

Innovation for Entrepreneur

Innovation for Entrepreneur

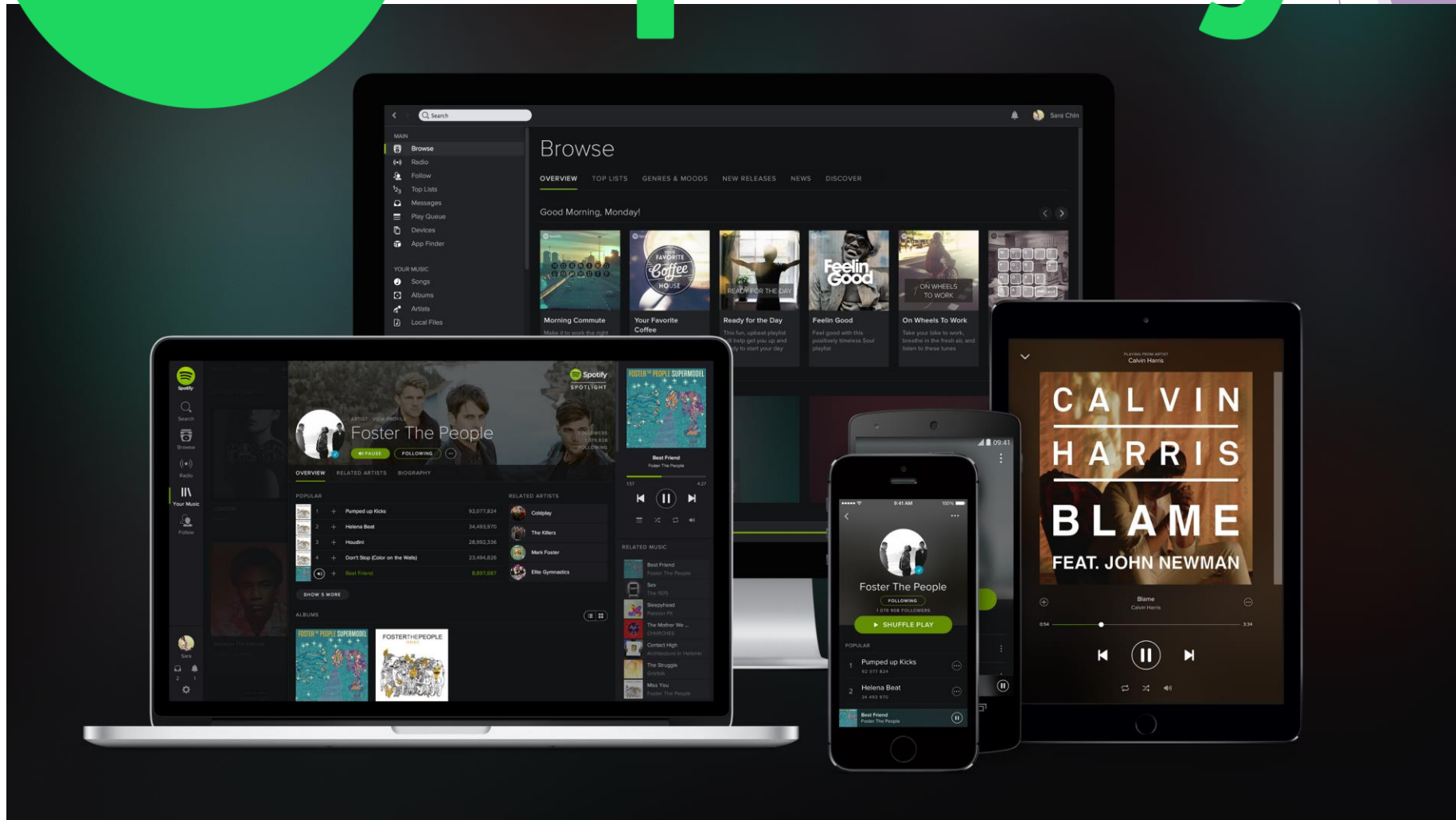
DIN147 (888147) 3(3-0-6)

Innovation Case Study

888147 - Innovation Entrepreneur



Spotify®



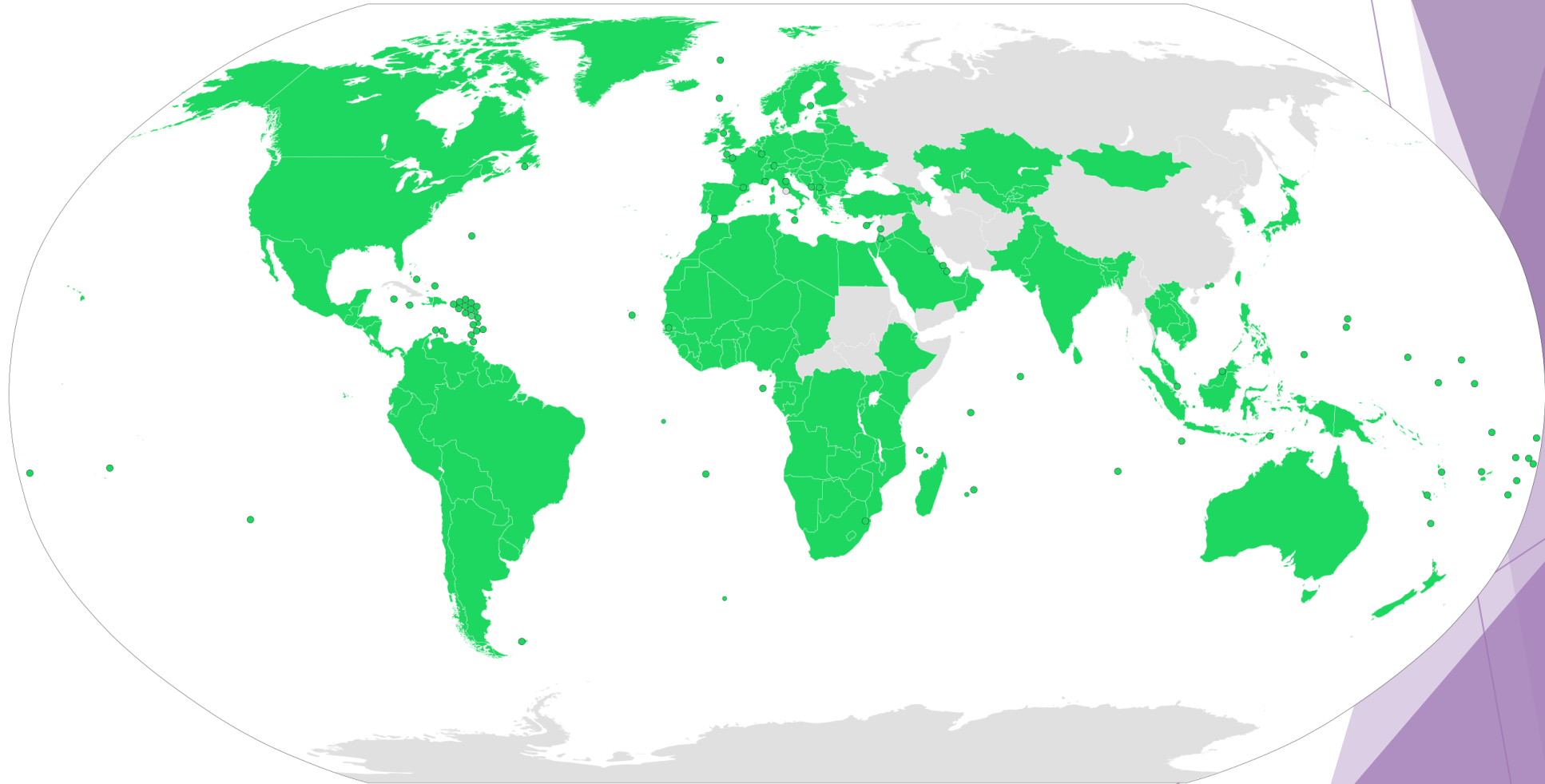
Spotify

- Spotify is the world's biggest music streaming platform by number of subscribers, with over 527 million monthly active users, including 210 million paying subscribers, as of March 2023
- Spotify offers digital copyright restricted recorded audio content, including more than 100 million songs and five million podcasts, from record labels, independent artists, and media companies

Spotify

- Users can search for music based on artist, album, or genre, and can create, edit, and share playlists
- 'Freemium' service (free and paid premium):
 - Basic features are free with advertisements and limited control
 - Additional features, such as offline listening and commercial-free listening, are offered via paid subscriptions

Spotify is available in most countries



Spotify

- Spotify is available in most of Europe, as well as Africa, the Americas, Asia, and Oceania, with a total availability in 184 markets.
- Its users and subscribers are based largely in the US and Europe, jointly accounting for around 53% of users and 67% of revenue
- It has no presence in mainland China where the market is dominated by QQ Music



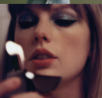







Spotify

- The service is available on most devices, including Windows, macOS, and Linux computers, iOS and Android smartphones and tablets, smart home devices, and digital media players











Spotify

- Unlike physical or download sales, which pay artists a fixed price per song or album sold, Spotify pays royalties based on the number of artist streams as a proportion of total songs streamed
- It distributes approximately 70% of its total revenue to rights holders (often record labels), who then pay artists based on individual agreements
- Spotify now accounts for more than 20% of global recorded music revenue (up from less than 15% in 2017)

Most streamed artist

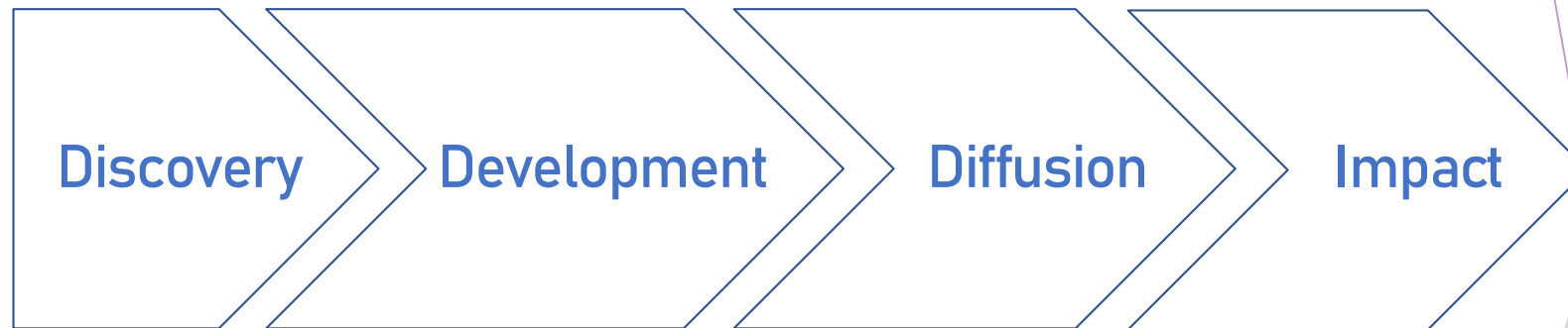
#	Artist	Lead Streams	Tracks	1b	100m	10m	1m	Feat Streams
1	 Drake 6 day(s) old data	58,965,341,533	283	7	156	276	280	21,353,247,058
2	 Bad Bunny 2 day(s) old data	55,040,681,945	163	10	127	159	162	8,409,552,136
3	 Taylor Swift Up to date data	48,394,963,744	362	3	145	291	351	513,642,482
4	 The Weeknd Up to date data	43,689,602,214	222	10	82	153	219	6,654,174,451
5	 Ed Sheeran 8 day(s) old data	42,736,796,879	271	11	69	191	247	3,225,707,314
6	 Justin Bieber 14 day(s) old data	36,417,121,764	227	9	63	176	197	11,588,042,184
7	 Eminem 6 day(s) old data	35,328,685,091	300	7	69	229	267	4,855,392,407
8	 Ariana Grande 6 day(s) old data	35,062,355,452	174	8	72	127	171	3,695,879,939
9	 BTS 4 day(s) old data	33,358,204,402	263	4	106	216	263	659,396,548
10	 Post Malone Up to date data	33,269,851,400	101	10	61	83	85	2,997,564,513

