



Spotify®

Spotify: A Marketing Analysis

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Introduction

Spotify is a privately-held digital music streaming service that provides access to over 30 million different songs with new music being added daily. The company's mission is to provide music entertainment to its listeners. They pride themselves with letting listeners listen to the music when they want and where they want. Spotify prides themselves on as they act as a personal radio. Spotify has apps available for most devices including Windows, Mac, Android and iOS smartphones. The user-friendly app allows music to be browsed by artist, genre, album or playlist. Users are also able to create their own playlists. Spotify has cleared the rights for all major record label catalogs which allows them to access over 20 million songs (Kjus).

Spotify offers a free and premium-based subscription. While the two services are very similar, they differ in some ways. The premium subscription, which is \$9.99 a month, allows users to listen without advertisements, have unlimited skips and provides clearer audio (Carter). While the free version allows unlimited listening, it does come with more advertisements, and has a limit on the number of songs one can skip when listening on mobile.

In 2006, the app was developed by Swedish developers Daniel Ek and Martin Lorentzon. The service officially launched to the public in 2008. It launched to the United States market in July 2011. Spotify originally started off as a subscription-based service, but then once they had positioned themselves in the market, they turned to offer a free service as well. Today, Spotify's main goal is to focus on the music

streaming service. However, they have turned to several other business opportunities. Right after the United States launch in 2011, they partnered with Facebook in an effort to access millions of Facebook users (Kjus). In January 2015, Spotify partnered with Sony to create PlayStation Music, a new music service that allows people to stream songs from their PlayStation gaming console. This enables gamers to listen to their favorite music while playing games.

Since Spotify is a free streaming service, they use most of the advertisements to produce revenue. Additionally, Spotify depends heavily on premium subscribers to produce growth and profits. Spotify needs a marketing strategy and plan to increase market share over competitors like Pandora, Apple Music and iHeart Radio. With lots of competitors in the market, they need to stand out. Alongside the top competitors they want to produce the most revenue within the music industry. Additionally, a marketing strategy also needs to be implemented to incentivize users to pay for the premium subscription plan. Having users subscribe to the premium subscription would allow Spotify to produce a greater revenue, and more profits.

Environmental Scan

In March of 2016, before its 10th birthday, the Swedish company had \$1 billion in convertible debt from investors who valued Spotify at more than \$8 billion (Shaw and Barinka). The company has also lost money each of the 10 years they have been in business. Although they are currently losing money, Spotify dominates the paid streaming world (Shaw and Barinka). Currently, Spotify has more than 30 million customers that mostly pay for the \$10 a month music-streaming program (Shaw and Barinka). In 2015, sales almost doubled to \$2.2 billion (Shaw and Barinka). Yet, the expenses are what are keeping Spotify from turning over a large profit. In 2015, Spotify paid \$1.8 billion in commission expenses to the music industry (Shaw and Barinka). Publishers and record labels get a cut from the profits Spotify makes. Record labels alone get 55% of Spotify's sales (Shaw and Barinka). The large payments go to Universal Music Group, Sony Music Entertainment, and Warner Music Group (Shaw and Barinka). Chief executive officer for Spotify, Daniel Ek, has spent the past 18 months trying to negotiate the labels check payments to below 50% (Shaw and Barinka). The music labels argue that Spotify is currently paying less than market rates in comparison with their competitors. Apple alone pays 57.5% of sales from Apple Music (Shaw and Barinka)

When it comes to terms of technology, Spotify has made the decision to team up with Google. Spotify has decided to move its home built technology infrastructure to Google's Google Cloud Computing Platform (Vijayan). Due to the migration, Spotify

plans for the company to move its services from microservices running on on-premise data centers to using Google's compute engine and storage services (Vijayan). The company has also started to switch over to Google's Cloud Bigtable database service for big data workloads. Due to the migration, Spotify will get rid of its existing Hadoop, MapReduce and Hive based technology (Vijayan). Since Spotify has more than two billion playlists and about 30 million songs, it will also use Google BigQuery and Cloud Dataproc to run queries and interactive analyses on its larger data sets (Vijayan). Acquiring Spotify is a big win for Google. Google has been trying to position its cloud computing services in a way that would be low cost but high performing in comparison to its competitors such as Amazon Web Services and Microsoft (Vijayan). According to Synergy Research Group, Google stands behind Amazon, Microsoft, and IBM when it comes to cloud infrastructure services (Vijayan). The change to Google Cloud will be implemented in the next several months (Vijayan).

