

# PUBLIC VERSION

Before the  
UNITED STATES COPYRIGHT ROYALTY JUDGES  
THE LIBRARY OF CONGRESS  
Washington, D.C.

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In re	)	
	)	
DETERMINATION OF ROYALTY	)	Docket No. 14-CRB-0001-WR (2016-2020)
RATES AND TERMS FOR	)	
EPHEMERAL RECORDING AND	)	
DIGITAL PERFORMANCE OF	)	
SOUND RECORDINGS ( <i>WEB IV</i> )	)	
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**WRITTEN DIRECT TESTIMONY OF SIMON FLEMING-WOOD**

(On behalf of Pandora Media, Inc.)

**Introduction**

1. My name is Simon Fleming-Wood. I am the Chief Marketing Officer of Pandora Media, Inc. (“Pandora” or “the Company”). I report directly to Pandora’s CEO Brian McAndrews, and I am a member of the Company’s executive committee. I have served as CMO of Pandora since I joined the Company in October 2011. I graduated with a Bachelor of Arts in Political Science from Stanford University in 1991.

2. Before joining Pandora in 2011, I was the founding Vice President of Marketing at Pure Digital Technologies, where I was responsible for the creation, development, and introduction of the very successful Flip Video brand, which made enormous advancements in personal video and sold more than seven million cameras in three years. After Pure Digital Technologies was bought by Cisco in 2009, I held the position of Vice President of Marketing for the Cisco Consumer Products group. In that role, I oversaw the worldwide marketing organization for Cisco’s consumer business, including the Linksys and Flip Video brands, and led the development and execution of all integrated marketing efforts, including brand strategy,

research, advertising and media, public relations, marketing partnerships, and e-commerce. I have also held senior marketing positions at Sega.com, the Learning Company/Mattel, and the Clorox Company.

3. As Chief Marketing Officer, I direct a team currently consisting of thirty-four people who are responsible for four primary areas of the Company: (1) marketing and brand strategy, (2) public relations and communications, (3) business development, and (4) the Pandora One subscription business. The marketing and subscription teams are primarily responsible for audience growth, marketing analytics, and managing Pandora's brand. The public relations and communications team manages Pandora's public image. The business development team leads our efforts to grow Pandora's availability into new delivery platforms, like in the automobile and consumer electronics.

4. I present this testimony to the Copyright Royalty Judges to provide an overview of Pandora's service and features, including the basics of how the service works and certain promotional benefits it provides to artists and labels, and to discuss the competitive environment in which Pandora operates. In short, Pandora is a form of radio – offered via the Internet, and allowing users to personalize their listening experience to some degree, but radio nonetheless. Our chief competition for both listeners and advertising dollars is terrestrial radio (a fact even more evident now that Pandora is increasingly available in automobiles and employs local sales people in 36 local markets), with satellite radio and other forms of non-interactive Internet radio following behind.

### **The Pandora Listener Experience**

5. Pandora is the leading Internet radio service in the United States, and is best known for its ability to enable listeners to create personalized, non-interactive radio stations –

that is, a “lean-back,” radio-style listening experience – with features that permit listeners to learn more about the music they are listening to and enable them to purchase it via links to digital stores such as iTunes and Amazon. At Pandora, we pride ourselves on the simplicity of our product and ease of the listening experience. To begin using Pandora, a listener need only create a profile, log into the service (via website or mobile/smartphone application), select or “seed” a station, and then enjoy the music.

6.     **Creating a Profile.** The first time a listener accesses the Pandora platform, she is prompted to create a listener profile using her email address, password, date of birth, zip code, and gender. Once registered, the listener can log into her account from a computer, mobile phone, or any other Pandora-enabled device for a seamless experience that accesses all of her previously-created stations.

7.     **Listener Interface.** After logging in, the listener begins to listen by creating a new station, selecting from previously saved stations, or selecting from 690 pre-populated genre stations. As the music plays, information about the currently-playing song will be displayed, including song title, artist name, and album title. For many songs, Pandora also displays biographical information about the artist, song lyrics, album cover art, and a recommended list of similar artists that the listener may enjoy. These features allow the listener to learn more about the artists and music she listens to on Pandora and discover additional music she might enjoy.

