pandora®

Final Report- MKT 460

Cailyn Cochran

Alastair Smith

Tracy Michael

Valerie Zuniga

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Executive Summary

We believe Pandora has a value problem for a large portion of the market (college students). We recognize that people perceive Pandora as a high-quality music streaming service with an advance algorithm that help customize your playlist. However, the price tolerance for music streaming for college students is $4.99. We identified that other industry leaders in music streaming (Apple music and Spotify) also segment their music streaming to cater to college students by offering their premium service for $4.99.

We believe the best solution for Pandora is offering a student discount application. This would align us with the status quo pricing strategy with other industry leaders (Apple music and Spotify). Our marketing strategy is "We don't want you to pay to listen to music". In the college discount platform there is a rewards program, where users can earn points towards getting a free month of music. This is mutually beneficial by sharing Pandora advertisements and watching and interacting with advertisements on the platform it would spread awareness and value for Pandora.

We believe the total cost for Pandora to develop and advertise the new service will be 15 million dollars. We have confidence that a million-dollar marketing advertisement campaign will ignite users. This will spark interest in our new platform. We also have a variable cost of covering the free trial month $4.99 per user we realistically think we will gain 1.1 million new users which would cost 5 million. We agreed that it would cost 9 million dollars for product development. We predict that Pandora in 2018 will increase subscription revenue by 57 million dollars. This is an ROI of 90% for Pandora. (Appendix U.)

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Competitive Analysis

The music streaming industry is a relatively new industry, but it has made a significant impact in the overall music market. To identify our industry, we used two different classifications that best describe the music streaming industry: Music Publishers (NAICS: 512230) and the Radio Broadcasting Stations (SIC: 4832). The consumption of music has seen a shift over the years, beginning with record and cd's, to tapes, then mp3's. By the end of 2017, the music streaming industry brought in $5.7B in revenue, 65% of the overall music industry revenue in the United States. In the music streaming industry, the main competitors are Apple Music, Spotify, and Tidal. Each of these companies offer similar services, but have different marketing strategies to reach its target audiences. See Appendix A for the industry comparison.

Spotify

Spotify is a digital music service that provides on-demand access to its catalogue of 30 million tracks. Since launching in 2008, Spotify surpassed Pandora and took music streaming service to the next level. It currently has 36% of the total music streaming subscribers worldwide. See Appendix B for share of subscriber's graph.

Product:

As a music streaming service, Spotify's objective is to engage listeners. Listeners can stream and download individual songs. To reach that object their strategy includes integrating social features, such as logging into the app through Facebook, following friends accounts to see what they are listening to, and providing public playlists for easy music discovery. Subscribers can share a song or playlist with anyone via a simple link. To further engage listeners, "clicking on an artist's name pulls up additional songs by the artist and a bibliography, photos, and hyperlinks to related pages." Spotify's catalogue offers a variety of audio content, ranging from music, audiobooks, a variety of podcasts, and 2 billion playlists. Its user interface is also designed to engage listeners. If a user likes a song, he/she can right click to discover similar songs. If a user is looking for something new, he/she can check Discover Weekly, a curated playlist using advanced data science and algorithms. The Daily Mix feature curates a playlist of frequently played songs in the users' library (Kazakov, 2018).

Price:

When it comes to pricing, Spotify directly relates its strategy to the services it offers. Spotify currently offers a tiered subscription model. Its products include a free ad-supported service and Spotify Premium. The free version serves audio and banner ads while you listen and interact with its social features. With Spotify Premium, listeners pay a monthly set price of $9.99 for ad-free music streaming. In addition, paid subscribers can listen to early released albums, play songs on demand, and download songs for offline listening. Its discounted $4.99 subscription for students helps capture the market segment that is the most present in online social networks, thus being the most likely to cause cascades of invites to use the service. In conjunction with its Premium subscription, Spotify offers a Family Premium for $14.99 per month, which grants six people individuals premium accounts.

Promotion:

Spotify's promotional strategy is closely aligned with its product strategy, emphasizing engagement and sharing through social networks. Their promotional objective is to "inspire more fans to listen to more music; and inspire more artists to produce more music, more often" (Neisser, 2017). With its mass amount of data and marketing scientists, Spotify is able to deliver the more relevant, personalized and contextual experiences for our users at the intersection of data, technology and storytelling.

Place:

According to its site, Spotify is available in 65 countries. Please see Appendix C for a full list of Spotify's territories. The app is available on Android, iOS, and Windows phone. In their most recent annual report, Spotify describes its strategy to allow people to enjoy music however and wherever they want. They work with media companies and platform partners to help promote and distribute their service; From media, technology, events, and brand partners through to the telecoms, television, speaker hardware, and automotive industries.

Apple Music

Apple Music launched June 2015 as a product extension of Apple. It currently the second largest percentage of paid subscribers in world at 17%.

Product

Apple is well known in the music industry. However, its product strategy for Apple Music is not to be a profit driver, rather a glue in Apple's quest to control sound. They seamlessly integrate this newly launched service with its current product line. Apple music is a streaming service that allows you download or play songs using wifi capabilities or data off compatible devices such as phone, laptops, tablets, or personal computers. It currently offers 45 million songs and Apple Music comes already integrated in all Apple devices and makes music listening compatible with devices who share an Apple ID. In the setup for most Apple products, Apple Music is introduced. If a person requests Siri (Apple's intelligent personal assistant), the Apple Music will activate playing the requested song. Apple allows the user to be able to select individual songs, albums, or curated playlist. Apple along with their competitors has signature artists like Drake or Frank Ocean, which has exclusives releases that can only be heard on Apple or released two weeks before other music streaming services have it.

Price

As mentioned previously, Apple's strategy for Apple Music to is not to gain a profit, but another step closer to controlling sound. Its status quo pricing strategy mirrors Spotify's, minus the ad-supported streaming subscription. Apple Music maintains a $9.99 premium cost, with discounts for students ($4.99) and families (14.99).

Promotion

When it comes to promotion, Apple struck gold when Taylor Swift came to Apple with the idea to promote Apple Music with a commercial staring herself. This is one example of how Apple promoted its exclusive artists' partnerships on its streaming platform. As previously mentioned, Apple has signature artists like Drake and Frank Ocean, which promoted exclusives releases that can only be heard on Apple or released two weeks before other music streaming services have it. Larry Jackson, Apple's director of

content quotes, "Taylor Swift lives at Apple Music, Drake lives at Apple Music, with so many other artists. They use the product. This isn't a toothpaste ad. This is a place where their ideas are carried through with respect and reverence".

Place

As Apple is in a battle with Spotify for global presence. It is currently in 114 countries, 49 more than Spotify. Apple's strategy is to bring its platform where Spotify hasn't made an entrance (Sanchez, 2017). Apple Music is bundled within iOS starting with 8.4 and iTunes 12.2, and all versions going forward. Unlike iTunes, iPhone users can stream music, instead of purchasing albums or individual songs. Android users running 4.3 or newer can download the application (Yamshon, 2017).

Tidal

Tidal was founded by Norwegian tech company, Aspiro, in 2014 and bought by rapper Jay Z, in 2015. He wanted to give more control to the artist, so he created an artist owned streaming service. Names like Beyoncé, Kanye West, and Taylor Swift are all Tidal artists. For Tidal, this is a competitive advantage if you are a fan of these exclusive artist. This service is slower on growth compared to its competitors, with a little over 3 million users.

Product

Tidal's product strategy includes exclusive content by known artists, 46 million songs and 190,000 videos and offers a multi-tiered subscription service with high definition sound. Tidal has come under fire for its glitchy user interface.

Price

Tidal has a slightly different pricing strategy compared to its competitors. Like Spotify, Apple, and Pandora, for $9.99 users have access to standard steaming service. In addition, a HiFi or high definition streaming service is available for 19.99. Tidal also gives you free concert tickets on your mobile devices to its biggest artist and lets you import playlist from third party streaming services once you come to Tidal.

