

Thomas Rome Lecture
A Sound Recording Industry in Australia
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Please note:

The views expressed in this lecture are those of the presenter and do not necessarily represent the views of the National Film and Sound Archive.

Introduction

Thomas Rome is not a particularly well known Australian. In fact, I must confess, that despite having worked in the recorded music industry for nearly 30 years, I had not heard of him. That is until he was brought to my attention by the staff here at the National Film and Sound Archive. They pointed told me he was the first Australian to import a sound recording device; an Edison cylinder. He apparently was of the view, that his edge in this then “new” technology would bring him untold riches.....unfortunately, certainly for him, there is no record of that taking place. Thomas probably, would not feel out of place in the today’s 21st century recorded music environment. We are regularly assailed with new technological innovations, which all claim in various ways to improve our appreciation of music and/or at times to be the savior of the music business..... of course, always with the objective of enriching someone!!!.

Music is an essential part of the Australian creative scene. It plays a key role in defining what it is to be Australian. It is variously a source of national pride and inspiration or a rallying point to a cause. Moreover, the music business is at the cutting edge of redefining the era of digital media and entertainment. As such, it provides us with enormous opportunities to be innovative as the traditional barriers within the industry are increasingly eroded.

Tonight, I want give you an assessment of the current state of play of the Australian Recorded music industry and look particularly at some of the keys issues which it is now facing. I also hope to leave you with some ideas which, at the very least may act as a catalyst to bring some innovative thinking (and action) into this much neglected and maligned business which is very much a part of me and a part most Australians. I want a Sound recording industry in Australia.

Before moving on I would like to make three important points:

- Firstly, the analysis and discussion tonight is NOT driven by my personal musical tastes or preferences, an important point as I will discuss later. I have not overlooked and do not overlook or ignore the contribution of our great classical artists such as Dame Joan Sutherland or country artists such as Slim Dusty. I am however trying to address issues which apply to the broad music industry in Australia.
- Secondly, the recorded music industry is an unusual sector of the broader Australian Arts & Cultural community. It is largely market driven and self funding. It has not (at least to date), been dependant on Government hand outs/ tax breaks or other philanthropy.

- Thirdly, and probably most importantly, I am optimistic about the future of Australia's recorded music industry. Music today remains an integral part of people's lives....look at all the little white earphones! The public interest in and consumption of Australian music and artists continues to grow. The issue for us is to recognize this and develop new and innovative business and other models to deal with this.

Some History/Statistics

The Australian Recorded Music Industry began in its modern form in the post WW2 era. During this period a number of the "major" foreign recording companies set up operations in Australia, focused on manufacturing vinyl products and implementing sales and distribution networks. Their prime motivation was to profit from hooking Australians on the then exploding popularity of American Rock 'n Roll. Not surprisingly, there are few great and successful Australian recordings from this era.

This began to change however, in the late 50s and early 60s with the recordings of artists such as Johnny O Keefe and Col Joye enjoying critical and popular success. As a result, the business began to redefine itself to not only sell imported music but also to record and sell Australian recordings. This heralded a golden period of about 25 years for Australian music; continuing through the 60's with artists such as The Easybeats and Normie Rowe and the 70's with Daddy Cool and Skyhooks. The 80's added another dimension as we looked outward and impacted the World with artists such as Little River Band, INXS and Midnight Oil. The Australian Recorded Music revenues then were growing at better than 8% annually. Australian music was popular globally, a source of national pride and economic benefit. An industry in a major growth phase, which (according to AUSMUSIC), at the time employed 80,000 people or 0.7% of our national workforce and contributed just under \$2 billion to the economy or about 0.5% of our GDP.

However, as we entered the 90's the situation began to change. Our previous 20 or so years of uninterrupted Revenue growth saw a fall in '97 and the decade's total growth slowed to 5%. Our home grown artistic success also appeared slowed, with the only notable exception being Savage Garden.

