# YouTube Red

**Pricing strategy analysis**

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# Agenda

- Product Overview

- Target customer

- Current pricing & marketing strategy

- Competitive offerings analysis

    - Value creation/extraction assessment

    - Value communication

- Perceived value and willingness to pay analysis

- Recommended pricing and marketing strategy
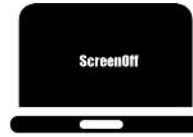
# **You Tube Red** Product Overview

A monthly subscription service from YouTube that has the following features:

| | | | | |
|---|---|---|---|---|
| **No ads** across devices (PC or mobile once signed in) | **Offline** content viewing | Listen to videos with **screen off** | **Access to members only -** new original shows and movies from top YouTubers | **Free monthly Google Play Music** subscription (normally $10) included with YouTube Red |

- Current pricing - **US$9.99/month** and promotion through a **1-month free trial**.
- It's available now in the US, Australia, New Zealand, Korea and Mexico.

**You Tube Red**

# Customer segments and preferences

|  | **Casual Viewer** | **Serious Serial Watcher** | **Influencer Lover** |
|---|---|---|---|
| **Consumption patterns** | • Typical YouTube user who watches videos in his/her spare time<br>• Only utilizes the free service | • Utilizes paid video channels for video subscriptions (including movies) | • Follows content by influencers vs. mainstream movie producers |
| **Content preference** | • Likely to watch casually without any particular favorite channels or influencers | • Likely to subscribe to certain channels to watch specific series or movies they are interested in | • Likely to follow specific channels for specific areas of interest |
| **Willingness to pay** | • Probably price sensitive<br>• Open to exposure to advertising to either get content for free or at a minimum price | • Likely to be less price sensitive<br>• Very driven by content and quality of programming | • Likely to be less price sensitive around specific content<br>• Willingness to pay is higher for influencer led content creation |

YouTube    Spotify

amazon prime video    NETFLIX    hulu    YouTube Red

YouTube Red

# YouTube's Product Pricing Strategy
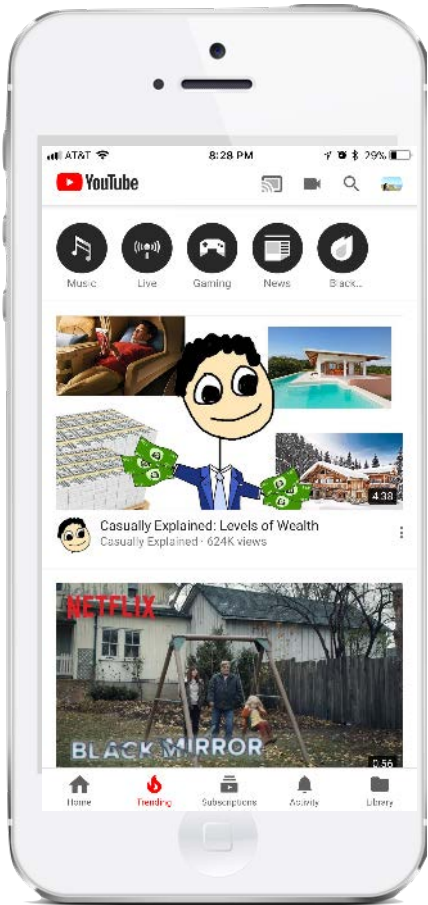
**YouTube**

Platform that allows customers to view unlimited videos for free with ads

**Unlimited Free Videos with ads**

**YouTube Red**

Premium video viewing experience with a monthly subscription charge

**$9.99/Month**

**Individual Plan**

**$14.99/Month**

**Family Plan**

**YouTube TV**

One-size-fits-all cable replacement bundle, with nearly 50 channels of Live TV.

**$34.99/Month**

# YouTube Red Current Pricing Strategy

**Value creation strategy**
Capturing consumer dollars through a better viewing experience

**Slow adoption of  YouTube Red**
YouTube Red pricing does not match with the economic value added – **Price setting gap**

