

**University of Wales Trinity St David**

**MA Music Business**

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Assignment Title: Report

Students are required to choose an organisation in the creative industries and produce a 5000-word report which includes an analysis of the micro and macro environment of the organisation. Students should then discuss how lean business methods and techniques are applied and/or could be applied in the chosen organisation.

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## 1. Introducing Audoo

Audoo Limited is a UK registered company (company number:11530289) that was incorporated on 21<sup>st</sup> August 2018 and is based at Tileyard, London (Audoo Limited, 2018). It was founded as a music technology start-up company by entrepreneur and former musician, Ryan Edwards, with a vision to create a more accurate system for compensating artists and composers for the public performance of their work. The company website, audoo.com, currently lists seventeen employees, including four company board directors. The company also lists four advisory board members.

According to Edwards, who is also the company CEO, Audoo aims to "*revolutionise performance royalties*" with its Audoo Audio Meter® device. The Audoo Audio Meter uses Music Recognition Technology (MRT) and plugs into an electricity socket. It monitors music played in shops, restaurants, bars, cafes, gyms, and other public venues. The device name is closely aligned with 'audiometer' which is a general term used to describe an instrument for testing the intensity and frequency range of sound that is capable of detection by the human ear (Collins 2021).

In September 2019 Audoo joined Europe's first music technology incubator, Abbey Road Red, providing support for Audoo's long term strategy.

In November 2020, the company raised £5.2m in a major and high-profile Series A round backed by Björn Ulvaeus (of the pop group, ABBA) and existing investors, including Tileyard London. Björn Ulvaeus remarked: "*For a long time I*

*have urged Performing Rights Organisations to use intelligent third-party technology. Audoo is a solution I believe will change the music industry forever and that's why I have put my money where my mouth is. (Paine 2020)”*

The company has won numerous music & technology industry awards, including MIDEM Labs. These have given Audoo increased profile and industry recognition, with media coverage that includes The Times Newspaper, Music Week and the BBC.

The profile of Audoo in the overall music industry is high. It has been well reviewed by key industry players, media and recognised by numerous awards and has positioned itself as first-to-market with a unique combination of bespoke technology, data and a venue device.

## **2. The Audoo Product & Service**

The Audoo Audio Meter provides a potential global digital solution for Performing Rights Organisations (PROs) & Collection Management Organisations (CMOs) to track music that is played in public. As explained in FAQ section of the Audoo website, it tracks the music played on location which is then sent securely to the Audoo cloud- based platform. Using a circular microphone array, the device can track vast amounts of music in any given setting and can make accurate identification of tracks, whilst stripping out the foreground noise. As the music is broadcast at partnered public performance locations, Audio Meter uses Audoo's unique algorithm to match against a vast library of over 70 million tracks to accurately identify the song being played and match the recording with the artists, songwriters, rights-holders and owners of the song. The company claims the device is unique to the music royalty tracking market and is GDPR compliant.

In addition to PROs and CMOs, the company says that the data captured can be leveraged by record labels, publishers, catalogue owners, managers, booking agents, and artists themselves to refine their strategy, book tours, and better understand how real-world music is consumed. This expands the outreach and appeal of Audoo across much of the music industry with potentially millions of venues around the world using its device.

### **3. A Licence to Perform Music**

Under the UK Copyright, Designs and Patents Act of 1988, permission is required from the relevant copyright holders to play or perform music in public places such as shops, gyms, restaurants, cafes and other business in the UK. Licences are required to cover both the use of the sound recording and the underlying words and music of the composition. The UK's two music licensing organisations are Phonographic Performance Limited (PPL) and Performing Right Society for Music (PRS). In 2018, PPL and PRS combined their services together to form PPL PRS Ltd and offer a single licence called TheMusicLicence which, upon payment of a fee, grants permission to play or perform music in public. The PRS represents 140,000 songwriters, composers and publishers. The cost of the licence depends on a particular use of music across various types of venues (PPL PRS Ltd 2021). This is the licence that Audoo's key end-user sector is required to have to perform and play music in public venues.

