

*An economical report on the macro and micro environment of Spotify
including a critical discussion and on the organisation's business methods
and finances.*



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1. ABSTRACT

This report gives an economic insight into the market leading streaming platform Spotify. It includes a critical discussion around how the current macro environment has been affected by COVID 19 and how this has impacted streaming services. Furthermore, it discusses the competitive market of streaming and the business strategies of Spotify, including lean business methods. Spotify's main focus is currently on growth rather than maximising profit (Stassen, 2021) i.e. year on year (Y/Y) revenue grew less year in 2020, for the first time since 2017 (Mulligan, 2021). Spotify are doing well at dominating the market, however, their economic sustainability may be questioned. A SWOT analysis exposed some other threats to Spotify e.g. some artists have left the platform due to the low pay they are receiving (Gaille, 2021). Finally, recommendations for Spotify are given including a suggestion to continue rolling out their product to new markets and increasing the price.

1a. Limitations of the Report

It is important to note that, at the time of writing, the world is still in a pandemic. The upcoming months depend on a number of factors including whether the vaccinations are effectively rolled out and whether a resistant strain of the virus develops (Selfin *et al*, 2021). It is difficult to predict the future of the economy and individual spending habits as we lack access to a comparable historic event.

2. PRODUCTS, PRICING & CUSTOMERS

2a. What is Spotify?

Spotify is the largest streaming platform in the world in terms of subscribers. Currently, it is available in 178 countries (Spotify 2021c) and gives users access to a large catalogue of music and podcasts. It was founded in 2006, by Daniel Ek (CEO, cofounder) and Martin Lorentzon (cofounder) in Stockholm, Sweden and first launched in 2008. Spotify reported having 354-364 million monthly active users (MAU's) in the fourth quarter of 2020; 155-158 million of which being premium subscribers, bringing in a total revenue of €1.99-€2.19 billion (Spotify 2021b).

2b. Pricing

Spotify uses a freemium business model, whereby users with free accounts are subject to advertising and low quality audio. Users that wish to listen to high quality sound without adverts can upgrade to a paid premium subscription. Below are the current UK price plans which despite inflation, have remained the same for premium users since launch:

Table 1 - Prices of Spotify Accounts 2021

ACCOUNT	PRICE (£ PER MONTH)	NOTES
FREEMIUM	0	Subject to ads, lo-fi music
STUDENT	4.99	Premium account for those in education
PREMIUM	9.99	Standard premium account
DUO	12.99	2 x premium accounts for those living at the same address.
FAMILY	14.99	Up to 6 x premium accounts for those living at the same address.

Data gathered from (Spotify 2021b)

2c. Recent changes

The duo account option launched in 55 markets on 1st July 2020. Couples who live together that were both premium subscribers could now be paying £6.50 each on the duo plan rather than £9.99 each which would be a pareto inefficient decision. However, perhaps Spotify's strategy was to entice new users onto the platform and away from competitors by offering a *'first-of-its-kind subscription plan'* (Spotify, 2020).

On February 22nd 2021 Spotify announced its biggest expansion yet, launching in 85 new markets and in 36 new languages, bringing the current market reach up to 178 (Spotify 2021a). Only some of the new markets will have access to Spotify's full catalogue of podcast material and the family, duo or student price plans (Spotify 2021a).

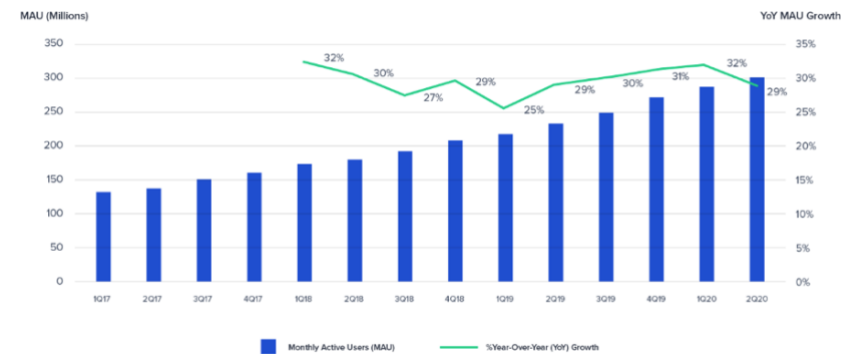
2d. Focus on independent artists

One of Spotify's features includes 'Spotify For Artists' which provides the releasing artist statistics on their listeners and access to informative content, tips, advice to help develop promotional skills. It is used by two-thirds of Spotify Artists. This feature may have contributed to the fact that the share of Spotify streams for Independent artists grew from 29.7% to 31.1% in 2020 (Mulligan, 2021). The independent music sector is the fastest growing in the industry (Jacca-Routenote, 2020) so investing in helping these artists is key to a successful future as a streaming platform.

