

## Chapter 2

# The New Screen for Video

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**Abstract** In the following chapter we will discuss the coming of “TV on the Internet.” We will begin by recounting how we arrived at where we are, and the development of online video. Next, we will move to the present, and understand who is presently consuming video online, and what they are watching. Finally, we will peer into our proverbial crystal ball and look into future trends – the possible reunification of the computer with television.

### Introduction

Around the time the continents were falling into their current locations and the ice caps began to recede, cable TV was born. Or at least it feels that long ago today.

For the past 20 years, since the birth of AOL and Prodigy, since the birth of the World Wide Web, Internet gurus have been predicting how it would be the media of the future. It turns out they were right. Interactivity, information over Internet protocol, and digital rather than analog do appear to own the future. However, this does not mean that “TV” as a concept (rather than a device) is dying, in fact quite the opposite is happening – TV is going through a revolution.

As more and more “TV” is being shown on an Internet platform, how the media itself is being consumed and how individuals interact with it are changing radically. These changes will almost certainly change every part of the TV industry, from the business model to the creative process.

It will be a lot of fun to watch.

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\*Grateful acknowledgment to Nielsen Online, a service of The Nielsen Company.

## **History of Online Video: Up to This Point Everything Has Been Short and Grainy**

As with all that functions well online, the birth of video on the Internet came about because of pornography. As long as the Internet has functioned, adult content has been one of the most pervasive forms of media. This fact is not hugely surprising. The anonymity of the Internet, as well as its convenience made it an ideal distribution platform for this form of media (pornography) that people both use and are embarrassed by. Initially, most adult content online was either the written word or photographs, but fairly quickly this changed to short-form video and supposedly live streams. As early as 1995 (and perhaps before), adult Web sites were offering video for stream and download. This, combined with other factors, has moved adult content into the relative mainstream.

It is easy to make light of adult content online; however, many of the design elements developed for the adult entertainment industry, such as prerolls, standard clip length, and video networks were later co-opted by many mainstream media outlets as standards for video distribution and monetization.

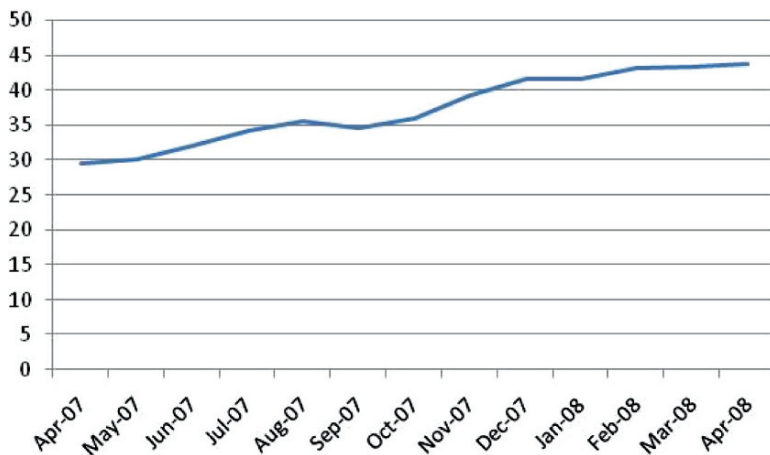
About the same time that adult content began to hit the mainstream, Yahoo and others introduced music videos. Their length and lack of other outlets (MTV had long since broadcast music videos consistently) made the Internet an excellent outlet for music videos. The genre of music videos also began to stretch the length of online video, from the 30-s clips of adult content to a more robust 3–3½ min.

The success of music video opened the door for other clip length media. The traditional broadcast and cable networks began to see the possibility of leveraging their own existing TV content in short clips. CNN and ESPN as well as others began to integrate online video into their overall consumer experience. Entertainment networks followed, presenting promotional content or “webisodes,” as well as clips of existing shows. The flood gates of Web video 1.0 were opened.

This seemed fine for a few years. Then came YouTube and everything changed a lot. In the 13 months leading up to April 2008, YouTube to increased its online reach from just under 30% to almost 45%, reaching levels previously held by only the largest and most well established sites (Fig. 2.1).

With the advent of consumer-generated media (CGM) the production of video content online was democratized. Suddenly everyone was a producer and the cost of production for sites dropped to relative zero. Soon, the value of consumer correspondents was realized by most major media networks. The value of online video became apparent, and with cell phones as miniature video cameras, networks had reporters everywhere. Although other networks bought this type of video occasionally, CNN set the standard by creating iReport, a service where consumers can upload their own news-worthy video and where the most pertinent clips are shown on the cable network.

Around the same time another significant change came to online: full TV programming. Either through TV network Web sites, or through alternative platforms such as Joost or Hulu, the most recent version of full-length versions of TV



**Fig. 2.1** Growth in YouTube viewership over 13 months

programs became available to stream. Initially hit TV shows led the way. Shows such as *Heroes* and *Desperate Housewives* defined how long-form programming would be shown.

As broadcasters realized that there was interest in watching long-form video online, others began to take notice. Netflix and iTunes began to make full-length movies available online. Streaming video and video for download had begun to catch on. We were now moving into the era of “TV on the Internet,” which brings us to the present.

