



How Spotify is shaping the next era of podcasting



SONNY ROSS FOR QUARTZ

FROM OUR FIELD GUIDE

The podcast business

Podcasting has grown from a quirky, peer-to-peer medium, reminiscent of the early internet, into the future of digital audio. >



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6 hours ago

Dave Zohrob first dabbled in podcasting in 2018 with a tech news show he recorded in his office broom closet. It got nearly 2,000 downloads on its first day.

He now runs Chartable, one of the metrics startups that is helping take podcasting from a throwback to the quirky, peer-to-peer days of the early internet to the future of digital audio.

Zohrob's short career in podcasting illustrates the industry's speedy transformation over the past couple of years. Audiences in the US have been growing for a while—to more than 100 million listeners (pdf) this year. But podcasters have been unable to fully cash in because of the medium's old-school distribution technology, which makes it virtually impossible to collect data on listeners and target them for ads. Now a slew of companies are deploying techy solutions to bring metrics up to speed, helping attract big-brand ad dollars. This year, spending on podcast ads in the US is expected to hit nearly \$1 billion (pdf.)

This transition is raising questions of whether podcasting will follow the same path as the internet, which also began as a freewheeling, do-it-yourself space, before evolving into the data-obsessed, tech-giant dominated sector we know today. Some podcast veterans say the same idiosyncratic, independent nature that has made some shows so successful gives the industry a better chance of avoiding that fate.

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A brief history of podcasting and its plumbing

The term “podcast” existed before 2005, but the industry was essentially launched that year, when Steve Jobs enthusiastically welcomed the medium into the Apple universe. In a keynote presentation which referenced *Wayne’s World* and “the hottest thing going in radio,” he announced he was opening up iTunes for podcasts.

But to understand where podcasting is today, you have to start further back, with the format used to transmit shows: the RSS feed. Created in the late 1990s, it is very much a product of the decentralized internet of those days. RSS stands for Really Simple Syndication, or Rich Site Summary, depending on whom you ask. It is a type of file websites used to automatically transmit updates to their audience. Users would subscribe to the feeds, whether it be the New York Times or a blog, and get the latest information delivered through a reader.

It was the equivalent of following someone on Twitter or Facebook—except without Twitter or Facebook. There were no intermediaries. The information flowed directly from the source to the consumer.

Once the social media giants came into the picture, the RSS feed started to feel quaint, and its developers couldn’t agree on how to make it better. By 2013, Google phased out its RSS reader, the most popular feed aggregator, and the RSS feed was declared dead. Sinclair Target, a software engineer, gives his take of what led to this in his blog on computer history:

“One reason this happened is garden-variety corporate rapaciousness—RSS, an open format, didn’t give technology companies the control over data and eyeballs that they needed to sell ads, so they did not support it. But the more mundane reason is that centralized silos are just easier to design than common standards. Consensus is difficult to achieve and it takes time, but without consensus, spurned developers will go off and create competing standards. The lesson here may be that if we want to see a better, more open web, we have to get better at not screwing each other over.”

In podcasting, there was consensus on the RSS feed, thanks to Apple. Unlike Google and Facebook, Apple’s focus is not on the data and ad business, but on selling phones. After clearing a space for podcasting as an additional lure for its products, Apple mostly left it to sprout on its own.

So, the RSS format survived in podcasting, and with it, the distributed nature of the market. Although Apple is still the biggest player, podcasters can use the RSS feed to upload their work there and everywhere else, from Spotify to Overcast, which prides itself on being a small, independent business.

“There’s no single platform that dominates things,” says Mike Kadin, CEO of Red Circle, a podcast ad marketplace. “There are big advantages to that. No algorithm is deciding what’s popular.”

That may be about to change.

The path to monetization

Podcasting’s plumbing has also shaped the kind of business it is. Because of the RSS feed, listening to a podcast is essentially an offline experience, which means podcasters get very little information about their listeners. When you press play, the RSS feed directs your device to download an MP3 file. All you leave behind is your IP address, a string of numbers associated with the network you’re connected to, and your user agent, which tells podcasters which app you’re using, and which can sometimes identify your operating system as well.

Without any special add-on tech, that’s all the information a podcaster gets, which in some cases is almost nothing. For example, if you’re listening on your cell phone, your IP address may shift as you move from cell tower to cell tower, or be bundled under a single number with millions of other users.

From that information, podcasters can’t even tell how much of the podcast you’ve listened to, or whether you’ve listened at all. All they know is that you downloaded it. To gauge whether ads are working, podcast advertisers have traditionally used promo codes and vanity websites they can track

back to particular podcasts, known as direct response advertising. This information is not very valuable to big brand advertisers, who are used to working with more details they can use to target consumers.

The other limitation to selling ads has been the time and effort it takes. For smaller shows, it's a cumbersome, often labor-intensive process. So, a little more than half of podcast ads are baked-in, or embedded in the MP3 you download. That means you'll hear the same ad whether you listen today or three years from now.

