

# LET A BILLION STREAMS BLOOM

With unlimited access to 25 million songs, streaming service Spotify is luring millions of listeners, irritating some artists—and quite possibly saving the beleaguered music business.

**By Josh Dean**  
Photographs by Lars Tunbjörk

**BACK WHEN HE** was trying to convince the music industry to cooperate with his streaming service, Spotify cofounder Daniel Ek summoned the heads of the big labels in his native Sweden to a meeting. Ek, then in his twenties, was so naive he neglected to tell any of them it was a group conference, and when they all arrived, there was a brief panic as lawyers were called to assuage antitrust concerns. “That’s how little I knew about what you can and cannot do in the music industry,” Ek says. But his timing was good. The business was in tatters, with Sweden the global leader in piracy, proud home of the notorious Pirate Bay file-sharing hub and a place where most fans viewed free music as a right. “Look,” Ek told them, “Sweden is the black

Spotify cofounder Daniel Ek's service is the largest source of music-industry revenue after iTunes.





Spotify's Stockholm headquarters are loosely modeled on Steve Jobs's office concept for Pixar.

# SEAN PARKER'S UNFINISHED BUSINESS

NAPSTER'S COFOUNDER WANTS TO HELP RESTORE THE INDUSTRY HE ONCE FOUGHT.

## Why did you decide to invest in Spotify?

This wasn't an economically motivated investment. It was a mission to try to restore the music industry. I felt a sense of unfinished business. Shawn [Fanning] and I got pretty far with Napster, but we weren't sophisticated enough to convince the labels that there was a viable model. We were very young and just not equipped to have conversations at a high level.

## The full-circle moment had to be last fall when Metallica put their music on Spotify and you appeared onstage with their Napster-hating drummer, Lars Ulrich. I remember when he wanted to kill you.

Lars came to my wedding. We've become very good friends. Part of the motivation for that event was closing the loop on a weird footnote in the history of music. Once I got to know Lars, we found that our perspectives were much more similar than they were different. Both of us

thought we were misinterpreted and exaggerated. Shawn and I were portrayed as rebel pirates who didn't want to work with the industry. They were stodgy dinosaurs fighting against their own fans. In truth, they just wanted to send a message to any other rogue service not to use their music without first having a conversation. [Napster was] trying to negotiate to operate a legitimate service, but the labels had no interest in that.

## Your "Hipster International" Spotify playlist is credited with helping to launch breakout New Zealand singer-songwriter Lorde, among others. Did you realize you had that kind of influence?

I have the largest human-curated playlist on the Internet, with close to 1 million followers. It started as a case study. Can you make curation work on this platform? It comes down to what program directors at radio stations have always done well. But we're now in post-genre world: People just have songs. You can reliably go to my list and find a song that's catchy and appealing, just left of center. It gets a huge amount of play in bars and clubs. We cracked the code. Now label executives pitch me songs to add.

with iTunes Radio. Beats by Dre, headed by legendary record exec Jimmy Iovine and superstar artist Dr. Dre, is preparing a challenger too. Google introduced a subscription on-demand service in May, and Microsoft has Xbox Music. Not to mention Pandora—which has 71 million active monthly users (but doesn't allow users to listen to specific songs and albums)—and a host of other services such as Rhapsody, Rdio, Songza, and Muve. There's also, of course, YouTube, a video site that also happens to be the world's single largest source of music streams, many of them paying nothing to rights holders.

"In the next 10 years or so, [listeners] will be consuming mostly via streaming-type services," contends Adam Tudhope, the manager of Mumford & Sons, whose 2012 album, *Babel*, set the Spotify record for most-ever streams in a single week. "They're helping to bring consumers of pirated music back into the fold." But as millions of music fans sign up for streaming services, digital downloads are sliding: down 2.3% this year, their first-ever decline. In Spotify's more-mature markets, the decline has been far sharper—as much as 20%.

"In the U.S., streaming is still very [small]," Ek says—just 5 million subscribers across all platforms. But in Sweden, subscribers make up 10% of the total population; an equivalent chunk of the U.S. market would be 30 million people, which would generate billions of dollars for music labels. "The biggest thing the industry should do is support as many legal services as possible," he says. "As long as it's legal, it's good. That should be the mantra."

