



Playing a new tune in a disrupted market

MS&E 270 Fall 2016

Hyder, Yash, Akash, Dhruv



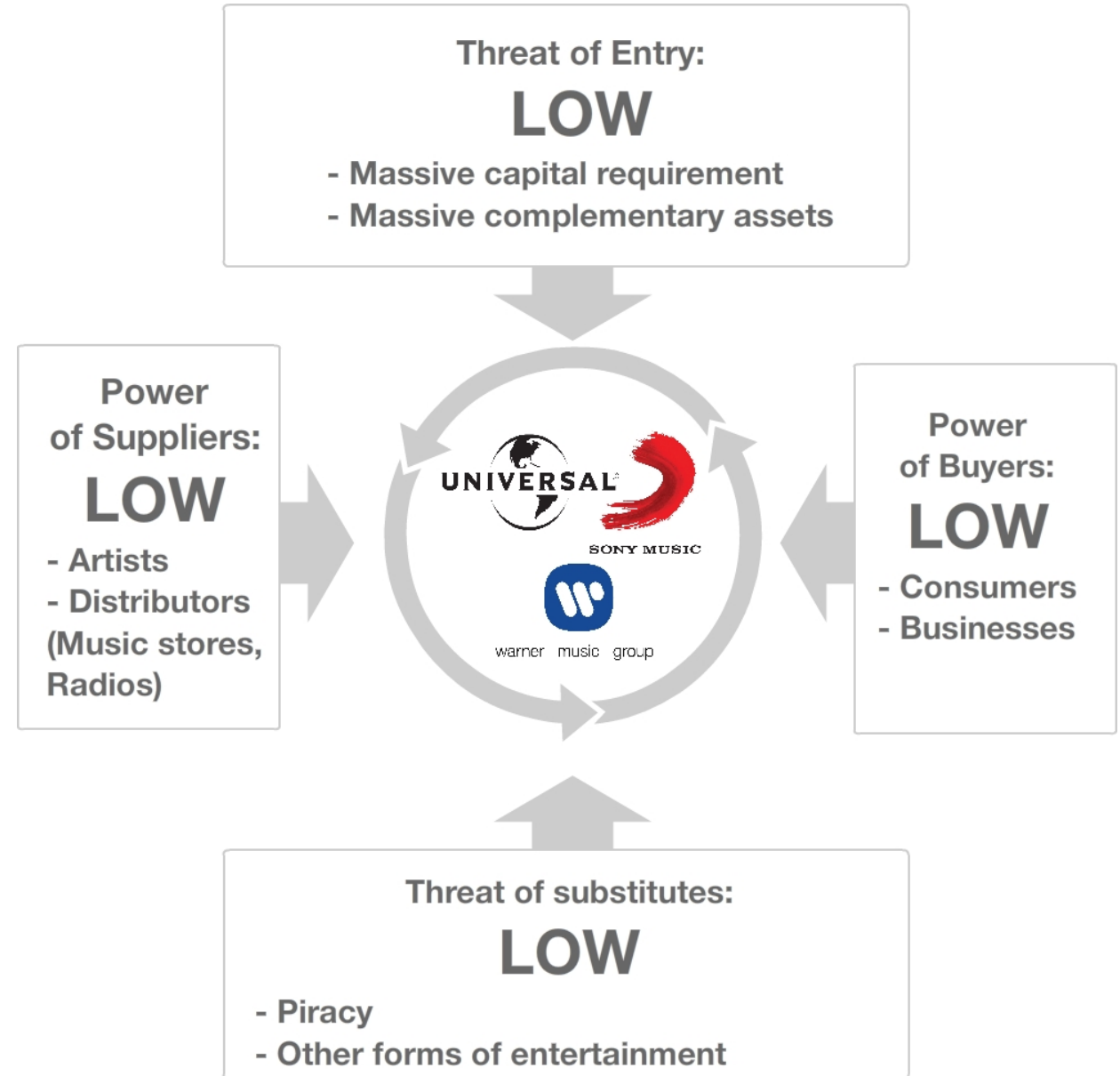
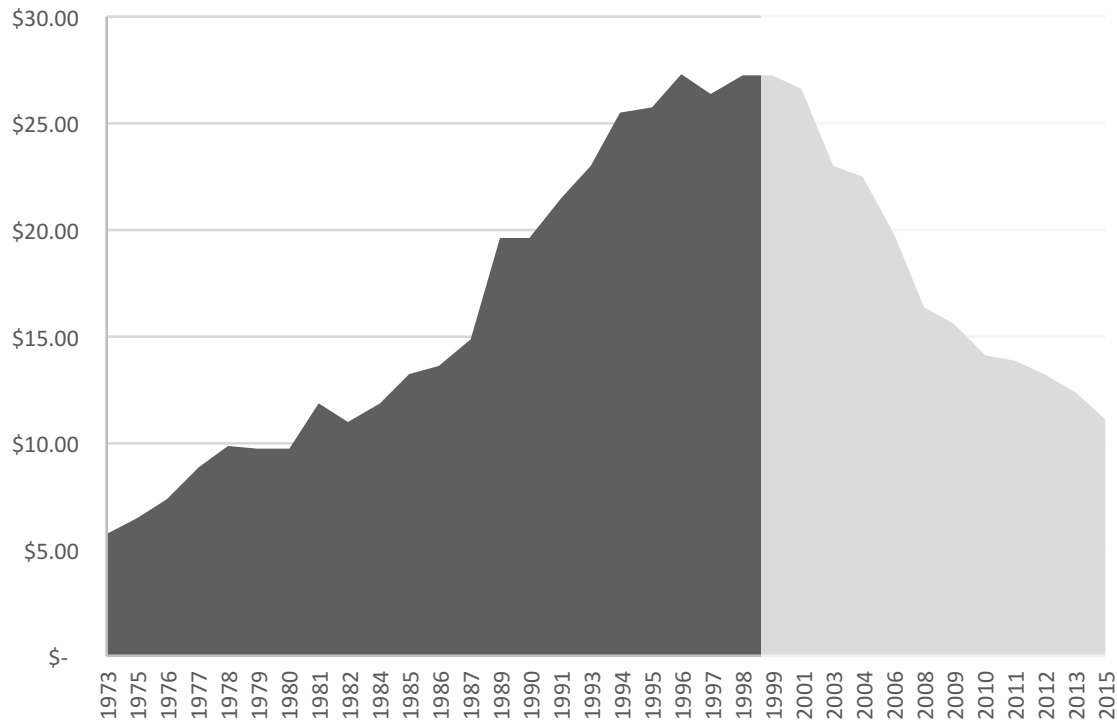
Today's playlist

- Evolution of the music industry
- Spotify 101
- Challenges
- Strategic considerations
- Recommendations



