# India's Music Streaming Industry & Spotify Business Model

Spotify is a digital music, podcast, and video service that gives users access to millions of songs and other content from creators all over the world. Spotify's most valuable asset is its proprietary software platform, which has more than 100 million active users worldwide. Spotify is also the current market leader in India with **26%** of share.

## COST STRUCTURE
- Spotify's business model is **cost-driven**, with substantial automation and low-cost value propositions trying to cut costs.
- **Transaction expenses**, a fixed cost, are most likely the main cost driver.
- Other key cost drivers include tech infrastructure, sales/marketing and customer support/operations, latter two being fixed costs.

## KEY FIGURES
- **30 Crore MAU** for music streaming apps in India
- **46 Crore** music streams played per day in FY23
- FY23 Revenue – **Rs 2400Cr**

## KEY PARTNERS
1. Investors
2. Music Partners
3. Marketing Partners
4. Advertising Partners
Spotify has several brand collaborations. Developers can also use the company's APIs and software development kits to create apps.

## VALUE PROPOSITION
- **Accessibility** - Music for everyone - by being available on-the-go either on your smartphone or on a desktop.
- **Affordability** - Spotify pioneered the "Freemium" business model, which provides users with free and paid tiers of service.
- **Customization**: Allows customers to search their favourite songs and create playlists, recommends music.
- **Performance:** Through actual, tangible outcomes, the company has proved great performance.
- **Brand/Status**: Spotify has developed a strong brand as a result of teaming up with several well-known brands to raise brand recognition and sales.

## CUSTOMER SEGMENTS
Spotify's business strategy is multi-faceted, with two interdependent client categories that are both required to operate:
1) **Musicians** who produce the music.
2) **Listeners** who stream it over the internet.

## KEY RESOURCES
Its **technology talent** is responsible for maintaining the platform, while its **customer service** crew provides support. Initially, it has relied largely on outside finance, having raised $2.56B by Mar'16. Current valuation is ~$30B.

## CHANNELS
- Spotify's main consumer channel is its **website**, where the majority of its customers are acquired. There is also the **mobile app** for both iOS and Android.
- **Business development** team, which contacts record companies, is the main point of contact for musicians.
- The company relies on advertisement via **social media** and demonstrations at **conferences**.

# SPOTIFY REVENUE MODEL

1. **Attract a large base of users with a free service-** Freemium plan gives users access to a catalogue of millions of songs. The free service has basic functionality, but users have to listen to ads that partially subsidize the free plan.
2. **Convert free users to premium** -Spotify converts free users to paid users as the premium service has additional features and it removes ads. In India, currently about 40% users are premium users, generating 90% of total revenue, almost same as the global average.
3. **Manage retention and churn -** As a user's lifetime value (LTV) - how much Spotify can earn from a user over time - increases, the longer the company can retain users. Spotify's premium churn rates are currently falling, which is reassuring.
4. **Balance cost of free and premium -** Spotify pays record labels close to 52% of the revenue generated by each stream. Royalties cover about 75% of overall cost.
5. **Finance it all with the revenue stream from premium -** The particularity of the freemium model is that you have to cover the costs of free and paying users.

## Current Premium Plans in India



| One-time plans available | 1 month free | 1 month free | 1 month free |
|---|---|---|---|
| | One-time plans available | One-time plans available | One-time plans available |
| **Mini** From ₹7/day 1 account | **Individual** ₹119/month after offer period 1 account | **Duo** ₹149/month after offer period 2 accounts | **Family** ₹179/month after offer period Up to 6 accounts |
| ✓ Ad-free music listening on mobile | ✓ Ad-free music listening | ✓ For couples who live together | ✓ For family who live together |
| ✓ Group Session | ✓ Group Session | ✓ Ad-free music listening | ✓ Block explicit music |
| ✓ Download 30 songs on 1 mobile device | ✓ Download 10k songs/device on 5 devices | ✓ Group Session | ✓ Ad-free music listening |
| | | ✓ Download 10k songs/device, on 5 devices per account | ✓ Group Session |
| | | | ✓ Download 10k songs/device on 5 devices |
| VIEW PLANS | VIEW PLANS | VIEW PLANS | VIEW PLANS |
| Terms and conditions apply. | Terms and conditions apply. 1 month free not available for users who have already tried Premium. | Terms and conditions apply. 1 month free not available for users who have already tried Premium. | Terms and conditions apply. 1 month free not available for users who have already tried Premium. |

