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Abstract

This report analyses the macro and micro-economics of Kobalt Music Group. It is aa There is a comparison with its closest competitors and an evaluation of the companies' financial position in 2016. Lastly, the Lean Method is reviewed to see how the principles apply to Kobalt in relation to their ongoing business development.

The History of Kobalt Music Group

Kobalt Music Group is an award-winning global music services company headquartered in London with nine satellite offices across the US, Europe, Asia and Australia. Launched officially by Swedish-born Willard Ahdriz in 2001, it's mission is to create win-win scenarios for artists centred on technology, data and transparency on how rights are exploited and monetised in the digital music ecosystem.

The Problem that Spurred a Solution

During an interview at Canadian Music Week (2015), Ahdriz recounted his experiences as founder of Telegram Records and Publishing. He recounted how he waited two to three years to receive royalty payments, the royalty statements were difficult to understand and if you wanted to verify your data, the labels would not let you have access.

During his time working for a consultancy firm in the US, witnessed how the billions of transactions were handled for airline companies with relative ease. This inspired Ahdriz to build a technological solution to make royalty payments more transparent while ultimately empowering artists to have more control over their rights, income and careers.

Kobalt's First Decade

In its early years, the music technology company focussed on rights management and music publishing administration for independent artists across the globe. It's unique selling point was and still is that creators can retain their rights. Infusing Ahdriz's passion and philosophy with the brand promise of transparency, simplicity and control, their client's royalties were tracked, collected and paid - promptly (Canadian Music Week, 2015). Within just a few years, the company were awarded Independent Music Publisher of the Year by Music Week in 2009 and have held this title until 2016.

In order to broaden the scope of services, Kobalt added Neighbouring Rights services in 2011 and acquired Artists Without A Label also known as AWAL and benefited from the advanced analytics which was then shared with Kobalt clients (Gray, 2015).

2012 to Now

With a view to offer more transparency and simpler management for artists, Kobalt launched it's Label Services portal in 2012 allowing their client artists to self-manage their rights online using the tools from their AWAL product offering. (Christman, 2014).

Kobalt has signed deals with major publishers such as MPL and more recently newly independent Chrysalis Music after their disinvestment from Warners Music Group and high profile artists including Paul McCartney, Gwen Stefani and more.

Significant developments include Kobalt's acquisition of collection agency AMRA - the American Mechanical Royalties Agency in 2014 and have received major investment funds from MSD Ventures, Google Ventures and many other funders to date.

In 2015, Kobalt represented over 8,000 artists and 600,000 songs in their catalogue plus 40% of the top 100 UK and US songs are Kobalt artists making it the top independent publisher in the UK and second to Sony/ATV in the US.

Kobalt's ambitious goals aim to monetise 1.5bn music consumers from the current 400m and increase revenues for the industry from \$15bn to \$45bn within the next few years. (Canadian Music Week, 2015)

Characteristics of the Music Marketplace

There are four core music business divisions: record labels, publishing companies, digital music services and live and touring. The major labels, Universal, Sony and Warner, dominate the market with a joint share of approx 70% in 2016 and the rest is made of up smaller mostly independent music companies (Mulligan, 2017).

The industry is disrupted by technology every ten to fifteen years and this typically sets the characteristics of the marketplace. Since 2000, the internet has played a key part in changing the way the music business operates. The industry has shifted from selling recorded products to selling licences, yet it's infrastructure is partly outmoded and ineffective. Digitised music accounts for 50% of the music industry's revenue, and emerging blockchain technology is expected to create a lot of disruption in the near future (IFPI, 2017). It may bring with it threats of disintermediation and issues around privacy yet it might also bring opportunities for transparency, creativity and innovation (Dickson, 2017).

Most music industry projects involve a high upfront investment in return for high uncertainty of a reward. According to the IFPI (2017) and Music Business Worldwide's editor Tim Ingham (2015), a label can invest between \$500,000 to \$2,000,000 to launch a new artist. This is the highest spend per project compared to many other high risk industries. See Figure 1.