Promotion

Since Tidal is the newest to the music streaming industry, it has seen a slow growth in awareness and subscribers. Jay Z began his promotion campaign on twitter with his tweet "Rich getting richer? Equity values... YouTube $390 billion. Apple $760 billion. Spotify $8 billion. Tidal $60 million. #TidalFacts." Tidal aims to "position the service as a something of an underdog in the war for streaming supremacy" (Greenburg, 2015). It promotion strategy is similar to Apple's exclusive artist early releases. In addition to early releases, Sprint bought a 33 percent stake in Tidal, which provided $75M in exclusive content for the young platform. Tidal also promotes its higher payment to artists, compared the other competitors.

Place

Tidal is offered worldwide unlike the American based company, Pandora. It is currently available in 52 countries, with strategic plans of expansion. It is compatible with iOS v 9.5 or higher, Google Chrome v.39 or higher, Windows 7 or Android v 4.4.4 or later, and as Tidal continues to expand, its objective is to contribute to the health of the music industry by growing the number of royalties payed to the curators.

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Driving Forces

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There are four uncontrollable forces that we feel impacts the macro-environment for the Music Publishers and the Radio Broadcasting Stations industry: Music publishing laws and copyrights, demographic shift of the end user, smartphone trend, and going from disk to digital.

Music Laws & Copyrights

A major wildcard for the industry is copyrights and laws of downloadable content. This can affect how many songs they can have and how they can purchase the copyrights (digital distribution). This can also change with regulation and swing as a positive or negative for the industry. However, these laws can make the barriers of entry a lot harder for other companies to get involved in this industry because they might have the buying power to purchases the newest songs to add to their service.

Demographic Shift of End Users

The industry relies heavily on the younger generation. As for the focus of this project, we are targeting college age students to purchase and use our services. One big uncontrollable factor is the number of college age students, that would be eligible for the student discount. College students spend on average 97 minutes a day on music streaming which is over 30% more time a day than any other age demographic. See Appendix D for a graphical representation of this by Audiencenet. We notice trends in change of look to see if people like to own songs anymore or rather just rent the song. Looking at all the demographics ages 16 to 24, only 13% listen to and buy CDs, 68% of people use YouTube, 40% use Spotify, 28% use Pandora, and 9% use Apple music. This shows that more people that fit in the college age demographic choose to listen/borrow music rather than buy a physical copy and own it.

Smartphone Trend

For this driving force, we looked at the trend of the number of mobile devices capable of carrying apps that support our service. The second most popular mobile apps in 2017 for smartphone users was listening to music at 48% (eMarketer 2017.). Another related uncontrollable force is the space available to store music on mobile devices. Smartphones are coming out with phones that can hold more and more spaces, which could impact the need for a streaming service if people could now have the space to download and own the song. A survey conducted by Kaspersky Lab revealed 36% of people are using their phones to stream music on mobile devices. See Appendix E.

Disk to Digital

Compact disk (CD) has been on the decline since 2011 dropping from 224 million album sold to only 104.8 million; which is a 47% drop in CD sales. See Appendix F. CD sales are down by 18.5 in 2017. Best Buy told label companies and suppliers of music that they will not be selling CDs by July 1, 2018. Best Buy was formerly known as the "most powerful" music big-box retailer in the U.S. According to Christman, Target is now going to start selling all the music on its shelf on a consignment basis. This means Target is going to only pay for the CDs that are sold; putting risk back in the hands of the label (Christman 2018).

Critical Success Factors

Free Music Streaming: It is no surprise that customer's ability to listen to their favorite music for free is a critical success factor for the music streaming industry. Before paid subscriptions, users were able to listen for free with the addition of advertisements. Many users continue to use free services. See Appendix G. Ads or No ads this is a big success driver that has given music streaming apps momentum. Right now music giant, YouTube, "is locked in an increasingly bitter battle with music labels over how much it pays to stream their songs -- and at stake is not just the finances of the music industry but also the way that millions of people around the world have grown accustomed to listening to music: free of cost" (Frankel, 2017).

Premium Trials: Since premium subscriptions were introduced, users are often offered a free or discounted trial to ad free music and other benefits. Apple music offers a three-month trial period for their premium service. Spotify also offer a three-month trial, at a discounted rate of 99 cents, and Tidal offers a one-month trial for its premium service. These trials allow users to sample the company's premium service without any financial commitment.

Comfort and Convenience: In the case study, "Critical Success Factors of Online Music Streaming services," comfort and convenience was identified as a critical success factor (CSF). This CSF ties in multiple parts of the user experience from the interface to the algorithms behind curating playlists to each listener. Users of these services come from diverse demographics with a wide variety of music preferences. It is up to the companies to create a convenient way for listeners to find and discover music (Maftei, Gerogiannis, & Papageorgiou, 2016).

Ad-Free On Demand Streaming: With the premium service, comes the luxury of ad-free music streaming and on-demand music selection. Some listeners are content with ads interrupting their session, however many are investing in the premium service to remove the ads. The company, in return, gains new

premium users. In addition to the ad-free experience, almost every music streaming service provides on demand streaming, meaning listeners can look up individual songs.

Discounted Services and Partnerships: Many companies now offer discounted premium rates to students, families, and the military. For students, "Spotify and Hulu are teaming up to combine both of their streaming services into a single education bundle for only $4.99 per month" (Welch, 2017). This not only benefits the students, but also gives the streaming service more visibility when partnered with another established streaming company. Partnerships also allow for more consumer data to be collected, which allows for an even better opportunity to curate playlists.

Industry Attractiveness

By analyzing all the five competitive forces of Pandora Media, Inc. strategists can see an entire picture of what impacts the profitability of the association in the Broadcasting/ Radio industry. They can recognize amusement changing patterns from the get-go and can quickly react to exploit the developing opportunity. By understanding the Porter Five Powers in extraordinary detail Pandora Media, Inc. 's supervisors can shape those powers to support them.

Threat of Entrant – Unattractive: With technology today, it makes is a lot easier to offer a music streaming service. There is low upfront capital needed and with contracts you only pay artist if your customers listen to their song. To get started you would need a website and music content for people to subscribe too. There are many small competitors that all try different aspects of music streaming. To create a music streaming service, you just have to come up with a creative way you are going to distribute the music.

Bargaining Power of Buyers – Unattractive: Buyers can listen to music for free if they have radio access AM/FM. There are also a lot of free ways to listen to music that you don't own. The difference in the music streaming business is that you can create list and customize what you are listening too. This factor might not have enough value to get people to pay for your service.

Bargaining Power of Suppliers – Attractive: Artist and record companies rely on radio to share their music. As the number of users of music streaming go up, they will have more leverage in deciding

the royalties price as for radio they get the music content cheap, because it's a way for artist to get their

music public so people will buy the songs or go to the concert.

Threat of Rivalry – Unattractive: There are a lot of big name companies in the industry of

music streaming. Different companies in the industry have different algorithms to help its customers find

and discover music. These are very professional and are expensive that each of the main rivals use to

share music. Consumers also have brand loyalty to the firms and music streaming is one of their SBU's.

Threat of Substitute – Unattractive: There are a lot of difference ways to consume music.

When it comes to music streaming you don't own the music. There is a lot of free applications and

websites to listen to music. Such as YouTube. The radio is also free. There is a lot of small start-up

companies that have different customizable features that allow you to create your own playlist using their

software and algorithms. These smaller companies don't have large market share but they do account for

a sizable portion together, making music streaming service very diverse.

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Industry Buyer Analysis

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Total Market Segmentation

Demographics Segmentation: The main demographic segments for the music streaming

industry are gender, age, and education. In the GfK Spring 2017 study the Base Total (projected

population was 245,907K. For age group 18-24 year olds, the Base Total population was projected to be

30,250K. For this age group, our firm found that 18-24 year olds had the highest index of 156. This meant

that consumers ages 18-24 were 56% more likely to purchase/listen to audio music. In the same report,

we found that post graduates were 45% and men were 4% more likely to purchase/listen to audio music.

