When Will Viral Become Viable?

Web video has redefined our culture, but a profitable model remains elusive

BY CATHARINE P. TAYLOR

When Google said in early October that it would buy the video-sharing site YouTube for $1.65 billion, the announcement effectively erased any remaining doubt that video was the hottest thing on the Internet, since, well, Google itself. The deal capped a year in which YouTube and a handful of others, such as community site MySpace, created a market for short-form video that consumers shared with abandon and incredible ease.

But the deal portends something larger than its purchase price. It ended what might be called viral video's age of innocence, in which its runaway popularity among consumers readily outpaced its revenue models. And, a host of legal issues still surround the willy-nilly distribution of content.

For example, even though NBC Universal trotted out its lawyers and had *Saturday Night Live*'s "Lazy Sunday" video pulled from YouTube in February, the site—and those of smaller competitors—had become a haven for films of skateboarding dogs and amateur commercial parodies, as well as unauthorized clips from media companies. Those companies, for the most part, responded with an approach best described as "Don't Ask, Don't Tell." Aware of the promotional punch pirated content could have, and worried about offending fans of their programming, many preferred to simply look the other way. Or was it that no one predicted that the fever for video would become so overheated, so fast?

In fact, the market was exploding around them. YouTube, which first rose to prominence in early January on the popularity of "Lazy Sunday," saw its audience expand from 4.9 million unique visitors per month to 30.4 million by October, per Nielsen//NetRatings (owned by *Adweek* parent VNU). The site's popularity easily trumped that of its future owner, which, like most of the video-sharing sites created by the major portals, couldn't hold a candle to its vast growth. (As of October, Google had 18 million unique visitors per month.)

Leticia Plate/Images.com

But even if viral video's huge popularity started to concern copyright holders, there wasn't all that much point in suing because, given its nascent business model, there wasn't much to sue.

However, the Google deal and the Mountain View, Calif.-based search giant's deep pockets changed all that. Within days of Google announcing its planned acquisition of YouTube, major media companies began to pressure YouTube on potential violation of copyright law while at the same time, in many cases, trying to find ways to get share of the ad revenue YouTube generates from their content. "What [the deal] did was it mobilized [the media companies]," says Michael Barrett, chief revenue officer of News Corp.'s Fox Interactive Media. "The attention was there. The concern was there." (New Corp. purchased MySpace in July 2005.)

The back-and-forth with YouTube over copyright issues, and the quest by big media companies to get a cut of ad revenue attached to their content, make it apparent that the next step in the online video explosion isn't going to be as much about the action in front of the camera as what's going on behind the scenes. With the legal concerns of copyright holders coming to the fore, explosive consumer interest in the category and the unavoidable, investor-driven demand that sites in the online video segment generate revenue, the next iteration will be about the category turning into a business that makes money—for all of the myriad parties involved.

To that extent, according to Dmitry Shapiro, CEO of online video service Veoh Networks, the rise of the video Web will follow the same trajectory as that of the older, original "text" Web, wherein consumer adoption outpaced its business model. "This Worldwide Video Web will evolve very similarly to the [way the] Worldwide Web [did]," he says. In this experimental phase, "No one will know the answers," he continues. "We all know, 100 percent that there is an answer."

As with the text Web, it took a number of factors, ranging from increased broadband penetration, to the rise of social networking, to the development of tools that made it easy to upload video, for the online video market to truly start to come together. And, as with the text Web, it will take a lot of experimentation, and a fair amount of failure, to turn the video Web into a business.

