

Music Streaming: Can the Spotify Model Survive?

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Abstract

Spotify was created in 2006 as a service to provide a legal method for streaming music. It quickly established itself as a market leader early in the streaming era. Despite being the industry leader, it took eighteen years of operation for the firm to become profitable. Even with steady losses, Spotify was able to attract investors due to its growth in revenue and number of subscribers. Other firms, seeing possible profit opportunities, entered into the streaming market adding to Spotify's profitability challenges. In its efforts to become profitable, the company lowered expenses by cutting staff and using a loophole to reduce payments to music rights holders. Further, the firm raised prices to increase revenues. A calculation of Spotify's elasticity of demand in the U.S. reveals that its options for continuing price increases in the future are limited. Facing increased competition, a declining market share, along with limitations on pricing, Spotify will find it increasingly difficult to remain profitable as the streaming market becomes saturated and growth slows. Efforts to diversify into new areas as well as enter new markets are being attempted by the company, however, questions remain about the prospects of the long-term profitability and viability of Spotify.

Keywords

Spotify • profitability • elasticity

The ways that people consume music have shifted over time with the creation of new technologies. While changes in technology altered the methods of consuming music, each stage typically involved some type of consumer purchase, whether it be a record, a cassette, a CD, or a digital download. The most recent change in music consumption, though, is not a new method of playing recorded songs but instead addresses the very nature of purchasing music. Consumers no longer buy the music they listen to; they instead pay a subscription fee to a company that allows them access to a broad catalog of music. In essence, consumers have moved from buying music to renting music. Drott examines this change in consumption focusing on how music is being transformed from a good into a service (2024).

An early provider of this type of rental service was Spotify, which grew to become the industry giant. Spotify was created in 2006 to move music streaming from illegal services, such as Napster and Pirate Bay, into a legal service (Carlsson and Leijonhufvud 2021). In doing so, Spotify provides premium and free tiers of services to its customers. The free version provides music with lower sound quality and is ad-supported. The premium tier involves a monthly subscription fee, is ad-free, and has a higher sound quality.

Using a Marxian viewpoint, capitalists are those who seek to have a monopoly so that they can extract rents (Drott 2024). In a rental market that lacks competition, consumers

could be concerned with the possibility of an “evil landlord.” In this case, the landlord would be the streaming platform that may exploit consumers in order to reap enormous profits (Kasap and Yalcintas 2021). From this perspective, one might expect Spotify to play the role of such an “evil landlord.” Yet its financial statements reveal the opposite: despite dominating the market, the company failed to post a profit for seventeen years (Spotify 2025). Spotify's evolution can be interpreted through the lens of platform capitalism (Srnicek 2017), where firms operate as digital intermediaries that extract value through scale, data control, and network effects. Spotify's ability to generate “rent” from user attention, playlist infrastructure, and distribution control over rights holders reflects this shift. Rather than earning profits solely through traditional margin-based sales, Spotify functions as a data-fueled broker in a multi-sided market.

To put Spotify's long stretch of financial losses into perspective, it is useful to compare its trajectory with other leading technology firms. It is not unusual for a startup to suffer early losses, but these firms turned profitable far more quickly than Spotify. Founded in 1976, Apple was profitable by 1978 (Batchelor 2022). Google (now Alphabet), launched in 1998, reported its first profit in 2001 (Batchelor 2022). Netflix, founded in 1997, took six years, reaching profitability in 2003 (Batchelor 2022). Amazon, which opened in 1994, needed nine years to become profitable in 2003 (Hopkins 2023).

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Spotify is the world's largest streaming service, yet the slowest to reach profitability—a paradox that underscores the fragility of the platform model. From its founding in 2006, Spotify endured seventeen consecutive years of losses before finally reporting a profit in 2024 (Spotify Technology S.A. 2025). Ultimately, a business must generate profits to survive. Investors expect returns on their capital, and not to indefinitely subsidize underpaying monthly active users (MAUs). Spotify's extraordinary delay in profitability illustrates the core tension of its model: dominance in the number of users does not guarantee financial sustainability.

Spotify's trajectory can also be understood within the broader literature on media platforms. Scholars highlight that streaming services act not merely as distributors but as digital intermediaries controlling access, data, and infrastructure (Srnicek 2017; Morris 2020; Burkart and McCourt 2006). Within this framework, Spotify resembles other platforms that extract value from user data and attention, but it faces the unique challenge of operating without the diversified revenue streams that sustain rivals like Apple or Amazon.

Ideally, Spotify could be directly compared to its largest rivals (Apple Music, Amazon Music, and YouTube Music), but such comparisons are limited. These services are embedded in broader ecosystems, and their financials are reported in aggregate with other divisions, such as Apple TV and Amazon Prime Video. Isolating their music-streaming revenues and expenses is therefore not possible for researchers. For these reasons, this study focuses solely on Spotify's quest for profitability. Still, Spotify's competitors (particularly Apple and Amazon) could operate their music divisions as strategic loss leaders. Apple uses music to reinforce its hardware ecosystem, while Amazon includes Music Unlimited in its broader Prime bundle. These firms could absorb music-streaming losses by cross-subsidizing from other divisions. In contrast, Spotify lacks such diversified revenue streams to offset high licensing fees, research and development expenditures, and platform costs, leaving its long-term profitability more precarious.

