



THALES TEIXEIRA

LEORA KORNFELD

YouTube for Brands

YouTube in 2013

YouTube was an online video repository responsible for 20% of all Internet traffic in North America, Europe, and Latin America.¹ The Google-owned site attracted 1 billion monthly unique users.² It had become a daily habit of Internet users around the world, but challenges remained in monetizing the site commensurate with its massive level of traffic. To this end, the company had been making some major changes. Among the biggest changes was the redesign of the site in the form of television-style channels at the end of 2011. First came Original Channels, professionally produced content that YouTube partially funded and marked a clear departure from the predominance of mostly amateur user-generated content. Then came Brand Channels, which housed content produced or sourced by brands.

In mid-2013 YouTube announced a second round of funding for the most popular Original Channels.³ In parallel, Google announced Chromecast, a \$35 media streaming device for TVs. Promoted as “the easiest way to watch online video on your TV,”⁴ within one week of its introduction, Chromecast was the most purchased device on Amazon.⁵ People were starting to view YouTube on TV.

On the advertising selling side of the business, YouTube had its second ever ‘upfront’ season in 2013. The company had instituted upfronts, a practice of the major broadcast TV networks, to lock in contracts for the sale of advertising inventory to major marketers for the coming year. That year, television advertising was expected to reach \$66 billion in the U.S. whereas online video advertising was expected to reach \$4 billion.^{6,7} YouTube’s share of this market was expected to be around one third of that, or \$1.3 billion.^{8,9}

Considered together, these initiatives seemed to be aimed at capturing a greater share of the TV advertising dollars by positioning YouTube as an alternative to traditional TV advertising. The strategy revolved around Original Channels, a shift from almost exclusively short form content, posted largely by unknowns, to longer content produced by professionals and featuring well-known personalities. Would this approach work? Would brands follow by spending a larger portion of their TV advertising budget dollars online?

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Types of YouTube Channels

YouTube's content was organized in channels, or streams of programming that were bundled according to personal preferences, genre or brands. There were three types of channels available on YouTube: standard channels, Original Channels, and Brand Channels.

Any user, individual or company, was given a standard YouTube channel free of charge, by simply registering on the site. There, users were able to upload videos, make playlists of favorite videos, mark videos for later viewing, share them on social media sites, and subscribe to YouTube channels. These actions resulted in content being personalized by way of recommendations 'pushed' to the individual user or to others searching for the company's videos.

Original Channels was the name of the initiative YouTube introduced at the end of 2011¹⁰, in which approximately \$150 million in funding was advanced to well-known celebrities ranging from rapper Jay-Z and comedian Amy Poehler, and to niche entertainment brands such as *Vice* and *Nerdist*.¹¹ The advanced funding would be repaid back to YouTube from the content creator's future advertising earnings. In addition to encouraging longer and more frequent viewing, YouTube was interested in hosting more 'brand safe' video, or material suitable for the adjacent placement of ads by large brands.¹² The Original Channels went live in 2012 and at the end of the year were evaluated. Only those channels ranked in the top 30-40% of views and subscribers were renewed. The channels in this tier generally had more than 1 million views per week and over 100,000 subscribers.¹³ In May 2013, YouTube allowed the popular channels to charge a subscription fee, starting at 99 ¢ per month, after a 14-day free trial period. The revenue split from subscription would be similar to advertising revenue, with 55% going to the content creators and the rest to YouTube.¹⁴

Brands could also sponsor Original Channels. Under this arrangement, YouTube bundled content offerings together in such a way that they would be of interest to a target demographic. For example, Unilever sponsored the *Young Hollywood* channel, which featured programming about popular culture and celebrity interviews, Toyota had signed on to sponsor a variety of women's channels, including *Café Mom* and *Mom's View*, while General Motors sponsored one of Red Bull's extreme sports channels. Annual costs for sponsoring a channel ranged from \$2 million to \$4 million for a single channel, \$10 million to \$20 million for a package of targeted channels, and up to \$62 million for a single channel in the most sought after vertical of music and popular culture.¹⁵

