

Aspects of the South African Music Industry: An analytical perspective.

by

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Abstract

The music industry worldwide is rapidly evolving as a result of commercial, technological and demographic developments. The magnitude of the strategic impact of these developments on the South African music industry is evaluated in terms of internal and external factors, such as the intrinsic industry growth levels, ability to adapt to change, the consumer buying power, audio-visual piracy and counterfeiting, literacy, employment and the prevalence of HIV/AIDS. Collected data from public domain and proprietary music industry sources are transformed and presented in terms of the competitiveness of the South African music industry, from which key points for strategic leverage are identified. These key points of strategic leverage include education and training, relevant music industry research, the formalisation of the music industry strategy process and the development of alternative marketing, sales and distribution channels.

In comparison to specific benchmark countries, the South African music industry has significant technological and socio-economic challenges and opportunities that need to be addressed in order to become a competitive co-evolutionary participant in the world music industry. South Africa, as an emerging world player, is ideally positioned for the development and implementation of new technological and commercial systems, such as the download distribution channel. This however, requires the collaborative participation of government departments, educational institutions, public and private enterprises. In particular, in-depth research on the local music industry is needed, which should include the collection of relevant statistical data. This study presents suggestions for some strategic interventions, including an application of the Porter DNA-model.

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List of abbreviations and acronyms

AE = album equivalent

BDM = Business Development Marketing

CD = compact disc

CIA = Central Intelligence Agency

CSG = Cultural Strategy Group

DNA = Diamond of National Advantage (as described by Porter (1990))

DVD = digital versatile disc

DTI = Department of Trade and Industry

FTE = Full-time equivalent

GDP = gross domestic product

KCA = key competitive aspects

KPMG = Klynveld, Peat, Marwick and Goerdeler

HIV/AIDS = Human Immunodeficiency Virus / Acquired Immune Deficiency Syndrome

LMA = Life Management Associates

MC = music cassette

MPEG = Motion Pictures Experts Group (a standards organisation)

MP3 = MPEG-1 Audio Layer 3

PPP = purchasing power parity

RiSA = Recording industry of South Africa

SAACIP = South African Association of Competitive Intelligence Professionals

SAMRO = South African Music Rights Organisation

SCIP = Society for Competitive Intelligence Professionals

SQW = Segal, Quince and Wicksteed

YOY = year-on-year

Notes to the reader

The reader is referred to the following music, strategy, competitive intelligence and business terminology:

Album = a compiled combination of music recordings, usually of 45 minutes to 75 minutes in combined duration contained within a single physical unit of a recording medium. A terminology originally used for the double-sided 12 inch vinyl long playing record format.

Album Equivalent units = unit of measure of recorded music product units, wherein one full length compact disc album or one full length digital versatile disc album is regarded as one album equivalent unit. In the case of the singles product, three singles are counted as one album equivalent unit.

Bootlegging = the unauthorized recoding and distribution of a live or broadcast performance, whether it be for commercial gain or not, without the consent of the composer, artist or record company.

Counterfeiting = the duplication of an entire album, including the sound recording, the packaging, artwork and the label for commercial gain. The consumer is being misled into believing that they are buying a legitimate original product.

Current Reality = the facts of a situation as being perceived at present.

Driver = a primary driving force that initiates, stimulates or effects specific responses from the environment upon or from within it operates.

Gini Index = index to the degree of inequality in the distribution of family income across the population in a country. The more nearly equal a country's income distribution, the lower its Gini index, the more unequal a country's income distribution, the higher its Gini index. If income were distributed with perfect

equality, the index would be zero; if income were distributed with perfect inequality, the index would be 100.

Gross domestic product = (GDP) the value of all final goods and services produced within a nation in a given year.

HIV/AIDS prevalence rate = an estimate of the percentage of adults (aged 15-49) living with HIV/AIDS. The adult prevalence rate is calculated by dividing the estimated number of adults living with HIV/AIDS at year-end by the total adult population at year-end.

Internet population = the number of users within a country that access the Internet. This may include users who access the Internet at least several times a week to those who access it only once within a period of several months.

Life expectancy at birth = the average number of years to be lived by a group of people born in the same year, if mortality at each age remains constant in the future.

Literacy = the ability to read and write at a specified age (as determined by education policy).

Key Competitive Aspects = the critical factors to be considered during a strategic assessment of the macro environmental conditions of an industry.

Online piracy = the unauthorized Internet uploading of a sound recording and making it available to the public. It is also the Internet downloading of a sound recording, whether it be for commercial gain or not.

Piracy = the unauthorized duplication of only the recorded content of an original recording such as a DVD, CD, music cassette and vinyl record, for commercial gain, without the consent of the rights owner. In order to maintain consistency with the statistics provided by international organisations such as the International Federation of the Phonographic Industry (IFPI) and the Recording Industry

Association of America (RIAA), all four forms of illegal duplication (bootlegging, piracy, online piracy and counterfeiting) will be referred to as piracy in this study.

Purchasing Power Parity = this refers to the use of standardized international dollar price weights, which are applied to the quantities of final goods and services produced in a given economy, referred to as the PPP method. The data derived from the PPP method provide the best available starting point for comparisons of economic strength and well-being between countries.

Single = a single music recording. A terminology originally used for the 7 inch, double-sided, vinyl record format, referred to as a “seven-single”.

Technology = a collective terminology for the physical application of one or more scientific principles towards specific intent. Technology, as it is being referred to in this work, refers to the exploitation of modern scientific developments, such as solid state electronics and digital micro-processor driven technologies.

Value chain = a description of an industry value system wherein the value creating activities of the industry participants, from raw materials to final consumer, is disaggregated into interlinked strategically relevant value creating activities within a holistic industry context.

Year-on-year = comparison of a situation at a particular time frame in a year with the corresponding time frame of a previous year.

Introduction

The South African music industry is founded upon a rich and resourceful cultural heritage which is borne by a conglomerate of cultures with strong elements of demographic diversity, cross-cultural influences, social development and emotionally deep-rooted musical development. As such, it has influenced the socio-political developments of South Africa, playing an important role in engaging the thoughts, opinions and development of society (CSG 1998:11). This multi-racial, multi-national demography creates a diverse, yet richly creative environment with unique musical products.

The music industry has a well developed structure with a demonstrated growth capability. The gross turnover of this industry is approximated to 900 million rand per year and employment opportunity for 15000 [a tenth of a percent of the gross domestic product (GDP)] (CSG 1998:40). These factors indicate that the local music industry is economically exploitable in terms of its uniqueness, structure and value, given the existence of a well developed, communicated and implemented strategy. Unfortunately, in South Africa, music business strategy has always been an elusive, complex and often difficult-to-grasp topic to the majority of the music industry participants. This leaves an obligation on the local music business researcher to contribute to the general understanding of the topic. This document addresses the music industry in the South African situational context, unless otherwise stated.

1.1 Literature review

The local music industry has attracted some research attention in the last decade with notable publications by the Department of Arts, Culture, Science and Technology (DACST 1998) and its appointed Cultural Strategy Group (CSG), Gordon (2000) and from Hooijer (2004). The topics covered by these publications and conference include industry statistics, industry players and industry structure. The CSG-study provides for a well founded description of the music industry in

terms of the industry parameters, the economic status and policy development within the music industry. Gordon, on the other hand addresses the fundamental aspects of music business that a budding musician needs to know, albeit in a controversial fashion in terms of copyright infringement and a need for editing (De Villiers, Griffith and Devroop 2005).

1.1.1 The Cultural Strategy Group study

The Department of Arts, Culture, Science and Technology appointed the Cultural Strategy Group in 1998. The group consisted of KPMG and BDM management consultants from the companies KPMG and BDM, the policy and research consultants from the company LMA/SQW and the Centre for African Transformation. The CSG study was the first study to qualify and quantify a comprehensive “current reality” for the music industry in 1998. As such it created a platform upon which further research and strategic discourse, such as the present document, can be based. All references in this section (section 1.1) refer to the CSG study (1998), unless otherwise indicated.

The methodology of the CSG study

The CSG brief was to develop strategies for the growth and development of the cultural industries and in particular to develop the realisation of export potential and employment. From an economic point of view, music incorporates three critical characteristics for success in the late twentieth century, namely:

- its ability to be processed, stored and retrieved via analog and digital electronic technology implies ease of distribution, without unduly high transportation logistics and costs, making it an ideal export product;
- a significant portion of the music industry’s revenue is derived from intellectual property rights, implying that music is a knowledge-based industry which can draw on unique local competencies for competitive export advantage; and
- the involvement and incorporation of various other industries with the associated employment creation possibilities.

The stated objectives of the CSG-report were to:

- understand and explain the structure and functioning of the music industry;
- develop an industrial strategy for the growth of the domestic music industry; and
- stimulate constructive discussion between the music industry stakeholders.

In order to meet its objectives, the CSG analysed the music industry in terms of the basic concepts of the dynamic cultural value chain, the critical linkages and the issue of globalisation.

The cultural value chain

The concept of a value chain was popularised by Michael Porter (1985) based on initial work by Jay Forrester (1961). It is a description of an industry value system wherein the value creating activities of the industry participants, from raw materials to final consumer, is disaggregated into interlinked strategically relevant value creating activities within a holistic industry context (Fleisher & Bensoussan 2003:104). Porter divides the value creating activities of the industry participants into two main categories:

- Primary activities, which consist of inbound logistics, operations, outbound logistics, marketing/sales and post sale services.
- Support activities, which consist of technology development, human resource development and firm infrastructure.

The holistic industry value system is modelled by means of a quaternary relationship of the industry participants in terms of the *manufacturing* value chain, the *supplier* value chain, the *distribution* value chain, and the *buyer* value chain, each with its own primary and support activities.

The Cultural Strategy Group utilised a simplified, cultural industry adaptation of the Porter value chain, namely the Charles Landry five column model (Landry 2000), (CSG 1998:12). The Landry model allows for the analysis of the dynamics of the cultural value chain through five so-called “columns” which support a cultural industry, these are:

- *beginnings* – the socio-political-economic processes and structures as well as the soft infrastructure and creativity development;
- *production* – the process of producing a product or service;
- *circulation* – the intangible and corporeal aspects of music distribution;
- *delivery mechanisms* – making music available to the consumer through retail, broadcast and live music; and
- *audience reception and feedback* – the structured response to audience response which form the basis of beginnings referred to earlier.

Linkages: The growth of the music industry is closely associated with the utilisation of effective links between its different elements and other associated industries. Linkages also address effective communication between these parties.

Globalisation: In the music industry context, this refers to the culturally rooted, subtle interplay between international and local enterprises, legislation and markets. The study approaches globalisation as a dynamic social force in order to formulate its strategies.

The complexity of the music industry

The CSG explained the complexity of the music industry through:

- the roles of, and the interaction between the industry participants:
 - originators (musicians and songwriters);
 - publishers (promotion and management of intellectual property);
 - record companies (recording, manufacturing and distribution);
 - manufacture (reproduction from masters to consumer media); and
 - broadcast, retail and entertainment (delivery channels).
- the nature of the product of musical activity as physical artefacts, services and intangible intellectual property; and
- the administration of globalised revenue flow.

To ensure growth, the importance of both the strengthening and coordination of the individual elements of the music industry is stressed.

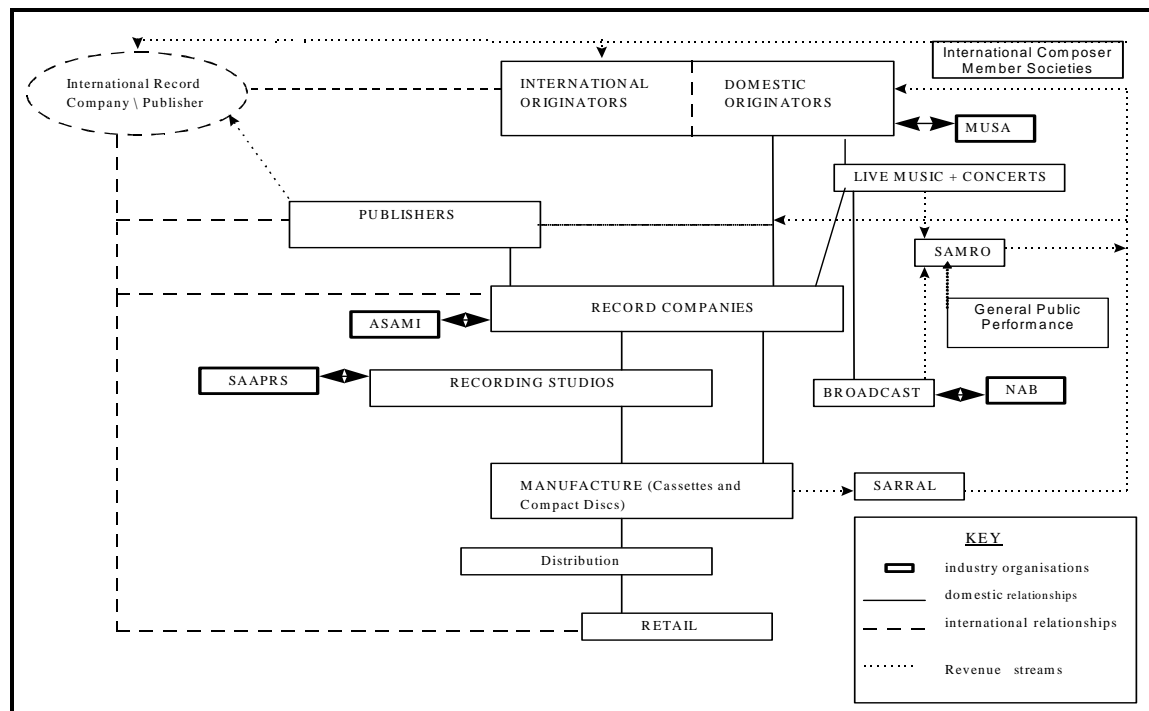
Structural parameters of the music industry

In the CSG description of the structure of the music industry, the musicians and composers are positioned as being the basis. The local structure has a range of industry institutions, which represent most of the various functional groupings of the industry, as listed by Katz (2003), including:

- South African Music Promoters Organisation (SAMPA);
- Recording Industry of South Africa (RiSA);
- African Cultural Organisation of South Africa (ACOSA);
- Business and Arts South Africa (BASA);
- Creative Research Education And Training Enterprise South Africa (Create SA);
- Musicians, Artists, Assistance Programme of South Africa (MAAPSA);
- Music Industry Development Initiative Trust (MIDI);
- Musicians Union of South Africa (MUSA);
- National Arts Council (NAC);
- The National Association of Broadcasters (NAB);
- National Community Radio Forum (NCRF);
- The National Film, Videos and Sound Archives (NAVSA);
- Performing Arts Network of South Africa (PANSAN);
- The South African Association of Professional Recording Services (SA-APRS);
- South African Blind Musicians Association (SABMA);
- The South African Roadies Association (SARA);
- Technical Production Services Organisation (TPSA);
- National Organisation for Reproduction Rights in Music in Southern Africa (NORM);
- South African-Norwegian Education and Music Programme (MMINO);
- South African Recording Rights Association Limited (SARRAL); and
- South African Music Rights Organisation Limited (SAMRO).

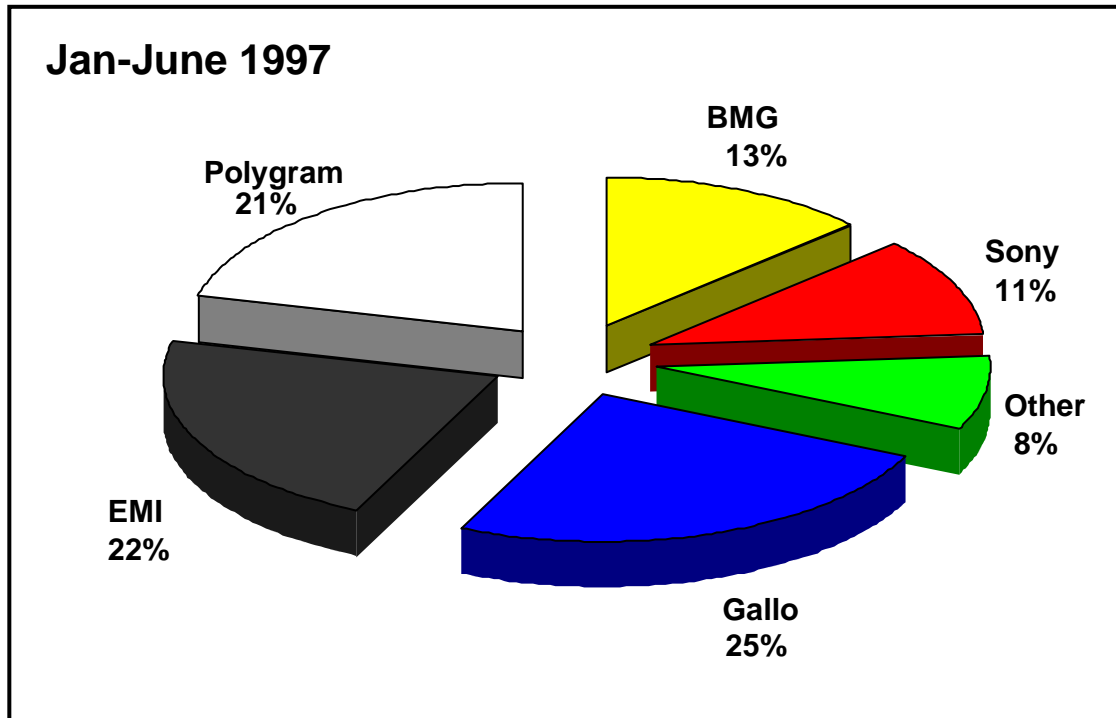
The globalised nature of the music industry is demonstrated by the significant participation of multinationals in the structure and linkages of the music industry, as shown below in Figure 1.1.

Figure 1.1: The structure and linkages in the South African music industry in 1998 (CSG 1998:25).



At the time of the publication of the CSG study the world music industry was dominated by six multinational companies: BMG, EMI, Polygram, Sony, Time-Warner, and Universal. Since then, the merger of Sony Corporation and the Bertelsmann Group resulted in the now five major multinationals, of these, Sony-BMG, EMI and Polygram have South African subsidiaries, with Time-Warner being represented in South Africa by Gallo. The significant market share that these multinational companies enjoyed during 1997 in South Africa is observable in Figure 1.2. The distribution of music is dependent on the signing of reciprocal licensing and distribution contracts between record companies in the different countries and regions. This implies that, due to the market dominance of the multinational record companies, some institutional barriers exist for local artists to enter the international markets.

Figure 1.2: The relative market share of the multinational record enterprises in the South African music industry as measured during the period Jan-June 1997 (CSG 1998:28).



The CSG-study highlights the high degree of value chain vertical integration amongst the then five major record companies (four multinationals and one local major - Gallo), due to their owning a significant portion of the facilities in the music industry production value chain. This aspect is demonstrated by Figure 1.3, which shows that through the horizontal collaboration of the multinationals, they control the production process to a large degree. The CSG debates the advantages and disadvantages of an open production system, where the approximately 80 independent record companies sign production and distribution contracts with the major record companies. This has the advantages of economies of scale, but with the independent companies losing some of their independence.

From a global perspective the relative size of the South African music industry in terms of legitimate recorded music sales is shown in Table 1.1, where South Africa occupies the 28th position. Although a share of world sales of 0,375% for

South Africa seems small, the South African music market expanded by 60% in the period from 1992 to 1996.

Figure 1.3: Collaboration between Polygram, EMI and Gallo (CSG 1998:31).

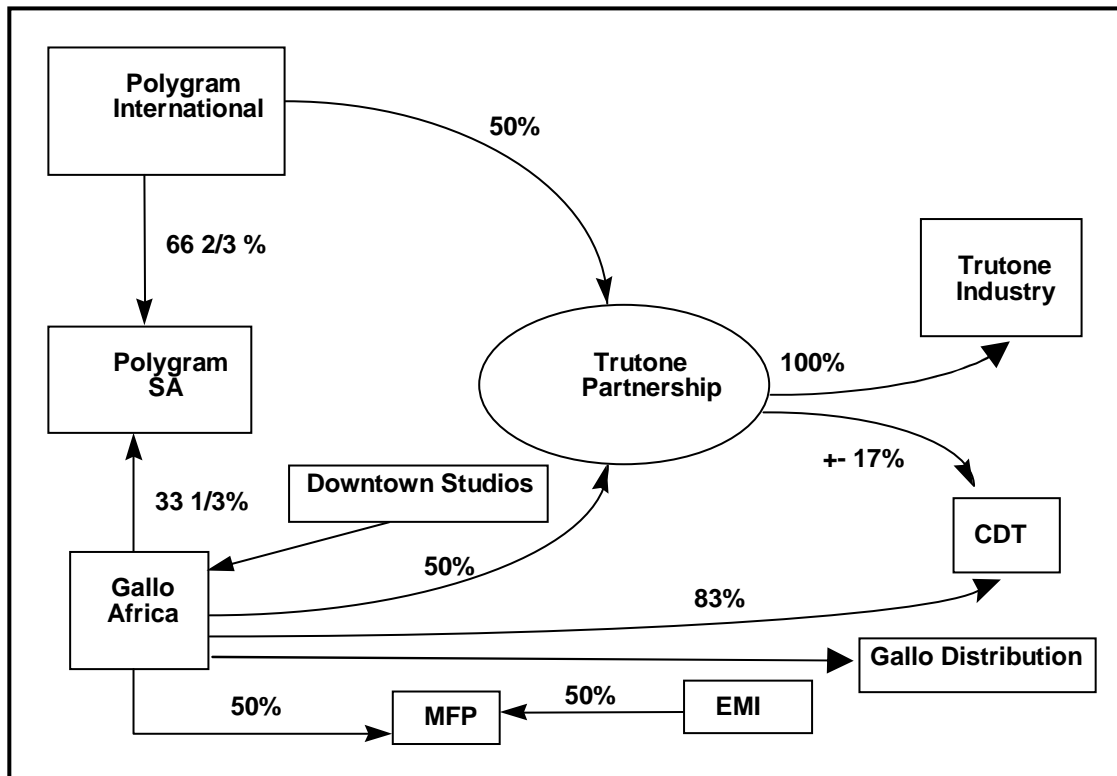


Table 1.1: World Top 10 music markets and South Africa (CSG 1998:27).

Ranking	Country	% of World Sales (1996)
1	United States	31
2	Japan	17
3	Germany	8
4	United Kingdom	7
5	France	6
6	Brazil	4
7	Canada	2
8	Australia	2
9	Netherlands	2
10	Italy	2
28	South Africa	0,375

A quantitative perspective of the South African music industry

The CSG study evaluated the music industry from a quantitative perspective, in comparison to specific benchmark countries, deducing from statistical indicators specific economic challenges that the local music industry faces. The benchmark countries were Thailand, Malaysia, Colombia, Brazil, Chile, Poland, Czech Republic and Bulgaria. The study furthermore quantified the industry in terms of the cost structure of a music compact disc (CD), the revenue sources and the employment levels.

Cost structure of a compact disc: The CSG study found that the relative retail price of a CD in South Africa is relative low when compared to the benchmark countries. The cost breakdown for a CD in terms of the retail price is shown in Table 1.2. This cost breakdown underlines the fragile existence of the creative contributors (artists and songwriters) of a compact disc product. Although this cost breakdown is fairly simplistic, some opportunities to reduce cost, especially with regards to the retail mark-up, are evident.

Table 1.2: Cost breakdown of a compact disc (CD) produced in South Africa (average costs) for 1996 (CSG 1998:37).

Cost Item	% of Total Retail Price
CD manufacturing (including box & booklet)	8%
Artist, Producer & Studio costs	14%
Songwriter & Publisher	4%
Distributor	5%
Retail mark-up	33%
Government Tax (ad valorem & VAT)	13%
Record Company Margin (gross)	23%

Revenue related to the music industry: The gross turnover for music related economic activities in South Africa for 1996 was estimated to be approximately two billion rand. This figure is composed of the various components shown in Table 1.3. It is uncertain what portion of these figures remains within the South African economy.

