

Spotify's Hyper-personalized Strategy Report



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Executive Summary

The music streaming market is growing quickly and is driving the revival of the global music industry as Internet usage rises and technology develops. The services offered to users by different music streaming platforms, however, are not noticeably different from one another, and the industry's competition is escalating. Hyper-personalized services can give businesses an advantage over their rivals in this situation.

By both the number of users and the number of paying members, Spotify is the most popular music streaming service in the world. This report uses Spotify as its study subject and employs Porter's Five Forces model to examine the music streaming market. PESTEL analysis is used to conduct a macro analysis of Spotify's external environment. Finally, Spotify's internal and external competitive environment and competitive situations are examined using the SWOT model. Based on the environmental research, this report analyzes Spotify's hyper-personalisation approach and its potential effects on its various divisions.

The report concludes with recommendations for Spotify's future growth, including making use of user data, scene marketing, social network marketing, and using AI to call centers.

1. Introduction

In today's crowded digital environment, where competition between businesses increases as consumer expectations change, brands must start using effective data and analytics to better understand their customers and harness the power of artificial intelligence to deliver hyper-personalized experiences to draw in and keep loyal customers. This is necessary to meet and exceed changing consumer expectations.

In order to achieve unprecedented levels of industry-specific consumer insight and action, firms should adopt hyper-personalized strategy that investigate how data, advanced analytics, and artificial intelligence technologies may be embedded throughout the customer journey.

1.1 Hyper-personalization

Hyper-personalization is the most advanced way for brands to tailor their marketing to individual customers. Through the use of data, analytics, artificial intelligence, and automation technologies, it allows brands and retailers to offer a distinctive customer experience for each consumer. It treats customers as unique individuals with distinct tastes and preferences (Dunlap and Charles, 2014, p. 108-118).

With the help of, companies can convey messages to client demands across the channels at the appropriate location and time.

A hyper-personalized strategy marketing gives businesses the chance to genuinely connect customers, strengthen current relationships and forge new ones, all while enhancing the customer experience as digital marketing becomes more competitive.

Implementing this strategy will improve customer satisfaction while also boosting brand loyalty, consumer spending power, and marketing efficiency. This will raise the company's revenue while also enhancing the experience for customers.

With the use of recommendation engines, integrated online and offline sales channels, consumer preference prediction software, and other methods, hyper-personalization can be done to varied degrees. This great level of customization cannot be attained by realizing only one business use case. Instead, it is a thorough marketing plan that significantly alters how a company interacts with its clients and ought to be embedded throughout the customer journey.

1.2 Music Streaming Service

A web-based service that allows consumers to stream songs to their computers or mobile devices. Users of these services may be able to download songs for offline listening as well as upload their own music libraries to the cloud, the latter of which is referred to as a "music locker." (PCmag, 2022)

The emergence and popularization of music streaming media cannot be separated from the speed of broadband and wireless network. Currently, the recorded music industry's primary driver of development is music streaming.

1.3 Spotify

Martin Lorentzon and Daniel Ek established Spotify, a privately held Swedish supplier of media services, on April 23, 2006 (Branchereau, 2018).

Spotify offers digital copyright restricted recorded music and podcasts, including

more than 82 million songs, from record labels and media companies. With 456 million users, including 195 million customers, across over 180 regions, Spotify is currently the most widely used audio streaming subscription service in the world (Spotify, 2022).

The mission of Spotify is “to unlock the potential of human creativity—by giving a million creative artists the opportunity to live off their art and billions of fans the opportunity to enjoy and be inspired by it.”

2. Analysis of Environment

2.1 PEST Analysis

Aguilar created PEST analysis as a paradigm for environmental scanning in 1967. According to Aguilar, environmental scanning is " scanning for information about events and relationships in a company's outside environment, the knowledge of which would assist top management in its task of charting the company's future course of action. " (Aguilar, 1967)

The basic PEST analysis includes four factors: politics, economics, society, and technology. PEST analysis can reflect the company's overall environment and assist the organization in further assessing the formation of its strategic goals.

2.1.1 Political Factors

Elections, referendums, and treaty renewals are all highly significant political issues that affect the economic climate, particularly for international corporations. Consequently, it is very necessary to conduct an extensive study and analysis of the political climate in each country where corporate operations are conducted.

The commercial activities of Spotify may be impacted by various industry-related government policies in different nations and areas.

