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What is the Future of Video Online?

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I. Introduction

The convergence of television and the Internet has become inevitable. In the United States, 38% of all households already have "connected TV's," televisions that connect to the Internet either through a device such as Apple TV, through video game consoles such as Microsoft's Xbox, or through a native interface built into the television[1]. Moreover, the percentage of households using connected televisions is likely to grow exponentially in the coming years[2]. The impending ubiquity of this technology raises an enormous number of questions about the future of television. However, this research study focuses only on a select group of those questions. It focuses on the potential disruption of the current model of multi-channel television by the rise in popularity of online video.

The rise of online video and the arrival of connected TV seem to harbor the potential for a drastic disruption. As a result, it seems appropriate to ask: How will Television change now that connected TV technology has made online video readily available to TV viewers? Will YouTube succeed in its efforts to revolution television, and, in the process, destroy the current Pay TV system by leading cable subscribers to cancel their cable subscriptions en masse[3]? Or will the television ecosystem change less drastically? Or hardly at all? These are the questions that this study attempts to address[4]. And they are significant questions. If substantial changes were to occur within the television industry, those changes would have significant economic and social impacts on television distributors, creators, consumers, and the regulatory bodies charged with overseeing the industry.

In order to examine the impact that online video and connected TV are likely to have on TV viewing, this paper proceeds in three parts. In the first part, the study examines the online video market, identifying a distinction between two separate forms of online video: Re-run TV

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1 Study conducted by Leichtman Research Group. As reported by Broadband TV news at http://www.broadbandtvnews.com/2012/04/10/us-connected-tvs-reach-38/ (accessed June 22, 2012).
2 "Connected TV's to Dominate the OTT Market," http://www.broadbandtvnews.com/2011/10/06/connected-tvs-to-dominate-ott-market/ (accessed April 4, 2012).
3 "Streaming Dreams," John Seabrook, The New Yorker, http://www.newyorker.com/reporting/2012/01/16/120116fa_fact_seabrook?currentPage=all (accessed March 3, 2012).
4 The author would like to thank Dr. Marc Janssen, President of Belgium's Conseil supérieur de l'audiovisuel, and Dr. Muriel Hanot, CSA Director of Research, for their generous support of this research. The author would also like to thank the employees of the CSA for the generosity and kindness they showed during his time as a guest researcher there.

and User-Generated Content[5]. Using Netflix as a case study for Re-run TV, the paper examines the principle characteristics of Re-Run TV and its likely market impact on traditional television. Through this analysis, the study finds that Re-Run TV is unlikely to undermine the traditional multi-channel delivery system. In its second part, the study examines User-Generated Online Video content and uses YouTube, the dominant player in that market, as a case study to examine the likely impact of such sites on traditional television. In its final section, the study concludes that YouTube and its competitors face a number of challenges that may prevent them from disrupting the current system of multi-channel delivery. The study also observes that the primary value of User-Generated online video sites such as YouTube lies in their ability to help enterprises with Brand Building and Promotion. This suggests that online video ought not be viewed as an extension of the television industry, which specializes in the advertiser supported production and distribution of long-form content[6]. Instead, online video is best viewed as a new and distinct market, the primary value of which lies in its use for brand promotion[7].

[5] As used here, Re-run TV refers to websites such as Netflix and Hulu, which allow viewers to watch shows that were previously aired. A similar term, Catch-Up TV generally refers to DVR viewing.
[6] The term "long-form" refers to the typical length of television shows, which generally last from a minimum of 22 to an upward range of 50 or even 90 minutes. In contrast, YouTube's 10 most popular personalities generally produce videos that last between 2 and 4 minutes.
[7] The term "Brand" as used here includes companies, products, and creative talent, such as actors, directors, comedians, etc.

II. Defining Online Video

In discussions of Online Video, participants often refer to the subject as if it is one amorphous mass. This, however, seems inaccurate. Analysis reveals that we can differentiate between at least two principle forms of online video[8]. The first form of online video streams traditional, long-form content (television shows and films) directly to consumers. These services generate revenue by charging consumers a subscription fee in order to access streaming content. This group includes Netflix, Amazon/Lovefilm, and Hulu Plus. The second form of content allows users to view User-Generated Content on a host website. The website generates revenue by showing advertising either before or during the videos. In addition, the content generating users are, in some cases, quite professional. This group includes YouTube, Vimeo, Dailymotion, and numerous other sites. YouTube is by far the dominant player in this market, with estimates of its market share ranging from fifty to seventy percent.

The principle question posed by this research paper is whether either of those two forms of Online Video will disrupt the current system of television production and distribution. To answer that question, it will be helpful to look at the two leading companies in each market, Netflix and YouTube. Examining each company will clarify the ways in which they will or will not influence the television status quo.

