

To: Dr. Will Cunningham  
From: Hew Kneeland  
Subject: Spotify Research Report  
Date: November 7, 2021

## **Introduction:**

### *Executive Summary*

This report will cover the origins and direction of the music streaming service Spotify. It will cover the purpose for Spotify's founding, the strategies for growth in the company, what competition the company faces, future outlooks, and recommendations as a party interested in the music industry moving forward.

### *Problem Statement*

Dr. Will Cunningham, a business writing professor, has requested that his students compile detailed information on a company that interests them, so his students may develop their report writing skills.

### *Purpose Statement*

To communicate the history and current viability of the music streaming service Spotify, while also proving my report writing capabilities and drawing conclusions about future interests in the music industry.

## **Methods:**

- Several online resources were referenced for this summary using basic google searches.
- A case study was referenced during research. This Case study was used to dig into the internal and external strategies of the company, as well as its financial history.
- All sources are listed in the bibliography located in the works cited page.

## **Summary Results:**

### *Brief History*

Music theft and piracy costs the U.S. Economy billions every year. It is estimated that in 2020 \$12.5 billion in output was lost along with approximately 71,000 jobs due to music theft. [Garza, Diana R.] As a response to this issue, Spotify was founded in 2006 by Daniel Ek and Martin Lorentzon. Ek and Lorentzon set out to combat music piracy saying "The only way to solve the problem was to create a service that was better than piracy and at the same time compensates the music industry." Since its conception, Spotify has grown to provide 172 million premium subscribers with music streaming services. [Statista] Spotify is a platform for top artists around the world such as Justin Bieber (66.06 million monthly listeners), Billie Eilish (60.67 million monthly listeners, and Ed Sheeran (60.51 million monthly listeners). [Statista]. Spotify deviated from the existing pay per download service offered by platforms such as Apple's iTunes Store to allow users access to any song for just a monthly rate. Other companies have followed suit and have

begun to offer very similar services. While Spotify has outperformed its rivals to date, many investors wonder how long this success will last, and when competitors will catch up.

### *Roadblocks and Industry Pushback*

Spotify compensates artists by paying royalties based on the number of streams. Several artists have spoken out against Spotify saying the royalty payouts were unfair compensation. Taylor Swift pulled her music from Spotify, calling the company out for unfair compensation and calling the platform an “experiment.” [Garza, Diana R.]. She eventually rejoined the platform three years later. Jay Z, hip hop artist, also claimed unfair compensation and started his own platform called Tidal, which became one of Spotify’s main competitors. Other platform such as Apple Music have been able to get exclusive deals with artists who have made the same claims and are wary of Spotify’s business model.

