

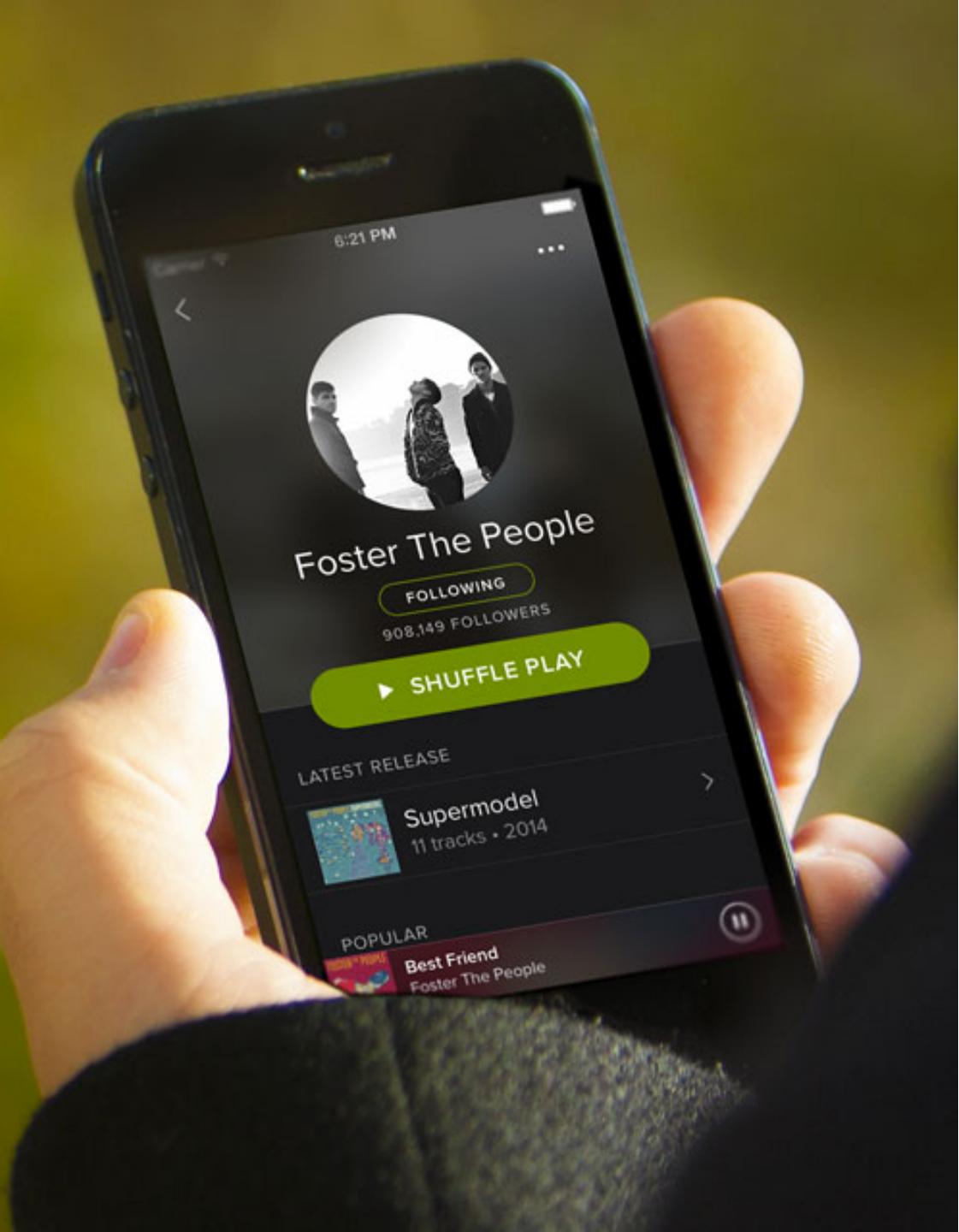


Spotify®

Playing a new tune in a disrupted market

MS&E 270 Fall 2016

Hyder, Yash, Akash, Dhruv

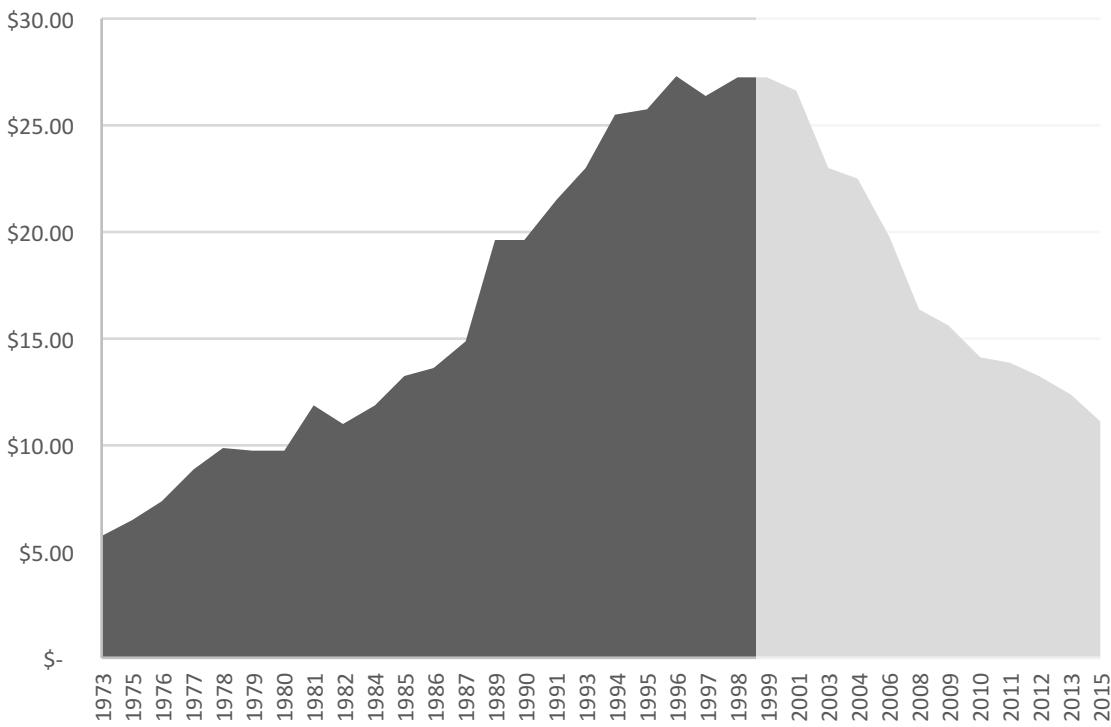


Today's playlist

- Evolution of the music industry
- Spotify 101
- Challenges
- Strategic considerations
- Recommendations

Yesterday (all my troubles seemed so far away)

Music Industry Revenue (in billions)



Threat of Entry:

LOW

- Massive capital requirement
- Massive complementary assets

Power
of Suppliers:
LOW

- Artists
- Distributors
(Music stores,
Radios)