Most streamed song

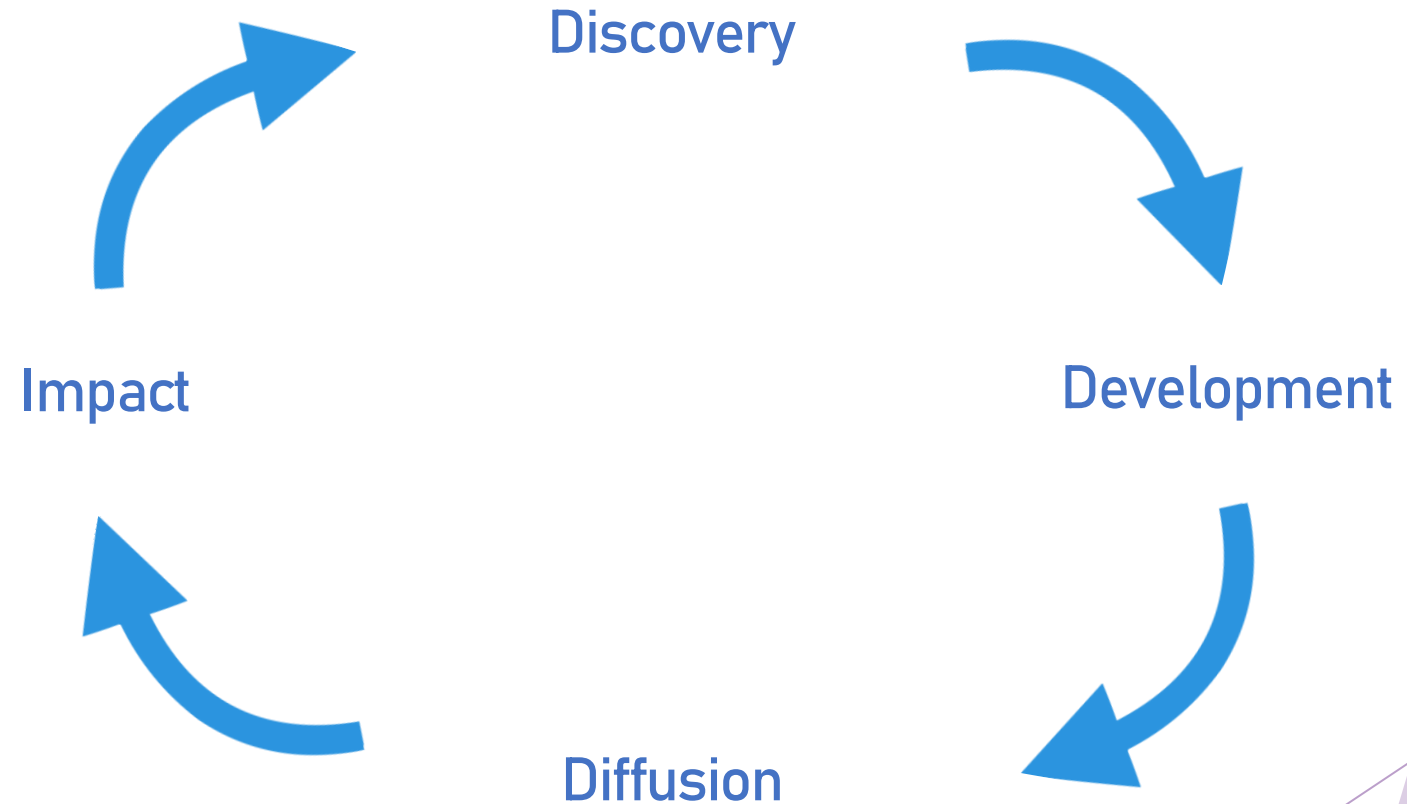
#	Song	Streams	Daily	Year
1	 Shape of You Ed Sheeran	4,005,327,490	2,493,953	2017
2	 Blinding Lights The Weeknd	3,706,546,920	3,604,413	2019
3	 Perfect Ed Sheeran	3,586,607,185	3,255,710	2017
4	 Despacito Luis Fonsi	3,275,661,612	1,654,966	2017
5	 Someone You Loved Lewis Capaldi	2,931,657,357	2,872,630	2018
6	 Dance Monkey Tones And I	2,876,825,174	1,327,917	2019
7	 Sunflower - Spider-Man: Into the Spider-Verse Post Malone	2,760,410,316	5,002,990	2018
8	 Heat Waves Glass Animals	2,749,477,360	3,698,585	2020
9	 rockstar (feat. 21 Savage) Post Malone	2,737,826,209	1,531,439	2017
10	 Save Your Tears The Weeknd	2,719,723,970	4,354,621	2020

Stages of innovation

Basic stages of innovation



Basic stages of innovation




The digital revolution



Store Mac iPad iPhone Watch AirPods TV & Home Entertainment Accessories Support

App Store Preview

This app is available only on the App Store for iPhone, iPad, Apple Watch, and Apple TV.



Spotify - Music and Podcasts ¹²⁺





Discover the latest songs
Spotify

#1 in Music
★★★★ 4.8 • 26.6M Ratings

Free · Offers In-App Purchases

Screenshots

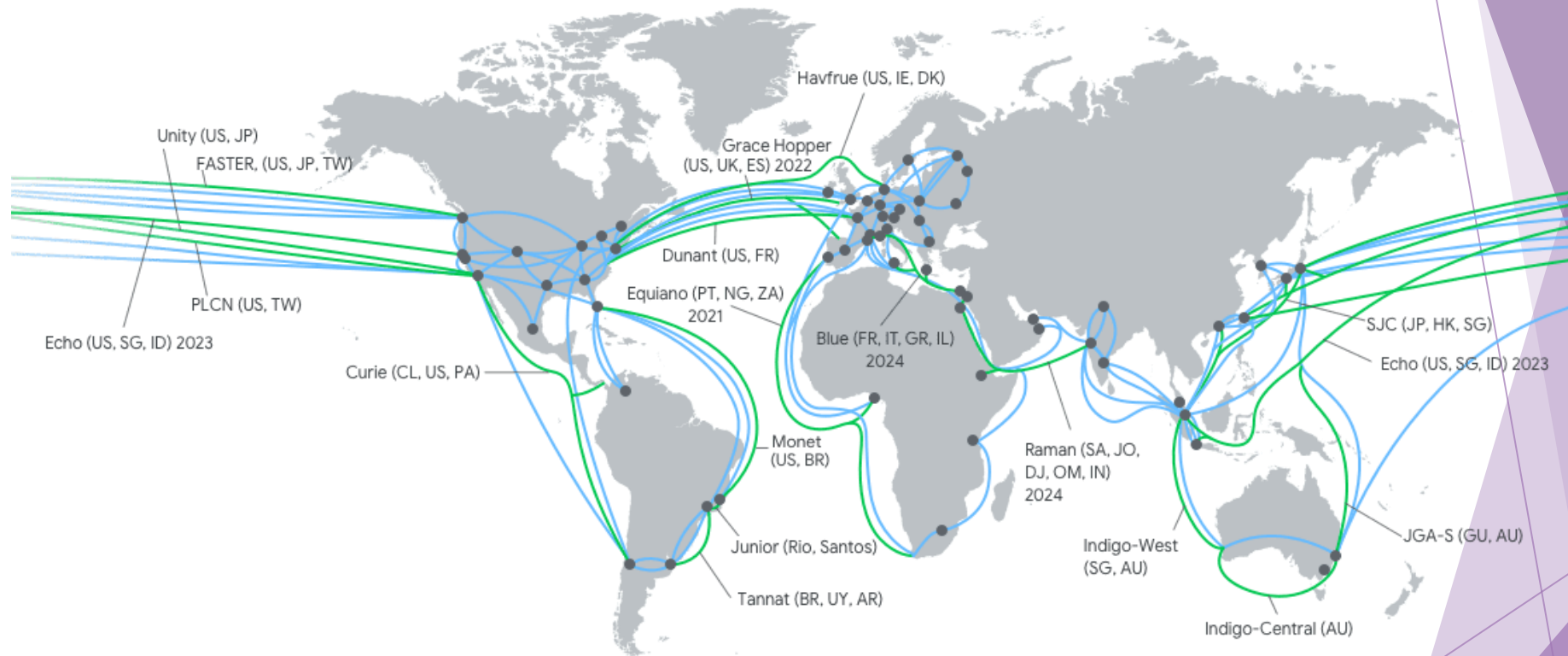
[iPhone](#) [iPad](#) [Apple TV](#) [Apple Watch](#)



With the Spotify music and podcast app, you can play millions of songs, albums and original podcasts for free. Stream music and podcasts, discover albums, playlists or even single songs for free on your mobile or tablet. Subscribe to Spotify Premium to download and listen offline wherever you are.

WHY SPOTIFY FOR MUSIC AND PODCASTS? [more](#)

The digital revolution



- Originally a peer-to-peer (P2P) system, Spotify now uses the Google Cloud Platform. The map shows 'Edge Points of Presence' – massive computer servers that deliver data quickly to users

Basic stages of innovation

- Discovery – new ideas are created/discovered for potential use in a product, service, or process. Includes invention, selection (e.g. a technology to use)

Discovery

- Spotify was founded in 2006 in Stockholm, Sweden, by Daniel Ek and Martin Lorentzon
- They wanted to create a legal digital music platform to respond to growing challenge of online music piracy in the early 2000s
- After a few months of work the application was completed in 2006, however, its launch was postponed due to negotiations with the record companies and the licensing, so it took two years to launch the application

'User-led innovation'



The Pirate Bay



LimeWire

- Before legal streaming services, file sharing sites like Napster, LimeWire, and The Pirate Bay were used by millions of people to (illegally) download music

'User-led innovation'



- Music publishers (and bands such as Metallica) made themselves very unpopular by trying to shut down these sites and sue the people who ran them

'User-led innovation'

- But this also suggested a huge unmet demand for easily accessible music
- “I realised that you can never legislate away from piracy. The only way to solve the problem was to create a service that was better than piracy and at the same time compensates the music industry” – Daniel Ek