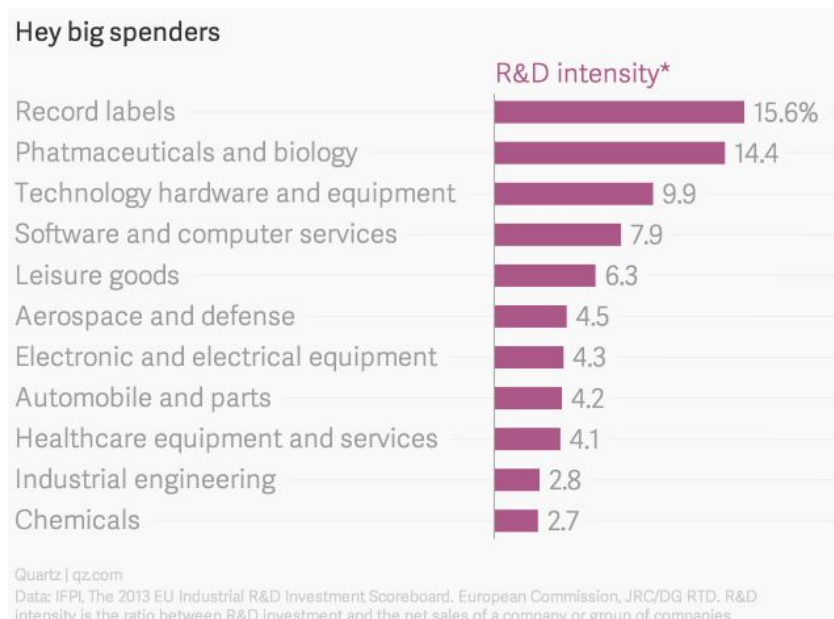


Figure 1. R&D Investment by industry 2013 (McDuling, 2014)

Lack of transparency mars the relationship many artists have with their intermediaries. The industry is known for opacity in relation to flow of payments from corporates to artists and creators. Some artists are underpaid, overpaid or not paid at all. Largely this is due to insufficient metadata attached to a song and therefore the payment cannot be allocated to its rightful recipient(s) (Berklee & Rethink Music, 2015)

Despite a fractious, confusing and fragmented environment, the industry is growing because the supply is meeting the demand for digital content not just on music platforms but most media platforms too. Technology will open up a whole host of technology opportunities for music including voice activated assistant devices to virtuality reality experiences in and out of the home. Data and technology will drive the next revolution for the music industry. The characteristics of the music industry are not likely to change dramatically over the next few years, however it is challenging.

Kobalt's Major Competitors

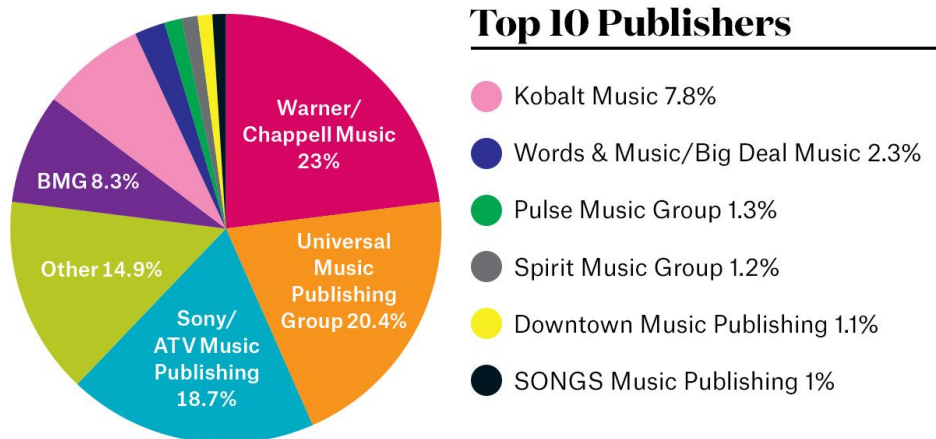


Figure 2. Top 10 Music Publishers in the US Q3 2017 (Billboard, 2017)

Out of the Top 10 Publishers as reported by Billboard (2017) Warner/Chappell, Universal Music Publishing and Sony/ATV as major publishers account for just over 70% of the overall global market. Kobalt Music has the largest market share after BMG out of the independent publishers in the third quarter of 2017.

Warner/Chappell Music is the publishing arm of Warner Music Group. With a history dating back to the 19th century, owns and licences a catalogue of more than 1 million songs from 65,000 writers (Warner, 2005)

They have a presence in over 40 countries in each continent and their publishing revenue grew 9% to \$572m. Digital revenue accounts for nearly 33% of that figure.