It is an infringement of the UK Copyright, Designs and Patents Act of 1988 to play or perform copyright music in public without an appropriate licence to do so. However, evidence shows that many venues simply don't acquire a licence. As there is currently no real tangible device for these types of establishments to use in collecting data, it's more difficult to identify when at the venue, as to whether

it does or does not have a licence. The Audoo Audio Meter could address this if PROs and CMOs provided each establishment with the device as part of the licence. Audoo's core business model is based upon its device being placed in each licensee establishment as a condition of a PRO or CMO licence.

#### **4. The Audoo Micro-Environment**

Using the Porter's Five Forces framework (Porter 1980) we can analyse the micro-environment of Audoo, assessing the levels of competition it faces and the potential threats to the company's performance and ability to be profitable.

##### **4.1 The Threat of New Entrants**

MRT technology is being used in various ways in the music and entertainment industries. PROs and CMOs are already using a variety of MRT solutions to collect music usage data. The PRS has been using MRT since 2006 to monitor radio performances (Stassen 2017). It's become a powerful technology resource for the music business community.

Greg Marshall, General Manager of the Association of Electronic Music said, *"The importance of the role of MRT in the music industry today and in the future cannot be overstated. There are a growing number of MRT services which facilitate accurate music reporting for DJ events, TV / radio broadcasts and User Generated Streaming (UGC) streaming such as YouTube's Content ID tool. These enable more accurate royalty and music usage payments to be made to the creators and rights holders of the music played". (Morrison 2021).*

The biggest barrier to entry for competitors with music royalty tracking technology for the establishments that the Audoo technology is designed to serve, is the need for a more bespoke technology and access to a database able to identify both the rights of the sound recording and the rights of the composition. Currently,

no other companies appear to be promoting technology or devices for royalty tracking of played music in the same establishment sector as Audoo.

Close working partnerships with PROs and CMOs are essential for Audoo . Audoo has already established working relationships with these organisations and therefore gained valuable ground ahead of any new entrant threats. However, at the time of writing this report there have been no public announcements indicating that Audoo has yet entered into any formal agreements with any of these organisations. Its' important for Audoo to finalise and sign agreements before any other new entrants do the same.

If new entrants emerge with similar bespoke technology as Audoo, then it will be important for Audoo to have built customer loyalty particularly through the reliability and ease-of-use of its devices. In addition, a high level of accuracy of reporting usage of sound recordings and underlying copyrights in the song or composition, is needed to validate the use of Audio Meter. In respect of these two validations, Audoo needs to complete an initial period of live product trading.

At this stage Audoo has not announced a live launch of the Audio Meter device so will need to be aware that a risk of a new entrant in its direct market in the meantime is a reality and could impact its current status of first-to-market. The threat of new entrants into the MRT performance royalties tracking market is medium.

## **4.2 Bargaining Power of Suppliers**

Audoo is especially dependent on keeping its device and ongoing service package at an affordable price to its customers. Price has been a barrier to the music industry adopting technology in the past. The PRS states that cost effectiveness is required before adopting new technology to improve accuracy of data collection (PRS Ltd. 2019). Therefore, Audoo needs to negotiate a best-cost price for its device without compromising quality such as high accuracy. China is one of the largest manufacturers of MRT devices. To keep cost of manufacturing low it's likely that Audoo will need to be reliant on a manufacture and supply chain from China. It will be important for Audoo to negotiate fixed cost prices for its devices for a reliable period to enable it to be confident it can maintain profit margins and not need to increase prices prior to its device launch.

Delays in the supply of goods from China has increased significantly in 2021 and delivery times have been unreliable. Audoo needs to carefully factor production and supply of its devices especially at product launch, to keep the device viable from a cost perspective. The bargaining power of suppliers to Audoo can be considered to be high.

## **4.3 Bargaining Power of Customers**

PROs and CMOs are business-to-business (B2B) customers for Audoo and by far the most important as they administer the collection of data and issuing of licences to establishments that Audoo has designed its device for. Although these organisations are under pressure to find solutions for improving the accuracy of ultimately distributing public performance revenue to artists and songwriters/composers, they require a cost-effective solution as stated above.

They will ultimately decide whether the device and service provided by Audoo meets their needs. They are also incredibly important partners in matching the data to enable the device to deliver the solution. If price is too high then viability is less likely and the product cannot succeed. The technology is not worth adopting because the cost out-weighs the benefit. It will be a challenge for Audoo to keep the cost affordable for its customers and remain profitable. The bargaining power of customers is considered to be very high.

