Come stream with me

Is there money in digital radio?

Frank Sinatra knew he was getting a raw deal. He could sing but he was not much of a songwriter, so he never saw a cent when most of his 300 or so singles were played on American radio. He spent years fruitlessly lobbying Congress to change a 1909 royalties law, which requires radio broadcasters to pay composers but not performers. Broadcasters—a more formidable lobby than artists or record labels—have long fought any change, arguing that airtime gives singers free publicity. But this month the artists and labels have had some good news.

On June 5th Clear Channel Communications, America's largest radio broadcaster, announced a deal with Big Machine, a country-music label, to pay performance royalties on all its radio channels, terrestrial (ie, over the air) and digital. The plan is for Clear Channel to pay the label and its artists, who include Taylor Swift and Tim McGraw, a cut of its advertising revenue.

The agreement indicates that Clear Channel plans to invest more in digital radio, the part of the industry that is growing. But unlike terrestrial broadcasters, digital stations are obliged by a 1998 law to pay fees to artists whenever a song is played. This skewed system has made life painful for digital platforms trying to build an audience, such as Pandora, which pays out more than half of its revenue in music royalties. "It's very tough to make business work online with these rates," says Tim Westergren, founder and chief strategy officer of Pandora. His firm has spent $50,000 this year lobbying Congress to change the law.

Only 2% of Clear Channel's listeners are digital and 98% terrestrial, so the deal looks costly. But Big Machine supplies only a small proportion of Clear Channel's music. And paying a share of ad revenues hurts less than paying per song. The idea is to see what this does to the bottom line before negotiating with other labels.

The deal may also reflect anxiety on Clear Channel's part. Its leveraged buy-out in 2008, just before the ad market collapsed, has left it heavily in hock. It has enough cash to keep things humming for a few years, but in 2016 debts of $12.1 billion fall due. The company will probably need a maturity extension. "There's no way to pay that," says Melissa Link of Fitch, a ratings agency. "They need growth."

All eyes are now watching to see whether Clear Channel can make money from digital radio. It already has iHeartRadio, an internet network launched in 2008, which relies on ads rather than subscriptions. In September 2011 the network began offering customisable playlists, like Pandora. It offers 11m songs, compared with Pandora's 900,000—but has only a tenth of its rival's listeners. The big source of growth is among smartphone buyers, who account for 70% of Pandora's streaming. Yet Pandora also relies heavily on advertising (only 10% subscribe), and mobiles have proven difficult for ad sales.

Second only to television in its reach, terrestrial radio does not face much of a threat from digital, especially given the royalty burden on digital providers. Air-wave radio has held on to listeners, because it remains free and convenient, particularly for car-bound commuters. Though carmakers are starting to integrate digital-radio platforms, streaming audio can eat up most mobile data plans. It is not expected to steal many listeners soon. But for artists, the Clear Channel deal has hit the right note.

Fonte: The Economist, London, v. 403, n. 8789, p. 74, 16-22 Jun. 2012.