



Spotify Analysis

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Spotify is a music streaming platform that was founded in 2006 in Sweden by Daniel Ek and Martin Lorentzon with the goal of providing music to everyone. They worked with a Swedish developer experienced with peer-to-peer framework with the intent of connecting the music listener directly to the labels. Due to the nature of that relationship there is a need to negotiate with music labels for launch on a country-to-country basis, starting with their initial launch in Sweden in 2008. They are currently available in 57 countries with a limited launch currently underway in Canada and the Phillipines. The basic service offered by Spotify is the ability for users to create custom playlists that can be played through any internet connection. Spotify has two distinct product offerings, Spotify and Spotify Premium. Spotify Premium members pay a monthly subscription fee but have access to their playlists offline on multiple devices, thus having all the perks of owning the music while just paying \$120 a year. Beyond that, Spotify is known for their social media interaction – users can interact with their friends and share playlists, and users can also follow the playlists of their favorite artists. Songs can be found by title, artist, or cd name, and various apps are available to enhance the service, such as radio streaming.

Sean Parker, founder of Napster, invested \$15M in Spotify through the venture capital firm the Founder's Fund, and provided invaluable services with assistance in creating deals with music labels and with Facebook (Seufer, pg 23). A year after their initial launch Spotify had 6.5 million registered users, but as of May 2014 they now have 10 million paid subscribers and an additional 30 million registered users and they were valued at \$4 billion in November of 2013 (Brustein, 2014) and \$5 billion by May of 2014 (Kiendl, 2014). The contracts with music labels are structured so that 70% of all revenue Spotify earns goes directly to royalties, with a Spotify Artists page available on their website for full transparency of how this is calculated and all that Spotify does to protect the artists. The artists page also provides data and statistics about the benefits music streaming has had to the industry. Spotify links to research that proves 55% of 18-29 year olds pirate less when offered a free and legal alternative, that

between 2009 and 2011 in Sweden (the launch of Spotify) the number of people who pirated music dropped by 25%, and that in Norway, which has the highest digital revenues per capita, from 2008 to 2012 the number of pirated songs dropped from 1.2 billion to 210 million.

The Spotify brand identity revolves around the phrase “the right music for every moment” with the guiding principles of being easy, personal, and fun. The goal is to make sure that everyone can easily use Spotify, that they can personalize and find the music that they truly love, and have fun not only listening to their own playlists but discovering new music, connecting with their friends through social media, following their favorite artist, and many other services. Take for example their recent deal with Sprint – the only US phone company that Spotify entered into business with after holding discussion with all of the major brands. Ek, CEO of Spotify, stated that he was only looking for “genuine enthusiasm” and brands that were serious about music, not a company looking to profit. Ek embodies the fun yet dedicated to music spirit that Spotify wants to represent: he has guitars hanging in his office and instead of a desk he has chairs and couches, and he is a certified tour guide in Stockholm (Brustein, 2014).

SWOT Analysis

Strengths

Spotify has been working to grow and recreate the music industry since it was first launched in 2008. A lot of Spotify’s strengths revolve around the new industry standard it has created. From the beginning, Spotify has always been promoting itself as the music streaming option that helps the industry’s artists. Out of all the revenue Spotify earns at the end of the month, 70% of it goes back to the record labels and artists. Since Spotify pays these royalties, the artists and rights holders are willing to provide Spotify with its songs. While some artists are against their music being streamed for free and the generally low royalties they are paid out, especially since the royalties Spotify pays goes through the

record label before reaching the individual artist, Spotify is still known for being extremely transparent. They have an entire webpage dedicated to the artist, complete with details on how royalties are paid, how to promote their pages, and how Spotify is working to actually improve the music industry. They provide a direct connect between the artist and the listener, with the ability for artists to create their own playlists and sell their merchandise directly to their fans.

The major strength of Spotify though is the service itself. Spotify, upon its launch, filled a major gap in the market – no one else had offered fully customizable playlist creation before. They offer the same exact song catalogue, with some 20 million songs available, to all of its consumers, regardless of whether or not they subscribe, appealing to multiple target markets. Those who chose not to pay get the same great service as those with a Premium subscription – they just have advertisements. The revenue generated by advertisements is also split 30/70, so Spotify generates revenue with whichever option the consumer chooses. Premium offers the same songs, but in offline mode. The consumer can listen to their playlists even when not connected to the internet, giving a sense of total song ownership. This product split is a large strength for Spotify because it essentially gives consumers a “preview” of their Premium service for free.