Not to panic yet though, at the beginning of the new millennium, there was still much to be optimistic about. The new "digital" age had begun and we Australian's were certainly an innovative bunch and not that far from having been at the peak of our game. In fact, though, the situation continued to deteriorate. Revenues this decade have fallen at 5% per annum, with last years fall at 10%. Also, during this period, we have not had any artists achieve the level of international success and influence previously seen. As to the opportunities presented by the new digital era, we have, to date, missed the boat. In 2007, according to IFPI, 8% of Australia's recorded music revenue came from digital applications; compared to a worldwide average of 15%; and 24% in the USA and 11% in Canada for example. This reflects our poor performance in digital applications employed be it from the perspective of a consumer, producer, performer or distributor.

This is the report card in 2008, of a formerly proud (maybe even arrogant and boastful) recorded music industry.

I don't propose to examine historically how this has come about. I do think though it is important that we have an understanding of the issues that the music industry is faced with today that have led to this lamentable situation.

Lack of Overseas Success?

A factor on the minds of all those involved in the industry is the need for overseas success for our artists and recordings. Writers and artists almost always want their music and messages to get out to the broadest possible audiences. It is a matter of national pride to see our artists conquer US, European or even Asian markets. Our international performance as I have mentioned earlier is on the decline. Any analysis will show how other "international artists" markets such as Canada and Ireland continue to outperform us. Yet rather than study, learn and adopt best practice, I usually only hear excuses as to why Australia is different. I am sure we would not accept this in Rugby, Golf or any other sport. We should not accept it in the music industry. I recently saw a press release from an Australian Government department quoting glowing statistics as to the number of overseas deals, particularly in the USA that they had helped secure for Australian artists. You certainly would not have thought so from a study of the Billboard charts over the past 3 or 4 years! Maybe we should be focused on outcomes not inputs and press releases!

Exposure and success overseas is also often a vital pre-requisite to the economic viability of recordings and also artist's careers. Without overseas income some artists cannot earn a decent living. The starving artist syndrome whilst good for press releases and movie plots is not always conducive to encouraging creativity. This also leads us into a "catch 22" situation for the investors; without the cash flow from profitable overseas markets, the quantum of funds available for reinvestment locally shrinks.

The same can be said for knowledge acquisition and transfer; as our overseas success has declined so has the level of our knowledge on successful marketing and promoting of our artists. As this knowledge level dries up there are fewer chances for it to be passed on or to be "institutionalized" into the local workforce. Our stable of experienced artist managers who can operate effectively and knowledgeably at an international level is woefully thin. The shortcomings of Australian artist managers is one of the most common criticisms I have heard in both my time in Australia and also when working overseas. This has absolutely hindered the international careers of many Australian artists.

We must break out of this vortex and create a positive and self sustaining upwards momentum with both financial and knowledge benefits.

Failure of Creativity?

Is there a failure today in creativity in our music communities? This is very difficult to discuss with much credibility in the presence of an ARIA hall of famer, however I think it cannot be ignored. In our online globalized world, the barriers to entry into the business are greatly reduced. If our music and musicians are creative enough they WILL have the opportunity to be discovered much more easily than in years past. Yet this does not seem to be happening.

I have often heard industry critics claim that there has been a systematic failure in creativity in the Australian music industry. They usually level the criticism at the artists or recording companies for trying to “polish” a sound to make it more marketable, saleable or appealing. In so doing, they lose the “it” factor which everyone is searching for. They don’t usually explain though, why they seem to be the only one’s smart enough to see this!

I have also heard the so called “Idol” factor offered as an explanation. That is; that the influence of Australian Idol on music sales and public exposure to music, has again caused the ‘edge’ to be taken away. Too much public attention and disposable dollars for music, have been siphoned off to the idol projects, so leaving little or no room for the new and creative artists. Again, what is not explained is that the “Idol” factor exists in all major markets in the World except Japan! So if they were right this would be a global issue, not an Australian issue.

The factors behind this apparent failure are complex and probably include social issues well beyond my presentation tonight. I do think though that part of the issue involves education and lack of any real emphasis or value placed on teaching creative subjects such as music.

Failure in the Capital Market?

As we have seen, the fortune of the major recorded music companies has been on the wane for some time. There are, no doubt, many who see this as a good thing for the artists. They would be happy to see the formerly mighty record companies on their knees. The problem with this is, that they have been the major suppliers of investment to fund the growth and development of the industry. As their financial well being has deteriorated, so has their level of investment and indeed their capacity to invest.

