

CHAPTER 2

MAJOR PLAYERS OPERATING IN THE LOCAL RECORDING INDUSTRY

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2 MAJOR PLAYERS OPERATING IN THE LOCAL RECORDING INDUSTRY

2.1 Introduction

Chapter 1 of this thesis centred around the study of the supply chain management (SCM) process, in other words all the logistical aspects related to delivering a product to market. The first chapter also contained a basic overview of selected terminology associated with SCM, such as forecasting, benchmarking and achieving and maintaining a competitive advantage. The static and strategic components which influence the channel strategy were also discussed. Chapter 2 documents the local players which are currently participating in these SCM processes of the South African recording industry.

As in most other recording industries around the world, the South African industry consists of the following three major players:

1. The artist
2. The record company
3. The trade

These three groups, as well as the end-user, are discussed in this chapter (refer to points 2.4 to 2.7 below). Even though the end-user (the market) is not part of the above mentioned value chain, it is still briefly discussed as a player in the supply chain because of the vast impact this group has on all other players in the industry. The knowledge obtained here where put to good use when the current processes and procedures of the local South African recording industry (MODEL A) were researched and documented in Chapter 3.

2.2 Record industry terminology

Below three important terms are explained in anticipation of the discussion of the players in the local recording industry.

2.2.1 Music publishing

Music publishing is the business of acquiring and exploiting rights in musical compositions. It is a business based on the songs themselves as distinct from the records, films, commercials or other media in which they are used. Publishers are custodians of the song, *i.e.* the words and the music, and their business is to assure that they are heard and enjoyed.

2.2.2 Copyright

Copyright conveys to writers the exclusive legal right to be compensated for the use of their songs. Generally, the right to receive copyright royalties extends for the life of the writer, plus an additional 50 to 70 years following their death, depending on jurisdiction. Income generated by the use of a song is split between the writer and the publisher, with the publisher in most instances being responsible for the collection of the income on behalf of the writer, as well as for the distribution of their share.

2.2.3 Publishing revenues

Music publishers earn their revenue from licensing the right to use their songs, a right they have to the exclusion of the whole world. Every time a song is used or performed, the owner of the copyright must grant permission, a licence must be issued and a payment must be made. The more a song gets performed or used, the more income is generated for the publisher and songwriter. Although music publishing grew out of the sheet music business of the last century, the vast majority of publishing revenues today come from three sources, which are mechanical, performance and synchronization

royalties (www.risa.org.za/copyright). These three revenue sources are shortly discussed below:

(a) Mechanical royalties

The term 'mechanical' evolved out of the practice of converting sheet music into piano rolls that mechanically played the song - hence the name. It was a direct path from piano rolls to recordings. However, what has always remained certain is that each time a record is sold the publisher must get paid. The pace of growth of this type of income will be impacted by how fast the overall recorded music market is growing.

The average mechanical royalty across the world is about five percent of the retail price of a record. According to the South African Recording Rights Association Limited (SARRAL) and the National Organisation for Reproduction Rights (NORM), the mechanical royalty percentage in South Africa is six and a quarter percent of the retail price. In South Africa, popular *local* music generally retails between R59.99 and R89.99 per CD (compact disc) unit, which means that the average mechanical royalty payment will be between R3.75 and R5.62 (*i.e.* six and a quarter percent of the retail selling price per unit). From this calculation it can be concluded that a music publisher needs to sell many records before the income generated will add up to a meaningful number, especially since out of that six and a quarter percent the writer and other participants also have to be paid their share. Refer to a comprehensive breakdown of the PPD (price per dealer) and the retail-selling price in Chapter 3.

(b) Performance royalties

Historically, performance income was generated when a song was performed live on stage or played in a public place. Today, performance royalties cover a much wider range of uses, including when a song is broadcast on radio, television, in a cinema or even over the Internet.

(c) Synchronisation royalties

This is the third major and fastest growing source of revenue for the recording industry. As the name implies it involves the marrying of the song (the words and the music) with visuals - like television programs, advertisements and films.

2.3 South African governing bodies

Various bodies are responsible for the development and protection of the rights of the South African music industry. Three of the main organisations (as listed below) were contacted and interviewed in order to establish and confirm their roles and responsibilities in the local recording industry. The major organisations that look after the interests of the local industry and its players are listed below:

(a) South African Music Rights Organisation (SAMRO)

SAMRO is the largest of the five copyright organisations and it controls all broadcasting and public performing rights in South Africa.

(b) South African Recording Rights Association Limited (SARRAL)

SARRAL has been operating since 1963 and is a non-profit society looking after the rights of composers of musical works. SARRAL licenses and collects mechanical royalties (as discussed in point 2.2.3 above) on behalf of its members.

(c) National Organisation for Reproduction Rights in South Africa (NORM)

NORM is the association of South African music publishers and is a negotiating body representing the collective rights of its members. NORM has the authority to negotiate and collect royalties on all usage of copyrighted musical works in accordance with the mandates of its members. All South African music publishers, including SARRAL, are members of NORM.