A third type of channel available for marketers was the Brand Channel. These were channels that could be used by brands to house media assets such as tutorials, commercials, behind the scenes videos, and other content relevant to their customers. Only 7.5% of the YouTube videos hosted by the world's top 500 brands were repurposed TV commercials.¹⁶ It was reported on a variety of websites that the branded channels cost a minimum of \$200,000 per year. Of this amount, brands were required to spend at least half on advertising on YouTube, and the rest on a combination of display and search ads on Google sites.¹⁷ After buying a Brand Channel, companies gained access to customized features such as a unique channel layout and add-on features that created a distinguished experience for their subscribers. Most brands, however, opted for building a free standard channel.

Advertising on YouTube

Advertising on YouTube was available in both video and non-video formats. The non-video advertising format consisted of display ads, also known as banner ads, which appeared to the right of the selected video or directly above it. Display ads were bought using Google Adwords, a keyword-based auction platform, in a similar fashion to its paid search results in Google's website. There were also transparent overlay ads, which were text ads that appeared across the bottom of the video.

There were two types of ads in video format: non-skippable and skippable. Non-skippable ads were available before, during or after the video content and purchased on a CPM basis (cost per mille, or thousand impressions).¹⁸ YouTube called skippable ads “TrueView,” as they allowed the viewer to choose which ads they wanted to view or skip. These ads started automatically before the desired YouTube content played. After about five seconds the viewer had the option of watching the rest of the ad or skipping it. Advertisers were only charged for ads viewed for 30 seconds, or the duration of the ad (which had no maximum length), whichever was shorter.^{19,20} Google claimed that between 15% and 45% of YouTube viewers let the entire ad play.²¹ But completed view rates as low as 10% was not uncommon.

YouTube did not disclose the rates advertisers paid to content owners, but estimates for CPMs ranged from \$0.50 for display ads, from \$3 to \$5 dollars for ads served on non-Original Channels,²² and from \$15 to \$25 dollars to advertise on the Original Channels. These latter rates were competitive with ads sold for broadcast television.^{23,24} The rates charged for completed views of TrueView video ads, known as CPV (cost per thousand views) were reported to be between \$10 and \$500, depending on the keyword purchased, region of the world and channel advertised in. Typically, YouTube kept 45% of the ad revenue.²⁵

Since the introduction of the Original Channels, CPMs on popular video sites, among them YouTube, had fallen by about one-third from June 2012 to April 2013, according to research firm TubeMogul.²⁶ For example, pre-roll video CPMs decreased from an average of \$9.35 to \$6.33 during this period.²⁷ In the case of a popular YouTube Original Channel such as AVbyte, which did parodies of Broadway show songs, the decline in ad rates was greater than fifty percent.²⁸ Among the likely reasons for the decline in CPMs was an excess of user-generated content that suddenly became available for advertisement placement. At the 2013 upfront, partially in response to falling CPMs, YouTube decided rather than allow CPMs to fall even further, the company would reduce the minimum price charged for the sponsorship of an Original Channel to \$1 million.²⁹ In addition, the package of channels would not be exclusive to an advertiser. In the previous year, some advertisers received exclusivity and this annoyed viewers who were shown the same set of ads multiple times.³⁰

Brands on YouTube

In 2013, thanks mostly to YouTube, Google reached 88% of the American Internet video audience³¹ and played a major role in the digital video advertising plans of many of the world’s top brands. (See **Exhibit 1** for the volume of YouTube videos produced by the top global brands and industries and **Exhibit 2** for their total YouTube views.) Through links with social media sites such as Twitter, Facebook, and LinkedIn, brands were able to use YouTube as the central video marketing hub for all their video content, not just ads.

