

AIR Share

Australian independent music market report

Australian Independent Record Labels Association

2020

Executive summary

Independents are growing and adapting

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

In 2016, the Australian Independent Record Labels Association engaged Deloitte Access Economics to conduct a survey of the independent sector of the recording industry in Australia. We estimated that the Australian independent sector had a relative market share of 30% in 2014-15.

A lot has changed in the music sector since 2014-15. For example, streaming has overtaken both physical sales and downloads to become the primary source of revenue for the global music industry.

This report aims to provide an update to our previous estimate of the size of the Australian independent sector. It finds that the sector has experienced substantial growth in absolute terms over the last four years.

In this report we aggregate data from:

- Australian Recording Industry Association (ARIA)
- Phonographic Performance Company of Australia (PPCA)
- a bespoke survey of independent labels.

Using this data, we estimate that the Australian independent recording sector generated \$183 million of revenue in 2018-19. This represents growth of around 18% relative to our previous estimate.

However, the broader Australian music industry has also grown considerably over this period. As a result, the independent recording sector's market share remains relatively constant at 31%.



**\$183 million
in 2018-19**



**\$155 million
in 2014-15**



The Australian
recording industry

The Australian recording industry

A complex ecosystem

Australia is the eighth largest market for purchases of digital music.¹ This is despite the fact Australia has the 13th largest economy in the world.² This supports an active industry.

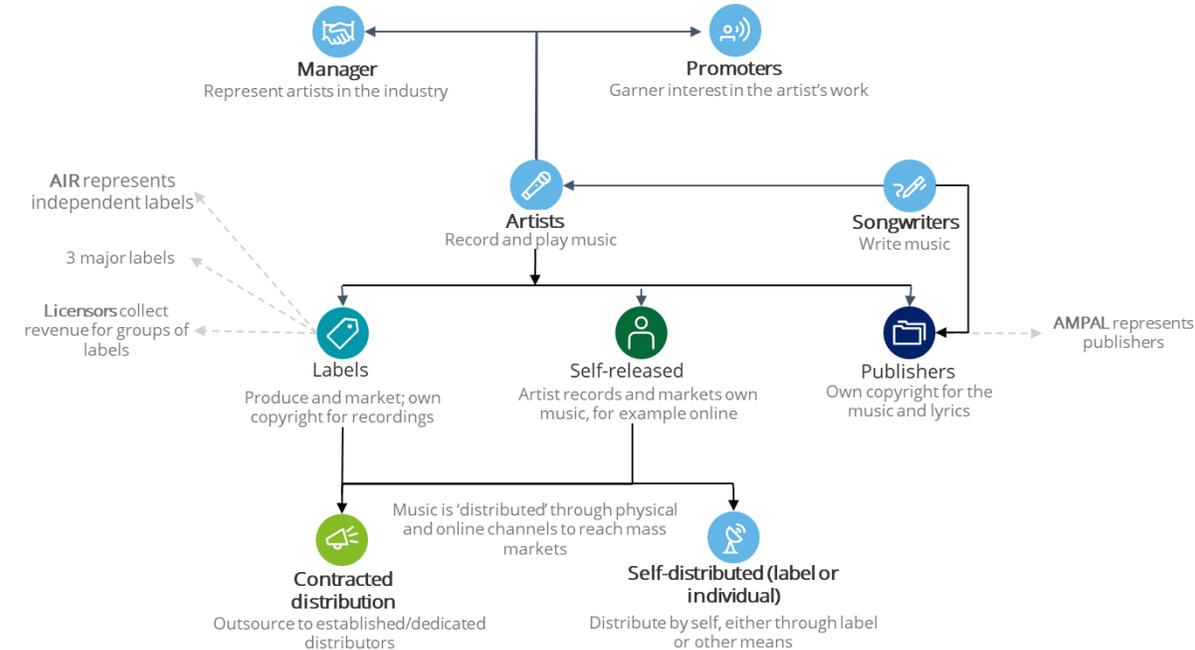
Conversations about the music industry typically centre around individual artists, bands and songwriters. However, behind the scenes there is a complex ecosystem which works to support artists to share their music with the world.

Record labels play an important role in this value chain. Their primary role is producing and marketing the music made by artists.

Record labels can be grouped into two categories: independent and major labels. There are three major record labels in the Australian market — Universal Music, Sony Music Entertainment, and Warner Music.

The remainder of the market is made up of 'independent labels'. These labels, based both locally and abroad, play an important role in the Australian recording industry.

The Australian recording industry ecosystem



The Australian independent recording industry

Revisiting the sector

In 2016, the Australian Independent Record Labels Association engaged Deloitte Access Economics to conduct a survey of the independent sector of the recording industry in Australia.

The goal of the report was estimate the independent sector's share of the Australian recording market in 2014-15. This was to provide an evidence base which would inform a better understanding of the independent sector of the Australian recording industry.

The industry has since changed significantly. For example, digital downloads were the primary source of revenue in 2014-15. Today, streaming is the most popular way to consume music.

This report provides a fresh look at the state of the independent recording industry in Australia.

Consistent with the previous report, it uses a survey of the independent recording industry and supplementary research to estimate the market share of independent record labels in Australia.

Survey data was collected in between September 2019 and January 2020, and relates to industry activity during the 2018-19 financial year.

Survey methodology

For the purpose of this research, the independent sector is defined as all music production except that from the major labels.

Measuring the size of the independent recording market is challenging. It is a fragmented sector with labels frequently merging and changing. Furthermore, there is significant overlap in the roles different organisations play.

Often, a record label will double as a music distributor, or an artist will act as their own label. The interaction between labels, artists, and distributors makes defining and quantifying the sector challenging.

