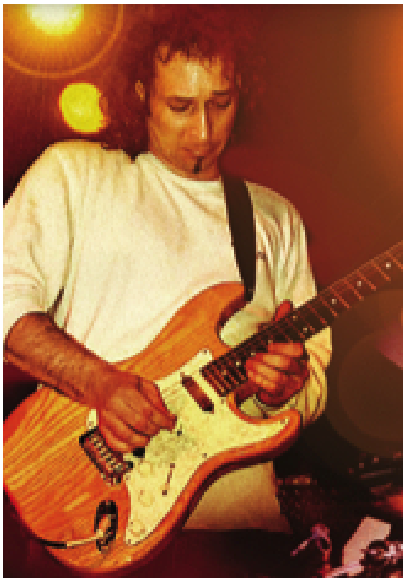

By John McGlasson - GJD Contributor

The Circle of Events

In my last article, I mentioned the circle of events that must take place for ad-supported, free-to-the-listener internet radio to survive, being; Customer listens to music, views the ads on the side of the page, clicks thru and buys the product, but I want to expand on that in this article.

My question is, how does the advertiser, and an online station like my favorite example of free internet radio, Pandora, gauge success when the advertising done with Pandora is often part of much broader national, or even global marketing plans for beer, liquor, cell phones and service, cars, and other products that don't have "click-thru purchase" response to ads, which are very easy to track?

In fact, as I'm listening to Pandora right now, the featured advertiser is Wendy's fast-food restaurant chain. How in the hell are Wendy's or Pandora to chart Wendy's advertising success with Pandora? Advertising on Pandora is only a small part of a much bigger ad campaign for any of these huge advertisers.

In the internet radio world, the amount of traffic, along with new and repeat users, are equal to ratings in the TV and radio world. Advertisers assume that if they're reaching a certain number of people via radio and TV that they're seeing the results in the bottom line, and TV and radio set ad rates accordingly, but it's basically untrackable as far as how many burgers Wendy's sells because someone was watching Seinfeld and saw a Wendy's commercial, it's always been vague at best. The bottom line is the only story for these advertisers, it's all they know for sure.

So with the major traffic and growth Pandora is experiencing, why can't they simply raise ad rates along with the higher royalty rates they'll be paying in 2010? (more than doubled from .08 per play to .19 per play) What's scaring advertisers, could it be the RIAA? (Recording Industry Association of America) It would appear that if the RIAA knows the rate increase will kill

Pandora, and hence kill free internet radio, then to implement the increase could only be seen as a deliberate death-blow to internet radio by the RIAA. Advertisers aren't about to enter into even short-term ad campaigns if they think the station won't be there for long. If they believe music and products like Wendy's, and even like Pandora, are joined at the hip, then we have to believe that Wendy's would see Pandora, the source of the music, as an inferior, unprofitable product not to be associated with. A sinking ship if you will.

Pandora's leadership claims that 70% of their revenues go to royalties, leaving 30% to operate, grow, and profit, but with their very public declaration that they're near death, aren't they really saying that they can't raise ad rates any higher than they are now? What was the criteria for setting these ad rates at only 30% above royalty demands, why didn't they set them higher to begin with? In planning, they had to have thought they could operate, and profit, at 30% above royalty demands, so they got it wrong. And with the success Pandora's had to date, good by any standard, why can't they use the numbers to date as criteria to set new ad rates that'll allow Pandora to continue to exist without charging the user?

It may also be possible that Pandora was paying out a lot of royalties early on after the initial launch and growth period before heavy advertising began, so maybe they're in the red a bit? They should mention this in their public statements if that's the case, it's expected with any startup, and would intercept any talk of poor management that's inevitably coming their way. It would also allow them to make rosy projections for current and future investors, and show a light at the end of the tunnel for other online radio stations. I suspect they'd be doing that if they could.

While I'm beginning to smell management troubles in a company that takes in $25 Million a year and only has to operate a website, do some research, and some accounting, and can't profit on a 30% self-imposed margin, it's also beginning to appear that internet radio, and especially Pandora, is just the music industry's latest whipping boy. Pandora is meeting every benchmark in every criteria advertisers use to gauge success of an advertising campaign, and companies they advertise with, so there have got to be other dynamics at work.

Could it be that Pandora, being the newest, most experimental phase of generating music revenue, is just the first to go based upon that fact? Are advertisers like Wendy's and Bacardi seeing a slip in sales across the board and making a knee-jerk reaction by refusing to pay higher ad rates with Pandora? Is Pandora only providing proof of how it's nearly impossible to attribute sales to an individual part of a mass-advertising effort?

Because there's no real criteria for judging how a major advertiser's sales are affected, or not, by advertising on Pandora, their status as RIAA Whipping Boy is creating the perception that Pandora's on the way out, and perception is reality in their world. Thanks for reading!