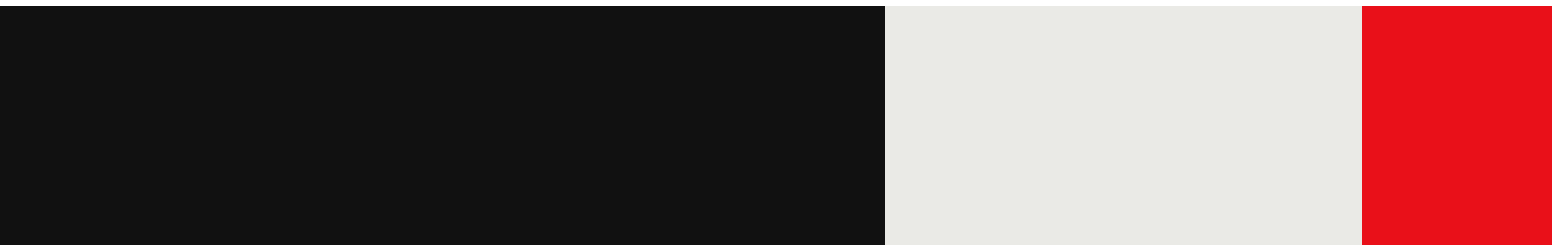


# The Daily: How Spotify became profitable, what a “deluxe” version might look like, and more

Audio



On today's podcast episode, we discuss how Spotify reached sustained profitability, what a “deluxe” tier might look like, and where the audio streaming giant goes from here. Tune in to

the discussion with host Marcus Johnson and analyst Daniel Konstantinovic.

Subscribe to the “Behind the Numbers” podcast on [Apple Podcasts](#), [Spotify](#), [Pandora](#), [Stitcher](#), [YouTube](#), Podbean or wherever you listen to podcasts. [Follow us on Instagram](#)



Episode Transcript:

Marcus Johnson (00:00):

You know what you should do? You should partner with EMARKETER on data-driven marketing materials. That's what you should do. Our customer reports give EMARKETER media solutions clients the opportunity to generate new category insights through original surveys and analysis. If you're like Marcus, tell me more for crying out loud, what are we doing? Head to [emarketer.com/advertise](https://emarketer.com/advertise). It's all there.

Daniel Konstantinovic (00:23):

Will it affect new subscriptions? Possibly, I think maybe a little bit. I think that they run into a similar problem that a company like Netflix does, which is just that they already have such a high volume of subscriptions. The question is, where is that new pool of customers going to come from?

Marcus Johnson (00:44):

Hey gang, it's Tuesday, July 30th. Daniel and listeners, welcome to the Behind the Numbers daily, an EMARKETER podcast. I'm Marcus. Today I'm joined by one of our analysts who writes for our marketing and advertising briefing. He is based in New York. He is Daniel Konstantinovic.

Daniel Konstantinovic (01:01):

Hello Marcus.

Marcus Johnson (01:02):

Hey fella. Today we're talking Spotify, but we start with the fact of the day. What share of people in their 20s live at home? So there's some numbers, what this looks like in Europe, so we'll start there. In Europe, about five to 10%. This is 25 to 29 year olds, this number, but five to 10% of them, 25 to 29 year olds live at home with mum and dad in the Nordic countries of Denmark, Norway, Finland, and Sweden. So five to 10% in those countries. That's the low end. On the high end, 79% of young people, 25 to 29 live at home with their folks in Croatia and Montenegro.

Daniel Konstantinovic (01:45):

Whoa. Really? Hey, that's where my dad is from.

Marcus Johnson (01:47):

Right. Yeah, yeah. As I was about to say Croatia, I was like, I think you've got ties there. So can you help us? Is this just culturally, because there's also 10 other countries where over 60% of these young folks are living at home, Spain, Poland, Greece, Italy, etc.

Daniel Konstantinovic (02:04):

Yeah. My other parent, my mom who is from Mexico, it's very common for people to live at home in Mexico through college and even for several years after. So it could just be a cultural thing.

Marcus Johnson (02:16):

Right.