2.4 The artist

The South African market is a colourful mix between countless young and upcoming individual artists, groups and bands; the more mature singers who have been around for a while and the really successful ones - who are unfortunately few and far between. For the purpose of this thesis, artists were divided into the following two major groups:

2.4.1 The individual artist or band

This group of artists have not signed a recording contract with a record company. They manage their own careers and also have to ensure that their product gets to the market, which entails the recording, manufacturing, selling and distribution of their albums. They also have to arrange their own concerts, tours and other public appearances. There are some advantages to choosing to follow this route - the major one being that the artists receive all profits from the sales of their titles themselves, and do not have to share it with a record company. On the other hand, the major disadvantage is that these artists often become 'jacks of all trades', because they are not able to concentrate purely on their core competence which is making music, but also have to get involved in all other logistical aspects of the manufacture, sale and distribution thereof.

2.4.2 The signed artist or band

This group of artists signed a recording deal or contract with a record company, for a specified period of time or for a specific number of albums to be recorded and released through the specific record company. In the current MODEL A, it is then this record company's responsibility to provide the funds and all other resources necessary to manage and market the artist or band's signed career. The entire supply chain management process (including aspects such as procurement, sales, marketing, physical distribution, debt collection and revenue distribution) is discussed in more detail in Chapter 3 (the current local supply chain or MODEL A) as well as in Chapter 6 (the outsourced supply chain model or MODEL C).

2.4.3 Artists' governing bodies

In point 2.3 above, certain bodies which control and protect composers, publishers and the music industry as a whole, were discussed. Various governing bodies also protect the rights of the South African music *artist*, mainly focusing their efforts on providing support for artists, as well as developing individual talents and the industry as a whole. Two of the more respectable local bodies performing these functions were researched and are discussed below:

(a) Musicians' Union of South Africa (MUSA)

MUSA was established on membership drawn from the former South African Music Alliance (SAMA), the South African Music Union (SAMU) and other non-aligned musicians and organisations. MUSA is a national representative body formed following musicians' demand for a union that would respond to economic, labour, legislative and development needs. According to their website (www.risa.org.za/sa_music_org), MUSA's mission is 'to ensure equitable development of South African music by promoting the development of musicians' professionalism and artistic competitiveness in a climate of economic fairness and striving for support - legislative and other that would enable and stimulate musical activity and excellence.'

(b) Music Industry Development Initiative (MIDI) Trust

Formed in October 1996, MIDI is a non-profit organisation that was formed to support growth and development of a vibrant and creative South African music industry and its artists. The focus of their activities is training and education, information, industry development and networking. It is a neutral organisation in the South African music industry with a wide network of industry stakeholders and other practitioners. The MIDI Trust is represented on various South African committees and associations. Its delegated representatives play important roles on the following three specific committees:

- The Anti-Piracy Committee of South Africa – a sub-committee of the Recording Industry of South Africa (RISA)
- The Standards Generating Body (SGB) of Music Industry Skills and Higher Education in Music
- The Technical Production Services Association

2.5 The record company

After the artist (discussed in point 2.4 above), the record company is the second player operating in the local recording industry. Different types of record companies, their main functions and governing bodies are discussed in points 2.5.1 to 2.5.3 below.

2.5.1 Main functions

The easiest way to define a record company, is to analyse their six main generic functions. These processes are currently all managed internally (the MODEL A supply chain):

(a) Contracting

Record companies contract or ‘sign-up’ individual artists or bands. These contracts are signed for a period of time, usually two years, or for a certain number of albums that the artist will release through the particular record company.

(b) Recording

Record companies are responsible for the recording of an album / albums in a recording studio. It involves many hours of rehearsing, recording, mixing, cutting and editing to achieve the finished end-product, *i.e.* the master CD (compact disc) which is to be replicated.

(c) Replication

This master CD is then duplicated by a specialised CD manufacturing plant. Two such local operations are *Compact Disc Warehouse* and *Sonopress*, both will be discussed in Chapter 3 when the processes of the current local supply chain are researched and documented.

(d) Sales and marketing

The finished copies are then sold into the trade by a sales team. A vast amount of marketing is necessary to create a demand in the targeted market, especially with the release of a new or unknown artist's material. This marketing effort also includes the production and manufacturing of marketing collateral, such as videos, posters, pamphlets, t-shirts and caps that must be produced to create mainly awareness and visibility. With big releases, large amounts of money are also spent on TV-, radio- and printed advertisements.

(e) Career management

The record company must manage the professional career of the artist or the band, and also control public appearances such as concerts and tours, in-store performances, photo shoots and autograph signing sessions.

(f) Royalty management

Very important is the management of the payment of all necessary royalties to the various governing bodies (as described earlier in this chapter), as well as to the artist or band. The calculation of these complex percentages and how they are distributed is discussed in Chapter 3.

