Craig Moffett of Bernstein Research wrote an amazing report entitled And Now for the News…The Emperor Has No Clothes". If you can get a copy, read it. Starting with the disappointing but expected news that journalism is no longer a service consumers desire to pay for, he moves on to the problems facing Internet video. He does a far better job than I ever did explaining the failings of Internet video and the expectation of free content. This is the report I wish I had blogged.

From the report:
Ironically, we are headed down the same self-destructive road for other kinds of traditional media,as well. Five years into the video-over-the-Internet revolution, we have learned two things. First; consumers won't pay for content on the web, so it will have to be ad supported. And second; it won't be ad supported.

In the cable TV network world, half of all revenues come from affiliate (carriage) fees paid by the Comcasts and
DirecTVs of the world. The other half comes from advertising. But in the TV world, a typical half hour show supports an ad load of about 8 minutes.

On the web, early evidence suggests that consumers will tune out – click away – if they are forced to watch more than 30 seconds or so of advertising up front, and maybe another 90 seconds of advertising over the next thirty minutes. Hulu.com, for example, which has already been lionized by many as the future of TV, serves two minutes of advertising for every 22 minutes of programming(i.e. the programming duration of a typical half hour show from television). Assuming identical CPMs for web video and TV, and after accounting for lost affiliate fees, a 30 minute program on the web with two minutes of advertising yields approximately 1/8th as much revenue per viewer.

Are content producers prepared to reduce production costs…by 88%?

In fact, the actual economics of web-based video are far, far worse than this. Our 88% decline ignores the corrosive impact of à la carte on traditional video economics. In the public debate in Washington, the phrase à la carte refers to the idea that a few strong networks demand the carriage of a host of weaker ones, effectively subsidizing a much larger family of channels.(From MC: This is something HDNet vehemently opposes and is working towards ending) But there's a much more important aspect of web-based àla carte that is rarely mentioned–that is, the "à la carting" of the few best shows from the rest of the day's schedule. Or even worse, of the best few moments (news stories?) from the rest of the show. On the web, watching SportsCenter not only robs ESPN of its ability to pull through carriage fees for ESPN Classic and ESPN U (and SoapNet and Toon Disney), it also, and much more importantly, robs ESPN of its ability to use SportsCenter to support the economics of the rest of the 24-hour ESPN schedule. And watching just the best 30 seconds of SportsCenter robs ESPN of its ability to support the economics of… well, you get the idea. **Expecting a few ad supported shortclips on the web to substitute for the affiliate fee revenues lost by multiple networks 24 hours a day is lunacy. "**

Great job Craig.

The concept he defines as the "ala carting" of the best from the rest is the web video consumers favorite feature, but it's also the biggest risk to professional video content producers everywhere. On the Internet, the producers of the most popular content don't have the promotional platforms that traditional media does. There are no lead ins for Internet shows. So there is 100 pct uncertainty as to how many people will watch any given video. For those videos that do become popular, much of the popularity is viral, limiting the producers ability to monetize the escalation in popularity.

The Darwinian response to this problem has been to serialize shows. The hope is that if a viewer liked a show, they will come back for more. Which of course means they are copying traditional TV's approach to content presentation and absorbing all of the same problems. The constant need to refresh a show is not only difficult, its expensive. The constant need to promote the show to stand out in an ala carte universe of an unlimited number of shows is even more difficult than it is expensive.

So where does this leave independent video content on the Internet ? Right in the hands of Google and Youtube and black and white hat SEOs.

The ala carting of video on the net will benefit those who enable the search for content and can monetize that search. **The economics of supporting content will force independently produced Internet content to be dumbed down to levels that create a perfect match for Youtube. There will be SEOs that come up with arbitrage solutions that will drive traffic to parked videos. Content creators will partner with SEOs and create budgets that reflect the CPMs they can earn in and around the video hosted on Youtube against the costs of the SEO driving traffic to the video. SEO support will be the only even marginally effective way to create baseline traffic to a video/show.**

Who could have guessed that creating financially succesful video on the net would require the same marketing skills as driving traffic to parked domains ?

Content created by and for TV networks will have to make some important decisions. Why wouldn't advertisers want to be one of only 2 minutes of ads in a 30 minute TV show rather than one of 8 mins of ads on traditional TV ? Will they pay correspondingly larger CPMs to be online ?

Are TV networks making a huge mistake by putting their current TV schedules online for free ? If a streamed TV show only has 2 mins of commercials, will that drive some viewers to prefer watching online ? Will it force networks to reduce their TV show ad load ? If so, by how much ? Particularly if and when over the top video enables Internet video to be presented right on TVs. Will shows be forced to introduce different versions of shows, say with different ratings as a means of differentiating TV from streamed shows ? The R rated version of Friday Night Lights online and the PG version on TV ?

Bottom line is that something has got to give. Business as usual is not going to cut it. The question is whether the dollars the big TV and media companies are creating online from the streaming of their current TV lineups are sustainable incremental dollars ? **Or is streaming the video a collateralized video obligation ? The video equivalent of the collateralized debt behind the sub prime mess. Money that looks good while its coming in, but could lead to far, far bigger problems ?**