



Southern California Broadcasters Association White Paper Report

Consumer Response and Listening Satisfaction of Broadcast Radio vs. Pandora Internet Music Service

The Southern California Broadcasters Association is committed to providing relevant consumer information and research to clients, agencies, and our member Radio stations to advance the value of Radio as an effective and targeted medium. Our goal is to be a trusted resource to all of our constituencies providing accurate and unbiased information to assist in marketing and advertising decisions when targeting Southern California consumers. To that end, the following SCBA White paper focuses on the comparison of Broadcast Radio to the Pandora Internet music service in terms of listener habits and commercial recall and awareness from consumers.

The effective commercial environment and growth in total Broadcast Radio listenership in Southern California continues to be the workhorse for most media planning and client advertising. However, the marketing flash and aggressive press coverage provided to the Pandora Internet music service has given the pureplay the critical hype and awareness that all start-ups desperately need to become relevant to its core audience and advertisers.

While the need to find “something new, shiny, and different” is always a part of an advertiser’s thought process, it is logical that clients would invest in the Pandora Internet music service. However, questions of how the audience is measured and/or its effectiveness over time may not have been looked at in the rush of the “new media blitz” on advertisers. Moreover, how is the consumer using Broadcast Radio vs. the Pandora Internet music service **over time** and what are the trend lines advertisers should concern themselves with to protect their media investment and ensure the media plans are performing as they should?

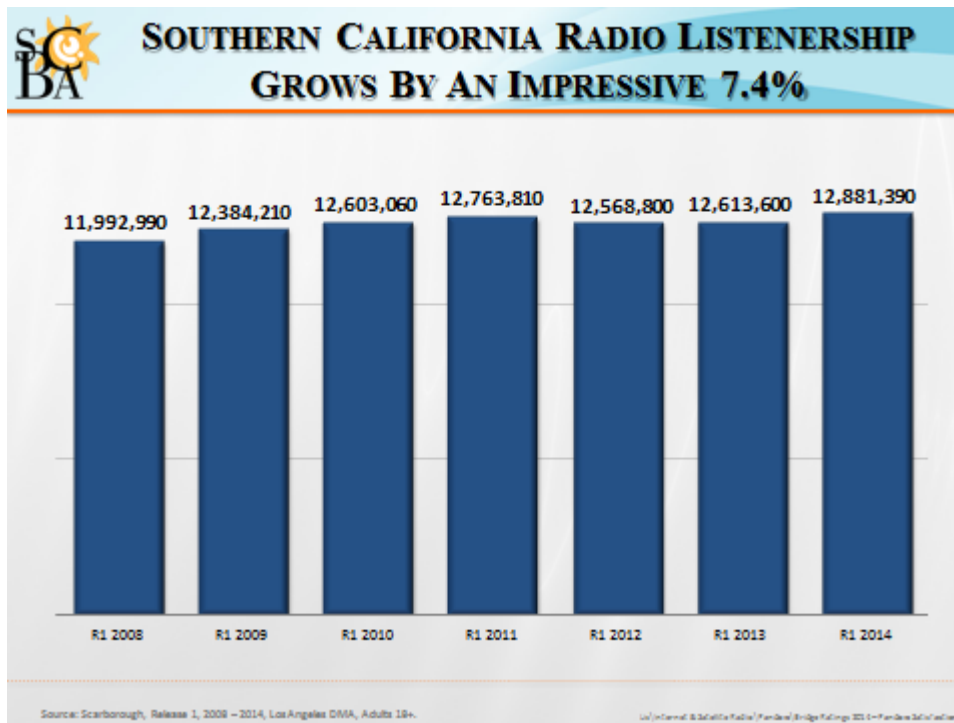
To assist advertisers in understanding how best to influence their target and future consumer, the SCBA has found compelling new research data that makes the direct comparison of Broadcast Radio to the Pandora Internet music service in terms of listenership and commercial effectiveness. The results produce a stark comparison between the two media and one we urge our clients to read with both concern and interest.

The advertising awareness study was conducted by Bridge Ratings Services, LLC with a specific focus on consumer usage of Broadcast Radio vs. Pandora internet music service and commercial recall. The growth of Southern California Radio is provided by Scarborough Research over a six year period. Details on methodology can be found at the conclusion of this report.