Power
of Buyers:
LOW

- Consumers
- Businesses

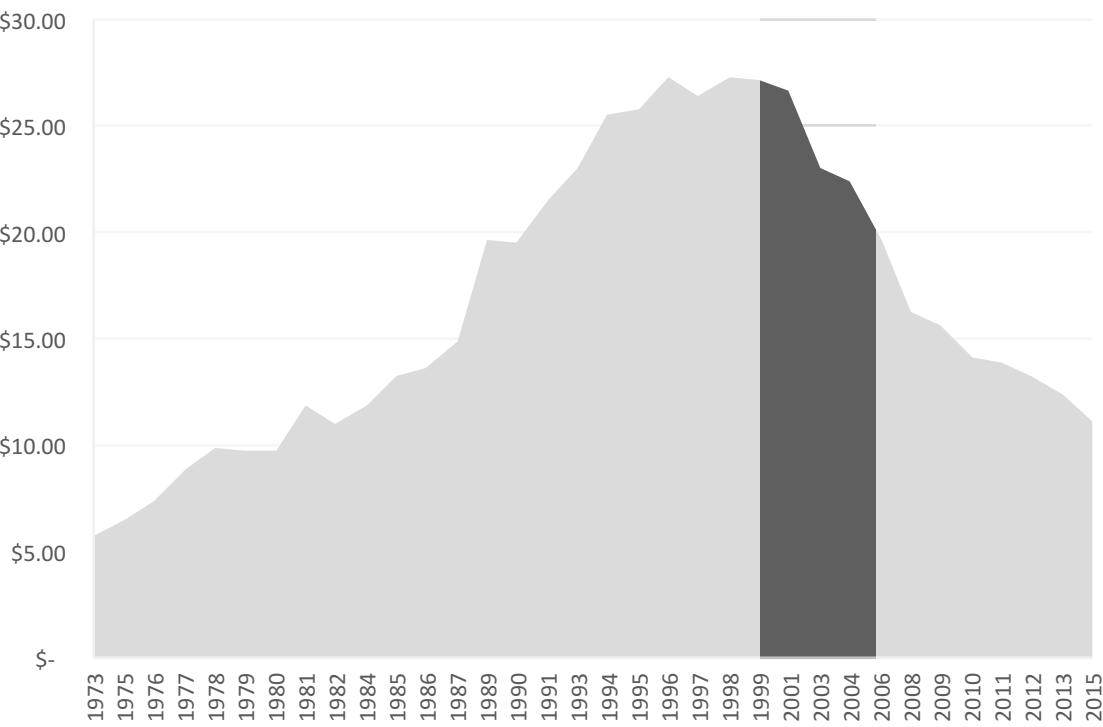
Threat of substitutes:

LOW

- Piracy
- Other forms of entertainment

Yo Ho (A Pirate's Life for Me)

Music Industry Revenue (in billions)



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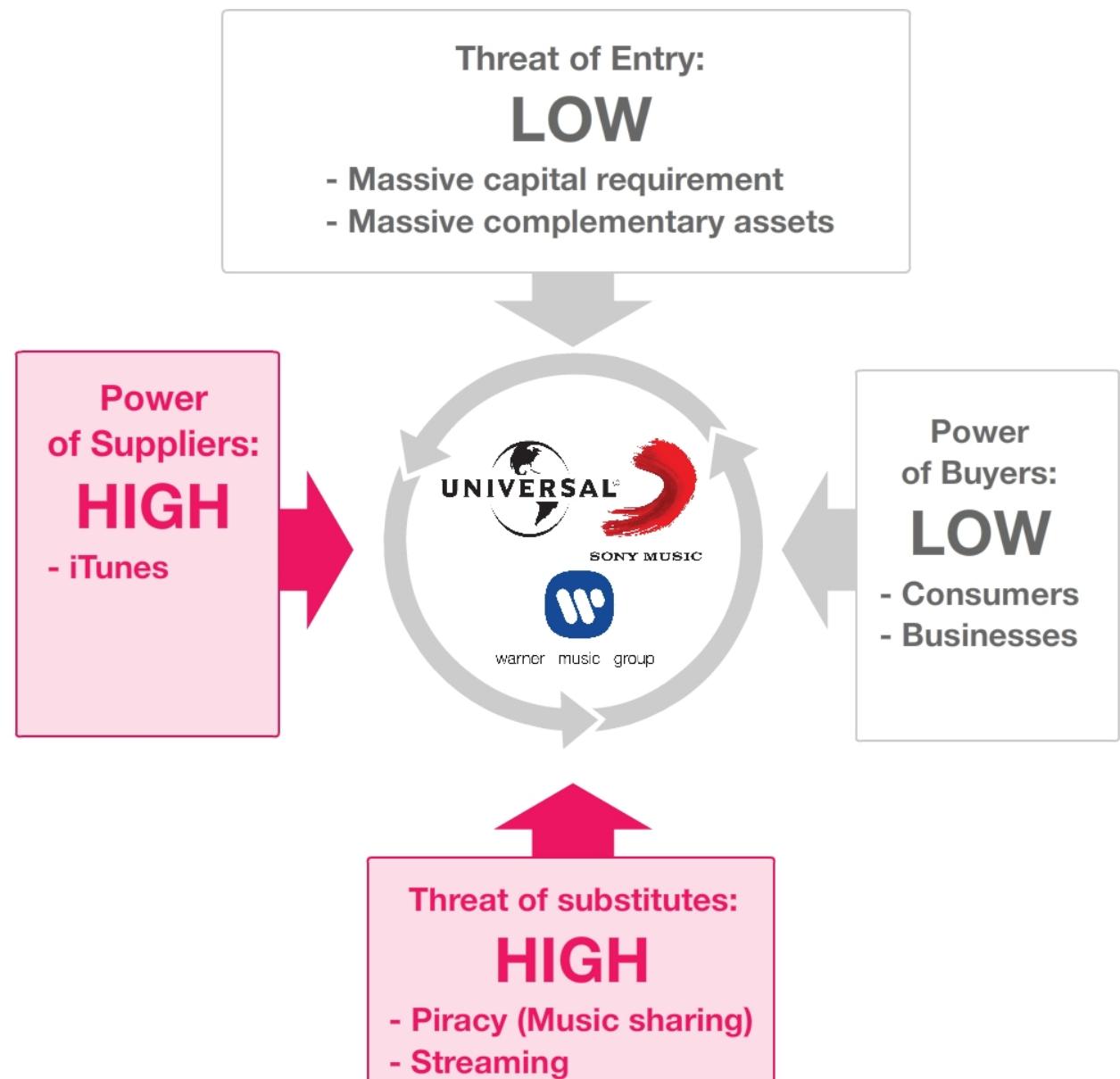
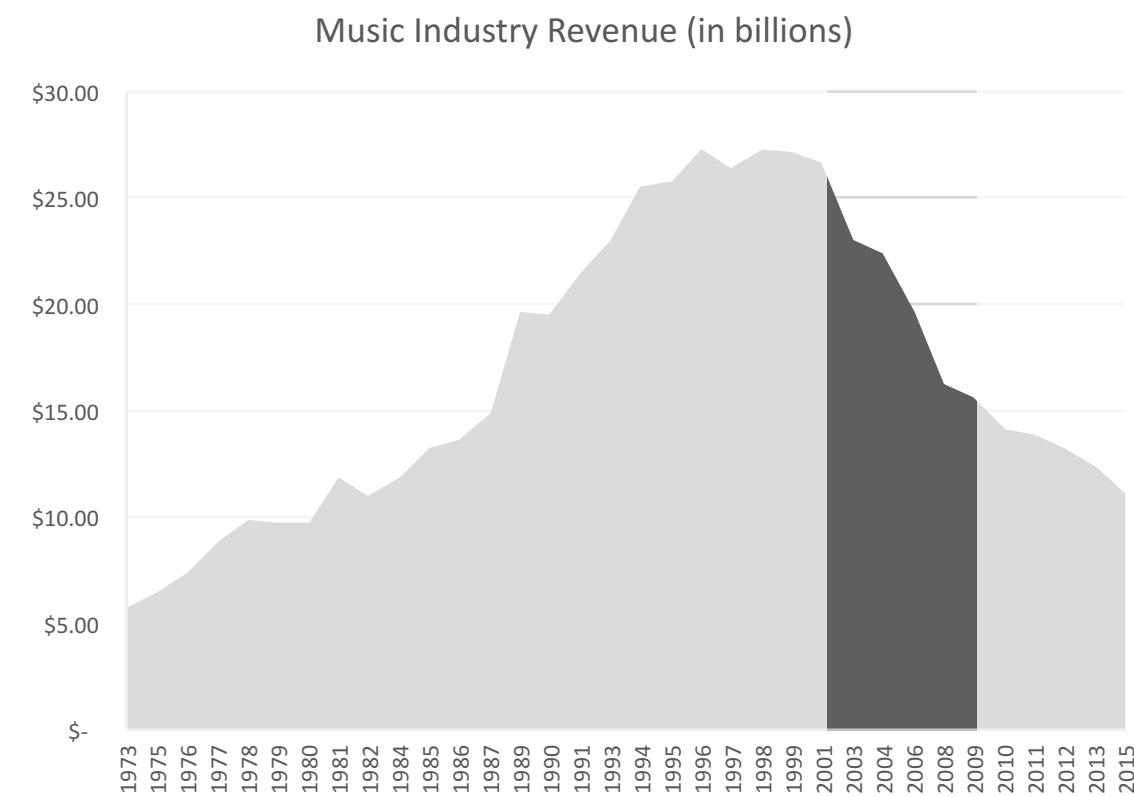
- Consumers
- Businesses

