Pandora Predicted To 'Dominate' Web Radio For Next Few Years

With concerns about profitability and iTunes Radio about to launch, there's a lot of uncertainty around Pandora's future. But one recent report from IBISWorld claims that Pandora will continue to dominate web radio. Given that its stock recently hit new highs and mobile advertising is showing strong growth, Pandora actually has a lot going for it at the moment.

The recently teased IBISWorld report (via RAIN) notes that over the last five years:

"The number of mobile internet connections grew at an annualized rate of 53.0% during the five-year period. 'As such, internet radio's audience increased an annualized 16.5% during the same period, far outpacing traditional radios,' according to IBISWorld industry analyst David Yang. Consequently, internet radio broadcasters have taken a larger slice of advertising revenue from the $17.3-billion Radio Broadcasting industry."

Though citing positive usage and ad growth stats for web radio, the report also pointed to challenges with profitability due, in part, to the much higher royalty rates web radio broadcasters pay than do terrestrial radio broadcasters.

The IBISWorld analysts expect leaders such as Pandora, iHeart Radio and, most likely, the soon-to-launch iTunes Radio to maintain their lead with Pandora continuing to "dominate the marketplace as new entrants will have a difficult time attracting listeners away from well-established services."

They also expect future competition to be limited, in part, "as new entrants will hesitate to enter the industry due to the inability of major players to operate profitably."

So Pandora's leading in a race with many challenges.

Pandora's Mobile Ads A Bright Spot

Pandora recently removed the 40-hour limit on free mobile listening with the expectation that this move might undermine subscriber growth. They maintain that such a move is positive because they've found ways to curtail those who go over 40 hours.

In addition, this move "reinforces the success we are having with monetizing and selling ads on mobile platforms," according to chief revenue officer John Trimble.

Pandora's mobile advertising is said to account for "70% of Pandora's total ad revenue." It turns out that some of that growth is in local advertising, an area in which Pandora is investing additional resources.

As Trimble revealed:

"We've grown the sales force by 73% year-over-year, and a lot of that is to compete directly for that $15 billion of broadcast radio advertising. More specifically, while we did it on a national level, we pushed extremely hard into the local markets. Last year at this time we were in approximately 8 to 10 markets; we're now in the top 28 radio markets."

It's hard to predict the future but the market has recently given an overall thumbs up when one looks at Pandora's historical stock prices which have returned this summer to Pandora's earliest highs.

Hypebot Senior Contributor Clyde Smith (@fluxresearch/@crowdfundingm) also blogs at Flux Research and Crowdfunding

Pandora reported total mobile revenue growth of 92% year-over-year, according to the company's earnings released last week.

That puts Pandora's mobile revenue at $116 million, almost 72% of total revenue, up significantly from a 65% share last quarter.

More than ever, Pandora is a mobile-first company, and its efforts to build a media business around mobile advertising make it a bellwether for the industry.

In the recent past, Pandora seemed to be struggling to monetize mobile effectively.

The company even saw its RPM rate, the amount of revenue it could command for a thousand advertisements, decline in recent quarters.

But this past quarter it accomplished a 180-degree performance turnaround.

Pandora's RPM rate jumped 52% compared to the same quarter last year, and 39% compared to the prior quarter.

Pandora executives have attributed the impressive mobile numbers to app improvements and bulked-up efforts to sell locally targeted ads.

Pandora has improved its ad revenue picture enough that it now feels confident lifting its 40-hour-per-month listening cap for free mobile users, despite the increased content licensing costs that will bring.

The end of the 40-hour cap could also be seen as a preemptive defensive tactic against the expected September launch of Apple's iTunes radio streaming service

Inside Radio News Ticker…Listeners notice Pandora ads…Three-quarters (77%) of Pandora users say they're aware the streaming service runs commercials. Two-thirds (68%) know all too well that there are pop-ads too. That's according to an Ipsos Media survey of 18-49 year olds conducted in July. No data was released on other streaming services. Pandora says it's not ramping up its inventory loads, just selling more of the available inventory

8/13: Targeting ads to individuals makes Pandora competitive locally, it says

Pandora sales VP explains local ad strategy to Twin Cities business journal

Posted by: Paul Maloney

In local sales efforts, leading webcaster Pandora is positioning itself as the **number-two radio station** in the Minneapolis market (like it does in several others). Pandora regional VP Gabe Tartaglia discussed some of the webcaster's competitive strategies with *Minneapolis/St. Paul Business Journal's* John Vomhof.

But it's more than the sheer number of listeners that gives the webcaster a foothold locally, Tartaglia contends. It's its ability to target advertising **not by station format**, but **to the listener** herself.

"We've got over 700,000 listeners in the Minneapolis DMA every month, and every week, if you take a demographic like adults between 25 and 54, we have about 400,000 listeners," Tartaglia, who's based in Chicago, said.

He characterized their ad rates as "pretty competitive," with the big value coming in targetability. Pandora registration requires the listener's age, gender, and ZIP code. This means Pandora can track users across channels.

"So, if a local advertiser wants a very custom geography or wants to reach an exact age or gender, we can provide that exact demographic with 100 percent guaranteed delivery and zero waste," Tartaglia explained.

Think about it in terms of the individual listener, not the genre of music they're listening to or a particular artist. Most advertisers want the person. They want the consumer who can hopefully become a potential customer," he continued. "So, if a person is listening to a rock station and then changes to a country station, to us, that's one listener and we an still serve the same targeted adds to that person."

Pandora's biggest local categories and clients include automotive (about 10 different local dealers), health care, and education (University of Minnesota, Globe University).

Why We Remain Skeptical of Pandora: Lowering Estimates, Raising Price Target to $10, Reiterate SELL

Posted on Thu, Aug 22nd, 2013 at 7:25 am
by **Richard Greenfield** — POSTS | DISCLAIMERRSSEmail Phone: 646-450-8680
Categories: Media, Equity Research, USA, Internet, Report
Tags: Music, Radio , P

On September 21, 2011 (**click here)**, we lowered our Pandora price target to $3.75 when the stock was trading at $10.17. If you were to extract our reasoning from that note we cited (1) threat of competition, (2) lack of social in Pandora and (3) we lowered our longer term estimates. In other blogs around that same time, we had also written extensively about our view that royalty rates would end up higher starting in 2015, in contrast to the consensus view that they would head lower. Despite Pandora's improving near-term fundamentals, we were increasingly skeptical of their long-term profit potential.

We have certainly made mistakes in our analysis of Pandora, most notably tied to social, competition and brand equity. Pandora shares have rebounded from a low of $7.08, with shares currently at $21.52, just off their 52-week high.

- Increasingly obvious that social is simply not that important to music. Curation matters far more than social and we have seen competitors such as Spotify focus on the lean back nature of their service, similar to Songza. Curation is why terrestrial radio remains so vibrant.
- While competition may have slowed Pandora's growth, Pandora's active monthly users have exceeded our expectations over the past 18 months. In fact, Pandora stock has now largely stopped responding to competitive threats, with the June 10, 2013 announcement of iOS7′s iTunes radio marking a recent bottom in the stock.
- Pandora does has significant brand equity. Consumer perception of the Pandora brand and being early to each and every new IP-enabled device/platform has real value and has continued to drive new user acquisition (albeit growth has notably slowed). We believe brand is the key reason Pandora has overcome the competitive threat from frankly better products such as Songza.

So Pandora clearly has value. They have a large, active user base, a growing local ad salesforce infrastructure, brand equity and a simple, easy-to-use app spanning a wide array of platforms and devices. The question remains what is this all worth?

Despite our current year forecast for Pandora revenues to reach $635 mm of revenue, the company is only beginning to generate positive EBITDA and earnings. Pandora, therefore, very much remains a concept stock, with shares impossible to value on current/next year earnings or cash flow. The stock has moved notably higher on expectations of a rapid acceleration in mobile RPMs in fiscal April Q2 (as Pandora has started to move their mobile ad-load higher), at the same time that listening hours have slowed (due to the self-imposed, mobile usage cap earlier this year) leading to modest profitability.

- Facebook Effect: We believe Facebook's recent mobile success has also benefited Pandora shares, as investors look for other ways to capitalize on the consumers' and advertisers' shift to mobile. While Pandora is a large player in mobile advertising and we have highlighted our perceived flaws in Facebook's mobile ad strategy, Facebook has an advertising platform, data and targeting abilities that other mobile apps, such as Pandora simply do not.
- Somewhat strange to see an Internet company's stock reacting so positively to reduced usage and forcing consumers to pay for what was previously free. While it clearly drives near-term profitability and the listening cap can be removed in the future, it also creates an opportunity for competition that is less focused on near-term profits.

Competition Will Matter. Given the importance of profits several years out vs. current year to valuing Pandora, the risk of competition remains critical. While competition is playing out far slower than we anticipated, we still believe that competition will matter. Consumers have not even had a chance to try iTunes radio (see our July 2013 demo, **click here**), which launches in September at no cost to anyone using iTunes across platforms (phone, tablet, computer and AppleTV). While Android has been an increasing driver of Pandora's active user growth, it is important to bear in mind that BTIG analyst Walt Piecyk expects Apple to launch a cheaper iPhone in 2013 to better compete with Android at the lower-end of the mobile market (read his January 2013 blog **here**), with each new iPhone having iTunes and its new Radio functionality front and center on the home screen of every device sold.

Google is also focused on the online music space, with a YouTube music (audio & video) service coming that would span across Android and iOS platforms. While investors point to Google's recent music foray of All-Access, a Spotify competitor, as a failure, we would not write-off Google so easily. Not only is Google looking to bundle All-Access into wireless phone offerings (similar to what soon-to-launch Daisy is trying to accomplish and what Cricket does with Muve Music, soon-to-be part of AT&T), but YouTube is the world's leading music search/discovery engine – giving it significant brand equity to create a Pandora-like product. It is worth noting that Amazon also sees exactly what Apple does in terms of the trajectory of digital downloads and is working to create an access-based music service as part of Amazon Prime (similar to what it has done with video). Finally, Clear Channel is continuing to build out iHeartRadio, with a product that now goes well beyond music playlists, layering in talk (**click here**) and news/local information to better replicate the radio experience online. While Pandora calls itself radio, as it tries to compete for local radio ad dollars, it and other online music services remain notably different experiences to terrestrial radio, not to mention the marketing opportunity terrestrial radio offers to brands (which goes well-beyond audio ads in-between songs and annoying pop-up display ads).

- Competition will not destroy Pandora given its large existing user base, brand equity and distribution, but it can go along way to slowing user growth, eating into listening time per user and competing for advertising dollars. Pandora has a powerful brand, but perceptions can shift quickly in today's digital/mobile landscape.
- We believe competition will have a materially negative impact on Pandora's active user and listener hour growth over the next few years.

Private Market Valuations Set a Floor. Acquisitions like Instagram and recent valuations of Snapchat exceed $1 billion, without a revenue model. Contrast this to Pandora's 70+ million user base, growing sales force and a revenue model that is generating hundreds of millions in revenues and starting to show profitability. The key caveat to this comparison is that Pandora has a fixed cost for every single piece of content accessed (music royalties) – an obstacle that will keep margins lower than other digital businesses. A Pandora takeout has been part of the investor bull thesis since its IPO. While we think acquisition odds remain quite low, as it is too easy to enter the music space online, there is clearly asset value to Pandora.

- If an asset value takeout of Pandora occurred at a similar $1 billion level, Pandora would be worth $5, at $2 billion it would be a $10 stock.

What is a Reasonable Valuation for Pandora? We have to be reasonable about valuation, especially given the continued downward trajectory of our financial estimate revisions for Pandora. *Updated estimates on Pandora, along with an estimate change table showing the reductions to our fiscal 2014 and 2015 revenue and EBTIDA estimates, establishing public estimates for fiscal 2016 and 2017, a comparison of our estimates to consensus and a valuation table is shown in the accompanying note* (**click here for a PDF**).

Key changes to our fiscal (January) 2015 estimates are shown below:

- **Reducing Revenues**. When we brought our price target down on P in September 2011, we took our FY (January) 2015 revenue estimates from $1.080 bn to $938 mm (subsequently raised to $984 mm in March 2012, click here). We are now reducing FY'15 revenues to $847 mm, modestly below consensus of $876 mm; note our new estimates/consensus are still well below where our estimates were when we set our $3.75 price target.
- **Reducing EBITDA**. We were looking for $79 mm in FY 2015 reported EBITDA at the time of September 2011 report, down from $81 mm previously (subsequently, we lowered the $79 mm to $57 mm in March 2012). Today our reported EBITDA estimate stands at $31 mm. As with revenues, current EBITDA estimates are well below our prior estimates from nearly two years ago. Our current adjusted EBITDA estimate is $68 mm for fiscal 2015, down from our prior estimate of $83 mm and actually slightly above consensus of $64 mm. While we did not focus on adjusted EBITDA in our September 2011 report, our estimate was $93 mm, which well above our current and consensus estimates. While Pandora shareholder sentiment is far better, estimates are far worse than we expected one and two years ago.

- **Adjusted EPS Unchanged**. We are not changing our adjusted FY2015 EPS estimate of $0.28, which is $0.04 below consensus.

The bull thesis on Pandora is all about fiscal 2016 and 2017 (which correlate to calendar 2015 and 2016, respectively), with fiscal 2017 consensus significantly above our revised expectations. With fiscal 2017 several years away and the digital/mobile music landscape increasingly crowded – we believe consensus is simply too aggressive. Not to mention, our belief that royalty rates move higher, which negatively impacts Pandora's profitability in the out years of the model. At the same time, we believe our prior price target of $3.75 is simply too negative, particularity given the slower pace of competition to-date and the scale of the business Pandora has built. **In turn, we are raising our price target on Pandora to $10.00 from $3.75**. Our new $10 target price equates to a $2bn valuation. **We reiterate our SELL rating.**

- Our new $10 price target equates to 16x estimated 2017 adjusted EBITDA, 1.6x 2017 estimated adjusted revenue and 20.4x 2017 adjusted earnings, discounted back one year at 15% (remember fiscal 2017 is calendar 2016). We have increased our target multiples on Pandora to account for private market/takeout values and less risk in its still risky ad-based business model. This more than offsets our lowered financial expectations for the company.
- At current levels, Pandora is trading at 32x fiscal 2017E adjusted EBITDA, 3.2x 2017E adjusted revenues and 38x 2017E adjusted EPS.

Pandora lifting mobile limit to compete with iTunes Radio

- August 23, 2013
- Griffin Koupal
- 0 comment

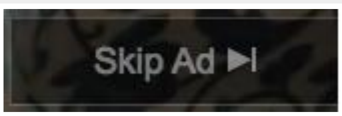
In March of this year, Pandora introduced a new limit on free listening on mobile devices. The new limit allowed users to only listen to 40 hours of music per month while on mobile devices. While this cap wouldn't be reached my most users, it still capped Pandora's heaviest users and forced them to find other ways to listen to their music. At the time, the company made the decision because it helped them monetize their gains, meaning that they could bring in more money. The decision is described by Pandora's CFO Mike Herring below.

When we introduced the 40 hour mobile listening limit, we were confident that our scale — over seven percent of total radio listening and Pandora's number one ranking in most major markets — would allow us to take this action without impacting our key monetization initiatives in driving the disruption of the radio advertising market and driving our mobile advertising leadership.

However, with the upcoming launch of iTunes Radio, which is expected to become a major Pandora competitor, the company is pulling a 180 and removing its 40 hour per month listening cap on mobile users. Many users have been unaware of the monthly limit because 40 hours on Pandora per month is not likely to occur, but for heavy users this is great news. The company is looking to retain users during Apple's initial push with iTunes Radio, and by keeping its user base happy, it is more likely to be able to keep existing Pandora customers

Pre-roll video ads: is it any wonder why we hate them?

by Chris Lake 22 August 2013 11:02 14 commentsPrint



Is there anybody on the planet who actually enjoys pre-roll video advertising? Research has shown that 94% of people skip pre-roll ads, though I can't believe the number is that low (presumably the other 6% are masochists).

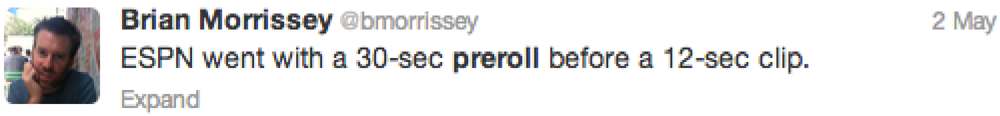
Pre-roll ads are as loathed as pop-ups, which studies found to be damaging to both advertiser and publisher. I imagine that the same applies to pre-rolls. Have you ever watched one and wanted to buy the product or service that's being (badly) pitched to you?

You have to wonder why they're so popular. Certainly the YouTube experience has considerably worsened since it started putting pre-rolls on a far wider range of ads, and I for one would pay a small fee to have them permanently removed.

Why do pre-roll ads suck so badly? Partly it's the interruption, which is often a lot longer than five seconds, and partly it's because the creative tends to be beyond stupid, but there are plenty of other reasons.

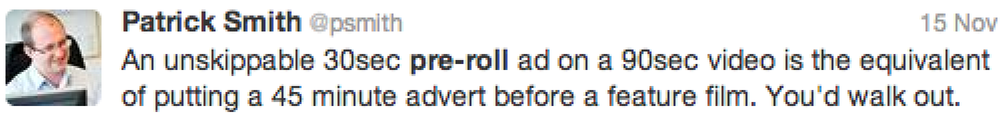
The following quotes and videos reflect all that is wrong with the pre-roll format. If you're the kind of person who likes to snuggle up to Satan by commissioning pre-rolls then you might want to take some notes.

What kind of madness is this?



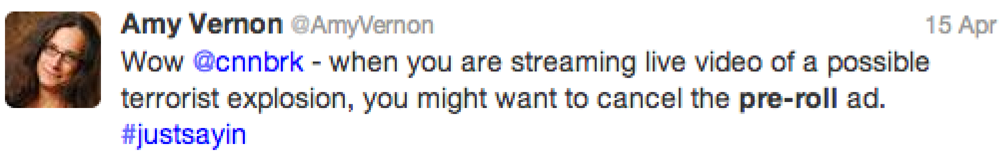
Brian Morrissey @bmorrissey 2 May
ESPN went with a 30-sec **preroll** before a 12-sec clip.
Expand

Everything's relative...



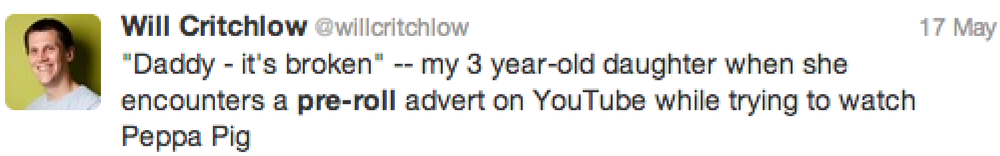
Patrick Smith @psmith 15 Nov
An unskippable 30sec **pre-roll** ad on a 90sec video is the equivalent of putting a 45 minute advert before a feature film. You'd walk out.

Advertisers + publishers = bad taste?



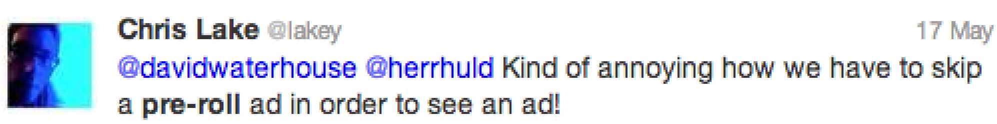
Amy Vernon @AmyVernon 15 Apr
Wow @cnnbrk - when you are streaming live video of a possible terrorist explosion, you might want to cancel the **pre-roll** ad. #justsayin

Yep, it's broken



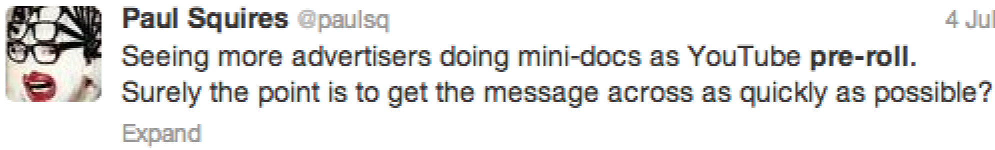
Will Critchlow @willcritchlow 17 May
"Daddy - it's broken" -- my 3 year-old daughter when she encounters a **pre-roll** advert on YouTube while trying to watch Peppa Pig

Ads on ads!



Chris Lake @lakey 17 May
@davidwaterhouse @herrhuld Kind of annoying how we have to skip a **pre-roll** ad in order to see an ad!

Misguided creative is misguided



Those dreamy opening sequences don't work

How a five second pre-roll should be done...
Volkswagen understands your pain

Even advertisers recognise that pre-roll ads annoy the hell out of people. Check out this ad from VW, which does "the most boring thing in the internet for you".

Is there anything that can be done to improve this prevalent ad format? What do you think?

Chris Lake is Director of Product Development at Econsultancy, an entrepreneur and a long-term internet fiend. Follow him on Twitter, Google+ or connect via Linkedin.
Topics: Advertising

Pandora Says Its Mobile Video Ads Are Heating Up With Brands Taco Bell, BMW run pilot; local brands testing watersBy Christopher Heine

- August 22, 2013, 6:00 AM EDT
-

Photo: Andrew Harrer

Pandora's earnings call later today, per predictions, should include a boost in mobile revenues as it adapts to digital music listeners' shift from desktops to smartphones. And while mobile audio ads have long been part of the digital music service's marketing platform, its mobile video spots targeting on-the-go consumers are apparently gaining traction among brands, per company executives.

Heidi Browning, svp of strategic solutions for the Oakland, Calif.-based tech company, recently chatted with Adweek about Pandora's one-year-old Video Everywhere platform, which enables advertisers to buy a mix of mobile and desktop ads against audience segments. The firm also lets brands purchase inventory by specific devices, e.g., phone, tablet and desktop.

When asked which purchasing option was most popular among brands, Browning pointed to the Video Everywhere product. "I think when you think about video, it's always audience," she said. "When you think about TV and video advertising, it's about how to get your message or story in front an audience at scale."

Below are other excerpts from the conversation:

So, do Pandora's video advertisers believe that targeting the right people trumps the bigger screen size consumers get with desktops compared to mobile?
I think so. When eMarketer [projects 87 million smartphone video viewers by 2014], it tells me that screen size isn't the important factor there. It's about a mobility mind-set, getting content wherever you are.

Has Video Everywhere changed the types of brands running ads on Pandora?
We've really expanded past entertainment clients to include CPGs, automotive, retail and quick-serve-restaurant chains. Advertisers are trying to extend their audiences, and they've seen the value in our platform—so they are adding video to their plan. We also just extended [Video Everywhere] ads to iPad. We ran an [eight-week pilot] sponsorship with Taco Bell, BMW, Target and USA Network. The product did really well.

Local has been an emphasis for the last few years. What can you tell us on that front?
You can actually see how big our local audience is compared to local radio. In our top 10 markets, we are bigger than the top radio station in each of those markets. The other key is our first-party data, which really makes our targeting work. We ask for age, gender and ZIP code upon registration. That's how we are able to deliver effective campaigns for local advertisers as well as national advertisers.

Are local businesses buying mobile video ads?
Yes.

Is it a significant number or small but growing?
I'd say it's small but growing. We've seen a lot of marketers with the mantra, "We're a global brand with a local footprint." Our ability to deliver at scale for local is attracting, for instance, automotive brands that have national campaigns but also have local dealer campaigns. They can take their global messaging and bring it down to exact offers for their franchisees by using our targeted media.

Are they repurposing :15 and :30 spots or creating dedicated content?
Yes, they are [repurposing] those spots. We don't accept :60s.

What else are you seeing with your video ads?
As we watch investments shift to digital video from other channels, I think there's still room for growth in this mobile area. We've made it as easy to plan and buy as possible. We're No. 3 behind Google and Facebook for mobile monetization. We're proud of that.

is article was first published oncampaignlive.co.uk

Radio daze: Pandora's pickle

- **From Reuters**
- Last Updated: 11:32 PM, August 22, 2013
- Posted: 11:32 PM, August 22, 2013

Internet radio service Pandora Media said yesterday that rising expenditures to acquire music and compete with rivals would push fiscal 2014 earnings below analyst expectations. The news sent shares down 5 percent.

Pandora expects earnings excluding certain items for fiscal 2014 to be between break-even and 5 cents a share. Analysts expected a profit of 5 cents.

Its shares fell to $20.50 in extended trading.

For its fiscal second quarter ended July 31, Pandora exceeded expectations, posting revenue of $162 million, a 58 percent rise, as it continued to pick up listeners. Its earnings of 4 cents also topped Wall Street expectations of 2 cents

MOBILE AND LOCAL DRIVING PANDORA'S REVENUE

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8-21-13

Calling it the tip of the spear driving growth, audio revenue now makes up 60 percent of total revenue at Pandora. The company took in $116 million in mobile revenue in the quarter and the company is extremely pleased with how local salespeople are performing in the 29 markets they are now selling in. CFO Mike Herring said there's a lot of room to penetrate radio's $15 billion ad market, adding local is the fastest growing revenue stream for the company. "That's exactly why we're stepping up investment. Salespeople are executing well. We are getting a tremendous return on our sales and marketing."

When asked about why Pandora isn't getting a premium for its low-clutter geo-targeting, Herring said, "We think our service does deserve a premium. We are not discounting. We drive additional revenue through calls to action or digital revenue paired with audio revenue giving the advertiser a better experience with the consumer. We offer things traditional radio never has and never will be able to put out there." Herring also said testing back-to-back ads has produced positive results. Pandora is always analyzing how many ads is too many before the listener gets agitated.

For the quarter, Pandora reported Q2 revenue of $157.4 million, a 55 percent year-over-year increase. The company also reported that Q3 revenue is expected to be in the range of $174 million to $179 million. The cost to aquire content dropped from 59 percent to 51 percent.

Pandora's new model: more ads, longer stopsets. Pandora is already running more ads than in the past, and now the web service says it'll take a page from the broadcast radio playbook and start grouping back-to-back commercials into stopsets rather than more frequent interruptions of single ads. "Our research indicates that listeners prefer longer periods of uninterrupted music," CFO Mike Herring said. "This new format provides listeners with longer music sweeps and fewer total music interruptions while increasing advertising inventory." In a call with analysts yesterday, Herring said the web pureplay has been "gradually increasing the amount of audio ad inventory" as its sales team has grown. Pandora now has about 75 sellers nationwide. Herring said they've tested a number of different combinations to see what will turn off listeners, and believe they have some ability to shift commercial placement. By running longer pods, the webcaster can increase spotloads to five ads per hour totaling up to three minutes, he said. The move is risky. Not only does it take away a selling point to advertisers who've liked the uncluttered environment of a single ad. It could also turn off some listeners. Pandora is already more identified with advertising than other streaming services like iHeartRadio or Spotify. A July survey by Ipsos Media found 77% of 18-49 year olds say they know all too well that Pandora is airing ads. Pandora says its ad revenue totaled $129 million in the latest quarter, a 44% increase compared to last year. "During the second quarter audio ads exceeded 60% of ad revenue for the first time," Herring said. Asked by analysts if they are able to charge premium pricing, CEO Joe Kennedy said the company's focus is growing its client list — not driving up rates. "CPMs tend to go from low- to mid-single digits on a national account when you are talking audio ads and up to the high-teens on a local basis," he said. Pandora also noted it now subscribes to local market Triton Digital Webcast Metrics in all 275 metros to help its salespeople bring more local businesses onboard. Despite plans to ramp-up advertising, Pandora's stock plunged as much as 11% in after-hours trading Thursday as investors worried about the company's growing losses and lowered guidance for the current quarter.

Fewer skips is the price to pay as Pandora lifts mobile listening cap. Six months after capping mobile users of its free service to 40 hours of listening per month, Pandora says it will return to unlimited streaming starting September 1. CEO Joe Kennedy says it was a "blunt tool" to help control royalty payments, and it sees limiting skips as a more "surgical" effort to control costs. In a call with analysts yesterday Kennedy said the company would use "other measures" like a "sleep timer" that will halt streaming on-demand. Pandora says fewer than 4% of active users ever hit the mobile cap although it's difficult to say for certain since some people may have multiple accounts. Kennedy does think that a majority of the Pandora One subscribers the pureplay picked up over the past six months were people who hit the mobile wall. The company says it's able to scrap the mobile cap because mobile ad revenue is growing. Pandora says revenue totaled $157 million in its fiscal second quarter. Mobile revenue was $116 million. "Fundamentally, we see no difference in the monetization potential between the desktop and mobile platforms that now constitute the majority of our usage," Kennedy said. Meanwhile, the number of Pandora users is slowing dramatically. **Pandora says its total active uses now total 71.2 million, an increase of just 1.6% versus the prior quarter**.

PANDORA REMOVES 40-HOUR-PER-MONTH LIMIT

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With cost of content down and revenue up, Pandora CFO Mike Herring said the company is lifting the 40-hour-per-month listening limit it instituted six months ago. He says the company knows more about its users and plans to use that insight to incorporate more "surgical levers," like limiting song skipping, to help keep content costs down.

Before the 40-hour limit, users could listen indefinitely, driving up costs. The 40-hour limit helped cap runaway users and also increased subscriptions which grew from 1.8 million to 3 million with the cap in place. Herring said he doesn't expect to see a big spike in hours when the 40-hour limit is removed in September.

Pandora: Time To Press Pause

Aug 21 2013, 11:37 by: The Curious Contrarian | about: P (Pandora Media Inc)

Disclosure: I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. **(More...)**

Since bottoming last November, Pandora (P) shares have nearly tripled on the back of better-than-expected usage metrics and monetization. Expectations are now too high: the market is pricing in a Facebook (FB)-like active user penetration of ~68% of its addressable market by 2020 despite new competition from Apple (AAPL), and Pandora's lack of a strong network effect. Pandora is a high-conviction sell/short as mounting structural risks emerge in 4Q13, resulting in market share losses and rising royalty rates.

Key Debate: Bulls argue that Pandora will continue to dominate the industry and benefit from a growing TAM, while bears argue that it will fall victim to competition and royalty rate hikes (~60% of total revenues) when it renews its contract with SoundExchange, the largest music performing rights collector, in 2016.

Bear Case is All About Timing: Pandora has rallied since last November due to its 1) growing Internet radio share to 75% in 1Q13 (versus 60% in 1Q12) despite competition from Spotify and iHeartRadio, and 2) sales initiatives and its integration in May into radio ad buying platforms (which will lead to an earnings beat when it reports on August 22nd), leading to higher ad sell-through and TAM growth.

When to Pull the Trigger: After iRadio's launch or before 4Q13 earnings. Sell side consensus expects active users to more than double from 70mn as of 1Q13 to ~160mn by 2020 (~68% penetration), with flat to slightly lower royalty rates starting in 2016. User growth and operating leverage, however, will disappoint starting with iRadio's launch, and worsen in early 2014, when negotiations with SoundExchange begin. Win or lose, iRadio will seriously complicate things for Pandora: Apple's higher royalty rates and lower subscription prices for a similar user experience to Pandora's, combined with Pandora's damaged relationship with the music industry over attempted royalty cuts, should force their royalty rates higher and cripple operating leverage.

Short Pandora - $14.39 Target Price - Bull Case $24.02 - Bear Case $9.04

Pandora's $14.39 DCF-based target price assumes slower user growth (126mn in 2020) and flat royalty rates, with a 4% terminal growth rate due to its strong growth and a 12.5% WACC. There is downside to $9.04 if rates rise in line with current terms and upside to $24.02 if Pandora's user growth remains resilient, monetization exceeds already aggressive forecasts, and royalty rates fall in 2016. The difference between the base and bull cases results in a 3:1 risk/reward ratio in favor of shorting Pandora, based on Pandora's $21.17 closing price on August 19th.

Hedge: There are no direct listed peers. While Apple may be the most relevant potential hedge, iPhone gross margins and sell-through are much more relevant than iRadio's success in determining whether Apple is a buy though so it isn't a valid hedge.

KEY FINANCIAL FORECASTS

	(USD mn)	FY14	FY15	FY16	FY17
Revenues	Consensus	633.87	873.82	1160.85	1469.57
	Base Case	609.92	779.93	1000.92	1249.05
Net Income (GAAP)	Consensus	(23.06)	28.49	65.78	146.33
	Base Case	(27.20)	17.14	49.35	80.94
EPS (GAAP)	Consensus	(0.14)	0.15	0.34	0.77
	Base Case	(0.14)	0.09	0.24	0.39
EPS (Non-GAAP)	Consensus	0.06	0.31	0.55	0.93
	Base Case	0.03	0.28	0.44	0.60

(click to enlarge) Source: Bloomberg

****Note: All dates in this article refer to calendar year (Pandora's FY ends in January)***

Company and Industry Background

Established in 2000, Pandora is the largest Internet radio streaming service with 200mn/70mn registered/active users as of 1Q13 according to the company. Pandora operates a free, ad-supported service and an ad-free subscription service (Pandora One), which grant users access to personalized radio stations by inputting a song, artist, or genre into its proprietary music recommendation platform, the Music Genome Project. Its ease of use, cross-platform integration, and first-mover advantage enabled Pandora to grow into one of the largest radio services in its current markets, the US, Australia, and New Zealand.

Key drivers

Shared Drivers: Listener hours (active users x average monthly listener hours).

Revenue Drivers: Premium ad sell-through, ad loads per hour, and CPM (costs per 1k impressions) rates.

Cost Drivers: Content acquisition costs per stream (mostly royalty costs), and marketing and sales costs.

Pandora's ad revenues and royalty costs grow as listener hours grow, meaning gross margins increase as per song monetization increases. Pandora monetizes its free users' streams (94% of listener hours are generated by free users) by selling its "premium" ad inventory at roughly 5x and 20x remnant, or unsold, CPM rates (cost per 1,000 impressions) on PC and mobile, respectively. It also offers an ad-free subscription for $4/month or at a discounted $36/year, and charges [99 cents/month to the approximately 4% of its free mobile users that stream more than 40 hours per month.]

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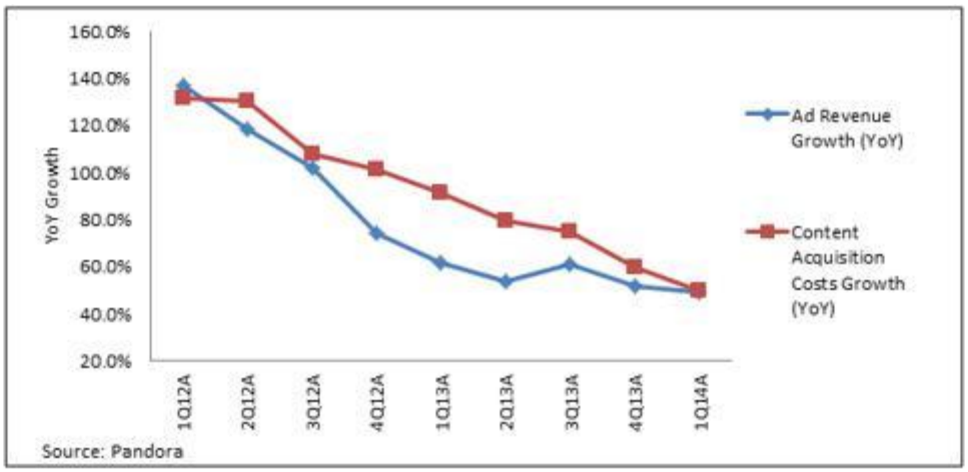


Royalty payments (booked as content acquisition costs) to the music industry are Pandora's largest expense. The company pays sound recording royalties to SoundExchange (92% of content costs and ~60% of revenue) and composition royalties to ASCAP, BMI and SESAC (8% of content costs and 4.5% of revenues). Its current five-year deal with SoundExchange will expire in 2015, after which the two parties will negotiate a new deal (which historically results in higher rates). The current deal terms are paid on a per stream basis as follows:

(click to enlarge)

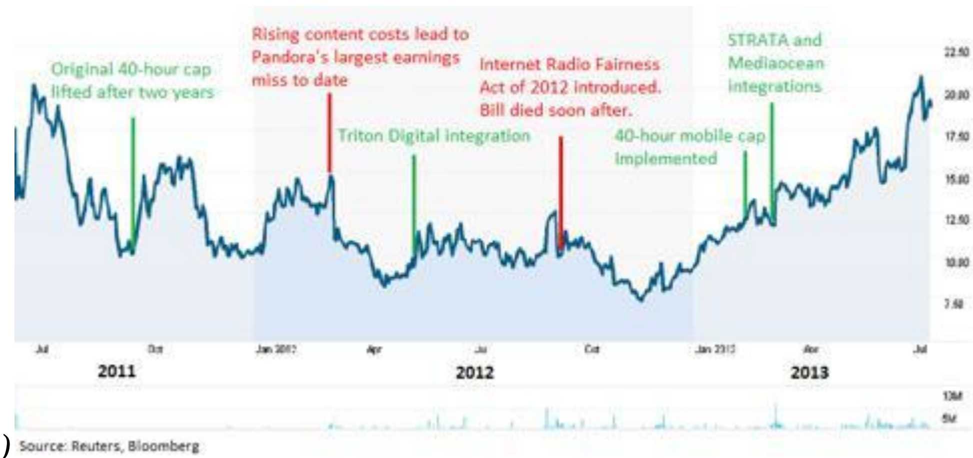
Year	CRB Rate	SoundExchange Pureplay Rate (non-subscription)	SoundExchange Pureplay Rate (subscription)
2012	$0.0021	$0.0011	$0.0020
2013	$0.0021	$0.0012	$0.0022
2014	$0.0023	$0.0013	$0.0023
2015	$0.0023	$0.0014	$0.0025

Note: *The rate applicable to Pandora's non-sub service is the greater of per performance rates or 25% of US gross revenues.*

Note: *non-sub/sub rates rise to $0.0015/$0.0025 the end of 2015.*

Source: Pandora annual report FY13

Pandora was listed on the NYSE on June 15, 2011 for $16/share. The timeline below chronicles some of the key events since it went public, including its recent integration into Triton Digital's audience metrics system and subsequently into the two largest broadcast radio ad buying platforms, Mediaocean and STRATA, and failed attempt at legislating its way to lower royalty costs through the Internet Fairness Act of 2012.



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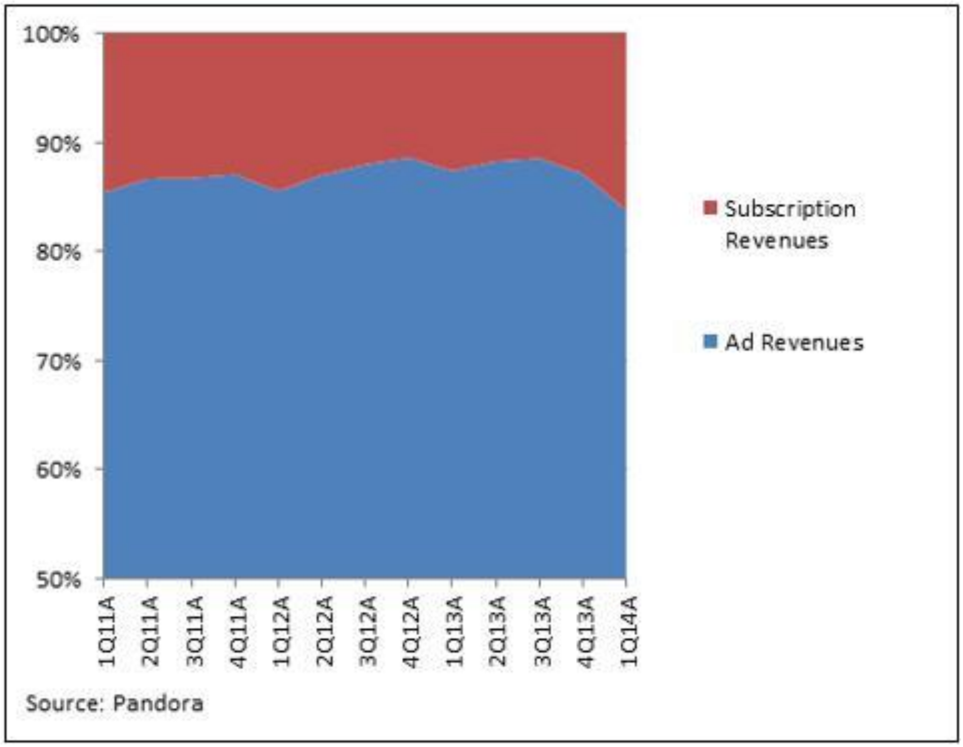
Potential Internet Radio Opportunity

Pandora revolutionized the music distribution industry similarly to how Netflix challenged a mature video industry with a digital offering that overtook slow-to-adapt incumbents like Blockbuster. It attracted competitors' subscribers to its premium, but similarly-priced service and changed the way that content was delivered. Similarly, Pandora was a first-mover that challenged terrestrial radio, which 92% of Americans still tune into at least once per week according to radio ratings firm Arbitron, with a more personal and easy-to-use service.

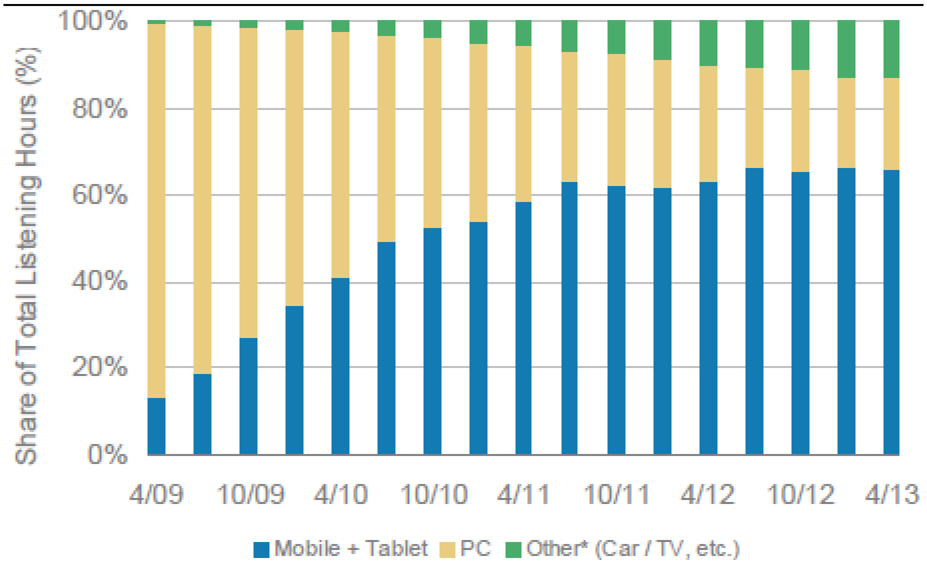
To date though, while Pandora has grown its share of US broadcast radio to 7.5% in 1Q13, it has only captured ~1% of IDC's estimated broadcast radio ad budget, according to a July 1st Morgan Stanley Research report. This is often cited by bulls to show Pandora's potential revenue opportunity in the estimated $15bn broadcast radio market. This argument, however, ignores the fact that IDC's estimates only include audio ads (12% of Pandora's ad revenue with mobile obstacles and limited upside to 80% PC audio ad sell-through). This distorts Pandora's actual ad budget share since its advertisers tend to be large businesses capable of running both audio and premium display ads. Furthermore, Pandora faces the structural issue of trying to monetize an increasingly mobile-driven user base, so its ad budget share should be lower than its market share.

Premium subscribers to Pandora generate nearly 3x higher RPM (revenues per 1,000 hours streamed) than free users according to Pandora, but sub revenues have historically accounted for only 10-13% of total revenues, with little future upside (see below). Interestingly, Pandora's 1Q13 beat can be partially attributed to the 700k free users it converted to paid subs (more than all of last year) either on Pandora One or by paying 99 cents largely due to the 40-hour per month cap on mobile users, according to the company. The net add boost is one-off though; especially now that iRadio s similar service costs ~33% less.

(click to enlarge) 

Pandora's users primarily access the service via its smartphone and tablet app (see below). The company must make greater headway into the auto market, however, if it wants to eat away at terrestrial radio's ad budget share in the long term. According to Arbitron, 47% of all radio listening occurs in automobiles, by far the largest source of terrestrial and satellite radio's listener hours.

Over the past few years, Pandora has increased its in-dash integration to over 100 models; resulting in 2.5mn unique vehicles have activated its service so far and i integration in 1 in every 3 cars sold in the US in 2013.



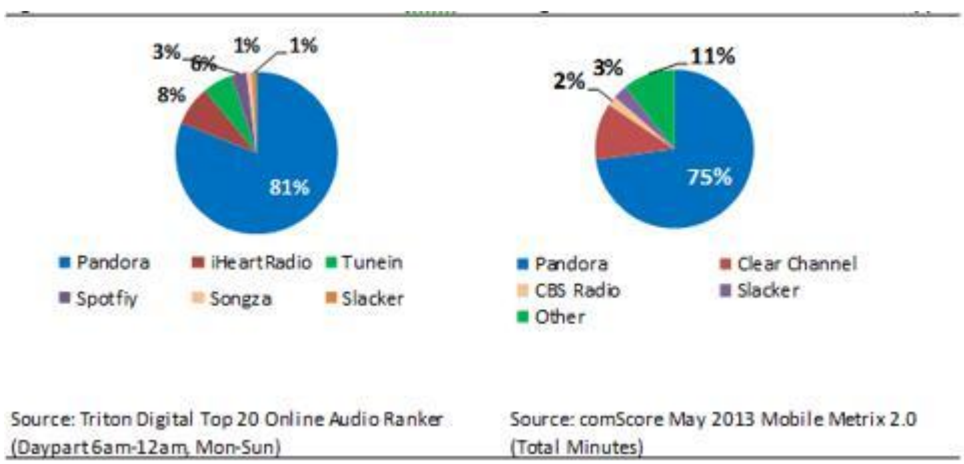
Source: KPCB Internet Trends May 2013 (Car/TV are KPCB estimates)

The company's TAM would dramatically increase if it expanded its service outside of the US, Australia, and New Zealand. The greatest obstacle to international expansion is the higher costs and blow to operating leverage that come with it, and Pandora has said that it won't make a push for international expansion until it can do so profitably.

Pandora versus the Existing Competition

Pandora is competing against not only terrestrial and satellite radio, but against other Internet radio and on-demand streaming services, and digital music marketplaces such as iTunes. There are two types of Internet music streaming services: ad-supported radio services with no on-demand features (e.g., Pandora, iHeartRadio and soon iRadio) and subscription-supported on-demand services (e.g., Spotify and Google Play Music All Access). Other key differences are outlined below:

	Internet Radio	On-demand Streaming
Market Leader	PANDORA	Spotify
Primary Revenue Stream	Ads	Subscriptions
Key Advantages	Ease of use Music Genome Project First-mover advantage	No need to buy MP3s Social media integration Online and offline access
Royalties	Negotiated with SoundExchange and others at "pureplay" rates	Negotiated directly with music labels at ~2-5x "pureplay" rates
Limitations	Skips and radio stations	None



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One of Pandora's key advantages is its best-in-class recommendation engine, the Music Genome Project. Pandora is the only Internet radio service that uses its own platform, while most services rely on a third-party recommendation platform, The Echo Nest. Each song in the Music Genome Project is analyzed for up to 450 distinct musical characteristics by one of Pandora's music analysts and then put through an algorithm that enables Pandora to match users with songs they are more likely to enjoy based on their inputs. This is a key enabler of the service's ease of use and is not easily replicable (except by Apple's Genius).

To date, Pandora's first mover advantage, ease of use, greater mindshare among listeners, and premium recommendation platform have enabled the company to capture a lion's share of Internet radio listenership. However, that is about to change for the worse.

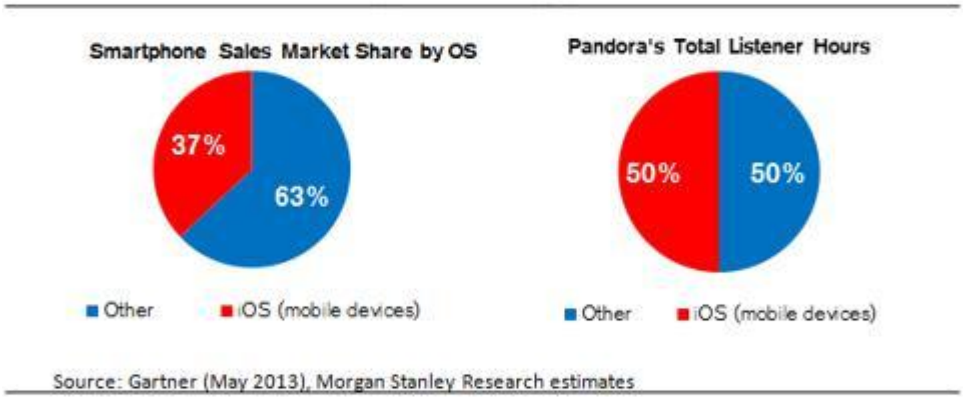
Win or Lose, iRadio will Seriously Complicate Things for Pandora

On June 10th at its World Wide Developers Conference (WWDC), Apple unveiled its rumored iRadio, scheduled to launch with iOS7. Apple is looking to stem competition from services that cannibalize its iTunes business. Pandora poses a threat to Apple's listener mindshare, but Spotify directly cannibalizes Apple's iTunes business by offering users an 18 million song, on-demand library that they can access ad-free on their PC/NB for $4.99/month and on any device both on and offline for $9.99/month. This is most attractive to iTunes's heaviest users, who purchase music frequently enough that Spotify saves them money.

Apple's management have repeatedly said that generating more service revenues (i.e., iTunes, iCloud, etc.) is an integral part of its long term strategy; thus, it is very serious about competing in Internet radio not only to attract more users to its ecosystem but also to protect its iTunes business. Additionally, an Internet radio service fits in well with Apple's push for in-car integration with the new iOS7 and auto-friendly Siri. Unlike its Apple Maps debacle, iRadio leverages Apple's existing core competencies and isn't nearly as R&D intensive, meaning there is little reason to believe that Apple will release a low-quality radio service. Ultimately, Apple's goal is to grow its ecosystem (its greatest asset) through its hardware and services. That is even more important now that its most profitable hardware, the iPhone, is maturing.

iRadio will resemble Pandora's service very closely. Apple deliberately chose to launch an Internet radio service since it avoids cannibalizing its iTunes business and can steal market share from Internet radio services like Pandora. It will offer ad-supported free radio streaming, alongside a $25/year ad-free service that includes its cloud service, iMatch (versus $36/year for Pandora One). Both plans will offer in-song purchases.

Interestingly, nearly 50% of Pandora's total listener hours (and an even greater share of its mobile hours) take place on iOS mobile devices despite Apple's comparatively lower share of US hardware sales (see below), according to a July 1st Morgan Stanley Research report. This may seem like a disproportionately high share, but according to a Piper Jaffray Research report, iOS mobile users (smartphone + tablet) accounted for 63% of total US mobile web traffic in July 2013 (and has consistently accounted for >60% of mobile web traffic this year). Ultimately, Pandora's market share would collapse and earnings estimates would have to be cut sharply if even a small fraction of these iOS users switch to iRadio.