Basic stages of innovation

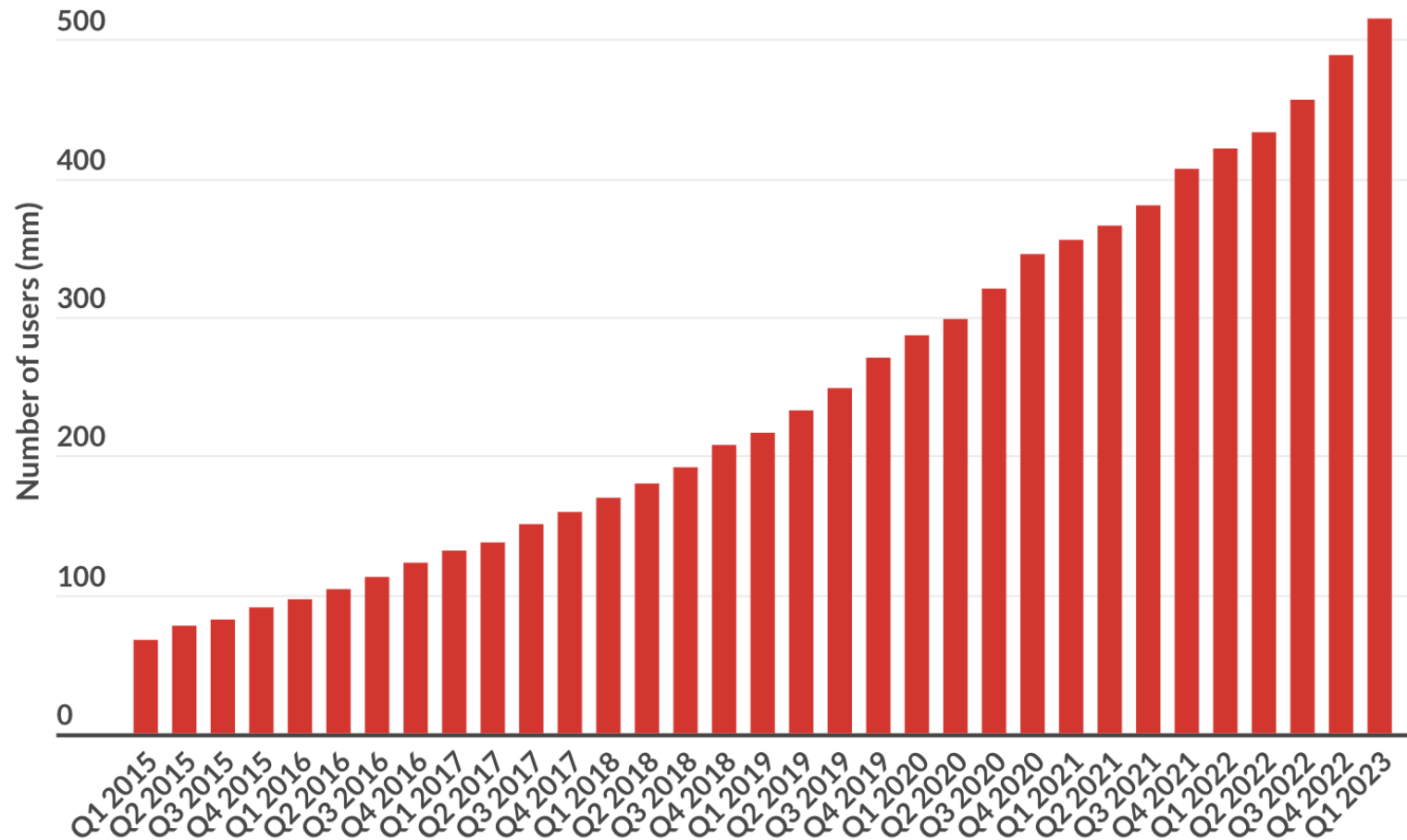
- Development – a new idea or technology is developed into a usable innovation. Could include packaging a new technology with services, or configuring (choosing) which features of a core technology to use

Development

- Eventually convincing record labels to agree to share content in return for an aggregate 20 percent stake, Spotify was launched in 2008
- It was an instant success, with a Facebook partnership helping it rise rapidly to prominence
- Surviving the transition to mobile, Spotify went public in April 2018, with a **market cap of \$26.5 billion after the first day of trading**

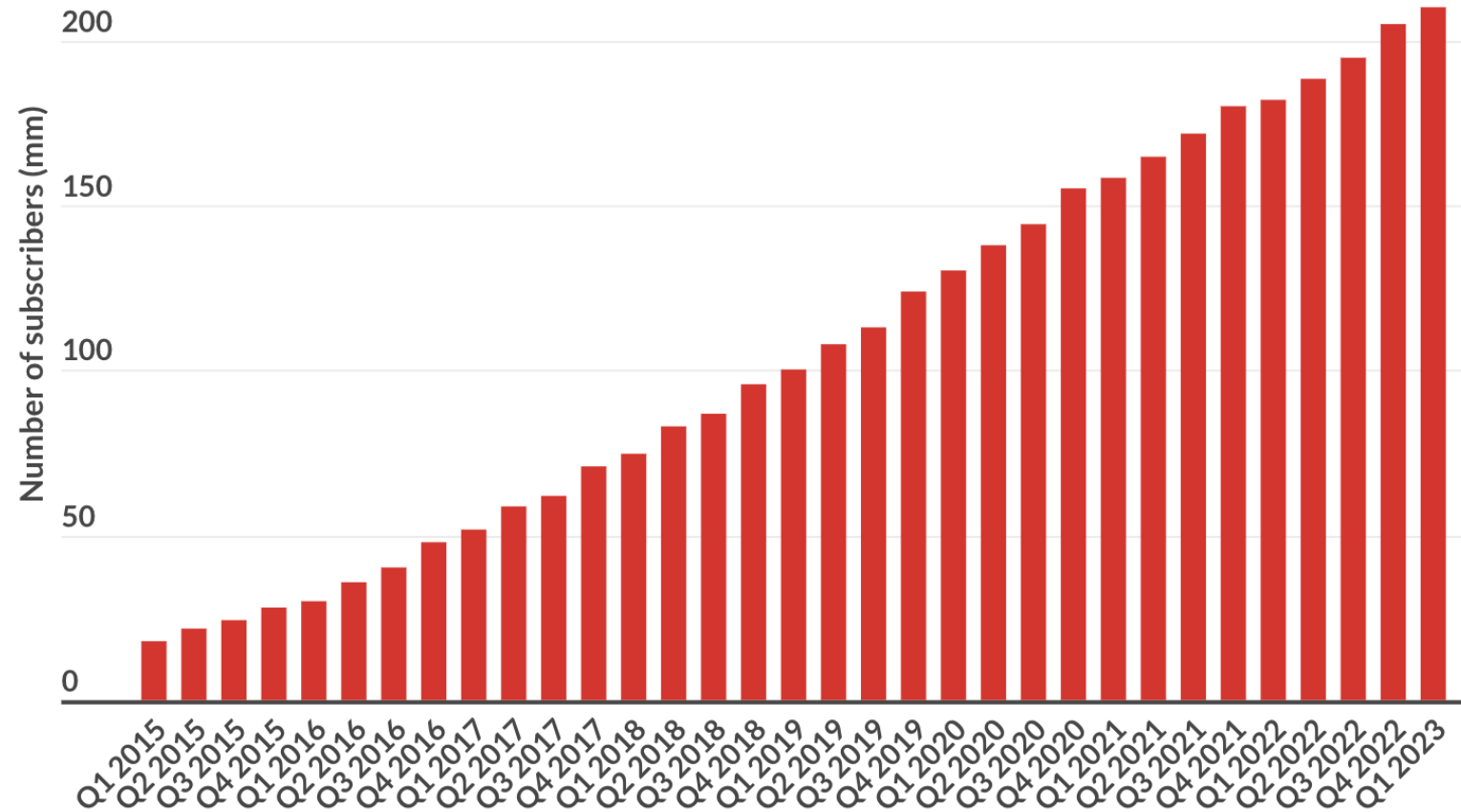
Development

Spotify annual users 2015 to 2022 (mm)



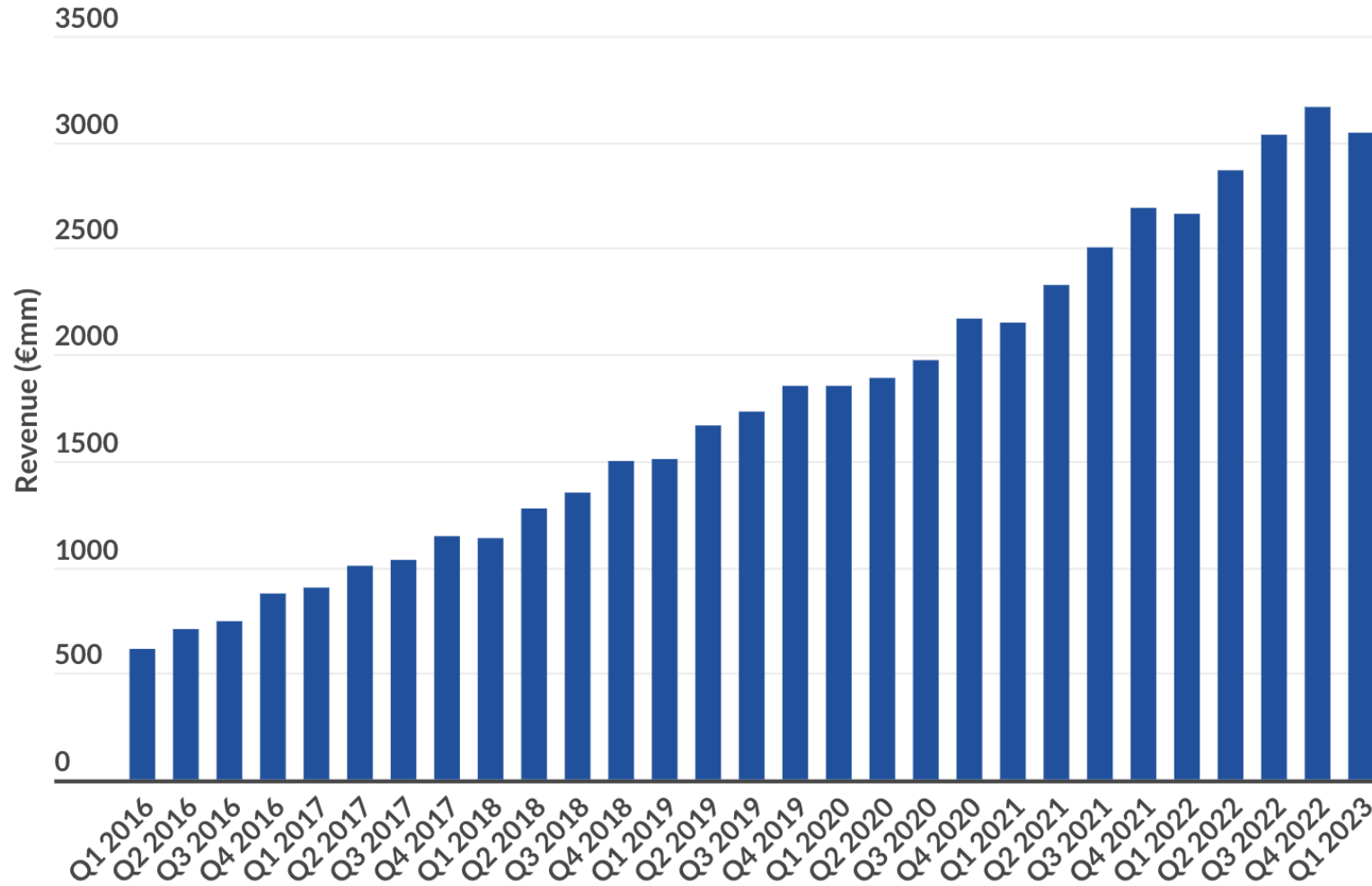
Development

Spotify quarterly subscribers 2015 to 2022 (mm)