Daniel Konstantinovic (02:16):

It could be an economic thing.

Marcus Johnson (02:18):

The why is really interesting. Yeah, I thought it might be something to do with, it's what you do. You take care of the generation above you or the two generations above that, and so a lot of folks who have multi-generational households, that's not too uncommon. These numbers are from Eurostat. I did find some US data from The Harris Poll and Bloomberg. They're comparing 18 to 29 year olds. So this is a slightly expanded group of young people before it's 25 to 29. 18 to 29 year olds, 45% of American ones are living at home with their families, the highest figure since the 1940s. Do you know how badly I'm trying to live at home with my parents? I'd be a goddamn millionaire if they would just the locks back. They won't do it. Hi mom and dad.

(03:02):

Anyway, today's real topic. Let me in the house. Why Spotify is now so profitable. In today's episode, we'll cover Spotify know another news. Let's check in on Spotify Danny. First stop subscribers. So Spotify now has 628, six, two, eight million monthly users, adding 13 million, one, three million in each of the last two quarters. So 13 million added in Q1, 13 million added in Q2. We're playing slice of pie where Danny's going to create a pie chart as to the reasons

three max, why Spotify was able to grow subscribers by 13 million, which is 14% increase Q2 to Q2.

Daniel Konstantinovic (03:50):

So I'm going to split the chart in half I think and do like a 50, 50. So I think something that I say all the time about Spotify and that still is true, is that it is a really culturally prominent service that has helped establish music and audio as an everyday amenity. People are used to listening to music, to podcast, to audiobooks, to what-have-you on their commute, while doing tasks at home, while working out, while working, etc, etc. And Spotify really frames music as a companion for all of these tasks and I think that's helped normalize really almost constant consumption of it in a way.

(04:30):

It is also, like I just said, very culturally prominent. They had a really big brand campaign this quarter called My Spotify that promoted the personalization on the service, gives users a lot of feedback about what they're listening to, how often they're listening to it. That stuff gets shared around on social media a lot and it is the most popular audio streaming service, so people who are not subscribed to Spotify are still being exposed to Spotify branding and usage a lot and I think that plays a really big part in people subscribing to it. I think it's in a similar way that Netflix is kind of the first thing you think of when you think of streaming or video streaming, Spotify is that for music, I think.

Marcus Johnson (05:09):

And to that point real quick, I mean there's some antenna analysis showing Spotify's customers are the least likely to cancel among major video or audio streaming services. It's got a churn rate of about 1.5 to 2%. Netflix to what you were just saying, is also about 2%. And so these are two companies that help define the space, and so when you think of the space, you think of them and they just hold so much weight, so much brand recognition that it's going to be really hard to unseat them or for them to have a really awful time if the space doesn't also have a really difficult time.

Daniel Konstantinovic (05:45):

Yeah. I think that it's really hard to swap to a different music service from Spotify,-

Marcus Johnson (05:51):



Yes.

Daniel Konstantinovic (05:51):

Especially if you've been using it for years and years as many users have because they onboard a lot of people early with student pricing plans. And if you're one of those people like I am, you've got all your playlists, your listening profile that curates recommendations for you. All that stuff is on Spotify and there's not really a way to transfer all of your playlists to Apple Music or whatever. So once people are in there, they're locked in and things like the end of year Spotify Wrapped brand campaign are so prominent and powerful that I think a lot of Spotify users, at least those who are most engaged, are thinking about that throughout the whole year about what are my listening habits? What is my Spotify Wrapped going to show me? What was my most listened to song of the year? To the point that people even joke about it like, oh man, I got two months left until Wrapped. I have to make sure I listen to I don't know, Ice Spice 200 times so people get that I'm with what's new.

Marcus Johnson (06:50):

Okay. So that's one half.

Daniel Konstantinovic (06:52):

That's half. Yeah.

Marcus Johnson (06:53):

The first half is,-

Daniel Konstantinovic (06:55):

Is cultural prevalence and personalization are a really big things,-

Marcus Johnson (07:00):

So that's 50% of the reason. Okay. And the second half?