Table 1.3: Breakdown of the estimated turnover of the South African music industry for 1996 (CSG 1998:10).

Component	Value in millions of Rand
Album sales (wholesale costs)	585,8
Performance copyright revenues	86,3
Mechanical copyright revenues	86,3
Retail gross profits	146,3
Sound and lighting	70
Manufacturing	18
Radio advertising spend	595
Live music, education, music video production & media (rough estimate)	400

Employment in the music industry: Accurate employment figures are difficult to assemble since music related activities span various industries. A breakdown of employment for the core of the music industry is shown in Table 1.4. Three important features were derived from these employment figures:

- the core of the music industry is a significant employer,
- the majority of the industry employment is outsourced, and
- three quarters of the employment is within the creative foundation of the industry – the musicians and composers.

Table 1.4: Employment in the core of the South African music industry relevant to the 1998 CSG-study (CSG 1998:40).

Sector	Full-time employment	Part-time employment	Total employment
Musicians	-	mostly	7500
Composers	-	mostly	3800
Technicians	250	500	750
Record Companies	mostly	-	580
Manufacture	230	85	315
Distribution	400	100	500
Retail	-	mostly	1500
TOTAL			14,945

Key findings of the Cultural Study Group

The quantitative evaluation of the music industry revealed key aspects and associated challenges that need to be addressed in order to grow the industry. These aspects, and the resultant economic challenges, derived mostly from 1996 data, are listed in Table 1.5.

Table 1.5: Summary of the key aspects derived from the quantitative evaluation of the South African music industry in the CSG-study.

Key Evaluated Aspects	Resultant Economic Challenge
<ul style="list-style-type: none"> • Cost breakdown • Employment figures • Significant creative potential 	The majority of employment in the music industry is part-time and unstable, but it has the capacity to provide jobs cheaply
<ul style="list-style-type: none"> • Steady growth in income <i>per capita</i> • Expansion in terms of number of record companies • Resurgence of domestic repertoire • Growth in the music market 	South African expenditure on music is within the parameters of similar developing markets. Given the strength of the industry structure, there exists significant potential for growth
<ul style="list-style-type: none"> • Music consumption is racialised, especially in terms of CD vs. music cassette media consumption 	To equalise and increase domestic music consumption
<ul style="list-style-type: none"> • Music industry has stable growth 	Utilise existing foundations for further growth
<ul style="list-style-type: none"> • Local product is only 22,5% of the sales by value for 1996 • 42% of local sales is on cassette format • Relative growth in sales of local product vs. international product 	Building on the South African musician's existing advantage in the local market, to ensure a greater percentage of total sales going to domestic repertoire
<ul style="list-style-type: none"> • Strong local culture musical development 	Take advantage of local music genres that are based on a rich cultural heritage, in a way that facilitates export
<ul style="list-style-type: none"> • Negligible export penetration of the local physical music product • Isolated successful penetration of international markets • Regionalism in terms of shared culture and geographic proximity 	Find and exploit areas of cultural synergy in international markets
<ul style="list-style-type: none"> • Significant Southern African Development Community exports of music physical product • Some African copyright interaction and co-operation established 	Increase the presence and sale of South African music within Southern African Development Community countries and the rest of Africa. Increase the availability of information on African markets

Competitive advantages and weaknesses of the music industry

In order to assess the competitive advantages and weaknesses of the music industry, the CSG focussed on the internal dynamics of the industry in terms of the cultural value chain as shown in Table 1.6.

Table 1.6: The internal competitive advantages and weaknesses of the South African music industry in terms of the cultural value chain.

Strengths	Weaknesses
<p>Beginnings</p> <ul style="list-style-type: none"> • Cultural diversity provides a valuable cultural base 	<ul style="list-style-type: none"> • Cultural separation enforced by past apartheid • Financial vulnerability of music as a career in South Africa • Weak negotiation position of the creative resources • Ignorance of contract law of the creative resources
<p>Production</p> <ul style="list-style-type: none"> • Wide range of well developed recording studios • Significant cassette and CD production facilities 	<ul style="list-style-type: none"> • Inexperience of creative resources on how to effectively utilise production resources
<p>Circulation</p> <ul style="list-style-type: none"> • Organisations for the management of music royalties and rights well established 	<ul style="list-style-type: none"> • Creative resources have limited understanding of copyright administration • Low profile of the music royalty collection agencies • Administrative requirements for royalty management alienating creative resources with limited formal education
<p>Distribution</p> <ul style="list-style-type: none"> • Well developed, effective distribution network 	<ul style="list-style-type: none"> • Distribution network largely controlled by multinational record companies
<p>Delivery Mechanisms</p> <ul style="list-style-type: none"> • Well developed broadcast media • Promulgation of local content legislation • Majority of South African households own radio sets • Well developed formal and informal retail sector 	<ul style="list-style-type: none"> • Alleged existence of payola • Retail industry do not effectively promote local music product sales • Lack of synergy between the live music industry and the hospitality/leisure sectors • Absence of adequate of cultural quarters • Low South African music content in public diffusion systems
<p>Audience Reception and Feedback</p> <ul style="list-style-type: none"> • Increase in music related printed media 	<ul style="list-style-type: none"> • Inappropriate reviews
<p>The Music Industry System</p> <ul style="list-style-type: none"> • Geographical agglomeration facilitates industry interaction in Gauteng region • Significant music education facilities • Industrial and institutional density can provide the foundations for coordinated industry growth 	<ul style="list-style-type: none"> • Artists not always within the Gauteng region • Low prices for domestic repertoire prevents adequate investment for improving recording quality and marketing • Piracy and counterfeiting • Poor coordination of human resource development • Poor availability of statistics and information for music industry decision-makers

Policy development

The following two main features explain the current government policy practice towards the South African music industry:

1. Taxation: The CSG study found that South Africa's tax regime is, in global terms neutral towards the music industry, with average levels of taxation.
2. Music industry development initiatives: The South African music industry is relatively poorly supported in terms of formal development initiatives, especially in comparison to the Australian (Ausmusic 2003), Canadian (FACTOR 2003) and Irish (UK NMC 2002) national music development initiatives which have gleaned significant returns on investments through educational programs, tax relief, financing assistance, development assistance schemes and international promotion assistance.

The CSG study was concluded with a two-pronged approach of recommended policy interventions and new practices to promote South Africa as a musical nation:

1. Improving inter-sector linkages in the music industry is achievable through:
 - the development of a common vision for the industry;
 - establishing an industry development structure that would:
 - provide regular information to the industry,
 - coordinate a variety of music industry development initiatives, and
 - coordinate the training initiatives in the industry;
 - a South African Music Day to increase cooperation between the various music industry sectors and increase the exposure of local music;
 - joint export promotion;
 - human resource development – increasing the general skills in the industry, especially in the area of music business skills; and
 - the cooperation of government, music industry and the consumers to overcome piracy and counterfeiting.

2. Strengthening specific sectors in the music industry through the proposed sector specific projects which can be divided into the different aspects of the cultural value chain as follows:
- Beginnings – contributing to the development of creative resources through:
 - the granting of bursaries to undertake relevant research; and
 - translation of this research material into educational curricula, documentaries and a cultural museum;
 - Production - increased supply-side measures such as government matching grants to improve the export potential of South African music products;
 - Delivery mechanisms – developing the delivery mechanisms through:
 - the promotion of South African music to the local retail sector; and
 - development of live venues both in terms of quantity and quality;
 - Tourism – development of partnerships with the tourism industry to provide a broader cultural experience to the tourist; and
 - Building international exposure – in order to increase album sales, as well as stimulate creative innovation in two ways:
 - concert tour coordination between South African and foreign Arts Councils, artist managers and record companies; and
 - enable international record company executives to experience South African music at their local concerts.

1.1.2 Strategic planning vs. strategic thinking

As is clear from the previous paragraphs, the CSG study paved the way for the strategic planning of the music industry. Strategic planning is a disciplined and focussed effort aimed at the complete specification of an organisation's strategy and the assignment of responsibilities for its execution (Fleisher and Bensoussan 2003:2). Mintzberg (1994) found that strategic planning categorises the business environment through hierarchical linear models, focussing most strategic plans on the process in order to systemise the workplace. In the post-2000 fast-paced, fast changing, competitive world, conventional strategic planning can impede dynamic

and innovative executive decision making. This is a primary reason why management intuitively divorces their action from their strategic planning (which implies that their action is divorced from their thinking). Mintzberg (1994) and Peters (1995) therefore strongly advocates that strategic planning as it is generally being practiced, needs to be replaced with a capacity for strategic thinking. Strategic thinking is necessary to compete in an increasingly globalised, post-industrial, knowledge- and information-based, competitive environment as opposed to the relatively slower paced, domestically focussed, industrial competitive environment of a few decades ago. Table 1.7 compares the salient features of strategic planning and strategic thinking.

Table 1.7: The features of strategic planning and strategic thinking
 (Fleisher and Bensoussan 2003:3-5)

Strategic Planning
<ul style="list-style-type: none"> • Addresses the scope of the organisations activities – geography, products, services, markets, value chain) • Matches the organisation's activities to its: <ul style="list-style-type: none"> ○ environment, and ○ resource capabilities – staying within the organisation's means • Addresses the complex implications of organisational change • Focuses on the optimising of resources • Is influenced by the values, expectations and goals of the decision makers • Dictates the long term direction of the organisation
Strategic Thinking
<ul style="list-style-type: none"> • A synthesis of intuition and creativity • Combines information and insight, developing a clear understanding of how to reorder elements to maximise results within an emerging and often discontinuous context • Develops an integrated perspective on the organisation • Concentrates on interrelationships as opposed to individual components • Observes the business environment as a series of events (motion picture) as opposed to individual events (snapshot) • Responds to competitive environment with a comprehensive set of initiatives • Dissects situations into constituent parts and reassembles them into patterns based on their significance and relationship to desired outcomes • Is pragmatic dreaming – combining left-brain (linear, logical) and right-brain (holistic, spatial, creative, synthesis) thinking patterns.

In order to set the stage for strategic thinking, a quantitative description of the study field is an essential foundation onto which a strategic thinking framework can be developed. This study will thus:

- firstly, seek to define and develop the concept of competitiveness (Chapter 2); and

- secondly, develop a quantitative expression of the competitiveness of the South African music industry (Chapters 3 and 4), whereupon a strategic thinking framework will be conceptualised (Chapter 5).

1.2 Statement of the problem

The CSG report to the Department of Arts, Culture, Science and Technology (1998), explained the structure and functioning of the South African music industry in terms of the role players and the industry value chain. It also discussed specific industry issues such as copyright and piracy. The CSG study provided for a well formulated strategic plan for the South African music industry. In doing so, it reported a mostly introspective view of the unique characteristics of the South African Music Industry in terms of its structural parameters, competitive positioning and developmental needs. However, the CSG approach neglected to adequately deal with some of the external competitive and sustainability aspects of the South African music industry. In order to cultivate a future driven strategy for the South African music industry, a strategic thinking framework needs to be developed that includes some of the key aspects of competitive intelligence, such as socio-economic, demographic and technological viewpoints. Also, the most recent comprehensive study was done in 1998 by the abovementioned Cultural Strategy Group, implying that significant developments could, and have occurred since, the impact of which has not been adequately examined in other contemporary work.

1.3 Scope and purpose of the study

This study utilizes the CSG study, in terms of its strategy development of the music industry, as a point of departure. It augments the CSG study in terms of the following aspects:

- The incorporation of the concepts of competitiveness and sustainability in the development of a strategic thinking framework for the South African music industry;

- The utilisation of strategy and competitiveness analysis techniques could contribute to the general understanding of the complex dynamics and forces that act upon, and within the industry;
- The analysis of the effects of local and global developments such as the Internet, DVD, MP3, literacy, unemployment, HIV/AIDS and audio-visual piracy. The competitive impact and opportunities that these developments could offer for the South African music industry, needs to be considered in order to contribute to a futuristic view of the industry; and
- An update of the quantification of the South African music industry since 1998 could provide a platform for the present and future analysis.

The purpose of this study is thus **to augment the previous strategic analysis in an effort to contribute to the understanding of the strategic and competitive dynamics of the South African music industry**. Particular attention is being paid to the impact of socio-economic demographics, globalisation and technological development. It is furthermore the purpose of this study to identify specific issues and challenges, which could serve as topics for further study. The specific research questions that are being addressed are:

1. What is the strategic impact of economic, socio-economic, demographic and technological developments on the competitiveness of the South African music industry?
2. Which are the key points of leverage to further the growth of the South African music industry?

1.4 Methodology

The principles of strategic analysis (Porter 1980) are being utilised to enable the research process. The research is conducted through a study of the most significant and available publications and reports from hard and soft media, Internet searches and industry associations' survey reports.

The topic of strategic analysis within the South African music industry has not received the quality and quantity of research attention that an industry of its size

warrants (Hooijer 2004). The need for the development of an information framework for the South African music industry was specifically called for in the CSG-study. The present research therefore evaluates suitable studies in other industries and/or economies such as the United States of America, Canada, the United Kingdom and Australia, in order to learn from their insights. Parallels are being drawn with preceding justification arguments. Similarly, when external data and statistics are being related to the South African equivalents, benchmark data are utilised to obtain scaling relevance and order of magnitude accuracy.

Table 1.8: Selection data for benchmark economies for 2002 (CIA 2003).

Country	GDP¹ [\$billion]	GDP real growth rate² [year-on-year %]	GDP per capita³ [\$]
South Africa	427,7	+3,0	10 000
Thailand	445,8	+5,3	7 000
Malaysia	198,4	+4,1	8 800
Colombia	251,6	+1,5	6 100
Brazil	1376	+1,5	7 600
Chile	156,1	+2,1	10 100
Poland	373,2	+1,4	9 700
Czech Republic	157,1	+2,0	15 300
Bulgaria	49,2	+4,8	6 500
Singapore	112,4	+2,2	25 200
New Zealand	78,4	+3,3	20 100
Mexico	924,4	+0,7	8 900
World	49000	+2,7	7 900

1.4.1 Benchmark economies

In order to facilitate a quantitative evaluation of the South African music industry, a basis for comparison is required as a yardstick. This basis of comparison is obtained by utilising the relevant music industry data of other benchmark economies. These benchmark economies are selected according to comparative factors in their specific economies being metrically comparable to those of the South African economy. The selection criteria for the benchmark economies for the present study are based on a non-inclusive combination of the following

¹ Values adjusted on a purchasing power parity (PPP) basis.

² GDP growth on an annual basis adjusted for inflation and expressed as a percentage.

factors, purchasing power parity GDP, *per capita* GDP and GDP growth rate. The specific values of these factors for the benchmark economies are shown in Table 1.8 on the previous page.

1.4.2 Data

The data required for a quantitative view on the *total* South African music industry are generally not available in the public domain, if at all. Enquiries made to SAMRO and RiSA for music industry data substantiated this. Fortunately, the *recorded* music industry, as a major segment of the music industry, does collect some relevant data through its industry associations such as the Recording Industry of South Africa (RISA 2003) and the International Federation of the Phonographic Industry (IFPI 2003). The quantitative evaluation of the South African music industry is therefore done through the utilisation of the data on the legitimate recorded music industry. The extracted information from this data is listed in Appendix A. The extracted information is utilised in the argument in the form of figures and tables.

1.4.3 Definitions used in calculations and quantitative expressions of magnitude

In order to obtain comparable quantitative values for the various benchmark comparisons, specific definitions and calculation methods, as used by the CIA (2003a), listed below:

GDP - The gross domestic product (GDP) or value of all final goods and services produced within a nation in a given year. GDP dollar estimates are derived from purchasing power parity (PPP) calculations.

Purchasing Power Parity (PPP) - GDP dollar estimates are derived from purchasing power parity (PPP) calculations rather than from conversions at official currency exchange rates. The PPP method involves the use of standardised international dollar price weights, which are applied to the quantities

³ GDP on a purchasing power parity basis divided by population as of 1 July 2002.

of final goods and services produced in a given economy. The data expressed via the PPP method conversion provide the best available starting point for comparisons of economic strength and well-being between countries. The division of a GDP estimate in domestic currency by the corresponding PPP estimate in dollars gives the PPP conversion rate. In contrast, the currency exchange rate method involves a variety of international and domestic financial forces that often have little relation to domestic output. In developing countries with weak currencies the exchange rate estimate of GDP in dollars is typically one-fourth to one-half the PPP estimate. Furthermore, exchange rates may suddenly go up or down by 10% or more because of market forces whereas real output has remained unchanged. The PPP method would thus give a better reflection of GDP dollar estimates for South Africa which has had severe and rapid fluctuations in exchange rates during the period 1998-2005.

HIV/AIDS – adult prevalence rate - This is an estimate of the percentage of adults (aged 15-49) living with HIV/AIDS. The adult prevalence rate is calculated by dividing the estimated number of adults living with HIV/AIDS by the total estimated adult population at a specific time.

Population growth rate - The average annual percent change in the population, resulting from a surplus (or deficit) of births over deaths and the balance of migrants entering and leaving a country. The rate may be positive or negative. The growth rate is a factor in determining how great a burden would be imposed on a country by the changing needs of its people for infrastructure, resources, and jobs.

Life expectancy at birth - This is the average number of years to be lived by a group of people born in the same year, if mortality at each age remains constant in the future. Life expectancy at birth is also a measure of overall quality of life in a country and summarizes the mortality at all ages. It can also be thought of as indicating the potential return on investment in human capital.

1.4 The value of this study

The significant commercial and cultural value of the music industry is recognised by previous researchers and members of the music industry, such as the CSG (1998) and Hooijer (2004). They emphasise the current state of under-exploitation of the potential value of the industry and its participants. Hooijer (2004) indicated a need for relevant research in order to develop and implement a new vision for the music industry. The outputs of this study are intended contribute to the filling of this need through the provision of some strategic insights to the benefit of:

- the music industry participant (such as the artist, music service provider and recording company), as a strategic positioning and tactical development tool;
- the music researcher, as a quantitative description of specific strategic development issues and topics of concern to the music industry; and
- other extra-music industry stakeholders (such as the government), through the provision of insight into some of the issues and dynamics of the industry.

Specific tools and methodologies are proposed through which the commercial and cultural value of the music industry can be elevated in a sustainable fashion.

1.5 Overview of this study

This study approaches the topic of the strategic positioning of the music industry from a viewpoint of competitiveness. It provides for a competitive analysis via a quantitative description of key competitive aspects of the music industry. These competitive aspects, as defined in Chapter 2, are utilised to construct expressions of competitiveness, sustainability and strategic models through which strategic thinking and planning can be enabled. Chapter 3 qualifies and quantifies the competitiveness of the music industry via benchmark comparisons of:

- growth levels;
- ability to respond to internal and external market and technological factors;
- consumer buying power; and
- resource sustainability;

Chapter 4 explores some of the underlying contributory factors to the competitiveness of the music industry in terms of:

- literacy and education;
- employment levels;
- prevalence of HIV/AIDS; and
- the incidence of piracy and counterfeiting.

In Chapter 5, the preceding quantitative comparisons are articulated towards a Porter Diamond of National Advantage-model wherein specific sources of leverage, as well as competitive challenges and opportunities for the development of the South African music industry are identified. In order to facilitate further research, a strategic thinking framework for the music industry is finally proposed in conjunction with a strategic consistency measurement tool.

2. The relevance and articulation of competitiveness for the South African music industry

Music, as a universal interaction medium, is immersed in the modern global business economic fabric. In a study of the strategic state of affairs, the music business researcher is required to apply contemporary business economic approaches, techniques and methodologies, to facilitate a relevant reference. One such an approach is that of competitiveness, wherein the relative positioning is ascertained, whereupon strategic planning can be founded.

2.1 *Studying the music industry with a “cultural industry” approach*

The music industry is deeply rooted in the culture of a society and therefore:

- is sensitive to history and cultural development;
- requires personal and individual input to the point of being labour intensive;
- requires knowledgeable, highly skilled workers;
- is found across all levels of industry, micro-, small-, medium- and large enterprises; and
- has complex, interrelated networks of communication, production and delivery.

These factors are often both divergent and interlinked, requiring the combination of widely divergent fields of study, such as the economic and social viewpoints taken by the CSG (1998:7). Being government initiated, the CSG study approached their research of the South African music industry primarily from a viewpoint of industry sector growth (economic) and employment creation (social). Their recommendations are also in line with these two themes (economic and social), addressing mainly:

- music industry sector investment opportunities;
- government participation and legislation;

- potential private sector initiatives;
- sources of funding; and
- stakeholder involvement.

Although comprehensive, the CSG study provides mainly for tactical insights. In order to chart a strategic course for the music industry, the more strategic theme of competitiveness needs to be addressed.

2.2 *Studying the music industry with a competitive analysis approach*

According to Schumpeter (1934) and Samuelson (1976:747), industrial growth and development are direct products of the competitive process. They regarded it 'a force from within' because invention, as an industrial process, is determined by the actions of people within organisations. These actions and behaviours of people within organisations are disrupted by the external actions of rivals, which, through innovation bring new ideas and practices to an industry, triggering further development (also referred to as 'creative destruction'). Henderson and Mitchell (1997) emphasised the necessity for an enhanced understanding of the endogenous and reciprocal relationships between capabilities and competition.

The organisational capabilities shape the competitive environment, which in turn, determines the development of further capabilities in the organisation. These reciprocal development interactions can cross multiple levels of analysis and drive capabilities and competition to co-evolve. McKelvey (1997) proposed that the development of competitive capabilities at the enterprise level is both a cause and an effect of the competitive process at the industry level. He too stressed the importance of co-evolutionary effects, occurring at multiple levels, causing compound and complex dynamics within and between organisations. In order to develop an understanding of the complex dynamics, these multiple level, co-evolutionary effects need to be uncovered and studied through competitive analysis.

The work of Schumpeter (1934) further suggests that organisations within an industry will converge in their appearance and behaviour (through the dynamics of imitation). This is opposed by the more contemporary resource-based theory of Barney (1991) and Grant (1996), which claims that organisations within an industry are more idiosyncratic in their intra- and interactions. In support of this, Baden-Fuller *et al.* (2001) proposed that rival organisations not only searches for new capabilities within their own organisation, but also for competitive capabilities within their external competitive environment. These search processes at both inter-organisation and inter-industry level cause industries and enterprises to co-evolve through competitive dynamics among new entrants and incumbent organisations over time. This manifests as the simultaneous emergence of new business models and new organisational forms.

An understanding of the competitive dynamics and the resultant new business models is necessary for an industry to establish, consolidate and grow within the competitive landscape. This co-evolutionary dynamics can thus indicate the level of fundamental competitiveness of an industry.

2.3 Competitive analysis through key competitive aspects

In the competitive analysis of an industry, the following key competitive aspects (KCA's) are usually addressed (Fleisher and Bensoussan 2001:14; Herring 1998:211):

- customers;
- economic;
- social and cultural;
- political and regulatory;
- competition and competitors; and
- technology.

The CSG-study addressed most of the above aspects adequately, with the exception of the competitiveness and the technological aspects. This is not surprising, since the CSG approached their study from a cultural industries point

of view (as indicated in paragraph 2.1), utilising the Charles Landry five column model (Landry 2000), which is an adaptation of the Porter value chain model (Porter 1985). The Landry model focuses on five so-called columns which support an industry, these being:

- beginnings;
- production;
- circulation;
- delivery mechanisms; and
- audience reception and feedback.

This model thus focuses on the value development structure of an industry in terms of the inputs, outputs and the internal processes. This implies that the most significant driving forces of the music industry are regarded as being vested within the industry and its stakeholders. The Landry-model is quite sufficient for an introspective study for the purpose of strategic planning (which a culture-focussed study may require), but in doing so, does not adequately engage the strategic thinking that is required to develop an integrated perspective of the South African music industry. A study of the impact of external factors such as technology, globalisation and competition through competitive analysis can therefore augment the CSG study and contribute towards an integrated perspective of the South African music industry.

