

Analysis of The Trend of Spotify

Jingting Li^{1,*}

¹ Department of Cultural content and communication, Konkuk University, Seoul, Korea

*Corresponding author: 100475@yzpc.edu.cn

Abstract. With the change in people's music consumption patterns, music streaming media enterprises have attracted more and more attention. Spotify is one of the largest music streaming media enterprises at present, and its rapid development has been attracting attention. As the market becomes increasingly competitive, Spotify's single business model is increasingly limited. Through the combination of qualitative and quantitative research, this paper concludes that the main problems of Spotify's current business model are as follows: firstly, it cannot produce content, and acquiring music playing rights only by buying the copyright of record companies not only consumes a lot of money but also has uncertainties. Second, only relying on a single advertising and subscription fees revenue model has been unable to meet the needs of enterprise management costs. Third, as the competition among music-streaming services intensifies, Spotify must be able to provide users with music that is more satisfying to their tastes. Therefore, to solve these problems in the future, Spotify can focus on creating its own record company, upgrading its algorithm, and developing its own hardware products to enrich its business model.

Keywords: Spotify, financial management, PEST analysis, SWOT analysis, development trend.

1. Introduction

Spotify is one of the biggest music streaming channels in the world. The company is primarily responsible for the provision of legitimate music streaming services. The services are available to users on a variety of mobile devices for free or a fee, and they rely on specific advertising to make money. Gimlet Media and Anchor were purchased by Spotify in 2018. Gimlet Media concentrates on the narrative podcast industry and produces high-quality audio material. Anchor, a platform for creating podcasts, will give Spotify the ideal value of enticing users to produce podcasts independently and streamlining the process. With this in mind, the shift from "music to sound" has begun with Spotify's official opening of the traditional podcast market. After digital piracy hampered sales, this business changed the way people listen to music and helped them get acclimated to paying for it once more. And for artists, Spotify has also changed the revenue model and given more opportunities to niche artists. As the streaming music market becomes more competitive and Spotify faces declining subscribers and diminishing profits, it is necessary to study the future trends of Spotify.

This study mainly focuses on the company's own business model and financial situation and market environment for the company to the influence of the current music streaming media market competition is fierce and the problems existing in the company is in profit model is too single, no content production ability as well as the need to innovate its algorithm more to understand the needs of the consumers. Based on these problems, this paper provides suggestions for its future development. Firstly, it can upgrade the algorithm, secondly, it can establish its own record company, and thirdly, it can develop hardware products to change the single profit model.

The main part of this study is divided into four parts. The first part introduces the background and development status of Spotify, followed by an analysis of its finance. The second part analyzes the macro environment background of the enterprise through PEST analysis. The third part analyzes the competitiveness of enterprises through SWOT analysis, and the fourth part gives suggestions for the future development of enterprises based on the research results.

2. Firm description

Spotify is a music streaming service, that was founded in Sweden in 2006, expanded across Europe in 2008, and in the United States in 2011. According to Spotify's website and registration statement, the company's goal is to "unleash the potential of human creativity," "give millions of incredibly creative people the opportunity to live off the art they create," and "give fans everywhere the opportunity to enjoy and be inspired by the great work of these creators." This will enable both artists and customers to profit from the digital transformation of the music industry.

Spotify is now one of the top three Music companies in the United States, along with Apple Music and Amazon Music, which together account for 70 percent of the U.S. streaming Music market.

Spotify does not produce original content, but only shows content that is copyrighted through licensing deals with major media groups such as Universal Music Group and SONY Music Entertainment. As a result, the company relies mainly on two sources of revenue: advertising and subscription fees. Spotify offers its users two models: free and paid. Users will get access to limitless, high-quality streaming music both online and off if they choose to pay for membership, without commercial advertising and better sound quality. Additionally, there is a free usage option that offers users restricted on-demand access to the platform's more than 35 million songs without charging a membership charge. In both cases, the platform also allows users to create and share music playlists, send texts, and recommend tracks to other users to improve the social features associated with streaming. Spotify's main market rival, Apple Music, uses a pay-per-download, offline listening model. Spotify is free to download, easier to use, and has a two-track experience. By the eve of its IPO in 2018, Spotify was in 61 countries and the site had 140m paying subscribers and 70m non-paying subscribers.



