The Future of Spotify: Assessing Spotify's Position by Analysing the Competition

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ABSTRACT

This paper investigates the position of Spotify within the digital music market. The digital music market has drastically changed the way in which consumers listen to music and how artists earn their money, despite the importance of this market, little academic research has been done. By conducting a Porter's Five Forces analysis, combined with a comprehensive analysis of each of the significant competitors of Spotify, its position is assessed and an insight in the future of this position is determined. A thorough analysis of Spotify and its competitors can provide useful insights which can contribute to the knowledge about the young and volatile market which is digital music streaming. The research suggests that Spotify has strong competition in both the on-demand streaming market, as well as outside the streaming market because of alternative methods of listening to music. Next to this, the likeliness of a new strong entrant is low. The most threatening alternative to on-demand music streaming is Youtube. Labels and artists seem to look favourably upon on-demand music streaming service and are closing mutually beneficial deals, the power of suppliers is therefore not working negatively for Spotify. Overall the position of Spotify seems solid and, given no real changes in the landscape occur, will continue to be solid. Resulting in the conclusion that is is likely that Spotify stays the market leader.

Keywords

Spotify, Music Industry, Streaming Services, Porter

1. INTRODUCTION

Online music streaming has become one of the prime ways in which consumers access and consume music. The streaming market serviced 212 million users by the end of 2016, of which around 112 million paid subscribers, according to estimations by IFPI [11]. After years of decline in revenue in the recording industry, 2015 marked the first year of revenue growth, mainly due to the surge of streaming revenue, reporting 45.2% revenue increase in 2015 [9], showing continued growth in 2016 with another rise of 60.4% [11]. Since its launch in 2008, Spotify has rapidly become the largest streaming service in the digital music market, reaching the 50 million paid subscriber mark as of March 2017 [41].

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Due to the size of Spotify, it plays an important role in the recording industry. Since it offers artists considerable exposure as well as revenue, 5 billion dollars as of September 2016 [46]. Revenue which would largely not be generated if not for Spotify, according to Daniel Ek, CEO of Spotify [19]. Whether this statement is true or not, it is hard to argue that Spotify does not have an influential position within the digital music market.

Although Spotify is the market leader in the streaming market, it has repeatedly failed to generate profit [22]. This is an industry-wide problem, which makes the market a special one, with stakes which are different than other, more conventional markets.

1.1 Problem Statement

Although the digital music market makes up 50% of the revenue generated in the recording industry, of which streaming makes up the majority [11]. Little academic research has been done in the music streaming market, whilst it has a large impact on consumers and the way they consume music as well as artists, the way the artists get paid for their work and the way they market their music.

1.2 Research Questions

Considering the problem statement, the following main research question can be derived:

How strong is the current position of Spotify within the digital music distribution market and how will this position be influenced in the future?

To answer this question, the following sub questions will be answered:

1. What are the current competitors of Spotify and what differentiates these services?
2. What is the likelihood of a new strong entrant in the music streaming market?
3. Are other means of consuming music serious competition for music streaming, considering Spotify in particular?
4. What is the (potential) power of suppliers on Spotify?

1.3 Structure

This paper will continue with describing the research method in section 2. Section 3 will provide some background information on the market in which Spotify operates. After this the literature review will be conducted in section 4, to provide the necessary information in answering the research questions. In section 5, the results will be presented. Section 6 will consist of a discussion which proposes further research. After this the paper will be concluded in section 7.

2. RESEARCH METHODS

To answer the sub questions a literature review, as well as data from company reports and the news about current developments surrounding Spotify and its competitors will be utilized. The literature has been found by utilizing Scopus with search term "music streaming". Next to this, research on music streaming and new music business model has been done in prior proceedings of the "Twente Student Conference on IT" [27, 35, 47, 51]. Gaining an insight in the recording industry is done by using data gathered by IFPI [7, 9, 11].

The competitors considered are chosen because of several reasons:

- Current subscription base
- Significant differentiation
- Complementing products

The analysis will follow the five competitive forces which shape strategy, as defined by Porter [40]. Porter's Five Forces has been chosen since it is still a widely used framework, next to this, Manteghi and Zohrabi created a comprehensive framework which has been published in Elsevier and has been cited multiple times [31]. In this framework, Porter's Five Forces was used to provide the basic information which was needed in the framework later. This suggests that Porter's Five Forces is suitable for an analysis providing basic insight into an industry, this makes Porter's Five Forces very suitable for this research.

