MGMT655 Competitive Strategy

Term Paper

How does Spotify compete in the audio streaming industry?

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1. Introduction to the Evolution of the Music Industry

In 1870s, the invention of phonograph by Thomas Edison transformed the music industry and created an economic importance to music industry in comparison to the times when music was only defined by live performances, which had limited reach and accessibility. Music could be distributed with this invention, and it eased the possibility of recording, mass distribution, and consumption.

1.1 Initial stages of industry

Phonographs were the start of the recorded music industry and the commercialization of music. Entrepreneurs set up machines on city streets where people could listen to short recordings for a coin. These recordings were a mix of everything from jokes to songs.

The phonograph soon shifted from a cylinder-shaped device to a flat disk in the early 20th century and it increased the ease of listening to music. The records were commonly played on gramophones, featuring a rotating turntable and a stylus that tracked the beats on the disc to reproduce sound. Flat discs were easier to manufacture, store, and handle, and allowed longer recording times.

It was only in the mid-20th century that vinyl records (flat discs made from polyvinyl chloride (PVC)) became the dominant format for recorded music. Vinyl records were produced in various sizes, speeds, and colors, which allowed customization and aided in including more than 1 song in the discs. They became the primary medium for distributing music, leading to the rise of record labels, record stores, and collaborative work **[1]**.

1.2 Age of portable music

After vinyl records, cassette tapes were a significant form for distributing music. They were compact, lightweight, and could be played on portable cassette players, car stereos, and home stereo systems. Cassettes gained popularity in the 1970s and 1980s, becoming a staple format for music lovers worldwide. However, cassette tapes had several limitations, including poor sound quality when compared to vinyl records. However, cassettes remained a preferred format for music consumption even in the 1990s as they marked the possibility of portable music.

Sony collaborated with Philips to develop the compact disc (CD) format in the late 1970s. This collaboration led to the introduction of the CD in 1982 which eventually took the place of vinyl tapes & cassette tapes. Additionally, CDs gave birth to digital audio formats such as MP3 and the development of portable digital audio players, which helped in storage of music files in digital form. These developments provided consumers with a convenient way to listen to digital music files on the go.

Music lovers could now also tune in to radio stations to discover new music and listen to their favorite songs. Radio stations played a vital role in promoting artists and albums, with DJs curating playlists and hosting music shows that belonged to different genres and tastes. Furthermore, music television channels like MTV and VH1 aired music videos and music-related programs.

1.3 Dominance of streaming music in 2000

The rise of digital technology and the internet during the 1990s helped with new methods of distributing and consuming music. Advancements in internet technology, such as the adoption of the World Wide Web (WWW) and faster internet connections, made it easier for people to access and share digital content, including music. Consumers still purchased music from record stores, or department stores but digital downloads and streaming were also prevalent.

RealNetworks introduced RealAudio in 1995, allowing users to stream audio content over the internet in real-time. Although early streaming services faced technical limitations and were not as widespread as digital downloads, it stood as the groundwork for music streaming. The rise of digital music and online file-sharing was prevalent in the 1990s but it caused debates about copyright, piracy, and the future of the music industry.

1.4 Change in the market structure

The music industry has been **oligopolistic** since the time phonographs were invented. Columbia, Victor, and later Decca, Capitol, and RCA, were the major labels that controlled the recording, manufacturing, and distribution of music. These labels held immense power and dictated the terms of contracts with artists.

By the mid-20th century, the music industry was dominated by a small number of major record labels. The "Big Six" labels (Warner, Universal, Sony, EMI, BMG, and Polygram) controlled a significant portion of the market. Independent labels existed but had limited market share and distribution capabilities. The introduction of new formats like cassette tapes, CDs, and later digital formats (e.g., MP3) disrupted the industry's business model in the late 20th century. Record labels had to adapt and shift their focus from physical product sales to digital distribution and streaming.

The music industry witnessed further consolidation as the music devices evolved (***Exhibit 1***), with mergers and acquisitions reducing the number of major labels. As the major labels merged, independent labels gained control in different markets and genres.

2. The Rise of Napster and Pirate Bay

2.1 Peer to peer sharing

Technology advancements changed the market structure of the music industry, but Napster changed the way incumbents were innovating. Napster, built by Shawn Fanning and Sean Parker, two college students at Northeastern University in Boston, Massachusetts, addressed the challenges of sharing and accessing music online. Napster cashed in the growing popularity of the internet and the increasing demand for digital content, particularly among college students. It leveraged the strength of big record companies and their traditional methods of distributing music against them (**Judo Strategy**) and became popular.

Napster, a peer-to-peer (P2P) file-sharing service, allowed users to connect directly to one another to share files. Users could install the Napster software (***Exhibit 2.1***) on their computers and connect to the Napster network, where they could search for and download music files shared by other users. Additionally, Napster's database of available music was vast and diverse, consisting of a wide range of genres and artists. Napster quickly gained popularity among students, who wanted a convenient and cost-effective way to access music and then, the rest of the world.

2.2 Infringement and Legal Issues

Napster's rapid growth and success attracted the attention of the music industry, which viewed the platform as a threat to its established business models and revenue streams. Napster continued to operate throughout the late 1990s and early 2000s despite legal challenges and copyright infringement lawsuits from the music industry. However, in 2001, Napster was forced to shut down its service temporarily following a court order issued in response to copyright infringement claims.

2.3 Impact on the industry

The impact on the music industry and digital culture was profound. Napster paved the way for subsequent file-sharing services and online music platforms, raising debates about copyright, piracy, and the future of the music industry.

Another platform that facilitates the sharing of digital content, particularly files related to entertainment media such as movies, music, and software was introduced in 2003. Pirate Bay was launched as a BitTorrent tracker website (***Exhibit 2.2***), providing users with a searchable index of torrent files that enabled peer-to-peer (P2P) file sharing. BitTorrent technology allowed users to download and upload files directly from one another, bypassing centralized servers and facilitating decentralized file sharing.

Over the years, The Pirate Bay has faced numerous legal battles and efforts by authorities to shut down the website or block access to it. However, the website has managed to persist and adapt, often relocating its servers or switching domain names to evade enforcement efforts. Today, Pirate Bay remains one of the most well-known and widely used torrent websites globally, despite ongoing legal and technical challenges.

Companies like Napster and The Pirate Bay created value by providing access to digital content, fostering communities of sharing and discovery, disrupting traditional industry practices, and influencing cultural attitudes towards digital media.

3. Changing Music Consumption Habits

3.1 Birth of legal streaming services

Several companies launched legal streaming platforms that offered access to vast libraries of music for a monthly subscription fee or supported by advertising revenue. Though Napster went downhill, the demand for streaming music made the major record companies and artists realize the opportunity and potential in it.

Users became accustomed to having vast music databases at their fingertips, anytime and anywhere due to the convenience of accessing legal streaming platforms. Streaming services offered personalized recommendations, curated playlists, and offline listening capabilities, and met the needs of diverse users. In 2003, Apple launched the iTunes Store, an online music library that can be used with their flagship music player, the iPod. Two Swedish entrepreneurs, Daniel Ek, and Martin Lorentzon founded Spotify in 2006 to create a streaming service that could compete with piracy while being compatible with all devices.

3.2 Shift in user preferences

In the early 2000's, the shift in user preferences in music consumption has been marked by a transition from ownership-based models to access-based models, driven largely by the rise of legal streaming services. In the digital age, users increasingly prioritize convenience, affordability, and accessibility when it comes to accessing music. Legal streaming platforms like Apple Music, Spotify, and YouTube Music have capitalized on this shift by offering users instant access to vast catalogs of music for a monthly subscription fee or supported by advertising revenue.

4. Opportunities of Disruption in Music Industry

As seen above, the music industry faced significant challenges prior to the entry of Spotify. Additionally, the user interface experiences were subpar, necessitating improvements to incentivize consumers to pay for music services. The advent of the internet catalyzed a shift from physical formats like cassettes to digital albums, with Napster laying the groundwork for this transition.