Types of Content

There were broadly two types of brand-related content on YouTube. The first type was video content that brands themselves created, such as short films, clips featuring celebrity spokespeople, contests, tutorials, and commercials created for TV or online viewing. The second type of brand-related content on YouTube was video that users created, with or without the involvement or approval of the brand. User-generated content (UGC) often took the form of product reviews, spoofs of ads, or recordings of untraditional product usage. ‘Ikea hacks’ were one such example, where purchasers of Ikea furniture demonstrated different ways to assemble or modify pieces such as bookcases, desks, and cabinets. ‘Haul’ or ‘unboxing’ videos, in which people would share the delight

of opening their recent purchases on camera and provide details of the item’s price, design features and usage, were a particularly popular kind of UGC. By 2013 haul videos were being uploaded to YouTube at a rate of more than 34,000 per month.³²

Beauty ‘vlogs’ (video blogs) were another prominent category on YouTube, offering tips on the latest hairstyles, color palettes, and cosmetics. Some brands reached out to people uploading brand-friendly videos, inviting them to create content on the company’s behalf, a practice that required disclosure in order to adhere with Federal Trade Commission regulations. In some cases, UGC had become so popular on YouTube that their views dwarfed those attained from official brand-created content. For cosmetics brands such as Revlon and Urban Decay, fan-produced videos garnered as many as 99% of all brand-related views on YouTube, with total views in the hundreds of millions.³³

Brands’ Experiences on YouTube

In August 2013 Pixability, a Boston-based YouTube marketing software company released a report on the use of YouTube by the Top 100 global brands. Among their findings were that most successful brands produced videos for YouTube on an ongoing basis, with leading brands producing as many as 500 videos per month. These brand videos were viewed, on average, only 37,000 times. **Table A** contains metrics on the YouTube activity of top global brands. So brands with larger total views of their collection of content simply had more videos in their various channels. This contrasted with the approach most noteworthy in the press of brands that had used a small number of highly successful ‘viral’ video ads such as ‘Sketches’ from Dove, and ‘Roller Babies’ from Evian. According to the study, only 0.6% of brand videos had 1 million or more views. **See Exhibit 3** for the distribution of views per video among top brands on YouTube.

Table A Averages for Top 100 Brands on YouTube

Channels	13.8
Videos per channel	187
Views per video	37,000
New videos per month	80

Source: Pixability Report: The Top 100 Global Brands on YouTube, August 2013.

At the same time that YouTube had initiated a shift from scattered to thematically grouped videos, or channels, many brand advertisers had had limited success attracting a sizable audience for their YouTube videos. By the end of 2013 a few brands seemed to have learned important lessons about attracting large numbers of views and of subscribers. Red Bull, Cover Girl, L’Oreal and Lego were among the brands able to garner more YouTube subscribers than many of their competitors. (See **Exhibit 4** for the top brands’ on YouTube by subscribers.) Further, using various content creation and distribution approaches, these four brands were among the few that passed the threshold of one million views on a consistent basis with different videos.

Red Bull

Energy drink Red Bull was a favorite of students, sports enthusiasts, and others who desired a carbonated beverage with a strong dose of caffeine and glucose. The product claimed 43% of the

energy drink market and was also a strong media brand.³⁴ Company sales for 2012 were reported to be \$5.6 billion,³⁵ with approximately 25% of revenues invested back into the company for marketing, the bulk of which was content production.³⁶ In 2007 the Austrian-based company launched Red Bull Media House in Europe, created to produce and distribute entertainment programming in the sports and lifestyles categories across print, digital, broadcast, and specialty media formats. Their most well-known recent production was Red Bull Stratos, a freefall from space, executed by Austrian skydiver Felix Baumgartner in October 2012. It received 8 million live views on YouTube, one of the highest numbers ever for a live YouTube stream.³⁷

Red Bull Media House published a 100-page glossy magazine, *The Red Bulletin*, and also financed a variety of films and programs that were shown in theaters, licensed to networks for broadcast, sold on DVD and used on one of the company's standard YouTube channels. Subject matter was generally from the extreme sports category and included daredevil feats of skiing, rock climbing, and mountain bike riding.³⁸ One film, *The Art of Flight*, was reported to be the most expensive snowboarding film ever made, with a rumored production budget of \$4 million and marketing budget of \$10 million. Red Bull's primary YouTube channel had 3 million subscribers,³⁹ second only to the NBA in the category of sports channels on YouTube, and rated higher than cable TV sports network ESPN. In addition to its main standard channel, Red Bull owned original channels on YouTube such as *Infiniti Red Bull Racing*,⁴⁰ *Red Bull BC One*, an international breakdancing community,⁴¹ and *Red Bull Music*, a channel that covered the culture of music that appealed to extreme sports enthusiasts.⁴²

