

A Comparative Analysis of Spotify and Apple Music: Revenue Structures, Profit Models, and Strategic Positioning

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Abstract. This paper provides a detailed comparative analysis of Spotify and Apple Music, focusing on their revenue structures, profit models, licensing cost arrangements, distribution strategies, value-added services, and market performance. By drawing on financial reports, industry statistics, and academic literature, the study highlights the fundamental differences in how these two leading platforms operate within the global music streaming industry. Spotify relies heavily on its freemium model, which attracts a broad user base through free, ad-supported access and seeks to convert listeners into paying subscribers. The study also examines the role of user-generated content (UGC) and impression management in shaping brand awareness and user engagement. The findings indicate that Spotify excels in market reach and content diversity but faces profitability constraints, while Apple Music leverages ecosystem integration to increase average revenue per user (ARPU) and maintain stability. Finally, strategic recommendations are offered to enhance the growth and long-term competitiveness of both platforms.

Keywords: Spotify, Apple Music, revenue structure, profit model, music streaming.

1. Introduction

1.1. Background

With the rapid development of digital technologies and the internet, the global music industry landscape has been fundamentally reshaped. Music streaming has gradually replaced traditional forms of music consumption, emerging as the dominant market model. According to the International Federation of the Phonographic Industry, streaming now accounts for more than 67% of global recorded music revenues [1]. Spotify and Apple Music, as market leaders, collectively hold over 50% of the global paid subscription market share.

Spotify was founded in 2006 and is headquartered in Sweden. It was the first to introduce the "Freemium" business model. By the end of 2024, its monthly active users reached 580 million, of which 270 million were paid subscribers. Apple Music is one of the service segments launched by Apple in 2015. It relies on the Apple hardware ecosystem to achieve rapid user penetration and revenue monetization. By the end of 2024, it had approximately 120 million paid users [2]. Currently, a large number of studies on the digital streaming industry have been carried out in academia. However, in-depth comparative analysis of the two giants, Spotify and Apple Music, still

needs to be improved. Therefore, this article compares the operating models and profitability of Spotify and Apple Music from multiple dimensions such as financial structure, business model, copyright costs, distribution channels, and user engagement, and explores the role of UGC in the competitive landscape of the two platforms.

1.2. Research questions

This article will address the following questions: What are the key differences between Spotify and Apple Music's business models? Which company has a stronger advantage in profitability and financial stability? In the future market competition, what should be the strategic focus of each company?

2. Pricing strategies and user structure

In the music streaming service market, pricing strategies directly determine the platform's user acquisition model and revenue structure. Generally speaking, platforms adopt two main pricing paths: one is the Freemium model, which provides both free and paid channels, represented by Spotify; the other is the subscription-only model, which is limited to paid use, represented by Apple Music. Both models have their own advantages and disadvantages: The Freemium model may bring a large free user base, which has a higher social media sharing rate but a lower paid conversion rate; while the pure subscription model may bring higher ARPU and retention rate, but is limited in the natural dissemination of UGC [3].

2.1. Spotify: freemium model

Spotify adopts a dual pricing strategy, offering free services (including ads) and paid subscriptions (Premium). The core of its "Freemium" model is to achieve platform traffic and market penetration through a large number of free users, and then convert some of them into paying users. According to Spotify's 2024 annual report (Spotify Annual Report P47), the ad-supported free tier has attracted more than 300 million users, accounting for about 55% of the total monthly active users (MAU). Research shows that the launch of Spotify's Wrapped feature has significantly enhanced users' impression management motivation, thereby improving the generation of brand-related UGC [4]. The core advantage of this model lies in its strong market penetration ability, which is particularly suitable for emerging markets. For example, in India, Latin America, Southeast Asia and other places, free services lower the usage threshold and quickly acquire a user base; then, through personalized recommendations, user interface optimization and platform content expansion, it induces paid conversions. However, the structural problems of the Freemium model are also prominent: Advertising revenue is far less than subscription revenue, and the royalty costs generated by free users' playback still need to be borne, resulting in limited marginal profit space [5].

Spotify's user group has a clear "young" feature. The survey indicates that over 72% of Spotify's global users are between the ages of 18 and 34, with university students and young professionals forming the majority [6]. Under the advertising revenue model, this demographic structure enhances the platform's advertising appeal to fast-moving consumer goods and cultural brands. However, it also presents challenges such as low user loyalty and difficulty retaining users.

