

The Daily: Can Spotify become the 'audio app' and what it will take to get there

Audio

On today's podcast episode, we discuss a user milestone for Spotify, whether it needs a rebrand, and where new growth is most likely to come from. Tune in to the discussion with our

analyst Daniel Konstantinovic.

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Episode Transcript:

Marcus Johnson:

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Daniel Konstantinovic:

Even though Spotify is growing now, you have to imagine that if they just keep doing the same thing, the runway is going to start to run dry a little bit, and I'm sure Spotify does not want to find itself in a position that Netflix was in, in Spring 2022.

Marcus Johnson:

Hey gang, it's Tuesday, February 20th. I hope you folks here in the States had a nice long President's Day weekend. Daniel and listeners, welcome to the despicably early in the morning episode of the Behind the Numbers Daily: An eMarketer Podcast, made possible by StackAdapt. I'm Marcus. Today, I'm joined by one of our analysts on the marketing and advertising briefing. He's based in New York. It's Daniel Konstantinovic.

Daniel Konstantinovic:

Hello, thanks for having me.

Marcus Johnson:

It's not that early.

Daniel Konstantinovic:

Yeah, but it feels early.

Marcus Johnson:

The listeners don't know how early it is, it's early, okay?

Daniel Konstantinovic:

It could be 5:00 AM.

Marcus Johnson:

It's not, but it could be. Today's fact, let's start there. This one's good though, maybe this will get us a bit hyped for the episode. So, no president of the US was an only child.

Daniel Konstantinovic:

Really? That's surprising to me. I feel like that's a very only child syndrome job to gun for.

Marcus Johnson:

Type of a job?

Daniel Konstantinovic:

Yeah.

Marcus Johnson:

None of them. There were no only children, but there are three presidents who only had one sibling: Calvin Coolidge, Franklin D. Roosevelt, and Ronald Reagan. On average, the presidents had a little over five siblings, on average.

Daniel Konstantinovic:

Five? Oh my God, that's a few too many.

Marcus Johnson:

Lots of siblings. James Madison had the most, obviously a Founding Father, fourth president, he had the more siblings than any other president with 11.

Daniel Konstantinovic:

Oh my God.

Marcus Johnson:

I felt I needed-

Daniel Konstantinovic:

That's some real back in the day numbers.

Marcus Johnson:

I felt like I needed more attention and there were just three of us. 11? No, too many. Anyway, today's real topic, whatever next for Spotify.

In today's episode, first in the lead we'll cover Spotify. No, in other news, let's get to it. So Danny, as always with these episodes where we're looking at performance of these different tech companies, music streaming companies, video streaming companies, we're going to look at how big are they, how much money are they making, and what's next? Where are the new areas of growth are coming from? We'll start with how many people are using the platform. By the end of 2023, Spotify crossed the 600 million monthly active users mark as a worldwide number. Of course, adding nearly as many as they did at the end of the year as they did at the end of the previous year. So, the Q4s were similar, Q4 of last year versus the previous one in terms of additions to that number, getting it across the 600 million lines. So. Time to place Slice of Pie, Danny. Could you please create a pie chart as to the reasons why Spotify was able to add 28 million new users in Q4 and cross that 600 million mark milestone by the end of the year?

Daniel Konstantinovic:

First slice, I think Spotify Wrapped is a big reason why the company tends to perform well in this quarter. They said in their earnings that the Wrapped campaign grew more than 40% year over year, across 170 markets. So, it was a really big year for this campaign, which typically is a really large end of year ad campaign. So for people who don't know, Spotify Wrapped is basically this year-end fun, personalized organization of your listening data that will show you,. Who are your favorite artists, what are your favorite songs, your most played songs this year? How many new artists did you listen to?

Marcus Johnson:

A nice summary.

Daniel Konstantinovic:

Yeah, a lot of people look forward to it and it's a big moment in music culture, I guess, and it's good graphic design, shared a lot on social media, and I think it is a huge driver of attention and new business for Spotify and it's so successful that so many other companies now copy it. I don't know if this is exactly true, but if it's not, soon enough Instacart will be showing you carrots for your favorite grocery of the year and spinach is number two, stuff like that.

Marcus Johnson:

You know what? That's not a bad idea, especially you could argue that it's even more important with something like that because showing you what your diet's like, how healthy have you been, or not been, and so that could actually be quite powerful.

Daniel Konstantinovic:

That's true. It's a little less fun to see that you spent \$2,000 on toilet paper this year, than you listened to Imagine Dragons 100 times, but I do think Spotify Wrapped is a really big part of why the company did well.

