YouTube as a cultural form

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The Political Economy of YouTube

Since YouTube was launched in 2005, many have heralded the video-sharing website as a democratizing media platform that would convert media consumers into producers and reshape the entire landscape of media. Some argue that the site is contributing to a fundamental transformation in political discourse and policy too. From its very early days, corporate organizations have heralded YouTube as a potential goldmine of relatively effortless profit, where millions (and soon to be billions) of eyeballs would translate into huge revenues for YouTube, venture capitalists and advertisers alike. This tension between YouTube’s democratizing goals and economic potential is a fundamental question which is often ignored in analyses of the website. YouTube has indeed altered how audiences engage with media, particularly in an online forum, but we cannot ignore the underlying motives of its owners. This article discusses the political economy of the website, presenting the company’s history and ownership structure, as well as the efforts made thus far to develop the site’s economic potential. Through an evaluation of the power relations that are infused in the structure and operation of YouTube, we can begin to assess whether the site does indeed democratize media production and distribution—or merely serves as yet another media platform intended to generate advertising dollars.

You Tube as a cultural form

founders made a deliberate decision not to include advertising as part of the site, as explained in a 2006 *Time* article. "Early on, Chad and Steve made a crucial good decision: despite pressure from advertisers, they would not force users to sit through ads before videos played. Pre-roll ads would have helped their bottom line in the struggling months, but the site would never have gained its mythological community-driven status. It would have seemed simply like another Big Media site."[6]

Funds, however, came from other sources. In November 2005, the company received almost ten million dollars in funding from Sequoia Capital, which had previously helped finance Apple, Google and other Silicon Valley companies. Sequoia has invested in a wide range of other companies related to creative industries (Atari, EA and various online sites), although its main focus has been on semiconductor companies, software and other tech services. Sequoia supplies investment funds, which sometimes includes an ownership stake in a company, but it is unclear the amount of control or involvement in the company such investments involve.

The Making of YouTube: Last day in the Sequoia office

At the time when YouTube was purchased by Google, the site was delivering "more than 100 million video views every day with 65,000 new videos uploaded daily." The same press release from Google also announced that the acquisition combined "one of the largest and fastest growing online video entertainment communities with Google's expertise in organizing information and creating new models for advertising on the Internet."[7] Thus, from the beginning, Google's intentions seemed clear: to develop YouTube's potential for attracting advertising revenues. Since YouTube is a subsidiary of Google Inc., it remains important to examine the parent corporation more carefully. Founded in 1998 by Stanford PhD students Larry Page and Sergey Brin, Google began as a "Web crawler" or search engine that traverses the Web in search of requested information. The company grew rapidly and is now headquartered in Silicon Valley with 60 offices in over 20 countries. Google's organization currently includes various divisions such as Google.com—Search and Personalization; Communication, Collaboration and Communities; downloadable Applications; Google GEO—Maps, Earth and Local; Google Checkout (online shopping); and Google Mobile. The main google.com site has been expanded to include special features, such as Image Search, Book Search, etcetera, and Google Scholar provides a simple way to do a broad search for relevant scholarly literature, including peer-reviewed papers, theses, books, abstracts and articles. Content in Google Scholar is taken from academic publishers, professional societies, preprint repositories, universities and other scholarly organizations. As is well known, the company has also developed a variety of other tools for users to create, share and communicate with.

Google's goal is to organize the world's information and make it universally accessible and useful. To do this, the company relies on advertising to generate revenues. Their advertising strategies include content-targeted ads on google.com, as well as programs such as AdWords and AdSense, which help content owners to monetize their content by adding advertising to content, as well as other advertising strategies. Google is a public corporation—meaning their stock is available to the public—however, they have never paid dividends on common stock. In their latest report to the Securities and Exchange Commission, they stated: "We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future."[9] Control lies firmly in the hand of the founders, executive officers and directors, who hold so called "Class A common stock." "Class B common stock" and other equity interests represent approximately 70 percent of the voting power of the outstanding capital stock. At the end of 2007, the company's two founders and the CEO owned almost 90 percent of outstanding Class B common stock, representing more than two thirds of the voting power. "Larry, Sergey and Eric […] have significant influence over management and affairs and over all matters requiring stockholder approval, including
the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets, for the foreseeable future;" the most recent 10-K report states. "This concentrated control limits our stockholders’ ability to influence corporate matters and, as a result, we may take actions that our stockholders do not view as beneficial." Google’s assets for 2007 were around 25 billion dollars with revenues reaching nearly 17 billion.

