


# The Daily: Can audiobooks give Spotify a second wind, can AI hinder customer service, and banning ads for minors

Audio



On today's podcast episode, we discuss how much audiobooks can move the needle for Spotify, how engaging its app is versus Netflix and TikTok, and how much of its podcast success is tied to Joe Rogan. "In Other News," we talk about how badly AI can hurt your company's customer service and why Google has called for a ban on personalized ads for minors. Tune in to the discussion with our analyst Daniel Konstantinovic.

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Episode Transcript:

Marcus Johnson:

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Daniel Konstantinovic:

No one is going to Spotify to purchase individual things like it's iTunes back in the day. So the fact that now it really is integrated into the full subscription, I think, will make a big difference for Spotify.

Marcus Johnson:

Hey, gang. It's Tuesday, November 7th. I can't even make it sound like it's not the morning. It's early, okay? Bear with me. 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 on the marketing and advertising briefing. Based in New York, it's Daniel Konstantinovic.

Daniel Konstantinovic:

Hello. Thanks for having me.

Marcus Johnson:

Hey, fella. Of course. Thanks for being here. Today's fact, who invented Velcro? Well?

Daniel Konstantinovic:

Oh, I have no idea.

Marcus Johnson:

Do you know this? Oh, okay.

Daniel Konstantinovic:

I don't know this.

Marcus Johnson:

Wow, pulled that out of the bag.

Daniel Konstantinovic:

I did take a long pause. Yeah, no idea.

Marcus Johnson:

What is it? Swiss engineer, George de Mestral, got the idea for Velcro from cockleburs. So they're those seeds with the tiny hooks on them.

Daniel Konstantinovic:

Oh, yeah.

Marcus Johnson:

They've got hundreds of tiny, tiny hooks. Really tiny seeds. And they caught in his clothes and his dog's fur during a walk in the woods in 1948. I feel like everything that was invented was just an accident.

Daniel Konstantinovic:

Yeah, discovered in nature.

Marcus Johnson:

If you just sat down and thought about it. Yeah, which I wish Velcro was socially acceptable as an adult. You can't strap on a pair of Velcro, like go out for a date.

Daniel Konstantinovic:

I think we're moving there because the elastic waistband has become accepted and come into fashion, right?

Marcus Johnson:

That's true.

Daniel Konstantinovic:

In the last couple of years. Right now, I'm wearing these wool pants that look-

Marcus Johnson:

There you go.

Daniel Konstantinovic:

... very nice and classy, but they're like sweatpants and there's an elastic band.

Marcus Johnson:

But that's not even the best type of clothes. Tell the listeners what you're rocking up top.

Daniel Konstantinovic:

Oh, yeah. We talked about this before. I'm wearing a windbreaker I stole from my dad that is reversible. One side-

Marcus Johnson:

Reversible.

Daniel Konstantinovic:

One side is all green. The other side is red with a white sleeve and a blue sleeve.

Marcus Johnson:

Amazing. Five seconds later, brand new outfit. Brand new outfit.

Daniel Konstantinovic:

That's right. Next week, we'll have to do a video podcast.

Marcus Johnson:

Just for this.

Daniel Konstantinovic:

Yeah, for this.

Marcus Johnson:

Anyway, today's real topic, how Spotify's first price hike affected the music streaming giant. In today's episode, first in the lead we'll cover Spotify. Then for In Other News, we'll discuss how badly AI can hurt your company's customer service and Google's call to ban personalized ads for minors.

We start with Spotify. And we're going to talk about their price hike a little bit later in the lead, but let's start with audiobooks because earlier this year, Spotify said it would be giving

premium subscribers, folks who pay 15 free, one five, free hours of audiobook listening per month across 150,000 titles. It just made that possible for Brits and Australians, and Americans will get that perk next year. Spotify launched audiobooks a year ago. Since then, it struck deals with the five biggest publishers in the US as well as hundreds of others. But Danny, can audiobooks move the needle for Spotify?

Daniel Konstantinovic:

I don't know if it's going to be this killer service that is going to suddenly make Spotify revenues jump a million percent, but I think it will lead to some significant growth for the premium tier because the audiobook access is for premium subscribers. You get about 15 hours of free listening per month, and I think it'll make Spotify a stickier service, which it's already succeeded really well in doing. If you're a listener to any kind of audio, there's really no reason to leave the Spotify app once you're in there because it's so personalized. There's such a breadth of audio content, and audiobooks really makes it the audio super app.

Marcus Johnson:

Yeah. Yeah, that's a great point. Good for engagement. Really good for engagement.

Daniel Konstantinovic:

Yeah.