The remainder of this paper examines why Spotify remained unprofitable for so long despite being the industry leader, and the strategies it ultimately used to achieve profitability. The analysis explores the financial, legal, and operational strategies that led to this outcome and assesses whether its profitability is sustainable over time.

Spotify History

Spotify was founded in 2006 by partners Daniel Ek and Martin Lorentzon, and is headquartered in Stockholm, Sweden (About 2024). As the initial investors, each held 42.8% of the company stock at the time of its founding (Carlsson and Leijonhufvud 2021). It is believed that the primary intent of the founders was not to make Spotify profitable, but to make

it valuable (Eriksson et al. 2019). Their long-run view was to either financially benefit from an initial public offering (IPO) or from selling the company to Facebook or Google (Ericksson et al. 2019). For the purposes of tax avoidance, Spotify is incorporated in Luxembourg (Form 20-F 2023).

With the initial goal of delivering legally streamed music for free, venture capital firms became interested in the business' potential and invested in Spotify to aid in its development. By 2008, the streaming service platform was functional and operating in the United Kingdom, France, Spain, and Sweden. Spotify brought its service to the U.S. in 2011, where its "rental" market came into competition with the Apple iTunes "purchase" market (About 2024). As the costs of running Spotify kept swelling faster than its revenues, the company frequently found itself in need of additional funding (Carlsson and Leijonhufvud 2021). "Spotify exists at the intersection of industries such as music, advertising, technology, and finance" (Eriksson et al. 2019, 33), presenting a growth combination that continued to attract investors, even though the firm had been burning through capital and no profits were in sight. Eriksson et al. (2019) detail seven rounds of funding sought by the company from 2008 until its IPO in 2018. As those authors point out, investors made "a bet on world domination for a company that, paradoxically, was not even close to being profitable" (Eriksson et al. 2019, 63). The largest round of funding came in 2015 when Spotify was able to dazzle investors with its growth in monthly average users (MAUs) and raise \$500 million of new funding for the company. By 2016, the firm had amassed an accumulated total of \$1.5 billion in investments, mostly in the form of convertible debt (Eriksson et al. 2019). These investors, looking for a way to benefit from their investment, awaited the IPO (Jo, Throne, and Fieber 2019).

Spotify continued to see growth in both MAUs and revenue and became a publicly traded company with an IPO in 2018 (Jo, Throne, and Fieber 2019). That year, the company held a 36% market share of the global streaming market (Mulligan 2018). Competitors, seeing possible profit opportunities in music streaming, had already entered the market. Amazon Music began in 2014, followed by Apple Music and YouTube Music in 2015. Internationally, Tencent, a Chinese firm, began its streaming service in 2020.

Besides attracting rivals, Spotify also attracted partners. In negotiating the initial rights to stream music content, the three major record companies, Sony Music Entertainment, Universal Music Group, and Warner Music Group all became equity partners and partial owners of Spotify. With the cooperation of these companies, it was estimated that 87% of all the music content available for streaming was found on Spotify (Iqbal 2024).

As the initial agreements with Spotify were negotiated, the record companies expressed frustration with the Spotify business model. They felt that Spotify gave away songs

for pennies, while Apple had been selling songs on iTunes, providing record companies with 70% of the sales revenues (Carlsson and Leijonhufvud 2021). With the equity stake in Spotify, the record companies stood to financially benefit if Spotify went public. Even if it did not, the record companies and publishers would still receive payments for public performance and mechanical royalties for having their music streamed. At the time of the IPO, these major record companies owned 11% of Spotify, with Sony Music (then the fifth largest owner of the company) owning half of that (Carlsson and Leijonhufvud 2021). After Spotify's IPO, these companies sold \$500 million worth of their Spotify stock. Their artists, in turn, received \$300 million of that total (Carlsson and Leijonhufvud 2021).

Growth

Spotify has continued to grow in both the number of MAUs and in the number of subscribers. As of January 2025, Spotify operates in 184 countries and territories, offering various premium and ad-supported plans to 675 million MAUs (Form 20-F 2025). Of that total, there were 263 million paying premium users at the end of 2024 (Form 20-F 2025). For the year 2024, Spotify was able to generate \$14.79 billion from its premium tier and \$1.9 billion from the ad-supported tier, giving it an annual total revenue of \$16.69 billion (Form 20-F 2025). The growth in annual revenue, measured in millions of dollars, is shown in Figure 1. Because Spotify reports its revenues and expenses in Euros, these figures have been converted into dollars using an exchange rate of \$1.07, the rate reported by Bloomberg on November 6, 2024.

Despite this steady increase in revenues, when viewing the overall financial activity of Spotify, its continued struggle with annual net losses becomes apparent. Figure 2 shows Spotify's annual profits and losses over time. Its only reported profitable year was 2024.

