



# **CULTURAL INDUSTRIES GROWTH STRATEGY (CIGS)**

## **THE SOUTH AFRICAN MUSIC INDUSTRY**

**REPORT TO THE DEPARTMENT OF ARTS, CULTURE, SCIENCE AND  
TECHNOLOGY**

**FINAL REPORT**

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The report was commissioned by DACST to research the cultural industries and to propose strategies for their growth and development. The report does not necessarily reflect the views of the Department or the Ministry of Arts, Culture, Science and Technology but will be used to inform future policy formulation.

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## FOREWORD

South Africa's diverse and dynamic arts and culture heritage is one of its richest and most important resources, with the capacity to generate significant economic and social benefits for the nation. Equally important, but less well understood, is the potential for a vibrant and dynamic arts and culture sector to contribute significantly to the economy of the country.

The Department of Arts, Culture, Science and Technology (DACST) is contributing to the government's Growth, Employment and Redistribution (GEAR) strategy through a number of initiatives intended to enhance the economic and social benefits of arts and culture. The Cultural Industries Growth Strategy (CIGS) is one such initiative and has concentrated on developing strategies for the growth and development of the cultural industries, in particular to realise their potential to create an export market, to create employment, to ...

DACST appointed the Cultural Strategy Group, a multi-disciplinary consortium, to undertake the research and policy aspects of the study. The team included KPMG, the Centre for African Transformation (CART), LMA/SQW policy and research consultants and BDM consulting.

The term "cultural industries" is used to describe a wide variety of cultural activities which all have commercial organisation as their prime motivating force. These activities take a number of different forms and are organised in different ways from the manufacture or creation of products to the marketing and distribution thereof.

The cultural industries which CSG concentrated on included: the music industry; the craft industry, publishing industry and the film and television industry. Their selection was based on a number of criteria including the recognition that these sectors were identifiable industries in South Africa; are potentially internationally competitive; have the potential to create employment and offer opportunities for rural and urban job creation. The cultural industries tend to be:

- knowledge intensive, involving highly skilled workers
- labour intensive, creating more than the average number of jobs
- differentiated, taking the form of small and medium enterprises (SMMEs) and large enterprises and
- linked with close, interlocking but flexible networks of production and service systems, allowing the sector flexibility in the face of economic recession

Understanding the global context of the cultural industries is of crucial importance if any attempt is made to develop them. The politics of the "New Economy" and phenomena like the Internet make understanding these processes absolutely necessary. The CIGS process was designed to ensure a critical dialogue with experts from other countries where successful strategies to develop the cultural industries within this global context has been undertaken.

The methodology followed for the CIGS study is an industry strategy analysis. Each sector report is therefore principally an economic analysis providing baseline data for

each of the four sectors, and focusing on the current economic and social contribution of each sector; the impediments to growth and the opportunities for employment creation and competitive development.

Each sector report concludes with strategic policy recommendations interventions for both the public and private sector. These recommendations aim to:

- maximise investment opportunities in the sector;
- highlight areas for government participation and legislation;
- identify potential private sector initiatives;
- leverage in multiple funding sources and
- benefit all stakeholders and practitioners within the industry and the economy as a whole

This report is one of four sector studies. A fifth document “Creative South Africa” presents the argument for taking cultural industries seriously and develops a strategy for doing so. The principal vehicle for this is the recommended Cultural Industry Development Agency (CIDA), a public-private partnership agency specifically geared towards building up the cultural industries. The primary functions of this organisation would be knowledge and information management, human resource development, strategic investment, grant funding as well as advocacy on behalf of the cultural industry sector.

While CIDA will develop initiatives in the cultural industries which have a high potential for commercial success as well as stimulating some already flourishing enterprises, the challenge lies within the industries themselves in order to realise themselves as mainstream sectors capable of being involved in the political, economic and social agenda of our country. CSG hope that the information within this report goes some way to enabling this.



## EXECUTIVE SUMMARY

### Introduction

The music industry is a complex agglomeration of different industries that produce a variety of musical products. These industries transcend a number of traditional sector boundaries. In the simplest scenario the music industry includes:

- Creators: the musicians and composers who are the basis of the industry.
- Agents whose role it is to represent musicians.
- Record companies who record and promote the work of musicians.
- Retail outlets in which

### Why is the music industry important?

The music industry is a key provider of jobs and income revenue in the South African economy.

Presently, the core of the South African music industry employs approximately 12000 people. The majority of these people are the artists and composers that produce music. They form the creative foundations of the industry.

The gross turnover of the core of the South African music industry is approximately R900 million, with industry experts estimating that the entire industry is worth R2 billion.

### The Structure of the Music Industry

#### Global With Local Dimensions

The global sound recording industry is worth approximately R160 billion. The majority of that turnover is concentrated in the markets of the USA; Western Europe and Japan. Although the emerging markets, in particular Brazil, have experienced strong growth over the past four years, predictions are that developing markets will continue to experience strong growth.

#### The Companies

The global music industry is dominated by six multinationals that have subsidiaries in the majority of the world's major music markets. Of these six companies, 4 - BMG, EMI, Polygram and Sony - have South African subsidiaries. The presence of these multinationals provides a network through which South African music can be sold in export markets.

### The South African Industry

#### Strengths

Between 1992 and 1996 the value of the market expanded by 70.7% - the 23<sup>rd</sup> fastest growing market in the world. During the same period the number of units sold in the South African market expanded by 60%, the 15<sup>th</sup> fastest growing market in the world.

This quantitative growth indicates strength in the industries and institutions of the South African music industry. Included in the industrial structure are a range of multinational and independent record companies; significant recording and manufacturing capabilities; an extensive retail and broadcast network and agencies for the collection of copyright revenues. Institutions exist which represent the majority of sectors in the music industry. These constitute a resource for the coordination of projects to expand demand for South African music.

In addition a range of processes have contributed to the growth of the industry, including:

- the promulgation of local content legislation, although this is relatively new and its effects have still to be realised;
- the growth in community radio broadcasting;
- emergence of a variety of cultural exchange programs and industry development initiatives which have increased the synergy both between local musicians and between local and international musicians;
- increasing organisational density facilitating a strengthening and articulation of interests and development projects in the music industry; and
- growth in the recording, marketing and sales of domestic repertoire.

### **Weaknesses**

The primary weakness facing this industry is the limited finances available for investment in the development and promotion of South African artists. This is exacerbated by piracy and the lack of a coordinated strategy for the development of the industry. It is critical to improve the amount of finance available for investment if the South African music industry is to take advantage of its present growth phase and industrial / institutional density.

### **Opportunities**

The aggregate growth of the music industry coupled with the increased popularity and exposure of local genres and the variety of initiatives underway to bolster the local music industry, provide the foundations for potentially explosive growth. This will depend on an appropriate degree of commitment and resources from the various role players.

### **Conclusion**

The music industry offers the potential for a significant return on investment. The Canadian government, for instance, has invested approximately \$45 million in the sound recording industry, in return revenues of over \$230 million have been generated. The vitality and continued expansion of the South African industry indicates that it is well placed for significant. In the words of one of our respondents, "This could be the miracle industry of South Africa".

## CHAPTER ONE: INTRODUCTION

### 1.1. Why is this industry interesting?

In 1995, a 60 000 year old bone fragment was found in Slovenia<sup>1</sup>. This bone fragment had air-holes carved into its surface and today we would call it a flute. In the context of this study we would recognise this rudimentary instrument as part of the supply-side conditions necessary for the building of a successful music industry. Notwithstanding this study's focus on the music **industry**, what this small historical detail alerts us to is the fact that music has played a long-standing part in the development of human society.

Music is an essential component of life. At birthdays, marriages and other celebrations music adds joy to the occasion. The music of the national anthem is integral to any national event. From the personal to the social, music is an indispensable feature of human interaction. One respondent said with passion "Life is not worth living if one does not have music"<sup>2</sup>. Music is also a form of historical record. It is through the sounds and words of songs like *Sophiatown*, and *Meadowlands* that elders can remember, and the youth can imagine, past lives. Music, through its engagement with society, holds the capacity to transform that society. Music and culture, in the form of workers choirs; popular theatre; protest poetry and awareness raising tours in other countries, all contributed to the liberation of South Africa. Songs like Bernoldus Niemand's *Hou my vas korporaal*<sup>3</sup> were effective in exposing the illegitimacy of the apartheid regime and in so doing music posed the possibility for a new future. It is the combination of all these aspects that inspired Ray Phiri, one of South Africa's premier musicians, to declare that music is essential to "the reconstruction and development of souls"<sup>4</sup>.

Creativity, transformation, history, development - all these characteristics and potentials are in themselves enough of an argument for the importance of understanding the South African music industry, yet the music industry offers still more than this. As an economic activity music combines two characteristics that are critical to economic success in the late twentieth century.

First music is a form of electronic information and is consequently easily distributed to the world market. Thus music is an ideal export product that is not constrained by the high transport costs associated with the export of physical products.

Second, a substantial proportion of the music industry's revenue is derived from intellectual property rights. Accordingly there are few South African industries better placed to take advantage of the global shifts towards knowledge-based, export-oriented growth and that draws on local competencies as a source of competitive advantage, than the music industry. One industry actor captured this potential when he said "Music could be the miracle industry of South Africa"<sup>5</sup>.

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<sup>1</sup> The Economist 7<sup>th</sup> June 1997

<sup>2</sup> Interview with M. Lambert, managing director Peermusic Publishing.

<sup>3</sup> "Hold me tight corporal"

<sup>4</sup> Interview with R. Phiri, musician.

<sup>5</sup> Interview with K. Lister, managing director of BMG Records Africa.

In addition to these characteristics, the music industry is characterised by enormous job creation possibilities and synergies with other sectors. The music industry holds the potential to couple the high-tech information based industry that is required to compete globally, with the job creation that is desperately needed to overcome the poverty and inequality that constitute South Africa's domestic challenge.

## 1.2. Conceptual Framework

The analysis presented in this report has focused on the music industry primarily as an industry. However because the music industry is a site of cultural production, is a global industry and is dispersed across a variety of traditional sectors the analytical tools that we have used in this study differ somewhat from sectoral studies that are based primarily in manufacturing. It is the object of this section to introduce those concepts.

Any commodity moves through a **value chain** from the point of production to its sale in the market place. The value chain is simply all those elements of the production system through which the product passes from its design to its sale. In analysing the South African music industry, this study has drawn on Charles Landry's five column model. This model is a direct adaptation of traditional value chain models but includes concepts directly relevant to the cultural industries. In addition, the model emphasises the possibility for each part of the process to have an impact on the rest of the value chain and in so doing avoids creating a static, linear representation of the sector. The *five columns* are:

- Beginnings;
- Production;
- Circulation;
- Delivery Mechanisms; and
- Audience Reception and Feedback.

### Beginnings

Captured under the concept 'Beginnings' are a number of variables that are best described as those social, political and economic processes and structures that provide the context conducive to the emergence of a creative milieu necessary for sustaining a cultural industry. Whilst Landry and Bianchini write of the importance of 'soft infrastructure' and creativity in development, we should not lose sight of the ways in which these are intimately connected to societal processes, structures and business strategies<sup>6</sup>. It is in understanding these that we will be empowered to make the most meaningful and sustainable interventions in the cultural industries.

### Production

Production refers to the process whereby a product or service is produced. Accordingly it would refer to both the creation of a master in a recording studio and to the mass production of cassettes in a manufacturing plant. Given the fragmented nature of the music industry, production occurs in a number of sites and forms.

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<sup>6</sup> Landry, C. and Bianchini, F. (1995) **The Creative City**.

### **Circulation**

Circulation is defined as any variable that impacts on the distribution of music from the point of production to the delivery mechanism. As such it covers both the intangible aspects of the music industry, such as the legislative framework, and the more immediately corporeal aspects such as the trucks that deliver the physical product to retail outlets.

### **Delivery Mechanisms**

A multiplicity of delivery mechanisms exist. Delivery mechanisms are those structures that make music available to the market, thereby laying the foundations for returns on investment. In this report we deal primarily with retail, broadcast and live music.

### **Audience Reception and Feedback**

Audience reception and feedback refers to vehicles which allow for the reformulation of investment strategies on the basis of audience response. These vehicles provide the basis for carrying opinions and views that form the foundations of beginnings.

By way of illustration let us consider how one would use the five column model to understand the importance of a South African music stand at MIDEM. The presence of South African music at an international trade fair is an example of a delivery mechanism, as the trade fair 'delivers' South African music to the world. Simultaneously that trade fair has implications for the 'beginning moment' as it expands the market-base of SA music. The trade fair may further effect the 'production moment' as it would expose Artist and Repertoire (A&R) directors to different types of music that may sell in the market place. The trade fair may then be a moment of audience response and feedback where visitors to the show give their opinions on the sort of music being played by the South African contingent to the show.

The audience response and feedback may then also impact on the production and beginnings moments. The showcasing of South African music at a trade fair may finally have implications for other delivery mechanisms, such as broadcasters by exposing the compilers of playlists to SA music, thereby setting up another dynamic interaction.

What the above example captures is the importance of linkages to the cultural industries. What enables the industry to grow, is not so much excellence in a single aspect of the industry but rather highly effective and well-utilised links between its different elements and other industries, the effective communication of information within the industry and between the music industry and allied industries.

One of the objectives of this report is to examine those links and to propose ways in which they may be strengthened thereby improving the efficacy of the entire music industry. Thus in developing the analysis that lies at the heart of the Cultural Industries Growth Strategy, we will focus both on the elements of the music industry as outlined in Landry's model and the efficacy of the entire music industry.

## **Globalisation**

Globalisation, as used in this report, does not refer to the complete subordination of national industries to global giants, instead we refer to the subtle interplay between multinational and national corporations; international and national legislation; domestic and foreign markets. Globalisation, particularly in the music industry, is also a deeply cultural phenomenon.

One must not mistake this process of cultural globalisation with a process of cultural homogenization. Indeed the dynamics of global cultural product flows require that we understand local and regional cultures, for it is the cultural gap between those cultures and the culture exported by the world's major music producers that shapes domestic and international consumption patterns.

Understanding globalisation as a dynamic social force allows us to formulate strategies that straddle the divide between the vision necessary to inspire innovative action and the challenges posed by the existing position of the South African music industry in domestic, regional and global markets.

In using these concepts of a dynamic cultural value chain, of linkages, and of globalisation, this report will generate an analysis of the music industry that focuses on the dynamic interaction between a variety of units of analysis - production and retail; national and regional; local and global - in order to provide the building blocks with which we can think about the future of the industry.

### **1.3. Objectives of the Report**

This report has three objectives. The first objective is to understand and explain the structure and functioning of the South African music industry with a view to identifying its areas of strength and weakness.

In achieving this objective the report draws on:

- international and national level statistics;
- interviews with central figures in the South African music industry; and
- international studies of the music industry.

This analysis then lays the foundations for the second objective which is the development of an industrial strategy to support and assist the growth of the domestic music industry.

The third and final objective of this report is to stimulate discussion both within the music industry and between the music industry, government and other interested organisations as to what projects and processes would be most useful in building the South African music industry.

This debate will hopefully be set in motion both by the recommendations and proposals contained within Chapter Six of this report and by ongoing meetings with the music industry.

## 1.4. Structure of the Report

The report is structured to enable the reader to develop an understanding of the operations of the music industry internationally and then to apply that understanding to the operations of the South African music industry with a view to formulating strategies to facilitate its growth. Accordingly the following structure has been adopted:-

- Chapter Two outlines what the ambitions that the Cultural Industries Growth Strategy holds for the music industry;
- Chapter three provides an overview of the key constituent elements and processes in the music industry;
- Chapter Four constitutes the statistical heart of the report. This chapter analyses the performance of the South African music industry and the implications of its relationship to the global music industry.
- Chapter Five identifies a range of factors that either promote or inhibit growth in the South African music industry;
- Chapter Six proposes a variety of initiatives that could be undertaken by government; the private sector and a range of partnerships between these two actors. In so doing it is hoped that this final chapter will provide the foundations for a strategic discussion on the best methods for expanding the music industry.

## CHAPTER TWO: CIGS AND THE SOUTH AFRICAN MUSIC INDUSTRY

### 2.1. Introduction

It is Friday night in Kippies International Jazz Bar. Smoke hangs heavy in the air. The sounds of at least half a dozen of South Africa's official languages compete for airspace with the experimental jazz that pumps out of huge speakers. The proprietor climbs onto stage and lifts his hands. Whilst he waits for silence to descend he looks out at the crowd, a crowd that reflects South Africa in all its diversity. He introduces Moses Molelekwa as the young lion of South African jazz, a symbol of the future of a vibrant South African jazz tradition. Sharing the stage with him that night would be 18 year old saxophonist, Moses Khumalo, who time and time again evoked spontaneous whistling and applause, expressions of wonder at the skill of the young artist.

Hundreds of people are crammed into the small club and still people manage to find a little more space to fit in a fellow lover of South African music. Hugh Masekela, a giant of South African music, is in the audience. He is promptly invited onto the stage where he proceeds to weave his magic. Moses Molelekwa then introduces his band. The bassist breaks into the riff of *Weekend Special*, a South African hit, and the crowd roars approval. Then the young saxophonist steps forward and launches into a popular international number. The club continues to bounce.

That is the potential of South African music, people of all cultures and races packed into a club having a great time supporting local musicians together. The meeting of the legends and the young heroes of the music world, the mixing of international and domestic music and the creation of memories. Daily, South African music fuses the experiences of Soweto with the compositions of living legends such as Miriam Makeba and the beat of Los Angeles. Developing South Africa's cultural endowments into internationally marketable products is the challenge that faces this strategy and the South African music industry.

The ambition of this strategy is to provide the information and impetus for the development and integration of the different aspects of the music industry; in the creation of economic success and a vibrant musical culture that draws on all sources and is sold all over the globe.

### 2.2 The Vision

A vision is an essential component of the development and success of any industry. This is especially the case when that industry's product is culture. A vision provides the basis for a belief and pride in South African culture and identity. The vision provides the focal point for development projects, for business strategies and for industry participants. A vision provides the impetus for development and the rationale for sustaining it. As one respondent said

"The South African industry has great musical talent. What we need is vision. It is the visionaries that will make this industry explode"



A vision cannot be built on myths. A meaningful vision needs to be constructed from the facts about and a considered analysis of the South African music industry. It must build on the strengths and weaknesses to develop the industry.

A vision cannot rest in space. A vision needs to be grounded in the implementation of stakeholders' strategies. Only then will the vision be realised. Without the vision being carried forward into strategy it will remain mere words.

The *Cultural Industries' Growth Strategy* provides the analytical platform for the development of a vision to take South African music into the next century. This report identifies a variety of strengths and weaknesses in the South African music industry. This information provides the basis for a vision. Yet in order for this information to be strengthened and for the vision to be taken forward into action, the music industry itself needs to engage with this report. This report is the first step in improving coordination between those stakeholders who will develop and ultimately take the South African music industry forward.

### **2.3. Conclusion**

Underlying the public face of the music industry - the live performance and the compact disk - is a complex system of promotion, recording, distribution, marketing and retail.

All these components are geared towards servicing the South African and, partially, the international market. The ambition of this strategy is to increase consumption, both domestic and international, of South African music product through increasing the domestic and international market exposure of South African musicians and improving the quality of South African musical products.

In the following chapter we will analyse the extent to which that ambition is being realised. The weaknesses that are preventing South African music from claiming its place of pride in South Africa and the world will be identified and we will propose ways to overcome these weaknesses.

There can be no doubt that this ambition can only be realised through the concerted and coordinated effort of all in the South African music industry. *CIGS* provides the platform from which this effort can grow.

## CHAPTER THREE: THE MUSIC INDUSTRY

### 3.1. What is the music industry?

The music industry does not fall easily into a neat sectoral definition as it traverses a wide range of industries from entertainment to manufacture to education and numerous others in between. In terms of Standard Industry Classifications (SIC Codes) used by the Central Statistical Service the music industry is divided across three industry sectors:

- Publishing of books, brochures, musical books and other publications (SIC Code 3241)
  - This includes the publishing of musical works
    - ⇒ Publishing of recorded media (SIC Code 3243)
  - This group includes the publishing of records and other recorded audio media
    - ⇒ Reproduction of recorded media (SIC Code 3260)
  - This group includes the reproduction of records, audio, video and computer tapes from master copies, the reproduction of floppy, hard or compact disks, the reproduction of non-customised software and film duplicating.

These standard industry classifications reveal that the music industry falls across a variety of industries. The picture of the music industry is further complicated when one looks to the retail and broadcasting sectors that give rise to much of the revenue stream of the sector. Thus the music industry can be said to be composed of:

- **Originators:** These are the musicians and songwriters who form the creative basis of the music industry. It is they who provide the raw material that, once transformed through the processes of recording and marketing, generates the income stream of the music industry.
- **Publishers:** These companies publish musical works as composed by songwriters and lyricists. Simply put they promote the work of songwriters and administer royalty payments. (SIC Code 3241)
- **Record Companies:** Record companies are responsible for sound recordings, the promotion of recording artists and ensuring the manufacture and distribution of phonographs. (SIC Code 3243)
- **Manufacture:** This entails the reproduction of phonograms from masters. These commonly take the form of cassettes and compact disks. (SIC code 3260).
- **Broadcast, Retail and Entertainment Sectors:** These constitute the three sectors through which the product of the music industry reaches the market.

This structure is further complicated by the nature of music. Whilst the lay-person often thinks, correctly so, of the music industry as being based upon physical products, for example cassettes, the industry is equally based on intangible intellectual property - the rights and the attendant royalties which accrue to artists, composers, record companies and publishers. It is the combination of the sale of physical products and services, combined with the sale of intellectual property that forms the basis of the music

industry's revenue stream. The fact that the music industry is based on the sale of intellectual property is important to note for, unlike many other industries, intellectual property rights enable the owner of the those rights to sell the same recording time and time again over a fifty or seventy-five year period<sup>7</sup>, the only additional expenditure being the manufacture of more copies of that recording.

A third issue which further complicates our understanding of the music industry is the various flows of revenue from one territory to another. By way of example an artist in the UK may have assigned her publishing rights to a UK publisher, who subsequently signs a sub-publishing deal with a South African publisher in order to secure the release of the artist's song in South Africa. That song then gets played on radio which results in a revenue stream. That revenue stream, generated in South Africa then results in a series of payments to the South African sub-publisher, the UK publisher and the artist in the UK. Thus the revenue of the music industry flows all over the world. This global dispersal of revenues further complicates the generation of a picture of the music industry in any one country.

In summary, the music industry is constituted by a variety of different industrial and service sectors, its products take the form of physical artifacts, services and intellectual property and it is characterised by a global flow of revenues. It is the purpose of this report to clarify the economic and industrial nature of this industry both globally and in the South African context, thereby laying the foundations for the development of a strategy to increase the growth of the South African music industry. However before we engage with the detail of these industries there are a series of relationships that need to be understood, if the reader is to make sense of the complex nature of the music industry.

## **3.2. The Music Industry Business<sup>8</sup>**

An industry cannot achieve large-scale sustainable growth and create jobs on the strength of a single sector. This is particularly so in the music industry where all points in a song's journey from its birth in an artist's mind to its sale in a record store and its floating on radio determine the strength of the final product. This section presents a stylised version of this progression from the moment of development to the moment of sale and all the points in between. This exposition is necessary in order to clarify, for the reader, the importance of strengthening all elements of the music industry and the coordination between them.

### **3.2.1. The Composer and The Musician**

Songs are the bedrock of the music industry. They are the basis for album sales and they generate copyright revenues<sup>9</sup>. Songs, as a form of copyrighted intellectual property, are a significant form of revenue for the music industry. Revenue is derived from:

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<sup>7</sup> Contingent on the length of copyright protection in that territory.

<sup>8</sup> The information contained in this section was provided by all the interviewees listed in Appendix Three. The CSG gives heartfelt thanks for the time and learning that they all shared with this project.

<sup>9</sup> For a full exposition of copyright legislation see Appendix One.

- Public performance, for example radio play of a song.
- Mechanical reproduction, for example the reproduction of a compact disk.

In addition the recording of songs and their conversion into albums provides the music industry with its largest source of revenue - album sales.

Accordingly the artists, composers and musicians, who generate this work are an indispensable sector in the music industry. If society and the music industry does not encourage and foster creativity and musicianship, the human resources of the industry will either never be developed or if they do develop they can be lost to other music industries. A stark example of this is the number of great musicians who were forced into exile by the apartheid government. If the South Africa's music industry and culture in general is to thrive the driving of artists into exile can never be repeated.

### 3.2.2 Live Performance

Live performance incorporates both small intimate venues that hold a handful of people to mega stadiums that hold tens of thousands. Yet all these venues have common features:

- They employ people;
- They contribute to the revenue of the country;
- They provide a vital link between a country's culture and the tourist sectors.