Fig 1. Spotify's revenue worldwide from 2013 to 2021(in million euros)

In fig 1, it shows that Spotify has a good financial trend in the past 7 years. From 2013 to 2021, Spotify showed a year-on-year growth trend, which shows that Spotify still has great potential for development.

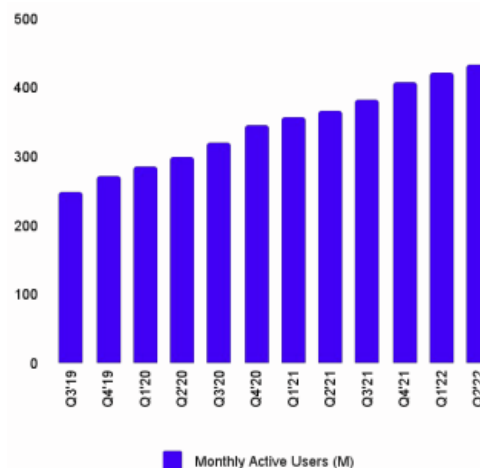


Fig 2.Monthly Active Users chart

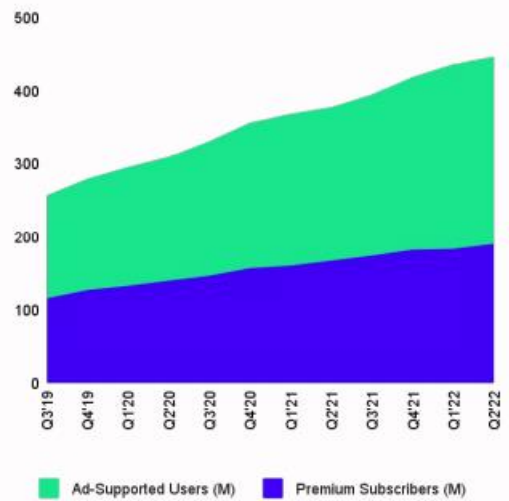


Fig 3. Ad-supported users and subscribers growth chart

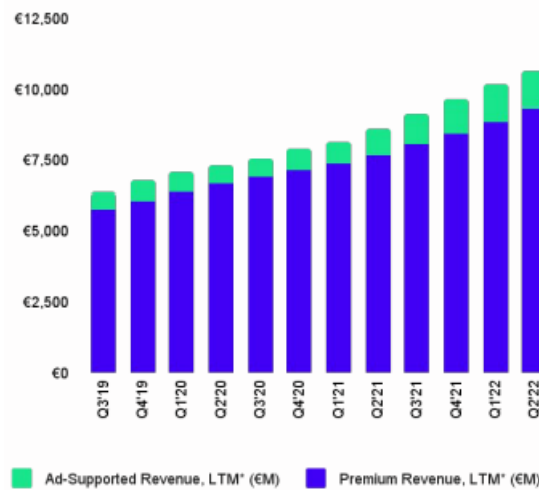


Fig 4.Revenue By Segment

Fig 2,3 and 4, show that the number of monthly active users continues to rise, although the increase is more or less unstable from quarter to quarter, but overall it continues to rise. So revenue for both types of users is growing, but ad-supported users are growing more than subscribers.