4.1 Affordable subscription-based music services

In the late 1990s and early 2000s, Napster making pirated music easily accessible posed a significant challenge as consumers faced a dilemma between resorting to piracy or purchasing expensive legal options such as CDs or digital downloads. Legal battles started between record labels and file-sharing services, underscoring the industry's struggle to control piracy effectively. However, amidst this turmoil, an opportunity emerged for disruption: the introduction of affordable subscription-based music services. This innovative approach provided consumers with a legal and convenient alternative to piracy, ultimately reshaping the landscape of the music industry**.**

4.2 User Interface Experiences

Existing music services struggled with heavy interfaces and limited features, failing to keep pace with consumers' evolving expectations in the digital space. Consumers wanted music from all around the world and wanted to access it fast. This created an opportunity for new entrants to develop platforms offering enhanced user experiences. By focusing on intuitive interfaces, personalized recommendations, and seamless device integration, disruptors could effectively enhance the overall user experience, attracting consumers to embrace legal music services over pirated alternatives.

4.3 Shift from Physical Formats to Digital Albums:

The rise of Napster marked a critical moment in music consumption, catalyzing a shift from physical formats like cassettes to digital albums. Napster's file-sharing platform allowed users to share and download MP3 files online, signaling the industry's readiness for digital disruption and foreshadowing the transition. This shift was facilitated by the expanded reach of the internet, which provided the infrastructure for such innovation. Within this landscape emerged an opportunity for capitalizing on digital distribution channels to offer on-demand access to music. By embracing this shift towards digitalization and aligning with changing consumer preferences, disruptors could effectively reshape the music industry landscape. Even though some players already existed in the digital music format industry, the increased penetration of internet across households increased the appetite of digital content.

So, we can see that before the entry of Spotify, the music industry was ripe for disruption, characterized by the prevalence of piracy, subpar user experiences, and a transition towards digital formats. The challenges presented significant opportunities for innovative players to enter the market and redefine the landscape through affordable subscription models, enhanced user experiences, and digital distribution channels. Spotify took advantage of these gaps within the industry **[2]**.

5. Competitive Landscape

5.1 Learning from the first mover

With the help of Napster, people found a different and easy way to enjoy the music like never before. But with the obvious issues of copyright and illegal downloading, Napster was never going to survive in the long run **[3]**. The very basic setting of Spotify follows the idea of "learning from the first mover". It took the same idea and tried to add value to their service. Napster could not figure out a business model for the product in hand and survived on illegal trading **[4]**. This was the first challenge that Spotify had to address to use this business model and it did just that. Spotify was the legal Napster.

For a business model to work well, there has to be a good flow of goods from suppliers to firm and then to consumers. Here suppliers are the creators or brands that own music. The consumers are the general public who download music onto their devices. In the case of Napster, it is more of a robbery from the supplier by the firm. Here the firm is trying to make (added value) more than the maximum value that can be extracted. When such a scenario exists, one of the players (music creators here) will not be interested in creating the chain and thus it is not much of a surprise when Napster was sued. This is exactly what Spotify avoided; when they started, they had a way to sell their product. They bore the cost of purchasing rights and went after companies to have their product on Spotify. By doing this they built a legal Napster.

It is easier said than done to be legal. It comes with a cost. Having that many rights of many brands would demand a heavy sum of money. This is where they went a step ahead of Napster and chose to show advertisements between songs and ensured utmost quality in the product they are delivering. They incorporated a set of features that would be unlocked upon a premium purchase. These included offline downloads and the ability to play songs on mobile. They had to innovate to convert more people, which in turn generated more revenue to fund all those licensing of songs. This became a cycle. What made Spotify stand apart from Napster is the ability to recognize the need for this cycle and respect the process which led to their continual improvement (***Exhibit 3***).

From the consumer's point of view, the willingness to pay was higher because of three reasons. First, a **superior quality of the product**. Providing a wide range of songs at such a low price (9.99$ per month) definitely had a good audience. But this is the case with Napster also which boasted a wide variety of songs. These are the other reasons why the willingness to pay went up.

One is the **flexibility to listen to songs on the go**, which was an upgrade from Napster. People went crazy when they first used peer-to-peer transfer of Napster on the desktop. Now taking it to the mobile level increased their convenience which made willingness to pay go higher.

Another reason is the **trust in the downloads.** People now can download songs without the fear that comes with downloading pirated content (virus), which was the occasional case with Napster. These features increase convenience to the user and make them willing to pay for the product.

5.2 Industry outlook after the rise of Napster

With the impetus given by Napster to the music streaming industry, the dynamics of the industry changed. Analyzing through the lens of Porter reveals the change in the way the industry operated.

Supplier's power for bargaining: As briefed in the above paragraphs, the suppliers are the owners of the content. They initially were in a position to have greater power. There were only 3 major suppliers **[6]**. But with time, their power started to wane. The reason is the change in the attitudes of the consumer. With the abundance of streaming services now available, they are not willing to purchase CD. This in turn put pressure on the suppliers whose only medium to reach consumers are these music streaming platforms. Thus, in a way, these streaming platforms has turned the tide against suppliers and lowered their bargaining power.

Buyer's power for bargaining: The switching cost for the consumer is low as all the majority of the streaming sites almost offer the same things. This is where product differentiation comes into the picture which Spotify has cracked by creating personalized playlists which in turn played a crucial role in retaining consumers. But since the volume of consumers is high, firms do not need to worry too much if some consumers switch and hence the bargaining power of buyer is that potent enough to threaten firms.

Substitute threats: The sane substitutes for these streaming sites are the old CD's. But it is not valid in this case, as these streaming sites are a substitute for those old things. In fact, these streaming sites are the substitutes for the CD era, which disrupted the old CD recordings industry. The convenience offered by these streaming sites has come a long way in influencing the consumers in ditching them and made them redundant. Hence, the substitute threat is almost negligible here.

New entrants or likely disruptors: With all the extensive capital required for purchasing the streaming rights, it's an uphill task for the newcomers to be disruptors in this industry. Extensive technology is needed to catch up with level of personalization offered by these platforms. Such high barriers to entry will only make the life of aspiring new firms difficult.

Within Industry rivalry: The present scenario of the music industry represents a tight oligopoly where only a few firms like Spotify, Amazon Music, Apple Music are calling the shots. With such low cost of switching between platforms, the war is intense. But with an advanced level of personalization, Spotify has a lead in the race. Apart from personalization, the library of songs available could be a point of differentiation. Apart from these, rest of the features like price are all the same and there is not any edge for firms.

6. Spotify's Market Entry Strategy

Spotify's entry into the music streaming market was characterized by innovative marketing tactics and a focus on differentiation, enabling the company to successfully transition from Europe to the US. Here's an overview of Spotify's market entry strategies:

6.1 Innovative Marketing Tactics

Freemium Model: Spotify introduced a freemium model that offered users free access to ad-supported music streaming with the option to upgrade to a premium subscription for an ad-free experience and additional features. This strategy helped Spotify rapidly acquire a large user base by lowering the barrier to entry and enticing users to explore the platform. Due to its user-friendly interface and easy access, both free and premium models became an instant hit when launched in market, as users recognized the value that they were getting from the platform.

Viral Marketing: Spotify leveraged viral marketing tactics to generate buzz and attract users through word-of-mouth and social sharing. Features like collaborative playlists and social media integration enabled users to share their music discoveries with friends, driving user acquisition and engagement. It also partnered with brands like Coca-Cola, Motorola, Reebok, and Sprite to build brand recognition by attaching its name with these household brands.

Exclusive Content and Partnerships: Spotify secured exclusive content deals and partnerships with influential brands, artists, and labels to differentiate its platform and attract users. For instance, Spotify partnered with major record labels like Universal Music Group, Sony Music Entertainment, EMI, and Warner Music Group, as well as independent labels, to license their catalogs and offer a vast selection of music to users. These 4 major record labels subsequently became Spotify's major stakeholders, around 45.6%. (***Exhibit 4***)

6.2 Differentiation

Personalized Recommendations: Spotify differentiated itself by offering personalized music recommendations based on user preferences, listening history, and behavioral data. The platform's advanced algorithms analyzed user interactions to curate custom playlists and discover new music tailored to individual tastes, enhancing the user experience, and driving engagement. "Your time capsule", "Discover Weekly", and "Release Radar" became very popular because of Spotify's tailored recommendations.

