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A Case Study on Spotify: Exploring Perceptions of the Music Streaming Service

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The MEIEA Journal *occasionally features outstanding student papers. This undergraduate research paper was written by Kate Swanson, a recent graduate of Indiana University.*

Abstract

Spotify is a commercial music streaming service providing music content from a range of major and independent record labels. Spotify users can either subscribe to a "Freemium" model supported by advertisements or they can pay a premium to access additional features without advertisements. Since its inception in 2008, users of this service have totaled twenty million, five million of them paying monthly fees of either US$4.99 or $9.99.

Prominent artists such as Taylor Swift and The Black Keys have begun speaking out about this service, some even withholding their music from the service entirely, explaining that the payment model is unfair and that the service is cannibalizing album sales. Other artists praise the service for its ability to deliver a legal alternative to piracy, where artists can capture valuable information about their listeners and are compensated on a per-play basis.

Whether we like it or not, Spotify and related music streaming services represent a window into the future of the music industry. This study investigates the perceptions of streaming services like Spotify from the perspective of all parties involved: music industry professionals, artists, and consumers in order to identify perceived needs and positive developments. The conclusion offers suggestions for the future role of streaming services in the music industry based on the survey and interview results.

Keywords: Spotify, music streaming, music industry, music technology

Introduction

Music streaming services allow users access to millions of tracks from any web-connected computer legally and free of charge. These services are now viewed as a window into the future of the music industry.

Spotify is the fastest growing music streaming service in the world, with over 24 million active users worldwide and nearly 6 million paying between US$5 and $10 a month to use the service.[1] The company has posted growth at a staggering rate of nearly 8,000 subscriptions per day and is currently valued at $3 billion dollars.[2,3] Music streaming was up over 700 percent last year and people are listening to more music than they ever have before.[4] Nevertheless, there is also much controversy surrounding this service in the music industry.

Throughout this report, I discuss perceptions of the streaming service Spotify from the perspectives of the artist, label, distributor, publisher, and consumer, and how these perceptions are affecting music consumption habits, economics, and ultimately, the future of the industry. I conclude with recommendations on how to improve the service and work towards accommodating the needs of all parties involved.

Spotify

Spotify was first launched in October 2008 in Europe. Founder Daniel Ek saw an opportunity to utilize new technology to create a product that was better than piracy.[5] Once Spotify secured its spot as the second largest digital revenue generator in Europe, it entered the U.S. market in 2011.[6]

Spotify functions much like the popular downloading service iTunes. *Wired* magazine's Eliot Van Buskirk describes Spotify as, "a magical version of iTunes in which you've already bought every song in the world."[7] Music can be browsed using a search tool by track name, artist, or album. Users have the option of registering for a free account, supported by visual and radio-style advertising, or for one of two paid subscription models, which are ad-free and offer a range of additional features, such as higher bit rate streams and offline access to music. In the U.S. there are three types of Spotify accounts: Spotify Free, Spotify Unlimited, and Spotify Premium. The paid subscriptions are entirely free of ads and the listening time is unlimited. An unlimited subscription of $4.99 per month allows for unlimited access to Spotify's catalog on a desktop computer; a premium subscription of $9.99 per month offers unlimited listening and allows users to access Spotify on mobile devices and offline access to playlists."[8]

By offering a "freemium" option, Spotify hopes to encourage free users to convert to paying users. According to a source, the conversion rate from free to paid is about twenty-five percent.[9]

Spotify distributes back seventy percent in royalties "based on a pro rata share in accordance with the popularity of a piece of music."[10] This is paid out to whomever owns the rights to the music. In some cases, the artist owns his or her master recordings. In most cases, a record label or distributor owns these rights. The amount Spotify pays out is a pre-negotiated rate per-play or per-percent of revenue for streams. Although artists receive different royalties depending on deals made with their labels and distributors, on average, this amounts to $0.004 or just under half a cent per stream.