Financial Challenges

Until 2024, Spotify found itself in a position of continually suffering losses. Had the situation not improved, the long-term result of the losses would have been that the firm would have eventually burned through all its cash and become insolvent. Investors would have soured on the firm and sold their shares, causing an erosion of the stock price. Since Spotify has never paid dividends to its shareholders, investors rely solely on capital gains (increases in the price of the stock) to experience a positive return on their investment (Form 20-F 2023). Thus, a drop in stock price would have made raising additional capital through issuing stock or securing loans more difficult and more expensive for Spotify. The company admitted as much in its 2024 annual filings, stating that its level of indebtedness could limit cash flow available for operations and expose the firm to financial risks (Form 20-F 2025).

Using its growth in MAUs and revenues, along with its dominant market position, Spotify was able to attract investors for many years. Following 2021, however, the price of Spotify stock began to drop, perhaps as a signal from investors that the continuing losses were a concern. Spotify responded in late 2023 with actions that signaled its efforts to finally become profitable. These efforts were met with great enthusiasm by

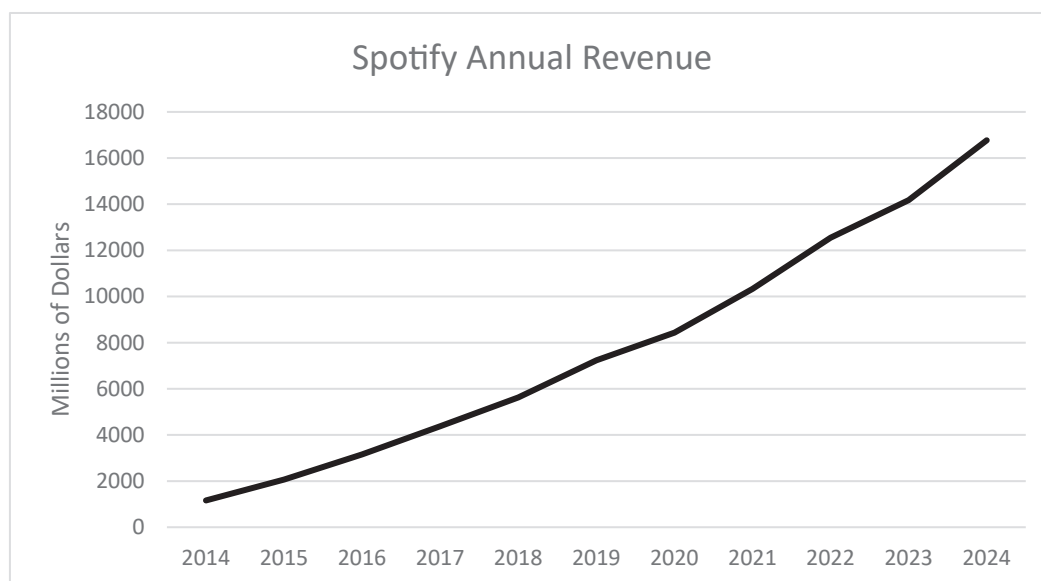


Figure 1. Spotify annual revenue 2014-2024.

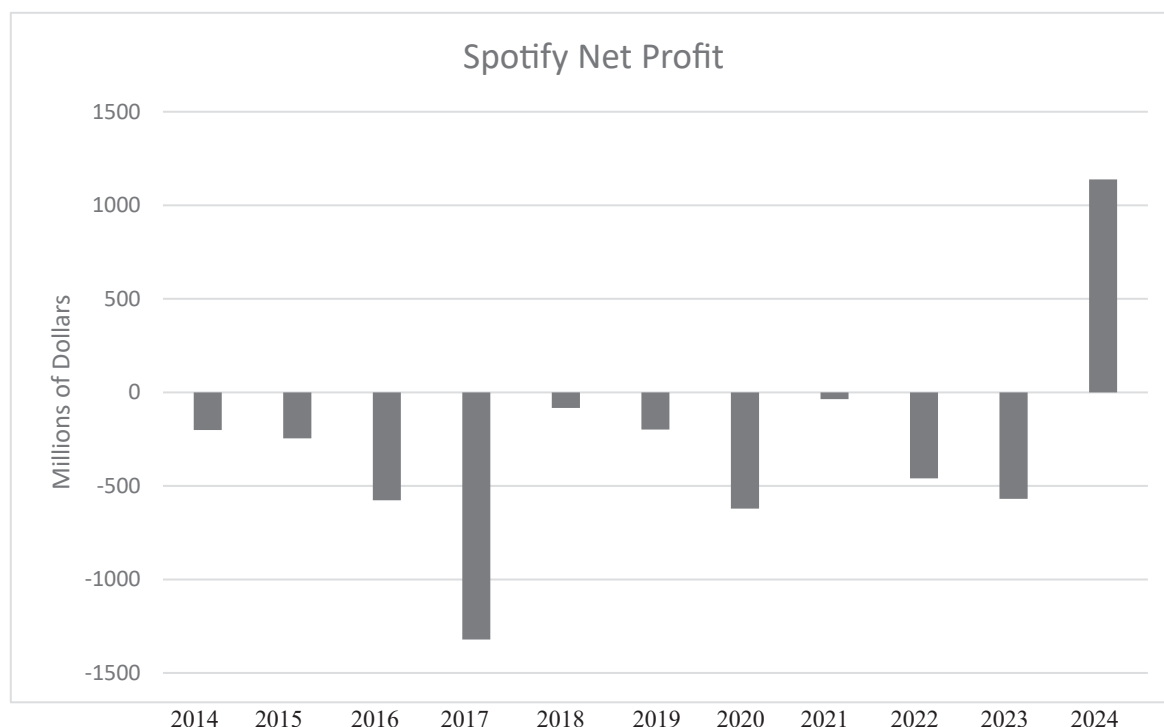


Figure 2. Spotify annual net profits 2014-2024.

investors as the stock price soared during late 2024 as hopes of an annual profit increased. Figure 3 contains a chart of the price of a share of Spotify stock, measured on January 1st of each year. Because Spotify went public mid-year in 2018, the stock price shown for that year is the May 1st opening day price (Spotify Technology 2025).