Diverse Content Catalog: Spotify's extensive catalog of music, podcasts, and audio content differentiated it from competitors and appealed to a broad range of users. By offering diverse content genres and formats, Spotify positioned itself as a one-stop destination for all types of audio entertainment, catering to varying interests and preferences.

Cross-Platform Accessibility: Spotify prioritized cross-platform accessibility, allowing users to access their music seamlessly across devices, including smartphones, tablets, computers, and smart speakers. In 2013, when Spotify officially launched its mobile app, it gave direct competition to apple's iTunes. This multi-platform approach enhanced the user experience and convenience, enabling users to enjoy their favorite music anytime, anywhere.

6.3 Transition from Europe to the US

European Expansion: Spotify initially launched in Europe, where it quickly gained traction and established a strong presence in key markets. By focusing on Europe first, Spotify honed its product and fine-tuned its business model before expanding globally, laying the foundation for future growth.

US Market Entry: After its partnership with Facebook in 2010, Spotify became popular across the globe. It used this newfound fame to spread across the Atlantic in America. Spotify's entry into the US market was strategically planned to capitalize on the region's large population, diverse music culture, and lucrative advertising market. The company invested in marketing campaigns, secured licensing agreements with major record labels such as Universal Music Group, Sony Music Entertainment, and Warner Music Group, and tailored its product to suit the preferences of American consumers.

Spotify's market entry strategies were characterized by innovative marketing tactics, differentiation through personalized recommendations and diverse content, and strategic expansion from Europe to the US. By continuously innovating, Spotify established itself as a dominant force in the music streaming industry, revolutionizing the way people discover, consume, and share music worldwide.

6.4 Personalization

They were aware that big names like Amazon and Apple can play catchup with the deep pockets they have. Hence, they acted quickly on what would give them the edge, the personalization. All of the competitors are creating the same value for the users and with the dwindling bargaining power of suppliers, it has become more and more difficult to create asymmetry. In this tight oligopoly market, pricing strategies like deep discounting would not yield good results as there are no small firms. Companies like Amazon and Apple can easily sustain the price drop strategy. On the other hand, non-pricing strategies like Advertising also would not create any asymmetry between firms given all of their high individual stature which makes it easy for them to catch up with other firms.

Therefore, by developing music identities it carved a niche for itself among the music loving audience (***Exhibit 5***). Its intention was to club people based on their music tastes. To achieve this, it collaborated with leading personalization API, EchoNet which enabled people to use Spotify as a global identity, like Facebook **[7]**. This timely collaboration took the personalization to the next level which would propel it to amass many more consumers. It is this advanced thinking which paved the way to creating much needed asymmetry in this tight fight between the oligopolies (***Exhibit 6***). These moves yielded great results as it yielded 26% conversion rate (from free to premium **[5]**).

7. Handling Disruption

From the analysis of Porters 5 forces, it is clear that rivalry within the industry is huge and barriers for new entrants are tough. Thus, in the view of disruption, it need not worry much about the new entrants as the entering cost was high. That said it cannot rest on its laurels and needs to ensure the barriers are strong enough to be immune against any external threat with deep pockets. This would mean covering up all the sectors of consumers, right from those who are reluctant to pay for the service to those who demand quality products. Spotify did it through its pricing models, Free and Premium.

7.1 Pricing models

The free model caters to the lower end of consumers. This is an important sector to cater to as this forms the loose ends from where new entrants could enter. Two main factors here would be price and quality. With the free version, that's the lowest the firm can go by giving out things for free. They blocked that end for the new entrants. But this free model came at the cost of showing ads to the consumer; this along with the quality of 144kbps might provide some opportunities for the newcomers to pounce upon. But doing so will require huge capital on the part of these new firms unless they come from an existing recognized firm. Hence this is not something which Spotify should worry about right now.

On the other hand, to cater to most of the music-loving audience, they came up with the premium account where ultimate personalization meets the vast library with the highest possible audio quality at low latency. This is the unique selling proposition on which the success of Spotify is built. Assuming someone did enter the lower spectrum of the disruption ladder, moving up and disrupting this upper echelon is going to be a heavy challenge. So, most of the battle is between the existing firms.

An intricate issue with sustaining these pricing models to keep the disruption in check is the ability to pay the suppliers aka content creators properly. If the supplier could find a better opportunity cost elsewhere, it will really though to maintain the cycle. Spotify considers different factors while shelling out compensation to the creators like geography, the relative currency of geography, and the royalty rate of artist. In total, around 70% of the total revenue is dedicated to paying the label owners **[3]**. The overall consideration of different factors allows them to change pricing strategies based on the preference of people in that geography (This is one reason for the poor performance of eBay in China – the inability to adapt to localization). This margin is the deciding factor in this battle. If at all in the future, if the suppliers find a better opportunity to cost elsewhere, the 70% of the dedicated revenue going towards them could shoot up to retain them. Also, taking a cue from Alibaba, Spotify should concentrate on amassing the masses at the cost of its own revenue, if the need arises in the future to drive out this existing competition and keep the stakes higher for new entrants.

7.2 Innovators Dilemma

Another internal battle in hindsight would be the allocation of resources to personalization software and the supplier costs. Continuous innovation with respect to personalization is required to keep the upper echelon of consumers happy. It makes complete sense for firms to focus on this set of audiences as they generate the major revenue. On the other hand, paying the suppliers well to retain them is necessary to maintain the huge inventory which in turn is crucial for maintaining the existing pricing model combination of free and premium. In this case of dilemma, it is to preferred to focus more on creating experiences for users rather than worrying about expanding the inventory to meet all kinds of demands. This is recommended as the barriers for entry are quite high and the lower set of consumers are immune to new firms. Even if such fringe companies exist, it would be difficult to sustain this march in the longer run owing to the high costs and technology associated with all the personalization required to appeal to the higher end of consumers. This approach is robust for the present market conditions, which enables them to target all folds of the market.

8. Strategic Collaborations

Strategic collaborations (***Exhibit 7***) entered by Spotify provide it with a competitive edge on different fronts. Spotify targeted various age groups through its collaborations with over 50% of the users in the age bracket of 18 – 34 years who have active lifestyles and prefer to listen to audio rather than reading or video content on-the-go (***Exhibit 8***). Each collaboration brought with it advantages for both parties which helped Spotify to remain relevant and aggressively grow and retain market share at the same time.

8.1 Echo Nest: Retaining Customers

Spotify moved from collaborating with Echo Nest **[8]** (founded in 2005) and acquired it in 2014 after recognizing this music intelligence company as a powerful resource that would help create asymmetry in the music streaming industry and increase its competitive advantage. Echo Nest is one of the first to provide a platform for creators to build applications powered by music. Creators can leverage its features to create new and creative experiences for music lovers. Echo Nest API is the flagship product that uses data-driven inputs to the creators who widely benefit from the extensive music metadata.

Due to its multifold advantages and premium offerings, Echo Nest had numerous partnerships with music streaming services including Spotify. During the partnership, Spotify identified the value Echo Nest brought along with it and the following acquisition was a display of applying game theory, value-based strategy, judo strategy, and disruptive innovation which helped it increase the value of its offerings, differentiate its product from the competitors, and maintain its industry leader position.

Game Theory for co-opetition: The initial partnership gave millions of users' music metadata to Echo Nest which helped it improve its software since it had a machine learning backend behind its major offerings while Spotify upped its game by making its playlists more personalized which was a highly sought-after user demand.

Strategic Factor Market: By rightly expecting the value Echo Nest would bring to a music streaming platform, Spotify moved fast in the strategic factor market by acquiring which made these premium offerings unavailable for the competitors. Since Spotify was already an industry leader by then, this move just increased its competitive advantage by capitalizing the imperfect market structure.

Value-Based strategy: Spotify created an asymmetry in its favor by integrating Echo Nest's capabilities which improved its recommendation engine compared to its competitors. By improving its recommendation engine, the Echo Nest adds value to the chain which enables Spotify to capture more consumers, better price their offerings and bring up consumer's willingness to pay.

