

A Market Analysis for
Spotify

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EXECUTIVE SUMMARY

Spotify is a music streaming service that allows its subscribers to listen to everything its vast catalog of music for one low monthly price. The company is originally Swedish, founded in 2006 in Stockholm was founded by Daniel Ek (owns 18.2% of Spotify shares) and Martin Lorentzon (owns 11.8% of Spotify shares). (Parsons, 2018) The problem facing Spotify that will be discussed in this analysis is artist payout and artist's relationships with the company.

The research gathered for this analysis was conducted over the course of approximately a week and utilized mainly external information. All information was published within the past five years and was conducted by using both basic and specialized search engines.

The main key findings from the research are firstly, that artists have the power to persuade their fans to one, stop streaming their music on Spotify and two, asking them to cancel their subscriptions entirely which can be seen in situations like Anita Baker's. Second, if more of the protests like the ones created and promoted by the Union of Musicians and Allied Workers are seen and backed by major artists Spotify could again, see huge numbers of unsubscriptions and drastically lower use and engagement by those who do stay subscribed. Finally, is that consumers want to not only spend responsibly but also be confident that the creators of what they consume are rightfully compensated.

With that, it can be concluded that, Spotify's artists payout and controversy surrounding it could result in Spotify losing customers and revenue due to intense fan loyalty to artists coupled with those artist's calls to stop streaming their music on Spotify or supporting the streaming service entirely. The same result could also occur due to the rising

number of protests and outspoken creators against Spotify could ignite a larger scale protest or boycott of Spotify by artist *and* users or because Spotify users are inclined to unsubscribe simply to make more ethical spending choices, or stand in solidarity with the protesting artists.

Recommendations for Spotify that would serve as preventive measures are for Spotify to conduct extensive research on the artist payout systems of leading competitors and for Spotify to implement an ethical code used when creating and maintaining partnerships, licensing and agreements.

OBJECTIVE

The problem facing Spotify that will be discussed in this analysis is artist payout and artist's relationships with the company. Though at first hand glance this may seem an unnecessary conversation for Spotify, this is an ethical dilemma that can have detrimental effects to the company and demand for it.

The music industry is a rapidly changing one and recently there's been a large shift to independence for artists.

It's widely known that many musicians have qualms with labels and this attitude is also being adopted towards streaming, especially the leading service, Spotify. Many artists feel cheated, and Spotify's extensive licensing with labels puts an extra strain on this.

Finally, artists often interact with their fans through social media and are not afraid to post their issues and wishes for their entire base to see. The industry has recently seen many artists do this in relation to streaming in fact, directly asking their fans to stop streaming their music or cancelling subscriptions completely. Furthermore Spotify has seen bonafide protest from artists regarding revenues which could lead to them pulling their discographies from Spotify's catalog. If these actions were to happen en mass, it would hijack Spotify's operations from data collection to basic revenues. Therefore, it's important for Spotify to study the payout systems of competitors, and act in order to change its relationships to labels and artists into order to prevent this.

RESEARCH METHODOLOGY

The research used in this analysis is mostly external and has been published within the past five years. The information was gathered over the span of a week and was gathered using basic search engines like google as well as more exclusive platforms like Nexis Uni.

Finally, the only challenges that came up in the research process was that it's difficult to find specificities of Spotify's licensing agreements with labels.

RESEARCH AND KEY FINDINGS

Spotify is a music streaming service that allows its users to listen to its vast catalog of music for one low monthly price. The platform is the leading streaming service and provides not only music but podcasts, videos and lyrics on select songs. Spotify is originally a Swedish company, founded in 2006 in Stockholm was founded by Daniel Ek (owns 18.2% of Spotify shares) and Martin Lorentzon (owns 11.8% of Spotify shares). (Parsons, 2018) Currently the head office is now in London, but, "...much of its research and development remains in Stockholm." (Parsons, 2018, p. 9) Spotify's operational streaming service was launched later, in 2008.

As the company has the most users and popularity compared to its competitors, Spotify also has the potential to fall the hardest and see their market share shift to competitors. The way this is most likely to happen is through the issues caused by Spotify's notoriously low payout rates to artists/ musicians.