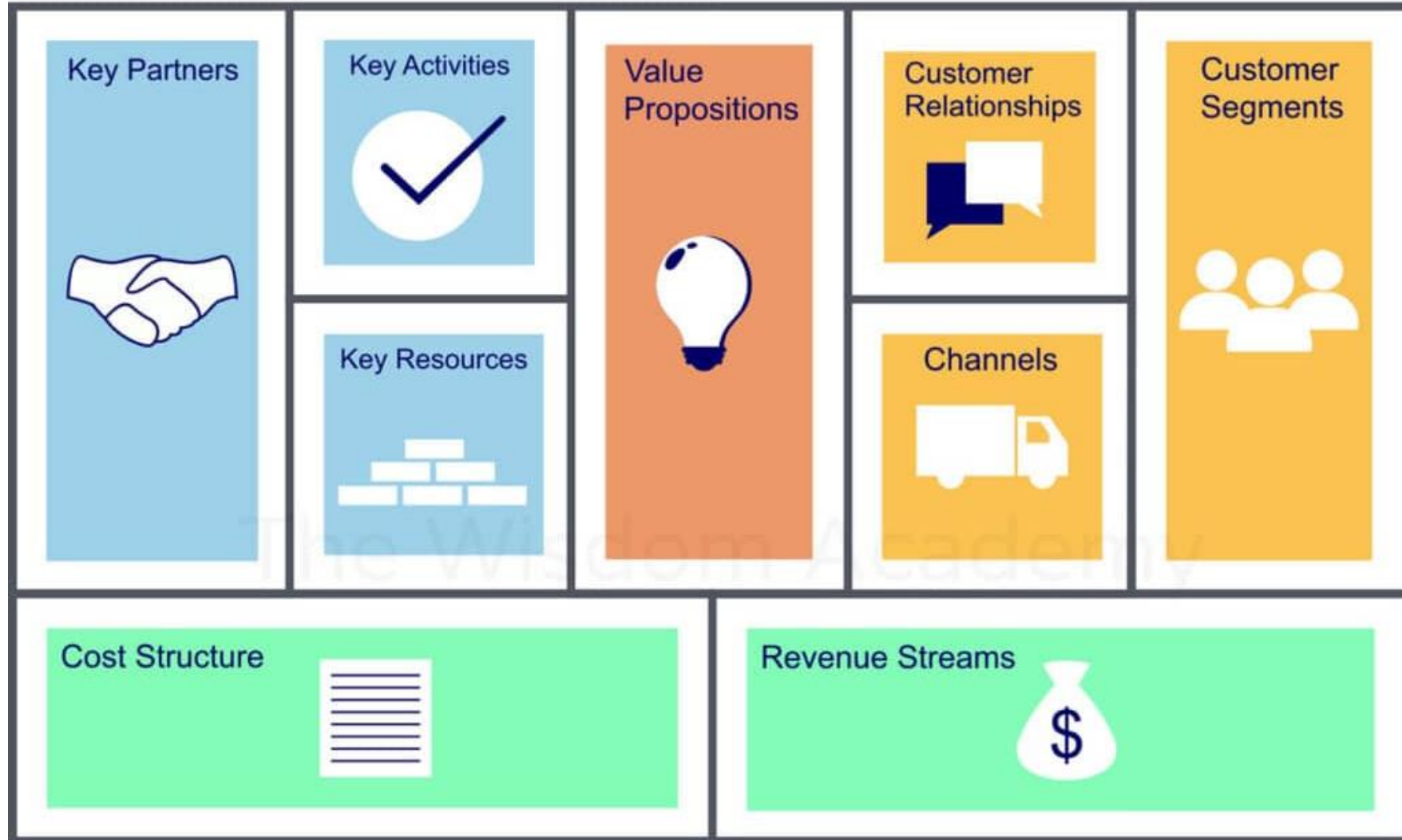


Development

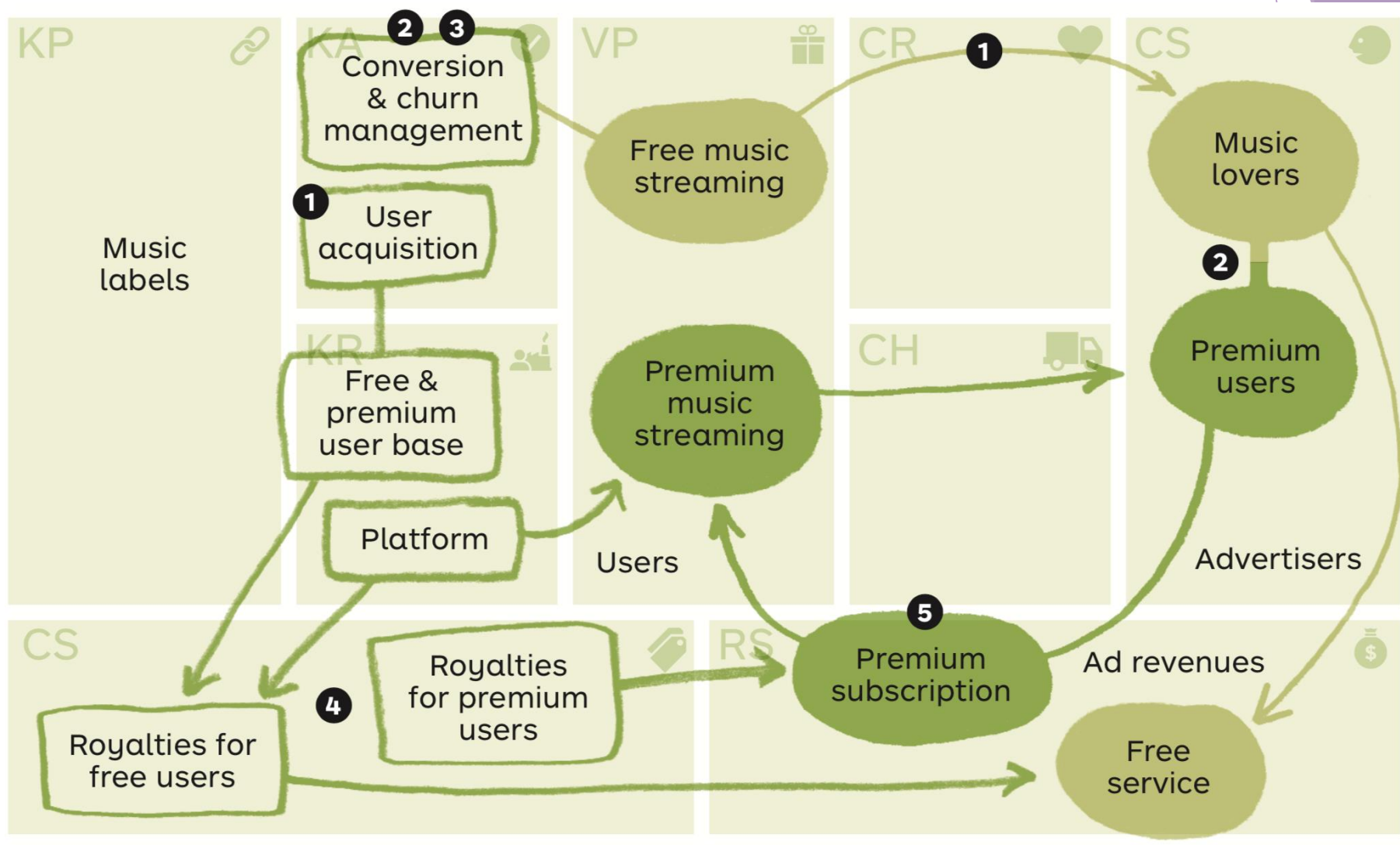
Spotify quarterly revenue 2016 to 2022 (\$mm)



Business Model Canvas



Business Model Canvas

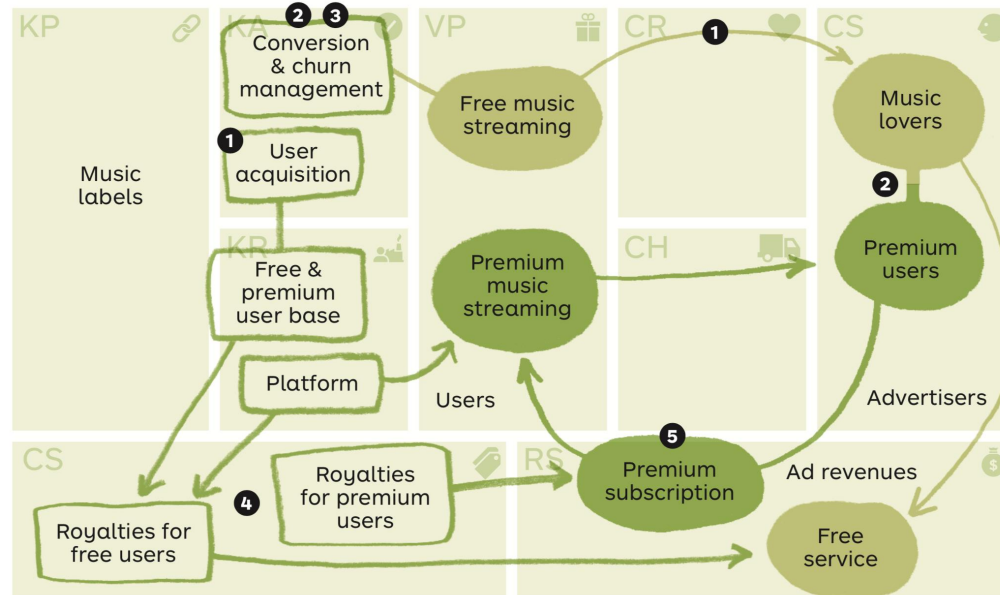


Business Model Canvas



- Spotify is a subscription-based service for its Premium service
- Recurring revenue subscriptions have become a major business model in digital services and beyond

Business Model Canvas



1. Attract a large base of users with a free service

Spotify's free music streaming service gives users access to a catalog of millions of songs. The free service has basic functionality and users have to listen to messages from advertisers that partially subsidize the free service. Originally it was available only for a limited time period.

Users

Spotify age demographics 2021 (%)

Age	Percentage of users
18-24	26
25-34	29
35-44	16
45-54	11
55+	19

Note: Covers US age demographics. Source: Verto Analytics

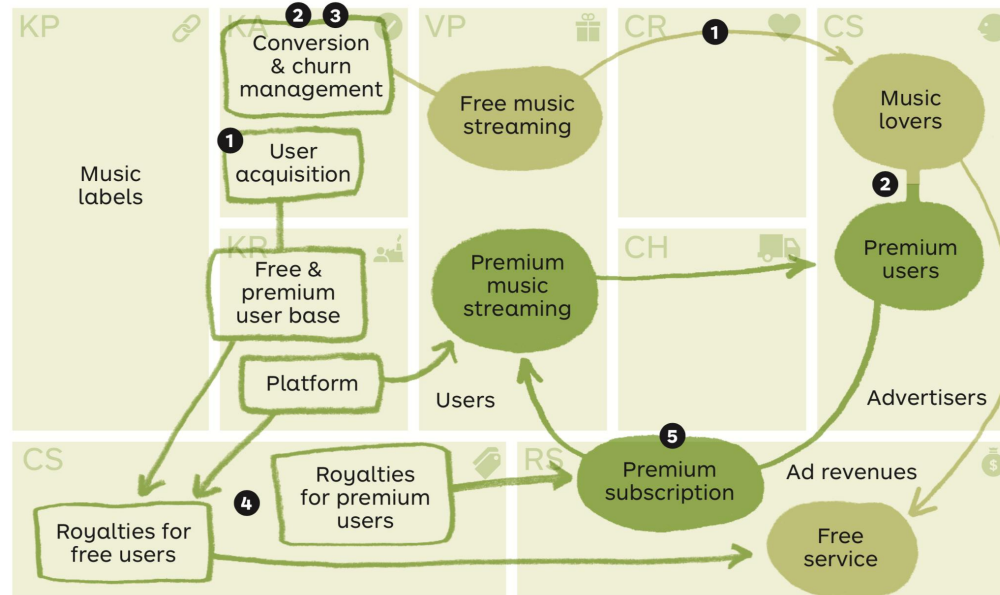
Users

Spotify annual subscribers by region 2018 to 2021 (mm)

Year	Europe	North America	Latin America	Rest of World
2018	38	29	19	10
2019	50	37	25	12
2020	62	45	33	17
2021	72	52	36	20
2022	80	57	43	25

