THERE HAS NEVER BEEN A BETTER TIME TO BE A MARKETER WHO INVESTS IN AUDIO. DIGITAL TECHNOLOGY HAS BROUGHT US CLOSER TO AUDIO AND MADE IT ACCESSIBLE ANYWHERE, ANYTIME. WE’RE LIVING DURING AN AUDIO RENAISSANCE, WHERE PEOPLE LISTEN TO 4 HOURS OF AUDIO CONTENT EVERY DAY.

INTRODUCTION

WITNESS THE AUDIO REVOLUTION

AM/FM RADIO IS NOT DEAD

BUT THE OLDEST ELECTRONIC MEDIUM IS FINDING A NEW PLACE IN THE AUDIO LANDSCAPE.

STREAMING AUDIO’S DIVERSE DIRECTIONS

NOW A MAINSTREAM MEDIUM, IT’S DELIGHTING LISTENERS OF ALL AGES WITH PERSONALIZED CONTENT OVER A GROWING ARRAY OF DEVICES. PLUS, A CLOSE-UP LOOK AT AUDIO AD INNOVATION.

PODCAST POPULARITY IS SURGING

DESPITE USABILITY ROADBLOCKS FOR THE LISTENER AND A LACK OF METRICS FOR THE ADVERTISER, THIS SPOKEN WORD PLATFORM IS GROWING FAST.

WHAT MAKES FOR AN EFFECTIVE AUDIO AD?

THE CEO OF VERITONIC SEeks TO ANSWER THIS IMPORTANT QUESTION, AND HE HAS SOME EARLY INSIGHTS FROM HIS STUDIES.
Witness the audio revolution!

Over the last century, audio has been a faithful companion to our daily lives. But as we’ve witnessed with other traditional media, audio listeners continue to shift their engagement from AM/FM radio in favor of personalized audio from mobile and other digital devices.

The 2018 Definitive Guide to Audio is Pandora’s outlook on ad-supported audio for the current and coming year. We use real and reliable data to assess the state of broadcast radio, streaming music and podcasting. The main takeaway? Streaming audio is still on a rocket ride of adoption and listening, podcasting is shaping up to be the medium of choice for spoken word content, and AM/FM is not dead!
AM/FM: Indeed, this venerable, century-old medium is far from dead, but any impartial observer can’t ignore the tell-tale trends of a medium in transition:

• Between 2007 and 2017, average daily time spent listening to radio has fallen by 34%. 3, 20
• With a median age of 52, radio has the oldest audience among the audio platforms. 4
• Radio’s long-held dominance in the car is crumbling as more connected vehicles hit the road. Other foreboding motor trends that are likely to impact AM/FM usage include a shrinking proportion of licensed drivers, fewer privately owned cars and the promise of autonomous vehicles.
• Many top-rated, major-market radio stations still cram as many as 10 ads into a break, a strategy that is neither beneficial to the listener nor the advertiser.

STREAMING: Over half of Americans listen to streaming audio weekly, signifying that the medium has most certainly entered the mainstream. Many societal and technological trends are guiding this growth, including:

• A surging dependence on the smartphone that has affected people of all ages. While it may come as no surprise that young people spend nearly 20 hours a week on their phones, it’s the 50-to-64-year-old age group that spends the most time on their mobile devices. In a telling statistic, 50-64s now spend more time on their phones than they do with AM/FM radio. 30
• Voice control of smart speakers and other devices reflect not only a technological achievement, but is revolutionizing the way we interact with all internet devices going forward.
• Streaming services are developing innovative ad products that are as personalized as their music content, giving brands an even smarter way to reach consumers with effective audio storytelling.

PODCASTS: This vehicle for spoken word content, while already gaining significant traction, would likely be more popular if content was easier to find and play, and if advertisers had access to meaningful listener metrics. Some of this year’s findings:

• A small but growing portion of the population use podcasts as a core part of their “audio day.” 4
• Podcast revenue is projected to reach $220 million by the end of 2017. 38

The 2018 Definitive Guide to Audio also features a great conversation with Scott Simonelli, CEO of Veritonic, an organization that analyzes audio ads to determine which ad components are most critical to a campaign’s success. Taken together the Guide serves as this year’s reminder that there has never been a better time to advertise with audio. It’s the medium that earns substantial daily use from the vast majority of Americans, throughout all listening locations, at all times of the day, and on a wide variety of devices.

