



ATC/Serato

Serato submission

9 November 2023

Introduction

1. This submission is made on behalf of Serato Audio Research Limited (**Serato**) in support of the application for clearance (**Application**) made by AlphaTheta Corporation (**ATC**) in relation to their proposed acquisition of Serato (the **Proposed Transaction**). Note that Serato assisted in the preparation of the Application and supports the propositions put forward in that document. In that regard, please see **attached** in the appendix Serato hardware partner revenue data as mentioned in paragraph 5.46 of the Application. This submission is intended to supplement the Application primarily by reference to data that is confidential to Serato.

Vertical foreclosure theory

2. We understand that a concern has been raised to the effect that ATC may have incentives to deny hardware competitors of Pioneer DJ with access to Serato software. In practice, ATC could not deny access to Serato, even if it wanted to. The universal adoption of the MIDI standard (including by Serato) means that all DJ hardware is compatible with Serato in the sense that Serato can be “mapped” to any hardware by the user provided a Serato supported soundcard is available.¹
3. However, even assuming it were possible to deny access to Serato, a foreclosure theory is only supportable to the extent that Serato can be shown to have both market power and the incentive to use that market power to execute a foreclosure strategy.

Market power

4. Serato would arguably have market power if, and to the extent that, its software is a “must have”. If Serato’s software is not a “must have”, any attempt by ATC to inflict harm on a hardware competitor via foreclosure will be both ineffective and counterproductive.
5. It is not sufficient that the software be an “important input”.² Serato software may be “important” in the sense that the availability of Serato incrementally increases the value proposition of a particular piece of hardware (just as the availability of Serato on certain hardware increases the value of Serato software). However, often hardware providers are unwilling to pay a fee sought by Serato to secure that incremental benefit and instead rely on the availability of alternative “important inputs”.
6. Serato is many things, but it is not a must have. Serato is:
 - an established and trusted brand with a heritage of innovation, particularly early in the transition to the use of digital recordings (as opposed to vinyl) by DJs during the early 2000s;

¹ As explained in further detail in paragraph 7.6(a) of the Application.

² Commission’s Statement of Preliminary Issues, para 27.1

- a robust and reliable software product; and
- one of several comparable competitive options for consumers of DJ software products – these (non-rekordbox) alternatives are covered in detail in ATC’s clearance application. Importantly, alternative offerings to Serato are commonly used and endorsed by high profile DJs. Examples include:
 - Tiesto using Engine DJ;³
 - Laidback Luke using Algoriddim djay Pro AI on an iPhone⁴
 - Invisibl Skratch Piklz using Algoriddim djay Pro AI on iOS⁵
 - DJ JFB performing on a Denon DJ SC6000M setup⁶
 - World Champion DJ Duo KIREEK performing on Traktor⁷
 - Renowned club DJ DJ Dynamix performing on VirtualDJ⁸
 - Top 100 DJ Afrojack Performing on VirtualDJ⁹

7. In fact, far from having market power []. In particular, Serato:

- does not yet have an iOS or android app that would make Serato available on phones and tablets. Consumers are increasingly moving to these devices and Serato lags behind its competition by not being able to be accessed in this way. [

]; and

- has been unable to secure music streaming integration for its software from major music digital service providers (DSP’s) such as Spotify, Apple and Amazon. By comparison, for example, inMusic has been able to secure integration from Amazon Music. The position taken by these DSP’s suggests that they are preserving the option to enter the adjacent DJ software market, which serves to constrain all DJ software providers, including Serato.

Supporting evidence

8. Serato’s lack of market power is evident in competitive dynamics that have emerged around Serato’s business model and, in particular, exclusivity, brand promotion and hardware fees able to be charged.

Exclusivity as primary software provider

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³ community.enginedj.com/t/official-press-release-tiesto-has-changed-his-rider-to-denon-dj-prime-series/4047

⁴ youtu.be/8m18Q-3dw6M

⁵ youtu.be/nsdjZiIMUuw

⁶ youtu.be/ZeJz3bJgMuU

⁷ youtube.com/watch?v=_wjtfxVzBTQ

⁸ youtube.com/watch?v=jJltd8Koj2A

⁹ youtube.com/watch?v=ity-ARUJWQE

]. Hardware manufacturers are looking to maximise hardware sales and cater to a wide range of software alternatives, often promoting their own software as the primary DJ software option. Likewise, software providers are looking to maximise usage and support a wide range of hardware.