#### **4.4 Threat of substitute product**

The most significant threat of substitute for Audoo is that its target customers continue with their existing method of collecting data and decide that the Audoo solution is not valid because it is not suitable enough to implement and/or maintain. However, it is clear that MRT is already being adopted by the music industry to improve collection of different types of music performance and broadcast data so the threat to substitutes to MRT is likely to be low.

#### **4.5 Rivalry amongst existing industry competitors**

Audoo claims that it is providing a unique music broadcast solution with its Audio Meter. However, it is the combination of technology, accurate data, and cost that is required to provide the solution and not just the technology. Other MRT companies are already providing similar solutions to PROs and CMOs. For example, according to the PRS website the PRS and the PPL have been using an MRT technology product produced by DJ Monitor since 2018 to help identify music played by DJs at a number of licensed venues and festivals. Although not a direct rival to Audoo in terms of the specific technology and target performance establishments, Audoo is competing in the same technology sector with companies that have already set a precedent for agreements and terms with PROs and CMOs.

The UK Intellectual property Office confirms that in April 2021, registered trademark names were filed for Audoo Audio Meter, Audoo Meter and Audoo Smart Meter for classes 9 (audio apparatus) and 42 (hosting services and software as a service). This will provide protection for the Audio Meter product brand name although Audoo will need to ensure that they have trademark protection in each of the countries they operate in. Currently, direct industry rivalry is low but is likely to move to medium to high as existing MRT royalty tracking providers continue to evolve their technology.

#### **4.6 Micro-Environment Conclusion**

The emergence of a direct competitor product to the Audoo Audio Meter is likely the highest threat to the company whilst Audoo is not yet running live in key territories such as the UK.

### **5. The Macro-Environment**

Using a PESTEL analysis, we can identify the external forces that could directly impact Audoo, its direct market and business.

#### **5.1 Political Factors Impacting Audoo**

##### **5.1.1 Government Regulations and Brexit**

Audoo is setting a global strategy that includes launching its product and service in different countries. The government and political regulations will differ from country to country so the company will need to keep a careful view of changing regulations in each of the countries it plans to do business in. The UK is a key market for Audoo. The UK has a stable political environment with the current government likely to be in office until 2024. Political stability is important for Audoo as a

business. However, there is still uncertainty for UK businesses caused by the UK's exit from the European Union (Brexit). Audoo is seeking business partnerships in a number of different countries in Europe so needs to keep aware of changes in import/export, tax and trading regulations for UK companies and the European Union. Audoo needs to consider how any changes in tariffs might impact its product cost.

### **5.1.2 Chinese Relations**

If Audoo will also be reliant on China for the supply of its goods, it needs to consider if there is a risk of any trade conflict between the UK and China and how this would impact its supply chain. The House of Lords' international and defence select committee recently warned that given the trajectory of China's global ambitions, the UK must be prepared for a *"potentially long and severe period of disruption in its trade and political relations with China"* (Wintour 2021). This could have impact on Audoo's supply chain and force a change in product supply and its ability to provide affordable devices.

## **5.2 Economic Factors**

The Covid-19 pandemic seriously impacted and interrupted business in the UK and around the world. Many countries' economies entered recessions in 2020 with rising unemployment (Jones, Palumbo & Brown 2021). Audoo may need consider reviewing its launch dates for some territories if Covid-19 restrictions are still active.

However, according to the International Monetary Fund (IMF), the global economy is projected to grow 6.0 percent in 2021 and 4.9 percent in 2022 (IMF 2021). This is a positive sign for Audoo's global business ambitions, providing an

indication that the world economy is recovering from the impact of Covid-19 but it will be important for the company to also assess Gross Domestic Product (GDP) at national levels and also consider predictions of inflation. In the UK, GDP grew 0.1% in July 2021 but remains 2.1% below its pre-Covid-19 pandemic level. Having slumped by 10% in 2020, the International Monetary Fund (IMF) has forecast a growth of 7% in 2021 (Milliken 2021). The Bank of England expects inflation in the UK to rise 4% by the end of the year which will be 2% above its target. Bloomberg expects inflation to fall back to 2% by the end of 2022 (Atkinson & Cherry 2021). The economic forecasts in terms of growth looks to be favourable for Audoo but higher inflation could impact Audoo's cost of its operations in the UK so the company needs to review carefully.