Source: Company data

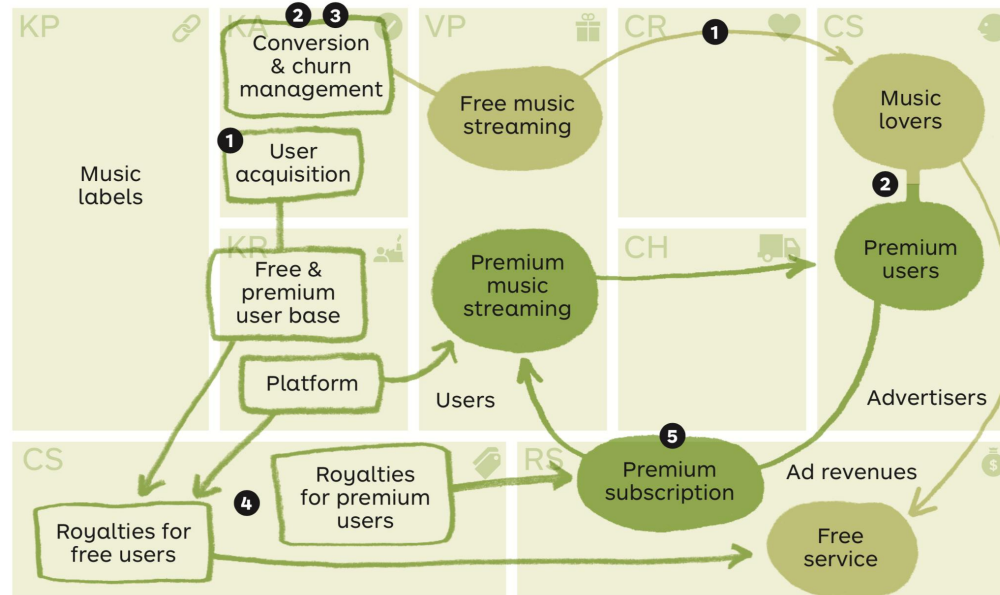
Business Model Canvas



2. Convert free users to a premium value proposition

Spotify has been extremely successful at converting free users to paid users. Its premium service has additional features (e.g. downloads) and it removes advertising. In 2018, 46% of Spotify's users are premium users, who generate 90% of its total revenues

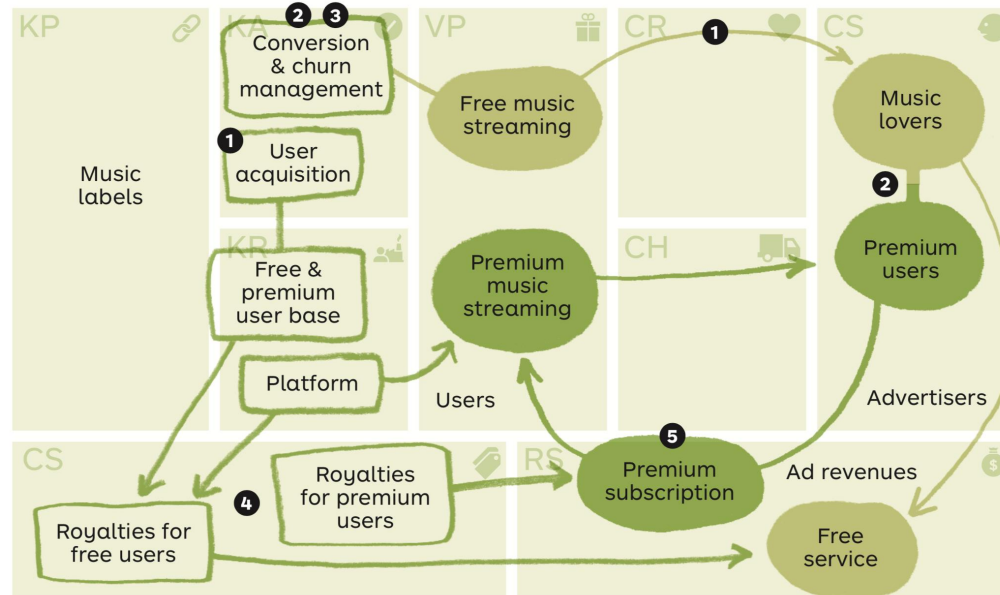
Business Model Canvas



3. Manage retention and 'churn'

Like in any subscription model a user's lifetime value (LTV) – how much Spotify can earn from a user over time – increases the longer the company can retain users. This is called managing customer churn. In the first half year of 2019, Spotify's premium subscriber churn rate fell to a record low of 4.6%.

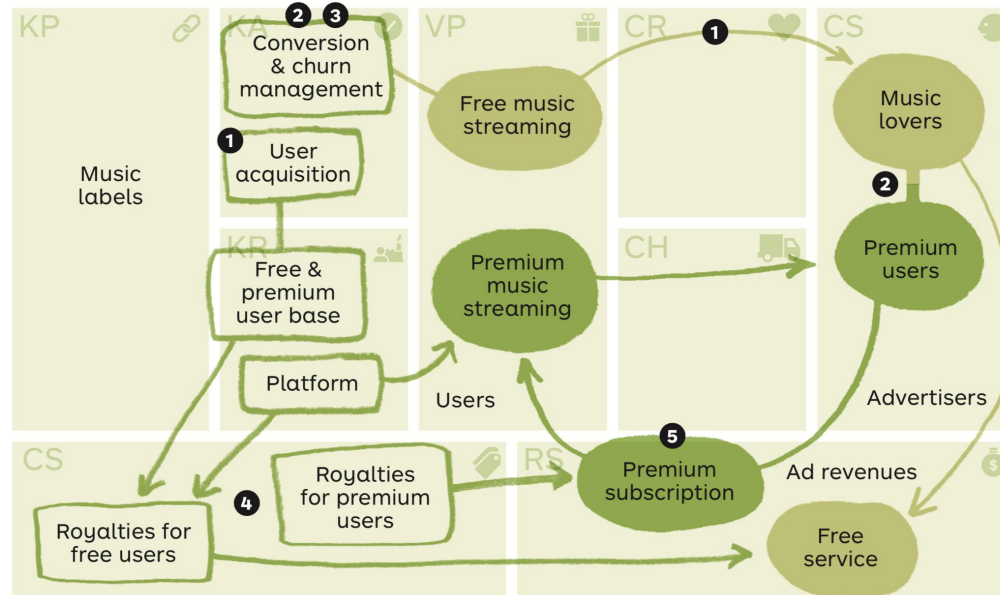
Business Model Canvas



4. Balance cost of free and premium

Spotify pays record labels close to 52% of the revenue generated by each stream. Over 85% of music streamed from Spotify belongs to four record labels: Sony, Universal, Warner, and Merlin. In 2018, Spotify pays €3.5 billion in royalties for premium users and €0.5 billion for free users, which equates to 74% of overall costs.

Business Model Canvas



5. Finance it all with your revenue stream from premium

The particularity of the freemium model is that you need to be able to cover the costs of free and paying users. Spotify's user base grows to over 248 million users in 2019 for which it needs to pay royalties. Of those users, 54% consume music for free.

Inconsistent profitability

Financial Summary

USER, FINANCIAL & LIQUIDITY SUMMARY	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Y/Y
USERS (M)						
Total Monthly Active Users ("MAUs")	422	433	456	489	515	22%
Premium Subscribers	182	188	195	205	210	15%
Ad-Supported MAUs	252	256	273	295	317	26%
FINANCIALS (€M)						
Premium	2,379	2,504	2,651	2,717	2,713	14%
Ad-Supported	282	360	385	449	329	17%
Total Revenue	2,661	2,864	3,036	3,166	3,042	14%
Gross Profit	671	704	750	801	766	14%
Gross Margin	25.2%	24.6%	24.7%	25.3%	25.2%	--
Operating (Loss)/Income	(6)	(194)	(228)	(231)	(156)	--
Operating Margin	(0.2%)	(6.8%)	(7.5%)	(7.3%)	(5.1%)	--
FREE CASH FLOW & LIQUIDITY (€M, unless otherwise denoted)						
Net Cash Flows From Operating Activities	37	39	40	(70)	59	--
Free Cash Flow¹	22	37	35	(73)	57	--
Cash & Cash Equivalents, Restricted Cash & Short Term Investments (€B)	3.6	3.6	3.7	3.4	3.5	--



¹ Free Cash Flow is a non-IFRS measure. See "Use of Non-IFRS Measures" and "Reconciliation of IFRS to Non-IFRS Results" for additional information.

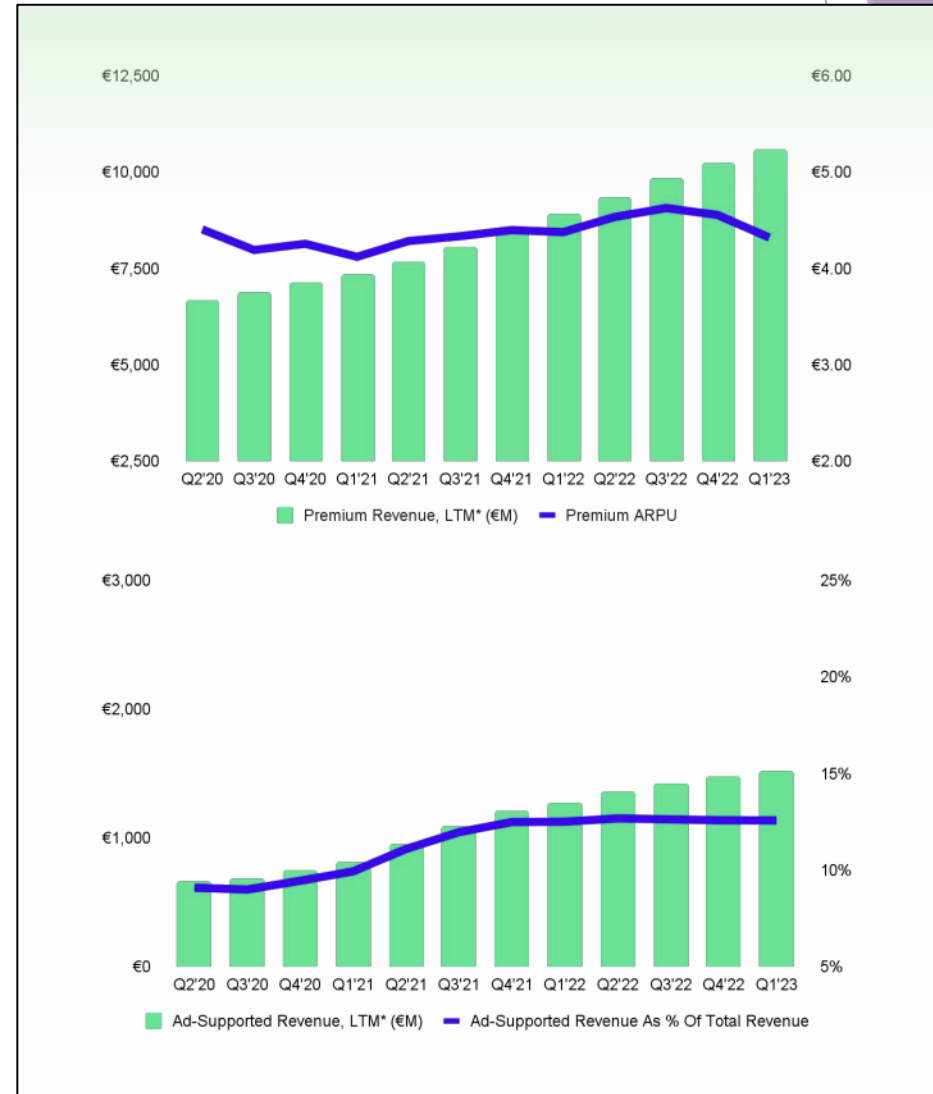
7

- Spotify generated €11.72 billion revenue in 2022, a 21% increase year-on-year
- Spotify made its first operating profit in 2019, but it has never made a net profit. In 2022, it posted a €236 million loss

Inconsistent profitability

- Average revenue per user (ARPU) is flat or declining

- Advertising revenue is basically flat



Future growth?

