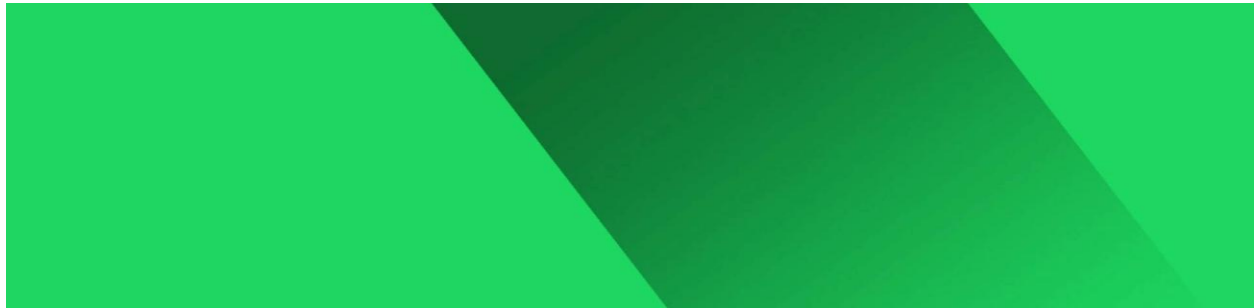




Spotify's Strategic Use of Partnerships and Exclusive Content in Streaming

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Introduction

Through its freemium membership approach, Spotify, an audio streaming platform, offers consumers all around access to podcasts, music tracks, and other media. Originally established in Sweden in 2006, it currently boasts around 675 million members. Spotify operates in a highly competitive market, where rivals include regional services as well as internet giants such as Apple, Amazon, and Google, despite its large user base. Spotify finds it challenging to turn a continuous profit given this fierce competition and generous royalties to record companies as well as big independent artists. The strategic concern of the company is how to increase its long-term profitability and competitive advantage strength. This article examines how Spotify utilises exclusive content and strategic partnerships to address this issue. We will investigate Spotify's strategic choices using the PARTS framework and apply the Value Net concept to its player ecosystem. The study will demonstrate how partnerships and exclusive content can differentiate Spotify's platform, reduce expenses, and secure its long-term position in the digital streaming landscape.

Industry Overview: The Digital Streaming Landscape

Over the past ten years, the fast-growing digital music streaming sector has become the primary means of music consumption worldwide. Globally, about 700 million music streaming users were expected in 2023. With over thirty percent of the world's users, Spotify is the top platform, more than twice its closest rival. Along with local companies (e.g., Tencent Music in China, Gaana/JioSaavn in India), major rivals include Apple Music, Amazon Music, and Google's YouTube Music. Since consumers can use several services or switch platforms at a cheap cost, this sector is marked by strong competitiveness and low switching costs. Thus, streaming companies have sought exclusive features and content to differentiate themselves. Particularly at first, Spotify distinguished itself with its large music catalog and improved user experience resulting from its more tailored algorithm. These benefits, however, shrank when rivals caught up and replicated Spotify's approach. The royalty model of the business strains Spotify's Economics: Around 70% of music revenues go toward royalties, which greatly affects Spotify's profitability. This is why Spotify is pushed toward diversification, aiming to enter the podcast industry as indicated by the acquisition of Gimlet and Anchor and forming alliances. Podcasts and exclusive

content represent a larger strategy: by managing unique content, companies can attract subscribers and advertising and maybe generate greater profits than licensed music content.

Spotify's Value Net: Key Players and Relationships

Using the Value Net framework, we can map out Spotify's key stakeholders: customers, suppliers, competitors, and complementors, all of whom influence Spotify's success. Figure 1 illustrates these relationships.

