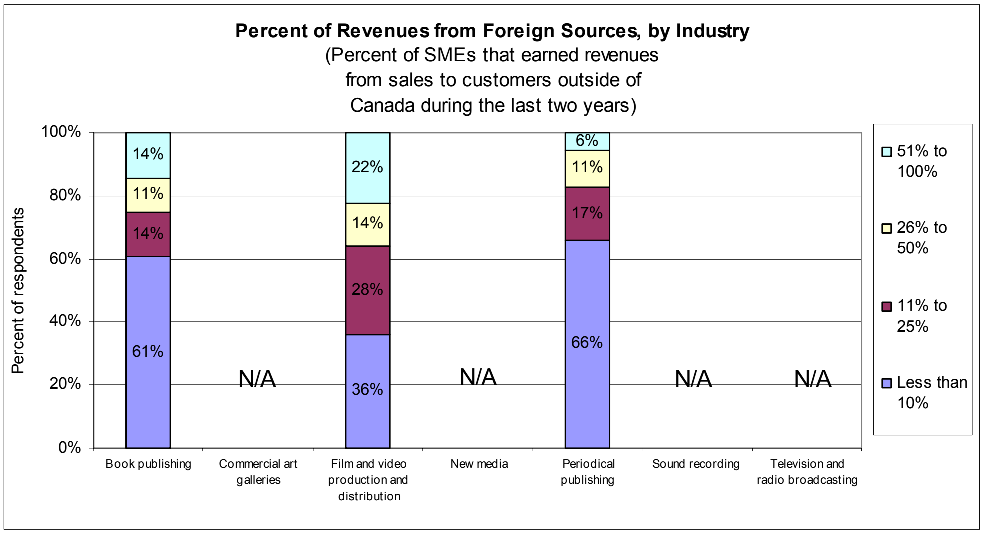


Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The intensity of foreign sales was lower for smaller cultural SMEs. Among SMEs with less than $500,000 in annual revenues, 58 percent reported that foreign revenues accounted for less than 10 percent of total revenues. Only 9 percent of cultural SMEs in this category reported that foreign revenues comprised more than 50 percent of total revenues. By contrast, 30 percent of SMEs with total revenues of $5 million or higher reported that more than 50 percent of their total revenues were from foreign customers.

[37] Delvnia Inc., *Interactive Media Producers Survey, 2002.*

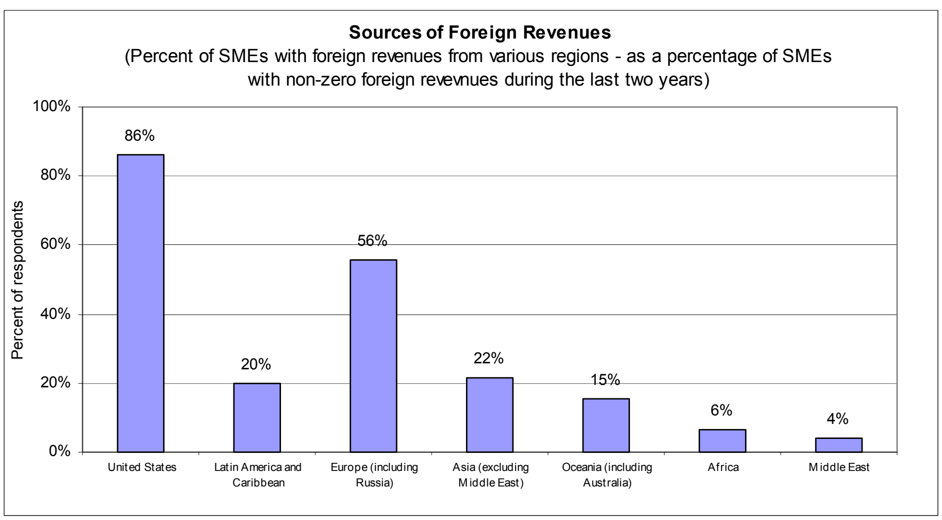
Figure 121 Percent of Revenues from Foreign Sources, by Industry



N/A - data not available due to low sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The majority of SMEs reported that they were deriving their foreign revenues from the United States and Europe. When measured as a share of cultural SMEs with non-zero foreign revenues, 86 percent of cultural SMEs had foreign revenues from the United States. About 56 percent of cultural SMEs earned revenues from customers in Europe (including Russia).

Figure 122 Sources of Foreign Revenue



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

The lowest rate of trade occurred with Africa and the Middle East. Only 6 percent of cultural SMEs earned revenues from African customers, and only 4 percent earned revenues from customers in the Middle East.

8.3 Key Barriers to Foreign Markets for Cultural SMEs

In general, cultural SMEs did not identify any legal or regulatory restrictions preventing them from accessing foreign markets. This is understandable, considering that most Canadian companies are looking primarily to sell into the U.S.. Cultural SMEs, did however, identify economic barriers to market access, as well as networking barriers. The latter are really due to economic limitations, however.

Marketing and selling products in foreign markets, particularly the U.S., require money and relationships. The combination required can vary considerable by industry, but for many cultural SMEs, money was the real limit to forging relationships.

In almost of all the cultural industries, international trade shows are one of the most important channels to making international relationships and accessing foreign markets. Recognizing this, governments at the federal and provincial levels have made significant investments in trade show attendance. This is discussed further in the next section.

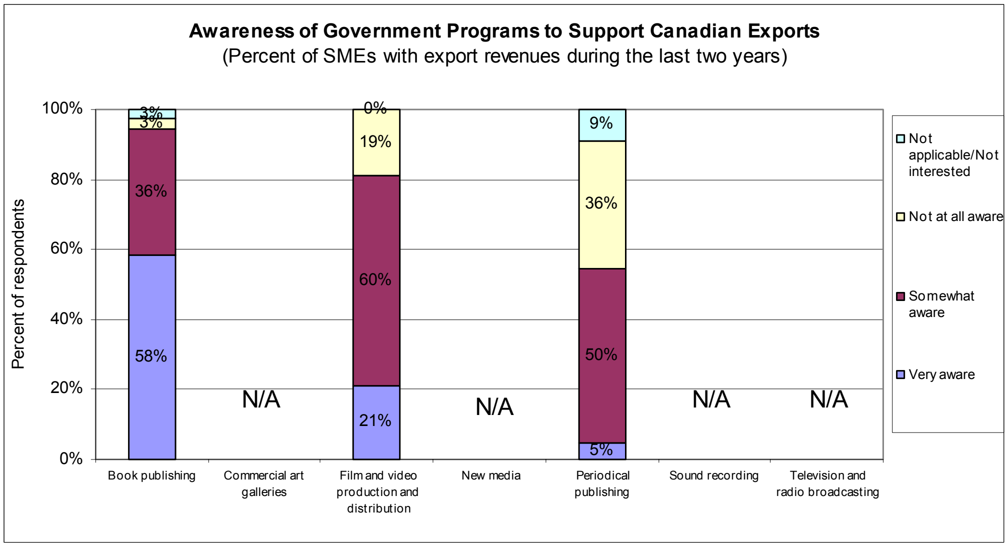
Even after establishing international relationships, small companies require tremendous economic resources to market their products and services in foreign markets. The American market offers the potential for a high financial return if a Canadian SME can be successful. However, marketing to U.S. customers requires more than ten times the marketing required in Canada. Not only is the economy more than 11 times larger, but the economy is highly competitive, and companies are considered very cost efficient in comparison to many other Western countries.

8.4 Government Initiatives to Support Access to Foreign Markets

Federal and provincial governments in Canada take an active role in assisting Canadian businesses to export their products and services. In the cultural industries, in particular, governments have designed programs targeted at helping cultural SMEs realize export earnings.

While the government has made a significant investment in export assistance in the cultural industries, the awareness of this investment varies considerably. Book publishers demonstrated the highest degree of awareness. This is understandable because Canadian book publishers have adopted a highly organized approach to foreign markets. Canadian book publishers have formed the Association for the Export of Canadian Books (AECB) to coordinate the industry's initiatives to increase sales in international markets.