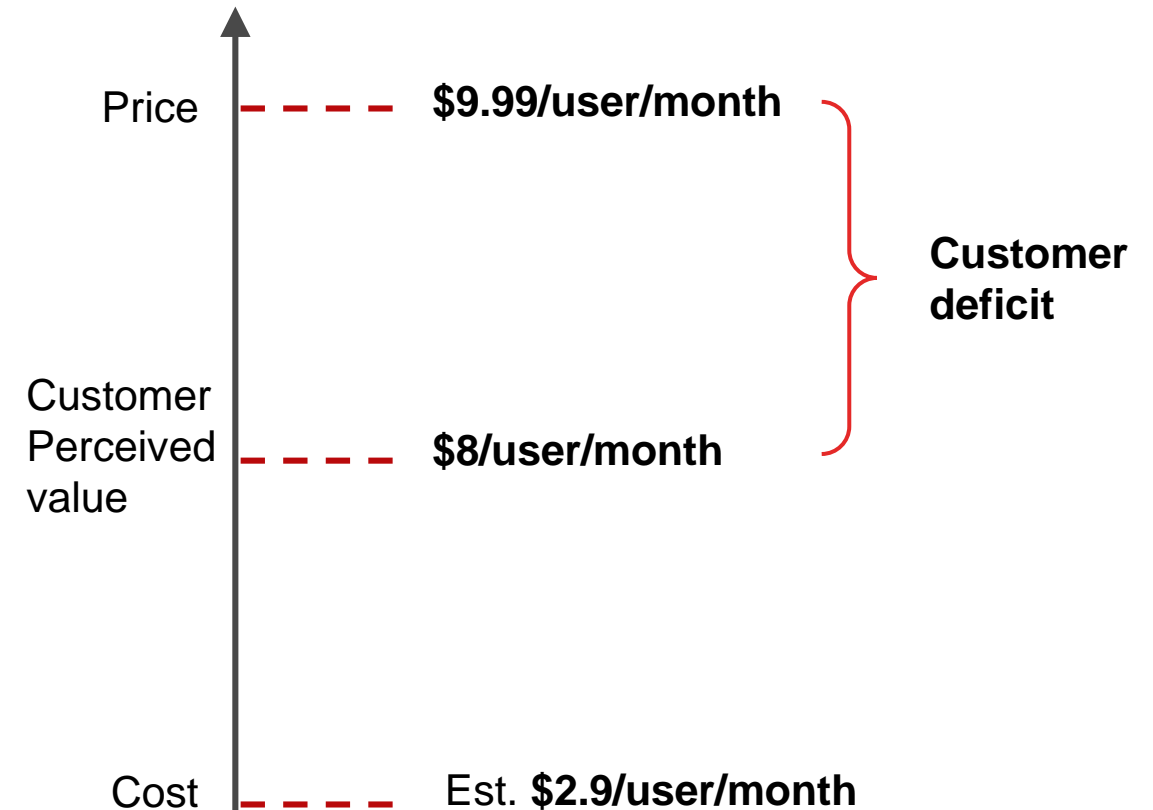**Emotional**
•Uninterrupted streaming

You Tube Red
**Value**

**Functional**
•Original shows
•Offline viewing

**Economic**
•Quality content
•Google Music at no cost

Price - - - - - **$9.99/user/month**

**Customer deficit**

Customer Perceived value - - - - - **$8/user/month**

Cost - - - - - Est. **$2.9/user/month**

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# YouTube Red Current Marketing Strategy

## Acquire

- **1- month free trial** (Automatic enrollment into monthly subscription cycle)

- From YouTube website – Pop-up advertising

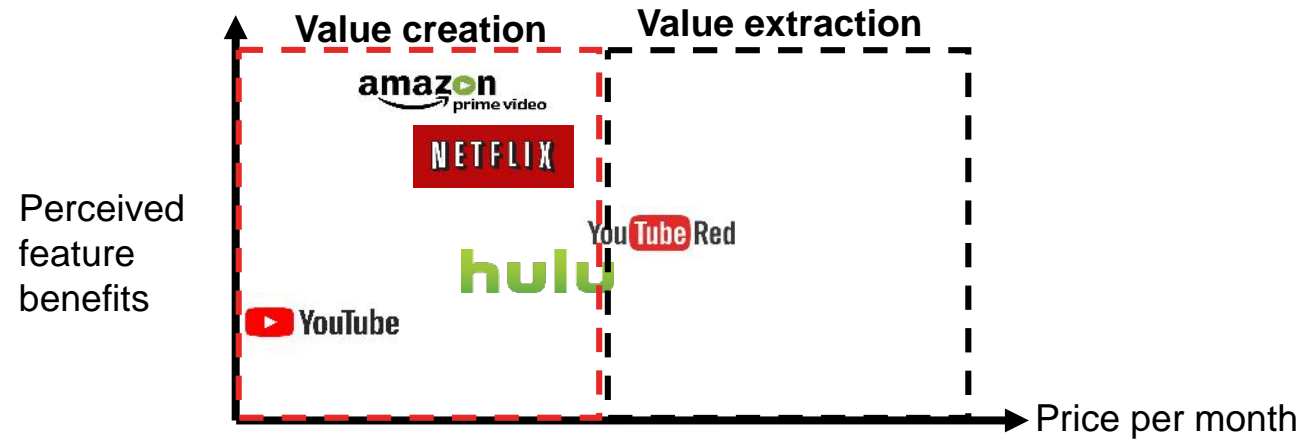- Targeted towards **high consumption users/devices**

## Up-sell

- **Family-plan**- First month free. Up to six family members (age 13+) in same household.