In August 2021, UK employment rate was estimated at 75.1%, 1.5 percentage points lower than before the pandemic (December 2019 to February 2020), but 0.3 percentage points higher than the previous quarter (January to March 2021) (Office of National Statistics 2021). Higher employment may make it more challenging for Audoo to recruit and increase salary and benefit levels to attract high quality staff. The company especially requires specialised technical roles to maintain and develop its products and services and at the time of this report is currently in the process of recruiting for a Head of Engineering position.

Interest rates have remained low during the period of Audoo's start up period. The Bank of England's base rate has remained at 0.1% since March 2020. With a forecast of higher inflation in 2021, interest rates unlikely to increase during this year. This means that Audoo has potential low borrowing costs if needed and is likely to be more attractive to investors who are looking to for better growth prospects for their capital.

In May 2020, Goldman Sachs estimated the entire music industry's revenue (live, recorded, and publishing) to increase from \$62 billion in 2017 to \$131 billion in 2030. According to the most recent report from UK Music, Music By Numbers 2020, the UK music industry contributed £5.8 billion to the UK economy in 2019. An increase of 11% on £5.2 billion in 2018. Even with the impact of Covid-19, the BPI reported that the UK recorded music revenues grew by 3.8% in the UK in 2020, helped by streaming and sales of vinyl. Although Audoo is not involved in the creation or delivery of music, the industry growth indicates a positive and resilient outlook and more likely that music organisations and companies will be positioned favourably to invest and support innovation and development. This is a positive industry environment for Audoo as a start-up company and in the ongoing development of its products.

The PRS reported that overall in 2020, revenues collected from music being played in the UK and worldwide shrank by 19.7% (£159.9m) compared to 2019 to £650.5m, eradicating years of record growth. 'Public performance' revenue overall, which, as well as live music events, includes music used in business premises, shops, cinemas, pubs, clubs, hotels and restaurants, saw a significant 61.2% (£136m) downturn in revenue collected year-on-year, to £86.2m in 2020, again due to business closure. This downturn is due to PRS policy to only charge businesses for when they have been open and able to play music. 'Payment holidays' and pauses on invoicing for those impacted by enforced closures provided much needed relief to customers, particularly small businesses.

While most public performance sectors were adversely impacted, revenues from hospitality and nightlife industries were amongst the worst affected. Negative impact on revenue collected from retail was slightly eased by

essential elements of the sector permitted to remain open by the government, such as supermarkets. Additionally, a rise in demand for online shopping and click-and-collect services, in turn led to increased demand for warehouse and storage facilities, many of which play music for employees.

This decline in revenue will impact many artists and songwriters who may have already see income fall. Royalty revenue from recorded music, broadcasting and music played in public is now even more important to them. Therefore, the Audoo Audio Meter device is timely in adding to the importance of equitable and accurate reporting of usage data. However, strategic implementation of the device by the PROs and CMOs needs to consider readiness of the hospitality and retail sector to embrace and implement the device along with any increases in the cost of a licence, which at the time of the report is not a compulsory requirement of any PRO or CMO licence.

## **5.2 Social and Cultural Factors**

Following the lifting of Covid-19 restrictions, the UK government continues to emphasise the need for caution related to new variants and therefore leaves it to employers to consider the risk within their workplaces and decide which mitigations are needed. The Chartered Institute of Personnel and Development advises UK employers to follow the latest guidance combined with being vigilant as they may need to be ready to implement full homeworking again. Audoo already operates a flexible/remote working policy, according to their website, but needs to carefully follow guidance and changes to employment policies which may be sudden in the short term.

