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30% of the $400 million in the total recording industry comes from the independent sector.

- 44% of the revenue comes from digital channels.
- 57% of the revenue is attributable to Australian artists.
- 95% of the independent sector releases are new.
Executive summary

Music is important to Australians. One in five of us play or create our own music (ACA, 2014), and 40% nominate music as our number one passion (Everbrite, 2016).

This passion supports a vibrant industry, making Australia the sixth largest music market in the world in revenue terms (IFPI, 2014). But beyond the bands and the music fans, many parts of the music industry are not well understood.

Behind the music is a complex network of businesses that produce and distribute the work of artists, and a significant component of this network is the independent sector.

The independent sector of the recording industry is made up of hundreds of businesses, from artist managers to labels and distributors. This fragmentation means that data collection is difficult. As a result, the importance of the independent sector is often overlooked.

This report aims to quantify the market share of the independent sector of the recording industry and highlight the roles that it plays in society.

Deloitte Access Economics conducted a survey of independent record labels and distributors in Australia, asking them about their operations in 2014-15.¹

We found that the recording industry as a whole is larger than previously estimated. By aggregating Australian Recording Industry Association (ARIA) data with additional recording revenue registered with the Phonographic Performance Company of Australia (PPCA) and the results of the survey of independent labels, we estimate that the Australian recording industry had revenue of $399.4 million in 2014-15.

We estimate that in 2014-15, the independent sector had revenue of $154.8 million, and released over 6,000 singles and albums.

Comparing this to the overall Australian recording industry, we found that the independent sector had 30% market share in revenue terms.²

The independent recording sector in Australian is locally focused. More than two thirds of the artists in contract with independent record labels are Australian, and 57% of revenue is attributable to Australian artists. The sector also plays an important role in promoting Australian music overseas, with 31% of total revenue coming in from international sources.

In line with global trends, the independent recording sector is increasingly digital, with digital revenue higher than physical revenue. The sector earned 44% of total revenue through digital channels, though physical remains an important channel, accounting for 33% of total revenue in 2014-15.

More than half (61%) of digital revenue came from music downloads (for example iTunes), while 29% came from music streaming services such as Spotify. But this balance is shifting quickly, in 2017 almost two-thirds of independent labels globally earned more revenue from streaming than downloads (Merlin, 2017).

Chart i shows how the make-up is changing. The most widespread change has been an increase in digital revenue and a decrease in physical revenue, though synchronisation and performance rights income are also increasing.

¹ This work commenced in 2016, but given it is an inaugural study data collection and analysis took time. While the data is from 2014-15, it is an important benchmark for future analysis, and while trends in the industry have progressed beyond what is reported here, the data’s value as a benchmark is significant.

² The market share is calculated based on a subset of independent sector revenue (excluding international sales and revenue from performance, ancillary and synchronisation channels) in order to be comparable with ARIA data.
Overall, the independent recording sector has been responsible for thousands of music releases. Even just among survey respondents, over 88,000 music releases were recorded. Of these, 95% were original content and just 5% re-releases. There were almost 24 million units sold in 2014-15, and more than 80% were distributed by independently.

The independent sector plays a number of key roles in the recording industry beyond its financial contribution:

- It broadens the variety of music produced in Australia, so that there is diversity in the music available for consumers to enjoy (WIN, 2015).
- It is instrumental in helping new artists kick start their careers. The large number of small, niche labels that exist in the sector mean that artists are more able to find a label that suits their musical taste.
- It competes with the major labels (IBISWorld, 2017), ensuring market efficiency and lower prices for consumers.

It is important that the independent sector is recognised for these roles, and the significant market share it holds.

Businesses and governments should consider this when looking to invest in the recording industry.

Deloitte Access Economics

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<table>
<thead>
<tr>
<th>Revenue Channel</th>
<th>Percentage Change</th>
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<tr>
<td>Physical</td>
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<tr>
<td>Ancillary</td>
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<td>Distribution</td>
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<td></td>
<td>68% Increase</td>
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40% of Australians nominate music as their number one passion.

Australia is the 6th largest music market in the world by revenue.
Music is important to Australians. Nearly half (40%) of Australians nominate music as their number one passion (Eventbrite, 2016), and in 2016 we collectively spent close to $400 million on recorded music (ARIA, 2017 and DAE estimates). A survey by the Australian Council for the Arts (2014) found that 57% of Australians attended a live music event in the past year, and one in five play or create their own music.

