

MUSIC STREAMING APPLICATION SPOTIFY: SOLVING LEGAL AND PROFITABILITY IMPASSE

Dr. Poonam Chhaniwal

Assistant Professor, Nirma University, India

Dr. Diljeetkaur Makhija

Assistant Professor, Nirma University, India

Dr. Haresh Barot

Associate Professor, NFSU, India

On January 2023, Daniel Ek, CEO of the music streaming company organised a delegate meeting emphasizing the need for organisational change. He mentioned that the company had made great progress in improving on the speed of the services, but that alone would not be sufficient to scale greater heights in the future. He knew the company had come a long way to develop a comprehensive platform for creators, but aspired to become the go –destination for creators. What was needed for the same improvement on tools & technology and monetize artistic work. He would need to think of the broad changes at Spotify to achieve this.

Pedagogical Objectives

1. Understand the advantages and disadvantages of a first mover in any industry
2. Relate to the characteristics of an entrepreneur
3. Relate to the functioning of Music Industry
4. Analyze the Business Model of a Music Company with OTT platform
5. Analyze the disruption in the music industry with OTT platforms

Case Positioning and Setting

The case is suitable for bachelor's level students and for the students of the courses of post – graduation. Because of the contemporary nature and resourcefulness the case would appeal and be appreciated by large gamut of students whether in under graduate or post graduate course with or without management experience. However this will be enjoyable for the scholars with a flair or inclination for technology social media networks and working of platform organizations. The case can be used for courses related to strategy, role of technology in management, Managing Business Enterprises and Entrepreneurship. The case describes the journey of Spotify: A Music Streaming Application, and can be related with the advantages and disadvantages of the first mover in the industry. The company brought disruption in the industry and the way OTT platforms have changed the world we live in. As a consumer we see the success of the OTT platforms but the struggle and challenges for them are not less. The Industry has its own challenges. The case narrates the journey,

the accomplishments and the challenges the Music Streaming Application, Spotify faced since inception.

Keywords: Innovative disruption, convenience, user –engagement, music streaming.

Case Study

Introduction

Spotify founded in 2006, by Daniel Ek & Martin Lorentzon, was a commercial music streaming service that provided consumers with digital audio content from a repository of record labels & artists. It enabled the users to choose albums, music content, and playlists by record labels & direct searches. The company operated by way of ‘freemium model’, wherein the music offered was free to users albeit supported by ads while there were various subscription packages for users keen to pay for the extra –features.

The company provided music legally at a time when the music industry was struggling to comprehend and tackle piracy issues. The company had licensing agreements with three leading record labels- Sony Music Entertainment Inc. (Sony), & Warner Music Group Corp and Universal. The company also paid a certain amount to the record labels or artist for each streaming. The company grew rapidly and garnered patronage from a large subscriber base. The rise was complemented by the usage of social media platforms and Spotify’s features that brought about a paradigm shift in the ways users listened to music. Spotify seemed to have disrupted the entire music industry by presenting newer ways of monetization, in addition to increase in revenues for the industry as a whole. The company was yet to attain profitability as it was losing most of its money in buying the rights to music. It also found itself muddled with controversies, involving independent artists (Indie), who alleged that the company provided them with a lower royalty in comparison to record labels. The company also shelled out millions in lawsuits filed by different institutions for copyright infringement. It faced competition from big market players in the music streaming industry like Google Play Music, Apple Music etc. With challenges surmounted, Spotify continued to display its flair for disruption. In the year 2018, the company came with a unique Initial Public Offering (IPO) that was assumed to have disrupted the Wall Street. It also began offering direct deals with Indie without the participation of the third party distributor. It is to be waited and watched whether, despite the several obstacles, Spotify would continue to develop and expand its global presence.

1. The Music industry Amidst Predicament and Opportunities

Rewind and ask any executive what the music business was like in the 1990s. The answer would be a relatable expression associated with closely avoided car accidents and, more precisely, attempted thefts. The music industry saw phenomenal growth between 1980 and 1990 and reached its zenith in 1999. With augmented usage of the internet and the introduction of digital music, many large scale file distribution applications shook the music industry in mid-1990. In 1999, Napster being regarded as the first file sharing application came into

existence, which supported downloading music files in mp3 format. ¹The emergence of file-sharing platforms like Napster and Limewire led to a record drop in U.S. recorded music revenues, decimating to an all-time low of **\$6.7 billion in 2014 and 2015 (According to R.I.A.A.)**. Piracy was proliferating, and little could the music industry do to comprehend the changed music world and come on terms. While iTunes did bring some hope and stability, the entire generational cohort was brought with the belief that they need not pay for music and the music was available not by expending money but by pressing mouse buttons. Moreover, iTunes was restricted to customers of Apple and it was perceived that the songs were being sold at a premium.

Spotify, the breakthrough innovation of two Swedish entrepreneurs, Daniel Ek, and Martin Lorentzon, changed all that. Institutionalised on 23rd April, 2006, in Stockholm, Spotify intended to solve the piracy malaise existing in the music industry. The on-demand audio streaming service was built on the fundamental premise that end-users who were not much driven by buying a specific album might be interested in paying for the comfort and convenience of access to a vast repository of music files. Music streaming has taken the entire sector by storm. ²The revenue from the online streaming platforms escalated to 83% of the U.S. market by end of 2020 from mere a 7% in 2010.

1.1 Music and Technology: An Interwoven Relationship

Since inception, the music industry underwent drastic transformations and had to rethink of innovative ways for business. The music industry had seen it all, be it the roll on of music cassettes in the 1960s, available for multiple copies for private use, or the introduction of compact discs, which provided competition to the established video cassette business. In the pre-internet era, recorded music toppled the share and generated the highest revenue. Established and budding music artists dreamt of signing an agreement with revered record labels. An official agreement meant that the recording house roped in a specialised studio recording, which permitted the performers' admittance to the record labels' global circulation system, which would have been a form of wild imagination for most of the unsigned bands. Following the footsteps of the recording industry was a sector – music licensing, much reduced, fragmented, and outdated than the recorded song business. The music publishing industry was dominated by publishers in the market running primarily on a Business-to-Business (B2B) model, without any physical contact with end users. Their prime obligation was collecting and distributing the license fees of the songs to the lyricists and composers in a fair and equitable fashion. The tertiary sector – was the live music which made revenues from the sale of concert tickets. Associated with a rich, long, and proud history, it got reduced to minuscule during the twentieth century. Their most important source of income was record sales and recognised artiste tours; a means to promote a studio album. They were not keen

¹ Michel, “ The Impact of Digital File Sharing on the Music Industry: An Empirical Analysis”, RIRA (2023), Accessed March 2023.

