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Research Paper

Economics of algorithmic distribution: perception of platform power and revenue models of *netflix* and *spotify* in the streaming era in nigeria

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ABSTRACT

This paper has explored the economics of algorithmic distribution: how Netflix and Spotify are perceived to have power and how they make money in the streaming age in Nigeria. This paper aimed to explore the most common types of revenue models employed by Netflix and Spotify in Nigeria; evaluate how revenue model affects the preferences and willingness to pay of the users; and discuss how the power of the platform and consumer behaviour in the streaming age can be formed through the use of algorithmic distribution. The researcher, based on the concept of the uses and gratifications theory and the network society theory, investigates user motifs and structural power of digital platforms. To examine the topic, a quantitative survey of 384 users of streaming platforms was carried out. The major results were that Netflix and Spotify are highly popular, and subscription-based and hybrid revenue models are predominant. The quality of the content, the absence of advertising, and multiple options affect the choices of users when it comes to paying money, whereas algorithmic recommendations have a massive influence on the discovery of content and a solid position of the platform, albeit at the cost of content diversification. The paper concludes that the success of a platform depends on the combination of adaptable monetization strategies, user tastes, and algorithmic curation. Suggestions comprise making it affordable, diversification of revenue models, and personalisation versus content diversity ratios in order to maintain engagement.

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1. INTRODUCTION

The emergence of digital platforms has fundamentally changed the entertainment and media industry worldwide, and Netflix, Spotify, Tik Tok, Amazon Prime Video, Disney +, HBO, Hulu, Apple TV, Paramount +, YouTube, etc. are leading the streaming industry [1], [2]. These platforms have taken advantage of the use of algorithmic distribution systems which enable personalized content delivery according to user preferences to alter the interaction of consumers with the media [3], [4], [5]. Here, the platform power dynamic, revenue creation, and access to content have taken center-stage in the discourse of the economic implications of these services, especially within emerging economies like Nigeria.

Nigeria as one of the largest economy in the African continent and a nation with an emerging digital economy is a special case study to understand the relationship between platform power and revenue model in the streaming era. As of 2024, Nigeria had an internet penetration rate of about 50% as of 2024, and the number of mobile internet subscriptions and access to online content is increasing at a high rate (according [6]) as of 2024. Such a technological breakthrough combined with a growing number of young people has resulted in a higher demand of on-demand streaming platforms such as Netflix and Spotify [7], [2]. Nevertheless, even with such developments, there are local cultural, economic, and infrastructural forces that offer opportunities and challenges to the development of such global streaming platforms in the country [6], [7], [2].

The main idea of this research is platform power, which is the power that digital platforms have on the content production, distribution, and consumption. With such a huge global base, Netflix and Spotify are dependent on complex algorithms to interpret user data and forecasted tastes in content [8]. By so doing they determine the media usage habits of millions of users around the globe. Nonetheless, this algorithmic distribution model has brought up concerns of market power concentration, commodifying user data, and the possibility of algorithmic bias [9], [10]. More so, the revenue models employed by these streaming platforms also presents an interesting scenario. An example is Netflix, which operates mainly on a subscription-based business (SVOD), and Spotify, which operates on a freemium type of business with both free access with advertisements and a premium paid subscription [11], [12].

The two sites have been able to strategically realign their pricing models to suit different markets of purchasing power such as the one in Nigeria. As an example, Netflix has created mobile-only plans in some countries with low incomes to overcome the affordability challenge [2]. Spotify, in its turn, has had to emphasize its free service as a way of attracting the users in cost-sensitive markets [13]. These adaptations help to understand how the platform revenues models are adjusted to the particular socio-economic environments, and they underscore the interplay between platform economics and the conditions of the local markets.

Moreover, the digital streaming as a source of monetisation of the content is a major change to the previous media revenue paradigms where advertising, broadcast rights, and physical sales were the primary means of revenue [14], [15], [2]. In a nation such as Nigeria, where traditional media is still the fullest but is slowly being absorbed by the digital spaces, the dilemma of the local creators is two-fold: not only how to get noticed in the already saturated global content market, but also how to effectively monetise their work in a market saturated with foreign platforms [16], [17]. It is within this context that this study, hence, seeks to add to the increasing literature on platform economics by looking at platform power and revenue models of Netflix and Spotify in streaming era in Nigeria.