Sharing music is a social norm for Spotify. It's also a very important component for their business. Spotify found that the more social users are being with their music the more likely their music library grows (Van Buskirk) The faster a customer's library grows the faster Spotify gains paying customers (Van Buskirk). That's why pairing up with Facebook was such a positive outcome for the company. The more customers share their music with their Facebook Friends the more money will come in for Spotify (Van Buskirk). Spotify has also teamed up with Tinder to incorporate music into the match-making process (The Spotify Team). Now Tinder users will see their matches favorite artist and music preferences (The Spotify Team). Another feature that would

benefit Tinder users is that with the new Spotify partnership, users can now have an Anthem on their profile. Users can also hear other user's Anthems as well (The Spotify Team).

When an artist debuts a song or an album the typical sales period is about four to 12 weeks according to Spotify CEO Daniel Ek (Van Buskirk). What makes Spotify so special is that it extends that time from that short period to a long period of 25-35 weeks and sometimes even a year (Van Buskirk). The way this occurs is by the listener. If a listener likes a song and adds it to a playlist that song becomes frequently played. As a result it keeps the song sales current because Spotify pays the music industry every

Competitive Analysis

Over the past five years, there has been a universal shift from the purchase and downloading of songs and albums to low cost online streaming. This shift has caused an increasing demand for such services, resulting in a diverse music streaming market, with many different opportunities for consumers. In the case of Spotify, there are three main competitors: Apple Music, Pandora, and iHeart Radio. Despite the cut throat competition, Spotify has the largest market share, with its user number reaching over 100 million and having over 30 million paying subscribers. However, Apple Music still poses a threat for within the year of its debut, it has since gained over 15 million paid users, which is about the same rate as Spotify (McIntyre). Because Pandora and iHeart Radio are online radio streaming platforms, their offerings are not as comparable in when looking at Spotify and Apple Music, shown in Pandora's decline and failure to meet its projected quarterly sales of \$351.7 by \$7 million.

Apple Music

Apple Music is a music radio and streaming service developed and launched by Apple, Inc. It is now Spotify's main competitor ever since its release in June 2015. Unlike Apple music's former platform, iTunes, Apple Music is currently having a greater success rate for its ability for customization and attainability of new music. Some strengths of Apple Music are its ability to provide customers with exclusive releases of popular artists that are not available on Spotify. Apple Music users are also able to

merge their current iTunes library to the music that they are streaming to make one, comprehensive place for music streaming. However, Apple Music does have some weaknesses when compared to Spotify. Unlike its competitors, there is no free version of the streaming platform, although there is a free three-month trial period, but the user must commit to the service after using it. There is also not a comprehensive application for android or a music download option on desktop, unlike Spotify. The cost of the service is the same as Spotify, \$9.99 per month. There are different opportunities for Apple Music include the expansion of their current music selection, and allowing for a wider range of people to use their products. The single threat to Apple Music is Spotify, only if it is able to gain access to a more extensive selection of music.

The only aspect of Apple Music that is able to influence Spotify's product and service is its **expansive library of artists, most specifically Beyoncé, Taylor Swift, and Kanye West.** This is the only true advantage that Apple Music has over Spotify. This would affect the market opportunities of Spotify because the type of music offered is often the deciding factor when decided on which music streaming service to subscribe to.

Pandora Music

Pandora Music is an online music streaming and music recommendation service. Unlike Spotify and Apple Music, **Pandora allows its users to create playlists based on their music tastes instead of selecting songs to make into a personal playlist.** A strength of Pandora is its **ease of use** for users. A user simply needs to select a genre or artist to form a radio station based on that specific music type. However, this is a

less expensive option compared to Spotify or Apple Music. It is simple and easy to use, but does not have some of the differentiable aspects that are essential to a competitive music streaming service which can be seen as a weakness.