2.5.2 Types of record companies

In South Africa, record companies are divided into two groups – the 'Majors' and the 'Independents'. Both groups are discussed on the following pages:

2.5.2.1 The Majors

There are currently five big international record companies operating in South Africa. In the local trade, they are commonly known as the ‘Majors’ or the ‘Big Five’ and they are listed and discussed below. Their historic input, as well as their contributions to shaping the worldwide recording industry as whole, are also reviewed.

(a) *Sony Music Entertainment Incorporated*

Of all the major and independent record companies, *Sony Music* has had the most revolutionary influence on the worldwide development of music, and making it available to the general public in a tangible format. *Sony Music*, as it is known today, can trace its beginnings back to the late 1880’s, to the *Columbia Graphophone Company* of Bridgeport, Connecticut (USA) – and the experiments of scientist Charles Sumner Tainter and his engineer colleague Chichester Bell, a cousin of the famous Alexander Graham Bell (www.sonymusic.com).

A patent was granted to Tainter and Bell on May 4, 1886. In place of the tinfoil that Thomas Edison had used in the development of his tinfoil phonograph a decade earlier, they substituted it for cardboard coated with wax on which a recording stylus traced sound patterns according to vibrations caused by impulses of sound projected on it.

The purchase of controlling interests for both Edison and Tainter and Bell’s patents, led to the founding of the *North American Phonograph Company*. The *Columbia Phonograph Company* was one of the subsidiaries across the USA that leased rights to operate regionally. By 1891, *Columbia* was the first company to offer a catalogue of phonographs for sale. By 1895, it was manufacturing hundreds of units per day and had a catalogue of more than 5 000 units by the end of that century.

Developments of both a technical and a musical nature became *Columbia* trademarks through the years. In 1904, the first discs were developed which played at 78 rpm (revolutions per minute). This was also the year that the pioneering of the double-sided record took place. By 1919 Americans were buying more than 25 million 78 rpm records every year, and the industry reported annual sales of USD150 million.

In 1926, *Columbia* took over the *Otto Heinemann Phonograph Corporation*, but then in 1934, *Columbia* was bought by *ARC-BRC (American Record Company – Brunswick Record Company)*. Four years later, in 1938, *ARC-BRC* was in turn purchased by *CBS (Columbia Broadcasting System)*.

A decade later, in 1948, *CBS* introduced the 33 1/3 rpm LP (long play record), which revolutionised the industry and soon became the accepted standard for sound reproduction. By 1955, production of the old 78 rpm disc had ceased.

In 1953, *CBS* launched a new label called *Epic Records*, which quickly developed into a formidable hit-making force in rock, pop, R&B (rhythm and blues) and country music.

In 1968, *CBS* formed a joint venture with *Sony Corporation* for the purpose of marketing *CBS* product alongside domestic Japanese product in Japan, Macao and Hong Kong. By 1978, worldwide sales for *CBS* records had reached USD1.2 billion, the first American record company to cross the billion dollar threshold.

Continuing its legacy of technological innovation, *CBS* helped introduce *Sony's* Compact Disc in 1982, which eventually superseded the 33 1/3 rpm LP. Simultaneously, *CBS* established music videos as a new and vital form of promotion for its artists and releases.

In January 1988, the *Sony Corporation* acquired *CBS* – and the company is known today as *Sony Music Entertainment Inc.* In January 1994, in acknowledgement of its worldwide growth and success, *Sony Music* reorganised into the four label groups which are still in use today: *Epic Records Group*, *Columbia Records Group*, *Relativity Entertainment Group* and *Sony Classical*.

(b) *Gallo Record Company*

Internationally the *Gallo Record Company* is a hybrid of the original *Gallo Record Company* that was launched in 1926 by Eric Gallo, and the *Gramophone Record Company (GRC)* founded in 1939 by music retailer Arnold Golembo. Today, *Gallo* is the exclusive licensee for *Warner Music International* and its affiliated companies and labels held under *Warner Brothers Records*, *Elektra Records* and *Atlantic Records* (www.gallo.com).

Gallo is the market leader in the South African music industry with an average market share of 25% over the past three years. Their head office is based in Rosebank, Johannesburg and they have two regional offices in Durban and in Cape Town. Their national distribution and fulfilment services are managed and controlled in-house through the *Gallo Distribution Centre (GDC)*.

Gallo Music Publishers (Africa) is the oldest and biggest music publishing business in Southern Africa and own more than 80% of South Africa's all-time best selling songs. Originally established as the *Music Publishing Company of Africa (Pty) Ltd* in 1950, *Gallo Music Publishers* boasts more than 50 years as South Africa's foremost publisher.