A vibrant live music industry is essential for all these reasons. It also provides musicians with an entry-point into the music industry. Small neighbourhood clubs, bars, shebeens and school halls are critical shaping grounds for musicians. These public spaces allow them, in the initial stages of their careers, the opportunity to develop their repertoire and to build a following.

Without a vibrant live music in townships and suburbs around South Africa, musicians would not have the opportunity to explore their creativity, to be recognised by the recording industry or to make a living.

The larger concert end of the music industry is equally critical as it provides significant numbers of jobs and revenue for the country. They are also essential as they provide musicians with a platform a) from which they can reach thousands of potential supporters; b) which they can share with successful international artists. This sharing of musical space provides valuable opportunities for learning stagecraft as well as for crossover between South African and international sounds; and c) which will assist them in accessing international markets.

Thus live music is essential in building musicians from local acts to international stars.

### 3.2.3 The Record Companies

Record companies lie at the heart of a vibrant and growing music industry. The skills that are housed in the record company are essential for:

- Matching sounds and images with particular market segments;
- Shaping sounds and images such that a wider range of consumers will buy an artist's music.
- Ensuring the domestic and international promotion and sale of South African music.

Whilst alternative delivery mechanism, such as the Internet, are posing alternatives to the record company, there can be no doubt that a strong recording sector is critical to the growth of the industry.

### 3.2.4 The Retailer and The Broadcaster

Retail and broadcast are essential delivery mechanism. These are the two points through which most consumers experience music. Without the strong, diverse and comprehensive delivery of music through these sectors, a music industry cannot grow.

Starkly put, if retail is not effective, the sale of music is severely compromised. If broadcast is not effective, insufficient people hear and see the music that they may want to buy.

### 3.2.5 Promotion and Publicity

Promotion and publicity are essential on two fronts:

- To ensure consumer awareness of a particular album or band. It is essential that this awareness be carried across all delivery platforms from posters around the local live music venue, to in-store promotions in retail chains, to advertisements on radio and music videos on television.
- Promotion is essential to building pride in and recognition of the value of South African music. This is critical for increasing sales, but is also central in attracting skilled and creative people to the music industry - people who might otherwise be lost to different industries or countries.

Thus strong promotion is a key part of attracting people to the music industry and ensuring that there are sufficient revenues to keep them there.

### 3.2.6. The Domestic and International Market

Success in both the domestic and international markets is critical to the development of the music industry.

The domestic market needs to be developed because it:

- Provides a sales base from which an artist can move into the international market; and
- Provides opportunities for communities' histories, traditions and cultures to interact. This in turns provide valuable cultural resources which are essential for the creation of new, yet distinctive sounds - the beginnings of the music industry.

Yet in developing that market artists, record companies, promoters and broadcasters need to be carefully attuned to trends in the international market. By doing this, the industry will be able to create musical products that reflect the uniqueness of South African sounds and culture in a manner that is accessible and therefore desirable to international consumers. The merging of the imperatives of the domestic and international market provide the basis for greater growth in the South African music industry.

### 3.2.7. The Music Industry

The above section has focused on only the key elements of the music industry. In each of the sections discussed above there are a variety of sectors and services that radiate out from these core sectors. The central point is that all these elements are connected and it is only through the strengthening of the entire value chain that South African music will become a truly global player.

### 3.3. Future Developments

The ability to record music as digital information coupled with revolutions in communication and recording technology has begun to present a number of serious challenges to the existing structure of the industry.

The rapid growth of the Internet and related technologies has started to have an impact on the way in which music reaches the consumer. Traditionally music has reached consumers through the broadcast media or through the sale of physical product. However the growth of the Internet has opened a new avenue through which music can be promoted and purchased.

The Internet has, thus far, largely been used by record companies and artists as a promotional vehicle rather than as a site for retail. A survey conducted by Strategic Record Research in the U.S. market revealed that less than 1% of consumers who had bought three or more albums in the last six months had done so through the Internet. To the extent that retail occurs through the Internet it does so in one of two ways. The first form of Internet based retail allows consumers to order albums on-line and then the product is shipped to the consumer. Music mail order, in the U.S., was estimated to be worth approximately \$50 million (R222.5 million) in 1997, more than double the 1996 rate<sup>10</sup>. The second form of Internet retail occurs in the form of consumers downloading songs from the Internet onto their hard-drives. This form of retail is yet to make any significant financial impression on the music industry, both because of low levels of computer hardware penetration and because of the time taken to download music files.

Although the Internet is presently not a significant feature of the music industry it is noteworthy for two reasons:

- its promotional possibilities; and
- its implications for the protection of copyright.

The Internet provides both artists and record companies with the opportunity to access global markets with relative ease. Indeed for artists the Internet holds the potential to avoid the traditional route of releasing an album through a record company. That said, whilst there are the occasional hits that 'come from nowhere', for the most part a significant amount of marketing money is spent in promoting successful albums. Thus, for the foreseeable future, it is unlikely that the role of record companies will be displaced by the Internet.

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<sup>10</sup> MTI (1998)

Copyright holders have expressed concerns that the direct downloading of music from the Internet may lead to an increase in piracy as well as difficulties in tracking transactions.

The technological development that holds the most immediate challenge for copyright holders and for the administration of copyright is sampling. Sampling refers to a practice of using digital 'samples' of existing songs in new recordings<sup>11</sup>. Some high profile sampling in 1997 included Puff Daddy and Faith Evans' *I'll Be Missing You*, which sampled Sting's song of the same name; and Prodigy's *Firestarter* that sampled the Breeders' *S.O.S.* and Art of Noise's *Close to the Edge*<sup>12</sup>. Sampling holds immense challenges for copyright legislation for whilst songwriters and recording artists' works are protected by existing legislation it is not clear what happens when a few seconds of an existing work are sampled. The 1994 **Campbell v. Acuff-Rose** U.S. case is illustrative of the challenges that sampling holds for copyright legislation. 2 Live Crew's *Pretty Woman* made use of samples from Roy Orbison's *Oh Pretty Woman*. In the ensuing court case the Supreme Court ruled that 2 Live Crew's sampling constituted fair use and therefore did not contravene copyright legislation. The ruling disturbed sections of the legal profession who felt that the ruling constituted a dilution of the copyright holder's rights.

Sampling and the downloading of songs from the Internet both hold challenges for the drafters, enforcers and beneficiaries of copyright legislation and will no doubt continue to be the focus of much attention in coming years.

### 3.4. Conclusion

This chapter has served to outline some of the complexity of the music industry. What is clear from this chapter is that the development of the music industry is dependent on the interaction and co-operation of a large range of different players. In addition the music industry is a vastly complex amalgam of national and international processes with a variety of different products aimed at and consumed by different markets.

The following chapters will attempt to clarify South Africa's position in relation to the global music industry as well as to focus on the internal dynamics of the South African music industry which facilitate and \ or limit the growth of the South African music industry.

## CHAPTER FOUR: PARAMETERS OF THE MUSIC INDUSTRY

### 4.1. The structure and operations of the music industry

#### Introduction

The diagram below partially captures the linkages between different aspects of the music industry. It is striking that it is the originators - an individual, or group of

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<sup>11</sup> Burnett (1996)

<sup>12</sup> Hillburn, R. "Sampling saves music in 1997" in **The Star** 8<sup>th</sup> January 1998.

individuals - who are the starting point of the industry. It is the musicians and the composers who form the basis of the music industry. The various sectors of the music industry that are brought into play in ensuring the success of the musician's product in the marketplace constitute a national and international network of manufacturing, distribution and marketing. The preceding diagram captures both the structure and the challenge of a successful music industry - ensuring that musicians and composers exist and are regularly producing and then ensuring the successful recording, production, distribution and marketing of that artist in order to ensure a high number of unit sales.

In the following two chapters we focus on South Africa's relative place in this global process and the factors endemic to the local industry that constitute competitive and comparative advantages in the global music industry. In addition we analyse the ways in which the existing structure and operations of the industry, both global and domestic, may fail to optimise that process of transforming the creative idea of an artist to a marketable consumer good.

## Global Markets

The music industry is one of the world's most thoroughly globalised industries. This characteristic is partially captured by the pronouncements of some of the world's largest music companies:

- "Globalize local repertoire" (BMG)
- "A European based global recording company" (Polygram)
- "Think globally - act locally" (Sony)<sup>13</sup>

Whilst each of these statements is nuanced to reflect different corporate strategies, they are uniform in viewing the world as both the source of new repertoire and as their company's market place.

The world music market is significant and it is expanding. In 1996, the total wholesale value of the global music industry was \$39.8 billion<sup>14</sup>. In that same year the global music industry grew by 4% in terms of the total volume of unit sales. 70% of that growth was located in less developed markets, with Latin America and Asia leading the way.

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<sup>13</sup> Burnett, R. (1996) "The Global Jukebox: The International Music Industry". London: Routledge.

<sup>14</sup> The Economist, 17<sup>th</sup> May 1997.



The South African Music Industry  
 The Cultural Industries Growth Strategy (CIGS)

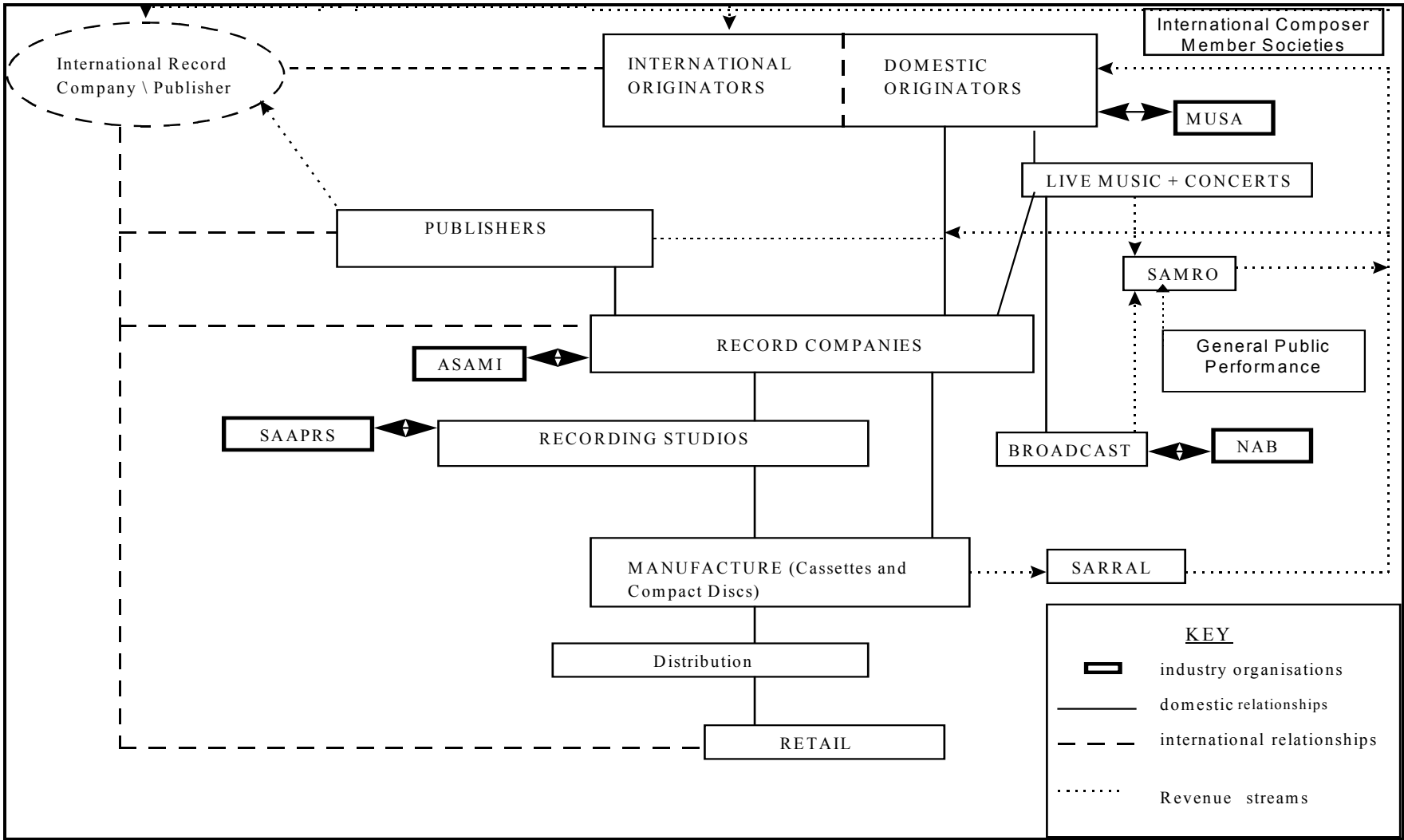
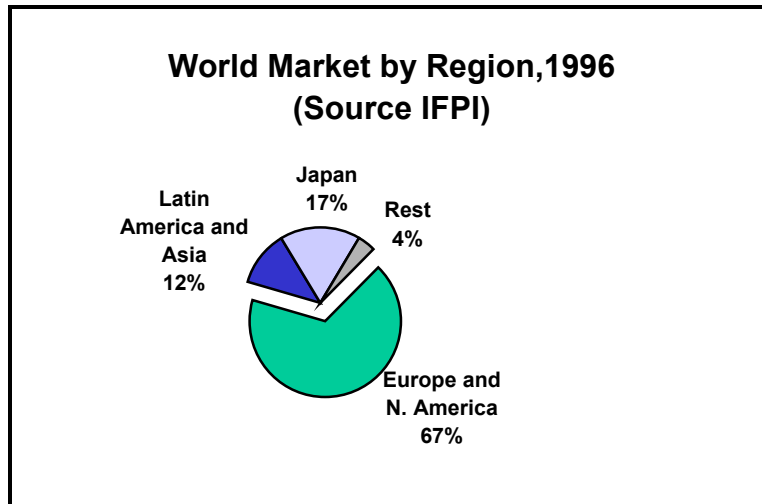


Figure 1: Linkages in the music industry

Significant growth was also experienced in Africa and the Middle East with the market expanding by 119% between 1992 and 1996, albeit from a very small base. Notwithstanding the growth of less developed markets, 84% of the recording industry's value is located in three regions - North America, Europe and Japan. A closer look at the world's largest national markets reveals that only one country - Brazil - is in the developing world and the rest are located in middle to high income countries.



**Figure 2: World market by region**

In contrast to the world's largest markets, the United States and Japan, the South African market is small. In 1996 the South African industry accounted for R585 834 743 of the total R160 billion gross turnover of the sound recording industry. In other words the South African recording industry represents 0.375% of the total turnover in the world's recording industry. However if one considers that the 7<sup>th</sup> to 10<sup>th</sup> world's largest markets are each worth 2% of the world market, South Africa is not an insignificant global player. Indeed South Africa was the world's 28<sup>th</sup> largest market for legitimate album sales in 1996. In the period 1992 to 1996 the South African music market expanded by 60% making it the 15<sup>th</sup> fastest growing music market in the world (measured in units m / by growth)<sup>15</sup>.

<sup>15</sup> Market Tracking International (1998) The MBI World Report. London: Miller Freeman Entertainment.

TOP MUSIC MARKETS AND SOUTH AFRICA - 1996 (Source: IFPI)	
COUNTRY	% OF WORLD SALES
United States	31
Japan	17
Germany	8
Britain	7
France	6
Brazil	4
Canada	2
Australia	2
Netherlands	2
Italy	2
South Africa	0.375%

These statistics indicate that the South African music industry is both stable and significant in global terms, and that the industry is growing. The combination of these indices suggest that there exists the appropriate base from which the industry, given the assistance of appropriate policies and programmes, could rapidly expand its contribution to the South African economy.

### The Multinationals

The world market is dominated by six multi-national companies (majors) - BMG, EMI, Universal, Polygram, Sony and Warner - who between them accounted for 78% of global sales in value terms during 1996<sup>16</sup>.

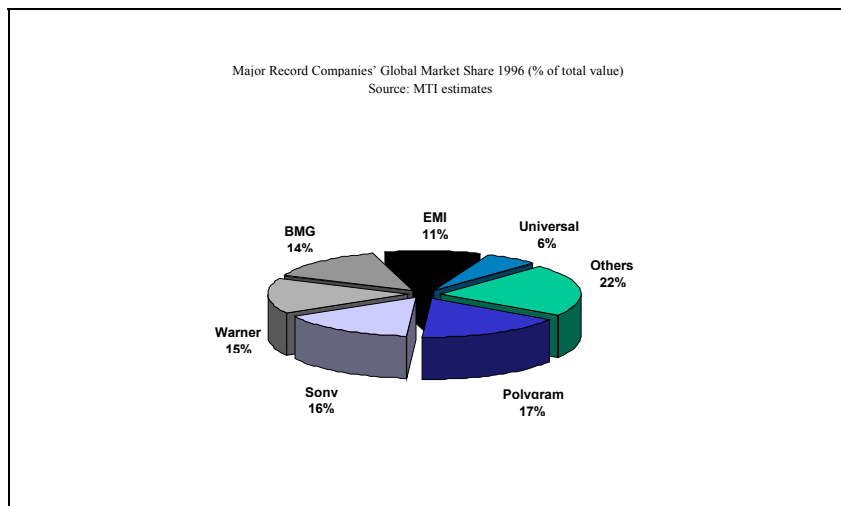


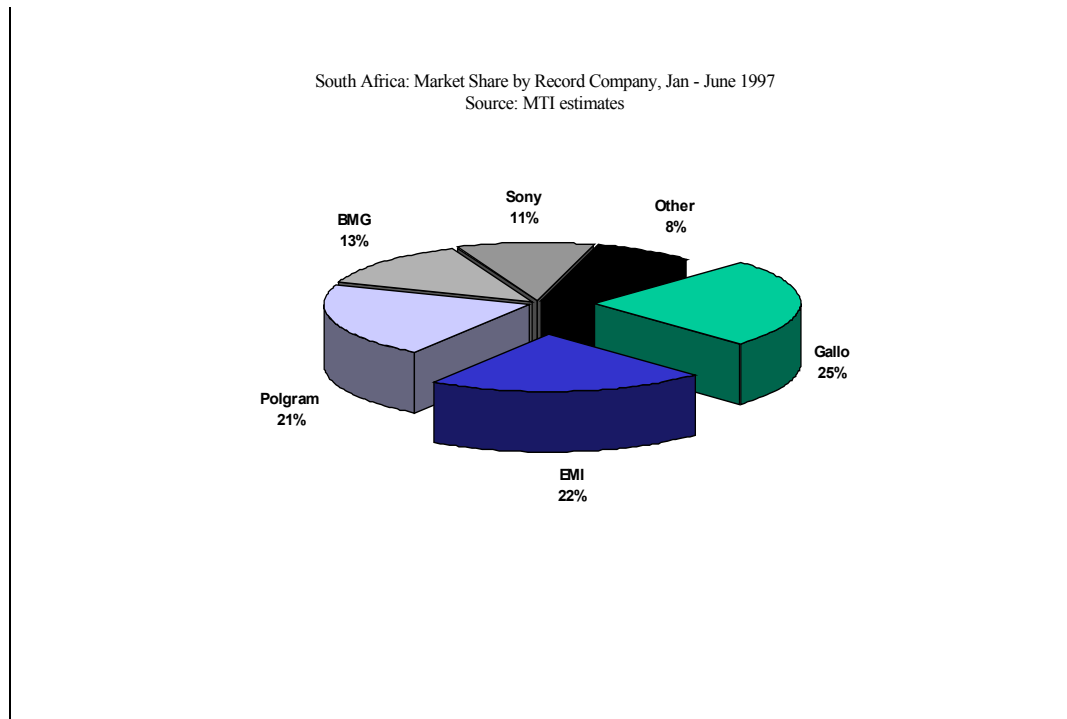
Figure 3: Multinationals' global market share

<sup>16</sup> Ibid.

The dominance of the multinational record companies is also a feature of the South African market, although the greatest market share belongs to independent company Gallo Africa that is licensed by Warner. Four of the six multinationals have subsidiaries in the South African market, they are

- BMG;
- EMI (which also licenses Virgin Music);
- Polygram; and
- Sony.

Together these five companies controlled 92% of the South African market in the first half of 1997. BMG, Polygram and Sony have only come back into the South African territory in the last six years<sup>17</sup>. BMG returned to South Africa in 1992 and Sony and Polygram returned in 1995. Prior to this the South African market was controlled between EMI, Gallo Africa and Tusk Music. The entry of three of the world's largest music multinationals into South Africa has opened up the market considerably, by allowing artists and independent record companies greater choice.



**Figure 4: Record companies market share in South Africa**

**ISSUE: The world music industry is dominated by six multinational companies. Four of these companies have South African subsidiaries.**

<sup>17</sup> Interview with K. Lister, BMG.

The operations of multinational companies are located at the interface of local sites of production and international systems of marketing and distribution. In other words, as well as being a conduit for popular music into a territory they also search for and record music in that territory that can be marketed at a national and an international level. An example of the effect of international sounds on local music production is one of South Africa's best selling genres, *kwaito*. *Kwaito* is a composite of international and local sounds - house, bubblegum, township rap, and r&b. Bands such as O'Da Meesta reworked a traditional tune called *Zumba*, to give it a nineties feel and TKZee have included a traditional Sesotho song chorus on their song Masimbela<sup>18</sup>.

The distribution linkages between the world's different markets facilitate the development of new sounds that derive inspiration from global trends and local histories.

The music industry, whilst global, is not without borders. The distribution of music is not instantaneously global but is contingent on reciprocal licensing and distribution deals signed between record companies in different territories. Therefore if a South African artist wishes to be distributed in other territories they, or more usually their record company, need to be able to convince record companies in that territory that they are marketable.

Ensuring international distribution is therefore traditionally dependent on two processes - success in one's domestic market and a good international network. Success in the former has traditionally been the way in which an artist ensures distribution in foreign territories. If an artist can prove a degree of existing success, for instance, record companies in other territories are more likely to invest in the marketing and distribution of their product.

However in recent years there have been an increasing numbers of exceptions to the rule as record companies try to find the next mega-selling artist. Leila K<sup>19</sup>, a Swedish rapper, for instance, was discovered in a discotheque by two DJs who encouraged her to make a record with BMG. Two singles from the debut album hit the Top10 charts in Britain. Thus a new artist with almost no domestic success became a success story in a foreign territory, and in so doing became one of a new breed of musicians who have followed a different career path.

In part the structure of the multinational companies give the South African branches of those companies access to an existing network. However the mere existence of that infrastructure is not sufficient to ensure that artists obtain distribution in those areas, as the local branches in those territories need to be convinced of the market value of South African music. The problem is more severe for independent record companies that are not linked into a global distribution network. In both instances the mere sending of a cassette or compact disk in the context of the thousands of competing products is insufficient. Effectively this means that there are considerable barriers to entry into foreign territories for artists. In order for this to be overcome, networks of managers and companies, who are cognisant of the marketability of South African music, need to be established in foreign territories.

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<sup>18</sup> McCloy, M. "New SA sounds break new ground" in Friday Supplement, The Mail and Guardian 24<sup>th</sup> December 1997 to 8<sup>th</sup> January 1998.

<sup>19</sup> Burnett, R. (1996)

Building these relationships often requires more than simply shipping an artist's CD to a record company manager in a foreign territory. When reflecting on Gallo Music International's recent success in foreign territories, executive director Ivor Haarburger commented that "There's no more effective way of bringing artists to the world than through touring"<sup>20</sup>. Numerous other emphasized the need for bands to tour internationally, but also stressed that given the limited revenues made by many South African bands in the local market, there existed great financial constraints on ensuring that sort of exposure.

The strengthening of networks between South African artists and record companies and the record companies, distribution networks and ultimately the consumers in foreign territories is a critical component of a strategy aimed at ensuring the success of South African music in foreign territories and the growth of the local music industry.

**ISSUE: Reducing the barriers to entering foreign markets.**

In closing this section it is possible to draw the following conclusions:

- Music is a global business dominated by large multinationals;
- It is a business that is worth billions of dollars, although much of the consumption is concentrated in the U.S.A., Japanese and European markets;
- The South African music industry is significant, albeit relatively small;
- The domestic market is integrated into the global industry and the presence of multinational companies and international repertoire constitutes a significant reduction in the institutional and cultural barriers to entry into foreign markets; Notwithstanding these advantages there is a need to create more effective networks between the South African music industry and record companies in territories where our music can sell.

