

DATA ANALYSIS CASE STUDIES OF SPOTIFY

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1 Introduction

Spotify is a proprietary Swedish audio streaming and media service provider. It was founded on 23 April 2006 by Daniel Ek and Martin Lorentzon. Currently, it is one of the largest music streaming platforms with over 422 million monthly active users, including 182 million paying subscribers. The company has seen large growth since 2015 and continues to grow by making use of data analysis. According to Statista, Spotify has a global market share in the music streaming market of 36% with the closest competitor being Apple Music at 18% market share. Spotify's business model is a "Freemium" model, users can use Spotify for free but will experience advertising during their listening experience. Spotify offers a subscription plan that removes advertising and provides additional features. The strategy behind this subscription plan is to keep loyal customers and generate recurring monthly revenue. Spotify's model is successful and at the end of 2020, Spotify produced 7.85 billion in revenue. Spotify has made use of all four types of data analysis to gain a competitive advantage over the competition.

2 Understanding Data Analysis

Data analysis is the process of collecting, modeling, and analyzing data to extract insights that support decision-making (The Independent Institute of Education, 2022). Data analysis aims to identify and explore patterns or trends in Big Data sets. There are five V's to consider when dealing with Big Data: Veracity, Volume, Variety, Velocity, and Value.

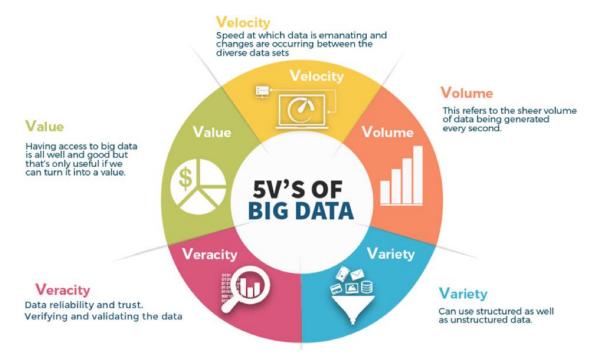


Figure 1: 5V's of Big Data (Anik, 2019)

2.1 Velocity

Velocity refers to the speed at which the data is generated, and changes are occurring between diverse datasets. Velocity consists of the following attributes: Batch, near/real-time, and streams. The drivers of velocity are improved connectivity, competitive advantage, and precomputed information (The Independent Institute of Education, 2022).

2.2 Volume

Volume refers to the vast amount of data that is being generated when compared to traditional data sources. Data types like Exabyte, Zettabyte, Yottabyte, etc. make up the attributes of volume (The Independent Institute of Education, 2022). The drivers of volume are an increase in data sources, higher resolution sensors, and scalable infrastructures.

2.3 Variety

Variety refers to the different sources that Big Data comes from. Data can be sourced from machines, people, and processes both from outside and inside the business. The attributes contributing to Variety are Degree of structure (structured or unstructured) and complexity. The drivers of Variety are mobile devices, social media, video, the study of genetics, and the Internet of Things (IoT) (Ghavami, 2020).

2.4 Veracity

Veracity refers to the reliability, quality, and trustworthiness of the data. The data needs to be verified and validated before it can be used. Consistency, completeness, integrity, and ambiguity are the key attributes of Veracity. The driving factors of Veracity are cost, need for traceability, and justification (Anik, 2019). Veracity is considered the most important of the 5 V's, insights and business decisions are made based on a dataset in data analysis. An inaccurate or untrustworthy dataset can skew insights which will result in a false prediction and the business will lose profit.

2.5 Value

Value refers to the ability to turn Big Data into useful insights or data. It is counterproductive to perform data analysis on a dataset that will provide no useful insights to the business. The attribute contributing to Value is Quantitative Analysis (statistical, events, correlations, hypothetical).

2.6 Importance of Data analysis

Businesses are continuously investing and improving their data collection and data analysis capabilities. The Internet of Things has provided businesses with access to large amounts of data and the ability to analyze the data, but it has also greatly increased competition. Businesses that successfully adopt a data analysis approach benefit from the following:

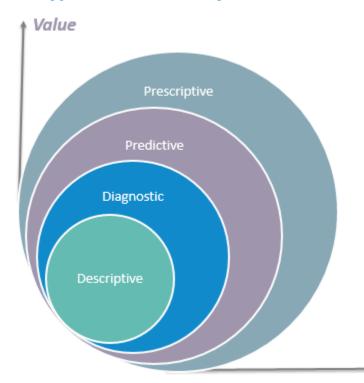
- Informed Decision making Data analysis provides management with the ability to make decisions on fact rather than intuition by extracting insights from a dataset.
- Reduce Costs This allows businesses to spot improvement opportunities, trends, and patterns which enables better strategic planning and resource allocation.
- Target Customers better Improves understanding of customers which enables targeted marketing and the ability to identify new market gaps.

The Internet of Things is continuously expanding and providing businesses will the opportunity to collect a large amount of data about their business and customers. Businesses that can successfully make use of Data analysis will be able to gain a competitive advantage or solve complex business problems, increasing profits.

3 Descriptive vs Diagnostic vs Predictive vs Prescriptive analysis

The four types of Data analytics are illustrated in Figure 2.

4 types of Data Analytics



What is the data telling you?

Descriptive: What's happening in my business?

- Comprehensive, accurate and live data
- · Effective visualisation

Diagnostic: Why is it happening?

- Ability to drill down to the root-cause
- Ability to isolate all confounding information

Predictive: What's likely to happen?

- Business strategies have remained fairly consistent over time
- Historical patterns being used to predict specific outcomes using algorithms
- Decisions are automated using algorithms and technology

Prescriptive: What do I need to do?

- Recommended actions and strategies based on champion / challenger testing strategy outcomes
- Applying advanced analytical techniques to make specific recommendations

Complexity



Figure 2: Four types of Data analytics (Principa,2017)

3.1 What is Descriptive analysis?

Descriptive analysis is a statistical technique used to describe or summarize a set of data (Bush, 2020). This technique can be used to identify what is happening in a business. The most common uses for descriptive analysis are Key performance indicators dashboards, monthly revenue reports, sales leads overview, and understanding of customer behavior (The Independent Institute of Education, 2022). Descriptive analysis is the simplest form of Data analysis and provides businesses with reasons for why a trend may occur.

3.2 What is Diagnostic analysis?

Diagnostic analysis is the process of using data to determine the causes of trends and correlations between variables (Cote, 2021). The goal of diagnostic analysis is to find out the "root cause" of the problem or "Why did this happen?" (The Independent Institute of Education, 2022). This helps businesses identify why a specific event may have occurred. Three techniques that can be used for diagnostic analysis is data drilling (create multiple views of a dataset), data mining (identify patterns and associations within large datasets) and correlation analysis (examine how different variables link to one another) (Holliday, 2021).

