

"Spotify Amplified: Strategies for Sustainable Growth"



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Music Streaming Overview



Company Overview

- Freemium business model: Ad-supported free service with premium subscription available
- 2023 Gross Revenue: \$14.337B.
- 602 million monthly active users
 - 236 million subscribers: 39% of user base, 87% of total revenue
- 70% of total revenue goes towards paying record labels for rights to music
 - Royalty payment structure with ownership share given to the largest labels
 - Warner Music Group, Sony, and Universal Music Group, received a combined 18% ownership stake
 - 67% of revenues go back to the music rights holders

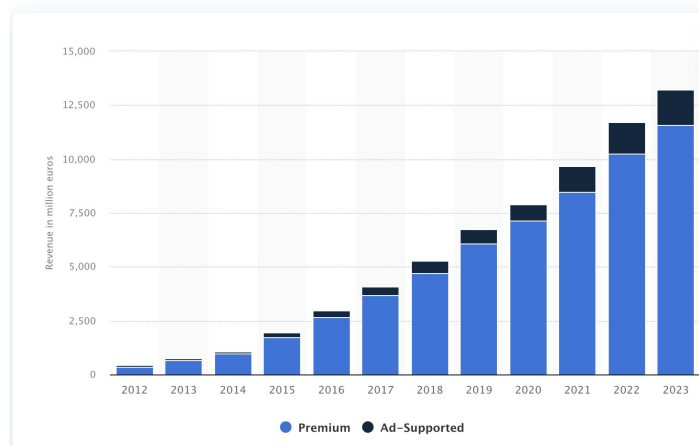
Music Streaming Market

- Main domestic competitors:
 - Apple Music
 - Amazon Music
- Foreign competitors:
 - Tencent Music (China)
 - Yandex (Russia)
 - Deezer (France)
- Apple Music and Amazon Music use their services as a loss-leader, whereas Spotify is a music-first company
 - Apple Music: 2.1% of Apple's total revenue
 - Amazon Music: 009% of Amazon's total revenue

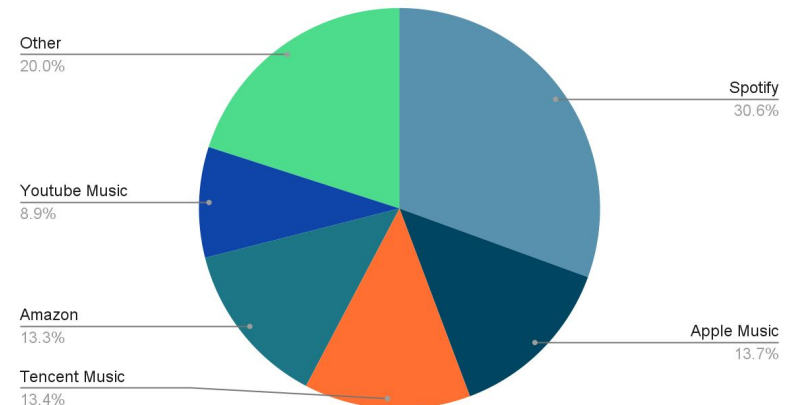
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Spotify's revenues from 2012 to 2023, by segment

(in million euros)



Market Share by Streaming Company



Our Thesis:



Indian Entry

Thesis

What are Spotify's competitive advantages?

- Their network, existing user base, and user interface
- Their brand recognition

Spotify's "Freemium" model and their current efforts towards international expansion have centered around this philosophy. However, the special attention Spotify users pay to the platform has not reflected itself in a turn towards a model more focused on advertising and the creators that monetize their platform. Research suggests that emerging international markets may offer a solution to this by providing an environment where consumers are much more cost averse and the importance of digital media in everyday life is growing at an exponential rate. In light of this, Spotify has an unprecedented opportunity to become a frontrunner in the growth of music and internet culture in a number of foreign markets.

2. Spotify's Future as a Creator Based Platform

- A gradual shift of Spotify to a more creator friendly platform would provide a foundation for growth of advertisement revenue and bolster their influence over digital culture
 - This would allow Spotify to tap into an entirely new market of creators and consumers of those creators' content
- Relationship between Tik Tok and streaming:
 - 75% of users discover new artists through the platform
 - 67% are more likely to seek out a song on music streaming platforms after hearing it on Tiktok
 - 72% of Tiktok users associate specific songs with the platform
- Spotify does not just have to be a music platform
 - Spotify as a social network → more traffic on their app due to interaction with independent content → more ad revenue

