State of the Industry Report

November 2022

music industries association

A. Overview

This report is based on a survey undertaken by the Music Industries Association (MIA) from mid-September to early-October 2022. Responses were invited from all companies operating within the Musical Instrument (MI) sector, via the MIA Daily Newsletter and a small number of targeted emails.

The thinking behind the survey was to produce a 'snapshot' of the MI industry as it emerged from the COVID pandemic, and that this could be a baseline to understand and identify development trends over a subsequent period of time. By its very nature this is more of a pulse survey, with many of the questions designed to elicit a response based on gut feeling or perceived experience rather than a precise or quantifiable value.

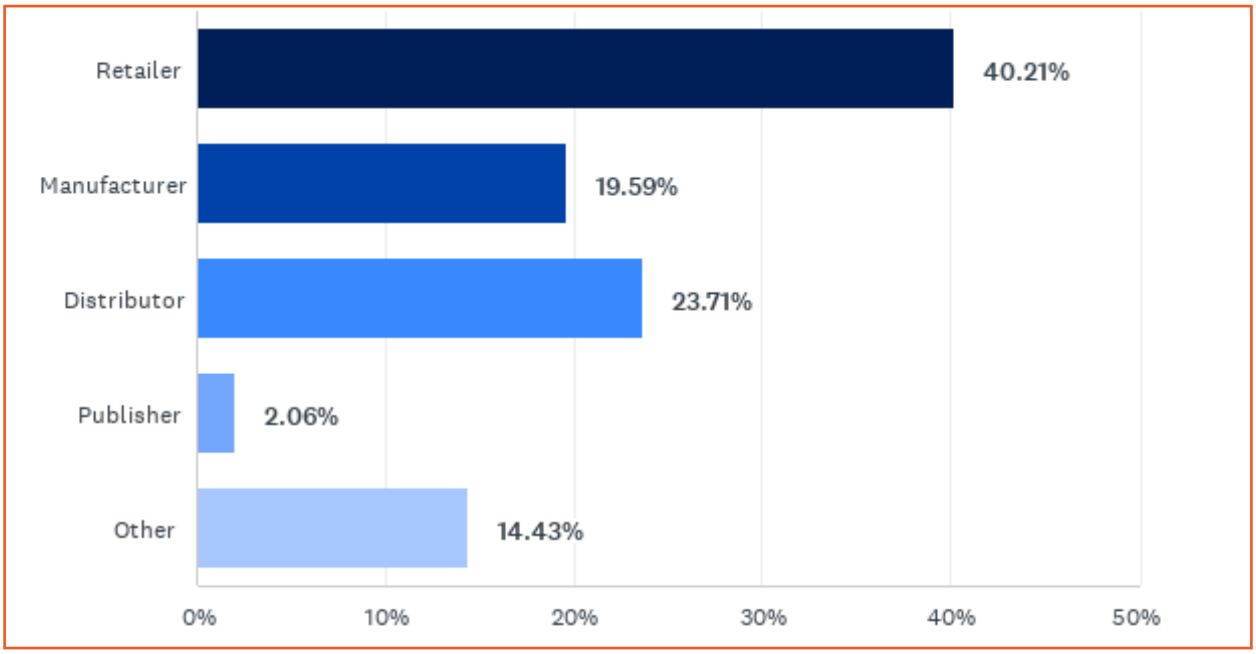
Whilst this means this report cannot be taken as gospel, empirically speaking, it has the advantage of both being in the moment and within a tolerance that makes the data acceptable as a temperature check of the industry. As such many of the categories reveal very interesting results though a few, such as the analysis of current trends in product category sales, expose the limitations of the pulse survey approach.

All responses were anonymous, and no specific or identifying company data was required as part of the survey process.

The initial questions provide a basic overview of the demographic of the respondents.

Q1. What is your primary business activity?

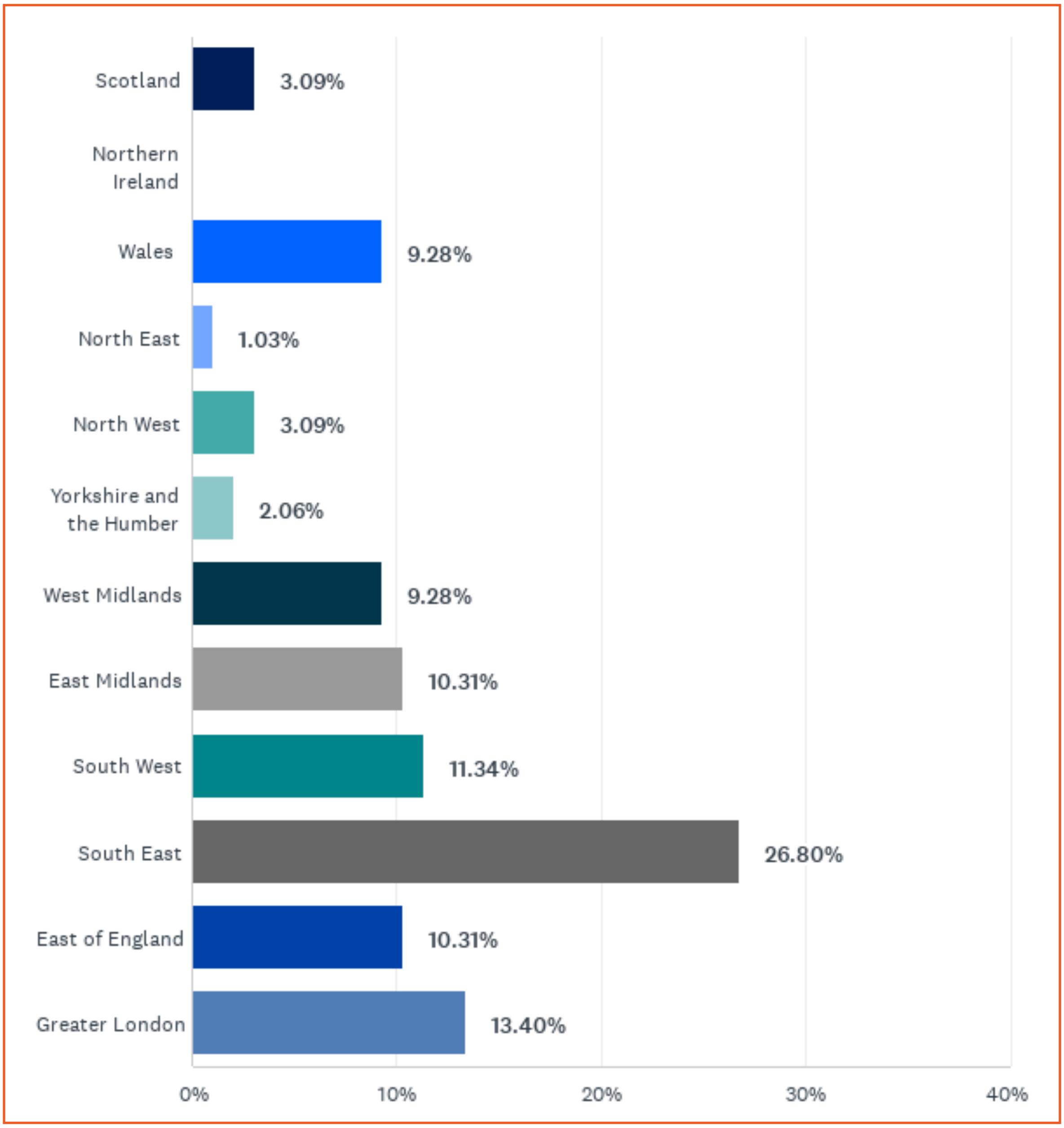
As you can see there is a broad split between those operating Retail business and those that either Manufacture or Distribute finished product. This (largely) aligns with the demographic of the MIA membership and as such would indicate a reasonably balanced sample. As we get further into to the question set the category of primary business activity will be used as a filter to compare other responses.



It is probably unsurprising that the vast majority of businesses that completed the survey were also MIA members at around 78%

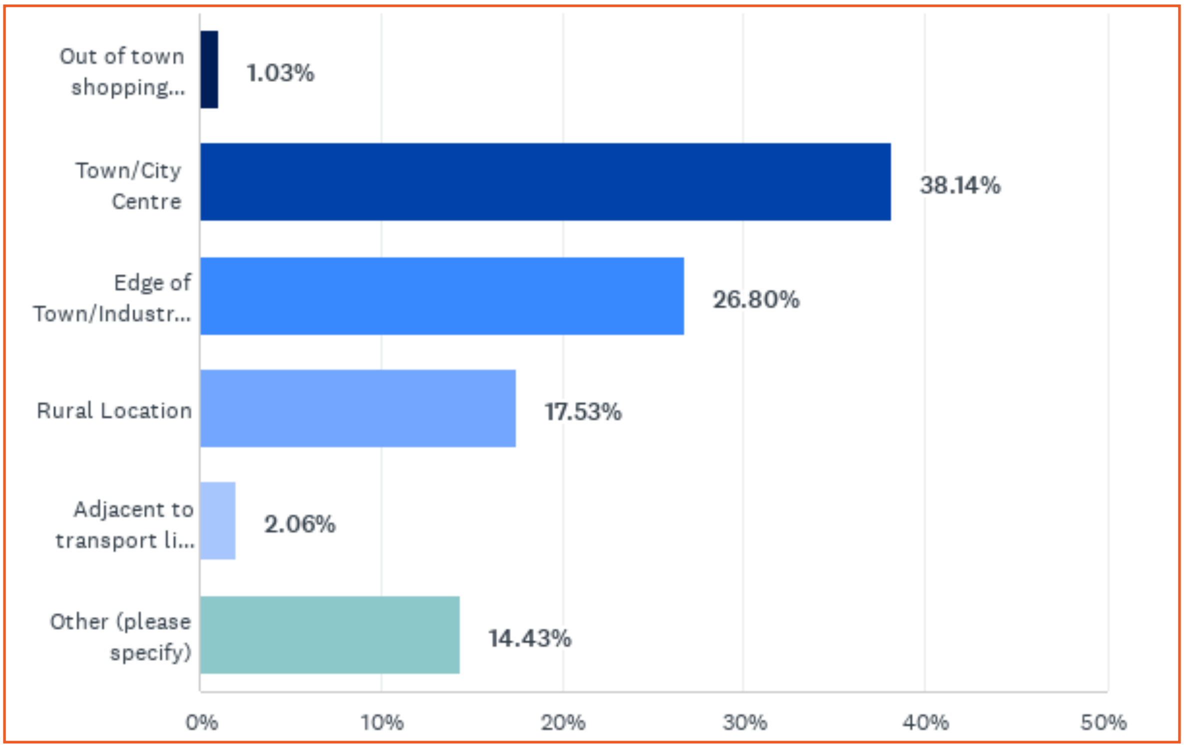
Q2. Where is your business based?

The following two charts detail information with regard to location of the businesses that engaged, both geographically and also by location descriptor.



Just over 40% of businesses were located in London & the South East, which is again probably about the expected number with similar figures from the Midlands, the South West and East of England feeling about right. The fact that there were over four times as many contributions from Wales than from the Yorkshire & Humber region (and considerably more than Yorkshire, the North East and the North West combined) would suggest a very subdued response from those locations.

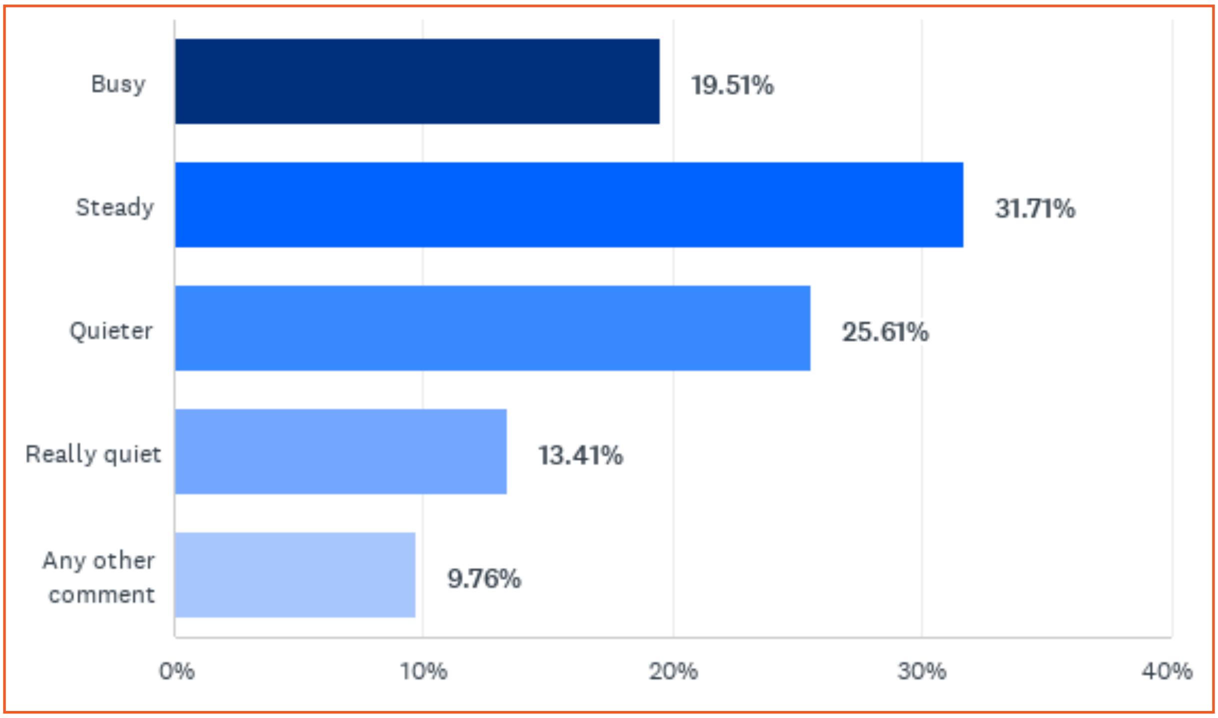
It is probably not surprising to see only a small percentage located in Retail Parks on the outskirts of population centres, but the 17.5% in rural locations is a little more interesting because it is higher than probably what would have been expected. Of the other locations specified the majority were either Suburb, Online Only, Home/Remote Office.



