BUSINESS REPORT SPOTIFY

Part A

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Task 1: External and Internal Environment Analysis

1.1 External Environment (PESTEL and Porter's Five Forces)

PESTEL Analysis

Figure 1 PESTEL Analysis

The PESTEL framework aids in articulating the external environment relevant to Spotify's targeted regions (Europe, Africa, the Middle East, and Asia). Due to PESTEL factors political, economic, social, technical, environmental, and legal settings that affect an organisation's operations, this analysis technique helps identify Spotify's possibilities and risks.

Figure 1 PESTEL Analysis

Source: https://www.researchgate.net/publication/373122171/figure/fig2/AS:11431281181588786@1692102483039/PESTEL-analysis-Source-the-authors.png

- **Political**: The political environment greatly influences Spotify's services in these regions. European data privacy laws such as the GDPR (General Data Protection Regulation) have a significant impact on companies like Spotify. Additionally, geopolitical events like Brexit have introduced new regulatory hurdles for digital services (Álvarez, García de Quirós and Baldassarri, 2023). Political instability, censorship, and government control of internet access present operational challenges in the Middle East and Africa. Spotify must factor this into its growth strategy, ensuring its service complies with local laws while preserving brand goodwill.

- **Economic**: The economic climate creates opportunities but also presents challenges. Economic stability in most European countries supports the high penetration of premium subscriptions. However, in Africa, the Middle East, and some Asian markets, economic disparities force Spotify to adopt different pricing models and incorporate a freemium tier supported by ads. Spotify's subscription revenues are also vulnerable to currency depreciation in emerging markets.
- **Social**: Cultural and regional variants in music fans being key determinants of strategy for Spotify lie within social variables. For example, users in Africa and the Middle East tend to have a preference for local music, making it necessary to feature content and artists from those regions. There is no recent data available, but in general, Europe and Asia usually have more varied tastes, whereas Western music dominates everything along with global pop genres (Ambarwati and Badrih, 2024). The localisation of content and adaptation of the service to local social norms and preferences will also significantly impact Spotify's experience in these territories.
- **Technological**: The success of Spotify largely depends on the use of cutting-edge technologies (like AI-powered recommendations, music streaming over 5G networks, and better mobile app experiences). Costs & Internet Penetration: A tech head told me that one of the biggest hurdles to IoT ever taking off is very real concerns around costs, internet penetration, and mobile data costs, especially in developing parts of Africa and Asia. But to continue its growth as these regions upgrade to 4G and 5G networks, Spotify will need ways to offer low-bandwidth options and bundle services with telecom operators (Biancofiore et al., 2022).
- **Environmental**: The need for environmental sustainability is at an all-time high in the EU (according to them), and Spotify has first-hand experience of how the green movement influences their operations & growth plans. If Spotify wants to attract climate-neutral users, its activities, such as running a data centre, should be carried out according to global standards of sustainability. Spotify could establish a better name for itself, (especially) in

regions where the environment is valued, by investing in green technologies and reducing its carbon footprint.

- **Legal**: Copyright legislation as well as intellectual property records are seriously crucial in the music sector. For Spotify, its growth could be slower under current conditions in emerging markets like Africa and parts of Asia, where piracy is rampant. Also, being compliant with worldwide and local copyright laws (e.g. royalty distribution, etc.) is necessary to avoid facing lawsuits (Casagrande, 2021). To avoid enormous fines, compliance with regional data protection laws such as the GDPR in Europe and similar emerging ones from Asia to the Middle East is also highly important.

1.2 Porter's Five Forces Analysis

The **Porter's Five Forces** model is essential for examining the competitive circumstances that Spotify deals with because it enhances its global expansion initiatives.

Figure 2 Porter's Five Forces Analysis

Source: https://osa-advisory.com.hk/wp-content/uploads/2024/04/image.png

- **Threat of New Entrants**: Moderate new entry threat in the music streaming market. This is something the industry has not seen up to now because getting licenses from all three major labels requires deep pockets and investment in infrastructure, but a competitor from out of left field could conceivably have some unusual way as yet thought of. This could be a competitor in strong technological companies or telecom companies around the entrance to the streaming space that could prove especially threatening in many emerging markets where Spotify is still growing (Chandra et al., 2018).