By international standards, Australia is engaged with music. We are the sixth largest music market in the world in revenue terms (IFPI, 2014) ahead of much more populous nations like Canada, South Korea, and Brazil.

When talking about the music industry, people usually think about the bands making the music, and the people who listen to it. However, there is a lot more to the music recording industry, which is made up of businesses built to create, produce, and distribute music. Some of these businesses are well known – for example large record labels and music distributors – but there is more to the industry than is widely understood.

The independent sector – defined as all music recording businesses other than the three major labels – of the recording industry is made up of hundreds of businesses. For instance, there are approximately 1,100 artists registered to receive revenue through the Phonographic Performance Company of Australia (PPCA). Some of these are small record labels focused on producing a particular genre of music, but some are also large industry players.

The fragmented nature of the industry, made up of record labels, music distributors, artist managers, and artists themselves, makes data collection difficult.

The Australian Independent Record Labels Association engaged Deloitte Access Economics to conduct a survey of the independent sector of the recording industry. This report details the findings of that study, and aims to clarify the structure of the industry and estimate the market share of independent record labels in the wider recording market.

About this study

Data in this study is from 2014-15 and was collected in 2016 and 2017. Because it is the first year of this study, it took time to collect and analyse the data, and it is not as recent as it could be.

Given that Australian independent record label market share has not been investigated in detail before, this report provides an important baseline to monitor the sector against in the future.

However, it is important to note that the recording industry moves fast, and some of the trends in this report may have accelerated. For instance, since 2014-15, digital music streaming has significantly increased, and for many labels the revenue split has flipped from being primarily driven by physical sales to being sourced from digital sales.

The 2017 global music survey by the Merlin Network found that more than two-thirds of independent record labels earned more than half their revenue through digital channels in 2017, compared with just 55% of labels in 2015 (Merlin, 2017).

Similarly, overall recording industry revenue has increased since the 2014-15 period. While this report uses the 2014-15 ARIA figure of $325.8 million as a base, in 2016 recording sales reported by ARIA were $352.2 million (an increase of 8%).
1.1 Structure of the industry

The recording industry is multi-layered, a number of different players interact with each other in different ways in different circumstances. In essence, once music has been written, it needs to be produced, promoted and distributed. Revenue earned from the music then has to be redistributed back through the chain of people who worked to get it released, and there are industry bodies which help with this distribution. Below is a summary of the roles of major players in the recording industry.

Artists

Artists perform music. They may write the music they perform, or perform songs with music and/or lyrics written by a dedicated songwriter.

Artists can be either self-released, or represented by a label. Self-released artists fund, promote and market their own music, often online or via live performance, while labels, generally, undertake those activities for artists they have signed.

Many artists also have a manager; the role of the manager is to represent the artist’s interests in the market, either with their label or in distribution channels. They are involved in all aspects of the artist’s career, from recording and performing, to publishing and merchandising. They also license the artist’s music, ensuring they get a fair deal.

Record labels

Record labels are responsible for producing and marketing the music made by artists. While the rights to the music itself lie with the artist, labels usually own the copyright for the sound recordings they recorded for the artist.

Some record labels also distribute the music they produce, while others outsource this to dedicated distributors.

There are three major record labels in operation in the Australian market – Universal Music, Sony Music Entertainment, and Warner Music.

The rest of the market is made up of other labels – known as ‘independent record labels’ – both locally based and international, and they play an important role in the Australian recording industry. The exact number of these labels is unknown, but there are several hundred, and their share of the recording market is what this report seeks to quantify.

Distributors

Music distributors are responsible for getting the music recorded and produced by the artist/label out to the general public. They do this both by making physical copies (such as CDs) which are then sent to retail outlets to be sold, and by working with digital distribution channels such as iTunes and subscription services like Spotify.
Many record labels, particularly the larger ones, double as music distributors, and in addition distribute for other labels. On the other hand, there are also dedicated distributors who are contracted by either smaller labels or independent artists to aid with reaching a mass audience. Inertia and MGM Distribution are two of the larger independent distributors in Australia.

**Relevant bodies**

A large number of organisations are involved with the running of the recording industry. Some of the largest ones are outlined below.