See Appendix H.

Behavioral Segmentation: The International Federation of the Phonographic's 2017 Music

Consumer Insight report provides a snapshot of how consumers connect with recorded music. In this

report, our firm found that 96% of internet users consume licensed music. Among these consumers 98%

fell in the age range of 16-24-years old. 90% of paid audio streamers use a smartphone for music

listening. Of the paid audio streamers 63% pay for their own music streaming subscription and 22% are

part of a family subscription plan. In the past 6 months, 84% of consumers falling within the age range of 16-24 used a smartphone for music consumption (IFPI, 2017).

Psychographics Segmentation: When conducting our survey, our firm asked four specific questions pertaining to the respondents' social preferences when streaming on their music application. Out of 80 surveys 88% of respondents said they recommend music to their friends, 68% said they use the social media tool on the application, 38% were recommended to subscribe to the application by a friend, and 36% actively discover music from friends. From these survey results we concluded that buyers are interested in the social aspects of the streaming music applications, especially when it involves recommendations to and from their friends. See attached survey.

Buyer Description

Based on our survey results, we had 80 respondents who passed the heart attack question, our control variable. The information gathered provided insight on the listening behaviors of buyers, awareness of music streaming application, sources of recommendations, and willingness to switch music streaming apps. Seventy-four percent of respondents listen to music daily, while fifty-four percent are willing to pay to listen to music. Seventy-nine percent pay 5 to 10 dollars in the past thirty days. Sixty-eight percent use the social media aspect that is found only on Spotify. Negative aspects of the survey related to our products is 5 percent of people are likely to switch to Pandora and thirty- three percent find Pandora user friendly which is very low.

Quantification Statistics:

According to our survey, 43% of students listen to music two to three hours a day. 74% of respondents listen to music daily. 79% of students spend under 10 dollars for music streaming. 98% of students are aware of one or more of the following music streaming application (Apple music, Pandora, Spotify, Tidal). There are 1.2 billion users of music streaming. The average revenue per user (ARPU) is $7.82. The revenue growth for music streaming is 40%, with a total revenue of 9.4 billion dollars.

The Strategic Marketing Analysis

Major Problem: We believe that Pandora's biggest problem with their service is Value. We believe that Pandora has a quality product, but with other music streaming applications they have segmented a student market and a price tolerance of $4.99. We believe Pandora is at a disadvantage because student can pay $4.99 a month and get the same basic service. Music streaming is becoming a commodity item as demographics switch from a want to buy an induvial song/album to renting and having all types of music at their fingertips. That is why we believe price is so important factor for the younger demographic. 24+ years old demographic does see the value of Pandora service. College students are almost 30% less aware of Pandora's service compared to other industry leaders (Apple music and Spotify). We also notice that only 4.5% of student are likely to switch to one of Pandora's services. We survey college students and 75% said that having a college discount is something they want in a music streaming application. We believe with this data and our surveys it proves that Pandora is not as recognizable to college student. We believe this is because it is too expensive for college students because they can get the same value with other music streaming applications (Music Business Association 2017).

Current Marketing Strategies

Product: Pandora Radio was established by Will Glaser, Jon Kraft, and Tim Westergren in 2000. The idea was to bring diverse styles of music together into a predictable pattern. They made 400 particulars for every tune that is recorded to the audience's preferences to recommend different songs with comparative qualities. Today, there are more than 35 million listeners' members, and the radio has turned into an application for many smartphones such as iPhone, Android, and Windows phones.

Targeting Market Description: In 2013, according to Jane Huxley, the women who launched Pandora in Australia and New Zealand, says that Pandora is directing for the elderly demographic in Australia and the US. The previous distributer of Fairfax Digital said the online music webpage, which as of late achieved the 200 million users in the US, was seeing a solid take up in users beyond 60 years old. Nowadays, as stated by our survey 74% of the target marketing are people around 18-24 years old with a household income of one hundred and fifty thousand.

Perceptual Map: See Appendix J for perceptual map.

Product Life Cycle: Pandora is at the Early Maturity Stage. According to Statista, the data on the revenue generated by Pandora Media, Inc. The largest growth was in 2007 with Pandora's revenue exceeding 242% growth, 186% growth in 2009 and 150% growth in 2010. Total revenue from 2007 to 2011 is well over 6000% where as the growth from the 2012 to 2015 is only 324%. Pandora only grew about 26% from 2014 to 2015 proving that even though they are still increasing revenue they are in the early maturity stage because they are still increasing but at a significantly lower rate than earlier in Pandora's lifecycle. The growth of Pandora's revenue is slowing down (Pandora, 2017). See appendix K for product life cycle.

Packaging/Branding: Pandora has chosen to use blue color as part of their logo. Pandora guarantees the varieties in which the P can exist "grasps the dynamic scope of sound and shading, imagining the vitality and feeling that specialists fill the formation of music, and what we feel as audience members." (Billboard Article) The Pandora blog entry additionally put an overwhelming weight on the new logo's shoulders, expressing it will fill in as a "portal into the unique and various scope of music you love". This P can be everything for everyone and it can represent any kind of music genre. Unfortunately, the only redeemable, conceptual quality it has

is that all the letters in the name are curve-based (no "v's or "y's) so the geometric sans approach

yields a decent set of circular shapes (Maron, 2017).

Promotion

Advertising: On April 2017, Pandora launched a major campaign heralding, to a limited

extent; the launch of Pandora Premium. The campaign goes further Premium to get involve in

the brand's bigger sense of duty transmitting a more customized music-streaming experience,

which Pandora has long observed as its genuine purpose of distinction. The campaign

incorporates different social media components, including a custom Snapchat focal point, canvas

units on Facebook, carousels on Instagram, a custom emoticon on Twitter, and a pre-

programmed message response on Twitter where clients will get mixtape recommendations

based on the emoticons they tweet (Sandoval, 2013).

Sales Promotion: Groupon is offering a free 3-month subscription of Pandora Premium

music streaming service, which usually costs $9.99 per month. This overhaul includes access to

40 million songs, elimination of all ads, endless skips, offline listening, and individualized

playlists.

After purchasing, you should see the Groupon voucher which will contain a connection

with a unique gift code expected to activated your free 3-month membership. However, the plan

will automatically recharge you $9.99 a month, but you can simply choose to cancel right away

(or at any time) and your service will still keep working until the end of the three months.

That way, it won't auto-renew. It is not valid for current customers. More than 10,000 people

have bought and are using the Groupon to try Pandora. This a unique opportunity for people to

discover the applications value (Ping, 2017).

Personal Selling: Pandora uses discounts and trial offers to allow buyers to recognize the value of their music streaming application and use their unique algorithm to help you customize a playlist and Pandora hopes you would see the value in the application before you pay any money.

Direct Marketing: Pandora uses the social media aspect of sharing music to encourage people to try out their application. Utilizing the social media tools on the application allow Pandora to distribute its value for free over the internet which also create awareness of Pandora's brand. Its content is also consumed over the internet, so it is convenient to click on the link on social media which takes you to Pandora's music streaming website. Pandora also utilize advertisements on social media to increase its share of voice to a large group of consumers online.

