



Kobalt

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Kobalt Music Group

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INTRODUCTION

If we think about how music is produced and consumed today, the picture of a far-reaching Internationalization of the music market is presented. Technological developments have led to transnational productions that are facilitated by the fact that music today can move simply and cheap in digital formats. One of the leading companies that play a key role in the transnational production and distribution of music in the world is the Kobalt Music Group Limited. In this work, a description of Kobalt Music Group is laid out through the analysis of the industry macro environment in which the company operates in and the multitude of legal and economic challenges that the company faces in the competitive and rapidly changing music industry. To bind the analysis, a recommendation of the lean business methods best suited to Kobalt Music Group are also laid out at the end of the article.

A BRIEF HISTORY OF KOBALT MUSIC GROUP LIMITED

Kobalt Music Group was founded in 2001 by Willard Ahdritz with the ultimate goal of taking advantage of the digital transformation in music distribution and putting creators first. Its ability to collect and distribute royalties to songwriters and its record label division which helps artists and performers exploit and collect royalties from uses of their sound recordings means that it has been able to represent more than 40% of the top 100 songs and albums in the U.S. and U.K over the years. (Kobalt Launches the First App to Give Music Creators True Transparency and Insight into Their Data, 2020)

Kobalt has diversified itself over the years into four distinct Music Industry segments; Neighboring Rights Collections, Music Publishing and Administration, Independent Distribution and Label Services, under the name AWAL, and Performance Rights Organization Collections, under the brand AMRA (Christman, 2020). During its fiscal 2019, Kobalt's gross collections jumped nearly 25% to \$616 million from \$493 million in the prior year. Kobalt's adjusted earnings before interest, taxes, depreciation and amortization also widened to a loss of \$21.635 million, growing 41% from the prior year when adjusted EBITDA loss was \$15.34 million. The company further reported an operating loss of \$44.14 million, up from \$41.4

million in the prior year. (KOBALT MUSIC GROUP LIMITED - Filing history (free information from Companies House), 2020)

In the 18 years the company has been publicly reporting its financial position it hasn't ever turned a profit. Nevertheless, Kobalts' on-going losses are the result of a conscious decision to prioritize growth through making strategic investments over short-term profitability. (Kobalt Music Group, 2020)

ECONOMICS

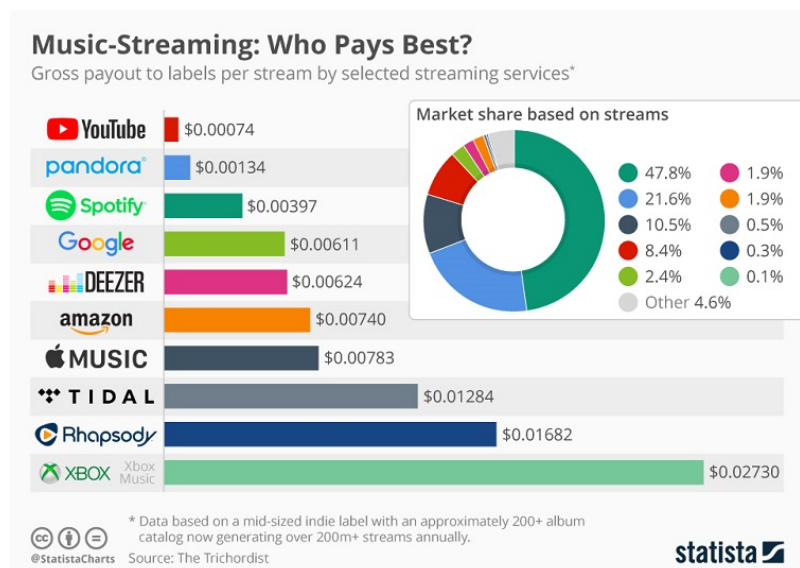
THE MARKET

The music industry is a global business that, according to the consulting firm PwC expecting in 2019 for revenue to rise at a 4.2 percent CAGR through 2021, however the covid-19 pandemic has led to a 63.8% fall which is not expected to go back to the pre-pandemic levels until at least 2024. This industry revenue is generated from multiple sources, which can be grouped into three main categories: recordings (music sales by physical and digital media), live music (concerts and related merchandising) and editorials or publishing (Britten, 2009).

CHANGES IN THE MUSIC INDUSTRY

The music market has gone through profound and different changes in the last 100 years. These changes have been full of conflicts and confrontations due to the status quo of the industry, and technology has played a fundamental role in generating the change due to the new alternatives that have been developed. This confrontation started with the appearance of Edison's phonograph and the cylinders he used (later vinyl records), which challenged the business of selling live music performances (Leckstein, 2020). This then continued with the development of radio and later on the TV, which expanded the music market worldwide by introducing new players into the industry which finally lead to the current digital market of the 21st century.