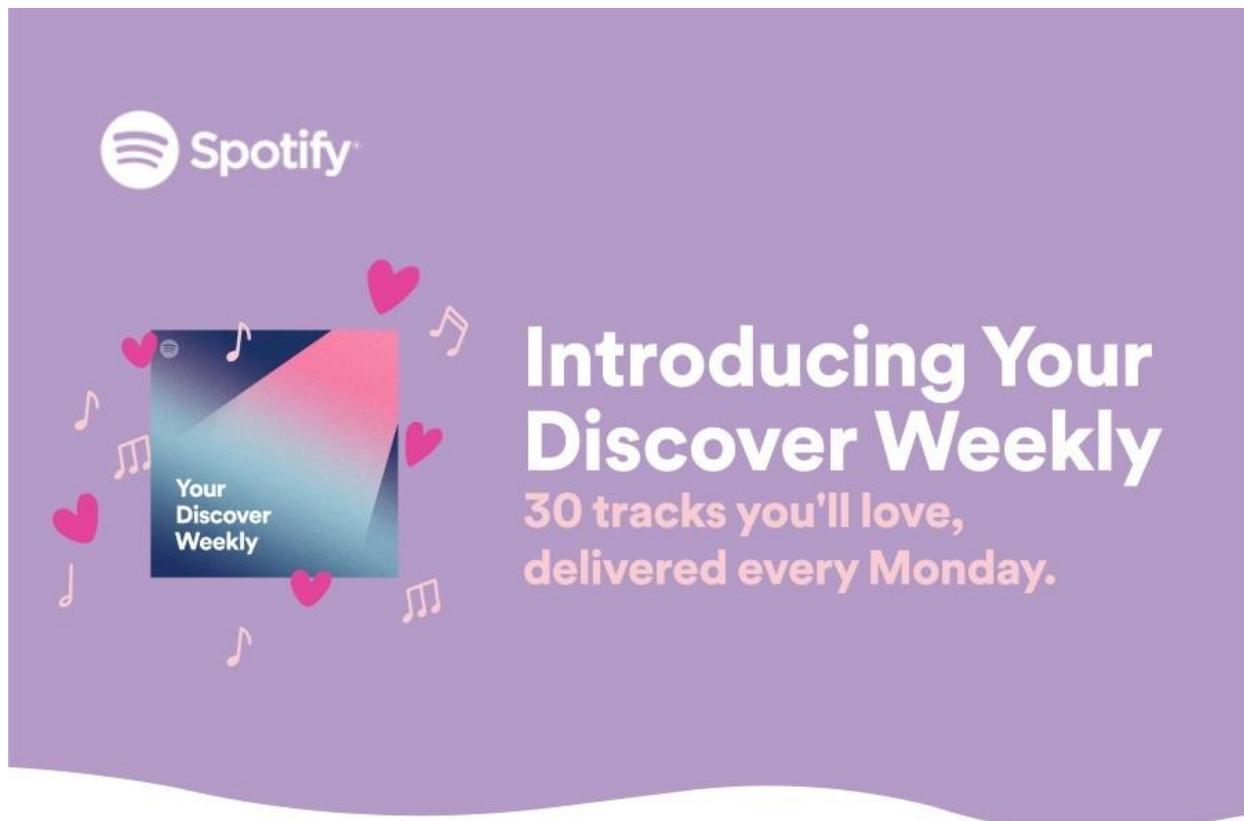
### *Growth and Strategy*

Spotify uses several strategies that have built their success today. They use a tiered subscription plan, strong data collection capabilities, a customized user experience, strategic partnerships, and an acquisition-based growth plan.

At first, Spotify had two tiers: a free with ads option, and ad-free an \$10 a month premium option. Their strategy being, as customers used their platform with the free option, they would eventually shift to the paid. This allowed for users to try the platform before committing to the service. Following the rise of mobile device owners, Spotify started to offer a slightly more expensive “family plan” to allow for more devices. Spotify also incorporates a market penetration strategy by offering six-month free premium access to new users. Like the free with ads offering, the promotion is meant to get customers using the Spotify platform, and eventually convert them into paid subscribers. In 2014, the first year their tiered subscription option was offered, Spotify was able to convert 10 million of their 40 million subscribers to the premium option. [Garza, Diana R.].

One of Spotify’s greatest assets is its AI software that collects data from Spotify’s users. The software collects what songs they listen to, the artists that they follow, how often a song or artist is played, and other user activity on the platform. The experience that their software creates has differentiated Spotify from many of its competitors thus also increasing the switching costs for their subscribers. Their software and analytics efforts were bolstered by several acquisitions between 2014-2016.

Analytics helps create one of Spotify’s biggest strengths, the customized user experience. This customized experience includes suggested artists, personalized mixes, personal playlists, and social sharing. Subscribers can view their friends’ playlists, listen to a tailored mix, or see what their favorite artist is listening to. Using algorithms and machine learning, the platform creates specialized playlists to fit the palette of the user and introduce new songs they might enjoy. For Example, the “Discover Weekly” playlist offers new songs in similar genres to what the user enjoys.



The new songs are mixed in with familiar favorites of the user. Spotify has also created what are called “Daily Mixes.” They are also unique to each customer and are a mix of familiar and new songs separated by genre. Analytics has created other opportunities for growth outside of the streaming service. Spotify uses data to target their advertisements and optimize reach. User listening data informs advertising decisions by showing the geographic preferences of their customers.