Judo Strategy: While entering new markets, it customized its approach on how to breach the music streaming platform, and Echo Nest helped it compete on features like user experience and personalization avoiding direct confrontation on "user count" numbers game with giants like Apple Music. It also applied "push when pulled" via this since Spotify was able to turn the fierce competition into a strategic advantage which also helped in product differentiation.

8.2 Facebook: Reaching Customers

Collaboration with Facebook (***Exhibit 9***) began when users were given the feature to share Spotify tracks, albums and playlists on their Facebook feed. Due to the perfectly times launch, this became widely popular amongst the users. The seamless integration into their social media accounts enabled them to showcase their taste in music through an innovative manner. This sense of community enriched the whole user experience and made this collaboration a successful one.

Post this, the partnership deepened with the development of "Project Boombox" **[9]** which allowed users to listen to their Spotify content such as podcasts and playlists while they browsed their social media. This enhanced the overall user experience which improved platform engagement for both parties.

Game Theory for Cooperative benefits: Facebook has over 3 billion active users which is a total of users across its various social media platforms like Facebook Messenger, Instagram, and others. This vast network is being leveraged by Spotify by being offered as a feature while the user scrolls the platform. By joining hands with Spotify, Facebook can increase the value of its offering and stay ahead of its competitors by providing a rich user experience. Overall, it is a non-zero-sum game since both parties are creating more value by collaborating compared to individually.

Disruptive Innovation: This collaboration catered to a niche segment of music lovers who also tend to stay active on social media. Earlier, adding music to the feed was a hassle which is now seamlessly integrated into the user's social media platform. They redefined market boundaries by combining two of their favorite pastimes – music and media. This also affected their business model as it provided product differentiation and added value as compared to just a social media platform or just a music streaming platform.

Value-based business Strategy: Due to the value created by combining the two services, Spotify created an asymmetry in the market which allows it to remain on top of its game in the music streaming industry. Facebook can increase the app usage time for its users by integrating a music streaming platform for its users while Spotify can reach out to more than 3Bn users which increases the exposure for all the artists and ads featured on the site.

8.3 Roku, Philips, Accenture and more

Spotify entered collaborations with various companies to expand its market reach and include itself in people's daily lives via various channels to create and retain the brand identity. It has inserted itself in sports, entertainment, and work alike by joining forces with various industry giants and navigating barriers to entry.

8.3.1 Roku

Roku is a video streaming company for TV and by partnering with Spotify, Roku now plays video ads on Spotify while Spotify is hosted on Roku's platform along with its other offerings.

Strategic Factor Markets & Resource-Based Strategy: According to the latest trends, connected TVs (CTV) are seeing higher content consumers and hence, Spotify aimed to capture the music streaming audience via the channel. Spotify closed the deal with Roku while Roku was still an upcoming player in the CTV market by making the right expectation from the market which cost it way less than the money Roku would've charged once it was popular.

Value-Based Strategy: As more people shift from the traditional TV setup to streaming platforms, there is a high value associated with each player involved in the chain. By cross advertising on the two platforms, the exposure for ads will be more, leading to higher conversion rates and hence would help in achieving the advertiser's goal faster. This collaboration addresses the changes in the market structure and dynamics of competition that change when people's preferences shift from traditional television to digital streaming platforms.

8.3.2 Philips

Originally a tech company specializing in light bulbs, Philips slowly expanded into personal care and health. While innovating its wide range of products, Philips leveraged AI and the Internet of Things to make its products adaptable to the changing demand of consumers like smart home lighting. Collaboration with Spotify was a unique opportunity to make their products fit seamlessly into the daily lives of their consumers:

Product Differentiation and Value Creation: While this collaboration did not increase the efficiency of working on the products in any way, it made them more fun since the lighting changed as per the beats which could set the mood for the room and spaces. This marriage of IoT and music was well accepted by the consumers since it appealed on a sensory level and the companies mutually benefited from the attention created by this fast technology.

Forefront of Disruptive Innovation: Spotify was one of the first companies to integrate users' playlists into the lighting via smart home technology and this seamless integration of various parts of user's life had high demand. This paved the way for the development of Amazon Echo and Google Home to integrate the light and sound systems of smart home technology.

8.3.3 Accenture

Collaboration between Accenture and Spotify was an attempt to segment people according to their needs and tastes and then cater to them with curated content. Spotify started the "Spotify for Work" (***Exhibit 10***) chain where the playlists were carefully curated as per the needs of the company, the tone it wanted to set at the workspace, and all this while making sure that the content was within guidelines and non-offensive due to the work environment setting.

Need-Based Positioning: The "Spotify for Work" program helped curate work-environment-friendly music which would help in employee satisfaction, improve workplace mood, and help in the overall ethos of the office. These playlists could be varied from office to office and were customizable.

Premium Positioning: Accenture started offering Spotify Premium as an employee perk which gave a sense of premium product feel to it. This allowed Spotify to be a popular choice with the working folks who wanted to save time and appreciate curated content for themselves, and Spotify Premium gave exactly that. With this collaboration, Spotify was able to increase its user count and also maintain its product image in the consumer's mind.

Alliance for mutual benefit: Game theory comes into play yet again as this collaboration benefited both parties: Spotify gained brand awareness, and increased user count while Accenture improved its "employer" brand and built a good workplace culture.

8.4 Uber, Virgin America: Travel with Spotify

Uber **[10]** and Virgin America began offering users the choice to play their Spotify playlist during their rides or travel (***Exhibit 11***) This feature pushed more and more people towards getting Spotify Premium so that the consumers could enjoy their music on the go. Along with the Game Theory, they implemented:

Value-based strategy: Uber and Virgin America were important players in their value chain but the addition of Spotify to their already top-notch services made them more valuable compared to their competitors. Since people tend to spend a long time traveling and often find themselves listening to music, Spotify Premium made these long travel times more bearable and enjoyable. This collaboration improves customer retention and loyalty because of the rich consumer experience.

Strategic Fit: Uber and Virgin America have created a brand image for themselves whose users are modern, appreciate personalization, and are tech-savvy. Spotify fits in perfectly in their ecosystem and enhances the travel experience which was previously uncatered to. Spotify Premium users share a similar recognition, and this is why the collaboration satisfies two orders of fit. They complement the core competencies and promote repeat usage of all the parties involved due to the personalized experience provided.

Sustained innovative edge: By continuously involving and improving technology in these collaborations, Spotify is staying ahead of the game compared to its competitors. By repeated exposure to the benefits of Spotify Premium, users are bound to retain the information and wish to switch.

Disruptive Innovation: After catering to regular customers, Spotify's collaboration with these companies showcases how it wants to target the upper echelon of customers by focusing on making the travel experience better, smoother, and more enjoyable. This is an arena where other music streaming companies have not ventured and hence, Spotify is setting standards by raising customer expectations.

8.5 Implications

These collaborations are just a few of the many Spotify entered to ensure its stronghold on the US and global music streaming industry. Most of the collaboration benefits for Spotify have been offered in their premium accounts and hence, consumers are repeatedly made aware of the advantages Spotify Premium brings along. To give users a taste of the premium features, Spotify offered a free trial of 3 months for every new user to the platform, gave discounts for students, and bundled with other subscriptions at reduced costs.

Increased barriers to entry: By continuously improving, integrating technology, and collaborating with companies that share similar brand images and target customers, Spotify became a dominant player in the market and retained the position. By making Spotify available on almost all major platforms and being involved in various parts of a customer's day, Spotify carved out important space which made switching costs high for any customer. This made it impossible for a newcomer to enter the market and capture any significant market share.

Clear Strategy: Spotify made it evident through all its business decisions and collaborations that it wanted to be "omnipresent" in a consumer's life as music is an important part of a day be it consciously or subconsciously. Spotify capitalized on it and started entering partnerships with those who are customer-facing and seek to provide more personalized and seamless user experience.

9. Podcast Expansion: Spotify vs. Apple

As more consumers have started to move from books to audiobooks, there is a shift seen from Ted Talks to podcasts **[11]**. While the craze for podcasts has only gone up in the last decade, there are companies like Apple that have been in the industry for a long time and have been dominant incumbents. The dominance is not a result of their product offering but because there was no such major competition put up by other companies.