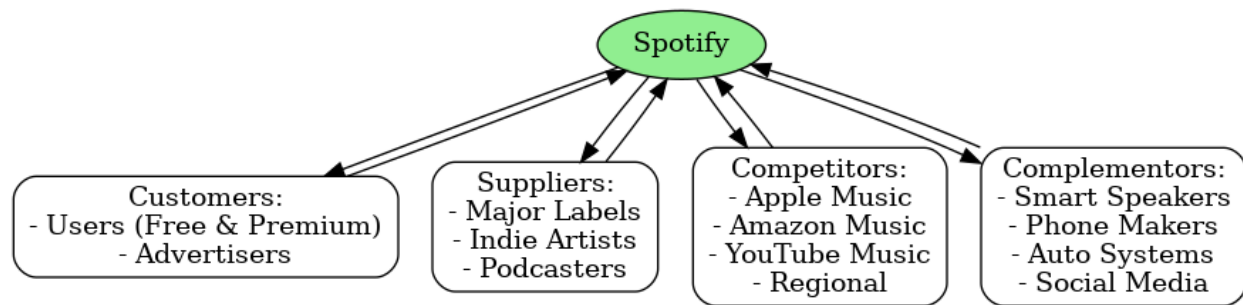


Figure 1: Spotify's Value Net, showing the key players in its ecosystem (customers, suppliers, competitors, and complementors) and their relationships with Spotify.

Customers

Spotify serves millions of users worldwide, offering a free ad-supported tier and a paid Premium service (around 40% of users are Premium, with over 260 million subscribers¹). Its personalized algorithm (e.g., Discover Weekly or Spotify Wrapped at the end of the year) is crucial to increase user loyalty and raises switching costs, helping grow its user base². Advertisers, another key customer group, are drawn to Spotify's rich listener data, which enables targeted advertising. Spotify balances a compelling free experience with incentives to upgrade to Premium, ensuring both audience growth and revenue.

Suppliers

¹ <https://backlinko.com/spotify-users>

² <https://newsroom.spotify.com/2022-06-08/spotify-shares-our-vision-to-become-the-worlds-creator-platform/#:~:text=Finally%2C%20Gustav%20explained%20Spotify%E2%80%99s%20personalization,and%20we%E2%80%99re%20nowhere%20near%20done>

Spotify's suppliers include major record labels, such as Universal, Sony, and Warner, as well as independent artists. Labels retain significant bargaining power, capturing the majority of streaming revenue. As we explained before, to diversify, Spotify invested over \$1 billion in exclusive podcasts as they provide better margins³. Finally, Spotify also builds direct relationships with independent artists (via Discovery Mode) to reduce its reliance on labels⁴.

Competitors

Spotify has fierce competition as most of its competitors have deep pockets and unique ecosystem advantages. Companies such as Apple, Amazon or Google compete in this industry, but despite this, Spotify leads in paid subscribers due to its superior personalization and exclusive podcast content. Spotify has 15 of the top 100 podcasts by 2022. Spotify's exclusive content and continuous innovation help the company maintain an edge in the battle for users' ears.

Complementors

Finally, the last group in the Value Net are complementors, which are businesses that are neither direct competitors nor suppliers, but whose products can complement what Spotify offers to increase value. These include all a wide array of things, from device makers (Amazon Echo, Google Nest, Samsung), to social media platforms (Facebook, Instagram, TikTok). Spotify partners with these players to expand distribution, for instance, integrating with Alexa devices and Samsung smartphones, or bundling Premium subscriptions with telecom plans to increase their customer base. For example, in India, securing telco partnerships is crucial for competing against bundled local services. Furthermore, social media integrations boost engagement and organic discovery. Spotify's strategy is to be primarily collaborative across all devices and platforms.

Strategic Analysis Using the PARTS Framework

To evaluate how Spotify can strengthen its competitive advantage and profitability, we apply the PARTS framework, examining five elements of Spotify's game: Players, Added Value, Rules,

³ <https://www.theguardian.com/technology/2022/feb/04/spotify-crises-podcasts-culture-wars-competition-concerns#:~:text=At%20the%20time%2C%20Spotify%20had,year%20on%20year>

⁴ <https://artists.spotify.com/discovery-mode>

Tactics, and Scope. This analysis highlights strategic opportunities to change the game in Spotify's favor, particularly through partnerships and exclusive content.

