

Billboard

MIDYEAR SOUNDSCAN REPORT
TOP ARTISTS, LABELS, DIGITAL SONGS

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RADIO KILLA

PANDORA FOUNDER
TIM WESTERGREN ON HIS GRAND
PLAN TO LAND 2 BILLION USERS



EXCLUSIVE!
EDGAR BRONFMAN JR., LYOR
COHEN AND THE REMAKING
OF WARNER MUSIC
By Fred Goodman

Walmart's Rackjobber:
'SAVE THE CD!'



A little piano music: Pandora
founder TIM WESTERGRÉN



THINKING OUTSIDE THE BOX

Thanks To Innovative Promotional Deals With Artists,
Internet Radio Leader Pandora Hopes To Boost
Audience Share—And Revenue

BY ANTONY BRUNO
PHOTOGRAPH BY ERIN PATRICE O'BRIEN

During a recent taping of the Comedy Central show “The Colbert Report,” host Stephen Colbert took Pandora founder Tim Westergren to task for the name of his Internet radio service. ■ “Why Pandora?” Colbert asked, reminding him that Pandora’s box from Greek mythology released evil into the world. “Is that what the Internet is? You click open the box and evil comes out your speakers?” ■ “Surprises come out,” Westergren responded, “and at the bottom of that box was hope.” ■ To be sure, Pandora is full of surprises and hope. For almost 10 years, Pandora operated on the verge of collapse. In the early years, while it labored to build the Music Genome Project that powers its music recommendation engine, Pandora struggled to find both a business model and funding, to the point where it had to ask employees to work without pay for almost two years.

Then came the infamous March 2007 Copyright Royalty Board (CRB) decision that raised the performance royalty rates for Internet radio to a degree that Westergren said would put Pandora out of business. It led to a two-year fight to reduce those rates, culminating in a compromise reached last July.

Today, Pandora is for the first time on solid footing. It's about to reach the milestone of 60 million registered users and reported its first profitable quarter at the end of last year. At any given time, there are 500 simultaneous targeted advertising campaigns on Pandora, with 45 of the nation's top 50 advertisers spending money on the site. And the company is now expanding into automobiles and TV sets in an effort to turn Internet radio from the redheaded stepchild of the radio industry into a legitimate competitor.

"In the last year, I feel like we've finally cracked the nut on how to effectively monetize a streaming radio service," Westergren says. "Our intention is to build a radio business that looks a lot like the traditional radio business, with a scalable mechanism for selling national and local advertising so we can do everything from big, branded national campaigns to local pizza joint specials. They can be delivered as graphic ads, as audio ads, as video ads. We're pitching big ad agencies who have historically bought broadcast radio and pitching them to shift that money to the Web."

This isn't mere bravado. Westergren, 44, may be the poster boy for the laid-back startup executive, but he's a passionate believer that Pandora will one day change the



Radio gaga: **TIM WESTERGEN** at the company headquarters in Oakland, Calif., and appearing on "The Colbert Report" (below).

way the world thinks about radio. His town hall meetings with users nationwide typically draw hundreds of fans whom he quickly charms with his down-to-earth casualness and genuine enthusiasm. Yet as the CRB copyright dispute proved, he's not afraid of a fight. Taking on the terrestrial radio establishment may seem like tilting at windmills, but Westergren's fervor—which president/CEO Joe Kennedy molds into a business plan—has helped build a growing team of believers.

Pandora hired 70 of its 190 employees last year and plans to hire another 70 this year, 80%-90% of whom will be in ad sales or sales support. Its largest office outside its home base in Oakland, Calif., is in New York, where a staff of 25 focus exclusively on sales and support, with additional offices in Chicago, Dallas, Los Angeles and other cities. For the first time in the company's history, its ad sales team outnumbers the music analysts that keep the Music Genome Project database up to date.



WESTERGEN: PETER DA SILVA/NEW YORK TIMES/REXUS; MANN: DAN MACHEDAN/WIREIMAGE.COM; JOHNSON: HILARY WALSH/BLUES TRAVELER; MAYER: MEGAN HOLMES; TRIMBLE: KEVIN MAZUR/GETTY IMAGES; HIGGINS: DAVID LIVINGSTON/GETTY IMAGES; SWIFT: KEVIN MAZUR/GETTY IMAGES; WESTERGEN: PETER DA SILVA/NEW YORK TIMES/REXUS; MANN: DAN MACHEDAN/WIREIMAGE.COM; JOHNSON: HILARY WALSH/BLUES TRAVELER; MAYER: MEGAN HOLMES; TRIMBLE: KEVIN MAZUR/GETTY IMAGES; HIGGINS: DAVID LIVINGSTON/GETTY IMAGES; SWIFT: KEVIN MAZUR/GETTY IMAGES

her fine-tune the stream by voting on each song the service recommends (selecting either "thumbs up" or "thumbs down"). In addition to driving engagement (the company claims users interact with the service seven to eight times per hour) this activity generates user data that can be enormously useful to both artists and advertisers: age, gender, music preference and—when paired with information compiled during the registration process—ZIP code.