Spotify entered via music streaming but has now expanded to the entire audio streaming industry with a sharp focus on podcasts since 2015. This is in direct competition with Apple Music which had not bothered to innovate its business model for podcasts while Spotify dedicatedly signed huge deals to lock in major talk shows and podcast studios (***Exhibit 12***).

Criteria	Apple Music	Spotify
Market Position	Lazy Incumbent (comes along with Apple app bundle)	Agile Disruptor/Aggressive entrant
Strategy	Release versions timed with Apple version releases	Heavy investment to innovate as quickly as possible
Fit	Part of the Apple ecosystem	Strong fit with audio platform strategy
Innovation and Disruption	Limited innovation; plays safe under the Apple umbrella	Aggressive innovation; acquired companies pioneering in music intelligence
Future Strategy	Continue to be under Apple's offered bundle	Expands user base by campaigns, acquisitions, collaborations
Competitive Advantage	Billions of Apple users have it preinstalled	Collaborates with the right "fit"; stays on top of user engagement platforms
Sustainability	Needs to pick up on the innovation front	Sustainable; but should keep up the innovation and customer-retaining features

9.1 Joe Rogan Deal and Others

As part of the aggressive movement into the podcasting arena, Spotify signed a $200 Mn deal with Joe Rogan **[12]** for the exclusive rights of his podcast which saw guests from various walks of life. The controversial elements of this show (***Exhibit 13***) made it immensely popular globally and especially in US where it was ranked the most popular podcast for years in row.

Aggressive competition: Spotify acquired exclusive rights to these podcasts for many other celebrities and brought in Anchor and Megaphone to remain on top of the audio streaming industry. Spotify banked on mutual benefits from these deals as the creators were making money, and popularity while it was increasing user engagement and removing these resources for competitors like Apple to feature on their and benefit.

Adapting to the evolving market: Spotify read the market shifting from talk shows to podcasts and was agile and aggressive in its attempt to secure the leading position of the podcast streaming platforms. While Spotify started off as a music streaming platform, it evaluated the strategic fits of expanding into the audio streaming industry and has captured more than 50% of the market share globally. In the oligopolistic market structure, Spotify relies on product differentiation, premium positioning and building brand loyalty by continuously innovating and keeping a sustainable competitive edge.

10. Spotify's Business Models for Podcasting

The music content available in Spotify is not exclusive or differentiated from other streaming services such as Apple Music or YouTube Music. To establish its place in the market and compete with its rivals, Spotify had to tweak its business models by introducing Podcasts. Podcasts are very new to the media industry and have not yet been incorporated by the big players in the market, therefore Spotify grabbed this unique opportunity.

10.1. Evolution of Podcasting Business Model

Spotify has used various business strategies to build its business model for podcasting:

Value-Based Strategy: Since Podcasts are more exclusive and unique content that cannot easily be replicated by competitors, Spotify increased the perceived value of its service in the eyes of listeners and created an asymmetry with its unique feature. This further enhanced the listener's willingness to pay for the premium subscription and increased user engagement and time spent on the platform, increasing the value listener's get from subscriptions. Additionally, by providing users with more value without increasing costs accordingly, Spotify increases market value. This strategy makes it stand out from competitors that might provide comparable music services but with a smaller selection of podcasts.

Game Theory: Spotify partnered with Gimlet Media (podcast studio) and Anchor (a platform for podcast creation) **[13]** as a cooperative strategy to gain control over Gimlet's valuable podcast content and with the help of Anchor to strengthen relationships with podcast creators by providing them with tools and money-making opportunities. By partnering with Gimlet, Spotify could get a consistent supply of exclusive podcast content, reducing Spotify's costs of acquiring this content externally and differentiating its service from its competitors. Additionally, by partnering with Anchor, Spotify could bring in more creators to its ecosystem and encourage creation of new content. Through this cooperative strategy, Spotify added value to creators through Anchor and creators added value to Spotify by providing exclusive content.

Unique Positioning: Spotify's focus on podcasts shows unique positioning strategy. While competitors like Apple and Amazon also offer podcasts, Spotify differentiated itself by focusing extensively on exclusive content. Collaborations with Gimlet and Anchor allowed Spotify to take command of the podcast value chain, and customized features like time-stamped notes, the ability to share podcast playlists (***Exhibit 11***), and transcript access made Spotify the preferred choice for podcast listeners.

Disruptive Innovation: While Spotify was not a disruptor when it entered the music streaming market, its venture into podcast market, where it focused on Podcast listeners and Spotify user non-podcast listeners, is a disruptive innovation within this industry. Other competitors have been slow in identifying the demand for personalized podcast content, whereas Spotify identified this opportunity in the underserved market segment and provided a seamless platform for podcasts Additionally, Spotify monetized its podcasts through partnerships for exclusive material and advertising **[14]** in addition to subscription fees, disrupting the established patterns of podcast monetization.

10.2 Changes in Market Dynamics

In 2023, an article from *All About Podcasts* stated that “Spotify, the renowned music streaming platform, has announced a strategic move to extend its advertising marketplace for podcasts into five additional markets, encompassing countries such as Sweden and notably, India.” This shows that Spotify’s wide range of offerings in Podcasts is attracting a large user base, and this could make Spotify emerge as a dominant player for audio content production. This dominance along with exclusive content options can create huge barriers of entry for newcomers trying to enter the audio industry.

Spotify is currently a platform that offers a wide range of offerings such as music, podcasts, and audiobooks. This is leading to a shift where multi-content platforms are becoming a norm, compelling many big competitors to offer more than just music and podcasts—in order to become multi-content platforms, they must also include short music videos and other engaging elements. Incumbents may also be compelled to adopt ad-supported content or exclusive collaborations to sustain themselves in the competing market. Additionally, Spotify's present business strategy emphasizes paying content creators **[15]**, which is promoting the growth of independent creators and the production of more specialized content. This is leading to a greater change in the market dynamics with respect to incumbent players changing the algorithm of their applications.

Spotify’s business model focusing on podcasts also gathers a lot of diverse user data to generate personalized advertisements and song/podcast recommendations. This disrupts the traditional advertisements and static based applications, leading to a shift towards more investments in personalized advertisements.

11. Way Ahead for Spotify

The future outlook would be to focus more on podcasts as many competitors are not relying heavily on this. However, there are a few potential risks associated with this. Firstly, Spotify has made a significant financial and managerial investment to the podcast industry through collaborations, and exclusive content features. This overindulgence could risk affecting the company's core music streaming business or impairing its capacity to adapt to changes in the market when users start to move towards new content. Further, the expenses associated with creating original content can also increase, especially since Spotify makes significant investments in exclusive podcasts. There's a chance that if subscriber growth falls short or if content doesn't keep users around over time, the return on investment might not always match the costs.

The podcast market is also attracting new players every day. And as new players enter the market, Spotify could find it challenging to sustain its place in the market and also to differentiate its services from its competitors, leading to limited user growth or a shift in user preferences. This competition may also lead to Spotify facing challenges in coming up with exclusive content at reasonable costs. Content creators may demand higher fees or would prefer to choose other platforms that offer better opportunities, disrupting Spotify's competitive advantage.

Based on its past adoption of podcast business model, it's promising that Spotify is well-aware to leverage advanced technologies coming into the market. Spotify could make the use of AI and user data to improve user engagement and offer unique and personalized listening experiences such as 4D audio or other engaging listening experiences. To have a competitive advantage in the market, Spotify will have to keep changing its business model according to changing customer needs.

Furthermore, customers these days want information to be understood quickly and are looking for a wider variety of content. Consequently, Spotify ought to keep expanding the variety of content it offers by adding interactive audiobooks and podcast shorts, which are short podcasts that give the gist of the podcast under 60 seconds. This venture may help reduce the risks associated with relying solely on music and conventional podcast content, attracting a broader audience, and creating new revenue streams.

Lastly, with changing customer interests, Spotify should be more adaptable and ready for these changes. It should maintain a more agile and adaptable business model rather than rely on any single business model.