The content creators (composers and authors) remain as the base of the industry, but it is no longer necessary for an agent or manager to represent them, since this role can be assumed by the artist himself, as well as the activities of production, recording and PR which were previously under the record company. In relation to the recording activity, the costs of the equipment and technology necessary to produce recordings with high quality standards have decreased considerably. Home recordings have allowed artists/composers to have the access and the ability to create and have ready to distribute musical products at a very low cost and in a short time. In the same way, the distribution of the musical product that was previously carried out through specialized physical stores is currently distributed and sold digitally, via streaming and mainly through downloads, without the need to occupy a physical medium (CDs or discs), since their consumption is carried out on digital players (Hull, Hutchison, & Strasser, 2010). To achieve this distribution new actors (for example Amazon Music, iTunes and Spotify to name a few) appeared offering platforms for artists/composers to directly place their digital products.



Finally, with respect to the shows and live presentations, new actors have appeared that seek to centralize these activities by grouping the management of venues, the sale of tickets and the exclusive hiring of artists, which allows offering relevant artistic content for different market niches. Popular online avenues for the broadcast of live shows via streaming through pages such as YouTube Live, Live List or Concert Window, have also propped up which allows the artist to have a greater reach, additional sources of income generation and even offer their show directly to their public without intermediaries (David, 2010; Jones & Bennett, 2015; McKinney, 2016).

These changes have contributed to consolidate two paradigms in the industry;

Strengthen the role of artists who perform musical products: Until before the appearance of the vinyl record, the main way of generating income for artists was the performance of live music: the performance or execution of artistic shows. The possibility of selling physical music products gave a new turn to the generation of income by artists, fostered by the appearance of record companies and the manufacture and distribution of musical records, which allowed the mass appeal and globalization of the music industry (David, 2010).

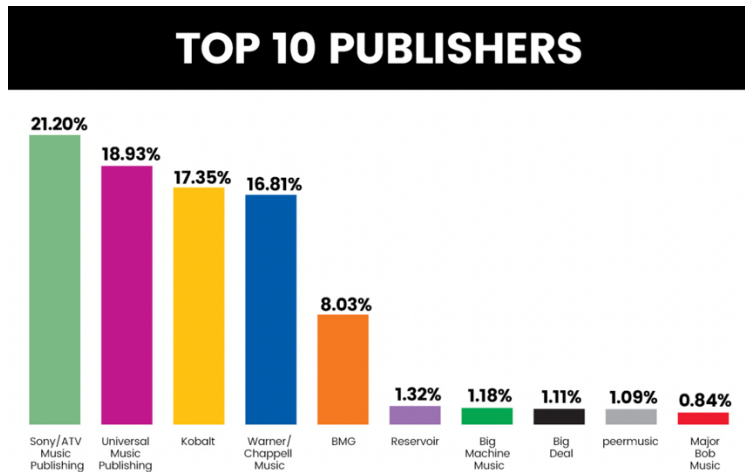
As seen above, changes in the industry and in technology have made the production and distribution of digital music products cheaper and more accessible for artists, which has led to a greater offer for them; however, this has not generated an increase in the income of artists from the sale of musical products. The prices of the musical product have also decreased, being the current standard to sell a song for US \$ 0.99 in its digital format, instead of selling a disc with 10 or 12 songs for US \$ 10.00.

Concentration of record companies and strategy changes: With the 2012 purchase of EMI Distribution by Universal Music Group (UMG), the group of the big 4 (Sony, Warner, Universal and EMI) were reduced to only three, distributing the income from the sale of music (physical and digital) as follows: UMG (31%), Sony (21%), Warner (18%) and Others (30%) (Nielsen Company, 2019). These mergers and purchases in large companies are just one more example of how the industry's business is changing and looking for spaces with greater opportunities to generate income or lower costs. One of those spaces is the income from publishing rights (music publishers).

Income from music publishing includes the sale of music, by performance in live shows, music on TV or Cinema, as background music, etc., and were traditionally managed by companies other than record companies, whose collection has always been complex and complicated. However, record companies manage the musical catalogs of artists' musical productions and many have contractual rights to such productions, so in light of the decline in record sales and that digitization allows better control and monitoring of the music. Using the musical product, the opportunity to consolidate a new market was given (David, 2010).