The aspect of Pandora music that separates it from other music streaming services, is the user's ability to create radio stations according to a specific artist style or genre. Spotify began to offer this similar aspect as well, so the one aspect that differentiated Pandora from other music streaming services is no longer solely provided by Pandora, which is a threat to the integrity of the business. There are certainly opportunities for Pandora to expand themselves, but in such a competitive market place, the actual enactment of these ideas are not truly feasible.

iHeart Radio

iHeart Radio is also an online music streaming and music recommendation service. It is extremely similar to Pandora, except it offers an online live radio service, in addition to radio personalization. The differentiating aspect of iHeart Radio is its direct collaboration with artists to provide its users with the first look at certain concert venues. It is not only selling online music streaming, but it is also selling a musical experience through exclusive offers on customers and meet and greets. Some strengths include its free price and ease of use. Furthermore, in January 2017, iHeart radio will be releasing an "all access" online streaming option for users comparable to Spotify. This is not only a strength, but a manifestation of an opportunity, for the company already has a solid customer base. Some weaknesses of iHeart Radio is its

attempt to break into an already crowded market. With the introduction of their own music streaming service, it will be difficult to break into the market with the success they are expecting, despite already having a solid customer base.

Customer Profile

Customers are the crux of every brand's marketing efforts -- the most important piece of the entire process. Spotify's brand goes to fulfill a core need on behalf of the population: entertainment, particularly through music. The market of people looking to satisfy this need is tremendously large and incredibly diverse on many different levels and by several distinct variables. However, Spotify has positioned itself uniquely in this expansive market in order to target two major segments: students and young business professionals. These two segments possess specific characteristics that make them desirable, lucrative targets for Spotify's service.

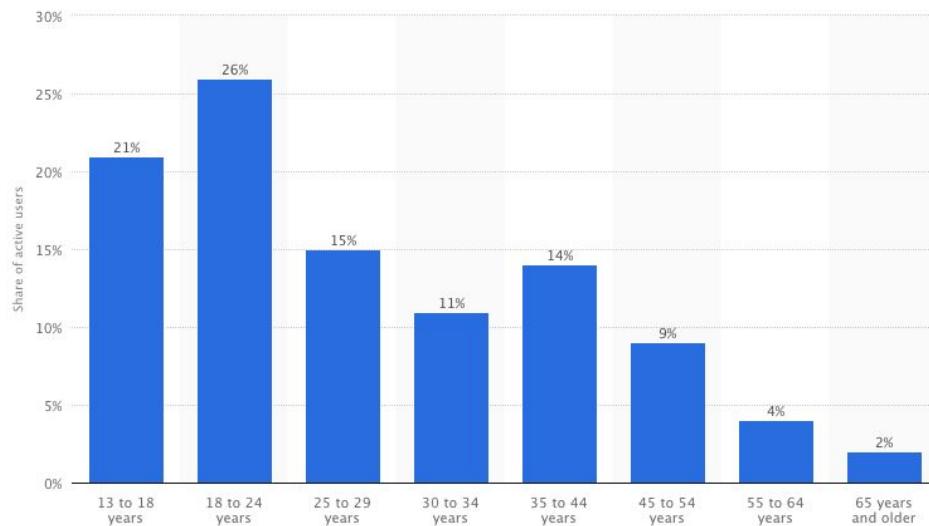
Students

Demographic

Many demographic factors play into the student segment's attractiveness. First and foremost, is the obvious trait of age. The students that Spotify targets are somewhere around the high school and college age range. As seen in the chart below, this age demographic is Spotify's most lucrative, and accounts for the majority of their usership. College-aged students -- individuals from 18-24 years of age -- serve as Spotify's largest segment of users, followed closely behind by high school-aged students -- individuals from 13-17 years of age. In all, the student segment accounted for just under half of all of Spotify's users in 2015 -- roughly 47%. Being entirely computer-based, younger generations, particularly Generations Y & Z, have a peaked

