

Pandora cuts first-ever direct deal with artists (Update)

August 6 2014, by Ryan Nakashima



In this April 13, 2014 file photo, Win Butler of Arcade Fire performs during their headlining set on the third day of the 2014 Coachella Music and Arts Festival in Indio, Calif. Internet radio leader Pandora has come to its first-ever direct licensing deal with artists, a wide-ranging agreement with independent label group Merlin, who represents Arcade Fire, that both said would mean higher payments to artists and more play for them on Pandora stations. (Photo by Chris Pizzello/Invision/AP, File)

Internet radio leader Pandora has come to its first-ever direct licensing deal with artists, a wide-ranging agreement with independent label group Merlin that both said would mean higher payments to artists and more play for them on Pandora stations.

That means Merlin-represented artists like Arcade Fire, Bad Religion and Lenny Kravitz could get more rotations as their representatives will be able to lobby Pandora to place their songs earlier in playlists where they fit.

Artists will also get access to Pandora data for the first time, enabling them to make informed decisions about where to tour, who to tour with, what their concert set list should be and what songs they might release next. They will also have tools to directly communicate with fans on Pandora.

For Pandora Media Inc., the move helps improve relations with artists, who have complained that royalties on digital streaming services are too low, especially as CD and digital download sales decline. It's a departure from its current business model, where it relies on government rate-setting bodies like the Copyright Royalty Board to determine how much it pays artists.

"In a world where it's very difficult to get onto terrestrial radio, a deal like this gives us an incredible opportunity to get our music in front of an enormous amount of people," said Merlin CEO Charles Caldas in an interview. "The data that comes out of the back of this should also enhance our business."

Brian McAndrews, CEO of Oakland, California-based Pandora, said the deal would not have a "major impact on costs"—a concern of investors that have pushed Pandora shares down some 38 percent from their high of \$40.44 in early March.

He also said he was "very excited" about the company's first deal with a record label group and said he hoped that others would follow.

"We are open to other deals if we feel we can find a win-win-win for labels, artists and Pandora," he said in an interview.

Merlin, representing more than 20,000 independent labels, commands about a 10 percent share of music consumption worldwide and revenue collected from streaming platforms doubled to \$89 million in the year through April.

The deal covers royalties for performances, not songwriting rights, and it comes as the Department of Justice is re-examining Pandora's right to automatically license song rights from publishing societies like the American Society of Composers, Authors and Publishers (ASCAP) and Broadcast Music Inc. (BMI).

That process was put in place in 1941 as a counter to anti-competitive behavior by publishers, who say that the market dynamics have changed and they should have the right to negotiate songwriting royalties without the floor on rates set by the publishing societies.

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