

# ***Insights into Strengths, Weaknesses, Opportunities, and Threats of Music Streaming Giant***

**—Spotify**

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**Abstract:** Spotify, born in Sweden in 2006, has reshaped the way people consume music in the digital age. As it has grown to become a major player in the music streaming industry, understanding its position and business model becomes crucial. This paper demonstrates the broader Music application market and overview. Employing the SWOT analytical framework, this paper undertakes a comprehensive assessment of Spotify's strengths, weaknesses, opportunities, and threats. Grounded in this analysis, this paper underscores the potential of diversifying into emergent domains such as education and wellness to augment user engagement and streamline operational expenses. Under the fierce market competition, the paper emphasizes the necessity for Spotify to strengthen its differentiation strategy within the music application sphere.

**Keywords:** SWOT analysis, Spotify, Business model, Position, Marketing

## **1. Introduction**

In the rapidly evolving landscape of digital music streaming, Spotify stands out as a beacon of innovation and market dominance. Founded in Sweden in 2006, Spotify has not only transformed the way music is consumed but also redefined the dynamics of the music application market. Today, over 574 million Spotify users worldwide make it the domain of the music app market [1].

The rise of Spotify can be attributed to the swift advancement of mobile devices and extensive internet coverage, which have collectively accelerated its growth. The platform's user base has seen a significant surge, bolstered by targeted advertising campaigns and strategic partnerships. For instance, Spotify's partnership with the game platform Xbox and mobile brand Samsung. This growth is reflective of a broader trend: the integral role of music applications in daily life, especially for the younger demographic. Recent research from Statista highlights that the average young person spends around 25 hours weekly listening to music, signifying the role of music as a necessity in daily life [2].

However, the path forward for Spotify is not without challenges. Issues related to profitability and unforeseen risks, such as the impact of global events like COVID-19, pose potential threats to its stability and future growth. According to [3], music streaming consumption had been significantly reduced during the COVID-19 outbreak supported by empirical evidence. Despite reduced profits caused by the pandemic, the outlook for Spotify remains promising. For example, music serves as an

effective strategy to reduce stress [4]. Many college students identify that listening to music greatly reduces their anxiety during the Covid-19.

This paper seeks to provide a comprehensive evaluation of Spotify within the music application market. Employing the SWOT analytical framework, it will analyze both the internal factors and external environment affecting Spotify. This approach will allow for a deeper understanding of Spotify's current market position and offer insights into strategic directions for future development. Specifically, the paper will explore the potential for Spotify to diversify into emerging domains such as education and wellness, a move that could enhance user engagement and optimize operational costs.

In a fiercely competitive market, this paper underscores the importance of Spotify maintaining and strengthening its differentiation strategy. Through this SWOT analysis, this paper aims to shed light on the critical aspects that will shape Spotify's trajectory in the music streaming industry and contribute to the broader discourse on digital media consumption in the contemporary era.

## **2. Online Music Application Background Industry Overview**

In 2023, the online music application industry will be experiencing significant growth and transformation, as evidenced by industry reports and market research publications. The market size of music apps is estimated at USD 26.48 billion and is projected to grow to USD 33.21 billion by 2028, with a compound annual growth rate of 4.63%. This growth is attributed to an increased demand for in-app purchases, the global adoption of digital lifestyles, an expanding demand for offline music tracks, and advancements in smartphone technologies. Key players in the market are focusing on offering user-friendly apps with features like efficient search methodologies, personalized music libraries, and compatibility with Android and iOS platforms. The industry saw a substantial boost during the global lockdown, with a notable increase in the popularity of podcast management services and a surge in user numbers, particularly in North America and Asia [5]. As of 2023, Spotify leads the market share with 30.5%, followed by Apple Music, Tencent Music, Amazon Music, and YouTube Music. This dynamic market landscape showcases the robust and evolving nature of the online music application industry, driven by technological advancements, changing user preferences, and the global shift towards digital and mobile platforms [6].

When we focus on a product, in addition to the benefits, the significance is also important, it can help the product have a more long-term development [7]. In a high-pressure society, people look for means to address stress to release themselves. Listening to music can be a good way to regulate emotions and promote health. This informal form of self-medication has been made more convenient by the emergence of software like Spotify [8].

## **3. Product Overview**

The tale of Spotify, the Swedish music streaming giant, is marked by extraordinary expansion. As of June 2016, it was hailed as the world's leading streaming platform, boasting over 100 million active users each month. By the following year, this figure had surged by an additional 40 million. With its subscriber count surpassing 50 million, Spotify notably eclipsed its nearest competitor, Apple Music. By 2017, the company's valuation soared to \$13 billion, establishing it as Europe's most valuable venture-capital-backed firm [9]. Spotify's commanding market position reflects its commitment to fostering human creativity. The platform serves as a dynamic space where artists can flourish and audiences can discover, enjoy, and draw inspiration from their works. This mission underscores Spotify's dedication to being a hub for artistic expression and connection.