The current competitors have been compared on the basic metrics of catalogue and user base size. Next to this, the differentiating characteristic of each competitor has been extracted from the available data on the websites of these services and news surrounding these services.

Assessing the threat of new entrants has been done according to the relevant factors which are described by Porter.

The alternatives considered are chosen because of the amount of users of these services, only digital services are considered here, since the recording industry itself has agreed that digital distribution has the future [7], excluding physical distribution as a threat to music streaming. The threat generated by these alternatives has been assessed by comparing user count and the growth figures of these services, as well as the differences between the services and whether these are advantageous or not.

The power of suppliers on Spotify has been assessed by using the factors which affect the power of suppliers described by Porter. The data for answering this question has been collected by combining news reports regarding the relation between Spotify and its suppliers.

The sub-research questions all have a focus on a specific research question. The only force which does not have a specific sub-research question attached to it is the power of buyers, which will be discussed in the overall Five Forces analysis. Dedicating a complete sub-research question to this force will probably not yield any interesting industry specific knowledge, since the buyer/supplier relation is a standard subscription-based relation.

To answer the main research question, all the requirement information, gathered through answering the sub-research questions, will be combined and used in the Porter's Five Forces model.

3. BACKGROUND

Since the rise of the internet, revenue of the recording industry declined, mainly because of piracy [7]. During the digitalization several services were established. These services distributed music digitally, instead of the way it had always been, physically. These services are defined by Katsma & Spil [26] as Digital Music Services (DMS): "An internet enabled service that principally offers music in an audible format to its consumers". Examples of this are Youtube, iTunes and Spotify. Spotify is an on-demand streaming service, offering users the ability to directly listen to music the user wants to listen to, without the need for downloading. Spotify was founded as a start-up in 2006 in Sweden [44] and has since then grown to become the largest on-demand music streaming service with 50 million paying subscribers [41], contributing, together with other streaming services, to revenue growth for the recording industry, after fourteen years of decline [7].

4. LITERATURE REVIEW

The following sections will review the relevant literature, as well as assess the theoretical background of information found outside of scholarly literature. Since the amount of literature on the music streaming market is limited, no specific methodology in selecting the literature was required for a structured review.

4.1 Consumer Preferences

This section will consider the data known about the consumer preferences, it gives insight is what consumers find important when choosing a specific streaming service or when considering switching to a different music service.

Research by Doer et al. [17] assessed the willingness to pay (WTP) for a so called 'MaaS' (Music as a Service). To determine this WTP the researchers conducted a research to find out what influences the WTP. The WTP also implies the amount of value a customer attributes to a MaaS. The researches concluded that the price (20%), the contract duration (16%) and the music quality (14%) were, relatively, the most important factors on the WTP.

Research by Giletti suggests that the size of the music library is the most important factor in the choice for an music streaming service [20]. The complete overview of the factors considered is given in table 2.

Table 1. Considerations for choosing a music streaming services

Factor	Importance (%)
Music selection	47.9
Convenience	21.8
Sound Quality	15.5
Price	9.2
Other	3.5
Legality	2.1

Keppels [27], found similar results when considering the factors for switching to another online streaming service, concluding that the price and the size of the music collection are the most important considerations. This research however shows that sound quality has less impact on the choice than the research by Giletti and Doer et al. suggest. The results found by Keppels are displayed in table

Table 2. Considerations for switching a music streaming services

Factor	Would consider switching (%)
Music selection	44
Price	40
Less advertisements	26
Music quality	22

Table 3. Overview of the streaming services

Service	Users (million)	Selection (million)
Spotify	>100	>30
Pandora	81	>1
Apple Music	>27	>40
Deezer	6	>43
Tidal	>1	>46

2, the factors which overlap have been standardized to the corresponding factors in table 1.

4.2 Porter's Five Forces

Porter published in 1979 a new framework for analysing industries, he defined five competitive forces which shape strategy. The forces defined are; threat of new entrants, bargaining power of suppliers [40], bargaining power of customers, threat of substitute products or services and the competition jockeying for position within the market. The strength of these forces influence the profitability of an industry. Knowledge of these forces can be used in adjusting a companies strategy in order to claim a stronger position within the market.

