

it was far more complicated than I expected." The baggage he inherited was immense. "[YouTube] suffered early on from a reputation problem with the quality of the content," says Tracey Scheppach, innovations director at VivaKi, the digital-media division of ad giant Publicis. Advertisers feared their brands might end up next to some lowbrow home video.

Kamangar's first move: rebuilding the senior team with people he could set loose with their assignments and who brought an outsider's perspective. "That was one of his big contributions," Walk says. The closest connection any of his senior execs had to the entertainment world was Walk's public-access talk show during college at Vassar and his mid-1990s internship at NBC's *Late Night with Conan O'Brien*. ("My first startup," Walk says.) And the top team is surprisingly devoid of engineers. Kamangar isn't one (he was premed at Stanford and then wanted to become a scientist before landing at Google), and the only computer-science guy, Mehrotra, was put in charge of revenue. But that approach dovetailed perfectly with a key insight Kamangar brought with him from his early days working on AdWords. "Like search, video needs a business model that's unique to video," he says. "Google didn't just take the

Butler came up with the "Real Women of Philadelphia" competition and hired Food Network star Paula Deen to be the ringmaster. On the launch day of the eight-month campaign, Kraft bought YouTube's home page, which attracts on average 45 million views a day and costs some \$375,000. In a video embedded in the ad, Deen invited women to invent Philly cream-cheese recipes and cast themselves in their own videos as TV pros. The goal: to drive viewers to Philly's Real Women community, which included Kraft's YouTube channel. The launch video "was seen by 51 million people," Butler says. "Ten million of those people watched the entire video to the end, and almost 100,000 clicked through to our site." By November 2010, in addition to the 25 million recipe views, he says, Real Women helped boost Philly's revenue by 5%, the first material lift in five years. "You look at those numbers; they almost don't even make sense," he says. "It's bigger than TV."

YouTube says 94 of the top 100 brand advertisers have now run campaigns on the platform, and what's attracting them is the increasing body of research that shows that advertising on YouTube works. According to an effectiveness study by the U.K. firm Decipher Media Research, promoted videos—

to its display-ad business (already driving \$2.5 billion in annual revenue, of which YouTube has been called a significant but unspecified part). During Advertising Week in New York, where TrueView debuted, Google predicted that by 2015, 50% of display ads will include video, while 75% will have a social component. Most important, the company anticipates that these innovations could help make display advertising a \$50 billion industry.

**JUST BEFORE** Thanksgiving, I spied Batman on the 10th floor of a Gotham skyscraper flapping his cape. Actually, it was comedian Mark Douglas in a black rubber suit, standing in front of a green screen along with two producers of his show *Key of Awesome*, the homegrown pop-culture spoof that has become the second-most-viewed web series on YouTube. "Our Ke\$ha parody has 49 million views right now," says Tim Shey, cofounder and president of Next New Networks, which houses Douglas's production studio and bootstrapped the show. "That's twice as many views as the original video that it was parodying. When Ke\$ha's second music video came out, Sony invited

"WE'RE REMOVING THE BARRIERS TO ASSEMBLING A TV-SIZE AUDIENCE," WALK SAYS, "WITHOUT HAVING TO TALK TO ANYBODY IN A SUIT."

banner ads that were on other sites and slap them on the search-results page."

Mehrotra and company stripped out the Google products serving text and banner ads. Why? Because they weren't leading people to other videos. While outsiders waited for a single revenue-generating magic bullet, Mehrotra's team worked to build a multitude of ad products crafted around the way people use the site. Many of the things that YouTube users regularly do—start their experience at the home page, search for a video, visit a channel, watch a movie trailer or a music video—translate into appropriate advertising opportunities.

The new ad products began to attract major brand advertisers to the site. "I used to be one of those dudes who watched YouTube in my basement," says Adam Butler, a 32-year-old brand manager at Kraft Foods for Philadelphia Cream Cheese. "The Philly consumer is very different from me. Is our consumer going to go there?" He quickly learned that YouTube is a haven for how-to videos, ideal for cooking. "I had no idea," he says, "and it spans across a ton of demographics."

video ads that appear prominently on YouTube's search-results page, competing with the content that users have searched for—triple unaided brand awareness.

These results have yielded two insights—that ads should be content and that any ad a user chooses is quite resonant—and those have helped inform Mehrotra's latest initiative, which seeks to overhaul the way ads are consumed and sold on the site. TrueView, as it's known, gives viewers the option to skip an ad entirely—but charges advertisers a premium if their content is chosen and watched the whole way through. (Another TrueView option, akin to part of Hulu's ad program, lets users choose one of a slate of ads to watch.) Nissan, Sony Pictures, and Ultimate Fighting Championship have been early adopters.

"We [the industry] want the new 30-second spot," says Publicis's Scheppach, who runs a group that's pioneering new ad models for emerging media. Based on her research, there's "300% to 400% improvement of advertising value if you pick the ad," she says.

Ultimately, Google sees this idea of "cost-per-view" advertising spreading even

us down to preview it, as if to say, Are you going to parody this one too?"