The first way Spotify's royalty rates for artists can detrimentally affect the company is by artists imploring their fans to one, stop streaming their music on Spotify and two, asking them to cancel their subscriptions entirely. Stan culture has shown how loyal artist fans are and with competitors price matching Spotify's services, the average consumer would have to also have extensive brand loyalty towards Spotify to choose the company over their favorite artist. An example of this is Anita Baker's plea with her fans to stop the Spotify streaming of her entire discography. This was an effort to rectify qualms she had with her label but her words and sentiments clearly showed a distaste for Spotify itself. She explains in a tweet, "...2020 Streaming rate \$0.003 - \$0.005 1/3rd - 1/2 A PENNY Per Stream, for Artist. minus... *fees *taxes *ect. ect. ect. They need to Leave me alone". (Baker, 2021) If Spotify saw a group of its largest artists do the same, this would be detrimental to its data collection efforts, revenues and overall marketshare.

Second, are musician led protests against Spotify. A group that has been organizing and promoting these events is the Union of Musicians and Allied Workers, a fairly newer Union with goals of tackling "...the inequality of corporate power in the streaming environment and seek to build solidarity with other workers engaged in this struggle." (Roberts, 2021, p. 11) This group has staged multiple protests which gained attention from press and spread awareness about Spotify's practices regarding artist payout. If more of these protests were seen and backed by major artists Spotify could again, see huge numbers of un-subscriptions and drastically lower use and engagement by those who do stay subscribed.

Consumers can corroborate the claims of these artists and groups mainly because Spotify remains the largest, most popular streaming service and still has the third lowest

pay rate compared to every other mainstream service.

This all boils down to ethics and consumers wanting to not only vote responsibly with their dollar but also be

confident that the creators of what they consume are rightfully compensated. A piece of evidence that can support this sentiment is a survey conducted by Victoria Hamersky. She worked with a focus group comprised of 46 individuals and asked them all the same questions

regarding their feeling about

Spotify. One

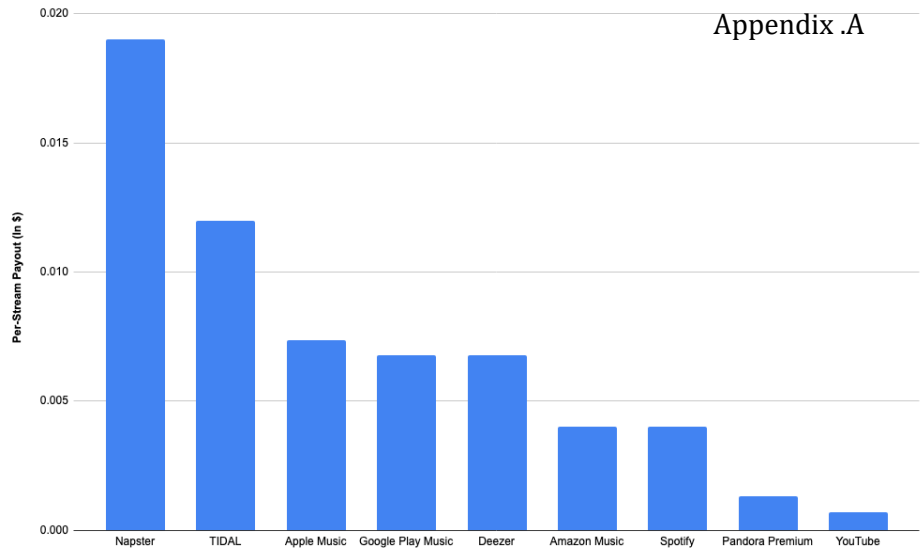
important

question that she

asked was, “Are

you aware of

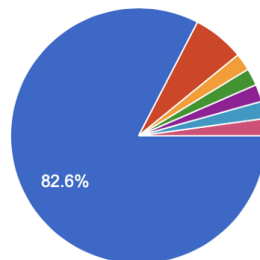
current pay out to artists under Spotify? Does it bother you that Spotify pays so little to artists?” The results can be seen in appendix .B.



Are you aware of the current pay out to artists on under Spotify? Does it bother you that Spotify pays so little to artists?

