





HOW YOUTUBE CHANGES EVERYTHING

WITH A BILLION UNIQUES PER MONTH AND GROWTH OF OVER 50% THIS YEAR, GOOGLE'S VIDEO JUGGERNAUT IS MINTING MONEY AND DISRUPTING THE MEDIA WORLD.

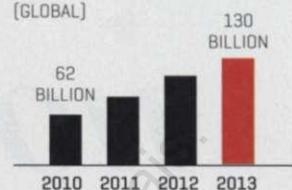
By MIGUEL HELFT

TOOK HUNTER MARCH just days to go from TV studio intern to on-air personality, and on a recent morning he is practicing his newfound craft. Standing atop a three-inch wooden platform, he fidgets as he prepares to tape his daily show. There's no sound-proof room and no ON AIR sign to shush passersby. The shoot takes place next to the receptionist's desk in a Los Angeles studio as delivery men and employees come and go. March, a hyperactive 22-year-old with spiky hair and boyish good looks, operates the tripod-mounted camera himself. His backdrop is a graffitied chalkboard with the phrase "Be Awesome" scribbled on it. March takes a deep breath and looks down at his iPhone to read a couple of lines of his script. ¶ Next he turns on the charm—his smile broadens, his eyes widen—and he parrots the lines for the camera with the suavity of a seasoned entertainment-show anchor. He repeats the routine with the next line, and the next one, until, well, everything there is to say about the latest Miley and Justin rumors has been said. The show, all 60 seconds of it, airs online the next day, and within a few hours after it's posted, more than 10,000 people have watched it. A few days later the view count is up to 44,000 and still climbing.

Hollywood veteran Robert Kyncl is transforming YouTube with original channels.



YOUTUBE MONTHLY VIDEOS VIEWED (GLOBAL)



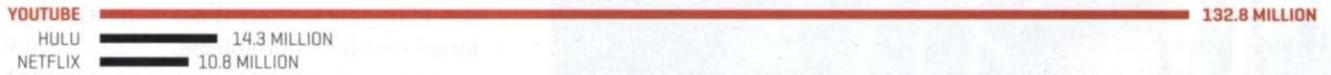
A BARCLAYS REPORT ESTIMATES REVENUE AT \$3.6 BILLION AND VALUES YOUTUBE AT \$15.6 BILLION TO \$21.3 BILLION.

March's *Daily Report* is one of nearly two dozen shows on Awesomeness TV, an online video network that's less than a year old. It already has more than 675,000 subscribers, and its shows have been viewed 120 million times. You may never have heard of any of Awesomeness's shows, but chances are the kids at your neighborhood middle school are watching. And plenty of grownups have heard about Awesomeness too. Michelle Obama's staff had just called Awesomeness around the time I visited company founder Brian Robbins at his L.A. office in June. The First Lady apparently was hoping to use Awesomeness to

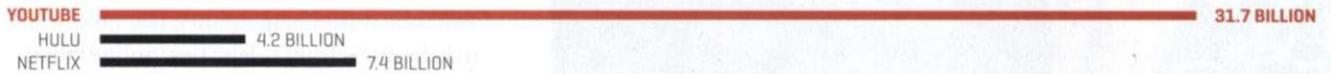
tell teenage girls that studying math and science is cool. Another adult who has picked up on the buzz is Hollywood mogul Jeffrey Katzenberg, whose DreamWorks Animation recently paid \$33 million to acquire Awesomeness TV. "They're having a level of success that is breathtaking," Katzenberg tells me. "This thing is like a rocket ship."

Its launching pad? Google's YouTube. The eight-year-old video-sharing website is a juggernaut in its own right: Viewership grew about 50% in the past 12 months, an astounding growth rate for a site that attracts 1 billion users each month globally. Viewers consume 6 billion hours of YouTube videos monthly—that's almost one hour for every person on the planet. With traditional-TV audiences stagnating, it's no surprise that YouTube has emerged as the leading platform for professional artists and producers

UNIQUE U.S. VIEWERS PER MONTH (EXCLUDES MOBILE DEVICES)



AVERAGE MINUTES PER MONTH (U.S., EXCLUDES MOBILE DEVICES)



looking to connect directly with mass audiences; some have millions of devoted fans who come to enjoy their shows day after day. Their shows tend to be short, and while they are produced on the cheap compared with television shows, they have none of the grainy, amateurish aesthetic of YouTube's early days. Together, YouTube and its content partners are transforming the site from a chaotic collection of cat videos and viral hits like "Gangnam Style" (1.7 billion views) into a legitimate destination for a new generation of professional videos. The viral hits and zany clips are still there, of course, and in aggregate they draw the largest—and most global—entertainment audience anywhere.

