



June 16, 2021

The Honorable Jerrold Nadler
Chairman
Committee on the Judiciary
United States House of Representatives
2128 Rayburn House Office Building
Washington, DC 20515

The Honorable Henry C. "Hank" Johnson
Chairman
Subcommittee on Courts, Intellectual Property,
and the Internet
Committee on the Judiciary
United States House of Representatives
2128 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Nadler and Chairman Johnson,

Thank you for your letter. We welcome the opportunity to explain the positive impact we believe Discovery Mode has and will have on artists. We strongly believe that Discovery Mode is a tool that empowers and benefits artists — especially up-and-coming artists, many of whom are not signed to record labels, or may not have access to extensive budgets. Our initial data during this early testing period indicates that Discovery Mode has an overwhelmingly beneficial effect — growing participating artists' number of listeners on our platform by over 40 percent, with artists in the earlier stages of their careers seeing the greatest success. And fears that Discovery Mode may lead to a "race to the bottom" largely rest on a misunderstanding of the way in which Discovery Mode works. We want to emphasize that Discovery Mode is not payment for guaranteed placement on our platform; it does not take the place of listener satisfaction as the key driver for recommendations on our platform; and it does not mean that artists are making less money for their music. Rather, Discovery Mode is a powerful optional marketing tool that artist teams can use to increase interest in their music in the same way that they can run paid marketing campaigns or engage in other promotional activities.

We are grateful to have the opportunity to clarify any misconceptions and further explain the important benefits we believe Discovery Mode will have for artists and the music industry as a whole. We would be happy to meet with you in person to discuss Discovery Mode in more detail.

Spotify believes that artists should be paid for their music, and have the opportunity to live off their art. We feel so strongly, in fact, that it's written into our company mission; we seek "...to unlock the potential of human creativity — by giving a million creative artists the opportunity to live off their art and billions of fans the opportunity to enjoy and be inspired by it." When the music industry appeared on the verge of collapse due to internet piracy, Spotify set out to bring streaming, an innovative technology and business model enabling artists to reclaim their income, into the mainstream. Fifteen years later, the majority of the global

music industry's revenue comes from streaming. Spotify alone paid out \$5 billion to recorded music rights holders in 2020 alone, 50% higher than in 2017, and we expect that number to keep growing.

Spotify is committed to innovation. Since Spotify was established, we have innovated with artist careers in mind. In 2017, we launched Spotify for Artists, a first-of-its-kind platform that gives all artists — at all stages of their careers — free, equal access to their streaming data and to pitch their songs to editors for playlist consideration. They can also use Spotify for Artists to connect their Spotify fanbases to concert tickets and merchandise, to upload visuals to make their tracks stand out with fans, and to book promotional campaigns that encourage fan engagement with deeper listening sessions. Over one million artists use Spotify for Artists to drive their careers each month. We are also investing in global artist development programs, like [RADAR](#) and [Fresh Finds](#), to support emerging artist careers. Discovery Mode is the latest tool in a long line of innovating for artists.

We developed Discovery Mode in direct response to artist feedback. The most frequent request we receive, especially from independent labels and artists at early stages in their career, is access to tools that help them reach new listeners and grow their audience on Spotify. Discovery Mode, at its core, is a marketing tool designed to do just that, by giving artist teams and labels input into music discovery on the Spotify platform. Music discovery is an inherent part of Spotify; Spotify drives 16 billion artist discoveries every month, meaning 16 billion times a month, fans listen to an artist they have never heard before on Spotify. We believe artists and their labels should have a say in that discovery. With Discovery Mode, artist teams and labels can identify the priority music that they especially want to reach listeners, when they want it to — that might be when they are trying to re-engage fans before a new album comes out, find new listeners while they are promoting a tour, celebrate the anniversary of a song or album, or capitalize on attention from a cultural moment or award. When turned on, Discovery Mode increases the likelihood, but does not guarantee, that Spotify will recommend an artist's tracks to listeners during certain personalized listening sessions. That said, Spotify only ever presents recommendations that a listener will enjoy, so if a song is not resonating with listeners (for example, listeners are skipping the song in high numbers), we will reduce our promotion of the song to preserve the quality of our recommendations for our listeners. Without Discovery Mode, we know artists can feel as if they lack the ability to attract listener attention without extensive marketing of their work. Discovery Mode provides artists and their labels more control over how an artist's music reaches their fans.

Making a marketing tool like Discovery Mode accessible to every single artist naturally means that there will be more competition. However, rather than view this competition as a “race to the bottom” that pits artists against one another in an economically harmful way, we consider this competition for marketing services among *all* artists to be innately healthier than the traditional system. The alternative, after all, would be to *deprive* smaller artists of the tools they need to invest in their careers — reserving the most effective promotional channels only for those with the deepest pockets. The status quo sees only a few big name artists receiving the lion's share of label marketing budgets and everyone else either crossing their fingers that an editor will playlist them or an industry executive will notice them. The incumbent, biggest players in this space should not be insulated from challengers just because the challengers lack the tools to do so.

