

Daniel Wilbor
Tileyard Admissions
16 February 2022

“Good culture fixes bad
products and processes” - Spotify

**Review and Critical analysis of Spotify’s business
strategies, challenges and revenue mechanisms.**

“Emotional intelligence is a factor that determines how [Spotify] successfully employs its human resources to achieve strategic objectives for the innovation-driven expansion”

- Moore, 2001: Spotify's Organisational Culture and Strategic Considerations.

Spotify Technology S.A. (Spotify) has established itself as the music streaming platform market leader allowing the firm to apply cost-leadership generic competitive strategy which as described by *Porters Generic Strategies and firm performance* as a 'Low-cost strategy' to achieve network effects and it appears that, 'Agile' organisation and culture-led innovation should allow the Swedish giant to retain their competitive advantage for the foreseeable future.

Spotify Corporate Vision Statement: -

“a cultural platform where professional creators can break free of their medium's constraints and where everyone can enjoy an immersive artistic experience that enables us to empathise with each other and to feel part of a greater whole.”

The statement focusses on the human element at all stages of Spotify's value chain from professional creators (artists) to everyone else (users, the internal team and stakeholders, and those indirectly affected by the role the firm plays in the wider community.

Part 1: Business strategies

Organisational Strategy

In March 2014, Spotify published a Video by Henrik Kniberg titled *Spotify Engineering Culture*. In the video Kniberg shows how Spotify adapted its organisational structure from the early days of working around the widely used 'Scrum' model to a model Spotify dubbed 'Agile' prioritising principles over practices and working with multiple autonomous *squads* responsible for end-to-end processes, releasing products (features) often, failing fast and learning from mistakes.

“we've learned that Trust is more important than Control.” Kniberg 2014

Spotify's internal opensource model is strategically designed to enhance motivation, and the sense community, the company - valuing employee satisfaction and trust over structure and control comprises over 70 loosely coupled, tightly aligned, cross functional, self-organising Squads (6-8 employees) spread over 4 cities, in turn squads with similar or shared goals are grouped in tribes.

Definitions of Awesome = Each squad's Vision of an ideal scenario, actions are then taken regularly to move in steps towards the Ideal scenario - continuous improvement (in some cases squads may eventually far surpass their original *definition of awesome*)

Autonomy is key for building motivation; autonomy decides how squads work as well as what to work on next

Kniberg admits that although the organisational model can be shown as a neat matrix the reality is messier and more informal, however, the experiment-friendly, fail friendly environment with squads releasing often (giving and inherently short feedback loop to learn from mistakes) creates an effective framework for *continuous releasing & continuous improvement*.

Production strategy

Adding structure to their policy of continuous releasing Spotify apply a 'Release Trains' system with 'Feature toggles'

Release trains refers to regular, frequent releases where each squad work to meet expected short term deadlines to release products, while feature toggles allow squads to release features that may not be 100% completed onto the platform in order that the team can benefit and learn from the how the part completed feature interacts with the rest of the interface but the feature is not enabled for public use until fully tested and complete, furthermore product/feature releases are rolled out gradually starting with a small percentage of users until proven to be stable and then gradually roll out to the rest of the users:-

Decoupled Architecture

A key goal of Spotify's strategy is to make releasing easy. As an online platform any updates or new features must be incorporated into the existing code. This presents the challenge that with multiple squads releasing new features to the user interface constantly the system would be hampered by this continual inputting and rewriting of code from different squads, to combat this the firm made significant investment to completely redesign the interface to work in a modular fashion so that each squad is building for different elements of the interface that can be worked on independently without effecting the overall performance of the platform and user experience.

"By the time a product or feature is fully rolled out we already know it's a success because if it isn't we don't roll it out." – Kniberg

Other methods and principles employed in Spotify's production strategy include:-

Producing Minimum Viable Products (MVP's) – extensive use of prototypes to fully test ideas at the minimum cost before production decisions are made.

Valuing Delivery > Plan fulfilment – this allows for innovation rather than working to set briefs to meet expectations.

Fostering an experiment-friendly culture – allowing new ideas to be found, explored, tested and either implemented or dropped quickly to avoid waste, part of this is known as 'Hack time' (10% of employees time regular work time is allocated for 'playing around' with new ideas), also the firm conducts occasional company-wide hack weeks that encourage allow for experimentation and innovation and playing around with new ideas and learning from them.

Revenue Mechanisms

Freemium Business Model (a two tier approach)

Spotify's streaming service is available in two tiers:

Advertising Revenue Model - the Ad-supported free tier (the free service allows access to music and playlists with intermittent advertising segments that generate revenue for the company)

Unlimited Subscription Model - users gain full access to the platforms services for a small monthly fee.

Key Takeaways

As the market leader Spotify enjoys the ability to employ a cost-leadership generic competitive strategy gaining network effect through a two tiered 'Freemium' revenue mechanism comprising ad generated and unlimited subscription business models.

The culture-led internal opensource Agile structure has allowed Spotify to build innovation into it's fabric, allowing for continuous release and improvement

Spotify work's towards achieving its vision by valuing the autonomy of its stakeholders and viewing itself as part of a global community it aim's to enhance through facilitating collaboration and communication. As without so within.

Scaling Agile?

Most of the challenges to Spotify's continued commercial success and market dominance are mostly related to growth pain and scalability.

Balancing the high level of autonomy with a high level of alignment with the overall company direction and objectives demands high levels of communication between all team members to ensure individual squads are all working towards the big picture in a cohesive effort rather than 70 different start-ups moving in different directions.

Trust over control

Leaders must balancing chaos with Minimal viable bureaucracy and the firm supports 'servant leadership' asking questions like '*what do you need?*', rather than giving orders like '*you should do this*'.

"The winner in a very competitive industry like this is **The Fastest Learner**"

- Kniberg, 2014

References

Kniberg, H. (2014, 27 March). *Spotify Engineering Culture (part 1)*.

<https://engineering.atspotify.com/2014/03/spotify-engineering-culture-part-1/>

Kniberg, H. (2014, 27 March). *Spotify Engineering Culture (part 2)*

<https://engineering.atspotify.com/2014/03/spotify-engineering-culture-part-2/>

Moore, A. (2021, 7 July). *Spotify's Organisational Culture & Strategic Considerations*. Rancord

<https://www.rancord.org/spotify-organizational-culture-strategic-cultural-characteristics>

Garcia, P. (2019 12 April) *Spotify's Corporate Mission & Vision Statement*. Rancord

<https://www.rancord.org/spotify-corporate-vision-mission-statements>

Kniberg, H. (2015 31 March) *Scaling Agile*. Scrum Australia, Youtube

<https://www.youtube.com/watch?v=jyZEikKWhAU>