

MANAGING THE DECLINE OF PHYSICAL AUDIO

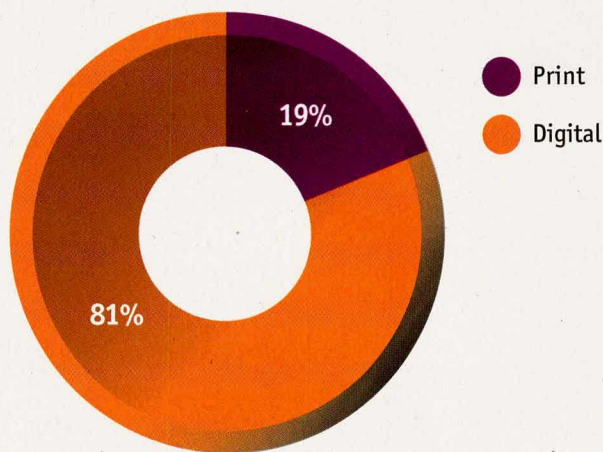
Sales of CDs are down, but the format still has its place

By SHANNON MAUGHAN

The death knell for CDs has not quite sounded yet, but sales from late 2014 and early 2015 indicate that a move away from the format may be quickening. Unit sales of physical audio inched up 0.2% in 2014 over 2013, according to Nielsen BookScan data, but that increase was due entirely to a strong first half of the year, in which sales were up 6% over the similar period the previous year. Since the midpoint of 2014 units have fallen steadily, and in the first quarter of 2015 units were down 18% compared to the first quarter of 2014, according to BookScan data. Sales data from the Association of American Publishers' StatShot statistics program showed CD sales falling 7.7% in 2014, while Nielsen Books & Consumers survey of book-buying behavior found that unit sales of physical audio accounted for 19% of purchases in 2014, down from 31% in 2013. Of course, the decline in physical audio has been offset by the increase in sales of digital audio, and the AAP data found a net increase in audiobook sales of 14.1% in 2014 over 2013. To get a broader look at the trend in sales of physical audio units, we asked a number of publishers about the role of CDs in their product mix these days.

Linda Lee, v-p and general manager of Weston Woods Studios and Scholastic Audio, says her company has experienced a faster drop-off in CD sales recently, save for one area: "The 25 to 30 book-and-CD titles for younger kids that we do at retail have been holding really steady," she says. "We are really keeping an eye on sales for inventory purposes so that we don't get stuck." Lee says she recalls a sudden drop in DVD sales that left Weston Woods with too much stock. "DVDs were holding and holding; then one year the bottom fell out." Though it makes sense to

Audiobook Unit Sales by Format, 2014



SOURCE: NIELSEN BOOKS & CONSUMERS

continue producing titles for a robust book-and-CD market, Lee notes that "we are increasingly producing more digital-only titles" for Scholastic Audio's middle-grade and YA categories. Scholastic is one of several companies that partners with Midwest Tape in a print-on-demand arrangement, however, which allows it to publish CDs in any quantity for buyers who want them. In addition, Lee says Scholastic has adapted to working with much lower minimum orders for CDs, of perhaps 250 at a time. Looking forward, Lee surmises that despite CDs' advantages of having better sound quality and being easier to share with others, they will eventually fade away in favor of the "healthier ecosystem" created by publishing digital titles. "I think that as time goes on the convenience factor is going to be the one that prevails," she says. "Just as people have gotten used to viewing video on smaller and smaller screens with less picture quality, the quality difference between physical and digital audio will probably be less important than convenience."

At Recorded Books, senior v-p of content and acquisitions

Adult Audiobook Sales, 2013 v. 2014 (\$ in millions)

	2013	2014	Change
Physical Audio	\$76.2	\$70.3	-7.7%
Downloaded Audio	\$127.7	\$162.3	27.2%
Total	\$203.9	\$232.6	14.1%

SOURCE: AAP STATSHOT.