The rest is what are called dynamically inserted ads, which are plugged into the MP3 at the time you download it. That allows podcasters to replace old ads with new ones, but advertisers still can't get the sort of detailed data they're used to online, like how many people ended up listening to the ad.

That's all changing, though. First off, players like Apple and Spotify have chosen to offer more data to podcasters, like how long listeners stayed with an episode. Since they control the apps used to play podcasts, they have access to this information, along with the personal details listeners provided when they signed up. Other companies are stitching together download information with third-party data to get a better sense of who's listening and how.

Megaphone, a company that connects podcasters to ad buyers, works with data from Nielsen Marketing Cloud to flesh out consumer profiles. It also works with Podsights, which tracks whether people who download an episode with an ad later show up at the advertiser's website and buy a product. The metrics are not perfect, given the IP addresses' fuzziness. Still, it's a big improvement over just a couple of years ago.

"We've done as an industry a much better job of getting tools to the brands to help them better understand what they're buying," says David Cohn, head of ad sales for Megaphone.

It still remains a pretty manual business, though. Programmatic, or ads bought through automatic bidding, are still a tiny sliver of the market.

In this environment, it's hard to buy at scale. "Some of these people want to deploy \$1 million," says Sean Creeley, Podsights founder. "That's really hard to do."

The Spotify model

All of this is happening under the shadow of the biggest investment rush the industry has ever seen. The charge is being led by Spotify, which in the past two years has spent more than \$600 million to acquire three podcast networks, including Bill Simmons's The Ringer, and a podcast-making app.

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“It’s going to be Spotify vs. the world.” -Bryan Barletta, writer of the Sounds Profitable newsletter

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Here’s why: its main business, music, is a lousy cash cow. Spotify has to pay royalties every time you download a song, so the more successful the company is at attracting listeners, the more it has to pay. In the second quarter, for example, the company added 30 million paid subscribers from the same period last year—which increased its royalty tab (pdf) for its premium service by 190 million euro (\$223 million.)

With podcasts, Spotify doesn’t have to hand over a big chunk of its revenue to record labels. So far, the company’s expansion plans are working. In the second quarter, podcast consumption on the service grew by triple digits compared to the previous year, it said in July. In the first half of 2020, the company’s share of monthly active users who listen to podcasts rose from 16% to 21%, and the number of shows doubled to 1.5 million. Some are uploaded by podcasters as they would on any other platform, via an RSS feed. And some of the podcasts Spotify owns, like How to Save a Planet, can also be played on other apps.

But Spotify is also straying away from podcasting’s open environment by offering exclusive content. It’s selling ads against it, and unlike others in the podcasting industry, it doesn’t have to make do with incomplete data from listeners. Spotify users gave their information to the company when they signed up and its app monitors their listening. In that sense, Spotify is more like Facebook, a walled garden, which can track the user experience, says Bryan Barletta, who writes Sounds Profitable, a podcast ad tech newsletter.

At the beginning of the year, Spotify rolled out a new kind of advertising on its exclusive and original content. It calls it “streaming ad insertion,” and it uses Spotify’s data trove to target and track podcast listeners as they stream podcast audio. “It’s an app ad, not a podcast ad,” says Barletta.

This summer, the company added follow-up visual ads on its app, so that listeners can redeem offers they heard about in a podcast with one click.

To be sure, this content is a tiny piece of the podcasting market. But Spotify has been aggressively expanding it. In addition to an exclusive agreement with Joe Rogan, it’s signed podcast deals with Kim

Kardashian, Michelle Obama, and Warner Brothers, which will produce podcasts featuring its DC superhero franchise.

UFC presenter Joe Rogan interviews Anthony Pettis in 2019.

“Exclusivity is a key component of that strategy. We want to create more and more original programming that only exists on Spotify,” CEO Daniel Ek said during a July investor call.

Ek described a strategy that tries to balance exclusivity with having a wide stable of shows owned by other producers. More content attracts more listeners, who then stay and consume more content, and perhaps even sign up for a premium subscription. “It’s impossible, even if we wanted to, to have all of that content exclusively on our platform,” he said to the 1.5 million shows on the platform. “So it’s going to be a mix of all of those things going forward.”

At some point, the company could also make its app-style advertising available for all content. If that happens, it’s not hard to imagine how it could funnel dollars away from podcasting’s existing distributed system into its own walled garden. For the struggling podcaster, it’s a tantalizing offer: access to big audiences and big data. Spotify is already harnessing bigger ad buys than most in industry are used to. In July, Omnicom agreed to spend \$20 million on ads in podcasts distributed by Spotify.

“It’s going to be Spotify vs. the world,” says Barletta. But that doesn’t mean that Spotify will own everything, he adds.

