



## Stanford eCorner

### A Playlist for Entrepreneurs [Entire Talk]

Daniel Ek, *Spotify*

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Daniel Ek, founder of digital music service, Spotify, is driven by a desire to solve interesting problems. In this fascinating lecture, moderated by KPCB's Chi-Hua Chien, Ek shares his thoughts on leadership, collaboration, and a laser-focus on building truly great products.



#### Transcript

Thank you everybody for having us today. It's a real privilege to be here. As Tom mentioned, I was a student here for many years and to be here interviewing my friend Daniel, the cofounder and CEO of Spotify is an honor. Daniel is one of those really rare talented entrepreneurs that has a compelling vision to disrupt an extremely large industry by building just a great product and I will tell you a brief little story that encapsulates that. Daniel and I met at the end of 2010; we were introduced by my partner Mary Meeker. Daniel happened to be in town and after a strategy offset that we've done with our firm, Mary said, hey Daniel is here, we are at a hotel and he came by and we sat for an hour and a half and he told us his vision for what was going to happen in music, what was going to happen with mobile, what was going to happen as all of these things came together to form a platform that he called Spotify. And after the meeting, I grabbed Mary and my partner Bing Gordon and I said, Bing, drive Daniel back to wherever it is that he is staying and invest as much money as you possibly can in this company. And we managed to a few months later. So Daniel, you had an extraordinary entrepreneurial track record. You found your first company when you were 14.

You were then the cofounder and CTO at Stardoll, then the CEO of uTorrent, and then the cofounder and CEO of Spotify. Each of those have been themselves big ideas attacking large markets in a disruptive way. How do you think about entrepreneurship? Well, so first to begin, I never really thought of myself as an entrepreneur. I thought of myself as there was always interesting problems around the world and I kept being annoyed at them. You know, I was - there was things around - that happened around me in the world that was annoying me. And I was constantly talking to people about it and I realized there was more people other than me that was annoyed by these things. So I asked them, so what are we doing about it? And no one was really doing anything about it. So eventually I felt that hey, I have to do something about it myself. So, when I started my first company when I was 14, I never really thought of it as a company. Again, there was a need at that time, this is 1997 where webpage was still - there was consulting firms charging 50 grand, at least in Europe where I'm from, to create a webpage.

And I said that's not really that hard and I kept telling people that. So, they were like well, can you help me do it? So eventually I started doing that and this is as I was pretty much in elementary school. And what I realized is I did one and I got a bit of money from it and I was like okay, this is pretty good and I kept doing more and more and more, and eventually what ended up happening is everyone that was pretty good at math, I taught how to program HTML and all the ones that were really good at drawing, I taught Photoshop. So we ended up having the whole class pretty much producing work after school hours and building web pages for people. And that was my first company. Not that I really cared about the fact that it was a company, I cared about the fact that here is a problem and people kept telling me about that and I wanted to deliver great results. So, that's kind of how I started. So, my definition of an entrepreneur is someone that has an itch for a problem and that you're annoyed enough by that problem to actually go out and seek a solution for it. So you grew up in Sweden, outside of Stockholm

or in Stockholm? In Stockholm. In Stockholm proper.

What's the culture like there and how did it shape this problem-solving oriented entrepreneurial approach? Sure. So, I look at Sweden actually as kind of an interesting one because typically we have a very strong engineering tradition. And - but people were looking to go to big companies like Ericsson and in certain cases IKEA, H&M There is all these massive companies, even though we only have a population of 10 million people. But there was a very strong engineering tradition there. The other thing that's really interesting about Sweden is the fact that it has an enormous amount of broadband penetration and the speed of that broadband penetration. If you walk in Central Stockholm today, there's 4G speeds with 60, 70, 80 megabits, just running through peoples' computers. And I remember, I got my first fixed connection in 1998 and that was an 8 megabit download, 1 megabit upload. In year 2000, I had a 10 megabit download and 10 megabit upload. One year later I had a 100 megabit download.

Wow. So who has got a 100 megabit in their home? No one, okay. U.S. infrastructure. Well, the interesting part was like - so think, this is 12 years back. Yeah. So - and especially if you think about this in the context of what I'm doing, which is distributing media, that could - it was pretty obvious at the time that we have this fantastic infrastructure. So, what we're going to use it for? Like, downloading a webpage took two secs. So okay, we started downloading more stuff, we started downloading music, we started downloading video and it was like these services don't exist. So, I think the culture in Sweden was very much prone for going to big companies, but with a great engineering tradition, but there was also all this people that wanted to consume content and a lot of content.