- **AIR** – The Australian Independent Record Labels Association is dedicated to supporting the growth of the independent recording sector. They represent the interests of independent labels and artists in Australia.
- **AMPAL** – The Australasian Music Publishers Association represents music publishers and promotes their interests in the industry.
- **APRA AMCOS** – Collects revenue on behalf of songwriters, composers and publishers from broadcasting and public performance of the compositions. For instance, when music is used or broadcast on radio, TV, in cinemas, in clubs, music venues, music festivals, retail outlets, café’s, restaurants and any other live performance outlets, APRA AMCOS collects a percentage of revenue from the venue to distribute to its members.
- **ARIA** – The Australian Recording Industry Association represents a broad base of the recording industry including major and independent labels and distributors. It protects the copyright on music in Australia, collects industry statistics, and acts as an advocate for the recording industry both domestically and internationally.
- **PPCA** – The Phonographic Performance Company of Australia collects broadcast revenue from music sound recordings and redistributes this to labels and artists.

Figure 1.1 is a simple representation of how these players interact with one another.
Figure 1.1. Key recording industry players and revenue channels

Manager
Represent artists in the industry

Promoters
Garner interest in the artist's work

Artists
Record and play music

Songwriters
Write music

Labels
Produce and market, own copyright for recordings

Self-released
Artist records and markets own music, for example online

Publishers
Own copyright for the music and lyrics

Music is 'distributed' through physical and online channels to reach mass markets

Contracted distribution
Outsource to established/dedicated distributors

Self-distributed
(label or individual)
Distribute by self, either through label or other means

Digital
Digital download sales, subscription services and streaming

Performance
Revenues generated from broadcast and venues

Physical
All tangible formats of audio (CDs, vinyl, cassettes, etc.)

Synchronisation
Copyright licenses to use audio with visual images

Ancillary
Revenue from touring, merchandise and sponsorship

Licensors collect revenue for groups of labels

AIR represents independent labels

3 major labels

Licensors collect revenue for groups of labels

APRA AMCOS collects royalties for the copyright holders of the original song

PPCA collects broadcast revenue from sound recordings

AMPAL represents publishers

AIR represents independent labels

3 major labels

Licensors collect revenue for groups of labels

APRA AMCOS collects royalties for the copyright holders of the original song

PPCA collects broadcast revenue from sound recordings

AMPAL represents publishers
Types of revenue
In turn, there are five main revenue channels by which the recording industry earns money. These are:

- Digital – This includes revenue earned from digital download sales, subscription services, and streaming.
- Performance – This refers to revenue earned by being broadcast (for example on the radio, or at events).
- Physical – This is made up of all tangible sales of audio (CDs, vinyl, cassettes etc.).
- Synchronisation – Income derived from synchronisation of music in film, television and advertising.
- Ancillary – This is revenue earned by labels taking a share of their artists other income streams such as touring, merchandise and endorsements.

While physical and digital are the primary sources of revenue for most artists, the importance of performance should not be overlooked. Live performances are key for artists in exposing their music to large markets, and marketing and selling merchandise.

The revenues from all these channels are collected by a number of different bodies and distributed back through the network of people who helped in the production process.

1.2 Importance of music
Throughout history, humans have used music to communicate, celebrate, mourn, and tell stories. Music has cultural, artistic, aesthetic, and historical value, but these are difficult to quantify. There is no denying that members of the music industry derive economic value from music, but beyond that value is harder to quantify.

The independent recording sector plays a number of important roles in the recording industry, and for society. Firstly, they broaden the variety of music that is produced. The independent sector in Australia is made up of hundreds of labels and artists that all produce unique music. Without them, only music made by artists signed to major record labels would be distributed, which would mean far less diversity in musical options for the community to enjoy (WIN, 2015).

Independent labels are also instrumental in helping new artists kick start their careers. They provide a platform for artists to showcase their music, and given the number of niche labels in existence, the chance of an artist finding a label which suits their musical taste increases vastly. The major label sector cannot sign all artists, and so have to make decisions as to which artists to partner with. Without the breadth of the independent sector, many local artists may never get the opportunity to record and distribute their music.

Similarly, independent record labels compete with the major labels. Without competitive pressure, markets are less efficient, and businesses can afford to have high prices and restrict output. The existence of the independent recording sector creates competitive pressure in the recording industry (IBISWorld, 2017), and limits the market power of big labels. This means that artists have more choice over who to sign with and how to distribute their music and conduct their business. Further, competitive markets are more likely to result in lower prices for consumers and ultimately a more efficient industry.
Mushroom Group – growth in a challenging era

The music industry has been facing substantive change over recent years. The rise of digital downloads and streaming, and subsequent decline of physical music sales has created both opportunities and challenges for the industry.

