

CORPORATE BRAND MANAGEMENT AND REPUTATION

MASTER CASES



SPOTIFY - YOU'VE GOT COMPANY

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Corporate Brand Management and Reputation: Master's Cases

The "Corporate Brand Management and Reputation: Master's cases" is a case series for applying the case method of teaching and learning in higher education. The cases are relevant to brand strategists in private and public sector organizations, as well as academics and students at universities, business schools, and executive education.

The cases are written by groups of master's students as a course project. The specially developed case format is defined as: *"A management decision case describes a real business situation leading up to a question(s) that requires assessment, analysis, and a decision reached by discussion in class. The alternative approaches and recommendations from the class discussion are followed by a description of the choices made by the case company. This description is then discussed by the class."*

The student groups select the topics of their case providing updated and relevant insights into the corporate brand management. The cases can be used as "written cases" (handed out and read in advance, later to be discussed in class) and/or as "live case" (presented by the teacher following a discussion in class). Each case includes teaching notes, visuals with speaker's notes, learning objectives, board plans, and references.

The mission of the series is *"to develop cases for discussion providing insights into the theory and practice of corporate brand management and reputation, with the intent of bridging the gap between academic teaching and managerial practice."*

The series is a result of co-creation between students and teachers at the elective course Corporate Brand Management (BUSN35 – five-credit course/eight-week half-time studies), part of the master's program International Marketing and Brand Management at Lund School of Economics and Management, Sweden. The cases represent the result of the intellectual work of students under the supervision of the head of course.

Although based on real events and despite references to actual companies, the cases are solely intended to be a basis for class discussion, not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. The cases are free to be used and are to be cited following international conventions.

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SPOTIFY - YOU'VE GOT COMPANY

WRITTEN CASE

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MANAGEMENT DECISION CASE

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Spotify - you've got company

The CEO of Spotify Daniel Ek stares out the window of the US headquarter office, concerned with the future of his company. In just a few years he and his co-founder had changed the entire way people listen to music, and by doing so revolutionized an industry crawling at its knees. Spotify quickly became the world leader of music streaming, in making the illegal legal. However, the potential in music streaming was not unnoticed, as some of the world's biggest companies have now launched their own music-streaming platforms. With increasing competition and annual losses of market share, Spotify is feeling the heat. As Ek is thinking about what the future direction of his company should be, he evaluates different alternatives to cope with this new situation of competition.

Background and history of Spotify

The development of the digitalization of music was initially met with resistance from the recorded music industry. The first companies that launched digital music lacked support from the major labels, who denied them access to any part of their catalog and filed several lawsuits towards file-sharing platforms. The major labels even tried to prohibit the sales of the first portable commercial MP3 player, but were unable to. It was presented to the market in 1998.

In 1999, the recorded music industry peaked with over 38 billion dollars in revenue, much due to the universal use of the convenient CD-discs as they replaced the previous media players such as vinyl and cassetplayers. However, that same year a group of entrepreneurs launched the digital file-sharing service Napster, an innovation that would be the first step in completely changing the view of how music could be consumed. In less than two years Napster had 60 million users illegally sharing music, without compensating the musicians or labels in any way. Subsequently this unraveling of the industry rendered global revenues decreasing annually and reached an all-time low of 16 billion dollars in 2011. The music industry filed countless lawsuits in a war against piracy and blamed the actors responsible, but there were others who saw opportunities in this moment of change. The Swedish entrepreneur, Daniel Ek, realized that things were set in motion that could not be

stopped, and decided to find a way to offer consumers a legal way to consume music with the same convenience as the illegal alternative.

Daniel Ek grew up in Stockholm and became interested in entrepreneurship at an early age and created websites for various businesses throughout his teenage years. He dropped out of college to focus on his IT career and founded his first company Advertigo in 2006, an online marketing firm that later was acquired by another marketing firm - TradeDoubler. However, after a few months he realized he wanted a new project which led to the founding of Spotify, together with Martin Lorentzon, the CEO of TradeDoubler. Ek first had the idea for Spotify in 2002 when Napster had to shut down and another illegal website Kazaa took market share. In an interview with the Telegraph in 2010, Ek explains "I realized that you can never legislate away from piracy. Laws can definitely help, but it does not take away the problem. The only way to solve the problem was to create a service that was better than piracy and at the same time compensate the music industry. That gave us Spotify".

Spotify was launched in 2008, backed up by all major record-labels who allowed Spotify to stream their catalogs. The company gained quick success and reached over 100 million monthly users in 2014, only six years after its launch making it the world's most popular platform to consume music. In that sense, the company totally disrupted the market. Today, Spotify is still the largest music streaming service in the world, with a market share of 32% and 180 million paying subscribers worldwide. The company further has 406 million active listeners every month, 82 million tracks and are operative in 184 different markets. One of Spotify's strengths is that the company offers both paid and free subscription services, which is in line with Spotify's strive to offer music for everyone. Hence, this revolutionizing way of adapting to the needs of consumers and transforming an illegal market to becoming legal eventually led Spotify to become a market-leading company in less than a decade.