On balance and consistent with the previous report, it was determined the most appropriate approach is to only include data from labels and distributors. This ensures that the size of the industry was not understated, whilst reducing the risk of double counting.

This method also means that results are comparable to data from the Australian Recording Industry Association (ARIA) which allows for the estimation of a market share figure.

The survey collected data from 35 labels and distributors, compared to 25 labels and distributors in the last survey. Figures in this report are further aggregated up based on industry consultation and research.

A full explanation of the estimation methodology can be found in the Appendix of this report.

Independent record labels

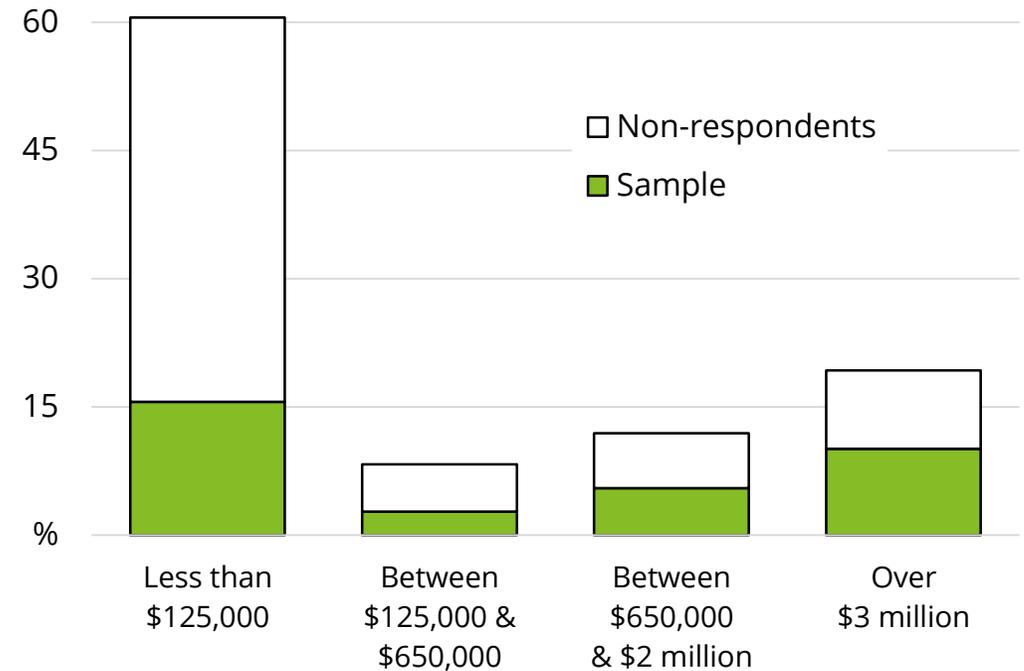
An industry characterised by small players

There are a diverse range of independent labels — in terms of age, size, and genre — throughout Australia. The sector is predominantly characterised by smaller labels, with an estimated 61% of independent record labels generating less than \$125,000 in annual revenue 2018-19.

Labels generating over \$3 million in revenue account for an estimated 19% of all independent record labels. This compares to 2014-15 where one quarter of labels were generating more than \$3 million in revenue.

This may be due to market activity in the independent sector since the last report, with some larger independent labels undergoing mergers, and others exiting the independent sector.

Proportion of independent record labels responding to survey and non-respondents, 2018-19



Source: Deloitte Access Economics survey

Independent record labels

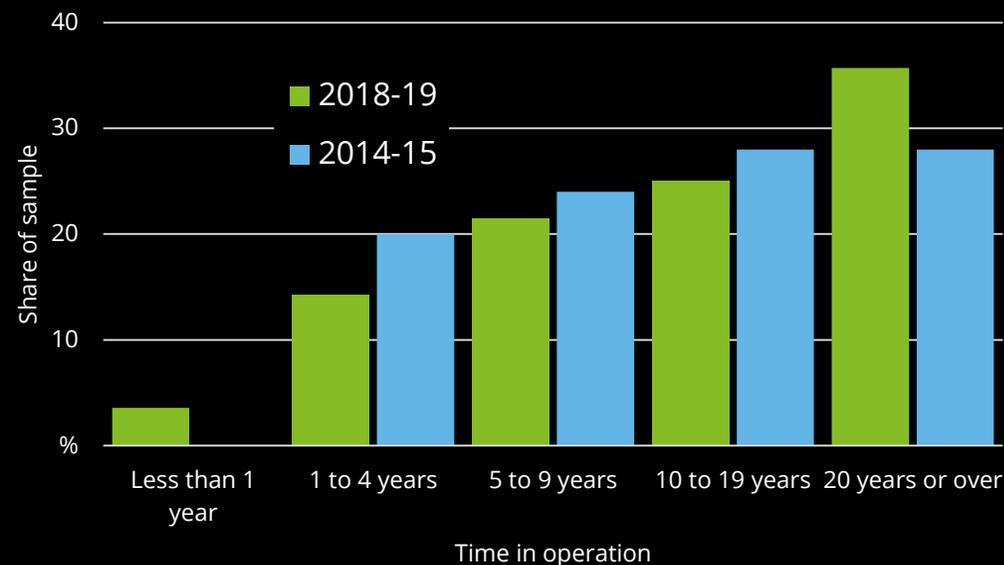
New and old labels pushing the boundaries of Australian music

The exact number of independent labels in Australia is unknown; there are at least several hundred. As at June 2019, there were 179 music publishing businesses and 1,392 music and sound recording businesses according to the ABS.³

Every year, new record labels join the sector, bringing fresh ideas and supporting a growing number of artists. Of the approximately 1,500 businesses across the music publishing and music and sound recording industries in 2019, ABS statistics say that over 250 were new entries to the sector.