And I think that was really unique about Sweden. So you were 14, when you started your first company, then Stardoll, you were ...? Stardoll, I was 21, 22. 21? You took over as the CEO of uTorrent when you were ...? 22. 22? And then Spotify you were ...? 23. 23, when you started it. Was youth an advantage in starting those companies? Yeah, definitely. Like, I think if you ask entrepreneurs, would you have done it? No. If you knew how hard it would be, most would have said no. But because you're young and, in my case, you were quite naive, you kind of go into situations like hey, this can't be too hard. When I started Spotify, I didn't actually know that I needed licenses from record labels, and I was like oh, well, it's easy, you stream it, yeah, exactly.

So, I got introduced to some people and they said no, no, you kind of need some licenses. Well, that can't be too hard; surely they must be up for that. It took me about 2.5 years later to kind of get things started. But I think that's what kept me going because I saw the solution, I didn't see the problems in the way, I think many people, as they get older and they get wiser and that the great benefit you guys have here is you're not kind of destroyed by this fact that you think the pattern - what I call pattern recognition, you don't really have that. So, instead you see oh, well, this is not how I want it to work, so you actually go out and you seek a solution. Where a lot of people, if they have a lot of experience, will say, well this is not going to work because of XYZ. Well, it turns out that most things does work. And what I think is like the most inspiring thing ever and I say this - you know, people come up to me and they ask me about ideas for companies. I said, in all honesty, I've no idea, in fact, what's going to work or not. In fact, I think this was like '04 or something, someone approached me with this company called Skype and they said we want to do this thing where people can sit in front of their computers and make phone calls and I'm like, nah, never going to work.

And that turned out to be a pretty big thing too. So, the thing is I'm not like a visionary person in terms of like that I know what will work and not. What I do know, however, is that if you keep executing like the right person will figure out a way to sell umbrellas in Sahara. Because they will figure out that it's for sun protection or they will figure out a way where you can generate electricity or something like that. But it's really all about execution. An idea is 5%, execution is 95%. So, you've been called the most powerful man in the music industry and alternately 'music's last best hope', is kind of on the bolder spectrum of commentary about the industry. At Stanford, what the students are often taught and talk about is the Big Idea or the Big Hairy Audacious Goal? What's the Big Idea or BHAG behind Spotify? Sure. So, first I'm not sure that I actually agree with ... Either of those characterizations? Yeah, what the press says, but look, in my case it's quite simple.

I grew up in Sweden, I had access to all this broadband. It was so obvious to me after getting Napster and Kazaa and all the services that this is the way that people want to consume music. And the more I started researching it, it actually turned out that there was half a billion people that consumed music that way. And at the same time, musicians were struggling and they can't make money out of music anymore, so they keep doing it for touring and they kept doing all these things. And for me at the time, it was quite obvious that - and when we started Spotify, this is in '06, iTunes still sold DRM tracks. They were copyright protected songs, you couldn't play them anywhere. The quality was 160 kilobits. And at the same time I could go to PirateBay or Kazaa and download the same song pretty much as fast in lossless quality and with no protection whatsoever. So it was obvious to me that for the first time in history, the pirated product was actually a lot better than the one you could buy. So no wonder why people use pirated services.

So what we tried to do with Spotify and the goal was to create a service that was actually better than piracy. It was simpler, it's easier for people to discover and share music. It's really all that. And we realized that if we could do that, maybe we could

take a big chunk of the 500 million people that consume music illegally and by doing that, getting the music industry back to growth again where artists can keep making great music that we all can enjoy. And in a nutshell that product offering is how much money for which services, here in the U.S.? Sure. But even so like the vast majority of people in the world does not spend any money at all on music. Yeah. You know, think of the fact, if you compare over history like how long it took Elvis Presley for a billion people to know him? And then think of the same amount of time it took Lady Gaga to get known by a billion people? So, today, two years after Lady Gaga got released, more than a billion people would be able to hum one of her songs. It's pretty extraordinary. But yet Lady Gaga had in the same time sold less than 10 million records, where Elvis Presley sold half a billion records.

It's quite dramatic shift and that kind of tells me that like we live in this world where music obviously is spreading. And they're spreading through people sharing music with each other, no longer through radio and so on. And by them doing that, and if they can do that in legal way, whether we monetize that with advertisements or get a few percentage points of people to start converting into paying for it by becoming subscribers, we can grow the music industry. So that was the idea. So, the music industry itself though is this incredibly hairy Byzantine oligopoly with country by country management and complex deal structures that go to artists and producers and lyricists and everything, so when - if you're advising entrepreneurs here, thinking about approaching a complicated industry, what's the best way to look at that? Because complicated industries tend to change slowly. Sure. So I won't say that it hasn't been tough. I mean, it's been an enormous process and I think people will often ask me like what my trait is, are you a genius, are you a visionary, are you all those things? And I would say, no, I'm not. Like the one trait that I have is, I have this itch and I never ever, ever, ever give up. Which means that I keep going until I succeed if I'm convinced about something, so again if you're going to tackle an industry with big incumbents and big hairy structures, as you would put it, I think the most important thing is have a lot of patience to begin with.