- Content personalized for each of the family members.

## Cross-sell

- Access to **YouTube Red Originals TV series**

- **YouTube TV**

- **YouTube Movies** – Movies rental and purchase rates vary from for $2.99 to $19.99 for a 24 or 48-hour period

# Competitive analysis- Value Comparison

**Value creation** | **Value extraction**

Perceived feature benefits → Price per month

| | YouTube Red | NETFLIX | amazon prime video | hulu |
|---|---|---|---|---|
| **Price/month** | $ 9.99 | $ 10.99 | $ 10.99 | $ 7.99 / $11.99 |
| **Live TV** | ✕ | ✕ | ✕ | ✕ |
| **Original programming** | ✓ | ✓ | ✓ | ✓ |
| **Ad-free** | ✓ | ✓ | ✓ | ✕ / ✓ |
| **Key differentiator** | Ad free YouTube access | Quality original content | Bargain original content | TV on stream |

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# Competitive analysis- Value Communication

| | YouTube Red | NETFLIX | amazon prime video | hulu |
|---|---|---|---|---|
| **Online** | YouTube website/App – settings sidebar | Series trailer drops a few months ahead with other social advertising for popular series | Online advertising | Promotion through network channels and online advertising with major series trailer drops ahead of release |
| **Offline** | Billboards | Billboards | Billboards | Billboards |
| **Customer acquisition sourcing** | Current YouTube users to YouTube Red with free trial, included in Google Play Music subscription | Through award winning series and series binge watching | Through award winning series binge watching, offered as a free service with add-ons for Prime members | Through award winning series and tapping into TV network |

# Market Research & Analysis Methodology

**1** Industry analysis and attribute identification

**2** Conjoint survey design and data collection

**3** Part worth analysis, willingness to pay and logistic regression analysis

**4** Data interpretation, insights development and recommendation

| | |
|---|---|
| **Music Library** | **Video Quality** |
| **Exclusive Content** | **Brand** |
| **Advertisement** | **Offline Viewing** |
| **Price** | **Movie/TV library** |

**423**

**Survey respondents**

amazon mechanical turk

**Conjoint analysis**
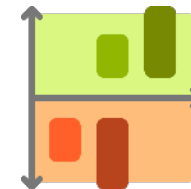
**Logistic Regression**

**Pricing Strategy Recommendation**

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# Importance of Attributes to Consumers



