

Podcast Industry

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EXECUTIVE SUMMARY

A podcast is a digital recording of a radio broadcast or similar program that is available on the Internet to download to a personal audio player. Podcasting began in the summer 2004. Currently, seven million Americans download and listen to podcasts weekly. By 2010 the number of weekly podcast listeners is projected to grow to about 20 million, an increase of 285%.

Sixteen percent of the population ages 12 and above has either listened to or watched a podcast in 2007. Among them, the largest group is 35-44 year-olds (22%), followed by 25-34 year olds (21%), 12-17 year olds (18%) and 45-54 year olds (16%). The percentage of Americans ages 12 and above who are aware of podcasting has grown from 22% in 2006 to 37% in 2007.

The main source of revenue in podcasting is advertising. Some podcasts include 15 or 30 second advertisements. However, only 5% of podcasts are produced with the goal of earning revenue from ads. Among other sources of income for podcasts are subscription fees and sales of merchandise with logos of the shows. Other podcast creators create internal podcasts for corporations as they wait for podcasting to become more lucrative.

A major player in the podcast industry is Wizzard Software. The company has 4 divisions: the Speech Technology and Services Group, Speech Products Group – Healthcare, Speech Services Group – Healthcare, and their podcasting division Wizzard Media. Wizzard Media was born of Wizzard Software's desire to apply speech recognition technology to podcasting. They entered this market by purchasing podcasting leaders Switchpod and Liberated Syndication, as well as podcast advertising visionary Blast Podcast. Wizzard offers advertising opportunities by inserting an ad up to 15 seconds in length into the podcast. They charge between 3 and 5 cents per downloaded ad.

INTRODUCTION

Podcasting, Defined

Nominated as the *Word of the Year* for 2005 by editors of the New Oxford American Dictionary, "podcast" is defined as "a digital recording of a radio broadcast or similar program, made available on the Internet for downloading to a personal audio player."^{16, 29} It is important not to confuse podcasting with the downloading of MP3 files or songs. Podcasts can be subscribed to and are series of program episodes.³¹

Podcasting began in the summer 2004. In six months the number of podcast programs increased from about three dozen to above 3,500. The first podcasts were mostly audio files and radio shows. Now podcasts are also delivered in the form of video, images and, text.²⁰

RELEVANT MACRO-ENVIRONMENTAL ELEMENTS IMPACTING THE SECTOR

Legal Issues

There are three legal issues that almost any podcast producer needs to deal with: copyright, trademark and right of publicity. Podcasters have to be careful not to infringe on copyrights when using third-party content or adapting content for use when publishing their podcasts.¹² Many legal and financial issues have been at the root cause of the record labels resistance to license music to podcasts. There is a disagreement between record companies and radio stations as to whether such music should be licensed as a download or a broadcast. Furthermore, there is no clear method of compensation to labels and artists. Although most podcasts, like broadcasts and Internet radio, are free, there are still major differences among them. Because of this the performance rights' royalties that are collected from the broadcasters don't apply to podcasts. In addition, because many podcasts are created by hobbyists that give their content away, there is no clear source of the royalties.²⁴

When it comes to trademarks there is a history of problems in podcasting. There have been many instances where use of "pod" in company or product names has created problems.¹² In 2006, Apple sent a Cease and Desist letter to *Podcast Ready* when they launched software titled *MyPodder* for managing and updating podcasts on portable players. Until now courts have denied Apple trademark rights to the "pod" related words.^{7,9,25}

The third biggest legal issue concerning podcasts is related to publicity rights that oversee how voices and images are used for commercial purposes. When including images, interviews, or videos of people in podcasts, these rights have to be considered.¹²

Trends

To listen to a podcast, users only need to download podcasting software onto their Mac or PC so they can listen to it on their computer,¹⁸ despite the impression that one needs an MP3 player or an iPod.³⁰ There is an increasing trend to listen to podcasts using MP3 players. Nevertheless, the majority of users feel more comfortable listening to podcasts on computers. The perception that downloading podcasts to MP3 players is complicated or time-consuming is prevailing.³ [exhibit 1] Given these facts, it is important to know how many people own MP3 players, as well as how many have internet access.