Threat of substitutes:

HIGH

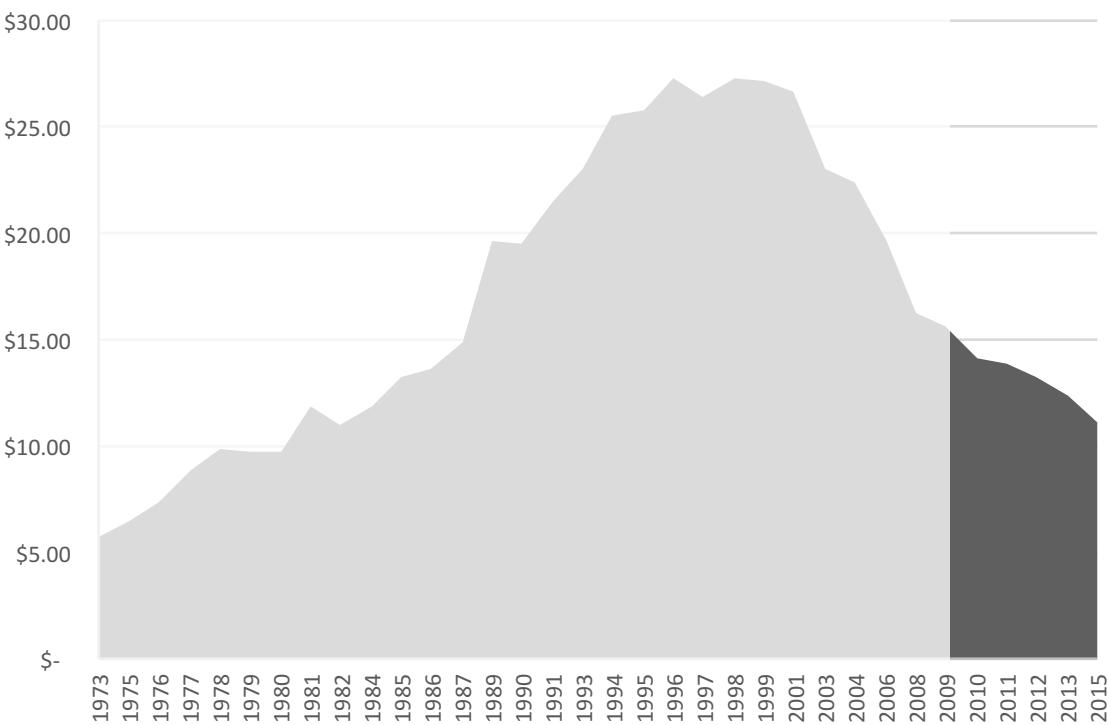
- Piracy (Music sharing)

Enter iTunes (Don't forget my son, to include everyone)



Good Times Bad Times (try to do ... the best I can)

Music Industry Revenue (in billions)



Threat of Entry:

LOW

- Massive capital requirement
- Massive complementary assets

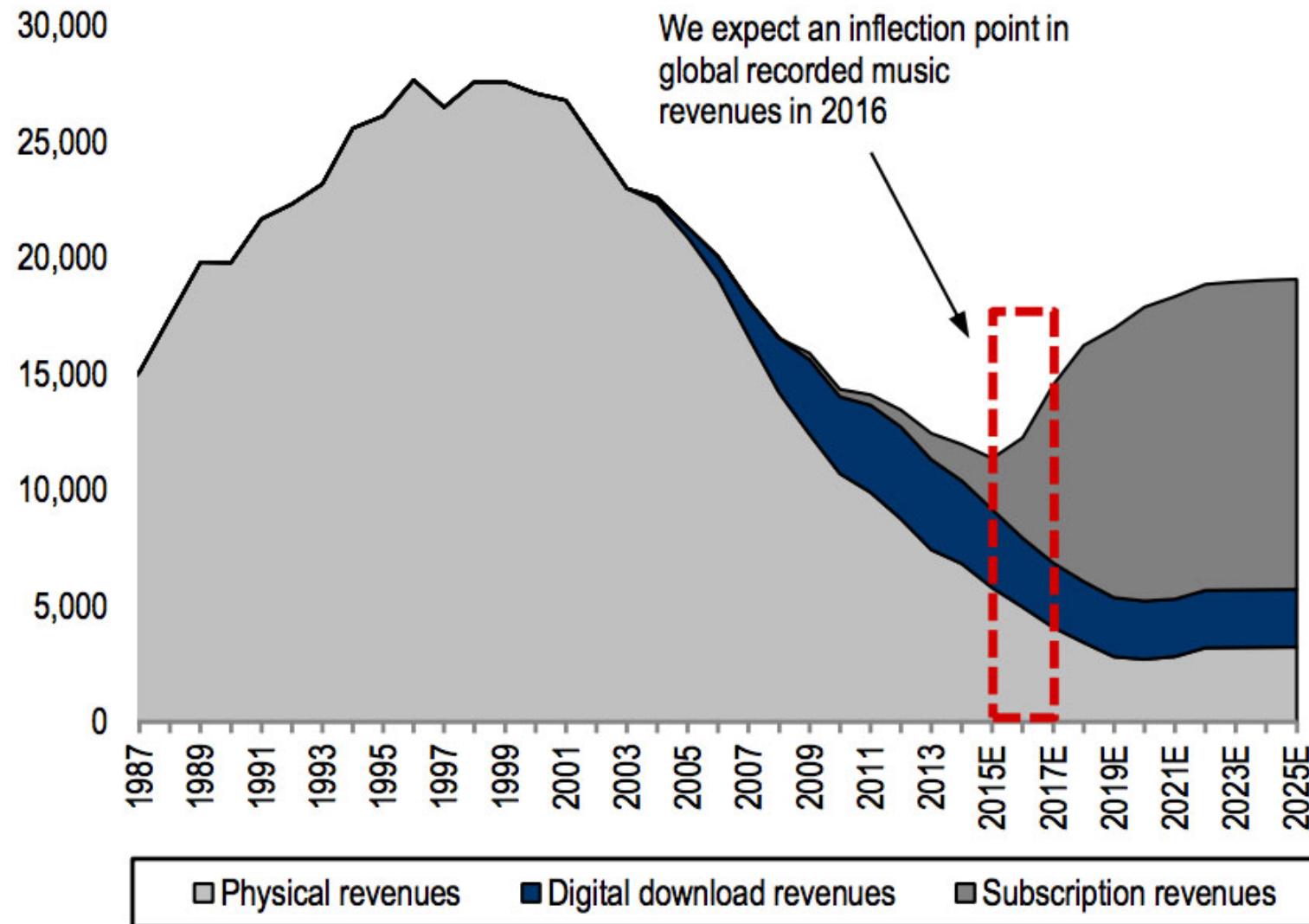
Power
of Suppliers:
HIGH
- iTunes



Power
of Buyers:
MED
- Consumers
- Businesses

Threat of substitutes:
HIGH
- Piracy (Music sharing)
- Streaming

Coming Back to Life

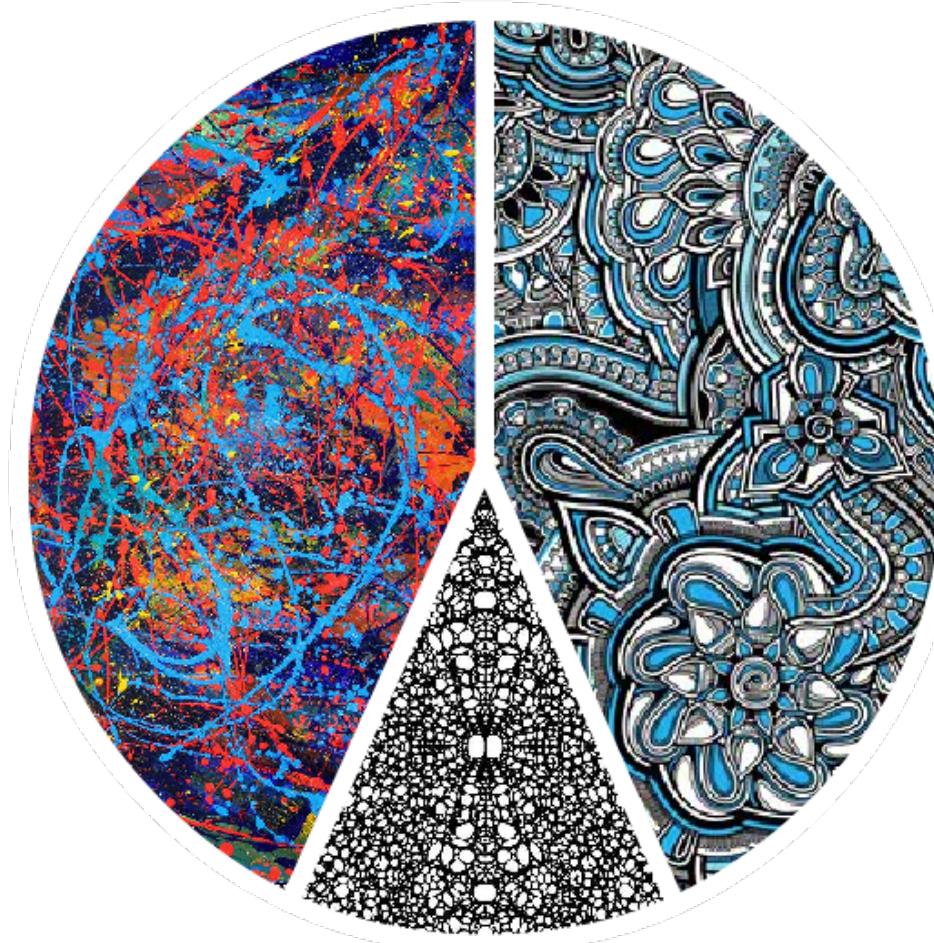


Coming Back to Life

46%
DIGITAL

46%
PHYSICAL

8% PERFORMANCE RIGHTS



Coming Back to Life

46%
DIGITAL



46%
PHYSICAL





Spotify

@Spotify

Follow

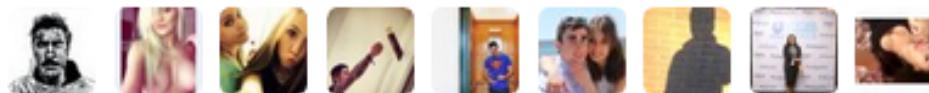
Spotify's mission was simple: Give people access to all the music they want all the time - in a completely legal & accessible way

RETWEETS

56

LIKES

31



9:19 AM - 30 Nov 2011

16

56

31

...

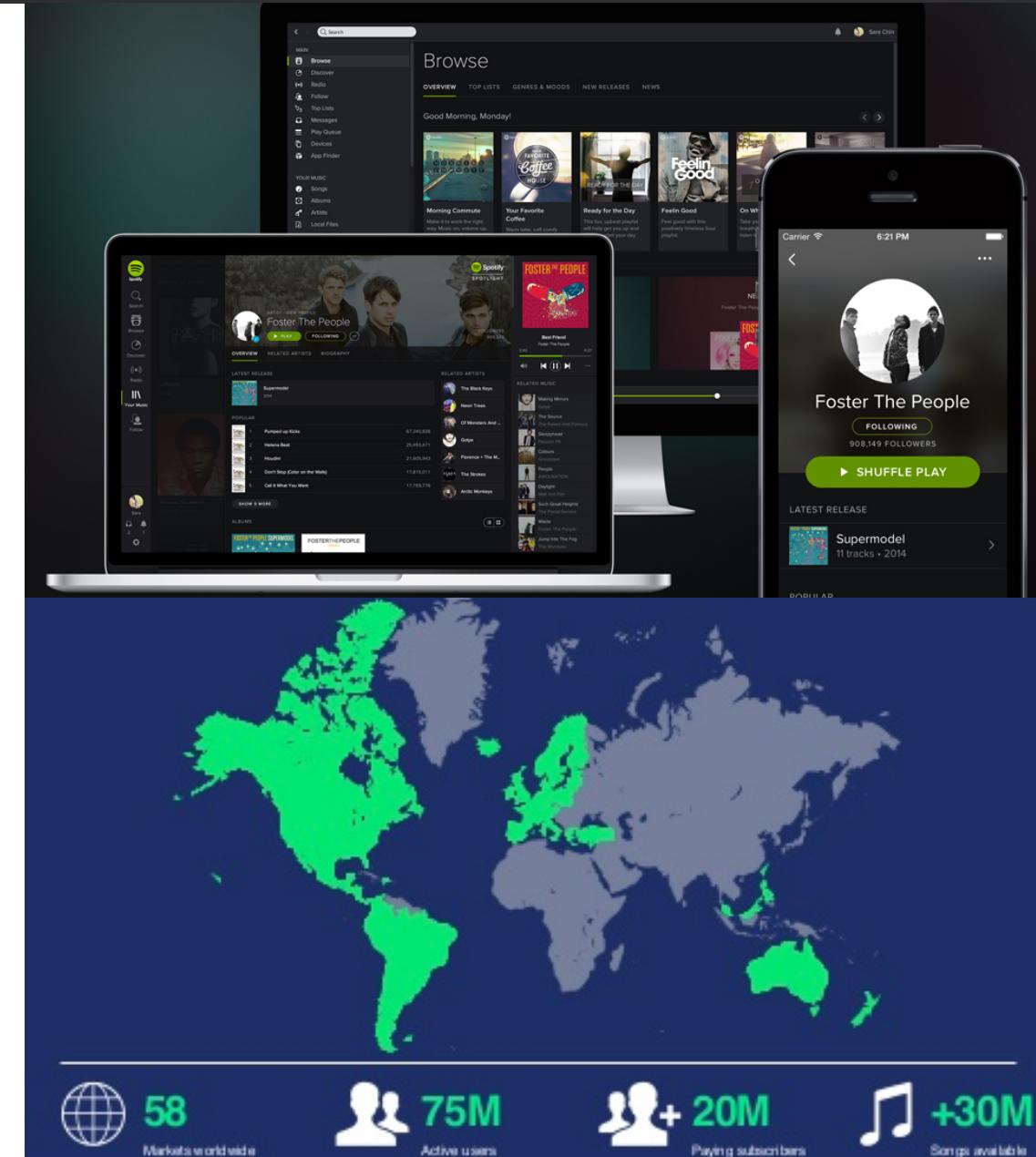
What is Spotify? Baby don't hurt me..

History of Spotify

- Launched in 2008 in Sweden
- Founded by Daniel Ek (former CEO of uTorrent)
- Present in 60 countries
- On-demand music streaming service with personalized recommendations and playlists

Spotify now

- Spotify has 40m subscribers for their premium service and 60m “freemium” users
- As of 2015, its revenue is close to \$2 bn.
 - 90% from subscriptions
 - 10% from advertisements



Challenges

“Livin’ on a Prayer”

It's the eye of the tiger...



APPLE MUSIC

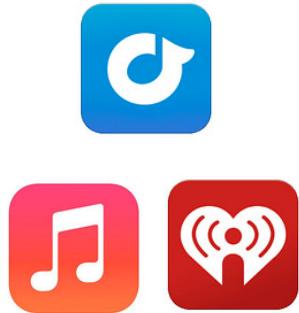


YOUTUBE



TIDAL

.. rising up to the challenge of our rivals



APPLE MUSIC



YouTube



TIDAL

Google Play
Music

Artists in Flux

"I want people to hear our music. I don't care if you pay \$1 or f—ing \$20 for it; just listen to the f—ing song."