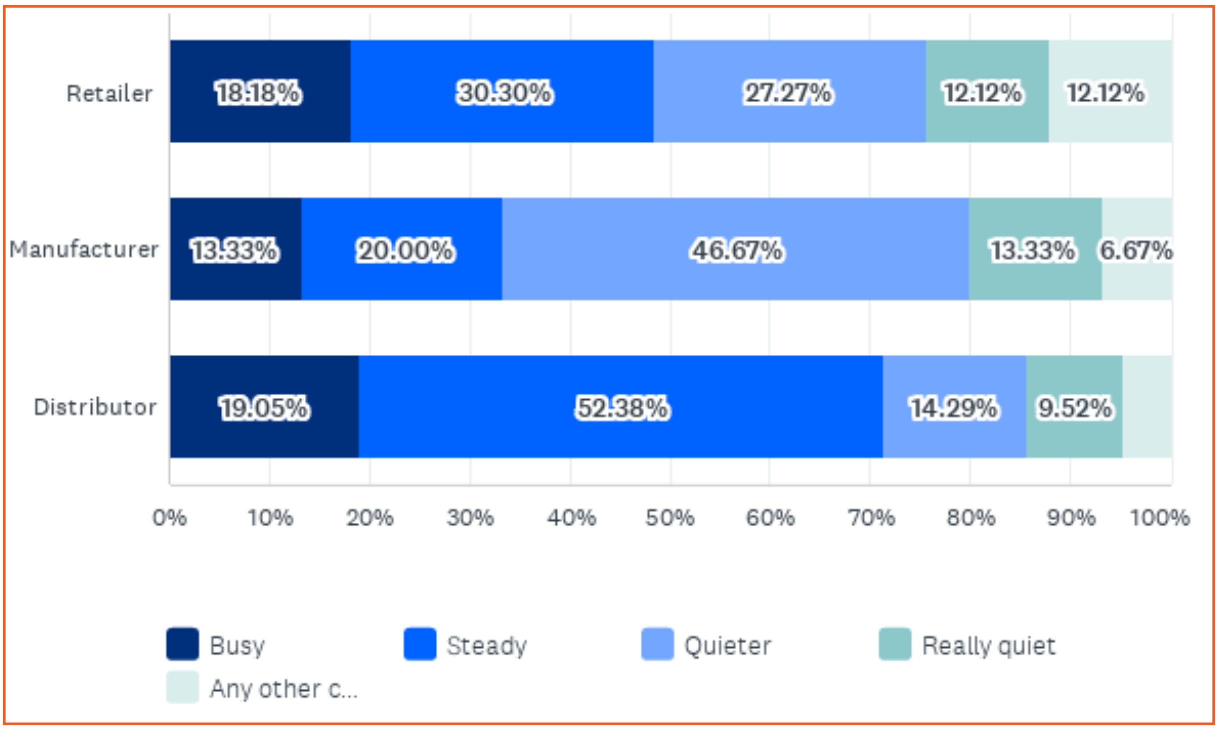
B. Commercial Overview

Q1. How is business going right now?

One of the most basic questions in the survey, was also one of the most revealing in terms of the powerful simplicity of its response. Just over 50% of responses pointed to in line with, or better than what was expected. Only 13% reported that things were really quiet with the 10% that responded with a specific comment noting things like *sporadic* and *quiet during the summer.*



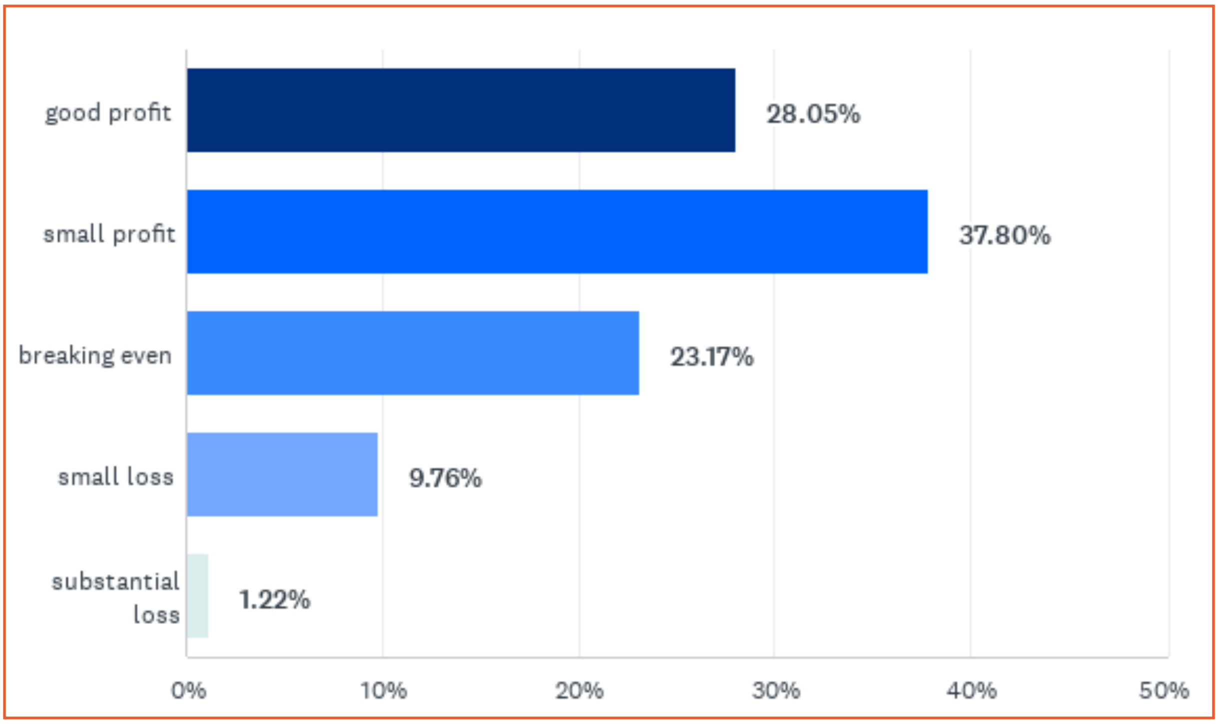
When you map these responses against primary business activity, we get a more nuanced view of the situation with over 70% of Distributors reporting that business was busy or steady, compared with just under 50% for Retail and only 33% for Manufacture. There was more consistency when



it came to the percentages that considered the level of business to be really quiet, with the delta of less than 4% between all three primary business activities.

The disproportionate percentage of Manufacturers who thought business was quieter than usual could be as a result of export pressures, and as such be as much a reflection of the challenges trading internationally post-Brexit than of shrinking demand post-pandemic. It will be interesting to see if these metrics map more closely in the future, which will help in understanding if this is merely market lag or a more sustained pressure on export business.

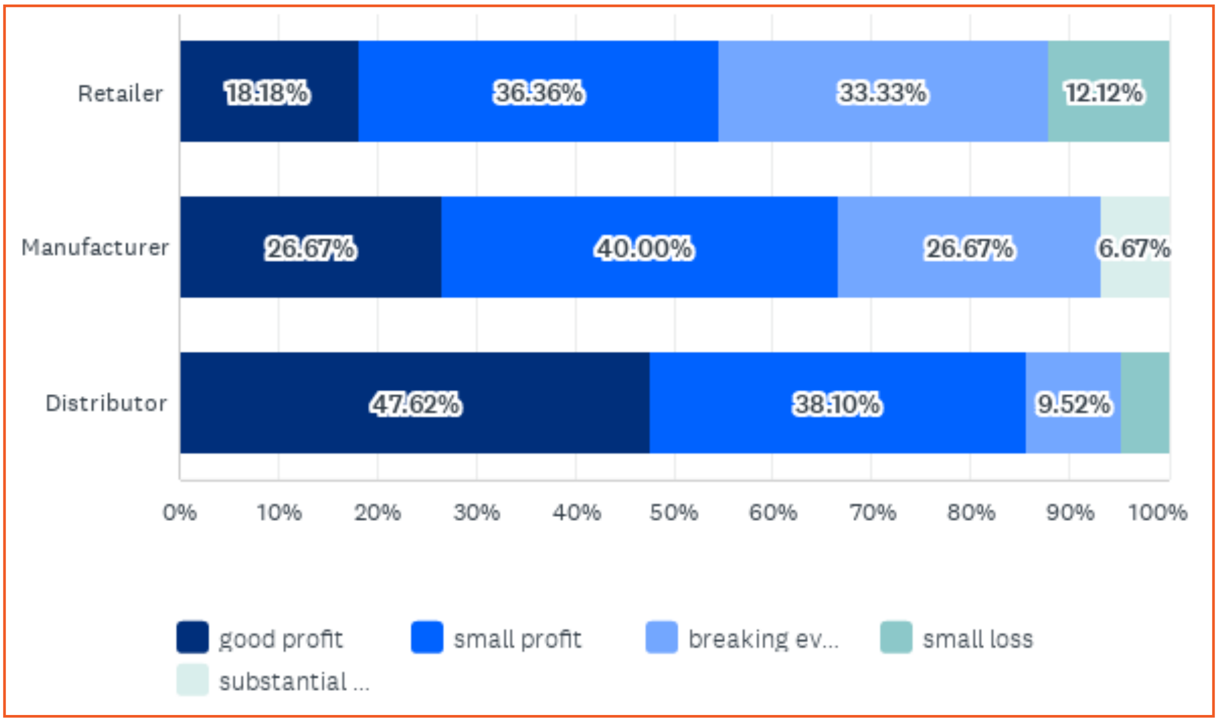
Q2. Based on current business levels, what is your current level of profitability?



Over 65% of those businesses that responded were achieving some level of profitability, with nearly 90% at least breaking even at the time of the survey. In more normal times this kind of result would be a given, but bearing in mind the last few years this has to be seen as a positive. What we don't know is what direction of travel we are heading in, best case is that those breaking even are moving toward profit and those posting small losses are trading back to at least a break-even point.

The fact that general retail data suggests we are still not back to pre-pandemic levels in terms of either sales or foot-fall, also supports a cautious positivity around this position.

Of course when you start to look at the data through the lens of primary business activity, then the picture skews a little. Again the most positive responses came from those focusing on Distribution (which underpins the findings of Q1) followed by Manufacture and then Retail.

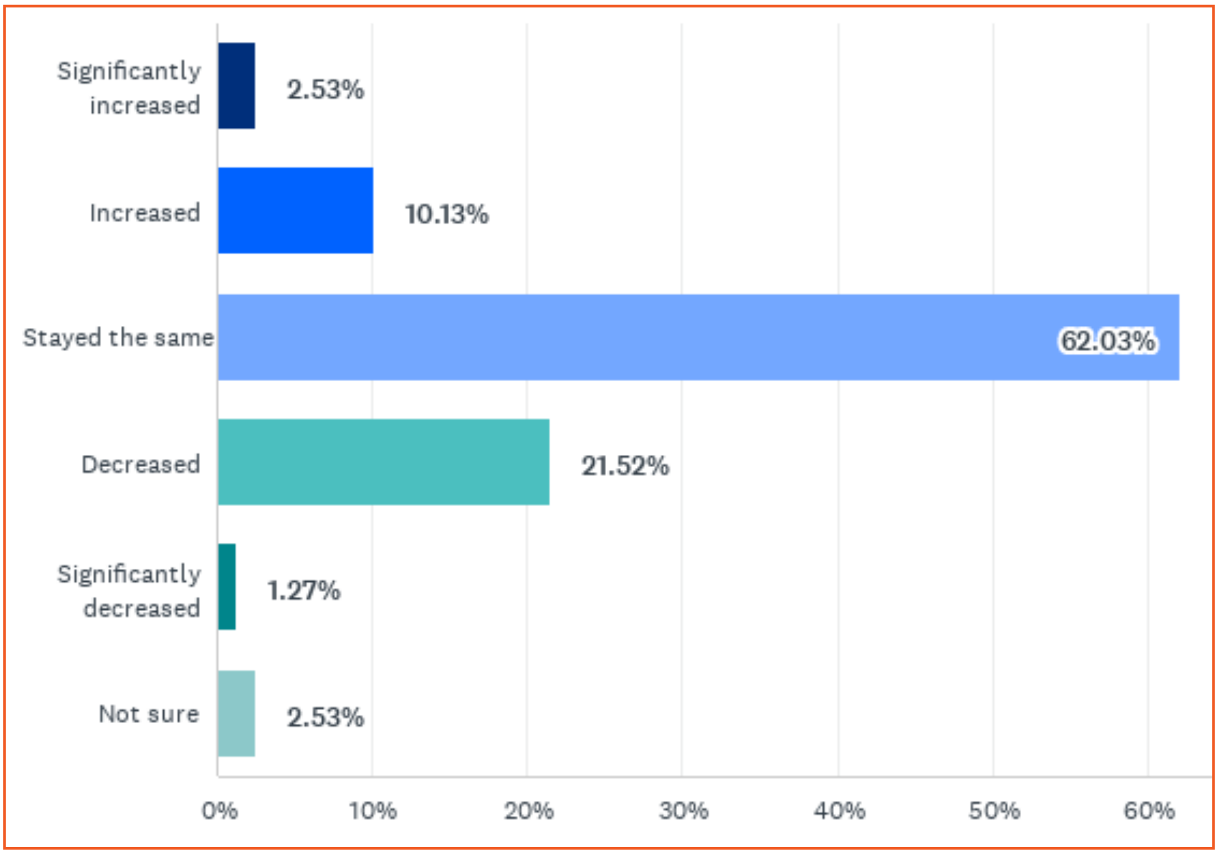


The fact that 45% of Retailers are either breaking even or posting a small loss could be indicative of the sluggish performance of the high street post-pandemic, and the slide of e-commerce activity post-lockdown. It could however be reflective of a more competitive landscape as general stock levels in the channel match or exceed the level of underlying demand, and as a result pushing product pricing down.