Last month, Amazon said it will include podcasts in its music service, Amazon Music, and has started inking its own exclusive deals, including a new podcast by DJ Khaled. Like Spotify, it has no shortage of data on its users. Google, meanwhile, started giving podcasters on its platform more information about their audience. Apple, too, is paying more attention to podcasting. Earlier this year, it acquired Scout FM, a startup that uses AI to bundle podcasts based on listeners’ interests, according to Bloomberg, and is also buying original podcasts.

And then there’s everyone else.

An antidote to the algorithm age

As tech giants throw big money around podcasting, many in the industry are betting another podcast quirk, the host-read ad, will keep them from getting crushed. This interlude, in which the host switches gears to recommend a product, is still the most common type of ad.

Podcasters and advertisers have long said that a good match between product and host can result in marketing magic. Mattress company Helix Sleep, for example, attributes 15% to 25% of its revenue to podcasts, where it spends the biggest share of its ad budget, says Martha Gallant, who manages media sales.

“The host, who garners a lot of loyalty from their audience and their listenership, then says ‘hey, this is the mattress that I sleep on at night. This is what helps me live a slightly better life,’ she says. “We have found that host-read ads and endorsement-based ads are extremely effective.”

Ad prices reflect that, says Colin Thomson, CEO of Kast Media, a podcast production company that runs shows both on audio players and on YouTube. While the ads YouTube runs at the beginning of a video can sell for between \$3 and \$10 per 1,000 views, the price for 1,000 podcast listeners can range from \$10 to \$50. Listeners also tend to stay longer than viewers, and are less likely to skip ads, he says.

“Podcasting is sort of a passive consumption style, so it’s kind of this hands-free listen-while-you-do-other-things-type of engagement,” he says. “When you’re watching, it requires more attention, so you might get distracted and do something else,” he says.

Attention is even more of a scarce commodity in text and image-based apps. As a LinkedIn and Instagram influencer, Daniel Robbins thought of audience engagement in 10-second chunks. “It’s very quick. They look at it and they move on,” says Robbins, who now hosts a luxury travel podcast. “With podcasting, you have their attention more than any other platform than I had experienced.”

But placing host-read ads is a high-touch business. Robbins initially cold-called more than 70 brands without much luck.

“In some ways, the bespoke nature of these ads can hold us back,” says Kadin, of Red Circle. “At the same time, they’re so effective.” His company is one of several startups trying to do bespoke ads at scale through marketplaces that connect podcasters directly to advertisers. By gathering many podcast producers in a single place, these platforms make buying ads from smaller podcasts feasible for big advertisers. For example, a company wanting to target women in their twenties could buy on 50 different small to medium-sized podcasts instead of advertising in a celebrity show like Michelle Obama’s, which Spotify launched this summer.

“We want to create more and more original programming that only exists on Spotify,” CEO Daniel Ek, pictured in 2015, said recently.

Podcorn, the marketplace where Robbins eventually placed his ads, sees podcasters as influencers, and is focusing on playing up their connection with their audiences.

That might be off-putting to big-brand advertisers that want to be in charge of the message. “In that transfer of trust from the host to their tribe, what you give up is control,” says Dan Granger, CEO of media agency Oxford Road.

The tug-of-war over control—of messaging, but also audience data, and access—will shape the next phase of the podcasting industry. Chartable’s Zohrob says podcasting won’t necessarily go the way of digital ads. For one, some parts of the internet are ratcheting back on data collection. Browsers like Apple’s Safari and Mozilla’s Firefox already block cookies, the files that track users across the internet, and Google is phasing them out on Chrome. Starting next year, Apple will also require apps to ask iPhone users for permission before collecting data. Sometime down the line, podcast and digital advertising might end up looking similar, data-wise, says Zohrob.

Any podcaster paying attention is also aware of what happened to content producers that relied too much on third parties like Facebook for traffic. Their audiences got used to finding them on social media, instead of on their websites. And the publishers themselves became subject to the whims of tech giants’ strategies and algorithms, swimming in page views one day only to find themselves shunned from the rankings and social media feeds the next.

“Unless you have a direct relationship with your consumer, you lose,” Zohrob says. “People remember that. It’s so fresh.” That might make them loathe to take checks from platforms that don’t let them keep a direct path to their listeners.

Some podcasters are rebelling against Spotify already. Joe Budden, the former rapper and cultural critic, pulled his exclusive podcast off Spotify in August, saying he wasn’t getting enough money from the company. “We are not in a position where I am going to succumb to any bad deal that is not working favorably toward the people who have created that path,” he said on his podcast.

Spotify itself stepped away from its exclusive model in September, when it said it would be making its exclusive podcast with Michelle Obama, available on other platforms after all. It was the company’s top hit this summer, and at least for now, it might find a bigger audience—and more ad dollars—across a variety of listening apps.

It’s a sign that podcasting’s open ecosystem is still robust. At least for now, the Spotifys of the industry are having to adapt to it, instead of the other way around.