

## Taking on the Godzilla of video-sharing sites

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In a gray bunker of a building with a graveyard as its neighbor, a freshly hired strike force of Internet executives, programmers and advertising representatives is mounting a grand mission to take on a global behemoth: Google's YouTube.

This is the new international headquarters of Dailymotion, an online video-sharing company, in the north of Paris. In the sprawling landscape of Internet video sites, Dailymotion ranks a distant second, according to figures from the Internet audience tracking company ComScore. But in France, it has managed to pull ahead of YouTube, the only competitor that has managed to do so in any major market. That success has encouraged Dailymotion to expand in other places, including the United States and Britain.

"YouTube is the dominant player and other players are quite distant, but Dailymotion is the one player that has been able to counter that trend," said Piers Stobbs, vice president for marketing at ComScore.

Fueled by the spread of broadband, video is one of the fastest-growing areas on the Internet, with "Internet television" services like Joost and Babelgum, video-sharing sites like YouTube and Dailymotion, and video sites from traditional broadcasters all competing for audiences. Investment is driven by the prospect of new revenue from advertising and product placement, even if hopes have so far mostly gone unfilled. With more than 80 percent of Internet users viewing online video in Britain, France and Germany, Europe has emerged as an important battleground.

YouTube, which Google bought for \$1.65 billion in 2006, and Daily Motion are locked in a fierce struggle for market leadership in France. Daily Motion overtook YouTube in February, with 10.2 million unique visitors, compared with 8.8 million for YouTube, according to Nielsen, another audience tracking service. But worldwide, YouTube remains the Godzilla of video-sharing sites, with 258 million unique visitors in January, compared with 32 million for Dailymotion, according to ComScore.

Daily Motion's founders lay claim to bragging rights by starting one month earlier than YouTube, on March 15, 2005, although they struggled to build the high profile of their California-based rival, which quickly became synonymous with user-generated videos online.

The company was incubated in the French equivalent of a Silicon Valley garage, a Parisian apartment, with six partners pooling together €6,000, or \$9,260. They opened for business in the living room of one of the founders, Olivier Poitrey, who says that their experience belies the stereotype that French red tape stifles start-ups and innovation.

"Over the last few years the government made some changes," Poitrey said, "Administrative tasks are easier now. There's a central place where you can go to do all the paperwork to start a company. It used to be far more complex and you had to go to a lot of places and you needed a lot more capital at the beginning. Now you can make a start with €1 and before it was €10,000."

Since those modest beginnings, Dailymotion has picked up the pace, particularly after an infusion of \$34 million in venture capital in late August from five European investors, including Paris-based AGF Private Equity, a member of the Allianz Group.

That money has brought new top management and 120 new employees, including 25 ad sales representatives. With the financing, the company has expanded into outposts in London, New York and Barcelona, and created local sites in a total of eight languages.

"From the beginning we were international, with Web sites in French and English, so it is the heart of our business to be local," said Martin Rogard, who at the age of 27 has shifted from a government position at the French Ministry of Culture to preside over the local French

operation as vice president for content. His office door is pinned with a Google "Most Wanted" caricature of the young executive with a beaming smile.

YouTube took the fight to the challenger's territory in June when it held a Paris news conference, featuring a welcome message from a French rapper, Kamini, to announce its own localized versions in nine countries, including Britain and France .

Dailymotion, which is keenly aware that it does not get much search engine traffic from YouTube's parent Google , sought to counterpunch by hand-picking promising video producers, whose work is featured on the company's home pages. It is also touting its technology, introducing tools to upload high-definition videos - something that YouTube does not offer.

Dailymotion's newly hired managing director, Kate Burns - former managing director of Google in Britain - is trying now to form alliances with film schools and students to develop original material. New management in the United States is considering an existing French approach from the home office: staging showings of the best videos at local cinemas.

On its U.S. site, Dailymotion has also created separate "channels" for Latinos and for gays and lesbians. Local comedy videos have proved to be the most effective entertainment strategy for the U.S. market, according to Joyce Marcus, managing director for U.S. operations, in contrast to France, where music videos are much more popular.

In France, Dailymotion has exploited its hometown advantage by getting its hands on clips featuring the nation's president, Nicolas Sarkozy, in off-message moments. The president's video foibles have ranged from ogling a woman in a revealing evening gown at a state event to scorning a man who refused his handshake with the words: "Get lost, then, you poor idiot."

At the new headquarters, across from the Montmartre cemetery, the staff is indulging in a philosophical debate about whether to erase the graffiti scrawled on the outside of their building, which some consider renegade street art. But Dailymotion is striving to shed the pirate image held by some video-sharing sites because of accusations from entertainment companies that they facilitate the unauthorized exchange of copyrighted material.

TF1, the leading French television broadcaster, has filed a legal complaint against the company, accusing it of using unauthorized programming, according to a TF1 spokeswoman. Late last week, an independent producer, Calt Productions, also took a swat at Dailymotion, complaining that pirated copies of its shows were surfacing on the site. The company's president, Jean-Yves Robin, accused the video site of "pillaging" his catalogue.

Dailymotion counters that it has added a "digital fingerprinting" system to track and remove unauthorized copyrighted content. And it has struck revenue-sharing partnerships with Warner Music Group and Universal Music Group.

The company does not disclose its advertising revenues, but internal estimates are that it will earn more than €10 million this year, according to a person familiar with the company. Rogard said revenue amounted to "six figures in 2006, seven figures in 2007, and we will try to do nine figures by 2008, when we expect to break even."

Some video producers praise Dailymotion for its technology and its support for homegrown talent. But for video producers seeking the broadest exposure, YouTube's reach still trumps technology.

"Their technology has always been ahead of YouTube, for sure," said Loren Feldman, a video producer in Manhattan with the Web site 1938media.com who participates in Dailymotion's program for handpicking and highlighting talented producers. "The problem is that YouTube has a much bigger community, and ultimately you want the reach despite YouTube having less than stellar qualities."

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