Although Porter's forces was published in 1979, it remains relevant to this day for analysing a market. Porter's Five Forces was used as the first step in a proposed comprehensive framework by Manteghi and Zohrabi [31]. The Five Forces Model provides the basis of information about competition, which is needed for a comprehensive analysis of the required strategy.

Next to this Porter's Model is still being used in various recent analysis of different industries [30, 32, 38]. This suggests that the old framework still provides a solid basis of an industry analysis.

5. RESULTS

In this part the results of the research will be presented, these results provide the answers of the sub research questions and ultimately the main research question. The results will follow the structure of the research question, starting with the analysis of the competitors. After this the threat of new entrants will be assessed. Thirdly the alternatives to streaming are considered. In the fourth subsection, the power of suppliers is reviewed. Lastly, the overall position of Spotify will be assessed.

5.1 Competitors

In this section the different competitors which are considered in the overall analysis will be described, mainly focussing on the advantages and disadvantages these companies have, compared to Spotify. A comparison between the different streaming platforms can be found in table 3, the services are ordered by their current user base (free + paid users), extracted from publicly available data [1, 5, 6, 12, 36, 46, 53].

Amazon Music Unlimited and Google Play Music have not been included in the table, since there is no publicly known data about the current user base. Tidal claims it has 3 million paid subscribers, but it has been reported that these numbers might have been heavily inflated [33]. The report suggests that the amount of users of Tidal is closer to 1 million. Therefore, this figure will be used when comparing the service to Spotify.

5.1.1 Pandora

Pandora is the oldest service considered in this comparison. Having over 80 million users, of which just 4.39 million users of the paid subscription [12]. Next to this Pandora has the smallest catalogue size of the services considered in this comparison. Pandora, for that matter, is not an on-demand music streaming service, but acts as an internet-radio. Further analysis of the impact of this different way providing music will be analysed later when answering the third sub research question.

5.1.2 Apple Music

Apple Music is currently the biggest competitor of Spotify, with over 27 million paid subscribers [53], in June of 2017, just 7 months after it hit the 20 million subscriber mark [43].

Apple has the advantage of being a large company with other means of securing revenue, this is a considerable advantage, since the music streaming market has yet to prove to be profitable. Reducing the need for attracting investor money. Apple currently has over $250 billion of cash on hands [54]. It is using this cash to provide artists with deals [28]. These deals help artist, for example, with large marketing campaigns and production of music videos. Apple Music releases the work of these artists as an exclusive, often for a limited time, making Apple Music the first music streaming service to offer the release to their users. Due to discontent shown by label companies towards exclusives, Apple Music is reportedly moving away from exclusive albums [39]. The impact of these exclusives on the amount of users will be assessed later.

Because of Apple's position within the digital market, it has another advantage. Apple controls the environment in which Apple Music is often used. The amount of devices which use Apple's iOS surpassed 1 billion last year [48]. This gives Apple more control on how the applications used for Apple Music are displayed and how these applications work. Next to this it gives Apple control over how the applications of competitors behave in the iOS environment. Spotify accused Apple of blocking an update of the Spotify application for iOS, because Spotify disabled the mandatory in-app billing system, which pays a mandatory fee of 30% to Apple [23]. Spotify disabled this after it actively promoted new potential customers on the iOS platform to subscribe via the Spotify website, to which Apple, reportedly, threatened to remove the application from the App Store.

Currently Apple Music offers a lower music quality than the other competitors, offering its streaming service at a 256Kbps bitrate [37]. Instead of the more standard 320Kbps which the other streaming services, including Spotify, offer.

5.1.3 Deezer

Deezer is a company which, like Spotify, is an European start-up without a large company backing the service. Deezer does not have many distinctive features, but does provide a larger music selection than Spotify and Apple Music. Deezer lost subscribers during 2015 [16], in a time in which the overall music streaming market saw a surge in the amount of subscribers [9].

Next to this, Deezer gets most of its users because of a deal with telecom company Orange. 1.5 million users use these kind of deals. Next to this 3.3 million of the overall counted users, can use Deezer without having to pay any extra fees, but choose not to. These users are counted as inactive users, although being added to the overall number of users [16].