In many markets this is not a big issue as other players would fill the gaps that have been opened. You certainly would have expected this in the recent past years with the abundance of “cheap” money being available. However this has not been the case certainly in Australia. There are some overseas examples of banks and private equity money effectively securitizing publishing copyrights and the Live Nations “all rights” deal with Madonna but no “new” investment models which extend to new and developing artists. What are the reasons for this?

- Firstly, investment in new and developing artists is a very risky business and purely financial investors are usually too risk averse.
- Secondly, evaluation of new artists is a very specialized field and artistic performance can be very unreliable. This probably means that a “portfolio” approach is needed in putting an investment strategy together and this is difficult to sell to the investing public.
- Thirdly, there is little understanding in Australia investment community of how to evaluate and monetize copyrights and the potential world wide cash flows.

There are probably other reasons, but these alone represent significant enough barriers developing the new and innovative financial models necessary to operate in the 21st century business.

Lack of Digital Initiatives

The new century has heralded changes to the music industry structure and practices on an unprecedented scale. The world digital music market this year will be over \$US5b, already nearly 10 times larger than the domestic market. The significant barriers to entry that existed have largely fallen away. Not so long ago, there were limited media outlets for exposure; only so many slots on the MMM playlist or only so many new videos added to MTV rotation. Not so long ago only the major record companies had access to get records on the racks at Virgin or Meyer stores. Not so long ago it cost many hundreds of thousands of \$s to record, release and market an album - .the only economically viable format at the time. The expanding digital environment has permanently and fundamentally changed industry dynamics. Today, we already have virtually unlimited media outlets, with internet radio and the numerous community online sites. Today, we have an increasing array of avenues to sell music through various mobile and online retailers. Today, artists can conveniently sell direct to their fans. Today, we only need to spend tens of thousands maybe even less than a thousand \$s to record and market a track. Sad to report though, that I am not aware of any - not one digital initiative in the music space (I exclude Kazaa, so guess I should say legitimate!) that has originated in Australia. As demonstrated, we are trailing many other countries in the digital music market. I have also mentioned, the almost boundless opportunities here for us to be innovative. The opportunity for Australia to be an influence on, rather than to be influenced by, the changing industry structure. We can look to be innovators either:

- in the digital delivery and sales of music; looking at packaging, pricing or access to music.
- or we can look to innovate in the marketing and promotion of music;

After all, we have been innovators in the past. Australians have played leading roles in introducing music videos, TV marketed hit compilations and Fairlight computers to the industry. Parenthetically, I would remind you that music is leading the way in the consumption of digital media. There is no doubt that the Film and Television industries are following a simipiar path. Any innovation and knowledge gained in music will almost certainly be leveragable not only in Australia but also across multiple media.

Leadership

My over riding observation about the Australian music industry, is the appalling lack of leadership. It must surely be self evident that if the music industry is socially and economically important to us, yet, faced with a crisis; it is has been largely ineffective in galvanizing public and/or political support or action. The conclusion can only be that there is a leadership failure.

Why is this? Well, certainly part of the reason is the nature of the” industry”. Whilst looking at the commercial side of the business, I contend that there is no music industry as such in Australia. It is really a collection of small and medium sized enterprises who constantly seek to differentiate themselves. They have no real desire to co-operate, to be organized or to be integrated into a formal structure. Maybe we are closer to a craft group rather than a real industry. As long as this prevails, we have structural impediments to developing leaders.

The other side of the industry involves those not involved in the commercial sectors but involved in policy making and formation. It seems to me that here the majority of those involved bring their own personal musical tastes to the tasks. Success for a jazz aficionado is measured by obtaining handouts or recognition for this particular music segment. The same may be said for those involved with, for example, music for the handicapped or folk music.

A Vision

At this juncture, I am sorry to report that things seem to look a little bleak. At the outset I said I was optimistic, so let me offer a couple of ideas.

Firstly we really need to address the leadership issue. Industry leaders need to look beyond their personal agendas and to articulate their vision for the industry. They need to take personal risk in being prepared to upset the traditional balance and structure. This should become increasingly easy as the traditional structures and power bases are eroded. It is time that the real industry leaders looked to create a legitimate “peak” body in which personal agendas will be subservient to industry welfare. This body will articulate a coherent and co-ordinated vision of the future Australian music industry and will recommend policy changes to achieve the agreed outcomes. Without this, I fear it will be left as it is at the moment, for the Government to deal with a disparate group leaving the industries issues to be dealt with as political trade offs.

