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1. Introduction

In this case study, I will be analysing and reviewing the business strategies, challenges and revenue mechanisms related to the commercialisation of music and entertainment content on YouTube. This analysis will focus on the role of intellectual property, factors effecting revenue systems as well as the way in which intellectual property stakeholders protect and monetise their work.

2. About YouTube

YouTube was founded in 2005 by Chad Hurley, Steve Chen, and Jawed Karim and was sold to Google in November 2006 for \$1.6 billion. It is currently the most visited website in the world with an average of 8.64 billion search visits per month (Hardwick, 2019). From 2006 to 2009 the largest category for YouTube channels was the music category and by 2009 more than 20% of all channels would primarily upload music content. However, from 2010 onwards this dominance shifted to channels focused on the “People & Blog” category (Bärtl, 2018).

Despite this change, YouTube remains hugely important for the entertainment and music industry. According to YouTube’s own blog as of 2018 “more than 1 billion music fans come to YouTube each month” and the platform hosts “over 2 million artists” (Roman, 2018). With an average of one billion hours watched daily and over \$2 billion paid out to partners in the last 5 years the revenue and commercialisation opportunities are extensive (YouTube, 2019).

3. Intellectual Property

With such a vast amount of content being released onto YouTube every day the company has come under pressure to make sure that intellectual property rights are being protected on the platform. Intellectual property rights is an umbrella term for legal rights including trademarks, patents, trade secrets, copyrights and, franchises, but among those it is copyright in which YouTube has had to be most active in protecting. Companies and individuals are diligent when identifying and protecting intellectual property because it is highly valuable in today’s knowledge-based economy. An example of this is the lawsuit between Viacom and YouTube. Viacom was the first company to pick up on YouTube’s copyright infringements and filed a \$1 billion lawsuit against Google and YouTube in 2007 (Viacom, 2007). Since then YouTube has actively taken steps to ensure that they have a system in place to protect copyright owners from infringement. Launched in 2008 the Content ID system is an automatic copyright detection system aimed at ensuring intellectual property is not being misused. The way in which the Content ID system works is as follows, copyright owners deliver protected assets, such as the sound recording asset to Content ID which then prescribes a unique digital ID to each asset. Each new video uploaded is automatically scanned by the Content ID database and if any assets are recognised by Content ID the asset owners can choose whether to monetise, track, or block the video. If multiple asset holders are involved YouTube will always take the strictest policy dealing with infringing videos.

4. Internal Revenue Mechanisms

AdSense is the most common way most channels make money from YouTube videos. A video will generate revenue by allowing Google to insert advertisements, but to do so a YouTube channel must reach certain standards. For a YouTube channel to qualify for monetisation through AdSense they require at least 1000 subscribers and 4000 public watched hours over the course of the last 12 months (Google, 2019). As of 2020, YouTube will pay out around \$3 to \$10 per 1000 views depending on numerous factors which will be discussed in section 4.1 (O'Connell, 2018). Once a YouTube channel has accumulated at least \$100 in earnings, Google will issue a payment to the channel owner's bank account as either a direct deposit or check. When a channel earns revenue from YouTube, they are expected to pay income tax in their country of operation. For example, in the United States, Google will issue a 1099 form once a channel is earning greater than \$600 per year. YouTube will take a 45% cut of all content creator's earnings through its AdSense system (Rosenberg, 2018). Videos containing controversial subject matter or explicit language may be demonetised, meaning adverts will no longer run on the offending video. Videos containing copyrighted material such as music not owned by the channel may find their video demonetised or taken down from the platform (Rosenberg, 2018). The income earned between each channel and video varies greatly, this is because of the numerous factors effecting how much revenue a video will make.

4.1. Factors Effecting Advertising Revenue

The click through rate (CTR) of the advertisements on a video will affect the amount paid out. The larger the portion of people clicking on ads featured in a video, the higher pay the channel will earn from

the video. Therefore, it is crucially important that the advertisements are well-targeted and in line with the audience of the video. This ties in with the niche of the video being advertised on. YouTube generally tries to display advertisements connected to the video being watched. Some video categories will also get a higher average cost per click (CPC) (sometimes called cost per impression, CPM) than others. This is possibly due to the popularity or advertisement potential of particular categories.

The viewer demographics also play a role in influencing a channel's earnings. Although there is no hard and fast rule in regard to demographics and its effect on income. In general, traffic that includes lower-income groups, such as teenagers, will usually earn less than demographics of higher-earning groups. The location of these viewers can also determine how much revenue a video will make. Traffic from more developed countries such as the UK and Canada will earn more than a less developed country such as Brazil or India. This is because a developed country will have a higher cost per impression for the advertiser (Anon., 2019). Which is because viewers in a more developed country would have a larger amount of disposable income, meaning they are able to spend more on what is being advertised.