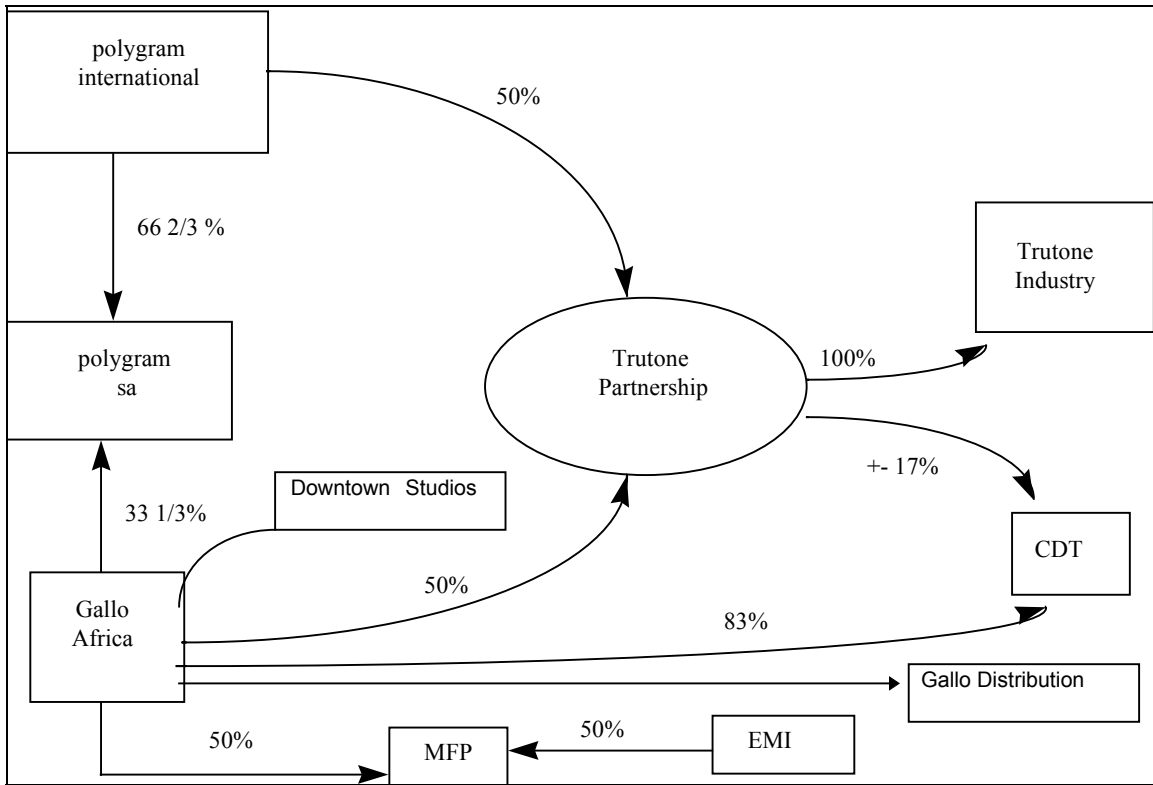
## Vertical and Horizontal Integration

The music industry is characterised by a high degree of vertical integration amongst the multinational record companies. In other words record companies own a significant proportion of the entire music value chain. Typically the music industry production process is composed of three phases - manufacture; including the recording of a master and the pressing of multiple copies; and distribution and retailers. The multinationals own a significant proportion of the facilities in each aspect of the value chain. For example, EMI has a practice of, as far as is possible, owning production facilities in any territory that it is based. This gives EMI the capacity to produce 3 million compact discs daily<sup>21</sup>. This ownership structure is mirrored in South Africa, where the majors own all of the large manufacture facilities and most of the distribution.

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<sup>20</sup> Felmdan,P. "Gallo's on the go" in **The Star Tonight** 19<sup>th</sup> March 1998.

<sup>21</sup> Interview with Mr. S. Pillay, EMI (SA).



**Figure 5: Gallo Africa and Polygram's Ownership Structure**

The above diagram demonstrates the major's control of all aspects of the music industry. Through its ownership of Downtown Studios, Gallo Africa has the ability to produce its own masters. The Trutone Partnership and Gallo Africa together control the largest cassette manufacturer in South Africa and one of only two compact disk manufacture plants in the country<sup>22</sup>. Through Gallo Distribution, Gallo Africa distributes the majority of the country's music. Gallo's partnership with EMI in MFP gives it considerable access to the retail market. MFP provides music to all the large chain stores

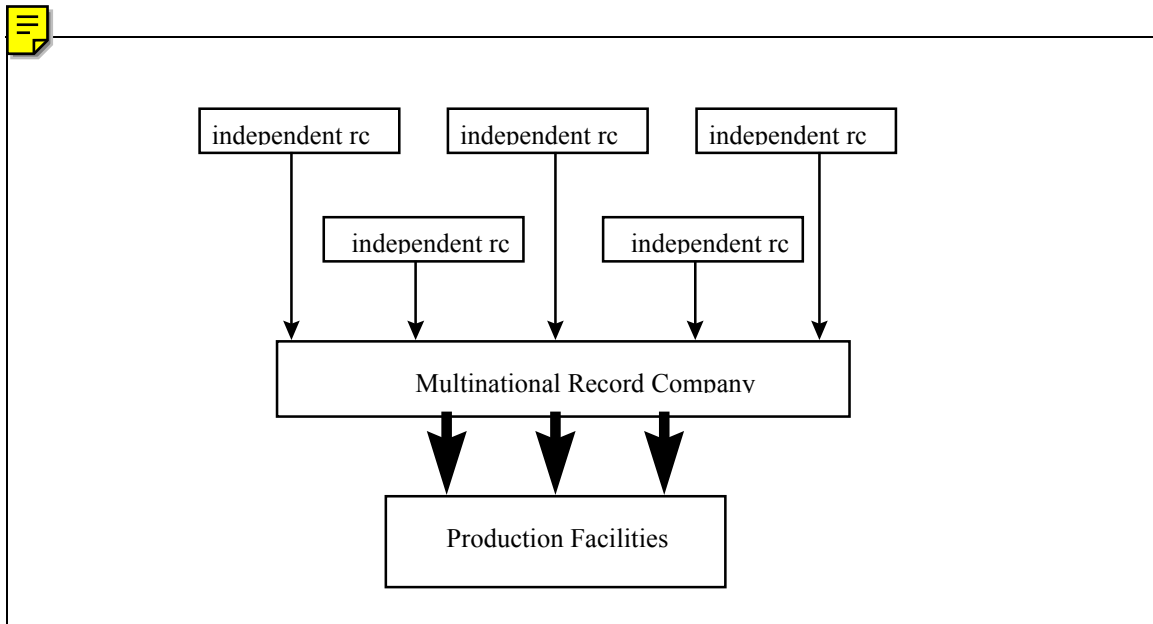
EMI Music South Africa has a similar structure with ownership in the areas of sound recording, production, distribution and retail (in partnership with Gallo Africa). BMG is also in the process of opening its own CD manufacture plant which would give them their own production facilities.

The majors' control of vast areas of the value chain, both globally and in South Africa, has created a situation in which horizontal integration, that is integration between record companies has increasingly become a feature of the music industry. Lopes has described this form of horizontal integration as an 'open system of production'<sup>23</sup>. The open system of production refers to a situation in which independent record companies sign pressing and distribution deals with the major record companies in order to ensure

<sup>22</sup> BMG has plans to open its own CD manufacture plant in the near future.

<sup>23</sup> Lopes, D.P.(1992) "Innovation and Diversity in the Popular Music Industry, 1969 to 1990", in **American Sociological Review** 1992.

that their product gets produced and distributed. Accordingly a major record company may have a number of independent record companies and their artists distributed through them. This model (represented below) captures the structure of the South African music industry with the majority of independent record companies signing manufacture and distribution agreements with the majors<sup>24</sup>.



**Figure 6: Economies of Scale in an Open Production System**

Simply put the open production system creates a situation in which more production is channeled through existing production facilities. As a consequence of the increased throughput the production facilities are more efficiently utilised, resulting in lower unit production costs.

Notwithstanding the economies of scale benefits of this production system some critics have argued that it is an essentially conservative system that limits the variety of music that is produced. However research undertaken by Lopes(1992) has shown that the open system of production allows sufficient diversity and innovation in popular music to maintain consumer interest in and consumption of music, whilst allowing for economies of scale to be realised.

The open system of production facilitates innovation as it incorporates smaller, and often more entrepreneurial companies into the production system. This system also facilitates the optimisation of both the economic strength of the multinational companies and the less risk averse, more entrepreneurial skills of the smaller record companies.

<sup>24</sup> Interview D. Alexander; S. Pillay; H. Voerman and K. Lister.



## Core South African Industry Structures<sup>25</sup>

One of the greatest strengths of the South African music industry is that it has such a comprehensive structure from record company to manufacture to retail:

- there are four multinational subsidiaries, one independent major and approximately 80 small independent record companies;
- manufacture of cassettes and compact disks is done locally with high quality plants existing in the Gauteng region. Quality control in one of South Africa's cassette manufacturers is so good that in 1996 the reject rate from consumers was a mere 2 units out of 6 million units produced. In addition to the quality control in the production process, this cassette manufacturer sends cassette samples three times a year to Sony in the UK to have their quality checked against international standards. Likewise one of the country's largest CD plants is rated as one of the top 20 CD plants in the world. There are a total of 350 plants globally.

The fact that South Africa has a well functioning industry infrastructure is a strong indicator of the sustainability and potential of the local industry to expand in the near future.

## Institutions in the South African Music Industry

The South African music industry has a fairly well-developed institutional density, with most interests being represented through some form of association or union. The major associations within the industry are:

**African Promoters Organisation (AFPRO).** AFPRO represents South African promoters.

**The Association of the South African Music Industry (ASAMI).** ASAMI represents the majority of record companies in the industry. ASAMI is funded by the revenues from the manufacture of music - a levy of R0,10 from each cassette and R0,14 from each CD<sup>26</sup>. The amount of money that a record company pays to ASAMI determines their voting rights in the Annual General Meeting (AGM).

**Music Industry Development Initiative Trust (MIDI).** This organisation is privately funded and has as its area of concern the development of the music industry, through the training of musicians. MIDI has been involved in initiatives to raise the profile of the music industry. Most notably it hosted a series of workshops in June/July 1997, that were addressed by industry speakers and a guest from Ausmusic. These workshops were aimed at creating an awareness of music as an industry and musicianship skills as needing to include business skills.

**Musicians Union of South Africa (MUSA).** MUSA has approximately 1500 members countrywide. Membership fees are R60 a year. MUSA's work as a representative body

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<sup>25</sup> Sources: Interviews and MBI World Report.1998.

<sup>26</sup> Interview, Mr. J. Park, ASAMI.

is complicated by the legal nature of musician's work, where for the most part they are characterised as 'independent contractors' and not as 'workers', and are thus unable to avail themselves of certain provisions of the Labour Relations Act<sup>27</sup>. The exception to this is where musicians are the employees of orchestras and it is in that arena where the majority of MUSA membership is based.

Industry sources have been critical of MUSA with comments ranging from "it has no teeth" to "it needs to take a course of steroids", indicating that the organisation is relatively weak. MUSA acknowledges this, although in the context of such a low subscription base it is difficult to maintain a permanent secretariat that is necessary for effective representation.

Nevertheless MUSA has managed, in recent months, to raise the public profile of the challenges facing musicians by, amongst other initiatives, organising a 'Musicians' March' to the Union Buildings in Pretoria.

**The South African Association of Professional Recording Studios (SA-APRS)**<sup>28</sup>. This association was formed in order to ensure that recording studios delivered uniform and professional recording services.

**The South African Roadies Association (SARA)**<sup>29</sup>. SARA has approximately 500 members. SARA represents the technical staff who work in putting on concerts in the industry. SARA has served as a locus for training initiatives to build the skills of black technicians and now also acts as a form of an employment agency through which companies can source skilled contract labour. SARA's running expenses are funded by a percentage check-off taken from the pay that members receive for contract work undertaken under the auspices of SARA.

**Technical Production Services Organisation**<sup>30</sup>. This is a forum where issues of safety and ethics can be addressed by companies working in the area of live music. A relatively new organisation they are moving towards establishing a steering committee; getting a permanent secretariat; and, in the long-term, appointing independent safety officers who will be able to go out and do safety checks at concerts and other events. The existence of these institutions is valuable to ensure the clear articulation of industry interests as well as for providing structures through which industry development projects can be initiated and implemented.

## Conclusion

This section has explored the parameters of the global music industry and South Africa's place therein. South Africa's music industry is clearly well established both in terms of its industry structure and its current growth rates. Thus any interventions which are made in this sector, be it by the industry or in partnership with government, would need to capitalise on the existing foundations by pursuing strategies that lead to the increased

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<sup>27</sup> Interview Mr. H. Belling, MUSA.

<sup>28</sup> This association has not been interviewed.

<sup>29</sup> Interview Mr. F. Nyathela, SARA.

<sup>30</sup> Interview Mr. O. Lapid, Gearhouse.

consumption of South African music. In the following section the report presents the statistics of the industry and analyses the local industry's internal dynamics .

## 4.2. The South African Music Industry in Figures

### Introduction

The preceding section has explored the dynamics of the global music industry and placed the South African industry in the context of that global industry. This section is concerned with analysing, in greater detail, the specificity of the South African music industry. This analysis will provide the basis for the identification of the strengths, weaknesses, opportunities and threats that face the South African music industry.

In conducting this analysis the SA industry will be compared to music industries in other countries. These countries have been chosen on three bases:

- They are one of the two most 'successful' industries in terms of a particular indice;
- They are predominantly English speaking territories; and
- They share a similar per capita Gross Domestic Product (GDP), between \$3000 and \$5000 to South Africa. These countries include Thailand; Malaysia; Colombia; Brazil; Chile; Poland; Czech Republic and Bulgaria

The combination of these three indices will enable us to identify:

- What the pinnacle of success is in the international music industries;
- The extent to which sharing a common language with the world's major music markets constitutes an advantage to the development of the domestic music industry.
- How South Africa compares to countries that share a similar economic profile.

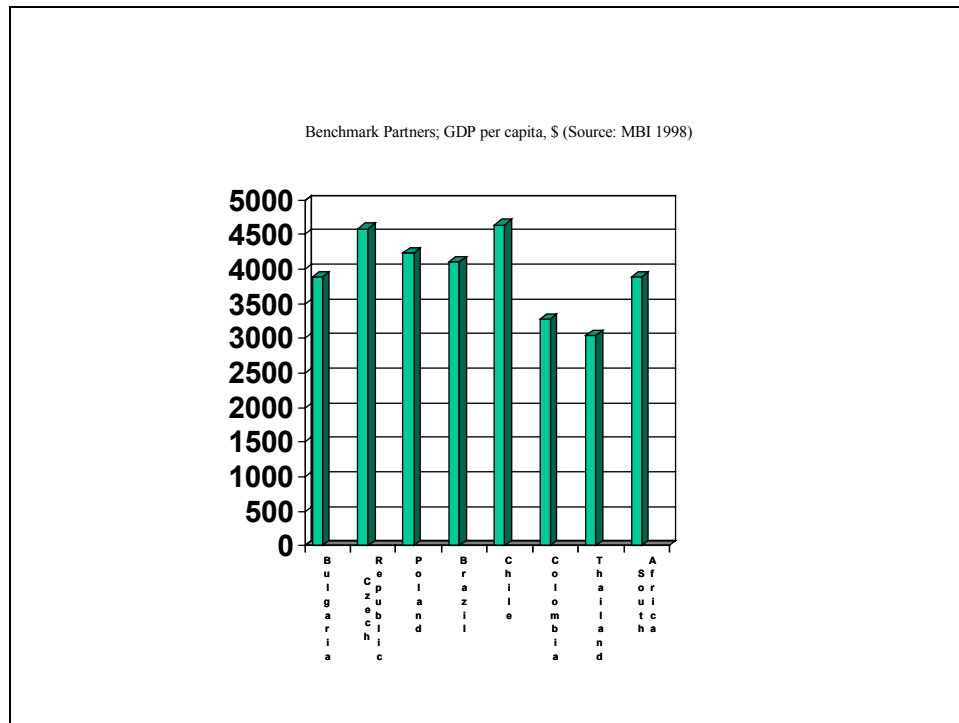


Figure 7: Benchmark Partners by GDP per capita

The statistics that we will be using in this section were obtained from ASAMI, the Central Statistical Service, the Department of Trade and Industry, SAMRO, SARRAL and the MBI World Report.

## Price Structures in the South African Music Industry

The average retail price for a compact disk in the South African market is \$17 and for a cassette is \$9. When compared against Brazil where the respective prices are \$18 and \$8 it would seem that music is not over-priced in South Africa.

The price of a compact disk is composed of a variety of different elements. The following table presents an ideal typical breakdown of the various components of a R100 compact disk.

### What goes into CD prices - What the customer pays for....(CD retailing at R100)

#### Manufacturing

CD.....	R 6
(actual+cost+box material>manual)	
Booklet.....	R 2
(depending on size and quality)	
Artist/producer/studio .....	R 14
Songwriter(s)/Publisher .....	R 4
Distributor.....	R 4-6
Retailer.....	R 32-34
(normally marks up 50%)	
Government .....	R 13
(ad valorem and VAT)	
Record Company Margin .....	R 23
a theoretical breakdown of the margin includes:	
Marketing .....	R 6
Selling .....	R 2
General overheads.....	R 10
Net Profit.....	R 5

Source: The Cape Times 29/08/97

Whilst these figures would clearly vary depending on the nature of the quality of the sound recording; the extent of marketing; the status of the artist; and, the retail chain, this breakdown is a typical representation of the revenue streams that result from the sale of a compact disk. The revenue that accrues to a songwriter or to the artist reveals the fragile existence of most artists. This is especially in a small market such as South

Africa, where a gold album is a mere 20 000 unit sales. Whilst the retail price of South African compact disks is on a par with Brazilian prices, the margin that accrues to retail companies<sup>31</sup> would seem to indicate that there may be room to reduce the final cost of compact disks to the South African consumer.

### Gross turnover<sup>32</sup>

The South African music industry is worth approximately R974.7 million. This figure is composed of:

- Album sales at wholesale costs - R585,8 million<sup>33</sup>
- Performance Copyright Revenues - R86,3 million<sup>34</sup>
- Mechanical Copyright Revenues - R86.3 million<sup>35</sup>
- Retail - R146,3 million<sup>36</sup>
- Sound and Lighting - R70 million

There are two important caveats to this figure:

- There is no immediate way of capturing how much of this turnover stays within the South African economy, as the Reserve Bank does not capture royalty flows for the music industry.
- There may exist a degree of duplication in the turnovers between the different sectors of the music industry. That said we have tried to eliminate obvious areas of overlap, for example we have estimated the value of the retail sector to be 25% of the wholesale value of the sound recording industry rather than focusing on the entire turnover of the retail sector which incorporates wholesale prices.

In addition to the revenues of the core music industry, adspend on radio stations, which relies heavily on music as part of their programming, equaled R595 million during 1996<sup>37</sup>. Excluded from the core of the music industry are the revenues that would accumulate from:

- music clubs;
- live concerts and musicals;
- music education;
- music video production; and
- those companies that supply the materials necessary for the production of cassettes and compact disks.

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<sup>31</sup> Retailers indicated that their profit margins were between 10% and 20%.

<sup>32</sup> This section is based on estimates provided in interviews with Gearhouse, retailers, SAMRO and SARRAL as well as on ASAMI and NMPA statistics. The figure for the retail sector is calculated on the basis of 25% profit. The figure for mechanical royalties is based on 6.76% of the wholesale value of albums in South Africa.

<sup>33</sup> Source: ASAMI

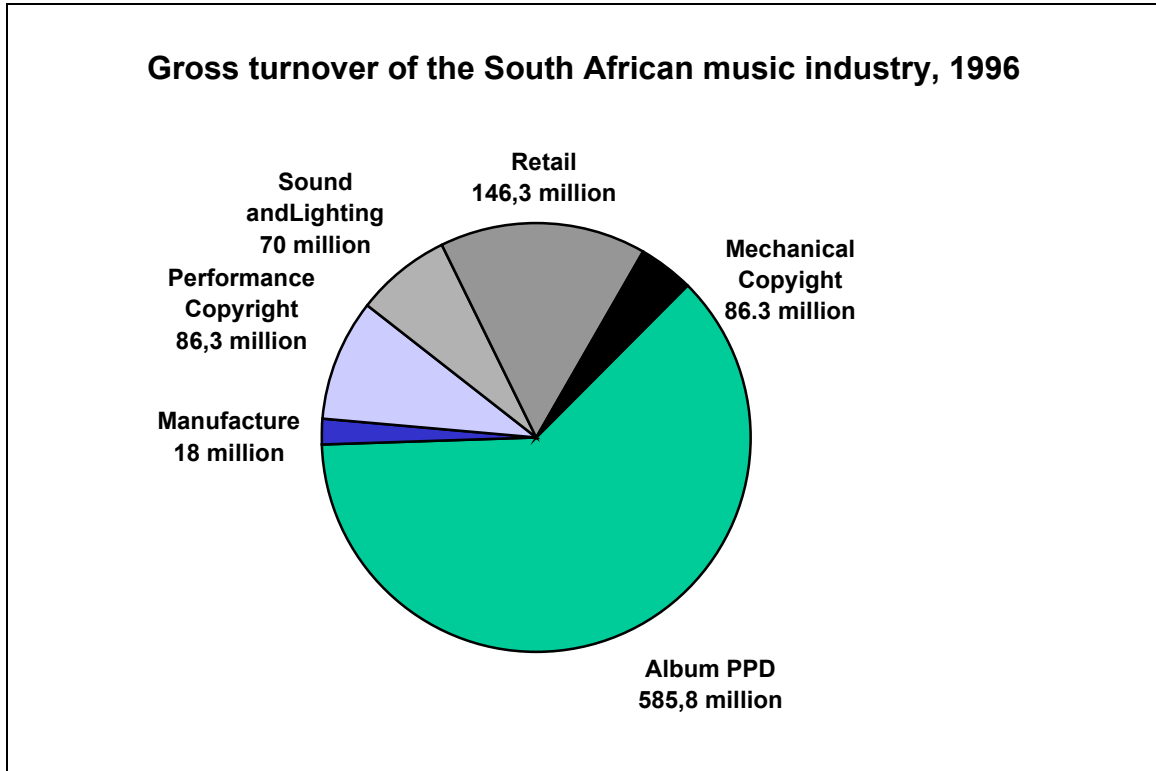
<sup>34</sup> Source: SAMRO

<sup>35</sup> Source: Interviews; Financial Times 11/02/98 notes that a publishers revenue are invariably composed 50% of mechanical copyright and 50% of public performance royalties.

<sup>36</sup> Estimate based on interviews. 25% mark-up on PPD.

<sup>37</sup> Source: Adindex.

Industry commentators estimate that when those sectors are included, the entire music industry is worth approximately R2 billion.



**Figure 8: Gross turnover in the South African music industry, 1996**

## Employment

Given the fragmented nature of the industry and the absence of official statistics on employment in the music industry, it is difficult to provide accurate employment figures. The Cultural Strategy Group has adopted the approach of extrapolating employment figures, from the accurate figures obtained from the largest companies in each section of the value chain to the rest of the sector.

These figures reflect estimated employment in the core music industry and thus exclude supply-side employment, such as lecturers in training institutions; waiters in clubs; workers in companies that supply music manufacture plants as well as hawkers who derive part of their income from the sale of music.

SECTOR	TOTAL	FULL-TIME	PART-TIME <sup>38</sup>
Musicians <sup>39</sup>	7500		mostly
Composers <sup>40</sup>	3800		mostly
Technicians	750	250	500 <sup>41</sup>
Record Companies <sup>42</sup>	580	mostly	
Manufacture	315	230	85
Distribution	500	400	100
Retail <sup>43</sup>	1500		mostly
<b>TOTAL</b>	<b>14,945</b>		

The above table demonstrates two important features of employment in the music industry.

First, the core music industry is a significant employer providing a source of income to over 12 000 people. If one were to take account of jobs in the supply-side environment and in the service sector that are indirectly dependent on music that figure would increase dramatically.

Second, with the exception of record companies; distribution; manufacturing and promotion the majority of the industry is based on contract labour or part-time employment. This is particularly the case in the staging of concerts, festivals and live events.

Third, the majority of employment is to be found at the foundations of the industry. Musicians and composers constitute the greatest percentage of people working in the music industry. Whilst this work is very rarely full-time, it provides a point of access into the job market for thousands of people as well as access to income. The challenge is to provide a more stable source of income for that sector of the music industry, both because they represent the largest and most unstable employment category in the industry and because they are the raw material that forms the bedrock of any successful music industry.

The Oppikoppi Festival provides a good example of the amount of employment that can be generated in the music industry on a part-time basis<sup>44</sup>. The Oppikoppi festival is a four-day music festival that showcases South African music. Oppikoppi costs a total of R1.5 million to stage. That amount employs 293 people who range in occupation from lighting engineers to manual labour and pays for a total of 400 musicians and their

<sup>38</sup> The category part-time does not necessarily mean that a person holds down two jobs, but instead reflects the contractual nature of the cultural industries. Thus someone who is a musician may not have another job, but be unable to find sufficient music work to keep him in full-time employment

<sup>39</sup> MUSA has 1500 members and estimate that there are as many as 10000 part-time musicians.

<sup>40</sup> SARRAL has a total of a 1000 composer members. There is, in all likelihood, a substantial degree of overlap between composers and musicians.

<sup>41</sup> Members of SARA.