8.     **Selecting a Station.** Pandora has two types of stations: personalized stations and genre stations. To create a personalized station, the listener simply types in the name of an artist, composer (for classical music), genre, or song title to serve as the starting point or “seed” for the station. Pandora then automatically creates a station centered around that seed, which – through use of our patented Music Genome Project (“MGP”) technology and a combination of playlist

algorithms – will play songs whose musicological characteristics our MGP reveals as resembling those of the seed. Genre stations, for their part, are pre-programmed collections of songs that reflect a certain musical style or preference. Pandora’s genre stations range from hit-driven stations such as “Today’s Hits” or “Today’s Country” to lesser-known or highly specialized genres such as “Rockabilly,” “Classic Ska,” and “Viking Metal.” Each genre station is populated with songs that are hand-selected by Pandora’s music curation team to reflect that musical genre or style.<sup>1</sup> Although each listener may create up to 100 stations, the majority of Pandora’s active users listen to six stations or fewer. All of Pandora’s stations stand in stark contrast to on-demand, “interactive” services like Spotify and Rhapsody, where listeners self-select the particular music to which they wish to listen.

9.     **Using Pandora.** Pandora also features a unique feedback system, whereby listeners can further indicate their music preferences by pressing a “thumbs up” or “thumbs down” icon while a song is playing. A “thumbs up” indicates a listener enjoys a song and would like to hear more songs like it. A “thumbs down” indicates the listener does not enjoy the song; in addition to storing the feedback, Pandora skips “thumbed-down” songs (within certain limits per hour). Pandora records this listener feedback and uses it to shape future playlists generated for that particular listener and for other listeners who listen to similar music. Although we think “thumbing” is a valuable feature of Pandora’s service and our listeners have “thumbed” more than 46 billion times since our launch, in reality a large number of listeners (approximately [REDACTED]) do not use the feature on a consistent basis, and prefer to simply “lean back” and listen to the music that is played for them. A listener can also “skip” a song, rather than using the “thumbs

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<sup>1</sup> One additional benefit of Pandora is that it is available in certain geographic areas across the country where certain genres would not otherwise be available over traditional radio. As but one example, a listener told Pandora: “You’re the greatest. We lost our only jazz station where I live and so am making up for lost time with your site. Keep up the great work.”

down” button; *e.g.*, if a listener likes a song and may want to hear it again, but does not want to listen to that song at that particular moment, the listener can “skip” to the next song (again within hourly limits on skips).

10.     **Sharing on Pandora.** Because people like to share music they love and friends and family remain a key source of music discovery, Pandora has enabled a number of features that allow listeners to share their stations or other information about the music to which they are listening. For example, every listener has a publicly available “listener profile” that includes information regarding the stations that listener has created and songs she has “thumbed up.” Listeners can also share their stations through an on-screen “share” button. Pandora has a Facebook integration that allows a listener to choose to share information about the music to which she is listening directly to her Facebook page.

11.     **Buy Button.** The Pandora player also includes a “Buy” button, which directs listeners to iTunes or Amazon.com, where they can purchase the songs they enjoy. Pandora earns a modest commission for each download sold as a result of a user pressing the “Buy” button. While our data indicates that Pandora listeners are purchasing recorded music through the “Buy” button, that data does not necessarily reflect the total overall impact Pandora has on purchasing, since it does not account for purchases inspired by Pandora that listeners make in other ways (*e.g.*, by opening the iTunes application or a logging onto Amazon.com directly to make her purchase).

12.     Attached as Pandora Exhibit 2 is a short video demonstration that illustrates the Pandora user experience.

### **Competitive Landscape**

13. Pandora faces intense competition from other providers of music audio content, including terrestrial radio, satellite radio, and other digital music services. Pandora competes with these entities for listenership and advertising dollars.