Michael Gudinski's Mushroom Group of Companies is a case in point.

The Mushroom Group is one of Australia's largest music and entertainment companies. Employing over 200 people across three cities, the Mushroom Group covers almost every facet of the music industry, including record companies, concert promoting, music publishing, merchandise and artist management. COO of Mushroom's recording and publishing division, Chris Maund says that “from Mushroom’s inception, Michael Gudinski knew that he needed to diversify to survive and eventually flourish, and created a model that others around the world would try to replicate in the years to come.”

The Group's first record company, Mushroom Records, started in the early 1970s and over 25 years of many ups and downs, signed the likes of Skyhooks, Split Enz, Paul Kelly, Jimmy Barnes, Muse, Garbage and Kylie Minogue, and became one of Australia's largest and most successful independent record labels.

Gudinski eventually sold Mushroom Records in 1998 while keeping all other divisions of the Group. A year later, the Group started a new label, Liberation Music, at just the time that digital downloads and then piracy would lead to over 15 years of record industry decline.

Despite these broader industry changes, the Mushroom Group has grown substantially over that time and the recording division itself has expanded from one to six labels and signed artists such as Bliss n Eso, Vance Joy, The Temper Trap, alt-J and The Rubens.

Maund says that Mushroom's growth in its label division has been, “a mixture of organic growth, a strategy to diversify, and Michael and Matt Gudinski's determination to keep going despite challenges. While Liberation has remained the bedrock of the labels, Liberator allowed us to specialise in international catalogue, Ivy League and I Oh You in alternative/indie acts and now Soothsayer in more electronic acts”.

Further, the Mushroom Group's diversification has been important. Maund says “the rise in downloads/piracy arguably helped our other divisions (such as touring and merchandise), as more people were listening to music than ever, but couldn't pirate a ticket or a t-shirt. This allowed us to keep growing the labels at time when others were making redundancies and dropping bands”.

“The independent sector is important for the industry, but also for the Australian community. We sign a lot more Australian artists than the majors, creating funding and opportunities for local talent” says Maund. “Also indie labels can afford to take more risks, and so ensure the diversity of music. Almost every new music genre in history, from hip-hop, grunge to trance, were launched from indie labels – with the passion and low overheads to take such risks.”
The total recording industry had revenue of $400 million, of which 30% comes from the independent sector.
2. Market share analysis

By surveying independent record labels, this report found that the independent record labels have recording market share of 30% in revenue terms. This chapter provides detail about how ‘independent’ was defined, and how the market share was calculated.

2.1 The independent recording market
Measuring the size of the independent recording market is challenging. It is a very fragmented market, with labels frequently merging and changing. In addition, there is significant overlap in the roles different organisations play (as outlined in Section 1.1). Often, a record label will double as a music distributor, or an artist will act as their own label. The interaction between labels, artists, and distributors makes defining the sector a challenge in itself.

After extensive industry consultation and data considerations, we defined the independent sector as all music production except that from the big three labels: Sony, Warner, and Universal.

However, when determining who to survey there were additional complications. For instance, surveying labels only would understate the size of the sector by excluding independent music distributors and unsigned artists. But surveying labels, artists, and distributors would create a risk of double counting revenue – if both the label and the artist reported the revenue for instance.

On balance, it was determined the most appropriate approach was to survey labels and distributors, in accordance with other exercises of this nature. This ensures that the size of the industry was not understated, whilst reducing the risk of double counting. This method also means that results are comparable to ARIA data which allows a reasonable market share figure to be gauged.

Almost 50 businesses responded to the survey, of which 25 were independent labels and distributors. Analysis in this report is based off these 25 labels and distributors, and aggregated up based on industry consultation and research to gauge the size of the independent recording sector in Australia.

2.2 Market share
The independent recording sector had total revenue of $154.8 million in 2014-15. This is based off survey results and industry aggregation. However, in order to calculate market share this revenue must be comparable to ARIA data (which contains revenue information about the major record labels). A number of adjustments needed to be made to the independent sector data in order to align it with ARIA:

- Revenue earned through some channels was removed – ARIA only contains data on revenue earned through digital, physical and distribution channels. So independent revenue earned through the synchronisation, performance and ancillary channels was removed – this equated to 17% of total revenue.
- Import revenue was estimated and added – ARIA includes revenue earned in Australia both by domestic labels and international labels. By contrast, the survey data covers only what Australian labels earned. Therefore, using ARIA music charts, we estimate additional revenue accruing to the independent sector from international independent labels (for instance, sales to artists signed with international independent labels such as Domino, Big Machine and Epitaph). This meant increasing the Australian figure by 36%.