<sup>42</sup> Extrapolation from interviews and 10% response to surveys.

<sup>43</sup> Extrapolation from number of major retailers in South Africa.

<sup>44</sup> Interview with Carel Hoffman, Oppikoppi.



technical teams to play at the festival. Thus the festival directly generates employment of close on 700 people for a four-day period. In addition further jobs are generated by the festival as entrepreneurs run flea-market stalls that sell everything from beer to CDs.

**ECONOMIC CHALLENGE: The majority of employment in the music industry is part-time and unstable, but it has the capacity to provide jobs relatively cheaply.**

## Incomes

Incomes for the largest grouping in the music industry, musicians and composers vary greatly depending on their status, popularity and technical expertise. Thus some musicians earn little more than R1000 per month, others who are consummate session musicians and teachers earn in the region of R12000 per month, whilst those who have a public following can earn anything between R350 to R20000 per gig<sup>45</sup>. Whilst no definitive statistics exist on income patterns in the music industry, expert sources indicate that the majority of musicians and composers would be earning little more than R1000 per month and the higher earners in the industry are the exception rather than the rule.

In the live industry (concerts, festivals and clubs) minimum incomes vary between R1500 per month for a stage hand to R5500 per month for a sound engineer. These figures indicate minimum rates and again there can be considerable variance depending on the skill levels and reputation of a particular person<sup>46</sup>.

In the core of the music industry - record companies and manufacturing - salaries again vary between less than R2000 per month for a cleaner to in excess of R13000 for a senior executive<sup>47</sup>.

These income profiles in many ways mirror the structure of other South African industries with a wide disparity in earning levels. However they also reflect the instability of and disparity in earnings that is characteristic of the global music industry in which some artists are multimillionaires and others are paupers. Given the cyclical nature of these industries as well as their overwhelming dependence on market trends it seems unlikely that the insecurity in earnings can be overcome. However it is essential to ensure that the industry expands in order to provide regular incomes to a majority of its participants, for if this does not occur these skills may well be lost to the industry.

## Growth in the South African Market<sup>48</sup>

The South African market has experienced steady growth over the past five years, between 1992 and 1996 the value of the market expanded by 70.7% - the 23<sup>rd</sup> fastest growing market in the world. During the same period the number of units sold in the South African market expanded by 60%, the 15<sup>th</sup> fastest growing market in the world.

<sup>45</sup> Interviews H. Belling; C. Hoffman; B. Holmes; P. Horgan; J. Sithole.

<sup>46</sup> Interviews O. Lapid; F. Nyathela.

<sup>47</sup> Source: Record Company and Manufacturer surveys.

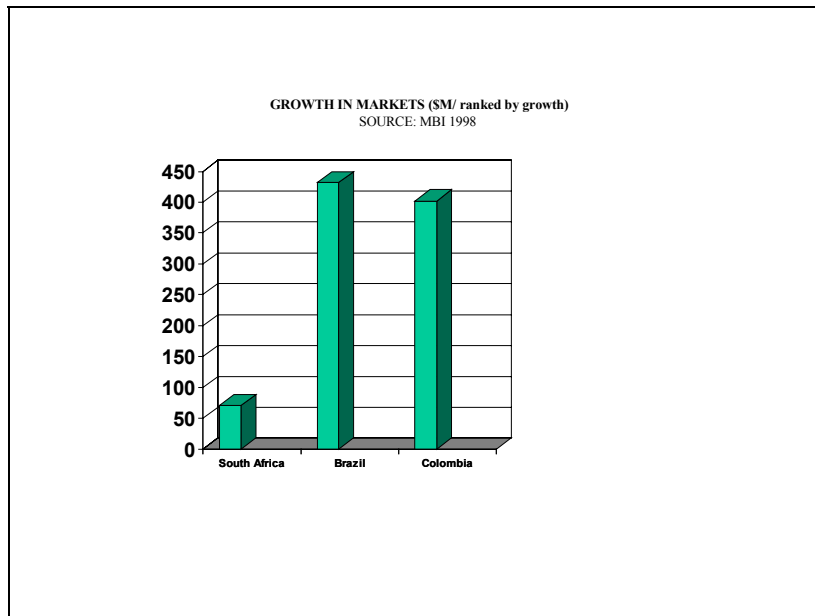
<sup>48</sup> Sources: ASAMI and MBI 1998.

The expansion of the South African market has been fueled by three factors.

First, a steady growth in per capita GDP between 1992 and 1996 has increased the pool of disposable income that the music industry is dependent on for growth.

Second, in the same period the return of three multinationals to the South Africa and an expansion in the number of independent record companies served to increase the range of repertoire that was available to the South African consumer.

Third, the resurgence of domestic repertoire, after a slump in the late eighties, has also been a significant contributor to the growth of the South African market. The *kwaito* explosion and, to a lesser extent, the growth in popular rock bands have all served to drive the development of the South African market. The continued high sales of gospel and traditional genres and a growing adult contemporary market also served to add to this impetus. The role of domestic repertoire in building a strong and growing music industry cannot be overstated. Certainly the world's largest producer and consumer of music, the United States has a high level of domestic repertoire sales. However we do not need to look to such a large market for this evidence, the dramatic growth of the Brazilian and Colombian music markets has also been fueled by a high consumption of domestic repertoire. Thus a vibrant domestic music industry would appear to be critical to the growth and expansion of that market.

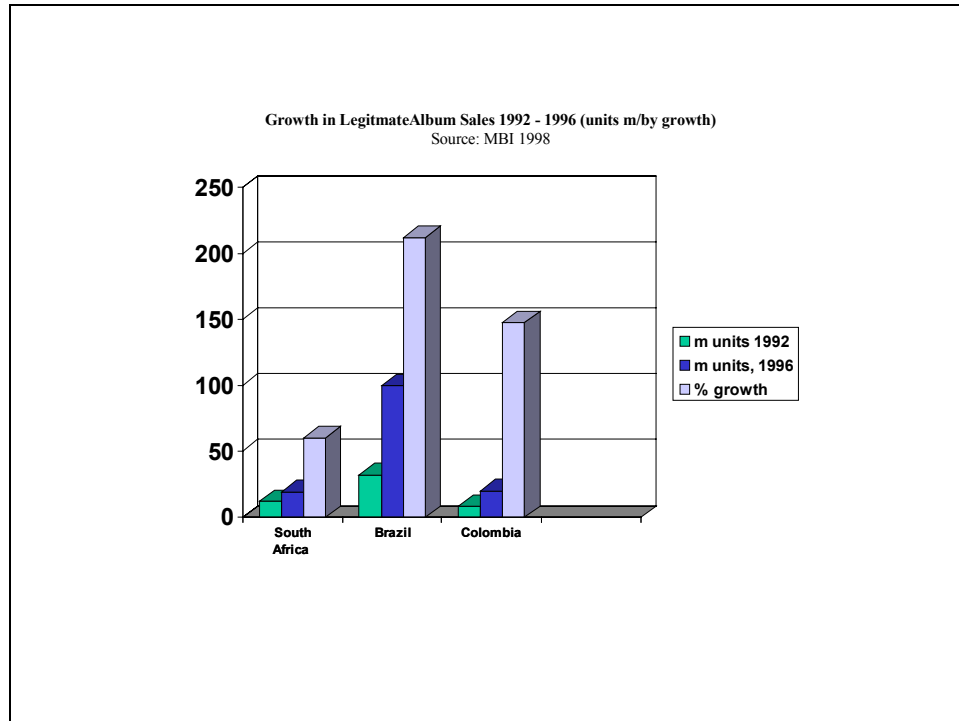


**Figure 9: Value growth in developing markets**

When compared to all our benchmark partners South Africa has the third lowest growth rate, only Chile and Bulgaria had lower growth rates over the same period. However all those markets, with the exception of Brazil, have been growing off a low base. That said, Colombia's dramatic growth rate - fueled by an expanding economy, high-selling

domestic repertoire and international dance music - has moved it from one third of the value of the SA market in 1992 to being almost on a par with the SA market.

The chart below benchmarks South Africa's growth in unit sales with the two fastest growing markets by value amongst our partners - Brazil and Colombia.



**Figure 10: Unit growth in developing markets**

It is clear from this graph that Brazil<sup>49</sup> and Colombia, unlike Turkey, in addition to dramatically expanding the value of their markets have also succeeded in growing their markets in terms of album sales. Whilst South Africa, Brazil and Colombia share a similar per capita GDP profile, the latter two countries have experienced a higher growth rate in per capita GDP and higher consumer expenditure between 1992 and 1996. These two factors are important in explaining the difference in the growth rates of the three markets.

While the macroeconomic indicators would go some way to explaining increased consumption, they do not explain why consumers chose to spend their money in the music industry as opposed to other consumables. The point has already been made that there exists a strong correlation between an expanding music market and high levels of consumption of domestic repertoire. Thus it would seem that a vibrant music industry not only brings international repertoire into a country but ensures that local music is fostered, recorded and promoted.

<sup>49</sup> The dramatically higher number of unit sales in Brazil is largely due to a considerably larger population than that of South Africa and Colombia.

When we examine the amount of money that consumers spend on music it is clear South Africa spends considerably less (\$5.5) than Norway which has the highest per capita expenditure at \$60. However South African music consumption is well situated in comparison to countries that share a similar per capita GDP profile. Indeed South African expenditure is considerably higher than some countries such as Venezuela, which despite having a \$13 950 per capita GDP only has a per capita expenditure on music of \$1.92. The combination of positive macroeconomic variables in conjunction with a growing and revitalised domestic music industry indicates that there exists considerable potential for the music market to be grown.

**ECONOMIC CHALLENGE: South African expenditure on music is within the parameters of similar developing markets. However given the strength of the industry structure there exists significant potential for growth.**

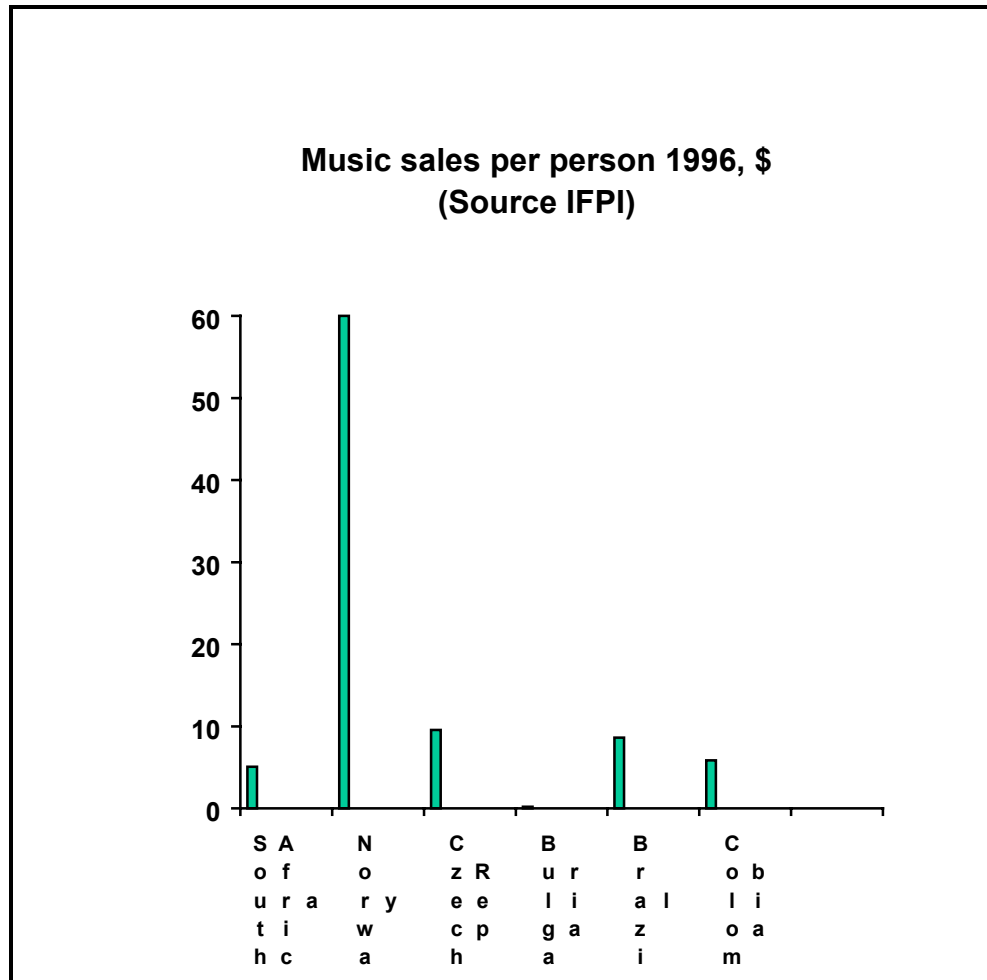


Figure 11: Music sales per person, 1996

South Africa's music consumption, as demonstrated in the graph below, is racialised. This is largely due to the impact of apartheid on the economic opportunities and disposable incomes of the different racial groups.

The differences in disposable incomes has meant that the majority of black consumers purchase music on cassette. The predominance of this lower value format has also had an impact on the overall value of the market.

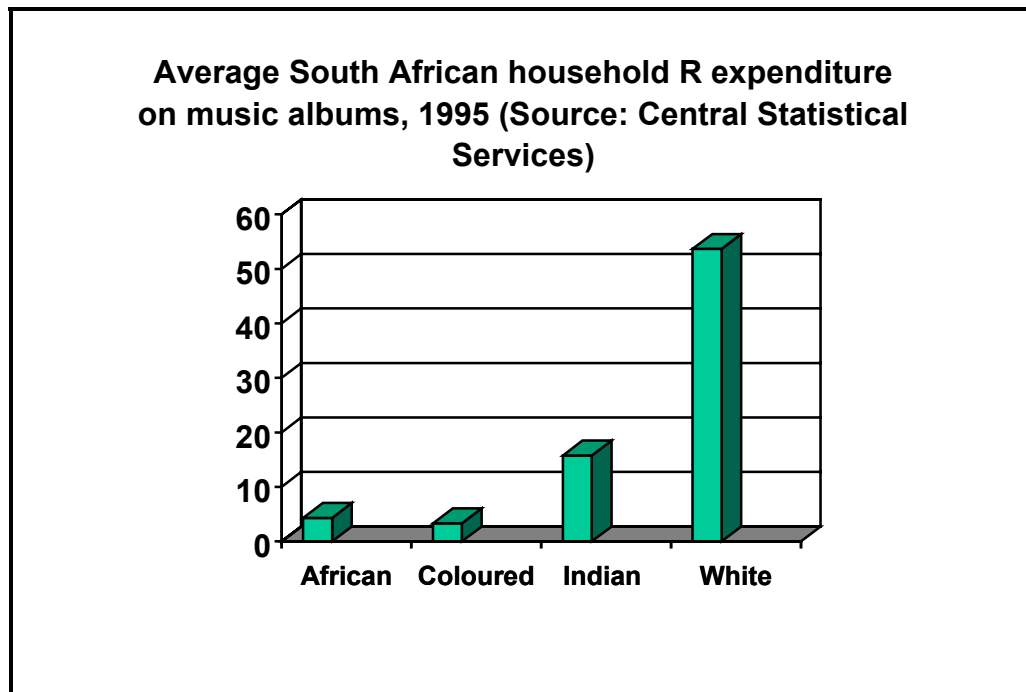


Figure 12: South African expenditure on music, 1995

**ECONOMIC CHALLENGE: To equalise and increase domestic music consumption.**

The above figures indicate that the South African music industry is keeping pace with consumption developments in countries sharing a similar economic profile. The countries against which we have compared South Africa have considerably higher growth rates, which are in part driven by GDP growth and an undeveloped music market relative to population size. However these countries also have a high rate of domestic music consumption which is indicative of an industry dedicated to the stimulation of local music producers.

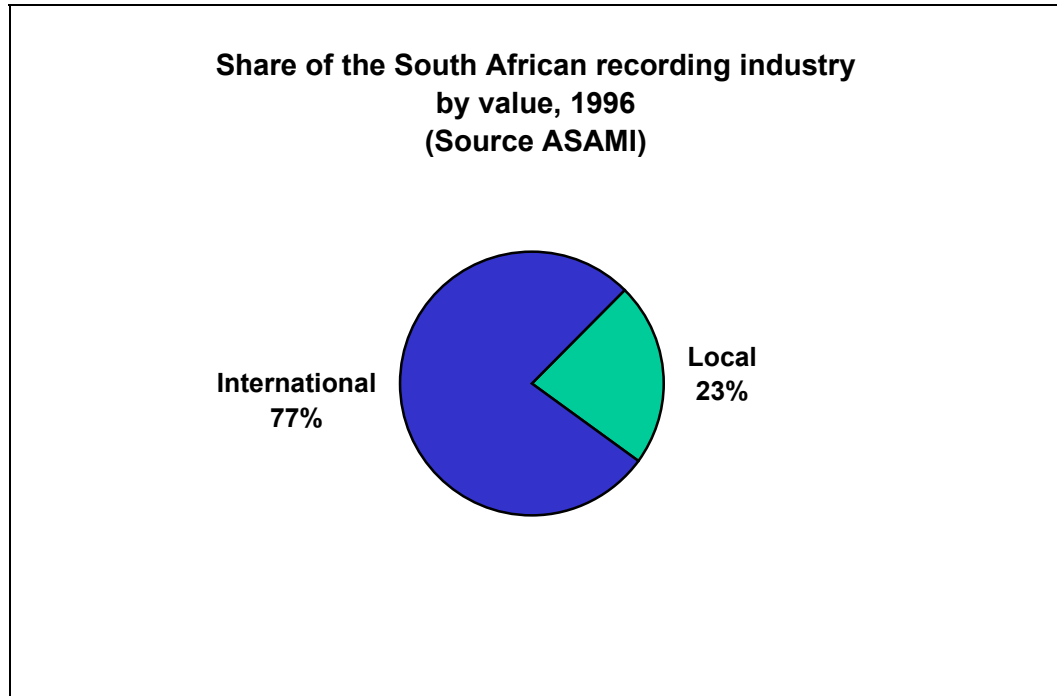
South Africa is moving in this direction. Its ability to capitalise on its potential strength will lie in its capacity to nurture and successfully record and promote South African musical talent. Thus the industry has a stable and internationally comparable consumption and growth rates, which provides the foundations from which the industry can grow dramatically.

**ECONOMIC CHALLENGE: To use existing foundations for growth**

## International and Domestic Repertoire in the South African Market

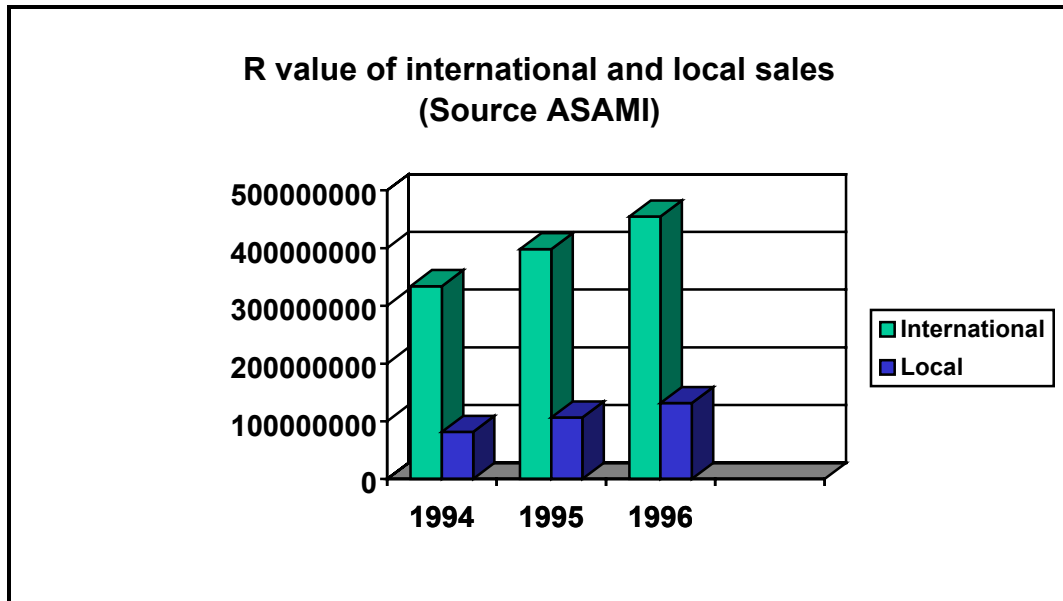
Sales of international repertoire dominate the value of the South African market, accounting for a total of 77.5% of the market during 1996.

In the same year local product accounted for only R131.4 million (22.5%) of the total R585.8 million sales by value in the recording industry.



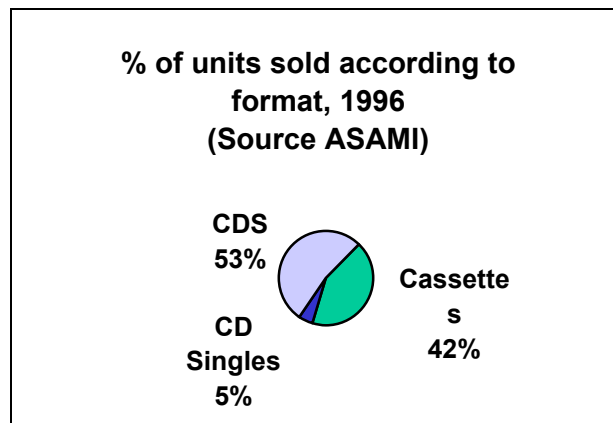
**Figure 13: Share of international and local repertoire, by value, in the SA market, 1996**

The table below demonstrates that since 1994 South African music has been progressively accounting for more of the sales by value in the South African recording industry. In 1994 local product accounted for 19.6% of the total value of sales while in 1996 it accounted for 22.5% of the total value of sales.



**Figure 14: Value of international and local sales in the SA market 1994-96**

Although this is a small shift in terms of total value, the calculation based on value obscures a slighter larger growth in the unit sales of domestic product. This is because a substantial proportion of the South African recording industry is still based on the sales of cassettes, a lower value format than compact discs.

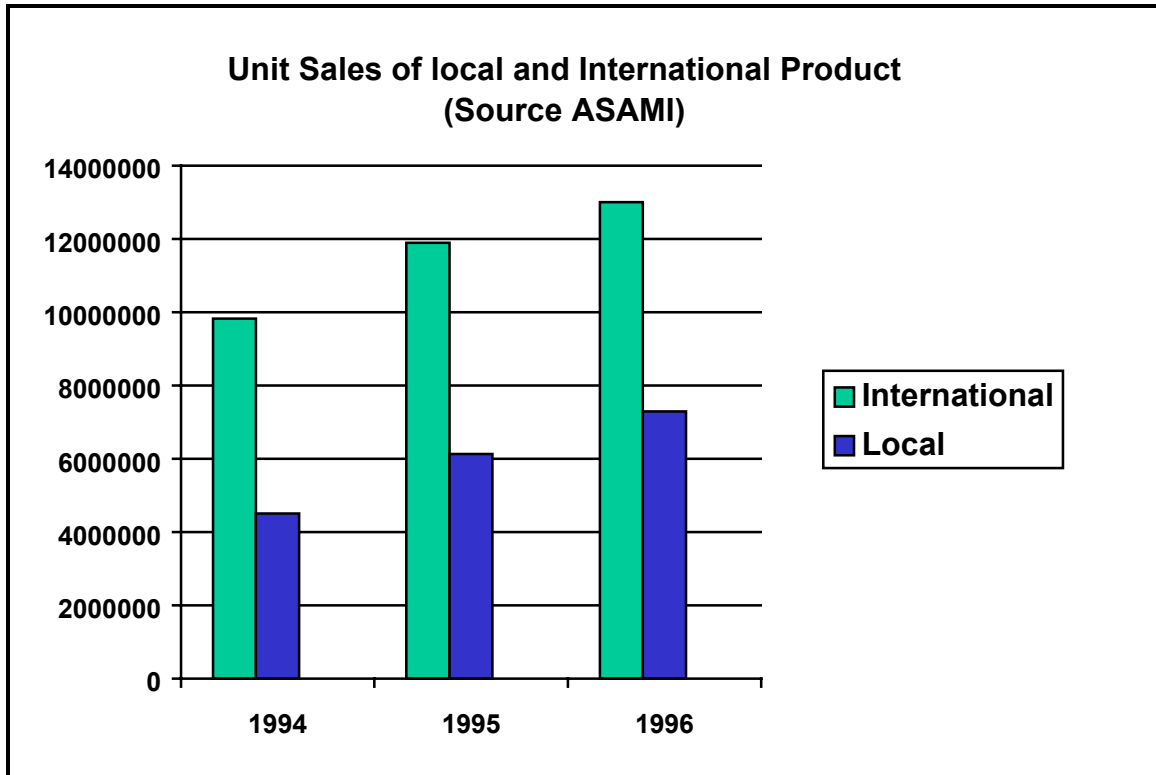


**Figure 15: Percentage of units sold in SA according to format, 1996.**

A focus on growth in unit sales reveals a slighter larger growth in the market share of local product. In 1994 local product accounted for 31% of all units sold, increasing by 5% (to 36%) in 1996.

