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Spotify Transforms the Digital Era of Music

Spotify is a world renown music, video, and podcast streaming service created on October 7, 2008. It brings music to your computer, phone, car, gaming consoles and more. With more than 157 million users across 65 countries, Spotify has come a long way and has changed the music industry forever. It’s Swedish CEO Daniel Ek is the creator and had various fruitful ventures before Spotify. At only 13 years old, his first endeavor involved making websites for different businesses. He began working on his family’s computer and according to Erin Griffith, “He charged $100 for the first one. He tried $200 for the next person who asked. By the time a year went by he was charging $5,000 a pop for websites. He bribed mathematically gifted kids in his class with video games, having them stay after school to train them to write code on the school's computer” (Griffith). After high school, Ek went to Sweden’s Royal Institute of Technology to study engineering but dropped out after eight weeks. After selling his company Advertigo, Ek desired a project that would appeal to his drive and passion. At the same time, he observed companies like Napstar rise and fall for copyright infringement for their idea of sharing mp3 files among users. In an interview with Telegraph, Ek said, “’I realized that you can never legislate away from piracy,’ he says. ‘Laws can definitely help, but it doesn't take away the problem. The only way to solve the problem was to create a service that was better than piracy and at the same time compensates the music industry – that gave us Spotify’” (Neate). This desire for a passion project and the budding merge of technology’s digital age with the music industry led Ek to create Spotify.

It’s imperative to grasp how streaming services like Spotify operate before discussing their impact. The first and most vital part to starting a streaming service is licensing. While companies like Napstar and Kazaa violated copyrights in the music industry, streaming services like Spotify, Apple Music, and Google Play Music are required to acquire several licenses that allow them to stream artists music. Music attorney Erin Jacobson says that these licenses include “sound recording licenses from the record labels; performance licenses for the compositions from performance rights organizations such as ASCAP and BMI; and mechanical licenses for the reproduction of the compositions” (Entertainment). Ek wanted to blend a service like Napstar with a service like iTunes and as a result, licensing was a process Spotify complied with to avoid shutting down while providing a new and innovative way to share and listen to music. Furthermore, after grabbing inspiration from Kazaa, Spotify was set up in a similar fashion. Most streaming services work by picking a musician or song and the site begins streaming the song’s data to your phone or computer. To avoid slow transfer of data, “instead of constantly bogging down its own company computers and internet bandwidth to send songs to millions of end users, it relies heavily on a peer-to-peer (P2P) network to stream audio, which works in the same decentralized manner of infamous torrent sites such as the Pirate Bay and Kazaa” (Chandler). While companies do not know exactly how much data Spotify is pulling from users, this innovative procedure helps Spotify distribute music swiftly and efficiently.

In the past, companies made major decisions based on instinct to determine the next best “blockbuster.” With focus group testing, companies couldn’t get an accurate measure of predicting the general populations habits and likes. In the digital age, companies like YouTube, Netflix, amazon, and Hulu are likely to make data driven decisions to tailor their interactive media to provide subscribers a unique experience. Music companies are no different, “Pandora (through its Music Genome Project), Shazam, and Spotify have now gathered detailed data about their customers’ preferences that will prove useful in the marketing of new artists” (SMITH 147). These preferences assist Spotify in curating genre and mood-based playlist that can make or break new artist. Additionally, while some companies are only recently integrating data to curate subscribers experience, Spotify’s data has already given them an insurmountable competitive advantage. When discussing data, Daniel Ek says “We’ve been doing this for years, and what we’ve built is the largest set of data of the most engaged music consumers” (SMITH 147). Staying ahead of the competition, Ek’s innovative methods involving data allowed personal patron curation and has given rise to many other streaming services attempting to use data as efficiently.

Let us now examine more in depth how Spotify uses data to curate playlist that has shaped a new generation of listening. Since the data that Spotify has been collecting from its users has given them specific insight on listening habits, it carries the power to shape what musicians the public listen to and as a result, which musicians become successful. Customers carry the ability to curate their own playlists, but “Spotify’s own curated lists attract millions of followers. Redburn reckons that up to 20% of streams are via one of Spotify’s own playlists. AWAL, an independent label run by Kobalt, a music-services company, says that getting on a Spotify playlist boosts a music act’s streams by 50% to 100% (“Having Rescued Music”). This process is beginning to transform the music industry itself. Artist are more likely to create music in hopes of landing on a popular playlist, shaping the creative process itself. Furthermore, as the labels and others in the music industry begin to comprehend the power of data, and Spotify’s insurmountable amount of it, music itself will be curated to succeed on streaming services rather than by itself. In the case of Venezuelan artist Danny Ocean, who’s obscure song got pushed by Spotify on multiple playlist landed him over 260 million streams on Spotify alone, the playlist impact becomes clear. “If Spotify decides, as in the case of Ocean, to throw its weight behind a song in such blandly named playlists as New Music Friday, Today’s Top Hits, RapCaviar or Afternoon Acoustic, it can catapult an act from obscurity to the top of the worldwide charts” (Forde). Slowly, the concept of an album will become more obscure while playlist become musicians claim to fame. Moreover, Spotify distributes data collected pertaining to listening habits to musicians for free. As a result, musicians and labels will use the data to analyze what songs are being played or skipped and act accordingly, further propelling the use of data in the streaming industry to curate the interactive experience.

Now that we have a better grasp on how Spotify works, let us finally see how much Spotify and other streaming services has impacted artists revenue. Before streaming services like Spotify became popular, musicians made money through various channels. An unsigned artist who self-distributed their own CDs could make 100 percent of the profits. iTunes, a very popular service for buying and selling mp3s before the streaming age, gives unsigned artist $0.69 for a single download, and Google Play, Amazon, and iTunes gives signed artist $0.23. Additionally, Bandcamp, a popular music company in which artist can upload their albums and sell them, gives $8.50 for every $10 album downloaded (Dredge). All these options were feasible enough for artists to make a living. While unsigned artists seemingly held an advantage, signed artist often had resources for pushing the musicians content and creating industry connections. As the digital age ushered in new services, retail sales in the music industry began to plummet. Napstar allowed for free music download until it was shut down, while iTunes sold singles at a faster rate than albums. As a result, “Retail music sales in America plunged by almost half, from a peak of $14.6bn in 1999 to a low of $6.7bn in 2014(“Having Rescued Music”). As streaming began to take over, many speculated if this was the next huge revenue source for musicians. For an unsigned artist to earn the US monthly min. wage of $1,260, they require 180,000 streams at $0.007 cents per play. A signed artist requires 1,117,021 plays at $0.0011 cents per play(Dredge). Labels require their cut of the profits for the plethora of services they provide, however, artist are increasingly likely to follow the footsteps of people like Chance the Rapper. While being an independent musician is difficult, the difference in revenue between a signed and unsigned artist is huge. In addition, because Spotify provides data not only to labels, but independent artist as well, you have more knowledge about marketing strategies that can be accessed from almost any location. To conclude, Spotify and other streaming services are beginning to change the traditional way the music industry has been run since the 1970s and 1980s. Do not be surprised if Spotify becomes its own record company/label in the future and establish a more direct way to pay musicians and cut out the middle man.

Spotify only stands to become the powerful musical force in the world. They are even starting to expand by adding some of the most prevalent podcasts around, while keeping radio relevant. While musicians and labels are still navigating the digitally data driven music industry, Spotify will remain the industry leader for many years to come. With more subscribers and data than any other streaming service, they will continue to innovate different entertainment industries to remain relevant and almost necessary. Daniel Ek’s passion project may just become one of the most successful businesses in history, but many wonder what the music itself will become in the end.

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