Figure 123 Awareness of Government Programs to Support Canadian Exports



N/A - data not available due to low sample size.
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

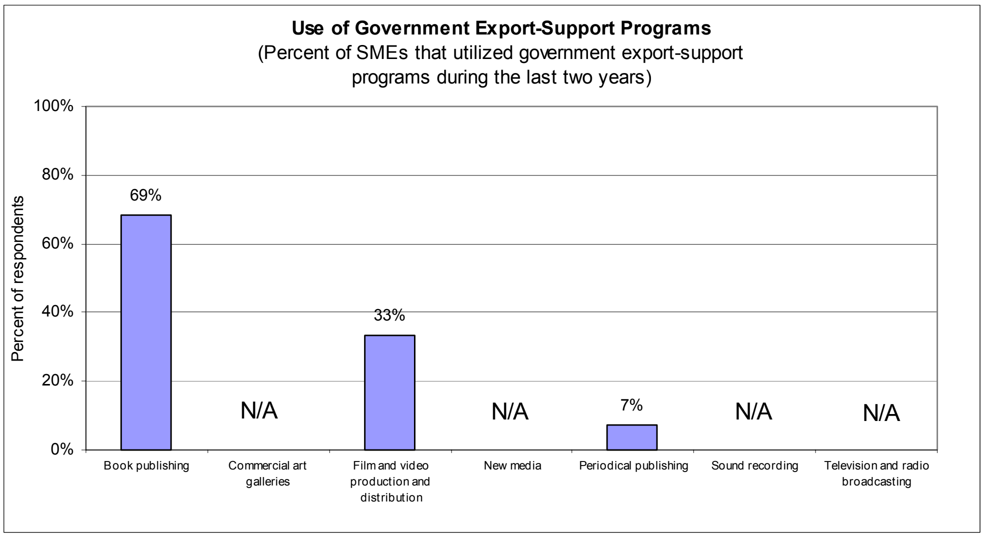
In the new media, periodical publishing, and film and video industries, the majority of SMEs were only *somewhat aware* of government export-support programs.

While the online survey produced a low sample size for commercial art galleries, the majority of those who did respond were *somewhat aware* of government programs to support Canadian exports.

The use of government export-support programs among cultural SMEs mirrors the awareness levels. Approximately 69 percent of book publishing SMEs used government export-support programs during the last two years.

In film and video production and distribution, about one-third of SMEs used some type of government export-support program during the last two years. In the periodical publishing industry, only 7 percent of SMEs used some type of export support from government.

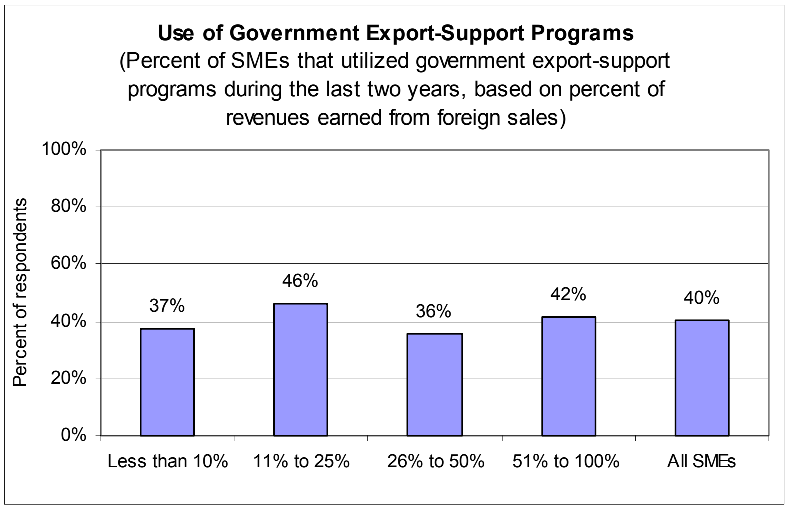
Figure 124 Use of Government Export-Support Programs



N/A - data not available due to small sample size
Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Interestingly, the intensity of foreign earnings had very little correlation with the use of government export-support programs. Cultural SMEs with a lower share of their revenues from foreign sales were only slightly less likely to have used government export-support programs. While 37 percent of cultural SMEs with less than 10 percent of revenues from foreign markets used government export support, the corresponding rate was 42 percent for cultural SMEs with over one-half of their revenues from foreign sales.

Figure 125 Use of Government Export-Support Programs, based on the Share of Revenues from Derived from Sales to Foreign Customers



Source: Department of Canadian Heritage, Survey of Cultural SMEs, 2003

Many cultural SMEs highlighted government support for attendance at trade fairs as one of the most valuable forms of support to develop international sales. While this type of support was deemed very valuable, some thought that the program approach could be improved. Some of the cultural-industry entrepreneurs that we interviewed thought that the government should increase the resources for trade fair attendance programs and consider better ways of managing the limited resources for these programs.

While our online survey only produced a small sample for commercial art gallery owners, about one-half that did respond indicated that they had used some type of government export-support program during the last two years.

In our interviews with commercial art gallery owners, they commented that their industry is becoming more and more global. However, they noted that to compete in the global market they need patient capital. They pointed out that developing international relationships requires many years of consistent effort. Commercial gallery owners considered attendance at international fairs as one of the best methods for building international relationships. To this end, commercial art gallery owners called for government investment in this area. The commercial gallery owners we spoke with had received government support for international marketing but felt that more could be done.

As one cultural entrepreneur expressed it, international marketing is much more than putting up a Web site. In the cultural industries, personal relationships are paramount in the development of international alliances or customers. The key dilemma for the government is how to most effectively spend trade-support funds. While trade missions allow some cultural-industry entrepreneurs or representatives to establish international relationships, many entrepreneurs can be left behind. Alternatively, trying to allocate resources by rotating attendance among cultural entrepreneurs can also be ineffective. Because business relationships can take many years to develop, consistent attendance over a period of several years is considered more effective.

9 Conclusions

9.1 Financing

As cultural industry entrepreneurs have noted, obtaining financing can be difficult, particularly for smaller companies. On one level, cultural SMEs appear to be innovative and reasonably successful in financing their businesses. As borne out by the survey results,

- SMEs utilize a variety of internal and external financing sources.
- Approximately 57 percent of cultural SMEs sought debt financing during the last two years, and of this share, 80 percent were successful in obtaining debt capital from financial institutions.

While the data suggest that cultural SMEs have a similar experience to other SMEs, in terms of debt approval, the research data do not offer an insight as to whether cultural SMEs have been successful in obtaining the total amount of capital they are seeking, or whether the debt capital they obtain is at rates that are favourable to them.

Even with access to bank financing, a large share of cultural SMEs find themselves continuing to use personal savings as a significant source of funding to operate their businesses. According to the online survey results, approximately 50 percent of cultural SMEs that obtained external private financing during the last two years also used personal savings. Approximately 42 percent of cultural SMEs that were successful in their debt requests also used personal savings to finance their company's operations.

Among the cultural industries, commercial art galleries displayed the highest reliance on internal financing. Approximately 81 percent of commercial art gallery SMEs used some type of internal financing during the last two. This was well above the overall cultural industry rate of 69 percent. At the same time, only 20 percent of commercial art gallery SMEs used external financing – well below the cultural SME average of 52 percent.

New media companies were also highly reliant on internal financing and particularly personal savings, and loans from staff, family and friends with 83 percent reporting that they used internal financing during the last two years. While new media SMEs' internal financing rate was higher than the average across cultural SMEs, their use of external private financing was on par with other cultural SMEs. Where new media SMEs lag other cultural SMEs is in their ability to tap into public sources of external financing. During the last two years, 54 percent of cultural SMEs used some type of external public financing, however only 36 percent of new media SMEs did.

Many cultural industries have become highly dependent on government policy and funding to support their financing. About 54 percent of cultural SMEs obtained some type of public financing during the last two years. This funding ranged from direct grants to refundable tax credits. Most experts agreed that some form of financial assistance was essential for Canadian cultural SMEs to compete in the domestic market. However, the role of government in creating globally-competitive creative industries was less evident.

While government financing is an effective financing source in the short term, it creates a lot of uncertainty for cultural SMEs in the long term, and thus adds another layer of risk to the industry that may inhibit private-sector financial institutions from making long-term investments.

In terms of government financing and gaps in cultural SME financing, some key players complained about the inequities in government financing among industry sectors. As a first step, the access to direct and indirect public funding mechanisms and in particular, tax credits for cultural SMEs should be re-examined to ensure equitable treatment of all sectors.

Many of the cultural SMEs we interviewed, as well as those who responded to the survey, provided us with two overriding explanations for why they experience difficulty in obtaining financing.

- First, cultural SMEs claimed that financial institutions put very little, if any, value on the intellectual property of cultural products.
- Second, cultural SMEs suggested that investors and financial institutions, particularly banks, were not interested in investing or making loans to companies in the cultural industries. Some attributed this low level of interest to a lack of understanding of the industry.