Cheers!
The Pandora Team
AM/FM IS NOT DEAD!

BUT THE OLDEST ELECTRONIC MEDIUM IS FINDING A NEW PLACE IN THE AUDIO LANDSCAPE

YES, AMERICA’S CENTURY-OLD MASS MEDIUM IS STILL ALIVE, kicking, and serving throngs of listeners every day. Despite what some media pundits say about broadcast media, radio isn’t dead, it isn’t on life support, and isn’t even in the emergency room. But radio might benefit from a sober self-assessment of its role in a digitally disrupted media landscape.

Radio has prospered for so many decades because it’s free, easy to use, and there are tons of devices around. Until recently, it was the only way to enjoy music without having to invest in a record collection, or to hear news, sports and traffic information while on the go.
But AM/FM faces serious competition from personalized, digital alternatives. Waze and Google Maps, for example, offer real-time traffic updates on individual routes; listeners can choose the play-by-play team of their choice, even if it’s out-of-market; and Pandora leads the way in serving music that’s personalized for each listener.

As much as the radio industry loves to promote its wide reach, another critical metric, time spent listening, has been riding a steady decline. Daily time spent listening to AM/FM has fallen by 34% between 2007 and 2017. Clearly, listeners are not using AM/FM for as long or as often as they did before.

Time spent listening to AM/FM will continue to fall as consumers take advantage of unlimited mobile data plans, acquire more digital media devices in homes and cars, and as radio’s most loyal demographic, Americans aged 50+, embrace the digital revolution. Persons aged 50-64 who have mobile devices are, for the first time in the past year, spending more time with mobile apps than they are listening to AM/FM radio.

**DIMINISHING DRIVERS ON THE ROAD**

Going forward, radio will have to defend its richest source of listening time: when drivers are navigating America’s roads and highways in their cars. Radio currently captures 70% of audio listening time, thanks in part to the ease of operating station presets and other controls, but we see a series of long- and short-term challenges to that dominance, driven mostly by changes in our transportation choices. As General Motors CEO Mary Barra observed about the car industry, “There’s going to be more change in the next five to ten years than there’s been in the last 50.”

### FOUR TRENDS THAT WILL DRIVE DOWN IN-CAR AM/FM USAGE

- **Fewer drivers:** A smaller percentage of Americans are choosing to drive. Just 69% of 19-year-olds earned a driver’s license in 2014, compared to 87% in 1983. Teens have cited the high cost of acquiring and operating a car as a top reason for not getting licensed. This surge was not lost on former Ford CEO Mark Fields; he predicted that car ownership in the big cities will become out of reach for most individuals, and Ford is responding to the trend by launching its own ride-sharing service, Chariot.

- **Ride sharing:** Both Uber and Lyft are barely seven years old, yet the two services gave 97 million rides in December 2016 alone. This surge was not lost on former Ford CEO Mark Fields; he predicted that car ownership in the big cities will become out of reach for most individuals, and Ford is responding to the trend by launching its own ride-sharing service, Chariot.

- **Vehicle sharing:** The average car is parked 95% of the time and the costs of operation are only going up. Many Americans are solving for this by participating in car sharing services, most notably by Avis-owned ZipCar. GM has launched “Book by Cadillac,” a $1,500-per-month program (including insurance and maintenance) that allows a customer to change between any of its models. Ford is in the vehicle sharing business, but not with cars; it sponsors GoBike in the San Francisco Bay Area.

- **Autonomous driving:** The biggest disruption since the invention of the car itself is happening before our eyes. Uber is testing driverless cars for hire in Pittsburgh, and Lyft soon expects to launch a fleet of self-driving cars using technology from its part-owner General Motors. Tesla says that a fully-autonomous car, where a driver could literally sleep during the ride, will be ready in 2019.