Spotify has partnered with several other companies over the years to grow and increase brand awareness. From 2014 to 2017, Spotify partnered with Uber to allow riders to stream their music to the car speakers by connecting Spotify with their uber app. They had a similar deal with PlayStation, where the Spotify account could be linked to PlayStation consoles. In 2015, Spotify partnered with Starbucks, encouraging employees to create their own Spotify playlists. In 2017, Spotify partnered with South by Southwest. Customers of SXSW were able to listen to curated playlists from the Spotify platform. Later that year, a partnership like PlayStation began with Microsoft. Xbox consoles could be linked to the Spotify app. All these partnerships further integrated the music streaming platform into the daily lives of users and nonusers alike. More recent partnerships have taken on a slightly different exposure strategy. In 2018, Spotify began a promotional bundle with Hulu, a TV streaming platform. For \$12.99 a month, customers get access to a premium subscription of both Hulu and Spotify. Leveraging the same partnership, Hulu looked to grow their student market by offering a Spotify, Hulu, and Showtime bundle for \$4.99. In a similar fashion, Spotify began to use their existing partnerships to offer promotional and trial options for the streaming platform. For example, Samsung provided new phone buyers with Spotify for six months, preinstalling the Spotify app to each device. Each of these strategies fit well into Spotify’s methodology, creating opportunities for users to get hooked by the unique

options Spotify has to offer. Their partnerships have allowed widespread exposure to an array of markets.

Much of what has allowed Spotify to differentiate from their competitors is their analytics capabilities spearheaded by the acquisition of unique software. Echo Nest, Seed Scientific, CrowdAlbum, Cord Project, Soundwave, and Sonalytic. were each acquired to build Spotify's analytic prowess. More recent acquisitions were made to expand Spotify's licensing portfolio of podcasts. Spotify acquired Gimlet Media, Anchor FM Inc., Parcast, and The Ringer to secure a foothold in the growing podcast market.

### *Rise of Competitors*

Spotify has several large competitors, all of which have either a strong niche or extensive resources.