Trending Charts

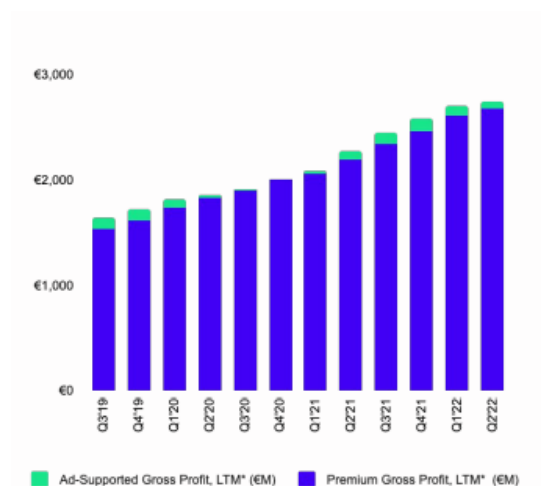


Fig 5.Gross Profit By Segment

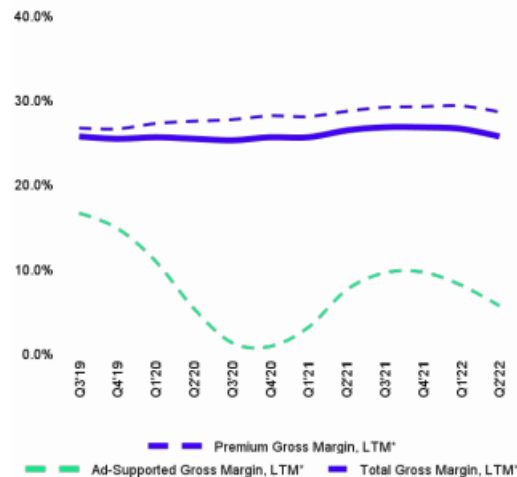


Fig 6. Gross Margin By Segment

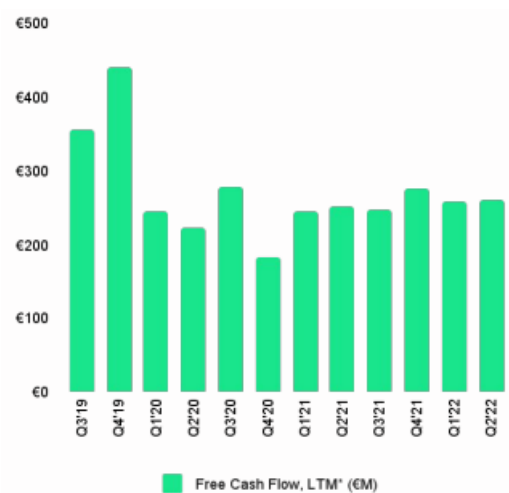


Fig 7. Free Cash Flow

In fig 5,6 and 7, it can be seen that the overall gross margin of subscribers was on a steady growth, but advertising allows users to gross profit fluctuations is very clear, in 2020, 3, 4 quarters even without profit, combined with the gross margin figure can be seen that the gross profit margin on advertising allows users to see big decline reflects the company's ability to keep subscribers and lack of the ability to attract new users. As can be seen from the free cash flow in recent years, the cash flow is very unstable, and generally presents a significant downward trend.

According to the above charts, overall, Spotify has had a good financial trend in the past 7 years. Spotify's global revenue has skyrocketed from 2013 to 2021. Although growth trends show signs of slowing beyond 2019, ad-supported users and the capacity to draw prospective users and maintain current users are somewhat volatile, coupled with the fact that more users are opting for generic services rather than becoming paid subscribers, also affecting financial growth to some extent. But the largest subscriptions, high brand value, and large scale of the company are still obvious strengths that can make it distinguish it from other the same types of little companies.

3. PEST Analysis

PEST stands for political, economic, social, and technical change, which are the four main drivers of change. PEST analysis is an effective and popular approach for comprehending strategic risk. It pinpoints the adjustments and impacts of the external macro environment on a firm's position in the competitive market[1].

3.1 Political

So far, Spotify has not entered the Chinese market due to policy reasons, but it should continue to try to expand the Chinese market because China has the largest consumer market in the world. Spotify has the cheapest subscription price but the largest number of songs in India. So Spotify is very active in developing the Indian market, but the piracy problem in India is so serious that the number of subscribers is still very limited.

3.2 Economics

As the COVID-19 pandemic continues to spread around the world, the global economy continues to decline, forcing many small and medium-sized companies to close down and causing unemployment to soar. In addition, the war between Russia and Ukraine led to sanctions imposed by a large number of countries, so global food and energy prices showed a rising trend. So this global economic situation has left people with less purchasing power for non-essential items.

3.3 Social

Social media sites like Facebook, Twitter, Instagram, YouTube, and LinkedIn are all places where Spotify is present and engaged[2]. Social elements have been added to streaming music services like Spotify, enabling users to share their playlists with others. As a result, users may share their favorite songs as well as listen to them individually. Spotify also is able to localize regions and capture different listening styles in different regions. At the same time, Spotify has become the new era's podcasting juggernaut.

3.4 Technology

The proliferation of smartphones and the falling price of data have greatly increased the use of music players[3]. Digital marketing, social media, and behavioral advertising are heavily used, and Spotify's upgrade reduces its reliance on the Internet.