## Comparing Free & Premium

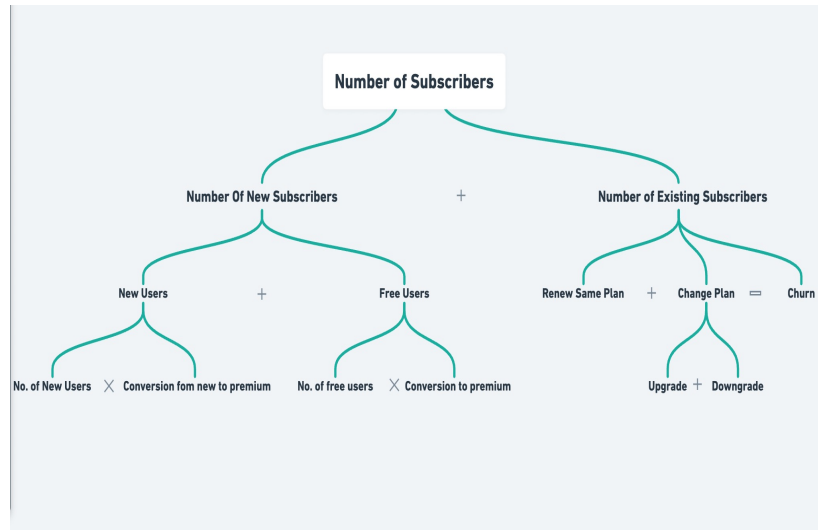| | Free | Premium* |
|---|---|---|
| Access to over 30 million songs. | ✓ | ✓ |
| Access to podcasts and videos. | ✓ | ✓ |
| Travel abroad with your music. | For up to 14 days. | ✓ |
| On demand mobile access. | | ✓ |
| No ad interruption. | | ✓ |
| Listen offline. | | ✓ |
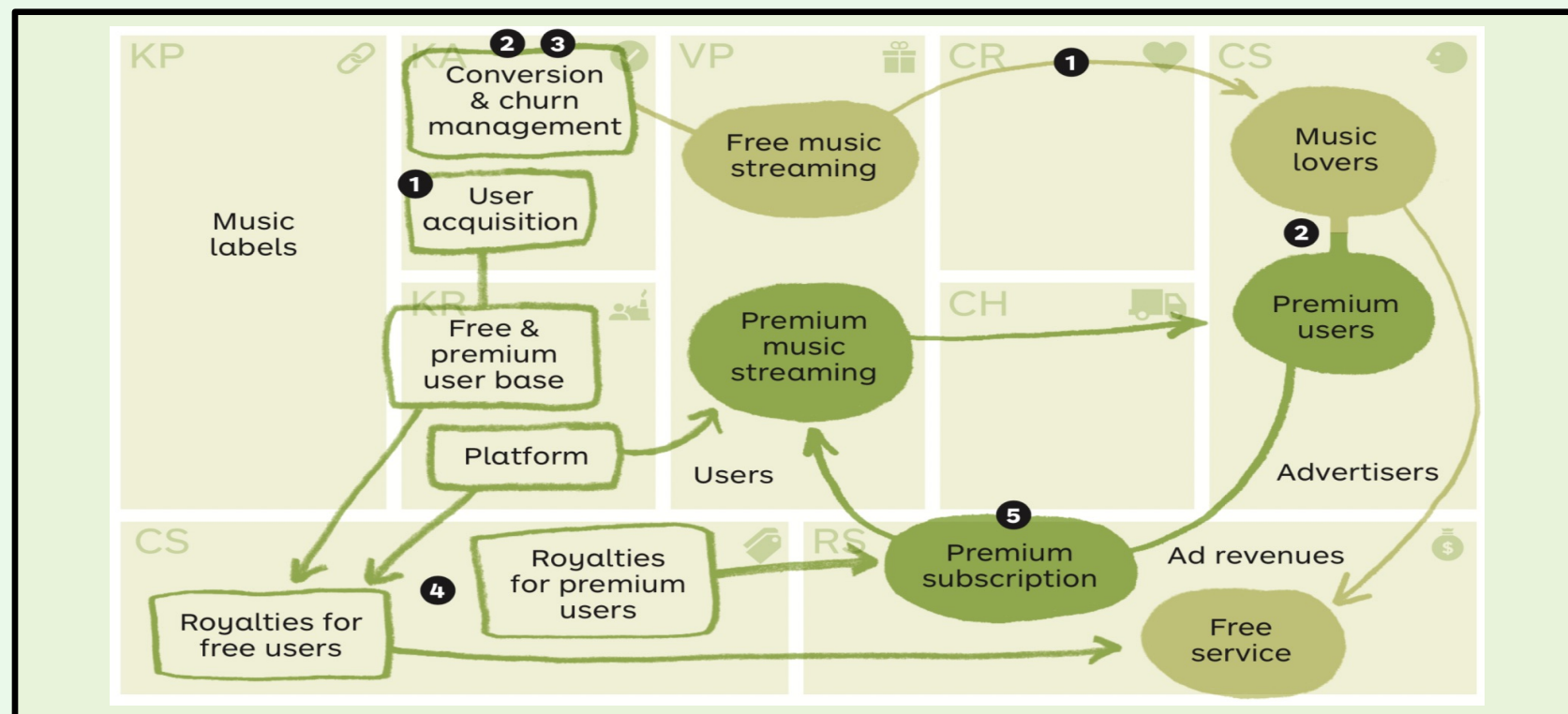
# Mapping Business Outcomes to Product Outcomes