Meanwhile, political unrest between nations could harm Spotify because it is a music streaming service with a global audience. For instance, Spotify lost some consumers when it had to halt operations in Russia due to the tension between the two nations.

2.1.2 Economic Factors

Economic environment is the social and economic condition of enterprise survival and development and the economic policy of the country.

To succeed in the economy, businesses require favorable economic conditions. Therefore, economic variables have a direct impact on how a firm operates.

Spotify needs the availability of market-based financial tools that simplify the payment procedure. To get a premium account, for instance, users must pay Spotify through online banking or other methods. Suppose that a third-world nation had not created such a trading financial instrument. If that were the case, Spotify would not be able to cater to customers in that society.

2.1.3 Social Factors

Sociocultural elements now play a significant role in marketing and corporate operations. Businesses that operate in worldwide marketplaces and across numerous ethnicities and cultures should pay particular attention to these considerations. In terms of their business strategy, operations, and marketing, businesses must take these

variables into account.

- Digital consumption preference

Consumers can now access digital media material anytime, anyplace thanks to faster Internet access. Compared to traditional media like television, print media, and radio, consumers are turning to preferring to consume digital media. Digital media is being used more frequently than conventional media by people.

Modern digital music users have made it their regular ritual to purchase and utilize digital music products because they are more convenient than vinyl albums and allow them to search their favorite songs for free from the vast song libraries of digital music service platforms. As a result, Spotify has a sizable and expanding customer base.

- Moral and cultural values

The enduring importance of moral and cultural values in society is another social aspect that Spotify, as a global corporation, needs to be careful of. The values of various societies differ. Music is considered taboo in many societies because it contradicts the religious and social values of many societies. Thus, before entering a market, Spotify must take that society's cultural and moral standards into account, failing which it risked being banned and losing customers.

2.1.4 Technological Factors

Technology is becoming a key factor in business growth across all sectors. The business has undergone some significant changes as a result of technology advancements, both in traditional settings and online platforms like Spotify.

- Big data

In its primary definition though, Big data is defined as data sets that are too massive or complicated to be handled by conventional data-processing application software. Greater statistical power is offered by data with more fields (rows), yet data with more characteristics (or columns) may have a higher false discovery rate (Breur and Tom, 2016).

The term "big data" is now frequently used to describe the use of advanced data analytics techniques to extract value from huge data, rather than a specific amount of data set. Examples of these techniques include predictive analytics, user behavior analytics, and others.

With the use of big data analytics, Spotify can build a profile of each consumer and better understand their tastes and behaviors in order to tailor its services to each one of them.

- Artificial intelligence (AI)

AI has gained a lot of attention recently and is now in its early stages of development and use. Future applications for it have enormous potential, and an intelligent age is upon us. Former MIT professor of AI and computer science Patrick Winston defined AI as “algorithms enabled by constraints, exposed by representations that support models targeted at loops that tie thinking, perception and action together.” (Schroer,2022) According to CB Insights (2022), 2021 witnessed a record-breaking year for AI private market activity, with global funding rising 108% from the previous

year.

You may view playlists picked and made by AI on Spotify. For instance, Discover Weekly reached 40 million readers in its first year. Individual users receive a personalized list of 30 tracks every Monday. The user's search history patterns and underlying musical preferences were used to create the suggested playlist, which includes songs the user may have never heard before.

2.2 Industry Analysis

An industry and an enterprise have a connection that resembles a point-and-point interaction. The scale and pattern of an industry's development influence an enterprise's development space. The traits and regulations of an industry must be adhered to for a company to function properly, making the industry environment the most immediate and crucial external environment for an enterprise. This chapter examines the external industrial environment and competitiveness of Spotify using Porter's Five Forces model, which is based on an analysis of the streaming music market.

2.2.1 The music streaming industry

Music carrier media has experienced the evolution process of vinyl record, music tape, music disc and digital player. Steve Jobs introduced the Apple music player "iTunes" in the period of the digital player, which fixed the issue of digital music payment and brought about a significant revolution in the recorded music business. Jobs received the 2012 Grammy Award for Special Achievement in Music in recognition of his unique contribution to the music business. By 2013, on-demand music streaming

had started to displace online music retailers as the primary way to make money off of digital music (Unterberger, 2019).

