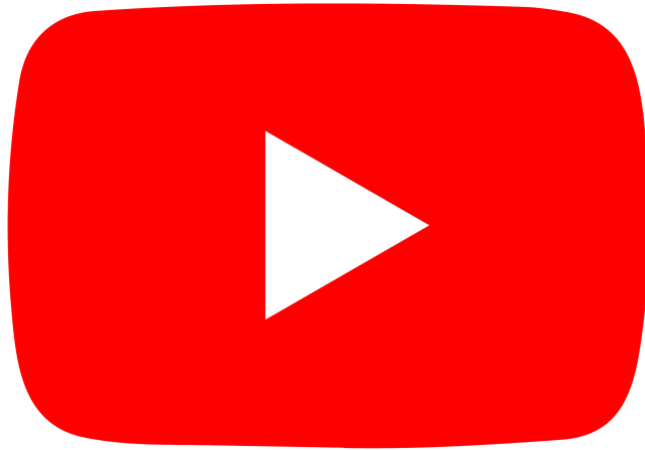




YouTube Case Study

BMTY7002 | LEGAL & BUSINESS AFFAIRS ASSIGNMENT 1

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Introduction

This case study report is focused on the leading global video sharing platform YouTube. It provides the reader with a brief outline of the company's business strategy with the assistance of the Business Model Canvas. Then, YouTube's revenue streams are examined. The revenue streams of musicians and entertainers from YouTube are discussed and how intellectual property (IP) contributes to payments. Challenges of YouTube in relation to IP are looked into, followed by final recommendations for both the platform and musicians on it.

Business Strategy

YouTube is an online video sharing platform created in February 2006 by Chad Hurley, Steve Chen and Jawed Karim. Their aim was to set-up a website that would change the online video sharing landscape, which was overly curated and controlled by businesses and advertisers. They were inspired by the online dating platform HotOrNot where users could share videos or pictures – the only website on the Internet that allowed people to upload content for others to interact with. YouTube has made “user generated content be a core part of its service” (Business Models Inc, 2020). Content creators can display their videos and viewers can interact with them and have limitless entertainment.

In 2006, Google bought YouTube to help build their online advertising and saw the video sharing platform as a great tool to revolutionise the advertising industry. As viewers increased and YouTube's popularity grew, advertisers were interested, and it changed the way viewers were targeted, contributing to the rise of digital marketing. The user-centric system of YouTube push both content creators and advertisers to be more creative, continuing to help the platform to grow. As of October 2020, YouTube has over 2 billion active monthly users and 79% of Internet users disclose that they have a YouTube account. Content creators allow YouTube to have a self-sufficient supply of resources that have automated the company, resulting in their exponential growth. A strong core business model is the ability of a company to act as a bridge in exchanging products and services – something YouTube has been utilising to dominate the market.

The Business Model Canvas is used to explain YouTube's business strategy (Figure 1). YouTube's customer segments are mass market users (viewers and content creators), as well as advertisers. The value propositions are the ability to give everyone a voice and let everyone see the world (educate, entertain, etc.) through the platform. It also allows advertisers to easily target any market they want based on the detailed information YouTube has on their users, followed by useful ad analytics to tailor the targeting. YouTube's main revenue stream is advertisers. They pay YouTube to popularise their products on the platform, in turn users are allowed to watch videos for free. YouTube's key partners are the content creators and the advertisers. The company makes sure it is easy for both to create an upload content through services like YouTube Studio for the content creators and Google Ads for advertisers. Analytics are also provided, so partners could better understand what works and what does not. YouTube's key resource is its Search & Indexing Algorithm that helps them understand which content is liked and should be shown to more people.

