Spotify

DEVELOPMENT - APRU

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TEAM 9

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Content

Situational Overview

Spotify Marketing Challenge: Customer Development
Increase Spotify's ARPU (Premium Average Revenue per User)
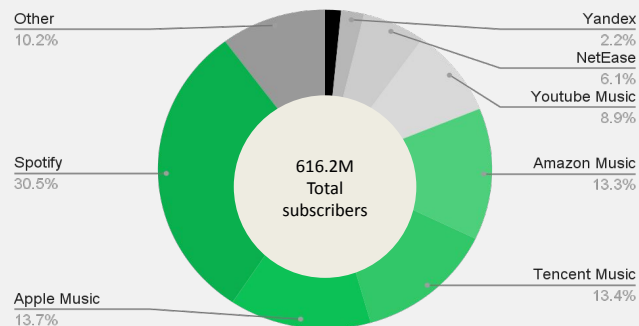
Spotify, the world's leading audio streaming service, boasts 551M users and 220M premium subscribers in 184 regions. It commanded a dominant 30.5% market share[1] in 2022, with total revenue of €3,177M, marking a 11% Y/Y growth[2] in 2023. Despite these achievements, Premium Average Revenue Per User (ARPU) experienced a slight decline. In 2023, Premium Revenue grew notably by 17% Y/Y to €2,773M, driven by a 17% Y/Y increase in subscribers[2]. However, ***Premium ARPU saw a marginal 6% Y/Y decrease, reaching €4.27[2].***

Also, Spotify recently raised the price for all four plans in July 2023[3]:

Premium	Individual	Duo	Family	Student
Original Price	$9.99	$12.99	$15.99	$4.99
New Price	$10.99	$14.99	$16.99	$5.99

As Spotify raises subscription prices to increase customer spending, there is a potential risk of losing premium subscribers. Therefore, our research question is: ***"How can we incentivize premium subscribers to step up their contribution while maintaining their subscriptions?"***

Music Subscribers by Service [1]

- Other 10.2%
- Yandex 2.2%
- NetEase 6.1%
- Youtube Music 8.9%
- Spotify 30.5%
- 616.2M Total subscribers
- Amazon Music 13.3%
- Tencent Music 13.4%
- Apple Music 13.7%

Premium Revenue vs ARPU [2]

Legend: Premium Revenue, LTM* (€M); Premium ARPU

X-axis: Q3'20, Q4'20, Q1'21, Q2'21, Q3'21, Q4'21, Q1'22, Q2'22, Q3'22, Q4'22, Q1'23, Q2'23

(1) Mark Mulligan (2022, Dec 7) Music subscriber market shares 2022, *Midia* https://www.midiaresearch.com/blog/music-subscriber-market-shares-2022 (2) Spotify (2023, July 25) Q2 2023 Update, *Shareholder Deck* https://s29.q4cdn.com/175625835/files/doc_financials/2023/q2/Shareholder-Deck-Q2-2023-FINAL.pdf (3) Spotify (2023, July 24) Adjusting Our Spotify Premium Prices, *News* https://newsroom.spotify.com/2023-07-24/adjusting-our-spotify-premium-prices/

Findings Summary

Interviews with 8 Spotify Premium users revealed user patterns amongst difference in usage, a need for improved recommendation systems and concerns about price hikes without notable feature enhancements.
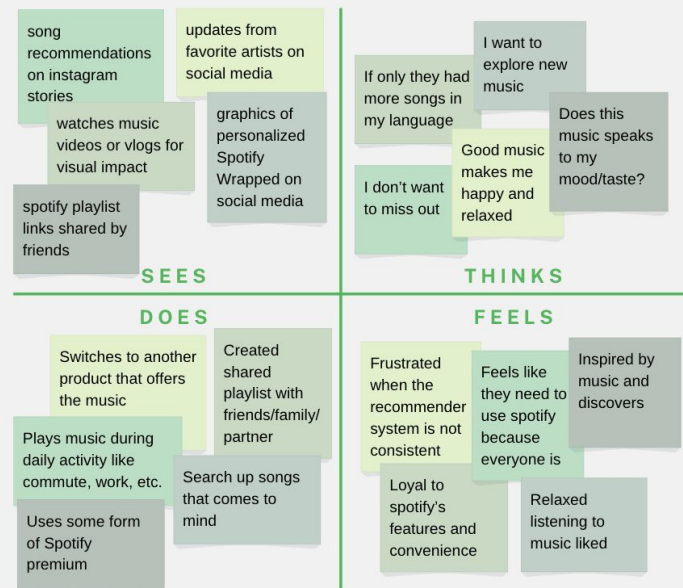
After reviewing market updates and news about Spotify, we identified potential areas of exploration concerning its declining user growth[1]. This led to in-depth interviews with 8 Spotify Premium users from diverse backgrounds to understand their motivations, sentiments, and experiences, aiming to uncover potential pain points and avenues to boost Spotify's annual revenue per user (ARPU).