In their book "The Music Business and Recording Industry", Hull, Hutchison and Strasser (2010) relate how these, before Big 4 were gradually acquiring the main music publishing companies, managing alone

for 2008 65% out of a market of US \$ 2 billion. Of this total, 5% is distributed between 6 medium-sized publishers and the remaining 30% is divided between some 20,000 companies that manage individual rights. The importance of the business of the publisher or publisher, and the reason for the interest and change of the business strategy by the record companies, is



Source: Billboard Feb. 2019

given in the many possibilities of generating income from various sources and for a long time that a moderately successful song is capable to offer. The graph above shows how much in recent years Kobalt Music has found ways to resourcefully exploit a vast chunk of the market share from its competitors. (Billboard, 2019)

Hull, Hutchison, and Strasser (Hull et al., 2010) describe this process of income creation by publishers from the acquisition and exploitation of songs. The “acquisition” is related to activities usually carried out by the A&R area of the music publisher, in charge of locating and signing composers and their songs with the potential to increase their catalog, and where the composer (both lyrics and music) usually receives 50% of the royalties; while the “exploitation” of the song is the set of different ways in which the publisher places said song on the music market, such as recording an original song by an artist or in different versions by other artists (covers of the original song), its sale in a physical or digital way, the execution of these in live presentations, to be used as music for TV series or in movies (synchronization), the sale of musical scores, broadcast by radio or streaming, as background music in establishments, to be used like tracks in a karaoke, etc. Which means that the income that is generated by this exploitation remains in the same record company.

Thus, the changes in the music industry have also generated changes in the roles of the main players, where interests have been redirected mostly towards the “content creators” gradually moving away from the “content distributors”, who They are now in the process of transformation towards a digital world with many intermediaries, in global mass consumer markets and offering their services at fixed or very low prices.

THE UNIQUE SELLING POINT

Kobalt Music Group have placed themselves very strategically in the greater landscape of the Global Music Industry. They have the ability to synergistically offer many different services bundled to their clients and artists. At the forefront of this has been their driving vision to refine the in-house advanced data analytics and data science.

KTech, Kobalt Music Groups' one-of-kind

proprietary rights and content management platform enables them to methodically track, collect and maximize royalties for all Kobalt Content Creators. KTech handles billions of micro transactions with its robust data processing power, that will allow for scalability and increasing demands into the future. (Kobalt Music Group Ltd, 2020)



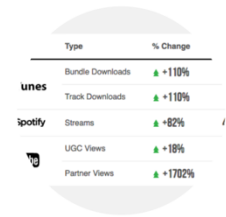
All your data in one place

Gain insight into past, present and future income with comprehensive earnings metrics, global product and synch tracking, and digital activity reports.



Accounting made easy

Download statements, or create custom reports to slice your earnings and understand the breakdown by territory, source or usage type.



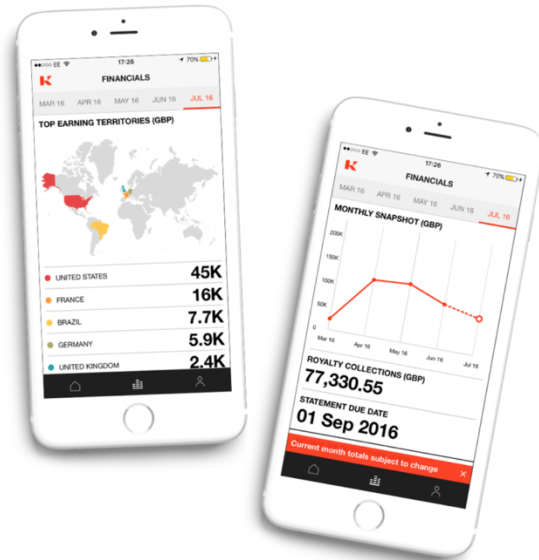
Powerful trend analysis

Take a deep dive into your data to uncover key trends about your music and see where you're making money across all channels.

The technology platform allows for content creators and companies to efficiently process, collect and account for the billions of micro-transactions that are made daily in the highly complex, digital landscape. When Kobalt collects royalties for one specific artist in an example, it follows a process that tracks thousands of data points.

WIRED Magazine (WIRED, 2020) beautifully detailed an example of a single global hit that pulled in £4.8 million in sales 2019, it uses up to 60 pieces of metadata -- crucial identifiers to make sure the right people get paid (Gray, 2020). In this specific example, it included industry codes for the song's five writers, five publishers, nine lead musicians and session musicians, 11 officially recorded versions of the song and eight official remixes. Royalties flowed in from 100 territories worldwide.