After making these adjustments, we conclude that the independent sector’s comparable revenue to the ARIA data was $120.2 million in 2014-15. We estimate the total revenue of the Australian recording industry in the same period was $399.4 million (based on ARIA data and additional revenue from the independent sector). This puts the market share of the independent recording sector at 30%, as shown below in Chart 2.1.
This figure was calculated by aggregating survey results to be representative of the whole sector. Conservative estimates, based on industry consultation, were applied to independent labels that did not respond to the survey. A full explanation of aggregation methodology can be found in the Appendix.

Estimates of independent sector market share vary. For instance the global WIN report puts market share for Australia’s independent recording sector at 35%, and IBISWorld estimates it to be higher again. However, these estimates use different industry definitions and methodology. WIN and other similar reports use ARIA data to gauge the size of the recording industry as a whole, however most independent record labels do not report their revenue to ARIA and thus are not included in these figures. ARIA data is in fact made up of revenue from the major labels and a select few independents, there are other independent labels and distributors who do not report revenue to ARIA. As a result, we estimate the size of the total industry to be much larger. Using revenue found in the survey not already included in ARIA figures, we put the total recording industry in Australia in 2014-15 at $399.4 million.3

The independent sector collects revenue comparable to one of the major labels. While the sector is made up of many small players, it has a significant role to play in ensuring music diversity and building the profile of Australian music internationally. Businesses and governments need to recognise this role when investing/ regulating the industry.

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3 This estimate builds on the ARIA estimate of $333.8 million. We aggregate this figure up to include revenue from independent labels and PPCA members captured in the survey who do not report their figures to ARIA.
Digital revenue is the largest source of income for the independent sector.

2/3 of artists in the sector are Australian.
3. Industry insights

Independent record labels and distributors create significant cultural and financial value both to the recording industry and the broader economy. This chapter presents insights into the sector – such as the channels revenue comes from, the number of releases the sector is responsible for, and the proportion of these that are Australian.

As discussed in Chapter 1, the nature of the independent recording sector meant that data could not be collected for a more recent period than 2014-15. As such, some of the trends identified in this chapter have undoubtedly changed. However they provide an important baseline for future analysis of the sector.

3.1 Independent labels support Australian artists

The independent sector is heavily involved in supporting Australian music. In 2014-15 more than two thirds of the artists in contract with independent record labels were Australian. Further, 57% of revenue earned by the sector was attributable to Australian artists.

The sector also plays an important role in promoting Australian music overseas. Almost one third (31%) of revenue earned by independent record labels comes from exports, bringing money into Australia.

3.2 Digital and physical dominate

As outlined in Section 1.1, there are six major channels through which the recording industry generates income: physical, digital, synchronisation, performance, ancillary, and distribution. Chart 3.1 shows the revenue breakdown by channel in the independent sector.

Traditionally, physical sales have been the largest component of revenue. However in 2015 global digital music sales surpassed physical sales (IFPI, 2015) for the first time. The same was true in the Australian independent sector, digital was the largest revenue channel in 2014-15. However physical sales continue to be an important revenue source, bringing in 33% of revenue.
Digital sales are made up of a number of components, including music downloads and music streaming, as shown in Chart 3.2. Almost two-thirds (61%) of digital revenue is attributable to music downloads (for example through iTunes), and 29% comes from streaming (through services such as Spotify).

Labels were also asked how this channel mix had changed over the past three years. As Chart 3.3 shows, the most widespread change has been an increase in digital revenue (reported by 68% of respondents) and a decrease in physical revenue (64%).
3.3 Music releases
Overall, the surveyed component of the independent recording sector has been responsible for over 88,000 music releases, including 6,323 in 2014-15. This number understates the sector as a whole, reporting releases only from labels who responded to the survey. Original content makes up the vast majority of music releases, just 5% of releases in 2014-15 were from re-releasing old content. As Chart 3.4 shows, overall 70% of releases have been new singles or EPs, and 25% new albums. In 2014-15 this balance was slightly more even, with 66% of releases new singles and 30% new albums.

