Spotify Technology SA

Final Report

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Executive Summary

As loyal Spotify users, Team 6 was excited to analyze Spotify Technology SA's external and internal environments to offer a recommendation to improve the company. The analysis found that Spotify's primary strategic issue is the lack of sustainable competitive advantages in terms of exclusive content. This issue can be addressed by adding exclusive user-generated content on the Spotify platform to attract premium users and generate advertising revenue. Implementing this recommendation would offer Spotify a net present value (NPV) of €457.9 million based on a 5-year analysis using its internal discount rate of 8.5%.

Introduction

Spotify Technology SA is a large-scale Swedish audio streaming and media services provider founded in 2006 by Daniel Ek and Martin Lorentzon. The company envisions "a cultural platform where professional creators can break free of their medium's constraints and where everyone can enjoy immersive artistic [experiences]" (McKay, 2018). The full Spotify vision, mission, and values can be found in Appendix G.

This goal facilitates the overarching company mission to "unlock the potential of human creativity– by giving a million creative artists the opportunity to live off their art and billions of fans the opportunity to enjoy and be inspired by it" (*The Band Manifesto.* 2022).

This report examines both the internal and external environmental factors affecting Spotify. The analysis portion identifies and details Spotify's competitive strategy, key success measures, value chain, and core capabilities. The final part of this report provides recommendations to Spotify's senior leadership that will improve operations and ultimately benefit the company.

The primary strategic issue was identified as a necessity to create new sustainable competitive advantages by leveraging exclusive Spotify content. The recommendations at the end of this report detail the specific methods to achieve such benefits.

Situation Analyses

PESTEL Analysis

The following section uses a PESTEL framework to identify the political, economic, sociocultural, technological, environmental, and legal macro-level factors influencing all companies in the music streaming industry. In the interest of focus and space, the entire PESTEL analysis is in bullet point format in Appendix A. Below, we investigate the most salient factors influencing the music streaming industry—technological and legal.

Technological

The music streaming industry is abundant with technological innovation, including advancements in artificial intelligence, specifically in machine learning algorithms that recommend songs, genres, and playlists depending on users' listening history. Currently, music streaming companies are working to keep up with the growing number of electronic devices the average consumer uses. Streaming services are now forced to integrate with all manner of tech devices, including various cars, Google / Alexa speakers, smart home products, and more (Top 5 Ways Technology is Changing Music Streaming.2019).

Legal

The music streaming industry is highly regulated around artists' rights and user privacy. Firms must abide by the following laws: The General Data Protection Regulation, The Sonny Bono Copyright Term Extension Act, and The Music Modernization Act (*The Music Modernization Act.* 2022; Kennedy, 2021). Firms are subject to costly penalty fees for not holding proper licenses.

Failure to hold a Public Performance or Mechanical License to each song being streamed can result in expensive fines and penalties ranging from $750 to $150,000 per song (*Chapter 5: Copyright Infringement and Remedies.* 2022). The risk of facing lawsuits surrounding copyright infringement and privacy violations is very high.

Spotify must find ways to grow its business while navigating its broader industry's changing technological and legal environment.

Porter's Five Forces Analysis

To complement the PESTEL framework, the following section uses Michael Porter's Five Competitive Forces analysis to identify the underlying drivers of profitability in the industry.

These forces include the threat of substitute products, the threat of new entrants, collective bargaining power of suppliers, collective bargaining power of buyers, and intensity of competitive rivalry. Additional bullets within each force are outlined in Appendix B.

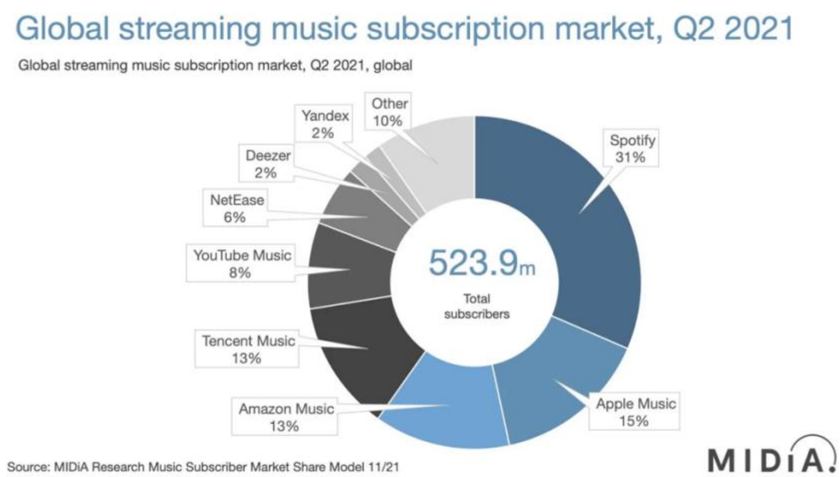
Threat of New Entrants

- **Economies of scale**—difficult for new entrants to the music streaming industry to create their own technology infrastructure quickly, but public cloud providers may provide flexibility to new entrants.
- **Product differentiation**—each company in the industry attempts to differentiate itself through various app and content features.
- **Capital requirements**—companies in the industry usually do not need large amounts of capital because there are no physical storefronts or manufacturing facilities to build and maintain. The major expense is labor associated with software development and content acquisition costs.

- **Switching costs**—customers usually have little trouble switching from one music streaming provider to another because most companies in the industry have a monthly subscription model without any lock-in period. Additionally, the cost of a subscription is relatively cheap, and most companies have similarly priced subscriptions.
- **Cost disadvantages independent of scale**—companies in the music streaming industry usually develop proprietary technology to deliver their services to customers. New entrants replicating that technology may be challenging without hiring the people responsible for creating the technology in the first place.
- **Government policy**—the government heavily regulates the industry, requiring extensive legal teams to ensure companies comply with applicable laws and regulations. New entrants would have to navigate this complicated legal environment to create and grow their business.
- **Expected retaliation**—companies in the industry take note of and respond to competitor actions fairly quickly, given similar business models and a reasonably standardized product. The major players in this industry, like Spotify and Apple Music, frequently imitate each other's features though there are first-mover advantages in signing exclusive deals with artists.

Intensity of Competitive Rivalry

The industry is characterized by a high level of competitive rivalry. A key driver of this rivalry is the industry's high fixed costs in procuring licenses and rights to the music streamed in each company's app. Existing services compete to lower costs and amass more content to stream to their customers. Part of these companies' strategy in maintaining customers is to impose higher switching costs for customers if they use different streaming services. These costs can include an ecosystem of features such as user-created playlists and the inability to transfer music libraries across other streaming platforms (Keating, 2015). Top competitors in the music streaming services industry include Spotify, Apple Music, Sirius XM Radio, Amazon, and Alphabet (Kennedy, 2021). The industry's market share can be broken up as follows:



Industry Attractiveness

The Five Forces analysis above suggests that the industry's most influential drivers of profitability are the threat of new entrants and the intensity of competitive rivalry. These factors push industry innovation and industry competitiveness, facilitating constant expansion and new features. Firms in this industry have remained profitable because competition has been primarily based on service differentiation. Ultimately, this industry is highly attractive to new entrants, evidenced by the many companies investing in streaming.

These forces of New Entrants and Competitive Rivalry drive the primary strategic issue; Spotify must find new ways to grow to rise above the fierce competition. The company must continue outperforming established companies and new entrants to push its progress forward and build sustainable competitive advantages.

Key Success Factors and Corresponding Key Success Measures

Key success factors for the music streaming industry include effectively adopting new technology and delivering new features to customers, minimizing the cost of acquiring content to stream, effective product promotion, and effectively acquiring new market share. The full analysis illustrating Spotify's measures with its industry can be found in Appendix C.

1. Effectively adopting new technology and delivering new features to customers

   Measure: R&D Expense as a % of Sales

The following table provides data on top Spotify competitors and their R&D expenses from their latest available annual report filing:

SPOTIFY	APPLE	AMAZON	FACEBOOK	GOOGLE	PELOTON	AVERAGE
9%	6%	12%	21%	12%	6%	11%

Spotify is slightly below average in terms of R&D expense as a percentage of sales, but many of Spotify's competitors are in broader industries, where they have to spend a higher percentage of their revenue on R&D. Regardless, Spotify may be slightly below par in terms of their R&D expenses as a percentage of sales.

2. Minimizing cost of acquiring content to stream

   Measure: Cost per stream

The following table provides data, from 2021, on top Spotify competitors:

SPOTIFY	APPLE MUSIC	AMAZON UNLIMITED	FACEBOOK	YOUTUBE RED	PELOTON	IHEART RADIO	AVG
$0.004	$0.0675	$0.01123	$0.05705	$0.01009	$0.03107	$0.01798	$0.02842

Spotify pays on the lower end of the industry in terms of cost per stream, which is a strength because it can keep costs low while attracting more streaming customers. However, this lower cost per stream could also disincentivize artists from listing their music on Spotify, decreasing its content library.

3. Effective product promotion

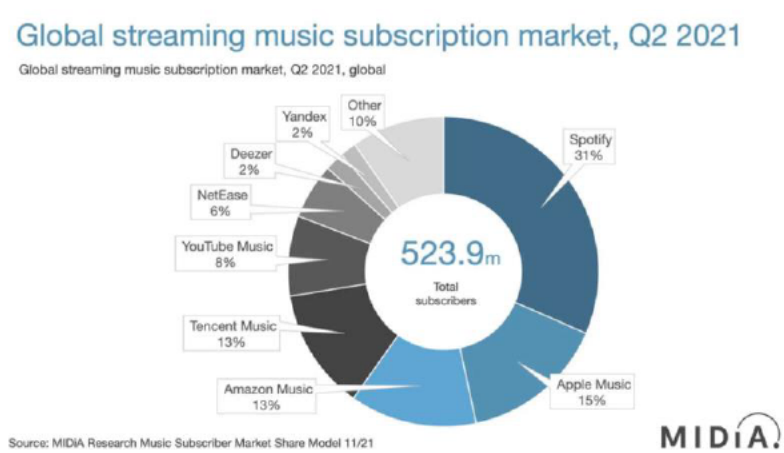
   Measure: Marketing and sales expense as a percentage of revenue

SPOTIFY	APPLE	AMAZON	FACEBOOK	GOOGLE	PELOTON	AVG
13%	6%	7%	12%	9%	18%	11%

Spotify is above average in terms of marketing and sales as a percentage of revenue compared to the other big players in the music streaming space. Doing so allows them to gain and maintain market share effectively.

4. Effectively acquiring new market share

   Measure: Market share



Spotify is the leading music streaming service globally as of Q2 2021. As shown in the above graph, Spotify has more than double the market share of the second-largest streaming service—Apple Music.