Exhibits

Exhibit 1: Evolution of Personal Listening Devices

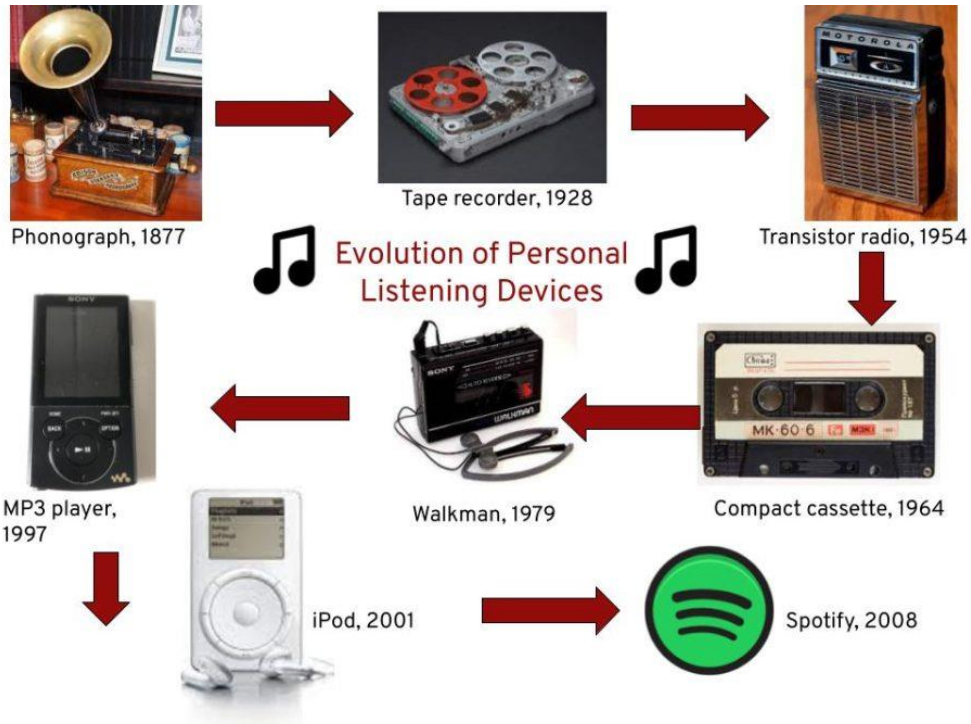


Exhibit 2: Napster and Pirate Bay Interface

Exhibit 2.1: Napster Interface

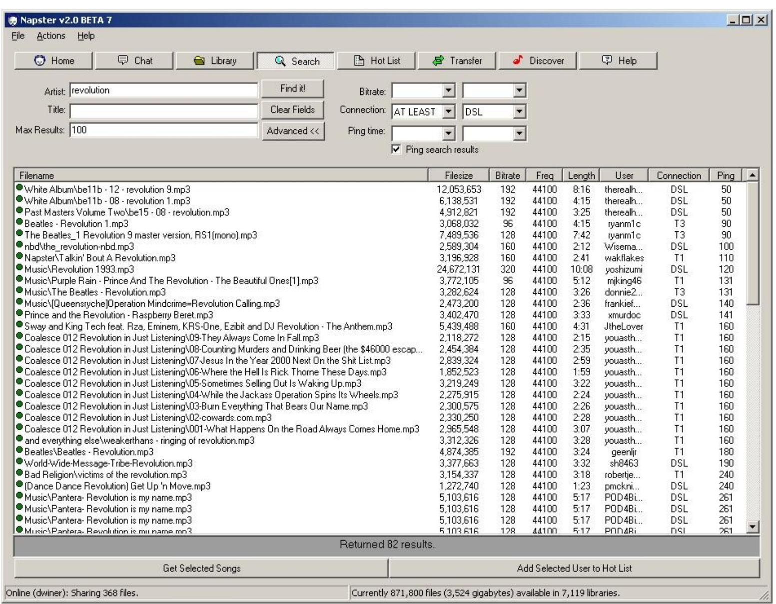


Exhibit 2.2: Pirate Bay Interface

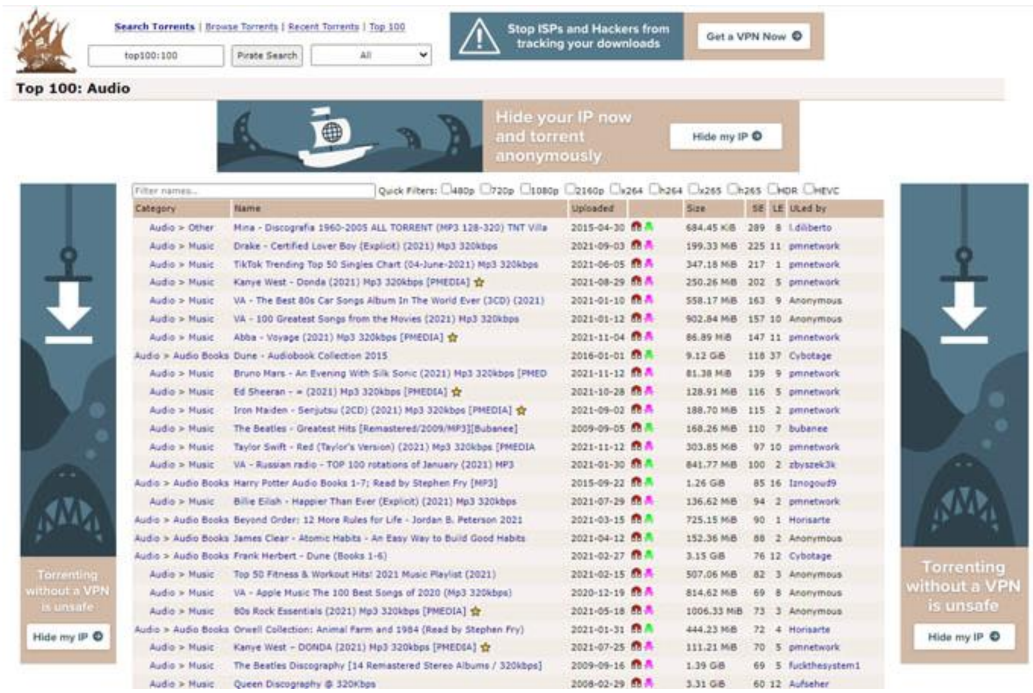


Exhibit 3: Spotify growth over decade

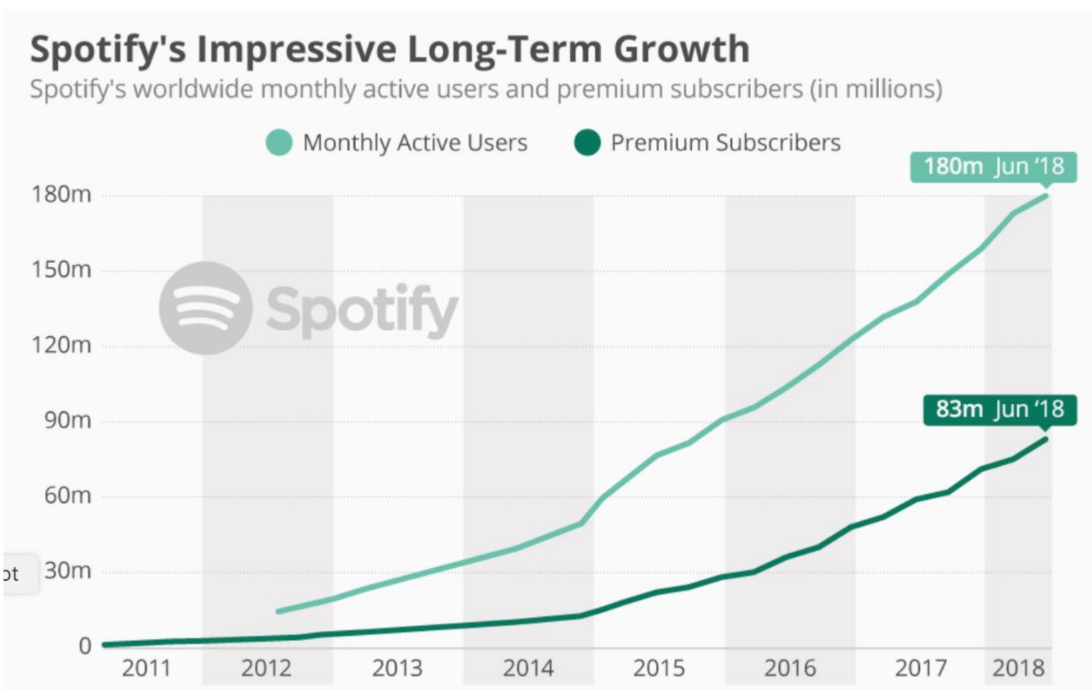