Daniel Konstantinovic (07:03):

The second half, I think something that Spotify has made a big effort to do in the last quarter and even a little bit in Q1 is diversify subscription offerings. So now they offer several different plans. There is a family plan, there is a duo plan for two people. There is a new subscription

that they launched in Q2 that is just for audiobooks. So if you are a person who you're a chronic audiobook listener, I guess some of them are out there, you can just pay a monthly fee for audiobooks and not have to worry about any of the other stuff on Spotify. This is something that they highlighted in their earnings report. They said that we have moved away from a one-size-fits-all approach and are trying to meet consumers where they are.

(07:46):

I think that the variety of plans on offer has definitely enticed more people to sign up for the service. I don't know if it has swung things majorly in their favor. I really think that the pre-established dominance of Spotify is just the continued biggest driver of subscriptions. It was also a really big summer or has and continues to be a really big summer for new music releases that I'm sure drove a lot of people to music streaming services.

Marcus Johnson (08:15):

So it grew 14% or added 13 million as we mentioned, but that's actually not as good as it has been performing. Subscriber growth has slowed considerably. Spotify added more subscribers in Q1 of last year than it did Q1 and Q2 of this year combined. I mean, it seems to ad supported Danny seems to be, ad supported subscribers struggling the most. It added 26 million of them last Q2 and just 5 million this Q2. Paid subscribers went from adding 10 million to seven, so it drops but not by as much. The price increases Danny, that were just recently announced, taking Spotify from I think 11 up to \$12 a month. When they've had the chance to affect these numbers, will they affect Q3 subscriber numbers do you think?

Daniel Konstantinovic (09:03):

That's an interesting question. I think perhaps. I mean, I think the bigger question with these price increases, it's also worth noting by the way that this was the second price increase they announced in less than a year after having not raised prices in the US pretty much ever,-

Marcus Johnson (09:20):

Ever. Yeah.

Daniel Konstantinovic (09:21):

Before that first one. So they're really cranking it up. But I think the bigger question is whether it's going to affect churn and like we just discussed, I think the answer is no because Spotify

has a very low churn, it's very sticky service.

Marcus Johnson (09:33):

Yep.

Daniel Konstantinovic (09:33):

Will it affect new subscriptions? Possibly, I think maybe a little bit. I think that they run into a similar problem that a company like Netflix does, which is just that they already have such a high volume of subscriptions. The question is where is that new pool of customers going to from?

Marcus Johnson (09:50):

The law of large numbers. Yeah.

Daniel Konstantinovic (09:51):

Yeah. And I think that's an issue that Spotify is running into. So that's also why I think they're trying to diversify subscription offerings a little bit to appeal to smaller but untapped markets of people who just want audiobooks or something like that.

Marcus Johnson (10:05):

Let's look at the money they made over \$4 billion in Q2, that's growth of 20% year-on-year. The same rate of growth that they saw in Q1, but double what it experienced in Q2 a year ago. So the revenue is doing incredibly well when you look at last Q2 to this Q2. Slice of pie, again Danny, what are the main reasons why Spotify was able to grow revenue 20% this most recent quarter?

Daniel Konstantinovic (10:35):

I mean, subscriptions are still relatively strong. There is a really strong recurring base of subscriptions and the price hikes drive higher revenues per user because of that. I think that advertising is a big place where Spotify is starting to see more success. There's been a lot of pressure on the company in the last couple of years to really grow its advertising business because subscriptions are the overwhelming majority of its revenues and it's starting to see some strong results despite fears that there would be a pullback in ad spending, particularly around podcasts. Since listener growth in the US is slated to slow down last year and this year



since it's the most saturated podcast market, but it's done really well for them. I mean, Spotify ad revenues grew 13% year over year in Q2. That's including music advertising and podcast advertising. They've also made a big effort to reach out to smaller advertisers recently. A lot of Spotify's biggest advertisers are sort of midsize brands to large brands and they have launched a couple of advertising initiatives that are designed to,-

Marcus Johnson (11:43):

Interesting.

Daniel Konstantinovic (11:44):

Lower the barrier of entry for smaller brands.

