



YouTube: Waiting For the Payoff

The video-sharing Web site is a runaway success—everywhere but on the bottom line

BY HEATHER GREEN

YOUTUBE INC. IS THE Internet company to beat these days. Wowed by its meteoric rise—the 19-month-old site dishes up 100 million daily videos—startups and giants alike are crowding into the video-sharing market. Microsoft Corp. is developing its own service. And this fall, the founders of the Skype and Kazaa services will unleash the Venice Project, a wannabe YouTube killer built on file-sharing technology.

With all the excitement, it's easy to forget that the video-sharing pioneer's business so far amounts to a whole lot of expenses, not much revenue, and no profits. YouTube took on the job of creating the business model for a new medium where anyone can post any video. While it's starting to develop new ad offerings, its popularity is driving up costs that established Web giants, such as Google Inc. and Yahoo! Inc., are able to spread out. YouTube spends a tidy, and growing, sum to stream its short clips. Current estimates range from \$900,000 to \$1.5 mil-

lion per month. Much of that goes for computer servers and transmission bandwidth. But because the company is charting a delicate course in how it handles pirated videos, its legal costs could balloon if lawsuits start piling up.

Even more important, though, is the tricky question of how YouTube can make money off its phenomenal growth while maintaining the promise behind that popularity. YouTube could easily alienate its users by overwhelming them with ads. And the startup has to figure out how to attract a broader group of marketers by filtering more for copyrighted or offensive videos and by creating more channels of similar content.

Aware of the risks, YouTube co-founders Chad Hurley and Steve Chen are moving slowly to ramp up advertising. They have been wary of asking viewers to sit through a 30-second ad before a two- to three-minute clip. Instead,

PURE PLAY

Hurley and Chen are wary of saturating YouTube with ads

YouTube is developing new formats, like ones rolled out in August that let marketers build their own video channels or pay to place a video on YouTube's popular front page.

Creating channels is a logical way to carve out space for ads, but what kinds of channels work in such a wild and woolly environment? Warner Bros. launched YouTube's first brand channel to promote Paris Hilton's new CD. But for companies that don't have content, such as a consumer-goods packager, another approach would be to create managed channels along themes—soccer, say, or anime. Or YouTube could use targeting technology to dish up ads based on a visitor's viewing habits. Still, marketers say they want another level of filtering. "If I buy advertising to be near humor videos, it can be risqué and edgy, but I have to be comfortable with just how risqué that is," says Jeff Lanctot, general manager of online ad agency Avenue A/Razorfish.

IN SEARCH OF 'NIRVANA'

ANOTHER PROBLEM is that YouTube isn't helping advertisers reach the best videos created by just folks, such as a five-minute spoof of Darth Vader as a grocery store manager. These videos are a big part of YouTube's charm, but since they appear out of nowhere, it's hard to sort them efficiently. YouTube could create separate channels of the more professional videos, says Allen Weiner, an analyst at Gartner Inc. But that means picking over the videos individually or developing technology to pinpoint content that's not pirated or from someone who is consistently good. "Until they can figure out the consumer-generated content, they miss nirvana," Weiner says.

For now, YouTube's execs are resisting turning to ad pros for solutions. The company seems determined to rely on its visitors to filter out pirated and vulgar works. And it's challenging marketers to find creative ways to tap into its community, such as running film festivals or sponsoring videos posted by studios.

YouTube has a huge head start. Still, it may not have much time to turn a gusher of videos into gold before being overrun by a new generation of mainstream sites and upstarts. Online, as in life, evolution rules.



TONY AVELAR/AP PHOTO