Although an income statement is not publicly available for Warner/Chappell, Warner Music Group generated profits of \$143m for the twelve months ending 2017, up nearly 600% due to income tax benefit (Warner Music Group, 2017). They look after the rights some of the world's biggest stars including Hall & Oates, Katy Perry, Jay-Z, Beyonce, James Brown and Paramore.

Sony/ATV is headquartered in New York was set up in 1999 as joint venture between Sony Corporation and the late Michael Jackson. Their presence is in 37 offices in 22 countries around the world. They manage the copyrights of top songwriters including Sam Smith, Calvin Harris, Hank Williams, Stevie Wonder, Ed Sheeran, Alicia Keys, Emeli Sande and The Beatles (Sony, 2015)

In terms of finances, the music data on their annual report is presented as part of the entire Sony Group. Although not comparable to Warner/Chappell's data, the operating income for the fiscal year to 31st March 2017 is \$677m a drop of 12.4%. The decrease is due to an

equity adjustment for the acquisition of the The Orchard. Sales increased by 4.6% and in part were driven by digital streaming revenues (Sony, 2017).

Universal Music Publishing has offices in 47 different countries including the UK, US, France, Germany, Italy, Spain, Australia, South Africa and in the Asian and Scandinavian regions. The company administers over 1 million copyrights and represents world class talent such as Adele, Elton John, Joy Division and Otis Redding. They also hold the rights to catalogues from BMG as well as film and TV companies (Universal Music Publishing, 2010)

UMPG also stresses transparency of data and offers a royalty portal for their songwriters and composers, royalty Window.. One of the first majors to offer such a service, their clients can access their royalty data 24/7 as an aggregated report or in granular form as an Excel spreadsheet.

Billboard reported that approximately 30% of their staff is dedicated to accuracy and maximising efficiency payment flows and relationships with local collection agencies. In general business managers and auditors say the Universal Music Group has the best financial systems for it's artists and songwriters among the major (Billboard, 2015).

In terms of financial performance, for the year ending 31 December 2016, Universal Publishing increased their revenues by 4.7% to €792m from 2015. This increase was driven by increased subscription and streaming revenues and synchronisation and performance income. Universal Music Group gained a significant catalogue acquisition from the late Prince's estate and his record label, NPG (Vivendi, 2017, p.193)

Fees and rates vary by market and territory and in some regions are subject to governmental legislations, therefore most deals between songwriters, media companies, stakeholders and publishing companies are private. However songwriter royalty rates can vary between 75-80% and the balance goes to the publishing company (Harrison, 2017, location 3020).

Interestingly, there is no unique selling proposition between the majors except for their roster. Their service offerings were similar and perhaps the legacy of their brand is their overall USP. There are newer entrants to this market namely NME, Sentric & Amuse and there is a lot of choice for artists. How this glut in the market will affect pricing, remains to be seen and as many independent publishing administrators do not take an equity stake in the artist's intellectual property their margins are already slim. Digital revenues are going up so more entrants may be attracted to the market.

Kobalt's products and customers

Kobalt Music is a music services company primarily offering rights management services to artists, songwriters, musicians, managers, record labels and publishers. Using proprietary technology based on transaction databases, Kobalt's clients can access their digital rights performance data and flow of payments in near real-time using their best in class, revolutionary technology via an app on their mobile phone. Their systems are robust enough to capture micro transactions on a hit song which can be as much as 4 billion (Financial Times, 2017).

Their customer base is made up of independent or emerging artists, or an iconic heritage act looking for a partner to administer their royalties while allowing them to retain their intellectual property. At a time when there is growing unrest about artist royalties and lack of trust abounds, Kobalt technology redresses the argument to prove that digital music does in fact generate revenue for artists and many artists are receiving an uplift of 140% from Spotify, 30% on iTunes and 10-12% on publishing income compared to those signed with traditional publishing companies (Canadian Music Week, 2015)

Kobalt also offers record labels services to artists looking for an alternative for their next release, they own AMRA (American Mechanical Rights Agency) which is a first of its kind global rights collection agency for artists and publishers in all territories excluding the US. Plus they are number one neighbouring rights administrator in the world collecting remuneration from public performance of sound recordings for the performing artists and the owners of master recordings (Kobalt, 2017).

As the industry continues to shift, they will constantly seek out ways to maximise the rights for their clients and we should expect more products and services to be added to their portfolio of services.