Under representation of ethnic minorities and women in the global music workforce has been a high-profile issue within the music industry. In October

2020, UK Music, with full support from its ten board member bodies including the PRS and PPL, launched a 10-point plan to increase diversity in the music industry. UK Music is committed to helping music companies diversify and adopt fair and inclusive employment practices. One of the plan points states that each UK Music member is required to promote diversity and inclusion to partners and stakeholders ensuring industry standards are met. As a potential partner of organisations such as PRS and PPL, Audoo needs to ensure its diversity policy and diversity targets are a key and visible part of its overall strategic plan.

The way that consumers access and play music has been changing. Streaming of music currently accounts for more than half of the global music industry's revenue (House of Commons 2021). This has created a culture where consumers expect to be able to hear and play any music at any time. Inevitably, music streaming services are now a regularly used to provide music in businesses and public venues. This aligns with Audoo's mission to improve the accuracy of reporting and suggests that their device will provide a solution to the increased increasing the accessibility and breadth of recorded music being played in public venues.

### **5.3 Technological Factors**

The UK has one of the world's largest technology ecosystems with thousands of tech start-ups, built around a strong entrepreneurial culture. The UK's tech sector is on course for a record year of investment with £13.5 billion of venture capital coming into the country during the first six months of 2021 (Hellard 2021). In July 2021, the KPMG UK Tech Monitor, reported that tech sector activity is surging but recovery is hampered by critical supply chain issues and rising component costs (KPMG 2021). There is good news here for Audoo in that the

UK technology environment is a vibrant and good place for tech jobs and investment. However, they need to watch for increased costs and supply chain issues relating to production of their devices.

In the UK, 96% of premises have access to a superfast broadband connection with speeds of at least 30Mbit/s. In August 2021, the government announced the regions in which up to 1.85m premises in England will see their broadband speeds increased through infrastructure upgrades by the year 2025. However, according to Ofcom's *Connected Nations UK Report 2020*, around 190,000 premises cannot get a decent broadband service from either fixed or non-fixed wireless networks.

Audoo requires internet connections for the transfer of royalty tracking data and will benefit from the UK Government's plans to continue to improve access to high-speed internet but needs to factor the performance of its device under current internet connection levels in the UK and elsewhere prior to launching.

#### **5.4 Environmental Factors**

The UK Government has committed the UK to lead global efforts to combat climate change by way of a 25-year plan to improve the environment (*A Green Future: Our 25 Year Plan to Improve the Environment*). In May 2021 the UK Government called on small businesses to pledge to cut their emissions to net zero by 2050. Audoo could consider developing company policies to include support reducing emissions by looking at environmentally friendly packaging solutions for their devices and ensuring that their devices are recyclable.

#### **5.5 Legal Factors**

Regulations relating to product safety legislation concerning the design and construction of equipment primarily for use at work, may differ from country to

country. Following the UK's departure from the European Union, some rules and procedures have changed. Products intended for the UK market must comply with the requirements of all applicable UK legislation, which require UKCA marking instead of CE marking from 31<sup>st</sup> December 2021. Audoo will be required to meet this requirement for its devices. The company needs to be aware of current and upcoming changes in regulations and other legal legislation that may impact its products and its business as a result of the UK leaving the EU.

Following Brexit, there are reports in August 2021 that the UK government is to soon overhaul the General Data Protection Regulation (GDPR) which was introduced in the UK in May 2018 as part of European data protection regulations (Hern 2021). Audoo has confirmed that its device is GDPR compliant under current regulations so it is likely to continue to meet any new UK regulations but will need to assess closely to ensure that is the case.

## **5.6 Audoo Macro-Environment Conclusion**

Audoo has a positive macro environment relating to growth and sustainability the music industry and the technology industry environments. However, Covid-19 is still presenting uncertainties in the overall economy both in the UK and globally. Audoo needs to ensure that it monitors its supply chain carefully. Setting clear targets for its environmental and diversity policies will help provide more meaningful values behind the Audoo brand. Following changes in local country legislation is essential in product design and safety, to prevent any costly mistakes.

## **6. Audoo's Use of Lean Startup Methods and Techniques**

### **6.1 Introduction**

The fundamental activity of a start-up is to turn ideas into products, measure how customers respond, and then learn whether to pivot or persevere. The Build-Measure-Learn feedback loop is at the core of the Lean Startup (Ries 2011).

