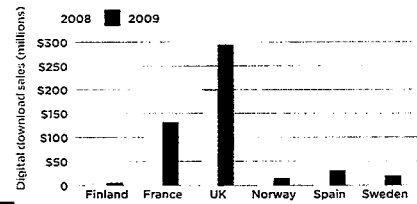


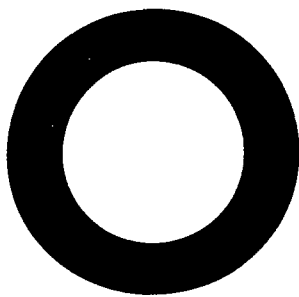
THE CELESTIAL JUKEBOX

Spotify delivers any song you want, anywhere you go—free. Sound awesome? It is. But you can't have it.

Since Spotify's launch in 2008, digital download sales have been solid in Europe.



BY NEAL POLLACK



ON THE FIRST MONDAY IN October, Microsoft CEO Steve Ballmer gave a speech to students at Sweden's Royal Institute of Technology in Stockholm. The lecture hall—"one of the most vertical auditoriums I've ever been in," Ballmer told the group—was all blond wood and sensible lighting, simultaneously modern and venerable in that distinctly Swedish way. After discussing cloud computing and extolling the joys of playing Xbox volleyball, Ballmer brought out a special guest who was sure to ignite the crowd: Daniel Ek, CEO of the Swedish startup Spotify.



A soft-spoken, balding 27-year-old Swede, Ek took the stage to enthusiastic applause, all but outshining the Microsoft chief. "It's great to be here, back in Sweden!" he said, sounding every bit the returning rock star. He then made the day's big announcement: Spotify, the music service he created, would now be available through a new app for Windows phones in Europe.

If you've never heard of Ek or his company, you can't be blamed. Spotify is perhaps the biggest, coolest, greatest piece of software you're not allowed to use. It's a stand-alone application that lets users listen to and share any song by any artist instantly and

for free. And it's entirely legal. The service supports itself (and pays for music rights) with advertising and monthly subscriptions that unlock premium features such as the ability to store songs on an iPod, mobile phone, or tablet.

Spotify is an elegant application, by far the simplest, easiest way to listen to digital music. It's faster and more responsive than iTunes, torrents, or Pandora. And while there have been all-you-can-eat music services like Rhapsody for some time, none of them let you start listening without laying down a credit card. Not surprisingly, Spotify dominates the markets where it's available. The company estimates that it has more than 10 million users in seven countries, with more than 500,000 paying subscribers. It has fundamentally changed how people listen to music in Europe.

But, thanks to resistant labels and archaic rights systems, Spotify isn't available in the US. And this isn't just a problem for American music fans. It's also a problem for Spotify—the US is the world's largest music market, bigger than France, Germany, Sweden, Spain, Italy, and the UK combined. Spotify's lack of a US footprint may even be a

insists that it's coming to the US, and soon.

Back at the Royal Institute of Technology, Ek gave a short speech about the advantages offered by his software: "People now consume a lot more music by a bigger diversity of artists," he said. "And the reason they do that is because they no longer discover music from a radio station. They discover music from their friends." That, he explained, was the key to Spotify's success and the reason it is important to the music industry. It offers a new, better way to discover music.

Ek signed off by urging his fellow Swedes to "keep sharing music," and Ballmer stepped back into the spotlight. "I've heard a lot about Daniel over the years," he said. "It's the first time we've met personally. We have a lot to talk about."