Consumer Response and Listening Satisfaction of Broadcast Radio vs. Pandora Internet Music Service

The SCBA has condensed this Bridge Ratings report into the most revealing data for our discussion and we offer these facts for our readers immediate consideration.

Despite all the fragmented competition for today's audio listener, Southern California Radio listenership of AM and FM stations continues to grow at an **impressive rate of 7.4%** over the past 6 years. This compelling fact contradicts the misinformed perception that Radio somehow has lost its listeners or its importance. As the chart below entitled, **SOUTHERN CALIFORNIA RADIO LISTENERSHIP GROWS BY AN IMPRESSIVE 7.4%** clearly shows, **the opposite is occurring.** Radio is growing and its apparent importance to listeners as a source of entertainment and local information has never been greater.

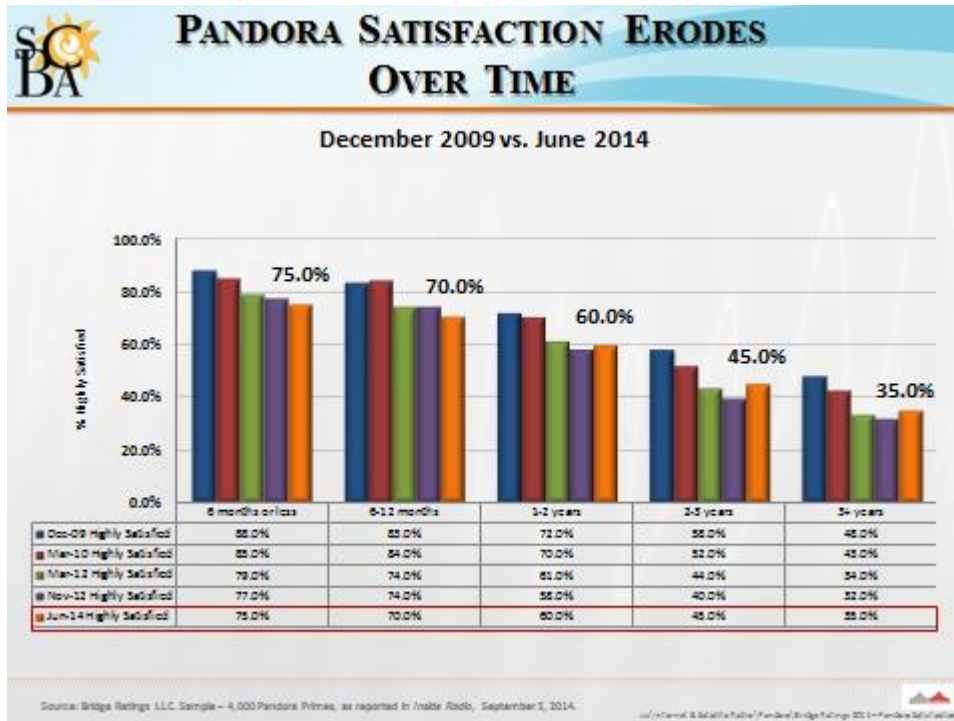


If Southern California's Radio listenership growth is clearly documented and, by extension, a continuing pattern of its audience satisfaction, then what conclusions can we reach about the Pandora internet music service and their satisfaction index among its listeners?

The research findings from Bridge Ratings, LLC should give pause to all advertisers currently invested in or contemplating a media purchase on this platform. The next slide of the research findings entitled, **PANDORA SATISFACTION ERODES OVER TIME** describes a music service that is losing listener satisfaction by considerable margins. **One of the many ominous signs from this report is that this survey was conducted to its customers who were self-described as "highly satisfied" at the beginning of their subscription service.**

In the report, Pandora Prime listeners began the service in December 2009 with an 88% high satisfaction level but after only 1-2 years, that satisfaction rating drops to 72% and then **plummets** to

48% after 3 years and more of the service. **This is significant customer dissatisfaction** that only gets worse in more recent surveys. Listeners surveyed in June 2014 with 75% satisfaction levels drops to 60% after 1-2 years and then deteriorates to 35% after 3 years and more. The sample size for these “Highly Satisfied” listeners was 4,339 Pandora Prime respondents.