Spotify alone streamed this song 170 million times to 3.2 million listeners before it was eventually pulled. Kobalt then endeavoured to collect the many micro-payments on each of these uses directly from these platforms, putting it up on its portal line by line in real-time. In the traditional model, collection societies and publishers from different territories would compile all the royalties and then forward the payment into the artists publishers or label. When they in turn pass on the artist's share, the digital heap may only appear as a single revenue line. It's not that the labels or publishers are acting dishonestly; it's that they don't possess the tools to track it and break the usage down (Gray, 2020).



In today's climate, direct accountability and traceability is pivotal to the success of an Artist. This is made more poignant due to the surrounding uncertainty we face due to Covid-19, the Coronavirus Lockdown & the subsequent impacts it will have on the Music Industry at large.

Kobalts' Proprietary Technology; KTech, driven by data and accountability, is ***the main*** Unique Selling Point that will propel them into the future.

It enables them to exploit and monetize 3 distinct categories; **Music Publishing, Music Recordings & Neighbouring Rights.**

MUSIC PUBLISHING

Kobalt Music's publishing portal and app make it easy to manage and track all of your rights and royalties for all downloads, sales and synch. With Real-time financials, Artists can break down income by top earning works, right type or country.

The graph (right) shows how their royalty collection platform is able to process trillions of transactions made daily, from around the world. **This enables them to not only pay creators and publishers more money, but also faster and every day** (Kobalt Music Group Ltd, 2020).



AWAL
A KOBALT COMPANY

We're built to break and support artists around the world 🌐🎵

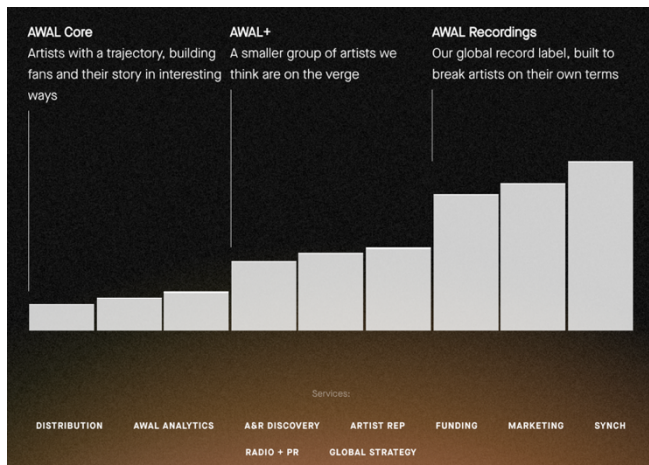
Global Release Planning Digital Strategy
Worldwide Playlisting Artist Marketing
Funding Creative Support Radio Promotion
Synch & Licensing
Digital & Physical Distribution

MUSIC RECORDINGS

AWAL is Kobalt's unique approach and alternative to the traditional idea of a Record Label (AWAL, 2020), and the role it plays in the current digital landscape.

Having locations and offices around the world, AWAL's services include marketing and release management, A&R, Funding, Playlist Promotion, Radio & PR, Global Distribution and much more as seen in the picture (left). Importantly, AWAL offers these wide range of services **without having to give up flexibility, ownership or control** (Kobalt Music, 2020).

There is a prestige or sense of **exclusivity** to their 21st Century approach to the Record Label, as they only choose to partner with a select group of Artists.



AWAL realised every artist is on a unique trajectory and path and as such, deserve different services, funding and attention. They designed a system to build long-term music careers and deal with artists at different stages of their individual development. These three stages are AWAL Core, AWAL+ & AWAL Recordings. At every stage, every artist signed to AWAL owns their work, keeps creative

control, takes home the lion's share of revenue, and sidesteps long-term contracts. To join at their AWAL Core Stage, you must either get a direct referral from someone they trust, or through their online A&R Submission (KMG, 2020).

However, once you're in you have access to their Distribution Network in over 200 territories and on all major digital service providers (Spotify, Apple Music). Global A&R reach and teams at your disposal serve great value and offer opportunities for future growth into other markets or territories. The highlight however, is the Cross-Platform Streaming Insights as part of AWAL Analytics. This directly ties into their IP and USP; Ktech and the Kobalt App. The ability to convert streams of your song into data and insights, is highly beneficial to any Artist looking to tour or market a future product or asset.

DISTRIBUTION

Reach Listeners In Over 200 Territories

We distribute to every major DSP and digital store around the world. You keep 85% of your revenue along with the freedom to leave whenever you want.

