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# News Corp., NBC pull together to challenge YouTube

By Meg James and Dawn C. Chmielewski, Times Staff Writers  
March 22, 2007



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Several media giants are teaming up to challenge Google Inc. and its YouTube video-sharing service, seeking to blunt their incursion into the entertainment business.

News Corp. and NBC Universal plan to announce as soon as today that they are creating an online video site stocked with TV shows and movies, plus clips that users can modify and share with friends, according to people close to the negotiations.

The two companies enlisted help from some of Google's biggest Internet rivals. The News Corp.-NBC Universal partnership has deals with Yahoo Inc., Microsoft Corp., Time Warner Inc.'s AOL and News Corp.'s MySpace to place videos in front of their collective audience of hundreds of millions.

Despite Hollywood's dismal track record in creating successful joint ventures, these players see little choice but to band together to compete against Google and Apple Inc., which are becoming powerful distributors of entertainment.

News Corp. and NBC Universal want to control how their shows are watched online and to hold onto advertising dollars migrating to the Web. Google is expected to gobble up nearly a third of all online advertising revenue this year, according to research firm EMarketer Inc.

"You're just pooling resources in the face of the most disruptive force your business has seen ever," said Eric Garland, chief executive of market researcher BigChampagne.

The new venture, which could launch this summer, is envisioned as an advertiser-friendly destination for some of TV's most popular shows, including NBC's "Heroes" and "The Office," and "Family Guy" and "24" from News Corp.'s Fox. The companies also plan to sell downloads of Universal Pictures and 20th Century Fox movies.

But the companies see the service as more than just another video site struggling for an audience. They are also packaging their material and sending it to Yahoo and other sites where millions already gather.

"The media companies don't want to be forced to only work with one distribution entity, in Google," said UBS Warburg media analyst Aryeh Bourkoff. "I don't think it's too late."

The partnership comes a week after Viacom Inc. sued Google for not doing enough to keep its shows off YouTube.

The talks between News Corp. and General Electric Co.-owned NBC Universal have been on-again, off-again since last summer as the two media companies sought to recruit others. They tried to woo Viacom because of its treasure trove of MTV Networks shows that appeal to younger viewers.

But when Viacom headed to court, News Corp. and NBC Universal chose another path. News Corp. President Peter Chernin and NBC Universal Chief Executive Jeff Zucker have made the initiative a top priority, and the talks heated up this week.

"It's better to cannibalize yourself than have the competition do it," said EMarketer CEO Geoff Ramsey.

Time Warner, CBS Corp. and Sony Pictures Entertainment could also supply the

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service with shows and Web-only video clips in exchange for a cut of the advertising revenue. They have yet to sign on.

For now, the News Corp.-NBC Universal venture will pool videos on its website, syndicate videos to other websites and handle advertising sales.

"This is a tremendous opportunity to get our content out there and leverage relationships better," said a person familiar with the talks. "We're not about blocking our content and not allowing opportunities. We just want to do it in a way that's legal and allows us to get paid."

So far, Google has the edge in attracting online audiences. YouTube, which Google bought in November for \$1.65 billion, draws more viewers than the television networks' combined online audience, according to measurement firm Hitwise.

Google executives' disdain for the project is evident in their nickname for the consortium: Clown Co.

"The biggest challenge will be to see how the parents of conglomerates work together in decision-making," said Bourkoff, the media analyst. "Is this going to be a great press release, or will it actually function as a business?"

Hollywood has long been the king of entertainment. It believes that viewers will eventually get tired of the amateur videos that populate YouTube and other video-sharing sites, and that professionally produced material will win out.

TV networks have tried different approaches to dealing with YouTube to gain a bigger presence on the Web. NBC and CBS reached agreements to put some promotional clips on YouTube but also joined Viacom and others in complaining that Google hadn't gone far enough to protect their copyrighted material.

Traditional media companies have been unhappy with how much YouTube was willing to pay and the lack of control they would get over how their clips are displayed.

Not only that, they don't want to help build Google into a bigger monster.

By building their own online entertainment platform, News Corp. and NBC Universal are trying to protect their decades-old way of doing business — controlling not only their programming but the advertising revenue and distribution outlets.

They fear that giving programming to Google and YouTube could weaken their leverage in subsequent negotiations. And they would be ceding one of their most lucrative revenue sources — the distribution pipeline.

People close to the negotiations said that the venture's mission wasn't to create a "YouTube killer." And they didn't rule out eventually striking a deal with Google in an effort to steer even more viewers to the new site.

"We think they could be a terrific distribution partner," said a second executive close to the talks. "We have a strong preference for working with companies that agree to protect intellectual property."

Conversations began last summer between News Corp.'s Chernin and former NBC Universal executive David Zaslav, who has since left to run Discovery Communications Inc. Both wanted to collect some of the companies' best shows and draw upon MySpace's huge audience.

Talks intensified last fall when Google announced it was buying YouTube. By then, News Corp. and NBC Universal saw that their plan to build a video island was too limited. They rejected the "if we build it, they will come" strategy.

"We needed to have hoses to fire people in," said one key architect.

That's when they approached Microsoft, Yahoo and AOL.

Yahoo CEO Terry Semel hinted about the deal Wednesday during a media conference in New York, saying that his company was "going to work much more closely with major content producers" and that an announcement could be expected "very soon."

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