CoverGirl

CoverGirl was an American cosmetics brand owned by Procter & Gamble, targeted towards a younger demographic and sold primarily in drugstores, convenience stores, and supermarkets at value prices. As 2013 drew to a close, CoverGirl's YouTube Brand Channel had about 17,000 subscribers and 8 million views. The six most popular videos on the channel accounted for approximately 6 million of those views, with the rest distributed across 156 other videos. Many videos ranged from one to two thousand views. Subject matter for videos included behind the scenes footage from commercial shoots, interviews with brand spokespeople such as singer Pink and television host Ellen DeGeneres, video clips featuring a variety of makeup artists, and recent CoverGirl commercials. However, of the channel's most viewed videos, all six were tutorials for makeup techniques hosted by professional makeup artists.

In contrast to company-created videos, it was in UGC that the company excelled. Of CoverGirl's 251 million total views on YouTube channels other than its own Brand Channel, 249 million came from videos created by users and fans of the brand.⁴³ Most videos uploaded by consumers were either reviews of new CoverGirl products or step-by-step tutorials on how to apply makeup. In June 2013 CoverGirl and Pantene, a brand of hair care products also owned by Procter & Gamble, partnered in a pilot program called BrandID. BrandID was a technology developed by Zefr that tracked the appearance and mentions of brands in UGC videos. As part of the program, brands received analytics about uploaders and viewers of these videos and had the ability to reach out to them with news, sneak previews and product samples.⁴⁴

L'Oreal

Of French origin, L'Oreal was the world's largest cosmetics and beauty company by revenues, with 22 billion Euros in sales in 2012.⁴⁵ In 2010 L'Oreal USA announced the appointment of Marc Speichert as Chief Marketing Officer. Upon taking the helm Speichert increased digital marketing budgets by double digit percentages each year. By 2013, he had doubled the company's total digital

spending.⁴⁶ Prior to Speichert's arrival L'Oréal had partnered with YouTube to launch the *Destination Beauty* channel. It was promoted as the place to "meet the beauty gurus and discover the latest beauty tips, tricks, and trends."⁴⁷ At the time the channel had only 37,000 subscribers and 4.9 million views.

In 2010, L'Oreal contracted a young Vietnamese-American woman named Michelle Phan as the official video makeup artist for their Lancome brand.⁴⁸ Phan had started making 'how to' makeup videos in her bedroom a few years earlier while working her way through college as a waitress. "I stocked up on lipsticks and liners from drugstore 75-cent sale bins," remembers Phan of her early days as a beauty 'vlogger.'⁴⁹ Her first run of makeup tutorial videos received around 40,000 views per week. The subject matter of Phan's videos ranged from basic tutorials to how to do specific looks, such as popular characters from movies and the makeup styles worn by Lady Gaga in her videos. By the end of 2013 Phan had over five million YouTube subscribers, more than 817 million total views, and 33 videos with views in excess of 5 million each, most of which were not for L'Oreal products.⁵⁰

In early 2011, after witnessing the success of "how-to" videos with Phan, L'Oreal made a deal with Demand Media to produce several hundred short-form beauty tutorial videos. Demand Media was known for its low cost, quick and lean approach to the creation of online content. Regarding the deal, Speichert explained "...the whole path to purchase is changing. In the past it was a relatively simple cycle: we'd generate demand on TV and in print and then drive sales. Now consumers research online first...so we have to think about how we insert ourselves into that consumer education."⁵¹ These videos were posted on L'Oreal's standard and YouTube Brand Channels, and on eHow's YouTube channel, which had 292,000 subscribers and 196 million views at the end of 2013.