For many cultural industries, financing problems can be traced to structural issues within each industry which severely dampen the economic prospects of Canadian companies, and Canadian SMEs in particular. Book publishers have a weak position in the industry because of the concentration of buying power with Indigo-Chapters. Commercial art galleries operate in a market where domestic demand for art is below where it should and where generating international demand for Canadian art requires a long-term financial investment in building international relationships. For film and video production and distribution, international demand for Canadian television series has weakened significantly during the last several years. New media is in emerging industry in which most firms are still grappling to find stable business models in what continues to be very much a project-oriented industry. In the periodical publishing industry, the Internet and computing power has led to very low barriers to entry, and a highly competitive market environment. This is compounded by newsstand competition from American publications. Independent record labels are threatened by the dominance of major American labels and piracy that affects the global industry.

9.2 Human Resources

In the cultural industries human resources play an extremely important role. Like all knowledge-based industries, an organization's skilled technical and creative talent are the primary source of the company's competitive advantage and economic value. While technology, regulations, and market opportunities all play an important role in affecting the performance of cultural companies, technical and professional talent stand out as the source of ideas for developing, producing and distributing cultural products. Cultural SMEs are typical of the knowledge economy in which intellectual property is the main asset of the firm and this intellectual property is intimately associated with the knowledge of key individuals in the firm.

Close to one-half of surveyed cultural SMEs said they found it *very difficult* or *difficult* to find well-trained employees. Cultural SMEs also told us that they found it difficult to retain high-calibre, highly motivated people due to low pay and cash flow fluctuations. The best people were often hired away by large firms or even foreign companies and with them a significant opportunity to build a corporate knowledge base.

Employee turnover rates were fairly uniform across the cultural industries with the exception of commercial art galleries, where turnover was below other cultural industries. Employee turnover was also found to be lower among the smaller SMEs in the cultural industries.

Most of the employee training among cultural SMEs is "on-the-job". Because of this, cultural SMEs need people who are good critical thinkers and not over-trained, in the sense that they can adapt to shifting technical and business demands of the workplace at a cultural SME. For the majority of cultural SMEs, 69 percent, employee training expenditures amounted to between 1 and 10 percent of operating expenses. Approximately 20 percent of cultural SMEs made no expenditures on employee training during the last two years.

9.3 Management Expertise

Like SMEs in other industries, cultural SMEs tend to lack many people with the management capabilities that can help them grow. Many people start a business in the cultural sector not to create a profitable business, but to pursue their artistic interests on a commercial basis. As such, cultural-sector entrepreneurs often lack important business and management skills.

Overall, just under one-half (47 percent) of all cultural SMEs believe that their company has a shortage of management skills. When examined on the basis of firm size, the rates were uniform, with the exception of firms in highest revenue category, $5 million to $25 million. Approximately, 56 percent of SMEs with total revenues of between $5 million and $25 million believe that their company has a shortage of management skills. Firms in this size range have grown to a stage where a strong management team has become more important to the company's further development.

In terms of the corporate life cycle, at every stage of corporate development, except at the mature stage, about half of cultural SMEs believe that their company has a shortage of management expertise.

According to cultural SMEs, leadership and vision are the most important management skills or traits to their company's development. Approximately 58 percent of cultural SMEs rated leadership and vision as *extremely important* to their company's development. Another 27 percent rated it as *very important*.

Finance and accounting skills, business planning skills, and sales development abilities for the domestic market are also considered important. For each of these skills, more than 80 percent of cultural SMEs rated them as *extremely important* or *very important*.

SMEs in many of the cultural industries identified financing skills as one of the management skills that is in short supply. The uniqueness of financial processes in some of the cultural industries was cited as one of the reasons why it was so difficult to attract talented financial managers for comptroller or chief financial officer positions.

Managers with sales development abilities were another group that were in high demand by cultural SMEs. Again the very best sales people are often attracted to larger organizations with much larger product bases and client bases.

Among cultural SMEs which believe they have a shortage of management skills, 35 percent were providing formal training to their employees in order to develop their management capabilities. Approximately the same share was looking outside to fill any gaps in management: 35 percent recruited outside people with the required skills to fill management skill gaps.

In several of the cultural industries, SMEs are making use of training programs sponsored by industry associations in order to train their managers. While these programs are considered very useful, these and other management training programs are often out of reach of most SMEs because of the financial and time costs associated with them.

9.4 Content and Product Development

The creation of intellectual property or the development of other types of products is the main source of value creation and growth in the cultural industries, and is essential to any business's ongoing development. With the exception of commercial galleries, nearly all surveyed SMEs reported that they were involved in the creation of intellectual property or other product development.

Canada's small domestic market and its proximity and exposure to the American media often make it difficult for Canadians to create cultural products on an economic basis. As such, for many of the cultural industries the Canadian government has developed funding programs and regulations to assist Canadian content producers and give them the opportunity to reach Canadians effectively. In many instances, cultural goals take precedence over creating an environment for long-term economic development of the cultural industries. When faced with the choice of whether government policy should emphasize industrial development and the growth of Canadian companies over the promotion of Canadian content development, cultural SMEs were very much split. In some industries, the two goals were not considered mutually exclusive.

9.5 Access to Foreign Markets

Foreign markets are important to Canadian SMEs because they offer growth opportunities outside of the slowly growing Canadian economy. About two out of every three SMEs (66 percent) in the cultural industries report that they were selling to customers outside of Canada during the past two years.

With the exception of broadcasting and periodical publishing industries, cultural SMEs acknowledged that foreign markets are very important to their growth within a relatively limited domestic market. And while most cultural SMEs earned revenues outside of Canada, these foreign earnings still comprised a small share of total earnings. Of the 66 percent of cultural SMEs that had some foreign revenues during the last two years, for nearly half (48 percent), foreign revenues comprised less than 10 percent of total revenues. What is more, the intensity of foreign earnings was lower for the smaller SMEs.

Cultural SMEs acknowledged that they did not face any legal obstacles to entering key foreign markets. However, they did point to a lack of financial resources as the main reason why they may have not been able to maximize their opportunities outside of Canada.

For cultural SMEs in many industries, alliances provide one of the best routes for foreign market entry. However, Canadian cultural SMEs must be consistently present at international trade events in order to forge these alliances. Cultural SMEs suggested that much better results may be achieved by putting more resources into federal government programs supporting a wide group of cultural entrepreneurs. Provincial support programmes such as those developed by the OMDC and SODEC were also seen as important to success.

9.6 Critical Success Factors for Cultural SMEs

Throughout our research we were very interested in discovering factors that increase the likelihood of corporate success for SMEs. One of the biggest success factors is developing a business that can obtain affordable debt capital. To do this, cultural SMEs must first build up considerable equity in their businesses. They must also build relatively stable revenue streams. For SMEs in many of the cultural industries, this means building a library of revenue-generating intellectual properties. This is particularly relevant for project-by-project industries such as film and video production and new media. To bolster their balance sheets, SMEs in these industries need to explore business models that allow them to maximize ongoing royalty-earning revenue streams. Artist works with identifiable revenue streams can be more easily valued and therefore leveraged for further growth. In the film and video industry, this may require a producer to move into distribution and build a library. In book publishing or sound recording, it requires a catalogue of titles that can be marketed on an ongoing basis. For emerging new media companies, it means developing business models that more readily allow them to convert a portfolio of intellectual property into ongoing revenue.

Alternatively, for many cultural SMEs multiple revenue streams from the repurposing of content and their brands can create the type of consistent revenue that makes it easier to obtain financing. Finding an underserved niche is still one of the best entry methods for a cultural SME, but then to fully exploit that niche requires print content such as magazines and books as well as related television programming, and a Web site that is linked to a major online portal such as msn.ca or AOL.ca. In terms of television programming, for example, the new Canadian digital-tier channels offer one avenue for reaching television viewers. Indeed, some periodical publishers have been successful by extending their brand to specialty television programs.