Likewise, the age profile of independent record labels responding to the survey shifted between 2014-15 and 2018-19. Labels operating for less than a year represented almost 4% of the sample, compared to zero in 2014-15. The share of labels operating for 20 years or over has increased by 8 percentage points to account for 36% of the sample.

Change in age of independent labels between 2014-15 and 2018-19



Source: Deloitte Access Economics survey



A growing industry

The independent sector is growing

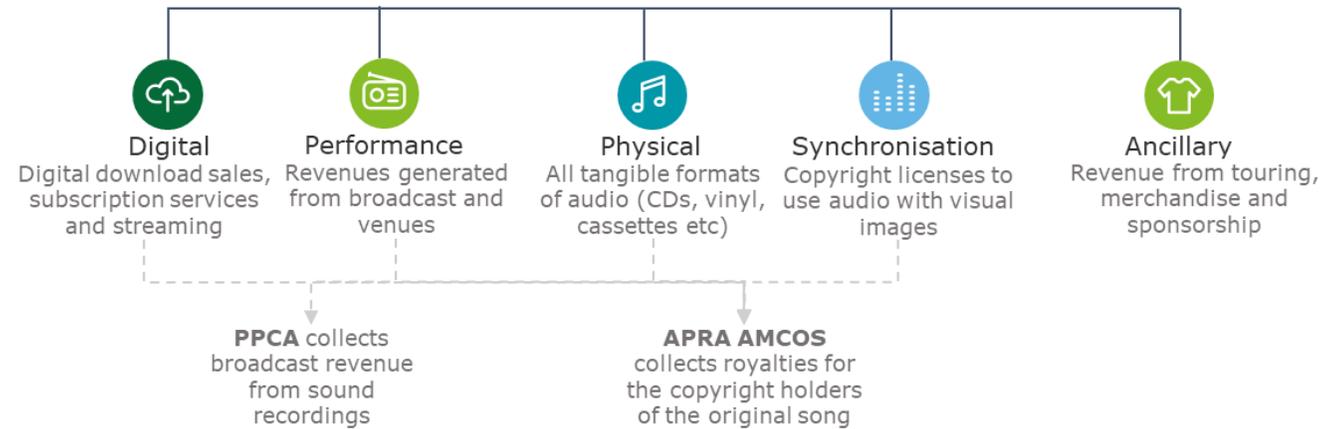
In 2018-19 the independent sector generated \$183 million in revenue

We have estimated that Australian independent recording sector to have generated **\$183 million** of revenue in 2018-19.

Results suggests that the industry has grown in recent years, as total recorded revenue is **18%** larger than our previous estimate (\$155 million in 2014-15).⁴

This estimate includes revenues earned by labels and distributors across all channels — digital, performance, physical, synchronisation and ancillary. To calculate this figure, Deloitte has used revenue directly reported by survey respondents, as well as industry aggregation. For details on the aggregation methodology, see the Appendix.

Key revenue channels for the recording industry

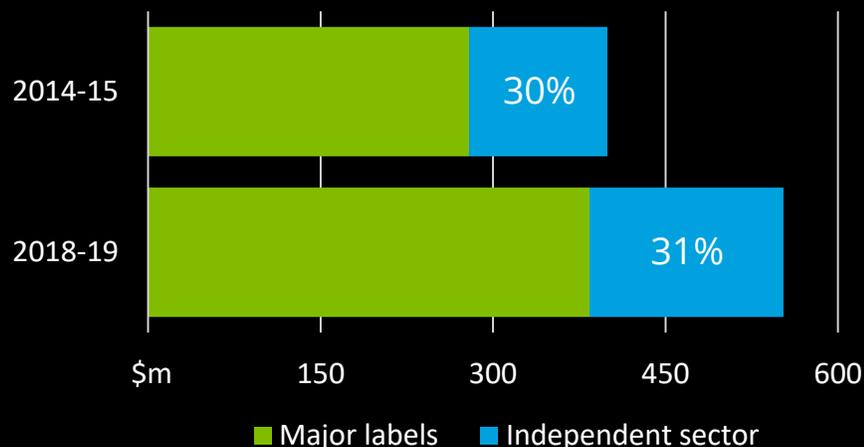


The independent sector is continuing to grow Maintaining its place alongside the major labels

As the independent sector has grown, so too has the recording industry more generally. The total Australian recording industry has grown by **38%** over the last four years (based on calculations using Deloitte survey data and ARIA data). Independents have contributed strongly to this growth.

The research estimates that the independent recording sector's market share is **31%** of the total Australian recording industry. This is consistent with 2014-15 and reflects growth in both the independent sector and in the recording industry more generally.

Proportion of industry revenue from the independent sector



Source: Deloitte Access Economics survey

Comparing the independent sector with the majors

Based on the survey results and industry aggregation, the Australian independent recording sector had a total revenue of **\$183 million** in 2018-19.

However, in order to calculate market share, the data from independent labels must be comparable to the revenue data reported by ARIA (which contains revenue information about the major record labels).⁵

A number of adjustments were to be made to the independent sector data:

- International revenue was removed (36% of the total revenue).
- Revenue earned through synchronisation, performance & ancillary channels was removed (11% of the total revenue).
- Import revenue was estimated and added (this increased the Australian figure by 41%).

After making these adjustments, we conclude that the independent sector's comparable revenue to ARIA data was **\$169 million** in 2018-19.

We estimate the total revenue of the Australian recording industry in the same period was **\$553 million** (based on ARIA data).⁵

Majority of revenue comes direct from digital However, revenue streams are still diversified

Digital sales have continued to drive growth in revenue in the independent sector. Since 2014-15, digital's share of total revenue has grown by 12 percentage points to account for 56% of total revenue reported by independent labels and distributors responding to the survey.