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**SMARTPHONE APP TIME HAS SURGED PAST AM/FM USAGE**

<table>
<thead>
<tr>
<th>AGE</th>
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<td>50-64</td>
<td>15:14</td>
<td>20:08</td>
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<td>65+</td>
<td>4:33</td>
<td>12:30</td>
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SHORT-TERM CHALLENGES:
IN-CAR RADIO LISTENING IS ALREADY ON A DECLINE

- AM/FM’s in-car challenges aren’t just lodged in the future. Satellite radio is already installed in about a third of the cars in the U.S. and comes with 75% of new cars. SiriusXM’s more than 32 million paying subscribers are voracious users of the service, accounting for 70% of their daily in-car audio time.

- Pandora is the dominant installed brand in connected cars, and its active user base has grown at triple-digit annual rates over the last six years. Nearly 10 million Pandora active listeners access the service through built-in infotainment systems on their dashboards, and that doesn’t include the millions of users who listen in their cars via their smartphone app.

- Drivers of the newest car models, which are more likely to include advanced media options, listen to 40% less AM/FM radio than drivers of older cars. The data represents concrete evidence that listeners who have access to AM/FM alternatives are using them. Radio’s firm grip on in-car audio loosens with each new model year of car sold.

Taken together, these disruptive forces are bound to have a major impact on broadcast radio and outdoor advertising, two traditional media that depend on undistracted drivers. The auto makers are not planning to force AM/FM out of the dashboard, but they do recognize that drivers want to use the features on their smartphones while in the car.

“Younger people are not listening to the radio the way that those who are over 30 or 40 are doing,” noted Scott Burnell, the Global Lead for Ford’s Business Development and Partner Management. “They don’t have physical radios ... they’re listening to music through streaming on their mobile device. So when they get in their vehicle, they are not always looking for broadcast radio. They are looking for what they’re familiar with, which is the Pandoras and Spotifys of the world.”

Burnell declared that for broadcast radio to remain relevant in the future, it needs to offer content that leverages today’s technological advantages. “The key for radio stations to stay relevant in the modern age is to get onto those mobile devices with apps by offering content over the internet.”

![AM/FM Listening is Eroding in New Cars](image-url)
SELF-INFLICTED WOUNDS

Radio's biggest challenges might be those that could be fixed from inside. Major-market radio stations within the largest ownership groups are airing a stifling amount of ads, ranging from 12 to 22 minutes per hour. Music stations will pack as many as 10 ads into a break as a strategy to game the ratings system, but that strategy can’t possibly help an advertiser command attention, besides, more ads equal unhappy listeners.

A 2016 study called into question the audibility of radio ads among drivers. “Hacking the Commuter Code” from Edison Research, monitored the listening habits of automobile commuters using GoPro cameras aimed at respondents’ dashboards. A separate study of radio listeners cites “too many commercials” as the No. 1 reason for listening less.

The radio operators are investing nominally in digital distribution, but their listening numbers are small compared to the “pureplay” streaming brands; the biggest AM/FM streaming brand, iHeartRadio, has only 7% of the Pandora and Spotify audience; the other commercial radio broadcast streams are at 1% or less.

Other attempts to digitize AM/FM radio such as HD Radio, the technology that splits a normal FM signal into two or more stations, or NextRadio, an app that allows some Android phone owners to hear FM stations on their mobile devices, are not making an impact. Without a robust digital strategy, broadcast radio has the oldest audience of all the audio platforms: Half of AM/FM’s time spent listening is by people aged 52 and older.

Radio’s vaunted reach number makes for great PR, but that figure represents all of the radio stations in a market and isn’t a viable campaign goal. Of equal concern: 50% of radio’s reach are light listeners, consuming just 10% of radio’s daily listening hours. A typical ad buy will not reach a substantial portion of these light listeners.

Advertisers are responding by shifting their dollars away from the medium. Core radio ad revenues are projected to decline by 4.7% annually over the next five years, going from $13.5 billion in 2017 to $10.5 billion in 2022. Digital and off-air/event revenues will make up some, but not all of those shortfalls.