Players

The Players element considers who is involved in the market: customers, suppliers, competitors, complementors, and potential entrants. It also asks whether a company can shift these roles to its advantage. For Spotify, this means forming strategic partnerships to reshape industry dynamics. While major labels have long been essential for music access, Spotify can reduce its dependence by working directly with independent artists and podcasters. By offering support or advances in exchange for a share of their success, Spotify brings in new content sources that are often less costly. This strategy is already evident in acquisitions like Gimlet and Parcast, and exclusive deals such as the Joe Rogan Experience. These moves pull audiences from competitors and give Spotify an edge in original content. Looking ahead, direct deals with emerging artists, podcast hosts, or authors can further strengthen its position.

Another opportunity is geographic expansion through local partners. In high-growth areas like India, Southeast Asia, Africa, and Latin America, partnering with telecom or media companies could be a smart move. For example, Spotify could work with a major telecom provider in India to offer a co-branded music plan or integrate Spotify into the provider's entertainment apps. This would introduce the telecom company as a complementary player that helps Spotify reach new customers. Apple's partnership with Airtel in India bundled Apple Music to millions of users⁵, which is a tactic Spotify may need to counter with its alliances to maintain its player base in that market. This is what happened in Latin America, where the partnership between Spotify and mobile carriers like Telefónica and América Móvil has enabled the Swedish company to be included in data packages, which is crucial for Spotify to be able to reach more users.

Added Value

From the start, Spotify counted on an improved user experience in comparison to their competitors. Spotify improved its added value with proprietary technology and exclusive content over time. For instance, by 2022, 15 of the top 100 Spotify podcasts were original or exclusive,

⁵ <https://www.thestreaminglab.com/p/why-indias-music-streaming-scene#:~:text=launched%20in%20India%20in%202019%2C,to%20play%20the%20long%20game>

making Spotify indispensable for both consumers and artists. This uniqueness distinguishes Spotify, raises its value in the ecosystem, and provides it influence over partners.

Further important factors are Spotify's user data and recommendation system. Having listened for more than 10 years, Spotify's personalizing tool enables consumers to find new music and podcasts more effectively than rivals, therefore helping both users and musicians. Its ability to cross-promote a podcast or concert ticket depending on musical tastes allows synergies no pure music or video competitor could achieve.

Spotify might increase its added value by extending exclusive material across audio genres (such as audiobooks) or by strengthening community or interactive elements. Strategically, exclusives increase profitability because they may be sold through commercials and Premium subscriptions without passing income to labels. However, exclusivity comes at a price (Joe Rogan's deal reportedly cost \$100 million, and Spotify has now spent over \$ 1 billion on podcast content overall). Still, the investments have spurred notable increases: at one time, podcast ad income increased 627% year over year⁶. Spotify's long-term plan is essentially to own or uniquely present high-value content and user experiences, thereby enhancing its irreplaceability.

Rules

"Rules" involves the rules of the game , the laws, contracts, and norms that govern how the industry operates. For Spotify, some crucial rules are those embedded in contracts (like licensing agreements with labels) and those imposed by platform gatekeepers (like app store policies). Spotify's ability to improve its margins and competitive position may depend on reshaping certain rules in its favor. One obvious target is the licensing rule of revenue-sharing with music labels. Historically, Spotify's contracts with major labels involve paying out roughly 70% of revenue as royalties. In 2017 and 2019, Spotify managed to renegotiate slightly lower rates contingent on growth targets and promoting certain artists, a concept known as "margin relief"⁷. However, Spotify does not expect labels to concede much more in the latest rounds. With labels reluctant to budge, Spotify is essentially trying to change the rules by focusing on content (like podcasts) where label contracts do not apply. If podcasts occupy a greater share of listening hours, the

⁶<https://www.theguardian.com/technology/2022/feb/04/spotify-crisis-podcasts-culture-wars-competition-concerns#:~:text=At%20the%20time%2C%20Spotify%20had,year%20on%20year>

⁷ <https://d3.harvard.edu/platform-digit/submission/spotify-should-investors-join-the-band/#:~:text=However%20close%20their%20fates%20align,On%20the%20competition%20side>

effective revenue share for music labels decreases. In other words, Spotify is altering the economic “rules” of its platform by shifting the mix of content, a clever way to improve margins without needing label permission.

