



Basic facts **NAME** Faisal Galaria **COMPANY** Spotify **TITLE** Vice President,
Corporate and Business Development **AGE** 37 **LIVES IN** London, England

At the crossroads of chaos

Faisal Galaria **chases disruption**. This started in the wreckage of a Balkan war, continued in opening up a telecom monopoly in the UK, and then with the game-changing rise of VoIP. Now Galaria is with **cloud-based music-streaming service Spotify**, which has perhaps the greatest disruption potential of his career. ▶

TEXT Nathan Hegedus
PHOTOS Chris Maluszynski

Galaria says that to succeed in this changing landscape requires recognizing convergence

– the coming together of devices, content and the network.

THIS IS AN AGE of discontinuities, with the internet radically redefining the way we all do business. This is especially true in the music industry, with internet piracy dominant and music revenues plummeting. An industry that did USD 50 billion in business worldwide in 2000 managed only USD 17 billion in 2009.

Spotify sits at the crossroads of this chaos, trying to create a sustainable music business model built on ultra-fast streaming. The aim is for users to be able to listen to and share music on any device and any network, any-time, anywhere.

The company was founded in Sweden in 2006 by Daniel Ek, the current CEO, and Martin Lorentzon, and has created massive buzz in the select European countries where it is available. Why? Above all, speed. Streaming any of Spotify's approximately 10 million tracks – ranging from Dora the Explorer songs to hits by The Dead Weather – involves none of the buffering, pausing and breaking up common to most comparable services. In fact, a typical Spotify tune can be played with less delay than an MP3 file on a user's computer.

Economically speaking, Spotify follows a "freemium" model. Users can choose between accessing the service for free on a computer

– and listening to ads – or paying for the ad-free Spotify Premium, which can also be accessed on mobile phones or connected devices, for less than the cost of a Starbucks coffee a week. There are currently about 10 million Spotify users in seven countries, including about 750,000 paying subscribers.

The results of the Spotify experiment are still unknown. The company has signed up millions of users and an entire ecosystem has evolved to support the service. The anticipation in huge markets like the US and China is great. According to the latest set of published financial results, from 2009, the company has not made any money yet – in fact, it has lost millions. As a legal streaming service, Spotify faces tough challenges in a world dominated by piracy, record labels out for a big cut, and the Googles and Apples of the world.

IN A KIND OF PARADOX, Galaria says that to succeed in this changing landscape requires recognizing convergence – the coming together of devices, content and the network. Some companies have grasped this quickly, like Apple. Others, like Nokia and many operators, have not – and have to play catch-up.

Now headquartered in London, Spotify aims to ride this wave of convergence to mar-

ket dominance. Of course Spotify is not the first company to try and sell music in a different way. Apple is the great success story: it took advantage of the convergence between its devices – notably the iPod – and its software and online store – iTunes – to become the dominant player in the business. But the field is mostly littered with once-promising failures. To name just three of numerous examples, Napster, SpiralFrog and Qtrax – once hot names – are already mostly forgotten.

SO WHY MIGHT SPOTIFY SUCCEED where so many others have failed? If it does, it will be for two main reasons in addition to its fabled speed. Firstly, it has embraced the cloud – making it ubiquitous in an age of mobile internet and device connectivity. Secondly, it is committed to being social – integrating with networks like Twitter and Facebook and emphasizing sharing – and finding a second way to become ubiquitous in its users' lives.

Whether or not Spotify makes it, there is one category of players in the music industry that, in general, has failed spectacularly: mobile operators. To Galaria, who joined Spotify in 2009, this is no surprise. Most telecoms have sold music for years, he says, "in an undifferentiated way," with no service innovations and no price innovations.

"[Operators] look at what we are doing and scratch their heads," he says. "They have not fully understood the paradigm shift; people don't want a download model anymore. Instead, an access model where they can listen to any track, at any time and have their favorite playlists always with them is much more compelling."

But this is no institutional disaster, he says. Operators' organizations are not built for mu-

The challenge of the American frontier

▶ FOR SPOTIFY, the US represents what New York City did for Frank Sinatra, says Faisal Galaria: "If you can make it here, you can make it anywhere."