A form of digital music known as streaming, which includes ad-supported on-demand streaming, subscription services, and digital customized radio, is provided in a sequential manner as opposed to other digital music saved in digital formats. The global music industry has experienced a rebirth as a result of its recent tremendous growth.

According to the IFPI's *GLOBAL MUSIC REPORT 2022*, Revenues from recorded music increased to US\$25.9 billion in 2021, up 18.5% from 2020 and the highest levels since the turn of the millennium.

Streaming increased significantly in 2021 (Götting, 2022), rising by 24.3% to US\$16.9 billion (an increase of five percentage points above the 19.1% growth rate from the previous year). Overall, streaming represented 65.0% of all recorded music sales worldwide and was the dominant revenue format in almost all markets.

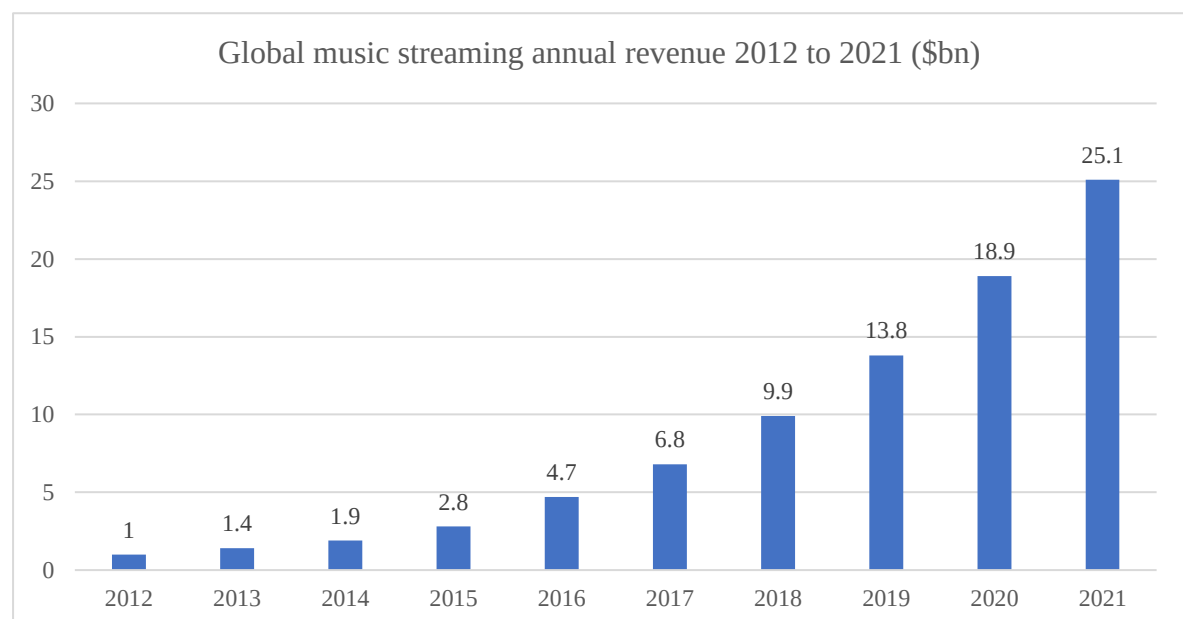


Chart 1 Global music streaming annual revenue 2012 to 2021 (\$bn)

2.2.2 Porter's Five Forces model

Michael Porter, a professor at the Harvard Business School, developed the five forces paradigm, which was initially published in the Harvard Business Review in 1979. Based on the idea that an organizational strategy should deal with opportunities and dangers in the organization's external environment, Porter's five forces framework was developed. Every competitive strategy should be built on an understanding of industry structures and how they change. According to Porter, a strategist's objective is to recognize and control a competitive environment by closely scrutinizing rivals or by taking a wider view that competes with the firm (Porter, 1979).

The five forces framework is an influential and straightforward tool for the identification of certain powers in line with a particular business situation by using the outside-in perspective (Johnson and Whittington, 2008).

According to Porter (2008), to avoid a market ambush from unanticipated market entrants and substitute products that can threaten your position and share in the competitive market, an organization must strategically respond to competition and constantly monitor direct competitors, indirect competitors, or potential competitors. Other market forces that can be detrimental to a business include rivalry between customers and competitors, suppliers who may reduce your profits by raising the price of raw materials and other inputs, aspiring or new competitors who may have superior skills and are eager to enter the market, and substitute offerings that may abruptly tempt your customers away from your goods and services. The growth in earnings of an

established company is frequently capped or limited by new entrants, who need be watched over and managed.