**Attributes promoted by** YouTube Red
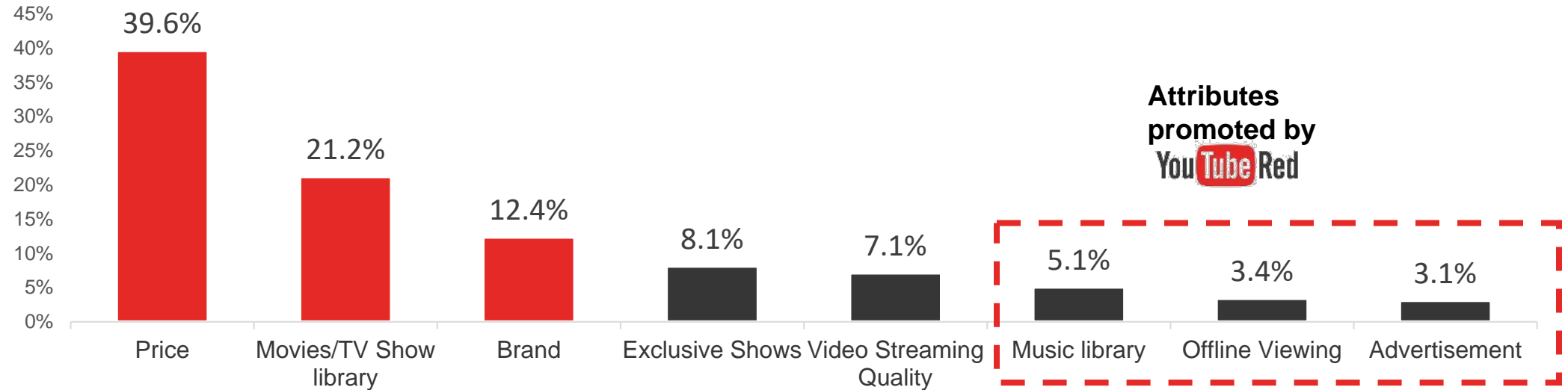
*Source: 423 respondent survey

Bar chart values: Price 39.6%, Movies/TV Show library 21.2%, Brand 12.4%, Exclusive Shows 8.1%, Video Streaming Quality 7.1%, Music library 5.1%, Offline Viewing 3.4%, Advertisement 3.1%
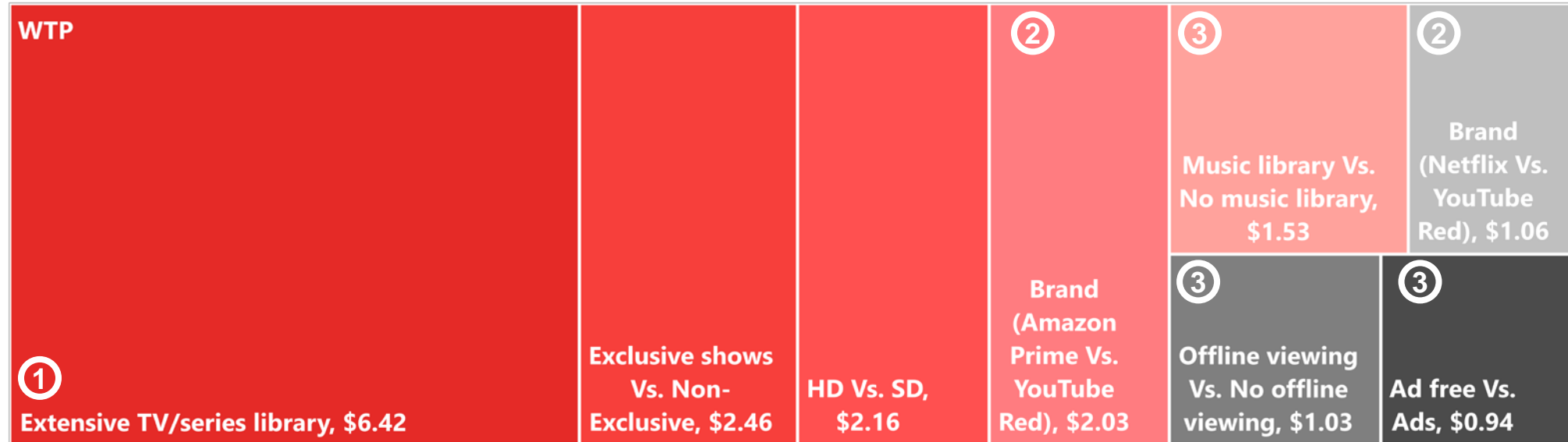
**Key implications for YouTube Red:**

- **Price, available Movies/TV show library,** and **brand** are Top 3 important attributes.
- 3 attributes YouTube Red promotes are less important. (Music library, offline viewing, and advertisement)
- Consumers prefer lower prices, but perceived value of online streaming service falls between $8-12, and WTP (willingness to pay) decreases dramatically beyond $12.
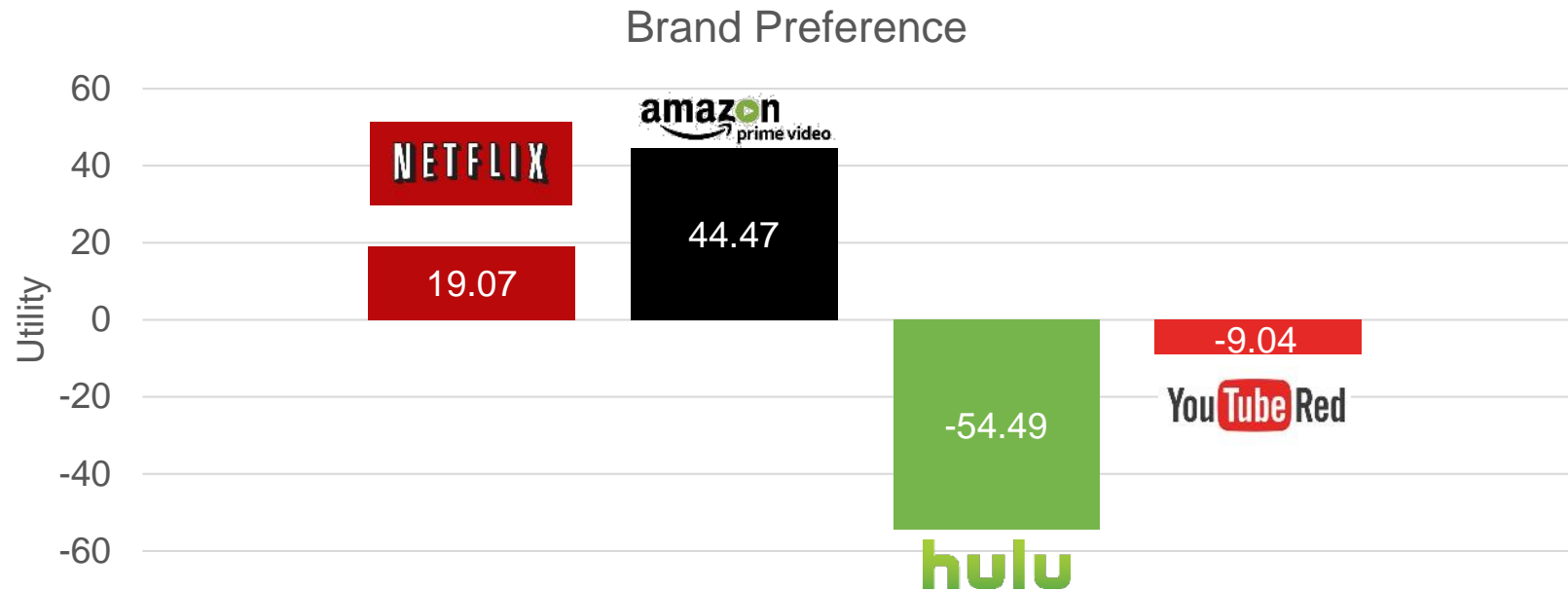
# Willingness to Pay based on perceived value