As a music platform, Spotify is not merely a tool for listening to songs. D. Duman and the team's research focuses on how musical preferences and the Spotify audio features of songs vary depending

on the time of day, activities, and listening contexts. It has been found that playlists designed for specific moods or situations have distinct audio characteristics. Spotify can innovate by enhancing its recommendation algorithms to account for the diurnal variations in musical preferences and the diversity of reasons behind music listening. This would involve not only tailoring music suggestions according to the time of day but also understanding the specific activities or emotional needs of the user, offering a more personalized and context-aware listening experience. This approach can enhance user engagement and satisfaction by providing music that aligns more closely with their current mood, activity, or coping needs [10]. Spotify's expansive data facilitates tailored user experiences, showcasing its commitment to continuous innovation. This is reflected in its advanced algorithms and analytics, which enable personalized music recommendations, affirming Spotify's position as a leader in the digital music streaming industry.

Spotify has made contributions to education and health through various initiatives. In the education sector, Spotify has partnered with educational institutions to provide discounted subscriptions to students, allowing them to access a wide range of music and podcasts for academic and personal use. This collaboration has enhanced the learning experience and provided students with a platform for creativity and relaxation [11]. Spotify's "All the Feels" EAP provides mental health counseling and comprehensive medical insurance, including Headspace app access. Their Heart & Soul team organizes programs on mental health topics and Wellness Week for employee well-being. Additionally, they offer a Global Substance Awareness & Support Program and resources for setting healthy work boundaries [12]. Spotify adeptly identifies its product positioning, demonstrating a keen understanding of its unique market niche and tailoring its offerings to meet the specific preferences and needs of its target audience.

#### **4. Strength**

Spotify's strong brand reputation is rooted in its extensive local community engagement, global reach, and strategic partnerships and integrations.

##### **4.1. Local Community Engagement**

Localization of online business is crucial for success in cross-cultural markets. According to research, localization can provide a more culturally relevant customer experience, which is essential for multinational companies to operate in different cultural contexts [13]. Spotify engages deeply with local communities. This engagement offers a diverse range of music and involves collaborations with local artists and the creation of region-specific content. This approach fosters a sense of belonging and community among its users, enhancing user experience and building a strong local presence essential in markets with varied cultural backgrounds. The effectiveness of Spotify's brand culture in engaging customers is explored [14].

##### **4.2. Partnerships and Integration**

Spotify's growth is significantly fueled by its strategic partnerships and integrations. Spotify expanded its global reach by forming partnerships with major tech companies like Samsung, Google, Amazon, and Sony, integrating its app into their smart devices. The company also collaborated with telecom operators like T-Mobile, Vodafone, and Reliance Jio to offer bundled plans featuring Spotify subscriptions and data packages. Additionally, Spotify enhanced user engagement by integrating with social media platforms such as Facebook, Instagram, and Snapchat, allowing users to share music and podcasts with their networks [15]. Research on learning and sharing behaviors of users on social media platforms suggests that platform characteristics have a significant impact on user behavior [16],

and Spotify allows users to share music and podcasts through its integration with social media platforms, which has enhanced user engagement and platform attractiveness.

### **4.3. Global Reach**

Spotify's pioneering use of programmatic ad buying and sophisticated data collection has established it as a global leader in music streaming. Its ability to analyze vast user data, like listening habits and geographic locations, has enabled the creation of targeted advertising and personalized content for users worldwide. This innovative approach not only highlights Spotify's extensive global reach but also showcases its commitment to delivering a unique and engaging listening experience across the globe [17]. Big data, search engine optimisation, influencer branding and social media marketing that Spotify currently uses enhance their brand online as well.

## **5. Weakness**

Analyzing Spotify's business model reveals two notable challenges: limited revenue streams leading to unprofitability and limited diversification in its business operations.

### **5.1. Cost of Music Licensing Increase – Unprofitability**

Despite its status as a leading platform in the expanding music streaming industry, Spotify struggles with profitability. The company's net income margins are compressed, and its future profitability prospects remain thin. In the third quarter of 2021, for instance, Spotify's gross profit margins were only about 26.7%, resulting in a gross profit of €668 million. However, after accounting for royalties, R&D, marketing, administrative expenses, and taxes, the company recorded just €2 million in after-tax net income during that quarter [18]. Royalties paid to artists and record labels limit the gross margins. The power of music rights holders, who could potentially increase the price of music licensing for streaming become the weakness of Spotify's business model.

### **5.2. Intense Competition in the Market**

Spotify's competitors attract and retain subscribers by offering some exclusive music or podcasts that Spotify cannot offer. For example, Apple Music and Amazon Music both have exclusive content that is only available on their platforms. In addition, some music streaming platforms have adopted a "windowing" strategy, i.e., offering content on only one service for some time and not on others for a while [19]. Exclusive content can help music streaming platforms increase market share by attracting and retaining subscribers, but an exclusive content strategy can raise antitrust issues and competitive pressures [20]. These competitors, many of which are backed by tech giants, have considerable resources and are capable of investing in exclusive content, innovative features, or aggressive pricing strategies. This intense competition threatens Spotify's market share, as these rivals can attract users with different or additional offerings not currently available on Spotify.