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Apple Could Indirectly Cripple High Expectations for Pandora's Operating Leverage

The Wall Street Journal reported that Apple's contracts with the three largest music labels-Universal Music Group, Warner Music Group, and Sony Music Entertainment-give these labels better terms than Pandora's terms over the next two years. During its first and second year, Apple will pay labels 0.13 cents and 0.14 cents per stream, respectively, in addition to 15% and 19% of net advertising revenues, and the cut from song purchases which it conveniently offers in-app. Furthermore, Apple is undercutting Pandora's premium ad CPMs by offering its iAds at an 80% discount according to June 6th Bank of America Research report. Ultimately, Apple and Pandora's services are similar enough that it is fair to conclude that Apple's terms will force Pandora's hand and give the music industry the benchmark and bargaining power it previously didn't have against Pandora.

	Event	Probability	vs Consensus	Outcome
Scenario 1 (Pandora's Best Case)	Market share remains relatively intact and content costs fall	10%	Inline	iOS users don't switch from Pandora and new services don't steal meaningful market share. Pandora can meet or exceed bullish expectations, but upside is limited.
Scenario 2	Market share and content costs both fall	25%	Worse (consensus expects robust user growth)	Pandora's usage metrics slow. New entrants help negotiate royalty costs lower (everyone wins), helping offset some of the slower top-line growth. Shares fall to mid teens.
Scenario 3	Market share remains relatively intact but content costs rise	30%	Worse (consensus expects flat to slightly lower royalty rates)	Apple's favorable terms to the music industry give SoundExchange a key bargaining chip against Pandora. Operating leverage decreases. Pandora must raise ad loads/hour and better monetize its mobile listeners. Shares fall to low-to-mid teens.
Scenario 4 (Pandora's Worst Case)	Market share falls and content costs rise	35%	Much worse (earnings cuts across the board)	Pandora loses market share and is forced to either accept higher royalty rates starting in C2016 or negotiate with the labels directly (which would likely result in even higher royalty rates). Pandora shares fall below $10/share over the medium term.

(click to enlarge)

Pandora is Not a Sustainable Winner

As some Internet companies have evidenced, there are key characteristics shared by almost every proven winner in the rapidly changing Internet sector regardless of their fundamentally different businesses and sizes. These characteristics enable Internet companies to grow their user bases despite operating in low barrier to entry environments, while growing revenue streams and managing costs in a way that lead to sustainable operating leverage. The analysis below compares nine fundamentally different Internet companies at different stages of maturity that share surprisingly similar keys to long term success with a few exceptions. Based on these qualitative analyses, Pandora's business model is not nearly as sustainable as consensus estimates imply.

Company	Strong Network Effect	Exclusive Content Ownership	High Barriers to Entry	Diversifiable Revenue Streams	Easily Monetizable Mobile Platform	Cost Control	Low Incentives for Larger Companies to Compete
P			✓				
Google	✓	✓	✓	✓	✓	✓	✓
	✓	✓	✓	✓	✓	✓	✓
f	✓	✓	✓	✓		✓	✓
Linked in	✓	✓		✓		✓	✓
GROUPON				✓	✓		
NETFLIX	✓	✓	✓				
tripadvisor	✓			✓	✓	✓	✓
yelp	✓			✓	✓	✓	

*Note: Google, Apple, and Facebook are considered exempt from "Low Incentives for Larger Companies to Compete"

*Note: Exclusive content also applies to revenue earning proprietary products (e.g., maps, games, and operating systems)

(click to enlarge)

What Makes for a Sustainable Internet Winner? - Detailed Analysis

What is distinct about Pandora versus most companies in the analysis above is that its momentum may slow much sooner than expected. Pandora doesn't have the kind of sticky user base and content ownership that enabled Netflix (NFLX) to survive when Amazon (AMZN) moved into online video streaming. It can't easily diversify its revenue streams beyond simple ads and subscriptions similarly to how Yelp (YELP) and LinkedIn (LNKD) have. To make matters worse, its increasingly mobile user base may continue to prove difficult to monetize, unlike in Groupon (GRPN) and Amazon's cases. The arrival of a deep-pocketed, determined competitor in Apple and the SoundExchange negotiations starting in early 2014 should expose these structural issues in the coming quarters.

Strong Network Effect: A strong network effect is possibly the most effective way to keep a user base intact when new competition emerges. Unlike Myspace, Facebook has largely survived despite others' attempts at creating competing services and Twitter's rise (which has proven more complementary than disruptive to Facebook), since it has cultivated a very strong network effect. The costs of switching from Facebook are extremely high given the switch cannot be made at an individual level; it has to be done at a very large group level or else there is no "social network" to interact with on the new service.

Pandora's service is primarily experienced at an individual level with little social interaction. Its uninterrupted user growth to date is largely due to the lack of a meaningful, direct competitor. Spotify and iHeartRadio don't offer the same virtually unlimited, one-click service, with free playlists and a premium recommendation platform. Apple's iRadio, however, will offer all that and more.

One could argue that Pandora may be the least social online music streaming service. It was the last major online music streaming service integrated into Facebook. Spotify was among the first integrated in late 2011, and has seen its platform grow stickier since millions of Facebook users now follow their friends' Spotify playlists through their news feeds.

Exclusive Content Ownership: Content ownership isn't as practical for online music streaming services as it is for online video streaming services such as Netflix. Nevertheless, the lack of exclusive content makes for less differentiation between Pandora and its competitors. Larger players can offer similar services and undercut Pandora on price, leaving little to prevent users from switching to those competing services. This is a problem for Pandora's competitors as well, but it makes for a much less sticky platform in comparison to Netflix's now that Netflix offers exclusive content.

High Barriers to Entry: Internet radio is a low barrier to entry business in theory, but a high barrier to entry business in practice. As Pandora has evidenced, it is difficult to make a profit in Internet radio while embracing an ad-supported business model. Subscription models offer steady income and greater scale benefits, but attract fewer users. Meanwhile, ad-supported, free models are only profitable by increasing premium ad sell-through, ads per hour (which hurts user experience), and by monetizing the mobile market where users' streams are largely unprofitable. In that respect, Pandora is relatively immune from meaningful Internet radio services, unless one is launched by a large company, like Apple, who is more intent on building out an ecosystem and scale than making immediate profits.

This type of profit-eroding competition is oddly similar to what has happened in tablets, where products have become increasingly commoditized. Large Internet companies more concerned with growing their ecosystems than making profits on hardware have undercut competition with high-quality, low-priced offerings that have disrupted the industry.

Diversifiable Revenue Streams: A hallmark of a successful internet company is its ability to diversify and expand its revenue streams. Large companies like Amazon and Apple have built multi-platform, inter-connected businesses ranging from e-commerce to content consumption, hardware, and cloud services. Niche players like LinkedIn and Yelp have found ways to upcharge customers with value-add services beyond ads and subscriptions. Others like Yahoo (YHOO), Google (GOOG), and to a lesser extent Groupon, have grown (albeit with differing levels of success) through acquisitions and partnerships that have leveraged their existing platforms to move into new but related businesses.

Pandora is constrained by a lack of meaningful revenue opportunities beyond ads and subscriptions. This is exacerbated by the company's lack of cost control with respect to royalty rates and the structural obstacles it faces in monetizing its predominantly ad-free mobile user base.

Easily Monetizable Mobile Platform: The shift from time spent on PCs and NBs to mobile devices is an opportunity for some Internet companies, but a headache for others. As of 1Q13, 77.5% of Pandora's total listener hours were on mobile devices, but the company faces serious obstacles in better monetizing its free mobile users.

Even if Pandora remains the dominant Internet radio service, advertisers will need to be convinced that their ad budgets are better spent on a mobile platform with a highly questionable ROI. This will prove a challenge for ad-based apps over the medium-and maybe even long-term since mobile ad ROIs are still difficult to measure. Profitability on an ad-based mobile platform is also structurally challenged by mobile users' lower tolerance for ads. Even heavyweights like Facebook and Google face this issue, but their unparalleled insight into their users' personal life, stronger network effect, and non-ad revenues better insulate them from these issues.

On the other hand, e-commerce companies like Amazon, Groupon, and Ebay (EBAY) are benefitting massively from their increasingly mobile-driven user bases since they can expand their reach and offer more location-based services.

Cost Control: Most Internet companies don't have to deal with content licensing/royalty negotiations in the same vein as music and video streaming services. These content acquisition costs make up the majority of these companies' costs and are subject to renewal (historically at higher rates) every few years. With Pandora's aforementioned limited scope to expand revenue streams beyond ads and subscriptions, lack of pricing power, and its challenge in monetizing its mobile user base, any royalty cost hike would deal a considerable blow to future profits.

Low Incentives for Larger Companies to Compete: Every niche company's worst nightmare is the threat of a deep-pocketed competitor who is more concerned with market share gains than immediate profits. Google, Apple, Amazon and Facebook are the four companies in today's Internet that can change a competitive landscape simply by announcing intent to compete in it. Google and Apple have built unparalleled, multi-platform ecosystems, Amazon has dominated many corners of the e-commerce market, and Facebook is a perpetual threat given its global user base that spends hours per day on its social network.

Apple is a different beast than Pandora has ever encountered. Apple, unlike Google with its Spotify-like Google Play Music All Access, views iRadio as an essential piece of its iOS offering. It is strategically entering the market with the intent of growing its ecosystem, protecting its iTunes business, and increasing in-car iOS integration. That is why Apple is willing to pay higher royalties than Pandora despite qualifying for similar terms, provide a 33% cheaper ad-free service, and offer advertisers cheaper rates. This is the type of competition that will hurt Pandora and others' profits even if iRadio isn't a dominant share gainer.

Key Forecasts versus Consensus and Rationale

KEY FINANCIAL FORECASTS

	(USD mn)	FY14	FY15	FY16	FY17
Revenues	Consensus	633.87	873.82	1160.85	1469.57
	Base Case	609.92	779.93	1000.92	1249.05
Net Income (GAAP)	Consensus	(23.06)	28.49	65.78	146.33
	Base Case	(27.20)	17.14	49.35	80.94
EPS (GAAP)	Consensus	(0.14)	0.15	0.34	0.77
	Base Case	(0.14)	0.09	0.24	0.39
EPS (Non-GAAP)	Consensus	0.06	0.31	0.55	0.93
	Base Case	0.03	0.28	0.44	0.60

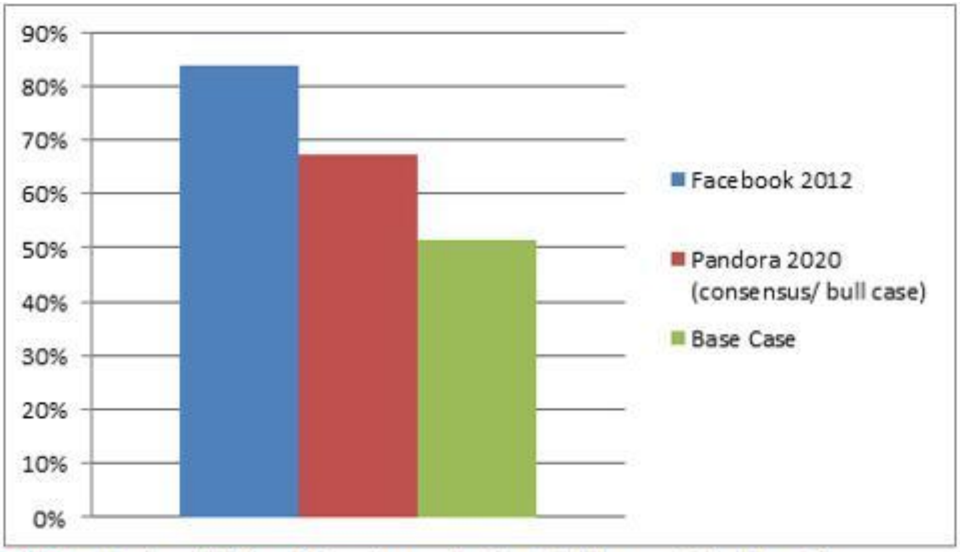
(click to enlarge) Source: Bloomberg

Usage Growth

Active Users: Pandora will reach 126mn active users by 2020 in my base case scenario, growing from 70mn in 1Q13. Consensus expects Pandora's active user base to more than double and reach ~160mn by 2020; the most bullish forecasts require the number to nearly double by 2016.

These forecasts are too bullish: user growth is already decelerating faster than expected, and iRadio has yet to launch. Even if Pandora remains a market share leader in Internet radio, consensus' estimate of 160mn active users for 2020 is too optimistic, as it demands an unreasonably high penetration rate. The company does not provide a breakdown of its user profile; assuming the vast majority of Pandora's current and potential users are 14-64 year olds, 160mn implies that Pandora will penetrate ~68% of its addressable market (2020 population forecasts from the US Census Bureau, ABS, and Statistics New Zealand for 14-64 year olds in the US, Australia, and New Zealand).

Compare this to Facebook's penetration in the US and Canada as of December 2012, reasons being 1) consensus only models the US, Australia, and New Zealand for Pandora (further expansion is unlikely in the foreseeable future) and 2) Facebook's user growth in the US and Canada has fallen below 10%, while Pandora's isn't expected to fall below 10% until 2020 at the earliest. Assuming similar age profile of users, i.e. 14-64 year olds, Facebook s 199mn active users in the US and Canada (combined) as of December 2012 implies an 84% penetration rate. The actual rate is likely near 75-80%, given millions of Facebook's users (and probably more than Pandora's) are younger than 15 years old.



*Note: Facebook's US and Canada penetration is likely overstated since its penetration among young teenagers (<15 year olds not counted above) is very high.

(click to enlarge)

Pandora's user penetration should track well below Facebook's in the long term since 1) it faces greater competition in market share and lacks a sticky user base like Facebook's, and 2) there are many viable alternatives and less social pull to Internet radio, compared to social network. That isn't to say that Pandora's penetration won't increase dramatically: at 26% in 2012, its active user penetration would double under my assumption of 126mn active users in 2020.

Average Monthly Listening Hours: Monthly listener hours will reach 26.0 hours/month by 2020, compared to 20.2 hours/month in 1Q13. Pandora's average monthly listener hours have hovered near 20-21 hours over the past 1.5 years and are falling due to the new 40-hour mobile cap, but many analysts are forecasting ~50% growth, to 28-29 hours by 2020. Given rising in-car penetration and growing internet radio adoption, there is scope for Pandora to see average monthly listener hours grow. There is significant risk though, if its subscribers (who tend to be some of its heaviest users) switch to competing services.

Monetization and Profitability

Ad Sell-through and Ad Loads/Hour: Pandora must sell more of its premium ad inventory in order to increase its margins. However, premium PC display and audio ad sell-through have already reached steady run-rates of 65% and 80%, respectively; implying limited future growth unless ad loads are increased.

Premium mobile display ad sell-through reached 27.5% in 1Q13, up from 22% a year and 26.2% a quarter earlier. Pandora's integration into radio buying platforms and its local sales initiatives should drive increased premium sell-through (albeit with higher operating expenses) to 44% by 2015 and 55% in 2020. Parity with PC sell-through is highly unlikely given limitations in mobile advertising.

Pandora has limited scope to increase its ad loads/hour from its self-imposed limits. It must first sell more of its existing premium ad inventory and even if it does, increasing ad loads could hurt its user experience. There is nothing more annoying to a mobile app user than being interrupted by too many ads, so having a few more ads per hour than a competitor's service could be the difference between retaining or losing users. Therefore, management has said that it will keep its ad load targets intact. Ad loads could increase modestly though, from 7.9 display ads/hour in 2012 to 8.4 display ads/hour in 2020 in the base case scenario, while audio ads/hour should more than double from 4.0 ads/hour in 2012 to 9.4 ads/hour in 2020, roughly in line with current expectations.

Content Acquisition Costs: Even though there is a likely greater than 60% chance of a royalty rate hike, Pandora's base case valuation implies flat rates beginning in 2016. Disappointing usage metrics alone would lead to considerable downside to consensus estimates and are much easier to forecast than closed-door royalty rate negotiations.

Consensus is modeling flat to slightly lower royalty rates beginning in 2016. However, Pandora has damaged whatever goodwill it had left with the music industry when it attempted to cut royalty rates last year and can no longer argue that it is in consumers' best interest for it to succeed since now there are viable alternatives. Apple, meanwhile, reportedly agreed to much higher rates directly with the music labels. Apple's service is similar enough to Pandora's that its terms will likely be used as a benchmark by content owners when negotiating with Pandora. Pandora will likely either face increasing royalty rates (the bear case assumes in line with the current deal; see DCF below), or have to negotiate directly with the music labels at higher rates like Apple.

Key Risks

User growth and monetization remain resilient: If user growth continues uninterrupted, or accelerates as the most bullish forecasts predict, revenues could surprise to the upside. Increased listener hours don't necessarily translate to higher profitability, however, so the key risk to any bearish thesis is if Pandora better monetizes its mobile user base. Mobile premium display ad sell-through will more than double to ~55% (versus 70% on PC) by 2020 in the base case scenario though, meaning further upside would require serious improvements in mobile ad ROI measurability, or better-than-expected broadcast radio ad budget share gains.

Royalty Rates Fall in 2016: Legislating its way to lower royalty rates and appealing to artists directly have only made things worse for Pandora to date. Some high-profile artists and labels have even pulled their content from online music services and demanded exclusive terms at higher rates. Pandora is the leading Internet radio service, so the music industry is gearing up to make its stand when the SoundExchange negotiations start in early 2014. Ultimately, there is little chance that royalty rates fall in 2016. If they do fall, however, Pandora's operating leverage would increase significantly.

New CEO Announcement: Pandora CEO, Joe Kennedy, announced in May that he will step down as soon as a replacement is found. The company still hasn't named a new CEO but Pandora has never been a management-driven story, so the impact of Kennedy's successor should not be overestimated.

International Expansion: Most analysts cited international expansion as a key long-term driver when Pandora went public in 2011. However, Pandora's management has repeatedly said that expansion beyond the US, Australia and New Zealand is unlikely unless royalty rates fall significantly. If Pandora does expand into potentially profitable markets like Europe, its listener hours will benefit but it would face stiffer competition and decreased operating leverage.

Short Squeeze and/or Limited Borrow: Pandora's short-to-float has averaged 34% since the company went public, according to Bloomberg. Since shares bottomed in November, short-to-float has nearly halved from 45%. A 20%+ short-to-float is usually a cause for concern in most non-Internet sectors, however, most of Pandora's Internet peers (<$20bn market cap), average similar short-to-float ratios of 20-35% over the past two years.

DCF Scenario Analysis

(click to enlarge)

Scenario	Target Price (vs Aug 19th $21.17 close)	% Chg to TP
Bull Case	24.02	13.5%
Base Case	12.70	-40%
Bear Case	9.04	-57.3%

(click to enlarge)

FY (Estimate)	2014	2015	2016	2017	2018	2019	2020	2021
Net Income (Non-GAAP)	9.85	56.13	89.38	124.66	204.47	221.38	284.83	343.85
Depreciation and Amortization	9.67	13.05	17.38	22.85	29.57	37.63	47.02	57.73
Other Non-Cash Benefits	34.02	39.00	40.04	43.72	45.58	49.74	51.91	59.10
Interest Expense (Income)	(0.14)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Change in Working Capital (+/-)	(15.79)	(12.78)	(10.81)	(10.39)	(17.85)	(20.32)	(15.70)	(20.62)
Unlevered Cash Flow	37.61	95.39	136.00	180.84	261.77	288.44	368.06	440.06
Capex	(14.12)	(15.60)	(20.02)	(24.98)	(30.39)	(36.18)	(41.53)	(47.28)
Unlevered Free Cash Flows	**23.49**	**79.79**	**115.98**	**155.86**	**231.39**	**252.26**	**326.53**	**392.78**
NPV of Unlevered Free Cash Flows	**21.50**	**64.90**	**83.83**	**100.11**	**132.08**	**127.96**	**147.19**	**157.34**
EBITDA (Adjusted)	19.66	69.18	106.77	147.51	234.05	338.63	434.47	548.27

Key Metrics	
WACC	0.0%
Perpetual Growth Rate	4%
Terminal Multiple	-25.0

Implied Multiple	
Terminal Unlevered FCF	408.5
Terminal Unlevered FCF Mult	11.7
Terminal Value	4789.2
EBITDA	548.3
Implied Multiple	**8.7**

Base Case	
Unlevered CF NPV	834.91
PV of Terminal CF	1918.44
Enterprise Value	2753.35
Off-Balance Sheet Assets	0.00
Adj. Enterprise Value	2753.35
Cash (Net Debt)	79.19
Equity Value	2832.54
Diluted Shares	196.86
Equity Value/Share	**14.39**

Bull Case	
Unlevered CF NPV	1325.71
PV of Terminal CF	3317.19
Enterprise Value	4642.90
Off-Balance Sheet Assets	0.00
Adj. Enterprise Value	4642.90
Cash (Net Debt)	85.15
Equity Value	4728.05
Diluted Shares	196.86
Equity Value/Share	**24.02**

Key Assumptions:

1) Mobile premium display ad sell-through reaches parity with PC sell-through (70%)

2) 160mn active users by 2020

3) Non-sub SoundExchange royalty rates fall to back to 2014 levels ($0.14 cents/stream) in 2016

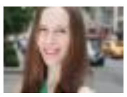
Bear Case	
Unlevered CF NPV	618.82
PV of Terminal CF	1081.60
Enterprise Value	1700.42
Off-Balance Sheet Assets	0.00
Adj. Enterprise Value	1700.42
Cash (Net Debt)	78.81
Equity Value	1779.22
Diluted Shares	196.86
Equity Value/Share	**9.04**

Key Assumptions:

1) Non-sub and sub royalty rates rise nearly in line with the current deal ($0.01 cents/stream hike each year)

Pandora: iTunes Radio will be great -- for Pandora

iTunes Radio will spur more people to digital radio from broadcast radio, not from Pandora to Apple, the company's financial chief says. However, Pandora's international horizon remains dim by comparison.



Pandora says it isn't sweating the coming of Apple's iTunes Radio later this year. In fact, it's looking forward to it.

"I think there are a lot of benefits" from the introduction of iTunes Radio, Chief Financial Officer Mike Herring said Wednesday at the Canaccord Genuity Growth Conference in Boston, Mass. iTunes Radio will bolster the exposure of digital radio and accelerate the move to it from traditional broadcast radio, he said.

Herring also compared the entrance of Apple's long-awaited radio product to the introduction of another behemoth's online music service: iHeartRadio from the country's biggest broadcast radio network, Clear Channel. "When iHeartRadio launched a couple years ago, we had the same questions," he said. "We've gone from 50 percent market share to 70 percent market share, and they've stayed flat. ... We won't do much different."

Pandora reigns on top of the Internet radio market, with more than 200 million registered users, 71.2 million of whom were regular listeners at the end of last month. Clear Channel's iHeartRadio surpassed 30 million registered users in May, and Spotify -- the on-demand music-streaming service that folded in a radio product in 2011 -- has more than 24 million active users, by comparison.

But even at the top of the pack, Pandora only represents about 7 percent of U.S. radio listening. Herring's contention is that Apple's iTunes Radio will speed the shift of terrestrial radio listening to digital, not Pandora listening to Apple.

That stance turns its back on a big difference between Apple's product and Pandora's, which is global reach. Pandora has rights to music in the U.S., Australia, and New Zealand, but Apple's direct agreements with music labels and publishers generally give it rights to the countries where iTunes operates, numbering above 100. Apple is rolling out iTunes Radio in the U.S. only in the fall, but the company will add other countries over time, according to Apple executive Eddy Cue's unveiling of the service earlier this year.

On Wednesday, Herring said that the company is prepared to enter other countries as soon as financially viable deals crop up. Unlike Apple and on-demand services like Spotify, which strike direct deals with labels and publishers, Pandora works through rights organizations in each country.

"We've yet to see any direct-licensing deal internationally that's financially viable," he said, referring to how competitors have gone about international expansion.

He added that in Australia and New Zealand, associations of songwriters and performers were willing to set rates that made the economics of entering there work for Pandora. The company is "hoping to do a couple things there" that prove its bona fides abroad and how Pandora's entry in the market "is beneficial for the artists," Herring said.

"If we do that there, then we'll be able to have those conversations in the rest of the world," he said.

Pandora, as the biggest Internet radio service, has come under fire from musicians in the past for how little they're paid to be played on Pandora. Pandora has said it's still paying artists much more than FM radio, which broadcasts music for free.

Even at a level of royalties that artists have grumbled about, licensing costs still take up roughly two-thirds of Pandora's revenue, which is mainly driven by ads.

Billboard on Pandora: If it monetizes listening like AM/FM, it's sustainable

Pandora's ratio of revenue to its share of radio listening means earnings potential, says Billboard

Posted by: *Paul Maloney*

Labels and performers critical of Pandora's efforts to lower the royalties it pays often say the webcaster should simply **sell more ads and generate more revenue**. *Billboard* says its analysis of Pandora's business model indicates it is, in fact, "well-positioned to turn its massive listening audience into profits."

It's simply a matter of monetizing its audience at the **same rate as broadcast radio**, according to the analysis.

"Pandora had roughly a 7% share of U.S. radio listening in June," writes *Billboard*'s Glenn Peoples. "A 7% share of the $16 billion radio advertising market is **worth $980 million** to broadcast radio. Pandora’s revenue during the last four quarters was **just $417 million**. That implies Pandora’s current market share could **generate an additional $563 million**."

Morgan Stanley analyst Scott Devitt predicted a 15% share of radio listening for Pandora by 2015, which at its current montetization would amount to half a billion in ad revenue. *Billboard* reasons that if Pandora squeezed the same revenue out of its inventory as radio, it would be **four times that** ($2 billion).

So, would Pandora need to **load up on ads** like so many local broadcasters, with several 6- or 8-minute spot breaks per hour? Wouldn't that substantially affect audience? Or would superior ad-targeting mean Pandora could charge advertisers a substantially higher rate than broadcast radio, requiring fewer spots to generate the same revenue?

That specific question isn't addessed in the analysis, but Peoples does write, "no other platform can deliver both audio and display ads to more than 71 million monthly active users while allowing advertisers to target by demographic characteristic and location."

Pandora's Business Model: Is It Sustainable?

- News

By Glenn Peoples | August 07, 2013 1:45 PM EDT

*Subscribers read this **analysis of Pandora's business model** (in full below) when it first published last week via Billboard's print, online and iPad platforms. And you could have too if you subscribed to Billboard with our unmatched music industry coverage. Each week Billboard features up-to-the-minute news, features and in-depth analysis as well as insights from industry experts and top executives, music features examining artists' varied paths to success and, of course, our world-renowned charts — a global barometer of music success.*

You also can pick-up this special issue of Billboard, which includes the Publisher's Quarterly, an exclusive report on Google Play and Verizon's negotiations, the Hot 100's anniversary and Phil Ramone's last album here.

Two questions are consistently asked of Pandora's business model: Can it sell more advertisements, and will it generate more revenue? The music industry sees a company that has placed market share ahead of revenue growth. People often wonder if Pandora could put more emphasis on growing revenue as it seeks lower royalties.

The short answer to both questions is yes, Pandora will sell more ads and generate more revenue. Although its business model has been widely criticized, the Oakland, Calif.-based company is well-positioned to turn its massive listening audience into profits.

The U.S. radio market is immense. Broadcast radio advertising totaled $14.2 billion in 2012, according to the Radio Advertising Bureau. About 242 million Americans listen to radio every week, according to Arbitron. Listenership is heavy across age groups: 90.9% of 12- to 17-year-olds, 90.8% of 18- to 24-year-olds and 94.5% of 25- to 54-year-olds. But only a handful of eventual Internet radio winners will be rewarded handsomely for their efforts.

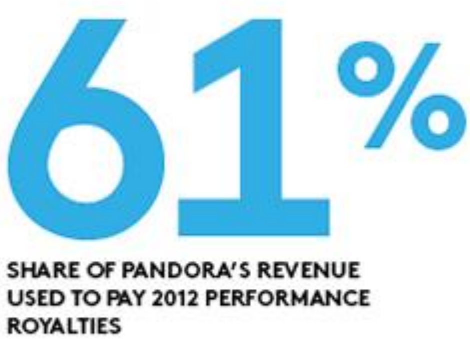
Billboard Special Report: The Pandora Wars -- 'You Can't Be Victim to Congress and Success to Wall St.'

This is partly because radio is a traditional business that hasn't yet experienced the same kind of digital disruption as, say, recorded music and newspapers. Even though Pandora, SiriusXM, iHeartRadio and Slacker have helped transform how people enjoy a "lean back" listening experience, traditional AM/FM radio still rules in 2013.

An investor tells Billboard he warmed on Pandora after recognizing that it's a radio company rather than an Internet music service. The opportunity stems from the ubiquity of the mobile phone, this generation's version of a transistor radio, he says. Pandora is simply using a different platform to engage listeners in a very familiar way. "If you just think of it that way, this is a really interesting story," he says.

While on-demand services like Spotify have to foster an entirely new consumer behavior (renting music), Pandora benefits from the familiarity of radio. "These guys don't have to create a new business," the investor says. "They don't have to change consumer habits."

Perhaps Pandora's biggest strength is its best-of-class status. No other digital radio company is so well-positioned to capitalize on a shift of ad dollars from traditional broadcast radio to Web radio. And no other platform can deliver both audio and display ads to more than 71 million monthly active users while allowing advertisers to target by demographic characteristic and location.



"If you're unable to accumulate a huge audience—and today Pandora has 70 million-plus [users]—then you're never going to stand a chance of monetizing it well," CEO Joe Kennedy says. A service with five million or 10 million might have a great story, but it won't be able to lure enough advertisers. "In this country that's nothing in the media landscape. You're not going to get anywhere."

Pandora has made itself more appealing to radio ad buyers. It started providing metrics, compiled by Triton Digital, to ad buyers in May 2012. Then in March, the country's two biggest media-buying platforms, STRATA and Mediaocean, started integrating Pandora's Triton numbers. As a result, ad buyers compare Pandora's local and national audience ratings to those of its broadcast radio competitor.

To understand how much revenue Pandora could be generating, compare the revenue and market shares of Pandora with broadcast radio. Pandora's potential comes from the gap between the two.

Pandora had roughly a 7% share of U.S. radio listening in June (a figure the company calculates using data from Triton, Arbitron and the U.S. Census, and includes an assumption for satellite radio's share). A 7% share of the $16 billion radio advertising market is worth $980 million to broadcast radio. Pandora's revenue during the last four quarters was just $417 million. That implies Pandora's current market share could generate an additional $563 million.

Morgan Stanley analyst Scott Devitt says Pandora will have a 15% share of radio listening and generate about $500 million of audio ad revenue by 2015. If Pandora achieved the monetization rate of terrestrial radio, that 15% share would be worth $2 billion.

More advertising inventory must be sold to generate more revenue. Growth of mobile RPM, or revenue per thousand listener hours, shows this is already happening. In Pandora's 2009 fiscal year, desktop RPM was less than $20. Mobile RPM was $26.15 in the fiscal quarter ended April 30, up from $19.16 a year earlier, and should continue to increase. Stifel Nicolaus analysts forecast a mobile RPM of $29.75 in the current quarter.

While its business model takes shape, Pandora faces a range of difficulties and threats that could hamper its growth and profitability. The most obvious challenge is the high amount of revenue that goes toward performance royalties—61% last year and 66% last quarter. It has been one—but not the only—factor in net losses of $38.1 million last year and $28.6 million last quarter.

But Pandora's royalties aren't out of the ordinary and don't rule out future profitability. Music download stores and subscription services generally pay out 70% of revenue to rights owners. Netflix, another best-of-class digital media company, is a better comparison. Cost of content accounted for 69% of domestic streaming revenue and 72% of total revenue during the last four quarters. But because of Netflix's large subscriber base—28.6 million for domestic streaming alone, as of June 30—the company was able to turn a profit of $47.7 million on revenue of $3.9 billion. (Not all digital services pay the same, however. Satellite and cable radio pay far less as a percent of revenue. See the FAQ, page 22, for an explanation.)

Finally, this fall's entry of Apple's iTunes Radio, a personalized radio service similar to Pandora, could affect Pandora's listener hours and active users. ITunes Radio will offer personalization by tapping into its deep history of consumer purchases and using its Music Genius recommendation technology. Apple will need a very strong product to compete, though. Pandora has continued its growth in the face of low barriers to entry and numerous new services. Launches of new products by Spotify, Xbox Music and Google Play haven't had a noticeable impact; nor has continued growth of iHeartRadio and Slacker hurt Pandora.

Morgan Stanley's Devitt acknowledges Apple could be a threat but believes its entry into Internet radio could actually help Pandora. "Apple's success could lead to an acceleration of the maturity of this segment in the eyes of advertisers and consumers," he says.

The only factor that has hurt Pandora's growth in listener hours was the listening caps it imposed on free mobile listening—limited to 40 hours per month—to stem the rise of mobile-related royalties. The tactic appears to have worked. Royalty obligations fell while increasing the number of subscribers to its paid, ad-free service, Pandora One. It goes to show that the only thing standing in the way of Pandora's continued growth could be itself.

Radio stations "are still offering a demographic that is pretty hard for Pandora to match," said Scott Fybush, an independent radio industry analyst in Rochester, N.Y.

What Pandora and other Internet stations can offer is highly targeted advertising. Since Pandora users register with their location, age, and sex, the company has a good idea of who is listening at any given time. So advertisers who want to reach say, Boston-area men between the ages of 18 to 45, would be more likely to get the target audience to hear their commercials than running ads on terrestrial radio, Fybush said.

Pandora has signed up major national brands such as General Motors Co. and Sony Corp. and local advertisers Rockland Trust and Boston Volvo Village.

"Pandora is the only major player in this space that is even a challenge to radio on a local level," said Robert Favre, general manager of data and analytics for Triton Digital, a Los Angeles company that measures digital radio audience.

Favre said Pandora has audience numbers that would likely place it among the top 10 stations in each of the country's biggest markets.

So far, local radio executives don't appear to be too worried about Pandora showing up on their turf to compete for a share of the local advertising market valued around $15 billion.

"Pandora doesn't compete directly with broadcast radio nationally or locally because it's not radio in the real sense of the word," said Tim Castelli, president of national sales for Clear Channel Communications Inc., which owns several stations in Boston.

"Pandora is a play-list creator, which means it can't deliver what makes radio — the rich personal and interactive experience that radio brings its listeners," he said.

Clear Channel is a giant: It owns 850 stations, has more than 2,700 sales people, and operates Pandora streaming competitor iHeartRadio.

On the financial front, Pandora has been campaigning to reduce its royalty payments, which it must pay every time any song is played over its service. While only a fraction of a penny each, the royalties add up: More than $250 million in 2012, Pandora founder Tim Westergren wrote in a blog post in June.

“If major market FM stations paid the same rates as Pandora, based on audience, some would be paying thousands of dollars for every song they played,” Westergren wrote.

That campaign has sparked a backlash from musicians including members of the rock band Pink Floyd, who say the company is attempting to cheat artists. Last year, Pink Floyd members were among 130 musicians that opposed a congressional bill that Pandora supported to reduce the royalties Internet radio stations pay. The bill did not pass.

Summary: Pandora

Ad targeting: Pandora and Spotify

POSTED ON 07/26/2013

I use Pandora to find new music and then use Spotify to listen to more music from the new artists I’ve discovered.

I don’t pay for either.

So I’m subjected to ads. But I don’t have a problem with ads.

What I do have a problem with is that the two companies can do better with their ad targeting because they ‘know’ me. Or at least they should.

Pandora should know some things about me from registration and Spotify from my signup/their Facebook integration. For this reason I should not be played ads selling me stuff that I can only buy in New York (on Pandora) because I live a few thousand miles away in Chicago. And Spanish language ads sell me nothing because (you guessed it) I do not understand Spanish.

I’d say the least effective ads would be the Spotify ones that suggest I need some confidence boosting help so that I can talk to women so I can avoid being single all my life. Thing is, I’m not single. I’m happily married to an amazing woman and just had a kid.

Ads that know I have a wife and a kid (because for e.g. I’ve stopped listening to curse word infused music/more jazz and my pictures with most likes on Facebook have my child in it) will be more effective on me. Sell me gifts for my wife and/or child and I will listen to your ad and probably buy the product you are selling me. But I guess this doesn’t matter to Pandora or Spotify. It matters to the brands who pay Pandora and Spotify for these ads. But these brands don’t know much about ad buying through music streaming services. Probably because they don’t know that customer segmentation/targeting through these channels will only be effective using psychographics not demographics. And even when demographics are used it should at least be done well.

I think..

In a Dysfunctional Industry, Pandora Seeks an Algorithm for Profitability

Published: July 31, 2013 in Knowledge@Wharton

Pandora Media, the largest Internet radio company, has managed to grow into a juggernaut with more than 70 million users as of the first quarter of this year -- accounting for more than 7% of all U.S. radio listening, according to the firm. But its biggest feat may be thriving within an often-dysfunctional music industry and the convoluted royalty system that goes with it.

The company’s success is a story of survival under adverse circumstances in many respects, according to observers from Wharton and elsewhere. Pandora has amassed an impressive customer base, despite opposition from many within the music industry. The tension between the two is so bad that Pandora recently acquired a terrestrial radio station just so it can pay lower fees to stream music online. But while experts believe there are plenty of opportunities available to Pandora and other major players in the burgeoning Internet radio sector, they question whether Pandora is nimble enough to react to future shifts in the industry, or to achieve the financial model that has made traditional radio such a behemoth.

Pandora announced in June that it had made a deal to purchase KXMZ-FM, a Rapid City, S.D., radio station for an undisclosed amount. The deal allows the online music company to qualify for the lower royalty rates outlined in the so-called Radio Music Licensing Committee (RMLC) agreements.

Pandora assistant general counsel Chris Harrison [wrote in a blog post published on The Hill] that owners of terrestrial stations (including direct competitors like Clear Channel, which owns 1,200 radio stations but also the online service iHeartRadio) were given “preferential treatment” in a January 2012 agreement between the RMLC, the American Society of Composers, Authors and Publishers (ASCAP) and Broadcast Music Inc. (BMI).

The numbers appear to back Harrison’s case. Broadcast radio pays no royalties for use of music, and SiriusXM pays 9% of revenue for its transmissions. Pandora’s content acquisition costs were 55.9% of revenue for fiscal 2013 ending January 31, according to the company's annual report. For fiscal 2013, Pandora reported a net loss of $38.15 million on revenue of $375.2 million.

“To put this in perspective, at least 16 of the top 20 Internet radio services that compete with Pandora operate under the RMLC license that has not been made available to Pandora,” Harrison wrote. Pandora filed a complaint in federal district court last November seeking the same terms provided under the RMLC’s 2012 agreement with ASCAP and BMI.

In a filing with the Securities and Exchange Commission, Pandora said it "believes that qualifying for [RMLC] royalty rates could provide the Company with modest savings (less than 1% of revenue) in content acquisition cost compared with the rates it is currently paying."

On June 12, Pandora chief financial officer Mike Herring explained the move while speaking at an investor conference. "[Buying a station] became something that we needed to do now," Herring said. "Last year, we paid to ASCAP and BMI about 4.3% of revenue. Recently, some publishers have begun to either pull out, or announce they are going to pull out, of these organizations and charge Pandora higher rates outside of what they charge all our competitors. Because we are purely a streaming service ... [publishers] were able to separate Pandora ... for different treatment." Buying the radio station, Herring added, “essentially levels the playing field back between Pandora and all of our competitors in terms of the licensing costs we pay to publishers.”

‘A Horrendous Sector’

The reaction to Pandora's terrestrial radio purchase was swift. The music industry royalty organizations widely panned Pandora's move as an end run around paying its fair share. Two days after Pandora announced the purchase of KXMZ, BMI filed a lawsuit against the company asking that BMI’s members get more money for their work. ASCAP said in a statement July 3 that it wants Pandora to succeed, but the company has been trying to limit what it pays artists for years. "We've negotiated deals with plenty of other music streaming companies and see no reason why Pandora should be entitled to special treatment," according to the ASCAP statement. "After all, Pandora isn't a struggling start-up anymore -- it's a Wall Street-traded company that is making millions of dollars streaming music created by songwriters and composers. They can and should pay a fair market rate."

Pandora officials have said they prefer to be included in broader radio licensing terms instead of negotiating individual content deals like other music players, such as Google and Apple, have. "It's remarkable that Pandora has gotten as big as it has and has survived a horrendous sector," says Wharton marketing professor Peter Fader, who adds that Pandora could have managed the messaging around its radio station purchase better.

Indeed, Pandora has thrived in many ways. In the first quarter of this year, the company reported $125.5 million in revenue, four billion listening hours and 2.5 million subscribers to its ad-free Pandora One service. In addition, Pandora employs 248 advertising salespeople around the country and is now participating in the ad buying systems used by terrestrial radio, which allows Pandora to grab a larger piece of the radio advertising pie. But Pandora has yet to become profitable, in part because more than 60% of its revenue goes toward acquiring music.

Pandora recently capped free mobile listening hours (80% of the company's listening hours are from people using smartphones), a move Herring said was designed to manage royalty fees. "We pay for content as it streams on a fixed basis, essentially a cost per song," Herring noted at the investor conference. "As [users move beyond] 40 hours of free listening, it is harder and harder to monetize those excess hours."

Research firm eMarketer estimates that Internet radio ad spending in the U.S. will reach $970 million in 2013 and grow to $1.31 billion by 2016. By comparison, terrestrial radio revenue was $3.5 billion in the first quarter of 2013 and $16.48 billion in 2012, according to the Radio Advertising Bureau.

"Music companies have hamstrung Internet radio for years by demanding unreasonable royalties and limiting flexibility," Wharton legal studies and business ethics professor Kevin Werbach notes. "For example, Internet radio stations can't give listeners total freedom to select their music, or they will run afoul of copyright restrictions. And webcasting rates have been set in ways that don't reflect differences in the online environment. Companies like Pandora are paying millions of dollars in webcasting fees to record labels, but the market could be much bigger."

Knowledge@Wharton technology and media editor Kendall Whitehouse says that the lack of equivalence in royalty payments between terrestrial radio stations and Internet streaming companies is an issue, and adds that artists should be better rewarded for their work -- something many artists have argued isn't happening through Pandora or companies covered by the RMLC agreements. "Unless the system rewards creative artists appropriately, it's not sustainable," Whitehouse notes.

David Pakman, a partner at venture capital firm Venrock and former CEO of eMusic, says the music industry needs a new licensing model since the current ecosystem is unhealthy. Pakman notes that the music industry depends on two companies to sell music at scale --

Apple and Amazon. “The first question the industry has to ask itself is whether it has a healthy ecosystem. If there are many licensees, there’s an ecosystem. If [there are] just a few, it doesn’t bode well for the future,” explains Pakman. “The music industry was healthiest when there were 1,000s of stores selling CDs.”

Moreover, Pakman points out that Apple and Amazon are able to take the financial hit because the companies don't have to make money selling music as long consumers keep buying their other products. But the current model doesn't work for smaller players that are trying to make money from streaming music. “The music industry needs to price royalties correctly so licensees can stay in business,” says Pakman, adding that companies like Pandora and Spotify should be paying less to the industry. “If it’s fair for Internet streaming companies to pay 60% to 70% of revenue to the music labels, shouldn’t the labels pay out 60% to 70% to the artists?” he asks. “The labels pay out more like 17%.”

As a result of royalty mispricing, Pakman suggests that music sales will continue to shrink. Meanwhile, he says artists would be well advised to take control of their own catalogs and collect royalties themselves. Pakman isn’t hopeful about change. “The music industry has fought the digital revolution for years, and I don’t think they’re going to change now."

Name that Genome

Pandora, which was founded in 2000 by composer and musician Tim Westergren (now the firm’s chief strategy officer), has benefited by becoming an early mover in online radio, building a critical mass of users and featuring technology that pieces together recommendations based on a genre or a song's "music genome."

The sector has since become more crowded with competitors including iHeartRadio, Spotify and Rdio. This fall, Apple will launch its own streaming service, iTunes Radio. Apple spearheaded a sea change in the music industry when it launched the original iTunes store in 2001, selling individual songs for just 99 cents. But recent figures from Nielsen and Billboard show that attitudes toward music ownership may be changing. While sales of digital singles were down 2.3% during the first six months of 2013, digital streaming -- in which users can buy subscriptions for unlimited or ad-free listening but typically can’t buy songs or albums -- was up 24% from the same period last year.

According to Wharton marketing professor Eric Bradlow, while the growing field of similar services represents a threat to Pandora, first-mover advantage matters. "Every company with a copyable business model is somewhat vulnerable. However, people should never underestimate the value of a strong brand name," says Bradlow. "To defeat Pandora, some other provider is going to either have to be better than Pandora on the existing online radio attributes or change the conversation so that the attributes that matter to people become different."

Spotify is likely to be one of Pandora’s most potent rivals, Werbach notes, but "Spotify, Pandora and other ventures can coexist by offering different value propositions," he says. "That's the power of online content delivery; everything doesn't have to be locked into the same format like traditional radio."

One of Pandora’s biggest differentiators is the algorithms it uses to recommend music. At the June investor conference, Herring noted that Pandora began with an effort called the Music Genome Project, which breaks down every song in the company's database into attributes such as melody, beats, harmony, rhyme, genre, artist and instruments used. "Each one of these things is laid down and put into a database, so that we can connect songs that have similar patterns from a very organic place," he said. "We can connect a single song to many hundreds by using our Music Genome."

Herring added that the Music Genome is then combined with human listening patterns and data to come up with optimal playlists for users. "A competitor can offer the same content, but it's harder to create something comparable to what Pandora does," says Werbach. "Pandora is more than a traditional radio station because the experience is dynamically generated for each user."

The Netflix of Radio?

Some analysts have called Pandora the “Netflix of online radio,” the implication being that the company could become as dominant in its sector as Netflix has in the streaming video arena. Although Netflix, too, faces several competitors -- including Hulu and Amazon -- the company has managed to become a threat to broadcast networks and premium cable channels alike, as evidenced by the 14 Emmy nominations it recently scored for the original programming offered on the service.

But Fader says Pandora in many ways is cut from a different cloth than Netflix. “Pandora was founded from a passion for music; it’s all about the music.... Netflix was built around an opportunity. First it was shipping DVDs, then streaming. Netflix is about finding a nice opportunity that fits with its business drive.”

In other words, Fader notes that Netflix and its management can be effective in any opportunity they seek out, similar to the way Amazon was able to successfully morph from a bookseller to a multi-category empire that, among other things, offers web services to corporations. "Pandora's ‘music first’ approach means it may be less savvy and miss new opportunities," Fader adds. "Pandora lacks the killer instinct of a Netflix."

One common thread between Pandora and Netflix, however, is that both "illustrate the collision of new media with traditional media," says Whitehouse. "In industry after industry, we’ve seen an economic disparity between old and new media [business models]. In many cases, the Internet startup has had the economic advantage. But with music delivery, the situation is more complex. "

Just as Pandora has tried to navigate the thorny economics of the music industry, Netflix has grappled with the demands of media companies from which it licenses it content. "A fundamental difference between watching video and listening to a streaming music service is that with video, you select each individual program you watch," Whitehouse notes. "In radio -- terrestrial or Internet -- consumers typically select a genre or an artist and then content plays automatically. These differences in content selection have different licensing and revenue models."

Monetizing Pandora

To approach the revenue and earnings scale of terrestrial radio, Pandora needs to manage its licensing costs, grow subscription revenue and expand its local advertising efforts, experts state. One challenge for the company is that most of its listeners access the site with mobile phones, which generates less income from display advertising. Herring said during the investor conference that Pandora plans to deploy multiple business models to increase its advertising reach, including online and mobile advertising, subscriptions and local ads based on user data and zip code.

Herring also outlined how he thinks the company's monetization efforts should be judged -- by revenue per 1,000 hours, or RPM. "Desktop [listening] is about $48 at about 60% gross margin for the first quarter. Mobile was at $26. Our cost per 1,000 hours is about $20. So we are at about a 20% gross margin on mobile, but growing quickly," Herring said. "We are up to 248 salespeople around the country, 72 [of whom] are selling local radio advertising, [and] 28 specific high-value markets. And we crossed 2.5 million subscribers in the first quarter. That is a relatively small number of our users, but it is by far the largest streaming subscription service in the United States."

Wharton experts note that Pandora has the flexibility to try out all of the different revenue models and let users decide which they prefer. After being free for decades, terrestrial radio would find it extremely difficult to start charging subscription fees. Meanwhile, subscription-only services such as SiriusXM would face cannibalization if they suddenly became free. "I don't think Pandora has to decide on a model," Whitehouse states. "Pandora has two dials it can control -- it can adjust the ad frequency of its free service or modify its subscription fee. This gives the company multiple options to generate revenue."

Analysts say that Pandora will have to walk the line between finding ways to make more money and bogging down its service with ads. "The company is confident about increasing mobile RPM, perhaps doubling it over a reasonable period of time, bringing it even with desktop RPMs today," Stifel Nicolaus analyst Jordan Rohan said in a research note. "Pandora believes it can accomplish this not solely by increasing ad load, but primarily by better monetization of existing inventory."

According to Werbach, rather than picking just one option and sticking with it, consumers are likely to hop between an FM station, SiriusXM, Pandora and other music services, such as the new offering coming from Apple, depending on which is the best fit for their activities at any given time. "People listen to music and other audio content in many different ways," Werbach notes. "There is room for a variety of models -- some ad-based, some subscription and some using other means."

But Bradlow suggests that Pandora will need more subscription revenue to gain better control of its destiny. "I think the ability for people to listen for free or at a low cost to a large variety of music [through advertising] has gone extremely well. But for a model to become everlasting, a subscription-based approach is the only way to generate stable revenue growth," says Bradlow.

However, it's no sure bet that Pandora can garner more subscriptions. For more than a decade, the music industry has revolved around iTunes, a service where songs are bought as singles for roughly $1. "Part of the music industry's dysfunction stems from handing the keys to Apple," says Fader, who noted that Steve Jobs once predicted that no one would ever want to rent music and invented an ecosystem that set subscription models back for years. "À la carte models killed the industry. The artists are not reaping the rewards of creating music, and no one will buy an album."

Fader notes that it would behoove the music industry to support services such as Pandora and Spotify if only to offset Apple's dominance with the iTunes store. "Technology keeps changing, and the music industry doesn't know whether to align against services like Pandora and Spotify or support them," he says

Ad targeting: Pandora and Spotify

POSTED ON 07/26/2013

I use Pandora to find new music and then use Spotify to listen to more music from the new artists I’ve discovered.

I don’t pay for either.

So I’m subjected to ads. But I don’t have a problem with ads.

What I do have a problem with is that the two companies can do better with their ad targeting because they 'know' me. Or at least they should.

Pandora should know some things about me from registration and Spotify from my signup/their Facebook integration. For this reason I should not be played ads selling me stuff that I can only buy in New York (on Pandora) because I live a few thousand miles away in Chicago. And Spanish language ads sell me nothing because (you guessed it) I do not understand Spanish.

I'd say the least effective ads would be the Spotify ones that suggest I need some confidence boosting help so that I can talk to women so I can avoid being single all my life. Thing is, I'm not single. I'm happily married to an amazing woman and just had a kid.

Ads that know I have a wife and a kid (because for e.g. I've stopped listening to curse word infused music/more jazz and my pictures with most likes on Facebook have my child in it) will be more effective on me. Sell me gifts for my wife and/or child and I will listen to your ad and probably buy the product you are selling me. But I guess this doesn't matter to Pandora or Spotify. It matters to the brands who pay Pandora and Spotify for these ads. But these brands don't know much about ad buying through music streaming services. Probably because they don't know that customer segmentation/targeting through these channels will only be effective using psychographics not demographics. And even when demographics are used it should at least be done well.

