

The Daily: What 2023 has in store for Spotify, how folks consume podcasts, and Tubi's ceiling

Audio

On today's episode we discuss why Spotify was able to add so many new users recently, how a price increase might affect the company, and what to expect from its podcast investments.

"In Other News," we talk about changes in podcast listening behavior and what Tubi's ceiling is. Tune in to the discussion with our analyst Daniel Konstantinovic.



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Episode Transcript:

Marcus Johnson:

Hey gang, it's Tuesday, February 21st. Danny and listeners, welcome to the Behind the Numbers: an eMarketer Podcast made possible by Tinuiti. Today I'm joined by one of our analysts who writes on our marketing and advertising briefing based in New York, Mr. Daniel Konstantinovic.

Daniel Konstantinovic:

Hey Marcus. What's going on?

Marcus Johnson:

Hey fella. Not a lot. Not a lot. Today's fact, what does BMW stand for?

Daniel Konstantinovic:

Oh, I actually have no idea.

Marcus Johnson:

No one does. No people do.

Daniel Konstantinovic:

Not even BMW themselves.

Marcus Johnson:

They have no idea. Yeah, they're like, I don't know, we just did that. No, they do. So they're the car people as you might know. The acronym stands for Bayerische Motoren Werke. I've

butchered that. Anyone German speaking, I'm so sorry. They're like, no, it doesn't. It stands for something else that's pronounced properly, but it roughly translates into Bavarian Engine Works Company. The name harks back to the company's origin in the German state of Bavaria. Not as catchy as BMW.

Daniel Konstantinovic:

No. And I guess I assume that it was going to be like some English acronym because I'm an American and everything has to be in English.

Marcus Johnson:

What kind of car did you get? A German one. I don't want to pronounce it. Please don't hate me. Today's real topic: Spotify.

In today's episode, Danny, as you well know, we'll be talking about Spotify's recent performance in the lead. And then for in other news, we'll discuss the most interesting podcast stats of 2022 and why Fox won't sell Tubi just yet at least.

We start with Spotify and the lead story here. Spotify just told us how they did in Q4, so let's set the table first. In terms of users, pretty good total monthly active users. MAUs reached 489 million. 489 million, adding 33 million new people in Q4. Ad supported users, that's most folks, for Spotify approached the 300 million mark. Paid users crossed the 200 million mark. On the money side, the audio streaming giant made about \$3.3 billion in Q4. Growth was up 18%. That is not quite as good than the previous 24%, but still pretty good. Most of the company's revenue, 85% comes from paid subscribers. Even though paid subscribers are a smaller share, they make up more of the money. 85% of the dollars coming from paid subscribers. That grew at 18% versus 22 last year. The remaining 15% of the money comes from ads that grew at 14% in the quarter, which is way below the 40 that they saw last Q4. So from 40 down to 14 in terms of year-on-year growth in Q4 for the ad side of Spotify.

But Daniel, let's talk about their users first. Why was Spotify able to add 33 million new users in Q4?

Daniel Konstantinovic:

Well, Q4 is home to Spotify's biggest marketing push, which is Spotify Wrapped. It's this big end of year event where Spotify shows you your listening habits through the year in this big shareable deck that ends up all over social media. It's impossible to avoid. And it's such a

powerful format that just about every other subscription service, it feels like, has started to copy it.

Marcus Johnson:

Yeah, eight years now. I couldn't believe. Eight.

Daniel Konstantinovic:

Is it really eight years of Spotify Wrapped?

Marcus Johnson:

Yeah.

Daniel Konstantinovic:

Wow. Yeah, and I mean I look forward to Spotify Wrapped. People are thinking about it year long. The beginning of the year, they're thinking, what's the first song I'm going to listen to? Is that going to show up in my Wrapped? Or I have to curate my Spotify Wrapped to show off my music taste, which is a little strange.

Marcus Johnson:

I know, I know. You're like, don't press go on that song because I don't want people knowing that that's what I've been up to this year.

Daniel Konstantinovic:

Yeah, it becomes a whole strange social thing for people. But anyway, that's another topic I guess I think. But I do think it plays a big part. I'm sure that it is a large driver of new users for Spotify, whether paid or otherwise. I think strong user growth is because consumers have shown that they expect easy access to music. It's just kind of a given to be able to have access to audio, to music at all times of the day, whether you're in your commute, whether you're at home doing the dishes, during the workday. There's not like a time of day where music is restricted to the way that you might watch Netflix at the end of the day after work. It's sort of a day long thing.