- **Rivalry Among Existing Competitors**

The music streaming market is highly competitive because different companies provide clients with identical services and costs. Clients also have minimal switching costs, which increases industry competitiveness because it makes it simple for customers to switch services. The main rivals are attempting to differentiate themselves in terms of ease and listening quality. In an effort to attract new customers, several music streaming services provide add-on items like smart home gadgets that function in unison with their service.

The music streaming industry contains numerous large, global companies that represent the majority of market share; however, several companies operate in specific geographic or specialty areas. About a third of all music streaming users globally use Spotify, with Apple Music coming in second. Tencent and Netease are the two most important platforms in China.

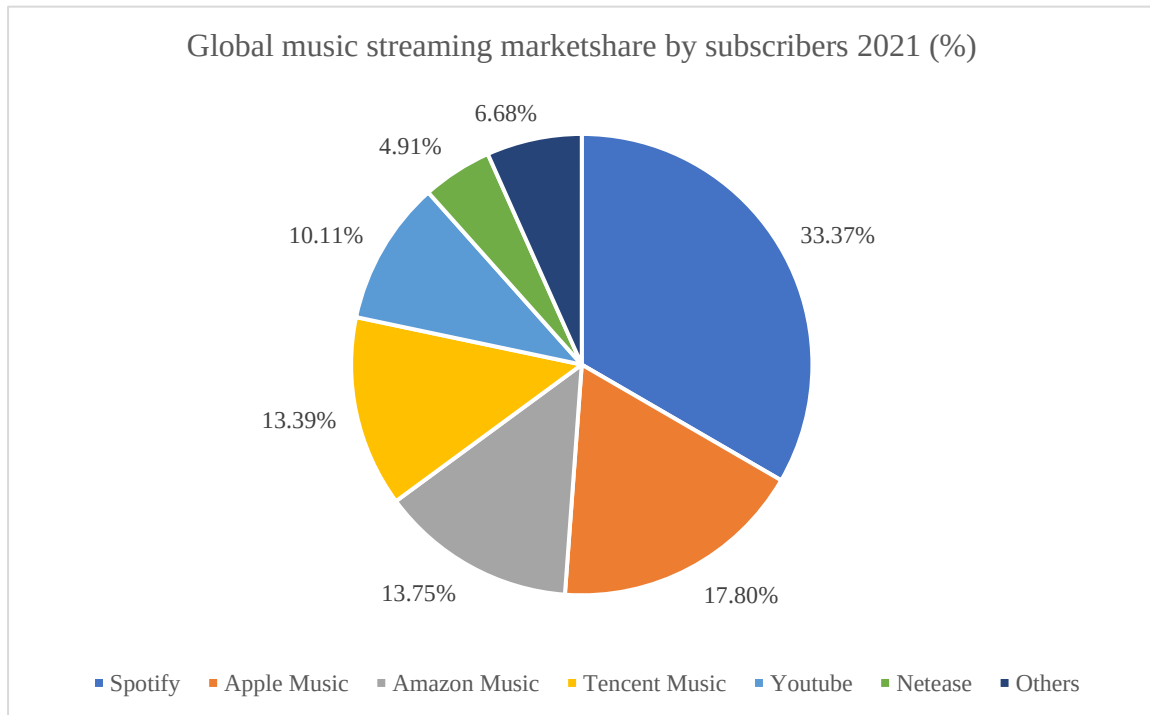


Chart 2 Global music streaming marketshare by subscribers 2021 (%) (Business of apps, 2022)

· Threat of New Entrants

The threat of new entrants into music streaming industry is low, because the market is nearly saturated, there is intense competition, and it is exceedingly expensive for new businesses to establish a music library. As a result, new competitors like Amazon may require considerable funding to enter the market.

However, there are also a few tiny digital music service platforms that are joining the market competition with a differentiation strategy due to the growing demand for individualized services from users of digital music.

· Threat of Substitutes

The threat of substitutes in the music streaming industry is quite low. In fact, the music streaming service was developed to satisfy consumer needs for quick access to

enormous music archives as a replacement for albums and CDS. Solo albums, CDS/albums, and radio are alternatives to streaming music, but they are pricey, inconvenient, and do not draw large audiences. Piracy is a potential substitute for music streaming, although it is less popular now that it is so simple and affordable to do so.