AM/FM AT A GLANCE

- Wide reach, but time spent listening is off 34% since 2007
- Commercial clutter is No. 1 cause of time-spent decline
- Radio’s audience is aging, half of listening is among persons 52 years and older
- Auto industry disruption already endangers radio’s in-car dominance
- Drivers of newest car models use 40% less AM/FM than drivers of oldest cars
- Core revenue ad decline of nearly 9% from 2016-2018
Streaming audio’s diverse directions

Delighting listeners with personalized content on a growing variety of devices

Streaming audio has become the shining example of personalized digital media that couldn’t be offered in an older era. Today’s music fans can choose from a variety of streaming options, each offering unique ways to select, discover and enjoy music. These features, in combination with surging time spent with mobile apps, have pushed streaming audio into the mainstream: the majority (53%) of Americans stream audio weekly.19
Happy listeners make for happy advertisers. Streaming is a terrific ad platform, thanks to superior targeting, a better user experience, and a higher level of accountability. Streaming ads can be targeted to listeners engaged in specific activities, such as commuting, working out or preparing for bed. Different versions of the same ad, such as an announcer’s gender, can be served to specified listeners. Post-campaign research can tie lift metrics to actual exposure frequencies. (For more, see the accompanying article, “An Inside Look At Audio Ad Innovation.”)

Americans’ growing love affair with smartphones is largely responsible for streaming’s growth. Weekly time spent with smartphone apps (not talking or texting) jumped to 16 hours, 16 minutes in Q1 2017 compared to 11 hours, 36 minutes a year earlier. Across all age groups, including among 50-64-year-olds, Americans now devote more time to smartphone apps than they listen to AM/FM radio. The numbers reflect an overall shift of internet usage to mobile apps, which now accounts for half of all time spent on digital media.

WHY THE JUMP IN TIME SPENT?

- Several mobile providers have changed their policies about video and audio streaming apps so that they don’t count against a subscriber’s data plan.
- Flat-rate mobile plans with unlimited data are becoming the norm.
- Mobile users are increasingly using wi-fi where available, such as at work, in a coffee shop or at home, bypassing the need for mobile data.
- Streaming and other app usage is shifting from desktop and tablet computers.

### MAJORITY RULE: 53% STREAM AUDIO WEEKLY

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<td>36%</td>
<td>44%</td>
<td>50%</td>
<td>53%</td>
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Streaming audio is now a weekly habit among the majority of Americans age 12+: following a 19% annual growth rate since 2010.

### SMARTPHONE APP TIME HAS SURGED PAST AM/FM USAGE

<table>
<thead>
<tr>
<th>Age Group</th>
<th>2015</th>
<th>2016</th>
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<tr>
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<td>15:11</td>
<td>18:09</td>
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<td>AGE 25-34</td>
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<td>AGE 35-49</td>
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<tr>
<td>AGE 50-64</td>
<td>7:02</td>
<td>12:13</td>
<td>20:08</td>
</tr>
<tr>
<td>AGE 65+</td>
<td>1:28</td>
<td>2:41</td>
<td>4:33</td>
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</table>
A CONNECTED CAR FUTURE

While smartphones may be the biggest source of streaming audio time, the fastest growing streaming platforms are in America’s cars and homes.

Most new car models make it easy to connect a phone to the car’s dashboard and audio system, including with USB and Bluetooth connections. In some cases, drivers can control an app (such as pause, skip and “thumbs up”) through the dashboard display.

These technologies are a hit with drivers, and they get used. AM/FM may be ubiquitous in cars, but drivers of recent car models are significantly less likely to listen to AM/FM than drivers of older model cars (see chart, Page 12).

Pandora user growth on connected cars has grown by more than 100% annually since 2013. That growth may accelerate as more cars feature newer in-car technologies produced by familiar brands: Apple CarPlay is a system that displays the media and navigation apps from a user’s iPhone onto a similar interface on the dash. Android Auto is a similar system for Android phone owners. Drivers can operate the systems with a touch to the dashboard screen, use of steering wheel controls, or by voice.