Our participants spanned over 5 countries, predominantly females, aged between 19-58, and were primarily college students. All were recruited via network connections.

Key Insights

— Heavy users show distinct usage patterns and a deeper engagement with premium features compared to casual users.
— Diversity in Spotify's music collection was a recurring theme, where limitations in variety prompts users to explore other options.
— Users are price-sensitive; any price hikes without significant feature improvements risk pushing them towards competitors.

Our User's Empathy Map

SEES

- song recommendations on instagram stories
- watches music videos or vlogs for visual impact
- spotify playlist links shared by friends
- updates from favorite artists on social media
- graphics of personalized Spotify Wrapped on social media

THINKS

- If only they had more songs in my language
- I don't want to miss out
- I want to explore new music
- Good music makes me happy and relaxed
- Does this music speaks to my mood/taste?

DOES

- Switches to another product that offers the music
- Plays music during daily activity like commute, work, etc.
- Uses some form of Spotify premium
- Created shared playlist with friends/family/partner
- Search up songs that comes to mind

FEELS

- Frustrated when the recommender system is not consistent
- Loyal to spotify's features and convenience
- Feels like they need to use spotify because everyone is
- Relaxed listening to music liked
- Inspired by music and discovers

(1) Spotify, 'Q1 2023 Update', April 25th 2023, https://s29.q4cdn.com/175625835/files/doc_financials/2023/Shareholder-Deck-Q1-2023-FINAL.pdf

Methodology (1/2)

Research Objective:
The primary aim of this study is to gain a comprehensive understanding of user experiences and preferences related to Spotify and other music streaming services. We will explore various aspects, including initial decisions to use Spotify, user journeys, valued features, pain points, and considerations regarding switching to competitors.

Research informed discussion guide:
Reported within Spotify's published document[1], Spotify's premium revenue and subscriber count increased, yet the ARPU (Average Revenue Per User) declined. To understand the nuances, particularly the impact of product mix and regional dynamics. Our exploratory research was designed around key themes which shaped the foundation of our discussion guide, aiming to uncover strategies to enhance ARPU.

1. **Definition & Relationship with Spotify**
When have you started using Spotify?

2. **Personal Experience**
What factors influenced your choice to use Spotify?

3. **User Journey & Usage**
Can you describe the scenario where you open Spotify?

4. **Pain Points**
Have you ever faced challenges while using Spotify?

5. **Competitive Landscape**
What features do other music streaming platforms offer that Spotify lacks?

Methodology (2/2)

Prior to the interview process, a recruitment criteria was outlined to ensure diverse body of respondents within this studies. The criterias are segmented into two primary buckets: product-oriented (covering plan types, subscription country, and usage frequency) and demographic (detailing gender, occupation, and age).

Recruitment Criteria			Respondents	Total (=8)
Product	**Plan Types**	Individual		1
		Student		3
		Duo		1
		Family		3
	Country of Subscription	International		4
		United States		4
	Usage Frequency	Everyday		3
		Few times a week		4
		Once a week or lesser		1
Demographics	**Gender Identified**	Female		7
		Male		1
	Occupation	Student		5
		Working Professional		3
	Age	≦ 20 years old		1
		21 - 29 years old		6
		≧ 30 years old		1

Legend:
- Ben
- Jessie
- Valerie
- Mia
- Linh
- Alex
- Jamie
- Phoebe

Ben — College Student
2 Jessie — Business Executive
3 Valerie — Graduate Student
4 Mia — College Student
5 Linh — Graduate Student
6 Alex — College Student
7 Jamie — Software Engineer
8 Phoebe — Graduate Student

Spotify makes me feel ...