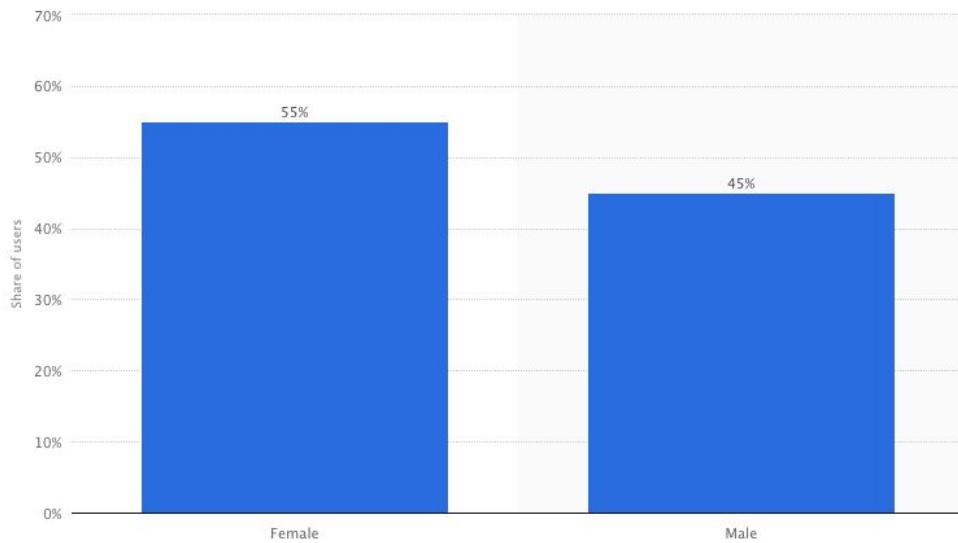
interest in the service, and are able to back that interest up with the technical competency necessary to navigate it.

Distribution of active Spotify users in the United States as of April 2015, by age



In terms of gender, Spotify markets itself as a service that doesn't have any clear, significant distinctions between male and female usership. It's a service for both. As of 2015, Spotify attracted **slightly more women** than men on the whole -- about 55% vs. 45% respectively. However, when Spotify entered the market in 2008, men dominated its usership. This shift in gender usage seems to be normal for most brands, as men tend to act as early adopters for new products and services, especially those that are technologically-based, whereas women tend to fall more into the middle majority during product maturation (Kennedy).

Distribution of active Spotify users in the United States as of April 2015, by gender



In regard to income, this can be tricky because members in this student segment are in a unique financial position. As students age, there is usually some type of blend between being financially dependent on parents, families, etc., and being financially independent to some degree. Even if entirely economically dependent on their families, these younger generations still have substantial purchasing power through this relationship with parental financiers. And, if operating off a mixture of dependent and independent finances, Spotify still targets these students by offering its most basic service for free, and offering its premium services at half-price for college students.

Psychographic/Lifestyle

For this younger audience of students, personalization is key. A major characteristic of the Generation Y demographic is the idea of extreme customization of

products and services. This goes to explain why Spotify is such a big draw for those high school and college-aged students. The ability to listen to their favorite music on demand, construct playlists, and switch genres at whim achieves this audience want. In addition, Spotify's notion of music listening as an experience that can be coupled with other activities, such as doing homework, working out, partying, and hanging out with friends, makes it all the more accessible to the touch-and-go, hustled lifestyle of this young demographic. This makes Spotify less of a product, and more of an element of an overall experience, a major draw for Generation Z members.

Geographic

Geographic segmentation can be a bit difficult to pinpoint in the case of Spotify. Again, as an entirely computer-based service, the lines of targeting on the basis of location can be blurred. In essence, Spotify believes that if you have an Internet connection, their service is for you. This can be seen in their promotional efforts, as Spotify advertisements seem to show up mostly online, a medium dominated by these younger demographics (CivicScience). However, on a macro level, we can determine that the majority of the users in this segment come from first-world, superpower-type countries. Among these are the service's two largest geographic markets: the United States and the United Kingdom. These are areas with relatively similar cultures, meaning that students generally have access to the same types of technology, want the same things in customization of products, and have decent purchasing power through their parents.