These key success factors are necessary for any company to succeed in the digital streaming space. In order for Spotify to maintain a competitive advantage, it must ensure that they continue to monitor these metrics. Additionally, it is important to determine a strategic recommendation that will remain consistent with these statistics while developing a larger catalog of exclusive content.

Value Chain Analysis

The following analysis determines where the most value is created across Spotify's support functions and value-chain activities. This section highlights two crucial links in the value chain: Distribution and Marketing & Sales. The full value chain analysis can be found in Appendix D.

Distribution

Spotify is, in essence, a democratized digital distribution mechanism for the music industry. The company enables users to access millions of songs, whether published by record labels or independent creators. When streaming its Spotify Sessions (songs recorded in Spotify studios), Spotify vertically integrates by distributing its original content. In this way, Spotify leverages a business model where it cuts out the middleman.

Marketing & Sales

Spotify utilizes a data-driven marketing approach, which assists with its ability to personalize advertisements or music suggestions to specific user segments. It collects data about each individual who uses its platform, including streaming history, created playlists, song library, etc. The firm also targets ad-supported users through its Spotify Premium advertisements, enticing users to upgrade. This effort showed a 21% increase in Premium subscribers during the first quarter of 2021 compared to Q1 2020. Spotify's Spotify Wrapped has seen significant success since its launch date. This end-of-year marketing campaign saw 90 million people engaging with the campaign and over 60 million shares across social media platforms (Litterst, 2021; Shalvoy, 2021). This, in turn, led to a 21% increase in mobile app downloads during the first week in December of 2020 (Rubio-Licht, 2021).

We determined that the following area of the value chain would benefit from outsourcing:

Follow-Up Service

Spotify might benefit from an outsourced support hotline similar to those provided by its competitors, such as Apple. This hotline enables Spotify to receive more user feedback, fix user issues more directly, and compete with other streaming services that already provide this service.

It is important to perform an in-depth analysis of Spotify's value chain in order to determine where strengths and weaknesses lie and to capitalize upon them with the chosen strategic recommendation.

This analysis reveals that distribution and marketing create the most value for Spotify. Therefore, Spotify should address the primary strategic issue of creating sustainable competitive advantages by leveraging these value-creating areas.

VRIN Analysis

This section analyzes Spotify's internal resources to determine which of those resources contributes to its sustainable competitive advantages. This section highlights Spotify's playlist features and partnership with Samsung; the full analysis can be found in Appendix E.

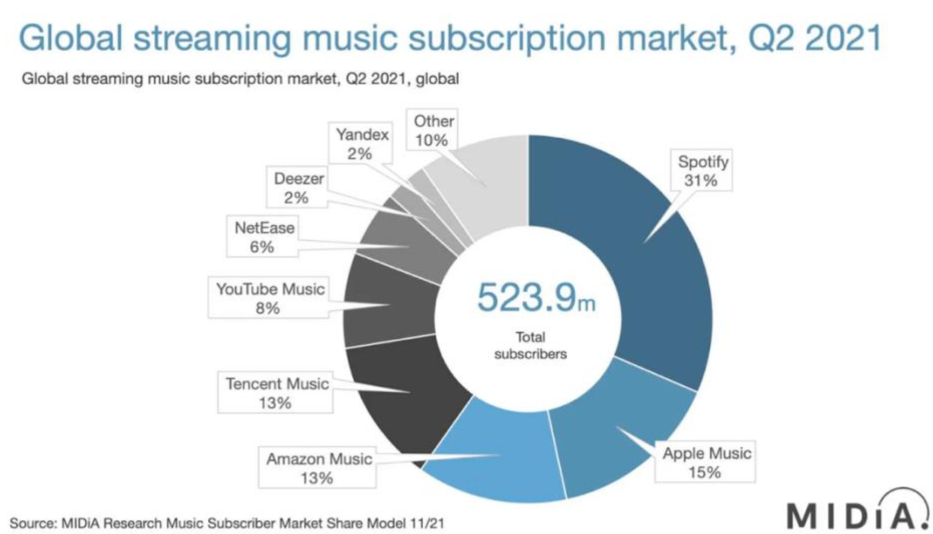
Resource	Valuable	Rare	Inimitable	Nonsubstitutable	Type of Competitive Advantage
Collaborative & Customizable Playlists	Yes	Yes– Rivals such as Apple Music don't offer this capability	No	Yes	Temporary Competitive Advantage
Technological Partnership with Samsung	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage

It is crucial to perform a VRIN analysis on Spotify's sources of competitive advantage to determine if the selected strategic recommendation is a sustainable way for the firm to improve market share and profitability.

SWOT Analysis

This section highlights Spotify's most salient strengths, weaknesses, opportunities, and threats. The full SWOT analysis can be found in Appendix F.

Strengths



Our analysis showed that as of Q2 2021, Spotify held the largest market share in the music streaming space at 31% market share. The closest competitor, Apple Music, had less than half of Spotify's share (Porter, 2022).

Another one of Spotify's strengths is its unique playlist capabilities. The following playlist features offered by Spotify differentiate it from the competition: Discover Weekly, Blended Playlists, and Collaborative Playlists.

Weaknesses

One of Spotify's financial weaknesses is its high spending on royalty payments to labels, producers, songwriters, and copyright holders. In 2019, this royalty spend accounted for 74.54% of Spotify's revenues (Gaille, 2021).

Another of Spotify's weaknesses involves its dependency on its paid subscriber base. Although ad revenue covers a significant portion of its operating costs, Spotify will only thrive if its number of paid subscribers continues to increase (Gaille, 2021). To sustain its growth, Spotify must either work harder to convert users of the free tier (Gaille, 2021) or somehow compensate for those lower revenues.

Opportunities

One opportunity available to Spotify is to offer video content as a follow-up to its podcast streaming services. This video content could include filmed Spotify Sessions, music videos, concerts, etc.

Another opportunity to provide a competitive advantage to Spotify is exclusive streaming deals. These deals would enable creators to stream music, podcasts, events, and other media exclusively through Spotify, either for a short period of time or indefinitely. Actions of this nature have already been taken by Apple Music and Amazon Music (Knopper, 2016).

Threats

Music Streaming Services
Source: IBISWorld

The entire music streaming industry experiences the threat of high revenue volatility, as evidenced in the graph above (Kennedy, 2021). This volatility is due to the many influences on streaming revenue, including the rules of music publishing portfolios, copyright laws, consumer spending levels, and more.

Meanwhile, Spotify is facing the long-term threat of artists potentially leaving the platform due to low artist payments. Spotify has always severely underpaid artists, with creators receiving tiny fractions of a cent per stream. In fact, Spotify is threatening to pay artists even less, with features like Discover Mode forcing all artists onto an even lower playing field (Matthew, 2021). In the long run, this may hurt the company, as artists, creators, and labels leave Spotify and find more profitable ways to distribute their content.

Spotify's strong market share directly relates to the primary strategic issue of developing exclusive content. This position will enable the company to utilize a first-mover advantage and counteract the industry-level threats of revenue volatility and fierce competition.

Primary Strategic Issue

In the fast-cycle landscape of streaming services, music streaming is simply not enough to create a sustainable competitive advantage for Spotify. In the same vein as its competitors, Spotify must find new niche advantages in the form of exclusive extra-musical content. This lack of exclusive content currently prevents Spotify from growing beyond its competitors in the overarching media streaming space.

This primary strategic issue is evidenced by all of the analyses documented in this paper. The Porter's Five Forces analysis emphasizes the threat of new entrants as well as the industry competitive rivalry, both of which necessitate that Spotify creates new sustainable competitive advantages. In addition, the Key Success Factors and PESTEL analysis point to new technological innovations, which include the integration of music with other streaming media such as video and podcasting.

The Value Chain analysis revealed Spotify's role as a digital distribution mechanism for the media industry, as well as its data-driven marketing approach. Both of these aspects of the company can be applied to other media such as video, podcasting, and collaboration with other media streaming platforms and technology companies. The VRIN analysis drives this point home by highlighting Spotify's unique playlist features and its partnership with Samsung.

Finally, the SWOT analysis shows that Spotify's stance as a current market leader gives the company a first-mover advantage should it choose to enhance its exclusive content. This exclusivity builds off of exclusive streaming deals in order to counter the industry threat of revenue volatility, which is explored in the SWOT analysis.

These combined analyses show that Spotify is perfectly positioned to leverage its internal and collaborative capabilities to rise to the top of the media streaming space. By creating exclusive content that expands its existing resources and capabilities, Spotify will capture additional market share, earn more revenue, and even lower costs in specific areas.

The following recommendations enable Spotify to leverage exclusive content and features that will achieve all of the above objectives and strengthen Spotify's overall brand.

Strategic Recommendations

The following actions are recommended to Spotify to solve the primary strategic issue while improving weaknesses, mitigating threats, and utilizing strengths and opportunities. According to a representative of the Strategy and Operations team at Spotify, each of our recommendations has already been addressed and beta tested within Spotify.

Recommendation 1 – Cross-Platform Streaming Content Recommendation

Spotify can partner with video streaming services that do not own (directly or indirectly through subsidiaries and affiliates) music streaming services, such as Netflix, Disney+, Hulu, and HBO Max. Based on content watched on the video streaming service, tailored songs will be recommended to the user on Spotify. Conversely, based on songs streamed by the user on Spotify, tailored content will be recommended on the video streaming service(s) to which the user already subscribes. Content producers can pay Spotify and the video streaming service to promote their content over others, though this promotion should be labeled and unrelated to the base recommendation algorithm. By bundling subscriptions for Spotify with the video streaming services using this new recommendation algorithm, users can save money while accessing more content. Another way to monetize this recommendation is to deliver more personalized ads to users of Spotify and these video streaming services, leveraging the enhanced data collected from cross-platform user interests. Advertisers can use Spotify's AdStudio to create and deliver these personalized ads.

Spotify will benefit from exclusive deals with other (non-competitor) streaming providers in a strategic alliance to bolster subscribers for both companies. Spotify can use this initial partnership to later gain access to relevant music / audio streaming rights related to content on the video streaming services and then distribute that content on Spotify's platform. Another benefit is that this recommendation follows Spotify's existing mission to unlock the potential of human creativity and aligns with its values of being innovative and collaborative due to partnering with companies in the media space.

One risk associated with this recommendation is that video streaming services reject Spotify's outreach and instead execute a similar deal with Spotify's competitors. Another risk is that video streaming services like the deal, but instead of making it exclusive with Spotify, they implement similar deals with many other music streaming services.

