



A Micro and Macroeconomic Report of

SPITFIRE AUDIO

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1. Spitfire Audio: An Introduction and History

Spitfire Audio is a music technology company that creates orchestral sample libraries and software instruments. In 2007, composers Christian Henson and Paul Thomson began to create their own sample string libraries out of a shared dissatisfaction with any similar, existing products. Although initially created for personal use and an exclusive group of fellow composers, the quality of the library caused word to spread within the composer community and Christian and Paul quickly began to see the product's potential. Within a year they decided to make their samples public and so Spitfire Audio was born (Keyboard Magazine, 2017) (<https://www.spitfireaudio.com/about/>, no date).

Although enjoying relative success within the limited market of full-time professional composers, the release of Spitfire's *ALBION 1* library in 2011 catapulted the company into the mainstream of orchestral sample libraries and software instruments (Buchanan, 2015). *ALBION 1* has since undergone a couple of updates and revisions (including a rebranding to *ALBION ONE*), but it remains Spitfire Audio's best-selling product to this day, such is its enduring quality and popularity (Epic Composer, 2017) (Warriner, 2019, [04:00]).

Building on the success of *ALBION*, today Spitfire Audio has recorded and released over eighty sample library products. These products range vastly in price from the completely free *LABS* project, to £29 for the cheapest paid libraries, up to £899 for the most expensive. Despite this range in price, the strength of Spitfire Audio's brand means that all are trusted to reach the highest standard of sample library and software instrument. The upholding of this consistent, professional standard of product has put Spitfire Audio firmly at the forefront of media composition as their libraries and instruments are highly regarded and widely used by professional film, television and game composers. This high standard has been further promoted by the release of collaborative products with hugely well-known names in the industry such as Hans Zimmer, Hauschka and the BBC Symphony Orchestra.

While aspiring to develop their product to reach the quality needed by top tier professional composers, Spitfire Audio's marketing and products target a much wider customer base of more casual music-makers and musicians (Warriner, 2019, [47:37]). Growing from the exclusive group of professional composers and friends in 2007, Spitfire Audio now reaches a customer base of 'about a quarter of a million people' in fifty countries (Warriner, 2019, [05:57]). The majority of these customers are not full-time professional composers and so the accessibility and targeting of products to these 'prosumers' has been essential to the growth of Spitfire Audio in its twelve years of existence (Warriner, 2019, [37:59], [48:58]).¹

¹ A 'prosumer' is a customer who wants to buy very high-quality technical products or equipment. The word is formed from the words "professional" and "consumer" (<https://dictionary.cambridge.org/dictionary/english/prosumer>)

This growth is clear to see. Today, Spitfire Audio has 65 full-time employees and just last year the company invested in a new, much larger office space at Tileyard, King's Cross (Warriner, 2019, [03:12], [12:26]). The company reports a 153% year-on-year growth of its customer base and this has driven revenue growth of 'more than 400% over the last five years' (Music Ally, 2019).

The launch of the *BBC Symphony Orchestra* sample library product in October 2019, a new major product for the company, will most likely be a successful driving force in continuing this trend of growth as the company heads into 2020. Mike Warriner, Chief Operating Officer at Spitfire Audio, described the product as 'doing incredibly well' having 'come out of the gates very strong' (Warriner, 2019, [04:00]). Considering that this product is Spitfire's most expensive, selling at £679 even when discounted, the indications suggest that Spitfire's revenue for the second half of the 2019 financial year will be very strong.²

While retaining a focus on its core products of orchestral sample libraries, such as *BBC Symphony Orchestra*, the company is also experimenting with other projects. In 2019, Spitfire Audio launched a record label for 'contemporary composers', SA Recordings, and an online magazine, *Composer* (<https://shop.sarecordings.com/about>, no date). The company also continues to release more experimental sample libraries, such as the *Hauschka Composer Toolkit*, *Kepler Orchestra* and *Orbis*, all released in 2019. These products move away from the standard orchestral libraries and enter an extremely creative field of worldly samples and experimental sound design, offering their customers great creative potential. This increasingly diverse range of products and content created by Spitfire Audio is all thoughtfully designed to ensure they continue achieving their company mission: 'To inspire a generation of composers' (<https://www.spitfireaudio.com/about/>, no date).

² For clarity, the 'BBC Symphony Orchestra' is Spitfire Audio's joint most expensive **single** product with a standard price of £899. Spitfire offer bundles of multiple products (such as the 'Everything' bundle) which are more expensive than £899.

2. Products

2.1 What are sample libraries and software instruments?

A sample library is a collection of digitally recorded sounds/samples. These sounds are collated and digitally packaged into a downloadable product which allows composers and music producers to use them, effectively reproducing the original recorded sound, within their music-making software (such as a DAW).³ The tool through which these sounds are reproduced is called a software instrument as the recorded sounds are organised to create an entirely digital 'musical instrument' through the software.

In the case of a large orchestral sample library such as Spitfire Audio's, dozens of real orchestral instruments played by real musicians are recorded. Every note within the particular instrument's range is recorded multiple times, and then multiple times again at each different velocity (levels of loudness/force). Instruments with several different techniques of playing, such as string instruments, will repeat this recording process with each different technique of playing (e.g. staccato, legato, tremolo and pizzicato).⁴ Each individual sample will be recorded by numerous microphones which are carefully positioned in different parts of the room to record slightly differing versions of the same sample.

This painstaking work results in a huge number of individual samples which must then be tweaked and collated. For example, Spitfire Audio's *BBC Symphony Orchestra* library involved the recording of 99 musicians, 55 different instruments and 418 different techniques of playing. All of this was recorded at 11 different microphone positions. Once they had finished the recording process, Spitfire Audio had over a million samples to collate, totalling over 200 hours of sound recordings (<https://www.spitfireaudio.com/shop/a-z/bbc-symphony-orchestra/>, no date).

The result of this huge undertaking is the software instrument at the end, which gives composers access to play and record the thousands of different sounds an orchestra can create while simply sat at a keyboard. The customer is given a huge range of creative options given the extensive variety and quality of the originally recorded samples, allowing them to compose and record digital music that sounds incredibly realistic.

The process of sampling remains very similar for Spitfire Audio's more experimental products and non-orchestral instruments. The same principles apply whether the original samples are human voice (*Eric Whitacre Choir*), world instruments and natural sounds (*Orbis*), or a single piano (*Hans Zimmer Piano*). However, whereas the

³ DAW stands for Digital Audio Workstation and is software which allows the recording, editing and producing of audio. Examples of DAWs include Logic Pro, Ableton, Pro Tools and GarageBand.

⁴ Taking Spitfire Audio's 'BBC Symphony Orchestra' as an example, each instrument recorded, on average, over 7 different techniques. String instruments typically recorded 16-20 different techniques.

core orchestral libraries remain truer to the original sample to offer customers realistic orchestral sounds, some of Spitfire Audio's more experimental and creative libraries, in particular the more synth-based products, take the original samples as a base sound and allow the customer to completely manipulate them to beyond recognition.⁵

2.2 Spitfire Audio Products

Available to buy on Spitfire Audio's website today are over eighty different sample libraries and software instruments. These products range vastly in price, from £29 to £899: the greater depth and complexity to the product, the higher the price. Advertised on the website, the libraries are roughly separated into five categories, although there is some overlap: Orchestras, Collaborations, Instruments, LABS, and Scoring Bundles.

2.2.1 Orchestras

The sample libraries in the Orchestras category are Spitfire Audio's core products. These hugely detailed, high quality orchestral sample libraries are what Spitfire Audio are known for and these products are the company's bestsellers. There are roughly ten libraries that fall into this category with examples including *ALBION ONE* (£399), *BBC Symphony Orchestra* (£899), and *Kepler Orchestra* (£249). Given the high production costs and great depth of sounds that customers get with these orchestral libraries they are typically Spitfire's more expensive products. Given the popularity and success of these products Spitfire will certainly continue to develop and release libraries of this sort in the future (Warriner, 2019, [56:00]).

2.2.2 Collaborations

Spitfire Audio regularly work with some of their famous customers to create collaborative products. As well as boosting sales of the individual products by attaching a famous name to them, these collaborations are an effective marketing tool. Hans Zimmer's name and reputation, for example, resonates with professional composers and causal customers alike and thus these collaborations further Spitfire's image of being a company creating libraries for top-level, professional composers. Over twenty-five Spitfire Audio libraries have some element of collaboration with famous musicians such as *Hans Zimmer Strings* (£699), *Eric Whitacre Choir* (£549) and *Hauschka Composer Toolkit* (£249).

The collaborations category also includes some of Spitfire's £29 libraries, an interesting new range of relatively cheap products. Given that the average price of

⁵ Examples of these products include such as *Orbis*, *Kepler Orchestra* and *Hauschka Composer Toolkit*

Spitfire product is £256, this is a break from their usual pricing.⁶ Linked with Spitfire's record label, SA Recordings, affiliated artists and composers release bespoke sample libraries alongside their album release, which comprises of the sounds used in the album. The *Alev Lenz – 3* (£29) and *Oliver Patrice Weder – OPW* (£29) are the first two examples of this type of product, but given the success Mike Warriner reported, this model is likely to be one Spitfire continue to follow (Warriner, 2019, [21:15]).

