COMMERCIALISATION OF ONLINE VIDEO
What works, what doesn't and why

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This paper has been written as a supplement to the presentation given by Jimmy Storrier at the Australasian Media & Broadcasting Congress 2010, and provides more detail on elements of that presentation. Some of the hypotheses and the layout contained herein may require the context of that presentation in order to be fully comprehensible.

This paper has not been formatted to standalone as a white paper and is divided into 3 sections related to the presentation as given.

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Commercialising Professional Content

In a world where content is free, how do we get paid?

In 2010, it's apparent that users expect online content, of all varieties, to be free. Not only free from actual cost, but free from advertising. This consumer mindset has been driven by the very nature of the Internet itself. The Internet pulls down walls that proprietary distribution networks spent years building up to protect their own brand of information flow.

By the turn of the new century the excitement generated by the promise of a "low cost, high margin" distribution mechanism imploded, as evidenced by the Herculean dot com tragedy. Not only did advertisers not warm immediately to this complete disruption of existing and well entrenched business models, but the availability of the Internet meant the impact of existing information and content brands was heavily eroded as alternate, and sometimes illegal, distribution mechanisms allowed people to access content in a way they had never experienced before. This was a true information revolution where people were able to access content on their own terms rather than through distribution mechanisms designed to create scarcity and therefore, high value.

As soon as the element of scarcity disappeared, content became commoditised. This effect started with newspapers, progressed into recorded music and now, into online video content.

Professional vs Amateur content

Not only does ubiquity of content erode its value, it appears low cost and even amateur content now competes heavily for attention with professional and high cost content sources - much to the chagrin of professional content creators. Today in the US, the average YouTube user watches more than 100 YouTube videos[1] of varying quality each month and collectively users spend 1.2bn hours on the site[2] each month. Just over 5 years ago, YouTube didn't exist, and at the time YouTube was emerging from the garage, if anyone had predicted that clips of dogs skateboarding, shot on a low resolution camera on a mobile phone would compete for consumer attention with the latest season of *Friends* on television, they would have been quickly committed. The consumer entertainment landscape now is

1 http://www.comscore.com/Press_Events/Press_Releases/2010/6/comScore_Releases_May_2010_U.S._Online_Video_Rankings

2 http://www.comscore.com/Press_Events/Press_Releases/2009/11/Microsoft_Sites_Captures_Largest_Share_of_Time_Spent_Online_Worldwide

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entirely different.

Lessons from the Music Industry

As technology pervaded the music industry, the cost of creating music was lowered significantly. Where once a musician needed a hefty advance from a record label to purchase studio time to record music, now musicians can create entire albums in their bedroom for almost nothing.

The Internet also provides a low cost mechanism for musicians to distribute their content, where once the record labels, who subsequently took control of a musician's rights to their music, used preferred distribution partners who owned access to music stores. The problem for the modern musician now isn't courting a record label and convincing an A&R manager to sign a contract, it's more about how to distinguish their music from the veritable flood of bedroom musicians doing the exact same thing. The barrier to entry is no longer creation and distribution, it's discovery.

A similar trend is now occurring with music video clips. MTV made a business out of receiving record label "promotional content" in the form of video clips and transmitting them to users. In an effort to outdo other labels, huge budgets were poured into video clips, with Michael and Janet Jackson's film clip for their collaboration on *Scream* reportedly costing $7,000,000 in 1995[3].

With the music industry flailing, and the promotional value of music video clips declining, musicians are eliminating the excess in video content production. Just recently, musician Steve Failows [AKA flakjakt] released a clip for his song "Cascades"[4] which was shot entirely on an Apple iPhone 4. Not only did the musician write the song specifically for the project, he's now garnered media attention that most mainstream band publicists would consider career making.