5.1.4 Tidal

Tidal, despite being a rather small competitor, provides an interesting case into a few aspects which are considered by users to be important when choosing a specific music streaming service. Tidal has the largest selection of music of the services considered (46 million songs), including some exclusive major releases of 2016 [28]. Next to this Tidal has made lossless music quality one of its major selling points [6]. These are both considerably better than Spotify's offer.

5.1.5 Google Play Music

Alphabet, parent company of Google, has not made any figures on user count of their music streaming service publicly available. The remaining share of the global market when subtracting Spotify's and Apple Music's share, suggest that Alphabet does not capture a large portion of the music streaming market, considering the market shares of the other competitors as well.

Despite not having a large amount of users, Alphabet has some advantages which it can leverage. Just like Apple, Alphabet has large cash reserves on hand, \$ 75.3 billion in Q1 of 2016 [3]. These cash reserves and other revenue streams offer possibilities for similar business deals like Apple's.

One of the most distinctive features of Alphabet when comparing music streaming services which are on offer, is the fact that it owns the largest music platform currently existing, Youtube, estimated to have 900 million users which use the service for consuming music [11]. Whether or not Youtube is unfair competition for other streaming services, how large the actual impact is of the 'value gap' or what the legal implications are of the way content is being delivered is out of the scope of this research. The fact that Youtube and its resources are available for Alphabet to utilize gives it an advantage over the other services considered in this research.

Because of the ownership of Youtube, Alphabet bundles a subscription to Play Music with a Youtube Red subscription [2], adding significant value to the €9.99 offer.

5.1.6 Amazon Music Unlimited

Like Alphabet and Apple, Amazon is a large company with other revenue sources. Giving it possibilities of offering exclusive projects on its service in order to give it an advantage over the competition.

This financial room allows Amazon to provide its service cheaper for specific users than the competition. Amazon Prime members, of which the amount is estimated to be 80 million [18], can subscribe to Music Unlimited for a monthly fee of \$7.99. Owners of Amazon's Echo can subscribe to the service for \$3.99. The Echo enables Amazon to provide a seamless and voice-driven music streaming service, for a low price.

5.2 New Entrants

To assess the seriousness of the threat of new entrants, the relevant sources of the barrier to entry described by Porter will be utilized [40]. A higher barrier to entry means a lower threat of new entrants, since the market is less interesting for new entrants. The sources are discuss are ordered according to their impact on the barrier to entry, starting with the most impact full source. Some sources are left out, because these do not apply on the specific industry, or are of a negligible influence.

5.2.1 Access to Distribution Channels

One of the largest sources of the barrier to entry is the 'access to distribution channels'. Since the product delivered by the service is dependent on the work and willingness of artists or labels, it is important for a music streaming service to have a large catalogue of music, since consumers prefer an extensive catalogue. The large amount of deals which have to be made with labels and independent artists, do raise the barrier to entry significantly.

5.2.2 Capital Requirements

The capital requirements mainly stem from the issue of profitability. Since profitability has proven to be an issue for all music streaming services [21, 22, 29], the entrant needs significant amounts of money in order to be able to carry the losses. If offering the service itself is not likely to be profitable, entering the market has to add some value to other business practices. Large corporations like Apple and Alphabet offer their streaming services in order to provide a more coherent experience, in case of Apple this means for example a nicely integrated music streaming service with the iOS device of your choice, in case of Alphabet this can be seen with an android device with Google Play Music being pre-installed. Next to this, Alphabet can use the data generated from users of their service, to improve advertisement, adding significant business value for Alphabet. Since start-ups do, generally, not have these other business practices, entering the music streaming market does offer added business value. This deters these possible entrants from entering the market. This limits the possible entrants to existing corporations with cash reserves, for which entering the music streaming market carries adds business value.

5.2.3 Product Differentiation

The music streaming market already has numerous amounts of services, of which Spotify is the most influential, as well as the first company to offer on-demand streaming which has become mainstream. This position give Spotify a more prominent brand identification. Brand identification is also a strong point for Apple Music, because of the strong brand Apple has [14]. This raises the barrier for possible entrants.