And then secondly choose an area where you think you can truly matter. Like what most people don't know about Spotify is that we actually started in Sweden, my home country, and what was interesting about that was the fact that the Swedish music market was really, really small to begin with and it was basically non-existent after many, many years of piracy. So again, we have that infrastructure where people could easily share stuff. So, we started in an area where it was not much to lose for the music industry, try it, and we quickly proved that and we then went on to the rest of Europe... It proved what? You proved that ... We proved that ... the market grew into the dollars? Yeah, we proved that the market grew and if you look at it, already now Sweden is one of the very, very few markets around the world that has now actually grown and become larger in the last 2-3 years than it was prior to Spotify's existence, or even it's getting back to the place where it was in the heydays of 2001. So we proved that the model worked and that the music industry started growing again in that market and as that happened, it got more of a pull, where more and more markets started wanting us. And in our case, it's quite famous now, but for us, it was obviously a big, big process of getting to the U.S.

because that was the kind of big holdout for us. But we eventually convinced again by the strong results we had in Europe that the model worked. So the record labels here in the U.S. were like okay, we are going to put you guys in the world's largest music market where we did in fact have a lot to lose. And the results so far has been amazing. Yeah. And again, the same thing here, people are really taking Spotify to their hearts and so amazing that so many of you guys are using it too. So I think one of the really distinctive elements of this new generation of entrepreneurs compared to web 1.0 is the web 1.0 guys were primarily technologist. They solved hard technology problems. In this kind of social mobile world, the great entrepreneurs are product people, they focus on product because a lot of the infrastructure on technology has been solved.

So, when you come and think about solving a product problem, what are the principles that you use to - that you apply to build a product like Spotify, like Spotify Mobile? And then we will talk a little bit about platform. Sure. So, first to begin, like I actually started out as an engineer. So and I think this is really, really important because as an engineer you kind of get taught the ways, you get taught the basic technologies and what's actually possible and how to construct solutions around that. And I think - I like thinking solution-oriented, so I think that's helped me. I would say today that I'm actually a pretty crappy programmer, so don't try me out on that one, but my way of looking at an interface is still by asking myself the question why is it there? What is it - what's the purpose of that interface? And I think a lot about what's the shortest way between point - from point A to point B? And how can you assume as much as possible for the user in that process for making that journey shorter? And that means that you quite often have to go through iteration of it, iteration of designs until you got that one. And what's also so fantastic with today's platforms is we got this really rigid testing infrastructure, where we can actually test things. So, at Spotify for instance, we, quite often if we are unsure ourselves about certain decisions we make, we quite often make three or four of them and test them at the same time and see how users are reacting to it. And a few years back that infrastructure was really expensive to build, but now it kind of exists on can and a lot of people can try it. So, I would just say, like, think about what it is you want to solve and be really crisp about that, especially if you're a team of people.

Like, what is this page designed to solve or what is this product - what's the ultimate solution here, and then think about what is the shortest way from point A to point B. And I mean, there is many ways to think about that, like in a product like Spotify, the probably optimal way is if we knew everything about you, so that we can instead suggest music so that you can just

get it and just press play and it would work and you'd just have perfect music. It turns out that that problem is incredibly hard to solve from an engineering standpoint. So we might not go there. So where do we take it from there? How do we ratchet that down? Well, it turns out that it's probably good if you give us a song, so that we can then in turn recommend you more songs. Or in your case if we can get you to search the song and then show you related songs and related artists, so that you can keep navigating and kind of go in deeper and deeper. So I think a lot about what is the perfect and ideal solution to a problem and then you kind of ratchet it down from there. So in the case of platform, which you guys just announced and platform is - well I'll let you talk about platform, but how would you talk - how would you think about that in terms of the problem that's being solved, and then what features you guys have put in place and what features you want developers to be building? Sure, so first I think we live in a world where we get access to two super platforms, Facebook and the iPhone and the Android ecosystem with smartphones. And I think that's really interesting because if you think back five years ago, none of those really existed. So five years ago to this date, Facebook kind of announced their platform.

