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Spotify®



DESIGN & INNOVATION

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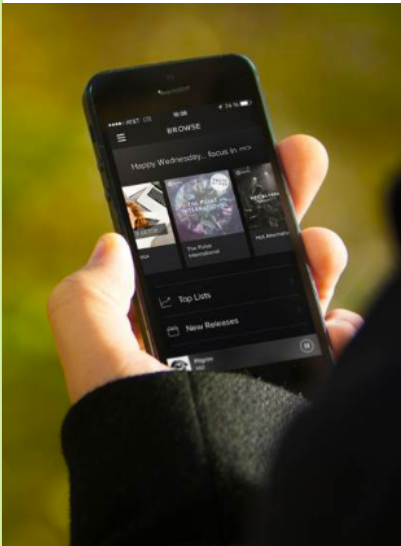
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INTRODUCTION

This assignment will look at how Spotify has achieved its current success through its innovation approach, their new product development process, the role that design has played in its creation and development, and the impact these factors have had on their performance.

The music industry has seen a decline in revenues from a peak of \$27 billion in 1997 to just \$15 billion in 2013 (Seabrook, 2014). With digital technology allowing easier, faster music sharing, there is an ongoing battle between record labels and those illegally sharing and downloading music (Bach, 2004). Until 6 years ago, online music-streaming services were either paid-only, or free, with both models failing to combine scale and monetization to provide sustainable return and combat the music industry's declining revenues (Ek, 2014).

Enter **Spotify**.

Launched in 2008 by Swede Daniel Ek who saw an opportunity to build scale and monetization together, "giving fans access to the music they love and paying artists fairly for their work" (Ek, 2014), Spotify disrupted the music industry with its innovative business model. Unlike other free services like YouTube and Soundcloud, Spotify pays labels and artists royalties by stream, aligning their business model around low pricing (Wessel, 2011), competing with free services by offering a free tier entry platform, supported by advertising and the option to upgrade to paid, monthly subscription service. This has resulted in over 50 million active users (Ek, 2014), and over 1 million years worth of music having been streamed since Spotify's launch (Rego, 2013).

INNOVATION APPROACH

Technological advancements have changed the way we consume and interact with music. Ek, saw an opportunity to respond to changing consumer behavior whilst supporting musicians and labels in the fight against piracy. Schumpeter's **creative destruction** concept highlights how radical technological innovation can inform and respond to changing customer behaviors (Verspreet, 2013) and is an innovation mechanism replacing old and outdated products and services with new ones (Schumpeter, 1934). Spotify's radical approach to business model innovation highlights this creative destruction within the music industry, with stores e.g. HMV selling physical copies of music failing to recognize the importance of digital and seeing sharp falls in demand (Beeching, 2013).

Radical, or disruptive innovation, implies a discontinuity with the past (Norman and Verganti, 2012), defines new performance trajectories compared to existing offerings and can create new markets by applying a different set of values (Christensen, Anthony and Ross, 2004, P.293). Spotify was born out of a recognition that people wanted to digitally consume music, and that artists were losing out to pirating services online (Stanford University, 2012). Spotify is an example of **new-market disruptive innovation**, as they developed a new business model for the industry answering the needs of both customers and musicians, creating their own market for online music streaming, combining monetization and scale.

Though Spotify initially disrupted the music industry, as many companies begin to recognize and respond to the importance of digital, Spotify currently focuses on **sustaining innovations**, those which "introduce improved performance compared to existing products and services" (Christensen, Anthony and Ross, 2004, P.296) in order to sustain their growth.

By including regular updates and additions of new features through continuous, **incremental innovations**, Spotify is able to continue to add value to its service.

According to Christensen, many companies produce innovations ahead of a change in customer needs, often creating products too sophisticated or complex for the market (Christensen, 2012). Spotify uses the data collected from its users to respond directly to what customers value (Stanford University, 2012), ensuring innovations provide simple solutions to user needs. This **user-centered innovation** approach has been fundamental to Spotify's success in providing a product which explicitly answers the requirements of its users. In line with the digital generations needs, Spotify now encompasses more than simple music streaming to become a social platform setting it apart from competitors.

To achieve this, Spotify recognised that they alone do not have all the answers to problems (Stanford University, 2012). **Open innovation** is based on a "landscape of abundant knowledge... not only the companies internal knowledge" (Chesborough, 2003) involving more than just collaboration with external partners like Facebook (Chacksfield, 2011). They have launched a platform in order to "crowdsource innovation" by allowing developers and users to "hack their own solutions" to problems they find with Spotify (Stanford University, 2012), enabling Spotify to retain at the forefront of innovation in the digital industry.

NEW PRODUCT DEVELOPMENT PROCESS

As companies such as YouTube and Apple begin to develop competitor products (Dredge, 2014) Spotify must remain ahead by developing new products to retain customers. Studies conclude that the key to successful product development lies in meeting two critical objectives: “maximizing fit with customer needs, and minimizing time to market” (Schilling and Hill, 1998). Spotify’s unique new product development process aims to fulfill these criteria.