4. SWOT Analysis

SWOT analysis is a technique developed in the 1970s, frequently used in a strategic approach. Strengths, Weaknesses, Opportunities, and Threats, or SWOT for short, is a structured planning process that assesses the four aspects of a company, project, or commercial endeavor. A SWOT analysis is a straightforward but effective framework for maximizing an organization's strengths, addressing weaknesses, reducing threats, and seizing opportunities [4]. The following will use SWOT analysis to comprehend Spotify's firm competitiveness.

4.1 Strengths

First, Spotify already has a huge user base, using big data to make personalized music recommendations and subscription recommendations based on user's preferences. Second, Spotify's subscription fee is lower than Apple Music and Amazon Music, and users also have the advantage of enjoying the freemium model. Third, Spotify has the most advanced and accurate algorithmic system to recommend music that best matches users' tastes, thus attracting new subscribers and solidifying old ones.

4.2 Weaknesses

First, since Spotify itself is not a creator of content and only acquires copyrighted content, its reliance on advertising and subscription fees for most of its revenue will lead to volatile profits. Second, coupled with Spotify's heavy reliance on Internet connectivity, has contributed to its dwindling user base. Third, since Spotify needs to buy artists' music rights to play their music, owning more rights means attracting more subscribers, but that costs a lot of money and is highly uncertain.

4.3 Opportunities

First, Spotify will be able to develop its own original content through artificial intelligence and big data analytics. Second, in B2B mode, it can cooperate with mobile companies and telecom companies to reduce mobile data consumption when using apps or offer cheaper plans to attract new users. Third, Spotify is currently available in just 61 countries, and there are still opportunities to expand into multiple countries in the future. And it can focus on going to the markets with the highest population density first so it has more potential users.

4.4 Threat

First, as Spotify competes more and more with Apple Music and Amazon Music, and as Spotify enters other countries, it has to compete with local Music streaming services in other countries. Getting users to ditch their familiar music-streaming services and subscribe to Spotify will also be a big test. Second, Spotify needs artists to join. The more artists join Spotify, the more music rights will be acquired and the more users will be attracted to it. But the application process is difficult and faces certain risks.

5. Suggestion

Based on Spotify's SWOT analysis, future development can be focused on the following three aspects.

5.1 Innovate algorithms to better understand user needs

Spotify is the world's largest on-demand music streaming company, with over 75 million active listeners choosing what to listen to among tens of millions of songs. Discovery and personalization are key parts of the experience and critical to the success of the creator and consumer ecosystem [5]. Spotify clears users' playlists every Monday and suggests songs the company thinks they'll like. While many companies promise to come up with recommendation algorithms that calculate correctly, none are more accurate than Spotify's Discover Weekly. Constantly upgrade the algorithm, more for users to recommend more music in line with the orientation.

5.2 Start a record company

Spotify lost \$1.4 billion on revenue of \$5 billion last year. The explanation is straightforward: Spotify pays record labels hefty royalties that make up more than 70% of all company expenses. Spotify may think about launching its own record label in order to break even, similar to how Netflix has extensively invested in original programming [6-7]. The Spotify recommendation system helps the company determine which artists to sign and what kind of music to produce [8-9]. With artists under contract, Spotify has a full distribution circuit, which ultimately saves money. The largest music-streaming website in the world no longer requires Spotify to pay royalties for the songs it already owns, allowing artists signed to the service to promote their work for free.

5.3 Sell own hardware products

Apple has begun shipping HomePod, a smart speaker with excellent sound quality. HomePod owners must comply with one important condition, however: they can only use Apple Music. In theory, smart speakers from either Google or Amazon could support only their own streaming music services, as Apple does. So to compete, Spotify might want to think about creating its own hardware. Although it is quite challenging, creating hardware is the most practical [10]. With the ability to add new subscriber services on top of that, Spotify's smart speakers give the corporation total control over what is provided to its users. If Spotify wanted to develop a smart speaker, it couldn't go ahead with a partnership with Google for the simple reason that it didn't develop its own mobile operating system. As it stands now, Spotify's strategy needs to be to make the service even better, so that users can stick with Spotify whether they're on existing or new devices.