Major labels have leverage over streaming services like Spotify because without their enormous catalogues, streaming services could not exist. In January, music publisher Sony/ATV used this leverage to negotiate a twenty-five percent increase in royalties from Pandora. It may only be a matter of time until we see these same types of deals take shape with Spotify. In order to acquire rights to catalogs of music, in some cases, Spotify had to pay very large upfront fees to labels. Many of the major labels took equity in Spotify instead of cash. It is believed that majors received eighteen percent of Spotify shares.[11]

Spotify currently employs over 300 people, is available in 21 countries and has a catalog of over 20,000,000 songs. New applications are added almost daily to help aid in music discovery, like Pitchfork which shows the hottest new releases for indie artists, or TuneWiki which provides scrolling lyrics so one can sing along to one's favorite songs.

History of the Digitization of Music

Widespread digitization of music began in 1983 with the introduction of the compact disc.[12] Although this format was much smaller than its predecessor, its real claim to fame was that it stored music digitally, rather than in an analog format.

In the early 1990s, the MP3 was introduced. MP3 files are about eleven times smaller than their predecessor, allowing files to be sent via email and downloaded. Files could now be shared online and through email. This granted music the opportunity to be portable.

In 1999, the first large-scale peer-to-peer (P2P) service was introduced: Napster. Founded by eighteen-year-old Shawn Fanning, Napster was a platform allowing people to share and swap MP3 music files.[13] The service allowed people access to whatever music they wanted, when they wanted it, and for free. Just nine months following its launch, the Napster community numbered more than twenty million users, and grew every day.[14] At its peak, Napster had over fifty-seven million users.[15] The service has since been shut down for copyright infringement, but its effects are still felt. Since Napster emerged, "music sales in the U.S. have dropped 47 percent, from $14.6 billion to $7.7 billion."[16]

A few short months later, in October 2001, Apple launched its first generation MP3 player, the iPod. As opposed to a bulky compact disc player, the iPod allowed users access to all their MP3 tracks in a convenient, stylish, and relatively inexpensive way. After just two years of offering downloads, Apple had sold over 500 million tracks through the iTunes music store.[17] By 2012, Apple's iTunes music store accounted for sixty percent of worldwide digital music sales.[18]

In 2002, Rhapsody, an online music service, was the first to launch a paid on-demand music streaming service. For a flat monthly fee, subscribers were allowed unlimited access to a library of digital music.

In 2005, the popular internet radio station Pandora was launched with the intention of creating a completely customizable radio experience. Pandora functions much like a traditional radio station except that the consumer selects a song or artist he or she wants to hear and a station is generated based upon the selection. Pandora is the result of the Music Genome Project, which is the only one of its kind. For the Music Genome Project, a trained music analyst listens to every song, new and old, and classifies it according to 450 distinct musical characteristics. One's Pandora station will stream music that has identical or similar elements to one's initial selection.

Between 2007 and 2010, a number of on-demand music subscription services emerged: Spotify, MOG, Deezer, and Rdio to name a few. These services operate much like Rhapsody, except that they offer users a free option in hopes of converting them to paying users.

Traditionally, digital music options forced users to store their music on their own hard drive. After a few thousand downloads, lack of storage space can really slow a computer down. And worse, if the hard drive crashes, the music is gone. In the past few years, new technology has arrived called cloud music storage. Files are instead stored on a third-party site. This allows files to be accessed across a variety of platforms from one's cloud account anywhere in the world.

As technology has continued to advance and new services have emerged, consumers have grown to expect easy access and higher quality with little or no cost. Piracy is still not highly prosecuted in the United States, and it is very easy for consumers to access music online for free, even though most file-sharing services have since been shut down.

Traditional Income Stream Model

In the 1980s and 90s, before the proliferation of the internet, the music industry was actually over-inflated. Musicians could make a living just by selling sound recordings and touring. Much of this is attributed to the introduction of the CD. At this time, there was only one way for someone to listen to music—to buy it. The CD utilized digital technology, making music more accessible and affordable. It also provided an opportunity to reissue all catalog items as audiences were replacing LP and cassette collections with CDs.

A few years after the internet became mainstream, Napster was introduced and it came as a huge shock to the industry. The availability of free product and the value erosion of recorded music resulted in most customers buying much less product. There also became a general "freeconomics" expectation, meaning people expected things to be available cheap or for free. Since then, income streams for musicians have changed and, in many cases, diminished drastically.

The Future of Music Coalition has defined eight core means by which musicians would traditionally generate revenue.[19] These include money from songwriting/composing, salary as employees of a symphony, band, or ensemble, touring and live performance fees, money from sound recordings, session earnings, merchandise sales, teaching and "other" which includes about twenty other revenue streams.

