

YouTube - A Case Study

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YouTube is a video streaming and sharing website, founded in 2005. In this case study I will be looking at several aspects of YouTube and how it has affected the music industry, and the larger entertainment industry. I will discuss a history of the website, the business strategies that they employ and how that affects the creators using their platform and their viewers. The challenges that are brought up by people moving a lot of their content onto YouTube and how the commercialisation of music on YouTube impacts the music industry, this will bring us on to discussing the revenue mechanisms that are used by the company and how that affects the monetisation of videos.

In late 2004, Chad Hurley, Steve Chen, and Jawed Karim decided to start up a dating website where users uploaded a video of themselves as a profile. It was launched in February 2005, but unfortunately, this simply wasn't being used or picked up by anyone and they started paying women \$20 each to upload profiles but people started to upload videos of anything they felt like, rather than the dating profiles the website initially wanted. In April of 2005 they decided to abandon the idea of using the site as a dating website and moved on to creating a video sharing website where each video has its own unique link.

In May of 2005 the public beta version was launched and was an instant hit, gaining investment from Sequoia Capital in September of 2005 and the first video to gain 1 million views was a Nike ad featuring footballer Ronaldinho, in October of that year. In 2006, YouTube moved out of beta and was fully launched to the public, at this point YouTube was getting approximately 8 million views everyday. However, at the beginning of 2006, NBC demanded that YouTube remove a clip from SNL due to copyright, this started what would become a major part of YouTube's system in which video's can be taken down or demonetised if they infringe on a copyright. This also was the start of YouTube's partnering with traditional media companies bringing them into the digital age.

The same year, Google noticed the traction that YouTube was gaining and started looking into buying the site and in October of 2006 bought YouTube for \$1.65 Billion and moved the YouTube headquarters to California. In 2007 the first viral Video was uploaded 'Charlie Bit My Finger' and the first Apple iPhone is launched with the YouTube app meaning that access to the video sharing site is more accessible than ever.

2007 YouTube continued its expansion, partnering with CNN to host one of the presidential debates and launching its first YouTube ads scheme. It continued to partner with traditional media outlets and develop its various ad schemes.

In 2011 YouTube played a pivotal role in the 'Arab Spring' where countries such as Egypt and Syria held mass protests against their ruling dictatorships. The video sharing site

allowed people to show what was really happening on the ground and provide a first person perspective to this huge movement.

In 2012, South Korean rapper PSY released his comedy song 'Gangnam Style' and became the first video on the platform to reach 1 Billion Views and it stays as one of the most viewed YouTube videos ever.

In 2015, due to seeing a rise in children's content and also a rising concern in parents as to what their children can access on the internet YouTube launched YouTube Kids where content is filtered to make sure that it is suitable for young viewers. Also in 2015, YouTube Red was launched and later renamed to YouTube Premium where viewers can access videos without ads and save and access videos offline.

In 2017, YouTube had two major scandals. YouTuber Pewdiepie was exposed as using and making anti-Semitic content, he was pulled from YouTube's top tier advertising program and Disney cut all ties with him. Then, several major companies including the British government pulled their ads from the site as it was revealed that many of their ads were being shown before videos containing offensive and extremist content. It was estimated that the pulled ads cost the company \$750 million. As a result of these, YouTube made changes to their policies on who could monetise their videos and what videos could have ads shown before them. However, many of the content creators on the site were not happy as this deeply impacted their income from the site.

2017 continued to be a bad year for the video sharing platform, even though YouTube Kids was designed with keeping children safe, users found that videos were falling through the gaps and allowing disturbing and graphic content to be available on the site. December arguably saw the biggest scandal of the year where YouTuber Logan Paul and friends went to the Aokigahara forest (dubbed the 'Suicide Forest') in Japan and filmed the body of a Suicide victim while laughing and joking. The video was pulled from YouTube but his channel was allowed to remain up, causing widespread criticism from people around the globe.

In 2018, a woman opened fire at the YouTube headquarters, injuring three people and killing herself, apparently due to her losing money due to ads being pulled from her channel.

In 2019, YouTube had to update their harassment policy after reported Carlos Maza was targeted with homophobic and racist comments from a right wing YouTuber.

And in 2020, for the first time in its 15 year history, YouTube released its ad revenue, stating that in 2019, it made \$14 billion in ad revenue.

Since YouTube's inception in 2005, there have been a few different business strategies and models that were employed. But since they started allowing ads on the platform, it has remained largely the same. What happens is that, advertisers pay YouTube to show their ads before videos that would be relevant to the people who would be watching those videos.

YouTube takes the majority of the money while a small percentage is given to the creator of the video that the ad was placed on.

This is a simple but very effective way of making money for YouTube, given that they have 30 million users every day. They also make a portion of their money from their YouTube Premium subscription service and from YouTube movies where users can pay anywhere between £3 and £15 to rent or buy a movie through YouTube.

YouTube is also creating a new way, away from traditional media for people to watch and engage with content. “The whole concept of media consumption has become very personal. Consumers demand relevant content and they want this content all the time. Everyday there are new channels created on YouTube. People want a shot at internet stardom, while viewers welcome new sources of entertainment with open arms.”¹ This means that the adverts used must be tailored to the viewer of the video for them to be effective, this changes from the traditional use of advertising where often advertisers are aiming at much wider groups of people. With more tailored advertising, more ads need to be produced and used. Which works in YouTube’s favour as more ads means more money coming through to them.