Willingness to pay – Tree map

**WTP**

② ③ ②

Music library Vs. No music library, $1.53

Brand (Netflix Vs. YouTube Red), $1.06

Brand (Amazon Prime Vs. YouTube Red), $2.03

③ ③

Offline viewing Vs. No offline viewing, $1.03

Ad free Vs. Ads, $0.94

①

Extensive TV/series library, $6.42

Exclusive shows Vs. Non-Exclusive, $2.46

HD Vs. SD, $2.16

**1** Quantity of high-quality content has the highest willingness to pay.

**2** Amazon Prime and Netflix have higher brand equity than YouTube Red

**3** YouTube Red's biggest benefits have the lowest willingness to pay

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# Brand preference

**Brand Preference**



Y-axis: Utility (60, 40, 20, 0, -20, -40, -60)

- Netflix: 19.07
- Amazon Prime Video: 44.47
- Hulu: -54.49
- YouTube Red: -9.04

**Key implications for YouTubeRed:**

- Users prefer Amazon Prime videos and Netflix. Amazon Prime includes other services influences the perceived value
- Relative to other attributes, perceived value of services with no advertisement is not high
- Low brand awareness of YouTube Red is a concern
- Users who were interested in YouTube Red mainly use tablet for online video consumption,
- Current Hulu subscribers showed higher inclination toward subscribing YouTube Red
- Users aged 46-60 showed higher inclination toward subscribing YouTube Red
- Gender did not play significant role in inclination to subscription.

# Pricing options considered

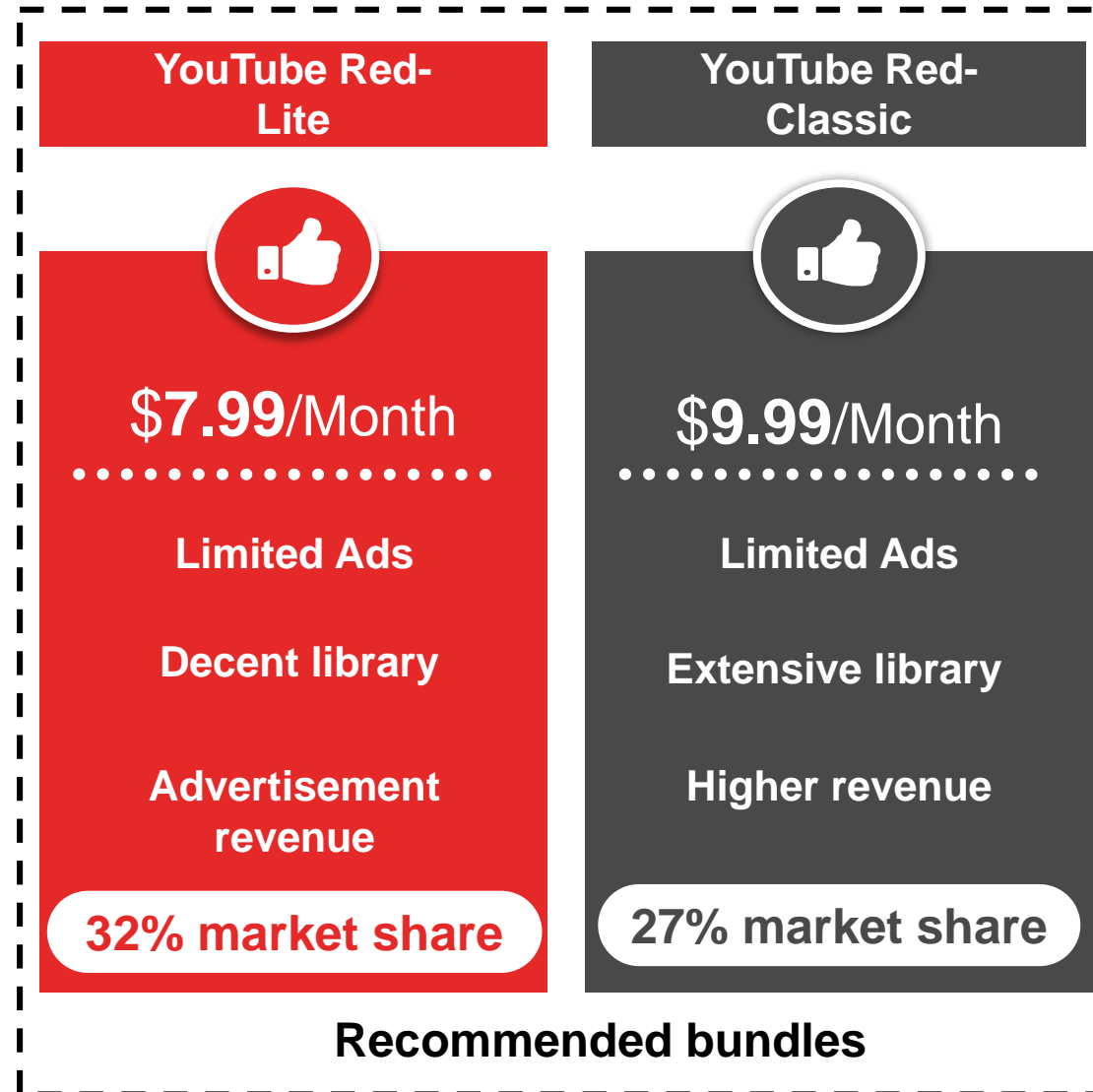| YouTube Ad-Free | YouTube Red-Lite | YouTube Red-Classic | YouTube Red-Platinum |
|---|---|---|---|
| $2.99/Month | $7.99/Month | $9.99/Month | $14.99/Month |
| No Ads | Limited Ads | Limited Ads | No Ads |
| On top of standard YouTube services | Decent library | Extensive library | Extensive library |
| Lower advertisement revenue | Advertisement revenue | Higher revenue | High cost of content |
| | 32% market share | 27% market share | 21% market share |