AWAL ANALYTICS

Cross-Platform Streaming Insights

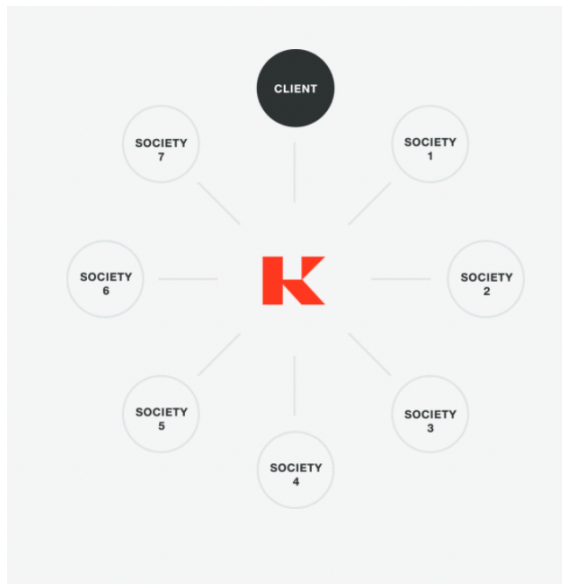
We help you flip streams into insights with skip rates, completions, playlist history, and lots more. We're proud to have built the most comprehensive streaming analytics platform in music.

A&R UPSTREAM

A&R Discovery & Upstream

Our global A&R team monitors everything and constantly searches for opportunities to lend a hand to AWAL artists gaining traction in interesting ways.

What determines who get upstreamed? +



NEIGHBOURING RIGHTS

As an artist if you have performed on, or if you control the rights to recorded music that has been played anywhere outside of the UK (PPL UK, 2020), you are entitled to the royalties generated and collected from the individual collection societies. Kobalt claim to be the largest Neighbouring Rights Administrator in the world, and as such, use their influence and direct

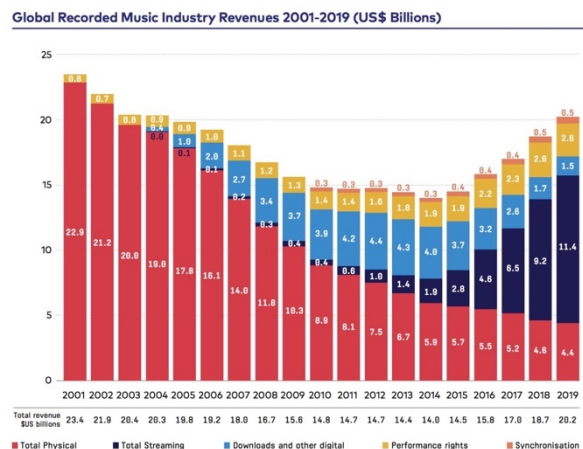
relationships with collection societies mixed with their innovative technology to pay significantly more to all the Creators & Labels on their roster. (Kobalt Signs Neighbouring Rights Deal With Secretly Distribution, 2020)

Willard Ahdriz, the Founder & CEO of Kobalt is quoted saying “Too many creators are missing out on digital revenue without even knowing it.” (Ahdriz, 2020) Kobalt’s deep focus on data and analytics makes certain that collection societies have accurate and complete information, and that songs are uniquely fingerprinted to maximize collections in all the specific territories.

THE MACRO ENVIRONMENT

According to the IFPI (International Federation of the Phonographic Industry) report, the income in 2019 from the sale of musical products (physical, downloading, subscription and streaming) was \$20.2 billion, up 8.2% on the prior year. (IFPI, 2019). The trend towards digital consumption via music downloads and streaming marked a milestone in 2019 with a 23% jump in streaming revenues, which totaled \$11.4 billion, accounting for 56% of all sales and offsetting a 5% fall in physical sales.

The Music by Numbers 2020 report, recently published by UK Music shows that the industry grew by over 11%. This amounts to just over £5.8 billion in value to the UK economy (Music By Numbers 2020 - UK Music, 2020).



While the report details the 12 month financial period up to 31st December 2019, proper considerations can't be taken without including the larger implications of Covid-19 and what the Coronavirus Lockdown has done to the Global Music, Art & Entertainment Industries. The effective shutdown of pubs, gigs, festivals and other concerts is said to have a lasting impact. Guardian article writer Mark Sweney speculates that the income lost from the aforementioned shutdowns, would amount to over £3 billion from its contribution to the UK economy, or just over half. (Sweney, 2020) That is a huge windfall that will have lasting impacts on not just financial security, but emotional and psychological welfare of the thousands of Music Industry workers who've lost jobs or income as a result.

Brexit is another huge shadow overcasting the Macro Environment for all UK Transnational Companies looking to trade in multiple jurisdictions and territories, Post-leaving the EU. Freedom of movement of People and Freedom of movement of Goods may well be affected in the transition period. This will have tangible consequences for touring artists and performers across Europe.