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Glossary

Term	Definition
Africa	Algeria, Angola, Ascension Island, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo (Brazzaville), Congo, Côte d'Ivoire, Djibouti, Egypt, Equitorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Libya, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, Reunion, Rwanda, Saint Helena Island, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Tanzania, Togo, Tunisia, Uganda, Western Sahara, Zambia, Zimbabwe
Angel Investor Equity	An individual or firm that provides capital to start-up companies
Asia	Afghanistan, Armenia, Azerbaijan, Bangladesh, Bhutan, Brunei, Cambodia, China, East Timor, Georgia, India, Indonesia, Japan, Kazakhstan, North Korea, South Korea, Kyrgyzstan, Laos, Malaysia, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan, Tajikistan, Thailand, Turkmenistan, Uzbekistan, Vietnam
Average Revenue	$\frac{\text{Total Revenue}}{\text{Number of Firms}}$
Average Salary	$\frac{\text{Total Salary and Wages}}{\text{Total Number of Employees}}$
Bank Line of Credit	An arrangement in which a bank extends a specified amount of unsecured credit to company for specified period of time.
Canadian Content	A creative work that qualifies as Canadian content as defined by the Canadian government's Canadian content definitions.
Content	A creative work such as: • a story for a book, or a book • an article for a magazine, or a magazine • a television program • a feature film or short film • an new media production • a song or musical work
Corporate Fee-for-Service	The production of film or videos, or new media works for corporate customer's specific purposes. The payment received for the products is directly related to the cost of production rather than the potential return of the intellectual property.
Cost of Sales	Refers to the expenses incurred by a company to sell a product of service.
Equipment Leasing	The rental of equipment by a company. Instead of obtaining a loan to purchase equipment, a company can rent the equipment for series of payments. At the end of the rental period, the ownership of the equipment remains with the lessor.
Equity Financing	Refers to the raising of capital for a company through the sales of common stock or preferred stock to investors.
Europe (including Russia)	Albania, Andorra, Austria, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Macedonia, Malta, Moldova, Monaco, Netherlands, Norway, Poland, Portugal, Romania, Russia, San Marino, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kingdom, Vatican City, Yugoslavia (Serbia and Montenegro)
Exclusive Agent	Exclusive agents do no publishing of their own, but distribute and sell works published by another firm, by acting as its sole representative. The exclusive agent is generally responsible for the marketing expenses of those titles sold on an exclusive basis.
Government Equity Investment	Government funding provided to company in return for a share of the company's profits, or the profits generated by a project.
Government Grant	Government funding without a requirement to reimburse the government.

Term	Definition
Intellectual Property	Any intangible asset that consists of human knowledge and ideas. Some examples are patents, copyrights, trademarks and software.
Latin America	Argentina, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Falkland Islands, Guatemala, Guyana, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Suriname, Uruguay, Venezuela
Loan Guarantee	The process in which a third party accepts the obligation of repaying a loan (and any outstanding interest on the loan).
Low Interest Loans	A loan provided at a rate that is below the prevailing market rate for a loan of similar term and risk.
Middle East	Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman@ Palestinian Authority, Qatar, Saudi Arabia, Syria, United Arab Emirates, Yemen
Non-Production Revenue	Revenues earned by a film and video production company from activities other than the development and filming or taping of a visual work.
Operating Expenses	The ongoing costs incurred by a company in the course of running the business. Includes wages and salaries, rent, equipment depreciation, marketing and administrative expenses, etc.
Operating Margin	$\frac{\text{Total Revenue – Operating Expenses}}{\text{Total Revenue}}$
Operating Profit	Total Revenue – Operating Expenses
Own Titles	Own titles refers to those works published (or co-published) in Canada by a firm holding the Canadian territorial rights to these titles.
Personal Line of Credit	An arrangement in which a bank extends a specified amount of credit to person with the credit often unsecured or secured by the person's assets
Prairie Provinces	The provinces of Manitoba, Saskatchewan, and Alberta
Private Investor (Sales of Shares to)	A private investor acquires equity or certain claims to company in exchange for an investment of cash or other assets. The investment transaction is governed by a private contract between the share issuer and the investor. The investors shares can not be traded on a public stock exchange.
Production Revenue	Revenues earned by a film and video production company from the filming or taping of a visual work.
Profit Before Taxes Pre-tax Profit	Total Revenue – Operating Expenses – Interest Expenses
Profit Margin (before tax)	$\frac{\text{Total Revenue – Operating Expenses – Interest Expenses}}{\text{Total Revenue}}$
Public Financing	Financing provided by a public sector organization such as the government or Crown corporation.
Public (Sales of Shares to)	A sale of shares to the public or public investor involves the issue of shares registered on a public stock exchange such as the Toronto or Montreal Stock Exchanges. A company that issues shares to the public must meet certain information disclosure requirements stipulated by the stock exchange on which their shares are traded. Companies that issue shares to the public must typically disclose tot the public financial information on regular basis.
Refundable Tax Credits	A refund of taxes paid by a company to a provincial or federal government. The rate or amount of the refund is often calculated based on certain types of expenditures made by a company and is independent of the company's revenues or profits. For example a company may receive a refund equal to 10% of the labour expenditures regardless of the company's revenue or profit level during that particular tax year.
Retained Earnings	The current dollar value of historical profits earned by a company.
Revenues	The total amount earned by a company from the sale of goods or services. Revenue will usually be net of any discounts or returns.
Venture Capital Equity	A capital investment made in a small business with exceptional growth potential. The venture capital investor will typically provide managerial and technical expertise along with financial capital.
Western Canada	The provinces of Manitoba, Saskatchewan, Alberta, and British Columbia

Appendix A Cultural SME Economic Data

Book Publishing

Table 27 Book Publishing, Key Industry Publication Data for SMEs, by Region, 2000/01

	Atlantic Canada	Quebec	Ontario	Prairies	B.C. and Terr.	Total Canada
Number of firms						
Publishers	33	196	222	82	66	599
Exclusive agents	0	12	12	4	4	32
Titles Published	239	4,990	2,789	722	1,160	9,900
Textbooks	19	1,027	510	207	275	2,038
Children's Books	24	907	589	79	79	1,678
Tradebooks	165	2,142	1,274	320	314	4,215
Other	31	914	416	116	492	1,969
Titles reprinted	95	4,455	2,272	413	465	7,700
Textbooks	10	2,280	1,073	153	36	3,552
Children's Books	6	679	462	37	53	1,237
Tradebooks	74	1,014	455	176	181	1,900
Other	5	482	282	47	195	1,011
Total in print	3,050	45,881	28,298	4,717	6,329	88,275
Textbooks	269	13,219	5,389	879	450	20,206
Children's Books	180	4,164	4,194	391	612	9,541
Tradebooks	2,251	22,383	12,996	2,496	3,451	43,577
Other	350	6,115	5,719	951	1,816	14,951

Source: Statistics Canada custom tabulations

Table 28 Book Publishing, Key Industry Financial Data, by Region

	Atlantic Canada	Quebec	Ontario	Prairies	B.C. and Terr.	Total Canada
Sales in Canada ($ 000s)	10,306	225,380	197,877	38,620	30,990	503,173
Own titles ($ 000s)	9,506	164,028	108,049	31,243	21,634	334,459
Textbooks	812	75,000	29,672	6,522	2,200	114,207
Children's Books	216	15,220	12,374	2,206	1,907	31,923
Tradebooks	5,048	53,137	43,031	10,675	13,547	125,438
Other	3,430	20,671	22,971	11,840	3,980	62,892
Exclusive agency ($ 000s)	800	61,352	89,829	7,376	9,356	168,714
Textbooks	-	1,484	5,316	1,514	436	8,750
Children's Books	10	9,755	4,352	3,095	2,455	19,667
Tradebooks	774	25,006	54,652	2,378	5,972	88,783
Other	16	25,106	25,508	389	494	51,514
Exports ($ 000s)	1,555	21,626	40,491	5,846	22,615	92,134
Other Foreign Sales ($ 000s)	0	272	6,055	1,365	3	7,694
Personnel						
Full-time employees	114	1,690	1,127	373	295	3,599
Part-time employees	34	359	384	79	57	913

Total Personnel Expenses ($ 000s)	4,252	66,999	57,900	13,216	10,537	152,904
Total revenues ($ 000s)	14,245	285,600	294,254	51,092	61,180	706,371
Cost of sales ($ 000s)	7,639	153,110	164,264	24,491	33,624	383,128
Total operating expenses ($ 000s)	6,736	131,144	134,332	27,405	25,508	325,124
Before-tax profit margin ($ 000s)	(130)	1,346	(4,341)	(804)	2,048	(1,881)
As a percentage of revenues (%)	-0.9	0.5	-1.5	-1.6	3.3	-0.3
% of firms with profit	39.4	61.1	52.6	52.3	61.4	55.6

Source: Statistics Canada custom tabulations

Table 29 Book Publishing, Key Industry Data for SMEs, by Language of Publication

	French-language	English-language
Number of firms		
Publishers	177	414
Exclusive agents	11	21
Titles Published	4,099	5,764
Textbooks	1,067	946
Children’s Books	858	818
Tradebooks	1,727	2,480
Other	447	1,520
Titles reprinted	4,037	3,612
Textbooks	2,377	1,146
Children’s Books	742	475
Tradebooks	750	1,148
Other	168	843
Total in print	46,361	41,585
Textbooks	13,901	6,139
Children’s Books	5,207	4,312
Tradebooks	22,348	21,127
Other	4,905	10,007