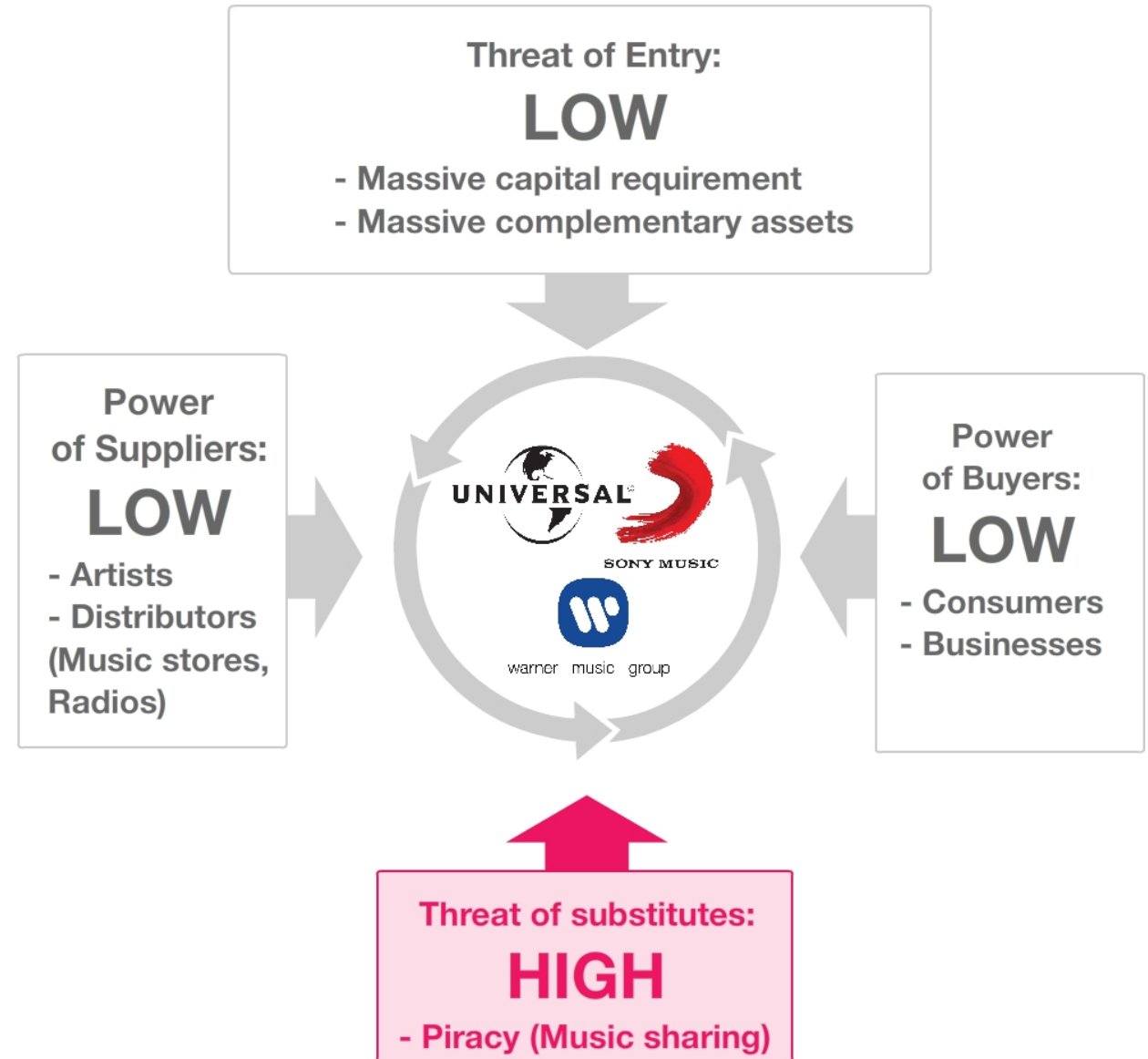
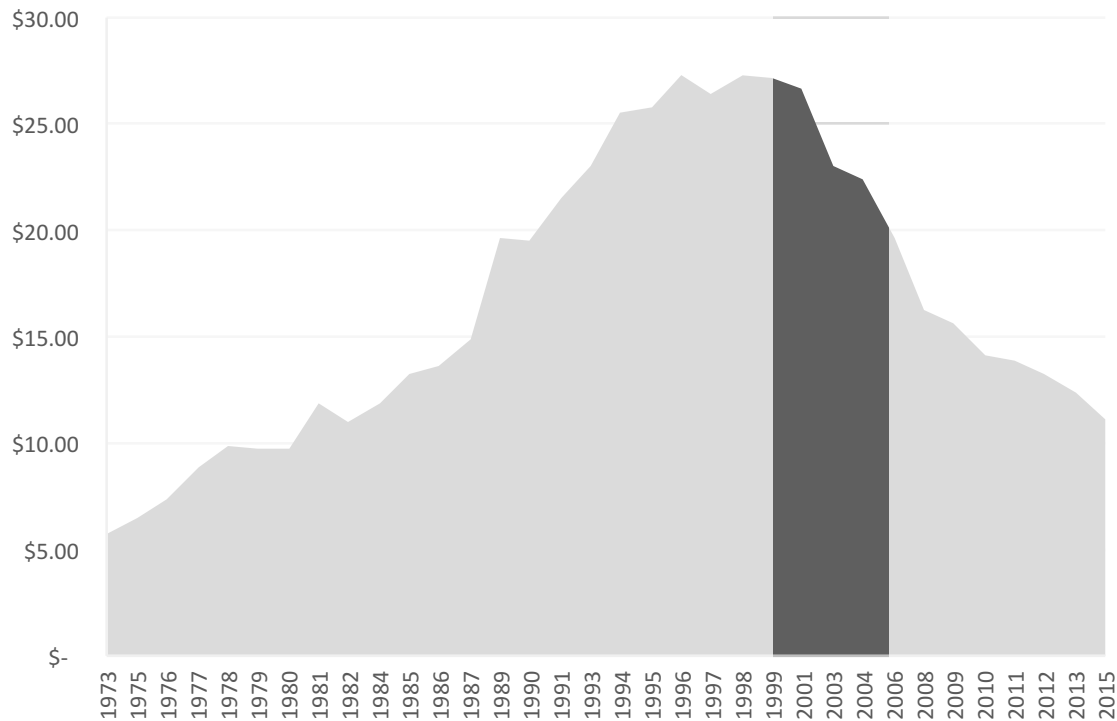
Yesterday (all my troubles seemed so far away)

Music Industry Revenue (in billions)