2.2. Apple Music: subscription-only model

Apple Music adopts a pure subscription charging model. Its basic monthly fee is US\$9.99, and it offers a family package (\$14.99) and a student package (\$4.99), as well as a bundled version with the Apple One service. Apple Music does not have an ad-supported free version, and its users mainly access the service system through pre-installation mechanisms, Apple ID integration, and Apple device portals. Through a highly integrated ecosystem, it achieves seamless migration from device shipment to user payment, significantly reducing user acquisition costs (CAC) and conversion path friction [6]. However, due to the lack of a free tier, Apple Music's UGC dissemination relies more on highly loyal existing users, and the interactivity and visual design of the Apple Music Replay function are relatively conservative, resulting in its natural dissemination on social media being lower than that of Spotify Wrapped. The advantages of this strategy are a clear revenue structure, stable ARPU, and high retention rate, but its disadvantages are relatively slow user scale growth and market expansion relying on device penetration.

Apple Music users are primarily between the ages of 25 and 44, and the vast majority are already existing users of the Apple ecosystem. This group has a high level of education, high spending power, and strong brand loyalty, making them ideal for a high ARPU subscription model. Data shows that the average monthly retention rate of Apple Music subscribers is over 85%, far exceeding the industry average [7].

2.3. Comparative analysis of the two models

Spotify has built a large user base through its "Freemium" model, making it particularly well-suited for markets with low user penetration. However, its profit structure is constrained by advertising revenue and a high proportion of copyright costs, requiring continuous optimization of its paid conversion mechanism. Apple Music, on the other hand, leverages its high ARPU user base and strengthens the integration of devices and services, building a more cohesive ecosystem and suitable for sustained monetization in developed markets.

3. Licensing costs and revenue sharing models

3.1. Fixed-percentage revenue sharing model

Spotify's core content costs come from music copyright payments. The platform uses a fixed-percentage model, using approximately 70% of its revenue to pay royalties to record companies, publishers, songwriters, and performers. Under this model, the income of artists and copyright holders is usually distributed according to the proportion of their track plays in the total number of plays [8]. Spotify itself does not establish a direct financial relationship with users for single song plays, but instead settles accounts with content providers through aggregated data. This structure is simple but also has problems. For example, costs increase in tandem with the number of plays, and marginal expenditures are rigid; it is difficult to achieve economies of scale through cost control; the more frequently users use the platform, the higher the copyright costs; and the low ARPU of advertising-layer users cannot cover copyright expenses, squeezing profits.

On the other hand, Spotify has been expanding its proprietary content offerings, such as podcasts and audiobooks, in recent years to reduce its financial reliance on music streaming. Much of this content is produced through exclusive contracts or in-house studios, and does not involve traditional royalty payments. This strategy has helped it develop profit streams beyond copyright payments.

3.2. Blended cost model

Apple Music also pays a fixed percentage of copyright fees for music content, which is approximately 68% of its total revenue, but its cost structure is closer to a blended cost model. In addition to copyright sharing, this model achieves cost smoothing through service ecosystem and hardware linkage [6]. Apple Music is often bundled with Apple One and shares user subscription revenue with iCloud, Apple TV+, and Arcade, effectively diluting the actual copyright cost per user on Music. In addition, Apple devices such as iPhones are pre-installed with the Music App when they leave the factory, so users do not need to pay additional customer acquisition costs. App Store channel fees are also transferred within the company, reducing the pressure of the 30% platform commission borne by Spotify.

As a result, Apple Music users tend to be more loyal and their playback behavior is more consistent, making it less likely that the platform will be forced to bear the brunt of sudden copyright cost fluctuations. While Apple Music technically pays a fixed royalty rate, its integration into the Apple Services ecosystem allows these costs to be more smoothly distributed and controllable at the per-user level, resulting in more robust profit performance.

3.3. Comparison of fixed-percentage vs blended cost models

Spotify uses a fixed-percentage model, resulting in marginal costs rising almost in tandem with revenue. Despite a surge in user base and streaming volume, while total revenue has increased, its profit margins have not expanded in tandem. Apple Music, on the other hand, employs a blended cost model: It combines a conventional fixed-percentage revenue share with the benefits of Apple's internal ecosystem, such as the Apple One subscription plan and marketing cost savings from pre-installed content. This makes average copyright expenditures per user more manageable and results in higher actual profit margins.