Lego

Lego was a beloved brand of colorful, interlocking building blocks, embraced by users of all ages around the world. The 81 year old Danish company was a privately owned family business and was the largest toymaker in the world by net income.^{52,53} In addition to product lines for specific customer segments, such as Lego Friends for girls, Lego City for 5 to 15 year olds, and Lego Mindstorms for older users, the company had licensing relationships with brands such as Disney and LucasArts, owners of successful franchises as *StarWars*, *Toy Story* and *Cinderella*.

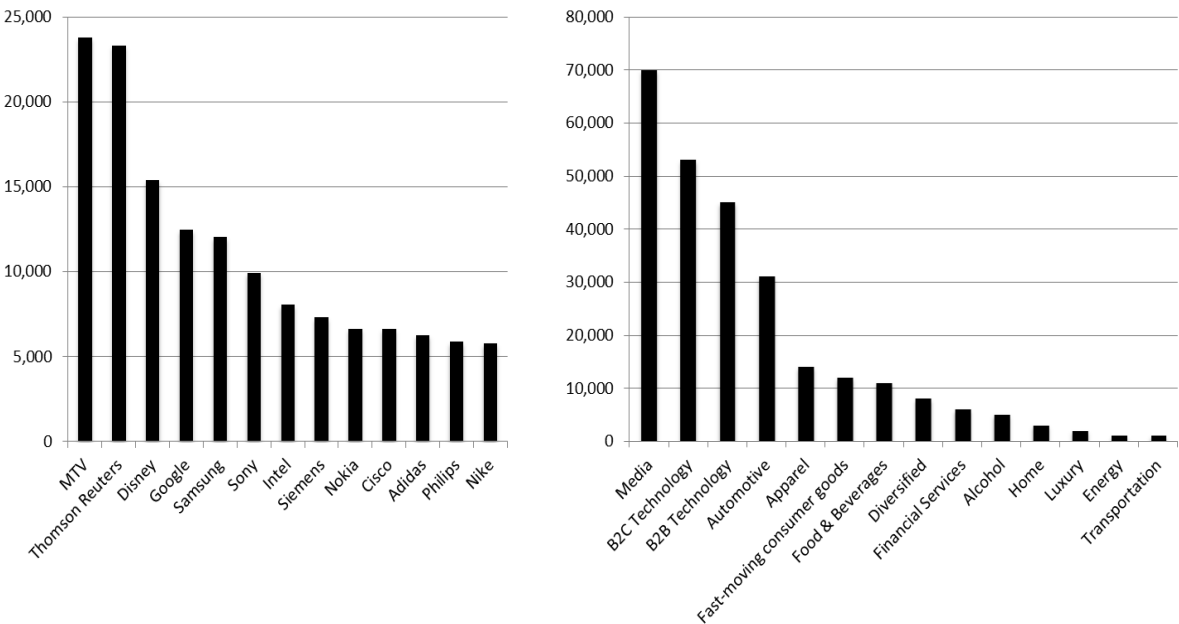
Lego had a YouTube Brand Channel that hosted about 2,000 videos, had 220,000 subscribers, and 119 million total views. There were dozens of videos with view counts in the hundreds of thousands and nine videos with between one and two million views.⁵⁴ The Brand Channel also had sub-channels with videos for special interests such as games and movies, science, and education. To showcase fan creations, Lego's channel had a section specifically for short stories made by consumers and built entirely with Lego blocks. The majority of these videos received between 30,000 and 50,000 views and a handful of the most popular ones received in the vicinity of one million views. Outside of Lego's YouTube channel were the thousands of individual YouTube channels where Lego fans uploaded videos of their own creations. Frequent themes of fan-created Lego videos were stories from the news and movies, hit songs, and scenes from video games. The two most popular fan-created videos were a 14 minute video of Michael Jackson's *Thriller*, which had 7 million views,⁵⁵ and a 2 minute video of the movie *Star Wars* using Lego blocks, with 10 million views.⁵⁶

Will Brands Follow YouTube?