2e. Users

Spotify has 345 million Monthly Active Users (MAU's), 155 million of which are paid subscribers and 199 million freemium users (Spotify, 2021b). In 2020 MAU's and premium revenue increased Y/Y. (Stone 2020). See *Figure 1*.

Figure 1: Spotify Monthly Active Users (MAUs): 2017-2020 (Q2)



Source – (Stone 2020)

<https://www.toptal.com/finance/market-research-analysts/state-of-music-industry>

3. MACRO ENVIRONMENT

3a. An Overview

Corona Virus has had a huge impact on the UK economy, it is said that the first hit of lockdown measures diminished approximately twenty years of growth during the months of March and April 2020 (Nabarro, 2020). High levels of policy support, such as the job retention scheme, have aided the economy to start making a recovery.

In January 2021, Selfin *et al* conclude that, in any given assumption regarding the virus and vaccine relationship, restrictions and social distancing will be in place for the foreseeable future. Working on the main assumption - that the COVID vaccinations will continue to be effective and restrictions are gradually eased as number of infections fall – business could be back to normal this Autumn. The economy may see growth in the second quarter of 2021 and pre-covid levels return by the first quarter of 2023; inflation will continue to be low throughout 2021 and remain at

around 1.7%. GDP has been forecasted to grow by 4.2%, *see table 3*, although following the Brexit deal which commenced on 31st January 2021, there is likely to be a short-term negative effect to the UK economy's growth (Selfin *et al*, 2021). In her article on austerity, Tetlow (2020) puts forward the view that public borrowing could become more than it was in 2009, reaching over 10.2% of GDP. This would result in the government choosing between remaining in a vulnerable position of debt or raising taxes.

The Office for National Statistics (ONS) (2020) reported that '*nearly 9 million people had to borrow more money because of the Coronavirus Pandemic*'. The situation has affected young people with lower incomes at a higher extent compared to the general population; under 30's with incomes of less than £10,000 being 60% more likely to be furloughed (ONS, 2020). The deficit this fiscal year may be up to £380 billion and although it is expected that it will lessen to over half of that figure by next year, it remains at a large amount (Selfin *et al*, 2021).

Table 3: KPMG forecasts – main scenario

	2020	2021	2022
GDP	-9.7	4.2	5.5
Consumer spending	-12.1	3.8	8.9
Investment	-11.3	2.6	5.2
Unemployment rate	4.5	6	5.9
Inflation	0.9	1.5	1.7
Base interest rate	0.1	0.1	0.1

Source (Selfin *et al* 2021)

<https://assets.kpmg/content/dam/kpmg/uk/pdf/2021/01/uk-economic-outlook-january-2021.pdf>

3b. The Effect on the Music Industry

Chancellor Rishi Sunak has implied that as the self-employed have been subject of emergency support, they may face higher taxes in the future (Marshall, 2020). The government have supplied funding and grants to particularly impacted industries, for example the Save Our Stages act for music industry. But it may be that, in return, the music industry will continue to suffer the consequences of the virus by helping to pay back some of the country's debt through taxes as a large proportion of people creative industry are self-employed. Self-employed people reported less working hours and income, regardless of whether they had received funding from the Self-Employment Income Scheme (SEISS) (Office for National Statistics, 2021). Furthermore, despite the support, some predict that 50% of current music venues will still have to shut their doors and that replacement venues are unlikely to appear until 2022 (Owsinski, 2020).

Wealth and spending have declined during the pandemic (ONS, 2020) but the wealth elasticity of consumption has increased for streaming services like Spotify (Spotify, 2021b). This may be due to the demand for the service increasing; people are spending more time at home and using streaming services as a source of entertainment. Spotify (2021b) outlined that due to the pandemic, 55% of users aged 16-40 listened to more music. Supply has increased too, with musicians and podcasters releasing more content and having more time to create (Mulligan, 2020).

