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Candidate session number

Candidate name

School name

Examination session (May or November)

May

Year

2015

Diploma Programme subject in which this extended essay is registered: Business and Management
(For an extended essay in the area of languages, state the language and whether it is group 1 or group 2.)

Title of the extended essay: To what extent will the growth of Spotify affect artist's profitability?

Candidate's declaration

This declaration must be signed by the candidate; otherwise a mark of zero will be issued.

The extended essay I am submitting is my own work (apart from guidance allowed by the International Baccalaureate).

I have acknowledged each use of the words, graphics or ideas of another person, whether written, oral or visual.

I am aware that the word limit for all extended essays is 4000 words and that examiners are not required to read beyond this limit.

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Date: 12/2/15

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Please comment, as appropriate, on the candidate's performance, the context in which the candidate undertook the research for the extended essay, any difficulties encountered and how these were overcome (see page 13 of the extended essay guide). The concluding interview (viva voce) may provide useful information. These comments can help the examiner award a level for criterion K (holistic judgment). Do not comment on any adverse personal circumstances that may have affected the candidate. If the amount of time spent with the candidate was zero, you must explain this, in particular how it was then possible to authenticate the essay as the candidate's own work. You may attach an additional sheet if there is insufficient space here.

The candidate has a clear idea of the topic and how to carry a good analysis without forgetting the general picture of the case. He has been able to focus all the time on all the research project steps. His research include covering wide & reliable secondary and primary data sources, analyse the different alternatives and pick good and reliable sources that supported his analysis and led to the conclusions.

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I have read the final version of the extended essay that will be submitted to the examiner.

To the best of my knowledge, the extended essay is the authentic work of the candidate.

As per the section entitled "Responsibilities of the Supervisor" in the EE guide, the recommended number of hours spent with candidates is between 3 and 5 hours. Schools will be contacted when the number of hours is left blank, or where 0 hours are stated and there lacks an explanation. Schools will also be contacted in the event that number of hours spent is significantly excessive compared to the recommendation.

I spent hours with the candidate discussing the progress of the extended essay.

Supervisor's signature: _____

Date: 10/03/2015

Assessment form (for examiner use only)

Candidate session number	
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Achievement level

Criteria	Examiner 1	maximum	Examiner 2	maximum	Examiner 3
<i>Was I too broad a question?</i> A research question	2	2	<input type="checkbox"/>	2	<input type="checkbox"/>
B introduction	1	2	<input type="checkbox"/>	2	<input type="checkbox"/>
C investigation	3	4	<input type="checkbox"/>	4	<input type="checkbox"/>
D knowledge and understanding	2	4	<input type="checkbox"/>	4	<input type="checkbox"/>
E reasoned argument	2	4	<input type="checkbox"/>	4	<input type="checkbox"/>
F analysis and evaluation	3	4	<input type="checkbox"/>	4	<input type="checkbox"/>
G use of subject language	3	4	<input type="checkbox"/>	4	<input type="checkbox"/>
H conclusion	1	2	<input type="checkbox"/>	2	<input type="checkbox"/>
<i>parts</i> I heading / sub heading / formal presentation	2	4	<input type="checkbox"/>	4	<input type="checkbox"/>
<i>Some usage assessed</i>	1	2	<input type="checkbox"/>	2	<input type="checkbox"/>
J abstract	2	4	<input type="checkbox"/>	4	<input type="checkbox"/>
<i>Conclusions - rapid, not</i> K holistic judgment	2	4	<input type="checkbox"/>	4	<input type="checkbox"/>
<i>denial answered.</i>	23		<input type="checkbox"/>		<input type="checkbox"/>
Total out of 36	23		<input type="checkbox"/>		<input type="checkbox"/>

Name of examiner 1: _____ Examiner number: _____
(CAPITAL letters)

Name of examiner 2: _____ Examiner number: _____
(CAPITAL letters)

Name of examiner 3: _____ Examiner number: _____
(CAPITAL letters)

IB Assessment Centre use only: B: _____

IB Assessment Centre use only: A: _____

***To what extent will the growth of
Spotify affect artist's profitability?***

↓ Where? Too
Broad?