### **Competition for Audience**

14. In light of Pandora's lean-back, curated approach to music delivery, our primary competition for listeners is broadcast radio providers, including terrestrial radio and Sirius XM. We also compete with other non-interactive Internet radio providers such as CBS's Last.fm, iHeart Media's iHeartRadio, Slacker Radio, and, more recently, Apple's iTunes Radio.<sup>2</sup> Because interactive, on-demand services such as Spotify offer a fundamentally different type of service, geared toward listeners who enjoy a more active, "lean forward" experience, we do not view them as direct competitors; the same is true of music download sellers such as iTunes and Amazon.com.

15. **Competition with Broadcast Radio.** Pandora provides listeners with music content that is curated and programmed by the service (as opposed to selected by the listener), predominantly free of charge (through an advertising-supported model), and available over a variety of devices. Based on these attributes and our respective scale, our closest competitor, and our greatest opportunity for converting new listeners, is the broadcast radio industry – including traditional terrestrial (AM/FM) radio, and satellite radio.

16. **Competition with Other Non-Interactive Services.** Many Internet radio services play either simulcasts of terrestrial radio stations or stations programmed with popular

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<sup>2</sup> This "lean-back" radio-listening experience comprises the vast majority (about 80%) of music consumption in the U.S. today, and of that, traditional radio continues to dominate with approximately 80% of radio-style listening time. Pandora commands the next greatest proportion of radio-style listening, at approximately 9%, followed by Sirius XM and the remaining non-interactive services.

songs from a specific genre or sub-genre of music. Many other services offer some kind of customized or personalized radio stations – often modeled on Pandora – allowing for some form of user input. Like Pandora, these services provide personalized experience by allowing users to create stations centered around a favorite artist or genre and then using computing tools to drive song selection for each individual listener. Pandora’s chief advantage when competing for listeners in this segment of the radio market (which, apart from Pandora, represents only about 3% of radio listening) is our superior playlist technology, the foundation of which is the MGP.

17. Tim Westergren, Pandora’s Founder, is separately testifying to describe the MGP in detail, and I will not repeat that testimony, but I would stress that Pandora’s emphasis is on analyzing the musical characteristics of songs as determined by actual human analysis. This process is time-intensive and is performed by highly trained music analysts. We then use a combination of the MGP and playlist-generating algorithms to identify common characteristics between different songs, and use this information to predict listener preferences, play music suited to the tastes of each individual listener, and introduce listeners to artists they will love that they might not have been exposed to before. By contrast, our Internet radio competitors tend to rely exclusively on a combination of digital signal processing techniques (so-called “machine listening”) and collaborative filtering to generate playlists. In our view, Pandora’s technology and methodology are superior, but such non-interactive “lean back” services are, like terrestrial radio, nonetheless the closest competition to Pandora’s service.

18. **Differentiating On-Demand Services.** In contrast to the market in which Pandora competes – the segment of listeners who prefer a generally passive, “lean back” listening experience – there is also a market for consumers who prefer to actively choose each song they listen to. The on-demand service offerings, including Spotify, Rhapsody, Rdio, and

the video website YouTube, allow for this type of listener experience. In light of the fundamentally different purposes and listener desires these on-demand services serve, Pandora does not consider them to be its direct or principal competitors. Rather, Pandora views such services as complementary: Pandora provides listeners with the opportunity to discover new music, and if the listener wishes to hear a specific song again later, she can either download the song from a site like iTunes, or listen on-demand through streaming service like Rdio or Spotify. Industry research suggests that nearly half of Pandora listeners are discovering music through Internet radio, and the most popular next step after discovering new music, especially for young listeners, is to listen to the song on an on-demand service. Pandora's own research shows that nearly [REDACTED] of our listeners also use YouTube, and about [REDACTED] of our listeners are Spotify users. A true and correct copy of a Pandora research study, "Brand Equity Tracking – Wave 3 Cross Usage Data Points," dated September 23, 2014, is attached hereto as Pandora Exhibit 3.

