

Creating Revenue

from

Downloadable Audio

*Perspectives on the Opportunities and
Challenges of Podcasting*

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Almost a decade ago, Audible introduced the first portable digital audio player and secure downloadable audio, giving listeners the freedom to take their listening schedules into their own hands. Today, podcasting is giving listeners even more flexibility in selecting what they want to hear and when they want to hear it.

The Perfect Storm

The podcasting phenomenon is rooted in the melding of trends and technologies, such as audio compression, broadband networking, RSS 2.0 syndication, standards-based desktop software and the proliferation of portable audio devices. Suddenly, the market is wide open as listening habits are transformed.

“Podcasting,” the name that has captured listener and press attention, is a portmanteau of Apple Computer Inc.’s iPod™ digital music player brand and “broadcasting.” Simply, podcasting is a method of publishing audio files to the Internet, allowing users to subscribe to a channel and receive new audio automatically.

One element of Podcasting that distinguishes it from other types of audio content delivery is the automated subscription model. This technique has enabled independent producers to create self-published, syndicated programs and has given terrestrial broadcast programs a new distribution channel.

Really Simple Syndication, or “RSS,” a technology invented by Netscape, is the key to the rapid early adoption of podcasting by listeners. RSS allows a producer to post an audio file on the Net and make it immediately available to anyone with an application known as a “podcatcher” that periodically queries the producer’s server to collect new programs, download them and allow playback in an audio application, such as iTunes or a portable digital audio player like Apple’s iPod. Because listeners can subscribe to the RSS file on the producer’s server, there is no need for outbound promotion of the new program to a subscriber. This dramatically transforms the relationship between listeners and producers, who have until now relied upon access to established channels, such as radio networks and cable operators, to reach an audience.

Is it real, or just a fad?

Audio on-demand, and by definition, podcasting, is a growing trend among listeners. Millions of portable audio devices that can play podcasts are now in the market.

- Forrester Research expects sustainable podcasting — listening to a podcast once a month or more — to reach 12.3 million households by 2010.
- Almost 43 million Apple iPods have been sold, with 14 million in FYQ4 2005.
- Apple has partnered with Motorola to place iPod technology in their ROKR cellular phone and Sony-Ericsson, Nokia and others are racing to add music and audio downloading to portable devices.
- In June 2005, Apple released its iTunes desktop software with podcasting support.
- Audible and XM Satellite Radio announced they will collaborate to build a device that can catch and play both satellite radio and downloadable audio files, further extending their choices in audio consumption.
- Market research firm IDC projects sales of devices will increase to 116.1 million units by 2008.

With the inclusion of podcast support in Apple Computer's iTunes software and with Microsoft soon to follow suit by adding similar capabilities to Windows Media Player, the rate of podcast consumption by the average listener should grow rapidly.

Early forays by the content community indicate that podcasting is gathering momentum. Podcast experiments have been launched by several public radio stations, the BBC, Canadian Broadcasting Corporation, Viacom's Infinity Radio division as well as ABC, NBC, MSNBC, CBS and others. Reuters and Infinity radio stations have announced wide-ranging podcasting plans. Independent self-publishers with programs about all manner of topics, from sports and sex to beer and technology, have exploded onto the scene in the last year. RSS feed-tracking company FeedBurner reports more than a hundred new podcasts are being introduced every day.

Opportunities and Challenges – Who is Podcasting?

The concept of 'podcasting' is surging through the media world. The opportunity exists for providers of general or specialized content — such as newspapers, magazines, television or radio — to become an early leader in their respective category or genre. And yet while hobbyists attempt to create compelling content and media companies try to determine how it can fit into their existing businesses, what is needed is the combination of compelling audio content delivered to listeners in an environment that brings maximum value to producers and listeners alike. One of the risks for media companies is that 'podcasting' becomes a black hole for unproductive technology and editorial spending in the way of CD-ROMs or early and overly elaborate web site operations.

