


The Daily: Are Spotify's money losing days behind it, how much would you pay for music, and can 'Music Pro' move the needle?

Audio



On today's podcast episode, we discuss why fewer folks are signing up to Spotify, whether breaking out an audiobook-only tier makes sense, and how much a speculative 'Music Pro' can move the needle. Tune in to the discussion with our analyst Ross Benes.

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 0:00

This episode is made possible by Awin. build, scale and optimize your creative affiliate programs. For maximum ROI with a win leverage the platform's best in class technology and award winning expertise. In end to end influencer program and campaign management to your brand's advantage and drive impressive results visit [a win.com/e-marketer](https://win.com/e-marketer) to learn more.

Ross Benes 0:26

I don't suspect that the average subscriber is going to want to pay more for higher quality audio I think most people are probably fine with what Spotify gives them right now, but it would probably make a subset of users very happy

Marcus Johnson 0:41

Hey, gang, it's Thursday, May 2 Ross and listeners Welcome to What is obviously a morning recording of or do our best. It's the behind them is daily an E Marketer Podcast made possible by a win. I'm Marcus and I'm joined by one of our senior analysts who covers everything just for advertising and media based just above New York... just above the city is Ross Benes.

Ross Benes 1:08

Hey, Marcus.

Marcus Johnson 1:09

Hey, fella. Thanks for hanging out today. Jay. We're talking Spotify, but we'll start with the fact of the day. Ross the most expensive yacht in the world. How much do you think that costs?

Ross Benes 1:20

It's gonna end up being like a billion dollars, right?

Marcus Johnson 1:23

Yeah, it's of it's close to five, five of them.

The history suprised billion.

Yep. Wow. It's a 100 foot yacht covered in gold and platinum designed by Stuart Hughes, and allegedly sold things like no one knows who actually owns this but allegedly sold to Malaysia's richest man, Roberts Coolock for nearly \$5 billion, that will be 10 times the amount of the next most expensive yachts. It's too much

Ross Benes 1:50

kind of weird. No one knows who owns it if times the worth of the number two,

Marcus Johnson 1:54

and this is literally gold. So you thought this thing's easy to spot. The yacht has enough space for 35 people, including 12 guests, and 23 crew. The largest room features they study area and personal Jacuzzi. The master bedroom is adored in platinum, and has a wall feature made from meteoric stone, and a genuine T Rex dinosaur bone.

What are we doing? Who gave that to them?

Ross Benes 2:26

Really fit that money for that price. You know, I thought you'd get more room. I know it's made of gold and

Marcus Johnson 2:31

platinum. Yeah, 35 people that's quite a lot on a boat. But for \$5

Ross Benes 2:35

billion. And you know those cruise ships, they take like 1000s You know? I'm saying if I put \$5 billion, and I wonder survive the apocalypse in this thing. More space? Yeah,

Marcus Johnson 2:47

that's fair. 5 billion money well spent. I'm kidding, of course. Anyway, today's topic by Spotify is no longer in the red.

In today's episode, Verizon will lead will cover Spotify knowing other news today. So Ross will talk about how Spotify has done I mean, people are using the platform, how much money are they making? What's next for them? Let's start with the subscribers. Spotify added 13 million new subscribers this year reaching 615 million. However 13 million new subscribers was half as many as q1 of 2023. And its lowest number of subscriber additions in a year and a half. But Ross slice of pie is what we're playing for the first question. What contributed to Spotify is decent but not stellar. 13 million new subscriber additions. Well

Ross Benes 3:47

I'll keep this simple and just give it to two different responses that are each gonna get half I don't want to get into Scott Steiner math if you guys haven't seen that wrestling promo, but he gets to things that add up to over 100% don't want to do that don't want to confuse the

listener here. So half of it. And this doesn't apply just to this quarter. This is just the general issue. They're already huge. And like most people who you know are in the market for this type of service, ready subscribe to them or one of their competitors. It's not like a ton of space to add new people it Netflix has the same issue. It's no if you're dominating a space, it's a lot harder to add people at the same rate as you did when you were like an upstart. And Netflix like got around that through the password sharing crackdown. But there isn't an equivalent for that in music right now. And then the other issue is they can't raise prices the same way like a video streaming service. Does. They have competitors like Amazon and Google that can keep music subscription prices really low and they don't really mind if it takes a financial loss. So it's harder to make money off of music than it is like off of television. it, and there's so many options that are low price out there, that if they're going to pull in people, you know, they have to take into account that people can get a very similar service with the same content basically, for relatively inexpensive.