While there are many factors that are contributing to the **accelerated dissatisfaction** with the Pandora internet music service such as music selection and limited use of skipping songs, it is logical to conclude that their ultimate challenge is simply the commercial environment or consumer expectations of an internet delivered music service.

Since Broadcast Radio has been free to consumers since its inception, commercial radio stations have been running commercials for almost 94 years and the listener acceptance, recall, and retention of these commercials is well documented. In brief, listeners know the price of free over the air Radio is hearing commercials. It is a given.

The commercial acceptance by listeners for Internet based music services **is quite different**. Consumers of these internet based music services **expect** a non-commercial environment as that is how these services were initially marketed to the public for years until these same music service companies realized a **subscription-based model could not pay the bills**. Once a commercial free environment has been established, it is impossible to introduce commercials in a non-intrusive manner. **Thus, the principle reason for Pandora’s massive listener dissatisfaction is simply that they are running commercials on a platform that has billed itself as non-commercial for too many years.** This statement is corroborated by the TechSurvey media study dated April 2014 in

Consumer Response and Listening Satisfaction of Broadcast Radio vs. Pandora Internet Music Service

which respondents claimed that commercial interruptions were the number one most annoying listener experience with Pandora.

Based on what we have learned so far about **Radio's continued audience growth** and by extension, its growing consumer satisfaction, and the Pandora internet music service and its massive consumer dissatisfaction with its service, we are compelled to ask advertisers some very direct questions.

For example:

- Would you agree that if Radio's audience measurement was the same as Pandora's that Radio's growth rate would be even higher than 7.4%?
- If the Pandora user is dissatisfied with the internet music service because of the commercial environment it has introduced, is it in your best interest to advertise to a hostile audience who does not want to hear your commercials and considers them a rude interruption?
- Can we agree that commercial acceptance and trust of Broadcast Radio commercials and the innate and long standing commercial environment created over decades by Radio is a more accepting and even welcoming environment for your commercial message?

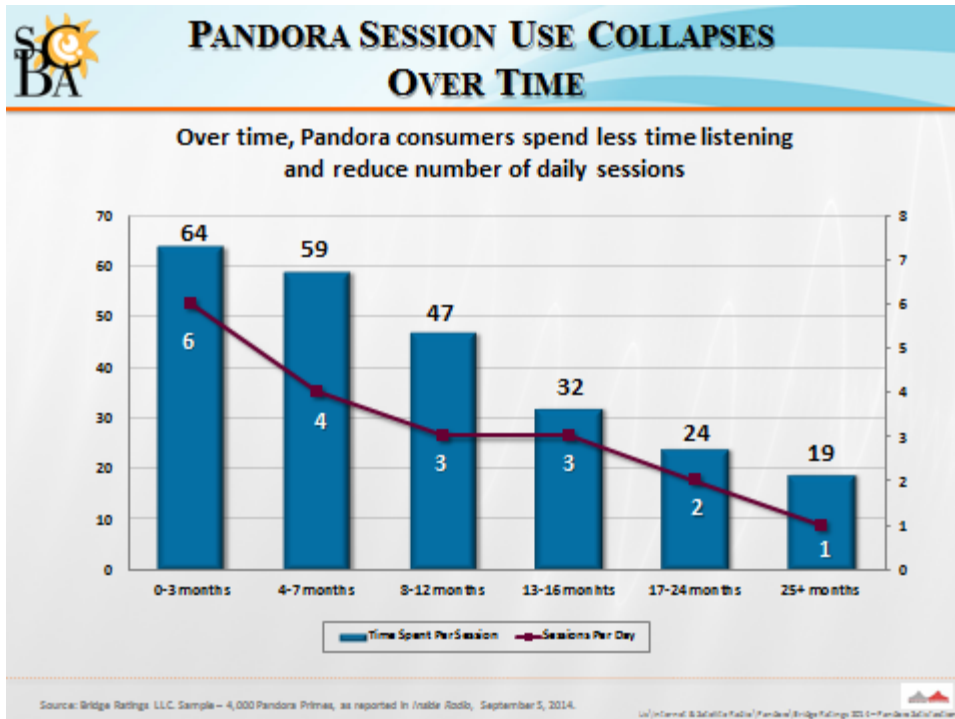
We pose these leading questions as it should be fairly obvious that it is the **commercial environment that must be of primary concern to advertisers as well as the trend lines to understand future growth of any media**. Stating that, which service offers a better consumer satisfaction level AND a more positive and accepting commercial environment? The answer is Radio.