## KPI Tree

**Our Goal**: Increasing the number of active subscribers to the subscription plan.
**Product Outcome**: Converting new and free users to subscribers, getting subscribers to renew.

[Link to KPI Tree](#)



## Current User Statistics by Age Group



- 26% [226] — 18-24
- 29% [153] — 25-34
- 16% [91] — 35-44
- 11% [65] — 45-54
- 19% [52] — 55+

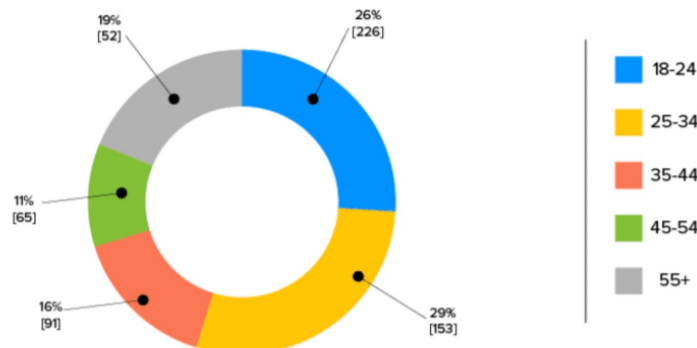# Understanding the Target Market Segment

## Target Market Segment

- **Demographic segment**: Students and working professionals between the ages of 18 and 34 who are looking for quality music for entertainment.
- **Technical Proficiency**: Fairly tech-savvy, uses a smartphone and modern apps regularly.
- **Geographic segment**: Majorly urban-dwellers in Tier 1, Tier 2 and Tier 3 cities.
- **Income**: Average monthly income more than Rs 30,000 per month.