2.4 Application of organisation management principles to industries

The organisation or enterprise as a concept, although complex, has certain well defined, well documented management principles and dynamics (Pierce & Robinson 1988; Drucker 2001). The extent to which these principles and dynamics can be extrapolated to an industry, and the opposite, interpolated from an industry to an organisation is well explained in the works of Porter (1980 and 1985). Porter pointed to the significant similarities that are found in the effect of industry structure on its commercial dynamics in relation to the effect of enterprise structure on its own specific commercial dynamics.

2.5 Competitiveness and sustainability

Competitiveness and its sustainability is defined by Fleisher and Bensoussan (2001:2) as follows:

Competitiveness in terms of competitive advantage is described as the distinct way in which an organisation (or an industry) is positioned in the market for it to obtain an advantage over its competitors, this being evidenced by the organisation's (or industry's) ability to generate and maintain sustained levels of growth and profitability above the industry (or economy) average. Sustainability of this competitive advantage refers to the organisation's (or industry's) ability to maintain economic value generated by its distinctive competencies, from either imitation or substitution.

Managing competitiveness and its sustainability is closely associated with strategic planning, a process of disciplined effort in order to specify an organisation's (or industry's) strategy and assignment of responsibilities for its execution. The purpose of strategic planning is to identify, reduce risk and to introduce an element of outcome robustness in the decision making process. Or, according to Porter (1985), the essence of formulating competitive strategy is the enterprise's ability to relate to its environment. This environment can be seen as very broad, encompassing the key competitive aspects listed in paragraph 2.3 above.

2.6 The need for strategic planning

In recent years, strategic planning has become more important due to an increase in the intensity of competitive forces acting on an organisation or industry. This increase in the intensity of competitiveness is mostly due to:

- globalisation;
- a gradual shift from an industrial economy paradigm to a knowledge economy paradigm;
- increased imitation; and

- increased complexity and speed.

2.6.1 Globalisation

The advent of globalisation has reduced the effectiveness of geographical, socio-political and physical barriers to prevent entry in most markets. Most of these barriers have fallen due to the progress that has been made in technology, communication, trade policy and transportation. The meaning of “being at the right place at the right time” has lost its former physical meaning. Instead, competitors now create new competitive contexts in order to serve different customer demands. It has become increasingly important to understand these new competitive contexts, and the factors that created them, in order to manage the associated risks (Checa, Maguire and Barney 2003:72). A type of “low level” globalisation has been part of the South African music industry for a considerable time through the presence of multinational record companies. In recent years, the widespread introduction of the Internet has intensified the globalised nature of the South African music industry.

2.6.2 Industrial economy versus knowledge economy

The global economy has brought about a rapid change from the industrial economy paradigm to a knowledge economy. This manifests in services and other related intangibles constituting a larger part of the gross domestic product versus tangible material products in most of the leading economies (services are more knowledge-based than material-based). Technological improvements in communication channels, such as the Internet, increased the availability of data to the user to a state of information overload, even in lesser-developed economies. Under such conditions, the sustainment of a competitive advantage resides in the unique application of information and the ability to deal with complexity.

Fleisher and Bensoussan (2003:7) defined knowledge as a capacity to act, whereas competence embraces experience, domain understanding, management skills, human networks and value judgements. In a knowledge economy, an organisation or industry needs to develop their resources, not only in terms of knowledge, but also in terms of abilities, competence and experience in order to

achieve sustained competitiveness (Thurow 1999). The South African music industry is a human resource intensive industry. The level of development of the music industry's human resources is therefore an important determinant (leading indicator) for sustainment of competitiveness. Although music industry human resource development is not dealt with in the present work, it should be addressed in future studies.

2.6.3 Imitation

Technological development has brought about an increased ability to replicate most facets of a competitor's new product or service offering, rendering the often vast development costs, wasted. The strategy of the "quick second player" is becoming commonplace, as is evidenced by the rapid successive competitive offerings in the mobile telecommunications market. This places an imperative on an organisation or industry to be very innovative and original in order to maintain its competitiveness (Peters 1992:14). The impact of imitation on the music industry is most crudely prevalent in the form of audio-visual piracy in its various forms.

2.6.4 Complexity and speed

The recent rapid developments of the information and communication technologies have had an effect in both the rate and the intensity of change within the marketplace. According to Moore's law, the number of transistors that can be put on a single integrated electronic circuit chip doubles every 18 months. This is evidenced by the number of ten transistors per microchip in the early 1960's proliferating to the order of 10^8 in 2000 (Siegele 2003:3). This is roughly translatable to communication bandwidth and associated data transfer rates doubling in an 18 month period. However, the human ability to process and assimilate data has remained essentially the same. This has brought about discordance between the computational and interpretive capabilities of modern society, which intrinsically, has increased the level of complexity the decision maker faces.

Formerly, an enterprise could gain a substantial lead over its competitors through new product or service introductions. Presently, a company's ability to sustain a

top-market position is less related to its ability to *develop* new products or services, but rather to its ability to rapidly *innovate* not only in terms of products and services, but also its market engagement and information management (Hamel and Prahalad 1994). For the South African music industry, this innovation aspect can be demonstrated by the progress along various product life cycles of the multiple audio-visual media formats in the South African music industry (as shown in paragraph 3.2).

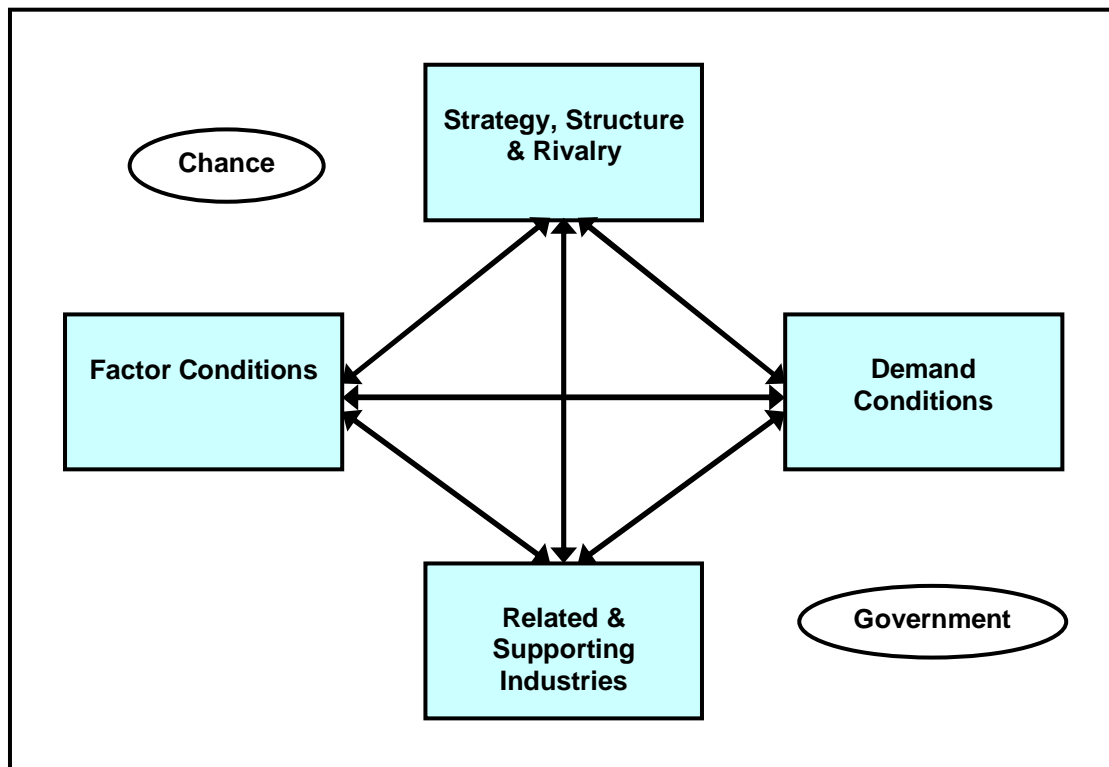
2.7 Competitiveness in terms of Porter's Diamond of National Advantage

Porter (1990) studied ten leading trading nations, which in combination, accounted for half of the world's exports in 1971. The selected nations were notably different in terms of population and geographical size, as well as culture, politics and economic characteristics and circumstances. By evaluating the internationally successful industries in these selected countries at three points in time (1971, 1978 and 1985), Porter developed a "Diamond of National Advantage" model to explain how competitive advantage is created and sustained by non-natural resource dependent industries.

According to Porter (1990:73) and corroborated by Baden-Fuller *et al.* (2001), competitive advantage is not created and maintained within a solitary enterprise alone, but through the coherent efforts of a nation and specific industries within the nation. He contradicts the notion that labour costs, exchange rates, interest rates and economies of scale are the most important determinants of competitiveness, by stressing innovation and upgrading as the most important drivers for gaining and sustaining competitive advantage. Innovation typically can occur through new products, new production processes, niche markets and the novel application of existing ideas. Upgrading can occur through a step-change or through continuous improvement.

The Porter Diamond of National Advantage (DNA) can be described as a concept used to describe the key elements of an industry's situation that has a bearing on its competitiveness (Bowman and Faulkner 1997:269).

Figure 2.1: The Porter Diamond of National Advantage (Porter 1990).



The DNA, shown in Figure 2.1, consists of four drivers and two influencers. The four drivers within the DNA are interdependent, with fierce domestic rivalry and geographic concentration being key integrating factors to create a self-reinforcing system. The four drivers are:

- Factor conditions – these are the following factors of production:
 - *basic factors* such as unskilled labour and foreign capital which, due to globalisation, are relatively simple to acquire;
 - *general factors* such as general infrastructure and education;
 - *specialised factors* to a specific industry such as specialised infrastructure and unique apprenticeships; and
 - *advanced factors* such as the utilisation of digital technology and post-graduate engineers.

Specialised and advanced factors require considerable investment and are more difficult to gain, employ and imitate, providing lucrative sources of competitive advantage. Selective disadvantages in basic and general

factors could, through pro-active innovation, be leveraged as a result of favourable circumstances elsewhere in the DNA.

- Demand conditions – the size and character (such as level of sophistication) of local demand for a product can compel a local industry to devote more timeous attention and innovation to that product than foreign competitors. Advantages thus gained can be utilised to influence foreign demand if domestic preferences can be transmitted to global markets.
- Related industries – these are both supporting industries which provide supply-side goods and related industries which provide complementary products. Globalisation ensures that industries have access to timeous, cost-effective supplies. A supplier having a captive market implies having no real incentive for innovation and eventual self-degeneration and loss of competitiveness. An interdependent relationship with related industries can leverage from co-ordinated activities in the value-chain.
- Enterprise strategy, structure and rivalry – national value systems as well as the cultural, economic and socio-political conditions of the business environment have an effect on strategy, structure and management style. Local rivalry is regarded as the most important stimulant for innovation and continuous improvement in terms of business efficiency. Fierce, locally concentrated rivalry impels local industry participants to create advanced and specialised factors which ensure evolution towards being internationally competitive.

The two DNA-influencers are:

- Government – according to Porter (1990:87), the role of government should neither be regulatory nor interventional, but rather to act as a “catalyst and challenger” to encourage industry to higher levels of performance. Government can support national competitiveness through the following basic principles:
 - development of specialised factors;

- enforcement of strict product quality, safety and environmental standards;
 - avoidance of factor and currency market intervention;
 - limit direct co-operation amongst industry rivals;
 - promote goals that lead to sustained investment;
 - deregulate competition;
 - enforce strong domestic anti-trust policies; and
 - rejection of managed and subsidised trade.
- Chance – random and unrelated events can influence the competitive position of an industry. Typically these are major technological breakthroughs, war, stock-exchange crashes and dramatic exchange rate fluctuations.

The Porter DNA-model was founded on developed economies and well established industries. It could be argued that in under-developed economies, basic and general factor conditions, such as health, employment levels and literacy, could have a more significant impact than in developed economies. The manner in which multi-national enterprises respond to local versus global influences could introduce complex competitive dynamics beyond the realm of the DNA-model (Ludwig 2002:9). Nevertheless, Oster (1999:109) positions the Porter DNA as a framework for explaining the positioning of various industries amongst nations, an approach the present work incorporates.

2.8 Framework for analysis of competitiveness

Through this chapter, a framework for the analysis of competitiveness of the music industry is established and qualified. The relevance of competitive analysis through the assessment of KCA's, as it relates to the enterprise, is extrapolated towards industries, and vice-versa. It serves as a basis for an analysis of the South African music industry, in terms of these KCA's, to be presented in Sections 3 and 4. Furthermore, this chapter established the necessity for strategic planning, as it is being sanctioned by the driving forces of competitiveness in the

modern era. These driving forces are; globalisation, the shift from an industrial economy paradigm to a knowledge economy paradigm, as well as increased imitation, complexity and speed. The articulation of competitiveness via the Porter DNA-model is introduced in order to assemble the various measurements of competitiveness into a coherent strategic planning framework, through which sources of strategic leverage will be identified in Section 5.

3. The competitiveness of the South African music industry

Competitiveness and sustainability are key strategic factors that need to be assessed to serve as a foundation for the development of a strategic thinking framework for the South African music industry. In order to assess the overall competitiveness of the South African music industry, it will be evaluated in terms of the following:

- the ability to sustain industry growth levels
 - within its *domestic* environment – music industry growth above the average growth rate for the national economy,
 - relative to its *peers* – music industry growth above the average for comparative benchmark economies, and
 - relative to the *global* arena – music industry growth above the world music industry average;
- the ability to respond to market trends and technological development;
- the buying power of its consumers; and
- the ability to support its resources in a sustainable fashion.

An appraisal of these aspects is necessary to develop an appreciation of the competitive dynamics of the music industry. This can then be utilised in Chapter 5 to develop an strategic framework for the music industry.

The CSG (1998:77) reported a lack of available local statistical data of the music market in 1998. During the course of this research, this lack of local data was found to still exist in 2005. Fortunately, music industry data is collected by reputable international institutions. For this reason, the music industry data utilised in this study, is sourced mainly from these available international sources, such as the IFPI (2003, 2003a), IIPA (2002, 2003) and RIAA (2003).

3.1 Industry growth levels

Simplistically, the ability to sustain industry growth levels can be determined by a comparison of the relative sales growth levels of the South African music industry to:

- average domestic growth levels – the South African Gross Domestic Product (GDP) growth (Figure 3.1);
- music industry growth levels within other benchmark economies (Figure 3.2); and
- global music industry growth rates, as well as the South African music industry relative ranking within the global music industry (Figure 3.3 and Table 3.1).

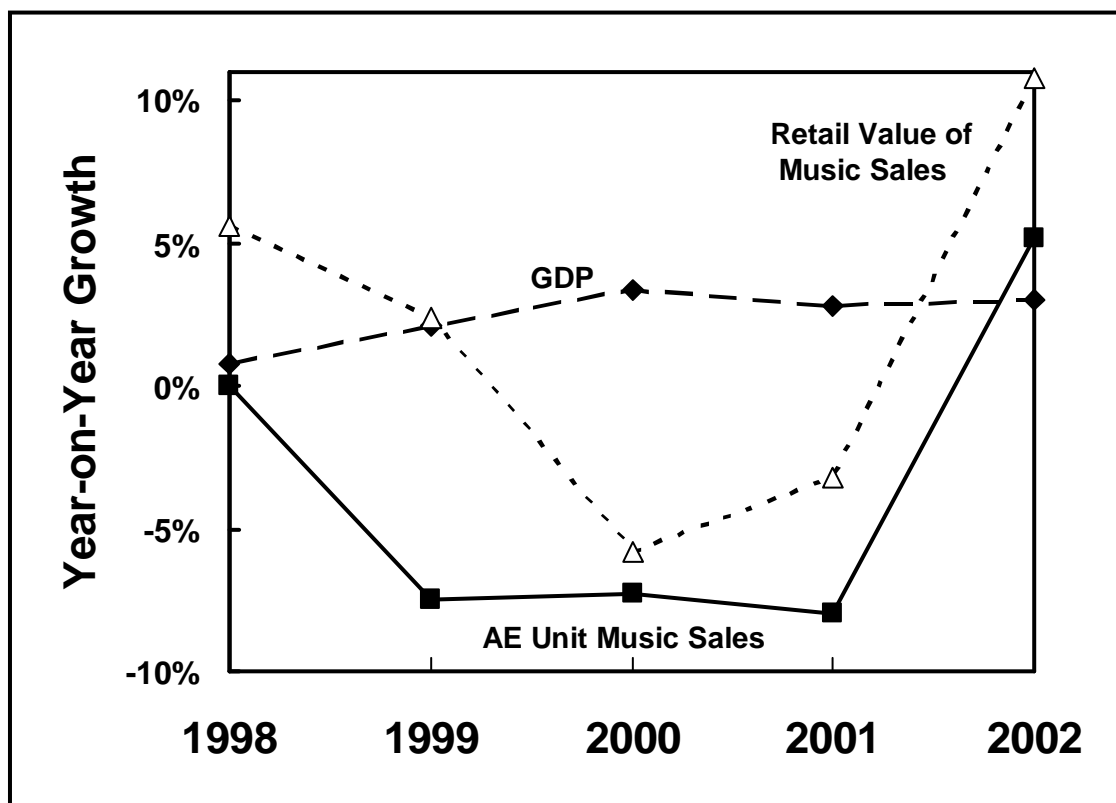
In order to compare sales numbers, either monetary value or sales units can be utilised as units of measure. Sales units are expressed in terms of Album Equivalent (AE) units – in the case of the Singles product, three singles are counted as one AE unit (IFPI 2003a:5).

3.1.1 Domestic growth comparison

Figure 3.1 illustrates that the South African music industry sales growth does not follow the trend of the South African gross domestic product (GDP) growth. In the period 1998 to 2002, the South African music industry experienced a significant decline. This is particularly evident from absolute sales numbers (21,0 million audio AE units in 1998, compared to 17,0 million audio AE units in 2001).

Although some year-on-year growth occurred in 2002, the absolute AE unit sales for 2002 (17,8 million units) are still 15% below the 1998 AE unit sales. Judging by interim AE unit sales for 2003 issued by the IFPI in October 2003, the positive growth of 2002 is to be maintained in 2003 at a level of 4,4% (IFPI 2003a:6). With this in mind, it can be expected that the 1998 AE unit sales levels should again be achieved by 2006 if the 2002/2003 positive growth levels can be maintained.

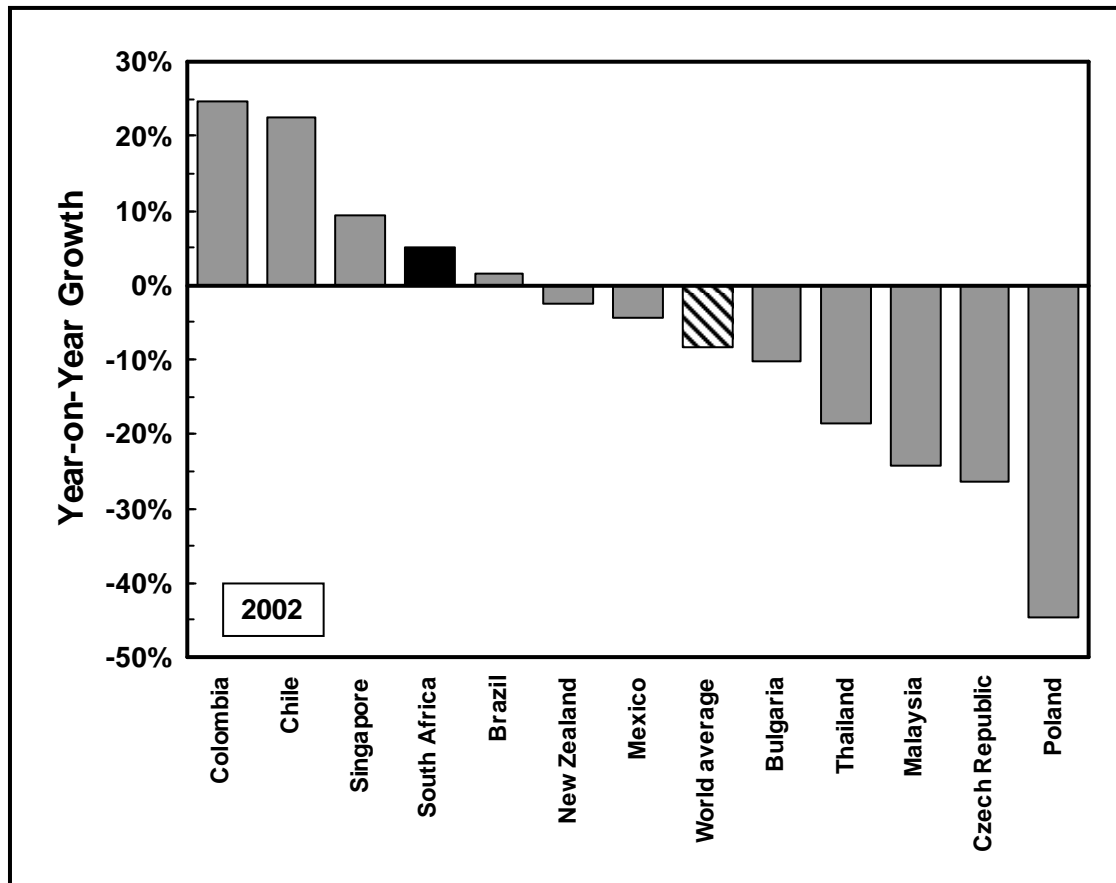
Figure 3.1: Comparison of the growth of the South African legitimate recorded music sales (in Album equivalent units and Rand-value) and the growth in GDP for South Africa (excluding music videos) (IFPI 2003 and IMF 2003 and 2003a).



3.1.2 Benchmark country growth comparison

In Figure 3.2 it can be seen that the South African music industry year-on-year (YOY) sales growth compares favourably against most of the benchmark countries. This is especially notable when the South African YOY sales growth of +4,6% is compared with the weighted average YOY AE unit sales growth for the twelve benchmark countries of -11,0%. Colombia, Chile and Singapore did perform better than South Africa, but it should be kept in mind that their growth is off a significantly lower base.

Figure 3.2: Comparison of the growth in legitimate recorded AE unit sales of the South African music industry and the music industries of benchmark economies for 2002 (IFPI 2003).



3.1.3 Global growth comparison

Table 3.1 contrasts the world top ten music markets, to the relative small South African music market. In 2002 the South African music industry accounted for \$110,6 million of the \$31,2 billion gross turnover of the worlds legitimate recorded music industry. South Africa's 27th rank position represents 0,35% of the world's legitimate recorded music dollar sales. In comparison to Canada's 6th rank position accounting for only 1,88% of world legitimate music album sales, the size of the South African music industry seems less insignificant.

The South African legitimate recorded music sales growth in AE units for the period 1998 to 2002 is compared to the benchmark countries as well as the

world's top ten music markets in Figure 3.3. Although significant negative growth is recorded for the period, certain of the world top ten music markets (in terms of AE unit sales) did experience significant growth in this period. The South African music industry negative growth figure of -15,4% compares well with the world music industry average of -15,2% (for the period 1998-2002).