Young Business Professionals

Demographic

The young business professionals segment has its own unique characteristics that make it particularly attractive. Before breaking down key demographic traits, it's important to define the members who make up this segment. Young business professionals can be classified as those individuals who have recently graduated college, and are now working white collar jobs with relatively sizeable salaries/wages. While not as young as those high school and college-aged students, individuals in this segment are somewhere between 25-29 years of age, meaning they are still considered Millennials. This predisposes them to be incredibly fluent with technology, especially because they have effectively grown with it, experiencing its developments firsthand over their lifetime. Even more, these are the individuals who saw Spotify enter the market at a time when they were in that student demographic. These two points combined, there's a good chance that a majority of this segment were those ambitious, technologically fluent early adopters that tried Spotify around its conception in 2008. This being the case, there's a higher chance that those individuals would stick with the service now that they've grown.

In terms of gender, the case for this segment is identical to that of the students'. Reports seem to suggest that women use the service just slightly more than men. But, again, recall that men once dominated its usage as early adopters at the service's birth.

This shift in gender usage is normal. The biggest difference between these two segments, students and young business professionals, is income. While the student segment may have a mix of financial dependence and independence, young business professionals are almost certainly on their own economically. Based on the fact that these individuals have a college degree and a white collar position, it is fair to say that they have their own purchasing power to back their need for entertainment. According to TIME magazine, the most recent college graduates are projected to make about \$50,000 on average in 2016 (Poppick). While these individuals could certainly still use the free service provided by Spotify, the fact that they now have their own funds, and a pretty sizeable amount at that, means that they are much more likely to purchase the paid service for its increased benefits.

Psychographic/Lifestyle

The lifestyle of young business professionals has some key commonalities with the student segment. For one, they too enjoy this idea of mass customization and personalization, for many of the same reasons. Even more, the mobility and interconnectivity of Spotify's service is certainly a significant appeal for this segment, particularly given the busy, on-the-go lifestyle of professionals in today's business climate. The average professional will spend the overwhelming majority of their time on a computer, or other Internet device, whether at work or at home. Spotify serves this need to be constantly connected to their music, no matter where individuals go, or what devices they are using.

Geographic

Just as the case with the student segment, Spotify's geographic segmentation in regard to young business professionals is also blurred due its online medium. While its promotional efforts are focused mostly online, which works for this segment given their constant on-the-go lifestyle and connectivity with technology, we also see efforts popping up in urban areas where these targets are located. Given the nature of these white collar business jobs, many members of this segment reside in large cities and metropolises. Also, as we noted previously, a majority of these users are located in those superpower countries, most notably the United States and the United Kingdom. Again, these are areas in which young professionals live the same sort of hustled, business-driven lifestyle.

Marketing Tactics

Product

Spotify offers itself as a music streaming service, which allows consumers to either use a free account, or a premium one that prevents commercials and opens-up access to even more music for paying consumers. The service promises access to nearly all music for users, and it promotes an easy to use format, while also utilizing an eye-catching design. Personalization is one of the main tenants of Spotify, as the entire customer experience is centered around allowing people to create playlists to fit any mood they are in. Users can customize these playlists however they wish, use an algorithm driven radio, or even connect with friends via a following system. The service allows for users to use a limited amount of skips on the free version as well. However, there is a difference between the versions available on laptops compared to smartphones. For example, on Apple iPhones, the Spotify app only allows for shuffle play for free accounts. Spotify aims to develop music connections by allowing friends to see each other's musical preferences, and their tailored playlists as well; all enhancing the overall listening experience for consumers.