Main Drivers

	Price Sensitivity	Music Consumption	Feature Preferences
Decision Factor	Users' sensitivity to subscription costs	Heavy or light music listener tendencies	Significance of Spotify's features
Influence	Perception of pricing in relation to value received	Impact on preferences and interaction patterns	Evaluation of usefulness and overall experience enhancement

Price Sensitivity

'The price increased but I still subscribe'

'If my family stop using it, I will also stop because we are in a family plan'

'If I'm not on the student plan, it wouldn't be worth the price'

Music Consumption

'I listen to music a lot so I open Spotify every 3 hours'

'I don't listen to music that much. I just use Spotify to download some of the songs,not sure of other functions'

'I frequently use Spotify, and it's the most-used app on my phone'

Feature Preferences

'I love their Spotify-wrapped. It's so much fun and visually pleasing!'

'I can keep a Spotify widget running in the background while multitasking'

'No other app offers a better personalized music experience than Spotify'

User Personas & Pain Points

Casual Listener
Valerie
23/ Master Student

Price Sensitivity ★★★★★
Music Consumption ★
Feature Preference ★

'My hesitation is attributed to the price increases'

Characteristics
- Casual approach to music
- Not loyal to any music streaming platform

Pain Points
- Frequent **price increases**
- Necessity of using different apps to access favorite songs

Medium Listener
Ben
19/ College Student

Price Sensitivity ★★★
Music Consumption ★★★
Feature Preference ★★

'When I was trying to sleep, the recommendation start playing upbeat music'

Characteristics
- Specific using scenarios (work, sleep, commute)
- Open to explore feature

Pain Points
- **Recommendations system** does not match users' tastes when the playlist ends

Heavy Listener
Jamie
26/ Software engineer

Price Sensitivity ★★
Music Consumption ★★★★★
Feature Preference ★★★★

'I find it disappointed when I cannot find live version music. Then, I will switch to Youtube'

Characteristics
- Specific music taste/ genre
- Strong Interactions with artists (go to concerts, follow socials)

Pain Points
- **Limited music collections** - Lack of same song but live version
- Recommendations is not precise enough for their tastes

Conclusion

Initial Hypothesis:
There are opportunities for introducing premium features to upsell users to the pro package or create a new product for cross-selling.

New Hypothesis from the Research:
Casual music listeners, being price-sensitive, tend to leave if they find a cheaper plan elsewhere.

Heavy music listeners, deeply engaged with Spotify's personalized features, are likely to stay due to the sunk cost of losing their personalized experience they've become accustomed to.
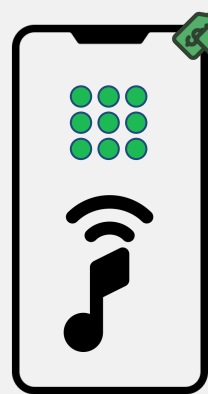
STRATEGY & IMPLICATION

Potential Strategy: Price Optimization x Premium Feature Bundle → Upsell
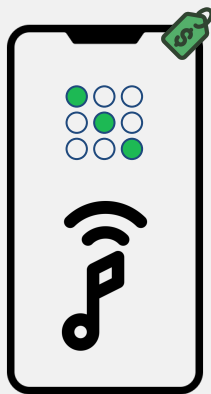
Premium Package:
Designed for casual music listeners
- Access to core, frequently used features
- Lower price point
→ Retain these users within the Spotify

Pro Package: Tailored for heavy music listeners
- Access to a wider range of features that enhance their personalized music experience
- Premium price
→ More revenue and improved user experience → Better retention

Continuous Feature Improvement and Development→ Increase satisfaction & Reduce churn

Quantitative Research Implications: Refine Spotify's offerings based on feature preferences for casual music listeners and premium feature bundles for heavy music listeners, while also identifying and addressing customer pain points to enhance overall satisfaction.