For sound recordings, artists receive a percentage of the wholesale price.[20] According to information published on The Root, superstars can get 20 percent, but most get 12 percent to 14 percent.[21] On a $10 CD, a musician or band could make $1.20 to $1.40. Divided evenly between four bandmates, that amounts to a grim 30 cents each. On a 99-cent download, "a typical artist may earn 7 to 10 cents after deductions for the retailer, the record company, and the songwriter." In 2009, only 2.1 percent of the albums released sold even 5,000 copies.[22] Typically, a record company cannot recoup investments until a record goes gold, meaning it has sold

500,000 copies. In the case of 97.9 percent of artists, they won't see a penny from album sales, as all royalties go towards recouping the label's initial investment.

Artists could also tour in support of their album. But even here, a lucky artist can earn 60 percent of the revenue from a show. If he or she isn't playing five or six nights a week for more than 500 people each time, it's nearly impossible to make a living.[23] Many artists struggle just to break even on tour.

These two examples demonstrate an important fact. Problems in making a living as an artist stem much further back than streaming. Traditional income models yield slim returns, and in a depressed digital economy, people are buying less.

Perceived Pros and Cons of Music Subscription Services

As mentioned in the introduction of this paper, this conversation is focused on perceptions, or the way a specific party views and understands information. Although perceptions are often mistaken as fact, they do offer a closer look at why certain attitudes and behaviors exist. Regarding Spotify, I spoke with representatives of all the parties affected and collected a range of perceptions.

Artists

A number of influential artists—for example, Grizzly Bear, The Black Keys, and Galaxie 500—have expressed dissatisfaction with Spotify due to low royalties and perceived declines in album sales. To get a better idea for what other perceptions exist, I spoke with three bands, Braid, Company of Thieves, and White Rabbits, each of which has reached a different level of success in terms of number of fans.

When speaking with Bob Nanna, lead vocalist and guitarist for the emo/post-hardcore group Braid, he explained that, opposed to streaming, he would prefer that people bought the song, as the band gets paid "next to nothing" for streams.[24] Since his label, Polyvinyl Record Co., added Braid's 100-plus catalog to Spotify, Nanna claims to have received "less than $5.00." He isn't sure this service, with its current royalty structure, can be sustainable for small bands like Braid with just over 13,500 Facebook fans. Nanna thinks the service needs to become more "artist-focused." He and bandmates worry that Spotify is more interested in building a strong, lasting business than supporting artist's careers and the industry. Other than a slight increase in social media buzz, Braid has seen little benefit from the service.

For a band with a slightly larger following (just over 31,000 Facebook fans), the conclusions are similar. Genevieve Schatz, lead vocalist of indie rock group Company of Thieves, explains, "It's hard knowing as a musician that I see my breakdown of royalties from Spotify and it's not as much as if someone just purchased the song."[25] Schatz was much more optimistic about the service Pandora, explaining, "With Spotify, you have to specifically seek it out. And it's just different. It's not like, 'Yay! You get exposure.' I know it's hard time money-wise and we're in a communication age and it's really cool that you can do that. And I would rather someone hear it than not hear it. But, financially speaking, no this is totally not lucrative." At one concert in January, Schatz and a bandmate mentioned on stage that they've really been struggling. When I approached their merchandise stand following the show, there was a tip box set up next to the t-shirts and posters. Her final thoughts about the service echoed Nanna's fear that the service is not artist-focused, "It's a business, just another business."

Finally, when speaking with Jamie Levinson, drummer for the rock act White Rabbits, he was very hopeful about the service. His band, which has over 51,000 Facebook fans, sees the potential in Spotify to act as an awesome discovery tool. Levinson believes the service is a "crucial value add to the music discovery process simply because the catalog is so vast and access is so unrestricted."[26] He continued by saying, "I understand that the revenue generating portion of the site is not entirely fair towards musicians/songwriters but I'm not interested in using Spotify to make money [right now]." Levinson explained that the band makes most of its money from touring and merchandise "because it is where we are most autonomous in our financial control." As far as an increase in ticket sales and media buzz as a result of streaming, Levinson is not convinced there is any correlation at this time. "Honestly, I don't think streaming has a major role in increasing ticket sales and media buzz. I think outlets like Pitchfork are really what drive exposure for most unknown artists. Spotify still needs those services to point people towards specifics. Otherwise it is just a massive catalog that is incredibly difficult to mine for new music."