YouTube does face some challenges however, their stricter copyright restrictions have meant that many programs that are re-uploaded with subtitles to hosting platforms, are taken down very quickly. This means that some content that would be bringing them significant viewership is being moved over to other video hosting sites such as DailyMotion.

¹ Business Models Inc Online

It's copyright system is also open to abuse from people using the system to have videos taken down simply because they don't want the content to be on the site. An example from 2020, is the YouTuber and author Lindsay Ellis who's content is primarily discussing books and literary tropes. In her video titled 'Addison Cain's lawyer e-mailed me, and it only got worse from there', she reveals that the author of a book she discussed got her previous video (where she discussed the book) demonetised for copyright infringement. However, as she goes on to prove in the video, all use of the book fell under fair use, it was the fact that the video did not show the book or author in a particularly favourable light that she took issue with.

It is also worth noting that being lead by the content creators and consumers, it is not always possible for YouTube to vet every video that is uploaded and although they are under increasing pressure to check what is uploaded to the platform, not everything is. Recently several YouTubers, Shane Dawson, Joey Graceffa and Jenna Marbles most notably have come under fire for past videos where they wore 'blackface'. Allowing offensive content to be uploaded and monetised can lead to events like in 2017 when several major advertisers pulled their ads.

While YouTube has provided a platform for anyone to make and upload their videos, it has seen a huge rise in people going there to watch music videos. With PSY's Gangnam Style being the first video, and the first music video to get 1 billion views on the platform, several

other artists such as Justin Beiber, Ed Sheeran, Dua Lipa, BTS and BlackPink have all also passed this billion view mark over the last few years.

The rise in watching music videos through YouTube has given a new wave on life to the format, as Maura Edmond states: “At the start of the 2000s, there were dire predictions about the future of music videos. Faced with falling industry profits, ballooning production costs, and music television stations that cared more about ratings, music videos no longer enjoyed the industry support they once had. But as music videos were being sidelined by the music and television industries, they were rapidly becoming integral to online video aggregates and social media sites.”²

This rise in music video online viewership means that YouTube is now also a major player in the music industry. In an article, Billboard said that: “With 2 billion monthly logged-in users and 20 million paying music subscribers globally, some industry sources say YouTube should be paying over \$3 billion a year to the music business, though it’s difficult to say because YouTube doesn’t disclose the percentage of views it owes to music content.”³ This is closing in to the same amount that Spotify pay to the music industry each year of \$4.8 billion.

While YouTube is certainly paying a huge amount of money to the music industry, many people agree that it is not enough, “the rates are not truly negotiated in a free market — so

² Edmond, M P. 1

³ Billboard Online

the rates YouTube pays to songwriters are still far too low and a fraction of the value that the songs are worth. YouTube does pay increasingly significant money, but it is really small in comparison with how much revenue YouTube generates overall.”⁴ With increasing industry pressure, it is hoped that the value gap in YouTube’s music content will be reduced but, it is still putting songwriters and artists in the difficult position that many streaming services do where it is incredibly difficult to make significant money from the music that they upload to the site.

YouTube’s revenue mechanisms are tied in closely with their viewership, as I previously discussed in their business model, they primarily make their money through advertisements on their videos and people paying for their various subscription services. However, in 2016 “YouTube's CEO Susan Wojcicki stated that YouTube was "Still in investment mode;" implying the company is still figuring out how to be profitable.”⁵ So as well as making their money from their viewership, there is also cash being injected into the company from outside investors. Some critics have even wondered if YouTube has a business model other than making money from their advertisers, considering how private the company is about it’s finances, only revealing their financial results for the first time in their 15 year history in February of 2020.

With YouTube becoming stricter on what Video’s it allows to be monetised, many content creators started using sites such as Patreon to generate income, where people can pledge any

⁴ Billboard Online

⁵ Investopia Online

amount of money, per month to access videos early or ones that will only be uploaded to Patreon. As a result, YouTube rolled out their Channel Membership scheme, this works in a very similar way, but as it goes through YouTube, the host site takes a cut of the money pledged to the creator.

The site itself makes only a short statement on their website about how they make their money “YouTube's main source of revenue is advertising. Additionally, we earn money from our monthly subscription businesses such as YouTube Premium. We've also developed tools to help eligible creators earn money in a variety of other ways such as Super Chat, channel memberships and merchandise. In all cases, creators and YouTube share revenue generated from these channels.”⁶

It seems that YouTube makes its money in ways that are simple but effective because of the large user-ship of the site. Whether these stay as effective in the future remains to be seen, but it seems likely that with content creators not wanting to lose their income from their videos, YouTube may have to diversify its revenue mechanisms in the future.

In conclusion, despite it's 15 years at the top, YouTube is still not a fully finished product, they still have people investing in them and they still haven't figured out a solid business plan, they have certainly given music videos a new lease of life and we are seeing that nearly every big-name artist has their music videos on the site and their music available for streaming. But YouTube will need to go on the same direction as other streaming services

⁶ YouTube

are being pushed to and allow creators to keep a larger proportion of the money that is made from their videos.

2,326 Words

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