There were almost 24 million units sold in 2014-15, and just 16% of these were distributed by a major label, the rest were distributed either by an independent distributor or by the label itself.

3.4 Labels in Australia
Based on the survey data, Figure 3.1 profiles a ‘typical’ independent record label in Australia. It has been operating for 12 years, and employs 10 people. Seven of these employees are full time workers, one is employed part time, one casually, and one is a volunteer. It holds the recording rights to 24 artists. And it uses an external, independent, distributor to distribute the music it helps its artists to produce.

Genre
Independent record labels and distributors in Australia are diverse. When asked about the main musical genres they produce the most common responses were ‘Alternative/Indie’ and ‘Rock and Pop’, however there were also a vast range of other genres nominated including Electronic/Dance, Jazz and Classical, Rhythm and Blues, World Music, Country/Folk and many more.

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4 Because this is based on survey data, the average label cannot be quantified. Instead Figure 3.1 profiles the median business from those that responded to the survey.

Chart 3.4. Overall releases from the independent sector
Figure 3.1. Independent record labels in Australia

- **Employs 10 people**: 7 out of them are full-time.
- **12 years old**
- **Holds highest recording rights for 24 artists**
- **Uses an external distributor**
Correne Wilkie, manager of Australian band The Cat Empire, decided to change career paths after watching the band play one night. “I had lined up what I thought was my dream job in advertising, but the night before I was due to start, Felix invited me to see the band’s third show. My friends say I fell into a trance that night that I’ve never come out of!” The next day, instead of starting her new job, she offered to manage the band for three months (unpaid) to see what was possible, and 16 years later she is still the manager of what has become one of Australia’s most internationally recognised bands.

The Cat Empire has released six studio albums since their formation in 2001. More successful now than they have ever been, their most recent album debuted at number one on the ARIA and AIR charts, number nine on the global iTunes charts, and top 20 in 16 countries around the world. They have performed over 1,200 shows, their annual global tour playing to over a quarter of a million people at their headline shows alone.

After almost a decade signed to labels under various deal structures, The Cat Empire have released their last two albums independently, taking an unusual approach to producing and distributing their music. Wilkie has established a record label just for the band – an artist owned label. “It means that the band, under my management, have 100% control of everything.” Wilkie has built the label in such a way that the band owns the label and all their own copyright – it has been built purely to service the bands needs and global objectives.

Wilkie had strategically managed all label deals to expire simultaneously in 2012, which saw all copyright returned to the band. She then identified an opportunity for change and proposed a new business structure to the band, one that made sense in the vastly changed music industry landscape. “Although we had only great label experiences there was always an inherent tension of objectives between the label wanting to promote albums and the band wanting to promote tours. We used to tour to promote an album, but now we use an album release to promote a tour, which is where the real profitability is. In this respect the objectives and priorities have shifted 180 degrees”.

“Establishing an independent label has meant that we have central control around how to best spend every dollar to maximise both the touring and record business units. It also makes for global consistency of the brand. This structure has reaped enormous rewards in terms of sales numbers of both tickets and recordings, and of overall profitability” says Wilkie. “Significantly, they also earn their income immediately, there’s no waiting months for a royalty check – when someone downloads/streams a song that money goes straight into the band’s bank account.”

The recording industry is dynamic, which Wilkie thinks keeps it interesting. “Every time we launch an album I have to start from scratch in terms of approach, I can never assume the previous blue-print applies. The industry and distribution landscape have been in a state of constant change for such a long time, which requires consistent re-education and reinvention. The challenge of this, the love of music, and genuine respect for the talent of those I manage has kept me engaged.”

She sees change as an opportunity, though notes that staying current is a challenge and the industry hasn’t always been able to keep up, “We need to move quickly now to get the global regulatory infrastructure in place to capitalise on the opportunities that the digital environment has delivered us. The world is flat in terms of doing business, releasing records, touring, sharing great music...there are no borders on what can be achieved if we think quickly and globally.”
Digital distribution is making it easier to access audiences around the globe.
4. Change in the sector

The recording industry is dynamic. Tastes and preferences evolve quickly, and demand for music of different genres oscillates. Digital trends such as streaming keep music production and distribution at the forefront of innovation. However, the ever changing landscape also creates challenges for the industry.