Marcus Johnson:

And 15 hours of free listening. The New York Times article I was reading by Alexandra Alter and Tripp Mickle were noting that the average audiobook lasts seven to 10 hours. That's according to Spotify. And so subscribers could listen to about a book and a half per month. Some titles run longer than that. But the average American reads... It doesn't sound like a lot actually. Oh, they're going to burn through that quite quickly. The average American reads one book a month according to Pew, so that's actually spot on in terms of how much most people are going to consume. And so if you can add all those extra hours to Spotify's citizenship, it's fantastic for engagement. And also on top of that, Spotify has an audience that could be ready to be served books. That New York Times article pointing out Spotify has the tools to recommend relevant audiobooks to podcast listeners who are interested in particular subjects and to promote audio titles to Spotify users who have listened to a podcast featuring a particular author.

Daniel Konstantinovic:

Yeah, that's a really great point. It really integrates well with the other services that are offered by Spotify. Spotify is so good at recommending new content to listen to, new podcasts. Well, mostly new music.

Marcus Johnson:

Mm-hmm.

Daniel Konstantinovic:

It's best at new music. But podcasts, it's still as good at suggesting things there. And it's got suggestions down in a way that the video streaming services have almost given up on doing. And I think to your point about the one book a month, I would imagine that the way that someone consumes an audiobook is different from the way they're reading an actual book. If you think about the way that we listen to podcasts in transit or while doing the dishes or while getting groceries, I would imagine that audiobooks are consumed in a similar way. So people might hit that limit and then be willing to pay extra for more access.

Spotify has had audiobooks for about a year now, but they were not able to, because of various legal issues, offer them broadly for premium listeners in the way that they're doing now. And that made it so that they were almost not at all a factor in Spotify's revenue business because no one is going to Spotify to purchase individual things like it's iTunes back in the day. So the fact that now it really is integrated into the full subscription, I think, will make a big difference for Spotify.

Marcus Johnson:

Two questions that have come up in doing some reading for this episode. One is so listenership, listening to an audiobook, back in... basically from 2011, 2012, 2013, '14, '15, '16, listening to an audiobook, about 12 to 14% of people were listening to an audiobook five, six, seven years ago. Since then, it's gone from that 14% up to 23, and you could argue... That was as of 2021 at least. So 23% of Americans listen to an audiobook as of 2021. That's behind read an ebook, 30%. Read a print book at 65%. And so one of the questions is, why aren't more and more people reading them?

One argument could be that friction is the main problem. Spotify CEO, Daniel Ek, saying similar to music, one of the biggest problems here is friction. If you lower the friction, maybe



you can help folks discover new audiobooks easily. So that's one of the questions.

The other one is a philosophical question, which was brought up in this New York Times article which is, this bad for book publishing? And they cited Kim Scott, bestselling author and former Google and Apple executive, saying that they were worried Spotify's pay-as-you-listen model could devalue the work that goes into writing a book, saying it's reminiscent of how Apple changed the music sales business model. So from buying the whole CD to buying individual songs. CDs have made six times more money than digital streaming. However, it has had a 20-year headstart, admittedly. So maybe streaming will end up making more money for the music business than CDs did. But there is this question of is this a bad thing for publishing?

Daniel Konstantinovic:

Yeah, I mean that's an interesting question. Spotify certainly is notorious for not paying musicians very much, right?

Marcus Johnson:

Right, right.

Daniel Konstantinovic:

It's one of the biggest criticisms of the company. So I think it's totally fair that the publishing industry would have similar concerns.

Marcus Johnson:

Yeah.

Daniel Konstantinovic:

I mean, keeping up with books, like new book releases or just going and buying a book even if it was released 500 years ago, it's an expensive hobby. What are... Books cost 15 to 20 something dollars on average new from store.

Marcus Johnson:

New. Yeah, yeah.

Daniel Konstantinovic:

Everyone should get a library card, by the way.

Marcus Johnson:

That's the truth.

Daniel Konstantinovic:

And so this, paying-

Marcus Johnson:

I don't actually have one, but I should get one.

Daniel Konstantinovic:

I'm being a hypocrite because I have one waiting for me at my local library branch, but I haven't gone to go get it yet. Just-

Marcus Johnson:

That counts. [inaudible 00:09:03]. We'll count that.

Daniel Konstantinovic:

It's a mile walk. It's a mile. Who's got the time to walk a mile?

Marcus Johnson:

So yeah, Christy Fletcher, co-head of publishing division for United Talent Agency, was agreeing, saying, "While we all want to reach as many listeners as possible, there is a real risk that this consumption model devalues authors' work and becomes the norm for all platforms." Miss Scott saying, "This isn't a launch and iterate moment for publishers. It's a Pandora's box." So we'll see.