Copyright is also a fundamental concern and of huge importance to all stakeholders in the Music Industry. It not only enables creators to obtain financial reward for their content but it also works to incentivize businesses to invest in more creative content. (Brexit: UK Music's Key Concerns - UK Music, 2020) As it currently stands UK domestic legislation is based on the EU Copyright directives and framework. While there was uncertainty surrounding the legal framework and to address the issues surrounding it, the UK Government introduced a new Amendment to an Act titled "Intellectual Property (Copyright and Related Rights) (Amendment) (EU Exit) Regulations 2019(Intellectual Property (Copyright and Related Rights) (Amendment) (EU Exit) Regulations 2019) under the powers of the European Union (Withdrawal) Act 2018." (Changes to copyright law from 1 January 2021, 2020) The aim of These regulations is to remove or correct references to the EU, EEA, or member states in UK copyright legislation to preserve the effect of UK law where possible.

The UK Government have made a point to state that "most UK Copyright work including books, films and music, will still be protected in the EU and the UK because of the UK's participation in the international treaties on copyright" (GOV.UK, 2020).

For the same reason, EU copyright works will continue to be protected in the UK. This applies to works made before and after 1 January 2021. (GOV.UK, 2020).

Despite the fear and gloom that surrounds the immediate future of the Music Industry, the global demand for music and content remains high and will almost certainly continue to grow. In terms of overall revenue, the global music streaming market was valued at US\$ 26 billion in 2019 and is projected to reach US\$ 46.9 billion by 2027. (WIRE, 2020) Due to Kobalts' positioning and pricing strategy most of their income won't be affected by Live Shows being cancelled, rather they are in good stead to increase their artist roster and client catalogue into the future, with lots of investment in growing their Intellectual Property and Digital Asset Catalogues.

PRICING STRATEGY

There are many options for a Company at Kobalt Music's Stage of their development to employ, to garner a larger market share. Currently the focus is on Value Pricing, Bundle Pricing & Premium Pricing.

Their main Pricing Strategy (Value) is a simple and elegant flat fee. Kobalt's fee is 15% for their beginning AWAL Core tier. While Artists signed to AWAL continue to own their work & copyright and also retain the creative control, they also take home 85% of the revenue.

Because of AWAL's tiered structure pricing is fluid once graduating through AWAL Core into AWAL+ subsequently into AWAL Recordings.

AWAL then bundles in extra services it offers in higher tiers, like funding, playlist promotion & direct Label Rep support that, while you still retain all your copyright, will incur interest and higher service fees upwards of 20-25% of revenue.



MAJOR COMPETITORS

Record Companies still play a significant role in the music industry. The following is a brief overview of the 'Big Three.' The major international companies, all of which currently have subsidiaries in most countries.

UNIVERSAL MUSIC GROUP

Universal Music Group is the world's largest music company when we look at the market shares of the world's Music Industry. The company operates in more than 63 countries and is the largest in 75 percent of the countries in which the company operates. The most well-known record brands are e.g. Geffen, Motown Records, Philips and Universal Records. In addition to record production, the Group has one of the world's largest music publishing companies, Universal Music Publishing Group. (UMG, 2020)

In 2012 UMG expressed interest, then eventually purchased The EMI Group, a more than 100-year-old consortium that is purely focused on music, its production and publishing. The EMI Group organization includes e.g. a global HMV record store chain, the Virgin record company, EMI Music Publishing and a large number of record labels, the best known of which are Capitol, Virgin, Parlophone, Blue Note and EMI Classics. (EMI, 2020)

WARNER MUSIC GROUP

Warner Music Group is part of the media consortium Time Warner, which in turn is part of the American AOL Time Warner consortium. The company operates in more than 70 countries and is still considered the 3rd largest Label in the Industry with over 4500 employees. (Statista, 2019) Of the Group's several record brands, one could mention Atlantic and Elektra Records. Publishing is also an important part of the company's operations and is managed by Warner/Chappel Inc. (Warner Music, 2020)

Sony Music began operations as early as the 1880s under the name Columbia, after which the company grew larger and larger through acquisitions and the help of successful, international artists. In 1988, Sony Corporation acquired CBS Record Group, and the resulting company is now known as Sony Music Entertainment Inc. Today, Sony Music Entertainment owns numerous record labels (including Epic Records and Columbia Records) and is the world's second largest music company with a market share of about 15 percent. Sony's subsidiary Sony Music Publishing is a major player in the music industry and is one of the leading music rights managers. In Finland, Sony Music began operations in 1976 by establishing a subsidiary, now called Sony Music Finland. Sony covers about 12 percent of the Finnish anime market, competing evenly with BMG Finland and Edel Records. (Sonymusic.com, 2020)

