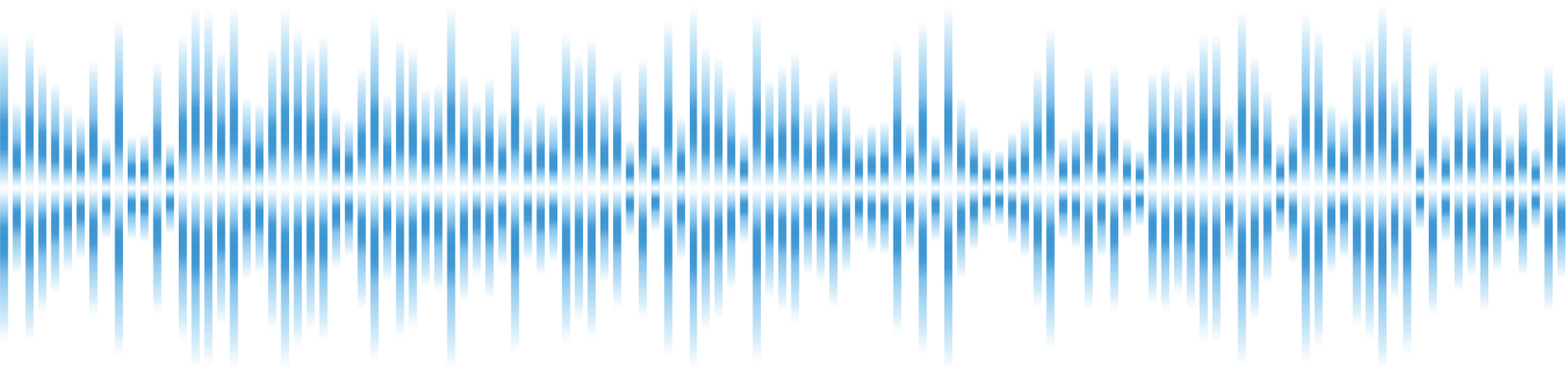


The changing landscape of radio

**Personalization
and music discovery
ignite passion
for Internet radio**



Introduction

Over the last decade there has been a seismic shift in radio. The Internet has forever changed how listeners tune in, allowing endless possibilities for a more personal, seamless music experience. At the helm of this change, power players like Pandora® and Spotify® among numerous others like iHeartRadio and Last.fm are giving listeners new ways to connect to their music. While AM/FM radio may long be a part of our daily lives, research shows that listeners are getting a more meaningful experience from Internet radio. In this paper, we explore research findings on what this experience actually looks like from the listener perspective, specifically in relation to Internet radio leader Pandora.

Research objectives and methodology

Added Value, an independent marketing insights and brand development consultancy, together with Pandora, designed a study to understand the landscape of AM/FM radio and Internet radio today.

The research was designed to answer key questions like:

- How do listeners view AM/FM radio and Internet radio?
- How does AM/FM radio compare to Pandora specifically?
- Do listeners respond differently to advertising based on the environment they are listening in?
- What are the marketing implications?

The study was conducted among 800 general population radio listeners (both AM/FM and/or Internet) in the Los Angeles, Chicago, and New York DMAs. The data was weighted at the end to be nationally representative. Respondents were taken through a music listening experience, and with no bias, assigned to roughly 15 minutes of either AM/FM radio or Pandora radio in their genre of choice. Ten minutes into their listening experience, advertising was served. For AM/FM radio listeners, a traditional pod was inserted with the test ad in the middle spot. For Pandora listeners the test ad was served in isolation (true to form). Test ads were identical between AM/FM radio and Pandora. At the end of their listening experience, all respondents answered a battery of questions on the advertising, alongside behavioral and attitudinal questions regarding AM/FM radio, Internet radio, and Pandora (depending on having listened to those forms of radio).