Q3. How have your levels of Business Debt changed since January 2022?

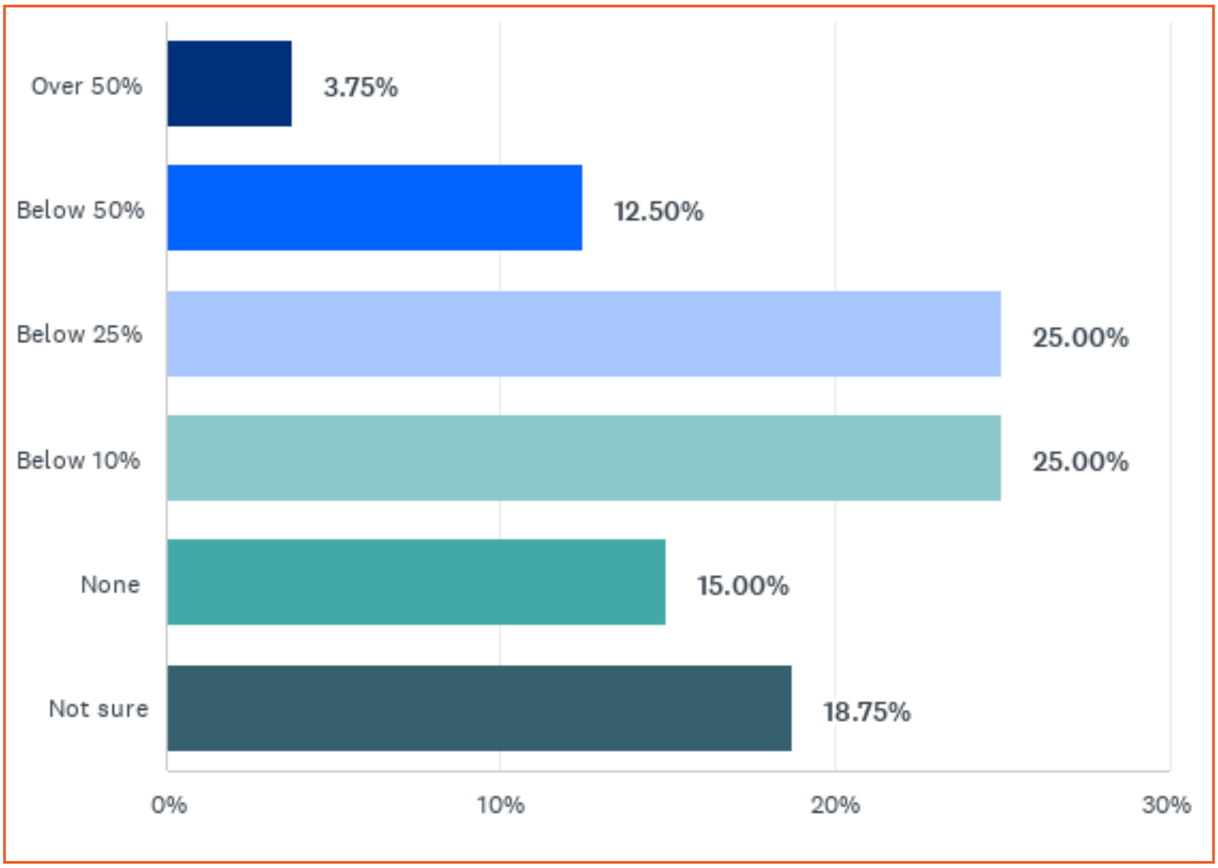
The first thing to note is that 41.9% of businesses in the MI sector have some form of debt, and it would be easy to imagine that this figure has increased as a result of the trading conditions resulting from the pandemic. However this is true for less than 13% of our sample, with the level remaining steady for 62% and falling for over a fifth of businesses. The suggestion would be that the sector exited the pandemic with slightly less debt than it entered it with.

Another way of looking at this is to study the extent to which businesses were carrying reserves forward, and whether this had changed as a result of the last couple of years.

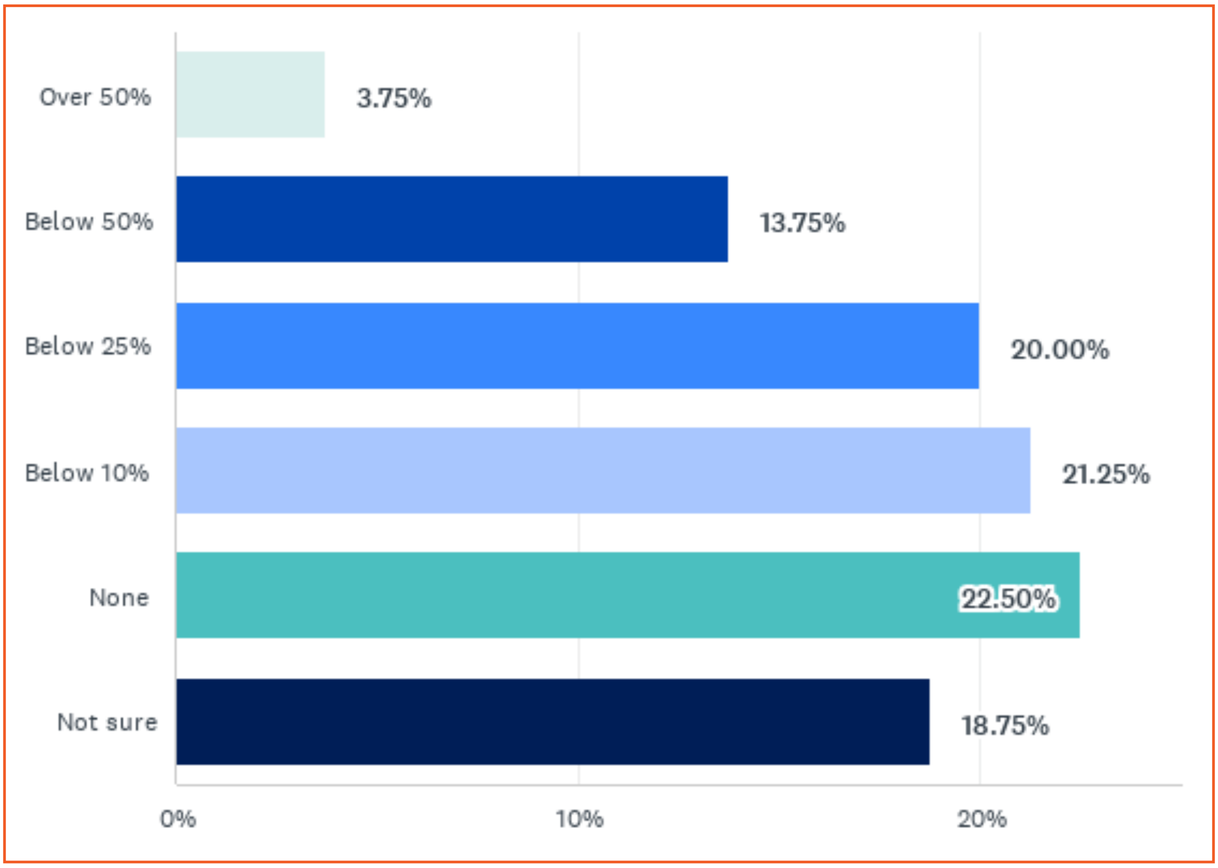


Q4. What level of savings did/does your business have?

Both charts illustrate the level of business savings expressed as a percentage of annual turnover. The top chart is pre-pandemic and when compared with the current figures there is relatively little shift in the position.



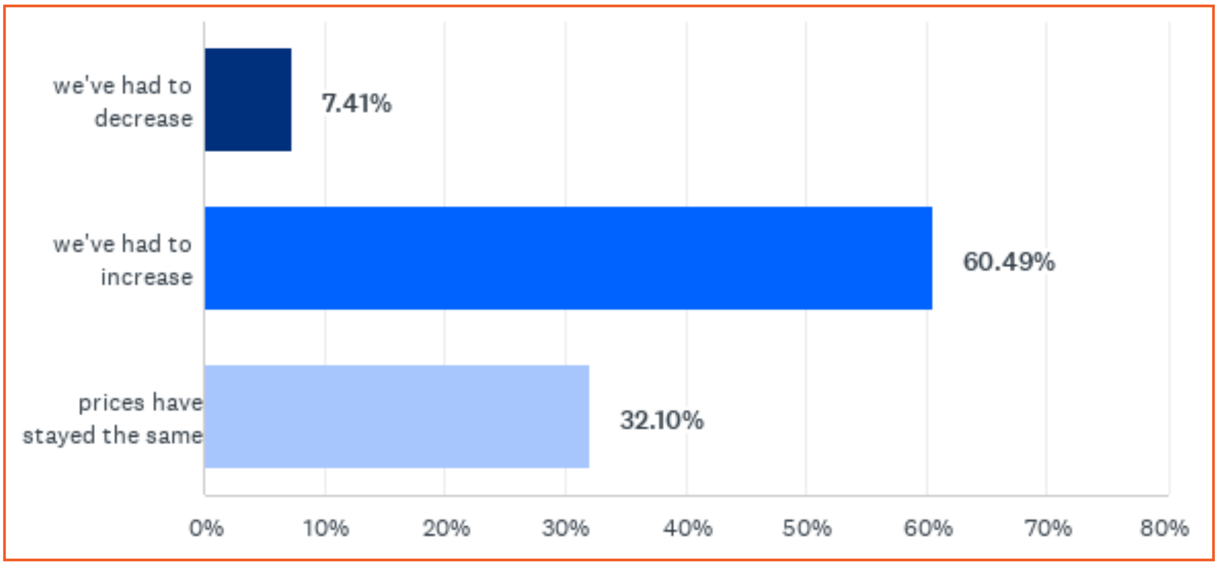
Now of course the correlation between level of debt, and levels of reserves is a somewhat tenuous way of drawing a conclusion. But the fact that savings levels have only dipped by a relatively small percentage, would support the fact the sector may not have taken on an enormous amount of extra debt as a result of lockdown.



The big caveat here is the nearly 19% of respondents that weren't in a position to answer the question, which off course leads to the possibility of a more dramatic fall in the level of available reserves. Though it would be unusual for the 'don't knows' to skew the results that comprehensively, so the analysis is probably still within the realms of acceptable tolerance.

C. Product Pricing

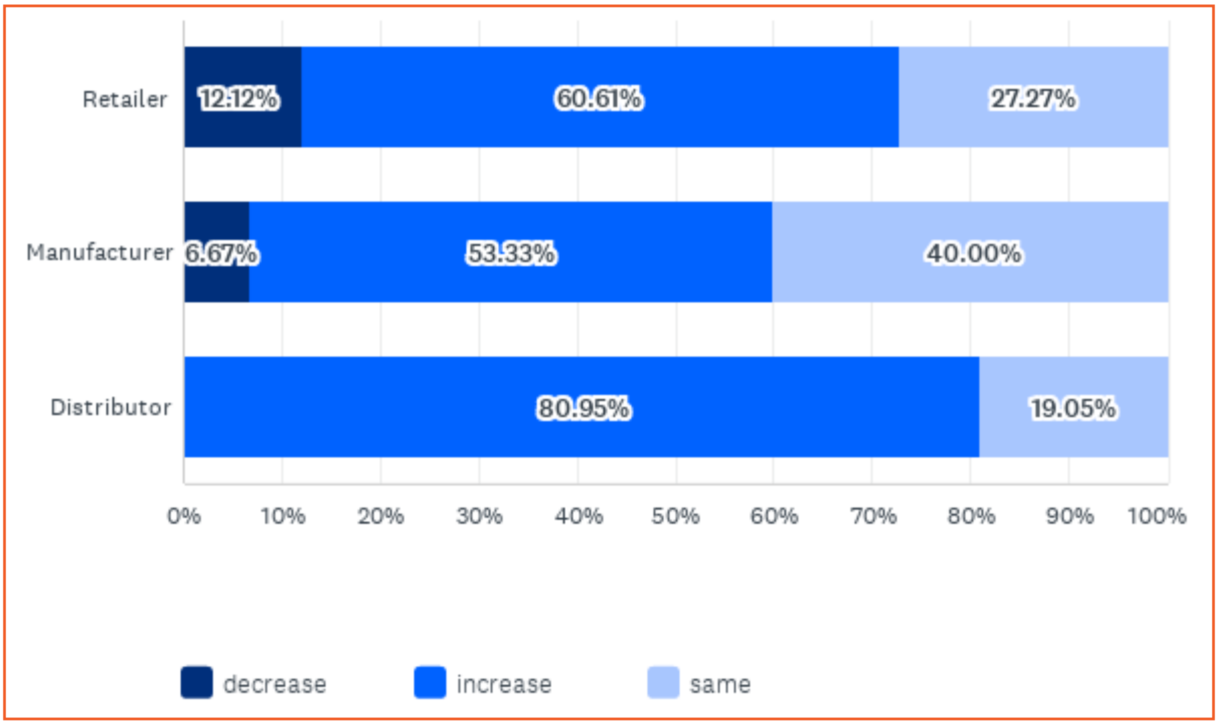
Q1. Have you made changes to your prices over the last three months?



The overwhelming response here pointed to the fact that inflationary pressures are very much at play in the MI sector. Increases in shipping costs and the rising cost of component parts (many in sort supply) was a much discussed aspect of manufacture through the pandemic, feed into that the issues created by war in Ukraine and it is hardly surprising that over 60% of you reported that this pressure had resulted in action.

What is perhaps a little more concerning is the small number of reports of price deflation, which could point toward retailer intervention to stimulate an upturn in demand.

