

Critically analyse and review business strategies, challenges and revenue mechanisms related to the commercialisation of music and entertainment content on YouTube.

Youtube has been central to how the younger generations consume music, entertainment and vast amounts of advertising. Currently YouTube sees around 1.8 billion users a month and with the setting up of its own music streaming service as well as producing original TV shows, YouTube is attempting to solidify its place as the world's leading streaming service. (Gilbert 2018) However, whether those attempts have been successful remains to be seen. Throughout its history it has played a major role in unearthing a new wave of artists, most famously Justin Bieber as well as connecting audiences to vastly different music scenes across the world. And due to its nature as an internet platform songs and videos have seen viral success never before seen in the music industry. With videos such as Psy's Gagnam Style reaching nearly 3.5 Billion Views (Youtube 2019). Yes the internet has blurred cultural lines, but it's only through platforms such as youtube that this has been possible. In this essay I will chart and analyse how Youtube got to this point, the challenges it faces - mainly through issues with copyright - and its current business model and revenue mechanisms.

The idea for YouTube was formulated when its creators Jawed Karim, Chad Hurley and Steve Chen realised that it was almost impossible to find a video of Janet Jackson's infamous Superbowl nipple slip in 2005. To combat this, three friends, and former employees of Paypal, created the code for what would come to be known as YouTube. Once launched the platform became an instant hit, with the majority of initial searches being for that exact clip. One year later, YouTube was bought by Google, who saw its immense potential and value, for \$1.5 Billion. (McIntyre 2015) Two videos in particular showed Google the possibilities of the platform and the effect it might have on multiple industries. One was a clip from Saturday Night Live and even though NBC asked for it to be pulled for copyright reasons, talks began to form a partnership between YouTube and the network as a way to monetise these clips. The other is perhaps the most important in the foundation of the YouTube ecosystem, the first video to reach one million views - a Nike advert in which Ronaldinho received his golden boots and performed a set of impressive tricks. (Dickey 2013) The video is perhaps the first to go 'viral', but more importantly, the first to display YouTube's potential as a platform for advertising. Adverts, of course, are now YouTube's greatest source of revenue and form the basis of much of its business model.

The Nike advert was the first advert to be placed on YouTube in the knowledge that it would improve sales. However, Nike did not need to pay YouTube to upload it and it had to rely on becoming Viral in order to be seen. Therefore, in 2007 Google made the first steps into monetising its leading video platform in what turned out to be an ingenious business decision. They made the choice to include a transparent overlay to run an advert during a video. Users were able to get rid of it if it was obtrusive and it only ran for ten seconds. This meant that whilst the adverts were enforced they would not turn users away from the platform. They marketed this service to big brands such as Fox and BMW who would pay per 1,000 overlays served. It immediately proved a hit amongst consumers as only 10% chose to minimise the ads, whilst the click through rate was up to ten times that of a normal advert. (Sweeney 2017) Their decision to be restrained in placing adverts on their platform at the beginning has proved to be immensely successful. Throughout the years since they have steadily been able to introduce more and more intrusive adverts without turning away users, and as of now we have started to see an increase in two advert clips being played before many videos.

While YouTube started with the desire to see an infamous clip from the world of music, the life of the platform has always been intrinsically linked with music. When MTV opened the channel with 'Video Killed The Radio Star', the music landscape was changed forever and a large amount of importance was placed on creating a music video to support your release. By 2009 this importance had dwindled as it became the norm, until the uploading of Ok Go's 'Here it Goes Again'. The video, that had previously been released in 2005, immediately went viral and reinvigorated the importance of having a good visual aid to support the marketing of your release. (Taylor 2015) There was an understanding that a video that might luckily be seen by viewers, if they were on the right channel at the right time, could now be viewed instantly and globally. Youtube then became one of the defacto formats for consumers to listen to their music - it has been stated that if YouTube no longer existed there would be an immediate 29% rise in piracy. (RBB Economics 2017 p.5) Although there are still a host of unauthorised uploads of tracks on to the platform. Regardless, labels immediately saw the chance to upload approved videos and tracks onto YouTube and monetise them through advertisements.

This leads nicely on to one of the major issues YouTube is facing in its attempts to commercialise and provide a platform for music listening. Many labels and artists have

complained that the platform does not pay enough per stream. YouTube pays the lowest at \$0.00069 per stream compared to Spotify at \$0.00437 and Napster who pay the most at \$0.01900. (Sanchez 2018) Whilst the platform paid \$1.8 billion to the music industry in 2018, that was less than half of what Spotify paid.(Stutz 2018) Major labels and well established artists have big complaint against the platform calling it 'antitrust and anti-copyright'. (Forde 2016) However, regardless of the limited amount of payment the immediacy of the platform has allowed the smaller grassroots artists an invaluable marketing tool. Yes the platform does not pay the artists nearly enough, but their myriad of features such as trending and recommendations mean that YouTube is an essential way for musicians to reach their target audience. The claims against YouTube's use of copyright is prescient however as the issue of copyright is central to all and every major challenge the platform faces.