III. Netflix and Re-Run TV

For those unfamiliar with Netflix, the company has the following attributes. Netflix's primary access point is through its website. Consumers can visit the site, create a log-in, and pay a monthly subscription fee in exchange for the opportunity to watch television shows and movies. Netflix offers its customers three different options: receive DVD's in the mail, watch online via streaming, or both. Netflix is available in the United States, Canada, several Latin American countries, the U.K., and Spain[9]. In the United States, pricing start at $7.99 per month.

Netflix's DVD option stems from the company's origins as a competitor to BlockBuster Video in the United States. Netflix started as a DVD through the mail company. Customers signed into the Netflix website, selected the DVD's they wished to receive, and Netflix sent

[8] While there may be other forms, they are not relevant to this discussion.
[9] In June 2012.

them. After watching the DVD's, customers then mailed the discs back to Netflix via a pre-supplied, postage paid envelope. When Netflix received the disc, it sent the next DVD selected by the customer. The number of DVD's customers could receive each month or have in their possession at one time varied by price plan. As stated, this option is still available. In September 2011, Netflix attempted to split its DVD and streaming businesses, but quickly abandoned that plan.[10] It is also worth noting that customers face almost no viewing restrictions when using the DVD option. As soon as (or almost as soon as) the DVD's are available for purchase, the physical discs are available for rental through the mail. Given that such DVD rental services have existed for quite some time, there seems no reason to believe that they will suddenly become a disruptive threat to the television industry. Any possible disruption would have to come from the streaming portion of Netflix's business.

While customers remain loyal to the DVD option, Netflix CEO Reed Hastings unabashedly admits that he views the streaming option as the company's future[11]. With the streaming option, customers can visit the Netflix website, log-in, and peruse a menu of television shows and films. When a customer clicks "play," the show or film begins. Moreover, this viewing is not restricted to the computer screen. Consumers can view these shows on their televisions through a variety of methods. They can simply connect their computer to their television via Wi-Fi or a dedicated cable. Alternatively, they can access Netflix through a video game console, a Blu-ray DVD player, a connected TV device such as Apple TV, or through an interface built into their television.

In contrast to the DVD option, consumers face more limited content choices when streaming. Generally, customers must wait approximately one year from release date for content to become available, and, in many cases, shows never become available.

The limitations faced by streaming customers provide insight into the relationship between Netflix and traditional producers of content. The long release window allows content producers and television networks to protect the value of their products. In addition, while Netflix has made a nascent effort to develop its own content, it remains completely dependent on traditional

[10] http://online.wsj.com/article/SB10001424052970203499704576622674082410578.html (accessed April, 17 2012).
[11] http://blog.netflix.com/2011/09/explanation-and-some-reflections.html

producers of television shows and films[12]. The long release window has also had an unexpected benefit for traditional producers of content. Because they are discovering shows on Netflix, many Netflix customers are beginning to watch shows that have been on the air for several years, thereby boosting their ratings[13]. For example, a viewer may have never seen the AMC show "Mad Men," before. That viewer watches all of the available seasons of Mad Men on Netflix and then begins to watch the show on live TV. Consequently, Mad Men's ratings have risen as the show has gotten older; usually the opposite happens with TV shows.

This analysis leads to the conclusion that Netflix does not currently represent a threat to the incumbent system of television production and distribution. In contrast, evidence suggests that Netflix is reinforcing that system by driving viewers to live TV, boosting ratings for some shows. A Nielsen study supports this conclusion, stating that

> "The broader usage patterns suggest that online video is, for the most part, a replacement of DVR use, or used by those who do not have immediate access to TV. In short, TV network content online is used to catch up with programming, and not typically as a replacement for TV viewing as results from our email survey showed"[14].

Because other Re-Run TV services operate on models similar that used by Netflix, it seems safe to conclude that Netflix's competitors should have similar relationships to the incumbent system of television production and distribution; they do not represent a threat either. The question remains, however, whether the same can be said for YouTube and other User-Generated Online Video websites.

IV. YouTube and User-Generated Content

YouTube probably needs no introduction. It is, by far, the world's most popular website for viewing User-Generated video. YouTube currently generates revenue through advertising. Advertisements generally occur as banner ads or as pre-rolls, fifteen to twenty second video advertisements that play preceding a video. The number of unique viewers that YouTube

12 Netflix has already produced the show "Lillehammer," which shot in Norway. It has also announced plans for "House of Cards," featuring Kevin Spacey and executive produced by Director David Fincher (The Social Network, etc).
13 Netflix Chief Content Officer Ted Sarandos, speaking a MIPCOM 2011. Video available at: http://www.youtube.com/watch?v=Ua6jw-0nvd0
14 http://blog.nielsen.com/nielsenwire/consumer/do-we-watch-the-web-the-same-way-we-watch-tv-not-really/ (accessed May 15, 2012).

records each day is staggering, as is the quantity of video uploaded to YouTube[15]. At last count, users were uploading seventy-two hours of video to YouTube every minute[16]. To put that into context, it would take almost twelve years for an individual to watch all of the videos uploaded onto YouTube in a single day.

