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## Spotify's Daniel Ek Zings Dr. Dre's Beats Music (Q&A)

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By Georg Szalai, The Hollywood Reporter | January 22, 2014 6:40 PM EST

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**In an interview with THR, the streaming service CEO explains why Radiohead's Thom Yorke is wrong for saying artists are underpaid. As for his competitors' strategy? "Our way ... is not just slapping some celebrity brand on."**

In the five years since he launched Spotify, Daniel Ek has seen the music streaming service grow from a Swedish phenom to a global player taking on such giants as Apple's iTunes and Pandora as well as Beats Music, which launched Jan. 21. The privately held company with about 1,000 employees completed a \$250 million financing round in November that valued it at more than \$4 billion (investors also include Goldman Sachs and Coca-Cola), even though it has not yet turned a profit. As of March 2013, Spotify had more than 24 million active users, a figure believed to have grown (Ek declined comment). Recent reports suggest 9 million people pay \$9.99 a month for an ad-free experience, high-quality audio and the ability to download many of the 20 million-plus songs in the service's library.

According to estimates, the Stockholm-based Ek, 30, is worth more than \$300 million. He has been a serial entrepreneur since he founded his first web-design company at age 14. Spotify, he says, is on track to become the dominant streamer, though critics note that it has failed to capture the U.S. market the way it dominates Europe. Detractors in the music industry also gripe that the service's artist royalty fees are too low. In December, Ek announced free mobile access to Spotify, a move that could lead to a surge in users.

The avid guitar player, whose girlfriend gave birth to their daughter in June, spoke with THR at his Manhattan office about Spotify's U.S. plan, how he plans to fend off new competition and why Radiohead's Thom Yorke is wrong for saying the service underpays artists.

**Pandora is a well-known brand, with 76 million users in the U.S., Australia and New Zealand. Spotify had 24 million active users worldwide as of March. How can it compete?**

I don't really view them as a competitor. The rest of the world seems to, for some reason. We want Spotify to be your music player. We don't want to be the radio service; we don't want to be the place where you watch a music video and then a cat the next moment. We want to be the place where you store and collect, where you

build your playlist for your dinner party or your workout. That is very different from Pandora.

**And iTunes? Is that a competitor?**

iTunes is more of a competitor because it is "your music" for a lot of people. But it is so obvious that Spotify is much better because you can put more than 20 million songs in your pocket and access at any moment. You just pay your \$10 per month or even use it for free. The benefit of being on Spotify as opposed to iTunes is huge.

**Beats Music has big names such as Jimmy Iovine, Dr. Dre and Trent Reznor attached. Is that a concern?**

It's a competitor, for sure, but my way of looking at it is, if it gets people to understand the value of streaming, it is ultimately good. Our way of doing this is not just slapping some celebrity brand on it and hoping it will be good. We are a social service; we are a product company. People have tried to put a brand on it and thought that's enough, and they have failed: Microsoft, Nokia -- many big companies.

**When will Spotify be profitable? And aren't you lagging a bit in the U.S.?**

We're a young company, and this journey is just starting. If you ask an average American how they get their music, none of them are really streaming. People here have just figured out Pandora in the last 12 months, and that service has been around for 13 years.

**Is there a user number you need to become profitable?**

We must be one of the most transparent companies that is not public. We have paid out over \$1 billion to artists -- we pay out 70 percent of the money we make. I think that's fair. [Editor's note: Artist payouts are determined by an algorithm involving Spotify's monthly revenue, the number of total streams and streams of a specific artist during a given month and artists' and publishers' royalty rates.] So why are we not making a profit? It's very simple: We are growing. We are putting Spotify in more places, on more devices and in more countries. We have been in 35 countries, and as of December we are in 55. We don't care about profitability short-term; we care about long-term. I look at what's happening with the Internet now as the single biggest thing since the industrial revolution. When in history have you had this opportunity, with 1.6 billion people now connected to the Internet?

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**Thom Yorke and others have criticized you for not paying artists enough. How do you respond?**

This is the single biggest shift since the inception of recorded music, so it is naturally going to draw criticism and speculation. [Yorke] looks at this and says over a million streams gives me a few thousand dollars, and he says if I had a million downloads

[which pay higher royalty rates], that would mean \$1 million -- so Spotify is not good. But the difference is, he would not have had a million downloads because they are not comparable. In fact, with 24 million users -- and Apple has 500 million users -- we already have billions of streams today.

**So it comes down to scale?**

In my home country, Sweden, Spotify is 70 percent of not just digital music revenue but all music revenue, including physical [album sales]. That's what happens when you get to scale. One-third of the population uses Spotify -- but people still use iTunes, too. This isn't about which one you are supporting. An artist today should do everything [because] different consumers want different things.

**Digital music remains a fragmented business. Are you thinking about acquisition opportunities?**

It's not just one company that will control all your music; there are going to be many players that will do different things. But eventually, is it better to have a few consolidated players? Probably.

**What's next for Spotify? Could you see launching a TV or film streaming service?**

This is my fifth or sixth company, and the problem I had with all my previous companies was I did too much at once. It never worked. When we started Spotify, I said I will focus all my energy and attention on this to see how far I can go. I think that is why we have been so successful. I don't rule out anything because we are the kind of company that will say, "Why does the world look like this?" And if we can figure out a way to do better, we should.

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