3.3 What is Predictive analysis?

Predictive analysis is the use of data, statistical algorithms, and machine learning techniques to identify possible future outcomes based on current and historical data (SAS Institute Inc., 2022). Predictive Analysis aims to figure out what's likely to happen (The Independent Institute of Education, 2022). Predictive analysis can be used by businesses to improve customer service, business operations, and marketing.

Predictive analysis uses known results to train a model that can be used to predict values for a different data set, the modeling provides results in the form of predictions that represent the probability of a specific variable occurring based on the estimated significance of the input variables (SAS Institure Inc., 2022). The goal of predictive analysis is to use historical data or current data to find patterns/trends to make predictions.

3.4 What is Prescriptive analysis?

Prescriptive analysis is the process of using data to determine an optimal course of action by combining descriptive, diagnostic, and predictive analysis (Cote, 2021). This will help the business gain an understanding of what needs to be done to solve a problem or gain a competitive advantage. This answers the question of "What should we do next?" (The Independent Institute of Education, 2022). Artificial Intelligence is used to collect data and process algorithms to determine the possible future events that may occur and recommend the best course of action.

4 Descriptive Analysis:

4.1 Introduction

Spotify has made use of Descriptive analysis to break down the demographic of its users by region and age. To further understand the demographic, Diagnostic analysis can be used to understand the root cause of the demographic stats. From 2014 to 2015 there was a clear shift in focus on which age group is Spotify's target market. This can be confirmed by the type of features that were released by Spotify in 2015. The following section aims to explore the methods Spotify used to identify its target market.

4.2 Background

In recent years music streaming platforms have gained a lot of traction by increasing convenience and creating innovative features that do the hard work for the user. Spotify is leading the music streaming market with a large market share of 36% and generating a massive revenue of 7.85 billion in 2020. This success is a result of Spotify effectively making use of data analysis to identify its target market and release features that cater to that market. Looking at historical data and the timeline of the release of certain features, it is possible to gain an understanding of the data analysis methods and approaches implemented by Spotify. By the end of 2014, Spotify only had 60 million users including 15 million paid subscribers. Spotify had 77 million users including 22 million paying subscribers by the end of 2015 and in 2016 Spotify had 104 million users including 36 million paying subscribers. Within two years, Spotify managed to grow its user base by 58% and its subscriber base by 42%. Figures 3 and 4 graphically represent the growth Spotify experienced from 2015 to 2022 (Dredge, 2015).

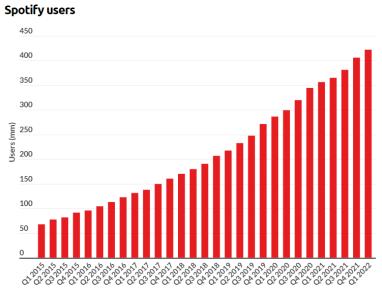


Figure 3: Spotify Quarterly User Growth 2015 – 2022 (Igbal, 2022).

Spotify subscribers

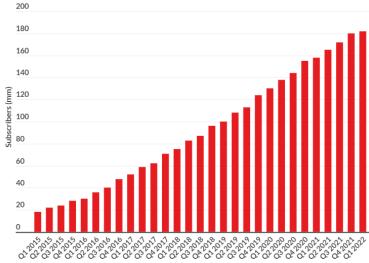


Figure 4: Spotify Quarterly Subscriber Growth 2015 – 2022 (Iqbal, 2022)

The graphs show steady growth in users and subscribers over the years and there is a correlation between the number of free users and paid subscribers. As free users increase, the number of subscribers increases. The focus of this section is during 2014 - 2016 and descriptive analysis can be used to identify the factors that lead to this growth.

To identify the factors leading to the large growth of Spotify over the two years, it is important to recall the features implemented by Spotify during this period. Spotify implemented a new payment plan in 2014 (Garun, 2017), which offered a discounted premium subscription plan for students. Any student with a valid university email address can apply and automatically receive a discounted price which is valid for 4 years. This encouraged students to subscribe and remain loyal to Spotify. The following year 2015, Spotify released a new feature called "Discover Weekly" (Pasick, 2015). This feature generates a new playlist every week and provides users with music recommendations. Before implementing these features, Spotify has made use of Data analysis to identify gaps in the market and ensure a successful launch of the feature.

4.3 Why this analysis method?

Descriptive analysis can be used to identify what is happening in the business. In the case of Spotify, this has been used to identify the target market. Data Aggregation and Data mining are ideal for this analysis because it groups Spotify's customer base by demographic. Understanding the needs of the target demographic will help a business to improve its customer satisfaction and ultimately increase profits. This is crucial for the Spotify business model as it relies on retaining customers. The goal of this data analysis is to gain a competitive advantage over direct competitors e.g., Apple music.

4.4 What is Data Aggregation?

Data aggregation is the process of gathering data and presenting it in a summarized format (The Independent Institute of Education, 2022). An example of Data Aggregation is an e-commerce website that collects different kinds of data about its customers. Data Aggregation provides an overview of the dataset such as average customer age or average purchases made.

4.5 What is Data Mining?

Data mining is a form of analysis and is when an analyst explores the data to uncover any patterns or trends in the dataset (The Independent Institute of Education, 2022). The outcome of this analysis is a visual representation of the dataset as bar graphs or pie charts.

4.6 Proposed Solution

The problem stated in the introduction is that Spotify aims to improve its understanding of its customers to identify a target market. This will enable them to improve the delivery of new features and gain a competitive advantage in the music streaming market. From this interpretation, we can identify the best method and approach to solve the problem. The best approach to summarize customer data is descriptive analysis, specifically data aggregation and data mining. When signing up for an account with Spotify, a user is required to specify their age and the region they live in. Using this information, it is possible to use data aggregation to gather data and build a dataset. After building the dataset, data mining can be used to explore patterns and trends within the dataset and identify the target market.

4.7 Data Analysis Approach

Spotify is a large business with large datasets. The amount of data generated by Spotify is too large for a team to gather and data-mine manually. Therefore, the following approach can be applied:

- The goal of the analysis is to identify hidden patterns from a large dataset therefore Unsupervised Learning is the best machine learning method.
- The aim of using Unsupervised learning is to identify and group the data into analyzable data therefore Cluster analysis is the most appropriate classification method.

4.8 What is Machine Learning?

Machine learning (ML) is a branch of artificial intelligence (AI) and computer science which focuses on the use of data and algorithms to mimic the way that humans learn (Ghavami, 2020). ML is a type of artificial intelligence that allows a software application to become more accurate at predicting outcomes without being specifically programmed to do so. Historical data is used as an input to predict new output values in Machine Learning.