² John Paul Titlow, “6 Million People Pay For Spotify - Is That GoodEnough?” *ReadWrite*, March 13, 2013, accessed March 29, 2023.

on tour profitability. Record labels at times went ahead to pay tour support, which encouraged brands to go ahead for tour promotion and market the music album even during the concert. During the twentieth century, the music industry structure and the interrelationship between the three categories became more robust and cemented with the emergence of the Internet. The immediate influence was seen in the distribution of recorded music C.D.s to the end-users, which meant that while recorded music was significantly impacted by flourishing online piracy and loss of distribution channels, the other two sectors remained more or less unfazed. These two sectors have acquired more distinction and strength. The birth of high-speed net connection and the official mp3-file format, which became the universal file format defining the music, led transformations, turned tables, and shook the foundations of performance delivery. Massive adoption of technology enabled the easy circulation of music files. Quickly restored, compressed, and retrieved, music exchange was possible without any restrictions and authorisation of right -holders.

1.2 Prohibited Downloading: From Napster to Peer - Peer. More than 60 million users unrightfully exchanged more than 1.5 million music titles in less than three years. Thanks to Napster. Brainchild of Shawn Fanning, permitted the audience to copy and interchange music files without remunerating the music right- holders. Due to this reason, Napster was fast to be litigated by the music industry and consequentially had to close down its services. However, the fact remains uncontested that both legalities and technicalities of the structured music industry needed to be revised to halt the disruption brought by online piracy. This a fine example of how innovation-led disruption could transform a legacy-driven music industry, rendering its current competencies outdated and redundant. Its influence and concentration in the pre-internet song business was primarily positioned on the capability to monitor and govern physical distribution.

2. A Growing Digital Music Market

It needs no mention that the prime attributes driving platform-based organisations are minimisation of friction, convenience, seamless integration, and mitigation of product pain points. Prime examples of winning platforms Amazon, Netflix, and Snapdeal all exhibit these features. With a user experience (UX) to vouch for, coupled with curated music content, Spotify had it all to bust the chart and for a company to dominate platform architecture. Recording and other song categories needed to be more innovative to match with the pace of online piracy. Neither were they able to come up with a creative business model for authentic online distribution. Apple could rightly be labelled a pioneering enterprise in developing a prosperous online service for legitimate sales and distribution. The company convinced its peer groups that the consumers would pay for legal music if supplemented with a simple online platform. Later on, the service came to be known as iTunes. This brand label brought seismic shifts to the music industry. It was the first brand to offer a broad spectrum of music catalogues. What appealed to the customers was de-bundling of the music albums, which enabled them to pay for and listen to what they liked. Marching forward, iTunes Music stores emerged as the leading music merchant, selling more than twenty-five billion

since its birth in 2003. Its services have improvised and augmented significantly since its inception. I-tunes rein the market with a share of 50% of the world's digital songs market. This sector was buzzing with entrepreneurial activities and other legal music services being more far-reaching and radical. The activities in the music business went spirited every week.

2. The Brain Behind Spotify

Daniel was a music and technology fan. His first experiment with a business idea was in the year 1997 at the age of 14 where he developed websites for different customers from his home. He also served leadership roles for some companies which included the likes of e-commerce platform Tradedoubler, which was later sold to eBay Inc. Spotify was created in 2006 by Daniel EK and Lorentzon with an idea for developing a legal platform to stream music online, which during that time was reined by illegal file sharing websites. Armed with successful corporate careers in telecommunication and information, it was in the year 2006 that both of them decided to pair to explore a technical solution for the music industry at a time when there was a wide diversity of artists than at any time before. During those times, Sweden was known for flourishing piracy, and music revenues dipped to a significant low.³ The partners intended to offer something superior to pirating that would create revenue for the music business and be operational on any device, something analogous to free-flowing water. (quoted in Beuth, 2011). Inspired by piracy, Daniel Ek described his short-lived romance with the copying site Napster as one of the most influential and that changed his perspective as a music consumer. Instead of dismissing piracy, they drew motivation from it. During this course, he learned about the Beatles and Led Zeppelin, two much-loved bands. This know-how with music enabled him to join the brigade of 18 to 30 years, who were driven by enjoying music by paying money. In fact, in the November 2011 article for Spotify featured in Wired, Steven Levy elucidates the impact Napster had on this cohort.⁴ He said: "Released in an Ek dormitory room in 1999 & slayed in a courtroom in 2001, it educated a generational cohort that music could be enjoyed with mouse clicks and not money. Ek understood how Napster and illegal copying sites moulded the current generations' outlook regarding music access, its uses, and its consumption. So instead of providing an opportunity for consumers to purchase and own online music, the duo came up with the idea of offering them repository access to the music library. It came with a realisation that the best way to enjoy music was to provide consumers unrestricted access to extensive online music libraries. With the increase in smart devices, the position of Spotify as the category leader made it most likely to be designed into device pre-sets. Like Google Maps is pre-loaded on car dashboard screens, so is Spotify. In October, 2008 Spotify's music services were officially launched by invitation only in the closed beta version in Scandinavian countries (Sweden, Finland and Norway), Germany, The United Kingdom and France. It permitted the end –users to explore and browse for music, generate

³ Beuth, Marie-Catherine (2011), "Spotify hits 10 million paid users. Now can it make money?", Bloomberg Business Week ,May21.

⁴ Beuth, Marie-Catherine (2011), "Spotify hits 10 million paid users. Now can it make money?", Bloomberg Business Week , May21.

playlists and enjoy music. Spotify also offered a Pandora –like radio mode that provided users with an unlimited music playlists.

4. Drawing Inspiration from Pirating

The inspiration from the downloading platforms drove home the idea of augmenting the pirating experience. Ek developed music services utilising the same technology as the Pirate Bay, providing smooth and speedier transfer of music files. Spotify operated through an application downloaded by the consumers on their hard drives, which enhanced the services' swiftness, consequently easing the burden on main servers by distributing the demand between different connections.

4.1 Refining on pirating Spotify not only drew inspiration from pirating platforms but also ensured that the company's services did more than the competitors. He wanted its services to be more fitting, effective, and available, different from other downloading platforms. In those music platforms, consumers did not find any option to create their accounts, nor were the platforms adaptable to be used on devices of their choice. Spotify covered all these drawbacks, which positioned this music service platform as a clear differentiator from other available alternatives. What complemented this was a seemingly speedier, high-performance application platform trying to reduce the period between mouse click and sound. Ek utilised a combination of technology, indigenous cache memory, and peer-to-peer sharing and streaming. Daniel Ek himself assured that the songs needed to be streamed within a time window of 200 milliseconds. The combination of grander technology, architecture, and adaptability to multiple platforms motivated individuals to discard pirating and embrace Spotify, eventually prompting them to pay for the services. Ek knew that the current generation dismissed the idea of ownership but would be willing to pay for convenience and unlimited access to music files.