Beyond content licensing, Spotify has also pushed on platform governance rules. A notable example is Spotify’s high-profile challenge to Apple’s App Store 30% commission rule. Spotify filed an EU antitrust complaint in 2019, arguing that Apple’s rule (which forces iOS apps to use Apple’s in-app payment and give up 30% of subscription revenue) is anti-competitive⁸. This is a bid to change the rules of app distribution, if Spotify succeeds (via legal/regulatory means) in forcing Apple to lower its fee or allow alternative payments, it would directly boost Spotify’s profitability on iOS subscribers. Spotify partnered with Google in 2022 as the first tester of alternative billing on Android, enabling Spotify to utilize its payment system within the Google Play version of the app. This partnership with Google effectively bent the rules on Google’s platform, reducing the fee Google takes. Spotify is actively seeking rule changes that would allow it to retain a greater share of the revenue it earns from subscribers, thereby avoiding the tolls imposed by companies like Apple.

Internally, Spotify can also set or adjust rules of engagement on its platform. It introduced programs like “Discovery Mode,” where artists/labels accept a lower per-stream payment rate in exchange for higher algorithmic promotion of their songs.

In summary, while Spotify cannot unilaterally rewrite the entire rulebook of the music industry, it is actively looking for opportunities to negotiate, influence, or bypass rules that constrain it. Success in changing these rules, even incrementally, can translate into significant long-term profit improvements, making “Rules” a critical frontier in Spotify’s strategy.

Tactics

A crucial tactic for Spotify is the use of its data and algorithms to promote exclusive content, such as displaying podcasts on users’ homepages, as they generate a higher margin when played. Furthermore, Spotify’s aggressive strategies, which include offering a free trial with ads or the

⁸ <https://www.theguardian.com/technology/2019/mar/13/spotify-claim-apple-30-percent-app-store-commission-unfair-european-commission-complaint>

family plan, help the company reach a larger number of users and potentially generate a profit in the long run.

Moreover, Spotify employs strategic communication to try to emphasize how much they pay the artists and record labels, as shown in their Loud & Clear reports⁹, to try to salvage their reputation and discourage any new entrants. Rightly so, a significant concern for Spotify is public opinion, and they strive to give the best possible impression. For instance, when the Joe Rogan controversy arose, Spotify stood by their podcaster, but they added content advisories to mitigate the backlash without losing their exclusive content.

These tactics are crucial for Spotify to influence the industry as a whole, by attracting users, keeping competitors off balance and convincing stakeholders that Spotify is the platform of choice.

Scope

The Scope of Spotify, which initially was a music streaming service, has expanded strategically over time into a broader platform that now includes not only music but also podcasts, audiobooks and live audio, hence opening the company to new revenue streams and different user engagement opportunities.

As previously mentioned, the game-changer for Spotify was its move into podcasting. With this move, they have more content control and better margins than licensed music. Over the last few years, they have invested over \$1 billion in the industry, drawing 30% of their users to podcast content, a key reason why Spotify now hosts 15 of the top 100 podcasts worldwide¹⁰.

Spotify is also exploring audiobooks and testing its catalogue access for its Premium users. They are trying to compete with Amazon's Audible and will enable Spotify to attract a different type of consumer, namely book lovers, and generate a new revenue stream. Furthermore, Spotify has experimented with live audio to try to deepen engagement by offering artist-fan interactions and

⁹ <https://loudandclear.byspotify.com/#takeaway-3>

¹⁰ <https://newsroom.spotify.com/2022-06-08/spotify-shares-our-vision-to-become-the-worlds-creator-platform/#:~:text=%E2%80%9CAnd%20as%20the%20world's%20creator,for%20top%20and%20emerging%20talent.>

virtual events. Spotify is also trying to integrate selling of concert tickets and merchandising through third parties, to try to improve its vertical scope and achieve potential revenue streams.

