

It is coming up on 2 years post my declaration that only a moron would buy Youtube and that Google was crazy for actually going through with it.

In that period of time, while Youtube traffic has skyrocketed, they have been steadfast in their admission that they haven't been able to monetize Youtube's traffic in a profitable manner. Youtube has become the poster child for the old saying "we are losing money on every sale, but we will make it up in volume". To the Youtube fan club, its inconceivable that any website with so much traffic and marketshare could be in anything but an enviable position. The fan boys would be increasingly wrong. The Youtube business model is broken and there is no light at the end of the tunnel as they are currently constructed.

The reason is Hulu.

Hulu doesn't serve up more videos than Youtube. They aren't even remotely close in number of total users or videos served. But there is one area in which Hulu is just stomping up and down Youtube, and another in which Hulu is laughing at Youtube all the way to bank.

Lets start with the 2nd, Hulu laughing at Youtube. Youtube has presented to Hulu something that we can simply call The Youtube Arbitrage. Whats the Youtube Arbitrage you ask ? Simple. Hulu posts clips, not full episodes, clips on its Youtube channel and elsewhere on Youtube. Those clips are preroll AND overlays AND post rolls promoting Hulu and its full episodes of shows and movies. All of which costs Hulu the ginormous cost ofnothing. From which it generates traffic to its Hulu site on which it sells, to the point of often selling out, display and preroll ads. That's the ultimate arbitrage. We pay you nothing, and you send us traffic that generates ad revenue for us.

Which leads us to the one area, OK lets say two areas that Hulu is just stomping all over Youtube;

1. Revenue Per Video
2. Revenue Per User

Hulu has one HUGE advantage over Youtube, it has the right to sell advertising in and around every single video on its site. It can package and sell any way that might make its customers happy. Youtube on the other hand, has that right for only the small percentage of the videos on its site that it has a licensing deal with. For probably 99pct or more of the videos on the site, Youtube isn't supposed to know what they even are.

How can that be ? Because Youtube hides behind the Digital Millennium Copyright Act. Hulu is a media site that presents videos with advertising. It can do whatever it wants. Youtube ts a hosting service. Its not allowed to know what videos are uploaded by users and its not allowed to generate revenue against those videos. It can only sell advertising around videos it has licenses to.

Which leads to a question and a prediction.

The Question: Which site currently has more monetizable video and traffic, Youtube or Hulu ? I don't know the answer. I'm guessing that its already a close race and may even be in Hulu's favor. I do know that Youtube's need for more monetizable traffic is why they added the check box for Partner Videos. Notice that those are the only videos that you see ads next to.

The Prediction: That by next year, not only will Hulu have more monetizable traffic than Youtube, but it will have more total revenues than Youtube as well. It wouldn't sup rise me if they are already at a higher annual run rate than Youtube.

All of which puts Youtube in a VERY BAD spot. Because Hulu can monetize 100pct of their growing traffic, they should be in a position to pay for the best content available. Not a lot of money, but even with the tiniest of guaranteed payments to producers, they will not only attract better content than Youtube, but they will also increase the cost to Youtube for the content they want most to license. Furthermore, because Hulu knows exactly what they have on the site and can sell 100pct of it, their professional sales force will be in a better position to package and sell bigger and more profitable ad solutions.

It will be interesting to see how Youtube responds.

As it stands today however, there is no doubt that Hulu, if it doesn't already, will have more monetizable traffic and greater revenues than Youtube going forward.

Which means that the more traffic Hulu generates, the more money it makes. The more traffic Youtube generates, the more money it loses.. Maybe they think they will make it up with even more volume ?

I'm sure the fan boys are convinced they will.