5. De- genrefication of Music: In the CD segment, being exploratory musically was rare and costly. Spotify became a blessing for music lovers and makers because of the associated benefits of accessibility.

5.1 Free Subscription Tier Spotify provided consumers with unlimited music streaming, which was condemned by many for years. However, for the founders, it was an impactful strategy to - ramp -up paying consumers, and it turned out to be true for the company. The music service's paid subscribers surpassed 155 ⁵million mark in 2019.

5.2 Mood Playlists

The music streaming services have not only de-cluttered historic restrictions between musical categories but also came with innovative categories of music captions such as "mood playlists." Spotify's editorial team has been engaged in developing emotive and category-less playlists to the

⁵ John Paul Titlow, "6 Million People Pay For Spotify - Is That Good Enough?" *ReadWrite*, March 13, 2013, accessed March 29, 2023

likes of Mood Buster which included upbeat tracks across categories, to a more recent addition of song playlists like "loose knit sweater D.I.Y.D.I.Y. bedroom", to name a few.

5.3 Autoplay Before the entry of music streaming, the notion of autoplay was not clear. Nevertheless, with the birth and domination of streaming services like Spotify, consumers could consume more content after their existing playlist was exhausted by adding new songs with the help of algorithmic inputs.⁶The music streaming platform Spotify emerged as the first on-demand service to promote auto-play, which has become common in all streaming services.⁷

6. Legal Restraints

It would not have been possible for Daniel Ek to launch Spotify without partnering with the music right -holders and therefore entering into legal agreements for access to their work became necessary. The intent was to exhibit that working with companies that acknowledged music rights holders was not impossible. However, after the company's launch, he encountered criticism from record companies. The other existing sectors needed to be convinced about Spotiy's business model. However, for the twenty-three old Ek, every challenge was easy to be resolved. It took him less than three months to enter into an agreement that provided him with a passport to use all European music. By October 2008, two years after inception, Spotify expanded its footprints to Norway, France, U.K., and Spain, followed by Finland and Denmark.⁸ In countries like Canada, the company was able to crack a negotiation deal with music rights holders only by September 2014.

7. Spotify's Freemium Business Model

Like many platform-based organizations, Spotify bucketed in the Freemium model. Consumers could avail its services free without any charges on tablets, phones and laptops in exchange for being exposed to ads for a few hours. Initially, Spotify restricted its usage for consumers to 10 hours a month, but, it lifted its restrictions to secure competitive superiority over other players. The consumers could avail of the⁹Premium Services for \$9.99 a month, with no extra fringes. The premium service plan gave them unlimited access to music libraries with the best sound quality, without any ads or interruptions. Spotify also offered personalised music services through access to Spotify Radio, which played music based on the consumer's interests, recommendations, and

⁶ Daniel Ek, "Daniel Ek from Spotify at 2009 Future of Music Policy Summit," Interview by Casey Rae-Hunter, Future of Music Coalition, October 6, 2009, accessed February 24, 2013, futureofmusic.org/events/future-music-policy-summit-2009.

⁷ Helienne Lindvall, "Behind the Music: The Real Reason Why the Major Labels Love Spotify," *The Guardian*, August 17, 2009, accessed March 20, 2023, <http://www.theguardian.com/music/musicblog/2009/aug/17/major-labels-spotify>.

⁸ D.A. Wallach, "How Does Spotify Pay Artists?" interview by MikeKing, *BerkleeMusicBlogs*, September 4, 2012, accessed January 13, 2023, <http://mikeking.berkleemusicblogs.com/2012/09/04/how-does-spotify-pay-artists-interview-with-spotify%E2%80%99s-d-a-wallach/>

⁹ Mudhar Raju (2014). "Streaming giant Spotify arrives in Canada". Tech News, *thestar.com* September 30.

ideas. Spotify made its revenue from the advertisements that appeared on its free service and through subscription fees. The company began with a desktop version, operationalised through invitation only model until the year 2009. It came with a mobile application primarily for the exclusive users in the 2009, due to the enhanced demand for music on mobiles. ¹⁰The company which was earlier privately funded received US\$21.6 million in Series A funding from Sir Kashing Li (Li), Creamdum, Northzone, and Horizon Ventures Limited followed by Series B funding from the same venture capitalists and Series C funding from Funders Fund & Sean Parker. Over the years, Spotify raised US\$ 2.7 billion from different angel investors like Founders Fund, Caufield & Byers to name a few. By the end of 2010 the company's music repository had close to 10 million songs, narrowing the gap with iTunes. By 2011, the company had 6.67 million consumers in the continent Europe, out of which 1 million were paid subscribers. Spotify came with a customized web-based plan in 2012, permitting users who operated on netbooks. In the US Spotify initiated its services in the year 2011, by way of three categories of Spotify accounts: Free, Unlimited and Spotify Premium. With time, Spotify customised its offerings for each country like for US; it offered a discounted premium subscription for the students titled as 'Student plan'. Spotify was neither the first nor the only legal music platform and not the only one to offer entrance to a comprehensive online music store. Spotify faces competition from companies in every country and its market. Deezer in France, and Pandora in the US, to name a few, are the ones that offer stiff competition to the Spotify brand. Over and above, Technology giants like Google, Amazon, and Apple, intensified the competition. Apple Music offered tough competition to Spotify with similar services, at-par offerings, and prices. Both companies presented radio services and features of both distribution and exploration. Even though Spotify has been recognised in the music industry for streaming, Apple scored high in association with record companies, with accessibility in ¹¹110 countries.

8. Social Media Integration

Views by experts suggest that the company was able to enhance its user base because of its relationship with varied social media websites. In 2011, Spotify integrated with Facebook. The prime objective was to facilitate users to share the music they listened & motivate non-users to use Spotify and subscribe to it. Spotify enabled the users to post what they were listening to on their Facebook page, and then the same content was reflected on their friend's feeds. Consequently, it incentivised the non-users to subscribe to Spotify. Above all, the association also helped the company understand and gain insight into the inclinations of the music lovers & build upon by improved offerings. The company also pulled active social media users to its premium service by posting prime content, available to premium Spotify users on Facebook. This collaboration also

¹⁰ Statista (2015) " Spotify's revenue and net income/loss from 2008 to 2013 (in million euros)" , *The Statistics Portal*.

