

Spotify: The UK Stats

We recently asked if Spotify would back up claims it was making a dent in illegal piracy, disprove suggestions that it was cannibalising existing recorded music sales. Little did we know it was already working on just that.

At a Scottish Society for Computers & Law (SCCL) event last week in Edinburgh, director of content Niklas Ivarsson took the stage with PRS for Music's chief economist Will Page for a joint presentation. Ivarsson revealed that in July, Spotify had 2.7m users in the UK. In the six months to the end of July this year, more than 4m tracks were available to stream in the UK, of which 3m were accessed, generating more than 1bn streams in total.

Those were the topline stats. The presentation also saw Ivarsson claim that 55-60% of Swedes who have file-shared in the past now use Spotify - and that three quarters of those users have changed their habits - i.e. stopped or reduced their file-sharing - since starting to use the service.

These stats came as the IFPI released research indicating that 60% of Swedish file-sharers have stopped or cut file-sharing since the start of April, when the IPRED anti-piracy law came into force. However, Spotify is also seen as a factor in that reduction: it has 1m users in Sweden (in a population of only 9m), and claims to account for 35% of all digital

music revenues there.

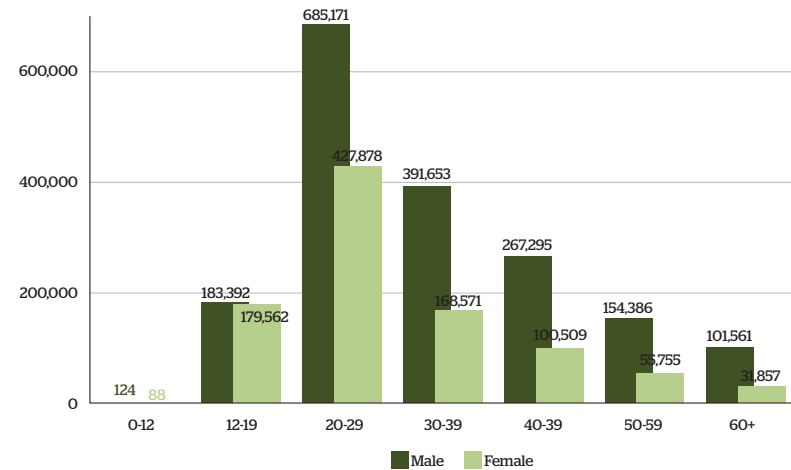
But Ivarsson and Page went further in the SCCL presentation, revealing demographic data on Spotify's user base in the UK. Figure 1 shows the UK penetration broken down by age and gender of Spotify in the six months to the end of July this year.

Page pointed out that you could slice and dice the data in various ways. For example, 20-29 is the biggest age group with 1.1m users; there's a distinct male bias; and more 50+ year-olds are using Spotify than teenagers. However, he offers another approach, which is to observe that more than half of Spotify users are over the age of 30. Page also suggests that there are other ways of understanding a market, such as geography and disposable income, which may make age and gender less significant.

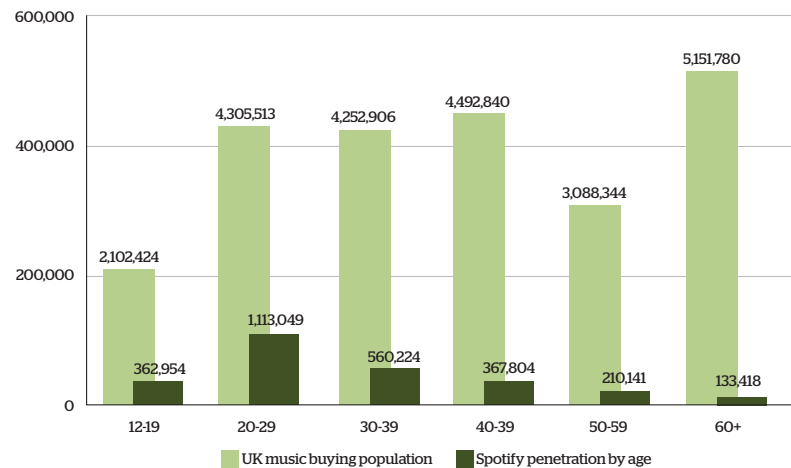
He concludes that the kneejerk reactions to Spotify's phenomenal launch, that it risks 'cannibalising so-called '50 Quid Man', needs to be tempered with the facts. Therein lies an irony, according to Page, in that Spotify have revealed their facts and, by doing so, it raises more questions than answers about what that means when you plot the data against the TNS survey data in the BPI Statistical Yearbook.