Source: Statistics Canada custom tabulations

Table 30 Book Publishing, Key Industry Financial Data for SMEs, by Language

	French-language	English-language
Sales in Canada ($ 000)	220,155	282,585
Own titles ($ 000)	164,034	169,992
Textbooks	76,446	37,553
Children's Books	17,218	14,680
Tradebooks	51,305	73,951
Other	19,066	43,808
Exclusive agency ($ 000)	56,121	112,593
Textbooks	1,484	7,266
Children's Books	9,607	10,059
Tradebooks	20,247	68,536
Other	24,782	26,732
Exports ($ 000)	17,305	74,568
Other Foreign Sales ($ 000)	271	7,423
Total revenues ($ 000)	283,557	421,342
Cost of sales ($ 000)	147,279	234,872
Total operating expenses ($ 000)	133,443	191,213
Before-tax profit margin ($ 000)	2,835	(4,743)
As a percentage of revenues (%)	1.0	-1.1
% of firms with profit	63.3	52.6
Personnel		
Full-time employees	1,646	1,944
Part-time employees	339	567
Total Personnel Expenses ($ 000)	67,071	85,501

Source: Statistics Canada custom tabulations

Table 31 Book Publishing, Key Financial Ratios, 2000

	< $500K	$500K to $4.99M	$5M to $25M	Medium Firms: $5M to $75M	Large Firms: Over $75M
Current ratio	1.39	1.54	1.30	1.86	0.8
Receivable days	44	51	80	60	53
Inventory turnover	N/A	N/A	N/A	N/A	N/A
Debt to equity	0.09	0.53	0.93	0.6	0.5
Liabilities to assets	0.76	0.69	0.7	0.41	0.59

Note: N/A refers to data that are unavailable or not applicable. Data for SMEs under $25 million and data for medium and large firms (revenues over $5 million) were taken from two different sources, and as such, the medium-size category overlaps.

Source: Statistics Canada, Financial Performance Indicators for Canadian Business: Volume 2-3, National, Small and Medium Firms; and Statistics Canada, Financial Performance Indicators for Canadian Business: Volume 2-3, National, Volume 1, Medium and Large Firms.

Commercial Art Galleries

Table 32 Art Dealers, Key Financial Ratios, 2000

	< $500K	$500K to $4.99M	$5M to $25M	Medium Firms: $5M to $75M	Large Firms: Over $75M
Current ratio	1.38	1.56	N/A	1.65	N/A
Receivable days	16	13	N/A	16	N/A
Inventory turnover	1.78	3.1	N/A	N/A	N/A
Debt to equity	0.05	0.65	N/A	0.51	N/A
Liabilities to assets	0.60	0.63	N/A	0.62	N/A

Note: N/A refers to data that are unavailable or not applicable. Data for SMEs under $25 million and data for medium and large firms (revenues over $5 million) were taken from two different sources, and as such, the medium-size category overlaps.

Source: Statistics Canada, Financial Performance Indicators for Canadian Business: Volume 2-3, National, Small and Medium Firms; and Statistics Canada, Financial Performance Indicators for Canadian Business: Volume 2-3, National, Volume 1, Medium and Large Firms.

Film and Video Distribution

Table 33 Film and Video Distribution SMEs, Canadian and Foreign-Content Shares of Revenue, 2000/01

(Percentage)	Canadian Content	Foreign Content	Total
Revenue - Domestic Distribution			
Theatrical	9.8	90.2	100.0
Pay-TV	41.8	58.2	100.0
Conventional TV	30.7	69.3	100.0
Home video	23.3	76.7	100.0
Non-theatrical	18.5	81.5	100.0
Sub-total domestic distribution	28.2	71.8	100.0

Source: Statistics Canada custom tabulations

Table 34 Film and Video Distribution SMEs, Industry Data by Revenue Categories, 2000/01

($ 000s)	0 to $499 K	$500 K to $999 K	$1 million to $4.99 million	$5 million to $25 million	Total
Number of Firms	99	23	51	18	191
Total Revenues	13,800	16,110	138,025	171,940	339,875
Operating Expenses	12,864	15,014	126,295	143,321	297,493
Operating Profit	936	1,096	11,730	28,619	42,382
Profit Before Taxes	NA	NA	NA	NA	NA
Export Revenues	2,382	1,860	23,453	33,843	61,538
Capital Expenditures	NA	NA	NA	NA	NA
Salaries and Wages	3,423	2,939	17,695	20,708	44,765
Employees	170	263	453	371	1,257

Source: Statistics Canada custom tabulations

Table 35 Film and Video Distribution, Industry Data by Employee Size, 2000/01

	0 to 4 Employees	5 to 9 Employees	10 to 19 Employees	20 to 300 Employees	Total
Number of Firms	114	43	22	12	191
Total Revenues	68,585	68,365	124,558	78,367	339,875
Operating Expenses	50,764	59,683	111,973	75,073	297,493
Operating Profit	17,821	8,682	12,585	3,294	42,382
Profit Before Taxes	NA	NA	NA	NA	NA
Export Revenues	11,695	16,015	14,595	19,233	61,538
Capital Expenditures	NA	NA	NA	NA	NA
Salaries and Wages	4,924	10,356	14,179	15,306	44,765
Employees	131	276	285	565	1,257

Source: Statistics Canada custom tabulations

Table 36 Film and Video Distribution, Key Financial Ratios, 2000

	< $500K	$500K to $4.99M	$5M to $25M	Medium Firms: $5M to $75M	Large Firms: Over $75M
Current ratio	0.95	1.04	1.33	0.59	1.15
Receivable days	26	48	67	60	113
Inventory turnover	N/A	N/A	N/A	N/A	N/A
Debt to equity	0.05	0.15	0.39	N/A	0.59
Liabilities to assets	0.9	0.88	0.65	N/A	0.57
Interest coverage	1.1	1.5	7.45	N/A	5.37

Note: N/A refers to data that are unavailable or not applicable. Data for SMEs under $25 million and data for medium and large firms (revenues over $5 million) were taken from two different sources, and as such, the medium-size category overlaps.

Source: Statistics Canada, Financial Performance Indicators for Canadian Business: Volume 2-3, National, Small and Medium Firms; and Statistics Canada, Financial Performance Indicators for Canadian Business: Volume 2-3, National, Volume 1, Medium and Large Firms.

Film and Video Production

Table 37 SME Revenue Based on Origin of Production

	Domestic	Foreign
Television	267.9	82.8
Feature Films	29.0	19.1
Advertising	79.5	16.5
Other	166.3	10.5
Total	542.8	129.0

Source: Statistics Canada custom tabulations

Table 38 Film and Video Production, Key Financial Ratios, 2000

	< $500K	$500K to $4.99M	$5M to $25M	Medium Firms: $5M to $75M	Large Firms: Over $75M
Current ratio	1.00	1.00	1.00	0.59	1.15
Receivable days	23	42	41	60	113
Inventory turnover	N/A	N/A	N/A	N/A	N/A
Debt to equity	0.05	0.19	0.21	N/A	0.59
Liabilities to assets	0.73	0.86	1.00	N/A	0.57

Note: N/A refers to data that are unavailable or not applicable. Data for SMEs under $25 million and data for medium and large firms (revenues over $5 million) were taken from two different sources, and as such, the medium-size category overlaps.

Source: Statistics Canada, Financial Performance Indicators for Canadian Business: Volume 2-3, National, Small and Medium Firms; and Statistics Canada, Financial Performance Indicators for Canadian Business: Volume 2-3, National, Volume 1, Medium and Large Firms.