Business and Management

Word Count: 3989

Abstract

This essay answers the research question "To what extent will the growth of Spotify affect artist's profitability?". This is a topic of frequent debate within the music industry since many famous artists have been publicly criticising Spotify and their business model. This results in a stakeholder conflict between Spotify and their contributing artists which might have a negative effect on the company's corporate image.

With an overview of the history of the industry, along with research on Spotify's current business model and its effect on their stakeholders, it was possible to understand the current situation the company is in. Additionally, a series of analytical tools were used such as SWOT, Porter's Five Forces and the Ansoff Matrix in order to understand Spotify's current position and growth options. The research also provided a number of different views which made up core arguments that could be contrasted against each other to come to an informed conclusion as to what each stakeholder should do.

Through the research done, it was concluded that by growing as a company, Spotify will solve the stakeholder conflict and provide artists with a substantial amount of payout. By growing, they will have a large enough customer base to fund the royalty pay outs to the extent that is expected for a musician on iTunes, for example. The way in which they could grow include Market Penetration along with Product Development that would result in a firm grasp within their market. The implications of this would be that Spotify would ultimately solve a key problem with their business model, which will cause many more artists to allow their music to be displayed on their website and essentially aid the growth and prosperity of Spotify and their contributing artists furthermore.

RQ

methods!

20

words!

The question was not answered artist's profitability?

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Contents Page

Introduction.....	4
History of the illegal music industry.....	5
Spotify	6
The Stakeholder Conflict	6
Analysing Spotify.....	8
Micro Analysis of Spotify.....	9
Macro Analysis of the music industry market.....	11
The Ansoff Matrix.....	13
Arguments for and against	15
Conclusion.....	19
Bibliography.....	20

Intro ?
Significance ?

Methodology ..

The music industry in the USA was a steadily growing market throughout the whole of the 1990s. Reaching a peak of \$14.6 billion in sales by 1999, the industry was heavily struck by the sheer convenience of online file sharing and piracy. As an undeniable result, by 2008, sales had decreased to an astonishing \$6.3 billion - an almost 45% decrease in sales¹. Due to the loss in sales, the music industry began to find different ways in which they could compete with online piracy, initially with the emergence of iTunes. The iTunes store was essentially a way of selling digital albums over the internet and quickly began to gain momentum with those who were against music piracy. Nevertheless, in 2006, Daniel Ek started a venture which would ultimately challenge the massively popular iTunes. Instead of users buying the ownership of every song on the iTunes store, they could stream songs for free on Spotify. The Spotify software consisted of a simple program that offered an extensive library of songs whereby listeners would simply click and gain access to each and every song for free. Those who wanted to download the songs onto their devices, would pay a monthly fee of \$9.99². However, as a result of the monthly, rather than "by song" price, the business model began to have an obvious affect on the profitability of artists^{income!}. With that in mind, it is important to take into account to what extent the growth of Spotify will affect artist's profitability in the future. Spotify's business model, explained by Stuart Dredge as a "combination of ad-supported and subscription-based streaming music³", pays out the artists in the form of royalties which are currently not reaching the artists' expectations. Nevertheless, as Spotify grows as a company and as a platform, one can only imagine how Ek's innovation to the music industry will affect Spotify and their contributing artists.

¹ "Economics and Statistics - Music Industry." 4) Economics and Statistics - Music Industry. N.p., n.d. Web. 05 June 2014.

² Smith, Kevin. "Spotify vs. iTunes: Which Music Service Is Better?" Business Insider. Business Insider, Inc, 08 May 2013. Web. 05 June 2014.

³ Dredge, Stuart. "Spotify, Pandora and the Profits Problem for Streaming Music." Theguardian.com. Guardian News and Media, 01 Aug. 2013. Web. 06 June 2014.