The commoditisation of video production

Perhaps in a case of history repeating itself, technology is pervading video content production. Following on from the overwhelming success of online only TV show "Dr Horrible's Sing Along Blog"[5], in June of this year, thanks in part to increasingly lowered production costs, two independent producers in the US released the pilot episode of what is hoped to be an ongoing sci-fi TV series

3 http://en.wikipedia.org/wiki/List_of_most_expensive_music_videos
4 The clip is available on YouTube here: http://www.youtube.com/watch?v=HymoNGR3G5w&hd=1
5 http://en.wikipedia.org/wiki/Dr._Horrible%27s_Sing-Along_Blog

called *Pioneer One*[6]. This TV series isn't distributed via a closed proprietary broadcast TV or cable network. The producers released the pilot exclusively via the P2P sharing service VODO after raising $6,000 from the micro-loan aggregation service Kickstarter[7] to fund initial production. In its first week of release, the TV series was officially downloaded 420,000 times under a Creative Commons license, meaning it is able to be shared freely and legally. Based on this license, the actual number of viewers could potentially be much higher.

The producers have put a call around to fans of the pilot for money to fund the next episodes of the show, and as of the end of June, have raised over $20,000.

Clearly, *Pioneer One* isn't a threat to NBC Universal's *Battlestar Galactica* as yet, but this is early days. 5 years ago, the idea that a wanna-be producer could put together a 35 min TV episode and reach half a million people in a week would have been laughable. Today, it's a reality, and just as bedroom musicians and the Internet exposed the excesses of the recording industry, these efforts may prove to expose multi-million dollar television show and feature production budgets for what they are: excessive. Online content distribution is exposing closed ecosystem content windowing as an archaic method of extracting value from proprietary, physical distribution mechanisms – the economic model content creators have built their business on.

Nowhere is this more apparent than in Australia where 15% of the total BitTorrent downloads of the final episode of *Lost* were completed by Australians[8], and the majority of downloads were completed by users outside of the US. In a world of global connectivity, consumers don't want to wait for artificial windows to expire which allow distributors to extract excessive value.

So now apart from the fact that almost anyone can create compelling video content, whether one can agree on the definition of “compelling” or not, content production and content distribution have both been commoditised. This makes monetisation of video online a completely different proposition from the monetisation of content via television or other physical mediums.

The result of this commoditisation will eventually mean a similar result is brought about as in other industries (print media, recorded music):

1) Because users are coming to expect content for free (or closer to free), total revenue per unit for professional content will decrease. However, on the flip side old model distribution costs will be eliminated or will become much more efficient.

6 http://vodo.net/pioneerone
7 http://www.kickstarter.com/
8 http://torrentfreak.com/bittorrent-download-record-shuttered-by-lost-series-finale-100525/

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2) The content creation industry will be forced to rationalise and production costs will drop significantly
3) Professional content creators, used to a monopoly over proprietary distribution mechanisms, will now have to work harder to attract consumer attention. The value of professional content to the consumer decreases in terms of attention.

Lessons learned from the democratisation of content

While we'd all like to think some lessons were learned from the music industry's approach to content piracy, it appears the well worn path of individual and group litigation proceedings that mired the music industry ten years ago are still considered the preferred form of prevention for piracy of video content. What didn't work for the music industry is unlikely to suddenly succeed for the audio visual entertainment industry.

However, to understand the context of this litigious approach, both the recorded music and content creation industries have never been customer facing entities. Content owners and creators have always been in the business of providing content to other businesses (distributors). The distributors handled the consumer transaction pieces. Content owners and creators approach content pirates (potential customers) in the same way they would errant or rogue business partners: via the Courts. This isn't necessarily wrong, or incorrect, but it does appear to be fairly ineffective.

This is where the value of the distributor becomes apparent. As content is unlikely to be able to be “owned” exclusively any more, and proprietary distribution mechanisms will become less relevant for dissemination of video content, online content distributors and aggregators will compete with each other for consumer attention by building a user experience that capitalises on a complete and thorough understanding of consumer motivation and desires, and are then able to monetise that experience in a transparent, meaningful and potentially completely new way.

Online distribution won't simply be about transmitting content in a restricted and controlled manner, because that provides few, if any benefits over television.

This is probably why there are so few examples of success in the commercialisation of premium and professional video content online. The video commercialisation model to date has been about applying old media economics and methodologies to new media mechanics. And as much as it would be nice to continue having more of a good thing, it appears it won't quite be that easy.

