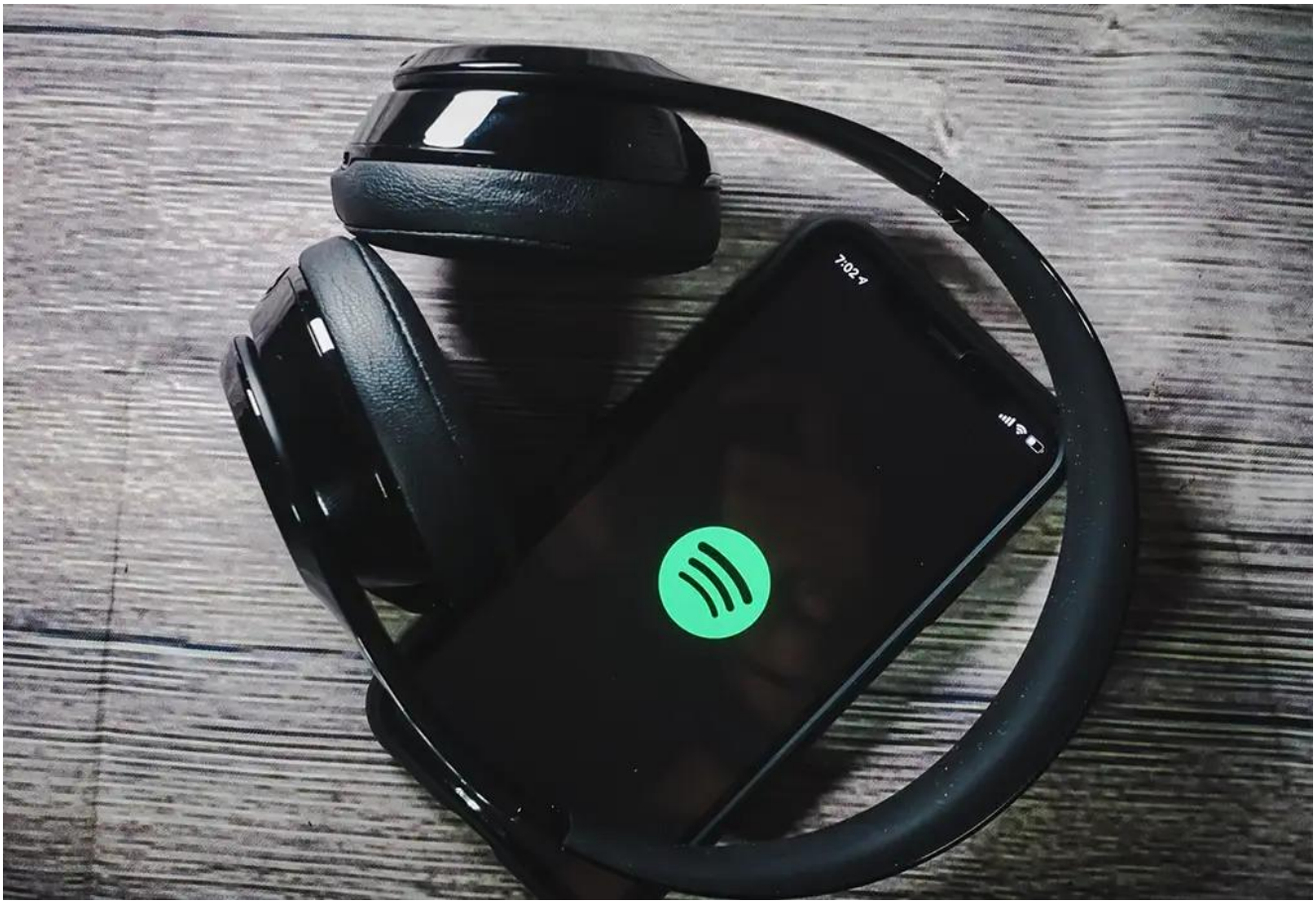
Spotify: A global success story in search of profitability

What does Daniel Ek’s retirement as CEO mean for Spotify, and what situation has he left the company in?



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By Govert Vroom

In September 2025, Spotify founder Daniel Ek surprised everyone by announcing he was

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stepping down as CEO of the world's largest music streaming platform. The news came right as the company seems to have finally become profitable, something that had eluded it for almost 20 years of rapid growth.

Indeed, after accumulating billions in losses since its launch, Spotify announced its first-ever profits in 2024: €1.1 billion, with revenues of €15 billion. Perhaps that's why Ek feels that his time at the helm is now complete.