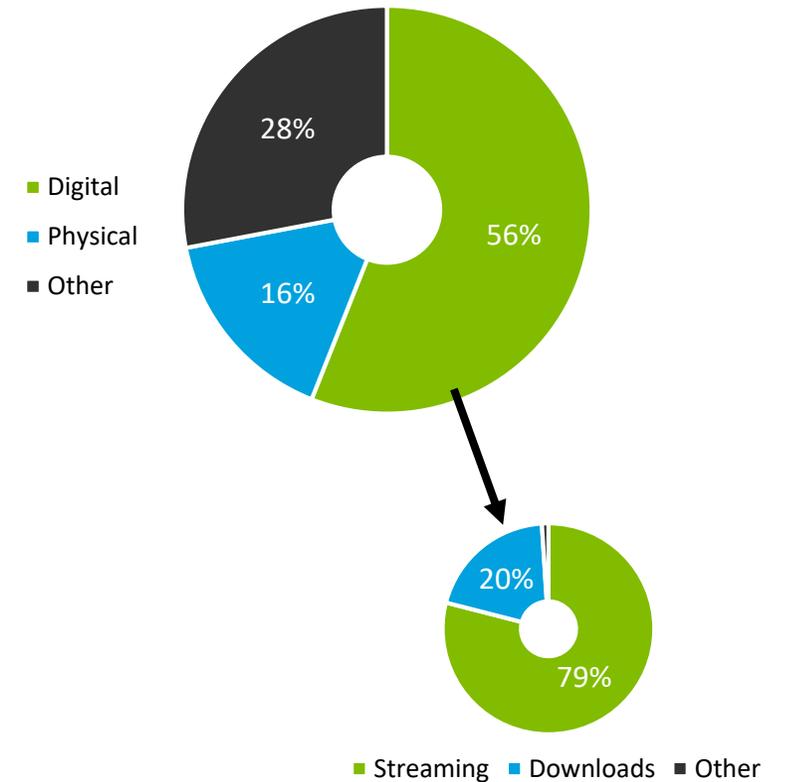
While this increase in the share of digital has been, in part, driven by declines in physical sales (falling by 18 percentage points), the composition of digital revenue has also been changing over time.

In 2014-15, downloads were the primary source of digital revenue, at 61%. However, they only account for 20% today.

In contrast, streaming has grown by 50 percentage points to account for 79% of total digital revenue in 2018-19.

This is consistent across the industry. ARIA estimates that streaming accounts for just under 87% of digital revenue.⁵

Revenue breakdown by channel, 2018-19



Source: Deloitte Access Economics survey

Bringing Australian artists to the world stage

Australian artists bring in over \$62 million in export revenue

Australian artists, represented by the surveyed component of the independent sector, played over 1,000 international shows in 2018-19. Almost three quarters of these were headline shows.

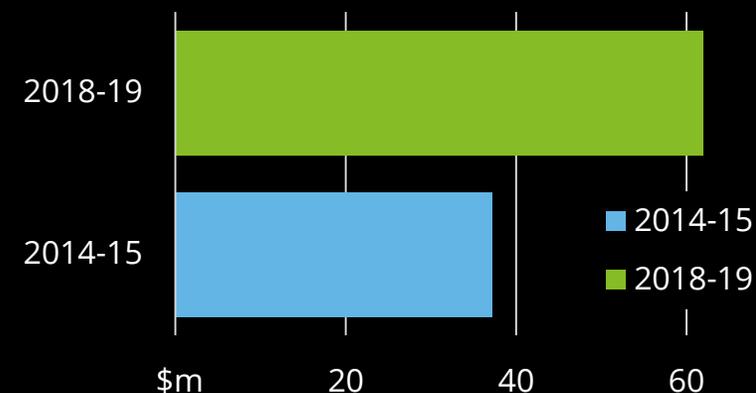
Music is one of our nation's most important cultural exports and independent record labels continue to share the voices of Australian artists globally.

Australian artists are increasingly popular with international audiences, with the United States, the United Kingdom and Germany being the largest export markets for Australia music.⁹