## Where We Are Today: An Overview

As we begin to discuss the present state of online video, it is important to understand a taxonomy of video types. There are primarily three types of video being broadcast online today: long- and short-form clips and consumer-generated video. Although we may be entering an era where CGM video ceases to be distinct, consumer-generated video is by far the largest category at this time. It is primarily made up of video shorts on sites such as YouTube; however, other news outlets, such as CNN and The Weather Channel, are increasingly using video shot by their own audiences. This advance has given them the ability to cover stories in a level of detail that was not possible in the past (Fig. 2.2).

Short-form videos are professionally made video shorts. Although these can be shortened versions of TV programming, such as ESPN and Comedy Central content, this also includes content developed directly for the Internet. This idea of webisodes helped support such TV efforts as NBC’s “*The Office*” and Sci-Fi’s “*Battlestar Galactica*.”



**Fig. 2.2** A taxonomy of online video

**Table 2.1** Streaming audience – June 2008

	Unique audience (000)	Streams (000)
YouTube	73,537	4,052,984
Yahoo!	22,179	221,600
Fox Interactive Media (MySpace etc.)	20,855	328,974
Google	11,054	58,411
MSN/Windows Live	9,873	149,684
AOL	9,331	38,849
Disney	7,219	93,649
MLB.com	6,940	51,213
Turner	6,513	81,586
Nick	6,323	151,828
ABC	5,857	60,786
CNN	5,681	84,782
ESPN	5,477	125,327
Comcast	4,383	53,761
NABBR	4,218	22,639
CBS	3,813	20,729
Dailymotion	3,766	48,897
Metacafe	3,658	18,205
NBC	3,553	61,447
Apple	3,535	14,627

Source: Nielsen Online VideoCensus

As the audience figures above show (Table 2.1), these forms of online video are both thriving.

Although the majority of the online audience presently view short-form professional or consumer-generated streams, we will spend the remainder of this chapter focusing on the relatively small but critical long-form audience.

Long-form programming, which accounts for a significant number of streams from ABC, CBS, Fox, and NBC, is programming that has, for the most part, been lifted directly from the TV airwaves and put on the Internet. Successes here have been *Lost*, *Desperate Housewives*, and *Heros*, but there are many others.

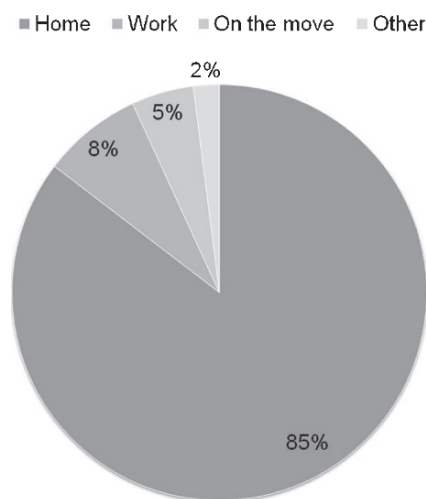
The reason this is of particular interest is that it has the ability to fundamentally change the way we consume TV programming. It allows consumers to view what they want, when they want, without presetting a digital video recorder (i.e. TiVo) or waiting for availability of DVDs or On-Demand.

When we first begin to think about consumption of this form of video content, it is important to consider where people are viewing it. Traditionally, a significant proportion of Internet video consumption has happened at work. This is not the case for long-form video.

A full 85% of long-form video consumption happens at home. This is most likely because people cannot generally give an hour of their time to watch programming while they are at work. It also suggests that online viewing has a very specialized audience: those with larger monitors, broadband access, and high-quality sound on their home computers.

As we further try to understand this unusual audience, it is useful to focus on their viewing preferences online and how it differs from TV. When Nielsen asked 2,200 long-form video viewers to rank order their preference in genres (i.e., drama, sit-com, reality programming) on both the Internet and television, their responses were basically the same. In general, consumers like watching the same programming on both media. This trend suggests that those consumers whom we identify as predominantly viewing this content at home see very little difference in the types of content they wish to watch. And although most would rather watch programming on TV than on the Internet, a sit-com on TV, in essence, is the same as a sit-com on the Internet.

Frequently, the next question that arises when we see these similarities is about cannibalization. Is watching long-form programming on the Internet eating into TV viewing? The majority of research done on the subject suggests that as of now, cannibalization is not a significant issue. Indeed, when we map TV consumption against Internet viewing consumption we see little correlation.



**Fig. 2.3** Where consumers view video

Indeed, when we look closer at the relationship between TV consumption and Internet video consumption (see Fig. 2.4) we see little relationship. Although there may be pockets of use, there does not appear to be an overall consumption pattern. However, if you strip out the TV use data an interesting pattern begins to emerge.

Each point on Fig. 2.5 represents a person. The points are arranged in an order of high video consumption to low video consumption. The distribution that emerges suggests three different segments of the online video viewing population: a low-usage segment that accounts for most people, but relatively few streams, a mid-usage segment that is a much smaller slice of the population, with a moderate amount of consumption, and finally a high-usage segment that consumes the majority of the content, but is a tiny fraction of the population.