Unfortunately though, I do not think this will be enough. I am usually loath to suggest that the Government be too involved (as I guess you can tell), but in this case I think there is a key role as a facilitator. I would like to see the Minister clearly articulate his vision for the industry and to define a leadership role in music for his Department. A key component of this role would be to assist in getting industry leaders together as already mentioned. I would also hope that the Minister will take on the parochial vested interests and focus on transparent processes and pragmatic outcomes for the industry.

A Whole of Industry Approach

The fragmented nature of the business is a major draw back to progress. Having now articulated a vision, we must identify the critical levers that can be manipulated to help bring about the desired outcomes. The problem here is that there is really no definition of the music business or a map of the various players and how they inter relate. It is therefore difficult to identify problems or opportunities and to measure the results in an objective fashion. I think that addressing this should also be a top priority for the Department.

A number of commentators have remarked that our industries need the cultural equivalent of the Australian Institute of Sport. I think that this misses the point. The AIS (and its various State equivalents) focus on elite sports people. What is needed for music is the equivalent of the Australian Sports Commission. The ASC is quote “the Australian Government body that manages, develops and invests in sport at all levels. It works closely with a range of national sporting organisations, state and local governments, schools and community organisations to ensure sport is well run and accessible” unquote. This is exactly what is needed for the music industry. We need an approach that

encourages music, creativity and innovation beginning in the schools and extending right through to the “elite” performance of our stars. We need this to increase and improve the quality of our creative output and institutionalize “best practice” knowledge.

A Digital Incubator/Accelerator

The missed digital opportunities **MUST** be dealt with as a matter of urgency. Australia **MUST** establish some initiatives and stake out some intellectual property in the digital music arena. We must establish our equivalent of Silicon Valley and clearly music stands out as the place to start. There is a need to create a digital incubator and an accelerator to quickly get us up the knowledge curve. There are two aspects to this:

- The first involves the creation of a network of digital innovators in the music space to enable them to leverage their work. This will bring shared learning and knowledge together to accelerate the development and the marketing process of digital initiatives and products. This network needs to at least be a virtual concept but would be even better if it were to have some physical proximity. Without this, we cannot hope to compete with the innovation seen in other countries.
- The second involves funding initiatives. I note that the Minister has already announced funding for a Creative Innovation Centre and that he is looking at providing microfinance opportunities to the music industry. These are both welcome and overdue. I would strongly suggest that these be implemented in some form of partnership with industry i.e. perhaps with private equity investors and existing industry investors. In this way, they are more likely to be self sustainable and not fall under the influence of someone’s personal musical taste.

An Australian Music Day

As part of galvanizing a new impetus I would like to see the inauguration of an annual Australian Music Day. This would focus on all aspects of the music industry as I have proposed above. It would involve seminars and discussion groups across the range of interests. It would provide a formal interface between, the industry, the community and the Government. It would include live performance and educational opportunities. It would raise the media and public profile of the business. It would seek to ensure that music remains a central part of our culture. It would seek to ensure that creativity and innovation are seen by Australians not only as valuable cultural and entertainment contributors but also as valuable economic contributors. Perhaps, Canberra would be a suitable first venue, and our hosts here tonight at the National Film and Sound Archive play a role.

Conclusion

In conclusion, I had hoped that the recent Government 2020 summit focusing on boosting our national creativity would have provided a much needed shot in the arm for the industry. The outcome for anyone involved in the music industry can only have been disappointing. For an industry that is and has been a major part of our creative output it seems to have been largely ignored. One wonders if we may have been better off if we were totally reliant on Government subsidies. We may have got more attention!

I believe that there are great opportunities within our grasp. We need to be bold and show a little bit of leadership to grasp them. A Vision, A Whole of Industry Approach, A Digital Accelerator and an Australian Music Day may not be BIG ideas but they can, if implemented, quickly transform our currently arthritic industry.

I wonder how that 1890's entrepreneur Thomas Rome would have reacted.

Delivered by Michael Smellie

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