# Digital Industry Sustainable Growth Plan:

# Spotify

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Spotify Risks & Sustainable Growth Plan

Founded in Germany in the year 2008, Spotify has become one of the most popular music streaming services. Although, as Fleischerv and Snickarsits (2017) mention, its "headquarters are still to be found in central Stockholm on Birger Jarlsgatan 61, the service [offered] is now available in some 60 countries, not to mention the digital variety of desktop and mobile versions" (see Appendix A geographic mapping). Spotify is a modest music streaming service, whereby a user can create their own playlists, listen to music offline and online, listen to other playlists geared to an individual's preference, or even upload their own songs. By doing this, "the online streaming [platform] of audiovisual material is on course to become the primary way by which consumers receive music, film, and television" (Camp, 2015). Spotify itself is creating a want for its consumers. Camp (2015) explains that the access Spotify gives individuals has enabled "this online streaming site [to have] more than fifty million users throughout the Americas, Europe, and Australasia" (see Appendix B for subscription information).

Today, one must carefully understand the nature in which Spotify does its business. Whether it is "how much money Spotify [is] making (or losing) and how can [we] measure its economic impact?...It was obvious that Spotify for several years foremost [has] offered a technological solution for record companies struggling with piracy" (Fleischerv & Snickars, 2017)**.** The products and services offered are geared towards music consumption. There are several risks affecting its day-to-day operations:

## Brand/Reputational Risk

A brand reputation refers to how a company is viewed by the public. It is one of the most uninsurable risks; the potential corporate loss, damages, and absolute destruction caused by reputational harm cannot be protected from with insurance policies, but must be respected and legally addressed. It is a threat that poses a danger to the company and can immediately and significantly destroy them. While branding is everything to a company, there are steps to carefully understand the scope at which they are operating in their market. There are seven types of potential reputation risk threats that need to be identified: "Accounting, Information Technology, Quality, Project, Customer Service, Executive Management and Operations" (Spacey, 2015). Using the example of Spotify, inadequate Executive Management, Operations, and Information Technology (IT) threats are the most impactful. A data breach, threat to privacy, like the exposure of billing details such as names, bank details, and credit card numbers is a threat to brand reputation. Also, if Spotify's executives and management responds to a data breach, or even sexual assault allegation, passively and not swiftly, this will also worsen the situation and completely tarnish its image. In such a case, its musicians and users (listeners) would start to boycott the streaming service.

**Financial - Market Risk**

Market risk arises from changes in the value of a financial instrument. It refers to losses that are associated with the international market and currency price decline in which a business offers its service. In terms of Spotify, they have geared their services to different consumers with universal pricing plans (Spotify, n.d.): free services with ads (CAD 0), students who pay a discounted fee (CAD 4.99), a plan for families (CAD 14.99), and premium streaming service for individuals (CAD 9.99). Carefully looking at its pricing and market, they are related, leading to potential currency price risk. When a business like Spotify offers services in multiple countries, they must carefully look at the price of their competitor to help them feed into the target market. If their price is too high, it would be a major risk within their company. Richter (2018) showcased Spotify's increasing losses from 2013 to 2017 (see Appendix C for bar chart).

**Financial - Price Risk**

Spotify's music industry licensing (music royalty) fees for its streaming services has increased more than 27% since 2016 (Peterson, 2018). This substantial difference is due to the increasing royalty fee request from all players in the music industry, which are the artists, record labels, publishers, and middlemen management. Therefore, the price of its streaming services paid for and sold to consumers becomes higher. Yet, Spotify's streaming pricing plans must stay relatively stable because pricing too low means a reduction in profits, but pricing too high will result in loss of consumers, shifting market share, and eventually causing a similar reduction in profit. Spotify's current strategy is to attract more paying subscribers through consistent advertising, instead of forcing all consumer to pay for a streaming subscription. However, its costs continue to grow at a faster rate than its revenue, inhibiting profit growth (Peterson, 2018; Richter, 2018). These additional costs are largely derived from music royalty payment, but also Spotify's exploration of TV & YouTube advertising, influencer marketing, and public relations. Both processes are contributing to the high costs. Not Streamlining marketing tactics to entice new streaming subscribers or pushing to make royalty payment more cost-efficient, is not allowing the company to surpass break-even .