Fifteen years ago, one would never have imagined the possibility of downloading a music file off the Internet, let alone not for free. Shawn Fanning and Sean Parker, the founders of Napster, had this exact idea in mind. Napster, the first file-sharing application was simply the beginning of what was to become a global plague to the music industry. Only 10 months after the program was launched, in May of 1999, the Napster community reached an impressive 20 million members and record labels began to discuss the sheer impact of music piracy⁷. Alex Winter, a film-maker, has been quoted saying that "The world had changed and it was never going back"⁴. In 2001, there was the first recorded dip in the global sales of records⁵, which would cause artists and bands such as Metallica to speak out against Napster⁶. As early as December of 1999, The Recording Industry Association of America (RIAA), who represented the world's largest record labels⁷, alleged that Napster was aiding the infringement of copyrights by allowing users to copy copyrighted music without paying for it. By mid July of 2001, Napster was forced to shut all of its services down and its founders were charged with million dollars worth of fines. As a result of the legal pressures, new business models were created in order to satisfy the public's need for online music. Sean Parker, who was infamous in his days with Napster, became, as of 2010, a key member in the board of directors at Spotify⁸ and said, in an interview with Jimmy Fallon, that Spotify is "the realisation of the dream that Fanning and I had with Napster"⁹.

old, interestingly, it just a backward body
Some figures of a fall in music of artists!
Spencer.
The significance!

⁴ Lamont, Tom. "Napster: The Day the Music Was Set Free." The Observer. Guardian News and Media, 24 Feb. 2013. Web. 06 June 2014.

⁵ Ibid

⁶ Downloaded. Perf. Shawn Fanning, Sean Parker. N.p., n.d. Web. 06 June 2014.

⁷ "The Napster Controversy." RIAA vs Napster. N.p., 2002. Web. 10 June 2014

⁸ "Sean Parker Biography." Bio.com. A&E Networks Television, n.d. Web. 14 June 2014.

⁹ Interview with Sean Parker. Perf. Jimmy Fallon, Sean Parker. Interview with Sean Parker: Co-founder of Napster and Former Facebook President. Youtube, 29 June 2011. Web. 20 June 2014.

Spotify AB, founded in Sweden in 2006 by entrepreneurs Daniel Ek and Martin Lorenzton,¹⁰ is a privately owned company that launched the Spotify software to the public in October of 2008. With the decline in digital downloads¹¹, it was almost inevitable that something in the music industry had to change in order to save itself, and Daniel Ek, now the CEO of the company, believed Spotify was it. Quite clearly, with the popularity of the now ever growing Spotify customer base, Ek's vision of an innovative music streaming online service is coming to life. According to the Wall Street Journal "the average 'premium' subscription customer in the US is worth \$16 a year to this major label, while the average buyer of digital downloads or physical music is worth about \$14 a year."¹² This is exactly where the major stakeholder conflict in question arises: is it worth it for artists to expose and stream their music on Spotify rather than selling their music on services such as iTunes or Amazon, and will the growth of Spotify have any affect on this? To answer these questions, one must first understand how the business model of Spotify functions in order to pay out the artists their allocated amount of "royalties". Within the music industry much importance is put on Intellectual Property (IP), which is essentially all music, lyrics and recordings created by a songwriter or an artist¹³. The artists hold the copyright to their intellectual property and therefore able to control how it is used and essentially expose it where they wish. Companies such as Spotify AB, "purchase" the rights to the songs and payback the artists in the form of royalties¹⁴. According to Spotify, they "pay out nearly 70% of [their] total revenue to rights holders", leaving the resulting 30% to pay for the running of the company.

→ different question

¹⁰ "Spotify Background Information." (n.d.): n. pag. Spotify. Web. 26 June 2014.

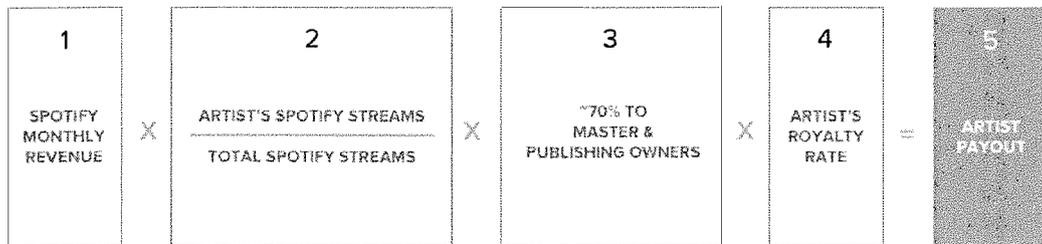
¹¹ Brustein, Joshua. "Spotify Hits 10 Million Paid Users. Now Can It Make Money?" Bloomberg Business Week. Bloomberg, 21 May 2014. Web. 2 July 2014.