Pricing strategy

Generally details about any music recording, publishing or licensing deal including royalty rates and fees are not in the public domain and are protected by non disclosure agreements. Rates do vary by contract, artist and project and therefore most labels and publishers would need to consider the elasticity of their rates and other money to ensure they have sufficient assets and cash flow.

As part of the marketing 4 Ps including promotion, place, product (or service), price is the element that requires strategic consideration. Firstly, by estimating the demand curve for Kobalt, we can make assumptions about the impact of the number of client accounts acquired per period of time and their average revenue they would generate for the company. As this is not a fixed price or percentage rate, Kobalt has the flexibility to reduce their 15% to higher calibre artists due to the high revenues they would bring in, while most of their roster remain on the 85/15% artist to Kobalt split (Shaw, 2017). In the case of the rate staying the same, there are factors that can influence the demand curve if the price or rate remained consistent and therefore the quantity of new sign-ups include:

- Customer preference
- Prices (rates) of complementary goods ie other Kobalt services or substitution goods such as new players in the market ie NME and Amuse
- State of personal or marketplace economy - reports of uplift for artist income from the service will most likely improve retention, create advocacy and drive word of mouth for other artists to also join Kobalt. Also digital music revenues have increased in the marketplace driving artists to get more involved..
- Increase in potential buyers, who are attracted to the value proposition can increase demand

- And expected price increase could drive demand for those who wish to lock in the lower rate/price

Given that price or rates vary by customer at any given period, looking at the price elasticity of demand helps us to know how the demand responds to a change in price. This can be calculated using the formula:

$$\frac{\text{Proportionate (or percentage) change in quantity demanded}}{\text{Proportionate (or percentage change in price)}} \quad (\text{Eq 1.})$$

The final figure will give us the figure to determine whether a change in price will affect revenue. Where a value greater than 1 will have elastic demand and an increase in price will result in a decrease in revenue and a decrease in price will result in an increase in revenue.

A value less than 1 will have elastic demand meaning an increase in price will result in an increase in revenue and a decrease in price, a decrease in revenue.

A value of 0 will give perfect inelasticity as the quantity would not be affected by the price.

A value of 1 is unitary elasticity an increase or decrease will not change revenue. (Miao, 2017)

Pricing objectives would then need to be evaluated against the business and marketing plan before applying a pricing method. In the case of Kobalt, it is most likely that their pricing objective is to maximise quantity and revenue generation and apply psychological pricing to stimulate growth in a volatile marketplace and deliver proof of concept to attract investors to expand the business globally (NetMBA, 2010).

Major short term financing

Current liabilities are the short term finance arrangements that will be paid up within the next 12 months from the date of the balance sheet. Even when a company is using short term finance, they should have a measure of liquidity to pay all the finance on demand if it is requested by the creditor. Short term finance instruments include, loans, overdrafts, and trade credit are all subject to be called in with little notice.

Kobalt Music Group's balance sheet for 2016 can be used to determine the liquidity ratios for the business during the fiscal years of 2014, 2015 and 2016.

KOBALT MUSIC GROUP LIMITED**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****As at 30 June 2016**

	Note	2016 \$'000	2015 Restated \$'000	As at 1 July 2014 \$'000
Non-current assets				
Goodwill	11	2,500	3,878	1,668
Other intangible assets	12	5,300	4,467	3,687
Property, plant and equipment	13	2,425	2,182	1,997
Investments	15	4,275	5,020	3,803
		14,500	15,547	11,155
Current assets				
Trade and other receivables	16	127,681	96,899	86,646
Cash and bank balances		35,146	46,251	20,532
Deferred tax assets	19	945	1,110	1,226
		163,772	144,260	108,404
Total assets		178,272	159,807	119,559
Current liabilities				
Trade and other payables	17	(7,083)	(5,856)	(3,981)
Current tax liabilities	17	(2,074)	(1,308)	(643)
Borrowings	18	(17,550)		
Accruals	17	(144,166)	(115,131)	(94,334)
Deferred revenue	17	(8,996)	(12,068)	(17,469)
		(179,869)	(134,363)	(116,427)
Net current assets/(liabilities)		(16,097)	9,897	(8,023)
Net assets/(liabilities)		(1,597)	25,444	3,132
Equity				
Share capital	22	783	778	631
Share premium account	23	104,407	103,045	61,927
Retranslation reserves	24	(9,142)	1,387	(2,249)
Share option reserve		8,348	6,715	2,305
Retained earnings		(105,993)	(86,481)	(59,482)
Total equity		(1,597)	25,444	3,132