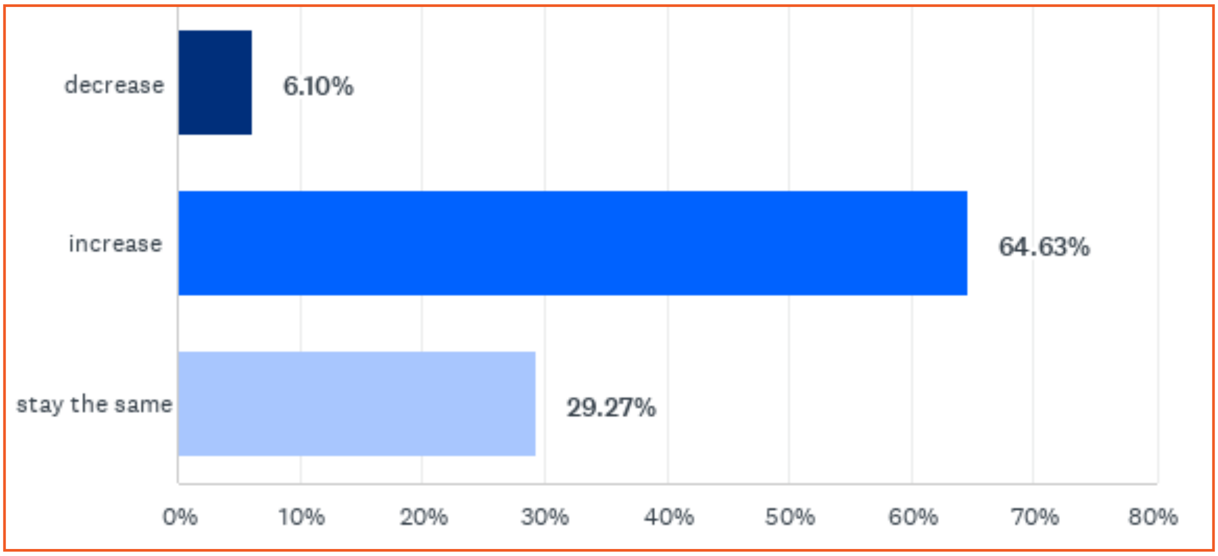
This assumption is perhaps underpinned by the fact that this pressure was felt more keenly by Retail than Manufacture or Distribution.



The small trend of price reductions (or indeed promotional pricing) by Manufacturers could simply be a mechanism to reduce inventory levels, as a result of a stronger flow of incoming stock post pandemic. In reality it is probably a mix of both this, and a squeeze in demand,

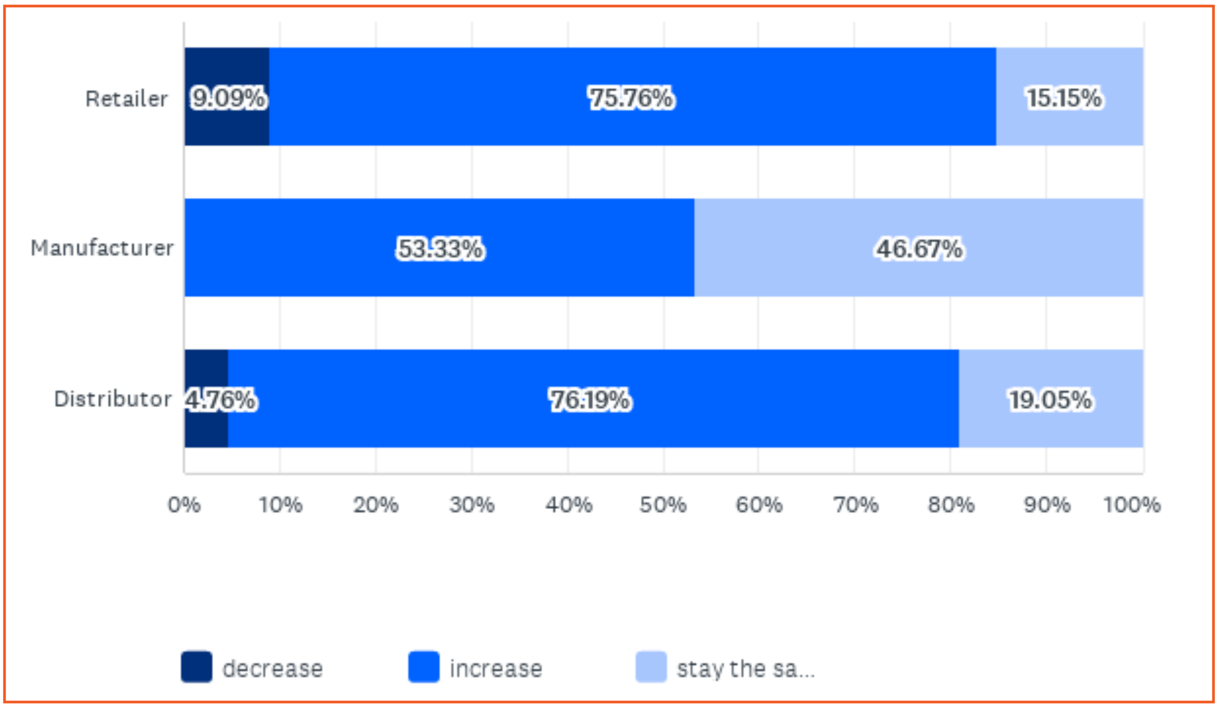
Q2. Do you expect to make more changes in the next three months?

A very similar picture for the immediate future, compounded possibly by the weakness in currency



levels at present.

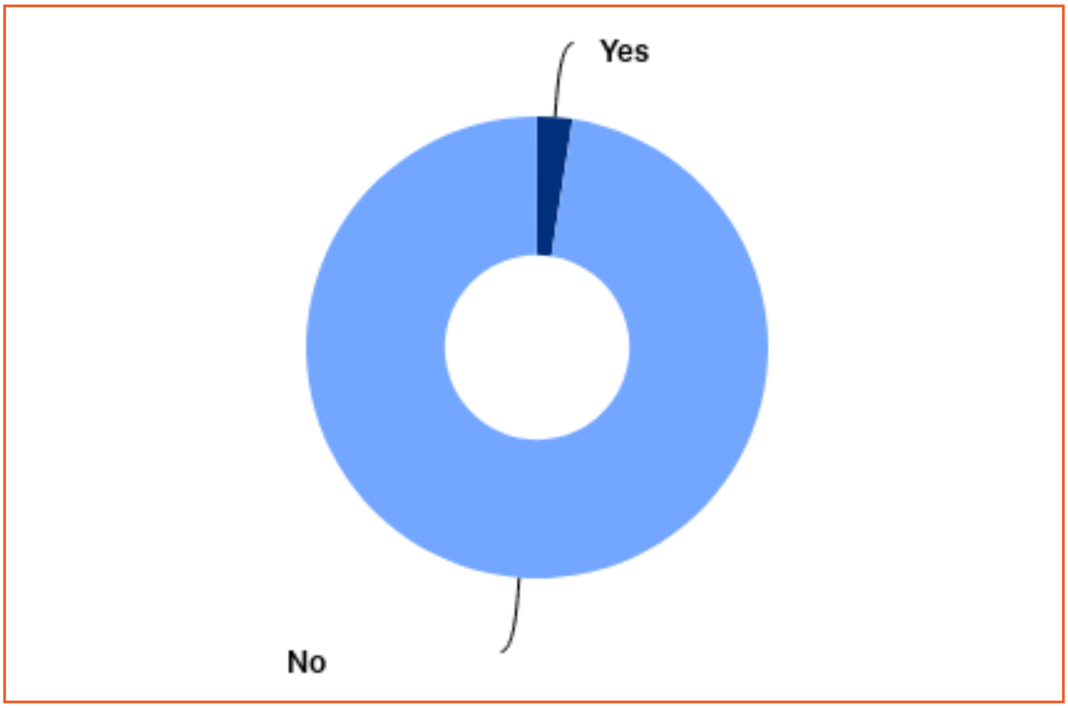
There is a continuing (though small) view that prices may well have to drop, and one that is still predominantly coming from Retail. The fact this is reflected by Distribution could point to a drop-off in sell through at street level, or it could be a reflection to price adjustments made by Manufacturers in the previous period.



D. Rental Costs

Q1. Do you have any outstanding rental arrears that have arisen because of the pandemic?

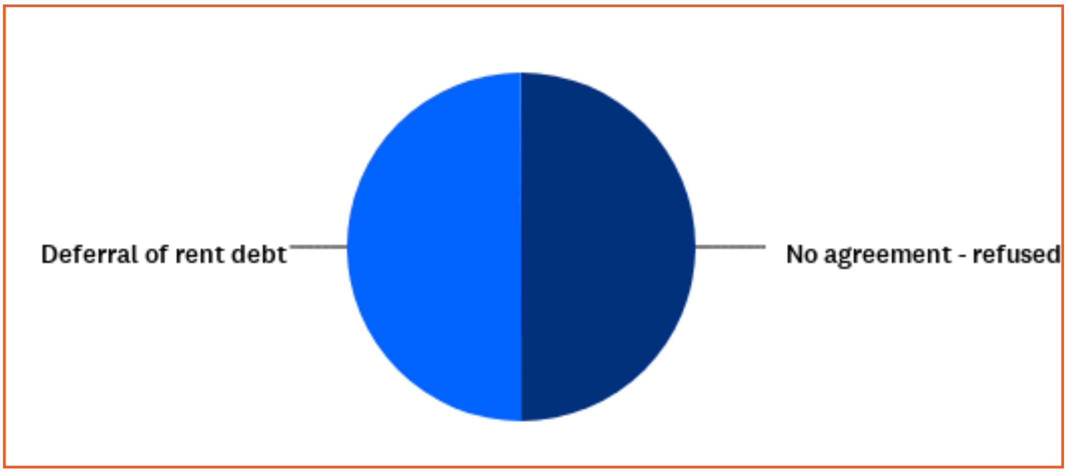
Pretty overwhelming confirmation that many businesses in the MI sector experienced some



pressure on cashflow through the Pandemic period.

The follow-up question confirmed that in 100% of cases the respondents approached Landlords for some form of support with rental arrears.

Q2. What was the result of subsequent rental/arrears negotiations with your Landlord?

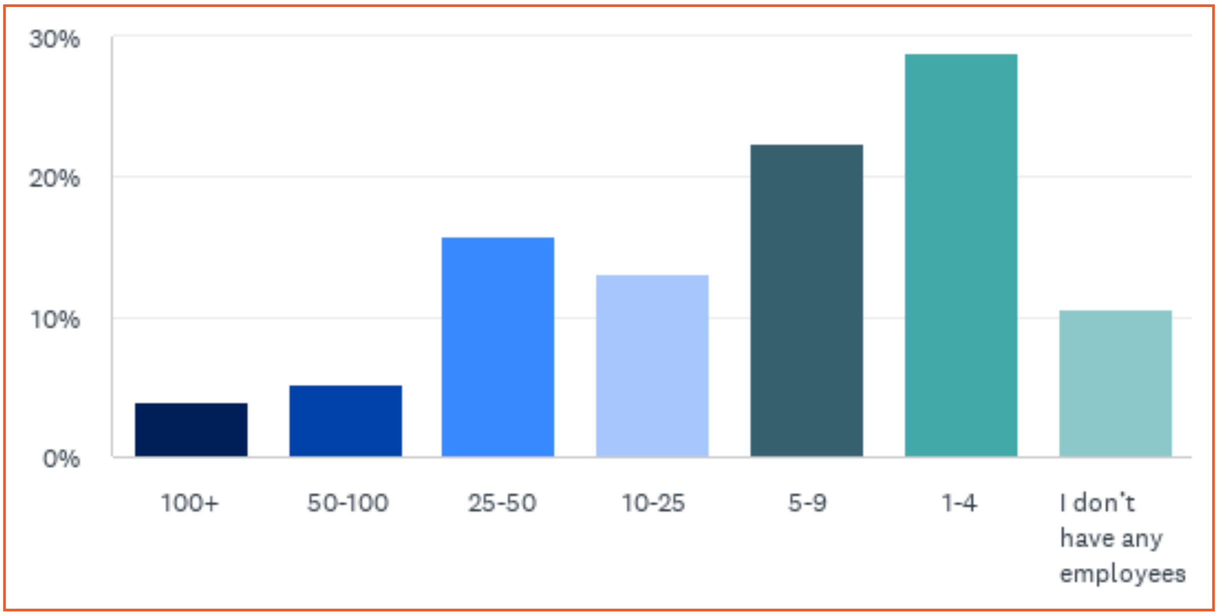


* It is worth noting that these results were based on a smaller sample of responses than the majority of the other sections.

E. Staffing

Q1. How many people work in your business?

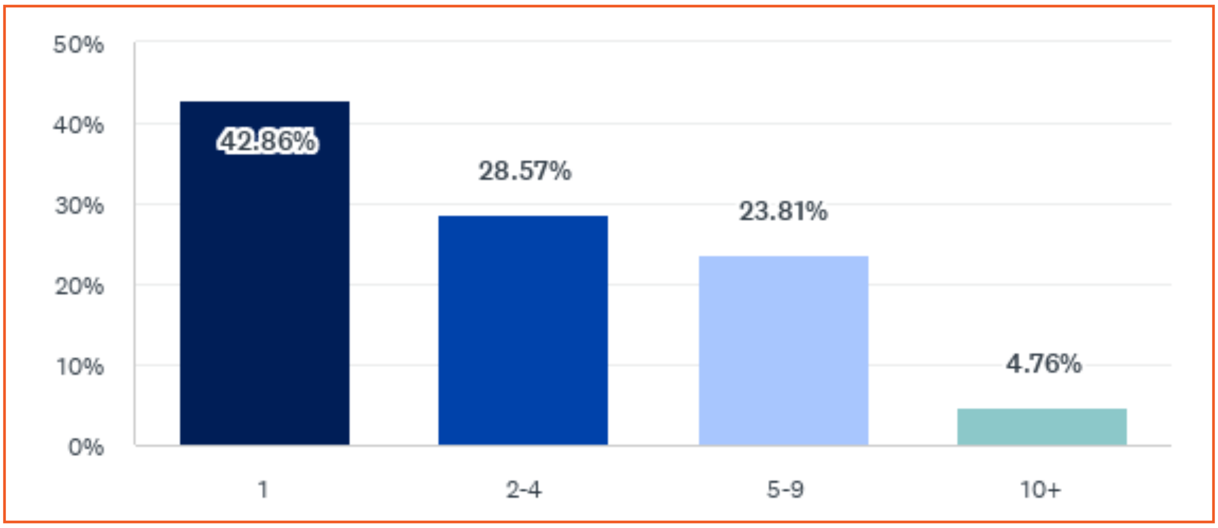
As a snapshot of business size within MI this data somewhat correlates with MIA membership demographics. Roughly 60% of MIA members have a turnover below £1million and whilst it doesn't always follow, it is fairly safe to assume many of those member businesses will have up to 9 employees.