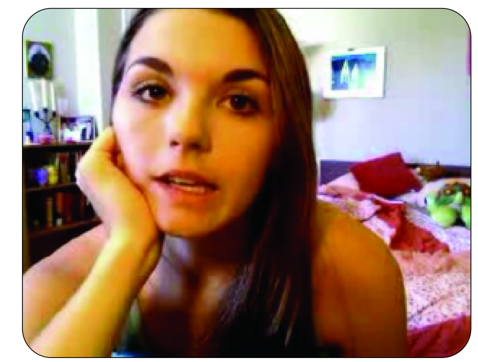
Spreading the News

While "viral video" may be a hot term these days, Adam Gerber, vp, ad products and strategy at Internet TV service Brightcove, points out that there is a distinction between viral video and online video. That distinction gets to the heart of one of the biggest issues many of the entities involved in this industry have to wrestle with. To truly leverage the distribution possibilities of the Internet, do content producers have to unleash their content broadly, with little regard to where it shows up, which viral permits? Should marketers who are advertising around that content follow suit? Or can there be models that, more akin to syndication, distribute content selectively? "We're at a very early stage of how the market evolves," says Gerber.

That's why Cambridge, Mass.-based Brightcove allows content producers to choose between distribution models. In its "managed syndication" model, content only appears on pre-approved Brightcove affiliates. The "viral syndication" model is much like what people have come to associate with YouTube: content can be shared and republished by anyone. For Gerber, managed syndication is as much about keeping advertisers happy as it is about content producers. "From an advertising perspective, [the viral model] creates a lot of complexity and uncertainty," he says.

In fact, though it may be called something different, depending on the companies involved, the notion of managing content distribution seems to be considered in a way that it wasn't several months ago. In mid-September, NBC Universal launched the National Broadband Channel, which goes by the moniker NBBC. The service allows content owners to syndicate video to approved sites. While intended as an online syndication service for any interested party, it also reflects NBC Universal's strategy for getting its own material seen online. Even though the network became somewhat notorious for pulling "Lazy Sunday," it now distributes its programming, if not freely, at least in enough places besides NBC.com that its programs are ensured a fair amount of online reach. "We wanted to be … sampled as much as we could," says John Miller, CMO of NBC Universal. Given how widely dispersed the Web audience is, he says, content owners can't expect people to find their work only on network-operated sites.

Controlled distribution is even taking place at, of all places, YouTube. In part, it's the kind of controlled distribution that happens when copyright lawyers are breathing down your neck, but nonetheless, the deal the site struck with CBS in early October points out how content owners can benefit from less restrained distribution, while simultaneously policing unauthorized use of their content. The deal calls for CBS to post content daily to a "brand channel" of network programming, including clips from shows such as *CSI, The Late Show With David Letterman* and *CBS Evening News With Katie Couric*. CBS shares in the revenue of ads sold around its content. The arrangement—which sets the stage for future deals with media companies—also puts CBS in the position of being the first company to test-drive YouTube's new content identification architecture, set to launch later this year, according to a YouTube spokesperson. If that sounds like more than you need to know—except for maybe, folks in Silicon Valley—consider this: to date, content owners have to claw through video-sharing sites in amazingly analog fashion to find unauthorized content.



NOT SO LONELY: Some of the lonelygirl15 short films garnered more than 1 million views.

The new YouTube technology can identify copyrighted content, and leaves it up to the content owner whether or not to pull the material. But suppose that John Q. Public does post a clip from a CBS show to YouTube, and CBS decides not to pull it? CBS, as the content owner, gets a cut of the ad revenue. As for John Q. Public, well, nada.

In Search of an Ad Market

If the above points to an online video market that is beginning to show signs of rationalization, keep in mind that a true robust ad model to support Web video content remains elusive. (And, although there does seem to be a market for pay-per-view downloads, the general sense is, just as with the text Web, an ad-supported model will dominate.) Of course, the first step many purveyors of online media took—as anyone who has streamed video from a network news site knows—is to submit viewers to what is called a pre-roll: an ad that runs before content. But, despite the popularity of pre-rolls, you won't find many executives who think that a 15- or 30-second commercial that runs before a two-minute video is exactly an equitable exchange between consumer and content owner. "There's a lot of debate going on about whether pre-rolls are the way to go," says Maria Mandel, partner and executive director of digital innovation at WPP Group's Ogilvy.