Periodical Publishing

Table 39 Periodical Publishing, Key Industry Regional Data for SMEs

	Atlantic Canada	Quebec	Ontario	Prairies	B.C. and Terr.	Total Canada
Number of reported periodicals	91	462	871	270	205	1,899
Total annual circulation (000)	9,272	88,611	112,177	35,840	26,068	271,969
Circulation per periodical (000)	102	192	129	133	127	143
Circulation per issue	6,433	14,058	12,359	11,647	11,206	12,255
Total pages	92	72	66	56	56	66
Total advertising pages	7	13	14	12	12	13
Revenues ($ 000)						
Advertising	7,689	135,253	294,249	48,527	39,796	525,512
Single-copy sales	5,121	23,776	6,163	2,853	2,103	40,015
Subscriptions	1,959	27,414	54,248	13,828	11,793	109,242
Back-issue sales	62	390	2,107	206	30	2,795
Total circulation revenues ($ 000)	16,201	186,832	356,766	65,412	53,723	677,564
Other revenues ($ 000)	1,372	15,608	29,889	1,410	425	18,766
Total Revenues ($ 000)	16,201	202,440	386,656	72,044	57,240	734,581
Total Expenses ($ 000)	15,004	179,834	338,014	67,693	56,571	657,115
Profit before taxes ($ 000)	1,197	22,606	48,642	4,351	669	77,466
Profit before taxes (percentage of total revenue)	7.4	11.2	12.6	6.0	1.2	10.5
Full-time employees	217	1,111	2,101	686	431	4,546
Part-time employees	60	464	1,124	270	181	2,099
Total remuneration ($ 000)	6,619	53,700	108,339	23,420	18,092	210,170

Source: Statistics Canada custom tabulations

Table 40 Periodical Publishing, Key Industry Data for SMEs, by Language of Publication

	English-language	French-language	Bilingual	Other
Number of reported periodicals	1,196	368	284	51
Total annual circulation (000)	178,583	74,428	15,898	3,060
Circulation per periodical	149	202	56	60
Average circulation per issue	12,976	14,437	7,770	4,599
Average total pages	56	67	111	37
Average total advertising pages	14	13	10	6
Average per periodical				
Revenues ($ 000)				
Advertising	312,295	304,538	130,954	53,850
Single-copy sales	13,164	64,765	1,055	2,706
Subscriptions	55,653	68,507	45,244	90,610
Other revenues	28,984	32,987	42,495	18,438
Total revenues ($ 000)	410,095	470,797	219,748	165,604
Total Expenses ($ 000)	361,537	421,696	215,948	160,857
Profit before taxes ($ 000)	48,558	49,100	3,800	4,747
Profit before taxes (percentage of total revenue)	11.8	10.4	1.7	2.9
Average single-copy price	7.75	6.37	18.48	3.13
Average subscription price	39.61	28.87	71.95	30.38
Full-time employees	2.7	2.5	1.2	1.2
Part-time employees	1.2	1	1.1	0.9

Source: Statistics Canada custom tabulations

Table 41 Periodical Publishing, Key Financial Ratios, 2000

	< $500K	$500K to $4.99M	$5M to $25M	Medium Firms: $5M to $75M	Large Firms: Over $75M
Current ratio	0.83	1.15	0.94	1.86	0.8
Receivable days	37	42	43	60	53
Inventory turnover	N/A	N/A	N/A	N/A	N/A
Debt to equity	0.05	0.14	0.3	0.6	0.5
Liabilities to assets	0.93	0.77	0.81	0.41	0.59

Note: N/A refers to data that are unavailable or not applicable. Data for SMEs under $25 million and data for medium and large firms (revenues over $5 million) were taken from two different sources, and as such, the medium-size category overlaps.

Source: Statistics Canada, Financial Performance Indicators for Canadian Business: Volume 2-3, National, Small and Medium Firms; and Statistics Canada, Financial Performance Indicators for Canadian Business: Volume 2-3, National, Volume 1, Medium and Large Firms.

Sound Recording

Table 42 Sound Recording, Economic Indicators Based on Revenue Categories, 2000

	0 to $499 K	$500 K to $999 K	$1 million to $10 million	Total
Number of Firms	271	19	28	318
Total Revenues	23,364,071	13,405,233	104,628,493	141,397,797
Operating Expenses	26,174,739	11,770,606	95,803,231	133,748,576
Profit Before Taxes	(2,810,668)	1,634,627	8,825,262	7,649,221
Export Revenues	465,824	132,778	9,044,646	9,643,248
Salaries and Benefits*	5,909,711	3,958,973	17,259,095	27,127,779
Employees**	605	127	365	1,097

* includes fees, allowances, and bonuses
** includes freelancers
x confidential
Source: Statistics Canada custom tabulations

Table 43 Sound Recording, Key Financial Ratios, 2000

	< $500K	$500K to $4.99M	$5M to $25M	Medium Firms: $5M to $75M	Large Firms: Over $75M
Current ratio	1.03	1.10	N/A	0.59	1.15
Receivable days	36	45	N/A	60	113
Inventory turnover	N/A	N/A	N/A	N/A	N/A
Debt to equity	0.12	0.30	N/A	N/A	0.59
Liabilities to assets	0.78	0.67	N/A	N/A	0.57

Note: N/A refers to data that are unavailable or not applicable. Data for SMEs under $25 million and data for medium and large firms (revenues over $5 million) were taken from two different sources, and as such, the medium-size category overlaps. Sound recording industry financial ratios are based on a simple average of financial ratios for the following sub-industries: *record production*, *integrated record production*, *music publishers*, and *sound recording studios.*

Source: Statistics Canada, Financial Performance Indicators for Canadian Business: Volume 2-3, National, Small and Medium Firms; and Statistics Canada, Financial Performance Indicators for Canadian Business: Volume 2-3, National, Volume 1, Medium and Large Firms.

Television and Radio Broadcasting

Table 44 Television and Radio Broadcasting - Key Economic Statistics by Revenue Categories

	0 to $499 K	$500 K to $999 K	$1 million to $4.99 million	$5 million to $25 million	Total
Number of reporting units	74	72	104	11	262
Total revenues ($)	16,878,537	54,251,668	217,628,431	115,284,706	424,988,830
Operating expenses ($)	20,091,287	55,703,318	203,852,161	110,626,277	408,262,787
Operating profit ($)	(3,212,750)	(1,451,650)	13,776,270	4,658,429	16,726,043
Profit before taxes ($)	(4,535,570)	(5,703,501)	8,092,153	(1,788,486)	(1,519,552)
Export revenues ($)	N/A	N/A	N/A	N/A	N/A
Salaries and wages ($)	12,155,403	29,533,524	124,617,324	40,668,641	213,202,688
Employees (number)	374	883	2,453	584	4,611

Source: Canadian Radio-television and Telecommunications Commission custom tabulations

Table 45 Television and Radio Broadcasting - Key Financial Ratios

	< $500K	$500K to $4.99M	$5M to $25M	Medium Firms: $5M to $75M	Large Firms: Over $75M
Current ratio	1.64	1.25	0.83	N/A	0.62
Receivable days	30	56	68	N/A	45
Inventory turnover	N/A	N/A	N/A	N/A	N/A
Debt to equity	0.05	0.20	0.78	N/A	0.74
Liabilities to assets	0.65	0.60	0.73	N/A	0.61

Note: N/A refers to data that are unavailable or not applicable. Data for SMEs under $25 million and data for medium and large firms (revenues over $5 million) were taken from two different sources, and as such, the medium-size category overlaps.

Source: Statistics Canada, Financial Performance Indicators for Canadian Business: Volume 2-3, National, Small and Medium Firms; and Statistics Canada, Financial Performance Indicators for Canadian Business: Volume 2-3, National, Volume 1, Medium and Large Firms.

Appendix B: Online Survey Questionnaire

The Department of Canadian Heritage has commissioned this online survey to collect information on the issues and challenges facing Small and Medium-sized Enterprises (SMEs) in the cultural industries.

The information collected by this survey will be used by the Department of Canadian Heritage and the Government of Canada to help strengthen the resilience and performance of Canadian cultural SMEs.

The survey should be completed by the person(s) in senior management most familiar with key financial, human resources and other strategic issues facing your company (e.g., president, chief executive officer, managing partner, chief financial officer, chief operating officer or any executive vice-president). If your company is a sole proprietorship, then the survey should be completed by the owner.

All information provided in this survey will be kept confidential and respondents will remain anonymous, as all responses will be presented in an aggregated form only.

Your participation in this survey is of the utmost importance and is greatly appreciated. The questionnaire is easy to fill out and should take about 25 minutes to complete. For your convenience, we have attached a glossary of terms.

<u>After you have completed the survey, please fax it to: Nordicity Group, 613-234-0616</u>

Thank you for your cooperation.

A. Demographic and General

We would first like to ask you some general questions to enable us to better understand the profile of your company and its place in the cultural industry.

A1. Which industry sector would you classify your company under?

__ Film and video production
__ Film and video distribution
__ Television or radio broadcasting
__ Sound recording production and distribution
__ Book publishing and distribution
__ Periodical publishing and distribution
__ New media production and distribution
__ Commercial art galleries
__ Other (please specify)________________________

A2. What type of business is your company?

__ Sole proprietorship
__ Partnership
__ Corporation incorporated under federal or provincial charter
__ Other (including **non-profit** organizations; please specify)___________________________

A3. For how many years has your company been operating?

__ Less than 2 years
__ 2 years or more, but less than 6 years
__ 6 or more years , but less than 11 years
__ 11 or more years, but less than 20 years
__ More than 20 years

A4. In which province or territory is your company based?

____

A5. What percentage of your company's ownership was held by women (as of December 31, 2002)?

__ 0% (please select if a non-profit organization)
__ 1% to 49%
__ 50%
__ 51% to 99%
__ 100%
__ Don't know

A6. What percentage of your company's ownership was held by Aboriginal persons (as of December 31, 2002)?