Price

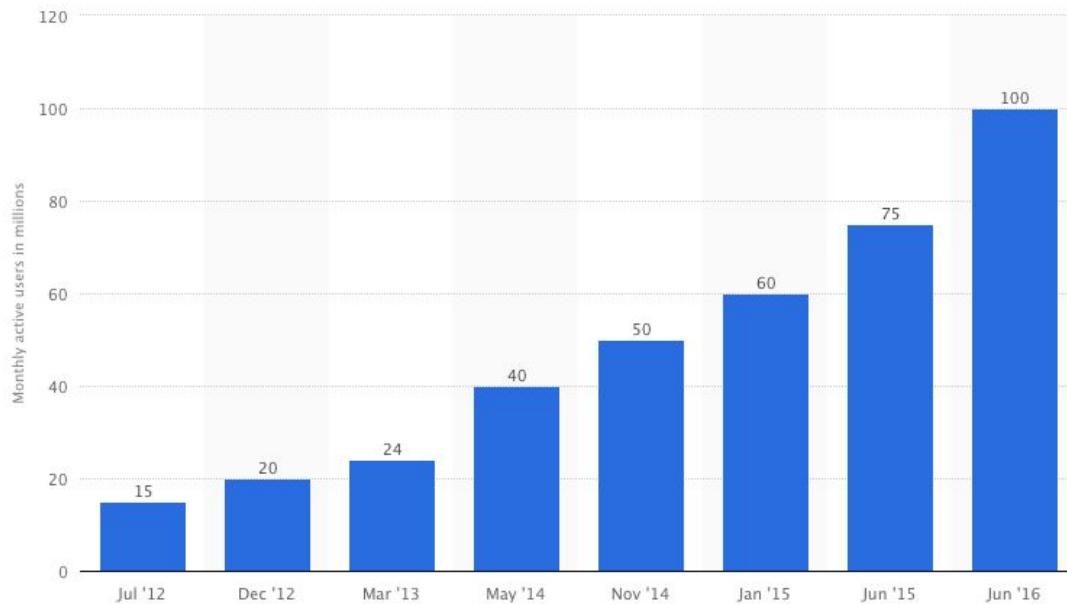
There are two versions of Spotify: a free account, or a paid for premium account. While the free account has access to almost all the same music as the premium

version, it is hindered by advertisements and the inability to do offline listening. Consumers can pay \$9.99 a month to gain access to the premium version, which eliminates ads, allows full access to all of Spotify's stream-able music, and allows users to use the service offline. The price is a bit more expensive compared to some competitors like Pandora Radio, which offers premium service for only \$4.99 a month. However, Spotify also offers a discount for premium for students, which comes down to \$4.99 a month as well. Other main competitors for Spotify include Tidal, i Heart Radio, Apple Music, and iTunes. The regular music industry also competes with Spotify in terms of making money by album purchase, instead of by subscribers.

Place

Spotify, being a digitally driven app, is accessible through any digital device that has access to Wi-Fi. This makes Spotify a readily accessible app, and it allows for a large pool of people to use it. Anyone with a smartphone, laptop, or tablet can access the service and stream music. Spotify is also available on both Android and Apple platforms. Essentially, having access to the Internet is the main requirement to use Spotify. This also allows for the service to be portable and versatile for users that may want music on the go. With this amount of easy accessibility, one would expect a large user base. According to the site Statistica, Spotify's total users worldwide has grown exponentially over the past four years. In 2012, the amount of active global users was only 15 million people; however, as of June 2016, the total amount of active users is now 100 million worldwide.

Number of global monthly active Spotify users from July 2012 to June 2016 (in millions)



Promotion

One of the areas that Spotify currently lacks, the streaming service does not utilize a ton of advertising. Interestingly enough, Spotify does a lot of self-advertising on their own site, as users who utilize the free account are occasionally hit with 30 second advertisements trying to convince listeners to switch to premium. Most of this is because the company obtains most of its revenue from premium users, and only a third of the total users are premium accounts. However, Spotify has recently started a new advertising campaign, where the company has taken user data to create a funny take on the Spotify experience. Across different cities, there are several billboards that detail anonymous user habits to comedic effect. For example, one of the billboards in New

York City's Time Square read, "Dear Person in the Theater District who listened to the Hamilton Soundtrack 5,376 times this year, can you get us tickets?" These ads are a fun way to connect to users, and they do a good job showcasing the personalization that comes with Spotify. The ads are being used globally as well, helping to expand their global user base.

Future Forecast

After taking inventory of the various different marketing elements currently employed by Spotify, there are several recommendations that can be made for the service in the future. These are points in which Spotify may make changes in its offerings, not only to gain a positive advantage over competitors and increase their market share, but also delivery further value to their customers.