Viewing seconds, as shown above, is a good measure of video usage. But there are two other key measures to consider: the number of streams and the number of sites visited. The number of streams is important because a person can consume

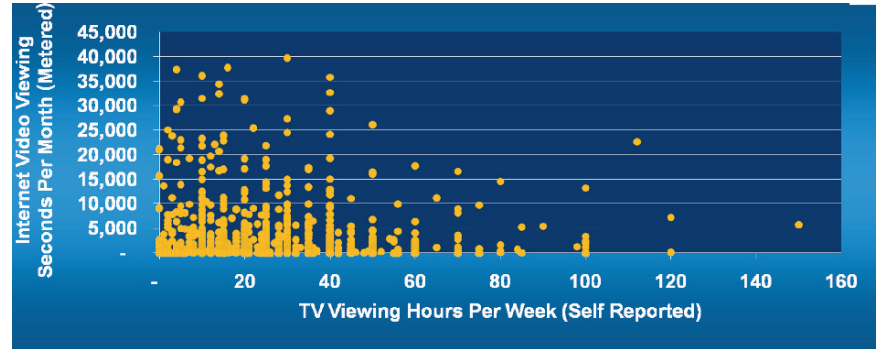


Fig. 2.4 TV and Internet video consumption

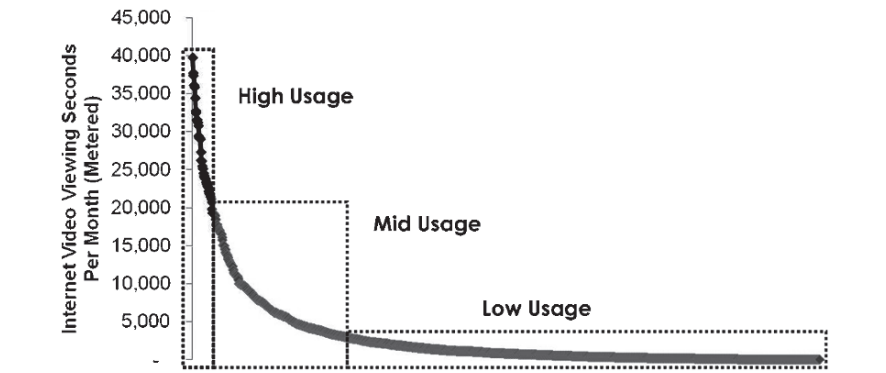


Fig. 2.5 Internet consumption distribution

relatively few streams, but generate a considerable amount of time (two, 2-h streaming movies is 14,400s) or many streams on YouTube (which tend to be under 4 min) but still generate little time. This gets to the type of content being consumed, long form or short form.

The number of sites visited is an important metric because it gets to the variety of content consumed. Even if a person generates a significant amount of time, if this is only on one or two sites, that person is likely only consuming a fairly narrow band of content. If a person is consuming video on a high number of different sites it is likely they are consuming a variety of video formats and content types.

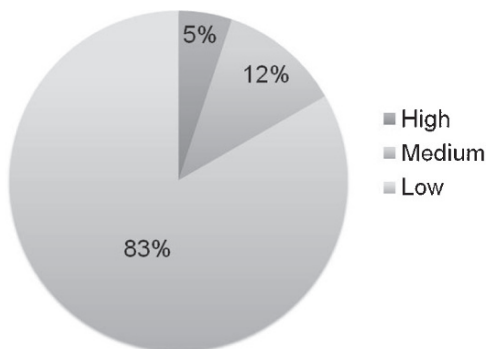
## No, We Are Not All Alike; Some People View a Lot More Video than You Do

With these three metrics in minds, Nielsen has developed a segmentation to get a better understanding of the inner-workings of the online video viewing population. The segmentation was completed in January 2008, using a K-means segmentation on a sample of 2,200 video-viewing individuals. This sample was both surveyed and being metered by Nielsen software; so we were able to understand the relationship between actual behavior and attitudes.

The segmentation falls out much in the same way the overall distribution did in Fig. 2.6. About 83% of the overall population is in the low-consumption segment, about 12% is in the medium-consumption segment, and about 5% is in the high-consumption segment. As with many consumption models we see the 80/20 rule come into play here. About 20% of the population seems to be consuming about 80% of the content.

This distribution, while interesting, is not terribly meaningful. To get a better sense of who these segment are, it is useful to look closer at profiling data.

The low-consumption segment –“Average Joes” – generates few streams a month (110), for few minutes (9), and does not visit many domains (6). It does view



**Fig. 2.6** Distribution of segments

about the national average of TV viewing, 24h a week. The medium segment – “Fast Followers” – generates considerably more streams (87) for a greater duration (137 min) and significantly more domains (27). It too consumes about the national average of TV viewing. The final and smallest segment – “Early Adopters”, about 5% of the population, is the high-consumption group. This segment generates a considerable number of streams a month (104), for a long duration (435 min) and visits slightly more domains than does the Fast Followers segment.

This small difference between the Fast Followers and the Early Adopters segments in the number of domains visited may have more to do with the low number of quality video viewing experiences presently offered online, than any constant trait across both groups.