The business' key activities are making people watch more, as well as developing & optimising advertising tools. This way, people would spend more time on the platform and be shown ads. YouTube optimisation would then make sure more people click on ads, leaving advertisers happy and eventually increasing YouTube's revenue. The cost structure includes data centres and platform development. Video is very high-data intensive, meaning that the company needs large data centres to store them. YouTube has 10,000 employees, many of which contribute to the platform development (Owler, 2021). The channels through which YouTube shares content are their website, the mobile version, as well as external website embedding. Finally, the customer relationships are not personal simply because the platform is based on self-service. The size of the platform is massive, so it is difficult to build relationships, especially since most times users contact YouTube, they are communicating with AI.

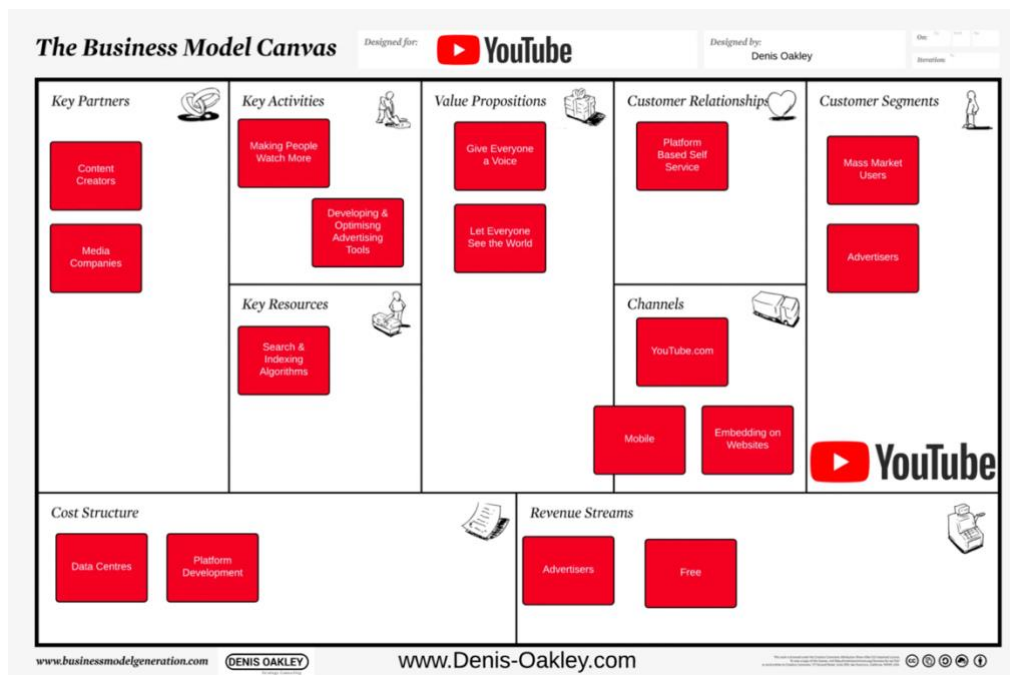


Figure 1. YouTube Business Model Canvas (Denis Oakley)

Revenue Mechanisms

For YouTube

According to Google, YouTube has made \$15.1 billion in ad revenue in 2019. That year YouTube's revenue made up nearly 10% of Alphabet's (the parent company of Google and YouTube) total revenue. It is interesting to note that at a Fortune magazine summit in 2016, YouTube's CEO Susan Wojcicki said that the company is "still in investment mode", meaning that they are still getting oriented on how to be profitable. The cost of hosting millions of videos, the rising pay-outs for content, and the fact that "YouTube gets paid according to how much of an ad is viewed", it could be deduced that they are struggling to make a profit (Investopedia, 2021).