Thanks to their relationship with Sean Parker and having an innovative leader in Daniel Ek, Spotify has taken full advantage of social media to enhance their brand and attract new customers. While Spotify launched in the United States in 2011, gaining access to a very large market, their joining with Facebook may have had an even larger impact and certainly spurred their growth. It was not until a few months after the launch in the States when Spotify partnered with Facebook in 2011 – and within the next year their user base doubled over the next year from 10 to 20 million users (Seufert, 2014). Spotify users can work through Facebook to share what they are listening to and send songs to their friends, and that is not the only powerhouse Spotify teams with. Spotify also utilizes apps to their advantage in attracting new customers while enhancing their product offering – for example last.fm has

an app available through Spotify and Rolling Stones creates playlists. Twitter has a Spotify app where they create playlists of songs that are trending on Twitter. They use social media not only to attract new customers, but to interact and provide a more personal experience with those already existing customers.

Weaknesses

Unfortunately, some of Spotify's strengths lead to some of their weaknesses. The free version of Spotify comes with many commercials that can often be repetitive, to include repeat advertisements on joining Spotify Premium. While advertisements are needed to generate revenue, there are other digital streaming companies that allow customers to listen to music for free with few or no commercials, such as Songza. Spotify wants their Premium user base to grow, but retaining customers in the free portion of their service is still crucial for maintaining revenues. With their large royalty payouts each month, it cannot afford to cut back on commercials and ads that interrupt its customer's listening. So if a customer is not sold on the value of Spotify, they are likely to move to another company that will satisfy their needs at a lower cost. Their major benefit of customizable playlists is also a weakness – all of their development goes towards this area, and they are behind their competitors with a recommendation option. They have no algorithm in place for recommending new songs and bands to listeners, so the user must discover new music on their own or through other sources. Spotify is the best in their field for customization, but through their lack of a comprehensive recommendation algorithm they are potentially driving their target market to use other services.

Spotify has to also deal with the potential alienation of the artists. While they are transparent with their royalty payouts and are extremely generous with the portion of their revenue that goes directly to said payments, the streaming industry itself is seen in a negative light by the very artist that they are trying to court. Streaming music is a relatively new industry and it cannot be denied that it is, at this point in time, taking revenue from the artist. Previously if a listener wanted a song, they would have

to pay to download it or download it illegally. While the artist was not paid for the illegal download, the paid download was a clear and precise number that they received and the artist knew how many people purchased their song. With Spotify and other streaming services songs are listened to substantially more, but the individual payout per song listened to is much smaller, and many artists in general are against this new trend in music listening. Spotify's attempts at transparency and communication, while much better than their competitors, still struggles to reach most artists.

Opportunities

Spotify has established a steady market niche for itself, but it still has lot of opportunities. Currently, Spotify is available in 57 countries world-wide. It has just started to expand rapidly in 2013, and it plans to continue that expansion this year. Not only is Spotify still growing in its current markets, but it will only see a continue rise in customers as it becomes available in new markets. Spotify is also working to convert its free package users to premium package users. As customers use the free package option, they know they are only getting a glimpse of everything Spotify has to offer. As users become loyal to Spotify, the idea of paying a monthly premium will not be an issue. Spotify has been working to end piracy of music. The opportunity to completely eliminate piracy is becoming more of a reality as consumers are turning to free music platforms. This is an opportunity for the entire music industry, not just Spotify.

Spotify has room to create an algorithm and enhance their recommendations for new music, currently they just have a fairly weak discovery tool. The more music they entice their users to listen to, the more loyal they will become and the more free users might be tempted to switch to Premium. Spotify also has some great opportunities with working directly with the artists. Through BandPage they are starting to sell merchandise directly to the listener, but this is definitely an area that that they need to work to expand in. This opportunity will benefit both the artist and the listener – the listener will feel

more connected to their favorite bands through this interaction and this will allow for the artists to earn more revenue.

Threats

Piracy of music may be on the decline, but it is still a major threat to the music industry. Even though there are free options available, they are not necessarily available everywhere around the world. Spotify and other companies in the music industry will be fighting this threat until every music user has other options besides illegally downloaded music. Spotify is also facing threats that others in the industry are not facing. The royalties that Spotify pays out each month is 70% of its total monthly revenue. There are many free options available to customers, and if Spotify does not make enough money through ads or monthly fees it may lose money. If Spotify is unable to get the number of customers they need to break-even, they may not be able to support its music database and it may not be able to provide its customers with the services they have come to expect. Another threat Spotify faces is the growth of one of its competitors, Beats Music. Beats Music offers the same type of service as Spotify, just not as well developed. This will be discussed more in-depth during our Five Forces Analysis, but with the purchase of Beats Music by Apple they could become more appealing to customers. There is also a possibility they could change the industry in the way Spotify has been striving to achieve.