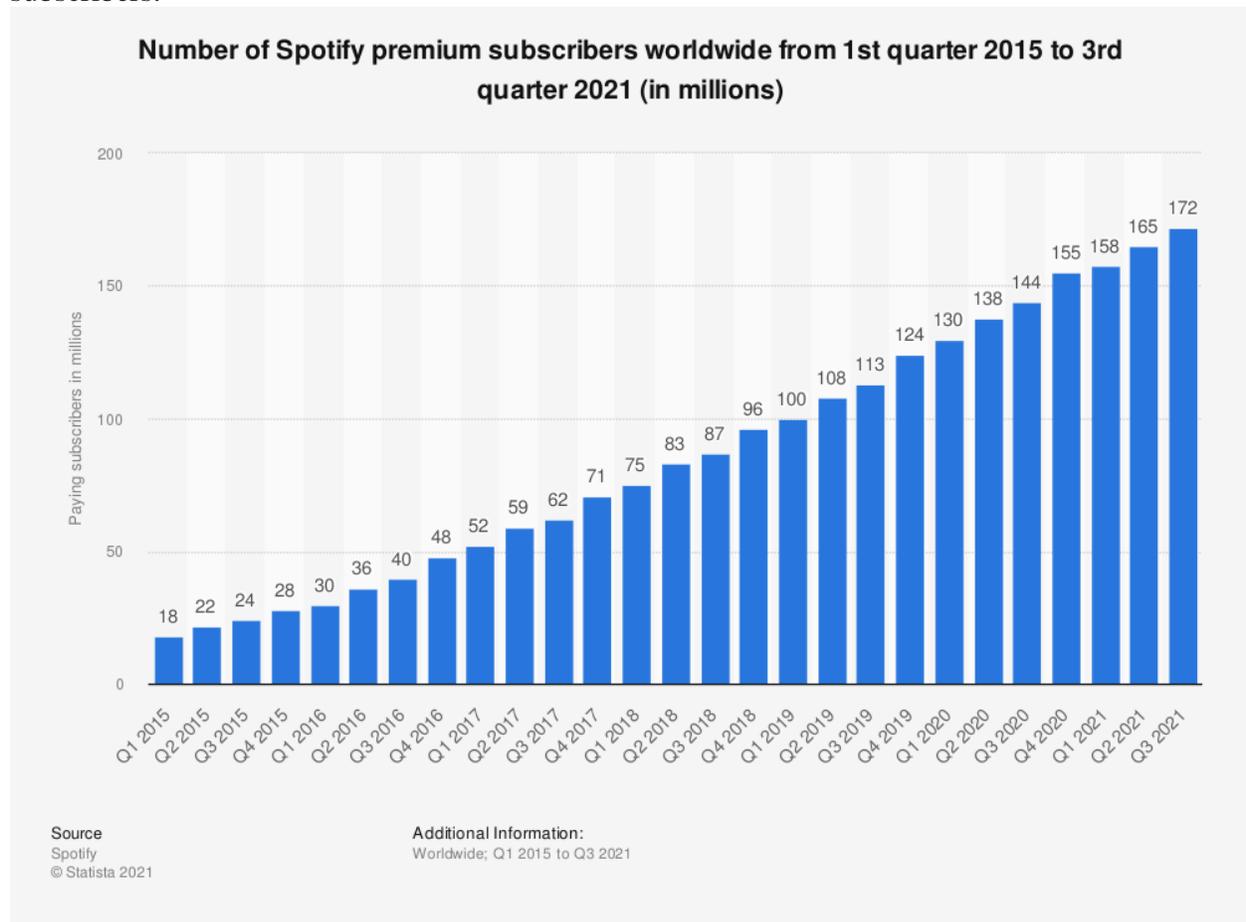
- Apple Music has the largest licensed song library out of any streaming platform and has earned many exclusive deals because it does not offer a free streaming option. Apple music is already integrated with the full apple ecosystem and has become Spotify's largest competitor.
- Amazon Prime Music also has a large library of music and is connected to the Amazon Prime membership. Full access to Amazon's music library is only available through an "Unlimited" membership. Amazon has a unique advantage because of its wealth of consumer data and analytics.
- Pandora is a music and podcast discovery platform with over 70 million users. Only a small percent are premium subscribers as most opt for the ad supported service.
- Tidal was formed by Jay Z following pushback against Spotify for what he perceived as unfair compensation for his music. Tidal has the unique feature of full audio quality. Tidal has a vast library of videos including, music videos, behind the scenes, and live experiences. They also offer ticket presales and giveaways through their platform.
- YouTube Music leverages its billions of viewers to offer music streaming options.

### **Spotify's Future and Recommendations:**

#### *Future Outlook*

Spotify has revolutionized the music industry by providing a different way to consume music media. Their innovation has differentiated the platform, and their user tailored content has earned much customer loyalty. Spotify has more than doubled their growth in the past four years, going from 71 million premium subscribers at the end of 2017 to the currently 172 million premium

subscribers.



Despite this astronomic growth, the company is practically unprofitable, working at a loss up until 2019. This is due to their bold acquisition growth strategy and high amount of overhead expenses paid in royalties and licensing deals. A lack of profitability does not bode well for investors and calls into question the long-term viability of Spotify as a company.

Overall, Spotify has strong brand equity as well as fortified assets and capabilities. Their mix of differentiation and promotional strategies has skyrocketed growth over the past several years. It is difficult to discern what will happen over the next decade as competitors improve their own music streaming services, and Spotify fights to remain profitable against overhead costs.

### *Recommendations*

Spotify is a key player in the audio streaming landscape. I would not seek a job with this company, but I could see myself doing some sort of marketing for a record label or artist. If I were to distribute music media or podcast material, I would use the platform. Spotify provides a ton of exposure, and it creates a positive experience for its customers that I would want associated with a podcast show or music artist. While long term viability is hazy, Spotify's current reputation is enough for me to trust the short-term rewards of being on the platform.

## Works Cited

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