Generally speaking, these three artists are representative of the views of many of today's musicians. Artists appreciate that the service has allowed more people access to their music and are happy that people are listening to their music legally versus pirating. Smaller acts signed to independent labels, or acts that rely heavily on album sales as opposed to touring, seem to be more concerned with the royalty structure and what they believe to be “fair” returns. Larger acts that are still receiving most of their income from touring, or are receiving higher royalties as a result of major label deals, are more interested in how they can leverage this service to make it work for them. Also, artists feel like Spotify works too much like a traditional business. They are seeing their needs and interests fall by the wayside to increase a company’s profits and market share. And in return, artists don’t feel like they are benefitting in real, tangible ways. Finally, Spotify does not yet have the features to help consumers navigate and direct consumers towards new music. Artists praise Pandora for its ability to match fans and new music. They do not see Pandora as a threat. Instead, artists see it as a supplement to album sales rather than a replacement. Artists also receive a higher royalty rate from Pandora, as it functions like a radio station rather than a streaming service.

Artists are seeing the fractions of cents coming in from streams and may be incorrectly assuming that the consumers streaming are the same consumers that would have otherwise purchased the tracks. When asked, all three artists have observed no negative sales impacts as a result of streaming services. At this time, streaming revenues appear to be a supplement to album sales and touring, not a replacement. This information was verified in discussions with music consumers.

Consumers

This year, at the MIDEM music conference in France, music industry professional Tom Silverman explained, “97 percent of the world never buys music—not even Adele.”[27] He identifies the most elusive demographic within the non-purchasing group to be in the 18-24 age bracket. As a 22-year old student living in a college town, I had access to a representative population sample for my research. In order to better understand the way the generation perceives this service and consumes music, I conducted a survey of 237 respondents. 61.2 percent of these respondents were between the ages of 18 and 24.

Among a list of subscription services, 55 percent of respondents between the ages of 18 and 24 are using the on-demand service Spotify on a daily or weekly basis. Pandora was the second highest subscription service, with 44 percent of respondents using the service daily or weekly

(Figure 1). When asked why they had chosen to use streaming services over alternatives, consumers cited convenience and quality. For some users, the service has actually helped to cut their monthly music budget.

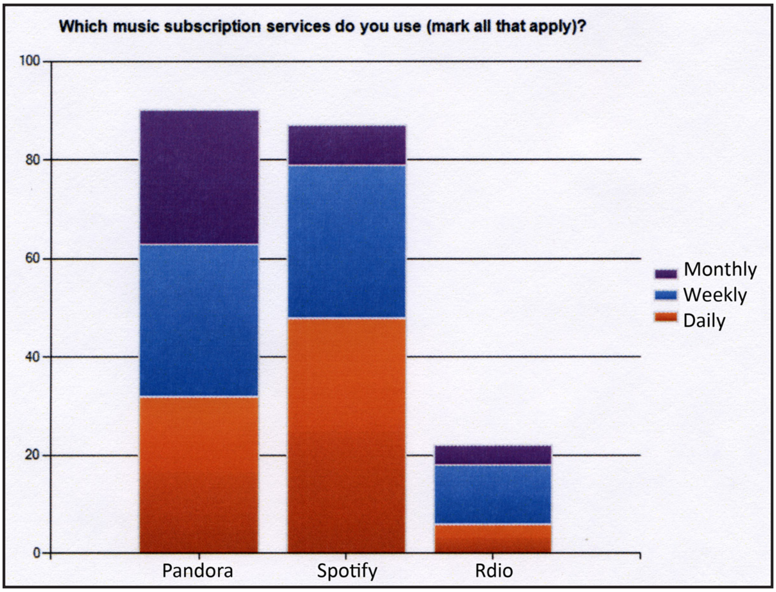

Figure 1. Survey question: Which music subscription services do you use (mark all that apply)?