Nielsen Net ratings reports that about 75% of Americans have access to the internet. However, those numbers vary according to age. Eighty percent of men and 82% of females ages 35 to 54 have internet access, as opposed to 63% for both sexes over the age of 55.²⁶ The United States leads the world in number of Internet users, followed by China, Japan, India, and Germany.¹¹ Twenty percent of Americans over the age of 12 now own an MP3 player, and 6% own two. Speculation is that much of this 6% owns an iPod in addition to another MP3 player. In 2005,

only 15% of the population owned an MP3 player. Fifty-four percent of teenagers own such a device, as do 30% of 18-34 year olds.²⁸

In the U.S., shipments of stand-alone MP3 players increased from 32 million units in 2005 to 43 million units in 2006, but the projection beyond 2006 is flat. In the future, podcasts may instead be listened to on music-enabled cell phones. U.S. shipments of music-enabled cell phones will surpass shipments of stand-alone MP3 players within 18-24 months and, in 2009, will be more than twice that of MP3 players. The same revolution is occurring in Asia and Europe.¹⁴

RELEVANT INDUSTRY ELEMENTS IMPACTING THE SECTOR

Industry Revenue

Advertising - The Main Podcasting Revenue Source

The major source of revenue in podcasting is advertising. Some podcasts feature 15 or 30 second advertisements, however, only 5% of podcasts are produced to gain revenue from ads as their business goal. The rest of podcasts are “indie” content, hobbyist, or company productions for the purpose of self-promotion or training.^{15, 27} In 2006, spending on podcast advertising (also called pod-vertising) increased to \$80 million.^{5, 15} This spending is projected to grow to \$400 million by 2011.^{6, 40, 10, 17} In comparison, PQ Media reports that blog-vertising will grow to \$300 million by 2010.^{6, 40}

Other Sources of Revenue for Podcast Creators

Although not many, there are podcasters who charge a subscription fee. For example, Dallas-based Megachurch is charging \$14.95 a month for its spiritual teachings audio podcast that it distributes through *Audible Inc.*, (www.Audible.com) a leading provider of spoken entertainment and information on the Internet.^{2, 27} It is too soon to tell how far fee-based podcasts can reach beyond the current handful of popular personalities who have valued content and a loyal audience.²⁷

Some other podcast creators increase revenues by selling merchandise with logos of their shows. One such podcast is *Keith and the Girl*. In 2006, its creators sold T-shirts, key chains, and other merchandise with the show’s name on them generating revenue of \$80,000. This podcast has a daily listener base of 35,000. Other podcast creators work for companies and create internal corporate podcasts while waiting for podcast advertising to become more popular.⁵

Industry Size

Podcasting industry size can be looked at from two perspectives: number of downloads and number of users. There are very few podcasts that generate a significant download volume of 50,000.^{6, 40} However, seven million Americans download and listen to podcasts weekly. Additionally, 21.4 million Americans listen to at least 4 podcasts monthly. The number of people who have ever listened to a podcast is much higher (see podcast consumption metrics). By 2010, the number of weekly podcast listeners is projected to grow to about 20 million. [exhibit 2] This growth can be explained by the increased marketing, branding, and promotion of podcasts by terrestrial radio stations.^{3, 19}

Podcast Consumers and Their Characteristics

Podcast Consumption Metrics

The percentage of Americans ages 12 and above who are aware of podcasting has grown from 22% in year 2006 to 37% in 2007. [exhibit 3] However, the percentage of Americans who have listened to a podcasting show, although growing, is much lower. Thirteen percent of people have ever listened to a podcasting show in 2007, up from 11% in 2006.^{31, 20} [exhibit 4] The percentage of people who have ever watched a video podcast is slightly below that of listening to an audio podcast: 10% and 11% in 2006 and 2007, respectively. [exhibit 5] When combined, 16% of the population ages 12 and above has either listened to or watched a podcast in 2007. [exhibit 6]^{31, 20}

The Podcast Consumer Demographics

The largest group of podcast listeners are 35-44 years old (22%), closely followed by people 25-34 years old (21%), and then by 12-17 (18%) and 45-54 year olds (16%). [exhibit 8] The break up among sexes is fairly even--men 51% and women 49%. [exhibit 8] It was also determined that podcast listeners have a higher education level and are more likely to live in a higher income households than non-listeners. [exhibits 9 and 10]³¹

Podcaster Media Consumption

Podcast consumers spend more time on the Internet per week in comparison to non-podcasters, 13 vs. 8 hours, respectively. In addition, these podcasters also use social network sites; 26% have a profile on MySpace and 16% have a profile on one of the other social networking sites. Many of these podcast consumers also read blogs almost every day (16%) or a few times a week (14%). Fifteen percent contribute to, or post on, blogs on a regular basis.³¹

It is interesting to note that podcast listeners became more interested in the terrestrial radio broadcasts once they listened to the podcasts produced by those stations. Specifically, 56% of podcast listeners believe that listening to podcasts affects their radio listening habits.¹⁷