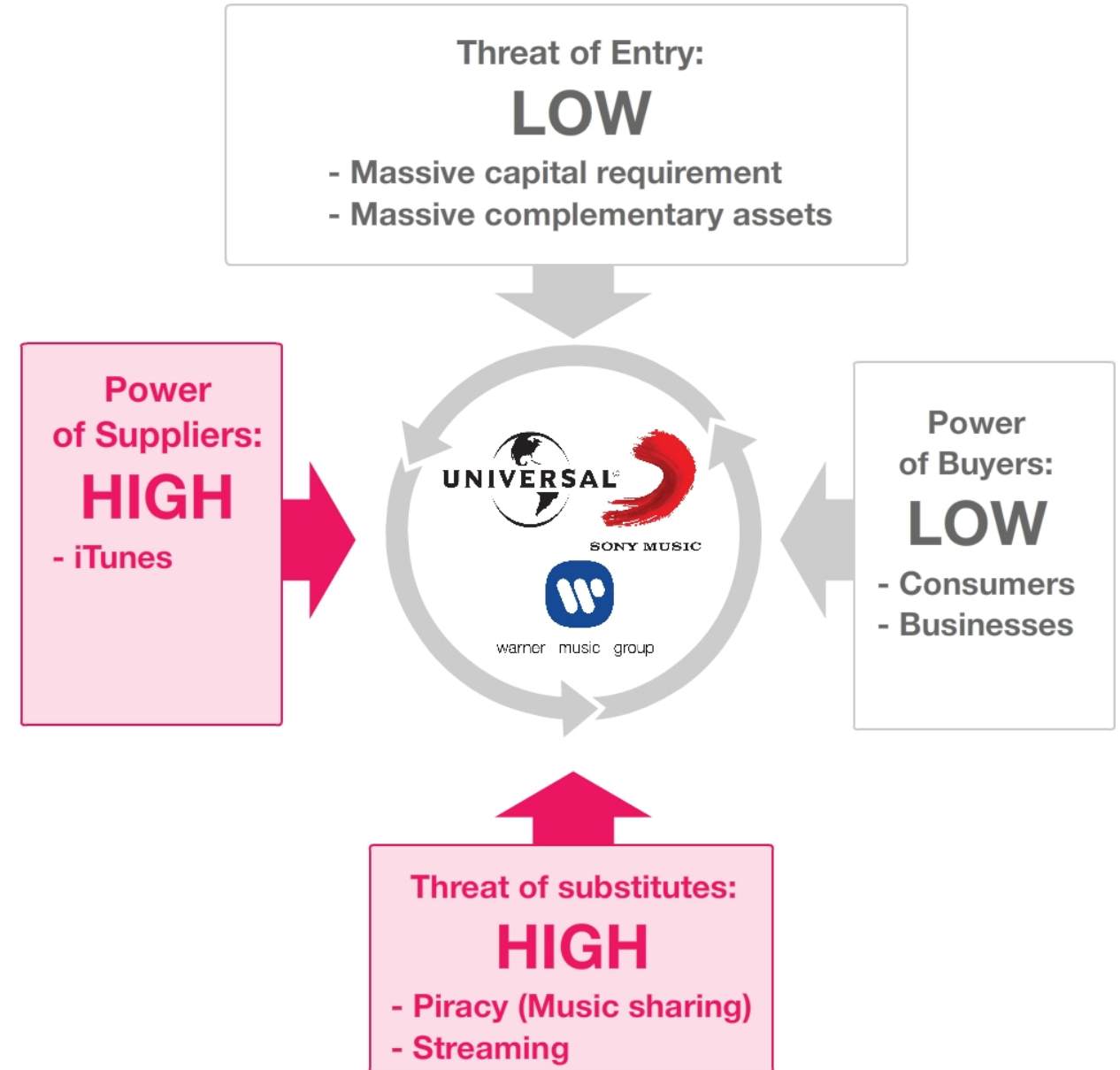
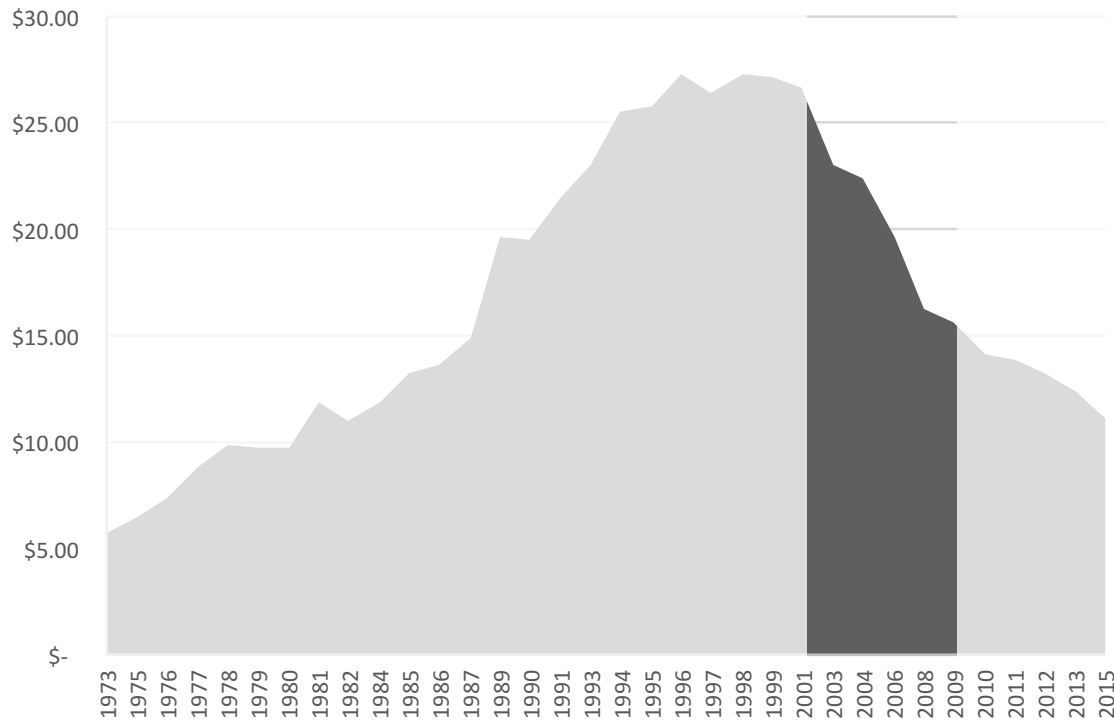
Yo Ho (A Pirate's Life for Me)

Music Industry Revenue (in billions)