Overall, the likelihood of a new strong entrant seems rather low. Capital requirements are high and the market already has several competitors with strong brand identification. Next to this large competitors such as Spotify, have started negotiating for lower royalty fees [34, 15]. These factors make it highly unlikely that a new strong entrant can compete with the current streaming services, especially considering the fact that most large companies who would have interest in the market, already offer a service.

5.3 Streaming Alternatives

This section will report the alternatives available to on-demand music streaming, next to this it will assess the impact and potential of these alternatives.

5.3.1 Internet Radio

Internet radio services like Pandora and iHeartRadio offer a streaming service which is not on-demand, but provide the user with a radio-like experience in which the user can like or dislike a song in order to provide a more tailored subsequent selection of music for the specific user. These services do have significant amount of users [10, 42]. The rate of paying users to free users in these services are considerably lower than on-demand services which offer a freemium offer, e.g. Spotify. In the case of Pandora, users at the end of Q4 of 2016 consisted of around 18.5% out of paying subscribers [12]. While the amount of paying subscribers rose, the amount of total users declined slightly.

The main selling point of these internet radios are, often, the algorithms which provide the selection of music to the user, this selection does include music which is similar to the artist or genre the user defined. This offers the user the possibility to discover new music which might be of interest to the user. These algorithms are also available in on-demand music streaming services. Because of this, the internet radio services do not add significant value for users of on-demand streaming services. Switching service by users of on-demand streaming services to internet radio seems unlikely because of the smaller music selection and less freedom because of the lacking on-demand features.

5.3.2 Legal Downloading

Services like iTunes (Apple) offer users a way of acquiring and owning music by paying per song. This song can then be downloaded and offers the user the right to listen to this song. This is considered as legal downloading. The songs usually cost around \$0.99 and albums \$9.99. This makes listening to multiple albums considerably more expensive than the \$9.99 offer an on-demand streaming service which enables the consumer to listen to a large library of music. This does however make the user the owner of the song, which is available to the user forever. The streaming service only gives the user access during the months for which the subscription fee is paid.

Legal downloading has suffered from the rise of streaming. The revenue declined by more than 20% in 2016, while streaming revenue increased by 60,4% [11]. Legal downloading does not seem like a competitive alternative to streaming, since the price of the individual albums and songs rapidly exceed the monthly subscription fees of the on-demand streaming services. Next to this the downloading of the songs results in the user owning a digital file, which does not bear the same sentimental and collectors value as physical albums, offering little added value to the product.

5.3.3 Illegal Downloading

Illegal downloading or piracy has been a problem for the recording industry since the rise of the internet. Since music is acquired without the need for payment, artists and record labels earn no money from these downloads.

IFPI estimated that in 2015, 20% of worldwide internet users regularly visit services which offer copyright infringing music [7]. This is a large portion of the worldwide internet users, suggesting that these downloading services are much more popular than music streaming services.

On-demand streaming services however, seem to be a good alternative for costumers to piracy. Research by the Joint Research Centre of the European Commission suggests that on-demand streaming services, Spotify in the researched case, displace music piracy [13]. Streaming services offer a large catalogue of music in an instant, while most illegal downloading services requires the user to download each file separately. Streaming services are often more convenient for the user. The president of Valve, Gabe Newell, which owns the largest digital distribution platform for gaming, Steam, said about piracy: 'Piracy is almost always a service problem and not a pricing problem' [50]. Researchers found that this claim might be true, offering the right service may be an effective way of combating piracy [49]. On-demand streaming services have seemed to tackle this service problem. Since research suggest that on-demand streaming services reduce piracy.

5.3.4 Video Streaming Services

Video streaming services are services which offer easily accessible video as a service. Youtube is the largest platform within the video streaming market with over one billion users [4]. Most of these platforms are regarded as a service with user-generated content, meaning that these services can claim that they are not legally responsible for the content on the service. Resulting in a difficult situation for copyright holders. If music labels do not make their content available on Youtube, a user of Youtube will do this, meaning copyright infringement and lost revenue for the label. Although Youtube is willing to help copy right owners with managing this problem, it still forces copyright holders to make their content available on the service, in order for users who search for a specific song at least watch an officially licensed video, which generates some revenue.