The annual losses may have confirmed that the business had put growth before profits. “Spotify would keep burning cash in order to grow” (Carlsson and Leijonhufvud 2021, 260). Spotify had been gaining MAUs, but the majority of them were in the non-paying ad-supported tier. The non-paying MAUs do not contribute as much to the bottom line as do the premium users. In addition, Spotify’s agreement to pay record companies a large percentage of its revenues did not leave enough cash for Spotify to cover its costs. Resolving the financial situation would require different strategies by Spotify.

Spotify’s Actions

When expenses exceed revenues there are, in essence, only two options available: increase revenues and/or decrease expenses. In the past, when faced with this problem, Spotify chose neither of those options and would instead seek further outside investment in the firm. While this influx of cash increased liquidity, it did not address the profitability issue. This changed as the company began to make some bold

moves. To bring more money into the business, the company pursued several areas.

Growth. One strategy utilized was to continue to increase the number of users, particularly paid subscribers. This included trying to convert free users into premium users by routinely making introductory offers of low or no-fee premium service as an incentive to join that tier. Spotify added 73 million MAUs during 2024, however, the percentage of those users in the lower revenue ad-supported tier were 63% of the total (Form 20-F 2025). That percentage of total MAUs who are free-tier users has remained relatively stable over the past five years.

Prices. In 2023, Spotify raised its premium tier price for the first time since its U.S. launch in 2011. It again raised prices in 2024, moving from \$9.99 to \$10.99 and then \$11.99 per month (Tencer 2024a). The increased prices helped increase total revenues from \$12.5 billion in 2022 to \$16.8 billion in 2024.

Advertising Revenue. In tracking user data, Spotify accumulates mountains of information that are of value to advertisers. This value, combined with the total number of users, is reflected in the advertising revenue generated from the ad-supported tier. Understanding the tastes and preferences of users allows advertisers to more accurately target the audience they wish to reach. Spotify founder Daniel Ek certainly understood this as his prior business venture, Advertigo, helped online advertisers identify their target

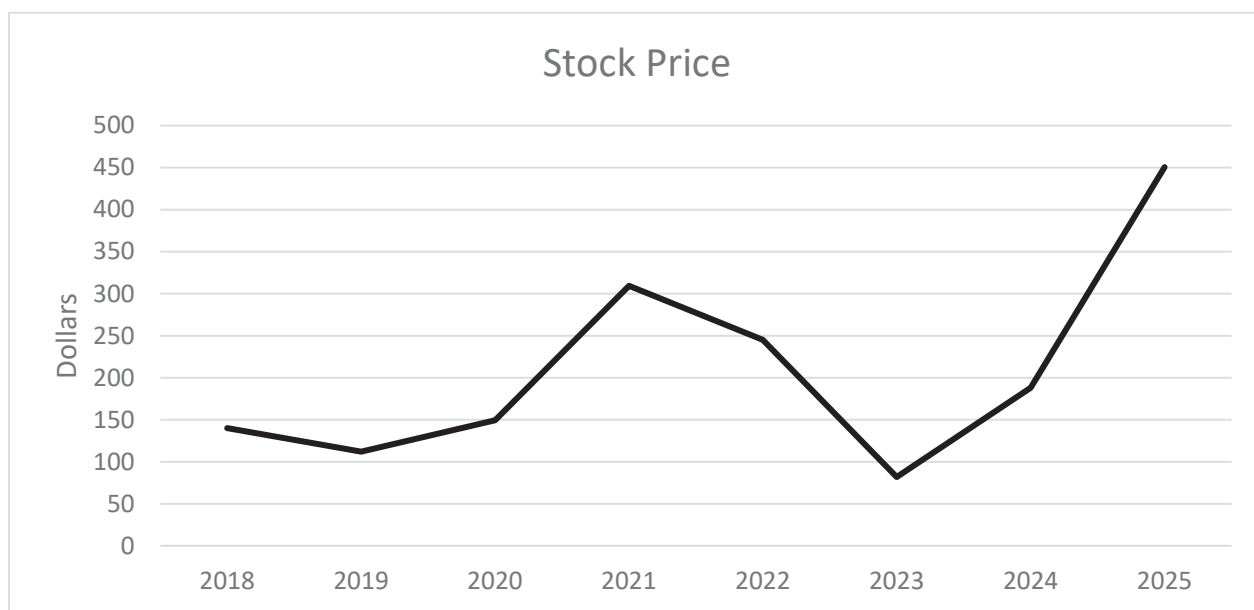


Figure 3. Spotify share price 2018-2025.

markets (Carlsson and Leijonhufvud 2021). In delivering a large audience of 18 to 34-year-old consumers, Spotify is of great interest to advertisers (Form 20-F 2023). As the number of users increased, Spotify was able to increase advertising rates (Mogharabi 2023).