Figure 3. Kobalt Music Group Consolidated Accounts for Year Ending 30 June 2016 (Companies House, 2017)

Kobalt's current liabilities consist of:

- Trade and other receivables
- Tax to be paid within 12 months
- Short-term borrowings from a draw-down facility
- Accruals for money earned but not yet recorded
- Deferred revenue for payments received in advance prior to delivery of goods

Total current liabilities increased by 15% between 2014 and 2015 and then 34% between 2015 and 2016. This is primarily due to the short-term borrowings of \$17.5m which were

repaid within one month of the year end. Also current tax liabilities have almost doubled every year for the past 2 reported years.

Based on the notes in the report - figure 2, note 17 covers trade and other payables which are contractual obligations. There is an amount of \$0.52m which will be settled within 6 months of the statement and therefore are not recognised.

17. TRADE AND OTHER PAYABLES

As at the 30th June 2016 the Group has contractual obligations to make future advances which are either of an unconditional nature (with a known timing and amount) or conditional on a future event. Unconditional obligations are all due by 31 December 2017 and for a total of \$0.52 million and have not been recognised.

The directors consider that the carrying amount of trade and other payables is approximately equal to their fair value.

	2016	2015	2014
		Restated	Restated
	\$'000	\$'000	\$'000
Trade creditors	949	1,300	1,373
Social security and other taxes	2,074	1,308	643
Accruals	144,166	115,131	94,334
Deferred revenue	8,996	12,068	17,469
Other creditors	6,134	4,556	2,608
Total trade and other payables	162,319	134,363	116,427

Figure 4. Kobalt Music Group Consolidated Accounts for Year Ending 30 June 2016: Accounting Note 17 (Companies House, 2017)

Note 18 states that the borrowings is a short term loan in addition to a short term loan facility of up to \$20m with an interest rate of 5% above Libor. A draw-down of \$17.5m was used and paid back within one month of year end.

18. LOANS AND BORROWING

The book value and fair value of loans and borrowings are as follows:

	2016 \$'000	2015 \$'000	2014 \$'000
Secured borrowing at amortised cost			
Bank loans	17,550	-	-
Total borrowings	17,550	-	-
Amount due for settlement within 12 months	17,550	-	-

All borrowings are in US dollars.

The other principal features of the Group's borrowings are as follows:

The Group has one short term bank loan facility, to the value of \$20m. The loan carries an interest rate of 5% above LIBOR. The loan is secured by a charge over certain Group assets. At year end 30th June 2016 the Group had a draw-down of \$17.5m on this facility. This was repaid within one month of year end.

Figure 5. Kobalt Music Group Consolidated Accounts for Year Ending 30 June 2016: Accounting Note 18 (Companies House, 2017)

Liquidity ratios provide a measure of how a company's capability to pay back short term liabilities with current assets. As a measure of a company's health, a number greater than one is positive and any number less than one indicates that the company may not be able to meet its obligations if it needed to liquidate.

Three different formulae were used to using different figures which could be used to settle liabilities: liquidity ratio, quick ratio and cash ratio.

Liquidity ratio = Current Assets / Current Liabilities (Eq 1.)

Quick ratio = (Current Assets - Inventory) / Current Liabilities (Eq 2.)

Cash ratio = Cash / Current Liabilities (Eq 3.)

KOBALT LIQUIDITY RATIOS	2016	2015	2014
Liquidity Ratio	0.91	1.07	0.93
Quick Ratio*	-	-	-
Cash Ratio	0.2	0.34	0.18

Table 1. Liquidity ratios for Kobalt 2014-2016 (Companies House, 2017)

* As Kobalt's business is in intangible goods and services, there is no inventory and therefore quick ratios could not be calculated.

This table shows that only in 2015 would the liquidation of Kobalt's current assets could cover 100% of the company's current liability commitments. If the company needed to liquidate assets in 2014 and 2016, current assets would be able to meet all of the current liability obligations. Therefore the perceived health of the company would be considered just below adequate. The cash flow statement may contain information of income that is due but not yet recorded. As the company's cash reserves levels are significantly low it is insufficient to settle any short term financing commitments.