The five largest sources for music consumption for 18-24 year olds, aside from streaming services, are YouTube, iTunes/paid download services, free/file-sharing, CD/vinyl, and Terrestrial Radio. These account for 87.4 percent, 51 percent, 38.4 percent, 35.6 percent, and 32.1 percent respectively. Among the top five sources for consumption are two paid sources, iTunes/paid download services and CD/vinyl. These data provide some unexpected information: a generation that has grown up with access to free music is still paying for music (Figure 2).

When respondents between 18 and 24 were asked how much they pay to use streaming services, 64 percent reported using the free model. A combined 15.2 percent pay some other amount to use the service monthly (Figure 3).

The majority of respondents between 18 and 24 indicate that their

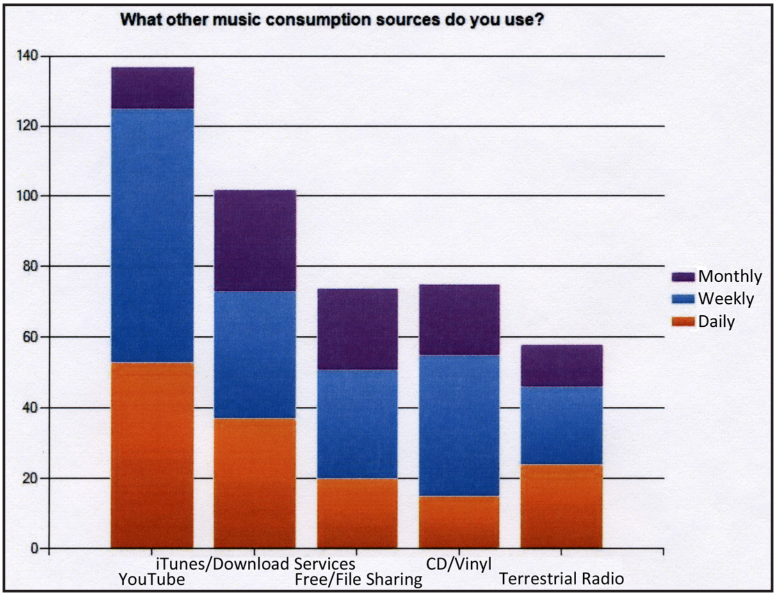

Figure 2. Survey question: What other music consumption sources do you use?

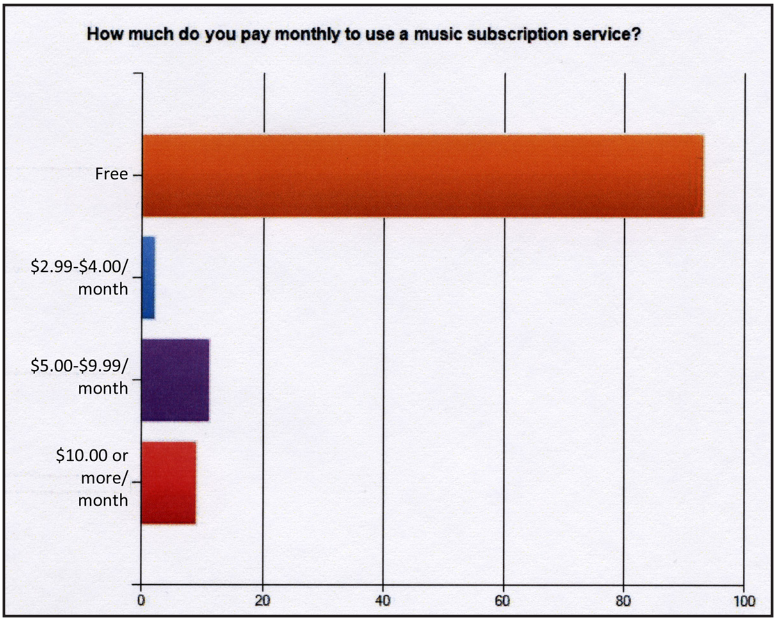

Figure 3. Survey question: How much do you pay monthly to use a music subscription service?

music-buying habits have been affected either somewhat or minimally by streaming services. Only 18 percent indicate the services have altered music-buying habits drastically or a lot (Figure 4). Results were even less dispersed for respondents over age 24, with 72 percent indicating the service has altered their habits somewhat or minimally.