But this is where the second chart (figure 2) comes in. It plots Spotify's demographic breakdown by age against the UK music buying public, as defined by the BPI's

Spotify UK penetration, by age and gender, six months to July 2009



Spotify UK penetration against UK music buying public



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Statistical Year Book 2009 and churned through the ONS official population stats. It estimated that 40% of the current UK population buys music, and that for those buyers the average spend is £63 a year. The light green bars on the chart represent that buying population (so 2.1m 12-19 year-olds, 4.3m 20-29 year-olds etc.), while the dark green bars measure Spotify's UK user base.

"The BPI figures are an important yardstick to which you can frame the debate as it allows you to frame the question better," says Page. "If 4.3m people 20-29 year-olds buy music in the UK, then Spotify makes up 1.1m of them if it's the 40%. But that's what my presentation was really all about: the question of who does Spotify engage with - the active 40% or the lost generation of the 60%?"

Right now, that's impossible to say. There's no data on how many of those 2.7m users were buying music before using Spotify, and how many were file-sharing. Or, indeed, how many were doing both. There's also no data on how these demographics break down in terms of free users of the ad-supported version of Spotify versus paying subscribers.

It all comes down to ARPU (average revenue per user) - an acronym that's second nature to the mobile phone industry, but still relatively new to the music biz. Turning £63-a-year music buyers into free streamers worth significantly less in ad revenue a year is not good. Yet converting those buyers into £120-

a-year subscribers is very good, as is turning a chunk of the 60% of the population paying nothing for music into even free streamers.

These are well-trodden theories, and they can't be proved or disproved by the charts in this article. Page says this is where the music industry needs to focus its attention. "It's a challenge for PRS for Music to get those analytics up and running," he says. "We're thinking harder about this than we've ever done before, because we need to know what we're licensing. Is it re-engagement, or free lemonade? [i.e. cannibalising paying customers by giving them whatever they were buying before for free]"

The ARPU issue filters into a lot of what Spotify is doing to improve its service at the moment. Its recently-launched mobile clients, as well as the new offline mode for the desktop, are designed to convert more free users into paying subscribers since they're only available to premium customers.

Meanwhile, in his recent blog post looking back over the year since Spotify first launched, co-founder Daniel Ek outlined his views that "the new business model in music is a mix between ad-supported music, downloads, subscriptions, merchandising and ticketing". This week has seen a big step forward on the downloads side, with Spotify making good on its promise to improve the purchasing elements of its service.

Unveiled today, it involves buy buttons alongside every track that's available in partner 7digital's catalogue. Previously users had to right-click to see if they could buy a song. What's more, purchases are carried out within the Spotify application itself.

And finally, Spotify's intent is becoming clearer with regards to partnerships with ISPs, having signed a significant deal with TeliaSonera in Sweden. The telco will promote Spotify premium membership to its broadband and mobile customers, but there will also be a TV element.

Ivarsson's presentation covered this too, with Consumer Electronics cited as the third plank of Spotify's distribution strategy, alongside Desktop and Mobile.

Even so, the fact that Spotify released the statistics shown in the charts in this article is equally significant in relation to the company's desire to prove its value to the music industry, and start to tackle the rising buzz of speculation around whether its business model can scale. Ek himself admitted in the same blog post that Spotify needs to get its views across more clearly.

"If we're asking the industry to change, we need to be transparent and honest about the end goal - especially since we're asking everyone to make a huge leap of faith to an unknown place where you could potentially argue that the industry risks its most

profitable customers. We haven't been as open as we could have been up until now, and that's been an oversight on my behalf."

Mutual attraction

What is PRS for Music - a rights holder - doing sharing a stage with Spotify, a rights user? Does digging into its data in this way cross the lines of neutrality you'd expect from a collecting society? Page says not, stressing that the opportunity to work with data on this level was too good to miss.

"Our intention is that our songwriters and their publishers can participate in new legal forms of music, so the challenge then becomes providing licenses that enable online services to offer a variety of sustainable licensing models so that rights holders can share in the success."

Page will soon be publishing an insight paper on the concept of ARPU, to inform both rights holders and rights users about what the acronym implies, and how it can mislead. He's also keen to highlight Spotify's approach to its business.

"What struck me was that their business model was totally fixated on going legal first, and then popular second. That to me was both refreshing and reassuring, as so often with tech start ups it seems to work the other way around, namely popularity first and worry about the songwriters and artists a distant second."