Porter's Five Forces

Spotify stands on solid ground even in a saturated market with numerous competitors such as Pandora, Beats Music, Songza, and I Heart Radio, among numerous others. While Spotify does not have the algorithms used by their major competitor Pandora to provide playlists to customer based off of consumer preferences, they have an extremely large catalog and the ability for users to create custom playlists, a service that Pandora does not provide. Beats Music offers the music discovery recommendations that Spotify has limited experience in, but this puts them more towards competing

with the services provided by Pandora. Beats Music also has no free option – the user must immediately pay the \$10 monthly fee if they want to pay on a month by month basis, or roughly \$100 for a years subscription if they commit to a full year contract, whereas Spotify can entice new users with a free offering to try out the service after which users can seamlessly transfer their playlists into the subscription offering. The biggest concern faced by Spotify is the purchase of Beats Music by Apple. Apple can promote the service heavily to their already dedicated consumers and Apple could, much like WalMart did, use their market power to get lower royalty rates. It appears at this point that Apple is mostly interested in Beats Electronics, which pulls in over a billion in revenue on an annual basis, but Spotify still needs to closely follow the deal. We will discuss the industry rival first, as the current forces faced by Spotify will be changing in the near future as the acquisition by Apple of Beats Music is completed.

Industry Rivalry

Industry rivalry is a medium to high risk that has been increasing as Apple purchased Beats Music. Currently Beats Music only has around 250,000 paid subscribers and is only available in the US. Compare that with the 10 million paid subscribers for Spotify along with the additional 30 million free users and their status as a continually expanding global operation, and the risk appears quite low. But with Apple purchasing Beats for \$2.6 billion with plans to invest an additional \$400 million in the future, and suddenly the risk of industry rivalry is quite large and a formidable obstacle. While Spotify already has committed users, Apple is a global force with an extremely loyal customer base, not to mention the ability to add Beats Music to all of their applications and services, which could cut a large portion of Spotify's customers. Spotify is currently valued at \$5 billion, which is substantially more than the entirety of Beats, to include Music and Electronics, but both are measly in comparison with the net worth of Apple.

The competitive advantage that Spotify has in this situation is the fact that they have a free version that provides the same exact services and benefits, something which Beats Music does not. As Spotify has grown and expanded, the free service has always been substantially more popular with widespread use. Not to mention, it provides potential Premium users with the ability to preview the service for a long period of time before making the choice to buy – until recently there was no option to even preview Beats Music and now they just have a 14-day trial period (Breen, 2014). CEO Ek is also brushing off most concerns about the Apple acquisition, at least publically. An example provided by Ek is how both Google and Amazon tried to compete with Dropbox, but even facing two huge competitors with a wide user base did not have a negative impact – Dropbox still has 275 million users. Another example is how, in 2013, Apple launched iTunes Radio to directly compete with Pandora, but Pandora’s user base had grown by 4 million people 8 months after the launch. (Brustein, 2014). Spotify has also partnered with goliaths such as The Coca-Cola Company and received investments from Goldman Sachs, among others. (Kiendl, 2014)

Bargaining Power of Suppliers

The bargaining power of suppliers faced by Spotify is, at this point in their operation, quite low. There are a few artists that refuse to have their music available through streaming, but those decisions are usually made across the board and are not specific to one service, such as Spotify. Typically if an artist is against streaming their music, they do not allow it to be streamed by any provider. Beyond a large blackout such as that, Spotify holds considerable sway when in other discussion with artists. For example, Adele refused to have her album *21* available for free users of Spotify and requested that it only be available for Premium users. Spotify, who prides itself on offering the same large catalogue to all users, rejected this request. The album was not available to any level of user, only to become available to all users at a later date (Maloney, 2012). Spotify negotiates to enter each country individually, but so far has been successful in doing so and there does not appear to be any potential risk or denial of

entering a future market. Canada, which Spotify recently entered on an invitation only basis with plans to launch to all users in the near future, proved for difficult negotiations, but those were across all streaming services and not unique just to Spotify. In the case of Canada, negotiations were by the Copyright Board of Canada and not unique and individual record labels. (El Akaad, 2014)