Recommendation 2 – Offer Music-Related Video Streaming Content

Spotify can offer video streaming content through its existing platform in order to build a larger catalog of exclusive content. One way to do this would be to add a feature resembling a creator studio that enables users to upload original audio, video, and podcasting content; such content would not necessarily need to be music-related. This feature would provide independent musicians and content creators the ability to broadcast their videos in a do-it-yourself format, without needing support from large record labels or film studios. Musicians can link music videos and interviews to their songs, and podcasters can direct listeners to video recordings of episodes, all by leveraging the Spotify platform. Using a business model similar to YouTube, Spotify can place dynamic advertisements on these videos for unpaid Spotify subscribers as a means to drive revenue for both the company and creators.

Spotify already records Spotify Sessions, which are tracks by artists who either re-interpret their own music or perform covers. Since these songs are recorded in Spotify-owned studios, it would be simple for Spotify to film the sessions and release an accompanying music video on the streaming platform. These new visual Spotify Sessions could give fans an intimate look into their favorite artist's creative process.

All of this ties perfectly into Spotify's mission statement, which boasts a dedication to artists, their creative vision, and their fans. This recommendation is incredibly consistent with Spotify's existing business, as it provides artists with new opportunities to create and distribute art while providing fans with a more intimate connection to artists. Customers would be more inclined to switch from another streaming service to Spotify if they know that it is the best way to consume both music and video content from Spotify-partnered artists. The largest risks that this recommendation may pose are the struggles of entering new media spaces, the obsolescence of music videos, and the difficulty of obtaining performance rights for certain songs.

Recommendation 3 – Exclusive Release Periods

In order to create a new sustainable competitive advantage through proprietary content, Spotify should begin to offer exclusive release periods to artists. With these deals, artists can release their work (ideally LPs or Eps as opposed to singles) exclusively on Spotify for a designated time period that ranges from two weeks to a full year.

Throughout the exclusivity period, participating artists will receive a higher pay rate per stream on the exclusive songs. This higher rate not only incentivizes longer exclusivity periods but also helps Spotify retain artists in the long term.

In addition, participating artists will be featured in playlists of Spotify-exclusive music, and they will also be promoted in advertisements. The spotlight provided by this exclusivity will advance smaller independent artists without requiring them to sell the rights to their work or commit to large corporate labels.

This recommendation aligns with Spotify's vision and mission. As explained above, exclusive release periods empower artists to "break free of their medium's constraints" (McKay, 2018) and "live off their art" (*The Band Manifesto.* 2022). The recommendation also aligns with some of Spotify's most important values, including innovation, sincerity, and collaboration (*The Band Manifesto.* 2022).

However, no innovation comes without risk. One risk associated with this endeavor is that it may create further obstacles for up-and-coming artists. It's possible that mainstream artists who have already achieved success and affluence will be the ones who contract with Spotify for exclusive releases. In that scenario, it will be Spotify's responsibility to promote new artists that popular music has not yet claimed. Despite the associated risks, this arrangement will ultimately benefit both Spotify and its artists in the short term and the long term.

Final Recommendation

In order to choose the optimal strategic recommendation, we approached the decision from two different angles—analysis and expertise. For the analysis side, we designed a weighted decision matrix that ranks each recommendation in the following categories: cost, revenue, agility, and implementation time. In this case, the highest-ranked in cost would be the cheapest recommendation to implement, and the highest-ranked in revenue would be the recommendation that would earn the most for Spotify. The highest-ranked in agility would be the most flexible and adjustable recommendation, and the highest-ranked in implementation time would be the fastest recommendation to productionize. The highest weighted score represents the best-suited recommendation as determined by all of the factors mentioned above. The full weighted decision matrix can be found in Appendix H.

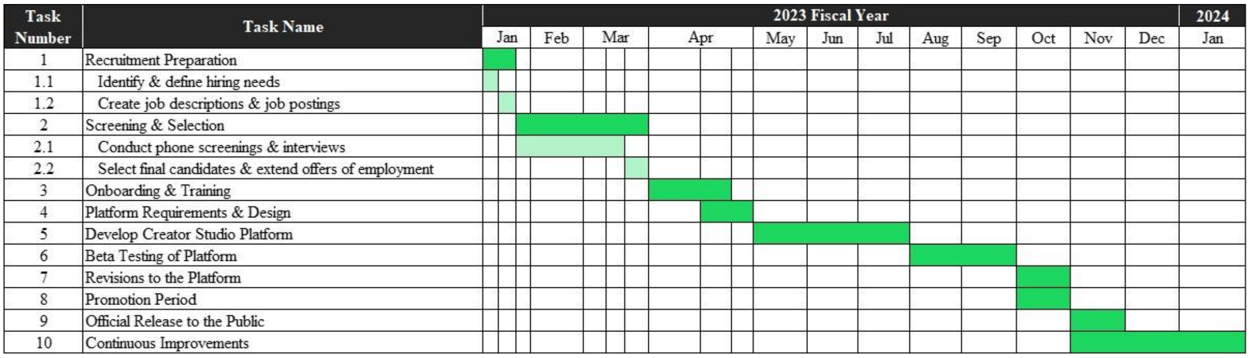
Our team was also privileged to consult with a Strategy and Operations Manager at Spotify. He helped us refine each of our recommendations and told us the overarching results of some related Spotify beta tests. This invaluable insight showed us how ideas translate into Spotify projects and business results. Finally, he shared that the second recommendation was not only our best one but also a blueprint for the future of Spotify's business.

We ultimately chose Recommendation 2 because both our own weighted decision matrix and our Spotify contact's expert advice pointed in its direction. User-generated content is currently dominating mobile application traffic, and the time has come for Spotify to enter that market. By building a studio feature for Spotify users to create new original content, Spotify will drive new traffic, attract more premium users, and ultimately build even stronger brand loyalty. Since this creator studio would support multiple mediums, including short audio clips, music videos, and podcasts, Spotify would enter new media markets and diversify both its content and consumption. In addition to the subscription benefits offered by such an arrangement, this recommendation also offers a consistent revenue stream for free-tier Spotify users. These users will receive personalized dynamic advertising content between their music, videos, and podcasts in order to ensure that all areas of Spotify are achieving their highest possible business value. Another benefit available to all users will be the ability to connect on a deeper and more personal level with their favorite artists, musicians, and creators using the new media methods made possible by the Spotify creator studio.

One risk associated with this ambitious recommendation is the struggle of entering new media spaces. Many technology companies face this issue as they branch out into new markets, but the risk will be significantly lower for Spotify; this is because users already trust the brand's new endeavors and want to see more types of content on the platform. New Spotify features such as song lyrics have been very well-received. This indicates that, as long as the feature rollout is paced well, video content will be welcomed by Spotify users.

Some other music-related risks associated with this recommendation include the obsolescence of music videos and the difficulty of obtaining performance rights for certain songs. The former risk can be addressed with a different framing. As mentioned above, these videos and clips are intended to bring fans and listeners closer to their favorite artists. In this sense, music videos will not be corporate MTV productions; rather, intimate performances and clips can be published in order to build relationships between artists and fans. This type of content is quite popular and does not need to be framed as a music video. Finally, this recommendation entails that Spotify must obtain performance rights for any songs released as Spotify Sessions with accompanying videos. However, this is an expense already being incurred by Spotify in their current model of Spotify Sessions, so it should not be considered an extra cost in this model.

Our implementation timeline tells us that the end-to-end process of developing the creator studio will take Spotify approximately one year. This period includes human resource preparation, sourcing and screening talent, onboarding, training, requirements planning, development of the creator studio, beta testing, revisions, and closes out with its official release through Spotify's platform. Although 90% of our timeline ends in December 2023, we expect to make improvements, beyond this date, on an ongoing basis to enhance the quality of the studio and the users' experience. A more detailed breakdown of the timeline tasks can be found in Appendix I.



Task Number	Task Name	Start Date	End Date
1	Recruitment Preparation	January 2	January 20
1.1	Identify & define hiring needs	January 2	January 11
1.2	Create job descriptions & job postings	January 12	January 20
2	Screening & Selection	January 23	March 31
2.1	Conduct phone screenings & interviews	January 23	March 17
2.2	Select final candidates & extend offers of employment	March 20	March 31
3	Onboarding & Training	April 3	April 28
4	Platform Requirements & Design	April 10	April 28
5	Develop Creator Studio Platform	May 1	July 31
6	Beta Testing of Platform	August 1	September 29
7	Revisions to the Platform	October 2	October 31
8	Promotion Period	October 2	October 31
9	Official Release to the Public	November 6	
10	Continuous Improvements	November 1	Ongoing

Our paper concludes that if Spotify adopts this final recommendation, it will realize a net present value (NPV) of €457.9 million, based on a 5-year analysis. We forecasted potential revenue, cost of revenue, gross profit, R&D expenses, sales and marketing expenses, general and administrative expenses, operating income, income tax expenses, net income, and the initial cost to start implementing the recommendation. Using an average of Spotify's internal project discount rates, the NPV analysis views this recommendation very favorably. The precise methodology used in creating this analysis can be found in Appendix I.

(EUR in millions)

Year	0	1	2	3	4	5
Revenue		€ 224.4	€ 252.8	€ 284.7	€ 320.7	€ 361.3
Cost of revenue		54.8	61.3	68.6	76.8	86.0
Gross profit		**€ 169.6**	**€ 191.5**	**€ 216.1**	**€ 243.9**	**€ 275.2**
R&D		21.2	24.1	27.5	31.4	35.8
Sales and marketing		26.3	29.3	32.6	36.2	40.2
General and administrative		10.4	11.3	12.3	13.3	14.4
Operating income		**€ 111.7**	**€ 126.7**	**€ 143.7**	**€ 163.0**	**€ 184.8**
Income tax expense / (benefit)		6.6	7.4	8.3	9.4	10.6
Net income / Initial cost	**(€ 73.0)**	**€ 105.1**	**€ 119.3**	**€ 135.4**	**€ 153.6**	**€ 174.2**
NPV @ 8.5%						
€ 457.9						

Despite the associated risks, this recommendation will position Spotify at the forefront of several media industries. It will more than likely increase revenue, drive new premium subscriptions, and become profitable for Spotify in the long term. User-generated content is the burgeoning future of media, and we recommend that Spotify cement itself in that space.

Appendices

Appendix A — PESTEL Full Analysis

Political

- Concern about concentrated market share in the technology space overall may prompt increased scrutiny in the music streaming industry, especially given that a few big players dominate the industry
- Political pressures regarding content moderation and censorship, especially in the larger technology space, have trickled down to the streaming industry. Left-wing and right-wing groups alike pressure the industry to crack down on their political opponents' content.
- Continuing global concerns about privacy will pressure the streaming industry to be wary of user data collection, retention, and analytics, potentially limiting innovation in the space

Economic

- Annual growth in per capita disposable income growth of 2.7% from 2016 to 2021 in the US drive consumers to be more willing to spend money on music streaming services (Kennedy, 2021)
- Fast wage growth in the industry (21.1% annual growth from 2016 to 2021) did not dampen strong profit growth (57.4% annual growth from 2016 to 2021). However, going forward, revenue growth is expected by IBISWorld to be more muted; 7.3% annual growth in revenue is expected from 2021 to 2026 (Kennedy, 2021).