Since only the free version of Spotify involves advertising, with the increase in MAUs the firm was able to increase its advertising revenue. From 2023 to 2024, the number of MAUs in the ad-supported tier grew from 379 million to 425 million (Form 20-F 2025). This increase in users correlated to an increase in the revenue for the ad-supported tier to \$1.983 billion in 2024 (Form 20-F 2025). While advertising revenue has seen growth (Sparrow 2022) it cannot be determined from these figures whether the revenue increase was due to an increase in the price of ads or from increasing the number of ads.

Diversification. Spotify has diversified its offerings beyond music by expanding into audiobooks and podcasts. In 2019, it acquired Gimlet and Anchor, paying over \$300 million for the companies behind several popular podcast titles (Carlsson and Leijonhufvud 2021). The following year, Spotify signed an exclusive \$100 million deal for *The Joe Rogan Experience*, signaling its strategic push into exclusive audio content. Analysts at the time questioned whether such high-profile content deals would significantly impact profitability, suggesting that Spotify was spending heavily on content without a clear return on investment (Carlsson and Leijonhufvud 2021). In 2024, Spotify reported \$62 million in advertising revenue from podcasts (Form 20-F 2025). Spotify's move into audiobooks, podcasts, and exclusive content can be seen as an effort to control more of the content value chain—mirroring Netflix's

strategy with original programming. However, unlike Netflix, Spotify lacks a robust monetization mechanism from these, making profitability gains speculative unless bundled content meaningfully improves premium attraction and retention.

While it has not done so as of this writing, Spotify has indicated that it will soon introduce a premium content tier for an additional fee. This service, tentatively titled *Music Pro*, is designed to attract superfans by offering enhanced audio quality and exclusive early access to concert tickets. The new tier is expected to cost an additional \$5.99 per month (Stassen 2025).

Tencent Music Entertainment, by contrast, has already implemented a *Super VIP* tier in China, offering subscribers higher-fidelity audio and exclusive content. In 2024, Tencent reported that 8.4% of its premium users opted into the Super VIP tier, which costs nearly five times as much as the base subscription (Stassen 2024). This strategy reflects a broader trend toward deeper monetization of highly committed users. Should Spotify achieve even a fraction of this conversion rate, the *Music Pro* tier could become a significant new revenue stream.

Expenses

The other side of the profitability equation is to reduce costs. There are several paths Spotify pursued to reduce expenses. **Reducing Payments to Rights Holders.** Approximately 70% of Spotify's revenues go to pay royalties to the rights holders, primarily record companies and publishers who in turn pay their artists and songwriters. This business model, however,

never benefited all musicians the same, skewing payments to major stars and labels (Eriksson *et al.* 2019). To reduce costs, the possibility existed for Spotify to renegotiate for more favorable terms with the record companies. This was thought to be an extremely formidable task (Waulters 2012). Spotify, however, identified a loophole which allowed the company to decrease these payments without the need to negotiate with the music suppliers. With the offering of audiobooks, Spotify claimed that the monthly fee paid by subscribers was not only for music but instead was for a bundle of products. Bundles pay a different and much lower royalty rate as set by the Copyright Royalty Board in Phonorecord IV (Robinson 2024b). This bundling strategy allowed Spotify to pay a lower mechanical royalty rate, which was estimated would reduce payments to publishers by \$150 million per year (Robinson 2024a).

The Mechanical Licensing Collective (MLC) sued Spotify on behalf of publishers and songwriters, arguing that the Spotify action was unilaterally carried out to reduce payments. While awaiting a decision by the courts, Spotify and Universal Music Group agreed to a new deal which reportedly would pay Universal a rate higher than the bundle rate but lower than the original rate (Robinson 2025). The courts ruled in favor of Spotify finding that its premium service, which now included audiobooks, was properly categorized as a bundle (Donahue 2005). Following the ruling, Warner Music renegotiated with Spotify, in what is believed to be a deal similar to that with Universal (Schneider 2025). Though further legal challenges from the MLC are expected, the bundling move helped Spotify towards profitability, but it alone was not enough to erase its entire annual loss (Form 20-F 2025).

Reduced Staffing Costs. Spotify implemented cost-cutting measures by reducing staffing costs. In 2023, Spotify significantly reduced its workforce. In December 2023, it eliminated 17% of its jobs worldwide (Schneider 2023). During that year, Spotify eliminated a total of 2,300 jobs (Ingham 2023). Positions have also been moved outside of Sweden. Citing a Swedish court ruling that did not allow Spotify to violate laws concerning the hours and times an employee can work, the company moved 250 jobs abroad (Stassen 2024b). While it was not reported as such, it is assumed a reduction in the amount paid to employees accompanied the movement of the jobs, as it would seem contrary to move the jobs to a location where they were more expensive.