That being said, this could transition into a major future risk for Spotify when Beats Music is fully acquired by Apple. In 2013, AC/DC and Bob Seger finally allowed for iTunes to sell their music, but still refused for their songs to be available for streaming and Led Zeppelin was searching for an exclusive deal that they found no offerors for. With the market power of Apple behind Beats Music, they could open negotiations for lucrative deals that Spotify would be unable to match. They could also most likely more easily enter into deals, leaving Spotify users to wait a few months before the same songs became available, or even if they became available at all. (Raymond 2013)

Threat of Substitutes

The threat of substitutes is currently quite low for Spotify. While substitutes are available, Spotify itself was created as a substitute to provide unique service for music listeners. The key difference between Spotify and said substitutes, such as radios, is that users can create their own customizable playlists and have unlimited access to over 20 million songs. To be honest, the largest substitute risk for Spotify is users staying with the free version instead of upgrading to Premium. Even then, though, there are advertisements plays on the free version to still generate revenue for Spotify, though their ultimate goal is to reach more paid subscribers.

Bargaining Power of Buyers

The bargaining power of buyers is low as this area is completely controlled by Spotify. They have the standard, free service provided to all users and offer the Premium service for those who wish to listen offline. The customer has the power to make their choice, but not necessarily the power to sway Spotify in any other way. If the free subscriber does not want to deal with advertisements, they can

choose to switch to Premium, but there is no free competitor who provides the same service for them to have any leverage in this area. Spotify has listened to their customers in the past for their preferences, and since their initial launch they have added various apps to meet consumer requests. They are continually adding new options, such as partnering with BandPage to offer artist merchandise available for purchase through Spotify.

Once again, though, the acquisition of Beats Music must be taken into consideration as a potential future influencer of the bargaining power of the buyers for Spotify. It is unsure how this will play out, but Spotify needs to conduct a thorough analysis of the potential influence and must be prepared to meet buyer requests in order to stay competitive. Beats Music has already offered a lower priced membership when users sign a year-long contract, about \$20 less than a full year of Spotify – but the user must commit to a year. If they choose to pay on a monthly basis the cost is still comparable with Spotify. Whether this means that they will offer less advertisements, discounted Premium subscriptions, or more services. In the future the bargaining power of the buyers could greatly increase in order for Spotify to stay competitive in the face of Apple.

Threat of New Entrants

The threat of new entrants is quite low. At this point, the music streaming market is quite saturated and the purchase of Beats Music by Apple will most likely discourage future entry into this arena. Spotify has a large subscription base and is available on a global basis, and now Beats Music has the power of Apple behind them and they offer an algorithm based recommendation service like Pandora does. New entrants would have to conduct a thorough analysis of the market for Blue Ocean methods to enter the music streaming market, or otherwise they will be unsuccessful or only able to gain a small corner of the market.

Industry

The prevalence of music piracy caused recorded music sales between 1999 to 2009, to decline by more than 50% (Goldman, 2010). The rapid decline has begun to level with the rise of streaming services such as Spotify, Pandora, iHeartRadio and other terrestrial radio alternatives. In 2013, physical music sales (CDs, vinyl, etc.) decreased by 12.3% (\$2.27 billion decline). However, digital sales grew by 7.6% (\$4.36 billion increase) (Pham, 2014). However, digital sales are not likely to bring the music industry back to pre-Napster levels, streaming services are predicted to stop the hemorrhaging of money the music industry has been experiencing. In 2013, revenue from streaming services accounted for 20% of all music industry revenue. In 2011, BusinessWeek referred to Spotify as "music's last best hope" (Greeley, 2011)

Streaming music is uniquely poised to generate additional revenue for the industry because of the connectedness of its users. On-demand music streamers are 96% more likely to follow a celebrity on a social network and 91% more likely to post links, articles, videos, or websites on social media. Spotify has leverage social sharing far better than Pandora by allowing users to collaborate on playlists and integrating share buttons within each song. In addition, the partnership with Facebook allows users to see what their friends are listening to in real-time and even listen with them. These socially connected individuals translate into spending as they are 90% more likely to spend money on music and 50% more likely to spend money on event tickets (The Nielson Company, 2014).

Spotify has received criticism for its lack of profitability, leaving investors and those within the industry concerned for its overall sustainability. The current streaming trajectory indicates that subscription services generate almost three times as much revenue as ad supported streaming. Currently only one fourth of Spotify's active users are paying subscribers. Apple recently purchased a streaming service, Beats Music which has no free plan. In order to be a sustainable business model,

other streaming services will have to convert more of their free users to paid users or find additional revenue streams to rival the subscription service (Holmes, 2014).