- Bargaining Power of Suppliers

This refers to the bargaining power of suppliers which is their ability to exert pressure and influence competitors to increase their prices leading to their profitability and other benefits at the expense to the supplier's profitability and even competitiveness (Larry, M, et al, 2014).

The owner of the music rights, which could be a record label or an artist, is a supplier of music streaming services. Paying copyright holders for the right to stream songs is the biggest expense for audio streaming providers. The three big record labels SONY, Universal Music Group, and Warner Music Group jointly control two thirds of the streaming music rights (Pastukhov, 2022).

The record corporations' enormous size provides them significant negotiating power as music suppliers. However, the level of suppliers' bargaining strength is deteriorating due to the industry's ongoing, rapid rise in customer numbers. This is due to the fact that music streaming services have supplanted other forms of music distribution for record labels and artists, and their refusal to allow their music to be played on a platform instead influences how their own music is distributed rather than the platform itself.

Spotify has marketed itself as the music streaming choice to support musicians in the market ever since its debut in 2008. 70% of Spotify's monthly earnings is distributed to labels and performers. Artists and rights holders are happy to make their songs available to Spotify since Spotify pays these fees. With the ability to make their own playlists and conduct direct sales to fans, artists may sell their goods through Spotify, creating a direct connection between them and listeners.

- The Bargaining Power of Buyers

Bargaining power of buyers refers to the ability of buyers to exert pressure or influence corporations in an industry leading to their profit reductions, better quality and better services at the expense of the corporations (Larry, M, et al, 2014).

The bargaining power of buyers in the music streaming market is moderate. Low switching costs give buyers more negotiating leverage. Customers can easily cancel their subscription and switch to another service because music streaming is based on a monthly subscription basis. Customers can easily switch to a better service provider by leaving their existing one because there is no differentiation in the music streaming market. As a result, the competition between the big platforms is mostly focused on consumer subscriptions. A tiny number of client conversions won't matter much, though, given the volume of customers.

3. SWOT Analysis

SWOT analysis, also known as a SWOT matrix, is a strategic planning and strategic management tool that can be used to help a person or organization discover

the Strengths, Weaknesses, Opportunities, and Threats (SWOT) that are relevant to project planning or company competition. This method can be used to assess the strategic position of a variety of companies and is intended for use in the early phases of decision-making processes (Silva and Nunes, 2005).

Strengths and weaknesses are usually considered internal, while opportunities and threats are usually considered external (Minsky, et al., 2021). The essential foundation for the company's strategic choice can be provided by evaluating the SWOT analysis in relation to each aspect (Kajanus, 2012).

The SWOT analysis of Spotify is presented below:

Strengths	Weaknesses
A strong brand name; Huge user base; Personalized service; Dependable technical team	Lack of uniqueness; Limited sources of income; Licensing deals with music rights holders
Opportunities	Threats
Growing digital music industry; Expanding into video streaming; The fan effect; Advancements in AI technology	Artist disputes; Fierce competition in the industry; Privacy awareness of users

Chart 3 The SWOT analysis of Spotify

4. Hyper-personalization strategy on Spotify

4.1 Personalization: Spotify's core competency

Spotify, the most popular on-demand music service today, prides itself on its core strength of gathering user data and using AI algorithms to produce customized playlists that offer consumers a satisfying listening experience throughout the customer journey.

4.1.1 User guide

After signing up for an account on Spotify, a new user is prompted to choose their favorite musicians. It's a fun process to log in. If you don't see any artists you like, use the search box at the top of the page to look for one. After choosing a favorite artist, Spotify's customized playlist and the homepage appear.

Users instantly interact with Spotify in the first experience and contribute to the creation of their own playlists. Personalization of the login procedure can both swiftly win over users' goodwill and act as the initial stage of that customer's data acquisition.

4.1.2 Discover Weekly

Discover Weekly, a feature introduced in 2015, delivers users to receive personalized playlists based on their streaming history, listening patterns, and favorite artists from all of Spotify's active monthly users. Spotify's discovery and recommendation AI engine creates these curated lists, which enable users to discover new music and artists even when they aren't sure what they want to listen to at the time. As a result, Discover Weekly listeners spend twice as much time on the platform as non-listeners (Spotify, 2020).