Podcast Segmentation

There are podcasts on just about any topic. The most popular are technical news/commentary, national news, local news/public affairs, and national sports. [exhibit 7] Wizzard Media, one of the largest podcast distributors, reports that art and education related podcasts have the biggest market share followed by technology, music, and comedy on their site.⁴ [exhibit 11]

MOTHER FIRM: WIZZARD SOFTWARE

Overview

Wizzard software was founded in 1995. Their business includes four different divisions: the Speech Technology and Services Group, Speech Products Group – Healthcare, Speech Services Group – Healthcare, and Wizzard Media.¹

The Speech Technology and Services Group sells and licenses speech programming tools, related speech products and services, and distributable speech engines in over 13 languages worldwide. Wizzard receives the majority of its sales leads through arrangements with IBM and

AT&T, as well as through their own Internet marketing efforts through Google, Yahoo and other major Internet search engines.¹

Included in the Speech Products Group – Healthcare is MedivoxRx Technologies, a division of Wizzard acquired in 2004. MedivoxRx makes medicine bottles equipped with a microprocessor that allows pharmacists to record instructions to patients, making medications more accessible to people who are elderly, visually and cognitively impaired, illiterate, or speak a different language.^{36, 13}

The Speech Services Group – Healthcare includes recent acquisitions such as home healthcare provider Interim Healthcare and Professional Nursing Personnel Pool, a health care staffing agency.³⁶ Wizzard's goal in this industry is to use speech recognition technology to cut down on the time spent by doctors and nurses doing paperwork. According to Wizzard, 25 to 50% of a medical employee's time is spent doing paperwork.¹

Wizzard Media

Wizzard Media was born of Wizzard Software's interest to apply speech recognition technology to podcasting. Using the WizzScribe speaker independent speech recognition product, they can transcribe podcasts and use the resulting text to better index them with search engines.¹

Wizzard's foray into the industry began in 2006 with the acquisition of podcast hosting service Switchpod.com for \$200,000 in stock.²³ Founded in 2005 by two teenagers, Switchpod had quickly attracted podcasters because of its podcaster friendly reputation. Many experts considered it to be one of the top 5 podcast hosting companies, which gave Wizzard an excellent foothold in the industry. Using Wizzard technology, Switchpod began work on the AdSelect system, which would have the ability to search through the actual text of all podcasts on the Switchpod Network, allowing advertisers to find the most relevant podcasts to promote their product or service.³⁹

Shortly after acquiring Switchpod, Wizzard purchased Blast Podcast. In addition to hosting podcasts, Blast Podcast was well known for its advertising technology. These technologies include the BP Ad Engine, which matches publisher content against data provided by advertisers for their specific market segments; BlastPlayer, an ad-supported video and audio podcast player that can be easily added to any website or blog using html; and BlastClicks, an audio coupon and contest enhancement that expands audio podcast advertising to include CPC (cost per clicks) opportunities in addition to the CPM (cost per thousand impressions) model. Wizzard hopes to use its expertise in speech technology to improve these already lucrative features.³⁸

Wizzard's portfolio grew in 2007 with the addition of webmayhem, the parent company of podcast distributor Liberated Syndication (Libsyn.com).³⁶ Libsyn was considered to be the de facto leader in the podcasting distribution business. Adding them to Switchpod and Blast Podcast not only created the largest distribution network, but solidified Wizzard's leadership position in the online media market.³³ Wizzard had 42 million download requests in October 2006, which increased to 70 million in March of 2007 and 85 million in May.^{34, 32}

Wizzard offers advertising opportunities by inserting an ad up to 15 seconds in length into the podcast. They charge between 3 and 5 cents per downloaded ad.¹ In the future, Wizzard hopes to allow sponsorships of a podcast, which could include opening and closing billboards on video podcasts, commercials inserted in the podcasts, exclusive rights to a category, web advertising, and e-mail campaigns. According to the Wizzard Media website, “in its ultimate form, you can actually work with the talented podcast creators to ‘live-read’ the advertising or even have them create an entire episode around your product or service.”³⁹

In June 2007 Wizzard Media was added to the iTunes Featured Providers list as part of Wizzard’s strategy to increase popularity of the podcasts it distributes.³⁵

Financials

Wizzard Software currently has a market cap of over \$104 million.³⁷ At the end of the first quarter of 2007, the company had \$20,481,130 in assets, although \$17,938,961 of this was Goodwill.⁸ From viewing select financial items from 2001 to 2005, Wizzard has consistently increased sales and achieved an overall increase in earnings per share. Sales grew from \$88,000 in 2001 to \$1.694 million in 2005. Likewise, earnings per share, which was negative 9 cents per share in 2001, increased to negative 2 cents per share in 2005. However, the company has yet to turn a profit, including a net loss of about \$5.9 million in 2005.²² [Exhibit 12] In July 2007, Wizzard signed a deal to acquire \$7.5 million of equity financing.³²