¹² "Secrets of Music Streaming." The Wall Street Journal. Dow Jones & Company, n.d. Web. 2 July 2014.

¹³ Mann, Alex. "Copyrights, Deals and Royalties in the Music Industry." BBC Blogs. N.p., 23 Apr. 2013. Web. 2 July 2014.

¹⁴ "Spotify Background Information." (n.d.): n. pag. Spotify. Web. 26 June 2014.

Nevertheless, in many cases, the “right holders” are not just the artists or songwriters, but record labels and other associations that are licensed by the artists. According to the SpotifyArtists.com (a website created solely for the purpose of clarifying the royalty rates), the following is how Spotify AB decides how much money is distributed to artists.



Spotify Royalty Formula¹⁵

Although many believe that Spotify pays artists in a “per play” rate¹⁶, there are, as seen in the previous image, many different variables that affect the artists’ payout. Despite that, Spotify have attempted to work out an average per stream pay out, simply by dividing the pay out by the number of streams an artists gets. Spotify announced that on average, the payout for rights holders range between \$0.0060 and \$0.0084 per stream. However they also clearly want to stress the fact that the “per stream payout generated by our Premium subscribers is considerably higher¹⁷”. This statement would mean that as the number of “premium subscribers” grew, then the pay out for artists would also grow.

intending to read the v. description.

Although it is evident that currently, the payout is not immensely significant, it must be acknowledged that an artists’ profitability is not completely determined by their streaming royalties from just Spotify. Catalogue artists, although making their fortune and name through album sales, have begun to pursue other channels for making a profit such

¹⁵ Spotify Royalty Formula. Digital image. Spotify Artists. Spotify, n.d. Web. 2 July 2014.

¹⁶ "Spotify Background Information." (n.d.): n. pag. Spotify. Web. 26 June 2014.

¹⁷ Ibid

as concerts, books and endorsements. For instance, Beyonce received a \$50 million dollar sponsorship with Pepsi¹⁸. Through these means she has made a considerable amount of profit by ^{Derive ?} diverging from her album sales. This proves that artists are able to benefit from the industry not simply with royalties and sales, but with the exposition and promotion of their brand name. However, for catalogue artists it is easier to benefit from these aspects, whereas new artists might struggle financially. Having researched how the business model affects its major stakeholders, it is essential to use a variety of analytical tools to analyse Spotify on a micro and macro scale, along with the Ansoff Matrix to determine how their current state as a company is and how it might be in the future. In order to analyse Spotify on a micro scale, an analysis of Spotify's strengths, weaknesses, opportunities and threats (SWOT) is required.

more than just gap example.

But this is not the research question.

One of Spotify's greatest strengths is the size of the market they operate in, which is huge. Having hundreds of millions of people who listen to music makes Spotify a service that has an immense market potential. Additionally, since Spotify can stream advertisements to its users, it can guarantee some revenue to their publishers and the artists while at the same time being a free service for those who choose to not become premium subscribers. Nevertheless, there are still a range of weaknesses that Spotify have, for instance, the fact that not all artists are registered on Spotify which makes for a limited music library. Even though Spotify can guarantee revenue through the advertisements, it is quite low when compared to traditional business models in the industry, one of the main causes for the stakeholder conflict. Spotify also have a series of opportunities to turn to in the future as result of current development in online technologies and mobile improvements which might have positive affects on Spotify's streaming model. The fact that there are an abundance of illegal services will result in Spotify having a constant advantage over all of them since they operate in a way which

Based on ?