Thus the domestic music industry accounts for more than a third of the total legitimate sales in South Africa. This constitutes a strong indicator of the health of the domestic

music industry and the extent to which it is meeting the needs of the South African people.

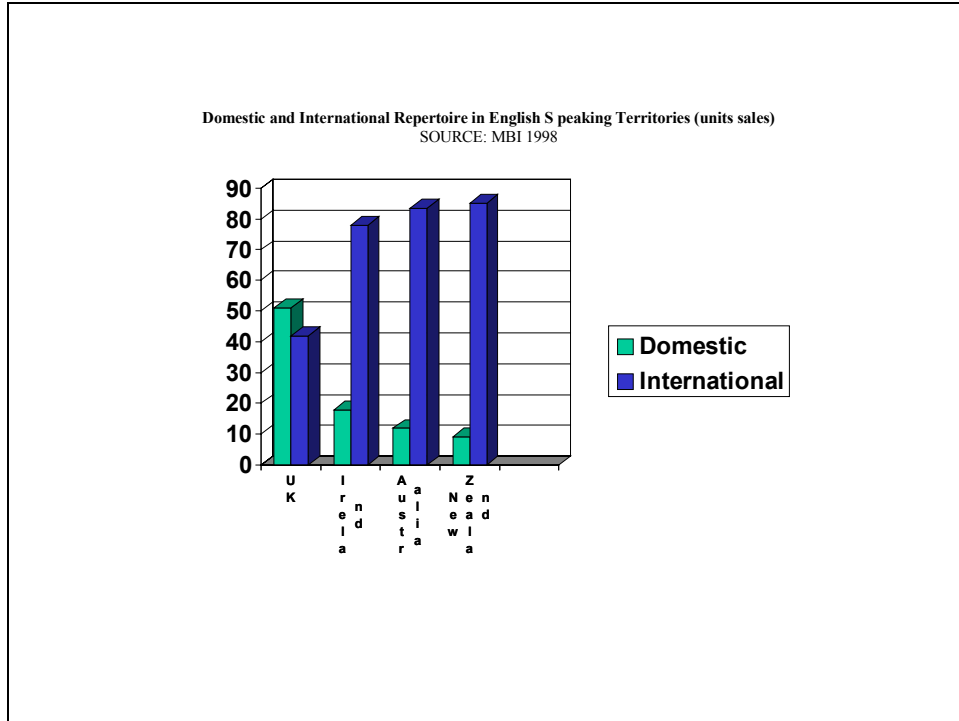


**Figure 16: Unit sales of local and international product in SA, 1994-96**

When comparing the South African domestic / international split with those countries that share a common language, English, with the major music producing countries, the USA and the UK<sup>50</sup>, South Africans listen to more domestic repertoire. This is in part due to the intersection of the global music industry and culture, where the shared language means that the cultural gap between predominantly English speaking countries and the major music industries is relatively small, therefore allowing for the easier penetration of international repertoire into those territories.

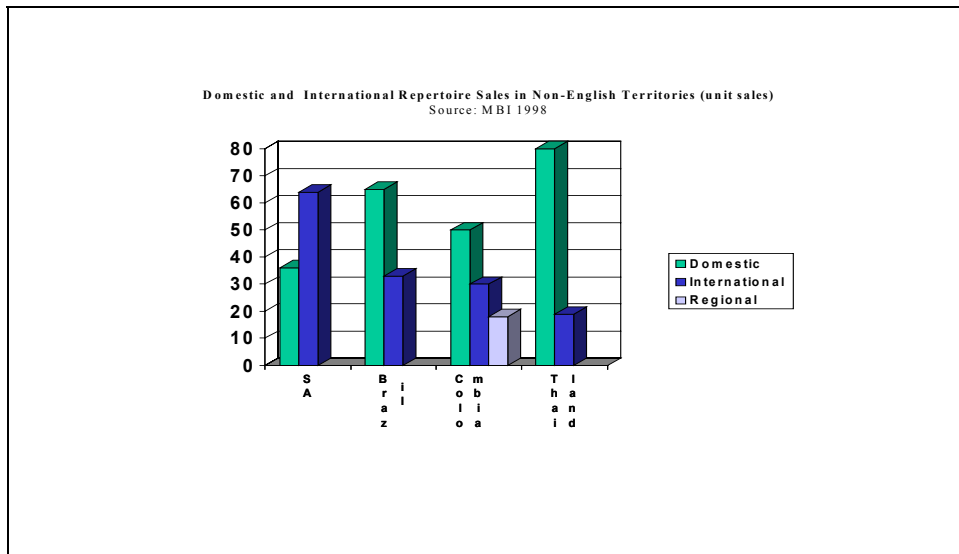
<sup>50</sup> The UK is inserted in this graph as an example of major music producing region, rather than as a recipient of international repertoire. This is reflected in the domestic international split in sales.





**Figure 17: Unit sales of domestic and international repertoire in English speaking territories.**

When we compare the domestic / international split to countries which do not share a common language with the major music producing, we find that those territories have a greater percentage of domestic repertoire in their music markets. This could be because the cultural distance from the major music markets is greater.



**Figure 18: Unit sales of domestic and international repertoire in Non-English speaking territories**

**ECONOMIC CHALLENGE: Building on South African musician's existing advantage in the local market, to ensure a greater percentage of total sales going to domestic repertoire.**

The above two graphs serve to demonstrate that although the music industry is global, it intersects with local cultures and needs which in turn shape the structure of the music industry in those territories. It is clear that a significant proportion of the growth of non-core music industries has been accompanied by high consumption of domestic repertoire in those territories.

The importance of the cultural content of music to its market success is further evidenced if one looks at the patterns of genre sales in the South African market<sup>51</sup>. For the most part *kwaito* and gospel are South Africa's top selling genres. The genres of *rock* and *adult contemporary* enjoy a high profile in the press and increasingly the bands of the likes of *Just Jinger* and *Coleske* are generating high unit sales. The success of these genres is in large part derived from the degree of synergy between these genres and the cultural experiences of the majority of consumers.

It is the exchange between the musician and the cultural experiences of the audience that provides the basis for economic success. Consequently it is in the genres that are deeply rooted in a country's culture and history that allow that country to enjoy a competitive advantage. The challenge is to sell that music in which a country enjoys a cultural advantage in countries in which the synergy between people's lives and the music is not immediate. The most striking example of the success of a band that was built on a deep and unique cultural heritage but managed to achieve economic success in other territories was Australian band *Yothu Yindi*<sup>52</sup>.

*Yothu Yindi*'s musical style is deeply rooted in Aboriginal musical traditions which provided them with a unique and valuable sound. When their song *Treaty* was put to a dance track it became an international hit. *Yothu Yindi* managed to benefit from the musical advantages that their cultural heritage bestowed on them and combine it with a sound that had resonance with consumers in export markets, thereby creating a musical product with global opportunities.

**ECONOMIC CHALLENGE: To take advantage of musical genres that are based on a rich cultural heritage in a way that facilitates export.**

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<sup>51</sup> This breakdown is based on press reports and interviews as statistics on genre sales in South Africa do not exist.

<sup>52</sup> MIDI Seminar with Sue Gillard, Ausmusic.

## South African Music in the Major Music Markets<sup>53</sup>

South African music has always had an international profile thanks to the successes of artists such as Miriam Makeba, Hugh Masekela and Ray Phiri and bands such as Stimela, Soweto String Quartet and Juluka. Notwithstanding this profile South Africa has negative music trade balances with the major markets of the United Kingdom and the United States of America in the export and import of physical music product. This is particularly in respect of the compact disc format, although a substantial negative trade balance also exists with the UK in the cassette format. Thus the export penetration of South African *physical*<sup>54</sup> music product into the world's largest markets (67% of total world sales) is negligible.

Import \ Export of Cassettes (<4mm) to major  
music trading partners - R value, 1996  
(Source Customs and Excise)

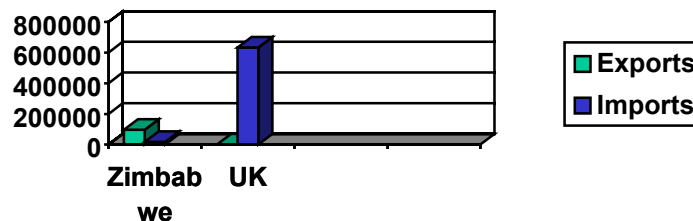


Figure 19: Import / Export of cassettes, 1996

<sup>53</sup> This section is constrained by the lack of official statistics and the failure of record companies to respond to a fax survey that attempted to generate a picture of export trends. Accordingly this section is indicative of trends rather than a definitive statement of these trends.

<sup>54</sup> This does not capture possible import penetration by South African record labels licensing record labels in foreign territories to produce South African product. However interviewees indicated that this was likely to be insignificant.

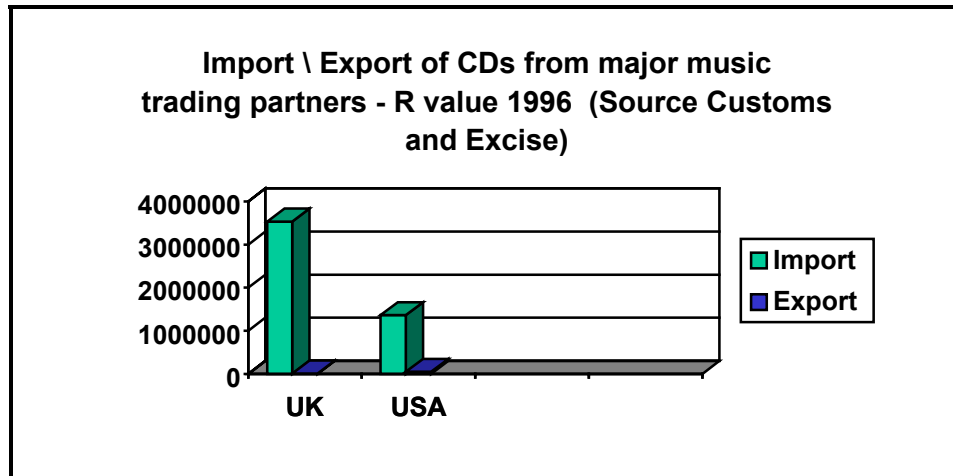


Figure 20: Import \ Export of CDs, 1996

Given the power of the UK and USA markets it seems unlikely that the South African music industry will be able to reverse the negative trade balance. However, if the South African industry is to grow significantly in the coming years it will need to be able to gain greater market share in at least the American market.

Whilst there undoubtedly exists a significant cultural gap between American consumers and the sounds that the majority of our musicians produce, there are significant niches within the American market that can be exploited with great reward to South African musicians. South Africa has a deep jazz tradition, for instance, producing some of the world's finest jazz musicians. In 1996 unit sales of jazz in the USA equaled 33.2 million units - 50% more than the entire South African market<sup>55</sup>.

In recent months a number of record companies have attempted to increase the profile of South African music on the global stage. Thus BMG sent Just Jinger to Canadian Music Week and arranged for them to play for record company executives in the United States. These sorts of tours are an essential component of building the profile of South African artists and laying the foundations for increased export sales.

Gallo Music International has also had international success in recent months<sup>56</sup>:

- Coleske sold more than 100 000 units across several European territories; and
- Ladysmith Black Mambazo have sold more than 100 000 units in the United Kingdom.

Whilst these figures are by no means comprehensive they do indicate the ability of South African musicians to penetrate the world's largest music markets. Part of growing our domestic industry will need to include strengthening that trend.

A further strong component of globalisation is an increase in regionalism. This regionalism is reflected in the plethora of regional trade agreements - NAFTA, Mercusor, EC and SADC - which now govern large aspects of global trade. The MBI World Report

<sup>55</sup> MBI 1998.

<sup>56</sup> P. Feldman "Gallo's on the go" In **The Star Tonight** 19<sup>th</sup> March 1998.

1998 predicts that regional dynamics will also become increasingly important in the music industry, something that is already reflected in the Colombian market. The increasing importance of the region is based on:

- A shared regional culture which facilitates an easier crossing of music from one territory to another within the region; and,
- Geographical proximity which lowers the costs for musicians to perform live, thereby promoting themselves.

It is in this context of the increasing importance of regional economies for the music industry that we now examine the position of the South African music industry within the regional and continental market.

**ECONOMIC CHALLENGE: To find and exploit areas of cultural synergy in international markets.**

### South Africa, Southern Africa and Africa

Southern Africa constitutes South Africa's biggest market for the export of physical music product<sup>57</sup>. The most significant of the regional markets is Zimbabwe.

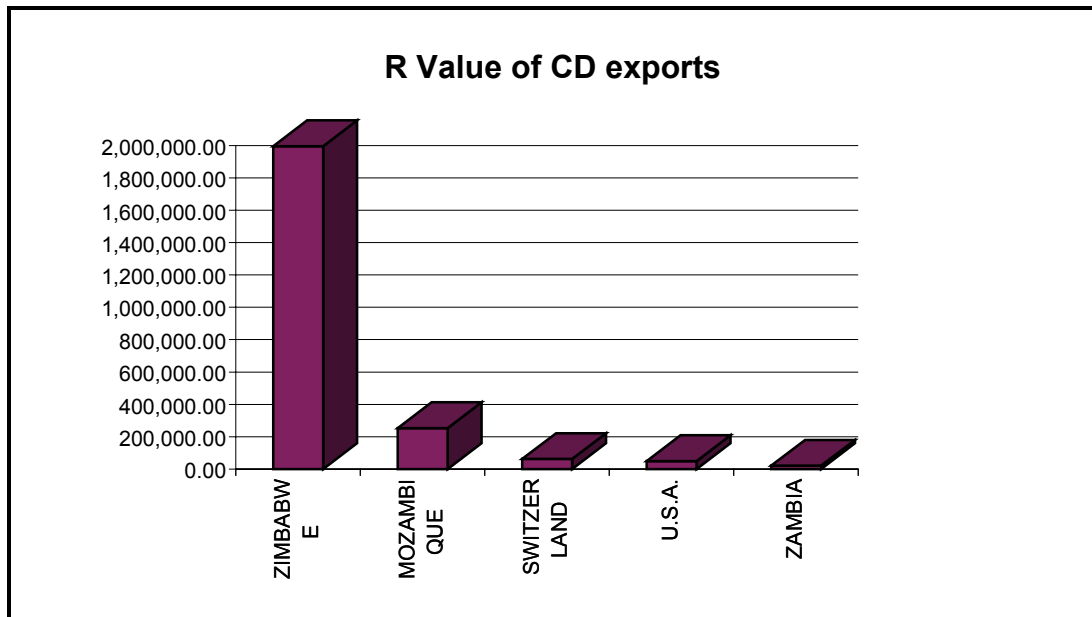


Figure 21: South African CD exports, 1996

<sup>57</sup> NB: As Customs and Excise data does not differentiate between domestic product and international product manufactured in South Africa, it is impossible to determine whether the music exported is international or domestic.

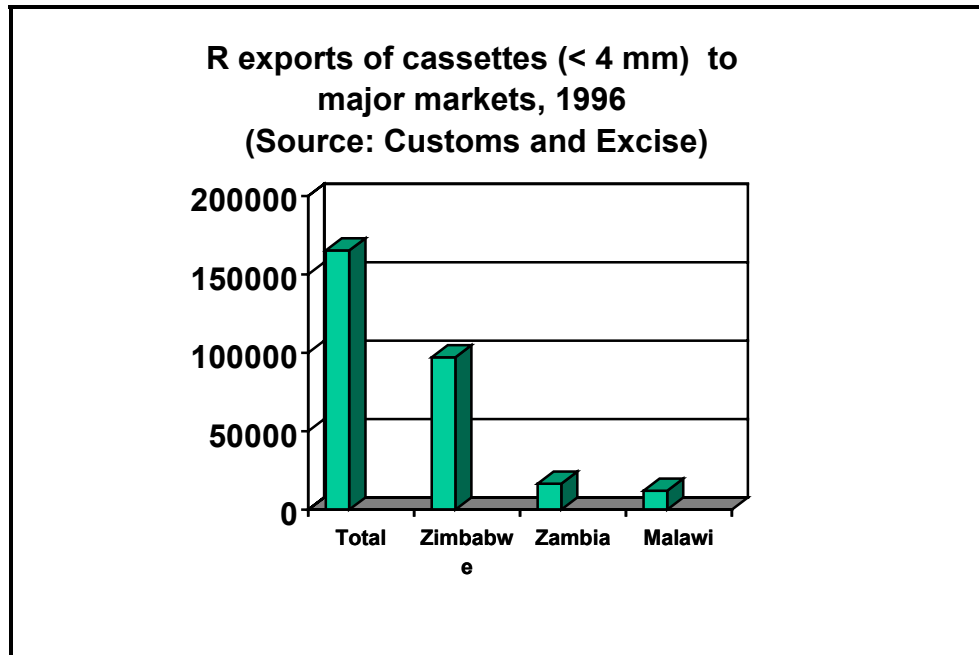


Figure 22: South Africa cassette exports, 1996

In addition to the export of physical product to the region, South African artists often play to audiences of thousands of people at concerts in Africa. However, whilst there exists a number of royalty collection agencies throughout the world, there are very few in Africa. The implication of this is that in the territory in which South African music has a high degree of exposure, there is an absence of structures to ensure that the rights holders receive the revenues due to them because of the public performance of music<sup>58</sup>. In an attempt to increase the revenue flow from African music users, SAMRO has been interacting with copyright collection agencies in Africa in order to strengthen their collection capabilities. This sort of regional co-operation is integral to the strengthening of the South African music industry, by enabling a more effective policing of music users as well as pirates.

As the above tables demonstrate, the major markets for the export of music manufactured in South Africa exists within the SADEC region. However these trade statistics do not cover a number of areas in which export may be taking place. The most significant of these would be if South African companies were licensing record labels in foreign territories to produce South African music. By way of example Lucky Dube has recently sold 80000 units in Ghana although these are not captured by trade statistics as they did not leave the country as physical product. A second area of trade that is not captured by the Customs and Excise data, would be the amount of royalties that flowed into the country as a result of the mechanical reproduction, broadcast or public performance of South African works in foreign territories<sup>59</sup>.

<sup>58</sup> Interview Mr. R. Hooijer, SAMRO.

<sup>59</sup> Nor does the Reserve Bank capture this data.

Whilst not having comprehensive data, the statistics that are available, coupled with anecdotal evidence and the growing importance of regional markets internationally, indicate that the Southern African region and the continent as a whole offers enormous potential for the expansion of the South African music industry. This potential is given further support when one considers that 75.5% of the tourists that visited South Africa during September 1997 were from mainland Africa<sup>60</sup>. Tourists are extremely valuable to increasing the exposure of domestic music in other territories. They will often purchase music that they take home with them and in turn inspire others in their home countries to learn more about particular forms of music. Thus, the fact that the greatest percentage of South Africa's tourists are from mainland Africa further strengthens the possibilities of expanding South Africa's musical influence on the continent.

**ECONOMIC CHALLENGE: To increase:**

- **the presence and sale of South African music within the Southern African region and on the African continent; and**
- **information on African markets.**

## Conclusion

This section of the paper has focused on locating the South African music industry in relation to countries sharing a similar economic profile as well as examining the trends in the South African music market as reflected by a variety of statistical indicators. It is possible to conclude that:

- South Africa is a significant and expanding music market;
- South Africa compares favourably with other developing countries' music industries;
- The growth of a domestic music industry is critical to the overall success of a country's music industry;
- South African artists enjoy both an increasing profile internationally and regionally;
- The growth of the South African music industry is contingent on building both the domestic industry and its links to Northern hemisphere and African markets.

The following chapter will focus on the particular dynamics of the South African music industry that either provide the industry with a competitive advantage domestically and internationally or may act as an impediment to the growth of the music industry.

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<sup>60</sup> Central Statistical Service(1997) Tourism and Migration: Statistical release P0351. Pretoria.

## CHAPTER FIVE: COMPETITIVE ADVANTAGES AND WEAKNESSES OF SOUTH AFRICA'S MUSIC INDUSTRIES

### 5.1. Introduction

The preceding chapters of this report have focused on the structure and performance of the South African music industry as well as its relationship to the global music industry. In this chapter we focus on the internal dynamics of the South African music industry. The analysis presented here identifies the strengths and weaknesses that characterise the South African music industry, from the moment of cultural creation that constitute the *beginnings* of the music industry to the moment in which it is sold in the market place.

In conducting this analysis we will use the analytical framework that was outlined in Chapter One. In other words this chapter focuses on:

- Beginnings;
- Production;
- Circulation;
- Delivery Mechanisms;
- Audience Reception and Feedback; and
- Developmental Initiatives.

### 5.2. Beginnings<sup>61</sup>

Beginnings are the socio-cultural structures and experiences that form the basis of the music and cultural industries. Beginnings are the melange, the mix of different cultural, social, political experiences reflected by an artist's work that forms the content, the intellectual property from which the cultural industries derive their revenues and profits. Beginnings also refer to those legislative and economic structures that are necessary to ensure that cultural creation can take place.

In this section we analyse both the socio-cultural conditions necessary for the successful creation of musical content and the economic-legal structures necessary to ensure the sustainability of the latter.

#### 5.2.1. Diversity

South Africa, with its eleven official languages, wide variety of cultural tradition and vast spaces from densely-populated urban areas to the wide spaces of rural countryside has given rise to a vast array of genres. At the 1998 South African Music Awards Ceremony awards were given for a total of 27 different genres performed in different languages. In the category Best Traditional Performance, for example there was a total of four subcategories - Boeremusiek, South Sotho, Tsonga and Xhosa.

This diversity provides a valuable cultural base from which young musicians can learn and draw on. Indeed the sounds of South Africa are continually being reflected and

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<sup>61</sup> Interviews D. Alexander, P. Horgan, K. Lister, S. Ntuli, R. Phiri, J. Sithole, H. Voerman,



reinterpreted. Bongo Maffin have recently completed an adaptation of a Miriam Makeba song, Vusi Mahlasela has done a heartrending version of James Phillip's *Africa is Dying* and Battery 9 has recently covered a Koos du Plessis song. These are but a few examples of the many ways in which the rich and diverse history of South Africa music continues to provide a foundation for the growth of the music industry.

### 5.2.2. Local Culture, Global Rhythms

Much of the music that is produced outside of the world's major music producing nations is successful either because of:

- It's reflection of particularly local cultural and linguistic patterns; or
- A synthesis of local cultural patterns with influences from other cultures and sounds, particularly those commercially successful sounds of the world's major music producing nations.

South African musicians and composers have for thousands of years produced music that is an integral part of South African culture. Instruments such as the *mbira* predate the development of the South African music industry by hundreds of years. Today much of this music continues to form part of local cultural celebration and social events.

*Gospel* choirs perform through South Africa providing cultural and religious celebrations for countless communities and audiences - sometimes in the formalised setting of the State Theatre in Pretoria, more often in community halls in the Eastern Cape. *Mbhaqanga*, whilst identified as a quintessentially rural genre also demonstrates the ability of South Africa's musicians to incorporate new sounds into their musical work. In this instance rural musicians synthesized traditional Zulu musical patterns with guitar sounds thereby laying the foundations for a new genre. *Isicathamiya* competitions continue to provide communal focal points in which musicians hone their skills and continue to contribute to the development of specific local cultures.

However the value of these and other distinctive South African musical traditions lies not only in their social and cultural functions, but also in their economic value. The existence of an indigenous musical tradition implies that there exist market segments that would be resistant to the penetration of other sounds. This musical tradition has laid the foundations for the emergence of market segments that solely consume music that resonates with their cultural experiences of indigenous music. Indeed, sales of traditional music account for a sizeable percentage of the South African music industry's revenues.

The strong traditional influence in South African music should by no means be understood to indicate a South African music culture that is static and in danger of atrophy. The example of *mbhaqanga* demonstrates that South African musicians and composers have a long-standing history of incorporating new sounds and instruments into their work. This tradition has started to re-emerge following the lifting of the Cultural Boycott and the exposure of South African musicians to new styles of music and performance. In a recent demonstration of this adaptive approach to making music, *Ladysmith Black Mambazo* recorded with American country and western star *Dolly Parton*. This recording far from being exceptional is characteristic of the eclectic approach that a number of South African musicians are increasingly bringing to the production of music.

Relatively new, yet commercially successful, genres like *kwaito* have demonstrated the ability to merge a variety of genres and musical traditions.

Notwithstanding this emerging trend of synthesis, very few, if any, South African artists have yet managed to bridge the racial, cultural and linguistic differences that characterise both South African society and the consumption of music.