As with any marketing tool, artist teams will need to be strategic in deciding if and when they turn on Discovery Mode and how they employ it alongside their other marketing activities. The artists and labels who deploy the best music and strategy will have the strongest returns from their Discovery Mode campaigns.

Further, turning off Discovery Mode absolutely does not mean that those tracks will not be included in our personalized recommendations. Spotify will always prioritize listener satisfaction in our recommendations, so tracks can gain massive popularity and traction with fans with or without enrollment in Discovery Mode. There are many paths to music discovery both on and off our platform, and Discovery Mode is simply one additional option for artist teams to deploy strategically.

Unlike other marketing services, Discovery Mode does not entail an upfront cost, meaning all artists at any stage in their careers have access to the same promotional opportunities as established artists with cash marketing budgets at their disposal. That's because participants in Discovery Mode pay the marketing cost out of royalties they earn from streams in the areas of our platform where Discovery Mode is active. This model allows even the smallest artists to access the same promotional tool as the biggest labels. Moreover, Discovery Mode is efficient. Unlike traditional marketing strategies like billboards or digital ads, with Discovery Mode, artists can market to listeners in the moment when they are discovering music, reach listeners based on their unique music tastes, and receive detailed reporting showing whether the campaign actually drove listening. That means artists can allocate their marketing spend much more effectively and precisely.

Because artists and labels will need to be strategic in their use of Discovery Mode, we view detailed reporting and transparency to be an integral part of our product. We provide participants with reports listing every track they have decided to include in Discovery Mode, along with detailed metrics showing Discovery Mode's impact across the Spotify platform, including on numbers of streams, listeners, track saves, and playlist adds. Participants can easily see for which songs Discovery Mode is working and which songs it is not. This level of reporting empowers participants to use the tool effectively. For example, for one artist using Discovery Mode for thirty-three tracks in our early testing, from our reporting, her label could see that fourteen songs performed exceedingly well, while the others had neutral or even negative results. With that information, her team adapted their strategy to optimize her results by turning off Discovery Mode for the underperforming tracks. Although we cannot guarantee that every Discovery Mode campaign will always yield the results that an artist is seeking, we can empower participants with the data to craft the strategies that can help them succeed. In fact, based on early testing, Discovery Mode has shown overall positive results. In other words, we've seen participating labels earn *bigger* royalty checks for their artists with Discovery Mode than without because of the significant increase in total audience. And they have not needed to set aside a large marketing budget to see those returns.

Discovery Mode has some important elements to safeguard the experience. First, and most importantly, we always prioritize listener satisfaction. Discovery Mode is not a guaranteed placement and does not guarantee additional streams, and we only promote Discovery Mode tracks to listeners whom we think will like them based on their past listening tastes and preferences. Moreover, if users are not enjoying tracks that have Discovery Mode turned on, we reduce Discovery Mode's amplification of those songs, and this will be reflected in our reporting. This enables a participant to decide whether they want to turn off Discovery Mode for low-performing tracks. From our perspective, that is a "feature" of the program, not a "bug." Artists and their teams should be the ones deciding which of their tracks to promote, prioritize, and invest in. They should be the ones to decide if this innovative marketing opportunity is right for them, at this time, for their careers. Many will decide that it is not. Some will decide that it is. That is the very nature of the product. Second, the vast majority of streams on Spotify will not be influenced by Discovery Mode. As designed, Discovery Mode only works for algorithmic discovery, which is the source of a small percentage of Spotify's

overall streams. Third, we want Discovery Mode's cost structure to ensure everyone — artists, labels, and our service — get a positive return on investment. We have not yet set a marketing cost beyond our pilot stage, but we can tell you that our principle for creating our rate structure will be to have an even and fair playing field for everyone.

We consider the pilot to be a success for everyone involved. So far for participants in our pilot program, on average, Discovery Mode has grown artists' number of listeners on our platform by over 40 percent, with over 40 percent of those listeners being brand new to the artist. Artists in earlier stages of their careers saw the greatest success. Our data shows that Discovery Mode provides an average of 1.5 times the streaming uplift for artists with less than 1 million monthly listeners than for those with more than 1 million (which encompasses the top 7,000 artists, as of December 2020). Based on these early results and great initial feedback, we hope to move beyond our limited pilot stage, opening up the product to more artists and labels, later in 2021. We do not have a precise timeline yet, as we are still gathering and incorporating feedback.

Again, we appreciate your attention to this product, and are grateful for this opportunity to explain our vision. We assure you that we have built Discovery Mode with artist success in mind.

Best regards,

A handwritten signature in black ink, appearing to read 'HG', with a stylized flourish extending to the right.

Horacio Gutierrez
Head of Global Affairs and Chief Legal Officer