¹⁸ "Beyonce's \$50 Million Pepsi Deal." *Forbes*. Forbes Magazine, n.d. Web. 8 July 2014.

is compliant with applicable laws and therefore have achieved legal stability, unlike the illegal competitors. Contrastingly, there are a series of threats to Spotify since some of their competitors, particularly the iTunes store, have been around for a much longer time. They have been able to establish dominance in the market which makes for tough competition and a long term challenge on user preference¹⁹. Also, the revenue currently coming from both advertisements and premium subscribers fees is quite low, which makes for low pay out for artists, which might lead to public criticising of the company by artists in general. It is clear, through the analysis, that although Spotify have many strengths and opportunities, they have a large number of weaknesses and threats which constrains their success in the music industry. Nevertheless, as the company grows, it will, to some extent, remove a series of their weaknesses and possible threats to their competitiveness, such as the limited library, low revenue and unbalanced competition. In order for Spotify to grow in such a way, it is vital to understand how much power they hold within their market.

audience?

The application to the research question:

Through the use of Porter's Five Forces as an analytical tool, one can analyse Spotify's market on a macro scale and discover how much power Spotify truly has in their stakeholder conflict, as well as within their market. In order to use said tool, it is important to take into account five aspects in this business circumstance:

Porter's Five Forces	
Supplier Power	How easy for suppliers to drive up prices?
Buyer Power	How easy for customers to drive down prices?
Competitive Rivalry	How many competitive rivals are there?
Threat of Substitution	How easy is it for customers to get the same service elsewhere?
Threat of New Entry	How easy it is for other businesses to enter the market?

¹⁹ "The Spotify Business Model: No Guts No Glory." Capitalist Creations. N.p., n.d. Web. 7 Aug. 2014.

In terms of supplier power, it is quite difficult for suppliers, that is artists and record labels, to drive up the price considering they are paid using a complex selection of variables outlined previously. Additionally, there are contracts signed at the onset of the artist or label's deal with Spotify, which therefore gives Spotify the upper hand in this aspect, since these cannot be changed with such great ease. Nevertheless, some artists have begun to disallow their newest songs to be exposed on Spotify, due to complications with the company and their business model. This will have quite a negative affect on the image of the company along with the customer base. However, this is quite a rare occurrence, allowing Spotify to remain in control over their suppliers.

uf?
Based on?

application to the R. question. Can a contract be negotiated?

The buyer power is, yet again, in Spotify's hand, since they are able to payout a reasonable amount to their suppliers without subscriptions and can rely on a mostly free service, with an increasing base of paid customers. The free version provides a great service meaning that customers literally cannot complain or try to lower the price. Even the premium service, when being compared with the price of CD's or downloading, is incredibly low due to the fact that to purchase an album can cost £10, whereas one would pay £10 a month to download and listen to Spotify's entire collection, providing Spotify's customers with a more affordable option when choosing between services.

So customer loyalty price is high?

When analysing competitive rivalry, it is clear that there is a huge number of competitors on the market, however many of which are illegal. On the other hand, iTunes, the market leader in digital music sales and Pandora, the market leader in the streaming services, are such huge players in the online music market that makes it hard for Spotify to gain market share and become a significant competitor. In this respect, Spotify does not have an advantage, but rather should be threatened by iTunes, Pandora and possibly even others.

The R. question?

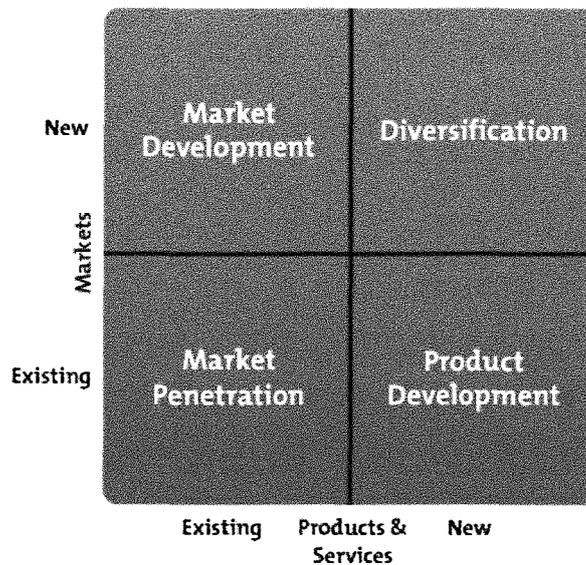
cl/19?