Five years ago, I think it got on sale, there was no iPhone, for instance, that was June. So if you think about that, in a very short period of time the world has changed, and you now have these amazing channels where you can get products out to people, hundreds of millions of people that are actively looking for consumption experiences, so that didn't exist. So if we now take the Spotify platform, because what Spotify really has built is, we built this music platform. And what we realized is music is something that's really, really broad, and means something, it's really unique to you as an individual, and there's a lot of different use cases. So the use cases could be you're going to a party, you want to figure out with your friends, what kind of songs you want to listen to, other use cases is like a lean-back radio type of experience, a third use case is lyrics which is really popular, especially in Asian countries, where you want to sing karaoke next to the songs out of tune, like me, or there's ways where just curation of content. Rolling Stones does it for a certain type of audience, Pitchfork for a more kind of indie audience, so what we realized is, why don't we just, because there's so many problems with licensing and getting all these rights, why don't we instead for developers and entrepreneurs take away that hurdle, and just expose the music, and let people hack their own solutions on what they want to do with Spotify and basically crowd source the innovation. And we thought that was like a really, really important step, and so far we've seen everything from games, music quiz type of games, to last week someone actually created a dating App where it compares people's music taste and thereby you're supposedly going to match better, I don't know whether that will work, by the way, but try it out. So there's really all these types of use cases, which isn't like in Spotify's core interest. We want to be the music object, and we want to make that available across the entire web and across all these different platforms, but we can't solve every single use case and that was the sort of core notion with the platform. Yeah, so there's another important platform that you mentioned, that you guys are integrated closely with Facebook and you guys, a week to the Facebook IPO so we have to talk about it.

You guys did two really important integrations with them, in terms of the playlists, and then being an open graph, the first open graph partner and probably the most successful one by a pretty wide margin. Where did the idea come from to be just tied so deeply into Facebook that the identities were shared and all the content was really streamed directly into the social graph? So there's a couple of different events that happened all through the years, and from my side I will say, what I learned from Stardoll, which was the company I was at before, what Stardoll basically is, most of you were not in the audience for that, it's a site for young girls, 8-15, where you can dress up virtual paper dolls, it's crazy and it's got more than 100 million registered users playing around with all these dolls and sharing them. And what I realized was that, and part of why I didn't stay with Stardoll is I kind of intuitively understood, like wow this is cool that so many people are playing around with these dolls but I didn't understand why, because it wasn't my age, which is hopefully a good thing. Now nobody is going to admit to being a Stardoll user here. Yes exactly, yeah. Well, so, but what I realized at that point and this is '05, so this is way before Facebook really became what it is today, is there was all these destinations around the web where you uploaded your profile page, uploaded profile pic, you wrote about yourself, you had your interest, and I was like well, we keep repeating the same information over and over, certainly someone has got to figure out a way where you could utilize that instead, that was the first notion and this was in '05, '06, I didn't know it was going to be the social graph or the Facebook platform, or any of that, but it just felt intuitively that this is the way the world has got to work. And then the second thing was really around, that I thought music was one of the most social objects there is. And if you think about it, music, I can send anyone of you a piece of music and you can probably relate to it, even if I send it in a different language, you will know whether it's a happy song or if it's a sad song. If I send a Lady Gaga song to someone in Japan, they're going to understand that and just as well if they send you another song, it really transcends culture, it transcends geographies and all that, so it's a really powerful social object that communicates an emotion. And then if you look at it from Mark's perspective, which is also kind of interesting, because Mark created, as he created Facebook or The Facebook, he was actually working on a project at the same time called Wirehog.

Yeah, I remember. Yeah, you do. And as far as I know, I don't know exactly what Wirehog was but I think it was a way for people to share music on Facebook. Right. They thought that was going to be the company that was going to be successful. Yes, exactly. So they thought the music company was going to be successful. But I think Sean Parker, which is the third person in the story, managed to convince Mark that that was an incredibly bad idea, wise of his past experience from Napster. So they killed that and eventually focused on Facebook instead, which seemed like a pretty smart choice. And so I think we all kind of had this notion.

I had the notion about, you know the fact that there should be a platform where people have their identity and Mark had the notion that music was a really strong social object. So we got together one day, and this is probably like two years ago, and we started talking about how cool it would be if people could more easily share stuff on Facebook around music. And we spent more and more time talking about it as well, and Sean was also part of those discussions, and I think we just ended up in a place where it was quite obvious to us that this would be a great user experience. And that's really how I think about things and how Mark think about things, so it's kind of a natural illusion about it. Yeah, so let's talk a little bit about leadership, because Spotify is an interesting company. You have a pretty sizeable office in Stockholm, you got a pretty sizable office in London, you're building one here on the West Coast, you've got a team in New York, and how do you manage and lead a group that's scattered over two and a half continents and four offices? Yeah, first off it's incredibly tough. Even with all the modern technologies we have of video chat and Skype and phone calls and all those things, the fact that you have proximity, just the amount of discussions you can have by just sitting next to someone, it matters a lot. So what I do, first and foremost, I sit out in a sort of open office space, I don't have like a particular room or anything I just sit outside because I love hearing what people are talking about and engaging in conversations. The second thing is I travel a lot. So I spend a good amount of my time in all the cities you mentioned, so I am here six, seven times a year, I am in New York every month, I am in London a lot of time too, and I am in Stockholm, so in my case, I don't think the physical presence can really be replaced yet with sort of video or anything else.