## **6. Opportunities**

Spotify's business model presents several opportunities for growth and expansion, capitalizing on current trends and technological advancements:

### **6.1. Music's Role in Wellness and Fitness**

Spotify has recognized the growing trend of using music for wellness and fitness. The company has noted that listeners worldwide have created over 97.1 million workout and fitness playlists. To

capitalize on this trend, Spotify is collaborating with fitness and wellness experts to curate playlists for activities like working out, dancing, and relaxing. Additionally, mindfulness and self-care are important themes among Spotify users, with over 402,000 playlists related to self-care, mindfulness, and health and wellness created to date. This emphasis on mental health and wellness through music positions Spotify as an integral part of users' daily self-care routines [21].

## **6.2. Partnerships and Integration**

Spotify has expanded its partnership with Samsung, integrating its services across Samsung's diverse range of products, including phones, earbuds, watches, and TVs. This partnership includes pre-installations of Spotify's app on Samsung devices and special offers for Spotify Premium. For example, new Spotify users receive the app pre-installed on their 2022 Samsung Smart TVs or Galaxy phones, along with a free three-month Spotify Premium offer. Further integrations include features like Spotify Group Sessions during video calls on Google Meet for Android users and Spotify Tap on Galaxy Buds2 Pro. These integrations not only enhance user experience across devices but also expand Spotify's reach to new audiences [22].

## **6.3. Asian Market Expansion**

Spotify's expansion into Asia has been strategic and successful, with the service launching in Singapore, Hong Kong, Malaysia, Taiwan, the Philippines, and Japan since 2013. This expansion has contributed significantly to Spotify's user base, with 100 million active users in the region, including 30 million paid subscribers. Spotify's strategy in Asia has focused on localizing content to suit the diverse cultural and musical preferences of different Asian markets. For example, they have emphasized licensing popular local music, such as Korean pop in Southeast Asia, and adapted their payment systems and pricing strategies to align with local preferences and economic conditions. In markets like Indonesia and the Philippines, where credit cards are less common, Spotify introduced cash payments and partnered with local phone companies for monthly deals. This localized approach has proven effective in attracting and retaining users in the Asian market [23].

# **7. Threat**

## **7.1. Economic Factors**

Spotify's business is influenced by various economic factors. Market conditions, such as economic downturns, can affect consumers' disposable income and willingness to pay for premium subscriptions, while healthy economic conditions might boost subscriptions. Currency exchange rates are also critical, given Spotify's global operations, as fluctuations can impact revenues and profitability. Inflation rates affect consumers' purchasing power and Spotify's operational expenses. Interest rates influence the cost of capital, crucial for business expansion. Unemployment rates impact consumer spending power, which can lead to lower subscription rates. Growth in emerging markets presents opportunities, but competitor pricing strategies can force Spotify to adjust its pricing to maintain market share [20].

## **7.2. Impact of COVID-19**

The COVID-19 pandemic significantly altered media consumption patterns. Contrary to expectations that digital streaming services would benefit from lockdowns, Spotify experienced a notable decrease in audio music streaming. In over two-thirds of countries that enforced lockdowns, music streaming volume declined significantly after the lockdowns began. On average, audio music consumption dropped by 12.5% following the World Health Organization's pandemic declaration in March 2020,



resulting in a revenue loss of \$838 million for Spotify in the first three quarters of 2020. The decline in music streaming was partly attributed to reductions in commuting time, indicating that restricted movement contributed to the decrease in consumption [24]. To explore the impact of the COVID-19 pandemic on music streaming behavior, Sim and colleagues conducted a comprehensive analysis of Spotify's streaming data. This involved examining the weekly top 200 songs over two years across 60 countries. The study also incorporated data on COVID-19 cases, government lockdown policies, and extensive daily mobility data sourced from Google. The empirical findings of this research indicated a notable decrease in music streaming consumption in numerous countries, correlating with the outbreak of COVID-19 [25]. Spotify needs to have the ability to face unexpected problems.

## 8. Recommendation

Spotify is advised to deepen its engagement in the wellness and education sectors. This could involve curating specialized playlists and content that cater to mental health, fitness, and educational needs, tapping into the growing trend of using music as a tool for well-being and learning. Additionally, fostering localized content and partnerships in emerging markets, especially in Asia, will be pivotal. Embracing technological advancements and data analytics to enhance user experience and personalized content delivery can further solidify Spotify's market position. It's also recommended that Spotify explore innovative revenue models to mitigate the risks associated with limited revenue streams and intense competition. These strategies should align with the company's core values of fostering human creativity and building community.

## 9. Conclusion

Spotify, as a leader in the music streaming industry, faces both challenges and opportunities. Its strengths in brand reputation, global reach, and strategic partnerships position it well for future growth. However, it must address weaknesses such as limited revenue streams and intense market competition. By leveraging opportunities in wellness, education, and emerging markets, and navigating economic and pandemic-related challenges, Spotify can continue to thrive and evolve in the dynamic digital media landscape, maintaining its leadership and enhancing its market positioning in the face of evolving consumer preferences and technological advancements.

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