Nearly all carmakers are rolling out CarPlay and Android Auto into their vehicles. Although both systems are in their early stages, all indications are good; Pandora usage on these systems is rising faster than Pandora’s already rapid in-car listening growth.¹

VOICE IS THE NEW TOUCH

The most interesting connected technologies are happening in the home. Almost everything with a plug these days, not to mention the plugs themselves, are being made to connect to a home network.

A fast-growing source of streaming listening is happening on the millions of smart TVs, over-the-top (OTT) media boxes such as Roku and Apple TV, and whole-home audio systems such as Sonos.

The sexy new audio entrants are smart speakers from Amazon and Google. Market penetration of these innovative devices is still small, but sales of the devices are brisk. What’s more, as people are discovering their media features in the same way that they did on their smartphones, they are using them. Pandora listening on these smart speakers nearly quadrupled over the last year, far outpacing our already-robust connected home growth.

PANDORA DOMINATES THE AD-SUPPORTED STREAMING AUDIO SPACE

SHARE OF DAILY TIME SPENT TO PUREPLAY STREAMING AUDIO, AGE 18-54

There’s something for everyone on streaming audio. Most listening occurs on free, ad supported pureplay services, and time spent with Pandora’s ad-supported service nearly equals time spent to paid streaming brands combined.

“Other Free/Ad Supported” includes: AccuRadio, Slacker, SoundCloud, TuneIn and others. “Paid Streaming” includes Pandora One/ Premium, Spotify Premium, iHeart Plus/Premium, Apple Music, Google Play All-Access, Amazon Prime Music, Rhapsody, Tidal and others.
Smart speaker sales trends reflect the growing familiarity of voice control in our lives. Indeed, Pandora believes that “voice is the new touch.” We have become accustomed to responding to “press or say…” commands when calling an airline, 20% of us used our voices when doing a search on our phones last year,6 and TV viewers with Comcast and Apple TV can change channels with their voices.

Voice recognition error rates, which were at 43% two decades ago, was down to 5% as of May 2017, putting it on par with human recognition,30-31 and paving the way to the smart speaker trend. As a result of this significant improvement, voice control may be so easy and intuitive it makes perfect sense that they are listening to more music after getting a smart speaker.

This increase in personalized audio usage aligns with a boost in the number of families that no longer own an AM/FM radio in their homes, rising from 4% in 2008 to 21% in 2016. And a third of 18-34-year-olds do not own an AM/FM radio in their homes.33 The opposing trends are further evidence that as personalized media options are available, people use them.

Be it on smartphones, connected home or connected car devices, listeners who use streaming services change their audio habits; they engage with personalized digital audio services much more and listen to less traditional radio.

STREAMING AUDIO AT A GLANCE

- Now a mainstream activity by 53% of the U.S. population weekly
- A jump in smartphone time spent among all age groups fueled growth
- Time spent with smartphone apps now exceeds time spent with AM/FM among radio’s core of 50-64-year-olds
- Drivers of newer connected cars, especially those with Apple CarPlay and Android Auto, boost their streaming audio time
- Voice control of connected home and other devices is driving big increases in streaming usage
- The median age of a streaming listener is 31

Audio usage changes among digital audio listeners

ALL LISTENERS

Average Daily Listening Time: 229 Minutes

<table>
<thead>
<tr>
<th></th>
<th>AM/FM Radio</th>
<th>Streaming Audio</th>
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<tbody>
<tr>
<td>Pandora listeners</td>
<td>33.4%</td>
<td>44.3%</td>
</tr>
<tr>
<td>All listeners</td>
<td>53.5%</td>
<td>14.8%</td>
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</table>

Once a listener discovers streaming audio, their listening habits change. Streaming audio listeners use 45 minutes of additional audio per day, with all of that (and more) listening to streaming. They also use significantly less AM/FM radio.

Pandora’s 2018 Definitive Guide to Audio
Every day, people listen to audio for a quarter of their waking hours. And for nearly a century, advertisers have leveraged the medium to documented success. Today’s audio is even better: it’s personalized for individual tastes and daily routines, new technologies are the gateway to more choices, more accessibility, more control and thus more engagement. And for those reasons, there has never been a better time to be a marketer who invests in audio.

