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## INTRODUCTION

YouTube is a free video sharing platform that allows users to create, upload and watch video content online. Any user can create their own channel, where will appear their videos, he can also follow channels of other users, comment and share their videos. YouTube's vision is to give everyone a voice, to evolve video, and to make partners and advertisers successful. (Doliver et al, 2012). Thanks to the feature – YouTube Analytics, one can track what kind of users are watching their videos, how often, from where etc.

YouTube is on the second place among the most visited websites in the world, giving the primacy to Google (Alexa, 2018). Being one of the most popular and visited websites nowadays, YouTube represents a powerful source for marketing and business activities. During the decade that YouTube exists, it became a cultural phenomenon, has made famous millions of people and has even created its own community.

*“YouTube shows that ordinary people have things to communicate. It challenges the ideas of a mass audience. It cuts across categories, it is not merely a video sharing site; it is more important than a social media site; it is more than a communication channel; it is more than a place for creativity; it is more than a place for semi-private sharing; though it is all these things.”* (Soukup, 2014, p. 25).

Many of us spend a lot of time browsing this website, especially younger people who grew up in the internet era. We have our favorite channels, our favorite bloggers and shows. That is why this subject is very actual and interesting for lot of people. As of today, there is still a relatively small amount of studies and researches about YouTube, as it has been around for just slightly more than a decade. Therefore, my work can contribute to this and help to better understand the mechanism of its functioning. The primary objective of this thesis is to describe the economic model of YT, compare YT to regular TV and examine how YT can replace traditional TV.

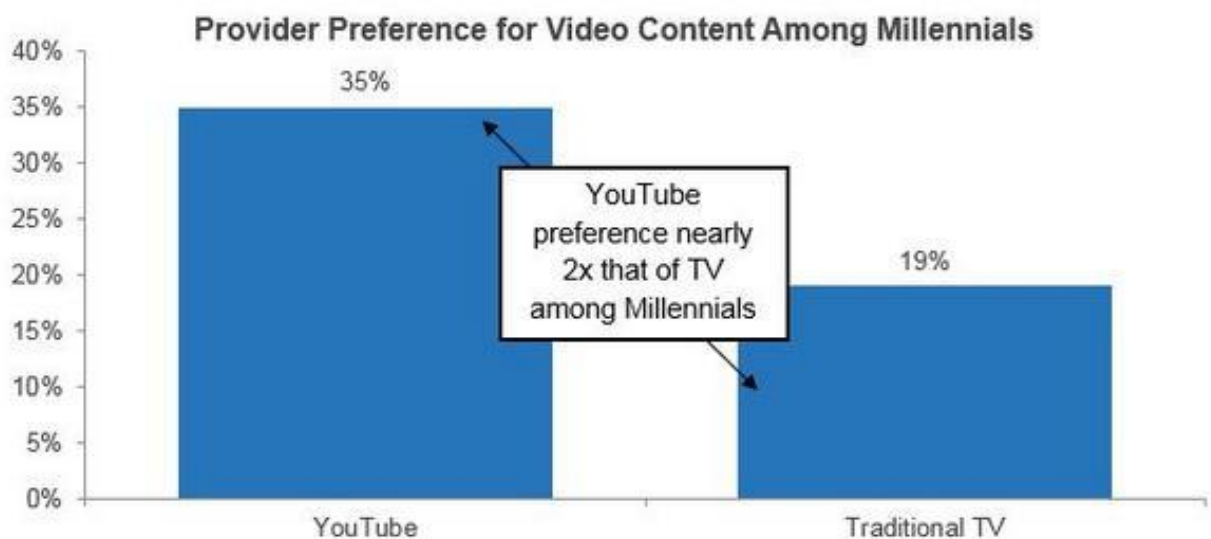
In the first chapter I will describe the YT platform and will show the history of its development. In the second chapter I will show possible ways of monetizing related activities on YouTube, I will also talk about influence of YouTube stars and how marketers use this influence to promote brands. In the third chapter I will compare YouTube with traditional TV, I will analyze the reasons of TV's decline and I will try to understand if YouTube could replace TV. In the fourth chapter I will show some alternatives to YouTube and will compare YT with them.

## 1 DEVELOPMENT OF YOUTUBE PLATFORM

YouTube (YT) is a video sharing platform, that, together with other famous social networks, changed and is continuing to change the world of media. It represents a direct competitor and an alternative to traditional TV. But for better understanding of its growth and what it is representing, I would like to provide some statistics:

- YouTube is ranked as the top online video platform, with 182.2 million unique viewers in total (comScore, 2016a).
- The total number of unique users is 1,300,000,000.
- YouTube was available in 2018 in more than 88 countries and 76 languages (YouTube, 2018).
- According to a study based on a survey of 2,940 respondents, realized by comScore and Google, more and more people prefer online video streaming to classic cable TV (comScore, 2016b). 8 out of 10 (age 18-49) chose YouTube for watching video content (Think with Google, 2016)
- Not surprisingly, the majority of those who choose YouTube as a platform for online streaming, is young people (age 18-34), that we used to call “millennials” (comScore, 2016b).

**Figure 1 - Preference for video content among Millennials**



Source: <https://rocketshp.com/youtube-ads-business-leads/>

The existence of YouTube is now (2018) counting 13 years. During this relatively short period of time, this web platform has evolved from a friendly video-sharing platform with short homemade videos created by amateurs into the real monster (in a good sense of this word), where you can find whatever you want and need, with content that can satisfy every taste and demand: you can watch comic videos about cats, you can watch lifestyle or beauty blogs, you can learn new languages, learn how to play a guitar, you can find answers to questions that start with “how to” (from how to launch a business and how to be a good wife to how to open a locked door). Whatever you want to watch, whatever question to answer you are looking for, YouTube will be pleased to solve your problem.

YouTube has become a real monopolist in the world of online videos, because it is the biggest storage of video content, which influence, growth and amount of information are comparable, perhaps only with Google, the biggest search engine in the world (and at the same time, YouTube's parent company).

## **1.1 History**

During 13 years of its existence, this website has shown incredible growth. The following timeline will illustrate, how rapidly occur changes and evolution in the internet world, and how important and significant could be a single year for development of an internet platform.

- **2005 Launch of YouTube**

Everything started in 2005 when three former employees of PayPal, Chad Hurley, Steve Chen and Jawed Karim, decided to start their own business – an internet platform for sharing videos. On April 23, 2005, the first video on YouTube was published, titled as “Me at the zoo” - an 18 second clip of YouTube’s founder Jawed Karim (YouTube, 2005)

In less than a year YouTube has gained enormous popularity. People liked the opportunity to choose what they want to watch and when, to be an active participant of this process, not passive consumer of content that is proposing classic TV.

YouTube became so popular, because it gave people the opportunity to share their homemade videos with the same ease as they share their photos. Seemed, that every week a new YouTube star was born. One week it could be a 77-year-old grandfather from Britain contemplating his life. Next week it could be two Chinese teenagers pretending to sing the Backstreet Boys song from their dormitory room (Kehaulani Goo, 2006). The website was

containing thousands of different videos for every taste: spoofs, pranks, videos from parties, concert footage, comic videos.

*“YouTube, a free Web site created last year to help people share homemade videos, has become a hit with users worldwide, drawing 34 million monthly visitors who watch an average of 100 million video clips a day. Now the young Internet star is at a critical point as it attempts to morph from quirky start-up into major-league media company”* (Kehaulani Goo, 2006).

- **2006 Astronomical speed of YouTube’s growth**

During a year and a half, the video-sharing site created just for fun has transformed into the most visited video platform. Probably the founders of YouTube did not expect that their startup will have such a big and rapid success, they were amazed and surprised by this enormous success. One of the owners of this startup said in an interview: *“We’re definitely in transition. We’ve received a lot of attention, but we’ve also got a lot of work to do and a long way to go”* (Kehaulani Goo, 2006).

YouTube was growing with astronomical speed, web traffic grew 75% just in the week, from 7.3 million to 12.8 million unique visitors. The number of views has grown even faster, increasing 515%, from 11.8 million in January to 72.4 million in June 2006 (O’malley, 2006). The website has become the fastest growing website in the world.

- **June 2006 – Signing a deal with channel NBC**

At that time the founders were faced a dilemma, how to convert the popularity of website to a real business, or in other words monetize it. Realizing the possibilities that are flowing from growing popularity of their website, the management began to think about some functional advertisement model, that will help to convert popularity into profit. The first big agreement about marketing and advertising was signed with the channel NBC in June 2006 (Knowledge@Wharton, 2006) *“This agreement was important for fast-growing startup. In addition to broadening the range of video content available online, these deals are signs that web-delivered video is expanding from user-provided content to encompass more professionally authored (and legally licensed) material”* (Knowledge@Wharton, 2006).

YouTube has signed a deal with NBC, after its claim to delete a copyrighted video. They have agreed that NBC would create an official channel on YouTube and would post some exclusive clips to promote its shows or interviews with actors.

At that time, it was not clear if mix of the amateur videos and professional, commercial content, that the site was adding to generate revenue, would work. YouTube has signed deals with NBC Universal, Paris Hilton and Warner Music to add professional advertisements on the website (Kehaulani Goo, 2006).

- **November 2006 – Google acquires YouTube**

The next significant step in the history of the website is its merger with the internet giant Google. On November 13, 2006, Google purchased YouTube for US\$1.65 billion (The Age, 2006). Purchasing YT was a very risky step for Google. Buying a one-year old startup, was risky not only because it did not generate profit (although it was one of the fastest growing websites in the history of Internet), but also because of problems with illegal distribution of copyrighted content.