With the right technology and talent on staff, a company can quickly publish audio content that extends its reporting and storytelling offerings, adding a new dimension to the relationship with the audience. For example, ZD Net columnist David Berlind has raised his profile and listenership by offering audio recordings of interviews he conducts for written articles, giving the reader a back-stage pass to hear the sources personally, judge their intent and enter into dialogue with the reporter and the story. The result is not just new listeners, but also far more extensive linking to Berlind's stories by other Web sites, blogs and podcasters.

Despite the recent experiments by some major media companies, it is the self-publishers and hobbyists who have thus far defined podcasting. Creating quality audio has become cheaper and easier thanks to the evolution of desktop and laptop computers and digital audio gear, while the cost of that equipment has dropped dramatically. Production functions that relied on \$20,000 worth of gear only a decade ago can be added to an editorial workstation for a few hundred dollars.

While anyone with a computer, a microphone and some bandwidth can participate in this revolution, the scale and reach required to support viable financial success must be accounted for when deciding if and how to podcast your intellectual property.

The cost of delivering tens or hundreds of thousands of audio files over the Internet in the MP3 format favored among podcasters can quickly spiral out of control. The marketing of content, processing subscription requests in a way that provides a publisher with demographic information to support advertising sales and/or the handling of transactions for paid subscriptions are complex, infrastructure-intensive undertakings, even in the most optimistic distributed computing environments imaginable.

Unlike delivery of text and image-based content, audio files delivered by subscription require enormous amounts of dedicated bandwidth distributed over time and distance in order to deliver acceptable service standards to your listening audience. An hour of audio in the MP3 format requires up to 14MB of storage capacity and network throughput. A half-hour program delivered each business day to a million listeners can easily exceed \$250,000 a month in bandwidth and IT management costs.

Management of this infrastructure requires sophisticated software, network optimization and data prioritizing, as well as IT talent. The cost of bandwidth will ramp much faster than revenue, especially if users download but don't actually play your programs, in which case you pay for delivery without getting the benefits of the investment.

Spread the Word / Create Value

For media companies, the development of incremental revenue streams based on downloading is an opportunity to acquire new audiences, listeners who have a predisposition toward the programming and prefer to consume audio on-demand rather than on a fixed broadcast schedule. Some of these customers may be part of the existing audience for the programming, but many more have never become listeners because they haven't had access to the programming in a way that fits their life-style.

Media companies have the advantage of being able to promote the availability of their programming via downloadable audio to existing audiences through existing channels. However, if the programming is simply being given away for free via podcasting the risk of cannibalizing current audiences while generating no revenue becomes a significant issue.

In order to take full advantage of 'podcasting' distribution, incremental investment in marketing and audience acquisition and in a technology system that allows the exchange of value is critical.

A natural partner to effectively address these issues is Audible.com, an existing destination for spoken-word audio content, which is leveraging its wide-ranging partnerships and access to the fast-growing market for portable digital audio devices, like the Apple iPod, Creative MuVo, Palm, and many more including the coming "smart/memory rich" mobile phone market.

Building a Business

Content producers can have several goals in mind in deciding whether to podcast their programs, including to extend and strengthen a content brand and grow the audience of an existing media property and/or to create an incremental revenue stream from this new medium. These goals need not be mutually exclusive.

If the goal is simply to spread your message as wide as possible while creating awareness of your brand, podcasting can be a sensible strategy. With this goal in mind, widespread, unmeasured distribution may not be a concern. In such a case, MP3 audio files are relatively easy to distribute and play on most of the hardware and operating systems in the market and support the broad distribution of ideas. If however, your goal is to create revenue directly from your podcast content, your path may be less than clear.

Podcasting in its current nascent form has no business model directly associated with it unless one considers the free and unfettered distribution of intellectual property a business model. Programs are distributed in unsecured mp3 and can be shared freely. There is no accountability and no auditing on which advertising and sponsorship revenues can be built and no method of charging listeners on a per-download or subscription basis.