I think..

This guy has great points. My complaint with P is that I get served Christmas music no matter what time of year. I listened for about 5 hours in Thursday and was served 3 Christmas songs that ranged from Dean Martin to Burl Ives (yep, they served me Holly Jolly...). I have NEVER thumbs upped a Christmas song, ever. And I have never listened to their Christmas channel. Some algorithm .....

Sent from my iPad

Can New Services End Pandora’s Reign at the Top?

By Thomas Mentel | More Articles
July 20, 2013

While **Pandora** (NYSE:P) is the largest online streaming radio provider in the U.S., competition is starting to mount and it’s possible Pandora’s reign at the top could deteriorate due to missing out on important on markets. **Jango Radio** and **Swell** are two services that might further erode Pandora’s hold on the streaming radio market.

When Pandora arrived in 2006, there was no country restriction allowing users all over the world to access the service. That all changed when country restrictions were added soon after making the service inaccessible to everyone outside the U.S. — although unofficial workarounds do exist. Jango Radio, which originated in 2007, has no country restrictions.

Jango works in similar fashion to Pandora: you enter an artist or song title and the service creates a play station based on what you might like. While the site may not have smaller, niche bands, Jango contends that it has over 30 million songs for users to listen to. After creating a playlist, Jango sends you to a page where you can access biographies, pictures, videos, options to buy music, and a selection of other stations that would play similar music.

The biggest difference that Pandora users might appreciate is that Jango doesn’t have any restrictions on the amount of times you can skip songs. However, Jango is for the most part very similar to Pandora and might be more of a play at gaining a foothold outside the U.S. market.

Swell on the other hand is a service attempting to use Pandora’s style of service in a different way as the service has its aims on news radio rather than music. The service aggregates audio news and information from leading radio news sources, such as NPR and Ted Talks, and then creates a custom list depending on your tastes. The service could be a perfect solution to those who love podcasts, but might have trouble finding new ones — or maybe simply want it to be a little easier.

The service chooses audio content based on a user’s specific taste, Twitter connections, and the popularity of certain audio stories within the Swell community itself. Furthermore, audio lists can be chosen by category such as tech, comedy, and music. Swell has an app on the iPhone and is currently working on an Android version.

So will services such as Jango and Swell eat away at Pandora’s user base? With **Apple** (NASDAQ:AAPL) entering the industry with its iTunes radio service, along with Pandora’s battle with **Sirius XM Radio** (NASDAQ:SIRI), it would appear that services like Swell and Jango will only further decrease Pandora’s user base. And in June, Pandora’s U.S. market had decreased from 7.29 percent in May to 7.04 percent in June.

Swell App Aims to Be a Pandora for News Radio

926

Name: Swell

One-Liner Pitch: Swell aggregates audio news and information from NPR, ABC, Ted Talks and other places and automatically plays clips based on your tastes.

Why It's Taking Off: Swell aims to be like Pandora, but for news radio instead of music.

If you love listening to podcasts, but have trouble discovering new ones to listen to, you'll probably enjoy the concept behind Swell.

Swell, an app that launched on iPhone late last month, creates playlists of audio news and information from places like BBC, NPR, ABC, and Ted Talks based on your personal tastes, which it determines from your listening habits as well as the accounts you follow on Twitter.

G.D. Ramkumar, the startup's co-founder and CEO, describes the app as being like Pandora for news and information. "It adapts to your taste, it adapts to your interest," he told *Mashable* in an interview. "When you are driving, when you are exercising, it's a service that doesn't require you to look at the screen."

See also: 8 Best Apps for Team Collaboration

Ramkumar had previously worked at SnapTell, a mobile visual image search startup that was acquired by A9, a subsidiary of Amazon, in 2009. He left A9 a year and a half ago and started to work on what would become Swell. Ramkumar and his team knew they wanted to create something to help people stay informed while on the go, but tried a couple different approaches at first, including a text-to-speech tool for news as well as something he describes as a location-based Wikipedia that would read you the history of an area as you drive through it.

In the end, the team settled on creating an app that would curate and pick audio content for users to listen to based on their tastes, Twitter connections and the popularity of particular clips among the community as a whole. Users can also listen to audio clips based on certain categories like tech, comedy and music.

Earlier this week, Swell announced that it raised $5.4 million in a Series A funding round led by the venture capital firm Draper Fisher Jurvetson. The startup currently has about a dozen employees on staff, including a producer who previously worked at *Bloomberg*.

Swell is currently working on an Android version of the app and also plans to introduce premium features and advertising to generate revenue, similar to the way Pandora operates.

Image: Swell

Can Pandora achieve profitability this year?

Zachary SIlver, Wall St. Cheat Sheet 2 p.m. EDT July 20, 2013

Traders on the floor of the New York Stock Exchange walk over insignia for Pandora Media, the online-radio company, on its first day of trading on June 15, 2011.(Photo: Spencer Platt, Getty Images)

Story Highlights

- Pandora is up 15% from its IPO price
- The company reported a net loss in the latest quarter but revenue jumped
- Stock is being pressured from Apple

SHARE 12 CONNECT 14 TWEET 4 COMMENTEMAILMORE

Pandora's stock has taken a wild ride since 2011, debuting in the hottest IPO market since the dot-com era. Shares have risen around 15 percent since the stock's initial offering of $16, but the price has climbed almost 100 percent over the past year. Is Pandora poised for long-term success, or has its run in the past year been too good to be true? Let's use ourCheat Sheet investing frameworkto decide whether Pandora is an outperform, wait and see, or stay away.

C = Catalysts for the Stock's Movement

Pandora announced its first-quarter earnings at the end of May. While the company posted a net loss of $0.16, the company reported total revenue of $125.5 million, up 55 percent from the previous year's quarter. The company announced that subscribers to its Pandora One premium service increased by 700,000, surpassing the 2.5-million mark. Additionally, Pandora reported that advertising revenue grew 49 percent. However, content costs grew 48 percent, while marketing and R&D costs increased a combined 75 percent. Mobile revenue growth was a bright spot in Pandora's earnings, almost doubling to $83.4 million. For the most part, analysts remain optimistic that Pandora's profitability will improve over the next several quarters.

The stock has felt downward pressure in the past few weeks after Apple announced that it would launch a streaming radio service of its own called iRadio. Google also recently debuted its awkwardly named Google Play Music All Access, but many of Pandora's core users will not leave for the Google music app because of switching costs — Google's service costs $9.99 per month. It has yet to be seen what sort of competitive advantage iRadio will bring to the marketplace. Obviously, as part of the Apple ecosystem, iRadio will be easy to use with all Apple products. Additionally, Apple's presence may cause Pandora's marketing costs to rise even more in order to preserve its market share.

E = Earnings are Decreasing Quarter-Over-Quarter

Despite reporting revenue growth of 55 percent in the last quarter, Pandora has experienced significant earnings per share decreases in the last two quarters. After trading publicly for more than two years now, Pandora should be starting to show investors growth in earnings, not just in revenue and subscribers. After all, it is earnings that determine a stock's long-term success, not revenue.

Analysts do estimate that Pandora will generate positive earnings in the next several quarters, culminating with $0.28 in earnings per share in the first quarter of Pandora's fiscal year 2015 (really, the first quarter of 2014). However, even with these optimistic and uncertain earnings, Pandora trades at a forward price-to-earnings ratio of 65.88 — about four-and-a-half times greater than that of the S&P 500. Pandora's fundamentals are starting to look a bit like a doomed tech stock during the dot-com bubble: high revenue growth with flat or negative earnings growth. Pandora will need to become profitable soon or investors will be running for the door.

T = Technicals are Strong on the Chart

Pandora is currently trading around $18.40, well above both its 200-day moving average of $13.66 and its 50-day moving average of $16.60. The stock has been experiencing a strong uptrend since last year — much of the growth fueled by reports of its growing subscriber base. Pandora's relative strength index level is right around 80, implying that the stock is overbought at the previous moment: It could be poised for a pullback. Additionally, 30.8 percent of Pandora's shares are held as shorts. Pandora recently hit a fresh 52-week high of $20.54 on Monday.

Conclusion

It is hard to argue that Pandora Radio isn't a great product. The company's patented Music Genome Project that fuels its song-picking engine will be hard to outdo, even with the brainpower over at Apple and Google. From a technical perspective, the stock has performed well in the past year, but Pandora has not shown that its business model is profitable in the longer term. Its negative earnings per share figures in four of the past five quarters are worrisome, and it is pricey given its future earnings, which may or may not materialize. As competition in the Internet radio landscape intensifies, Pandora will have to ramp up its marketing and R&D budgets even further, causing its margins to erode. While Pandora offers a great product, it is not growing fast enough to offset its expenses. Until the company demonstrates several quarters of profitability, Pandora is a STAY AWAY

Winners and Losers: An Up and Down Week for Streaming Media

by Rick Aristotle Munarriz Jul 12th 2013 11:45AMUpdated Jul 12th 2013 11:57AM

Companies put a great deal of effort into planning: Sometimes it works brilliantly; other times, things don't work out quite as expected. From the leading burrito roller kicking off a clever promotion to a surprising stumble from the country's top music streaming service, here's a rundown of this week's best and worst moves in the business world.

Pandora (P) -- Loser

Music streaming is still growing in popularity, but for Pandora, the beat has been slowing. The leading service revealed that listener hours were just 1.25 billion in June. That may seem like a lot of tunes, but listener hours actually clocked in at 1.35 billion a month earlier. There is some seasonality in play here: People do stream music less during the summer. However, the sequential dip wasn't this bad a year ago.

Pandora's share of the total U.S. radio listening market also declined, and that's a metric that naturally takes seasonality into account. The popular explanation is that free customers have started to scale back on their streams since Pandora capped mobile usage at 40 hours earlier this year for those who don't pay for commercial-free access. However, it's a case of lousy timing with iTunes Radio on the way.

320000

7/12/13: Two important factors to consider in comparing Pandora, Apple streaming royalties

Analyst demonstrates how skipping songs quickly inflates Pandora's royalty past Apple's

Posted by: Paul Maloney

Since the contractual terms of use for sound recordings by Apple for its forthcoming iTunes Radio became public (our coverage is **here**, and you can read the actual contract **here**), there's been a rush to determine how Apple royalties compare to those of other webcasters, like Pandora. Will song plays on iTunes Radio be more lucrative for copyright owners (and performers) than on a competitor paying the statutory rate? How do Apple's obligations truly compare to Pandora's under its "pureplay" rate?

Washington and Lee University assistant professor **David Touve** (we've covered his analysis in **RAIN** before **here**) points out in the Rockonomic blog that these discussions **fail to take into account two very important factors**, both of which can significantly alter a webcaster's effective royalty rate.

Touve points out that (1) the proportion of a service's **listening that comes from paying customers compared to free, ad-supported listening**; and (2) how many **songs listeners typically skip** per hour will both impact the royalties services end up paying.

Touve's math shows that while Pandora's effective royalty is lower than Apple's for a listener who doesn't skip songs, it **only takes two song skips per hour** to bring them nearly equal. At just **three skips per hour, Pandora is paying a higher effective rate** than Apple.

Here's how. First, the "pureplay" royalty rate -- $0.0012 this year -- only covers free, ad-supported listening. Pandora pays a royalty nearly twice that -- $0.0022 in 2013 -- for songs streamed to Pandora One subscribers.

However, Apple's contract grants it either a **discount, or a waiver on royalties altogether** for iTunes Match subscribers! [Touve concedes he may "have misread the contract," but believes, "Apple will not owe royalties for iRadio streams to iTunes Match subscribers — even if you don't own the track being played." It seems more likely that Apple would get an unlimited waiver only on streaming songs the iTunes Match subscribers owns in their cloud. -- Ed.] Whichever the case, Apple's obligations certainly don't go up, as Pandora's do, with subscription listening.

Taking these terms of Apple's agreement into account, Touve determines Apple will pay the contractual minimum of **$0.00142** for each streamed song, or **$1.42 per one thousand streams** (what he calls RPM).

By proportioning paid- and free-listening, Touve calculates for Pandora an **effective overall royalty rate of $0.00124** (slightly higher than the "pureplay" rate because of Pandora One listening), or $1.24 RPM. That's **significantly lower than Apple's** $1.42 RPM. But that's **before song-skipping!**

For most webcasters, the more a listener skips songs (that is, doesn't hear them, though the webcaster pays royalties for them), the **higher the effective royalty rate** for the songs that are played.

[Listener A hears six songs and skips two, while Listener B hears six songs and skips none. Both heard six songs, but the webcaster would have to pay for eight songs (6 + 2) for the first listener, but just six songs for the second. Thus, the effective royalty to deliver those six songs to A was higher.]

Apple, however, also gets a break on skipped songs. According to their contract, Apple won't owe for **up to six songs per hour that are skipped** within the first twenty seconds. (Apple also gets passes for "Listener Matched Content," "Complete-My-Album" plays, and promotional plays -- again, see the links above for our coverage of the specific terms and the contract itself).

So again, the calculations indicate that Pandora's effective royalty is lower than Apple's for a listener who doesn't skip songs. But when the song-skipping begins, Pandora's effective rate begins to climb, while Apple's holds steady. Just **two song skips per hour** later, they're roughly equal. At just **three skips per hour, Pandora's effective rate is higher** than Apple's (which, you'll remember, doesn't pay for the first six skips).

We recommend you take a look at the details in the blog and see Touve's math. It's at Rockonomic.com **here**.

The Mad Dash
July 11, 2013

Once again, we've recently been treated to a series of breathless articles claiming that in-car radio is doomed. The writers point to "proof" such as the increase in Pandora's in-car listenership, or the oft-quoted tech researcher's false pronouncement that auto makers will drop dashboard radios in the next five years.

Much of this overheated rhetoric is, of course, self interest and spin. It harks back to the river of ink spilled when satellite radio was going to rule the world. So, what's real and what's a radio manager to do?

First, a few common sense facts to remember.

- Broadcast radio, along with all forms of media, is in a disruptive phase. Simply, this means that NO ONE knows how this evolution will turn out. Opinions are many times a product of past experience, which is not a good guide in this environment. Prophecy is a dangerous occupation.
- The auto makers who are focusing so completely on the technology of the connected car do not have deep history or experience with software, the user experience, or consumer tastes and trends in audio entertainment. They are in an early phase of a process that will take time to find its focus.
- The wireless providers are vitally interested in finding a way to get a piece of the financial action that will flow from the connected car.
- The consumer electronics makers who supply both car makers and the auto aftermarket want their piece of the action as well; more complexity means more revenue for them.

Today, the dashboard is experimental and proprietary to each car maker. Today's consumer is confused by complexity and new functions as they move from one new car to another. Ford, one of the most innovative automakers, is considering the return of some rotary knobs to the dashboard, based on feedback from consumers that their first generation Touch system was too confusing.

Apple has been eyeing the dashboard with the creation of its iOS for the Car, a deeper integration of their iPhone technology into the dashboard. Will Silicon Valley or Detroit win out for the ultimate control of the digital dash? Will it be an extension of our smartphones or will it be a separate dedicated system? The simple fact is that it is too early to know. And remember that the life cycle of a car, from design to market, is far longer than the rapid-fire pace of electronic innovation. As technology pushes engineers forward, consumers migrate at their own pace, choosing to embrace innovation when it meets a need or makes their life substantially easier.

With that context, we know that in-car listening is a vital battlefield for radio. For some stations, fully half of their total listenership comes from in-car listening. But this is an environment that we have shared with other forms of audio entertainment for some time. Whether CDs or cassettes (or even 8 tracks), there have been alternatives for in-car attention. That competition increased with the first connection a driver made between their iPod and their dashboard radio. Free trial subscriptions to satellite radio in new cars have been slowly making inroads into some listeners' drive time habits. But overall, radio has fared well, maintaining its relationship and audience loyalty by focusing on the local information and human connection that has been the long-standing choice for drivers everywhere
.
As choices multiply, so does media usage. While there is fragmentation and competition, traditional media brands have not disappeared, but rather adjusted. In some cases, such as newspapers, they are transforming themselves. What has disappeared is outdated or insufficient delivery technology. Online audio may, in some future time, displace broadcast AM/FM, but there are still enormous technical and acceptance obstacles to overcome. In the meantime, radio is busy extending and transforming our brands for the new multichannel world.

So, in a world of shiny new objects, it is natural that consumers will try new offerings. It's equally as true that they will adopt or reject them based upon their own criteria. The manufacturers' current focus is on tech rather than the customer's priorities and desires. Do we really want a car that can read back the boss's e-mail on the way home? Or are functions being offered just because the technology can be made to do it?

All of this brings us back to the mad dash to the digital dashboard. Who will win? What form will it take? Who will you pay for the techno marvel of turning your wheels into another intelligent machine for living? Only a fool would try to predict the outcome, but hundreds of millions of dollars are at stake.
The only reasonable way forward for radio is to make our brands available as many ways and places as possible and to remain engaged and nimble

as the landscape changes. But more importantly, we need to maintain a disciplined focus on our product’s unique appeal. We are a live, local friend with an emotional connection to our listeners, providing them with information, a laugh, some music and a chance to escape from the traffic jam on their way home. We have to continue to be their best friend who knows that they want more than a playlist from their favorite station. These are our historic strengths; this is the relationship that works for our advertiser partners and produces results. Radio needs to invest in and play to its strengths, even as we take advantage of our relationships in new technological ways.
We’ll survive; even better, we’ll thrive.

Senior agency created a kids station on Pandora as they have a young child....the account is registered in her name and she said that while listening to this kid station with her kid she was continually hit with ads for a funeral home...”15x”

AFTER TESTING APPLE ANALYST SAYS SELL "P"

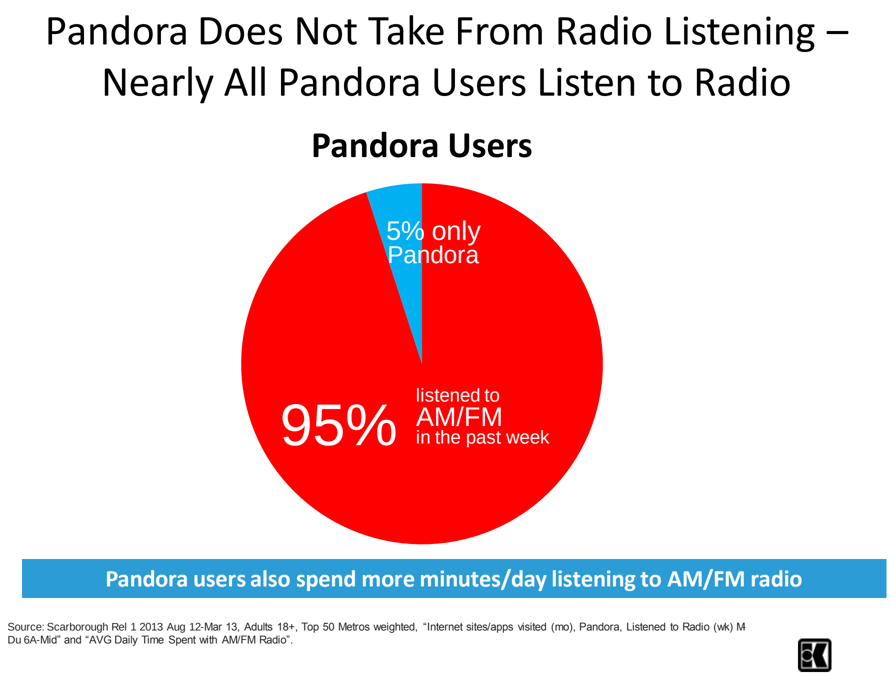
1

7-11-13

BTIG analyst Richard Greenfield has been testing the Apple radio service and he likes what he sees. Greenfield says the Apple radio service, set to be released later this year, will give Pandora a serious run for its money and he tells investors to sell Pandora stock. Shares fell 8.5 percent yesterday to close at $17.97. (The stock had nearly doubled this year.)

In his research note, Greenfield writers, "there was an increased amount of content from the original beta, as well as a much better, "and increasingly accurate/fast Siri performance." He says there are no "annoying pop-ups display ads like you find in Pandora."

Greenfield wrote, “Apple is leveraging its expertise in marrying hardware and software design to strengthen their ecosystem as they try to take a more active role in the ‘connected car.’”



Per Scarborough

1) - 95% of Pandora users tune into AM/FM radio each week. This is a weighted average across the top 50 metros according to the latest local Scarborough six month survey.

2) - Are Pandora listeners listening to less radio? NO! Quite the contrary. They spend MORE time with AM/FM radio than non-pandora listeners. In Los Angeles for example, Pandora users spend 115 minutes per day with AM/FM radio while non-pandora users spend 101 minutes per day with radio according to the latest Scarborough survey.

3) - Based on this information, we believe people use Pandora IN ADDITION to radio, not IN PLACE OF radio.

4) - We know that radio reaches over 90% of virtually every demo group and now we can add Pandora users to the list as well.

Apple Will Gut Pandora From the Inside Out

By Evan Niu, CFA | More Articles | Save For Later

June 30, 2013 | Comments (1)

At first glance, **Apple**'s (NASDAQ: AAPL) iTunes Radio service didn't quite fit the bill of being a "**Pandora** (NYSE: P) killer." The service itself is largely the same, offering users the chance to discover new music based on historical listening habits. iTunes Radio enjoys a pricing advantage, but the $11-per-year difference for paying subscribers isn't breaking anyone's wallet.

iTunes Radio. Source: Apple.

That being said, Apple's real threat to Pandora will come from within the music industry itself.

The Wall Street Journal has gotten its hands on some of the rates that Apple is paying to independent record labels, which are similar to its terms with the major labels; the Mac maker is looking awfully generous next to its incumbent rival at a time when Pandora's tensions with the record industry are at all-time highs.

For the first year, Apple will pay 0.13 cents per song play, in addition to sharing 15% of net advertising revenue that's proportionate to the record label's share of music played on iTunes. Those figures jump to 0.14 cents per song play and a 19% ad share in the second year. In comparison, Pandora pays 0.12 cents per song played through its free service.

The real kickers

The rate per song isn't dramatically different. Instead, the two things that investors should note is the ad share, as well as which way those rates are heading.

Apple's advertising business has *always* been for the benefit of content providers. iAd was launched as an additional way for developers to monetize their apps, and Apple is using a similar strategy here with iTunes Radio.

Sharing ad revenue is precisely something that Pandora *can't* do, since ads are its primary monetization strategy. Advertising revenue was 84% of total sales last quarter, and content acquisition costs (i.e., royalties) were 79% of advertising revenue.

Pandora Income Statement Data	Q1 2013
Advertising revenue	$105.1 million
Content acquisition costs	$82.9 million

Source: 10-Q.

Pandora remains unprofitable, and sharing ad revenue with labels would make its quest for black ink that much harder.

On top of that, Pandora continues to seek ways to reduce the royalty rates it pays, which is a lot of why there's so much hostility between it and the music industry right now. Just this month, it acquired small South Dakota terrestrial radio station KXMZ-FM in an effort to qualify for lower royalty rates. BMI, one of the organizations that represent artists, immediately sued Pandora over the move, calling it a "stunt" to "artificially drive down its license fees."

The episode is just beginning, but the point is that while Pandora is trying to pay less, Apple is willing to pay more. Whom would the record labels rather partner with?

Deja vu

The whole situation is reminiscent of Apple's controversial entry into the e-book market, challenging **Amazon.com** (NASDAQ: AMZN) . Book publishers absolutely loathed the wholesale model that allowed Amazon to sell books at $9.99, since they felt that reduced consumer perception of a book's value down to unsustainable levels. Amazon's dominant 90% market share gave them little choice but to begrudgingly play ball.

When Apple came along and offered publishers the ability to set their own prices with the agency model, they jumped at the opportunity and Amazon had no choice but to follow suit. The net result was that e-book prices rose across the board, which has in turn led to a massive antitrust lawsuit against Apple that's still under way.

That case is different in many ways, but the underlying storyline is that Apple is offering content providers a far more attractive deal than they have with incumbents, giving them leverage to negotiate better deals at the expense of those incumbents, either strategically or financially.

In the e-book case, Amazon even temporarily pulled Macmillan's titles at the height of the dispute because Macmillan threatened to delay availability of new releases. Ironically, the broader shift to the agency model has probably *boosted* Amazon's results, since it no longer sells titles at a loss and now grabs a 30% cut of higher prices.

Record labels could potentially give Pandora a similar ultimatum: "Pay us more, or we go with Apple." If Pandora gives in, it may never reach profitability. If it doesn't, the dominant music service may soon find itself with a lot less content. Apple probably won't kill Pandora's actual service anytime soon, but it could easily kill its prospects of ever posting black ink.

Pandora Quadruples In-Car Listeners

Radio Broadcasters Worry Automakers May Dump AM/FM Altogether

Published: June 25, 2013

Mini USA

Pandora on a Mini dashboard

Pandora, the biggest online radio service, said the number of U.S. listeners in cars topped 2.5 million, more than four times the number it reported a year earlier.

About half of all listening takes place in autos, making it a crucial battleground for the $15 billion local radio advertising market -- but also for the efforts of digital newcomers such as Pandora. Traditional radio broadcasters, meanwhile, are urgently debating their fear that some automakers may eventually stop equipping cars and trucks with AM/FM tuners at all.

One-third of all new vehicles sold in the U.S. this year will come with Pandora installed, the company said. Listeners obtain the service from 23 auto brands and eight car-stereo makers, according to the company. This year, Pandora will become available in more than 100 models, Chief Marketing Officer Simon Fleming-Wood said.

The company's partnerships with the auto industry started with Ford Motor Co. in 2010. Pandora also plans to make the service available in Dodge, Infiniti, Jeep, Kia and Ram brands.

~ Bloomberg News and Ad Age staff ~

Pandora continues to build dashboard presence

By dseyler on Jun, 25 2013 with Comments 0

According to internet audio leader Pandora, it now has a presence in more than 100 car models, and it is seeking to continue to build, given its awareness of the amount of audio listening that takes place in American vehicles.

The other numbers Pandora is touting include 2.5 million unique activations; deals with 23 major automotive brands; and deals with eight after-market providers.

Pandora Chief Marketing Officer Simon Fleming-Wood said, “The vehicle is the traditional home of radio and thanks to our deep roster of forward-thinking automotive partners, Pandora has been seamlessly incorporated into the dash of more than 100 different vehicle models made available by our partners. We're thrilled that millions of people are enjoying Pandora through these integrations, which make listening to personalized internet radio as easy as AM/FM radio."

Pandora believes that a third of the cars driven off lots this year will be Pandora-ready, including models from Acura, BMW, Buick, Cadillac, Chevrolet, Ford, GMC, Honda, Hyundai, Lexus, Lincoln, Mazda, Mercedes-Benz, MINI, Nissan, Scion, Suzuki and Toyota. Further, more are on the way from Dodge, Infiniti, Jeep, Kia and Ram vehicles.

Pandora says that about half of all radio listening takes place inside a vehicle.

Over 2.5 million have activated Pandora in-car app

Posted by: Paul Maloney

Leading webcaster Pandora announced today its in-car integration has **topped 2.5 million "unique activations**." Its app is now available in **23 major automotive brands** (plus eight aftermarket partners) -- making the service available in **more than 100 different cars**.

Convenient in-dash access has long been considered by webcasters to be the most-significant technological obstacle to **competing with AM/FM broadcast radio**, which is dominant in cars.

Pandora estimates one-third of all new cars sold in the U.S. this year will come with access to its service. The webcaster says integrations in new models from Dodge, Infiniti, Jeep, Kia, and Ram are coming soon

Redefining Radio in the Car

JUNE 25TH, 2013 *by* SIMON FLEMING-WOOD *in* LISTENER EXPERIENCE + PANDORA INNOVATORS

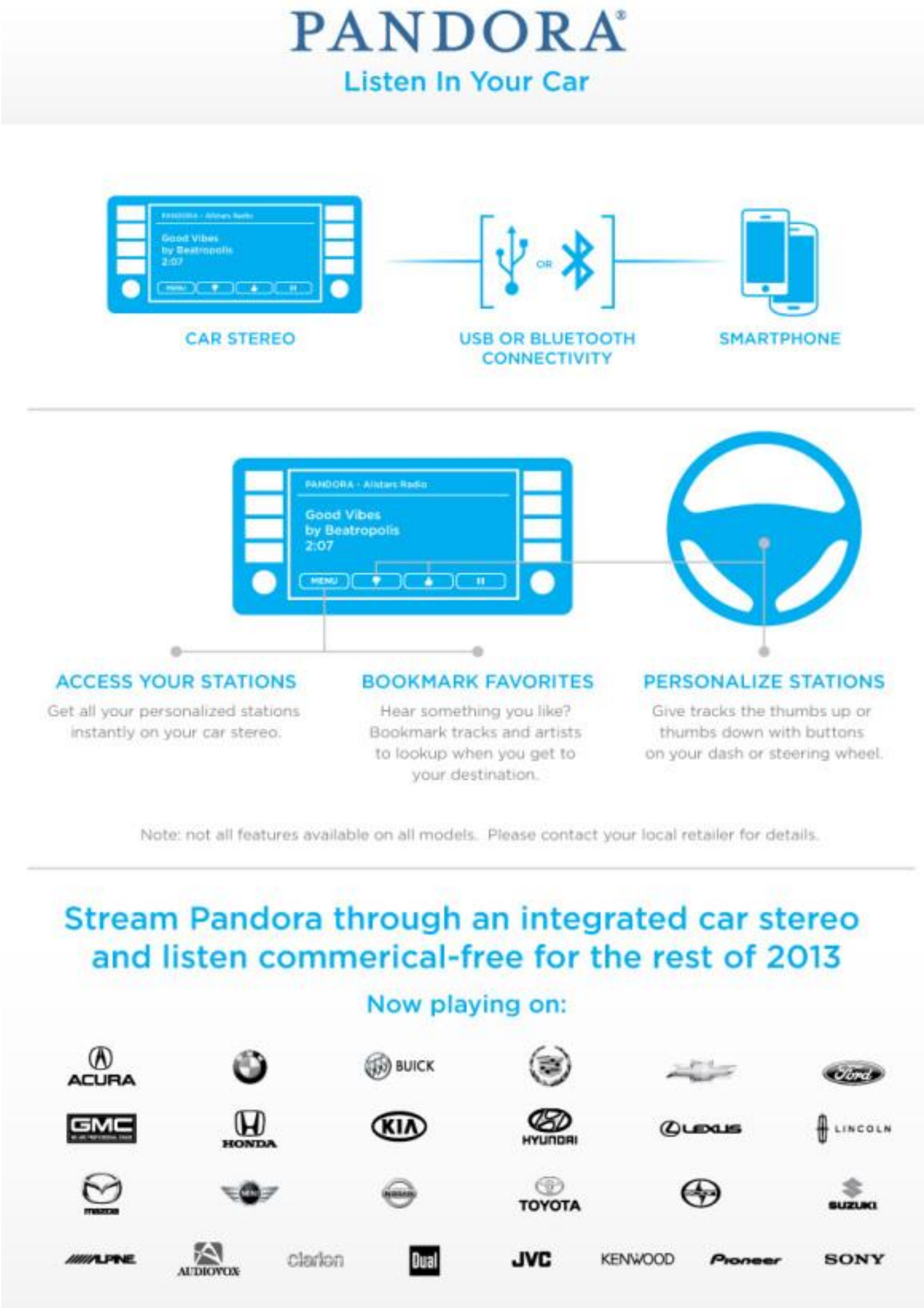
Today we're excited to share that Pandora is now available in more than 100 car models.

This exciting milestone has been the result of an extensive engineering and business effort we have had underway for the past several years, establishing partnerships with 23 of the world's best-known automotive brands and 8 aftermarket manufacturers to provide a steady stream of vehicle launches and aftermarket systems that integrate Pandora for a completely redefined radio experience in the car.

Through the connectivity of a smartphone, these integrations shift the popular controls of the Pandora service – like station selection and thumbs feedback – from the phone into the vehicle dashboard, which makes listening to personalized radio in the car as easy as AM/FM radio.

We're delighted that millions of you are already enjoying Pandora through these integrations today and our ambition is to one day have Pandora seamlessly integrated into every model of every car. We’re making significant progress against this goal; we estimate that one-third of all new cars sold in 2013 in the US will have Pandora installed.

You may have seen Pandora featured in TV commercials from a variety of automotive brands and in case you’re in the market for a new ride or are retrofitting your sound system, check out the below infographic to learn more or visit https://www.pandora.com/everywhere/auto for a full list of Pandora auto integrations.


PANDORA®
Listen In Your Car
CAR STEREO
USB OR BLUETOOTH CONNECTIVITY
SMARTPHONE
PANDORA · Allstars Radio
Good Vibes
by Beatropolis
2:07
MENU
ACCESS YOUR STATIONS
Get all your personalized stations instantly on your car stereo.
BOOKMARK FAVORITES
Hear something you like? Bookmark tracks and artists to lookup when you get to your destination.
PERSONALIZE STATIONS
Give tracks the thumbs up or thumbs down with buttons on your dash or steering wheel.
Note: not all features available on all models. Please contact your local retailer for details.
Stream Pandora through an integrated car stereo and listen commerical-free for the rest of 2013
Now playing on:
ACURA
BUICK
GMC
HONDA
KIA
HYUNDAI
LEXUS
LINCOLN
TOYOTA
SUZUKI
ALPINE
AUDIOVOX
clarion
Dual
JVC
KENWOOD
Pioneer
SONY

The

car is the traditional home of radio and we hope each of you has the opportunity to enjoy personalized radio in the car. It's a simple, yet transformational experience

Pandora to Apple: That The Best You Got?

Comment Now
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Wall Street has long speculated that Apple (AAPL) and Google (GOOG) entries into music streaming would mean game over for Pandora Media (P), the fast-growing pioneer of Internet radio. Now that both tech titans are officially in – Apple announced iTunes Radio Monday; Google's service launched last month – investors might want to take another look at Pandora. If this is all the competition the big boys can muster, Pandora may be just fine after all.

iTunes Radio hardly looks like the sort of Apple product that immediately sucks customers away from the competition. In fact, it looked more like the sort of un-innovative products Apple has been rolling out lately, like an iPad mini after Google and others produced similar tablets and smartphones. Investors expected more from the company that invented the iPod, and they have sold off the shares accordingly, both before and after the iTunes Radio announcement, as seen in a stock chart.

AAPL data by YCharts

Pandora is such a new company, there isn't a lot of financial research to be done. More crucial is its competitive position.

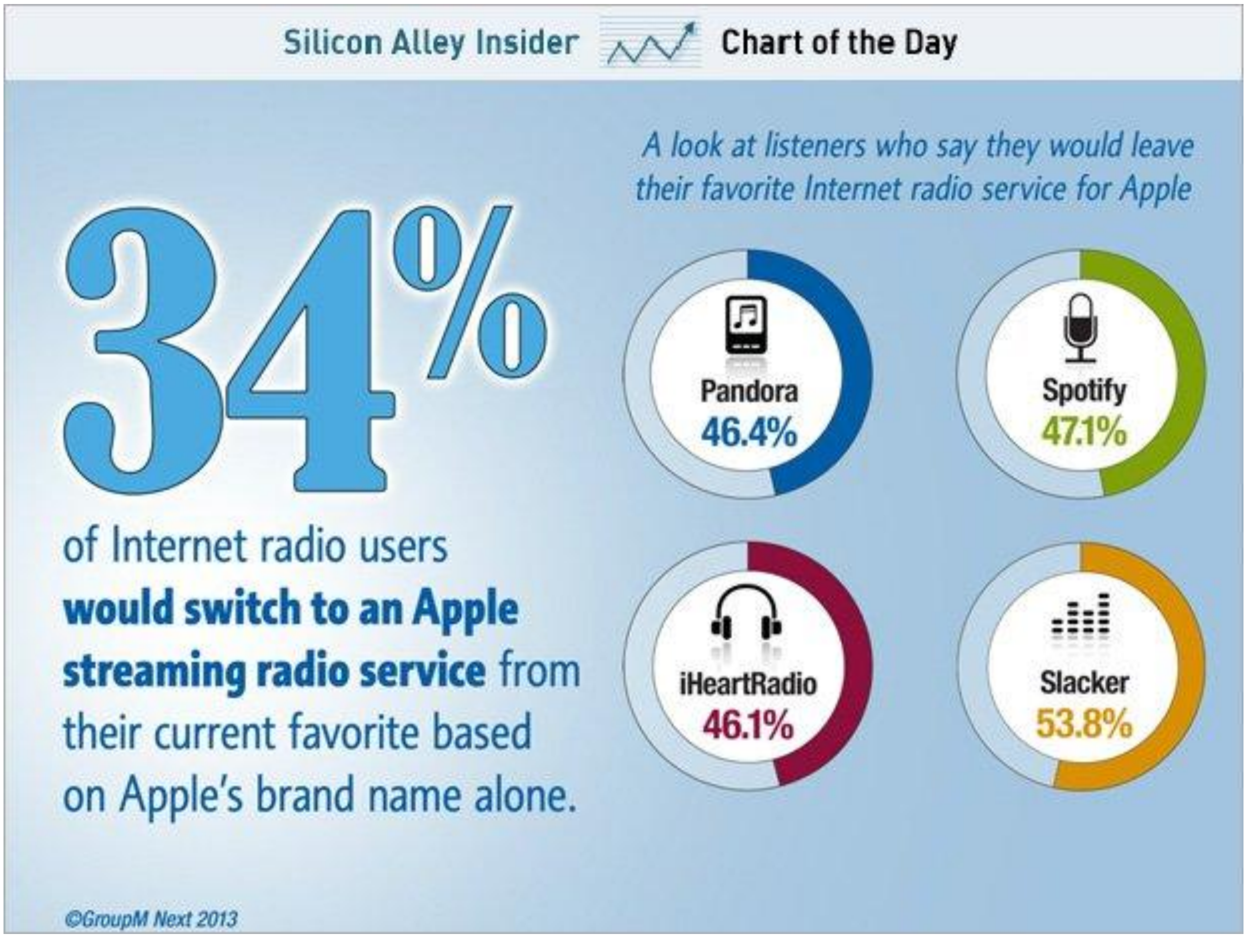
Tech reviewers have already pegged iTunes Radio as a direct rip-off of Pandora. Both instruct you to create stations with their favorite music, and both mix in other music their algorithms determine you will like. They're both ad and subscription supported.

The big downside to iTunes Radio is its limited platforms. Pandora runs on Android and Windows phones, Roku boxes, Apple devices and pre-installed apps on about 100 new car models. iTunes Radio, rolling out this fall, runs on Apple devices only. And while Apple dominates the media player world, it's losing ground or still a sideline with a couple of key platforms music listeners like a lot, like smartphones and television. (How many people do you know using Apple TV?) The number of smartphones one can use for a Pandora station is growing faster than those one can use for iTunes radio.

Google's streaming service, launched last month, now looks like an overblown threat too. Google Play Music All Access – how's that for a snappy name? – offers a no-ad subscription similar to Pandora's. Not much in the service touches Pandora's mission of "redefining radio," which involves in part generating ad revenue to support free listening.

Certainly, the unique perks of both Apple and Google services will take away customers that Pandora dearly wants, just as competitor Spotify does and Amazon.com (AMZN) likely will in the future. But neither of these big gun products provides that instantly fatal bullet Pandora short-sellers have long-anticipated.

In fact, both Google and Apple products here smell of the sort of sideline businesses these companies often enter because they're supposed to, not because they have a keen interest in ruling a new market. Perhaps Apple has more skin in the game – it will use iTunes Radio to boost iTunes sales – but it wouldn't be too surprising to see these services go the way of Apple's Ping or Google Reader; killed but possibly resurrected in some other form later. Apple's move could be seen as defensive, trying to protect iTunes, its Apple's second fastest growing business, from a market shift away from buying sonds.



Pandora adds the TV set

By cmarcucci on Jun, 5 2013 with Comments 0

-
-

Pandora launched a version of its online radio service optimized for music in the living room. Housed under tv.pandora.com, Pandora calls the service its "next generation experience for the TV," a move that will allow it to deliver radio content to listeners in their living rooms.

"Since tv.pandora.com is standards-based, it will allow us to quickly evolve and enhance the 10-foot experience of Pandora with greater flexibility and speed than ever before," Pandora Chief Technology Officer Tom Conrad said. "By using this platform, we can deliver a uniform experience across any standards-compliant TV, game console, or set top box and focus our efforts on end user benefits and innovation rather than platform specific details."

The new site is optimized for what Pandora calls "a 10-foot experience" and currently runs from the browser on existing Xbox 360 game consoles. Pandora said the system will spread to other

TVs, game consoles and set top boxes as more vendors bring standards-compliant devices to market in the coming months.

The new service allows for navigation controls and displays designed specifically for the big screen. Functionality including play, pause, skip and the ability to thumb-up and thumb-down tracks is accessible through the controller.

Having launched on a single connected Blu-ray player in 2008, Pandora is now available through more than 1,000 partner integrations including more than 900 consumer electronics devices, ranging from smart TVs to streaming media players and home stereo systems.

Pandora cited data showing that more than one-third of radio listening takes place in the home. More than 10 million people have listened to Pandora through an internet connected TV or set top box alone. The company is currently working with partners to bring tv.pandora.com to more TV-connected devices in the future, noted the Wall Street Journal.

RBR-TVBR observation: Certainly a great idea in the age of iPTV sets. It will end up besting MVPD bundled format music channels, such as FiOS's Music Choice (MC). Also remember, the playing field for music over the TV is getting more crowded. 31 years after MTV launched with all music-videos, Vevo launched a 24-hour digital music channel in the US and Canada in March.

The channel is available on devices plugged into internet-connected televisions, such as the Xbox and Roku set-top box, as well as on Apple iPhones, iPads, Android and Windows mobile handsets.

Pandora Media Inc. (P) has launched a version of its online radio service optimized for music entertainment in the living room, as the company aims to expand where and how listeners tap its content.

Housed under tv.pandora.com, Pandora calls the service its "next generation experience for the TV," a move that will allow it to deliver radio content to listeners in their living rooms.

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Last month, Pandora reported that its fiscal first-quarter loss widened as the Internet-radio provider's rising expenses continued to outpace revenue.

Hey, Pandora: Welcome To Our World

Users have probably felt it for some time. Now **it's been confirmed**: Pandora has been sneaking in more commercial units.

This will sound familiar because it's been a broadcast radio tactic since Marconi…or Mel Karmazin. Station sales staffs have consistently worked at the margins to squeeze in as many spots in as possible, flirting with the tipping point. The trick is in the balance, and it's never an easy task in an industry where there's simply a limited amount of inventory and seemingly insatiable revenue goals.

Back in those high-flying Infinity days where there never seemed to be a stated spot load ("Just make goal"), a monopolistic radio industry could get away with abusing an audience with commercials. Where else could they go to hear the newest Rock, the best Country, and their favorite talk shows? And that mentality was turbocharged by consolidation, encouraging broadcasters to try to get away with more commercials in an environment with few options for listeners.

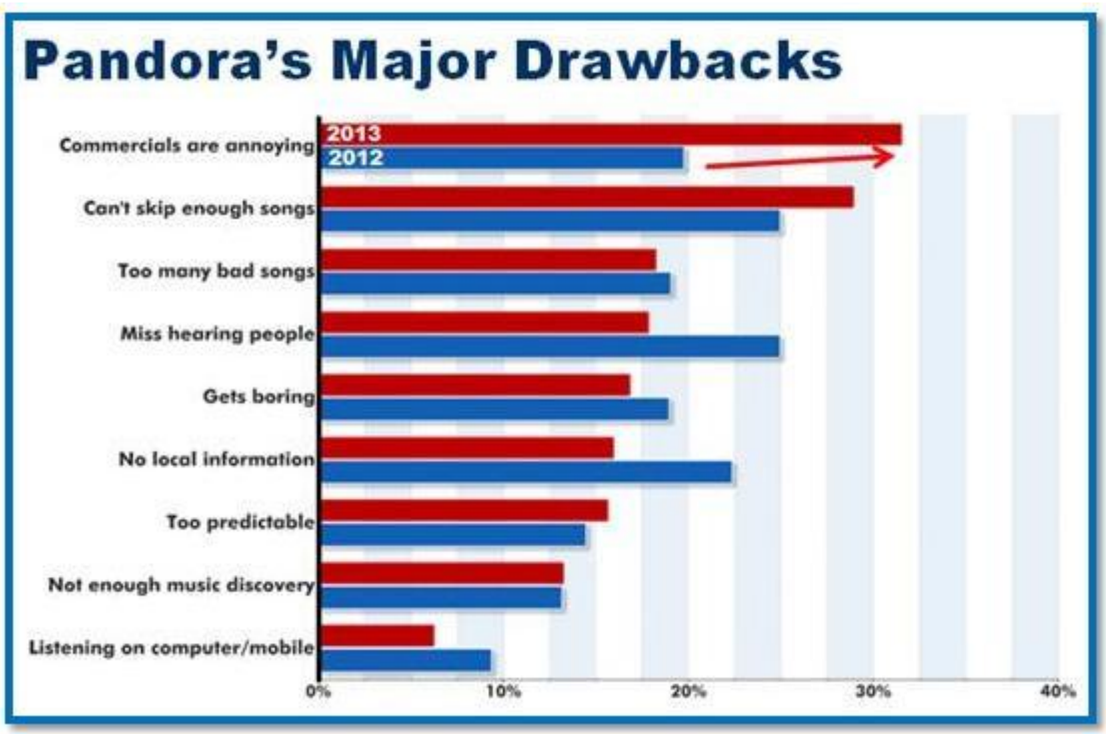
Enter the great equalizer – the Internet. Once consumers got a taste of free music via streaming channels, YouTube, and a myriad of other options, the pressure on broadcasters to moderate their commercial loads intensified.

Today, FM radio stations need to establish that "difference" – their raison d'être – in order to justify 12 minutes of commercials an hour: the local flavor, compelling DJs, meaningful community involvement, entertainment value.

And then there's Pandora. It was recently revealed by outgoing CEO Joe Kennedy that, in fact, the biggest pure-play music service has been stealthily adding units to its music programming. As he explained on a recent analyst call, **"We have been very gradually increasing the overall ad load… our strategy is to very gradually grow that audio ad load over time and that continues to be the case."**

Good luck with that because every PD in America has heard that logic. It never stops… until it reaches the point where too many commercials clearly impact listening, consumer enjoyment, and eventually the brand.

And there may be indications that Pandora has already reached that threshold. Last year in **Techsurvey8**, the biggest barrier to listening to Pandora was the lack of DJs and limited song skips. In this year's **Techsurvey9**, it's commercials.



JacoBLOG readers have seen this telling chart before, but it is an important reminder of how quickly the sands can shift. **As Pandora encounters new competitors** in the pure-play space, their ability to juggle their commercial load could be a deciding factor.

But broadcasters shouldn't gloat about this dose of Pandora radio reality. The onus is on AM and FM stations to achieve that value proposition where consumers see a realistic trade-off between entertainment and information and the commerce that pays for it all.

"Playing favorites from the '80s, '90s, and today" isn't likely to make the cut in a world where consumers demand – and get – more.

How Pandora Does 'Native'

- *Josh Sternberg*
- *06.04.2013*
-

Music does a lot for us. It has the transformative power to bring the listener back to a particular memory. It gets us through break-ups or gets us pumped up before going out with friends. Pandora wants to tap into the power of music for advertisers.

The idea isn't entirely new, as a brand ultimately wants resonance, something that leaves a lasting image or emotion. Pandora focuses on one-click radio, where all it takes is one click to get connected to music. With 75 percent of its audience listening to Pandora via a mobile device, the company has no choice but to be mobile-first. By incorporating a one-click philosophy, Pandora believes it can make a better ad experience for users and for brands.

"Talk about native," said Jack Krawczyk, Pandora's director of product management. "You're already talking to someone that makes them feel a certain way — which is what advertising is about. We've barely tapped the true impact we can have to facilitate that resonance for brands with listeners."

For example, it has more than 100 branded stations where advertisers attach their brand to songs that fit a particular theme. Pandora worked with Gatorade to create three workout stations — warmup, workout, cool down — all associated with the sports drink's G series. Over the course of the two month campaign, it ran more than a half million station ads, and the target audience, teens, wound up, on average, listening to over an hour.

An example of Pandora's Branded Radio

Another example comes from Hollywood. Last Valentine's Day, Pandora teamed up with The Vow, a Channing Tatum romance film, to create a romance-themed playlist. And during the commercials, Tatum talked about the film.

"When you can tie that into something you're selling, you have an experience that consumers find an equal exchange of value," said Gregg Colvin, svp at Universal McCann. "It doesn't feel like advertising, which is always nice."

Pandora is also able to take its sponsorship opportunities into the real world. For example, at this year's South by Southwest, Pandora put on a four-day concert called the Pandora Discovery Den and streamed it to listeners. It was sponsored by NBC's "The Voice," Semantic and Qualcomm.

On the Web, Pandora runs banners. According to Krawczyk, banners “are not inconsequential, even though around a quarter of our listenership is on the Internet.” He added that it’s an effective program to create a custom skin for the player and use that as another mechanism to drive listenership.

“It’s harder to create that anlog into mobile,” Krawczyk said. “That’s where we want to get you to the audio as quickly as possible.”

The company has 200 million registered users and 75 million active users. It recently crossed the 2 million subscriber mark. Pandora costs $36 per year for a subscription, but a user can listen to the first 40 hours each month for free then pay 99 cents. On mobile, it recently mirrored its Web model because it found that it impacted less than 4 percent of its listeners. Ads are inserted into the listening stream every four to six songs. The vast majority of Pandora revenue comes through advertising.

Pandora sells both national and local ads. Local buys tend to be more for local services, like car dealerships. The company, which wouldn’t say how many are on the sales team, said that it now has sellers in remote offices around the country.

Pandora has both brand performance and response advertisers. It also does traditional broadcast radio sales where a buyer can buy on a cost per point in standard DMAs. It also sells on a CPM basis for its audio, video and display products for the Web and mobile. Krawczyk also said that some customers who buy display also work on a CPC or CPA basis.

Ninety-six percent of all station ads happen on mobile. Pandora is trying to prove that mobile monetization works if a company can provide the right user value. Krawczyk explained that it doesn’t get more native than creating a station for people to listen to. It’s testing a new iteration of its sponsored station. Released two weeks ago, Pandora Premiers works with artists to promote the launch of new albums. This is part of its custom content stations platform. Pandora teamed up with T-Mobile to get this up and running.

Pandora has a creative services team of 30. Krawczyk couldn’t give the exact number. The team is in Oakland and is dedicated to help advertisers create 15- and 30-second spots. The traditional radio spot is 60-seconds, and the maximum Pandora spot is 30 seconds, so the team works with brands to develop the appropriate timed spot. Interestingly, the company found that 15-second spots tend to be the most effective in terms of brand recall.

“The concrete idea of what the philosophy of native is — the way we iterate on these ad products — not to just get people to listen, but longer,” Krawczyk said. “If you provide more meaningful engagement, it gets easier to drive people through the front door.”

Image via Shutterstock

Stolid biz loses a generation; Wi-Fi in cars could deliver a crushing blow

Bob Lefsetz
@lefsetz

The major music business, the “new music” business, is built upon radio, it depends upon it.