Product

While Spotify doesn't have any control over the actual music it showcases, it is able to control the services it offers. One of the biggest adjustments that Spotify could make to remain competitive against the likes of Apple Music is enhancing its musical selection. As of now, there are certain artists that are not available for streaming on Spotify, most notably: Taylor Swift, Prince, The Beatles, and Madonna among others. In order to counter Apple Music's offering of these artists, it would certainly benefit Spotify to find a way to feature them on their service. One possibility could be introducing music buying -- the idea that particular songs or albums from these artists could be purchased for a small fee by users. This effectively turns Spotify into a one-stop-shop for all of your music needs, whether it be streaming, downloading, or purchasing. Further, it allows Spotify to carry any artist, meaning increased competition with Apple Music.

Another major product improvement could be developing a more user-friendly interface. Spotify's current layout can be a bit overwhelming, particularly depending on the device with which you are accessing the service. Further, while Spotify's target market is young people, individuals who are theoretically the most technologically savvy, this is not always the case. A simplified user interface could be beneficial, more convenient, and ultimately more inviting to users who may be confused by Spotify's format upon first glance. Moreover, this could also lead to a possible entry of Spotify into market segments with older individuals who tend to have lower technological competency.

Lastly, Spotify may find it beneficial to forge co-branding partnerships with fellow companies in the music and technology industries. We've seen this prove to be beneficial in the case of Apple and Beats by Dre, as well as between other powerhouses in these businesses. In the case of Spotify, a partnership with Bose could be wildly successful for both brands, encouraging music lovers to think of them interconnectedly. One possibility could be supplying each purchase of a Bose product with a limited subscription to Spotify Premium. Further, Bose could offer Spotify users discounts on the purchase of Bose products, and make linking their accounts to speaker interfaces exclusive, quick and easy. There are various different possibilities in the co-branding efforts of these two companies, but any combination would only go to bolster each party involved.

Price

In such a competitive market as the music streaming business, one aspect that is essentially important is the price of a product. For the future of Spotify, the service must be strategically priced at the same level or just below that of Apple Music at a price of \$9.99. In order for the brand to be the most successful, in the future they must utilize different methods of pricing and discounts, in order to attract and set their customer base even further. By offering a lower price than the competitor for a year (\$5.99), and then charging the full amount they are able to solidify their customer base. Through the use of promotional pricing, Spotify will increase their short term sales, giving them the edge they need over Apple Music.

Place

Given the fact that Spotify is a computer-based, Internet-enabled music streaming service, the “place” portion of its marketing mix can be difficult to define. As noted previously, Spotify fully intends to be a service that is open to anyone with Internet access and some taste in music. This being the case, Internet-based applications would be defined as the marketing channel used by Spotify to bring value to its customers. Further, because these applications are such a broad media, cutting across devices and operating systems with access to anyone and everyone, there are no real changes that Spotify can make to deliver its services to consumers differently. Further, its current delivery network seems to be pretty efficient and effective as is.

Promotion

There are several steps that Spotify could potentially take in order to enhance their marketing communications, and thus expand their market share, delivering more value to more people. First, Spotify should bolster their advertising efforts online. Recall, Spotify is a computer-based service with a young user demographic who is highly proficient with technology. These customers spend the vast majority of their time on Internet-connected devices (laptops, desktops, smartphones, tablets, etc.). This being the case, Spotify should continue to target these demographics by placing advertisements on websites where traffic is heavy daily, namely social media platforms. Moreover, Spotify should continue to build relationships with these social media outlets, such as their current efforts with Facebook and Tinder. As the landscape of social media only continues to grow more and more, Spotify should attempt to forge some type of relationship with outlets like Twitter, Instagram, and Snapchat. This would allow for even more interconnectivity between individual's accounts across platforms, encourages users to be social about the brand, and garners more visibility for the service. Lastly, on social media, landing a celebrity endorsement could also reap some sizeable benefits for Spotify. This has proven to be incredibly successful for other products and services, and ultimately exposes the brand to a larger online audience. Further, we know that these types of high-profile individuals serve as opinion leaders, persuading people to try and buy new products, even if they wouldn't usually do so on their own. Again, this only seems to bode well for Spotify.