It's no wonder that there are no longer snickers about Google's 2006 acquisition of YouTube—then just a year old—for \$1.65 billion. Only a few years ago many pundits fretted that Google would ruin the promising site, while others felt that the search giant overpaid for a product that was expensive to run and difficult to monetize. No more. Google now rings up \$3.6 billion in revenue on YouTube—almost all of it from advertising—and that top line will grow 20%, to \$4.3 billion, in 2014, according to Barclays. (Google, which doesn't break out YouTube's financial performance, had revenue of \$33.8 billion in the past 12 months.) Based on estimated operating margins of 30% to 35%, Barclays puts the total value of YouTube at between \$15.6 billion and \$21.3 billion. At the low end, it would mark a nearly 10-fold increase from the price Google paid in 2006. At the high end, it would make YouTube a third as valuable as Facebook.

YouTube is not about to kill off television, but it is definitely starting to disrupt mainstream entertainment. Americans overall have their TV sets on for 34 hours a week, according to Nielsen, and they watch just one hour of video on the Internet each week. But viewing habits among millennials point to a dramatic shift: 18- to 24-year-olds watch just 23 hours of TV and 2½ hours of online video. If the first era of video entertainment was network television with a handful of channels and the second wave was cable with hundreds of channels, the web incarnation is about tens of thousands of channels tailored increasingly to niche audiences. In this new world, YouTube is not only the biggest distribution platform but also its organizing force. Think of it as the next-generation Comcast, Time Warner

Cable, and Cox all rolled into one, but with a slightly different model: an open platform where anyone can put up content and where YouTube grabs nearly half the revenue from all the ads that run on the site.

Since the acquisition, YouTube has grown increasingly important to Google's mission of organizing all the world's information. More searches are conducted on YouTube than on any search engine other than Google, and the video-sharing site helps Google deliver the right audiences for advertisers, especially on mobile platforms, where consumption of video is growing fastest. YouTube has also become a fire hose of data about consumer behavior that helps Google fine-tune all its services. And YouTube has also helped transform the ad business by empowering brands to become content creators and publishers that increasingly try to create their own viral hits. As more video moves from linear television to the web, Google may be in the best position to become tomorrow's de facto TV guide. To be sure, other technology companies are developing web video platforms—Amazon, Hulu, and even Yahoo and Microsoft are all vying for a piece of the online entertainment pie, and Netflix has been singled out for commissioning high-quality original programming such as *House of Cards*. But none rivals YouTube when it comes to amassing made-for-web content that's quickly becoming a mainstay for a new generation of viewers. For the growing number of creators who play in the YouTube sandbox, the opportunity to build a new kind of media empire is tantalizing. "There will be some really big brands built out of this ecosystem," says Robbins. "Is Awesomeness the Nickelodeon or the ESPN of tomorrow? Quite possibly."



IF THE CABLE NETWORKS OF TOMORROW are built on YouTube, no one would be happier than Robert Kyncl, a trim, energetic executive who is a chief architect of YouTube's most recent transformation. A veteran of Hollywood and HBO, Kyncl spent most of the past decade at Netflix, where he helped build that company's hugely successful streaming-video business.



Brian Robbins says YouTube networks like his Awesomeness TV are the ESPNs of the future.

YouTube, which had had a testy relationship with the movie and TV industries, lured him away in 2010, in part to help bridge the chasm between Silicon Valley and Hollywood. Kyncl (pronounced KIN-sul), head of content and business operations, first helped secure rights to content from major studios for YouTube's fledgling movie-rental business.

But Kyncl, along with his boss, YouTube CEO Salar Kamangar, a cerebral and introverted Google veteran (he was employee No. 9) who is a close confidant of Larry Page's, quickly began hatching a more ambitious initiative. Over the years, scores of aspiring show-biz professionals have cut their teeth on YouTube, so why not try to accelerate that phenomenon and capitalize on something that, unlike traditional television shows and movies, is unique to YouTube? YouTube didn't have the chops—or the desire—to create content itself, but the executives believed they could help others in myriad ways. As part of the initiative, YouTube acquired Next New Networks, a production studio that had been successful in creating semiprofessional shows on YouTube. The studio had many of the video-making and marketing skills that YouTube's engineering-driven culture lacked, and Google thought

that by bringing the studio in-house, it would be able to share those skills with a larger number of producers.

