To:	Commerce Commission New Zealand
	Via email <registrar@comcom.govt.nz>
From:	Erik Gavriluk
Date:	3 April 2024
Subject:	AlphaTheta's proposed acquisition of Serato

I write in response to the Commission's request for comments on the AlphaTheta acquisition and strongly urge the Commerce Commission to approve this merger.

INTRODUCTION

I worked at Microsoft from 1992 to 1995 on Windows and early multimedia standards in audio, video and MIDI. I presently run a 501(c)(3) non-profit devoted to preserving media history where I am responsible for curating an open archive of audio and video technical documentation. I also manufacture audio hardware under a number of brand names.

Nothing I do competes in any way with the parties in this transaction. I have no past or present business relationship with any of the parties, including inMusic.

Having reviewed the extensive public documentation on this matter, I felt compelled to share my experience innovating in audio software and hardware for over 25 years.

BOMB FACTORY

In 1999, I founded the audio software company Bomb Factory and served as President. Bomb Factory actually launched alongside Serato at the same trade show. Our software was proprietary to one hardware manufacturer: Avid Technology, the established market leader.

Back then, an Avid Pro Tools system cost over 25,000 USD and required a specific model of Apple Macintosh. A proprietary SCSI disk interface card from a niche vendor, loaded with custom firmware, needed to be acquired separately. USB, Firewire, and internal drives were not supported. Only specific models of very expensive enterprise hard drives were allowed for project storage. As a result, an entire sub-industry formed around putting functional systems into the hands of users.

Avid's business model? Procure their very expensive, very finicky hardware and only then would you get to use their industry-leading software. Meanwhile Avid kept their protocols and file formats locked up tight. But everyone knew this was foolish even back in 1999. To force some much-needed introspection, the head of Avid's developer relations group came to work on Halloween dressed up as their head of strategy, clutching a notebook labelled Top Secret. These so-called secrets? MIDI maps straight out of 1984. USB protocols for talking to external devices right out of the 1996 HID cookbook. (This may all sound a bit familiar to those researching this transaction.)

In 2003, Avid (then a public corporation traded on NASDAQ) acquired all 27 Bomb Factory products. At that time, a discounted bundle of Bomb Factory software retailed for 2,495 USD.

A year after Avid's acquisition of Bomb Factory products, an entire Avid Pro Tools system that ran on Mac or Windows, including Bomb Factory software, cost 1,295 USD. By 2007, 495 USD. In 2009, 195 USD. Today Pro Tools with Bomb Factory software costs 9.99 USD/month. Commit to a full year discounted to 8.25 USD/month and they'll throw in 2,500 USD of extras. Pro Tools software no longer requires any proprietary Avid hardware (though they'll happily sell you some) and supports "Any Core Audio, ASIO, or WASAPI-compatible interface."

This is the trend regardless of industry and academic articles detailing the commodification of software predicted it twenty years ago [1]. Recent examples include Microsoft porting SQL Server to Linux and offering it for 4.90 USD a month, open-source projects like Blender and KiCad displacing expensive 3D Graphics and CAD software, and free audio production software from Blackmagic Design that even includes video editing and motion graphics effects.

No company in the marketplace could buck this trend even if they wanted to, Serato included.

Specific to the Bomb Factory sale, the very act of acquisition motivated competition. The sale validated our business model and attracted investment. Clones appeared from over a dozen companies: some proprietary, some using open standards, some tied to proprietary hardware. Competitors lifted marketing copy word for word and appropriated trademarks and colors and fonts. One even opened our documentation and simply performed a search and replace to change our name to theirs.

Many markets eventually reach this point but it's pervasive in audio. One company is so good at it that many people won't even say the name for fear of attracting their attention.

BEHRINGER, BEHRINGER, BEHRINGER

20 years ago, Behringer moved their operations from Germany and built a literal city in China. When they enter a market, they are relentless. Music synthesizers are a bit out of fashion at the moment but when Behringer recently decided to clone the space they didn't cherry pick one or two popular products. They announced *fifty*.

Behringer also manufactures a variety of DJ hardware. YouTube videos from 2008 demonstrate people connecting Behringer hardware to Serato DJ software. The open source "Mixxx DJ" not only supports Behringer DJ products alongside dozens of other brands, but even provides the software source code and mappings to do so. A vibrant community of users share setup and MIDI mapping files, refuting arguments that configuration is difficult or a chilling barrier to competition.

Behringer recently announced plans for a free DAW "unlike any other." Obviously, any new entry into this 40+ year old product category will include features for live performance (the only place left for musicians to reliably earn income) and leverage the Behringer product line, including DJ mixers and controllers.