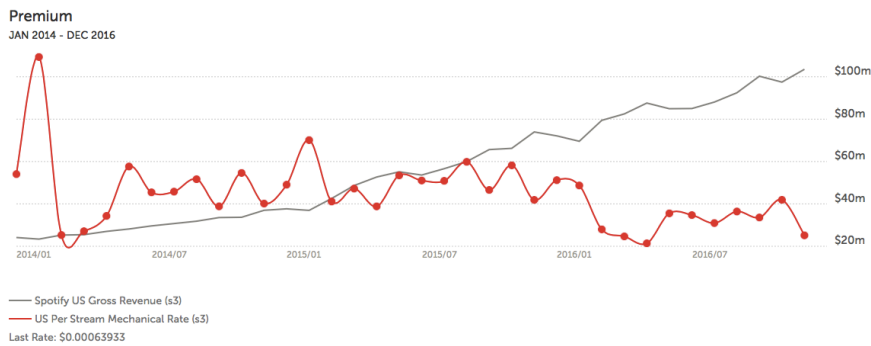
46 responses

Appendix .B



- Yes
- No
- Don't care
- better than no exposure at all
- I'm aware that spotify doesn't pay artists fairly, but it is the best streaming platfo...
- I know it's very low but not exactly and it does bother me
- No I don't know, but if it's low then yes it does bother me

Spotify knows it has a problem with how it's perceived by artists, that's why they launched the Loud and Clear website, which aims to give transparency about the economics of streaming and its own practices regarding royalties and payouts. Though it could be argued, this



initiative has done

little to nothing to

improve Spotify's

standing with artists

because Spotify's

payout rates have

Appendix .C

dropped over the years, and the company has refused to increase them upon being asked. Members of the perviously discussed organization Musicians and Allied Workers have explained that "...Spotify has failed to meet any of our demands. The company consistently deflects blame onto others for systems it has itself built..." (Smith, 2021, p. 5) They go on to state, " 'We asked for transparency, but this website' – meaning Loud and Clear – 'answers none of our questions about the sources of Spotify's income in addition to subscriptions and ads, payola schemes for playlist and algorithm prioritization, or the terms of their contracts with major labels.'" (Smith, 2021, p. 6)

CONCLUSIONS

It can be concluded that with intense fan loyalty to artists coupled with those artist's calls to stop streaming their music on Spotify or supporting the streaming service entirely could lead to Spotify seeing large amounts of subscribers leaving which would drastically affect the company in multiple different ways. For example, data collection, revenues and payout systems, and their overall market share in the streaming industry.

It can also be concluded that the rising number of protests and outspoken creators against Spotify could ignite a larger scale protest or boycott of Spotify by artist *and* users. Artists could be inclined to pull their discographies from the platform and begin using a different one, for example Spotify's leading competitor Apple Music (which matches Spotify's price) where their fans would follow. Users may also be inclined to unsubscribe simply to make more ethical spending choices, or stand in solidarity with the protesting artists because they believe in their message.

RECOMMENDATIONS

With all of the research, findings and conclusions in mind, the recommendations are as follows. The main pillar to making sure Spotify can practically and responsibly change its payout practices and better the relationship it has to artists in a cost effective way is by conducting extensive research on leading competitor's artist payout systems. This could help Spotify begin the process of showing artists and their supporters they are acting for real change. This research would ideally be conducted throughout a period of six months at which point it would be analyzed and implemented.

Finally, Anita Baker's call for action and public expression of her distaste for both Spotify and music labels shows that Spotify may need to review and reflect on their partnerships and agreements with record labels. It could be recommended that Spotify implements an ethical code when working with these companies to ensure that they are not unknowingly contributing to artist exploitation. This would entail Spotify and its board of directors having a very serious conversation on the values of the company. The code would set specific criteria chosen by the board of directors that labels must abide by in order to create and maintain partnerships, agreements, and licensing with Spotify. Ideally this implementation of ethical codes would be constantly being edited and changed in order to best serve the company, artists and consumers.

These efforts are all rooted in the goal of prevention. Spotify is currently on top of the game in their industry but artists and their supporters are not getting quieter about their qualms and creating solutions to issues before they reach their climax is the best way to deal with and learn from said issues.

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1/3rd - 1/2 A PENNY Per Stream, for Artist. minus... *fees *taxes *ect. ect. ect. They

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[masters/](https://www.essence.com/articles/anita-baker-masters/)

APPENDICES

Appendix .A: Graph on artist payout for different streaming services [photograph]. (December 25, 2018). <https://www.digitalmusicnews.com/2018/12/25/streaming-music-services-pay-2019/>

Appendix .B: Pie Chart on user sentiments [photograph]. (March 5, 2020). <https://medium.com/@vhamersky/why-spotify-is-the-best-streaming-platform-just-not-for-small-artists-77d6bf7f031c>

Appendix .C: Graph on Spotify Premium U.S. Revenues and Mechanical rates [photograph]. (May 16, 2017). <https://www.digitalmusicnews.com/2017/05/16/spotify-audiam-low-rates/>