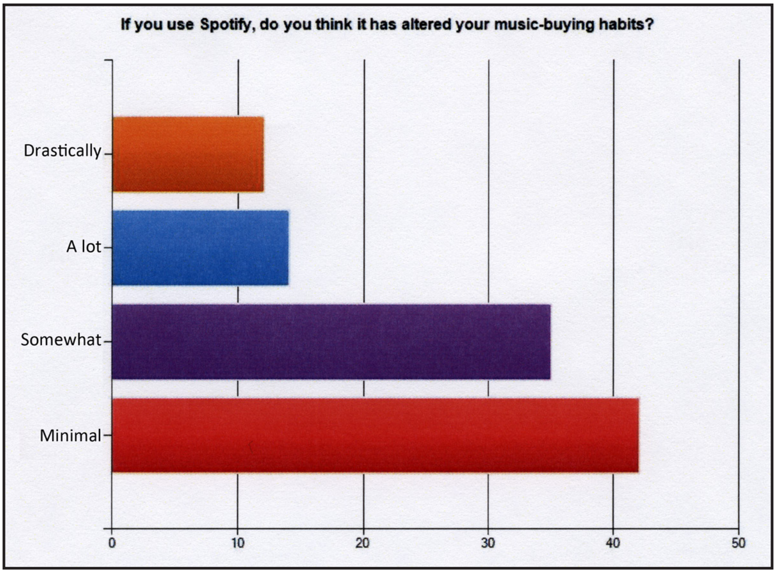

Figure 4. Survey question: If you use Spotify, do you think it has altered your music-buying habits?

In order to better understand the reasons why consumers are not using Spotify, I conducted a focus group with three non-users. Each classifies himself or herself as a casual listener—someone who doesn't specifically seek out new music but enjoys listening. Consumer A expressed her concern for this service, explaining, "Technology changes. No one knows how long stuff will be around anymore. Things come and go out of style; I fear [Spotify is] just a trend." This consumer points to a pre-existing relationship with iTunes. Using a service like Spotify "would take a lot of effort to get used to" and at this point, it doesn't seem worth it. Consumer B explained that she hasn't heard much about the service and asked if it was a pirating service. After I explained the service to her, she was not interested in the massive collection or convenience, stating, "I am exposed to enough new music as is. I don't have any use for Spotify." Consumer C explained that it's not convenient for her. She mentioned, "The times I want to use it are walking to class or in the car—places I won't have Wi-Fi and places the free service won't work." She didn't see a need for trading her monthly five dollar iTunes music budget for a ten dollar premium subscription. She also cited Spotify's poor discovery features, explaining that in order to use Spotify, she needs to know what she's looking for. She thinks the service is catered to people who are "very focused and know what they're looking for." Each of these represents a different perception—that it's a trend, that its catalog is limited, that it's too expensive, and that it lacks discovery features.

Distributor and Label

Digital services like Spotify generally don't do business with musicians directly. Instead, they go through labels or distributors, which are then responsible for paying royalties based upon pre-negotiated rates.[28]

To learn more about the distributor and label in this discussion, I conducted personal interviews with Brad Sanders, the Digital Content Manager for Secretly Canadian Distribution and Jeff Beck, Accounting Manager at Saddle Creek Records.

The majority of the Secretly Canadian Distribution content was made available on Spotify early on. Sanders explained, "We recognized [Spotify] as a service worth working with and [Spotify] wanted our content."[29] Since it has been available, Sanders explained that, compared to iTunes, Spotify is a lot different to work with. For example, he mentioned that, "Spotify is not real open to promotions. You can get ads on Spotify but they don't have a curated editorial side." This makes it a lot more challenging for artists to stand out among what Sanders referred to as "a wilderness." At this point, "There's no hierarchy to Spotify; it's all an even playing field in terms of how easily you can find artists. [Distributors] don't have a lot of control and can't really attack it from a marketing standpoint."

Sanders had a few comments with regard to royalties, piracy, and curating. First, he expects royalties and payouts to continue rising as the industry begins to adapt to these changes. He also recognizes that as an alternative to piracy, Spotify is definitely a step in the right direction. As far as improving the way the service functions as a discovery mechanism, he thinks, "It could be better curated, or curated at all, because it's not." When asked how this might work, he suggested Spotify have a "dedicated staff' whose job is curator or recommender, much like Pandora's Music Genome Project. Right now, all curation for Spotify is driven by bios and related artists. "There are not genre pages or 'picks of the week' at any real level beyond a semi-arbitrarily chosen group of big names on the front page every month."

