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THE PRICE OF FREE. SPOTIFY'S BATTLE FOR PRODUCT-MARKET FIT IN THE
STREAMING WARS OF 2015. – EXPLORING THE MARKETING STRATEGY

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Abstract Group Part (100 words maximum)

This case study examines Spotify's strategic challenges during the 2015 streaming wars, using tools such as PESTEL, SWOT, and financial analysis to understand its quest for sustainable product-market fit amid Apple Music's entry. It highlights Spotify's reliance on the freemium model, balancing user acquisition and profitability while managing rising licensing costs and artist dissatisfaction. Insights include the critical role of free-to-premium conversion, pricing strategies, innovation and marketing tools. By analyzing consumer behavior, market dynamics, and the evolving digital music landscape, the study reveals strategies for surviving in a highly competitive market and adapting business models to ensure sustainable growth amidst constant industry transformation.

Abstract Individual Part

In 2015 Spotify launched two marketing strategies to distinguish itself from the competition: Spotify Wrapped and Discovery Weekly. Both strategies involved extensive use of user data and viral consumer engagement. By analyzing data and cognitive bias, Spotify was able to understand the end user's listening habits by offering songs similar to those previously listened to. A true revolution in the music industry that allowed the company to differentiate itself. In addition, consumer behavior and open innovation collaborations gave Spotify the opportunity to become an industry leader.

Keywords

FREEMIUM BUSINESS MODEL

FREE-TO-PREMIUM CONVERSION

PRODUCT-MARKET FIT

CONSUMER BEHAVIOUR

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1. Case Study Situation

It was a typical early morning in Stockholm on 8 June 2015, with a grey blanket of clouds hanging over the city, accompanied by a light drizzle against the windows. Daniel Ek, the CEO of Spotify, was in his minimalist office, wearing his usual casual outfit of jeans and a plain black T-shirt. His closely shaved head and neatly trimmed beard gave him an intense appearance. A steaming mug of strong black coffee sat on his desk, the steam mingling with the scent of rain wafting through a slightly open window.

His mobile phone buzzed loudly, breaking the silence. A headline on the screen read, "Introducing Apple Music: All The Ways You Love Music. All in one place." The rumours had been circulating for months, but now it was there in front of him, undeniable. At the recent Worldwide Developers Conference, Apple announced the launch of Apple Music. With a three-month free trial followed by a \$9.99 monthly fee, it was clearly gearing up to take on Spotify. Apple wasn't just launching a streaming service; it was tapping into its vast ecosystem to offer seamless integration with iOS devices and artist friendly features like Beats 1 Radio and Apple Music Connect (Apple 2015).

His stomach twisted with a mixture of fear as he tried to comprehend what was about to unfold. This wasn't just a challenge - it was a declaration of war. He took a slow sip of his coffee, allowing the bitterness of the drink to sharpen his focus. Apple wasn't there to play, not with billions in cash reserves and direct access to hundreds of millions of iPhone users. It was there to conquer, and Daniel understood that Spotify was in a delicate position despite its success. It had grown impressively under his leadership: 75 million users worldwide, but only 20 million paying subscribers (Statista 2024g). The rest enjoyed it for free, while Spotify's costs, especially music licensing, continued to skyrocket (Statista 2024i). The company relied on advertising revenue, but this was barely enough to cover its costs (Hugh McIntyre and Forbes 2014).

Moreover, with Apple entering the competition, Daniel felt he had a ticking time bomb on his hands. How would Spotify survive this battle?

He leaned back in his chair and watched the raindrops make their way across the glass. Ek could feel the walls closing in, the pressure building from all sides. The investors, who had been patient, perhaps too patient, were eager for returns and worried about the competition. Spotify had been the darling of the tech world, but the profitability was still a key question that was raised on every board meeting. Now the calls were louder, the demands greater: "Where's the profit, Daniel?".

But it wasn't just the investors. The very listeners who had driven Spotify's phenomenal growth were a double-edged sword: years of piracy via services like Napster had created a generation that believed music had a right to be free. Thus, millions of users were streaming on Spotify endlessly without spending a penny. Now, the slightest hint of opening their wallets sent them running since these users resisted the idea of paying for something they had long taken for granted.

Artists' voices also were growing louder. Taylor Swift pulled her entire catalog from the service the year before, attacking on the freemium model: "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, and I just don't agree with perpetuating the idea that music has no value and should be free (Kevin Noonan and Variety 2014)." She was not alone. A whisper among artists about unfair deals had turned into accusations for devaluing their work.

A new giant appeared on the horizon. Apple was entering the arena, with Drake and Pharrell as its leading ambassadors. This wasn't just about launching a competing service; the tech giant was about to change the game completely. Spotify's freemium model was about to face its

biggest challenge yet, and Daniel could feel the pressure building. The stakes had never been higher, and the future of his company was at risk.

Memories he had long tried to keep at bay began to resurface unexpectedly. They took him back to his younger years - the time when everything he had built was on the verge of collapse. In his late teens and early twenties, he had been a reckless entrepreneur, launching a series of tech ventures with the naive optimism of youth, without a clue about the importance of financial planning. He recalled the suffocating feeling when he received the letter from the Swedish tax authorities detailing the massive debt he owed. The fear, the shame, and the crushing realization that he could lose everything he had worked tirelessly to build. Years later, as CEO of Spotify, those same fears returned with even greater intensity. Spotify was no longer a small startup; it had grown into an international tech company with more than 1,500 employees. Each of them had their own stories, families, and dreams tied to the success of the company they were building from scratch. The thought of letting them down was almost unbearable...

2. Industry Background

2.1 The Global Music Industry Transformed By Streaming.

In 2015, the global music industry underwent a major transformation with the rapid rise of digital streaming platforms. As consumers shifted from owning music to accessing it, these platforms gained popularity by providing instant access to music libraries for affordable subscriptions and free ad-supported options. This shift not only lowered production and distribution costs for record labels and artists, but also gave listeners a more flexible and convenient alternative to purchasing physical formats or digital downloads (IFPI 2015). It was the year when global digital revenues exceeded physical sales for the first time. Digital sales reached \$11.7 billion, while physical sales were \$10.3 billion. In 2014, subscription revenues grew 39% and accounted for 23% of global digital revenues, up from 18% the previous year (See Figure 1).

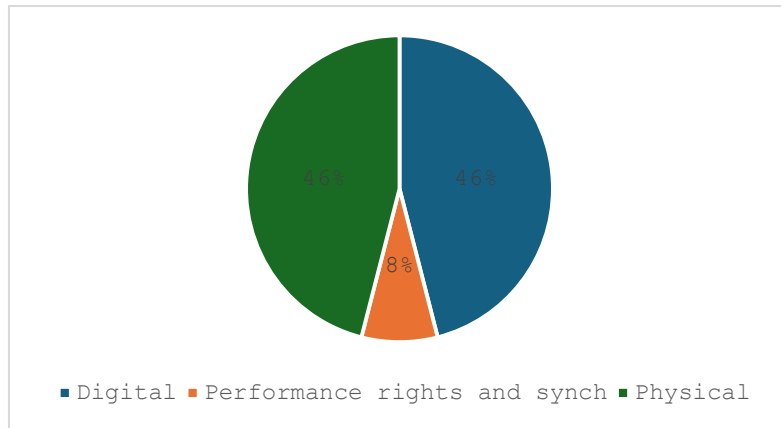


Figure 1. Share of Industry Revenues 2014. Source: IFPI 2015.

As shown in Figure 2, the number of paying subscribers also grew sharply, reaching 41 million in 2014, up from 28 million in 2013 and 8 million in 2010 (IFPI 2015). Although downloads still accounted for 53% of global digital revenues, they experienced an 8% decline in 2014. The rapid adoption of Android smartphones and tablets was partly responsible for the decline. However, the strength of physical format sales varied from country to country. In markets such as Germany (70%), Japan (78%) and France (57%), physical sales remained dominant. In addition, vinyl records, though still a niche, experienced a comeback, with sales growing 54.7% in 2014 and accounting for 2% of global music revenues (IFPI 2015).

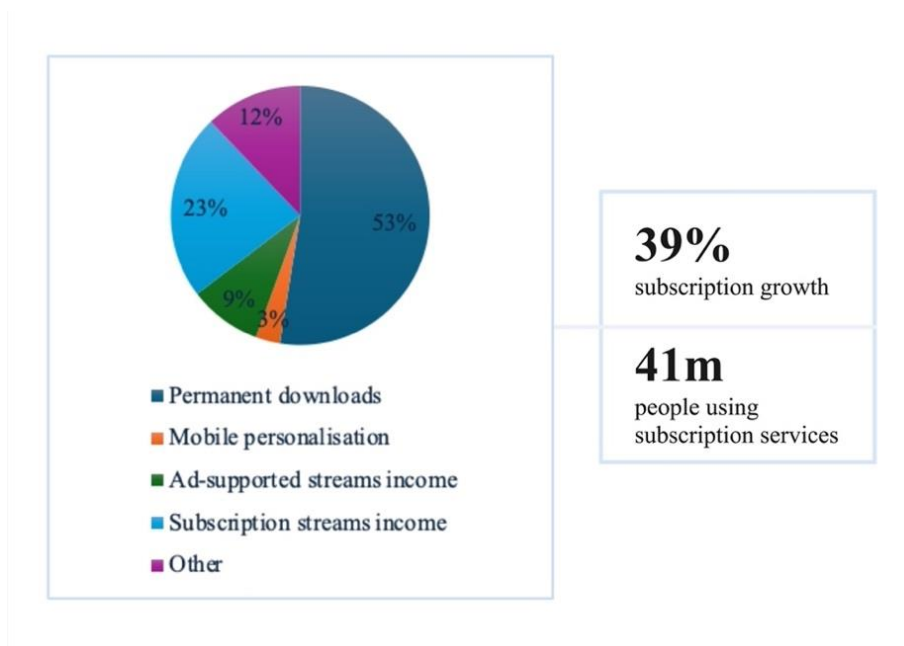


Figure 2. Global Digital Revenues by Sector (2014). Source: IFPI 2015.