Marcus Johnson (11:48):

Okay.

Daniel Konstantinovic (11:48):

And I think that likely had some benefits this quarter, but we'll probably see that benefit play out a little bit more overtime, like maybe in Q3.

Marcus Johnson (11:56):

It's interesting how you framed that because I looked at those numbers differently, but now you've said that I'm starting to come around to a more glass half full perspective, which is what drove such good revenue growth. A lot of it was on the pay subscriber side because that accounts to 88% of the money that Spotify makes or has done for the last three years. And from Q2 2023 to Q2 2024, pay subscriber revenue growth went from 11% to 21%. So double. Meanwhile, ad revenue growth barely moved going from 12 to 13%. That's on the ad side. However, that seasonal. Growth in ad revenue is typically lower in Q2 than it is in Q1, was last year. And so 13% growth, it is higher than last Q2, only by a point, but still. And yeah, I think that's actually probably pretty good, especially given the climate, the backdrop of advertising at the moment. Another plus on the money side, Danny was profitability up 45% year-on-year.

Daniel Konstantinovic (12:55):

Yeah, something we haven't said is that this was Spotify's record profit, I believe.

Marcus Johnson (13:01):

Yes.

Daniel Konstantinovic (13:01):

It was the most that they've posted in a single quarter.

Marcus Johnson (13:04):

And I mean a big part of that is cutting back on staff, right? 17% of its staff it cut back on at the end of last year and it has cut back on 27% of its staff if you go back to the start of 2023 to today. So that's part of it. And then another part of it is also they've cut back on sales and marketing. Those costs went from accounting for 12% to 9% of revenue from H1 2023 to H1 2024.

(13:29):

So the amount they're spending on or the share of money they're spending from revenue on sales and marketing has gone down. So that will also help that figure, but they're pretty positive about that figure going forward as well. It doesn't seem like this is an anomaly. It seems like this, for them at least, could be a trend, these really high margins. Danny, let's talk about something we've been talking about since we've been covering Spotify, which is this new premium tier that's been rumored for years and years now. Three and a half years, let's be precise since Spotify announced, first announced HiFi, this kind of highly anticipated high quality music streaming tier.

(14:05):

And on the recent earnings call Q2 CEO, Daniel Ek gave an update saying, "The plan here is to offer a much better version of Spotify." Think something like \$5 above the current premium tier. So around 17 to 18 bucks if you take the 12 that it's currently at an tack on five to the top of that, "But sorts of a deluxe version of Spotify, he says, "That has all the benefits that a normal Spotify version has, but a lot more control, a lot higher quality across the board and some other things that I'm not ready to talk about just yet." Bloomberg Danny, reported that Spotify aims to roll out its deluxe version as Mr. Ek refers to it later this year. How do you expect a deluxe version when it finally hits the market, how do you expect a deluxe version with HiFi audio to impact subscriptions?

Daniel Konstantinovic (14:50):

So I'm kind of skeptical of this HiFi audio effort from Spotify. I think that there's definitely a subset of power users who will be interested in this, people who really want that high quality audio, but even like, I don't know, this is maybe anecdotal, but myself, I listen to a lot of music. I'm very engaged with music. I don't want to pay 17, \$19 a month for Spotify with HiFi audio because the cheap access to the huge library of music is what's appealing to me. And I think a lot of people are going to feel that way.

(15:25):

So they'll probably see an uptick in revenues from that small percentage of super users who want this. But I don't really think new subscribers are going to be enticed by this. If you're a person who's not subscribed to Spotify or is listening to the free ad supported version of Spotify, are you really going to want to join the service at the highest price point? I don't know. It's also a strange optics situation for Spotify because this is something that people have been calling for years, but Spotify has not had, despite being the leading service and rival platforms like Apple Music offer this as the default. So for Spotify to come out and say, we are offering a \$20 a month or whatever the price is going to be subscription to Spotify with HiFi audio finally, but you can get it for \$10 a month or whatever on Apple at the basic tier,-

Marcus Johnson (16:22):

With the same library.

Daniel Konstantinovic (16:23):

People are going to be like, all right.