3.4. Summary of this section

Spotify's play-based revenue-sharing model makes its copyright costs highly elastic, limiting its profit expansion and subjecting it to more direct cost-increasing pressure. Apple Music, on the other hand, mitigates this issue through platform integration and cost internalization. Spotify is better suited to pursuing brand popularity and explosive user growth, while Apple Music is better suited to pursuing long-term profit stability.

4. Profitability and financial health

When assessing the commercial sustainability of streaming platforms, revenue growth alone is insufficient. Profitability and financial health are key indicators of a platform's long-term competitive advantage and resilience to risk. This chapter will provide a comparative financial analysis of Spotify and Apple Music from two perspectives: profitability, such as operating profit; and financial soundness, primarily reflected in current ratios, asset-liability structure, and cash flow performance.

4.1. Operating profit

Between 2023 and 2024, Spotify's profitability experienced a transition from losses to profits. In the fourth quarter of 2023, the company reported an operating loss of €75 million; by the second quarter

of 2024, operating profit increased to €168 million and remained positive at €107 million in the fourth quarter of 2024. This recovery was mainly due to an increase in subscription revenue and a certain degree of cost control. As shown in Table 1, its operating profit margin was still less than 4% in 2024, which is significantly lower than that of high-margin digital service platforms. The main reason for Spotify's low profit margin is its fixed-ratio royalty sharing model, with approximately 70% of its revenue paid to copyright holders [8]. This cost structure is directly linked to the number of plays, so an increase in usage does not increase profit margins proportionally. Although operating profit has improved significantly compared to 2023, Spotify's structural limitations still exist [9]. The revenue from the advertising-supported tier is not enough to offset the copyright costs incurred by a large number of free users, while expansion into emerging markets such as India and Latin America requires investment in localized content and higher marketing expenditures, which further squeezes its profit margins in the short term.

By comparison, while Apple Music doesn't disclose separate financial data, estimates can be made using Apple Services data. Apple Services revenue is projected to reach \$20.98 billion in the fourth quarter of 2023, with a gross profit margin of 71.5%. By the fourth quarter of 2024, revenue will have increased to \$23.2 billion, with a gross profit margin of 75.7%. Industry analysis indicates that Apple Music accounts for approximately 15% of Services revenue. Based on this, its revenue in the fourth quarter of 2024 is projected to be close to \$3.48 billion, with an estimated profit margin of between 12% and 15%. Furthermore, its profit volatility is much lower than that of Spotify. This advantage stems from its cost-sharing within the Apple ecosystem and lower customer acquisition costs.

Table 1. Profit margin of Spotify and Apple services from 2023 to 2024

Company name	Year	
	2023	2024
Spotify	-1.0%	3.2%
Apple Services	12.5%	14.7%

4.2. Current ratio

Spotify's free cash flow (FCF) is positive but fluctuates significantly. It reached €19 million in the fourth quarter of 2023, rising to €250 million in the second quarter of 2024, and then declining slightly to €215 million in the fourth quarter of 2024. This improvement in cash flow is due to growth in subscription revenue and optimization of content costs, particularly through podcasts and audiobooks, which have reduced reliance on music copyrights. However, the production and acquisition of this type of content requires significant upfront investment, coupled with ongoing investment in market expansion, resulting in less stable cash flow from quarter to quarter.

In table 2, Apple Services' current ratio improved from 1.90 to 2.00 between 2023 and 2024, reflecting its superior liquidity management. This means that Apple Music, backed by Apple's strong cash reserves and diversified revenue streams, faces significantly lower cash flow risk than Spotify.

Table 2. Current ratio of Spotify and Apple services from 2023 to 2024

Company name	Year	
	2023	2024
Spotify	1.88%	1.47%
Apple Services	1.90%	2.00%

4.3. Compare scale efficiency vs. ecosystem leverage

Spotify's growth model relies on economies of scale, increasing revenue by expanding its user base and streaming volume on its platform. However, with a fixed-ratio copyright cost model, revenue growth comes with corresponding cost increases, limiting profit margins. This cost model can lead to higher costs during short-term traffic spikes, thereby suppressing profit growth. Apple Music, on the other hand, leverages its ecosystem advantages, pre-installing Apple hardware and using bundled sales to reduce customer acquisition costs. These costs are then spread across Apple's various services, increasing user value without significantly increasing marginal costs.

4.4. Summary of the section

Overall, Spotify is expected to return to profitability in 2024, with improvements in free cash flow and operating profit. However, its profit model will still be impacted by copyright costs and cash flow stability. Although Apple Music has a smaller user base, it has a greater advantage in financial stability and long-term profitability thanks to its cost-sharing mechanism within the ecosystem.