Audience retention is also important when looking to understand the factors effecting revenue streams. A video that engages with many viewers until the end is an indication to YouTube that the video content was of high quality, resulting in a higher cost per click advertisements to be shown in the future. In addition to this, the longer the duration of the view the more advertisements which will be shown, resulting in increased revenue. A very high retention rate may also indicate that the video wasn't long enough and vice versa. Music-related videos often have an advantage, as they tend to last no more

than the length of a song, meaning that they tend to have higher retention rates, resulting in a higher cost per click.

There are various advertisement types that can feature on a YouTube video. Advert types such as TrueView and Bumper ads will earn money per view, whilst pre-roll ads pay only per click. In addition to this, advertisements that are skippable to the user will not be charged to the advertiser if the viewer decides to skip.

5. Business Strategies and Revenue Mechanisms

The YouTube AdSense system does not provide a wholly reliable income for most YouTube channels. Therefore, it becomes difficult to forecast the returns on investments of time and money spent creating videos. As such there are a number of alternative sources of revenue a channel can explore.

One such alternative source comes in the form of an affiliate link. A YouTube channel will often work with an outside company's affiliate marketing program, in which a link will be placed in the description of a video linking to a product or service. The channel will often talk about the product or service during the video and may ask the viewers to click on the link if they wish to purchase what is being offered. Whenever a purchase is made through the link the YouTube channel will earn a commission. The commission rate will vary depending on the company, but often factors such as click-through rate and conversion rate come into play.

Sponsored videos are often more lucrative for a more established YouTube channel than using affiliate marketing programs. With a

sponsored video a brand will usually approach a channel and will quite often ask for a video to be made centred around a particular product or launch. Alternatively, a company may sponsor an entire channel rather than a specific video. The YouTuber is expected to be actively promoting the company's products, recommending it to its viewers and is often required to actively use the product. The extent of which is determined in the contractual agreement between both parties. A YouTuber when in negotiations with a sponsorship deal will often charge a fixed price depending on the estimated number of views expected for the video. The amount per 1000 views can vary, but in general, it is between \$10 and \$50 (Hunt, 2019).

Affiliate marketing and sponsored videos are very common in medium to large YouTube channels. An example of the successful use of both affiliate marketing and sponsored videos can be seen in the YouTube channel Girlfriend Reviews, a comedy focused video-game review channel. From their first release in November 2018 to the most recent one in December 2019 the channel has undergone rapid growth, acquiring over 688,000 subscribers. This fast-paced growth and channel size is very appealing for advertisers and as a result Girlfriend Reviews has partnered with companies such as Skillshare and Squarespace. Providing both affiliated links to the services with discount codes as well as being paid for dedicating a portion of the video to talk about the sponsor. It is important to note that to avoid the sponsored part viewers can simply skip that section of a video. Therefore, it is important that the video flows into the sponsored section seamlessly. In addition to this, the sponsor should be as relevant as possible to the content of the video as well as keeping the delivery of the sponsored section short and succinct. A lot of this comes down to the skill of the content creators, which is why most YouTube sponsors pick their partners carefully.

Some YouTube channels are only used as a way to market a particular product or service. These channels are owned directly by a company and operate under its marketing wing. YouTube channel Slidebean: Startups 101 is a textbook example of this. Slidebean: Startups 101 is dedicated to teaching the fundamentals of starting a company. This channel was created by parent company Slidebean, which provides a business presentation service allowing users to build high-quality presentations quickly and easily using AI algorithms. Each video links to the website and mentions a way in which Slidebean can help with the subject they are discussing.

On the music side of YouTube there is an evolutionary melting pot of new and novel business models and strategies. Most notably London based channel No Copyright Sounds, otherwise known as NCS. NCS has garnered huge growth by giving away royalty-free music to individuals and independent content creators, but still requires companies to pay for usage and will take all advertising revenue. As of the end of January 2020, NCS had acquired 24.5 million subscribers (YouTube, 2020) placing it as the 80th largest YouTube channel in the world (Noxinfluencer, 2020). An artist will agree to have their music posted onto the NCS channel giving them access to its massive and loyal audience. The fact that NCS gives away all its music away copyright free to individuals creates an environment in which a track can go viral fast, by being featured on possibly thousands of individual content creators' channels. A prime example of this is Faded by Alan Walker, the original released by NCS in 2014 went on to be NCS' most popular upload with a current total of over 399 million. With much of that support down to its usage over gaming-related video content. The track was so popular that Alan Walker decided to re-release a vocal version on his own YouTube channel in 2015, which has now currently garnered over 2.6 billion views. Currently, NCS' overheads are very low because of the small team that is needed to run it and the business

model is also low risk compared to traditional music business models, as they don't have a monetary investment into the artist they are promoting. Therefore, they can promote artists that may have little to no following. As long as their music is up to a high enough standard and fits the NCS brand, they will promote it.