- **Bargaining Power of Suppliers**: In this case, suppliers would be music labels, artists and content creators. They can bargain hard because they have the content and without their content Spotify is nothing! Spotify also doesn't control the royalty rates, which are set (at least in part) by labels and have a big impact on Spotify's profits. Spotify does have some weak spots in its armour, however, the service depends on major record labels for third-party music, and while independent artists and smaller labels are less powerful, Spotify is still relatively beholden to the big boys of pop in markets like Europe and the United States (Daniels, Radebaugh and Sullivan, 2019).
- **Bargaining Power of Buyers**: Spotify has moderate bargaining power with its user base comprised of paying subscribers and free-tier listeners. Although they enjoy the options available to them from Apple Music, Amazon Music, and YouTube; personalisation through Spotify's algorithms and playlists keeps them from interacting with any of its alternatives (Doole, Lowe and Kenyon, 2019). However, save for the regions where Spotify is already an entrenched period in its development cycle, it remains extremely easy for users to switch to a competitor or simply just a free alternative thereby increasing their bargaining power.
- **Threat of Substitutes**: The power of substitutes is as high as many other alternatives for the entertainment industry such as radio, YouTube, or pirated music. This is especially the case in regions with lax copyright enforcement, which makes piracy a significant threat (Eriksson et al., 2019). On top of that, free alternatives like YouTube. While being mainly video, music acts as a big chunk of the platform too.
- **Threat of Competitive Rivalry**: There is an extremely high competitive rivalry in the music streaming industry with such global players as Apple Music and Amazon Music as well as regional competitors in specific markets. To compete, Spotify needs to keep innovating and adding features that Apple Music and others don't have.

1.3 Internal Environment (VRIO Analysis)

To analyse the internal environment of Spotify, we use the **VRIO** framework, a tool that is used to evaluate firms' resources based on their four demands: Value, Rarity, Imitability, and Organisation.

Figure 3 VRIO framework

Source: https://cdn.media.amplience.net/i/epammarketplace/VRIO_elements

Valuable

Its personalised music recommendations (based on user data) and the ability to queue multiple tracks together give it a competitive advantage overall. This experience is hard to replicate, as its algorithm takes advantage of user listening insights. This technological head start makes its offering much more valuable since its content is personalised to keep users engaged (Gomes et al., 2021). In addition, its freemium model that allows free users to listen to music along with ads helps it to reach a wider audience.

Rare

What makes Spotify so special is the amount of data it has on its users over time, more than any other music streaming service. It uses this data to power its recommendation system, which is gradually refined as it attracts more users. Additionally, Spotify has rare assets in its partnerships with major music labels and a massive music catalogue that smaller competitors find difficult to compete against (Hill, 2022).

Imitable

Although competitors can copy some features of Spotify's business model, such as playlisting recommendations, it would be almost impossible to duplicate the size of its data set and artist-label relationships(Hill, Schilling and Jones, 2020). Moreover, Spotify is trained on far more data so it will outperform any competitors in recommendations based on machine learning, and this model gives them a sizeable moat.

Organised

Organisation and innovation are supported by Spotify via its organisational structure at a high level. It also works seamlessly with Google and Facebook, which lends to the reputation of its function in contrast with other brands. Furthermore, with a global workforce and local offices, Spotify is highly structured to adjust to various markets (Hill, Schilling and Jones, 2020).

Task 2: Global Strategy Entry Strategies in the Global Environment

Figure 4 Global Environment

Source: https://miro.medium.com/v2/resise:fit:1100/format:webp/1*I-EAWeT1-9yCFum3fcHBrA.jpeg

To successfully expand its globally, Spotify will need to develop smart global entry strategies rooted in an understanding of Europe's, Africa's, the Middle East's, and Asia's nuances to aid its sustainable growth globally. Spotify can assess its entry options with the help of various strategic models, i.e. Handoffs' Matrix and Dunning's Eclectic Paradigm (Kasperson et al., 2022).

2.1 Direct Investment

Direct investment may make sense in areas where Spotify has already established a degree of market traction, with Europe and certain parts of Asia being prime examples. Direct involvement enables the US Company to entirely oversee its operations, from content production, marketing, and customer service key features in a fiercely competitive market that fights for every percentage point of market share (Kotabe & Helsen, 2022).

In Asia, direct investment could help Spotify gain access to local artists exclusively in markets with more developed music industries Japan and South Korea come to mind offering improved brand loyalty and adjusting its platform for regional preferences. Japan is the second-largest music market, so Spotify relies heavily on its growth in this region(Lozić & Vojković, 2020). And given Spotify is already well-established in terms of local content and partnerships with local artists, they could capture a huge portion of it.