Social

- During the COVID-19 pandemic, there was a growing trend that people were streaming music from home appliances more than smartphone devices (Wood, 2021)
- Emerging markets: India, Brazil, Mexico, and Africa

- Brazil’s growth in music revenue reached 24.5% in 2020 (*IFPI Global Music Report 2021*.2021).
- Mexico saw a 16.6% in revenues during 2020 (*IFPI Global Music Report 2021*.2021).
- The Middle East and North Africa region recorded a 37.8% revenue increase during 2020 (*IFPI Global Music Report 2021*.2021).

- The fastest-growing region in the global music industry is Latin America, with a 15.9% growth rate in 2020 (*IFPI Global Music Report 2021*.2021).
- Market growth (*IFPI Global Music Report 2021*.2021)
    - Germany’s growth in music revenue reached 24.4% in 2020.
    - South Korea’s growth in music revenue reached 44.8% in 2020.
- In 2020, the following were the approximate distributions of music streamed within the United States (*Music streaming in the U.S.*2021)
    - R&B/hip-hop: 31.1%
    - Rock: 15.6%
    - Pop: 13.1%
    - Country: 7.1%
    - Latin: 6%
- According to a study covering music streaming, podcasts, and radio behavior, the top two most important features of a music streaming service are quality of sound and price (Götting, 2022).
- According to a research study, 55% of respondents prefer to listen to song playlists curated by music streaming service firms, compared to the 47% who like to make their own

playlists (*Music Streaming.* 2021; *Music streaming worldwide.*2021; *Music streaming in the U.S.*2021; Götting, 2021).

- Consumers between the ages of 26 and 45 fall into the group that is most likely to listen to podcasts weekly (Götting, 2022).
- 73% of United States consumers between 15 and 35 years old stream music every week (Götting, 2022).

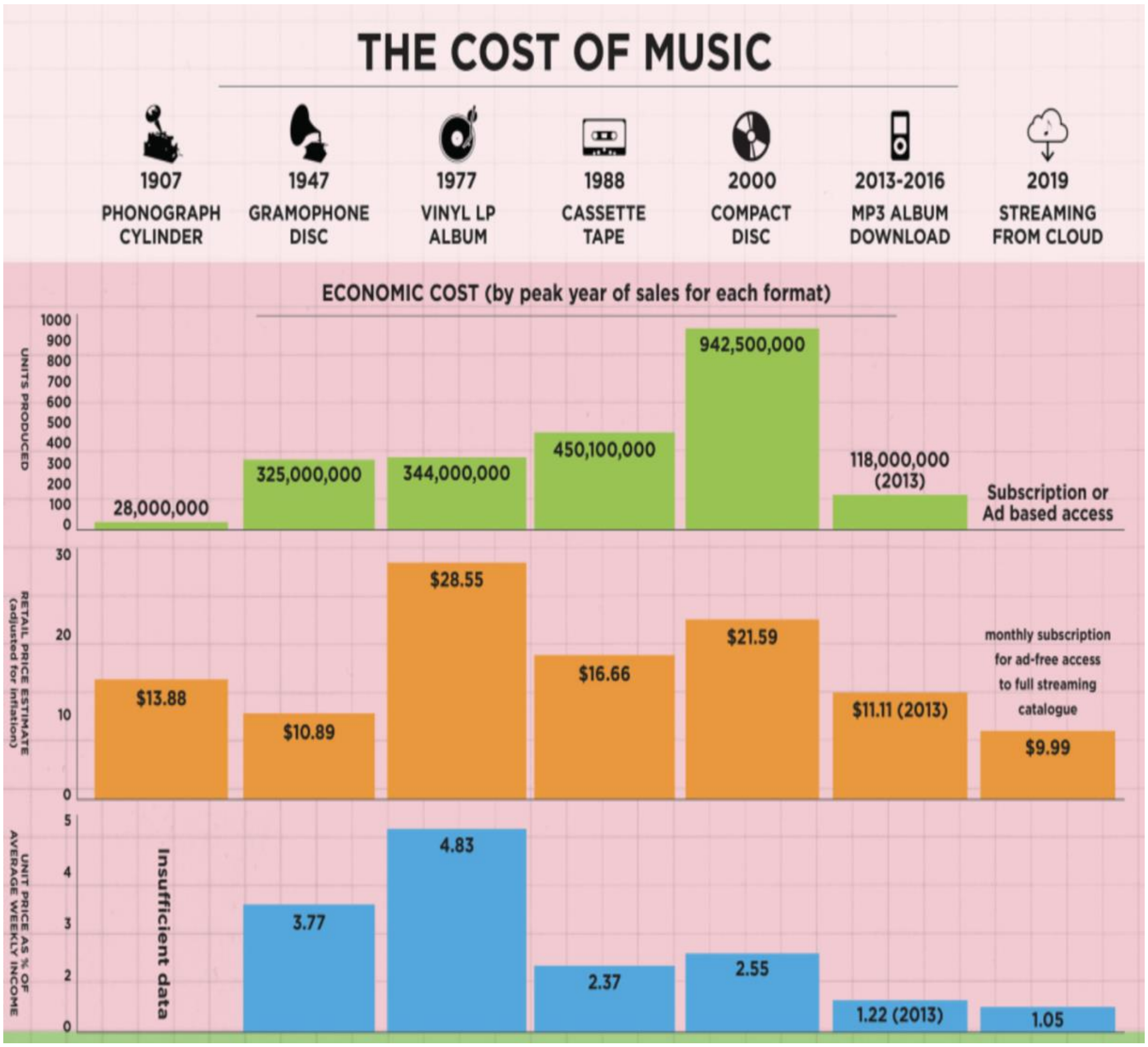
Technological

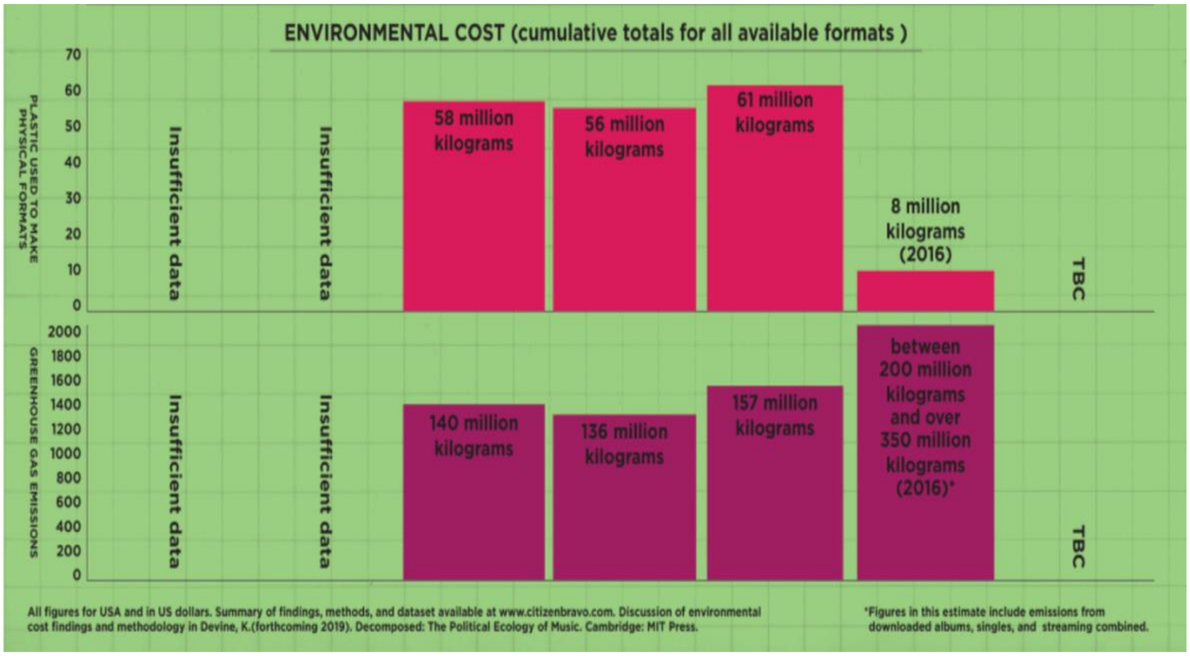
- The music streaming industry is abundant with technological innovation, including advancements in artificial intelligence, specifically in machine learning algorithms that recommend songs, genres, and playlists depending on users' listening history.
- Currently, music streaming companies are working to keep up with the growing number of electronic devices being used by the average consumer. Streaming services are now forced to integrate with all manner of tech devices, including various cars, Google/Alexa speakers, smart home products, and more (Top 5 Ways Technology is Changing Music Streaming.2019).

Environmental

- "In 2017, Greenpeace's ClickClean Scorecard tool gave Spotify a D rating."
- "According to Spotify's 2019 Sustainability & Social Impact Report, the company has closed down its data center of operations and moved to the Google Cloud Platform (GCP). The report estimates that in 2019 electricity consumption of their Content Delivery Network was 647 MHw, which equates to 173 tonnes of CO2. (Spotify, Sustainability & Social Impact Report 2019) Their report claims that Spotify is working to source renewable energy. In other words, Spotify has decommissioned its data centers to transition to the

carbon-neutral GCP to reduce its carbon footprint to make the streaming and computing platform more carbon neutral” (*The Political Ecology of Spotify: How Streaming Takes A Toll On The Environment.* 2020).