Stock prices have fluctuated mildly, ranging between \$1.40 and \$3.15 during 2005 and 2006. Prices may have been affected by an 11 for 10 stock split in October of 2006.¹ As of June 27, 2007, Wizzard’s stock price was \$2.50 per share.³⁷

EXHIBITS

Exhibit 1

© Bridge Ratings

All Podcast Users % Listen on Portable Device

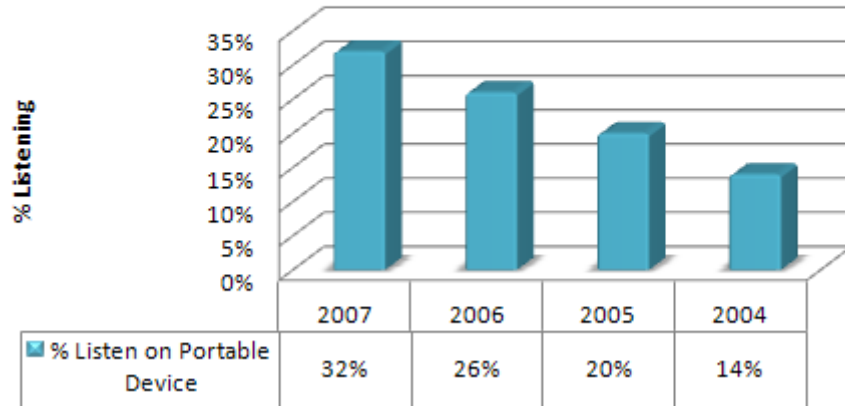


Exhibit 2

© Bridge Ratings

Podcast Listeners Wkly + Occasional

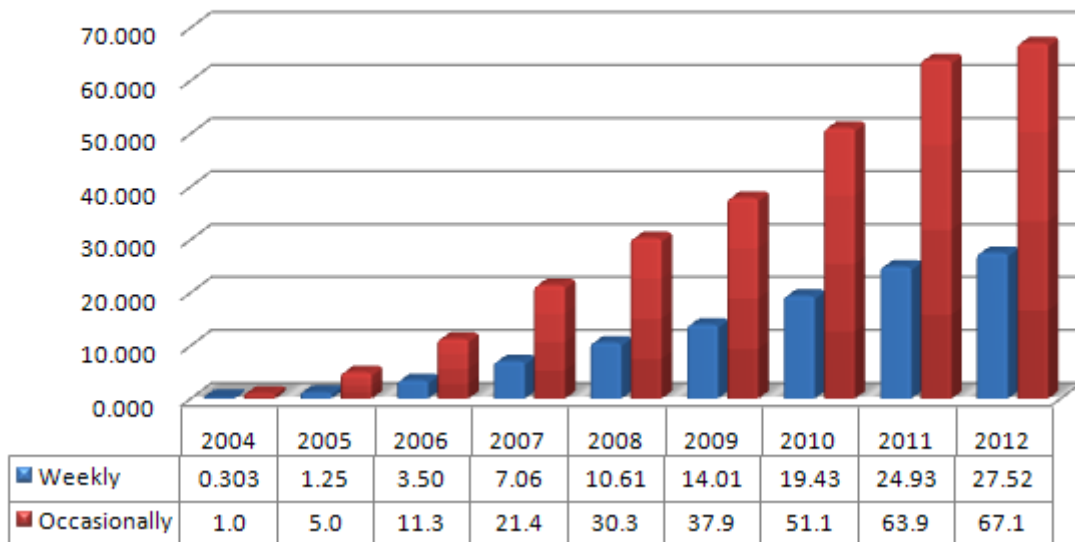
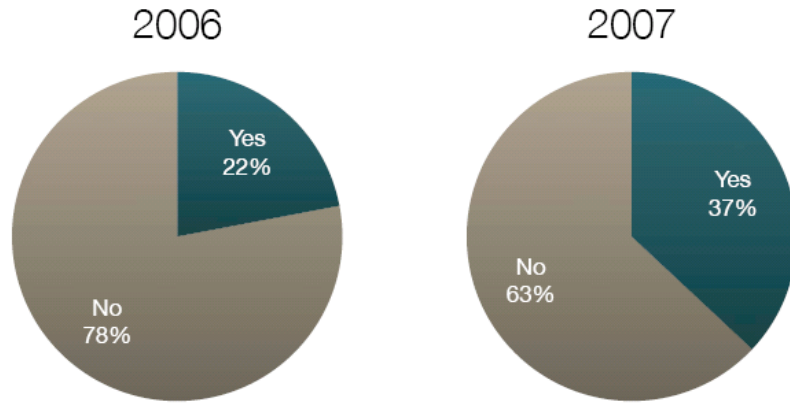