A lot of videos uploaded by website users, was containing copyrighted material, and naturally the owners of rights could file a lawsuit against the website. As a result, Google received a wave of critique and incomprehension, after this purchase. Billionaire investor Mark Cuban expressed his opinion in a very harsh manner, he said that only crazy would buy YouTube, because he would lay “themselves open to a barrage of copyright lawsuits” (Maven, 2006). Josh Bernoff, writer and expert in business strategy, said: *“I still need to hear how the copyright situation needs to be solved. In the absence of a solution to that, Google has just opened itself to a huge lawsuit. This is pretty risky unless they have a solution to that problem”* (Clark, 2006).

Anyways, as time went on, we see how important, significant and forward-thinking this step for Google was. Merger with YouTube was a very important step for Google that opened great possibilities, it gave the company an opportunity to tap into the lucrative market of online video and social network. The combination of Google and YouTube strengthened Google’s dominance in the world of online advertising, and gave it an advantage over competitors like Yahoo!, Microsoft's MSN and News Corp. Some analysts said, that Yahoo, Microsoft and News Corp. were also interested in purchasing YouTube (Clark, 2006). We can now hardly imagine Internet without YouTube, and if this website had been bought by

another corporation, who knows what would have happened with Google and if it would have such influence as it has today.

- **June 2007**

In this month YouTube launched local versions of the website in Brazil, Ireland, Italy, Japan, Holland, Poland, Spain and the United Kingdom. They also launched the first mobile application of YouTube on Apple's iPhone (Artero, 2010).

- **2007 – Launch of advertising**

In 2007, YouTube launched Invideo Ads, an advertisement situated in the lower part of the video. Advertisers paid for each ad and YouTube shared revenue with the video creator. The company also began to use AdSense system. *“The owners of the websites that use AdSense are able to select videos from certain providers and the ads are shown in relation to the sites or the context of the video. The revenue is shared between the owner of the site, the video creator and Google”* (Artero, 2010).

- **November 2014 - YouTube Red**

The latest YouTube's invention is the new subscription service that allows users to watch videos without ads, download videos on mobile devices to watch offline, watch original series and movies from some of YouTube's biggest creators, right after release. Membership costs

### **Copyright**

Because I have already touched upon the issue about copyright, it is important to tell how Google managed to solve this problem. They came up with a brilliant solution, that helped them to convert their weak side in an advantage. The company developed a system called ContentID. The advantage of this system lays in the ability to identify copyrighted material even if it is made partly of user-generated content such as wedding videos or lifestyle blogs. It works quite simple: YT is checking every new upload through its database for eventual matches. If it finds some coincidence, there are two possibilities: block content or monetize it. Of course, the one who makes decisions is rights holder, YT refers to him and gives him a choice. Thanks to this genius idea, Google easily turned its enemies, into its friends, and at the same time raised revenues, because copyright owner had to share the profit from advertising with YT.

Source:

<https://www.theguardian.com/technology/2009/nov/01/google-youtube-monetise-content>

\$10 per month and is available at the moment (02/2018) only in Australia, Korea, Mexico, New Zealand and The United States (Google, 2018a).

**Netflix** is a subscription TV and movie streaming, free-ad service, that has a wide range of TV shows, movies, documentaries. The service offers different types of membership with prices depending on the video quality and the number of connected devices.

As of January 2018, Netflix is available in more than 190 countries and has 117.58 million subscribers worldwide.

The company is also producing their own original content: series (such as popular series “House of cards”, “Narcos” etc.), movies, documentaries.

**Hulu** has very similar mechanism of functioning to Netflix. It’s also a video-streaming subscription service with a wide variety of content: TV shows, series, full length movies.

*Source: Netflix. com*

At the beginning the service was called Music Key and offered streaming of music and music videos without ads (Trew, 2014).

YouTube Red does not change anything in the way users watched YouTube previously, the old version of the website remains the same as it was, so users can continue to use all features of the website. It just gives them some new possibilities.

YouTube Red is an answer to such services as Netflix and Hulu, which contain wide demand of different films and popular series (that are naturally copyrighted and thus cannot be freely available on

platforms like YT). It is a decisive step towards the sector of online TV, signaling the company’s intention to explore lucrative field of streaming TV online and of course becoming a single alternative to cable TV, pushing away its opponents.

- **2017 - YouTube TV**

The latest and the most significant step in the evolution of the web platform is its newest invention – YouTube TV, a TV streaming service that allows to watch live TV from major broadcasts and cable networks (service offers over 40 channels as ABC, CBS, NBC, Fox, the CW, ESPN, USA, Bravo, E, MSNBC, Fox News, Disney Channel, FX and local stations). As a bonus, YouTube TV includes also YouTube Red and Google Play Music. As for now (04/2018), this service is available only in selected U.S. cities and costs \$40 per month (YouTube TV, 2018). After the announcement of launching this service, debates about



inevitable decline of cable TV became much more active. I will describe this service in more detail and compare it with classic TV in the third chapter.

## **1.2 Profitability of the website**

There are still a lot of insinuations about unprofitability of YouTube. Whether true or not, it is hard to judge because Google did not ever reveal how much money they earn.

Bernstein Research analyst Carlos Kirjner said in one report, that all researches about YouTube done by different analysts are not based on real facts and representative data, but more on belief and gossips. Moreover, except these anecdotes and gossips shared by Google, there is no information and data about user's behavior and preferences – what they watch and how much (Krause, 2016).

On the other hand, it seems that it is highly unlikely that such giant as Google will keep a business without revenue. Google bought YouTube for \$1.65 billion in 2006. While in 2015 Bank of America Merrill Lynch defined YouTube's value at more than \$70 billion, which is 40 times more than Google paid for the website. The bank also predicted that YouTube's income will reach \$13 billion in 2017 (Krause, 2016).

Maybe these gossips about unprofitability are due to the fact that during several years after the purchase, Google still struggled to invent some functioning ad model. At that time YT was treated as one of the many parts of its business, without giving it any special value. But since 2013 the way that Google talks about YouTube has changed, and it seems that YT has become their key interest and the main source of income (Roettgers, 2013).



## 2 BUILDING A BUSINESS BY MAKING VIDEOS ON YOUTUBE

In this chapter I would like to talk about the possibility of launching an own business on YT with the examples of some famous content creators.

YouTube is a total revolution in the world of entertainment, the first time in the history when ordinary people receive an opportunity to create their own space, where they can express their self, become a star and earn money. No producer's centers, TV channels, castings, talent shows. All you need is a camera and your creativity. The thousands of people have become real stars thanks to YT.

If we type in Google search phrase "famous people discovered on YouTube," we will see numerous stories of famous entertainers whose careers were started on YouTube. And the

**Justin Bieber** – is a 24 years old Canadian superstar, that was discovered at YouTube. He has won numerous awards, such as American Music Award and Grammy Award. He has become a real pop icon for teenagers all over the world. In 2009 were sold more than 137,000 copies of his debut album "My world" that became platinum. Bieber's songs became viral, some of his hit songs are: "One time", "Baby", "All I Want for Christmas Is", "Where Are Ü Now" etc.

Source:  
<https://www.biography.com/people/justin-bieber-522504>

most famous one among them is Justin Bieber. In 2007, when Justin was only 12 years old, his mother opened a YouTube account where she began to post videos of her song singing, and the same year he participated in a singing competition in Ontario, Canada. Surprisingly, these home videos with his performances became very popular and in short time Justin became a star (Lavaveshkul, 2012).

The most interesting thing is that these people did not do anything extraordinary, they did not come with

some unique idea, they just started to film their lives, and people liked it. *"A 2012 study of the top 10 most subscribed channels on YouTube showed that most, if not all, of the most successful creators started with no intention of creating a business at all"* (Perry, 2016).

Now the possibility to broadcast themselves use not only those who want to become a star, but also already famous and popular people. YouTube is an obligatory part of social media pack, that includes accounts on Instagram, Facebook and Twitter, which has to possess every

big brand, publishing house or TV channel. The new trend is that celebrities start blogging through YT to increase their popularity and revenue, and to communicate directly with their auditory.

The idea to quit a job (or not even get one) and begin to make money creating videos on YouTube has become a dream of millions of people worldwide. Inspired by stories of successful bloggers, that became wealthy thanks to filming videos, people try to repeat their success. But now for newcomers to get famous is much more difficult than it was 5 years ago. The later you come to the market, the harder you have to try to become successful. Many people are thinking to start a channel only for money, but the phenomenon of YouTube started with bloggers that did not do it for money, contrarily they became successful by showing their attracting personalities. They did not create anything revolutionary or special, they just showed themselves in the way they are and attracted other people with their content.

The greatest thing about YouTube is that everyone can start a business with zero budget, all they need is a camera and access to the Internet. Problems start at the moment when content creator begins investing more and more money in his channel, trying to create a professional video making studio, which requires big investments in professional equipment, light, cameras, paid actors, costumes etc. Such big costs that bloggers spend on production of their content, does not cover profit that flows from YouTube. As example of such situation can be famous blogger Olga Key. The New York Times made an interview with her, where she told about her troubles and frustration, caused by her business on YouTube. She started her channel at 2006 like a blog about her daily life, then in 2009 she added a second channel with skits. She did not have any breakout moment; her popularity was growing progressively as time went on. In 2009 Olga decided to make her channels a full-time career. The problems she is facing now, is that the biggest part of income that she is making from vlogging she invests back in her business. (She earned from \$100,000 to \$130,000 in each of the last three years (Kaufman, 2014).