Part I: Times are changing. Radio isn't what it used to be

That radio is a widely accessed medium is unquestionable. There is no denying that traditional AM/FM radio is here to stay, and will continue to have an important place in listeners' lives. But while listeners are still tuning in, the research findings indicate that they do not have the same zeal for radio they may have had in the past. While 73% agree that AM/FM radio is "an easy way to listen to music," more than half of all respondents (55%) also feel that that music on traditional radio is "not as good as it used to be," indicating the medium is losing traction among listeners. There are major implications on the advertiser level as well, as 79% of listeners report that they change the station on AM/FM radio when ads come on (figure 1). AM/FM radio listeners appear to be disillusioned, leaving room for online providers to step in and create an enhanced and more personal radio-listener relationship.

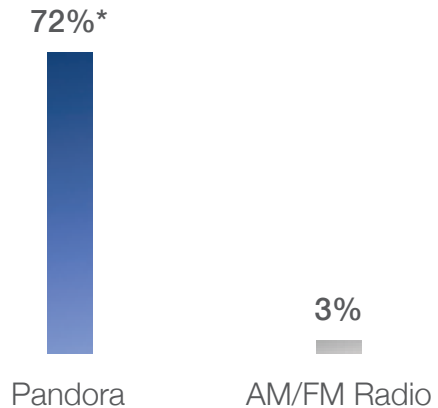


Figure 1

The majority of listeners feel AM/FM radio's appeal is fading. Listeners appear to be tuning out, with nearly 8 in 10 claiming they switch the station when ads come on.

Internet radio continues to gain in popularity, with Pandora alone experiencing exponential growth over the past three years both in terms of active listeners and listener hours. Offering a more personalized experience gives online radio an edge, and Pandora in particular is seen as offering a more enjoyable listening experience compared to AM/FM radio. Seventy-two percent of listeners feel Pandora “provides a great experience” versus only three percent for AM/FM radio (figure 2). This includes both those who had listened to Pandora before and those who used the service for the first time during the test.

Provides a great experience



Pandora vs. AM/FM radio profile

* Indicates significant difference at 95% confidence level vs. AM/FM radio.

Figure 2

Several factors drive the positive response to Pandora, not least of which is the music itself, which listeners intrinsically feel more connected to by virtue of Pandora’s create your own station set-up and the unique controls and features (e.g., reading lyrics). Compared to only six percent for AM/FM radio, 69% of listeners credit the service for being “the way I want to listen to music.” Listeners are significantly more likely to feel that Pandora – not AM/FM radio – is bringing them the musical talent and diversity they seek.

But Pandora earns recognition even beyond the listening experience. Where AM/FM radio loses ground in its appeal, Pandora picks up praise. Seventy-four percent of listeners feel Pandora is “more popular than ever” compared to only four percent for radio, underscoring the medium’s decline. Furthermore, Pandora stands out as being leading edge and distinct compared to radio. Eighty-two percent of listeners feel Pandora is “unique and different” versus only two percent for AM/FM radio. And, thanks to Pandora’s highly customizable platform, 73% consider the service “innovative” versus only four percent for AM/FM radio (figure 3).

■ Pandora ■ AM/FM Radio

Unique and different



More popular than ever



Innovative



Engaging



Pandora vs. AM/FM radio profile

* Indicates significant difference at 95% confidence level vs. AM/FM radio.

Figure 3

Pandora's personalized radio platform creates a special bond with consumers. 74% say Pandora has positively impacted the way they listen to music, a testament to how Pandora's personalization makes a difference in how consumers experience and react to radio.

Where is the love?

The research findings illustrate that what truly drives Pandora's success is much more than skin deep. By allowing listeners to create their own experience, Pandora is able to connect with them on a far more personal level. Pandora appears to lift spirits, with 77% agreeing that listening to Pandora puts them in a better mood, and even more notable, 67% actually feel "Pandora has a positive impact on [their] day to day life" (figure 4). Listeners' love for Pandora soars, creating an impactful bond between the brand and its users.