What is most noticeable between the three groups, however, is the fall off in the number of TV hours generated. The first two segments are around the national average for TV consumption, while the Early Adopter segment consumes about 10h less a week on average than either of the other segments. This begs the question, does higher use of online video, particularly long-form video, decrease TV viewing?

From this data, it seems unlikely. To get a better feeling for the dynamics behind co-use of the medium, we must look at both demographics and psychographics.

For many in the TV industry this chart is very disturbing. A full 25% of the early adopter segment is in the core 18–24 demographic. Beyond this, all of the other

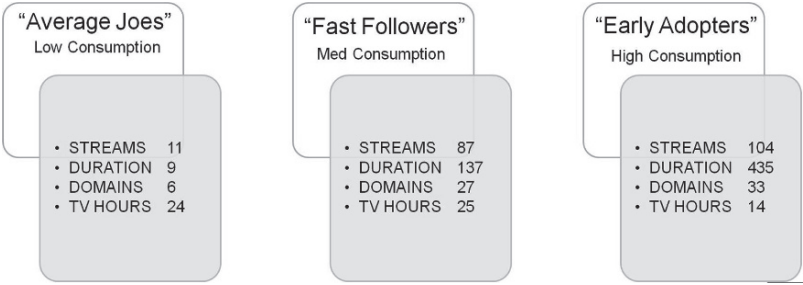


Fig. 2.7 Media consumption by segment

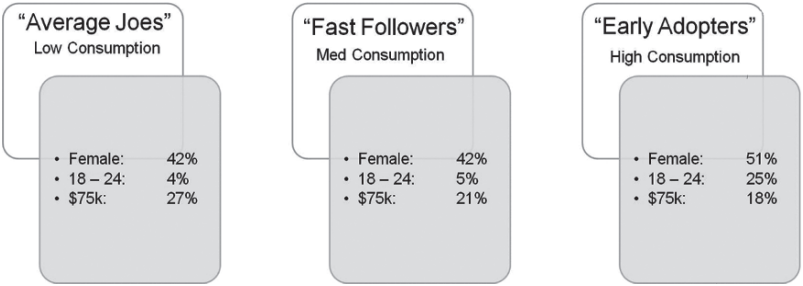


Fig. 2.8 Demographics by segment



demographics seem stable. Although, the Early Adopter segment does appear to be more female, this may be because one of the most popular long-form streaming programs at the time of this analysis was *Desperate Housewives*, which has a female skew in its demographics.

Even given the age and apparent lack of TV viewership of this Early Adopter segment, it does not seem that this should be a significant area of concern for TV networks. This is mainly due to two points. The first is that although a large proportion of this segment is 18–24, it is a very small segment and therefore does not represent the overall age cohort. The second is that the individuals in this segment do not appear to be representative of the overall population.

When comparing the 18–24 demographic overall to the general population, a couple of areas are important to focus on. First, Early Adopters only make up about 20% of the 18–24-year-old population. While this is a large percentage, two thirds of the demographic still fall into the Average Joe segment; so while large, this segment is certainly not representative of the overall demographic group. Second, there is only a 14-point difference when the high- and mid-consumption segments are compared from the 18–24-year-old group to the overall population.

This 14-point difference is clearly a defining factor, but there are other reasons why this demographic group would tend to fall into this segment. This population tends to have less TV viewing during the college years. Also, online video programming tends to be aimed at a younger market segment – YouTube specifically tends to be targeted younger. Both of these elements tend to be reversed as the population ages.

Beyond the demographic traits discussed above, there are also psychographic trends that suggest that this population is not representative of the 18–24 demographic group. In fact, this group might well have existed without the advent of online video.

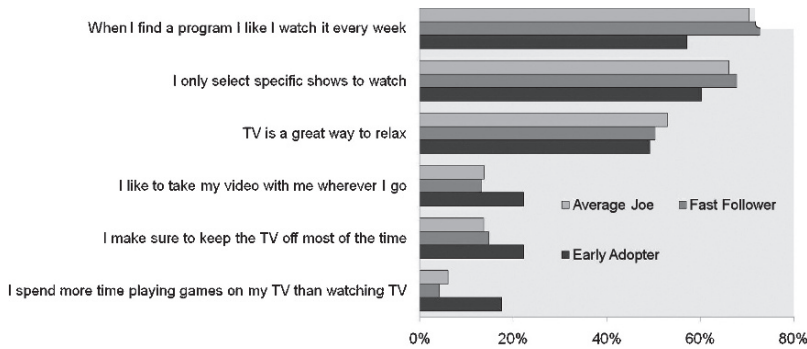
When these segments are asked psychographic questions, a few elements seem to distinguish the groups. Average Joes and Fast Followers tend to have a higher degree of loyalty and they also tend to be slightly choosier about the programs they view.

The real differentiation happens on three key points: “I like to take video with me wherever I go,” “I make sure to keep the TV off most of the time,” and “I spend more time playing games on my TV than watching TV”. In each of these three psychographic profiles Early Adopters are at least 10 points ahead of either of the other two segments.