Piracy remains a significant problem, with 20% of the world's wired Internet users regularly accessing services that offer copyrighted music, and 4 billion music downloads occurring through BitTorrent alone. Ipsos research across 13 countries found that 52% of respondents consider unauthorized downloading or streaming to be theft. In addition, 53% believe that licensed services should rank higher than pirate sites in search engine results, 52% believe that companies should avoid advertising on pirate sites, and 43% believe that ISPs should take more responsibility for preventing illegal music distribution (IFPI 2015).

2.2 Surviving the Streaming Wars.

In 2015, the streaming music services market could be broadly divided into two main categories: on-demand services and digital radio, as you can see on the Table 1.

Table 1. On-demand and Digital Radio Services

Category	Description	Examples	Additional notes
On-demand services	Allows users to select specific songs or albums for playback; available in paid and free versions.	Paid: Spotify Premium, Apple Music, Rhapsody, Tidal Free: YouTube, Spotify Free, Vevo	RIAA revenue includes some revenue from premium internet radio services (e.g., Pandora One).
Digital radio	Streams curated playlists or stations based on user preferences without allowing track selection.	Internet Radio: Pandora (free), iTunes Radio Other: Satellite radio, pay-TV music channels	Different monetization approach compared to on-demand services.

Source: Bill Rosenblatt and Forbes 2016.

Competition is fierce globally, but attention is now turning to the key players that are either entering new markets or strengthening the ones they already occupy (IFPI 2015). While some players were flourishing, others encountered considerable obstacles. Table 2 provides an overview of the key players.

Table 2. Overview of Key Players

Company	Overview	Details
Apple	Enters the streaming market.	Acquired Beats for \$3 billion in early 2015; launched Apple Music by integrating Beats Music into iOS, leveraging 800 million credit card accounts.
Rdio	Files for bankruptcy.	Rdio, a competitor to Spotify, filed for bankruptcy with \$220 million in liabilities; assets acquired by Pandora for \$75 million.
Deezer	Postpones IPO.	Deezer postponed IPO after investors rejected its \$1.1 billion valuation, raising concerns about its financial stability.

Tidal	Faces criticism.	Purchased by Jay Z for \$56 million; faced criticism for its artist-friendly positioning as a populist money grab. Still achieved 1 million subscribers despite challenges.
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Source: Ben Sisario and NYT 2015.

2.3 Apple Music's Bold Entry to Challenge Spotify.

At the 2015 Worldwide Developers Conference in San Francisco, Tim Cook announced Apple Music. The launch marks the successful integration of the Beats Music streaming service into the Apple ecosystem. While iTunes sales continue to perform well, revenue from downloads has declined, presenting a prime opportunity for Apple to move into the streaming market. During the WWDC event, Apple CEO Tim Cook urged attendees to consider subscribing to the service rather than buying individual tracks, pointing out that a month of streaming costs the same as a single album on iTunes (Amanda Schupak and CBS News 2015).

Apple Music gives users access to a huge library of over 30 million songs, as well as the ability to play their own music library and custom playlists whenever they want. However, the company emphasizes that the true essence of Apple Music lies in the curated playlists created by Apple's music experts. The app is designed to adapt to your preferences, presenting albums, playlists and new releases tailored to your musical tastes in the 'For You' section. Siri is also integrated into the platform, allowing you to use voice commands such as "Play me the best songs from 1994" or "What was the song from Selma?" to find specific tracks to play (Amanda Schupak and CBS News 2015). See Table 3 for the overview of the other main features.

Table 3. Overview of Apple Music's Main Features

Feature	Details
Streaming service	Access to over 30 million songs; ability to stream unlimited music on multiple devices.
Music library and playlists	Includes a huge library of 30 million songs and allows users to play their own library and custom playlists.
Curated playlists	Curated playlists created by Apple's music experts, tailored to user preferences in the 'For You' section.
Siri integration	Voice commands via Siri to find and play specific tracks (e.g., 'Play me the best songs from 1994').
Apple Music Radio	24-hour live radio broadcasting to 100 countries with curated genre-based stations and handpicked DJs.
Apple Music Connect	Platform for artists to share updates, lyrics, backstage photos, exclusive videos, and unreleased tracks; fans can comment, like, and share.

Source: Amanda Schupak and CBS News 2015.

Regarding pricing, a monthly subscription to Apple Music is available for \$9.99 on iPhone, iPad, iPod Touch, Mac, and PC starting June 30. The Apple TV and Android versions are supposed to release in the autumn. Apple is offering the first three months free and has a family plan for \$14.99 a month for up to six users (Amanda Schupak and CBS News 2015).

2.4 Artists Rebel Against the Current System.

The growth of streaming platforms in 2015 also resulted in rising tensions between platforms like Spotify and artists, particularly due to concerns over low royalty payouts. The criticism of streaming platforms was not limited to Taylor Swift only. Her decision has further intensified industry debates about the sustainability of freemium models. Radiohead's Thom Yorke previously described Spotify as "the last desperate fart of a dying corpse." The overwhelming consensus among musicians is that they are underpaid by these services. Artists often argue that the low per-stream payouts from on-demand platforms undervalue their hard work and make it difficult to earn a sustainable income (Jason Koransky and ABA 2016).

The fundamental issue at the heart of the dispute was the considerable gap between the perceived value of music and the low per-stream remuneration. For instance, Spotify paid rates ranging from \$0.006 to \$0.0084 per stream, a figure that was considerably lower than the revenue streams available to artists through album sales or digital downloads (Bill Rosenblatt and Forbes 2016).

3. Company History

3.1 The Birth of a Giant

The way of listening to music today is totally different. With just three tools (smartphone, internet, headphones) you can have access to an infinite amount of music. All in a few simple seconds, in just a few gestures. Spotify is not simply a streaming music platform, but a real technological revolution that owes its success to several factors. With program-based targeting and cutting-edge advertising technologies, Spotify has revolutionized music access and the way that the general public listens to music through its platform model and subscription-based business model (Vonderau 2019).

To fully understand Spotify's impact on the music industry, it is worth investigating the origins of the platform, how it came into being and what its main purpose was. The idea of creating a platform like Spotify came from Daniel Ek with the aim of eliminating piracy in the music industry by offering a legal and affordable alternative. In the 2000s, it was very easy to be able to download music illegally, and this was because of the rather high cost of buying a CD. Against this backdrop, Daniel saw an opportunity to be able to create a service that offered an unlimited catalog of tracks on affordable terms. In this way, it was possible to combine the co-founder's two main passions: music and technology (Redazione Cutowl 2022).

Daniel envisioned music as a journey of constant discovery, where users could explore new songs, expand their tastes, and enjoy diverse musical genres. At its core, Spotify aimed to combat the piracy that disrupted the music industry in the early 2000s (Marino 2023).

Spotify's mission was shaped by the rise of piracy in the late 1990s and early 2000s. In 1999, Napster introduced digital music sharing, allowing users to trade and download music peer-to-peer for free, bypassing traditional album sales. Clearly, this business violated copyright rights, resulting in piracy. Despite the illegal intervention on the music industry landscape, Napster

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gained great popularity very quickly and its success led to a revenue loss of as much as \$2 billion from 1999 to 2002. Daniel was convinced that if music was easily accessible and enjoyable for free, users would become regular listeners and eventually be willing to pay for a streaming service (Marino 2023).

Despite artists and record companies were sceptical, Daniel believed that offering a better user experience would persuade customers to switch from free to paid memberships (Robert Safian 2018). He hoped that by providing this avenue, musicians would be able to reach a larger audience and discover new revenue streams. To win over artists and labels, he needed to demonstrate that the internet could greatly benefit their businesses rather than pose a challenge. Spotify could be a platform that benefited everyone, particularly the musicians who produce the music, by collaborating with the industry and providing a steady business model through advertising and subscriptions.

In 2006, Daniel Ek partnered with Martin Lorentzon to found Spotify in Stockholm, Sweden. Both co-founders came from the background of advertisement technology (Marino 2023). Lorentzon made money from affiliate marketing with TradeDoubler, gaining expertise and notoriety in the entrepreneurial world. By investigating the origins of the platform, it is possible to discover that Spotify is a macedonia word between “spot” and “identify” (Wikipedia 2024). The primary challenge for the founders was securing licenses from major music rights holders. Their goal was to establish strong partnerships with artists and record companies, ensuring fair revenue distribution. They needed to show them that the internet could be a huge help to their business, not a problem. By joining forces with the industry and offering a sustainable revenue model through advertising and subscriptions, Ek aimed to show that Spotify could be a platform that benefited everyone, especially the artists who create the music (Sarah Lacy and Startups.com, n.d.).

Spotify launched in October 2008 and quickly struck a chord with users who appreciated its seamless music experience. Despite initial research suggesting that people wouldn't pay for music access, Ek's strategy proved successful. Users were willing to pay for the convenience and quality that Spotify offered. Within its first year, the platform gained millions of users and hundreds of thousands of paying subscribers. Even before its official U.S. launch in 2011, Spotify had already developed a cult following among American tech influencers (Robert Safian 2018).

The mission of Spotify extended beyond building a successful business. By focusing on user experience, accessibility, and industry collaboration, Daniel sought to create a platform that could grow the industry and benefit everyone involved. He believed that the evolution of the internet could not only stabilize the music business but also lead to its growth. In essence, his values centre around innovation, a passion for music, and technology for positive change. Through perseverance and a willingness to challenge conventional thinking, Ek has led Spotify to become a global force, fundamentally changing how the world listens to and values music (Robert Safian 2018).

3.2 Spotify's Freemium Business Model

Spotify's choice of business model was conditioned by the need to find a dynamic paradigm that could adapt to changes in the phonographic industry and new modes of consumption. Unlike piracy sites like Napster, Spotify had license deals with major music labels. These license arrangements allowed to legally supply customers with copyrighted music from a number of renowned artists, including Coldplay, Miles Davis, Frank Sinatra, Madonna, and Snoop Dogg (Schmid & Romey 2022).

