

You all know that entertainment matters - that's why you're here planning for the future. With the average person watching 5 hours of video a day, when you combine TV and online video, entertainment poses a tremendous opportunity for all of us.

There's no better proof than CES that people want to watch content they love on the devices they can't live without.

Meet Michelle Phan, one of our rising YouTube stars. Michelle creates make-up and style tutorial videos on YouTube. She grew up in a beauty salon—her mother supported the two of them by working as a manicurist. Michelle's mom wanted her to become a doctor, but Michelle was passionate about beauty.

Her YouTube channel has been wildly successful. Innovative brand builders noticed and Michelle landed a Lancôme sponsorship.

That's a magical moment. Michelle makes beauty real, makes beauty accessible.

Now you may say "she may be large on YT but small on TV." Let's see how Michelle compares to her TV counterparts? The Style Network is a cable channel that targets the same demographic. It had a record ratings quarter in August 2011.

Its top-rated show drew 700,000 viewers per episode.

In that same quarter, Michelle drew more than double that amount.

She's not alone. Top YouTube channels like Michelle aren't popular just "by YouTube standards," they're popular by everyone's standards.

If our top 5 YouTube channels were stacked against cable channels, they would be in the top 20 in terms of viewership.

YouTube isn't big in just online video - it's big in video. Period.

We're at a unique moment in the evolution of entertainment.

Back in 1980 there were only 4 TV channels - the original broadcast networks - and they had 100% of the audience. During the 1980s cable TV emerged. This changed the economics of distribution and provided users with hundreds of new channels and shows to watch.

In 2010, the majority of American households subscribed to cable and 75% of viewers' time was spent watching cable channels, with only 25% spent tuning into the original broadcast networks.

We're on the cusp of another major transformation.

The web will become the most important commerce and media distribution vehicle, enabling the next generation of channels to come to life. Beyond the hundreds of channels cable brought you, the web will bring thousands.

If the same viewership shift that happened over the last 30 years on TV happens on the Internet, viewers may eventually spend the majority of their time on countless channels that are available on the web and are focused on the interests they deeply care about.

The web may be to cable TV what cable was to broadcast TV.

That's a powerful thought.

Why is that possible? Because what essentially is a closed system is opening up -- mainly thanks to all of our partners here at CES -- Samsung, Sharp - are opening up the Internet to consumers.

TV channels of the past had steep barriers to entry, for both creating and viewing. Tomorrow's channels will prove that great content can come from anywhere. They'll be:

- Built on open platforms that invite content from pros and amateurs alike
- Welcome complex productions as well as instant video
- Invite interactivity and corresponding high viewer engagement

Just driving video consumption up and up and up.

Today there are 17M yoga enthusiasts for the US (and probably double that around the world), yet there is not a single TV channel dedicated to yoga.

The lower start-up, operating and distribution costs, as well as instant and unprecedented reach of global audience, mean a whole new world of content can now make it to the screen.

And that means that sites like YouTube can house a robust collection of video that captures the massive range of stuff we're passionate about -- from angry birds to flash mobs, NBA to Jay-Z, legos to Top Gear.

And when I talk about creation of online video and online channels, I'm not talking about just for the PC -- I'm talking about all these devices.

And some of you may be playing video actually as I speak right here.

Today, a video with 55M views might get 10M of those views on a phone, 35M views on a laptop, 5M on a tablet and 5M on a TV.

What's exciting is that this kind of versatility is bringing out exciting new formats of content and is expanding the entertainment pie.

On TV, your superfans are worth essentially the same as your weakest fans: both of them just watch the episode and move on because it's a 1-way medium.

With the explosion of new devices (that most of you have in your pockets or in your hand), almost all lend themselves to 2-way interactions.

On the Internet, and YouTube specifically, the community is not only watching -- they're sharing, forwarding, commenting, making a parody, a response, a mash-up, that may even have more views than the original.

Over 100,000 years worth of YouTube videos are watched on Facebook each year...

Over 350M videos are shared on Twitter every year. And loads are shared on Google+.

By the way, what does that even mean?!?! I asked my team what they mean and they said, "It's a lot."

Clicks on the 'like' or 'dislike' button on YouTube have doubled since the start of this year. For every 'dislike,' we get 10 'likes' - people like to tell other people about the stuff they love.

Tomorrow's most successful producers, curators and brands will thrive in this two-directional world. They'll put the audience at the center of the action, incorporate them into the production, create interactive content, invite instantaneous feedback and engage with them socially.

Take Coke, for example. This year Coke's official videos got 30M views. Wow. The most popular one was a holiday-themed ad. It was viewed 2M times.