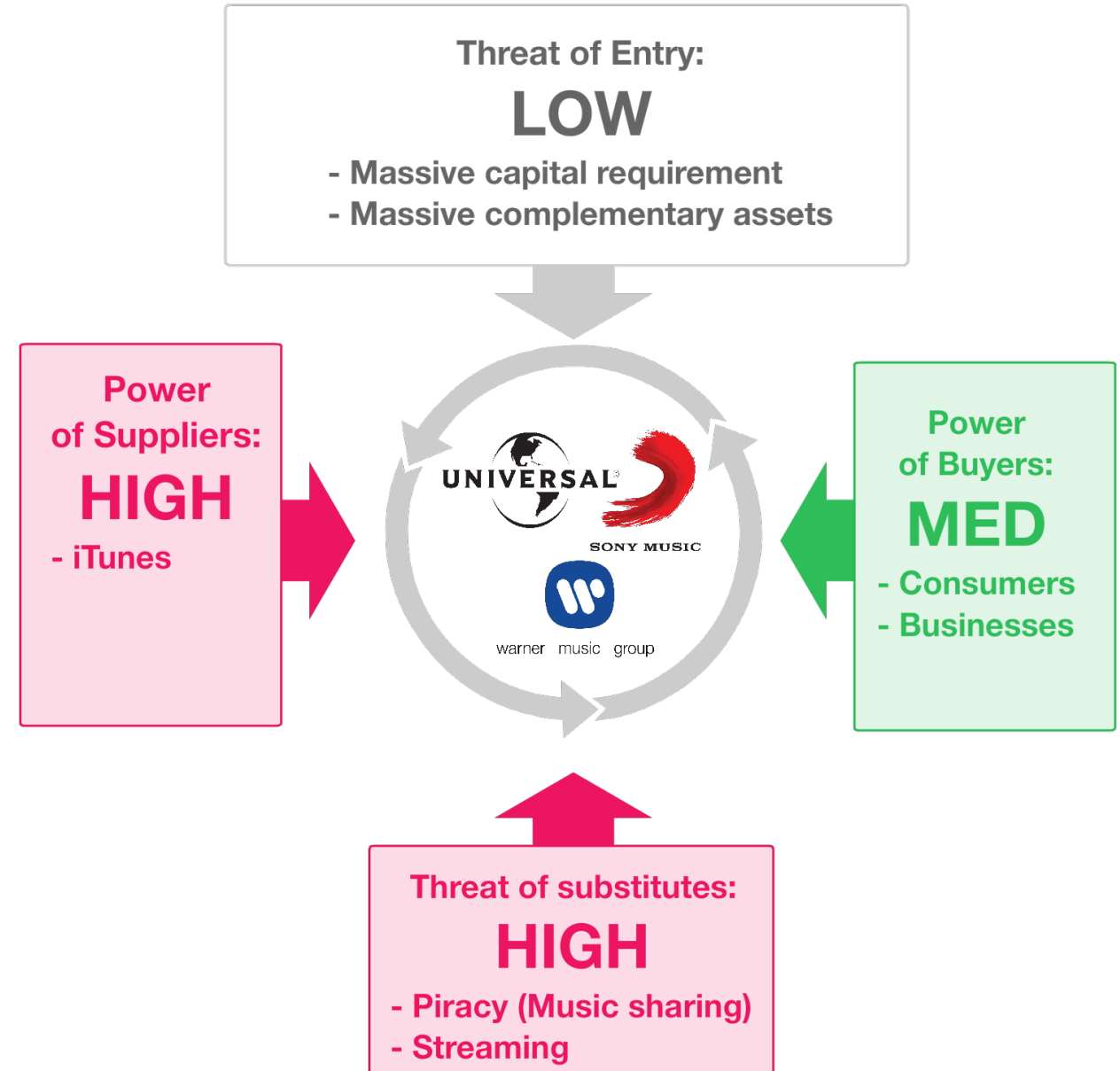
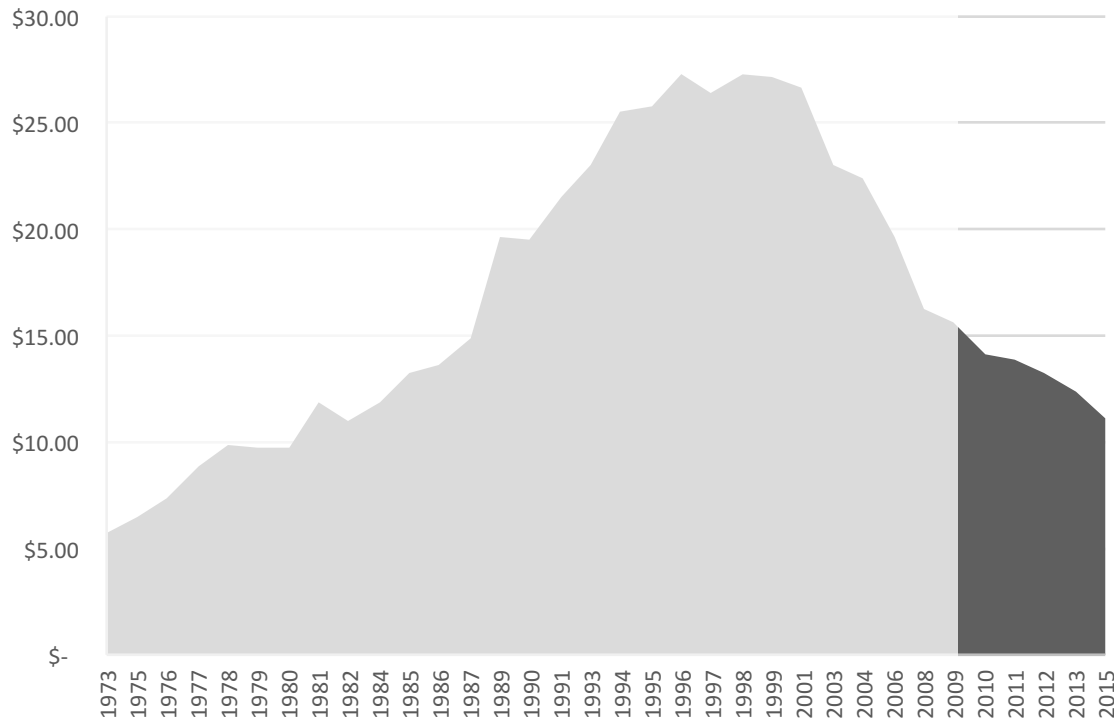
Enter iTunes (Don't forget my son, to include everyone)

Music Industry Revenue (in billions)

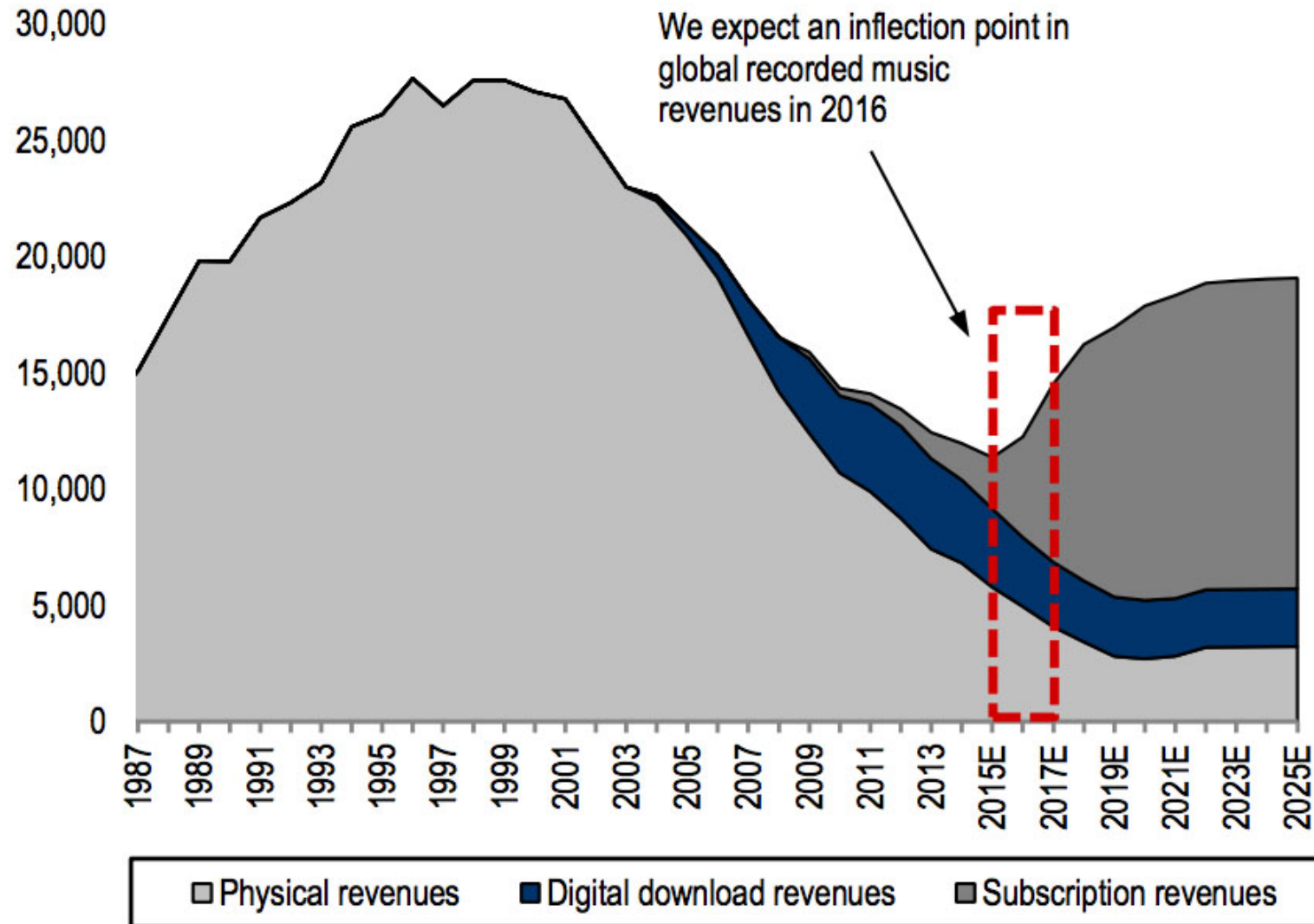


Good Times Bad Times (try to do ... the best I can)