—Dave Grohl

"Spotify feels to me like a grand experiment. I'm not willing to contribute my life's work to an experiment that I don't feel fairly compensates the writers, producers, artists and creators of this music."

—Taylor Swift

"Spotify is not the enemy; piracy is the enemy."

—Quincy Jones

"In return for co-writing [Avicii's "Wake Me Up!"], I've earned less than \$4,000 domestically from the largest digital music service."

—Aloe Blacc

"Spotify is giving up 70 percent of all its revenue to rights owners. It's just that people don't know where the money is because the record labels haven't been transparent."

—Bono

"My record isn't on Spotify. People may be outraged, but artists don't make money from Spotify."

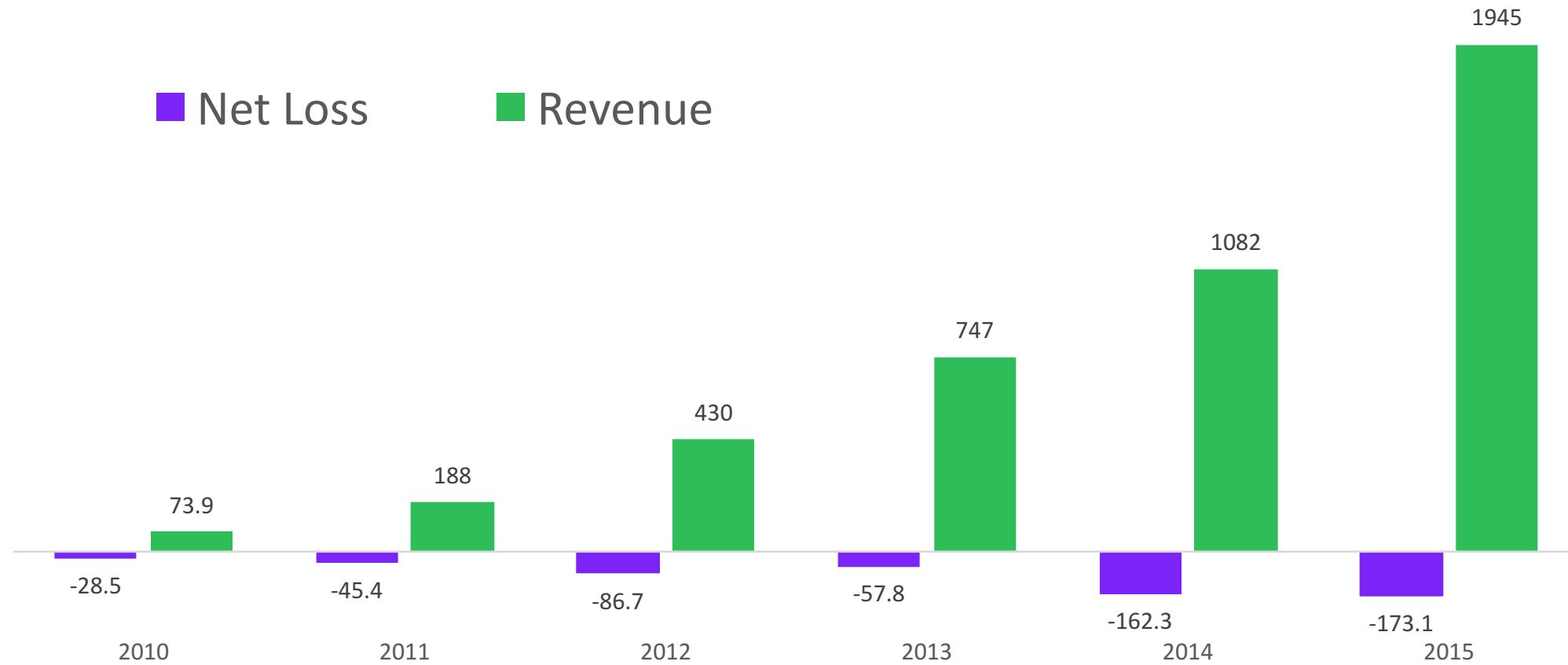
—Aimee Mann

"We've been one of the top Spotify artists. We've had a great year, and people are coming out to our shows; we're selling out. It's working for us."

—Imagine Dragons' Dan Reynolds

- SHIRA KARSEN

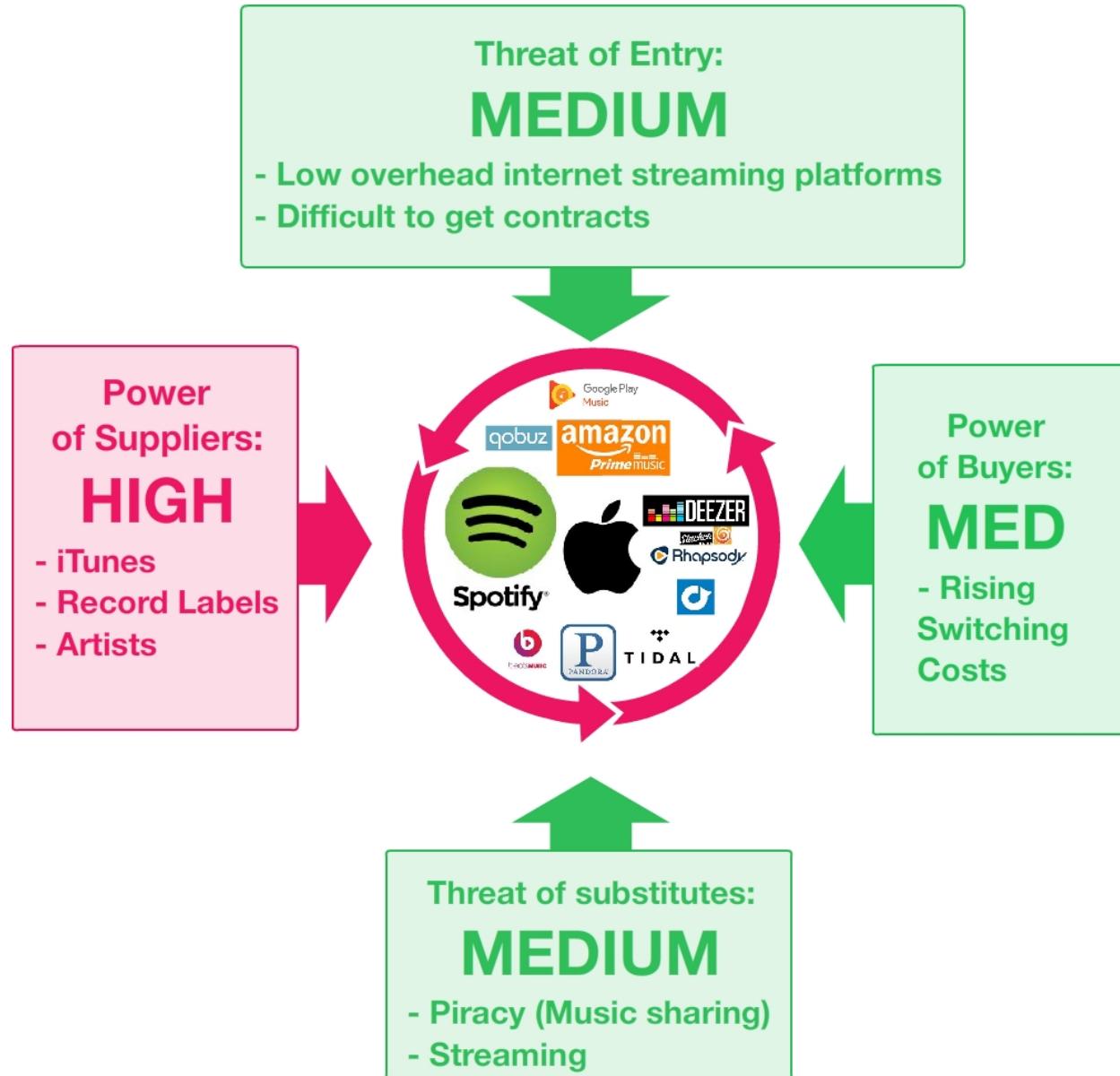
Sustainable Growth?