It should be noted that executive compensation, which has been highly criticized in other segments of the corporate world, is not a problem with Spotify, at least with the CEO position. Daniel Ek, the CEO, does not take a salary; thus, reducing his pay was not an option that would have moved the company towards profitability (Form 20-F 2022).

Withholding Dividend Payments. A cost-saving option normally considered by a corporation when trying to reduce expenses

is to reduce or suspend dividend payments to stockholders. While a firm does not have to be earning profits in order to declare a dividend, most usually are. Spotify, however, has never paid dividends to its stockholders, thus removing that option for reducing costs.

Spotify's Results: Looking to the Future

The efforts by Spotify to become financially stable paid off. Its belt-tightening combined with growth in prices and subscribers, resulted in a profitable year in 2024 as the firm announced a net profit of \$1.22 billion (Form 20-F 2025). Spotify finally had financial results to match its market share. At least for that one year. The question remains as to whether this is a sustainable position.

It has been a long and difficult road to profitability for Spotify. Its business model, built on growth and low margins, has not yet demonstrated if this is truly viable for long-run profitability (Carlsson and Leijonhufvud 2021). Three concerns present themselves when evaluating its long-run profitability potential: competition, market share, and pricing limitations.

Competition. Spotify's primary competitors in the U.S. are Apple Music, Amazon Music, and YouTube Music. The need for profitability in music distribution for those rival firms may be less important than it is for Spotify. Apple, for instance, could easily sustain losses in its music division, provided those users are driven to purchase Apple devices, such as phones and headphones, which have higher profit margins. If the largest competitors were willing to run their music services at a loss, the pressure on Spotify's ability to earn profits would intensify. In comparison, within the video streaming market, Netflix enjoyed a first-player advantage and dominated the market early on. But, as others have entered the market to compete, such as Amazon Prime, Disney+, Paramount+, and Peacock, these firms have found it difficult to be profitable (Goldberg 2024). This is similar to what Spotify is experiencing in music streaming, except that Netflix has long been profitable while Spotify has not. Netflix was financially better prepared to face stiff competition than was Spotify.

Market Share. Compounding Spotify's challenge to continue being profitable is decreasing market share. Economic theory suggests that entrepreneurs who recognize possible profit opportunities will enter a market. When Apple, Amazon, and YouTube entered the music streaming market, the total number of streaming customers increased, along with a fight between these firms for market share.

Table 1 lists streaming services and their market shares as of the third quarter of 2023, as reported by Midia Research (Mulligan 2024).

In 2015, as Amazon was just making its entry into the industry and prior to the Apple and YouTube entries, Spotify held over

Table 1. Market share of music streaming companies, third quarter 2023.

Streaming Service	Market Share
Spotify	31.7%
Tencent	14.4%
Apple Music	12.6%
Amazon Music	11.1%
YouTube	9.7%
Others	20.5%

42% of the global market. The 32% market share in 2023 still made Spotify the dominant firm in the industry but indicated that it has lost market share to its competitors (Cirisano 2023). This growth in the number of streaming firms likely contributed to the downward pressure on the Spotify stock price (Towse 2020).

To determine the degree of Spotify's market dominance, the Herfindahl-Hirschman Index (HHI) is used to measure the level of market concentration. The HHI takes the market share for each firm in the industry, squares those values and sums them (Herfindahl 2023). The lower the HHI number, the more competitive the industry; the higher the number, the less competitive the industry. In determining whether a firm would be classified as a monopoly, the Department of Justice uses the following scale: an HHI less than 1,500 is deemed to be a competitive industry, 1,500-2,500 is considered moderately concentrated, and scores above 2,500 are considered highly concentrated (Herfindahl 2024). When Spotify held 42% of the market share, the HHI was 5,200, indicating a highly concentrated industry. In 2023, however, the HHI fell to 2,008, making it a moderately concentrated industry. Since there are a small number of large firms that compete in the industry, the music streaming business is categorized as an oligopoly.

What this means for Spotify is that even though it had growth in the number of subscribers, the industry in general was growing at a faster rate. This would explain why in 2021, when the number of Spotify users increased by 20%, the firm lost 1% of its market share (Music Streaming Statistics 2022). Within an oligopoly, a decrease in market concentration results in a decrease in the ability to control prices in that industry.

As a parallel to this, consider again the video streaming industry. Netflix once enjoyed a near-monopoly position. As competitors entered the video streaming industry, many of those streamers found it difficult to become profitable as they battled each other for a larger market share of viewers. Disney is reported to have had over \$11 billion in operating losses since it introduced Disney+, despite annually increasing its number of subscribers (Reid 2024). The difference here between video and music streaming is that Netflix, the dominant firm in video streaming, reported a 2023 net profit

of \$5.4 billion (Form 20-F 2023). While Netflix is in a battle for market share, it have remained profitable. It is uncertain whether that will be true for Spotify.

Pricing Limitations. When Spotify raised its prices, it increased revenues. As the streaming market becomes saturated and growth slows, it may turn to continued price increases to experience revenue growth. But there are limits as to how much of an increase is possible without having users switch to a competitor. In the video streaming market, for example, Netflix has been successful in raising prices, but analysts from Deloitte have stated that a lack of growth in users will limit how much the streamer will be able to raise prices in the future as consumers reach a limit on how much they are willing to spend on the service (Faughnder 2024).