¹¹ IFPI (2011). *IFPI Digital Music Report 2011. Music at the touch of a button*, International Federation of the Phonographic Industry, 31 p.

benefitted Facebook because connections were augmented when the music was shared. Whenever Facebook users saw news feeds that relatives or acquaintances were listening to, they also wanted to listen and enjoy; they could easily do so by directing them to Spotify. The users of Spotify were constrained because of its ad-enabled or free account to 10 hours of total listening access per month. From 2015, Spotify provided six months of unlimited access to music to lure end-users when they then clicked on a playlist that featured on Facebook news feeds. On Twitter as well, Spotify responded to questions from its followers and even sent them playlists developed for them. Experts felt that the company's relationship with Twitter provided for a ripe ground for conversations cornered around music, trending on social media. Twitter went ahead to add Spotify streams to its list of music services that could be assimilated into its audio cards.

9. Generating Value Jointly with Consumers

Networking platforms like Facebook, Spotify and Twitter enabled users and company teams to share playlists based on themes, genres and emotions. For instance, in 2014, when spring arrived, the company encouraged its subscribers to share their playlists with an attached incentive that the company would endorse this list. The same practice was followed on other celebration days like Rainy Day or Mother's Day, to name a few. These accumulations allowed users to explore new music and share their common likings. The less-known music playlists were also promoted, given that vast repertoires of over and above 30 million songs gave a tough time to users to choose songs. It enabled the users to explore other users' suggestions and offer endorsements. The strategic advantage for Spotify was that it reduced operating costs since the organization did not require marketing its repertoire & it also promoted brand loyalty and patronage. Marching forward on the strategic exercise of user engagement, in 2011, the company developed a development platform that permitted experts and amateur developers to create applications for the company. The company did have in-house developers but felt that roping external specialists would promote idea generation and retort to the needs of the users. Experts had availability to platforms with no fear of securing licenses to utilise music libraries. Absence of this hurdle, imagination, and creative thoughts started brimming for everyone's benefit. Other features, like Song-kick, created a calendar of music concerts that appeal to users' interests. Developers had access to platforms for designing applications without being disturbed about securing the license to access music libraries. With this hurdle out, they could let their thoughts run wild to everyone's advantage. The unique feature Song kick provided for creating a schedule of concerts of likely interest to users. By virtue of networking sites like Facebook and Twitter, Spotify enabled end-users to share their sentiments on these applications. In addition, it also helped endorse the popularity of applications enhancing brand patronage. The company acted as an expeditor for these activities and provided a drive to the users keen to create value for the company. These actions permitted Spotify to improve and expand its footprints and reach.

10. Brand partnerships

To enhance its revenue, Spotify collaborated with companies willing to pay for its users' contact and attention. It provided advertisers an advantage of ad message communication, embedded through audio and visual formats. Spotify also provided broadcasters and advertisers a facility to position the strategy for the potential users from the information collected by the company in terms of age, location, and, above all, musical tastes. Advertisers could also analyse the functionalities and comprehensive reports of their ads' use.

11. Why Spotify was Believed to be Disruptive

The music streaming application seemed to have disrupted the traditional model of business in the music industry, similar to Napster. The company understood the innate traits of Generation Y for instant gratification to generate an interest in its music streaming services.

The company presented a simple value proposition that opened channel gates for an audience willing to pay for music and enhanced the revenues across the music ecosystem. Spotify created a twin marketplace where music artists and record labels could present their musical classics and be rewarded while the users could explore and enjoy music. Spotify procured two categories of licenses for the music it played, namely 'sound recording license agreements', which included the rights of a particular recording, and 'musical composition license agreements', which included two categories of licenses: mechanical and performance rights. Mechanical rights were paid to song writers and performance rights were paid to song publishers. The company had recording agreement with three major labels: Sony, Warner and Universal. Every time the song got played, the more was the money which went into the purses of the record labels. These record labels, then distributed the money to those who owned the music, professionals who wrote the script, and to the artists. The company Spotify has seen phenomenal growth since its inception, thanks to the service features and collaborations. ¹²Since 2012, the company has extended its reach to 58 countries, including Germany, France, the U.K. and other Scandinavian countries. By 2015 it included a broad base of more than 75 million active consumers, which included 20 million subscription-based users. The company is headquartered in the United Kingdom & Sweden and workplaces in 18 countries. The company's payback provided the much need impetus to music industry for growth and also motivated music artists and publishers to develop songs and sell it to Spotify. It is believed that after years and decades of diminishing music sales, Spotify brought about the new breath of life. The music streaming application re-established confidence, trust and growth to the music industry. The streaming industry has been contributing a giant share of the song industry revenue, with Spotify's contribution standing tall to 42% (Refer to Exhibit VII). The company came out with creative services which enabled the music artists to connect and communicate with their fan base. In one of its kind initiative, "RISE", directed to encourage budding artists, the company provide them with the much needed platform and highlighted their work by way of playlists , events etc. Experts opined that, Spotify positioned the music snooping

¹² IFPI (2014). *IFPI Digital Music Report 2014. Lighting up new markets*. International Federation of the Phonographic Industry, 48 p.

command definitively in the user's hand, allowing them to choose their own music from their stored repository, identified as 'celestial juke-box' and create their own playlists. They suggested that the interactive feature offered by the music streaming application to users gave it added mileage over the competitors and drove its growth.

12 The Challenging side

12.1 Lawsuits

Over the years, the company Spotify has faced numerous lawsuits from different stakeholders, institutions and people, who have objected its working tactics. It was sued by Ministry of Sound Group in the United Kingdom High Court, for copyright contravention. It was also presented the users of Spotify were assimilating the individual tracks and titling those playlist 'Ministry of Sound' thereby violating the copyright clause. MoS commanded an injunction that required Spotify to seize the deviant playlist and block the users who copied the compilations.¹³ As said by, MoS's CEO Lohan Presencer, "Till now, we have watched Spotify's ascent from side-lines. But now we can no longer remain silent. The so-called saviour of the industry and enemy of the pirates is allowing our compilations to be used without our consent". Spotify refused to make a statement on the lawsuit. It did enter into an ex-parte agreement with MoS over the collection of songs by its users. The company in case Spotify agreed to block user generated songs repositories that imitated compilations of MoS.

In one of the other lawsuits, the company was levied with a fine of US\$ 150 million in Court of California on the context of transgression of US copyright law by streaming music without a licence. The company contested for the change in copy right since the online resources made it tough to track the co-authors of the various songs. The law suit could only be settled after the company paid US\$ 5 million penalty and another US\$ 25 million fund to pay previously unpaid artists. This was a similar case with Wixen Music Publishing, Inc for streaming music without licence and payment to music publishers. The company also had to face legal hiccups due to ambiguous music copy right laws. Experts felt that any amendments in these laws would have ended up in an increase towards the royalty payments to song publishers and songwriters, impacting its gross margins in the future.