The New Streaming Industry

“I will Survive”

Highly competitive industry



Navigating the landscape

	Driver	Performance	Market	Organization	Competitive Advantage
Industry Structure	Position	Profitability	Stable	Activity System	Long-Term
Resource-Based View	VRIN Resource	Long-Term Dominance	Changing	Resource Portfolio	Long-Term
Game Theory	Right Moves	Short-Term win	Oligopoly	N/A	Short-Term
Complexity Theory	Edge of Chaos	Growth	Growing Uncertainty	Complex Adaptive System	Unpredictable
Institutional Structure	Viable Niche	Survival	Nascent	Fluid	Unknown

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What resources do they have now?

“Got the moves like jagger”

VRIN Analysis

Valuable

Rare

Inimitable

Non-substitutable

Music Catalogue

Apple, Amazon, Google now all have ~40 million tracks

Relation with labels

Curation system

User data

VRIN Analysis

Valuable

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Music Catalogue

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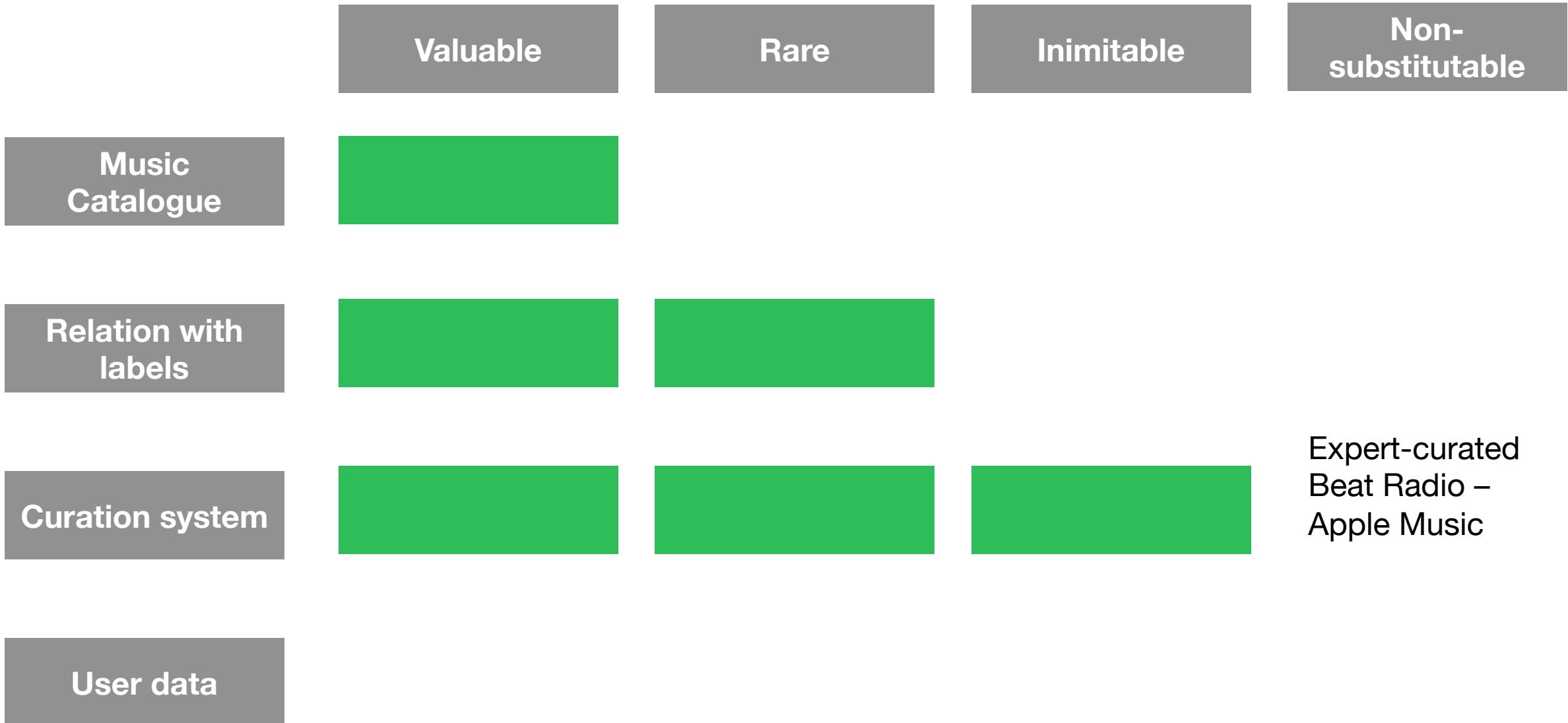
Relation with labels

55% revenue split with labels, Apple Music 58%, Rdio 60% now dead, Pandora struggling