Undoubtedly first on the list was the same question every other North American music fan wants to ask: *Where's my damn Spotify?*

DANIEL EK, a self-admitted "early user of Napster," first became obsessed with digital downloads after the deaths of Napster and Kazaa in the early 2000s. Though he's

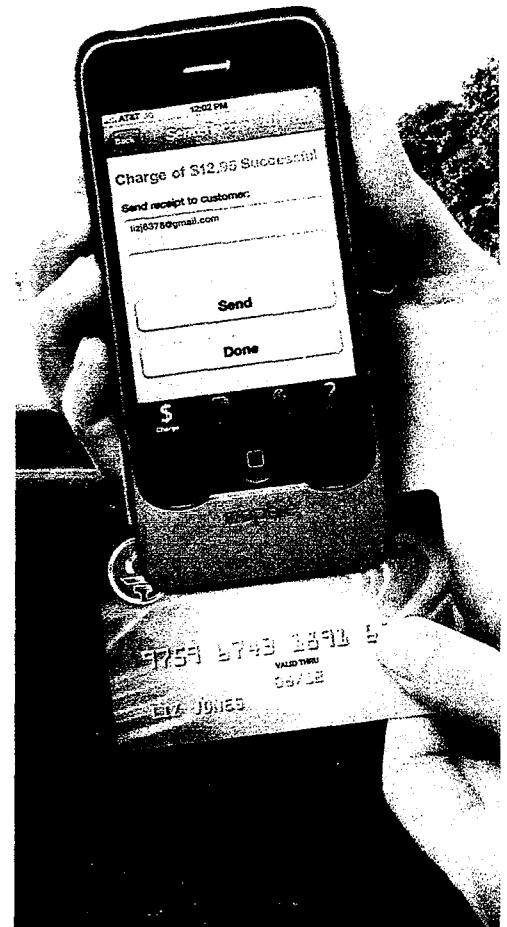
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problem for the music industry, which has struggled to find new ways to capitalize on digital music and finds itself increasingly crushed under the heavy boot of iTunes.

Ek and his team have been trying to bring Spotify to the US for more than a year now, with little to show for it. Since 2009, the rumors of Spotify's impending American invasion have fizzled in disappointment every time. For those who've followed the effort, Spotify has begun to take on the aura of raw-milk French cheese or certain varieties of Amsterdam flora—a European import that North American connoisseurs just can't get here. But for its part, Spotify

not yet 30, Ek has been running tech companies for more than a decade. The first was a web design business he launched in 1997, while still a teenager living in a Stockholm suburb. He later worked as the CTO for Stardoll, a virtual paper-doll site for tween girls; started an advertising company that got purchased by the Internet marketing outfit TradeDoubler; and was part of Tradera, a Swedish auction company, which eBay bought in 2006.

But music downloading was increasingly in the back of his mind. Ek wanted to create a legal service that offered the convenience and immediacy of file-sharing programs like



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the original Napster. “The reason I started Spotify,” he says, “was not because of my love of music. It was because I saw an opportunity to create something that made it easier for people to do the stuff that they were already doing, but legally.”

Ek discussed his ideas with Ludwig Strigeus, a brilliant developer who is confined to a wheelchair by a rare muscular disease. Strigeus had created uTorrent, a fast, lean, and extremely popular BitTorrent client. Ek soon realized that this was the guy he needed. He and TradeDoubler cofounder Martin Lorentzon teamed up to buy uTorrent, turned around and sold the technology to BitTorrent, and kept Strigeus on as a developer for a new music project.

Ek didn’t know much about the music business. All he knew was technology. So he hired a team of engineers to work with Strigeus and started creating his dream program. Strigeus quickly developed a highly efficient peer-to-peer system that became the heart of Spotify.

With the software complete, Ek finally set out to gain the rights he needed to fill the service with songs. Unlike the US, every European country has a national association of sorts that manages all the rights to broadcast and stream music. In order to earn the privilege of offering digital tracks, a service like Spotify negotiates with these associations—not with individual record labels and copyright holders. Ek didn’t have an easy time of it, but he finally managed to gain rights to stream pretty much any song in Sweden, England, Norway, Italy, Germany, France, and Spain.

Spotify launched in October 2008 and began its European invasion. By the end of 2009, Spotify had more than 6.5 million registered users. By the middle of 2010, the application was such a hit that telecom providers started bundling it with their phones, and manufacturer Sonos included the service in its home-audio systems.



Daniel Ek, the tech nerd turned music mogul behind Spotify, in his London offices.