ERRC Grid

Now that an understanding of Spotify and an understanding of the steaming industry at large has been established, we applied the Four Actions Framework to the music industry as a whole so we could see how Spotify compares. We created an ERRC Grid with industry standards to isolate variables in order to more comprehensively analyze Spotify with a Five Forces analysis and make recommendations for Spotify moving forward. The ERRC for the industry is as follows:

Eliminate:	Raise:
<ol style="list-style-type: none"> 1. Limited number of skips 2. Need for internet access to use service 3. Listening hour limitations 	<ol style="list-style-type: none"> 1. Song sound quality 2. The catalogue of accessible music 3. Social network integration
Reduce:	Create:
<ol style="list-style-type: none"> 1. Advertisements 2. Undesirable or unwanted music 3. Buffering time for songs 	<ol style="list-style-type: none"> 1. Ability to generate playlists 2. On demand song choices 3. Ability to rewind, fast forward music

For the elimination portion of the grid, there are three main factors that have become the industry standard. First, there are only so many times you can skip a song while you listen to music. Once you use up the number of skips, depending on the streaming platform being used, you either end up listening to a long ad or no longer have the option to skip a song you might not like. Another factor that could be eliminated is the fact you need internet access in order to listen to music. If you are somewhere where you do not have service, you cannot listen to music. For example, if you are on an airplane and want to listen to during your flight, you will not be able to using streaming platforms. Finally, throughout the music industry there is a limitation on the number of hours you can listen to music on a streaming platform. Each company may place the limit on a different number of hours, but

the limitation is still there. Spotify does not limit the number of skips or provide a limitation for number of hours listened, and they have an offline option provided through their Premium subscription service.

For the reduction section of the grid, the industry requires a lot of advertisements when you are streaming music. This is because the majority of the industry allows a free streaming option and advertisements are necessary to make money. Most music streaming platforms are designed around pre-set playlists based upon genre or mood, or, like Pandora, are algorithm based and generate songs and playlists based off previous preferences. Both provide limited options to the user and will, at least on occasion if not more frequently, play undesirable or unwanted music. Combined with the limited number of skips already discussed, it becomes a sort of gamble for the average listener. Do you skip a song you are not interested in and risk getting “stuck” listening to a less desirable song later on? Or, with algorithm based services, will skipping this song change the complete sound of your established playlist if it is perceived as a change in preferences? There are also buffering periods for songs with many of the services. Even though this mostly due to slow internet speed it is still an area in which the industry can improve. Spotify provides an alternative to advertisements with their Premium service, though their free service faces the same negative aspects as the industry. While they have no undesirable or unwanted music, as the listener creates their own playlists, they have nothing in place for recommendations of new songs. They also have no buffering time with offline play and strong speed for online –their only limitation is internet speed.

The first aspect that the industry is seeking to raise is sound quality. The songs are streamed online, so to provide additional quality is to incur additional cost. The platforms are also designed to be played to a room at large and are not typically aimed towards headphone use where the musical nuances are more readily noticeable. While the providers available also have very diverse catalogues, they are often extremely similar or, in the case of both those who are algorithm and genre based, repeat songs as the playlists are limited in the number of songs that they hold. The industry also has room to

improve with social media networking, as the music integration into platforms such as Facebook and Twitter are lacking. Most platforms have apps available for song use that can interact with social media, but the interactions are limited and not a key focal point. Social media can be taken a step forward and should be used as a way to discover new songs, find what your friends are listening to, and should bring other industries into play. Spotify excels in this area as Twitter has a playlist on Spotify to play songs that are trending on Twitter, and other companies have created their own customized playlist for users to listen to. Spotify also has extremely strong sound quality as the music is provided offline and it is anticipated that consumers will use headphones and travel with their music. Spotify has over 20 million songs available in their catalogue, and there is no difference in the music that is available for the free users versus the Premium users.

The last section of the ERRC grid is the factors that should be created for a company to surpass the industry standard. Currently, the ability for a customer to create their own playlist is limited to just a few music streaming providers. Most are operated through pre-generated playlists based upon various factors, but are more along the lines of listening to a radio station in that songs are played randomly. This ties in with on demand song choices – most play songs randomly so if a listener is craving a particular song they cannot access it. Even selecting a playlist based off of a song does not guarantee it will be played, and the best way to listen to your favorite song is to pay to download it, but then it can only be played in playlists with other songs you had paid to own. Another creation that the industry should look into is the ability for users to rewind and fast forward song choices, much like one can with a song they purchase. If you want to get to your favorite part of a song or have a friend listen to something in particular, you currently cannot do that with any currently available platforms. You can click and drag to certain points in a song with Spotify, but there is no fast forward option. With Spotify you can create custom playlists but do not have the access to algorithm based recommendation playlists for when you are unsure of what you want to listen to or want to discover new music. Spotify has also

created a large library of songs, ranging from unknown up and coming artists to the top artists in the music industry. Users are able to start a song over again or skip to the next song, but they are unable to move forward or backwards to get to a specific section of a song.