2.2 Joint Ventures and Strategic Alliances

Spotify can leverage strategic alliances and partnerships to expand into regions like Africa and the Middle East, where infrastructure is lacking. By partnering with local telecom providers and bundling their services with data plans, Spotify can make music streaming more accessible in countries with limited internet connectivity (Luthans & Doh, 2018). This approach, combined with cost-effective telecom data plans, allows Spotify to penetrate emerging markets where local players may be stronger than global competitors.

2.3 Licensing and Franchising

China is an example of a complex regulatory environment, which means that it is suitable to use a licensing and franchising entry strategy. With Lemmas, Spotify can lower the potential risks of going directly into any market while still leveraging its worldwide branding through licensing its technology or brand to a local enterprise among other opportunities. Local incumbents such as Ten Cent Music keep tight control over the mainland Chinese market, and Western firms must navigate strict regulations on published content and stringent data protections (Matera, 2021). For example, Spotify could license its platform to a local company more familiar with the legal and cultural landscape that avoids looking at the music streaming world like its 2010. This would give Spotify a smaller foothold in the market without the challenges of entering directly.

Task 3: Corporate Strategy – Supply Chain Improvement

For Spotify, its supply chain involves four parts: acquiring music content from labels and artists, storing it in the cloud, and enabling access to users through its app. The more productivity generated out of the supply chain, the better profitability, especially in a neck-to-neck brutal market. Spotify can also improve its global business by applying corporate strategies like vertical integration, horizontal integration, and strategic alliances.

3.1 Vertical/Horizontal Integration

Vertical Integration

Spotify is expanding its music production market by gaining license rights for exclusive content and eliminating record labels. This vertical integration could help Spotify tighten its grip on exclusive content, similar to Netflix's SVOD games. By producing its shows and movies, Spotify could potentially draw in users willing to pay more for premium content. This would also help Spotify differentiate itself from Apple Music and Amazon Music, allowing it to offer more original and premium properties that are exclusive to the platform (Ramos & Blind, 2020).

Horizontal Integration

Spotify is expanding its presence in Southeast Asia and Africa by acquiring local music streaming platforms. This horizontal integration allows the company to scale quickly and improve user retention. Acquisitions also secure exclusive content libraries and local music, providing an added advantage in these territories. However, challenges such as culture matching and operational complexity arise, necessitating Spotify to monitor its corporate culture and strategic direction (Salameh & Bass, 2019).

3.2 Strategic Alliances and Profitability Models

Strategic Alliances

By entering into strategic alliances with technology firms, Spotify would be able to make its supply chain more efficient and therefore drive overall profitability. For example, storage and delivery of music content can be much less expensive with Google Cloud or Amazon Web Services, thus decreasing costs while potentially providing a better user experience (Seemann, 2024). With the benefits of cloud computing, Spotify can scale infrastructure with minimal lead time and capital expenditures on data centres to meet ballooning user demand.

Spotify may be able to establish an additional unique position relative to competitors through strategic content provider partnerships (e.g. exclusives with leading artists, or groups thereof). Exclusive on-demand releases of top-tier artists may indeed draw new premium subscribers, raising Spotify's average revenue per user (ARPU). It prevents user churn: content that is available only for one platform means less probability for customers to move to rival platforms that do not have the same offer.

Profit Models

Spotify can use Porter's Value Chain to optimise its supply chain for more profitability. The incoming logistics, operations, outbound logistics, marketing and sales, and service make up the value chain. On the cost side, Spotify operationally is working to optimise the efficiency of acquiring and then delivering content (Shenkar et al., 2021). By using AI and machine learning, Spotify can ensure that its content recommendations are highly effective, hence driving user engagement (and subsequently ad revenue through collecting higher user time spent for free-tier users).

Lastly, Spotify can boost its advertising offerings by improving its marketing and sales efforts, particularly through better ad targeting, which will lead to a more compelling ad proposition for advertisers. This will increase the monetisation of its ad-supported tier, a key driver in markets where premium subscriptions may not be as popular.

Task 4: Strategic Purpose – Ethics and CSR

As s Spotify becomes global, key moral and ethical concerns must be addressed to ensure Corporate Social Responsibility (CSR) is consistent with its long-term strategy. Spotify has a moral obligation to its shareholders, and the public, and it should be responsible for creating value for those who use its platform: music lovers and artists alike, in addition to the communities where it does business (Sletten, 2021). Spotify should implement an all-around CSR strategy, as this ensures that the platform maintains good PR and develops sustainably in its targeted areas.