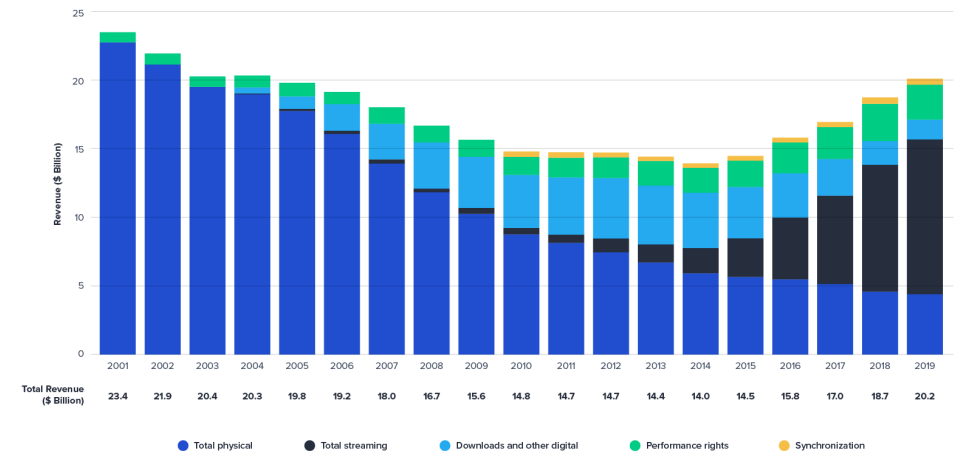
People that work in the creative industries are particularly influenced by the impact of the lockdowns and social distance measures. The majority of opportunities to perform live have been cancelled since March 2020. In terms of government support, many creative jobs have been referred to as unviable in regards to the winter economy plan of job support. Many freelance creatives have not been eligible for financial support throughout the whole pandemic and '*15% of the working population is freelance, in creative sectors that leaps to 47%*' (Patrick & Elsdon 2020). The creative economy is said to bring in £13 million an hour and pre-pandemic (2018) the industry contributed £111 billion to the economy (Patrick & Elsdon 2020).

3c. The Effect on Streaming Services such as Spotify

Streaming services have thrived ‘streaming revenues grew at a 42% CAGR (compound annual growth rate) since 2015, compared to the entire recording industry’s 9% CAGR’. Stone (2020) reports that music streaming is driving the growth of the global music recording industry see figure 2. He states that streaming services have done good for the industry as a whole despite COVID 19 (Stone 2020). It is an interesting thought to consider whether there is a cause and effect relationship between the decrease in live performances and the increase in music streaming. To some extent, it could be seen that streaming music has been a partial substitute for some people and filling some of the gap that the live industry has left.

MiDiA recently interviewed 346 artists around the globe during lockdown and found that 70% independent artists were spending more time creating new music, 57% posted more on their social media pages and 46% released more music (MiDiA 2020). The investment of their time on this may have resulted in many music lovers and dedicated fans subscribing to streaming services to support their favourite artists. The survey also found that 36% of independent artists have collaborated more during lockdown. In contrast, Owsinski (2020) reported that the pandemic has resulted in less collaborations for songwriters and producers. It may be seen that this furthers the power, value and influence of longtail independent musicians their contribution to the industry. However, it must also be noted that this was a small survey sample and therefore may not be representative of the general population of musicians.

Figure 2: Global Music Recording Industry Revenues: 2001-2019 (\$ Billion)



Source: International Federation of the Phonographic Industry (IFPI)

Source – (Stone 2020)

<https://www.toptal.com/finance/market-research-analysts/state-of-music-industry>

4. FINANCES

The report of Spotify’s earnings in 2020 showed that the growth in revenue for premium services grew less than the previous year, for the first time since 2017 (Mulligan, 2021). Despite the number of subscribers increasing, the average revenue per user (ARPU) decreased to €4.31 from €4.72 in 2019. See Table 2.

This may be down to people being less likely to spend money due to the uncertainty of the pandemic and not knowing when they be seeing a stable income again themselves. Also, the duo plan roll out could have contributed to this.

Table 2 - The user and financial metrics of Spotify - reported on 3 February 2021.

SUMMARY USER AND FINANCIAL METRICS					
				% Change	
USERS (M)	Q4 2019	Q3 2020	Q4 2020	Y/Y	Q/Q
Total Monthly Active Users ("MAUs")	271	320	345	27%	8%
Premium Subscribers	124	144	155	24%	7%
Ad-Supported MAUs	153	185	199	30%	8%
FINANCIALS (€M)					
Premium	1,638	1,790	1,887	15%	5%
Ad-Supported	217	185	281	29%	52%
Total Revenue	1,855	1,975	2,168	17%	10%
Gross Profit	474	489	575	21%	18%
Gross Margin	25.6%	24.8%	26.5%	--	--
Operating Income/(Loss)	(77)	(40)	(69)	--	--
Operating Margin	(4.1%)	(2.0%)	(3.2%)	--	--
Net cash flows from operating activities	203	122	107	(47%)	(12%)
Free Cash Flow ¹	169	103	74	(56%)	(28%)