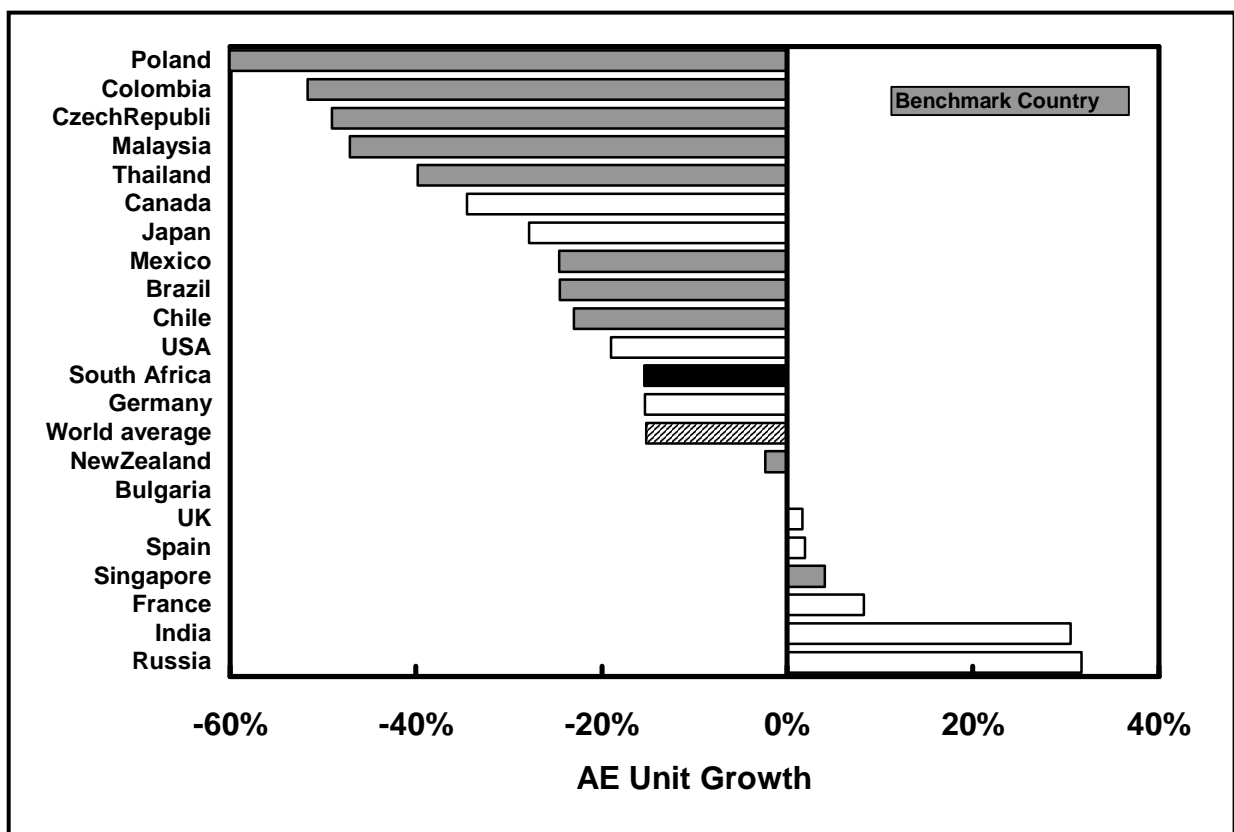
Table 3.1: Relative ranking of the South African music industry in terms of legitimate recorded dollar sales for 2002 in comparison to the top ten and benchmark economies (IFPI 2003).

Rank Position		Country	2002	
2002	1998		Music Sales [\$m]	% of World \$ Sales
1	1	USA	12325,7	39,49%
2	2	Japan	4593,3	14,72%
3	4	UK	2859,4	9,16%
4	5	France	1989,7	6,37%
5	3	Germany	1988,0	6,37%
6	7	Canada	587,9	1,88%
7	9	Italy	554,7	1,78%
8	8	Spain	542,3	1,74%
9	10	Australia	499,9	1,60%
10	12	Mexico	445,5	1,43%
12	6	Brazil	354,0	1,13%
27	22	South Africa	110,6	0,35%
30	35	New Zealand	87,6	0,28%
31	25	Poland	84,5	0,27%
32	32	Thailand	83,8	0,27%
34	27	Colombia	66,1	0,21%
36	44	Singapore	46,7	0,15%
38	38	Chile	40,3	0,13%
40	39	Czech Republic	34,9	0,11%
41	46	Malaysia	32,8	0,11%
59	66	Bulgaria	6,3	0,02%

The negative growth in the world AE unit sales is not in line with the positive growth of 16,6,% in real GDP for the world for the same period (IMF 2003:3). This diversion of the world music industry growth from the world GDP growth trend is related to an information technology driven step-change that the music industry is being subjected to, in conjunction with the maturing of the CD format with no clear

replacement. Leading indicators for this step-change is the improvement in Internet bandwidth, the development of the MP3 audio format and new distribution channels. Other factors driving the step-change are the combined impact of the current video game cycle, mobile phone expenditure and increasing music piracy which reduce the consumers' direct expenditure on music (Enders 2002:2).

Figure 3.3: Comparison of the growth in AE units for legitimate recorded sales of the South African music industry and the top ten music industries as well as of benchmark economies for the period 1998 to 2002 (IFPI 2003).



3.2 Response to market trends and technological developments

Technology, as it is being referred to in this section, refers to the exploitation of modern scientific developments, such as solid state electronics and digital micro-processor driven technologies. During the technological revolution of the past

century, the music industry has evolved as a result of, and in conjunction with the development of technology (De Villiers 2003). This co-evolution has occurred to the extent that most modern music products are associated with some form of advanced technology. The application of technology (in broad terms) in itself has been identified as one of the major driving forces that will shape the world in the next decade (CIA 2003:7). The ability of the music industry as a technology driven industry to capture consumer expenditure is thus dependent on the level of technological enablement and readiness of the target market to absorb and utilise the products of the industry.

3.2.1 Product Life Cycle (PLC)

The interaction between a product and its target market, over time, can be described in terms of a product life cycle. The product life cycle theory, developed by Dean (1950:45), is based on a biological analogy to describe the evolution of sales as a function of time. According to this model, a product or service progresses through four distinguishable stages in its marketable life, these being introduction, growth, maturity and decline. These four stages represent the product life cycle that generally can serve a dual strategic function:

- a descriptive conceptual framework to model market dynamics; and
- a normative product management framework for the determination of marketing strategies.

The PLC is a method of relating the external market analysis to internal marketing strategy. Schematically, the product life cycle manifests itself in the bell-shaped logistic curve shown in Figure 3.4.

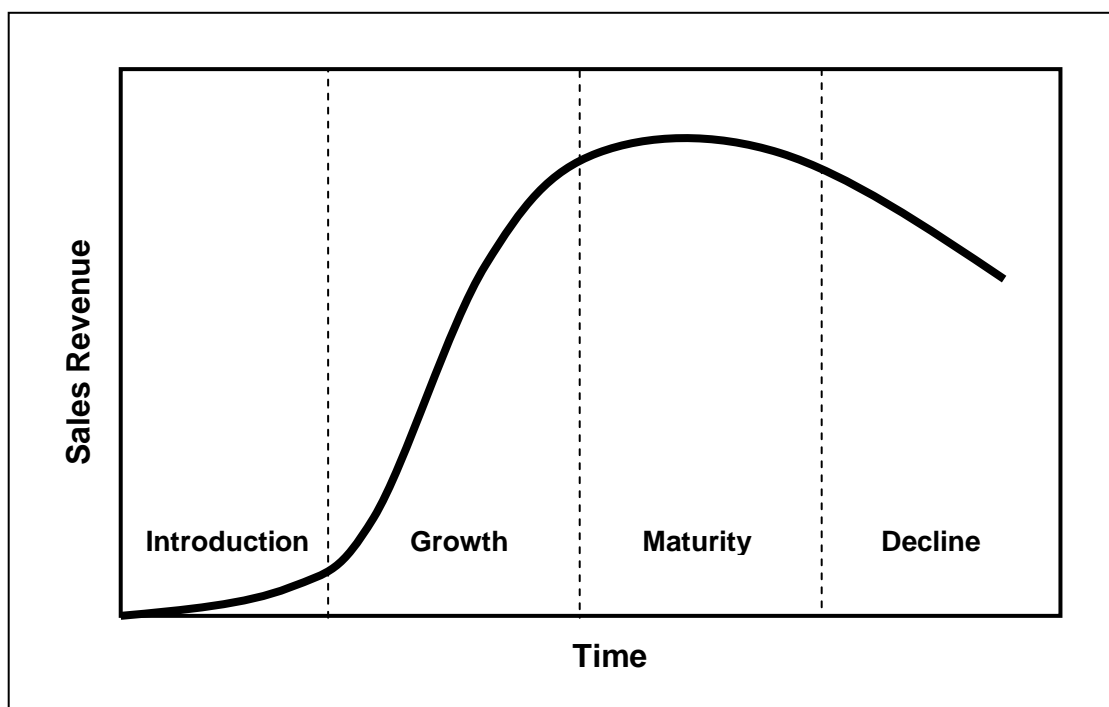
The underlying theoretical rationale for the PLC theory is supported by the theory of diffusion and adoption of innovations (Rogers 1995). According to diffusion theory, four factors influence the rate of diffusion (or adoption) of products into markets:

- the comparative advantage of the new product relative to competing offerings;

- *the risk that* adopting a new product poses to the consumer (such as quality problems, technological obsolescence and financial risk);
- barriers to adoption such as ideological incompatibility, psychological reasons, emotional attachment to the established status quo, concern for maximising return on sunk costs on old products and societal entrenchment of the status quo; and
- new product awareness and availability to the consumer.

The product life cycle theory provides perspectives on both product and market strategy development, as each phase of the life cycle has distinct characteristics relating to consumer behaviour.

Figure 3.4: The Product Life Cycle (Porter 1980).



The rate of progress through the different stages, especially stages 1 and 4 can give an indication of an industry's ability to respond to new trends and developments. The ability of the South African music market to respond to new trends and developments can thus be conducted through an evaluation of:

- the growth in sales of new product media, such as DVD (introduction stage of the product life cycle);

- the penetration of information technologies, such as the internet (growth stage of the product life cycle);
- the penetration of music consumer related technologies such as the CD player (mature stage of the product life cycle); and
- the decline in sales of relative old music technologies, such as the music cassette format (decline stage in the product life cycle).

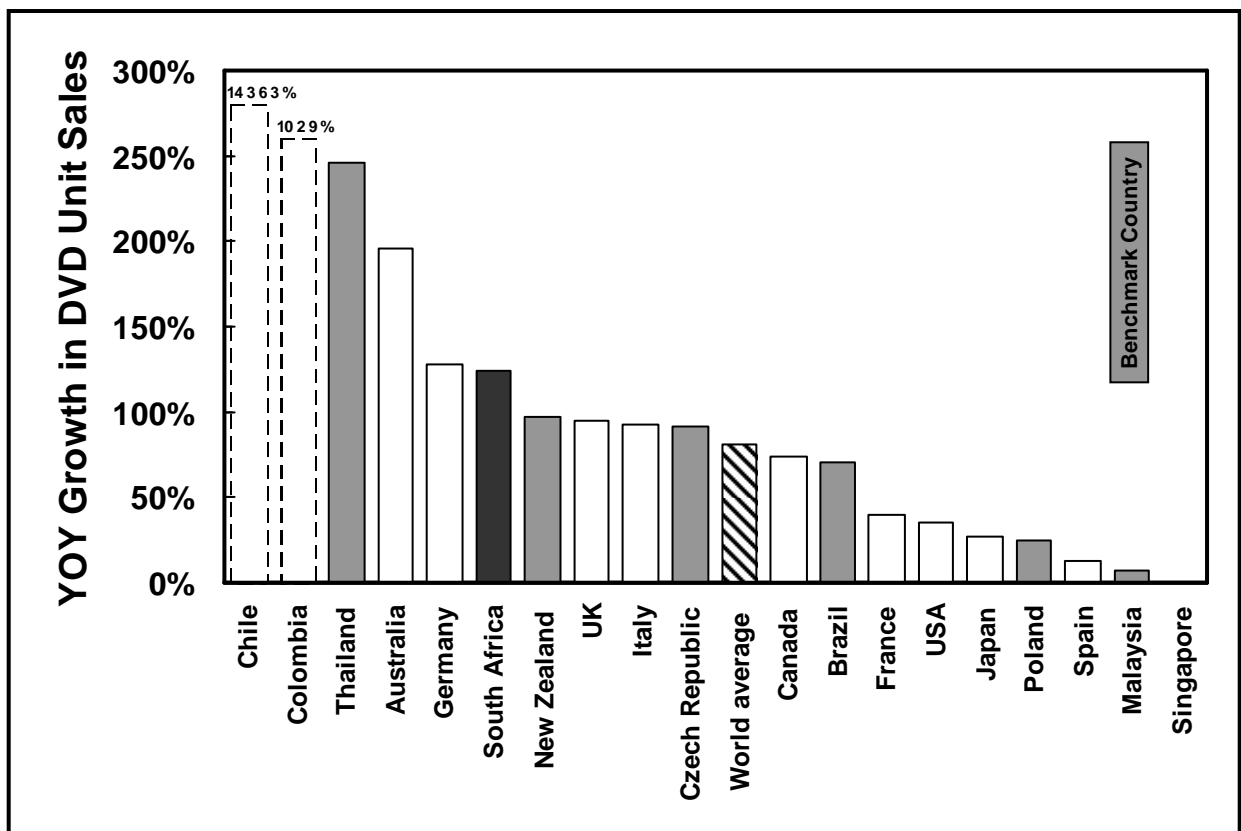
3.2.2 Introduction stage - new product media

The recording media of the music industry has evolved over time, from wax cylinders, shellac disks, bakelite records, vinyl LP's, magnetic 8-track tape, music cassette, magneto-optical tape to laser optical disks and beyond. The introduction of a new recording medium invariably resulted in an improved product and an associated competitive edge. The introduction of the Digital Versatile Disc (DVD) for music videos is a significant improvement in the musical experience for the music consumer, in that it not only improves on stereophonic sound to multi-channel 5.1 audio, but it also introduced digital video to enhance the audience's experience. The response of the South African music industry to the introduction of a DVD-based product is reflected in the unit sales shown in Figure 3.5. Due to the relative recent introduction of the DVD format, the validity of some of the figures may be suspect (refer to Table A-7 in Appendix A).

The DVD music video format was defined in 1995 (Angel 1998:39) and introduced to the music video market in 1997 (Sharpless 2002:3). In most countries, this product is in the early part of the product life-cycle. The market take-up of DVD music videos can for the present be used as an indicator of an industry's responsiveness to change (a "speed out-of-the-blocks" indicator). It must be kept in mind that some of the benchmark countries such as Chile and Colombia came off a very low base in 2001. The YOY growth figures for Malaysia and Thailand may be somewhat inflated due to Video Compact Discs (VCD) being included in their figures. In comparison to the benchmark countries, the South African YOY growth of 124% is below, yet comparable to the weighted average growth of 184% of the benchmark countries. The DVD sales figures for Malaysia and Thailand include the Video Compact Disc (VCD) format and is

therefore excluded from the weighted average growth calculation. The abnormally high YOY growth figures for Chile and Colombia requires further investigation, in order to both validate the growth figures as well as to learn from their experience.

Figure 3.5: Digital Versatile Disc (DVD) music video sales for the value top ten music markets as well as the benchmark countries for 2002. (IFPI 2003a).

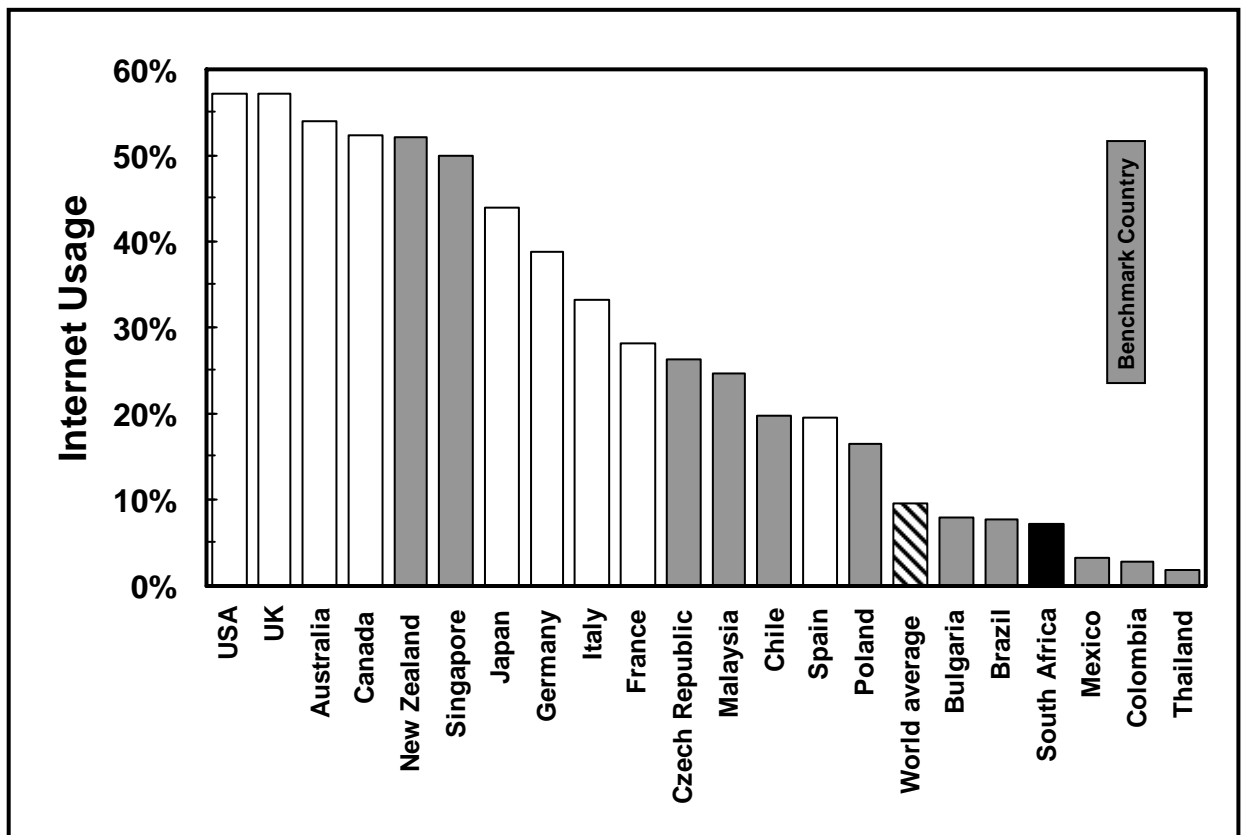


3.2.3 Growth stage - information technology

Information technology (IT) has been identified as one of the key drivers for global trends in the foreseeable future (CIA 2003:9). The rate of adoption of information technology can indicate the ability of a country to respond to new trends and developments. Of particular importance is the rapid diffusion of IT into urban areas world-wide. In sub-Saharan Africa, South Africa has been identified as being well-positioned for rapid growth in IT (CIA 2003:33). This rapid growth is typical of the second stage of PLC. Due to the complexity of information

technology, its utilisation usually occurs via an evolutionary development process. In the broad sense, hardware and software utilisation can be regarded as the initial evolutionary step towards the exploitation of information technology. This is followed by information technology-related communication and networking capabilities, such as Internet usage. The level of Internet usage in a country (as the second step in the information technology evolution) can thus be an indicator for the local societal response to new trends and developments. The South African societal response to assimilate information technology, in terms of Internet usage, is compared to the top ten value sales markets and the benchmark markets in Figure 3.6. Internet usage refers to the number of users within a country that access the Internet within a specific period.

Figure 3.6: Internet usage (as a percentage of the total population) for the value top ten music markets as well as the benchmark countries for 2002. (CIA 2003a).



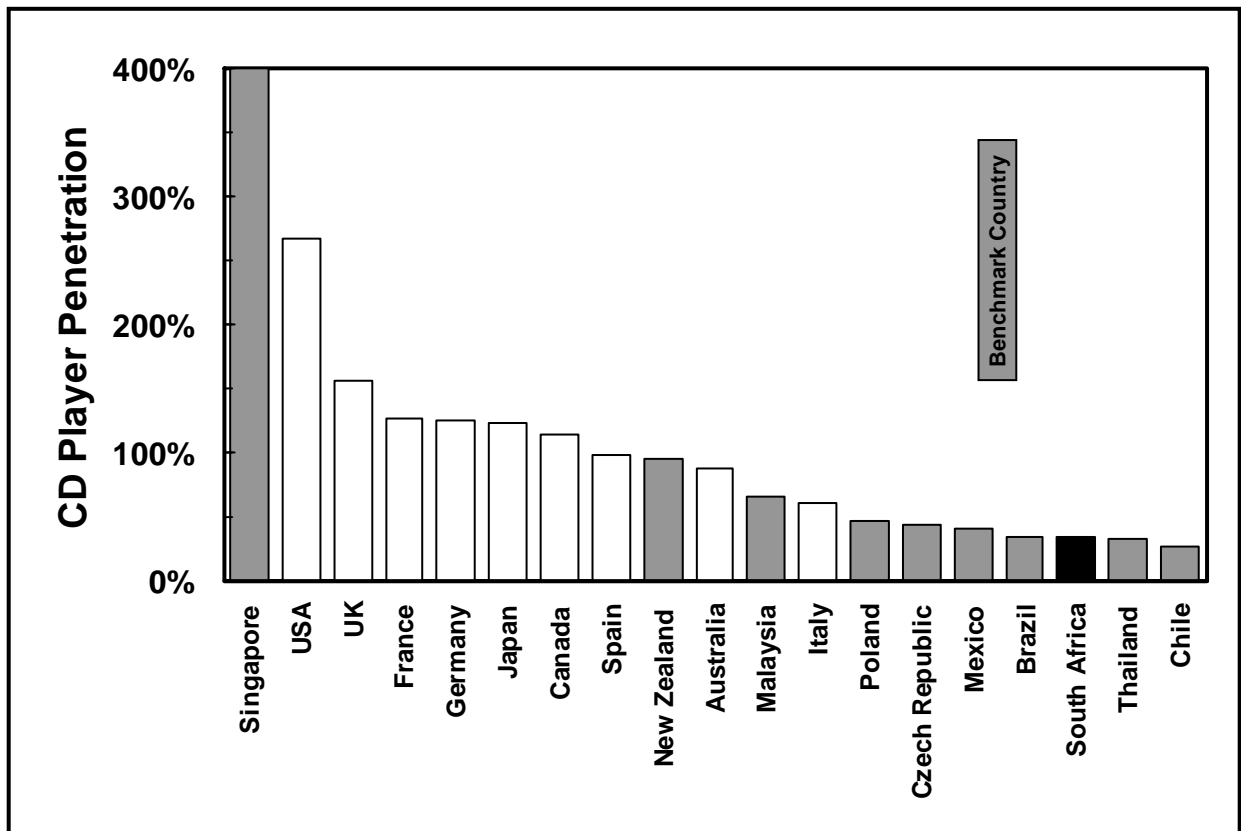
The utilisation of the Internet as a medium for sophisticated information technology enabled communication and networking in a country is determined, amongst others, by not only the availability of suitable infrastructure, but also by the readiness of the population to exploit the rich offerings of information technology. From Figure 3.6 it is evident that, compared to the benchmark countries, the South African response to the information technology trend is well below the weighted average of 16% Internet usage.

3.2.4 Mature stage - Music Compact disc technology penetration

Since its introduction to the music world in 1982 (Sony Music 2003), the usage of the Compact Disc (CD) medium has developed through the introduction and growth PLC stages and is presently in the mature stage. With 73,6% of the legitimate recorded music units being sold in 2002 being in the Compact Disc format, the Compact Disc is at present the most utilised of the recorded music media. The Compact Disc Player market penetration can therefore provide a relative indication of a country's music market assimilation of a mature technological development. Figure 3.7 evaluates the South African music market's adoption of the CD-format technology relative to the value top ten music markets as well as the benchmark countries.

Although 65% of the AE unit sales in South Africa is directed at the Compact Disc format, only 34% of households have access to a Compact Disc player. This implies that relative to the value top ten music markets as well as the benchmark markets, the South African music consumer's adoption of the CD format has not fully achieved the mature stage of the product life cycle. The relative lower levels of literacy and employment as well as the widespread entrenchment of the music cassette format in South Africa, in comparison to the other benchmark countries can, at least partly, explain this retarding effect on the rate of PLC progression.

Figure 3.7: Compact Disc player penetration (as a percentage of households) for the value top ten music markets as well as the benchmark countries for 2002 (IFPI 2003).