But if any player in the DJ marketplace wanted to monopolize software or develop proprietary hardware protocols, they're thirty years too late. It doesn't matter if they have their own cities and employee dormitories in China. Or if they're BandLab, backed by 143 million USD in venture capital, supplying free music software to 60 million users who need nothing more than a web browser to use it.

MARKET CONSOLIDATION

Serato needs to maintain and grow their customer base to survive. The only way to do this is to support new hardware and software standards as they emerge.

An example would be the recently updated MIDI specification. MIDI 2.0 is an open protocol: faster, transport agnostic, and specifically designed to allow devices to broadcast their capabilities and eliminate the need for users to manually MIDI map things together. While musicians have been doing just that since 1984 (any claims of difficulty are quite overstated), simplifying it grows the marketplace and encourages competition. As a transport agnostic protocol, MIDI 2.0 makes it even easier for phone, tablet, and browser users to access external control hardware from all vendors. With modern speeds, custom USB/HID drivers are no longer required. This makes hardware easier to develop for manufacturers, easier to install by users, and further commodifies all software in the marketplace.

Simultaneous with building music software, I also managed a Los Angeles music recording studio. Our clients produced hit songs and soundtracks using the $25,000 systems and the $250 ones. Our problem wasn't a lack of choice: it was difficulty building and maintaining functional systems in an industry where so many critical pieces were supplied by tiny companies. Consolidation is long overdue.

Ironically the noisiest opponent of the deal is inMusic, an entity performing a decades-long roll-up of companies in the industry. Sadly they tend to operate those businesses in a model that Warren Buffett describes as "taking the last puff of smoke off a cigar." inMusic has an amazing collection of assets and seemingly limitless cash and appetite to buy more. Yet I couldn't help but notice that they have no open job listings for software engineers. I'd urge them to focus on innovating and stop blowing smoke.

The products inMusic claims they can't compete with are easy to interoperate with and, should they desire to do so, not difficult to replicate (I say this as someone who shipped 30 audio products in four years with only two employees). Volunteer open-source efforts have already done so – with documentation better than the commercial offerings. Meanwhile the broader tech industry is going through a sea change, the biggest reset of the wild west that anyone's seen in twenty years.

EXTERNALITIES

Just during the review period for this transaction there were massive breakthroughs in artificial intelligence. Also Apple's release of the Vision product. For anyone thinking of competing: now's the time!

I am uncomfortable with attempts to segment competition based on tablets and laptops. Or dismissing new software on phones versus legacy products on PCs. It's all just code that can quickly be moved from one place to another. Innovations in media and music technology routinely appear in one place then achieve traction in another.

Bomb Factory took a battery powered guitar pedal from the 1980s and made it available as computer software in the late 1990s. Given the new form factor, one artist was inspired to try it not on guitar, but on her vocal. Then sold a few million copies. When Avid acquired this product were they competing with the guitar pedal marketplace? Vacuum tube amplifiers? Vocal processing software?

No. The short and long term result is that Avid broadened the reach of tools for artists while guaranteeing these tools would still be available 25 years later. And the company that made the original hardware pedal is still churning those out, too!

Similarly, Moog Music gave away free iPad software that had more functionality than their famous hardware synthesizers. Then Apple Vision shipped. Now Moog's new owner inMusic can click the same app, see a Moog instrument floating over their building, and play it by moving their hands in the air.

I'm not sure what DJ software looks like in the future, but I'm certain it won't look anything like what it does right now.

QUALITY MATTERS

Technology used for live performance or broadcast is mission critical. The path in media has often been a slow, clumsy grind as industry works out the standards. Apple and Google are still messing around with image formats and I've spent thousands of dollars on Adobe software that cannot edit them.

The good news is that all the standards needed in this marketplace already exist. Any company can sell hardware or software to the DJ market and customers will have no problem rigging things up.

Twenty-five years ago, Bomb Factory did not support Apple's audio formats or even the predominant VST audio effects standard. We did this not for competitive reasons (we would've loved the revenue) but because the technology didn't actually work for our customers. Several of our competitors spread themselves too thin and their product quality suffered. We emerged as the leader and were rewarded with an acquisition that served customers well for decades.

More choices doesn't always mean "more better."

CONCLUSION

As an industry executive who watched similar events play out in media, gaming, and across the broader tech industry the past 25 years, the proposed acquisition of Serato by AlphaTheta has my complete endorsement. Prices for current technology will continue to drop which in turn will force innovation.

My philosophy on competition notwithstanding, Serato has toiled for decades to create an amazing brand, product line, and culture of quality. The artists who rely on Serato products have nothing to fear. And retailers will continue to enjoy the fruits of this creative and competitive market.

[1] https://web.archive.org/web/20160306111732/http://synthesist.net/writing/commodity_software.html

Respectfully,

Erik Gavriluk
President, Bomb Factory