The IFPI estimates that 900 million of the Youtube users does use the service as a music streaming service. Research suggests that Youtube is the first choice when searching for a song for more than 90% of consumers [51]. Youtube (probably) contains the largest music library, legally or illegally, of all streaming services. No hard figures on this exist, since covers and user uploaded songs, which infringe copyright, add up to the number of songs which users can listen to. Combined with no requirements for users to register or any real constraint on the amount of streaming which is done, makes Youtube a very interesting service for users to listen to music.

The estimated revenue per user for Youtube is drastically lower than that of the music streaming services, less than a dollar and twenty dollars [11] respectively. This gives Youtube a significant advantage over on-demand music streaming services, since the amount of payment which needs to be done to the copyright holders in much lower. The recording industry has been asking for legislative means to tackle the value gap created by Youtube [11], the European Commission has acknowledged the problem and is looking into legislative means in order to tackle the value gap [45].

Youtube is one of the largest contestants of on-demand music streaming, because of its ease of use, library size and availability without the need of subscription. It will probably remain to be one of the most important ways of consuming music for consumers, if nothing drastically changes in the way Youtube offers its content. Because of the copyright reforms which might be implemented by the European Union, Youtube (and other user-generated content services) will have to increase payment to copyright owners and increase its efforts in detecting and taking down copyright infringing content. This will result in Youtube having to increase the revenue it gets from its service in order to keep up with the payments which need to be done. This might lead to Youtube putting up barriers for accessing content, by requiring a paid subscription, or limit the way in which users can listen to music, just like Spotify does with its add-supported model. Which allows users to listen to music for free, but plays advertisements in between songs and limits the mobile application to shuffle play only with restricted amount of times a user can skip a song.

5.3.5 The Unexpected

Since the rise of the internet, the way consumers access music has changed dramatically. Transitioning from physical to digital has resulted in different new ways of consuming music. Spotify started as a small Swedish start-up and has grown into one of the main means of consuming music across the world. Predicting the future, filled with possibilities enabled by the internet, with certainty, is impossible. Alternatives to the current streaming model can pop-up and threaten the current services. Only time can tell when, how and whether at all this will be the case.

5.4 Power of Suppliers

The music streaming services provide a product, music, which is being produced and owned by artists and labels. Which makes the artists and the labels the suppliers of the music streaming service, or the whole music market for that matter. The content they provide is of vital essence to the music streaming services. On the other hand, the streaming services do provide a significant amount of revenue and exposure to the artists. This makes the relation between buyer (streaming services) and supplier (artists and labels) complex, making the assessment of the power which the suppliers have difficult.

5.4.1 Labels

Porter states that a supplier group is powerful when "It is dominated by a few companies and is more concentrated than the industry it sells to". The "Big Three" of record labels make up 68.7% of the market [8], as of 2016. Most artists have their contracts at one of these labels, or its subsidiaries. This suggests that the suppliers have a lot of power. However, this power is limited by the fact that the labels rely on the services and physical outlets to provide the exposure and revenue for the artists. The labels need the services to sell their product. Next to this, the power of the suppliers is limited, because the product they offer, is not limited by production capacity, in the case of digital distribution. This means that suppliers do not have the leverage of dividing amounts of their (limited) product to different buyers.

In the case of Spotify, it has made a deal with one of the large labels, to limit the amount of content a freemium user can access [24]. This deal may offer Spotify a break from the royalties it has to pay to Universal. In return the label can release new albums for paying users only, in the first two weeks. This way the label encouraging users to become a premium user.

The interdependence, combined with the almost unlimited capacity of the suppliers to supply its product. Reduces the amount of power the suppliers have over the buyers significantly, but they still can choose to stop making their product available to a specific service. This might be doable without large impact on the labels, when the service is small. But in the case of Spotify and the exposure Spotify generates for the labels, this might lead to significant damage for the service.

5.4.2 Exclusivity

Exclusivity is a strategy utilized by various music streaming services such as Apple Music and Tidal [28]. Tidal has high profile exclusives from Beyoncé and Kanye West, whereas Apple Music offers its users albums from Taylor Swift (although available on Spotify since June 10th 2017 [52]) and Drake. These exclusives do not seem to be very impactful for Tidal's subscriber count [33], since the amount of subscribers is rather low in comparison to Spotify and Apple Music. Next to this, there is no indication that the subscriber count is rapidly increasing, or a significant impact of the exclusive library of Tidal on this subscriber count. Assessing whether or not Apple Music has surged because of exclusive releases is rather hard since the significance of other factors which have influence on the popularity of the service are not easily concluded. Brand identification and the three-month free try out have impact on the subscriber count as well.