As staggering as those figures are, YouTube recently felt the need to initiate a substantial change to its service. It launched an initiative to "Channelize" YouTube[17]. Through cooperation with "YouTube Partners," video creators with whom YouTube shares advertising revenue, YouTube hopes to improve the quality of content available on its website[18]. In explaining the change, Jed Simmons, YouTube Head of Original Programming in Europe, said, "We've redesigned the site away from being a site for videos, to being a site for channels. We're moving away from the metric of views to a metric of time spent watching"[19]. Senior YouTube executives have even made provocative predictions that "70% of all new channels" will be created online in the next ten years[20].

It seems reasonable to wonder why a company in such a dominant position would feel the need for this type of change. The answer, of course, lies in YouTube's balance sheet, which is not publicized because YouTube is a part of Google. Still, publically available information suggests that YouTube is losing money. At last estimate that figure stood at five hundred million dollars per year, though that number may have shrunk since then[21]. However, *The New York Times*, quoting Google CEO and Co-Founder Larry Page, recently confirmed that YouTube has yet to turn a profit[22]. How can YouTube be losing money? It is impossible to know exactly, but YouTube's channelization strategy suggests the influence of several factors. First, and most obviously, YouTube is attempting to improve its content. Second, YouTube is trying to get users

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15 870 Million unique viewers worldwide in January, 2012.
16 Hunter Walk, YouTube Director of Product Management quoted in: http://www.forbes.com/sites/rahimkanani/2012/06/04/why-youtube-is-the-ultimate-platform-for-global-social-change/
17 Seabrook, *The New Yorker*.
18 The YouTube partnership program is open to any YouTube video uploader, who has built a substantial audience and consistently uploads new content. Potential partners are instructed to apply through the YouTube website of their country.
19 Speaking at the MIPTV Conference 2012.
20 The claim, repeated often in the press, seems deliberately provocative, since YouTube has simply changed the definition of "channel," which formerly referred only to television channels, to include YouTube channels.
21 http://www.forbes.com/2009/04/03/youtube-loses-money-technology-paidcontent.html
22 http://www.nytimes.com/2011/07/15/technology/google-earnings-for-the-second-quarter-top-wall-street-expectations.html?_r=2

to spend more time on the site. While YouTube has an enormous number of unique views, users spend very little time on YouTube once they get there. Most users, it seems, visit YouTube to watch a three-minute video (or even several videos) and then leave. This is a contrast to Netflix. While Netflix has fewer unique visitors than YouTube, its users spend over three times as much time on Netflix each month. In order to get users to stay on YouTube longer, logic suggests that YouTube needs long-form content. The third and final factor involves the storage costs of YouTube's enormous amount of video; those costs must be substantial. Regardless of their exact costs, it seems clear that the revenue generated by the administration and storage of YouTube's videos has been exceeding the revenue YouTube has been able generate via advertising. Presumably, storage costs are relatively fixed. Therefore, YouTube's executives have, understandably, concluded that YouTube needs increased advertising revenue. To charge premium advertising fees, YouTube needs premium content. Hence, its decision to channelize.

The question is, will this strategy work? Will YouTube be able to transform itself into a destination for channels? Several obstacles pose a challenge to YouTube's efforts. The first involves Brand Identity. Users visiting YouTube expect short, user-generated material. All of YouTube's top performers specialize in short-form comedic content. Moreover, though many of YouTube's top performers have begun to produce their content professionally, all of them deliberately avoid giving the appearance of professionalism. They do so because YouTube audiences often respond negatively to polished, professional production values. It seems that YouTube users want to maintain the illusion that the videos on the site are being created by average Internet users like themselves, even if the top YouTube earners have taken to creating YouTube content professionally.

The issue of passive vs. active viewing poses another obstacle to YouTube's transition, specifically to its efforts to get viewers to spend more time on the site. Television is fundamentally a physically passive activity, which individuals watch while leaning back in a reclining position[23]. YouTube's success to this point, on the other hand, has come largely as a result of viewers leaning forward in front of computers, often in an office setting. In addition, YouTube requires work. Though YouTube has experimented with automatically playing another video as soon as the previous video ends, that strategy has not caught on. As a result, users must search for and/or click on the next video that they want to watch. In short, a YouTube channel doesn't allow people to be as lazy as a Television channel does.

