



## **Pro Audio North America 2014**

### **Industry Size, Scope, Trends, and Forecasts**

#### **Executive Summary April 2014**

##### **Overview**

The North American pro audio industry has grown gradually and changed radically over the past ten years. From a technical standpoint, the analog-to-digital conversion is essentially complete and irrevocable (die-hards and audiophiles notwithstanding). From a business standpoint, there are more pro audio companies and people employed than ever before. From the client or end-user standpoint, there are more choices, higher quality, and better value than ever before. And from the audience standpoint—lest we forget why we do this—audio media usage and enjoyment are also at all-time highs.

The report *Pro Audio North America 2014* addresses the pro audio industry's critical issues and puts them into a business-to-business context. We chose to focus on three application segments that are core to the business of pro audio.

1. Live sound reinforcement including both portable and installed systems.
2. Recording for all media including music, film, television, and institutional use (training, archiving, etc.).
3. Post production for all media, linked to video recording.

This document is a brief executive summary of the full report.

##### **Target Audience**

If you make all or part of your living in pro audio, there is something here for you, with special relevance for the following people and companies:

1. Service providers, including 1) rental and staging companies, 2) touring and event production companies, 3) mobile entertainers and DJ's, 4) recording and post production studio owners, 5) engineers, 6) producers, 7) design consultants, 8) independent manufacturers' rep firms, and 9) marketing services firms.

2. Product developers, including 1) branded gear and software manufacturers, 2) OEM/ODM firms, 3) contract engineering firms, 4) product managers, 5) product designers, and 6) engineers and technicians.
3. Channel partners, including 1) pro audio specialty retailers, 2) musical instrument (MI) retailers, 3) AV integrators and contractors, 4) direct marketers (brick and mortar and online), and 5) wholesale distributors and channel management firms.
4. Investors, including 1) financial (private equity funds, investment banks, analysts), 2) strategic (industry stakeholders with business development needs), and 3) hybrid (financial investors with existing audio industry holdings).

## **What's In The Full Report**

Organized in four primary sections, *Pro Audio North America 2014* includes the following:

- Section One: Research Methodology: A brief description of the quantitative and qualitative approach to this report.
- Section Two: North American Pro Audio Industry Definition, Size, Scope, and Forecasts: Detailed overview by application segment.
- Section Three: Trends Behind The Numbers: Market factors that have an impact on the changing industry in North America.
- Section Four: Critical Success Factors and Implementation Guide for Industry Stakeholders: How to optimize the value of this report, especially for 1) service providers, 2) product developers, 3) channel partners, and 4) investors.

In addition, we have included a section at the end for readers who are looking in on the industry or who are relatively new to the industry. The Industry Structure and Resources section provides brief definitions of North American pro audio channels of distribution, trade associations, product categories, and vertical venue markets.

## **Selected Findings**

### **Industry Size and Growth Forecast**

The North American Pro Audio Industry grows from \$7.9 billion in 2013 to \$10.1 billion in 2017. The compound annual growth rate (CAGR) is 4.9 %.

Key financial and business assumptions that drive the numbers include:

- Revenue figures here represent sales of both goods (audio equipment, hardware, and software) and services (system design, installation, event production, equipment rental and staging, recording, editing, mastering) at end-user pricing.
- The focus is on business-to-business customers with commercial intention (e.g. recording to produce music tracks and albums, movies, television programs, etc. for resale) vs. pure hobby work. The key word is “intention.”

- The market is fragmented with no dominant (> 50% share) player in any market or application segment.
- Unit growth is greater than \$ growth in all categories of goods and services.
- The average selling prices of virtually everything continue to decline gradually. This is driven by 1) technology advances, 2) competition, and 3) economic factors.

### **Segment 1: Live Sound Reinforcement**

The North American live sound reinforcement segment (aggregate of portable and installed) grows to \$8.4 billion in 2017.

#### Live Sound Market Drivers

- Over the past eight years, pro audio gear for live performances has become 1) less expensive, 2) more reliable, 3) easier to use, and 4) more widely available worldwide. Because of this, a widening of the sector is occurring, opening the market to new customers in all price tiers and all levels of end-user sophistication.
- The focus on networked systems, and digital signal processing has stimulated increased interest in the control and transport product and technology categories and functionality.
- In some venues, video upgrades are driving audio upgrades. HD video can stimulate awareness of better audio quality.

#### Live Sound Market Constraints

- Commodity mentality is typical among decision makers in many venues in terms of the relative importance and value of audio quality. Despite the impact of HD video and High Resolution Audio (HRA), “good enough” audio is an ongoing constraint.
- Price erosion constrains market growth in \$’s.
- Large screen video purchases eclipse audio for budget \$’s in some live sound venue markets, as does lighting with the conversion to LED theatrical lighting.

### **Segment 2: Recording**

The North American recording segment grows to \$1.5 billion in 2017.