Marcus Johnson 5:16

Yeah, especially because they raised their prices. For the first time. Spotify was priced at \$10 forever. And they notch up to 11 last summer. And now Bloomberg saying Spotify will increase their prices again by one to \$2 in the UK, Australia, Pakistan, Sri Lanka, and Ghana and also in the US later this year. Yeah, it

Ross Benes 5:35

seems like they're raising them like often by doing it twice, but yet, it's like slower than inflation. Like, if you look at the last like eight years of Spotify, you know, it's gone up a few dollars. Yes. Yeah. And if you look at other entertainment, especially video streaming, uh huh. Some of those have gone up like 50%.

Marcus Johnson 5:52

Yep, absolutely. But to your point about competition, and that there are very similar services out there people could switch to Spotify has to be careful now because their current tiers in the US are now priced on parity close to parity on parity with tiers offered by competitors, Amazon, Apple, YouTube. And so then Pandora, Pandora, too. Yep. I noticed. Well, Ross. So one reason why subscribers are only 13 million, versus some of the other numbers, they've seen the last couple of quarters 2823 3626, marketing pullback, Chief Executive Daniel Eck blaming some of the lowest subscriber growth on a sharp slowdown in marketing. Since

marketing costs were less than 9% of their revenue in q1, they'd averaged about 12% of their revenue, the previous 12 quarters. When you break it down by subscriber type, they added just 3 million paid Spotify people in q1 and 9 million and supported folks, both of the fewest they've added in around two years though. Another thing Ross that Spotify his boss was talking about with analysts on the earnings call was that the company is planning to launch new music only an audio book only tears and no timing or price details yet. That's because the the premium version of Spotify they said recently here have 15 hours worth of audio book listening for free. And then you can add some more if you want to. But they were combined basically the audio book and the music listening experience. Now they're gonna say that they're saying they're going to separate them for people who want them separate. Ross, what do you make of a Spotify plan to launch music, new music only and Audio Only tears?

Ross Benes 7:24

Well, eventually, you could habituate the consumer to having to put up with ads, if they you know, don't want to pay for that add on. So you can get the revenue from the Add on subscription fees. But if or your let's say your audio book person only, but you still want to listen to music, there is the free version of Spotify, you can still listen to that. But you're going to be monetized through ads. So I view it as like you've already gotten people used to using those services. You've made them available. Now they have to decide if they want to pay for them or not. And even if they don't you have another way of making money off them as long as they continue to use it. Right,

Marcus Johnson 8:00

right. Yeah, one of the reasons they're putting their prices up is to help cover the cost of Spotify is pushing to audiobooks. Well,

Ross Benes 8:07

it's tough to make a profit in the music like it's been that way since Napster launched.

Marcus Johnson 8:12

Yes. And I was wondering Ross if they're ever going to be able to make a profit because Dan Gallagher was making this point he writes for the journal, he was saying that if you put your prices up, if Spotify that is record labels might come according because Jeffrey woodlands ik pivotal research noting the risk that Spotify now, Spotify is now proven ability to raise prices

and boost its profits could compel record labels to seek higher royalties from the company. Those royalties still consume the biggest portion of Spotify as revenue. So the more money Spotify makes, maybe the moment it has to pay out, and I wonder how it gets away from that podcast was one thing that was hoping it could use to get away from that because they're cheaper to make, and also potentially harness more engagement because the longer to listen to, maybe the thing your audiobooks can do the same, but it seems like they're maybe never be free of the music labels coming and calling for more money, the more money they make,

Ross Benes 9:01

just sounds like more money, more problems. Notorious song. Yeah,

Marcus Johnson 9:05

yeah. Although it seems like they can make a fair amount of money. But we're the one was just

Ross Benes 9:09

gonna say what we've seen. I've seen people write that, like when when Spotify made the big push into original podcasts. Part of that was seen as a way of getting around record label. Alliances, most podcasters don't have like a label representation, or they may not have an agent if they're really big, but it's not the same as dealing with someone who controls the catalogue of like, Taylor Swift and The Beatles, you know, right.