Appendix

USER PROFILE

INTERVIEW GUIDE

User Profile (1/2)

Ben

Age	19
Occupation	College Student
Gender	Male
Location	Malaysia /USA

Jessie

Age	58
Occupation	Self-employed
Gender	Female
Location	Malaysia

Valerie

Age	23
Occupation	Master Student
Gender	Female
Location	China/ USA

Mia

Age	23
Occupation	College Student
Gender	Female
Location	Vietnam/ USA

User Profile (2/2)

Alex

Age	22
Occupation	College Student
Gender	Male
Location	Vietnam/ USA

Linh

Age	25
Occupation	Grad Student
Gender	Female
Location	Vietnam/ USA

Jamie

Age	27
Occupation	SWE
Gender	Female
Location	Taiwan /USA

Phoebe

Age	24
Occupation	Grad Student
Gender	Female
Location	USA

Discussion Guide (1/4)

(1)
Background and demographic
	• Can you tell me a bit about yourself and your musical preferences?
	   ○ Age, Occupation, Location, etc.
	   ○ Favorite Genres, Singers, etc.
	      ■ 1/ How many artists would you say you are a big fan of
	      ■ 2/ how will you interact with your favorite artists? (follow artist social media/ go to the concert...)
	• How often do you use Spotify?

(2) **Definition of Spotify for music listener**	**Relationship with Spotify** • When have you started using Spotify? • What are some thoughts/feelings that arises when you think/uses Spotify? • 'Spotify makes me feel _____' ; Any three words, shows participant emotion wheel <u>here</u> to aide/guide as needed. Projective Technique. **Dynamics** • What do you find most valuable about Spotify? • Where does Spotify fall short? (From personal experience/others)

Discussion Guide (2/4)

(3) Personal Experience	**Initial Decision and Motivations** ● Describe the scenario that you subscribe to Spotify. Did you consider another streaming platform back then? ● What factors influenced your choice to use Spotify? ● What kind of Spotify subscription plan do you use (e.g., free, individual, family, student), and why did you choose this plan? (if you are not a student anymore, which plan would you choose) **User Journey of using Spotify** ● Can you describe the scenario where you open Spotify? ● What kind of purpose do you want to achieve? ● Can you describe your typical Spotify session? What do you do after you open Spotify? (Ask the participant to open the app) ● Can you walk me through your thoughts & feelings during your Spotify sessions? ○ Are there any features that continue to enhance your experience with Spotify? ● How long do you usually stay on Spotify during a session, and what prompts you to stop using it? ● When will you open it again and why? **Feature specific questions** ● Are there any features that you find most valuable? What are they? ● Why is the feature important to you? (What value does it provide?)

Discussion Guide (3/4)

(3) **Personal Experience** **(cont)**

Pain points
- Have you ever faced challenges while using Spotify? Can you describe the situation?
- What frustrates you the most about using music streaming services like Spotify?
  - Deep dive when they list out their frustrations (identify any potential drop-off points)
  - What would make you unsubscribe from spotify?

Future Expectations
- Premium users
  - Are you aware of Spotify's premium features?
    - Does premium features influence your decision of plan choice
    - Do you think they are worth the subscription cost? Why?
- Freemium users
  - Have you ever considered upgrading your subscription plan?
    - If yes, what factors influenced your decision?
    - If not, what factors influenced your decision?
- (change) Ask participants to imagine they work for Spotify. What changes or improvements would they implement, and why? How likely are you to pay for these changes on Spotify beyond your current subscription?
- (reboot) If you were to build a streaming service like Spotify from the ground-up to become a competitor of Spotify, tell me how would it beat Spotify?

Discussion Guide (4/4)

(4) **Competitor** **Comparison**	- Have you ever contemplated switching to a different music streaming service or discontinuing your subscription with Spotify? - If so, what were the reasons behind your consideration? - Have you ever used any other music streaming platforms in addition to Spotify? - If you do, could you share which ones you use and explain your motivations for using them? - Are there pricing plans or subscription models from other music streaming platforms that you find more attractive or appealing compared to what Spotify offers? - Have you ever recommended Spotify to friends or family in your network? - If yes, what aspects of Spotify do you promote or highlight when recommending it? - Conversely, has anyone in your network recommended another music streaming service to you? - If so, which service was recommended and how did the person promoting it describe its advantages?