Source – (Spotify 2021b)

https://s22.q4cdn.com/540910603/files/doc_financials/2020/q4/Shareholder-Letter-Q4-2020_FINAL.pdf

It is important to know that using Y/Y comparison of Q4 2019 and Q4 2020 may not be useful in terms of using the data to make any forecasts for what the future will hold. The impact of the pandemic has greatly hit the economy and it is incomparable to any historic events. There is no research or prior knowledge available on how long-term spending habits will change or how the economy will respond when lock down is lifted.

Due to reports being retrospective and the data for Q1 of 2021 not being released yet, one can only work with the latest information published and as the economy is still in such turbulence, conclusions may be very different in the coming months. It is yet to be seen whether MAU's will decrease when lockdown eases and more people return to work.

5. BUSINESS METHODS & STRATEGIES

5a. Growth Strategy

Spotify's goal is to *'become the world's number one audio platform through compelling new music and exclusive non-music content'* (Spotify 2021).

On February 3rd 2021, analysts discussed Spotify's 2020 Q4 earnings with Chairman & CEO Daniel Ek. Ek reiterated his long-term strategy and confidence that Spotify is a 'multi-billion user opportunity' (Stassen, 2021). Ek presented the three elements of the growth strategy: improving the product, launching in new markets and raising prices. He explained that focus has been of the first two elements and they are only recently starting to focus on the third (Stassen, 2021).

5b. Pricing Strategy

Annual inflation has averaged 2.95% a year since Spotify's launch in 2008, however premium account price has remained at £9.99 in most markets, which can be viewed as £7.40 considering inflation, a reduction of 26% (Mulligan, 2019). In contrast, video streaming platform Netflix have made a 63% price increase in the same amount of time with continued success of holding their position as global market leaders. This shows there is price elasticity for video streaming and it is interesting to consider why this differs in the music streaming market. It is argued that streaming services are experiencing a dilemma. If Spotify increase prices and competitors such as Apple Music and Amazon Music do not, they can risk losing customers (Mulligan, 2019). Therefore, paid music subscribers are benefitting from the invisible hand. An option for Spotify would be to increase exclusive content on their platform, working towards differentiation in the market and supplying a veblen good thus raising the demand for the product and increasing the price.

Spotify do provide a selection of non-music exclusive content predominately in the form of podcasts. In their latest financial report they stated:

‘As of Q4, we had 2.2 million podcasts on the platform (up from more than 1.9 million podcasts in Q3). Of note, 25% of our Total MAUs engaged with podcast content in Q4 (up from 22% of MAUs in Q3 2020)’.
(Spotify 2021)

However, Owsinski (2020) predicts that the supply and demand for podcasting will decrease in 2021 as consumers come to have less time to spend listening to long podcasts; it will reduce the likelihood that hard-working curators will be benefitted.

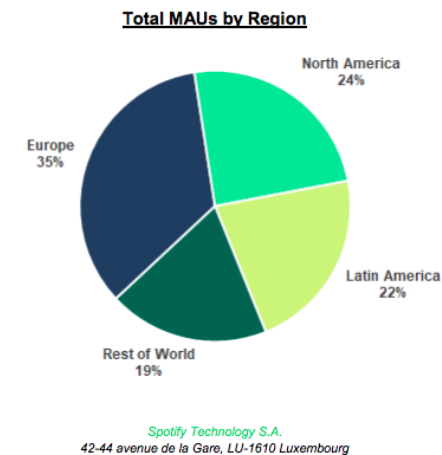
An external cost of keeping the market price for streaming subscription at around £9.99 may be losing some artists who are not happy with the pay out e.g. Prince, Taylor Swift and Radiohead (Gaille, 2021).

Spotify have recently increased family plan prices to an additional 25 markets, and raised all plan prices in Sweden, Norway, Finland, and Iceland in February 2021. Norway had already seen a price increase of 10% in 2018. With these new prices, they forecast a year on year (Y/Y) improvement for 2021 premium annual revenue per user (ARPU) (Spotify 2021). Stone (2020) reports that 30% of the US population are paid streaming subscribers compared to 52% of the Spotify’s home country’s Swedish population. Perhaps Spotify sees it less risky to increase prices in countries that are geographically closer to their base; people seem to be more invested in paying for streaming in these cultures. Spotify may have more influential power and good will in neighbouring countries.

