



Podcasting: Can This New Medium Make Money?

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Conservative commentator Rush Limbaugh and his nemesis, Al Franken, are podcasting. As are ESPN, former MTV video jockey Adam Curry and thousands of others. Podcasting, a way to broadcast audio over the Internet, has become the latest web movement to get everyone's attention.

Including Apple Computer CEO Steve Jobs, who recently called it "the next generation of radio." On June 28, Apple announced that it had integrated podcasts into the latest version of iTunes software so that users can manage and receive these new kinds of broadcasts. It's a logical move. After all, the podcast moniker stuck partially because of the popularity of the iPod, although most of these broadcasts are produced in a format that can be played on music players using the MPEG-1 Audio Layer-3, or MP3, audio compression format. Podcasting can also apply to video broadcasts, but audio dominates for now.



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The actual content on podcasts is a mix of amateur broadcasters -- waxing poetic about everything from global warming to venture capital to ice hockey -- and media giants that are repurposing existing shows like "Nightline." Podcasting is different from traditional media broadcasting because it allows listeners to "time shift," or listen to programs at their leisure, unlike radio, which operates on a schedule. Podcasting is also different from traditional media in that the means of production and distribution are readily available to anyone. The technology required to produce podcast content is relatively simple and, unlike the scarce radio broadcast spectrum, the distribution channel -- the Internet -- is available to all.

The market for podcasts is growing quickly. A survey by the Pew Internet & American Life Project found that more than six million people out of the 22 million who own iPods or MP3 players have listened to a podcast. Such activity begs the question: Is podcasting here to stay? Experts at Wharton and analysts who follow the market answer with a resounding yes. As to whether a business model emerges for these broadcasts, observers suggest that advertising and subscription revenues may eventually come into play. Apple, for example, could begin serving as a guide to podcasts and sell a few more iPods in the process. "A lot of the attention has been overdone, but podcasting is not going away," says Wharton marketing professor [Peter Fader](#). "It will continue to grow and resources will be thrown at it. Some will do podcasting well and be rewarded for it."

Wharton legal studies and business ethics professor [Kevin Werbach](#) agrees that podcasting is much more than a fad, but its ultimate effect on listening habits remains to be seen. "Podcasting is a nice way to package up spoken audio content the way MP3s have already packaged up music," says Werbach. "For people listening to the radio or music on the go, it will increase the amount of non-music content they hear, but it won't dramatically change listening patterns."

The Chatty Cousin of Blogging

Podcasting may not be a revolution by itself. But experts at Wharton suggest that podcasting is one more step toward the disintermediation of media -- with amateurs usurping the audience of media conglomerates. According to Kendall Whitehouse, senior director of information technology, podcasting

in many ways is the audio version of weblogs, or blogs -- online diaries that allow any amateur to report stories and give his or her opinion to a wide audience. "There was a lot of interest in blogging and now it has moved on to podcasting," says Whitehouse. Next on the horizon "is finding better ways to distribute video."

Add it up and broadcasting is quickly turning into "narrowcasting," or producing audio and video to reach niches, such as 5,000 surfers in southern California. "Media programming will be originated by an infinitely larger number of creators on the edge of the Internet," says Phil Leigh, senior analyst at Inside Digital Media, a consulting firm in Tampa, Fla.

While Whitehouse doesn't doubt the long term disintermediation trend, he suggests that some prognostications about podcasting are out of hand. "A lot of people are excited about this... [but] it's a classic case of predictions that are extreme on both sides," he says. "Some say old media is dead and others say podcasting is just a fad. I don't think either one is accurate. The two will coexist for a long time."

Regardless of how predictions pan out, the way media is consumed is rapidly changing. Podcasting for audio does what Tivo does for watching television: Entertainment is consumed on your schedule. Leigh predicts that "media consumption will be routinely time shifted." Indeed, Mary Madden, a research specialist at the Pew Internet & American Life Project, says time shifting is the most important aspect of podcasting, but adds that traditional broadcasters may be up to the challenge. Podcasting "has gained momentum quickly because the average American can create a show easily and everyone wants to be a celebrity," says Madden. But podcasting is becoming "increasingly mainstream as big media players jump in too. With the low barriers to entry, some stations can make podcasting an intern task."

According to Evan Williams, a founder of Blogger.com, podcasting hits many broad themes. Williams is now CEO of Odeo, a startup based in San Francisco that hopes to make creating, finding, organizing and listening to podcasts easier. The service is currently being tested and is scheduled to launch before September. "Podcasting taps into several of the biggest trends affecting many types of media: narrowcasting, personal publishing, and time shifting," says Williams. "Apply these ideas to audio, which has really fallen behind other mediums, and it's pretty compelling."

Is There a Business Here?

Like blogging, podcasting does not offer an answer to the question of whether money can be made from the Internet's latest content distribution technique. Analysts divide the business model discussion into two halves: Apple and everyone else.