Marcus Johnson:

What share would you give it in terms of percent? I don't think I have explained the question. We were talking before the episode, I was like, "Did I explain the Slice of Pie correctly?" And Daniel was being generous, he was like, "Kind of," but I don't think I have because Minda didn't... She was on the episode last week talking about Snapchat, and she was unprepared to give these slices percentages as well.

Daniel Konstantinovic:

I don't know if I-

Marcus Johnson:

So if you could, what do you think?

Daniel Konstantinovic:

That's a tough one. Let's be safe and say like... Well, because I have three sections here, let's give it a good 33%.

Marcus Johnson:

A third? Convenient.

Daniel Konstantinovic:

Very convenient. I wonder what the other two's percent... So for the second reason, audiobooks have been on Spotify for a year at this point, a little over a year, but they were folded into Premium subscriptions. So, they spent a year trying to get this to work and trying to make audiobooks kind of fit into their Premium suite and revenue picture and they hit a big milestone in making them available to a general Premium subscribers. So, I think Premium subscribers get, I believe it's a lot. You get a lot of listening. We talked about it on a previous episode, I think it amounts to-

Marcus Johnson:

Oh, 15 hours a month?

Daniel Konstantinovic:

Yeah, 15 hours, that's right. It's like a book and a half if you measure the average length of audiobooks-

Marcus Johnson:

Which is right around the average apparently in terms of how much people read.

Daniel Konstantinovic:

Yeah, so that is a really significant addition to Premium that really increases the value of the service, and I'm sure that it drove new subscriptions to an extent. It did also result in a price hike for Premium, but I guess we can get to that later. They raised the prices in the US for the first time. So, I think the audiobook launch was a big part of what drove subscriptions because Premium subscriptions did very well in Q4.

Marcus Johnson:

Last year's price increase of \$1 appears to not have had any effect on the user growth.

Daniel Konstantinovic:

It's an interesting one. I don't want to say they got away with it because it sounds like some crime was committed, but for lack of a better term, they got away with it because so many

services were raising prices, so they were kind of lost in the mix and everyone else is doing it, so Spotify can kind of get away with it a little bit more quietly. \$1-

Marcus Johnson:

And they were doing it by... Exactly, \$1 is barely anything compared to what some of the other streaming services, mostly video we're talking about have been doing in terms of increasing their prices, and I think music with Spotify, I think if they increase their prices from \$10 a month to 30, I'd be like, "Sure, what am I going to cut my music service?"

Daniel Konstantinovic:

Yeah, exactly.

Marcus Johnson:

Spotify, if you're listening, keep it low, but I would pay that.

Daniel Konstantinovic:

Exactly, it's a very sticky service for a lot of reasons. There's so much personalization in there, there's not really a way to transfer your created or saved playlists to another music service.

Marcus Johnson:

All right, so we've got 33% for Wrapped, 33% for audiobooks. The last third?

Daniel Konstantinovic:

There was a big push into foreign markets in Q4 and in Q3 and in the previous quarter it blamed some slightly lower revenues on this push because they were offering discounts for Spotify in order to onboard these new consumers, like they did ages ago here in the US and other major markets of theirs. So, I think that is contributing to some growth for Spotify and I'm going to split that little piece of the pie chart with Spotify just has a big lead. They, I think, are still benefiting from being first on the market basically or the first major service on the market. They are a brand that is really well established in music culture, in pop culture, things like Spotify Wrapped contribute to that. So, I think when people are looking at a new music service to sign up to or if they don't pay for one at all already, I think Spotify is probably where their mind immediately goes.

Marcus Johnson:

So we've got, so 33% Wrapped, we've got 33% audiobooks, that leaves 17% for foreign markets, 17% for first mover advantage. That's a healthy pie chart. I want to note Spotify, so they had a great 2023 in terms of adding new subscribers. They added more in 2023, 113 million, than they did in 2022, which was 83 million, so a pretty decent increase there and they're adding mainly ad supported people, over 80 million ad supported people versus 30 million Premium additions, even though most of the money they make is of course from Premium subscribers, people who pay to avoid ads. Daniel, let's move to the money they made in Q4. Spotify made just under \$4 billion in worldwide revenues. That's up 16% year-on-year, almost the same as the 18% they recorded the previous Q4. It's time to play Slice of Pie again. Could you create a pie chart this time as to the reasons why Spotify grew its revenue 16% in Q4?

