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Spotify

From syllabus: You will prepare a strategic analysis of an existing company as part of a team. You will apply the concepts, analytical tools and frameworks of this course to analyze the firm's external and internal environments, identify and analyze the key strategic problems it currently faces, and present a set of recommendations to maximize the firm's long-term performance.

About Spotify:

Spotify is a music streaming platform that was founded in 2006 in Sweden with the goal of providing music to everyone. As of 2021, Spotify is available in 180+ countries. Users can search for music based on artist, album, or genre, and can create, edit, and share playlists. Spotify currently has multiple tiers of service available to a wide range of customers. With Spotify Premium, users can download music to their devices, listen offline, skip as much music as they want, avoid advertisements, and other benefits. It's also value-packed because Spotify interfaces with other social media outlets, such as Facebook, Instagram, Apply Carplay, and more. Spotify Premium comes in four tiers: Individual, Duo, Family, and Student. Individual plans cost $9.99 a month, Duo plans cost $12.99 a month, Family plans cost $15.99 a month, and Student plans cost $4.99 a month. Spotify also has a free option with certain restrictions such as unskippable ads, lower spatial audio quality, and other exclusion from certain perks offered in the premium package. Spotify have been able to attract a growing subscriber base through continuous innovation - new user experiences with new features and upgrading its tools and interface. For instance, 2021 saw new features such as video podcasts, shared playlists called Blend, and Hey Spotify. Additionally, Spotify is vying to create personalised playlists for its users with curated playlists such as RapCaviar, Discover Weekly, and other playlist recommendations offered to users in the app.

Frameworks:

External

Political factors affect Spotify through its podcast offerings. There are different news outlets such as The New York Times, NPR, Wall Street Journal, CNN, etc. offering politics podcasts on Spotify. As politics change over time and around the world, these news outlets will be sure to pick up on change and report through its podcasts on the Spotify platform. Economic factors that affect Spotify are its subscription price relevant to the current economy. For example, during a recession, individuals will be less likely to spend money for a Spotify subscription if they don't deem it as a need, and may cancel their existing subscription. Many sociological factors affect Spotify, such as current trends and artist activity. Current trends influence how individuals think and act, which in turn affects music that artists produce. When music becomes trending or if it is well liked amongst large groups of people, then Spotify will have to put said tracks or albums on its platform to accommodate to its users. In addition to this, since Spotify is a music streaming service/platform, artist activity on other social media platforms is also one of the elements that heavily influences the platform. Artists will most likely have huge followings across social media platforms, which give them the ability to influence their followers' thoughts and actions with their posts. Because of this, artists' fans and followers may be influenced to utilize the Spotify platform to listen to the artists' songs. Technology also influences Spotify because Spotify is a web/mobile platform where users can stream music or podcasts. Spotify is solely based on its web/ application platforms across computers and smartphones, so technology is one of the significant external frameworks that affect Spotify. Since Spotify is heavily dependent on technology, environmental factors that bar the use of technology may affect Spotify by getting in the way of trying to procure more consumers. Legal factors that affect Spotify are licensing and distribution rights to music and through artists' record labels.

Firm Level

Starting with the VRIO framework, Spotify is quite valuable as it has 31% market share for all music/podcast streaming services. With its worth around 25 billion as of 2018, Spotify is currently the biggest music company in the world. As for rarity, Spotify is not very rare as it has many other competitors and music streaming platforms that offer similar services as it does. This also goes hand in hand with inimitability. Because there are many similar music platforms like Spotify, it can be easily imitated. However, as an organization, Spotify is competent enough to manage its resources.

Moving onto the SWOT analysis, strengths of Spotify are the different tiers of subscription plans it offers as well as the variety of podcasts. Compared to their competitors like Apple Music and Amazon Music, Spotify offers a wide range of podcasts ranging from beauty to scary storytimes and politics. In addition to this, according to users, Spotify boasts a better UX/UI design over Apple Music and Amazon Music, and was said that Spotify was easier to access as all songs and podcasts were available to listen on the same page. In addition to this, the brand name of Spotify is very reputable as it has been stable, consistent, and positive over the years. The last strength of Spotify is that it offers a free subscription where it allows users to utilize their platform without charge to listen to music. Weaknesses of Spotify are that due to it being heavily dependent on technology, listening offline can be a challenge. Unless one has a paid subscription, offline listening is almost impossible. Even with a paid subscription, albums and songs must be downloaded first in order for it to be streamed without wifi. In addition to this, Spotify isn't unique compared to its competitors. Most of its competitors offer almost the same service that Spotify is offering. Opportunities for Spotify may include partnerships with mobile phone carriers or laptop/computer companies where they offer subscriptions along with the purchase of a phone or laptop. Another opportunity for Spotify is to combine their unique offering of podcasts and invest in video streaming in order to push for video podcast availability. This will set them apart from their competitors as there is no word of video podcasts being available on a music streaming service. The biggest threat for Spotify is its competitors Apple and Amazon Music, as they are owned by tech giants. Although Spotify currently has 31%