Legal

- Highly regulated industry
- Firms within the industry are subject to comply with the following laws and regulations to protect the rights of the original artist (*Copyright Law of the United States (Title 17).* 2022; *The Music Modernization Act.* 2022; Kennedy, 2021)
    - The Fair Use Doctrine
    - The Sonny Bono Copyright Term Extension Act
    - The Digital Performance Right in Sound Recordings Act of 1995
    - The Music Modernization Act
    - U.S. Copyright Law
- Firms within the industry are subject to comply with the following laws and regulations regarding user privacy (Kennedy, 2021)
    - The General Data Protection Regulation

- Companies within the music streaming services industry are required licenses to have the right to stream music on their platform legally.
    - The most common licenses held by these firms are the Public Performance License and the Mechanical License (Koransky, 2016)
    - Failure to hold the appropriate licenses to each song being streamed can result in costly fines and penalties ranging from $750 to $150,000 per song (*Chapter 5: Copyright Infringement and Remedies.* 2022)
        - In 2019, Pro Music Rights (PMR), a firm that provides public performance licenses, filed lawsuits against the following music streaming service companies: Apple, Google, YouTube, Amazon, SoundCloud, Pandora, Deezer, 7digital, iHeartRadio, and Rhapsody (Wood, 2021). PMR accused each of not paying royalties to songwriters.
- In 2017, Spotify was sued by Wixen Music Publishing for using over 10,000 songs without holding the proper licenses to stream and distribute such songs. This lawsuit totaled $1.6 billion (Messer, 2018).
- In 2019, Apple Music faced a lawsuit that stated the company had violated consumers' privacy rights by selling consumer data to third-party firms (Roettgers, 2019). Apple's privacy policy says that the firm will collect and use consumer data for the purpose of tailoring suggestions and features to each individual (*Apple Music & Privacy.* 2022). However, the plaintiffs accused Apple of selling this data to advertising or marketing firms.

Appendix B — Porter's Five Forces Full Analysis

Threat of New Entrants

- **Economies of scale**—established companies in the industry possess (either through direct ownership on-premises or renting through a cloud provider) their own technology infrastructure. However, new entrants can also build their technology infrastructure fairly quickly, given its democratization through the use of public cloud providers like AWS, Azure, and Google Cloud.
- **Product differentiation**—though the function of the music streaming industry is fairly standardized, each company within the space attempts to differentiate itself by signing exclusive deals with artists so that customers interested in that artist must utilize only one streaming service. Additionally, companies in the industry attempt to create special technology features in their services to entice customers, such as specially engineered audio to enhance sound quality.
- **Capital requirements**—companies in the industry seldom need large amounts of capital to get started or maintain their market share. Music streaming companies are essentially technology companies that have contracts with artists to distribute their work. Therefore, the only capital needed by the industry is to develop their apps, website, and other technology infrastructure to provide customers with services. According to IBISWorld, "Consumers access music streaming services via internet platforms as opposed to physical brick-and-mortar locations. As a result, capital requirements specifically regarding real estate are diminished. Other capital expenditures are limited to office space and IT infrastructure. While the dollar value of capital allocation will likely vary between operators of different sizes and scales, the figure remains insignificant in proportion to average revenue. Over the five years to 2021, capital intensity has slightly increased from

an estimated $0.06 spent on capital for every $1.00 spent on labor in 2016" (Kennedy, 2021).

- **Switching costs**—customers usually have little trouble switching from one music streaming provider to another because most companies in the industry have a monthly subscription model without any lock-in period. Additionally, the cost of a subscription is fairly cheap, and most companies have similarly priced subscriptions.
- **Cost disadvantages independent of scale**—companies in the music streaming industry usually develop proprietary technology to deliver their services to customers. Replicating that technology by new entrants may be challenging without hiring the people responsible for creating the technology in the first place.
- **Government policy**—the government heavily regulates the industry, requiring extensive legal teams to ensure companies comply with applicable laws and regulations. New entrants would have to navigate this complicated legal environment to create and grow their business. The music streaming industry's most relevant laws and regulations deal with intellectual property protection. Digital music laws like Digital Millennium Copyright Act (DCMA), No Electronic Theft Law, General Data Protection Regulation (GDPR), California's Online Privacy Protection Act, and the Sonny Bono Copyright Term Extension Act (Kennedy, 2021).
- **Expected retaliation**—companies in the industry take note of and respond to competitor actions fairly quickly given similar business models and a reasonably standardized product. The major players in this industry, like Spotify and Apple Music frequently imitate each other's features though there are first-mover advantages in signing exclusive deals with artists.

Bargaining Power of Suppliers

- In 2014, Taylor Swift pulled almost all of her music from Spotify to protest the low rates of paying artists on a per-stream basis. She felt that these deals undermine the value of a musician's art (Linshi, 2014).
- This year, Neil Young removed his music from Spotify after publicly denouncing their exclusive deal with Joe Rogan after he was accused of spreading misinformation regarding Covid-19 on their platform (Sisario, 2022).
- Recently, Kanye West announced that his newest album would only be available for sale directly from his company, not streaming services. Additionally, he turned down a $100 million deal from Apple Music for exclusive rights to stream his new music (Kreps, 2022).
- The record labels, who often negotiate deals with streaming services regarding their artists' music, tend to retain the majority of the earnings that are paid out and have a favorable image of the streaming deals, despite artists being unhappy with their payments (Ovide, 2021)

Bargaining Power of Buyers

Spotify users can easily switch to competing streaming services such as Apple Music or Tidal. In this way, the overall user community has power in the market, so streaming services are racing to add more features that capture additional market share.

Threat of Substitutes

- Other methods of listening to music on the go are simply obsolete. iPods, MP3s, CDs, and cassettes cannot provide the convenience or variety of music streaming services.
- Vinyl records are making a comeback, with companies such as Vnyl offering monthly records delivered to customers' doors based on their preferences. However, because vinyl

records are now considered more of a niche collector’s item, such companies do not pose a threat to Spotify.

Intensity of Competitive Rivalry

- High level of competitive rivalry
- High fixed costs due to music licensing
- High switching costs due to (Keating, 2015)
    - Paid subscription service
    - User-created playlists
    - Inability to transfer music library across other music streaming applications
- Fast industry growth
    - Revenue in the music streaming industry is expected to grow at an annual rate of 8.10% from 2022 to 2026 (*Music streaming worldwide.*2021).
- Top competitors in the music streaming services industry include Spotify, Apple Music, Sirius XM Radio, Amazon, and Alphabet (Kennedy, 2021).
- Market share in the United States (Kennedy, 2021)
    - Spotify: 30.5%
    - Apple Music: 19.8%
    - Sirius XM Radio: 15.2%
    - Amazon: 11.4%
    - Alphabet: 6.0%

Appendix C — Key Success Factors / Key Success Measures Full Analysis

Effectively adopting new technology and delivering new features to customers

Measure: R&D Expense as a % of Sales

The following table provides data on top Spotify competitors and their R&D expenses from their latest available annual report filing:

SPOTIFY	APPLE	AMAZON	FACEBOOK	GOOGLE	PELOTON	AVG
9%	6%	12%	21%	12%	6%	11%

Spotify is slightly below average in terms of R&D expense as a percentage of sales, but many of Spotify's competitors are in broader industries, where they have to spend a higher percentage of their revenue on R&D. Regardless, Spotify may be slightly below par in terms of their R&D expenses as a percentage of sales.

Minimizing cost of acquiring content to stream

Measure: Cost per stream

The following table provides data, from 2021, on top Spotify competitors:

SPOTIFY	APPLE MUSIC	AMAZON UNLIMITED	FACEBOOK	YOUTUBE RED	PELOTON	IHEART RADIO	AVG
$0.004	$0.0675	$0.01123	$0.05705	$0.01009	$0.03107	$0.01798	$0.02842

Spotify pays on the lower end of the industry in terms of cost per stream, which is a strength for the company because it can keep costs low while attracting more streaming customers. However, this lower cost per stream could also disincentivize artists from listing their music on Spotify, decreasing its content library.

Effective product promotion

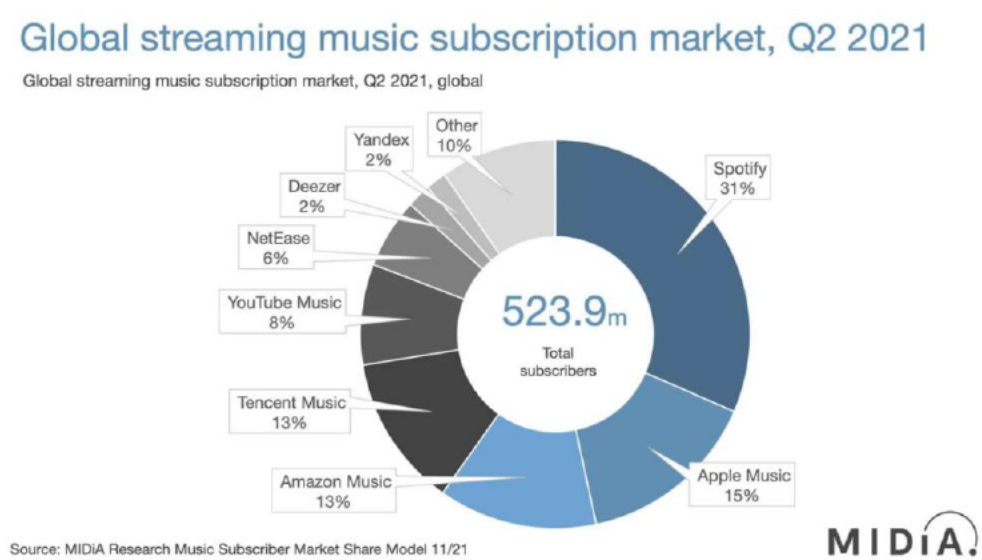
Measure: Marketing and sales expense as a percentage of revenue

SPOTIFY	APPLE	AMAZON	FACEBOOK	GOOGLE	PELOTON	AVG
13%	6%	7%	12%	9%	18%	11%

Spotify is above average in terms of marketing and sales as a percentage of revenue compared to the other big players in the music streaming space. Doing so allows them to effectively gain and maintain market share.

Effectively acquiring new market share

Measure: Market share



Spotify is the leading music streaming service globally as of Q2 2021. As shown in the above graph, Spotify has more than double the market share of the second-largest streaming service—Apple Music.

Appendix D — Value Chain Full Analysis

Finance

- Spotify has been improving its financial position over the last few years. In fiscal year 2021, it generated €427 million in cash from operating activities. Cash and cash equivalents holdings of €3.1 billion as of December 31, 2021, represented 38.3% of its total assets, and its cash ratio of 1.08 indicates that the company has strong liquidity (*Spotify Technology S.A. Annual Report for 2021*.2022).
- This cash generation (including debt-raising abilities) enables the company to be able to support its other value chain activities with the needed resources. For example, Spotify can further develop its products and services, adding value to the customer. Spotify can also use this cash to expand its foreign sales through advertising & promotion, continuing its expansion in the Asia-Pacific.

Human Resources

- Spotify recorded a total of 6,617 full-time employees in 2021. This was an 18% increase from the number in 2020, which was 5,584 employees (*Spotify Technology S.A. Annual Report for 2021*.2022)
- In 2021, Spotify expanded its platforms that offer learning opportunities. The firm created an internal talent marketplace, called Echo, to foster the development and growth of their employees (*Spotify Technology S.A. Annual Report for 2021*.2022)
    - This platform closes the gap between an employee's existing experiences and skills, and the aspirations of what or where he or she wants to be in his or her career. Employees can find mentorships and develop or refine skills by picking up a side project (Gabriel, 2021).