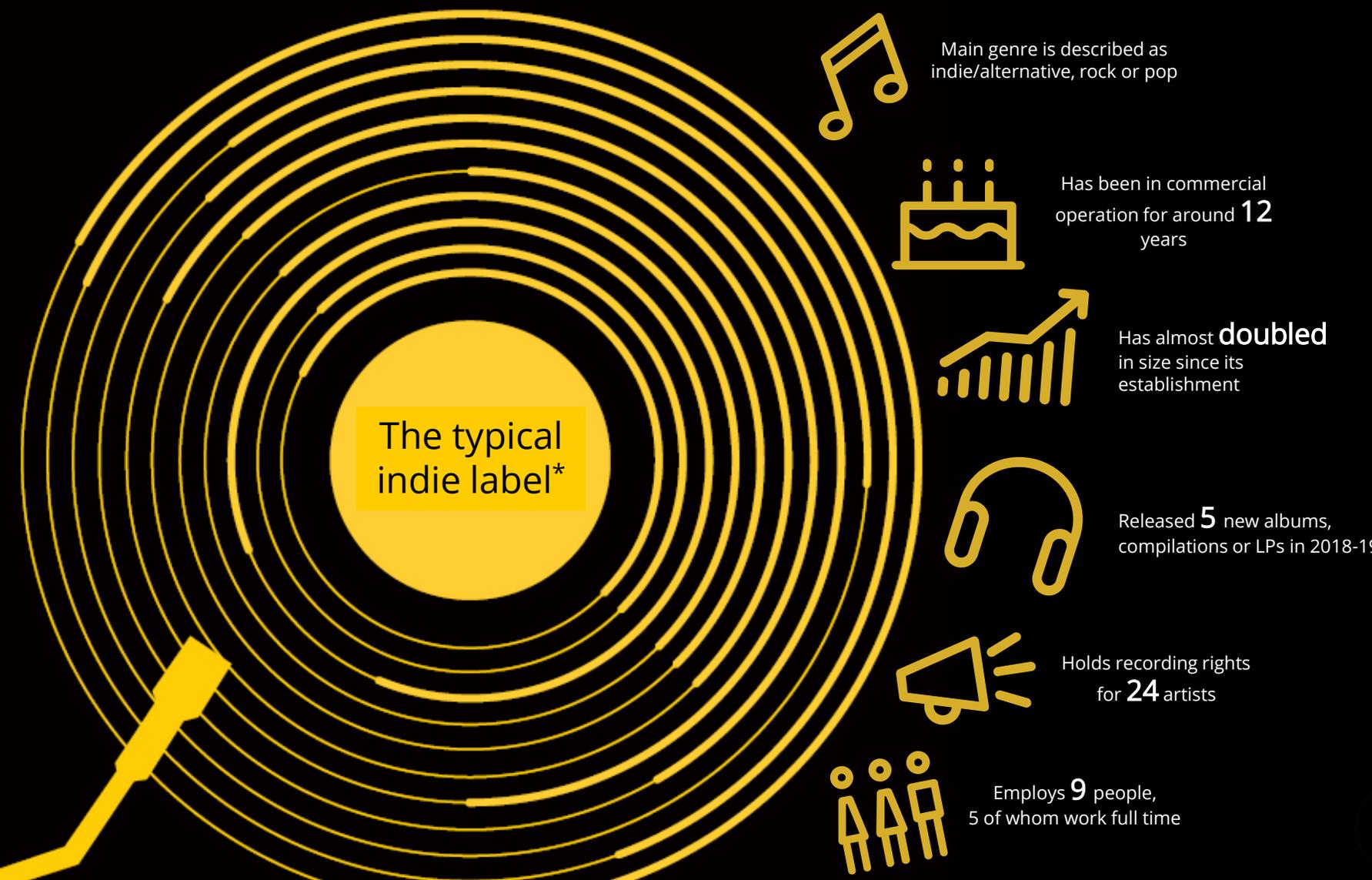
We estimate that the Australian artists, represented by the independent industry, brought in over \$62 million in export revenue in 2018-19. This is an increase of \$25 million relative to 2014-15.

Live performance remains the one of the top source of international income for Australian musicians. However, digital platforms are providing unprecedented access, and the opportunity to increase revenues globally.

Export revenue in the independent sector



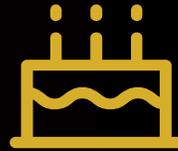
Source: Deloitte Access Economics survey



The typical indie label*



Main genre is described as indie/alternative, rock or pop



Has been in commercial operation for around **12** years



Has almost **doubled** in size since its establishment



Released **5** new albums, compilations or LPs in 2018-19



Holds recording rights for **24** artists



Employs **9** people, 5 of whom work full time

* Based on the median of business of those who responded to the survey.

Variety of content

95% of releases are new music

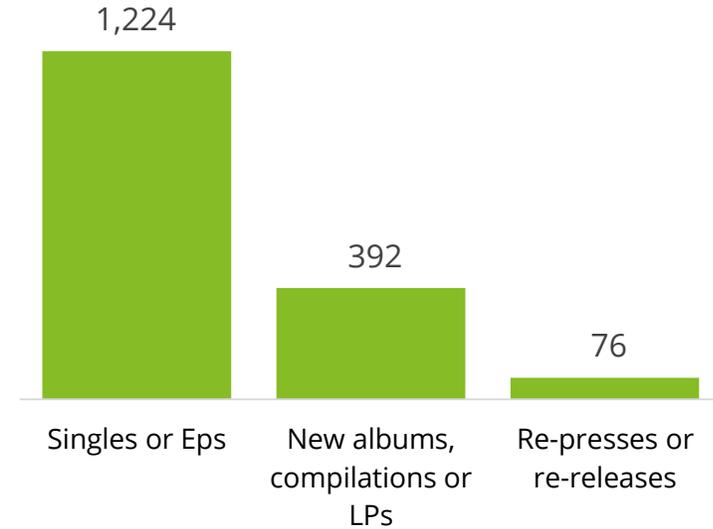
The independent sector supports a wide variety of music and artists. In 2018-19 the typical independent record label in Australia represented 24 artists, and sold over 2.5 million albums in 2018-19.

The majority of these sales were digital (73%); compared to 2014-15 where the majority were physical (68%).

The vast majority of releases are new music, with re-releases accounting for less than 5% of all music releases by independents in the survey.

The rise of streaming has also promoted a shift towards releasing new singles/EPs as opposed to whole albums.