Similarly, in terms of threat of substitution, customers who are not happy with Spotify can simply change to iTunes, Pandora or any other similar service. However, it is also clear that, since the music industry is so competitive, Spotify do have the advantage when it comes to threat of entry. This is because they have managed to establish themselves, to some extent, in a market that requires a lot of legal procedures along with popularity. Overall it is clear that although Spotify has a good basis for growth, they are currently overshadowed by large competitors.

Application to the research question,

After having performed a micro analysis of Spotify and a macro analysis of the industry, it is possible to determine how Spotify's competitive stance is within the market of online music. Nevertheless, seeing as growth is clearly essential for the future profitability of their artists, it is important to recognise Spotify's options. By using the Ansoff Matrix, one can assess the risks associated with different options²⁰ in terms of growth. There are four ways in which Spotify can develop themselves as a company:

Spotify must make a comparison (also) to the research question.



The Ansoff Matrix²¹

How does this answer the 12th question re: the profitability of the artists?

²⁰ "The Ansoff Matrix: Understanding the Different Risks of Different Options." MindTools N.p., n.d. Web. 12 Sept. 2014.

²¹ *Ansoff Matrix*. Digital image. MindTools. N.p., n.d. Web. 13 Aug. 2014.

As a company moves away from their existing market and their existing product and services, they will be open to a higher risk of external factors. With regard to Market Penetration, Spotify could offer promotions to customers and possibly engage in above the line marketing. With this they would gain a larger user base, which would essentially help them grow within their market. This would be the safest way in which Spotify could attempt to grow since they will remain in their existing market with their existing services. Other ways of growing include Product Development, meaning that Spotify would develop their software to provide their existing customers with a wider range of media, possibly more than just music, or a more complex software to produce new services. This however would put them at a risk of pushing away existing customers who enjoy their simple and straight forward service. Implementing this option would be of moderate risk, since they have experience in their market, however are inexperienced with new services. Spotify could also grow through Market Development which includes the targeting of new markets. For example, Spotify could have a host of child-only artists and a “kids section” to appeal to their younger, less frequent audience. This however, does have its own risks including the possibility of product not being well received, and their brand image might be undermined, however these risks are moderate, since they have relative expertise in their services but would be entering a new market. The last area in which Spotify could grow, would be by diversifying their business, which could include starting up a completely new product in a completely new market. This is the form of growth that holds the most risk, due to the fact that they would have no experience in the market or the service/product, which could induce damaging effects to the company. In terms of Spotify’s current state, it would be quite reasonable for them to expand their business through means of Market Penetration and Product Development for the simple reason that although their current market share is still quite weak, their business model has immense potential for the future. By growing in these ways, they will eventually gain



Based on,

Based on,

the market share needed to provide artists with a greater payout essentially solving the stakeholder conflict.

~~market share~~ = artist's profitability

Although many argue Ek's vision behind Spotify's greatness is the way forward, a number of musicians, notably the Black Keys, "refuse to make new music available through streaming services"²². There is a long-standing debate between Spotify and artists who believe they do not pay new artists as much as they should²³. This stakeholder conflict may have an increasing negative affect on the company's corporate image, which may result in other stakeholders, such as potential customers or other musicians, to back away from Spotify's streaming services. One of the main arguments against Spotify's business model was put forth by Nigel Goodrich and Thom Yorke, two active members of the music industry who believe that "the current Spotify payment structure is slanted heavily in favour of major labels". Both feel that the "odds are stacked against" new artists who receive a smaller "share of the royalty pie" due to "secret deals for favourable royalty rates"²⁴. A key example of this is folk rocker Damon Krukowski who concluded an article by saying "A song of his would have to be played 47,680 times on Spotify to bring as much money as he'd get from a single album sale²⁵". This demonstrates that, to many new artists, it would most likely be better to expose their music on websites such as iTunes or Amazon in order to get a higher monetary return for their efforts, which is why Godrich believes that "Catalogue (famous artists) and new artists [...] can't be lumped together²⁶". The success and exposure that catalogue artists receive overshadows

is this really the research question?