Thus, some companies are working on new ad models. Advertisers on Revver, a video-sharing service that came out of beta in September, can buy a static ad, or RevTag, which appears at the end of video submitted to Revver. As is the case with search ads, the company pays based on the number of click-throughs. As the Los Angeles-based company's CEO, Steve Starr, puts it, "Let's just say we have an internal bias against pre-rolls." YouTube also eschews pre-rolls; NBC's Miller says he advocated doing a five-second pre-roll before clips of its content on YouTube, but the site nixed the idea.

The enduring popularity of pre-rolls—at least among advertisers—is an indication they won't go away anytime soon. However, the true ad value of online video may be in the fact that, unlike with TV, video usually streams on only part of the screen, leaving some space for ads. "I think taking advantage of the white space around the video is where a lot of the action is going to take place," says Fox's Barrett.

Of course, particularly with its acquisition of YouTube now complete, the main place advertisers, sites and media companies will look for answers is Google. Although neither Google nor YouTube—which will continue to operate separately—has said much about how they will go forward, it's clear that both parties share the philosophy that advertising shouldn't disrupt the user experience, but enhance it. "We continue to work with our advertising partners to help them connect with their consumers and distribute their advertising content," says Jamie Byrne, YouTube's director of ad strategy.

YouTube's most innovative advertising models to date are "brand channels"—the paid locations, like CBS', built around an advertiser's content—and Participatory Video Ads, which make any ad into one that has all of the attributes of any YouTube video; it can be shared, embedded in other sites and commented upon, with the user firmly at the controls. In short, except for the fact that money changes hands and gives advertisers privileged placements, the content is treated much like user-generated video.

As for Google's contribution, observers expect advertising around video to be closely linked to tags, the one-word descriptions that people assign to their uploaded content to help users find it. Eventually, that could take the form not only of the text-based ads from which Google makes the vast majority of its revenue, but also with video ads targeted using search technology. "What YouTube found was a way to create meaningful relationships between pieces of video content," says Craig Walmsley, director of strategy, at AKQA, San Francisco. "Leveraging YouTube's relevance in the video world will allow Google to create meaningful relationships between search text and video content, allowing for the serving of relevant ad content associated with videos."

Right now Google Video is an ad-free environment, though AdWords, the Google program in which advertisers bid for ad placements, has a service that allows advertisers to bid for placements of their video ads. In leveraging search, Google and YouTube are hardly alone. MySpace is planning to run text ads adjacent to its video starting early next year as part of its Google deal, announced in August, that retained the search giant as its exclusive search advertising provider. Veoh recently added Ted Meisel to its board. Meisel, former head of Overture Services, has often been credited with pioneering the search advertising model.

Who Profits?

One indication of just how new the Web video market is: even the truism "follow the money" doesn't lead to an answer. The money, it turns out, can be very difficult to follow. The simple transaction that has dominated ad-supported content for most of its existence—advertiser pays for content provider's audience—becomes much more complex when Comedy Central's content is running on YouTube's site, or a blogger embeds a clip from MySpace onto his or her blog and ends up accounting for a healthy portion of that clip's audience. Right now, in most cases, many of the entities involved in creating a clip's online trajectory are left out of the revenue pie. With some online video garnering real audience, it's suddenly become very important for big media companies to look at their online content as a potential revenue generator—as long as some of the revenue ends up in their pockets.

While YouTube and MySpace have been co-opting much of the traffic, it's some of the segment's relative newcomers that have come the farthest in developing business models that take all of these parties into account. Revver gives 20 percent of click-through revenue to sites that post Revver clips, with the remaining 80 percent being split 50/50 between Revver and the content's creator. The ads accompany "Revverized" clips wherever they travel online. "What we're doing is creating a virtuous circle, or food chain, where everybody is getting paid," says Revver's Starr. Brightcove has its own version of this—such as a more diverse array of ad units—but a similar interest in compensating all parties involved.

