Party’s over at Spotify as celebrity podcast deals fall flat

In better days, the company lavished UK staff with impromptu gigs in the office canteen by Coldplay and Kylie Minogue. Now it’s wielding the jobs axe. Jamie Nimmo asks how Daniel Ek’s empire went so out of tune.

Coldplay, Kasabian, Kylie Minogue, Slash, Meghan Trainor, Tom Odell. It sounds like a Glastonbury line-up, but it’s actually a list of some of the acts who graced the kitchen of Spotify’s old London office. As the Swedish company grew to become the undisputed king of streaming, it would wheel in some of the biggest names in music to perform for its staff at lunchtime on Argyll Street.

So stunning was one Kasabian gig that some of the 200 or so people watching in the canteen were left in tears, an employee remembers. Another time, Coldplay turned up having just played to 100,000 fans in Sydney two days earlier. Odell enjoyed his canteen set so much, he carried on busking in front of the office.

How times have changed. On Monday, chief executive and co-founder Daniel Ek announced Spotify was laying off 6 per cent of its staff, or about 600 people. The company has expanded rapidly and has close to 10,000 employees, with about 800 of them in Britain. “It came out of nowhere,” said a London-based software engineer who was fired over a hastily arranged Teams call. “It’s like grief, I just don’t know how to react.”
Ek, 39, said the global economic slowdown was taking its toll on Spotify and admitted he had hired too aggressively during the pandemic. “I hoped to sustain the strong tailwinds from [then] and believed that our broad global business and lower risk to the impact of a slowdown in ads would insulate us,” Ek told staff. “In hindsight, I was too ambitious in investing ahead of our revenue growth.”

Spotify, the most popular music streaming service with over 450 million regular users, listed on the New York Stock Exchange to much fanfare in 2018. While its shares soared during the pandemic when people were shut in their homes, they have collapsed by 70 per cent since February 2021. The company went from having 5,600 staff round the world in 2020 to 6,600 in 2021. But by the end of the third quarter of 2022, the workforce had leapt to 9,800. Operating expenditure in that quarter rocketed to $978 million (£789 million) from $593 million in the same period a year earlier.

Turnover rose only slightly, from $2.5 billion to $3 billion. This meant Spotify swung to a quarterly loss of $144 million. Ek is trying to stem the tide.

Spotify is not alone. A wave of tech firms have already announced they are cutting jobs in response to the downturn. Facebook owner Meta, Amazon, Google owner Alphabet, and Microsoft have all confirmed plans to trim their workforces in recent weeks. Most admitted the Covid-inspired boom in digital services and products has run out of steam.

However, Spotify’s challenges extend to more than just an indulgent hiring spree. Music industry figures point to the expansion of its podcast business, which has failed to reap financial rewards yet.

Will Page, former chief economist at Spotify, said: “I think podcasts were a natural extension for an audio company to go into. What I think we’ve struggled to understand is that podcasts are really a sea of niches. They are not like every other media model in the world where you’ve traditionally had a small handful of blockbusters that dominate demand — stack ‘em high and sell ‘em cheap… They’ve placed an old-school blockbuster bet on a model that doesn’t work to those rules. I think that’s the realisation they’ve found there and… not just Spotify.”

Last week, Ek announced that Dawn Ostroff, his chief content and advertising officer, was leaving Spotify. Ostroff was hired in 2018 and oversaw its podcasting expansion. Under her, the firm struck multimillion-dollar deals, including Harry and Meghan’s Archetypes podcast, which is reputed to be upwards of $15 million, and shows for Joe Rogan and Kim Kardashian.

Ostroff was the best-paid executive at the company, pocketing over $26 million between 2019 and 2021. She also embarked on an ill-advised acquisitions spree in podcasts. In 2019, Spotify bought Gimlet for $230 million and Parcast, reportedly for over $100 million. A slew of small deals followed. Last year, however, cracks were starting to emerge, with Spotify laying off staff at Gimlet and Parcast in October.
Mark Mulligan, managing director of the entertainment analysts MIDiA, said: “Growth in the streaming market is slowing and that’s one of the reasons why Spotify made its big podcast bet. It’s been growing audience really quickly, but podcast is highly dependent on advertising revenue ... and advertising is always one of the early victims of a recession.”

Competition is mounting too — and not just from Spotify’s direct rivals, Apple and Amazon. TikTok is growing its presence in music and has long been rumoured to be eyeing the launch of a streaming service here.

Even at primary school, Ek showed glimpses of the entrepreneurial spirit that would make him a billionaire. In his early teens, he learnt to build websites for thousands of pounds, and he started different companies in his late teens. Ek sold his online advertising business in 2006, making him a multimillionaire. The idea for Spotify, though, was already on his mind. After Napster had been shut down in a clampdown on music piracy, Ek teamed up with Martin Lorentzon to set up their legal alternative, Spotify, in 2006. Its main base is in Stockholm and it has a large office in New York, but London is also a stronghold. It bounced from office to office in the capital as staff numbers grew and is now based in the lavish art deco Adelphi Building, overlooking the Thames. The canteen gigs in Argyll Street ended after a noise complaint from a neighbouring tenant, which happened to be the ticketing company Live Nation.

The global streaming phenomenon is still going strong, though. Last week, Justin Bieber, one of the biggest artists of his generation, sold his share of the rights to his music for $200 million to Hipgnosis. But Spotify has not always come to the party. While the wheels of the music industry have historically been greased by backstage VIP passes offered by record labels in return for airspace for their up-and-coming artists, Spotify has been resistant. There, said one record executive sullenly, playlist editors do not accept entertainment and so cannot be charmed to promote new music, unlike radio DJs or producers. “It’s a closed culture,” he said. Staff in the London office work on new software designs for the platform, tweak the algorithm and edit playlists.

The London employee who was let go last week said there were trips to Stockholm every three months where she would socialise with other staff: “Spotify really knew how to throw a good party.”

As it expanded, the firm also made enemies. Taylor Swift boycotted Spotify for three years after criticising it for not fairly compensating artists and writers. Radiohead’s Thom Yorke pulled his solo songs from Spotify in 2013, calling it “the last desperate fart of a dying corpse”. Less well-known acts complained about how much they were being paid. Some estimates put the amount an artist received per stream (after Snoopit and the labels had taken their share) at last
The government asked the Competition and Markets Authority to launch a review, but the watchdog found its intervention would be unlikely to have any impact. Artists are still hopeful the government will implement measures to benefit them.

One point of contention is how low Spotify has kept prices, meaning less is released to artists and writers. In 2021, it raised the price of its family subscription from £14.99 a month to £16.99. However, the price of its standard single account has remained at £9.99 since it was launched.

This month, Amazon raised the price of its unlimited music-streaming service from £9.99 to £10.99 — matching a price rise from Apple Music in October.

Tom Gray, the Gomez guitarist and now chairman of the Ivors Academy songwriters’ body, launched the Broken Record campaign to force streaming services to pay more to artists. "Somebody was always going to have to go for it, because it’s been ridiculous," he said. "Amazon has moved. The question is, why hasn’t Spotify?"

Amid the surge in inflation, industry figures now expect Ed to raise prices, but doing so could cost him customers. However, music-streaming services argue that they suffer less churn — when customers cancel subscriptions — because, unlike TV streaming, the music is the same on Spotify as it is on Apple Music.

A music industry executive said Spotify would keep hold of customers as it raises prices: “Call it £2 a month rather than £10… where can you get better value than that?”

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