12.2 Spotify's Net Revenue, Cumulative losses

The company Spotify, despite rapid growth in the number of its users and revenue, had not been profitable from its origin. For the year 2022, the company generated revenue of US\$ 12.9 billion, a rise from US\$ 10.5 billion for the year 2021. To articulate the reasons behind Spotify's incompetence in reaching viability and the losses that are mounting up, one needs to recognise its

¹³ Brustein, Joshua (2014). " Spotify hits 10 million paid users. Now can it make money? *Bloomberg Business Week*, May 21.

cost and revenue structure. ¹⁴Out of 747 million euros in revenue in 2013, 679 million euros, or 91 %, came from users who subscribed to the Premium service. The residual 68 million euros were attributable to ad revenues. Coming to cost perspectives to lawfully offer vast music libraries to the users, Spotify needed to pay the right -holders of this music: music developers, writers, and mediators involved in developing, generating & marketing musical works. As per Spotify, 70% of its gross revenue is directed to right- holders, which amounted to \$3 billion since the service was launched (including \$500 million in 2013 alone). The company's other noteworthy costs are associated with technologies, i.e., massive expenses of hosting, storing data & bandwidth needed to stream such vast amounts of music on demand. These costs vary subject to the capacity of end users, and fortuitously they rise in line with income growth. The other associated costs were fixed expenses of developing infrastructure for the on-demand music streaming related to programming, sustaining the streaming platform, the repository of over thirty million music playlists, and operational costs. Revenue from the paid subscribers had accounted for 90% of the company's total revenue. Company' average revenue declined from US\$ 6.84 in 2015 to US\$ 4.54 in 2022.

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The company countered that portion of the revenue fall per subscriber was due to the increase in acceptance rate of the Student and Family plan. However, the company claimed that the two plans had led to augmented engagement and retention rates. Experts opined that the company had secured a firm image with roll out of successful IPO, facilitating it to crack better deals with artists and record companies. It had largely been felt that besides investing in direct artist deals, the company also needed to negotiate desirable contracts with artists and record labels to improve gross margins. Over the years, the company had also witnessed an increase in its paid subscriber base. ¹⁶The company had 220 million subscribers in 2023, a 17 %on year –on -year increase from 200 million in Q42022. Experts opined that the company was struggling with the main challenge of converting it free subscribers to paid subscribers. Following these challenges was the competition proffered by other information technology companies with subsequent funds at their disposal. Being a player in digital music market, the company had to be on its toes to enhance its product offerings and securing constant engagement with customers. In lines with the same, the company in 2018, it tested a new feature on it technology architecture in Australia that allowed free users to bypass the video and audio ads any time and as frequent as possible. Apart from this, the company incorporated new features named as 'Active Media', which allowed advertisers for fee exemption for the ads which the users skipped. Spotify also possessed huge trove of data which pertained to the listening habits of users. It provided this data to industry players at no costs, which otherwise could have been used effectually for the company's success. As mentioned by Mark

¹⁴ Brustein, Joshua (2014). " Spotify hits 10 million paid users. Now can it make money? *Bloomberg Business Week*, May 21.

¹⁵ Dredge Stuart (2012). "Spotify revenue grew sharply in 2013 but operating losses also rose". *The Guardian* November 25.

¹⁶ Brustein, Joshua (2014). "Spotify hits 10 million paid users. Now can it make money? *Bloomberg Business Week*, May 21

Mahaney, analyst from, *The Royal Bank of Canada*, “Data and personalisation can also boots its projected success. Spotify as a data set of more than 200 petabytes compared to Netflix Inc. The Company had also experimented with selling podcasts, concert tickets and short form videos that presented higher margins. Spotify aimed at long term growth rate of 25% to 35 % as it tried to increase its user base

12.3 The Rights holders cut and Royalty Issues

Despite its innovative disruption the company came down heavily on criticism because of the ‘Freemium model’. In 2013, music artist Thomas Edward Yorke pulled out his solo songs from the streaming application, opposing that budding artists got paid less at Spotify. It is a matter of fact that every time, Spotify passed over a generous gross income of 70 % to the music rights-holders. In 2013, Spotify declared that it had paid between \$0.006 to the right holders when the song was heard one time and somewhere between \$6 to \$8 when the songs were played more than one thousand times.¹⁷ It depended on the context (country), users, subscription type, and the company's sales records. The royalty fee paid by Spotify was higher than any music streaming service platform like Pandora and Deezer, to name a few. The company shelled out \$600 million, i.e., 48% of its income to its right -holders, at an approximate rate of \$0.011 every time the playlist was streamed online¹⁸.¹⁹ While it was competitive, still very low compared to the popular digital music downloading platforms such as iTunes, which paid \$0.69 - \$0.99 for each title sold and distributed among right- holders and intermediaries.

Spotify received flak for compensation from renowned music artists and bands. Famous artists like Black Keys, Radiohead, and Taylor Swift have declined to lend their names to Spotify and other song-streaming platforms since every time the music is streamed, what they receive is relatively less than what they earned while songs are sold. In November 2011, British distributor S.T.S.T. Holdings, which symbolized two hundred thirty-eight record companies, unequivocally decided to pull out its complete playlist from Spotify. The justification was that while online music platforms cater to the intrinsic music need of millions of people, they generate very little revenue, degrade the music value & above all, cannibalize traditional digital sales revenues.

¹⁷ King, Mike. “How Does Spotify Pay Artists? Interview with Spotify’ s D. A. Wallach.” *BerkleeMusicBlogs*, 4 Sept. 2012. Accessed 15 Jan.

¹⁸ King, Mike. “How Does Spotify Pay Artists? Interview with Spotify’ s D. A. Wallach.” *BerkleeMusicBlogs*, 4 Sept. 2012. Accessed 15 Jan. 2023. <http://mikeking.berkleemusicblogs.com/2012/09/04/howdoes-spotify-pay-artists-interview-with-spotify%E2%80%99s-d-awallach/>.

¹⁹ King, Mike. “How Does Spotify Pay Artists? Interview with Spotify’ s D. A. Wallach.” *BerkleeMusicBlogs*, 4 Sept. 2012. Accessed 15 Jan

Some observers felt that the record label organisations like Universal owning stock in Spotify were able to crack better deals, since the “tilted” royalty structure of the company, ended up in popular stars securing higher than independent artists.