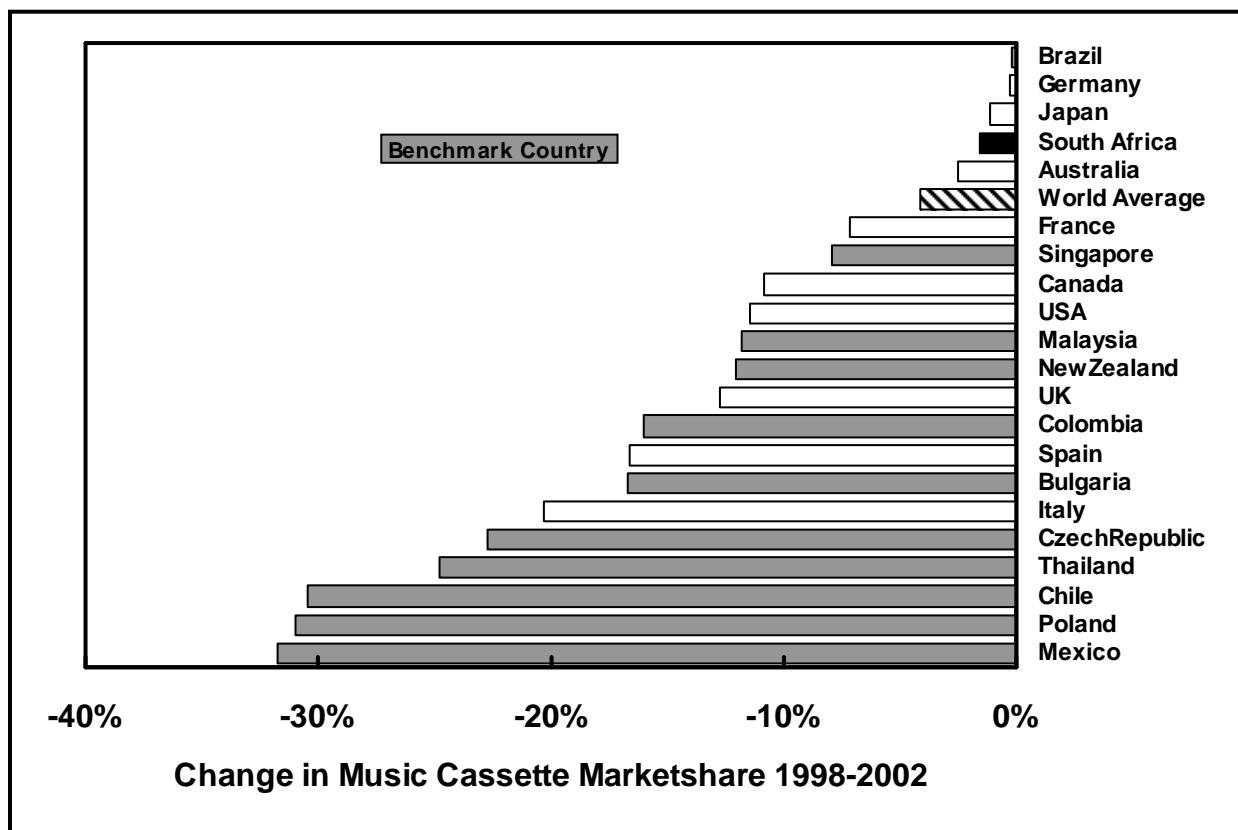


3.2.5 Decline stage – Ageing technologies

During its introduction in the 1960's, the music cassette revolutionised the world music industry in terms of affordable, versatile, portable and then robust media and the associated range of music cassette players. It was specifically its versatility and portability that lead to its widespread usage ranging from application in personal portable music players (such as the 'Sony Walkman'), portable four-track demo recorders, radio-cassette players, home stereo systems to business and automotive audio systems. This technology is, however, in the decline stage of the product life cycle due to replacement by cheaper and more advanced technologies. A comparison of the rate of decline in the AE unit sales of the music cassette format is shown in Figure 3.8 overleaf.

During the period 1998 to 2002, the South African music cassette format AE unit marketshare reduced by 1,6% (to 33,1%). In comparison, the weighted average decline (based on 1998 volumes) in music cassette format AE unit sales for the benchmark countries is 24,7% and the corresponding world average figure is 4,1%. With a South African local AE unit marketshare of 33,1% in 2002, the music cassette format is still well entrenched within the South African music industry. The relative music cassette marketshare for Thailand (66,6% in 2002), Malaysia (62% in 2002), Poland (30,5% in 2002) and Bulgaria (77,8% in 2002) seems higher or similar to South Africa, but their corresponding decline in music cassette marketshare is an order of magnitude higher. These findings support the earlier findings that the South African music industry is at a disadvantage with regards to market readiness to keep pace with newer technology trends.

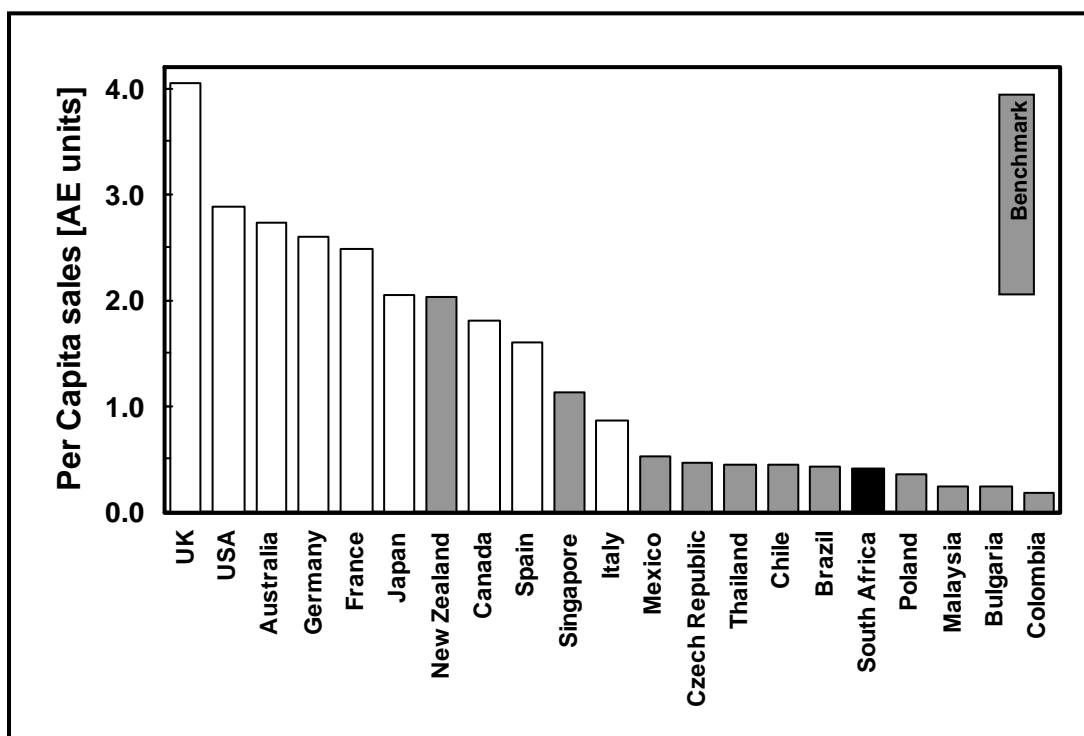
Figure 3.8: Music Cassette (MC) format AE unit marketshare decline in the period 1998 to 2002 for the value top ten music markets as well as the benchmark countries (IFPI 2003).



3.3 The buying power of the consumers

Assuming that legitimate recorded music is freely available to all consumers, the consumer music money spent on music can be an indication of the consumers' expressible demand for the products of the South African music industry. This expressible demand for products can also be regarded as the buying power of the music consumer and in this study is expressed as the *per capita* expenditure for a country or region. The legitimate recorded music *per capita* sales of the South African music industry is compared to the benchmarking countries as well as the sales value top ten countries in Figure 3.9 below.

Figure 3.9: The *per capita* legitimate recorded AE unit sales of the value top ten value music markets as well as the benchmark countries for 2002 (IFPI 2003 CIA 2003a).



The buying power of music consumers is influenced by various socio-economic factors such as available disposable income and perceptions of the relative importance of music as an expense item. From Figure 3.9 it can be deduced that

most of the benchmark countries have a significantly lower expressible demand for recorded music than the world top ten sales value countries. A quantitative comparison reveals that the benchmark countries have a yearly weighted average music purchase of one AE unit per 2,27 people, whereas the top ten sales value countries have a yearly weighted average music purchase of 2,27 AE units *per capita*. This demonstrates the relative weak consumer buying power of the benchmark countries in comparison to the world top ten sales value countries.

3.4 Sustainable support of resources

A key competitive aspect of an industry is its ability to support its resources in a sustainable fashion. The South African music industry has various resources identified in the CSG (1998) study. Of these resources, the creative component ($\frac{3}{4}$ of the total number of resources) is the most significant. Some insight into the sustainable support of the resources of the South African music industry can be obtained by:

- evaluating the earning levels of the resources, and
- evaluating the domestic music market growth

as sources of support and development for creative resources.

3.4.1 Earning levels

The value of the South African music industry in 1996 can be approximated to R1,4 billion per year (a fifth of a percent of the South African gross domestic product - GDP) and employment opportunity for 15 000 people (CSG 1998:40). Of this 15 000, only one tenth is in full-time employment. If the part-time employed is equated to an average of one-third full-time equivalent (FTE) employees, the South African music industry supports approximately 6 000 FTE's. In contrast, the United Kingdom's (UK) expenditure on music in the year 2000 was approximately \$7,5 billion (at a \$/£ exchange rate of 0,66) which is half a percent of the UK GDP of \$ 1528 billion, with an estimated employment of 125 000 full-time equivalents (UK NMC 2002:66).

A comparison of the music industries of the UK and SA should keep in mind the relative economic status of both countries. Nevertheless, a superficial comparison of the contribution of the respective countries' music industries to their GDP's as a competitive performance measure, clearly points to a significant performance gap, with South Africa lagging by comparison. This gap indicates a significant opportunity for the South African music industry to develop its resources. In addition, the average South African music industry FTE earns roughly half of his UK counterpart. This means that, in comparison to the UK, the average South African music industry FTE may earn too little to be a sustainable/dependable resource for the industry. This has significant implications for the SA music industry in terms of having a more competitive labour cost advantage, but to the detriment of the availability of personal development expenditure and the associated sustainment of the competitiveness of the South African music industry worker.

3.4.2 Domestic repertoire market growth

The market growth of music of domestic origin can give an indication of the creation and fulfilment of opportunity for local creative resources. Market growth of music from domestic origin can also serve as a foundation of support and development for creative resources.

The growth of the South African legitimate market for music of domestic origin is compared to the benchmark countries in Figures 3.10a and 3.10b respectively. Figure 3.10a indicates that the South African domestic repertoire experienced an increase of 4 percentage points of the total legitimate music sales for South Africa for the period 1998 to 2002. This however, may create a wrongful impression of growth attained. When the percentage of domestic repertoire, expressed as a percentage of total sales value per year, is evaluated in terms of yearly growth in percentage points, the effect of changes in the total sales per year is obscured. Figure 3.11 highlights the significant changes that did occur in the total value sales figures for most countries.

Figure 3.10: Growth of the market value for domestic repertoire recorded music in the period 1998 to 2002 for the value top ten music markets as well as the benchmark countries (IFPI 2003).

- a) Growth in domestic repertoire sales as a percentage of total sales.
- b) Real growth of the market value (in terms of sales volume) for domestic repertoire.

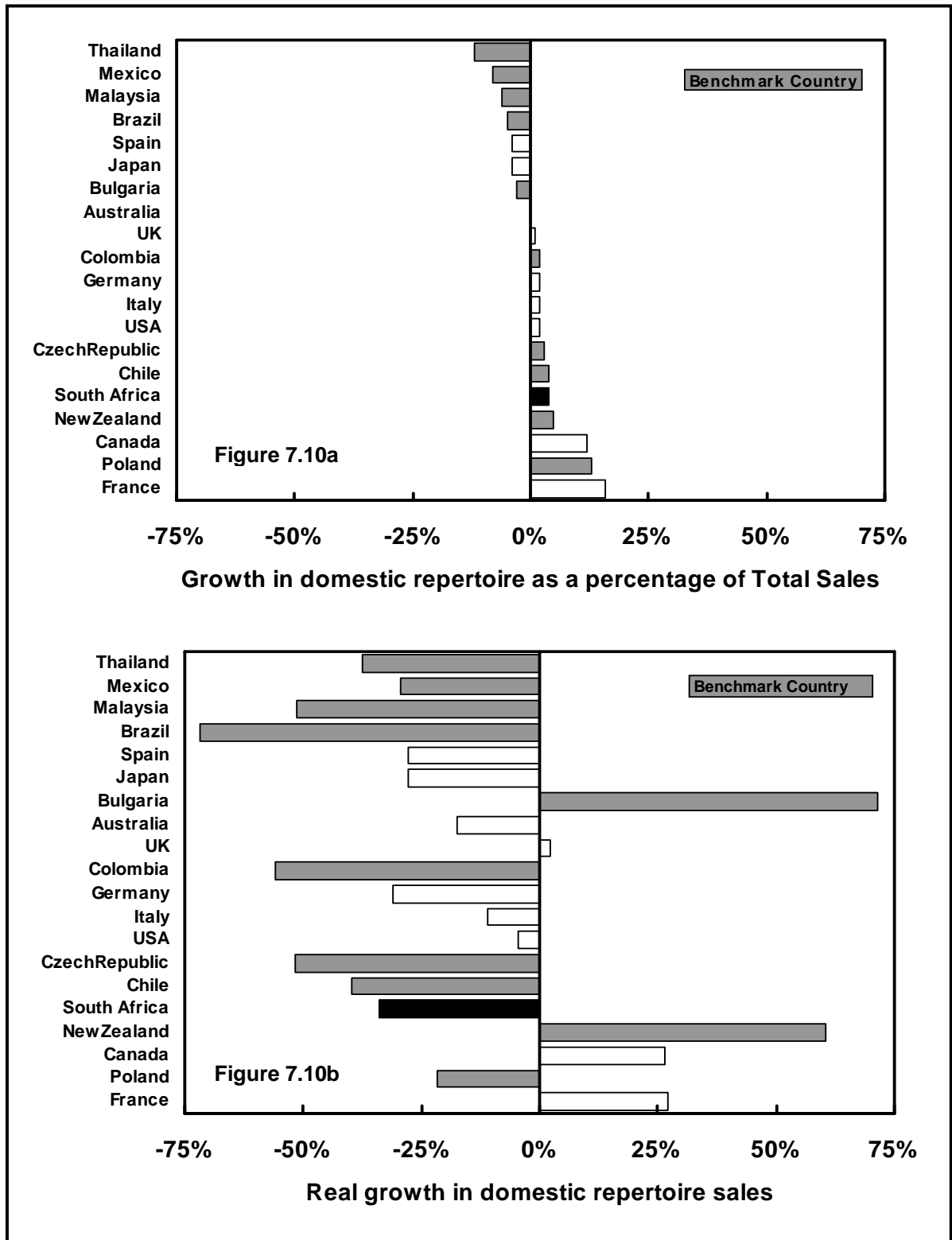
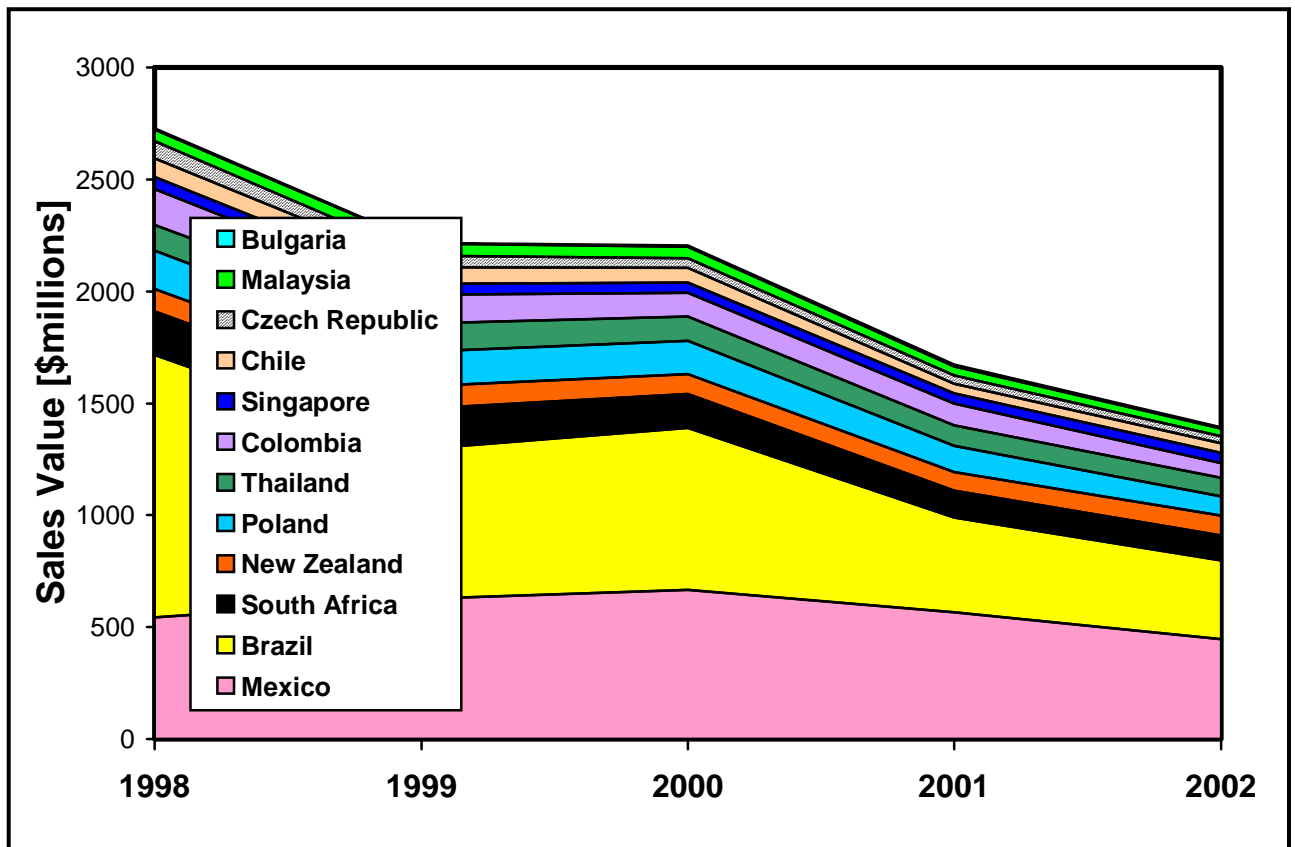


Figure 3.11: Total legitimate recorded music sales for the benchmark countries for the period 1998 to 2002 (IFPI 2003).



A more relevant indication of growth in domestic repertoire sales can be obtained by evaluating the real growth in domestic sales as shown in Figure 3.10b (real growth utilises actual sales volume growth rather than percentage changes). From Figure 3.10b it can be seen that most countries experienced significant reductions in domestic repertoire sales volumes, which is mostly attributable to the decrease in the total legitimate recorded music sales volumes shown in Figure 3.11 overleaf. The South African domestic repertoire experienced a decline in sales volumes of 34% for the period 1998 to 2002, which seems more competitive than the weighted average reduction of 47,7% for the benchmark countries (this deduction of competitiveness, however, should be tempered by the relative larger volume of non-local origin counterfeit/pirate recordings being distributed in South Africa in comparison to the lower volume of local repertoire recordings being pirated). Albeit lower in comparison to benchmark countries,

reduction in legitimate local repertoire sales volume of a magnitude of 34% has very dire consequences for domestic resource sustainability.

3.5 Competitiveness

Competitiveness, as indicated in Section 2.5, is the ability of an industry to gain an advantage over its competitors, evidenced by its capacity to generate sustained levels of growth and profitability. This chapter developed a quantitative expression of this competitiveness of the South African music industry when compared with the music industries of other benchmark countries. It gauged the industry to be somewhat competitive in terms of growth levels, but not competitive in terms of response to international market trends and technological developments, nor in terms of the buying power of the consumers or the sustainment of the resources of the industry. These findings suggest some fundamental driving forces within, and acting upon, the socio-economic environment wherein the music industry exists. These driving forces are being explored in the next chapter.

4. Socio-economic and demographic threats to the South African music industry.

The South African music industry is closely associated with the socio-economic and demographic developments in South Africa (MITT 2000:3). An evaluation of these socio-economic and demographic developments could provide for a better understanding of some of the reasons for the level of competitiveness of the South African music industry that is referred to in Chapter 3 of this work.

Demographic and socio-economic developments have also been identified as major drivers that will shape the world in the foreseeable future (CIA 2003:5). The following socio-economic and demographic factors are regarded as key leading (as opposed to lagging) indicators for the competitiveness of the South African music industry:

- level of literacy and education;
- employment;
- health – in particular the prevalence of HIV/AIDS; and
- crime – in particular the incidence of audio-visual piracy.

Although these factors have an interactive effect, in that they affect one another, a simplistic evaluation on an individual basis can provide for an understanding of their impact on the South African music industry. This chapter thus endeavours to develop an expression of these leading indicators, which could be utilised in Section 5 to create an expression of competitiveness and a strategic framework, in the context of the music industry.

4.1 *Level of literacy and education*

Low levels of literacy and education in general, can impede the economic development of a country in the current rapidly changing, technology-driven world. The level of literacy and education determines to a large extent the level of intellectual complexity an individual can deal with. Music formats, in its various forms and genres, have an intellectual requirement for the individual wishing to

transact with it, albeit within the realm of the creator, the conduit or the receptor (Moelants 2002:31-33). A lack of literacy and education can restrict the scope of musical interaction for both the musician and audience. Furthermore, the volume of music purchases by an individual is related to his/her ability to earn a disposable income, which in turn is generally related to the level of education of the individual. This implies that the level of literacy and education have an indirect impact on the competitiveness of the South African music industry from both a supplier/participant and a consumer point of view.

Figure 4.1: Comparison of the level of literacy of the benchmark and top ten sales value countries in terms of persons over the age of 15 years that can read and write (CIA 2003a).

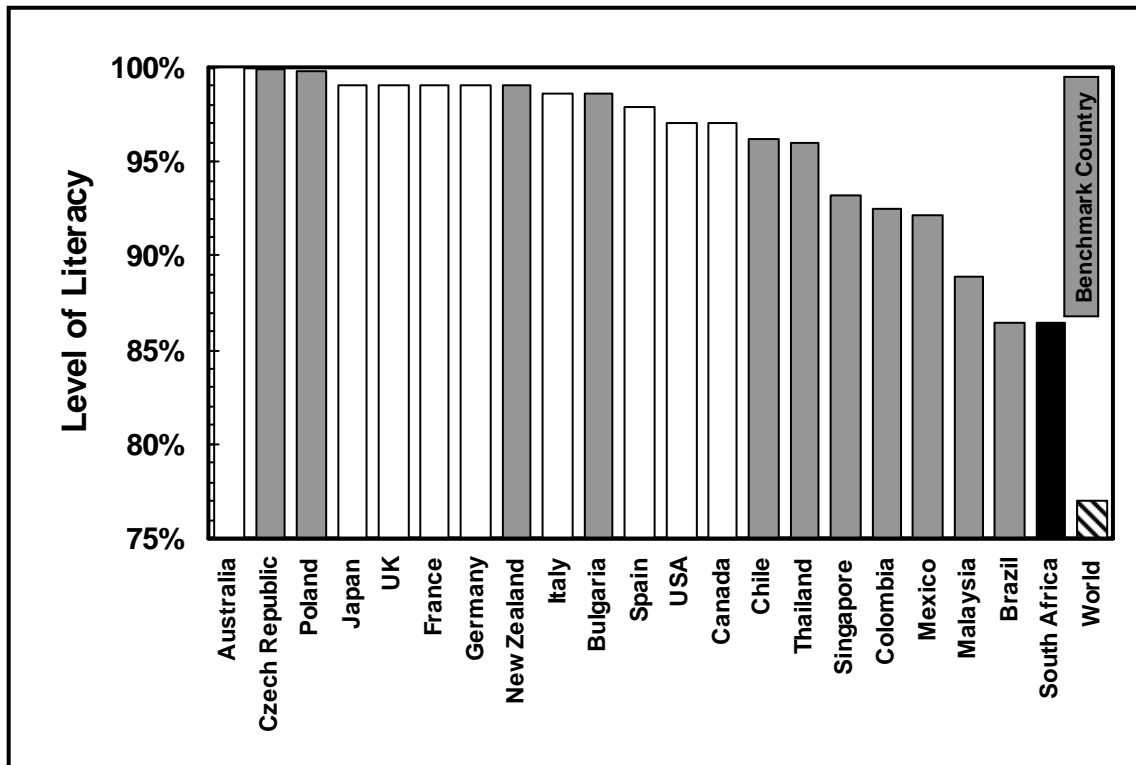


Figure 4.1 compares the level of literacy of the benchmark countries in terms of persons over the age of 15 years that can read and write. From this figure it is clear that the literacy level in South Africa is well below those of the benchmark countries. The results from the South African 2001 census (StatsSA 2002) indicated that, for persons aged 20 years and above, only 15,6% has a grade 12

(matric) qualification and only 5,8% has some form of tertiary education. This lack of education within the population, in conjunction with the increasing intellectual complexity of the music industry, can be a fundamental impairment to the competitiveness of the South African music industry.