²² Brustein, Joshua. "Spotify Hits 10 Million Paid Users. Now Can It Make Money?" Bloomberg Business Week. Bloomberg, 21 May 2014. Web. 2 July 2014.

²³ Ubaghs, Charles. "Why You Shouldn't Feel Guilty for Using Spotify." The Quietus. N.p., n.d. Web. 2 July 2014.

²⁴ Ibid

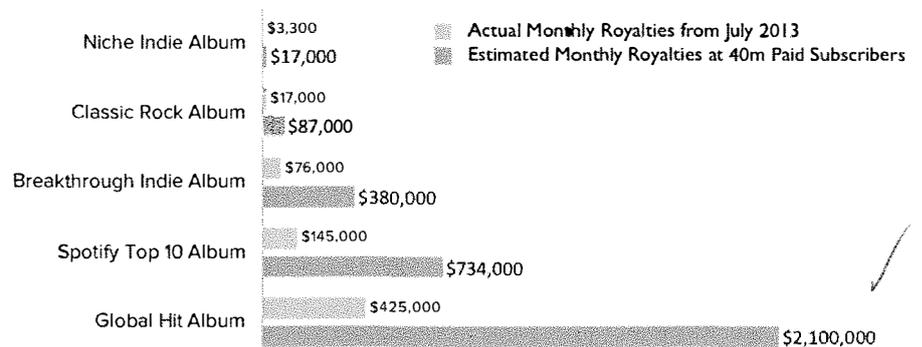
²⁵ Lazich, Nick. "Big Growth Is Not Making Big Profit For Spotify." Benzinga. N.p., n.d. Web. 4 July 2014.

²⁶ Ubaghs, Charles. "Why You Shouldn't Feel Guilty for Using Spotify." The Quietus. N.p., n.d. Web. 2 July 2014.

new artists and since they share the same 70% of Spotify’s revenue, the new, less famous artists, have a financial disadvantage. It can also be argued that even with the growth of Spotify as a platform and as the artist base grew, the “royalty pie” would be further divided creating even smaller shares for each artist. Nevertheless, this must be taken into account with the knowledge that as Spotify grows, so will the customer base and the premium subscriptions, which will to some extent counter this affect.

As for the argument in favour of Spotify’s business model, the company argues that one of their main aims is to counterpoint the illegal music industry²⁷. By making it easier for people to access music, they hope that in turn they can fully negate all the effects of illegal downloading, while at the same time paying artists. Others also argue that Spotify creates exposure for their artists which “drive sales”²⁸ which can be seen with Mumford & Son’s second album which was released on Spotify and held the “record US first-week sales alongside record US streams”²⁹. Others that support the Spotify model believe that for artists to “receive the amount of revenue they can live off, it needs to reach a certain scale”³⁰, which is reflected on the Spotify Explained website:

Visual representation of the effects of growth on royalties³¹



²⁷ Mackay, Emily. "Is Spotify a Musician's Friend or Foe?" The Independent. Independent Digital News and Media, n.d. Web. 9 July 2014.

²⁸ Ibid

²⁹ Ibid

³⁰ Ibid

³¹ Relative Estimated Figures. Digital image. Spotify Artists. Spotify, n.d. Web. 9 July 2014.

As mentioned previously, as the company grows with premium customers, Spotify will receive higher revenue, and as a result royalties will essentially be greater: as Spotify scales, so do the artists' payout. If compared to YouTube (1 billion users per month) or iTunes (575 million active users), Spotify has a minuscule scale with only 24 million global users, and only 6 million of which are paying subscribers³². Above is a comparison between 6 million paid users³³ (as of July of 2013) and 40 million paid users, which demonstrates how growth will have a positive effect on the artists. However, it can also be derived from the image that even though there is a larger payment for all artists, the catalogue artists are still being favoured more, which leads to the conclusion that the increase in royalty will *always* be proportional to the popularity of the artists.