## Secondary Research

- **30Cr MAU** for music streaming apps and **46Cr** music streams played per day in FY23.
- Over the past three years, the industry in India has witnessed a surge of about 1.6X in daily streams to reach this number.
- **Vernacular** music saw the most growth – 34% of total music streams in FY23.
- User penetration rate is **5.9%** in 2023 and is expected to increase to **7.1% (~10Cr consumers i.e., a growth of 2Cr)** by 2027.
- **Spotify** is the current market leader in India with **26%** of total streams and **5.5Cr MAU**.
- For Spotify, in the last 2-3years, diversity in the subscription packs has increased (student plans, one-day and one-week packs etc.) which has led to more subscriptions, mostly coming from the top 10 to 12 cities of India.
- The growth rate of subscription revenue has outpaced that of advertising revenue in the last four years, for Spotify.

## Pain Points

- Many young adults like students have limited disposable income.
- People who don't regularly listen to music may not find value in premium plans.
- Ad frequency in free plan is much higher when compared to competitor apps and significantly affects the quality of listening.
- Better song recommendation and intuitive UI that is easier to navigate are especially important for people who aren't too invested in listening but would still like a good playlist

# User Research & Problem Validation

## Research Methodology

As part of the primary research, a two-part study was performed to understand the pain points of the target audience.
- Survey: An online form was circulated to understand the demographic, music app preference and listening habits of the target audience.
- User interviews: A follow up user interview was conducted with 5 respondents to gain further understanding of the problem.

## User Persona 1

Name: Rahul                                  Age: 25
Occupation: Software Engineer      Location: Bangalore

"I am an avid music listener who likes many genres. I like listening to music when I am coding as it helps me relax and focus at the same time. The challenge is in finding a single app that gives good audio quality, recommendations and great performance."

## User Persona 2

Name: Megha                               Age: 30
Occupation: Govt Employee        Location: Jaipur

"I like listening to music during my daily commute. I prefer vernacular music over international options and I am looking for a music app where I can easily create playlists and be updated of new releases and find more music of my interest during my limited commute time."

## User Survey Insights

The survey was sent to the target market segment to understand their listening habits and needs and what they are expecting to gain from a paid music app subscription.

Following insights were gathered from the survey regarding their music listening habits:
- **80%** respondents has a music app in their phone
- **30%** listen to music everyday
- **40%** use a paid subscription
- **50%** found difficulty in finding new music of their interest effortlessly

Reason's for not using a paid subscription:
- People who aren't avid listeners don't see value in paying for music.
- Some of them, especially students find the premium plans too expensive and even use crack app versions for their music needs.
- Some people find that music streaming drain mobile data quickly and therefore resort to a limited list of already downloaded music.

Are they looking for change ?
- **50%** users do not find normal subscription plans too costly and are willing to pay if their concerns are addressed and if they find value in the paid plans.
- Creating avenues to foster more engagement with the app may attract and retain paid users.
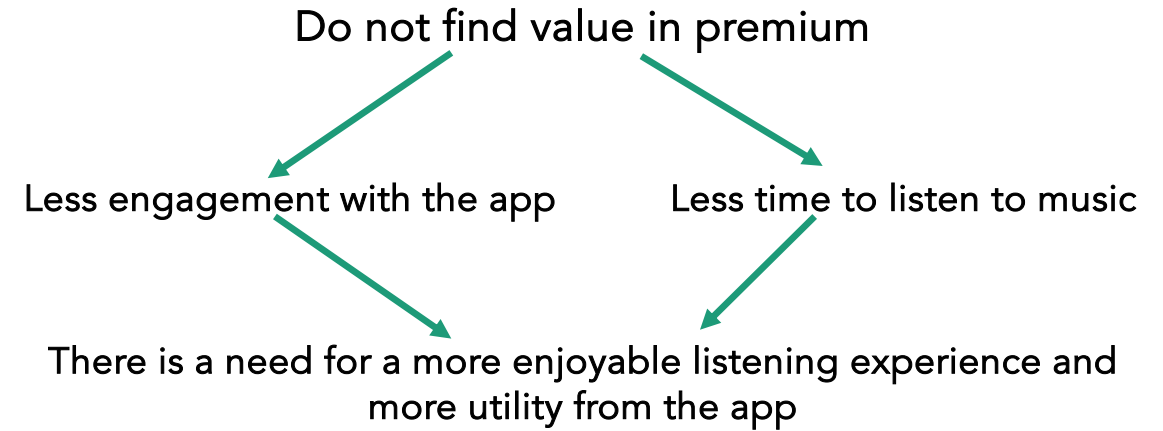
# Digging Deeper into The Problem