- Spotify’s employee hiring process includes a candidate screening that seeks individuals who best align with the company’s values and culture (Singel, 2021)
- Spotify has a People Strategy, which serves to attract, develop, and retain its people. This People Strategy consists of 4 pillars (Berg, 2020)
    - Talent Attraction
    - Diversity, Inclusion & Belonging
    - Learning & Development
    - Growth
- Spotify’s employee benefits package includes the following (*Being Here*. 2022)
    - 6 months of fully paid leave for new parents
    - Flexible public holidays
    - 1 day of fully paid time off (per year) to give back to the environment or take part in a social cause

Management Information Systems

- Spotify’s use of big data
    - Using data collected from users, Spotify places a large emphasis on providing personalized content in its “Discover Weekly” playlists, which is curated by analyzing the music that a user interacts with and recommends new songs based on listening history.
    - “Daily Mix” playlists separate a user’s music preferences into different playlists based on genre, but do not necessarily recommend new music.
    - “Release Radar” compiles new music releases from users frequently listened-to artists.

  - Spotify also advertises artists’ concerts and merchandise based on listening history and location.
  - Spotify’s AI curates playlists based on genres, moods, and artists, not specific to users' specific listening preferences.
  - They also specialize in displaying humorous advertisements and billboards in cities based on listening data collected from that specific location.
  - A yearly tradition, which has become a cultural phenomenon, is “Spotify Wrapped,” which summarizes and compiles the music and artists that a user listened to most frequently in the previous year.

  (DiFranza, 2019)

- Additionally, Spotify offers advanced analytics to artists whose music is on the platform. Artists can see who, where, and when the music is streamed. Additionally, artists can see which playlists are specifically driving traffic (Marr, 2017)

Supply-Chain Management

- “Since the Supply Chain Solutions Center is both searchable and “browse-able,” it gives business professionals at any level access to the latest expert resources available to help reduce their company’s climate and chemical footprints across global supply chains.”
- “Professionals can also take an assessment to evaluate their sustainability efforts to date to find out where their company stands on the sustainability “journey” – and thus prioritize actions accordingly.”

  (Sturcken, 2019)

Operations

- Spotify’s operating value is generated by its customers when they listen to music and create revenue.

- These operations are enabled by Spotify's software engineering and maintenance teams. In this way, operations value is created by Spotify's backend developers.

Distribution

- Spotify is, in essence, a democratized digital distribution mechanism for the music industry– The company enables users to access millions of songs, whether published by record labels or independent creators.
- When streaming its Spotify Sessions (artist covers recorded in Spotify studios), Spotify is vertically integrating by distributing its own original content. In this way, Spotify leverages the cutting-out-the-middleman business model.

Marketing & Sales

- Spotify's sales and marketing expenses have stayed a constant 12% to 14% of total revenue since 2016 (*Spotify Technology S.A. Annual Report for 2021*.2022)
- During 2021, Spotify increased its sales and marketing spending by approximately 128 million euros for marketing campaigns (*Spotify Technology S.A. Annual Report for 2021*.2022)
- A critical component that sits behind the success of Spotify's marketing strategy is the firm's ability to tailor or personalize content to target segments of users. According to Spotify's privacy policy, the firm collects data about each individual who uses its platform. This usage data includes a user's streaming history, created playlists, song library, and browsing history, just to name a few of the criteria. This data is used to develop personalized advertisements and marketing campaigns intended for users who have similar listening habits, to promote new Spotify services and new music recommendations (*Privacy policy – Spotify*. 2021).

- Spotify targets its ad-supported customer segments with advertisements about upgrading to the Premium version of the service. The firm creates audio advertisements promoting Spotify Premium and the benefits of the service. Spotify strategically places these advertisements in between every few songs a user streams, which entices consumers to purchase the Premium version to remove the repetitive advertisements (Kumar, 2020).
    - This strategy has helped Spotify reach a 21%, 20%, 19%, and 16% year-over-year increases in Premium users in the first, second, third, and fourth quarter of 2021 respectively (*Spotify Reports First Quarter 2021 Earnings.* 2021; *Spotify Reports Second Quarter 2021 Earnings* . 2021; *Spotify Reports Third Quarter 2021 Earnings.* 2021; *Spotify Reports Fourth Quarter 2021 Earnings.* 2022)
- Spotify takes a unique approach to its marketing approach. Rather than having a concrete marketing strategy, the firm follows popular trends which change each year (Schnoor, 2020). One of its most successful marketing campaigns, known as Spotify Wrapped, was launched in 2016. This campaign is an annual year-end summary of a user's listening behavior, presenting statistics on one's most-streamed song, album, favorite artists, and a total number of minutes consumed (Rubio-Licht, 2021). Spotify saw more than 60 million shares and 90 million people engaging with Spotify Wrapped in 2020 alone (Litterst, 2021; Shalvoy, 2021). This personalization and level of consumer engagement have helped Spotify increase its mobile app downloads by 21% during a single week in December of 2020 (Rubio-Licht, 2021).

Follow-Up Service

- Spotify's follow-up service takes the form of help websites, customer service contact messages, and a designated community for users to help each other. Users can also Tweet the Spotify support team for assistance and advice.
- Spotify might benefit from an outsourced support hotline similar to those provided by its competitors, such as Apple. This hotline enables Spotify to receive more user feedback, fix user issues more directly, and compete with other streaming services that already provide this service.

Appendix E — VRIN Full Analysis

Resource 1: Market Share

As of Q2 2021, Spotify held the largest market share in the music streaming space at 31%.

- Valuable
  - Yes
- Rare
  - Yes
- Inimitable
  - Yes
- Nonsubstitutable
  - No
- Type of Competitive Advantage
  - Temporary Competitive Advantage

Resource 2: Collaborative and Customizable Playlists

- Valuable
  - Yes
- Rare
  - Yes– Rivals such as Apple Music don't offer this capability
- Inimitable
  - No
- Nonsubstitutable
  - Yes
- Type of Competitive Advantage
  - Temporary Competitive Advantage

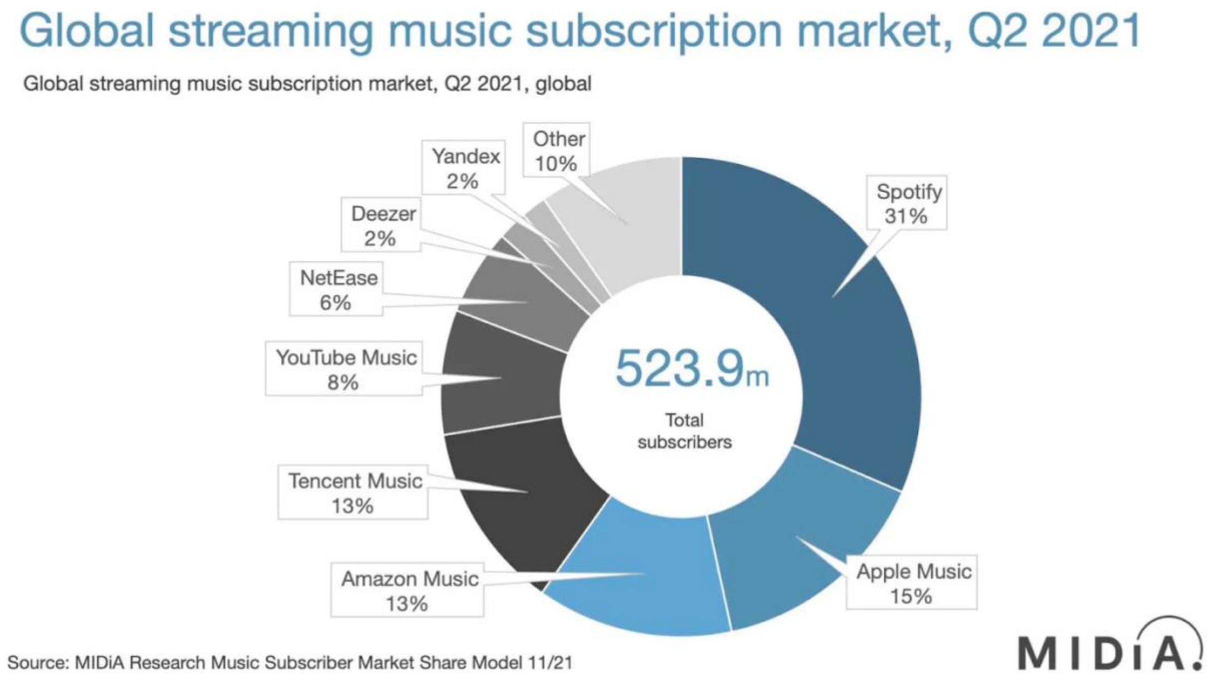
Resource 3: Technological Partnership with Samsung

- Valuable
  - Yes
- Rare
  - Yes
- Inimitable
  - Yes
- Nonsubstitutable
  - Yes
- Type of Competitive Advantage
  - Sustainable Competitive Advantage

Appendix F — SWOT Full Analysis

Strengths

- As of Q2 2021, Spotify held the largest market share in the music streaming space at 31% market share. The closest competitor, Apple Music, had less than half of Spotify's share. (Porter, 2022)



- Spotify is currently dominating the Podcast industry. The company has invested $200 million investment into podcasts, including an exclusive deal with Joe Rogan, the most popular podcast host in the space. This investment will pay off by making Spotify a one-stop shop for all things music and podcasting.
- The following playlist features offered by Spotify differentiate it from the competition:
- Discover Weekly– Playlist that shows users 30 new songs based on their listening habits and history.

- Blended Playlists– Playlist that emphasizes the similarities between two users' listening history and recommends songs to each user that the other has been listening to.
- Collaborative Playlists– Users can collaborate on private playlists and connect with one another through listening

Weaknesses

- "Licensing fees result in high royalty costs for Spotify. The artists themselves receive a portion, but more ends up going to their label, their producers, the writers, the copyright holders, and more. In 2019, 74.54% of Spotify's revenues were spent on royalty payments."
- "For those outside of Wi-Fi range, streaming can be a hassle. In 2019, 4.13 billion people around the globe had access to the Internet, which is about 54% of the world's population of approximately 7.67 billion."
- "Ad revenues can cover a significant portion of its operating costs, but Spotify will only thrive if its paid subscriber base continues to increase. For cost-conscious listeners who are satisfied with the free member tier, this means that Spotify has to work harder to convert those users, or be content with lower revenues from that portion of their audience."