So first and foremost a lot of it is just meeting people, sitting down, talking to them and talking to the team. But I also think we do things where we have virtual town halls, where every two Fridays I, depending on where I am in the world, stand up and kind of talk to the company about what we're doing and people can ask questions. Spotify is a pretty big company, we're like 500 people, so it's a lot of people, but it's really been one of those things that we've always had across our company. We want to share as much information as possible. And even if you kind of look inside of Spotify, you'd find that like pretty much all of our metrics are available to everyone, because we think that by empowering people with data, they're going to make much smarter decisions. And a lot of that really is by sharing information, and I would say the third thing is actually a thing John Doerr taught me, which is this process called O.K.R, which is a very simple management mythology that a lot of companies use, Google, Facebook, Spotify, Zynga, a lot of others, which is really, really simple. You put up an objective that you want, for instance, the whole company to do, and you focus on three to five key results. And those have to be measurable results. So in the case of Spotify it could be, grow the amount of subscribers by 50% this quarter. That would be a great target, by the way.

And ... Everyone sign up. Yes, exactly, that would solve it. But, and that way it kind of distills throughout the organization, so everyone in the company knows what the company's target is for the quarter, but then also everyone can relate to that as they make their own targets, and can kind of map that against the overall target, but it's hard work. And most of your management team is probably more, is probably more experienced and older than you. And a lot of the entrepreneurs in the crowd probably will have this experience as young leaders of companies, what advice would you share with them? Well, what I think distinguish A players from B players is that you want to surround yourself with people that are smarter than yourself. So my advice is don't be scared of the fact that there are people coming in with a lot more experience than yourself. Look at that as an opportunity instead to learn from, and in my case, and I say this to my team every day, that it's a blessing because I get to come in and I get to learn from really smart people. So I think that's really important, but the second thing is, don't assume just because they're experienced that they necessarily know everything and have the right experience for this task. One of the things that I do is I question a lot of things.

And you can do that in a good way and a bad way, but hopefully if you try to get people to motivate why they are doing something, and their way of thinking, the worst thing you can end up with is a situation where you get told, well this is the way it's always been. That's the worst ever, that's a non-answer. Instead ask yourself, given everything we have today, is there a way we can make this better? Given everything we know today, and with all the tools, is it worth doing better? Because the truth is, one of my greatest lessons as an entrepreneur is that while you probably can do every single thing better, you have also got to focus on the few things that matters. So I am probably, more so than anything else, I focus on very, very few things. But I keep repeating them over and over and over again, and I just focus obsessively on them. What are those few things that you repeat over and over again? I think a lot of it really kind of goes in phases, but in our case right now, we're focusing aggressively sort of on growth. So, and just becoming bigger as a company in terms of numbers of users that engage with our products, more playlists, because we figured out the more playlists you have, the more likely you are to come back. So then you can look at okay, what are the most important metrics that are driving the company, and in our case we've actually distilled everything to just one metric. That metric is daily active users. The more daily active users we have on our service, the more likely they are to come back time and time and time again, which means in turn they're more likely to build better collections that they can share with their friends, meaning in turn that they're more likely to pay or generate impressions for our advertising fee.

So I try to simplify things, kind of distill it down to the least common denominator but then also just focus obsessively on that. So speaking of lessons, how about some of the dumbest things you have ever done as an entrepreneur or as a leader? So these guys don't make the same mistakes. Well, I have done a lot of mistakes. I've probably done every mistake in the

book. But I think some of the more important lessons I have had actually is, it's so easy to say yes to things. Because you think that as the company kind of evolves, and even as you have more people, it's like, well this sounds like a reasonable idea. Well, even if you in your head say this sounds like a reasonable idea, that means no, unless you're dead sure that this is the one thing we should do, it's probably better to say no. So I would say my dumbest mistake is just taking on too much, doing too much at the same time which never ever works. Be really, really focused, be obsessed about the few things that matter and say no to everything else. It's really, really hard to do that, but if you focus on that and if you get that right, you're eventually going to be able to do more things, because you know that this kind of works.

And I think, another one which is insanely important, especially as we move on is, again it's this notion that, hire fast and fire fast, I know this sounds incredibly tough, but in so many regards, as you meet people and you're working through these companies, like the life cycle of a company, to go from zero users to 10 million users, as we've seen in the last couple of weeks with Viddy and Socialcam, and could be a matter of weeks. If you then don't have the right team in place, and you try to kind of learn as you go, and they also, you know, the team isn't optimized for what you're doing, it's never going to work, and especially not if you're a small company. Every single person needs to carry their weight and then more. So again, I have in many cases, just because this is a nice person and they're doing all right. I have kind of given people too much slack, and that's a mistake that I have done so many times. And I would say the third one which I also learned is that, don't sort of over promise, I did this thing a couple of years ago, again being a bit naive, I said, well, surely we're going to launch in the U.S. pretty soon. And it ended up taking us about two years to launch from that point. I didn't know how hard it would actually be. And I had to kind of eat that up, especially with TechCrunch, for a very, very long period of time.