ARTIST ENGAGEMENT

Pandora's strategy is to work more directly with artists, convincing them to provide exclusive content to the site that Pandora hosts and sells to sponsors at premium rates. The first iteration of this came last year with the Dave Matthews Band, which hosted a listening party on Pandora. Sponsored by Brita, Pandora streamed the group's "Big Whiskey and the GrooGrux King" album for a week before street date from a special landing page on Pandora. It also sent a message to all users who either seeded or voted positively for a DMB song, alerting them of the stream.

According to manager Bruce Flohr at Red Light Management, the promotion resulted in more than a half a million streams, with 8,000 linking through to buy the album on iTunes. The band later teamed with Pandora again to drive awareness of its tour, filming interviews with Matthews discussing his green touring initiative, also sponsored by Brita. All told, the entire campaign resulted in more than 21 million impressions.

"It was designed to make sure our fans heard the record in an environment where they were

REVENUE VS. ROYALTIES

Despite all this momentum, it's not enough to sustain the kind of growth Westergren hopes to achieve. Pandora raked in \$50 million in revenue in 2009, which the company hopes to double by the end of the year. Of that, it paid \$30 million in royalties to the music industry as agreed to in the CRB rate settlement with SoundExchange.

That agreement calls for Pandora to pay either a per-stream rate for each song it plays or 25% of all revenue, whichever is greater. Pandora needs to generate 8 cents per user per hour to shift the royalty burden to the revenue share model. Currently, it's only bringing in 2 cents per user per hour.

"Pandora can't survive on network advertising," Westergren says. "The site's too expensive to run because of the licensing. We have to command premium rates."

To do that, Pandora has to rely on more than its sheer numbers, which—while impressive when compared with other digital music services—pale in comparison to traditional radio. Web measurement firm comScore says 13 million unique users interact with Pandora every month, which Westergren says increases to 20 million when taking into account the mobile users that comScore doesn't track. That's only about 1% of the audience that traditional radio commands.

Instead, Pandora is relying on its unique position as a source of music discovery. Pandora users enter the name of an artist or song they like, and Pandora's technology builds a custom radio station around that "seed." Users can fur-

getting turned on to music," Flohr says. "It's harder and harder to find things that move the needle in this business. If done correctly, Pandora moves that needle."

More artist managers and label executives have begun to share that point of view. Last December, Pandora posted several video interviews with John Mayer discussing his musical influences along with a customized playlist of his favorite songs. Pandora brought in AT&T as a sponsor, and the campaign generated 81 million impressions between the two, according to Mick Management founder Michael McDonald.

"There was more exposure from this than any of [his] other campaigns," he says. "In a world where things are fragmented, it's difficult to find people. So their targeting works. These new models and new ways of reaching people are the ways we're going to survive going forward."

Pandora now has close to 20 similar campaigns either completed, active or in the works for this year, featuring such acts as Jack Johnson, Jewel, Miley Cyrus, Switchfoot, Miranda Lambert, the Walkmen, Mason Jennings and Rogue Wave. The campaigns can include any combination of a prerelease listening party, a series of video interviews or a custom mixtape.

These customized sponsorships are designed to increase the amount of revenue Pandora makes, and the music industry simply shares in the gross. Additionally, they subsidize multiweek promotional campaigns for participating artists' music at a cost few labels can match on a service that managers say is one of the best platforms for reaching fans.

"People are going there to hear new music," Brushfire Records GM Josh Nicotra says. "If you're someone who's trying to market music, that's exactly the crowd you want to put your records in front of."

Matt Ostrower, senior manager of artist development, handles the outreach to artists, taking upwards of 50 calls and meetings per week to match the various album, single and tour schedules against advertising campaigns. Aimee Higgins, VP of strategy, planning and advertising, works with the brands on developing creative campaigns to build around this content.

And participating brands couldn't be happier. Brita, for example, has since transitioned its involvement with the Dave Matthews Band from Pandora to participating directly as a sponsor of the group's tour.

That's an important shift because at least for now, artists and labels don't make any extra money if they participate in these sponsored campaigns, other than their cut of the CRB royalty payments Pandora makes to SoundExchange.

The \$30 million in performance royalties paid by Pandora last year represents 60% of its revenue. Compare that with satellite radio, which pays 15% of royalties for the same content, and terrestrial radio, which pays nothing.

"For the first time, artists are going to get to participate in the radio advertising revenue business," Westergren says. "It's a huge business that has been walled off for musicians."

Westergren has emerged as a vocal supporter of the Performance Royalty Act, which would force terrestrial radio broad-

casters to pay performance royalties for the first time. While beneficial for labels and artists, such a requirement would also help put Pandora and traditional radio on more equal footing.

BANDS AND FANS

Looking forward, Westergren hopes to turn Pandora into a platform for artists to communicate with fans more directly and extend their relationship to the real world.