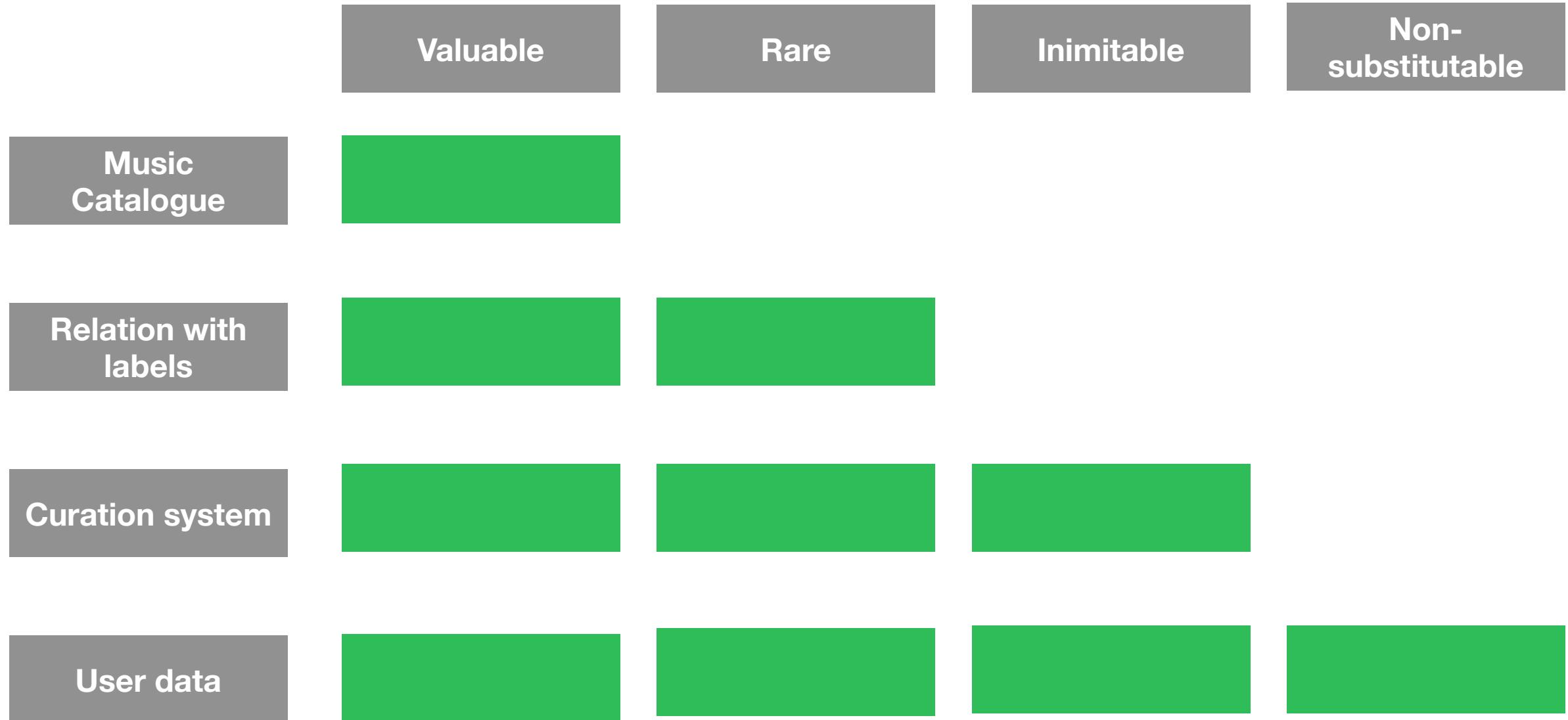
Curation system

User data

VRIN Analysis



VRIN Analysis



VRIN Analysis

Discover Weekly

- ~2 hour personalised playlists
- Updated every Monday morning

FiveThirtyEight

Politics Sports Science & Health Economics Culture



ILLUSTRATION BY JOEL PLOSZ

SEP 16, 2014 AT 7:28 AM

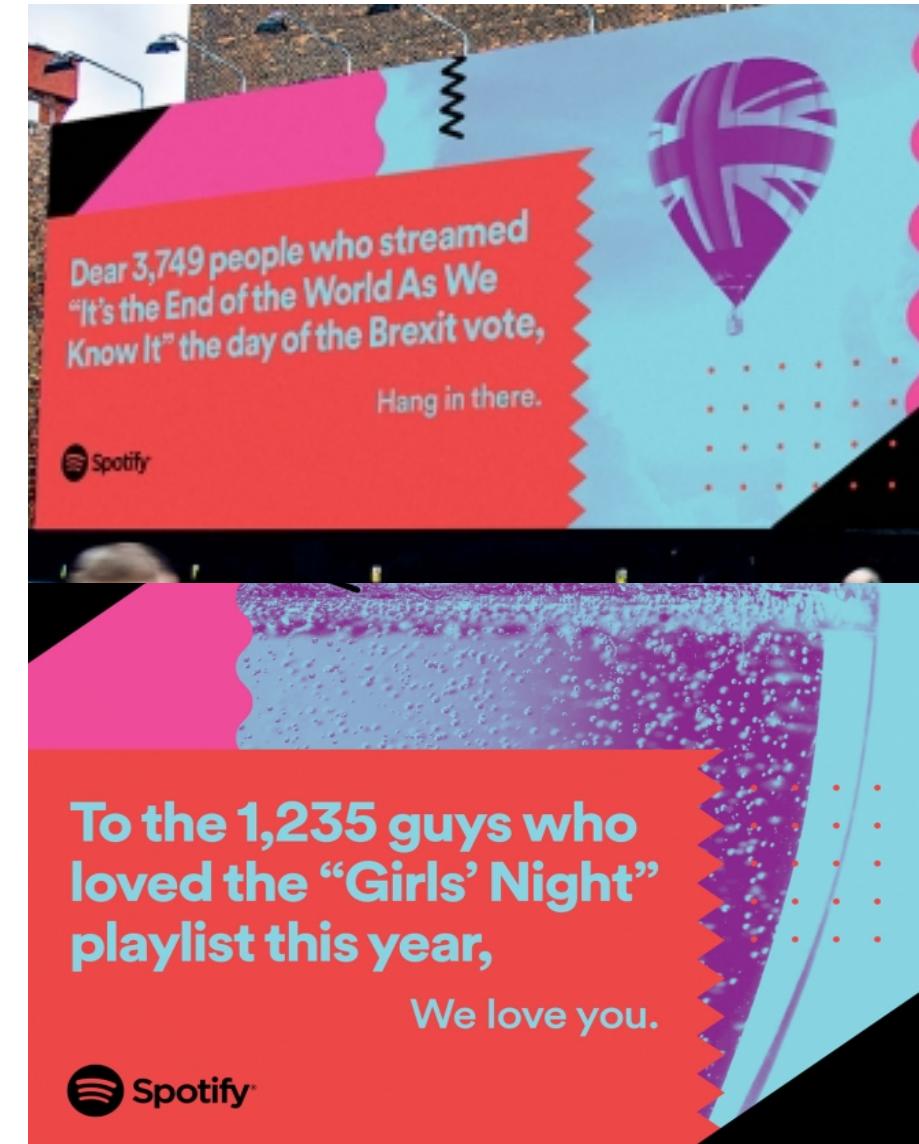
Spotify Knows Me Better Than I Know Myself

By Walt Hickey

Filed under Music

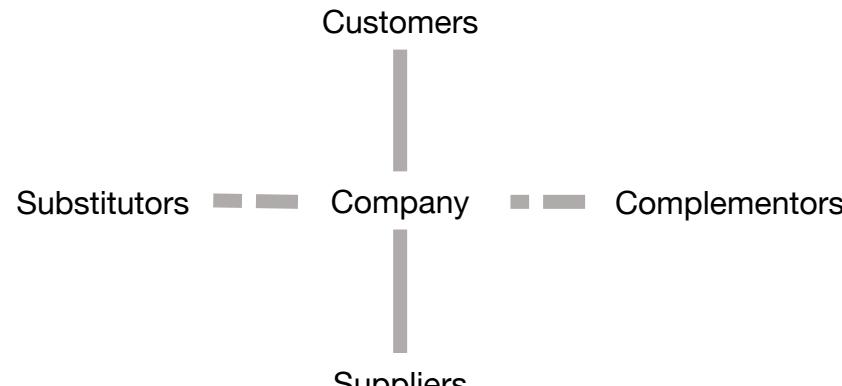
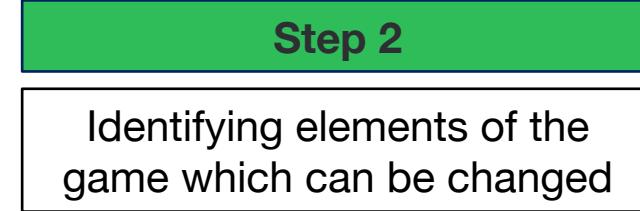
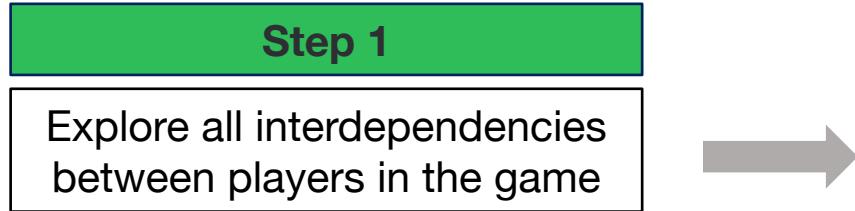
The days when you could listen to guilty pleasure music without consequence are over.

- Nearly **5 billion tracks** streamed since July 2015
- Over **8,000 artists** for whom 50% of listeners from Discover Weekly
- **42% of listeners** use Discover Weekly first thing in the morning



<https://news.spotify.com/us/2016/05/25/discover-weekly-reaches-nearly-5-billion-tracks-streamed-since-launch/>

