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## **Veni, Vidi, Video: The rapidly changing world of video content distribution**

Video demand will increasingly drive the fortunes of industries up and down the value chain...

We came, we saw, we videoed. The Romans may have been good at conquering, but we moderns are great at videos. We are obsessed with videos. We want an ever increasing variety of choices and we want to watch them when, where and on whatever device suits us. This demand, perhaps more than any other single media trend, will increasingly drive the fortunes of industries up and down the value chain from chip producers, electronics equipment manufacturers and telecommunications networks, to content creators and internet media firms. As the video wars heat up, we thought we would start by sounding the alarm and in later newsletter editions get into more detail on what this all might mean to various segments of media and telecom.

### Prelude to Video War

For us Baby Boomers, video began as an occasional theatrical release of a new Hollywood movie and three channels of black and white TV on a small tube with lots of static. Today, the relentless push for greater choice, quality and convenience has given us over 10,000 different channels just on cable and satellite systems. We have digital high definition signals on large flat screen TV's, the time shifting convenience of TiVo and DVRs, CDs mailed to our door and abundant On Demand services.

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Apparently that is not enough. As reported in the New York Times, big-time Hollywood producers are now creating content specifically and solely for the web to match the shifting viewing habits of young consumers. The amount of quality video content available through the Internet will soon dwarf that available off-net. If you count all of the user generated content, one could argue that this is already true today. This content will be available on your PC, through an IPTV set top box to your TV and increasingly to your cell phone. Even EchoStar has joined the battle, buying Slingbox so it can sling its content off the Dish and onto your laptop, TV or cell phone. Video is not only growing virally, it will not stay put. According to TheStreet.com, the "Britney Bomb" at MTV's Video Music Awards created the highest day of traffic ever for MTV.com. But it was also the most viewed clip on Google's YouTube site before MTV demanded it be pulled over copyright infringement.

### Who Will Pay for the Video Wars

So, we are addicted to video... but will we pay for it? If it satisfies our needs for quality, choice and convenience the answer appears to be YES as witnessed by over 100 million U.S. cable and satellite subscribers. If it



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is Internet video, the answer so far has been a resounding NO, although a successful equivalent of an iTunes-type download service for video is not out of the question, and several are being developed. Select IPTV services are also starting to find willing subscribers at the right price points. If it is a niche channel of mobile TV, the answer is far from clear. If ESPN had trouble on their first mobile TV launch then perhaps it will be tough for everyone. If, however, the quality, choice and convenience we have come to view as a new Constitutional right (the freedom of impression) can be provided at normal ARPU rates, then a mobile TV service could be huge. To get there, we need more wireless broadband capacity and better mobile video technology, but the good news is the capacity and technology appear to be on the horizon.

New media business models will undoubtedly be needed to properly fund the creation and distribution of content.

And what about advertising supported video programming, the traditional model? According to The Center for Media Research, advertising spending for television media declined by 2.4% for the first half of 2007 compared to the first half of 2006. This may be a long term trend as over half of U.S. households are projected by Forrester to have DVRs by 2010. How long will advertisers pay for content as consumers gain more and more control and become less and less engaged? New media business models will undoubtedly be needed to properly fund the creation and distribution of content. To quote Aaron Martens from a recent MediPost VideoInsider article, "...if the advertising industry continues to hold on to the traditional advertising models of yesteryear and attempt to retrofit it, as many are, there will certainly be a surge of vacancies on Madison Avenue."

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The current "solutions" appear to include some combination of maximizing eyeballs, (even if most of them are non-engaged), and use of consumer targeting technology to increase relevance. Marketers can target advertising all they want, even down to the individual viewer's tastes and habits, but the brutal fact is most advertising, no matter how entertaining and relevant, will get fast forwarded unless the viewer is in the mood to be engaged. The "trick" may well be to give consumers not only relevance but far more control and participation. For instance, advertisers need to exploit the interactive features of future digital systems to serve up short teasers not worth fast forwarding, but that can allow a consumer to skip or navigate into whatever depth of information is desired, even to the point of purchase. A similar capability is now provided by a start-up firm named Linkstorm, but it is currently limited to enhancing webpage browsing.

Another tactic, as recently used by Frito-Lay for its Doritos brand, was to have consumers create and submit commercials with online viewers voting and the two top entries receiving air time during the Super Bowl. The result was a 12% sales increase for Super Bowl month over the previous year, not to mention 925,000 unique visitors to 1,070 video



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submissions viewed 3 million times. The winning video was also ranked #4 by USA Today among all Super Bowl ads.