They even have like, I think ... April Fools' joke. April Fools' joke about it, they have like a countdown on New Year's Eve, end of the world. It's just got more people waiting for it, which is good. Yeah, I mean in some way I guess it was, all press is good press, but it was stupid on my behalf to kind of promise something that we weren't sure that we're going to deliver it, so these days I try to under promise and over deliver. Cool. Well let's do a few quick questions before opening it up to the audience here. Since you are in the music business, your three favorite new bands? So the first one is this New Zealand woman called Kimbra, she's absolutely amazing. You guys got to check her out. On Spotify? Yes, of course, everything is on Spotify.

And the other one that I got to say is this electronic DJ called SBTRKT, you spell that in Spotify, really, really cool music, check her out and then to plug some Swedish one, if you haven't checked out Robin, you should, she's really, really, really talented. Awesome. And when we were having dinner in London a year ago, you told me about a really cool hobby that you have. What's that? Except working you mean or? Well, actually it came up differently. Daniel asked the entire table to share what's the one thing that they spend money on that they probably shouldn't, and then he shared what his was. Well, yeah so I collect guitars, and this is one of the things that I have been doing for quite some time, so I'll buy overly expensive guitars and I keep stacking them up to the point where they're so expensive that I am afraid of actually playing on them, so don't do that, it's an expensive hobby and then you look at them. And then you're not going to use them. Yeah, exactly, which is even worse. Cool. And one last question, in 2000 you saw this world where all media was going to be streamed to every device, in 2005 you saw a world where identity was going to be through a portable system into all applications.

In 2012, what's the world you see going forward that it can inspire this group of people to start interesting companies five years from now? Well, what I think is really interesting, so you talk about smartphones and we all say that's the massive platform et cetera, actually I don't think it's just about smartphone, I think it's about smart devices, and I think we're just kind of seeing the beginning for that, we're going to see televisions, we're going to see cars, we're going to see all these things kind of transform into intelligent devices. But as that happens, I think one of the more exciting things for me is what sensors we're going to get access to, and what other means we're going to be able to use to match that up both with what currently exists today. So I'll give you a great example, so there's a lot of companies doing, for instance, the company Jambox did this app thing, which is great, another Kleiner Perkins company, or Nike FuelBand, I think it's called. And people that measure heart rate and actually kind of send it, or in my case, I have a wireless Wi-Fi scale that I get on and it posts it to Twitter and so on. So there is all these sensors around us, and if you start thinking about that, and I'm just going to make one analogy to music, is if you're out running, imagine a future where you're out running and it knows your current heart rate, and it could alter the playlist based on what you're currently, the temper you're currently running to. This is one idea what you can do with a sensor. Imagine more and more of these sensors going to be available everywhere, so you can measure the temperature, you can measure what payment system are close by. There is all these sensors, and I really believe as we go to more and more intelligent devices, that's kind of a really, really huge area of disruption and really exciting companies. Yeah. Hardware and software companies.

Yeah. Thanks, Daniel. I appreciate you taking the time today. I think we're going to open it up to the audience, just - are we passing mics, Forrest? Okay, go ahead, right here. Yeah, I have a question. How long did it take for you guys to close the deal with Rob at Universal? With Rob at Universal? How long did it take to close the deal with Universal Music? So we started negotiating around early 2007 and we launched in October 2008. So it took us more than one year to get that done. What was

so complex at the time is, there was really no one that had the type of execution we had at the time, because this was going into the record labels at the time when they still had DRM on iTunes, and telling them to give away all their music for free, against in the future making more money. It's a kind of tough sell. I don't really think that anyone of you should go to a record label with that.

Was he very open to the idea when you guys sat down with him, how was he...? Yes. So the question was - was he open to the idea? Yeah, he was. He has always been a very positive guy, and very positive of Spotify, but I think, again, what is really unique about a record label too is it's rarely one person who decides. It's actually the label heads as well, so it's a group of 20, 25 people, and you can imagine going into a meeting, as Rob did, and say, hey, we're going to start giving away our music for free, where there were record label presidents who might have been 60-70 year old, that have all their life sold physical discs and have just got around the idea to selling it on iTunes for \$0.99 a piece. So it was a tough sell, but we eventually got there. You talk about Spotify, and I guess previous applications, maybe iTunes, as a response to increased piracy, how do you see piracy evolving in the next, say, five years, what are the ramifications for other media industries? So, the question I guess was, how do you see piracy evolve over the next five years? Well, I don't think you can ever stop piracy, to begin with. And there is always going to be a certain segment of people that want to take stuff and want to pirate stuff, but that segment luckily is pretty small. What most people do want is they want convenience and easy access, and if they can get it for free, of course, more people will do that than not. But if something is easy enough, and this is again, the big innovation around Spotify is not the fact that it was like, oh it's this Hail Mary moment where something was really, really different. Innovation, for me, is taking two things that are already known and putting them together and creating something new.