Keeping low cash reserves is potentially beneficial for global companies due to fluctuating currency values, inflation and devaluation. A high cash and inventory ratio can make a company sluggish and lose efficiency. Cash does not earn income and needs to be invested so that it can generate revenue for shareholders. (Jiao, 2017)

Competitor Liquidity ratios 2016 only	Sony ATV UK	Universal Music Publishing	Warner Chappell UK
Liquidity Ratio	1.08	1.02	1.26
Quick Ratio	-	-	-
Cash Ratio	0.2	-	0.004

Table 2. Kobalt Competitor Liquidity Ratio Comparison (Companies House, 2017)

Based on the the formulae, all of Kobalt's competitors have sufficient current assets to cover any current liabilities if required. (See Appendix A for calculations) As they are also digital rights management companies representing intangible intellectual property, they also did not have inventory so the quick ratio could not be calculated. Interestingly, all companies hold little to no cash reserves within their organisation. This may be due these companies being subsidiaries in a large company group and therefore significant cash reserves are not required for day to day operations.

However, despite not having physical inventory for speedy liquidation, intellectual property rights are an asset class which could be liquidated.

Current structure of long term financing

Referring back to Figure 3, there are no non-current liabilities on the balance sheet. The same applied for Universal Music Publishing, Sony ATV & Warner Chappell.

Long term financing instruments can include:

- Loans
- Equity financing

- Corporate bonds
- Deferred tax
- Lease agreements
- Pension liabilities

Another measure of health of a company is to look at the debt to equity ratio. The following formulae helps to assess the gearing or leverage a company has:

Debt to Equity Ratio = Total Debt / Total Equity (Eq 4.)

Most commonly used ratio to calculate leverage

Debt to Capital Ratio = Total Debt / (Total Equity + Total Debt) (Eq 5.)

Calculates the fraction of the firm financed by the debt in relation to equity.

(Miao, 2017)

If the ratio is too high, the company is relying on debt to operate and puts the company at risk of bankruptcy especially if it is unable to meet the loan repayment commitments. Shrinking or inconsistent income or cash flow problems could also affect working capital management. Since the financial crash of 2008, lending institutions are cautious against over-gearing companies with too much debt.

A low debt to equity ratio may signal a company is thriving and growing. Long-term debt in itself can be advantageous as an injection of capital into business, but it should be monitored carefully to manage it's health (Investopedia, 2017).

In Kobalt's case, they have secured equity financing to grow their business and have raised \$805 million since 2008, and given that investors rarely see long term debt as a benefit as income is being used to service the debt, it is understandable why it has not been used by this company (Techcrunch, 2017; Crunchbase, 2017)

Recent major financing and investment activities

Kobalt typically uses equity financing to develop and grow its business strategy. Equity finance can come from many sources including angel investors, venture capitalists, corporate investment and retained earnings. Finance is raised by exchanging stocks and shares in the venture for money (Entrepreneur, 2017). Angel investors and venture capitalists usually opt for preference shares due to upsides such as they are fixed rate dividends annually, first in the queue to receive payouts (before ordinary shareholders). For companies dividends are not tax deductible and the cost of capital is high, but the advantage is that profits are significant and financing gearing can be treated as debt.

According to Owler.com (2017) Kobalt has raised \$289 million from venture capital funding since 2014. Last year alone, the company raised \$89 million.