*“Moreover, she shares a growing list of worries with other creators: the precipitously dropping prices that advertisers are willing to pay, the huge increases in uploaded content that has made it harder for viewers to find their work, and the escalating costs of producing higher-quality content”* (Kaufman, 2014).

Mr. Kyncl, representing the management of YouTube, also commented this situation. He said that content creators that are looking on YT as a source of income and are thinking only about

monetizing their videos, are taking “the wrong approach”. Because YouTube offers a great possibility to reach attention of worldwide audience and gained popularity that, in its turn, can result in income from other sources, apart from YT. He provided an example of Bassem Youssef, a heart surgeon of Cairo, who created on YT some kind of daily show, that reached five million viewers. As a result, he has got a contract with Egyptian TV channel. Another example is Awesomeness TV, a show for teenagers, which started on YouTube and now has a show on Nickelodeon. *“The more successful you are on YouTube,” Mr. Kyncl said, “the more you should think about diversifying”* (Kaufman, 2014).

If we want to compare producing of some show on YouTube and on TV, we should understand how it works on the both platforms. TV is a space for professionals, really big teams of people are involved into film or show making. So, content is very professional, regulated and censored by management of the channel, with minimized risks in case of fail. There is little place for mistakes and amateurship and often limited space for creativity and opportunities. Meanwhile YouTube is a self-regulated platform, no one can prohibit nothing, there are no rules and freedom to do what you want, and at the same time higher risks. No one can guarantee you that you will succeed, that your videos will be popular. That is why making business on YouTube is linked with certain risks and those who want to start it, should understand it very good. Creators do not have any stable contract with the website and the company can any time changes conditions, which could link to losses. In contrary to TV, where the content creator has a stable contract and precise conditions. But how high is the possibility, that one can get to the TV and start producing some content? There are thousands of people, who are dreaming about work on TV or about a movie career, but only few of them get this chance. While YouTube is an open space and everyone can start here. Without doubt, there is a great concurrence and you have to be very creative and interesting for people to become popular, but at least you can try, and you have nothing to lose if you fail.

At the same time, those who start creating professional content on YT with quality comparable to TV shows (and with costs related to it), are not just simple vloggers with a camera, as only equipment. It could be a YouTuber that has already reached some popularity and money and can allow himself to invest into his production, it could be a professional group of people who want to open a channel on YouTube with clear idea to start business. Naturally they try to minimize risks and look for some sponsor who would be interested in sponsoring their show. So, we should clearly distinct between different intentions and understand what targets we are following.

YouTube is a good place for young, creative and ambitious people to express themselves, gain popularity, create a personal brand and start a career with practically zero budget. And I also, do not think that it is generally correct to consider YouTube as a single source of revenue. Because, when it comes to professional producing of video content, with all that related cost, YouTube is not the appropriate place for it. As we have seen, YouTube does not give a sufficient income to cover all the costs that creators spend on production of professional content. I suppose that this video network is representing a certain jump-start for a career without any special investments and should not be treated like a single source of revenue. The best way is to use the popularity, gained thanks to YouTube, in business activities apart from website.

Many YouTube stars successfully use this strategy: they collaborate with big brands, sign promotional contracts, write books, launch their shows on TV, sell merchandise, open restaurants, shops, bars etc. In other words, trying to do their best to benefit from their popularity as much as they can.

Every YouTuber chose a revenue strategy which fits him the best. They can choose monetizing through pre-roll advertisements, by deals with sponsors, they can tour, sell merchandise or collaborate with traditional medias. Some of them even produce their own products, for example comedian Lilly Singh, that earned \$7.5 million, released a lip-gloss and other famous YouTuber PewDiePie created a mobile game (Berg, 2016).

## **2.1 Monetizing by advertising**

There are several possible ways to monetize activities on the website. Obviously, the principal way anyone on the Internet can make a profit is advertising. Another widely used way among creators on YT to raise revenue, is product placement, that I will describe in the next subchapter.

The principal indicators that affect the revenue of every creator are these parameters: views, watch time, CPM and number of subscribers. Sure, when we are talking about monetizing in the context of video-sharing platform the most important parameter for bloggers are views. Number of views is the prime indicator of success and popularity of channel.

The next important parameter is watch time – time that users spend watching videos. Watch time can affect the ranking of video in YouTube search results, videos that viewers watch up until the end rank better in the search (Pinsky, 2015).

When we are talking about advertising on YouTube we can come across such abbreviation as “CPM” – which means “cost per mille” (“mille” from Latin, means “thousand”) or simply “cost per thousand”. CPM is an indicator important for advertisers, as it is the price that an advertiser pays to show his ads within videos 1,000 times. The relevant indicator for creators is actually RPM (revenue per thousand) - the average amount creator earns for every 1,000 monetized views of his videos. Confusingly, YouTube typically refers to RPM as CPM (Pinsky, 2014).

It is very hard to judge YouTube CPM, because the company attempts to keep in secret all the statistical information about the website. They also do not allow their partners to disclose the CPM they earn from ads. That is why all the numbers that we can find in the Internet are very approximate and are not precise.

The CPM varies from standard \$2.50 per 1000 views to \$10 per 1000 views, that gain already popular bloggers (Carmody, 2013). Average CPM in 2014 was about \$7.60, down from \$9.35 CPM in 2012. In 2017 average CPM decreased to \$4 (Sussman, 2017). As we can see CPM rates have decreased very much during these years. It can be caused by enormous growth of new creators. Being inspired by success of YouTube stars that have become rich and famous, every day more and more people start making videos hoping to repeat their success. But now due to the overflow of the market, it is more difficult to become popular and earn good money.

The CPM is a variable indicator, it can vary for many reasons. CPM can depend on advertiser’s demand for ads, for example before holidays (such as Christmas or Valentine’s day) the demand will be higher, so CPM will be also higher. CPM also depends on watch time, the more time viewers spend watching a creator’s video, the higher is CPM, on source country, on niche type of video etc.

In most cases, creators do not have advertisements on every video. For example, creator’s CPM is \$8, but if the ads are enabled only in half of the video, creator will get only \$4 per 1,000 views.

Now I would like to calculate estimated revenue of some hypothetical channel with the help of “YouTube money calculator” developed by Social Blade<sup>1</sup>. For example, a channel creator gets 60500 daily views, estimated CPM is \$0.25 USD - \$4.00 USD. In this case estimated daily revenue will be \$16.25 - \$260.00 and estimated yearly revenue will be \$5,850.00 - \$93,600.00. Important to say is, this is not the final revenue, that creator gets, because he must share his profit with YouTube (website takes 45%).

YouTube offers two forms of ads - standard, that we are used to watch on a classic TV, that appear before, during or after the video and skippable ads (TrueView), that user can skip after 5 or 10 seconds and continue to watch the content he is interested in. There are two types of TrueView – skippable ads and ads (TrueView video discovery), they appear near other YouTube videos, on the YouTube homepage, on the YouTube search pages, or on Google search, in other words in places where users discover new content. When user clicks on his video, a creator receives money for it. But with condition, that viewer watches at least 30 seconds of his video. That means that owner of video gets paid only when someone chooses to interact with his ad (Google, 2018b).

*“Since YouTube advertising has become so important not only for revenue but brand impressions, Pashkevich, et al. (2012) analyzed advertisements on this platform. The authors compared the effectiveness of traditional in-stream ads to the TrueView in-stream advertising, which refers to the new YouTube feature that allows individuals to skip the advertisement being presented after a few seconds. The study found that skippable advertisements were effective on a perimpression basis and that formats like TrueView in-stream ads could improve the viewing experience for users and at the same time be effective for the company launching the ad” (Rodriguez, 2017).*

To start monetizing content on YouTube, a creator has to join YouTube Partner Program. The company put forward this idea in 2012. YouTube Partner Program allows users, whose videos are getting more than a certain number of views get a revenue from it by adding ads to their content. Of course, they share a profit with YouTube. As known, the company gets 45% of revenue. Some kind of advertisement has already existed before, but the new model was simpler and had precise conditions of participating. To join YouTube Partner Program content producers has to go to their personal accounts on website and click on a relevant button.

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<sup>1</sup> Available at <https://socialblade.com/youtube/youtube-money-calculator>



As time went on, YT simplified requirements for joining this program. Since January 2018 the conditions are: reach 4,000 watch hours in the previous 12 months and 1,000 subscribers. Creators can earn money from advertisements on their videos and from YouTube Red subscribers watching their content (Google, 2018c).

By the way, launching a new service called YouTube Red, caused a real panic and shock in the creator's community. As I have already mentioned, YouTube Red removes advertisement from website, so users can enjoy watching their favorite videos without ads. A lot of creators were afraid that this new feature will decrease their income and will affect their business, because their revenue depends directly on advertising. Removing ads for users that have paid for subscription, could affect their income. But, according to management of website, creators will be still sharing income with company as it was before, in this case income from YouTube Red. The amount of profit from ad-free videos will depend on watch time – the time a viewer spends watching creator's content. The longer a user watches his video, the more profit he gets. That is why watch time in this case is more important than views.