Jeff Beck of Saddle Creek Records described a similar relationship with Spotify—one of "tactic approval." The company is utilizing Spotify just as it would any other service. Beck explained that the label even puts up singles pre-release so fans can "find and listen to the newest songs just as they would with any other service such as SoundCloud, YouTube, etc."[30] He explained that doing this "allows [Saddle Creek] to monetize listens all the way up to the release date."

Beck noted that none of the label's artists has observed any noticeable downturn in sales from digital services like Spotify. Instead, the label sees Spotify as an opportunity to "engage [a] particular group of customers and direct content towards them." He continued, "no band or label ever gets 100% customer engagement on any service, but that's part of the challenge. The business models are based strictly on volume: the more customers who stream your song, the more times the track is monetized, the more pennies drop into your bucket."

Publisher

The role of the publishing company is to protect, monitor, and monetize its copyrights on behalf of the songwriters it represents. I had the opportunity to speak with Sean McGraw, Vice President of Licensing/Administration for Downtown Music Publishing, an independent publishing company based in New York City. The company's catalog includes more than 60,000 copyrights and was recently recognized in *Billboard's* ranking of the top ten music publishers in the U.S.[31]

McGraw explained that the general position of the publishing company with regards to streaming is acceptance. He continued, "You have to brace for these types of things. [Spotify] is a fantastic service as long as everything is fair."[32] When asked to go into detail about what he believes to be "fair", he was unable to provide a clear answer. Instead, he pointed out recent trends, using ringtones and music-centered video games as examples. These are both unexpected revenue streams that have been extremely important in supporting an artist's career. Especially during a time when album sales are decreasing, ringtone and video game licensing has filled a major revenue gap. As Spotify continues to grow, the main concern for publishing companies in the coming years is how the service will be restructured in a way that is “fair”, or fills revenue gaps.

To continue, McGraw noted that Downtown Music Publishing has never withdrawn or prevented anything from being up on any music streaming site. However, he explained that Downtown has never authorized Spotify to use any of its compositions. Right now, labels are authorizing on behalf of the publishing company, which they aren’t allowed to do. It remains unclear how this will pan out in the future and what effects it might have on the relationship between the publisher and the label.

Direct deals, or circumventing performing rights organizations, have become a hot topic when it comes to music publishing companies and streaming services. However, streaming services are still very hesitant at this point, as it would open them up to hundreds of new deals and negotiations. Companies like Downtown Music Publishing are definitely interested in negotiating these deals. Ultimately, the publishing company wants direct deals with everyone (iTunes, YouTube, etc.), as licensing companies such as the Harry Fox Agency are taking up to a ten percent share, dramatically cutting revenue for publishers.

To this point, Downtown Music Publishing has not observed any negative impacts as a result of streaming services, however, one could sense a bit of McGraw’s apprehension about the future, which was confirmed by his final statement, “Publishing has always been called a business of pennies, but a business of micro-pennies—it becomes a bit of a concern.”

How Spotify Has Altered Economics

The perceptions explored in the previous section play an important role in the economics of Spotify. As digital channels are rapidly expanding, new revenue streams have been created for artists that have expanded their capacity to earn. Aside from the eight core means by which artists traditionally generated revenue, discussed in a previous section, The Future of Music Coalition has identified thirteen new revenue streams to be the product of digitization and streaming:

- Streaming Mechanical Royalties
- Mechanical Royalties for Cloud Storage, Lockers, Limited Uses
- Ringtones Revenue

- Digital Sales
- Cloud Storage Payments
- Interactive Service Payments
- Digital Performance Royalties
- AARC Royalties
- Label Settlements
- AFM/AFTRA Payments
- YouTube Partner Program
- Ad Revenue
- Fan Funding

(Source: Future of Music Coalition, http://money.futureofmusic.org/revenue-streams-existing-expanded-new/)

With this many new revenue streams, it's hard to believe that artists are making substantially less money than they were fifteen years ago. Part of the reason is because interactive service payments will continue to occur over the lifetime of an artist, thus the capacity for an artist to earn does not diminish with time. Instead of a one-time profit of 7 to 10 cents when a track is purchased, artists will continue to receive payment every time a track is played. Given artists earn 7 to 10 cents on a 99-cent track download, a consumer who streams would only need to play a track 150 times before an artist earns the same amount he or she would earn from the purchase of a 99-cent track. When I consider my favorite artists and tracks, if I would have streamed their tunes rather than purchase them, the artists would have already yielded substantially more income. And I'm only 22 years old—imagine how much this could amount to by the time I am 30, 50, even 75 years old.