The value of commercialising professional content online

Online video in 2010 is like Search in 1999. Everyone's talking about it, everyone wants to be a part of it, but no-one is really making any money out of it. And just as most companies abandoned Search as a business model around the time of the dot com bust, Google stayed the course and built a $200bn business. Similarly, many of the players in online video today will tire of the low margins, non apparent business model and suffer from failure of strategy, leading to significant rationalisation through exhaustion.

The failure of most online video services to generate any serious revenues to date may suggest the same thing. Even YouTube with its massive scale (14bn videos served each month[9]) has yet to turn a profit[10]. Hulu, with a near monopoly on free, ad-supported content streaming and major studio shareholders in the US, has just reported its first two profitable quarters on revenues of $100m.

This is evidence of a few home truths about online video business models today:

- Costs are high, particularly in Australia, but also globally
- Costs are variable meaning that profit margin doesn't necessarily increase with scale
- Profit margins are lower than what online media publishers have come to expect from static content.

These facts result in two pressures on online video publishers and distributors, which result in an erosion of margin:

1) Aggregators with successful and profitable static content businesses who add more online video to the mix will suffer from lower overall margins

2) The more popular online video becomes, the worse the effect

The economics of online video are bound to change eventually, so the decision for media distributors is whether they invest in video now to establish a beach-head, or whether they sit and wait until that time arrives.

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9 http://techcrunch.com/2010/06/24/comscore-youtube-reaches-all-time-high-of-14-6-billion-videos-viewed-in-may/

10 http://blogs.ft.com/techblog/2010/01/exclusive-youtube-profits-coming-this-year/

The elements of success in commercialisation

In either case, in order to create a profitable online video business, a publisher or distributor will need to have at least one of the following properties:

1. Huge scale – YouTube or Hulu like scale
2. Access to content with low or minimal production or acquisition costs
3. A business model that doesn't just depend on delivering video content over the web
4. A highly valuable, targetable and defensible niche market.
5. Deep pockets and a clear strategy for 3 screen dominance, knowing that today's transitive phase (video content in web browsers) is just the first step towards the end goal.

Online Video Advertising: The Myth of Standardisation

Business Metrics s Media Metrics and why it matters

Marketers, the people who are interested in advertising to generate a business outcome, speak in a language of Business Metrics such as Brand Lift / Awareness, Message Recall, Purchase Intent or Sales. These metrics are often difficult and expensive to measure in a non-biased and meaningful way. Because of this, media agencies have been able to provide many efficiencies in trading traditional media inventory by creating easily quantifiable and tradable Media Metrics, such as Reach, Frequency and CPM. Over the course of many decades, media agencies have been able to determine which balance of Media Metrics will obtain a required Business Metric result for their clients to the point that it is very rare that Business Metrics now are ever discussed with publishers or media organisations selling inventory.

Television Media Metrics and Online Video

With the advent of online video advertising, it seems natural for agencies and publishers to apply television Media Metrics and measurement methodologies to online video. On the surface, they're both very similar mediums. However they aren't the same and it's not clear that retrofitting a television advertising model to online video is the right approach for anyone, particularly marketers (clients) and publishers.

The common assumption in the Australian media industry today is that online video CPMs should be set at the same level, or lower, than television CPMs. The reasoning appears to be somewhat twofold: 1) TV is perceived as a higher impact medium than online video, so online video should be priced no higher than TV, and 2) it would be easier to convince advertisers to shift budget from TV advertising if rates were lower than TV.

Both of these assumptions need to be challenged robustly by online publishers but not by taking the approach many publishers are today which is to simply point out the differences between online video and TV. An online video advertisement may be delivered to an actual rather than perceived audience, and online video advertising may suffer from less clutter than TV advertising, but until the actual impact of online video advertising is measured in terms of Business Metrics, these points are moot.