Pandora's Distribution Strategy:

Pandora's distribution strategy is to "make the Pandora service available everywhere that there is Internet connectivity." To reach this goal, they have made the service available through a wide variety of distribution channels. The distribution channel begins with the creation of content by the artists, producers, record labels, and studios. Next, the content is packaged by Pandora's Music Genome Project. After the music goes through the Music Genome Project's complex algorithm, Pandora's content can be accessed in the U.S. through a wifi or data connection. The next channel involves where Pandora's application can be accessed or downloaded. The first distribution channel is streaming service to computers. In addition, Pandora has developed mobile applications ("apps") for smartphones, mobile operating systems, such as the IPhone and Android, and for tablets, such as the IPad and Android tablets. The mobile app is distributed free to listeners via app stores. According to its Pandora is integrated with connected devices, including

automobiles, automotive aftermarket devices and consumer electronic devices. Currently, most automobile integrations rely on smartphones for internet connectivity, which has enabled Pandora to be available in the ten best-selling passenger vehicles in the United States. Some automobiles are now using embedded, built-in internet connectivity to power the Pandora experience. These native integrations, whether using embedded or phone-based connectivity, allow drivers to control the service via in-dash entertainment systems. As part of this ongoing effort to extend our reach in the car, Pandora also built support for Android Auto and Apple CarPlay into mobile applications in 2015. As of December 31, 2016, approximately 24.9 million unique users have activated Pandora through a native integration in 27 major automobile brands and 8 automotive aftermarket manufacturers. More than 190 automotive models with Pandora integrations have launched. Pandora sees integrating its service into automobiles as an area of continuous growth for the service. See Appendix L for distribution channel.

Pandora's Pricing Strategy:

For Pandora, major cost factors include content acquisition costs, the costs of acquiring to music it streams to end users, also known as royalty fees. In 2015, Pandora's content acquisition costs were 52.4 percent of their revenue and were predicted to decrease in the consecutive years to come. See Appendix M. While ratio of acquisition costs to revenue was predicted to decrease, actual costs paid in royalties have seen a drastic increase, $804M in 2017. See Appendix N. Appendix O details a breakdown of the distribution of royalty fees. Marketing and sales costs for nine months ended September 30th, 2017 were $378M, an increase of 21 million from 2016. Costs associated with GAAP product development for nine months ended September 30th, 2017 were 120 million, an increase of 18 million from 2016.

The history of Pandora's price stems from its introduction of ad-supported services and its paid subscription services. According to their 2017 Annual Report, in the years ended December 31, 2014, 2015 and 2016, advertising revenue accounted for approximately 80%, 80% and 77% of the total revenue, respectively. It is expected that advertising will comprise a substantial majority of revenue for the foreseeable future. We believe that our ability to deliver targeted and relevant ads across a wide range of platforms allows us to compete favorably on the basis of these factors and justify a long-term profitable pricing structure."

In 2005, Pandora launched as an advertisement supported music streaming service. Until 2009, Pandora offered its services for free. Pandora One, priced at 5 USD per month or 36 USD per year, was launched May 19th, 2009, offering "ad-free playback, higher quality audio, extended playback time, and a dedicated desktop player" (Bell, 2009). Seven years later in September 2016, Pandora launched Pandora Plus, a rebranded improved version of its Pandora One service at the same price point of 5 USD (Singleton, 2016). Early 2017, less than a year later, Pandora launched Pandora Premium, its most recent updated subscription. This newest service allows on ad-free on demand streaming, similar to its competitors. In conjunction with its prices, Pandora offers a free three-month trial period for users to try the service before making the purchase. See Appendix P for a price comparison to its competitors.

Since, Pandora offers two different services, ads and subscriptions. This requires different pricing strategies. Pandora's ad service is its primary source of revenue. Their pricing strategy targets a return to maximize profits, also known as a profit oriented strategy. Pandora matches its subscription prices with its competitors' subscription price, also known as the status quo pricing strategy. As previously mentioned, Pandora offers a free ad-supported subscription. Last year, Pandora used a signaling strategy to alert users of a $9.99 premium, ad-free subscription option.

Pandora's pricing strategy is aligned with the services it provides. "If [Pandora] has an ad-supported, free-tier complemented with a premium on-demand service, it's really providing choice for the way people want to listen to music." While it's prices mirror its competitors premium service, "Pandora's strategy is to separate itself…by banking on its already-existing 81 million user base and 10 years of brand equity by serving customized playlists to each individual user" (Akopyan, 2017).

Marketing Recommendations

We have a few marketing recommendations we feel will help Pandora reach their goal of showing true value of their product to the largest untapped Pandora market that we feel is part of their competitors' strategy for success and that is getting and keeping college age students. A recent study done by Nielsen [talking about music streaming applications] said "…This indicates a lack of loyalty to a single brand, and a desire to consume more media in general, compared with their older counterparts." We feel as though if you can keep consumer using your music streaming app throughout college (ages 18-24). The return on your investment is very high because they will become brand loyal and you will have a well-defined customer lifetime value. We have three different marketing alternatives: college discount application, sponsoring a college bowl game, and having college ambassadors.

College Discount Application:

Pro: Having a college discount application would be inexpensive for Pandora because they already have the applications infrastructure and have contracts with the artists. The best part for Pandora is this recommendation would be convenient because they won't have to do a lot of work to restructure their marketing strategy since the recommendation is still utilizing the mobile app.

Con: The only complication with this recommendation is that it would be complicated at first and would need advertisement spending to explain how to get the best value from the college discount.

Sponsored College Bowl Game:

Pro: The best part is that it would reach all consumer that can broadcast tv and get national recognition as a strong music streaming application because people would associate it with their favorite athletes or college students would relate to it because their school might play in the Pandora bowl.

Con: The only conflict is that we wouldn't be reaching the largest demographic of college football watchers which means we would be wasting a large portion of our marketing dollars, regarding targeting college students, as well as, not all college students watch sports. Having a sponsored college bowl game would be very expensive The Atlantic said "Collectively, companies are estimated to spend roughly $100 million a year on the naming rights to these bowls."

College Ambassador:

Pro: The best part would be the face to face interaction with our ambassadors would make a large impact on growth of sales and would be the best way to spend our marketing dollars knowing that we 100% of the budget would be use by and for college students.

Con: The only problem is that the ambassador can only be in one place at one time, so they wouldn't be able to reach a lot of college students. Also, having a college ambassador program would be very expensive, after factoring in costs of hiring ambassadors, trainers for the ambassadors, and traveling expenses.

We strongly recommend Pandora to have a college discounted Pandora Platform for $4.99 that utilizes the tools and applications of both Pandora Plus ($4.99) and Pandora Premium ($9.99), that allows the end users [college students] to use and decide which platform better caters to their needs upon graduation. Upon graduation they will get one month free, as a graduation gift, and will then be automatically enrolled in Pandora Plus and will have the option to upgrade to Pandora Premium. This will allow the end user to continue just paying $4.99 but have less features or upgrade to Pandora Premium. The marketing strategy is: "We don't want you to pay to listen to music." We recommend within the college discounted platform that there is a rewards program where users can do things through the app that will give them points towards free months of music. Thirty Pandora points will earn you a free month of music. A few ways you can earn thirty points are: If you share Pandora's advertisement on their social media equal 30 points. This would be seen by their friend's users that have Facebook, the 60% of Facebook users have more than 200 friends. This would be a cheaper alternative to advertising on Facebook for Pandora (DATA). If you recommend a friend to sign up with our promotion, pay $4.99 for the first two months, the user would get 30 points. If they watch a 5 second advertisement they get 1 point; watch 30 ads and get a free month. If they take a short 2 minute serve they can get 3 points; if they take 10 surveys they get a free month. This is considering that 73% of Pandora's revenue comes from advertisements (Pandora 2017).

Physical description: For our recommendation, we are introducing a new subscription service available exclusively to college students. The physical look of our product will change slightly, with the new integrated feature of our rewards program. Just like the premium subscription, but at a reduced price. Nowadays, Premium is Pandora's most current membership choice. Our $4.99/month Pandora membership is basically an ad free form of Pandora's

mechanized radio stations. Now with no advertisements customers can get boundless skips and replays, the capacity to make customized stations, higher-quality sound and search through Pandora's 40+ million song catalog to play or download anything you want onto your device.