Music Industry Revenue (in billions)

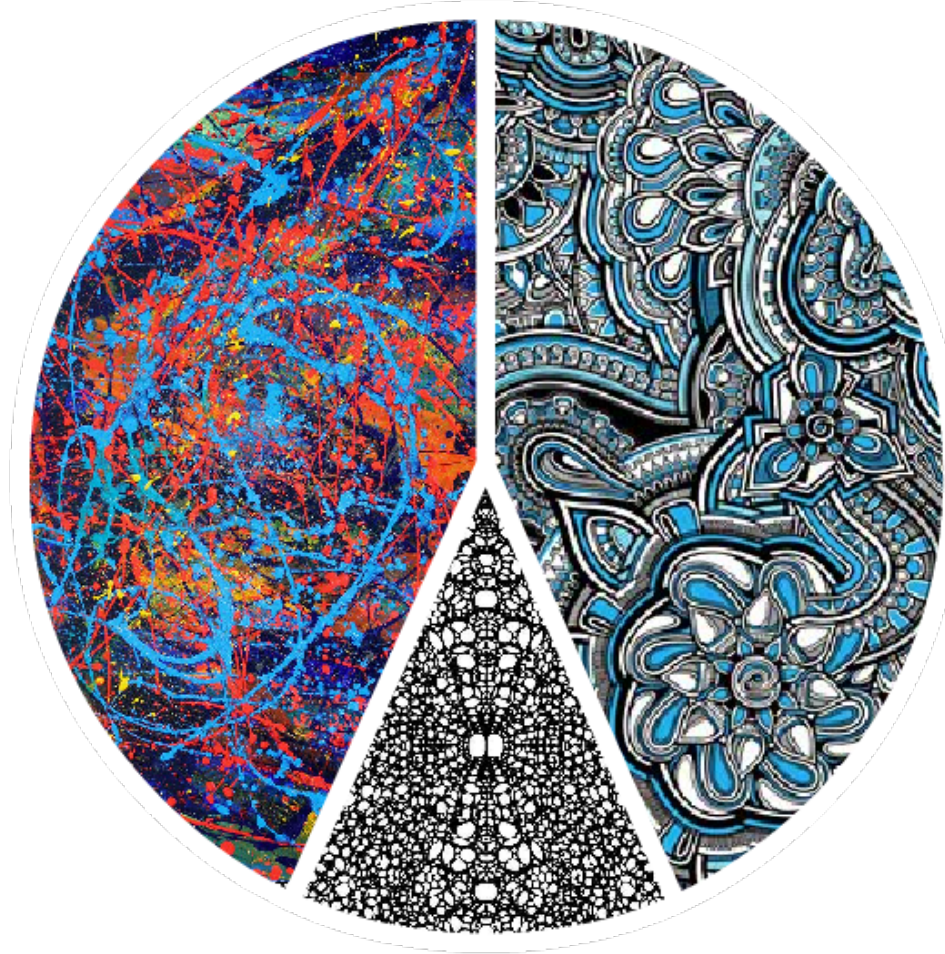


Coming Back to Life



Coming Back to Life

46%
DIGITAL



46%
PHYSICAL

8% PERFORMANCE RIGHTS

Coming Back to Life

46%
DIGITAL




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PHYSICAL

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Spotify 
@Spotify

 **Follow**

Spotify's mission was simple: Give people access to all the music they want all the time - in a completely legal & accesible way

RETWEETS
56

LIKES
31



9:19 AM - 30 Nov 2011

 16

 56

 31



What is Spotify? Baby don't hurt me..

History of Spotify

- Launched in 2008 in Sweden
- Founded by Daniel Ek (former CEO of uTorrent)
- Present in 60 countries
- On-demand music streaming service with personalized recommendations and playlists

Spotify now

- Spotify has 40m subscribers for their premium service and 60m “freemium” users
- As of 2015, its revenue is close to \$2 bn.
 - 90% from subscriptions
 - 10% from advertisements



 **58** Markets worldwide
 **75M** Active users
 **+20M** Paying subscribers
 **+30M** Songs available

Challenges

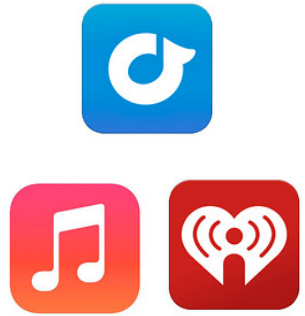
“Livin’ on a Prayer”



It's the eye of the tiger...



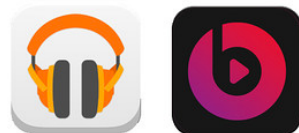
.. rising up to the challenge of our rivals



 **MUSIC**



You 




TIDAL



Artists in Flux

"I want people to hear our music. I don't care if you pay \$1 or f—ing \$20 for it; **just listen to the f—ing song.**"

—Dave Grohl



"Spotify feels to me like a grand experiment. **I'm not willing to contribute my life's work to an experiment** that I don't feel fairly compensates the writers, producers, artists and creators of this music."

—Taylor Swift



"**Spotify is not the enemy;** piracy is the enemy."

—Quincy Jones



"In return for co-writing [Avicii's "Wake Me Up!"], I've earned less than \$4,000 domestically from the largest digital music service."

—Aloe Blacc



"**Spotify is giving up 70 percent of all its revenue to rights owners.** It's just that people don't know where the money is because the record labels haven't been transparent."