2.2.3 Instruments

Spitfire Audio often take the same principles of sampling a full orchestra and meticulously apply them to a single or particular group of instruments to create a detailed, specific sample library. This type of product is the most numerous on Spitfire's website and examples include *Spitfire Harp* (£149), *Marimba Swarm* (£149), and *Spitfire Symphonic Strings* (£699). These products are typically, but not exclusively, for professional composers because an average, casual customer is unlikely to spend £249 on just strings (*Spitfire Symphonic Strings Evolutions*) when they can purchase a full orchestra for £399 (*ALBION ONE*). These products give composers the ability to get very specific sounds that they require for their work as an alternative to the more broad orchestral products.

2.2.4 LABS

Spitfire Audio's *LABS* products are a fundamental element of their business model as these are entry-level products for new customers. *LABS* are a range of software instruments made with Spitfire's usual sampling quality, but they are completely free to download. There are currently twenty *LABS* products available on the website, with one released each month, and these include instruments such as a *Dulcimer*, *Soft Piano*, and *London Atmos*. In exchange for these free instruments customers simply have to create an account with an email address, which Spitfire Audio add to their mailing list.

LABS are a form of 'freemium' product. Although not having to pay anything, *LABS* customers get the same quality of software instrument and the same level of customer experience support as paying customers (Warriner, 2019, [48:58]). Spitfire Audio hope that this will be an entry point from which new customers will discover and desire their paid products. By offering quality products but for free, Spitfire Audio make their brand and products accessible to a much wider range of people and thus hugely broaden their customer base (and mailing list). These 'freemium' customers very often convert into paying customers at some point, as Mike Warriner says that they make up a 'very significant portion of...the people who purchase [Spitfire Audio] products' (Warriner, 2019, [48:58]).

⁶ This average calculation was made using the standard (RRP) prices listed on Spitfire Audio's website. It is just single products and therefore does not include any 'Bundle' offer prices. £256 is a number rounded down from the actual average: £256.23.

In an article about Spitfire Audio, Philip Mantione succinctly concludes why the *LABS* products are so successful:

‘for the cost of ZERO, you’d be remiss not to check out what they have to offer. But be forewarned, once you get a taste of what a good sample library sounds like, you will likely wander deeper into the world of the un-free’ (Mantione, 2019)

2.2.5 Scoring Bundles

The final category of Spitfire Audio products is Scoring Bundles, where customers can buy multiple pre-selected products at a discounted price. These products are bundled together to compliment each other and give the customer a well-rounded selection of Spitfire’s existing sample libraries. For example, the *Spitfire Scoring Essentials* bundle (£729) is made up of *ALBION ONE*, *Spitfire Solo Strings*, and *Olafur Arnalds Chamber Evolutions*, which if sold separately would come to £997. Spitfire Audio offers a total of fifteen Scoring Bundles and they are an effective upselling pricing strategy, tempting customers to purchase more than one sample library at a time by offering a discount.

The final product to mention is Spitfire Audio’s *Everything* bundle, which, as the name suggests, allows customers to purchase every single Spitfire Audio product in one payment. This costs £12,539, saving customers 34% of the cost of buying each product individually. That Spitfire Audio bundles everything they have produced without the customer being able to try before buying, shows the loyalty and faith they have in Spitfire Audio to create quality, valuable products.

3. Customer Base

Spitfire Audio has a niche customer base because their products only really have value to composers and musicians, either professional or casual. The average person is very unlikely to spend £500 on a sample library as they have little need, or even the skills necessary, to use it. According to Mike Warriner, the number of customers that Spitfire Audio communicate to is about a quarter of a million, including non-paying LABS users, and these customers live worldwide in approximately fifty different countries (Warriner, 2019, [05:57], [06:30]). Given that Spitfire Audio is an industry leading company with worldwide appeal, 250,000 customers is not a huge number.

Because the pool of potential Spitfire Audio customers is relatively niche, creating a loyal customer base that will give the company repeat business has been crucial for Spitfire to ensure its continued success and growth. In their twelve years in business, one of Spitfire's greatest strengths has been their ability to create a tribe-like community of composers and musicians through the combined efforts of the customer experience and marketing teams (Godin, 2011). In conjunction with the high-end quality of their products, this creation and nurturing of a community of like-minded musicians has been the key to the company's success and growth, and it is essential that the company maintain this in the future.

Quality customer experience and tech support is an essential aspect of Spitfire Audio's business as they are 'the front line and the first human experience most people have with Spitfire' (Warriner, 2019, [53:56]). This human experience is vital for creating trust and a sense of community between Spitfire Audio and their customers. When potentially spending hundreds of pounds on software, customers want to know that should something go wrong with the product there is somebody who can effectively and efficiently help. This becomes even more essential because Spitfire Audio do not offer refunds, so if there is any problem with a product it must be resolved rather than simply refunded.

Whereas the customer experience and tech support teams are available to Spitfire customers should they need, the marketing team very actively communicate with the Spitfire community via multiple platforms. As well as promoting their products and promo deals/discounts, Spitfire Audio create a wide range of supporting content which all contributes to creating this sense of community.

3.1 Marketing Strategies

Given the niche customers Spitfire Audio appeal to, the majority of their marketing content is very targeted, mostly online or in music industry magazines. Spitfire Audio is extremely active on YouTube, Instagram and Facebook. These platforms are vital tools for communicating with existing customers but also inspiring new ones. Music industry magazines also permit very niche, targeted adverts for a very specific audience.

Spitfire's basic form of communicating with their existing customer base is through their mailing list. The mailing list comprises of customers who have either actively given Spitfire their email address for marketing updates, or, more likely, have purchased Spitfire products/LABS in the past. As such, the mailing list is full of previous customers and therefore is a vital tool for communicating with the people most likely to purchase Spitfire products. Through this medium they tend to communicate new releases or promotional deals, as well as links towards the video content on YouTube.

The content Spitfire Audio post on YouTube is the most comprehensive of their marketing and, within the comments section, is the best evidence of Spitfire's tribe-like community. Through the 'Recommended Videos' feature on YouTube, it is also a great platform for new people to discover Spitfire's products and brand. Spitfire Audio has 84,000 subscribers on YouTube having posted about 850 videos, amassing over 13 million views. This content includes detailed 'Walkthrough' videos of new sample libraries and 'How To' tutorial videos where someone from the Spitfire team explains 'How To Improve Your Compositions' or 'How To Write Music for Horror', for example. These videos are well made and offer great advice from top, professional composers, while introducing people to Spitfire sample libraries in depth. Spitfire Audio also create discursive and interview content with some of their famous customers/collaborators such as 'The Hans Zimmer Composer Round Table', to further grab attention. While the active comments sections of these videos help to build the community surrounding Spitfire's products, all the videos themselves are created with great appeal to Spitfire's target customer base: people interested in composing music.

Spitfire Audio are also very active on the social media platforms Instagram, Facebook and Twitter. At the time of writing Spitfire have 44,000 likes on Facebook, 33,000 followers on Instagram, and 16,000 followers on Twitter, and they tend to post to these followers approximately once each day, a relatively high level of activity. Similarly to the mailing list, as these followers are likely to be previous customers of Spitfire products, the content of these social media posts tend to be announcements of new products or of promotional deals on existing products.

The final major marketing strategy Spitfire Audio employ is placing adverts and reviews in music industry magazines, the core examples being Music Tech, Sound on Sound, Electronic Musician and Future Music (Warriner, 2019, [59:36]). Again, these target a niche audience of people more likely to be interested in Spitfire's products than an average person as the readership of these magazines is in itself a niche group of predominantly music technology professionals and enthusiasts.

4. Competitors

Although Spitfire Audio exists in a niche area of music technology, they are not the only people creating large, detailed orchestral sample libraries. There are relatively low barriers to entry for creating small sample libraries, but these barriers become higher when the size of orchestra and scale of sampling increases.⁷ While there are tens of companies creating sample libraries, software instruments and similar music technology, only a couple truly specialise in large orchestral sample libraries like Spitfire Audio.

The first of Spitfire's major competitors is Vienna Symphonic Library (VSL). Founded in 2000, VSL have since sampled almost every instrument of the symphonic orchestra, either as solo instruments or as part of an ensemble (www.vsl.co.at/en/AboutUs/History, no date). This breadth of solo instrument libraries is something Spitfire are unlikely to match, because, while Spitfire Audio also sell more creative libraries (*Orbis*, *Kepler Orchestra* etc.), VSL focus strictly on orchestral sounds. VSL are also less creative with their marketing and naming of products, straightforwardly naming their libraries *Solo Strings I* and *Vienna Smart Orchestra*, for example. On average, VSL libraries are more expensive than Spitfire Audio's, but given the vast range of different products and prices that both companies sell it is difficult to draw any fair comparisons. While being very professional and having great detail and quality to their libraries, their lack of creative products and creative marketing does set Spitfire Audio apart from them.