Number of releases in 2018-19 by release type, independent labels responding to the survey



Source: Deloitte Access Economics survey



Centre stage Supporting local venues

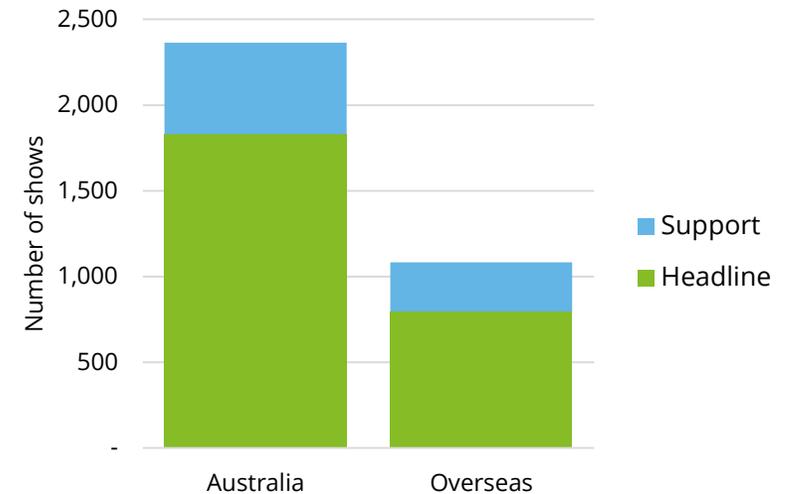
Almost 10 million Australians attend live contemporary music events each year, spending on average \$108 for a ticket.⁶ This supports broader economic activity throughout the broader arts and hospitality sectors in Australia.

Artists represented by independent labels responding to the survey played over 2,500 headline and over 800 support shows.

These live music events create value for the economy, by generating value-added and employing staff (e.g. venue staff, lighting and sound technicians and bookers).

Live music events can be a drawcard for tourism, from interstate or overseas. They also support flow on activity through other sectors. For example, they may spur increased spending on hospitality (bars and restaurants), retail (merchandise, clothing), and accommodation.

Number of shows performed by artists supported by independent labels responding to survey



Source: Deloitte Access Economics survey

A sector supporting small and local businesses

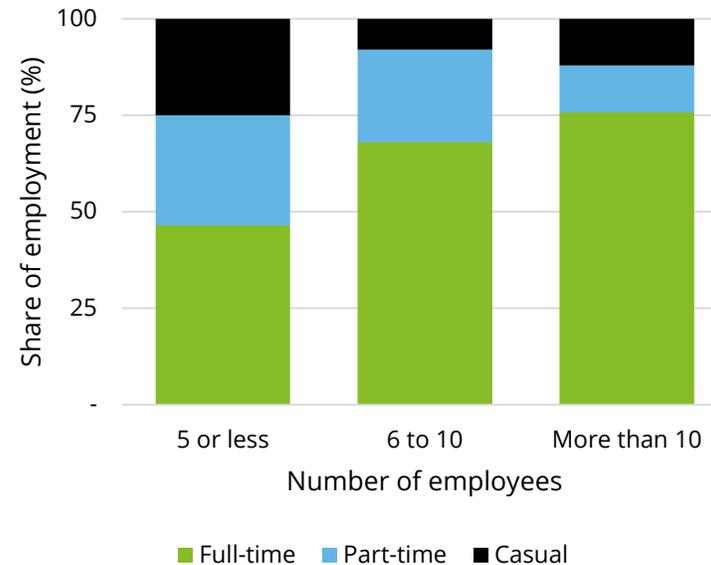
55% of total employment in the indie sector is full-time

In total, survey respondents reported engaging over 500 companies and over 400 individual contractors/service providers over the last financial year.

However, the number of people employed by the 'typical' record label has declined marginally since 2014-15. This is due to the larger number of smaller labels, which are likely to represent self-released artists, responding to the survey.

In addition to directly employing staff, the industry supports a range of contractors and service providers (i.e. accountants, photographers, and recording engineers).

Employment profile for independent record labels



Source: Deloitte Access Economics survey

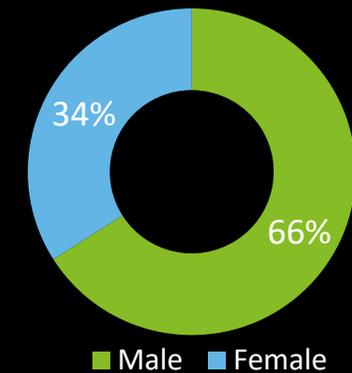
Female leadership

The global music sector is often criticised for a lack of female participation.⁷ While the gender gap in the sector is slowly narrowing over time, gender disparity remains.

In the Australian independent sector, over one third (34%) of senior leadership roles in independent record labels responding to the survey are held by women.

This compares to 29% in the broader Arts and Recreation Services sector but falls short of the 51% in the Creative and Performing Arts sub-sector as a whole.⁸