**HERE IS WHAT'S** written on the wall of Ek's Stockholm office, just above a lime green Fender Stratocaster hung as if it has some importance but really only there because he likes to play it sometimes: **THE REASONABLE MAN ADAPTS TO THE WORLD; THE UNREASONABLE ONE PERSISTS IN TRYING TO ADAPT THE WORLD TO HIMSELF. THEREFORE, ALL PROGRESS DEPENDS ON THE UNREASONABLE MAN.** —GEORGE BERNARD SHAW.

From the day Ek decided to found Spotify, people have been telling him it wouldn't work. A friend sent him the Shaw quote during "one of the darker moments," Ek says, back before that pivotal meeting with the record execs, when he worried that the major companies would never license their catalogs to him. "It made me realize that I just needed to keep fighting," he explains in the way he

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WHY SPOTIFY IS A BOON TO THE MUSIC BUSINESS

**"IN THE NEXT 10 YEARS OR SO, [LISTENERS] WILL BE CONSUMING MOSTLY VIA STREAMING-TYPE SERVICES. THEY'RE HELPING TO BRING CONSUMERS OF PIRATED MUSIC BACK INTO THE FOLD."**

Adam Tudhope  
Manager,  
Mumford & Sons

sheep of the world. We are at rock bottom." Probably he smiled. But he wasn't there to bum everyone out. He had a lifeline. "Why don't we try to make Sweden the No. 1 country?" he asked. His pitch: that Swedes be retrained to pay for digital music by streaming it to them in a way that was faster, easier, and less risky than piracy. "I think we can do this, but I'll need your help." The execs weren't optimistic, but they agreed to give Ek a chance. They basically had nothing to lose.

Today, more than a third of all Swedes use Spotify, which now allows unlimited access to more than 25 million songs. Ten percent of those users pay \$10 a month for a premium version, generating so much money that the major labels are as profitable as they've ever been. More than 70% of music revenue in Nordic countries comes from digital streaming, and Spotify is at the forefront of a revolution that is spreading rapidly across the globe.

The last time it released numbers, in March 2013, Spotify had 24 million registered users, including 6 million paid subscribers, and was converting 20% to 25% of free accounts to subscriptions. When it launched in the U.S. two years ago, Spotify was in six countries. Now it's in 28

and expanding fast. According to a Swedish newspaper report in September, the company was pursuing additional growth capital (this time a loan) at a valuation of \$5.3 billion, which would make it one of the most valuable private tech companies in the world.

Spotify is already generating significant revenues every month. So far, the company has paid more than \$500 million to rights holders—70 cents of every dollar it receives goes to artists and labels—and payments from 2013 alone could add up to another \$500 million. It is now the second-largest source of music-industry revenue after iTunes. Much has been made of the company's substantial losses—\$206 million at last report—but Ek says that if he wanted to turn on profitability, he could do it tomorrow by retreating to his most mature markets, where the business model is working. Instead, he's plowing every available krona and pound and dollar into growing Spotify around the world into what it already is in his home nation: the biggest new music brand in recent memory.

Ek has to move aggressively because the competition is massing. This fall, Apple entered the streaming business



WHY SOME ARTISTS ARE SKEPTICAL

**"SONGWriters GET SCREWED IN THE DIGITAL WORLD. [BUT IF SPOTIFY CAN] SWITCH MORE USERS TO PAYING, I GET MORE MONEY AND MAYBE THIS THING WORKS OUT."**

David Lowery  
Cracker and  
Camper Van  
Beethoven



WHY ARTISTS SHOULD BE OPEN TO SPOTIFY

**"YOU'RE GONNA DIE IN THIS BUSINESS IF YOU CAN'T BE ADAPTABLE. THE QUESTION ISN'T REALLY WHETHER [STREAMING] IS A GOOD THING OR A BAD THING. IT'S A THING THAT'S ALREADY THERE."**

Dave Stewart  
Eurythmics,  
record producer

AP (TUDHOPE); JEFF DALY/INVISION/AP (LOWERY); JAMIE ARROJO/AP (STEWART)

explains everything, which is calmly and with little emotion. Now 30 years old, he glances up at the words—his office is actually more of a private lounge, sporting a huge flat-screen TV and a black L-shaped couch, but no desk—with a shy, almost boyish manner. “It was obvious that this is how people would consume music in the future and that I needed to be the unreasonable man.”

