

Company case

YouTube: Google's quest for video dominance

There's no doubt about it. Google – now part of holding company Alphabet – is an unquestioned success. With annual revenues of €71.5 billion last year, only 35 US companies were bigger – and Google is younger than every one of them. But even its rapid rise in revenues doesn't capture the power and influence of this brash, young company. After all, Google powers a whopping 70 per cent of all desktop internet searches, a statistic that balloons to 95 per cent on mobile devices.

But when it comes to defining its competition, the picture isn't cut so clear for the undisputed sultan of search. Certainly, Microsoft (Bing) and Yahoo! are in Google's crosshairs when it comes to search. But when it comes to keeping an eye on competitors, Google is likely more concerned about Apple, Amazon, Facebook and Samsung. In fact, not one of these companies makes a move that Google doesn't notice and evaluate.

How do such seemingly diverse companies end up competing so fiercely with one another? It turns out that these companies really aren't so different when it comes to their ultimate goal – to meet the digital needs of consumers everywhere, a need set that is rapidly evolving and tricky to define. But as consumers have turned more and more of their time and attention to the connected devices they hold in their hands, Google has realised that capturing the biggest possible share of 'time

spent' in the digital space is what it really seeks. And although Google and competitors Apple, Amazon, Facebook, Microsoft and Samsung each started out focusing on specific product categories, the quest for online dominance has blurred those market borders and placed the companies in direct competition with each other.

Consider Google's portfolio of internet-oriented products – Gmail, Chrome, Google Maps, Google Earth, Google Drive, Google Docs and Google Photos. Throw in Android, Google Wallet, Chromebooks and Google+, and suddenly Google and its competitors lock horns in more ways than one. Expand even further to the 'moonshot' projects that fall under Google parent Alphabet's umbrella – the Internet of Things (IoT), drones, robots, alternative energy production and autonomous vehicles – and Google and its competitors become so intertwined that it's hard to tease things apart.

Google knows that to be as competitive as possible, it isn't enough to diversify into various businesses and product lines. Rather than being disjointed pieces, every piece must fit neatly into a holistic pie. For Google, all those projects may centre around internet search and organising the world's information. But ultimately, Google wants a big piece of consumers' digital world. And perhaps nowhere is this more apparent than in



Google's efforts to be the leading source of streaming video programming, with its YouTube unit at the heart of those efforts.

'I want my TV!'

When it comes to how people carve up their days, working and sleeping occupy the most ticks of the clock. But according to one recent study, leisure activities take a strong third place. Americans average 5.3 hours each day of leisure time, including activities such as socialising, playing games, reading, recreation and exercise, and relaxing. But a whopping half of all leisure time is spent watching TV. Nowadays, that includes any and all video programming on any and all devices. And although traditional television is still king, the average person now consumes 70 minutes of online video each day, a number that is growing rapidly. Most of that viewing time is spent on mobile devices over traditional computers. In fact, video will account for 80 per cent of all mobile traffic within the next few years.

The compelling new viewing outlets brought to us by mobile, on-demand and digital technologies are part and parcel to the slow but inevitable fraying of traditional prime time line-ups and cable TV bundles. All of this has sparked an intense battle to capture viewing audiences that have never before been more in play. Content that was once only consumed via long-standing broadcast and cable networks such as NBC, ABC, CBS, HBO, MTV, TNT, TBS and ESPN is now being gobbled up through new venues.

The most dominant new player is Netflix. The company that once established itself as the leading distributor of rented DVDs by mail is now the leading source of streaming television and movie programming. More than 75 million paying Netflix sub-

movie programming. More than 75 million paying Netflix subscribers in 190 countries have their eyes glued to 3.8 billion ad-free hours of streaming content every month. In the United States, Netflix commands more than one-third of all internet traffic on any given weeknight. And although most of its content originates from outside sources, Netflix is fast becoming a force as a producer of original content. In fact, with hit series such as *House of Cards*, *Orange Is The New Black*, *Jessica Jones*, and *The Unbreakable Kimmy Schmidt*, Netflix is winning Golden Globes and Emmys, not to mention adding millions of new subscribers to its massive user base each month. With annual revenues of €6.7 billion and most of that being spent on content, Netflix is keeping television and cable network executives awake at night.