BMG, or Bertelsmann Media Group, is part of one of the world's largest international media groups, Bertelsmann AG. BMG International operates in 54 countries and has more than 200 record brands, the best known of which are Arista, Ariola and RCA. The company has the fifth largest share of the world music market. (BMG, 2020)

FINANCE

Kobalt Music Group recently published its Annual Financial Statement for the fiscal year that ended on 30 June 2019. The company's revenues grew by 35.1% year-on-year to \$543.4m, but its total comprehensive losses for the year, net of tax, grew by 45.6% to \$56.8m (as shown in the Consolidated Income Statement below).

"The Group's on-going losses are the result of a conscious decision to prioritise growth through making strategic investments over short-term profitability," claimed the 'business overview' section of the financials filing. "The results are in line with the Group's long term forecasts."
(Musically.com, 2020)

KOBALT MUSIC GROUP LIMITED

CONSOLIDATED INCOME STATEMENT For the year ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
Revenue	4	543,438	402,139
Cost of sales		(473,037)	(349,632)
Gross profit		70,401	52,507
Other operating income		4,939	4,592
Administrative expenses		(109,257)	(85,931)
Other operating expenses		(10,572)	(8,638)
Foreign exchange gain (loss)		353	(3,919)
Operating loss	5	(44,136)	(41,389)
Investment revenues		2,339	2,211
Finance costs	7	(8,274)	(779)
Loss before tax		(50,071)	(39,957)
Tax	8	(2,757)	(2,739)
Loss for the year from continuing operations		(52,828)	(42,696)

All operations were continuing operations during the year.

Within the results shown in their latest published financials, Kobalt's neighbouring rights business declined by 25.4% to \$6.2m; Kobalt's publishing business (including Kobalt Capital) grew revenues by 27.9% to \$405.3m; distributor and label services division AWAL grew by 86.1% to \$111.5m; and its AMRA collecting society grew by 46.3% to \$65.6m. (Musically.com, 2020)

Not only that, Kobalt's total gross collections for the last fiscal year grew by 25% to \$616.4m, and it was initially predicted that they

will pass \$700m for the next year (ending 30 June 2020).

The company's headcount continued to expand too: from 515 to 652 by the end of June 2019. The

KEY FINANCIAL PERFORMANCE INDICATORS

The Board monitors the Company's performance in a number of ways including key performance indicators. The key financial performance indicators together with the information for the prior year are as follows:

	2019	2018	Movement	Movement
Revenue	\$543,438k	\$402,139k	\$141,299k	35.1%
Gross profit	\$70,401k	\$52,507k	\$17,894k	34.1%
Gross profit percentage	13.0%	13.1%	-	(0.1)%
Contribution margin*	\$34,740k	\$25,739k	\$9,001k	35.0%
Net (liabilities) /assets	\$(41,902)k	\$9,207k	\$(51,109)k	(555.1)%
Net current assets / (liabilities)	\$13,373k	\$(59,353)k	\$72,726k	122.5%
Cash	\$124,949k	\$41,536k	\$83,413k	200.8%

*Contribution margin is equal to gross margin less ongoing service costs

underlying metrics presented show year on growth in terms of Net Assets, Revenue & Gross Profit, and all the key financial indicators point to continued investment and growth on the part of Kobalt to all its subsidiaries.

Kobalts' main source of financing has been through VC Funding having undergone a series of rounds. Kobalt's investors to date have included Google Ventures, Section 32, whose founder, Bill Maris, was previously the CEO of GV; Hearst Entertainment; Balderton Capital; and MSD Capital, a private investment firm that exclusively manages the capital of Michael Dell and his family (Loizos, 2020). Thanks in part to these funding rounds, and the confidence the market has in it, the valuation of Kobalt Music Group has risen in recent years to over £600 million (TechCrunch, 2020).

LEAN BUSINESS

Lean Startup is a methodology that aims to increase the chances of success of startups through innovation accounting, validated learning and product development management (Ries 2011). Entrepreneurs Eric Ries and Steve Blank are considered the leading characters in Lean Startup. Toyota's Lean production and Ries's Lean Startup both aim to eliminate waste in the production chain. Ries's methodology eliminates wasted work even more than traditional Lean. The basic purpose of Lean Startup is to prevent the company from making a product that customers do not want.

Most startups have a great chance of failing; this is because they are trying to operate through traditional companies. The old Management Models do not dispute the needs of start-ups, as they do not yet know their customer base or product and cannot predict their future. Forecasts can only be created when the environment is stable enough and the company itself has a long and stable operating history. (Ries 2011).