Kyncl's highest-profile move was unveiled in October 2011, when he announced that YouTube would help finance 100 new original channels from celebrities, online video creators, and Hollywood studios. "These channels will have something for everyone, whether you're a mom, a comedy fan, a sports nut, a music lover, or a pop-culture maven," Kyncl wrote at the time on YouTube's blog. YouTube put aside \$100 million to help jump-start the channels. The sum was not huge by Hollywood standards, and it was in the form of advances against future ad revenues that the channels would earn in a revenue-sharing deal with YouTube. But the publicity surrounding the initiative had a huge impact that helped legitimize YouTube as a destination for serious content creators. The \$100 million investment was "the most efficient spend in history," says Reza Izad, the CEO of Collective Digital Studio, which represents some of the largest YouTube stars. "They planted a very big flag and got a lot of people's attention." The channel lineup included

artists like Madonna and Amy Poehler, NBA star Shaquille O'Neal, and skateboarding legend Tony Hawk, as well as dozens of others, including Robbins's Awesomeness TV. (The initiative has since expanded to more than 130 channels and a reported \$200 million in total funding.)

The announcement of the so-called YouTube originals dovetailed with a major overhaul of YouTube—both on the web and in its mobile versions—around channels. Channels had long existed on the site, but they were all but ignored by viewers and creators. Individual videos were the centerpiece of the YouTube experience. With a series of changes in the user interface, YouTube put channels front and center and encouraged content creators to take advantage of them. Rather than aim for a hit video that could amass millions of views, they were to think about creating series of related clips or programs that would lure users to their channels again and again. Instead of counting individual video views, they started to measure success in subscribers. In other words, they started to look more like television channels. "People are coming to YouTube to find the channels they care about, just like they do on their DVR," says Kamangar.

Evidence suggests he's right. Today several large YouTube channels and networks have bigger audiences than many midsize cable channels, and they are attracting investors and advertisers at a rapid clip. Machinima, which caters to the gaming crowd (males 18 to 34), has 14.5 mil-

lion subscribers to its channels, and its videos have been watched about 2 billion times a month. Google recently led a \$35 million investment in the network. Maker Studios, a network of some 25,000 YouTube channels, generates 3.8 billion views every month. Each episode of *Epic Rap Battles of History*, one of Makers biggest hits, gets 4.4 million views on average in the first three days after it is posted. That's roughly the same number of views as an episode of *Walking Dead* on AMC, and a third more than the average showing of *The O'Reilly Factor* on Fox News, according to Nielsen. While Nielsen doesn't count additional views that TV shows get on the web or iTunes, the YouTube shows have a long shelf life too: In total, *Epic Rap Battles of History* episodes get 30 million views on average.

The media giants have taken notice. Time Warner (the parent company of *Fortune*) recently led a \$36 million investment round in Maker. Bertelsmann, Comcast, Discovery Communications, and the Chernin Group, as well as several venture capitalists, have invested in a smattering of other YouTube channels and networks, and Fox, ABC, and HBO have all picked up shows that were hatched on YouTube. (A cooking program called *Recipe Rehab*, incubated on YouTube, airs on hundreds of ABC affiliates, for example.) Izad of Collective Digital Studio says it's a dramatic shift from just three years ago, when no one in mainstream media took YouTube shows seriously.

This new world comes with a new set of rules. Kyncl describes traditional television as a wholesale business, with producers selling their programs to a broadcast or cable network that acts as a gatekeeper. YouTube is all about retailing. Creators develop shows thinking about their audiences, not the middlemen who have traditionally purchased distribution rights. They get instant feedback from their users and make programming decisions accordingly. The medium is truly interactive, with the audience responding to content with comments, shares, and sometimes their own videos. Knowing how to create content that works in that environment and learning how to market it so that it's noticed in the vast ocean of YouTube require new skills. "Marketing and retailing is the skill set of the future for content creators," says Kyncl. "It's a skill set that, because of the unlimited shelf space, will increase in value every single month and every single day."

It's no surprise, then, that YouTube has built a school for the online-TV era. It's located a few miles north of the Los Angeles International Airport inside a renovated former hangar where Howard Hughes built the Spruce Goose. Before YouTube purchased it, the space was home to the production of a good portion of the movie *Avatar*. *The Hollywood Reporter* recently described the 41,000-square-foot facility as possibly the largest studio dedicated to online-video production. The state-of-the-art studio, which YouTube makes available to established and up-and-coming content creators alike, has become

both an incubator for new talent and a hub for experimentation and sharing best practices.

Even seasoned Hollywood hands like actor Matt Damon have come to the facility to collaborate with and learn from YouTube upstarts. Damon recently shot a series of videos for Water.org, a nonprofit he co-founded. While Damon was there, the facility's director, Liam Collins, who joined YouTube following the acquisition of Next New Networks, persuaded him to collaborate with other YouTube creators, including ShayCarl, an irreverent video blogger with a big following on YouTube. In the YouTube ecosystem, it turns out, a sure-fire way to increase your audience is by teaming up with others who have their own loyal followings. "It's YouTube 101," says Collins.