SEE MORE: From the June 18, 2013 issue of Variety

There’s a fiction that we still live in a monoculture. This concept has been blown apart on television, where there are five hundred channels available, but the Luddites in radio still believe the Internet didn’t happen, that we’re all prisoners of the dial, where there are few stations and little innovation.

There are radio alternatives (i.e., Pandora and the forthcoming iTunes Radio). Please don’t confuse Spotify and Rdio and Deezer and MOG/Daisy with radio, they’re nothing of the sort. Oh, they might have a Pandora or iTunes Radio component, but these streaming services are retail replacements, lending libraries wherein for 10 bucks a month you can go into the store and borrow anything you want, as long as you return it. Also, you’re not limited to one album at a time.

The radio alternatives represent market fragmentation. Because Internet in the car is not yet here on a widespread basis, they’ve had little impact on car listening. … Then again, we’ve experienced tapes in the car, CDs and iPod hookups. Terrestrial radio listenership is not close to what it once was. Radio used to dominate; it’s still the biggest player, but its market share has receded dramatically.

Sirius XM benefits from its automobile deals. That was the essence, even more than the programming. At this point, 10 years past launch, almost all cars are satellite-ready. Not everybody pays, but subscriptions exceed 20 million.

When Wi-Fi hits the car, or whatever type of cheap Internet access deploys in automobiles, Sirius XM will be challenged too. Right now, Sirius XM’s Internet play is laughable.

Most people under age 20 have never experienced good radio. So when baby boomers and Gen X’ers start waxing rhapsodically about their old-time favorites, wanting them to come back, it’s the equivalent of wishing that musicvideos would come back to MTV.

Insiders believe that there’s no revolution in terrestrial radio because the owners know it’s headed into the dumper. They’re just milking it for all they can before it falls off a cliff.

So if you’re waiting for format innovation and fewer commercials … you’ll be waiting forever.

The challenge of Spotify/Rdio/etc. is … to tell their subscribers what to listen to. That’s what traditional radio has done best. So far, these services have not succeeded because they’re run by techies, and curation is all about human effort, not algorithms, otherwise we’d all be in relationships determined by computers.

Terrestrial radio sells records and builds careers. Just not as well as before. The reason we see so few diamond-sellers isn’t because of piracy so much as the fragmentation of the audience. In the old days of the walled garden, of radio and MTV dominance, if something got airplay, it went nuclear; now radio just plays to its niche.

There’s very little innovation in the music played on alternative and active rock stations. Hip-hop killed rock and roll, but rather than innovating, rock and roll stayed the same. And now electronic music is killing hip-hop. Sure, kids want something different from their parents, but even more, they want to own the scene, they don’t want to be dictated to, they want something that’s testing the limits!

Look at trends. Ten years ago the major labels said no record ever broke on the Internet. Look at Psy’s “Gangnam Style”! Radio is dying and YouTube and other alternatives are growing.

We, as a culture, want to feel included. That’s what the radio of yore was all about. To grow mass, you’ve got to make us feel included. In other words, it’s all about culture. Talk radio has culture. As does public radio. After that, it’s a vast wasteland of sold-out stations with the same fl aw of network TV. … Trying for broad-based appeal, they appeal to no one, and cede their market to excellence. HBO and the cable outlets killed networks with quality. … If you don’t think new services will kill terrestrial radio, you must like inane commercials, you must like me-too music, you must think airplay on one of these outlets will sell millions of albums, but that almost never happens anymore.

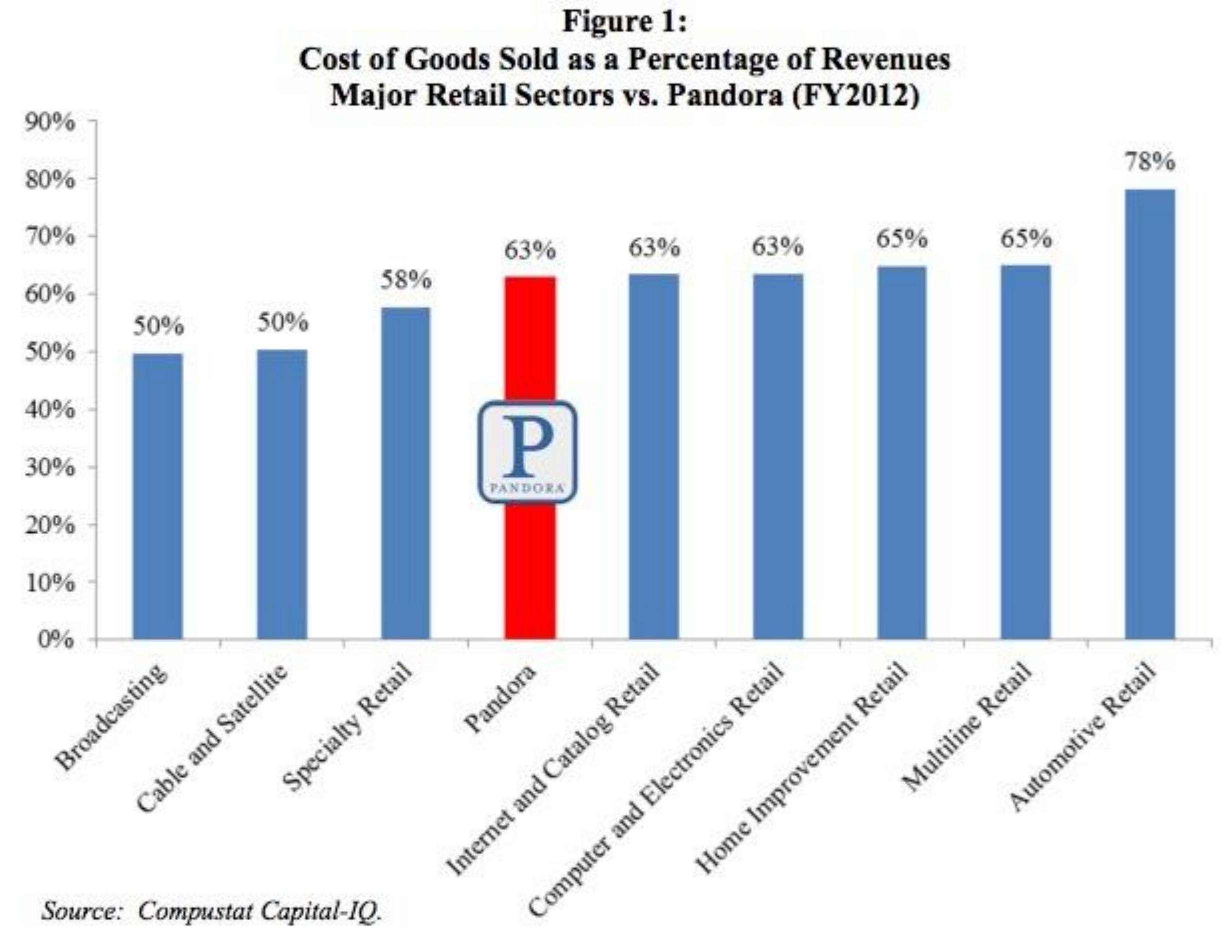
Pandora Is 'Deliberately Delaying' Profitability, Says Top Economist...

Tuesday, June 18, 2013

by Paul Resnikoff

This is a critical point that keeps coming up about Pandora, a company whose pursuit of lowered royalties is now becoming obsessive. According to a comparative research report released today by economist Jeffrey Eisenach, Pandora's royalty rates are

completely reasonable — and oftentimes **lower** — than other retailers that purchase and repackage materials from other producers.



So, Pandora is a 'retailer'? Quite simply, yes: they take materials created by others (ie, songwriters, labels, musicians) and repackage those in order to make a margin. Step outside of the music royalty bubble for one second, and it turns out that Pandora is actually getting a **pretty good deal**.

"There is nothing unfair, onerous, uneconomic or surprising about the fact that 'retailers' like Pandora – companies that take goods made by others and sell them to consumers – pass through much of their revenue to people who make the goods in

the first place (in this case, music creators)."

All of which brings us to the meat of Eisenbach's finding. Because not only does Pandora not need a royalty break, they are **purposely delaying profitability** in favor of growth - like so many other successful internet gambles. "Pandora is now telling the markets that it has achieved critical mass, is ready to 'monetize' its 'dominant' market share, and expects to break even or earn a profit this year," Eisenbach asserted.

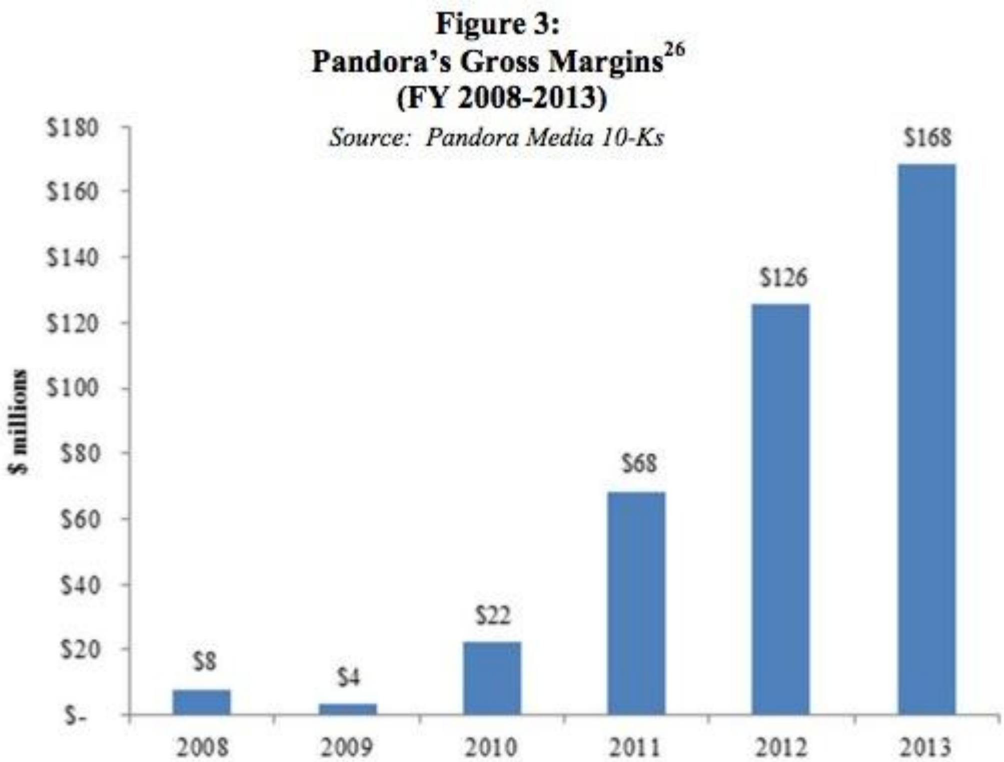
"The reason the company has not earned a profit on a traditional accounting basis is not because of royalties, but rather because it has followed a **conscious (and highly successful) strategy of investing in growth and market share.**"

But Eisenbach argues further, noting that Pandora is already an **extremely successful company**. The reason is that original investors like Walden Venture Capital and Greylock Partners have already made **hundreds of millions** on Pandora, and top executives like Tim Westergren have already cashed out more than $15 million. "Such returns are precisely the signals entrepreneurs and financiers look for when deciding where to invest time, ingenuity, and money."

"Not surprisingly, there is no shortage of new investment in internet radio..."

Actually, Pandora is even **more successful** than that. Eisenbach dug even deeper, and found very compelling evidence that Pandora is already heading towards profitability. "The fact that revenues are going up **faster than listener hours** is crucial, since royalties are a direct function of the latter," Eisenbach stated.

And will you just look at this...



"The argument that high royalties have prevented Pandora from achieving profitability is specious."

A few years ago, leaders from the major record companies planted the seeds from which they hoped would spring the next generation of music distributors.

Apple's iTunes, the overwhelming leader in the sector, went largely unchallenged. Megastores like Tower Records and Sam Goody had vanished long before. Apple used its position as the top music store to dominate the labels, gradually pushing them to give up DRM while limiting their ability to price music. In response, the record companies licensed unproven streaming and subscription services in the hope that some of them would find audiences. The labels dubbed these services "access models" and the surviving companies — YouTube, Rdio, Spotify, Vevo, Pandora — are now starting to bear fruit.

"This underscores how vital it is to protect these increasingly important revenue streams."

The money generated from these nascent businesses totaled $1 billion last year, according to a report issued Tuesday by The Recording Industry Association of America (RIAA), the trade group representing the largest record companies. After a decade of plummeting revenue, it's a safe bet that label managers will cling tightly to these new sources of cash, since the access models are the fastest growing segment of the music business.

But the RIAA's numbers also raise the question about how far the labels are willing to go to nurture this new wave of distributors. Spotify and Pandora, neither of which has found profitability, are each seeking to lower music costs. For the record companies, it's like walking a tightrope. They must balance their desire to maximize profits while they avoid killing the new revenue stream in its infancy. If access models fail, the labels risk ending up back in a world where a single player like Apple holds all the power.
"iRadio is coming. There's no doubt about it anymore."In February, The Verge broke the news that Spotify is in negotiations to renew licenses with the record companies, with Spotify asking for significant price breaks. Music sources have said that the industry is confident that a deal will get done relatively quickly as the labels are eager to help Spotify. But Pandora faces a much tougher road. Sources say the labels have a love-hate relationship with the web's top radio service. Yes, Pandora paid an estimated $275 and $325 million to labels and artists, but the labels argue Pandora chokes off demand for other services that are more profitable for them.
In its biggest market, the United States, Pandora doesn't negotiate for music licenses directly with the record labels. The company takes advantage of a royalty rate set by Congress available for any web radio service. Pandora now says the statutory rate is too high for it to build a profitable business.
Last year, the web's top radio service tried getting the Internet Radio Fairness Act (IRFA) passed. The bill went nowhere, but Pandora, which is looking for a new CEO, is expected to take another run at Congress. Any reduction in the royalty rate cuts directly into the music labels profits. They helped derail IRFA and will continue to fight.
Battling Pandora will be tricky for the music sectorBattling Pandora will be tricky for the music sector. Multiple music industry insiders have told The Verge that the labels consider Pandora a capable and communicative partner. Then there's the money. According to the RIAA report and statements made by SoundExchange, the group that collects royalties from web radio services, Pandora contributes about 25 percent of all the money the labels receive from the access models. (Incidentally, SoundExchange's revenue was up 58 percent last year.) But this is precisely why the RIAA won't budge on the rates. Sources say that the labels believe web radio is bigger than Pandora and the market will expand soon. Apple is coming.
Much has been written about Apple's plan to launch a Pandora-esque service this year. Now multiple music industry insiders have told The Verge that significant progress has been made in the talks with two of the top labels: Universal and Warner. One of the sources said "iRadio is coming. There's no doubt about it anymore." Apple is pushing hard for a summertime launch.
"Access models are our present and our future," Cary Sherman, the RIAA's CEO, told The Verge. "[This] underscores how vital it is to protect these increasingly important revenue streams."
The New York Post reported last month that Apple wants to pay 6 cents per 100 song streams. According to the Post story, Pandora currently pays under the statutory rate 12 cents per 100 spins. By comparison, Spotify pays as much as 35 cents.
Whatever the ultimate rates, if the labels give Apple a better deal, that would give Pandora plenty of ammunition to argue on Capitol Hill that web radio is getting screwed.

Chrome: Pandora is a great way to get through the workday, but finding its tab to pause or skip songs is a pain. SoundControl cures this ill by putting adding a handy mini player to Chrome that you can access from anywhere.

Just tap on the extension's icon to open up a pinned Pandora tab. Once music is playing, you can pause or restart it at any time by just clicking the extension's icon. Double tapping the icon brings up a mini player where you can adjust volume, view album art, assign thumbs up or thumbs down, and skip to the next song. If you sign in with your Pandora account, you can also view and switch between your custom stations.

SoundControl is pretty similar to previously-mentioned Anesidora, but since it still requires a Pandora tab to be open, it's not as likely to get shut down and booted to the land of unofficial Chrome extensions. It also offers a few great features that Anesidora can't match. For example, pausing and playing a song with SoundControl doesn't require opening up the entire mini player, and the extension includes a live updating playhead that runs along the bottom of the app icon. It's a kind of hard to see, but it's a good indicator of how close you are to the end of the song without having to click anything.

Chrome only: If you dug the Chrome-based Pandora extension recently featured here, you might have noticed it was recently yanked from the official... Read...

The following (and attached graphs) confirms that precise targeting which P positions as a key benefit or USP against AM/FM radio (and is readily embraced by buyers) is in fact a major weakness as the attached illustrates.

Let's take Target stores. Their demo is W18-49 which accounts for 39% of Target traffic. Yet 50+ women account for 23% of all Target traffic with Men accounting for 38%. Combine W50+/Men account for 61% of all Target traffic….never having the opportunity of P to hear the Target commercial

Let's look at a couple of examples:

Fast Food/QSR targeting M18-49: only 30% of all QSR visitors are in this demo with 70% of visitors falling outside this demo. In terms of total visits, M18-49 account for 33% of all QSR visits with those outside this demo accounts for 67% of all QSR visits. 2/3's of their customers will have no chance of hearing a QSR message

Diet Cola drinks targeting W18-49: only 29% of all diet cola drinkers in the past week were in the W18-49 demo. 71% were not. In terms of % of total diet cola servings in the past week, W18-49 accounted for only 28%, with those falling outside the target demo accounting for 72%.....

There are dozens of similar examples that would easily illustrate the same thing…

This is one important arrow for the salespeople to have in their quiver when competing against P. it is air tight and irrefutable and might even be more effective when speaking with local advertisers. AM/FM negotiates off the target demo and delivers the rest of its audience at NC…clearly "the rest of AM/FM's audience" accounts for a lot of consumption.

Could easily take this analysis to the next step by taking a CC market/stations and illustrate how much of CC's individual stations audience falls outside an advertiser's target demo and translate that to consumption/visitations, etc and then quantifying that into $$ expenditures…..

What we'd find is that the "waste" audience that AM/FM delivers at NC accounts for 2x as many product sales as the target demo…

"Hyper Targeting" your way to lower revenue

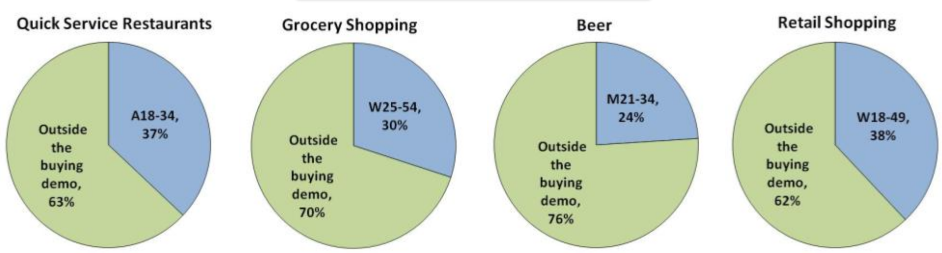
The advent of target demographics decades ago was more a result of available technology and the need for some sort of accountability, than the belief that a target demographic was perfect proxy for product consumption. A brand targeting woman 18-to-34 doesn't want to completely ignore women 35+. It's simply saying younger woman are more likely to purchase the product.

When negotiating off a target demo, AM/FM delivers not only the target demo but consumers outside that demo that actually account for the majority of usage- a key benefit of "broad" cast.

Digital Streaming Music services that solely target by target demographic completely miss these consumers.

Can any marketer afford to be "invisible" against a segment of the population that accounts for most of their business?

Primary Demos
% Contribution to Category Usage



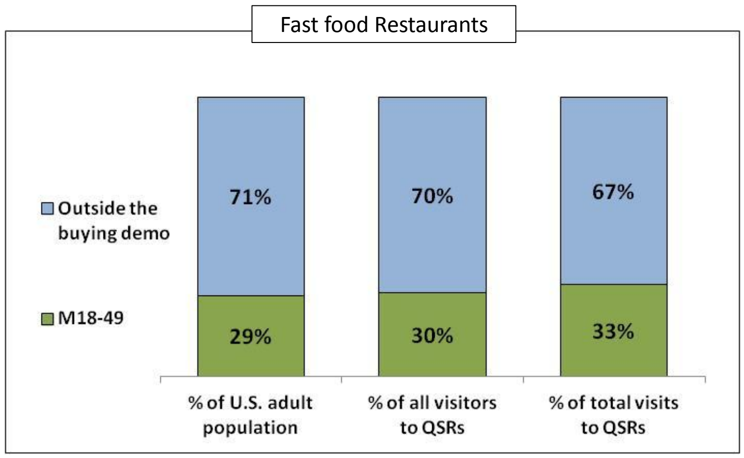
Adults 18-34 only represent 37% of the total QSR traffic in the U.S.

Women 25-54 only represent 30% of total grocery store traffic in the U.S.

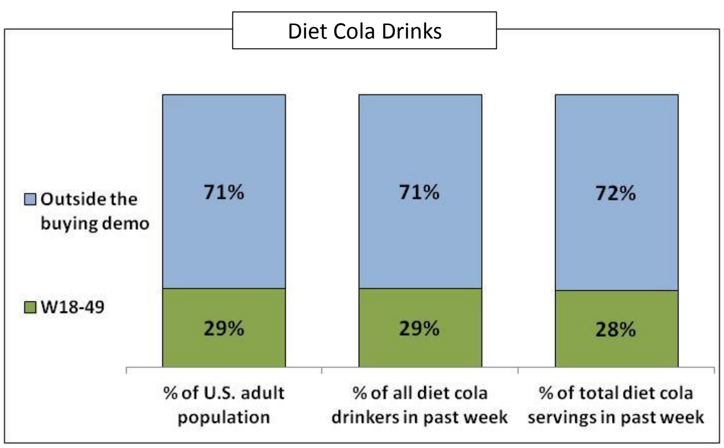
Men 21-34 only represent 24% of the total beer consumed in the U.S. (among A21+)

Women 18-49 only represent 38% of the total retail traffic in the U.S.

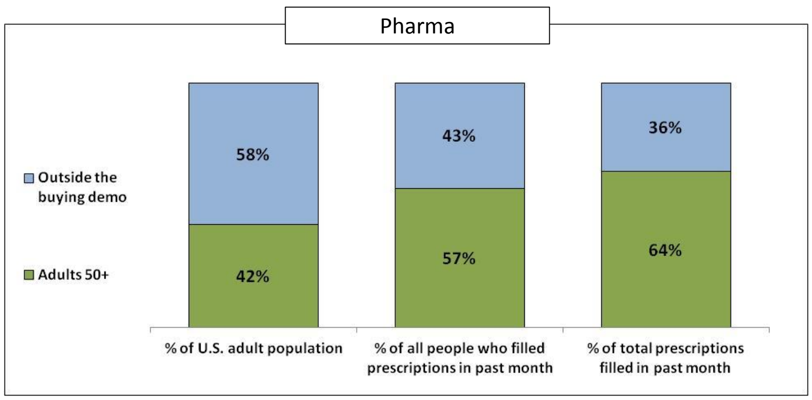
Source: 2012 Doublebase GfK MRI. %'s are based on Adults 18+ (except for beer, A21+)



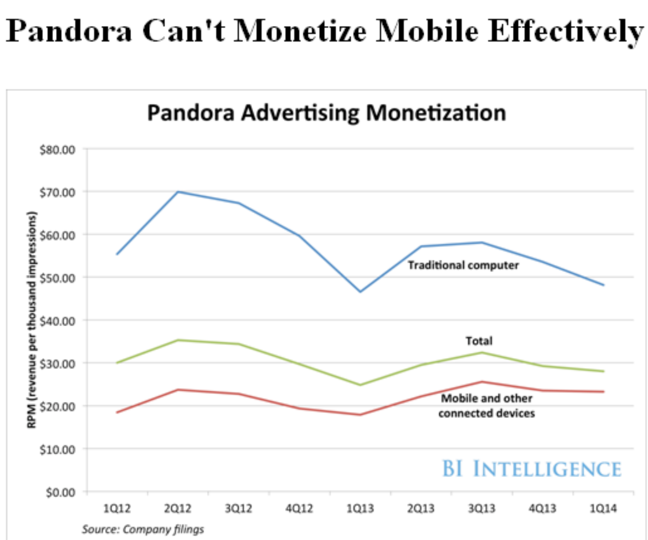
Source: 2012 Doublebase GfK MRI



Source: 2012 Doublebase GfK MRI



Source: 2012 Doublebase GfK MRI



Since 77% of Pandora's listening comes from mobile devices, its revenue per listener will continue to drop as mobile increases and desk top decreases.

Source: Business Insider e-newsletter May 28, 2013

Google (NASDAQ: GOOG) finally introduced a new music streaming service, and Pandora **--** for now **--** watches over the country's most popular music streaming service.

Google All Access offers a bit of everything. It's a provider of personalized radio, just like Pandora and **Sirius XM**'s (NASDAQ: SIRI) recently introduced MySXM. It's an on demand and playlist platform, just like Spotify.

Google is big. Google is smart. Google is rich. If streaming tunes is Big G's next hobby, how can Pandora survive?

Well, the most important thing working in Pandora's favor is price.

Google is really gunning for Spotify, with its identical $9.99 a month cover charge. Those signing up to Google Access between now and the end of June can lock in a $7.99 monthly rate.

Pandora is mostly consumed as a free application. Just 12% of Pandora's revenue is derived from subscriptions, and that translates into roughly 1% of Pandora's 70.1 million active monthly users. If that 99% majority was interested in paying up for a better streaming experience, don't you think that they would have already shelled out money to Pandora for ad-free music?

For once, Pandora's growing army of earbud-donning freeloaders is a good thing.

History has proven that there are two different types of music listeners. Would Sirius XM have grown to nearly 25 million premium subscribers if Pandora was enough? Would Pandora have seen its audience grow 35% since Spotify's arrival last year if money wasn't an issue? Google, Sirius XM, and Spotify have all thrived in this climate.

If anyone takes a hit here it would Spotify, with the similar model.

Pandora's fine -- for now.

This Week in Sirius XM Radio

By Rick Munarriz | More Articles | Save For Later
May 25, 2013 | Comments (0)

Things never get dull for the country's lone satellite-radio provider. Shares of **Sirius XM Radio** (NASDAQ: SIRI) moved nicely higher this week, gaining 2.3% to hit $3.58. The media darling's rise contrasts the negative week for the markets in general, as the Dow and Nasdaq closed out the week lower.

There was more going on beyond the share-price gyrations, though, even as Sirius XM wrapped up the week at its highest close in more than five years. **Pandora** (NYSE: P) posted a well-received quarterly report, and before that it announced a sponsored channel and deeper integration with **Facebook** (NASDAQ: FB) . There were also reports that **Apple** (NASDAQ: AAPL) is hitting snags with publishers to roll out its competing streaming service.

Let's take a closer look.

Higher ground

After hitting five-year intraday highs in each of the three previous weeks, Sirius XM failed to top the prior week's $3.59 mark. However, it may have done something even better by closing Friday at $3.58. That's the highest the shares have closed out a trading day since early 2008.

Pandora thinks outside of the box

Pandora saw its shares hit a new 52-week high after posting encouraging quarterly results. Adjusted revenue for the leading music-streaming service rose 58% to $128.5 million, well ahead of the $123.8 million Wall Street was expecting.

Pandora's loss matched Wall Street's target of $0.10 a share, but there were plenty of other impressive tidbits in the report. For starters, subscription revenue more than doubled, as Pandora now has more than 2.5 million premium Pandora One subscribers. Yes, more than 96% of Pandora's 70 million active monthly listeners continue to stick only to the free service, but things are moving in the right direction.

Pandora also scored some interesting deals earlier in the week. First, it introduced Pandora Premieres, a new streaming channel that will feature notable upcoming music releases. This is pretty potent, as labels will give access to Pandora to music that won't be available through other outlets.

In a smart twist, Pandora has a sponsor for this channel. **T-Mobile** (NYSE: TMUS) -- the country's fourth largest wireless carrier -- is paying for branding rights and exposure. Pandora has struggled with profitability with its conventional online advertising model, but if it's able to land channel sponsorships as incremental revenue at the same time it's gaining ground as a premium service, the bears will be silenced.

Pandora also announced more seamless sharing on Facebook. Pandora users have been able to share the music they're listening to through Facebook Music posts on the world's leading social-networking website, but a new update makes sharing automatic for those who want to let their friends know what they're streaming these days.

Spotify also cashed in by announcing that it will begin publishing a list of its 50 most streamed and shared songs as an embedded link for anyone to broadcast. Those checking out the list will be able to stream any of the tracks without even having to sign up for Spotify. Watch your back, *Billboard*.

It will be interesting to see whether Sirius XM's MySXM follows any of these moves to give its online platform the viral kick it lacks relative to the competition.

Apple needs to win the publishers' clearinghouse sweepstakes

We're still waiting for Apple to make its inevitable plunge into streaming. Sources tell The Verge that now it's music publishers that are holding up the rollout of iRadio. Negotiating licensing deals with the record labels is hard enough, but now Apple is getting some resistance in securing the publishing royalties that go out to the songwriters and composers.

Reports earlier this month suggested that another thing holding back the service is track skipping, or the right to pass by a song if it's one the listener doesn't like. Lack of skipping is part of the limits Pandora puts on its free users, and it leads one to believe that iRadio will be more like Pandora or MySXM and less like the Spotify clone that All Access will be.

Apple had better hurry up and get those swim trunks on. The pool's getting crowded.

A Sirius future

It was an interesting week for Sirius XM. The new week isn't likely to be dull.

5/24/13: Big revenue growth, yet losses continue, for Pandora in its fiscal first quarter

Leading webcaster's total mobile revs nearly double in quarter ending in April

Posted by: Paul Maloney

Late yesterday afternoon **Pandora reported on its finances and audience levels** for the **first quarter of its 2014 fiscal year** (which ended April 30).

The leading webcaster's **total revenue for the period of $125.5 million** represents 55% growth since a year ago ($105 million came from ads, $20 million from subscriptions). **Total listener hours grew 35% to 4.18 billion** for the first quarter of fiscal 2014, compared to 3.09 billion for the first quarter of fiscal 2013.

Despite record revenues and audience, the company ended up **losing nearly $29 million** during the quarter.

"Content acquistion costs" (i.e. royalties for licensing music) **grew 48%** from $56 million a year ago to $83 million in this period. This means these costs **amounted to 66% of Pandora's revenue** that quarter.

Total mobile revenue was nearly $84 million -- nearly double year-over-year -- and **outpacing growth of its mobile audience** (which grew 47%).

Pandora added more than 700-thousand new **subscribers to its ad-free Pandora One** service in the first quarter, up 114% to **more than two-and-a-half million** (and more net new subscribers in the quarter than in all of fiscal 2013, which means Pandora has the largest U.S. streaming subscription audience of any music service).

Pandora says it now regularly reaches 70.1 million active users (up 35% from a year ago), and accounted (in April) for 7.33% of total U.S. radio listening

Exclusive: Pandora Deepens Its Integration With Facebook

It's easier than ever to share what you're listening to on Pandora with your Facebook friends, thanks to an extended partnership between the two companies.

Starting Wednesday, the songs and stations you listen to, as well as the tracks you give a "thumbs up," can be shared directly to Facebook. Details about your activity on Pandora, when shared via the social network, is then aggregated and displayed as part of the music section on your Facebook profile.

Pandora already supported sharing individual pieces of content to Facebook and Twitter. The new integration is the product of a year-and-a-half-long conversation between Facebook and Pandora.

"We've been talking to Facebook about how best to embrace this idea of what they call Timeline Apps — 'How do you make it really, really easy for people to update their Facebook identity as they consume content around the Internet and on mobile?'" Tom Conrad, Pandora's chief technology officer, told *Mashable*.

"Our frame in the conversation with them has always been, 'How do we embrace this technical opportunity in a way that drives real value for both Pandora listeners and for Facebook users?"

SEE ALSO: 7 Tips and Tricks for Pandora Pros

Facebook’s recent Timeline update, as well as its music section, compelled Pandora to pursue deeper integration, Conrad added.

Users are now able to seamlessly stream all their activity on Pandora to Facebook through an opt-in program. They can choose to send all data about their Pandora activity, or just a bit of their musical history (e.g. songs you give a "thumbs up"), to the social network.

Shared activity will appear in the Activity Log and the Music section of users' Facebook profiles, as well as on their friends' News Feeds based on Facebook’s algorithm.

“Seeing an ever-updating ticker of what my friends are listening to — what all of my friends are listening to — is less interesting than coming to understand the musical identity of a subset of the people that I interact with on Facebook,” Conrad explained.

Facebook's News Feed algorithm focuses on friends that users regularly interact with. That functionality extends to Pandora’s Facebook integration as well, so they won't suddenly have a News Feed filled with Pandora posts from all their high-school friends. In essence, it's a Facebook-curated feed that is limited only to people that a user is interested in hearing about.

When sharing isn't desired, a prominent toggle button within Pandora allows incognitio listening. This may be enforced, for example, when a user is listening to a holiday-themed radio station, but doesn't want to broadcast those details to their friends.

Intended to enhance the Pandora experience rather than invade privacy, Conrad said the service will be reaching out and educating its users about the new feature, explaining how to opt in, and how to control what data (if any) gets sent to Facebook.

Pandora’s new Facebook integration is live now.

What Pandora activity will you share on Facebook? Let us know in the comments.

Image courtesy of Pandora; Mashable composite: Headphone image

MOBILE HELPS PANDORA HIT $125.5 MILLION IN Q1

5-23-13

One year ago, Q1 revenue was $80.7 million. This year Pandora's advertising revenue was $105 million for the quarter compared to $70.5 million last year. Mobile revenue was up 97 percent to $83.9 million. Subscription revenue went from $10 million to $20 million. Content acquisition costs also jumped from $55.8 million to $82.5 million.

In the U.S. Pandora now has over 200 million registered listeners. **In Q1 700, 000 new subs were added to Pandora 1, which was more than all of last year (commercial free).** More than half of those new subs came from mobile. Pandora had 4.2 billion listening hours for the quarter and now has 70.1 million active users. The company also reached the 30 billion thumb mark and claims is has 7.33 per cent of total radio listening in the United States.

WE'RE GROWING THE AUDIO AD PIE

5-23-13
Answering a question about the length of advertising units, Pandora CEO Joe Kennedy said, "We are bringing advertisers into audio advertising who have not been there." Those are manly coming from digital accounts, not the traditional $15 billion radio market. Kennedy said, "When we take audio advertising and make it targetable we're clearly attractive.

Kennedy said, "We don't take :60's, we take :15's and 30's. We've been successful at telling advertisers that :15's on Pandora are more effective than "60's in the overcrowded traditional radio environment. We've had tremendous success at bringing auto dealers onto the Pandora platform which is a cornerstone of local advertising. We've been gradually increasing the overall ad load. Our strategy is to gradually grow it over time."

The upbeat results reported Thursday are a positive sign for the Internet startup as competition in digital music gets tougher. Google Inc. launched a paid subscription plan called All Access last week, and Apple Inc. is expected to unveil a free radio streaming plan later this year.

Still, Pandora is the leading Internet radio provider. CEO Joe Kennedy said the competition is not a concern.

“I don’t think it pays to focus on this competitor or that competitor,” Kennedy said in an interview. “What we can control is our continued development of what we believe is the best personalized radio service in the world.”

The net loss in the three months ending April 30 grew to $28.6 million, or 16 cents per share, from a loss of $20.2 million, or 12 cents per share, a year ago.

Excluding items such as stock-based compensation costs, the loss came to 10 cents per share, matching the forecast of analysts polled by FactSet.

Revenue rose 55 percent to $126 million, above the $124 million that analysts were looking for.

Pandora shares jumped 8.5 percent to $18.61 after the results came out, their highest price since July 2011, a month after it debuted on public stock markets at $16.

Total listener hours grew 35 percent to 4.18 billion in the quarter, and revenue from mobile devices nearly doubled to $83.9 million, outstripping the growth in mobile listening hours, which rose 47 percent.

Revenue per thousand listener hours on mobile devices grew to $25.31 in the quarter, up from $18.86 a year ago. Total revenue per thousand listener hours including computers hit $30.01, up from $26.09 a year ago.

Analysts focus on the figure, known as RPM, because song royalty costs — Pandora's biggest expense — are around $20. Investors look for the company to raise revenue above the royalty cost figure as a means of turning to profitability.

Kennedy said the company's decision in February to cap free listening on mobile devices to 40 hours per month helped in two ways: It restrained growing royalty costs caused by its heaviest listeners, and it converted more of them into paying customers. The ad-free Pandora One subscription plan costs $4 a month or $36 a year.

Buying audio advertising on Pandora just got easier — and cheaper. The web pureplay announces new proprietary software that automates the transactional process between media buyers and digital publishers. Pandora says it's the final step in a one-year effort to make buying it as easy and frictionless as broadcast radio. Last May it hired Triton Digital to convert listening data into the same AQH and cume metrics media planners use to buy radio. In March it announced it would integrate those Triton ratings into the Mediaocean and STRATA buying platforms used by traditional media buyers. "By mid- to late-summer we'll hopefully be on these platforms for all the agencies," new CFO Michael Herring said at a Morgan Stanley investor conference last week. Now the company says the new software "offers the full-cycle solution from planning to buying to billing for multi-platform audio campaigns on Pandora." In addition to making it easier to buy, the new system is expected to lower costs for advertisers. According to the Interactive Advertising Bureau (IAB), the manual process of handling business documents contributes dramatically to the 14% operational cost of executing a digital marketing campaign. That's in stark contrast to the 2.5% operational cost of executing a broadcast ad campaign. Pandora claims its new technology makes it the first and only digital publisher to integrate the planning, buying and billing phases of the buying process of digital advertising

Pandora takes a seat at the exclusive music premier table. Scoring an exclusive music premiere used to hinge on a local station's relationship with the label or the act. Today it often depends on how much on-air and digital real estate its parent company has to put on the table. And now Pandora is angling for a piece of the exclusive premier action. Its new Pandora Premieres channel previews upcoming album releases in their entirety before they go on-sale. The webcaster says it will feature previews from established and emerging artists across multiple genres up to one week prior to their scheduled U.S. launch date. Listeners can choose to hear any track on the album, in any order as many times as they like, for the preview time period. With T-Mobile as its first sponsor, Pandora Premieres is now streaming new albums from classic rocker John Fogerty — who reinterprets some of his big Creedence Clearwater Revival hits accompanied by contemporary acts like Brad Paisley and the Foo Fighters — and the new release from 23-year-old English folk singer Laura Marling. Pandora chief strategy officer Tim Westergren is positioning the channel as a "powerful vehicle for artists, both established and emerging to reach new audiences." Broadcast radio companies are making a similar pitch but the assets up for grabs are different. Univision, CBS Radio and Clear Channel have used broadcast radio roadblocks, artist vignettes and specials, streaming audio and video content, even TV specials to secure exclusives from Justin Timberlake, Marc Anthony, Stone Temple Pilots and Kenny Chesney. Leveraging size and scale does more than promote new music for labels and acts. For media companies it can drive tune-in, enhance the brand and grow digital assets.

Readers: Pandora's not a huge threat to radio

Advertisers are more interested in the online service

By Toni Fitzgerald
May 21, 2013

MORE SHARING SERVICESSHARE|Share on facebookShare on twitterShare on emailShare on print

Advertisers are becoming increasingly interested in learning about Pandora, the online radio service that recently passed 200 million users.

But Pandora's still not a serious threat to traditional radio, say media buyers and planners, despite all the hoopla around it.

That's the finding of a recent Media Life survey on Pandora, which asked readers to weigh in on their clients' attitudes toward the service.

Less than a third of readers, 28 percent, see Pandora as a serious threat to terrestrial radio.

The largest percentage, 39 percent, called it a medium threat, saying it could develop into a bigger one in the future but for now is more of an afterthought.

And 22 percent dismissed it as a small threat, saying it has little more than buzz around it and does not represent an effective alternative to traditional radio.

"While it certainly has many advantages (targetability, don't have to buy multiple formats, tracking) there is still value in local radio with the DJ connection, and the time-shift listening from one medium to the other based on daily behavioral habits," noted one reader.

Wrote another: "Without any local content it's just a music source not the same as traditional radio."

Asked where money being allocated to Pandora is coming from, 45 percent said it's being moved from radio budgets. Twenty-eight percent said the dollars are coming from online budgets, while 13 percent said it's new money earmarked for online radio.

The remainder said it is a mix of those three.

Clearly there is great interest in Pandora if not yet a great rush to commit to advertising. Asked if they'd seen an increase in the number of clients interested in advertising on the service over the past year, 81 percent said yes and 19 percent said no.

Media Life asked what percentage of readers' clients advertise on Pandora, and it remains a pretty small number. The greatest number of respondents, 41 percent, said 10 percent or fewer use the service.

Only 8 percent said that half or more of their clients advertise on Pandora.

As for the effectiveness and efficiency of the Pandora buying process, buyers had a very mixed take.

Some expressed concerns about Pandora's analytics, while others praised the service's ability to target narrowly by demo.

Others are not impressed by the rapidly growing sales staff.

Here's a sampling of responses when readers were asked to describe their experiences with Pandora:

"Response rates are good, but we have found that impressions are served to the same listeners over and over again. Our learning – don't buy so heavily. Less impressions will provide the same reach, particularly with local campaigns."

"We like it. We love the ability to target areas, demos, genre, etc."

"Our Pandora reps sell this as a 'lean-in' medium. However, I find it to be passive, just like its terrestrial counterpart. Pandora calculates their CPMs combining audio and companion banner. However, if you are listening with the player minimized, which I assume most people do, you don't see the banner. Currently, Pandora cannot report who sees the banner and who does not."

"The reps constantly want to meet. It's too much. And the reps will reach out to your clients directly. As an agency, we despise that tactic."

"The only downfall is the analytics they provided varied from the analytics on our end so we are trying to figure out the discrepancies."

"Nothing beats traditional media. Their 'metrics' are ridiculous unless you prefer to compare apples & oranges. I am not impressed."

"I don't look at Pandora for comparison against traditional. I know that's how others do, but it is no waste targeting. So while it may not have the overall reach of terrestrial radio, the one-to-one targeting is far more effective."

"We just now in the process of evaluating it for several clients. Our ad agency is in Tampa and Pandora has only recently hired sales reps in our area."

"Pandora is not as flexible as traditional radio. They cannot run 60s and most radio clients have 60-second copy."

5/21/13: Music industry, not eager for "another Pandora," reportedly dragging heels on Apple licensing

Low publishing fees, royalties on "skipped" songs could be sticking points for Apple to get iRadio out the door

Posted by: Paul Maloney

Greg Sandoval at **The Verge** and **Paul Sloan** at **CNet** both report that **negotiation snags are delaying Apple's roll-out of its much-anticipated "iRadio" streaming service** (Apple reportedly wants to debut this summer at the latest, and possibly by next month's Worldwide Developers Conference).

Part of the problem is apparently that Apple's service will be **more like Pandora, and less like Spotify**. Sandoval writes, "The **record companies and music publishers don't want another web radio service** that satisfies a lot of music consumption but **doesn't pay them much**... The widely held belief by industry leaders is that to stop the slide in music sales, consumers have to be offered unlimited access to deep pools of songs that are supported by either small, monthly subscription fees, or advertising sales."

According to The Verge, **it's Sony/ATV** -- that's a music publisher, not a label group (and administers copyright song compositions, not recordings) -- that's holding up the negotiations. BMG Rights Management, the fourth largest music publisher, is another hold-out.

But CNet says it's **Sony Music (the label group)** holding things up for Apple, "over **how much Apple would pay** for songs that people **listen to a fraction of and then skip**." Sloan writes, "That skipping has become an issue is frustrating executives at the other labels because they see Apple's free radio service as a potential boon for the music industry overall and are eager to help the company get it launched... While it's unclear what Sony is asking for... if Apple bends for Sony on this issue, it would cause problems with its deals with Warner and Universal."

Read The Verge's coverage **here** and CNet's coverage **here**.

How Google beat Apple to a streaming music service

Sources say iRadio is still mired in licensing talks and may not be ready for WWDC

By Greg Sandovalon May 17, 2013 11:33 am Email@sandoNET740COMMENTS

Google's long-rumored Play Music All Access service is already out the door, while Apple's iRadio is still bogged down in licensing talks. According to music industry sources, all the haggling could prevent Apple from debuting the service at the Worldwide Developers Conference next month.

Sony/ATV, the largest music publisher, has rejected Apple's terms according to published reports. What's more, *The Verge* has learned this week that BMG Rights Management, the fourth largest music publisher, is also holding out. Insiders say that there's still plenty of "market momentum" behind iRadio and some of the industry's largest players — including Universal Music Group, which was the first to license songs for the service — want to see it launch as soon as possible.

Some of the industry's largest players want to see iRadio launch as soon as possible

How was Google able to secure deals for All Access, which was unveiled at Google I/O on Wednesday, while Apple has been stymied? For starters, Google chose to offer a standard subscription music service very similar to those built by Spotify and Rdio, and that meant the terms had largely been established, according to multiple sources close to the talks. Apple, on the other hand, is pioneering a hybrid web and radio service — one that resembles Pandora but melds it with some on-demand features, the sources said. The licensing agreement had to be created from scratch.

"Of course [Apple's] negotiations were going to take longer," one of the sources said.

Multiple industry insiders say that Google also had an easier time of getting licensed because it agreed to pay advances to some of the major copyright owners. Apple has a long history of refusing to pay advances and — at least initially — didn't offer any. Sources say that Apple has agreed to pay content owners a share of ad revenue, a per-play fee, and a minimum guarantee.

Sources say Apple has agreed to pay content owners a share of ad revenue

Google's Access Music is also a Spotify-like, on-demand model and that's much more lucrative for the labels than Pandora's webcasting service, which is what iRadio will resemble. To be sure, iRadio is no Pandora clone. If it was, it would never get licensed.

The record companies and music publishers don't want another web radio service that satisfies a lot of music consumption but doesn't pay them much. "It's very important that new digital services pay songwriters and music publishers a fair share of the money," said David Israelite, president of the National Music Publishers Association, which is not involved in the negotiations. Israelite has been vocal about what he believes are the inequities in compensation between the labels and publishers. "We can not repeat the disaster that was Pandora where songwriters were asked to take a tiny fraction of the revenue."

The reality is that the music industry is happy to see mammoth tech companies like Apple and Google, which have up to now focused on download sales, embrace what the labels refer to as "access models." The widely held belief by industry leaders is that to stop the slide in music sales, consumers have to be offered unlimited access to deep pools of songs that are supported by either small, monthly subscription fees, or advertising sales.

These tech titans can afford to take a loss

Spotify is the top music subscription service. The company has attracted more than 6 million paying subscribers by enabling them to listen to any song in its library anytime they want for $9.99 a month. Over at Pandora, the online radio service plays songs randomly and relies on ad sales to pay the bills. But neither of these companies have come close to generating profits; the top record companies hope that Apple and Google can wade in and do a better job of that. And if streaming music turns out not to be a profitable business, these tech titans can afford to take a loss, as long as it makes their overall ecosystems more attractive when considering which smartphone, tablet, or set-top box to buy

musicFIRST warns artists away from Pandora petition

By dseyler on May, 20 2013 with Comments 0

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According to musician advocacy musicFIRST, internet radio leader Pandora is trying to enlist musicians to embrace its offer of promotional value in exchange for lower streaming royalty rates ahead of anticipated discussions of the issue on Capitol Hill this year. The organization is telling musicians not to buy into Pandora's vague proposition.

According to musicFIRST, the upshot of Pandora's plan is to get musicians to reduce their own internet income by 85%. It does this, according to mF, by making vague promises of success via exposure over Pandora, while steering clear of the fact that the bill Pandora is pushing would reduce its royalty payments to the same level paid by Sirius XM and cable music outlets.

"Emails they've been sending to our members lay bare their cynical strategy: ask artists to sign a vaguely worded petition, don't tell them what it's for, and offer the false promise of promotion in return for signing on the dotted line," wrote mF in a blog post. "This might be the worst music industry scam I've ever seen."

According to mF, the emails from Pandora say, "You represent a particularly important part of our collection – independent artists that are getting a lot of exposure. I'd like to give you a look at Pandora's listener data analytics and hear your opinions about how we can use this information, and our product's capabilities to benefit your career."

musicFIRST's advice to any musician thinking of teaming up with Pandora: buyer beware.

RBR-TVBR observation: We're not entirely sure what a proper performance royalty should be, but we have to say that in the past we have discovered music on Pandora we had never heard before, and now the artists have a place in our own personal CD collection, and in our iPod library. So the promotional value is there.

Without Pandora, those sales simply would not have happened. Just saying.

The random, throw-a-dart-blindfolded approach to setting royalties that seems to be in place at the Copyright Royalty Board is just nuts.

The House Judiciary has promised to air this issue out during the course of the year, and we expect all interested parties will come into the debate with teeth bared and claws extended. We of course have no idea where it will go, but it will certainly be interesting. Stay tuned.

Forget Google music streaming, Pandora vs Spotify is the real battle

Posted by Nikol Hasler on May 20, 2013 in News, Tech | 1 comment

Forget Google music streaming. The real battle is Pandora vs Spotify. I recently asked my Facebook friends if it was worth it to shell out money for Pandora's service that allows you unlimited skips and no ads. I usually listen to Pandora on my phone on my way to work, and got a notification that I was about to reach my limit of free listening hours. The trip to work without music is a longer, less happy journey of an hour and a half.

The response from almost everyone I asked was that instead, I should use Spotify's premium service. Spotify recently released a radio station function that resembles Pandora's, and you can listen to your own playlists. Since Spotify offers a free month-long trial, I figured I'd put the two head to head and see which one I liked better.

Here's the run-down.

Spotify:

I love that I can listen to my own playlists, because sometimes I am in the mood to hear exactly what I feel like hearing, not just a station based on a song I like. The radio function is very cool, and I have discovered a lot of music I'd never heard before and am in love with. Also, anytime you "like" a song on radio, Spotify puts it into a playlist with the other songs you've liked. In general, with Spotify radio, I felt that it was very spot-on in figuring out my tastes. I rarely have to skip songs, and when I do it's usually because I'm just not in the mood for that song just then.

In Spotify, however, there is no "shuffle" feature. When you choose a station based on an artist, song or one of your playlists, you are listening to only that station. I prefer to hear The Zombies, Girl Talk, and Fiona Apple back-to-back. Also, frequently, when I open Spotify on my phone it takes a long time to get started and often gives me error messages. Then there's the issue of not being able to find nearly as much music on Spotify. As a fairly new service, I believe they'll build their catalog fairly quickly. But the worst feature is the ads. I can handle ads. I can tune them out most of the time. But nobody can tune out that horrible "adorkable" Flo rapping. I'm fearful of the day that I hear that Jack-in-the-Box pin-head singing me a power ballad.

Pandora:
Pandora has a great knack for playing songs I haven't thought about in ages. The shuffle feature works very well, allowing me to customize which stations I want in my shuffle. The comedy channels are fantastic, and I've never had any issues with Pandora crashing or freezing. I also appreciate the feature that allows you to say that you're tired of a certain track, so Pandora can shelf it for a while.

The bad? I have to hit the skip button with higher frequency. Sometimes I look at my phone and say, "Pandora, do you even know me?" The top offender is Maroon 5. I actually call it, "getting Maroon 5-ed" when this happens. And it happens every single day. I thumbs down every time, and yet it happens over and over. There is nothing in any of my stations to indicate that I would be the sort of person who would like Maroon 5. It leaves me to wonder if some bands are able to grease palms to make sure their content assaults our ears. Also, I don't like that I can't hear a specific song when I search for it.