The quickie assumption an observer can make from this is that it creates a way for big media, like Comedy Central's *Daily Show*, to finally realize revenue from all of those clips flying around the Web. And while that's true, it ignores the model's breakthrough idea: that it could actually make small-time, unheralded content producers—better known as starving artists—into actual money-making entertainment moguls. After all, if a clip of someone doing a great Dubya presentation gets more views than an excerpt from *Lost*, who is to say the former has less value? "When does their content start to be worth something?" asks Max Kalehoff, vice president of marketing at Nielsen BuzzMetrics (which, like Adweek Magazines, is owned by VNU).

'From an advertising perspective, [the viral model] creates a lot of complexity and uncertainty.' —ADAM GERBER, BRIGHTCOVE

Even six months ago, this may have seemed like an outlandish idea, but recent events indicate that's not the case. The best example is Fritz Grobe and Stephen Voltz, the two guys who, under the moniker Eepybird, made a business out of performance art that principally involves putting Mentos into two-liter bottles of Diet Coke. When they launched the first of their Mentos-Diet Coke "experiments" in June, their site, eepybird.com, carried an unusual plea: do not upload video to YouTube. Grobe and Voltz wanted to make a name for themselves, certainly, but they also wanted to find a way, says Grobe, to make "a sustainable business" of their performances (not all of which, by the way, involve the above-named brands). So far, they've made $35,000 from the Revverized version of their video, and have done deals with Google Video, Coke and Mentos (which ran a geyser contest on YouTube). While their experience is unusual, they are adamant about spreading the philosophy that what artists create is worth more than the promotional value viral video can provide. Grobe says it's surprising to other entertainers when he says, "What you do is amazing … do you realize you could have made several thousand dollars off of that?"

One who did is lonelygirl15, one of the most talked about series of online videos ever, if for no other reason than because the clips seemed so professional that people were skeptical about whether the films were really the musings of a home-schooled 15-year-old. (They weren't.) The videos were undeniably a YouTube phenomenon: some of the short films in the series garnered more than 1 million views. However, the filmmakers behind the project, who are now represented by Creative Artists Agency, started posting to Revver in September and also launched lonelygirl15.com, featuring the films with Revver ads. Lonelygirl15's backers didn't return an e-mail seeking comment, but the message is nonetheless clear: the price you pay for pursuing online fame for fame's sake means you could end up leaving money on the table. (As of earlier this month, Revver also has a deal with CAA.)

YouTube says it is looking at artist compensation models, but hasn't yet come up with one. "We are exploring ways that allow both our content partners and users to monetize their content and to participate in new ways," says YouTube's Byrne. Google CEO Eric Schmidt strongly hinted at it in the release announcing the completion of the YouTube deal earlier this month: "We look forward to working with content creators and owners large and small to harness the power of the Internet to promote, distribute and monetize their content."

But the possibilities for content owners don't end with artists. One of Brightcove's ad offerings is Brightcove AdNet, which aggregates Internet TV channels much the way online ad networks in the so-called text Web pull together reams of sites to provide online reach. Sites running Brightcove-enabled video, such as service site MomMeTV, are running ads from Procter & Gamble, a dream advertiser that the site, run by a mother from Denver, wouldn't get on its own. "She could never get in to see the buyers at Mediavest to pitch P&G," says Brightcove's Gerber. With companies like Brightcove and Veoh foreseeing a world in which practically any topic qualifies for a targeted Internet TV channel, the opportunities for advertisers and content owners go into a stratosphere that even digital cable can't reach. "I think the advertising industry is the industry that will change the most," says Veoh's Shapiro.

If niche online video players are beginning to see ad revenue from their work, there's no telling where the long tail of online video, as a market rather than a quirky diversion, will end. Is it possible that some day an advertiser will sponsor the video of your toilet-trained cat? Never say never.

There is a popular *New Yorker* cartoon that shows a dog at a computer keyboard, telling another dog, "On the Internet, nobody knows you're a dog." Well, on the video Web, no one cares if you don't have a production deal. ■