### **6.2 Early Validation**

Lean Startup begins with first identifying a problem, having a business idea to provide a solution and then beginning a validation process to confirm that customers need it and are willing to pay for it. The validation process is a key principle of Lean Startup and key in learning how to build a sustainable business. For Edwards this was too the form of initially recognising a problem that impacted him personally: why have I not received royalty payments for my music that I heard being played in a department store? He then took first key step in the early validation process by establishing the existing process that PROs and CMOs used to collect public performance data of music played publicly in shops, cafes, restaurants and gyms etc. He found that the PRS and PPL calculates royalty public performance payments based on sample use, collected by its music researchers. Thus far, it hasn't been cost-effective for PROs to monitor every song played by their license-holding businesses when calculating royalty payments. Instead, they analyse smaller data sets, like surveys of radio playlists, to determine a songwriter's share of the total revenue from licensing. Edwards had identified a key problem in that millions of artists and songwriters are not getting paid accurately or possibly at all due to the current process of collecting data and calculating royalty processes. This identified a need Coincidentally, at the same time, the UK government had launched an enquiry into the Economics of Streaming which was published in 2021. This report further outlined the increase

of streaming music and concluded that artists and songwriters were not earning enough. Edwards had substantially validated the need for a solution to the problem.

### **6.3 Minimum Capital Investment**

In planning to build a sustainable business, Edwards approached his start-up with minimal resources and minimum capital investment. Initially using a crowd funding approach to raise money from friends and families and took on most of the key roles himself.

### **6.4 Lean Thinking and Minimal Viable Product (MVP)**

After setting up his company in 2018, Edwards began the process of applying Lean thinking to the process of innovation and start up activity. His idea was to use new technology to provide a global solution to the royalty tracking problem, ensuring high accuracy, capturing real-time playing and being cost-effective. A minimal viable product (MVP) is a further key stage of the validation process within the Build-Measure-Learn loop of Lean Startup. Audoo moved quickly to establish an MVP they could use to engage with potential customers. Audoo first built the Audoo Audio Meter as a prototype with enough features that would be viable for testing and validating the concept (product) to engage further with customers.

According to the Audoo website, Edwards said, *“We built a prototype device to prove that the technology worked and we took it to some of the royalties societies in the UK and US. They showed interest and we took our first order within weeks. Another of societies also sent us a letter of intent saying they want to work with us. Also, a few weeks ago, we got a message from a royalties organisation on*

*the other side of the world. We hadn't even tried to talk to anybody over there yet."* (Audoo Ltd 2019).

## **6.5 Build-Measure-Learn**

The validation and learning process of Lean StartUp kicked in again with a second cycle of build-measure-learn, when Edwards stated in 2019, *"next year we will be piloting the technology across a number of different retail environments. We will be using the results of the pilot to accelerate conversations that we are already having with other territories, in order to bring Audoo to new market"* (Peachey 2019). Audoo has continued to work with customers through the feedback loop of Build-measure-learn validating new features on their products and growing organically to provide more value and a better experience for their users.

## **6.6 MVP2**

Although have not yet publicly announced live versions of the Audio Meter in the marketplace, Edwards has indicated that some live models are now active in Europe and in the southern hemisphere and implied that the UK will follow shortly (Peachey 2019). This is likely to be an important stage of MVP2. Further evidence of the MVPs and the build- measure-learn cycle can be seen in a new role hire for Head of Engineering which references future technical developments that can drive growth and ultimately help achieve Audoo's global mission. Another potential sign of further MPV progression is the registration filed in April for Audoo Smart Meter which could potentially signal a new product another product.

## 7. Conclusion

Audoo is providing an incredible opportunity to solve a problem that the global music industry desperately needs. A solution that enables artists and songwriters to receive fair and accurate payments when their music is played or performed in public. This is an exciting and Audoo is part of technology wave that could be transformative in how public performance data is collected, assessed, administered, and ultimately paid to rights owners. The brand is established within the industry and Audoo has been working closely with potential customers, testing, and developing and applying the build-measure-learn process. All within a period of extreme business conditions caused by the Covid-19 pandemic.

Audoo now needs to run its device live in the market and start trading. Whilst recognising that there are regulation requirements that need to be adhered to around the world, key threat for the company is that if it doesn't take this step soon, someone else might get there first.

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