Discover Weekly is well-liked because it caters to each listener's distinct musical preferences. Users now have a more engaged experience since they feel that Spotify is aware of their preferences.

4.1.3 the Release Radar

Spotify's Release Radar is a weekly-updated algorithmic playlist that exclusively features songs that have been released in the previous 28 days.

The goal of Release Radar is to provide users with a weekly overview of new song releases. Every Spotify account has an own Release Radar that is customized to the artists users follow and their listening preferences. The official description of Release Radar from Spotify is “Catch all the latest music from artists you follow, plus new singles picked for you. Updates every Friday”.

By releasing new tracks on a regular basis that match users' tastes, Spotify intends to give customers a more customized experience that will make them more reliant and devoted to the service.

4.1.4 Wrapped

Wrapped is a viral marketing campaign by Spotify. Since 2016, the campaign has been released in early December each year and invites both Spotify users and platform producers to contribute a collection of data concerning platform trends as well as their activities over the previous year on social media.

The five artists and songs that Spotify users listen to the most are included in Wrapped. In 2020, it included a quizzes and three custom playlists. A hashtag challenge

on TikTok and personalized filters for Snapchat and Instagram were among the social media features that Spotify developed in the meanwhile to support the campaign.

In 2021, Spotify Wrapped included a variety of internet slang terms and made references to skin care routines and non-fungible tokens from popular culture, which led to jokes and memes that parodied the language used in the marketing campaign (Cherelus, 2021).

Clearly, personalisation permeates every aspect of Spotify's feature set. Spotify is able to provide customers a customized listening experience through suggestions and custom playlists by gathering data from users and employing machine learning and artificial intelligence algorithms to promote music to users. In addition to providing customers with a wonderful product experience, the personalized service gives Spotify a competitive edge in the music streaming sector.

Spotify uses artificial intelligence, machine learning, and proprietary algorithms to power its robust personalization service. Since almost ten years ago, Spotify has been acquiring AI-related businesses including Tunigo, Echo Nest, Seed Scientific, Sonalytic, and Niland in order to improve its personalized services (Kaput, 2022).

In addition, Spotify uses non-disclosure agreements, trade secrets, and intellectual property laws to safeguard many of the technologies and methods used to create its playlists, putting obstacles in the way of rivals.

Meanwhile, Spotify might strengthen its position in the music streaming industry by producing original material utilizing information about users' listening preferences.

This approach is comparable to Netflix's, which chooses what kind of original material to produce based on viewership data (Markman, 2019)

For Spotify, original content will develop into a valuable and distinctive resource that will boost its competitiveness in the music streaming industry and lower its high copyright costs.

4.2 Hyper-personalization strategy

Hyper-personalization is a step further.

This new iteration of personalisation is a component of what the digital age refers to as "hyper-relevance." (Accenture, 2018) by utilizing big data, AI machine learning, and predictive analytics to comprehend the unique behavior of the audience and personalize interactions. Since the information offered is tailored to and most pertinent to the client's specific needs, personalized products and interactions can improve the customer experience and further impact the customer's decision-making process. Additionally, choosing their favorite products and brands is made simpler for clients thanks to this customized information. Customer loyalty is fueled by convenience, customer comprehension, and emotional engagement, which also boosts organizational profits.

The hyper-personalized strategy will have a wide impact on different areas of the organization, which is specifically manifested in:

4.2.1 Enhancing the Value proposition

Value proposition is the term used to describe the features of the goods and

services offered by the platform, which are mostly represented in customized delivery, a variety of content, and intelligent management. By involving itself in the production process to produce original content, enhance the presentation of music products, and satisfy users' varied content needs, Spotify personalizes distribution while lowering users' search and learning costs. It also uses artificial intelligence and cloud computing technology to achieve intelligent service management. The greater the utility of a product's features, the more frequently users engage in continuous listening. For users to engage in active listening, Spotify must offer features that are very valuable.

4.2.2 Successful User Retention

User retention is the process through which a business keeps up long-standing client connections and encourages customers to buy goods or services frequently.

The major types of relationships between music consumers and music streaming media platforms are paid member relationships and free service relationships. Spotify keeps ties by providing its customers with unique music content and services, including a premium membership option as well as an ad-free option.

