Are We Reaching Peak Streaming Subscriptions?

For four years, the U.S. recorded-music business has grown at double-digit rates, but there are now 110 million subscribers — in a country with 110 million households. What happens next?

BY WILL PAGE

HEN IT COMES TO technology startups, investors tend to focus on TAM, or “total addressable market.” In venture capital argot, it’s the number of people who might be interested in a service, minus those who can’t afford it or don’t have the necessary technology — say, the number of people who might use the internet to stay in touch with friends or pay to watch movies at home.

These numbers tend to be big, but they’re not infinite. And after four straight years of double-digit growth in the United States, subscription music-streaming services, which have driven the recovery of the recorded-music industry and generated $3.7 billion, or half of all revenue flowing back to labels in 2019 alone, according to IFPI, are starting to run out of potential subscribers. The United States now has 110 million music-streaming subscriptions, which sounds like it leaves plenty of room for growth in a country of 333 million. But only 220 million are addressable by streaming services, according to the consultancy Omdia, and they live in just 110 million households — many of which share subscriptions.

Have we reached “peak subscription streaming” in the way that some scientists fear that we’re approaching “peak oil,” the theoretical point at which more oil has been extracted from the earth than remains in it? The streaming situation is far less grim — peak oil assumes that production will decline, while streaming-subscription numbers will presumably stop growing but not decrease — but there’s one important parallel. Just as we’re running out of “easy oil” and the price of a barrel increases as we move from drilling wells to more expensive extraction methods like fracking, we’re also running out of what we might call “easy subscribers”: young, tech-savvy music fans, many of whom have smartphones with iOS, which makes commerce easy. Finding more will require marketing, whether that means courting more Android users, selling skeptics on the value of music streaming or trying to take subscribers from other companies — which costs money. It could also put pressure on services to lower prices, at precisely the point when they also have an incentive to raise them in order to show bottom-line growth.

To get a sense of what’s ahead, it’s worth looking at two markets that adapted to streaming early, Sweden and Norway, which make some of these concerns look a bit like the boy who cried wolf. Since 2015, when analysts first began predicting that music streaming services were running out of potential subscribers, the music business consultancy MIDiA estimates subscription numbers are up 85% in Sweden and 78% in Norway.

Then again, remember what happened to that boy who cried wolf in the end? It could be that the predator is still on his way — he just hasn’t quite arrived yet.
ARE WE THERE YET?
How close we are to peak subscription streaming depends on whether its arrival has more to do with the number of potential subscribers or the number of households they’re in. Since younger consumers first embraced music streaming services, many executives tend to think in terms of individuals. But tech giants like Apple and Amazon seem to be looking at households. In September, Apple announced Apple One, with basic and premier family plans priced at $20 and $30, respectively, which will allow up to six members of a household to use the company’s music, TV and games services, plus cloud storage and, in the premier version, news and fitness. Amazon has already sold over 110 million U.S. Prime memberships, and it now offers video and music services of its own, as well as hands-free listening on Alexa.

The percentage of addressable individuals who have subscriptions — 70% in Norway and 65% in Sweden, according to MIDiA — implies there’s still room for growth in the United States, which has tapped only half of its market. Norway and Sweden have more subscriptions than households (see chart, right) — 1.3-to-1 in both markets, which are still experiencing slow, stable growth. This year, the United States hit the 1-to-1 ratio of subscriptions to households. Given the current pace of growth — the United States added over 10 million new subscriptions between January and August 2020 (almost half of which came from Spotify), according to music industry sources — U.S. executives may see a steady slowing of growth within months rather than years.

To get a better sense of where the United States is, however, it helps to unpack the subscriber figures. According to music industry sources, only 58% of those “paying subscribers” actually pay — the account holders — while 38% are part of a family plan and 6% are on finite trials. The consultancy MusicWatch believes there are another 15 million “account sharers” who aren’t accounted for in that 110 million figure.

These numbers imply that there aren’t as many people paying to use more than one service as it might seem — but there’s still some cross-use. For example, according to MusicWatch, about one-third of those who use Amazon Music (paid for as part of their Prime membership) also use Spotify or Apple Music, and about one-third of the subscribers to those services also make use of Amazon Music. Remember: When Spotify or Apple Music subscribers ask Alexa to play their favorite songs, unless the owner of the device has changed its settings, it will default to Amazon Music — and cross-usages will kick in. Of course, the most significant cross-usages comes from a free service, YouTube: MusicWatch estimates that half of all U.S. subscribers to services like Spotify and Apple Music use YouTube, while only one-quarter of YouTube users also pay for such services. Even in a world where we’ve reached peak streaming, Apple and Spotify will still need to replace older users with consumers from the 68 million-strong Americans under the age of 25 who have become accustomed to getting their music free on YouTube.

MOM, HE’S STEALING MY SUBSCRIBERS!
Any number of factors will ultimately influence how much streaming subscriptions will continue to grow: YouTube, SiriusXM, even the terms and conditions of family plans that shape whether kids will leave the household subscription at the same time they move out of the house. But the 1-to-1 ratio of subscriptions to households, which the United States has now passed, is the point where the traffic light goes from green to yellow. Regardless of how much growth there is, the days of easy, viral expansion are behind us. The subscribers ahead are the ones who can only be reached with marketing — just like much of the oil we’re now producing requires expensive extraction methods like fracking.

Like peak oil, the era of slower streaming subscription growth will also require some tough decisions. Increasing the number of subscribers will require spending money — either for marketing or on price cuts to steal consumers from rival services. At the same time, services may need to raise prices — which haven’t really changed from $10 a month in the United States since Rhapsody launched in 2002 — in order to maintain revenue growth. Other options include more exclusive content, which can be expensive (Spotify has exclusive podcasts, but they’re all available on the service’s free tier), and tightening the restrictions on family plans to encourage kids (or anyone) to subscribe on their own. Since every service is facing the same challenge at once, competition could get brutal. This brings us back to Apple’s bundle subscription, which will make it easier for account holders, both solo and in households, to get more services from the same company in a way that will let them save money and simplify their lives. But the economics will get fuzzy as the gap widens between the number of people who pay for services and the number of people who use them.

Just as subscription growth becomes more difficult, music streaming services are competing in a world driven by the feast of “stay-at-home streaming” growth, as well as the famine of disposable income as the economic fallout of the coronavirus begins. With only so many subscribers to go around, the services will almost certainly go from herbivores to carnivores — and try to eat one another’s lunch.

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