Exhibit 3

Almost Two in Five Have Heard of Podcasting

% Who Have Ever Heard of Podcasting



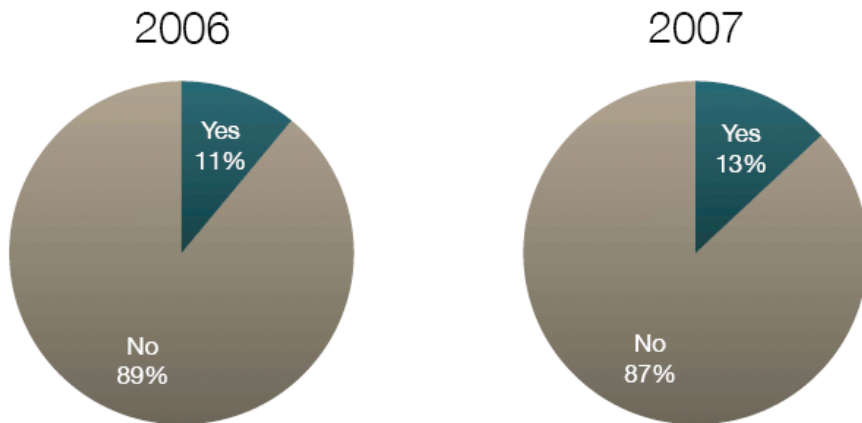
Base: Total Population 12+



Exhibit 4

Audio Podcast Listening Shows Slight Growth

% Who Have Listened to a Podcast as Defined



Base: Total Population 12+



Exhibit 5

