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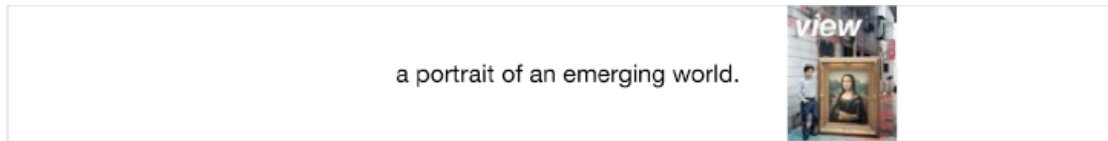
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Business

Internet video

The trouble with YouTube

Aug 31st 2006 | SAN FRANCISCO

From *The Economist* print edition

It attracts a lot of viewers, but can "user-generated" video make money?

"STARBUCKS has comfy chairs, but they don't charge people for sitting in them," says Tom McInerney, the boss and co-founder of *Guba*, an internet-video company. Instead, he explains, Starbucks provides a comfortable environment, at considerable expense, so that people will buy overpriced coffee. That, in essence, is the business model being pursued by websites that host "user-generated content" such as personal blogs, photographs and today's craze, amateur videos, which can be uploaded and watched on sites such as *YouTube*, *Google Video*, *MySpace*, *Guba*, *Veoh* and *Metacafe*. By offering a setting for free interaction, such sites provide the online equivalent of comfy chairs. The trouble is that, so far, there is no equivalent of the overpriced coffee that brings in the money and pays the bills.



Head and shoulders above the rest, for now

That is why people like Chad Hurley and Steven Chen (pictured), the co-founders of YouTube, the clear leader of the pack by audience size, are casting around for a business model. Aware that inserting advertisements at the beginning of video clips, as some sites do, is annoying and risks driving away YouTube's users, Mr Hurley and Mr Chen have announced two experiments with advertising, with the promise of more to come. One idea is for "brand channels" in which corporate customers create pages for their own promotional clips. Warner Brothers Records, a music label, led the way, setting up a page to promote a new album by Paris Hilton. The second experiment is "participatory video ads", whereby advertisements can be uploaded and then rated, shared and tagged just like amateur clips. This "encourages engagement and participation," the company declares.

Even as advertisers evaluate these new ideas, however, YouTube and the other video-sharing sites face other difficulties. For one thing, they are in a no-man's land of copyright law: they promise



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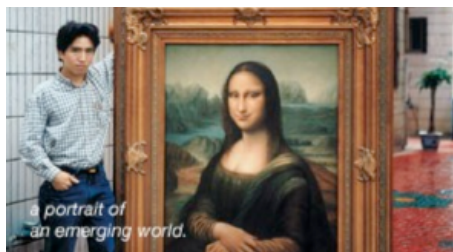
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to pull pirated content from their sites when asked to do so, but it is only a matter of time before one of them is hit with a big lawsuit. Then there are the costs of running such a site—video requires a lot of bandwidth and storage. A rival estimates that YouTube is losing more than \$500,000 a month.



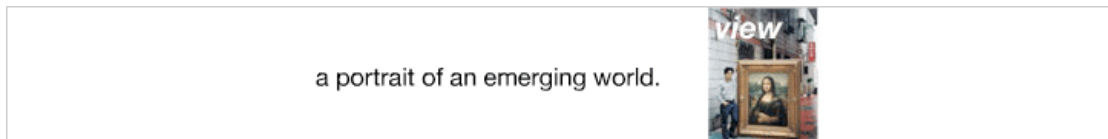
Putting paid-for advertisements alongside amateur video clips, perhaps based on keywords or tags, poses another problem. “How do you know the guy in a video doesn’t make a racial slur?” asks Mr McInerney. Many firms will be cautious about letting an automatic system—such as, say, Google’s AdSense—place their ads next to user-generated clips of unknown provenance and with potentially embarrassing contents. (Even so, Guba is testing AdSense for Video, which has not yet been officially launched.)

For its part, Guba is betting on a combination of advertising plus the sale and rental of commercial video material. Its site offers both free amateur videos and paid-for content, including films from Sony and Warner Brothers. When Guba cut its prices last week, allowing new films to be downloaded for \$9.99 and older ones for \$4.99, its sales jumped tenfold. Google Video also allows content owners to charge for video. This suggests that internet-video sites are on a collision course with DVD-rental outfits, such as Netflix, which are moving towards the delivery of films via the internet, rather than as discs sent through the post.

That, in turn, highlights another business model for the 200-odd internet-video sites. During the previous internet bubble, they would have rushed to list their shares as fast as they could; this time around, many will try to be bought by media conglomerates instead. Last week Sony, which has a large film studio and lots of video to promote, bought [Grouper](#), a small video-sharing site, for \$65m. And News Corporation, Rupert Murdoch’s media conglomerate, is turning MySpace, its popular social-networking site, into a challenger to YouTube. Little wonder then that the founders of YouTube, Guba and other independent video sites go to great lengths to be quoted saying respectful things about other media moguls.

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