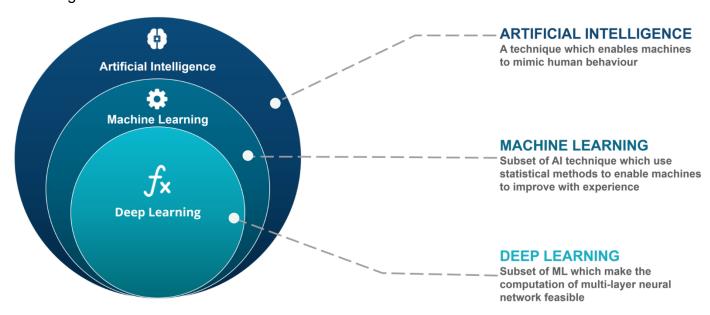


Figure 5: Artificial Intelligence vs Machine Learning vs Deep Learning Diagram (Edureka, 2022)

Machine Learning is a subfield of Artificial Intelligence and Deep Learning is a subfield of Machine Learning, this is illustrated in Figure 5. Neural Networks make up the backbone of machine learning algorithms. Neural Networks are a set of algorithms, modeled after the human brain, that are designed to identify patterns. The number of node layers or depth of a neural network defines whether it is a single neural network or a deep learning algorithm (requires three or more neural networks to be defined as a deep learning algorithm).

4.8.1 What is Unsupervised Learning?

Supervised learning is the process of training a machine using information that is not classified or labeled and allowing the algorithm to act on that information without external guidance (Ghavami, 2020). The goal of unsupervised learning is to group unsorted information according to similarities, patterns, and differences without any prior training data. Figure 6 is an illustration of an Unsupervised learning model

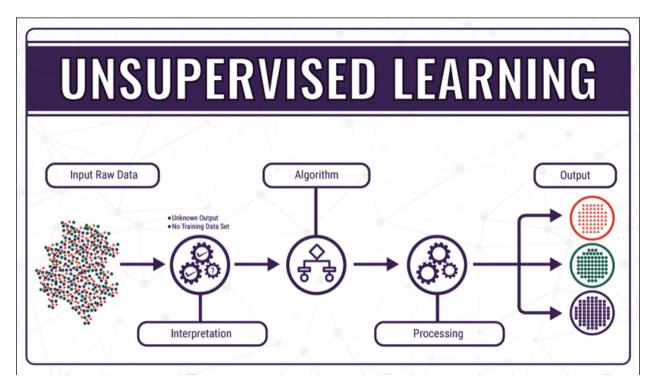


Figure 6: Unsupervised learning model (Doshi,2020)

4.8.2 What is Cluster Analysis?

Cluster analysis is the process of grouping a set of data elements in a way that said elements are more similar to each other than those in other groups (Calzon, 2022). This approach is used to find hidden patterns in a dataset and provide additional context. An example of cluster analysis is grouping customers by age to identify the business's demographic.

4.9 Data Analysis Methods

Spotify can make use of two methods to identify its target market. The first method is using Surveys to gather data about their customers, but it is time-consuming to survey the whole user population. The second method which I would recommend is to use Unsupervised learning and cluster analysis. Unsupervised learning is ideal for identifying hidden trends and classifying data using large datasets. Cluster analysis can be used to group customer information into subgroups which helps to break down the demographic of the customer base. This method would have enabled Spotify to identify a gap in the market before implementing its student subscription plan.

The gap in the market identified by Spotify surveys is the younger generation or specifically students. A survey was performed in 2013 by Spotify, it was found that 58% of users aged 20 or younger used playlists for their streaming. Another survey was performed in 2015 by Spotify in the United States and the United Kingdom, it was found that 36% of paid subscribers were between 16 and 24 years old (Statista, 2022).

. Figure 7 illustrates a pie chart of an example of Spotify's demographic:

Spotify User Statistics via Age Demographics

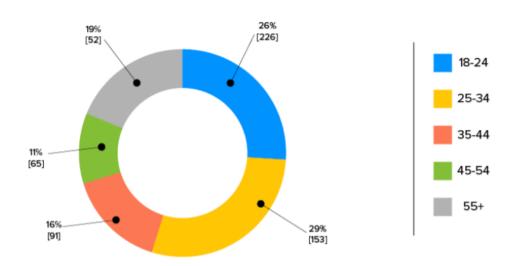


Figure 7: Spotify User Statistics by Age Group (Hlebowitsh, 2022)

The student subscription plan attracted new customers and shifted the demographic towards the younger generation. The success of the student plan can be confirmed by the survey performed in 2015. After identifying its target audience in 2015, Spotify released the feature Discover weekly. This feature was targeted toward younger users as the survey in 2013 indicates that the majority of younger users make use of playlists when using the app.

Spotify can also implement Unsupervised learning and cluster analysis to identify what regions the majority of its users are from. Using this information, Spotify can target features that may be popular only in certain regions or expand on current features. An example of this is in 2015, Spotify identified that its app is starting to become popular around the world and not only in Europe. After identifying this, Spotify increased the number of regions the student subscription plan is available in. This increased users and added to the success of Spotify.

Figure 8 illustrates the number of users per region:

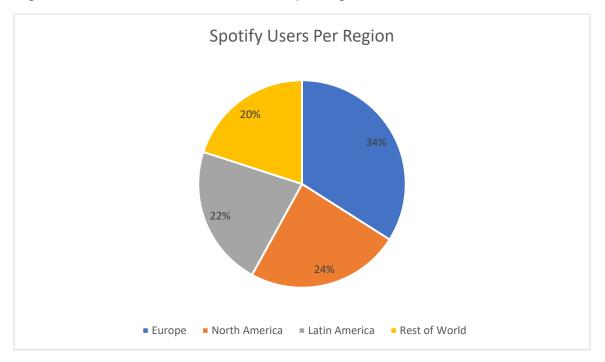


Figure 8: Spotify User per Region chart

Spotify was able to gain a competitive advantage over its competitors by using descriptive analysis and cluster analysis to identify its target market and gain a better understanding of its customers. Spotify's main target audience is millennials specifically those aged between 16 and 24 years old. A survey performed back in 2013 showed that the majority of users younger than 20 years old made use of playlists when using the app. This provided Spotify with an advantage to focus their new features around playlists resulting in the success of the "Discover Weekly" feature which ultimately increased Spotify's popularity amongst the younger generation. After implementing this feature Spotify saw a growth of 27 million annual users and 14 million annual subscribers within one year (2015-2016).

4.10 Ethical and Legislative Considerations

Ethics at a basic level refers to the perception of something being good or right. Ethics in data science refers to it being performed in a way that is right, proper, acceptable, or socially appropriate. Acceptable ethics are set by social norms or values that are accepted within society (Saltz & Dewar, 2019). Legislation refers to a set of laws that are put in place to govern something. When collecting and analyzing data, it is important to consider any ethical and legislative implications to ensure the results are accurate and participants are not harmed in the process.