One of the thing I thought was really interesting, Danny, you pointing this out in one of your articles, I believe, noting that teens don't listen to audiobooks, but kids do. And so you've got a very big audience of kids there. 33% of time with audio listening is with audiobooks, according to Edison Research. So there's a market of young folks. And also, you're pointing out Bloomberg saying last summer, Spotify thinking about an additional premium tier with expanded audiobook access and higher-quality audio streaming as well. So maybe some more money to be made there as well.

Let's talk about how Spotify's main business has been doing from a user perspective. Spotify now has 574 million monthly active users, adding 23 million in Q3. Spotify added the same number of users this Q3 as it did last Q3, 23 million. Danny, is that a good thing or a bad thing?

Daniel Konstantinovic:

I would say it's mixed. Part of Spotify's effort this quarter was penetrating foreign markets. They really made a big push into a lot of foreign markets, which led to good growth but lower revenues because they had to offer a lot of discounts to onboard people the same way that they did when they first debuted in the US or wherever else. Their key markets. So it shows that there's some success there. They're making inroads in not the US and the UK, where growth has started to plateau a little bit. But I think the fact that the number didn't move over the course of a year also shows that maybe the price increase that they implemented in this last quarter had a dampening effect on new Spotify subscriptions. So yeah, I think it's a double-edged sword.

Marcus Johnson:

Yeah. Moving into those new markets, that brought average revenue per user down 6%. But to your point, they're able to continue to increase users despite that price increase. Yeah, monthly active users growing 26%. That's the second largest Q3 gain in company history. Spotify now double the number of users that they had just three years ago, which is just remarkable.

How does Spotify stack up against the competition in the US? That's a good benchmark. Spotify has a hundred million US monthly listeners. That's listeners, not subscribers or anything. That's listeners, according to our forecasting team. That's more than double Amazon Music listeners and more than double Apple Music listeners. And over the next two years, we're expecting most of the growth to come from Spotify even though they're in the lead by a lot. Expecting Spotify to add 10 million new monthly active users, which is five times more than Apple and Amazon will add.

And also an incredibly engaging app. Danny, I don't know if this was at the bottom of one of your articles, but there was a chart showing basically the most engaging apps around in terms of time spent with them. And only Netflix, TikTok and Hulu command more minutes spent with them per day with users, according to us. That's a few minutes... Sorry, it puts it in fourth place and puts it a few minutes ahead of YouTube which is in fifth, which is remarkable.

Daniel Konstantinovic:

Yeah, that is remarkable because YouTube usually comes out ahead of all the other video services in terms of viewers and time spent. Netflix is at the top of this chart, but Spotify is pretty close behind. I mean, it's an hour for Netflix, 54 for TikTok, 53 for Hulu, and then Spotify at 51.

Marcus Johnson:

Right.

Daniel Konstantinovic:

So they're up there.

Marcus Johnson:

Let's move quickly to revenue. So Spotify made 3.6 billion in revenue in Q3. That's good enough for 11% growth year on year. Most of that money, 88% comes from paying subscribers. The rest comes from ad-supported folks. What does this 11% revenue growth say about the company?

Daniel Konstantinovic:

I think it shows that there's some strong advertising growth. They showed that ad-supported revenues were up 16% and music revenues were performing above average. I think they grew 20%. And they didn't give a number for podcast ad revenues, but they said that it's in the, quote, "healthy double digit range." So I think advertising continues to be a really steady source of growth for Spotify even if users in their key markets are maybe slowing down a little bit. So yeah, I think the 11% figure is strong, and there's a lot of demand for advertising on music and podcasts. It's something that Spotify is really putting a lot of emphasis on, particularly with podcasts.

Marcus Johnson:

Mm-hmm. Net income of 69 million. That's the highest net income since Q2 of 2022. So highest net income in the past year. Why? We mentioned that price increase. So in July, it went from 10 to 11 bucks, and user growth not impacted. Dan Gallagher of the Wall Street Journal noting the timing made Spotify look almost charitable given its peers Apple and Amazon had raised prices on their music streaming offerings months earlier. And plenty of other streaming

services, video streaming services, people have had to pay extra for, and they were one of the last ones to do so. And so maybe consumers looked more favorably on them as a result.

They lowered employee costs as well. 600 folks were laid off at the start of the year, 200 in the summer, so there's less money to spend there. And they spend less on marketing as well, so that helped that net income figure. Daniel, let's round out the lead by talking about... You mentioned one thing you're paying close attention to is Joe Rogan and his contract with Spotify. How come?

Daniel Konstantinovic:

Well, Spotify paid a lot of money to acquire exclusive rights to Joe Rogan's podcast to be the hosting platform for it about three years ago. The contract is now running out, basically, and there is a question about whether or not Joe Rogan will renew because his audience has really only grown despite all these controversies. He really didn't see a decrease in listenership. And he is, by a lot of metrics, the most popular podcaster in the world, really. And the question is, does he really need Spotify? Maybe not. There are a lot of independent podcasts out there that don't have an exclusivity contract that seem to do pretty well. A lot of Spotify's bets on exclusive podcasts, like with Prince Harry and Meghan Markle, did not really go anywhere, didn't really lead to anything. There's a good story in the Verge about this as well.