(c) *BMG (Bertelsmann Music Group)*

BMG is the number one distributor of music singles in the United States and has a number one or number two market share position for local repertoire in ten different countries around the world. *BMG Music Publishing* is the third largest record company and music publisher in the world, with *Bertelsmann AG* holding a 100% shareholding in the company. *BMG* is the global music division of

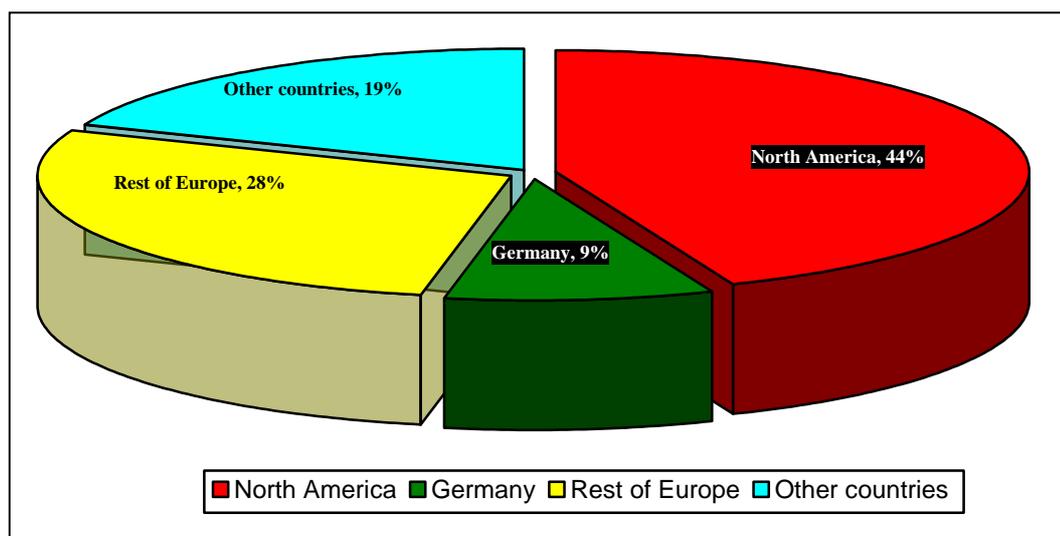
Bertelsmann AG, one of the worlds leading media companies. *Bertelsmann AG* has operations in 51 countries around the world with a workforce of more than 80 000 employees (as at the end of 2002). *Bertelsmann AG* revenues for the last fiscal year exceeded 18.3 billion euro (www.bertelsmann.de).

BMG owns more than 200 record labels, including the well known *J Records*, *Arista Records*, *Jive Records* and *Ariola* labels. Its three main business areas are record labels, music publishing and music distribution.

BMG is headquartered in New York in the United States of America, but have offices in 41 countries around the world, including South Africa. They have an employee force of more than 6 000 employees (as at the end of 2002). On February 23, 2003 at the Grammy Awards ceremony held in Madison Square Gardens, the National Academy of Recording Arts and Sciences awarded eight Grammy Awards to various *BMG* artists.

In the 2000 / 2001 fiscal year, *BMG* revenues exceeded 2.7 billion euro. Refer to Figure 2.1 below which depicts how this revenue was generated worldwide.

Figure 2.1 BMG revenues



Source: www.bertelsmann.com/divisions/bmg

(d) *UMPG (Universal Music Publishing Group)*

Generally known as '*Universal*', *UMPG* is headquartered in Los Angeles, California (USA), with more than 47 offices in 41 countries around the world (www.universalmusic.com).

The *Universal* catalogue owns record companies such as the prestigious *Rondor Music Catalogue* with more than 60 000 titles. Other well-known record companies in their stable are for example *Interscope*, *All Nations Music* and *Momentum Publishing*. Universal has contracted some of the twenty first centuries' most successful artists, including amongst others Shania Twain, U2, Bon Jovi, Prince, Westlife and Alanis Morissette.

(e) *The EMI Group*

EMI's biggest music recording division is called *Recorded Music*, which in turn consists of more than twenty smaller record companies such as *Angel Records*, *Capitol Records*, *Java Records* and *Virgin Records*. The *Recorded Music* label manages more than 1 500 artists and / or bands (www.emigroup.com).

EMI is the world's largest music publisher in terms of copyrights owned, controlled or administered, with rights to more than one million musical compositions and offices in 30 countries. *EMI* concentrates on discovering, promoting and nurturing gifted songwriters around the world, working with new and established writers to build a body of work to be appreciated by future generations and making the music of yesterday relevant to the audience of today.

EMI builds its music publishing business throughout the world by signing-on new songwriters, renewing existing contracts with songwriters and acquiring catalogues of existing compositions. *EMI* enters into agreements with composers and writers of musical compositions for the use of copyrighted compositions and songs. The company also seeks to ensure that songwriters' compositions are recorded and assists them in the further exploitation of their work. *EMI*'s successes enables the company to sign-on artists to its publishing arm even

when they are contracted to other record labels. An equally significant focus of the company is the acquisition and / or administration of catalogues of musical compositions from other music publishers and composers and authors who have retained or reacquired rights to such musical compositions. Catalogues owned or administered by *EMI* include *Screen Gems*, *Filmtrax*, *Virgin Music Publishing* and, through a 50% ownership of *Jobete Music*, the famous *Motown* black catalogue.