Quit Playing Game Theory with my heart

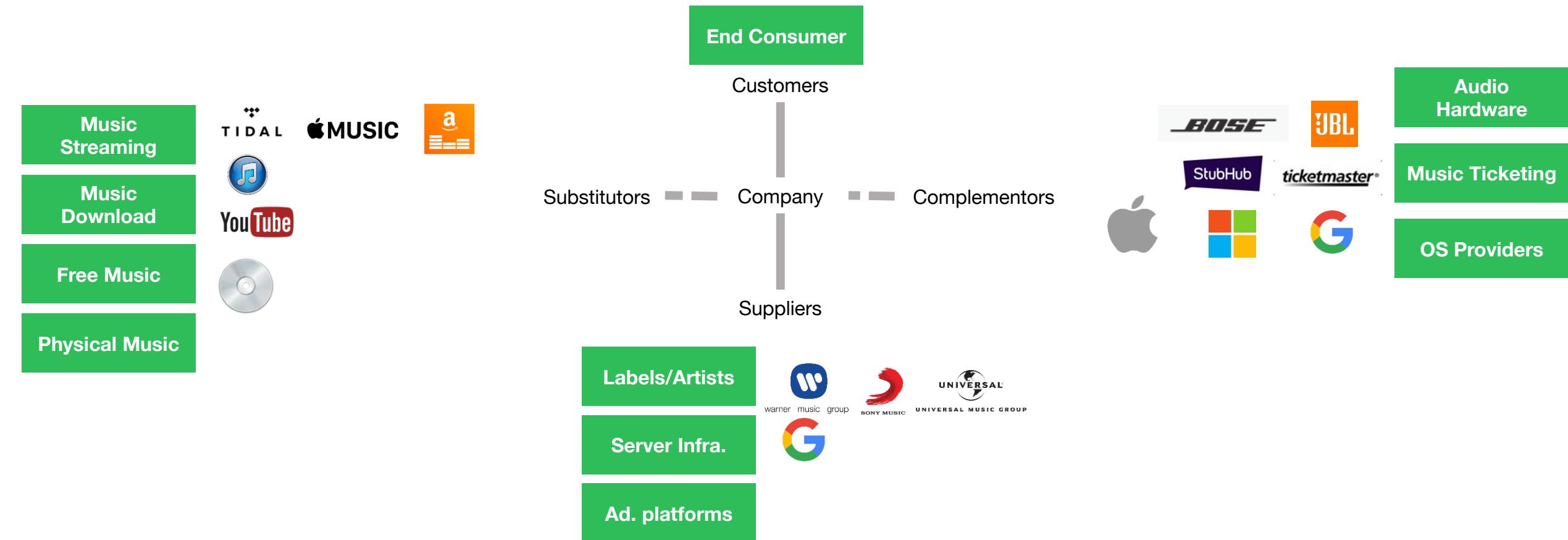


Value Net Map

- Players
- Added Value
- Rules
- Tactics
- Scope

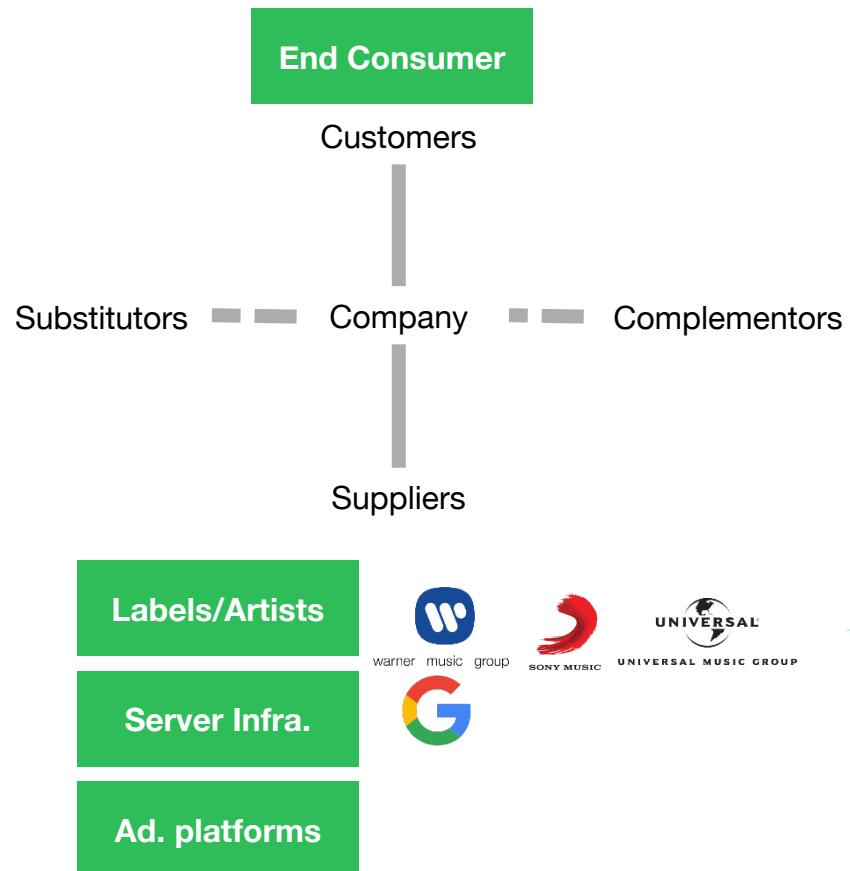
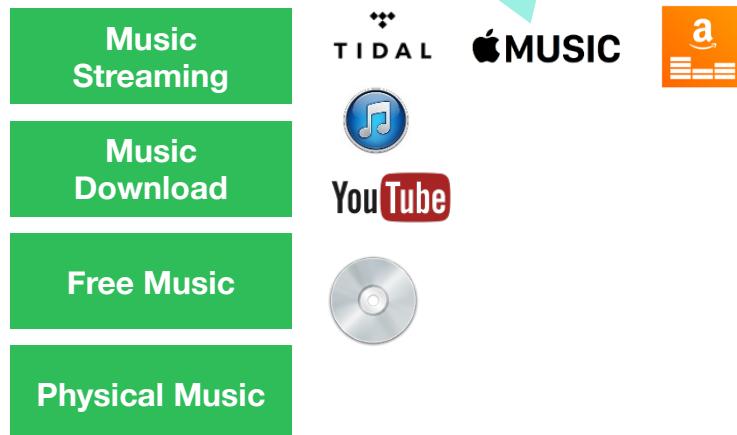
Elements of the game

Using Game Theory to win



Using Game Theory to win

- Complementors and Substitutors are the same!



Game Theory meets Simple Rules...

Rule #1

Be the Complete Music Experience

Partner with Audio Hardware Players

Moves Spotify has played

- Harman and Spotify Team Up to Streaming Audio
- Sony incorporates Spotify into PS 3 and PS 4

Consequence

- Change complementor relationships in the game

One-Stop Shop for Music Fans

- BandPage partnership to Help Musicians sell directly to fans
- Ticketmaster partnership for concert recommendations

- Change the scope and added value in the game

Be the Music Partner for any Business

- Starbucks and Spotify Redefine Retail Experience
- Tinder Teams Up with Spotify

- Change customers in the game

Game Theory meets Simple Rules...

Rule #2

Experiment. Move Faster than the Rest

Expand! Expand! Expand!

Moves Spotify has played

- Spotify eyes Asia expansion with Indonesia launch
- Spotify Expands Into Taiwan, Argentina

Consequence

- Be the first mover and “lock-in” customers

Break Pricing Rules

- Students in US need to pay only half for Spotify premium
- Get 3 months of Spotify Premium for just \$0.99

Redefine Marketing Rules

- ‘Thanks 2016, it's been weird,’ : Spotify’s ad campaign
- Spotify launches with a famous social marketing initiative

New Experimental Products

- Partnership with Genius for song lyrics
- Spotify for podcasts, TV shows, Original Content

- Change the pricing rules of the game

- Change the marketing rules of the game

- Change the scope of the game
- Become a verb

Game Theory meets Simple Rules...

Rule #3

Leverage Data

Better Advertising

Moves Spotify has played

- 'Thanks 2016, it's been weird,' : Spotify's ad campaign
- Share user data for targeted ads

Consequence

- Becoming more profitable

Launch of Spotify Insights

- Opens the door for exclusive complementors (developers etc.) with the Insights API

- Creating complementors

Become a Verb

- Intelligent Recommendations
- Bringing new content to the platform for use

- Increasing switching costs for customers

Our Recommendations – Come Together

- Change rights ownership game
- Become *the* music ecosystem
- Probe mature markets

**“AT SPOTIFY, WE REALLY WANT YOU TO
DEMOCRATICALLY WIN AS A MUSICIAN. WE
WANT YOU TO WIN BECAUSE YOUR MUSIC IS
THE BEST MUSIC.”**

DANIEL EK

Thank You for listening! Questions?