Several industry experts, as well as Universal (large label) and some artists have spoken out against exclusivity [28, 47, 25]. Exclusivity could lead to consumers having to subscribe to multiple services to have access to all the desired music. This is not consumer friendly. Because of this backlash, Apple has decided to move away from album exclusives [39]. Album exclusives are arguably the most impactful exclusive deals in regard to these services, since it affects the core product a service offers, the music. Apple's strategy of exclusive video content does not seem to be as impactful.

Since Tidal does not seem to capture a significant share of the market with its exclusive library and the overall industry is moving away from exclusive deals. The potential impact of exclusivity for Spotify, does not seem to be significant in the long run, as long as the industry believes that exclusivity is not desirable.

5.5 Spotify's Position

In this part the position of Spotify will be analysed using the Porter's Five Forces model, with the previously gathered data, as well as providing a prediction of the influence these forces can have on the position of Spotify.

5.5.1 Competition

Spotify has a merit of competitors in the on-demand streaming market, these competitors include some of the most prominent tech companies, with large amounts of cash on hand to invest in marketing campaigns and increasing the overall experience of the service. Apple Music, the largest competitor, has been growing 7 million subscribers in the last 7 months, but it still does not come in range of overtaking Spotify in subscriber count. The music streaming market is still growing exponentially [11], suggesting that a lack of new users resulting in a fierce competition in which users will be actively persuaded into switching services is less likely. Attracting a new user which does not have a subscription to another on-demand streaming service is easier than one who does, because of brand-recognition and the need for users remake their playlists. This reduces the likeliness of the competitors of Spotify to actively market towards Spotify users, when these resources can be used more effectively when attracting new users to the on-demand streaming market. Without a major incident changing the on-demand music streaming market, Spotify will probably remain the market-leader, considering the rather limited impact current competitors have had.

5.5.2 Threat of New Entrants

The barrier to entry for the on-demand music streaming market is high. Profitability is a problem which no service has seemed to have adequately solved yet. Next to this contracts with a lot of organisations have to be made, in order to provide a complete enough library for users to be considered interesting. These two reasons combined suggest that the possible entrants are limited to the large corporations, especially tech-companies, who have a vested interest in users and providing a coherent experience for their users. Considering the fact that most of these companies already have a music streaming service, of which only Apple Music has been able to really make in impact in the market, a new strong entrant does not seem likely.

5.5.3 *Substitute Services*

Music streaming services seem to have replaced most of the alternative methods of listening to music, taking into account the decline of paid downloading, physical sales, stagnation of internet radio and increase in streaming.

The most impactful substitute service at the moment is Youtube, servicing around 900 million users as a video streaming service, offering a similar experience to on-demand streaming services with an added video. Youtube has the advantage of being regarded as a service which offers content generated by users, voiding the need for paying the same amount of royalties as services which license their content directly with the copyright holder. Because of this, Youtube can offer a better deal (free, no restrictions, no need to register) than Spotify and other music streaming deals. If no legislative or copyright law changes are implemented, this situation will continue to exist, hurting Spotify and other music services. Youtube will probably remain a large service, which can pull (potential) Spotify users away from Spotify.

What drives consumers to use Youtube instead of another service is hard to say without an empirical study on this consumer group. This makes assessing whether or not Spotify is hurt by Youtube rather hard. It is clear that Youtube is widely being used as a platform for listening music to, so the influence of Youtube has to be taken into account when considering the music industry.

5.5.4 *Power of Suppliers*

Spotify's suppliers are the labels and artists. The labels seem to have a positive attitude towards streaming, since it realised a growth in revenue after more than a decade of decline in revenue in the recording industry. Spotify and the labels are working on mutually beneficial agreements, suggesting that it is not likely for the suppliers to use their power to negatively influence Spotify. This will probably apply to other streaming services as well, since the industry has indicated it looks favourably upon music streaming and regards it as the future of the recording industry.