4.2 Unemployment

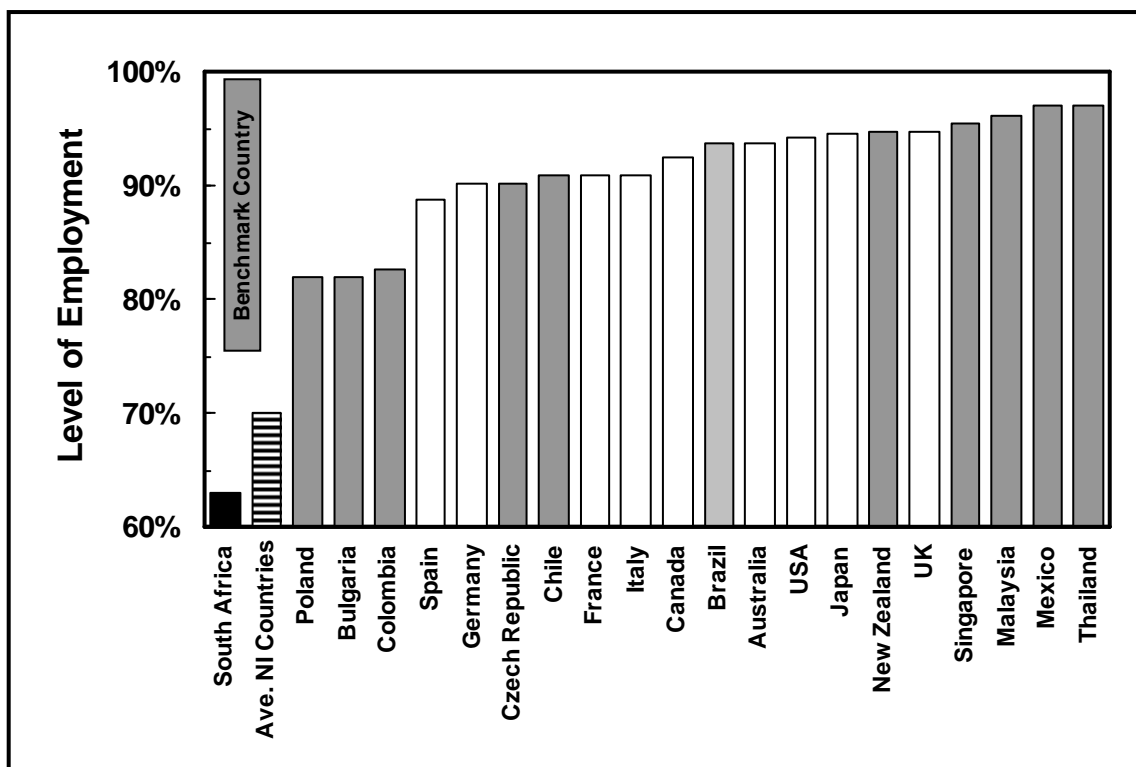
As indicated in the previous paragraph (Section 4.1), the volume of music purchases by an individual is related to his/her ability to earn a disposable income. The volume of transactions within an industry, as a strategic financial foundation of that industry, is a fundamental enabler for competitiveness (Cas, Diewert and Ostensoe 1987:279). This implies that employment, as a source of music buying disposable income, has an impact on the competitiveness of the music industry. The general level of employment within South Africa (as a competitiveness enabler) is compared with those of the benchmark and value top ten countries in Figure 4.2. In order to obtain comparable values for the countries targetted, people no longer seeking employment is regarded as part of the economically active labour force in the calculation of level of employment for Figure 4.2.

It is evident from Figure 4.2 that South Africa has extreme low levels of employment (63%) in comparison to the weighted average employment level of the benchmark countries of 90,5% and the world average employment level for non-industrialised countries of 70%. These statistics mask the striking South African dualism due to several decades of apartheid, which led to very distorted and unequal income distribution. At one extreme, about 13% of the population is "first world", with high-school education, low childhood mortality rates, and minimal poverty. At the other extreme about 53% of the population, half of which have less than a primary school education, over a third suffer from chronic malnutrition, and poverty is maximal. Dualism, poverty, and unemployment in South Africa are inextricably linked, with South African unemployment amongst the highest in the world. A range of factors have contributed to South Africa's high unemployment rate, these include the legacy of the apartheid capital-intensive

production structure, chronic skilled labour shortages, the emigration of tertiary educated and experienced employment creators (“brain drain”), low investment, rigidities in the labour market, and the increase in urban population since the 1994 political change (WTO 2003:4).

These low levels of employment for South Africa reduces the buying power of the consumer significantly, especially for non-essential consumer goods and services such as music CD’s, DVD’s and access to Internet. This implies that the size of the music consumer market is effectively constrained by high levels of unemployment in South Africa, and will probably remain constrained until employment levels are considerably increased (at least to the level of the benchmark countries).

Figure 4.2: Comparison of the levels of employment, in terms of the percent of the labour force that has a job, of South Africa and the benchmark and top ten sales value countries as well as the average for non-industrialised countries⁴ in 2001 (CIA 2003a).

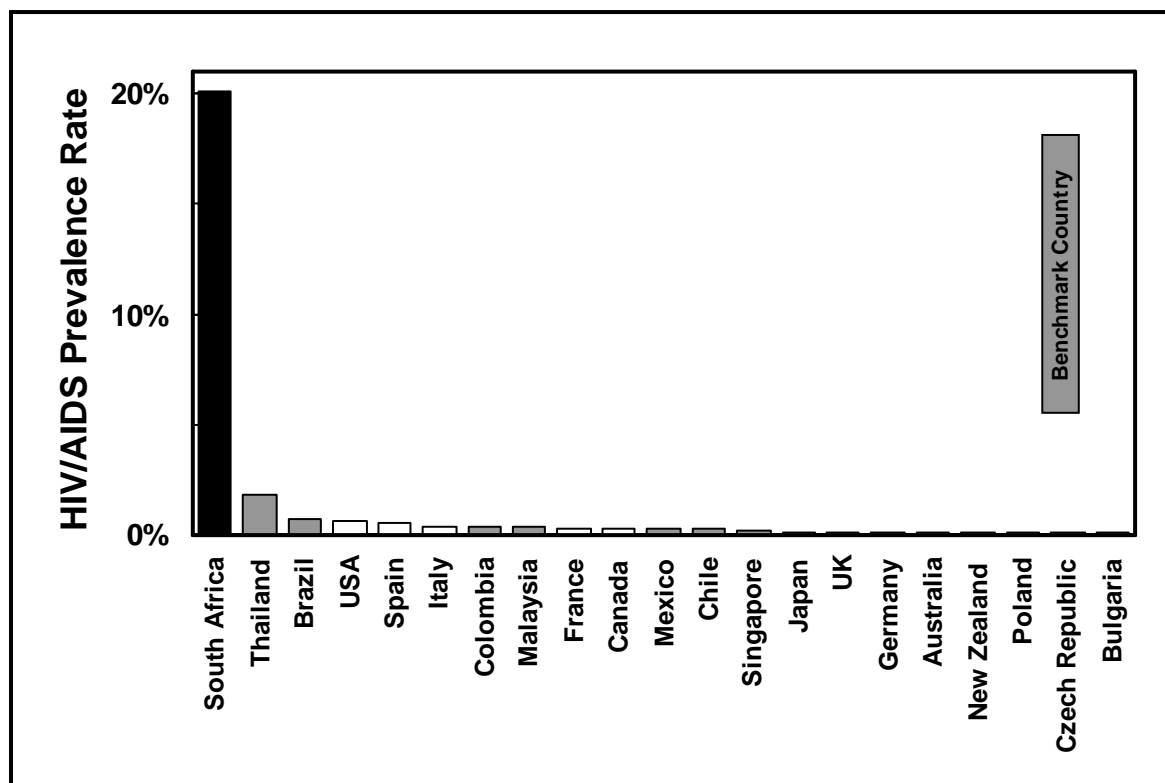


⁴ Ave. NI Countries = Average for non-industrialised countries.

4.3 The prevalence of HIV/AIDS

The HIV/AIDS pandemic continues to spread around the world at an alarming rate. According to Gordon (2002:8), southern and central Africa is now in the sixth decade of the disease (retrospective blood tests of 1950's blood samples have been found to be HIV-positive). It is being estimated that the interplay of demographics and disease would be the major determinants of Africa's potential international marginalisation towards 2015 (CIA 2003:71). Addressing some of the demographic disadvantages, such as education level, is possible with current available means. However, the complex causal relationships of a disease such as HIV/AIDS, have proven to be difficult to address with a simplistic approach. While the expected leveling of the infection rates of the severely affected countries has not materialized, the South African music industry will do well to develop an understanding of HIV/AIDS as well as its strategic impact on the industry.

Figure 4.3: The prevalence of HIV/AIDS in South Africa in comparison to the benchmark and top ten sales value countries (CIA 2003a).



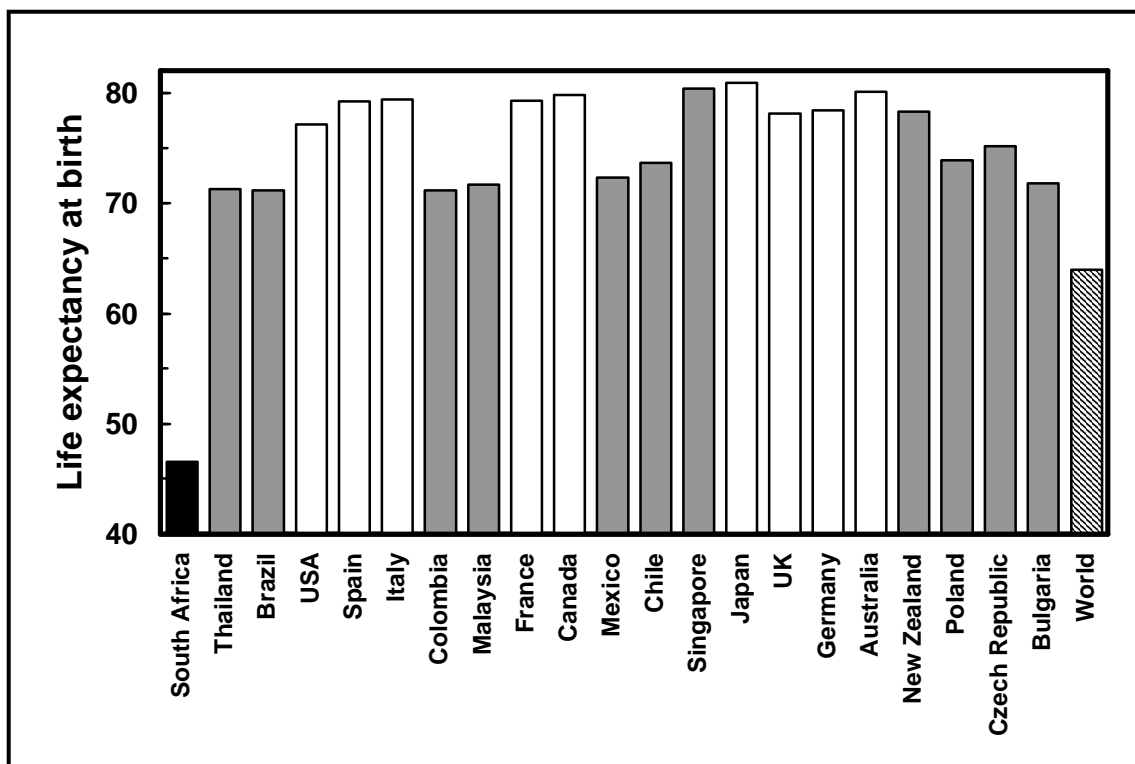
The HIV/AIDS adult prevalence rate statistics of South Africa is compared with the benchmark countries in Figure 4.3. From these statistics it is clear that the HIV/AIDS pandemic is most severe in South Africa. The top ten countries, in terms of HIV/AIDS adult prevalence rate listed in Table 4.1, consist almost entirely of countries within the South African Development Community (SADC). The CSG-study indicated that Zimbabwe is the South African music industry's biggest export destination. It is estimated that HIV/AIDS will reduce economic growth by up to one percent of the GDP per year and consume more than 50% of health budgets in the hardest-hit countries (CIA 2003:25), crowding out other types of health care and social spending. The cost of treatment of one AIDS patient for a year in Sub-Saharan Africa is comparable to the cost of educating ten primary school learners for one year (NIC 2000:49). It should be kept in mind that the impact of HIV/AIDS on the South African music industry is not restricted to the resources within the industry, but also includes the general population of music consumers. This effect is augmented by the fact that HIV/AIDS has its worst impact on the economic active part of the population, especially the 20 to 34 year age group (UNAIDS 2003:12). It is this 20 to 34 year age group that typically generates 40% to 50% of the legitimate recorded music sales revenue (IFPI 2003).

Table 4.1: Top ten ranked countries in terms of HIV/AIDS adult prevalence rate (CIA 2003a).

Rank	Country	HIV/AIDS prevalence rate
1	Botswana	38.8%
2	Zimbabwe	33.7%
3	Swaziland	33.4%
4	Lesotho	31%
5	Namibia	22.5%
6	Zambia	21.5%
7	South Africa	20.1%
8	Kenya	15%
9	Malawi	15%
10	Mozambique	13%

The effect of the HIV/AIDS prevalence is also observable in the life expectancy statistics shown in Figure 4.4, where a South African born today can expect to have an average lifespan of 46,56 years, which is approximately twenty-five years lower than any of the benchmark countries. The 45-plus age group typically generates 25% to 35% of the legitimate recorded music sales revenue (IFPI 2003); this implies that a significant portion of the music consumers could be prematurely removed from the music consumption pool. Keeping in mind that the duration of the disease is generally ten years from infection to death, with the onset of physical impairment by year eight (Fourie 2003), the most positive upside scenario (in the unlikely event of a practical cure for HIV/AIDS being discovered today) expects that the effects of HIV/AIDS will persist for at least a decade or more. This implies that the economic growth of South Africa, including the South African music industry, can be expected to fall significantly behind the benchmark countries in the next decade.

Figure 4.4: Comparison of the life expectancy at birth in South Africa, the benchmark and top ten sales value countries (CIA 2003a).



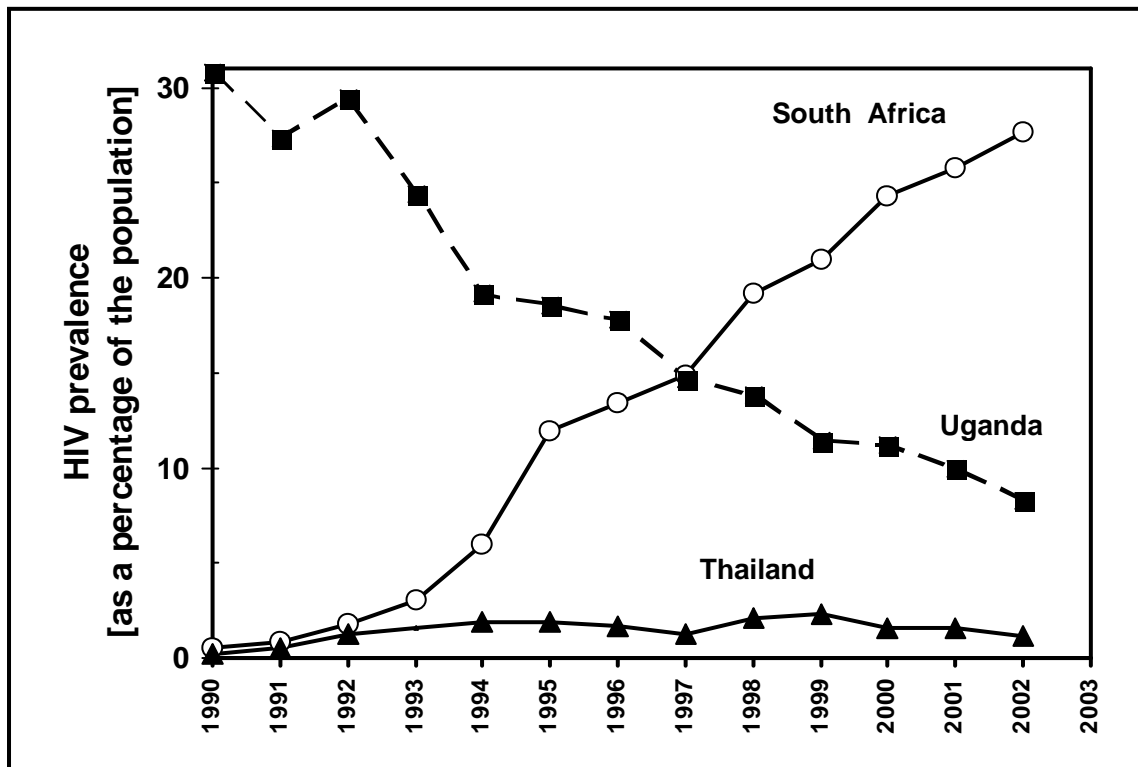
In contrast to the South African HIV/AIDS situation, two of the benchmark countries, Thailand and Brazil have managed to control the spread of HIV/AIDS through a sustained, proactive campaign to increase awareness, destigmatise the disease, and treat victims - all of which help change the behaviours that transmit the disease (Gordon 2002:18). These benchmark countries are widely considered to have the most successful anti-HIV programs and are potential models for South Africa to consider.

Thailand launched an aggressive HIV/AIDS public awareness and condom distribution campaign in the early 1990s, which significantly reduced the spread of the disease (UNAIDS 1998:4). More recently, the Thai government announced it would make antiretroviral drugs available for less than one dollar a day. Although HIV/AIDS still is the leading cause of death in Thailand, the government probably has averted millions of HIV infections (see Figure 4.5 overleaf). The Brazilian government invested heavily in education and treatment programs, including the provision of free antiretroviral drugs to HIV/AIDS patients distributed through the public health system.

An attempt to transpose the Thailand and Brazilian success to the South African HIV/AIDS situation may be an over-simplification of the complex demographic causal relationships that is associated with HIV/AIDS prevalence. Fortunately a closer match to the South African demographics can be found through an African country such as Uganda. Through the appropriate ownership and governance of the problem, the Ugandan HIV infection rate was driven down from 30% in 1992 to 11% in 2000 (Gordon 2002:19). Whereas the Ugandan HIV/AIDS problem remains significant, the Ugandans have had success through an unrelenting campaign to change behaviour by urging people not to have sex with multiple partners, leadership publicly acknowledging the threat posed by AIDS, destigmatising the disease, and decentralizing HIV education programs down to the village level. Although the devastating prevalence of HIV/AIDS in South Africa and its effect on the local music industry cannot be overlooked, hope and guidance on how to address the local situation can be gleaned from these examples. Since the publication of the “HIV/AIDS & STD Strategic plan for South Africa 2000-2005” by the South African Minister of Health (SAIC-AIDS 2000),

some inroads to contain the problem have been made, including the introduction of anti-retroviral drugs to pregnant women (UNAIDS 2003a).

Figure 4.5: Comparison of the prevalence of HIV in pregnant women in major urban areas in South Africa, Uganda and Thailand (WHO 2004).



4.4 The incidence of piracy and counterfeiting of products

The illegal duplication of music remains a key issue not only to the recorded music industry, but also to the peripheral industries that have a stake in the recorded music industry.

4.4.1 Intellectual property

According to the World Intellectual Property Organisation (WIPO 2005), intellectual property refers to creations of the mind, these are:

- inventions;
- literary and artistic works; and
- symbols, names, images and designs used in commerce.

Intellectual property is divided into two categories:

- industrial property, which includes inventions (patents), trademarks, industrial designs and geographic indications of source; and
- copyright, which includes literary and artistic works such as novels, poems and plays, films, musical works, artistic works such as drawings, paintings, photographs and sculptures, and architectural designs.

In the music industry, copyright is the exclusive rights of composers of musical compositions; these rights are generally protected by copyright legislation, for a minimum period of 50 years (in South Africa) after the death of the composer (Chetty 2005). This also includes related rights such as the rights of performers (e.g. actors, singers and musicians), producers of phonograms (sound recordings) and broadcasting organisations. This provides a means for an individual or organization to generate income from creative work. This income is usually generated through controlling the production, reproduction and dissemination of the creative work to the consumer. These exclusive rights are generally subject to a number of limitations and exceptions, for the purpose of fine-tuning the balance between the legitimate interests of rights holders and of users. Although copyright provides an economic foundation for the creation, production and dissemination of music, the primary social purpose of the protection of copyright and related rights is not only to compensate creative work but also to promote and protect cultural and artistic integrity.

4.4.2 The concept of illegal duplication and distribution

Four categories of illegal duplication and distribution of sound recordings exist, these being bootlegging, piracy, online piracy and counterfeiting (IFPI 2003b; Krasilovsky and Shemel 2000:81; RIAA 2004; Passman 2000:310):

- *Bootlegging* is the unauthorized recoding and distribution of a live or broadcast performance, whether it be for commercial gain or not, without the consent of the composer, artist or record company (also known as underground recordings). This occurs, for example, where an unauthorised

person records and distributes a live performance or a radio broadcast of an artist.

- *Piracy* is the unauthorized duplication of only the recorded content of an original recording such as a DVD, CD, music cassette and vinyl record, for commercial gain, without the consent of the rights owner. The packaging of pirate copies is different from the original. An example would be where the Bucket Record Company makes copies of a Columbia recording of Herbie Hancock, applies Bucket Record Company labelling and packaging and sells the product at a reduced price. Pirate copies are often compilations of a specific artist, or a collection of a specific genre.
- *Online piracy* is the unauthorized Internet uploading of a sound recording and making it available to the public. It is also the Internet downloading of a sound recording, whether it be for commercial gain or not. This may include certain uses of "streaming" technologies from the Internet.
- *Counterfeiting* is the duplication of an entire album, including the sound recording, the packaging, artwork and the label for commercial gain. The consumer is being misled into believing that they are buying a legitimate original product. An example would be where the Bucket Record Company makes copies of the Columbia recording of Herbie Hancock's "Headhunters" album, applies duplicated Columbia labelling and packaging and markets these counterfeit products as the original product.

The pirate and counterfeiter incur only the manufacturing and distribution costs listed in Table 1.2 (14% of the normal retail price), they therefore can afford to distribute their product at a substantially lower price than the legitimate record company and still conduct a very profitable business. Furthermore, they only copy successful records, not having to carry the legitimate record company's burden of the 85% of recordings that fail to make a profit (RIAA 2004). This implies that the legitimate recording company incurs the costs and associated risk, while the pirate and counterfeiter steal the profits.