The major revenue stream of YouTube is advertising – Google Ads. They appear not only on Google's search engine but also on Gmail, YouTube, Google Maps, etc. In order to gain the top spot, advertisers have to outbid each other. The entities pay Google every time an ad is clicked and could pay anywhere from a few cents to over \$50 per click for highly competitive searches or markets. YouTube's ad revenue has been experiencing growth of over 30% per year (Gunnars, 2020). YouTube also offers a premium service in exchange for a

\$11.99 monthly fee (after a 30-day free trial) that blocks all advertisements on the platform. In 2015, YouTube Music was created – a platform to stream songs, music videos and live shows for \$9.99 a month. YouTube is also in a way a publicly traded company but a part of the Google-parent Alphabet, Inc (Gunnars, 2020). The majority of YouTube's revenue goes to paying publishers and video producers that are copyright holders, so 45% of the rest stays with the platform.

For Musicians & Entertainers

Musicians can earn money from YouTube by being a YouTube Partner. YouTube launched the YouTube Partner Program (YPP) in 2007 to allow the content creators to receive a portion of the ad revenue played on their videos (Biggs, 2007). In the Partner Program, YouTube typically takes 45 percent, and the rest goes to the uploader (Edwards, 2015). In order for a channel to be qualified for monetisation, the requirements are to have 4,000 hours of watch time within the past 12 months and 1,000 subscribers (Mohan, 2018). They did that to ensure that controversial videos do not get monetised before YouTube teams have the time to react to taking down the content. The content on the channel needs to conform to the monetisation policy and be advertiser friendly – in most cases that means clean language and no violence. Independent artists need to have a linked AdSense account to receive their ad revenue. If working with a distributor, YouTube will pay the distributor who then pays the artist while also taking a cut of the revenue. If signed to a record label, in most cases the label works directly with YouTube to monetise their label catalogue by having a licensing agreement in place (Creator Academy, 2021).

Musicians can also receive income from YouTube in the form of intellectual property and ad revenue. Artists would receive income from the sound recordings, the compositions, and the visual content (if owning rights to music video). The collection societies such as PRS (for the composition) and PPL (for the sound recording) collect royalties from the artist's own channel and any claimed external usage to distribute to the rightsholder. Furthermore, the artist's distributor would usually create a Content ID for the work that would scan YouTube to see where the work has been used. Then the artist receives a percentage of the ad revenue of the particular video after the distributor has taken a share (typically around 20 percent of the artist's piece of the pie). Music IP and YouTube have a long history of

being incompatible because of the lack of control of copyrighted material uploaded to YouTube. It is difficult to efficiently track and control all content uploaded to the platform.

Article 13 (now Article 17) is part of the new EU Copyright Directive that focuses on how “online content sharing services should deal with copyright-protected content” such as movies, television programmes, and music (Fox, 2019). It covers services that give access to “protected works or other protected subject-matter uploaded by its users” such as YouTube (Fox, 2019). Article 13 states that these services must license copyright-protected material from the rights holders in cases they have provided the relevant and necessary information. If YouTube cannot do that and unlicensed copyrighted material is posted, they would be held responsible, not the user who uploaded it. They would be able to get away from consequences if it can be demonstrated that they made best efforts to get permission from the copyright holder or to ensure that the material owned by rights holders was not made available, or they acted quickly to remove the infringing material. Article 13 states it does not affect “legitimate uses” and allows the use of bits of copyright-protected material for the purpose of review, parody, criticism, and pastiche. In other words, short uses in forms such as GIFs are acceptable. Annabella Coldrick, CEO of the Music Managers Forum stated, “This is a once in a generation opportunity to recalibrate Europe’s digital economy to ensure artists are fairly remunerated” (Stassen ,2019).

The UK Prime Minister Boris Johnson criticised the law in March 2020, saying that it was “terrible for the internet” (BBC, 2020). Google also took action on their platform to convince the public Article 13 would “harm Europe’s creative and digital industries” and “change the web as we know it”. In March 2019, over 170,000 people marched in different European cities protesting against the reform with the slogan “Save Your Internet”. European member states have until 7 June 2021 to implement the law, however after exiting the European Union, the UK will not be doing so.

