



Spotify's Discovery Mode: A Race to the Bottom

In late 2020, Spotify quietly announced that it was beta testing a new "audience development tool" called Discovery Mode. It enables artists and labels to choose specific tracks to be prioritised and algorithmically served to listeners. Spotify promotes Discovery Mode as having no upfront cost, claiming it "gives artists at any stage of their career the opportunity to participate". Crucially however, Discovery Mode is available only to artists who are willing to accept a reduction in royalty payment.

This acceptance of a lower payments in return for preferential treatment induces memories of payola, where historically radio stations in some markets accepted money in return for airplay before regulators intervened. Discovery Mode positions money as a proverbial "finger on the scale" and a deciding factor in music discovery – at an inopportune time when many artists are already pointing to streaming payments being too low, and other revenue streams such as touring have been affected by the pandemic.

Spotify claims to have paid \$7bn to rightsholders in 2021, of which around 30% is estimated to represent algorithmic streams. While the exact reduction in royalties that the company will be pursuing with Discovery Mode is unclear, modelling for several potential scenarios unveils a significant reduction in royalties paid through to the industry.

Based on Spotify's 2021 payouts to rightsholders, a 20% reduction in royalties due to Discovery Mode would result in an annual \$420m drop in royalties paid out, while a 30% reduction would result in a \$630m drop per year. If the share of algorithmic streams on the platform were to increase from 30% to 50%, a 20% reduction in royalties due to Discovery Mode would result in an annual \$700m drop in royalties paid out, while a 30% reduction would result in decrease of \$1.05bn drop per year.

While the effects of reduced royalties on individual artists are negative, the effects on the entire music ecosystem could be disastrous, creating a race to the bottom. It stands to reason that not everyone can receive preferential treatment, and while artists that have been part of early testing phases for Discovery Mode report positive results, the overall royalties paid would be very different were Discovery Mode to reach widespread adoption.

As AIM CEO Paul Pacifico describes it, "imagine you're at the movies and one person stands up to get a better view. That obviously will work well for them and they will have an advantage. But as more people stand up that advantage decreases. By the time everyone stands up, they are back to square one, but a lot less comfortable." The difference between this analogy and Discovery Mode is that, by artists



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accepting reduced royalty rates, Spotify would be better off, and the entire ecosystem would be worse off.

Discovery Mode has received widespread condemnation from the independent label community, with bodies such as A2IM, AIM, IMPALA, the Artists Rights Alliance and the Music Managers Forum US coming out against the scheme. In the U.S., concerns have been raised in Congress and the House Judiciary Committee sent a letter to Spotify CEO Daniel Ek in June 2021. For its part, Spotify claims Discovery Mode will only apply to radio and autoplay playlists.

Besides financial considerations, the credibility of Spotify's trusted recommendation engine is threatened by Discovery Mode. Since its founding over a decade ago, Spotify has built industry-leading music discovery tools and prioritised its listener experience. It is largely seen today as a gatekeeper and wields significant influence in the industry. Discovery Mode seems to be at odds with Spotify's promises over the years of providing a level-playing field and giving artists a fair and impartial chance of success, dependent on listeners' preferences and the quality of music.

"Discovery Mode is an existential threat to a healthy music ecosystem and is contradictory to a vision of an equitable global music streaming economy", concludes A2IM CEO Richard James Burgess.

*This article is extracted from the upcoming WINTRENDS 2022 report.
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