## Redefining the True Problem

Users, especially those who aren't avid listeners, are reluctant to pay for a premium as they don't see the value in it. Lack of active engagement with the application is the hindrance, especially for free users, to convert to premium.

## Breaking Down the Problem

Do not find value in premium

Less engagement with the app

Less time to listen to music

There is a need for a more enjoyable listening experience and more utility from the app

## Why Solve This Now

- User penetration rate for music streaming apps is 5.9% in 2023 and is expected to increase to 7.1% by 2027. This is an increase of ~2Cr users and is important to tap into it now.
- Revenue from music streaming market in India is projected to grow by 8.72% (2023-2027) resulting in a market volume of ~Rs 5000Cr in 2027.
- India is a fast growing market and research shows that Indian consumer mindset is maturing in the direction that more and more consumers are now willing to pay for digital services.

## Job To Be Done

**When I** think of listening to music, I start with a few free apps in my phone

**But I** get frustrated with the ads in the free plans and think of upgrading

**Help me** find more value from the application

**So tha**t I find the subscriptions worth the price

# Possible Solutions

## Music Trivia

**Idea**: There will be music and genre-related quizzes for premium users that they can participate in inside the app. There should be leader boards based on performance across a number of quizzes and the weekly winners get a reward such as free movie tickets.

**Why it works:**
This idea is based on gamification and helps in fostering consistency and thus more engagement. People would love the thrill of competition and the prospect of winning is a strong motivator for people to participate.

## Live Music Discovery

**Idea**: Premium users will be able to find information on live performances by artists whose music is available in the app. They will be notified of performances by artists they marked as favourites and will also be able to book tickets through third party app integrations.

**Why it works:**
This idea works especially for college students who love concerts and performances. This will be an ideal bonus point that will compel them towards paying for a premium.

## Find & Add Friends

**Idea**: For premium users, app should give friend suggestions based on phone numbers in contact list and should enable searching by name or user name. Friend requests can be sent and friends will be able to share playlists with each other. There will also be suggestions based on common interest and mutual friends.

**Why it works:**
Social engagement will add more value and definitely improve overall engagement with the app and leads to retention and less churn as this would be a feature unique to Spotify.

| Feature | Reach | Impact | Confidence | Effort | Total Score |
|---|---|---|---|---|---|
| Music Trivia | Moderate | Moderate | Moderate | Moderate | 4 |
| Live Music Discovery | Moderate | Moderate | Moderate | High | 2.66 |
| Find & Add Friends | High | High | High | High | 9 🏅 |