Spotify is a music streaming platform, but the company still has access to collecting user data when a user creates a new account. In Sections 4.6 and 4.7, it was discussed how Spotify can collect and analyze user data to perform Descriptive analytics to gain a competitive advantage by identifying a target market. When collecting data, it is important to consider ethical practices to avoid incriminating the company and producing inaccurate representations of the target population. An ethical consideration Spotify would have had to deal with before collecting user data is user consent. Users have a right to their privacy and knowing how their data is used, therefore it is required to get a user's consent before using their data. Spotify has considered this by requesting permission to use the registration data for marketing purposes that are provided by the user.

Figure 9 illustrates the Spotify Sign-up page and the information required from a user:



Figure 9: Spotify Sign-Up Page

Before a User can sign up and start using Spotify's services, they are required to agree to share their registration data with Spotify. Spotify has also stated what they plan to use the data for, therefore this feature meets the requirements of User consent.

When a user creates a new Spotify account, it is required for the user to enter their email, password, name, age, and gender. This means that Spotify has access to the personal information of its users. In a South African context, every person has the right to protect their privacy and personal data due to The Protection of Personal Information Act, Act No.4 of 2013 (POPI ACT) (Welz, 2016). The POPI Act states that anybody who keeps personal information must take steps to prevent the loss, damage, and unauthorized destruction of data as well as prevent unlawful access or processing of this personal information (Welz, 2016). The maximum penalty for breaching the act according to sections 100-106 is a fine or imprisonment not exceeding 10 years. According to the POPI Act, Spotify will have to ensure that the personal information of users is only accessible by authorized employees of the company, "special personal information" like race, religious beliefs, sex, etc. require permission before using the data and all personal information must be protected from unlawful access or usage. Spotify has met these requirements by requesting user consent to use "special personal information" and the company uses an Apache Cassandra database which has a good reputation for being scalable and having high availability while still having high security.

4.11 Recommendation

After analyzing the case study, a recommendation for Spotify is to build an Unsupervised Learning model to analyze their data. A survey is time-consuming, and it is impossible to survey the entire population. Another problem with surveys is that it is a small sample group and calculations are then projected onto the entire population. An Unsupervised learning model will be able to process a much larger set of data and it will continuously improve in accuracy as more data is provided to the model. Spotify also has access to customer information like age and region. There is no need for them to create surveys and process the data manually when Spotify already have all the raw information they need. The raw data just needs to be classified and grouped by age and region which is possible with an Unsupervised learning model. An Unsupervised learning model will also increase processing efficiency and reduce time spent on collecting and analyzing data which is important if a business wants to be flexible to market change. After considering the ethical and legislative implications, a suggestion for Spotify would be to create an indepth Terms & Conditions policy that covers all aspects of user data and how the information is used. Only requesting user consent on signing up can potentially create grey areas and leave Spotify vulnerable to being implicated by a country's legislation. Spotify is an international company; therefore, legislation may differ depending on the country. A Term & Conditions Policy can be used to address each country's legislation and ensure all bases are covered.

4.12 Conclusion

Spotify managed to identify its target market by using descriptive analysis combined with cluster analysis and the account information provided by users when registering with their service. After identifying its target market, Spotify introduced the student subscription plan to attract more customers from that target audience. Once their target market had been established, Spotify introduced a new feature (Discover Weekly) that caters to the needs of their target customers. An improvement that can be made by Spotify is to invest in an Unsupervised Learning model instead of relying on surveys. This will increase the adaptability of Spotify to market changes or trends. Spotify has also addressed ethical and legislative concepts by requesting user consent and informing the user how their data will be used. A suggestion for Spotify is to create a Terms & Conditions Policy that addresses each country's legislation in which they operate in.

5 Diagnostic Analysis:

5.1 Introduction

Diagnostic analysis combined with probability theorem can be used to identify the reason behind Spotify having a large demographic of Millennials. It is important to understand the reason behind a business's target market to improve their understanding of their customers. Spotify's main source of revenue is through its subscription models which rely on recurring payments and a loyal customer base. Understanding the preferences of their customers and delivering features catered to their target market's needs will give Spotify a competitive advantage over the music streaming market.

5.2 Background

According to statistics provided by Damjan, 55% of Spotify's user base is Millennials. Users aged between 25 to 34 years old make up 29% of the 55% and users between the ages of 18 – 24 years old make up 26% of the 55%. The target audience for Spotify is Millennials or users between the age of 18 – 34 years old. Figure 10 illustrates the age demographic of Spotify:

Spotify User Statistics via Age Demographics

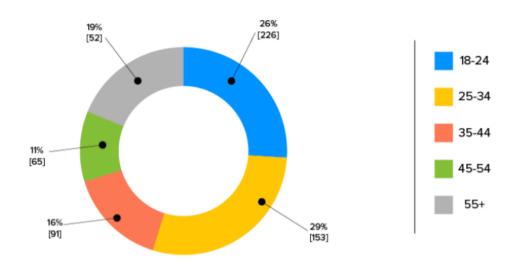


Figure 10: Spotify User Statistics by Age Group (Hlebowitsh, 2022)

5.3 Why is this analysis important?

Diagnostic analysis will help a business identify the root cause of a trend or variable. Identifying a target market is important for a business but it is equally important to understand their customers and why they attract that specific target market. Understanding the preferences of customers will reduce costs on unnecessary features and advertising. By using diagnostic analysis and probability theorem it is possible to identify why Spotify is popular amongst Millennials.

5.4 What is the Probability theorem?

The probability theorem is a branch of mathematics that evolved from the investigation of social, behavioral, and physical phenomena that are influenced by randomness and uncertainty (The Independent Institute of Education, 2022). The probability theorem is used to identify the likelihood of an outcome occurring by dividing the target outcome by the total number of outcomes. In the case of Spotify, it is possible to work out the probability of a generation making use of the application based on their likelihood of using a mobile phone and the internet.

The Formula for basic probability is:

P(A) = number of outcomes / total number of outcomes

This formula is used to find out the probability of a single event occurring, but the diagnostic analysis is looking at more than one variable therefore the following formula is used:

$$P(A AND B) = P(A) * P(B)$$

This formula is used because both events may occur at the same time and both events are independent.

5.5 Proposed Solution

Using Diagnostic analysis, it is possible to identify the root cause for Spotify being popular amongst Millennials. The Internet of Things (IoT) has developed alongside the Millennial generation. Millennials are more likely to adapt and accept the internet of things and its development. (Vogels, 2019) states that in 2019, 93% of Millennials (ages 23 - 38) own smartphones compared with 90% of Generation X (ages 39 to 54) own smartphones, 68% of Baby Boomers (aged 55 to 73), and 40% of the Silent Generation. When comparing broadband internet service 78% of Millennials (78%), Gen Xers (78%), Baby Boomers (74%), and 45% Silent Generation.