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Advertising revenues have contributed 99 percent of the company’s revenues since 2005, with the balance from the licensing of Web search technology and search solutions, plus the sale of other products and services. Interestingly, international revenues accounted for nearly half of Google’s revenues in 2007, since more than half of its user traffic is from outside the U.S.

**Google and YouTube**

Even though Google does not share YouTube’s financial information, it is estimated that the latter site will generate 200 million dollars during 2008 and perhaps as much as 350 million dollars in 2009. Although this represents only around one percent of Google’s sales, it is considerably more than was earned by YouTube in 2007.11 When it was decided that YouTube was to remain independent from Google, Forbes reported that "the Google people are taking over the place, and they’ve found the buttons on the cash register."12 YouTube has expanded globally, adding 17 countries between mid-2007 and 2008 and persuasively dominating the online video business. It has been estimated that the site attracted around a billion views per day worldwide in mid-2008, with almost 40 percent of videos streamed on the Web coming from YouTube.

But as of this writing, financial analysts were still claiming that, even though YouTube has a huge audience, it still has an uncertain business model. In fact, one of the fundamental problems that commercial media companies face is how to translate cultural goods into revenue and eventual profit. Nicholas Garnham notes that product scarcity, a foundational element of market supply and demand, is difficult to establish, because cultural commodities are intangible and reusable without much limitation.13 Furthermore, demand for any given cultural good is difficult to predict, thereby complicating how media companies approach media production and distribution. Companies employ a number of strategies to ensure that commodity value is established through access limitation (most often through distribution and/or the exercise of copyright), constant resupply of media—such as 24-hour news—and the sale of audiences to advertisers. It is this last strategy that most concerns media companies hoping to tap into online audiences.

Social network media, or those websites that provide communities for people to interconnect such as MySpace, Facebook and YouTube, are the latest Internet trend to grab attention from corporations and investors as they explore how to translate potential captive audiences into advertising revenue. Over 16 million people visited MySpace on a monthly basis in mid-2005, prompting News Corporation to acquire the social network site’s parent company, Intermix, for 580 million dollars.14 Facebook, with roughly 15 million monthly visitors in mid-2006, generated interest—and offers—from both Viacom and Yahoo that year, however, Facebook declined both of them.15 YouTube’s 72 million unique monthly visitors viewed 100 million videos every day, was the main reason for Google’s purchase, but ever since acquiring YouTube, the company has struggled to see a return on its investment.16 The issue of translating these huge audiences into revenue, or monetization—the term that YouTube and Google seem to prefer—has stumped advertisers and media companies alike as more and more people shift their media interaction and consumption from traditional to online venues. Of course, the commercialization of media is not a new story, especially in the US, where there is a long history of profit...
being prioritized over public interest in the development of media such as radio and television. Yet the Internet represents a challenge to those traditionally held beliefs about commercial media, as it holds the possibility of a truly accessible public-media system. Nevertheless, media industries tend to view any media technology or form as another mode of exploiting captive audiences for profit, with the primary goal of selling these audiences to advertisers.

Google is no different in the pursuit of this goal; however, managing a social hybrid economy as YouTube is very different from running a traditional enterprise. Of course, Google has been a forerunner in trying out new models of monetizing the rapidly growing Internet audience. With the company’s investment in YouTube, this goal has become even more urgent, with Google’s heavy dependence on advertising revenues. The problem, however, as Google CEO Eric Schmidt admitted in 2008, is that the company doesn’t know exactly how to monetize YouTube.\(^17\) While the company is exploring its options, it has also encouraged its advertisers to try different tactics, hoping that someone will finally hit on the magic formula for making money from YouTube’s millions of users.

**Advertising and Content Control**

The industry rhetoric in 2009 is that monetization is essential to the survival of websites like YouTube, despite the fact that most of these social-media websites emerged without the imperative to make a profit. Trade articles with headlines like “We Better Start Monetizing Social Media Before It’s Too Late” pointed to an established way of thinking about media and assumed that every media outlet demands advertising, no matter the format or technology; indeed, bloggers and other technology news outlets excitedly speculated about which social media will be the “innovator that leads the way in monetizing social media.”\(^18\) Just prior to the Google buyout, YouTube expanded its video offerings by trying to partner with major media corporations to provide content to the website — no doubt an attempt to increase YouTube’s value before it settled on a final selling price with Google. Warner Music Group, the world’s fourth largest music company, which holds the copyright to over one million songs, arranged to provide its library of music videos, behind-the-scenes footage, interviews and other content. Other media-content providers have been hesitant to sign with YouTube because of the site’s perceived lax attitude towards copyright. Warner Music Group addressed this concern by allowing YouTube users to incorporate its music and video footage into their own video compilations, so long as Warner and YouTube could split revenue drawn from advertising that accompanied any of these user-generated videos. This arrangement fell apart in December 2008, when Warner rescinded its agreement with YouTube, citing the failure to come to licensing terms that “appropriately and fairly compensate recording artists, songwriters, labels and publishers for the value they provide.”\(^19\) This suggests that Warner Music Group was dissatisfied with its revenue stream drawing from YouTube.