When speaking with artists, a distributor, a label, and a publisher, none had observed negative sales impacts as a result of the service. I do think it's sensible to assume that in the coming years, digital music sales will decline. But by the time sales are declining, streaming royalties should become enough of a substantial revenue source to make up for the difference.

The average download consumer spends $60 per year while the average subscriber spends $120.[33] It appears people are paying more than ever for music, especially in the 18-24 age bracket, but this increase in spending has not come with equal benefit to artists. A Spotify premium subscription costs $10 month. Of the $10, "$6 goes to the owner of the recordings, $1 goes to the owner of the publishing copyright, and Spotify keeps $3. This is the same proportion by which revenues are shared in the iTunes model." Although it is an unconventional way of thinking and requires a "perceptual shift in the transactional relationship," the economics of Spotify conform exactly to the economics that have always existed in the music business.[34]

If leveraged correctly, Spotify can actually be a tremendous resource for the music industry. Global recorded music revenues in 2012 increased for the first time since 1999, up 0.3% to $16.5 billion. Leading the recovery with 9% growth to $5.6 billion total were digital sales, "which include direct sales on platforms like iTunes and revenue generated from streaming services like Spotify."[35] Artists are also using Spotify to monetize pre-release streams and generate interest in a new album. To use a recent example, Justin Timberlake's latest album, *The 20/20 Experience*, sold 980,000 copies in its first week.[36] In addition, the week following the release, tracks from the album took up six of the top ten most played songs on Rdio and tracks from the album were streamed nearly 7.7 million times. Timberlake's label is crediting these staggering sales numbers to free online streaming services.

Recommendations and the Future of the Industry

After completing research on Spotify, I have identified five aspects of the service that require improvement:

First, Spotify needs to become more artist-focused, meaning artists' interests and opinions need to be sought out and taken into consideration. For example, Spotify could share with artists the demographical and geographical data on who is streaming their music. This information could then be used for marketing and touring purposes. Unless artists feel like Spotify is their advocate, there will continue to be pushback and a loss of support from artists and fans.

Second, Spotify needs to continue working with labels and distributors to gain access to even more content, specifically content from DJs, older musicians, and representation from genres that are less mainstream—like jazz, blues, and world.

Third, Spotify needs to launch an advertising campaign to market the service to mainstream America. Before long, companies that already have enormous market shares like iTunes, Amazon, and Google will be launching similar services. In order to remain relevant, Spotify will need to be a household name and will need to have many more subscribers. In late May

2013, Spotify aired its first ever television commercial during *The Voice*. It will be very exciting to see this recommendation begin to take off.[37]

Next, the payment structure needs to be reconsidered and higher royalty rates ultimately need to be negotiated in support of the artists. This may be as simple as artists revisiting deals with their labels. It may be as massive as Spotify re-evaluating the way that it distributes royalties.

Finally, there needs to be curation and the addition of editorial content, including links to band websites and social media pages, as well as a third party site where the tracks could be purchased. Spotify could also consider having dedicated staff whose job is to direct fans to new music.

Spotify is currently "the biggest single revenue source for the music industry in Scandinavia." In Sweden specifically, "90 percent of digital music is streamed rather than downloaded." In this area, the service has had five years to grow and become a part of mainstream culture. I think it's safe to assume similar results would occur over a period of time here in the U.S.

All around us, there is evidence that the industry has changed. Since Napster, digital music sales have been declining and consumers have sought alternative means of acquiring music. Spotify is a promising solution. Keeping in mind all that we know about listening habits of younger generations, Spotify offers a way to monetize free listening—something traditionally we haven't been able to do.

One thing is for certain; the discussion does not end here. The pace of change for this technology is more likely to accelerate than slow down. The observations in this report have been made at a point in time and yet change in the industry is occurring daily.

Endnotes

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