Using probability theorem, it is possible to calculate the probability of a generation owning a smartphone and subscribing to a broadband internet service:

Key: P (probability), S (smartphones), B (broadband internet service)

- Millennials: P (S AND B) = 0.93 * 0.78 = 0.7254 or 72.54%
- Generation X: P (S AND B) = 0.90 * 0.78 = 0.702 or 70.20%
- Baby Boomers: P (S AND B) = 0.68 * 0.74 = 0.5032 or 50.32%
- Silent Generation: P (S AND B) = 0.40 * 0.45 = 0.18 or 18%

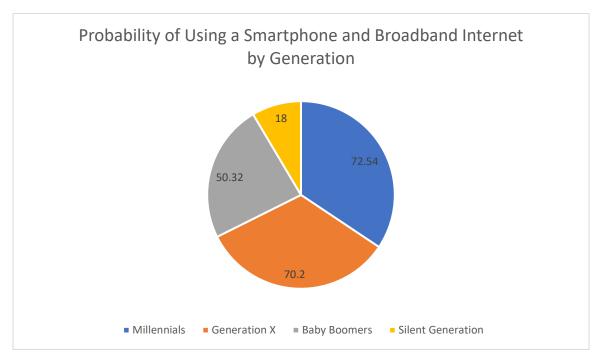


Figure 11: Probability of Using a Smartphone and Broadband Internet by Generation

Millennials have the highest probability to use smartphones and broadband internet with a probability of 72.54%, Generation X is a close second with 70.2%, Baby Boomers is third with 50.32% and Silent Generation is last with 18%. A trend is noticeable that the older the generation is the less likely they are to use mobile devices/applications.

Using these statistics and probability theorem, a trend is identifiable that Millennials are more likely to make use of smartphones and the Internet of Things. This provides Spotify with a clear reason for why they are popular amongst the younger generation compared to other generations. The younger generation suites their business model as they aim to keep long-term customers and it provides the potential for scalability due to Millennials forming 23% of the world population (Neufeld, 2021).

5.5.1 Using Diagnostic Analysis from Another Angle

Diagnostic analysis can be further used to gain a better understanding of customer behavior. A study performed by Spotify showed that three out of four Millennials say that music is part of how they define who they are and 84% of Millennials state that their music tastes span across multiple genres (Spotify, n.d.). This diversity in music tastes translates to other aspects of Millennials' lives: 74% believe in gender fluidity, 33% have multiple careers simultaneously and 64% believe that labeling people is unnecessary. Spotify was faced with a problem of a large diverse audience or market. This makes marketing challenging due to the wide variety of users and their preferences. Spotify has solved this problem by making use of Diagnostic analysis and probability theorem to gain an understanding of their customer's behavior.

Music has become a part of Millennials' daily life, whether it is to aid with a negative or positive situation (Spotify, n.d.). A study in 2016 by Northwestern University found that young people prioritize convenience when discovering new music (Koerbel, 2016). By understanding what their customer's behavior patterns are. Spotify identified seven key audio streaming categories: "Working, Chilling, Chores, Gaming, Working out, Partying and Driving" (Feature was released in 2015). Based on which category a user picks the corresponding type of music that suits that situation is played. This has allowed Spotify to become a companion in the daily lives of Millennials. The audio streaming categories provide users with a quick and convenient way to find new music that matches their daily activities.

5.6 Ethical and Legislative Considerations

In this Section, Spotify has performed multiple surveys and conducted Diagnostic analysis. In Section 4.10, the concepts of User consent and the POPI act were discussed in detail. These concepts apply to this section, when collecting data via surveys it is required to ask for consent and inform the participant of how the data will be used. This also aligns with the requirements of the POPI act therefore, the same strategies that were applied in Section 4.10 can be applied when collecting data via surveys.

Two ethical considerations that were not discussed in Section 4.10 relating to surveys are Voluntary participation and anonymity. According to research standards, participants may not be forced into partaking in a survey, and they are free to leave at any point during the research. Spotify can only address this concept by informing participants that they are volunteers and may request to stop participating in the survey. Participants have a right to their privacy and protect their personal information. To ensure that a participant's privacy is protected, Spotify should use dummy variables or names for any sensitive answers for example: using an alias instead of the participant's name. Using dummy variables or names will ensure that a participant remains anonymous, and their privacy is still intact.

Two ethical concepts explored by (Welz, 2016) that apply to this case study are data accuracy and validity. Data accuracy and validity refer to the accuracy of the data and the appropriate use of the data. This is referred to as the "fitness of purpose", in other words, the data must not be taken out of context to produce a result that doesn't represent the true problem that the dataset is trying to solve. During Diagnostic analysis the goal is to find the "root cause" of a problem, therefore Spotify needs to ensure its data analysis methods contain no bias and includes outliers. Including outliers will create a true representation of the dataset. Using established analysis methods (Probability theorem), will increase the accuracy, validity, and trustworthiness of the analysis as these methods are created using a high set of standards and have been proven to work.

5.7 Recommendation

From the above results in section 5.5, the best recommendation is to focus on the current target market. Millennials have a much higher chance to make use of the application due to them growing up alongside the development of the Internet of Things. Mobile phones and broadband internet are more common amongst Millennials which is the only requirement to use Spotify. After analyzing section 5.5.1, it is clear that Millennials place a high value on convenience and music plays a large role in their lives. Any new features Spotify implements should focus on convenience and give the user a feeling that the app is doing the heavy lifting. When performing surveys and collecting data Spotify must keep ethical practices in mind. Two suggestions to ensure that Spotify remains ethical in its Diagnostic analysis are using dummy variables for sensitive information to protect its user's data and using approved data analytic methods to increase the accuracy, validity, and trustworthiness of the results.

5.8 Conclusion

The root cause of Spotify's popularity amongst Millennials can be pinned down to three factors. Millennials grew up during the rapid expansion of the Internet of Things which has made access to mobile devices and broadband internet more common amongst this generation. Young people seek convenience when searching for new music which Spotify has achieved by implementing music categories that complement daily activities and the "Discover" feature that provides users with a personalized and convenient way to find new music. Spotify has managed to understand the daily lives of Millennials and target their daily activities with music that complements these activities. This results in Spotify subconsciously becoming a part of the user's daily life and provides the user with music appropriate for all kinds of moods or environments. The implementation of these features has contributed to the growth of Spotify from 2014 to 2016. Spotify has also considered the ethical and legislative implications that come with collecting and analyzing user data. Spotify addressed these issues by using sound data analysis methods to ensure the results contain no bias and truly represent the population. Spotify has also requested user consent when collecting and analyzing user data. In the researcher's opinion, Spotify has successfully performed Descriptive analysis to understand who their demographic is and has successfully performed Diagnostic analysis to understand why this is their target market and their behavior. Understanding its target market has helped Spotify implement new features that cater to the needs of its target market which ultimately increased the annual user and subscriber count.

