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YouTube and Its Mobile Distributing Consumer Media Venturing

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On Christmas Day in 2007, Queen Elizabeth II posted her traditional Christmas message on YouTube for the first time through a special royal channel on this popular Peer-to-Peer video-sharing website.[1]

> "The queen always keeps abreast with new ways of communicating with people," Buckingham Palace said in a statement. "This will make the Christmas message more accessible to younger people and those in other countries."[2]

The Royal Channel in YouTube features a regal homepage illustrated with a photograph of Buckingham Palace in London flanked by guards in bearskin hats and red tunics. Therein, viewers can watch past Christmas messages as well as archive and contemporary footage of Britain's royal family. The footage of the queen's 1957 Christmas TV broadcast in the YouTube Royal Channel may remind viewers that TV once was as groundbreaking a creation as Internet is today.

> "I very much hope that this new medium will make my Christmas message more personal and direct. That it is possible for some of you to see me today is just another example of the speed at which things are changing all around us," the queen said in television at the time.[3]

Just a half century later, today, the media landscape has changed with an even greater speed. The increasing use of broadband Internet connection and advances in streaming technology create tremendous possibilities to deliver media content over the Net. Among others, the emergence of Peer-to-Peer media devices and the striking example of a flourishing YouTube are representative of the most recent new media trends and movements.

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This chapter will focus on the emerging Peer-to-Peer video sharing company YouTube. The author will introduce the emergence and development of YouTube as a fast growing consumer media company. The analysis of the company will be made from the perspective of its mobile distributing consumer media venturing – a major business venturing activity inside the company that is aiming at adding more mobility to its Peer-to-Peer video sharing services. The empirical findings presented in this chapter are extracted from a doctoral research project that investigates global media companies' organizational choices on the architecture for new media business venturing. Therefore, implications for YouTube to develop mobile media business will also be discussed in this chapter.

YouTube: The Emergence and Development

YouTube is a young but fast growing consumer media company that emerged only a couple of years ago. It grew from a website, YouTube.com, that was created for people to watch and to share video content through. Now it has become one of the most popular media entertainment websites worldwide with millions of people visiting it every day.

YouTube.com was founded by Chad Hurley, Steve Chen, and Jawed Karim in 2005. All three founders of the company were early employees of PayPal. After a dinner party in January 2005, they found it was hard to find a proper site through which they could share the video they'd taken during the party with their friends. So they came up with the idea of creating a website for video uploading and downloading.[4] "YouTube.com" was activated on February 15, 2005; the website was developed quickly over the following months. The founders offered the public a preview of the site in May 2005, and, 6 months later, YouTube made its official debut.[5]

In a similar way as many other technology start-ups, YouTube was started as a small enterprise in an inexpensive garage. In November 2005, a venture capital firm Sequoia Capital invested an initial $3.5 million in YouTube. Additionally, Roelof Botha, partner of the firm and former CFO of PayPal, joined the YouTube board of directors. In April 2006, Sequoia put an additional $8 million into the company, and YouTube immediately witnessed a boom of popularity and growth in just its first few months of operation.[6]

To make its business grow and also to protect the company from the threat of copyright-infringement[7] YouTube started to form strategic alliances with big content production media companies. In April 2006, YouTube allied with G4 to bring entertaining video content to their audiences. The alliance brought, for example, G4's interactive series "Star Trek 2.0" to YouTube, using the stop-motion animation.

In June 2006, YouTube allied with NBC to promote NBC's Fall program lineup and other preferred shows over the next year.[8] The alliance agreement included a cross-promotional advertising relationship on the YouTube service and on-air promotion provided by NBC. Under the terms of the agreement, NBC would create an official NBC Channel on YouTube to house its Fall Preview area with exclusive clips to promote NBC's content. In addition, over the next year, NBC was to upload several video presentations per week to the NBC Channel on YouTube. YouTube will also promote NBC's videos throughout its site.

In September 2006, YouTube and Warner Music Group (WMG) announced an agreement to distribute its library of music videos through YouTube. In the arrangement, YouTube users could incorporate music from WMG's recorded music catalog into the videos they created and uploaded onto YouTube. WMG became the first music company to harness YouTube's video entertainment service to commercially distribute its music video catalog. WMG also became the first global media company to embrace the user generated content.