Fundamentally the bootlegger, pirate and counterfeiter misappropriate the intellectual property of the composer, the services of the performing artist, the

product of the manufacturer, royalties of the publisher and the tax income of governments. Bootleggers, pirates and counterfeiters add no value to creative industries but, in a contemptuous fashion, totally disrupt the dynamics of the Landry five-column cultural value chain, leaving its legitimate participants disenfranchised. Local culture is especially hard hit because lower record company profits imply less funds are available to support the higher business risks in development and recording of talented local artists (IFPI 2003c). The high profits of bootlegging and pirating have attracted the participation of sophisticated crime syndicates such as the Camorra Mafia syndicate in Naples, amongst others (IFPI 2003c:5; 2003d).

In order to maintain consistency with the statistics provided by international organizations such as the International Federation of the Phonographic Industry (IFPI) and the Recording Industry Association of America (RIAA), all four forms of illegal duplication will be referred to as piracy in this study.

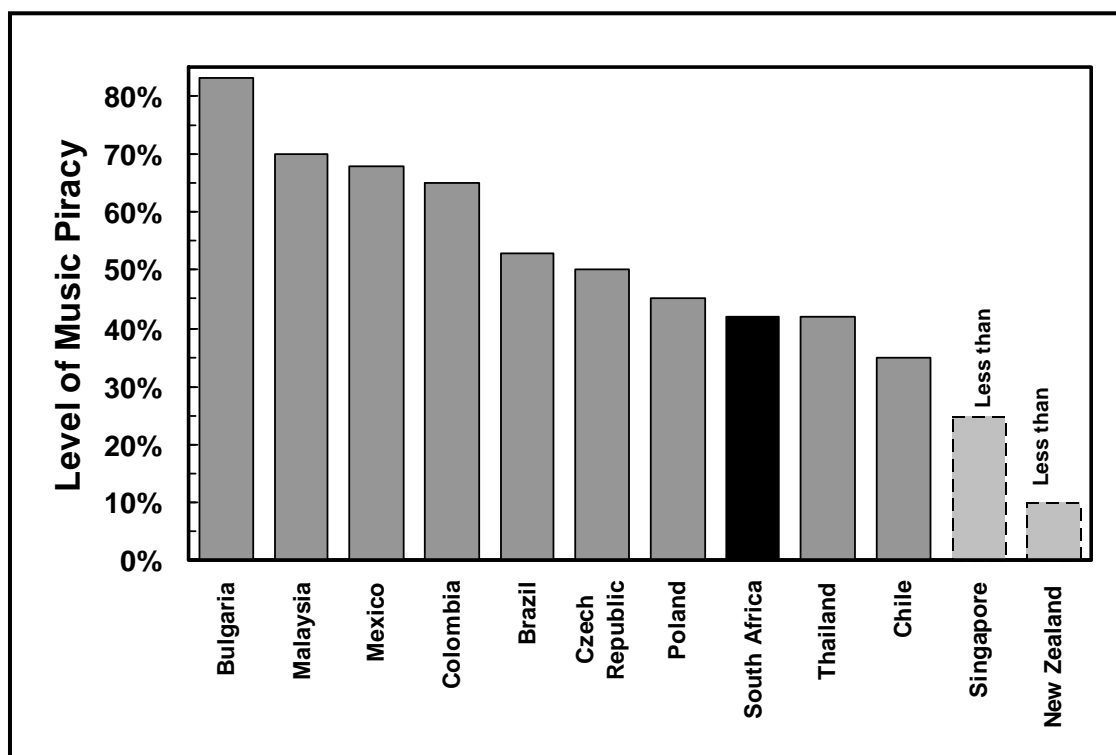
4.4.3 The level of piracy

Piracy has risen to alarming levels in recent years. The IFPI (2003c:2) estimates that one in three discs sold is pirate and that global piracy levels totaled 1,8 billion units in 2002, equivalent to USD 4,6 billion (the RIAA (2004) estimates a yearly loss of USD 4.2 billion). In the period June 2002 to June 2003, the number of simultaneous users of pirate services (in terms of being simultaneously logged-on at any one time) has increased from three to five million, with a concomitant increase in the number of music files available on pirate sites from 500 million to 1,1 billion (IFPI 2003). In a recent report by Enders analysis (Enders 2003), it was concluded that downloading and disc burning was responsible for up to 40% of the global sales decline.

Due to the general clandestine nature of crime, the collection of accurate data on piracy is inherently difficult. Estimates are usually done based on local surveys of the market conditions in a particular country. A comparison of the levels of piracy for the benchmarking countries is shown in Figure 4.6. Data on known manufacturing of pirate recordings in a country is reflected as a loss in the country of manufacture, not in the country of sale (IIPA 2002).

An evaluation of Figure 4.6 reveals that South Africa, although better positioned relative to some of the benchmarking countries, still has a significant piracy level of 42% for 2002. According to Crawford (2003) this is equal to 6,7million pirated AE units. The increased level of audio-visual piracy in South Africa in recent years, resulted in the International Intellectual Property Alliance recommending that South Africa be placed on the so-called “Priority Watch List”, after the initial placement on the “Watch List” in 1998 (IIPA 2003:271).

Figure 4.6: Comparison of the levels of music piracy/counterfeiting in terms of the value of sales of the pirate/counterfeit product for the benchmarking countries for 2002 (IIPA 2003; IFPI 2003c; Crawford 2003).



4.5 *Leading indicators for competitiveness*

This chapter evaluated some socio-economic and demographic factors as key leading indicators for the competitiveness of the South African music industry. It

highlights the devastating impact of socio-economic issues such as illiteracy, unemployment, insufficient public health and high crime on the music industry. The quantitative evaluations of these issues are used in the next chapter to construct an overall expression of competitiveness for the music industry.

5. Synthesis of findings

The previous Chapters 3 and 4 generated quantitative expressions of the competitiveness and some of the associated socio-economic leading indicators for the music industry. This section utilises these quantitative expressions to develop an understanding of the strategic impact of economic, socio-economic, demographic and technological developments on the competitiveness of the music through:

- an application of the Porter DNA-model;
- the identification of key points of leverage for further growth of the industry;
- a qualitative assessment of the ability of the music industry to keep pace with global technological trends;
- relating sustainability of resources to the Porter DNA-model;
- ranking the South African competitive position relative to the benchmark countries for the eleven competitiveness factors evaluated; and
- listing the relevant challenges and opportunities.

This chapter is closed with some groundwork for further study including:

- the development of a strategic thinking framework for the music industry;
- a process of strategy formulation in the context of the music industry; and,
- the relevant measures to ensure strategic consistency across the music industry.

5.1 *Competitiveness*

The evaluation of the overall competitiveness of the South African music industry in terms of industry growth, ability to co-evolve with industry trends and resource sustainability, can be summarised as follows:

5.1.1 **Industry growth**

The sustainment of industry growth levels, as a measure of competitiveness, indicates that the South African music industry, in comparison to the South

African GDP growth, is at a significant disadvantage to other industries in South Africa such as the information technology, financial and telecommunications industries. This is similar for the majority of the music markets of both the developing and advanced economies of the world. The South African music industry's growth is competitive relative to the benchmark countries and on par with the world average of negative growth for the music industry. Although this situation may create a general impression of "we're all on the same sinking ship", real competitiveness can be achieved by breaking the current negative trend through concerted efforts of strategic thinking towards innovative business strategies followed by effective implementation campaigns. Also, the lower than average *per capita* music sales in South Africa, in spite of steady growth in income per capita reported by the CSG-study, is a cause for concern, as it points to an inherent weakness, unwillingness or disinterest, of the South African consumer to support its music industry. This apparent miss-routing of growing disposable income posts a challenge for the South African music industry to develop and implement strategies to improve its consumer appeal and, in so doing, garner its share of the growth of the South African economy.

Although not insignificant, the South African 0,35% of total world music sales does put it in a position where it does not necessarily have to follow the current negative world legitimate music sales trends. The rich local culture, geographic distance from the world's leading music markets and South African entrepreneurial spirit can provide for conditions to break-away from world trends through the development of unique local music initiatives and niche markets (such as the development of local and international markets for niche products).

The CSG-study highlighted the strengths, weaknesses and economic challenges of the South African music industry (refer to Tables 1.5 and 1.6). In order to bring about the growth of the South African music industry, strategic insights gleaned from Porter's Diamond of National Advantage can be utilised to identify areas of leverage to exploit the South African music industry's unique differentiators. For this purpose, a growth-relevant elaboration of the key elements of the Porter DNA-model is proposed for South African music industry in Table 5.1

Table 5.1: Application of the Porter Diamond of National Advantage-model to identify sources of leverage for the growth and development of the South African music industry.

DNA-factor	Area of Impact	Proposed Leveraging Action	Proposed Action Ownership
Factor conditions			
1. Basic factors	Foreign capital	Identify sources and procure investment.	Private enterprise, supported by DTI
2. General factors	Education	Evolution towards relevance in terms of market demand.	Tertiary education institutions.
3. Specialised factors	Unique apprenticeships	Post-tertiary education musician finishing development	Private enterprise, supported by tertiary education institutions.
4. Advanced factors	Graduate engineers	Establish post-graduate music/audio engineering curriculum	Tertiary engineering education institutions
Demand Conditions			
1. Local demand	Product offering	Local market analysis, including local artists & repertoire	Private enterprise, supported by DTI
2. International demand	Marketing	International market analysis towards suitable positioning of the South African music product	Private enterprise, supported by DTI
Related Industries			
1. Supply-side industries	Input costs	Integration of suppliers into the music industry value chain	Private enterprise, supported by DTI
2. Complementary products	Market strategy	Identify & develop co-evolutionary offerings with related industries such as sports, leisure, hospitality, tourism & electronics industries	Private enterprise, supported by DTI
Enterprise strategy, structure & rivalry			
1. Business environment	Competitive intelligence	Develop & implement a competitive intelligence capability for the music industry	Private enterprise, supported by DTI & SAACIP
2. Local rivalry	New entrants	Develop & implement a mentorship programme to facilitate new & young music industry entrants	Private enterprise, supported by tertiary education institutions.
Government			
1. Support	Development	Positioning for & exploitation of current DTI development initiatives & programmes	Private enterprise, supported by DTI
2. Catalyst	Royalties	Implementation of current “needle-time” regulations	Broadcast Authority
Chance			
1. Step change	Technology	Develop & commercialise: 1. Internet music industry trade 2. Alternate music distribution models 3. Alternate intellectual property management model	Private enterprise, supported by DTI

This table proposes specific leveraging actions as well as ownership of these actions. It should be noted that most of the opportunities of ownership of the proposed leveraging actions lie within private enterprise and tertiary education institutions.

5.1.2 Industry stakeholders adoption of technological trends

The ability of an industry to adapt to change is a key indicator for competitiveness. Both the supply-side and demand side of the music industry is affected by global changes in products and services. For smaller developing economies such as South Africa, the demand for products and services usually leads the supply-side to react to this demand. The demand for products and services is an indicator of the level of adoption of a trend by an industry such as the music industry. The progress of adoption of a trend or new development by the South African music industry, relative to the music industries of other countries, may give an indication of the relative co-evolutionary competitiveness of the South African music industry (as referred to in Section 2.2).

A qualitative assessment of the ability of the South African music industry to respond to market trends can be made by mapping the product life cycle against rate of trend adoption. Table 5.2 provides a comparison of the rate of adoption of industry trends by the South African music industry, measured against the average of the benchmark countries as well as the world top ten music sales countries.

From Table 5.2 it is evident that the South African music industry is lagging the benchmark countries as well as the world top ten music sales countries in terms of trend adoption. This implies that the South African music industry is not well positioned to successfully partake in the competitive dynamics of co-evolution of the world music industry. This is particularly alarming when the uptake in newer music industry trends, such as the music download trade, is considered.

Jennings (2004) predicts that legitimate music downloads in Europe will amount to more than €3,5 billion by 2009, which should compensate for the current decline in album sales (Bernhoff 2004). This trend is being spearheaded by pay-for music download services such as Apple's iTunes, Sony Connect and Virgin Music-Net as well as marketing partnerships such as McDonald's-Sony, *The Guardian*-EMI and *The Sun*-Napster. For the South African music industry, a lost opportunity exists in consumers buying music directly from abroad via the Internet, by-passing the local music industry value-chain participants. This implies that the establishment of a local legitimate music download hub, or the local commercial ownership or participation in overseas facilities could be essential for the competitiveness of the South African music industry.

Table 5.2: A comparison of the rate of adoption of industry trends by the South African music industry consumer, relative to the benchmark and the world top ten sales value countries.

		Early Adopter	Fast Follower	Conservative Adopter	Laggard
Product Life Cycle Stage	Stage 1: DVD Introduction	World Top Ten	World Top Ten	South Africa Benchmark	-
	Stage 2: Internet Usage Growth	World Top Ten	World Top Ten Benchmark	South Africa	-
	Stage 3: CD Player Penetration	World Top Ten	Benchmark	South Africa	South Africa
	Stage 4: Music Cassette Decline	World Top Ten	World Top Ten	Benchmark	South Africa

5.1.3 Sustainability of resources

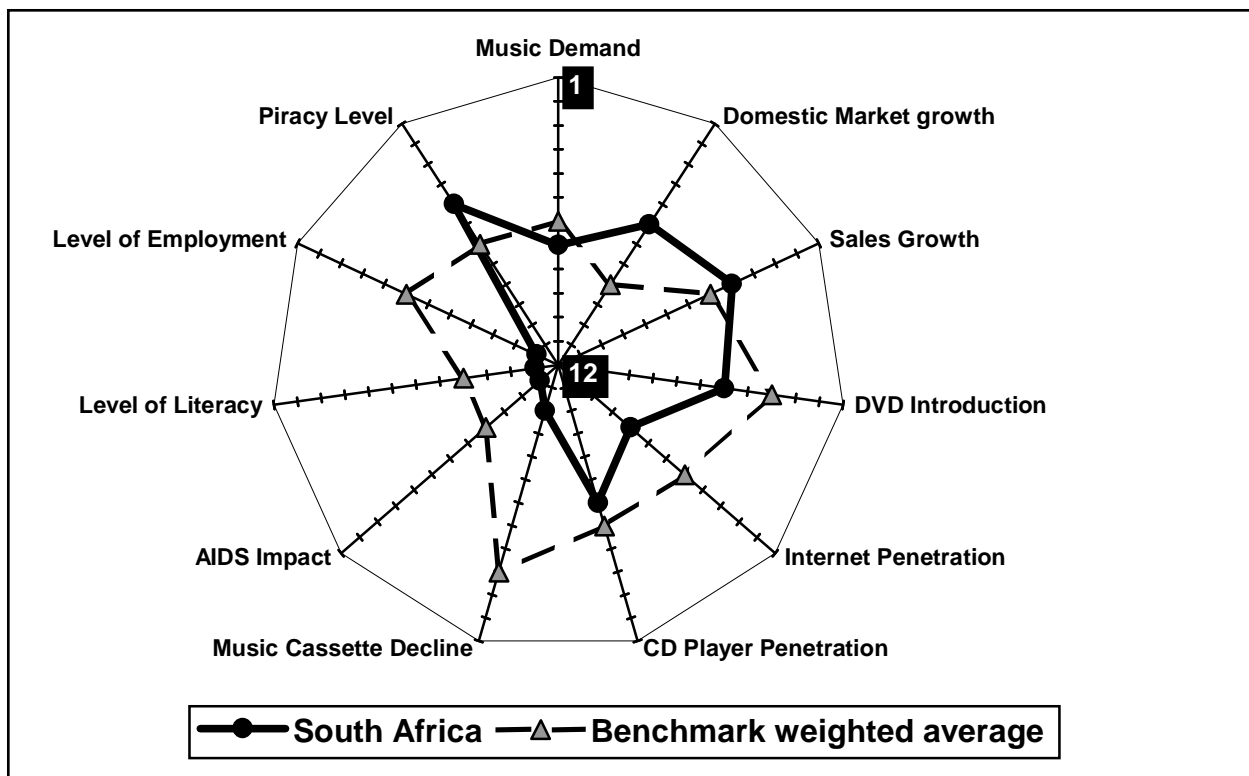
In general, the South African music industry's creative resource can neither adequately support itself, nor invest in its own development. In addition, the decline in the sales volume of domestic originated music implies a further diminishment of opportunity for the creative resource to, under current conditions, sustainably transact in the South African music industry. This apparent inability of the South African music industry to regenerate itself calls for a concerted effort,

both from within and external to the music industry, to effect a directional- or step-change such as the application of Porter DNA-model leveraging proposed in Table 5.1.

5.1.4 Competitiveness

In order to present a general evaluative representation of the competitiveness of the South African music industry, the different competitive aspects that is analysed in the present work can be plotted on a radar-graph in terms of relative position to the benchmark countries' music industries, as shown in Figure 5.1.

Figure 5.1: Competitive position ranking of the South African music industry relative to the weighted average of the benchmark countries' music industries (1=most competitive, 12=least competitive).



5.1.5 Competitive challenges and opportunities

The South African music industry has significant challenges to overcome in order to become a competitive co-evolutionary participant in the world music industry.

From a strategic point of view, some of these challenges are:

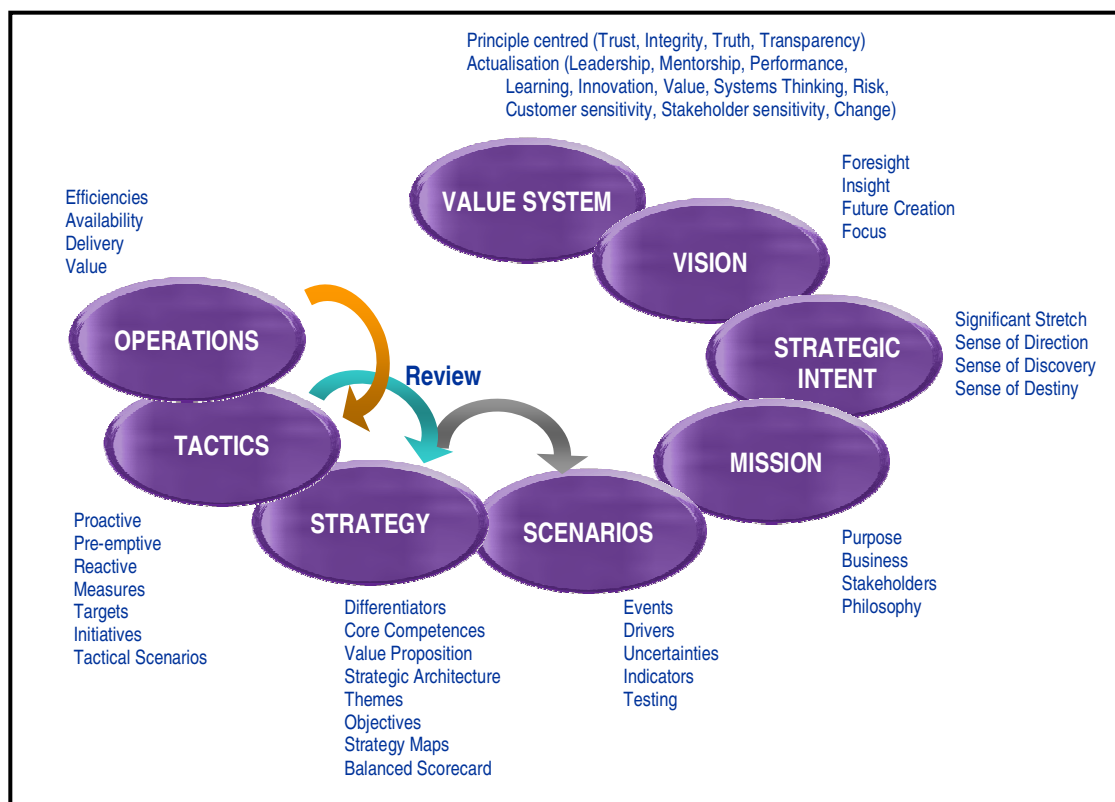
- recovery from the decline in sales volumes by aggressively addressing the revenue disabling effect of piracy;
- improving the ability of the South African music industry to adopt new technologies through the education of resources, as well as the management of consumer perceptions and product awareness;
- development of the competitiveness of the domestic originated music; and
- promotion, development and implementation of artistic, technological and business innovation in the South African music industry.

Traditionally, hit songs drove album sales, and as such, is a major driver of music industry revenues. An apparent change of attitude towards music and its consumption is being reported by Enders (2002) music is being utilised on a wider consumer front such as telephonic ring tones, films, advertisements and video gaming where music contributes to a more comprehensive sensory experience. A demonstration of this trend is the joint announcement by Motorola Corporation and Apple Incorporated wherein new Motorola mobile telephony devices will synchronise with the recently introduced iTunes music acquisition and playback functionality (Golvin 2004). This implies that a new music distribution channel is created, whereby music delivery capability is integrated into mass market mobile telephones on a world-wide scale. This is particularly significant when one compares the 3,7million Apple iPod units that were sold in more than a year, with the 24million mobile phones that Motorola sold in the second quarter of 2004. It is noteworthy that the traditional music industry is not ideally structured to profit from these changes to, and the augmentation of, the application of music (Kusek and Leonhard 2005). This leaves a significant strategic opportunity for smaller, independent music industry participants to address these changes in a profitable, albeit in a radical fashion (the opportunity for this is clearly indicated earlier in Section 5.1).

5.2 Strategic thinking framework

The Strategy Formulation Process (SFP) for an enterprise as proposed by Heymann (2003), is shown in Figure 5.2. This SFP-model places the different aspects of strategic thinking (such as vision and mission) into a logical framework that can be applied to an enterprise or industry. According to the Heymann-model, the SFP is established upon an industry value system, which describes the fundamental underlying principles for an industry and its participants. The SFP then proceeds through a top-down and bottom-up iterative process of development through the different process dimensions and factors shown in Figure 5.2 below.

Figure 5.2 The Strategy Formulation Process (Heymann 2003).



During the continuous implementation of the formulated strategy, specific aspects are subjected to a review process to ensure that relevance and competitiveness are maintained within the continuously changing business environment. This SFP can be utilised to position the strategic findings of the CSG-study and those of the

present work into a strategic context which can be employed to develop a strategic thinking framework for the South African music industry. The SFP identifies the prerequisite factors, such as mentorship, transparency and customer sensitivity, upon which subsequent factors, such as differentiators, initiatives and strategic themes can be built.

5.3 Strategic consistency

Each functional department in an organisation, when left to its own devices, inevitably pursues approaches and goals dictated by the professional orientation and incentives of those in the leadership role. This phenomenon is similarly observed in an industry, where a greater level of independence is perceived by its participant enterprises. However, the sum of the approaches and goals of the individual entities, be it departments within an organisation, or organisation's within an industry, rarely equals the best strategy for the whole. This clearly calls for a well orchestrated, *consistent* strategy within the elements. This *consistency* in the approaches and goals can be tested according to a modified Porter Tests for Consistency (Porter 1980), which allows for industries, as shown in Table 5.3 overleaf. These tests for strategic consistency need to be translated into South African music industry-relevant terms that can be understood and applied by all the individual industry stakeholders.

5.4 Competitiveness and strategy

The primary purpose of a study of the competitiveness of an industry is to establish a foundation upon which strategy can be formulated. In this section, a foundation for strategy for the music industry is created through the combination of an expression of the competitiveness and some of the related socio-economic and demographic causal factors. This foundation for strategy is also utilised to identify challenges and opportunities, as well as sources of leverage for the sustainable development of the music industry (via the Porter DNA-model).

Finally, the natural extension of this work is to expand and develop a strategic thinking framework for the music industry according to the stated Strategy Formulation Process. It is suggested that the outcome of this Strategy Formulation Process needs to be tested for strategic consistency according to the proposed modifications to the Porter's Tests for Consistency.

Table 5.3: Porter Tests for Consistency adapted for the music industry.