The limitations of raising prices involve the economic concept of elasticity—the measure of consumer responsiveness to a change in price. Since a demand curve illustrates an inverse relationship between price and the quantity demanded, if a good has an elastic demand, an increase in price will be more than offset by a decrease in the quantity purchased. As a result, total revenue would fall. An inelastic demand, on the other hand, indicates that consumers are less responsive to a price change. This means that an increase in price would more than offset the decrease in quantity, resulting in an increase in total revenue. It then becomes an important question to determine the elasticity of demand for Spotify.

To measure Spotify's elasticity, a double log model using ordinary least squares was constructed using quarterly data of the number of premium users in the U.S. and Canada along with the inflation-adjusted price for the premium service. The model is as follows:

$$\log \text{Users} = f(a + \log \text{Price} + e)$$

Where:

$\log \text{Users}$ = the natural log of the number of Spotify premium users in the U.S. and Canada

a = constant term

$\log \text{Price}$ = the natural log of the inflation-adjusted price

e = error term

Quarterly data on the number of premium subscribers and prices came from Spotify's quarterly financial reports from the fourth quarter of 2016 through the fourth quarter of 2024. Prices were adjusted using the consumer price index. The results are as follows:

Variable	a	log Price
Coefficient	16.476	- 5.818
T statistic	(9.68)	(7.54)
R ²	.654	
Prob > F	.000	

Because the t-statistic for the log Price is 7.54 and is greater than the criteria for significance of 1.96 at the .05 level, we conclude that the log Price variable is statistically significant (Black 2003). The model explains 65.4% of the variance observed, and the probability of it being greater than the F statistic is .000, which makes these findings reliable.

Using the double log approach has the added benefit that the coefficient for the log Price variable is also the elasticity measurement for price (Greene 2003). Values greater than 1 indicate an elastic demand, while values less than 1 indicate an inelastic demand (absolute values are used to ignore the negative sign). Here, the model shows an elasticity value of 5.818, indicating an elastic demand. The economic meaning for Spotify is that the higher it raises the price, the more responsive the consumers will be. In other words, like Netflix, it may reach a limit in how much it can increase prices

in its efforts to increase total revenues without driving users away. This elasticity figure suggests a precarious tradeoff: attempts to raise prices will likely lead to large-scale attrition of premium users. With such price sensitivity, Spotify is structurally constrained from achieving profitability through price adjustments alone. This highlights the company's dependence on MAU growth and cost reduction rather than revenue-per-user strategies.

Figure 4 shows the demand curve for Spotify, using a plot of the data used in the model. The demand curve for Spotify shows a flatter demand at higher prices, indicating a more elastic segment of the demand curve at higher prices. At lower prices, the demand curve becomes more vertical, indicating a more inelastic portion. The elastic demand at the higher prices could be problematic for Spotify if it were to attempt future price increases.