1.1. Problem Statement

The recent rise of streaming services such as Netflix and Spotify in Nigeria has dramatically changed the consumption habits of media and specifically how these services affect consumer behaviour and the entertainment sector in Nigeria. Nevertheless, even as the dominance of these platforms continues to rise, there exists a significant lack of knowledge about the economic processes of how these websites generate revenue, especially their price policies and algorithmic content distribution systems, and their impact on consumers. Although previous research has examined overall trends in streaming adoption [7] and the emergence of global services [5], it has not done enough to consider the effects of Netflix pricing through subscription or Spotify pricing through freemium models on access to local content, or how the

use of algorithmic recommendations influences viewing behavior in Nigeria. Further, the business model of these platforms and their role in making Nollywood films and Nigerian music more visible and consumed, or the impact of these changes in distribution on local content creators, are understudied. The study thus seals these gaps as it analyzes how the pricing strategy, algorithmic distribution, and revenue model of Netflix and Spotify affected the Nigerian consumers.

1.2. Research Objectives

This study had the following objectives:

1. review the most common revenue models of Netflix and Spotify in Nigeria;
2. estimate the impact of revenue model on its users and readiness to pay; and
3. Examine how algorithmic distribution has contributed to platform power and consumer behaviour in the streaming age.

2. RELATED WORK

2.1. Revenue Models of Netflix and Spotify in Nigeria

The dynamically developing digital media market in Nigeria is a good example of a situation where it is more than interesting to investigate how large streaming platforms organize their income and place themselves in market hierarchies. Two similar but dissimilar business models and market structures of two major international players, Netflix (video streaming) and Spotify (audio streaming), are worth exploring in detail in the Nigerian context.

Netflix has more of a subscription video-on-demand (SVOD) business model worldwide, and in Nigeria this business is maintained by local pricing adjustments [6], [7]. As an illustration, in the recent years the number of pricing levels in Nigeria has been changed multiple times: in June 2025 Netflix increased the price of its monthly Premium plan to ₦8,500, Standard to ₦6,500, Basic to ₦4,000 and Mobile to ₦2,500 [18].

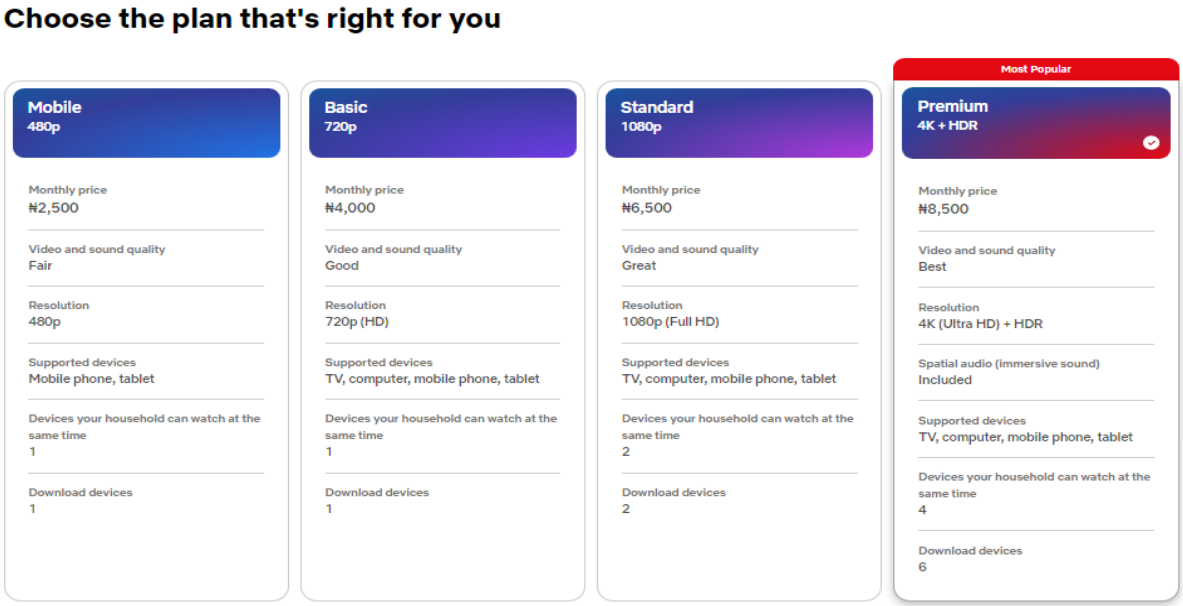


Figure 1. Netflix's Subscription and Pricing Tiers in Nigeria [18]