Spotify’s seemingly irresistible appeal stems from the fact that it’s free, at least for the basic service. In addition to letting users listen to any song they want without having to buy it, being free also helps Spotify become a thriving community, à la Facebook. Since there’s no impediment to joining, users can share songs and playlists without worrying about who is and isn’t currently a member. To make money, Spo-

tify relies heavily on some portion of users deciding to pay for upgrades—a classic freemium model. Sign up for 5 euros a month and you eliminate ads from the desktop application. A 10-euro subscription allows you to store an unlimited number of tracks on your hard drive or any mobile device, so you can listen even if you don’t have an Internet connection.

It was exactly what music fans had been waiting for, fulfilling the long-sought dream of a “celestial jukebox”—a service that



At the heart of the image

makes every song always available, freely and legally. UK resident Andy Smith, who created Spotibot.com, a web application to help people find new music on Spotify, puts it this way: "Spotify is finally a realization of a much-sSpeculated model of music-as-a-service. I've come to think of it almost as a utility. Just as I turn on a tap to get water, I turn on Spotify to get music."

The company grew rapidly and soon employed 200 people. It moved into fancy new digs in the middle of Stockholm's trendy Stureplan district and opened equally posh offices in London. To celebrate the company's second birthday, Spotify threw itself a big party at the KOKO Club in London's hot Camden section, including a live performance by British rockers the Bees.

Among those drawn to Spotify's success was Sean Parker, cofounder of Napster and the early president of Facebook—portrayed by Justin Timberlake in *The Social Network*.

might even grab a sizable number of music fans "by the balls." After all, the celestial jukebox—MP3s, Napster, music-on-tap—is an American invention. But there's one major difference between Europe and the US: In the US, the labels have direct control over interactive rights.

And that's the core of Spotify's problem: There's no simple way to get a license in the US to offer music on demand over the Internet. Unlike radio in the US—which has a legal right to broadcast music as long as a station or network pays a predetermined fee—digital music services have to negotiate for rights with each record label and individual copyright holder. "The labels have control," says Les Watkins, a senior vice president at Music Reports, a service that administrates interactive rights. "They have the right to say yes or no."

Sometimes they do say yes. Paid subscription services like Rhapsody have deals in

**"I think of Spotify as a utility.
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Always on the lookout to get in on the hot new thing, Parker contacted Ek about investing, eventually putting an estimated \$15 million into the company.

"You get addicted to it," Parker said of Spotify at a recent tech conference. "You end up building a music library that's 100 times bigger than anything you've ever had, and at that point you have no choice—we've got you by the balls. If you want that content on your iPod, you're going to have to pay for it; if you want that content on your iPhone, you're going to have to become a subscriber."

THERE'S NO QUESTION that Spotify would be wildly successful in the US. Already there are breathless blogs and fansites dedicated to discussing the service's US potential. It

place with all the majors. Three of those major labels actually have an ownership stake in MySpace Music. But when it comes to Spotify, with its insistence on deploying its freemium business model in the States, the labels have shown little interest.

None of the major labels would talk to WIRED about Spotify, but several have made their opinions known. "Free streaming services are clearly not net positive for the industry," said Warner Music CEO Edgar Bronfman Jr. during a February conference call to discuss his company's quarterly earnings, "and as far as Warner Music is concerned, it will not be licensed. So, this sort of 'get all the music you want for free and then maybe we can—with a few bells and whistles—move you to a premium price' strategy is not the kind of approach to business that we will be supporting in the future."

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Ek finds this point of view extremely shortsighted. He sees Spotify as the best way to turn the industry around. By making it easier to discover music, he says, the market can expand. This will ultimately yield more profits for everyone, even if people are listening to some songs for free. "Do I really believe that in an age where people listen to more music than ever, from a greater diversity of artists, that the real value of music for the entire industry is \$17 billion or less?" he says. "No. I believe that we're actually in a golden age of music consumption. The value should be much, much greater. It should be \$50 billion or more."