As shown in the Table 4 Spotify consented to give the major labels equity holdings to lower the amount of royalties paid to them. Since the music industry was suffering severe revenue losses due to piracy, most record companies had finally signed licensing agreements with Spotify. The

decision to affiliate with Spotify was due to increased use of smartphones and the Internet, and the platform would have the strength and ability to create a positive consumer experience (Schmid & Tobias, 2022).

Table 4. Record Label Ownership of Spotify Shares in 2009

Record Label	Shares in Spotify (2009)
Sony BMG	5.8%
Universal	4.8%
Warner	3.8%
EMI	1.9%
Total	16.3%

Source: Schmid & Tobias, 2022.

The business model on which Spotify was formed was dictated by two basic factors: offering a free platform and a premium version. When analyzing the causes that prompted Spotify to adopt this business model, the desire to want to allow anyone to enjoy a free service and formulate a value proposition that could meet the needs of a variety of consumers with different needs and different music tastes certainly stands out. The factors that drove Spotify to undertake this business model always lay in the fight against piracy. Free accounts were available only through an invitation, while paid subscriptions were available to everyone. The strategy implemented by the founders is related to growth hacking and customers acquisition and conversion (Azzalin 2018).

The key role in Spotify's steady growth has been played by its business model and investment in advertising. The key to the platform's success was certainly the founders' ability to exploit the external environment (the macro environment) as a starting point to end the music industry crisis due to piracy. Unlike earlier models, in which music was paid per track or album, Spotify's freemium model allows users to access millions of tunes for free in exchange for listening to commercials while playing. The role of such a business model is certainly to attract as many users as possible and increase registered users (Azzalin 2018).

To properly analyze Spotify, it is therefore necessary to understand its logic behind the different strategies the platform has put in place to achieve such success. See Table 5 for the company's timeline.

Table 5. Timeline of Spotify's Milestones

Year	Milestone	Key Strategy
2008	Formal introduction in Europe	Focused on cutting-edge features, intuitive user interface, and tailored playlists to attract users.
2011	Entry into the US market	Resolved complex licensing agreements with major record companies to launch in a new market.
2013	Integration with mobile devices	Expanded accessibility to the platform, increasing the user base.

Source: Vonderau 2019.

As the company expanded, the focus changed to subscriptions as the principal source of revenue. The freemium model, in which users could listen to music for free with advertisements or pay for an ad-free experience, was key to Spotify's success. This approach used an ad-supported version to attract users who may not be willing to pay right away, with the option to upgrade to a paid subscription later. Spotify is described as a "two-sided market" or platform that connects advertisers and users (Vonderau 2019).

3.3 Financialization of Spotify

One of the early backers of the Spotify platform was Sean Parker, the founder of Napster, who allocated as much as 15 million in investment to rapidly grow the Swedish startup (Possagnolo 2022). As shown on Figure 3, Spotify raised \$1.6 billion in seven rounds of funding. To gain greater credibility, during this period, the company attracted big stakeholders such as Coca-Cola, Goldman Sachs, and several venture capital firms (Schmid & Romey 2022).

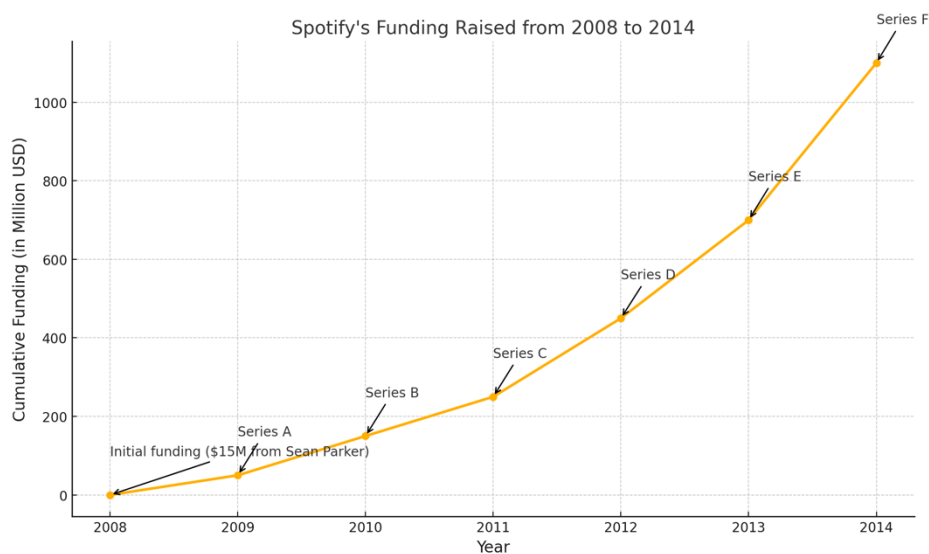


Figure 3. Spotify's Funding Raised from 2008 to 2014. Source: Possagnolo 2022; Schmid & Romey 2022.

While this infusion of finance allowed Spotify to expand quickly and remain operational, it also generated an underlying demand for ongoing user growth. Investors had high expectations for the company's price, prompting Spotify to expand its user base and investigate additional revenue streams to justify its financial position. Venture financing was crucial in defining Spotify's business strategy. Unlike traditional businesses, which prioritize quick profitability, the venture capital model focuses on rapid expansion and market dominance, frequently at the price of short-term earnings. This strategy was common among tech companies, where the primary focus was on growing a large user base and generating a compelling story about future income prospects (Vonderau 2019).

Spotify made the concept of "future income streams" a key part of their investor appeal. The company positioned itself as capable of consistently generating revenues by growing its user base, capitalizing on advances in advertising technology, and introducing new services. This story of growth and promise was essential in increasing the company's valuation, reflecting a business model that was less about immediate financial returns and more about predicting long-term profitability and market leadership (Vonderau 2019).

3.4 Spotify's Global Expansion and User Acquisition

See Table 6 for a timeline of Spotify's expansion worldwide. The service was initially offered in a few European nations. These early areas were carefully selected; Sweden, the home nation of Spotify, was a perfect testing ground due to its high internet penetration rate and tech-savvy populace. Launching in the UK, one of the biggest music marketplaces globally (Verma 2015), was also a calculated move that gave the business a chance to make a name for itself in a cutthroat field. Freemium business model reduced the barrier to entry for consumers accustomed to free, albeit illicit, music-sharing techniques, which was crucial for its success in emerging economies (Verma 2015).

Table 6. Spotify’s Global Expansion 2008-2015

Year	Region	Details
2008-2010	Initial European Launch	Launched in Sweden, UK, France, Spain, Norway, and Finland. Adopted a 'freemium' business model combining free ad-supported and paid subscriptions. Secured licensing deals with major record labels. By 2010, expanded to the Netherlands, Denmark, Austria, and Belgium.
2011	Entry into the U.S. Market	Entered the highly competitive U.S. market in July 2011. Negotiated deals with Universal, Sony, Warner, and EMI to secure a broad catalog. Partnered with Facebook for social media integration. Reached 1 million U.S. users within months.
2012-2015	Rapid Global Expansion	Expanded into Australia, New Zealand (2012), Latin America (Argentina, Bolivia, Chile, 2013), and Asia-Pacific (Malaysia, Hong Kong, Singapore, etc., 2013). Partnered with local telecoms like Globe Telecom in the Philippines to bundle Spotify with data plans, overcoming data consumption barriers. Expanded into key European areas such as Italy, Poland, Portugal, and Iceland.

Source: Possagnolo 2022; Verma 2015

Spotify's entry into the United States market in July 2011 was one of its most significant accomplishments. By this point, the company had established itself as a major player in Europe, with over 10 million users and approximately 1 million paid members. However, the American music market was very competitive, dominated by players such as Apple's iTunes, and governed by intricate license arrangements. The agreements with record labels and partnerships were critical for acquiring a broad catalog that could compete with existing businesses. For example, a partnership with Facebook that was allowing users to directly share what they were listening to with their friends, was critical in swiftly boosting Spotify's U.S. user base, allowing the firm to achieve 1 million users in the country within its first few months (Schmid & Romey 2022)

After making its entry into the United States and Europe, the service was launched in emerging countries due to higher use of smartphones. Spotify's strategy in these areas frequently included agreements with local telecoms firms. For example, in the Philippines, Spotify collaborated with Globe Telecom to bundle its service with mobile data plans, allowing customers to sample the platform without worrying about data charges. These agreements helped Spotify overcome

possible barriers associated with data consumption concerns, making it easier to obtain (Mix of Everything 2015).

4. Status of Spotify in 2015

In 2015 Spotify has reached over 75 million users worldwide, a loyal user community and a solid brand identity as a go-to platform for digital music streaming (Wagner, Benlian, and Hess 2014). However, Spotify's success came with significant challenges, notably its struggle to achieve profitability. While the freemium model was key for attracting users, only approximately 20 million of Spotify's 75 million users were paying subscribers, i.e. most of its user base was in the free tier and was generating ad revenue only. The difference between the number of revenues collected from free users and the number of revenues collected from premium users caused a substantial gap between revenue. As a result, Spotify faced the complex challenge of monetizing a massive base of free-tier users without alienating them. This delicate balance became even more challenging as competition intensified (Yngvar 2016).

The freemium model, although successful at growth, came at a high cost. Although Spotify platform free users generated a much lower revenue compared to premium users, primarily because of advertising hits (Mäntymäki, Islam, and Benbasat 2020). Due to a lack of sufficient advertising revenues to cover the high costs associated with music licensing, Spotify's financial model was disastrous (Sletten 2021). In 2015, Spotify was required to pay record labels, artists, and songwriters significant royalties based on music streams, regardless of whether the listener was on a free or premium plan (Hesmondhalgh et al 2021).