The screenshot shows the CNBC website interface. At the top, there is a navigation bar with the CNBC logo, a search bar, and links for 'WATCHLIST', 'SIGN IN', and 'CREATE FREE ACCOUNT'. Below this is a secondary navigation bar with categories like 'MARKETS', 'BUSINESS', 'INVESTING', 'TECH', 'POLITICS', 'CNBC TV', 'INVESTING CLUB', and 'PRO'. The main content area features a 'TECH' category label and a large headline: 'Spotify lays off 200 employees, or about 2% of its workforce'. Below the headline, it says 'PUBLISHED MON, JUN 5 2023-8:32 AM EDT | UPDATED MON, JUN 5 2023-9:41 AM EDT'. The author is 'Rohan Goswami' with social media handles '@IN/ROHANGOSWAMICNBC/' and '@ROGOSWAMI'. There are social sharing icons for Facebook, Twitter, LinkedIn, and Email. A 'KEY POINTS' section lists three bullet points: 1. Spotify announced Monday it was laying off 200 people, or about 2% of its workforce, as part of a "pivot" in its podcasting unit. 2. The podcasting unit will be focusing on a more tailored partnership approach, rather than a "uniform" one, a senior executive said. 3. The layoffs are expected to take force Monday. To the right, there is a 'TRENDING NOW' section with two items: 'Mom and dad of 14-year-old college grad share top parenting rule: We 'left no room for negotiating'' and 'Here's the No. 1 way to sound smarter when making small talk, say Harvard and Wharton researchers'. At the bottom left, there is a 'SPOT UNCH' button and a 'Follow your favorite stocks' button with 'CREATE FREE ACCOUNT' text.

TECH

Spotify lays off 200 employees, or about 2% of its workforce

PUBLISHED MON, JUN 5 2023-8:32 AM EDT | UPDATED MON, JUN 5 2023-9:41 AM EDT

Rohan Goswami
@IN/ROHANGOSWAMICNBC/
@ROGOSWAMI

SHARE [f](#) [t](#) [in](#) [✉](#)

KEY POINTS


- Streaming company Spotify announced Monday it was laying off 200 people, or about 2% of its workforce, as part of a “pivot” in its podcasting unit.
- The podcasting unit will be focusing on a more tailored partnership approach, rather than a “uniform” one, a senior executive said.
- The layoffs are expected to take force Monday.


In this article

SPOT UNCH

Follow your favorite stocks
CREATE FREE ACCOUNT

TRENDING NOW

 Mom and dad of 14-year-old college grad share top parenting rule: We ‘left no room for negotiating’

 Here’s the No. 1 way to sound smarter when making small talk, say Harvard and Wharton researchers

Spotify has spent heavily to expand its podcast unit in the last three years. Since 2020, Spotify spent \$526 million on four different acquisitions in the podcast space, and contracted many podcasters and celebrities

Intellectual property and assets

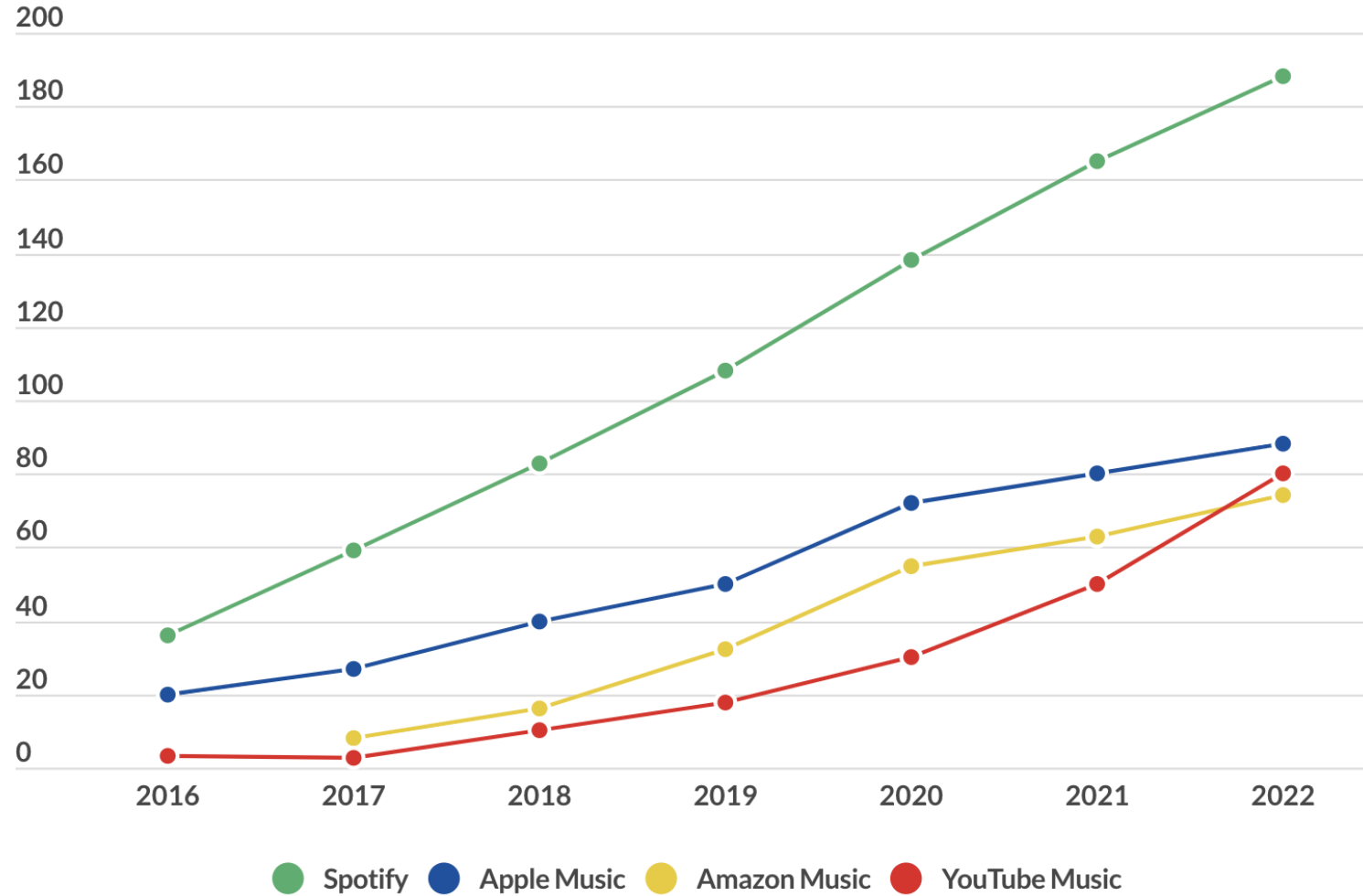
- Brand
- Technology platform
- Customer data and analytics (44% of users listen to Spotify on a daily basis)
- (Has more recently developed its own podcasts)

Basic stages of innovation

- Diffusion – an innovation spreads across a population of potential users. Includes how an innovation is deployed, and how it is assimilated by users

Competitors

Spotify vs Apple Music: users

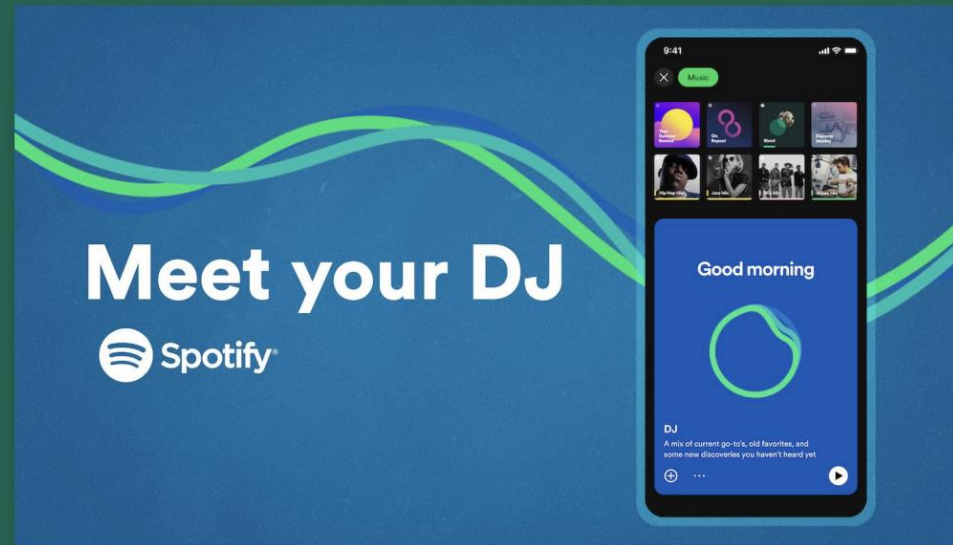


Competitive advantages

- Vast and constantly growing music library (60,000 songs added every day!)
- Available in very large number of countries
- Usability and user interface
- Reliability
- User data (Discover and Daily Mix recommendations)
- Saved playlists
- Continued innovation (new features etc)...

Continued innovation

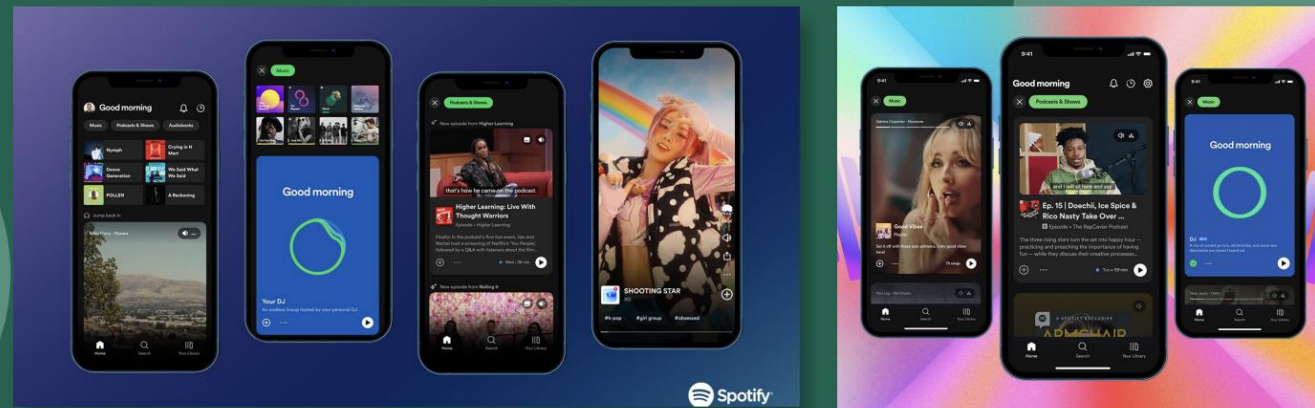
AI DJ Launch



During the quarter, we launched a beta version of AI DJ to users in North America to allow for deeper discovery and personalization. AI DJ combines the power of our personalization technology with cutting-edge generative AI and a realistic AI voice enabled by technology from our previous acquisition of Sonantic. The DJ currently attracts millions of active users each week, representing more than 25% of user consumption on days when they listen to the DJ.

Continued innovation

Redesigned Spotify User Experience



At Stream On, we announced one of the biggest changes to our user experience. With this new design, we're giving fans an even more active role in the audio discovery process and giving creators even more space to share their work. Powered by advanced recommendations, new visual canvases and a completely new and interactive design, we're making discovering new audio easier than ever before, helping introduce users to their next favorite artist, podcast or book.

Continued innovation

Podcasting



Announced a multiyear exclusive video partnership with **Markiplier** for *Distractable* and *Go! My Favorite Sports Team*.



Brought British journalist Louis Theroux to the platform with the announcement of his new Spotify original podcast, the *Louis Theroux Podcast*.