Catalogue is the bedrock of *EMI's* business. The publishing catalogue incorporates some of the most important songs of this century, songs that provide a consistent stream of income, year in and year out. In order to grow and prosper, *EMI* needs to continually add to and grow their catalogue. *EMI* believes that the art of identifying the next great writer and the next great song, is the single most important function they perform.

In looking to the future, *EMI* has also pioneered the use of technology to further its business. It was the first major music publisher to establish a web site (www.emigroup.com), the first to incorporate an advanced lyric search engine and the first to initiate the licensing process online.

2.5.2.2 The Independents

The second type of record company operating in South Africa, are the local independent record companies (or the 'Indies' as they are commonly known). They are much smaller than the above-mentioned international corporations and they contract mainly local artists.

It is worthwhile to note that lately, the number of *international independents* operating in South Africa have also been growing, especially record companies from the rest of the African continent now marketing and selling their music in South Africa.

Founded in October 1987, the biggest and most well known local independent record company is *Select Music* (www.select.co.za). They are headquartered in Johannesburg, South Africa and have a relatively big staff compliment, including several sales executives stationed throughout the country. They own two labels, namely *Crescendo* and *Fantastic*. Under these two labels, they own contracts with more than thirty of South Africa's leading artists. They also release compilation albums under the *Select* label, incorporating a wide mixture of music genres. Some of their best-selling 2003 and 2004 compilations in the following genres were:

- Afrikaans: “*DKNT Treffers*”, “*Ek sal jou nooit vergeet nie*” and “*Bokjol Somerpartie*”
- Dance: “*Goue Sokkie Treffers*”, “*Hie kommie partie*” and “*Gatswaai*”
- Country: “*Country Wat Skop*” (*volumes I and II*)
- Gospel: *Gospel “Karaoke Treffers”* on DVD
- Instrumental: *Sweetest Sax, Bagpipe Favourites, Piano Moods* and “*40 Kitar Treffers*”

Select Music Distribution (SMD) claims to be the biggest distributor of Afrikaans music. They distribute the titles contracted under their own two labels (*Crescendo* and *Fantastic*), and also manage the local distribution of the CD's of various other companies, e.g. “*Laurika Rauch Produksies*”, *Jamca Rythmics* and *Jump Productions*.

2.5.3 Record company governing bodies

According to a statement on their website (www.risa.org.za), the Recording Industry of South Africa (RISA) is ‘committed to improving the state of the South African recording industry and promoting and safeguarding the interests of all member record companies, no matter what size’. RISA is also known for the following two main high profile activities:

- Hosting the annual South African Music Awards

- Managing South Africa's official anti-piracy campaign (piracy is discussed in Chapter 3)

RISA's day-to-day work also includes many other important key aspects relating to the local industry, such as:

- a. The awarding of certificates of sales achievements by record companies and artists - at present album sales of 25 000 copies receives a gold certificate and 50 000 copies sold is awarded with a platinum certificate.
- (b) Representing the local recording industry internationally.
- (c) Providing information and research.
- (d) Establishing and applying ethics and standards throughout the country.
- (e) Making representations on key issues affecting the recording industry as a whole.

Refer to Annexure A at the end of this thesis for a full overview of RISA's functions as well as their detailed strategic objectives. Annexure B contains the current RISA membership list.

2.6 The trade

The third player in the local music industry is referred to as 'the trade'. The trade (the targeted market) buys finished goods – *i.e.* CD's (compact discs), tapes, videos, and DVD's (digital versatile discs), directly from the above-mentioned major or independent record companies, or sometimes from each other (dealers buy from wholesalers). They add a substantial mark-up unto the product and then sell it on to the public. The four types of South African traders are:

2.6.1 Wholesalers

The main characteristic of a music wholesaler is that it buys in bulk, with the main purpose of selling-on to other buyers in the trade. Because of the large amount of units it buys on an almost daily basis, it has the most bargaining power and generally receives the best prices from the record companies - they are thus mainly price driven. It sells goods directly to the public out of its factory-like warehouses, but its main objective is to be a 'middle-man' and sell on to other dealers.

The biggest South African music wholesaler is *Reliable Music*, operating out of Crown Mines in Johannesburg, Gauteng. They carry huge amounts of stock, often more than R30 million worth. In a personal interview with the Managing Director of *Reliable*, he stated that he himself is personally responsible for all the buying of stock from record companies. The *Reliable* client base consists of hundreds of small dealers and independent stores situated as far away as the Northern Cape, Limpopo and the Free State.