Kobalt Funding

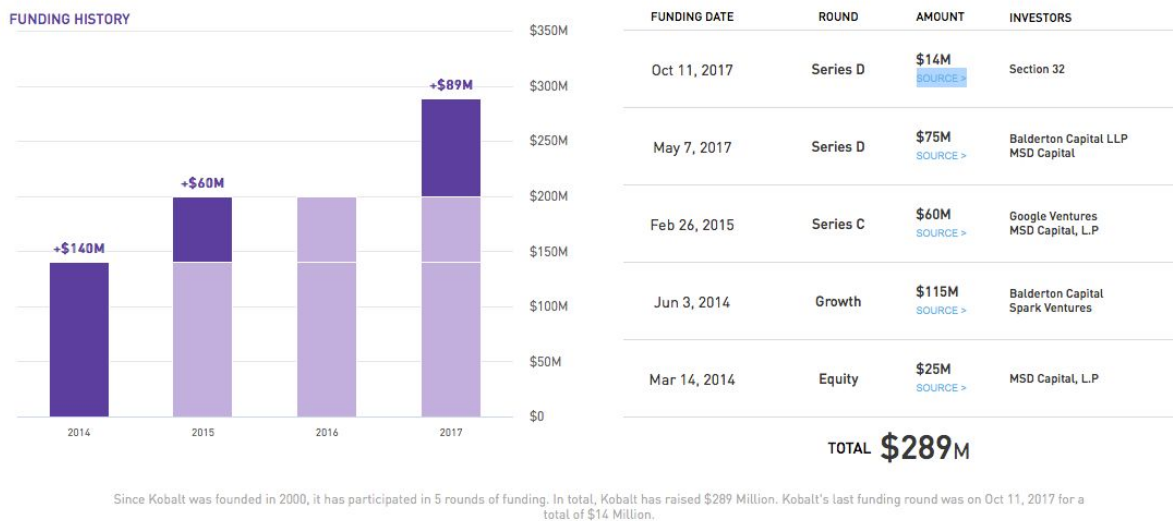


Figure 6. Kobalt Venture Capital Funding (Owler, 2017)

In May 2017, the first investment of the year was led by Hearst Entertainment with contributions from Balderton and MSD who have invested in Kobalt previously. The funding round D of \$75m with the Kobalt's valuation set to \$775m. The investment will be used for continued growth to add artists and labels to the platform and cover more streaming sources. The investment can be seen as a partnership not only financially but also in terms of Hearst's own route into content and transmedia opportunities and music is a high interest area for the organisation (Techcrunch, 2017).

This was followed by an investment of \$14m of growth capital in October 2017 from VC firm Section 32, whose CEO Bill Maris was formerly head of Google Ventures and while there, invested in Kobalt in 2015. Maris joined the board and brings significant expertise both in investment and technology development. Kobalt's valuation increased to \$779m as a result of the fund injection (ibid).

Pros and cons of alternative financing with respect to the company

From Table 1, the liquidity calculations showed that Kobalt's risk increased slightly has their current assets to current liability ratio dropped. It is highly important for the company to consider their balance between liquidity and profitability.

Looking at the advantages and disadvantages of alternative financing for the company:

Working Capital Management

Day to day operating capital is essential to the functionality of any company. Investment can come in the form of a short term loan, yet a company can chose to adopt different levels of risk. Aggressive working capital policies are high risk with lower levels investment yet can deliver profits. Conservative policies have lower risk as well as more investment with a focus

on liquidity. As Kobalt generated a loss of \$19m (Companies House, 2017) yet acquired investment of \$89m for the year, a conservative policy appears to be at play.

Kobalt's policies would need to take into account the nature of the business as an intermediary relying on incomes from third parties to pay their clients, credit policy which will most likely impact their vendor relationships, seasonal factors which generally peak at Christmas and then are mostly level throughout the year. The company is not involved in manufacturing so there are no supplier arrangements with regards to trade credit.

Short term finance - overdraft, trade credit, loans

The advantage is access to capital to run the business, however the downsides include the costs to service the loan i.e. interest, the risk of defaulting and affecting the company's credit rate and additional loan costs in the form of administration charges. Essentially the loan is paid by a third party and they could recall the loan at any time. Short term finance is cheaper yet riskier than long term finance.

Cash management

Ideal for managing short term cash inflows and outflows, it is beneficial to hold cash for unexpected demands or for speculative investments. A disadvantage of cash is the opportunity cost incurred, yet it can help with situations of overtrading, and cash shortages can be stemmed by finding new cash courses and restricting expenditure.

Cash can be invested in short-term instruments such as term deposits, treasury bills, dated gilts, bank certificates of deposit and local authority bonds subject to factors such as yield, appetite for risk, maturity of asset and capital to invest.

Lean business and Kobalt

The Lean Method is an adaptation from the Just in Time methodologies created by Toyota in the 1960s and 1970s to reduce flow times between suppliers, manufacturers and end consumers (Economist, 2009)

The Lean Method has been popularised in more recent times by entrepreneurs who wished to reduce wastage of ideas and time and fail faster to reach the workable and sustainable business idea.

From this premise, the Lean Method devised by Steve Blank in 2005, has a more customer-centric approach, where it focuses on identifying a common problem for a select group of people and then implement solutions with feedback loops to develop the best outcome for all (Dahle, 2015).