In the universe of digital music, making music accessible on Spotify, Radio, or any other platforms does not turn out to be profitable for international stars and other rights holders when compared with selling tracks and albums on legal downloading platforms. However, in a context where consumers are migrating towards music streaming platforms because they feel they better meet their needs than legal downloading platforms like iTunes – when they do not simply move on to illegal platforms. Many rights- holders agree that having their work on Spotify is still better than being pirated. Moreover, it has been proven that legal music streaming services, because they are similar to what illegal music download platforms offer regarding accessibility, put a substantial dent in pirating. Sweden's Growth From Knowledge (GfK) Research showed that in 2013, 90% of Spotify's paying users and 70 % of users of its free service download music "less often" since joining Spotify (I.F.P.I., 2014).²⁰ All said and done, despite all the benefits, the artists and other right -holders would like to be offered improved remuneration for the usage of their music on the online platforms. If this company wishes to offer augmented royalty fees to this music fraternity, it would require increasing the fee charged to the online users. It would also augment the struggle from other illegal – downloading platforms and result in market share loss. It turns out to be a continuous challenge for Spotify, yet untamed. The company could also bank upon the premium subscriptions, which are paid, and a large home for revenue. For a few years, Spotify has been trying to bundle subscriptions to its service with other complementary services to increase the share of paying subscribers.

13. Solving the Legal and Profitability Impasse

The company was facing quite a puzzle: on one extreme, its services were creating excitement among users, and it had seen a spectacular rise since its inception. It comfortably outperformed several legal online music platforms like Deezer, Pandora, and Radio in many markets. On the other extreme, despite some caginess, music artists and rights- holders were making their compositions accessible on Spotify with an understanding that it was better to have the titles on this than on any other illegal site, but with an expectation that they may end up securing higher royalty one day. It allows Spotify to offer one of the complete music catalogues on the market. So Spotify has achieved inevitable success. On the other hand, Spotify was not backing the sustainability of those who create, produce, and promote music. It is drawing consumers away from illegal downloading platforms, of course. However, the revenue it managed to generate was practically symbolic once in the hands of music creators, producers, and promoters. Paying right -

²⁰ Genevieve Schatz, “Perceptions of Spotify From an Artist’ s Perspective: Company of Thieves,” personal interview, January 24, 2013.

holders more would mean increasing the contribution for consumers, at the risk of losing them to free, illegal platforms.

So like the entire music industry, Spotify needed help with the issue of the very value placed on the music and the difficulty of monetising it. How well will this impasse be broken? How could they keep giving consumers what they considered value? Free music, instantaneity, accessibility, diversity, and flexibility – while monetising that value to compensate rights holders better and achieve what any company aims for profitability? The outcome of this struggle to create value, in which music consumers and rights holders play a part, along with Spotify's legal and illegal competitors, is far from simple. To settle the interests of consumers with those of rights holders, to reconcile the values of a generation of Internet users with the value of music while aiming for profitability and differentiating itself from the competition, Spotify will need a great deal of creativity and strategy....

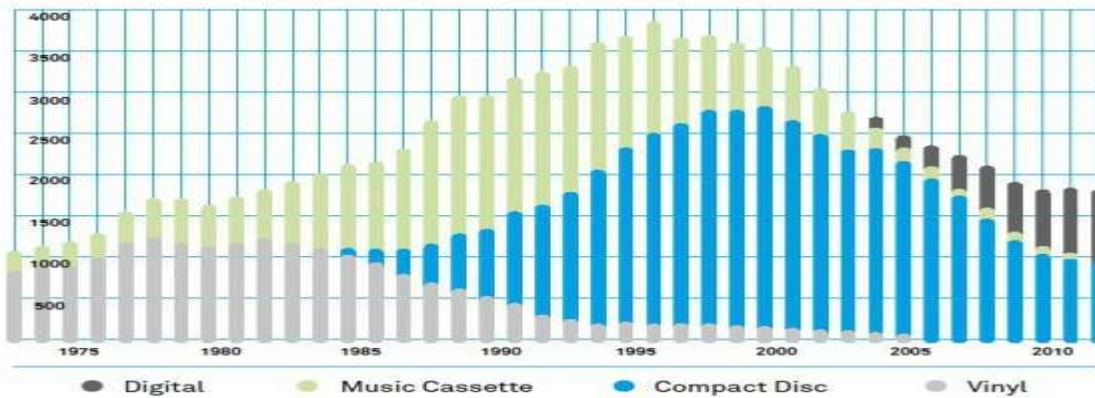
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Exhibits

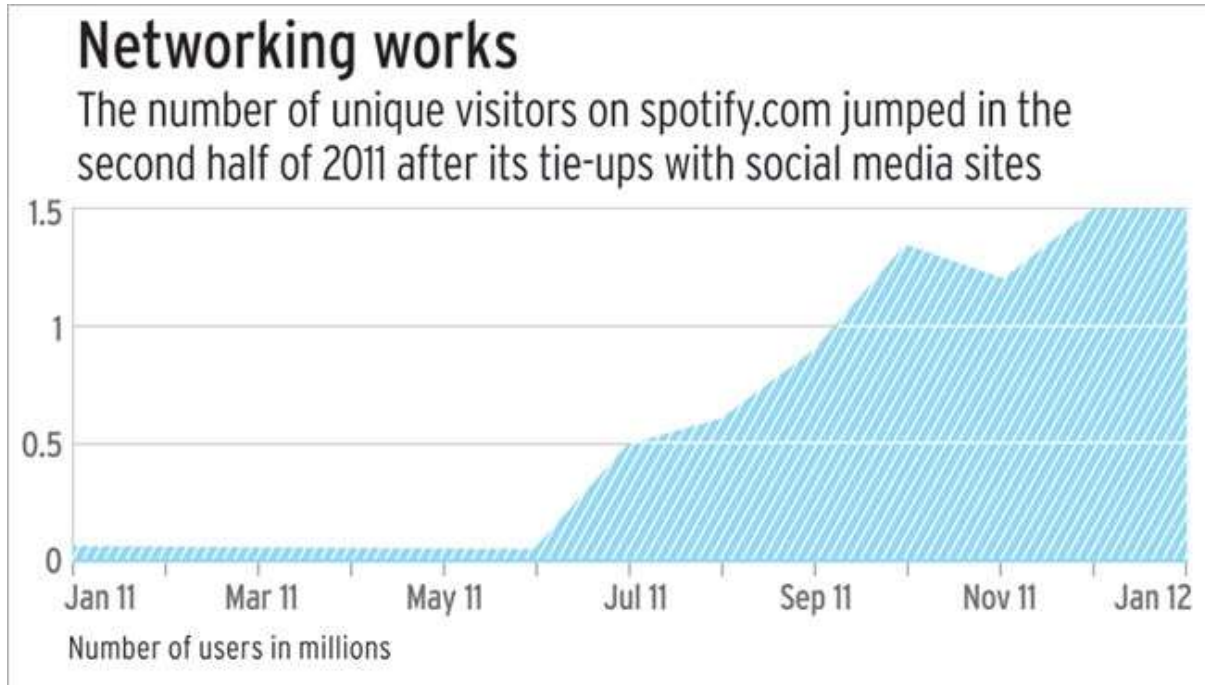
Figure –I Recorded Music Volumes



Source: Recorded Music Volume, 1973–2012.