Nikki Limo, a sassy standup comedian and actress, is one of the first graduates of YouTube's evolving filmmaker school. She was one of 23 artists who joined YouTube's first "creator class," a three-month intensive program that teaches the skills of the new era. Like other aspiring stars, she cobbles a living through some standup comedy, television roles, the occasional sponsorship, and her share of the ads that appear on her YouTube clips. A couple of years ago she had a fight with her agent, who encouraged her to get off YouTube if she aspired to have a real career. She persisted, and one gig led to the next. She was a shooin for the creator class based on her extensive collaborations—more than 75—with other YouTube artists. As part of the class, she created a new series of scripted comedy skits that chronicle the frustrations of an upcoming actress as she goes from audition to audition. In the class she was also schooled on how to best use various YouTube analytics and online tools to understand what resonates with her audience. *Her Audition Fail* series of videos has collected more than 200,000 views. She loves the freedom of online video. "You have no one to answer to," says Limo. "You are going directly to your viewers." Television still beckons as a tantalizing option. "I would still love to be on a TV sitcom and help write for it," she says, "but if it happens to be an Internet sitcom, that's great too."



BRIAN ROBBINS of Awesomeness doesn't need any schooling. The former teen actor (Gen Xers may remember him from his role as tough-guy Eric on the TV show *Head of the Class*) is a hot commodity in Hollywood, the kind of successful producer at the prime of his career who could land a gig just about anywhere in traditional media. "Every studio would hire Brian to produce or make a movie," says Katzenberg. That makes Robbins's decision to throw his lot in with YouTube all the more interesting.

EVOLUTION OF YOUTUBE

2005

April: First video is uploaded to YouTube.com.



2006

October: Google acquires YouTube for \$1.65 billion.



2008

September: "Evolution of Dance" becomes the first YouTube video to hit 100 million views.



2009

October: Site hits 1 billion views per day and live streams a U2 concert.



2010

December: Site launches TrueView video ads, charging marketers only when an ad is watched. "Bed Intruder Song" is the most viewed video of 2010.

2011

October: YouTube says it will help finance 100 new original channels.
December: Some 20,000 questions are submitted on YouTube for the FOX News/Google GOP presidential debate.

2012

November: Company opens YouTube Space L.A., a 41,000-square-foot creative collaboration facility with state-of-the-art equipment.
December: Psy's "Gangnam Style" is the most watched video of the year.

2013

March: Sesame Street channel hits 1 billion views, and YouTube reaches 1 billion monthly viewers.
May: YouTube celebrates its eighth birthday on May 19 and announces 100 hours of video are uploaded per minute.

Robbins says his appetite to focus on web entertainment began a few years ago when he asked his teenage sons whether they'd be willing to watch a movie based on Fred Figglehorn, a kid with a whiny voice, a dysfunctional life, and a large following on YouTube. The response was immediate. "Tonight?" they blurted out. There was no Fred movie, so Robbins signed up to make one. To move quickly, he financed it himself. That was in mid-2009. By the end of the year, the movie was shot, and it was released the following year on Nickelodeon and quickly became the No. 1 hit for teens that year. "I was completely enthralled that this kid from Omaha was able to do this on his own, and I was able to make it into something bigger," says Robbins. (Lucas Cruikshank, the actor who plays Fred, is actually from Columbus, Neb., about 80 miles west of Omaha.)

The following year, when Kyncl began looking for

shows to fund, Robbins was among the first to raise his hand. Once again, he was inspired by the behavior of his kids. He says they typically come home around 5 p.m., go right to their rooms, lie on their beds, and surf videos, mostly on YouTube, on a laptop, a tablet, or a phone. "They are really the first generation that grew up with YouTube, so it's not weird to them," says Robbins. While cable channels like Nickelodeon create shows for the same teen demographic, Robbins says they don't even come close to filling the appetite the audience has. "There is a giant hole in the marketplace," he says.