So I think that the fact that Spotify is kind of the defacto leader in audio streaming just means it's going to be the first destination that a lot of users think of if they want to start listening to music in that way. There's also such a high degree of personalization on Spotify. Not only can

you just listen to music there, but it will constantly recommend new music based on your tastes. So it's a big discovery tool. And I think all of these things just drove Spotify to have a pretty good quarter and I think user growth will probably remain strong for a little while.

Marcus Johnson:

So I want to come back to one of those points you just made. But first of all, so 33 million in the quarter, that's the most users they've added in ages, in years and years, so it was a really, really strong quarter for them in terms of user growth. And two other points they made. One was growth in India and Indonesia was pretty good. They had some strong marketing campaigns there, so that helped worldwide growth and also promotions and family plans helped them add folks. You mentioned music streaming being something the people will consume whilst they're doing a bunch of different activities, and Spotify has said that they plan to put prices up sometime this year. They've lived at \$10 a month, 9.99, \$10 a month since 2011 for most folks. There are some cheaper plans for certain groups of folks, but basically \$10 a month for the last decade. How might this increase in price affect paid subscriber growth? Because it does seem like music is oxygen to a lot of folks.

Daniel Konstantinovic:

Yeah, I think it's such an interesting question. I was thinking about this and I'm not sure I guess is what I'm trying to say. But I'm watching with a lot of interest because I think if you look at the streaming services like Netflix or Disney+ or whatever, raising the cost of their subscriptions, it creates a lot of friction between the consumer and the service. People complain every time these prices go up, and we just saw in Disney earnings that a big price hike at the end of the year resulted in subscription losses, the first ever subscription losses for Disney. It's a different type of content. So I don't mean to say that that same thing will happen for Spotify. I doubt we'll see a lot of cancellations if price hikes go up just because I think access to music and the degree of personalization makes Spotify really sticky for a lot of consumers. I think it is a service that people would really feel the absence of if they were to stop paying for it or if they were to start having to listen to ads in the middle of it.

Marcus Johnson:

Because they could trade down.

Daniel Konstantinovic:

Yeah, they could trade down. But I also don't know if we'll see a lot of that either. I mean, I feel a little odd comparing it so much to Netflix and Disney because those are video streaming and not audio streaming. But I do think it is a good point of comparison that in the first quarter for Netflix and Disney's ad supported tiers, we really didn't see a lot of subscriptions jump down to the cheaper price. Of course, listening to Spotify with ads is free, so that might make it more enticing to cancel than to drop to just a lower monthly price on a different service. But I think Spotify has goodwill built up in that they haven't had a significant price increase in a really long time, and I think it has a very solid place in culture and daily use in media, but it's hard to say because it's new ground for them.

Marcus Johnson:

Yeah, it's also a tough question because I've asked you this before you know what the price might go up to. If it doubled, that's different than if they added on a couple of extra dollars. That said, if it doubled, please don't double it, Spotify, but I'm not not canceling it. It's not like, oh, I hate music now, like I'm fine just not listening to it. They could probably charge 30, \$40 and I'd be like, sure. Especially because the alternatives, it's interesting because the content is pretty much the same or identical across different music streaming platforms unlike video streaming platforms. However, there aren't a lot of them. And as a non-iPhone user, I'm not running off to Apple Music anytime soon. And so I do think that their price is so low similar to Disney+ when they started, it's so low that they've baked in a lot of potential runway, especially as other streaming services, music or otherwise, have increased prices and they haven't.

And so people are used to price hikes and I think if they go from 10 to 12 to 13, 14, whatever, most people will be pretty okay with it. And CEO, Daniel Ek of Spotify said that they'd implemented dozens of price increases in markets around the world without losing customers. So they haven't increased the price in the US, but they have in other places and it seems to have been fine. Even if a few people leave, they're still making better gains in revenue. So it's just something that seems like they're going to have to do, especially if they want to start turning profits because Spotify made \$12 billion in 2022. But the BBC notes that Spotify has never posted a full year net profit despite its popularity in the streaming music space. Never posted a full year net profit, which seems impossible.

Daniel Konstantinovic:

That is crazy to think about. And I mean, last year they spent so much on acquisitions that I guess it makes sense that they wouldn't eek out a profit true this year. And I think that's going to slow down a lot this year, the rate of their acquisitions, I think we've already seen that they're starting to lay some people off across kind of redundant positions. There are interviews with current and former Spotify employees saying that because of all these acquisitions, there are so many overlapping positions and people didn't really know what the responsibilities were. So I think this year is going to be focused on them kind of wrangling all of their different properties together and giving it a direction rather than continuing to acquire stuff.

Marcus Johnson:

Yeah. Let's go back to users for one second, I want to ask you about the dollars they've made. What do you make of the user growth, the growth between paid versus ad supported and how those two different types of user are being nurtured at the company?

