

YouTube: The Business Model

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Abstract

YouTube is growing as a company and as a community. It has become a widely popular platform for individuals known as YouTubers and for companies to promote themselves and their products. However, YouTube is a fairly young company. It was started in 2005 and was not a big player in the emerging media game until recent years. For this reason, there has not been any research on how exactly individuals and companies are able to use emerging media to become profitable. A former personal assistant of a YouTube star will be interviewed to find out what are the current business models that YouTubers are using to increase profitability. It will be an open-ended interview to allow for conversation that may lead to unanticipated information. It is expected that the most profitable avenue for YouTubers will be advertisement followed by endorsements. For companies, it is expected that their most profitable avenue will be an increase on their sales. The information that comes out of this study can be used to guide individuals interested in being YouTubers and to help businesses use YouTube as a tool to further their brand and profitability.

Introduction

The entertainment industry has gone through many changes in the last century. However, none have been as drastic as the changes within the last decade. As individuals migrate from the big screen and the small screen into the World Wide Web for their entertainment, business pioneers are trying to capitalize on the latest social networks and technology. The purpose of this research project is to find out how YouTube users and YouTube-user companies can make money through YouTube, in order to better understand how marketing strategists decide to invest in and utilize emerging media. Although some of the questions about this industry have been answered by the popular press, there is still little research done from a business perspective.

Methods

A former personal assistant of a YouTube star will be interviewed to determine what business models current YouTubers are using to increase profitability. It will be an open-ended interview to allow for conversation that may lead to unanticipated information. Furthermore, YouTubers and their assistants will be emailed to see if anyone else is interested in being interviewed. Since YouTube is owned by Google, Google representatives will be contacted

to see if they would be interested in sharing ways for individuals and companies to use YouTube as a tool to make themselves more profitable.

Background Information

YouTube was started in 2005 by three former PayPal employees: Steve Chen, Chad Hurley, and Jawed Karim (Hiebner, 2014). Their goal was to create a place where the general public could upload, view, and share their videos. As users grew, YouTube developed into the ideal tool for finding specific video material. The company was sold to Google in October 2006 for 1.65 billion dollars (“YouTube: A History,” 2015).

The Current Uses

YouTube has various uses at the moment and it keeps expanding as time goes on. In one recent trend, YouTube is used as a platform to stardom from the comfort of any user’s room. It can also be used as an educational tool if the user is creating or viewing tutorials or how-to videos. Companies are also using YouTube as a platform to expose users to their products and events. Videos of this kind can be produced by the company itself. Users also help advertise for companies by creating video reviews for sponsored products and events.

Statistics

As of January 2008, 10 hours of content have been uploaded to the video sharing platform YouTube every minute, (“YouTube: A History,” 2015). One of the appealing qualities of YouTube is the almost infinite amount of material available to users at the tips of their fingers. According to ComScore Media Metrix, in the US, 178.4 million unique viewers watched 33.5 billion videos for an average of 16.8 hours per viewer during June 2011(Jarboe, 2011). Daily viewing time on YouTube grew by 50 percent in 2013, according to the platform. This makes it an excellent platform for companies and users that are looking to reach to a bigger audience.

Online Celebrities

YouTube stars, or vloggers of YouTube as they are more commonly known, are a growing group of individuals that rose to fame by making videos and are now celebrities with immense fan bases. Some examples of this new breed of celebrities are beauty vlogger Zoe Sugg from the YouTube channel “Zoella” and game vlogger Felix Kjellberf from “PewDiePie.”

As of April 23, 2015, Zoella had 7,967,267 subscribers to her main YouTube channel. Since then, the amount of subscribers to her channel increased by 1,614,172. Her subscribers increased by a massive 20% as of December 2, 2015. She was the first vlogger to be on the cover of a national magazine. Her feature increased the traffic to the magazine’s website by 98%. Kjellberf’s subscribers increased by 10% in less than seven months. His main channel “PewDiePie” went from 36,202,912 to 40,667,281 subscribers.

With followings that are comparable to those of traditional celebrities, companies are starting to stray from solely soliciting endorsements from movie stars and musicians and moving into the tight knit communities of YouTube. Unlike traditional celebrities, people see YouTubers as approachable friends and equals. This allows YouTubers to advocate for a brand as a friend recommending a product for another friend, rather than as a company paying a celebrity to

endorse a product. However, YouTubers need to be careful not to violate the trust of their viewers and disclose the fact a brand is sponsoring them. According to a study by Research Now, 36 % of viewers would be discouraged from reading a blog that contains paid-for content (“Infographic,” 2014).

Literature Review

YouTube has become the mecca for those that seek easy fortune and fame from their home just by making videos. Although, from the outside, YouTube creators seem to be drenched in money for doing almost nothing, the reality is that hours of prep work, thousands of dollars in equipment, and even more hours of editing go into a short video clip of 3-5 minutes.

YouTube video creator Olga Kay, from YouTube channel Olgakay, has voiced some of the concerns in the YouTube community in an interview with The New York Time. Ms. Kay said “We are all growing in subscribers yet decreasing in views and advertising.” (Kaufman, 2014). She was referring to the drop in prices for advertisement and the increase of channels available to displays those ads. Ms. Kay also brought light to one of the most obscure sides of video creation: production cost. At the very least, video creators need a microphone, a video camera, and video editing software. Some other costs may include shooting expenses, actors, location, and lights. This can cost thousands of dollars depending on the quality of the equipment.