In October 2006, YouTube and Universal Music Group announced an agreement offering YouTube and its users access to UMG's roster of artists covering every genre of music. In addition, under this agreement, UMG embraced the user-generated content, allowing users to incorporate music from UMG's recorded music catalog into the videos they create and upload onto YouTube.[9]

During the same month, YouTube announced another deal with Sony BMG to make available a wide variety of video content to the YouTube community. In addition, SONY BMG and YouTube agreed to work together to develop new opportunities which would allow users to include certain SONY BMG sound recordings in their own uploads.

In addition, YouTube signed a strategic content and advertising partnership agreement with CBS Corporation. The deal called for the CBS Television Network, its premium television service provider, Showtime Networks Inc., as well as its basic cable/digital media service, CSTV Networks, Inc., to offer the YouTube community a wide variety of short-form video programming from its news, sports, and entertainment divisions on a daily basis, beginning that month. Meanwhile, CBS was the first TV network to test YouTube's new content identification architecture and reporting system which would allow CBS to protect its intellectual property by identifying and locating copyrighted CBS content on YouTube. CBS would then have the opportunity to either remove it from the site or, at CBS's sole discretion, allow it to remain. If CBS allowed the content to remain on the site, CBS would share in any revenue from advertisements placed adjacent to the content.[10]

Through these agreements and alliances, YouTube has largely reduced the risks of possible lawsuits, and also strengthened its overall content and distribution capabilities. The incredibly fast growth of YouTube made this new company quickly become the target for many media and technology giants. Big media conglomerates, such as Google, Microsoft, Yahoo, the News Corporate, and Viacom all visited YouTube's headquarters in San Mateo to inquire about buying the company. Finally, on October 9, 2006, an announcement was made that YouTube would be purchased by Google for US$1.65 billion in stock. According to the purchase, YouTube would continue to operate independently, and the company's 67 employees and its co-founders would continue working with the company. The deal to acquire YouTube was closed on November 13, and became Google's biggest purchase to date.

Today, YouTube is one of the most booming websites on the World Wide Web, and the speed of its growth has even outpaced that of MySpace. According to a 2006 survey in the USA, 100 million clips are viewed daily on YouTube, with an additional 65,000 new videos uploaded every 24 hours. The site has almost 20 million visitors each month, according to Nielsen/NetRatings, where around 44% are female, 56% male, and the 12- to 17-year-old age group is dominant.[11] According to Hitswise.com, YouTube commands up to 64% of the UK online video market. These successes show that YouTube has achieved exciting performance in the online video market.

The Mobile Distributing Consumer Media Venturing in YouTube

To maintain its fast development, and to expand the scope of its business services, YouTube has been staying innovative and creative. Growing from a new venture providing video content on the web, recently the company has started to venture into another new arena – delivering video content to mobile users.

"Everybody carries a phone with them, but they may not have a computer," said Steve Chen, chief technology officer and co-founder of YouTube. With the mobile platform, people can take the phone out of their pocket while waiting for the bus and watch a video" he added.[12]

YouTube's move to mobile started in May 2006. In that month, YouTube launched a service that allowed people to upload videos directly from their mobile phones and PDAs to the YouTube Web site. Six months later, YouTube moved a step further to ally with mobile operators to deliver video content to mobile devices.[13]

In November 2006, YouTube announced that they would make the mobile phone debut, allying with Verizon Wireless. While its YouTube.com website is free, as it is based totally on an advertising model, YouTube's phone-based business requires a $15-a-month subscription to a Verizon Wireless service called VCast. Instead of choosing what to watch from a vast library of clips, VCast users will be limited to an unspecified number of videos selected and approved by the company. YouTube editors will select short videos from their library for the Verizon Wireless service.

Though there have been over thousands of mobile video titles already available to Cingular, Sprint, and Verizon Wireless Subscribers, YouTube is still the first to offer user-generated content. However, this new mobile service is not without problems. Many people doubt whether the limited selection of videos on the service will undermine the basic appeal of YouTube, which has grown popular in the past because users decide what they want to watch.[14] In addition, how far a subscription model can go is surrounded by uncertainty.

Nevertheless, there are also many people who believe that the YouTube online content could translate well to the mobile phone. And this new business will bring more opportunities for the company to promote their business in a larger arena.

"Our new mobile service is the first of many," said Kelly Liang, senior director of business development for YouTube. Ms. Liang said the company planned to introduce other such deals within the coming year.