For Apple, podcasts now provide more content to populate the company's iTunes and iPod products, says Fader. However, longer term it's possible that podcasting will require some kind of paid subscription. The catch is that Apple hasn't focused on subscriptions, choosing to sell songs through iTunes and generating hardware sales as consumers gobble up the iPod. "Apple could find itself in a tough spot," Fader suggests, adding that podcasting could push along the subscription model for music and audio distribution, something that Apple hasn't trumpeted.

To be sure, Apple mitigated future risks by tightly integrating podcasts into iTunes in late June, but Werbach notes that you don't necessarily need an iPod to get a podcast. Indeed, analysts expect Microsoft and RealNetworks to offer guides to podcasting in the near future. "Podcasting is a boon for Apple if it sells more iPods, but it's also a threat to Apple's control of the platform," says Werbach. "If you use your portable music device mostly to hear non-commercial or retransmitted podcasts, what do you need Apple for?"

Tim Bajarin, president of Creative Strategies, a Campbell, Calif., consulting firm, who has been

analyzing the computer and consumer electronic markets since 1981, says as long as Apple keeps up interest in the iPod, any threat from podcasting is likely to be minimal. "I don't see the downside for Apple," says Bajarin. "By integrating podcasts into iTunes, Apple draws more people to its world to buy an iPod."

The Other Half

Unless you are Apple, making money off podcasting may be more difficult. "I doubt there are many big businesses to build around it, even though it will be widely used," says Werbach. "There are opportunities for aggregation of podcasts and for selling tools to make podcasting easier, but neither of those will be massive money-makers."

According to Fader, a few successful podcasters will be able to charge subscription fees for their shows. Companies that compile podcasts, including Apple, could aggregate podcasts in group subscriptions. "There will be few that will become commercial, but I could see some people subscribing to Joe's news for downloads or to an aggregation service," says Fader.

Whitehouse, however, notes that few media giants -- with the exception of the *Wall Street Journal* and *Consumer Reports* -- have been able to sell enough subscriptions to their web-based content to be anywhere close to profitable. "Finding new business models for new content is an ongoing challenge," says Whitehouse, adding that some possibilities do exist: For example, industry experts could use podcasting as a marketing tool to attract consulting clients similar to the way blogs lead to exposure for other businesses.

According to Bajarin, there is no reason that podcasts can't generate revenue. If a podcast focused on knitting tips, it's possible that 1,000 knitters would subscribe. He also isn't ready to count out advertising. If a podcaster rounded up 5,000 listeners interested in scuba diving and equipment, why wouldn't a scuba company advertise to reach that audience? "If there's quality and the topics are specific, you could monetize this," says Bajarin.

John Furrier, founder of PodTech.net, a site that hosts interviews with technology and business executives, has found a way to make his site profitable. He sells sponsorships for his interviews with the likes of John Markoff, a *New York Times* writer, and Mark Kvamme, a venture capitalist with Sequoia Capital. "I talk to anyone I think is interesting," says Furrier. "Our podcasts are designed to create more discussion and help people get their voices published."

Furrier also produces podcasts with his main sponsor, Barracuda Networks, which makes network appliances to prevent spam and spyware. In these sponsored podcasts, Furrier interviewed Barracuda CEO Dean Drako and CTO Zach Levow on spam, spyware and entrepreneurship. Furrier contends that podcasting allows Barracuda to distribute credible information, get its name in the blogs and generate referrals among its target market -- information technology managers. "It's not the traditional ad model," says Furrier. "I call it 'transparent advertising' because it's the raw, unedited message about what the company is doing with a candid interview. My show is an early indicator of how the technology is evolving."

Other companies, like Odeo, are hoping to build businesses around aggregating podcasts and making them easy to find by category. While it's not clear how Odeo will make money, founder Williams notes many models are possible. "The business model for podcasting will be similar to other forms of media -- in some cases, advertising, in others, charging for content, or some combination," he says. "And in many cases, people will do it for reasons other than direct monetization, just like much of the web. It will depend on the publisher and the content. I wouldn't venture a guess right now whether [advertising or charging for content] will be more prominent or profitable."

What's Next?

While podcasting is developing at a breakneck pace, a few issues bear watching. The first will be the competitive response to podcasting. Microsoft and RealNetworks are likely to follow Apple's lead, which will create new portals to get podcasts, says Leigh. As for broadcast radio, which is under siege from the iPod, podcasting and satellite radio, Leigh suggests that the industry will have to respond somehow. One way, says Leigh, is to embrace podcasting and make programming available on the web without time constraints. Music labels are also at risk. Although most podcasts are talk, music is likely to follow. If music labels don't license their content, they lose a viable distribution channel and ultimately get usurped by sites like Garageband.com. As for satellite radio, Sirius has already embraced the podcasting movement, giving Adam Curry a channel modeled after his Podshow.com.

Another looming issue revolves around digital rights of music. For instance, podcasts such as Limbaugh's don't include music even if used as a lead-in to the show. That's because he doesn't have the rights to distribute the music. It's unclear how many podcasts distribute music without permission.

These questions aren't likely to derail podcasting but may become more pressing as podcasts proliferate. Copyright issues are "tricky," but they can be worked out, says Werbach. "After all, we managed to largely resolve the copyright issues around radio and webcasting."

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