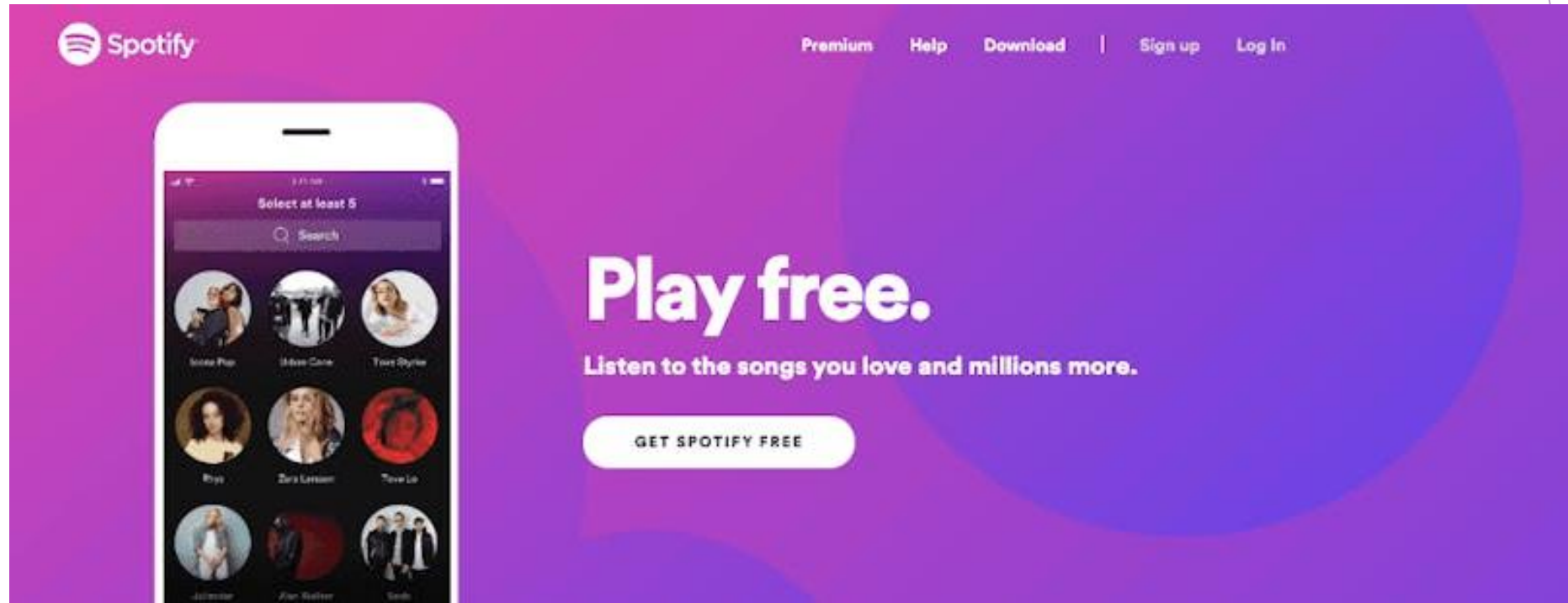
**IMMEDIATE
MEDIA^{CO}**

Two new publishers join the Spotify Audience Network: **NPR** & **Immediate Media**.



Revealed that *Forbidden Fruits* with Julia Fox and Niki Takesh will return for a Season 2 and the new episodes will be released as an all-video podcast.

Branding and marketing



The image shows a promotional banner for Spotify's free tier. On the left, a smartphone displays the Spotify app interface, showing a search bar and a grid of artist profile pictures including Adele, Ed Sheeran, Taylor Swift, Beyoncé, Zara Larsson, The Weeknd, Justin Bieber, and Zayn Malik. The main banner has a purple and blue gradient background. At the top left is the Spotify logo. At the top right are links for Premium, Help, Download, Sign up, and Log In. The central text reads "Play free." in large white font, followed by "Listen to the songs you love and millions more." in a smaller white font. Below this is a white button with the text "GET SPOTIFY FREE".

Spotify

Premium Help Download | Sign up Log In

Select at least 5

Search

Adele Ed Sheeran Taylor Swift

Beyoncé Zara Larsson The Weeknd

Justin Bieber Zayn Malik

Play free.

Listen to the songs you love and millions more.

GET SPOTIFY FREE

Branding and marketing

Important social experience elements:

- Can follow other users
- Create, edit, and share playlists

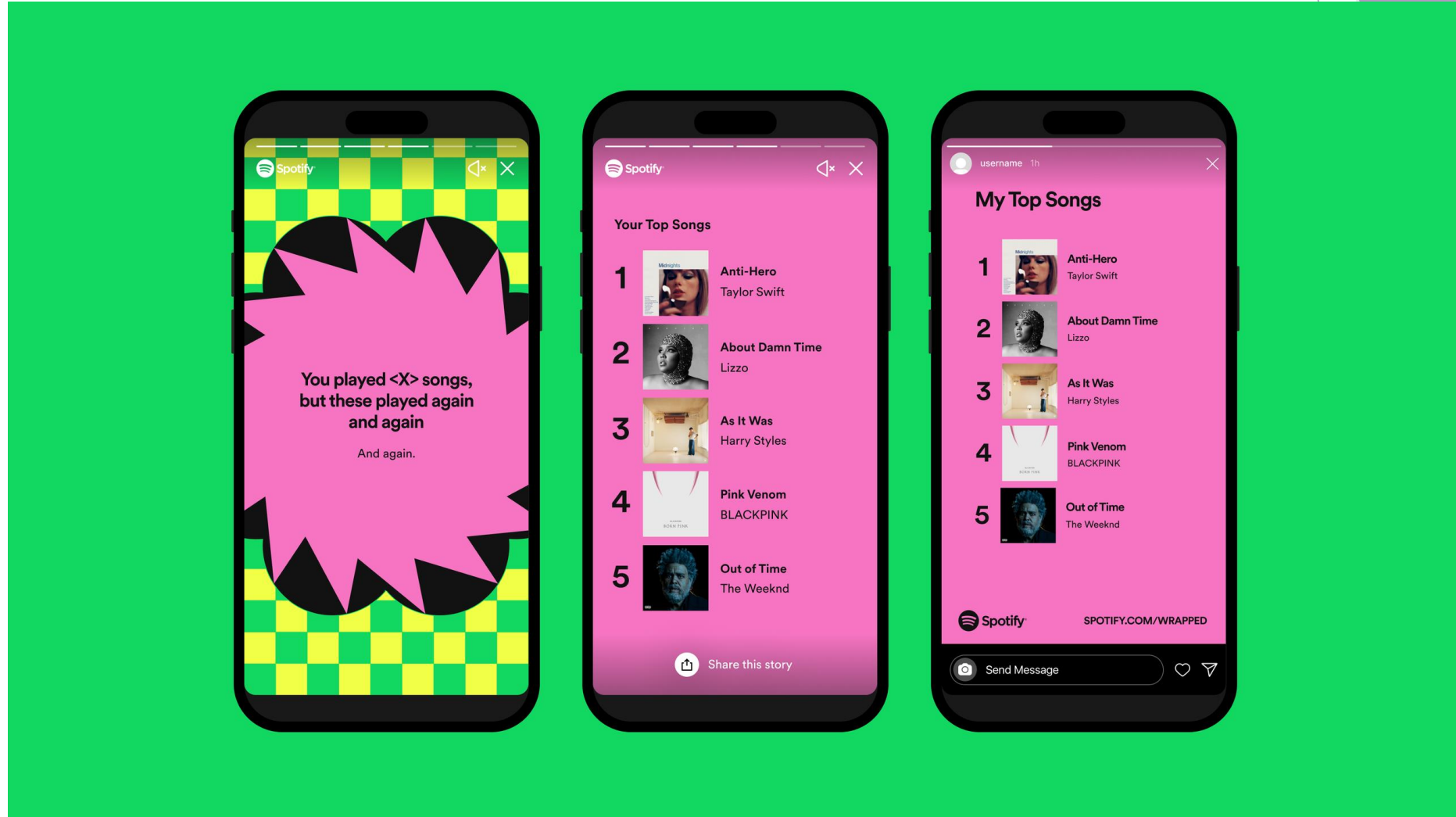
Branding and marketing




#SPOTIFYWRAPPED

But it's only available in the Spotify mobile app. Download it now to join in the fun.

Branding and marketing



Branding and marketing

 •ENVC•	The Early Adopter Exploration Newness Variety Commonality	 •FTLC•	The Connoisseur Familiarity Timelessness Loyalty Commonality	 •FTLU•	The Replayer Familiarity Timelessness Loyalty Uniqueness	 •ETLU•	The Maverick Exploration Timelessness Loyalty Uniqueness
 •ENLU•	The Nomad Exploration Newness Loyalty Uniqueness	 •FTVU•	The Deep Diver Familiarity Timelessness Variety Uniqueness	 •FTVC•	The Jukeboxer Familiarity Timelessness Variety Commonality	 •ETVU•	The Time Traveler Exploration Timelessness Variety Uniqueness
 •FNVU•	The Specialist Familiarity Newness Variety Uniqueness	 •FNVU•	The Fanclubber Familiarity Newness Variety Commonality	 •ENLC•	The Voyager Exploration Newness Loyalty Commonality	 •ETVC•	The Musicologist Exploration Timelessness Variety Commonality
 •FNLC•	The Enthusiast Familiarity Newness Loyalty Commonality	 •ETLC•	The Top Charter Exploration Timelessness Loyalty Commonality	 •FNLU•	The Devotee Familiarity Newness Loyalty Uniqueness	 •ENVU•	The Adventurer Exploration Newness Variety Uniqueness

Basic stages of innovation

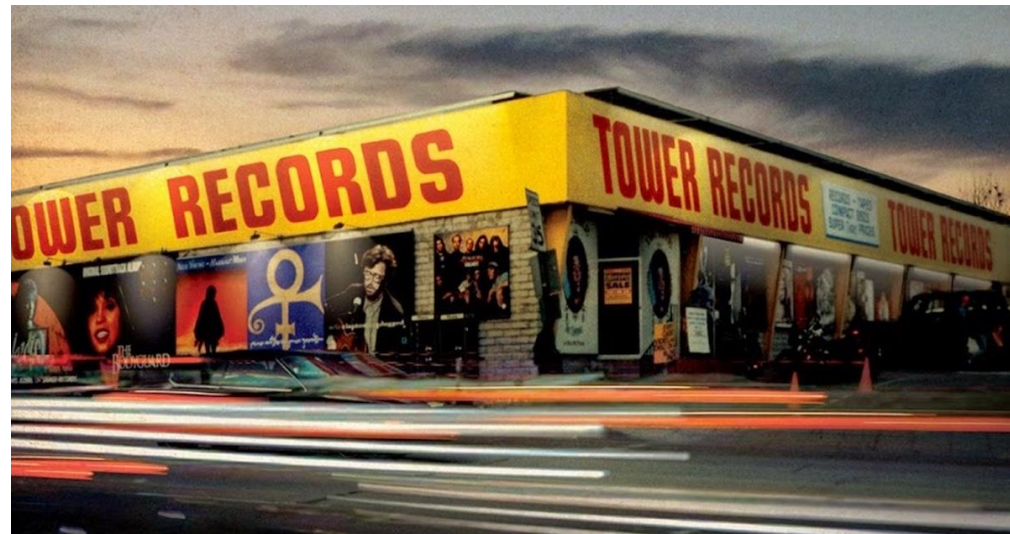
- Impact – the effects of individuals, businesses, organizations, or society, which could even be transformational

