

## *Pandora Making Bid to Unruffle Music World*

By BEN SISARIO FEB. 22, 2015



OAKLAND, Calif. — When Brian P. McAndrews took over as chief executive of [Pandora Media](#) in September 2013, one of his first tasks was to clear his calendar for the employee holiday party. Expecting a date in December, he was told that by Pandora tradition, the event would not be held until January or February.

“We do it then because we have so many people here who moonlight as musicians, but they have gigs over the holidays,” Mr. McAndrews said in an interview at Pandora’s headquarters here. “Isn’t that great? The point is, we are made up of musicians and we care a lot about that side of our business.”

Now Pandora wants to persuade musicians far outside its walls that the company has their best interests at heart, too.

Since it started 10 years ago, Pandora has come to dominate Internet radio, with more than 81 million people streaming about 1.7 billion hours of music every month. In January, Pandora delivered more audio to mobile devices in the United States than YouTube did video, according to comScore.

But along the way, Pandora has antagonized the music industry by pushing for lower royalty rates, even as its payments have been criticized as unsustainable. In the kind of example that has galvanized musicians, the songwriter Desmond Child said in an interview that the Bon Jovi song

“Livin’ on a Prayer,” which he helped write, had 6.5 million plays on Pandora over three months and yielded just \$110 in songwriting royalties.

“Publishers and songwriters got left in the dust with streaming,” Mr. Child said. “You can’t gut music of its value or people won’t choose it as a career, and the world will be less for it.”

To repair its relationships in the music world, Pandora has created a division to work with labels and artist managers, opened its vast databanks, and begun experimenting with artist promotions. Last month, Pandora streamed a Jack White concert live from Madison Square Garden, which the company said reached 175,000 people in the first few days.

Pointing not to the royalties it pays but to the power of its information, Pandora in October introduced the Artist Marketing Platform, a free data dashboard for artists showing which of their songs are most popular, and where.

In a demonstration last week, the pop violinist Lindsey Stirling was shown to have had 21.17 million tracks played over the previous 30 days, along with 63,492 “stations added” — the number of times a user selected Ms. Stirling’s music as a starting point for a personalized station.

“Our goal is to have the industry look at us and say that Pandora is an indispensable part of the future of music,” said Simon Fleming-Wood, Pandora’s chief marketing officer.

Pandora’s moves are not simply a matter of altruism. The company’s stock is down more than 60 percent from its peak a year ago, and to maintain its lead over competitors like Apple and iHeartMedia, it may need to strike special licensing deals with record companies.

Executives at Pandora also acknowledge public relations missteps in recent years, like its support for the Internet Radio Fairness Act, a failed bill in Congress that would have changed the way royalties are set. The bill prompted a [fierce counterattack](#) from the music industry.

Yet Pandora has continued to push for lower royalties, leading to skepticism about the company’s intentions.

“It would be a mistake to think this lull is a détente,” said Ted Kalo, executive director of MusicFirst, a lobbying coalition of record labels, musicians’ unions and other groups that have fought Pandora bitterly for years. “As long as they fail to pay all artists fairly for the music they use, we will make sure artists know which side they are on.”

Pandora is involved in a number of legal cases involving royalties, including a dispute with the licensing agency BMI in federal court in New York. Pandora is also asking the Copyright Royalty Board, a panel of judges in Washington, to reduce the fees it pays for recording rights, while SoundExchange, another licensing group that represents music interests in that case, is asking for a significant increase in rates. These recording royalties represent Pandora’s single biggest expense.

Pandora executives say the company’s attempt to reduce royalties is simply a matter of trying to even the odds against terrestrial radio broadcasters, its biggest competitors for listeners and advertising dollars. By law, AM and FM stations do not have to pay record companies or performing artists for music — but webcasters like Pandora do.

Last year, Pandora paid \$446 million in music licensing costs, representing 48.5 percent of the company's revenue. Pandora, which went public in 2011, has never turned an annual profit.

"We didn't come in thinking we need to defeat somebody," said Mike Herring, Pandora's chief financial officer. "It's just the opposite. We are trying to build up an industry that's taken some lumps in the last 15 years. We hope to be part of the solution."

Troy Carter, who manages Ms. Stirling and other pop acts like the singer Meghan Trainor, said he noticed a shift in Pandora's attitude toward the music world with the arrival of Mr. McAndrews, a former digital advertising executive who also serves on the board of The New York Times Company. Pandora now seems willing to listen, Mr. Carter said.

But with the kind of mixed reaction common among music executives when discussing Pandora, he added that he welcomed the Artist Marketing Platform and other promotional efforts as an "olive branch."

"If you're not going to pay us well," Mr. Carter said, "at least give us a platform to be able to engage the audience."

Pandora's unusual relationship with the music industry is partly a result of how it obtains the music it plays. Instead of negotiating directly with record companies, it has relied on provisions in federal copyright law that allow it to play whatever music it chooses and pay rates set by statute. To expand around the world, however, it may need special licensing deals with record companies.

Last year, Pandora took a step in this direction through a deal with Merlin, a group that represents thousands of independent labels. Terms of the deal are private, but that has not kept it from being controversial. In heavily redacted documents filed with the Copyright Royalty Board case, Pandora says that through the deal it can, by adjusting its algorithm, "steer" listeners to Merlin-affiliated music at effectively lower rates.

Critics have called this a [form of payola](#). Mr. McAndrews dismissed that as a "silly criticism," saying, "The only payment happening here is from us to Merlin — you could argue it is the opposite of payola." Merlin, which is expected to file a response to Pandora's filing soon, declined to comment.

The Copyright Royalty Board case, which will set rates for all webcasters for 2016 to 2020, will be decided by the end of the year.

Mr. McAndrews played down the tension over royalties and described a three-pronged strategy for Pandora in 2015 that involved improving its app for users, increasing advertising revenue and making good on the company's long-promised offer to help musicians.

"In the content industry, there is always going to be some tension between distributors and content providers," Mr. McAndrews said.

"What's important is, are you having a dialogue?" he added. "Are you educating each other on where you're coming from, and are you trying to find win-win solutions? And that's what we're doing."