Spitfire Audio's other main competitor is Orchestral Tools, a Berlin-based company. Orchestral Tools have fewer products than Spitfire Audio (and VSL) but their marketing and libraries are more akin with Spitfire's. Orchestral Tools have two major brands of sample library, the *Metropolis Ark* libraries and the *Berlin* libraries. The *Metropolis Ark* libraries have some similarities with Spitfire's *ALBION* range as they are four epic, orchestral libraries with a creative brand name and costing €549/€599, only £70 more than Spitfire's four *ALBION* libraries.^{8 9} Orchestral Tools' *Berlin* libraries are very detailed libraries of certain instrument types, such as *Berlin Strings* (€840), which are also similarly marketed and priced as some Spitfire products, for example *Spitfire Chamber Strings Professional* (£899). Orchestral Tools have also begun to release collaborative sample libraries, having recently worked with composer Tom Holkenberg to create their new *Junkie XL Brass* library. The products and marketing Orchestral Tools are creating, including media content on platforms like YouTube, is comparable to Spitfire's and therefore it is vital that Spitfire continue to release quality, exciting products to not lose ground to this competitor.

⁷ These low barriers to entry are evidenced by the history of Spitfire Audio's founders, who started sampling by themselves.

⁸ Metropolis Ark 1 - €549, Metropolis Ark 2 - €599, Metropolis Ark 3 - €549, Metropolis 4 - €549.

⁹ At £1 = €1.17, calculated on Friday 20th Dec 2019.

Having said this, because the products these companies create are the tools of the trade for composers, it is very normal for them to require multiple orchestral sample libraries: the greater variety in sounds they have at their disposal the more creative they can be. Furthermore, composers and musicians find these products exciting and inspiring and so they are unlikely to want to limit themselves to one library: imagine telling a guitarist that they have enough effects pedals already or a child that they have enough toys!

5. Pricing Strategy

Generally speaking, Spitfire Audio has a simple pricing strategy: the more man-hours required in the development of the product, the higher the price charged to the consumer. As such, the large, hugely detailed sample libraries such as *BBC Symphony Orchestra* (£899) become significantly more expensive than a solo *Orchestral Grand Piano* (£49).

Although Spitfire needs to be wary of the prices its competitors are charging to ensure they are not excessively over- or undercharging for their products, a competitive pricing strategy is not particularly applicable to them. The nature of their products, being software, makes it difficult to draw direct comparisons in value between competing products (Warriner, 2019, [24:39]). It should also be noted that no two sample libraries or software instrument products are exactly the same, and so in that sense are not even direct competitors: the greater variety of sounds and sample libraries a composer has at their disposal, the better.

Analysis conducted by Spitfire's COO, Mike Warriner, actually shows that there is a positive correlation between the price of Spitfire products and the number of units sold (Warriner, 2019, [21:15]). The more expensive sample libraries, such as *BBC Symphony Orchestra* and *ALBION ONE*, are actually also the best selling. As such, Spitfire Audio's products are exceptions to the usual laws of demand and are examples of Veblen Goods: whereby the quantity demanded increases when the price increases.

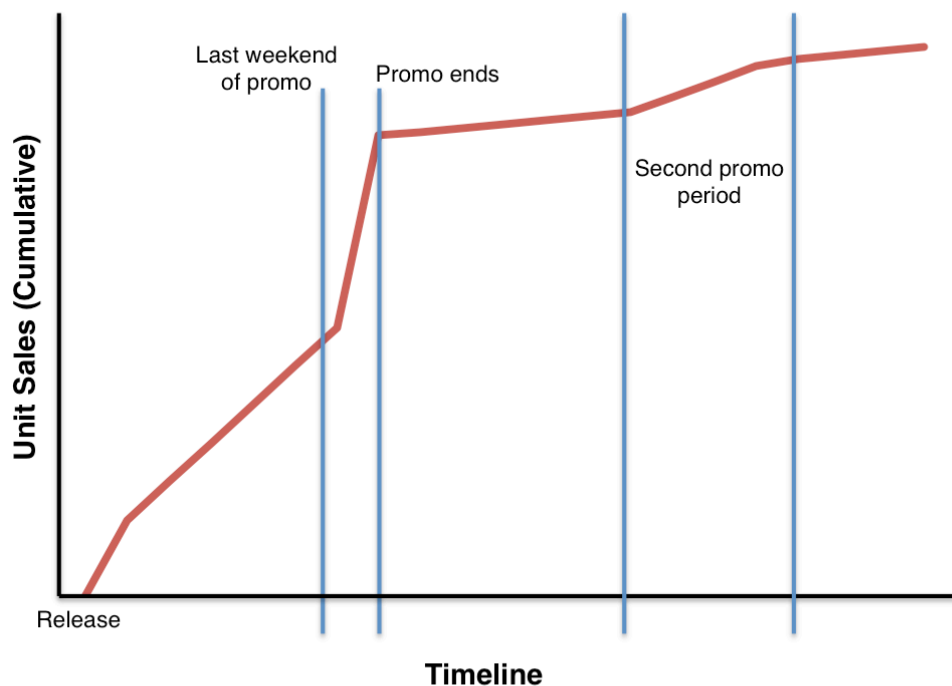
This clearly shows what Spitfire's core customer base expects the company to create: 'people want complex, complete products. If you give them a complex, complete product it's going to be more expensive and that's what they want to engage in' (Warriner, 2019, [21:15]). This has big ramifications for Spitfire's pricing strategy and future product planning because it is clear that their more expensive products are also the most desirable among their customer base, and therefore by a long way also the most income generating.

5.1 Discounts & Offers

Promotions are 'exceptionally important' to Spitfire's pricing strategy because 'people want to know that they're getting a bargain' (Warriner, 2019, [28:40]). The company have found that products sell incredibly well when discounted, and when they 'lessened those discounts the products have performed not so well' (Warriner, 2019, [28:40]). Based on this analysis, each year Spitfire Audio run three major promotional periods during which 'the whole shop is...discounted': Black Friday, Christmas Wish List and Spring Wish List (Warriner, 2019, [50:03], [28:40]). These periods are extremely busy and see huge boosts in sales. The company often also run a monthly promotion or 'highlight' of a single product to give it publicity and a small sales boost (Warriner, 2019, [28:40]).

The graph below is a recreation of a graph, sketched by Spitfire's COO Mike Warriner, showing the cumulative sales of a typical Spitfire Audio product and the impact promotional periods have on those sales.¹⁰ Spitfire products are typically released at an introductory discount price with the aim of encouraging pre-orders and early sales, and the graph suggests that this is a successful strategy. People want this new, exciting library; they 'want it first and [they] want a discount' (Warriner, 2019, [28:40]).

Sales of a typical Spitfire Audio product



The graph clearly shows how well a general Spitfire Audio product performs during promotional periods, especially when those promotional periods are coming to an end. Generally speaking, in times of no promotional discount the sales of older products tend to flat line, proving the importance of these promotions in boosting sales.

¹⁰ See Appendix Three for a scan of the original sketch.

6. Financial Structuring

Spitfire Audio is an 'organically growing company' funded entirely by its cash flow and therefore operating with no debt (Warriner, 2019, [14:23]). Although the future can never be certain, Spitfire Audio currently generate enough cash to run the business so have no requirement for external financing, and they have no plans to alter this strategy in the long term (Warriner, 2019, [14:23]).

This is an interesting strategy because, with exception of overheads such as office rent and employee salaries, all the specific production costs for a sample library are sunk before the product even gets to market. Being cash-funded, this means that all costs – paying the musicians, hiring the venue, hiring engineers, and funding the six months (for example) of editing and development – must be cash flow affordable for Spitfire before a project can even start, let alone before it begins generating any revenue (Warriner, 2019, [14:23]).

However, once the product is available for sale, the cost of goods sold for that product becomes fixed. Being a software company with a finished product, the cost of sales for selling one sample library or selling ten thousand remains the same. Furthermore, these costs have already been paid for with cash so no debt has been incurred and all revenue generated from sales can go straight into funding the next project, continuing to organically grow the company.

This is a relatively risk averse business model because Spitfire Audio only invest what they can afford. To effectively forecast and ensure they do not overstretch what is affordable to them, COO Mike Warriner instigated a three-month rolling forecast for the business (Warriner, 2019, [17:37]). Rather than running to an annual budgetary cycle, a three-month rolling forecast allows the company to be much more flexible and ultimately creative. Spitfire is flexibly able to delay products, pull products forward and even completely change direction, without creating a big issue regarding the forecasted annual spend and whether the company will be able to cash flow this (Warriner, 2019, [17:37]).