6 Predictive Analysis:

6.1 Introduction

Spotify is one of the most popular music streaming platforms with over 422 million users in 2022. According to Figures 3 and 4, Spotify has seen consistent growth in users and subscribers. In this work, we aim to explore how Spotify has implemented Predictive analysis to complement the release of new features. To remain ahead of the market, Spotify has made use of Predictive and Prescriptive analysis. Spotify has made use of Machine Learning to implement a recommendation page known as "For You" that identifies potential songs a user may be interested in. In 2015, Spotify saw a large growth of 17 million users and 7 million subscribers from 2014. From this interpretation, we can identify that the two new features (Recommendation page and Discover Weekly) released in 2015 had a big impact on the growth of Spotify. The analysis was intended to understand how Machine Learning can be implemented to predict a user's song preference and explore the characteristics of different variables used to identify similar songs.

6.2 Background

Over the years Spotify has managed to identify its target market and release new features that meet the preferences of its target market. Spotify has become well known for being a platform that is easy and convenient to find new music on. The application focuses on music discovery rather than being a music library, this can be confirmed by Spotify's home page being a personalized music recommendation page. Spotify has made use of Machine Learning to predict what songs a user may listen to based on the user's liked songs. Spotify has made use of predictive analytics and predictive models to recommend songs to users by comparing the user's liked songs to other songs that consist of similar attributes (Danceability, loudness, pitch, etc.).

6.3 Why is this analysis important?

Using Descriptive analysis, it was determined that the target market is the younger generation and Diagnostic analysis improved our understanding of why Millennials are more likely to use Spotify. A key factor to the reason why Millennials use Spotify is how easy it is to discover new music. This analysis will improve the field of knowledge of how Spotify has made use of Machine Learning to automate music suggestions. The analysis helps Spotify understand its users' preferences and automatically predict songs the user may like. This gives Spotify a competitive advantage over the market by catering to the needs of users.

6.4 What is Supervised Learning?

Supervised Learning is a type of Machine learning technique, refer to section 4.8 for an explanation of Machine learning. Supervised learning consists of input variables (X) and output variables (Y). A Machine Learning algorithm is used to learn the mapping function from the input to the output. It is called Supervised learning because we provide the model with training data (thought of as a teacher) that supervises the learning process. Supervised Learning requires the dataset to be structured and contain labeled data (which has been labeled with certain properties/characteristics). Supervised Learning can be used to solve Classification and Regression problems.

My interpretation of the problem leads us to believe that classification was used by Spotify to solve it. Classification problems require the use of machine learning algorithms that learn how to assign a class label to the input data. For example, there are three class labels (Apple, Banna, Orange). A machine learning algorithm cannot identify the differences, but it is possible to define the attributes of the three classes (Apple = 0, Banna = 1, Orange = 3). Once a machine learns from the labeled training data, it can identify and allocate the class labels. An accurate model will predict values that are similar to the actual dataset and follow a similar trend. Spotify has made use of Supervised learning; they provide a predictive model of historical data about song attributes and use classification to identify songs that consist of similar attributes

6.5 Supervised Learning Algorithms

Supervised Learning Algorithms try to model relationships and dependencies between the target prediction output and the input features to predict the output values for new data based on the relationships previously learned (Fumo, 2017). Figure 12 illustrates the different Supervised Learning algorithms:

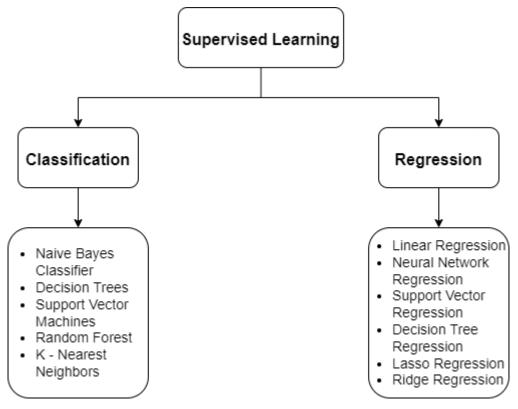


Figure 12: Supervised Learning Algorithms Inspired by (Rajbanshi,2021)

6.6 What are Overfitting and Underfitting?

Underfitting is when a statistical model or machine learning algorithm cannot capture the underlying trend of the data (The Independent Institute of Education, 2022). This is a problem because underfitting can reduce the accuracy of a model.

Overfitting is when a statistical model or machine learning algorithm is trained with a lot of data and the model starts to learn from the noise and inaccurate data entries in the dataset (The Independent Institute of Education, 2022). This is a problem because the model will provide inaccurate results when a new dataset is used.

6.7 What is a predictive model?

A predictive model is a statistical technique using machine learning and data mining to predict and forecast possible future outcomes by using historical data (Ali, 2020). Predictive models reduce time, effort, and costs in forecasting business outcomes. To provide a more accurate prediction, variables like environmental factors, competitive intelligence, and market conditions can be factored into the mathematical equation.

6.8 Proposed Solution

From my interpretation of the problem, the data analysis approach that should be taken is to build a predictive model that can be used to automate the process of suggesting new music to Spotify users. This will provide Spotify with a competitive advantage over the music streaming market by gaining a better understanding of customer preferences. Before jumping into the analysis of the problem and data, it is important to understand what a predictive model is.

6.9 Building a Predictive model

There are five steps to building a predictive model to successfully implement Predictive analysis. Figure 13 illustrates the steps that should be followed when implementing Predictive analysis:

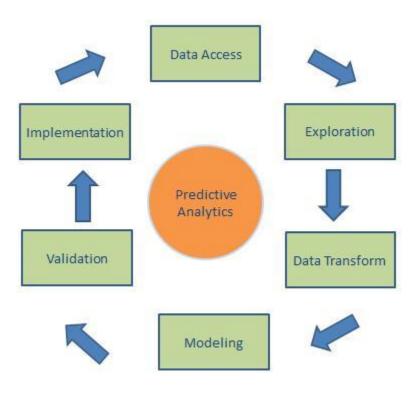


Figure 13: Steps of Predictive Analysis (Salleh, 2013)

- Data Access: Define the desired business outcomes and identify the appropriate dataset to use during analysis.
- Exploration: Identify relationships between variables and visualize the dataset using graphs
- Data Transform: Clean the data using data cleaning techniques
- Modeling: Identify the best algorithm that provides the most accurate solution to your business problem. Next, Train the model using train and test data (split the dataset into train and test data).
- Validation: Evaluate the accuracy and performance of the model to determine if the predicted results show an accurate representation of the dataset. Apply the model to a different dataset to identify the performance of the model.
- Implementation: A predictive model is only valuable to a business once it has been integrated into the business processes or operations.

6.10 Analyzing Spotify Dataset

Spotify has assigned variables to different attributes of a song. This helps Spotify identify which songs are similar or are from the same type of genre.