YouTube was clearly trying to capture some of the \$66 billion spent annually on TV advertising by becoming more like television in some aspects, such as sponsoring professionally produced long-form content, organizing videos in the form of channels, and experimenting with subscription fees. In

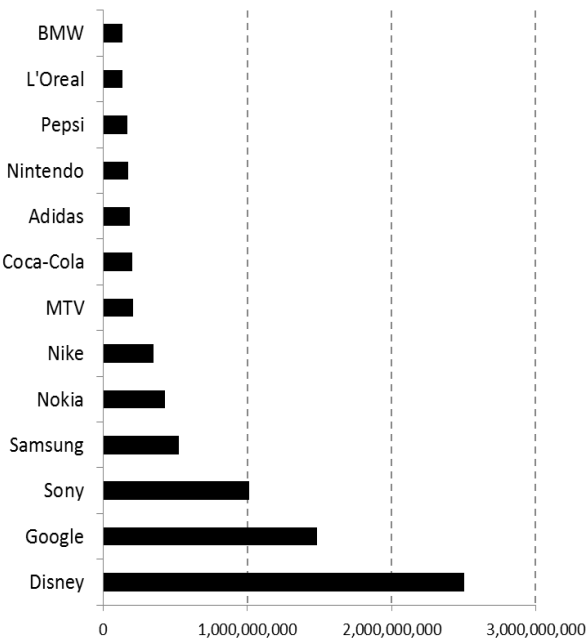
other ways, YouTube tried to be different from television, such as not charging advertisers for ads skipped by users. Would these combined actions work to get viewers to stick around longer and, as a result, watch ads? Should top brands consider moving more of their TV ad budgets to YouTube? If so, what should their YouTube content strategy be in regards to (i) use of channels, (ii) advertising and (iii) other branded content?

Exhibit 1 Number of YouTube Videos Produced by Brand (left) and by Industry (right)



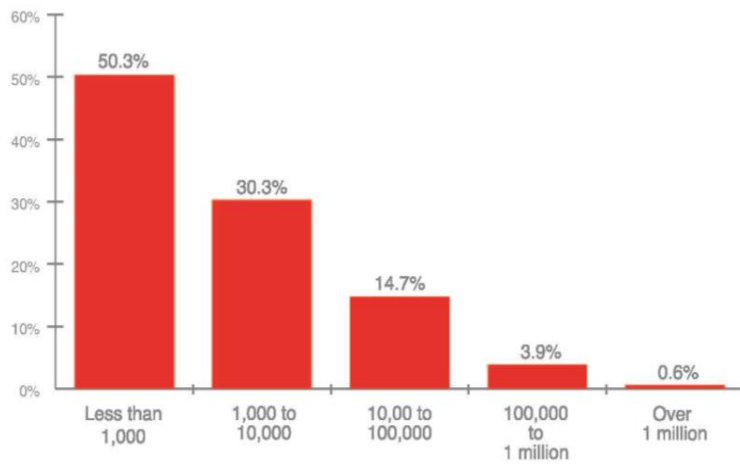
Source: Pixability Report: The Top 100 Global Brands on YouTube, August 2013.

Exhibit 2 Total YouTube Views among Top 100 Global Brands



Source: Pixability Report: The Top 100 Global Brands on YouTube, August 2013.

Exhibit 3 Average Total Views per Video on YouTube among Top 100 Global Brands



Source: Pixability Report: The Top 100 Global Brands on YouTube, August 2013.

Exhibit 4 Top 3 Brands in Each Category by YouTube Subscriber Count

Industry	Technology	Auto	Apparel	Beauty & Personal	Food & Beverage	Education	Retail
Average number of subscribers	62,000	29,000	38,000	17,000	56,000	15,000	18,000
1 st	Google (Developers)	Audi	Nike (Football)	Old Spice MAC	Red Bull	Stanford University UC	Sephora
2 nd	HTC	BMW	DC Shoes	Cosmetics	Pepsi	Berkeley	Tiger Direct
3 rd	Sony (Xperia)	Chevrolet	Victoria's Secret	L'Oreal Paris	Coca-Cola	Harvard	Lego

Source: OpenSlate Industry Report: Top 500 Brands on YouTube, April 2013, <https://www.openslatestudios.com/>.

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