Apart from social media, Spotify could also form relationships with major music festivals -- events that bring people and music together. The service could easily find ways to incorporate their brand into these events, whether it be in terms of signage, advertisements on tickets or admission wristbands, or even sponsorship of different musical sets/activities. Even further, these festivals usually converge on areas rich with Spotify's target market customers -- major, urban cities with a heavy millennial population. Events such as SXSW, Coachella, and Electric Zoo would be gold mines for marketing efforts directed at young music lovers and explorers with an eclectic taste. Promotions such as discounted subscriptions or special links to pre-made playlists featuring artists from the festival could be big draws for these concert-goers.

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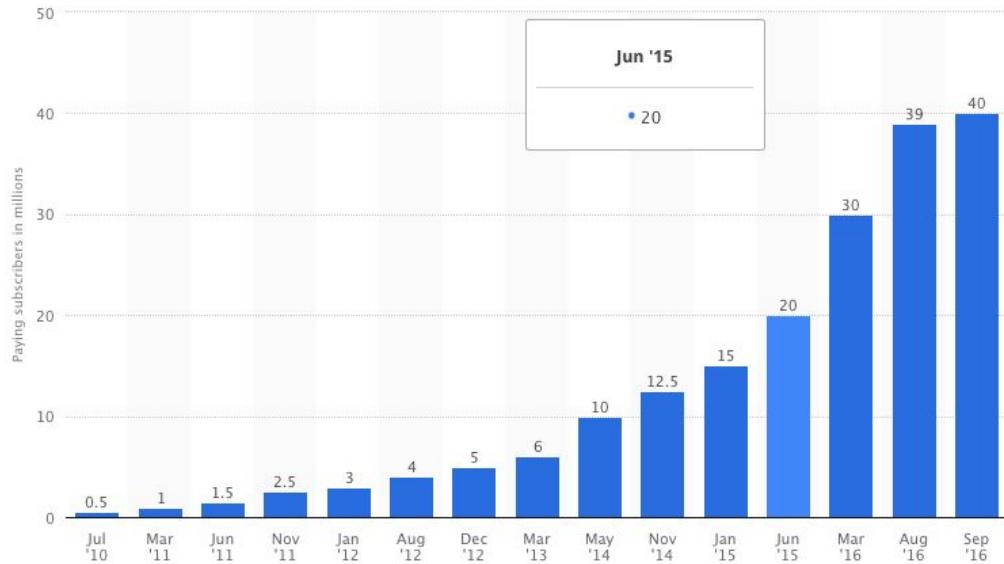
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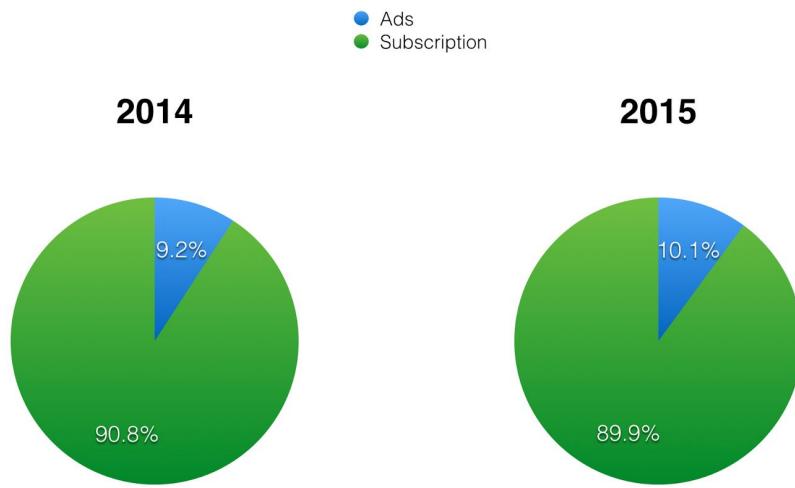
Appendix

Number of paying Spotify subscribers worldwide from July 2010 to September 2016 (in millions)



Source: Statista

Spotify revenues: ads vs subscription



Source: Spotify. Negligible 'other' income discounted

Source: Music Business Worldwide



Source: Spotify