Target Market Description: College students. They make up the majority of the music streaming industry demographics. They do not have much brand loyalty as demographics 24+ years old, so it will be easier to convert. The goal of this service is to try grow and retain this demographic until 24 years old when they become more brand loyal to one music streaming application.

Distribution

For our recommendation, we are introducing a new subscription product, exclusive to college students. Our distribution strategy would remain similar to our current strategy, make the Pandora service available everywhere that there is Internet connectivity. The distribution channel would also remain the same, starting from acquiring content from the artist, producers, record labels, and studios, then reorganizing the music in Pandora's Music Genome Project. We believe their current distribution strategy will work well with our recommendation because college students will be able to access their subscription from their mobile device, tablet, laptop, or car.

Merchandising: In Pandora's ad-supported subscription, advertisements are placed where they will get the most interaction. For our recommendation, students will be able to listen to ad-free, on demand music, but they will have the option to lower or opt out of their monthly payment but viewing ads placed in a separate part of the application. By placing the ads in a separate window of the application, they students will have the ability to watch and earn points that can go towards their monthly bill. This is a strategic placement because ads will now be available in a premium subscription, where the interaction with the ad is solely up to the listener.

Price:

Cost factors in our recommendation would be similar to Pandora's current cost factors associated with premium subscriptions, such royalty costs due to artists. However, with the increased number of premium subscribers, we will expect to see a higher cost in royalties, due to the larger volume of on-demand music streaming. The price for our student premium subscription will be $4.99 per month. The pricing strategy for our student discount follows a status quo strategy, meaning we will match the price of Spotify's current student discount. We chose this strategy because it is a similar strategy used in our other subscription services, and and we find it is the first step in converting students paying for other music streaming application to ours. By setting our price to $4.99 per month, we also use a penetration strategy to alert students of our new lower premium subscription price. We believe this will be effective in conjunction with the student's ability to watch an advertisement to lower or eradicate their subscription fee. This pricing strategy will also allow for a smooth transition to the Pandora Plus subscription (also priced at $4.99), once the student graduates. After the student graduates, he/she will have the option to upgrade or stay at the same price point depending on their preference.

Cost/benefit analysis:

Qualitative: There are three qualitative reasons that we believe our recommendation will help Pandora reach its financial goals and foster value for its users. Pandora's first strategy, 'Drive and Retain Active Users'. We believe that implementing a college discount platform would increase active users because the price would align with other music streaming applications and college students would perceive Pandora to have great value. This would also help retain users because college age users are not loyal to a music streaming service until they are over 24 (Neilson). Pandora's second strategy, 'Increase Monetization Opportunities'. By

creating a college discount subscription, you can have more control on advertisements. We believe that is very important considering 73% of Pandora's revenue comes from advertising page 50. If Pandora can segment its users, they can charge more to advertise because the company trying to advertise will be able to advertise to its target market. It would also help Pandora simplify their advertising price structure. According to Pandora's 10-K (2017), their third strategy is 'Focus on Execution and Efficiencies'. Due to the high market competition for the service we believe our recommendation would improve operation leverage by creating two separate SBU's and Pandora can cater to the two different markets creating a much simpler structure instead of one subscriptions for all people.

Quantitative: We believe that offering a student discount will realistically increase Pandora's subscriptions by about 21.5%. This would grow Pandora's subscription revenue from $315,853,000 in 2017 to $372,707,000 in 2018. Averaging out Spotify and Apple Music student discount users, we found that 21.5% of these two-music streaming service are student discounted. There is about 100 million subscribers to one of these 3 services and with a 21.5% increase it would be a penetration rate of about 1%. The reward system for watching advertisements, offered on the student discount application, we believe advertisement revenue will increase by 29%. Companies will feel that their advertisements are being watched and heard and it will be seen by their target. See Appendix P, Q, and R.

Expected Consequences and Results

Our expected outcome from our groups recommendation is targeting a segment that has untapped potential for our product. We are striving to build a loyalty system that targets young adults, gives them a discount, and provide excellent service so they through word of mouth or social media spread the word of our great product. This loyalty would be built at the college level
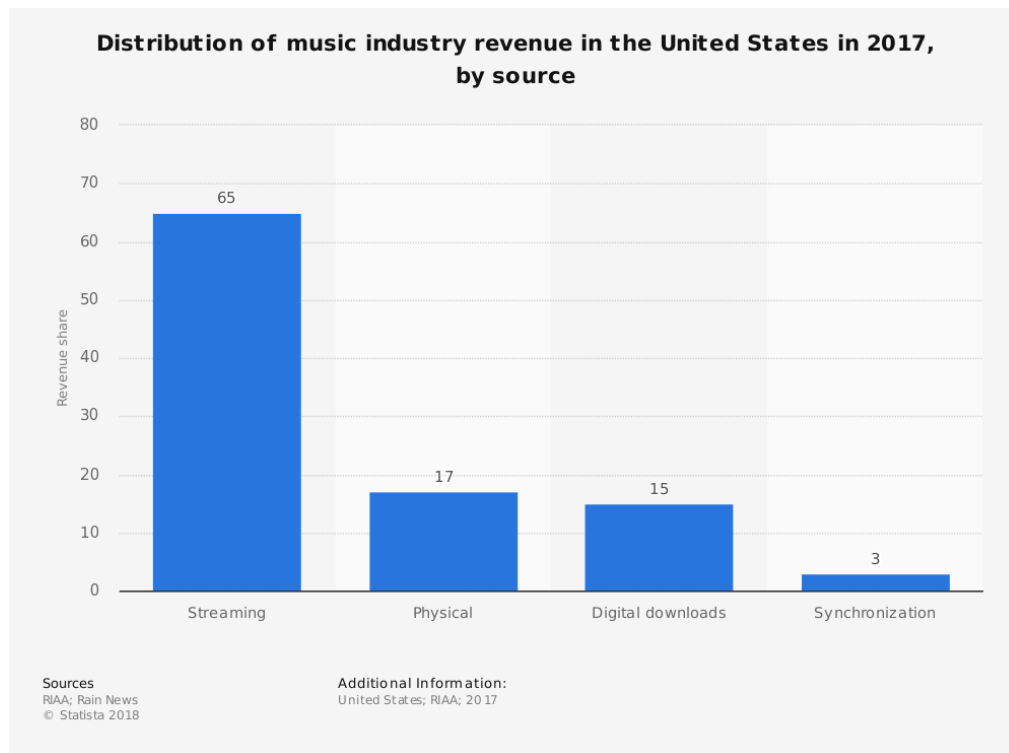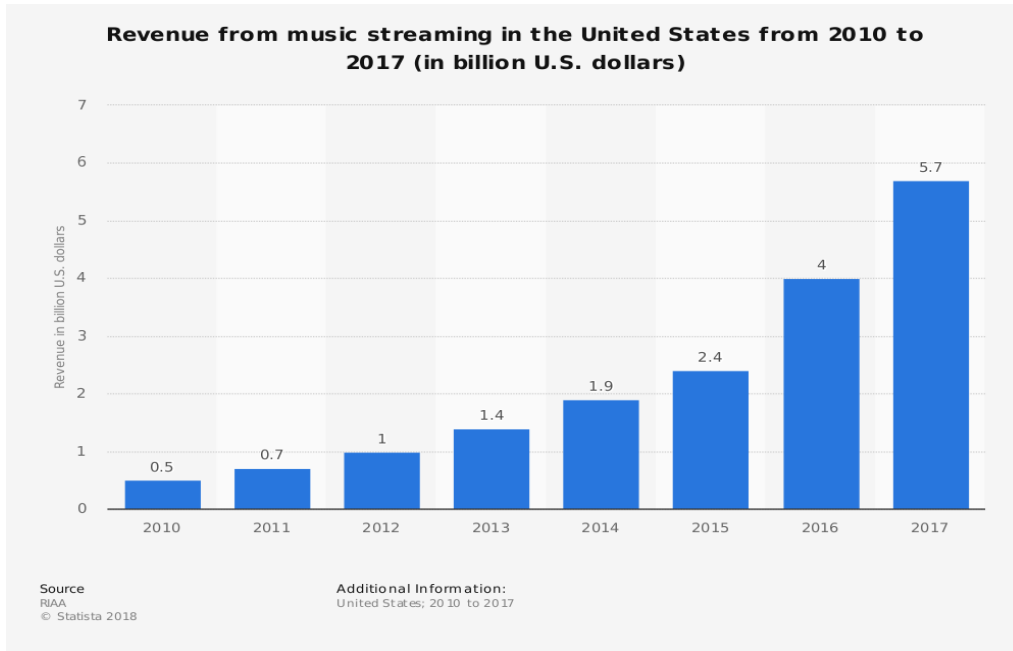
and carried through the individual's life. Studies show that college students are the most disloyal when it comes to music streaming and like to explore different options. We feel that by having an application like other college discounted applications we will draw in loyalty from college students because we offer great value. Our built incentives allow us to have a better valued product and keep college students on our application and then after college remain loyal to Pandora.