—Bono



"My record isn't on Spotify. People may be outraged, but **artists don't make money from Spotify.**"

—Aimee Mann



"**We've been one of the top Spotify artists.** We've had a great year, and people are coming out to our shows; we're selling out. **It's working for us.**"

—Imagine Dragons' Dan Reynolds

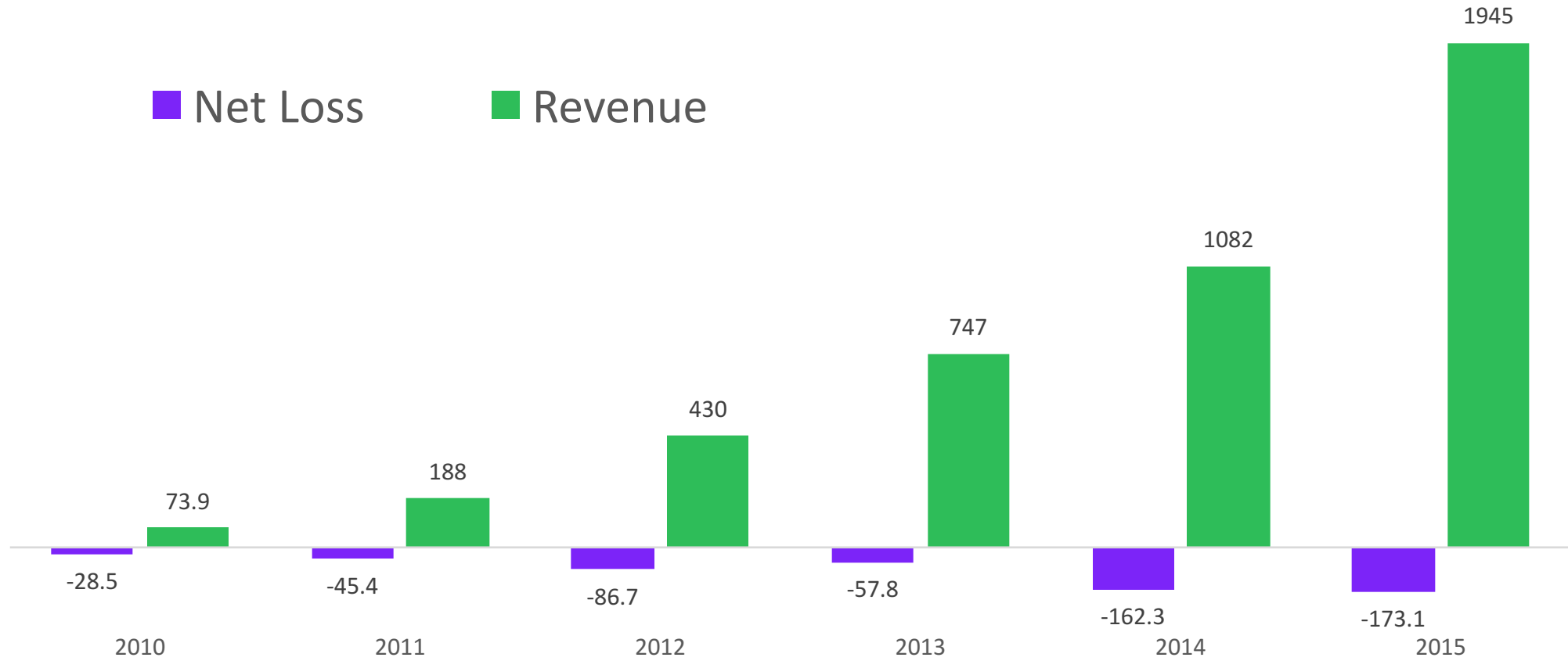


"**The saddest thing about streaming is the issue of sound quality.** It's like watching *Citizen Kane* on your phone."

—Beck

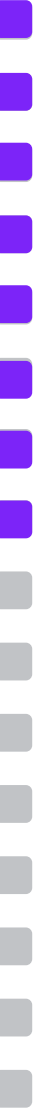


Sustainable Growth?

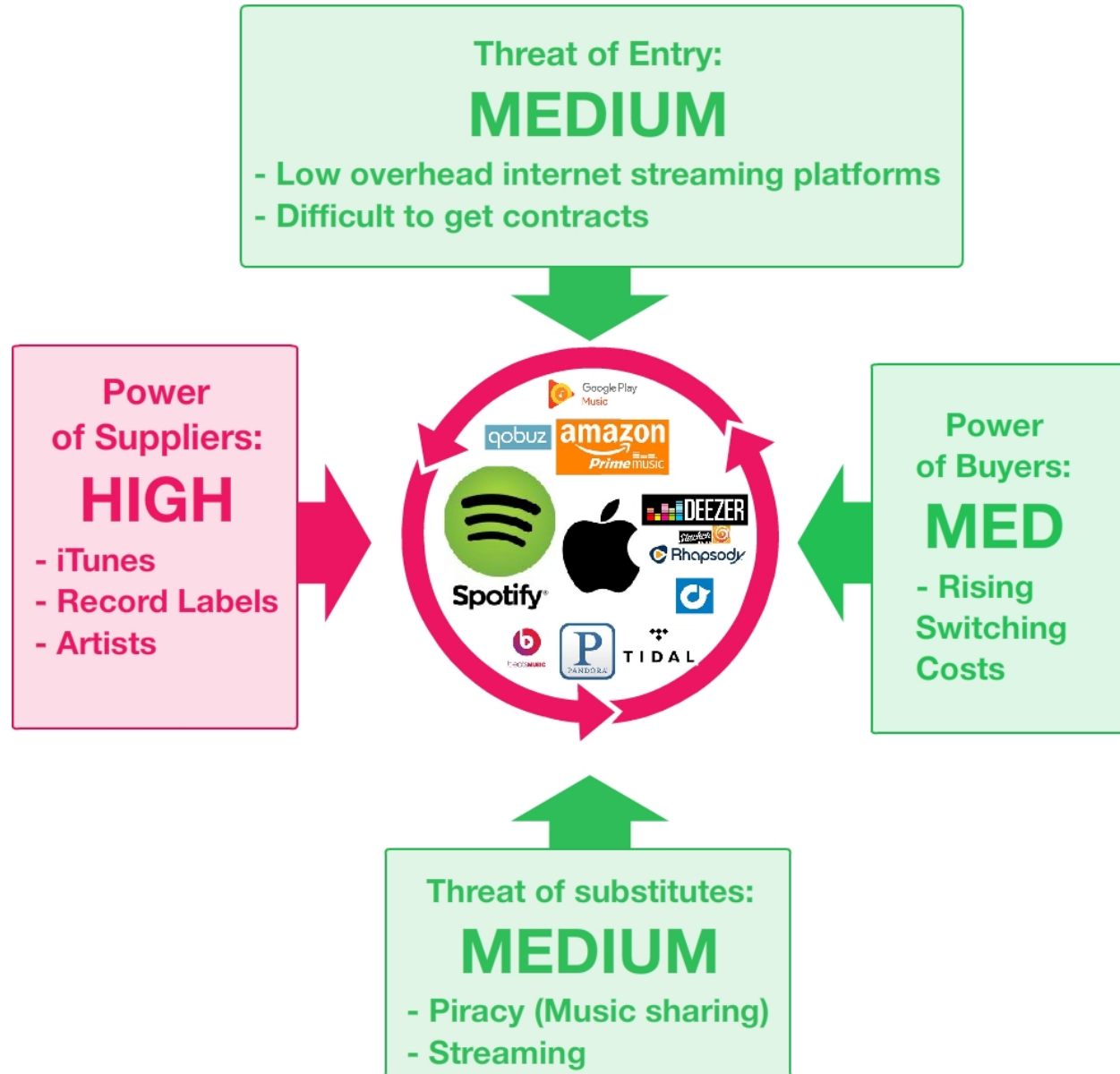


The New Streaming Industry

“I will Survive”



Highly competitive industry



Navigating the landscape

	Driver	Performance	Market	Organization	Competitive Advantage
Industry Structure	Position	Profitability	Stable	Activity System	Long-Term
Resource-Based View	VRIN Resource	Long-Term Dominance	Changing	Resource Portfolio	Long-Term
Game Theory	Right Moves	Short-Term win	Oligopoly	N/A	Short-Term
Complexity Theory	Edge of Chaos	Growth	Growing Uncertainty	Complex Adaptive System	Unpredictable
Institutional Structure	Viable Niche	Survival	Nascent	Fluid	Unknown

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What resources do they have now?