Video Podcast Growth Stalls

% Who Have Ever Watched a Video Podcast

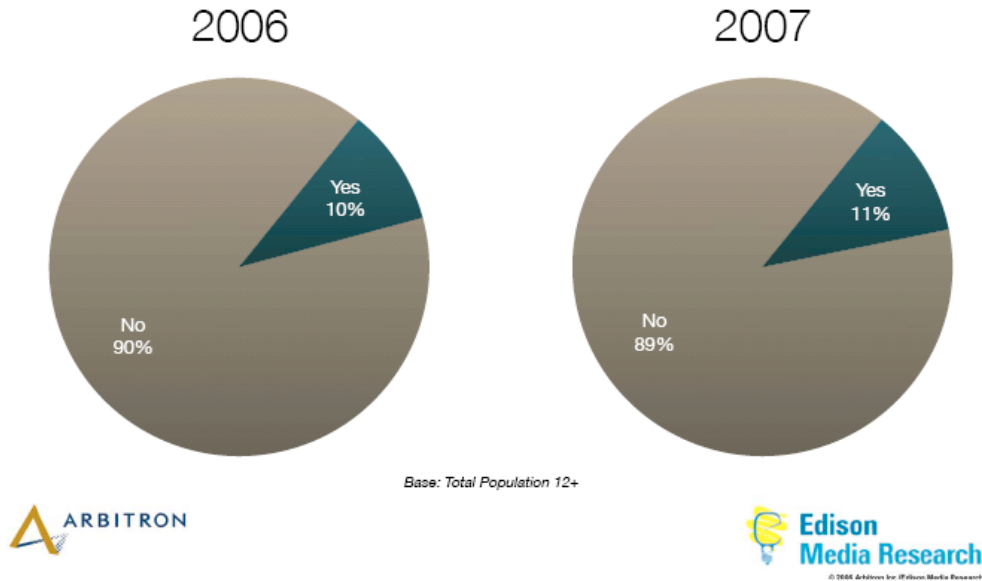


Exhibit 6

Over 15% Have Listened to or Watched a Podcast

% Who Have Ever Listened/Watched an Audio/Video Podcast

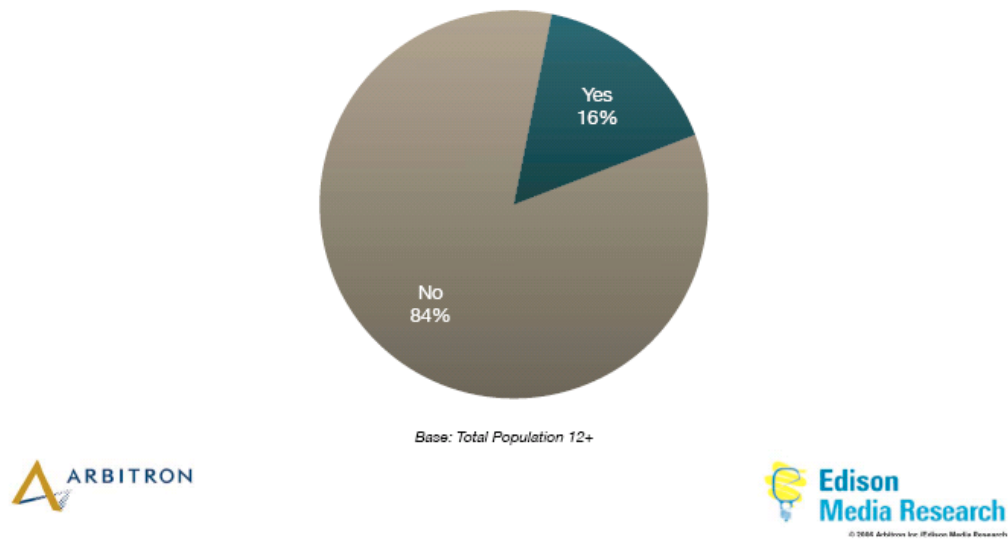
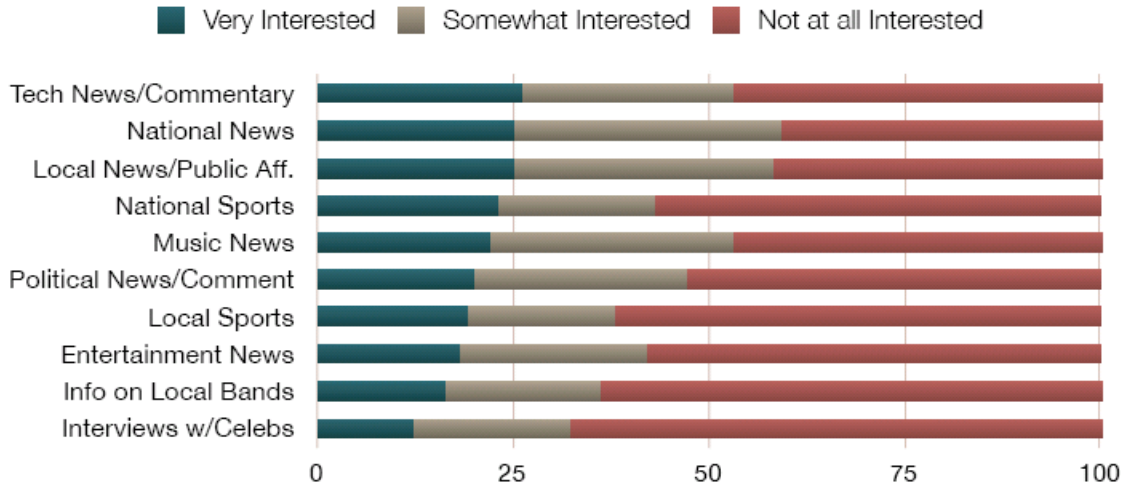