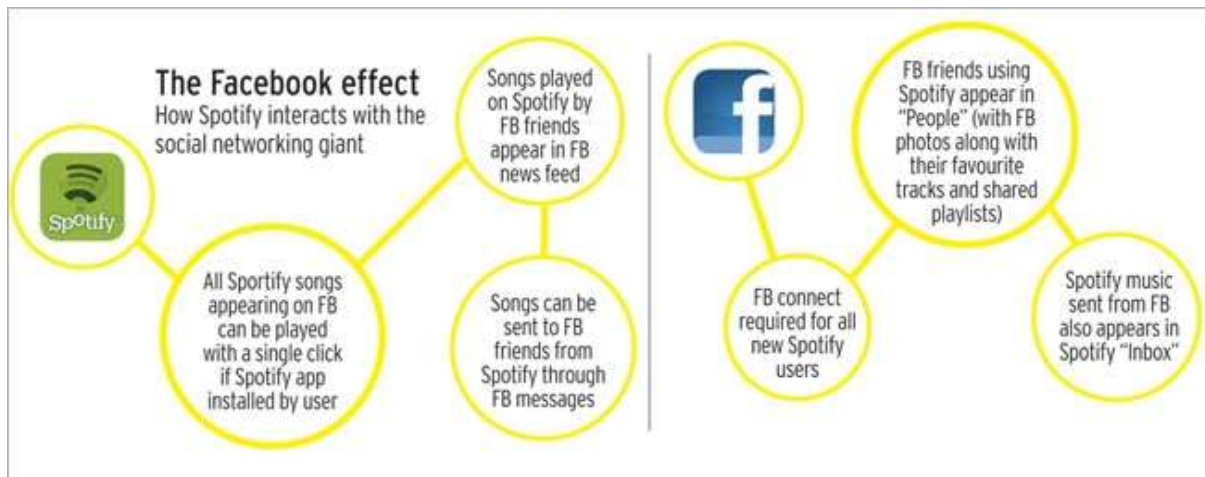
Note: Digital includes full-length albums and singles split by 4. Vinyl includes L.P.s, L.P.s and E.P.s, E.P.s split by 4. Music DVDs are not included. Source: I.F.P.I. 2013

Exhibit –II Online Streaming Services



Source: Online Streaming Services (I.F.P.I., 2014)

Exhibit –III Online Streaming Services



Source: Online Streaming Services (I.F.P.I., 2014)

Exhibit – IV Digital Media revenue

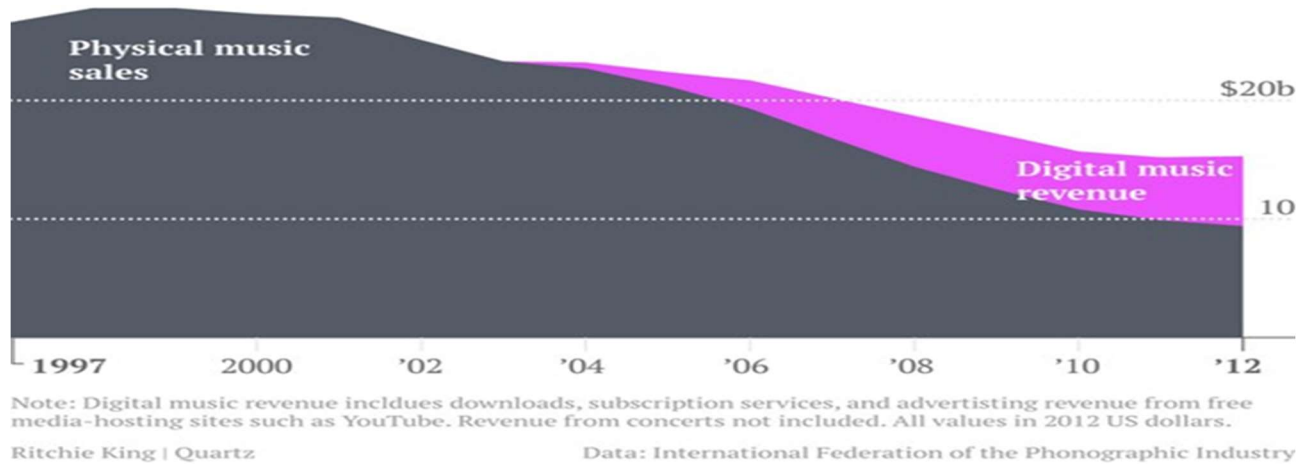
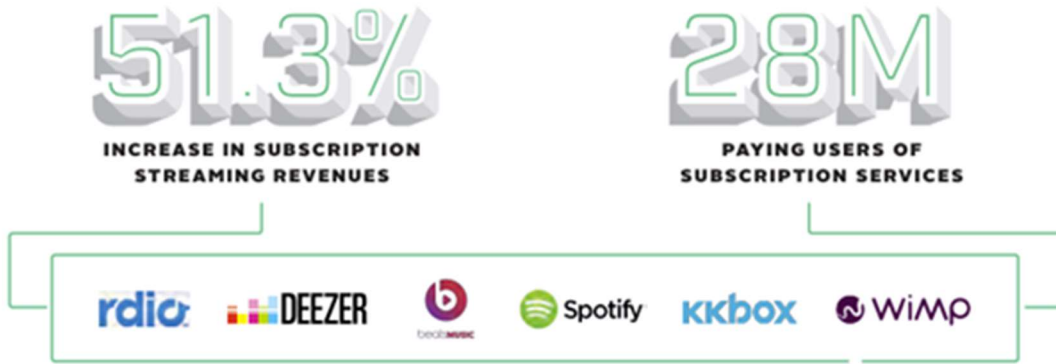


Exhibit –V Online Streaming Services



Source: Online Streaming Services (I.F.P.I., 2014)

Exhibit –VI Global Revenue (Digital Music)

Source: Increase in global revenue in digital music from 2008 to 2013(I.F.P.I., 2014)