These price increases, as illustrated in Figure 1 above, are part of the global pricing approach of Netflix to maximize average revenue per user (ARPU) with incremental pricing but with extensive coverage across the region. Furthermore, Netflix has already invested in local content in Nigeria; in 2016-22, Netflix spent approximately USD 23.6 million to invest in Nigeria to license 283 Nigerian titles and commission three original Nigerian projects. This implies two-tiered revenue and cost, monetise through local subscribers, and invest in local content to promote differentiation and retention [19].

Similarly, Spotify integrates subscription (premium) and advertising-based freemium models throughout the world. Spotify in Nigeria has four (4) premium pricing plans: individual, student, duo and family subscriptions. This is as shown in Figure 2 below:

These price increases, as illustrated by Figure 1 above, are part of the global strategy by Netflix to maximize the average revenue per user (ARPU) by incremental pricing without losing the ability to reach large regions. In addition, Netflix has been investing in local content in Nigeria; Netflix has invested approximately 23.6 million USD USD in Nigeria, licensing 283 titles and commissioning three Nigerian originals Between 2016 - 2022. This implies a dual revenue and cost approach: to earn money through local subscribers but also invest in local content to create differentiation and retention [19].

Similarly, Spotify blends a subscription model (premium) and ad-supported freemium in all its markets. Spotify in Nigeria has four (4) premium pricing plans, which include individual, student, duo and family subscription plans. Figure 2 below gives this:

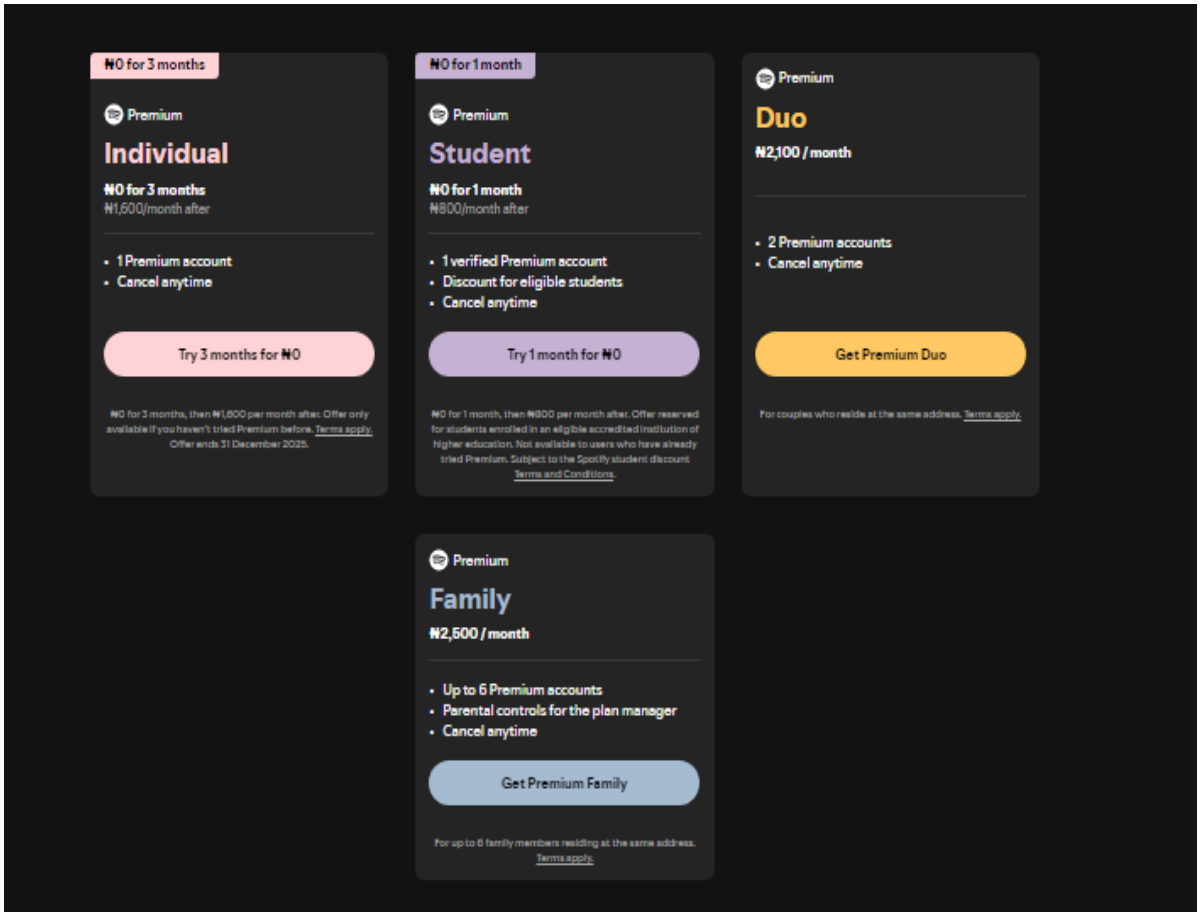


Figure 2. Spotify's Subscription Plans in Nigeria

Besides, in Nigeria, the platform offers information on the royalty payments to artists, which are indirect indicators of user activities and monetisation rates. In 2023, Spotify claimed that Nigerian artists earned over ₦25 billion in streaming royalty (tens of millions) which is more than the previous 2022 reported value of some 11 billion. It is however [20] worth mentioning that the payout (PSP) per stream of Nigerian streams at Spotify is considerably less than in the high-income countries (≈ $0.0003 per stream in Nigeria and 0.008-0.01 per stream in Sweden) due to lower subscription and advertising revenue per user in Nigeria. This explains why the income model of Spotify in Nigeria is limited by the purchasing power of the people, strength of ad market and currency/inflation effect. The reduced ARPU in Nigeria compels to use scale (high streaming volumes) and expansion of new genres and artists.

Thus, Netflix and Spotify revenue models in Nigeria are more general streaming dynamics of the world through the prism of the local environment. The subscription-based, content-investment business

model of Netflix is consistent with its international brand and it capitalizes on higher ARPU in Nigeria, but Spotify requires scale to support its freemium/volume business model [21].

Theoretical Framework

When considering the subject-matter of this paper, two applicable theories in the media offer useful prisms within which to explore the dynamics at work: Network Society Theory [22] and Uses and Gratifications Theory [22].

A relevant perspective on the structural changes in the global economy introduced by digital technologies is the Network society theory (NST) suggested by Manuel Castells [21]. This theory suggests that digital platforms are part of global networked systems that support the distribution of content, social interaction, and mediate cultural exchange [22].