Exhibit 7

Podcast Consumers Seek National/Local News

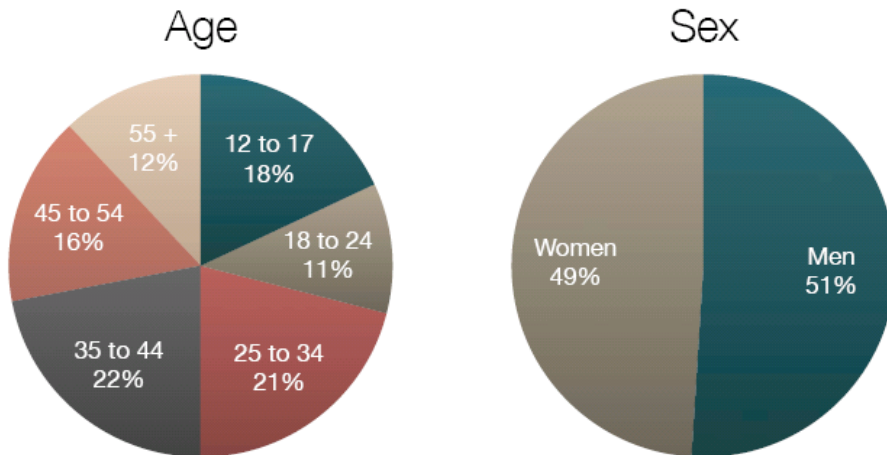


Base: Have Ever Listened to/Watched an Audio/Video Podcast



Exhibit 8

Demographics of the Podcast Consumer

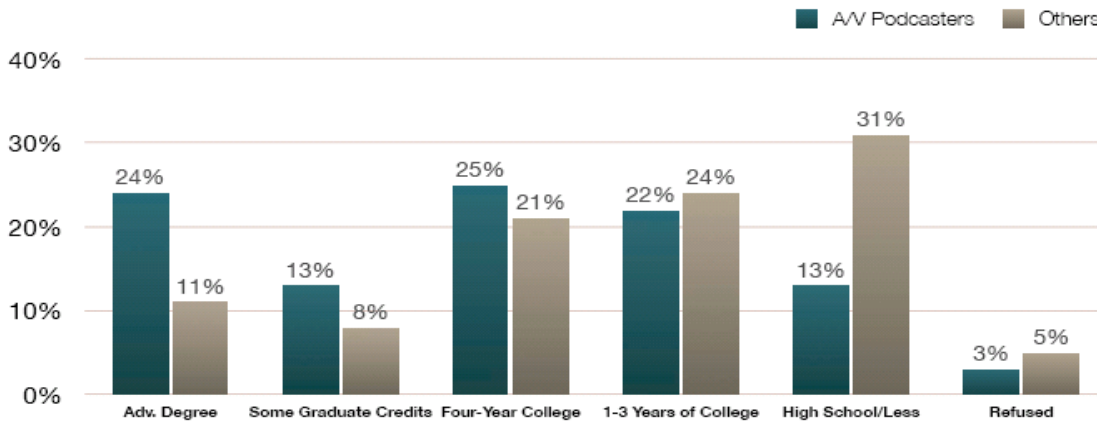


Base: Have Ever Listened to/Watched an Audio/Video Podcast



Exhibit 9

Podcasters are Well-Educated



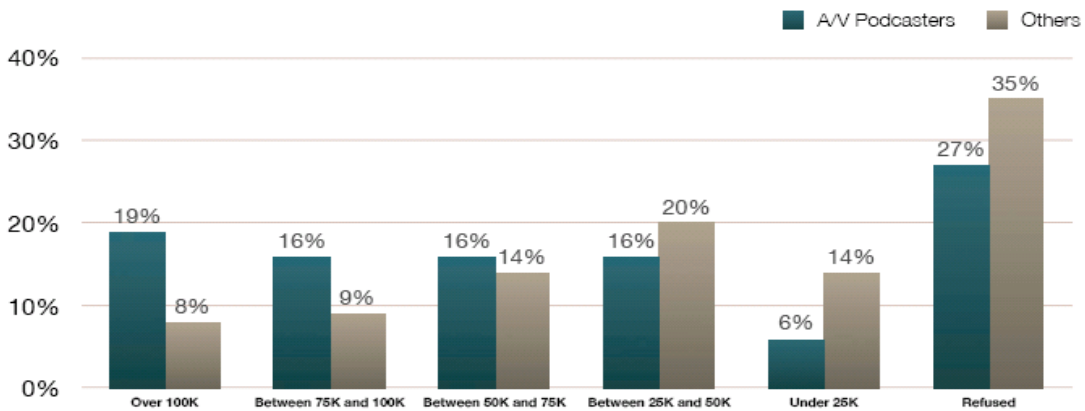
Base: Total Population 12+



Exhibit 10

Podcasters More Likely to Live in Higher Income Households

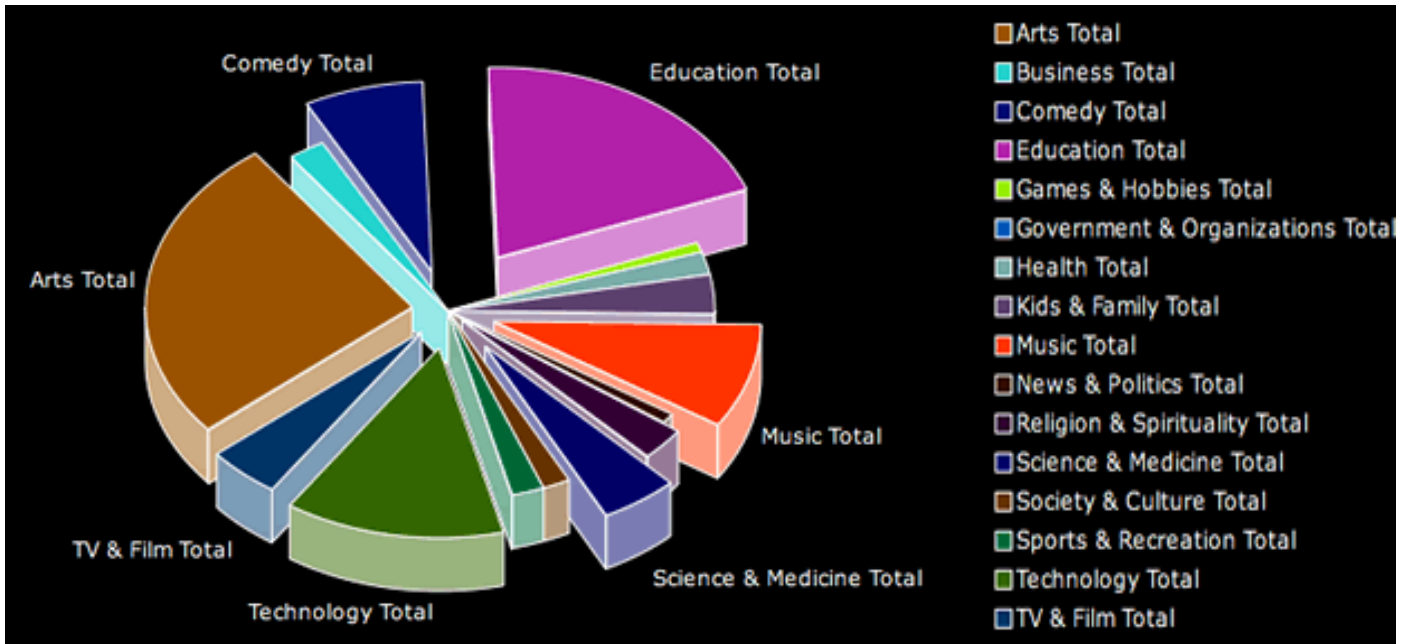