Companies often employ **stage-gate processes** such as Cooper’s (diagram 1), a chain of activities divided by decision gates at which an idea is assessed and approved before being taken further (Product Development Institute Inc., 2015)



Figure 1, Product Development Institute Inc. (2015), Cooper's Stage-Gate Process

At Spotify however, they follow their own product development process and product initiatives follow **four stages** (Diagram 2).

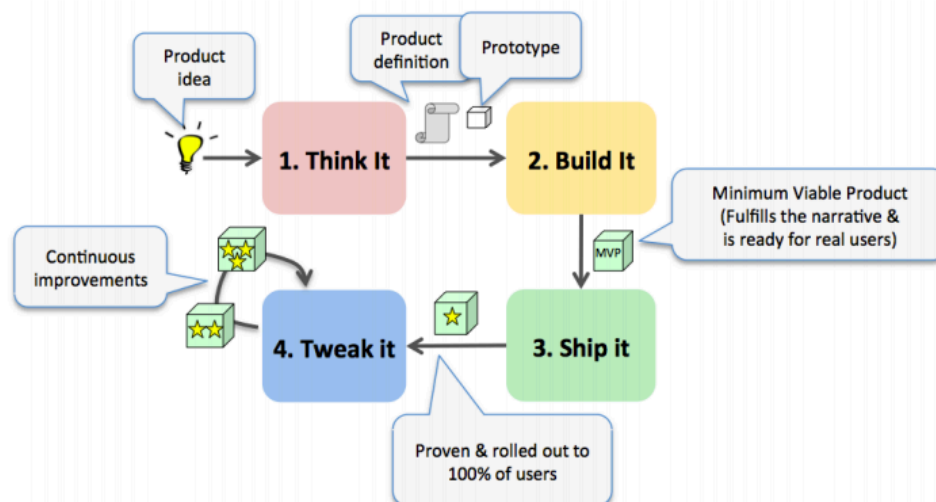


Figure 2, Kniberg (2013), Spotify New Product Development Process

Spotify's **liberal 4 stage process** allows them to explore new ideas and maximise fit with customer needs by defining a clear narrative (Kniberg, 2013, p.4) whilst eliminating risk in a cost-effective way in the earlier stages. The first stages encourages the idea and product to shape each other, promoting innovation, and they are then able to build a minimum viable product in order to assess how users interact with the software (Kniberg, 2013, p.6).

Spotify gradually releases products to all users, starting with only 1-5% of users to collect data, test effectiveness and measure success (Kasperkevik, 2014), meaning the final product is better tailored to user requirements. They can also more effectively manage operational aspects e.g. hardware capacity and scalability (Kniberg, 2013, p.7.). Even after release Spotify continues to tweak and optimize products (Kasperkevic, 2014) in order to achieve a product with greatest value to users.

Whilst Stage-Gate processes aim to eliminate weak ideas early on, Spotify recognizes that failure can be learnt from and the **flexibility in their NPD process** allows them to look at what went wrong with both the product and the process (Spotify Labs, 2014, b.) to continually improve. Spotify understands a need to make product release faster and easier, and do so by encouraging small, frequent releases (Spotify Labs, 2014, b.), choosing trust and failure over fear and control to minimize time to market. Retrospectives following projects help them to find a better way forward, not to impart blame, developing a culture of **constant improvement** that is inspired by agile processes, demonstrating the company's growth mindset (Choi, 2014).

This unique “agile engineering culture” guides Spotify’s product development process. The company is made up of “squads”, small, cross-functional teams responsible for long-term missions, managing end-to-end responsibility for what, how and when to build and launch new products (Spotify Labs, 2014, a.), following the four stages.

The NPD process enables employees to tailor the process to their working methods and is considered much more liberal than authoritative (Spotify Labs, 2014, a.), not constantly seek management approval before progressing to the next stage thus minimizing hand-offs and waiting so they can scale without being dependent on others (Spotify Labs, 2014, a.), improving speed to market. This could pose issues in terms of quality standards or design discord, with no overriding authority ensuring cohesion between new products.

Whilst Spotify’s flexible NPD process appears to cultivate continual innovation and improvement, as it comes from sources internal to the company it could fail to identify major weaknesses that may hinder innovation and restrict company growth.

ROLE OF DESIGN

Design is key to innovation as the domain of creativity where new ideas are created and where a union between technical possibility and also market demands and opportunities occurs (Walsh, 1996). The Design Council states that “managers in industry and commerce must recognize that they need knowledge on how they can use design as part of a strategic, integrative innovation process” (Trucman and Jobber, 1998), implying there is more to design than just the look or technicalities of products, but that it is integral to the development and innovation processes of a company.