Slightly contrary to this short-term cash financing strategy that Spitfire practice, they have recently undertaken a major investment in the form of their large Tileyard office space. This is a rented office which 'on one analysis [is] far too big' for the company (Warriner, 2019, [12:26]). However, Spitfire wanted 'to have a really good, creative space' in which employees do not feel 'crammed in', ensuring 'a really productive environment' (Warriner, 2019, [12:26]).

SPITFIRE AUDIO HOLDINGS LIMITED
REGISTERED NUMBER:09857384

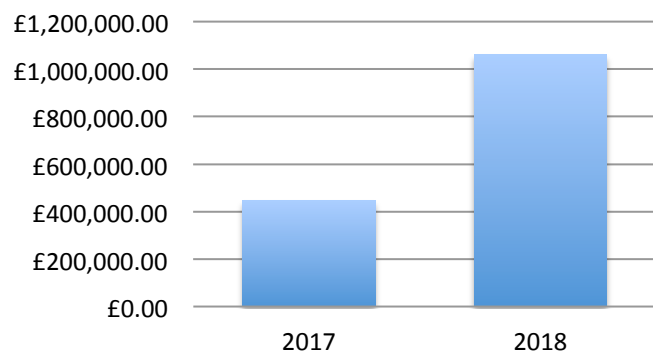
BALANCE SHEET
AS AT 31 MARCH 2018

	Note	2018 £	2017 £
Fixed assets			
Intangible assets	5	11,766,967	11,798,409
Tangible assets	6	359,647	180,330
		<u>12,126,614</u>	<u>11,978,739</u>
Current assets			
Debtors: amounts falling due within one year	7	357,519	303,067
Cash at bank and in hand	8	3,795,843	3,248,962
		<u>4,153,362</u>	<u>3,552,029</u>
Creditors: amounts falling due within one year	9	(1,495,279)	(1,384,165)
Net current assets		<u>2,658,083</u>	<u>2,167,864</u>
Total assets less current liabilities		<u>14,784,697</u>	<u>14,146,603</u>
Provisions for liabilities			
Deferred tax	10	(54,004)	(29,646)
Net assets		<u>14,730,693</u>	<u>14,116,957</u>
Capital and reserves			
Called up share capital	11	11,671,000	11,671,000
Share premium account		2,000,001	2,000,001
Profit and loss account		1,059,692	445,956
		<u>14,730,693</u>	<u>14,116,957</u>

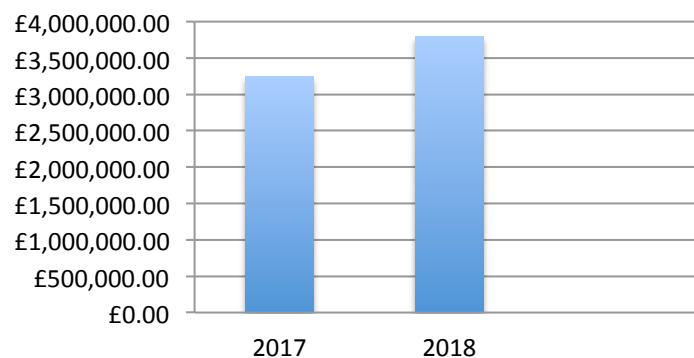
Spitfire Audio Holdings Limited Financial Statement Unaudited Financial Statements for the year ended 31 March 2018 – Available at: shorturl.at/ltvL1

All the signs indicate that Spitfire Audio is an organically growing business. Spitfire's profit in 2018 was over £1million, growing 138% from 2017. The company's cash levels are strong, having grown from 2017 to 2018 by 17% to £3,795,843, a key figure given the company's financial strategy. In 2019 the company released many new products, including a new flagship orchestral library, the *BBC Symphony Orchestra*. Given the strong sales reported by Mike Warriner and the library's relatively expensive price tag, predictions for further Spitfire growth in 2019 seem very sound (Warriner, 2019, [04:00]).

Spitfire Audio Profit/Loss



Spitfire Audio Cash



7. Macro Environment

According to a report from the 2017 NAMM Show, Spitfire Audio operates within a growing sector of the music technology industry, and ‘the future looks bright for music software developers’ (<https://www.namm.org/playback/industry-crossroads/music-software-developers-positioned-growth>, no date).¹² As the data below shows, sales of Plug-In Software have increased most years since 2008, rising almost 130% between 2012 and 2017. This has occurred while total software sales have been declining, falling by 32.34% in the ten years between 2007-2016. Although the market for total software clearly shows a downward trend, the sector of this industry which Spitfire Audio’s products place is enjoying strong growth.

Plug-In Software & Loops¹¹			
Year	Wholesale	Retail	% Change
2017	\$28,800,000	\$40,000,000	25.00%
2016	\$23,040,000	\$32,000,000	14.30%
2015	\$20,160,000	\$28,000,000	-1.80%
2014	\$20,520,000	\$28,500,000	26.70%
2013	\$16,200,000	\$22,500,000	29.30%
2012	\$12,528,000	\$17,400,000	-11.70%
2011	\$14,184,000	\$19,700,000	5.30%
2010	\$13,464,000	\$18,700,000	14.60%
2009	\$11,750,000	\$16,320,000	-21.30%
2008	\$14,940,000	\$20,750,000	1.20%

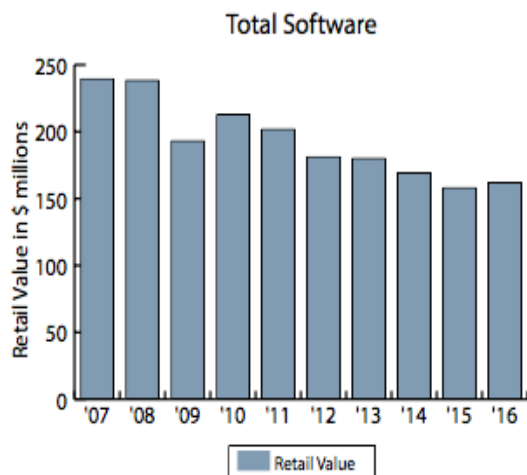
Furthermore, according to the ‘Global Music Production Software Market 2017-2021’ report, conducted by market research firm Technavio, it is expected that the music software market will continue to grow at a compound annual rate of 9% between 2017 and 2021 (Technavio, 2017).

This data should be taken with a pinch of salt because, being a software product sold online, it can be very difficult to get accurate sales data. As Mike Warriner points out, ‘we sell our product, no one else can get hold of that data...and we’re not going to share it with anyone’ (Warriner, 2019, [44:15]). Furthermore, it should be noted that the data ends in 2017 and therefore the industry performance data for the previous two years is missing.

Having said this, the data above does corroborate with the opinions of both Mike Warriner (COO at Spitfire Audio) and Bryan Borchers (Marketing Manager at Arturia), who both argue that the industry is not saturated and seems to be growing

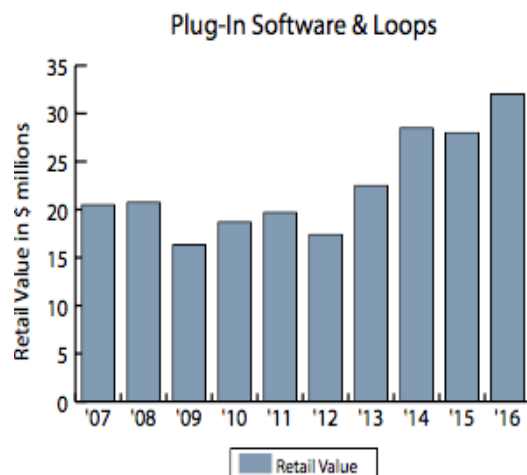
¹¹ This data was sent to me following a meeting with Bryan Borchers, Marketing Manager at Arturia. It is from a NAMM industry report.

¹² NAMM is the National Association of Music Merchants and is the largest trade-only event for the music products, pro audio and event tech industry.



	Retail
2016 Summary	2.53%
10-Year Trend	-32.34%

Total Software includes recording software packages, virtual instruments, sampling software and educational software.



	Retail
2016 Summary	14.29%
10-Year Trend	56.08%

Plug-In Software & Loops category includes signal processing effects, tune-correction software and mastering programs.

(Warriner, 2019, [40:26]).¹³ Mike Warriner believes that the nature of the product helps to avoid market saturation because Spitfire's customer base 'always want new sounds, and they always want the new thing' (Warriner, 2019, [40:26]). He reports that in a saturated market 'you'd expect sales to be slowing or people not to be repeat buying, or us [Spitfire Audio] not being able to sweep up new customers', but Spitfire is currently 'doing all three' (Warriner, 2019, [40:26]).

This does not mean, however, that there are no threats to Spitfire Audio's macro environment. Demand for Spitfire's products is heavily reliant on the film, television and gaming industries needing orchestral, composed music. If something were to threaten these industries resulting in less demand for orchestral music, this would certainly have a negative impact on the demand for Spitfire's products. However, with the current popularity of Netflix and Amazon Prime as well as normal cinema and television, and the hugely thriving gaming industry, it is difficult to foresee the collapse of any of these creative industries in the near future.