Implementation Timeline: See Appendix S for the implementation timeline.

Procedure for review and Evaluation: Our recommendation hinges on users of our target demographic (college students 18-24) signing up for our product, but also becoming brand loyal. In the above timeline over the course of a year we will encourage college student to sign up using our trial offer. Utilizing our discounted price, we use the incentives to use the application for free to retain users and through offering a valued product other college students will recognize the value and will switch application because reports indicate that students are not loyal to one particular music streaming application. Student only care about value for their money and with mutually beneficial rewards program student can virtually pay nothing if they wanted to and use our music streaming application which will eventually turn into brand loyalty and would tap into the largest growing market demographic in music streaming. We recognize a large success factor of music streaming application in the student demographic is recommendation from friends and we believe that if we can take a large group of college students to use our application people will switch to Pandora to allow them access to their friend's playlist and other options offered socially on the application. Looking at quantitative research in a year we can better understand the effectiveness of our marketing recommendation.

IV- Appendices & Citations

A.

Revenue from music streaming in the United States from 2010 to 2017 (in billion U.S. dollars)

Revenue in billion U.S. dollars

Year	Value
2010	0.5
2011	0.7
2012	1
2013	1.4
2014	1.9
2015	2.4
2016	4
2017	5.7

Source
RIAA
© Statista 2018

Additional Information:
United States; 2010 to 2017

Distribution of music industry revenue in the United States in 2017, by source

Revenue share

Source	Value
Streaming	65
Physical	17
Digital downloads	15
Synchronization	3

Sources
RIAA; Rain News
© Statista 2018

Additional Information:
United States; RIAA; 2017

B.

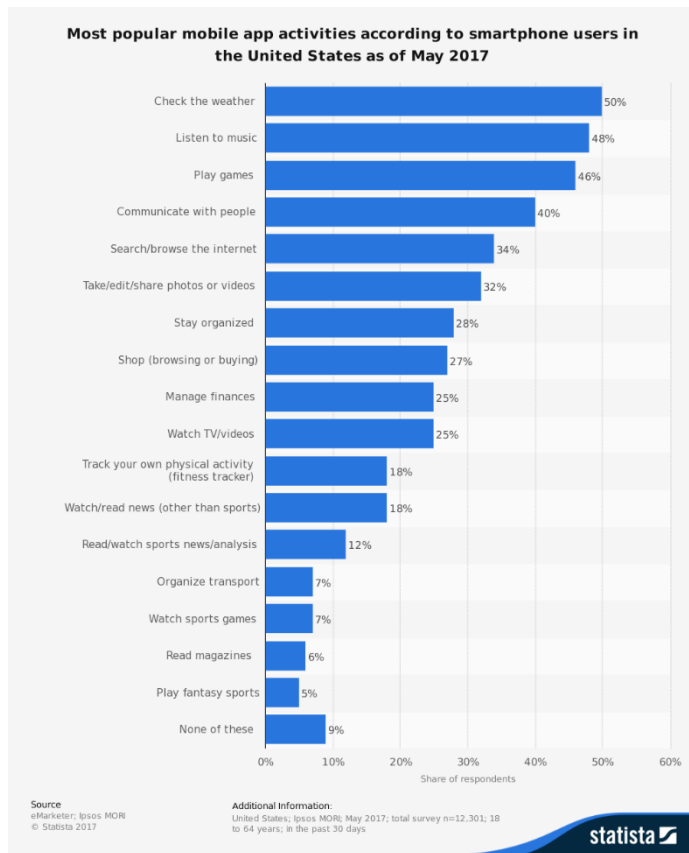|	Share of subscribers
Spotify	36%
Apple Music	17%
Amazon	10%
QQ Music	6%
Deezer	4%
Melon	3%
Others	24%

© Statista 2018 🏳

C.