Using the ERRC grid, it is easy to see where Spotify stands out and what it needs to focus on to become an even bigger player in the music streaming industry.

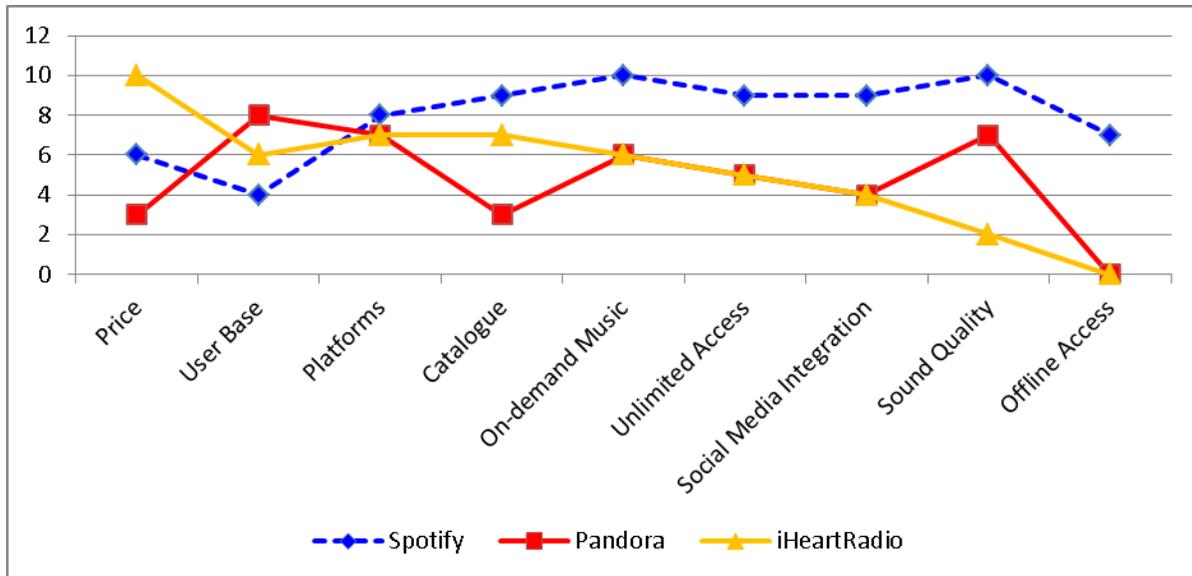
Spotify and the Blue Ocean

The music streaming service industry has only been around since the late 2000s, despite the fact that from a technological standpoint it can be considered a mature industry. From our point of view, these younger industries tend to focus initially on doing one thing very well before they seek out blue oceans in their market. As indicated below by the red dot, the music streaming industry fulfills this particular place in the Buyer Utility Map we have developed. The current red ocean for music streaming services are focused primarily on one thing: the simplicity of use. Companies that offer these types of services work hard to develop a product that is easy to operate, and they do not have to adjust to any learning curve to operate the software or applications. It's as easy as typing in an artist or finding a radio station, and pressing play. However, there are many companies that offer easy to use music streaming applications or devices. In less than a decade, the industry is beginning to become oversaturated with indistinguishable products apart from name. There are, however, blue oceans to expand to in the industry. We have identified potential blue oceans below, indicated by blue dots in the Buyer Utility Map. What if a company were to go beyond ease of use, and attempt to provide utility through convenience of delivery, convenience of use, and the fun and image associated with the use of their product?

	Purchase	Delivery	Use	Supp	Maint	Disposal
Customer Productivity						
Simplicity			●			
Convenience		●	●			
Risk						
Fun and Image			●			
Environmental Friendliness						

To offer a product that is conveniently delivered, we must consider the product to be more than the actual application or software itself, and in the music streaming industry, that final end product is also more than the music that is streaming through the service. The final end product is the whole experience. This can be enhanced in several ways. The delivery of the initial product, the application or software, is as simple as downloading it from an app marketplace or from the company's website. However, there are also more convenient ways of streaming music to the consumer. Additionally, there are ways to go beyond offering a simple to use product by actually going above and beyond with regards to quality and effectiveness of the streaming service. Finally, what ways can a company make the product more fun to use, and increase interactivity with the user? Spotify has found ways to meet these goals and move into a blue ocean. Their expansion into these untouched segments has started to pave the way into turning Spotify into an operating system of sorts for music.