One potential threat to Spitfire Audio in the future is AI composed music. If the film, television and gaming industries could get quality music composed by AI then this could threaten the work of professional composers and in turn Spitfire Audio. However, while the technology is very impressive, at this stage AI does not pose a serious threat to composers because human-created music is still significantly better. As Mike Warriner argues: 'you're not going to get a Hans Zimmer score out of artificial intelligence' (Warriner, 2019, [34:15]).

Another macroeconomic warning sign came in 2019, when international music technology company, Native Instruments, confirmed 100 employee layoffs, 20% of

¹³ This is following meetings with the two men. The meeting with Mike Warriner is documented in the transcript (Appendix One) but unfortunately the meeting with Bryan Borchers has no such transcript or record.

all staff. The company announced that this was part of 'a plan to centralise their global business operations' and that 'this change comes despite growing revenues in 2018 and the first half of 2019' (King, 2019) (Wilson, 2019). So while it seems this major company, which is closely aligned to Spitfire Audio, is not in financial trouble, the news still sent shockwaves through the music technology world and got plenty of attention from Spitfire Audio.

The final big question mark for Spitfire Audio as they head into the future is the impact that Brexit will have on the company. Being a software company they will not have to pay any customs duties, which, given they sell their products worldwide, is a big plus. However, they are slightly worried about the freedom of movement for talented musicians. A major aspect of Spitfire's sample libraries is that the musicians they record are the best in the industry and Brexit may threaten the freedom for some of these top musicians to work in the UK. Mike Warriner says 'anything that diminishes the pool of orchestral musicians...trickles all the way through' to Spitfire Audio (Warriner, 2019, [37:01]).

Furthermore, as Spitfire Audio sell their sample libraries internationally, the strength of the pound will have an impact on the attractiveness of their products to foreign customers. If the pound is strong following Brexit then Spitfire's products will become relatively expensive to foreign customers, who still have to purchase the sample libraries in pounds. Likewise, if the pound is weak then Spitfire's products become cheaper for foreign customers. Brexit is the cause of uncertainty for all businesses and Spitfire Audio are no exception. Although the fundamentals of their business should not be too impacted by the UK leaving the EU, it is still a major macroeconomic point of consideration for the company.

5415 words

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9. Appendix

9.1 Appendix One –

Transcription of a meeting between James Gamble and Mike Warriner, COO at Spitfire Audio (on 28 November 2019).

Meeting with Mike Warriner (COO at Spitfire Audio)

- Transcript (all text in black is spoken by Mike)

[02:44]:

So I'm the COO. So my background is, not that this is relevant, but my background is I was twelve years at Focusrite and I was their commercial director at Focusrite. I'm a lawyer by trade, but I'm also an accountant as well, so that combination of law and finance. But I also have good operational experience in the music tech industry

[03:12] *Question 1:*

So, how many employees? We have 65 employees.

[03:23] *Question 2:*

So we have five directors of the company. So we have myself, Will Evans who is the CEO, we have Paul and Christian who are the founders and obviously directors, and we have our investor who is Paul Kemp.

[04:00] *Question 3:*

Best selling product err, Albion One. BBC Symphony Orchestra is also doing incredibly well. It's come out the gates very strong, which has been incredible. Slightly underestimated, we're a software business, but we do sometimes use... We're a software business so selling one copy or two thousand copies makes very little difference in terms of our supply, apart from the fact that with something like the BBC which is highly reliant upon hard drives. Because of the size of the libraries, and we slightly underestimated the number of hard drives that we would need, so that caught us out...No, the hard drives that we ship our product on. So basically, the customers have a choice of whether they just download or they receive it on a hard drive. For very large libraries like the BBC then they're most likely, you know, if they don't have a fantastic, if they're not in London or the big [*inaudible*] where there's very good internet then they may want to just have it shipped out to them.

[05:26] *Point about the hard drives*

Most of our drives are mechanical drives that we ship products out on. On the BBC we're using SSDs so that they can actually use it as a working drive. You would never use a mechanical drive as a composer with your libraries on, it would be too slow. But with an SSD it actually becomes a device that they can use as well so it has utility there.

[05:45] *Question 3a:*

I can't really talk about how many units, but many, yeah, many thousands.

[05:57] *Question 4a:*

Customer base, how many accounts members? I mean basically it's, we have two parts of our business. We have our LABS user base, which is our free products, and then we have our paid customers. I mean we basically have about, you know, you could say about a quarter of a million people who we communicate to.

[06:30] *Question 4b:*

Yeah, we sell into, you know, fifty odd different countries. So it's pretty much worldwide.

[06:55] *Question 5a:*

Market share is very difficult to say because there's no... So where I used to work before you used to have point-of-sale data, and it was American Music, so it was Music Trade, so, who used to produce music track/sales track information at point-of-sale. So literally people are on tills at Guitar Centre and stuff. So you could actually give an approximation, even though it was a reduced sized market, you could actually get an approximation because you knew your own sales and therefore you could try and work out, reverse engineer the sales of your competitors, and work out where you are. In this market –

very, very difficult to tell. You can look at things like VI Control and the chatter on VI Control. I think the reputation that we have is for producing high-end quality... [Long interruption]

[09:08] *Question 5:*

So competitors – I mean there are other people in the sample library space. I think it's, and I would never want to be complacent and say... We operate in a very niche area. So you would say things like Orchestral Tools would be one of the competitors there. I think the way – and Vienna – we have a very specific approach to our sample libraries and the way that we've formed the company, and why we're here, and we've really remained as true that as we possibly can in terms of the places that we record, the musicians we use, and to maintain that thread of, that particular type of quality that we think our customers, orchestral composers, really want – film making cinematic, and TV, and all the rest of it.

[10:05] *Question 5 (cont.):*

I think those two would be the main ones, but I mean it's very difficult. I sometimes, you know you work in the music tech world, you to be fair, your competitor is sometimes Tesco, or your landlord, or some other way that you're going to be spending that money. So I think what we have to do is, and that's one thing that I'm really mindful of, is not only making sure that our products are competitive in the marketplace that it resides, but also that somebody is genuinely able to make the decision to say it's okay to spend this money – I trust that I can spend this money because it's going to be good value for me and it's going to be a brilliant product. Because, you know they might be thinking 'do you know what, I've got to nick some money from my food stuff this month because I've got to justify spending £298 on a couple of libraries, so in order to do that I've got to kind of borrow from my food spend, or my cinema spend, or whatever it is. So I think in order to be able to do that in good conscience you've really need to be having a product that is, you just absolutely believe in, so that you know, when somebody makes that choice, that they end up going 'Yeah, that's good, that felt good.'

[11:30] *Question 6:*

[Mike just directs me towards Companies House website]

[12:26] *About moving 03:12 (finances):*

You know one thing that we've done is we've physically moved offices, so we've been in this building now for a year, and that was specifically to really create a space that was on one analysis far too big for us, but actually because we're a creative organisation we did want to have a space where we could do launches at. So we've got, I'll show you round the ground floor at least... where we can do launches, we've got a little pop up shop here where other people have literally just jumped in and set up their own little pop up shop, which has been quite good fun. You know we've got a big kitchen but also we've got the technical resources, so the engineers and the production team...

[13:20] *Where Spitfire do their recordings:*

Yeah, so we definitely use AIR Studios. We also use other recording spaces depending on... So there was a big freezer unit just down the road and we've recorded in there. We've recorded the LCO at this massive aircraft hangar. So yeah, so we will think of...and we recorded BBC Symphony Orchestra at Maida Vale, so we're not...but our core, our home, our spiritual home as it were is at AIR Studios.

[14:23] *Information about the financing of the company (Short/Long term):*

So we have cash. So we are, we don't have any debt. So we have cash, we're cash generative. So we wash our face in terms of making sure that we can, we're generating enough profit to cover all our running. So our financing is operational financing so we generate the money that we need to spend in order to do the stuff that we need to do. There's interesting stuff there in as much as we would invest a significant amount of money in a product. So we could spend, on an ordinary string product we could spend £200,000 on recording that before, and then it can take six months to get that to market. So from a cash flow point of view, you know, we need to make sure that those production costs are covered off because you need the actual physical cash in order to pay the performers, hire the venue, hire the engineers, and all the rest of it, so, and pay the salaries of the people here, so, before you've actually realised any sort of sales. So it is... But we generate enough cash in order to, in order to run the business. So no short time financing required other than operational cash. Our current structure of long-term financing is exactly the same. We are an organically growing company so we don't, you know, who knows what the future might hold but we don't, we have no requirement for any outside financing.

[16:12] *Investment in the office space:*

One of the big investments that we've made is in this building. So we don't own the building but we rent it. So these offices are a significant investment. They are definitely, you could definitely put a lot more staff in here than there are at the moment, and that's not because we're anticipating having a lot more staff, it's because we want people to have a really good, creative space where they move around in and

not feel cramped in. This is, yeah, this should feel really good for people and be a really productive environment for them to be working in.