19. In this way, Pandora fills the traditional role of radio, and the on-demand streaming services fill the traditional role of record stores, or replacement of a personal music collection. Indeed, the CEO of Spotify recently agreed, stating in an interview with The Hollywood Reporter: "I don't really view [Pandora] as a competitor. . . We want Spotify to be your music player. We don't want to be the radio service. . . . We want to be the place where you store and collect. . . . That is very different from Pandora."<sup>3</sup>

#### **Competition for Advertising Dollars**

20. Pandora competes with other media companies not just for listeners, but for a share of advertisers' overall marketing budgets. This competition is based on a number of factors, including perceived return on investment, effectiveness and relevance of our advertising

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<sup>3</sup> A true and correct copy of the Billboard.com article reporting this interview, which is available at [http://www.billboard.com/biz/articles/news/digital-and-mobile/5877886/spotify-daniel-ek-zings-dr-dres-beats-music-qa?utm\\_source=twitter](http://www.billboard.com/biz/articles/news/digital-and-mobile/5877886/spotify-daniel-ek-zings-dr-dres-beats-music-qa?utm_source=twitter), is attached hereto as Pandora Exhibit 4.



products, pricing structure, and the ability to deliver large volumes or precise types of ads to targeted demographics. The advertising market is intensely competitive and rapidly changing. To capture as large a share as possible of this advertising opportunity, Pandora has invested heavily in the systems and sales force necessary to compete for advertising dollars traditionally spent on terrestrial radio. Based in large part on these investments, Pandora is now in head-to-head competition with terrestrial radio stations for advertising sales. In his testimony, Mike Herring describes the investments Pandora has made in its advertising sales organization, as well as the significant investments it made in creating an audio advertising market for Internet radio virtually from scratch.

### **Pandora's Future Growth Opportunities**

21. When Pandora first launched in 2005, it was available only as a website accessible from personal computers. Since then, and especially during my tenure at the Company, Pandora has experienced tremendous growth, due in large part to an initiative we have called "Pandora Everywhere," through which Pandora is integrated into thousands of consumer electronic ("CE") devices, such as alarm clocks, gaming systems, speaker systems, and even refrigerators. By allowing listeners to have access to their stations across the greatest number of devices, Pandora strives to achieve the type of ubiquity traditionally enjoyed by our principal competition, terrestrial radio. The continued expansion of Pandora's reach – including through mobile listening in the car – is expected to be a principal growth opportunity going forward, particularly during the 2016-2020 license period.

22. Pandora's listener base increased dramatically with the debut of its mobile platform in approximately July 2008. That release took a tremendous amount of time, effort, and investment to realize. Indeed, at that time, existing wireless networks did not have the signal

strength or coverage that exist today, and Pandora faced considerable technological challenges in adapting a continuous streaming radio service to function on a mobile device. Creating a product capable of continuously and seamlessly accessing the listener's stations from a handheld device, while continuing to deliver high audio quality, was a major milestone that required significant resources on the technology side. Pandora has invested tens of millions of dollars in developing its mobile delivery platform across more than 1,000 different devices and 150 car models, including investments in scaling the service (*i.e.*, data service centers, etc.). Today, more than 80% of Pandora listening takes place over mobile devices and in many ways, the mobile phone has become this era's transistor radio – facilitating radio listening on the go.

23. These efforts to make Pandora's service widely accessible beyond desktop use have borne fruit. Today, Pandora has approximately 77 million active listener accounts each month, the vast majority of which access the service through the mobile platform. By way of example, at the time of Pandora's IPO in June 2011, Pandora logged approximately 1.84 billion listener hours per quarter, of which 1.29 billion hours were on mobile devices; in the second quarter of 2014, Pandora had played more than 5 billion listening hours, more than 4 billion (roughly 83%) of which were mobile.

24. Pandora anticipates that mobile usage will continue to thrive and expand into the 2016-2020 licensing period, particularly in the automobile, where it will compete for listening side-by-side with terrestrial and satellite radio. Nearly half of all radio listening takes place in the car, where listener attention has been dominated by terrestrial and satellite radio. Thus, integrating Pandora into car stereos in a safe and easy-to-use way is by far our greatest opportunity to grow and effectively vie for listenership with our closest competitors.