Daniel Konstantinovic:

This was a tough one. I was trying to think of an answer to this one earlier after you sent me the question. I think Spotify does a lot to nurture and continue its relationship with paying subscribers, so it's not too surprising to see those do well or continue to grow. As for its relationship with ad supported listeners, I'm not too sure because my experience with Spotify is with a subscription, so I'm not too familiar with what the ad experience is on Spotify.

But I think the fact is that being a free listener of Spotify is really not so different from being a paid listener. You can still access a huge library of music across platforms on your computer, on your phone. You do have to listen to ads, but I don't think it's that abrasive of an experience because for a long time, the music listening experience has kind of always been hand in hand with ads because of radio. So I think that Spotify has less to worry about with the listener experience for free users than again to compare to a streaming service, than Netflix has to worry about with introducing ads to video streaming for the first time on its service.

Marcus Johnson:

Well, we hear so much about people, how much they hate ads, and yet Spotify has way more, quite a lot more, especially now. It didn't used to be the case, but way more ad supported users than it does paid users. And that gap actually is getting bigger and bigger. So it used to

be a 30 million subscriber gap between the two, three years ago. So 30 million gap between ad supported and premium in favor of ad supported three years ago. And now the gap is three times that, it's close to 90 million. It's still in favor of ad supported. So the number of ad supported folks outpacing number of paid folks, even though paid and ad supported subscriber growth has been pretty healthy on both and they both saw additions in Q4. You are still seeing a lot of folks who want that ad supported experience.

Daniel Konstantinovic:

And I think going back to what you asked about what would happen if Spotify increased prices, is I think that the free listening will continue to grow really healthily. I think if you're someone who listens to Spotify with ads, without a subscription, you still have so much access to free music that I think it will be very easy for consumers to make the decision of, well, I already have so much access, I don't really need to pay 12 or 13 or whatever they raise the price to, dollars in order to get it without ads or get some of the personalization.

Marcus Johnson:

Yep. Real quick, what jumped out to you most regarding Spotify's revenue picture? They beat analysts' Q4 expectations on revenue, as I mentioned, \$3.3 billion in Q4, growth of 18%, a bit lower than the previous 24%. What are your thoughts on how Spotify is doing at making money?

Daniel Konstantinovic:

I think Spotify's shown that they are resilient as a lot of other ad supported or companies that really rely on ad revenues have struggled. I mean, they are not as reliant on ad revenues as a social media platform, for example. It's mostly subscriptions, but throughout the year as a lot of these companies really struggled even with subscriptions or throughout 2022, we saw a lot of subscription services lose subscribers. We're still seeing that kind of happen with Disney. That never really happened with Spotify. And I think that's a testament to again, how consumers just expect that easy access.

But I think something that was interesting was that their advertising revenues were down, I believe, 1% year over year. That is a really interesting figure to me. Even though it's not some huge loss, it still feels significant because Spotify's big push right now is podcasting, and they're positioning podcasting as a huge opportunity for advertising revenue, more so than subscription revenues. This is a big way for them to balance out subscription revenues versus

ad revenues. And it went down slightly last year, even with the growth of free listeners that we just talked about. So I think that is a figure to watch. I think if Spotify can focus its podcasting efforts and really turn it into the \$20 billion opportunity that they have said it is, we should see those figures start to go up. But for now, they're starting to tip in the opposite direction, so we'll see what happens.

Marcus Johnson:

And by ad supported revenue going down, you mean slowing down?

Daniel Konstantinovic:

Yes. Yeah, yeah,

Marcus Johnson:

From that 40% last Q4 to 14%, this Q4, which is a big slowdown. Even year-on-year 2021 to 2022, full year ad supported revenue went from just over 60% to just over 20%. So it slowed down there as well, but still a healthy 20%, full year for Spotify for all the money they make. They grew 21% in 2022 and pretty much the same the year before that as well. So full year, pretty decent. Finally, Danny, which part of Spotify's business will you be paying closest attention to in the coming months and why?

Daniel Konstantinovic:

I think podcasting, again. I feel like everybody talks about, all the headlines that we've seen about Spotify in the last year or so have been about podcasting. And despite that, I think it is still a music service first and is trying to convert a lot of those listeners into podcast listeners. But there are a lot of challenges. It's been where the company's spending the most money. So I think that it makes sense that it is the focus of coverage and it's also where Spotify has kind of spoken out publicly the most about their ambitions there, how much money they think it's going to make for them.