The video-sharing site has been slow in convincing other major media companies to relinquish control over their content, even after the Google acquisition. As an added deterrent, Viacom filed a one-billion-dollar copyright-infringement lawsuit against Google in March 2007, citing YouTube’s unauthorized transmission of 150,000 clips of Viacom media content.\(^20\) A great deal of YouTube’s popularity stemmed from users posting their favorite clips from The Daily Show, MTV programs and other television shows. But if more people watch these clips online than on cable television, Viacom (and other media conglomerates) risk losing valuable advertising dollars. Signing over content to run on YouTube would, in effect, draw audiences away from content (and corollary advertising) on traditional media outlets. Without any guarantee of significant profit, many major media companies have thus begun to explore their own video-website ventures that could be more controlled in terms of copyright and advertising revenue. Hulu, a joint venture of News Corp. and NBC Universal, is the best example, a site featuring TV and feature films in their entirety. However, by the end of 2008, YouTube had made various deals with MGM, Lionsgate, CBS, The Sundance Channel, HBO and Showtime.\(^21\)

YouTube has been forced to turn to smaller partners, establishing the basic structure of its content business model of providing branded channels or sites within the overall YouTube website that featured a specific company’s content. The National Basketball Association, Hollywood Records, Wind-up Records and several independent video producers were among those companies sharing content on YouTube through non-exclusive licenses, although, as in the case of the NBA, some would continue to withhold their most valuable content, featuring feature it on
their own websites instead. Revenue generated through advertising would be split fifty-fifty between YouTube and its partner companies. Advertisers would pay 20 dollars for every 1,000 views of a video, which, for videos that attract tens of millions of views, is more lucrative for content partners. In addition to running banner advertisements adjacent to videos, Google ran advertising before, during and after videos posted on YouTube. Much of this advertising was presented on branded channels, but competitor video-sharing websites like Metacafe and Revver challenged Google in May 2007 to consider bringing the average user into its business model as well. Some of the users with the most-viewed videos on YouTube were invited in early 2007 to join in revenue-sharing deals, whereby YouTube would also split ad revenue fifty-fifty. YouTube executives claimed that users like Lonelygirl15 and HappySlip posted content that “is of equal value to the professional content that is contributed by some of our partners.” However, YouTube only invited 20 to 30 users to join its partnership program; meanwhile, it continued to pursue more desirable professional content, signing 150 international media partners by June 2007 and rapidly adding more partners as it spread across the globe. For instance, YouTube signed two dozen new content partners as part of its expansion into India in 2008.

However, advertising that ran before, during or after videos proved to be a less popular option, driving users away from content that hosted this type of advertising. YouTube introduced image-overlay advertising instead, in which a semi-transparent banner would run at the bottom of the video screen for ten seconds; users would be able to click on the ads to receive more information, differentiating it from traditional advertising and providing added value to advertisers. YouTube continued to provide an ad-revenue split with content partners, but still privileged major media companies over individual users (content from 3,000 media partners featured advertising as opposed to roughly 70 independent partners), preferring to run advertising on content that was “safe” for advertisers. Meanwhile, major advertisers began to explore alternative ways to secure revenue from YouTube videos. Some companies like Scripps and HBO began selling advertising space on their YouTube branded channels, thereby enabling them to set their own ad prices. But these companies were still required to split ad revenue with YouTube. Others enlisted individual content providers with hugely popular videos to incorporate their products into newly produced videos. Tay Zonday’s
of footage for Saw V, for example, would receive a trip to Los Angeles and tickets to “a Lionsgate Horror Film Premiere.” These amateur movie trailers become free advertising for Lionsgate and (limited) exposure for the creator of the trailer. So, towards the end of 2008, YouTube was offering a variety of advertising on the site: standard banner ads, homepage video ads, video ads and InVideo ads. An ad on the YouTube homepage cost 175,000 dollars per day, plus a commitment to spend 50,000 dollars more in ads on Google or YouTube. Clearly, the site has become yet another media outlet supported by advertising, despite the enthusiasm and predictions that the Internet would provide a new and uncommercialized “public” space.