### P18 – 24 Video Viewing Population    General Video Viewing Population



**Fig. 2.9** Comparing age distribution: Early Adopter segment vs. overall population



**Fig. 2.10** Psychographic characteristics

The commonality that each of these three psychographic profile points is that they suggest that the Early Adopter segment has a dramatically different relationship with the television as an object than most other Americans. As a whole, Americans do not tend to view the television as an appliance; rather they tend to couple it with the programming that comes through it. For most Americans TV is a friend, another member of the household, a form of self-expression among other things.

This emotion does not appear to be the case with the Early Adopter segment. The fact that they like the idea of content mobility suggests that they have decoupled TV content from the physical object that is the TV. That they keep the TV off most of the time, rather than treating it as a constant companion, suggests that TV is only valuable for the content that comes through it, rather than being a constant stream of communication. Finally, that more video games are played through the TV speaks partially to the age of the segments, but also indicates that the TV is simply a screen for content to be viewed through, much as a computer monitor is.

The relationship between how the Early Adopter segment feels about the TV as an appliance and their viewership of online video is an important one. At a minimum it means that programming itself is important, while TV as an object is not. Therefore they are willing to view TV content on whatever platform (Internet, mobile, etc.) is most useful and convenient. The worst case, however, is that these individuals are not wed to the standard form of content development (TV networks producing TV programs) and are more likely to be open to alternate forms of development, such as consumer-generated media or webisodes made by either standard production houses, or alternate ones, such as *The Guild* or *Stranger Things*, short-form programs developed by independent producers specifically for distribution online either through streaming video or through video podcast for download.

Earlier in this chapter we stated that there does not appear to be an overall relationship between increased Internet viewing consumption and TV viewing, but for the Early Adopter segment there does appear to be a relationship.

Although the Fast Follower segment has considerably more online video use than the Average Joe, their change in TV consumption, as shown in Fig. 2.12, appear to be the same across both segments. The percentage of both populations that plan to watch more TV and those that watch less TV tend to balance out. Additionally, about 57% of both populations believe that they will watch the same amount of TV next year that they will this year.

This difference is in contrast to the Early Adopter segment which is showing a 17-point net loss (those who plan to watch more minus those who plan to watch less) in viewership likelihood. However, it should be noted here that only marginally fewer people in the Early Adopter segment plan to maintain their TV viewership on the same levels than the other two segments.

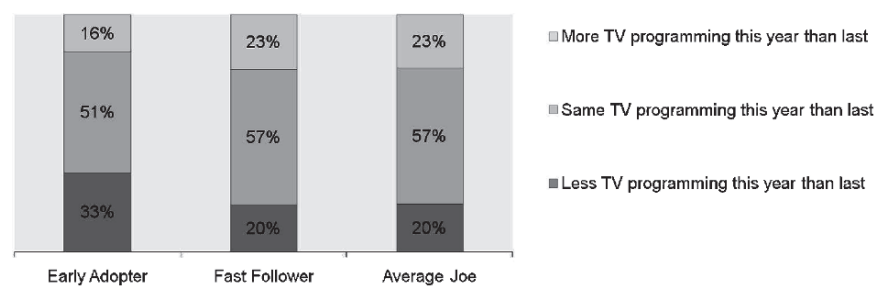


Fig. 2.11 Change in TV view by segment

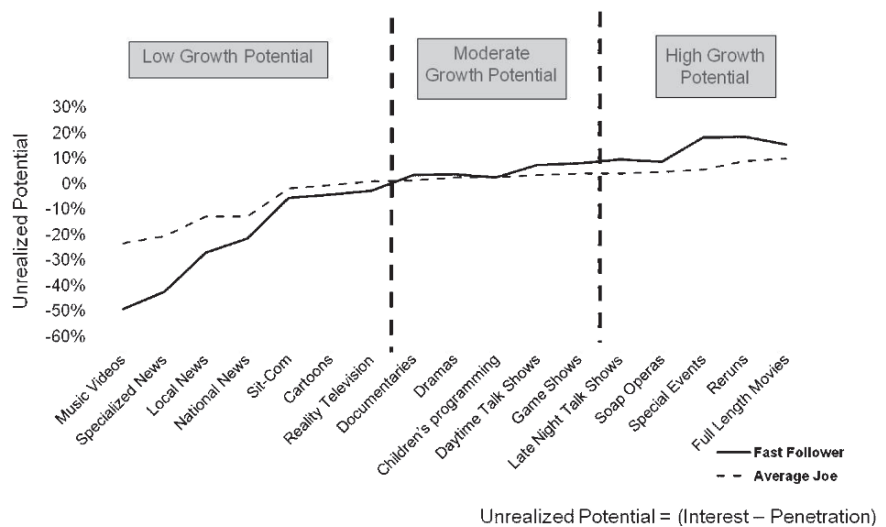


Fig. 2.12 Unrealized potential of genres by segment

## Why Internet Video? The TV Was Working Out Just Fine

This brings up a logical question: Why are Early Adopters being drawn to online video? There seems to be three key drivers – convenience, additional programming to consume, and the NetFlix factor. Each of these factors seems to drive different subsegments of the Early Adopter segment.

Convenience can best be described as time and space portability. As one Early Adopter interviewed for this research said:

I like online video because it means that I am able to watch videos in my bed or anywhere in my home, portable to my needs.