But, even if launching a new service, did not cause any harm to creator's revenue, the YT community perceived it as a betrayal. The prime philosophy of popular website was that "ordinary people make extraordinary videos" (Strangelove, 2010). The part of YouTube Red is the original content produced by YT. Which signifies the aim of YT to expand into the new market – market of paid services offering original content, like Netflix. The main difference between YouTube and other platforms with video streaming, is that YouTube became popular thanks to the bloggers - amateurs, ordinary people with passion for creating videos.

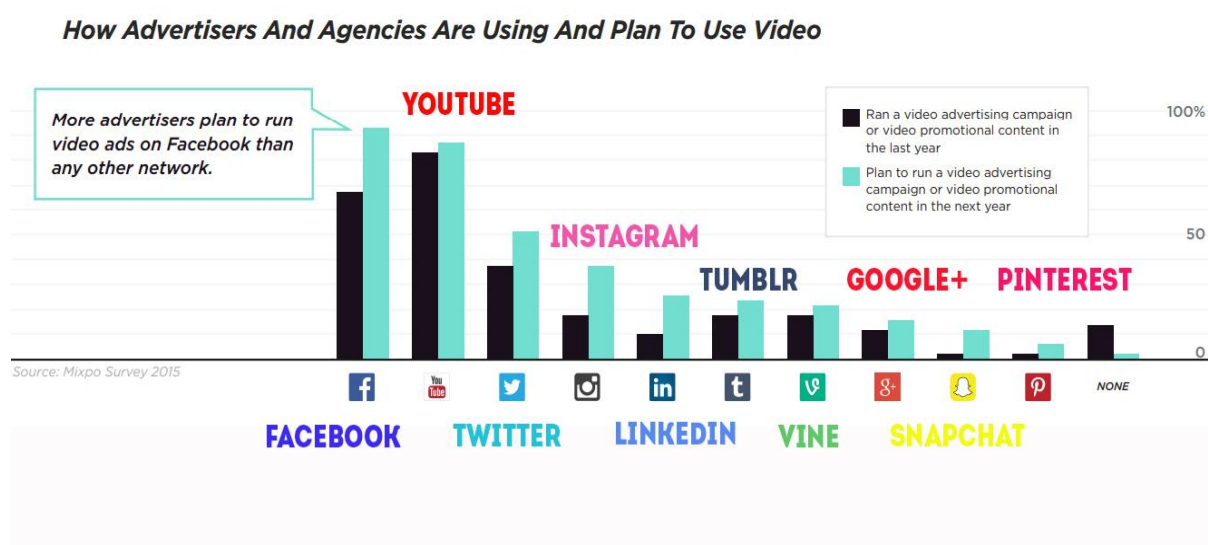
*"As of 2011, more than 70% of adults with Internet access in the United States visited video sites like YouTube, where they frequently view content produced by independent creators as opposed to branded content from established traditional companies"* (Perry, 2016).

The creators built a special relationship with their audience and always had a power to decide how they should run their business, how they want to monetize their content: by ads, or by product placement, by sponsorship, or from donation by their viewers. After launching YouTube Red, creators have lost this power to choose, because they were forced to sign a new agreement where they are agreed with switching off ads for YouTube Red users, otherwise their videos would become private.

What consequences will have this new service for YouTube in the future? We can only guess. But it is clear that there is a tendency between bloggers to start looking for alternatives for

moving there. And here is the bad news for YouTube – many of these platforms are starting to gain popularity. For example, Facebook, that has developed their own multimedia player, and have no more need to use YouTube for placing videos on their website. According to Mixpo Survey in 2015 of 125 advertisers, 87% of them planned on running ads on Facebook as opposed to 81.5% on YouTube (Mixpo, 2015).

**Figure 2 Where advertisers are planning to run their video ads**



Source: Mixpo Survey (2015)

*“In August of last year, comScore found that for the first time Facebook had more video views than YouTube on desktop. Since that time, the two have been battling it out month by month for the top spot. Facebook’s meteoric rise is driven by their growth in video views per person, which have nearly doubled yearover-year from January 2014 compared to January 2015. With Facebook’s reported video views exceeding three billion per day in January of 2015, a figure that had tripled since September of 2014, that means comScore’s desktop numbers only represent one tenth of Facebook’s total video views” (Mixpo, 2015).*

Many of bloggers post their videos simultaneously on several platforms, which means, that they do not concentrate anymore only on YouTube. Who knows what they will decide to do in the near future, maybe some of them will prefer another platform to the famous website.

Apart from partnership with YouTube, creators can increase profit by donations from their fans, for example through platform like Patreon. This website was created by YouTube musician Jack Conte in 2013. His videos were popular and loved by a million of people, but his revenue was still very low. So, he decided to create a platform, where fans could support

**Product placement** – “an advertising technique used by companies to subtly promote their products through a non-traditional advertising technique, usually through appearances in film, television, or other media.

Product placements are often initiated through an agreement between a product manufacturer and the media company in which the media company receives economic benefit. A company will often pay a fee to have their product used, displayed, or significantly featured in a movie or show.

For example:

- Coca-Cola could pay a given fee to have the title character drinking a Coke, instead of a Pepsi beverage, or
- Toyota might pay to have one of the characters drive their newest automobile.

Through product placement, companies hope that moviegoers will take note of the products used by the characters, and therefore think more strongly about using the products themselves. Some people consider product placement to be deceptive and unethical.”

Source:  
<http://www.businessdictionary.com/>

their favorite creators. Followers become a “patrons” and can support any creator they love. They can pay any amount they want and help creators to continue producing their content. In exchange fans get exclusive membership content: they can chat with creator, talk via Skype, or get as first access to his new videos, some extra content etc. (Patreon, 2018). This is a really good possibility for creators to raise their revenues and keep in touch with their audience.

## 2.2 Product placement

The wide usage of product placement on TV instead of short classic adverts, that interrupt the TV broadcast, was related to growing popularity of digital video recorders among viewers. *“Digital video recording technology allows viewers to fast-forward or skip ads. According to a study done by the major television networks in 2005, 90% of viewers surveyed said they skipped*

*all or most of the commercials”* (Gutnik et al, 2007).

Naturally TV companies raised the alarm and they were concerned that the number of advert viewers was decreasing, and more and more users were choosing to skip adverts. Advertisers were forced to find an alternative model of advertisement, and they chose product placement.

Obviously, the product placement model is also applicable, and moreover, is very popular on YouTube. Website’s unstoppable growth and enormous popularity represents a high potential for promotion, and marketers could not miss this goldmine. Way of work of product placement on YT is quite similar to the television one. YT defines it like: *“Pieces of content*

*that are created for a third party and/or where that third party's brand, message, or product is integrated directly into the content"* (Google, 2016). Moreover, YT has some advantages in product placement over TV. *"One of the big differences between product placements in television programs and those in YouTube videos, however, is the number of people a given YouTube video can reach. According to YouTube's CEO Susan Wojcicki, YouTube now reaches more 18- to 49-year-olds than any television network, and the platform's audience is larger than the audience of the top 10 prime time network television shows combined"* (Mediakix, 2016)

The most important reason why big corporations began to use more and more PP instead of classic, short ads is the same, as we mentioned before, when we were talking about TV advertising. *"According to the CBC/Radio Canada, only 30% of the \$67 billion spent on North American T.V. advertising actually gets viewed"* (Mediakix, 2016). The same situation is with classic pre- and mid- roll YouTube advertising, its biggest disadvantage for the users is that ads are (often at least partially) skippable. For example: *"60% of millennials prefer online videos because they feature ads that are easily ignored"* (Mediakix, 2015). So here, marketers of big brands face a huge problem: that money spent on advertising can be thrown to the wind. That is why PP now is one of the most popular, preferable and, the most important, an effective way of promotion.

Now I would like to talk in more detail about how product placement works, about its types, show some examples and, of course, describe its advantages and demonstrate why this way of advertising is so effective.

This type of cooperation between creators and brands is beneficial for the both parties. For creators, it represents one of the sources of revenue. As we mentioned before, YouTube allows creators to put some short skippable ads against their videos, but disadvantages of this method are relatively small rate of revenue from each ad, the wide usage of ad blockers by viewers and necessity to share their revenue with the website. Furthermore, PP represents for Youtubers an indispensable source of revenue. An empirical study on YouTube creators in Germany done by Gerhards Claudia in 2015 reveals very interesting data about PP. One of the questions of the survey was *"whether they think that paid-for placements are a necessary and indispensable source of finance for YouTube creators. More than half (33 of the 57 creators: 57%) agreed with this statement. Especially, YouTube creators who had between 20,000 and*

*500,000 subscribers described paid-for placements as a necessary source of finance.”* (Gerhards, 2015).

As I have wrote previously, at the beginning YT was an ad-free web platform with amateur videos. Therefore, this website did not really represent a point of interest for marketers. Everything changed after it was purchased by Google, once it started a process of changing platform into a profitable one. They launched pre-roll ads, created a partnership program to motivate creators to make more professional videos, to raise the quality of videos from amateur ones to professional, all to make the website more attractive for the advertisers. The era of PP began in 2009, when the phenomenon of YT stars was established (Gerhards, 2015). 2009 was the year when for the first time a YT channel has reached one million subscribers. It was a channel named Fred created by Lucas Cruikshank (Gutelle, 2014). Nowadays at YT, there are thousands of channels with such number of subscribers. According to Gutelle in 2014, *“there are 871 YouTube channels with at least one million subscribers”* (Gutelle, 2014). But in 2009, it was a breakthrough. It was a defining moment, when marketers realized the potential and influence of these “self-made stars”.