The experience of Awesomeness indicates he is right. The channel launched in July of last year with a handful of shows, all catering to young teens. Awesomeness's marketing team hoped for 100,000 subscribers within a year. It reached that mark after a month. The studio now employs about 35 people. Awesomeness TV is changing so fast that even Robbins can't predict where it will be in two years. In November his team put up a video asking viewers, "Do you want to be a YouTube star?" and offering

them a chance to join a new Awesomeness "network" of channels. Like many other so-called multichannel networks, Awesomeness would offer tips and video and instruction, as well as help with advertising and promotion. Robbins said they expected a few hundred to sign up. By the end of the weekend, 4,000 had applied. As of now, 175,000 aspiring YouTube stars have asked to move their channels to the Awesomeness network. About 73,000 have been "onboarded," generating an additional 1.2 billion views and 21 million subscribers in aggregate. There are comedy sketches and fashion-advice clips, talk shows, and scores of other genres. All target a single demographic that, Robbins says, makes it attractive to advertisers. One thousand kids are still asking to sign up every day. The latest lure: Some Awesomeness TV network participants will be selected to appear on Nickelodeon.



IT IS TELLING that cable or network TV remains a coveted endgame for everyone from the Awesomeness kids to Nikki Limo. Even as YouTube explodes in popularity, making money in its world remains a challenge for all but Google itself. While Robbins says Awesomeness is profitable, several other networks are not, according to industry insiders. Some multichannel networks that have lured successful producers with revenue guarantees have had a hard time recouping their costs, and in some cases have had to let go of some shows. Jason Calacanis, an Internet and media entrepreneur, captured the discontent recently in a much-read online article titled "I Ain't Gonna Work on YouTube's Farm No More" (a nod to Bob Dylan). Calacanis wrote that despite receiving funding as part of Kyncl's initiative and building a handful of successful channels, he stopped participating in the program. "Sure, YouTube is amazing for marketers, individuals, and companies seeking to reach a large audience," he wrote. "But as a business proposition, it's a trap." Among his gripes is the 45% share of revenue that YouTube typically takes, which Calacanis called a tax. He also complained about a lack of marketing support and about the fact that YouTube, not individual producers, controls the relationship with viewers. (Robbins agreed that the YouTube cut was too high and said he hoped it would come down to around 30%.) YouTube says the split reflects the high cost of streaming video around the world.

As you may have noticed, YouTube's emergence as a mainstream entertainment platform is coinciding with heady days for the TV business. Overall viewership may be flat, but high-quality scripted shows such as *Game of Thrones* and *Mad Men* have become massive hits, reality television remains strong, and rights for live sports are fetching ever-increasing prices. While new players like Netflix, Hulu, and Amazon, not to mention Apple's iTunes, are all jockeying for position, few consumers have cut the cord to their cable services. Indeed, the business

remains so good that Intel and reportedly Google are preparing to offer Internet versions of cable subscriptions. Even network television, that much-maligned old-line business, remains a cash cow, thanks to continued strong advertising rates for sporting events and high carriage fees paid by cable operators and telecom companies. "There is no other place where you can aggregate an audience at that scale," says Rick Rosen, board member and head of television at William Morris Endeavor, the giant Hollywood talent agency. He says YouTube is a great launching platform but remains a relatively small business for most artists and producers. Robbins's own boss, Katzenberg, views online as a niche. YouTube, he says, is all about snacks, whereas traditional television gives you a full meal. "This is not competing with TV; it is complementary to television," Katzenberg says.

That may be, for now. But the breakout hits, along with revenue—on and off YouTube—are growing by the day. Harley Morenstein, founder of *Epic Meal Time* (5.2 million subscribers), an irreverent show that he calls a "celebration of food" and the anti-cooking show (in one episode, they make a lasagna out of 45 burgers purchased from three fast-food chains), has income from YouTube, live shows, his own website, a cookbook published by Simon & Schuster, and a branded cooking set. Freddie Wong, half of the duo behind the Freddie Wong channel (5.8 million subscribers) and co-creator of *Video Game High School*, with initial funding from Kickstarter, has distributed the show not only on YouTube but also on Netflix, along with a sponsorship from Dodge Dart. *The Annoying Orange* (3.2 million subscribers) also has licensing and merchandising deals, and helped promote *Despicable Me 2* for Universal Studios. *Annoying Orange* has also morphed into a Cartoon Network show, currently in its second season, and is among the most-watched TV programs among boys 6 to 11. The list goes on.

Kamangar says he's delighted when a YouTube artist gets TV exposure because it increases the audience of his YouTube shows and their value to marketers. Advertisers today pay more, in many cases far more, to reach viewers on TV than on YouTube. Kamangar says the gap has narrowed and will continue to do so. (YouTube has also begun experimenting with subscriptions on some channels to give creators who are unhappy with their take from ads new ways to monetize their content.) For Robbins, the day when advertisers see TV and YouTube as equals can't come soon enough. "There is going to come a day when an eyeball is an eyeball is an eyeball," he says. "When that shift happens, I want to be on YouTube." He won't be alone. 

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