With the advent of cheap and easy wireless networking, streaming video means that the laptop becomes the portable device of choice within the house. Video on the laptop can be viewed in rooms without a TV or in concert with existing TV viewership. It basically untethers TV from the TV, onto a much lighter and more portable device – although with a smaller screen and in most cases a worse picture.

Additional programming is fairly self explanatory. As more programming is added to the Internet, there are more reasons for people to watch it. One Early Adopter put it as follows:

Major networks offer episodes of most primetime shows online, and independent media outlets have improved both in quality and quantity of material.

This statement is telling a few points. First, the viewer included both network and independent content as growth drivers. Second, the consumer perceives that “most” primetime content is available online. As of early 2008, when these interviews were conducted, this was not the case. However, the majority of the most popular programming had been made available for either streaming or pay-per-download. Finally, the perception that independent media outlets have improved quality and quantity seem to be prevalent. Although few people debate that more content is available for free online (the popularity of YouTube suggests as much), there is some debate about the quality of the online-only content. Some programs have promise, but if long-term quality is to be sustained, a business model more robust than free downloads and per-roll advertising, will need to be established.

The last key driver of usage for the Early Adopter segment is what we call the NetFlix factor. In late 2007 NetFlix began allowing the free streaming of a select catalog of 10,000 full-length movies and TV shows available on DVD to their members. Shortly after this iTunes, Apple’s download service for video and music began to provide a download rental service for its users. Both of these services have made it inexpensive to watch full-length films on PCs. They also come on the heels of years of illegal pirating of films via different online peer-to-peer networks. When characterizing the importance of these services, an Early Adopter stated:

[There] are movies that I like to download from the internet, so I watch less television.

This simple statement sums up the role that full-length movie streaming/downloads have taken in the life of Early Adopters – they are a replacement for TV programming.

Given that tens of thousands of theatrical movie titles are available for free, pay, or theft online, the fact is that this group of consumers has no specific ties to TV, and so would choose to watch whatever they believed was best at the time, not simply what was being shown to them by a TV network.

## **The Genie Is Out of the Bottle ... Now What?**

Assuming that not all segments become the Early Adopter segment discussed earlier, two trends are inevitable. More consumers are watching long-form video online and therefore it is unlikely that content will stop being put online by networks, or stop being developed specifically by independent producers. With this said, how should the trends discussed impact the future strategy of online video providers?

To understand the impact of specific genres of programming, Nielsen uses an unrealized potential metric. This metric takes the interest in viewing a specific type of programming online and subtracts the existing penetration.

We then measure this unrealized potential for multiple genres measured as well across multiple segments. Up to zero growth potential are areas of little growth; 0–10% growth potential have moderate growth. Those areas that have higher than 10% growth potential have high growth.

Those areas with the highest growth potential online are the most likely to have long-form formats made available to them: specifically, late night talk shows, soap operas, special events, reruns, and full-length movies. Those areas with the lowest level of growth potential are those that tend to be more short form or clip based: specifically, news, cartoons, and music videos. While this metric does not guarantee success, it does point to where short-term growth should occur.

Since penetration is such a large part of this metric, overlaying the metric provides a means to narrow down those areas that have both the highest level of potential, and also high levels of existing penetration.

Figure 2.13 illustrates one effect of using penetration as part of the metric. Those genres that have the highest levels of penetration are also those that tend to have the lowest amount of unrealized potential. The goal, however, is not to show the success of any given genre, but rather its chance for strong growth in the future.

Of those areas that have both the highest growth potential and the highest penetration, reruns and full-length movies seem to have the most promise. We have discussed the trends in full-length movies in fairly great detail to this point; so we will focus the discussion here on reruns.

It is important to note that what is called “reruns” in the charts above we actually described as “reruns no longer available on TV” in the survey instrument that was used for this analysis. This fact is important, because consumers are stating that they want access to TV programs that they knew from the past, but are no longer available. This suggests that even though networks are concerned with cannibalization of their TV viewers, they could use this media as a way to monetize

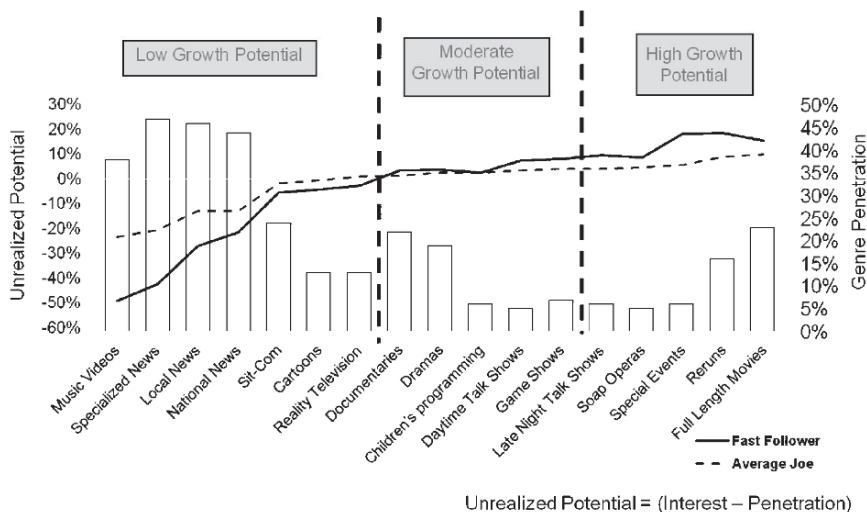


Fig. 2.13 Growth potential with penetration

content that is sitting on the shelf. At a time when video advertising inventory is limited, this demand for this deeper content could generate additional revenue for networks that are struggling in a time of increasingly lower ratings and fragmented programming.