The US is the world's largest music market. It is English-speaking, and there is a buzz about Spotify among record executives and journalists. The company believes it can take a market-leading position here quickly. But so far, Spotify has let several US launch dates pass – the most recent in December – without introducing its service, even as new subscription-based competitors like MOG and Rdio have popped up, adding to a competitive landscape that includes online radio companies like Pandora and the looming possibility that industry giants like Apple and Google will enter the streaming market.

"It is very important for us to launch

but it is more important that, when we are present, our service is right for the market, right for labels, right for the collecting societies and right for the users," Galaria says. "It is different than the UK or Finland."

THE MAIN reason for the delay is Spotify's difficulties in getting any of the four big US record labels to sign on to the service. But the US is also completely different in scale from Europe, Galaria says. There are thousands of publishers, as opposed to only one in many European countries. Unlike, say, the UK, a country-wide company in the US can't be based in only one city, and Spotify also needs to consider mirror sites, infrastructure and how to take payments. It also needs to continue to recruit heavily.

"If you think about it, we are preparing a full-scale launch, with more users than we currently have in Europe," Galaria says. "Entering at that kind of scale takes time and military-like precision. We will take our time because it has to be right."

IN YEARS PAST, there was also significant chatter about Spotify launching in China. Galaria says that the Asian music market is still largely driven by piracy, which has discouraged most "Western" music services from trying to break in.

"But Spotify is very good at drawing users away from piracy," he says. "So we see huge demand in China, and throughout Asia. But as I said, entering a new market, especially big territories, requires a lot of planning. We're going to do the US first." ●



"Is Spotify the solution (to the music industry's troubles)? I think we're part of the solution. But, structurally, there has been a change in the way that people consume music, and so there needs to be a structural change in the way the industry delivers music."

Background check

Education

- ▶ **1992–1996** BSc Management Sciences, University of Manchester, Manchester, UK
- ▶ **2001–2003** MBA, IESE Business School, Barcelona, Spain

Career

- ▶ **1996–2000** Andersen Business Consulting – Strategy Manager, based in London
- ▶ **2000–2001** DiamondCluster International – Senior Consultant, based in London
- ▶ **2003–2004** Ofcom – Telecoms Strategy Lead, London
- ▶ **2004–2006** Skype – Business Development Director, London
- ▶ **2006–2007** FON – Vice President, Business Development, San Francisco, Spain, and the UK
- ▶ **2007–2008** Jaman – General Manager, San Francisco, US
- ▶ **2008–2009** Kayak – Managing Director International, London
- ▶ **2009–present** Spotify – Vice President, Corporate and Business Development, London

Galaria thinks the music industry can find alternate revenue streams – at least enough to survive – including merchandise, streaming and special editions of tracks. “As long as people are able to listen to music they really love and connect with, they will pay,” he says.

“[Operators] look at what we are doing and scratch their heads. They have not fully understood the paradigm shift; **people don’t want a download model anymore.**”

► sic retail, and music makes up only 5 percent of non-voice data revenue.

Why would an operator ever work so hard for such a small reward?

“Not every company needs to be a Sony or an Apple,” he says. “That’s impossible. Telcos have different assets, people and culture – fundamentally different. At Spotify we are less than 200 people. At Skype we had a couple hundred. Compare that to Telefónica – they have thousands and thousands of people.”

GALARIA SAYS TELCOS simply need to play to their strengths as asset-based companies with an immense amount of concrete information on what their customers consume and how they do it.

“If I’m in their shoes, looking at it as an ex-regulator or someone now building a services company, I would consider how to leverage those assets I have as an operator, rather than trying to become a services company in my own right,” he says. “So it’s about thinking differently about the billing relationship – about how well we, as an operator, know our customers.”

Nevertheless, he warns against seeing Spotify – or any company like it – as a sort of savior that could “rebalance the revenue stream” for an operator.

“With media services like Spotify – or a video site like Hulu – the rights holders and content providers take the lion’s share,” Galaria says. “There is a little bit left, and Spotify shares that with its partners. But for a mobile operator with average revenue per user of EUR 40 (USD 53) per month, the impact of (Spotify) revenue will be nothing but noise on the bottom line.”

So how does Spotify – which wants more operator deals – sell itself to operators?

“Spotify can help with churn reduction, customer acquisition, differentiation and marketing,” Galaria says. “It gives them the ability to say they partner with Spotify. It positions them as innovative and with something new to say, other than just saying, ‘I’m a telco, and you can buy minutes from me for a little cheaper than, say, Telenor.’”

