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Business News

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YouTube suit is fight for control of content

By Meg James and Dawn C. Chmielewski, Times Staff Writers
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Most of the video clips that TV networks are willing to share with YouTube aren't the stuff people want to watch.

CBS news anchor Katie Couric's interviews attracted only a few thousand viewers, and behind-the-scenes vignettes with the cast of NBC's new drama "The Black Donnellys" got a few hundred. But the amateur video of Nora the Piano Playing Cat, "Practice Makes Purrfect," drew 1.5 million.

So why is Viacom Inc. bothering to sue YouTube? It's all about control, and money.

Networks won't give YouTube much of their most-popular material because they believe that Google Inc., which owns YouTube, isn't protecting their copyrighted content. What's more, Google isn't offering to pay them what they think is enough. And even if the networks could sort out the financial issues, they still want to dictate which ads would be placed around their clips — and not have their shows thrown into the mishmash of fistfights, karaoke performances or ladybugs having sex.

Most advertisers "want to be in the VIP section, the section that requires a higher price for admission," said Tim Hanlon, an executive with French advertising giant Publicis Groupe. "YouTube's audience is a polyglot and random. It's one gigantic lowest common denominator."

Emily Riley, a Jupiter Research analyst, said the amount of money advertisers spend on social networking sites such as YouTube amounts to pocket change. The majority spent less than \$250,000 in the last 12 months, Riley said, and only a tiny percentage of advertisers spent more than \$1 million. By contrast, Walt Disney Co.'s ABC collected \$1.7 million for each 30-second spot during the Academy Awards telecast.

YouTube is still trying to figure out how to make big money on its massive audience. It has relied on banner advertisements, drawing an estimated \$15 million in ad revenue last year, according to a Bear Stearns analyst.

Not all advertisers are avoiding the site. Anheuser-Busch Cos., Coca-Cola Co. and Nike Inc. have been uploading some commercials to snag extra views.

"There are advertisers who are cautious and want to avoid being associated with content that they feel is in poor taste," said David Cohen, an executive with advertising buying firm Universal McCann. "But for others, YouTube is a fantastic way to aggregate a mass audience."

That kind of talk frightens TV executives. For the last half a century, the industry has been underwritten by advertisers that pay to get their commercial messages on the air. Networks sell time in the initial broadcasts of a program, and later, their distributors — stations or cable channels — turn around and sell the ad time during syndication.

It's that advertising money that is the lifeblood of the industry and allows TV executives to continue to finance the high cost of programming.

"You've got a real issue here with the traditional programmers, the networks, who are starting to get concerned that they don't own the distribution network anymore," said Larry Kramer, former chief of digital media for CBS Corp. who now consults for the company. "They paid all this money to create great content, but it was the distribution system that helped them pay for all of this great content. Their position is that 'We don't produce content to give it away for free.' "

Some believe that Google represents the most serious threat to the television business since the remote control. The search giant was once viewed as an engine

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to drive traffic to the networks' websites, but with its \$1.65-billion acquisition of YouTube, Google became a rival.

YouTube's online traffic last month surpassed that of 56 TV network websites, according to online research firm Hitwise.

Google took in \$10.6 billion in advertising revenue last year. But growth in search-based advertising has slowed, which is why there is speculation in the industry that Google has its eye on an even bigger prize: the more than \$60 billion a year spent for advertising on networks, TV stations and cable channels.

This week Viacom Inc. tried to throw up a legal roadblock, filing a lawsuit accusing YouTube of infringing its copyrights by allowing users to post unauthorized copies of TV shows such as "South Park" and movies such as "Mean Girls." NBC Universal is frustrated too; it recently sent YouTube a six-page letter about its failure to filter out bootlegged video.

NBC Universal is irritated that YouTube built its popularity on the backs of pirated "Saturday Night Live" clips — "Lazy Sunday," in which comedians rap about "The Chronicles of Narnia," and "Natalie Raps," in which fresh-faced Natalie Portman busts out in rhyme about her gangsta lifestyle.

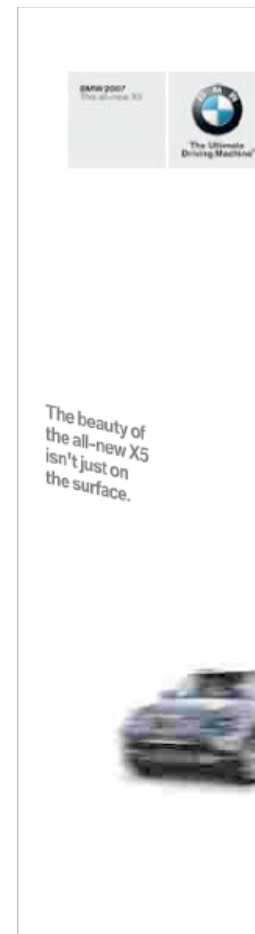
Google Chief Executive Eric Schmidt, speaking to investors last week, said he wasn't concerned about the tough talk. And he made light of the TV industry's complaint that Google was acting too high and mighty: "I'm sure we're arrogant. But I have learned that as part of being a player in the media industry, part of negotiations is that everything is leaked and you are sued to death."

Viacom CEO Philippe P. Dauman said his company went to court to enforce its copyrights and protect its valuable brands, such as MTV, Comedy Central and Nickelodeon. That doesn't mean Viacom won't one day strike a deal with YouTube. "Certainly, Dauman said, "we could find ways to operate in a YouTube environment that would be compatible with our brands."

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