High =3 Moderate = 2 Low = 1 Total = (R*I*C)/E

# Designs for The Proposed Solution
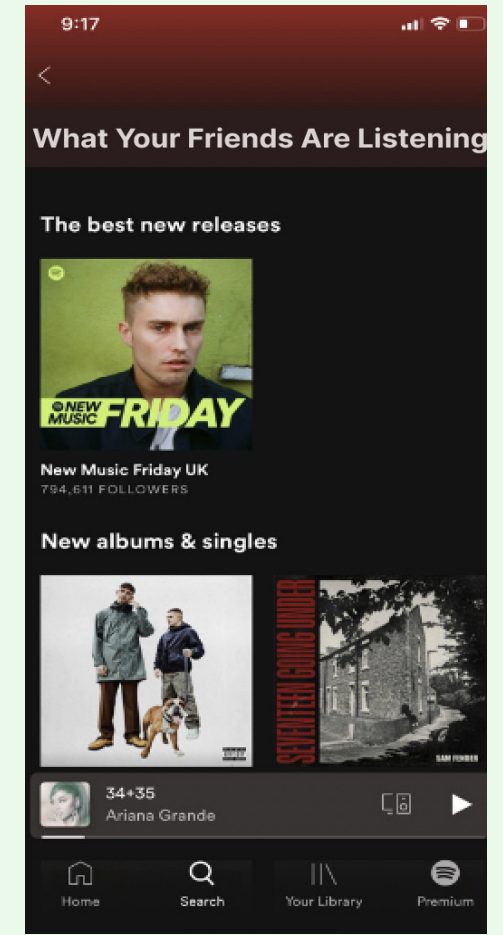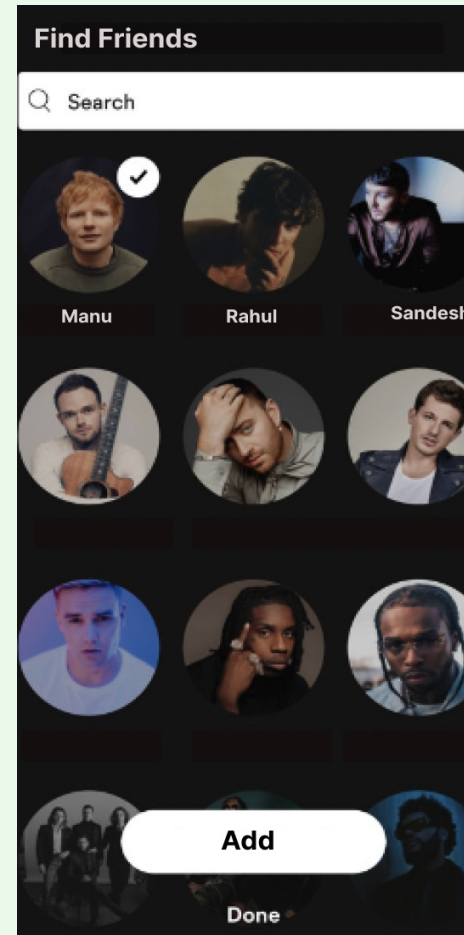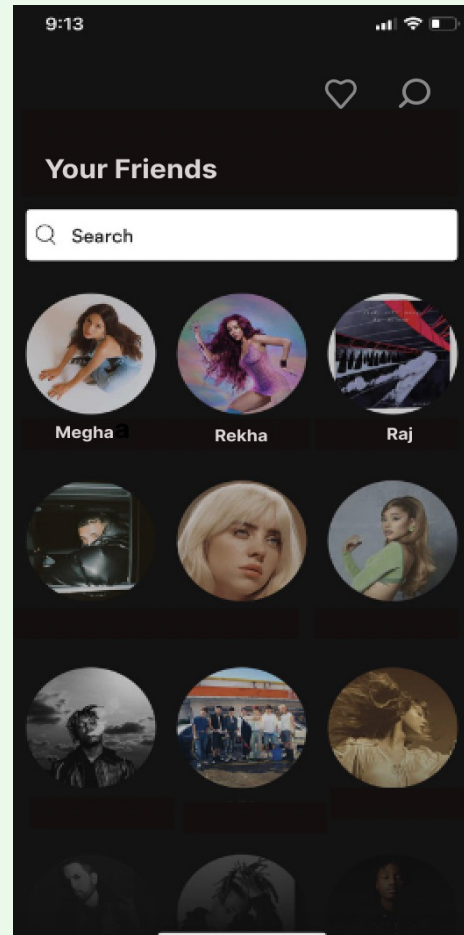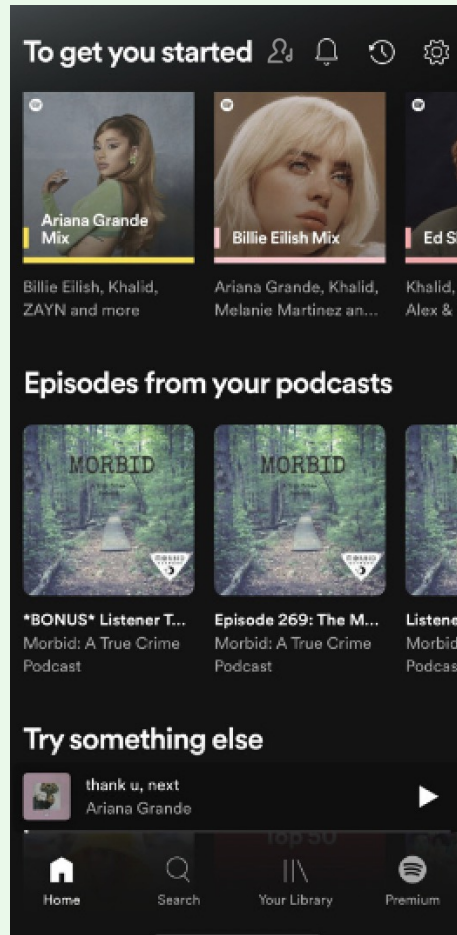