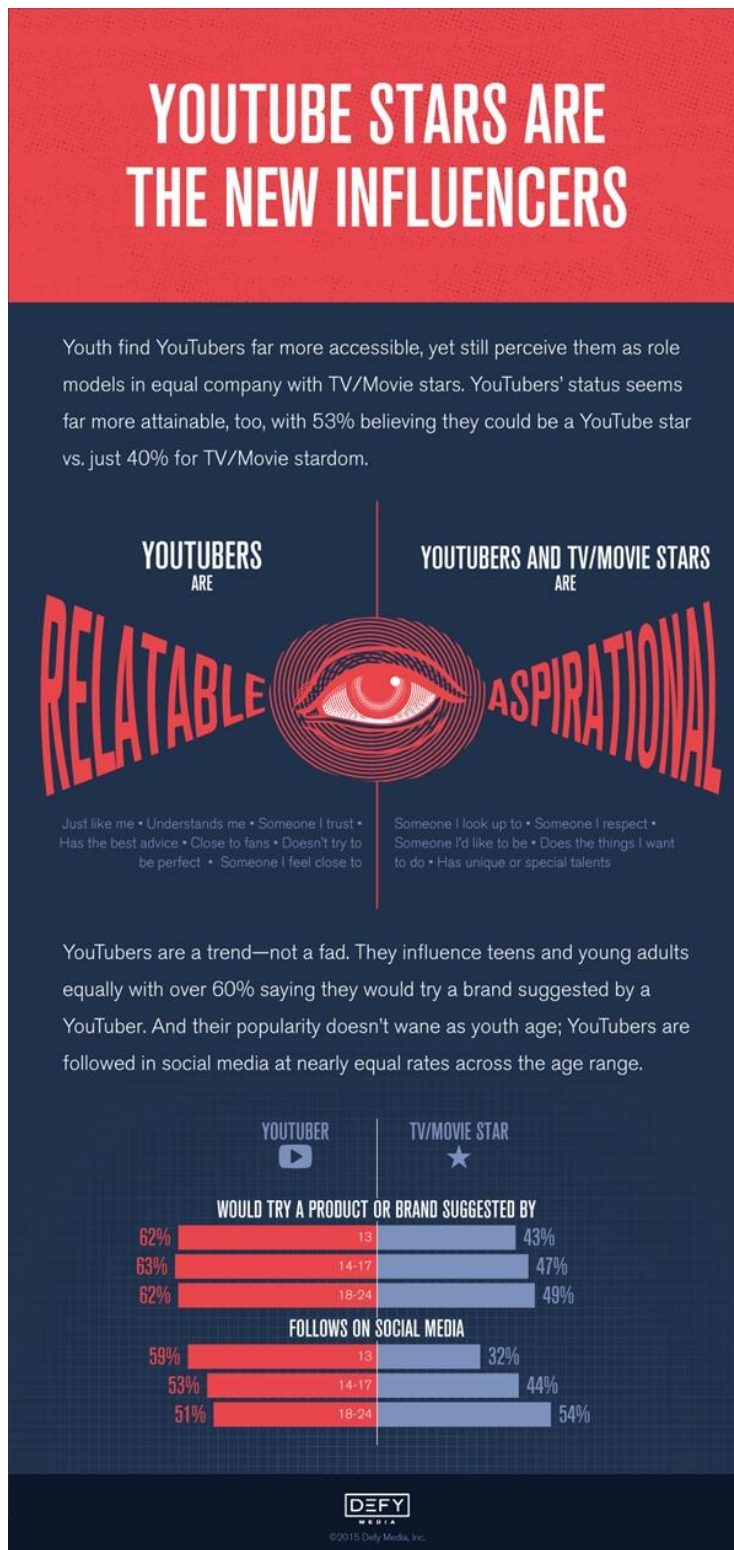
**Influencers** – internet stars that became famous and built their business using social medias: Instagram, Facebook, Twitter, YouTube, Twitch etc. They are called “influencers” because of their huge impact that they have thanks to millions of people following them. An influencer can be for example a food photographer on Instagram, a gamer on Twitch or a life-style blogger on YouTube.

*“Because of their amateur origin, YouTube creators were considered to be particularly credible. From the perspective of marketers, this made them outstanding advocates of brands. Yet, YouTube stars are not just popular, they are genuinely influential persons for their not just young fans”* (Gerhards, 2015).

These newborn celebrities received a name “influencers” and a new marketing strategy linked with them – influencer marketing.

I will return to the theme of influencer marketing in the typology of PP with an example of the incredibly successful influencer marketing.

**Figure 3 - YouTube stars are the new influencers**



Source: Defy media (2017)

There are many recent studies telling that YT stars have a great influence on the young generation. For example, a recent research revealed, that: “over 60% of all the age groups questioned confirmed they would buy a product or service from a brand endorsed by a YouTuber creator” (Jarboe, 2015). They believe Youtubers more than other stars, and because of their provenience, young people perceive them as equals.

It is no secret that young people are those who are the most active participants in the digital world. According to the study done by Defy media: “Youth 13-24 view fewer hours of traditional TV than content from digital sources. Online video, viewed in social media or on sites like YouTube, is watched by 96% of youth at an average of 11 hours weekly” (Defy media, 2017).

That is why it is millennials who represent the special point of interest for marketers. And for the same reason YT became a very lucrative platform where big corporations want to promote their products. For big brands a collaboration with Youtubers is a key to reaching young audience

## 2.3 Typology

I created this typology of 4 PP schemes including examples based on my own observations while watching YouTube videos and also based on a study by Gerhards (2017) about product placement on the famous web-platform.

### 1. Directly payed videos by advertisers with integrated promotion

This type of product placement is very similar to the one used on television or in film industry. Promotion, in this case, is an inseparable part of action on the screen and could not be missed or skipped by the watcher. It could be a bottle of Coca-Cola, which is the main character drinking or an Aston Martin car with James Bond driving it. The same principle is used on YouTube videos.

In this case a company can make a deal with a creator and pay him to create a video, where a brand or a product will be promoted. “...*the sponsoring company pays the YouTuber a flat fee, a percentage of sales resulting from the video, or a specified amount per number of views on the video (e.g., \$1.50 for every 1000 views)*” (Wu, 2016).

The YouTuber makes this video in his usual style, without any announcement about some advertisement, but the production is controlled by the brand (Gerhards, 2017).

On YouTube we can find many examples of this type of promotion, it can be a daily vlog (video about everyday routine), a make-up tutorial, or a video about cooking - in short, any kind of video.

### Example

Michelle Phan is one of the first and most popular YouTube beauty bloggers who signed a deal with cosmetic brand L’Oreal S.A. and began to promote Lancôme products in her videos. She received a proposal to collaborate with the brand after using some of its products in some videos. After proposal, she began to produce one video every month that appeared on her YouTube channel and on official pages of Lancôme. Michelle made different tutorials from

every day makeup to artistic ones, where she was showing transformation into such characters, as Lady Gaga or Halloween Zombie (Gerhards, 2017).

The biggest plus of this type of advertising, is that the video, where a YouTuber is just showing some product or wearing some piece of clothes, does not actually look like an advertisement (depending on the skill of the YouTuber). Because, generally people have a strong prejudice for advertisement and everything related to it. Everybody wants to think, that it is them, who is making decisions, about what to buy, what to eat or where to go. Nobody wants to be manipulated or impacted by someone. At least not in a such obvious way.

That is why advertisements integrated in YT videos look so natural. Youtuber is just doing his everyday stuff, withal he is wearing new sneakers, using a new telephone or driving a new car. *“Product placement is advantageous to advertisers in several ways. Viewers cannot bypass the advertising if it is integrated into the media; they would have to skip the whole thing. If it is done well, it may not be noticeable to the viewer, and may actually add to the experience”* (Gutnik et al, 2007).

## **2. Free sample of products sent by brands**

This type of promotion differs from the previous one in the method of payment. In this case advertiser does not pay for the video and has no control over the process of video-making. The advertiser just sends a product to a YouTuber and asks him to make a review, show or just mention the product in his video. This type is widely used by electronics companies, they are sending their new products (mobile phones, laptops, tablets etc.) to the channels that are doing electronic reviews. Clothing brands are sending their new shoes or sneakers, beauty brands – new cosmetic products etc.

For brands introducing new products, it is very important to catch attention of massive auditory to their new product. The goal for a new product is to not go unnoticed. And YouTube channels with specific auditory that could be interested in a new product, seems to be the right marketing tactic.

These videos are more honest in relation to viewers, because the creator is not restricted by any agreement with a company and can say his real opinion about the product and openly talk about advantages and disadvantages. Sometimes creators contact some brands by themselves, because they are already using some product and showing it in a video, therefore they would like to receive it gratis.