Digital technology has impacted all sectors of the economy over recent years. The contribution of digital technologies to the Australian economy is forecast to be $139 billion (or 7% of GDP) by 2020 (DAE, 2016). For music, the rise of digital consumption has shaped the way the recording industry operates today.

Trends in genre, demand, and format vary over time. Wikstrom (2012) suggests that there have been three different phases of music ownership in recent years as outlined in Figure 4.1: ownership, access, and context.

Before the internet, the recording industry relied on an ownership model, where listeners would physically purchase copies of the music they were interested in. However, the rise of the internet brought with it a shift toward digital music, and hence a shift of model from ‘ownership’ to ‘access’. People were more interested in paying a fee to access a large, online music library than owning specific music. It meant people could access much more music at a much lower cost.

The rise of other forms of digital music consumption is coming at the expense of more established channels. Chart 4.1 shows how physical sales have declined over the past decade.

Recently, the industry has begun to see another shift, to that of a ‘context’ based model. The problem is no longer accessing music, it is now about how to organise it and manage the large music catalogues available. Context based music services are less deterministic and focus on creating features that allow users to more easily and efficiently access and manipulate music.

**Figure 4.1. Progression of the recording industry**

- **Ownership model**: Pre-internet music listeners owned physical copies of the music they liked.
- **Access model**: These models allow music listeners access to a large library of music and users pay a set fee to listen as often as they want.
- **Context model**: Increasingly, music listeners want to be able to navigate and organise the music they have access to. New models allow users to do so based on context.
For example, some services have complex algorithms which learn what a user is likely to enjoy based on their historical preferences, others allow users to share music with friends, and some implement simple ways for users to organise their music. This third wave is bringing all new opportunities and challenges to the industry.

These shifts have expanded the reach of the independent recording sector who can now use digital sharing to reach listeners all over the world. While in the past, artists needed a physical distribution network with connections to labels around the world to get their music released globally, today they are able to hook in to global digital distribution networks relatively easily.

In this way technology has been of real benefit to the independent recording sector, artists are better able to get exposure and share their music broadly. There are even tools which have been specifically designed for this purpose such as ‘Record Label in a Box’ which helps those without the infrastructure to compete on a global scale get started (Ditto, 2016).

However, digital disruption is also creating a real challenge for the industry: digital music generates lower per unit income for artists and labels. This is true both of downloads, where users can ‘cherry pick’ – buy just the song they want and not the album – and streaming, where monthly fees are far lower than the price of physical music. For instance, a monthly subscription to streaming service Spotify costs a listener around $12, and this gives them unlimited access to all music on the Spotify library (Spotify, 2017). By contrast, buying a single physical music album typically costs between $10 and $30 (JB Hi-Fi, 2017).

Paid downloads are on the decline globally, with music streaming taking its place (Digital Music News, 2016). Per play royalties on streaming services are very low and are declining. For example, Spotify pays an average royalty rate of between US$0.006 and US$0.0084 (The Verge, 2015). In this way the decline of paid downloads can be detrimental to artists and labels income flows, though for many artists the increased exposure that streaming brings about more than makes up for this.
Remote Control Records – the DIY approach to recording

Remote Control Records was started in 2001 by Harvey Saward and Steve Cross. Both had previously worked elsewhere in the recording industry – for record shops and other labels – and became friends after meeting at a record fair. Their combined interest in the sector led them to identify an opportunity, “We both realised that the bigger labels were interested in creating hits, and not so much interested in developing talent – which is what we wanted to do,” says Cross.

When they heard that UK independent label Beggars was looking to open an Australian division, they decided to launch Remote Control Records, an Australian label part owned by Beggars.

But Remote Control Records is a record label with a difference – they have a ‘do-it-yourself’ focus. They see themselves more as ‘service providers’ than a traditional label. According to Saward, “We started out looking after the marketing and promotion for the Beggars labels in Australia. Then Australian artists and labels started approaching us so we expanded into other label functions.”

As the business has grown, the DIY business model has been maintained. “We let artists have creative freedom, they bring the record and then we help them with the business side of things – they pick and choose what services they want,” says Cross.

And the model has helped many artists to produce top hits: artists signed with Remote Control Records or Beggars (including Adele, Radiohead and Courtney Barnett) have earned more than 25 Gold records, and have even gone Platinum and Multi-Platinum. According to Saward, the business model is gaining popularity, “More and more artists are choosing to use a more service based label rather than a big label, they realise they need support rather than creative direction, and most of our local artists keep their own copyright so they have more freedom.”