And what does Spotify get? A partner that can prioritize Spotify traffic above other packets, and guarantee a high service level to the end user.

“We want to focus on building the world’s best music service and have little desire to take Spotify and build out churn manage-

ment or billing capability,” Galaria says.

Spotify has signed deals with two operators so far – TeliaSonera in Sweden and Finland, and 3 in the UK. The TeliaSonera deal allows users to get Spotify over broadband on their computers, mobile phones and televisions, all without any data limits. As a mobile operator, 3 bundles Spotify Mobile in several of its offerings and on a variety of its phones.

FOR SOMEONE WHO has lived in 13 countries and worked at five start-ups in the past six years, Galaria does not seem to have had a particularly disruptive childhood.

He grew up in Leeds in northern England, the oldest – and only boy – among four children of Pakistani immigrants. His father worked as a bus conductor while his mother is a community outreach worker with the National Health Service. He went to Leeds Grammar School and earned his bachelor’s degree from the University of Manchester Institute of Science and Technology in Management Sciences.

He got his first job as a consultant with Arthur Andersen. And that’s when the passion for change and the wandering emerged. For while he worked on things like Swiss telecom deals and for the pop group The Kelly Family, he was also posted to Croatia and Bulgaria, where he learned the joys of balance sheet disaggregation.

“Think back to the breakup of Yugoslavia,” he says. “When the country was being divided, it was strategically important to understand how the major means of communications were being allocated, and who got what.”

GALARIA DEVELOPED an accounting expertise in breaking up and rebuilding media and telecom monopolies, otherwise known as infrastructure disaster recovery. It gave him an understanding of the physical realities behind the paper companies, as well as how to create new companies out of old ones.

“It got very hairy, with big guys with guns who wanted things to go their way, assets allocated in a way that favored them,” he says. “It was scary but fun. But in your early 20s, you don’t have the same perception of what’s going on around you.”

After a few years, Galaria made the move to a less intimidating but equally dynamic environment – the internet and telecoms

“Not every company needs to be a Sony or an Apple. That’s impossible. Telcos have different assets, people and culture – fundamentally different.”

▶ world just before the tech bubble burst. In 2003, he joined the staff of Ofcom, the telecommunications regulatory agency in the UK, as strategy lead for the Strategic Telecoms Review. The eventual result of this review was the landmark 2005 creation of BT Openreach, which assured that any telecom operator in the UK has equal access to the network of BT Group, the dominant state-owned telecoms provider.

“In the UK, they overinvested in telecoms infrastructure, with eight times as much dark fiber as necessary to provide access to every home in the country,” he says. “It was a complete waste of time and a complete waste of money. We had to look at the macro view, to see how competition can exist in a market where a monopoly gated provider controlled access to all this underlying infrastructure.”

FROM OFCOM, Galaria moved to Skype, quickly rising to Director of Europe as the company’s growth skyrocketed before its 2006 sale to eBay. After Skype, he took top jobs in succession at wireless network company FON, setting up online movie firm Jaman, and online travel site Kayak, which Galaria helped launch in nine countries in less than a year. The whirlwind continued in 2009, when he joined Spotify.

When you ask Galaria about Spotify’s competition, you get an unexpected answer. Sure, the company competes or will compete against Apple’s iTunes and many other internet-based music services – Napster, Rhapsody, YouTube, MOG and Rdio, to name a few.

“But in reality, what our users say is that over two-thirds of them have stopped using pirate services,” Galaria says. “So the alternative to piracy is Spotify.”

GALARIA POINTS OUT THREE differentiators for Spotify compared to pirate services. The first is speed. The second is ease of use and the third is its social component.

“On Spotify, you can see what your friends are listening to and build collaborative play-

lists with them,” he says. “You can easily share playlists and access them on any device. You can be at school, at home, at university, at work...”

One crucial component of this is Spotify’s recent integration with Facebook Connect. A Spotify user can now share links or tracks directly from Spotify with their friends on Facebook. Facebook’s Developer Network Director, Ethan Beard, recently said that Spotify’s traffic had increased by four times thanks to Facebook Connect and that “Spotify is Facebook music.”

Both piracy and Facebook are worldwide phenomena, part of the internet disruption of the past decade. Spotify thinks it has a worldwide solution. But it’s not so easy to become the Google of the music world because the music world is not structured like the internet. Spotify must negotiate the legal rights to all its music in each country in which it wishes to operate. This slows things down, and makes doing business more complicated.