There can be no doubt that these barriers are in large part a consequence of apartheid policies of cultural denigration, isolation and separation. These policies were explicitly aimed at preventing the emergence of successful cultural collaboration. The collapse of apartheid coupled with the cultural cooperation that had managed to survive apartheid and the music industry's reintegration into the global music market has opened the potential for South Africa's musicians to integrate traditional sounds with other musical cultures. This process of synthesis will result in more markets being available to South African music.

There can be no doubt that South Africa's musical history and diversity provides the music industry with a strong foundation of skills and content. The integration of South Africa's economy with the rest of the world provides the opportunity to sell South African music on a global scale. The challenge for the South African music industry is to draw on the country's rich musical traditions and the sounds of the world's major music markets, thereby creating a product that is accessible and marketable across both the domestic and international markets.

### 5.2.3. Vulnerability

The previous chapter noted that there are approximately 11 000 musicians and composers in South Africa. However, for the most part, it is impossible for these people to pursue music as a full-time occupation as their income is insufficient to allow them to sustain themselves and their families.

This financial vulnerability often means that valuable talent is lost to the music industry as people seek out jobs that provide them with a more regular income. Some respondents noted that there was a shortage of talented song-writers in the country and that this was in part because they had sought more lucrative careers in jingle-writing for the advertising industry. Thus the financial instability that faces musicians and composers in the music industry often forces them to seek careers in other sectors, thereby resulting in an aggregate loss of human resources.

The financial vulnerability of artists is exacerbated by their relative ignorance of contract law. Contractual arrangements were highlighted in the public domain by a high profile 'contract-burning' session held outside Sony headquarters by South African group Skeem<sup>62</sup>.

Similarly 'the kings of swing' recently raised the issue of being paid more adequately than their contracts, signed in the 1950s, made provision for. Often songs were bought

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<sup>62</sup> Interview with Lance Stehr

for a low flat rate with no provision for royalty payments and musicians of that era are now trying to gain access to some of the profits made from their work<sup>63</sup>.

At the heart of these disputes is a perception by the artists that they are being exploited by the record companies. However some respondents have pointed out that whilst some contracts may be exploitative, they are still legal. This points to two needs:

First, artists hold a relatively weak bargaining position vis a vis the record companies. As such musicians and composers are often compelled to sign contracts that are not in their best interests as they do not have the power to negotiate a better deal for themselves. It has been argued that musicians need to build themselves a strong representative body.

Second, it has been argued that artists are often ignorant of contract law and sign documents that they do not fully understand. Consequently some of our respondents have identified a need for artists to be trained in contractual and legal issues. Whilst this would be a useful first step in ensuring that musicians and composers rights are protected, it may be the case that they would require access to cheap legal aid to guide them through the complexity of contractual negotiations.

A central component of ensuring the long-term growth of the South African music industry is building the industry's creative resources. This can only be achieved if the industry's creators are able to financially sustain themselves. This is contingent both on expanding the earning potential of musicians and composers in the industry as well as ensuring that creators are adequately remunerated for their work.

#### 5.2.4. Conclusion

The beginnings of the South African music industry are characterised by strong and diverse cultural traditions. These traditions provide the sounds and skills necessary for the development of musical content on which the music industry rests.

Beginnings are faced with two key challenges:

- Overcoming the cultural separation enforced by apartheid. The breaking of these barriers will provide the impetus for exploring new forms of South African sound.
- Enabling musicians and composers to make a financially viable life within the music industry. This will ensure that valuable talent is not lost to the industry.

### 5.3. Production<sup>64</sup>

Production simply refers to the process whereby the physical products of the music industry are produced.

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<sup>63</sup> Mail and Guardian FRIDAY 15\08\1997 - 21\08\1997.

<sup>64</sup> Interviews with G. Beacham, C. Ghelakis, R. Katz, F. Louw, B.Simon.

### 5.3.1. Studios

The first phase in the production of music is a studio recording. South Africa has a wide-range of recording studios ranging from budget studios through to studios equipped with top quality equipment. This diversity enables the music industry to service the needs of different musicians, from the first demo artist to an established artist who wishes to focus on the high-end of the market.

Despite the ability of the studio sector to meet the needs of a wide-range of musicians, they are often inexperienced and unsure as to how to obtain the optimum results from their studio time. This has led to suggestions that practice rooms be available for musicians in which they can prepare for using a studio, thereby enabling them to optimise their time there.

### 5.3.2. Cassette and Compact Disk Production

South Africa has a substantial established production sector. There are a total of 3 compact disk manufacture plants and an equal number of significant cassette manufacturers. These plants are characterised by high quality standards and the country's largest CD plant was rated as one of the top 20 CD plants in the world. There are 350 plants worldwide. This combination of manufacturing capacity and quality is sufficient to meet the needs of the South African music industry.

### 5.3.3. Conclusion

The South African music industry is endowed with strong production capabilities. These capabilities provide an infrastructure for the further growth of the music industry.

## 5.4. Circulation<sup>65</sup>

Circulation refers to those variables that affect the movement of music from the moment of production to its sale in the market place. Accordingly there are two key areas that need to be taken into consideration:

- The legislative framework, and the administration thereof, that shapes the conditions under which music is circulated.
- The physical infrastructure that allows for the movement of musical product from the point of manufacture to the point of retail.

### 5.4.1. Legislation and Administration

South Africa is a member of the International Convention on Copyright - the Berne Convention. In accordance with the requirements of this convention South Africa has enshrined the rights of composers in the Copyright Act. The enforcement of the

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<sup>65</sup> Interviews with G. Hardie, R. Hooijer, M. Lambert, F. Louw, M. Mdwaba.

Copyright Act is a valuable source of income for composers and for the South African music industry.

As in a number of other territories, South African has a number of member societies representing the mechanical and performance rights of composers. These agencies are of critical importance in ensuring that rights holders obtain the revenues that are due to them because of the exploitation of their rights, as defined by the Copyright Act.

In South Africa, the South African Recording Rights Association Limited (SARRAL) and the National Organisation for Reproduction Rights in Music in South Africa (NORM) represent the mechanical rights of authors. The South African Music Rights Organisation (SAMRO) represents the public performance rights of the musical composition.

In order for these organisations to efficiently represent authors and publishers, it is necessary that they register their works at SARRAL and SAMRO. The process of registration is done by a composer submitting a 'Notification of Works' and the publisher also has to put in a 'publishers notification'. The registration process is complicated by high levels of illiteracy and / or unfamiliarity with administrative procedures amongst composers.

SARRAL and NORM collect revenue from the record companies on the basis of the number of mechanical copies that they make of a particular recording. These organisations also collect royalties from a variety of other sources including the national broadcaster and the recording of music programmes for 'in-house' music.

SAMRO collects revenue arising from the public performance of a composition. This is done by broadcasters submitting playlists and musicians submitting cue sheets that detail the songs that they have played at any given venue. In essence SAMRO 'polices' the use of music. At any one time SAMRO has 1000 cases against music users that have not paid for the right to use that music.

The research uncovered allegations that these organisations are inefficient in the distribution of royalties to the rights holders. This inefficiency is related to a number of variables:

- Composers have a limited understanding of copyright administration and thus often fail to register their songs with the copyright collection agencies.
- The collection agencies do not have a high profile, so a number of composers are not aware of their roles.
- The administrative requirements of the copyright collection agencies are often alienating to composers who may have had limited formal education.

However these organisations are a valuable part of the South African music industry. They represent approximately 4000 members. Their operations have ensured that South Africa has the highest collection of music publishing revenues in Africa and in a few instances is higher than some European territories. This protection of rights is a valuable source of revenue to the South African music industry. In an attempt to improve revenue collection on the African continent, an area where South African music enjoys great

popularity, SAMRO is working to establish and strengthen African composer member societies.

**CHALLENGE: Improving understanding and functioning of the operations of the copyright collection agencies within the music industry, thereby minimizing conflict over the distribution of royalties.**

### 5.4.2. Distribution

South Africa's distribution network is largely owned by the multinational record companies and Gallo Africa, although there are smaller independent distributors. Whilst the distribution network is effective, managing to ensure the delivery of music to the most remote areas of South Africa, independent record companies have argued that they are compromised by the lack of a distribution network that is dedicated to ensuring that their products are well distributed.

### 5.4.3. Conclusion

South Africa has a well-developed legislative and physical infrastructure to ensure and facilitate the distribution of music.

## 5.5. Delivery Mechanisms

Delivery mechanisms are those different platforms which 'deliver' music to the market. This sector is critical to the success of any cultural industry, because it provides the public presence and availability which is necessary to drive consumption.

### 5.5.1. Radio Stations<sup>66</sup>

After the 1994 elections, the Independent Broadcast Authority (IBA) undertook to 'free the airwaves'. This decision has had a significant impact on the music industry as it has resulted in an increased number of stations to deliver music to the market. The IBA has granted three types of radio station license - public, private and community.

PRIVATE RADIO STATIONS	
Gauteng	8
KwaZulu Natal	1
Mpumulanga	1
Free State	1
Western Cape	4
Eastern Cape	2
Northern Province	-

<sup>66</sup> Interviews D. Alexander, M. Dibongs, K. Lister, B. Mudie, S. Ntuli, L. Stehr, H. Voerman, F. Withers.

North-West Province	-
Northern Cape	-
<b>COMMUNITY RADIO STATIONS</b>	
Gauteng	30
KwaZulu Natal	7
Mpumulanga	5
Free State	6
Western Cape	14
Eastern Cape	6
Northern Province	1
North-West Province	4
Northern Cape	1

**Table 1: Geographical distribution of private and community radio stations**

The narrower focus of these stations coupled with their geographical spread has meant that record companies are more able to market their product to particular market segments. The exposure of sound recordings on radio is an essential component of ensuring the success of a particular artist. By example record companies who have specialised in recording *kwaito* have been well-supported by the emergence of Y-FM as a popular youth station that supports this genre. Y-FM is estimated to have 900,000 listeners and their support of *kwaito* and other urban youth musical forms is credited with assisting the growth in those genres.

In addition to the opportunities for niche marketing provided by the wide array of radio broadcasters, they are increasingly involved in promoting South African music. Radio stations such as 5FM, Highveld Stereo, Khaya-FM, Y-FM, amongst others, continue to bolster the profile of local musicians by hosting gig guides, interviewing local musicians and broadcasting concerts that feature South African talent. The exposure of South African artists through the broadcast media has been and is playing an essential part in growing the local music industry, for it is through this medium that consumers are made aware of the variety of South African music that is available.

The exposure of South African music has been given a further boost by the promulgation of Local Content Legislation. At present the *Independent Broadcasting Authority South African Music Regulations(1997)* require that any station that devotes more than 15% of its broadcasting time to music is compelled to ensure that:

- at least 20% of the works that are played are South African music; and
- music is spread evenly through the performance period.

(Government Gazette No. 17939 25 April 1997).

In addition to the requirements of local content legislation, the license agreements of many community radio stations have committed them to playing more than the 20% local quota<sup>67</sup>.

Almost without exception the interviewees identified local content legislation as being integral to the growth of the local music industry. Fred Withers, former Managing Director of GALLO and now Managing Director of Exclusive Books had the following to say:

<sup>67</sup> IBA license agreements.

“If one has high local content it creates the basis for a demand pull for local music. This creates an incentive for record companies to invest in the production of local product.

The importance of the broadcast media, to the success of the music industry cannot be overstated. Recent research shows a high degree of media consumption in South Africa. The 1997 Teen All Media Products survey recently conducted by the South African Advertising Research Foundation (SAARF) found that more black teenagers between the ages of 12 and 15 listen to the radio than watch television (The Star 28\08\1997). The research yielded the following results:

Among black teenagers:

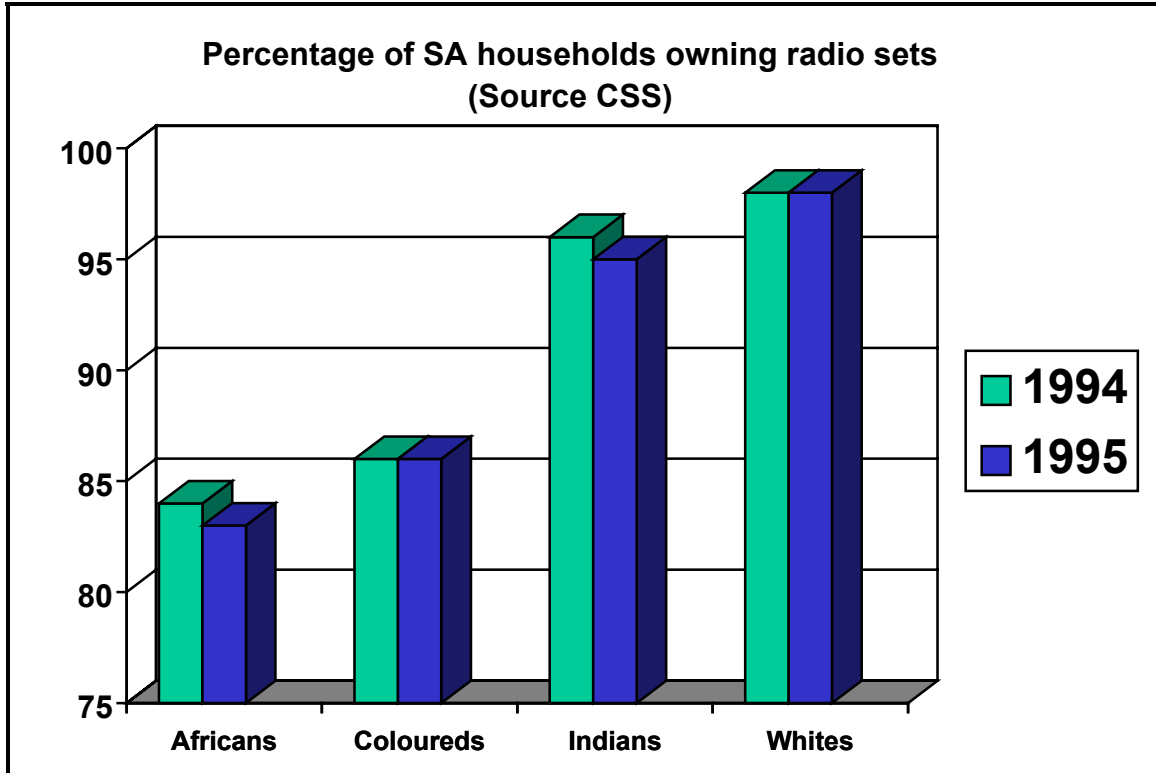
- 57% listened to the radio yesterday
- 36% watched TV yesterday
- 25% read magazines
- 9% read newspapers
- 6% went to the cinema in the past 12 weeks.

Amongst Coloured, Indian and white teenagers:

- 62% listened to the radio yesterday
- 87% watched TV yesterday
- 64% read magazines
- 34% read newspapers
- 39% went to the cinema in the past 12 weeks.

Likewise research conducted by the CSS in 1995 showed that the vast majority of South African households own radio sets. This combination of high media consumption amongst the youth as well as a clear majority of South Africans owning the technological hardware necessary to receive music combined with a media that is increasingly supportive of the local industry bodes well for the development of the music industry.





**Figure 23: Percentage of SA households owning radio stations**

The broadcast media is undoubtedly contributing to the growth of the music industry by informing domestic consumers of the available music products be it in the form of albums, concerts or live music venues. This role is critical to the growth of a consumer base that is aware of and supports the domestic music industry. The growth of the South African music industry will be strongly influenced by increased exposure of South African music on radio.

Yet radio broadcast is not without problems. Payola, a practice of paying DJs to play particular songs is alleged to be widespread in the music industry. The result of this practice is that songs are given considerable airtime, not on the basis of merit but because DJs have been paid to do so. A number of radio station have introduced play-lists in an attempt to counter this problem.

**CHALLENGE: To increase the exposure of South African music on radio and to counteract payola.**

### 5.5.2. Retail

Music retail takes a number of forms from sales in large specialist stores such as CD Warehouse to the sale of cassettes by traders in the rural areas of the Eastern Cape and KwaZulu Natal.

There exists a number of retail outlets in South Africa, including the specialist music chain Musica with 94 outlets and generalist store CNA that has 330 stores. These stores are dispersed across the country ensuring that music is sold across the country. Other retail outlets have specialised in regional sounds. For example Tip Top retails Shona music to meet the needs of consumers in the Nelspruit region of Mpumalanga. In addition a number of smaller music chains and supermarkets exist that carry music.

The geographical spread of retail stores and their focus on niche markets enables record companies to focus their marketing and distribution processes. Such focus is essential in ensuring that returns on marketing investment are optimised by a targeted approach to retail. However the research raised criticisms that retail stores:

- do not actively promote South African music; and
- often do not carry a wide-range of South African music.

The promotion and availability of South African music in-store is a critical component of reinforcing the radio play received by South African music. However the sale of international repertoire is also a critical part of sustaining the South African music industry and this network of formal retail stores, by ensuring that music is widely available, forms an essential part of the South African music industry.

A substantial degree of the music industry's sales are through the informal channels of hawkers, traders and spaza shops. The informal sector is critical in ensuring that music reaches rural areas as well as the lower ends of the market that are not targeted by formal retail stores. The low overheads and mobile nature of these informal retailers ensures that a segment of the population, that otherwise would not have access to music products, are brought into the music industry.

The combination of formal and informal retail channels ensures that music is readily accessible to the majority of consumers.

**CHALLENGE: To increase the in-store promotion of South African music.**

### 5.5.3. Live Music<sup>68</sup>

The live music industry is a central component of the music industry. Live music is both a vibrant sector in itself and provides a valuable support to the recording industry.

The live music industry can be divided into three key areas:

- Clubs;
- Festivals; and
- Concerts.

Each of these elements are essential in providing musicians with a continuous income, a way of promoting their music and provides jobs for a whole range of people from sound engineers and security personnel at concerts to bartenders in live music clubs.

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<sup>68</sup> Interviews with B. Holmes, P. Horgan, O. Lapid, R. Katz; K. Lister; S. Mabuse; S. Ntuli, F. Nyathela; R. Phiri; A. van Wyk; H. Voerman;

The gradual growth in the sales of South African music has been mirrored by an increase in venues that host music. However many of these venues are informal venues - bars, shebeens, school halls and community centres. They are lacking in a number of areas:

- they often don't have a stage;
- they invariably do not have a PA system so the band has to bring their own. This raises the barriers to entry for bands. It also means that bands that are cash-strapped opt for cheap PA systems and so fail to build a following as their sound is poor. It has been suggested that South Africa follow the Australian model of plug-in and play, where clubs supply the PA system and bands rent the system for the night;
- they are poor in promoting the bands that will be performing in their venues.

Notwithstanding the weaknesses of the non-dedicated venues they are of immense importance to exposing the public to South African music and in providing musicians with a source of income. As such these venues need to be supported in their promotion of South African music. One method of maximising the value of live music venues would be to incorporate them into a circuit of venues that would provide artists with a touring circuit. The creation of such a touring circuit is critical for bands to be able to increase their public profile and therefore the chances of their work selling.

A club circuit could also provide a valuable opportunity for increasing dialogue between South Africa's different musical genres and audiences. Respondents noted that presently bands tour within the parameters of where they expect to be well-received. However, they made the point that by occasionally venturing outside of the conventional framework may result both in new forms of music as well as new segments of the market buying a genre they had previously ignored.

The club circuit is weakened by a lack of synergy between the live music industry and the hospitality \ leisure sector. Between January and September 1997, 4.2 million tourists visited South Africa<sup>69</sup>. Of these approximately 75% came from mainland Africa and 25% from overseas. Of that 25% the greatest number of tourists came from 3 of the 4 largest music markets (by \$value) in the world - the UK; Germany and the USA. These tourists provide an invaluable opportunity for South African music to be spread around the globe. Notwithstanding this enormous opportunity, the 1997 Rough Guide to South Africa, Lesotho and Swaziland notes that whilst South Africa is endowed with musical talent and some extremely enjoyable live music venues, it is extremely difficult for a tourist to find out where those venues are and who is playing at those venues. A concerted effort to link the hospitality sector with the music sector could enhance tourist stay in the South Africa making them more likely to return, but it could also have two additional outcomes:

- increase the domestic consumption of music by having more people visiting live music venues and purchasing music within South Africa; and,
- build a core group of people in foreign territories who associate South Africa with good music and consequently are emissaries for our local music industry.

If we are to take advantage of the huge potential of the tourist market a concerted effort needs to be made to ensure that the links between live music venues and the hospitality trade are improved.

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<sup>69</sup> CSS, statistical release P0351.

**CHALLENGE: Building a circuit of live music venues that are accessible to tourist and domestic consumers and which do not compromise the quality of bands.**

Festivals and bashes are another level of the music industry that is central to exposing South African music both within the country and internationally. The preceding chapter showed how the Oppikoppi and Splashy Fen festivals are significant income earners contributing to the strengthening of the local economies in which they occur. During the mid to late 1980s the South African live music industry was at its peak. Respondents report that on almost every weekend concerts were held throughout the country. However after that brief period of activity the concert and festival 'scene' deteriorated rapidly. The primary reasons for this deterioration were crime and the low profit margins for promoters. Whilst in the last two years festivals and concerts have begun to become more widespread as the SA music industry expands, crime continues to be a deterrent both for promoters and for festival crowds.

During the cultural boycott very few major concerts took place in South Africa. Since the lifting of the boycott, the concert industry has experienced a steady growth cycle. Some respondents estimated this growth to be in the region of 300% between 1994 and 1998. The growth in concerts has been central in building the skills base of the South African live music industry.

In the first instance technicians, engineers and musicians touring with international acts have been involved in giving workshops for their local counterparts. Although these workshops are often short and informal they are an important element in transferring skills and strengthening the industry. Recognition of the need for a more formal approach to the building of skills in the live music industry, has resulted in cooperation between employers and associations representing technicians in the music industry. This cooperation has been centred around the provision of training and the acquisition of skills necessary to enable people to build long-term careers in the live music industry.

The hosting of international concerts in South African has also provided South African musicians the opportunity to work with the world's best performers. This sort of interaction is important in building the stage-craft, the ability to perform live, of South African bands.

Each of these elements of the live scene are critical generators of jobs and income for the country. In addition they provide valuable resources for each other. The club circuit enables bands to make a regular income and build a support base. The festival and concert sectors expose bands to a wider range of audiences as well as potential consumers. They also enable the bands to improve their live performances by working with more established artists, in turn improving their ability to attract audiences in smaller clubs.

#### 5.5.4. Cultural Quarters

Cultural quarters play a critical role in fostering the innovation that is necessary to develop a music industry. Temple Bar, in Dublin, is acclaimed as one of the music

industry's most outstanding quarters<sup>70</sup>. In an old part of Dublin a vibrant music sector has risen around four old buildings, that were taken over by bands looking for cheap rehearsal rooms. Small food outlets sprang up to meet the needs of the musicians who were practicing in the area. In turn musicians started to play in venues in the area, rapidly growing the area into a key tourist attraction for visitors to Dublin. Musicians are now able to play in live venues in the area to earn a living; get their albums recorded in a sound studio; get the DTP done for their CD sleeves and have access to practice rooms to rehearse for their live gigs.

The concentration of a wide range of activities that all draw on music as their base have contributed significantly to what Landry and Bianchini call 'soft infrastructure'. Soft infrastructure refers to the interaction of a wide range of structures that together create an environment that encourages creativity - a creative milieu.

A creative milieu can facilitate something as seemingly mundane as musicians talking over a beer between practice sessions, and in that process one musician makes a statement that becomes the title of a hit track. Terry Irwin makes the following point about the importance of a micro-cluster, in respect of Temple Bar:

"It was one of the things that solidified the Irish industry. Temple Bar gave a focal point for the development of the whole industry"

The South African music industry is constrained by the absence of a similar micro-cluster. The closest approximation is the Newtown Cultural Precinct in Johannesburg. This area has a highly respected jazz club - Kippies - run by a respected musician, Spho Mabuse; 3 theatres housed in the Market Theatre complex; 3 museums including a display on South African music; 2 restaurants; practice rooms for bands and the offices of a number of organisations (including MUSA and SARA) representing the interests of cultural workers. Nearby is the suburb of Fordsburg which has a number of Indian and Pakistani restaurants.

On paper Newtown sounds like a veritable Mecca, which it is, but for the most part it is ignored by the Johannesburg public and tour operators<sup>71</sup>. Respondents have pointed to the following issues as possible explanations:

- the lack of an inner-city population with disposable income;
- the result that there are not large numbers of people and therefore vitality during the week; and
- crime and the perception of Newtown as 'unsafe'.

The development of a cultural quarter would serve as a valuable foreign exchange earner and job creator as a tourist destination, but also as a valuable foundation for the development of a creative milieu that would be a source of vitality to the South African music industry.

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<sup>70</sup> Interview T. Irwin, Irish APSCO.

<sup>71</sup> This is based on impressions from interviews.

### 5.5.5 Other Points of Delivery

Music is also delivered to the public through public address systems in supermarkets, shopping centres, airports and other public buildings. However, for the most part, none of these sites of delivery are used for the promotion of South African music. This is particularly problematic when one considers that airports are the portals through which many tourists arrive in South Africa. It is clearly a missed opportunity that visitors do not have the opportunity to experience South African sounds as they arrive in the country.