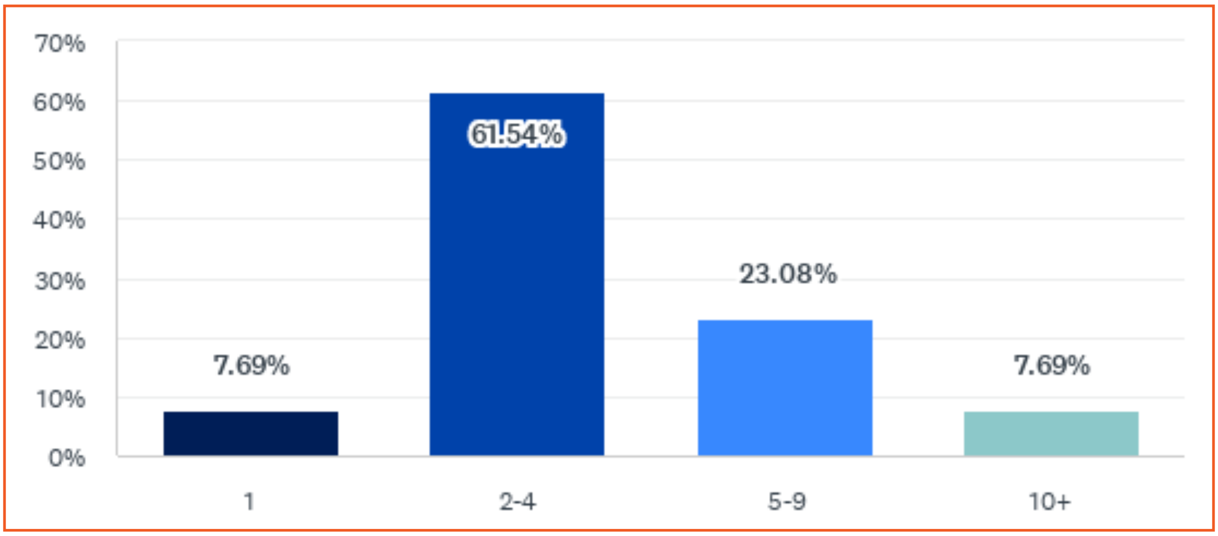
Q2. Changes to workforce numbers over the last year

As MI businesses have re-emerged from lockdown 27.6% of those who responded said that the number of people working within the business had fallen, compared with 55.3% that had stayed the same and 17.1% that had grown.

Of the businesses that had lost staff over 70% lost between 1-4 people, compared with those that had lost staff in greater number. When questioned about the details of these staff losses, the vast majority of companies that were forced to make redundancies lost between 2-4 people which would indicate that many of those business that lost just a single member of staff did so for other reasons.

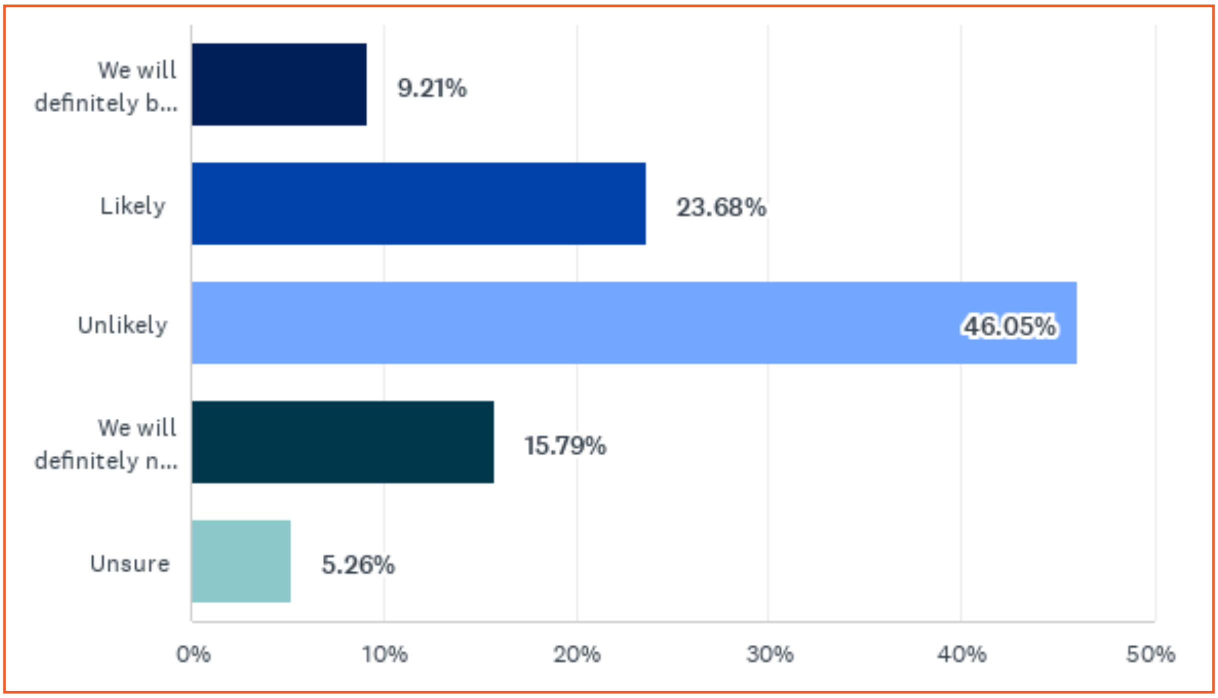


Of the 17.1% of companies that have increased the size of their teams since coming through the pandemic, a very big proportion have taken on between 2-4 new employees.



Q3. Are you intending on increasing your workforce in the year to come?

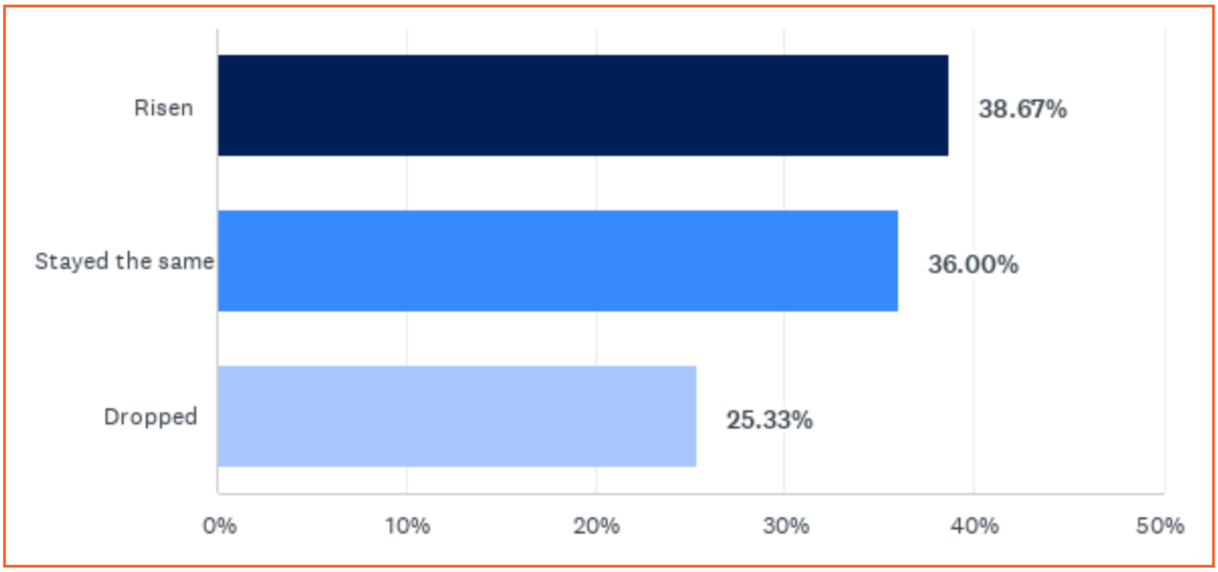
When questioned about intent to hire the response was reasonably positive with over 30% of those that responded likely to expand their numbers in the short term. Further to this there was a strong indication that if incentives such as reselling and apprenticeships were available as part of



a covid-recovery package many businesses (upwards of 75%) would take advantage of these and actively recruit.

F. Stock Levels

Q1. What has been the trend in your stock level over the last year?



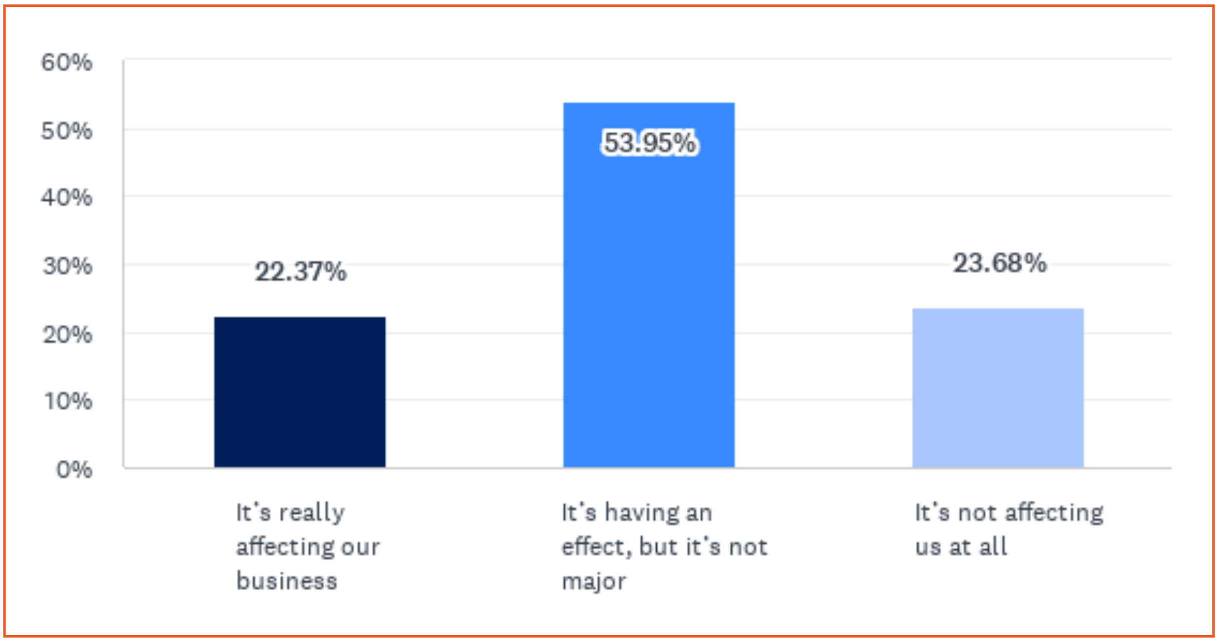
It is unsurprising to have it confirmed that stock levels over the course of the last year rose for nearly 40% of businesses surveyed. Limited stock availability was a key discussion point through the entire pandemic, particularly with so much inventory coming from China. What was more surprising was the 25% of businesses whose stock holding had dropped over the period

When you look at the breakdown of this by business activity it appears that the highest percentage of respondents that had increased their stock levels were Manufacturers followed by Distributors and Retailers. And to confirm this trend Retailers were most likely to have seen a decrease in overall stock level.

Q2. How is stock/component availability impacting on your business now?

Bearing in mind that both of these factors would be some sort of challenge at any stage of the economic cycle the fact that only 22% of responses were finding it a real challenge at present would reinforce the fact that we are returning to a inventory situation closer to one that we experienced pre-pandemic. What this could point to is more fundamental challenges, to specific product areas rather than a more blanket issue compounded by (for example) a shortage of shipping containers.

It will be interesting to see what changes with regard to this situation over the coming year, and whether we are looking at a long tail of inventory challenges in certain categories.



G. Sales Trends

Instruments

There is no doubt that the responses to the following questions are open to an awful amount of interpretation, even though the questions themselves are relatively straightforward.

The problem in trying to get some simple understanding of what is (and what isn't) selling well is the that pretty much every business questioned has a slightly different focus to that of every other one, and as a consequence much of the opinion expressed seem to be contradictory.