## **Example**

Speaking of freebies, I would like to return to influencer marketing and talk about one of the most successful startups in the last years - watches brand Daniel Wellington. In 2011 Swedish businessman Filip Tysander decided to launch a business with \$24,000 capital (Byttner, 2016). His idea was to sell watches with very simple, minimalistic design. And already in 2016, revenue of the company reached \$230 million. Filip is the single owner of the company, and with 50% margins, because of cheap production costs, all the profit goes to his pocket (Byttner, 2016). The secret of such breathtaking success consisted in an absolutely new and genius marketing idea. The owner decided not to use usual ways of promotion, but invented his own, a revolutionary one. At that time Instagram was a relatively new service, but already gaining popularity. Filip saw the potential in this new social media and understood the power and influence of bloggers, so he wanted to use this for his business. He contacted the most popular Instagram users, offering them watches with one condition - public a photo with them. And within few years these watches became extremely popular, the whole internet was full of fancy photos with Daniel Wellington watches. The power of bloggers was enormous. Filip also did not miss YouTube bloggers and using the same mechanism, he promotes his watches. If you search for "Daniel Wellington" you can find a lot of different videos, with reviews on these watches.

For example, in this video "Daniel Wellington watch review //Classic St.Mawes (former St. Andrews) Lady" <https://www.youtube.com/watch?v=IFCcmAAbsFs>, a young blogger makes a review about her new watch and in advance, offers to make a purchase on the official website using her promocode. As for April 2018 video has 251.902 views.

### **3. Videos with links in the description box**

These videos do not contain any promotion in the video itself, but in the description box. As in the previous case, YouTubers do not need to have any agreement or partnership with the company. *"Instead, the YouTuber is part of a company's affiliate program, where purchases made through a specific URL or coupon code is attributed to the YouTuber, and the YouTuber is compensated with a commission on the sale"* (Wu, 2016). Creator just leaves a specific link in the description box and earns a commission from every purchase made through this link. Another way could be a coupon code, with some discount. Every time someone makes a purchase using the specific coupon, YouTuber gets a commission from the sale.

### **Example**

As example, I chose a video from a young blogger that studies in New York and has a life style blog about her life in U.S. In video named “Five products that changed my life” <https://www.youtube.com/watch?v=YL5-NAZ6Tfg>, she talks about beauty products that helped her and one of them is a face brush LUNA mini 2. She offers to try this product and left a 25% promocode in the description box for those who would like to buy this brush.

### **4. Advertisement integrated in video**

The last one, at first sight looks like a classic advertisement, that we used to see on TV or on YouTube (pre-roll ads). In the middle of a video, user gets announced about a short commercial break. And in the next several minutes he is watching some advertisement. Usually such type of promotion use channels that are making some interviews, different shows, talk shows, in short, channels that are producing videos reminiscent of TV content.

But what makes this type of advertisement similar to product placement is how it works. In contrast to the classic ads, where YouTube is making a deal with advertisers and deciding on which video and when to place each ad (so, creators cannot impact what ads would be played against their videos and are forced to share profit from every ad with YouTube), creators are contacted directly by brands bypassing Google and do not share revenue with the web-platform. Analogously to videos with product placement, brands chose such channels, which auditory could be interested in their product.

Maybe this type of promotion is fairer to users, because they know that they are watching advertisement, so they are not manipulated. The disadvantage is the same as with classic ads – that they are easily bypassed. But these videos have one big benefit: personality and influence of a YouTuber, because these ads are usually created and acted by YouTubers, so they are trying to make ads in their own, recognizable style, that makes these ads interesting and watchable for auditory, in contrast to classic ads.

### **Example**

As example, I would like to show a channel of one popular Russian journalist, in the past moderator and author of a successful TV show. Following existing trend, when TV stars leave television to launch shows on independent internet platforms, he also opened a channel on YouTube. It is his personal blog, where he makes some kind of weekly digest about all the interesting events that happened in the last week. Now (04/2018) he has 332.366 followers

and channel exists from February 2018. He talks about culture, art, poetry, historical facts, politics. And is using this model of monetizing – in the middle of the blog he inserts a short ad, where he promotes different services. For example, in this video <https://www.youtube.com/watch?v=B0ry4CFZwfQ> on 4:51, we can see a short advertisement about an update of the popular game World of tanks 1.0. His ads are made in his signature style: they are creative and funny, and you do not even want to skip them, because you actually like to watch them. If we look to the comments under the video, we can see a lot of comments where users discuss ads (and in overwhelming majority they are positive), what indicates that people watch them and do not use the possibility to skip the promotion.

To sum up what was told in this chapter, I would like to make a short list of advantages of product placement.

- **Does not look like an advertisement**

On one hand there are opinions that considerate such type of promotion as unethical one, because people do not get notified about advertisement and perceive it differently. On the other hand, in the majority people do not like watching ads and tend to ignore them, so possibly big brands simply waste money paying for classic advertising and that is why product placement seems to be the right solution of this problem.

- **Impossibility to skip advertisement**

When viewer watches some video, he does not know that the video contains any commercial, because product placement is integrated in the video and makes an inseparable part of it. Therefore, he cannot skip the advertisement, unless he would have to skip the whole video.

- **Influence of YouTuber's personality**

Many creators declare that they would never promote any brand, that contradicts their opinions and world view, or product that they do not use or do not like. That is why their opinion is valuable for their fans, and every product that creators recommend or promote, make them automatically attractive in the eyes of the viewers.

- **Costs**

While collaboration with real superstars and celebrities would cost marketers thousands or even millions, work with YouTubers is much cheaper (in some cases, that we have seen, even gratis), but at the same time equally effective (sometimes even more effective). YouTubers also benefit from this collaboration, because for them this is one of the additional sources of income.

- **Coverage**

YouTubers with millions of followers on their channels, can approach really huge auditory and have great influence, which makes them extremely attractive for marketers.

### **3 HOW YOUTUBE CAN AND CANNOT REPLACE TRADITIONAL CABLE AND SATELLITE TELEVISION**

Being number one in the world of online video, naturally YouTube wants more – to become the absolute provider of video entertainment and replace traditional TV or possibly, simply absorb it. And YouTube TV, the new project of the company, clearly confirms this intention.

In the next chapter I would like to analyze and compare YouTube and traditional TV, I will try to describe the reasons why people prefer online streaming to cable TV and understand if YouTube can be considered as a substitute to traditional TV.

Despite loud talks about the inevitable collapse of TV, I do not think that it will happen. TV will not die absolutely, because people are still looking for entertainment, but will pass the process of total transformation and will take absolutely different shape. The reason why people decide to abandon cable TV is not because they do not want to watch shows or movies, but due to the archaic and inconvenient form of TV broadcasting, when someone dictates them what to watch and when, does not suit them anymore.

This process of transformation has already begun, and we are eyewitnesses of it. YouTube, Netflix, Hulu and other popular online services offering streaming videos online are the result of this transformation. TV is not anymore, the monopolist in the world of entertainment and has two choices – accept this fact and transform their business models, making them match the demand, or just give up. Talking about business model, now I will compare YouTube's model and traditional TV's model.

#### **3.1 Comparison of TV's business model and YouTube's business model**

While YouTube is a self-regulated platform, consisted of millions of independent creators without any “center of power” which would control or regulate production of content. TV represents a hierarchical structure with thousands of employees, that are working on the creation of TV content – producers, actors, stylists, PR managers, directors, scenarists etc. So, creation of a single show requires really big production costs, which TV has to cover. The important indicator for TV is the number of views, the same as for YouTube. If a TV show is popular and ratings are high, advertisers are willing to pay a high price for it. But income from ads is not any more the primary source of revenue for TV channels. They share with

cable or satellite provider the subscription fee that users pay monthly (Gurley, 2010). The cable providers had almost monopoly pricing power, that's why those fees could be substantial, about \$45 for each subscriber (Forbes, 2016).

To better understand this issue, I will show some examples. *"According to Matthew Harrigan at Wunderlich Securites, in 2009 DirecTV paid approximately \$37/sub out of an ARPU of \$85/sub to content owners for programming costs (i.e. affiliate fees)"* (Gurley, 2010). So, affiliate fees represent 43% of total income for DirecTV. And total year revenue of the company represents approximately \$7-8 billion. Moreover, the cover story of Business Week supposes that total fees of all content providers can be \$32B per year. To make this clearer, this number is 33% more than total annual revenues that Google makes from advertising (Gurley, 2010).

Obviously, despite popularity and number of users worldwide, YouTube does not have such an income, as TV channels have, at least not yet. The difficulty of describing YouTube's business model is in the fact that the company does not reveal much about it. They declare, as I have mentioned before, that the main source of the website's revenue are advertisements. As all free social medias nowadays, YouTube makes money from monetizing videos uploaded by users, by selling advertisers the possibility to place their commercials against videos. The price that advertisers want to pay for ads depends on the number of viewers and quality of content. The next source is subscription fee for the new services - YouTube Red and YouTube TV.

I have already touched YouTube TV in the first capit. This is the new subscription service of YouTube that attempts to invade the world of online TV. Obviously, meanwhile YouTube TV is not ideal, because many channels are missing in the lineup of the service. But whereas this service exists less than a year, meanwhile it is not so important. The most important thing is, that the company has done a significant step in the evolution of the media space, they have done something that nobody has done before – combined in one service live TV and on-demand content together (Dunn, 2017).

YouTube TV represents this inevitable transformation of traditional TV, replacing the role of cable providers, YouTube now is the one, who buys rights to broadcast content of channels and shares a subscription fee with them. As known, YouTube has made deals with many famous channels.