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# Strategy to support the recommendation

**Viewers**
- Access to Original Content at low price
- Conditioned to viewing ads unlike Netflix subscribers
- Consistent with YouTube brand

**Content Creators**
- Greater viewership of original series
- Continued relationships with advertisers

| YouTube Red-Lite | YouTube Red-Classic |
|---|---|
| **$7.99**/Month | **$9.99**/Month |
| Limited Ads | Limited Ads |
| Decent library | Extensive library |
| Advertisement revenue | Higher revenue |
| **32% market share** | **27% market share** |

**Recommended bundles**

**YouTube**
- Multiple revenue streams
- Differentiated viewing experience from rivals
- Leverage differential pricing capabilities based on usage

**ADS**

**Advertisers**
- Continued favorable advertising partnerships
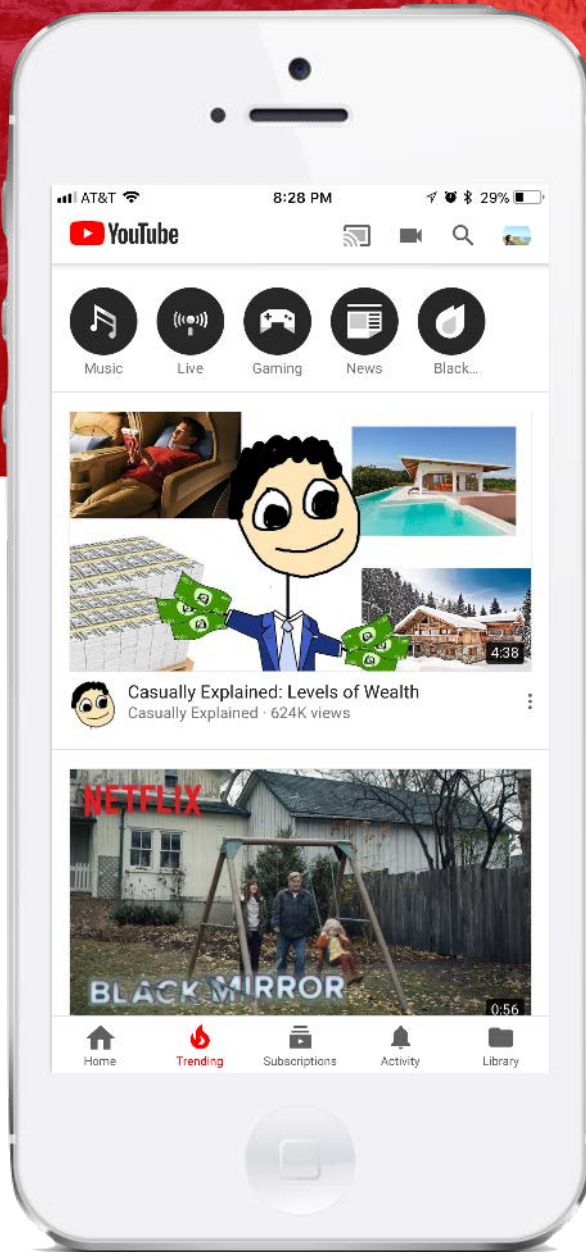- Attraction to platform with subscription-friendly viewers