Marcus Johnson 9:34

Right. It seems like they can make quite a lot of money from just a \$1 a month, price increase. Mark Mahaney of Evercore. isl thinks \$1 A month price hike for everyone would boost company's revenue next year by \$1 billion, which is pretty significant. for just a buck difference.

Ross Benes 9:50

Well, you have such a large user base like Exactly.

Marcus Johnson 9:55

Now that 615 million that we mentioned. So prices Top this year that will help them make more money costs down company made significant layoffs last year from the start of 2021. To the end of 2022. Spotify is headcount nearly doubled to over 10,000 people this past q1, it was

less than 8000 people. So it was going up, now it's dropped. So that's helped them save some money. And so prices up cost down equals profitability, Spotify grew revenue 20%. In q1, they're expecting 20% growth in q2 as well, that would equate to operating earnings of \$450 million for h1 is a sharp reversal from losing nearly as much in h1 of last year, and analysts were projecting full year operating income of nearly 900 million before these earnings. That would be a huge turnaround for a company that's only made a profit once. And it wasn't a lot of money. So they're finally starting to get into the black and for them, hopefully on a more consistent basis than just the one time in their history. Another thing folks have been speaking about with regards to Spotify is trying to figure out where their Hi Fi or su premium service is. And so that was their higher quality music offering that people were speculating over. And Chris Welch with the verge was saying that this service might now be called Music pro appears to be an add on as opposed to a separate tier. So it'll be an add on to Spotify as paid tier, as at least according to one Reddit user, hi, pixely, who has been digging through code samples, and noticed that a new add on could feature lossless audio advanced library filtering by mood or genre headphone optimization, or song modification features. So people that get music Pro and tack it on will have access to all that stuff. How much can speculative at this point, music Pro, move the needle, oh,

Ross Benes 11:48

expect this to be a huge needle mover. It seems like a really cool feature for audio files of huge music lovers. But I don't suspect that the average subscriber is going to want to pay more for higher quality audio, I think most people are probably fine with what Spotify gives them right now. But it would probably make a subset of users very happy, I just don't see the revenue effect being substantial. You know, there's been other projects like that, like produce, like the high quality audio, you know, to give a more similar feeling to listen to master recordings, or like an old school record, like Neil Young years ago, was pushing, it was like an alternative to the the iPod. But it would like instead of fitting, you know, 10,000, low resolution songs or you know, small files, it was like, you'd get like 100 like super big files, but they would like sound awesome. I don't think that product ended up finding a huge market, though.

Marcus Johnson 12:44

Have you heard of eight D audio? Eight D, I don't really know what it is. If you guys look up eight, D, number eight, letter D audio Pentatonix. That blew my mind when I heard this. It

basically is this kind of surround sound in your headphones, audio experience. And that's gonna be hard to communicate to folks on through an ad that that's what you're offering. But once you listen to this is hard to go back to regular audio and how people consume that. So all that to say, for an extra buck, maybe more, I would pay for that. And I'm not I'm big, you know, museums might listen enough, but not a tremendous amount. So yeah, it really does depend on what they're offering. But I could see there being space for some kind of a premium premium music experience.

Ross Benes 13:32

Appeal to super users. Yeah, yeah. If you're, if you're using Spotify, like just 20 minutes a day or less or something, and you just kind of have it for when you want it. Yep, you're probably not gonna pay that. But if you're someone who like, I listened to it the whole day while I'm working, then, you know, that makes a lot of sense.