Ek got a guitar when he was 4, and his first computer at age 5. A self-taught programmer, he was earning \$15,000 a month designing websites by his teens. He wrote code for an online advertising network in his early twenties and became a multimillionaire at 23 when he sold that code to a company run by the man who would become Spotify’s cofounder, the Swedish entrepreneur Martin Lorentzon.

The idea of a streaming-music company had been with Ek almost since the 1999 launch of Napster, which, he says, “changed my life.” Like many Swedes, Ek pirated music, but he thought the main reason people did so was because it was easy; the right product, well executed, could win them back.

In 2006, Ek holed up and built a crude version of Spotify’s platform, using Lorentzon’s money, and began wooing record labels. One way he ultimately persuaded them to share their catalogs—without which there could be no Spotify—was by giving them equity in the company. “We made it a true partnership,” he says.

When the European Union finally criminalized piracy in 2009, Ek had the perfect alternative ready to sell. “Spotify was better and faster than illegal downloading, and you didn’t get a virus,” says Per Sundin, the head of Universal Music for the Nordic region and one of those label heads who took a flyer on Ek’s concept. “This was our last chance to survive.”

The record industry was in turmoil in the U.S. as well, and—using Sweden’s model as evidence that he could make them money—Ek was able to make deals with all of the big American labels too. When Spotify U.S. launched in the fall of 2011, fans were attracted in part because they could listen for free. From the beginning, Ek and Lorentzon were convinced that users would pay for Spotify once they grew attached to it, but they understood they needed to hook people first. So the base version of Spotify was, and still is, free. (Users will hear occasional ad-

vertisements.) It’s also desktop-only. To get Spotify on your smartphone and to enable your account to share music, you have to subscribe for \$10 a month. Millions of customers have decided the money is worth it.

A free desktop version was critical because you’re essentially “competing with piracy,” says Spotify investor and board member Sean Parker, who, as the cofounder of Napster, knows something about illegal downloading. The idea was to lure back listeners who consider free tunes a given. “We needed to create an experience at least as good as the piracy-based experience,” Parker says. “[This] ended up being the correct business model for the company. Most subscription revenue is from people who have the desktop client but want access on mobile.”

“It’s not like people stopped listening to music,” says Ken Parks, Spotify’s chief content officer and managing director for the U.S. “But there was such dissatisfaction with the existing [pre-iTunes] model. People became criminals in mass numbers in order to circumvent that. The most successful business isn’t one that causes people to change behavior but rather adapts to that behavior. That’s what we’re doing.”

**STRANDVÄGEN IS AS** picturesque a boulevard as you’ll find in Stockholm, a 1-kilometer strip of 19th-century mid-rises facing the waterfront, the old city, and the royal palace. It’s a street of banks and law firms—hardly the kind of place you’d expect to find the new offices of At Night, a fast-growing management and production company whose biggest client is the internationally popular Swedish DJ Avicii. At Night owner Ash Pournouri was a young club promoter when he stumbled upon the then-18-year-old Tim Bergling posting basement-created tracks to the Internet, and the two have since built Avicii into a global juggernaut (his song “Wake Me Up” hit No. 1 in 70 countries and cracked *Billboard*’s top five earlier this fall). The year the Avicii moniker was born, 2008, also happens to be the year Spotify arrived, so the two brands share a life span and a dizzying growth trajectory.

As a manager who came of age in the streaming era, Pournouri looks at Spotify not just as a source of income but also for what it already is in Sweden and is rapidly becoming elsewhere: the preeminent platform for introducing artists to young consumers. Earlier in the year, he had debuted his second act, the Swedish DJ duo Cazzette, exclusively on Spotify, by putting the album up for free before there was anything to buy. “It was amazing,” he says. “They broke through the noise and got paid on

top because it was streaming.” After allowing unlimited free streams of Cazzette’s album for six weeks, Pournouri then sold it to a major label—Universal Records—for a seven-figure sum. “It contradicted what everyone was thinking, that streaming music was ruining sales potential or revenue,” he says.