Daniel Konstantinovic:

There are a couple things here. Premium subscribers grew 15%, now they have 236 million Premium subscribers. That was above expectations. Premium's the biggest driver of revenues at Spotify. Their ad supported revenues lag kind of far behind, even though they are seeing strong growth there and a lot of people using the ad supported service. So as usual, Premium revenues are a big deal and part of why Premium revenues grows, as we just talked about, is all these new product launches. Audiobooks are a big deal. There are a lot of sort of bargain offers to Spotify for new Premium subscribers that give them access to a streaming service like Hulu or something like that. So, they are still doing a really good job at onboarding new customers. So, if we had to designate a chunk of the pie chart to Premium, I don't know what percentage I would say, but it's probably going to be the biggest chunk because it's the biggest piece of their revenue picture. So this is so not exact, but maybe let's give it like a two-thirds, let's give it like a 66.66.

Marcus Johnson:

Okay.

Daniel Konstantinovic:

So other things, I want to look at Spotify's ad business, which still lags pretty far behind their Premium revenues, but is a big thing that I think the market looks at to judge how the company is doing. There's a lot of pressure on Spotify to increase its ad revenues through things like podcasting is the main thing, even audiobooks, and Spotify has made some big

changes to its podcasting business. So, after over a year of trying to make the platform exclusive podcast work where you can only listen to Joe Rogan or whatever major popular show they spent a lot of money on Spotify, they have now given up on that initiative because it wasn't really working.

Listener growth stalled, in some cases it fell pretty drastically. So now for the first time in years, shows like Joe Rogan are appearing on rival platforms, but Spotify still has the advertising and distribution rights to these shows. So, the downside is maybe people aren't subscribing to Spotify Premium to listen to these exclusive podcasts, but the overall listener pool increases significantly when it starts appearing on all of these other services, which in turn lets Spotify charge more for advertising on these major shows and just the shows in general. So, I think changes to the podcasting business in the last quarter are a definite reason why things were on the up. Those are kind of the big two I would say. Music advertising also did really well and grew significantly.

Marcus Johnson:

So Premium subscribers, two-thirds. Changes to how they think about podcasts, probably pretty much the rest, maybe a sprinkle of music ads as well.

Daniel Konstantinovic:

I would agree with that.

Marcus Johnson:

It's interesting, because as you mentioned, they had the first mover advantage and Spotify, they're the biggest music streaming company, so why isn't the largest music streaming platform making tons of money? There was a good article in The Journal noting that Spotify has a 30% market share, which is twice that of its next largest competitor. One of the reasons it is pretty obvious, is because Spotify pays music labels and other rights holders 70 cents of every dollar it earns from music streaming, which is why diversifying its revenue is that much more important. And so, Spotify is working on its non-music related revenues. Jon Porter of The Verge pointing out that beyond music you were talking about one, podcasting, it's adjusted its approach. It's signing that \$250 million deal with podcast king Joe Rogan, who you mentioned, which will now allow podcasts to be distributed along in other podcasting platforms.

The second is audiobooks, which we've also talked about. On that front, Spotify now letting Premium subscribers access that 50 hours of audiobook content as part of their subscription after previously selling it exclusively as an on demand extra and then also high quality music. Spotify's expected high quality music streamings here, which may now be rebranded Supremium. From what we're hearing, is it's still in the works. Initially, it was branded HiFi when it was revealed three years ago, but not released yet. So, a number of initiatives and other things as well that've tried and maybe already given up on, but Danny, for the last question here, could you create a where new growth is most likely to come from pie chart for Spotify?

Daniel Konstantinovic:

This is the hardest one for me actually. I think podcasts are one. Daniel Ek called podcasting a \$20 billion opportunity for the company in 2022. So, it's clear that they're going to try and make this a major driver of revenue for them. So, they're clearly committed to increasing podcast revenues as much as they can, and that's why they're doing things loosening up on exclusivity, which I think is going to help with their ad revenues from podcasts. So, that is kind of the biggest, I guess, area that Spotify is moving where it's easy to see how that would contribute to revenue growth for them. The rest is a little bit tougher. There is the foreign market push that I mentioned that I'm sure they will continue investing in. We're starting to hit a point of listener saturation in the US and UK in their core markets.

So, places like China and Argentina where there are still double-digit podcast listener growth are really important to them, but beyond that it's kind of hard. I wonder a lot, what is the next thing for Spotify? And I think they are kind of struggling with this question, too, because you talked about Supremium tier, all these things that they're doing to try and diversify revenues don't really sound like a, I don't know, a killer app that will be a major driver of growth. I feel like they've yet to identify what the next frontier for the music streaming service is.

Marcus Johnson:

I wonder if they have to though, because they are, as we mentioned, the number one company by a lot of measures in terms of music streaming, the number one company in terms of what people think about or where people think to go in terms of podcasting, and they saw to that with over \$1 billion worth of investment and Spotify's audiobook position, so Spotify just passed Apple to become the number two provider of audiobooks according to Bookstat, but their estimated 6 million US units sold or streamed is eight times fewer than first place Audible. So there's work to be done there, but number two position in audiobooks already is

still pretty good. And so, Anne Steele of the Wall Street Journal was writing, "The executives say the company has made progress transforming from a music streaming service into an audio company." They got music podcast and audiobooks.