The Verdict:
Neither of these services it without its flaws, but if I had to choose to spend money on either one, I'd go for Spotify. However, I wouldn't get rid of Pandora. After all, I may need it as my backup given how frequently Spotify doesn't work correctly. As for Google Music streaming, once it gets off the ground, we'll see

RBR-TVBR observation: ***As we've said before, Smartphones and tablets are the same thing as transistor radios. The study proves that many listeners are still enjoying radio, but listening via new devices. Pandora cannot bring excited listeners together on the phone for a contest or prank. Pandora cannot put a listener on the air that just won tickets to a free concert of station-advertiser event. The one-to-one medium of radio is obviously surviving in the internet age.***

Pandora listening hours drop following mobile listening cap. ***Pandora succeeded in getting its biggest users to listen less to it last month. March was the first full month that a 40-hour monthly limit on mobile listening to the webcaster's free service was in place, an unusual step taken to help reign in ballooning music royalty costs. The company says it had a total of 1.31 billion listener hours in***

April, a 5.1% drop from February's 1.38 billion, the last month of unlimited free mobile listening. Factoring in the shorter month of February, listening dropped 10%. Announcing the cap in late February, founder Tim Westergren said it would affect less than 4% of Pandora's total monthly active users. The company says its April audience numbers "are in-line with our expectations" with active listeners up to 70.1 million, an increase of 3.5% over February's 67.7 million. Speaking at a Morgan Stanley investor conference on Monday, new CFO Michael Herring said 86% of listeners who reached the listening cap in March and didn't bother to pay to keep listening that month came back in April. He didn't say how many opted to pay 99-cents to continue listening for the remainder of March and how many converted to the webcaster's $36-a-year commercial-free plan. Investment research firm Seeking Alpha says there may be more to the lower listening levels than just the monthly mobile listening cap. "Slowing U.S. smartphone market growth and/or competition from the likes of Spotify, TuneIn, and Songza might also be having an effect," the firm says. Pandora stock fell 5% to close at $13.94 yesterday after the company announced its April listening metrics

Pandora says too few sellers on the street a "bottleneck" to growth. Reducing mobile listening among its heaviest users may have been the easy part for Pandora. The bigger challenge appears to be monetizing a massive mobile audience without resorting to excessive spotloads. CFO Michael Herring says the company's short-term growth will hinge on how much big national advertisers embrace its audio ad platform and how successful the webcaster is at tapping local radio ad budgets. Speaking at a Morgan Stanley investor conference this week, he called both "minority pieces of our revenue stream but the fastest growing." To make it easier to buy, the company is integrating with buying platforms. But a local sales force that's just a fraction the size of those employed at broadcast radio clusters is "a bottleneck to growth," Herring said. He said there's a "huge opportunity" if they grow the number of markets where they have local sales teams from 27 cities now to 50 double or triple their staff. Pandora has just one or two sellers in some local markets with as many as 15-20 in others. Pandora says hiring more sellers will happen slowly as the company's ability to invest is limited by its ability to monetize. "There's real value to be created as we unlock that part of our model," Herring said. "But it's a chicken and egg thing." The company is also experimenting with the size of its ad load and trying to determine the optimum mix of video, display, call to action and audio ad units. Asked about Pandora's local sales team on his company's results call yesterday, Cumulus Media CEO Lew Dickey said the webcaster has poached some Cumulus sellers. "And I think 2 out of 3 of them have been knocking on our door to come back," Dickey said.

PANDORA SHARE OF RADIO LISTENING DROPS AGAIN

5-7-13

Pandora reported it had dropped to 7.33 percent of total U.S. radio listening in the month of April -- the second consecutive month those numbers have declined (although there is no way to verify the numbers Pandora provides). In March, Pandora reported an 8.05 percent share and in February an 8.48 percent share. Why the drop two months in a row?

A Pandora spokesperson said, "This could be attributed to the 40-hour mobile listening limit, which was intended to reduce hours streamed without impacting the size or growth of Pandora's audience. April’s listener metrics show that the limit is working as intended: we saw an increase in total active listeners and a reduction of total hours streamed. These results are in line with our expectations. Moreover, Triton data shows there has been no material impact to Pandora’s rankings in major radio markets nationwide."

Pandora's at the other end of the spectrum. Sure, it's growing quickly. The music discovery leader reached 70.1 million active listeners last month, 35% ahead of where it was a year earlier. However, the vast majority of its users are freeloaders. Subscription revenue accounted for just 12% of Pandora's revenue, suggesting that roughly 1% of Pandora's users are actually paying for ad-free streaming

Turn up the iRadio

Apple has yet to officially announce its entry into the streaming market, where Sirius XM and several others are trying to catch up to Pandora. However, third-party reports continue to say Apple will jump in sooner rather than later.

Sources are telling London's *Financial Times* that Apple has struck a licensing deal with Universal Music. They also claim that Apple is completing negotiations with **Warner Music Group**. A deal with Sony Music has been harder to come by, but Apple is unlikely to wait on a stingy Sony Music if it already has Universal aboard.

Will Apple aim for a premium on-demand Spotify model or a more accessible ad-based Pandora platform of music discovery? Who knows? This market's about to get pretty crowded.

Pandora bread

Pandora hit a new 52-week high on Thursday, but there was an interesting nugget in the dot-com darling's latest monthly update. The number of active listeners in April clocked in at 70.1 million, up 35% over the past year. Listener hours rose 24% to 1.31 billion.

Yes, that's some heady growth. Sirius XM isn't growing its audience at this rate. However, did you notice how the hours streamed grew slower than the headcount? The average Pandora listener is tuning in less, and that's the first time I've seen that happen in a long time. More often than not, Pandora reports healthier growth in its listener hours than in its listener count.

That's not a positive development, especially when Sirius XM is ramping up its Internet offerings and tech giants are closing in.

Pandora iOS App Store Rating Continues to Fall – Down to Just 2.0 Stars
Posted on Fri, Apr 26th, 2013 at 10:07 am
by Richard Greenfield — POSTS | DISCLAIMER RSSEmail Phone: 646-450-8680 Categories: Media, USA, Internet
Tags: Music, Radio , P , Spotify , iHeartRadio
Pandora has experienced healthy monthly active listener growth year over year, despite increased consumer frustration with their iOS app (see our July 2012 blog, click here). Monthly active listeners have increased to nearly 70 mm in March 2013 from 51 mm in March 2012, although the year-over-year growth has slowed from 60% to 35%. We believe the continued slowdown is being driven by falling interest among new iOS users, as frustration with the service is clearly growing, partially offset by continued strength in the Android (Google Play) store.

Pandora's free iOS app is now rated only 2.0 stars for the latest version with over 6,000 reviews for version 4.2 (latest version released March 20, 2013), whereas in our July 2012 blog, version 3.2 was rated 3.5 stars. Worse yet, over half the overall reviews for version 4.2 are only 1 star.
Pandora's iOS free app ranking has declined to an all-time low of #55 today – worth noting that Spotify is currently #18, iHeartRadio #24 and Twitter Music #33. In the Google Play Store Pandora is currently the #2 free app.
We have embedded the Appannie chart showcasing Pandora's iOS app store ranking since the start of 2012 below, with the 2013 deterioration quite clear.
iOS user frustration appears targeted at the 40-hour cap, on top of increased ad load and increased display ad pop-ups (spam) with consumers shifting to other services versus simply deciding to pay up for an ad-free, no-cap version of Pandora. With competition set to increase notably for Pandora in the months ahead as Apple, Amazon and Google/YouTube make a bigger music push, we expect Pandora's monthly active user growth to slow even faster and wonder how long before listening time per user per day begins to fall (been relatively flat over the past year at 40 minutes).

Challengers Strive To Knock Pandora Off Perch

By Kyle Bylin (@sidewinderfm), founder and editor of sidewinder.fm, a music and tech think tank.

Have you ever heard of Pandora? This is often the question that music and tech executives open a conversation with when they are talking to people that exist outside of their bubble. Everyone, it seems, responds that they use Pandora or nods in acknowledgement that they have heard of the Internet radio service before. Considering that Pandora recently surpassed 200 million registered users in the United States, with over 140 million of them tuning into the service via their mobile device, it's not surprising that most people have top-of-mind brand awareness of the application.

Such awareness, though, has long been the subject of envy among ambitious upstarts that believe they can do better. Slacker, for one, released an attack ad that swipes at Pandora for having a small music library that is prone to repeating songs. So far, Slacker has struggled to land a square punch on Pandora, but established companies are winding up in hopes of delivering a devastating blow.

To get a better sense of the competitive landscape, sidewinder.fm talked to four influential product executives in the music and tech industry. Specifically, we asked them: With increased competition from SiriusXM Radio, iHeartRadio, Spotify, and Slacker Radio, as well as potential rivalry from the likes of Apple and Google, how do you think Pandora will fair against these challengers?

Music Recommendation Is Becoming Commoditized

Max Engel is the Director of Product at the web publisher SpinMedia, formerly BuzzMedia.

The real risk is that music recommendation is becoming increasingly commoditized. Companies like The Echo Nest make building a discovery platform simple via their API, so differentiation becomes difficult for a company

like Pandora. While many loyal Pandora listeners would be hesitant to try a new personalized radio service because of the switching cost of establishing a new taste profile, retention is only part of the puzzle.

I worry that Pandora solves a feature problem, but not a service one. Spotify and Rdio both offer radio station features, and so a user has little reason to leave their primary music consumption context in order to simply get a radio experience. At the other end of the spectrum, SiriusXM Radio offers an editorial voice through curation, which breathes personality into the listening experience and ensures that a music fan feels like they are discovering new and relevant music.

If someone were to ask me why I use Pandora over other services, my response would be, "Well, I've been using it for a while, so it knows me well, and I think its recommendations are better." Unfortunately, that loyalty isn't enough to sustain a business. In order for Pandora to remain relevant, they're going to have to differentiate themselves more clearly. My recommendation to them would not be to try to compete with Spotify, Rdio, and other subscription library services, but to instead appeal to music fans looking to discover new music. I would love it if Pandora could build me a playlist of the most recent releases I'll most likely love, or have helped me prepare for SXSW by telling me the bands playing that I shouldn't miss but have never listened to.

Tech That Helped Grow Pandora Could Undermine It

Where the limited library might be a drawback for some, including me, it is also a strength. Pandora — in terms of digital radio — has a very mainstream approach that gives people what they want: familiar music, even the "new" music they "discover" sounds familiar to them. It's much like FM radio, which relies on heavy repetition. It's what coined the term "overplayed" but it is also what the majority of people seem to want.

Pandora basically invented the idea of artist-led radio, which is helpful because many people think about different streaming services always in terms of Pandora. Spotify also does the same thing, but only as an additional feature; it's

not why people come to Spotify. Other services might do artist radio better in the future (looking at you Google!), which could be a threat to Pandora's long term success, but it seems to be too far in the lead right now in the ears of mainstream consumers to be threatened.

The real danger to Pandora is not other services, but its technology. The devices required to use Pandora can also access any other (mobile-enabled) streaming music service. One of the reasons why FM radio is still so popular is because people are stuck in their cars with nothing to do while they drive. So they listen to the radio, even if it is not their first choice for listening. The more that people bring tech with them everywhere to enable Pandora, means that people will just as easily be able to use other services. It won't be one new service necessarily that pulls everyone away from Pandora, but rather one service will pull one user away, and a different service will take another, and another, until Pandora becomes less of a leader.

In that case, it is up to Pandora to innovate and offer other services to stay ahead. Partnerships with car companies can help, but only temporarily. Pandora must continue to earn its advantage by staying ahead of the competition when it comes to music consumption.

Smartphone users listening to Pandora through Ford's Sync AppLink won't have to deal with annoying ads, but only for a limited time. Ford is offering Pandora ad-free until the end of the year.

"Ford customers love both AppLink and Pandora, and we're excited that through this partnership, they will be able to enjoy their favorite personalized radio stations on the road ad-free through the end of 2013," Ford global director of connected services Doug Van Dagens said in a statement.

So while Ford drivers will have a non-satellite option for listening to a radio station (albeit a virtual one) without having to hear about used car sales, boat shows, or the need for donations from listeners like you, it will only be until the end of the year.

The Ford-Pandora alliance is part of a larger trend in automotive connectivity that sees car infotainment systems using the same popular apps as smartphones.

Sync AppLink allows Ford driver/users to use compatible phone-based apps with Sync's voice controls. It basically turns a car into a four-wheeled smartphone interface, theoretically allowing drivers to indulge their smartphone addictions while keeping their hands on the wheel.

With their phones connected and Pandora synced with AppLink, drivers can do everything they normally do with Pandora, including playing music and creating new stations.

Pandora is one of about 30 apps available with Sync AppLink, which is compatible with iOS and Android. Others include iHeart Radio, Spotify, and Stitcher. Ford also launched an app developer contest at the 2013 Consumer Electronics Show to spur creation of new apps.

Sync AppLink is available on most Ford vehicles, including the Fusion, Fiesta, Mustang, C-Max, and F-Series trucks

For all of 2012: Katz pegs Pandora audience as much smaller than what webcaster claims. Pandora says it had 8.05% of total U.S. radio listening in March from 69.5 million active users. That's an increase from 5.73% a year ago. But Katz Radio Group has run its own analysis of the ratings data, and says those numbers appear to be inflated. By Katz analysis, digital listening represents only 7.6% of audio consumption — and Pandora's share is closer to 4.4%. Pandora has repeatedly declined to reveal the formula for how it comes up with its monthly statistics. Katz says it used a combination of Arbitron and Triton Digital data. While that's not ideal, EVP Mary Beth Garber says it's meant to be a "reality check" against some of what the webcast pureplay has been feeding to investors and advertisers. "What they've been putting out is smoke and mirrors at best,"shesays. Pandora hasn't beensubtle in its positioning.As the company announced its year-end earnings last month, former CEO Joe Kennedy said it was the "number one radio station in virtually all local markets." He didn't say how he calculated such a figure. Katz says the numbers show 92.4% of all listening is done to FM/AM broadcasts. "Digital is great, it's growing and we intend to keep it growing," Garber says. "But there's not much out there that measures digital, and what there is shows this is what is true."

Pandora has yet to reveal how they get their key metric, despite being asked numerous times how they arrive at their "Share of Total U.S. Radio Listening". The only way they could produce this number is to create a bottom line 'universe' total that includes all forms of Radio listening. However, to create this "universe" Pandora needs to start with Broadcast Radio listening. However, they do not subscribe to Arbitron, which measures Broadcast Radio and is the only source that can produce bottom line Radio totals. Further, any Radio universe needs to include Satellite Radio, which is actually NOT measured at all. And finally, there is no source that has a definitive monthly total listening metric for Internet Radio. Triton Digital, which is considered to be the source of record for Internet Radio actually only measures its *subscribing* Internet Radio stations/groups so it cannot produce a total for all Internet Radio. Therefore, with no estimated metrics on AM/FM Radio or Satellite Radio and no actual total listening metric for Internet Radio, Pandora couldn't produce a true universe they can call "total Radio listening". Without that number, there can be no "share" of that listening.

Pandora (P) Slips Amid Solid March '13 Numbers; Sees Slight M/M Radio Share Drop

Pandora Media (NYSE: P) shares are lower on the session Wednesday amid broader market pressure following weak U.S. economic data out earlier, despite reporting relatively solid monthly metrics.

For the month of March 2013, Pandora said listener hours improved 40 percent to 1.48 billion, active listeners grew 36 percent to 69.5 million, and total U.S. radio market share hit 8.05 percent. Numbers compare with listener hours of 1.07 billion, active users of 51 million, and radio share of 5.79 percent in March 2012.

To compare with February 2012 numbers, listeners hours were 1.38 billion, active users were 67.7 million, and market share was at 8.48 percent for that month. While listener hours and active users saw sequential growth, overall radio market share ebbed slightly.

Pandora is down about 2.5 percent on the session.

Pandora vs iRadio: Who Will Win The Internet Radio Business?

- *0Laura Tucker*
- *+April 1st, 2013*
- *$News*
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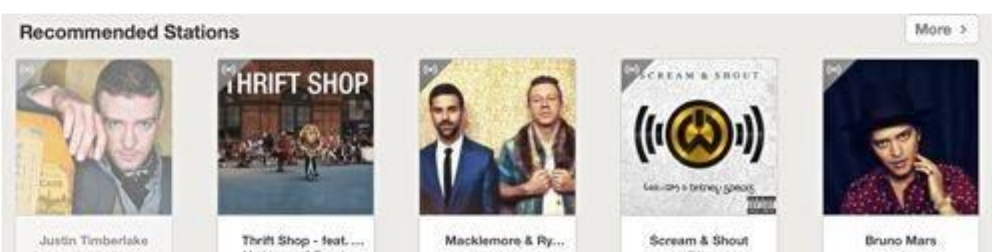
We don't really think about it normally, but there's a huge business behind Internet Radio. It looks like Pandora and iRadio may end up fighting over our business, and with the existing success of Pandora and the behemoth that Apple is, it could end up being a monumental fight. You may want to set your chair out now to reserve your spot in line for this fight.

It looks like soon both Pandora and iRadio will be offering an Internet radio music streaming service. Pandora has been on the scene since 2000, offering music for free. It offers recommendations based on the music it knows you enjoy. Sometimes it works really well, where you happen upon great suggestions, and other times it happens upon suggestions that have you hitting the forward button too often. Nevertheless, it's become extremely popular and has spawned similar services such as Spotify.

Apple wants in on this. It's not enough for them to have the most popular download service with iTunes. They want more. They want to also be our source for Internet radio. They are reportedly gearing up to launch their own service later this year. iRadio will be similar to what we already have, but will probably keep us on iTunes and not have us leaving it to listen to streaming music. Because it's being launched by Apple, it's bound to be successful, that is if we ignore their efforts with Ping.

Who's the winner here, other than us? That answer would be the music labels. It's been a concern for quite some time that the music industry could be in danger because of the growing lack of physical media. However, Pandora accounted for twenty-five percent of the labels' revenue last year, and Pandora is trying to lower that royalty fee it pays from the 12 cents it currently pays per one hundred songs. This is despite them already paying less than others, with Spotify being treated like the redheaded stepchild, paying 35 cents per one hundred songs.

Apple must be figuring that the record labels will welcome them into the fold eagerly, as they are offering to pay the labels 6 cents per one hundred songs. They're going to hurt Pandora one way or another. They're going to be stealing away at least some of Pandora's business. Additionally, they could end up in a dispute over fairness of different companies paying different royalties, and it could end up before Congress with the Internet Radio Fairness Act.



As consumers, it won't hurt us one bit. It will only add to our choices. Pandora, Spotify, and all other slightly different services. I turn on whichever one is going to give me what I want at that current moment. iRadio is going to be no different and will just offer us another choice, no matter what royalties they're paying. There's really no way for iRadio to not be a success.

Are you an Internet radio listener? What's your favorite service? Will Pandora and iRadio will end up competing for your business? Who will win

Pandora Owners Shouldn't Fear Twitter's New Service

By Anders Bylund | More Articles | Save For Later
April 12, 2013 | Comments (0)

Shares of digital music specialist **Pandora Media** (NYSE: P) have taken a plunge today, dipping as low as 3%.

The catalyst for this minor panic? Instant-messaging expert Twitter confirmed that it bought out privately held song-recommendation service We Are Hunted and will launch its own music service in the near future.

Music lovers already have a plethora of choices to manage their playlists and media libraries. However, Twitter's service gets uncomfortably close to Pandora's special sauce. We Are Hunted recommends songs and builds playlists based on your personal preferences and listening habits, much like Pandora's vaunted Music Genome database.

But it's not a wholesale replacement for Pandora. This service seems focused on building better playlists from material you already own or can find for free online. It's not likely to expand your musical universe much. But that's exactly what Pandora does.

If I want to hear something that I already know and love, I fire up Spotify or my favorite MP3-playing app, pick a few tunes for the moment, and off we go. **Apple** can do this with its "smart playlists" in iTunes. Spotify has plugins for the same functionality. Even the oft-forgotten **Google** Music service offers an "instant mix" option to build playlists around the musical features of favorite songs.

This is the crowded space that Twitter will barge into. It's not at all a head-to-head collision with Pandora.

Pandora is for those times when I want something new. About half of my current MP3 library is built around stuff I stumbled across on Pandora. Sure, you can focus a Pandora station around handfuls of known favorites, but you'll still be served the occasional mind-blowing choice out of left field. I'm into trance music now due to a surprising Ferry Corsten remix of a pop-rock tune.

So Twitter's service may *seem* similar to Pandora, but it actually caters to a very different need. As far as I'm concerned, Pandora still doesn't have any serious rivals. The only current threat to this fantastic company is the financial pressure of sky-high royalty rates, which may put Pandora out of business regardless of its customer appeal. But that's not what today's drop is about.

"For satellite radio, the one U.S. satellite provider, SiriusXM, publicly releases subscription figures but nothing akin to actual listenership, let alone listenership for news channels."
Pew Research Center, March 2013 from their Audio report

Facebook, Pandora and Twitter seize mobile ad display market

Jeremy Kirk, IDG News Service

- Apr 9, 2013 9:20 PM
- print

Jeremy Kirk, IDG News Service Australia correspondent, IDG News Service

An IDC study has found sweeping changes in how mobile display advertisements are sold, with Facebook, Pandora and Twitter successfully wresting away control from advertising networks over the last year.

Advertising networks, which sell online advertising for publishers, controlled the market for mobile display advertisements until 2012, according to IDC's report, released on Tuesday. But then it drastically changed.

“In display ads, the era of ad network dominance has come to an end,” IDC said. “New mobile ad budgets flow more easily into the coffers of publishers than into those of networks.”

IDC attributed the change in part to sales of tablet computers, which have attracted more brand advertisers directly to high-quality publishers. Growth in mobile traffic also allow publishers to run their own sales teams rather than use advertising networks.

Interestingly, most of the leaders in mobile display advertising weren’t selling any mobile display advertisements in 2011, IDC said. Facebook, which secured the number one spot, only started selling mobile advertisements in the second quarter of 2012.

Mobile display ads accounted for US$1.7 billion of spending in 2012, up from $700 million the year before.

Facebook and its closest competitor, Pandora, netted more than $200 million in display publishing in 2012. Twitter came in third with more than $100 million in net revenue, followed by AOL, The Weather Channel, Microsoft and Yahoo, according to IDC. Pandora was the only company selling mobile ads of all of those companies in 2011, IDC said.

Facebook will likely keep its top spot ahead of Pandora this year, IDC said. But it said Twitter’s prospects “of very strong growth are more doubtful given the very hard time the company seems to have to monetize the service.”

In search advertising, Google remains dominant, controlling some two thirds of that market, IDC’s report said.

“We do not see how anything that Microsoft or Yahoo could do would erode Google’s dominance in the short term,” the report said. “The only potential source for disruption would be if Facebook entered the search advertising space in earnest — as IDC believes it should—perhaps with Microsoft providing the technology.”

IDC expects mobile advertising spend to reach $7 billion this year, up from $4.5 billion in 2012. It remains the fastest-growing digital advertising format, IDC said

Pandora today hit a milestone of 200 million registered users in the United States, and the company’s chief technical officer Tom Conrad marked the occasion at a talk at the Ad:Tech conference in San Francisco highlighting the company’s successes in creating a desirable platform for advertising.

Before the company, which launched in 2005, had even begun using a separate server to push out advertisements, it got a call from “a major consumer brand” seeking to buy its entire advertising inventory for November and December of that year.

The company was Apple, and the mega-brand managed to secure exclusive advertising on the new service throughout the holiday shopping season for just $20,000, Conrad said to stunned laughter from the audience.

Each time Apple updated its ads — which happened several times a day — Pandora had no choice but to update its entire website, Conrad said.

But, with an ad server long since powered on, Pandora has delivered 15 billion impressions. Its advertising revenue has grown from 43 million at the outset of the 2012 fiscal year to 109 million last quarter. (The company is not yet profitable, a fact that it largely blames on the high licensing fees it pays as an Internet radio provider.)

The service's success with advertisers is notable because a full 80 percent of the 1.49 billion hours its users spend listening a month happens on mobile devices. Among mobile apps, only Facebook tots up more hours of user engagement.

By cmarcucci on Apr, 1 2013 with Comments 0

The UK Sun reports Apple is readying to take on Pandora, Spotify and Slacker when it launches its internet radio service – dubbed iRadio – this summer. The tech giant is believed to have been preparing to join the music-streaming market for a number of years, and is only now gearing up for its imminent debut.

Negotiations between them and top recording companies Universal and Warner are said to be at an advanced stage over the service, the story said.

Apple's bargaining position may be so good that the record companies can't afford to turn them down. They are thought to be using their position as a top tech brand to play hardball with the lablels — asking to pay just $.06 per 100 plays for any song. Pandora currently pays about $.12, and Spotify $.35.

See the UK Sun story here.

RBR-TVBR observation: These per 100 songs played numbers are typically based off of estimated listens and associated song purchases/downloads. The labels know through their revenues from iTunes that an Apple music service would be lucrative as well. With volume comes discount. Right off the bat, everyone with an Apple ID, iTunes account or iPhone would be instantly served up the new service. The massive audience is already there. iRadio will also likely offer the ability to mix in favorite songs that users already have downloaded from iTunes—giving it a bit of an advantage over Pandora, which serves up songs based on other songs the user has liked or chosen initially.

WILL MORE CONSUMERS PAY FOR PANDORA?

2-27-2013

Founder Tim Westergren is hoping at least a small percentage of Pandora's overall subscriber base will pay if they listen a lot. In his most recent blog Westergren tells subscribers they will no longer have unlimited free listening. Pandora will cut you off after 40 hours of mobile listening. He says that affects less then 4% of Pandora subscribers and the reason is the cost of content. "Pandora's per-track royalty rates have increased more than 25% over the last 3 years, including 9% in 2013 alone and are scheduled to increase an additional 16% over the next two years. After a close look at our overall listening, a 40-hour-per-month mobile listening limit allows us to manage these escalating costs with minimal listener disruption."

Westergren says the average listener spends approximately 20 hours listening to Pandora across all devices in any given month. "For listeners who do hit the limit, we have a variety of options available to keep the music you love flowing. Listen for free for as many hours as desired on desktop and laptop computers; pay $0.99 for unlimited listening for the remainder of that month, or subscribe to Pandora One for unlimited listening and no advertising."

As it struggles to deal with rising royalty costs, streaming radio service Pandora is bringing back an old idea by capping free mobile usage at 40 hours per month.

The company previously limited free monthly desktop usage to 40 hours, but it lifted the cap in September 2011. CEO Joe Kennedy suggested that Pandora's mobile business is in a similar position to its desktop business a few years ago — it needs to make more money. At the same time, Kennedy said his goal is still to offer free music to everyone.

"When you have a per-track royalty structure … there's an inherent conflict between what radio has always been [namely, free] and what's pragmatically reasonable," Kennedy said. "We're trying to balance the two. We're certainly not backing down from the vision that we're the future of radio. As mobile monetization improves over time, we'll lift this."

He also noted that there's a big difference between mobile and desktop usage patterns — there are desktop users who basically listen to Pandora all day while they're at work, so a larger percentage of them that exceeded the monthly limit. On mobile, however, the cap should only affect 4 percent of users.

That may not be much consolation if you're in that 4 percent. Kennedy said the company is also trying to make the system as straightforward as possible. You'll get an alert when you reach 85 percent of the limit, and when you hit the cap, there are a couple of pricing options: You can pay a one-time fee of 99 cents to get unlimited listening for the rest of the month, or you can sign up for a Pandora One subscription, which includes unlimited, advertising-free songs. Or you can decide that you don't want to pay and just listen on your desktop/laptop computer for the rest of the month. (Oh, and if you're thinking about getting around the limit by just creating a second account, Pandora says that won't work, because it's applying the cap at both an account and a device level.)

As stated earlier, Kennedy is placing much of the blame on the rising cost of music — he said that per-track royalty rates have increased 25 percent in the past three years, with an additional 16 percent increase expected over the next two years.

In the company's most recent earnings release, Pandora reported growing revenue and a tiny profit, but its forecast was much lower than expected.

The cap will take effect starting in March

Pandora Radio: Stuck In The Mud Until 2015's Catalyst

Mar 15 2013, 13:51 by: Clayton Rulli | about: P, includes: SIRI

Disclosure: I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. **(More...)**

Just recently, Pandora Radio (P) reported impressive numbers for FY 2012, including:

- 8.2 M listener hours, a 109% increase from 2011, and over 5% market share.
- Mobile use accounted for 65% of total listener hours.
- 62% YOY increase in active users, which grew to 47 M.

Revenue Growth:

In addition to growth in listener hours and total users, revenues also increased dramatically. The company experienced nearly 100% increase in revenue since last year, led by immense growth in mobile revenues. This critical segment which equaled 65% of total use, quadrupled revenues versus 2011, growing from $25M to $100M. As per the 10-K, revenue growth has been very healthy since 2010:

	Fiscal Year Ended January 31,		
	2010	2011	2012
	(in thousands)		
Revenue:			
Advertising	$ 50,147	$ 119,333	$ 239,957
Subscription services and other	5,042	18,431	34,383
Total revenue	55,189	137,764	274,340
		149%	**99.1%**

The portrait I have painted thus far seems beautiful, except for one problem, Pandora has yet to turn a profit, nor meaningfully grow earnings, and admits it may suffer losses *at least* through 2013. Why is this? The company states the issue clear as day on page 13 of the 10-k:

Pandora Is Now Charging Indies a Minimum of $1,000 for Promotion...

Thursday, March 14, 2013

by Paul Resnikoff

This is a letter from an indie label owner boxed out and frustrated by Pandora. It details some of the costs for promotion on the Pandora platform, which can include audio, visual, banner, or other slots. The smallest, shortest campaign starts at $1,000, which gets seriously expensive when a serious campaign is involved.

A representative for Pandora declined to confirm or deny the charges over email.

(bold from the original letter preserved)

Dear Paul,

Nobody's talking about the unintended consequences of the high royalty rates that these services are currently paying the major labels.

For example - when Pandora first started, they were easy to work with and you could engage with them to promote your artists. This was a boon to indie labels. Now that the majors are forcing Pandora to pay such high rates - **Pandora in turn is trying to make up for it by charging artists money to be promoted through their service.**

The minimum amount is $1,000.00, which is out of the range of most indie artists in a business that it is increasingly hard to make money at.

It's a combination of audio, tile, and banner ads, positioning, etc. It doesn't get you much. The way they spin it is you can target by Zip Codes, Cities/Regions, Gender, Music Preference, etc., to really dig deep and get to the fans that actually might buy your music.

It's actually kinda cool – but the problem is that more and more, **people are dipping into the artist's (and my) pocket for visibility**. Everyone has got their hand out to get a decent review in the larger indie publications (print and online), and it really sucks.

The Indies have been much quicker to adopt new technologies - but this is an example of how that's being impeded. I fear that what's happening with Pandora will start happening at the other online streaming services - **which will just shift the old monetary impediments for Indies to break through from one paradigm to the next.**

The streaming services are under tremendous pressure from their investors to show growth and stable revenue streams – so they are ultimately going to pass those high royalty costs along to either the artists/labels, or the consumer of the service – **or both**.

Until and unless everyone comes to the reality that EVERYONE has to be willing to take less and adjust their models accordingly in order for us to ALL grow in these new models - we will continue to muddle along at a snail's pace in this Brave New World of the recorded music business.

The majors are short-sighted. Greed and desperation are having (perhaps) unintended consequences that effect everyone, especially the indies.

As you can tell – I'm passionate about this – I don't wind you up on many things. But I see this trend developing and it's NOT GOOD.

It's just taking the same old "he who has the most cash wins" paradigm and shifting it onto the new models. We are never ” really going to move forward and have a healthy and growing business for recorded music again until everyone takes a hit and agrees to take less in the short term for more in a few years once the new models take hold.

What gets lost in Pandora’s shuffle

By Sarah Edwards | The Daily Tar Heel
Updated: 01/31/13 9:12pm

You are driving down the highway, late at night. The only thing working is the radio, and the station choices are both static and sparse: to discover a song you connect with is serendipity. But then, cheesy and rakish, it comes on: the perfect song.

This is nice. But magical radio entropy is, in a universe of personalized choices, rare.

In 2000, the Internet radio station Pandora was created. The decade since then has seen the birth of a vast marketplace of Internet stations like Grooveshark and Spotify.

They’ve trimmed personal music taste down to a science, with algorithms that select the next song based on the music’s internal structure. If I’m in the mood to listen to Frank Ocean and I type his name in, chances are that I will encounter some very Frank Ocean-ish tunes.

Within this constellation of listening choices comes UNC's own radio station: WXYC 89.3, a free-form radio station that's been around ever since it went live in 1977 by playing Joni Mitchell's "You Turn Me On I'm a Radio."

Free-form radio means a lot of things, but essentially, it rests on the definition that there is no definition: no genre, no exact science to the playlist, save what the particular disc jockey chooses.

There are caveats, as I've discovered during my brief tenure as a DJ for WXYC: an implicit mission of the station is to engage the listener in marginal music, which is why there are albums on rotation that each DJ selects from.

"People can be latent in receiving music," station manager Karina Soni said. "If it doesn't come to them, people often won't seek it."

It's that familiar paradox: Faced with so many options, we end up choosing fewer. With the millennium's easy-access music machines comes a price tag.

The paradox of taste is not limited just to music: Most advertisements we are exposed to online are the anti-climactic result of our own search history, and the results of our search history is close kin to what we have already searched for.

Isn't something lost in all this? There has to be something in us that tilts toward what we don't know, not what we already know.

In an age of instant gratification, something as abstract as free-form radio is radical, even political.

There is no uniform for it, no queue of pop stars — and, within the unmanicured experience of music comes the chance for happy accidents, for songs we didn't know we loved.

Indeep's 1982 song, "Last Night A DJ Saved My Life," becomes a much more romantic metaphor when the DJ is not a computer following a rubric and we didn't already have the song pulled up on Grooveshark.

This is why the unplanned soundtrack can be so thrilling — the scan button in your car, the nebulous grocery-shopping playlists. Sometimes, our taste buds just need to be subverted.

Personalization is convenient, but it risks spoiling the joy of the hunt.

Internet radio and music recommendation service Pandora has announced how its 2012 fared, with users listening to more than 13 billion hours of music, across one million songs and 100,000 artists.

In the process, they also created 1.6bn stations, and more than 10,000 musicians and bands notched up 250,000 unique listeners.

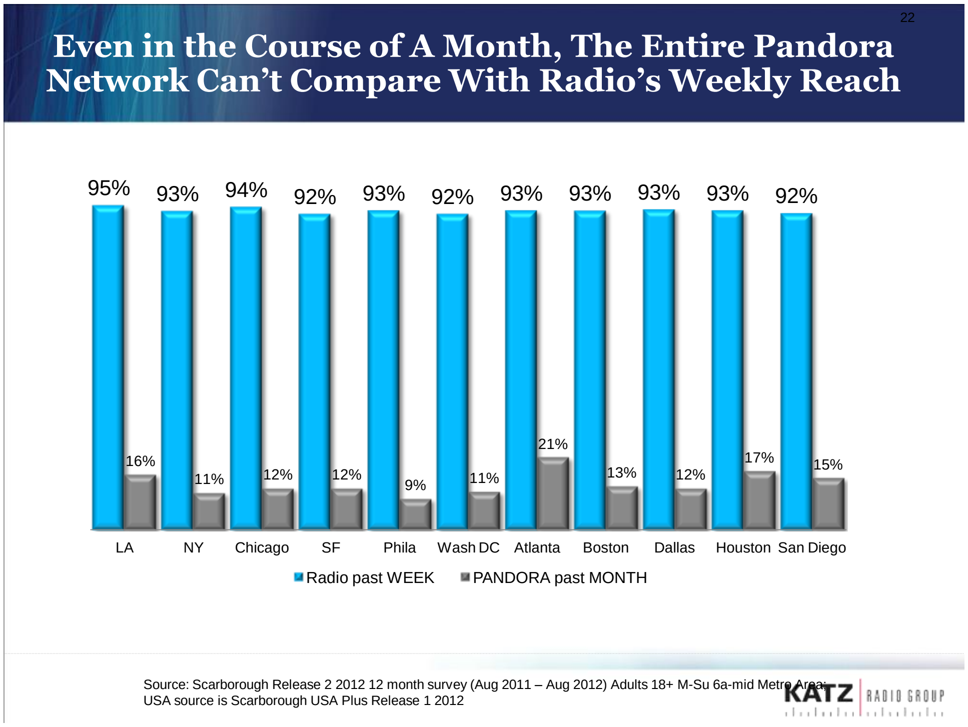
Pandora has been pretty big on revealing numbers of late. Early last year, the company began issuing key audience metrics on a month-to-month basis, as it looked to attract more advertising revenue in the wake of one of its earnings calls. Indeed, Pandora announced in the first of its releases that it had hit 49 million active listeners, a figure that rose to almost 55 million by July.

However, it seems that the bigger its audience gets, the more it must pay record labels in licensing fees, which further curtails its journey into profit-making, though the company did finally report a modest profit of $2m in December.

Money issues aside, however, Pandora continues to be a popular Internet radio service in its active markets, which are the US, Australia and New Zealand, though how these markets are split between the reported figures haven't been revealed.

"When we created the Music Genome Project thirteen years ago, we had a dual purpose: connect people with music they love and help talented artists find their audiences," explains Pandora co-founder Tim Westergren. "We knew if we could get the first part right, the second would naturally follow. Well, it looks like that second part is actually beginning to happen. The Pandora audience is large enough now to begin making a real difference in the lives of thousands of working artists."

Earlier this month, the Silicon Alley Insider published a chart predicting that **smartphones will reach 80% penetration in the U.S. by August 2014**. You read that right. A mere 18 months from now. This is the same guy – Asymco's Horace Dediu – who already correctly called the 50% level, and he believes that your Aunt Martha and the 10-year old neighbor kid will both be sporting smartphones of one kind or another by late summer of next year.



Abject Looting Continues at Pandora...

Sunday, December 30, 2012

by paul

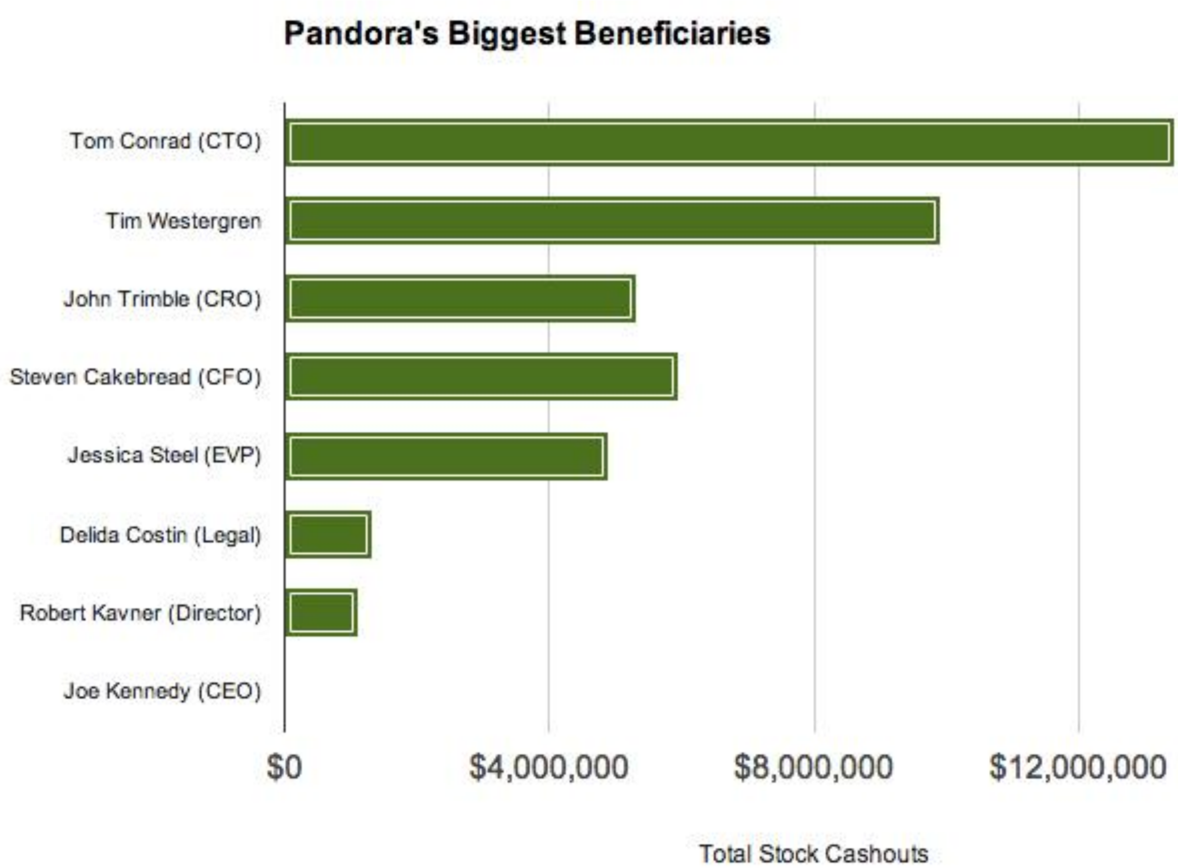
If Pandora executives don't believe in their own stock, why should investors? According to the latest batch of SEC financial disclosures, Pandora executives cashed more than **$1.33 million worth of shares** in December alone, another chunk in a broader, post-IPO cashout that now totals **$73.4 million.**

The most aggressive ATMing is coming from **CTO Thomas Conrad**, who banked a sizable $671,293 in the Christmas month. In total, Conrad has cashed **$13.5 million** in Pandora shares since June of 2011, with a massive, [compound-style estate] among his fresh possessions. Other toys reportedly include flashy new cars, with executives suddenly assuming rapper-like buying habits.

But there's one thing Conrad's not buying: Pandora shares. In fact, despite the sizable dump-offs, Conrad has not purchased any post-IPO Pandora stock. That goes for most other executives, a message being watched not only by investors, but a highly-distressed artist and songwriter group as well. Presumably, legislators are also watching this bonanza, especially as the company continues to lobby against burdensome artist royalties on the grounds of financial distress.

Other cashout heavyweights include cofounder Tim Westegren, who was quiet in December but whose cashouts now totals **$9.93 million**. Westergren is the face of Pandora's protest against current royalty rates, with a poormouth pitch that includes tales of his rough history as a touring musician.

Pandora shares landed at the distressed $9.01 heading into the weekend. And with that, here's a breakdown of what Pandora's brass have cashed ahead of 2013, thanks to insider filing site SEC Form 4.



Great Product, Poor Business: The Pandora Story

By Eric Tommarello - December 21, 2012| Tickers: AAPL, P, SIRI| 2 Comments

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Most investors are familiar with the saying: “Great companies aren’t necessarily great stocks.” That being said, poor companies almost never prove to be quality long-term investments. Accordingly, finding a solid business model with excellent growth potential or a sustainable competitive advantage ought to be the basis of any investment thesis. Of course, discovering companies that fit this description is no small task. **Pandora** (NYSE: P) has demonstrated a fundamental lesson for investors in 2012: a great product doesn’t always equate to a great business.

Needless to say, it has been a volatile year for the internet radio provider as Pandora has commanded headlines left and right. The company's stock has traded as high as $14 back in March as well as below $8 in November. Earnings per share has varied from -$0.09 after the first quarter to $0.05 after the third. Pandora's stock price, however, has not traded in correlation with its ability to beat analysts' estimates—which it has for three straight quarters—and has been dictated by the forward-looking statements offered by management as well as extrinsic developments such as rumors that **Apple** (NASDAQ: AAPL) will soon roll out a similar service.

A lot of the confusion with Pandora's stock stems from the dichotomy that such a great product could yield such poor business. First things first, what makes Pandora's internet radio service so great? Clearly, it is an innovative product that allows users to listen to music for free on the internet. While it is true that users must put up with commercials, most would prefer the commercial interruption to subscription fees.

Furthermore, Pandora utilizes its patented "Music Genome Project" to code songs according to approximately 400 genes and return similar tracks on a user's given station. Ultimately this yields customized radio stations tailored to the preferences and tastes of each individual listener. To put it simply, Pandora takes traditional radio, personalizes it, and puts it on the internet.

How could this translate to bad business, one might ask? The answer lies in the costs associated with acquiring content. Investors who follow Pandora are well aware that the company must expend roughly 50%-65% of its revenue on content acquisition, depending upon the quarter. These expenses are particularly salient for Pandora—as opposed to, say, **Sirius XM Radio** (NASDAQ: SIRI)—because the Copyright Royalty Board applies a different standard to internet radio than it does to traditional broadcast or satellite radio. According to Ben Sisario of *The New York Times*, Sirius XM Radio only spends about 8% of its revenue to acquire content.

Obviously, internet radio providers such as Pandora must endure significantly reduced margins as a result. Of course, low margins are not necessarily a death sentence for a company's bottom line. Many companies, in fact, pursue price-cutting, margin-reducing strategies in order to attract more customers and compensate via high volumes. The problem for Pandora is that this strategy is not a viable option for internet radio providers. Why? Content acquisition costs for internet radio actually increase with each additional user hour. Accordingly, Pandora's profit margin diminishes with each additional user hour, thereby removing the plausibility of pursuing a high-volume strategy. If you are a Pandora user, I'm sure that you are familiar with the question: "Are you still listening?" Well, this explains why the service stops your music to ask you this after a designated amount of time.

In conclusion, I will admit that I am an avid Pandora user. As a college student, I spend countless hours each and every day on my laptop and truly appreciate the quality and variety of music that Pandora enables me to enjoy. The "Music Genome Project," in my opinion, has yielded a phenomenal product and the commercial interruptions are only a minor nuisance.

That being said, Pandora is not built upon a great business model for the reasons mentioned previously. If the Internet Radio Fairness Act were to pass through Congress, effectively moving internet radio providers from their current standard to that of satellite and cable radio providers with regards to content acquisition rates, Pandora's business would improve tremendously. Unfortunately, that is not looking likely as popular musicians from Katy Perry to KISS have recently banded together in opposition.

As of right now, Pandora is a prime example of a great product that does not equate to a great business.

More expert advice from The Motley Fool

Pandora boxed in by high royalty fees

The music streaming company channels at least half its revenue to artists such as Adele, who gets $1 million a year in royalties from the company. Rivals pay a lot less.

By MSN Money partner 14 hours ago

By Andy Fixmer, Bloomberg Businessweek

Pandora Media (P 0.00%), the rapidly expanding Internet radio service, has a problem: The faster it grows, the bigger the financial hit it takes on royalty payments.

In the first 10 months of 2012, Pandora paid $182 million in music royalties, or 60% of revenue. With the music streaming company forecasting a fourth-quarter loss, and competition intensifying from **Sirius XM Radio** (SIRI 0.00%), **Spotify** and **Apple** (AAPL 0.00%), Pandora's stock was off 10% for the year while the tech-laden **Nasdaq Composite Index** ($COMPX 0.00%) had advanced nearly 15% as of Dec. 26.

Joe Kennedy, Pandora's chief executive, says his company is getting a raw deal on the fees it pays for song-playing rights because of what he calls an arbitrary and piecemeal music copyright and royalty-setting system that treats various digital radio formats differently.

Pandora will pay more than half its sales in royalties this year, yet satellite radio services will shell out on average 7.5% of their revenue, and cable only 15%, Kennedy said when he testified on Nov. 28 before a House committee in support of the Internet Radio Fairness Act.

"Pandora pays more in absolute dollars than any other company, including SiriusXM -- a company with eight times our revenue," Kennedy said.

The bill aims to close the gap in song royalties.

Listening is free (mostly)

Most listeners pay nothing for access on their PCs and mobile phones to Pandora's 100,000-plus artists, from Frank Sinatra to the Foo Fighters. The company pays $1 million a year in royalties to vocalist Adele, for instance, and $3 million to rapper Lil Wayne. Users create personalized radio stations focused on a particular singer or band, and Pandora's algorithms search out artists with similar musical styles.

The site is ad-supported, though premium subscribers pay $36 a year to get commercial-free music. Pandora enjoys a 74% share of the U.S. online radio market, according to new media research firm Triton Digital. On Dec. 10, Pandora launched its service in Australia and New Zealand.

With 175 million registered users, including 62.4 million active ones, Pandora sees growth ahead given the estimated 250 million Americans who listen to radio in the car, at work or at home each week, says Dominic Paschel, vice president of corporate finance.

"Only recently has the Internet become as ubiquitous as radio waves," Paschel says.

That growth will come with a steep price tag. In the U.S., the royalty fees that radio stations pay to artists and record labels are set every five years by three judges who serve on the Copyright Royalty Board, an arm of the Library of Congress. The panel follows guidelines in various copyright laws that were passed as new radio formats developed over past decades, and it has become stricter as a result of aggressive music industry lobbying.

Traditional broadcasters pay royalties only to songwriters -- not to performers and record labels as do satellite, cable and Internet radio services. Royalty rates for satellite broadcasters such as Sirius take into account lawmakers' goal of maximizing the availability of a creative work and earning a reasonable income for the copyright user.

Fees for webcasters such as Pandora follow the "willing buyer-willing seller" guideline. Translation: whatever price the market will bear.

Competition intensifies

Digital radio services can negotiate their own deals with individual record labels, but Pandora in 2009 opted for a comprehensive, industrywide arrangement offered by the royalty board. Each time Pandora streams a song, it pays a royalty fee to SoundExchange, a Washington-based trade group that collects royalties and distributes them to recording artists and music publishers. The online music service paid 11 cents a song in 2012; that will rise to 14 cents in 2015. The royalty board has yet to reset rates for 2016 and beyond.

Pandora's push for royalty parity faces opposition from, among others, the powerful National Association of Broadcasters and Songwriters Guild of America. The bill, if enacted, may reduce Pandora's royalties by as much as half, according to Richard Tullo, an analyst at broker Albert Fried. Instead of lowering Pandora's royalties, SoundExchange President Michael Huppe says, SiriusXM should pay more to "provide fair compensation" to artists and labels.

Pandora faces stepped-up competition. Music streaming services Spotify and **Rdio** have sold equity stakes to recording labels in exchange for access to their music libraries.

As for reports that Apple may launch an ad-supported streaming service in the first quarter of 2013, Paschel says the Apple service won't match Pandora's personalized radio capability. "They aren't trying to do what Pandora does today," he says.

Pandora already runs on Apple's iOS as well as **Google's** (GOOG 0.00%) Android and Windows Mobile operating systems, he says.

Apple appears to be working directly with record labels, Paschel says, rather than negotiating a comprehensive contract like Pandora's. With individual deals, Apple may get more flexibility but would pay 10 to 15 times more in royalty payments than Pandora, according to Paschel, citing trade industry reports. Apple isn't commenting. Then again, it has about $121 billion in cash. Pandora doesn't.

By Carl Marcucci on Nov, 30 2012 with Comments 0

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Despite the rapid growth of Pandora, a recent online survey of 1,017 adult Americans conducted by Vision Critical indicates that Pandora’s gains are not coming at the expense of AM/FM radio. In fact, the results of this study showed that Pandora listeners report spending 50% more time listening to AM/FM radio than non-Pandora listeners.