Challenges

One of YouTube’s biggest challenges is in fact Article 13. Its official goal is to stop content theft and to ensure that whoever creates something should be fairly paid for it. Criticism on the implementation of the law is extensive because it makes platforms such as

YouTube be responsible for user videos containing stolen content. The problem is that artists' content is used all the time in remixes, compilations, top ten videos, film analyses and the video creators do not pay for the rights. So, the most logical step for YouTube would be to prevent such clips from being uploaded. However, it would be a difficult task since 300 hours of videos are uploaded daily on the platform, and even though YouTube has thousands of employees, they still would not be enough. Another way would be to use software that automatically scans the videos to identify stolen material and prevent uploads. This "upload filter" was criticised by people claiming that even legally uploaded content could be suppressed since no software could perfectly distinguish the illegal and legal content, also because "authorities might be tempted to use these systems for censorship" (Grull, 2020). According to net scientist and former MEP Julia Reda, a key issue is that automatic upload filters and their ability was overestimated at the time of the directive's creation. Even the most advanced AI-based systems cannot distinguish between legal and illegal uploads. So, there would be some illegal collateral damage (Grull, 2020).

Challenges for musicians on YouTube are the high requirements for a channel to be monetised. Giving video makers such an ambitious checklist starting out have led people to protest for penalising small YouTubers. Initially, independent musicians do not have a large fanbase to generate those numbers but still need capital to invest in future projects. Even when they qualify for YouTube monetisation, the amount would be quite small initially. On average, an artist would receive between \$1,000 and \$2,000 per million views if the video is on their channel, i.e., 100 percent owned by them (Setaro, 2017). This is about \$0.002 per click, making the amount even smaller than Spotify's \$0.003 - \$0.005 per stream. This leads to the conclusion that the primary way to make money on YouTube is to have really high volumes – millions of views and to have music featured on other channels, something unsigned acts struggle to achieve.

Recommendations

It is recommended that YouTube looks into further developing "upload filters", as Julia Reda forecasts, the "upload filters" would become mandatory by June 2021, because manual viewing of all uploads is impossible. A licensing system would also be a good idea – platforms paying in advance for user rights. YouTube could buy a Universal Music license

and then users would be allowed to use excerpts of Katy Perry's songs in their videos. This system could only prevent upload filters if "flat-rate licenses were prescribed by the state for absolutely all content" (Grull, 2020). However, there is academic debate that a blanket exception of this sort could possibly violate EU law. If this system proves to be effective, the law could maybe allow it. Then again, some publishers may not be happy with the amount and prohibit YouTube to share their recordings on content creators' channels.

Bottom line is that without technology, YouTube and Article 13 would not work effectively. German lawyer and member of the European parliament, Axel Voss states, "if we want to have both mass upload platforms and copyrights, we need technical solutions". He offers "identification software" as a solution. It would work on the basis of author input and not be automated. Whenever someone creates content, they would send a digital signature of that content, which would be compared with signatures of content uploaded later (Grull, 2020).

As for recommendations for musicians on YouTube, they should be consistent and creative with their posts but not rely on YouTube raising their rates any time soon – unless they are forced by the government. Artists should maximise all income streams, not only focusing on the one that provides the smallest amount of revenue.

Conclusion

YouTube created a revolution in modern-day advertising and are the current leader in the online video-sharing market. YouTube gave millions of people a chance to express their ideas and creativity but are now being challenged by the new EU Copyright Directive, which is beneficial to artists and copyright holders but would limit the platform's content creators. Hence YouTube's team should implement an effective AI system that would tell apart illegally used content from the original one. The video-sharing company could also contact different publishers to negotiate license fees for their works, so they can be used on the platform. Furthermore, many artists on YouTube are unsatisfied because they feel like the use of their works on the site is underpaid. To conclude, YouTube is experiencing pressure from various sides – government, publishers, independent artists and content

creators, and it is up to their ability to adapt and innovate to see whether or not they stay at the top of the industry.

Word count: 2,500

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