market share of music streaming platforms, with big tech also trying to push for a bigger market share, Spotify should think of ways to differentiate itself from its competitors.

Industry Analysis:

Porter's 5 forces:

Bargaining power of suppliers: Suppliers have strong bargaining power. Supplier are the owners of the recording copyright (label, distributor, artist, etc). Audio streaming companies pay for a license to play the audio from the copyright owners. Companies also pay royalties to the songwriter for whenever the song is played. The three biggest record labels are Sony, Universal Music Group, and Warner Music Group. The immense size of these record labels gives them high bargaining power as the suppliers in this industry. Streaming services are the only way for major record labels to effectively distribute their music. However, because the major music rights holders control the majority of all music rights, music streaming companies need the suppliers to operate. Supplier bargaining power could be further reduced when streaming companies either creating original music or acquiring the rights to the music (backwards integration).

Bargaining power of buyers: Buyers have moderate buying power. This power increases due to the low cost of switching platforms for users. Music streaming is based on a monthly subscription model, so a buyer can simply cancel their subscription and sign up to a different service. Buyers also have higher bargaining power due to the lack of differentiation and shallow brand loyalty. However, because of the high number of subscribers that major companies in the industry have, a small number of customers switching services does not have a significant impact on the profitability of Spotify. No individual buyers yield the financial power to have much bargaining power.

Threat of new entrants: The threat of new entrants is low. Due to the high cost of streaming licenses, there are high capital requirements for a new company to build a catalog of music and podcasts to compete with current giants in the industry. Therefore, new entrants need the financial help of an existing company to enter the industry, such as AppleMusic or Amazon or new entrants must have pre-existing access to investments that will help with its operations. Lack of differentiation in the music streaming market also makes it difficult for new entrants to attract customers from their current service providers.

Threat of substitutes: Threat from Spotify substitutes is moderate. Users of Spotify are more likely to switch amongst the tiers that are offered by the platform than switch to a new platform entirely. However, there are competitors that offer similar services - Apple Music, Amazon Music and YouTube music, Pandora, etc. While the number of rivals of Spotify might be high, Spotify has a strong competitive position. Spotify has the largest market share. Substitutes for streamed music include downloading individual albums or songs, CDs/records, and radio. Downloading individual songs or buying a CD or vinyl is both too expensive and inconvenient when compared to what is available on music streaming services. Radio does not allow listeners to choose any specific songs they want to listen to. Podcasts can be substituted by radio and audiobooks but neither option have more choices than podcasts

Industry Rivalry: The rivalry is moderate to high. The major competitors offer a similar experience and have a similar price point. The music streaming industry includes several large, multinational companies that represent the majority of market share. Spotify, Apple Music, Amazon Music, YouTube, and Pandora are five major competitors in music streaming market. Companies all offer their baseline service for $9.99/month so there are no price competition. They also provide a similar catalogs. Similar variety and low switching costs for users increases rivalry amongst the companies. Rivalry also occurs around areas of differentiation amongst the major players. Companies generally compete for users through several factors: Size of the music catalog, podcasts, personalized playlists, complimentary products offered, original content, standard subscription price. Audio streaming companies differentiate themselves through integration into the ecosystem of the company's other products, integration into smart speakers and wearables and social media, and through bundles. The rising demand for music streaming has companies fighting over new subscribers.

Current Challenges that may hinder Spotify's growth:

Over the past few years, a problem that faces Spotify is allegations for **unfair artists compensation**. This problem stems from criticisms of niche artists which fuels artists' requests for fair treatment. Spotify's current model uses a pro rata system that over-rewards already popular and famous artists at the expense of other lesser known artists. This system collects money from subscribers and ads and distributes the money by dividing the number of streams and giving top percentage holders money from users who have never listened to their music. By favoring top artists, Spotify's algorithm is leaving grassroot creators in the dust.