In an attempt to help its community and grow, YouTube has opened a group of studios, called YouTube Spaces, around the world for video creators. With studios currently opened in Los Angeles, London, Tokyo, New York, São Paulo, Berlin, Paris, and Mumbai, YouTube Spaces were created to give free access to resources video creators would not otherwise be able to afford. Among the resources available are classes, exclusive events, sound stages, and state-of-the-art equipment, but the resources available at each YouTube Space vary as does the level of access each video creator has (“YouTube

Space,” 2015). Some YouTube Spaces are stricter than others. For example, YouTube Space LA requires video creators to have at least 10,000 subscribers to access the facilities meanwhile YouTube Space Mumbai only requires 1,000 subscribers (“YouTube Space,” 2015).

Many were skeptical of YouTube’s intention for the content created under YouTube Spaces. However, YouTube explicitly stated that “Participating channels retain all their ownership of content, monetization, and creative control.” so long as the video “passed a legal clearance review and meet the community guidelines.” (“YouTube Space,” 2015).

Another way that YouTube is trying to expand is through YouTube Red. YouTube Red is a paid membership that gives its users an enhanced, uninterrupted experience across YouTube (“Red,” 2015). The membership is available only in the United States at the moment and it cost \$9.99 a month, but they offer a one month free trial. YouTube Red’s benefits are ad-free videos, background play, saving videos offline, and original content among other things (“Red,” 2016). One of the reason Red came into existence was as a way to combat the anti-ads software that viewers are using to watch videos in YouTube. This has become real concern for video creators as they do not get any profits for the videos that do not display any advertisements. YouTube has agreed to “share YouTube Red income with creators just as it currently shares AdSense income.” (Pinsky, 2015). AdSense is Google’s advertisement program that allows publishers to earn money by “displaying targeted Google ads on their websites” (Why AdSense). The income YouTube Red collects will be divided among “creators based on each creator’s share of total minutes watched by YouTube Red users.” However, YouTube Red will not be providing any income for the videos that are watched during the one month free trial.

YouTubers’ Business Model

YouTubers are able to profit for themselves in multiple ways. One way is through revenue

generated from advertising in their videos with programs like the YouTube partner program. The YouTube partner program allows video makers to “monetize content on YouTube in many ways, including advertisements, paid subscriptions, and merchandise.” (“YouTube Partner, 2015”). However, YouTube usually keeps about 45% of that revenue.

Some YouTubers are also expanding into the book business by publishing their own books like Alfie Deyes’ “The Pointless Book” from the Pointlessblog YouTube channel and Zoe Sugg’s “Girl Online” from the YouTube channel Zoella. Others like Michelle Phan have expanded into all other media. She has a book called “Make Up” and her own cosmetics line from L’Oreal. She also has endorsed products including Dr. Pepper, Toyota and SanDisk.

YouTube vs. Copyright

YouTubers occasionally face complications related to copyright and trademark breach issues. An example of this is YouTuber Michelle Phan. She was sued by Ultra Records for using music from an artist signed to their record label in her videos. Phan claims that Ultra Records had authorized the use of their music, and the artist whose music she used, Kaskade, defended her. Even so, she is being sued for \$150,000 per copyright infringement (Rawlinson, 2014).

Outside companies are not the only ones causing problems for YouTubers: YouTube itself is providing obstacles to YouTubers, especially for Video Game vloggers. YouTube’s automated anti-theft system started flagging popular videos of YouTubers reviewing, critiquing, and playing popular video games. However, Ubisoft, Capcom, Blizzard, Deep Silver and other giants in the gaming industry have spoken up and promise to clear things up with YouTube, since videos of that nature are some of the most popular on the website (Gibbs, 2013). The gaming industry benefits greatly from this sort of video because of the free publicity that it offers.

Since then, YouTube has realized the error in their ways and has decided that the demands of copyright holders are excessive. They will

financially support the legal cost of four video creators. YouTube has done this all in a hope to educate users on fair use, create a positive impact in the entire YouTube community, and strengthen the loyalty of video creators (Kang, 2015). YouTube's sudden inclination to protect its users may come as a surprise to the general public. However, due to the alarming rising of video platforms fighting for the top quality video content, YouTube has found itself in a place where it needs to show that YouTube is not only a platform but also a community.

Expectations

It is expected that the most profitable avenue for YouTubers will be endorsements from other parties followed by products sold in their private websites. Endorsement is expected to be the most profitable because the money goes directly to the YouTuber. Profit from merchandise is also expected to be quite profitable because there is no middle man taking a cut. Advertisements within videos are expected to be the least

profitable avenues because YouTube takes such a huge share from that revenue.

For outside companies, it is expected that their most profitable avenue will be the increase in their sales. The reason for this is that the majority of the cost regarding their product is already covered, so the increase of sales will mostly be profit.

Conclusion

YouTube is a huge platform for business and individuals. As social media takes a bigger role in marketing, it is important to facilitate success in this sort of platform by learning from the pioneers. Although popular press has answered some of the most common questions on how to achieve this success, there are still many questions unanswered that can only be addressed through more interviews with an academic goal in mind. The information that comes out of this study can be used to guide individuals interested in being YouTubers. It can also help businesses use YouTube as a tool to further their brand and be profitable.

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