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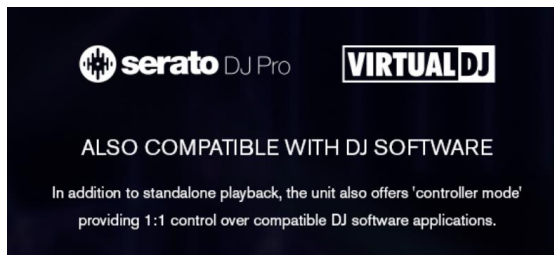
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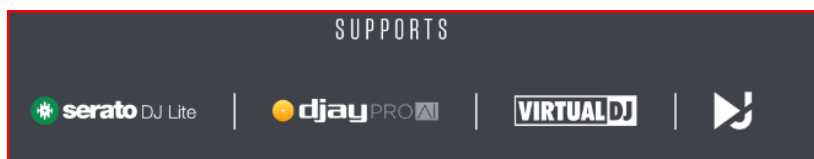
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13. Accordingly, it is now common to see Serato software promoted as one option able to be used in association with particular hardware. For example

- in relation to Denon’s Prime 4, while the embedded EngineDJ software is primarily promoted, Serato is noted as another option alongside Virtual DJ:¹³



- in relation to Numark’s Party Mix II and Party Mix Live , “Simply plug in your laptop or mobile device and start mixing your ultimate party playlist. With the flick of a switch, the built-in light show takes things to the next level with a colorful light show that dances to the beat.” Serato DJ Lite is mentioned alongside Aldoriddim’s djay PRO, Virtual DJ and DJ Player Pro.¹⁴



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¹³ denondj.com/prime-4-prime4xus

¹⁴ numark.com/product/party-mix-ii

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¹⁸ Further, many companies have successfully launched products in recent years which have no Serato association, for example, the Reloop RMX-95 mixer¹⁹, the

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¹⁹ reloop.com/reloop-rmx-95

Native Instruments Traktor X1 controller²⁰, Gemini SDJ-4000 controller²¹, and the Denon Prime 2²².

Embedded systems

17. As noted above, hardware providers have sought to expand strategically into producing DJ software and, in doing so, have reduced their reliance on 3rd party software providers. This has also allowed for the production of hardware with embedded proprietary software, both for high-end devices such as Denon DJ's Prime series (originally released in 2019) and Gemini's SDJ-4000 as well as, more recently, lower-end devices with embedded software such as the MixstreamPro+ and MixstreamProGo (released in 2022 and 2023). [

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18. The competitive significance of embedded systems has been noted by industry commentators:

Is this the end for laptop DJing?

But back to our original question: Do DJs need to take their laptops into the DJ booth at all now? Have we come full circle, back to the days where DJs simply turn up with their music and a pair of headphones and play on the gear that's there, but with all the features of software finally available to them? Does the Prime 4 mark the beginning of the end for laptop DJing?

*In short, yes.*²³

Finishing Thoughts on the Engine Prime DJ Software

*... we truly do believe that Denon DJ has made a huge leap with the Engine Prime software. It truly delivers on all aspects of DJ'ing and demonstrates limitless possibilities for anyone's creativity when using the software.*²⁴

Serato's incentives

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²⁰ [native-instruments.com/en/products/traktor/dj-controllers/traktor-x1/](https://www.native-instruments.com/en/products/traktor/dj-controllers/traktor-x1/)

²¹ [geminisound.com/products/sdj-4000](https://www.geminisound.com/products/sdj-4000)

²² [denondj.com/prime-2-prime2xus.html](https://www.denondj.com/prime-2-prime2xus.html)

²³ <https://www.digitaldjtips.com/reviews/denon-dj-prime-4-standalone-all-in-one-system/>

²⁴ <https://djtechreviews.com/advice/denon-engine-prime>

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21. Serato's early business model was to partner with hardware partners (initially this was just one partner, namely Rane, prior to its purchase by inMusic) and have the hardware partners pay a fee for Serato software support per unit of hardware sold. In this situation the Serato software could be downloaded for free (as is the current situation), however supported hardware was required to be connected to the laptop to fully activate the software. As Serato software was not "sold separately" the business model required Serato to only work with supported hardware where a hardware fee had been negotiated.

22. However, that legacy commercial model has been superseded by a direct revenue model, which has been driven to some extent by the emergence of hardware at a cheaper price point. This hardware will often come with a limited Lite version of the Serato software with users then able to pay Serato direct for a subscription or perpetual licence to the full featured software (as well as additional expansion pack offerings). Direct revenue from these sources now produces []% of Serato's total revenue. This opportunity means there is a compelling incentive for Serato to support as wide a range of DJ hardware as possible. [

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25. For completeness, the above is not an exhaustive list of all available DJ hardware on the market. Many companies have successfully launched products in recent years with no Serato association [].

Opportunities from the Proposed Transaction

26. It has been suggested that the proposed transaction risks the merged entity foreclosing on rival hardware providers by denying access to Serato software. From Serato's perspective, such a strategy would be:
- irrational as it would adversely impact revenue (both hardware fees and direct revenue from subscriptions); and
 - ineffective as there is a range of choice of software other than Serato.

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28. In short, Serato submits that the transaction will enhance competition by bringing together the best of both ATC and Serato to ensure that the Serato DJ software product continues to evolve and improve for the benefit of all consumers of DJ software products.

Appendix: Serato Top 5 hardware partner revenue

Customer	FY22 (Global) (USD)	FY23 (Global) (USD)
[]	[]	[]
[]	[]	[]
[]	[]	[]
[]	[]	[]
[]	[]	[]