__ 0% (please select if a non-profit organization)
__ 1% to 49%
__ 50%
__ 51% to 99%
__ 100%
__ Don't know

A7. What were your company's total revenues in 2002?

(Note: If you select "More than $25,000,000", please stop the survey.)

__ Less than $500,000
__ $500,000 to $999,999
__ $1,000,000 to $4,999,999
__ $5,000,000 to $25,000,000
__ More than $25,000,000

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A8. During 2002, what percentage of your company's total revenues was earned from the following sources?
*Values must add up to 100

Sale or licensing of your company's content (intellectual property) or services (including advertising sales)	_____%
Sale or licensing of another creator's content (intellectual property)	_____%
Promotion, distribution of another creator's content (intellectual property)	_____%
Other products or services	_____%
	100 %

A9. During 2002, what percentage of your company's operating expenses was spent on the following activities?
*Values must add up to 100

Development of content (intellectual property) or other products or services	_____%
Production of content (intellectual property)or other products or services (including the costs of producing editorial content)	_____%
Marketing or distribution	_____%
Licensing fees for another creator's content (intellectual property)	_____%
Other (including printing costs)	_____%
	100 %

A10. During the last two years, did your company earn revenues from sales outside of Canada?

Yes / No

(Note: If you select "No", please skip to Question A15.)

A11. What percent of your total revenues was earned from customers outside of Canada (please report average for the last two years)?

__ Less than 10%
__ 11% to 25%
__ 26% to 50%
__ 51% to 100%

A12. Please indicate the percentage of export revenues earned by your company during the last two years from each of the following regions (Values must add to 100). *
* Values must add up to 100

United States	_____%
Latin America and Caribbean	_____%
Europe (including Russia)	_____%
Asia (excluding Middle East)	_____%
Oceania (including Australia)	_____%
Africa	_____%
Middle East	_____%
	100 %

A13. How aware is your company of federal and provincial government programs available to help Canadian companies develop export market opportunities?

__ Very aware – familiar with the details of at least some program(s)
__ Somewhat aware – know of the existence of at least some program(s)
__ Not at all aware of these programs
__ Not applicable or not interested

A14. Has your company used any government programs in developing export market opportunities over the last 2 years?

Yes / No

A15. How would you rate the following issues in terms of their importance to your company's business success?

	Extremely important	Very important	Somewhat important	Not very important	Not at all important
Finding affordable capital for day-to-day operations	○	○	○	○	○
Finding affordable capital for expansion	○	○	○	○	○
Sufficient management expertise	○	○	○	○	○
Skilled professional labour	○	○	○	○	○
Access to foreign markets	○	○	○	○	○
Resources for research and development of new products and services	○	○	○	○	○

A16. How would you rate the importance of government support programs in the development of your company over the last two years?

Extremely important	Very important	Somewhat important	Not very important	Not at all important
○	○	○	○	○

A17. SMEs typically undergo various stages of growth before reaching maturity. In the accompanying list, please indicate which stage of growth best characterizes the current stage of growth of your company?

__ Start-up
__ Early stage
__ Fast growth
__ Slow growth
__ Mature and stable
__ None of the above (please specify)__________________

B. Financing

We would now like to discuss some of the financing issues facing cultural SMEs.

SMEs financing can generally be characterized as follows:

- Internal private if it originates from the personal assets of the company's owner(s) or his or her family or friends;
- External private if it originates with third party sources such as financial institutions, investors, private foundations, etc.; and,
- External public if it originates with government agencies, crown corporations (e.g., Telefilm, Business Development Bank of Canada, Export Development Canada), publicly supported foundations, etc.

B1. Did your company use internal private financing during the last two years?

Yes / No

(Note: If you select "No", please skip to Question B3.)

B2. During the last two years, what types of internal private financing did your company use? (Check all that apply)

__ Personal savings
__ Loans from staff, family, or friends
__ Personal credit card
__ Personal line of credit
__ Personal mortgage loan
__ Company retained earnings (including income from operations)
__ Other (please specify)_______________________

B3. Did your company obtain external private financing during the last two years?

Yes / No

(Note: If you select "No", please skip to Question B5.)

B4. During the last two years, what types of external private financing did your company use? (Check all that apply)

__ Loan
__ Line of credit
__ Equipment leasing
__ Venture capital equity
__ Angel investor equity
__ Sale of shares to private investor
__ Sale of shares to public
__ Other (please specify)____________________

B5. Did your company obtain external public financing during the last two years?

Yes / No

(Note: If you select "No", please skip to Question B9.)

B6. What type of external public financing did your company receive during the last two years?

__ Loan guarantees
__ Low interest loans
__ Other loans or lines of credit
__ Government equity investments
__ Government grants and contributions
__ Refundable tax incentives
__ Other government support (please specify) ___________

B7. Please indicate the degree of effectiveness of each type of external public financing received by your company in the last two years.

	Extremely effective	Very effective	Somewhat effective	Not very effective	Not at all effective
Loan guarantees	○	○	○	○	○
Low interest loans	○	○	○	○	○
Other loans or lines of credit	○	○	○	○	○
Government equity investments	○	○	○	○	○
Government grants and contributions	○	○	○	○	○
Refundable tax incentives	○	○	○	○	○
Other government support	○	○	○	○	○

B8. Do you have any specific comments on the effectiveness of government financing in meeting your company's financing requirements.

Now we would like to ask you some further questions on the experience of your company over the last two years with financial institutions.

B9. Has your company applied for a loan or line of credit from a financial institution during the last two years?

Yes / No

(Note: If you select "No", please skip to Question B13.)

B10. Was your request during the last two years for a bank loan or line of credit accepted?

Yes / No

(Note: If you select "Yes", please skip to Question B12.)

B11. If your request for a loan or line of credit was rejected, what was the primary reason provided by the financial institution?

__ Lack of debt collateral
__ Poor industry market conditions
__ Business plan unacceptable
__ Inexperienced management team
__ Poor credit history
__ Poor financial performance
__ Other

B12. If your company offered collateral to obtain a loan or line of credit from a financial institution, did this collateral include intellectual property for which your company receives royalties?

Yes / No

Now we'd like to ask you some questions about equity financing at your company.

B13. Did your company seek equity financing during the last two years?

Yes / No

(Note: If you select "No", please skip to Question C1.)

B14. Was your company successful in obtaining equity financing during the last two years?

Yes / No

(Note: If you select "No", please skip to Question C1.)

B15. If your company was not successful in obtaining equity financing, what was the primary reason provided by potential investors?

__ Investor does not invest in sector
__ Poor industry market conditions
__ Business plan unacceptable
__ Inexperienced management team
__ Poor credit history
__ Poor financial performance
__ Other (please specify)

C. Human Resources

Now we would like to ask you some questions about human resources at your company.

C1. How many employees does your company have (please report the average number of employees at your company during the last two years)?

__ 0 employees
__ 1 to 4 employees
__ 5 to 9 employees
__ 10 to 19 employees
__ 20 to 49 employees
__ 50 to 99 employees
__ 100 to 299 employees
__ 300 or more employees

C2. On average over the last two years, what was your company's staff turnover rate (including voluntary and involuntary departures of staff)?

__ 0%
__ 1% to 10%
__ 11% to 25%
__ 26% to 50%
__ 51% to 100%

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C3. What percent of your operating expenses is spent on employee training (average for the last two years)?

__ 0%
__ 1% to 10%
__ 11% to 25%
__ 26% to 50%
__ 51% to 100%

C4. During the last two years, did your company receive government funding for employee training expenditures?

Yes / No

C5. Has your company been involved in partnerships with other companies or with educational institutions to provide training to your company's employees over the last two years?

Yes / No

C6. Does your company offer its employees in-house training?

Yes / No

C7. Given your company's resources for training, how would you rate your company's ability to train your employees internally (e.g., on-the-job training)?

__ Very effective
__ Effective
__ Neither effective nor ineffective
__ Ineffective
__ Very ineffective

C8. How would you rate the degree of ease or difficulty for your company in finding well-trained employees?

__ Very easy
__ Easy
__ Neither difficult nor easy
__ Difficult
__ Very difficult

D. Management Skills

Now we would like to ask you some questions about management skills at your company.

D1. How would you rate the following types of management skills in terms of their importance to your company's development?

	Extremely important	Very important	Somewhat important	Not very important	Not at all important
Business Planning	○	○	○	○	○
Finance and accounting	○	○	○	○	○
Human resources management	○	○	○	○	○
Marketing and advertising	○	○	○	○	○
Operations management	○	○	○	○	○
Sales development (Canadian market)	○	○	○	○	○
Sales development (export markets)	○	○	○	○	○
Information technology management	○	○	○	○	○
Leadership/Vision	○	○	○	○	○

D2. Do you believe that your company has a shortage in management skills?