On the contrary, in October 2020, Spotify increased the cost of the family plan for new users in Australia (Stassen, 2020). Daniel Ek clarified that while the economy is recovering, increasing prices is not a short-term

priority for Spotify, despite the positive response shown in price-increased territories (Ingham, 2020). Again, this could be seen as a risk aversion strategy, testing how a smaller sample, with cultural similarities to their biggest customers (US & Europe), would respond to a family plan price increase. It seems that Spotify are using the lean business method of continual experimentation here, but in a low-risk way.

Figure 3: Total Spotify Monthly Active Users by Region



Source – (Spotify 2021b)

https://s22.q4cdn.com/540910603/files/doc_financials/2020/q4/Shareholder-Letter-Q4-2020_FINAL.pdf

5c. Other Strategies

Why are Spotify not working on converting freemium users with a passive attitude to Spotify to premium users with an active attitude?

Co-founder Daniel Ek has spoken out about Spotify’s strategy; to focus on moving people onto streaming and away from radio, rather than maximising short term profit. (Ingham, 2020).

It may be suggested that they have a short-term strategy to continue to invest in developing their service, with the hope to see long-term benefits. If Spotify continue to focus on working on delivering the best possible streaming service, they may drive other competitors who cannot keep up out of the market. Spotify aim for an unsalable market position, working towards a monopoly the streaming sector and radio broadcasting. Their self-confessed ubiquity strategy supports this theory. One may describe this as a risk aversion approach. Spotify appear to have a clear vision on streaming as their main product and have not diversified and branched out their service as much as competitors. This may be a reason why they are leading the market. By not being tempted to capitalise on their immediate profits, they may eventually end up seeing a larger return than other platforms.

However, how much resources would it realistically take for Spotify to have a small team working on how to better convert freemium users into premium customers? Perhaps they believe they will eventually convert paid streaming customers from other platforms over to them, by offering a better service. Converting people to their service that are already prepared to pay for streaming music may lead to more long-term subscribers. This may be a better approach than to spend time, money and resources trying to convince people that are happy to watch adverts to commit to paying for streaming. This way, other competitors spend their money convincing free users to pay for music and Spotify spend the money they save on this to invest in their product with the belief that those customers will eventually join them anyway. Smart.

Perhaps Spotify could take a similar approach to that presented by Seth Godwin in his book *Tribes: we need you to lead us*. If they pivot their focus towards being a better leader, users may invest more into Spotify which could result in them being more likely to upgrade to a premium account. Godwin (2008) presents the idea that a tribe needs two things which are: having a shared interest and been provided with a way to communicate.

Spotify are keeping user interaction separate from their main product, unlike new competitor Resso, who are going for a more interactive streaming experience and Soundcloud where users can comment on a track and interact with fellow listeners. Spotify is yet to provide listeners with a way to directly communicate with artists or other listeners on its platform. Spotify Community is an online forum away from the product where users can talk and answer Spotify related queries.

Spotify could incorporate a star-rating or feedback model similar to that of eBay or Etsy which may help to build a stronger community between users. This could be visible to everyone but contributions could be an exclusive privilege to premium members. Independent artists could influence their fan base to rate or add a quote to their Spotify if this were an option too. Therefore, Spotify could provide artists with the opportunity to lead their fan-base or 'tribe' onto the platform which could become movement and also result in an increase of revenue.

Spotify users can create their own playlists ,so each subscriber, in essence, run a personalised radio station for themselves. It could be concluded that Spotify aren't competing with other streaming services as such; they are competing on a larger scale with a strategy to eliminate radio listening. If radio stations are eventually pushed out of the market, streaming services could become the substitute product. With Spotify being the most established and closest to delivering a radio experience, it would be an opportunity for them to increase subscription prices and perhaps take away the free account option at a lower risk.

5d. Lean Business Methods

Leading on from that, CEO Daniel Ek recently revealed that Spotify are thinking about adding social features to the platform and that there are more opportunities to come surrounding engagement (Stassen, 2021). However, Ek clarifies that for the foreseeable future the company are continuing with their focus on growth strategy.

It appears that Spotify are slower to pivot than other businesses, which may give them the upper hand by watching competitors and using vicarious learning to see what features are worth investing into. One disadvantage of this is that they may end up falling behind, unable to provide the most current developments in the market. However, they are holding their place as the market leaders and their strategy to maintain focus on delivering the best streaming platform appears to be successful. However, if a new feature becomes extremely popular on another platform and they are not prepared enough to meet that demand, it could result in a loss of users.