Marcus Johnson 13:50

So Ross, what's, what's the next act? Was Spotify going to do next, in your opinion? Well,

Ross Benes 13:57

I expect they'll continue to try to push into video advertising. They've done that several times before, but I just expect that effort will get renewed as more money comes into streaming video advertising, right, a lot of people already listening to them through their Smart TV. Like, Spotify app is pretty popular, like on Roku, for instance, even though it's not a video service, really. But it'll be challenging to make. Even if you put music videos on while you listen to songs and insert ads. That's a tough way to make money since the people's attention usually isn't on the screen. They have the audio on while they're doing other stuff. I still expect another push into that. Yeah.

Marcus Johnson 14:36

Do you think that's where most of their efforts will go should go in terms of the next act? I don't know if it's

Ross Benes 14:44

where most of their efforts will go. They'll probably also just try to figure out to squeeze more revenue from what they've already got. Like you said all that cost cutting program, more of

that cutting back marketing, becoming more selective about original programming. I know renewed Rogan but they didn't renew a lot of the other people, even like Rogan, also like distributed stuff elsewhere. So it's not like quite as exclusive as it used to be. So, you know, a lot of tinkering with ways to get people to spend more time on the platform without being beholden to the largest labels, and artists who are going to be more demanding about getting a cut.

Marcus Johnson 15:24

Yeah, I think they've got a lot of runway with their price. What's your take there? Because if Spotify as I've said before, on the show, the Spotify asked me for \$30 a month, you know, maybe I would go and look for another service.

Ross Benes 15:37

Yeah, it's a it's a bargain right now, for sure. And that's the way with all of them,

Marcus Johnson 15:41

I would pay it. Yeah. And I was gonna say, if they're all priced at that, I had no choice. Yeah, heartbeat. But even if they didn't, Spotify has all my listening history, etc, etc. And, and so and I also not an Apple phone person. So it doesn't make as much obvious sense to just be like right Argos, the thing that's already on my phone, and easy to set up, but I would pay it. And so I do think that they've got a ton of room to just bump this price that these prices up. And people might get a bit annoyed in the beginning. But music especially I think is so personal to folks that they'll pay double, triple what they are

Ross Benes 16:13

up if they're not paying that, though, like listen to a free version of Spotify or Pandora where they would grow the ad revenue, like so I agree that they're all these music services, not just Spotify, like you're getting a pretty good bargain if you could pay under \$15. And get like most of the popular recorded music of last 100 years. I mean, if you just think about like video, how much you have to pay to get everything in the library on Spotify and Amazon Pandora is basically the same for the most part, you can get them really cheap. But as long as there's one company that's willing to undercut and offer a value to consumers at a loss, they'll have trouble doing that. Like if Amazon just says, well, we want to keep it at \$11 the end of time, because getting people to use Amazon services is worth more to us than making money off of

directly that will you know restrict how much someone like Spotify or Pandora can go up. But if they're doing it to be profitable, and they all agree, like, let's go up and they could go up quite a bit that sounds like collusion.

Marcus Johnson 17:20

With the video services, I mean, one of them put their prices up than the other one did. And they all started to creep up because they noticed that folks would pay that and it would be beneficial for all of them. But you're right, if one of them does have a holdfast at a lower price point that can be a bit more difficult to do. Let's end the episode Ross by hitting Spotify with a grade their q1 performance. As I mentioned, what do you say 13 million new users added that's low spent in a while but still 13 million plus. And then 20% growth in revenue total revenue making nearly 3.9 billion in the quarter that 19 20% growth in the quarter is up from 14%. In q1 2023.

Ross Benes 18:00

I'd give it a B again, it's pretty solid. So yeah.

Marcus Johnson 18:05

But the stock price is up nearly 80% Eight zero in the past six months. So the market is quite happy with how Spotify is going at the moment, particularly as it heads closer and closer towards more consistent profitability. That's all we got time for for this episode. Ross, thank

Ross Benes 18:20

you so much for hanging out today, fellas. Thanks, Marcus. Yes,

thank you to Victoria, who edits the show. Stu runs a team Sophie does our social media thanks to everyone for listening and we hope to see you tomorrow. For behind the numbers weekly listeners an E marketer video podcast made possible by a win.

Transcribed by <https://otter.ai>