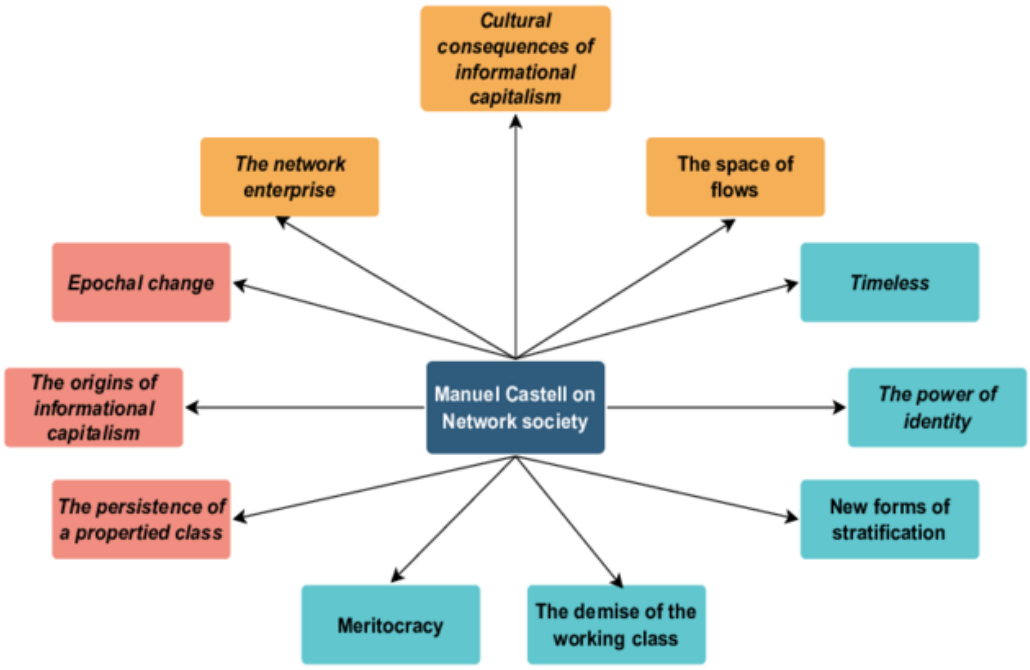


Figure 3. Manuel Castells Network Society [20]

In the network society, as seen in Figure 3, platforms are not only content distributors; they are highly influential socio-cultural and economic intermediaries that retain significant sway over the production and consumption of media [22]. As applied to this research, with respect to the case of platforms like Netflix and Spotify, the theory can serve as a helpful guide to the analysis of their development into key players in the digital economy. The centralised control that these platforms exert over socio-cultural and economic flows is exhibited by the fact that they are controlled algorithmically, which means that the content patients are recommended, promoted or hidden depends on an algorithm.

Unlike the structural approach presented by network society theory, uses and gratifications theory (UGT), as presented by [22], provides a user perspective, which addresses the active role of an audience in choosing media to satisfy certain needs and wants. The UGT states that individuals actively engage with the media to meet their needs, including entertainment, information, social interaction, and identity development [22]. The essence of UGT in the current study is that these digital environments address the needs of different users and respond to different types of gratifications by providing content that suits the needs of different users. By doing so, Netflix and Spotify, among other platforms, establish a dynamic that does not simply involve passively consuming content but an active engagement in content development and selection.

This engagement is core to the economic success of the platforms, with repeat user engagement leading to subscription renewals, advertising, and creator monetisation. Empirical Research. [4] Examined the business models of film streaming sites in Nigeria using the diffusion of innovation theory and a mixed-method design. Findings indicated that traditional DVD marketing is replaced with OTT platforms with

foreign services, such as Netflix, applying subscription (SVOD) and transactional (TVOD) business models, whereas local platforms depend on advertising (AVOD). The research also emphasized the weakness of creators during contract negotiations and recommended more robust measures to secure the rights to content. In contrast to [4] general approach to business model streaming, the present research focuses on monetisation strategies of Netflix and Spotify and their impact on the consumers in Nigeria.

The article [21] investigated the impact of Netflix on media consumption, which employed a mixed-method design. The results revealed that there was a significant trend of abandoning linear television and moving to on-demand viewing, binge-watching was a result of Netflix recommendations system and a wide range of original shows. The research proposed the enhancements of affordability and accuracy of recommendations. Though it touched on the general viewing habits it is the present study which dwells on the economic aspects of the Netflix and Spotify pricing model and their effects in Nigeria.

The article [7] compared Netflix and DStv in their usage by Babcock University undergraduates. Through the prisms of the uses and gratifications, media dependency, and technology acceptance theories, the survey concluded that Netflix was more desirable to students due to its convenience, variety, and affordability. The research recommended that DStv should enhance price and content to attract younger viewers. Although it examined the preference of students, the current study examines the economic consequences of platform power, pricing, and revenue strategies of Netflix and Spotify on a larger scale in Nigeria.

