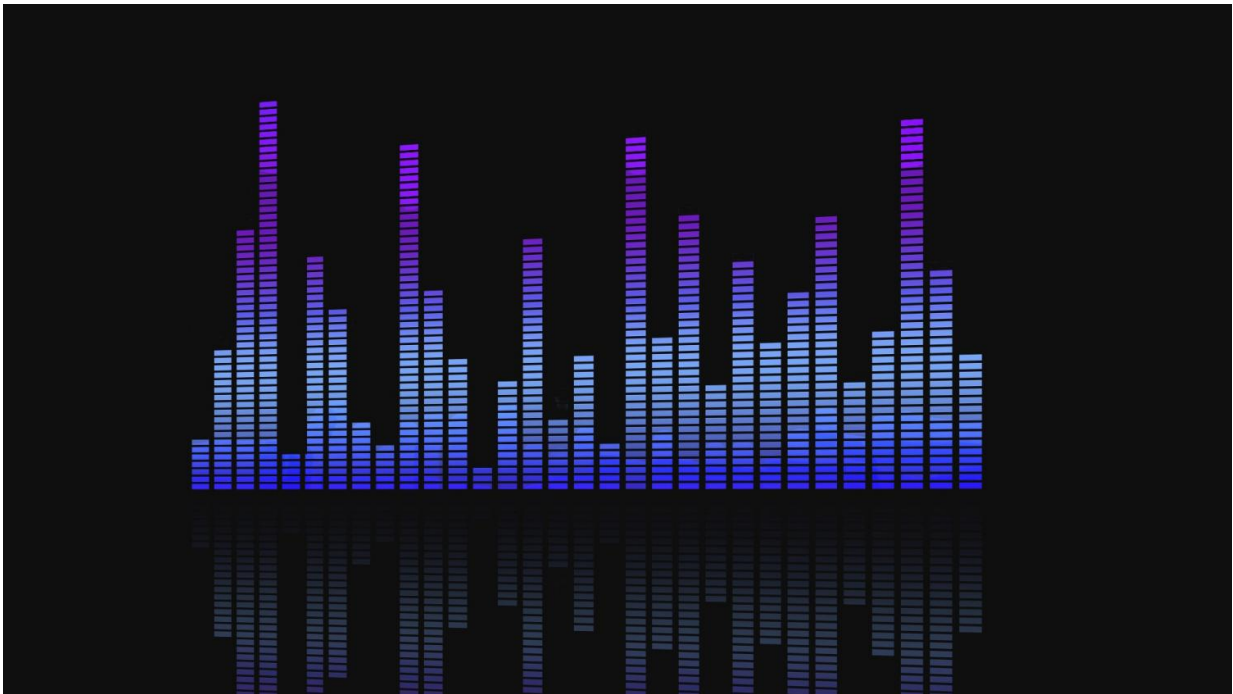


As Spotify and Pandora struggle, Apple Music lowers its subscription prices

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Apple's latest move to corner the music streaming market came quietly but is expected to reverberate quickly.

Earlier this month, Apple Music unveiled a \$99 yearly subscription option, tucked deep in the Music settings inside the App Store. The subscription breaks down to \$8.25 a month, nearly \$1.75 cheaper than

the standard \$9.99 monthly subscription used by Apple Music and its two main competitors, Spotify and Pandora.

Digital media analysts said the unusual move by Apple - undercutting its own pricing models - is an effort to pounce on its financially struggling competitors and lure paying customers to its service.

Unlike Stockholm-based Spotify and Oakland's Pandora, whose revenues are heavily reliant on premium subscriptions, Apple has the money and the flexibility to absorb losses while squeezing out the competition, analysts said.

"Apple can afford to do this," said Mike Goodman, director of digital media strategies at Strategy Analytics. "They are not dependent on needing music to turn a profit. It's focused on perpetuating the Apple ecosystem."

The ecosystem added a new member earlier this month at the Worldwide Developers Conference in San Jose, when Apple launched the HomePod, a smart home speaker set to launch in December. Apple labeled the product a smart "musicologist" that can compete with Sonos in acoustic quality and is expected to further Apple's success with digital music.

Since its launch in 2015, Apple Music has shown rapid growth in paid subscribers. Apple said during its WWDC keynote that it has more than 27 million subscribers - including 7 million who came in the last six months.

Apple Music's new yearly rate was first available for months as a gift card subscription only. A \$4.99-per-month subscription is available only to college students.

The new yearly subscription pricing may entice younger, cash-strapped and Spotify-using millennials to give Apple Music a try, said Carolina Milanesi, an analyst at Creative Strategies.

"Apple already found that sweet spot of 35-plus age demographic," said Milanesi. "I think they are now going after millennials who don't have as much money as the older crowds."

While Apple Music's subscriber base is less than half of Spotify's, Apple is not feeling the financial crunch Spotify is under.

Spotify has more than 50 million paid subscribers and 140 million regular users around the world, but its net losses doubled from \$258 million in 2016 to \$581 million in 2017, according to its annual financial statement. While its revenue jumped by 51 percent in the past year, the company has massive royalty and distribution costs, which accounted for 85 percent of the Swedish company's expenses.

"Our financial results for 2016 demonstrate the strong trajectory of our business," said Spotify in a statement. "We will continue to invest relentlessly in our product and marketing initiatives to accelerate reach and enhance the functionality of our existing product."

Apple too has struggled with its own royalty costs, which are higher than Spotify's. Apple has been trying to renegotiate with record labels to lower its royalty rates, according to Bloomberg.

Spotify, which has an impending [initial public offering](#), may be backed into a corner with no room to expand despite its relentless growth in attracting users, according to George Howard, associate professor of management at Berklee College of Music.

"Spotify may have reached an inflection point," he said.

Pandora is in a much worse shape than Spotify, according to analysts. Once the music streaming giant and now a distant third behind Spotify and Apple Music, Pandora received a much-needed \$480 million cash injection from SiriusXM earlier this month after losing \$343 million in 2016. The company also sold its ticket distribution service Ticketfly to Eventbrite for \$200 million this month.

"We're gaining a massive infusion of cash on our balance sheet, which will give us the flexibility and security to pursue our strategy and grow our business in an intensely competitive environment," wrote Pandora CEO Tim Westergren in a staff memo after the SiriusXM investment.

But on Tuesday, Westergren stepped down as CEO, adding more uncertainty to the company's future. Pandora and Apple did not respond to requests for comment.

Howard said the window of opportunity for Pandora to turn around is all but closed. He said one of the best options for both Spotify and Pandora was to get acquired by an Apple competitor.

"They are on death watch," said Howard. "They cannot use [music](#) as a loss leader to sell for some higher margins. They fought a valiant war against Apple."

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