### 5.5.6. The Delivery Mechanism System

The South African music industry is characterised by an extensive and intensive system of delivery mechanisms. The key challenge facing the South African music industry in its promotion of domestic repertoire is building combined impact across all the sectors that will attract consumers.

The following chapter on policy and project recommendations explores ways in which the articulation between the different sub-sectors can be improved to increase the market visibility and desirability of South African product.

## 5.6. Audience Reception and Feedback

This final aspect of Landry's model refers to that dynamic relationship in which the market's responses are exposed and fed back to the industry. This process provides the information that is necessary for the refinement of musical products. In addition to strengthening the music industry through improving its development process, it provides valuable exposure to new products and events. This publicity is a critical part of building the participation of consumers in the music industry by encouraging them to explore new sounds, new venues and new musical experiences.

A key element of audience reception and feedback is the role of the press.

### 5.6.1. Print Media

In the past eighteen months there has been a general increase in the number of publications that feature South African music. These publications are both specialist music magazines and general publications that feature articles on the local industry.

*Get the Funk Out*, a specialist music magazine, has recently taken an innovative approach to building the local music industry. Recent issues have moved away from a strictly magazine publishing mode, to include a CD that showcases particular genres of South African music.

Other 'non-music' magazine publications have also started to focus more on South African music - for example the August 1997 issue of *Student Life* had a cover which featured Arno Carstens, lead vocalist of the Springbok Nude Girls. Amongst our

respondent's there was a perception that bands are beginning to attain a greater profile in the press - particularly in supplements such as the Tonight section of the Star and the Metro supplement to the Sunday Times. The FRIDAY supplement in the Mail and Guardian constitutes another innovation bolstering the music industry.

However much of the commentary in the press veers between uncritical adulation of sometimes mediocre musicians or commentary that is overly critical.

If the press is to play a role in developing the South African music industry needs to adopt a more engaged and critical role. This implies a greater focus on the intricacies of the music business. This is essential because

- It helps explain why some artists succeed and others don't , thereby providing valuable lessons to artists and record company executives who are trying to build local talent;
- Such a focus also broadens the vision of potential participants in the industry, exposing them to the wide range of careers that are available within music; and,
- It serves an educational function, alerting musicians and others to the complexities of the music industry.

Through pursuing a more detailed understanding of the music industry and how its' operations relate to the success of particular artists, the press can play a valuable role in providing the information necessary to strengthening the functioning of the entire music industry.

## **5.7. The Music Industry System**

The preceding section has focused on each of the key elements of the South African music industry. The analysis has shown that whilst each element has weaknesses, overall they provide a strong infrastructure within which music industry development can take place.

The first chapter of this report argued that the strength of an industrial sector was not only contingent on the strength of the various elements but was also influenced by the extent to those elements reinforce each other. This section analyses the extent to which the music industry operates as a successful system.

### **5.7.1. Agglomeration**

Although the 'raw material' of the South African music industry is drawn from all over South Africa, the industrial core is situated mostly in Gauteng province:

- The major production facilities are all based within a 30 km radius of one another;
- The head offices of all of the multinationals are clustered around the City of Johannesburg;
- The majority of SARA and MUSA's membership are based in Gauteng and both head offices are in the City of Johannesburg.

The geographical proximity of the industries allows for easy communication between different parts of the value chain. This information flow is critical to the success of an industry, because "not only does information define and constrain the relationship

among the various players in the value chain, but in many businesses it also forms the basis for competitive advantage - even when the cost of that information is trivial ... <sup>72</sup>.

Whilst information technology has undoubtedly overcome many of the physical constraints on communication, the geographical proximity of the industries contribute to the building of personal relationships and inter-firm networks that are critical to the development of an industry. Research conducted by the Manchester Institute for Popular Culture in the Northern Quarter of Manchester has found that networks between cultural industries are a critical component of the vitality of that area. Agglomeration is also a central part of the beginnings of the music industry as the concentration of similar industries provides the basis for the emergence of a cultural milieu that attracts professionals - the human resources of the industry - into the area. The strength of this agglomeration has created the potential for the Gauteng region to become the musical hub of the Southern African region, from which musical spokes connect smaller music producing regions into a greater whole.

However, whilst agglomeration has a number of significant benefits to the music industry it has resulted in somewhat of an underdevelopment of the rest of the country. This results in an exodus of technical skills and musical talent to the Gauteng cluster<sup>73</sup>. As one respondent said "Sooner or later they all go to Johannesburg".

The relative undevelopment of the music industry in other areas of the country, does not mean that talented musicians are 'lost' to the industry. One of the most significant events in the South African music industry "The Shell Road to Fame" has provided a vehicle through which talent can be drawn into the music industry. Similarly Martell Brandy's Homegrown Project has brought a wide variety of bands from the Boland area to the attention of the South African public and recording industry<sup>74</sup>.

In recent years there have also been a number of recordings, such as C-Weed which showcased emerging musical talent in Durban, that celebrate the emergence of a distinct regional sound. These initiatives and others like it are critical to overcoming the effect of the industry's concentration in Gauteng.

Likewise, the reach of the retail and broadcasting sectors has meant that music is consumed in all regions of the country. Thus, music which is produced in Gauteng reaches the whole of the country.

Nonetheless, it is undeniable that there exist a whole variety of musicians and composers outside of the core of industry and urban areas. The challenge is to ensure that those artists, who may be commercially viable are recorded and promoted.

**CHALLENGE: To build on the positive features of agglomeration whilst overcoming its negative effects by ensuring that artists outside of the Gauteng complex and large urban areas have access to the music industry.**

<sup>72</sup> Evans and Wurster (1997: 73), **Harvard Business Review**.

<sup>73</sup> Interview J. Braumer, University of Natal; Interview recording studio owner, East London.

<sup>74</sup> T.Owen "When Corporations and music mix" in Music Africa Vol. 3(2) 1998.



### 5.7.2. Investment Levels

In the preceding section we have seen that the success of an artist is dependent upon:

- having material on which to draw;
- the opportunity to be recorded; and
- a high profile in the market place.

Whilst the first aspect is in the public realm, the following two elements require substantial investment in recording and, even more so, in promoting an artist through the development of advertisements, posters, touring and merchandise.

Respondents noted that the combination of relatively low retail prices of domestic repertoire and low unit sales mean that record companies often have little disposable income to invest in improving the quality of sound recordings or in marketing campaigns to build the profiles of domestic artists<sup>75</sup>.

Conversely international releases have the advantage of high retail prices and large unit sales which allow for greater investment in the artist's profile and the actual recording, resulting in a better product with a higher public profile. It is in these two areas that the above-mentioned advantages enjoyed by the South African industry are undermined. A low investment in a sound recording means that the recording is not comparable to that of an international artist whose record company could draw on a greater revenue stream for the development of new artists. Similarly South African companies do not have the same size marketing budget at their disposal as do the companies who record internationally popular artists and can thus reap economies of scale from their investment across numerous territories. Thus the final product delivered to the consumer is often of both a poorer quality than the competing product of a popular international artist, is less well marketed and consequently has a lower market profile.

However the recent growth pattern in the South African market has meant that record companies have more revenue to invest in the development of local artists. The increasing levels of investment are an integral part both of the current growth in sales of domestic repertoire and in strengthening that growth pattern.

Through increasing the quality of sound recordings and the exposure of South African music, the South African product will be able to capitalise on its current growth both locally and internationally.

The limited finances available for investment in South African music are exacerbated by piracy and the lack of an integrated approach to the development of the South African music industry.

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<sup>75</sup> Interviews with D. Alexander; B. Mudie; K. Lister; S. Molepo and H. Voerman.

### 5.7.3. Piracy



South Africa faces a significant piracy problem that in 1996 totaled about R200 million or 33% of the total value of the industry. As a percentage of the estimated levels of world piracy, South African piracy levels are approximately 1% of that global figure - 2.5 times more than the percentage that the South African recording industry accounts for in global turnover of the recording industry.

Piracy is widespread in African countries, one of the key export markets for South African music. Such high piracy figures result in a significant loss to the South African music industry. The result is an undermining of the investment pool available for the development of South African music as well as jeopardizing artists' income and their continued involvement in the South African music industry.

ASAMI is working in conjunction with customs officials and the SAPS to try and overcome piracy.

### 5.7.4. Lack Of Integrated Promotion And Development Of South African Music

Success in the music industry is traditionally not the result of strengths in one aspect of the industry. Although there are undoubtedly one-hit wonders or bands that have sold dramatic numbers of units on the strength of an astute marketing campaign, the sustainability and long-term growth of the music industry depends on the extent to which music industry stakeholders are harnessed to common goal of building the music industry.

By increasing the level of coordination between and within the various sectors of the South African music industry, it is possible to:

- Overcome restrictions on finance; and
- Increase the overall market awareness of South African music.

The current lack of coordination means that

- Developmental efforts are often duplicated;
- Investment is often fragmented.

The duplication of projects results in a sub-optimal usage of available investment as money is spent on similar or related projects. This lack of co-ordination is prevalent in the human resource development in the music industry. Whilst there is a broad system for human resource development, with the exception of music industry business skills, that system is fragmented. There are three systems of human resource development for the music industry:

- Formal tertiary institutions: these include universities, technikons and music colleges;
- Projects: these are programmes that are generally run for scholars involving regular contact between teachers and students;
- Workshops: these are run on an *ad hoc* basis and are generally aimed at musicians.

The first and second parts of the system focus largely on the development of musicianship and technical skills, whilst the third level centers around providing musicians with business and legal skills. However indications from the survey and interviews are that there is very little articulation between these different systems as well as within these systems.

The result is that training is both fragmented and duplicated, notwithstanding the clear progression within tertiary institution courses, and consequently does not help in developing the musician as an informed participant in the music industry. Greater coordination would contribute to the emergence of targeted development expenditure, ensuring that:

- A wider variety of important projects receive funding; and
- That the synergy between different projects is optimised, increasing the benefit to the entire system.

The consequence of investment fragmentation is that there are a variety of small and similar initiatives that have a limited impact on the public's awareness of South African music. By concentrating currently fragmented investment, greater investment would be available to implement initiatives on a larger scale thereby increasing the overall awareness of South African music and the music industry.

The promotion of music is not limited to the music industry. As noted in the section on delivery mechanisms, music is all pervasive. There is a need for a greater awareness of the value of South African music. Such awareness can be achieved through ensuring that public spaces are effectively utilised for the promotion of South African culture and music.

#### 5.7.4. Information Needs

Information is critical to the growth of the music industry and to facilitating coordination. This report is the first step in improving the information available to the music industry and to other stakeholders wishing to be involved in the music industry.

However there is a continued need for greater information to underpin future developments in particular sub-sectors of the music industry. For example the creation of a live music circuit and the integration of that circuit with the hospitality sector, would require research to establish:

- What live venues exist in the country;
- Where they are located;
- How they can be contacted;
- What sorts of music they play.

The successful export of South African music is dependent on information about consumption patterns in foreign markets. For the most part this data is unavailable in any comprehensive form and record company executives are compelled to scour the pages of international music magazines in order to discern what potential leverage areas exist for South Africa on the world market.

This lack of data could be overcome by the record industry, perhaps in the form of ASAMI, making use of the Department of Trade and Industry's *Export Marketing and Investment Assistant Schemes*, which are designed to assist exporters with primary export market research.

The undertaking of such research would provide the South African music industry with invaluable information about where and with what genres of music to focus their export drives.

Increasing the amount and quality of information available to the music industry will:

- Facilitate coordination between the various sectors of the music industry; and
- Ensure the strategic development of the music industry.

**CHALLENGE: To increase the information available to the music industry.**

### 5.7.5. Core Industry Structures and Coordination

Successful coordination of efforts is contingent on:

- A vision and information to guide the coordination;
- An institutional framework to undertake the coordination;
- A productive base that can deliver the coordination; and
- Projects.

The music industry is characterised by both a strong and functioning industry structure as well as a relative degree of institutional density. However, with the exception of ASAMI, all of these organisations are very young, under-resourced and consequently are quite fragile.

Nonetheless, the combination of an existing industrial base and industry structures through which interests are organised, provides an important foundation from which the music industry can expand.

The institutional expression of interests will be essential for the success of any strategy to develop the music industry. Together these organisations provide the potential for the clear articulation of various interests within the music industry and thereby provide the framework within which stakeholder-driven policies and projects can be formulated and implemented.

Indeed the active engagement of stakeholder organisations in identifying and implementing projects that may come out of the CIGS process, may well provide the stimulus for the development and strengthening of these organisations.

The following chapter proposes some of the projects that may act as vehicles for the strengthening of coordination in the music industry.

## 5.8. Strengths, Weaknesses, Opportunities and Threats

STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
Deep and diverse musical heritage coupled with wide ranging music development programmes.	Limited resources to ensure the quality recording and promotion of artists.		
Strong industrial base in recording; manufacture; retail and broadcast to ensure the sale of music.	Small market limiting resources available for investment.	Tourists from major music markets.	Piracy
Institutional density. Wide range of institutions representing most sectors.	Lack of coordination between different initiatives.	Industrial and Institutional density provide the foundations for coordinated industry growth.	Payola
Resumption of growth in unit sales and market value over the last four year period.	Lack of statistical data about potential markets.	Growth rate acting as an impetus for expansion.	
Agglomeration facilitating easy industry interaction.	Artists are not always within the Gauteng complex.	Growth in developing markets predicted to accelerate.	
Copyright collection agencies generating more revenue than any other African agencies.	Legal disputes over copyright payments and artists' contracts.		

## 5.9. Conclusion

The preceding sections have highlighted

- The areas in which the South Africa music industry has the requisite structural conditions for growth;
- Those factors which constitute impediments to the growth of the industry; and
- The opportunities that exist should those impediments be overcome.

The South African industry is well set for growth. However there are a number of impediments to growth which need to be overcome in order for the industry to expand. The final chapter of this report will propose a number of mechanisms and projects to

- Overcome these obstacles; and
- Increase the aggregate strength of the music industry.

## CHAPTER SIX: POLICY DEVELOPMENT

### 6.1. Introduction

The purpose of this chapter is to build on the preceding analysis to develop proposals that would aid in overcoming some of the impediments faced by the industry and strengthen the growth trends in the South African music industry.

This chapter is divided into five sections. The first section examines a variety of international initiatives that have been undertaken to assist domestic music industries to expand. The purpose of this section is to provide ideas on policies and programmes that could potentially be implemented in the South African industry. A number of the later proposals draw on this experience. The second section focuses on the few initiatives that are currently available to the South African music industry. The third section proposes broad initiatives necessary to address the obstacles to the growth of the South African music industry. The fourth section of this chapter elaborate upon those initiatives providing specific examples of the sorts of projects that might be undertaken by the public sector or in collaboration with private sector agents. The purpose of this section is to provide the basis for a dialogue over what the most appropriate targeted interventions, projects and programmes might be, given the broad policy direction established in the third section.

### 6.2. International Practice

Globally, government policy effecting the music industry can be divided into two broad categories - national level policies and policies designed specifically for the music industry.

#### Taxation<sup>76</sup>

In Europe cultural goods receive a tax exemption or tax reduction, for example in Italy sales tax on books is 4%, whilst sales tax is generally 20%. However European governments and the EU have refused to classify music as a cultural product, thus the normal sales tax rate applies for music.

With the exception of a few outliers the world's largest music markets have tax rates on musical product of between 10% and 20%. Thus, in global terms, South Africa's tax level of 14% is not out of line with best practice.

Similarly with import tax levels, whilst there are a few outliers such as India and Egypt with exceptionally high levels of protection, South Africa falls well within global practice. The vast majority of countries impose an import tax of between 0% and 30%, South Africa's import tax rate is 15%.

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<sup>76</sup> Source MBI 1998.

Thus South Africa's tax regime is, in global terms, neutral towards the music industry neither being particularly positive nor negative.

### Blank tape levies

A blank tape levy imposes a levy on blank cassettes which is intended to remunerate artists and producers for revenues that are lost due to home taping. Whilst 11 of the 15 EU countries impose a blank tape levy, the area is fraught with controversy.

The Canadian government introduced a blank tape levy in mid 1997 and incurred the anger the USA, who argued that US artists should also receive a share of the blank tape levy. As yet the issue is unresolved and the USA is threatening to take the issue to the World Trade Organisation.

Similarly the Australian government tried to introduce a blank tape levy but was forced to back down after the owners of blank cassette manufacturing plants threatened to disinvest<sup>77</sup>.

In South Africa there are mixed sentiments regarding a blank tape royalty, whilst some respondents felt that it would be positive for the industry other felt that it would have little impact on piracy which is one of the key problems facing the SA music industry.

## 6.3. Music Industry Development Initiatives

The growing recognition of the importance of music to economic and social development has led to a number of international initiatives to develop the music industry.

### Australia

Australia represents the best case of a state dedicated to the development of the music industry. In a ten year period, starting in 1987, a total of five economic and statistical profiles of the music industry have been commissioned. These reports laid the foundations for a variety of government and private sector initiatives.

One of the most significant initiatives is AusMusic. AusMusic provides educational and training material on the music industry. This educational program runs throughout schools to a tertiary level and provides expertise on all aspects of the music industry. The impact of this educational initiative has been to provide aspirant entrants into the music industry with a variety of different career paths as well as with mobility within the industry. The creation of broadly skilled and informed professionals within the music industry has been critical in increasing efficiencies in the industry.

Radio stations have also played a critical role in the exposing and development of Australian music. Triple Jay Radio launched an initiative, called the **Unearth Campaign**, to discover and record musical talent in areas that fell outside the major metropolitan

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<sup>77</sup> MIDI Seminar 1997, Sue Gillard.

areas<sup>78</sup>. The Unearth Campaign consisted of a mobile recording studio staffed by two sound engineers who toured Australia, recording artists who operated outside of the geographical music industry cluster. The recordings were then given national airplay, in so doing exposing both the music industry and the market to artists who may otherwise not have been heard. Through this project the Australian music industry was able to utilise far more of their human resource base than if they had only operated within the existing cluster.

In addition to these initiatives the Australian government has been actively involved in building the music industry. Amongst other initiatives, they started the Music Industry Development Assistance Scheme (MIDAS) that aims at developing new talent and supporting touring, export and business development.

During 1997 the Australian government also committed a further \$770 000 dollars to the promotion of domestic talent in the export market. In addition to these initiatives by the national government, state governments have also been actively involved in the promotion of cultural development and have often formulated regionally specific development plans.

Whilst the Australian market is dominated by international product, these various initiatives have been critical in bolstering the international profile and success of Australian bands such as Midnight Oil; INXS; Savage Garden; Silver Chair and Yothu Yindi, to name but a few of the Australian bands that have burst onto the international stage over the last 12 years.

## Canada<sup>79</sup>

Canada's music industry development initiatives are channeled through a private non-profit organisation, The Foundation to Assist Canadian Talent on Records - FACTOR<sup>80</sup>.

FACTOR supports the Canadian songwriters and recording artists through a variety of different programs. Some of these programs are:

- **The Professional Publishers and Songwriters Demo Award Program.** This program was established to help professional songwriters and publishers to produce a high quality demo tape to promote their work.
- **The Professional Demo Award,** was established to assist new artists with the production of a high quality demo that could be presented to key music industry professionals.
- **Independent Artists Recording Loan Program,** is aimed at assisting unsigned Canadian artists without distribution in the production, marketing and promotion of an independent release.
- **FACTOR Loan Program for Recording,** assists Canadian controlled labels, production companies, producers, managers and artists by partially financing the production, marketing and promotion costs of EPs or albums for commercial release.

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<sup>78</sup> Mr. B. Chapman (1997) "Address to the Conference on Local Content", Durban.

<sup>79</sup> Thanks to M. Newton, DACST for assisting in gathering this data.

<sup>80</sup> [Http://www.factor.ca](http://www.factor.ca)



- **Video Grant Program**, assists the financing of music videos to support current releases by Canadian artists.
- **International Showcase Program's** objective is to support international showcase activities by Canadian artists.
- **The Domestic Showcase Support Program**, supports domestic showcase activities by Canadian artists. The showcase must be held at a FACTOR recognised conference, which include
  - Canadian Music Week;
  - Music West
  - North by North East
  - All Indie Weekend
  - East Coast Music Conference
  - Canadian Country Music Week
  - Canadian Organization of Campus Activities
- **International Tour Support Program**, supports foreign touring activities by Canadian artists.
- **The International Marketing Program** has been developed to increase the international competitive appeal of Canadian music products.
- **Domestic Tour Support Program** supports domestic touring activities by Canadian artists.

Since 1982 FACTOR has offered:

- \$27 050 308 to the stimulation of the growth and development of the Canadian independent recording industry;
- \$2 095 104 toward the production of sound recording grants; and
- \$16 896 266 in loans toward the production of sound recording projects for commercial use.

In turn FACTOR supported recordings have generated over \$230 772 000 - **an investment return of 853%**! With figures like that who can doubt the potential impact that the music industry could have on the South African economy.

### Other initiatives<sup>81</sup>

The Institute of Popular Music at Liverpool University and the Manchester Institute for Popular Culture (MIPC) at Manchester Metropolitan University have since September 1996, been engaged in a two-year research project focusing on policy initiatives relating to the music industry in the cities of Liverpool, Manchester and Sheffield.

The MIPC has also been engaged in the Northern Quarter Network project. The aim of this project is to facilitate various forms of networking (formal and informal; physical and virtual; public and private) between the various micro-cultural enterprises located in the Northern Quarter area of Manchester.

A process of music industry development started in 1991 in Ireland with an initial report by Simon Xavier Consulting<sup>82</sup>. This report was an initial scan of the industry and

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<sup>81</sup> Institute for Popular Culture, <http://www.mmu.ac.uk/h-ss/mipc>

<sup>82</sup> Interview T. Irwin.

highlighted the challenges this industry confronted. This was followed in 1994 by the Forte Report, which identified policy for the development of the music industry.

These reports resulted in a number of initiatives in the areas of human resource development, government legislation and supply-side measures. Amongst other initiatives the Irish government has:

- Established a state-funded music college, the Ballyfermott Music College as a centre of music training excellence. Students pay only 60 pounds for a years tuition, but there is vigorous competition to secure a place in the college. On average the college receives 200 applications for 30 places.
- Provided tax breaks for companies that have sponsored bands with music equipment.
- Exempted musicians from income tax.

#### 6.4. Existing South African Policies And Institutions

For the most part the supply-side measures of the Department of Trade and Industry and the Industrial Development Corporation target manufacturing. At present there are only two measures that the music industry could potentially access:

■ **The Export Marketing and Investment Schemes.** This scheme can be used to fund the gathering of market information about areas in which South African music may sell well. Secondly it is possible to use this fund to support international showcases of South Africa talent. However not all record companies are aware of the scheme's existence and thus do not make use of it.

■ **The Emerging Entrepreneur Scheme and Standard Credit Guarantee Scheme.** These programs are aimed at increasing SMME's access to finance. Given that the majority of independent record companies fall within the SMME sector, this may be a potential source of finance for these companies. However the provision that the SMME meet the banks normal lending criteria may prevent record companies from obtaining access to these loans.

Directly in the sphere of Arts and Culture there are three institutions of importance to the development of the music industry:

- The Arts and Culture Trust;
- The National Arts Council; and
- Provincial Departments of Arts and Culture.

All of these institutions provide some form of funding to the Arts and Culture Sector, of which the music industry is a part. Presently funding is largely distributed to applicants to these institutions rather than forming part of a strategic approach to funding which would ensure a maximisation of returns to the industry. Funding is a critical component of enabling the cultural industries to develop.

However to maximise the impact of limited resources that are available for the cultural industries, it is critical that the funding processes of these institutions take into consideration the development needs identified through the Cultural Industries Growth Strategy.

## **6.5. Appropriate Policy Interventions in the South African Music Industry**

The aim of the Cultural Industries Growth Strategy in the music sector is to encourage and aid the growth of the South African music industry through:

- Increasing the exposure of South African artists domestically and internationally; and
- Increasing the sales of South African artists domestically and internationally.

In this report the key problem facing the South African music industry in attaining these objectives lies not in the talent of the industry, but in:

- The lack of coordination between various stakeholders and initiatives in the music industry;
- The lack of a coherent approach to funding;
- Insufficient demand to build the financial resources of the industry as well as the financial security of artists;
- Insufficient exposure of South African artists both domestically and internationally.
- The lack of investment resources, which undermines both the exposure of South African artists in terms of tours and promotional material as well as the quality of sound recordings.

Overcoming these difficulties requires the implementation of projects that strengthen all areas of the music industry value chain - from beginnings through to delivery and audience reception.

Interventions can be divided into two broad categories:

- Those that are aimed at improving the linkages between the various sectors of the music industry; and
- Those that strengthen specific sectors in the music industry.