**Strategic - Competition Risk**

According to the renowned academic, Michael Porter, there are five identified competitive forces that affect every industry, which are intra-industry rivalry, threat of new entrants, bargaining power of suppliers, bargaining power of customers, and threat of substitutes (Investopedia, n.d.). Spotify is experiencing intra-industry rivalry first-hand, which refers to the number of homogeneous competitors and their ability to threaten a company. Tidal is another famous new entrant, which is an artist-owned music streaming service, but is in a similar non-profitable boat as Spotify, and emerged during music artists' displease with received royalty payments; the hype around the company has considerably diminished (Plaugic, 2017). Owens (2018) accurately stated, "three of its biggest competitors (Apple, Amazon, and Google) are among the most valuable companies in the world and have much larger warchests [profit margins] that could be used to pay off the music labels". Spotify's suppliers, the music industry (artists, labels and publishers), bargaining power is high due to them being their lone music product provider, making them pay more $8 billion in music royalty (licensing) fees, since their inception, for the attainment of continuous customer streaming (Peterson, 2018; Owens, 2018; Brackett, 2018). Spotify's customers, largely young adult demographic, have bargaining power due to interest in freemium services and their easily fluctuating digital application interests that makes the company keep its pricing down. If Spotify does not tread carefully, the consumers may get frustrated by rapidly rising prices and opt to find use another branded streaming service provider that does not alter its sales characteristics, even when it means paying more for its services. Lastly, Spotify's substitutes, Apple Music, Amazon Music, and Google Play Music, are a constant reminder of the possibility of shifts in market share if it doesn't secure its competitive pricing and high-quality digital features (e.g. music playlists and sorting algorithms).

## Operational - People Risk

In the last two years, several articles have been created on potential intrapreneurship opportunities of Spotify. Yet, Spotify's executives refuse to acknowledge the need for progressive actions to stay ahead of its competitors and instead continues to rely on its current competitive advantage, freemium music streaming with integrated algorithms, believing it will stay constant (Medium, 2018; Brackett, 2018; Peterson, 2018). The lack of accurate market observation and missed intrapreneurship opportunities are uninsurable because if the music streaming company suddenly becomes undesired by their current music industry partners, competitive advantage needed to effortlessly fund original content creation is gone. Spotify should abide by intrapreneurship driven employee recruitments within executive and management roles, application of incentives encouraging positive risk taking (e.g. recognition and promotion), and succession planning entailing human resource interferral, placing timeline on the obtaining of profitability so that personal issues or differing ventures of long-time executives, will not affect the organization's productivity.

## Sustainable Growth Plan

A focus on increasing revenue generation through original content creation, specifically launching a record label and signing its own musical artists is ideal for Spotify (Owens, 2018; Brackett, 2018). Like Netflix, Spotify should realize that the streaming service market will become "crowded" and must distinguish itself before it is too late (Owens, 2018; Brackett).

However, unlike Netflix, Spotify should focus on the music industry not the film industry. “Netflix is now creating more content than all of Hollywood...so if Spotify can end up finding more artists than the whole of the music industry, that would be quite amazing,” (Chin, 2018). Spotify can use its consumer data and sorting algorithms to establish their consumers’ favourite music genres and sign musical artists based on those results (e.g. supporting the increasing interests in indie and alternative music). There several advantages to merging record label and music streaming characteristics: increasing streaming artists within the application, multiplying royalty fees to independent artist without payable middle management (e.g. other recording labels), and leveraging the new competitive advantage while negotiating with existing music industry partnerships (Owens, 2018; Brackett, 2018). Overall music streaming content will be less expensive for the company, even though music artists and labels will still get sensible royalty fees. Also, the introduction of original music streaming content will entice new subscribers. In fact, adding original content, can permit the transformation and production of more paid subscription-based audiovisual products.