An Error of Focus: Impression Delivery

As an example of the extreme disconnect between client objectives and publisher results, online media has become almost single minded about over delivery of impressions in a media campaign. A 10% over delivery of impressions on an online campaign results in a round of high fives on the sales floor, but very rarely is the impact of over delivery measured in terms of Business Metrics.

The problem is that the language of success in online media is based solely on Media Metrics. The online publisher's client is the media agency, not the marketer, based on the fact the agency is writing the publisher's cheques. It's very rare that an online publisher is ever required to consider the result a marketer is looking for.

For the sake of example, imagine a video campaign has been booked to deliver 2m impressions in a month. At the end of the month, the campaign has actually delivered 2.2m impressions. In either case (bullseye delivery or over delivery) the campaign reached 1m people.

In the first case, 1m people saw the video ad twice and in the case of over delivery, 200,000 of those same 1m people saw the ad 3 times.

Audience	Frequency	Total Impressions
Bullseye Delivery (2,000,000 Total Impressions)		
1,000,000	2	2,000,000
Over delivery (2,200,000 Total Impressions)		
800,000	2	1,600,000
200,000	3	600,000

A marketer won't necessarily (or shouldn't necessarily) be impressed with the “free” impressions. Rather, they would ask whether 200,000 people seeing the ad three times, rather than twice, resulted in any incremental benefit in Business Metrics. Did the 200,000 people who saw the extra impression display an increased brand awareness or purchase intent? If so, was there an incremental benefit in investing more money in the campaign in order to reach the entire 1m audience 3 times.

On the flip side, the marketer might be interested in the advertising tolerance of the audience, where showing them an extra third impression may have caused a negative brand association in that group.

These are questions that neither agencies, or online publishers are answering in respect to online video advertising. No-one really knows, because there's no expectation that it really matters. When the standard of measurement has settled on the impression, and media agencies insist on impression performance, as they do in other traditional media, it's fairly difficult to generate any meaningful analysis on tangible Business Metric results.

Impressions: the bad and the ugly

The danger of this approach to impression delivery becomes obvious, and all online publishers globally have examples of this scenario playing out in the deepest, darkest corners of their history, where an agency books a set of impressions, the publisher overestimates audience for the campaign, and in realising they won't reach their impression target, they flood the audience with impressions of the same creative in the final week of the campaign to make up numbers. Similarly media publishers may throw more inventory at a campaign to try and drive acquisition results without a consideration of the brand impact of that inventory delivery.

The relevance of Reach and Frequency in an online world

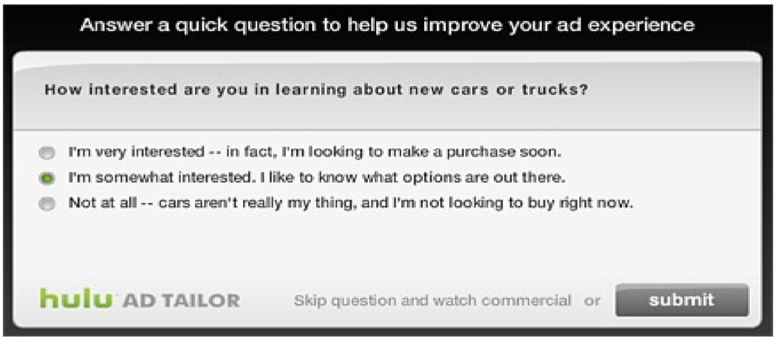
Quite aside from the limitations of measuring campaign success with impressions, the TV advertising model which is about reaching as many people as possible in the hope that some of them might be converted to your desired outcome, is no longer relevant online.

The huge advantages of two way communication online haven't been fully exploited by online media publishers, however this is slowly changing.

Hulu in the US has reached somewhat of a midway compromise between leveraging the power of the online medium and the traditional television advertising unit. Hulu users are now able to select whether advertising they are watching is relevant to them . At a very basic level, this becomes an important targeting mechanism, which doesn't rely on qualitative audience demographic data.