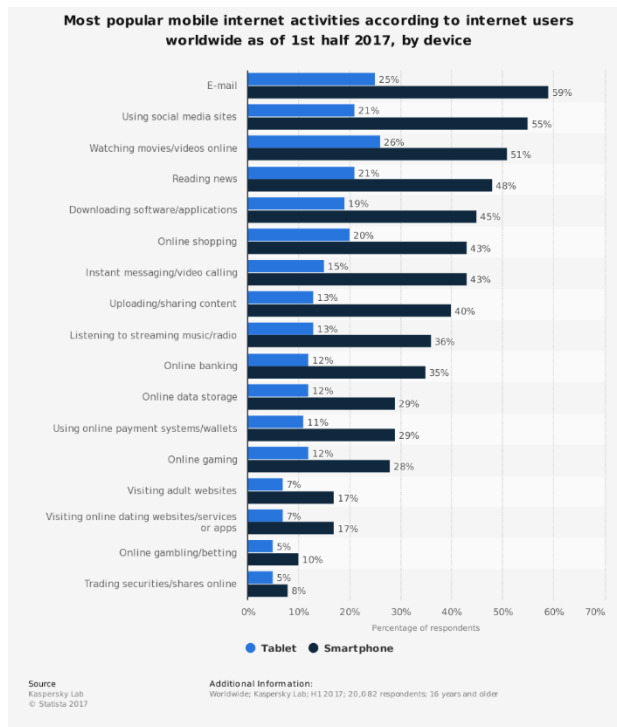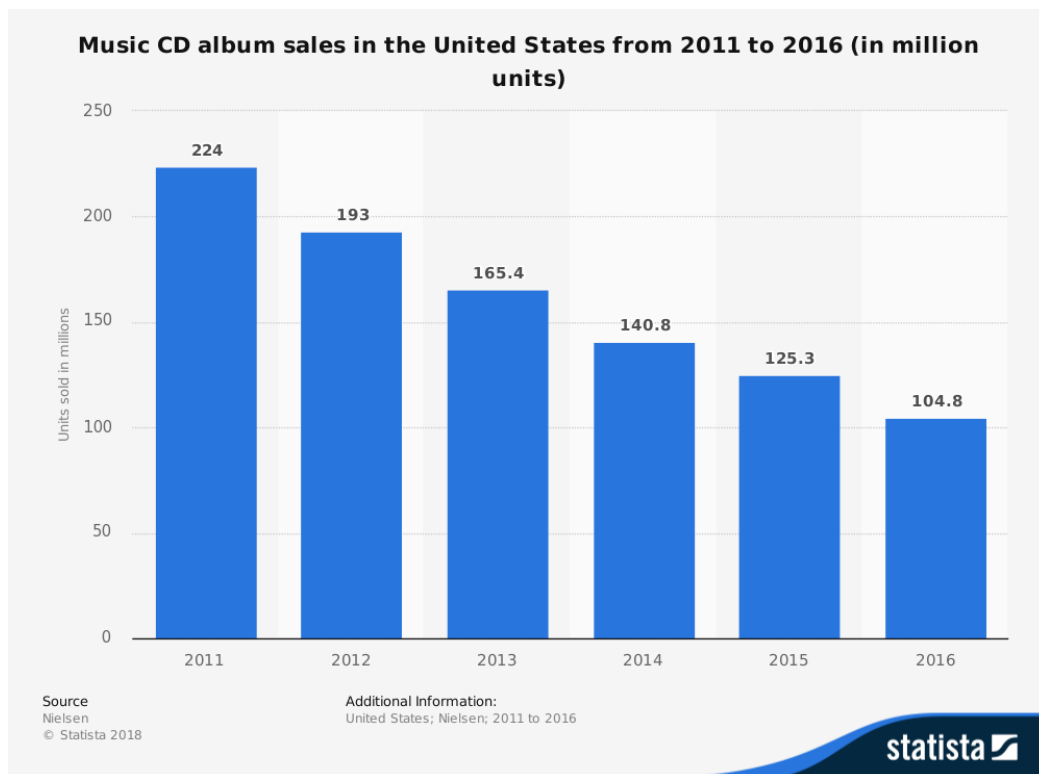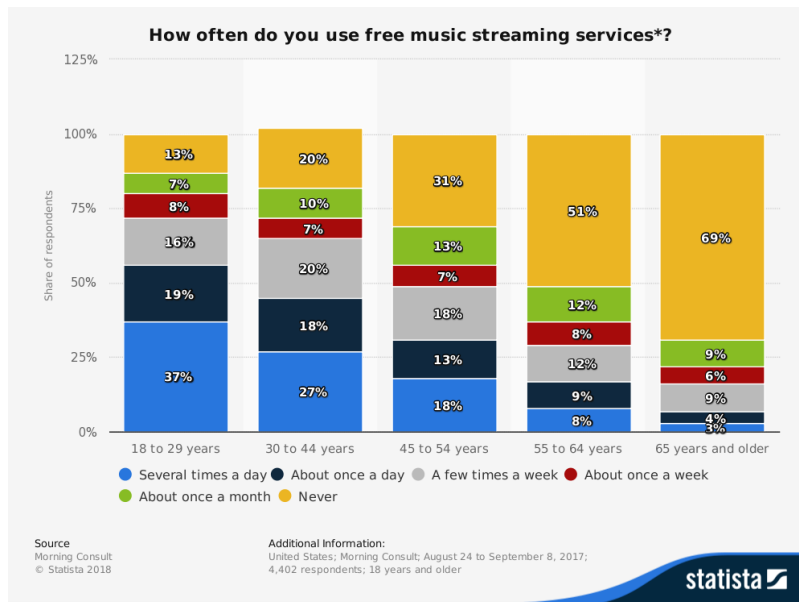|	
Asia	Australia, Japan, Israel, Hong Kong, Indonesia, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand, Vietnam.
Europe	Andorra, Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Monaco, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Spain, Sweden, Switzerland, Turkey, United Kingdom.
Latin America and the Caribbean	Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay.
North America	Canada, United States.
Africa	South Africa.

D.

Reach of selected music on demand streaming services in the United States as of June 2017, by age group

E.

Most popular mobile app activities according to smartphone users in the United States as of May 2017

F.

F.

G.

How often do you use free music streaming services*?
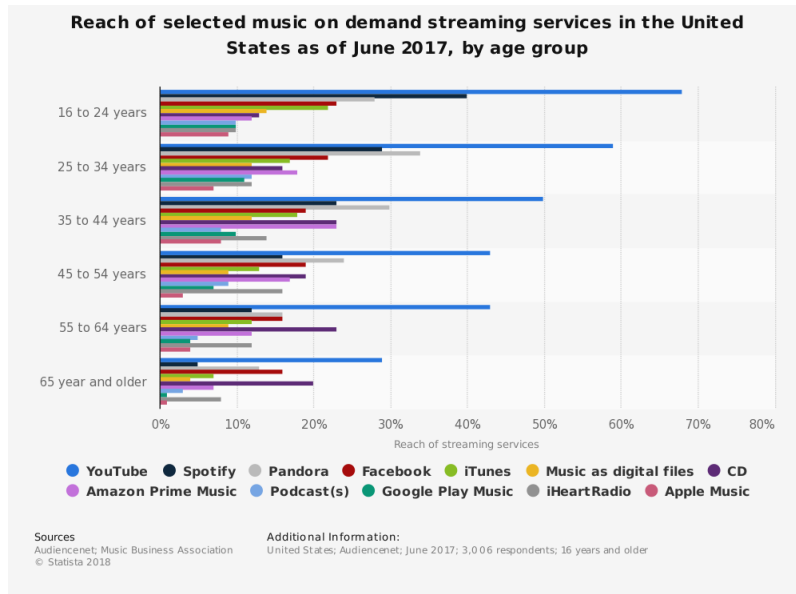
H.

	Steps	Selection						
	Study:	2017 Spring GfK Reporter MRI						
	Category:	Electronics						
	Question:	Music & Other Audio Listen/Purchase – Where Purchased						
	Base:	Total Adults						
	Detail(s):	Other Internet/Online Site						
Target			Total '000	UNW	'000	% Detail	% Target	Index
Total			245,907	1,366	13,462	100.00	5.47	100
Men			118,605	721	6,740	50.07	5.68	104
Women			127,302	645	6,722	49.93	5.28	96
Educ: graduated college plus			74,377	590	5,014	37.25	6.74	123
Educ: attended college			70,115	452	4,139	30.74	5.90	108
Educ: graduated high school			71,936	233	3,093	22.98	4.30	79
Educ: did not graduate HS			29,479	91	1,216	9.03	4.12	75
Educ: post graduate			27,137	237	2,153	16.00	7.94	145
Educ: no college			101,415	324	4,309	32.01	4.25	78
Age 18-24			30,250	165	2,583	19.19	8.54	156
Age 25-34			43,784	329	3,238	24.05	7.39	135
Age 35-44			40,355	291	2,556	18.99	6.33	116
Age 45-54			43,107	237	2,020	15.01	4.69	86
Age 55-64			41,177	203	1,900	14.11	4.61	84
Age 65+			47,233	141	1,165	8.66	2.47	45
Occupation: Management, Business and Financial Operations			24,956	198	1,437	10.67	5.76	105
Occupation: Natural Resources, Construction and Maintenance Occupations			13,942	75	667	4.95	4.78	87
Occupation: Other Employed			43,825	241	2,541	18.87	5.80	106
Occupation: Professional and Related Occupations			34,500	273	2,585	19.20	7.49	137
Occupation: Sales and Office Occupations			32,690	180	1,674	12.44	5.12	94
HHI $150,000+			36,490	237	2,298	17.07	6.30	115
HHI $75,000-$149,999			73,652	388	4,446	33.02	6.04	110
HHI $60,000-$74,999			24,808	130	1,182	8.78	4.76	87
HHI $50,000-$59,999			18,259	103	958	7.12	5.25	96
HHI $40,000-$49,999			19,532	141	968	7.19	4.96	91
HHI $30,000-$39,999			21,468	121	1,136	8.44	5.29	97
HHI $20,000-$29,999			21,138	104	1,052	7.82	4.98	91
HHI <$20,000			30,559	142	1,422	10.56	4.65	85
Race: American Indian or Alaska Native		†	2,989	28	164	1.22	5.50	101
Race: Asian			7,640	87	615	4.57	8.05	147
Race: Black/African American			31,610	162	1,596	11.85	5.05	92
Race: Black/African American only			29,790	149	1,437	10.68	4.82	88
Race: Other			24,498	184	1,552	11.53	6.33	116
Race: Other Race/Multiple Classifications			35,283	298	2,371	17.61	6.72	123
Race: White			185,148	958	9,931	73.77	5.36	98
Race: White only			180,834	919	9,653	71.71	5.34	98
Spanish Or Hispanic Origin Or Descent			38,369	225	2,388	17.74	6.22	114
Spanish spoken in home (most often or other)			40,406	231	2,520	18.72	6.24	114
HH subscribe to Cable			111,016	605	5,895	43.79	5.31	97