But it does feel like Spotify needs a rebrand because it has a hold on on all these industries, it seems, but I think in the piece she basically offers them a new ad. She writes, "Spotify is the only service that offers streaming music, podcasts, and hours of audiobook listening in the same app for 10.99." And I just don't think of Spotify as the audio app, if you will. I think of it as a place for music and then when I'm thinking about podcasts, I think about it then and then whereas if people thought about it more as the go-to place, maybe there's more of an overlap for audiences.

Daniel Konstantinovic:

I don't know if I fully agree. I definitely personally think of Spotify as the audio place. I'm there listening to music. If a podcast I listen to drops a new episode, I'm listening to it there. It's just kind of like an easy to go to hub for all of this stuff and for audiobooks now, but I do-

Marcus Johnson:

It is, but I wonder if the people think about that consciously.

Daniel Konstantinovic:

That's a good question. We definitely think about it differently than maybe the average consumer would, but your point of, do they have to find the next frontier, is an interesting one because clearly by doing somewhat of business as usual, Spotify's continuing to grow and continuing to see success, because I think even though Spotify is growing now, you have to imagine that if they just keep doing the same thing, the runway is going to start to run dry a little bit. And I'm sure Spotify does not want to find itself in a position that Netflix was in, in spring 2022 when they were just doing business as usual and then, "Oops, we didn't really do anything to address subscriber saturation and all these other issues in the market and now we've lost subscribers and we have to fully reimagine our business to meet market demands and launch an ad supported tier," and like panic. I'm sure Spotify wants to preempt that and find when this well starts to run dry, what is the next thing we're going to tap? And I don't know how easy that question is to answer.

Marcus Johnson:

In the meantime, it seems like their strategy has been, if you can't grow money, cut money, and Spotify has been working towards becoming more consistently profitable. They've scaled back on their podcast investments, they've raised prices as we mentioned, and they're cutting staff as well. They've laid off-

Daniel Konstantinovic:

A lot.

Marcus Johnson:

... 17% of its employees in December alone, which appears to have helped Spotify narrowed its losses to 75 million in Q4, down from nearly 300 million the Q4 before that. Final point here before we move to grades, Daniel, I wanted to mention is Spotify trying to become this audio app. In one world, Spotify becomes this audio app on its own. In another world, Tim Ingham, a music industry analyst and founder of trade publication Music Business Worldwide, he thinks Spotify could be an eventual takeover target for companies, like you said, Microsoft, Netflix, and Chinese giant Tencent, which actually currently has a 9% stake, so maybe someone buys it. Maybe that's the way to go.

Daniel Konstantinovic:

That would be really interesting. Maybe Microsoft, not so much after the whole Activision Blizzard acquisition that has regulator eyes on them pretty carefully.

Marcus Johnson:

That's a good point.

Daniel Konstantinovic:

But Tencent is a really interesting one that I hadn't thought of. That would be a big one.

Marcus Johnson:

All right, time for some grades. What grade would you give Spotify for their Q4 and then also for their 2023 performance?

Daniel Konstantinovic:

I'm always wary of going too high, but they had a good year, they had a really good quarter, cut costs, revenues way up, subscriptions way up, so I would say an A.

Marcus Johnson:

I love how you were like, "I'm always wary of going too high, so I'll go high."

Daniel Konstantinovic:

I needed to qualify that. I don't know. Why not?

Marcus Johnson:

He's normally a tough grader.

Daniel Konstantinovic:

I am.

Marcus Johnson:

It's fair to say A, because full year in 2023, Spotify made \$14 billion, that's up 13%. It's decent, the problem is it's down from over 20% at the growth each of the previous two years and they made 2 billion of that 14 from ads. So, that's doing... Again, that is growing slowly but surely. They're expecting 20% growth in users in Q1, which would nearly match last Q1, so off to a decent start this year in terms of their guidance. That is all we have time for this episode. Thank you so much, Danny, for hanging out today.

Daniel Konstantinovic:

It's always a pleasure.

Marcus Johnson:

Yes, sir. Thank you to Victoria who edits the show and the rest of the gang, James, Stewart, and Sophie, thank you to them. Thank you to everyone for listening in to the Behind the Numbers Daily: An eMarketer Podcast, made possible by StackAdapt. Tune in tomorrow to hang out with Sarah Libo, who is speaking about AI and hyper-personalization with Susie David Canyon and Karina Perkins.