  (Gaille, 2021)

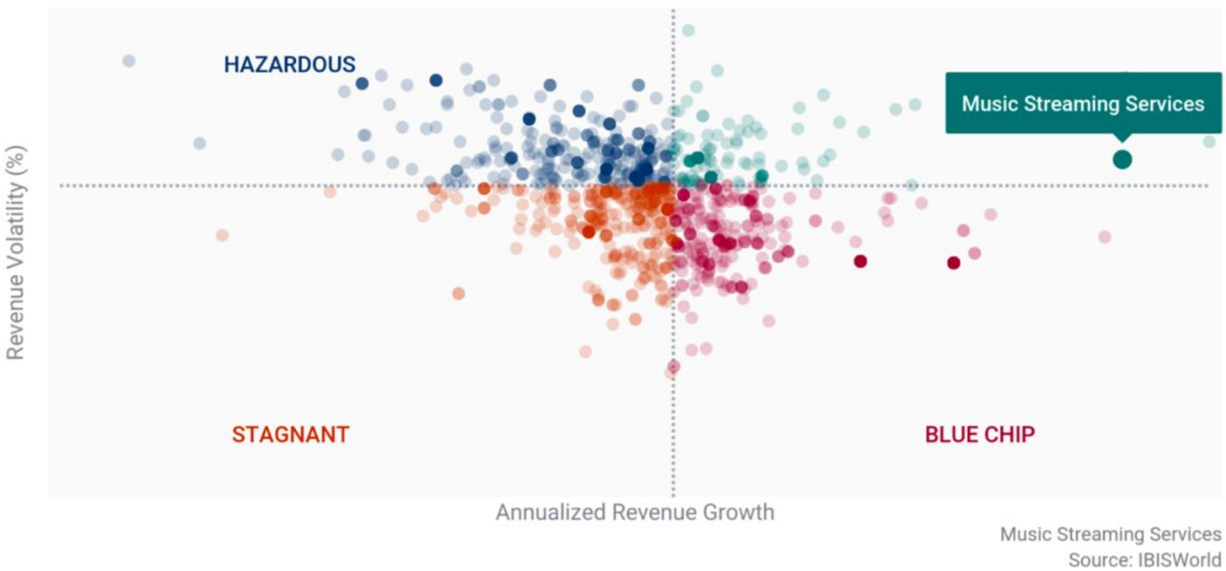
Opportunities

- Pursue exclusive streaming deals for music, in addition to podcasting, where artists would have their music, events, and other media available exclusively through Spotify, either for a short period of time or indefinitely. Actions of this nature have already been taken by Apple Music and Amazon Music (Knopper, 2016).
- Increase per-stream compensation for artists in response to public sentiment that Spotify is undervaluing art to ensure that artists continue distributing their music through the service.

- Begin offering video content available for streaming (music videos, concerts, etc.) as a follow-up to offering podcast streaming services.

Threats

- The music streaming industry is characterized by fast cycles of ever-changing technology. If a competitor creates new advancements in streaming, those advancements could significantly impact Spotify's market share, revenue, and reputation.
- Music streaming services experience high levels of revenue volatility, as evidenced in the graph below (Kennedy, 2021). This is due to the many influences on streaming revenue, including the rules of music publishing portfolios, copyright laws, consumer spending levels, and more.



Spotify always has severely underpaid artists, with artists receiving tiny fractions of a cent per stream. In fact, Spotify is threatening to pay artists even less in the long run, with features like Discover Mode forcing all artists onto an even lower playing field (Matthew, 2021). In the long run, this may hurt the company, as artists, creators, and labels leave Spotify and find more profitable ways to distribute their content.

Appendix G — Vision, Mission, Purpose, Values

Vision

“We envision a cultural platform where professional creators can break free of their medium’s constraints and where everyone can enjoy an immersive artistic experience that enables us to empathize with each other and to feel part of a greater whole.”

(McKay, 2018)

Mission / Purpose

“Unlock the potential of human creativity—by giving a million creative artists the opportunity to live off their art and billions of fans the opportunity to enjoy and be inspired by it.”

(*The Band Manifesto.* 2022)

Values

- Innovative– We move fast and take big risks
- Sincere– We have no time for internal politics
- Passionate– We revel in what we do
- Collaborative– We recognize that we’re all in this together
- Playful– We don’t take ourselves too seriously

(*The Band Manifesto.* 2022)

Appendix H — Weighted Decision Matrix

	Cost	*Revenue*	*Agility*	*Implementation Time*	*Score*
Weights	0.2	0.3	0.2	0.3	N/A
Rec 1	1	2	1	1	1.3
Rec 2	3	3	2	2	2.5
Rec 3	2	1	3	3	2.2

Recommendation 1 – Cross-Platform Streaming Content Recommendation

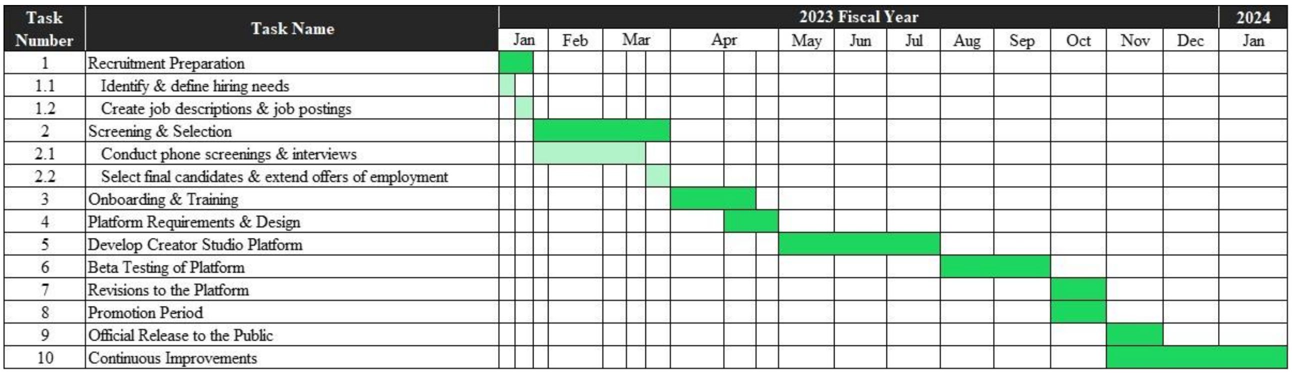
Recommendation 2 – Offer User-Generated and Video Streaming Content

Received the highest score in the matrix

Recommendation 3 – Exclusive Release Periods

Appendix I — Implementation Timeline, Budget & NPV Analysis

Implementation



Task Number	Task Name	Start Date	End Date
1	Recruitment Preparation	January 2	January 20
1.1	Identify & define hiring needs	January 2	January 11
1.2	Create job descriptions & job postings	January 12	January 20
2	Screening & Selection	January 23	March 31
2.1	Conduct phone screenings & interviews	January 23	March 17
2.2	Select final candidates & extend offers of employment	March 20	March 31
3	Onboarding & Training	April 3	April 28
4	Platform Requirements & Design	April 10	April 28
5	Develop Creator Studio Platform	May 1	July 31
6	Beta Testing of Platform	August 1	September 29
7	Revisions to the Platform	October 2	October 31
8	Promotion Period	October 2	October 31
9	Official Release to the Public	November 6	
10	Continuous Improvements	November 1	Ongoing

Our implementation timeline begins with recruiting preparation, which includes gathering the resources necessary for a successful recruitment cycle. The first step in this process is to define the business requirements for hiring the software development team, and the individual roles within the team. Next, human resources will create the job description write-ups, and advertise job postings on Spotify’s careers webpage.

The following stage is the screening and selection process. Through this, human resources will conduct phone screenings and interviews with potential candidates, with the ultimate goal of extending offers of employment to ideal candidates for each role. Finally, once candidates have accepted offers to join Spotify, they will go through an onboarding and training process to bring them up to speed within the organization.

Simultaneously, while new hires complete these tasks, they will begin by defining the requirements for our creator studio. This includes features, capabilities, functional and technical requirements, and developing a roadmap that lays out the entire development process. This requirements planning step builds a strong foundation for a smooth transition into the development stage. Development will begin with the creation of a technical architecture that the studio platform will be built on. Once this is complete, the remaining time in this stage will be consumed by developing the platform.

The last quarter of the year consists of the final tasks before the studio's official rollout. Beta testing will take place with groups of Spotify users to receive feedback that will serve as input for the following stage: revisions and bug fixes. While these final revisions are made, Spotify will promote this new product through ad campaigns on its platform. The project closes out with an official launch to the general public expected to be in November 2023. Finally, efforts in continuous improvement and maintenance will be ongoing during the product's post-launch period.

Budget & Net Present Value (NPV) Analysis

(EUR in millions)

Year	0	1	2	3	4	5
Revenue		€ 224.4	€ 252.8	€ 284.7	€ 320.7	€ 361.3
Cost of revenue		54.8	61.3	68.6	76.8	86.0
Gross profit		**€ 169.6**	**€ 191.5**	**€ 216.1**	**€ 243.9**	**€ 275.2**
R&D		21.2	24.1	27.5	31.4	35.8
Sales and marketing		26.3	29.3	32.6	36.2	40.2
General and administrative		10.4	11.3	12.3	13.3	14.4
Operating income		**€ 111.7**	**€ 126.7**	**€ 143.7**	**€ 163.0**	**€ 184.8**
Income tax expense / (benefit)		6.6	7.4	8.3	9.4	10.6
Net income / Initial cost	**(€ 73.0)**	**€ 105.1**	**€ 119.3**	**€ 135.4**	**€ 153.6**	**€ 174.2**
NPV @ 8.5%						
€ 457.9						

Methodology:

- Revenue
    - Found the revenue in USD per monthly active user (MAU) metric from TikTok in 2021, given the similar business model employed by TikTok and this new recommendation for Spotify
    - Reduced the revenue per MAU metric by half to account for the novelty of this feature in Spotify, and the fact that it may take some time to catch on and be as popular as TikTok
    - Multiplied the reduced revenue per MAU metric by Spotify's MAUs as of its most recent SEC Form 20-F filing reflecting MAUs as of 12/31/2021.
    - Converted the resulting product from USD to EUR using the latest exchange rate of 0.92 USD per 1 EUR as of April 21, 2022, 2:01 AM UTC. This revenue was used for Year 1.
    - Subsequent years' revenue came from growing the past year's revenue at the CAGR found by analyzing Spotify's total revenue growth from 2019 to 2021.
- Cost of revenue
    - Found the percentage of total revenues that cost of revenues comprised
    - Reduced this percentage by a factor of 3 (divided by 3) to reflect the less expensive nature of this project compared to Spotify's main two sources of revenue
    - For each year, grew this percentage by the CAGR calculated by analyzing Spotify's financials
    - For each year, multiplied this percentage by the revenue amount calculated before
- Gross profit—revenue - cost of revenue