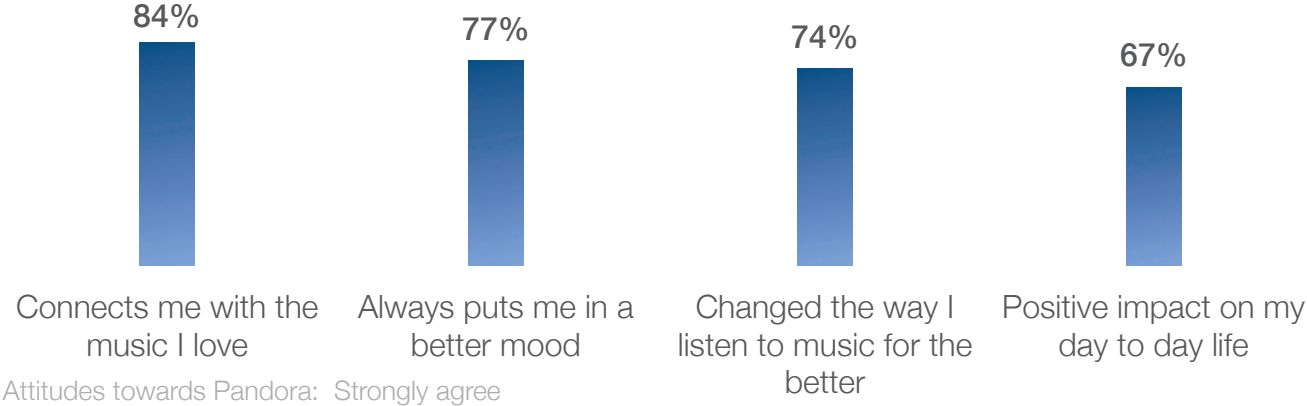


Figure 4

Part II: Personalization brings the consumer closer

The bond Pandora creates with its listeners is especially notable when it comes to advertising. In traditional AM/FM radio, where there is a proportionately higher ratio of advertising to music, listeners tend to widely tune out the advertising, flipping from station to station and readily stating that the ads are too long, too many, and too frequent (figure 5).

I would prefer to hear fewer ads back to back at one time on AM/FM radio



There are too many ads on AM/FM radio

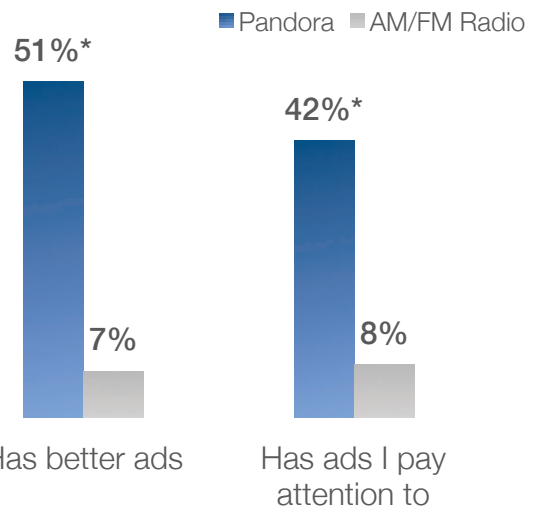


Ads on AM/FM radio are too long



Attitudes towards advertising
Strongly agree/agree

Figure 5



Pandora vs. AM/FM radio profile

* Indicates significant difference at 95% confidence level vs. AM/FM radio.

Figure 6

Perhaps because they are more deeply entrenched in a positive and satisfying listening experience, Pandora users are inclined to respond more favorably to the advertising in Pandora’s environment. Pandora’s audience overall tends to be far more tuned in to the advertising they hear and/or see, crediting the service with having “better ads” and “ads I pay attention to” versus radio (figure 6).

Overall, Pandora users are more positive about the advertising they hear. Compared to AM/FM radio, listeners are 5 times more likely to say Pandora “has ads I pay attention to.”

Pandora listeners also view the service’s advertisers in a unique and personal way: 58% agree “I feel positive towards advertisers on Pandora because they are sponsoring the music I love.” The call to action payoff may be even more telling: Nearly half of listeners report having researched a product or brand after hearing an ad on Pandora (figure 7).