Spotify allow anyone to access a limited service without financial investment via their free account option. Businesses that apply lean start-up methods create a minimum viable product (MPV) which they offer to early customers, it may be speculated that Spotify may be using a similar model. The free account could be seen as an MPV, giving people a taste of the service. Spotify include their own advertisements on the free account, which is a sure way to hit their target market. By using the freemium model, Spotify have access to millions of potential premium subscribers. They can use feedback from these customers to help develop their premium accounts thus further enticing users to upgrade. They also have the option to test hypothesis and ideas on their free account holders, without disrupting or affecting the quality of product their premium subscribers experience.

In essence, free account holders could be used as a sample for systematically testing new products and hypotheses. Spotify could also gather feedback from their Spotify Community Forum website, which is also separated from the premium product on the app. Research suggests that rigorous experimentation and pivot flexibility leads to higher revenues (Camuffo *et al*, 2018). However, issues with the Lean Startup Method include allowing customers to drive the direction of the product using only

current information. It is argued that the long-term vision and predictions of the founders should be president in decision making (Mollick, 2019).

Corporate Strategy could be the way forward, where the founders take control and decide on what experiments should be carried out, keeping with a theory of why the company is going to win (Gans *et al*, 2018). It appears that the Spotify founders are in control of their product. They seem to be focused their goal rather than being lead and distracted too much by competitors. The lean business method cycle of build – measure – learn is an iterative process that gives businesses the chance to measure the reaction to a product and pivot or persevere depending on the feedback. It appears that Spotify are leaving it to competitors to have the first player advantage when it comes to adding additional services to their products. For example, the more social elements of Resso and the smart speaker of Amazon Music.

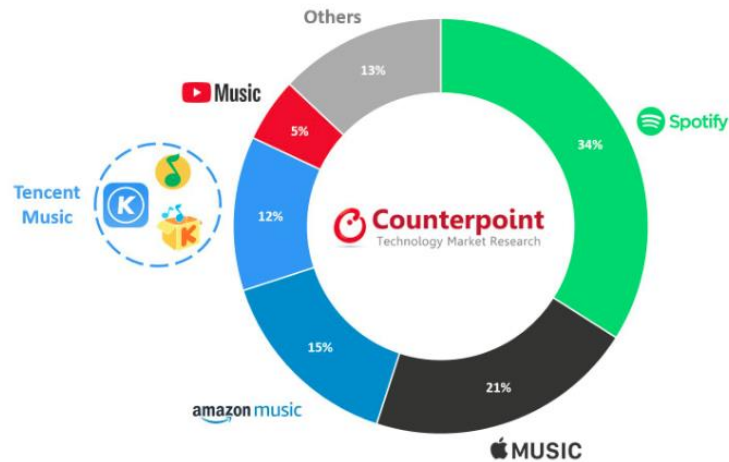
6. THE COMPETITIVE MARKET OF STREAMING

The Goldman Sachs Research's report (2020) forecasted that the streaming market will see growth to 12% CAGR between 2019-30 and reach US\$75 billion by 2030. Spotify are predicted to continue as the market leaders, holding a 33% share of subscribers by 2030. However, competition may rise, with other players such as ByteDance's Resso planning to globalise and the popularity of the smart speaker which partners Amazon Music (Goldman Sach Research Report, 2020).

6a. Major Competitors

Spotify are dominating the streaming market with over 30% share of the market – 32% in Q2 2020 (See *Figure 4*). However, it is important to highlight some of the strongest competitors. This will done via a SWOT analysis and mention competitors such as Apple Music (who currently have the second largest share of paid subscribers after Spotify), Amazon Music, Resso, Deerzer and Soundcloud (see *Figure 3*).

Figure 4: Global Music Streaming Paid Subscriptions by Brand Share (in %) – Q2 2020



Source – (Kumar 2020)

<https://www.counterpointresearch.com/global-online-music-streaming-grew-2019/>

6b. Spotify SWOT Analysis

Strengths

Unlike major competitors Amazon, Apple & Resso, Spotify were not an already established brand when they launched music streaming. Spotify is solely an audio streaming platform, not associated with any other service. This can be seen as a strength of Spotify as the brand has an opportunity to become a proprietary eponym of music streaming. It may be argued that this could be seen as brand genericise, causing Spotify to lose distinctiveness. However, with their popularity, notoriety of ease of use, exhaustive discovery feature, intuitive interface and option of a free tier it may be that it works in their favour. Spotify also generate revenue through advertising on their freemium option at a 30/70 split thus maximising

profit whichever option the user chooses (deFerrari *et al*, 2018). The fully customisable playlisting of Spotify is also a strength of the platform.