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# YouTube Red Lite

**$7.99/Month**
**3-month trial at $2.99/month**
**Premium YouTube Viewing Experience**

**Premium YouTube experience**

**Exclusive Original Content**

**Offline Viewing**

**Access to Google Music**

**Limited Ads**

# Thank You!!

# Questions??

# Appendix

# YouTube Red cost estimation

| Cost: | Units | Cost | |
|---|---|---|---|
| Storage | 4294967296 | $ 0.24 | |
| Compute | 50,000.00 | $300.00 | |
| Bandwidth | 4294967296 | $0.10 | |
| Total Cost | | | $ 1,475,288,880.64 |
| Employee | 500 | $100,000.00 | $ 50,000,000.00 |
| Cost + Marketing + G&A + R&D | | | $ 1,372,759,992.58 |
| Total Cost | | | $ 2,898,048,873.22 |
| Cost paid to content creators | | | $ 579,609,774.64 |
| Total Cost | | | $ 3,477,658,647.86 |
| Subscribers | | | 100,000,000.00 |
| Cost/User/Month | | | $ 2.90 |

**Assumptions:**

4 Penta Byte of data for YouTube Red

100 MM subscriber

45% of overhead cost for marketing and SG&A – based on Google 10K

20% of overhead cost goes to content creators.

Storage, compute and bandwidth cost is based on Google Cloud Platform pricing

# Segmentation of users (Logistic Regression)

- Survey result did not reveal a segment of users supporting YouTube Red. (This is reflective of low brand awareness)
- The following users showed highest inclination toward subscribing to YouTube Red.
  - Hulu Subscribers
  - People who watch on Tablet
  - People aged in between 40 and 60
- On the other hand, following user had lowest inclination toward subscribing to YouTube Red.
  - Amazon Prime subscribers
  - Professionals with no children
- Gender does not play significant role in inclination to subscription.

# Logistic Regression – coefficient estimates for YouTube Red subscription:

| Variables / Coefficient estimates | Coefficient estimates | Standard deviation | t-statistic |
|---|---|---|---|
| North America | -10.39617 | 2449.96689 | -0.00424 |
| Europe | -8.52067 | 2449.96698 | -0.00348 |
| Australia | -8.28035 | 2449.96718 | -0.00338 |
| Asia | -7.50376 | 2449.96680 | -0.00306 |
| Africa | -9.53379 | 2449.96719 | -0.00389 |
| South America | -9.48949 | 2449.96711 | -0.00387 |
| Gender - Female | 0.00432 | 0.38892 | 0.01110 |
| Age <19 | 0.00000 | 1000.00000 | 0.00000 |
| Age 19-29 | 9.17105 | 1001.16792 | 0.00916 |
| Age 30-45 | 8.74754 | 1001.16782 | 0.00874 |
| Age 46-60 | 10.30163 | 1001.16831 | 0.01029 |
| Age >60 | 0.00000 | 1000.00000 | 0.00000 |
| Student | -0.71146 | 1000.00027 | -0.00071 |
| Young early career Professional | -0.69966 | 1000.00016 | -0.00070 |
| Professional no children | -1.22415 | 1000.00014 | -0.00122 |
| Professional with children | 0.00000 | 1000.00000 | 0.00000 |
| <$60,000 | 0.00000 | 1000.00001 | 0.00000 |
| $60,000-$79,999 | 0.00000 | 1000.00000 | 0.00000 |
| $80,000 - $99,999 | 0.00000 | 1000.00000 | 0.00000 |
| $100,000-$119,999 | 0.00000 | 1000.00000 | 0.00000 |
| >$120,000 | 0.00000 | 1000.00000 | 0.00000 |
| NetFlix_subs | -0.35795 | 0.40185 | -0.89078 |
| Amazon Prime Video_subs | -1.16605 | 0.43815 | -2.66133 |
| Hulu_subs | 0.75433 | 0.52608 | 1.43385 |
| Least Used Device Laptop | -0.54193 | 1000.00016 | -0.00054 |
| Least Used Device Tablet | -0.24525 | 1000.00010 | -0.00025 |
| Least Used Device Mobile Phone | 0.78012 | 1000.00019 | 0.00078 |
| Least Used Device TV | 0.00000 | 1000.00000 | 0.00000 |
| Primary Device Laptop | 0.62192 | 1000.00015 | 0.00062 |
| Primary Device Tablet | 1.08439 | 1000.00030 | 0.00108 |
| Primary Device Mobile Phone | 0.31620 | 1000.00015 | 0.00032 |
| Primary Device TV | 0.00000 | 1000.00000 | 0.00000 |
| Const-1 | 0.00000 | 1000.00001 | 0.00000 |
| Baseline | | n/a | n/a |