HH have a satellite dish		61,074	208	2,485	18.46	4.07	74
Cable Services: Azteca	†	2,412	4	43	0.32	1.80	33
Cable Services: COZI TV	†	1,813	9	103	0.77	5.69	104
Cable Services: TV Land Classic	†	4,217	11	130	0.96	3.08	56
Cable Services: Viceland	†	3,526	34	329	2.45	9.34	171
Cable Services: A&E		52,033	242	2,288	17.00	4.40	80
Cable Services: Adult Swim		13,461	76	810	6.02	6.02	110
Cable Services: AMC		43,170	214	2,110	15.67	4.89	89
Cable Services: American Heroes Channel	†	4,777	18	187	1.39	3.91	71
Cable Services: Animal Planet		39,973	156	1,751	13.01	4.38	80
Cable Services: BabyFirst	†	2,749	8	160	1.19	5.82	106
Cable Services: BBC America		15,452	102	990	7.36	6.41	117
Cable Services: BBC World News		11,211	68	618	4.59	5.51	101
Cable Services: BET (Black Entertainment TV)		19,510	95	921	6.84	4.72	86
Cable Services: Bloomberg Television	†	4,289	27	143	1.07	3.34	61
Cable Services: Bounce TV	†	4,902	23	249	1.85	5.08	93
Cable Services: Bravo		24,251	145	1,275	9.47	5.26	96
Cable Services: Cartoon Network		24,439	114	1,473	10.94	6.03	110
Cable Services: CBS Sports Network		21,201	101	981	7.28	4.62	84
Cable Services: Centric	†	3,829	28	296	2.20	7.74	141
Cable Services: Chiller	†	5,847	24	251	1.86	4.29	78
Cable Services: CMT (Country Music Television)		14,842	50	701	5.21	4.72	86
Cable Services: CNBC		25,639	138	1,257	9.34	4.90	90
Cable Services: CNN		62,123	325	2,991	22.22	4.81	88
Cable Services: Comedy Central		23,353	143	1,463	10.87	6.26	114
Cable Services: Cooking Channel		25,532	125	1,188	8.82	4.65	85
Cable Services: Destination America	†	5,694	21	208	1.54	3.65	67
Cable Services: Discovery Channel		49,996	217	2,043	15.18	4.09	75
Cable Services: Discovery Family	†	7,307	28	331	2.46	4.53	83
Cable Services: Discovery Life Channel	†	8,237	29	352	2.62	4.28	78
Cable Services: Disney Channel		26,300	113	1,324	9.84	5.04	92
Cable Services: Disney Junior		18,273	75	895	6.65	4.90	89
Cable Services: Disney XD	†	10,063	42	512	3.80	5.09	93
Cable Services: E! (Entertainment Television)		17,367	113	1,162	8.63	6.69	122
Cable Services: ESPN		61,830	295	3,001	22.29	4.85	89
Cable Services: ESPN Classic	†	7,845	33	308	2.29	3.93	72
Cable Services: ESPN2		31,981	146	1,388	10.31	4.34	79
Cable Services: ESPNews		18,008	98	1,097	8.15	6.09	111
Cable Services: ESPNU		11,444	54	582	4.32	5.08	93
Cable Services: Esquire Network	†	2,825	18	167	1.24	5.90	108
Cable Services: Flix	†	2,555	15	129	0.95	5.03	92
Cable Services: Food Network		52,688	240	2,408	17.89	4.57	83
Cable Services: Fox Business Network		13,425	64	508	3.78	3.79	69
Cable Services: Fox News Channel		63,073	272	2,604	19.34	4.13	75
Cable Services: Fox Sports 1		16,185	77	727	5.40	4.49	82
Cable Services: Fox Sports 2	†	5,763	28	221	1.64	3.83	70

J.

Perceptual Map

- ● Tidal
- ● Pandora
- ● Apple Music
- ● Spotify
- ★ Ideal Positioning

K.

L.

M.

Content acquisition costs as a share of Pandora's revenue from 2010 to 2023

N.

Pandora's content acquisition costs (royalty fees) from 2006 to 2017 (in million U.S. dollars)

O.

P.

Q.

Share of Spotify users in the United States as of March 2018, by age

Source
Verto Analytics
© Statista 2018

Additional Information:
United States; Verto Analytics; March 2018

R.

Share of Apple Music users in the United States as of February 2018, by age

Source
Verto Analytics
© Statista 2018

Additional Information:
United States; Verto Analytics; February 2018; 18 years and older

S.

Pandora 12-Month timeline

2019 Jan	Send a user wide marketing campaign urging all college students to sign up for the new 4.99 college discount.	**2019 Feb**	Continue to emphasis the benefits of signing up and building the loyalty program.

2019 Mar	Infographic of how to get free services though referral program. Through Pandora's platform advertisement.

2019 Apr	Continue to emphasis the benefits of signing up and building the loyalty program.	**2019 May**	Bold banner on the Pandora homepage advertising to college students.

2019 Jun	Show the individuals leaders in the referral program and how they are receiving free services.

2019 Jul	Show the top Ad watcher and offer a coupon that is student friendly.	**2019 Aug**	Survey to all new users to gain perspective on demographics. Likes/Dislikes of the platform.

2019 Sep	

.

T. Survey Data for Pandora
Number of Respondents   80

Pct.	Statement
98%	Are aware of one or more of the following music streaming apps
95%	Aware of Apple Music
64%	Aware of Pandora Plus
75%	Aware of Pandora Premium
93%	Aware of Spotify Premium
49%	Aware of Tidal
38%	App Recommended by friends
41%	Spend $5-$10 for music streaming
75%	Pay a subscription fee
43%	Listen to music for 2-3 hours in a day
74%	Listen to music daily
54%	Willing to pay for the app
31%	Extremely like to switch to Apple Music
4%	Extremely like to switch to Pandora Plus
5%	Extremely like to switch to Pandora Premium
40%	Extremely like to switch to Spotify
3%	Extremely like to switch to Tidal
36%	Discover new music from friends
35%	Occasionally/Sometimes use the social media function

79% Spent under $10 on music streaming
68% use the social media tool

88%	To recommend music to friends
53%	Use music streaming apps on campus
75%	Want a college discount
70%	User friendly Apple Music
48%	User friendly Pandora
80%	User friendly Spotify
38%	User friendly Tidal
34%	Friend use Pandora
33%	Easy to use Pandora
18%	Regularly use Pandora
39%	Advertisements about Pandora
26%	Recommend Pandora
31%	Selection of music on Pandora
78%	Friend use Spotify
73%	Easy to use Spotify
60%	Regularly use Spotify
58%	Advertisements about Spotify
70%	Recommend Spotify
69%	Selection of music on Spotify
74%	Age: 18-24
43%	Male
90%	Single
40%	White
53%	Some college, no degree

U.

Total Market Cost 492,242,000--->10% Advertising Cost

AED -> 50,000,000 increase to 65,000,000

AED = 19%

ROI Analysis

ROI

Starting Revenue= 315
Ending Revenue= 372
Incremental Revenue=57M
Gross Margin= 50%
Incremental GM= 57* .50= 28.5M
Incremental MKT Cost= 15M

ROI(28.5-15)/15M =.9

V.

T-Test

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
WantCode	80	.75	.436	.049

One-Sample Test

Test Value = 1

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference Lower	95% Confidence Interval of the Difference Upper
WantCode	-5.132	79	.000	-.250	-.35	-.15

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