Rising competition

Spotify is to this day still the leading music streaming service worldwide. However, since 2018 the company has lost 4% of their market share due to the increasing competition in the music streaming industry. As Spotify has proved the viability of streaming music, several big companies have seen the opportunity to follow their success story. Today, Spotify faces tough competition from big-tech giants like Apple, Amazon and Google.

Apple Music is a music streaming service launched in 2015, selling membership for monthly and annual fees. In the beginning of 2021, Apple Music controlled 16% of the music streaming market, with Spotify taking 32%. When Apple announced their new music streaming platform in 2015, they intended to leverage the huge amount of consumers that were already using other Apple platforms and products, iTunes-users in particular. Apple offered convenient ways to sync music streaming between their different services and products, which resulted in immediate growth. In 2017, only two year after its launch, Apple Music had managed to get 40 million monthly

subscribers and reached 70 million users by the end of 2020. However, the means to leverage their current customers through their product portfolio did not land well with Spotify. Spotify claimed that Apple through Appstore attained unfair competitive advantage due to their 30% cut on all sales of apps on Appstore, forcing competitors to raise their prices. Spotify even filed a lawsuit claiming that Apple abused their dominant position in the market to the European supreme court, and won.

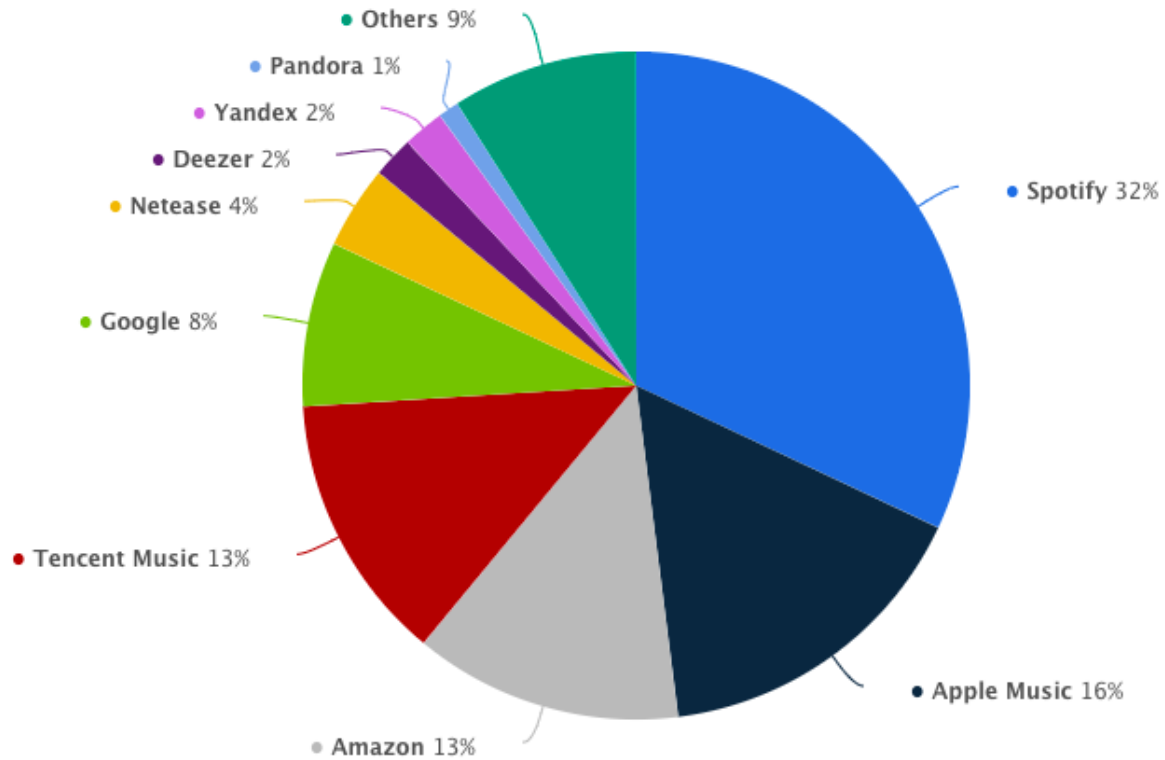
Amazon launched their music streaming platform in 2016. The company offered a discount to all their Prime-subscribers, which at the time were roughly 200 million customers. They offered a lower price of 4.55 dollars if the service was used on one device only - far cheaper than any of its competitors. Further, Amazon Music has grown rapidly thanks to their seamless integration with Amazon's AI assistant, Alexa, and the range of other Echo IoT devices. In 2021, the company had 55 million subscribers, which corresponds to 13% of the music streaming market share.