Another thing that hinder spotify growth is their deal with record labels. In order to get all their catalogs, Spotify agreed to give 70% of their total revenue to the three record labels (Warner, Sony, Universal) or $200 million whichever is greater. Even if they get $1 billion dollar in revenue, they will only get 30% of it. Leaving only 30% for spotify for operation and expenses. This **extreme low margin** will make it hard for Spotify to keep its revenue due to the their inability to slash music royalties. In 2018, even with 31 million new users registered during this year, the company ended at negative profit. Without changing this revenue model, it's useless for Spotify to get bigger and get new users.

Current Generation doesn't want to pay for music. The pre-digital generation have vinyl, cassettes and compact disk. But we do is peer-to-peer file sharing. We use Napster and Bittorrent, and even when copyright are strengthened and enforced. We are offered spotify where we can listen all to the music we want, for only $10, almost free.

Competitive Advantage & Dynamics

Spotify

According to the most recent data gathered, in a $27.8 billion market Spotify leads all of its competitors with a 31% market share, which is more than double the second largest competitor in the industry (Apple Music). Spotify's dominance in the industry is supported by a 180 million subscriber base and 406 million active users. One of the largest factors resulting in Spotify's success is its mass availability on a global scale; available in over 180 different markets and with over 80 million tracks ranging across all genres. Spotify's main competitive selling point plays very heavily on its diverse audience. The brand offers a wide range of subscription options including individual, family, and group pricing plans in order to cater to its different user clientele. Furthermore, when it comes to advertising Spotify's campaigns specifically target the Gen Z audience through social media campaigns featuring artists and songs popular within that customer base.

Apple Music

In 2021, Apple recorded a $5 billion revenue from its music streaming services, accompanied by a subscription base of 88 million users. A key advantage that Apple has over its lead competitor lies in the United States market, where Apple has the most subscriptions of all streaming services (Spotify leads competitors in major international markets such as Europe and South America). Apple music is available in 167 countries and has over 70 million songs available for streaming, just shy of Spotify's customer reach and selection; however, Spotify has nearly 50% more users than Apple Music. Despite its capabilities to be a lead player, or at least a greater threat, Apple's music segment has limited growth capacity largely because of Apple's focus on other sectors of its brand. Apple's music streaming service only accounts for 6.4% of its total revenue. While research and development lies at the core of Apple's identity and wants to promote growth in its other industries conjointly, Spotify's sole focus lies in being the leading music streaming service globally and allocates all of its assets towards attaining that goal.

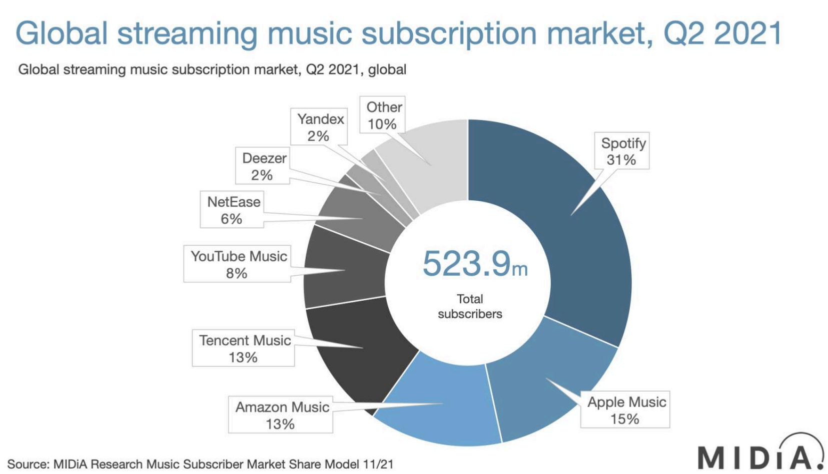
Amazon Music

The most recent reports indicate the combined revenue for Amazon's subscription services is $8.12 billion, which is distributed among its music department, as well as digital video and e-book services mainly. Amazon Music has two service options: a free to use with advertisements option, and Amazon Music Prime which has no advertisements for $8.99 per month fee. Furthermore, Amazon Music Prime has a customer base of 55 million subscribers, the majority of whom have free access to Music benefits with their already existing Amazon Prime accounts, and a music catalog featuring over 75 million songs. While Amazon's already existing service has been monumental in supplementing its music streaming service, the brand has had and continues to struggle expanding the reach of this specific service beyond its existing clientele.