"There will come a time on Pandora that you'll be able to log in as a musician and you can plot your music," he told a crowd of Pandora users at a recent town hall meeting in Denver. "You can tell where to drive your van, and tell your fans that you're coming. We can really help build a musical middle class. There are going to be 2 billion people on Pandora one day, and we're going to plug artists by the

'PANDORA CAN'T SURVIVE ON NETWORK ADVERTISING. WE HAVE TO COMMAND PREMIUM RATES.'

—TIM WESTERGEN

tens of thousands into that."

The first test of this strategy took place last year with singer/songwriter Aimee Mann. She scheduled a free concert at the Largo in Los Angeles, sponsored by Visa, and tapped Pandora as the sole means to get the word out. Pandora sent an e-mail to users who lived within driving distance of the venue and had either seeded a Pandora station based on Mann's music or who had voted positively on

one of her songs. The result? More than 300 fans turned out, filling the venue to capacity.

"When we're 50 times the size we are now," Westergren says, "our ability to do that will be mind-boggling."

DRIVE TIME

To achieve that kind of scale requires expanding to new platforms, particularly to TV and the automobile. Most of Pandora's daily traffic—about 60%—still comes from computers, according to the company. Of the other 40%, the majority comes from mobile phones (3% comes through its early forays into Internet-connected TVs).

The biggest potential rests in the car. Pandora has the opportunity to change the way people perceive radio much like DVRs changed the way people view their TV. Once users discover the ability to skip a song they don't like on Pandora while driving, the model could be permanently altered.

Pandora already has a deal with Ford to include the service in cars carrying its Sync entertainment system and has deals to make Pandora-capable after-market car stereos from Pioneer and Alpine.

Once on those platforms, Pandora can offer even more advertising and sponsorship opportunities. An integrated multiplatform campaign could feature audio ads on the mobile phone and car, video ads on TV and interactive ads on the computer, all tied to different types of artist content developed for each platform.

Making all that work in a way that will satisfy brands, artists and consumers will be the trick to Pandora's success going forward.

"They know they're onto something really special, and they just want to do the work," Red Light's Flohr says. "Their main concern is their customer. Not the brands, and to an extent not even the bands. Their main focus is on the customer, and that's why it's working." ■■■



She's cheer captain and... **TAYLOR SWIFT** and **TIM WESTERGEN** May 4 at Time's 100 Most Influential People in the World dinner in New York.

BEHIND THE 'THUMBS UP'

Like Dave Matthews? Here are eight acts Pandora says you'll also enjoy, and, according to its Music Genome Project, precisely why.



SEED ARTIST
Dave Matthews Band

MATCHING ARTISTS / Genome Reasons / Matching Songs



JACK JOHNSON
Syncopated acoustic rhythm guitars, vocal match (breathy)
"Upside Down"



BLUES TRAVELER
Harmonic vamping, improvisational approach
"Hook"



JOHN MAYER
Fingerpicked acoustic rhythm guitar, vocal match (breathy, some falsetto)
"Why Georgia"



ISRAEL "IZ" KAMAKAWIWO 'OLE
Acoustic rhythm guitar, breathy vocal
"Over the Rainbow"



O.A.R.
Long song form, saxophone improv, acoustic instrumentation, harmonic vamping
"That Was a Crazy Game of Poker (Live 2010)"



MATT NATHANSON
Vocal match (breathy, gritty), acoustic guitar picking
"More Than This (Live)"



CHRIS WHITLEY
Vocal match (breathy, gritty), acoustic guitar
"Breaking Your Fall"



RYAN CARRERA
Syncopated acoustic guitar
"Always Come Back to You"

THREE'S COMPANY

As the public face of Pandora, founder Tim Westergren gets most of the company's press. But he's the first to credit Pandora's success to the efforts of the less-heralded executives implementing his strategy. Below are the key Pandora employees the music industry needs to know most.

JOHN TRIMBLE Chief Revenue Officer

A digital sales veteran with prior stints at Fox Interactive Media and Glam Media, Trimble is responsible for all of Pandora's ad-sales efforts, and all sales teams report to him.

He designed the program linking brands to artists in an effort to command the premium ad rates needed to pay Pandora's music licensing costs. He's now focusing on how to translate those efforts to TV and the automobile.



AIMEE HIGGINS VP of Strategy, Planning and Advertising

Higgins formerly ran the creative services team for Fox Interactive Media in tandem with Trimble. While Trimble's the media expert, Higgins is the creative force implementing brand/artist partnerships. She works with brands to create custom messaging packaged around Pandora's music and artist relationships on the service's many platforms.



MATT OSTROWER Senior Manager of Artist Development

A former music industry publicist and new-media marketing executive, Ostrower is the man on the ground working with multiple artists daily to find ways for them to best utilize Pandora. Whether that's hosting an album pre-view, filming behind-the-scenes interviews or creating an artist-inspired mixtape, Ostrower is the day-to-day contact creating the content that the sales team takes to potential sponsors.



—AB