[16:53] *Size of competitors' offices:*

I think we, I mean it's difficult to say, I don't know, I mean, I don't know what the other size like the staff count are of Orchestral Tools and Vienna. I would imagine that we're one of the larger ones.

[17:37] *Financial planning structure:*

One thing that we have done, which I'm happy to talk to you about, is the way that we've structured the forecasting and planning of the business... So one thing that I noted when I first came on board was that they ran to an annual budgetary cycle, which is very standard. Meaning that during the first bit of the year, from January, they would be starting to think about what they are going to do in the twelve-month cycle after, starting April. So it would be starting to plan products and the reason why you want plan products is because you want to know how much money you've got to spend and what people you need in order to achieve the road map. And what was happening is that they were going into April, and that would be, you know, fantastic, we got our plan now, we know our product road map and we know how much we can spend, because we know what products we're going to do and therefore what production costs we have. Remember I told you production costs can be quite drain- cash draining, so you go through that process and then you find out within month two, you've totally changed the road map because Christian and Paul have gone 'Actually, do you know what, we're going to do this, or we're going to do that.' – and we have to have that creative, sort of, nimbleness and agility because of what our customers want and what, you know, someone like Hans Zimmer turning around and saying 'I want this now', and you know, we need to respond to that very quickly and we can't just say 'Ah actually yeah we'll fit it in to our next year's road map', because we've got to do it right away. And so what I started to do is thought 'Well okay, if they've fixed their spending that's disastrous' because you change, you suddenly change your road map and you say 'Right, okay, everybody thinks... marketing thinks they're going to be spending this much' but actually that's, and they're going for it, but actually the product road map is actually only producing this much revenue, so they've overspent effectively. So what I did is I started putting in a three-month rolling forecast. So where you, every month you look at those months' sales and you see where you are and you adjust your spend in relation to that, and you build in, so you're always only planning for that fourth month in terms of your spend. Within a three-month horizon you're basically fixed. You're not going to change anything you're doing within that three...so you know. So each time you go through a month you can actually re-orientate the business to wax and wane in relation to the types of stuff that you're doing. So you can pull products in forward, you can delay products, and that doesn't really create a big issue in terms of the forecasted 'spends' because you're able to switch things around often. No-one can book something, you know, four or five months in advance, they can only do that once they've got the sign off from me and Will in relation to that three-month rolling forecast. So that's actually created a much more healthy and accountable business where the senior managers are actually going 'Right okay so, can we get this signed off now, can we get this signed off now?' – they're in that cycle of continuously doing that so Will and I can have the most flexibility on the operation of the business, and allowing Paul and Christian to have the creative input of saying 'Right this is what we're going to do.'...Rather than fixing yourself to this road map which was fit for purpose when you thought about it but time tells us differently.

[21:15] *Question 7a:*

Pricing strategy – very interesting. So, basically the analysis that I've done on our products does actually show that, you know, our price range of our products will go, roughly speaking, between £99 up to £600/£700, up to the 'Everything' drive. And really interestingly you would've thought that there was a, you know, in terms of unit numbers being sold and in terms of revenue being generated, that there would be, you know, some price efficiency curves...so I could plot a price efficiency coefficient. And really interestingly, it was a, basically, a positive correlation between price and units sold, which is bonkers. So that coefficient was actually saying, there's a positive coefficient, showing that actually, and I think that's because our customer base is expecting us, and having, expecting us to produce products of that quality, of that sort of size. So people want complex, complete products. So if you give them a complex, complete product it's going to be more expensive and that's what they want to engage in. Whereas, down the lower end of the spectrum where things were maybe slightly more niche or smaller, people were actually going 'Huh, okay good, that's interesting.' Now, there is an exception to that and the exception to that is that we recently introduced some £29 products... So the SA recordings stuff... So some string stuff but also... But also we have a record label called SA recordings which also does sample libraries based on the album, and those sample libraries we're selling for £29. And we're selling at a volume that is comparable to our best selling products – so at a volume, unit level, which is absolutely amazing for us, and I think that's people that, well, I think we've untapped a slightly new price point which is, it's not pocket money, but it is 'I don't need to ask my partner about this, I can just go and spend the money'. So I don't need to, you know, boyfriend/girlfriend, husband/wife, whatever it is, I don't

need to ask them permission to go and spend £29. Maybe the £699, I need to ask them and tell them about it, but the £29 is like a meal out, or me not going down the pub, whatever it is, or that dress I wanted to buy. So it's that, it's that slightly more, you know 'I can do it.' And that's what I mean when I went back to thinking if you are going to put your hand in someone's pocket and take the money out, you've got to make them feel good and happy about that, so there isn't that buyer's regret, and if you are telling somebody 'do you know what, you're not going to be buying that dress that month, you're going to be buying a Spitfire library', then I think that is, you've got to make them feel really good, as good as they were going to feel buying a dress, or going down the pub with their mates, or going on the night out, or whatever it is that they, that's competing for that spend, and that's certainly what we feel we've done with the £29 product.

[24:39] *Question 7b:*

Deciding on prices? I mean it's, we work it... Pricing is, I wouldn't want to say it's... It's not arbitrary but it is more art than science. Especially... So I'm used to working in a business of, with Focusrite, with hardware units – there being a very clear, competitive market place. You look at one audio interface, you've got three other audio interfaces that you can immediately compare that are the competition. And you can make value judgements on, you know, the quality of the build, the sound quality, all those things you can empirically measure. Well, sound quality you can empirically measure. Build quality less so, but anyway, but, and there is a very, very clear negative coefficient which is very, very straightforward. You know, you're going to sell, you reduce the price by about \$50 and you sell, you know, two, three times more units, so you can really see this negative correlation and it's very, very clear – almost exponential graph. Whereas here it's just very difficult, so sometimes it does come, sometimes it is engineered because we spend a significant amount of our revenue on royalties.

[26:04] *Royalties are paid to the recorded musicians:*

So we pay, if you're a musician on one of our albums, for one of our libraries, then you get paid not only your fee for attending the session but you get back end as well, so you get royalties paid to you. And that's, not many people do [know that]... It's something that we, when you buy a Spitfire library you're actually paying musicians, which is really fantastic, which is really great. And I think that's part of the bargain for working with people like the LCO (London Contemporary Orchestra), because you know they are gigging orchestras, they are working on the films, they're working, I think they did the latest John Lewis ad. So they do lots of films, they do lots of things like that, a very creative orchestra, and they, you know, it's a bit like saying 'Can I record you so composers can come and use your sound?' So paying them that back end, and they see it as an amazing revenue opportunity for them, for the musicians individually and for the orchestra... So they get paid their time so it's a normal gig. They turn up to the recording session, we pay the top MU rates for that recording session, so we're not, no one can ever argue we're not, you know, we just pay the top rate in the scale, so we can do whatever we want with that, including making sample libraries. So we do, so we pay them a top rate for the recording session, we hire the studio, we hire the engineers, we pay the orchestra their cut, to fix, we pay the fixers as well, and then when a library is sold we record that, that sale, and we allocate the percentages, and then we accrue for that and then every six months we pay out the royalties... [Question asked by James] ... No, no they don't get syncing rights, no. Otherwise that would be, that would be very counter to the whole... Well it's not only that but from a composer's point of view, they want to know that when they've bought it they can do whatever they want with it, there's no further syncing rights or anything like that, because that would just kill, it would encourage people to start making their own libraries. So, which is no bad thing, that's how Paul and Christian started, but actually it's like 'No, no, no, you should have this and you can use it any which way you want', and that's the whole basis of the sample library, orchestral sample library world.

[28:40] *Question 7c:*

How often do we offer deals? Well we do them, we tend to have a, we tend to have a... Promotions are really important to us. People want to know that they're getting a bargain – promotions are exceptionally important to us, and people want to know that they're getting a bargain. And again, it goes back to that thing of making people feel good, and it's not a DFS-type scenario where you're, you know, eleven and a half months of the year everything is at a discount, it's not like that at all. But it is genuinely, when we look around the marketplace and we look at other comparable libraries, that's our retail price, that's the price we sell at, and then we discount from that. Every product we sell has an introductory discount... Absolutely. Absolutely. And that's just to get... So we don't price skim, which is where 'Hey, here's this brand new product, here's this Playstation 5' or whatever it is, and you're going to charge a premium for that now, you have to pay a premium to get on board. And we've done absolutely, even with BBC pre-orders, you know, that's all at the discounted level because people say 'I want it first and I want a discount.' And that's been, again it's slightly counterintuitive, but it's really, where we have lessened those discounts the products have performed not so well. Well, they still wash their face, but again providing that initial discount and then throughout the year there are cycles of things. The two big ones,

ah well, three really big ones are Black Friday, which is today, definitely came at a busy time! So Black Friday, we have our Christmas wish list and we have our spring wish lists. So those are the two things, well sorry, three main events. But every month we will run some sort of promotion but it's usually just a highlight or something like that, you know, 10% off / 20% off, something like that, to highlight a particular product.