#### Recording Market Drivers

- Recording technology and products are more affordable, and the application of recording continues to spread into more venue types, including houses of worship, universities and K—12 schools, corporate facilities, and hospitality venues.
- The proliferation of independent music labels and artist owned studios drives demand for recording hardware and software.
- Individuals have more avenues available than ever to tap as outlets for their creative expression (e.g. YouTube, Twitter, MySpace, Vimeo, Facebook). This has led to

increased democratization of media content production and increased numbers of participants in the market.

### Recording Market Constraints

- The market is relatively price sensitive. The market for recording services is increasing and flattening as larger numbers of people have access to affordable recording products.
- As a group, amateur and semi-professional musicians are able to be more self-reliant in terms of recording and producing their own media and are less reliant on professional stand-alone recording studios.
- As institutional customers add or upgrade studio facilities, video and AV connectivity often eclipse audio in terms of budget and mind share.

### **Segment 3: Post Production**

The North American post production segment declines to \$133 million in 2017.

### Post Production Market Drivers

- With the proliferation of media creation (e.g. more independent labels, more video content, more “channels” of entertainment, audio in games, etc.), the post production function becomes more widespread and more important.
- Advertising is being embedded more into program content, AND stand-alone ads have higher production values requiring advanced post production skills.
- Digital signage, although more in the realm of commercial AV vs. pro audio/video, is driving content production for the broader market of digital media. Advertising revenue is a driver of digital signage, linking ad agency post work to commercial AV.

### Post Production Market Constraints

- There is a wider price and performance range of post production gear and software available to professionals and amateurs. This allows more under-skilled individuals and companies to emerge, taking share away from truly professional high quality post production entities. (This same phenomenon occurred in the graphics design field in the 1990’s.)
- While there are vast catalogs of media repurposed for DVD or physical media sales (music, movies, television), new content is often made for download or streaming delivery only.
- Production budgets have declined in all media categories (music, movies, television, corporate/industrial, etc.). Content creators think that they can skimp on recording and post due to a wide range of market dynamics, including low entry barriers and the DIY movement.

## **A Word About Channel Dynamics In Pro Audio**

Back in the 20<sup>th</sup> century, pro audio gear and software were sold to end-users through a limited number of specialty retailers, contractors, and wholesale distributors. That has changed and will continue to evolve. Here are examples of channel dynamics that have an impact on the pro audio industry in North America.

1. Everything is available online. Virtually all end-users use the Internet to do research, compare prices, and learn about pro audio brands and applications before they buy.
2. Shopping experience trumps price. With selling prices so competitive, end-users often choose the supplier (goods or services) that makes their total experience more pleasant and expedient.
3. Manufacturers are embracing wider distribution. As pressure for more sales and profits mount, an increased number of pro audio manufacturers have expanded their dealer networks. This includes the addition of two-step distributors, thus relaxing the degree of selectivity or control over who can sell a given product.

## **The Future of Pro Audio**

Consumer electronics and information technology get more publicity (not undeserved), but without pro audio, those industries would be limited to selling next-generation microwave ovens and color printers. The world needs quality sound, and the pro audio industry defines the standards and creates the technology that shapes every aspect of the listening, viewing, and ultimately the human entertainment and understanding experience. Without pro audio, life would be pretty dull.

On the business level, pro audio is vital, relevant, and dynamic. While things are changing, there is business to be done and the future is bright. Industry stakeholders can expect modest revenue growth and can manage profits through careful planning and disciplined execution of those plans. It's an exciting and challenging time in our industry.

## **A Note On The Full Report**

The full Pro Audio North America 2014 report includes growth rates for live sound, recording, and post production and extensive discussion of the trends behind the numbers including 1) new sources of competition, 2) economic factors, 3) legal and regulatory issues, 4) sociopolitical and cultural influences, 5) vertical venue markets, 6) applications and technology, and 7) specific trends and issues for each industry stakeholder group (e.g. rental and staging companies, AV integrators, reps, distributors, retailers, and system designers). The report also includes a summary section on critical success factors for product developers, manufacturers, investors, service providers, and channel partners. For pricing and purchase information, contact NewBay Media or Stiernberg Consulting.

## About Stiernberg Consulting

### **Business Development Services for the Entertainment Technology, Music Products, and AV/IT Systems Industry Worldwide**

Founded in 1993, Stiernberg Consulting's work focuses on three essential business development functions: Planning, Market Intelligence, and Strategic Alliance/M&A Advisory work. We offer unique programs and custom services geared to business growth and improved performance. Quick facts:

- Over 165 clients in 21 years with > 60% return business
- Strategic Business Development Services on a contract basis
- Focus on Applied Strategic Planning and Market Intelligence with an industry focus, including strategic alliance/M&A advisory work
- Clients include manufacturers, investors, trade associations, and other industry stakeholders
- Members of AES, CEA, CEDIA, InfoComm, NAMM, and NARAS
- Produced NSCA Market Intelligence Briefing Series 2001—2011
- Frequent contributor to industry trade publications
- Present keynotes and seminars at industry events

We subscribe to the code of ethics of the Society of Strategic and Competitive Intelligence Professionals ([www.scip.org](http://www.scip.org)) and maintain confidentiality at all times.



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