Dataset link: https://www.kaggle.com/datasets/bricevergnou/spotify-recommendation

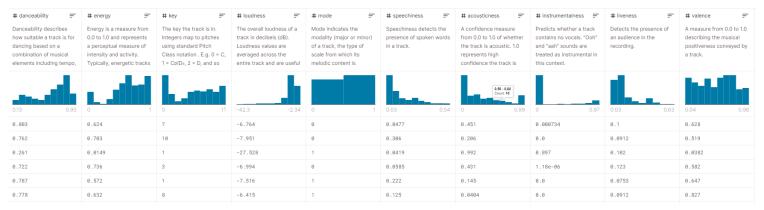


Figure 14: Example Dataset (Kaggle, 2021)

Dataset Variables:

- Danceability
- Energy
- Key
- Loudness
- Mode
- Speechiness
- Acousticness
- Instrumentalness
- Liveness
- Valence
- Liked

Using these variables, Spotify can use classification algorithms in their predictive model to identify songs that consist of similar attributes. This will enable Spotify to build a predictive model that can predict what song a user might like based on the user's currently liked songs and its variables.

6.11 Ethical and Legislative Considerations

When creating a machine learning model, the data analyst needs to remain neutral and use the data in a way that produces results that truly represent the dataset. An example of misusing data is selecting data from a town or neighborhood to create a representation of the whole population e.g., the whole country. This will create a biased algorithm that will produce inaccurate results when given a new dataset.

Spotify has addressed this problem by building its predictive models based on music attributes and individual user preferences. The attributes of each song are defined by a set of standards and added to a separate dataset beforehand. Based on the songs that a user liked, a new dataset is created that contains only the user's liked songs which the model then uses to predict potential new songs that the user may like. This ensures that the model will remain unbiased and make accurate predictions for that specific user due to only containing user-specific data.

A predictive model is always vulnerable to some sort of bias due to the nature of how the model is created (Wolfe, 2021). Spotify's data analyst needs to be a trustworthy and unbiased person. When creating a predictive model the data analyst must select an algorithm, this creates an opportunity for bias without any intention of being biased therefore, the data analyst must be ethical and aim to produce the most accurate results without influencing the model. The data analyst can further increase their trustworthiness and the validity of the model by evaluating the model using a score test like an accuracy score or R-squared score. Using a score test will provide the data analyst with factual information about their algorithm and how well the model performs.

6.12 Recommendations

After analyzing the case study, Spotify should implement a predictive model to gain a better understanding of their users and to create an automated recommendation page that is personalized for each user. This feature will increase customer satisfaction because customers will have a better user experience when trying to find new music. When training the model, it is important to train the model with a large data set. This will reduce the potential for Underfitting and if Overfitting occurs, a suggestion is to reduce the size of the dataset until the model produces accurate results. The model aims to identify and group songs that consist of similar variables therefore the best algorithm to use is a classification algorithm. From this interpretation, we can identify that Random Forest is likely to be the best algorithm. Random Forest algorithm is ideal for large datasets and the algorithm will allow the model to continuously learn and improve. Spotify is a large company; therefore, it can be difficult to track employees and their work. A suggestion for Spotify to address the ethical considerations in Section 6.11 is to implement an authority chain that requires the data analyst to seek approval before shipping any predictive models to production. This will ensure that the model has been evaluated for bias or potential inaccuracies. Another suggestion is for the data analyst to evaluate the model's performance using already established methods or algorithms (sklearn accuracy score test, R-squared score), this will guide the data analyst to identify any possible areas for improving the model for example: changing the Hyper Parameters of the algorithm can influence the accuracy of the model, therefore it is best practice to always identify and use the Hyper Parameters that produced the best accuracy result.

6.13 Conclusion

Spotify has seen a large growth in users and subscribing in 2015 after releasing two new features (Recommendation page and Discover Weekly). The success of these features is due to the predictive analysis and predictive modeling that was implemented by Spotify. A predictive model enables Spotify to recommend new music to each user which creates a feeling of personalization and that the company cares about it each user. This has enabled Spotify to cater to the needs of its target market and gain a competitive advantage over the market. Spotify has a total of 36% market share in the music streaming market, this confirms the successfulness of the predictive analysis and the competitive advantage gained. Spotify has also remained ethical by ensuring its predictive model contains no or little bias by only using user-specific data in the dataset. Implementing an authority chain that requires the data analyst to request approval of the model will also ensure that the data analyst's results are a true representation of the dataset.

7 Prescriptive Analysis:

7.1 Introduction

Spotify released a new feature in 2015 called Discover Weekly. It was made available to all users, free users, and subscribers. Discover Weekly is a playlist that is automatically generated by Spotify and the songs are selected based on the user's liked songs. This feature aims to provide users with a new playlist each week that has been personalized for that user. This promotes the discovery of new music and makes finding new music easier for users. Prescriptive analysis has been used to implement the Discover weekly feature and provided Spotify with a competitive advantage over the music streaming market.

7.2 Background

After releasing the Discover Weekly feature in 2015, Spotify has seen consistent growth in free users and paid users. Within one year of the release of the Discover Weekly feature, Spotify gained 27 million annual users and 14 million subscribers. Spotify has managed to increase its annual users by 26% and subscribers by 39% within one year. Apple Music is Spotify's direct competitor in the music streaming market. Apple music only had a total of 11 million users in 2015. Spotify managed to grow more within a year than Apple music had in total users. Spotify's growth can be pinned down to its successful data analysis methods which empower them to deliver impactful new features that cater to its target market.

7.3 Why is this analysis important?

After performing a Diagnostic analysis in section 5, it is clear that Spotify's target market places a high value on convenience and discovering new music. It is also important for Spotify to retain customers as they rely on a subscription model to generate revenue. Prescriptive analysis will give Spotify the tools to identify a user's preference and automate the decisions revolving around suggesting new music. This will ensure that the app's music-suggesting algorithm grows alongside the user's preferences. Meeting the needs and preferences of users will result in a satisfied customer, ultimately increasing the number of customers retained.

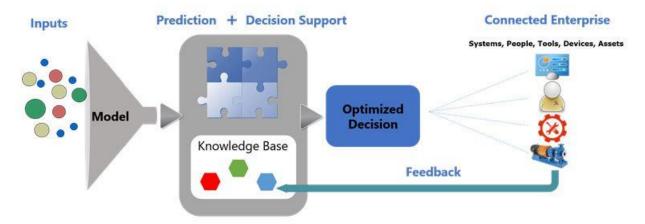
7.4 Data analysis Approach

The approach used by Spotify is a two-set approach to solve the problem of automating the recommendation feature. Achieving this goal will give Spotify a competitive advantage over the music streaming industry

- Implement a Predictive model for song suggestions
- Build a playlist that refreshes weekly based on the user's liked songs.