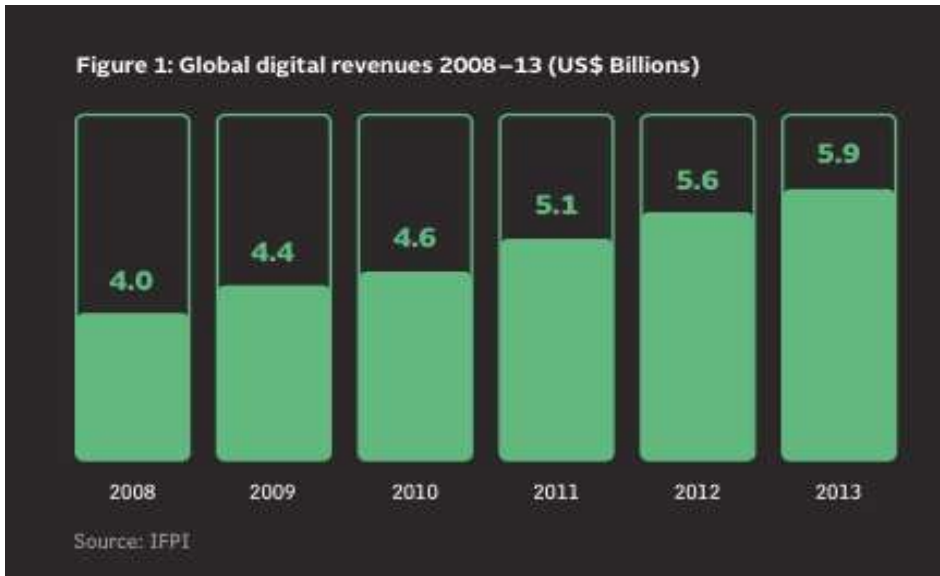
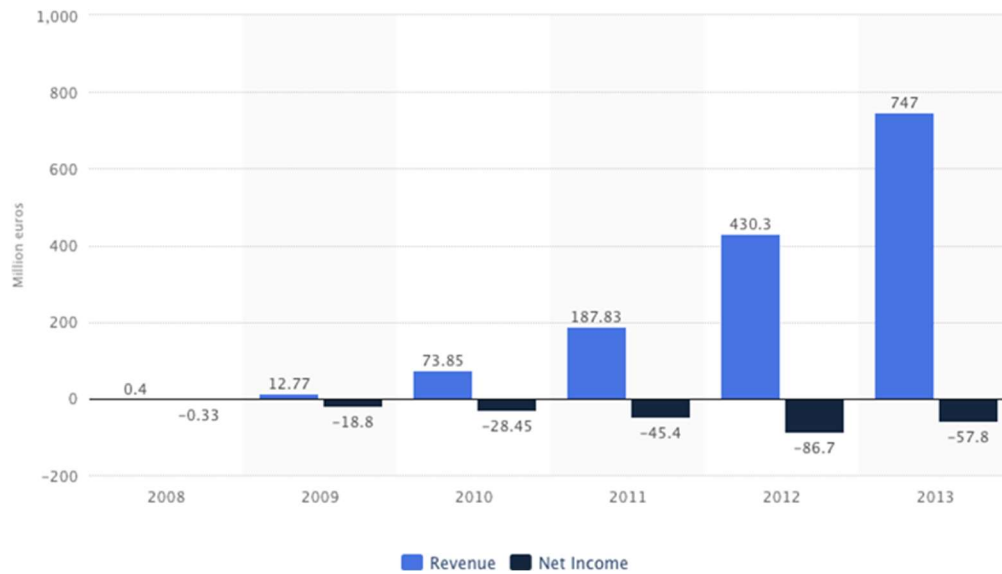
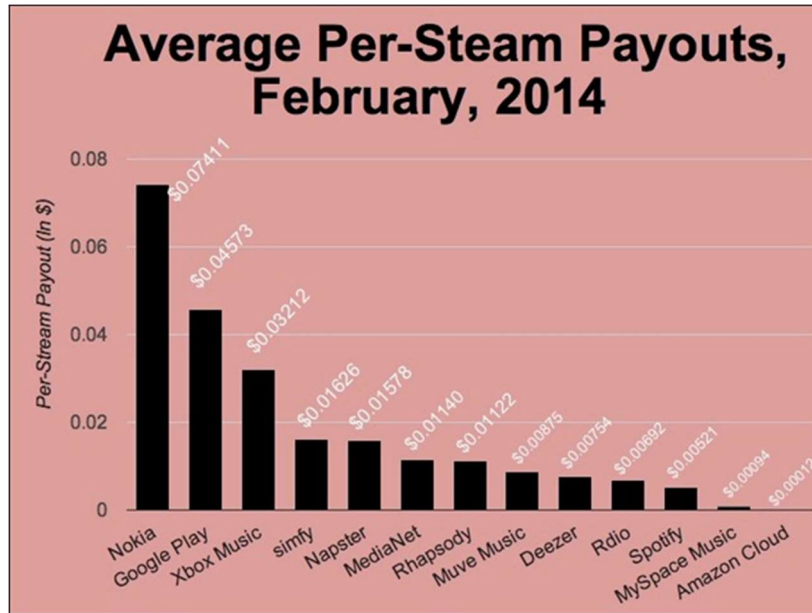


Exhibit –VII Spotify’s Net Revenue



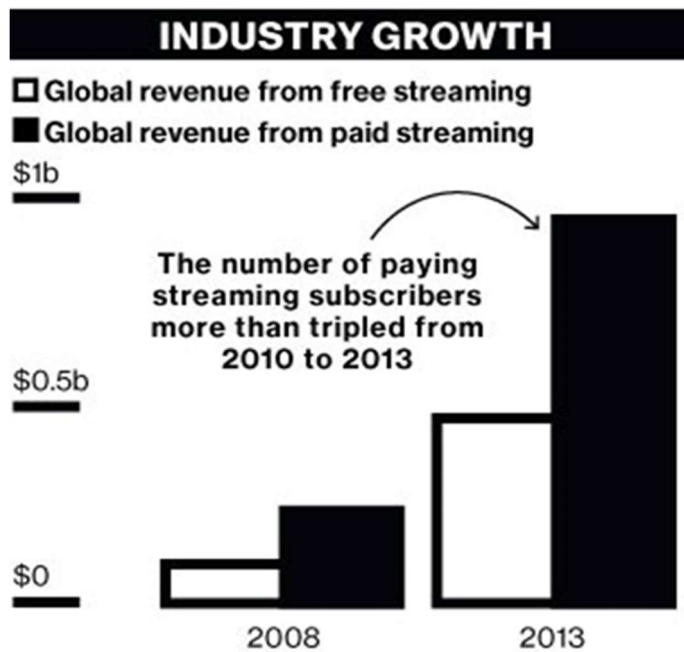
Source: Spotify’s revenue and net income from 2008 to 2013(Statista, 2013)

Exhibit – VIII Music Services Pay-outs



Source: Music streaming service payouts, according to an independent record company (Resinkoff, 2014)

Exhibit - IX Revenue Share



Source: Revenue share related to the types of use (paying and free); Brustein, 2014