This financial strain was exacerbated as Spotify grew. As more users streamed music, Spotify's licensing costs rose, and the model produced a profitability paradox. While increased users were beneficial for brand exposure and business reach, they led to an uptick in financial strain, especially when the users were not paying subscribers (Richardson 2014).

In addition to external competition, investor expectations were mounting. Spotify had been relying on venture capital to drive its growth, but as of 2015, investors were asking for more concrete profitability indicators. Amplifying pattern of losses despite the rising of revenue created ambiguity as to whether Spotify's freemium business model may be sustainable for the period beyond the short term (Mei 2024).

Investors looked for proof that eventually Spotify could grow a bigger number of free listeners to paying subscribers or that it could rely on a new revenue stream to make up for the cost of its licensing. Low conversion rates and high licensing costs associated with the freemium model created a daunting prospect for potential profitability (Mai Hu 2023). Supporting competitive pressure from Apple Music's model of solely paid subscription and addressing investor concerns, Spotify found itself on the cusp of 2015, and growth-fuelled strategy met its challenge of sustainable financials (Mok 2022). Apple Music's market entry sparked investor worries about the long term sustainability of Spotify. The competitor's subscription-only model and proprietary release of top artists' work (e.g., Taylor Swift and Drake) created an explicit competitive pressure on Spotify's user acquisition plan (Scharf, 2022).

4.1 High Cost of Music Licensing

Spotify's dependence on music licensing agreements was an important ingredient in explaining its financial difficulties. Unlike traditional record labels or music distributors, Spotify did not own the music it streamed, which meant it relied on deals with record labels, music publishers, and artists to make its platform viable. Based on these licensing terms, Spotify was required to pay royalties for every piece of music played whether the recipient was free or premium (Savoia 2021).

Global revenues for Spotify amounted to the impressive figure of 1,084€ million 2014, largely because of growth in the user base and premium subscribers (Statista 2024). However, as revenue rose, so did its licensing costs. Spotify's net losses continued to increase to nearly 225€

M at the end of 2015, mostly due to licensing increases that followed user increases, an uncompensated growth phenomenon. This paradoxical effect of growth (increasing number of users on the free tier resulted in higher and higher licensing dues but not higher revenue) made it hard for Spotify to narrow the profitability deficit (SEC 2018).

In response to increasing financial pressures and investor expectations, Spotify is negotiating with rights holders in an effort to improve their negotiating power and obtain more favorable licensing conditions. The objective is to decrease the amount of revenue that it paid to record labels and publishers, which in turn might allow it to keep more of its revenue and profitability (Ramos&Blind 2022). Nevertheless, these negotiations were difficult because music industry revenues have been declining for the last 10 years.

Such companies as Universal Music Group, Sony Music, and Warner Music Group are controlling a significant portion of Spotify's catalogue, which gives them considerable leverage in negotiations. This limited bargaining power is adding complexities to Spotify's status (Prey, Esteve Del Valle, & Zwerwer 2020)

4.2 The ARPU Decline

Spotify's Average Revenue Per User (ARPU) was another concern. As it expanded into new regions, particularly emerging markets where it needed to charge lower subscription fees, ARPU began to decline. In Latin America and Southeast Asia, Spotify, in contributing to local market conditions, provided significantly reduced subscription costs to gain on premium user revenue (Threechownon 2021). While successful in boosting user acquisition globally, this pricing strategy exacerbated profitability issues as it lowered the overall average revenue per paying subscriber.

Moreover, Spotify's ARPU dropped by approximately 12% from 2014 to 2015, a concerning trend given that the company's financial model relied heavily on converting free-tier users to premium. With the addition of more users from areas that required low pricing, Spotify's

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revenue per user decreased and exerted further pressure on Spotify to look for other sources of revenue or to renegotiate its licensing contracts (SEC 2018)

However, for Spotify to expand into new markets, it needed to adjust its pricing to match the economic situation of the new territories it gained access to, hence impacting ARPU. As shown in the Figure 4, in Brazil, India, and Indonesia, Spotify offered lower subscription prices to make a pitch to a society that is accustomed to affordable goods. While this pricing model supported the growth in the number of users rapidly, it also reduced the ARPU in the countries under review compared to premium markets, such as in the US and the Western Europe (Schmid Romey 2021).

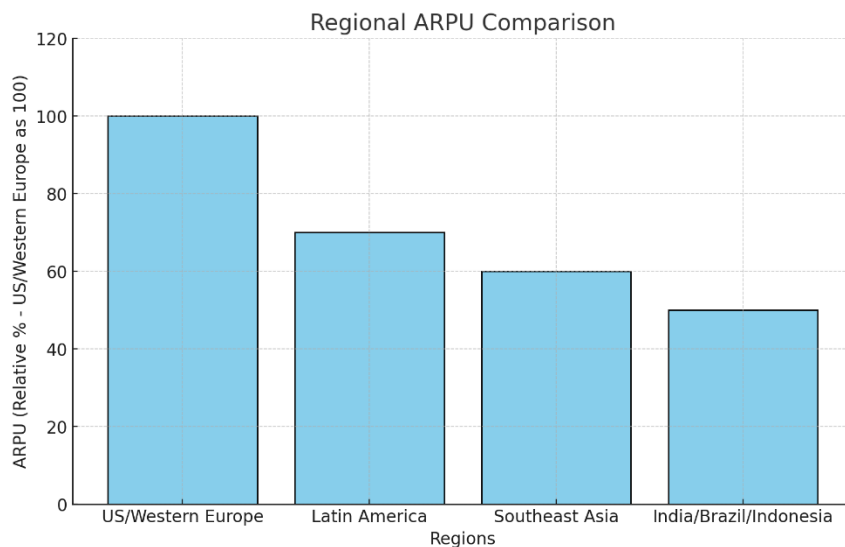


Figure 4. Spotify's regional ARPU Comparison. Source: Schmid Romey 2021

Despite the increase in users from emerging markets, the decline in ARPU meant that Spotify faced the challenge of maintaining a profitable balance. However, for example, as Spotify grew its premium subscriber base worldwide, the lower subscription price points in some markets put downward pressure on overall Spotify revenue. These further complicated efforts to achieve profitability, as the company now had to explore alternative revenue streams and optimize its advertising model to offset the revenue loss from regional price adjustments (Ramos Blind 2022). See Table 7 for Spotify's metrics.

Table 7. Spotify's Metrics in 2015

MAURICE ROAT

Metric	Q1 (2015)
Monthly Active Users (MAUs)	68 million
Premium Subscribers	18 million
Ad-Supported MAUs	51 million
Content Hours Consumed	3.7 billion hours

Sources: SEC (U.S. Securities and Exchange Commission). 2018. Form F-1 Registration Statement for Spotify Technology S.A

Notes:

- Monthly Active Users (MAUs) include both premium subscribers and ad-supported users.
- The Ad-Supported MAUs category represents users utilizing Spotify's free tier.
- Content consumption refers to the total hours users spent streaming on Spotify each quarter, reflecting user engagement.

4.3 The Challenge of Monetizing Free Users

A vital issue undermining Spotify's profitability was the vast revenue discrepancy between its two user groups: free-tier users and premium subscribers (Sletten 2021). The revenue generated from free users primarily came from advertising, yet this income was notably lower than the subscription fees collected from premium users.

Spotify's difficulties monetizing its large base of free users compounded its financial pressures. Although Spotify pioneered streaming and established a solid advertising infrastructure, it faced challenges in growing its ad revenue at a rate that would sustain its business. The digital advertising market was highly competitive at that time, with platforms like Pandora also vying for a share of ad dollars. Audio ads, Spotify's major revenue stream for free users, typically yield less engagement and advertising tracking capabilities than other ads (video or display) favored by advertisers on platforms like Facebook and Google (Carraro 2022). By 2015 Spotify's advertising revenues made up less than 10% of all revenue (a small amount in comparison with ad-led companies such as YouTube, which used video advertising to much greater benefit. See Appendix A for the company's financial metrics in 2015.

Migrating from free tier to premium was a major objective for Spotify. By 2015, around 26% of Spotify's total users were premium subscribers, a rate higher than some competitors but still

insufficient to compensate for free users' low revenue (Sletten 2021). Conversion rate improvements became a focus for Spotify, as they directly impacted the company's ability to generate consistent income from its user base. Spotify also contemplated to introduce tiered functionalities with premium conversion incentives like offline listening, ad-free streaming or exclusive content to increase the participation rate (Wagner, Benlian, and Hess 2014).

4.4 Spotify’s Tiers and Features

Spotify offers two plans: Free and Premium. The Free tier offers basic access with ads, standard audio quality, shuffle-only playback on mobile devices, and a limited number of skips. The Premium tier offers an ad-free experience, superior audio quality, offline listening, unlimited skips, and access across multiple devices. Premium subscribers also enjoy unique features such as personalized playlists, Discover Weekly, Running Mode, and access to video and podcast content. See Table 9 below for a detailed comparison of the two plans.

Table 9. Spotify’s Free and Premium features in 2015

Feature	Free Tier	Premium Tier
Ads	Contains ads (up to 6 times in a row every 5-8 songs)	Ad-free listening
Audio quality	Standard audio quality	Higher audio quality
Playback mode	On-demand playback on desktop/web; shuffle-only on mobile	On-demand playback on both desktop and mobile
Skips	Six skips per hour on mobile	Unlimited skips
Offline listening	Not available	Available (up to 10,000 songs)
Cross-device access	Not available	Available (up to 5 devices)
Exclusive features	Basic personalization with access to Discover Weekly and curated playlists; no additional exclusive features.	Enhanced personalization with Taste Profiles, daily routine-based playlists such as Wake Up Happy, user-created playlists with community engagement, personalized Discover Weekly, Running Mode for fitness enthusiasts, video and podcast content with partnerships like ESPN and BBC.

Sources: Bill Rosenblatt 2015; Josh Constine 2014; Jordan Crook 2015; Sam Thielman 2015; Stuart Dredge 2015; Spotify Community 2014.