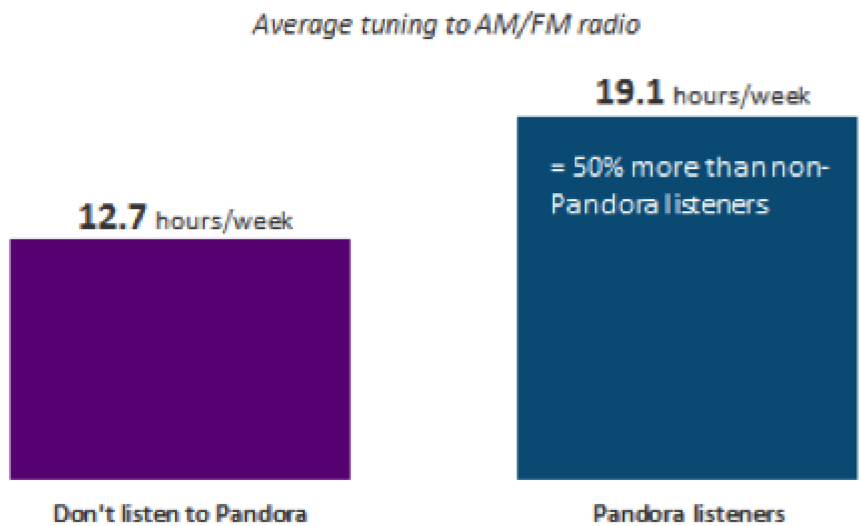
“Pandora users are musical omnivores who want all the music that they can get, however they can get it. They not only listen to more broadcast radio, they listen to more music on their iPod, on CDs and satellite radio,” says Jeff Vidler, Senior Vice President of Media and Entertainment Research at Vision Critical. “It’s additive. Rather than displacing other ways of listening to music, Pandora is just another way for music fans to indulge their passion for music.”

Some other key insights:

· Pandora listeners were slightly more likely to say that they are listening to more vs. less broadcast radio than they were two years ago—with 24% reporting that they are now listening to more radio while just 22% said they are listening less.

· Just over a quarter (26%) of online Americans said that they listen to Pandora on a weekly basis while 15% said that they listen on a daily basis.

Pandora users are also more likely than other Americans to listen to AM/FM radio online and on a mobile device. More than three-in-ten Pandora users (31%) say that they have streamed a radio station using a desktop/laptop in the past month (vs. 12% of non-Pandora users). Meanwhile, 16% of Pandora users said that they have streamed an AM/FM radio station on a mobile phone over the past month (vs. 3% of non-Pandora users).



Vidler sees a future where there’s room for both broadcast and online radio. “The results show that Pandora and radio can coexist,” says Vidler. “Pandora delivers music fans a unique music experience. But, as we dig deeper into the survey data, we also see that Pandora listeners value AM and FM radio for a personal connection that Pandora doesn’t deliver.”

The survey was commissioned by the Canadian Association of Radio Broadcasters to better understand the potential impact on Canadian radio tuning in the event that Pandora, or a service like it, is launched in Canada. It was conducted on Vision Critical’s Sparq survey platform using both computer and mobile devices between September 26 and October 1, 2012. Respondents were randomly drawn from Springboard America, Vision Critical's proprietary online research panel of more than 150,000 Americans.

Vancouver, CANADA – November 28, 2012 **–** Despite the rapid growth of Pandora, an online radio service offered in the US, a recent online survey of 1,017 adult Americans conducted by Vision Critical indicates that Pandora's gains are not coming at the expense of AM/FM radio. In fact, the results of this study showed that Pandora listeners report spending 50% more time listening to AM/FM radio than non-Pandora listeners.

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"Pandora delivers music fans a unique music experience. But, as we dig deeper into the survey data, we also see that Pandora listeners value AM and FM radio for a personal connection that Pandora doesn't deliver."

The survey was commissioned by the Canadian Association of Radio Broadcasters to better understand the potential impact on Canadian radio tuning in the event that Pandora, or a service like it, is launched in Canada. It was conducted on Vision Critical's Sparq survey platform using both computer and mobile devices between September 26 and October 1, 2012. Respondents were randomly drawn from Springboard America, Vision Critical's proprietary online research panel of more than 150,000 Americans.

Study: Pandora listeners spend more time with AM/FM than non-Pandora listeners. **Another study confirms that listening to streaming audio services is additive to radio listening and not cannibalizing the medium. An online survey of 1,017 adult Americans conducted by Vision Critical in late September finds that Pandora listeners report spending 50% more time listening to AM/FM radio than non-Pandora listeners. Pandora listeners self-report spending 19.1 hours a week tuned to AM/FM radio compared to 12.7 hours a week for survey participants who don't use Pandora. Pandora users are also more likely than other Americans to listen to AM/FM radio online and on a mobile device. More than three-in-ten Pandora users (31%) said that they have streamed a broadcast radio station using a desktop/laptop in the past month, compared to 12% of non-Pandora users. Meanwhile, 16% of Pandora users said that they have streamed an AM/FM radio station on a mobile phone over the past month while only 3% of non-Pandora users have. Vision Critical SVP of media and entertainment research Jeff Vidler says the survey shows that Pandora is just another way for music fans to get their fix. "Pandora users are musical omnivores who want all the music that they can get, however they can get it," he says. "They not only listen to more broadcast radio, they listen to more music on their iPod, on CDs and satellite radio." The study found Pandora listeners were slightly more likely to say that they are listening to more vs. less broadcast radio than they were two years ago — with 24% reporting that they are now listening to more radio while just 22% said they are listening less. It also shows that Pandora is becoming a regular habit for a growing percentage of Americans. Just over a quarter (26%) of online Americans said that they listen to Pandora on a weekly basis while 15% said that they listen on a daily basis. The study was conducted by Vancouver-based Vision Critical for the Canadian Association of Radio Broadcasters. Pandora isn't currently available in Canada and the**

trade group commissioned the study to better understand the potential impact on Canadian radio listening in the event that Pandora, or a service like it, is launched there.

Listener hours for October were 1.25 billion, an increase of 65% from 754 million during the same period last year. Share of total U.S. radio listening for Pandora in October 2012 was 6.55%, an increase from 4.27% at the same time last year.

Active listeners were 59.2 million at the end of October 2012, an increase of 47% from 40.3 million during the same time period last year.

Because Pandora calculates radio market share using a seven-day trailing period as of the end of the month, this figure was temporarily suppressed by the effect of Hurricane Sandy. As of October 24, 2012, the company's market share was 6.75%.

November 2, 2012

On yesterday's third quarter earnings conference call, **SiriusXM**'s outgoing CEO **Mel Karmazin** took a shot at personalized Internet radio services such as **Pandora**. *Billboard.biz* notes that Karmazin did not mention Pandora, or any other service, by name, but said that such companies are in a "race to the bottom in terms of business model." He continued, "those companies which can grow users and provide good customer experience usually have the worst business models." Karmazin added that to fix their business models, such companies require "a whole lot more commercials, and that means harming the customer's experience."

Pandora to offer ad-free mobile listening to Windows phones users. **Pandora has released overhauled mobile apps for iPhone and Android smartphone users and early next year it says it will serve a third operating system. Windows Phone users will be able to listen to commercial-free stations for one year when the app's released in first quarter. It's a similar ad-free promotional move to what Clear Channel has made to users of iHeartRadio's customized radio feature. It's a risky move for the pureplay webcaster that's still posting quarterly losses. While Clear Channel has other sources of revenue, most notably its 850 radio stations, Pandora relies on digital ad sales. To highlight what the service can do for advertisers, Pandora has partnered with McDonald's, Nike, Sony Pictures and State Farm to be highlighted in the app's new social features by offering such things as sponsor tips and product information. ComScore says Microsoft's Windows-based phones hold 3.6% of the market. Meanwhile, Pandora says the new iPhone and Android 4.0 versions are the biggest redesigns it has done since it first created the mobile apps. They offer new features and functions, including the ability to more easily interact with social networks. Pandora CEO Joe Kennedy says the company has surpassed 175 million registered users and more than 115 million have accessed Pandora on a smartphone, claiming the app is on more than one out of every three smartphones**

Pandora addresses growing competition and need to bump mobile ad revs with comprehensive app redesign

Posted by

Paul Maloney

Title

[Pandora addresses growing competition and need to bump mobile ad revs with comprehensive app redesign]

From Issue:

RAIN 10/30: As Pandora use shifts to mobile, new apps bring along service's web functionality

Leading webcaster Pandora late yesterday announced the **relaunch of its mobile apps for Apple's iPhone and iPod Touch** (but reportedly not the iPad) and **Google Android smartphones**. The company says its "Pandora 4.0" is the most significant and comprehensive redesign of the applications since their first launch on the mobile platforms.

Undoubtedly, with the majority of Pandora's listening now coming from mobile devices, the company sees the need to both (a) offer mobile users the **full functionality of the service**, and (b) **monetize mobile listening** at a rate in line with web listening.

San Jose Mercury News tech blog **SiliconValley.com** describes the redesign as "essentially bringing the features of its website to users of its apps." The blog suggests Pandora's need to ramp up mobile advertising dollars was a main force behind the redesign.

For the launch Pandora has brought on **four major advertisers as sponsors** of "tips and information" inside the redesigned apps: McDonald's, Nike, Sony Pictures, and State Farm. SiliconValley.com reports that these sponsors will launch mobile ad campaigns to appear in the apps' new social features in the coming weeks.

Interestingly, TechCrunch characterizes the app redesign **more as a "competitive" move**, with a view of quickly "locking in" listeners as **Spotify gains** visibility in the U.S., and with a **possible Apple entrance** into the Internet radio market.

Over 75% ***of Pandora's 3.3 billion listening hours in the quarter ending July*** *came from mobile* **-- *nearly double the amount from a year earlier. Pandora says more than 115 million of its 175 million registered users have listened on a smartphone, and that "***_over 1 in 3 smartphone users in the U.S. have listened to Pandora in the past month_***." Pandora will further increase its mobile footprint next year when Microsoft makes the service*** *available on the new Windows Phone 8* ***, with one year of ad-free use.***

worked out to $100 million in 2012, putting it second to Google in terms of mobile ads," writes TechCrunch. SiliconValley.com writes, "revenue from mobile ads was up 86% at $59 million in the last quarter."

But by enhancing ***the usability of the app, and increasing the value of interacting with it, it's clear that the*** *value of any advertising* ***that accompanies it is also increased.***

App users will get access to many features of Pandora's website for the first time. Pandora's page described the new apps reveals they've simplified the **navigation and controls** for listeners.

A favorite on the web, **dedicated artist pages**, are now available via mobile. Listeners can now see their own **personal music profile**, with a detailed timeline of their listening (stations created, bookmarked tracks, ratings history), and they can share that profile via social media, or keep it private.

Taking a cue from the Facebook timeline, the "**music activity feed**" is now part of the app as well. Listeners can find and follow their friends and see what music they're enjoying, or explore similar listeners' play history. And the apps offer "**instant sharing**:" for the first time on mobile devices Pandora listeners can share links to their favorite stations and tracks on Facebook, Twitter, or among their Pandora friends.

The Pandora 4.0 app for iOS is available in Apple's AppStore now. The app for Android smartphones will be available from Google in the next few weeks

- **How Long Can Pandora Afford These Generous Payouts?**
- **By Anders Bylund, The Motley Fool Posted 12:40PM 10/12/12 Posted under: Investing**
- **000010**
- **Pandora Media (NYS: P) just released some payment details on musical performers large and small. The numbers make Pandora look like a working musician's favorite paycheck generator, whether you're an established superstar or a small-time act struggling to make a living.**
- **On the top end, rappers Drake and Lil Wayne are closing in on $3 million of direct payments from Pandora in 2012. Coldplay and Adele aren't far behind, collecting million-dollar annual royalty checks from this outlet.**
- **On the lower end, a relative unknown such as Mexican Cumbia band Grupo Bryndis is expected to receive $114,000 in performance fees over the next year. That's not too shabby for a group that Amazon.com (NAS: AMZN) ranks behind 183,000 other groups in music sales.**
- **Pandora founder Tim Westerberg waxes poetic about**

these payments: "We're talking here about the very real possibility of creating, for the first time ever, an actual musicians middle class," he said. But Pandora represents just 6.5% of all radio listening in America, lumping satellite and FM radio together with pure online entities. It's pretty obvious that most acts *don't* make 15 times these sums from radio royalties right now.

- Left unsaid in Westergren's blog post is the fact that Pandora is currently lobbying for sweeping changes to American radio royalty rules. You don't have to be a Pandora executive or shareholder to see that the current system is grossly unfair.

- Satellite radio monopolist Sirius XM Radio (NAS: SIRI) pays about 6% of its gross service revenues as content royalties. The company also pays up the nose for premium content from Howard Stern and others, but that's by choice -- the government has set a very low rate for Sirius' basic content rights. By contrast, Pandora's royalties add up to roughly 50% of its revenue stream.

- Oh, but it gets better. AM and FM stations don't pay royalties at all.

- The playing field is heavily tilted in favor of traditional radio, while Sirius gets a far better deal than Internet services like Pandora, Spotify, or Rdio. Do you think it's fair to charge different royalty rates for the same song, depending on what medium handled the transfer from (virtual) turntable to eardrum?

- I'd buy Pandora shares in a heartbeat if this favoritist policy was ever reversed, but then I'm not holding my breath for politicians to stop playing favorites. The

current rules expire in 2015. Talks over a new rulebook are slated to begin in 2013.

- **Old-line media giants have deep pockets, but are even richer in Washington connections. FM radio is under attack, but heavily fortified behind these cushy royalty arrangements. This state of affairs cannot last forever, but Pandora may not make it into the next era. Just look at this depressing chart:**
- **P data by YCharts.**
- **Take note that these trailing cash flows are negative, and not getting any stronger. In other words, the company is bleeding cash.**
- **Pandora desperately needs royalty reform. Any investment in this stock is a bet that politicians will do the right thing, across party lines and all.**
- **Pandora may be out of luck, but all hope is not lost for forward-thinking media mavens. Despite being one of the market's biggest winners since bottoming out three years ago, there is still some healthy upside to be had if things go right for Sirius XM -- and plenty of room to fall if things don't. Read all about Sirius in our brand-new premium report. To get started, just click here now**

By Carl Marcucci on Sep, 24 2012 with Comments 0

Anthony DiClemente, Barclays Equity Research Analyst, gave his take on "The Internet Radio Fairness Act," which House lawmakers introduced 9/21. The idea of the bill is to bring royalties paid by services such as Pandora in line with those paid by satellite and cable audio services. Theoretically, that should include internet radio streams operated by broadcasters.

Pandora has endorsed the bill because it avoids the thorny issue of terrestrial radio royalties. It wants a clean vote on whether it should be at parity with other digital platforms without having the bill dragged to its doom by AM and FM broadcasters.

DiClemente thinks it will help Pandora's bottom line, but with a warning: "The Internet Radio Fairness Act, which proposes to lower the royalties that Internet radio services pay by placing it under the same rate standard of the Copyright Act as cable and satellite radio. The bill is unlikely to be voted on before year end, however. We believe that new legislation could benefit Pandora's profitability profile, and thus improves the outlook for shares. We do note, however, that improved economics for Internet Radio could also effectively spur new and more vigorous competition from large established technology companies.

Internet Radio Fairness Act adds risk to being Underweight. Since early spring, we have been cautious on Pandora on three points: 1) difficulty in monetization owing to a advertising mix shift to mobile; 2) higher relative variable content costs limiting profitability; and 3) extended valuation multiples. While Pandora's current agreement with SoundExchange is long term in nature, if Pandora's lobbying efforts with Congress continue to gain traction at an accelerated pace, content costs as a percentage of revenue (we estimate 59% of 2013E revenue) could decline before expiry of the current agreement with SoundExchange, improving margins.

New legislation could put Internet Radio content costs on the same plane as cable/ satellite radio. Currently, satellite radio provider Sirius XM pays 8% of gross revenue, but is in the process of renegotiating its royalty rates with SoundExchange for 2013-2017, with the outcome uncertain. If Pandora's royalty rates were lowered to meet the levels of cable/satellite (and not vice versa), Pandora's future profitability would improve. We do, however, believe that improved Internet Radio economics could also drive more intense competition from heavyweight players in the technology world."

-

Apple's potential entry into Internet radio is poised to put Pandora on the takeover wish lists of companies including Google, Amazon and Clear Channel, postulates a Bloomberg story.

Pandora is projected to increase revenue by 214% in the next two years. With the shares down 34% since their IPO, a buyer could acquire a company trading for 21% less than the industry's average price-to-sales ratio using next year's forecasts, the story noted.

Pandora sank 17% on 9/7 amid speculation Apple will introduce a rival service. Should Apple do so, that may compel Google or Amazon to snap up Pandora's 150 million registered users to offer the service on mobile devices, Albert Fried & Co. and Needham & Co. said.

Clear Channel may be interested as listeners and advertisers shift to online media, according to Wedge Partners Corp. Needham says Pandora could fetch $14 a share in a takeover, a 32% premium, while Albert Fried sees the potential for a deal at about $20.

“When you look at the value of Pandora to another company, it’s the infrastructure they have created, it’s the advertising business, the success with mobile,” John Rudolph, senior adviser at investment bank Siemer & Associates, told Bloomberg. “Pandora has such a big installed base and such a huge number of users, there’s value in that.”

Pandora represents 74% of online-radio listening, and its share of all U.S. radio use has climbed to 6.3% from 3% a year ago, said Dominic Paschel, the company’s vice president of corporate finance and investor relations. “That essentially makes us the largest station in most of the top 10 markets. We anticipate being the No. 1 radio station in pretty much all of the top 180 markets by the end of the year.”

An acquirer would get a company projected to increase revenue to $861 million in the fiscal year ending in January 2015, up 214% from $274.3 million in fiscal 2012, according to analysts’ estimates compiled by Bloomberg.

Apple’s entry into online radio could spur rivals such as Google and Amazon to step up their competing efforts by acquiring Pandora, according to Albert Fried’s Richard Tullo and Needham’s Laura Martin.

Google is the developer of the Android software that runs smartphones produced by companies such as Samsung. Amazon makes Kindle e-readers and tablet computers.

Apple could win as many as 20 million users for its radio service within a year, Tullo said.

“Because Apple is doing something, that makes everybody else want to counter their move,” Tullo told Bloomberg. He sees a buyer possibly paying about $20 a share for Pandora, which closed 9/20 at $10.58.

TuneIn signs Spanish Broadcasting System

Ongoing migration to digital radio platforms documented in new study. Offering the most dramatic snapshot yet of how quickly radio consumption is moving to internet-delivered platforms, nearly half of respondents (46%) to a new Alan Burns/Triton Digital poll say they listen daily to AM/FM radio on a computer. That’s significantly higher than the 29% of Americans who said they listened to online radio in the last week in Arbitron & Edison’s survey conducted in January and February of this year. The difference in methodologies — Burns/Triton used an online opt-in survey, Arbitron/Edson conducted a national telephone survey — may be as much of a factor as the ongoing shift to online listening. Burns/Triton also report nearly one in four smartphone owners (23%) say they listen to broadcast radio daily on their smartphone. The poll finds radio's smartphone audience is using both station-specific apps and ones offered by aggregators. The percentage of smartphone owners that have downloaded a specific radio station app (22%) is about the same as those who have downloaded the iHeartRadio app (21%). Aggregator TuneIn's app is further down the list, downloaded by 8% of the sample. The study finds nearly one in four (39%) listen weekly to music on their smartphones while one in four do so daily with 17% listening for an hour or more daily. Meanwhile, consumers with in-car internet access are not using radio significantly less — perhaps 7% less, the study suggests. Among the two in ten (19%) that report having internet access in the car, the vast majority (70%) say they listen most to AM/FM radio in the car. The study also calls into question industry theories that Pandora listening takes more time away from recorded music collections than radio. Of those who listen weekly to the pureplay, 28% say they are listening less to CDs, MP3s and records — the same percentage that say they're listening to less radio. But the majority (52%) says they aren't listening less to other music sources or they just don't know. "Radio AQH may be nibbled at by other media but consumers don't sense themselves using it less," consultant Alan Burns says. More than half (55%) say they are listening to radio the same, 30% say more and 21% less.

Pandora	
Aided Recall	69.1%
Most Recent Usage (Among Those Aware)	
Past 24 Hours	10.8%
Past Week	15.1%
As % of Total	
Past 24 Hours	3.5%
Past Week	4.9%

Using Any Music Source Less As Result of Pandora Listening?

Of Pandora Weekly Cume

No/Don't Know	52.4%
Radio Stations	28.4%
CDs, MP3, Records	27.9%
Other Sources	23.3%
YouTube	20.0%

AM/FM Radio on Other Platforms

	Daily	Hour or More
On Computer (incld laptop/tablet)	46.4%	36.2%
On Smartphone	23.0%*	18.1%

* of Smartphone owners

ALAN BURNS & ASSOCIATES

Streaming Music Usage on Smartphones Growing

Listening to All Music Sources – Radio streams, Pandora, Etc.

Weekly	39.3%
Daily	25.4%
1+Hour Daily	16.5%

ALAN BURNS & ASSOCIATES

In-Car Internet Impact

What do You Most Listen to in Your Car?

	Internet in Car?	
	No	Yes
AM/FM Radio	77.7%	70.3%
AM/FM Local Stream	-	4.6%
Total Radio	77.7%	74.6%

ALAN BURNS & ASSOCIATES

Spends 80% or More of In-Car Time With AM/FM

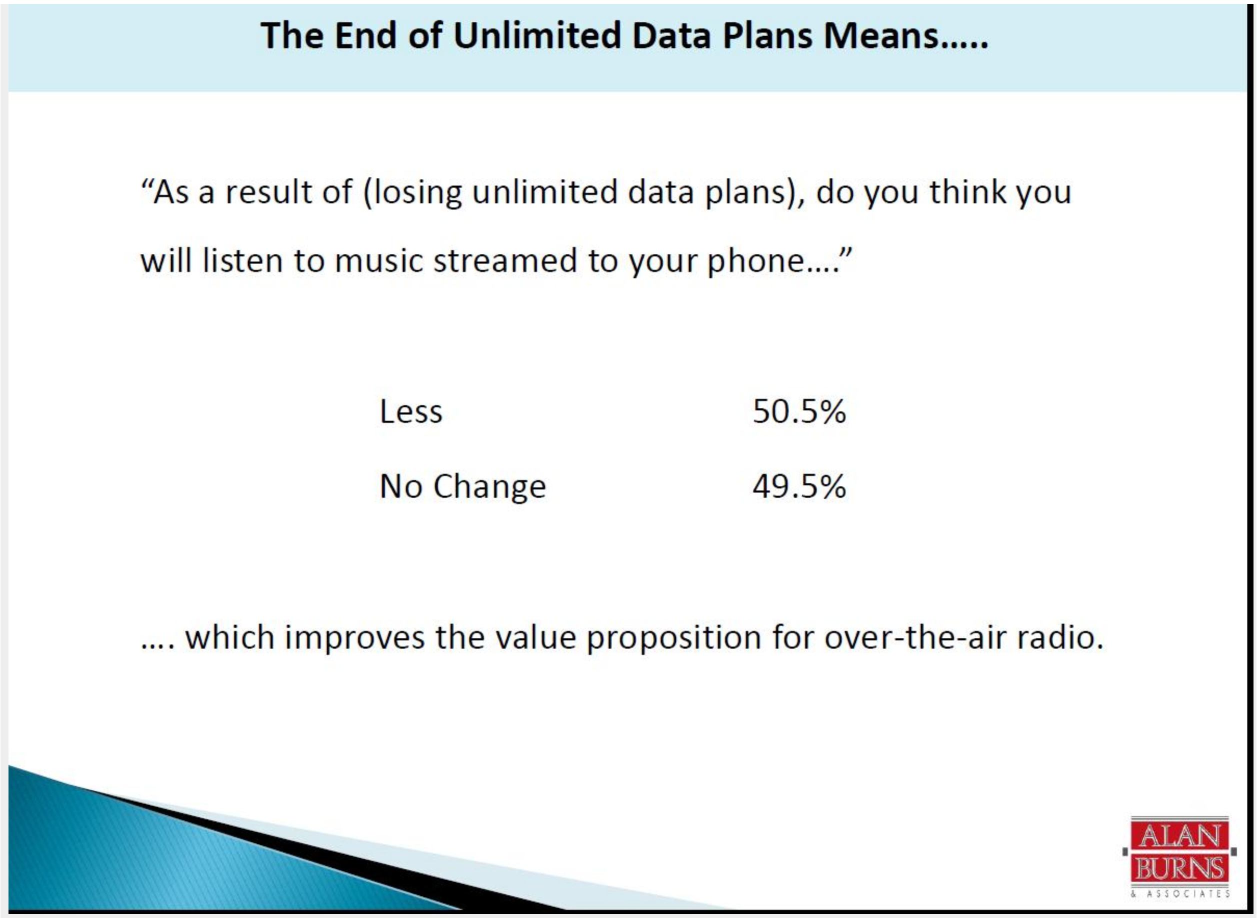
Those With In-Car Internet	47.8%
Those Without	54.8%
	-7.0%

In-Car Internet Impact

Have Internet Access in Car: What Do You Listen to Most?

AM/FM on the Radio	70.3%
Local AM/FM Stream	4.6%
Distant AM/FM Stream	4.0%
Other – CDs, MP3, etc.	12.6%
Personalized Music Stream	8.5%

ALAN BURNS & ASSOCIATES



THE FUZZY MATH CONTINUES ONLINE

9-9-2012

Pandora has just released its August 2012 metrics and like the previous two months, the numbers are up. That goes against everything we've been told by Triton, which reported all audio listening is down in the summer. Pandora reports "listener hours" for August were 1.16 billion, compared to July which were 1.12 billion.

Pandora does not detail what a "listener hour" is in its report. Triton reported that Pandora had 1.413 million "Average Active Sessions" in July and 1.421 in June. Pandora again claims it has 6.3% of all radio listening, although it provides no detail about how they come to that conclusion.

Pandora also claims active listeners are 56.2 million for August, an increase from 54.9 million in July and 54.5 million in June.

Apple Radio Expansion Threatens Rivals

by Mark Walsh, Yesterday, 12:24 PM

The recent report that Apple plans to launch its own Web radio service sent tremors through the online music industry. As the biggest player in digital music, the company's expansion to music streaming could have major repercussions for Pandora and Spotify. A new study by NPD Group points to the possible reasoning behind Apple introducing a competing service.

The research firm found that 64% of iTunes buyers also listened to online radio, and nearly 60% use Pandora. That suggests Pandora to date has enjoyed a certain peaceful coexistence with Apple in the digital music space. But that could change if the latter were to start its own radio offering.

"The rising popularity of online radio helps explain Apple's rumored interest in streaming radio," said Russ Crupnick, SVP of industry analysis for NPD. "As listening migrates from downloads on laptops to streams on phones and tablets, it would make sense for iTunes to offer customers the same integrated experience they have been known for by adding a streaming capability."

Online radio and on-demand services remain the fastest-growing form of music consumption in the U.S. in the second quarter, according to NPD. Consumer awareness of Pandora's free ad-supported radio service represented half of all Internet users, while one-third were also aware of the company's paid subscription service, Pandora One.

Clear Channel's iHeartRadio had 25% awareness, followed by Spotify, at 19%, which is twice the level at its launch in 2011. Half of those aware of Pandora used the service in the second quarter, compared to a quarter of those who recognized iHeartRadio or Spotify.

Apple continued to dominate digital music purchases, with iTunes boasting a 64% share of the digital music downloads and 29% share of all music sold at retail. Amazon's MP3 store was a distant second with a 16% share, followed by Google Play, eMusic, Zune Music Pass and others, each with a share of 5% or lower.

NPD projects the digital music market to grow by about 10%, on a unit basis, this year.

"Despite increased usage of streaming radio and on-demand services, the market for digital ownership is still growing as the market evolves from the desktop to the pocket, and Apple remains well-positioned as the market leader," said Crupnick.

Pandora Attracts More Listeners, Advertisers

by David Goetzl, Sep 14, 2012, 6:01 PM

Internet radio service Pandora, which just announced a 48% increase in active listeners to 56 million by the end of August, continues to excite advertisers. Pre-roll online spots should also continue to garner more ad dollars, according to a Wall Street analyst.

"Advertisers are loving Pandora," came a headline in a report by Wells Fargo's Marci Ryvicker Friday.

She said speaking with advertisers, they indicated that Pandora is viewed as a "very efficient local buy for large, national advertisers." With pre-roll, she wrote the interest is mitigated by a "lack of a comprehensive measurement system."

Apple building its own customizable web radio service. Since Apple released its first iPod in 2001, the question on many broadcasters' minds is whether the tech giant is a friend or foe to radio. The waters are about to become a lot more murky. The Wall Street Journal reports Apple is preparing to launch its own ad-supported customizable online radio service similar to what Pandora and iHeartRadio offer. Apple isn't commenting on the report, which says the company has begun holding discussions with record labels about licensing deals that would give its customers more flexibility in how they consume music than is typically allowed. Royalty costs have scuttled the idea in the past as Apple executives have weighed a web radio type of product. It could be months before Apple has any deals in place and is able to launch the service. If or when that happens, it is expected it will work across Apple's suite of portable devices. The Journal reports it potentially may work on Windows-based devices as well. One platform that it won't be compatible with is smartphones using Google's Android operating system. That leaves a sizable gap since comScore says as of July Android had a 52% market share compared to 33% for Apple. The development sheds new light on a new technology that Apple has appeared to have developed. Apple has won a patent for technology that allows users to swap out commercials or songs they don't like from webcasts and over-the-air broadcasts. So far Apple hasn't said if it's ready to be rolled out, or how it sees the invention being used. It presumably would be part of the digital radio service. Apple will debut its iPhone 5 next Wednesday

Pandora Just Told The SEC It's Taking A Huge Hit On Mobile Ads

by **Jim Edwards** on **Sep 4, 2012, 11:45 AM**

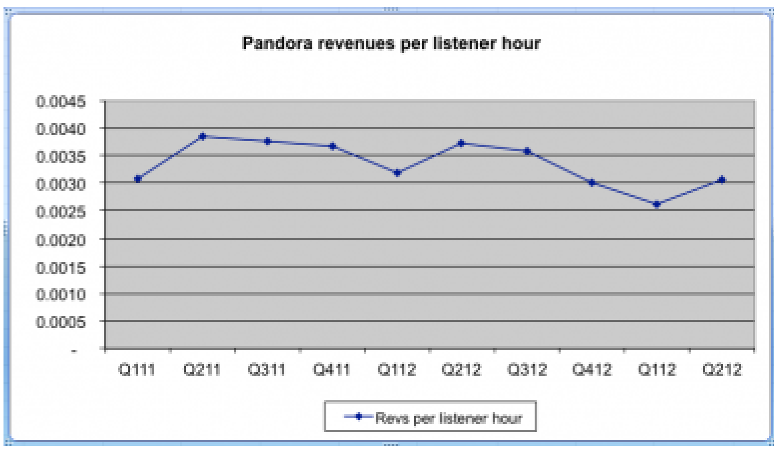
Pandora, the popular online music streaming service, filed a 10-Q this morning describing in more detail how it's handling the massive influx of mobile advertising revenue it booked in Q2 2012.

The context here is that Pandora has still not figured out how to sell ads profitably, and the company has repeatedly posted net losses. Nonetheless, it is probably one of the five biggest mobile ad businesses in the U.S.

Pandora previously told investors that mobile ad revenue increased by 86% to $60 million in its fiscal Q2 2013. Total revenues were $101 million. Today, the company disclosed the downside of all that. Here's the summary:

- A 112% increase in the number of ads delivered.
- A decrease in the average price per ad of approximately 27%, due in part to the mobile ad mix.
- An increase in Pandora's sales force by approximately 80% year-over-year

In other words, Pandora hired more salespeople, and sold more ads—but at a huge discount from the prior year. It's incurring greater costs to sell less stuff.



All that explains what we told you on Aug. 30, which is that revenue per listener hour is in decline at Pandora. That's a crucial metric for the company, because every listener hour generates song royalty expenses that Pandora does not control.

As a result, Pandora has altered the language in the "Business Model" section of its 10-Q to warn that the ad revenues are not keeping up with the increased mobile listenership (see page 16):

… our content acquisition costs increase with each additional listener hour, regardless of whether we are able to generate more revenue. As such, our ability to achieve and sustain profitability and operating leverage depends on our ability to increase our revenue per hour of streaming through increased advertising sales across all of our delivery platforms. **To date, we have not been able to generate additional revenue from our advertising products as rapidly as we have been able to grow our listener hours on mobile** and other connected devices ...

Yikes.

Here's What's Going Wrong At Pandora Right Now

Jim Edwards|Aug. 30, 2012, 1:52 PM|1,620|4

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- Email
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B.I. / Matt Lynley

Pandora CEO Joe Kennedy

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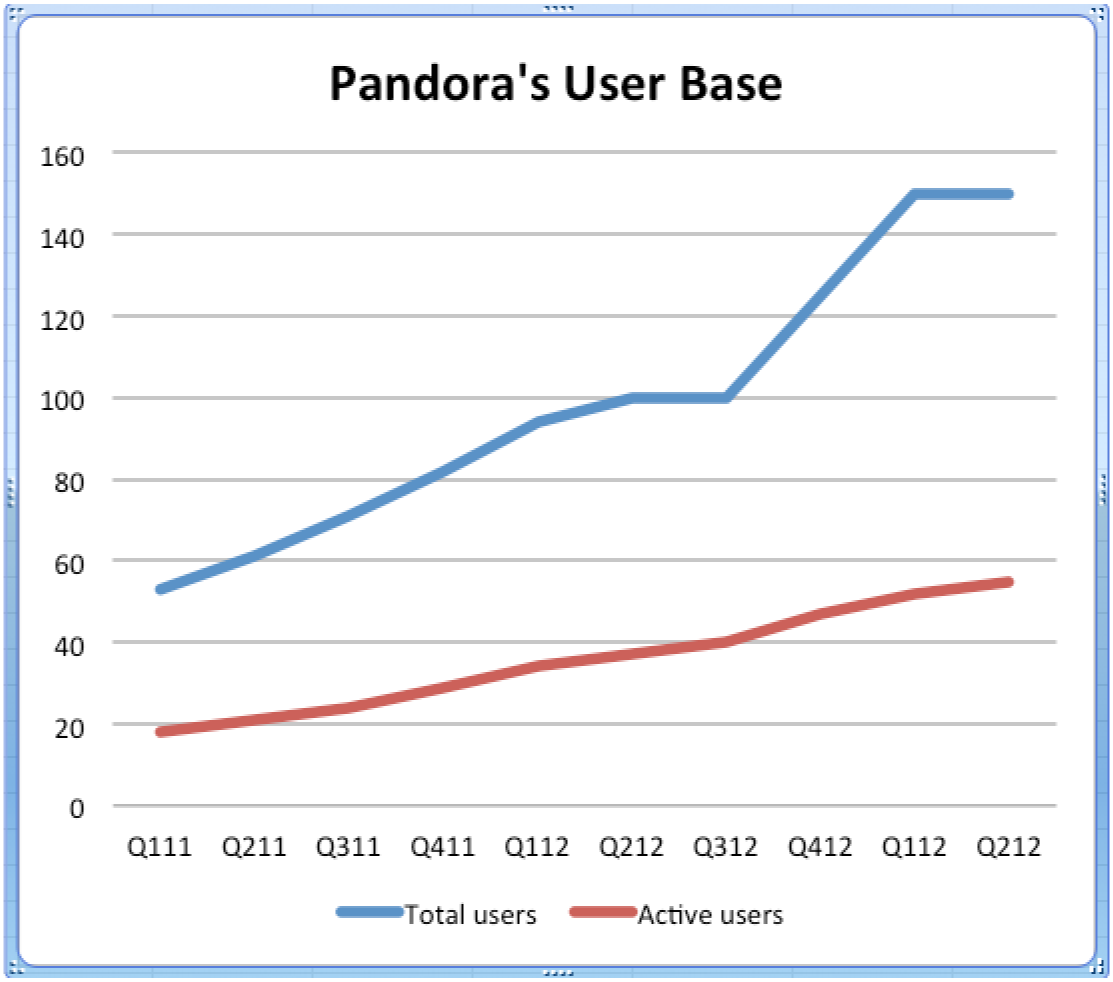
12.26	Change +2.18	% Change +21.63%

Pandora's fiscal Q2 2013 earnings showed yet another quarter of robust revenue growth—and yet another loss on the bottom line. The market—buoyed by Pandora's mobile revenue growth—boosted the stock on this news.

We've made the case *ad nauseam* that Pandora's business model is fundamentally flawed and can only be rescued if its lawyers and lobbyists can persuade the record labels to lower the royalties they demand to be paid on each song Pandora plays.

But in this most recent disclosure, a new problem has emerged for Pandora: It might be reaching a ceiling on its growth.

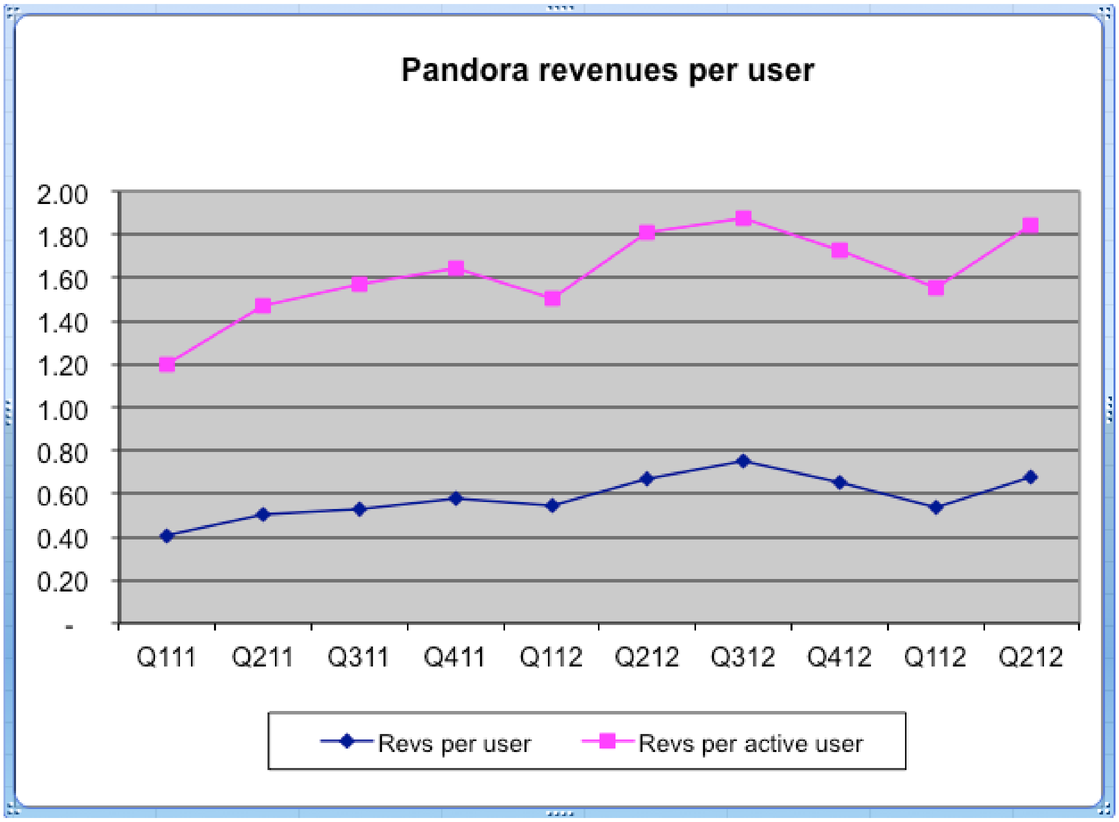
Here are some charts showing Pandora's user growth and how much it gets in revenue. At first glance, Pandora's user base appears to be growing:



Pandora

But the number of total users has hit a plateau. It hit a plateau in the same period the year before, so we don't yet know if the trend is still up or if there really are only 150 million people who want to listen to streaming radio.

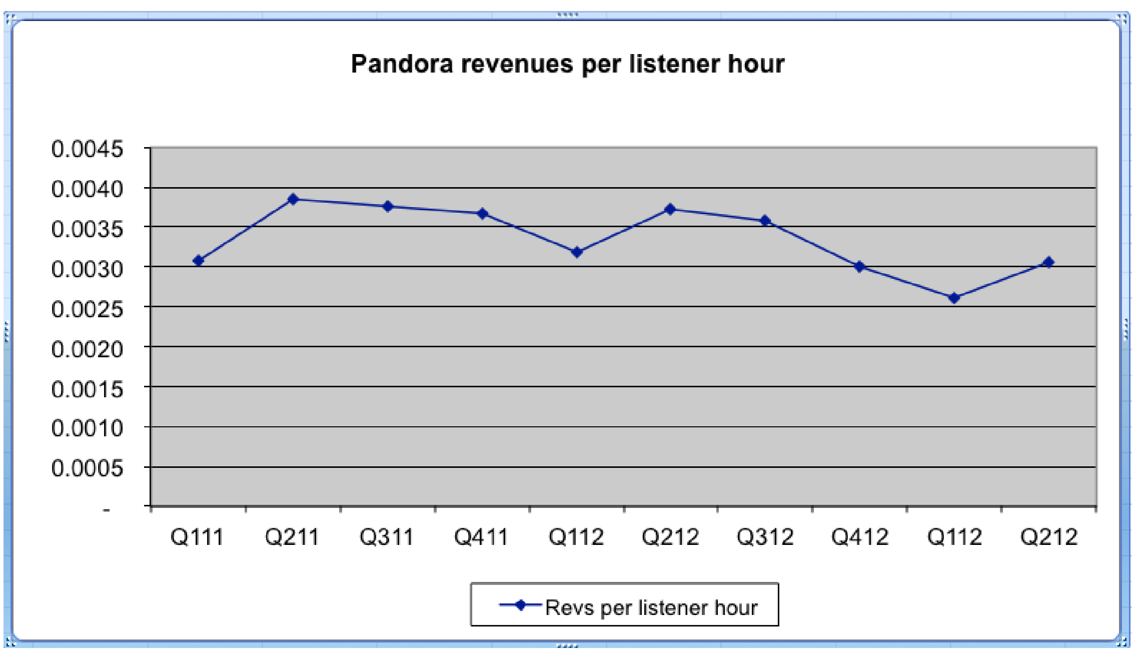
More worrying is the situation around how much money Pandora makes from every user it has:



Pandora

Pandora can't seem to get through that $1.90 per user level of revenue. Still, Pandora's revenues are obviously seasonal, so these lines could still be trending up.

But look at revenues per listener hour:



Pandora

This is definitely trending down. It would seem that even though Pandora might be booking more total revenues for each listener, the average money it makes per hour from each listener is in decline.

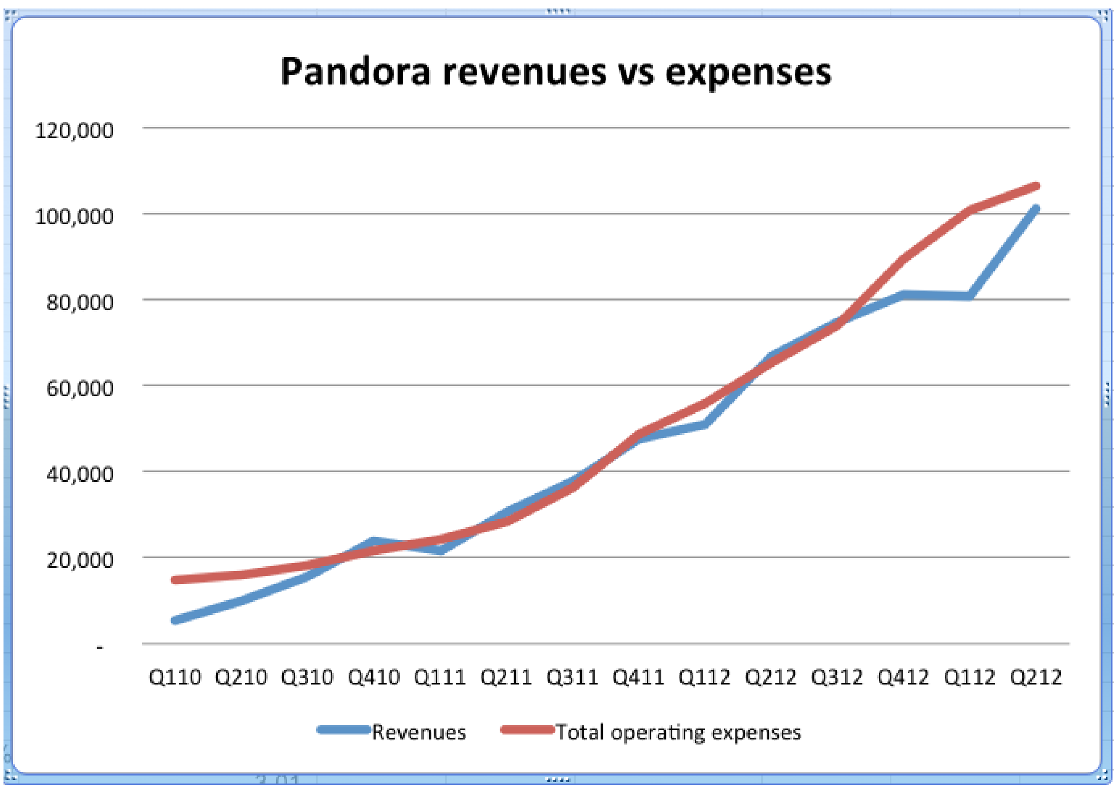
Why? (We asked the company for comment but haven't heard back yet.)

Here's one theory: **Pandora's mobile ad business might actually be *hurting* it.**

Mobile ad revenue, at $59 million in Q2, is now a majority of the company's total revenues. Mobile ads are a lot cheaper, generally, than desktop ads because they're smaller and fewer companies are set up to buy them. So there's less overall demand.

Could it possibly be that because more people are accessing Pandora on their phones and tablets, and because Pandora has been so successful in attracting mobile ads, that the glut of lower-priced mobile inventory Pandora is serving to its user base is lowering the revenues it gets per hour of songs played?

If that's the case, then the structural problem at Pandora could be about to get worse. It's already bad because Pandora's expenses are pegged directly to its revenues. Historically, Pandora has been unable to make $1 without spending $1.06 to get it. That trend continued in Q2:



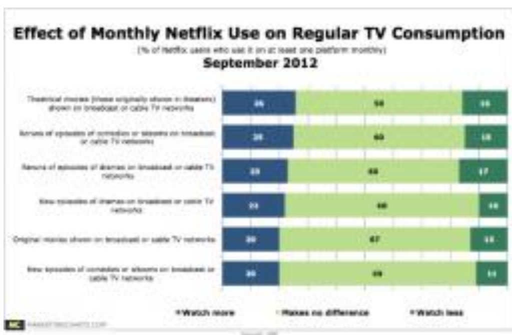
Pandora

Lower ad prices on mobile, coupled with a ceiling in users: That's the worst-case scenario that is now Pandora's No. 1 problem. It also makes the need for [Pandora to launch its new Facebook-style ad exchange]() even more pressing.

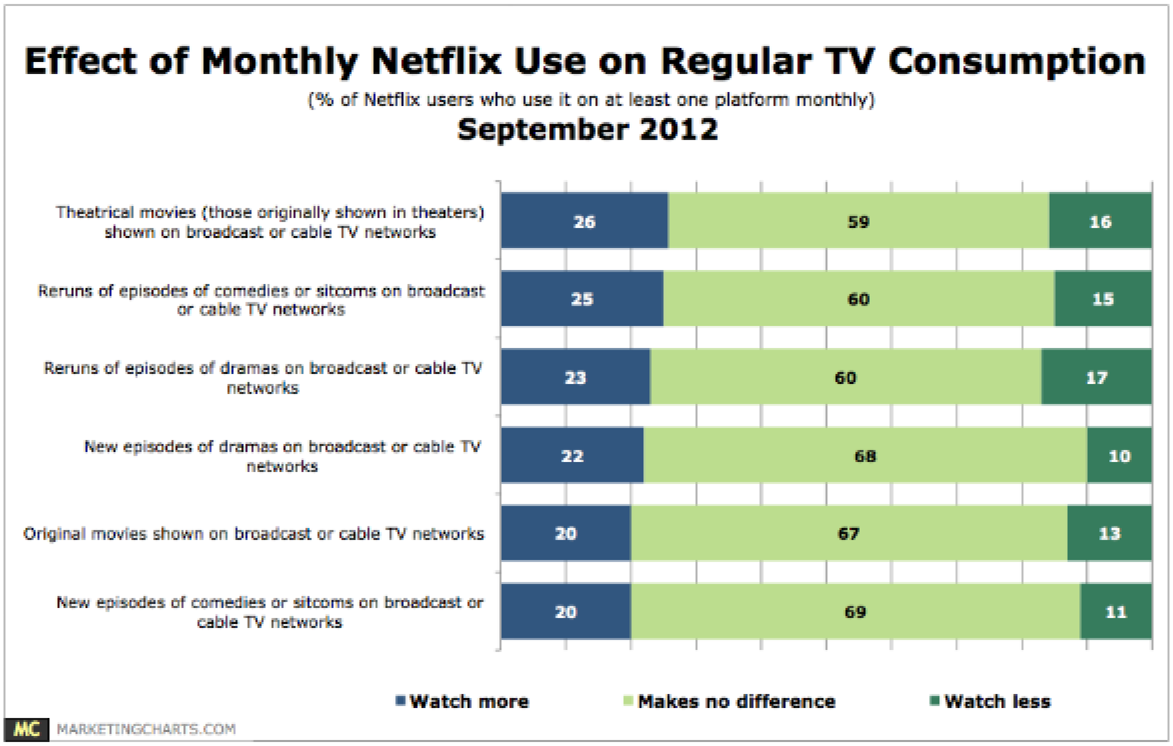
(COMMENT: LENDS CREDENCE TO ALL OF THE STUDIES THAT HAVE BEEN DONE THAT CONCLUDEDTHE SAME THING- THAT AUDIO ALTERNATIVES ARE SUPPLEMENTS, NOT SUBSTITUTES)

Netflix Users Say Regular TV Content Consumption Unaffected

September 7, 2012 inShare1



Most regular users of Netflix (those who use it on at least one platform monthly) say that their Netflix viewing has no effect on their consumption of various program genres on regular TV, per results from a GfK study released in September 2012. In fact, these Netflix users are more likely to say that their Netflix viewing has a positive rather than negative impact on their regular TV content consumption. For example, while 68% say Netflix makes no difference to their viewing of new episodes of dramas on broadcast or cable TV networks, 22% say they watch more of these episodes as a result, compared to 10% who believe they watch less.



Source: GfK

Posted by:* *Michael Schmitt

Pandora's revenue and active user count both grew around 50% year-over-year in Q2 of fiscal 2013, while its mobile revenue **nearly doubled**. But that still wasn't enough to offset growing royalty costs, which amounted to nearly 60% of the company's revenue this quarter. To combat those high costs, Pandora has stepped up lobbying efforts for more manageable rates and is striving to -- as CEO Joe Kennedy said -- "**disrupt the $16 billion radio advertising market**."

The webcaster's revenue for Q2 of FY13 (the three months that ended July 31) reached **$101.3 million** -- up 51% year-over-year. Its mobile revenue in particular **grew 86%** year-over-year, reaching $59.2 million. "This quarter demonstrated that our mobile monetization strategies are working," said Kennedy.