Until recently, **Spotify lacked a strong design foundation**. After their launch, Spotify saw rapid growth and expansion and as a result the company neglected to define clear design principles and a visual identity. Spotify’s Vice-President of Design and User-experience, Rochelle King, says they recognised that their design was inconsistent across devices and that the user experience was fragmented (Kasperkevic, 2014). Whilst they were continually developing new value-adding features, when it came to using the product it was not meeting customer’s expectations. Spotify saw a need for a major design re-haul.

Scandinavian design is based on the **principles of functionality** whilst retaining grace and beauty (Eyþórsdóttir, 2011). Consider household brands such as Ikea, H&M, and Ericsson. Design, coupled with functionality and usability has played a key role in the success of these companies. Spotify’s Scandinavian heritage plays a large part in their design and company culture. Swedes are very **collaborative** and conscientiously not hierarchical and these cultural foundations permeate throughout how Spotify works (Kasperkevic, 2014).

As such, the redesign of Spotify cannot be attributed to specific individuals and is described as a team-building exercise (Kasperkevic, 2014). Due to the agile structure of Spotify, each squad working on different product areas has their own designer and all squad designers had to collaborate in order to achieve a cohesive design that could work across all features, products and client app interfaces. This close collaboration and team feedback throughout the process meant that after the launch employees were proud of their product (Kasperkevic, 2014), creating a more positive working environment.

Whilst agile thinking and culture has always been a large part of Spotify's work methods, they are now looking to further incorporate design into their business, following 6 distinct design principles (Diagram 3).



Figure 3, Greenfield (2014), Spotify Design Principles

These principles were integral to their redesign and can be transferred to other business functions such as new product development. Through a user-centred approach focus on customer feedback (O'Brien, 2014) Spotify now has a much simpler user interface (Diagram 4), a dark background which accentuates album artwork and navigation buttons, much like a dark movie theatre (Dredge, 2014), providing a user experience that matches customer expectations of the brand.



Figure 4, Rego (2014), Spotify paints it black with a new look

Design thinking involves using designer's sensibility to match people needs with what is technologically feasible (Brown, 2008), by challenging existing assumptions and meanings of products (Micheli, 2013). If Spotify can incorporate their design principles throughout the business to shape and provide direction for product development, where it before was lacking, then they can continue to innovate and challenge assumptions and norms of how we interact with and consume music as part of our everyday lives.

PERFORMANCE

In 2012, Spotify were acknowledged as **Most Innovative Company by MIT's Technology Review** (Technology Review, 2012). Their innovative business model radically disrupted the music by providing a digital music service much more than just a platform for music listening. They provide opportunities for personal expression, curation, discovery and music access wherever and whenever, and provide artists with fair pay. Apple recently acquired Beats Music (Apple, 2014), a move which, rather than threatening Spotify, simply validates the strength of their unique business model.

Spotify's success can be seen in their growing numbers of users. They have over **12.5 million paying subscribers and over 50 million active users**, with more than 30 million songs available in 58 different markets (Spotify Press, 2015). In 2014, Spotify saw almost **70% increase in paying and active users** (Bertoni, 2014) highlighting extensive growth as a result of innovative product development as well as a new design with simplified, cohesive user experience.

Despite over \$1.2 billion in subscription revenue alone (Bertoni, 2014), due to growing licensing fees rising with fan's usage, **Spotify is yet to make a profit** (Adegoke, 2014), paying out almost 70% of total revenues to music industry rights holders yearly, and over \$1 billion since its launch (Dredge, 2013, b.). Spotify believes in working towards long-term growth, however must convert a higher proportion to paid users to avoid sinking into further losses.

That said, despite not making a profit, Spotify is fulfilling the mission that they set out to: paying artists fairly and offering more music to more people; which is, in itself, credible. **Innovation missionaries** are those people who create and advance technologies to serve a cause, not seeking direct financial profit from their work (Chesborough, 2003) and one could consider Spotify of this nature.

A company's success can be measured on more than financial performance, in the short term at least, and **Spotify has radically changed the way we consume music**, becoming a part of our everyday lives and social identities. Investors in Spotify see a potential that surpasses the criticisms it faces from musicians like Taylor Swift who feel free streaming places no value in the art of her music (Engel, 2014). However, for their business model to remain sustainable, changes must be made that see Spotify begin to turn a profit by utilizing their innovation capabilities to offer a service more customers are willing to pay for.

WHAT CAN WE LEARN FROM SPOTIFY?

Passion to combat music piracy and make music digitally accessible is at the heart of Spotify, driving their company culture, inspiring innovation and looking to continually better what they do. Their **forward thinking, growth-orientated mindset** seeking to serve user needs in more innovative ways has been crucial to their success so far, and their **willingness to look outside of the company** for both problems and solutions presents a great strength. These assets, coupled with a more detailed, sustainable focus will be what keep Spotify at the top of the industry charts.

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