Annual Reported Household Income



Base: Total Population 12+



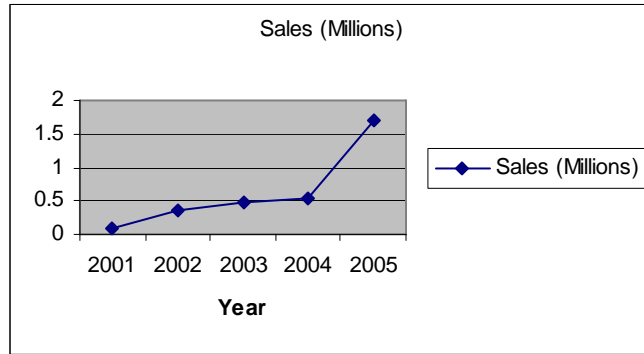
Exhibit 11



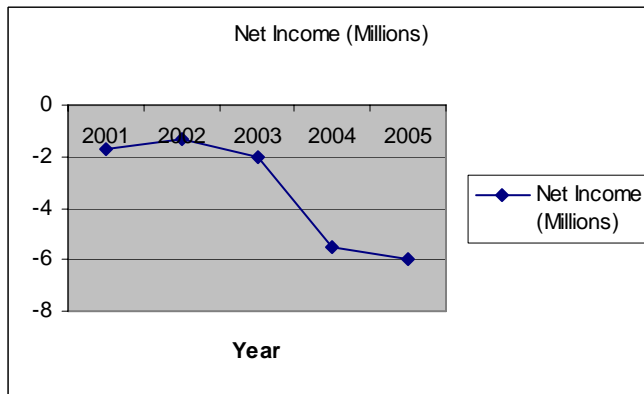
Source: Wizzard Media

Exhibit 12

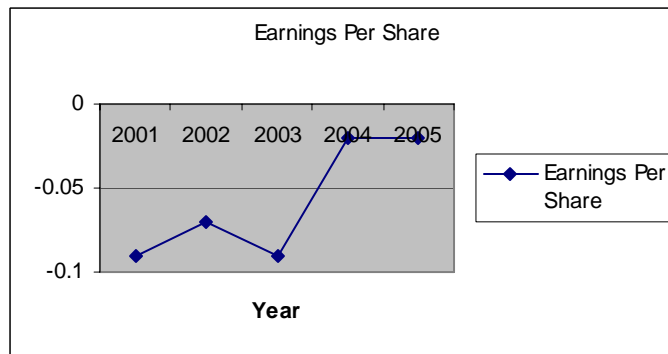
	2001	2002	2003	2004	2005
Sales (Millions)	0.088	0.346	0.47	0.525	1.694



	2001	2002	2003	2004	2005
Net Income (Millions)	-1.671	-1.359	-2.044	-5.487	-5.959



	2001	2002	2003	2004	2005
Earnings Per Share	-0.09	-0.07	-0.09	-0.02	-0.02



	2007
Market Cap. (Millions)	104.04

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