Attitudes towards Pandora: Strongly agree/agree

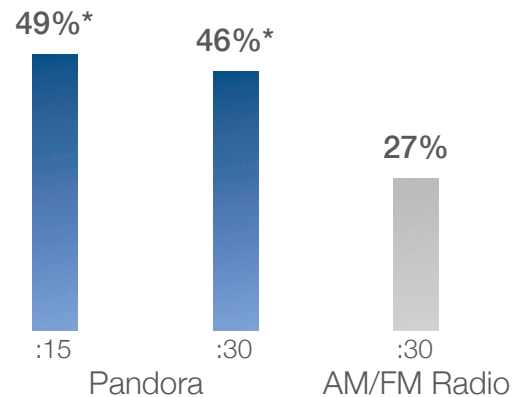
Figure 7

The findings have significant marketing implications. While advertisers continue to spend heavily in AM/FM radio, there is a strong opportunity to connect with highly engaged consumers in the Pandora environment. The research indicates that advertisers can capitalize on Pandora’s halo effect by being present as a sponsor and supporter of a listener’s personalized music source.

Part III: The ad environment may matter more than we think

Beyond the positive attitudinal response from Pandora listeners, there is evidence that advertising on the Pandora platform performs better than advertising on AM/FM radio in terms of brand recall and other key ad metrics. During their listening experience, respondents were exposed to advertising that was true to AM/FM radio and Pandora ad platforms. Respondents could not change the station when ads were being played. Respondents heard the exact same test ads in the AM/FM radio experience and the Pandora experience. But even with the same ads, there were some noteworthy differences in the ad response based on environment. Perhaps not surprisingly, due to radio’s inherently high ad-load levels, significantly more people overall remembered hearing some kind of ad on AM/FM radio. However, Pandora listeners who recalled hearing an ad during the listening experience were 70% more likely than AM/FM radio listeners to correctly recall the brand being advertised on an unaided basis (figure 8). This represents a statistically significant difference.

Unaided brand recall



Among those who recall an ad

* Indicates significant difference at 95% confidence level vs. AM/FM radio.

Figure 8

And beyond brand recall, the findings show that the environment can impact noticeability. Sixty-eight percent of those who heard the ad on Pandora claim that they “noticed it more” than they normally would have vs. only 41% for AM/FM radio. And, 54% said “it got my attention” on Pandora compared to only 39% for AM/FM radio.

While these results are based on a test setting, they do offer a glimpse into how environment can play a role in ad receptivity. And, combined with the attitudinal response to Pandora, there is evidence that advertising overall fares better and garners a more positive response on Pandora and likely services similar to it.

Pandora’s ad environment elicits a more positive response than AM/FM radio when it comes to ad metrics. For Pandora listeners who remembered hearing any advertising, correct unaided brand recall was significantly higher.

Conclusion

When compared to AM/FM radio, the research indicates that internet radio, and Pandora specifically, has been highly successful in establishing an even more positive – and more personal – relationship with listeners. Listeners are far more likely to feel Pandora is innovative, provides a great experience, and even contributes to the happiness of their day-to-day lives. This translates to better ad receptivity as well, with engaged listeners tuning in to the ads and feeling positively toward the advertisers. Pandora offers marketers a wealth of opportunity to connect with the highly engaged, modern-day listener in an appealing advertising environment.

About Added Value

Added Value, www.added-value.com, provides consultancy on brand development and marketing insight for iconic brands, both big and small, around the world. They help solve clients' central marketing questions about market, brand, innovation and communications. Added Value is part of Kantar, WPP's consumer insight and consultancy group.

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About Pandora

Pandora (NYSE: P) gives people music and comedy they love anytime, anywhere, through connected devices. Personalized stations launch instantly with the input of a single “seed” – a favorite artist, song or genre. The Music Genome Project®, a deeply detailed hand-built musical taxonomy, powers the personalization of Pandora® internet radio by using musicological «DNA» and constant listener feedback to craft personalized stations. Tens of millions of people turn on Pandora every month to hear music they love. www.pandora.com

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