Weaknesses

Although a free service is available, other streaming platforms provide a free service without advertisements, such as Deezer. Spotify does not allow commenting or interactions on their platform and hosts a separate Spotify Community site for users to communicate, whereas SoundCloud are renown for user interaction and networking opportunities within the music community. Spotify's royalty pay-out's to artists are low compared to many other competitors (*see figure 5*) which puts them at risk of artists and fans steering towards platforms that pay more fairly. SoundCloud made an industry-first move announcing that they will be the first to switch to a user-centric model commencing 1 April 2021. They are utilising the power that artists have over their fan bases and encouraging them to promote and support the platform (Dredge, 2021).

Figure 5: What streaming services pay, updated for 2021

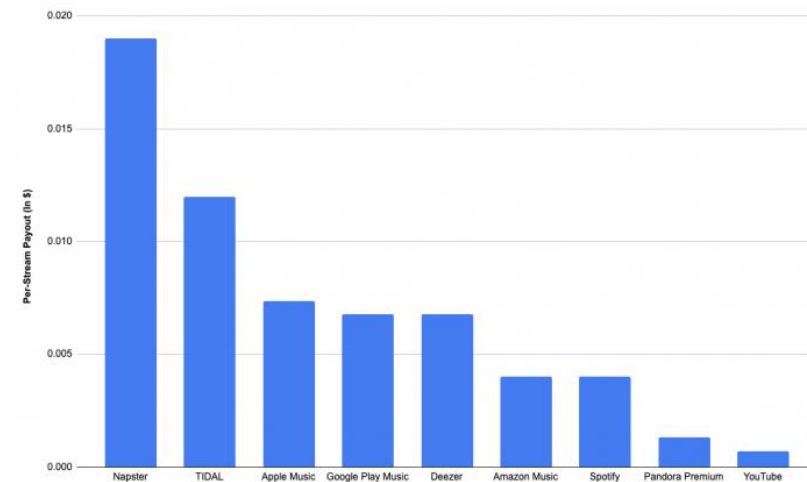


Image Credit: Digital Music News

Source – (Sanchez 2018)

<https://www.digitalmusicnews.com/2018/12/25/streaming-music-services-pay-2019/>

Opportunities

Spotify is currently available in 178 markets (Spotify 2021c) but with each untouched market there is opportunity for growth. Spotify are continuing to advertise their premium account to their 155 million free users. Strengthening rapport with independent artists by increasing royalty pay-outs and putting more interactive content on their Spotify for Artists page could help too. Additionally, Spotify could increase revenue and good will by hosting virtual networking events, guest speakers or advice sessions to artists.

Threats

Prioritising growth over profit is a threat to the economics of the business. Due to Spotify's low pay-out rate compared to competitors, some artists are withdrawing licencing agreements with them, examples include Prince, Taylor Swift and Radiohead (Gaille, 2021). This may result in users opting for a different service. Due to competition coming from some tech giants including Apple Music, technological advances may be difficult for Spotify to keep up with. Streaming platform Soundcloud are the first in the market to announce a user-centric model where each listener's advertising and subscription goes directly to the artists they listen to so emerging artists get more royalties (Ingham, 2021). This may draw independent artists away from Spotify and onto platforms that seem to pay more fairly.

7. SOME RECOMMENDATIONS FOR SPOTIFY

1) Increase exclusive content

This will help Spotify stand out from other competitors and may result in increasing the price elasticity thus retaining and gaining more paid subscribers with price increases.

2) Consider premium bolt-ons

Spotify could launch a survey to their paid subscribers to find out what services they would like to see added to the platform. Using their algorithms, Spotify could look offer personalised exclusive bolt-on's to users based on their listening data and interests.

3) Continue to roll out price increases

Increasing the cost of the family plan could greatly impact ARPU. Spotify should continue to check that the family plan is not being misused via address checking protocols. Increasing the price in home-country Sweden where 52% of the population are paid streaming subscribers (Stone, 2020) and where Spotify may be seen to have the most amortisation could be a good opportunity.

4) Pay artists fairly

Price increases mean that artists can be paid more for their streams, which will strengthen the relationship of the business with those providing the content and backbone of Spotify. A recent YouGov survey of 2069 UK adults (29% Spotify users) found that 77% of music streaming consumers believe that artists are not paid enough and that a bigger percentage of streaming revenue should go directing to them. 69% of respondents were not prepared to pay more for subscriptions under the current distribution model, although half of these may consider it if the model changed to user-centric distribution like Soundcloud's (YouGov, 2020).