Not every artist shares his unbridled enthusiasm. In July, Radiohead producer Nigel Godrich issued a series of tweets announcing that he and Radiohead front man Thom Yorke were pulling several non-Radiohead side projects from Spotify, in a “small, meaningless rebellion” meant to draw attention to the issue of fairness in streaming royalties. Earlier in the year, David Lowery, singer for alt-rock acts Cracker and Camper Van Beethoven, criticized streaming services on his blog, generating headlines when he pointed out that more than a million listens to Cracker’s “Low” on Pandora had netted him a whopping \$16.89 in songwriting royalties. (He got a second, slightly larger payment as the track’s performer.) “Songwriters get screwed in the digital world,” says Lowery.

Ek is well aware of the criticism. “Three years ago, I had the same issue [in Sweden],” he says, sitting on the edge of his office couch one morning. “Every single artist was up in arms. ‘I see 50,000 streams and I get 50 bucks! Are you shitting me?’” He picks up a bottle of water and takes a swig. “In the last year, I think I’ve received one complaint—one—in the Nordic market.” The reason, he says, is the size of the audience. “Fifty-thousand streams are now 5 million. Even if you didn’t release a record this month, you are getting paid roughly the same as you were last year.”

Ek thinks critics are fixating on the wrong things. When they look at the amount of money they earn from a download versus a stream, there’s no comparison. “Streaming revenue is minuscule compared to download revenue [per track],” he says. “Even I would admit that. But if you start looking a year after the release of the record, it’s a totally different game. Three months after a record is released, it’s dead on iTunes. But three months after it’s released on Spotify, people put it in playlists that they listen to a lot, and keep listening.” With a download, you pay once, then listen to it as much as you want at no further cost. Streaming is a pay-per-use model, and even though the payment is a fraction of the \$1 paid per track for a download, that charge just keeps ringing with every play.

“[Yorke] was rightly asking what’s in it [digital streaming] for new artists and new music,” Radiohead manager Brian Message later said

of the singer’s decision to pull some of his songs from Spotify. But Radiohead’s music was not removed, and Message himself has been supportive of the service. As for Lowry, he says he’s “agnostic” on Spotify because he thinks its pay structure has the potential for a greater long-term payoff. “If they switch more users to paying,” he says, “I get more money and maybe this thing works out.”

“It’s really up to the artists to understand that it’s a volume business,” says the Eurythmics’s Dave Stewart, who has sold many millions of records as a performer and producer. “You’re gonna die in this business if you can’t be adaptable. The question isn’t really whether [streaming] is a good thing or a bad thing. It’s a thing that’s already there.”

**THE SPACE THAT** houses Spotify’s Stockholm headquarters was once home to the department of the Swedish government responsible for repossessions, but Ek saw in those grim offices great potential. Once he ripped out the walls and raised the ceilings, he had a full circle of open-plan space surrounding an inner courtyard that he exposed with a wall of floor-to-ceiling glass. He’d read a book about Pixar and was taken with Steve Jobs’s office-design edict that a space should encourage random encounters. What better way to do that than with a circular office?

Today, the space has a bustling, early-dotcom feel, with a ping-pong room, stylish modern furnishings, and complimentary bottled water, juice, and beer. Employees are split into “squads” that are given near-total autonomy to challenge the idea of what a streaming music service can be. Ek is steering the company with a just-try-it approach that encourages speed over refinement. A wall in the hallway just beyond the executive suite reads (in brightly colored, three-dimensional letters): THINK IT. BUILD IT. SHIP IT. BREAK IT.

In early 2012, Spotify released its application programming interface (API) to developers, who promptly created hundreds of apps that let fans discover and share new music. The most popular of these new apps has been Tunigo, which uses its music experts to curate playlists targeted to moods. The service proved so successful that this summer Spotify bought it, transforming it into the centerpiece of Browse, an in-house curation department that plumbs deep into Spotify’s catalog and delivers an ever-growing selection of playlists. There are already more than 27,000 of them, with names like “American Hipster” and “Feel Good Indie Rock,” and they grow and morph every day.