Industry Internal Consistency	
1.	Are the industry goals mutually known, understood, sought after and achievable by the industry participants?
2.	Do the internal destructive and regenerative forces generate a sustainable positive nett result for the industry?
3.	Do the key operating principles and policies of the industry participants address the goals?
4.	Do the key operating policies of the individual participants reinforce each other?
Environmental Fit	
1.	Do the goals and strategies exploit industry opportunities?
2.	Do the strategies deal with industry threats to the degree possible with available resources?
3.	Does the timing of the strategies and tactics reflect the ability of the environment to absorb the actions?
4.	Is the strategic intent responsive to broader societal concerns?
Resource Fit	
1.	Do the strategies and tactics match the resources available to the geographic industry relative to its competitors?
2.	Does the timing of the tactics reflect the industries' ability to change?
3.	Do the resources understand and implement, individually and collectively, the role they play in the creation and resolution of industry issues and problems?
Communication and Implementation	
1.	Are the goals well understood by the implementers within the industry?
2.	Is there enough congruence between the goals, strategies and the values of the key implementers to insure commitment?
3.	Are there sufficient leadership and managerial capability and capacity to allow for effective implementation?

Conclusions

This study utilised some of the techniques of business analysis to develop an analytical perspective of some of the strategic aspects of the South African music industry. The research questions that are being addressed, includes an assessment of the strategic impact of economic, socio-economic, demographic and technological developments on the music industry, as well as the identification of the key points of leverage for future growth. Given the data presented in Chapter 1 to 5 and the associated analyses, the following can be concluded:

1. The South African music industry generally has an inferior competitive position relative to the music industries of similar foreign economies. This can be attributed to, amongst others, to an inferior level of technological co-evolutionary competitiveness (Chapter 3) as well as the impact of socio-economic and demographic threats, such as crime, literacy, unemployment and the prevalence of HIV/AIDS (Chapter 4).
2. The South African music technology adoption-laggard trend can affect the ability of the South African music industry to exploit the legitimate music download distribution channel (Chapter 5). This could impair the ability of the industry to recover from the current decline in album sales.
3. The socio-economic and demographic indicators, identified in this study (Chapter 4), needs to be monitored in order to validate and adjust strategy development.
4. Key points of leverage for further growth of the South African music industry have been identified as:
 - a. Education, training, mentoring and learnerships;
 - b. Research into music technology, music business and market analysis;
 - c. The formulation, development, implementation and measurement of a South African music industry strategy process, which includes and involves all stakeholders; and

- d. The establishment and utilisation of alternative approaches to marketing, sales and distribution channels to stimulate revenue growth.
5. The Strategy Formulation Process, the Diamond of National Advantage-model and the Modified Porter Tests for Consistency can be utilised to develop and implement strategies to unlock the significant unrealised potential of the South African music industry.
6. Relevant data and statistics pertaining to the South African music industry are required in the public domain in order to stimulate and assist further studies. Through these data and statistics enabled studies, better general knowledge and understanding can be developed among the participants in the South African music industry.
7. The development and implementation of equitable, sustainable strategy in the South African music industry requires a combination of pragmatic strategy formulation and creative strategic thinking which, through the application of business analysis and strategy development principles can provide for a roadmap towards sustainable growth.
8. Significant progress regarding the improvement of the competitiveness of the South African music industry can be made through the establishment of a commercially-based enterprise that addresses the development and growth of the industry, by tending to the needs listed in points 3 to 7 above.

The purpose of this work is to contribute to the understanding of the strategic and competitive dynamics of the South African music industry. In doing so, it indicates the possibility for further research on topics such as:

- The development of a music industry competitive intelligence capability which includes aspects such as planning and direction, data collection, analysis and dissemination of actionable intelligence to the industry stakeholders;
- The development of a strategic thinking framework for the music industry; and
- The development of predictive models for the impact of economic, socio-economic, demographic and technological trends on the music industry.

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Table A-1: South African gross domestic product versus the South African legitimate music sales growth (excluding music video sales).

Year	R/\$ Ave.	Year on Year growth [%]		Music industry sales ⁵			Year on Year growth ⁵	
		GDP ⁶	Consumer prices ⁷	AE Units	Value		AE Units	Value [R]
					[\$m]	[Rm]		
1995	-	+3,1	+8,7	-	-	-	-	-
1996	-	+4,3	+7,3	-	-	-	-	-
1997	-	+2,6	+8,6	-	-	-	-	-
1998	5,53	+0,8	+6,9	21,0	195,7	1081,9	0,0	+5,6
1999	6,11	+2,1	+5,2	19,4	181,4	1108,3	-7,6	+2,4
2000	6,94	+3,4	+5,4	18,0	150,4	1043,5	-7,2	-5,8
2001	8,61	+2,8	+5,7	17,0	117,9	1010,3	-5,4	-3,2
2002	10,54	+3,0	+9,1	17,8	106,2	1119,0	+4,6	+10,8
2003	-	+2,2	+7,7	-	-	-	-	-
2004	-	+3,0	+4,9	-	-	-	-	-

Table A-2: The South African legitimate recorded music sales growth versus those of benchmark countries for 2002.

Country	GDP ⁸ [\$b] (note 1)	GDP ⁸ growth rate YOY [%]	GDP ⁸ per capita [\$] (note 1)	Music industry sales ⁵		Year on Year growth ⁵ [%]	
				AE Units [millions]	Retail Value [\$m]	AE Units	Local Currency Value
South Africa	427,7	+3,0	10 000	17,8	110,6	+4,9	+12,2
Thailand	445,8	+5,3	7 000	29,0	83,8	-18,7	-11,8
Malaysia	198,4	+4,1	8 800	5,8	32,8	-24,2	-20,8
Colombia	251,6	+1,5	6 100	7,8	66,1	24,5	-27,4
Brazil	1376	+1,5	7 600	79,5	354	+1,6	+3,6
Chile	156,1	+2,1	10 100	7,0	40,3	+22,5	+3,7
Poland	373,2	+1,4	9 700	13,8	84,5	-44,5	-27,5
Czech Republic	157,1	+2,0	15 300	4,8	34,9	-26,4	-20
Bulgaria	49,2	+4,8	6 500	1,8	6,3	-10,2	-1,8
Singapore	112,4	+2,2	25 200	5,2	46,7	+9,2	+4,3
New Zealand	78,4	+3,3	20 100	8,0	87,6	-2,4	-3,8
Mexico	924,4	+0,7	8 900	54,2	445,5	-4,4	-18,6
World	49000	+2,7	7 900	2921	32228	-8,4	-7,2

Note 1: Values adjusted to allow for purchasing power parity

⁵ IFPI 2003.

⁶ IMF 2003.

⁷ IMF 2003a.

⁸ CIA 2003a.

Table A-3: Relative ranking of the South African music industry in terms of legitimate recorded music sales (in dollars).

Rank Position ⁹		Country	2002		Music Sales in 1998 ⁹ [\$m]	Growth in \$ value for the period 1998-2002 [%]
2002	1998		Music Sales ⁹ [\$m]	% of World \$ Sales ⁹		
1	1	USA	12325,7	39,49%	13201	-6,6%
2	2	Japan	4593,3	14,72%	6043,5	-24,0%
3	4	UK	2859,4	9,16%	2855,6	0,1%
4	5	France	1989,7	6,37%	2147,2	-7,3%
5	3	Germany	1988,0	6,37%	3012,1	-34,0%
6	7	Canada	587,9	1,88%	971,7	-39,5%
7	9	Italy	554,7	1,78%	652,9	-15,0%
8	8	Spain	542,3	1,74%	680,7	-20,3%
9	10	Australia	499,9	1,60%	606,7	-17,6%
10	12	Mexico	445,5	1,43%	543,3	-18,0%
12	6	Brazil	354,0	1,13%	1171,7	-69,8%
27	22	South Africa	110,6	0,35%	195,7	-43,5%
30	35	New Zealand	87,6	0,28%	100,1	-12,5%
31	25	Poland	84,5	0,27%	171,5	-50,7%
32	32	Thailand	83,8	0,27%	114,7	-26,9%
34	27	Colombia	66,1	0,21%	159,4	-58,5%
36	44	Singapore	46,7	0,15%	53,8	-13,2%
38	38	Chile	40,3	0,13%	84,8	-52,5%
40	39	Czech Republic	34,9	0,11%	77,6	-55,0%
41	46	Malaysia	32,8	0,11%	51,3	-36,1%
59	66	Bulgaria	6,3	0,02%	3,5	80,0%
-	-	World	31212,4	100%	38298,2	-18,5%

Table A-4: Relative ranking of the South African music industry in terms of legitimate recorded music sales (in AE units).

Rank position ⁹		Country	2002 Sales AE Units ⁹	1998 Sales AE Units ⁹	2002-1998 AE Unit Sales Growth
2002	1998				
1	1	USA	840.20	1037.43	-19.01%
2	2	Japan	261.40	362.3	-27.85%
3	4	UK	243.20	239.47	1.56%
4	3	Germany	214.07	252.63	-15.26%
5	6	India	171.10	131.1	30.51%
6	5	France	149.40	138.03	8.24%
7	9	Russia	113.40	86.1	31.71%
8	7	Brazil	79.53	105.3	-24.47%
9	12	Spain	64.84	63.63	1.91%
10	8	Canada	58.30	89.03	-34.52%
12	11	Mexico	54.22	71.92	-24.61%
17	15	Thailand	29.00	48.2	-39.83%
23	28	South Africa	17.80	21.03	-15.36%
30	20	Poland	13.77	34.47	-60.05%
37	41	New Zealand	8.04	8.24	-2.43%
38	32	Colombia	7.81	16.17	-51.70%
41	39	Chile	7.01	9.1	-22.97%
43	36	Malaysia	5.80	10.97	-47.13%
45	47	Singapore	5.23	5.03	3.98%
47	38	Czech Republic	4.80	9.43	-49.10%
54	56	Bulgaria	1.80	1.8	0.00%

⁹ IFPI 2003.

Table A-5: Penetration of technologies relevant to the South African music industry compared to the top ten countries in terms of music sales value as well as the benchmark countries for 2002.

Country	Music Sales ⁷ [\$m]	CD Player Penetration ¹⁰ [% of households]	Internet population ¹¹	Total population ¹¹	Population Internet Penetration
USA	12325,7	267%	165750000	290342554	57%
Japan	4593,3	123%	56000000	127214499	44%
UK	2859,4	156%	34300000	60094648	57%
France	1989,7	127%	16970000	60180529	28%
Germany	1988,0	125%	32000000	82398326	39%
Canada	587,9	114%	16840000	32207113	52%
Italy	554,7	61%	19250000	57998353	33%
Spain	542,3	99%	7890000	40217413	20%
Australia	499,9	88%	10630000	19731984	54%
Mexico	445,5	41%	3500000	104907991	3%
Brazil	354,0	34%	13980000	182032604	8%
South Africa	110,6	34%	3068000	42768678	7%
New Zealand	87,6	95%	2060000	3951307	52%
Poland	84,5	47%	6400000	38622660	17%
Thailand	83,8	33%	1200000	64265276	2%
Colombia	66,1	n/a	1150000	41662073	3%
Singapore	46,7	400%	2310000	4608595	50%
Chile	40,3	27%	3100000	15665216	20%
Czech Republic	34,9	43%	2690000	10249216	26%
Malaysia	32,8	66%	5700000	23092940	25%
Bulgaria	6,3	n/a	585000	7537929	8%
World	31212,4	n/a	604111719	6302309691	10%

Table A-6: Comparison of literacy level, prevalence of unemployment and the distribution of family income in terms of the Gini index, of the top ten countries in terms of music sales value as well as the benchmark countries for 2002. (Source: CIA 2003a)

Country	Total Population	Literacy	Unemployment	Gini Index
USA	290342554	97.0%	5.8%	40.8
Japan	127214499	99.0%	5.4%	24.9
UK	60094648	99.0%	5.2%	36.8
France	60180529	99.0%	9.1%	32.7
Germany	82398326	99.0%	9.8%	30.0
Canada	32207113	97.0%	7.6%	31.5
Italy	57998353	98.6%	9.1%	27.3
Spain	40217413	97.9%	11.3%	32.5
Australia	19731984	100.0%	6.3%	35.2
Mexico	104907991	92.2%	3.0%	53.1
Brazil	182032604	86.4%	6.4%	60.7
South Africa	42768678	86.4%	37.0%	59.3
New Zealand	3951307	99.0%	5.3%	n/a
Poland	38622660	99.8%	18.1%	31.6
Thailand	64265276	96.0%	2.9%	41.4
Colombia	41662073	92.5%	17.4%	57.1
Singapore	4608595	93.2%	4.6%	n/a
Chile	15665216	96.2%	9.2%	56.7
Czech Republic	10249216	99.9%	9.8%	25.4
Malaysia	23092940	88.9%	3.8%	49.2
Bulgaria	7537929	98.6%	18.0%	26.4
World	6302309691	77.0%	30.0%	-

¹⁰ IFPI 2003.

¹¹ CIA 2003a.

Table A-7: Comparison of the growth rate of DVD-format music videos in terms of year-on-year unit sales growth of the top ten countries in terms of music sales value as well as the benchmark countries for 2002 (Source: IFPI 2003).

Country	Music \$ Sales	DVD Unit Sales 2002 [thousands]	DVD Unit Sales 2001 [thousands]	YOY growth of DVD Unit Sales
USA	12325,7	10651.0	7899.0	35%
UK	2859,4	3563.0	1825.7	95%
Australia	499,9	2374.7	802.1	196%
Canada	587,9	1619.0	933.7	73%
New Zealand	87,6	217.9	110.5	97%
Singapore*	46,7	254.7	303.3	-16%
Japan	4593,3	10991.1	8627.8	27%
Germany	1988,0	3333.3	1460.7	128%
Italy*	554,7	832.2	431.1	93%
France	1989,7	3071.0	2190.0	40%
Czech Republic*	34,9	45.3	23.6	92%
Malaysia†	32,8	299.8	280.5	7%
Chile	40,3	231.4	1.6	14363%
Spain*	542,3	487.8	432.6	13%
Poland	84,5	173.7	140.0	24%
Bulgaria	6,3	no data	no data	no data
Brazil	354,0	2822.2	1653.0	71%
South Africa	110,6	253.8	112.9	125%
Mexico	445,5	no data	no data	no data
Colombia*	66,1	15.8	1.4	1029%
Thailand†	83,8	15239.0	4410.0	246%
World	31212.4	62793.1	34739.7	81%

Notes: * estimates due to non-availability of format splits

† DVD figures includes VCD-format

Table A-8: Comparison of the rate of growth of the music cassette (MC) market, in terms of year-on-year AE unit sales, of the top ten countries in terms of music sales value as well as the benchmark countries for the period 1998 to 2002 (Source: IFPI 2003).

Country	MC AE unit Marketshare 1998	MC AE unit Marketshare 2002	Change in MC Marketshare for 1998-2002
USA	15.3%	3.9%	-11.4%
UK	13.5%	0.8%	-12.7%
Thailand	91.3%	66.6%	-24.7%
Spain	20.3%	3.7%	-16.6%
South Africa	34.7%	33.1%	-1.6%
Singapore	7.9%	0.0%	-7.9%
Poland	61.5%	30.5%	-31.0%
New Zealand	14.6%	2.5%	-12.1%
Mexico	37.1%	5.3%	-31.8%
Malaysia	73.9%	62.0%	-11.8%
Japan	2.8%	1.8%	-1.1%
Italy	28.3%	8.0%	-20.3%
Germany	10.4%	10.2%	-0.2%
France	10.5%	3.3%	-7.2%
Czech Republic	47.7%	25.0%	-22.7%
Colombia	17.3%	1.3%	-16.0%
Chile	46.2%	15.7%	-30.5%
Canada	12.7%	1.9%	-10.8%
Bulgaria	94.4%	77.8%	-16.7%
Brazil	0.2%	0.0%	-0.2%
Australia	3.6%	1.1%	-2.5%
World	22.7%	18.6%	-4.1%

Table A-9: Comparison of the *per capita* sales of legitimate recorded music in AE units the top ten countries in terms of music sales value as well as the benchmark countries for 2002.

Country	Total Population ¹²	2002 Sales AE Units ¹³ [millions]	Calculated Per Capita sales i.t.o. AE units
USA	290342554	840.20	2.89
UK	60094648	243.20	4.05
Thailand	64265276	29.00	0.45
Spain	40217413	64.84	1.61
South Africa	42768678	17.80	0.42
Singapore	4608595	5.23	1.13
Poland	38622660	13.77	0.36
New Zealand	3951307	8.04	2.03
Mexico	104907991	54.22	0.52
Malaysia	23092940	5.80	0.25
Japan	127214499	261.40	2.05
Italy	57998353	50.00	0.86
Germany	82398326	214.07	2.60
France	60180529	149.40	2.48
Czech Republic	10249216	4.80	0.47
Colombia	41662073	7.81	0.19
Chile	15665216	7.01	0.45
Canada	32207113	58.30	1.81
Bulgaria	7537929	1.80	0.24
Brazil	182032604	79.53	0.44
Australia	19731984	53.80	2.73

Table A-10: Growth of the market value for legitimate domestic repertoire recorded music in the period 1998 to 2002 for the value top ten music markets as well as the benchmark countries. Repertoire origin is judged on the basis of artist country of signing (Source: IFPI 2003).

Country	Domestic Repertoire* as a % of market value for 2002	Total Recorded Music Sales in 2002 [\$m]	Domestic Repertoire* as a % of market value for 1998	Total Recorded Music Sales in 1998 [\$m]	Real change in domestic repertoire sales	Change in percentage domestic repertoire for period 1998-2002
Bulgaria	59%	6.3	62%	3.5	71.3%	-3.0%
New Zealand	11%	87.6	6%	100.1	60.4%	5.0%
France	59%	1989.7	43%	2147.2	27.1%	16.0%
Canada	23%	587.9	11%	971.7	26.5%	12.0%
UK	49%	2859.4	48%	2855.6	2.2%	1.0%
USA	93%	12325.7	91%	13201	-4.6%	2.0%
Italy	45%	554.7	43%	652.9	-11.1%	2.0%
Australia	20%	499.9	20%	606.7	-17.6%	0.0%
Poland	35%	84.5	22%	171.5	-21.6%	13.0%
Japan	74%	4593.3	78%	6043.5	-27.9%	-4.0%
Spain	38%	542.3	42%	680.7	-27.9%	-4.0%
Mexico	49%	445.5	57%	543.3	-29.5%	-8.0%
Germany	45%	1988	43%	3012.1	-30.9%	2.0%
South Africa	28%	110.6	24%	195.7	-34.1%	4.0%
Thailand	70%	83.8	82%	114.7	-37.6%	-12.0%
Chile	19%	40.3	15%	84.8	-39.8%	4.0%
Malaysia	19%	32.8	25%	51.3	-51.4%	-6.0%
Czech Republic	45%	34.9	42%	77.6	-51.8%	3.0%
Colombia	33%	66.1	31%	159.4	-55.9%	2.0%
Brazil	68%	354	73%	1171.7	-71.9%	-5.0%
Singapore	-	46.7	-	53.8	-	-

* Excluding multi-artist product

¹² CIA 2003a.

¹³ IFPI 2003.

Table A-11: Total legitimate recording sales dollar value of the music sales value top ten countries as well as the benchmark countries for the period 1998 to 2002. (Source: IFPI 2003).

Country	Total sales value [\$million]				
	\$US 2002	\$US 2001	\$US 2000	\$US 1999	\$US 1998
Australia	499.9	522.5	561.3	656.3	606.7
Brazil	354	423.5	724.7	668.4	1,171.70
Bulgaria	6.3	6.1	4.7	3.4	3.5
Canada	587.9	659.9	761.4	885.8	971.7
Chile	40.3	42.2	65.8	76.2	84.8
Colombia	66.1	99	107.8	130.8	159.4
Czech Republic	34.9	37.6	40.6	51.1	77.6
France	1,989.70	1,828.30	1,716.00	1,983.40	2,147.20
Germany	1,988.00	2,107.60	2,414.80	2,832.50	3,012.10
Italy	554.7	524.7	591.3	713.2	652.9
Japan	4,593.30	5,257.70	6,445.40	6,436.60	6,043.50
Malaysia	32.8	41.4	52.6	52.8	51.3
Mexico	445.5	565.8	665.9	626	543.3
New Zealand	87.6	82.8	87.9	99.4	100.1
Poland	84.5	115.8	149.2	154.9	171.5
Singapore	46.7	44.8	46.1	46.4	53.8
South Africa	110.6	120.6	150.4	181.4	195.7
Spain	542.3	613	625.5	710.5	680.7
Thailand	83.8	91.8	108.2	125.5	114.7
UK	2,859.40	2,808.70	2,828.70	2,908.90	2,855.60
USA	12,325.70	13,411.70	14,042.00	14,251.40	13,201.00
World	27334	29405.5	32190.3	33594.9	32898.8

Table A-12: Demographic statistics relevant to HIV/AIDS, Population growth and Life expectancy for the value top ten music markets as well as the benchmark countries (Source: CIA 2003a).

Country	AIDS Prevalence rate (2001 estimation)	Population growth rate	Life expectancy at birth [years]
South Africa	20.1%	0.01%	46.56
Thailand	1.8%	0.95%	71.24
Brazil	0.7%	1.15%	71.13
USA	0.6%	0.92%	77.14
Spain	0.5%	0.16%	79.23
Italy	0.4%	0.11%	79.4
Colombia	0.4%	1.56%	71.14
Malaysia	0.4%	1.86%	71.67
France	0.3%	0.42%	79.28
Canada	0.3%	0.94%	79.83
Mexico	0.3%	1.43%	72.3
Chile	0.3%	1.05%	73.65
Singapore	0.2%	3.42%	80.42
Japan	0.1%	0.11%	80.93
UK	0.1%	0.30%	78.16
Germany	0.1%	0.04%	78.42
Australia	0.1%	0.93%	80.13
New Zealand	0.1%	1.09%	78.32
Poland	0.1%	0.00%	73.91
Czech Republic	0.1%	0.34%	75.18
Bulgaria	0.1%	-1.09%	71.8
Lesotho	31.0%	0.19%	36.94
Botswana	38.8%	-0.55%	32.26
Zimbabwe	33.7%	0.83%	39.01
Mozambique	13.0%	0.82%	31.3
Namibia	22.5%	1.49%	42.77
Swaziland	33.4%	0.83%	39.47
World	n/a	1.17%	63.95

Table A-13: Yearly HIV statistics, in terms of prevalence in pregnant women in major urban areas. (Source: WHO 2004).

Year	HIV prevalence in pregnant women in major urban areas [%]		
	South Africa	Uganda	Thailand
1990	0.55	30.81	0.20
1991	0.85	27.36	0.57
1992	1.75	29.42	1.21
1993	3.04	24.40	n/a
1994	5.94	19.15	1.88
1995	12.03	18.50	1.93
1996	13.45	17.80	1.72
1997	14.85	14.70	1.28
1998	19.20	13.80	2.10
1999	20.95	11.40	2.30
2000	24.30	11.25	1.56
2001	25.75	9.95	1.60
2002	27.60	8.30	1.18

Table A-14: Piracy/counterfeiting statistics in terms of the value of sales of the pirate/counterfeit product for the benchmarking countries for 2002.

Country	Music Piracy Level i.t.o. sales value of pirate product for 2002 [%]	Music Piracy i.t.o. AE Units for 2002 [%] (source: IFPI 2003c)	Music Piracy i.t.o. AE Units for 2002 [millions]
Bulgaria	83% (IIPA 2003)	>50%	n/a
Malaysia	70% (IIPA 2003)	>50%	n/a
Mexico	68% (IFPI 2003c)	>50%	91 (IFPI 2003c)
Colombia	65% (IIPA 2003)	>50%	n/a
Brazil	53% (IFPI 2003c)	>50%	114 (IFPI 2003c)
Czech Republic	50% (IIPA 2003)	25-50%	n/a
Poland	45% (IIPA 2003)	25-50%	n/a
South Africa	42% (IIPA 2003)	25-50%	6,763 (Crawford 2003)
Thailand	42% (IIPA 2003)	25-50%	n/a
Chile	35% (IIPA 2003)	25-50%	n/a
Singapore	n/a	10-25%	n/a
New Zealand	n/a	Less than 10%	n/a