Claire Fanning devotes many of her waking hours to finding new and creative ways for marketers to leave lasting impressions with Pandora’s 85 million monthly listeners.40 As Vice President of Ad Product Strategy, Claire leads a team of ad professionals who analyze today’s advertising challenges to develop solutions that combine an engaged user base with a superior technology platform.

In recent years, the “APS” team rolled out a number of innovations that not only address advertiser goals at all levels of the marketing funnel, but do so in ways that increase listener engagement, not drive them away.

We spoke with Claire to find out why audio advertising performs better for brands when it’s served on digital platforms. For Claire, it all comes down to targeting and personalization.

**Targeting is a natural feature of digital media; how does it work with audio on Pandora?**

We can target people using our own data, such as the devices that listeners use, the time and the locations during which they listen, their music choices, and their age and gender that was supplied at registration. We also create listener segments using third-party data and are working on increasing the number of campaigns that use an advertiser’s owned customer data. The unique nature of listening to music provides user information that many platforms cannot, such as the ebbs and flows of someone’s day where musical choices take them through workouts, playing with kids, being in the office, making dinner or relaxing. We can derive patterns through these kinds of data trends.

**What kinds of personalization opportunities exist with digital audio and how do they benefit advertisers?**

Pandora’s underlying concept is personalized radio, and as such no two users are hearing the same content. In my view, the ad experience should mimic the music experience, which is why we work hard to develop proprietary technology that serves ads according to each user’s unique characteristics. For example, our intelligent ad delivery mechanism schedules ads when each listener will be most receptive. Recently, we introduced sequential ads that allow a marketer to share a story arc with listeners in a specific order. We are also investing a lot of time and resources in variable length ad formats and are currently running tests to see how shorter audio ad creative performs against the more standard 15- or 30-second unit. We’re seeing interesting results but reception tends to vary, which is not surprising given that communication methods vary so much between users.

The bottom line is that personalization comes from insights gained by paying attention to each listener’s behaviors. These insights can then inspire new ways for brands to put themselves in the listeners’ shoes, and connect with them one-on-one.

“Personalization comes from insights gained by paying attention to each listener’s behaviors. These insights can then inspire new ways for brands to connect with them one-on-one.”

**What kinds of innovations can audio advertisers look forward to?**

So many. The advertising world is driven by consumer behavior, which means the audio world continues to evolve in new and exciting ways. We constantly integrate new connected devices to play Pandora; our recent addition of Fitbit to some 2,000 total devices is a perfect example of this. We’re also looking to connect advertisers with listeners by way of original podcasts, concerts, festivals, on-demand listening and other interesting content initiatives. Voice-controlled devices, in particular, call for more interactive audio advertising.

In the meantime, advertisers are demanding more streamlined methods of buying audio, including programmatic audio. This new buying capability will certainly trigger ideas for additional innovation across the digital audio landscape.

**Important is creative to the overall success of an audio campaign?**

The campaign mechanics can be perfectly executed yet the whole thing can still fail if creative is not properly considered. Creative decisions should consider delivery platform, end consumer, message and desired call to action.

For example we’re thinking a lot about connected home devices and how creative plays a role with them. As connected home listening on Pandora continues to dramatically increase year-over-year, the winter months represent a time where people entertain more in their homes and use Pandora in those environments.

We are currently testing to understand the kinds of messages that work best in the home, and my hypothesis is that ad creative for in-home listening is not the creative you might use to break through in a more cluttered environment. If you’re in your car listening to AM/FM, for example, it’s pretty common to hear a lot of loud, energetic ads in an effort to stand out among a saturated ad break – it’s not unlike getting ‘spritzed’ when you stroll by a department store perfume counter. Coming into someone’s living room is different. You are a guest and need to treat the solution with a bit more finesse. In-home creative executions on Pandora will probably need to be different than what’s heard on other platforms.