[30:49] *Question 8a:*

The industry – is it a growing... I mean our numbers would suggest that it's a growing industry. I think the really encouraging thing for me is to see... The really encouraging thing for me to see is to see the pervasiveness of our new customer, a customer who's never engaged with us, and that's something I'm really precious about monitoring. I do absolutely want to have repeat customers and that's great because I feel that we are really good at looking after our existing base, but I need to see the top of the funnel as it were, or the base of the pyramid, whatever you want to call it, I want to see that growing as fast as possible because that's the lifeblood of the company. And so making sure that we're, you know, really accessible for those new people who are saying 'Oh actually I've never bought a sample library before, I'm going to buy something'. I want us to be a safe place, and a really friendly place, and a place where people just buy it and then have a fantastic experience. Sometimes they're LABS customers so they've come through the LABS route, sometimes they're just totally out of the blue – BBC Symphony Orchestra was a bit like that where some people just went and bought it... That was the proximity of two stellar brands in their own right. So Spitfire: audio sampling, and orchestral sampling; and then the BBC Symphony Orchestra.

[Irrelevant conversation about the BBC]

[33:32] *Question 8a (cont.):*

So, is this a growing industry? I mean I'm definitely seeing it. We're making more and more products and selling more of them. So, whether we're, you know, tapping into a finite resource – I don't think so. I think the things that I'm seeing now, you know, I mean yes if cinema goes away and the games industry disappears and nobody watches television any more then I guess we're in trouble. But I think people are going to still watch their dramas on television, I think they're still going to go to the cinema, and I think they're still going to play their video games. So as long as all that happens then I think we're okay.

[34:15] *Question 8b:*

What threats to the market? I think there have been some noises made about artificial intelligence and all that kind of stuff. I think that's bogus. I think it's, I think AI could be used as a tool, like everything else, like you know, in the same way that orchestral sample libraries are a threat to live orchestras, or orchestras. I think that's never going to happen, one feeds into the other, and I think the same with artificial intelligence. I cannot believe that there won't be tools to help composers do stuff more quickly, but the creative... I mean it's, admittedly I am surrounded by composers who aren't going to vote for Christmas as turkeys, but at the same time I listen to, I've heard enough to say 'look, that creative process, that thing, you're not going to get a Hans Zimmer score out of artificial intelligence, you're just not going to get it, you're not going to get Dunkirk, which was Spitfire, you're not going to get that.'

[Irrelevant conversation about AI and art]

[37:01] *Question 8b (cont.):*

Anyway, so, other things could happen – I think... I mean Brexit is a big thing. I mean I don't want to talk about something that you can't talk about because we don't know what's going to happen but I think musicians are worried about their freedom to operate and the freedom to move around Europe. So you know, anything that diminishes the pool of orchestral musicians hurts, trickles all the way through. So harder to book musicians, I don't know? Maybe there's an opportunity there, but yeah so I think that is going to be...

James: But is that just more of a question mark than necessarily... Because as a software, you know, it won't have any impact will it, really, because you can still ship to Europe?

[37:59] I think it's, as I say, I think the things that, you know, could there be something that really *[inaudible]* that discretionary purses. I do think, and this comes back from my previous life at Focusrite, I do believe that we're very much like the, like photography. Meaning that I am, I like taking photos, I am not a professional photographer and I've got no interest in taking, being professional. But do I have a £1,000 camera and lots of other little bits, and lenses and stuff like that and do I like taking my photos? Yes I love them and I love editing them and all the rest of it, and I want the professional tools, or semi-professional tools or whatever you want to call it, so I'm a 'prosumer'. So I aspire to have, to do the same thing but I'm actually just a consumer. And I think there's very little world economics pressures that could happen that would stop me wanting to engage with my photography, in the same way that I

engage with my music even though, well I used to be professional but now I'm not, so I still would invest and spend and that's part of me as a human being, in the same way that composers, you know, without exception, I don't believe that the vast, you know, that there's a significant proportion of customers who are out and out, full-time composers, writing film music. So, you know, and they're going to be always our life-blood, because there's only a few Hans Zimmers out there. So they're the people we make our products for and everyone aspires. We don't make products for people who are aspiring to spend an hour a month composing. We are always developing, because that's where you pull up those people to that aspirational level. So, yeah, so I don't see the market going away, I don't see technology necessarily...

[40:26] *Question 8c:*

I've got to be careful of the analogy I draw here. It's, maybe it's a bit like me, and again I'm trying not, I'm trying to give you a nice analogy here, which I love. I used to be a carpenter and I absolutely love DIY and I... but every time I see a new tool I just want to buy it, even though my tools are perfectly good and I would still use that thing. But I see a new tool, a new gadget, and I go 'Ooh yeah, that's going to fit well in my tool bag', and I think composers think in exactly the same way. They always want new sounds, and they always the new thing. It doesn't make... Albion One, been selling for ten years. Some of our products have been selling since we began. So, they have very long tails, they are still relevant today, but we produce something new people go 'Ooh, yeah I like that. Yep, I'll have it.' So, in that way I don't think, you know, again, you'd expect sales to be slowing or people not to be repeat buying, or us not being able to sweep up new customers, and we're doing all three, so...

James: So would suggest unsaturated...?

[41:49]

Yeah. Yeah, I mean there's a lot of rubbish out there. But, and a lot of people think that... When I say rubbish I mean things that are less treated with such care, like, if you go to a standard DAW and look at their strings library, there's just... They haven't had the resources, they haven't spent £200,000 producing that string library, it's just going to be a lower quality. But some people think 'That is the quality of sampled string library music', so somehow that's definitely an untapped seam, where people's experience of orchestral libraries is through their DAW pressing strings.

[42:40]

[Mike draws a graph depicting the cumulative sales of an example Spitfire Audio product]

[44:15] *Question 8e:*

It's, again, it's because it's software it's very hard to get sales data because it's not a physical item that you have at a point of sale, so people putting it through tills or sold through a shop, it's private sales so we're selling our product, we don't have distributors per se. So we sell our product, no one else can get hold of that data so, and we're not going to share it with anyone. Yeah so, every other company is going to be the same. Yeah so, it's very difficult.

[Irrelevant comment about games industry]

[46:20] *Characteristics of the 'sample world':*

We find, generally speaking, that the sample world is very collegiate, not... I mean we have our secrets but we're really keen to lord other people's successes I think, which is really good. We all try and do the same thing for the same people, so, you know, being a bit narky or bitchy about it isn't really very helpful.

[47:03] *Questions 9a & 9b:*

Customer base, where? Very worldwide. If you follow consumer electronics it fits in with basic consumer electronics. So, very specific target? Yeah. We are, we're producing sample libraries for composers, and what do composers do? They compose music for film, TV, video games, that's where you're going to find orchestral music.

James: You've kind of also covered that as well when you said about how you target those top, top bracket and then you're 'pulling up' the...that was really useful actually.

[47:37] *Questions 9b, 9c & 9d:*

Well, I wouldn't say, so... Let's just clarify that comment just slightly. Our marketing targets everyone, but the product that we're producing is developed for that top tier. How many [customers]? Lots. How loyal [are the customers]? Very loyal. They're very loyal in as much that the pre-sales for BBC were astronomical. And bear in mind, and the first hour of sales is also astronomical. So the BBC, bear in

mind the pre-sale occurred about a month or two before the actual release of the product, and people were buying that without knowing anything about it. There was, I think there was the teaser things, and they were going 'Oh yeah, I'll spend you know, £600 / £700 on that. Yes, I'll buy that, I'll buy that, I'll buy that.' So that is, that's loyalty, and you lose that very quickly by producing rubbish, and so that is actually a really good, that is something for us that keeps us on our toes. Because you know that it's easy to lose a customer, especially when they've spent that sort of money, and we don't have a returns policy.

[48:58] *Strategies for growing customer base:*

I think LABS is very important to us, right. Again, if people want to live only in LABS, yeah, if they only want to live in LABS that is totally, you know, totally alright, absolutely valid and we'll support and love them. If you're a LABS customer you have just as much CX support as if you've bought 'Everything'. So you buy the 'Everything' drive or you're a LABS customer, you get exactly the same support experience, without exception. And you can be a LABS customer for the rest of your life, that is fine. We want to, we genuinely, you know it's not, that's not the LABS, I don't want people to misinterpret that LABS is like a charitable aspect of the company, it's not. It's developed there to help people along the first rungs of engaging with paid sample libraries. But absolutely the way that they get that experience is absolutely... is actually crucial. But, our hope and our aspiration is that they have such a great experience with LABS, and they see the stuff, that actually that's an entry point for them.

James: And do you see that payoff very often?

[50:03] Yeah, LABS converters are, is a metric that is growing and is really important to us and is significant, it's a very significant portion of our, of the people who purchase our products, especially in promo, in promo periods they engage the most. So, it just helps push them over the edge. Because in a promo period, those three promo periods I said, lots of things are on sale, as opposed to just every month we get one targeted – do you remember that highlight thing I told you about – that's every month, but it's like 'Oh, the whole', the whole shop is now discounted', so that's when people tend to make their first purchase.