In order to demonstrate how Spotify has made the move into a Blue Ocean, we have developed a Strategy Canvas in order to take a look at the factors that have become relevant for success in the industry – price, user base, the number of platforms the service is available on, the size of the music catalogue, the type of on-demand services provided, unlimited access, social media integration, sound quality, and offline access:



The data for these categories were gathered from numerous sources, namely Time Magazine and Mashable (White 2013, Peckham 2014) in order to evaluate Spotify and its two largest competitors in terms of user bases, Pandora and iHeartRadio. Some of these categories are intrinsic to many industries, such as price, the user base, and the number of platforms. Others are of much more significance when it comes to music streaming services. Spotify was able to enter a market and capitalize in several key areas that are untouched by its competitors. Spotify's aim is to create an entire ecosystem for consumers to enhance the fashion in which music is provided to them wherever and whenever they want it (Hagell, Brown, Gong, Wang, and Lehman 2013). Consumers tend to favor Pandora and iHeartRadio as music "discovery" services to learn about new artists. As previously mentioned, companies in this industry are initially focused on one thing: ease of use. Both Pandora and iHeartRadio function in a simplistic manner. But besides that, how else do they stimulate their users? Spotify has taken some of the key areas that the industry competes on and completely trumped their competitors in the areas focused on the right of the strategy map. In order to raise their value curves up above their competitors and to attract new customers, Spotify was able to reduce factors below the

industry standard, eliminate some factors altogether, raise factors above the industry standard, and create new factors.

Recommended Paths Forward

In addition to generating additional revenue streams, in order for Spotify to ensure sustainability and increase profits, it will need to maintain artist and label buy in, incentive advertisers, and achieve a "lifestyle brand" status. Several artists have come out against streaming services because of their small royalty rates to the artists. Thom Yorke, of the band Radiohead removed all his songs from Spotify saying via Twitter "Make no mistake new artists you discover on #spotify will no get paid. meanwhile shareholders will shortly being rolling in it. Simples. [sic]" (Digital Music News, 2013). Several months after Yorke expressed his disdain for the company, Spotify released a report to explain their artists' royalty model and how it compares to the rest of the industry. The transparency built trust amongst artists while providing equity to labels ensured their continuous buy in. Unfortunately, providing labels with equity also makes artists question just how much the music company is looking out for them rather than their bottom line, while the transparency also have investors concerned about their sustainability over the long run.

Spotify has found creative ways to collaborate with brands to make advertising an immersive experience. The inclusion of music and playlists makes the user experience personal such as remixing their own created playlist to resemble a branch such as an 80s move. In order to maintain that relationship with the advertisers, Spotify should leverage the technology they have through their recent acquisitions of Echo Nest and Next Big Sound to provide advertisers with relevant consumer data. Spotify is already providing this data to artists so they can have better insights to their fans. Advertisers should also be able to use this data to target certain listeners. Mobile music streaming would enable advertisers to target consumers based on their location or listening habits such as playing an ad for a concert while a consumer is listening to that artist or playing an ad for an artist similar to one a

consumer listens to frequently. While these types of ads seem obvious, anecdotally, we have heard many people complain about ads that disrupt their listening by being completely different from what they listen to frequently. For example, Spotify has been known to play an ad for a heavy metal band while they a user is listening to a folk band's album. It is possible that at a certain user may become intimidated by the all-knowing internet, however; the small incremental changes regarding targeted advertising in addition to being able to opt out should elevate some of those issues.

Creating this type of consistency and understanding of the customer would align with Spotify's unofficial mission statements, from Facebook: "Music for every moment. Play, discover and share for free" and from Twitter: "Give people access to all the music they want all the time - in a completely legal & accessible way." Visiting the Spotify website, there are people holding hands together, people laying around together, people singing along in a car together. People are together. As their About page says, "Music brings us together." Spotify is attempting to be a lifestyle brand in which people associate with not just music but with every day. Spotify wants to provide the soundtrack for people's lives. Their recent push to provided curated content based on moods and genres such as "Early Morning Gym Work Out" or "In the Zone Studying" makes light that people use music differently. Continuing to embrace the push for a "lifestyle brand" will allow Spotify to become indispensable as a streaming service and encourage a stronger customer commitment through a paid subscription. Sean Parker (creator of Napster) has a playlist he personally curates on Spotify on behalf of the company called "Hipster International." This playlist featured pop star Lorde, before she hit the Billboard 100 charts and this playlist is said to have helped her get to that point (Bertoni, 2013). Of course, while good for her, there are millions of other artists that will never get to that point. With curation also comes favoritism. Being influential and encouraging to your users could also appear as if you have an agenda. Having playlists available, that are generated by your friends just as prominent as playlists generated by Spotify

tastemakers should fix some of these issues. It will be difficult for some users not to see curated playlists as just record label agendas and additional advertising.