**What kind of innovations can audio advertisers look forward to?**

Pandora’s Ad Product Strategy team is constantly on the lookout for new ways to engage advertisers with listeners. Claire Fanning40 and the “APS” team are committed to understanding how to connect with the 85 million monthly listeners of Pandora. Why? Because we’re passionate about connecting advertisers with audiences that we’ve already connected with listeners.”
Today, hundreds of thousands of podcasts address every imaginable topic. At least 15 podcasts will satisfy your Game of Thrones appetite1; fans of the NBA champion Golden State Warriors can hear at least eight different podcasts that follow the team throughout the year. The New York Times and National Public Radio each put out national news podcasts at 6 a.m. every morning, and you can find countless other podcasts discussing everything from expectant parenthood to golfing techniques.

Thanks to this wide and growing array of content, podcast popularity is surging. Podcast reach has grown by 50% over the last four years, and nearly a quarter of Americans age 12 or older listen to a podcast monthly.35 This popularity is fueled by a thirst for non-music content: 41% of Americans listen to some form of “speech” audio (defined as news, talk radio, personalities, sports or audiobooks) on a given day.

Much like online music content, podcasts are most popular among Millennials aged 18-34, but they also over-index among Teens 12-17 and Adults 35-54. Young people aged 13-34 use podcasts for a quarter of their speech audio time.36 Podcast adoption might have happened even faster had some company chosen to design a friction-free listening app, invented a way to surface new content, and created audience measurement tools that would benefit the podcast creators and potential advertisers. Apple has gone farther than any other company to organize podcasts in the iTunes store, but they make almost no direct revenue from podcasts.4
LACK OF METRICS STUNTS PODCAST GROWTH

Podcast monetization has been stunted for lack of listener metrics. For example, while publishers will know the number of times an episode is streamed or downloaded, they have little or no idea if or when it was played. Also, without the benefit of a “logged-in userbase,” there exists little insight into listener demographics.

Despite these challenges, some advertisers are joining the podcast bandwagon, typically with performance-based campaigns that pay out on measurable results. Podcast revenues are forecast to reach $220 million by the end of 2017, but we may not see a quantum gain in ad support until brand and transactional advertisers find the answers to three basic questions: Who’s listening? How many are listening? And, how much time are they listening?

Podcast content creators and their partners have made big recent strides to improve the user experience and solve content discovery and measurement challenges: NPR designed its app, NPR One, to fix those issues; beyond a simple, intuitive interface, NPR can promote lesser-known content, and it can aggregate listening activity and listener demographics to the benefit of advertisers.

Podcast creators also greeted Apple’s recent decision to share more podcast metrics with their content creators. These metrics will indicate when the podcasts were played, and which parts of each episode were (and were not) consumed. But the all-important “Who is listening via iTunes?” question will still go unanswered. Apple will not be sharing demographic data about its podcast consumers.

In the coming year, as podcasts become easier to find and access (particularly with voice controlled apps and smart speakers), and as its creators are equipped with additional user metrics, we expect to see continued listener and ad growth in this very promising platform.

PODCAST LISTENERS ARE TRANSFORMING HOW AUDIO IS CONSUMED

PODCASTS AT A GLANCE

- Most popular among 18-34s, but teens, 35-54s are also a robust source of listeners
- Listener growth has been hampered by usability and content discovery issues
- Many big advertisers are on the sidelines, waiting for better listener metrics. Despite this, podcasts will earn $220 million in ad revenues in 2017
AN INTERVIEW WITH SCOTT SIMONELLI

Veritonic launched to answer this important question and Scott Simonelli, its CEO, shares some early findings about audio commercials.

In this era of data-driven decisions, every creative aspect of an ad campaign, such as the selection of a music bed or VO talent will shift from “what feels right” to “what tested best.” These decisions can be amplified in a digital environment, where different creative executions can be served to different parties.

Scott Simonelli founded Veritonic to evaluate all those critical ingredients that make up an audio ad, or the audio in a video ad. Along with major brands such as CBS Television, Liberty Mutual Insurance and Subway, Veritonic has joined with Pandora to measure the efficacy of the ads served to Pandora listeners. The findings will be shared with participating clients, and aggregated results will be used to develop creative best practices.