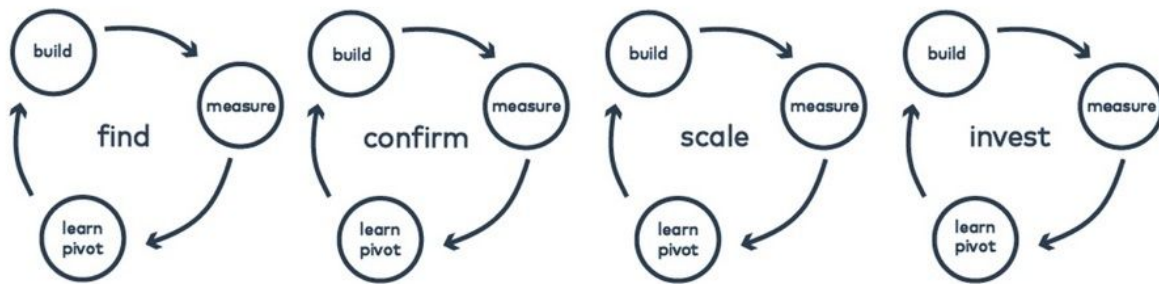


Figure 7. The Customer Development Flow (Dahle, 2015)

A process of test, learn, pivot, scale or abandon has crept into the regular working practices of the digital world in terms of digital marketing and technology development and more typically start ups.

Brief a summary of the Lean Method:

Find - seek the community or company with a problem to solve. However, it all starts with ensuring that the problem is the core issue to avoid wasting time trying to solve superficial issues.

Confirm - the problem has now been identified, so now it's time to make a MVP - a minimum viable product. It will not be perfect, but it's a workable solution to put in the hands of your community/company. It is a solution to try to solve their problem. The feedback from this early adopter group will help to collaboratively build the solution. It is possible that going back to the find stage may be required to re-establish the problem again - this is all to ensure the customer's issue is at the heart for the process.

Scale - the testing phase is expanded to a wider community set. There will be iterations of test, feedback, modify and test and until the MVP becomes the product

Invest - at this point, there is a validated product or service that has received social proof that it will work and there is a demand in the marketplace. This is the optimal time to put all the business systems in place legal, marketing, infrastructure and otherwise to go to market. (Baird, 2017)

It is well documented that the Kobalt's CEO Willard Ahdriz was inspired to build his platform through his own frustrations of payment flows in the industry from performing rights organisations and other labels as a musician and former label owner. He states in a YouTube video interview at Midem (2013) that the Kobalt data is used to strategise the business. One can assume that Ahdriz adopts some if not all of the lean approach, because of the mandates within the company to partner with artists and labels and deliver services to them that grow their careers and business via feedback.

The challenge with the Lean Method is the time spent validating the product and service before investing in the proof of concept. Most technology companies launch with a buggy product and fix along with way often enlisting their users to participate in the fix process. The Lean Method may not be a great fit for a micro business due to lack of resources, time for

iterations and managing the process for build-measure-learn pivot cycle and is most likely ideal for SMEs or larger. Also in the iteration process there is potential for wastage before going to market and consideration needs to be made on how to minimise this.

Conclusion

Kobalt is a dynamic and innovative company making fresh strides and creating waves among its competitors. They are flexible and nimble enough to make moves that would truly help them with a grow. From a pricing macroeconomic perspective, they sit in a potentially turbulent market condition which do not appear to negatively affect their brand or their financial position. As demand grows for their services in the industry, it would be interesting to see or hear how their rate (or price) holds up particularly if they stop aggressively pursuing equity financing as they did in 2017.

As they are focussed on growth, it appears profitability is not a top priority right now, therefore it is important for them to keep an eye on their liquidity ratio and shore up any shortcomings with minimal risk to capital loss, short term finance such as an overdraft or a short term bank loan facility.

Overall, Kobalt's liquidity is satisfactory and it has no gearing which is advantageous for them in terms of attracting investors. It would be interesting to review their financial statement when they change their focus profitability over liquidity.

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Appendix A

Kobalt Competitor Liquidity Ratio Working Calculations

Competitor Liquidity ratios 2016 only	Sony ATV UK	Universal Music Publishing	Warner Chappell UK
Liquidity Ratio	52,628,000/48,649,000=1.08	431,162,000/421,666,000=1.02	57,675,609/45,603,295=1.26
Quick Ratio	-	-	-
Cash Ratio	10,041,000/48,649,000=0.2	-	179,765/45,603,295=0.004