So the new thing with Spotify was, basically imagine iTunes, but you put it in the Cloud, and you put all the world's music behind it that you can access within half a second. So it feels like you have all the world's music in your iTunes library. That was the innovation with Spotify. So, you're asking me how I think it will evolve, well, I think there is a lot of media types that still haven't found the right service to match it. I think it's still obvious for me that, especially in Europe where, I'll give you one example, Game of Thrones, I just recently read this article that says the Game of Thrones is the most pirated TV show ever. And in Europe, I can understand it, because, and I've all my American friends when I'm in Europe talking about, oh, did you see the last episode, etcetera, etcetera. And it turns out, no, because it takes me one year before I can get it here. And that sucks. So I have to go through VPMs and put it on my subscription account, and I have to have an actual Slingbox, and I have to do many, many, many things in order to get it legally where, in all honesty, it could have taken me three minutes, on hit up Pirate Bay and I got the same thing. So, unless the video industry or movie industry or TV industry solves that problem, I think it's still going to exist and it might even become more rampant.

I just think, again, this is something where eventually the business opportunity will become so big that they will have to change. I think, again, as a consumer, I want all the world's content to be readily available at the moment they release it. I'm not going to accept in the future that it takes a year for a great TV show like Game of Thrones to make it over to Europe if I'm there. I'm not going to accept that it's - there is all this content that I want to access, if I'm a German guy living in the U.S., and I can't. And at the end of it - what - the way I think about it as a user is the fact that, hey look, if I'm willing to pay for it, what's the argument against giving it to me? So I think we're going to head in that way and hopefully if we do that, the reason for piracy will be less. So, I'm not a Spotify user so I might be wrong here, so why are you guys limited to music and not like, why don't you extend to movies? So the question was why are we limited to music and not doing movies and other stuff? Well, you might not have heard, but it took us about two years to get the licenses for music. So, doing it for video would have been incredibly much harder. But I also think you know, this comes back to solving one thing and solving it really, really well is super important, if you're trying to be everything for everyone, I promise you, you will fail. And in our case, the use cases of music is incredibly different than the one for video. In music for instance you typically end up listening, building a collection, then listening to the same things many, many times, whereas in video it's much rarer that you do it, and you typically just watch it once.

So that means that you have to design the product entirely different. And if we design it for both of those used cases, it probably meant that we didn't design it ideally for either one. So you talked about, given Spotify's dependence on licensed content, in fact a record label can renegotiate licensing deals every two to three years, it's kind of favorable to them, how do you guys expect to turn a profit when a company like Pandora that's been enjoying a lower set of content fees can't themselves do it? So the question was, given our reliance on content, how do we expect to turn a profit if the content industry can renegotiate the deal they have with us? So, first and foremost, what's interesting about Spotify is we have two revenue opportunities. So we actually get people to pay money for our product, as well as giving it away for free and funding it with ads, so that's entirely different from Pandora. And just the pure base of math, so the average person in the U.S, if you strike it across the eligible population that can pay for music, spends \$13 on music every year. Not more and not less, \$13. If you're a paying subscriber of Spotify, you're generating \$100 a year worth of income. So that's obviously a much, much, much better model than what they're currently having. So that means that it actually sort of generates and increases in the industry. So they want to keep doing that.

But I also think, at the end of the day, as Spotify grows and becomes bigger, obviously it becomes more of a balance

between both sides, but I will also say that I think in the end and I think the music industry has learned that lesson, that these days it's about creating a partnership structure, because it's the only way we're going to get the music industry back to scale again, because again it's not like they will build a music service, they'll tried historically and it hasn't worked, so they need to have companies like iTunes, Spotify, Amazon and others finding that this is a good business because it means that we can invest and make it even better, which in turn makes more money for them too. Over in the back. Can you talk about what you see as Spotify's biggest competition. I didn't hear the other part, I heard competition. Yeah. How do you see your competitive advantage? Sure. So it's actually quite easy. The way we look at it from Spotify's perspective, our biggest competition is piracy. That's how we have always set it up. Again, we created Spotify to be an alternative to piracy.