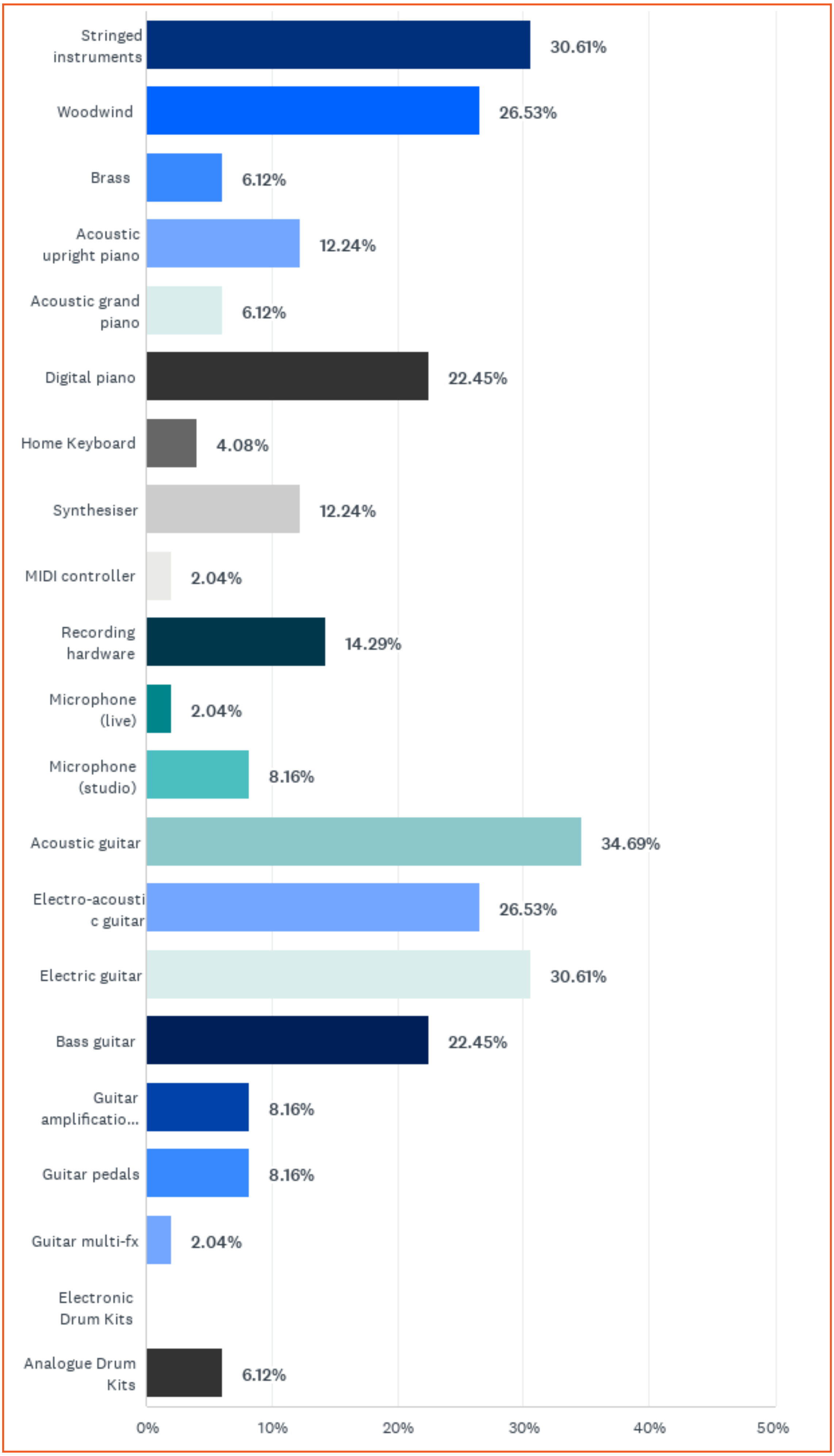
The question format allowed respondents to select multiple answers (minimum of three) to help get a clearer pattern of trend.

Where we can draw some kind of conclusion is those categories that score highly in terms of selling well and also appear down the selling poorly chart. So as an example Stringed Instruments appear to be selling well for a reasonable number of respondents (30.6%), and poorly for a much smaller number (7.4%) which would suggest that category overall is selling well.

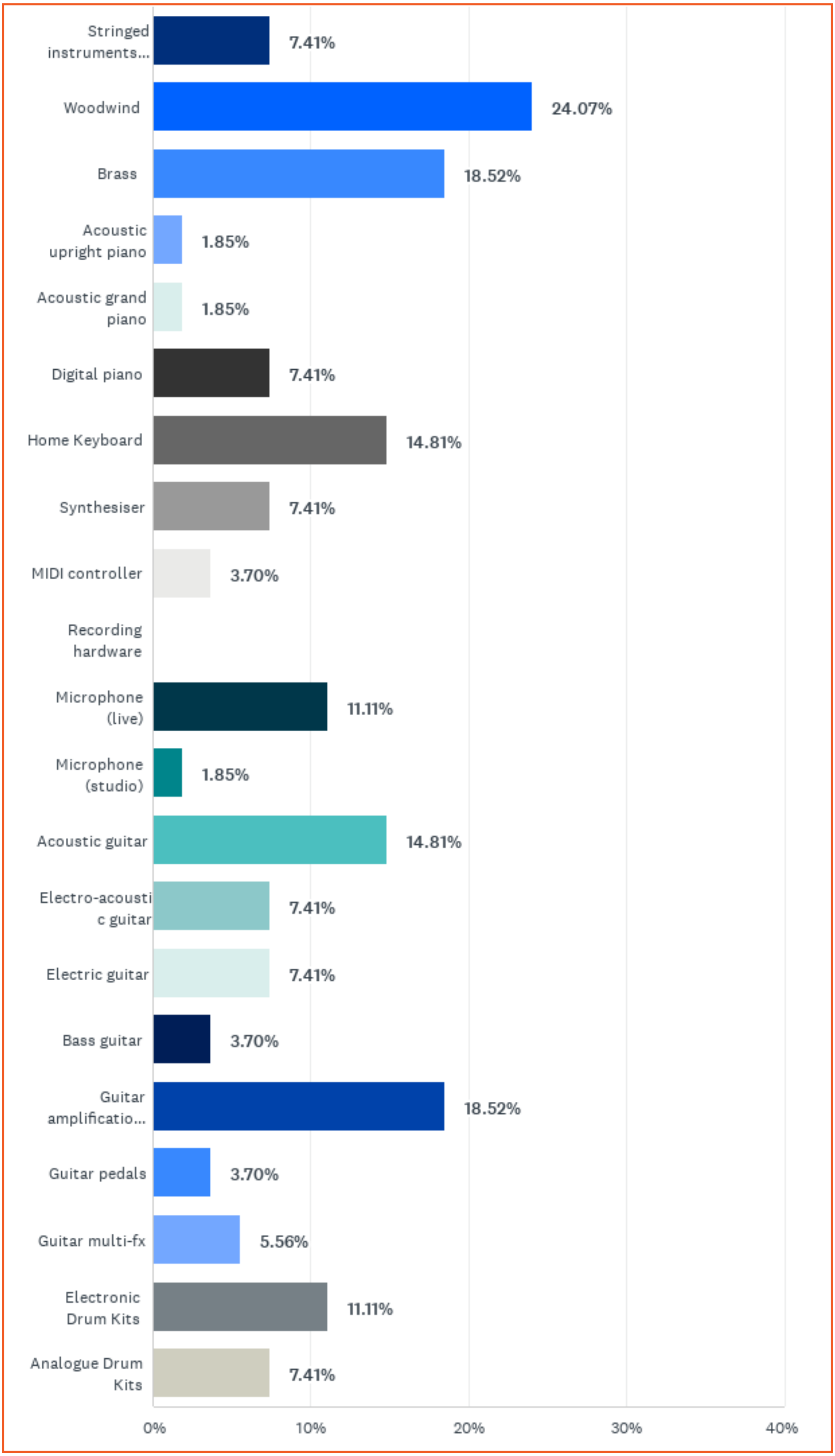
Where the data is less useful is a category such as Woodwind which according to 26.5% of respondents is selling well but then according to 24% is also selling poorly.

Applying this insight to your own experience is probably the best way of interpreting this data.

Q1. What Instrument Categories are selling well?



Q2. What Instrument Categories are selling poorly?



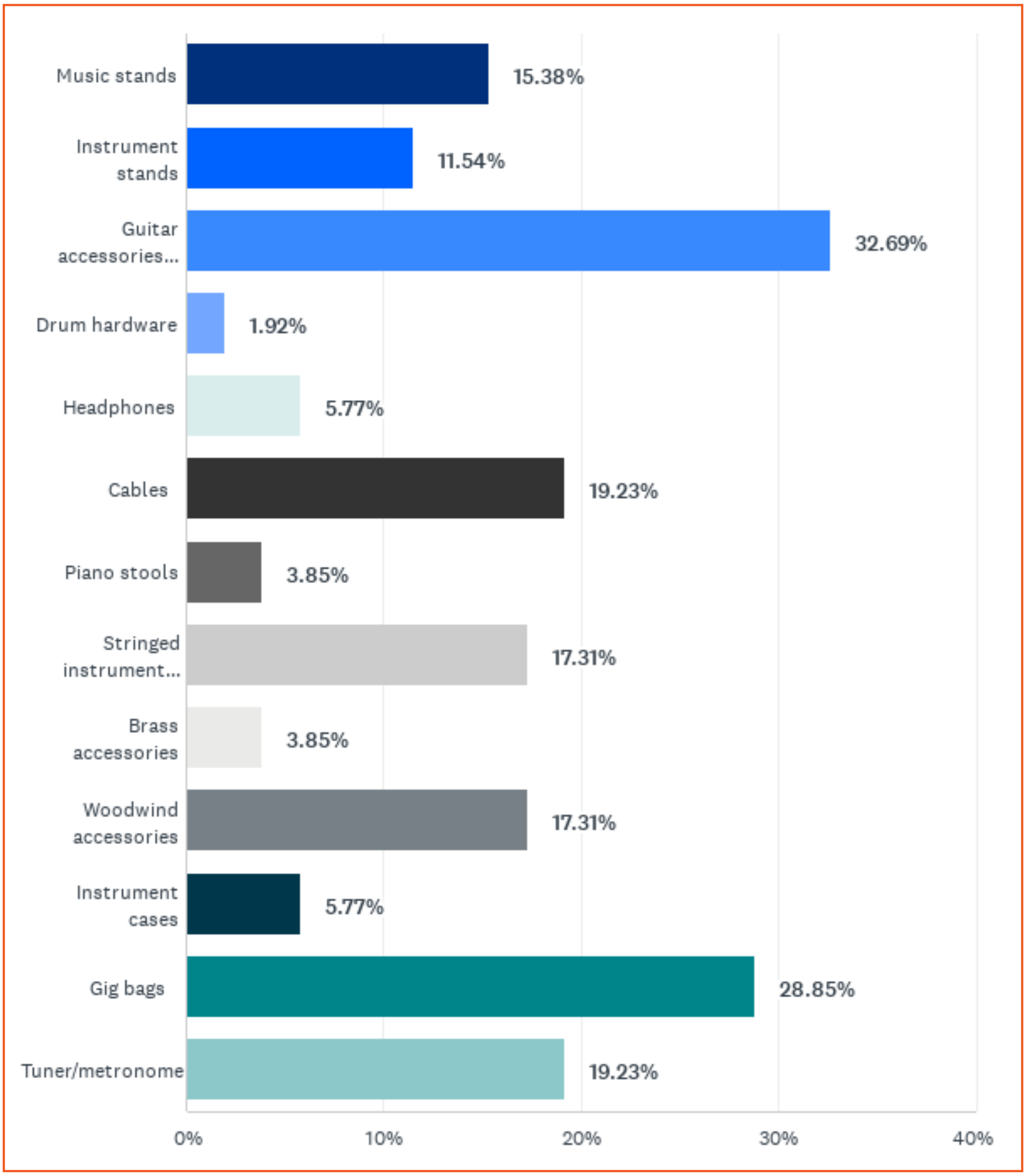
Accessories

It's a similar situation with accessories as for the instrument categories. What is useful though is to plot these responses with knowledge of the instrument responses. For example the positive number of responses suggesting Guitar Accessories are currently selling well, plots well against the fact that Electric, Acoustic and Electro-Acoustic guitar instrument categories also seemed to be selling well.

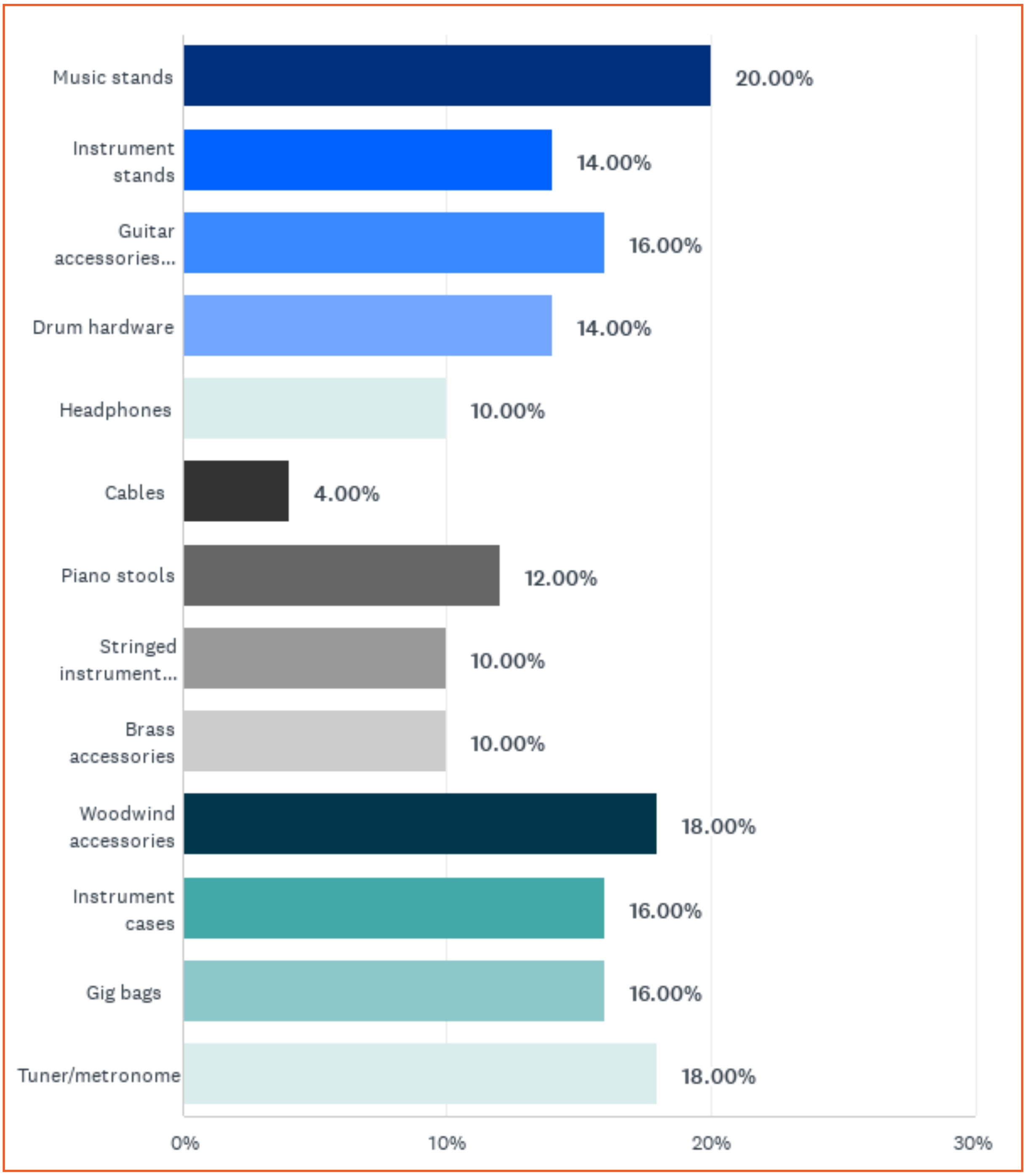
And conversely a reasonable amount of responses suggesting that Drum Accessories were fairly suppressed would align with the poor sales of Acoustic Drum Kits.