Mobile represents around 58% of Pandora's total revenue, which accounting for 75% of usage. But Kennedy says they're "narrowing that gap... That ultimately is the key to getting the content acquisition costs down," he told *Billboard* (**here**).

Pandora accumulated 3.3 billion listener hours during the quarter, a growth of **80%** year-over-year. The webcaster now has **54.9 million active users (comment- rate of growth flattening)** (up 48%). That growth in listening means higher royalty payments.

During Q2 FY13, Pandora paid $60.5 million -- or just under **60% of its revenue** -- in royalties to the music industry. That's up 79% year-ovear-year. Royalties have accounted for 63.9% of Pandora's revenue during the first half of the fiscal year, reports the *New York Times*.

All told, Pandora posted a net loss of **$5.4 million** for the quarter. That's the "sixth quarterly loss in two years," writes *NYT*, which also points out Pandora lost $3.2 million during this period last year. The problem, as always, are those royalty costs. Pandora is attacking the issue on two fronts.

First, the company "has already **begun lobbying** in Washington over its rates" in anticipation of new royalty rate proceedings, set to begin in 2014.

Second, "Pandora has been building up **local advertising sales teams** around the country, and also pushing to be included in ad networks that would put its service into direct competition with terrestrial radio stations," reports *NYT* (**here**).

"Salespeople are being deployed all over the country to compete with radio for advertising dollars," writes Radio Ink (**here**). "In 2011 Pandora had 427 people on the payroll. That number has increased to 589 employees with **the bulk of the new hires (79%) in sales**."

Banner blindness

Physical albums are one step closer to joining wooly mammoths, phone booths and Britney Spears' career on the list of extinct things. According to a study released last week by Strategy Analytics, digital music sales are expected to surpass physical music sales for the first time in the US in 2012, and globally in 2015.

While digital downloads have been leading the way on killing off physical music sales, it's music streaming that will apparently soon deliver the coup de grace. Strategy Analytics finds that the growth in streaming music revenue is outpacing that of download revenue in 2012, 40% to 8.5% meaning it is now leading the growth in revenue for the music industry. Apparently, people value the ability to play their music when and where they want via streaming from the cloud on multiple devices more than they do actually owning their music.

So, should Pandora be popping the champagne corks right about now?

Well, not quite yet. The problem is, the more listeners they get, the more likely they are to not be in business much longer, at least in the U.S.

Come again?

It all has to do with music royalties. Right now, as currently constructed, U.S. copyright laws require that those who stream music, such as Pandora, pay performance royalties on a *pay-for-play* basis. That is, they pay the artists who perform on recordings they streamed and the labels that owns them, at a rate of anywhere between $.0002 and $.0014 per digital performance. One "performance" is defined as the transmission of one song to one listener. So, more listeners = more performances = higher royalty payments.

See the problem for Pandora and other Internet radio providers?

Terrestrial radio stations don't pay these performance royalties for the music they broadcast; instead they pay much smaller royalties to songwriters and music publishers (as do Internet radio stations), though there is a movement to impose the performance royalties on broadcasters.

A Black Hole

The Wall Street community always amazes and confounds me at the same time. (Remember I suggested that Facebook would be a good buy.)

So when it comes to investing in media, are you smarter to commit your portfolio to up-and-coming new media outlets like Pandora OR stick with traditional media companies? Or Treasury Bills? Or Apple?

According to a detailed analysis in the investment report, **Seeking Alpha**, while Pandora may be growing its audience, the company's declining share value can be attributed not to a lack of advertising, but the onerous royalty fees it must pay.

The interesting part of the analysis is the conclusion that brands like Pandora and Sirius are **"at a real disadvantage when competing with terrestrial radio operators such as Cumulus Media and CBS Radio. These companies don't have to pay royalties to musicians and the record companies they work for under current federal law."**

The report also acknowledges that the Clear Channel/Tyler (sic) Swift deal is performance based. **"That saves Clear Channel money because it doesn't have to pay Swift if her music doesn't attract any listeners. Digital radio providers such as Pandora and Sirius have to pay royalties every time they play a song, even if the song generates no revenue. That makes digital music a black hole into which cash disappears, rather than a revenue generator."**

This is one person's opinion – and yes, he opted to stay anonymous, but I'm thinking it will ring true for many people, and not just those who wish that Pandora would simply go away. In broadcast radio, we are not used to thinking that customer acquisition is expensive, as it is with pure-play Internet brands.

So the next time your neighbor, Greg, tells you how cool Pandora while you're hanging out at the neighborhood barbeque, you might want to remind him that there's more to being successful than looking and sounding cool.

A great business model helps.

Interestingly, audience survey firm **The Media Audit** on Friday issued a correction to its recently reported Pandora estimates (which were reported in RAIN **here**). They reported Pandora's current total reach as 11.3% with adults 18+. As it turns out, the company didn't ask survey respondents about Pandora in 20 of the 81 markets it studies. So, when only those 61 markets in which Pandora usage was measured are tabulated, its shows **"Pandora's reach among adults** within The Media Audit's 61 measured markets to be **22.6%**, and represents **more than 30.7 million unique monthly users** within that same footprint."

Salt Lake City was Pandora's top market among those The Media Audit surveyed, showing almost **32% of its 18+ population** having logged onto Pandora in the **typical month**. SLC tops Boston (30.7%), Atlanta (30.3%), San Diego (28.8%), and Charleston (27.9%).

File sharing, MP3 players and online stores transformed the way we listen to music. Now the cloud is bringing even bigger changes. Pandora is the rock star of cloud-based music services, with a clear lead in streaming audio. But - true to music-industry form - a crowd of younger, hungrier rivals is pounding on the stage door.

Stairway to Heaven

Pandora struts like Mick Jagger in its latest financial report. The company's audio streams accounted for 6% of the total U.S. radio market and 72% of the top 20 Internet radio services in the most recent quarter. The number of active users on the site grew 53% year on year to 52 million, and total listening hours grew 92% to 3.1 billion hours.

That mix of rapid growth and high market share has given Pandora an early lead in streaming audio. Pandora's service is largely ad-supported, giving it an edge over rivals that charge a monthly fee. (The company offers an ad-free subscription service, but it accounts for only an eighth of total revenue.) Spotify, MOG and Rdio offer better on-demand streaming options, but they charge $9.99 a month for streaming to mobile devices.

Free is a big draw for Pandora on mobile. Listeners don't seem to mind the ads or the limits to skipping songs that come with free listening. Most of them seem so weary of commercial radio that they have turned to Pandora instead. And so mobile is big for Pandora: It delivers 70% of its streams to mobile devices.

An Arbitron survey found that 6% of drivers listened to Pandora on the road in 2011, compared with 8% for Sirius XM. Among drivers between 18 and 24, 19% listen to Pandora. And yet the old AM/FM radio remains the most popular source of music on the road. This presents an opening for online radio to displace a medium that annoys many of its listeners. Pandora, with its large share of the online-music market, is in a great position to seize the opportunity.

Highway to Hell

So why is Pandora's stock price slipping down the charts? The stock went public one year ago, and it has lost a third of its initial value since then. The Nasdaq Composite Index is up 9% during the same period.

Two things have kept investors out of the ticket line. One is the money the company has spent to entice its 52 million active users. The company brought in $304 million in revenue during the past year, but it still came up with a $26 million loss. The deficit, mostly due to royalties and marketing costs, has mounted in recent quarters.

That kind of spending would make sense if Pandora were cementing its early lead in a market that has high barriers to entry. Alas, the barriers to entry are low. And that brings us to the second of Pandora's problems: Competitors are coming fast and hard, and Pandora may simply be paving the way for them.

New Kids on the Block

Thanks to its duet with Facebook, Spotify – which finally launched in the U.S. in July 2011 – has acquired between 10 million and 20 million active users. (Facebook claims the latter figure, Spotify the former.) Audiophiles who took to Pandora early on are deciding that it's worth paying a monthly fee for on-demand mobile music through Spotify or established music services such as Rdio and MOG.

Meanwhile, other rivals are laying down fresh riffs. Songza, a free mobile app, plays hand-picked playlists rather than algorithm-selected tunes. It has displaced Pandora as the top-selling music app for iPhones and iPads. And this week, Amazon launched its Cloud Player app that lets users stream to mobile devices music they've bought or stored.

Anthony DiClemente, an analyst at Barclays Capital, issued a report this week noting Pandora's new competitors. He pointed out that Songza's ad-free, curated playlists offer an attractive alternative and that Amazon's established customer base and ability to give users more freedom in listening to songs could lure Pandora users.

Too Old to Rock and Roll, Too Young to Die

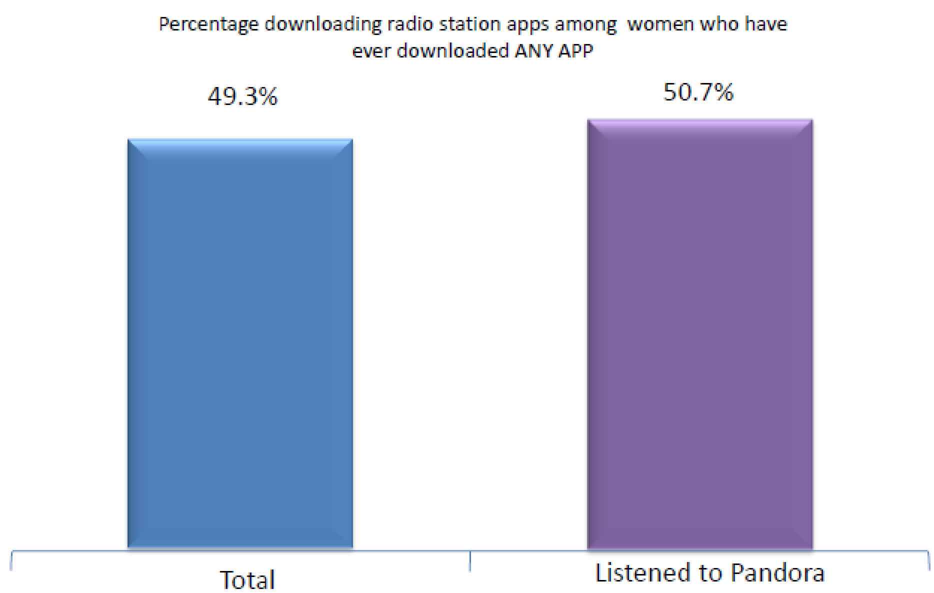
Pandora has done a great job of blasting a sclerotic music industry into the wings with free, streaming music. And the $81 million it holds in cash and short-term securities gives it the wattage to invest in innovation that could preserve its sizable market share.

But Pandora is losing money to grow in an increasingly crowded and aggressive market. The online music industry is still in its infancy, and Pandora's early lead is no guarantee it will continue to call the tune.

Radio Listening on Cells Growing

	2011	2012	Growth
Weekly	15.4%	26.2%	+70.1%
Daily	8.2%	13.4%	+63.4%

Pandora Users Like Radio Station Apps Too



In-Car Internet Access: Effect on Radio Usage?

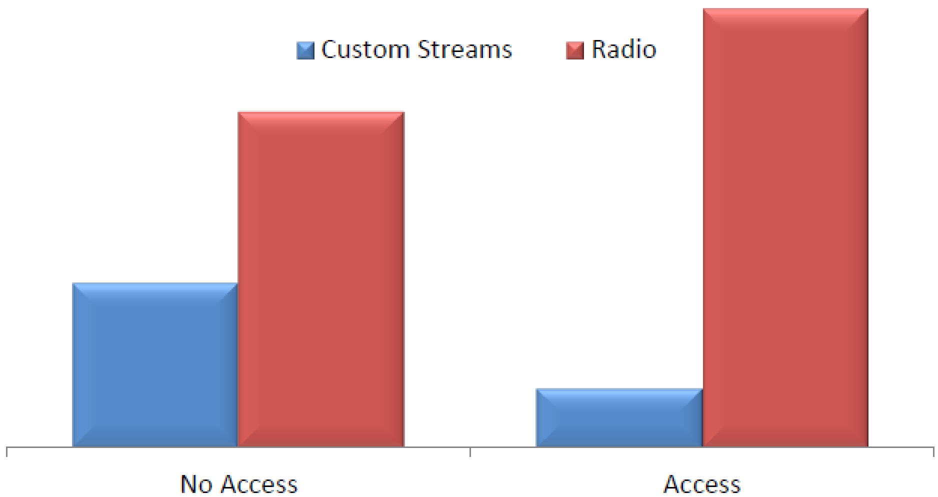
	Currently Have Web Access in Car? No	Yes
Daily Usage of Custom Streams	22.5%	53.6%
Daily TSL to AM/FM on a Radio	1:45	1:30
Daily Cume to AM/FM on a Radio	67.1%	80.0%
Daily Cume of AM/FM Streams	21.6%	50.0%
TSL to AM/FM Streams	1:30	1:30
Daily Cume of Radio while in a car*	69.5%	76.8%
Daily TSL to Radio while in a car*	1:30	1:30
Daily All-Radio* QH Indexed To All Women Average	.92	1.19

*On-air or online

Internet Access in Car

What do you think you'd listen to most in your car if it had internet access?

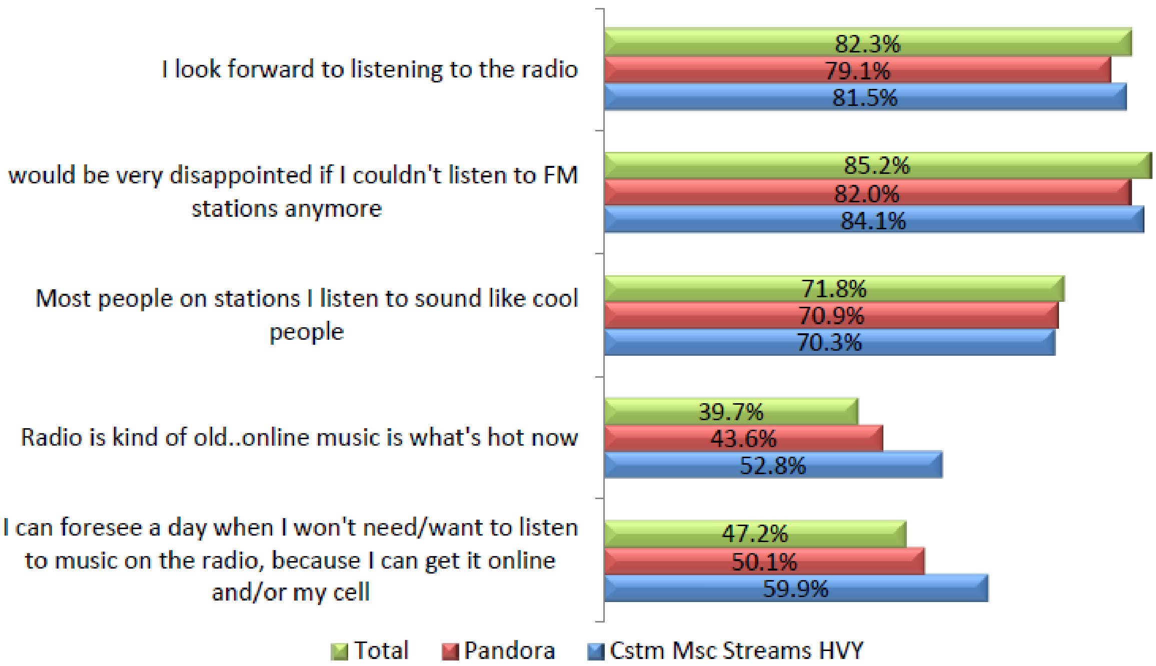
Your car has internet access, what do you listen to most?



Listen to Custom Music Streams On the Internet

	2011	2012
Weekly	42.1%	48.8%
Daily	22.1%	25.8%

How Custom Stream Usage Affects Attitudes (Total Agree)



"Big" Advantages of AM/FM Radio v. Online Streams

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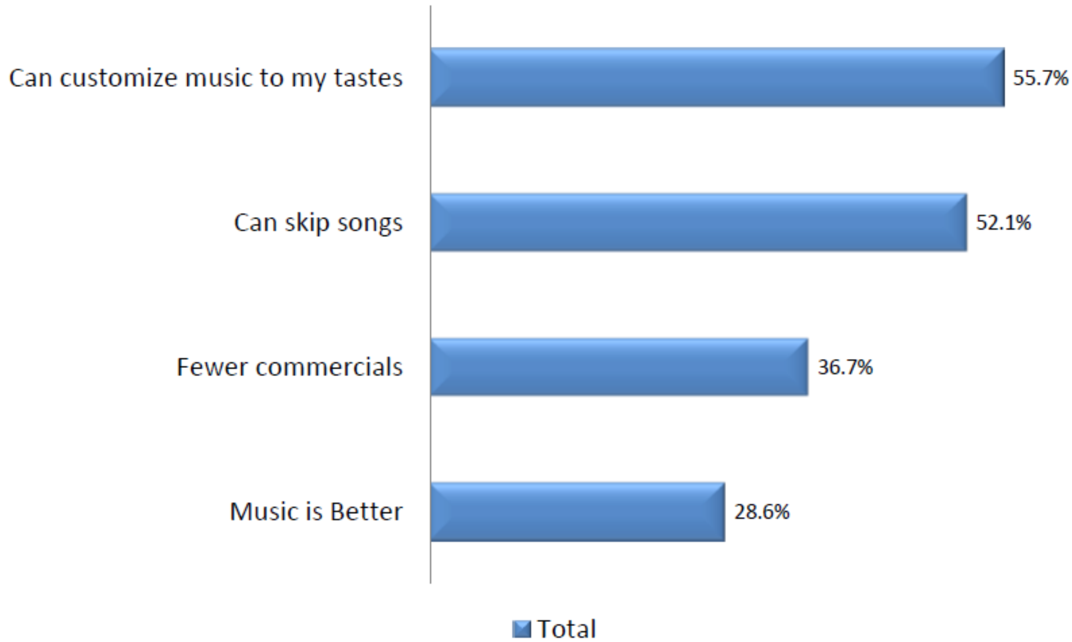


How Much Do You Like the Music

P1 Station vs Pandora

	Total	Radio on Radio HVY	Cstm Music Streams HVY	Pandora Users
Favorite Radio Station	8.0	8.2	8.1	8.0
Pandora	8.4	8.6	8.8	8.4
Difference	+4.9%	+4.9%	+8.6%	+5.0%

How Much Do You Like the Music

I Heart vs Pandora

	Total	Radio on Radio HVY	Cstm Music Streams HVY	Pandora Users
I (Heart) Radio	8.4	8.7	8.9	8.4
Pandora	8.4	8.6	8.8	8.4

Heavy Custom Stream users Listen to More Radio

Radio Usage	Heavy Stream Users	Indexed to Total
Weekly	90.2%	104
Daily	74.8%	109
Daily TSL	2:15	128

Heavy Streamers are Heavy Consumers of Media

	Total	Cstm Music Streams HVY	Index
Watch television	3:30	3:45	107
Facebook	2:00	3:00	150
Websites	3:15	4:15	131
Radio Websites	1:15	2:00	160
Twitter	1:15	1:30	120
Listen to AM/FM radio on a radio	1:45	2:30	128
Listen to online stream of AM/FM Radio	1:30	2:30	150
Listen to AM/FM on your cell	1:30	2:00	160

Do Pandora Users Feel They're Listening to Less Radio?

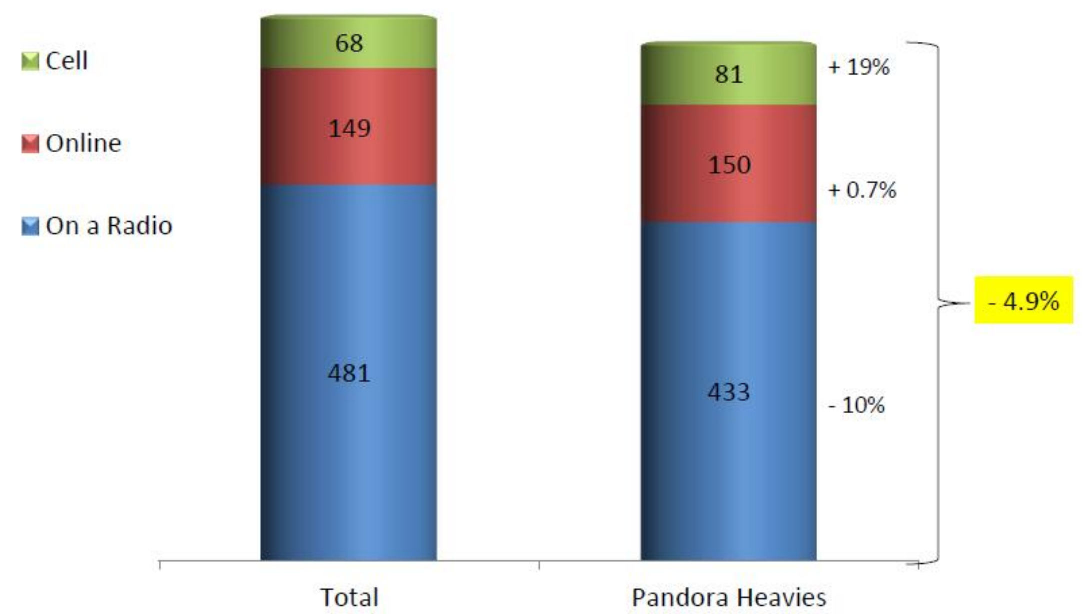
On a Radio…	Total Sample	Pandora	
		Ever	Heavy
Spending More Time	24.3%	27.9%	27.1%
Spending Less Time	17.6%	20.6%	18.8%
Net Change	+ 6.7	+ 7.3	+ 8.3

X

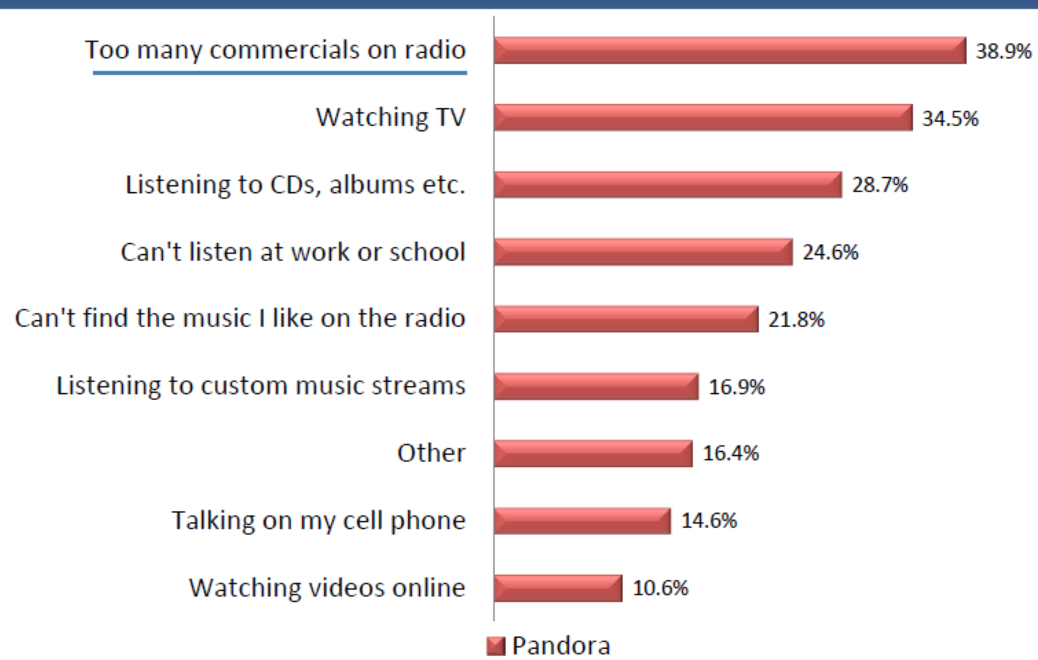
Radio Usage by Pandora Heavies

Cume Radio on a Radio	Pandora Heavies	Indexed to Total
Weekly	85.4%	99
Daily	72.2%	105
TSL to Radio		
On a Radio	1:30	86
Online	1:30	100
On a Cell	1:15	100

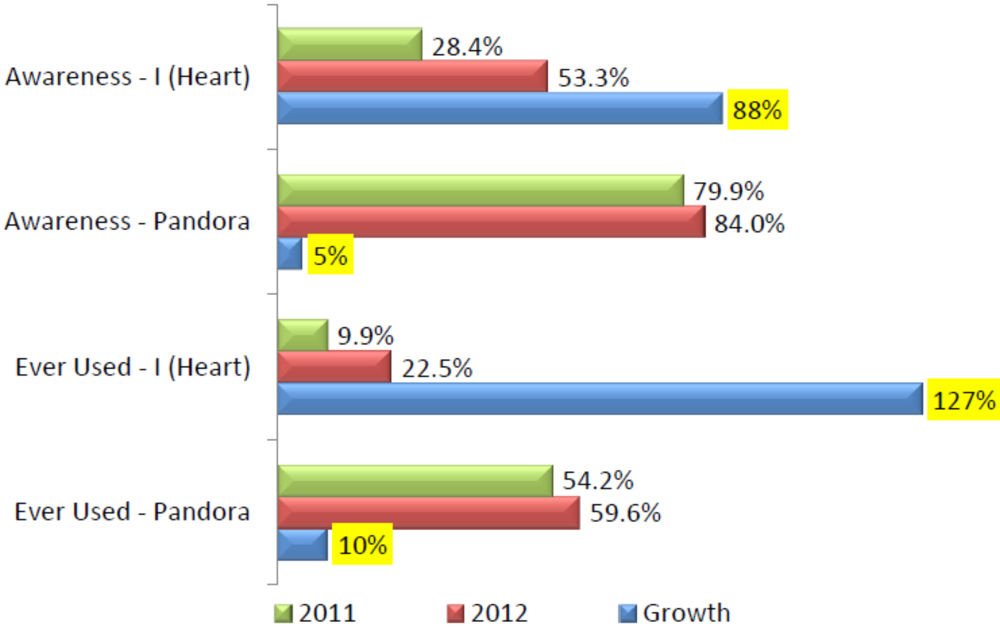
Pandora – 5% Effect
Based on Total QH to Radio



What Keeps Pandora Heavies from Listening to Radio More?



I (Heart) v. Pandora
I (Heart) Zooming. Pandora Slowing?



Summarizing: Ten Key Points

- Customizable streamers not having big impact on radio usage
- Pandora's biggest fans may listen to only 5% less total radio; their biggest complaint about radio is "too many commercials."
- iHeart is growing rapidly
- Radio's advantage is Local
- Custom stream's biggest advantage is <u>not</u> *how much better the music is* - it's just *knowing that you can control or influence it.*
- In that context, we saw last week that *knowing her opinion matters* is a key characteristic of both Arbitron cooperators and heavy radio listeners.

Summarizing: Ten Key Points

- Over 1/4 of all women have downloaded a radio station app
- Just over a third of all women think in-car internet access will be a factor in their next automobile purchase.
- Women who *already have* in-car internet access listen to more radio.
- Radio station web site visits finally showed a growth spurt this year, but stations generally aren't giving consumers enough compelling reasons to visit.

And one final observation: women keep telling us they're using *more* of everything when it comes to media....but at some point, they'll hit a limit and something will give. We all need to work hard to make sure that something isn't *RADIO.*

7/12 **Burns says research shows Pandora having "minimal impact" on CHR and AC formats.** Women who tune into Pandora as well as top 40 and adult contemporary radio spend less time with radio overall. That's according to an Alan Burns and Associates survey which finds Pandora users' daily Time Spent Listening is up to 5% lower than the all-women average.

7/12 **The Echo Nest updates offer a hint of where iHeartRadio and streaming is heading.** The Echo Nest's Fanalytics software is what powers the song choice for listeners who create their own stations on Clear Channel's iHeartRadio applications. Updates to the technology offers a hint of where iHeartRadio and other music apps are heading — turning toward more social interaction and more intelligent advertising sales. The first update is a new data service called Taste Profile Similarity, which gives a music service the ability to connect like-minded fans by determining their overall musical compatibility within a larger group. It takes into account a users' music collection, listening behavior and other factors for "social discovery" of music. "To create this app, we identified a whole bunch of internet memes and personas and made some predictions about the type of music each of these personas would listen to," Echo Next director of development Paul Lamere. "We then look at the music taste similarity between you and each of the personas." The resulting analytics, he says on a company blog, create a "musical stereotype" for each listener that can connect those types of people. The second update involves "affinity prediction" or how music preference is predictive of other media preferences and psychographic attributes. It's a back-end tool that will help webcasters connect content with advertiser messages. The Echo Nest is demonstrating the technology through a predictive correlation between musical taste and political affiliation. "We use all of this data to recommend you music on MTV.com or play you a great station on iHeartRadio, and here we're going to use it to see if you like big government," CTO Brian Whitman writes in a blog post. For instance EchoNest researchers discovered Kenny Chesney listeners were most solidly Republican, while Rihanna fans were most reliably Democratic. Separately The Echo Nest has just raised $17.3 million in new financing. The money will be used to continue development of "Fanalytics" software and expand its reach into the international market. The cash comes from Norwest Venture Partners, and brings the total the tech company has raised to $27 million. Norwest CEO Jim Lucchese says it sees an "enormous opportunity" around applying a "big data" approach to music. He says the firm believes Echo Nest technology can be used to create a distinct "musical identity" for consumers in a way that can be used to develop new personalized and social media.

7/12 Posted on Thu, Jul 19th, 2012 at 11:25 am
by **Richard Greenfield** — POSTS | DISCLAIMER Twitter RSS Email Phone: 646-450-8680 Chat with rgreenfieldbtig

On July 6, 2012, Pandora updated its iPhone app to version 3.2 (additional update to version 3.2.1 on July 10th). The focus of the update was a new app design to add artist bios, song history, lyrics, the ability to rate tracks easily and the ability to start a new station directly from the now playing screen. Pandora also pushed the volume control function into a pull-down menu that requires an extra click (*see the three bars shown in the picture embedded to the right – you need to touch that*).

The app update was clearly focused on increasing engagement with Pandora and in turn, increasing the opportunities to serve display advertising as a user clicks around the app. Essentially, the updates give users more to do with the Pandora app to offset declines in users need to rate songs over time. We continue to believe that rating songs happens rapidly for new users but once you have refined your playlists you are less apt to interact with Pandora and, in turn, be exposed to ads (you have not seen this impact Pandora's results because new active users have been growing so fast). While more displays ads damage the user experience, Pandora still makes a majority of its earnings from display ads (digital audio ads remain in their infancy).

- The screenshot to the right shows the new Pandora iOS app screen. Clicking the upper-right downward-left pointing arrow show artist bios and lyrics and sometimes triggers ads, such as this one we saw today.
- We also feel like closing the ad is getting harder with the "x" getting tinier and touching anywhere on the ad inadvertently causes the ad to fire up and take over the entire screen.

Unfortunately for Pandora, its users appear to be reacting quite negatively to the latest update. They appear frustrated by the layout change, the need for an extra click to change the volume, what appears to be a "buggy" app and excessive display advertising.

- While we are confident the bugs in Pandora's app are all fixable, the question becomes what is taking Pandora so long to address the problems and how will addressing consumers problems impact advertising opportunities going forward?

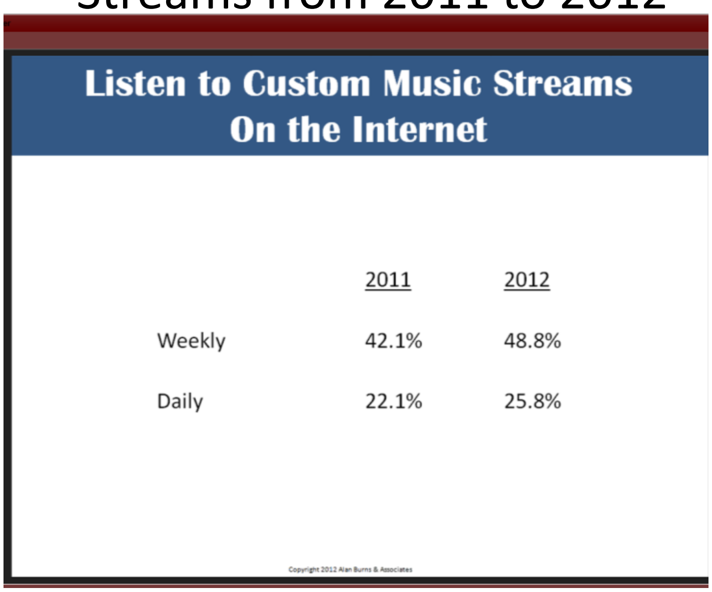
34% of Reviews are Now 1 or 2 Stars with Overall Rating Falling
Within the iOS store today, 34% of reviews for Pandora version 3.2.1 are only 1 or 2 stars. We have embedded some of the recent user comments detailing their issues/problems with the latest version, but it is worth taking the time to read a wider array on either an iPhone or iPad.

- Pandora's ratings in the iOS store (both iPhone and iPad) are falling, now only 3.5 stars, which is in-line with iHeartRadio and now further below Spotify (5 stars).

- Interestingly, Pandora has now fallen to #34 in the free app store (has rarely been in the 30s since it launched

Read more: http://www.btigresearch.com/2012/07/19/why-do-consumers-hate-pandoras-latest-iphone-update-and-why-is-it-taking-company-so-long-to-fix/#ixzz216ZVGp6p

Little Growth in Use of Internet Music Streams from 2011 to 2012



How Much Do You Like the Music

iHeart vs Pandora

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Heavy Streamers are Heavy Consumers of Media

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Listen to online stream of AM/FM Radio	1:30	2:30	150
Listen to AM/FM on your cell	1:30	2:00	160

ALAN BURNS AND ASSOCIATES CEO ALAN BURNS has added additional insight to this week's findings, exclusively for ALL ACCESS. BURNS notes:

I think when it comes to music streaming services versus radio, this data is the equivalent of turning on the night light, dragging the Boogie Man out from under the bed, and discovering he’s not so scary after all. The heavy users of PANDORA even tell us they’re listening to more radio lately.

But the popularity of PANDORA, etc., should make us more attentive to something listeners have been telling us for decades, which is that they’d like to be able to influence the music we play.

For the second year in a row we've asked women to score the music on their favorite radio station on a 1-10 scale and, if they use PANDORA, to rate the music they get on PANDORA on the same scale. Both years, PANDORA's music was rated exactly -- and only -- 5% better. That’s not a very big gap for something that's causing so much commotion.

So if the ability to customize the music you hear only results in only a 5% better music product, what’s the big deal? I think it’s this: the knowledge that you can control the music may be more important than the actual control. Consumers are all about control, customization, and convenience, and PANDORA, etc., give them two or more of those (not to mention fewer commercials and the ability to skip songs

7/12 DVR for radio hooks up with wireless HiFi manufacturer. Time-shifted radio shows can now be played on Sonos wireless home hi-fi systems, thanks to a new app from Dar.fm. “Sonos has been great for music with Pandora and TuneIn and now it is also ideal for news, politics and other talk and music shows,” Dar.fm CEO Michael Robertson says. Launched in February 2011, DAR.fm is a cloud-based platform that allows users to time-shift radio on digital devices. Of the 20,000 shows it offers, 16,000 originate in the U.S., including popular talk shows like Rush Limbaugh, “Fresh Air” and Phil Hendrie. “These aren’t obscure navel-gazing podcasts, but nearly every AM/FM/network radio show in the U.S. and many non-U.S., like the entire BBC lineup,” Robertson says. The service has been compared to a DVR for radio but has yet to turn a profit. In June it launched mobile apps for Android and Apple devices that allow users to download what they’ve recorded and listen to it on their smartphone.

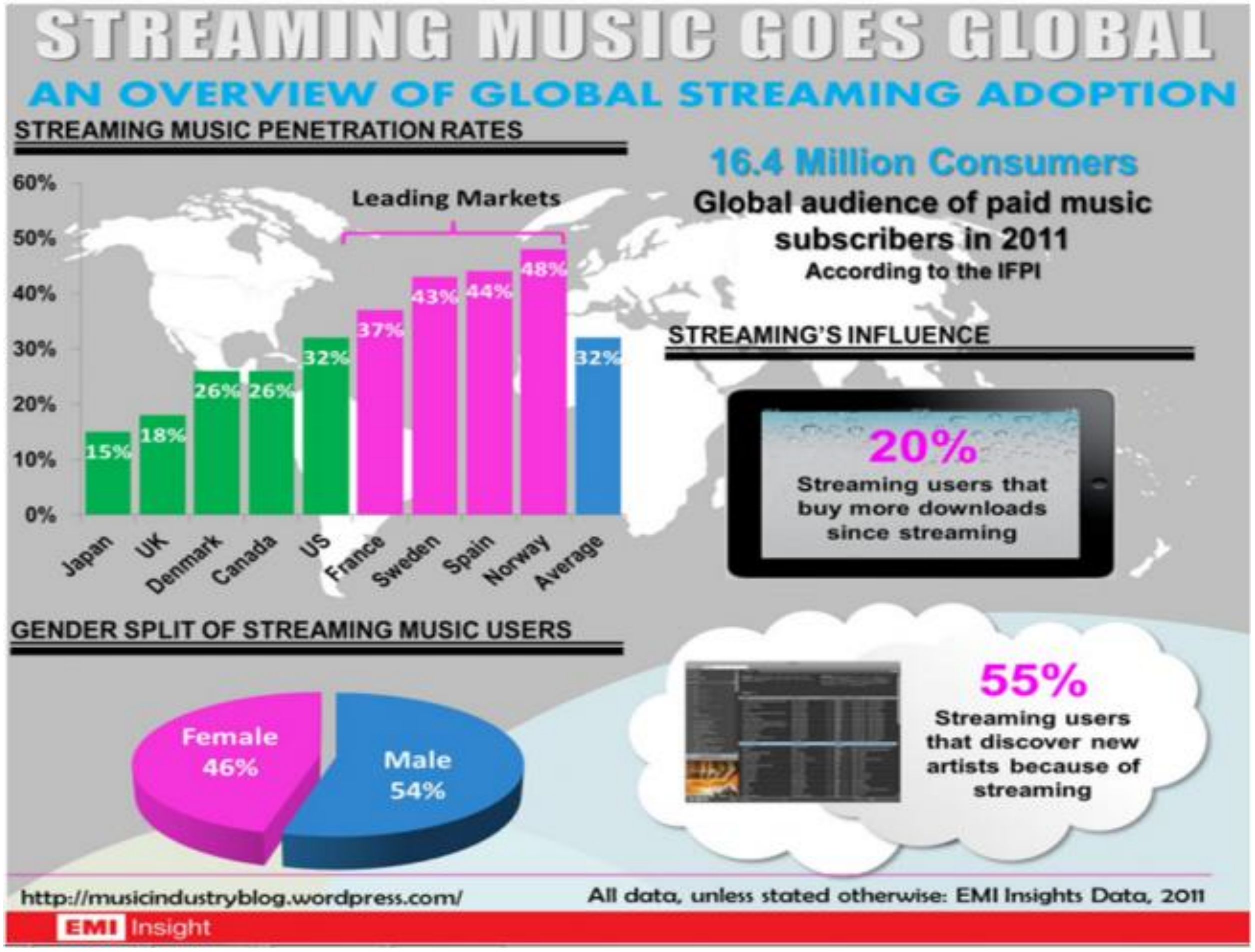
7/12 Burns study: Online listening "exploding." A quarter of women surveyed by Alan Burns & Associates say they've listened to internet radio, with younger demos even more digitally-focused. One-third of 18-34 year old females said their listening habits take them online, compared to 16% among 35-54 year olds. "Online listening TSL has exploded in the past year," Alan Burns & Associates SVP Jeff Johnson says. A single app may deserve the credit, he says. "A large part of this online radio increase is coming from iHeartRadio," Johnson says, pointing out their survey of CHR and AC listeners shows women are not only more aware of the app, but are also listening to it more. "Usage has more than doubled for iHeartRadio — it kind of shows what radio can do when we put our mind to it," he continues. Another big growth story for radio is cell phone listening, which Johnson says has seen "significant growth" since the programming consultancy's 2011 research was done. Nine-in-ten women with a smartphone reported downloading at least one application. "Even Pandora users are listening on the cell phone to a radio app," Johnson says. While the new platforms are seeing growth, the Burns survey was less rosy about on-air listening. It shows declines in Time Spent Listening to radio on the radio, as well as a drop in weekly cume. Johnson says when digital listening is factored in radio listening hasn't declined — in fact it's up 1.9%. While that is within the margin of error, at worst he believes listening is flat. "Radio really is resilient, but we're just in that transition mode of shifting devices," he says.

More women are creating their own custom channels, but the rate of growth slows. From iHeartRadio to Pandora, one of the biggest attractions for users is the ability to play digital deejay and create a station of one's own. A survey of women who listen to CHR and AC formats finds nearly half (49%) of respondents use the custom radio feature. That's up from 42% a year ago. One-quarter (26%) said they use a custom feature daily,

up four points over last year's survey. But Alan Burns & Associates SVP Jeff Johnson says that's a slower rate of growth than they've logged in previous years. "We may be seeing the tip of the iceberg where custom music streaming has started to plateau," he says. Roughly one-third of people said FM/AM radio's advantages are local weather, traffic and news, with one-in-five saying personalities and ease of use. "That's nothing shocking, but it does reinforce how important localism is to radio over custom streams," Johnson says. On the flipside, people who used custom channels say they most like the ability to tailor content (56%), song skipping (52%), and what's
typically a lighter spot load (37%). The survey also looked at in-car listening to online radio and found that women who have internet connection in their car are more than twice as likely to listen to a custom music stream on a daily basis. But Alan Burns says women who have a digital dashboard are big consumers of media overall — they listen to more radio each day and are more than twice as likely to listen to a broadcast radio station's webcast. He says that helps make up for the Time Spent Listening decrease. As for setting FM/AM radio aside for an iPod, 57% of women said they own or use the Apple mp3 player showing little change from 2011 or 2010 surveys. "I think we've seen iPod ownership and use peak," Johnson says**. "And it wasn't long ago that people were saying that iPods were going to destroy radio."**

7/12 Pandora Media, Inc. (NYSE:P): Samsung Electronics (SSNLF) confirmed, within the next few weeks, they will be launching, Music Hug, their digital music service in the U.S. However, they declined to disclose the pricing or launch date for the stateside debut. They are expected to compete with Pandora (NYSE:P), Spotify and others, according to The Los Angeles Times

IMPORTANT- Radio Ink: Here is what they told us about how they came to that conclusion. "We arrive at the calculation using data from Triton Digital, Arbitron and the U.S. Census. The estimated total hours includes satellite radio."
COMMENT: First, you do not need U.S. census data to compute a share
Second, there is no rating data for satellite



Pandora struts like Mick Jagger in its latest financial report. The company's audio streams accounted for 6% of the total U.S. radio market (COMMENT: see above explanation re the inaccurate Pandora claim of a 6% share) the and 72% of the top 20 Internet radio services in the most recent quarter. The number of active users on the site grew 53% year on year to 52 million, and total listening hours grew 92% to 3.1 billion hours.

That mix of rapid growth and high market share has given Pandora an early lead in streaming audio. Pandora's service is largely ad-supported, giving it an edge over rivals that charge a monthly fee. (The company offers an ad-free subscription service, but it accounts for only an eighth (12.5%) of total revenue.) Spotify, MOG and Rdio offer better on-demand streaming options, but they charge $9.99 a month for streaming to mobile devices.

Free is a big draw for Pandora on mobile. Listeners don't seem to mind the ads or the limits to skipping songs that come with free listening. Most of them seem so weary of commercial radio that they have turned to Pandora instead. And so mobile is big for Pandora: It delivers 70% of its streams to mobile devices.

An Arbitron survey found that 6% of drivers listened to Pandora on the road in 2011, compared with 8% for Sirius XM. Among drivers between 18 and 24, 19% listen to Pandora. And yet the old AM/FM radio remains the most popular source of music on the road.

Highway to Hell

So why is Pandora's stock price slipping down the charts? The stock went public one year ago, and it has lost a third of its initial value since then. The Nasdaq Composite Index is up 9% during the same period.

Two things have kept investors out of the ticket line. One is the money the company has spent to entice its 52 million active users. The company brought in $304 million in revenue during the past year, but it still came up with a $26 million loss. The deficit, mostly due to royalties and marketing costs, has mounted in recent quarters.

That kind of spending would make sense if Pandora were cementing its early lead in a market that has high barriers to entry. Alas, the barriers to entry are low. And that brings us to the second of Pandora's problems: Competitors are coming fast and hard, and Pandora may simply be paving the way for them.

New Kids on the Block

Thanks to its duet with Facebook, Spotify – which finally launched in the U.S. in July 2011 – has acquired between 10 million and 20 million active users. (Facebook claims the latter figure, Spotify the former.) Audiophiles who took to Pandora early on are deciding that it's worth paying a monthly fee for on-demand mobile music through Spotify or established music services such as Rdio and MOG.

Meanwhile, other rivals are laying down fresh riffs. Songza, a free mobile app, plays hand-picked playlists rather than algorithm-selected tunes. It has displaced Pandora as the top-selling music app for iPhones and iPads. And this week, Amazon launched its Cloud Player app that lets users stream to mobile devices music they've bought or stored.

Anthony DiClemente, an analyst at Barclays Capital, issued a report this week noting Pandora's new competitors. He pointed out that Songza's ad-free, curated playlists offer an attractive alternative and that Amazon's established customer base and ability to give users more freedom in listening to songs could lure Pandora users.

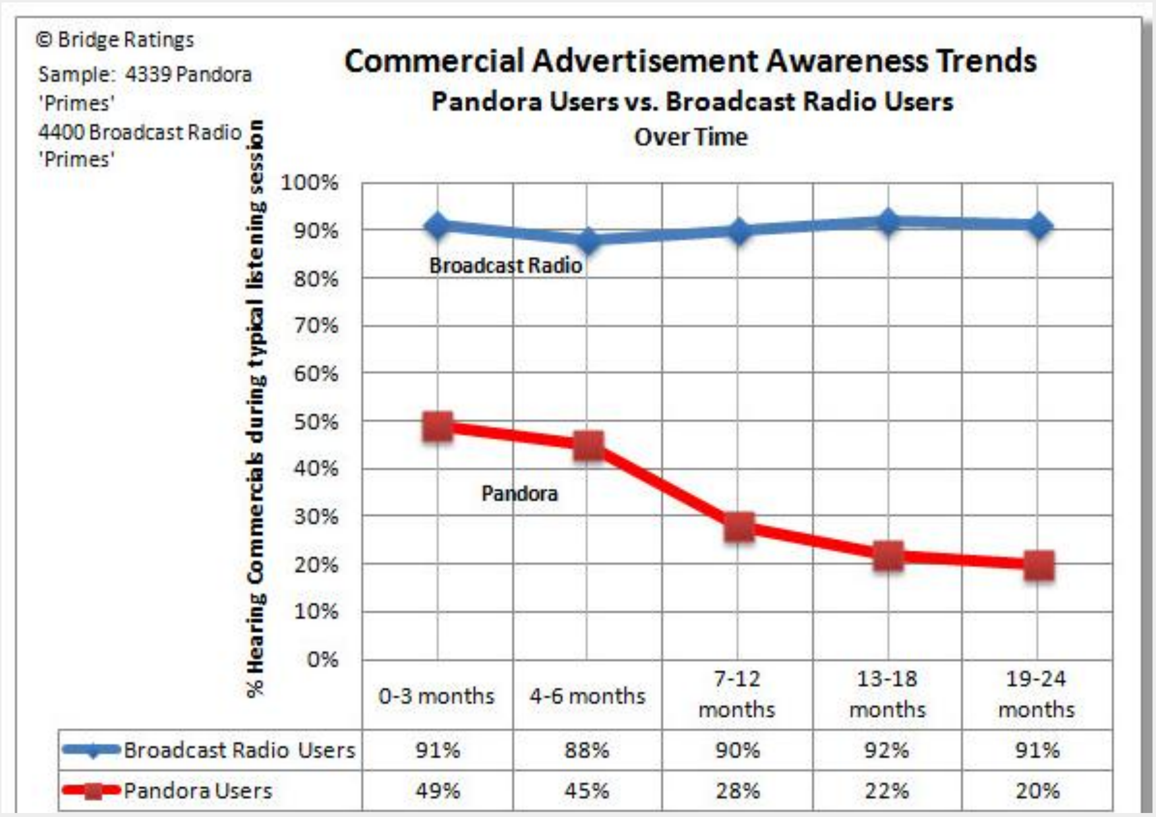
Too Old to Rock and Roll, Too Young to Die

Pandora has done a great job of blasting a sclerotic music industry into the wings with free, streaming music. And the $81 million it holds in cash and short-term securities gives it the wattage to invest in innovation that could preserve its sizable market share.

But Pandora is losing money to grow in an increasingly crowded and aggressive market. The online music industry is still in its infancy, and Pandora's early lead is no guarantee it will continue to call the tune.

Extremely Important:
Consumers report higher awareness of audio commercials on broadcast radio than on Pandora. New data released by Bridge Ratings from a survey conducted in the first quarter 2012 finds a low perception of audio commercials among Pandora listeners compared to listeners of broadcast radio. The study also finds that perception of commercial messages on Pandora deteriorates over time — the longer a consumer has used Pandora, the less aware they are of its commercial messaging. The findings are based on a sample of 4,339 heavy Pandora listeners and 4,440 heavy broadcast radio listeners between January 3-March 15. Heavy listeners are defined as those who listen at least an hour a day. Bridge reports nine of ten broadcast radio listeners recalled hearing commercials

during a typical listening session and that percentage remained consistent over time, regardless of how long the consumer has been a heavy radio listener. But percentages of Pandora listeners who reported hearing audio commercials during a typical listening session fell from 50% among consumers who had been listening to Pandora for three months or less to 28% for those who had been listening for seven-12 months to 20% among those listening for 19 months-two years. "These low perception scores may be linked to the presentation as well as both the length and hourly quantity of commercial messages that were evident during the time this study was fielded in the first quarter of 2012," Bridge Ratings president Dave Van Dyke says. "Nonetheless, as an environment that positively supports commercial messaging, broadcast radio has high scores for awareness of advertising." The study didn't look at recall of display or video advertising on Pandora or any advertising on broadcast radio steams.



A 100% Certain Way to Lose Millions

By Eric Bleeker and Jeremy Phillips, The Motley Fool

Posted 2:52PM 05/26/12

The following video is part of our "Motley Fool Conversations" series, in which Chief Technology Officer Jeremy Phillips and senior technology analyst Eric Bleeker discuss topics across the investing world.

After Pandora's less-than-stellar earnings, the stock popped more than 10% on stronger-than-expected top-line growth. There was only one problem, though, its losses tripled. In this video, Jeremy and Eric discuss the inherent flaw in

Pandora's business model, and other players that don't own the intellectual property on which their business is based.

http://www.dailyfinance.com/2012/05/26/a-100-certain-way-to-lose-millions/

5/12 Customizable radio, like the offerings from Slacker, iHeartRadio, Pandora and others, is **a "combination of art and science,"** members of the "Personalizable Radio" panel at RAIN Summit West explained. The discussion was one of the most popular and thought-provoking of the conference.

The "art and science" metaphor was first put forward by **Owen Grover**, SVP of iHeartRadio. On the one hand, there's the "science": data from companies like The Echo Nest and Rovi about what artists are similar to other artists, what vocalists sound the same, what guitar solos are related and so on.