*“YouTube TV has cut deals with the conglomerates behind big networks, while avoiding the companies that run basic-cable channels. So Disney (which owns ABC, ESPN, The Disney Channel, and Freeform) is on board, as is Comcast (NBC, USA, Syfy, Bravo, Telemundo, E!, and others) and Fox (including FX, Fox News, and National Geographic). Notably missing are cable brands like Turner (TBS, TMC, TNT, CNN), Cablevision (AMC, IFC, BBC America), and Viacom (MTV, BET, Nickelodeon, Spike TV)” (Sims, 2017).*

Meanwhile this service is available only in several U.S. cities, possibly because the company wants to make “a test drive” before launching this service worldwide. As I can judge from the reviews of this service, YouTube TV is a separated and independent service from classic YouTube. The company wants to approach a new audience, those who still prefer watching cable TV or those who have cut the cable and did not find yet a suitable substitute, offering more convenient and cheap substitute (\$39/month). It is hard to say if separation of these two services is a right idea. We will see in the future.

### **3.2 Decline of TV**

The owners of big TV channels were concerned already at the early beginning of YouTube. They were afraid, that the brand new, big internet provider of video content would attract their clients on its side. But surprisingly there was no such dramatic change in the behavior of watchers, people did not abruptly abandon TV and did not substitute TV with YouTube, but simply began to use the website as a complement to TV.

However, changes in behavior and preferences of people are not always extremely rapid and as we can see now from statistics about TV watchers, number of TV viewers constantly decreases every year. Not to be unfounded, I will show a survey, provided by Statista (2017) about cancellation of TV cable.

18.9% of respondents of the survey said that they had cancelled their cable service during the last 12 months. A second survey revealed that 7.3% of the respondents responded that they are planning to cut cable service in the near future. The respondents, that have never had any cable or satellite service and are using only internet services, received a name “cord-nevers”. The survey also revealed that the main reason why consumers decided to cut off cable, is internet streaming services (39.7% of respondents stated that). The next common reason is the

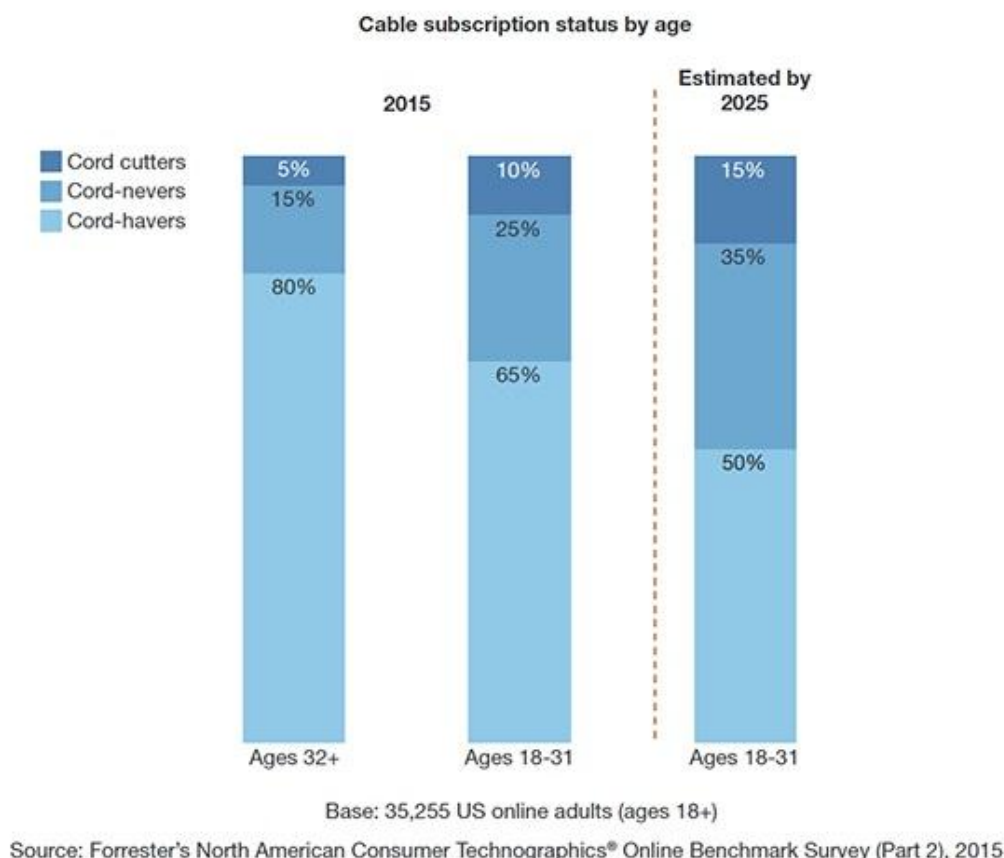
increased price of TV subscription. The cord cutters, in the majority, are the young people that in search of entertainment prefer online services to traditional TV.

The survey also predicts that the number of cord-cutters and cord-nevers will constantly increase and in 2021 this number will reach over 40 million (Statista, 2017).

Despite constant decreasing of TV viewers, their numbers are still high, for example “*in 2016, there were 99.4 million pay TV households in the U.S*” (Statista, 2016).

One of the reasons why so many households still have a cable TV is quite simple. The young generation (24 years old and younger), which do not have any more *such close association with TV*, in the majority do not have yet their own habitation, they live with their family or in some dormitory or in lodgings. In simple terms, this generation has not grown up yet. But as many of surveys predict, the number of households with subscription to TV cable will continuously decline.

**Figure 4 Cable subscription status by age**





### 3.3 YouTube as a substitute to cable TV

In my opinion, in the meantime classic YouTube cannot be seen as an absolute substitution to TV. Because YouTube and TV include different content and target different audience. YouTube represents some sort of mix of all kinds of video content-on-demand: from professional (episodes of original TV shows, shows created special for YouTube, music video clips, films, series etc.) to amateurship content, that still makes the major part of YouTube (which does not make the website in any way bad or less valuable, contrariwise this is the biggest advantage and hallmark of the website). Meanwhile TV consists of the professional, copyrighted, well moderated and produced content that passes censorship and is regulated. One of the biggest advantages that TV has over YouTube is copyrighted, professional and quality content: movies, series, documentaries, shows etc. The next important advantage of TV is broadcasting of live events. In this area TV is still ahead, because it has special technical equipment for that and capacity, quality of live events broadcasted by the traditional TV are very high. Meanwhile online streaming does not have such a capacity for that, because of *“unprovisioned nature of the internet”* (Akamai, 2018). With the increasing number of spectators of some live events, the load on the servers increases and streaming can have a poor quality or can have low speed of streaming, stuttering, delays etc. I think that with such fast technical progress, in the near future this problem will be solved, and people will watch live events in perfect quality even from their mobile devices.

YouTube is a more user-friendly service. For example, when we open the home page of the website, it will always look different and unique for each user. The company very carefully monitors the actions of every user: what he likes to watch, in what language, from what country, what topics he is interested in. Based on this information, YouTube is trying to fill the home page with videos, that could be interesting for a concrete user. This is a very important thing, which helps the website, on one hand, to keep their users and on the other - to attract advertisers and make profit. Because, basing on the information of preferences of a concrete viewer, the website is trying to show the advertisements which are relevant for him. This is a very lucrative thing for marketers. On the other hand, some users might find this as a violation of their privacy.

Also, all of YouTube's content is available 24/7, we can watch everything we want, any time we want, from any device (it can be mobile, tablet, laptop or even TV screen with internet connection). When with TV we do not have such freedom, we cannot watch our favorite show

when *we have time for it*, when it is comfortable for *us*, because someone has decided it already instead of us, and we must adjust to the schedule of broadcasting.

Such model of broadcasting does not meet our needs and preferences anymore. We live in the era of internet when in few minutes we can find any information that we need, any data, even any person we are looking for. We can get anything we want in two seconds, because our smartphone, which is always with us, took a role of our personal assistant. It can help us with any kind of task: find any information, make an appointment, make a reservation in hotel, order food, shop online, read a book, write an essay etc. This fulltime, 24/7 access to any necessary information, changed our life fundamentally. Life became easier in many aspects, people got used to a good service, they got used to get what they want any time they want, people's requirements have increased. That's why old-fashioned TV with its scheduled broadcasting, annoying and silly shows, infinite advertisements and overestimated prices for thousand channels (that one doesn't even need and watch), does not seem so attractive and suitable for people of the 21st century.

*"We believe digital's rise results from its better fit with youth lifestyles. Online video allows them to "watch any time I want" and "has what I want to watch" more so than TV. Online video has other notable benefits including it is "easy to relate to" and "makes me feel good about myself"—a meaningful trait for the angst of the teen years. And youth say online offers a better chance of avoiding advertising or ignoring it, pointing to the importance of native solutions that marry content with advertising" (Defy media, 2017).*

Certainly, in large part all of this is applicable first of all for the youngest part of population. And younger they are - more intolerable they are to such inconvenient things.