# Logistic Regression Confusion Matrix

| Observed / Predicted Choice | Response | Dummy (No Choice) |
|---|---|---|
| Response | **53** | 23 |
| Dummy (No Choice) | 24 | **107** |

Overall prediction accuracy of logistic regression model
to predict YouTube Red subscription is ~77%

# Willingness to Pay based on perceived value

Users are willing to pay extra for extensive Movie/TV show library.

- Quantity of high-quality content has the biggest willingness to pay.

Users are not as willing to pay as expected for offline Viewing

- This is reflective of the user's expectation. Now, offline viewing has become a commoditized feature rather than a differentiation one.

HD had highest perceived value among video quality options.

- People are not ready for 4K. (Ex. 4K requires higher bandwidth, data, and compatible device)

Music library also had less perceived value.

- People are consuming music through different services, and not associating online streaming services with music.

| Attribute Comparison | WTP |
|---|---|
| Netflix Vs YouTube Red | $1.06 |
| Amazon Prime Vs YouTube Red | $2.03 |
| No Ad Vs Ads | **$0.94** |
| HD Vs SD | **$2.16** |
| Extensive Movie/TV Show Library Vs No Movies/TV Shows | **$6.42** |
| Decent Music Lib Vs No Music | $1.53 |
| Exclusive Shows Vs no Exclusive Shows | $2.46 |
| Offline viewing Vs no offline Viewing | $1.03 |

You Tube Red

# Willingness to Pay based on perceived value

**1** **Users are willing to pay extra for extensive Movie/TV show library.**

- Quantity of high-quality content has the biggest willingness to pay.

**2** **HD had highest perceived value among video quality options.**

- People are not ready for 4K. (Ex. 4K requires higher bandwidth, data, and compatible device)

**3** **Music library also had less perceived value.**

- People are consuming music through different services, and not associating online streaming services with music.

**4** **Users are not as willing to pay as expected for offline Viewing**

- This is reflective of the user's expectation. Now, offline viewing has become a commoditized feature rather than a differentiation one.

**5** **YouTube Red's biggest benefit has the lowest willingness to pay**

- Users are okay to deal with ads if the quality of content is good.

| Attribute Comparison | WTP |
| --- | --- |
| **1** Extensive Movie/TV Show Library Vs No Movies/TV Shows | $6.42 |
| Exclusive Shows Vs no Exclusive Shows | $2.46 |
| **2** HD Vs SD | $2.16 |
| **3** Decent Music Lib Vs No Music | $1.53 |
| **4** Offline viewing Vs no offline Viewing | $1.03 |
| **5** No Ad Vs Ads | $0.94 |

You Tube Red

# Recommended 4P's strategy

## Product
- With ad Streaming
- Different bundles for different quality of video library
- Unique Content from YouTube Red Original Series and new partnership with popular movie studios.
- Unlimited access to Google Play Music

## Promotion
- Promotion from popular content creators with YouTube Red Originals
- Free first episodes of YouTube Red Originals
- 3 month trial at $2.99
- Advertisement in YouTube platform

## Price
- Tiered pricing options
- $7.99 and $9.99 monthly digital subscription
- 3 month low hurdle trail
- Priced competitively with other digital content subscription services

## Place
- Distributed through YouTube web, Tablet and mobile platforms
- Utilizes Google Ecosystem
- Target Hulu subscribers who consume video primarily on Tablet

You Tube Red

# Way Forward

- Pricing Strategy
  - Charge for unique content through YouTube Red Original Series and Movies
  - Unlimited access to Google Play Music
  - With Ad videos in exchange for lower monthly subscription
  - Get revenue from additional revenue opportunity

- Pricing Capability
  - Content release cycle is weekly/monthly enabling weekly subscription model
  - Strong YouTube user base
  - Quality of Google Play Music library and functionality on multiple platforms
  - Ownership of platform allows YouTube to negotiate with content creators for revenue sharing rights

YouTube Value Creation Strategy: Platform that allows customers to view unlimited videos for free with ads
YouTube Red Value Creation Strategy: Premium video viewing experience with a monthly subscription charge

YouTube will be able to segment their customers by utilizing the same network of content creators and providing customers with high willingness to pay an option for premium content and viewing experience