Figure 2 Corporate Social Responsibility

Source: https://thedailyguardian.com/wp-content/uploads/2021/04/CSR-1.jpg

4.1 Corporate Social Responsibility (CSR) Analysis

It can analyse Spotify's responsibility using Carroll's CSR Pyramid, focusing on four areas: economic, legal, ethical, and philanthropic responsibilities.

4.2 Race Baiting and Economic Responsibility

Carroll identified economic responsibility as at the base of Carroll's CSR Pyramid, which means that a company has to be profitable and generate value for its stakeholders. Spotify, being a publicly traded company, needs to make money for its investors. The economics involve building an economically balanced business to serve the needs of users, artists, and advertisers (Sun & Sun, 2019). While Spotify's freemium model (free with ads, or subscription) is a money-losing business for the company at its current scale, that model also attracts users to help build up enough market power to hit profitability.

4.3 Legal Duty

Legal accountability Spotify needs to comply with many laws, such as the Copyright Act, data safety regulations, and competition laws. This situation is particularly precarious when it comes to complying with global copyright laws because non-compliance can often result in legal disputes arising against artists and/or record labels (Casagrande, 2021). More recently, Spotify has been controversially sued numerous times for the way it handles music licensing most notably in the U.S., where artists say they haven't been paid proper licensing fees.

At the same time, Spotify will face ethical issues concerning its responsibility to users and stakeholders. An example of such issues is the fair compensation of artists. Many artists have been protesting poor payment on music streaming platforms, especially Spotify. While Spotify maintains that its freemium model helps artists increase their audience, it will still have to address the issue of fair compensation while maintaining an affordable subscription-based model.

4.3 Philanthropic Responsibility

The top layer of the pyramid is philanthropic responsibility. Spotify can use its power to promote diversity and local music in its target regions. It can do this by investing in music education or providing small grants to emerging artists in Africa, the Middle East, and Asia. Additionally, Spotify can also sponsor environmentally friendly recording companies.

4.4 Ethical Issues and Recommendations

Artist Compensation

Perhaps the most important ethical issue that Spotify stands before is whether it pays artists enough. For example, the degree of underpayment even by acts that are pretty successful in percentage terms (as compared to more obscure artists) has continued to be an ongoing theme at Spotify, given how overwhelmingly reliant on ad revenue and subscriptions it is. Spotify needs to implement a transparent royalty system so that artists will be paid in proportion to the revenue brought about by their music (Gomes et al., 2021).

Another possibility is that Spotify adopts a tiered royalty structure**,** facilitating artists who earn more from premium streams than free ones. As a result, such a move might not only serve to bolster premium tier subscriptions but might also act as an insurance net that guarantees artists appropriate rewards for their artistry (Matera, 2021). A second possible route would be for Spotify to make some deals with the independent artist platforms this time turning the tables around on smaller artists giving them even more control of how their music is distributed and monetised.

Data Privacy

Spotify is of course a technology company, and every song you play or playlist you create leaves behind data on your listening habits. What songs do you like to listen to at what time, your location when pressing the play button, as well as demographic information about you? While big data analysis is essential for making personalised recommendations, it also becomes a major privacy threat. In recent years many governments across the globe have introduced more and more rigid regulations on data privacy like GDPR in Europe, which mandates several rules under which companies can collect/use users' serviceable data (Salameh & Bass, 2019).

Figure 6 Data privacy

Sources: https://storage.googleapis.com/production-eng/1/2022/10/EN176-Vulnerability-Management-Platform-Header-FINAL_72ppi.png

With the protection of user data in essence, Spotify has to ensure it abides by its obligations concerning applicable data privacy laws and best practice measures for data security. For example, it holds information security to the standards set by ISO 27001, as well as conducting audits on its data collection practices(Ramos & Blind, 2020). Spotify also needs to clearly explain to users how the company is using their data and provide them with choices over their privacy settings.

Conclusion

The global expansion of Spotify into Europe, Africa, the Middle East, and Asia provides opportunities as well as challenges. Spotify could deal with those very different challenges in each market by taking a strategic approach that includes direct investment, joint ventures and licensing. Spotify can stay competitive in an already aggressive industry by enhancing its supply chain via vertical integration, strategic alliances, and profitability models. Lastly, ironing out ethical issues and boosting its CSR strategy will enable Spotify to further scale while promoting itself as a global brand with responsible ethics.

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