2.6.2 Dealers

Music dealers buy either directly from a record company, or from the above-mentioned wholesalers. They are also price driven, and will buy from whoever can offer them the cheapest price. Examples of South African music dealers are *Music Moods* in Centurion (Gauteng), *Blue Note CD's* in Pretoria (Gauteng), *Ziggy's* in Potchefstroom (North West province) and *Planet CD* in Bellville (Western Cape).

2.6.3 Retailers

Retailers or chain stores buy exclusively and direct from record companies. They have one head office with many outlets throughout the country, often also in South Africa's neighbouring countries. They are more service driven, and their required lead times are very short. Well-known local examples are:

- *Musica*, headquartered in Cape Town with 130 outlets in South Africa, and various more in the neighbouring countries (www.musica.co.za)
- *Look & Listen*, headquartered in Bedfordview, Johannesburg with ten outlets nationwide (www.lookandlisten.co.za)
- *CNA* with about 150 outlets in South Africa which sells music (*CNA* has consolidated their service offering and some stores now sell for example only books and games, others only stationary and greeting cards)
- *CD Warehouse* with three outlets situated in Gauteng and in Kwa-Zulu Natal

Retailers advertise aggressively. Since they all generally carry the same music titles (same *Product*) at the same *Price*, they focus mainly on the other two “*P*’s” of marketing to differentiate themselves from their many competitors, being *Place* and *Promotion*:

- (a) *Place*: they are situated in well-populated and frequently visited shopping centres or malls and they try to create an exciting shopping experience with attractive store interiors, multi-coloured banners and posters and loud music.
- (b) *Promotion*: they advertise aggressively, spending millions of rands on television, radio and press advertisements.

2.6.4 Independent stores

These so-called ‘mom and pop stores’ operate on a much smaller scale than the previous three groups. They generally buy very small quantities of stock, either from a record company or from the above mentioned wholesalers. They buy specific for their local demand and keep as little stock as possible. They have very little bargaining power and generally have to pay much higher prices than any of the other players in the trade. Many of them do not sell music exclusively, but stock a vast array of goods like radio’s, electrical appliances, cellular phones and cheap jewellery.

2.7 The consumer

The South African public is known for its diversity in preferring different kinds of music. Examples of some of the more well-known and popular genres are: classical, rock and pop, rap, dance, hip-hop, soul, R & B (rhythm and blues), 'kwaito' and gospel. Local and international music sales for the past five years are listed in tables 2.1 to 2.3 on the following pages (www.risa.org.za). In Annexure C at the end of the thesis a pie-chart illustrates the average monthly breakdown of South African local sales.

Note: Totals in the table below are retail sales values in rand values, for all music formats, *i.e.* including all music albums, CD's, cassette tapes, music videos and DVD's.

Table 2.1 Total sales of all music titles (both local and international) in the South African market (rand value)

MONTH	1999	2000	2001	2002	2003
January	23 285 368	15 718 209	21 017 281	26 410 892	27 776 668
February	35 150 873	31 417 150	32 646 952	43 206 943	36 396 740
March	40 938 326	55 552 560	49 660 142	62 262 134	58 719 029
April	44 287 534	44 036 305	39 451 052	46 292 317	55 702 620
May	47 632 143	40 482 756	43 052 979	63 174 187	62 167 852
June	50 916 237	44 167 674	54 973 463	38 428 747	46 520 247
July	59 761 445	39 980 799	36 033 447	39 882 772	39 781 110
August	46 843 987	42 852 377	47 238 765	55 949 396	45 387 838
September	54 450 318	55 685 776	44 919 351	54 434 403	56 588 661
October	79 611 521	67 286 379	55 368 435	77 918 077	83 612 599
November	99 305 825	80 771 138	98 292 158	116 401 082	94 914 109
December	110 489 014	88 564 560	86 877 202	79 977 792	97 444 371
TOTAL	692 672 582	606 515 883	609 531 227	704 338 742	705 011 844

Source: www.risa.org.za

Table 2.1 on the previous page contains the combined local and international retail sales figures, in rand values, of all music formats sold in South Africa over the last five years. An analysis of these combined sales figures led to the following conclusions:

- (a) Total music sales over the last five years have remained fairly constant, between R606 million and R706 million worth of sales per year. As discussed later in this chapter (refer to tables 2.4 and 2.5 below), this is due to a combination of the *increase* in local sales figures in conjunction with the *decrease* in international sales figures. Annexure D at the end of the thesis contains an additional graph depicting a breakdown of the separate local and international sales figures.
- (b) In 2002, 17 341 543 units were sold at a retail sales value of R704 338 742. This implies a sales value of R40.62 per unit. In 2003, 17 002 326 units were sold for a total of R705 011 844, which calculates to a sales value of R41.47 per unit (www.risa.org.za). Note that this retail sales value is an average amount for all music formats, including all music albums, CD's, cassette tapes, music videos and DVD's. This slight increase in the per units sales price (from R40.62 to R41.47), is mainly due to inflation and an over-all rise in consumer prices.
- (c) These combined sales values are relatively seasonal, with the highest sales occurring in the months of November or December, the traditional Christmas holiday period in South Africa. Coinciding with a general and all over lower consumer spending rate, the lowest monthly music sales every year, occur in the month of January.