But there are also challenges in the independent sector, “Almost all music played on commercial radio is from major labels. They don’t seem to recognise that the indies create hits too (that often do really well in the charts),” says Cross.

Looking forward, Saward notes that “the rise of streaming has been an opportunity – it lets our local artists access international markets much more easily than in the past, but it has also changed the game. It is harder to sell albums now, streaming is more a music singles format, so going forward we will have to adapt to that.”
References

- The Verge 2015, Spotify’s Year in Music shows just how little we pay artists for their music, available at: http://www.theverge.com/2015/12/7/9861372/spotify-year-in-review-artist-payment-royalties
Appendix
Methodology

A.1. Survey methodology
This study is based on a survey of independent recording labels and distributors, supplemented with background research and industry consultation. We use this combination to quantify the market share of independent record labels in Australia.

Data is from 2014-15, collected in 2016 and 2017. Because this is an inaugural study it took time to collect and analyse the data.

In identifying the most appropriate cohort to target, we considered a number of options, each with their own advantages and challenges, as outlined below.

- **Labels only** – This would be the simplest method for surveying the sector and would eliminate the risk of double counting revenue because we would be focusing on one phase of the supply chain. It would be easy to define, simply any label that was not one of the major 3 labels, and would be relatively easy to capture between the AIR member base and PPCA list. However, this would understate the size of the sector as it excludes independent music distributors and unsigned artists. Further, establishing market share would be difficult because ARIA data on the revenue from the major labels includes distribution and so would not be comparable.

- **Labels and Distributors** – This increases the reach of the study and makes it more likely we would get an accurate reading of the size of the independent sector. It would also generate data comparable to that collected by ARIA on the major labels. However, there is a risk of double counting revenue should labels and distributors record income differently.

- **Labels and Artists** – Including artists would be a good way to get a sense of the long tail in the industry and the number of people involved in the Australian independent recording scene. However, there could be reliability issues as artists signed with labels would likely generate revenue double counting, and a definition of the recording industry excluding distributors would be incomplete. Further, reaching individual artists would be logistically difficult given the number of artists not registered with music bodies.

- **Labels, Distributors, and Artists** – This approach would provide the most complete read of the sector, however the risk of double or even triple counting revenue and the difficulties associated with trying to exhaustively survey the entire industry make this option infeasible.

It was decided that surveying labels and distributors was the most appropriate method in order to get as close as possible to the full sector without double counting.

The survey was sent to AIR’s membership base and everyone registered with the PPCA. Questions asked revolved around revenue, expenses, employment, music genre, and past performance. Responses were collated and analysed by Deloitte Access Economics.

This data was aggregated up to ensure confidentiality and estimate market share of the independent sector in the Australian recording industry, in revenue terms.
A.2. Aggregation
The recording industry has a long tail—meaning there are a few big players, and then many smaller labels and distributors with lower revenue. Accounting for this long tail was challenging. While confident that the largest independent labels and distributors responded to the survey, and all organisations registered with the AIR or PPCA had a chance to respond, there is likely a considerable portion of the market who were not captured in the survey.

Therefore, we needed to aggregate our survey results to be representative of the independent sector as a whole. To do this we asked industry experts to estimate the revenue (within a band) for the labels in AIR’s membership base who did not respond (Table A.1).

The survey found that revenue in the independent sector was $83.1 million. Based on the breakdown in Table A.1, there is likely at least another $66.5 million in revenue that was not captured in the survey. There is also additional revenue not captured in the PPCA membership base. There are 1,046 registered label members with the PPCA, and industry estimates that no more than 50% of these are distributed by major labels. Therefore, given conservative assumptions there is an additional $5.2 million in revenue from those labels. Adding these takes total revenue in the independent sector to $154.8 million.

We note that this is an underestimate of the sector because it does not include unsigned artists, however estimating their revenue was not feasible and would increase the risk of double counting and hence overstating the size of the sector.

<table>
<thead>
<tr>
<th>Revenue band</th>
<th>Number of labels</th>
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</thead>
<tbody>
<tr>
<td>Less than $100,000</td>
<td>38</td>
</tr>
<tr>
<td>$100,000-$250,000</td>
<td>12</td>
</tr>
<tr>
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<td>0</td>
</tr>
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<td>12</td>
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<tr>
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<td>15</td>
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<tr>
<td>$5 million-$10 million</td>
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