## Is All Programming Created Equal? No

Regardless of the success of any given genre, one thing is clear: Viewers are not interested in all genres being rendered the same way online. This statement is a conceptual departure from the way standard linear television is developed. Although programs vary in length, the way consumers interface with them is fairly standard: they sit back and watch. TV lacks the interactivity that would allow content producers to render different types of programming fundamentally differently; the Internet does not. Thus, content producers can feel free to render programming differently depending on what the consumers require.

Those areas that have the highest growth potential – late night talk shows, soap operas, special events, reruns, and full-length movies, all have different drivers of content usage, and therefore consumers are looking for producers to focus on specific areas in their development.

For full-length movies consumers are most interested in quality of the experience. This on its own is not a surprise. Consumers have gotten used to large, high-definition pictures for watching and listening to movies at home. They are looking for the same from their Internet video. Consumers are looking for high-quality sound and picture.

Full Length Movies	Late Night Talk Shows	Reruns no longer on TV	Soap Operas	Special Events
<ul style="list-style-type: none"><li>• The sound quality of the video</li><li>• The quality of the picture, stream or connectivity is superior at that site</li></ul>	<ul style="list-style-type: none"><li>• Length of video</li><li>• The specific video I'm looking for</li></ul>	<ul style="list-style-type: none"><li>• A great variety of video</li></ul>	<ul style="list-style-type: none"><li>• Video available before it is available on TV or DVD</li></ul>	<ul style="list-style-type: none"><li>• The ability to watch it at any time of the day or night</li><li>• Online video I can't find anywhere else</li><li>• Content in video</li></ul>

Fig. 2.14 Drivers of usage by genre type

Consumers will not have patience for pixilated images or grainy sound. They are looking to have the experience be like their current home theater viewing.

The drivers for late night talk shows are somewhat different. For this type of programming consumers are less concerned with the quality of the video itself and more concerned with controlling the experience to get the content they want. Specifically they are looking to have more, shorter length clips, most likely matching up to the segmented nature of late night talk show. They also want to make sure that they can view the piece of content they are looking for. For example, they might not be interested in listening to a Hollywood star promote a new movie, but they do want to be able to view the monologue at the beginning of the program, and the musical guest at the end. The ability to flexibly move between sections therefore is critical.

For reruns no longer available on TV variety is key. Variety, in this case, however, does not mean actual variety; it means the ability for the consumers to find the specific program they are looking for. For example, if a consumer is looking for the third episode of *The Barney Miller Show* and a site has every single program ever aired except that one, there will not be enough variety. However, if the same consumer is looking for the fifth episode from the third season of *The X-Files* and they are able to find it there is enough variety, even if that site has only episodes of *The X-Files*. This suggests that the current strategy of going very deep into the catalog of specific programs, and being clear with consumers as to what is available might be the best approach.

The soap opera audience is a bit of an unusual audience, although the lessons here might be applicable to any serialized programming. Viewers of soap operas are looking to “scoop” the program. They are looking to know what is going to happen on the program before it airs. While this type of programming is not main stream presently, that may be partially due to the day-time time slot. Many women (and some men) have spent specific times in their life becoming very involved in the ongoing narratives of specific soap opera. There is good reason to believe that if networks provided a way to watch this type of programming online, even in a weekly summary format, they may be able to increase their reach and

their ad dollars, much in the same way they could by showing reruns no longer available on TV.

“Special events” is an unusual category since it is made up less of a specific type of programming, and more of a general format. These programs tend to be long, at times over 3 h, and because of the desire of networks to show them live, they tend to begin very early on the west coast and end very late on the east. Examples of special events would be award shows or important sporting events. Here, consumers want to be able to watch the events themselves, time shifted. Since the program might start very early or end very late, viewers want to be able to consume the content on their own time. They also want to be able to find video content they cannot find elsewhere. There is a feeling for many of these types of events that there is behind-the-scenes or extra content that does not make it to the TV program either because of niche interest or because it would be inappropriate for general viewership. Finally, viewers realize that not all special events are created equal. They have greater interest in watching the Oscars than perhaps the SAG awards. This selection of the specific content in the video is important to viewers of this type of content.

## What Next?

There are two areas content producers need to be moving into in the next few years. First, what traps should they avoid? What are those myths that have been reported as being critical to online video viewership that turn out not to be the case. Second, assuming the Early Adopters are already generating a significant amount of video, and the Fast Followers are on their way, what is holding back the other 80% of the population, the Average Joes?

There are three myths that seem to have gained traction in the TV industry’s practices which are moving long-form content online: content ownership, mobility between devices, and the idea of video networks that lie outside of the recognized TV networks.