Analysis and interpretation of the retail sales figures of the amount of local content (*i.e.* South African) music titles sold in South Africa displayed in table 2.2 on the following page, can also lead to various deductions and conclusions. These are discussed on the next pages:

Table 2.2 Local sales in the South African music market (rand value)

MONTH	1999	2000	2001	2002	2003
January	4 800 701	2 693 183	4 302 765	4 694 663	7 269 979
February	6 392 817	5 373 404	4 650 610	10 804 655	8 826 768
March	10 809 180	11 736 780	13 126 310	18 203 848	16 335 827
April	11 565 955	11 363 190	10 567 923	10 066 954	16 052 359
May	8 987 974	9 922 656	9 307 445	12 348 093	19 808 022
June	8 839 601	9 406 241	11 086 540	11 526 455	14 179 687
July	11 537 078	9 639 913	9 527 653	12 820 056	13 343 187
August	10 296 928	10 493 141	12 731 181	17 871 691	14 773 606
September	13 877 709	13 461 647	10 571 982	18 238 744	21 647 709
October	15 153 251	17 541 077	15 905 602	21 519 406	26 807 015
November	22 013 989	18 262 704	27 133 004	29 447 791	30 241 606
December	24 199 236	19 243 549	27 895 289	24 623 581	35 805 200
TOTAL	148 474 419	139 137 485	156 806 304	192 165 934	225 090 965

Source: www.risa.org.za

An analysis of the local sales figures led to the following conclusions:

- (a) In complete contrast to worldwide figures, the sales of local South African music have *increased* over the last couple of years.
- In 2000, the sales amount of local music was just nearly R140 million and in 2001 just more than R156 million, which is an increase of almost R16 million worth of sales in the one-year period
 - In 2001, the sales amount of local music was just over R156 million and in 2002 just more than R192 million, which is an even greater increase of almost R36 million in the one-year period

- From 2002 to 2003, the local sales figure went up again, with nearly R33 million worth of sales (refer to the data in the table above)
- (b) In 2002, 7 390 800 units were sold at a total retail sales value of R192 165 934. This implies a sales value of R26.00 per unit, which is an average figure for all music formats. In 2003, the sales value was R27.06 per unit (refer to the data in the table above). This unit sales amount is very low compared to worldwide markets, mainly because of the large amount of cassette tapes still sold in the South African market, which has a much lower retail sales price than for example CD's or DVD's. However, the slight increase in the per units sales price (from R26.00 to R27.06), is mainly due to the fact that less cassette tapes are now being sold in South Africa whilst more CD's and DVD's are being sold at a higher sales value.
- (d) The sales are highly seasonal, with the highest sales always occurring in the month of December (the traditional Christmas holiday period). Coinciding with a general and all over lower consumer spending rate, the lowest monthly music sales every year, occur in the month of January.

Refer to table 2.3 on the following page for a breakdown of international music titles sold in South Africa. The retail sales figures of international music albums sold in South Africa are interpreted as follows:

- (a) In South Africa, as in most other countries around the world, the sales of international music have steadily *decreased* over the last couple of years. Although sales figures in 2002 (+/- R512 million) were slightly higher than in 2001 (+/- R453 million), international music sales dropped again in 2003, not even reaching the R500 million mark. Annexure D at the end of the thesis contains an additional graph depicting a breakdown of the separate local and international sales figures.

Table 2.3 International sales in the South African music market (rand value)

MONTH	1999	2000	2001	2002	2003
January	18 484 667	13 025 226	16 714 516	21 716 229	20 506 689
February	28 758 056	26 043 746	27 996 342	32 402 288	27 569 972
March	30 129 146	43 815 780	36 533 832	44 058 286	42 383 202
April	32 721 579	32 673 115	28 883 129	36 225 363	39 650 261
May	38 644 169	30 560 100	33 745 534	50 826 094	42 359 830
June	42 076 636	34 761 433	43 886 923	26 902 292	32 340 560
July	48 224 367	30 340 886	26 505 794	27 062 716	26 437 923
August	36 547 050	32 359 236	34 507 584	38 077 705	30 614 232
September	40 572 609	42 224 129	34 347 369	36 195 659	34 940 952
October	64 458 270	49 745 302	39 462 833	56 398 674	56 805 584
November	77 291 836	62 508 434	71 159 154	86 953 291	64 672 503
December	86 289 778	69 321 011	58 981 913	55 354 211	61 639 171
TOTAL	544 198 163	467 378 398	452 724 923	512 172 808	479 920 879