In addition to technological features, the platform had social networking features that were controversial. Some users appreciate them as a new way to connect with others through music, while others question their effectiveness. Proponents see features like these as valuable tools for building community and discovering new music. On the other hand, critics state they are

underutilized and lack the engagement and depth in contrast with traditional social media platforms. Some users feel that the platform's efforts to incorporate social elements fail to create a truly interactive experience. In addition, the visibility of listening habits can feel invasive to some, raising privacy concerns (Paul Ford and The new republic 2015).

Spotify notes that mobile devices now account for the majority of listening among its users, demonstrating the growing trend of music consumption on the go. Specifically, 42% of listening takes place on smartphones and 10% on tablets. In contrast, desktop software accounts for 45% of listening. The web player accounts for just 3% (Josh Constine and TechCrunch 2015).

Alongside the music streaming itself, the platform also offered a forum, which was created to give users a dedicated space to help each other, discuss music and give feedback on the product. The Spotify Community was launched on 8 February 2012, replacing the former GetSatisfaction site (Spotify Community 2022).

4.5 Advertising Technology

Spotify's ad-supported tier was built on the foundation of programmatic advertising, a complex technology that uses real-time bidding to buy ad space. Advertisers may use this technology to efficiently target consumers based on a variety of data points, including demographic information such as age and location, music tastes, and even inferred moods based on the playlists they choose. In this structure, advertisements are regarded similarly to commodities in financial markets, where transactions are frictionless and quick. Spotify collaborated with a network of SSPs, DSPs, and Ad Exchanges to make this process easier. This cooperation enabled Spotify to increase the efficiency of its ad inventory by guaranteeing that each ad spot was used and sold to the highest bidder in an automated, simplified manner.

In fact, the platform allows advertisers to segment audiences based on demographics such as age, gender and location and through listening behaviour. For example, advertisers can decide to show their advertising only to certain segments of users who listen to that particular genre of

music or at specific times of the day. The more data that can be collected, the more precise and specific advertisers can be. Despite the vast amount of data available to Spotify, the system encountered significant hurdles in ad efficiency.

Initially, Spotify had a limited number of ads (1-3 at a time) during Free tier listening, with ads spaced every few songs, which many users found tolerable. However, according to user feedback in 2014, Spotify began introducing longer commercial breaks, sometimes with up to 6 ads in a row which drew criticism from free-tier users. They expressed frustration with describing ad placements as annoying and excessive. Premium subscribers, on the other hand, were often supportive of the increase in ads. As one user noted, "As a premium user, I'm glad they're increasing ads instead of increasing monthly fees..." This indicates that Premium users view the increase in ads as a reasonable trade-off to keep subscription costs down (Reddit 2014; Spotify Community 2014).

4.6 User Segmentation by Different Markets

Spotify's global market can be divided into four key regions: Europe, North America, Latin America and the Rest of the World. In Europe, the service has the largest presence in the UK: 56% of digital music users prefer curated playlists, smartphone use, and genres such as pop and rock. In North America, the U.S., with 44% of users, likes content discovery and personalized features, especially among Gen Z users. Latin America, with Brazil's 68% user share, highlights a younger, urban demographic that is passionate about gaming and discovering new content. Meanwhile, India, representing the rest of the world with 62% engagement, is characterized by its premium audio preferences, tech-savvy users and high receptivity to new features (Statista 2024f). See Appendix B below for a detailed overview of each region.

5. Daniel Ek, the Co-founder and CEO of Spotify

5.1 The Early Entrepreneurial Journey

MAURICE ROAT

Daniel Ek is a co-founder and CEO of Spotify, a major figure in both the music and technology industries. Born in Stockholm, Sweden in 1983, he discovered his love of technology early on and often reflects on how his childhood influenced his connection to both technology and music. In the late 1990s, Sweden had fixed broadband with speeds of around 10 megabits per second, allowing him to explore platforms like Napster early on. This access to fast Internet allowed Daniel to discover music from all over the world. Thus, he found himself trusting complete strangers who shared music online and exploring vast number of new songs and artists through peer-to-peer connections (Sarah Lacy and Startups.com, n.d.).

The entrepreneurial journey of Daniel began when he was just 14 years old. He was already programming in C++, HTML and CGI. In the late 1990s, there was a huge demand for websites, and in Sweden, companies were charging around \$50,000 for a basic two-page site. Daniel saw an opportunity and started making websites for just \$100. He raised his prices, eventually charging up to \$5,000 for a website. By then, while still in school, he had more clients than he could manage (Sarah Lacy and Startups.com, n.d.).

As the demand for his website building services grew, he realized that he needed to expand his skills. He taught himself and his classmates Photoshop to help him to process the clients' requests. Interestingly, instead of offering cash, he was paying with items like iPods, mobile phones and video games that were more valuable to his young employees. At the time Daniel was earning close to \$50,000 a month (Sarah Lacy and Startups.com, n.d.).

Around this time, Ek began to take on bigger projects, building SEO and SEM businesses and seeing the potential in search engine rankings. By the age of 18 or 19, he was essentially replicating what Google was doing. One day, however, he received a letter from the Swedish tax authorities informing him that he owed hundreds of thousands in back taxes. In his late teens and early twenties, Ek was pursuing various projects, but he hadn't yet understood the importance of financial planning. Instead of saving, he spent most of his earnings on servers,

hiring programmers (25-30 employees), and pursuing projects that interested him, even if they weren't always profitable. It wasn't the potential bankruptcy that bothered him the most, but the thought of having to lay off his employees. He was feeling depressed during this time, worried about the livelihoods of those who depended on him (Sarah Lacy and Startups.com, n.d.).

Fortunately, things took a positive turn in 2005 when the sale of Skype to eBay set off a wave of acquisitions across Europe. In six months, he sold four companies and went from the edge of personal bankruptcy to millions of dollars in the bank (Sarah Lacy and Startups.com, n.d.).

5.2 Leadership Style: Inspired by the Scandinavian Model

Daniel's leadership style draws heavily from the Scandinavian management model, which values humility, delegation, and a flat organizational structure. Instead of a top-down, leader-centric approach, he focuses on empowering his team to make decisions and take ownership of their work, as opposed to more hierarchical companies where the CEO has ultimate control. As Daniel himself says, "In many ways, I'm probably the least powerful person at Spotify, and I probably make the fewest decisions" (Fortune 2024).

The CEO of Spotify is known for his emotional intelligence and humility. His statement, "I'm really happy when my team proves me wrong," reflects his belief in listening to others and being open to new perspectives. He considers listening to be one of the most undervalued skills in society and often reminds himself to continually improve in this area (Justin Bariso and Inc. 2023).

Another key aspect of his leadership is his commitment to long-term vision. He and co-founder Martin Lorentzon had several opportunities to sell Spotify early on, but they resisted because they wanted to show European entrepreneurs that it's possible to build a global leader without early buyouts. At the 2018 Slush Music event, Daniel expressed his frustration with fellow entrepreneurs who sell too early, saying, "Spotify wouldn't be where we are today... if we had listened to the many people who said we should sell (Murray Stassen 2020)."

Furthermore, his belief in the power of collaboration and distributed decision-making aligns with Spotify's progressive policies, such as a generous parental leave plan and a work-from-anywhere policy, both inspired by Scandinavian work models (Fortune 2024).

6. Conclusion

Daniel rose from his chair and walked to the window overlooking the city. Took a deep breath and tried to calm himself. Outside, the rain began to fall harder, each drop hitting the glass like a small hammer. Daniel felt a cold sweat break out on his forehead.

His head was filled with what-ifs. What if investing more in marketing could provide deeper insights for better conversion? What if the company should embrace open innovation to stay ahead of Apple? The pricing challenge, however, remained a major concern. He wondered how to get users to pay for services they had long enjoyed for free. What if the stricter free plan discouraged them? What if it was time to adjust the business model to survive? The stakes had never been higher, and Daniel knew that every decision from this point forward would shape Spotify's destiny, for better or worse...

He looked once more at the rainy cityscape outside. The storm would pass, like all storms do. In its way, the air would be clearer, the horizon wider. Daniel sat back down at his desk, a newfound clarity settling over him. He took a sip of his now cold coffee and made a face, then chuckled softly. "Time for a fresh cup," he thought.

7. Teaching Note

In 2015, Spotify faced the challenge of balancing rapid user growth from its freemium model with the need for profitability. Despite having over 75 million users, only 20 million were paying subscribers. Investors were demanding profits, artists were dissatisfied with the low payouts, users were used to free music, and competition from rivals such as Apple Music was intensifying. The core issue was to determine how Spotify could significantly rethink and adjust its product, pricing, and marketing strategies to achieve sustainable product-market fit.

7.1 Learning Objectives:

- Define and adjust product-market fit in a dynamic competitive environment.
- Adapt the product strategy to align with market trends while ensuring the business model's sustainability.
- Evaluate pricing strategies and optimize the balance between customer acquisition and profitability.
- Drive growth and competitive advantage through product innovation.
- Align marketing with product-market fit to drive differentiation and profitability.

7.2 Target Audience:

- Advanced undergraduate students in management, product development, or digital business models.
- Master's level students pursuing degrees in business, management, entrepreneurship, or marketing.
- Entrepreneurs and startup founders who want to learn from strategies on product-market fit, pricing models, and market competition.
- Professionals responsible for overseeing product development, market expansion, or pricing strategies in technology-driven industries.

7.3 Assignment Questions:

Exploring the Marketing Strategy

- How does Spotify leverage marketing tools to gain insights into market trends, and in what ways do these tools help the company understand and anticipate consumer preferences in the music streaming industry? And how these marketing strategies could help Spotify to converse freemium in premium users?
- In what ways do cognitive biases influence user behavior on Spotify, and how does the platform utilize or address these biases to enhance user engagement and satisfaction?

- How has Spotify implemented open innovation strategies, such as collaborating with external developers and integrating third-party technologies, to drive innovation and maintain a competitive edge in the streaming market?