YouTube started its partner program in 2007 to encourage audience-attracting producers like Douglas to create more and better content. It sells ads against their videos and gives them more than half the revenue. "Although it began with just a handful of partners and a bit of hand-holding, we built the partner program with an eye toward massive global scale," says George Strompolos, who spearheaded the initiative until last October, when he left to build his own digital-media startup that will leverage the YouTube platform.

Kamangar is never more passionate than when discussing the content creators on YouTube. It's personal for him. "My sister is a concert pianist," he explains over lunch on the patio outside YouTube's Googley cafeteria, "and I've seen how difficult it is for a pianist to break through." Tara Kamangar, his younger sister, has performed at Washington, D.C.'s National Gallery of Art and L.A.'s Walt Disney Concert Hall. Because of YouTube, "she has an audience and an



### ORIGINAL CONTENT

YouTube shares ad revenue with top content creators. "I'm able to make a living doing just this," says Dane Boedighelmer, whose *The Annoying Orange* has been the No. 1 web show since February 2010.

**EXAMPLES**  
THE ANNOYING ORANGE, NEXT NEW NETWORKS, MACHINIMA, NIGAHIGA, THE YOUNG TURKS



### CONCERTS

"This has been a game changer for us," says Chris Maxcy, YouTube's head of music partnerships. Live-streaming concerts have drawn between 5 million and 10 million live views. YouTube teamed up with Vevo and American Express in 2010 for its *Unstaged* series.

**EXAMPLES**  
BON JOVI, U2, THE NATIONAL, ALICIA KEYS, ARCADE FIRE, JOHN LEGEND & THE ROOTS



### SPORTS

The IPL, a short-form cricket league in India, pulled in 55 million views during its first season on YouTube. "It helped us engage brands that were not talking to us in the past," says Gautam Anand, Google's director of content partnerships in Asia.

**EXAMPLES**  
IPL; MAJOR LEAGUE BASEBALL



### HOME PAGE

The U.S. home page's 18 million daily visitors give brands "big impact to a concentrated audience," says Joel Lunenfeld, CEO of Moxie Interactive, which has created home-page ads for Verizon and Avatar.

**EXAMPLES**  
VERIZON, HASBRO, KRAFT, DREAMWORKS, FOX



### PROMOTED VIDEOS

Like sponsored ads on Google, promoted videos pop up around search results. Advertisers pay only when users click PLAY.

**EXAMPLES**  
EVIAN, PANASONIC, STOUTER'S, WRIGLEY, MAYBELLINE



### CONTENT ID

To prevent hosting illegally posted videos, YouTube learned how to identify them. Copyright owners—including early adopter CBS—decide whether to take down the video or sell ads against it. One-third of YouTube's 2 billion monetized views each week come from Content ID.

**EXAMPLES**  
CBS, LIONSGATE (*MAD MEN*), SONY

## CONTENT

# Double Rainbow

YouTube has the competition reeling with ambitious initiatives to expand programming and ad formats.

By Rachel Arndt

## REVENUE



### HOW TO

YouTube has given rise to a generation of teaching stars. Makeup artist Michelle Phan's tutorial on Lady Gaga's "Poker Face" look has racked up 24 million views and paved the way for Phan's deals with Colgate, Lancôme, and others.

**EXAMPLES**  
MICHELLE PHAN (MAKEUP), SAL KHAN (MATH), VIEWDO (GUITAR)



### MOVIES/TV

YouTube tries to offer longer-form content not available elsewhere. WWE posts full episodes of *Friday Night Smackdown* to YouTube 24 hours after airing them on TV. "We're making six figures a month" in ad revenue, says Brian Kalinowski, WWE's EVP of digital media.

**EXAMPLES**  
WWE, STRIKER, SUNDANCE FILM FESTIVAL, BBC CHANNELS 4 AND 5



### ADVERTISING AS CONTENT

To promote its Trivial Pursuit: Bet You Know It edition, Hasbro ads pit users against YouTube stars, generating more than 250 million impressions.

**EXAMPLES**  
KRAFT (PAULA DEEN), HASBRO, THE LAST EXORCISM



### CLICK-TO-BUY

Call-to-action spots with videos can transform viewers into consumers: Monty Python videos directed viewers to the troupe's DVDs on Amazon, increasing sales 23,000%.

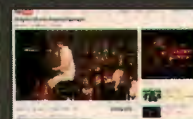
**EXAMPLES**  
CEE LO GREEN (iTUNES), MONTY PYTHON (AMAZON), CHARITY: WATER



### BRANDED CHANNELS

YouTube gives brands a lot of latitude, including breaking the fourth wall. For *The Expendables*, Sylvester Stallone shoots the site to smithereens and talks to viewers. Channels "allow us a flexibility like no other in engaging a user," says Dmitry Ioffe, CEO of the Visionaire Group.

**EXAMPLES**  
LIONSGATE (*THE EXPENDABLES*), SAMSUNG, TIPP-EX



### DISPLAY

Google predicts these digital billboards will add more video and become more social in the next few years, turning into a \$50 billion industry.

**EXAMPLES**  
BLIZZARD ENTERTAINMENT, HTC, ABSOLUT, VOLVO