James: Do they, I mean it might be difficult to know, but do they tend to if you've got somebody who's has been LABS for however long, and they're ready to make that first purchase of a paid library, do they tend to go for Albion One, or BBC, or do they tend to go for the £69...

A mixture. We've had newbies go straight for 'Everything'. That's like £10,000. So, you know, we've definitely had newbies go for 'Everything'. So the range is vast and you can't really say it's one thing or another.

[51:25] *Question 9f:*

Quite a few. Quite few. It's fascinating. It's, you know, if you're... I was speaking to my, one of my builders the other day and I just, I went to the back of their van and I just said 'That's just incredible.' I said 'How much have you spent on equipment?' He says 'you've probably got about £30,000 in the back of that van, just on tools.' And that's your jobbing builder. So to spend £10,000 on your tools I think is, you know... He took out this big, this amazing saw-ey thing that goes up and down this track, so that's £5,000 – but that's the tool of his job, that's the thing that he does his work with day in day out. He needs to know that it works well. So actually, you know, someone who's a proper composer... It's a tool of the trade. You go to, you know, most, even the, you know go to most garages were the mechanics have to own their own tools and you ask them how much they spend on tools, it's thousands of pounds. So people, these are tools of the trade, these are professional tools that people are buying. I mean an interesting thing that you might want to do – I'm definitely not giving away any secrets here, it's analysis that we've done as public information – just have a look at LinkedIn. Type the word 'composer'; see how many composers there are. See how many, what the composer spread is. I mean if you try and convince somebody to let them have a look at their LinkedIn Professional account then you can get all the data there. You can get where they live. You know, not by...the countries. So look at where the geographic spread, map that onto, you know, whatever you want to map onto. So, I definitely think that's another really interesting way of looking at people who profess themselves as composers on LinkedIn. Bearing in mind that you have to discount that by a significant amount because, you know... People say they are but they're not, you know.

[53:56] *Question 10:*

Yeah they are, they are the front line and the first human experience most people have with Spitfire – it's just vital, absolutely vital.

[54:06] *Question 11:*

How long do libraries take to develop? It can be everything from... We could do something in a month. Typically cycle is, could be three, four, five, six months. BBC – two years.

James: Okay. Two years, wow. So the typical one would be three to six months? And then what about the, I suppose the SA ones, the £29, they've been taken from...

SA Recordings? Yeah, yeah, so those would be the shorter ones. Yeah they would definitely be sort of within a month.

James: And I suppose... And LABS and stuff would be closer to a month I suppose?

Yeah, yeah.

[55:07] *Question 11a:*

Does this directly correlate to the price? No. Because... Err, does it directly correlate to the price? There is definitely going to be a correlation there.

James: But not obviously like a...

No, and sometimes the development of the product might be, it may be because something has been suspended. So...or rejigged. So remember I was talking about the three month rolling forecast? So we could start a product... Some of the products that we could be releasing now might be, we might have recorded two years ago. So... I mean, if your question was about man-hours then yeah, I mean there would be a pretty close correlation, apart from LABS of course which is free, so you'd expect it to be zero man hours, but it's not. There should be good correlation between man-hours and...

[56:00] *Question 12:*

Future direction of Spitfire Audio? I think more of the core stuff that we're doing. Could we do other stuff? Yeah.

James: So, SA Recordings is obviously relatively new isn't it, as is Composer Magazine, so you are kind of branching out?

Absolutely. I mean the Composer magazine, look at that, that's something special. So, yeah, just more of the stuff that we're doing, and the way that we're doing it, and exploring, venturing out, nothing dramatic. Yeah, we're not going to make polystyrene cups.

[56:42] James: No of course. But in terms of... I mean, you've got the experimental ones like the, how's it, is it 'Haushka'? Haushka, yeah. So you've got the experimental ones like that, but in terms of... Have you 'done' orchestral libraries?

No.

James: So you'd keep redoing...

No, not at all. So have people done the Proms?

James: That's a good point.

There will always be something. Have people done Beethoven Symphonies? They've stopped listening to it now because they've listened to it enough – no, not at all. So, there will always be a hunger for orchestral... Thank you Hans Zimmer! Thank you Superman. Thank you for creating a cinematic... You know we could've all gone down Blade Runner route – fantastic music by the way. But we could've all gone down that route. But when listen to things, the difference between things like... It's amazing listening to Blade Runner's soundtrack and you listen to, you know, let's say one of the early superhero films and you just see that one ages so much quicker than the other, and people recognise that, it becomes timeless. There is something about cinematic film music that just matches on to orchestral music so well, that other genres of music... I mean, there are differences. Hanna, classic one. Chemical Brothers' soundtrack. Amazing Chemical Brothers soundtrack, Hanna, which is an amazing thing. So I think there are exceptions to it.

[58:28] *Question 13:*

Yes, I mean gosh, we are... You name, we're everywhere. And the referrals from Facebook, Twitter, all the rest of it, I mean they're high. You know we are, people live... I mean I was just looking at some

stats upstairs and seeing that, seeing that half of our traffic comes from laptops, half of our traffic from mobile devices, which I find kind of bonkers but that's the way it is.

James: And the Composer Magazine is new, other than that is there any 'hard' marketing. I mean in the sense of like ads. Would you have a poster on the tube or something like that?

Mike

Yeah, I would love to. I think yeah. Yes, yes, yes. Yes, yes, yes. I mean we still advertise in magazines, so SOS and other magazines, oh gosh I can't remember what they are. Josh, sorry to jump you there! Really quick question – hard copy media advertising, what are we doing at the moment?

[59:36]

Josh: Recent memory? So we've been doing stuff for the BBC, so we're doing Music Tech, Sound on Sound, Electronic Musician, Future Music – those are the major ones. Anything further than that would be, kind of, Resolution Magazine, going up to like Tay Pop(?), which is, like, quarterly. We've been doing a lot less. And other physical stuff we're thinking about is like billboards, on and off.

James: But you haven't done any billboards yet?

Josh: We used... We've done, we did billboards last year. You know, we did them around Oxford Circus and the tube, and at the moment we're looking at LA and, kind of, central Shoreditch areas, for outsides.

[1:00:37] *Question 14:*

So SA recordings? Yeah, more of the same. Get more composers. I think it's an experiment that has worked incredibly well and is out of experiment mode.

James: And no one else is doing anything like it, would you say?

Not yet. But we've had other labels speak to us, interested in how we did it. And for the artists, they're making more money than they ever could've dreamed of through selling sample libraries, so it's great for the musician as well.

[END OF INTERVIEW]

9.2 Appendix Two

A list of prepared questions asked by James Gamble in a meeting with Mike Warriner, COO of Spitfire Audio (28 November 2019).

Questions for Spitfire:

Quick Questions (facts & figures)

1. How many employees?
2. Senior management? Names of directors & CEOs etc.
3. Best selling product/library (Albion? BBC?)
 - a. How many units?
4. Customer base
 - a. How many accounts/members?
 - b. Worldwide?
5. **Who do you consider your main competitors?**
 - a. Market share?
6. **Finances**
 - a. Revenue, costs, profits for previous years (2019/2018/2017 etc)
 - b. As much as I am allowed!
 - c. Company growth over years (ideally last five years at least)

- A critical review and discussion of the organisation's business finance including
 - Its major short term financing
 - The current structure of its long term financing
 - The recent major financing and investment activities
 - A discussion of the pros and cons of alternative ways of financing with respect to the company.

Main topics

7. **Pricing strategy?**
 - a. Range of different prices
 - b. How do you decide on your prices?
 - c. How often do you offer deals?
8. **Characteristics of the sample library/software instrument market?**
 - a. Is this a growing industry?

- b. What threats are there to the market/challenges you foresee?
- c. Saturated or unsaturated market?
- d. What is the normal selling pattern of a product? (ie. many sales initially or slower building?)
- e. Are there any industry resources you know of that have studied the software instrument/sample library industry (the more specific the better)? Or any vague ones (ie. Music technology)

9. Customer base?

- a. Where?
- b. Very specific target (Film/TV scorers)?
- c. How many?
- d. How loyal?
- e. Strategies of growing customer base and retaining existing customers?
- f. How many sales of the 'Everything' product (as an example of the commitment of fans)

Extra Questions

- 10.Importance of tech support?
- 11.How long do the libraries take to develop (a scale from shortest to longest)
 - a. Does this directly correlate to the price?
- 12.Thoughts about the future direction of Spitfire Audio?
- 13.What are your main marketing tools?
 - a. Review websites?
 - b. YouTube/Instagram/Twitter/Mailing lists
 - c. LABS – is it successful?
 - d. The British-ness of marketing/product names?
 - e. Composer Magazine?
- 14.SA Recordings?

9.3 Appendix Three

A sketch drawn by Mike Warriner showing the cumulative unit sales of a typical Spitfire Audio product and the impact promotional periods have on sales (28 November 2019).