Pricing Strategy

- What were the key drivers and constraints shaping Spotify's pricing strategy in 2015?
- What are the various pricing strategy options that can be considered to enhance Average Revenue Per User (ARPU) and overall profitability?
- What forward-looking pricing tactics can enhance profitability?

Navigating the Business Model

- How can Spotify improve users' willingness to pay (WTP) for its services?
- How can Spotify balance its Free plan to attract and retain users while ensuring that it does not hinder premium subscription growth?
- How can Spotify optimize its freemium business model to ensure long-term growth and competitiveness in the streaming market?

Exploring the marketing strategy

Marketing has always played a fundamental role in businesses as it can differentiate them from their competitors. To analyse the Spotify case in depth, it is necessary to understand that the marketing strategies and tools used, open up different visions and allow the company to achieve greater awareness of the habits of its users, but also of its own capabilities and competences.

The question asked in this case is: *How does Spotify leverage marketing tools to gain insights into market trends, and in what ways do these tools help the company understand and anticipate consumer preferences in the music streaming industry? And how could these marketing strategies help Spotify to convert freemium into premium users?*

In 2015, Spotify became one of the most influential music players in the world by managing to surpass Apple in the number of subscribers on the platform. This achievement was made possible by a relentless focus on providing a better music experience. In July 2015, Spotify managed to raise \$526 million from 15 investors and introduced Discovery Weekly, an algorithmically curated playlist. The introduction of this strategy attracted 40 million new users, providing over 5 billion tracks, decreeing the extraordinary success of this choice. Initially, Discovery Weekly was to be conceived as a new feature to enable more personalized listening, but its success has been so broad that it has been a selling point, prompting the company to invest in more engineering resources (Possagnolo 2022).

1. PESTEL Analysis

PESTEL Analysis is a theoretical framework that allows for the identification of all factors in the macro-environment that can influence and have both a positive and negative impact on the enterprise. Since Spotify revolutionised the music industry, it would be interesting to understand how the company related to the micro-environment and the macro-environment and to what extent it was influenced by them (Hivelr 2023).

1. Political Factors

Spotify has a presence in multiple countries and is highly exposed to political factors, particularly specific copyright and intellectual property law regulations. In fact, each country has its own regulations, and it is not easy for the company to move in such a regulated market.

Content regulations: in some countries, there may be censorship laws that make some content unavailable. Spotify is forced to move into markets such as China, where content laws are very stringent and heavily regulated. Some political factors may also be positive, such as in Sweden where the IPRED (Intellectual Property Rights Enforcement Directive) law in 2004 made free downloading for music illegal, leading to the rapid spread of music streaming platforms such as Spotify. In the United Kingdom, on the other hand, a collaboration between the government and ISPs was established in 2014 to implement the Voluntary Copyright Alert Program (VCAP), which allowed detection of users suspected of piracy (Verma 2015).

Trade policies: international trade agreements and tariffs may constitute additional elements of the macro-environment that have the power to impact cross-border operations and licensing deals. An example the EU-South Korea FTA (CBM 2024) which, has greatly facilitated access to the South Korean market, allowing Spotify to expand further.

Data Privacy Laws: taxation policies or even privacy laws are crucial points for the company as it has to deal with a huge amount of sensitive user data. Data compliance can differ from country to country; therefore, Spotify is forced to comply with different user protection laws. For example, in Germany in 2010, German courts authorized rights holders to ask ISPs to block pirate sites in an attempt to counter this piracy problem. Similar laws were also passed in Denmark and Norway in 2012 and 2013, respectively, that would allow such sites to be blocked and obtain commercial enjoyment of music in a legal manner (Verma 2015).

2. Economic Factors

Among the economic factors, global economic conditions and market growth are of relevance.

Economic downturns: The economic conditions of a country can be a very important micro-environmental factor for a business. Depending on the economy of a country, the income of its citizens can rise or fall, determining the purchasing power of the user. For example, in 2013 in Sweden 70% of revenue in the music industry was clearly derived from digital sales, while in 2015, 88% of the market was accounted for by streaming (IFPI 2014). Introduced only in 2008, Spotify in 2009 already accounted for 50% of digital revenues. Similar situations can be seen in Norway and Denmark, as in 2013 84% of digital revenues were represented by streaming, but in 2015 we can see a 6.5% growth (IFPI 2014). In Germany, on the other hand, the adoption of this new service fruition was slower than in the other countries, highlighting the differences between countries, as streaming accounted for only 12.8% of the total revenues of the musical sector (IFPI 2015).

Emerging markets: In emerging markets, the increasing penetration of the Internet has enabled the introduction of smartphones. The latter plays a key role in the spread of the platform as, through the Internet, it allows access to the multimedia content on Spotify. Developing countries, therefore, offer an important opportunity for the company to expand as it can establish itself in new markets and cater to new user segments. In the past, Spotify could not integrate in such countries, as being a digital platform operating using the internet, its expansion was severely limited by these technological barriers. Spotify made itself more accessible in markets with different income levels by combining premium subscriptions with free, ad-supported streaming. Because of their untapped user populations and rising smartphone penetration, emerging markets were viewed as important growth regions. However, because of its licensing strategy and operational limitations, Pandora did not aggressively expand worldwide, instead concentrating on the U.S. market (Perez 2015). This created an opportunity for Spotify and other international firms, such as Deezer, to more successfully enter emerging

countries. Spotify's 2015 expansion efforts in areas such as Eastern Europe, parts of Asia, and Latin America demonstrated a long-term plan.

3. Social Factors

Streaming Adoption: The adoption of streaming has revolutionized the music industry and is the crux on which Spotify has set its business model. Indeed, people have begun to change their habits, preferring fewer physical goods and favoring platform economies based on the enjoyment of services. Since Spotify operates worldwide, it has a priority to tailor content to local music tastes, offering a more personalized and listening experience. For example, countries such as Sweden, Norway, and Denmark have high rates of digital technology adoption and open-mindedness that lead users to experiment with new ways of listening to music, countering piracy (Pakinkis 2015). In addition, a key factor is demographics in that it is young users (under to 30) who are more likely and accustomed to streaming technology services such as Spotify. They have a smartphone and access to the internet, which allows them to use streaming services more. In Germany, on the other hand, we can see differences related to a greater preference for physical formats, living a totally different music experience (Verma 2015).

4. Technological factors

Technological Advancements: An absolutely important factor to consider is the ability of competitors to implement their technologies and to be at the forefront of the market (Hilver 2023). To be able to face stiff competition, Spotify needs to constantly renew itself, to study the different targets it has and to be able to produce and sponsor valuable, quality content. A very important point to consider is collaborations with local technology companies. Sharing knowledge and experience can realize technological phenomena that can positively impact the industry. In fact, Spotify's presence in Germany in 2012 strongly influenced the consumption habits of individuals, having a strong impact on daily life (Ingham 2015). Moreover, Spotify is

a technology company and the growth of IoT, and smart devices has clearly contributed to the expansion of Spotify, which can be used on different devices (such as smartphones, tablets, PCs, TVs). As such, it relies heavily on data acquisition and its exploitation, as well as the advancement of technological devices that can enhance the customer experience.

Infrastructure

As previously mentioned, the fast and steady penetration of the Internet in developing countries has accelerated Spotify's expansion, giving it the opportunity to establish itself in new markets. In countries such as Sweden, Spotify has taken advantage of infrastructure advancement by partnering with Telia and providing Spotify Premium access in 2011.

5. Environmental Factors

The massive amount of data that is processed nowadays involves a lot of consumption even if we are not able to perceive it. As one of the giants of the music industry and the global business scene, Spotify has a responsibility to take up the cause of launching initiatives to manage such consumption in a suitable manner. On the environmental aspect, an additional point to consider is the reduction in the production of physical products. In fact, since 2009 with the rise of streaming, vinyl sales have dropped in many countries, even in Germany where initially there was little inclination to adopt streaming. An additional aspect is physical events, as very often Spotify goes into the business of organizing events trying to make shows as sustainable as possible (Karaganis & Renkema 2013).

6. Legal Factors

The royalty system can be as simple as it is complex, this is because changing laws can affect the way artists are compensated and consequently can have a strong impact on business costs. Furthermore, GDPR and CCPA laws may vary from country to country, but they are fundamental in that they protect and safeguard both the user and the platform (European Commission 2024). Data is what we exchange in order to use a service, it is our currency in

using a free service. On the other hand, it is common to say that when there is no price to the product, you are the product (Verma 2015).

2. **Marketing Mix (4Ps)**

While it is necessary to study the macro-environment and understand how certain factors can influence the company and push it to make different strategic choices, it is also important to observe what is happening inside the company.

The marketing mix is an excellent tool that can intercept the best strategy for the company by taking into consideration product, price, distribution, promotion (Li 2023).

2.1 Product

Spotify's main product is music streaming, i.e. access to millions of songs and podcasts in different genres and languages. The platform lends itself to a user-friendly interface, i.e., it is very intuitive in its use and can be enjoyed on all devices. Furthermore, Spotify offers a product with social features as it allows users to share tracks, create shared playlists and share their musical tastes on social networks. The product comes in a freemium version that offers the possibility to listen to music for free, while the premium version has additional services such as the possibility to skip tracks that are not of interest, the online mode of listening to music, skipping advertisements, and higher quality audio. A crucial point of the product is customisation, which is done through the collection and processing of user data and which allows for a customised playlist thanks to the algorithm that intercepts the user's musical tastes.

2.2 Price

The freemium model is supported by the introduction of advertisements but has limitations in the use of the platform, while the premium model involves a monthly subscription with the benefit of the additional services listed above.

There are, however, different pricing strategies:

- a. Freemium model: users use the platform for free

- b. Premium subscribers: users pay a monthly subscription that includes the possibility of listening offline, skipping advertising and obtaining higher quality.
- c. Trial Periods: the premium version the first month is free. This allows the user to experience all the benefits if they decide to convert from freemium to premium.