25. Pandora's pre-installed integrations in the car allow for in-dash control of the Pandora application on the listener's mobile device. This means, in short, that listeners can control Pandora through the same interface on their car's dashboard that is used to control their AM/FM or satellite radio, although the smartphone is the conduit through which the Internet signal and music stream is delivered. This requires specialized application protocol interfaces ("APIs") to transfer data between Pandora, the phone, and the in-dashboard entertainment system – all of which Pandora has developed and maintained at great expense. To date, Pandora has invested more than [REDACTED] in developing this technology. (A recent television advertisement featuring Pandora as part of the in-dash entertainment system is attached hereto as Pandora Exhibit 5.) We have also begun to focus on the next generation of "connected car," in which the vehicle will have a modem installed directly, making it unnecessary to use your smartphone to connect with Pandora. The principal goal with respect to expanding into the connected car is to have the Pandora listening experience more closely mirror that of terrestrial radio: that is, you turn on the car, and Pandora is on.<sup>4</sup>

26. Today, Pandora functionality comes pre-installed in more than 150 car and truck models across more than 26 brands; it also is being integrated into numerous car stereo receivers produced by aftermarket manufactures such as Sony, JVC, Pioneer, and Kenwood. Through these various integrations, Pandora is currently installed in approximately 20 million cars, out of a total of 250 million cars on the road. By September 2014, Pandora's in-car listening hours are estimated to have grown to represent approximately [REDACTED] of its overall listening hours, and

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<sup>4</sup> In addition to mobile and in-car listening, Pandora also integrates its service into various consumer electronics products, such as home entertainment devices, gaming consoles, and even refrigerators. Today, more than 1,000 consumer electronic devices from third-party distribution partners such as Samsung, Roku, and DirecTV make Pandora available in the home. With respect to "smart televisions," for example, users can access Pandora through their television screen and listen through their home-theater system – essentially no different than listening to more traditional cable and satellite television music offerings from Music Choice and Sirius XM (via Dish Network).

by year-end we expect to have reached more than [REDACTED] activations through these various in-car integrations. We estimate that more than one-third of all new cars sold in 2014 will have Pandora integrated, and even more automakers have announced plans to offer Pandora integration in future vehicles. Our advertisers are recognizing the importance of the in-car market as well; between January 21, 2014 and August 31, 2014, we served nearly [REDACTED] impressions of advertisements targeted at in-car listening from such advertisers as State Farm, Taco Bell, Ford, and Bank of America.

27. We see integration with the car as an important opportunity to shift listenership from terrestrial radio, which pays no royalties to artists or record companies for the public performance of sound recordings, to royalty-bearing streams from Pandora. The shift to the car also opens up potential opportunities for Pandora to further improve its monetization of listener hours, by continuing to develop its delivery of personalized and location-driven advertising in a new environment. Pandora's strategy with respect to the automobile market is a long-term one: we continuously focus on making, and work closely with our partners to make, the car listening experience more seamless and user-friendly. However, given the long tail of a car's life-cycle, and a certain level of trial-and-error, it may take many years and versions of implementation before we obtain the optimum integration into the car that will put Pandora in the best possible position to compete with terrestrial and satellite radio. However, there is no doubt that in-car integrations, and the future of the connected car, are by far the biggest growth opportunity for Pandora over the next several years.

#### **Pandora Promotional Programs for Artists and Labels**

28. As Tim Westergren's testimony describes in detail, Pandora is committed to supporting the broader music ecosystem. In addition to the promotional benefits of airplay on

Pandora, Pandora has developed (and continues to develop) additional programs specifically aimed at helping artists promote their music with Pandora's assistance. Below I describe a few such programs, [REDACTED]

[REDACTED].