Audio

Troy Juliar says that sales don't jibe with numbers from the AAP or BookScan, emphasizing that those figures are not wholly representative of industry activity. "Indie publishers don't report, and a number of larger companies are outsourcing CD production with print-on-demand agreements," he points out. "So numbers are not getting picked up." In-house, he says, "our CD sales are declining in single digits, but not anything close to the AAP report. Sales are not cratering right now." Juliar has seen an uptick in MP3 CD sales, and sales of downloadable titles are growing at an "almost double-digit rate." In the wake of a general reduced footprint for audio in retail chain bookstores, Juliar says that Recorded Books still moves a good number of units in those outlets, but that they order fewer titles. Sales have additionally been "shifting a bit" to the direct-to-consumer channel, he notes, largely via Amazon and Barnes and Noble. (Amazon and Barnes & Noble declined to discuss sales of physical audiobooks.) Libraries remain a steady market for CDs, and Juliar says his company has seen solid success with a program that bundles digital and physical formats of a title together for library accounts, a strategy that "helps libraries manage their collection."

According to Sean McManus, director of audio at HarperAudio, his company may be an anomaly. "We continue to put a strong emphasis on physical product," he says, "and we've seen CD sales

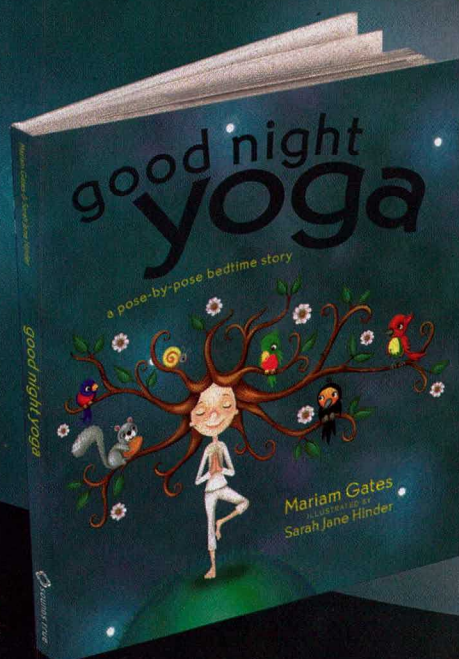
significantly grow year over year." As an example, McManus points out that three years ago, HarperAudio published approximately 25 titles in CD. These days, out of roughly 500 titles per year, 50 titles, or 10% of the list, are published as retail HarperAudio CDs, and the other 90% are available for print on demand at retail. McManus notes impressive growth in both areas, as well as in library sales of CDs. In fact, the publisher has begun providing libraries with physical, printed catalogues again, reviving a past practice. "In our experience, the growth of digital audio has helped shine a light on physical audio. We are waiting for it to plateau, and colleagues have said they are experiencing a faster decline, but not us."

Success in retail outlets varies by title and genre, says McManus, but the publisher saw big sales come from a recent promotion in Costco stores, offering a roster of top audiobook titles for \$19.99 each. As for a potential time line, McManus says, "I think in the next five years we'll be focusing completely on digital." But in the meantime he plans to ride his company's current wave, noting that HarperAudio is experimenting with "additional physical formats for audio," which will be introduced soon and could serve as something that "really brings attention to the audio format and sets it apart from print."