Big data is used by Spotify to track user activity, including searches, plays, downloads, shares, comments, and favorites. This information is used to create user profiles and music preferences, which are then used in conjunction with data analysis and AI algorithms to deliver tailored music to users according to their individual preferences. Spotify can improve user engagement, uphold user relationships, assist users in forming listening habits, and further entice consumers to listen to music with

hyper-personalized services.

4.2.3 Maximizing revenue

Spotify has a revenue model that combines advertising and subscriptions, and its primary cost source is music rights, but it has consistently experienced net losses. One way Spotify may change its pricing structure is by creating AI-assisted or completely AI-generated songs and albums, which would lessen its reliance on upstream record companies. On the other side, Spotify may create more practical features and distinctive content for the subscription service, luring active free users to upgrade to premium subscribers and thereby boosting revenue.

5. Conclusion

Companies need to provide clients a hyper-personalized consuming journey in this era of fierce competition if they want to stand out and leave customers with a lasting impression. Research has shown that 80% of customers are more inclined to make a purchase from a business that provides individualized experiences (Epsilon, 2018). Data, analytics, and artificial intelligence are crucial tools for creating highly personalized strategies that will enable brands to establish a stronger connection with their target audience and stand out in the competitive market.

Although Spotify already offers good personalisation, it has to go much farther and provide departments access to hyper-personalization in the future.

6. Recommendations

6.1 Take advantage of user data

The four components of a hyper-personalization plan are data, decision, design, and distribution (Jain, et al., 2021) All of these factors are significant, but user data serves as the foundation for the policy because hyper-personalization depends on user feedback to deliver the desired experience. Create a client database using the customer information gathered from the use of the product in order to give customers a highly customized experience. As a result, Spotify may make further investments in analytics and AI technology and delve further into its vast customer data repository.

6.2 Use big data and AI for scene marketing

Scene marketing is a marketing activity carried out in a certain scene. Scene has been become the central component of communication thanks to big data and AI technologies, and scene marketing has gained popularity as a marketing strategy. Meeting users' unique demands in particular scenarios is the core of scene marketing. Spotify can improve the use of core technology to provide users customized playlists that are tailored to the setting based on consumer data. For instance, it may play soft piano music for library patrons.

Using social networking

In the mobile Internet age, users have their own unique social cultures. They no longer exist in a vacuum; instead, they are all interconnected through the Internet and exist in relationships with one another. The Six Degrees of Separation is compelling

evidence that the Internet is increasingly like a social network (Sermahaj, 2020). Businesses that use social networks for communication can reduce expenses, reach more users, and see user growth thanks to material with strong communicative potential. Customers' tastes can be taken into account while creating messages for Spotify, which can subsequently be broadcast through Facebook, Instagram, Tik Tok, and other social networks. On the other hand, Spotify may proactively suggest playlists to users based on algorithms, help people find good music through the chain of social relationships, and encourage music consumption.

Use AI to revamp the call center

The use of AI to revamp the call centers is widely trendy. The virtual assistant may interpret consumers' spoken or written comments using sentiment analysis to determine their needs. They can then suggest solutions to assist the agent in making the best decisions using human abilities, such as the capacity to detect and react to consumer emotions (Forbes, 2020). This can significantly cut down on chat time and give customers a more satisfying, tailored experience. Thus, Spotify can utilize AI in its call centers to rise client satisfaction while cutting expenses.

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Appendix

Founded in 2006 in Sweden by Daniel Ek and Martin Lorentzon, Spotify is a music streaming service that gives users access to a database of more than 70 million songs and 2 million podcasts. Spotify has the following mission statement: “Our mission is to unlock the potential of human creativity – by giving a million creative artists the opportunity to live off their art and billions of fans the opportunity to enjoy and be inspired by it” (Company Info, 2021: para 1).

The ability for users to make personalized playlists that can be played over any internet connection is the foundational feature provided by Spotify. The two distinct product lines offered by Spotify are Spotify and Spotify Premium. Members of Spotify Premium pay a monthly membership fee in exchange for access to their playlists across various devices while also enjoying all the benefits of music ownership for just \$120 a year.

By offering its customers customized playlists and music recommendations, the company aims to stand apart from the competition. With 456 million users in more than 180 territories worldwide, including 195 million customers, Spotify has risen above the competition by providing listeners with tailored playlists and music recommendations. In 2021, Spotify has a commanding lead (33.37%) over the rest of the world's music users.