5) Work towards launching in China, bring on board more Chinese artists

It would be naïve to say that this is an easy task. However, it is estimated that there is likely to be significant growth in this emerging market (Goldman Sach Research Report, 2020). It is estimated that people from

China consume 80% local music as opposed to international music, so advertising to Chinese artists and building that library could be a good place to start. Currently, only 6% of Chinese streaming users are paying customers (Goldman Sach Research Report, 2020). Spotify may view it as a cultural risk to launch in China due to the market differences. Maybe they are waiting for streaming to become more popular before they approach the market. It may be seen as a risk aversion strategy to hold back and see how other foreign streaming platforms may manage the government media restrictions there, rather than pre-maturely spending resources on this.

Additionally, they may have to consider the level of expropriation risk. Streaming service Resso is owned by Bytedance, alongside popular app TikTok. With Chinese ownership, Resso could become the biggest obstacle for Spotify in terms of globalisation. Resso first launched in India in March 2020 (Forde, 2020). In June 2020, India's government banned use of some Chinese apps including TikTok following border animosities; Resso remains off the ban list (Singh, 2020).

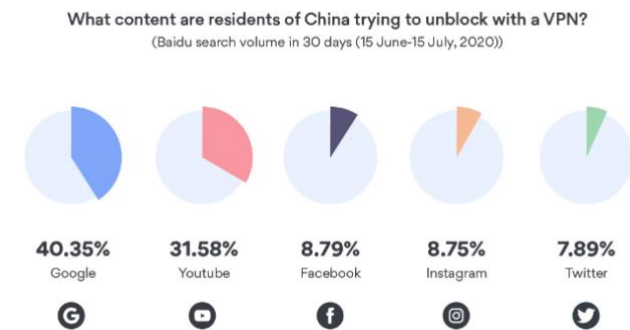
Barriers of entry to the market include the Great Firewall and the Chinese government being unlikely to allow foreign streaming services in to compete with domestic ones. It can be speculated that China are more likely to launch Resso. An unorthodox way around this issue could be for Spotify to partner with an existing VPN provider and advertise this. The word could be spread via free speech activists and influencers, such as YouTubers, popular with Chinese VPN users. Furthermore, they could pitch it as a way for subscribers to access the service when visiting China, thus spreading the word when they get there. However, this could result in hostility and damage the reputation of Spotify and seen as a disrespect for national security.

In August 2020, VPN provider NordVPN (2020) analysed where users were and what they were unblocking through June 2020 (see *figure 6*). Google came out at number 1. However, if Chinese residents are unaware of

available streaming services they may not be trying to access them. However, it may be concluded that, at present, this market cannot be morally or legally tapped into and focusing on this could damage the good will and amortisation of Spotify.

Figure 6: Content that Residents of China Trying to Unblock with a VPN

Getting around the Great Firewall of China



Source – (NordVPN 2020)

<https://nordvpn.com/blog/what-do-people-unblock/>

6) Work towards globalisation and monopoly of the streaming market

Continue to branch out availability to as many new markets as possible in the coming years and work towards globalisation, much like competitors Bytedance's Resso.

7) Develop new features

Spotify recently mentioned how they are currently working with partners to bring their product to more platforms such as TV, speakers, wearables and in the car (Spotify 2020). Although, not having these features hasn't seemed to affect Spotify's lead as the most popular platform.

8. CONCLUSION

Spotify appears to be doing relatively well, despite the current economic crisis surrounding COVID 19. They are following their current strategy of growth over profit by launching in new markets. Also, they seem to be successfully introducing price increases in selected markets. Most of the recommendations, such as increasing account prices and rolling out to more markets, are points that Spotify CEO is already aware of and plans to implement in due course (Ingham, 2020). However, as the independent sector of music grows and more people are talking about paying artists more fairly for streams (YouGov, 2020) it may be that Spotify need to address this issue sooner rather than later. Competitor Soundcloud have just launched a user-centric royalty method and it may be hypothesised that emerging artists and independents (the fastest growing sector in the industry (Jacca-Routenote, 2020)) will be drawn away from low paying streaming services such as Spotify if they do not increase their pay out. Other opportunities include working more on technological advancements such as competitors Apple Music and their link with smart speakers, offering more exclusive content and surveying paying customers to find out what they would be happy to pay more for.

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