The following two sections elaborate upon specific programmes and policies that could be implemented within these two areas. The first section deals with those projects that improve the linkages between all sectors of the music industry. The second section is focused on those that could strengthen particular parts of the music industry.

## **6.6. Improving Inter-Sector Connections In The Music Industry**

### **6.6.1. Developing A Vision**

Chapter Two of this report emphasised the need for the development of a vision that would guide the development of the music industry. This vision needs to take account of the strengths and weaknesses identified in this report, in order to plan a way forward for the South African music industry.

The development of a vision has to be a process that would reflect the aspirations and competencies of all the music industry stakeholders. This is critical because it is only through participating in developing this vision that a stakeholder will be committed to its ambitions. This commitment is essential in ensuring that the vision is translated into operational practice.

The collaborative development of a vision is also important to overcome the lack of dialogue and cooperation between different sectors of the music industry. The development of a vision would provide a valuable opportunity for beginning this dialogue.

### 6.6.2. Industry Development Structure

In order for the South African music industry to take advantage of its competitive endowments there needs to be a concerted effort to coordinate projects and programs.

Such coordination requires a structure that can bring various people together around particular projects and which has the legitimacy and administrative capacity to handle such projects. The role of this structure would be to:

- provide regular information to the industry. The industry should be able to use this information in developing the sounds and images of the artists as well as identifying international markets for South African products.
- coordinate a variety of music industry development initiatives; and
- coordinate the training initiatives that are currently underway in the music industry.

It is critical that such a structure be formed because the fragmentation and duplication of scarce resources that has been identified will only be overcome if there is a structure that could ensure that coordination takes place. Secondly this institution / structure would provide the resources and the capacity that are necessary to undertake development projects to boost the profile of the South African music industry. This proposal draws on the experience of FACTOR in Canada and AusMusic in Australia both of which have shown the value of having an institutional home for music industry development. In South Africa such an institution is critical to ensure that the existing industry resources are harnessed towards the development of the industry.

### 6.6.3. South African Music Day

South African Music Day would be a day in which all sectors of the music industry cooperate to celebrate the quality and diversity of South African music. This initiative would serve to:

- Increase cooperation between the various sectors of the music industry;
- Increase the sales and exposure of South African music.

These objectives could be realised through:

- National Publicity;
- Live events broadcast locally and internationally;
- Increased radio and television coverage of South African music;
- Increased delivery of South African music through 'other' delivery mechanisms such as airports and in-store radio;
- Promotional displays in music retail stores; and
- A variety of other initiatives.

An integral part of the South African Music Day would be the development of a logo that all sectors in the music industry could use to associate themselves with South African music. The logo developed for South African Music Day could be continued to be used

throughout the year to develop a recognisable and desirable identity for South African music.

#### 6.6.4. Joint Export Promotion

The world music market is vast with a nearly infinite number of competing products. The joint cooperation of record companies in promoting South African music would serve to increase awareness of South African music in the export market. Such cooperation could take the form of:

- A South African stand at MIDEM; and/or
- Joint promotional tours by South African artists from a variety of record companies.

This cooperation is important both because:

- It would result in South African music having a greater presence in international markets; and
- It would provide record companies and artists with valuable opportunities to learn from international trends and from each other.

#### 6.6.5. Human Resource Development

Whilst human resource development projects can be focused on particular sectors, increasing the general skills profile of the industry is essential both for increased coordination and for the overall development of the industry.

A wide range of projects exist that are focused on increasing the musicianship skills of South African youth. The South African Music Education trust is responsible for the education of 1200 students every weekend. Such initiatives are an integral part of ensuring that the foundations of the music industry - the beginnings - are vibrant.

Skill shortages exist in the critical area of music business skills. These are

- A&R skills;
- artist management;
- contract law;
- understanding copyright;
- how the music industry operates;
- promotion.

In order for the complex coordination that is necessary for the development of artists and the music industry to occur, it is essential that these skills are developed beyond the few highly skilled individuals who presently have these resources. This dispersal of skills is critical in building a broader foundation from which the various aspects of the music industry can grow.

The problem of coordination in the human resource system has also been highlighted. Improving coordination will be an important element in ensuring that participants in the music industry are exposed to the wide variety of skills and knowledge that is necessary to provide the human resource foundation for the development of the South African music industry.

### 6.6.6. Piracy

Piracy has been identified as the greatest threat to the continued growth of the South African music industry. Piracy results in lost income to all sectors of the music industry:

- The recording artists and composers whose work is literally stolen;
- The record companies who lose opportunities to recoup their development costs;
- The production companies who have less throughput;
- The retail stores who are undercut by pirated product.

Piracy results in reduced income to and therefore a diminished investment pool for the South African music industry. Overcoming piracy requires the joint cooperation of the music industry, the government and the public.

## 6.7. Sector Specific Projects

### 6.7.1. Beginnings

Beginnings are composed both of the musicians and composers who make music possible and of the cultural milieu that inspires them to write, play and record music.

A central component of a musical cultural milieu is a country's and a region's musical traditions. This tradition needs to be recorded and celebrated to evoke pride in South African music and encourage people to enter the music industry and to provide a cultural resource which future creators can draw from.

Contributing to the development of such an environment would be:

- The granting of bursaries to undertake research on South African musical traditions and great South African artists.
- Translating this material into:
  - school curricula;
  - documentaries; and
  - providing the basis for a cultural museum which would celebrate all South Africa's cultural creators.

### 6.7.2. Production

The quality of production could be increased by supply-side measures that would operate on a matching grant basis. That is for each rand that a record company invested in a recording, the government would match that amount.

A supply-side measure that focused on improving the quality of sound recordings would increase the chances of South African music competing both domestically and internationally with other music products. Through increasing the competitiveness of South African albums, the chances of increasing album sales and strengthening the entire industry are improved.

In order to ensure that public funds are not misspent, it is possible to design a range of criteria that would increase the likelihood that the artist and record company receiving the grant will perform well in the market-place.

### 6.7.3. Delivery Mechanisms

Projects such as South African Music Day would help to increasing the efficacy of the music industry delivery mechanisms. Whilst this day is a first step there are longer-term projects that could be undertaken to improve the quality and functioning of delivery mechanisms. The research uncovered a number of criticisms of retail outlets and the way in which they market and display South African product. Certainly there exists the possibility of enhancing the type of retail exposure that is given to South African product.

One possible form of project would be a 'mystery shopper', in which music journalists could write a monthly review of different music stores and the way in which they display South African music. These reviews could lay the foundations for a South African Music Award for the best retailer of domestic music, thus providing an incentive for retailers to improve their displays.

The lack of live venues for musicians to perform has been identified as a critical problem because:

- Artists are denied a regular source of income from music;
- It increases the difficulties of developing a domestic support base.

Providing incentives for domestic tours to take place is one potential mechanism for overcoming these problems. These tours would serve to link a variety of venues together (not necessarily clubs, but also public space, school halls etcetera) and it may be possible to design a variety of different touring circuits throughout the country or a province. The linking of venues into circuits would provide musicians with regular sites for playing music and earning a living as well as exposing more of the country more regularly to domestic sounds thus building a domestic audience for South African music.

This linking of venues could occur with support through a facility such as the **Sector Partnership Fund**, which presently only funds manufacturers, to support the advertising of bands that will be playing in the clubs.

### 6.7.4. Tourism and the Music Industry

This report has identified the potential of the tourism market as well as the fact that it is presently not integrated into a broader cultural experience. This points to the potential of a partnership between tourism agencies, hotels, youth hostels, the press and live music venues to ease access for tourists to South African music.

A relatively simple project would be to commission the design of a map of all the live music venues in a region or city. The map would have information about the types of music that is played at the club, who the patrons are likely to be and contact details so that tourist can find out who is playing on any given night.

Clubs should then have an answering service that provides details on who is playing when, how much the covert charge is and what the starting times are. In addition if clubs stocked CDs of the artists that played in that club they could further spread the news of SA music.

### 6.7.5. Building International Exposure

The international exposure of South African music is essential:

- To increase album sales;
- To encourage South African artists and record companies to innovate and take advantage of international music trends.

Building the international exposure of South African musicians could take two forms. The first would be through bands from South Africa performing in a foreign territory and vice versa or bands from both territories doing a concert together. This could be accomplished through partnerships between the different Arts Councils of the two territories, artists managers and record companies.

The second form would be flying record company executives to local concerts to listen to South African bands thereby increasing their international exposure.

### 6.8. Conclusion: The promotion of South Africa as a musical nation

This chapter has outlined existing policy practice both internationally and in South Africa. In addition it has built on the broad weaknesses identified throughout the report and recommended proposals to overcome these weaknesses.

The strategy for overcoming these weaknesses focuses on:

- Increasing the investment available for the development and marketing of South African artists thereby improving the quality of South African product;
- Increasing the coordination between the industry players, institutions and government in order to optimise the impact of limited resources; and
- Mechanisms to increase the domestic and international consumption of South African music.

It is the aim of these proposals and this report to both inform and inspire debate about the future direction of the South African music industry. The statistics and analysis cited in this report leave no doubt that South Africa could build on its position as the continent's most vibrant music industry and achieve international recognition as a dynamic and growing industry.



## APPENDIX ONE: UNDERSTANDING COPYRIGHT

### Copyright legislation

“Unlike book publishing, the physical sale of the music itself is not the core business; the central asset is the copyright ...”<sup>83</sup>. What this quotation points to is the fact that whilst the cassette or the compact disc is the most commonly recognised commodity form in the music industry, it is the **musical work** - the work of the composer and the artist - that forms the basis of the creation of value in the music industry.

It is the right and the payment for the right to exploit<sup>84</sup> musical works that is protected in copyright legislation. Copyright legislation has both an international and a national dimension. At an international level the **Berne Convention (1886) for the Protection of Literary and Artistic Works**<sup>85</sup> constitutes the most long-standing framework for copyright legislation. A central principle of the Berne Convention is the principle of **national treatment**.

The principle of national treatment is that “Works originating in one of the contracting States must be given the same protection in each of the other contracting States as the latter grants to the works of its own nationals”<sup>86</sup>.

As of the 6<sup>th</sup> March 1994, there were 105 States, of which South Africa was one, party to the Berne Convention. The principle of national treatment is further strengthened by the **Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS)**, that constitutes part of the World Trade Organisation’s trading regime<sup>87</sup>. South Africa is a signatory to TRIPS.

Thus copyright legislation is embedded in a global legislative environment which confers both rights (protection of copyright in foreign territories) and obligations (protection of foreigners’ copyright in the domestic territory) on the member States.

National systems of copyright confer two areas of rights, namely rights pertaining to the musical composition and rights relating to the sound recording<sup>88</sup>.

The musical composition rights refer to the rights protecting the actual composition rather than a particular recording of a composition. Royalties accrue to the publishing house and the composer through the exercise of *usage rights*. Usage rights can be divided into two categories - mechanical usage and performance royalties.

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<sup>83</sup> Wallace, H. (1994) “What’s the score”, in **The Musical Times**.

<sup>84</sup> In this sense the word ‘exploit’ refers to the use of a musical work in the production of a CD; the broadcast of a song; the re-interpretation of a composition; the public performance of a song and a range of other instances in which a musical work may be used.

<sup>85</sup> World Intellectual Property Organisation (1994)

<sup>86</sup> *ibid*

<sup>87</sup> Dean, O. (1997) **‘Needletime as a means of financing the local music industry**.

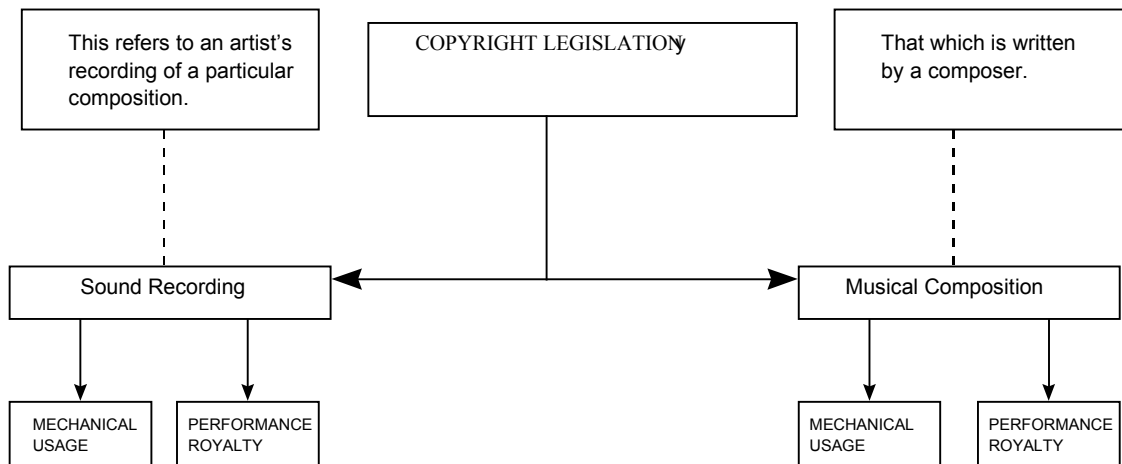
<sup>88</sup> This section is informed by interviews with Mr. F. Withers, Exclusive Books; Mr. R. Hooijer, SAMRO; Mr. G. Hardie, SARRAL and Mr. D. Alexander, The Tequila Group.

Mechanical usage refers to each time that particular recording is used in its original form. Thus mechanical usage rights would be collected each time that a copy is made of a particular musical composition.

Performance royalties are collected each time that composition is used, whether it is re-interpreted by another musician; it is used as the backing to an advertising jingle (synchronisation) or if it is used in its original form.

The royalties that radio stations pay may take the form of a percentage of the advertising revenue in relation to the percentage of air-time dedicated to playing music or alternatively may be a flat rate.

Sound recording royalties refer to those recordings that are the result of an artists recording of a particular composition. These rights are usually held by the record company. Once again there are two forms of usage rights - mechanical usage and performance royalty.



**Figure 24: Understanding Copyright**

Mechanical usage refers to the selling of the particular CD and the royalties accruing to the record company and artist, whilst performance royalties would be paid on the public performance of that song or the broadcast of that song.

### The administration of copyright<sup>89</sup>

Music is perhaps one of the world's most thoroughly globalised export products. As a result of the spread of music across the globe there arose the need for a system of administration that would ensure the collection of the royalties owed to rights-holders by

<sup>89</sup> This section is based on interviews with Ms. M. Lambert, Peermusic Publishing; Mr. R. Hooijer, SAMRO and Mr. H. Voerman, Polygram SA. This is an abbreviated discussion of the complexities of publishing administration.

the various users of music. This administrative system is supported by the international system of legislation discussed above and, in particular, the principle of national treatment.

The administration of copyright is a complex procedure which takes a variety of forms. In the first instance a record company or publisher may license an agent in another territory to distribute, manufacture or otherwise represent a particular musical work in that territory.

Thus the secondary agent becomes responsible for the manufacture and distribution of a particular musical work in a territory, however part of the income which is derived from this activity has to be transferred back to the copyright owner, who is in a foreign territory. It is this process of licensing that gives rise to the complex trans-national revenue flows that are characteristic of the global music industry.

In addition to the involvement of commercial agents in the administration of copyright, there are often a range of copyright collection agencies which are often non-profit organisations. Copyright collection agencies invariably operate on the basis of membership who register musical works with them.

It is this process of registration that enables the agencies to pay royalties to the various rights-holders when their musical work is used. It is the copyright collection agencies role to ensure the collection and distribution of royalties arising from the exploitation of a musical work for the owners of that work.

These organisations work on the basis of reciprocal agreements with copyright collection agencies in other territories that ensure that composers' and publishers' royalties are paid to them.

This administrative system has evolved to ensure that wherever a song is played or album reproduced that the appropriate royalties get paid to the rights holders. However this system is neither as comprehensive nor as effective as this theoretical model might suggest and the failings of this system are highlighted in the body of this report

## APPENDIX TWO: SUMMARY OF PUBLIC SECTOR PROJECTS

These initiatives are those that could potentially be implemented by the government, although some of the supply-side interventions could be implemented on the basis of matching funds as is the case with a number of DTI grants. They are divided into sections according to the cost and difficulty of implementation. The initiative is identified as to whether the intended effect is on the demand-side or the supply-side.

INITIATIVE	TYPE OF MEASURE	COST	DIFFICULTY	TIME-SPAN	INTERFACE WITH EXISTING INITIATIVES	RESULT
Eradicating piracy	Demand-side	High	High	Long-term and continuous	Existing initiative between ASAMI and the Department of Customs and Excise.	Lay the foundations for a substantial increase in revenues to the music industry. Piracy levels are at present 1/3 of the size of the legitimate sound recording industry.
'Hall of Fame' for cultural heroes.	Demand-side	High	High	Medium	No exiting initiative.	Provide a 'database' of the cultural history of SA, thereby increasing the profile and value of popular culture.
Implementing 'needle-time'	Supply-side	Medium	Medium level resistance from broadcasters. There may also be resistance from composers and publishers if their royalty cut is reduced in order to accommodate royalty payments to recording artists.	Short-term	Existing initiative as part of the DTI's sub-committee investigating copyright. Enjoys support from ASAMI and MUSA.	Increase the revenues to South African record companies, thereby increasing the revenue they have available to invest in domestic product.

INITIATIVE		COST	DIFFICULTY	TIME-SPAN	INTERFACE WITH EXISTING INITIATIVES	EFFECTS
Human Resource Development: <ul style="list-style-type: none"> <li>Bolstering music business skills.</li> </ul>	Supply-side	Varies according to arena of implementation: schools - high; university music departments and workshops for musicians; - medium	Medium. It would require dedicated posts to the implementation of music industry courses in a wide variety of locales.	For curriculum implementation, medium to long term. For workshops it is short-term.	The MIDI is already involved in developing training materials on business skills for the music industry. There exists a plethora of music training initiatives throughout the country and thus the infrastructure for implementation exists.	Empower musicians to understand the business components of their profession. Build a class of professionals that understand and are able to work within the music industry.
Human Resource Development <ul style="list-style-type: none"> <li>Songwriting skills</li> </ul>	Supply-side	Medium	Medium	Implementation would be short term, but the process would be ongoing.	There have been a few fragmented initiatives eg. The Nexus Songwriting course at Wits Technikon.	Compositions form the core intellectual property of the music industry. By improving the quantity and quality of local compositions, the foundations are laid for a stronger industry.
CIGS 'branding' process.	Demand-side	Low	Medium. It would require networking and administration.	Immediate	None	That is any cultural event that occurs carries a CIGS logo and in return obtains some funding towards advertising. Recipients of supply-side measures could also be compelled to carry the CIGS logo. The branding process would serve to highlight both the CIGS process as well as create a sense of expanding cultural industries.

INITIATIVE		COST	DIFFICULTY	TIME-SPAN	INTERFACE WITH EXISTING INITIATIVES	EFFECTS
Market Entrants Projects: Sound Recording Access.	Supply-side	Medium.	Low	Immediate and on-going	There would exist a degree of interface to the extent that some sound recording studios offer special deals for bands to get recorded.	Access to cheap recording studio time for bands to record an EP thereby giving them access to radio play. Gives bands access to radio to promote themselves. Increase the amount of local music that is available for airplay and therefore the exposure of local music.
Market Entrant Projects: Public Spaces for Live Music.	Supply-side	Potentially Low	High, given constrained capacity in the local government sphere, coupled with a possible conservatism about varied use of public utilities.	Immediate and on-going,	None.	This project would encourage local government to use public spaces in the promotion of music that comes from their region. Sound engineers could potentially be trainee students. This would: give bands greater local exposure; create a sense in the community of the sort of talent that exist locally; provide a 'hunting ground' for A&R directors looking for new acts.
Market Entrant Projects: 'Showcasing' a regions sound through the recording of compilation CDs.	Supply-side	Low per CD, but possibility becoming high.	Medium. It could be done through record companies encouraging them to bring together regional sounds, thereby shifting the administrative work to the private sector.	Immediate	There is a growing trend towards 'showcase' CDs that expose either regional or national music. Eg. <i>Jozi Vibes</i> ; <i>C-Weed</i> ; <i>Get the Funk Out</i> .	Provide bands with exposure.

INITIATIVE		COST	DIFFICULTY	TIME-SPAN	INTERFACE WITH EXISTING INITIATIVES	EFFECTS
Established Artist: Sound Recording Grant	Supply-side	Med	Med.	Immediate and on-going	None	By increasing the amount of investment available for a sound recording, the artist will be guaranteed of a sound recording that is better able to compete in an environment in which international artists have access to large investments in sound recording.
Established Artist: Domestic Tour grant	Supply-side	Med	Med.	Immediate and on-going	None	By increasing the exposure of the South African public to high quality South African music one creates an environment which is open to the purchasing of that product.
Gig guides in hotels.	Demand-side	Low	Low	Immediate and on-going.	Gig guides are compiled for most major newspapers and thus much of the research work is already being conducted.	This would involve a weekly gig guide being available in a prominent place in the hotel as well as a guide to what each live music venue offers. It would thereby expose tourists to South African music, creating the potential for a growth in exports as well as supporting the live music industry.
SA Music in airports.	Demand-side	Low	Low	Immediate and on-going.	No existing initiative, although piped music is played in most of our international airports.	Build an awareness of South African music amongst visitors to the country.
Bursaries for research on: the history of the music industry; life histories of musicians	Supply-side	Low	Low	Immediate	No existing initiative	Provide the material necessary for a Hall of Fame. Also contribute to the creation of academics and policy makers who are committed to understanding the music industry and enhancing its growth potential.

### APPENDIX THREE: INTERVIEWS CONDUCTED

1. Randall Abrahams, station manager Y-FM, 07\1998.
2. David Alexander, Managing Director, The Tequila Group, 25\7\ 1997
3. Gerald Beacham, Managing Director, and Lesa Maguire, Financial Manager, of Compact Disc Technologies 27\10\1997.
4. Howard Belling, vice-president of the Musician's Union of South Africa (MUSA) 09\10\1997.
5. Jurgen Brauninger, lecturer, University of Natal 21\11\97.
6. Molikoe Dibongs, 03/98.
7. Florence Dado, Human Resources Department, Gallo Africa, 18\11\1997.
8. Faizel Dajee, Managing Director of Reliable Records.
9. Pam Devereux-Harris, Producer, Devereux-Harris Music Video Production 13 August, 1997.
10. Terry Fairweather, managing director of Phase Two,.
11. Chris Gelakis, Managing Director, CSR Records (KG) 12\08\1997.
12. Graham Gilfillan, consultant, 18\08\1997.
13. Sylvan Golden, Chief Executive, Gauteng Tourism Agency 3\02\1998.
14. Mr. George Hardie, managing director of SARRAL 28\10\1997.
15. Steve Harris - A&R Marketing Director for Polygram 11 August, 1997.
16. Patrick Horgan, partner Wings Beat Bar, 18\11\1997.
17. Eric Hodge General Manager, Trutone Industries 13\10\1997.
18. Carel Hoffman, Oppikoppi Music Festival 28\04\1998.
19. Mr. Rob Hooijer, managing director of SAMRO 21\10\1997.
20. Terry Irwin, trainer Irish Agency for Personnel Services Overseas 18\11\1997
21. Paul Kashe
22. Rosalie Katz, General Manager Music Industry Development Initiative 25\7\1997
23. Mallory Lambert, Managing Director Peermusic Publishing 03\11\1997.
24. Howard Lazarus, Managing Director of Look and Listen.
25. Keith Lister, Managing Director of BMG.
26. Freda Lowe Manufacturing Director, Gallo Africa 13\10\1997.
27. Chanel Lybenburg, buyer, OK Bazaars.
28. Mzwakhe Mbule, musician 09\10\1997.
29. Mtunzi Mdwaba, Operations Director of ASAMI 27\10\97.
30. Gail Mortison, Buskers Original Music Club, 23\09\1997.
31. Benjy Mudie Director of Marketing and A&R TUSK Music Co 18\06\1997
32. Sifiso Ntuli, Contemporary Cool - Marketing and A&R, BMG Records Africa 07\1998.
33. Ray Phiri, musician 28/01/1998.
34. Jonathan Portuesi Promoter & Publicity agent Pharcyde Promotions booking agents and rave management 14.08.97
35. Freddie Nyathela, President South African Roadies Association, 22\08\1997
36. Lance Stehr, Managing Director, Ghetto Ruff 14\08\1997
37. Barney Simon, DJ 5FM 12\08\1997.
38. John Sithole, Project Manager, The African Cultural Heritage Trust, December 1997.
39. Mphifa Tshepe and Lara Kantor, Independent Broadcasting Authority 28\10\1997.
40. Kevin van der Molen and Offa Lapid, Gearhouse, 26\10\1997.
41. Attie van Wyk, Big Concerts - International Concert Promotion 12 August 1997
42. Harry Voerman, Managing Director of Polygram South Africa, 25\09\1997.
43. Fred Withers, Managing Director Exclusive Books (formerly 10 years at Gallo) 21\08\1997.



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