What’s more, Tunigo founder Nick Holmsten and his 25-person team now have access to reams of real-time data about which songs are being played the most, or skipped the most, and they make changes on the fly. Tunigo’s lists have tremendous influence over song popularity. Nearly every time an old song gets added into a hot playlist, its streams boom, as does the amount of attention the band gets from users. As Spotify expands into new parts of the world, Holmsten plans to add experts in K-pop for Korea and Bollywood for India; the way users interact with playlists itself might well differ by country. Eventually, Spotify may add Pandora-like features that help users create their own song lists, collaborating on choices. *Try this one? Okay, how about this?* Using location services, Spotify might suggest music based on where you are.

Every executive I spoke with mentioned the concept of reducing friction, and chief product officer Gustav Söderström says that the overarching vision is to solve problems that exist with other means of music delivery. iTunes is great because it’s exactly the music you choose, but you have to pay for those songs and sync them. And radio is great, because you push a button and it plays all day. But you didn’t pick the songs. In September, the company introduced Connect, a home-audio integration that will allow users to transfer music from a mobile device to their home speakers (or vice versa) by pushing one button. Another problem solved. (The next step is to build Connect into cars.)

Sean Parker, the investor and board member, points to one more motivation: transforming how we discover, consume, and share music. From a very early stage, Spotify embedded engineers at Facebook to streamline the platform integration, and this collaboration resulted in huge traffic spikes. Parker, who is one of Facebook’s original investors, connected the two companies. He envisions an online world, driven by social interactions, where there’s better music made, and distributed at lower cost, because the music will find its audience more efficiently. “A utopian ideal,” he calls it. “In theory, it leads to a golden age of music.”

**IN THE WANING** days of August, Spotify opened its new U.S. headquarters in a cavernous Manhattan penthouse above a Bed Bath & Beyond. Like its Stockholm office, this one is growing so fast that its top managers can barely keep track of the new faces.

Ken Parks, Spotify U.S.’s managing director, is sitting in one of the space’s 28 small conference rooms, each themed for a different Amer-

ican music club. The one we’re sitting in is named for Athens, Georgia’s legendary 40 Watt Club. Parks is wearing a fitted pink oxford shirt tucked into jeans and suede loafers with no socks. He has a healthy, late-summer tan and reclines deeply into a stylish chair that has previously never been sat upon. Employees are still unpacking boxes outside the room, and a young woman whizzes past on a Razor scooter.

Parks was employee No. 1 for Spotify’s American branch, which he opened in 2010 in a far smaller space downtown. He’d actually been working with Ek as an adviser since even before Spotify launched in its original six markets in October 2008, because, as an intellectual-property lawyer and a former executive at EMI, he served as a critical conduit to the labels.

Accepting the shift to digital might be hard for anyone who lived through the 1990s industry boom, but Parks thinks that people should be looking at a bigger picture that, from his chair, seems pretty exciting. “You’ve got a product that 7 billion people want,” he says. “Along with air, water, food, and shelter, music fits into that basic complement of things that everyone needs to have a happy life.”

Scaling the U.S. could clearly transform the industry, but what’s really interesting is to imagine a future that includes streaming models adapted to massive emerging markets that are largely untapped, such as China’s and India’s. “I don’t know how many years from now,” Parks says, “but the future music industry is much, much bigger than it was simply because we can reach many more people and make it dead simple for them to enjoy all the music in the world, anytime, anywhere.” Probably, your average Indian can’t pay \$10 per month, but he can afford something, and whatever that something is, it’s more than zero. Now multiply that by a billion. Every month.

Because Parks and Ek are clearly playing this long game, they can be a little impatient with the endless questions from skeptics and critics about Spotify’s business model. After all, they’re imagining a future where Spotify is a global music-distribution powerhouse that fundamentally changes how the world’s fans listen to music while rescuing the industry from years of decline. “We are just in the beginning of trying to figure this out,” says Ek. “I believe music is something that every single person on the face of this planet would enjoy.” Parks concurs. “No one should get upset at the size of payments right now,” he says, flashing a big smile. “In terms of the absolute size of things, we’re just getting started.” ☛

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