“This is not the way the internet works, clearly,” Galaria says. “People are seeing what their friends listen to all over the world, and it is a shame we are not able to serve those customers, whether they are in the US, Canada, Mexico or Asia. The reality is that we are a legal music service. We license the music and pay all the labels, collecting societies and copyright holders in the markets in which we are present.”

“What you will see in 2011 is new product innovation from Spotify that allows us to give even more users more choices, to access and enjoy music the way they want to.”

GALARIA LIKES MUSIC – his playlist includes everything from hip-hop to Spanish music to Bollywood songs – but that is not the real reason he took the Spotify gig. He says that what fascinates him is the challenge of building companies that have the potential to achieve scale, to go global, and to be disruptive.

“If you look at what we did with Skype, we grew globally very quickly and shook up the telco industry,” he says. “At Kayak, we launched in nine countries and disaggregated the online and retail travel stores, giving power back to consumers. Now at Spotify, we have a whole new way of experiencing music and disaggregating the industry value chain. We have the opportunity to take a European company to the four corners of the planet, and for me that is exciting.” ●

What will you be doing in one year? And in 10 years?

▶ In one year, we will have launched in the US and will be thinking about the next continent to launch in. In 10 years I’ll be doing something very different and with a family. This job is not conducive to being in one place long enough to think about [settling down].

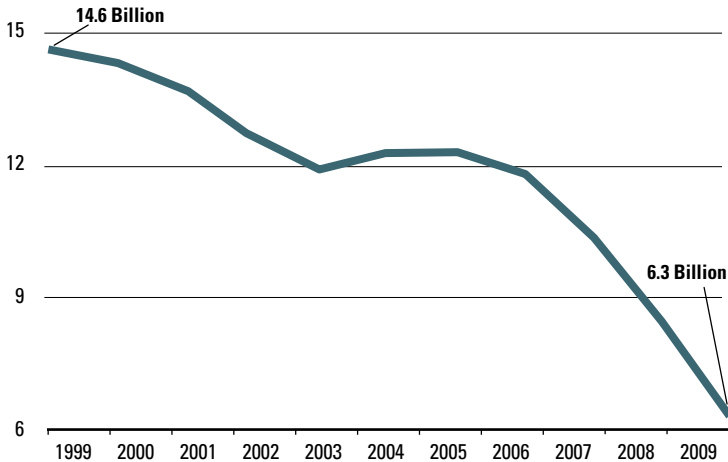


Galaria emphasizes Spotify’s speed and flexibility as a start-up and claims that most of Spotify’s 750,000 subscribers are also mobile users.



Music's lost decade

Music sales in the US
Billion USD



Forrester Research Forecast; Source: Recording Industry Association of America

Total revenue from music sales and licensing in the US fell by more than half between 2000 and 2009, said Forrester Research in a report last year. The firm said that licensing revenues are rising substantially, but that will not be enough to stop overall music industry revenues from bottoming out at USD 5.5 billion by 2014.

The mobile data tsunami

Informa forecasts a compound annual growth rate in global mobile-data traffic of 76 percent between 2008 – when traffic totaled 238 petabytes – and 2013, when it is predicted to reach 4,105 petabytes. This represents an increase of more than 1,500 percent over the five-year period.

Android tops Apple in mobile OS ad race

A report by mobile advertising firm Millennial Media says that Android devices accounted for 46 percent of mobile-ad requests in the fourth quarter of 2010. This means that for the first time devices running Google's Android operating system (OS) made more requests than Apple's iOS devices. Devices running iOS – including the iPad – accounted for 32 percent of ad requests, while RIM (maker of the BlackBerry) made 16 percent.

The iPhone, however, is still the number-one ad platform, with 12.45 percent of all of Millennial Media's mobile-device ad placements. Apple's iPod touch is number three, with 6.47 percent, close to RIM's BlackBerry Curve, which is number two, with 6.55 percent. Then come the HTC Passion (Nexus One) at number four and the Motorola Droid at number five.

Nokia isn't playing that tune

Nokia is taking down its free, bundled music service, Comes With Music, in 27 of its 33 markets due to low subscriber uptake in several of those markets. Launched in 2008, Comes With Music was Nokia's attempt to compete with Apple's iTunes music service. The company had rebranded the service as Ovi Music Unlimited in August 2010. Nokia is keeping its more conventional music store – in which users pay for downloads – open in 38 countries.