3. METHODOLOGY

The research design was based on a descriptive survey, to examine the perception of Netflix and Spotify regarding platform power and revenue models in respect to streaming services in Nigeria. The descriptive survey research design was selected because it best fits the situation of a snapshot of user perception, behaviour and attitudes towards streaming platforms [20]. The descriptive character of the design allowed the researcher to measure answers according to pre-determined variables, including platform power, revenue model, and perception of algorithmic impact. This strategy not only provided a good data collection reliability, but also enabled generalisation of the research findings to a wider population of streaming service users in Nigeria. Nigeria having an estimated 34.9 million active streaming service users [17], was the right population to conduct this study.

The participants who were considered as active users would have used a streaming service at least once during the last six months and were considered as the target population of the current research. This criterion was also created to select those whose engagement and active use of streaming platforms are recent, which will guarantee the credibility and topicality of the responses obtained. Cochran formula, which is a common formula of determining the sample size in a survey research, was used to compute the sample size. The formula suggested by Cochran can be used to find an optimal sample size with the variability of the population, and the level of confidence. Using the formula, the study established that a sample size of 384 respondents was adequate to give statistically significant answers to the research questions. Participants were selected using a purposive sampling technique.

It was selected as a non-random sampling technique, as it will be possible to select people who fit a particular criterion of interest in the research, e.g. active Netflix or Spotify users. Through purposive sampling, the researcher made sure that the sample was representative of the individuals that had first-hand experience with the platforms being studied and therefore brought in more detailed and focused data. The online questionnaire was used to collect the data. It was selected because of the availability of online platforms in Nigeria where the internet is extensively used, especially by the younger generations. The questionnaire was designed in the form of close-ended questions, and it enabled the effective gathering of information about different areas of user experience. Descriptive statistics were used to analyse data, summarise and interpret responses on the survey. In particular, simple percentages and mean were used as the methods of analysis.

4. RESULTS AND DISCUSSION

Table 1. Predominant Revenue Models Used by Netflix and Spotify

Statements	SA (%)	A (%)	N (%)	D (%)	SD (%)	Total (%)	Mean
I am aware of different pricing tiers or packages available on *Netflix* or *Spotify*.	99 (26%)	131 (34%)	39 (10%)	73 (19%)	42 (11%)	384 (100%)	3.30
Netflix operates mainly on a subscription-based model in Nigeria.	107 (28%)	121 (32%)	43 (11%)	73 (19%)	40 (10%)	384 (100%)	3.32
Spotify offers both free (ad-supported) and premium (subscription) options in Nigeria.	91 (24%)	135 (35%)	39 (10%)	83 (22%)	36 (9%)	384 (100%)	3.27
The subscription fees charged by *Netflix* and *Spotify* are suitable for the Nigerian market.	75 (20%)	115 (30%)	55 (14%)	91 (24%)	48 (12%)	384 (100%)	3.03
Advertising on *Spotify's* free plan influences users to upgrade to the premium version.	83 (22%)	123 (32%)	51 (13%)	83 (22%)	44 (11%)	384 (100%)	3.08
Mean Average							3.20

According to the data presented in Table 1, the majority of the respondents were aware of the pricing model of Netflix and Spotify and strongly agreed that both of them have a type of subscription service. Although the users are aware of the impact of advertising on Spotify to upgrade to premium (m=3.08), a smaller number of them find subscription fees quite appropriate in the Nigerian market (m=3.03). This means that the user base is generally-informed and fairly satisfied with cost and revenue structures.

Table 2. Influence of Revenue Model on User Preferences and Willingness to Pay

Statements	SA (%)	A (%)	N (%)	D (%)	SD (%)	Total (%)	Mean
The type of payment plan influences my decision to use a streaming platform.	95 (25%)	135 (35%)	43 (11%)	79 (21%)	32 (8%)	384 (100%)	3.32
I prefer subscription-based platforms because they offer ad-free experiences.	107 (28%)	119 (31%)	43 (11%)	79 (21%)	36 (9%)	384 (100%)	3.33
Price increases could make me stop subscribing to *Netflix* or *Spotify*.	83 (22%)	123 (32%)	51 (13%)	87 (23%)	40 (10%)	384 (100%)	3.10
I am willing to pay for better quality streaming services.	99 (26%)	127 (33%)	43 (11%)	83 (22%)	32 (8%)	384 (100%)	3.28
My willingness to pay depends on the range of content offered.	111 (29%)	119 (31%)	39 (10%)	79 (21%)	36 (9%)	384 (100%)	3.35
I consider free or ad-supported platforms more accessible in Nigeria.	83 (22%)	123 (32%)	47 (12%)	83 (22%)	48 (12%)	384 (100%)	3.06
Mean Average							3.06