It's easy to see why the labels doubt this. Consider the arithmetic at its crudest: To expand the music industry by \$30 billion, Spotify would need 300 million paid users worldwide, tough to pull off when thus far only 5 percent of the service's members convert to a paid subscription. But to Ek, that math belies a simple truth: The mere fact that people are discovering new

Even with little sign that the US labels are ready to budge, Spotify has remained doggedly steadfast in its assertion that a deal is imminent. Thanks to the company's optimism, headlines like "SPOTIFY PLANNING LATE-SUMMER US LAUNCH" began appearing in July 2009, even though the company hadn't signed a single licensing deal. At a November 2009 tech forum in Monaco, Ek was forced to admit that it wasn't going to happen, at least not that year. "The US is a different beast," he said. "Most people are still not aware of the service or how it works—so we do have to spend time educating the market."

Then in February 2010 came another round of hope mongering. "We're in the final stages of setting up," Ek said. "Yesterday we signed a data center contract, which is huge for us. So, we're gearing up for a US launch. I can't say if it's in one month's time or two month's time, but it's looking pretty good." Ek gave a keynote speech at the South By Southwest Interactive con-

lacks the polish and responsiveness of Spotify, it does have licenses from all four major labels and boasts a catalog of more than 7 million songs. Friis and Zenström, of course, had tried their hand at digital music more than a decade earlier with Kazaa, which the major labels easily squashed. "The irony wasn't lost on me when I went to get licenses," Rdio CEO Drew Larner says. "But there wasn't the pushback expected given the history."

Rdio users can get unlimited streaming music on their desktop for \$5 and on their phone for \$10. The business model is remarkably similar to Spotify's, except for one key aspect: There's no free option. It's pay or don't play, which is undoubtedly the reason Rdio's been able to get the labels on board.

The fear is that Spotify may eventually have to go this route to crack the US market. And while the stand-alone Spotify application may still be fast and elegant, having only pay offerings would break its most critical and beloved feature, the free basic service. If Spotify were pay-only, Ek's utopian dream of an infinite postpiracy paradise would essentially become just another subscription-based streaming service.

As late as mid-November, Spotify hadn't backed down on the claim that it was going to launch in the US, free-mium model intact, by the end of the year. The company's US servers were standing by in Washington, DC, and it had established a US office in Manhattan's Meatpacking district. Spotify had retained people to do label relations, business development, and ad sales.

Ek himself, however, was hedging. After more than a year of dealing with the US music industry, he knows that launching a new product in the States isn't easy. "We can't say it will launch without a shadow of a doubt," he said. "We're more sure than we've been in the past, but things may still happen." Or, in this case, not happen.

NEAL POLLACK (alternadad@gmail.com) is the author of the new book *Stretch: The Unlikely Making of a Yoga Dude*.

If Spotify were pay-only, Ek's utopian dream would become just another subscription streaming service.

artists and songs leads to increased music sales across the board.

There's evidence that Ek may be right. Since Spotify debuted in Sweden two years ago, digital music sales have doubled, according to the International Federation of the Phonographic Industry (though pinpointing how much of this is due to Spotify is tough). Matt Culpin, half of the British electropop duo the Northern Kind, offers an example of why this may be. "There is a paradox," he explains. "Our first album isn't on Spotify. Its sales on iTunes have steadily declined since launch, which is to be expected. Our second album was released to Spotify. Its sales have held steadily on iTunes since launch. I can only put this down to its exposure on Spotify." In other words, giving the music away for free led to more sales.

ference in March, the day before the SXSW music festival, and rumors abounded that he'd announce a US deal. He didn't, and months passed. Still no Spotify. Frustrated, would-be American Spotify fans took to lampooning the endless stream of promises: "Spotify is now officially the Robbie-Can't-Break-America-Williams of the music biz," read one tweet.

WHILE SPOTIFY HAS SO FAR BEEN able to broadcast only press releases in the US, competing services have begun to emerge. Chief among them is Rdio, a streaming-music service started by Janus Friis and Niklas Zenström, the creators of Skype.

Rdio launched in August, and though it