- R&D, Sales and marketing, General and administrative
  - Followed the same procedure as for cost of revenue but used the percentages of total revenue that corresponds to each type of cost (R&D, Sales and marketing, General and administrative).
- Operating income—gross profit - the sum of the aforementioned costs (after gross profit)
- Income tax expense / (benefit)—multiplied Spotify's latest income tax expense / (benefit) as percentage of total revenues with the revenue obtained for each year of the project
- Net income—operating income - income tax expense / (benefit)
- Initial cost—multiplied the initial development team expense (explained below) by 100 to account for initial overhead such as cloud infrastructure, project management, and other initial expenses.
- NPV discount rate—obtained the average from Spotify's internal discount rates used for its 2 revenue sectors (Premium and Ad-Supported); "The key assumptions used in the income approach was the discount rate based on the weighted-average cost of capital. The discount rate was 7.5% and 9.5% for the Group's Premium and Ad-Supported segments, respectively." Source: Spotify, 20-F, 12/31/2021, pg. F-35

Supporting materials:

Assumptions	Source: Spotify, 20-F, 12/31/2021					as % of Total Revenues			
Actual Revenues:		**12/31/21**	**12/31/20**	**12/31/19**	*CAGR*	**12/31/21**	**12/31/20**	**12/31/19**	*CAGR*
	Premium	€ 8,460	€ 7,135	€ 6,086	*11.6%*	87.5%	90.5%	90.0%	*(0.9%)*
	Ad-Supported	1,208	745	678	*21.2%*	12.5%	9.5%	10.0%	*7.6%*
	Total	**€ 9,668**	**€ 7,880**	**€ 6,764**	*12.6%*	100.0%	100.0%	100.0%	*0.0%*
Actual Cost of Revenues:									
		12/31/21	**12/31/20**	**12/31/19**	*CAGR*	**12/31/21**	**12/31/20**	**12/31/19**	*CAGR*
	Premium	€ 5,986	€ 5,126	€ 4,443	*10.4%*	61.9%	65.1%	65.7%	*(2.0%)*
	Ad-Supported	1,091	739	599	*22.1%*	11.3%	9.4%	8.9%	*8.4%*
	Total	**€ 7,077**	**€ 5,865**	**€ 5,042**	*12.0%*	73.2%	74.4%	74.5%	*(0.6%)*
Actual Expenses:		**12/31/21**	**12/31/20**	**12/31/19**	*CAGR*	**12/31/21**	**12/31/20**	**12/31/19**	*CAGR*
	Research and development	€ 912	€ 837	€ 615	*14.0%*	9.4%	10.6%	9.1%	*1.2%*
	Sales and marketing	1,135	1,029	826	*11.2%*	11.7%	13.1%	12.2%	*(1.3%)*
	General and administrative	450	442	354	*8.3%*	4.7%	5.6%	5.2%	*(3.8%)*
	Income tax expense / (benefit)	283	(128)	55	*72.6%*	2.9%	(1.6%)	0.8%	*53.3%*
	Total expenses	**€ 2,780**	**€ 2,180**	**€ 1,850**	*14.5%*	28.8%	27.7%	27.4%	*1.7%*

Using TikTok revenue / MAU as basis for revenue for this project given TikTok's entire business model being driven by UGC

Source: https://www.businessofapps.com/data/tik-tok-statistics/		Q1 2021	Q2 2021	Q3 2021	Q4 2021
	Revenues	$912	$1,096	$1,208	$1,579
	Monthly Active Users (MAU)	812	902	1,037	1,212
	Revenue per MAU	**$1.12**	**$1.22**	**$1.16**	**$1.30**

MAUs:		12/31/21	12/31/20	12/31/19	*CAGR*
	MAUs	406.0	345.0	271.0	*14.4%*
	Hypothetical Revenue per MAU, weighted avg quarterly 2021 revenue per MAU, adjusted down for new product	0.6			
	Total Revenue	**€ 224.4**			
	Used 4/21/2022, 2:01 AM UTC				
	USD to EUR conversion rate of 0.92				

Salary of Main Dev Team Source: Glassdoor, https://www.glassdoor.com/Salary/Spotify-Engineering-Salaries-EI_IE408251.0,7_DEPT1007.htm

Role	Compensation
Engineering Team Lead	0.19
Full Stack Engineer	0.15
Backend Engineer	0.14
Backend Engineer	0.14
UI\UX Engineer	0.10
Total Compensation	**€ 0.7**

The goal of this development team will be to build a creator studio platform that empowers Spotify users to create their own audio and podcasting content.

Appendix J — Spotify Income Statements

Source: Spotify Technology S.A. Form 20-F Submitted to US SEC on 2/3/2022
(*Spotify Technology S.A. Annual Report for 2021*.2022)

Consolidated statement of operations

for the year ended December 31
(in € millions, except share and per share data)

	Note	2021	2020	2019
Revenue	4	9,668	7,880	6,764
Cost of revenue		7,077	5,865	5,042
Gross profit		**2,591**	**2,015**	**1,722**
Research and development		912	837	615
Sales and marketing		1,135	1,029	826
General and administrative		450	442	354
		2,497	**2,308**	**1,795**
Operating income/(loss)		**94**	**(293)**	**(73)**
Finance income	9	246	94	275
Finance costs	9	(91)	(510)	(333)
Finance income/(costs) - net		**155**	**(416)**	**(58)**
Income/(loss) before tax		**249**	**(709)**	**(131)**
Income tax expense/(benefit)	10	283	(128)	55
Net loss attributable to owners of the parent		**(34)**	**(581)**	**(186)**
Loss per share attributable to owners of the parent				
Basic	11	(0.18)	(3.10)	(1.03)
Diluted	11	(1.03)	(3.10)	(1.03)
Weighted-average ordinary shares outstanding				
Basic	11	191,298,397	187,583,307	180,960,579
Diluted	11	193,943,455	187,583,307	180,960,579

Appendix K — Spotify Balance Sheets

Source: Spotify Technology S.A. Form 20-F Submitted to US SEC on 2/3/2022
(*Spotify Technology S.A. Annual Report for 2021.*2022)

Consolidated statement of financial position

As at December 31
(in € millions)

	Note	2021	2020
Assets			
Non-current assets			
Lease right-of-use assets	12	437	444
Property and equipment	13	372	313
Goodwill	14	894	736
Intangible assets	14	89	97
Long term investments	24	916	2,277
Restricted cash and other non-current assets	15	77	78
Deferred tax assets	10	13	15
		2,798	3,960
Current assets			
Trade and other receivables	16	621	464
Income tax receivable	10	5	4
Short term investments	24	756	596
Cash and cash equivalents	24	2,744	1,151
Other current assets	17	246	151
		4,372	2,366
Total assets		7,170	6,326
Equity and liabilities			
Equity			
Share capital	18	—	—
Other paid in capital	18	4,746	4,583
Treasury shares	18	(260)	(175)
Other reserves	18	853	1,687
Accumulated deficit		(3,220)	(3,290)
Equity attributable to owners of the parent		2,119	2,805
Non-current liabilities			
Exchangeable Notes	20	1,202	—
Lease liabilities	12	579	577
Accrued expenses and other liabilities	22	37	42
Provisions	23	7	2
		1,825	621
Current liabilities			
Trade and other payables	21	793	638
Income tax payable	10	23	9
Deferred revenue	4	458	380
Accrued expenses and other liabilities	22	1,841	1,748
Provisions	23	22	20
Derivative liabilities	24	89	105
		3,226	2,900
Total liabilities		5,051	3,521
Total equity and liabilities		7,170	6,326

Appendix L — Spotify Cash Flow Statements

Source: Spotify Technology S.A. Form 20-F Submitted to US SEC on 2/3/2022
(*Spotify Technology S.A. Annual Report for 2021.*2022)

Consolidated statement of cash flows

for the year ended December 31
(in € millions)

	Note	2021	2020	2019
Operating activities				
Net loss		(34)	(581)	(186)
Adjustments to reconcile net loss to net cash flows				
Depreciation of property and equipment and lease right-of-use assets	12 , 13	94	86	71
Amortization of intangible assets	14	33	25	16
Share-based compensation expense	19	223	176	122
Finance income	9	(246)	(94)	(275)
Finance costs	9	91	510	333
Income tax expense/(benefit)	10	283	(128)	55
Other		6	7	13
Changes in working capital:				
Increase in trade receivables and other assets		(245)	(187)	(27)
Increase in trade and other liabilities		137	425	454
Increase in deferred revenue		67	73	59
Increase/(decrease) in provisions		5	6	(35)
Interest paid on lease liabilities		(50)	(55)	(37)
Interest received		3	4	14
Income tax paid		(6)	(8)	(4)
Net cash flows from operating activities		**361**	**259**	**573**
Investing activities				
Business combinations, net of cash acquired	5	(115)	(336)	(331)
Purchases of property and equipment	13	(85)	(78)	(135)
Purchases of short term investments	24	(497)	(1,354)	(901)
Sales and maturities of short term investments	24	375	1,421	1,163
Sales of long term investments	24	144	—	—
Change in restricted cash	15	1	2	2
Other		(10)	(27)	(16)
Net cash flows used in investing activities		**(187)**	**(372)**	**(218)**
Financing activities				
Payments of lease liabilities	12	(35)	(24)	(17)
Lease incentives received	12	7	20	15
Repurchases of ordinary shares	18	(89)	—	(438)
Proceeds from exercise of stock options	19	167	319	154
Proceeds from exercise of warrants	24	—	—	74
Proceeds from issuance of warrants	24	31	—	15
Proceeds from issuance of Exchangeable Notes, net of costs	24	1,223	—	—
Payments for employee taxes withheld from restricted stock unit releases	19	(54)	(30)	(6)
Net cash flows from/(used in) financing activities		**1,250**	**285**	**(203)**
Net increase in cash and cash equivalents		**1,424**	**172**	**152**
Cash and cash equivalents at January 1	24	1,151	1,065	891
Net foreign exchange gains/(losses) on cash and cash equivalents		169	(86)	22
Cash and cash equivalents at December 31	24	**2,744**	**1,151**	**1,065**
Supplemental disclosure of cash flow information				
Non-cash investing and financing activities				
Deferred consideration liability recognized in conjunction with business combination	5	9	32	2
Recognition of lease right-of-use asset in exchange for lease liabilities	12	23	29	136
Purchases of property and equipment in trade and other liabilities	13	13	16	14
Issuance of shares upon exercise of, or effective net settlement of, warrants	24	—	267	303

Appendix M — LinkedIn Requests

Sumantra Chattopadhyay's request:

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