So, disadvantages of traditional TV are obvious:

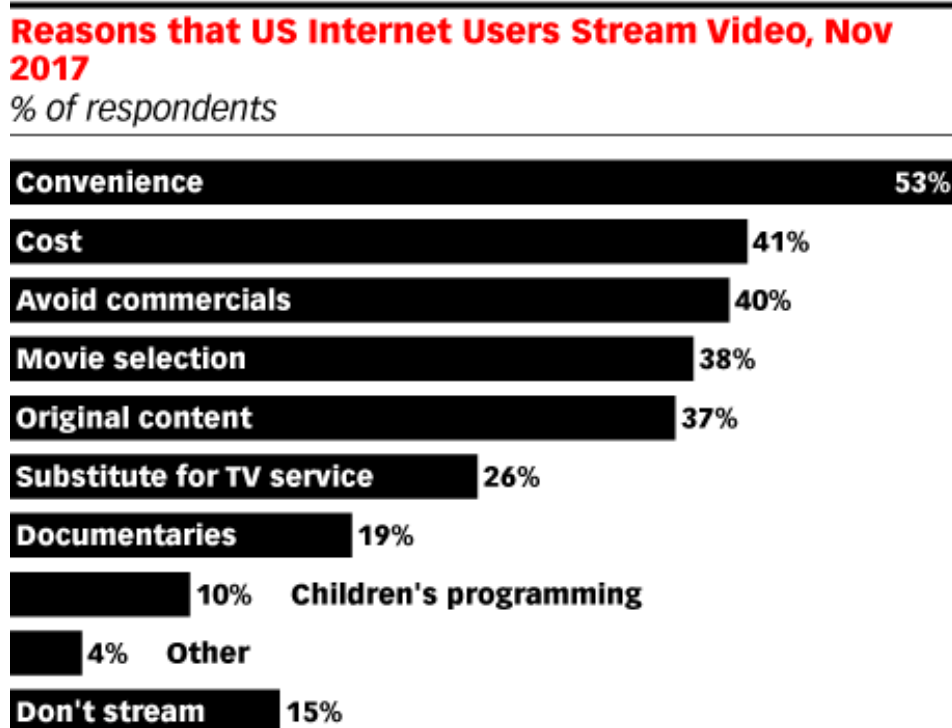
- impossibility to watch what we want,
- necessity to adapt to the broadcast schedule and impossibility to watch the shows at the time that is suitable for us,
- tons of unskippable ads,
- necessity to pay for the whole package of channels when we are actually interested only in several from the bundle,
- overpriced packages (in U.S. average price in 2016 was \$103.10 (Pressman, 2016), when the most expensive monthly plans at Netflix costs only \$14 (Hastings et. al,

2018) and at Hulu \$39.99 (Hulu, 2018), in the Czech Republic the difference between prices for cable TV and streaming TV online services is not so dramatic, but also here we are still facing the same problem, the most interesting channels are included in the most expensive subscription plan (over 700 Kč), when you pay for 1000 channels while you want to watch only 5 of them, you can also pay for the most cheap plan, when you get 50 basic channels and actually nothing to watch among them),

- very long and annoying installation, need to buy or borrow special equipment for cable TV,
- need to sign contracts with a provider of cable TV.

While YouTube is absolutely free, we do not need to pay anything, we can watch everything we want, any time we want. I would like to provide a statistic, which shows the concrete reasons why people prefer streaming online instead of watching traditional TV.

**Figure 5 - Reasons why users prefer streaming video online**



*Note: ages 18+*

*Source: Raymond James, "Video Killed the Video Star: November 2017 Media Survey," Nov 28, 2017*

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www.eMarketer.com

As we see from the graph at the Figure 5 on the previous page, the main reasons, why people stream online, correspond with those that we have described previously. The major part watches videos online because of convenience (53%), cost (41%) and possibility to avoid commercials (40%).

As I have mentioned repeatedly in the text, young people (13-24 years) rather watch YouTube or other online streaming services than traditional TV. I would like to discuss the reasons why YouTube is more attractive for young people.

### **1. New hybrid form of TV for the youth**

The most interesting thing is that nowadays YouTube for young people fulfills function of TV for older people. For example, when I want to spend evening at home relaxing, I switch to YouTube. When I am doing some monotone work (eating, cooking or ironing etc.) I want something to play on the background to entertain myself, that is why I again watch some YouTube videos. And I am not the single person, who is doing it: all my friends do it in the same way.

### **2. Duration of videos**

The next reason why young people prefer to watch YouTube is the duration of videos. YouTube is a fast food in the world of video entertainment. Videos are short which means that you do not spend so much time watching the same content, the approximative duration of most videos is 10-20 minutes. In short time you can watch a lot of videos about different topics. Nowadays when people suffer from deficit of attention and got used to daily consumptions of tones of information, they do not really like to spend their time reading long articles, books or watching long videos. They want to reach maximum number of information in minimum time, and YouTube fits into this concept ideally.

### **3. Possibility to follow someone else's life**

People were always curious about someone else's private life. And this confirms the enormous popularity of reality shows on TV. YouTube, as one of the first, gave people this opportunity, follow someone else's life. We have millions of channels on the website where YouTubers share with the world their problems, successes, victories and achievements. This helps people understand that they are not alone with their difficulties and problems, that someone else, exactly like them, gone through it too and managed to handle it. This makes

YouTube very attractive for teenagers, because in the adolescent age they need some support and feeling, that they are not alone with their problems, they need some *role model* to follow and imitate.

I would like to provide some citation from, already mentioned previously, research, done by Defy Media: *"YouTubers are described as: just like me, understands me, someone I trust, has the best advice, doesn't try to be perfect, genuine, someone I feel close to, and likes the same things I do. YouTubers and TV/Movie stars are viewed equally as aspirational, meaning they have traits youth strive to achieve: someone I look up to / I respect / I'd like to be, does the things I want to do, and has unique or special talents"* (Defy Media, 2017).

#### **4. Possibility to watch favorite TV shows without the need to pay for cable TV.**

YouTube is good for those who do not want to pay for the whole packet of channels offered by cable providers but is interested in one single show on some channel. In the most cases, almost all popular TV shows are available on YouTube, so he can watch it gratis without any need to pay for cable TV.

## 4 YOUTUBE ALTERNATIVES

Among existing services with streaming video, I do not see a real alternative for YouTube. YouTube is a single and unique service with user-generated content, and exactly this makes it so successful and popular.

In the meantime, other websites exist, that also offer a possibility to upload and share videos with other users. For example, Vimeo is a video sharing platform, that was created in 2004 and as one of the first began to support high-definition video. Vimeo has only 170 million viewers worldwide <sup>2</sup>(Vimeo, 2018) and positions itself as a space for creative videos, where film makers, photographs and other artists share their art. So, this website has a little different purpose than YouTube.

**Table 1: Comparison of YouTube and Netflix**

	Netflix	YouTube
<b>Cost</b>	From \$8 to \$14, depends on tariff plan.	Free
<b>Availability</b>	Is available in 190 countries	Is available worldwide, with exception of several countries, that have blocked it.
<b>Possibility to load content by user</b>	✗	✓
<b>Original content</b>	Netflix is constantly producing its own new movies and series, which are available only on Netflix.	This feature has only the new service – YouTube Red, and this content is available only for subscribers of YouTube Red.
<b>Quality of video</b>	Depends on tariff plan	Videos in high definition are available for everybody.
<b>Diversity of content</b>	Netflix offers wide scale of movies, series, documentary films.	YouTube represents blend of video content, including user-generated content and professional.
<b>Version for mobile devices</b>	✓	✓
<b>Commercials</b>	✗	✓

Source: Author, Netflix.com

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<sup>2</sup> YouTube has 1 billion

Maybe only Facebook, with its growth, can be compared with YouTube, but the purpose of Facebook is also very different from YouTube's and the possibility to download videos is only an adjunct, not a main objective of the website.

I have already mentioned the popular streaming service Netflix, with 117.58 million streaming subscribers worldwide (Statista, 2018). Netflix represents one of the possible ways, how can be cable TV substituted, with its laconic, ads free design and rich selection of movies and shows. In the Table. 1 above, we can see a short comparison of YouTube and Netflix.

As we can see from the table above, YouTube and Netflix are services, which practically do not compete among them, as they offer very different content for different needs. Those viewers that are looking for the professional content, such as movies and series go to Netflix. Meanwhile YouTube has a role of some video-searching engine. Every time you are looking for some information, answer to some question, some interview, music video etc., you are going to YouTube. And this makes it the website of daily consumption, meanwhile Netflix is some kind of online TV.

## CONCLUSION

The main goal of this thesis was to examine YouTube from an economic point of view and by comparing it with traditional TV, to understand if YouTube could replace TV.

During this study I have analyzed and described the economic model of YouTube, examined the phenomenon of YouTube stars and how they build a business on the website. I also studied the reasons, why YouTube is a lucrative field for marketers of big corporations and described how they use the popular website for product promotion. I analyzed the differences between YouTube and traditional TV, outlined their advantages and disadvantages and tried to understand the reasons of TV decline.

This thesis helps to understand how rapid are changes in the world of internet services and how big influence has this world on our lives and behavior.

Merit of YouTube for development of the world of entertainment is enormous, because the website started inevitable changes in this world and is continuing to change it.

The biggest advantage of YT is that the website does not have any analogues, whereas it took such a market niche, where it has absolute monopoly. I described other existing video streaming services, but in my opinion, there is no real competitor for the popular website, as currently no one offers such a diversity of video content and no one has such dimensions.

Certainly, being number one in the world of online streaming, YT wants to go further – become number one in the world of video entertainment and deprive TV of its monopoly.

We saw, that in the meantime, YT does not represent a full substitute to traditional TV, instead acts more like a complement. But as the popularity of cable TV continues to decrease every year, we can only predict what will happen in the future.

However, in my opinion, TV is not going to disappear absolutely, but only transform into the new form, that would more suitable and adequate to the modern needs. Those TV channels which are capable to change their business models, will survive, those who are not capable to do it – will have to resign.

So, I think, I can conclude that YouTube is a new era of TV, because it started an evolution in the world of entertainment and changed the way of broadcasting.



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