5. Distribution channels and channel cost differences

Distribution channels determine customer acquisition costs, long-term customer retention rates, and market penetration, ultimately impacting brand loyalty. Spotify and Apple Music contrast sharply in their distribution channels: Spotify employs a cross-platform distribution strategy to achieve a wider user reach, while Apple Music relies on hardware and its ecosystem to deeply integrate distribution with user retention.

5.1. Distribution channels

Spotify's distribution strategy relies on a multi-channel presence, including its official website, third-party app stores (such as Google Play and the Apple App Store), and pre-installation partnerships with certain hardware manufacturers. This cross-platform model offers the advantage of rapid penetration in markets where Apple devices have a low penetration rate, such as some emerging economies. However, it also means Spotify must maintain compatibility and optimization across multiple ecosystems, increasing operational complexity.

Apple Music relies on Apple's own ecosystem for distribution. Its app comes pre-installed on all iPhones, iPads, Macs, Apple Watches, and HomePods, and is sold alongside services like iCloud and Apple TV+ through Apple One. This strategy ensures Apple Music reaches potential users directly at the same time as device sales, eliminating the need for additional download conversion steps and reducing the potential for user churn.

5.2. Channel cost differences

Spotify's biggest cost pressure on the iOS platform comes from the App Store's commission. Apple charges up to 30% of subscription transactions completed through the App Store. Although Spotify has circumvented some of these fees by guiding users to subscribe via the web version, new users' initial downloads and registrations are usually still completed through the App Store, so this cost is difficult to completely eliminate [10]. In addition, Spotify also has to bear additional costs such as cross-platform advertising and sharing of revenue from cooperative channels.

Because Apple Music is fully embedded in the Apple ecosystem, there is almost no commission expense for external channels, and all transactions are completed within Apple's internal system. At the same time, hardware pre-installation and service bundling significantly reduce customer acquisition costs. User acquisition mainly relies on natural conversions brought about by device sales, which makes its CAC significantly lower than Spotify [11].

5.3. Summary of this section

In comparison, Spotify boasts a broader distribution reach, but the user conversion chain involves more links. Apple Music's distribution path is shorter and more efficient, but its reliance on Apple devices limits its penetration in markets outside the Apple ecosystem.

In terms of its channel cost structure, Spotify is more susceptible to external policies (such as adjustments to the App Store commission rate) and advertising market fluctuations, while Apple Music's cost structure is highly controllable and offers lower marginal costs. This structural difference often results in Apple Music's higher per-user profitability than Spotify, even with a smaller user base.

6. Value-added services: podcasts, audiobooks, and platform lock-in

In the competition among music streaming platforms, value-added services are not only an add-on to enhance user experience, but also a core means to boost ARPU (average revenue per user), extend user lifetime value (LTV), and enhance platform lock-in. Spotify and Apple Music have significant differences in their approaches to value-added service deployment: Spotify focuses on horizontal expansion in the content sector, while Apple Music relies on ecosystem synergies.

6.1. Value-added services content comparison

In recent years, Spotify has been acquiring podcast production companies and signing well-known creators to provide users with a richer content offering, while also increasing its investment in audiobooks. This type of original and exclusive content not only increases user engagement but also allows the platform greater flexibility in advertising and subscription pricing.

Apple Music, on the other hand, has taken a different approach, integrating with other services like iCloud to create a unique Apple ecosystem. Apple Music's added value lies primarily in its high-quality sound (Hi-Fi/Spatial Audio), seamless multi-device playback, and deep hardware integration. These features are highly appealing to existing Apple users, but their incremental appeal to non-Apple users is relatively limited.

6.2. Platform lock-in & user growth

Spotify increases user retention time and dependency on the platform through diverse content such as podcasts and audiobooks, thereby increasing the chances of paid conversions. Although this strategy requires long-term content investment, its benefits lie in its ability to cover different interest groups across the content ecosystem, achieving the dual goals of user growth and ARPU increase.

Apple Music's lock-in effect relies primarily on the synergy of the Apple device ecosystem: when users already use devices such as iPhone, Mac, and Apple Watch, Apple Music forms a natural retention barrier through seamless connectivity and account integration. This strategy generates a higher ARPU, but because user growth depends on device sales and ecosystem penetration, its expansion rate is relatively slow [12].