Youtube Music

In 2021, YouTube generated $28.8 billion in revenue, and around 9% of that was contributed to YouTube's music operations. YouTube Music is directly curated from YouTube's main platform, and streamers have the ability to listen to music from not only published artists but also independent artists that publish exclusively on YouTube. Youtube music has access to the most diverse content compared to its competitors because of its interwovenness with its main platform, generating an astounding 2.5 billion impressions per month on average, who have over 50 million songs to listen to. Subscription models are limited to free use with advertisements and a $9.99 monthly subscription fee for use. YouTube's revenue model relies heavily on its advertisement revenues made from other companies, as most users are used to using YouTube's primary service for free. Whereas other streaming services have an easier position when it comes to charging for their services, the existence of an already free to use platform hinders YouTube's ability to garner additional payments from its existing audience.

Other Competitors



Potential Recommendations:

At this current point in our research, we have found two potential recommendations. The first and most promising recommendation is to increase the prices of Spotify's services. There are several issues that this course of action would address. Firstly, it would increase Spotify's revenues, in turn increasing its profits. However, the most important reason for choosing this course of action would be to ensure the security and quality of the streaming product. Spotify creators are very upset about what they are being paid and this is having an effect on the ecosystem. Creators are incentivized to focus more on other revenue streams such as touring or becoming famous as an influencer on social media to sell advertisements. The complaints are primarily from those in niche genres who are paid next to nothing, but even those in the top brackets are unhappy. For example, Drake made 23 million in revenue across all streaming platforms which is a small number compared to the 85 million that his summer 16 tour grossed alone. In essence, artists are not incentivized to record music so the quality is decreasing. That can be counteracted by paying them more for their services, and that can be accomplished simply by raising the prices of subscriptions. This has been a favorite idea of ours from the start, and just recently it was announced that Apple will be raising prices and Spotify will be moving with them. So it is pretty likely that this option will be pursued. The drawbacks of this plan would be a potential drop in users who are uninterested in paying Spotify the new price for its offerings. However, if the other big dogs like Apple increase their rates, I doubt that very many will cut music streaming entirely. Streaming is the only way to affordably listen to music, so all fans of music will pay whatever it takes or watch whatever ads it takes. The only other issue to address is that the benefits of paying artists more through increased rates would equally serve competition in encouraging better entertainment. The benefits would extend to the entire music industry, so Spotify is not in a unique position to capitalize on it. However, this course of action must be taken because eventually the quality of the product will be driven into the ground at the current rate. Whether or not the subscription price is changed does not affect our second possible recommendation which is to change the artist payout model to give those on the bottom more. Spotify divides the revenues exactly by how many streams there are and distributes it accordingly. This system appears to be fair, but it makes it nearly impossible to get new entrants into the industry and discourages those on the come up to continue working hard. Even those in the middle of the pack are unhappy with the current pay, so something must be done. We are not exactly sure how it would be broken up, but we are thinking about the idea of bracketing off pay per stream by the total number of streams. For example, Bad Bunny would make less per stream than a small local band, but still far more in total than the band due to the massive volume of listeners. There would be some pushback from the top and decreased incentive for them to work on recording music, but it would increase the diversity of artists on the platform which may ultimately be better. It is likely that the top artists would not think much about it and continue putting out their works while the little guys are working harder than ever due to the promotion. We are looking at both of these ideas closely and may even do a combination of them both because Spotify just barely beat us to the punch on the price increase.

Long-Term

https://sites.duke.edu/djepapers/files/2020/08/nelljones-dje.pdf

Streaming money

Apple music : 0.0076

Spotify : 0.0026-0.0049

Youtube : 0.0067

Apple : 52%

Spotify 72%

Apple is raising from 9.99 - 10.99and family plan from 14.99 -16.99

Youtube is chargin 17.99 -22.99

Spotify should increase

Why : Because Apple doesn’t have free listening-add, it also have distribution platform

https://www.nasdaq.com/articles/how-apple-can-afford-to-pay-twice-as-much-as-spotify-for-music-streaming-2021-04-19