Hulu's in stream ad relevance mechanism. Credit: hulu.com

Just as an advertiser probably wouldn't choose to serve commercials for women's clothing during an episode of *Jackass*, it's probably just as irrelevant to serve that same ad to a 21 year old male watching an episode of *Grey's Anatomy* regardless of the overall demographic distribution of that programme. Hulu also prompts users to respond to categories of advertising:



Hulu's pre-stream ad relevance mechanism. Credit: hulu.com

Guvera is another example of a site utilising the strengths of online, two way communication to provide free content (in this case, not video, but the model would be an interesting one to explore for video) for users, supported by brand advertising. The service provides an honest attempt to try and find a new advertising paradigm where both the consumer and advertiser benefit.

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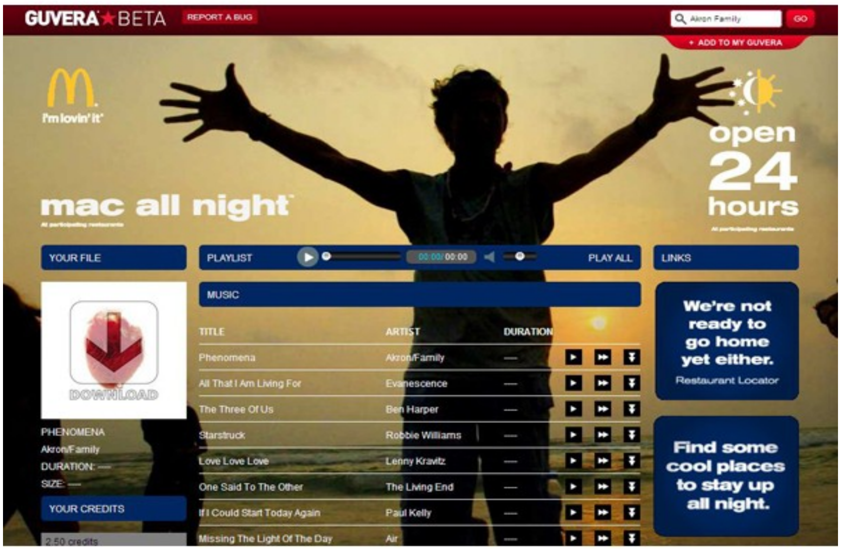

Guvera's brand sponsored music model. Credit: guvera.com

Further innovation in this space by online publishers and products is necessary, but these examples provide a good start.

How the online media ecosystem might change the game

The great thing about Business Metrics is that most of them aren't reach dependent. A marketer, in theory, can test an increase in brand awareness, message recall and purchase intent with an online audience of 100,000 users and a viewing audience of 1m people on TV and compare the results across the two.

What's needed in the industry is a straightforward, robust, unbiased TV advertising impact vs. online video advertising impact study to determine the effectiveness of each medium. To date, very few of these studies appear to exist. The television industry has become very good at doing this work to support its medium, however most impact studies commissioned by the television industry available today compare TV advertising to a general “Internet advertising” category, which provides no meaningful comparison of television vs online video.

Some work is being undertaken on this front, particularly in the US. At an ANA Brand Management Committee in the US earlier this year, Nielsen IAG concluded that:

> “A piece of creative running on a site such as Hulu.com (or ABC.com, NBC.com, CBS.com, etc.) delivers more effective advertising in terms of brand and message recall, than the same piece of creative running on TV.”[11]

11 http://www.ana.net/michome2/miccontent/2801

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The myth of online video measurement standardisation

With media buying and trading now almost a century old business, with strong efficiencies being realised from standardisation of media placements, it's natural that there's a strong driver for standardisation of advertising online so that online media can benefit from the efficiencies standardisation provides in campaign selection and media placement trading.

However there is a problem with this quest to standardise: online media can't and won't be standardised. Standards work in television because the advertising unit only has one variable – time. In television, an advertiser buys the ability to interrupt a viewer's content experience by purchasing time in or around a piece of content that viewer is watching. What an advertiser does with the time is up to them (within reason) and the communication is purely one way.

The number of variables with online media is endless. Placement, positioning, execution and interaction to name a few. This high level of complexity has caused some advertisers to treat the online medium purely as an acquisition channel – where payment to publishers is based on a cost per interaction. Unfortunately this completely discredits the brand impact online advertising can have.