If we can agree thus far that consumer satisfaction or lack thereof, can lead to either increased listenership or a loss of users, then the next data point in our SCBA White Paper should add substantial significance to the value proposition of Broadcast Radio vs. the Pandora internet music service.

In the most revealing and ominous data point on Pandora's service, this next slide, entitled **PANDORA SESSION USE COLLAPSES OVER TIME**, depicts Pandora prime users as being disappointed in the internet music service and as a result, is spending dramatically less time listening and is reducing their daily sessions (log in) substantially.

Again, these participants are described as Prime PANDORA USERS. It's clear that any Internet music service is in trouble when its prime new users begin the service at 6 sessions per day and 64 minutes of supposed actual listening but drop their sessions down to 1 per day with only 19 minutes of listening time at 25 months or more.

That represents a 70.3% loss in time spent listening and an 83.3% loss in daily sessions or log-ins within 25 months, and that's from its best customers!



Now compare that to **Radio's 7.4% growth factor** and its more favorable commercial environment and the gap between the Pandora hype and reality begins to take shape right before our eyes. Adding to the disparity between the Pandora music service and Broadcast Radio is this simple truth:

The Pandora audience measurement system, as developed by Triton Digital, records a "session" or log-in occurrence and makes the impossible assumption that because the service has been logged into, the listener is listening and in the same room as the PC or mobile device. This means that their time spent listening definition is simply having someone log in and then log out. There is no way to know if they were actually listening or even in the same room as the source of the music playing.

Broadcast Radio is held to a **much more exact and real world measurement system** with Nielsen's PPM technology which measures **actual listening time** based on the device detecting a Radio signal that is worn by its panelists.

While there are many aspects of audience measurement that can be challenged, argued, and disagreed with, it is fair to say that a person must have a Radio device on to be counted as a listener and a person must log in to the Pandora web site to be counted as a listener. We can all agree on this basic first step to any measurement system from Nielsen Audio or Triton Digital.

Southern California Radio's audience growth as measured by Nielsen Scarborough is clearly documented. With the PPM system, telephone interviews, or written diaries, all measurement begins with someone turning on the Radio and listening. The same holds true for the Pandora service. Any listener must log on to its URL to be counted as a listener.

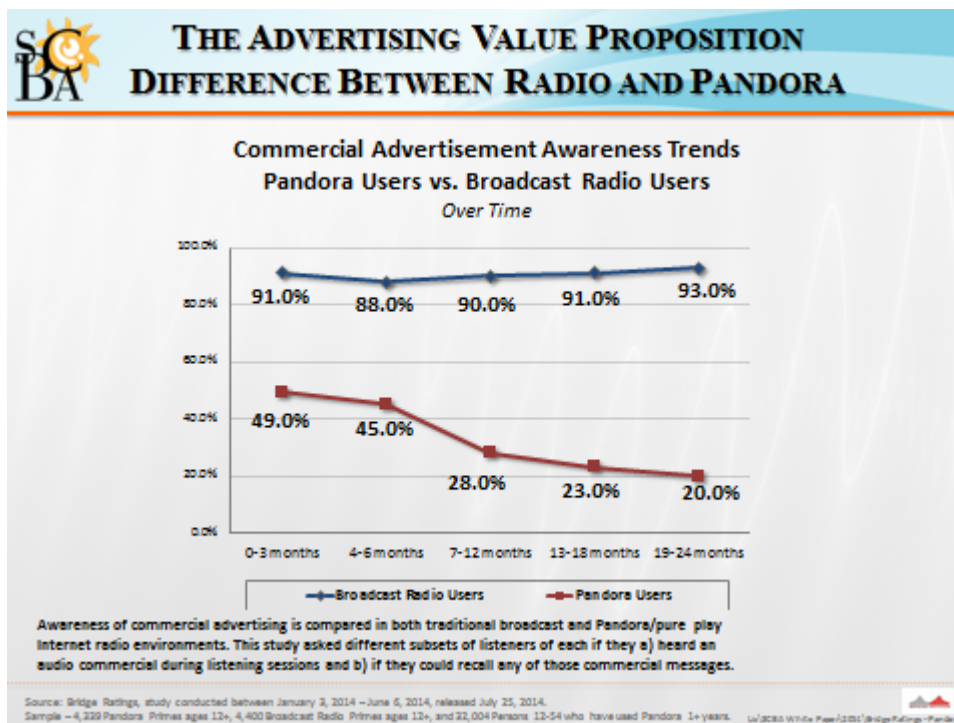
Consumer Response and Listening Satisfaction of Broadcast Radio vs. Pandora Internet Music Service