So if Joe Rogan were to leave, that would presumably have a big effect on Spotify's podcast business because there's been a halo effect from Joe Morgan listenership because the podcast that... I mentioned the Harry and Meghan podcast, but also podcast companies that they have acquired have fizzled out. Like Gimlet, they acquired a couple of years ago. Gimlet has basically shrunk dramatically. Exclusivity caused listenership of Gimlet shows to plummet, and they've laid off most of Gimlet's staff. So their outlook without the big killer app is tough. They're going to have to make big changes if they lose him.

Marcus Johnson:

Yeah, we shall see. That's what we've got time for, for the lead. Skip the halftime report. Straight to the second half of the show. Today in other news, how badly can AI hurt your company's customer service, and Google calling for a ban to personalized ads for minors.

Story one, how badly can AI hurt your company's customer service? Srini Pagidyala, co-founder of enterprise chatbot Aigo, points out a few ways it could in a recent Inc article. One, an AI customer service chatbot could misinterpret a term that leads to bad advice. Two, it

may struggle to understand context, forcing customers to frustratingly repeat themselves. Three, they're impersonal and lack sensitivity. And four, they could erode a brand's voice and identity. But Danny, to you, what is the number one pitfall when it comes to AI customer service chatbots?

Daniel Konstantinovic:

I think it's that they can just increase frustration. When you call customer service or speaking with customer service, the last thing you want is a more frustrating experience. Chances are you were already frustrated when you get there. And there's a lot of research that shows that AI chatbots are really inconsistent when dealing with common sense issues. In this Inc story, there was a report from ResearchGate cited that showed that accuracy for what's classified as common sense queries fluctuates from 40 to 75%. So that could result in things like inconsistent answers for the same problem for different consumers and could leave people more astray.

I think the idea for chatbots is efficiency. We don't have to devote human resources to solving these mundane problems. But even those mundane problems have a little bit of nuance, and AI is just not very good at parsing through that nuance and it could just make consumers even more upset.

Marcus Johnson:

Yeah, folks don't love them. Only 8% of customers used a chatbot during the most recent customer service experience, according to Gartner. Of those 8%, just a quarter said they'd use that chatbot again. According to Ipsos, close to seven out of 10 folks have utilized an AI customer service chatbot. But of those folks, eight out of 10 even more prefer interacting with the human for customer service needs. However, according to Userlike research, folks are more comfortable receiving help from a chatbot as a first port of call in large part because they like how quickly they respond.

Story two. Danny, you recently wrote that Google was called for a ban to personalized ads for minors with some caveats, releasing a proposed framework for a federal bill aimed at protecting underage users private information. Google said the law should, quote, "permit contextual ads based only on contextual signals, such as the current content being watched, search query, general location, and time of day, rather than a user's past viewing or search

history or demographic data." But Danny, why is Google calling for this ban to personalized ads to minors?

Daniel Konstantinovic:

So there are two things going on at Google that would lead them to do this. Over the summer, they had a couple of ad placement scandals at Google over the summer. One of them had to do with misplaced video ads that ended up with some refunds to advertisers. The other was that there were trackers on children's videos that basically made it so that if a child watching a video clicked on an ad or something, they would be given these common trackers that would then track them across the internet, something that Google says that it does not support and doesn't want to do. So they got in some trouble for that. So this is a message to advertisers like, "We are not in favor of this even though we may have accidentally, question mark, done it ourselves."

The other reason is that because federal legislation has moved so slowly for tech and privacy and advertising, states have had to pass their own individual bills. And a lot of those bills are conflicting, and it makes it really hard for a big company like Google to operate in each individual state. So in the last couple months, we've seen couple big advertising groups say that they're going to push regulators for a federal privacy bill to overwrite the state ones to make it easier to operate. And even though Google didn't explicitly mention that call, this is a similar move.

Marcus Johnson:

Yeah, you had a fantastic chart in your article. As of this summer, 10 states of past privacy laws. Six more considering. As you mentioned, the details of each law vary considerably. That's all we've got time for, for today's show. Danny, thank you so much for hanging out, mate.

Daniel Konstantinovic:

Yeah, thanks for having me. Always fun.

Marcus Johnson:

Yes, sir. Thank you to Victoria who edits the show. James, Stuart, and Sophie, as always thank you to you. Thanks to everyone for listening in to the Behind the Numbers Daily, an eMarketer

podcast. You can tune in tomorrow to listen to the Reimagining Retail show, where our host Sara speaks with Ariel and Jeremy about where impulse buying fits online.