“Got the moves like jagger”



VRIN Analysis

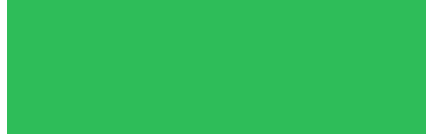
Valuable

Rare

Inimitable

Non-
substitutable

Music
Catalogue



Apple, Amazon, Google now all have ~40 million tracks

Relation with
labels

Curation system

User data

VRIN Analysis

	Valuable	Rare	Inimitable	Non-substitutable
Music Catalogue		Apple, Amazon, Google now all have ~40 million tracks		
Relation with labels			55% revenue split with labels, Apple Music 58%, Rdio 60% now dead, Pandora struggling	
Curation system				
User data				

VRIN Analysis

	Valuable	Rare	Inimitable	Non-substitutable
Music Catalogue				
Relation with labels				
Curation system				Expert-curated Beat Radio – Apple Music
User data				

VRIN Analysis

	Valuable	Rare	Inimitable	Non-substitutable
Music Catalogue				
Relation with labels				
Curation system				
User data				

VRIN Analysis

Discover Weekly

- ~2 hour personalised playlists
- Updated every Monday morning

 **FiveThirtyEight**

Politics Sports Science & Health Economics **Culture**



ILLUSTRATION BY JOEL PLOSZ

SEP 16, 2014 AT 7:28 AM

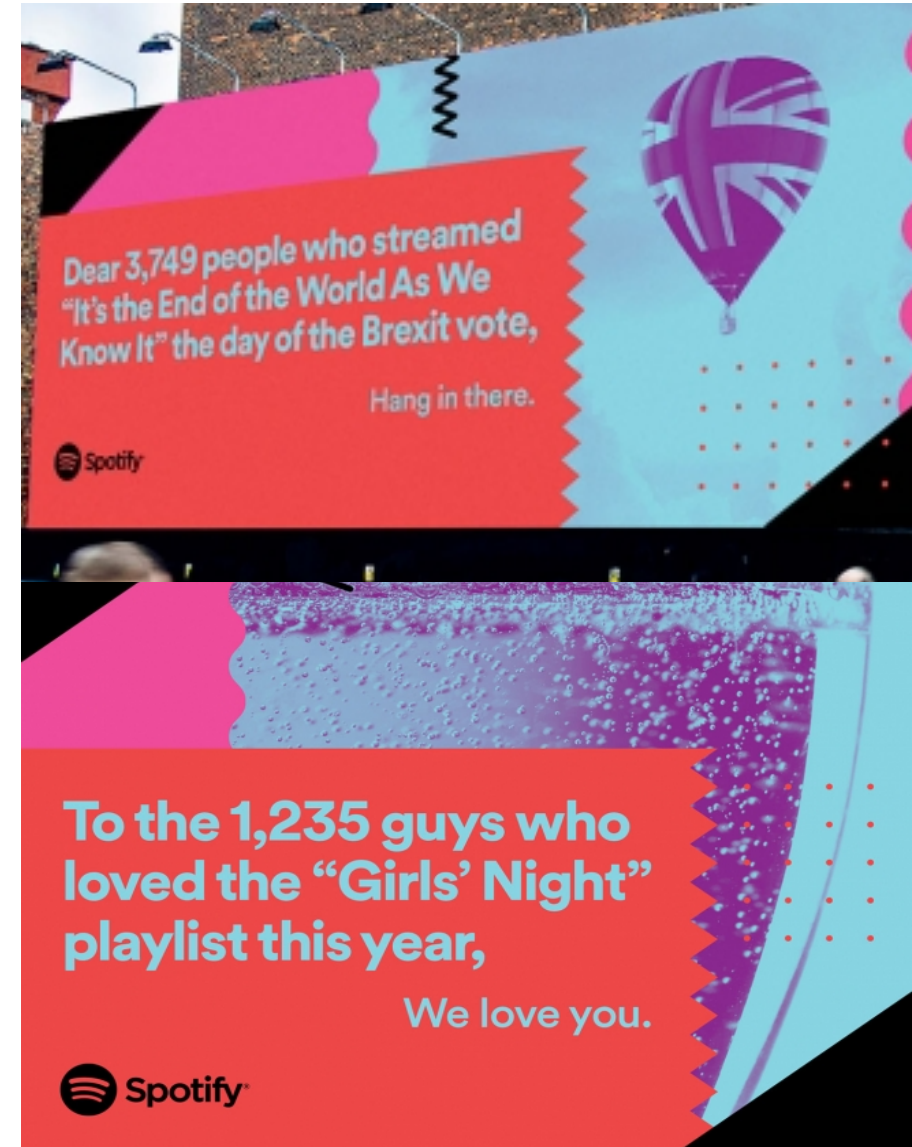
Spotify Knows Me Better Than I Know Myself

By Walt Hickey

Filed under: Music

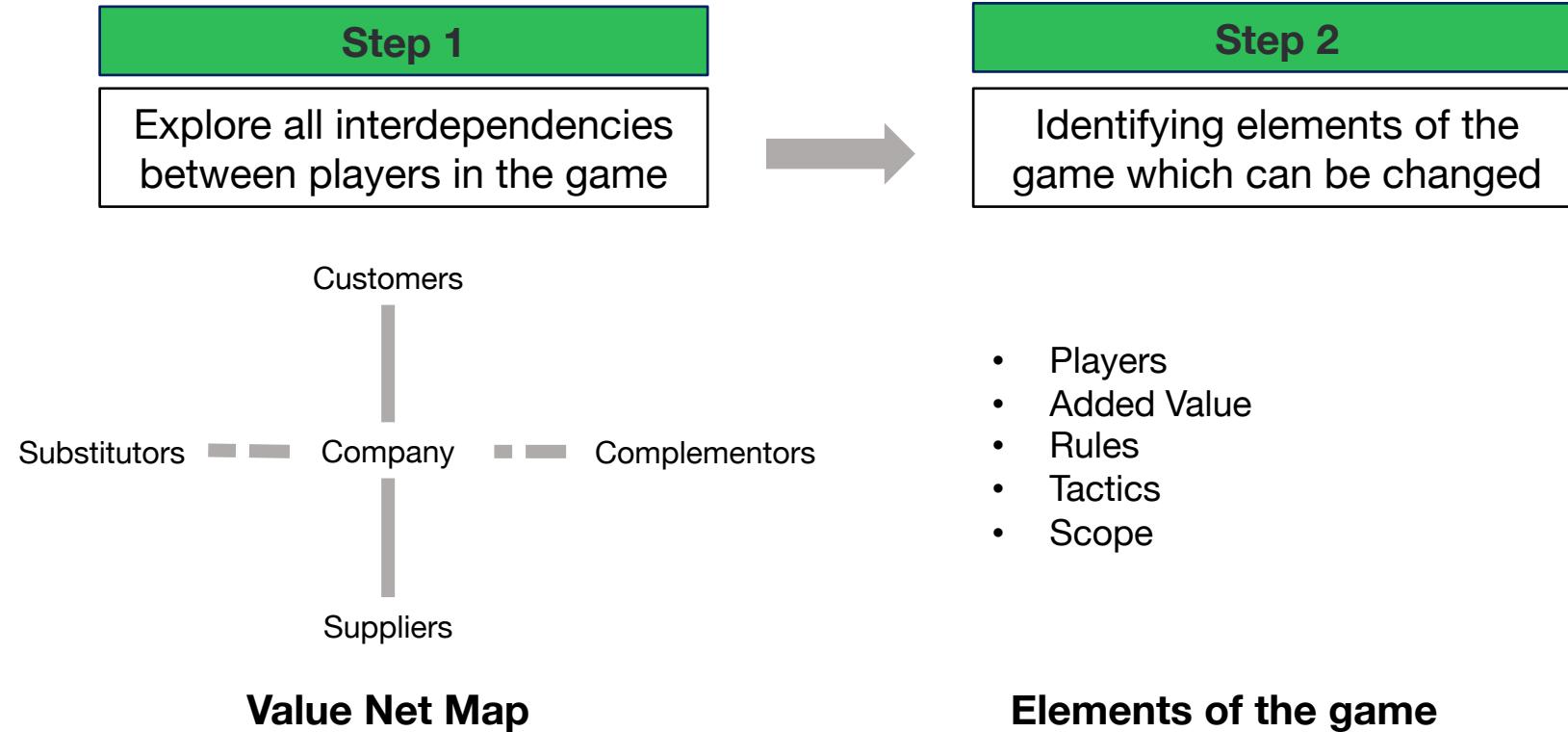
The days when you could listen to guilty pleasure music without consequence are over.