- *Content Ownership:* Viewers seem to have little interest in owning a specific video and having it live natively on a PC. Rather they seem much more interested in being able to access the content they want, when they want it. A relic of ownership such as a file or a DVD is not necessary.
- *Content Mobility:* While it is clearly important to specific subsegments, consumers do not seem to be particularly interested in moving a video between a PC and a mobile device. There is good reason to believe, however, that there is a growing interest in streaming content directly to the television.
- *Online Networks:* Although there are good business reasons for the existence of services such as Veoh and Hulu (aggregations of different TV network’s content), there does not seem to be a huge consumer desire for this format. Perhaps consumers find it confusing to go to Hulu to find Fox TV entertainment content when they could just go to Fox.com.



If these are the areas that content producers should avoid, what are the areas that they should focus on in order to move the Average Joes online? They are bandwidth and display. This is both good and bad news for content producers. The bad news is that it is unlikely that TV networks will be providing broadband access to consumers in order to accelerate their movement to watching video online. It is also unlikely that they will be buying flat panel monitors and high-end sound cards for consumers who are lagging on technology adoption.

Now for the good news: this is what is called an actuarial problem, one that time itself will take care of. We are reaching a point of near broadband ubiquity in the USA among Internet households. Therefore the bandwidth issue should be minimized over the next few years. The hardware issue should also be solved. The average PC replacement rate for US households is about 2 years. Technology such as flat-panel monitors and high-end sound cards are coming down precipitously in price. Nielsen believes that based on these two trends the consumption of video, both long-form and short-form, will increase over the next 18 months as hardware begins to be replaced and broadband penetration continues to increase.

## Conclusions and Recommendations

Where does all of this leave us? In this chapter we have discussed segmentation, penetration, myths, and really just how big YouTube really is right now. There are many important trends discussed in this chapter. The important ones to focus on are the following:

- *The Relationship Between TV Viewing and the Internet:* Although there is plenty of research on both sides of this subject, our analysis seems to show that with the exception of one key segment, the Early Adopters, there does not appear to be a relationship between increased Internet video use and decreased TV viewing. We do believe, however, that the extra media time does come from somewhere – most likely from print media.
- *Early Adopters Do Not Signal the End of Linear TV:* The Early Adopter segment is young and does consume a significant amount of media. Indeed, they do appear to be watching less TV while watching more video elsewhere. It seems likely though that (1) this demographic is not representative of the overall youth demographic – there are just too few Early Adopters now, and (2) Early Adopters exhibit an unusual psychographic trait, not typically shared either by their age cohort or by most Americans; they decouple the programming of the TV from the TV appliance. Until we see an overall movement away from the fetishising of the television in the USA, TV as an institution is not going anywhere. Though it does remain to be seen how DVRs will impact this relationship.
- *Fast Followers Want Programming They Cannot Find on TV:* One of the more promising parts of our research suggests that Fast Followers, the segment that is most likely to be consuming more and more long-form online video, has a

significant interest not in shifting their TV viewing online, but rather using the Internet to find programming that would otherwise be unavailable. Programming such as reruns no longer available on TV and full-length movies seem to have the most promise here.

- *Forgot About Selling a Video:* Ownership of video seems to be becoming more of an outdated concept. As the industry moves away from physical DVD delivery to downloads, consumers increasingly have little need for physical ownership of the content. Instead, they are looking for a broad variety of programming available when they want it. And no, they do not seem to want liner notes and fancy packaging either.
- *Trust the Actuaries:* The missing pieces from moving the largest segment online are hardware and bandwidth. Both of these will be changing in the near future. Broadband is reaching near ubiquity, and the price of flat-panel monitors and high-end video/sound cards is coming down. Within the next 18 months we expect significant growth in the viewership of online video.

Finally, it is worth remembering, not all programming should be rendered the same way. Historically, TV as a platform has been a limiting factor for the development of video-based entertainment. It is, by its nature, a one-way medium. This is clearly not the case for the Internet. With this in mind, video publishers should remember to not simply take the content that they produced from the TV and slap it onto the Internet. In fact, each genre has its own idiosyncrasies. Although the guidelines provided earlier in this chapter are rough, they are meant as inspiration. Content producers will use the Internet to free themselves from the confines of linear programming. They will add value to both consumers and advertisers. Consumers will find themselves with the ability to interact with the video content in ways they could not on TV.

We have already begun to see this. Some networks have experimented with allowing consumers to mouse over parts of the video to get a back, or side story regarding what the character is talking about at that moment, even though that back or side story might have otherwise not been broadcast. This is just one experiment. Chat features and other forms of interactivity will allow community to build around programming in ways we are yet to see. The Internet will no longer be an isolating factor for TV viewing, but rather a unifying one.

Value will also be provided for advertisers. The 30-s spot is a concept wasted on the Internet. Creative advertising where the consumer can interact with the brand through gamming, or getting more information or seeing a full-length movie trailer rather than a 30-s spot is already a reality. In this mode advertisers do not have to preach to consumers; they can truly engage them. Indeed, they will be able to minimize advertising waste, through behavioral targeting and contextual placement. The movement online will bring about a new age of advertising.

We are about to enter a new era of online video. As I said at the beginning, it will be a lot of fun to watch.