Again there on caveats, tuners and metronomes appear to be selling both well and badly, as do Gigbags.

Q3. What Accessory Categories are selling well?



Q4. What Accessory Categories are selling poorly?



H. Business Outlook

Q1. What are you main concerns for the medium term?

The overwhelming number of responses for this question were as follows;

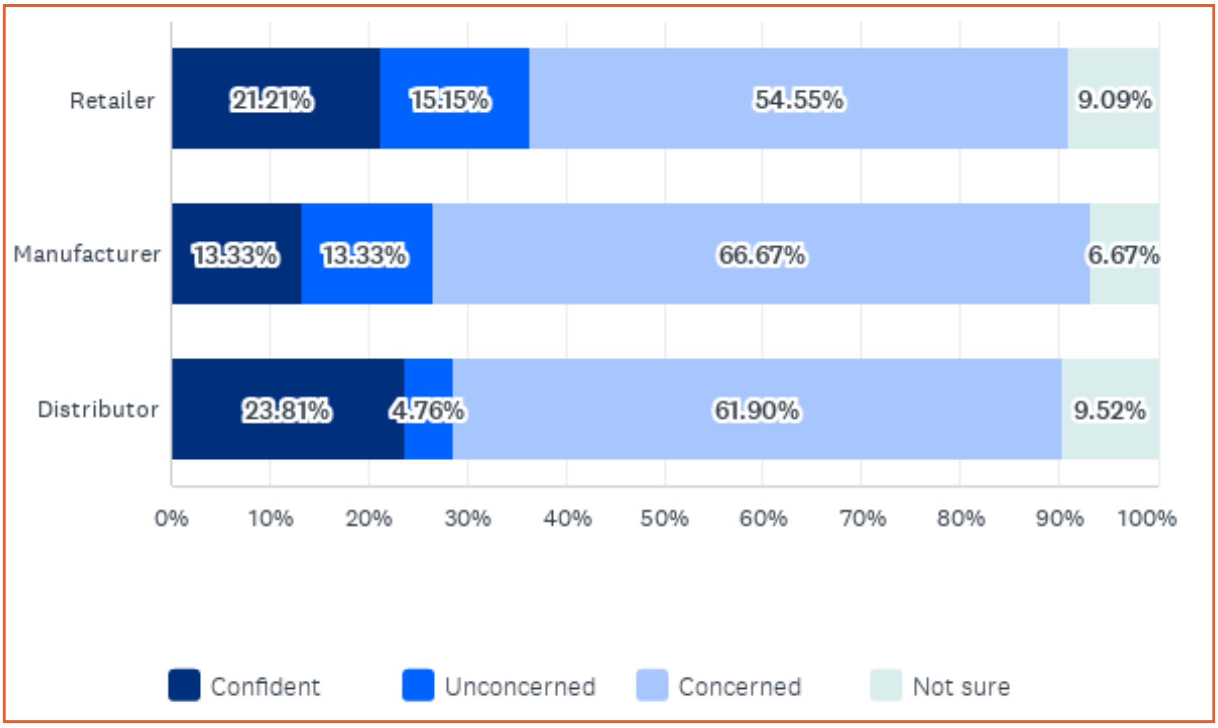
a. Maintaining or increasing sales volume
b. Increases in business costs

These were a long way ahead of the other options which focussed on inventory, staff recruitment, staff mental well being and the possibility of further disruption because of COVID.

Q2. Based on how you are operating at the moment, how are you feeling about the rest of the year?

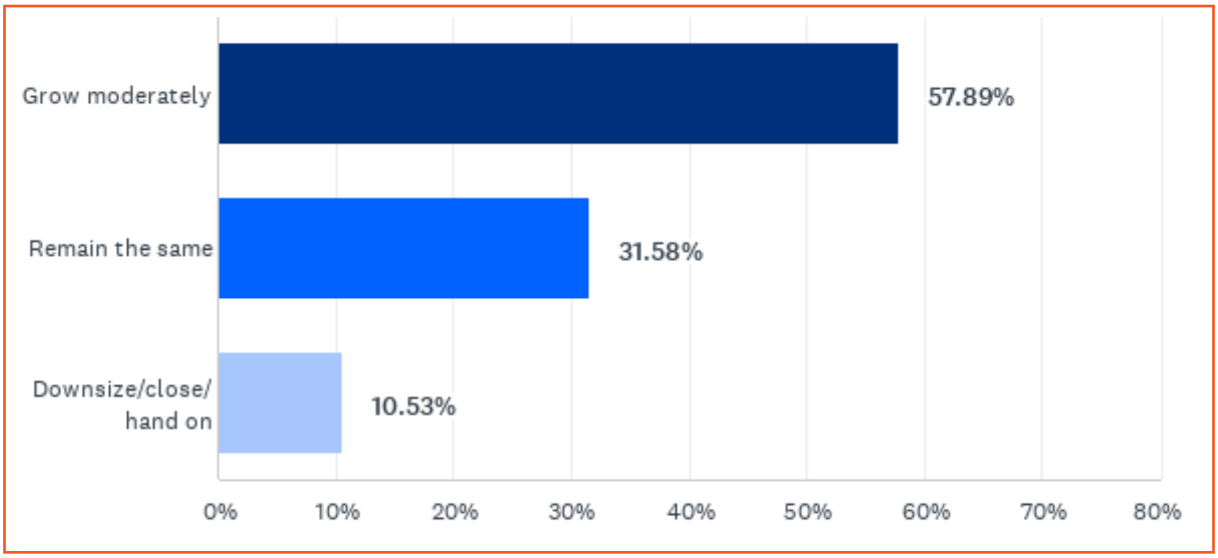
Whilst just under 21% were fairly confident, and a further 12.2% were unconcerned the vast majority of 53.7% had concerns about the remainder of the trading year.

When viewed by primary business activity Retailers seemed to be the most comfortable about trading conditions in the short term, with Manufacturers the most concerned with a swing of just over 12% of those who expressed an opinion.

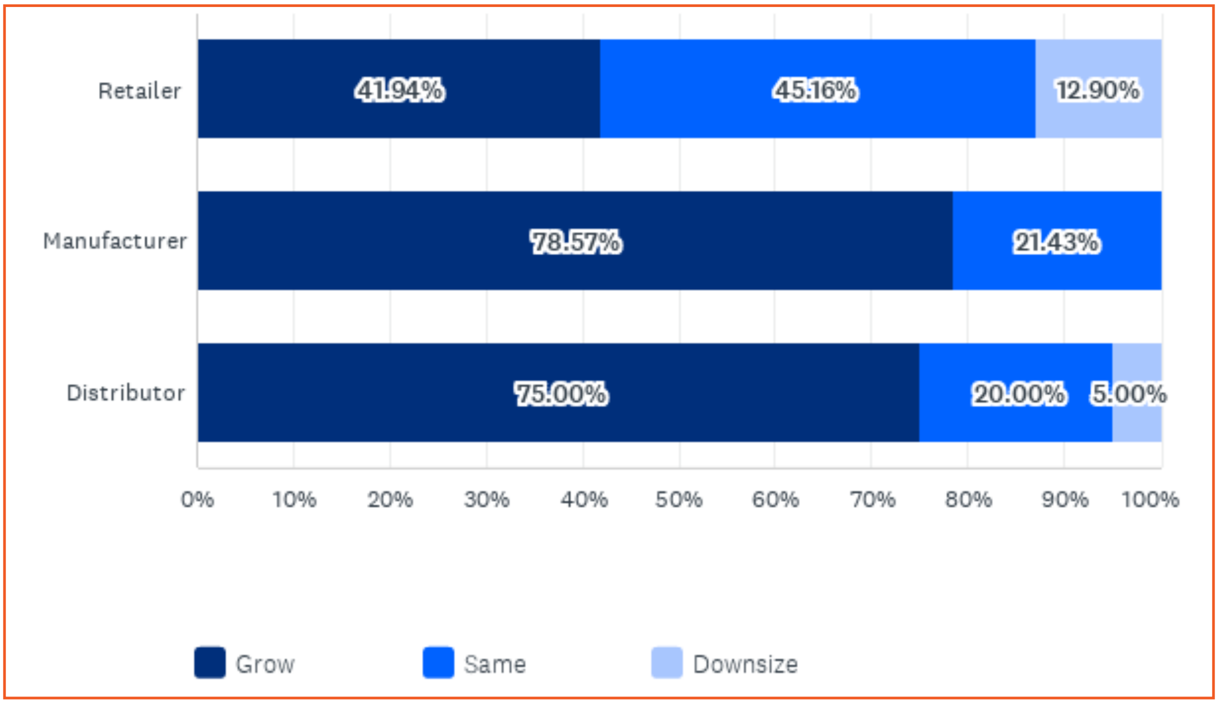


Q3. What are you growth intentions over the next 12 months?

Interestingly there seemed to be more confidence around the question of growth over the next year, with only one in ten businesses expecting to see any kind of decline or indeed expecting to close.



This time, when viewed by primary business activity, the most confident sector was Manufacture, followed closely by Distribution Three quarters of both were predicting growth over the next year compared with under half of Retailers.

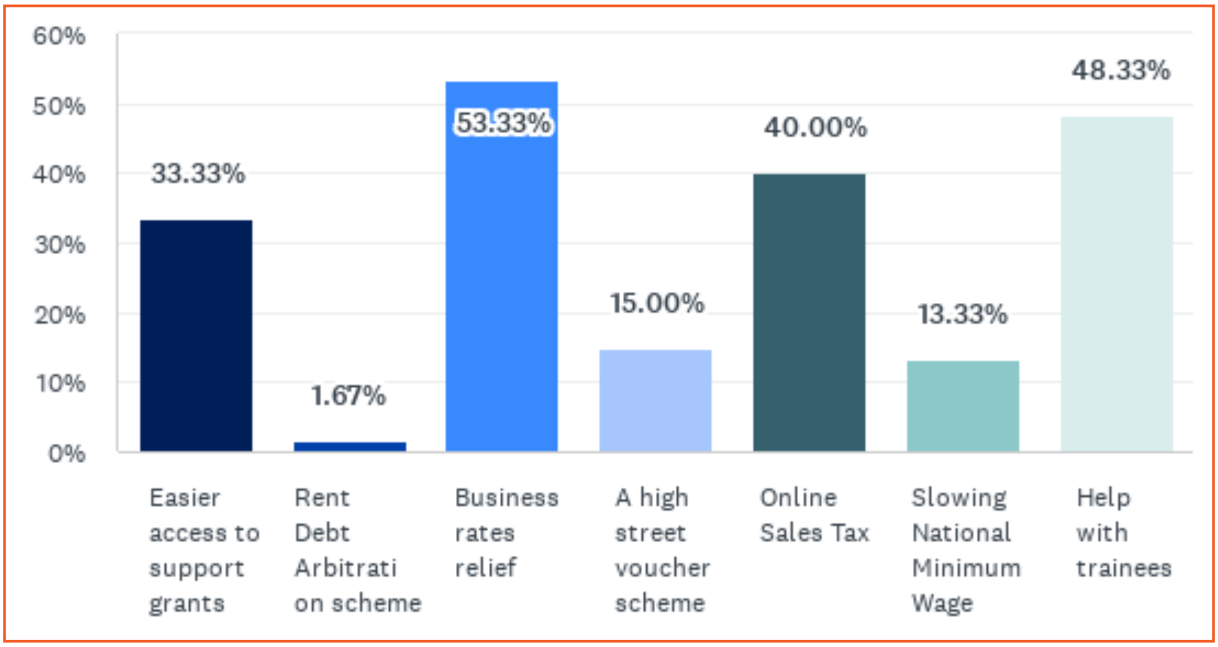


Q4. What do you feel are the main barriers to growth?

This was a multiple response question, and 94.7% of those that answered it indicated they thought economic conditions impacting on demand would be a barrier to growth in the short term. Of the other responses Increases in product pricing & Brexit uncertainty were the other popular choices. Recruitment challenges and changes in consumer shopping habits were seen as less of an issue.

Q.5 Which would be most beneficial to your business over the next year?