But Google is no shrinking violet when it comes to internet video. Through its Google Play media store, it rents and sells movies and TV programs à la iTunes. More important, its own YouTube unit is still far and away the leading source for streaming video with a whopping 77 per cent share of all video site visits. YouTube has always generated revenue for Google, with advertising accounting for the vast majority of that income – a model that has set a standard for internet video. In addition, YouTube provides viewers with a second Google option to rent or purchase movies and TV programmes as well as a selection of pay-per-view subscription channels. By itself, YouTube generated an estimated €9 billion in revenue for Google last year.

Making more money on internet video than even Netflix, you might think Google would be satisfied with its offerings. But Google has never been satisfied with the status quo. It knows that it must keep doing more if it wants to remain on top of the online video heap.

The competition intensifies

As online video explodes, Netflix is hardly Google's only concern. Other premium viewing sites such as Hulu and Crackle are also of concern. But perhaps even more pressing, every one of Google's formidable competitors poses a credible threat with its own online video portals. When it comes to subscription services, Amazon Prime is second only to Netflix with about one-third the number of paying subscribers. Hulu Plus is close behind. Apple invented the online media store with iTunes. And with more than a billion users, Apple certainly has a captive audience for its video portal through the most coveted devices in the world.

Facebook now boasts 8 billion video views a day and growing – a statistic that some suggest makes the world's largest social network YouTube's biggest threat. And with its Surface and Xbox interfaces, even Microsoft has a foot in the door for its Windows media store. Even Twitter recently signed a deal with the NFL to live-stream Thursday night games. With Verizon, Yahoo!, and even Alibaba vying for the attention of eyeballs worldwide with their video content, the industry is red hot.

Lately, each of these players has poured money into building a video empire. And these days it's all about original content. In that arena, Netflix is leading the way and has completely shaken up the competitive landscape. Many Hollywood actors, directors and producers have jumped ship to Netflix not only for

directors and producers have jumped ship to Netflix not only for the money but for the lure of artistic freedom that traditional channels simply cannot provide. '[Competitors are] in awe of the clout Netflix carries with both consumers and media companies', says Blair Westlake, former chairman of Universal Television and head of media and entertainment for Microsoft. And although they may not walk with Netflix's swagger, Amazon, Hulu and Crackle each hold a hand at the table of original content.

At the most recent Sundance Film Festival, it was 'invitation only' at the iTunes Lounge, the Apple-hosted revolving door of A-listers at the Imperial Hotel on Park City's main drag. Apple's presence at the high-profile festival was part of its current plan to develop a roster of exclusive content intended to rival the options on Netflix – content that will be available only through iTunes and apps on Apple devices.

Apple is pursuing a 'two-lane' approach to content development. The first is a collection of short films, music videos and documentaries built around associates of Dr. Dre and Jimmy Iovine – the founders of Beats Electronics, which Apple purchased for €3 billion and rebranded as Apple Music, its answer to Spotify. In a holistic fashion, this content not only will attract viewers but will serve to promote Apple Music. The second lane is to develop original TV-style programming in the vein of Netflix, Amazon and Hulu. With a stockpile of cash that exceeds €200 billion, Apple has the funds to pave both lanes with gold.

While Apple is putting together deals behind closed doors, Facebook is pursuing its own path. Rumour has it that Facebook's Mark Zuckerberg is obsessed with video. In fact, Facebook is predicting the end of the written word on its platform. In five years' time, Facebook 'will be definitely mobile, it will be probably all video,' says Nicola Mendelsohn, head of Facebook for Europe, the Middle East and Africa. 'The best way to tell stories in this world, where so much information is coming at us, actually is video.'