In order to further capitalize on their lifestyle brand, Spotify could begin sponsoring concerts and other events that bring people "together". A 2013 Neilson report shows that on-demand music streamers are 50% more likely to be heavy spenders on event tickets. Spotify has 40 million users likely to spend heavily on event tickets. Spotify also has the data in place to ensure that they are targeting the correct people. Hosting concerts and events will add yet another revenue stream for Spotify and serve as a way to be more heavily involved in user's offline. While a month subscription to Spotify is only \$10 a concert ticket could be \$50, plus concessions, merchandise, etc. Spotify could use these events to create a live music streaming service in addition to its pre-recorded tracks, similar to the in-house acoustic sessions that terrestrial radio and podcasts offer but on a larger, on-demand scale. Since Spotify strikes deals with labels primarily, they have said that they do not want to be in the business of determining how much the artist gets paid from their label because they're not experts in that field. On a similar note, they may not necessarily have the expertise in live music or in merchandise sales to be able to generate revenue and not take away from other aspects of their business model. They could, instead, partner with a ticketing promoter like Live Nation to facilitate events on their behalf.

To further bridge the offline and online worlds Spotify can also sell merchandise directly through their platform. This feature has already become available to some artists through Spotify's integration with BandPage. This adds another stream of revenue for Spotify as well as artists. "Twelve percent of musicians who earn any income from merch sales say that it makes up 16% of their total average income per year" (Thomson, 2012). Depending on artist's deals with their labels, this sort of revenue could go directly to them instead of the 70% of streaming revenue that is passed along directly to the label to be dispersed to the artists.

Giving artist further autonomy would be beneficial to the artist and could potentially be beneficial to Spotify. Examples of giving rights holders more options include allowing certain songs to be for premium users only, being able to have pre-listens or exclusive to select fans, such as fan club members, or allowing for listen caps, so a song can only be streamed a certain number of times before it needs to be purchased. This would allow rights holders to use advanced metrics to determine the way they generate demand and revenue and could encourage those weary of Spotify to buy in. In addition, Spotify could use the patterns of rights holders with this type of autonomy to provide insights for best practices. These type of practices could alienate some users that expect all their music to be free if they listen to ads but Pandora still maintains its popularity though it charges a nominal fee once you have listened to your quota of music in a month. Because Spotify stresses "free" and "access" so often, it could be difficult to implement even with Pandora as a business model.

Spotify is currently in 57 countries and continuously adding new ones. "The introduction of low-cost smartphones in many emerging markets will present new opportunities to access affordable music. This will help global mobile music revenue to rise by a 1.5% CAGR to 2018, driven by countries such as Nigeria (21.0% CAGR), Malaysia (10.0% CAGR) and China (8.5% CAGR)" (PWC, 2013). Every expansion to a new market brings with it legal and cultural issues that Spotify will have to address on a case-by-case basis, however, there can be many upsides. Expanding to additional countries generates more revenue and can serve as a test market for new products and offerings. This will also provide additional locations to offer live music experiences. "While global total live music revenue will rise by a 2.7% CAGR, countries such as Brazil and Indonesia will see rises of 6.3% and 8.0%, respectively, as emerging markets increasingly establish themselves as key locations for festivals and tours" (PWC, 2013). Global expansion is the ultimate example of bringing people "together" and can elevate Spotify to a level that few brands achieve--being ubiquitous worldwide.

Needless to say, we plan on being the first in line to purchase shares if and when Spotify has an IPO. They are dedicated to their vision of providing every type of music to every potential user in every location, and that is readily visible in all of their business choices. They are continually growing and entering new markets while increasing the number of apps available and social media partnerships to provide a complete experience to their users. They are transparent with the artists who are the backbone of the music industry and are committed to fair business practices – feats that set them apart from their industry competitors. With the work they are doing with BandPage to provide merchandise and concerts directly to the Spotify user, they are branching out and working to provide every service a user could possibly want. With our recommendations, Spotify can eclipse their competitors and get the 1 billion users that Daniel Ek anticipates.

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