6. Conclusion

Music streaming has completely changed the original music market consumption model, and Spotify, as one of the largest streaming media companies in the world, continues to attract public attention for its development. Since 2018 its financial growth slowed sharply, only by subscription fees and advertising based on the existing financial growth model is too single plus other music streaming media products constantly fierce competition, how to make the faster price more suitable for more music artists copyright has become the main problem facing, This paper analyzes the problems faced by Spotify by combining quantitative and qualitative research, and summarizes the development direction of Spotify in the future.

Through the research, it is found that Spotify's development speed is an inevitable trend after rapid development in a short period of time. The main problems it faces in its development are that its profit model is too simple, and it cannot produce content itself. It spends a lot of money to provide more diverse music choices to its subscribers by constantly buying the copyright of record companies. Spotify is also vulnerable to competition from other music-streaming companies, which gives the labels the right to choose who they deal with. So Spotify is focusing on three parts for the future. The first is to upgrade their algorithms to better understand user needs. The second is that Spotify can start its own record label so it can reduce the cost of buying the rights and also can create content like Netflix. Third, it can sell its own hardware products, which can make its profit model more diversified.

This study analyzes the current development status of Spotify so as to provide suggestions for its future development model, but there are still limitations. First of all, there is a lack of data. It focuses on the financial situation of the last year and fails to analyze broader data. Secondly, this study analyzes the macro environment background faced by Spotify and its own advantages and disadvantages through PEST and SWOT analysis modes. Other analysis methods, such as 4P analysis, can be added to study the situation of the enterprise in more detail. In the future, it will mainly focus on the development direction of music streaming media enterprises. And whether Spotify's direct listing model could be a model for other music streaming companies.

References

- [1] Sammut-Bonnici, Tanya, and David Galea. "PEST analysis." (2014). <https://www.um.edu.mt/library/oar/bitstream/123456789/21816/1/sammut-bonnici%20pest.pdf>
- [2] Amalina, Nadia Putri. "Proposed marketing strategy based on behavioral intention in using Spotify: Differences between free and premium users." *International Journal of Education and Research* 7.5 (2019): 73-90. <http://www.ijern.com/journal/2019/May-2019/07.pdf>
- [3] Vonderau, Patrick. "The Spotify effect: Digital distribution and financial growth." *Television & New Media* 20.1 (2019): 3-19. <https://journals.sagepub.com/doi/pdf/10.1177/1527476417741200>
- [4] Leigh, Doug. "SWOT analysis." *Handbook of Improving Performance in the Workplace: Volumes 1-3* (2009): 115-140. <https://www.visual-paradigm.com/guide/strategic-analysis/what-is-swot-analysis/>
- [5] Jacobson, Kurt, et al. "Music personalization at Spotify." *Proceedings of the 10th ACM Conference on Recommender Systems*. 2016. <https://dl.acm.org/doi/abs/10.1145/2959100.2959120>
- [6] Lozic, Josko. "Comparison of business models of the streaming platforms Spotify and Netflix." *Economic and Social Development: Book of Proceedings* (2020): 110-119. https://1105528.Book_of_Proceedings_esdVarazdin2020.pdf
- [7] Sisario, Ben, & De La Merced, Michael J. Spotify is said to be going public in early 2018. <https://www.nytimes.com/2018/01/03/business/media/Spotify-IPO-streaming-music.html>
- [8] Werner, Ann. "Organizing music, organizing gender: algorithmic culture and Spotify recommendations." *Popular Communication* 18.1 (2020): 78-90. <https://www.tandfonline.com/doi/full/10.1080/15405702.2020.1715980>
- [9] Coffey, Aoife. "The impact that music streaming services such as Spotify, Tidal and Apple Music have had on consumers, artists and the music industry itself." *Interactive Digital Media*. University of

Dublin (2016). <https://www.scss.tcd.ie/publications/theses/diss/2016/TCD-SCSS-DISSERTATION-2016-027.pdf>

- [10] Germain, Arthur, and Jacob Chakareski. "Spotify me: Facebook-assisted automatic playlist generation." 2013 IEEE 15th International Workshop on Multimedia Signal Processing (MMSP). IEEE, 2013. <https://ieeexplore.ieee.org/abstract/document/6659258>