I've been studying Spotify and discussing it with my students for over 10 years. It's a fascinating story of how digital innovation can disrupt and rebuild an entire industry.

The tale began in 2008, when the music industry was facing an unprecedented crisis. Digital piracy, fueled by platforms like Napster, had decimated record sales. For Ek, who co-founded Spotify with his friend Martin Lorentzon, this failure was inevitable: "It's perhaps the only moment in history where the illegally obtained product was better than what you could buy legally."

Music lovers were seeking convenience: instant access to any song. However, record labels were wary of — or outright hostile to — digital distribution.

Enter Spotify, with a simple but revolutionary proposal: Provide the same convenience, but legally and at low cost. Whether out of conviction or necessity, the major labels supported Spotify and even took shares in the company.

The rest, as they say, is history. Riding on the wave of streaming, the industry has continued to grow. Just one statistic: In 2024, according to the International Federation of the Phonographic Industry, the recorded music industry generated $34 billion, 70% of which came from streaming.

But why was Spotify losing money?

Why Spotify was losing money for so many years is the question I pose to executives in my courses, and their answers reveal the importance of one's position in the value chain.

The financial explanation lies in the deals with record labels, which are renewed every two to three years. After a wave of mergers over recent decades, three major labels — Warner, Universal and Sony — dominate 70% of the market. They control what Spotify users really value: the music. As a result, Spotify spends around 70% of its revenue on paying royalties,

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leaving it with a very limited profit margin.

Moreover, record labels have no compunction about offering the same terms to any company wishing to launch its own streaming service. This has led to a long list of competitors. Some belong to tech giants like Apple, Google and Amazon, while others are smaller or regional players like Tencent in China and other Asian markets. All of them offer catalogs of hundreds of millions of songs at a price similar to Spotify's of between €10 and €12 a month.

Despite the growing competition, Spotify has led the market throughout these years. However, the question persists: What is it that Spotify offers that its rivals can't match?

Solidified competition prevents Spotify from fully capitalizing on its position, but this is where the class debate begins: If it raises prices too much, it will lose customers; if it tries to pressure the record labels for better terms, they might favor the competition; and if it reduces investment in marketing or R&D, it will lose market share.

Monetization and efficiency: the strategy toward profitability

As some executives point out in my analysis, Spotify needed to diversify and differentiate itself. Spotify flirted with the idea of being the "Netflix of the music world," producing documentaries with bands like Metallica. It even briefly considered releasing music from groups not signed to record labels. Other initiatives, such as selling merchandising or offering analytics tools to track user listening patterns, had minimal impact. Most of these ventures failed. Some, like the video portal, failed quite spectacularly.

Spotify's latest and most ambitious move was to invest over €1 billion in acquisitions and content development for podcasts and audiobooks. Joe Rogan got €100 million, and there were collaborations with Meghan Markle, Michelle Obama and Dua Lipa. These were content areas that Spotify could control directly, without needing to consider record labels.

But by 2023, after hundreds of millions in losses, Spotify stopped talking about "growth" or "new opportunities" and began focusing on "monetization" and "efficiency."

The shift yielded results. Spotify raised prices (currently, it costs a dollar or euro more than its competitors in most markets), cut its workforce by nearly 20% and reduced its podcast production. Additionally, it reduced some royalty payments in the United States, claiming that its packages now include not only music but also podcasts and audiobooks. This move is

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still being fought in court, with record labels attempting to write limits into the new contracts signed in 2025.

What's the future of Spotify?

Following Ek's departure, I will soon be posing a new question to my students: Are Spotify's profits a fleeting phenomenon or has the company finally become financially solid?

One way to look at it is that, for now, the changes haven't affected Spotify's market share: It maintains a significant advantage as streaming leader, has diversified with some success and has solidified its position as a pillar of the music industry. Furthermore, despite cost-cutting, it continues to invest in technological innovation, betting on artificial intelligence and Web 3.0 applications.

However, there is another, less optimistic reading: Spotify is now more expensive than its rivals, and its results still depend heavily on royalty payments and the power of record labels. Its quarterly results in 2025 haven't been as strong (with losses in Q2), though the company and most analysts continue to project profits for the full year.

What more can Spotify do to achieve profitability? I'm eager to hear what my next group of students thinks.

MORE INFO: The business case study "Spotify: Face the music (2025 update)" is available from IESE Publishing and is featured in a roundup of best case studies for management learning. The case topped the list of the most popular cases in the *Financial Times* in the year to June 30, 2026.

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