

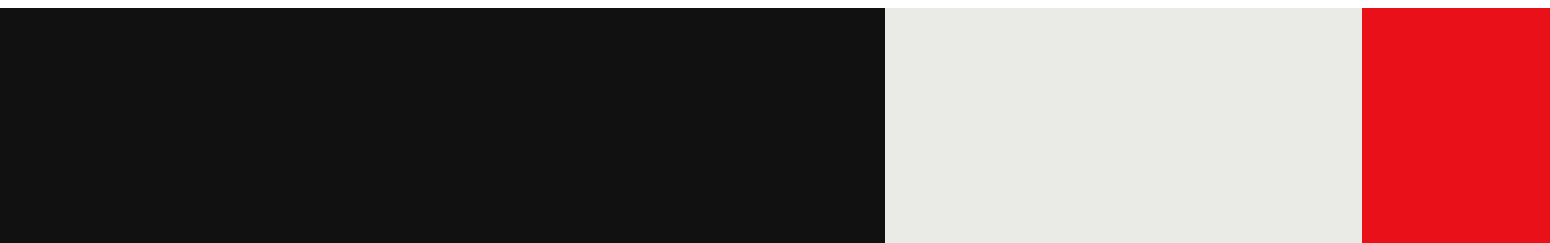
What does the future of Spotify's ad business look like?

Article



The news: Spotify is struggling to grow its ad business as the chasm between its subscription and ad revenues widens, per The Information's reporting.

Spotify's ad revenue growth slowed from 15% in H1 2024 to just 6.4% in H2. The company reportedly told advertisers in mid to late December that it was struggling to reach enough listeners with ads during the holiday season, a busy time for ad buyers.



Zooming out: Spotify has made its advertising ambitions clear. It said in 2017 it aimed to be the third-largest ad platform behind **Google** and **Meta** and called podcasting a “\$20 billion opportunity” in 2022.

But ad revenues continue to lag far behind subscriptions, leaving Spotify in a tricky position.

- But the audio format itself poses a problem: Digital advertisers are accustomed to measuring ad performance through click-through rates and other metrics that don’t translate to audio, making ROI difficult to track.
- Advertisers have also complained about issues and a lack of features on Spotify’s ad manager. The company’s recent partnership with **The Trade Desk** is likely aimed at reducing friction for ad buyers accustomed to other ad managers.

That \$20 billion target is ambitious. We forecast that US digital audio services ad spending will reach \$7.55 billion this year; Dentsu forecasts \$36.4 billion in worldwide audio ad spending in 2025.

What’s next? There are several paths Spotify can take to grow its ad business, but it has to strike a careful balance to reduce the threat to its subscription revenues.

- Spotify has tested several initiatives that could broaden its advertising appeal, including pushing video podcasts and leaning on AI to encourage use of Spotify as an audio companion in a bid to boost time spent.
- A **Netflix**-like approach of increasing the cost of ad-free subscriptions is highly unlikely, as it would threaten Spotify’s core value proposition and cut into its fast-growing subscription revenues.

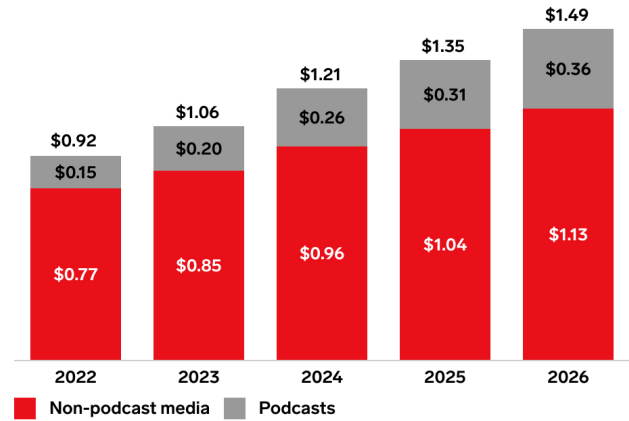
Our take: Spotify may still be experimenting with the best path for advertising, but that doesn’t mean marketers should tune out. Audio is still a powerful format for reaching consumers, and growing accustomed to its quirks can help carve out distinct advantages.

- It’s important to note that Spotify’s ad business is still experiencing growth: We expect Spotify’s US ad business to generate \$1.35 billion this year, up from \$1.21 billion in 2024. The majority of its advertising revenues come from non-podcast content.
- Podcasting may be a \$20 billion opportunity, but not if most of the podcasts on Spotify strike their own advertising deals outside of the platform. If it can meaningfully link up advertisers

and creators, it can more readily benefit from that spending.

Spotify's US Ad Business Will Generate More Than \$1 Billion Outside of Podcasts in 2025

billions in US Spotify ad revenues, by medium, 2022-2026



Note: includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets, and other internet-connected devices, and includes all the various formats of advertising on those platforms; net ad revenues after companies pay traffic acquisition costs (TAC) to partner sites; podcasts include audio advertising within a podcast, and include all types of advertising on podcasts; numbers may not add up to total due to rounding

Source: EMARKETER Forecast, Nov 2024

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