But that's only a fraction of Coke's presence on YouTube. This year people created videos about Coke on YouTube that together were viewed 120M times.

Here's one of them: [Video]

By allowing fans to incorporate its brand in their work, Coke is amplifying its message and expanding its reach for free --- AND doing it in a way that's authentic and impossible on TV today.

Many of today's TV channels will successfully transition to web delivery to increase their functionality and engagement.

Let's take a look at the trends driving the changes I've been describing, largely by the technology around us here at CES.

All of these changes are happening incredibly fast -- what happened on 30 years in cable happened in 10 years in broadband and in half the time web video has become part of our daily lives.

By 2013, 90% of Internet traffic will be video.

Just sit and think about that.

And when I talk about web video I'm not just talking about PCs.

If you're like me, the TV is still the best screen in the house. People will always watch video in their living rooms, and their viewing will only increase with the growth of smart TVs. 500M Smart TVs will be shipped by 2015, making up nearly 50% of all televisions shipped globally.

More people are sitting back watching YouTube in their living rooms on connected TVs and through partnerships with gaming consoles like Xbox.

We're moving closer to having a shared global living room -- a TV viewing experience that's not bound by geography.

People will also continue to consume content on the device they love -- at their desk, on the bus, at a restaurant, in the park.

Mobile growth is exploding, with global predictions of 700M mobile devices in use in 2012.

Android's on fire -- there are more daily Android activations than there are babies born. That makes Andy Rubin very happy.

Finally, tablets continue to soar -- analysts project roughly 80M tablets will be sold in 2012.

The explosion of IP-connected devices and Internet access is a serious TAILWIND for all of us in online video...and will propel our industry for many years to come.

Now, why am I talking about mobile, why am I talking about Andy?

It's the unleashing of the apps store -- hundreds of thousands of apps were created -- out of those hundreds of thousands, people interact with 40 -- which is twice the amount of channel that you follow on cable. Think about how many apps you have on your phone right now -- I have 30. A tremendous amount of creation is taking place. Customers consume twice the amount on open systems. Because of the vast array of choices available to you. And the choices available to you are increasing daily.

Why did apps succeed?

- Apps are personal and niche.
- Users customize their smartphones with the apps that appeal to them most, often sharing their favorites with friends.
- Apps are interactive.
- And apps have created a new revenue source of micro-payments for developers.

Consumers want choice. Apps provide thousands of choices.

YouTube, and web video more broadly, is at the beginning of the apps stage right now - we've built an open platform that reaches an enormous global audience and we built an economic engine on top of it.

Developers building great content on top of platform. We've catalyzed our developers -- video content creators -- to create many many more immersive experiences for users.

When Steve Jobs announced the App Store in 2008 he was joined on stage by venture capitalist John Doerr. Doerr launched the \$100M iFund to catalyze app development.

We've done our own version - we're catalyzing an ecosystem of amazing content and viewer engagement for you. And we recently unveiled a new redesign that puts channels at the front and center of your YouTube experience.

The new homepage guide works a lot like your DVR, it's a navigational tool that helps you find, follow and engage with the channels that matter most to you.

Remember Michelle Phan? The young woman who pursued her passion on YouTube and built an international brand?

She's one of the faces in this new crowd of original Channels, and there's many more joining her every day and embracing the opportunity of video.

None of this was possible 5 years ago.

5 yrs ago, there was no Netflix streaming, no Hulu at all and no March Madness on the Internet.

- Today Netflix streams more than 2B hours a quarter
- Hulu has 30M unique users per month
- March Madness online drew over 50M unique users in 2011 -- a 60% increase from 2010!

Incredible businesses, incredible velocity, online video is on fire.

And us? YouTube's audience of 800 million people watches over 3 billion hours of video a month -- that's 30 mins of video per person on average.

Open platforms unlock creativity and innovation on a mind-blowing scale.

And it's all starting to happen NOW.

Whether you make, own, aggregate content or build brands and need to reach the largest possible audience. Come and play with us.

Now let's take a brief look at some of the new channels our partners will be launching in the coming months. [Video]

I'd now like to welcome a few friends on stage to talk about this tailwind we find ourselves in. Michael Kassan, CEO of Medialink, Anthony Zuiker; creator of CSI franchise and new YouTube partner; Peter DeLuca, T-Mobile SVP of Brand, Advertising, and Corporate Communication; Lucas Watson, VP of Ad Sales at Google; Allen DeBevoise the CEO of Machinima; and GroupM CEO Rob Norman to talk about what all this means for your content and your brands.