29. **Pandora Presents.** In December 2011, Pandora launched a program we call Pandora Presents, through which artists perform live before an audience of fans that Pandora identifies and invites. Each event – of which we have an average of five to ten per year, featuring about thirty artists in total so far – is sponsored by an advertiser, and Pandora essentially plays the role of a concert producer and promoter, choosing the artist or artists that will best speak to that advertiser's target audience. Pandora Presents events generate promotional effects for artists because they promote artists to their existing fan base, while also exposing them to an audience that might not otherwise be familiar with their music. The live event format also helps strengthen the connection between the artist and fans. For Pandora, the events are a beneficial marketing platform and overall value-add for the service. [REDACTED]

[REDACTED]

[REDACTED], but some labels have donated artist time in exchange for the media exposure.<sup>5</sup> Indeed, labels seem to love Pandora Presents, and frequently seek to have their artists featured in our events. [REDACTED]

[REDACTED]

[REDACTED]

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<sup>5</sup> [REDACTED]

[REDACTED]

[REDACTED]

30. **Pandora Premieres.** Launched in May 2013, Pandora Premieres is a program to promote albums prior to their release with the cooperation of the copyright owner of that album. The promotion allows for on-demand selection of certain predetermined albums during the seven-day period before their release for sale, and provides for click-to-buy functionality. Pandora has featured between two and five albums per week on this program since its inception, and there are no signs of slowing: the program fills up each week. Labels frequently request to be featured, and Pandora sometimes seeks out artists that would be a good fit for the program and albums that will be likely to generate high listening volume. Pandora itself receives significant benefits from Pandora Premieres, as the program provides listeners with an early opportunity to listen to entire new albums they enjoy and to purchase the music. Pandora Premieres is not covered by the statutory license at issue in this proceeding, but the record companies participating in the program willingly grant us the necessary rights to offer on-demand access to the tracks. [REDACTED]

[REDACTED]

31. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**Before the  
UNITED STATES COPYRIGHT ROYALTY JUDGES  
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Washington, D.C.**

**In re**

**DETERMINATION OF ROYALTY  
RATES AND TERMS FOR  
EPHEMERAL RECORDING AND  
DIGITAL PERFORMANCE OF  
SOUND RECORDINGS (*WEB IV*)**

**Docket No. 14-CRB-0001-WR (2016-2020)**

**DECLARATION OF SIMON FLEMING-WOOD**

I, Simon Fleming-Wood, declare under penalty of perjury that the statements contained in my Written Direct Testimony in the above-captioned proceeding are true and correct to the best of my knowledge, information, and belief. Executed this 6<sup>th</sup> day of October 2014 in Oakland, California.

  
\_\_\_\_\_  
Simon Fleming-Wood

RESTRICTED DOCUMENT

Subject to Protective Order in Docket No. 14-CRB-0001-WR  
(2016-2020) (*Web IV*)



# billboardbiz

## Spotify's Daniel Ek Zings Dr. Dre's Beats Music (Q&A)

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By Georg Szalai, The Hollywood Reporter | January 22, 2014 6:40 PM EST

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**In an interview with THR, the streaming service CEO explains why Radiohead's Thom Yorke is wrong for saying artists are underpaid. As for his competitors' strategy? "Our way ... is not just slapping some celebrity brand on."**

In the five years since he launched Spotify, Daniel Ek has seen the music streaming service grow from a Swedish phenom to a global player taking on such giants as Apple's iTunes and Pandora as well as Beats Music, which launched Jan. 21. The privately held company with about 1,000 employees completed a \$250 million financing round in November that valued it at more than \$4 billion (investors also include Goldman Sachs and Coca-Cola), even though it has not yet turned a profit. As of March 2013, Spotify had more than 24 million active users, a figure believed to have grown (Ek declined comment). Recent reports suggest 9 million people pay \$9.99 a month for an ad-free experience, high-quality audio and the ability to download many of the 20 million-plus songs in the service's library.

According to estimates, the Stockholm-based Ek, 30, is worth more than \$300 million. He has been a serial entrepreneur since he founded his first web-design company at age 14. Spotify, he says, is on track to become the dominant streamer, though critics note that it has failed to capture the U.S. market the way it dominates Europe. Detractors in the music industry also gripe that the service's artist royalty fees are too low. In December, Ek announced free mobile access to Spotify, a move that could lead to a surge in users.