2.3 Place

Being a platform, access to an internet network is required to use Spotify. In fact, Spotify is present in all countries that have access to a connection and is available as an app on iOS, Android, Windows, macOS and web browsers. Furthermore, it can be used with various smart devices such as TVs, smart watches and car systems, or even more so, it is possible to integrate Spotify with apps such as Instagram or gaming consoles. All this makes the platform highly shareable, allowing it to expand rapidly.

2.4 Promotion

As far as promotion is concerned, advertising plays a key role in Spotify, especially in the freemium model as it allows the company to obtain revenue other than monthly subscriptions. Advertising campaigns are very specific and aim to create content to reach a specific target market based on demographic aspects. In addition, Spotify, thanks to its collaboration with Instagram, has a strong presence on social media, which increases the company's brand awareness and brand image. Every year, in fact, users await the Wrapped Campaign which consists of your personal summary of the tracks you have listened to over the past year. This is shared on social, creating and reinforcing engagement between users and the platform (Russo 2022).

3. **Consumer Behaviour: user engagement in Spotify**

The marketing tools used above give us an inside and outside view of the company, providing a real insight into all the factors that a large company like Spotify must deal with daily. A substantial aspect to consider is that the platform not only harnesses the power of marketing to

carry out its strategic analyses, but also uses a branch of this discipline called consumer behaviour to intercept customer preferences. To reach a broad customer base and interact with them, the company exploits a series of cognitive biases aimed at unravelling the frailties of human logical thinking and through this, it manages to intercept users' needs and preferences, achieving a high degree of engagement and entering the mind of the consumer. The study of consumer behaviour can offer interesting insights into how the choices we make are in fact very often the result of bias.

Therefore, the question to ask could be the following: *In what ways do cognitive biases influence user behaviour on Spotify, and how does the platform utilize or address these biases to enhance user engagement and satisfaction?*

Music is a very powerful means of communication. Both artists and listeners feel music as a strong involvement that creates a bond, a connection. But what influences us when we listen to music? Why do we prefer one genre over another? Most importantly, how can music drive a user to purchase? With the increase in production of goods and enjoyment of services, we have access to everything all the time. We have so many alternatives, so many options, and this can generate a sense of frustration because of the difficulty of the choice to be made. Inevitably, when we choose, we give up one option in favor of another. Everything can be loss or victory at the same time, and it is up to us. In neuromarketing, this phenomenon is known as the “paradox of choice”: the more we strive to choose, the less enthusiastic we are about the experience. In fact, the act of choosing leads to constant frustration and dissatisfaction because we think we could have better. The crux of Barry Schwartz's study is that our brains can process a few options, and this is rewarding because we have the perception of control over a situation; when we have too much information and too many options more than the brain is able to process the act of choosing has a negative impact. Simply put, the less we must strain the happier we are (Schwartz 2004).

American psychologist Clark Leanord Hull calls this tendency the “lazy tendency,” or avoidance of cognitive demand: the law of least mental effort. But how does this psychological process affect the way we consume and discover music?

Within this context, in a world where music is ceaselessly being produced, we navigate through millions of tracks we can listen to. Without personalization, discovering new music we can listen to becomes a nightmare. For this reason, Spotify employee Matt Ogle has created Discover Weekly, creating a true antidote to the paradox of choice: mixtapes that are unique and personalized for each user. Users no longer have to spend hours searching for new music, but it is the algorithm that will suggest new songs based on the data collected. The algorithm assumes that if other users with similar behavior add new songs to their playlists, you might be interested in adding them as well (Spotify 2020). The launch of Discover Weekly has had strong repercussions for the music industry as artists can reach more listeners, users can take advantage of personalized playlists and enjoy a greater music experience.

With the introduction of Discover Weekly, listeners spend twice as much time on the platform because Spotify has managed to transform all user data by creating a product that can be sold to different brands. This implies that the logo appears within the playlist. In such a scenario, it is possible to understand that consumer behavior techniques and the study of neuromarketing have fundamental implications on people's lives as companies, through data collection, can influence our shopping experiences. Thanks to such predictive data, music no longer has to be sought but is provided by the users themselves (McDermott 2019).

Considering the above, we can describe the cognitive biases that can influence our choices.

Since 2015, Spotify has launched Spotify Wrapped which is one of the most admired marketing campaigns as it summarizes and ranks what are the most listened to songs by the user (Russo 2022). It is done through a presentation that users share on social generating a social phenomenon that no one would want to feel excluded from. This campaign

is linked al Bandwagon Effect (Solomon Asch) (Riccardi 2023): when the crowd goes in a certain direction, it is very easy for the user to be pushed to follow the same direction to avoid being left out of society. In this case, the platform shows popular playlists and the charts of the most listened-to songs, encouraging users to follow the trends. The user will indeed be spontaneously driven to conform to the group in order to obtain a sense of belonging to the community. All this is reinforced by Spotify's strong presence on social media.

1. The Cocktail Party Effect: This psychological principle is that we pay more interest and attention to personalized information. The Wrapped campaign points everything to personalization by using listeners' musical tastes, focusing on their emotionality.
2. Narrative Bias: Spotify Wrapped manages to pick up some information and creates a personal story about each user. This bias describes our tendency to make sense of the world through stories. Because we are hyper-stimulated and, attacked by a multiplicity of information, our brain in order to process a large amount of data needs to create stories.
3. Music has tremendous social power in that it is able to connect us with someone we do not know. The endowment effect states that when we own or intend to own something, we feel more emotionally connected to that thing. Users feel more emotionally connected to songs and to each other when collaborating to create a playlist.
4. The Friend Feed-Social Norms & Connection: very often for people, music is dictated by certain social norms. Studies have shown that shared genres of music can create deep connections between people. This happens as a result of the way we process the information we receive.

Through the study of the cognitive biases listed earlier, it can be ascertained that Spotify is a highly technological enterprise that has made personalization and data exploitation a huge strength that can differentiate it from other streaming platforms (Clinehens 2023).

4. **The perfect duo: Open Innovation e Marketing**

The correlation between Open Innovation and marketing can offer interesting insights as it can influence the strategic choices made by a company like Spotify and creating added value for both the company and the users. The purpose is to create value with a multitude of actors who can bring different skills, resources, and methodologies. Spotify, in fact, through collaborations has been able to expand its ecosystem and improve the user experience. The company has therefore leveraged innovation as a key to accessing services and benefits that it did not previously possess, utilizing the key competencies of other companies through targeted partnerships.

How has Spotify implemented open innovation strategies, such as collaborating with external developers and integrating third-party technologies, to drive innovation and maintain a competitive edge in the streaming market?

Before answering this question and understanding how Spotify managed to combine open innovation and marketing strategies, it is necessary to provide some theoretical background on the subject. The result of the study of the Open Innovation paradigm is the fruit of advanced research on the evolution of markets and the behaviour of companies conducted by Henry W. Chesbrough, who is nowadays considered the father of open innovation. Chesbrough believes that the open innovation paradigm suggests that companies, in improving their technology, could and should use both externally and internally generated ideas, and take advantage of both internal and external market access modes. Open Innovation, therefore, consists of a flow of knowledge in and out, aimed at accelerating the internal innovation process and allowing one's ideas to be used by other companies (Chesbrough, Vanhaverbeke, West, 2006). The conviction underlying the Open Innovation model is that useful knowledge for a company is widely distributed within markets and that it is crucial to build inter-organizational relationships in order to both absorb and internalize ideas coming from outside, and to commercialize ideas

developed internally, even though channels external to the current business of the organization (Chesbrough & Vanhaverbeke, 2014). It is therefore noticeable how companies that intend to implement a business model based on open innovation allow themselves to be influenced by external cultures and knowledge that are often far removed from their core business. Such contamination exposes companies to the outside, allowing them to identify new knowledge, internalize it according to their strategic characteristics, and finally reuse it. Such a configuration allows companies to tap into new knowledge that can contribute to enriching the cultural heritage of the enterprise, as well as creating a participatory and active climate in the processes of innovation development. The mechanism that is triggered is that each individual belonging to the team has relationships with other individuals outside the company or has applied their skills in different work contexts, and all this clearly leads to a differentiation of the knowledge that a human resource can employ.

But how does Spotify embrace the processes of Open Innovation?

First, Spotify has made its APIs available to external developers, allowing them to create applications, services, and integrations that are based on Spotify's data and functionalities.

In this case, open innovation has allowed the creation of innovative tools that have rapidly improved the user experience, such as apps for analyzing listening habits, personalized playlist generators, or integrations with social platforms like Facebook or Instagram (Grafik 2024). In this case, we can observe that openness to innovation can converge into the development of new marketing strategies, creating a perfect blend that helps the company differentiate itself. Another aspect to consider in the field of open innovation is the collaborations with innovative startups and technology partners. Spotify, in fact, has launched initiatives like Spotify for Startups to develop new features, leveraging the resources and expertise of its partners. This type of approach not only makes creative and innovative processes more accessible but also opens new opportunities for marketing strategies to reach new

audience segments. Beyond the collaborations that help Spotify become more competitive and comprehensive as a platform, leveraging the core competencies of its partners, it is also important to evaluate collaborations with research institutes that can help collect anonymous data for the study of musical trends. But that's not all, through machine learning and data analytics technology, Spotify collects and uses data to personalize the user experience by creating specialized playlists like Discover Weekly and Release Radar (Ditto Music 2019). This strategy is fundamental not only because it improves user engagement but also because it converges into a marketing strategy capable of increasing customer loyalty by creating targeted advertising campaigns. Again, one of the most significant aspects of integrating open innovation within a company like Spotify is the co-creation process, that is, the creation of content by the users themselves. Spotify seeks to involve customers in various innovative features like Spotify Wrapped, which offers users an overview of their annual music habits. Even in this case, we have a perfect combination of innovation and marketing that leads the company to occupy a prestigious position in the music industry landscape. To promote the platform as quickly as possible, Spotify leveraged hardware integrations through specific technological collaborations. In fact, the company collaborates with hardware manufacturers to integrate all its services into various devices such as Amazon Echo, Google Home, smartwatches, consoles, or TVs. We can therefore observe how the innovative processes stemming from open innovation have a strong impact on marketing strategies, which in turn help to rapidly expand the platform, improve engagement, and enhance the user experience. In fact, by leveraging the right synergies, it is possible to achieve:

1. Improved user experience: Thanks to co-creation with users and external partners, Spotify can leverage others' resources to create new content and features capable of enhancing the customer experience.

