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YouTube Ads Turn Videos Into Revenue

By **CLAIRE CAIN MILLER**

SAN BRUNO, Calif. — Last month, a [YouTube](#) user, TomR35, uploaded a clip from the AMC series “Mad Men” in which Don Draper makes a heartfelt speech about the importance of nostalgia in advertising.

Viewers wouldn’t notice, but that clip also makes an important point about modern advertising — YouTube is an increasingly fruitful place for advertisers.

In the past, Lions Gate, which owns the rights to the “Mad Men” clip, might have requested that TomR35’s version be taken down. But it has decided to leave clips like this up, and in return, YouTube runs ads with the video and splits the revenue with Lions Gate.

Remarkably, more than one-third of the two billion views of YouTube videos with ads each week are like TomR35’s “Mad Men” clip — uploaded without the copyright owner’s permission but left up by the owner’s choice. They are automatically recognized by YouTube, using a system called Content ID that scans videos and compares them to material provided by copyright owners.

Those two billion views, a 50 percent increase over last year, according to the company, are just 14 percent of the videos viewed each week on the [Google](#)-owned site. But that’s enough to turn YouTube profitable this year, analysts say.

“YouTube is a big component of our display revenue, and display is our next big business,” [Eric E. Schmidt](#), Google’s chief executive, said in an interview.

In the last year, the video site has become a significant contributor to the family business at a time when Google, which makes more than 90 percent of its revenue from text search ads, is seeking a second act. Though Google does not report YouTube’s earnings, it has hinted that it is hovering near profitability. Analysts say YouTube will bring in around \$450 million

in revenue this year and earn a profit. Revenue at YouTube has more than doubled each year for the last three years, according to the company.

YouTube's new profitable relationship with content creators was not always so easy. For a long time, YouTube executives spent their time across conference tables with lawyers worried about copyright violations, said Chris Maxcy, YouTube's director of content partnerships.

"It was 90 percent lawyers in a meeting and the marketing people faded into the background," he said. "Now the partners we are working with get checks that get bigger every month. And now when you walk into a meeting there's almost no lawyers, or there's a couple of lawyers but they are deal lawyers there to help you get your contract done."

The shift is also an important development for Google, which bought YouTube for \$1.65 billion in 2006. The video site at first played the role of Google's profligate son, throwing money at building out bandwidth and storage to handle all the videos but making little money of its own.

Mr. Schmidt said that YouTube's role began to change about a year and a half ago, when he asked the unit to start focusing on revenue.

The strategy had been to amass "an audience first, then figure out the tools that will create the revenue, then you go to the content partners and say, 'Hey, look guys,'" Mr. Schmidt said. "And I think we're at that point now."

Salar Kamangar, YouTube's co-head, who also co-founded Google's AdWords search advertising program, started spending his time figuring out how to make money on the video business.

YouTube gives Google the chance to get a piece of the television ad market, Mr. Kamangar said, by bringing videos straight to the television over an Internet connection, or Internet protocol, as the industry calls it. "Ads can be a lot more effective when they're delivered over I.P. instead of cable or broadcast, because they're delivered personalized to you."

YouTube now offers several types of ads, including display ads on its home page and on the video pages, ads that promote videos and ads that run in the video stream or pop up on the bottom of a video.

When someone uploaded a recording of the [Eminem](#) song "Not Afraid," for instance, instead

of taking down the recording, YouTube ran pop-up ads that let people buy the song or the ring tone and shared the revenue with the copyright owner.

“Google smartly realized that consumers consume different types of media throughout the day,” said Dave Marsey, senior vice president of media at Digitas, the online advertising agency. “Search is a huge component of that, but there are times when you want some entertainment or you want to solve a problem and going to YouTube makes sense.”

YouTube shares advertising revenue with content partners, who may be big entertainment companies like Lions Gate or amateur videographers who have developed a following. Hundreds of these partners make more than \$100,000 a year. Some, like Sal Khan, a former hedge fund manager who now makes math and science education videos, have quit their day jobs.

YouTube’s next challenge is to attract more advertisers by offering more professional, long-form content to supplement the videos of cooing babies and surprised kittens. YouTube is testing a pay-per-view film rental service and broadcasting live events like concerts, and it just signed a deal to show on-demand Major League Baseball games in Japan.

Hulu, the site started by TV networks that streams movies and shows, makes considerably more revenue per stream than YouTube because it has more professionally produced content, said Jordan Rohan, an Internet and digital media research analyst at Stifel Nicolaus. “YouTube is certainly the market leader in terms of streams. They’re certainly the market leader in terms of revenues,” Mr. Rohan said. But only a small percentage of its revenue streams would justify a high ad rate, he said.

YouTube must also follow its viewers as they increasingly watch videos away from their computers, on small mobile phone screens and big TV screens. YouTube now has 160 million mobile views a day, almost triple last year’s number. When Google introduces Google TV later this year, people will be able to watch YouTube videos on Internet-connected televisions.