Exhibit 4: Share of Streaming Revenue on the platform

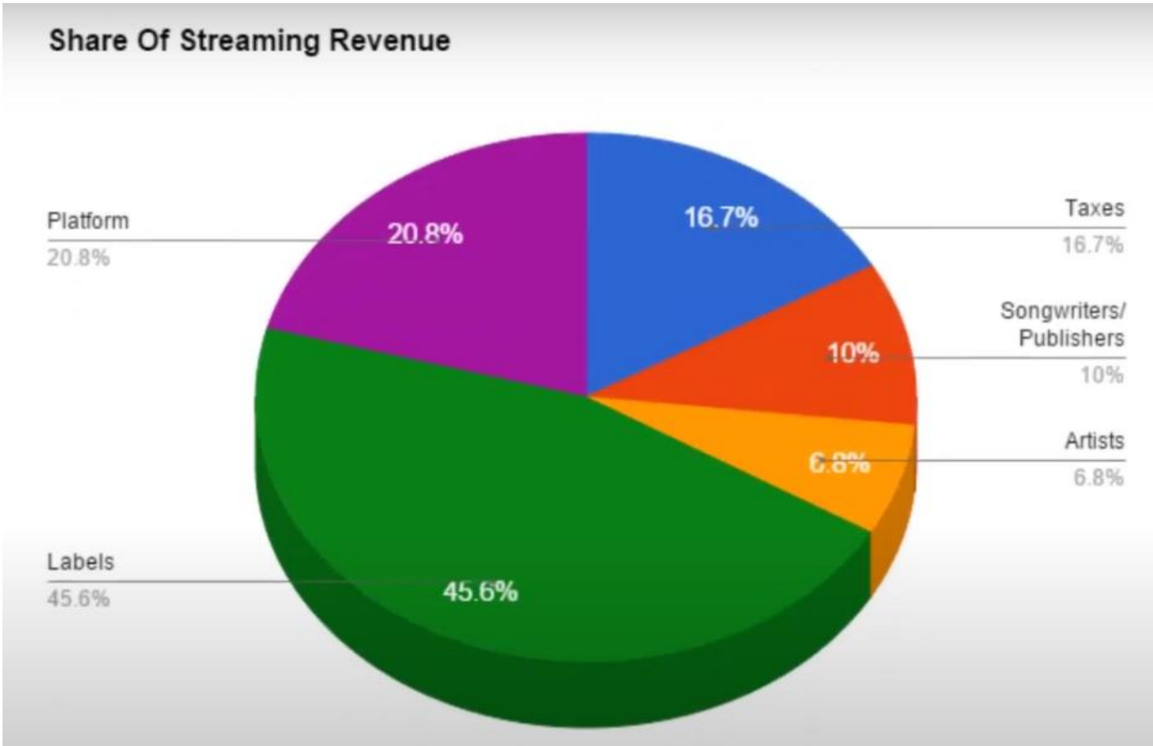
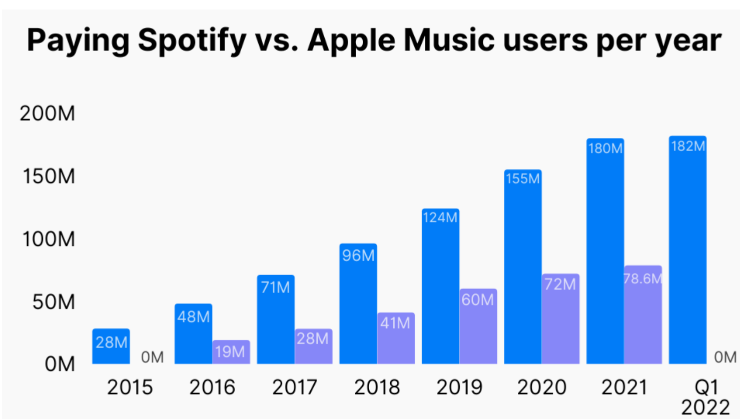


Exhibit 5: Spotify vs. Competitors

5.1 Spotify Performance vs. Apple Music



5.2 Market share in 2024

Spotify	Apple Music	Amazon Music	Tencent Music	YouTube Music
31% mkt. share	15% mkt. share	13% mkt. share	13% mkt. share	8% mkt. share