Broadcast Yourself (As Long as It’s Our Content)

On the surface, YouTube is structured so that anyone’s video uploads are not prioritized over others, as indicated by the invitation to “Broadcast Yourself™.” However, various techniques adopted by the site—to enhance advertising—promise some videos over others.

Online audiences tend to be fragmented, thus advertisers have been forced to rethink traditional ways of reaching their target groups. Because media companies and their advertisers want to draw attention to their content, YouTube categorizes its videos, among other designations, into Promoted Videos and Spotlight Videos. Content partners can pay to upload content as a Promoted Video that will then appear on YouTube’s homepage with the intent of driving traffic to those videos and accompanying advertisements. YouTube editors choose Spotlight Videos, which follow themes to highlight some of the best videos produced by both YouTube users and corporate content partners. These videos then might secure a status of Most Viewed, Most Popular, Most Discussed, Top Favorites or others, which are categories that function to further drive traffic to these videos. These categories function as promotional devices more than any gauge of what might truly be popular; despite the fact that the Most Viewed videos in fact receive the most views, van Dijck notes, the term “Most Viewed” is relative when video viewings can easily be manipulated by those who can afford to pay for the privilege.

There also is concern that, despite affirmations to the contrary, Google’s search engine may privilege Google companies and partners. One advertising executive notes: “Without getting on YouTube, you don’t always get picked up by Google search,” which thereby might prevent some media content providers from reaching Internet audiences generally, not just those visiting YouTube. But with major media companies still eschewing YouTube as a platform for content distribution, perhaps a space can be opened for smaller, independent companies to reach audiences in ways that traditional media tend to obstruct. Despite the continually increasing popularity of YouTube and the shift of advertising dollars from traditional media outlets to online outlets, content providers are still concerned about copyright issues. YouTube’s model of fifty-fifty revenue sharing is backfiring because some of the major media conglomerates are simply starting their own video websites—as is the case with Hulu. The latter site’s content providers are paid 70 percent of the revenue generated by advertising on the site, which does not post user-generated content, and they are able to control their content and copyright much more closely.

Clearly, one of the most worrisome aspects of YouTube’s monetization strategies is the commodification of labor. This issue arises most acutely when we consider how advertisers and media companies exploit users for profit. While some users might be compensated somewhat more adequately for their work (such as Zonday’s “hefty fee” from Cadbury Schweppes), other users are simply guaranteed fifteen (or fewer) minutes of fame. This is, for many, sufficient compensation in an age of easy Internet celebrity. And YouTube is not shy about helping advertisers exploit users to generate revenue. In building brand recognition and value for its advertiser clients, media agency MediaVest works with YouTube to structure collections of user-generated content that align with an advertiser’s target audience. “The example I throw out there,” notes one MediaVest executive, “is we know kids across the country are submitting their skateboarding videos, so if you have a brand trying to reach a young consumer, we could collect all the best of that footage, have it reside in one area and have the brand wrap around.” The overall message is that user-generated content is not as desirable or valuable as professional media content from major companies, unless it can somehow be manipulated to make a profit for media companies and for Google, but certainly not for the individual user.
Conclusion

This article has presented a political economic analysis of YouTube, including its ownership and control issues, and the ongoing efforts to capitalize on the site. Despite the various challenges, it is apparent that Google plans to continue its efforts to monetize YouTube and is willing to try just about anything to ensure that it secures a return on its investment. The company continues to tout YouTube’s user-focused reputation, yet has embraced various strategies to privilege corporate partners or established media companies.

YouTube’s marketing director has explained that “we’re really focused on democratizing the entertainment experience, so whether it’s a user-generated content from aspiring filmmakers or from one of the networks, the reality is it’s users who are in control. Our users decide what rises up.” In promotional material, the site is regularly promoted as oriented to users. “At the end of the day, it’s all about the community and we will continue to do what we can to make the user experience a prosperous one.” While users may prosper from the YouTube experience, those who are likely to actually prosper in the future—if YouTube’s strategies succeed—are the site’s owners and their corporate partners.

Endnotes

2. Constance Loizos, “VCs see more than just laughs in goofy Internet videos,” Private Equity Week 31 October 2005.
8. For more on Google, see Randall Stross, Planet Google: One Company’s Audacious Plan to Organize Everything We Know (New York: Free Press, 2008).
10. Ibid.
12. Ibid.
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Ciar Byrne, “YouTube bows to reality with plan to interrupt clips with adverts,” The Independent 23 August 2007.


Ibid.


See http://www.youtube.com/LionsgateLIVE [last checked 15 February 2009].

Quentin & Hessel 2008.