2. Content diversification: the integration of podcasts, music videos, and other multimedia content by users as well, has allowed Spotify to diversify its offering, attracting a wide and varied user base.
3. Better use of data: Innovation and marketing manage to create a perfect combination to achieve innovation and ensure that it can be communicated effectively. In fact, the use of data collected from interactions allows for the creation of targeted and highly personalized advertising campaigns like the previously mentioned Spotify Wrapped. Such a campaign not only represents a significant innovation but is also a perfect example of viral marketing, as through data collection, users can review their listening habits that have been detected thanks to the analysis of data derived from the cognitive biases. All these leads users to strongly share their playlists on social media, increasing engagement and brand awareness.

A further important aspect to consider is the collaborations that can arise in an open innovation context. As described above, open innovation concerns collaborations between companies that can exchange or combine their resources with a view to value co-creation. In particular, an example that provides a perfect case of mixing marketing and open innovation is the partnership between Sony and Spotify. Indeed, through this form of collaboration, it was possible to integrate Spotify within Sony's PlayStation ecosystem, resulting in PlayStation Music. The result of this collaboration was to replace Sony's existing streaming service and to leverage the strengths of Spotify, the market leader in music streaming. In fact, open innovation allows access to the resources and strengths of the partner company, thus gaining a significant advantage. The benefits of this collaboration are multiple and affect both parties. For Sony, the first benefit is to leverage Spotify's expertise and position in the music streaming market, enhancing the PlayStation user experience. Furthermore, by partnering with Spotify, Sony can concentrate and focus more on its core competences, namely gaming and hardware. Again, a

further advantage that Sony can gain from this collaboration is the possibility to increase the value of PlayStation by offering a highly popular service. As far as Spotify is concerned, this form of collaboration can lead to the company gaining access to the PlayStation world, increasing its customer base and increasing the number of subscribers to the platform. Furthermore, a further result is to increase brand visibility by becoming the music platform of PlayStation users. This collaboration is customer-centric innovation, i.e. prioritising and maximising the customer experience by offering the best quality in terms of music and gaming. In fact, customers can listen to Spotify music while playing PlayStation, emphasising fun (Forbes 2015). Through this analysis, it is evident how open innovation has a strong impact on marketing strategies, and it is important to mention the benefits of this correlation:

1. Increase in brand loyalty: open innovation helps anticipate market trends by suggesting precise marketing strategies, maintaining high user interaction.
2. Market expansion: through collaborations with startups, authors, and large companies, Spotify achieves a high media and contractual power that allows it to establish itself in emerging markets to develop new demographic segments.
3. Efficiency of the campaigns: The more sophisticated the data collection systems are, the more data is available, the more resources there are to process it, the greater the precision with which certain advertising campaigns will be set up and introduced into the consumer's mind, reducing acquisition costs.

The correlation between open innovation and marketing demonstrates that an openness to new ideas, processes, and technologies can influence the way marketing operates both within and outside the company, making the organization much more flexible and much more capable of introducing innovations that can positively impact the listening experience of the user.

What happened

Since the launch of Apple Music in 2015, Spotify has managed to maintain its position as the market leader while experiencing significant growth and strategic success. Apple Music has emerged as a strong competitor in the streaming market with Apple's vast ecosystem. However, Spotify's quick adaptations and innovative strategies allowed it to meet this challenge head on and fueled its rapid rise.

Spotify implemented localized pricing strategies to make subscriptions more affordable in areas with lower purchasing power such as Southeast Asia and Africa and introduced Student and Duo plans to target specific audiences (Spotify Community 2021). Moreover, the service's cross-platform approach became a key differentiator, which broadened its audience (Spotify, n.d.). In contrast, although Apple Music also introduced Student and Family plans, it remained tightly integrated with the Apple ecosystem, which limited its appeal to users outside of Apple's platform (Apple, n.d.).

By the third quarter of 2023, Spotify had a commanding 31.7% share of global music streaming subscribers, well ahead of Apple Music, which had 12.6% (Statista 2024h). On the financial front, Spotify's revenue skyrocketed from €1.94 billion in 2015 to more than €13.2 billion in 2023, driven largely by its premium subscription model (Statista 2024j). The company reached a significant milestone in 2024 by becoming profitable, reporting a net income of €274 million, a remarkable turnaround from previous years of financial losses (Todd Spangler and Variety 2024). While Apple Music grew steadily to 93 million subscribers by mid-2023, it fell short in market share, user engagement, and overall influence (Statista 2024e).

Spotify has strategically diversified its offerings to reach a broader audience. The company acquired podcast networks like Parcast and Gimlet Media and established itself as a leader in podcasting (Johan Moreno and Forbes 2022). Although Apple Music introduced podcast

integration, it couldn't match Spotify's impact in the space. As for marketing, Spotify used user data to create highly personalized campaigns like "Spotify Wrapped" in 2016, which turned individual listening habits into shareable moments, generating viral engagement (Spotify 2024). Apple Music, on the other hand, found it difficult to compete with Spotify's level of virality and deep personalization, despite its curated playlists and exclusive content.

To find a balance between monetization and user satisfaction, Spotify has made some strategic changes to its Free tier. In April 2018, it improved the Free plan by allowing on-demand playback for select playlists, giving users more control over their listening experience. In May 2023, Spotify attempted to limit Free users to viewing lyrics for just three songs per month. After significant backlash, the company reversed this decision by July 2024, making lyrics available to all users worldwide, regardless of their subscription (Lauren Forristal and TechCrunch 2024).

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Appendix

A. Spotify's financial metrics in 2015

Category	Metric	Value (€ millions)
Premium Segment	Revenue	1,744
	Cost of Revenue	1,487
	Gross Profit	257
Ad-Supported Segment	Revenue	196
	Cost of Revenue	227
	Gross (Loss)/Profit	(31)
Consolidated	Revenue	1,940
	Cost of Revenue	1,714
	Gross Profit	226
Reconciliation of Gross Profit	Segment Gross Profit	226
	Research & Development	(136)
	Sales & Marketing	(219)
	General & Administrative	(106)
	Finance Income	36
	Finance Costs	(26)
	Share in Losses/Earnings of Associates and Joint Ventures	-
	Loss Before Tax	(225)

Sources: SEC (U.S. Securities and Exchange Commission). 2018. Form F-1 Registration Statement for Spotify Technology S.A.

B. Overview of consumer behavior across different markets

Region	Key insights	Demographics and preferences	Segments
Europe	UK is a key market with 56% of digital music users preferring Spotify. Smartphones (70%), with laptops (36%) as a secondary choice. Users primarily listen to music at home while engaged in activities such as relaxing, doing housework or walking. Podcasts are increasingly popular for entertainment, relaxation and learning.	More popular among Gen Z; 54% male user base. Higher income users value success, fitness, and tech engagement.	Social sharers, tech-savvy discoverers, cost-conscious users.
North America	Spotify leads with 44% user share in the U.S., particularly among Gen Z. A mix of devices is used. US users listen while gaming, watching TV or movies, and other leisure activities.	Balanced gender distribution; higher-income users. Entertainment is prioritized over traditional values.	Content explorers, convenience seekers, tech-lagging listeners.
Latin America	Brazil is a dominant market with 68% user share. Users are Millennials, urban-based, and value content discovery. Smartphones are the	Primarily millennials (53% male) in urban areas; gaming and	Urban millennials, gamers and digital

	dominant device in Brazil. Listening while playing games, leisure activities or while commuting.	eSports are prevalent interests.	enthusiasts, cost-sensitive listeners.
Rest of the World	India shows high engagement with 62% user share. Smartphones are the primary device for Spotify users in India, who often listen while commuting, relaxing at home, or watching movies and TV shows. Tech-savvy users prioritize high quality audio during these activities.	Male-dominated user base in megacities; tech-savvy audience prioritizing sound and image quality.	Quality seekers, entertainment-focused listeners, young explorers and students.

Sources: Statista 2024c; 2024d; 2024a; 2024b.

C. CX profiling of Spotify

Dimension	Current performance	Upside potential	Strategy
Cognitive – What people think	Spotify held the largest customer base and was perceived as innovative, intuitive, and user-friendly with access to the largest music library.	Limited potential as further improvements would not significantly enhance customer perceptions.	Defend (yellow): Maintain current levels of performance without unnecessary investment.
Physical – How people interact	Through desktop and mobile phones. Free-tier users face stricter limitations on mobile without on-demand playback.	Moderate potential to educate users and improve awareness of Premium features over time.	Defend (yellow): Maintain current standards and gradually building attractiveness of Premium for listening on-the-go.
Sensorial – What people experience	High-quality sound for Premium users and standard streaming for Free-tier users, with audio quality as an incentive to upgrade.	Limited potential as further improvements can hinder Free-to-Premium conversions.	Defend (yellow): Maintain current gap to keep differentiation between two plans and an incentive to upgrade.
Emotional – How people feel	Positive emotional connections with Premium users through personalization but Free-tier users frustrated by frequent ads.	Significant potential to emotionally connect Free-tier users and create a sense of belonging.	Build (green): Develop new capabilities to deepen emotional engagement for Free-tier users.
Social – How people share	Critics and media rate social features like music sharing and friend-adding as controversial and underutilized.	Minimal potential as social connectivity is not highly valued by all users.	Ignore (red): Prioritize resources elsewhere, as enhancing this dimension has minimal impact.