Exhibit 6: Quick view of Spotify Business Model

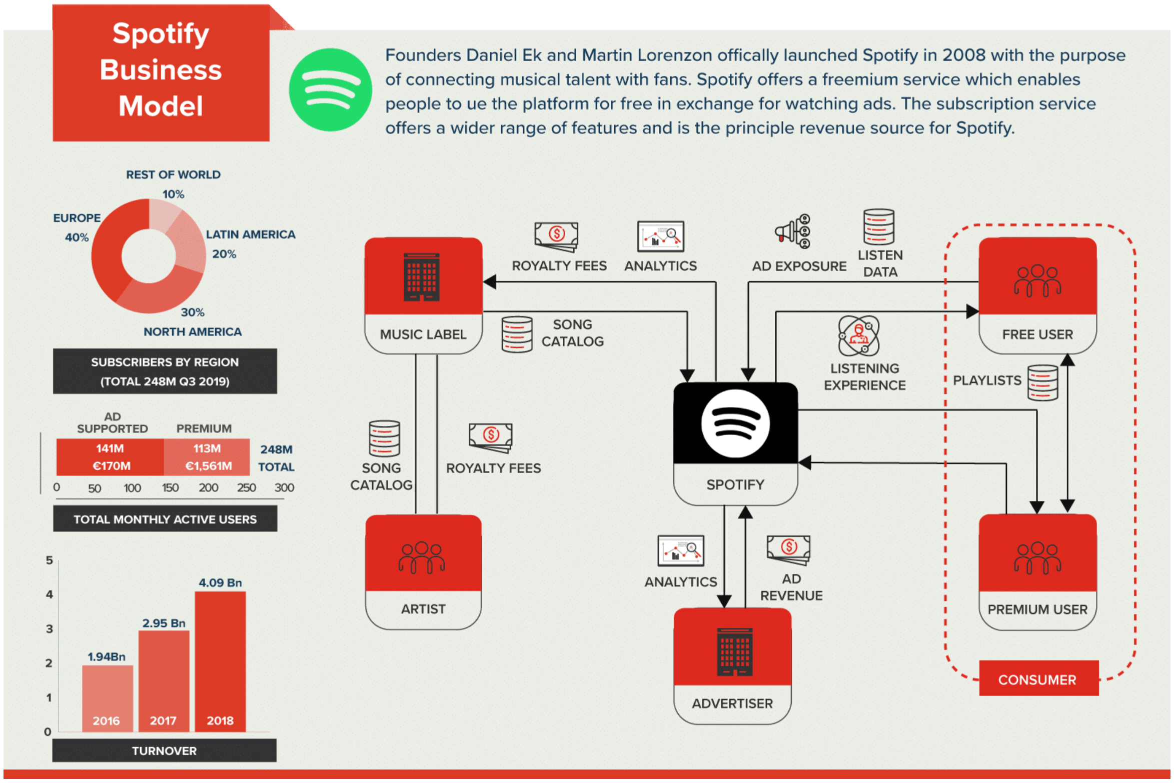


Exhibit 7: Product development timeline

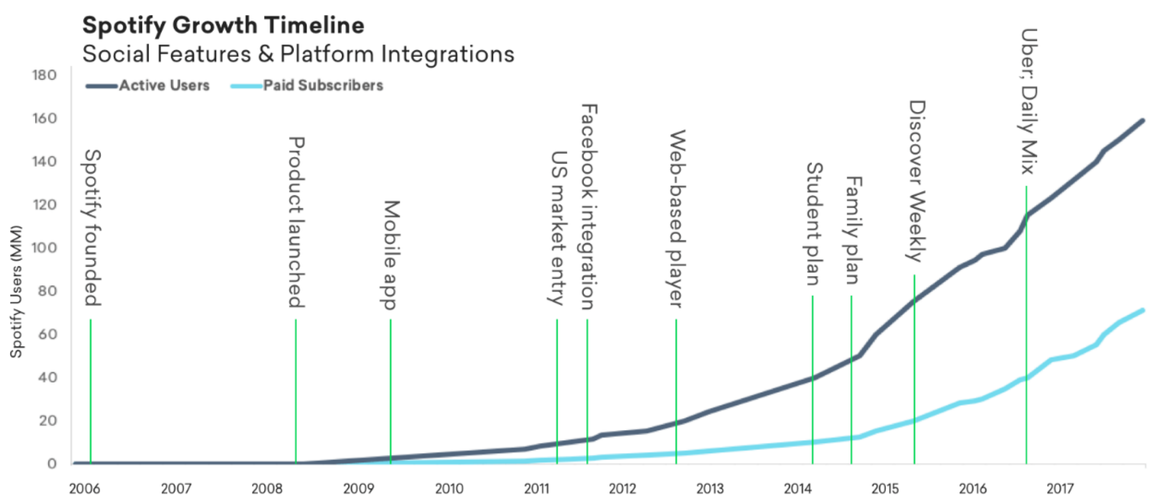


Exhibit 8: Age distribution for Spotify users

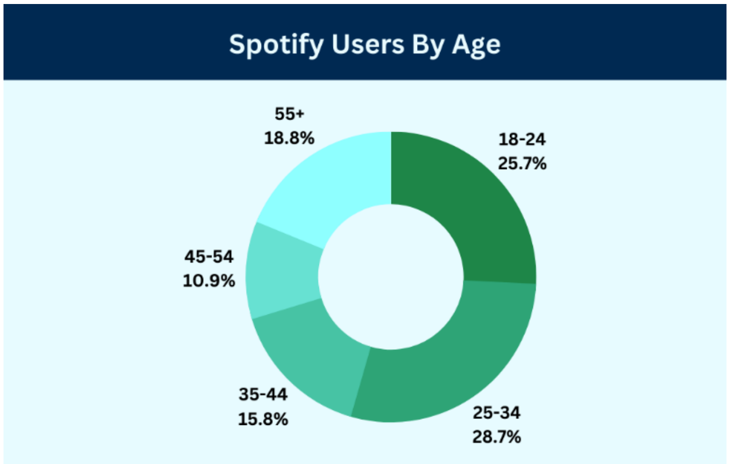


Exhibit 9: Spotify featuring on Facebook feed

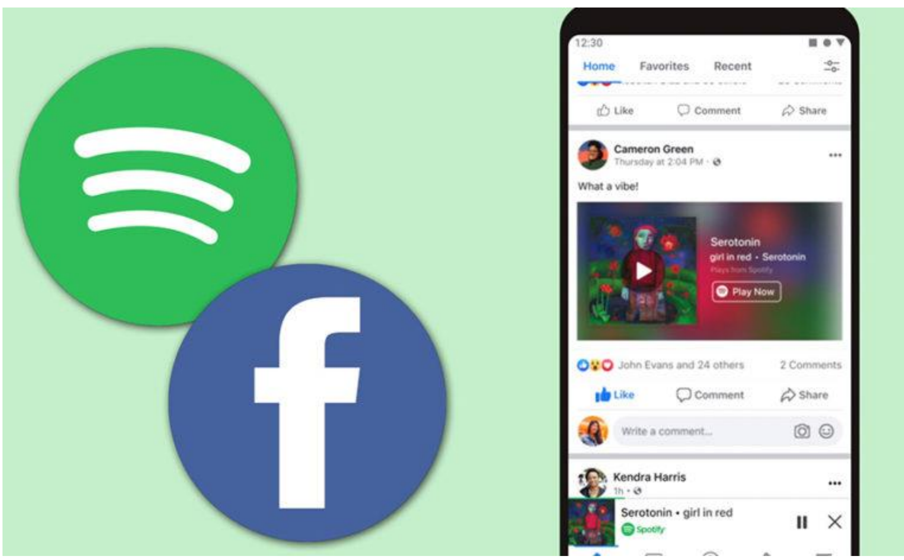


Exhibit 10: Spotify for work with Accenture

Exhibit 11: Spotify collaborations in the travel sector

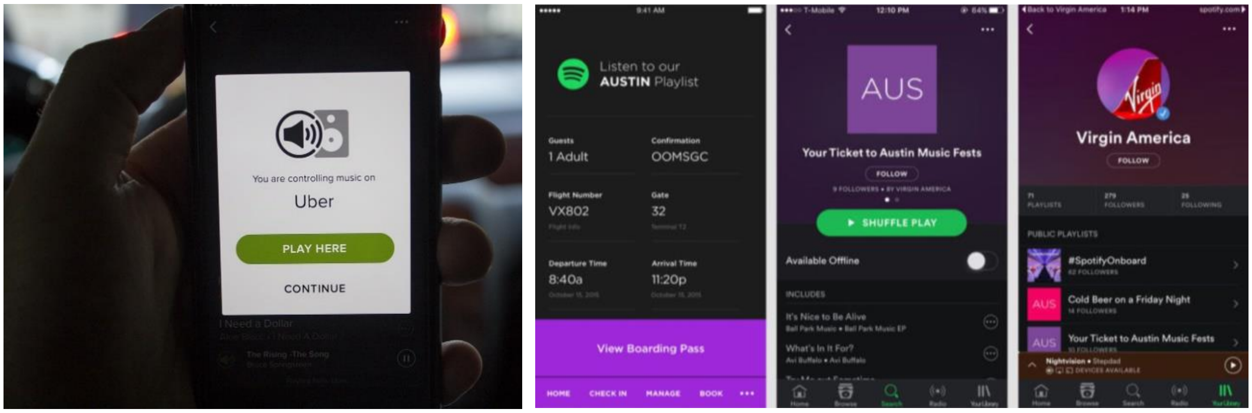
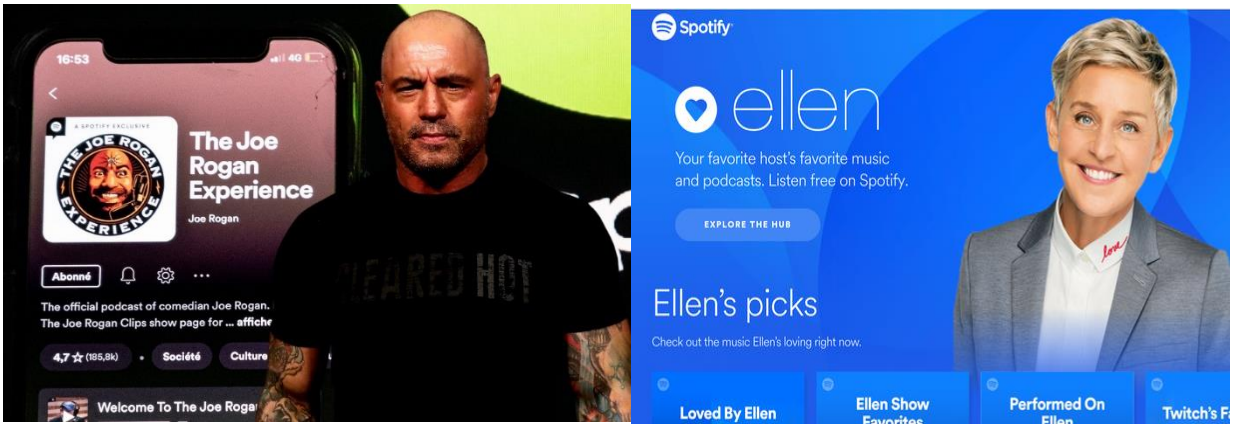


Exhibit 12: Podcast interface on Spotify

Exhibit 13: Joe Rogan Podcast and other celebrity collaborations on Spotify



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