

Spotify hits record number of users worldwide but struggles to monetize growth

Article

Spotify has reached a record 551 million monthly active users worldwide after adding 36 million new users in Q2—a growth that’s three times greater than the same period last year.

The audio streaming giant is struggling to translate this explosive user growth into revenues, with Q2 revenue growth the lowest it's ever seen at 11%.

“I think the main issue is that Spotify doesn't really have the most diverse revenue streams,” our analyst Daniel Konstantinovic said on a recent “**Behind the Numbers**” podcast episode. “They have all of these new services like an AI DJ, they're getting into audiobooks, but they haven't really figured out how to get more money out of those things.”

Driving growth: Spotify more than doubled its initial projection of adding 15 million new users last quarter.

- **New markets:** A considerable part of Spotify's growth has come from markets outside the US, especially in Argentina and China. The share of users coming from the rest of the world has grown from 15% to over 30% in the last four years.
- **Effective onboarding:** “They have a student subscription [plan] that's a lot cheaper than a standard plan, which gets young users into the service early and gets them to stay typically,” Konstantinovic said.

Hindering revenues: Although Spotify brought in \$3.5 billion last quarter, it was half the growth it saw in Q2 of last year.

- **Undercutting quality:** “Spotify's competitors offer high-quality audio for much less,” Konstantinovic said.
- **Price hike:** In July, Spotify announced a price increase for each of its premium subscription tiers. Although Konstantinovic doesn't expect a “mass exodus,” Spotify risks losing its cost-conscious users.
- **Nothing new:** Newer Spotify products don't have a solid pricing strategy. Audiobooks, for example, have to be bought individually, and are not part of the subscription model.

Areas of promise: Last year, at an investor's event, Spotify's CEO Daniel Ek called its podcasting business “a \$20 billion opportunity.” The company, however, still faces challenges in its approach to make podcasts a meaningful source of revenues.

- **New territory:** Podcasting is not as popular in some of Spotify's rising markets, making it an uphill battle to get new users to engage with a media format they're not as familiar with.

- **Fast forward:** “Podcast advertising still has some tech issues to work out, like the fact that you can skip through ads that are baked into the recording,” Konstantinovic said.

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