5.5.5 *Power of Buyers*

The buyers, consumers of music in this case, can quite easily change the service they are using. This raises the power of the buyers significantly, requiring services to offer extra value in order to keep the customers. Most of the major competitors of Spotify offer some extra value to their streaming subscription. Currently this extra value does not seem to hurt Spotify, suggesting that brand-recognition and overall experience is sufficient for the customer to not change services. On the other hand, services like Apple Music have gained significant amount of users, through their brand recognition and three month trial offer. Whether these users are attracted to the market because of Apple Music, or would have had a subscription to Spotify if Apple Music did not exist, is hard to assess. What can be observed is the fact that, although a large amount of different services exist, Spotify still manages to grow its user base.

5.5.6 *The Future*

Spotify's position seems rather solid, subscriber amount is rising and the entry of large tech-companies to the industry does not seem to impact Spotify greatly. The deal with Universal, which provides a template for negotiation with other labels, paves a way towards profitability and a stable IPO. The largest threat for Spotify is Youtube. Whether or not Youtube will replace on-demand music streaming services, is hard to tell. One important factor to consider is possible legislative measures, which will limit the advantages Youtube has right now. If Spotify can continue the service they are currently offering, it will probably stay the market leader within the music streaming market.

6. DISCUSSION

Several findings which were found during this research provide an interesting base for further investigation and future research, some limitations will be assessed here as well.

6.1 Competitors

This research has limited the analysis of the competitors to a selection of 6 services, while the amount of on-demand streaming services is much higher than this number. Due to the resources for this research, not all these competitors could be assessed. Although the most important competitors are discussed, in a volatile market like music streaming a formerly unknown competitor could gain significant market share.

6.2 Consumer Preferences

The research which has been conducted in regard to consumer preference almost exclusively came to the conclusion that the size of the music library is the most important factor for users when considering which streaming service to use. However, the amount of users of each service suggest that the importance of these factors is less than what is to be expected when considering the data. Spotify, having a relatively small music library, has the most users. Concluding the same when considering the pricing, also an important factor, cannot be said easily, since most services offer a standard $9.99 subscription.

More in-depth research could provide more insight in why this phenomenon is apparent. One possible explanation for this discrepancy in data is the fact that music selection size is a rather subjective term. The size of the music library is sufficient when all the music the user wants to listen to is available. A user interested in one genre of music, does not need the service to offer a completely different genre. Most 'mainstream' music is available on Spotify, listeners of this genre might not be interested in hard-rock or metal, having these genres included in the music selection adds little value to these users.

6.3 Youtube

The influence of Youtube on the position of Spotify is hard to assess. Since both services are inherently different, video and music streaming services respectively, it is hard to say whether Youtube is attracting user which would otherwise have been using and paying for Spotify. The assumption has been made that Youtube does have a negative impact on the position of Spotify, which seems logical, due to the fact that Youtube is being used as a music listening platform, like Spotify.

New research can offer more insight in the relation between Youtube and Spotify, examples of this relation are:

- Youtube is a direct competitor of Spotify (attracting users which would have been Spotify users)

- Youtube users are not, and were never, potential Spotify users
- Youtube complements Spotify, or vice versa

Whether or not Youtube should be considered as dangerous for Spotify and the on-demand music streaming market as a whole is dependent on the relation it has to the other services. Researching this might generate more insight into the strength of the streaming industry as a whole.

7. CONCLUSION

Spotify has a large amount of competition, in the on-demand streaming market. It has competition from influential tech-companies as well as competition outside of the streaming market, in the form of Youtube. Although competition seems fierce, Spotify manages to keep a strong position within the digital music distribution market. It is unlikely that a new strong competitor will enter the market, since the barriers to entry are high and most large tech-companies already offer an service. No real alternatives to music streaming, aside from Youtube, are apparent, however in the highly volatile market which is the digital music market, coupled with the possibilities enabled by the internet, a completely new way of consuming music could surface and take considerable market share. Whether or not Youtube will displace Spotify is hard to assess, since both are different services, it is clear that Youtube has a large influence on the music industry as a whole. Therefore it has to be seen as serious competition for Spotify. The suppliers of Spotify have a positive stand music streaming and Spotify, the power of the suppliers is therefore not used negatively in relation to Spotify. If no major changes in the landscape occur, Spotify is likely to keep its leading role in the digital music distribution market.

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