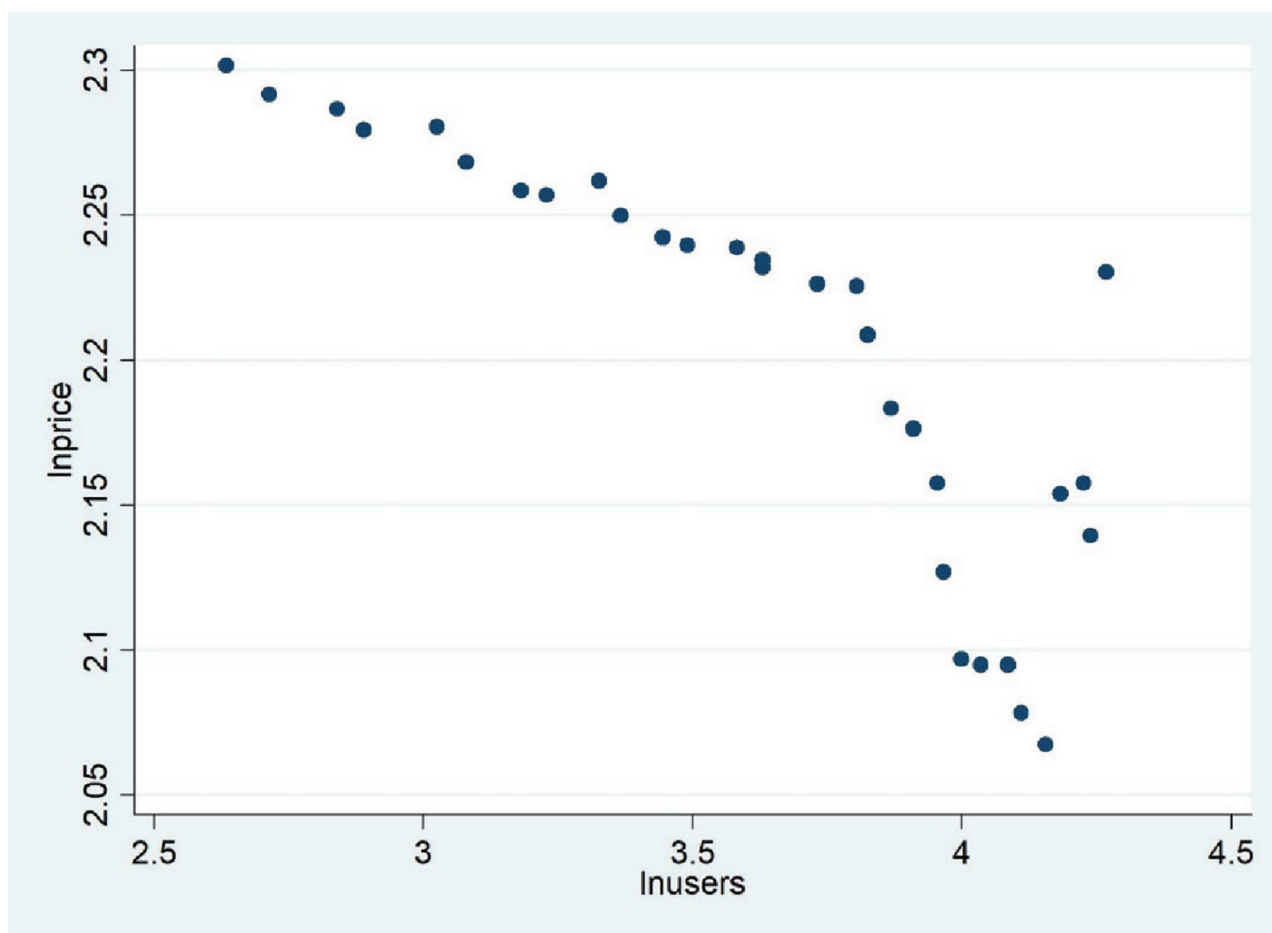


Figure 4. Two-way scatter graph of double log of demand for Spotify premium.

Conclusion

The Spotify business model brings with it concerns for its future. It has relied on the continual growth in the number of subscribers and have thus far been able to sustain that. Eventually, though, that growth rate will slow as the market becomes saturated. Having already lost market share to competitors and facing an elastic demand for its product, Spotify finds that when subscriber growth slows, its options for increasing revenues are limited. The double log model suggests that raising prices would send subscribers to competing firms.

There are some options, besides raising prices, available to Spotify. It can continue to try to drive users from the ad-supported tier towards the premium tier, where revenues and profit margins per user are higher. Doing so would provide additional revenue without directly raising prices.

Internationally, Spotify will no doubt continue to expand into new markets and in new ways. The company announced in 2024 that the music video streaming platform would enter into eighty-five new markets around the world (Tencer 2024b). Provided the cost of doing so is less than the revenue generated, this will positively contribute to the bottom line.

Spotify could also explore the elimination of its free tier. It could still provide the same product, at a lower sound quality and with ads, but would now charge a fee for using it. In doing so, it would no doubt lose many MAUs, but Spotify would also generate revenue previously uncaptured. Should a paid lower tier be accepted by enough users, it would propel the firm toward sustained profitability. This move, though, would go against the long-held belief of founder Daniel Ek, who has maintained his stance that music should be free (Ericksson, et al. 2019).

Spotify's venture into podcasting and audiobooks will need to be evaluated for profitability and continuation. Podcast ad revenue was predicted to total \$414 million during 2024, thus providing a source of income other than that generated by music consumption (Majidi 2023). Reports from the company indicate that podcasting was expected to earn enough revenue to be close to breakeven in 2024 (Guaglione 2023). Close to breakeven, though, still means losses.

A signal may have already been given by Spotify's founders about their belief in the long-term viability of the company. When Spotify appeared to have turned the corner in the third quarter of 2024, reporting a record \$500 million in operating profit (Peoples 2024), the news sparked a strong response in the stock price. Combined with a general stock market uptick at the time, Spotify stock reached a then record high of \$477.50 per share. This rise in stock price resulted in both Ek and Lorentzon selling off large amounts of their personal stock in the company (Ingham 2024a). Over the course of 2024, Ek sold 1.07 million shares and Lorentzon sold 1.16 million shares (Dalugdug 2025). For Ek,

the sales resulted in him receiving a total of \$376,300,000 (Ingham 2024b). Added to his 2023 and 2025 stock sales (through February), Ek had cashed out 2.3 million shares for a total of \$666,100,000 (Dalugdug 2025). Ek's Spotify ownership dropped from 42.8% at the time of its founding to 14.3% at the end of 2024 (Form 20-F 2025). This sell-off, occurring immediately after Spotify reported record operating profits, may signal insider doubt about the long-term viability of the company's business model. For investors still holding shares, this strategic exit by the founders could indicate that the company's brief profitability was seen internally as a high point unlikely to be sustained.

For a moment, Spotify has become profitable. But whether those profits are sustainable remains an open question. The timing of recent insider stock sales, including those by Spotify's co-founders, suggests that their quest for profitability may not have been entirely about building a long-term viable platform. It may have been about growing fast, disrupting the market, and then cashing out. For those long-term investors still holding Spotify shares, it may be wise to recall the words of economist John Maynard Keynes: "In the long run, we're all dead" (Keynes 1924).

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