From any advertiser's perspective, the most important benchmark for investing media budgets in either Broadcast Radio or the Pandora internet music service is simply this:

Will the consumer respond to our ads and buy our product or service?

That simple yet all important results criterion is all that really matters if our media are to be judged through the prism of building brands and market share for our advertisers. The ability to recall commercial messages is vital if the consumer is to act on the message and make a purchase. The key word here is **Recall**.

As our last data point clearly demonstrates, consumer recall of audio commercials heard on Broadcast Radio is dramatically better than those heard on the Pandora internet music service. Our final slide is entitled, **THE ADVERTISING VALUE PROPOSITION DIFFERENCE BETWEEN RADIO AND PANDORA** and definitively answers the question, "Will the consumer respond to our ads and buy our product or service?"



As the above data indicates, the ability to recall an audio commercial heard on Broadcast Radio was listed as 91% of all 4,400 Radio respondents. That figure remained remarkably consistent over a 24 month period. By a stark contrast, the Pandora listeners, which were 4,339 respondents in the survey, only 49% could recall audio commercials. Further weakening the Pandora commercial recall environment was that after the same 24 month period, only 20% of Pandora's best listeners could still recall the audio ads they heard on the music service. **It's clear from this research that Broadcast Radio is a vastly superior advertising recall environment for advertisers.**

Consumer Response and Listening Satisfaction of Broadcast Radio vs. Pandora Internet Music Service

This body of comparable evidence should lead most thoughtful advertisers to these undeniable conclusions:

- Broadcast Radio listener satisfaction is growing impressively based on a 7.4% increase in total listening over the past 6 year period for Southern California Radio.
- Broadcast Radio enjoys a 93% audio commercial recall factor from its listeners, even after a 24 month period.
- Pandora internet music service listener satisfaction among its prime customers erodes rapidly over time.
- Pandora log on sessions dropped by 83.3% within 25 months and time spent listening over the same period collapses by 70.3% in the 25 month time span.
- Pandora listener audio commercial recall plummets from 49% down to 20% within 24 months.

Based on this new and compelling information, the SCBA urges advertisers to contact us at tcallahan@scba.com for an in-depth discussion on the essential advantage of Broadcast Radio over the Pandora internet music service.

We urge advertisers to seriously review this SCBA White Paper and consider the fact that something “new, shiny and different” should never be confused with what is a proven and effective commercial environment for an advertiser, which is and remains, **Broadcast Radio**.

Thom Callahan

President

Southern California Broadcasters Association

September 2014

Research Sources and Methodology:

Bridge Ratings, LLC conducted its survey from January 2014 through June 2014. The sample panel was made up of 4,339 Pandora Primes age 12+ from a national pool of 50,000. Weighting was achieved to reflect national, regional, and market population. Primes are defined as “heavy users” who spend at least one hour a day with a given audio application or source. Radio survey was conducted during the same period with 4,400 broadcast Radio “primes” or heavy users. Surveys were conducted by telephone and Internet based questionnaire. All respondents were chosen on a random basis and were qualified as heavy users before the survey began.

Scarborough data collection involves two-phases. Phase I involves randomly dialed telephone interviews to collect data on radio, newspaper, television and website usage and personal demographics (Survey Dates: February 5, 2013 – January 25, 2014). The radio data collected during this phase is used with Nielsen Audio’s results to project Scarborough estimates over seven days. In Phase II, a consumer survey booklet and television diary is mailed to the respondent who completed the phone interview (Survey Dates: February 6, 2013 – March 24, 2014).

All data is copyright protected and is used by license and/or permission from its source.