So what we look at and when we benchmark ourselves against other services that are out there, like Pirate Bay and Kazaa and what else might be out there, we actually look at ease-of-use as the biggest single competitive advantage. And sometimes, and I know we're all kind of, in this room we're all thinking oh, we got this feature and that means that someone's going to think much better of it. Sometimes, the easiest answer is also the right answer, which is it's just a lot easier to use and it just works. That one is I think the biggest kind of oversight, especially we in the tech community make, as we try to pinpoint it to being all these different features where quite often it's just the fact that it was the shortest period from point A to point B that wins. So what we're focusing on with Spotify, it's just making sure that as you go on to the Spotify service, that the shortest point from you getting your music, you being able to share your music with your friends, and you being able to discover music. And if we just solve those three problems, we're in a really good place. Right, in the middle. So you mentioned that it's important to have a unified goal, like right now, your metric is to grow your user base by 50%. If so, there's many ways to get there and if there's discrepancy on how to get there how do you resolve that? Well, so the question was like it's important to have goals, but what if there are multiple ways to get to that goal? Again, I think you as a team, what you always have to do is you have to discuss the strategy of getting there, and you have to sit down in the team and you have to agree what you think is the most viable way. And I think today it's kind of actually a lot easier than ever before, because if you think about the world where it was ten years ago, it was not obvious what you should do, i.e.

if you want to get traffic onto your website, did you do TV commercials or did you buy a banner out of Yahoo or, what were you doing, and then we got one platform, which was Google, where people started SEO, optimizing and kind of getting more traffic from there. And now we're in a place where Google is a great traffic driver, but we got Facebook too and we got iPhone and Android ecosystem. So I would just say that like start with one channel and try to focus on that channel, and in your team the great thing is none of them are kind of exclusive to the other, and they're all huge in terms of hundreds of millions of people, so just start with one and do that and then kind of quickly iterate to the next platform and keep doing that. And in all honesty, in Spotify's case, it was, when we started out, it was - we started with the one we thought was the most obvious one, which in our case meant Facebook, because we thought music was the most social thing there is. How do you see Spotify integrating with new devices like Google Glasses? So the question was how do we see Spotify integrate with new devices like Google Glasses? Well, again, we're a platform company and so what we've done is we created all these tools that will enable developers to build Spotify into their experiences. So, Spotify today exists on kind of home theater devices, we exist in television screen, we exist in set-top boxes, we exist in cars, and most of those experiences we haven't built ourselves, but actually partners have that kind of optimize the experience for that view. So in the specific case of Google Glasses, we don't have any immediate plans of being on there, but if I don't recall incorrectly, even in the video, I think they were playing music where they kind of showed off Google Glasses, and it recorded video at the same time and you're able to kind of send that video with both music and the video of what you were looking at to your friend. I think that sounds like a pretty awesome app. And just in general, I think every app and every device has its own kind of unique characteristics, and it's about merging and meshing that with that experience. Now that piracy is the biggest competitor to Spotify, how do you feel about, I guess, illegal uTorrent downloads? Well, again, I think uTorrenting or torrenting downloads exist for a purpose, right? Right now, it seems like that's one of the most efficient distribution products especially for video, it's a really, really efficient protocol for doing that.

I don't pirate any content any longer. I used to do that, that's kind of obvious. And now I have to go through a lot of hoops in order to get the content legally. So again, I think it's pretty obvious why it exists and why it's hugely popular, and I totally understand that. I just hope that someone would build an easier service that people can use instead. I mean, here in the U.S. we take Netflix for granted, but the truth is, in most of Europe Netflix doesn't even exist. So there is nothing. So, of course people will do Bit Torrenting or uTorrent. One more question.

Right here, you've been very patient. This has to do with the idea that Spotify enters into those relationships with artists in changing the music industry, and my question is why can't you, or will you in the future be able to upload or download your own music as an artist with Spotify, and circumvent the entire record company process? So the question is why can't an artist upload their own stuff, and thereby circumventing the labels? I think, again, you pretty much can do that already on Spotify, there is like tons of aggregators where you can - like one of them is Record Union, basically it takes two seconds to register an account, you can upload your music there and it instantly pushes not only to Spotify, but it pushes to iTunes too. We haven't built our own download or uploading solution, actually because of a few different reasons. One is, it was never an early focus for us. And thereby not super important, and again we try to focus really hard. And there was all these other solutions as well



that you could upload too. But then I would say also the other problem, we really wanted to be a legal service from the get go because our biggest thing for the music industry when we went to them was hey, all the stuff we have is legal. So the problem that we'd have to solve is, how do we make sure that you in fact are the rightful owner of your track if you're going to - we're going to payout money to you after your music gets heard on Spotify, and we're already by the way, and this is so interesting because every platform that takes off always gets gamed. So, in our case we've a ton of people that creates karaoke versions of content that they mention as kind of being Madonna or whatever, and then they try to game our system to get higher up in the search results, so that they can in turn get placement. So, every week we have people contacting us from labels or even artists themselves, it's like, hey, this is not my song, but people are claiming that's me and they're gaming it.

So - but I think that's like, if you have that problem, you're in a very good position because it means people care enough to actually start kind of using our platform. But it's not, so to answer your question, musicians can already today upload their stuff to Spotify, we just can't do it directly, maybe one day the can, but it's not an immediate focus for us. Thank you, Daniel. Thank you so much. Thank you.