With its unparalleled reach, analytics and targeting capabilities, Facebook has been very successful in getting studios to use the social network as a platform for trailers and sneak peeks. But Facebook is currently pushing hard with its money and other resources to move beyond promotional partnerships with Hollywood. It aims to be a serious option for destination viewing of original content. Enter Facebook Live, a live streaming platform designed to house just about anything. For example, Whoopi Goldberg provided a behind-the-scenes play-by-play of the most recent Academy Awards in a series of video diaries that received millions of hits. But that's just the tip of the iceberg. Facebook is in talks with everyone from TV producers, comedians and musicians to athletes, chefs, politicians and journalists to stream live shows, including exclusives.

PewDiePie, a scripted reality horror show from the producers of *The Walking Dead* and starring YouTube's biggest celebrity, Felix Kjellberg. There's *A Trip to Unicorn Island*, a documentary focusing on Lilly 'Superwoman' Singh. And there's *Fight of the Living Dead*, which puts YouTube talent in a fight to survive a zombie apocalypse.

But even as YouTube signs its own celebrities to star in top-quality programmes, it doesn't have a lock on these stars. In a first-ever competitive move, Netflix recently signed YouTube sensation Miranda Sings to star in an original comedy series, *Haters Back Off!* Although YouTube has plenty of homegrown personalities to choose from, it must now add them to the list of possible competitive threats.

YouTube Red currently has around 40 programmes available. And with many more in the works, including more high-profile shows featuring high-profile industry talent, YouTube Originals is off and running. Offering very competitive compensation for personalities, directors and producers, Hollywood insiders as well as Google's competitors have got the message – YouTube means business.

Doing video its own way

So what is Google doing to surpass competitors in this very crowded field? You might think that it would turn Google Play into a Netflix or Hulu clone. Indeed, some analysts have suggested that Google simply purchase one of the proven video portals, pointing to the €75 billion pile of cash it's sitting on. But Google doesn't want to be Netflix. Rather, Google is out to fortify its position as the online video leader based on its own strengths – and that means YouTube. Last year, YouTube launched its own paid subscription service, Red. For €9.99 a month, viewers receive ad-free access to all YouTube content across all YouTube interfaces. Subscribers can save videos and playlists on devices to be viewed offline. There is even a 'music only' setting for music videos, integrating with YouTube Music and Google Play Music to make Red a commercial-free streaming music service.

Although such features are nice, YouTube Red's biggest draw will likely be its recently launched Originals – original programming available exclusively to Red subscribers. But unlike Netflix, Amazon and even Apple, YouTube is developing content with its own twist. First and foremost, it's capitalising on the personalities made famous at home. There's *Scare*

Questions for discussion

- 1 Define YouTube in terms of competitive advantage.
- 2 Of all Google's competitors, which ones should it attack? Which ones should it avoid?
- 3 Which basic competitive strategy does Google follow?
- 4 How would you classify Google in terms of competitive position? Why?
- 5 Is Google a market-centred company? Support your answer.

Sources: Nicole LaPorte, 'Apple, Facebook, Google, and Alibaba take Hollywood', *Fast Company*, May 2016, pp. 68–96; Sarah Mitroff, 'Everything you need to know about YouTube Red', *CNET*, 17 February 2016, www.cnet.com/how-to/youtube-red-details/; Cassie Werber, 'Facebook is predicting the end of the written word', *Quartz*, 14 June 2016, www.qz.com/706461/facebook-is-predicting-the-end-of-the-written-word/; 'Mobile spearheads digital video advertising's growth', *eMarketer*, 22 February 2016, www.emarketer.com/Article/Mobile-Spearheads-Digital-Video-Advertisings-Growth/1013611; Leah Libresco, 'Here's how Americans spend their working, relaxing, and parenting time', *FiveThirtyEight*, 24 June 2015, <http://fivethirtyeight.com/datalab/heres-how-americans-spend-their-working-relaxing-and-parenting-time/>; Farhad Manjoo, 'The great tech war of 2012', *Fast Company*, November 2011, pp. 106–146; and www.youtube.com/red, accessed May 2019.

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