Table 2 illustrates that the data show that most respondents reported that payment schemes and content coverage are factors that affect their choice of platform (m=3.35), with preference to subscriptions and ad free services (m=3.33). While price increases may deter some users, most are willing to pay for higher-quality streaming (m=3.28), suggesting that content variety and ad-free experiences are key drivers of user willingness to pay in Nigeria.

Table 3. Role of Algorithmic Distribution in Shaping Platform Power and Consumer Behaviour

Statements	SA (%)	A (%)	N (%)	D (%)	SD (%)	Total (%)	Mean
Recommendations from *Netflix* or *Spotify* influence the content I consume.	157 (41%)	127 (33%)	42 (11%)	35 (9%)	23 (7%)	384 (100%)	3.92
I often rely on the platform's algorithm to discover new movies, shows, or music.	150 (39%)	142 (37%)	35 (9%)	35 (9%)	22 (6%)	384 (100%)	3.94
Algorithmic suggestions have improved my overall streaming experience.	134 (35%)	150 (39%)	50 (13%)	27 (7%)	23 (6%)	384 (100%)	3.90
I rarely search for content manually because recommendations meet my needs.	112 (29%)	119 (31%)	58 (15%)	50 (13%)	45 (12%)	384 (100%)	3.52
The algorithm sometimes limits the diversity of content I see.	127 (33%)	134 (35%)	50 (13%)	42 (11%)	31 (8%)	384 (100%)	3.74
Platforms like *Netflix* and *Spotify* use algorithms to influence what becomes popular.	165 (43%)	142 (37%)	35 (9%)	27 (7%)	15 (4%)	384 (100%)	4.06
Algorithmic personalisation strengthens the platform's power over user choices.	173 (45%)	134 (35%)	35 (9%)	27 (7%)	15 (4%)	384 (100%)	4.10
Mean Average							3.88

Based on the data presented in Table 3, the majority of the respondents confirmed that algorithmic recommendations have a high influence on their viewing and listening behaviors. In particular, a big percentage stated that Netflix and Spotify platforms affect what they listen to (m=3.92) and define what is popular. Meanwhile (m=4.06). Altogether, the results indicate that although algorithms increase the user experience, they also concentrate the control of the platform and covertly influence consumer behaviour.

4.1. Discussion

According to Figure 1, Figure 2 and Table 1, the findings reveal that the most common revenue models used by Netflix and Spotify in Nigeria are subscription-based and freemiums. The fact that the total average was 3.20 indicates that the participants mostly agreed that both these platforms are mostly based on paid subscriptions but also have free or ad-supported versions, especially with Spotify. Most respondents (60 percent) were informed about different prices or packages that are available, which is noteworthy consumer awareness. On the same note, 60% (28% strongly agree and 32% agree) confirmed that Netflix is mainly a subscription-based company, and 59% (24% strongly agree and 35% agree) were aware of the dual model that Spotify uses, free and premium. Nonetheless, the mean score of 3.03 on the appropriateness of subscription charges is a bit lower, which means that affordability is still an issue to certain users.

The data presented in Table 2 demonstrated that the revenue model is a key determinant of the preferences and readiness of users to pay to use streaming services in Nigeria. The responses indicate that

the participants have moderate agreement in the mean average of 3.06 that the structures of prices and payment methods determine their consumption behaviour. Most (60) of them said that the nature of the payment scheme is a determining factor when selecting a platform and 59% said they would choose a subscription based platform as they offer an ad free experience. Likewise, 62% (29% strongly agree and 33% agree) responded that they would be more willing to pay based on the variety of content available to them, indicating that value perception, especially content diversity and quality, is the motivator to subscribe. Nevertheless, the price sensitivity mean is significantly lower (3.10) which indicates that users place importance on quality and convenience but affordability is also a significant aspect that can influence long-term subscription.