Anne Fonteneau, head of sales at independent publisher

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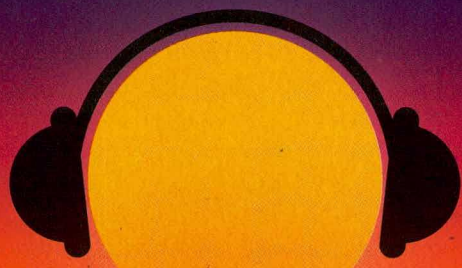
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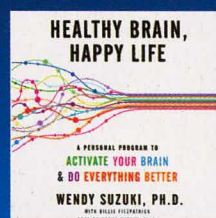
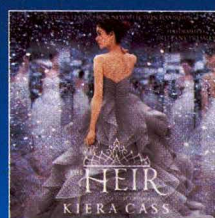
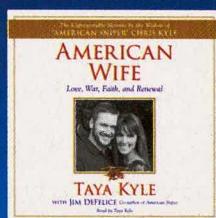
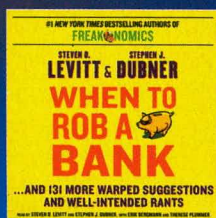
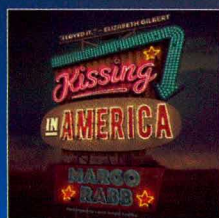
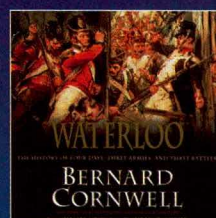
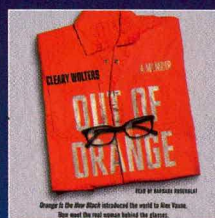
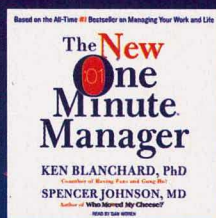
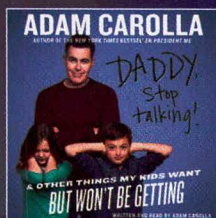
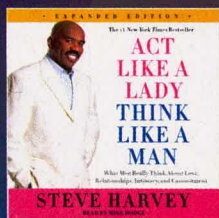
Audio

Blackstone Audio, says that her company's unique structure has enabled it to successfully manage changing market trends. "We're an on-demand manufacturing house, which makes us very agile and gives us the ability to keep costs low," she explains. In addition, Blackstone's library sales network has helped to maintain the company's physical sales, Fonteneau says, while Blackstone's tactic of releasing books in all formats leads to crossover sales and helps give Blackstone a presence in multiple markets simultaneously. "We were initially prepared for a drastic drop, but really the [CD] decline has been much slower than anticipated," Fonteneau says. "We've actually experienced a slight increase [in CD sales] over the last year, mainly due to our burgeoning [manufacturing] partnerships with established presences such as HarperCollins, Hachette Audio, and Disney." Though Blackstone's presence in bricks-and-mortar stores remains consistent, Fonteneau has observed changes in buyer tendencies. "We've seen more frequent orders of smaller quantities." Fonteneau states that digital audio is Blackstone's core business, and that download sales have "greatly increased in the last year." She believes that the growth of downloadable product in general "has quieted many fears about the future of the medium. Physical might be on its way out, but the process will clearly be an unhurried one, subject to any number of final stands and resurrections."

Sales of CDs are "down a bit, but our downloads are up significantly," says Chris Lynch, president and publisher at Simon & Schuster Audio. At his company, "audio is up overall, and the industry stats seem to indicate that is true for others as well." He refers to results from the most recent Audio Publishers Association sales survey, noting that the number of audiobooks being published by all publishers is way up. "Many of those additional titles are not published on CD for retail, which will result in overall sales growth that is skewed more to digital," he points out. "So the disparity is to be expected. I actually am encouraged by how CD sales are holding up this far into the digital evolution. There's going to be continued CD erosion, but it continues to be gradual, not any kind of steep fall-off." Echoing several of his colleagues, Lynch says that a single quarterly snapshot of sales reports will not provide a complete picture of what's happening in the industry. The numbers within such a time span are "going to be influenced heavily by what titles were selling in that period," he says. "Last year [2014] our first-quarter CD sales were up versus the prior year [2013], but that trend did not continue for a full year. I would hate for anyone to look at the early [2015] BookScan or AAP numbers and think that this is the beginning of the end for CDs. We're just not seeing that in our sales, nor are we hearing that from our accounts."



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