“Google probably hosts the world’s largest index of pirated content. What makes them non-rogue?”

STATEMENT FROM MEGAUPLOAD, AN ONLINE STORAGE AND FILE-SHARING SERVICE, IN RESPONSE TO CHARGES THAT IT IS A “ROGUE SITE.”

YouTube to monetize its mobile content

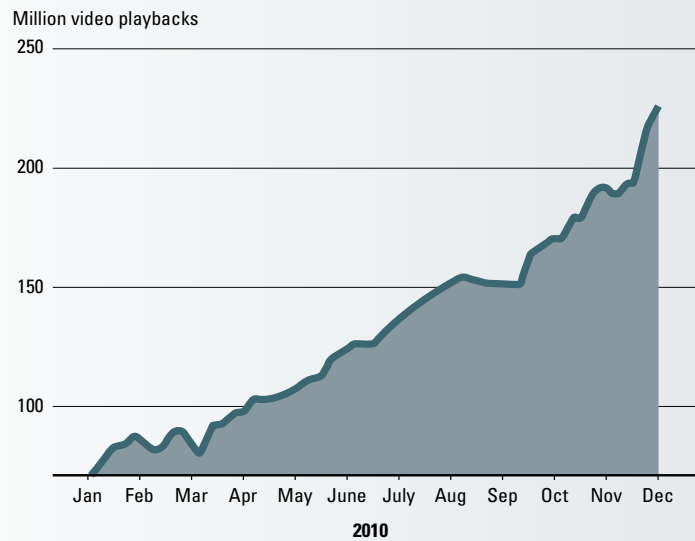
Mobile viewing of YouTube videos is now up to 200 million hits a day following a threefold increase in 2010. Now YouTube aims to monetize its mobile platform.

▶ **YOUTUBE HOPES** a new version of its Android app will add a significant amount of new content and drive more usage, as well as advertising revenues. First to be launched are tracks from its music video partner Vevo: high-quality videos from the likes of Lady Gaga, Rihanna, Kanye West and U2. While some Vevo content online has been restricted to certain regions in the past, the tracks for the mobile app will be available worldwide.

YouTube is also adding new features: for instance, marking the music videos with a musical-note badge, making them more easily discoverable; providing background information on each artist; and more, enabling users to get more content from a chosen artist or to find out about new ones.

As YouTube is owned by Google, it has the potential to attract a lot of new advertising. This has been called

YouTube playbacks over mobile networks are skyrocketing



Source: YouTube

YouTube's largest step to date to monetize its mobile platform. Andrey Doronichev, Product Manager at YouTube, notes in a blog post that tens of thousands of YouTube partner videos will now have pre-roll ads appear on the new Android app. "This not only expands distribution

opportunities for partners like Vevo," he writes, "but also opens up more revenue to partners distributing their content to mobile." Doronichev adds that YouTube will be expanding mobile-advertising opportunities to more of its partners, and across more than just Android apps. ●

DO YOU REMEMBER?

1963 The United States and the Soviet Union set up a “red phone” hotline – actually a teletype system based on a full-time duplex wire telegraph circuit – between Washington, D.C. and Moscow to reduce the risk of accidental nuclear war.



▶ **BRINK OF WAR** The two superpowers agreed to set up the Washington-Moscow Direct Communications Link after negotiations during the Cuban Missile Crisis in 1962 were hindered by confused and slow communications.

It was not instant communication, as the US President had to relay his message to the Pentagon, where it was typed into a teletype machine, encrypted and fed into a transmitter. It reached the Kremlin in minutes and then had to be translated into Russian. The American messages were sent and received on the 66-word-a-minute Model 28 manufactured by Teletype Corporation of Chicago, while the Soviets used comparable East German machines.

The hotline was first used in 1967 during the Six-Day War between Israel and its Arab neighbors, as the US and USSR tried to coordinate naval movements. The teletype writers were replaced by a real phone in 1971, when satellite-based systems were installed.

The idea of the “red telephone” has taken a firm hold in popular culture, showing up in movies and, as recently as 2008, in high-profile US political ads. It is no longer the sole hotline either, having been joined by several direct links: China-India, China-Russia, China-US and India-Pakistan. ●