LEAN STARTUP PAPER PRINCIPLES

The core principles of Lean Startup are the "Entrepreneurs are everywhere" and "Entrepreneurship is about governance" ideas, scientifically measurable learning, innovation accounting and the Build-

Measure-Learn cycle. The idea is that by following these principles, the startup company's chances of success would improve and the company would learn to manage its growth (Ries 2011).

Entrepreneurs are everywhere: Entrepreneurs are all the people in a group who are meant to develop new products or services and who work in the face of the utmost ignorance. Entrepreneurs can therefore also be employees of both large and small companies (Ries 2011).

After the last stage, the cycle is started from the beginning. The aim is to improve the product based on learning. Even if a compliant product has already been obtained, the learned information will be used in the next iteration (Ries, 2011). The measurement phase should objectively show that product development produces results. The time spent on each cycle should be minimized in order to maintain the agility characteristic of starters (Ries, 2011).

What all companies have in common is that the design work runs in cycles in a sequential order. In design work, unlike in production, first we decide what we want to learn, then how to measure learning and finally what kind of product needs to be made in order to carry out the research found above (Ries 2011).

Pivot or Persevere: Pivot or persevere is an important step in which, on the basis of the measurement results of the Build-Measure-Learn cycle, either the correctness of the business hypotheses is established, or a strategic change of direction is made, the so-called pivot. The purpose of the Pivot or persevere phase is to make a decision about, for example, which channels customers will use in the future, how the product should be changed or for which customer group the product will be offered in the future (Ries 2011).

In his book, Ries mentions several different types of radical changes of direction, such as customer segment pivots and zoom-in pivots. In the first case, the company states that there is a market for the product, but not in the customer group in which the company has previously focused. The company is therefore starting to focus its product on another customer group. In the case of the zoom-in pivot, the company concentrates its production around one single feature of the product, making it the final product, discarding the other features (Ries 2011).

CRITICISM OF LEAN STARTUP

Examples of criticism of lean startup methodology include Finnera which had developed an overly complex and unlimited MVP (minimum viable product) that did not generate value for its customers. The company invested in increasing its sales machinery, despite the fact that growth and value indicators did not support it. According to the guidelines of the Lean Startup methodology, the MVP should be able to manage the situation of the company and to monitor the development of the company (Ries, 2011).

According to Kern (2012), Silicon Valley businessperson Marc Andreessen believes that not all startups should be Lean Startups. Andreessen says the Lean Startup methodology should not prevent entrepreneurs from investing in big ideas. Lean Startup favors starting small companies and Andreessen thinks that some ideas don't work on a small scale but should be big at birth. Andreessen also says that he has experienced that Lean Startup entrepreneurs appreciate the importance of sales and marketing because they have given priority to creating the product (Kern, 2012).

THE APPLICATION OF LEAN BUSINESS TECHNIQUES

For Kobalt Music group the application of lean startup techniques could follow the following trajectory:

- Before attempting to obtain a finished product, the actual customer needs must be determined, e.g. Through MVP and interviews. Special attention should be paid to the creation of the MVP, it should not be a raw version of the product but testing that confirms the hypotheses. If this does not happen, the product must be changed, and MVP's development must be started from the beginning.
- In connection with product development, I think there is a reason to conduct regular experiments (feature experiments) to ensure that the features being developed cause the desired reactions in the customer base. If this is not achieved, the prioritization of the properties

to be developed from the backlog must be done more precisely. Features that are considered useless should not be maintained.

- The company's progress should be measured by cohort tests instead of monitoring gross margins. The cohort analysis shows how the customer base has used the product and how the use has developed. There is also a need to pay attention to the units of indicators and to strive for comprehensible, concrete units, such as human land.
- The purpose of pivot or persevere meetings would be to meet in an organized way every few months, or if necessary. In this case, it should be determined with fresh data whether the company should maintain its line or make a change of direction.
- Interaction with customers in accordance with the Lean Startup principles should be developed and the results obtained should be systematically recorded. Based on the results collected, the company should make changes to its operations on a small and large scale.

SUMMARY

The music industry is continually developing with new technologies coming into play and Kobalt Music Group needs to keep up with the next innovations in the industry in order for it to be competitive. In addition, the pandemic challenges brought up by Covid-19 in 2020 have rocked the industry with declining to zero revenues from some income streams. Therefore, the company needs to adopt innovative lean startup methodologies that will enable it to test various offerings that will enable it to weather the storm, which is projected to last until 2024.

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