Creative destruction

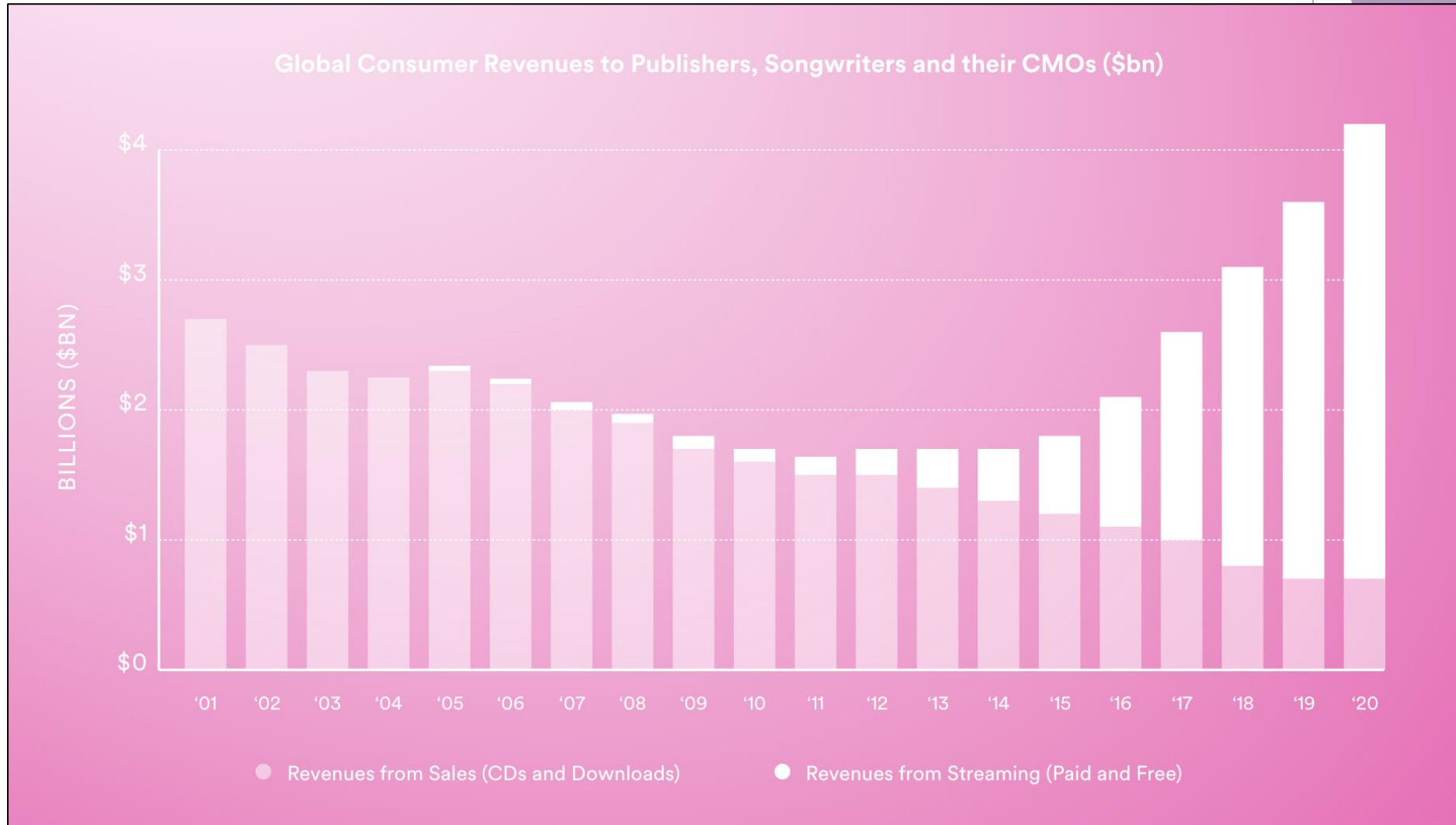
- Music industry resisted the digital revolution for too long – this allowed other platforms (Napster etc, then Apple iTunes, then Spotify etc), to ‘own’ digital music distribution
- Example of the ‘Innovator’s Dilemma’: there might be logical reasons why a business or industry resists innovation, even though it leads to their creative destruction (or loss of revenue and influence)



Creative destruction



Creative destruction



Creative accumulation

- Streaming services like Spotify now have a very powerful position in the music industry
- Could anyone else now launch a successful streaming music service? (there have been some unsuccessful attempts)
- Example of the power of platforms ('platform capitalism') brought about by digital technologies

Socially useful innovation?

- Spotify has paid nearly \$40 billion to artists etc since it started
- Massively widened access to music
- Increased discoverability of new artists and music
- Probably significantly reduced music piracy

Effect on artists

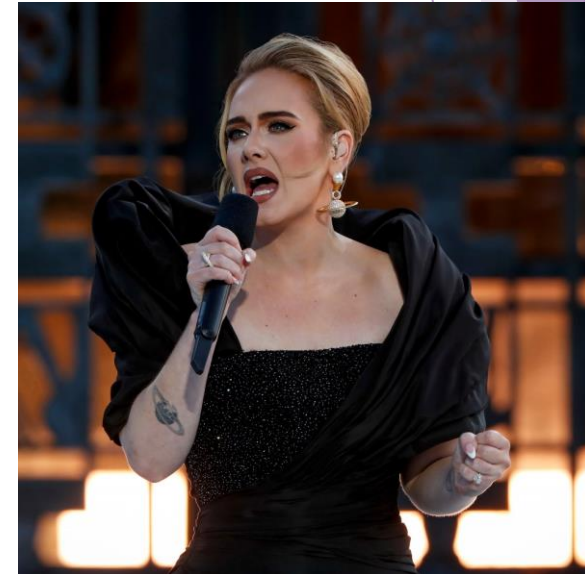
- Spotify pays approximately \$0.04 per 10 streams
- So, 1,000 streams would be around \$4, and 100,000 streams would be \$400
- This result may be lower based on certain factors such as if only half of a song was listened to
- So, even 300,000 streams per month = \$1,200 a month (\$14,400 a year) – which is only just above the U.S. minimum wage (\$1,160 a month) – before tax etc

Effect on artists

And it could be even less than this:

- These royalty payments are directly paid to the artist who created the song
- In some cases, the songwriter gets the payment, but a portion of the payment does go to the publisher if the songwriter hired someone to publish their song
- (The payment is actually based not on number of streams, but on the artist's share of all of the streams on Spotify in a year)

Effect on artists



Effect on artists



The number of artists generating \$1M+, as well as those generating \$10,000+, has **more than doubled over the past five years**

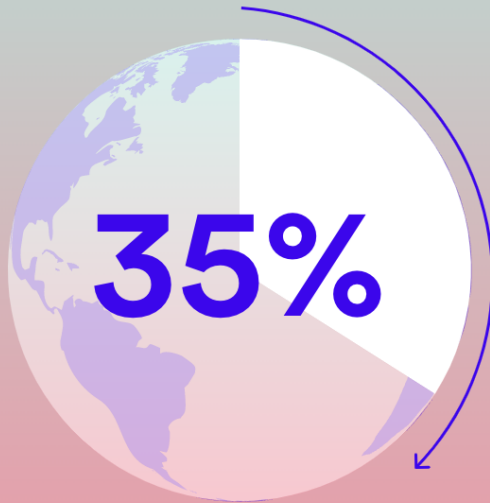
Spotify royalties are powering artists' careers at all stages. In 2022, 57,000 artists generated \$10,000+ (up from 23,400 in 2017). And 1,060 artists generated \$1 million+ (up from 460 in 2017).

These figures represent revenue generated from Spotify alone. When taking into account earnings from other services and recorded revenue streams, these artists likely generated 4x this revenue from recorded music sources overall, plus additional revenue from concert tickets and merch.

- There are 200,000 'professional or professionally aspiring artists' on Spotify – so only a quarter of them earn even \$10,000 or more a year

Effect on artists

Nearly 35% of the artists who generated more than \$10,000 on Spotify live in countries outside the top ten music markets



Streaming has fundamentally changed the music ecosystem — lowering barriers to entry and democratizing access to music for listeners everywhere. Artists no longer need big budgets to create, distribute, and amplify their music around the world.

Spotify is now available in 184 markets, helping these artists reach new fans. Of the 57,000 artists who generated more than \$10,000 on Spotify in 2022, nearly 20,000 live in countries outside the IFPI's top ten music markets (Australia, Canada, China, Italy, France, Germany, Japan, South Korea, the U.K., and the U.S.).

- ...and a quarter of artists who generated over \$10,000/year self-distribute (i.e. distribute their music without a typical industry publisher or label)

Effect on artists



- Artists now rely much more on touring (concerts), selling merchandise, and sponsorship deals

Effect on music



- Technology has always shaped music – the short, snappy songs in the rock'n'roll era were designed for radio stations to keep audiences listening.

Effect on music



- 'Long play' vinyl records allowed musicians to experiment with (sometimes much) longer 'concept' albums – or even double albums.

Effect on music



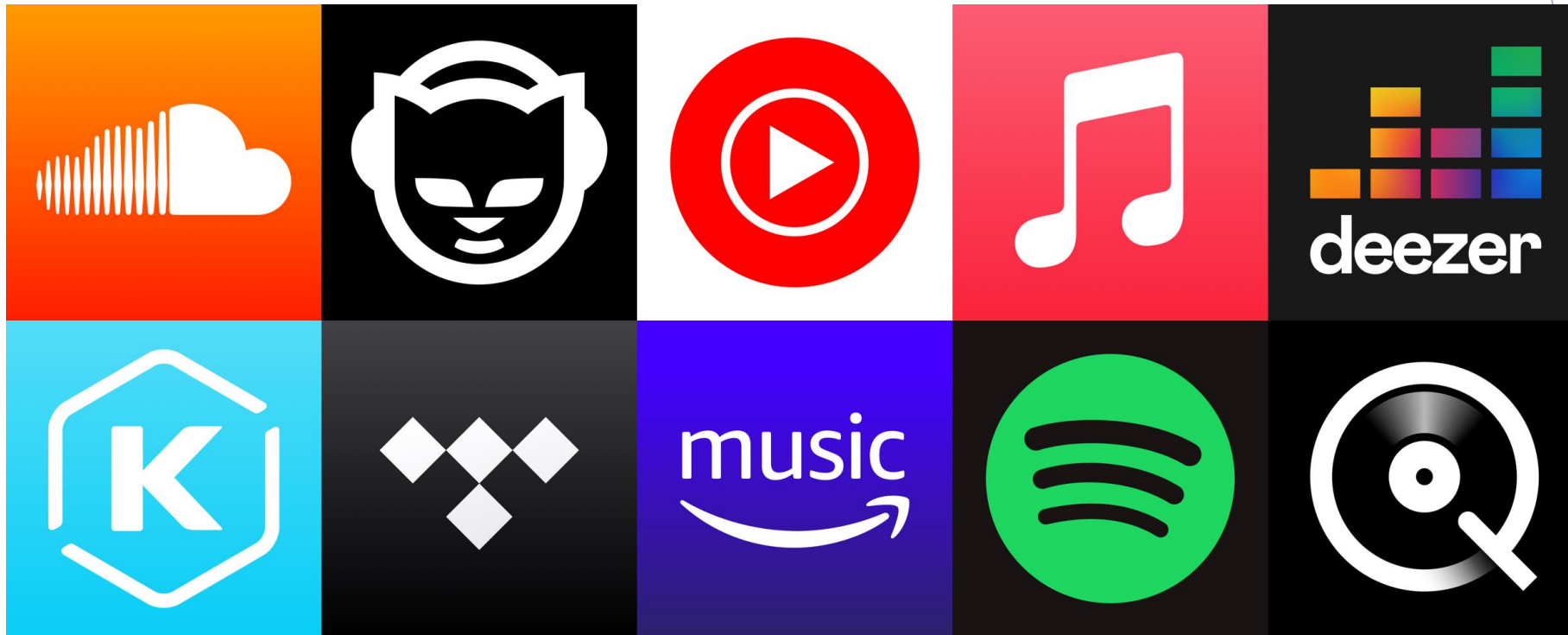
- MTV (Music Television), a cable channel, was launched in 1981. It showed music videos 24 hours a day – meaning it needed a lot of content!

Effect on music



- CDs (compact discs) allowed for higher quality audio listening – and production.

Effect on music



- Now, the virtually unlimited choice on streaming services means that artists tend to include the 'hook' (chorus) very early on, and produce shorter songs, because they get paid for the first 30 seconds of the song.



Thank you!
any questions?