But then there's the "art" of also taking into account the much more complicated "cultural" factors, explained Rovi Director of Architecture & Innovation **Michael Papish**. That is, linking artists and songs that don't necessarily relate to one another scientifically, but that are tied together in popular culture. "There's a lot more going on than just saying 'these two songs sound alike, therefore we should play them together.' There's a lot more behind why humans like different types of music," said Papish.

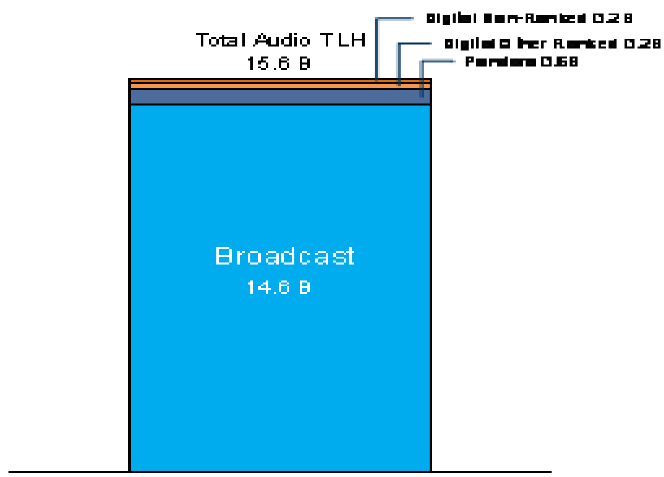
Both Grover and Slacker CEO **Jim Cady** spoke to the power of having an emotional connection within the stream as well. **"There has to be humans behind it,"** said Cady. Slacker employs 75 programmers to give their streams that human touch. Otherwise, "there's a missing emotional connection." He says most users want that "lean-back," curated experience (as long as they can "lean-forward" when need be to customize the stream). Grover said Clear Channel has seen their Custom Radio service actually push new listeners to the traditional AM/FM streams (which are all curation and virtually no personalization).

Indeed, data about artist similarity can only take you so far, said Grover. "You don't want to start making too big leaps of faith around data," he explained. "A thumbs down on a Lady Gaga song **doesn't necessarily tell you much of anything** about that song, that listener, or Lady Gaga." Perhaps the sequence of songs wasn't quite right, or the time of day had an impact, or the listener may have just heard the song 50 times already. More information is needed.

"We may have hit the wall in terms of what we can do with either thumbs up/down, or ratings," mused Papish. "We need to figure out **new, better ways of actually asking our listeners what they like**." That process is still on-going. "We are just getting started identifying the individual listener," said Lucchese. Papish shared that Rovi, for example, is looking for better ways to have the listener explicitly share preferences with music services. One idea is to use **gamification elements** to make sharing that information more fun and engaging.

Total listening time by platform

Average Monthly THL (Million Hours)		
Total Audio	15,592	100.0%
Total Broadcast	14,600	93.6%
Total Digital	992	6.4%
Pandora	579	3.7%
Other Ranked	240	1.5%
Other Non-Ranked	173	1.1%



As shown above, all digital listening comprises less than 6.5% of radio-plus-streaming hours spent listening per month; the total is a combination of all streaming radio and streaming music collections. This analysis shows that the largest digital-only music service, Pandora, accounts for 3.7% of total listening time (which includes their non-commercial premium listening).

Digital is still a small fraction of overall combined listening.

Per Jacobs Tech Survey #8:

7% of Pandora's subscribers signed up but don't listen- based upon 150,000,000 subscribers this equates to 10,500,000

11% responded rarely listen. Equates to 16,500,00 subscribers

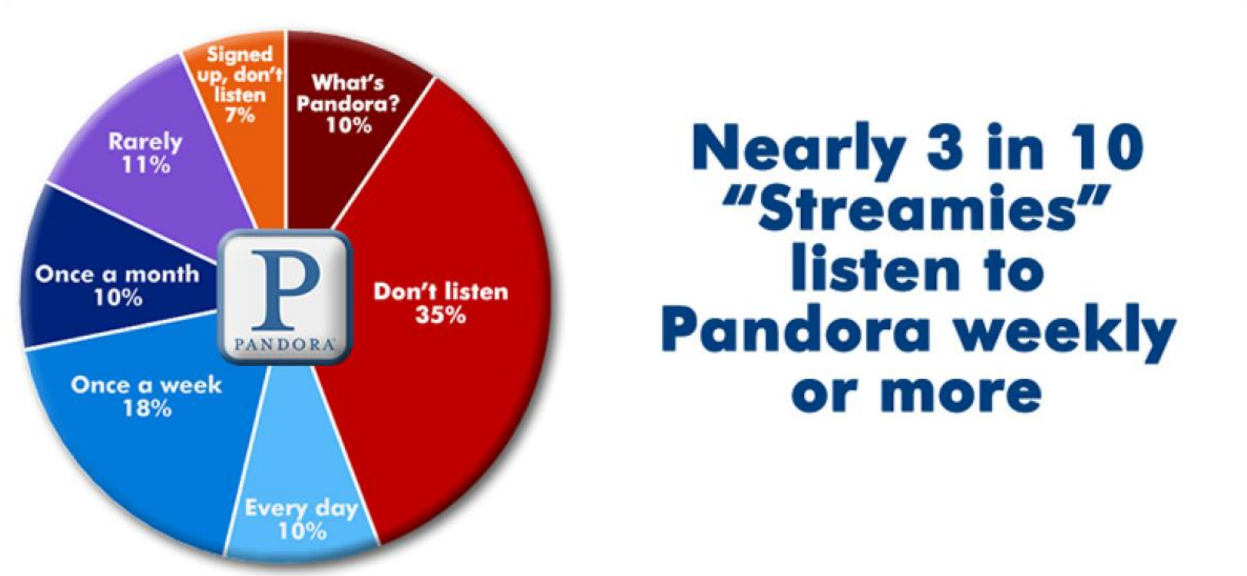
10% responded that they listen 1x/month. Equates to 15,000,000 subscriber

18% responded 1x/week. Equates to 27,000,000 subscribers

Above combined equals 69,000,000 who listen 1x/week or less....or 46% listening 1x/week or less.

72% of those that stream audio listen to specifically to Pandora less than 1x/week

90% of those that stream audio, listen Pandora less than daily



More people are liking Pandora less. Interesting in slide below that those who mentioned that they listen to Pandora, twice as many mentioned that they listen "same- infrequently" (36%) versus those that mentioned they listen "same- frequently" (18%).

4/12 New research released by Mark Kassof & Co. says Pandora listeners perceive FM radio as more different than similar to Pandora, and that the choice and control Pandora gives them is the biggest difference. Kassof based his findings on 1,177 online surveys with 18-64-year-old Pandora listeners in the U.S., conducted from April 10-12, 2012.

In the survey, Pandora listeners compared seven music sources to Pandora. Of them, iHeartRadio is most like Pandora; FM radio ranks fifth. Forty-nine percent (of those who have an opinion) rate FM a "one" or "two" on a scale where one means "Totally different from Pandora" and five means "Exactly the same as Pandora." Twenty-nine percent rate FM one, while only 10% rate it five.

Among those who see FM as clearly different from Pandora (the "ones" and "twos"), Pandora's ability to let them choose what they want to hear is the #1 difference, at 31%. More specific choices -- for example, the ability to select genres, select artists and skip songs -- also relate to the control they think Pandora gives them that FM doesn't.

Control Freaks — that what you might call Pandora listeners. Because the choices and control it offers is the difference they perceive between Pandora and FM radio.

And yes, Pandora and radio are quite different. Last month's ListenerThink research among Pandora listeners revealed that they'd be as likely to use other music sources (like iPods) as radio, if Pandora wasn't available. This month, we sought to quantify the difference between FM and Pandora…

We conducted an online survey April 10-12 2012, netting 1,177 Pandora listeners age 18-64. (To qualify, they answered "yes" to the question: Do you listen to Pandora?) We asked them to rate seven music sources on a 1 to 5 scale… "one" meaning "Totally different from Pandora"; "five" meaning "Exactly the same as Pandora."

Of the sources we tested, Pandora listeners see iHeartRadio as most like Pandora, YouTube least like it. (In itself, this revealed that last month's "substitution" research was not a proxy for similarity…it showed YouTube as the #1 alternative if Pandora wasn't available.)

Most important to us, we learned that FM is more different than similar to Pandora:

Here's the percentage breakout for iHeartRadio…

IHeartRadio vs. Pandora
1: Totally different 13%
2: 10%
3: 25%
4: 32%
5: Exactly the same 21%

And the breakout for FM:

FM RADIO vs. Pandora
1: Totally different 29%
2: 20%
3: 23%

4: 17%
5: Exactly the same 10%

3x as many people responded that AM/FM radio was totally different as thought it was exactly the same

Note that the averages shown in the graph and percentages in the table are among those who have an opinion. For FM, 5% of 18-64 Pandora listeners respond “not sure” to how different or alike it and Pandora are. For iHeartRadio, 36% are not sure…due primarily (we think) to their lack of familiarity with iHeartRadio.

So, nearly half of those who have an opinion see FM as quite different from Pandora. But what is the difference???

We asked them. Responses were unaided — volunteered by respondents — and coded into categories for tabulation. Multiple responses were permitted…that’s why they add up to more than 100%:

In what way (or ways) do you think FM radio is DIFFERENT from Pandora?
Not as much choice (in what I listen to) 31%

More/Too many commercials 26%

Can’t select genre 8%

Can’t choose artist(s) 6%

Not personalized 5%

Less variety 4%

More/Too much repetition 4%

Can’t skip songs 4%

More/Too much talk 4%

Has DJs 3%

Has More Variety 2%

Doesn't require internet/PC 2%

Not as good sound quality 2%

Other 30%

Don't know 1%

Among those who rate FM "1" or "2" – CHOICE is the key difference. Pandora listeners think it gives them more choices, more control over what they hear than FM does. Not only is choice the #1 response…many of the other comments reflect the same idea…with FM you can't select genre, can't choose artists, can't skip songs, etc.

FM's commercials are the #2 response. And the older listeners are, the more likely they are to see commercials as a difference between FM and Pandora. Only 14% of 18-24′s say FM's commercials are the difference, rising steadily to 39% among 55-64′s. And, surprisingly, it is 55-64′s who perceive the biggest difference between FM and Pandora…39% of them say FM is "totally different," and only 5% say it's "exactly the same."

Regardless of the age group, most of FM's differences are clearly negative for these Pandora listeners. So it's no surprise that the differences they perceive skew heavily in Pandora's favor:

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Kassof & Co. also asked Pandora listeners: If you couldn't listen to Pandora — for example, if its site was down for some reason — what would you be listening to instead? In other words, what sources of music does Pandora take the place of when you listen to it?

What we learned is: Pandora certainly competes with terrestrial radio, along with *many other* sources of music:

Laptop/Computer	55%
YouTube	52%
iPod/mp3 player	49%
FM/AM Radio	**49%**
Phone	39%
TV	36%
CDs	34%
Other Internet Radio/Podcast	20%
Satellite Radio/Sirius/XM	19%
Tablet	16%
Other	2%
None/Nothing	2%

Survey finds a fatigue factor for Pandora. Unlike a subscription service where users may feel they have an ***incentive to use a product***, the vast majority of Pandora listeners don't pay***. That may be impacting how long people stay engaged with the service***. Bridge Ratings surveyed Pandora listeners and concluded the longer they've been a using it, the less conclude they're "highly satisfied" with the service. Nearly eight-in-ten people who've been using Pandora for six months or less gave Pandora top marks. But that number fell to just one-third among people who've been using Pandora for three years or more

People said they find themselves logging on to Pandora less over time, and when they do use the service they don't listen as long. "The highest satisfaction comes from an immediate involvement with Pandora," Bridge Ratings president Dave Van Dyke says. "It's like a lot of things, over time you start lessening your love and passion and Pandora is no different." The survey also shows the fatigue factor has grown over the past seven years. Bridge quizzed people who've been using Pandora for a year or more about how dissatisfied they. The level of dissatisfaction grew the most among 18-34 year olds, with the number who said they find themselves not tuning into Pandora as much tripling from 10% in 2006 to 31% in 2012.

Even among 35-54 year olds the rate doubled. "A person who has been using Pandora up to six times a day, after a year and a half to two years may only be tuning in only two or three times a day," Van Dyke explains. The fall off may have been be expected. Pandora has a much larger base that includes more casual users. There are also a lot more streaming music options today than in 2006. While Bridge asked about Pandora specifically, Van Dyke says it's likely other streaming apps face similar usage patterns. He thinks the music selection algorithm may become too adventurous for some users, who find their stations just don't sound like they once did.

Bridge: Advertising not a big a turn-off for Pandora users. Compared to broadcast radio, Pandora dedicates a tiny amount of airtime to advertising each hour. It's one of the most-cited reasons for people to use the online music website. Yet Bridge Ratings president Dave Van Dyke says their research shows it also brings a cautionary tale to marketers. *"Over time listeners say they aren't as aware of commercials as they were initially," he says. That's because people report using Pandora differently over time.* ***"It becomes a much more background experience — so much so that they don't even notice the commercials." Van Dyke says. While that subliminal environment may work for brand marketing, whether it will appeal long-term to call-to-action advertisers remains to be seen.*** Bridge based its March 2012 findings on a sample of 4,339 internet users

Per Bridge Ratings commercial awareness to broadcast radio stations is almost 5x that of Pandora for those Pandora listeners who have been listening over 19 months:

Mary Beth Garber article

When it comes to how spend advertising dollars, it always seems to come down to research. When it comes to research, it all comes down to definition and methodology, doesn't it. And when it comes to publicity, it's all about headlines -- how can you get the biggest gasp. Radio Ink's article Wednesday is a pretty good example of that.

As you note, there are little liars, there are big liars and then there are statisticians. Anyone can make numbers say anything. So let's look at methodology and conclusions -- and let's look at reality.

The Media Audit's first mistake was to classify Pandora as a radio station. No one else does – not the analysts in their blogs, and not the users themselves if today's article by Mark Kassoff http://kassof.com/?cat=6 is accurate.

Pandora is a collection of individual playlists, it's not Radio. When asked, users consider it to be most like other internet music playlist sites, then comparable to private collections on iPods, MP3 players, etc. Users have a different expectation of an entertainment experience when they turn on radio vs when they use a music playlist site. When people want control over what they hear, they go to their music collection (think stacks of 45s, then cassettes, then CDs, ipods, MP3 players programmed or on random, and now playlist services, etc) to escape from the world.

The problem is that people don't want advertising running in their music collection. Think about it: if they did, the record companies would have put ads between tracks on albums long ago. In fact, the newest Bridge Ratings LLC survey of Pandora users shows that commercials are one of the primary causes for growing user dissatisfaction with Pandora over time. Listeners go to radio not to escape, but to be part of the world, part of a social experience, and that experience includes the information that comes from commercials and the messages they hear from their favorite DJs and personalities.

The Media Audit's second mistake was comparing the aggregation of Pandora's individualized streams to individual local radio stations. That's just silly — not to mention a really misleading comparison of apples and oranges. The idea that a combination of individual hip hop, classical, rock, contemporary hits, classic hits, or comedy playlists with no local or personal connections could ever deliver the same audience environment as one single, focused local radio station is absurd. To come even remotely closer to an apples to apples comparison, Pandora should compare its numbers to an entire station group, say CBS or Clear Channel. But of course they don't, because they would be crushed. And if Pandora uses geographic or any other targeting refinements for an advertiser, those purported ratings would be even more invalid.

The Media Audit's survey in October 2011 was a phone poll – self reported estimates of what people did without benefit of notations or passive measurement concurrent with their actions. Advertisers have long regarded phone polls as informative but not accurate enough to use as a basis for buying. That's why a coalition of advertisers and agencies pressed Nielsen and Arbitron into adopting passive electronic measurement systems years ago.

The differences become quite clear when we compare The Media Audit's data from last October with Arbitron's data for Los Angeles last October. When one measures what people actually did vs what they say they did, the results, as those advertisers and agencies were well aware, are markedly different. In a story in today's Los Angeles Times, The Media Audit reported that Pandora reached 1.9 million people 18+ and that KIIS-FM by itself reached only 1.45 million.
When compared with Arbitron's reported measured reach of Adults 18+ for KIIS-FM of 2.9 million, The Media Audit has understated the PPM measurement for KIIS by an astounding 100%.

If we were to compare the Pandora data to aggregations of radio stations by group or an advertiser's ability to buy stations with a single order through Katz Radio Group Sales, we'd find that just the top 3 groups alone would deliver 9.2 million individual listeners, 500% more listeners than The Media Audit attributed to Pandora's combined streams.

People like Radio for reasons that are quite different from why they like music playlists or collections. And the facts are that the average person listens to Radio 20x a week, at least 5 days a week Radio reaches about 95% of people in Los Angeles – really reaches them. Not because people say it does. Because Arbitron's passive measurement knows that it does.

Listeners measure Radio by how much they like a radio station. Considering that 70% of people in Los Angeles who have a favorite radio personality follow them or their radio station on some social media service and how much time they spend listening to Radio, I'd say Radio's listeners are engaged and connected. And that that delivers the best environment for commercials to work. It may not make for the most dramatic headline — but it has the benefit of actually being true.

4/12 Similar to what we've seen with Satellite, satisfaction levels decline the longer one uses the Pandora.

-New Bridge Pandora study: Key take away is that listener satisfaction with Pandora is dropping quite steeply the longer they subscribe.

Main reasons behind reduced listening satisfaction:

"(1) Commercial Interruptions spoil mood

(2) Becoming predictable

(3) Song choice is limited

(4) Song choice for my taste not as good

(5) Diminishing number of likeable songs

(6) Repetition of Artists I don't care for."

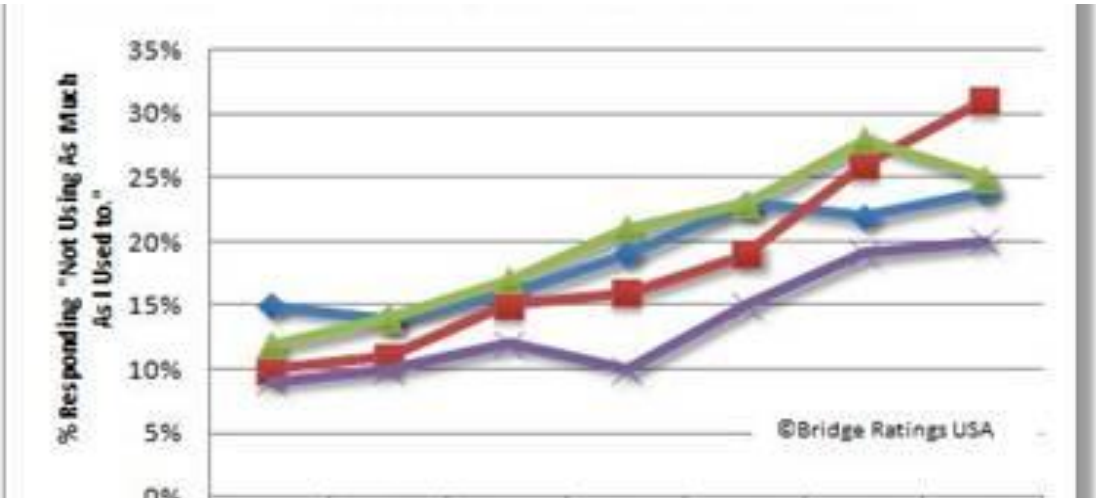
As Pandora increases their commercial load which is what they must do to generate more revenue, (they are already up to 4 per hour) the commercial interruptions will become more annoying and lead to less satisfaction, less usage and lower TSL. TSL has dropped 33% from 60

minutes per session in November 2009 to 39 minutes/session in March 2012.

Pandora will need to increase their commercial load due to their deal with SoundExchange. While their AAS is growing their ability to monetize that AAS is not keeping pace. Right now close to 55% of Pandora's revenue is going music licensing fees.

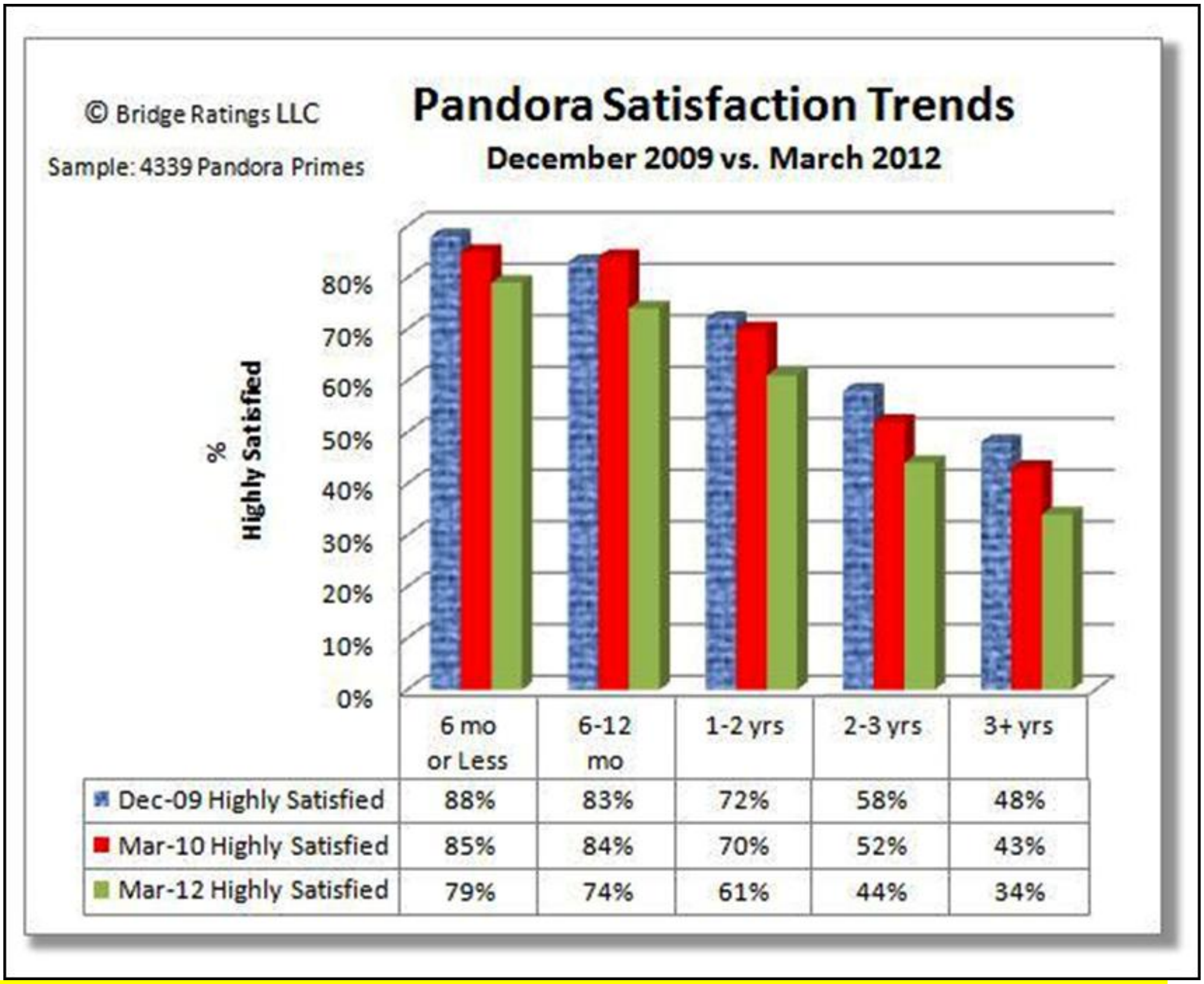
Pandora listening is rapidly shifting to having most of their listening done on mobile devices due to smart phone penetration. Over 70% of their AAS is on the smart phone where the impact of display is greatly diminished and CPMs are far lower. Currently much of Pandora's revenue is coming from digital shops that value display advertising. As more of Pandora's listening is consumed on smart phones and interaction with the mobile phone becomes more difficult, Pandora becomes less attractive to digital shops

As Pandora increases their commercial load they are becoming more like broadcast radio the medium which they are claiming to "redefine" satisfaction levels decline.



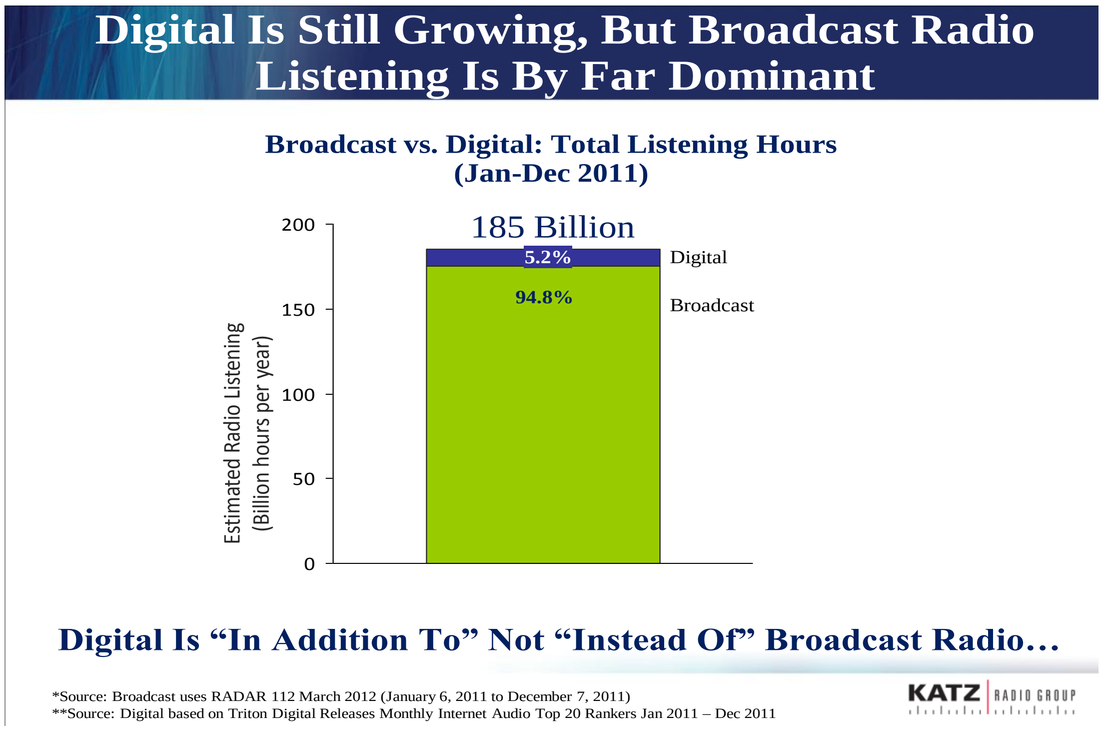
	2006	2007	2008	2009	2010	2011	2012
12-17	15%	14%	16%	19%	23%	22%	24%
18-34	10%	11%	15%	16%	19%	26%	31%
35-44	12%	14%	17%	21%	23%	28%	25%
45-54	9%	10%	12%	10%	15%	19%	20%

There is a large decrease (about twofold) in satisfaction levels over the past 6 years with Pandora as illustrated in the slide above.



	6 mo or Less	6-12 mo	1-2 yrs	2-3 yrs	3+ yrs
Dec-09 Highly Satisfied	88%	83%	72%	58%	48%
Mar-10 Highly Satisfied	85%	84%	70%	52%	43%
Mar-12 Highly Satisfied	79%	74%	61%	44%	34%

Note only 34% of Pandora users who have been using the service 3+ years are highly satisfied



Pandora:

About 1/3 of "uniques" tune-in monthly. That is "interest", not "commitment" to a product

About 67% do not tune in monthly vs average AM/FM broadcast listener tuning in 3.5x/day 5 days per week to radio

Approximately 12-13 million tune-in daily or approximately 8% of their subscribers. Compare this with radio's 70%+ daily tune-in 3.5x/day

Increasing commercial load: Pandora is adding commercial load to 4 per hour. At the beginning of 2011, Pandora ran 2 commercials per hr. July 2011 Pandora's commercial load was increased to 3, it's now 4 per hour. Initially Pandora only accepted :15's, but as they began competing for Wired Radio $$ they began accepting :30's as well.

Volume? At what volume are people listening- it's a good question. Loud enough to even hear a commercial- for PPM to pick up? Bridge's Dave Van Dyke has conducted research indicating that many of the commercials are not even noted by listeners (referenced above).

Is anyone present? If a person walks away with a PPM device, the device no longer records listening to AM/FM. With Pandora a person leaves the room and can no longer hear the Pandora stream, it continues to be counted and is included in their AAS.

Pandora has a "Pac Man" approach to generating impressions, gobbling up impressions…if a Pandora listener is the targeted gender and age that's often all that's needed to continue to serving the same message over and over, regardless of day or daypart or the number of times exposed to the message. "Frequency Caps" are often not being utilized by Pandora advertisers resulting in massive frequency exposure to the same listener often resulting in out of whack frequency distributions.

Music Satisfaction:
P1 Station vs. Streaming Service

Rated on a 1-10 scale

	Total	Heavy Radio	Weekly Streamers	Pandora Users
P1 Station	8.28	8.52	8.32	8.13
Streaming Service *	8.34	8.55	8.83	8.54

** Respondent's most-used non-radio music streaming service*

Pandora Ando nationwide TLH figures are inflated due to their paid Premier subscribers listening being included in Ando National AAS figures. Premier listeners are not served advertising.

Questionable Business model: 55% of Pandora's revenue goes to music licensing.

What’s the difference between thumbing down a song and changing a station? Not much. Their Genome project playlists are not any better than a well curated radio station- Confirmed by several studies.

Ease of use in car 5 years away, per Pandora

No personalities

Few feet on the street to conduct sampling or overseeing experiential events.

No additional platforms that AM/FM stations provide: podcasts, streams, contesting, personal recommendations (DJ endorsements), experiential events, sampling, etc.

75% of Pandora’s streaming is on mobile devices- leaving display ads largely ineffective.

Streaming not cannibalizing broadcast: per Targetspot, ARB/Edison, Burns, USA Touchpoints and other studies. Streaming is a “supplement not a substitute”.

Pandora’s entire nationwide listening equal to radio listening in LA—Puts Pandora’s impact into perspective

The following is far from ideal commercial scheduling: Pandora air check the morning of March 2, 2012 recorded by a 26 year old female:

- **7:02A Discover Morocco**
- **7:17A Discover Morocco**
- **7:32A Discover Morocco**
- **7:48A Discover Morocco**
- **8:02A Ring Central**
- **8:19A Soap.com**
- **8:37A Discover Morocco**
- **8:52A Soap.com**
- **9:08A Discover Morocco**
- **9:25A Blue Cross Blue Shield**

- **9:45A Blue Cross Blue Shield**
- **10:03A Blue Cross Blue Shield**
- **10:22A Blue Cross Blue Shield**
- **10:40A Discover Morocco**
- **10:56A Soap.com**

The future is not an extension of the present: The convergence of technology and music is moving so fast that even successful innovations are getting left in the dust in a matter of a few years. The current streaming landscape will likely change dramatically.

The importance of ease, simplicity and curation:
Many who utilize addressable music services stop evolving their playlists.

Becomes too much of a hassle. Many, quite simply, realize they don't have time nor inclination to program their own daily soundtrack.

Not everyone wants be their own program director. Many people, including young people, simply choose to listen to what is **filtered** by others and made available to them.

Many people are busy and aren't THAT much into music

We must also keep in mind having access to a technology doesn't mean that everyone will use it. There are a lot of bells and whistles on devices that we currently own that we rarely or never use.

Why Would You Choose Pandora for audio Campaigns?
Pandora is a passive listening service, you are rarely staring at the screen to be exposed to display/interactive advertising which delivers the majority

of their ad revenue. While you may interact with the screen when you first start using the service to set up your playlists, once you have your 5-10 initial playlists and have thumbed up/down a bunch of songs, the greatest benefit of Pandora is that you do not have to do anything - it is pure passive listening, often at low decibel levels.
On a PC, consumers can open Pandora in one tab of a browser and then never look back - beyond a click every once in a while when the computer asks if you are still listening. On mobile, you are even less likely to be interacting with the Pandora screen, especially since the advent of multi-tasking on mobile devices such as the iPhone last year. If you are jogging or have plugged your iPhone into your car, there is no way you are going to be able/interested in clicking on ad, let alone even know that the display ad is on the screen.

**RBR-TVBR observation: ***It's a "Catch 22" for Pandora. More and more of its audience is going mobile – and it has to pay SoundExchange the same rate for mobile listening as for listening via a computer with a larger screen. But as that audience moves it has to move its advertisers as well, away from display ads to more audio ads, which makes it more like the traditional radio industry which it claims to be "redefining." Converting advertisers to audio isn't happening fast enough for Pandora to keep up with the music royalties it has to pay for mobile listening, so the mobile growth is actually a financial negative in the short-run.

Pandora has recently increased their hourly commercial load to 4 per hour. It's is generally acknowledged within the online community that streamers are less tolerant of commercials- the reasons for streaming pureplays differ from the reasons of listening to broadcast radio for a couple of reasons:

A) The listener has come to expect very few commercials on Pandora and expects commercials on broadcast stations

B) Pureplay listening is "me" time, with listeners not wanting to be interrupted. Broadcast radio is about wanting to be connected to the outside world. Commercials alert and connect the listener to offers that could benefit the listener

Pittman: listeners less tolerant of commercials on custom web radio: Pittman provided a defense for why broadcast radio remains relevant. Web radio listening is a "solitary experience" he said, contrasting it to the social experiences of broadcast radio programming chock full of gossip, time and temperature and air personality chatter. "They're two radically different experiences," Pittman said. It's why he believes consumers won't be as tolerant of attempts by web audio services to increase their commercial loads. "When I'm in my own world I have got that cone of silence over me, the last thing I expect to hear is a commercial," he explains. "On radio, a commercial is part of checking in with the outside world — which is why consumers tolerate commercials, and in many cases value them as important information

David Field: Pandora has a fundamental business issue to deal with. They need to either figure out a way to dramatically increase their commercial load – and guess what? People don't listen to Pandora to hear commercials, because it's not radio and they're not used to it. It's a music playlist service and they don't want commercial on their iPods, they don't want commercials on their CD players and they're not going to want commercials on Pandora and Slacker and so forth." "So our view is that if they increase the commercial load to make themselves more commercially viable they then will have the problem with their listener appeal.

Fact: Per Pandora Hispanics represent nearly a quarter (22%) of all *smartphone* listeners on Pandora. Media Audit show the same thing.

A 2011 study from Orpheus Media Research found that 54% use music recommendation tools, with 40% utilizing them on a daily or at least weekly basis. However, the accuracy of such tools was criticized. 40% said such services were accurate 50% of the time or less, and many complained about the amount of time one had to invest to make use of them. (Note how many times you end up thumbing up or down on Pandora in spite of their Genome methodology.)

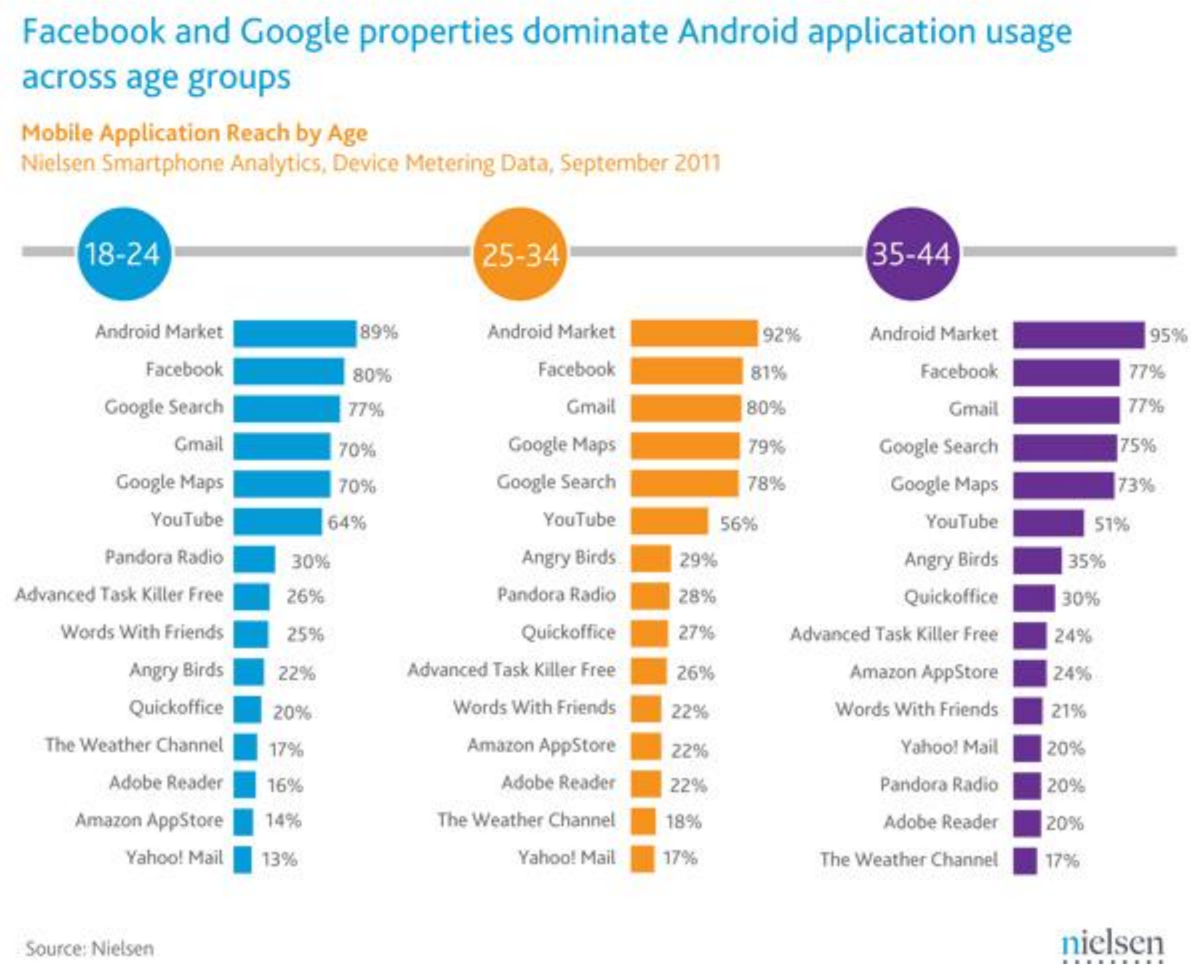
However, the search for information about music discovery showed Radio to be king. Here are two findings from the Orpheus study:

- 57% of the respondents indicated that they most often relied on radio or word of mouth to learn about new music; 14% indicated that they relied on mainstream media

- and 82% identified radio as the greatest single influence of their music listening!

Not everyone who has an Android smartphone is using Pandora

The study made use of Nielsen's proprietary on-device monitoring software, which has been voluntarily installed by thousands of panelists across the country



More than half of Country radio P1s have heard of Pandora, according to new data from Edison Research. About the same percentage point to **DJs** as one of AM/FM's primary advantages over Internet radio

Nielsen found 21% of iPad owners report regularly accessing radio through the device. That's nearly as high a percentage as iPhone users — 22% of which tune to streaming radio. Nielsen's survey finds iPad users are young: 63% are under the age of 35. **Two-thirds of users are male.**

Questioning a Pure Play ad supported business model

Adam Klein/Columbia University Journalism School
“Ad-supported is unsustainable. That I say very assertively. I'm an adjunct professor up at Columbia Journalism School and I teach about the business models of media. No one can show me an ad-only supported business model in the digital space that's sustainable by itself.
If you think about the digital environment, there is an infinite amount of advertising inventory available. Economics 101. In a world of infinite inventory, prices will come down. And that's what has happened. Unless you have other sources of revenue, that's not sustainable.” He might not be wrong. Pandora’s and other pureplay music rights will continue to rise thru 2015.

Pandora/Pureplay music rights

Content costs totaled 50.4% of total revenue in fiscal Q3 and SoundExchange rates are set to increase annually through 2015. Content costs will rise from 50% in the fiscal year ended 1/31/11 to 53% in the current fiscal year (1/31/12) and to 55% in the next one (1/31/13).

January 2012 Pandora says it now has 125 million subscribers (May 2012 they say they have 150 million) who listen, on average, 18 hours per month…***..this equates to an average of 38 minutes per day- versus AM/FM TSL being 2 hours.***

38 minutes/day is enough to be exposed to two commercials/per day or about 6-7 week with the average Pandora listener tuning in every other day making it difficult to generate an effective ad campaign.

1-5-2012
Joe Kennedy sounded like a traditional radio guy yesterday as he started off a presentation with some strong pro-radio statements at the Citi 2012 Entertainment, Media and Telecommunications Conference; he quoted Arbitron numbers, saying radio remains hugely popular with consumers

and that radio still dominates vehicle listening. Radio is still big for two reasons, Kennedy believes: serendipity and ease of use. "Because with radio, we don't know what's coming next," (serendipity/surprise) he said. "And it's an easy experience. We can listen while multi-tasking, while driving, working, partying." While Pandora does offer consumers a free service, it also has a paid premium option, and no effort might be a stretch -- while creating a station is simply a matter of choosing an artist or song, **refining a station to your own taste with likes and dislikes does take some time-- and it's certainly not as effortless as turning on a home or car radio** to listen to your favorite AM or FM station. In fact, Kennedy stated that one of Pandora's goals was to make the service "as easy to use as FM."

Pandora's immediate growth, according to Kennedy, will be coming from mobile, and, despite showing a video from Cadillac touting Pandora -- along with FM radio **--* Kennedy says ease of use in the automobile is at least five years away.**

Pandora's Genome Project

Predictable. Little surprise

Was so predictable, it had to re-programmed to add a wider variety of music. Pandora responded by adding variety, essentially de-tuning their algorithm

Substitute "FM" for "SiriusXM" below for the other 280 million people who don't subscribe to satellite radio. Mark Ramsey wrote:

Okay, so I have weird tastes. I'm the guy whose favorite dishes in restaurants are discontinued for lack of interest. And my music tastes are just as irregular.

But thanks to the Internet you can find anything nowadays, and thanks to personalized radio services you can create what you want out of nothing if you so desire.

It so happens that there's a channel on SiriusXM that gets close enough to one thread of my weird tastes. Also, I created my own version on one of the personalized radio services. And here's what I discovered:

The SiriusXM version is better. The one that is programmed, "curated," if you will. The one that offers you no choices and no skips.

On my personalized service I'm plugging away, adding all the artists which form the core of the SiriusXM channel into my own custom-created channel, and the mix doesn't even come close. And it's a lot of work, tweaking your own channel. I like this, I don't like that. What makes you think I'd like that just because I like this? On and on the tweaking goes, and what I'm left with is still a psychotic version of my SiriusXM channel that seems to be continuously off its meds.

Granted, at least I can skip songs I don't want on the personalized radio services. How I wish I could do that on SiriusXM (especially the streaming version, for which such magic is only a license fee and a user surcharge away; C'mon, SiriusXM).

But here's the thing: <u>Personalization is very valuable but it comes at a cost. Because personalization is fundamentally an exercise in hacking.</u>

Hacking is familiar to anyone who grew up with video games or anyone who writes code (or works with a code-writer). The widget is released into the wild "vaguely right" with tons of "bugs" that need to be swatted away. In personalized radio those "bugs" are every song that's off-center or otherwise not to your liking. And a "skip" or a "thumb down" is our way of swatting away the bugs. <u>This takes time and effort, something you may not be looking for when, say, you just want to hear some good music</u>.

So it seems impossible for me to create a better version of the SiriusXM channel I like unless I embrace the challenge with all the fervor of a second job.

Of course, as I have said before, personalization on these services is an *option*, not a *requirement*. You can do as much or as little as you want.

And the less you do, the more the channel resembles the thing that booms out from every home, work, and car…

…the radio.

Radio vs. Online Pureplays

- Radio is on in every car
  - *Broadcast Radio connects with listeners as they drive from point A to point B – key to retail advertisers*
- Radio's multi-platforms provide variety
  - Blogs, podcasts, streams, texting, video, social networking, voting, etc
- Radio has personality and engagement
  - *Personalities and teams matter to listeners*
- Radio offers dynamic targeting
  - *Ads aren't just based on zip codes but audience communities, music taste and cults*

- Pureplays are not in cars
  - *It will take the Purep;lays years, if ever, to reach penetration levels in cars similar to broadcast Radio*
- Pureplays are
  - *An internet service only*
  - *Automated based on preferences*
  - *Has no DJs to engage with listeners and*
  - *Currently has no local staff*

Consultant Mark Ramsey brought up an interesting way to think about "personalization" in a recent blog when he wrote, "The fact is that radio – today's radio – the kind in every home, workplace, and car – can already be personalized.

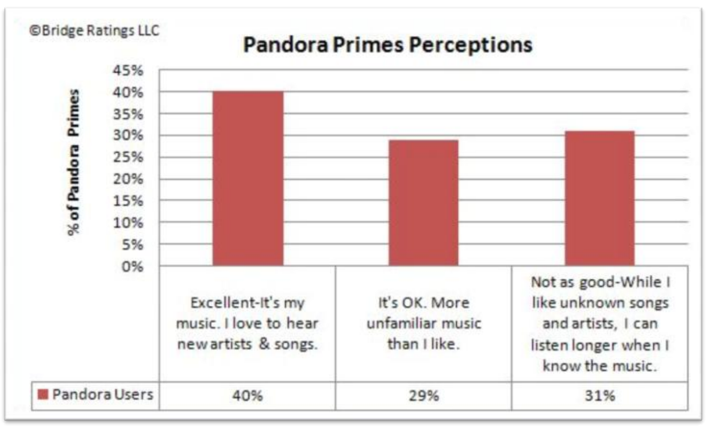
Every time you hit the button and change the station you have just ***personalized*** your radio experience. And, like Pandora, the next song you hear can't be predicted based on the one you just "skipped**." Indeed, I'm here to tell you that punching the button is the exact same behavior as "skipping" the song.**

Besides, I would bet that folks like “thumbing up” and “thumbing down” and “skipping” songs no more than they like changing stations. Yes, everybody wants more variety – and ideally on one station, if at all possible.”

60% have an issue with Pandora’s unfamiliar music:

More music choices leads to exposure of more unfamiliar music which is not always a good thing

Over a quarter of Pandora users find the unfamiliar music is more than they would like

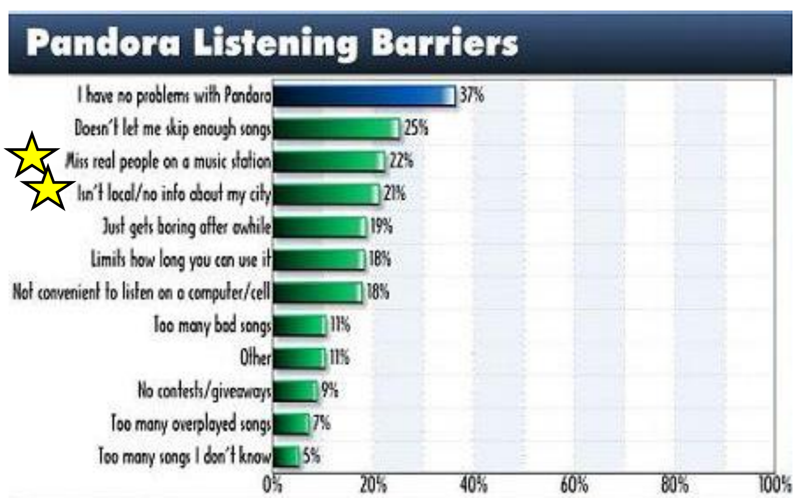


Source: Bridge Ratings

What is a subscriber: Pandora has 150,000,000 of them. A “subscriber” could be anyone who has played a song over the past 10 years on Pandora. How many Pandora subscribers no longer listen to Pandora, have switched to Slacker or some other pureplay streamer? *To be counted in a broadcast audience one has to spend some measured time listening, not the case with subscribers.* About one-third or about 50 million are characterized as “active” users—why does listening monthly quality as “active”? why not weekly, like AM/FM? One user stated that they have signed up 3-4 times with Pandora as they kept forgetting the password and it was just easier to sign up again under a different name. It seems as if the Pandora listener falls under the **Heath Club scenario**- many sign up, a much smaller number actually use them.

Music without features and personalities wears thin over time. Many miss the personalities and the “localness” of broadcast radio.Targetspot’s 2011 study uncovered fatigue with personalized radio services such as Pandora and Slacker, three in ten (29%) use different internet radio web sites because they get tired of the stations they’ve created.

Elements of traditional radio are missed when listening to Pandora



Source: 2010 Jacobs Tech Survey

Several analysts have noted Pandora’s vulnerability and broadcaster’s effort to compete in the control-variety-choice arena. Alan Gayle, senior investment strategist at RidgeWorth Capital Management in Richmond told Bloomberg "The barriers to entry are not very high, and the innovation is really taking place at the speed of light, they are very susceptible to changing technology and changing consumer preferences.

Mary Beth Garber: Are they present?

With radio, ARBITRON's PPM does not pick up the audio codes if the audio is on mute or the meter is too far away from the audio source to hear the content. Since PANDORA has no such rules, someone can turn their computer on and walk away, yet still be credited as "listening."

It's obvious that many of the people who registered on PANDORA either have duplicate (or triplicate, or quadruplicate) registrations, or that close to 2/3 of the people who register for PANDORA must not like what they hear, because they don't use the service even once a month. Before anyone gets excited about the latest "total number of registrations" for the service, ask how many of them are actually unique individuals and then ask why so many of them don't bother to come back- weekly or even monthly.

Registrations don't make an internet music service successful. The internet is littered with the bodies of internet companies like PLAYLIST.COM, a failed music service that claimed to have about 70 million registrations right before it crashed. Regular usage is what makes an internet site successful, and regular usage is what radio has. Virtually all of Radio's 242 million listeners use Radio at least once a week. About 75% to 80% of them use it daily. As PANDORA has admitted, and ARB Edison 2011 confirmed approximately 10% of their registrants actually use the site in a week.

Let's say a media buyer was considering a buy targeting 18-49 year olds. They can take one of two approaches: If they were buying multiple markets and the target was simply all the 18-49s available, without regard to the environment or the culture in which the message were delivered, one logical step would be to take proposals from Katz Radio Group Sales, which represents 95% of the radio stations in those markets and would be able to tailor a submission that provided double digit or more delivery of the 18-49s in each of the markets. If the buyer were looking at only one market, the natural comparison would be to take a submission from different radio groups in the market and Pandora. In this case, the aggregation of just one group's appropriate radio stations would deliver an average quarter hour that is 460% greater than that of Pandora. And there are many others available which would, like Pandora, aggregate various formats together to deliver 18-49 year olds. Those are the only fair comparisons that can be made. But that isn't what Pandora is suggesting, and that's why Pandora's claim makes no sense.

If the media buyer, on the other hand, were buying for a product that required targeting with careful regard to the environment where the commercial would run, the buyer would consider individual radio stations for their ability to reach the kinds of 18-49 years olds targeted, in a controlled environment that would be relevant to the message of the commercial. Real radio stations would have the skill set and the capability to do this easily. In order to be comparable, Pandora would have to offer far more targeted access to its playlists. If Pandora really wants to position itself against, say, a pop music station in NYC, then it would have to generate a rating that includes only the users who are accessing that kind of music on their site in order to compare them.