But there are some really big challenges ahead. Listenership is kind of reaching a plateau in key markets like the US so now they're going to have to introduce, maybe not introduce podcasting, but try and get podcasting to become this kind of cultural media format that it is in the US into other countries where the growth rate is higher. Argentina and China I think are the two with the highest listener growth for podcasts. So I think we'll start to see Spotify

really expand or push into expanding into those markets. And we'll see if other audiences are as willing to adopt podcasts as US and UK listeners are.

Marcus Johnson:

Yeah, that's a brilliant takeaway as well. So scratch the halftime report. One thing I'll say, Spotify expects to cross the 500 million worldwide user milestone in Q1 and record a decent 20 something percent revenue growth as well. Yeah. Let's move straight on to, in other news.

Today, in other news, what is the most popular time and day of the week for podcast listening and why Fox won't sell Tubi just yet. Story one. Triton Digital just put out their 2022 year end recap podcast report. It looks at the most popular time and day of the week for podcast listening, it shows which platforms folks are most likely to listen on, and explores the most downloaded genres podcast genres. Daniel, what to you though was the most interesting takeaway from the new Triton Digital Podcast report?

Daniel Konstantinovic:

I thought that the figure that over 25% of monthly podcast listeners are between the ages of 25 and 34. I think this was highlighted in the report as a sign that podcasting has a really strong hold on young audiences, and that's true and it's an important demographic, but I feel like an area where it's still struggling is demographics younger than that. We've seen a lot of data over the last year that shows that younger listeners like teens are really not as into podcasting, which maybe makes sense. Maybe it's something that older listeners just gravitate to more and those consumers as they age up will start listening to more podcasts. But it's a worrying sign for a company like Spotify that's investing so much into podcasting and is not really hooking incoming generations of consumers the way that they are with more established listeners.

Marcus Johnson:

Two things quick for me. One was which device people use to listen to podcasts. Everyone who listens to podcast listens to them on a mobile device. Probably not too surprising, but 94%. So pretty much everyone. And then the second thing was smart speakers as podcast listening devices had a mini pandemic blip. 2% of folks said they listened on smart speakers in 2019. That went up to 4% the next year, 2020, but then came right back down to that 2% in 2022. So from 2019 to 2022 it went 2, 4 and then came back down to 2%.

Story two. Daniel, in one of your recent articles you write that Fox has turned down repeated offers of around \$2 billion for its free ad supported video streaming service, Tubi, according to Bloomberg. Why turn away \$2 billion when you paid one fifth of that to buy it? Because Fox wants to try and develop Tubi, you note. Daniel, what's Tubi's ceiling?

Daniel Konstantinovic:

Before I can answer that I'll give a little bit of background, which is that Tubi is one of the fastest growing properties in Fox's portfolio. It grew from 33 million monthly users to I think 51 at the end of last year. But at the same time ...

Marcus Johnson:

That was a year's growth as well. That was just in one year's time.

Daniel Konstantinovic:

In one year. That's right. It grew from 33 million monthly users to 51 million, which is really significant, because it is free, it has seen a lot of stronger growth. We've also seen a lot of strong growth for ad supported video on demand services in general. That's part of why so many big streaming services are adding ad supported tiers. But Tubi's growth is really interesting because despite that big growth, they're not this household brand in the way that a lot of other streaming services are. There was that Super Bowl commercial that they just had where everyone thought that someone sat on the remote. It was a really, really smart ad. My favorite from the Super Bowl.

But anyway, I think stuff like that is a sign that Fox is really trying to push Tubi to be more of a household name. I do think that there's opportunity to grow it further. As the big streaming services are licensing out more content to eliminate debt, Tubi will become a good destination to watch really big shows like Westworld. I think in the long run though, it is too late for Fox to turn Tubi into a brand the size of even a Peacock and definitely not a Netflix or Disney or anything like that. I think the market's just too saturated. So I think what's ultimately going to happen is Fox is probably going to hang on to Tubi for maybe another year or two and do what they can to really build viewership up, to try and get an even higher offer for an acquisition.

Marcus Johnson:

Especially because our forecasting squad, they think Tubi could make a billion dollars in ad revenue by next year, in 2024. That's all we've got time for this episode. Danny, thank you so much for hanging out today.

Daniel Konstantinovic:

Yeah, thanks for having me.

Marcus Johnson:

Of course. Of course. And thanks to Victoria who edits the show, James, who copyedits it, and Stuart who runs the team. Thanks to everyone listening in to the Behind the Numbers: an eMarketer Podcast, made possible by Tivuiti. You can tune in tomorrow for the Re:Imagining Retail Show hosted by Sara Lebow, where she'll be joined by senior analyst Zach [inaudible 00:22:56] and director of briefings, Jeremy Goldman, as they talk all about different retailers that are teetering on the edge.