Artists who do not form part of Spotify also have arguments favouring the business model. Examples of this include Cellist Zoë Keating who believes that Spotify is "awesome as a listening platform", however she does recognise that it is a "discovery service" rather than a "source of income"³⁴. Even though the profitability of the artists is important, there are a series of factors that work together to aid an artists' rise to fame, which are not all monetary, such as the promotion of their brand or exposition of their music, as mentioned previously. This however, does not take away from the fact that Spotify's current state does quite heavily affect the profitability of artists. In the case of Daft Punk, there has been quite a lot of controversy after David Byrne claims that each member of the group only made around \$13,000³⁵ from their summer hit Get Lucky that received 104,760,000 streams. On the other hand, Jay Frank, a musician, argues that,

³² Ubaghs, Charles. "Why You Shouldn't Feel Guilty for Using Spotify." *The Quietus*. N.p., n.d. Web. 2 July 2014.

³³ Ibid

³⁴ Byrne, David. "David Byrne: 'The Internet Will Suck All Creative Content out of the World'" *The Guardian*. Guardian News and Media, 12 Oct. 2013. Web. 6 July 2014.

³⁵ Ibid

according to his calculations, they were due to received \$42,000³⁶ each. Even though Jay Frank does provide an improved value, it is still a minuscule amount when being compared to the amount of plays the song had. This further amplifies the reality of the current state of Spotify's business model; even the extremely famous would not be able to sustain themselves with the profit they make from Spotify.

All arguments aside, the world is, according to Dave Allen, "in the middle of a transitional state where new markets are being formed and evolving"³⁷. Similarly, Billy Bragg argues, "Artists railing against Spotify is about as helpful to their cause as campaigning against the Sony Walkman"³⁸. What both are attempting to put across is that fact that new ideas seem to always challenge old and established ones. One can only deny Spotify's potential after having experienced it in the long run. As demonstrated by the numbers presented in Spotify's forecast for their monthly royalties at 40 million paid users, in theory, by promoting and supporting Spotify with their music, artists should profit in the long run. Nevertheless, for the time being, newer smaller acts will have to deal with the fact that their royalties are not as expected. Therefore, it is quite clear that in the short term, Spotify's business model might be financially detrimental to smaller artists, but that is not to say that in the long run, with the growth of Spotify, it will not turn out to be a great investment - Joshua Brustein claims that "Spotify's solution is to grow its way out of trouble"³⁹.

³⁶ Frank, Jay. "Daft Punk." *FutureHitDNA*. N.p., n.d. Web. 6 July 2014.

³⁷ Ubaghs, Charles. "Why You Shouldn't Feel Guilty for Using Spotify." *The Quietus*. N.p., n.d. Web. 2 July 2014.

³⁸ Ibid

³⁹ Brustein, Joshua. "Spotify Hits 10 Million Paid Users. Now Can It Make Money?" *Bloomberg Business Week*. Bloomberg, 21 May 2014. Web. 2 July 2014.

Conclusions!

In answer to the research question, "To what extent will the growth of Spotify affect artist's profitability?", this essay concludes that the business model applied by Spotify is quite innovative, however it requires time for it to be effective and positively affect artist' profitability. Over the years, the developments of digital music softwares has paved the way for innovation in the music industry. First with Napster, then iTunes and now Spotify, the music industry has managed to move with the digitalisation of the 21st Century. Nevertheless, it is clear that in Spotify's current state, it's business model is financially detrimental to most of its artists due to the fact that the customer base is not large enough to provide the revenue necessary for payouts to be as expected when being compared to some of it's competitors. This stakeholder conflict has had a negative effect on Spotify as a company, and if it is not solved, it might even be its demise. Nevertheless, by playing to their strengths and using available opportunities, Spotify can grow within their market and develop their product, which will have an increasing effect on the artists' profitability in a positive way. By attracting as many paid customers to their services as possible, the revenue dedicated to their royalty payments will become large enough to satisfy the needs of all their contributors, effectively solving their stakeholder conflict. As a result, artists should support Spotify with their music instead of critiquing the company's business model, even if they are not pleased with their current royalty rates. This recommendation is essential because if Spotify are able to execute it effectively, the business model will end up being very profitable in the long term and, in the future, may be the saviour of the music industry and all its artists.

to what extent?

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