1. Capitalizing on Advertising

- Nearly 90% of Spotify's gross revenue comes from their premium subscribers (<40% of their user base)
- Current advertising strategies use ads that promote the premium service to paid users
 - Result: 30-40% conversion rate (average for a freemium service is 1-10%)
 - Spotify only makes around \$5.10 per free user per year
- Tiktok: 70% of their 2023 revenue came from advertisements
- Gaana (#1 streaming service in India): 60-70% of revenue comes from advertisements

3. Expansion into Emerging Markets

- Criteria for expansion
 - Internet access is growing and access to mobile devices is growing
 - There exists many user bases that are more attracted to the idea of listening to ads and not having to pay
- Spotify's introduction as both a creator based platform and a music streaming service can serve as a catalyst for an explosion in users and subscriptions in emerging foreign markets
- Spotify user base by country
 - America: 27.34%
 - Brazil: 4.65%
 - UK: 4.58%
 - Mexico: 4.49%
 - **India: 3.77% → Case Study**
 - Meets the criteria

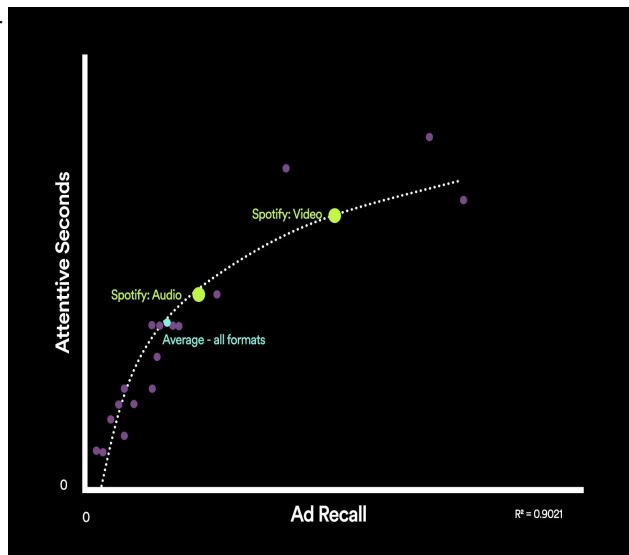
Spotify in the Attention Economy



What is the “attention economy?”

- In the world of digital media and more specifically digital advertising, human attention should be treated as a scarce and valuable commodity.
- Ads on Spotify are served to users based on their listening context, which means they're more relevant, more personalized, and more likely to resonate.
- Spotify video ads drove 155% greater “attentive seconds” compared to the platform average.
- Spotify audio ads drove 14% greater “attentive seconds” compared to the platform average.
- Despite Spotify's ad friendly environment, in 2023 just 12.7% of their revenue was generated from ads. In contrast, the largest music streaming service in India, Gaana, made 66% of their revenue from ads.

Company Overview



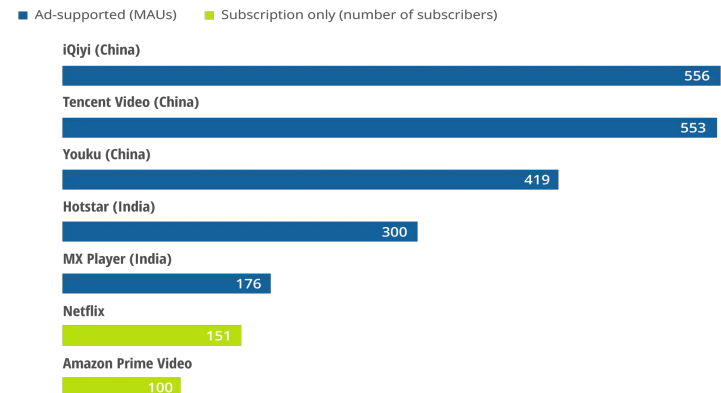
Music Streaming Market

- In emerging markets there seems to be a consensus preference among consumers for ad supported models. In India for instance, OTT Platforms are expected to account for over 50% of India's total online advertising by 2024, signifying a robust growth in ad-supported streaming revenues.
- On average, global audience listen to 20 hours of music each week, and currently, radio ads have 93% ad-penetration compared 52% for digital ads. Given high music consumption, we suggest spotify focus on its high traffic to monetize its ad revenues, considering the lucrative ad-centric models from other tech behemoths such as Google and Meta.
- Spotify currently devotes ~40% of its ad air-time to premium ads, but in price-sensitive markets with low-conversion, we suggest that spotify adopt a more ad-focused business model.