Further complicating the issue is the fact that as soon as an advertising unit becomes common or pervasive online, clients and agencies assume the impact of that unit has been dulled and request that publishers invent new, even more high impact solutions, or “something different”. Where once “something different” meant a Creative Agency was tasked with coming up with a unique concept for a 30s television spot, it seems now the onus for complex creative execution is the online publisher's burden, because by their nature, each publisher is different. This is evidenced by the ongoing advertising unit innovation on display from services such as Eyeblaster[12] who continually invent new online advertising units in a quest to interrupt the user in a way that is perceived to provide increased advertiser value.

It has taken a number of years for the IAB in the US to propose standards for video advertising, such as their VAST[13] and VPAID[14] initiatives, but it seems that as soon as the industry agrees on a standard, a publisher, under pressure from agencies and clients, is already bucking the trend by delivering a new unit of delivery that promises higher impact, more relevant advertising. If the industry demands that the goalposts keep moving, the relevance of standardisation becomes questionable, outside of the measurement of Business Metrics.

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12 A thorough showcase of some Eyeblaster creative can be found at: http://creativezone.mediamind.com/
13 http://www.iab.net/vast
14 http://www.iab.net/iab_products_and_industry_services/508676/compliance/679310

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So it appears that Business Metrics may need to become the new standard of measurement for online video campaigns rather than relying on decades old Media Metrics which don't appear to apply to the online medium.

The Future of Video Advertising Revenue

Whilst Internet advertising overall has achieved strong YoY growth over the last decade, it appears huge growth for online video advertising is unlikely in the short to medium term.

In the US, online video currently accounts for 4.3% of total online advertising spend and 1.6% of television spend. Market numbers for online video advertising in Australia aren't readily available, but the proportion of video advertising to online advertising is likely to be slightly lower.

Year	Online video / Total online
2009	4.3%
2013	11%

Source: eMarketer

By 2013, online video is expected to account for 11% of online advertising and 5.5% of TV advertising. TV advertising is yet to experience anything more than a ripple from the impact of online video advertising, and this doesn't bode well for monetisation of television content online, as it appears TV will remain the bread and butter method of content monetisation for at least the next 3 years.

The imbalance apparent in online video advertising spend

The problem of advertising spend imbalance between online and off-line media, based on consumer time spent isn't a new one for most online media professionals. It's a balance that will no doubt eventually correct itself, but to demonstrate the effect of the imbalance in terms of online video, Hulu provides an interesting case in point.

In the US a rating of 10 is a great result for a network, meaning that 10% of all TV enabled households (approx 17m households) in theory, had a television programme switched on in their house at a given time. A network charging a $30CPM for a 30 second spot (without any demographic loading) would

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command $510,000 per spot for a 10 rating. With 6 ads in a pod and 4 pods in a half hour show with a 10 rating, a US network can potentially take $12m in a half hour.

According to ComScore, 43m unique visitors arrive at Hulu each month. Last year, Hulu earned $100m in revenue, and expects to earn $200-$250m in 2010, so it takes Hulu approximately 1 month and 43m unique visitors, to earn what a TV network can earn in half an hour during a hit show.

Unless and until online video distinguishes itself from the television advertising paradigm, it won't be able to scale.

The Wrap: key trends in online video commercialisation

Five key trends in online video commercialisation as it relates to professional content are apparent today:

1) Monetisation of professional content isn't as simple as just transmitting content via a new open network infrastructure (IP).

2) Online video content delivery does not yet provide better economies for delivery of content over more traditional methods, particularly in terms of net margin

3) Amateurs can now effectively compete with professionals for consumer attention, and surprisingly, they are able to capture large amounts of that attention

4) Applying the same metrics that have worked for off-line media to the online medium appears to be ineffective, and is a no win game for the entire ecosystem

5) Online video advertising revenues will not increase in the short to medium term to the point that they will provide the crucial tipping point to transition free, ad-supported professional content away from television. On the flip side, this will drive even more users to piracy over that time frame.

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