Source: www.risa.org.za

(b) In 2002, 9 950 743 units of international music were sold at a total retail sales value of R512 172 808. This implies a sales value per unit of R51.47, which is an average retail sales value for all music formats. In 2003, the sales price per unit was even higher, at R55.26 per unit (refer to the data in the table above). It is clear to see how much higher this per unit value is compared to the unit value of local music of R27.06 per unit. The main two reasons for this difference are:

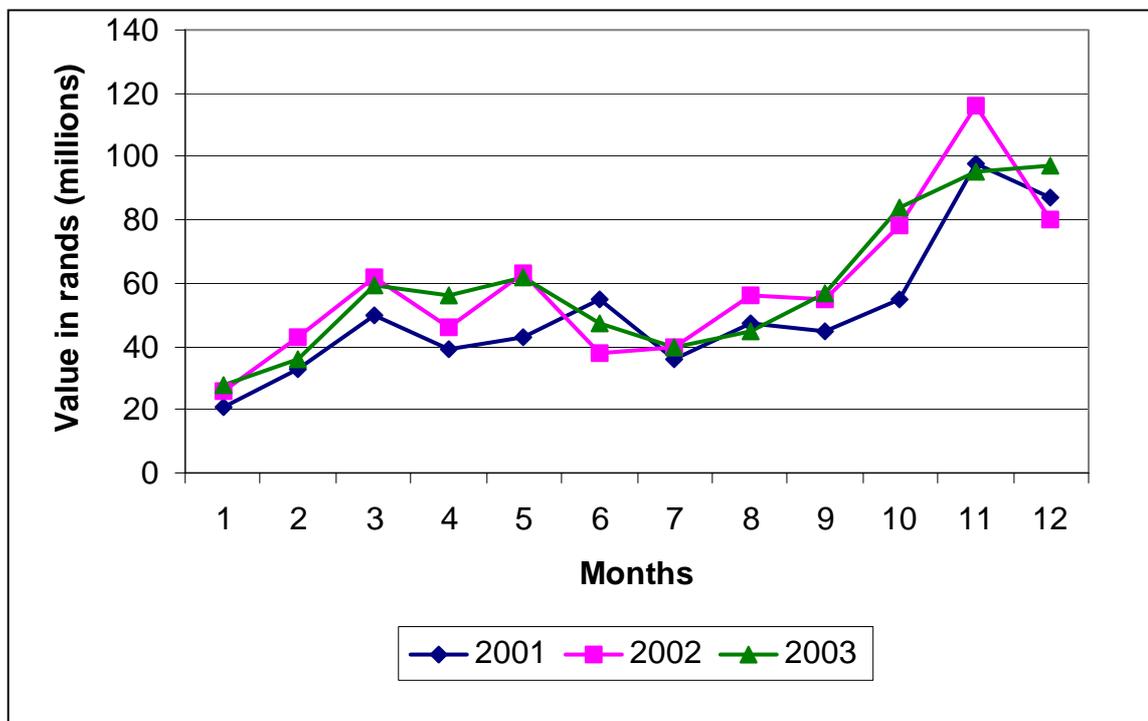
- A substantial number of local music is still sold as cassette tapes with a very low retail price, whereas international music is sold as CD's or DVD's which have a much higher selling price
- Even when local music is sold in a CD or DVD format, it still retails at a lower price when compared to a CD or DVD released by an international

artist. The average RRP (recommended retail price) of a local artist’s CD is between R49.99 and R89.99, while international music is sold on average between R109.99 and R149.99 per CD for locally manufactured units. Imported units have an even higher sales value.

- (c) These sales are also relatively seasonal, with the highest sales occurring in either the months of November or December. The slowest sales month every year remains the month of January.

Figure 2.2 below depicts the sales curve of the combined local and international sales values over a three-year period. With the sales of local music increasing, and the sales of international music decreasing, the end-result is a relatively steady sales figure over the last four years. Once again notice the distinct increase in music sold over the year-end holiday period of months 11 and 12 (*i.e.* the seasonal curve with increased sales in the months of November and December).

Figure 2.2 Graph of South African music sales



Source: www.risa.org.za

2.8 Summary

The second chapter of this thesis focused on the three major players operating in the current local recording industry - being the artists, the record companies and the trade. The consumer (the market) was also discussed. Whilst secondary research was performed to obtain specific information relating to these players, the emphasis was on the gathering of primary research data. Artists, record companies and music dealers were contacted, telephoned, e-mailed and various personal interviews were conducted by the author, with these players, in order to obtain personal and educated information relating to their industry (refer to the sources of knowledge in Chapter 5, point 5.4.3.2).

Chapter 3 investigates how these players are currently interfaced to supply their product to the end-user (MODEL A). The seven main processes that are currently in use are researched and documented (*i.e.* manufacturing, warehousing, marketing, selling, physical distribution, debt collection and the management of receivables). Principles of the well-known SCOR methodology (Supply Chain Operations Reference model) are also included (www.supply-chain.org).