Currently one of the leading issues regarding copyright is that of the new EU copyright laws. Article 13, an incredibly divisive new law, requires platforms to filter through and remove all copyrighted material. This is a move that YouTube argues will destroy its platform for multiple reasons. One, the amount of time, money and energy, the company will have to use to adequately filter through every video and respond to every counterclaim (an issue I will touch upon soon) is insurmountable. And two, the majority of YouTube's content creators discuss, refer to, or show copyrighted material - reaction channels, some with over 20 million subscribers, will cease to exist. (Palladino 2016). Musicians do have legitimate cause to have supported Article 13, Paul McCartney argued that "some user-upload content platforms refuse to compensate artists and all music creators fairly for their work, while they exploit it for their own profit." (Ingham 2018) By supporting Article 13, musicians and their labels are put in a position to attempt to negotiate for the platform to pay them more money. While there are many users who take advantage of the platform and upload copyrighted material in an attempt to earn money through advertising revenue. There are a multitude of users who do not exploit the work of other creators. Previously YouTube has bowed to pressure from advertisers and copyright holders to take a firmer stance on those that abuse the platform. However in my opinion this was an incorrect move, purely because the firm stance has translated into zero tolerance and zero communication.

The reason this is such an issue is because many content creators are being incorrectly flagged for copyright abuse and having their videos taken down. There have been many instances

where YouTubers have been flagged infringing on their own material. One such instance occurred when a Dutch YouTuber, Paul Davids, found that one of his videos had been removed following an automatic copyright claim. Upon digging into the issue, he found that the claimant was in fact someone who had taken one of Paul's releases and dubbed some vocals over it. Due to YouTube's complex appeal process he has not managed to prove that the video is his own. Whilst he was able to get the video put back up, all the money earned is now going to another creator. (Gerken 2018) This has created a sense of discord throughout the YouTube creator community against a company they believe puts them second. With many leaving YouTube and attempting to build a better alternative. (Alexander 2019) YouTube's stringent takedown policy has the potential to push away the backbone for its revenue, the content creator's aptly named YouTubers.

The form the backbone because YouTube's internal economy is funded by views. Unlike other streaming platforms that take the majority of their revenue from subscriptions, although YouTube has tried to tap into this revenue stream, YouTube's major source of revenue is advertising. YouTube's major business model is pure scale, by placing itself as the world's leading free streaming site it has 1.8 billion users watching videos on the platform every month. Whilst the numbers that big back in 2007 when they introduced the first rudimentary banner adverts, advertisers immediately saw the potential in buying advertising space on a site that brought in so many users. The rate an advertiser pays varies between \$0.10 - \$0.30 per view, but averages at about \$0.18. However, YouTube pays out 55% to the creator, or rights holder, of the video. (Edwards 2015) YouTube is smart in taking a lower percentage, because by offering a greater monetary incentive to post videos YouTube now gets 500 hours of footage uploaded every minute. (Cooper 2019) Obviously not every minute of that is monetized, nor gets enough views to be profitable, however by having a model that relies on scale, they can ensure that there is enough advertiser engagement across the whole platform to keep the revenues high. Even though their revenues are so high it is a company that has struggled to take profits.

One way they have sought to increase revenue streams is through their subscription based services and premium content. In 2014 YouTube released Music Key - a subscription based service that would remove adverts from all music videos on the platform that were uploaded by partner labels. This was immediately met with mixed reviews because it seemed quite limited in

scope and so they pivoted the subscription service to remove ads on all videos and renamed it YouTube Red. Again this move was seen as a failure on YouTube's part not enough consumers were willing to pay a minimum of \$10 a month purely to avoid ten second adverts and be able to listen to videos with the app minimised. (Palladino 2017) However to try and encourage people to switch to their subscription service, and please rights holders, YouTube began attempts to force long-established listeners by impeding their listening experience and bombarding them with more adverts than the casual user. (Hviid, Sanchez & Jaques 2018 p.250) Another move that has caused a schism between YouTube and its users by way of pandering to the rights holders at the expense of trust. YouTube's consistent ethos of diminishing the experience of its users has caused a major crisis of reputation recently. However, as a company they do not need to care due to the scale of their usership and the safe knowledge that users who leave will be immediately replaced. Once again in 2018 YouTube rebranded their premium service to the aptly named YouTube Premium, but as with the service before its reception as been tepid at best. Showing that whilst many of its users listen to music on the platform, they are more likely to use other specified music streaming services rather than pay for YouTube's. YouTube very much has lost the race in attempting to be a premium platform for both music and television.

Whilst YouTube has not released the exact figures for its premium service, it was reported that only 1.5 million subscribers signed up to the service in 2016. (Alexander 2018) Since then the numbers have not reportedly increased much so we can surmise that they have been receiving a minimum of \$15 million a month, but not much more. This paltry sum, in comparison to their total yearly revenue of \$9 billion in 2017 - the last year Alphabet reported YouTube's individual finances. (Beattie 2019) With this in mind we can plainly see that YouTube's repeated attempts to shift their strategy into including a premium service has continuously failed. Their efforts are best served in concentrating on how to improve the issue of copyright that is miring the platform.

In conclusion, YouTube's initial success has a strong link to the commercialisation of music and still sees much of its traffic aimed towards songs and music videos. However, due to the many issues it faces with copyright as well as a lack of a market for a premium music streaming service YouTube would be best poised to focus the majority of its attention on its free community content. In recent years it has pandered more to the pressures of big labels and musicians at the expense of some of its most committed and loyal content creators and so to

ensure that it retains its place as the leading viewing platform for millennials and younger, it should reevaluate its priorities.

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