Google also has had an important presence in the music streaming industry the last decade. Since 2011, Google has repeatedly tried to create a premium music service, such as Google Play Music and Music Key, but without any great success. However, as the owner of the world's second biggest search engine Youtube, the latest attempt became Youtube Music, offering unlimited streaming of both music and videos on the Youtube website. Today Google has 8% market share in the digital music industry, which is related to the spread of Youtube.

In 2017, Spotify and the Chinese owned company Tencent Music announced a share wrap, where Tencent got 7,5% from Spotify, which in turn took 9% from Tencent. The reason for the deal was that Spotify was barred from launching in China because of the local restrictions for companies in working with cultural goods, while Tencent's music app during this time had over 600 million users in its only market China. Further, the co-acquisition provides that each company gets a foothold in a market that it is not currently in. It also saves both parts from the fighting for market share that would arise if they tried to enter each other's territory. Lastly, an advantage of the cooperation is that both companies together are much stronger when entering licensing negotiations with big music labels.

Following figure illustrates the market shares of the music streaming industry, based on the number of each company's subscribers.

Figure 1 Market shares of the music streaming industry



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Some observers believe that companies such as Apple and Amazon are not bothered with long-term negative results, since the primary goal is to drive customers to their core activities. The CEO of Apple, Tim Cook, even commented this by stating “we are not in it for the money”. While Amazon and Apple are gaining market shares, ad-supported music-streaming on Youtube is increasing exponentially. The International Federation of the Phonographic Industry even estimated Youtube to be the internet's largest platform for music streaming. An important aspect of the change is that Spotify’s main competitors can leverage their current customers through their diverse product portfolio and are not as dependent on music-streaming revenues. For Spotify on the other hand, the music-streaming platform is their core activity, and therefore are more reliant on music-streaming as a product. This is something that has been acknowledged by Spotify and consequently led to an expansion of their platform beyond music. With this said, Spotify are not navigating the sea alone anymore, but are rather swimming with the sharks.

The future of Spotify

¹ <https://www.statista.com/statistics/653926/music-streaming-service-subscriber-share/#:~:text=In%20the%20first%20quarter%20of,Apple%2C%20Tencent%20Music%20and%20YouTube.>

Since Spotify is facing a new reality they have to find ways to adapt to the increasing competition in order to retain their market leading position. Is the preferable strategy to continue with expanding their product portfolio beyond music to avoid being entirely dependent on their music streaming services? Can partnerships with companies that can incorporate Spotify's services in their product offerings might be the preferable direction? Or should they focus on their positioning as the indisputable world leader of music-streaming?

There is arguably great potential in expanding into the fast-growing podcast-market. The global podcasting market size is estimated to reach 95 billion dollars by 2028, expanding at an estimated annual growth rate of 31.1%. Daniel Ek explains the strategic advantages of investing in podcasts as a way to boost customer engagement. He reasons that broadening the product range will increase the appeal to new users but also subsequently to an increase of engagement for the existing users, something that will make the company stronger. However, this expansion beyond music-streaming is a direction that has turned out to be controversial. Recently, artists like Neil Young and Johni Mitchell threatened to remove their catalogs from Spotify due to the spread of misleading information regarding Covid-19 on The Joe Rogan Experience podcast, which was acquired by Spotify last year. This consequently led to a viral discussion concerning the platform's responsibility as a publisher, and whether the expansion to podcasts is the preferable direction for Spotify. Thus, expanding beyond music and entering the podcast industry holds great potential, but demands higher responsibility for publications and can affect the brand and reputation of the company negatively.

Should Spotify instead focus on positioning themselves as the indisputable world leader of music streaming? Expanding their brand offering to other services does pose challenges to manage the brand into a new direction, beyond being an innovative game change of music. Apart from major investments in broadening the product-portfolio and strategic challenges in entering a new market, Spotify will also have to adapt their positioning. If the ambition is to become the market leader of non-music audio, Spotify will have to reposition themselves as an audio-experience platform, rather than a music streaming platform. However, if not daring to change ways and evolve, Spotify might face the risk of falling behind its competitors - sometimes to stay the same, you need to change.

Ek prepares himself for the executive meeting downstairs, where he plans to present his concerns of the increasing competition and discuss what the future direction of the company should be to maintain its market leading position. Taking the role of the executive team of Spotify, how would you answer the following question:

- How can Spotify as a revolutionizing disruptive company defend its market share and position when powerful competitors are entering the market?
- Is expanding Spotify's product-portfolio beyond music streaming to other types of audio a preferable direction for the company to maintain its market leading position?