If advertising-supported content seems to be working anywhere it is on the Internet. Whereas television media ad spending is down, total Internet ad spending is up 17.7% for the first half of 2007 (The Center for Media Research) – although this still only represents 7.6% of total ad dollars versus 43.6% for television media. Of course, this could just be the rapid growth of Internet broadband users attracting ad dollars rather than any superior efficacy of Internet advertising. As reported by Enid Burns of The ClickZ Network, high-speed Internet-connected households are expected to grow from 194 million in 2005 to 413 million by 2010.

### The Video Wars will be Fought in Cyberspace

What we do know is that this explosive growth is generating many new opportunities for companies like Google, Yahoo!, MSN, Apple and AOL to act as online content aggregators for video services. According to a new report from In-Stat, the market for such online content services is expected to grow from 13 million households in 2005 to over 131 million in 2010, a 10 fold increase. As summarized by Gerry Kaufhold in the In-Stat report, “the future of television is slowly being defined online.” And it is not just the portals getting in on the action. Broadcasters and pay-TV networks are also seeking to exploit the demand for online video content and the Internet’s ability to provide more formats and more personalization. ABC is doing its own distribution online, CBS is relying on licensing arrangements with other websites, and NBC just announced it is not renewing its distribution deal with Apple and moving to Amazon instead. As Mike Cassidy states in MediaPost’s VideoInsider, “the video distribution wars have only begun.”

How big can online video get? A recent Pew Internet and American Life Project Study found that:

- 75% of young adults (18-29) and 57% of all adults watch or download Internet video
- 74% of users with high-speed connections at both home and work watch or download videos
- 67% of young adults share online videos, most sending them to more than one person
- 62% of viewers prefer to watch content that is professionally produced
- One in 5 survey respondents have rated videos or posted comments after watching
- One in 10 survey respondents have posted video links to their website or blog.

### Who are the Video Warriors?

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The message here is that online video growth is not only being driven by continued penetration of broadband Internet access which enables it, but also by our need for social engagement which pushes it. As posted by Lisa Barone, "Like all things viral, people are using video as a way to connect with others and to engage online.....The viralness and socialness of online video is what makes it so attractive to advertisers." YouTube's Active Sharing feature allows video uploaders to see who's watching their videos and Joost now has chat rooms to complement video watching. Even Microsoft is trying to get in the game with its new Silverlight service.

That brings us to the YouTube phenomenon and the emergence of millions of amateur video producers. As reported by Cory Miller, a recent case study in the blog Startup-Review included the following statistics on YouTube:

- Fastest growing website in Internet history
- On average 100 million videos streamed per day
- 65,000 new video clips uploaded every day
- More than 13 million unique visitors per month
- An average user spends 30 minutes on YouTube
- 58% of Internet videos are watched on YouTube
- 20% to 30% of traffic volume is from the U.S.
- Wide range of user demographics with 18-35 year olds being the largest segment
- 30% to 40% of the content is copyrighted
- Clear correlation between copyrights and eyeballs

In the month of July, according to a comScore release, more than 9 billion videos were viewed online with 75% of U.S. Internet users watching an average of three hours and consuming 68 videos.

In my small town, many 9 and 10 year olds brag about their YouTube uploads and experienced teenagers act like Hollywood movie producers. It is these young users that will soon emerge as hyper consumers and drive even faster the growth of online video. A recent Deloitte study focused on consumers use of media and technology found that:

- 51% of consumers are watching/reading personal content created by others, jumping to 71% for Millennials (13 – 24 year olds)
- 62% of Millennials and 41% of X'ers (25 – 41) watch YouTube or other video streaming sites
- 40% of consumers are creating their own entertainments, such as editing movies, music and videos, jumping to 56% for Millennials
- 48% of consumers want to connect their TV to the Internet, jumping to 64% for Millennials



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- 60% of Millennials and 45% of X'ers want ability to move TV shows, podcast and movies to any device/platforms they own.

While this explosive user-generated video growth may soon flatten out, as predicted by the British market research firm Screen Digest, that firm believes that by 2010 user-generated video will represent 55% of 44 billion video streams expected to be consumed in the U.S. that year. As posted by Liz Gannes on NewTeeVee, online video revenue is expected to grow to \$900 million by 2010 with just 15% percent of this revenue going to the user-generated community. That may be a very attractive CPM bargain for advertisers leaving the lion's share of revenues to support professional online content and continue to reshape the future of TV. Stay tuned.

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