The avid guitar player, whose girlfriend gave birth to their daughter in June, spoke with THR at his Manhattan office about Spotify's U.S. plan, how he plans to fend off new competition and why Radiohead's Thom Yorke is wrong for saying the service underpays artists.

**Pandora is a well-known brand, with 76 million users in the U.S., Australia and New Zealand. Spotify had 24 million active users worldwide as of March. How can it compete?**

I don't really view them as a competitor. The rest of the world seems to, for some reason. We want Spotify to be your music player. We don't want to be the radio service; we don't want to be the place where you watch a music video and then a cat the next moment. We want to be the place where you store and collect, where you

build your playlist for your dinner party or your workout. That is very different from Pandora.

**And iTunes? Is that a competitor?**

iTunes is more of a competitor because it is "your music" for a lot of people. But it is so obvious that Spotify is much better because you can put more than 20 million songs in your pocket and access at any moment. You just pay your \$10 per month or even use it for free. The benefit of being on Spotify as opposed to iTunes is huge.

**Beats Music has big names such as Jimmy Iovine, Dr. Dre and Trent Reznor attached. Is that a concern?**

It's a competitor, for sure, but my way of looking at it is, if it gets people to understand the value of streaming, it is ultimately good. Our way of doing this is not just slapping some celebrity brand on it and hoping it will be good. We are a social service; we are a product company. People have tried to put a brand on it and thought that's enough, and they have failed: Microsoft, Nokia -- many big companies.

**When will Spotify be profitable? And aren't you lagging a bit in the U.S.?**

We're a young company, and this journey is just starting. If you ask an average American how they get their music, none of them are really streaming. People here have just figured out Pandora in the last 12 months, and that service has been around for 13 years.

**Is there a user number you need to become profitable?**

We must be one of the most transparent companies that is not public. We have paid out over \$1 billion to artists -- we pay out 70 percent of the money we make. I think that's fair. [Editor's note: Artist payouts are determined by an algorithm involving Spotify's monthly revenue, the number of total streams and streams of a specific artist during a given month and artists' and publishers' royalty rates.] So why are we not making a profit? It's very simple: We are growing. We are putting Spotify in more places, on more devices and in more countries. We have been in 35 countries, and as of December we are in 55. We don't care about profitability short-term; we care about long-term. I look at what's happening with the Internet now as the single biggest thing since the industrial revolution. When in history have you had this opportunity, with 1.6 billion people now connected to the Internet?

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**Thom Yorke and others have criticized you for not paying artists enough. How do you respond?**

This is the single biggest shift since the inception of recorded music, so it is naturally going to draw criticism and speculation. [Yorke] looks at this and says over a million streams gives me a few thousand dollars, and he says if I had a million downloads

[which pay higher royalty rates], that would mean \$1 million -- so Spotify is not good. But the difference is, he would not have had a million downloads because they are not comparable. In fact, with 24 million users -- and Apple has 500 million users -- we already have billions of streams today.

**So it comes down to scale?**

In my home country, Sweden, Spotify is 70 percent of not just digital music revenue but all music revenue, including physical [album sales]. That's what happens when you get to scale. One-third of the population uses Spotify -- but people still use iTunes, too. This isn't about which one you are supporting. An artist today should do everything [because] different consumers want different things.

**Digital music remains a fragmented business. Are you thinking about acquisition opportunities?**

It's not just one company that will control all your music; there are going to be many players that will do different things. But eventually, is it better to have a few consolidated players? Probably.

**What's next for Spotify? Could you see launching a TV or film streaming service?**

This is my fifth or sixth company, and the problem I had with all my previous companies was I did too much at once. It never worked. When we started Spotify, I said I will focus all my energy and attention on this to see how far I can go. I think that is why we have been so successful. I don't rule out anything because we are the kind of company that will say, "Why does the world look like this?" And if we can figure out a way to do better, we should.

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*This article was first published by The Hollywood Reporter*

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