Yes / No

(Note: If you select "No", please skip to Question E1.)

D3. How is your company addressing any lack of management skills?

__ Formal training of current staff (professional development/training sessions)
__ Recruiting outside people with required skills
__ Both of above
__ Nothing
__ Other (please specify)

E. Content Development

In this final section of the questionnaire, we would like to ask you some questions about the development of content and products by your company.

E1. Does your company develop or produce content (intellectual property) or other products?

Yes / No

(Note: If you select "No", please skip to Question E7.)

E2. Over the last two years, has your company partnered with other companies in your industry to develop new content (intellectual property) or other products?

Yes / No

E3. Over the last two years, has your company received government grants, contributions or other financial support to directly support your development of content (intellectual property) or other products?

Yes / No

E4. Does your company develop or produce Canadian content?

Yes / No

(Note: If you select "No", please skip to Question E7.)

E5. Which of the following would you consider challenges to the development or production of Canadian content by your firm? (Mark all that apply)

__ Regulatory rules regarding the definition of Canadian content
__ Lack of effective government support programs
__ Lack of demand in the Canadian market
__ Lack of international market demand
__ Other (please specify) __________________________

E6. Do you have any specific comments on the challenges that your company faces in creating Canadian content?

E7. Does your company generate revenues from the development or production of new media products?

Yes / No

(Note: If you select "No", please skip to Question E10.)

E8. What percentage of your company's revenues is earned from the development or production of new media products?

__ 0%
__ 1% to 10%
__ 11% to 25%
__ 26% to 50%
__ 51% to 100%

E9. What percentage of your company's new media revenues are earned from the development of intellectual property as opposed to corporate fee-for service work (e.g., corporate training videos or corporate Web site development)?

__ Less than 10%
__ 11% to 25%
__ 26% to 50%
__ 51% to 100%

Thank you for your participation.

<u>After you have completed the survey, please fax it to: Nordicity Group, 613-234-0616</u>

Appendix C: Small and Medium-Sized Enterprises (SMEs) Definitions

Table 46 SME Definitions

Organization/Program	Definition
Applied Research in Interactive Media Fund	**SME = 200 employees or less**
Atlantic Canada Opportunities Agency (ACOA)	**SME = 499 employees or less**
Book Publishing Industry Development Program (BPIDP)	**Ineligible firm (large firms) = Net sales of $20 million from publishing activities (own titles) in previous financial year and average profit margin of 15% for the previous three years.**
Business Development Bank of Canada	**SME = 500 employees or less**
Canada Customs and Revenue Agency	**SME = Revenue less than $15 million**
Canada Economic Development for Quebec Regions	**SME = 200 employees or less** or **gross revenues less than $10 million**
Canada New Media Fund	**SME = annual gross consolidated revenues of less than $25 million**
Canada Small Business Financing Program & Canada Small Business Financing Act	**Small business = annual gross revenue of less than $5 million**
Canada – TELUS New Media Learning Fund	**SME = 250 employees or less**
Canadian Bankers Association	**SME = annual sales or revenues of $50 million or less**
Canadian Federation of Independent Business, "The Path to Prosperity: Canada's small and medium-sized enterprises." October 2002	**SME = less than 250 employees**
Canadian Radio-television and Telecommunications Commission	**<u>Television Broadcasting</u>** **"Small market" definition for television based on annual advertising of less than $10 million for conventional television and other programming services (specialty and pay-television stations)** **<u>Radio Broadcasting</u>** **"Small market" definition for radio based on service area population of less than 100,000 persons**
Canadian Television Fund	**Gross consolidated revenues of less than $25 million average over the last three years (revenues not related to any company that exceeded the threshold)**
Export Development Canada	**Emerging exporter = annual export sales of up to $1 million**
Industry Canada	**SME (services) = less than 300 employees,** and **annual revenues of up to $25 million** **SME (manufacturing) = less than 500 employees** and **annual revenues of up to $25 million**
Industry Canada: Small Business Policy Branch	**Small business = less than 100 employees**
IPMA, A Study for Telefilm Canada Program Support for Small and Medium Sized Film and Television Production and Distribution	**SME = Annual production spending less than $15 million**

Companies	
Statistics Canada	**SME = less than 500 employees** and **less than $50 million in gross revenues**
Western Economic Diversification	**SME = 250 employees** and **less with an annual gross revenue of less than $12 million**

Industry Canada has adopted a slightly different definition for SMEs. In the manufacturing sector it uses a 500 employee threshold, but with a revenue threshold of $25 million. For service industries, the thresholds are 300 employees and $25 million in revenues. Given that the cultural industries can be classified as services industries, this indicates that thresholds lower than that used by Statistics Canada may be more appropriate.

Our research pointed to $25 million as being a common threshold for SME analysis and for funding programs in the cultural industries. Industry Canada has adopted $25 million as its upper threshold for a SME. Both the Canadian Television Fund and the Canada New Media Fund use $25 million as the threshold for the definition of a SME. While the Book Publishing Industry Development Program (BPIDP) uses a threshold of $20 million, by using the higher threshold among the cultural funding programs, we can capture the more industries and minimize variance.

Had we used $20 million instead of $25 million as the threshold, all the book publishers accessing BPIDP would be classified as SMEs, but some companies considered SMEs in the film and video production industry (in the view of Telefilm) would not considered SMEs in this analysis. By using $25 million, all film and video production firms accessing government funding programs will be considered SMEs, as will all book publishers accessing BPIDP. The key difference is that book publishers with net sales in the $20 million to $25 million range will be considered SMEs for this analysis, but remain ineligible for BPIDP.

Appendix D: Overview of Small and Medium-Sized Enterprises (SMEs) in Canada

Table 47 Employer Businesses by Size (Number of Employees), June 2002

	1 to 4	5 to 9	10 to 19	20 to 49	50 to 99	100 to 199	200 to 499	500+	Total
Canada	604,478	176,132	119,853	85,461	31,266	14,591	6,253	3,127	1,042,203

Source: Statistics Canada Business Register, June 2002

Table 48 Number of Private Sector Employees in Canada by Industry and Size of Business Enterprise, 2001

Industry	Number of Employees							
	0 to 4	**5 to 19**	**20 to 49**	**50 to 99**	**100 to 299**	**300 to 499**	**500+**	Total
Forestry	10,686	17,657	10,642	6,143	6,115	-		76,448
Mining	6,856	12,074	9,352	8,095	13,892	9,038	79,369	138,685
Utilities	552	1,879	1,896	2,249	5,621	3,044	96,826	112,067
Construction	117,805	176,722	55,909	55,909	50,029	12,997	64,385	575,702
Manufacturing	48,808	177,294	215,049	206,653	339,732	144,108	906,229	2,037,873
Wholesale Trade	56,818	144,269	115,752	84,381	100,480	37,459	184,351	723,310
Retail Trade	123,423	289,180	191,330	148,603	119,403	33,938	583,038	1,488,916
Transportation and Warehousing	43,061	66,885	54,706	37,864	61,471	22,444	224,228	510,719
Information and Cultural	10,356	23,312	21,038	18,445	32,702	18,805	221,962	346,620
Finance and Insurance	27,161	40,223	35,113	28,585	38,227	18,756	367,575	555,641
Real Estate and Rental	39,047	51,621	27,596	18,036	24,761	9,059	45,739	215,859
Professional Services	121,186	128,984	79,460	53,260	71,511	30,737	154,184	639,322
Management of Companies and Enterprises	13,433	13,837	10,373	5,691	9,636	-	-	83,802
Administration and Waste Management	45,386	80,949	57,634	45,342	77,186	39,901	180,872	527,270
Health	87,621	82,436	11,487	2,341	1,654	863	880	187,283
Arts, Entertainment and Recreation	13,818	38,521	35,507	25,855	35,950	13,389	59,999	223,041
Accommodation and Food	52,933	237,830	216,542	134,619	118,741	34,428	146,558	941,651
Other Services	102,643	150,376	58,693	34,396	47,303	19,943	63,116	476,021
Total	**921,402**	**1,734,050**	**1,250,025**	**916,467**	**1,154,414**	**453,544**	**3,430,326**	**9,860,230**

Note: SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. The data breaking down employment by size of firm also exclude unclassified industries.

Source: Statistics Canada, Survey of Employment, Payrolls and Hours (SEPH), January 2002, and calculations by Industry Canada. Industry data are classified in accordance with Statistics Canada's NAICS.