[23] Hence the term: "couch potato".

A third obstacle involves the investment required to generate high quality, long-form content. High quality television shows require significant quantities of three things to produce: money, expertise, and experience. YouTube has thus far shown an unwillingness to spend the funds necessary to support the creation of high quality, long form content[24]. Without significant investment in the creation of long-form content, it seems unlikely that YouTube's efforts will lead to a major transformation.

As a result of these factors, it also seems unlikely that YouTube will cause a disruption to the current system of television creation and distribution. Moreover, the rise of Online Video has lead to no decline in viewers' consumption of traditional Television content[25]. As viewers consume more forms of video across multiple platforms (including tablets and phones), television consumption has actually risen slightly. We can therefore conclude that online video is a robust, if marginally profitable, phenomenon, which is far more likely to exist alongside traditional television than to supplant it.

V. Online Video, What Is It Good For?

If online video comprises a new market, distinct from and unlikely to disrupt the Pay TV system, what purpose does it serve for the commercial interests that have become involved in the market?[26] An emerging trend indicates that the primary commercial use of Online Video lies in its capacity for Brand Building. The word "Brand," in this context, takes on a broad definition. We can, however, identify three principle categories of brands making use of Online Video: Corporations, Media Personalities, and Content Creators.

Corporations have already begun to make effective use of Online Video in order to promote their brands. Such promotion often occurs through the creation of "branded content," content sponsored by a corporation, which in some way promotes either the Brand itself or the

[24] Though YouTube announced that it would spend 100 million dollars to support the creation of YouTube content, was in fact only an offer of a loan in the form of an advance on advertising revenues. Source: Jed Simmons at MIPTV 2012.

[25] http://blog.nielsen.com/nielsenwire/media_entertainment/media-is-on-demand-but-content-is-still-king/

[26] Obviously, online video sites will also continue to serve as an outlet for personal expression and the sharing of non-professional video. The sharing of amateur video was YouTube's original purpose and continues robustly on both YouTube and its competitors.

Brand's core values. Branded entertainment has long been a staple of the American television scene. Hallmark Cards, in particular, was famous for its sponsorship of television movies. In 2001, Hallmark launched its own television channel, The Hallmark Channel, in the United States. In the realm of Online Video, companies such as Starbucks and Coca-Cola already have their own dedicated YouTube Channels, which serve as advertising platforms.

Media personalities, whether budding or established, are also using online video to promote their brands. The website "Funny or Die" serves both as an avenue for corporations to promote brands and for celebrities to promote their brands. Brands such as Under Armour and Kia Motors have produced branded entertainment skits for the website[27]. In addition, actors such as Will Farrell, a founder of Funny or Die, and Jonah Hill post amusing skits on the website unconnected to any brand. However, those skits are also a form of brand building. The videos promote the brands of these actors by keeping them in the public eye and building their fan **b**ases[28].

Content Creators, such as writers and directors, can also make effective use of Online Video to build their brands. This is what many of YouTube's top performers, many of whom are actors, writers, and directors, have been doing. The success of YouTube as an avenue for Brand Building is evident in the defection of some of those top earners to more traditional media outlets. The highest profile defection has come from Dane Boedigheimer, creator of The Annoying Orange. Boedigheimer's Orange was recently the most popular channel on YouTube. However, Boedigheimer was not content with his YouTube partnership royalties and the profits generated by merchandizing his brand. He capitalized on the popularity of his videos and signed a deal with The Cartoon Network to create a television show featuring his creation. Because he retains the rights to his creation, the deal allows Boedigheimer to reap the financial rewards of cable television in the United States, while retaining the fallback of his less lucrative YouTube channel[29]. Boedigheimer's Annoying Orange represents the ideal progression for a content creator looking to build a brand through online video: create the product, generate interest, then monetize the product through traditional media.

[27]http://online.wsj.com/article/SB10001424052702303296604577454890048727150.html
[28] Musicians could also be included in this category because YouTube and its competitor Vevo have both proven popular destinations for music videos. Vevo, owned by three major music labels, is a site strictly for music videos.
[29] http://blogs.laweekly.com/arts/2012/06/annoying_orange_cartoon_networ.php

VI. Conclusion

This research project began by asking whether Online Video presents a disruptive threat to the current system of television creation and distribution. The answer is that Online Video does not currently pose a threat to the existing Pay TV ecosystem. Re-Run TV services such as Netflix are actually strengthening the Pay TV system. User-Generated content sites such as YouTube constitute a new and distinct market, the principle value of which lies in its use as an avenue for Brand Building. Neither form of Online Video is likely to disrupt the television industry. As a result, the outlook for television remains bright.