Geographically, Spotify now operates in over 200 countries and territories¹¹. Its broad presence enables partnerships and scale but also demands market-specific adaptations. For instance, in India, their free tier has more on-demand play due to their lower revenue per user.

Overall, scope decisions are critical for Spotify's long-term profitability. Spotify is attempting to capture more of the consumer's time spent on audio by broadening the scope to include podcasts and audiobooks, which provide more monetization opportunities and buffers against saturation of the music-only market, making Spotify less dependent on a single sort of content or revenue.

Strategic Takeaways and Recommendations

Considering Spotify's competitive environment and our analysis, several strategic takeaways emerge regarding partnerships and exclusive content:

- Exclusive Content is a critical differentiator and value driver, setting Spotify apart from rivals and boosting its control over revenue, which depends on its investment in exclusive content, including podcasts. By reducing its dependency on outside content, these exclusives both attract people to the platform and support Spotify's financial health. To make the platform appealing to listeners, Spotify should continue to seek high-impact, exclusive content deliberately. Exclusive material should be balanced; it's costly and can cause controversy. Spotify must thus guarantee quality and brand alignment. Owning original material provides Spotify with a durable competitive advantage not possible with only pure technology.
- Direct Partnerships Can Reshape Power Dynamics: One key realization is that Spotify can influence the game rather than merely follow guidelines by forming direct alliances with producers (artists, podcasters, influencers) and with new distribution partners (telecoms, gadget makers). Spotify can progressively lower the power of existing music labels by supporting independent artists and podcasters on its platform, founding an

¹¹ <https://backlinko.com/spotify-users>

ecosystem of content. Similarly, alliances with telecom companies, especially in developing nations, can open up massive user bases at reduced acquisition costs and foreshadow competitive actions. Our recommendation is for Spotify to pursue such alliances aggressively.

- **Shape the Rules and Norms of Streaming in Spotify's Favor:** By leveraging its market dominance, Spotify can influence changes to industry regulations that will help it achieve its long-term objectives. Spotify aims to reduce the royalties for older songs and eliminate exorbitant app store fees and discriminatory device practices. At Spotify's scale, even little changes to its cost structure, such as paying less to Apple or labels, could yield significant profit increases. To change the rules to its advantage, Spotify must continue to take the initiative in challenging the existing status quo, whether through innovation, negotiation, or regulation.
- **Holistic Ecosystem Strategy, Not Just a Music App:** By combining audiobooks, podcasts, and music on one platform, Spotify hopes to establish a complete music ecosystem. Spotify wants to become an integral part of its users' lives by giving them the freedom to utilize the platform for a variety of purposes throughout the day. This will increase the likelihood that the customer will remain interested and continue to pay for the subscription. Any partnership or exclusive arrangement should be evaluated to see if it increases income. This can be achieved in several ways, including attracting new users, increasing the time they spend there, or improving the data for suggestions. By focusing on the entire audio experience rather than just pursuing one-time profits, Spotify will support long-term customer loyalty and lifetime value.

Conclusion

By means of strategic alliances and exclusive content, Spotify is strengthening its competitive edge and striving profitability in the fast-moving streaming sector. The Value Net study emphasizes Spotify's pivotal role in a web of interactions in which consumers search for distinctive

experiences, suppliers wield power, rivals vie for attention, and complementors offer fresh growth pathways. Spotify has responded by changing its approach as much as by inventing technologically. It has pushed the boundaries of licensing terms and platform restrictions, added value with tailored and premium content, attracted new players including exclusive producers and worldwide partners, and stretched its influence outside of music into more general audio.

The business has to challenge the established quo, properly invest in exclusive content, keep growing without losing focus while juggling partnerships with conventional suppliers. If Spotify can accomplish this with discipline and vision, it has the potential to develop from a music streaming service into a top audio platform that lives by changing the rules of the game.

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