Senior leadership in independent record labels



Genre

Alternative and indie continues to dominate the independent sector

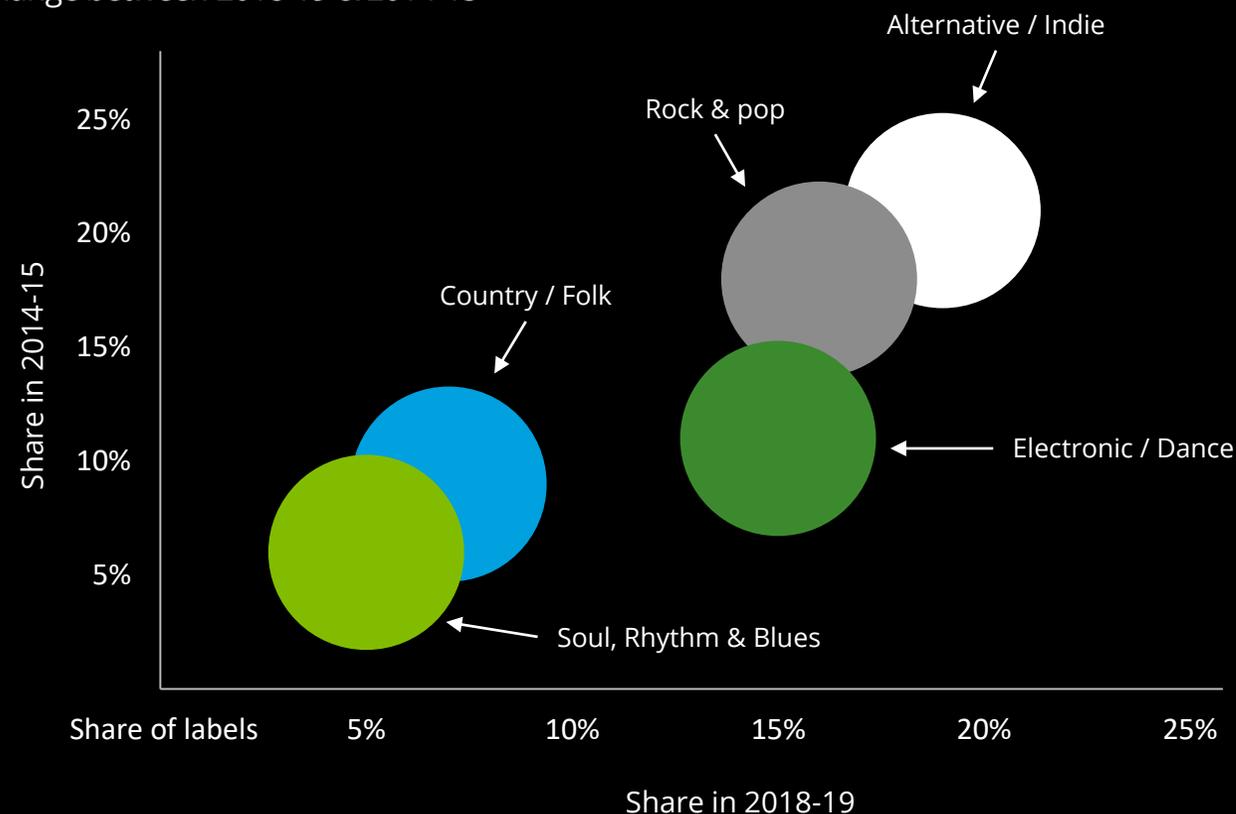
Australian independent record labels continue to support diverse genres— including Jazz/Big Band/Swing, Hip Hop, Classical/Operatic, Rhythm and Blues and many more. However, the exact breakdown of genres has shifted as musical tastes have changed.

The chart to the right shows the relative percentage change of genres of music identified by survey respondents, between 2018-19 and 2014-15.

Electronic/Dance music is on the rise, with an additional 4% of the surveyed independent labels nominating it as their primary genre.

Alternative/Indie and Rock and Pop remain the most popular genres in the sector, representing 19% and 16% of labels responding to the survey respectively. However, they now represent a lower share of labels than in 2014-15.

The top five primary genres of music identified by survey respondents, change between 2018-19 & 2014-15



Source: Deloitte Access Economics survey



Changes in the sector

Digital disruption continues to transform the industry

Streaming has transformed the global music landscape into a volumes game

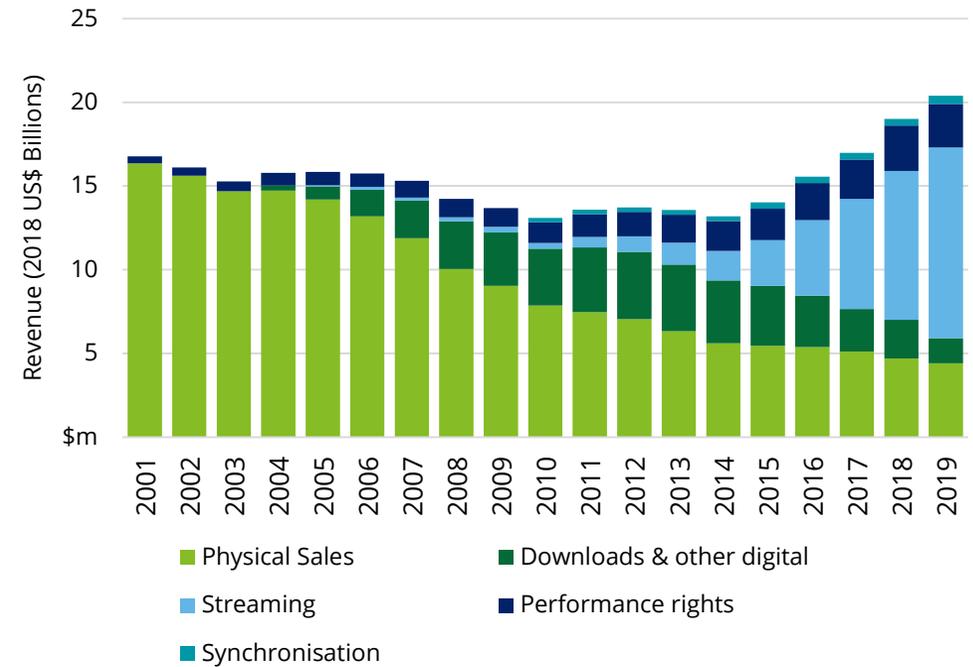
The recording industry is dynamic, and has been at the forefront of digital trends. For many years, music revenues declined globally, as a result of a sustained drop in physical sales.

However, the rise in the popularity of streaming services has spurred revenue growth over recent years, with the industry generating more revenue in 2018 than it was in 2008, despite the continued decline in physical sales.

Increasing appetite for getting music online – whether that be through downloads or streaming – has expanded the reach of the independent recording sector. Streaming platforms make it easier and less costly for labels to promote their artists to a global audience.

However, the average revenue per stream is lower than the average revenue per track from physical sales. Recent estimates have suggested that the average payout per stream ranges from US\$0.00028 to US\$0.011 for a mid-sized independent label across various streaming platforms.¹⁰

Revenue breakdown by channel¹¹



Source: IFPI

Innovation in the industry

Independent labels continue to adapt to the digital age

Digital disruption continues to keep music production at the forefront of innovation.