"We are excited to launch our new mobile service and to partner with Verizon Wireless to bring YouTube videos to a new audience," said Steve Chen. "People want to be entertained in a way that fits their individual lifestyle. This service offers our community and Verizon Wireless subscribers a new opportunity to connect and engage with their favorite videos.

We will continue to roll out more exciting partnerships and features for the mobile user over the coming year."[15]

New business venturing is certain to happen in an innovative and young firm like YouTube. As many of the other new business initiatives, the starting of the new mobile distributing consumer media venturing in YouTube is associated with explicit and implicit organizational choices. The author of this chapter has conducted a doctoral research to examine these organizational choices, especially the choice concerning the organizational structure to accommodate the new mobile media distributing business.[16] The following text will give a brief summary of this research: the theories applied, empirical findings, and implications for the YouTube mobile distributing consumer media venturing.

Theories and Empirical Findings

The purpose of this research is to examine the organizational structural choice for new media venturing. There are basically two structural options for new business venturing. A common assumption is that the new business creation occurs within a hierarchical framework – namely, the new entities start up and develop within an existing organizational architecture. The other assumption is that new business can be developed through market modes, by allying with other companies on a cooperative base, or setting up a new entity outside the organizational architecture. Usually, the hierarchical modes and market modes represent two ends of the spectrum of viable organizational choices; thus, the challenge facing the companies is: which direction should they take?

To answer such a question, two theories can provide helpful guidance: the Industrial Organizational Theories (IO) – the traditional industrial economics theories – seek to give explanation to the new businesses development from an economics perspective. They tend to explain new business venturing as economic activities that aim to minimize costs. The Resource-based View (RBV) – a more recent internal resource/competence-based theory – seeks to give explanation to new business development from the resource perspective, by focusing on the resource/capability development of the new business.

The IO developed from the structure–conduct–performance (SCP) paradigm proposed by Bain (1968) for explaining industry structure and behavior, competition, etc. It was later popularized with a strategic flavor by Porter (1985). According to the IO, the choice of an organization to carry out any economic activity is a function of the transaction costs and agency costs in carrying out that activity. Thus, if the company does not own or control all the resources necessary to pursue an opportunity, they must deal with other resource controllers in order to have access to all required resources. The pursuit of opportunities can be organized in many alternative ways, and, if other things are equal, the firm will choose the way that minimizes the transaction costs and agency costs in the process of pursuing the opportunities.

In accordance with the IO, firms need to consider transaction costs and agency costs for rational organizational choices. IO further suggests that if certain “economic conditions” that include the level of transaction costs (mainly measured by the level of uncertainty and the level of specificity of investment) and the level of agency costs are high, it is more likely that firms will venture for new business internally with hierarchical modes; otherwise, firms will choose to develop new business with market modes, e.g., allying with external partners.

The Resource-based View suggests that a firm is best viewed as a collection of sticky and imperfectly imitable resources or capabilities that enable it to successfully compete against other firms.[17] Barney[18] referred to the resource “include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc; controlled by a firm that enable the firm to conceive of all implement strategies that improve its efficiency and effectiveness.” In addition to the term “resource,” researchers from the resource perspective have also been trying to explain firm behavior and competitiveness in terms and concepts such as capability[19] and competence.[20]

According to the RBV, when a company develops a new business, it must consider certain “resource conditions” that include, for instance, the managerial capabilities for resource recombination, new business production capabilities, and new business distribution capabilities. If such “resource conditions” are high, it is more likely that the firm will create new business internally; otherwise, the firm will develop new business externally, e.g., through allying with external partners.

To find empirical evidence for the above theoretical propositions, the author conducted case studies in several global media companies. In YouTube, the author interviewed the business director and editors. In addition, company archives were reviewed, and relevant information was retrieved from the company’s website and related publications. Table 10.1 presents a summary of the empirical findings.

Table 10.1 Empirical Findings

Economic conditions	There was a huge market potential to develop mobile related business, and YouTube was the first company to provide the user-generated content via mobile. The increasing popularity of YouTube brought huge brand benefits to its mobile services. The content delivered to mobile was selected by the company, which protected the new business from potential risks of legal infringement. There was no high specific investment in this case: as the content was user-generated and YouTube allied with network operators for content delivery, high transaction costs and agency costs were avoided. Therefore, the general level of "economic conditions" was relatively low.
Resource conditions	The company was young, lacked experiences in resource recombination. The company called itself "learning through doing," and the capabilities in resource recombination was not high in general. The company did not have its own distribution channel for mobile services,thus had to ally with wireless operators. Therefore, the general level of "resource conditions" was relatively low as well.
Structural choice for new media venturing	YouTube allied with external partners, and mobile media venturing activities were organized mostly with the market mode.