Marcus Johnson (16:26):

Yeah. Yeah. And that seems to be part of the reason why this has taken Spotify so long to launch this premium tier because Chris Welch of The Verge, was reading one of his pieces and he was outlining that Spotify was caught flat-footed when Apple and Amazon started offering higher resolution lossless audio as part of their standard subscription plans as you're talking about, because Spotify had always intended to sell it for an added premium, and Apple and Amazon were able to be more aggressive with pricing because they've got other units to help balance out any losses. So Spotify had to come up with an add-on package that's compelling enough to as many of the apps power users as possible.

(17:00):

And so it's not enough for them to say, okay, here's lossless audio, it's a higher quality. It seems like they're going to have to tack other things on. In the piece, he suggests that maybe there's going to be some kind of advanced library management, AI-powered playlists, headphones, sound quality optimization and you'd imagine maybe a bit more as well to convince more than just the super users, it's worth giving up another \$5 on top of the 12 that they're already shelling out.

Daniel Konstantinovic (17:24):

Yeah. Another potential thing they could do with that is some sort of bundle with another service.

Marcus Johnson (17:24):

Oh, interesting.

Daniel Konstantinovic (17:29):

It's something Spotify kind of already has with the student subscription and I think some other tiers as well where you can get Hulu via Spotify. So maybe there's a way to tack on something extra for that higher price point.

Marcus Johnson (17:29):

Interesting take.

Daniel Konstantinovic (17:42):

But that's just a speculation. I haven't seen anything that alludes to that.

Marcus Johnson (17:45):

Okay. Let's end with this Danny, what to you is the biggest threat that Spotify faces at this moment?

Daniel Konstantinovic (17:53):

So we touched on this a little bit earlier. I think they're reaching kind of a critical mass of subscriptions where in a couple quarters they might start to see some slowdown around subscription growth. And the question is, where's that new pool of users going to come from?

I also think that they, despite performing very well, quarter after quarter, the last couple earnings reports, you can see that the company is looking for its next big thing. This something I think we've talked about a couple times, they're investing in artificial intelligence, they're starting to put videos on Spotify. They've recently launched audiobooks. These to me all read as signs that, okay, we've emerged out of the previous generation of apps and services on top and we're in the green and we continue to grow, but they're aware that this growth is going to run out. And the question is what's next? And I think it's a tough question to answer because they're already the audio super app. They've got audiobooks, they've got podcasts, they've got music, they've got curation, personalization. What does Spotify do next,-

Marcus Johnson (18:58):

Where do you get from here?

Daniel Konstantinovic (18:59):

That is going to drive substantial growth for them? I'm not sure.

Marcus Johnson (19:02):

Yeah. Yeah, that's a great take. The only thing I can think of in terms of a threat, it's not really a threat because we talked about how sticky they are, but the price increased balancing act, you mentioned that they already have increased once. They're increasing again right now. And I gave you those antenna numbers in terms of stickiness, but the wrong price increase could change that. And so they've got to be careful not to increase it by too much, but if they want to grow revenue, that's the lever they're going to have to pull. Danny, final, final question. What grade would you give Spotify for Q2?

Daniel Konstantinovic (19:29):

I think they did very well. I'd give them a solid A for this quarter.

Marcus Johnson (19:33):

Oh, okay. Very nice. Danny last quarter you gave them a B. So an improvement on their Q1 performance. Let's see what they can do for the rest of the year with their report card that we are putting together for them. But that's all we've got time for this episode. Thank you so much for hanging out with me today.

Daniel Konstantinovic (19:50):

Yeah, of course. Always a pleasure.

Marcus Johnson (19:51):

Yes sir. Thank you to Victoria who edits the show, Stuart who runs the team. And Sophie does our social media. And thanks to everyone for listening in to the Behind the Numbers daily, an EMARKETER podcast. We really, really appreciate it. We hope to hang out with you tomorrow where Sarah Lebow will be hosting the Reimagining Retail Show and she'll be speaking with Arielle Feger, Sky Canaves, and Susie Davidkhanian, all about our special edition back to school most interesting retailers of the month list.