For example, in 2017 independent Chicago rapper, *Chance the Rapper*, made history by becoming the first artist to take home a Grammy without selling any physical copies of his album, *Colouring Book*.

Such high profile examples of independent successes demonstrate how artists and independent labels can experiment with innovative and non-traditional revenue models.

There also appears to be a revival of retro, with physical purchases of vinyl and tape experiencing substantial growth over the last few years.¹²

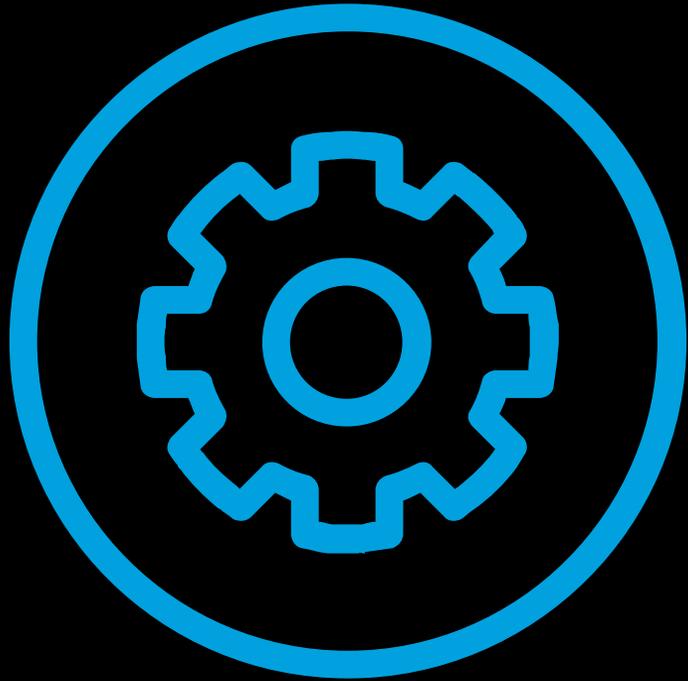
In 2019 Melbourne Music Week held its tenth anniversary and celebrated by hosting a nine day showcase of over 300 artists across 70 events.¹³

Melbourne Music Week isn't simply about listening to live music. The festival encourages music fans from all over the world to "learn, play & create". It is a exhibition of all the emotions that come with the act of enjoying music.¹³

While the festival provides a platform for artists all over the world, one of the most prominent aspects is the annual showcase of local independent labels. The independent labels showcase shows off some of the best emerging local talent, with gigs often being held in unusual spaces such as underground car parks.

Endnotes

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- 11 International Federation of the Phonographic Industry, *IFPI Global Music Report The Industry in 2019* (2020), <<https://www.ifpi.org/news/IFPI-issues-annual-Global-Music-Report>>.
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Appendix

Methodology

Survey methodology

In order to keep the results consistent with the previous edition of the report the following methodology was maintained.

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

Data was from 2018-19, collected in between September 2019 and January 2020.

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

- **Labels only** – This would be the simplest method for surveying the sector and would eliminate the risk of double counting revenue because we would be focusing on one phase of the supply chain. It would be easy to define, simply any label that was not one of the major 3 labels, and would be relatively easy to capture between the AIR member base and PPCA list. However, this would understate the size of the

sector as it excludes independent music distributors and unsigned artists. Further establishing market share because ARIA data on the revenue from the major labels includes distribution and so would not be comparable.

- **Labels and Distributors** – This increases the reach of the study and makes it more likely we would get an accurate reading of the size of the independent sector. It would also generate data comparable to that collected by ARIA on the major labels. However, there is a risk of double counting revenue should labels and distributors record income differently.
- **Labels and Artists** – Including artists would be a good way to get a sense of the long tail in the industry and the number of people involved in the Australian independent recording scene. However, there could be reliability issues as artists signed with labels would likely generate revenue double counting, and a definition of the recording industry excluding distributors would be incomplete. Further, reaching individual artists would be logistically difficult given the number of artists not registered with music bodies.

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

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

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

This data was aggregated up to ensure confidentiality and estimate market share of the independent sector in the Australian recording industry, in revenue terms.

Methodology

Aggregation

The recording industry has a long tail — meaning there are a few big players, and then many smaller labels and distributors with lower revenue. Accounting for this long tail was challenging; while the largest independent labels and distributors responded to the survey, and all organisations registered with AIR had a chance to respond, there is likely a considerable portion of the market who were not captured in the survey.

Therefore, survey results were aggregated to be more representative of the independent sector as a whole. For AIR members that did not respond to the survey, we used previously reported revenue where that was provided for the previous edition of this report.

This assumes no revenue growth for these members, which is a conservative assumption. For members with no previous revenue estimates we assigned the minimum revenue figure of \$17,500.

The survey found that revenue in the independent sector was \$97 million. Based on the breakdown of non-respondents in the table on the right, there is likely at least another \$74 million in revenue that was not captured in the survey.

There is also additional revenue not captured in the PPCA membership base. There are 2,500 registered labels with the PPCA, and industry estimates suggest that no more than 50% of these are distributed by major labels. Therefore, given conservative assumptions there is an additional \$12 million in revenue from those labels.

Adding these takes total revenue in the independent sector to \$183 million. We note that this is an underestimate of the sector because it does not include unsigned artists, however estimating their revenue is not feasible and would increase the risk of double counting and hence overstating the size of the sector.

Revenue breakdown of survey respondents & non-respondents

Revenue band	Survey respondents	Non-respondents
Less than \$125,000	16	45
Between \$125,000 & \$650,000	3	6
Between \$650,000 & \$2,000,000	6	6
Over \$3,000,000	10	9

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