

SAVY ENTREPRENEURIAL FIRM

Pandora: What's Possible When an Entire Company Has "Tenacity"

Web: www.pandora.com; Facebook: Pandora, Twitter: @pandora_radio

Most everyone is familiar with Pandora, the Internet radio station. The service plays music of a certain genre based on the artist or type of music the user selects. The user then provides positive or negative feedback for songs chosen by Pandora, which are taken into account when the service selects future songs. While listening, users are offered the opportunity to buy the songs or albums at online retailers. Over 400 different musical attributes are considered when selecting the next song for a user. The goal is to provide the user the precise type of music that s/he wants to hear. Pandora has two subscription plans: a free service supported by ads and a fee-based service without ads. Pandora went public on June 15, 2011, and is now traded on the New York Stock Exchange. As of that date, Pandora had 800,000 songs from over 80,000 artists in its music library and 80 million users. A year later it reported it had 150 million users.

Impressive, isn't it? But, as the old saying goes, wait until you hear the rest of the story. Pandora was founded in 1999 by Tim Westergren, a musician and film composer. The company raised \$1 million just before the Internet bubble burst. At that time, Pandora's business model was to license its technology to other companies. The initial investment lasted about a year, which gave Westergren and his team enough time to build a prototype and have a product to show to potential customers. Then the money ran out. Pandora spent the next two and a half years essentially broke, earning only enough to keep the lights on. What was needed was an additional investment. Westergren pitched over 300 venture capitalists before one finally said yes. Pandora eventually shifted its business model to offer the Internet radio streaming service that it features today. Fast forward to the present. Today Pandora has over 250 million registered users.

So how did Pandora do it? How did it survive two and a half years with essentially no money? The answer: Its employees agreed to work for no pay. They agreed to a deferred compensation plan, meaning they would get paid if and when the company raised money. Some used credit cards to survive, some had working spouses or significant others, and others worked two

jobs. Reflecting on this period in Pandora's history, Westergren, who was the first person to go without pay, said the employees agreed to the plan for two reasons. First, they believed in Pandora and its idea. They also believed that Pandora would ultimately raise money and become a successful business. Second, the employees felt a sense of responsibility for one another. If one left, the burden would be greater on the others. As time went on, Westergren believes, those relationships deepened and the employees ultimately stuck it out for one another.

When the funding did come through each employee was given his/her entire back pay. This is a very unusual outcome in the funding world. Usually, new money isn't used to solve old problems, it's used to build for the future. Westergren credits his investors for the outcome. He's said that what the investors were investing in was the *tenacity* of the Pandora team.

Lesson Learned: This is what can be accomplished when an entire company demonstrates the tenacity necessary to build a successful entrepreneurial firm.

Questions for Critical Thinking

1. How do you think Westergren was able to persevere through 300 rejections before an investor finally said yes to Pandora's attempts to raise additional money?
2. If you had been a Pandora employee during the time the firm was essentially broke, would you have agreed to work for no money? Westergren provided two reasons that the employees present at the time were willing to work without pay. Would these reasons have been good enough for you? Explain your answer.
3. Think of a time in your life where you showed tenacity and the tenacity produced positive outcomes. Briefly relate the story and what you learned from the experience to your classmates.
4. What lesson or lessons can other entrepreneurial start-ups learn from Pandora's story?

Sources: W. Wei, "How Pandora Survived More Than 300 VC Rejections," *Business Insider*, July 14, 2010, available at www.businessinsider.com/pandora-vc-2010-7

Common Myths About Entrepreneurs

LEARNING OBJECTIVE

4. Explain the five common myths regarding entrepreneurship.

There are many misconceptions about who entrepreneurs are and what motivates them to launch firms to develop their ideas. Some misconceptions are because of the media covering atypical entrepreneurs, such as a couple of college students who obtain venture capital to fund a small business that they grow into a multimillion-dollar company. Such articles rarely state that these