Music Streaming Market

FIGURE 2

Monthly active users (MAUs) of Chinese and Indian ad-supported services surpass those of global subscription-only leaders
User bases for ad-supported video services versus streaming video services, 2019 (millions)



Sources: QuestMobile, 2019; China Internet Watch, 2019.

Upgraded Creator Economy



Independent-Artists

Independent Artists have spearheaded global music growth for the past half-decade; collectively independent artists generated more revenue than every other market except the United States, with 400% revenue growth from 2017-2023. Moreover, Spotify's recent wrapped campaign saw resounding success from individual thanks yous, addressed for "top-listeners". We believe, Spotify should capitalize on loyal fan-bases by expanding services catered towards independent artists.

Globally, independent artists make up 35.74% of the music industry, while only 11.2% earn enough to make a living solely through music.

In India, the amount of streams for Spotify's independent artists has doubled since 2018 to 26%. In India, independent artists are increasing their streams and stand to benefit from Spotify's support.

Keys for Independent Musician Success

Spotify's appeal to independent artists should market increased exposure and earning potential. Spotify should adjust their payment model which may include higher pay per-stream payouts or artist-specific subscription tiers. This can be accomplished with more exclusive subscription tiers that offer perks to users, such as preview access for new tracks.

By curating playlists with new songs and independent artists that appeal to the user, Spotify could offer a significant degree of exposure for these artists. This could be done with Spotify's existing recommendation models. Other keys of success in this emerging market include brand identity, social media engagement, and personalized content.

1. Creator-Economy

The main barrier to Spotify's emergence as a distributor of independent content is the restrictive covenants with the major music labels prohibiting Spotify from owning the rights to music. However, Spotify is the highest payer to independent artists, and we suggest Spotify should expand its competitive advantage through. Exclusive partnership programs in exchange for benefits such as promotion, direct revenue-splits, fan-events. Currently, Spotify offers no direct partnership programs, but adopting a system of tiered benefits for artist, may allow Spotify to expand through working directly with artists rather than bureaucratic music labels. **This system would also provide upcoming artists to:**

1. More easily schedule music releases
2. Interact with fan-bases through new community-based social spaces
3. Maintain IP and music monetization through partner-managers who can consult artists directly.

2. Expanded Services for Fans

Spotify should expand its service and competitive advantage as a space to foster loyal fan-bases and monetize off of complementary services exclusively for Spotify users and additional benefits for premium users.

This system of benefits for fans of independent artist should include:

1. exclusive social-features for regular artist interactions to cultivate appreciation and loyalty, including early access or first-listen parties.
2. exclusive festivals and concerts for independent artist to maintain regional dominance and promote up-and-coming artists,
3. an integrated marketplace platform to the sale of artist merchandising as well as ticketing.
4. expand integration with communities for organic discussions as a music only service,
5. continued open access for third-party software from API access to cultivate features not offered on other music streaming services.

Expansion into Emerging International Markets



Case Study: India

Market Overview

- Music Consumption has experienced 85% year-to-year growth since 2023
- As of 2021, 66.7% of Spotify users are registered as Students
- In India the enrollment rate of higher education has doubled from 2018-2021
- Internet infrastructure in India doubled between 2019 and 2021 (20.1% to 43.4%)

Indian Competitors

- Music Consumption has experienced 85% year-to-year growth since 2023
- JOOX as a competitor in India saw massive success implementing personal curators for playlists, opposed to Spotify's algorithm-based recommendations
- Spotify stands to benefit from personalizing music recommendation process

History of International Expansion in India and Future Prospects

- Previous attempts to expand to India
 - Spotify signed a deal with India's largest record label Saregama in 2020, added 100,000+ songs to their catalog
 - Signed a global content deal with T-Series, India's largest homegrown record company in 2019
 - Licensing agreement with Zee Entertainment fell through in 2023, removing over 500,000+ popular Bollywood songs from their library
 - Important to note that this library also isn't available on Gaana
 - In 2019, 70% of music listened to in India was international, now it is 70% local
 - Streaming in India grew by 85% in 2023, around 55 million MAU
 - It represents one of their biggest potential markets but is not in the top 5 for Spotify's revenue: more people in India are okay with listening to ads to access music for free than in western countries, and Spotify's business model flounders in this market
- With limited avenues to expand as *exclusively* a streaming service, what should Spotify do?
 - Expand as a social media and content creation platform, engage users by allowing them to keep up with trends in music and independent content through the app while viewing ads that generate revenue
 - Thought: have the most popular athlete in India start a podcast on their app, encourage artists with smaller global followings but high popularity in India to release independent content on their app, bringing in an entire consumer base of fans
 - Integrate ads into content and boost user interaction