Such results indicate that Nigerian users are choosy and logical when it comes to their streaming options, which are adjusted to price and perceived levels of entertainment. It is consistent with the prior empirical research that discovered that affordability, convenience, and high-quality content of streaming platforms had a potent effect on user preference and readiness to pay [7], [2], [5]. On the other hand, the results are slightly different than [4], who observed that, whereas international streaming platforms are based on subscription and transactional, local streaming platforms relying on advertisement-based models (AVOD) find it difficult to find paying subscribers. This implies that, although there is an appreciation of the worth of premium experiences by Nigerian users, the general readiness to pay is limited by income inequality and infrastructural constraints like internet prices. Thus, the data reveal that although the subscription-based model has a positive impact on user preference in terms of perceived quality and convenience, affordability and content range are the determinants of willingness to pay in the users. Therefore, to monetise the streaming market successfully in Nigeria, it is important to find a balance between competitive prices and value-based service delivery.

As Table 3 reveals, the statistics suggests that algorithmic distribution is at the heart of the influence on platform power as well as consumer behaviour during the streaming era. Their mean average of 3.88 indicated that respondents to a great extent concurred that recommendations and personalised suggestions have a great deal of influence on what they read. It is worth noting that 74% of the respondents (41% strongly agree and 33% agree) affirmed that they use the recommendation provided by Netflix or Spotify to influence their viewing or listening preferences whereas 76% of the respondents stated that they use the algorithm to discover new content. These results indicate that algorithms have become a key intermediary of user experience and diminish the necessity of sorting through content manually and defining the value of the platform experience. The data also indicate that the domination of the platforms over content visibility is contributed by algorithmic personalisation. Most respondents (78%) said that platforms apply algorithms to determine what gets popular, and 80% acknowledged that personalisation makes platforms more powerful to affect user decisions. Interestingly, 68% additionally admitted that algorithms have the ability to restrict content diversity, which shows a trade-off between convenience and exposure to a greater variety of media [22].

5. CONCLUSION

Judging by the results of the current study, the researcher will conclude that streaming services in Nigeria, in particular Netflix and Spotify, are integrated in a networked digital ecosystem in which platform strategies, user preferences, and algorithmic power rely on one another. Netflix and Spotify have become part of the entertainment lifestyles of Nigerians with the consumption being motivated by convenience, quality of content and perceived value. Moreover, algorithmic distribution plays a key role in consumer behaviour and platform power, content discovery, personalisation, and trends, but it can at times restrict diversity of content. Based on the above, it is recommended that:

1. Netflix and Spotify are advised to keep diversifying their revenue systems and include a combination of free, advertising-based, and premium subscriptions plans that would suit the Nigerian market, to guarantee profitability and inclusiveness.
2. Netflix and Spotify need to match the price to content value, focusing on the quality, scope, and exclusivity of content to motivate users to pay and decrease defection based on the price.

3. Netflix and Spotify have to balance algorithmic personalisation and content diversity in such a way that they present people with a broader spectrum of content without losing the element of convenience and improving general user experience.

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Author Contributions Statement

Name of Author	C	M	So	Va	Fo	I	R	D	O	E	Vi	Su	P	Fu
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Ezekiel S. Asemah		✓		✓		✓	✓				✓	✓		
Daniel O, Ekhareafo	✓	✓	✓		✓		✓		✓		✓		✓	✓

C : **C**onceptualization
M : **M**ethodology
So : **So**ftware
Va : **Va**lidation
Fo : **Fo**rmal analysis
I : **I**nvestigation
R : **R**esources
D : **D**ata Curation
O : Writing - **O**riginal Draft
E : Writing - Review & **E**diting
Vi : **Vi**sualization
Su : **Su**pervision
P : **P**roject administration
Fu : **Fu**nding acquisition

Conflict of Interest Statement

The authors declare no conflict of interest.

Informed Consent

The authors received informed consent from all respondents in the Study.

Ethical Approval

Ethical approval was given by the Ethics Committee of Postgraduate School at Glorious Vision University, Ogwa, and Edo State.

Data Availability

Data for this study is available upon reasonable request made to the Corresponding author.

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