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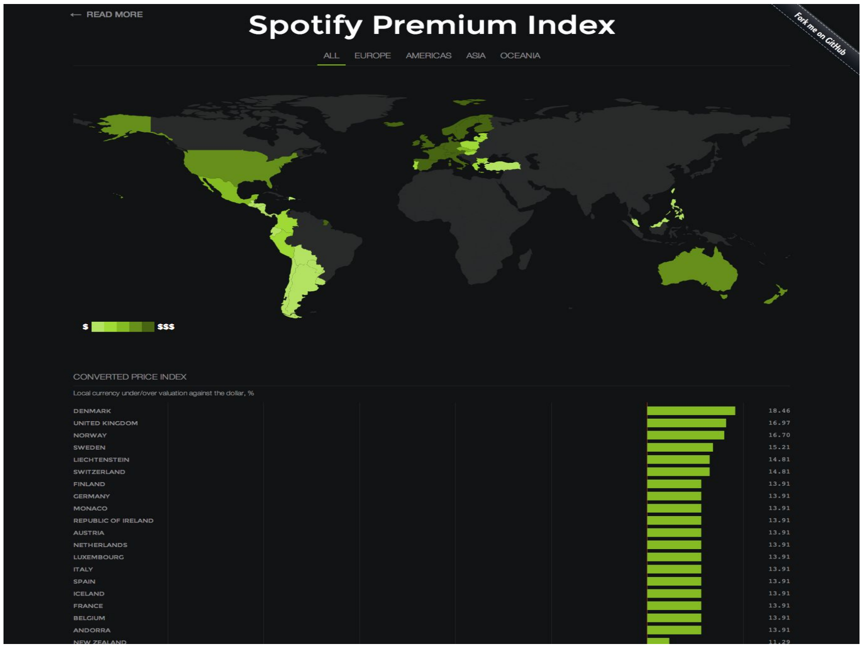
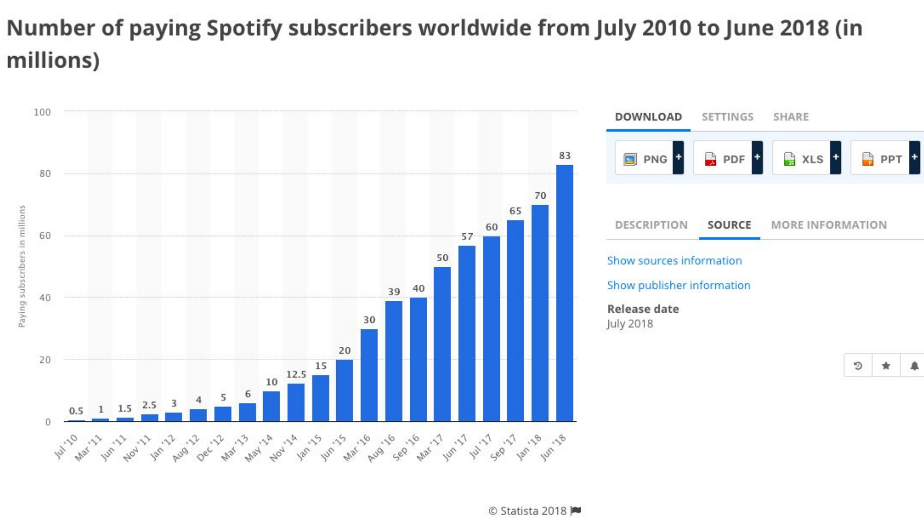
## Appendix A

Fleischerv and Snickarsits (2017) Spotify Geographic Mapping




## Appendix B

Camp (2015) Spotify Subscription Bar Chart



Appendix C

Richter (2018) Spotify's Statista Revenue vs Loss Chart