We sat down with Scott to get a better understanding of why audio is so important in today’s attention-starved society.
We heard that early in your career you wrote music for ads, how did you land in that profession?
I have a college degree in composition, and I was also in bands. When I got out of school, I was a music teacher and somehow got roped into writing music for ads. I wrote a lot of jingles, as they called them at the time, ranging from Huggies to Bank of America.

You also worked as a songwriter at Sony Music. What's the difference between writing for ads and a full-length pop song?
It's like running a different race. For a commercial, one of the things that we focus on is time, and you've got to hit the point fast. If you don't evoke a certain emotion in the first three seconds, you might not have a chance to get the next five seconds.

How would you describe what Veritonic does?
We empower marketers to connect with their audience through sound by measuring how people respond to what they hear. That's the core of our technology and it helps create better ads. Today's brands cannot survive on aggregate data, our clients need to understand every nuance of their audience. Attributes like: listening preferences, who they are, where they live, what their income is, what kind of car they drive and many more. We provide actionable data about how sound is being perceived across every conceivable dimension.

How will the relationship work between Veritonic, Pandora and its advertisers?
Our goal is to give Pandora and its advertisers the ad research toolset that helps them evaluate the effectiveness of their ads with a high degree of confidence. Everything we do is quantitative research, so it provides a framework and benchmarks that say, "This ad is working and this ad is not, and here's why." Everything we do is about gain a better understanding of ad lengths.

You've just started doing work with Pandora, and some of it involves initial testing around ad length. What have you found so far?
We have tested a lot of 30- and 15-second TV spots, and effectiveness can vary from situation to situation, and there's still plenty of testing to be done. Lizzie Widhelm [Pandora Senior Vice President of Ad Product Strategy] said it best when she told AdWeek that a mix of ad lengths, each appealing to a different set of listeners, could end up being an ideal strategy.

Will those six-second ads that are coming into vogue on TV work with audio?
We haven't tested six-second ads yet, but it's hard to tell a story in 15 seconds, much less six. Time is one of the most important elements of our analysis and with more format options becoming available, it's crucial that we gain a better understanding of ad lengths.

Perhaps an established advertiser can use the six-second ad more effectively?
Brands with recognizable audio logos might do well with this format. We recently analyzed some audio logos for media companies, and what was interesting was that, while Netflix landed in the middle of the pack overall, it was No. 1 by a mile among under-30s. Just 'two thuds' and a 'ding' only takes a couple of seconds.

Do the successful ads in your testing share any particular characteristics?
Like anything else with testing, there's never a silver bullet, and what works today might not work tomorrow. Every good marketer knows, when it comes to testing, "It's a journey not a destination." Having said that, a music bed, in general seems to be more effective. We've also seen a boost from ads that are personalized in some way to the listener. On the negative side, audio ripped from a TV spot or an online video tends to perform poorly; these ads are not as descriptive and don't have the right pacing for a pure-audio environment.

What can you learn from all the variables that you test on?
We can help answer questions like, "Is it better to have a genre-specific music bed for females age 40 and up who listen to this kind of music?" And that, to me, is a very powerful way to serve ads. Now you can advertise to a specific demographic, you know what they're listening to and you can create ads that you think are going to be effective, and then measure whether they were or not. And that's value to the brand and that's value right to Pandora.

Does the TV industry have the same advertising challenges that the audio platforms face?
They have challenges but it's of a different nature. We're seeing on a macro level that people are not looking at the television as much these days. They may have it on, but there's often a second screen involved. If I'm watching a game and I've got my iPad in my lap, or I'm doing whatever, I'm not going to pay attention to the TV ad unless the ad has effective audio.

What's the future of digital audio advertising?
There are amazing things about audio ads that we're looking at, and there's a lot of value to the advertiser. Paid search has been so successful because of advertisers have a tremendous amount of control, you can do a paid search ad for a very specific thing and that attribution is very clear. Pandora is primed to measure those same kinds of those things, and when it does, the sky's the limit and the more powerful it becomes for the advertiser.

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Scott Simonelli
CEO, Veritonic

Pandora's 2018 Definitive Guide to Audio