7.5 What is a Prescriptive model?

Descriptive and Prescriptive analysis work hand in hand with one another. The main difference between the two is that Prescriptive analysis utilizes a similar modeling structure as Predictive analysis, but it accounts for all business variables and integrates automation of decision making. A Prescriptive model considers all relevant factors to determine an optimal course of action. This type of analysis yields recommendations for the next steps a business should take.



Prescriptive + Optimization

Figure 15: Prescriptive Model diagram (Guilfoyle, 2022)

- Inputs: A dataset is used as training and test data.
- Model: this step includes machine learning algorithms
- Prediction + Decision Support: This step includes the predicted outcome and the support framework for decision making.
- Optimized Decision: This is the result after performing an analysis and applying the decision framework.

One of the benefits of a Prescriptive model is that it can be connected to Enterprise tools and systems. This allows for the automation of feedback and improvement of the model. A prescriptive model can gather feedback and adapt its predicted outcome based on the feedback received therefore resulting in the model automatically improving its accuracy. The more accurate a model is, the more accurate the predicted outcomes will be.

7.6 Proposed Solution

Spotify has access to a large real-time data set that is provided by its users. Spotify can access information about what music their users listen to and their user behavior (Time spent using the app, data used, etc.). This information can be used to improve the Predictive model suggested in section 6. The proposed solution by Spotify to meet the music discovery needs of their customers is the Discover Weekly feature. The Discover Weekly feature is an automatically generated personalized playlist that refreshes each week. A predictive model like section 6 can be implemented to identify suitable songs that a user may like based on the type of music they have previously liked. Spotify only has to add decision support to the predictive model to implement a prescriptive model for automating the process of building a personalized playlist.

Implementing Prescriptive analysis will allow for this feature to be automated. A user's preferences may change therefore the predictive model must be flexible and able to change as a user likes more songs. This also supplies the model with a constant feed of real-time data. Providing a predictive model with a continuously growing amount of training data will help the model improve in accuracy over time. This will ensure that the model doesn't become outdated and will always understand the users' preferences. A Prescriptive model will allow for informed real-time and long-term business operations as the model makes decisions based on both real-time data and historical data. From a business's point of view, it is too time-consuming to have employees generate these playlists for each user manually. A Prescriptive model will save time and passively gain a better understanding of the user than an employee could.

7.7 Ethical and Legislative Considerations

A data analyst's job is not only to create a model but to also provide interpretations for the results produced by the model. Predictive and Prescriptive models are statistical in nature and provide no guarantees instead it informs us about what areas have an increased probability of an outcome that may guide us to act differently (Saltz & Dewar, 2019). Due to this, it is the data analyst's ethical responsibility to explain the model and provide implications for using the model. In simple terms, the data analyst has a duty to explain the model in simple terms that is understandable by a non-data analyst e.g., directors or managers, and present the results of the analysis. A data analyst for Spotify would be required to explain their model in-depth, the implications of using the model, and present the model results. The ethical and legislative considerations and recommendations discussed in Section 6.11 can also be applied to this section as the predictive and prescriptive model of Spotify work hand in hand.

Another ethical consideration that needs to be addressed by Spotify is Inside trading. Inside trading refers to the practice of purchasing or selling a publicly-traded company's securities (stocks or shares) while in possession of material information that is not public yet (Coporate Finance Institute, 2022). Data analysts are required to have information

about the business to perform their job. This means that data analysts have access to sensitive information or decision-making-related information.

7.8 Recommendations

Spotify has access to user behavior information which can be used to further improve the model. The length of the playlist can be altered according to the user's average daily app usage time. This will encourage a user to make use of the playlist instead of viewing it as a too-large task to complete. Overwhelming a user with a large playlist may result in the user ignoring the feature as it is too time-consuming to listen to. Another recommendation is to make use of Decision Trees or Random Forest algorithms for the prescriptive model (Refer to section 6.5 about algorithms). After performing research, the ideal algorithm is Random Forest. Random Forest is similar to Decision Trees but in simple terms, the difference is the Random Forest algorithm consists of many small Decision Trees which results in a more accurate result. Random Forest is the suggested algorithm for building customer profiles because it considers all the possible outcomes and selects the most appropriate outcome. Random Forest Algorithm is also ideal for analyzing real-time data. To ensure that Spotify's data analysts remain ethical, a suggestion is to include a Non-Disclosure Agreement in their employment contract. This will ensure that the data analyst does not leak any business information and implicates the data analyst if they inside trade while still protecting the company.

7.9 Conclusion

Spotify's user preferences are constantly changing due to new songs being released frequently and the nature of their target market. A predictive model will give Spotify a competitive advantage in recommending new songs to users which will result in satisfied customers, but it still requires the user to find new music by themselves. A prescriptive model will help eliminate this. By creating a Weekly playlist that is personalized to the user's preferences, it will automatically play new songs to users. If the user likes a song in that playlist, it will provide the prescriptive model with more data about the user and improve the accuracy of the model. Eliminating the hard work in discovering new music will give Spotify a competitive advantage over the market. The Discover Weekly feature will also give users a reason to use the application each week. Spotify relies on retaining customers and keeping them satisfied, implementing a prescriptive model will help satisfy the music needs of customers. Ultimately resulting in a greater return in profit due to customer satisfaction. To ensure a predictive and prescriptive model remain ethical and produces accurate results that truly represent a dataset, it is important to ensure that the data analyst is ethical in their practices. Spotify can train its data analysts to adopt an ethical approach by setting a standard that requires the analyst to explain their model and the analysis process. Requesting the data analyst to sign a Non-Disclosure Agreement will protect Spotify against Inside Trading and leaking of sensitive information.

8 Conclusion:

Spotify has made use of all four types of data analytics. Descriptive analysis was used to identify their target market and gain an understanding of their demographic. Diagnostic analysis was performed afterward to gain an understanding of the root cause of their demographic and to build a generalized customer profile of their target market. The information extracted from the generalized customer profile is that the main age group is Millennials and they put a high value on convenience when looking for music. Predictive analysis has been used to gain an understanding of customers' music preferences by analyzing the songs they listen to or like. Based on this information, the predictive model suggests songs that consist of similar attributes. This feature increased the convenience and efficiency of recommending songs to a user. Prescriptive analysis was implemented in a new feature released by Spotify (Discover Weekly). This feature removed the hard work of creating a new playlist for the user and automatically builds a playlist based on the user's preferences. In each case study, Spotify has addressed the possible ethical and legislative considerations that apply to its data collection and analyses process. Spotify has successfully implemented Data analysis to solve business problems and gain a competitive advantage over the music streaming market. Spotify has a market share of 36% while its direct competitor Apple music only has an 18% market share. From this Interpretation, it is possible to confirm that Spotify has successfully implemented Data analysis to gain a competitive advantage.

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