6. Challenges

There are no gate keepers or talent agents when it comes to YouTube. But there are still many difficult challenges content creators face. The barrier to entry for monetisation being the first of those. As mentioned earlier, 1000 subscribers and 4000 publicly watched hours is the requirement for video monetisation through AdSense. YouTube argues that this threshold is to discourage videos with "objectionable or offensive content". This threshold is difficult to reach for those who have only just started a channel and YouTube doesn't seem concerned about the loss of income for these micro channels. Stating that "99 percent of those affected were making less than \$100 per year in the last year."

Once a channel does reach the required threshold, they can then apply to the YouTube Partner Program, which allows them access to AdSense advertising. The evaluation is thorough, and a channel will fail if they have a history of strikes, spam, or abuse flags. Although YouTube hasn't discussed the exact details regarding how they go about the evaluation process, it is likely a mix of their AI software and over 10,000 human moderators (Palladino, 2018). In addition to this, larger more established channels are under far more scrutiny as they are manually reviewed before entry into Google's Preferred Channels program. Google Preferred is its top-level advertising program which

allows content creators to get paid more by charging more for advertising. This has created a top-heavy system in which the already successful channels get more value per advertisement and the new channels are for the most part cut out of advertisement revenue.

The imbalance in advertisement revenue isn't the only element that favours larger channels. New channels trying to earn a living are struggling now more than ever to reach that threshold due to how views are distributed among content creators. Over the years the algorithm has shifted to favour larger channels, stifling the growth of younger ones. In 2006 the top 3% of channels received 64% of all views, but as of 2016, the top 3% most viewed channels received up to 90% of all views on YouTube (Bärtl, 2017). As you can see from the graph below (Graph 1), since the launch of YouTube the median of views per video has plummeted. The cause of this is that a channel which already has garnered many views is likely to collect more, best described as a snowballing type effect. This means that other videos don't get as much exposure in places such as YouTube's homepage. In addition to this, a large amount of growth in popular channel types against moderate consumer interest will dilute the platform.

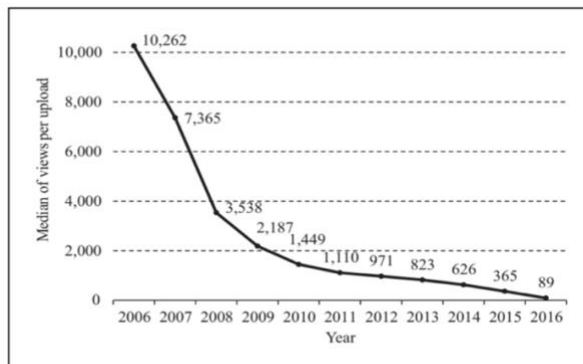


Figure 4. Median of views per upload by year of upload.

Graph 1 – Retrieved from (Bärtl, 2017)

The problem is in music as well, according to market research firm Nielsen, less than 1% of songs represented 86% of all music streamed on YouTube in 2016.

AdBlock software is on the rise meaning that many channels fail to get any advertisement revenue despite being successfully signed up to YouTube AdSense. As of 2019, 30% of all internet users use AdBlock, with the majority of that being on personal laptops rather than on mobile (Ahmad, 2019). This is especially problematic as the majority of YouTube videos are watched on a computer rather than on a mobile device (Garrett, 2018).

Despite all this, it is still possible to become financially successful through YouTube. YouTube categorises its videos into 18 key genres and selecting the correct genre is a “highly significant predictor of channel success” according to Bärtl. Entertainment followed by gaming and music where the top categories over the last decade and offers the easiest path to financial success. Also, by combining multiple categories into a video it may have a higher chance of being successful.

7. Summary

In summary, intellectual property plays a vital role in the functionality of YouTube as a platform and the Content ID system has been a great step forward in protecting copyright on the platform. The AdSense system provides a decent level of income to many YouTubers but is often not enough. As it is an unreliable source of regular income, easily effected by demographics and geography. As such most YouTube channels look outside the platform for sponsorship deals and

affiliated marketing commissions. As such it is not straightforward and easy to successfully monetise music and entertainment content on YouTube. There are many difficulties, especially for a new channel as the YouTube algorithm favours already well-established channels.

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