Summary and Implications

To sum up, for the YouTube mobile business venturing, the overall "economic conditions" that include the "level of uncertainty, the specificity of investment, and the level of agency costs" were relatively low, due to the huge market potential to develop mobile distributing business. In addition, the increasing popularity of YouTube brought positive brand benefits to the company's mobile services. The content delivered to mobile devices was selective in order to protect the new business from potential risks of legal infringement. Meanwhile, there was hardly any specific investment required by the new business, and, as the content was user-generated and YouTube allied with network operators for content delivery, high agency costs were avoided. Thus, the level of the "economic conditions" for the new mobile distributing business was relatively low.

In addition, the level of "resource conditions" that include the "managerial capabilities for resource recombination, new media production capabilities, and new media distribution capabilities" was also relatively low, as a consequence of the company's lack of experiences in resource recombination. Moreover, the company did not possess its own distribution channel for mobile services.

Constrained by the low "economic and resource conditions," the organizational choice for YouTube to develop the new mobile distributing business was basically to ally with external partners, and venturing activities were organized mostly in the market mode. Such empirical evidences derived from, and can also be related to, the aforementioned theories – low "economic conditions and resource conditions" would suggest the market mode for new media business venturing.

In the case of YouTube, the partnership with Verizon is only the first step of YouTube's mobile business exploration. The company expects to reach similar alliances with other wireless carriers in the near future to expand its presence in the mobile market.

On the other hand mobile carriers, with the wireless market increasingly saturated, are trying to find new ways to attract customers and to wrest them away from rivals, while they also want to promote mobile Internet services as another way of boosting revenue. YouTube's alliances with wireless carriers seem to be a win-win strategic action that will benefit both sides of the partnership.[21]

However, such allied mobile consumer video distributing business is not without problems. For example, by offering YouTube videos, music downloads, and similar services, YouTube and Verizon are especially targeting young audiences. Yet young customers tend to be more uncertain than older ones. Most young people already have cell phones, but many tend to be price-sensitive because of limited income.[22] So a subscription model designed for this mobile service will face challenges.[23]

Meanwhile, Verizon customers will be able to view the "selected" video content and post videos from this service, but analyses show that "the beauty of YouTube is that it is organic,"[24] thus the approved content will also present challenges. It is still unknown what strategic actions YouTube and its partners will take to tackle these issues, but it is clear that the above study will have some implications for the organizational decisions, and a further new media business strategy shift will be better guided with a good awareness of the company's economic and resource conditions.[25]

Notes

1. The Royal Channel in YouTube: http://www.youtube.com/theroyalchannel
2. Thomas Wagner, Queen Elizabeth Launches on YouTube, Press Release, December 24, 2007: http://www.guardian.co.uk/worldlatest/story/0,-7175212,00.html
3. See from: http://www.youtube.com/watch?v=mBRP-o6Q85s
4. News of University of Illinois Department of Computer Science, YouTube: Sharing Digital Camera Videos, retrieved on July 3, 2006 from: http://www.cs.uiuc.edu
5. Graham (2005).
6. Nielsen Media Research (2006).
7. Veiga (2006).
8. Wallenstein (2006).
9. Facets included in this part are retrieved from: *YouTube News 2006*, Retrieved in January, 2006 from http://www.youtube.com/press_room
10. Facets included in this part are retrieved from: *YouTube Archives 2006*, Retrieved in January, 2006 from http://www.youtube.com/press_room.
11. Nielsen Media Research (2006).
12. Facets included in this part are retrieved from: *YouTube Archive 2006*, Retrieved in January, 2006 from http://www.youtube.com/press_room
13. Richtel (2006).
14. Bryant (2006).
15. Facets included in this part are retrieved from: *YouTube Archive 2006*, Retrieved in January, 2006 from http://www.youtube.com/press_room
16. More details of this research can be seen in Hang, M., "*Media Business Venturing*," Jonkoping International Business School, Sweden, 2007.
17. Wernerfelt (1984).
18. Barney (1991, p. 101).
19. Collis (1996).
20. Sanchez and Howard (1996).
21. Bartash (2006).
22. Bartash (2006).
23. Del Conte (2006).
24. Bryant, (2006).
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