- Nearly **5 billion tracks** streamed since July 2015
- Over **8,000 artists** for whom 50% of listeners from Discover Weekly
- **42% of listeners** use Discover Weekly first thing in the morning

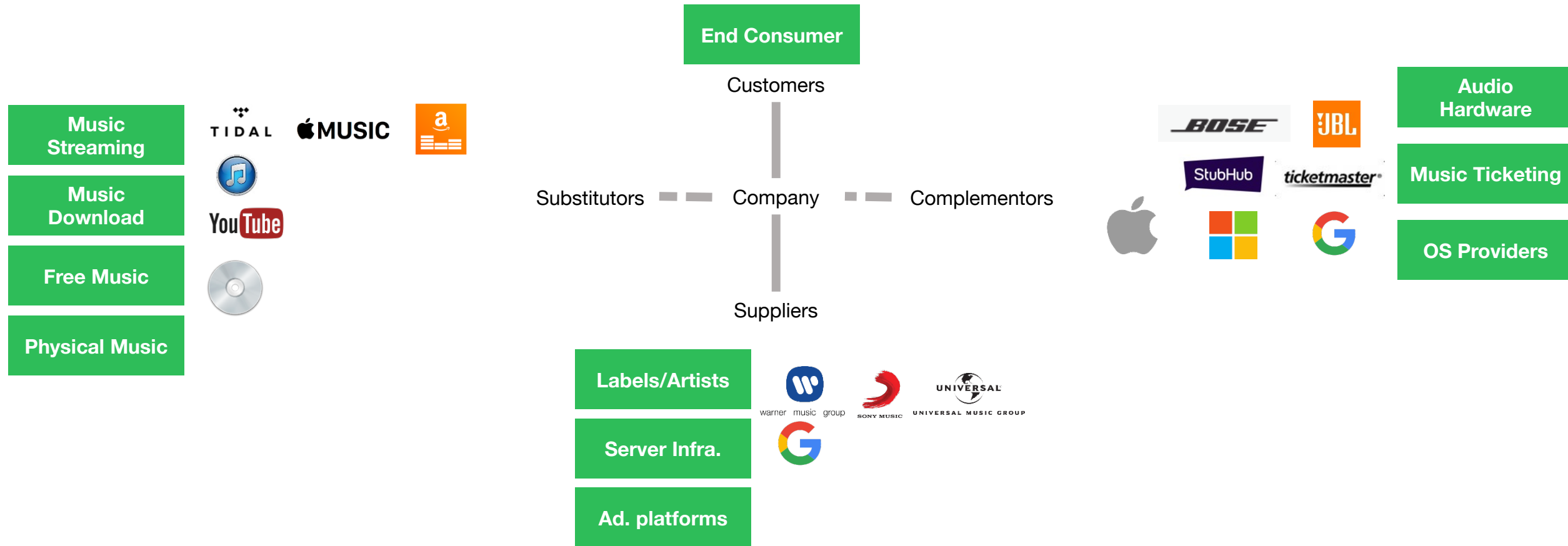


<https://news.spotify.com/us/2016/05/25/discover-weekly-reaches-nearly-5-billion-tracks-streamed-since-launch/>

Quit Playing Game Theory with my heart



Using Game Theory to win



Using Game Theory to win

- Complementors and Substitutors are the same!

Music Streaming

Music Download

Free Music

Physical Music

TIDAL

Apple MUSIC



YouTube



End Consumer

Customers

Substitutors

Company

Complementors

Suppliers

Labels/Artists

Server Infra.

Ad. platforms



ticketmaster



Audio Hardware

Music Ticketing

OS Providers

- Supplier relationships can get disrupted

Game Theory meets Simple Rules...

Rule #1

Be the Complete Music Experience

Moves Spotify has played

Consequence

Partner with Audio Hardware Players

- Harman and Spotify Team Up to Streaming Audio
- Sony incorporates Spotify into PS 3 and PS 4

- Change complementor relationships in the game

One-Stop Shop for Music Fans

- BandPage partnership to Help Musicians sell directly to fans
- Ticketmaster partnership for concert recommendations

- Change the scope and added value in the game

Be the Music Partner for any Business

- Starbucks and Spotify Redefine Retail Experience
- Tinder Teams Up with Spotify

- Change customers in the game

Game Theory meets Simple Rules...

Rule #2

Experiment. Move Faster than the Rest

Moves Spotify has played

Consequence

Expand! Expand! Expand!

- Spotify eyes Asia expansion with Indonesia launch
- Spotify Expands Into Taiwan, Argentina

- Be the first mover and “lock-in” customers

Break Pricing Rules

- Students in US need to pay only half for Spotify premium
- Get 3 months of Spotify Premium for just \$0.99

- Change the pricing rules of the game

Redefine Marketing Rules

- 'Thanks 2016, it's been weird,' : Spotify's ad campaign
- Spotify launches with a famous social marketing initiative

- Change the marketing rules of the game

New Experimental Products

- Partnership with Genius for song lyrics
- Spotify for podcasts, TV shows, Original Content

- Change the scope of the game
- Become a verb

Game Theory meets Simple Rules...

Rule #3

Leverage Data

Better Advertising

Moves Spotify has played

- 'Thanks 2016, it's been weird,' : Spotify's ad campaign
- Share user data for targeted ads

Consequence

- Becoming more profitable

Launch of Spotify Insights

- Opens the door for exclusive complementors (developers etc.) with the Insights API

- Creating complementors

Become a Verb

- Intelligent Recommendations
- Bringing new content to the platform for use

- Increasing switching costs for customers

Our Recommendations – Come Together

- Change rights ownership game
- Become *the* music ecosystem
- Probe mature markets

**“AT SPOTIFY, WE REALLY WANT YOU TO
DEMOCRATICALLY WIN AS A MUSICIAN. WE
WANT YOU TO WIN BECAUSE YOUR MUSIC IS
THE BEST MUSIC.”**

DANIEL EK

Thank You for listening! Questions?