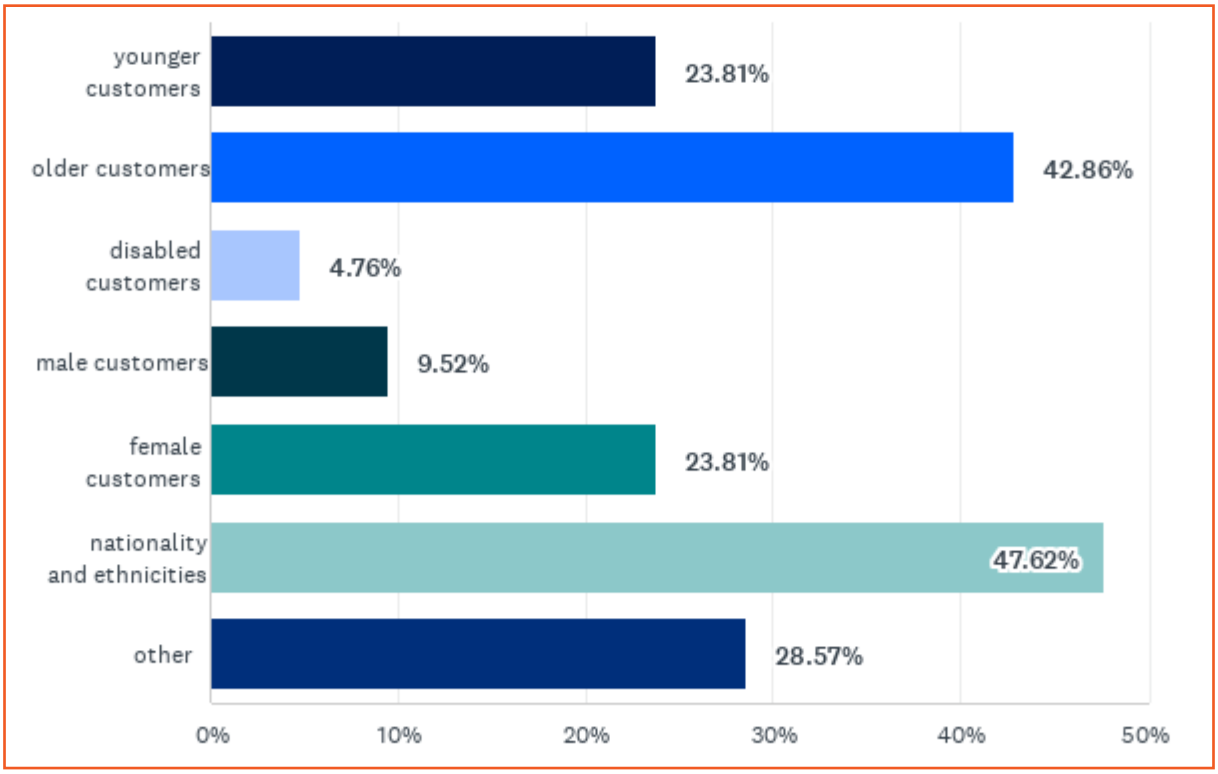
This question was asked before the Autumn Statement was announced and as such the fact that further Business Rate relief was part of that package (specifically for Retail) will have gone down



well with respondents. Help with training costs is also an interesting outcome, especially as current options are widely considered to fall short of the mark as far as SME's are concerned. Support for an Online Sales Tax also featured highly up the list, but this has now been shelved by the current Government.

Q.6 What kind of change have you seen in your Customer demographic?

Firstly it is important to point out that only 31.6% of respondents had noticed any change in customer demographic post the pandemic. However of those that had expressed this opinion the following trends were noted;

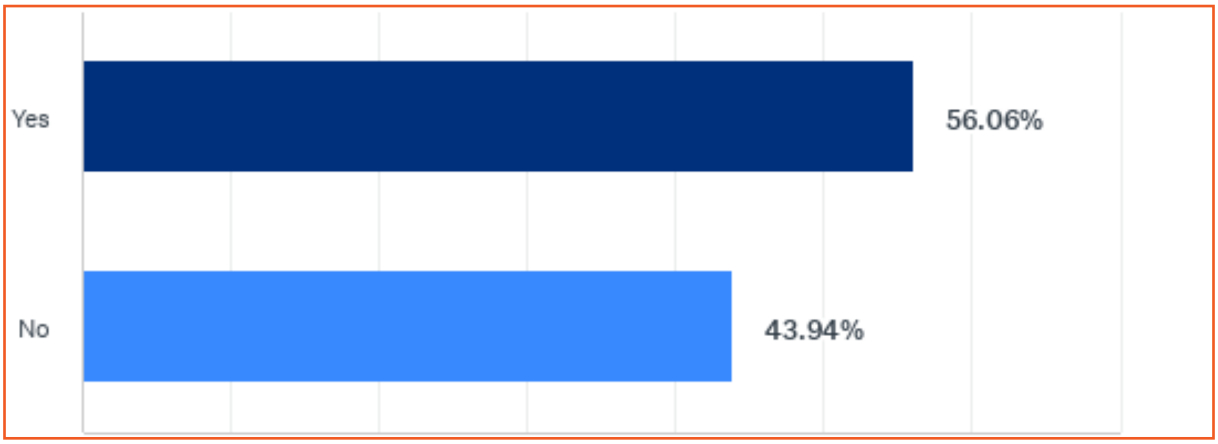


Q.7&8 Average Basket Value and Premium Product Selection

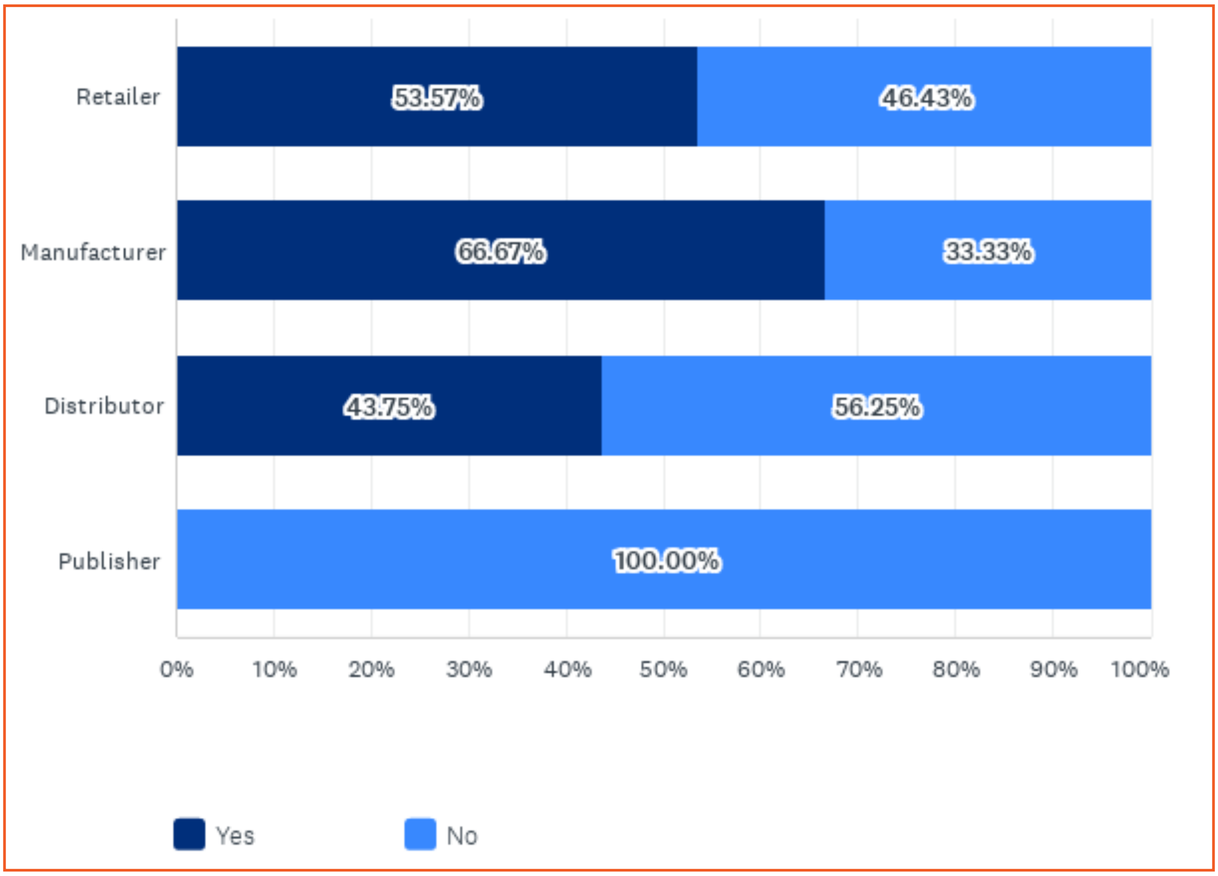
In both instances the responses recorded against these questions were fairly inconclusive with upwards of 50% in both cases saying that no particular change had been recognised and the balance of responses evenly split between an increase and a decrease in relevant activity.

I. Music Education

Q1. Are you aware of the National Plan for Music Education (NPME)?



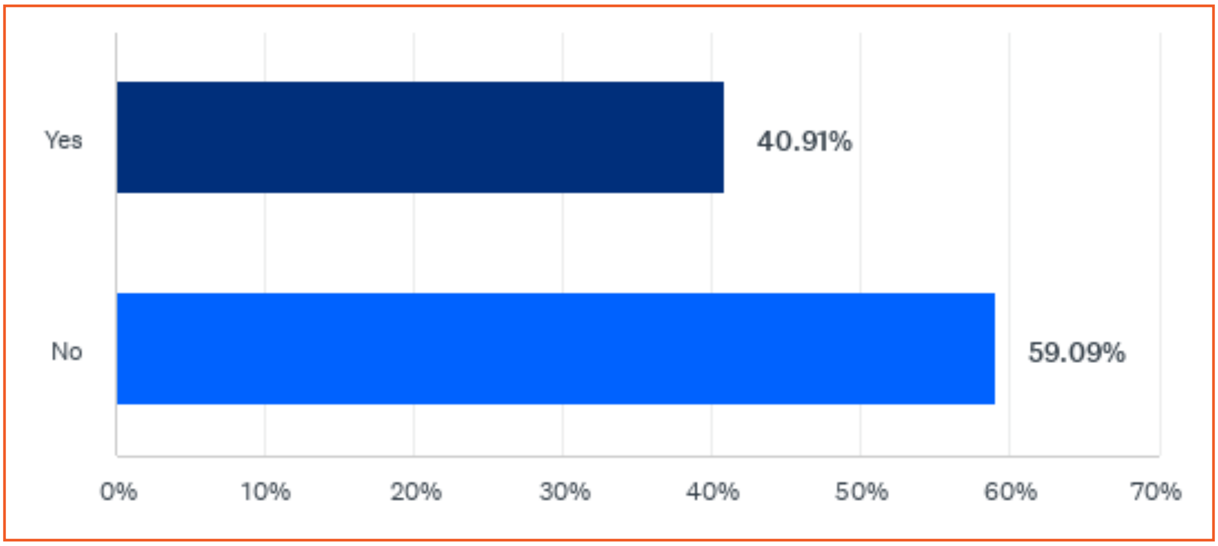
The NPME was launched in June 2022 and is particularly important because its publication was accompanied by the announcement of a £25m funding package for musical instruments. The top-line figure is that 56.1% of respondents were aware of the plan.



Of those who responded Manufacturers were the most aware of the NPME, followed by retailers and then Distributors.

Q2. Are you in touch with your local Music Hub?

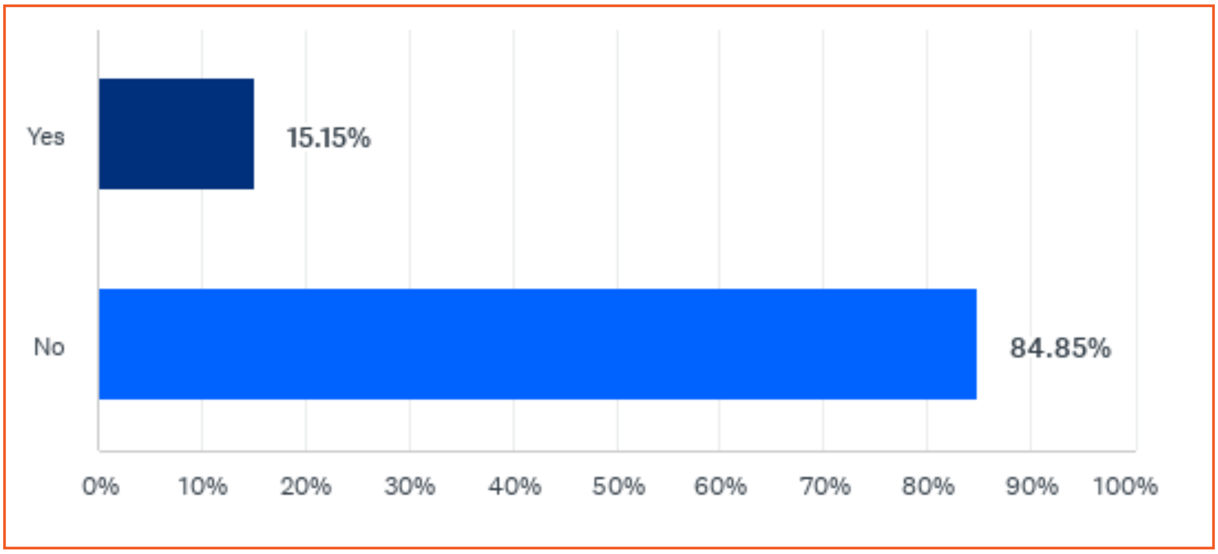
As there is a good possibility that the spending framework for the £25m of funding for new musical instruments will in some way involve the Music Hubs, the follow up question was relatively straight forward.



As it tuned out only 40.9% of those that responded were in contact with their local Hub. This may prove to be relevant as the funding process progresses.

Q3. Do you have a music school, or offer tuition as part of your business?

And finally a straightforward question to ascertain what percentage of Retailers offer tuition as part of their business model.



What’s Next

The response rate to the survey makes the data collected statistically relevant. As such the plan is to refine the question set and then repeat it in September of 2023 to add a layer of trend analysis to the results and maybe draw some further conclusions.

If you have any further questions please contact the MIA directly.