6.3. Summary of this section

In contrast, Spotify's value-added services focus more on content diversification and differentiation, attracting a wider potential user base. Apple Music's value-added advantage lies in service integration and experience optimization, enhancing the value of its services to existing users.

In terms of value-added services, Spotify has greater market expansion potential, suitable for attracting a diverse user base and increasing global penetration. Apple Music, on the other hand, strengthens loyalty and willingness to pay among its existing high-value user base, enhancing long-term profit stability through deep integration. In the future, if Spotify can diversify its content while optimizing its cost structure, it will further increase its global market share. Apple Music, on the other hand, can strengthen its appeal in markets outside the Apple ecosystem by moderately expanding its content offerings, thus balancing growth and stability.

7. Stock performance and market expectations

7.1. Financial indicators and stock price trend analysis

Spotify and Apple Music have distinct valuation logics in the capital market. As an independently listed company, Spotify's core financial metrics, such as its stock price, earnings per share (EPS), and price-to-earnings ratio (P/E), directly reflect market sentiment and investor expectations. Apple Music, on the other hand, is not independently listed, and its market value is implicitly embedded in Apple's overall market capitalization and the performance of its Services segment. Investors primarily indirectly assess its value through Apple's Services revenue and gross profit margin.

Spotify's financial performance improved significantly between 2023 and 2024. EPS gradually recovered from -€0.85 in the first quarter of 2023 to €0.50 in the fourth quarter of 2024, turning a profit. The price-to-earnings ratio (P/E) began to decline after EPS turned positive, falling from 310 in the fourth quarter of 2023 to 200 in the fourth quarter of 2024, indicating that the market is pricing its future earnings more rationally. The stock price bottomed out in 2023 and then steadily rebounded, rising from \$115 in the first quarter to \$180 by the end of 2024. This trend reflects investor confidence in Spotify's earnings improvement and growth potential. However, the P/E remains higher than some of its peers, indicating that the market still has high expectations for its future performance and may be more sensitive to short-term financial fluctuations [13].

As part of Apple Services, Apple Music isn't priced separately in the capital markets. Apple's overall market capitalization surpassed \$3 trillion in 2024, with Services contributing \$80.4 billion in revenue and a 75.7% gross profit margin. Industry estimates suggest Apple Music accounts for

approximately 15% of Services revenue, or approximately \$12.1 billion in 2024 [14]. However, the market's valuation indirectly reflects the overall Apple brand and ecosystem synergies. The advantage of this valuation approach is that fluctuations in Apple Music's individual business units don't significantly impact its stock price; its value is closely tied to Apple's hardware sales, ecosystem stickiness, and service bundling strategy. Investors are more focused on the overall growth rate and profit structure of Apple's Services segment than the performance of its music business alone.

7.2. Summary of this section

Spotify's independent valuation model makes its stock price highly sensitive to fluctuations in quarterly earnings reports and user growth. Positive earnings signals can quickly drive up the stock price, while negative financial data can trigger a sharp correction. Apple Music benefits from the stability of Apple's overall valuation. Even with a short-term slowdown in music business growth, its performance in the capital market remains relatively stable.

8. Conclusion

This article compares and analyzes Spotify and Apple Music's profit models, financial data, and market positioning, finding significant differences. Spotify, leveraging its "freemium" model, extensive content portfolio, and cross-platform accessibility, is poised for rapid penetration, particularly in emerging markets. The company has achieved a significant turnaround in profitability and free cash flow, driven by continued growth in paid subscriptions and its diversified portfolio in areas such as podcasts and audiobooks. However, high fixed royalty costs, reliance on platform commissions, and high valuation multiples pose significant challenges. Apple Music, deeply embedded in Apple's high-margin Services segment, benefits from superior ecosystem integration, extremely low customer acquisition costs, and high ARPU and retention rates. Its valuation of approximately \$60 billion underscores its role as a stable growth engine within Apple's overall business. Despite slower expansion in markets not dominated by Apple, its risk-adjusted returns are very attractive.

Overall, Spotify's scale-driven growth and Apple Music's ecosystem-driven, stable development will continue to shape the competitive landscape between the two. Looking ahead, the future of both platforms will likely be influenced by advances in personalization, integration of artificial intelligence in music discovery, and potential regulatory shifts in digital marketplaces. Their ability to adapt to changing consumer preferences, innovate in user experience, and balance licensing economics will ultimately determine their long-term competitiveness in the global streaming market.

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