Friends section on the top navigation bar. From there, user will be taken to friends list. The icons on top right here are for finding song recommendations based on what your friends are listening to and for finding new friends. Inside a friend's profile, the user should be able to see their playlists if they have made it public or request them access to view their playlists and for copying them.

# Key Metrics to Track Success

| Type Of Metric | Metric for Spotify | Significance of Metric | Want |
|---|---|---|---|
| **North Star Metric** | Number of paid subscribers | Since the goal is growth in number of premium subscribers, this should be the NSM | ⬆ |
| **L1 (Primary Metric)** | Number of free users converting to premium | Free users are more likely to convert to premium than any other group, directly contributing to the NSM | ⬆ |
| **L2 (Input Metric)** | Number of new users signing up | This is the pool of potential users who can turn into subscribers | ⬆ |
| **Adoption Metric** | Number of visitors converting to subscribers | Number of users who visit the premium tab who sign up | ⬆ |
| **Engagement Metric** | Daily Active Users/Monthly Active Users | Indicates that converted users find value and won't churn out | ⬆ |
| **Usage Metric** | Number of listening hours | Higher listening hours means higher usage of the app | ⬆ |
| **Retention Metric** | Number of users renewing premium | This is the ultimate measure of retention in this case of growth | ⬆ |
| **Satisfaction Metric** | App ratings | Higher app ratings is the most visible indicator of satisfaction | ⬆ |
| **Outcome Metric** | Increase in revenue from premium users | Ultimate goal is growth in revenue from the growth in users | ⬆ |
| **Health Metric** | Latency in loading music | Latency should be less for the best user experience | ⬇ |

# Potential Pitfalls & Mitigation

| Potential Pitfalls | Mitigation |
|---|---|
| Some people prefer privacy and won't want to engage socially regarding personal preferences like music | There should be option for people who don't want to be discovered and don't want to have a social profile |
| Since this involves a lot of engineering effort, the feature may take long to be pushed out | The MVP should be simple yet value adding |
| Engagement with friends will still be limited in the current proposed solution | Exchanges will be based on one-tap requests between friends which will still aid in the expected outcome |
| There is a chance this feature will take a life of its own and distract users from the core functionality that is listening to music | Further additions to this basic feature should be minimal. |