Once you have defined your business goals, the decision of exactly how to podcast becomes clear.

TWO EMERGING BUSINESS MODELS

1. Ad-Supported Podcasting

The advertising model is attractive because it promises a growing revenue stream as the number of listeners grows. Programs are also malleable enough that if ad inventories are running short, another promotional slot can be added to the audio file to raise revenue. And as a show's popularity increases, so does the fee for a 15- or 30-second ad.

The podcaster's ability to share free files increases the reach of the content and thus, the advertiser's message. However, the advertising industry has matured significantly in the 10 years since online ads first supported for-free Internet content. On the Web, where the buyer has grown accustomed to paying only for ads that result in customer clicks, the unmetered delivery of audio files will not satisfy advertisers requirement for full accountability and measured usage.

Built-in audience measurement features in the audio file format, listener demographic information, proven spending habits and the ability to demonstrate that the audience is listening are the keys to the creation of an ad-supported podcasting model and earning a premium in the marketplace. Without these elements, podcasters are going to have a very difficult time winning and keeping advertiser revenue. There are early examples of podcasters securing ad deals, as there were among Web sites in the early days of the commercial Internet. As we learned back then, enthusiasm about the medium will give way to pragmatic concerns about a return on advertising investment.

2. E-commerce Supported Podcasting

Paid subscriptions is an established business model across wide sectors of the publishing and broadcast industries – newspapers, magazines, cable television, pay television, satellite radio, books, audio books, and more. Podcasts can be delivered in an environment that allows for paid subscriptions as a means to generate revenue. Audible pioneered the model on the Web nearly ten years ago and have now extended it to include the delivery of periodic content via podcasting. If your plan is to sell your podcasts on a subscription and/or one-off basis, you will require a secure and managed digital audio distribution system and an e-commerce application that is user-friendly to both you and your intended listeners.

Audible® Wordcast

Today Audible is extending its decade of experience in the secure and managed delivery of downloaded and streamed premium spoken word audio to podcast audio. Audible has begun offering its time-tested and award-winning system to producers — from the largest media companies to the individual creative talent working from a home studio or laptop computer — to build a profitable audio distribution business. With AudibleWordcast, producers can reach listeners by fitting into their personal listening schedules through wired and wireless networks, including on the iPod and more than 191 AudibleReady® MP3 players, by offering free, ad-supported and/or subscription programming - or various hybrids of these approaches. The Audible platform is the industry-leading technology and service that delivers maximum value to content creators and the state-of-the art listening experience to listeners.

About Audible

Audible is the original visionary and pioneer in the world of secure, downloadable premium spoken audio content. Founded in 1995, the Company has been selling quality content to a growing base of engaged listeners since 1997.

During that time, we created the first digital audio player (now in the Smithsonian), the first secure file format for spoken audio, the first environment for the sale of downloadable digital audio and have developed a portfolio of proprietary patented tools and technologies to help content producers create sustainable businesses while providing consumers with the best listening experience available.

Audible.com is the Internet's leading premium spoken audio source. Our catalog has more than 90,000 hours of audio programs from more than 350 content partners that include leading audiobook publishers, radio and television broadcasters, entertainers, magazine and newspaper publishers, and business information providers. Audible.com is Amazon.com's and the Apple iTunes Music Store's preeminent provider of spoken audio products. Additionally, the Company is strategically aligned with Random House, Inc. in the first-ever imprint to produce spoken-word content specifically suited for digital distribution, Random House Audible. Among the Company's key business relationships are Apple Corp., Creative Labs, Hewlett-Packard Company, Microsoft Corporation, Palm, Inc., XM Satellite Radio Inc., PhatNoise Inc., Rio Audio, Sony Electronics, Texas Instruments Inc., and VoiceAge Corporation.

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