



# Frenemies: Network News and YouTube

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### **Frenemies: Network News and YouTube**

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**PRESS • POLITICS**



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*In a world of infinite choices, brands matter.*

– Chad Hurley, CEO YouTube

## INTRODUCTION

Ever since Google's web spiders began crawling the Internet, people who care about the news have been trying to figure out how to save journalism. Most of the focus has been on the newspaper industry, but the broadcast television news business is also in trouble. The news divisions of ABC, CBS and NBC deliver news in programming formats younger viewers rejected long ago — at set times of the day, limited to stories someone else has decided are newsworthy.

In 2008, for the first time in PEW Research's analysis, more Americans said they went online for news than watched one of the three network evening newscasts.<sup>1</sup> The evening news audience has not only been shrinking for three decades — losing, on average, one million viewers a year — it has also been aging.<sup>2</sup> Consider the audience of one of CBS's most popular shows, the news program *60 Minutes*. The median age of its audience is 61 years old.<sup>3</sup>

The next generation of news consumers is online. And when they go online for news, they aren't thinking of the three networks as a source for news. Young people may have grown up watching ABC, CBS and NBC for entertainment, but the networks' evening and morning newscasts are shows only their grandparents watch.

In its October 2009 report "How to Rebuild the Media Industries," Forrester Research delivers an urgent message for media outlets: "We recommended increasing the number of platforms through which content is available as rapidly as possible."<sup>4</sup>

Indeed, if the networks want to reach younger audiences, they will have to find them. And the place to find young viewers of online video is the place they're all watching it: YouTube.

YouTube is home to the largest focus group in the world. People from all around the world are watching more than thirty billion YouTube videos a month.<sup>5</sup> That's one billion videos every day. Forty-two million every hour. And YouTube offers television networks the kind of precision data on who is watching what video — as well as where and when — that the networks have never had and so desperately need. That's the kind of information the networks could use to become a lot smarter about what it is those young viewers want. Because one thing is sure — it's not what is airing on television.

Network news divisions should be embracing YouTube and other platforms. It's where they need to be experimenting with innovative, groundbreaking formats for delivering news online. If used effectively, YouTube can help build the networks' brand awareness and help younger audiences discover that network news means quality news.

Media outlets have three "issues" with YouTube. One, it doesn't pay for content. Two, there is so much content on YouTube that it is unlikely any content provider will achieve a sizeable audience. Three, YouTube users upload their content illegally.

In 2009, YouTube successfully solved the issue of piracy. In early 2010, it began testing, on a very small scale, a transactional model that may address some of the issues of monetization. In its blog, YouTube describes how the new feature can help content owners get paid for their content: "Through this new offering, content owners now have control over the entire lifecycle of their work. They can migrate videos from rental to ad-supported; they can set the price and rental duration. In short, they can test and customize their distribution to fit their audience's habits and their business' needs."

Also in 2010, YouTube began testing new navigational tools that will fine-tune a user's "discovery" of content (similar to Netflix's and Amazon's

“recommended” features) and they have plans to roll out many more navigational tools in 2010 that they believe will better highlight important yet undiscovered stories and keep users on the site for longer periods of time.<sup>6</sup>

No online monetization scheme will ever fund the high costs of the broadcast networks’ infrastructures. And that’s why they need to start reallocating newsgathering costs now, rather than hoping for the unlikely day online advertising revenue will increase and cover the high costs of producing the news for *television*. The faster they figure that out, the better chance they’ll have to survive.

Forrester Research urges television executives to start shedding their costly analog infrastructures now because their revenues are headed lower, permanently. “We’re not being cruel, just economic: Why should people pay as much to consume media that is cheaper to produce and has marginal distribution costs near zero?”

The research firm offers incumbent media companies a survival strategy for the digital age, but the pill is a bitter one: “Dig deep, take risks and stage a comeback — even if half the fleet gets destroyed in the process.” And there’s no time to waste. “The time to rebuild is now.”<sup>7</sup>

YouTube offers television news divisions a place to take those risks and, possibly, a chance to learn what it is, exactly, that today’s consumers of news really want.

### **BUILD IT AND THEY WILL COME**

In an appearance on CNN’s *Crossfire* in 2004, Jon Stewart browbeat hosts Tucker Carlson and Paul Begala for encouraging “knee-jerk, reactionary” shouting matches on their show. “What you do is partisan hackery,” Stewart told

them. “You have a responsibility to the public discourse and you fail miserably.”<sup>8</sup>

In December of that year, a 26-year old named Jawed Karim learned from an article he’d read in *Wired* magazine that almost 900,000 people watched the brouhaha on CNN, but three times as many saw the clip online. That reminded him of an earlier “water-cooler” television event that was also available online to watch later — Janet Jackson’s “wardrobe malfunction” at the Super Bowl — and he thought it no longer mattered if you missed “must-see TV.”

That was when Karim became fascinated with what he called an emerging “clip culture” online, he explained in a lecture he gave at his alma mater, the University of Illinois.<sup>9</sup> Computer-savvy people were uploading short television clips to their Web sites to share with friends for viewing “on demand.”

But it wasn’t easy to upload and share clips in 2004. As Karim told the audience, “Back then if you wanted to share a video with someone, you would basically upload it to your Web site, if you had a Web site, you would tell people, ‘go to this URL [Web site domain name] right click on the file, select save as, wait for it to download...then double click on it’ and hopefully you’ll have the right video player installed.”<sup>10</sup>

So in February 2005, Jawed Karim, along with his two friends, Steve Chen and Chad Hurley, set up a makeshift office in Hurley’s garage and started working on a better video-sharing mousetrap they called YouTube.

Less than two years later, they struck it rich (and thanked their fans in this oddly goofy [video](#) on YouTube). In November 2006, Google acquired YouTube for \$1.65 billion.<sup>11</sup>

Eric Schmidt, the CEO of Google, had moved fast to snatch up YouTube. “We believed that there would be a competing offer,” he later explained to lawyers in a deposition related to Viacom’s 2007 copyright infringement lawsuit against

Google.<sup>12</sup> During questioning, Schmidt revealed the astonishing premium he was willing to pay to acquire YouTube:

*Eric Schmidt:* I believe that they were worth \$600 to \$700 million.

*VIACOM Attorney:* And am I correct that you were asking your board to approve an acquisition price of \$1.65 billion; correct?

*Eric Schmidt:* I did.

*VIACOM Attorney:* I'm not very good at math, but I think that would be \$1 billion or so more than you thought the company was, in fact, worth.

*Eric Schmidt:* That is correct.

An extra billion dollars? What was Eric Schmidt thinking? YouTube had 67 employees and was bleeding money.<sup>13</sup> If Google wanted to own online video content, why not go after a company with millions of devoted viewers, a valuable archive of historical footage, a history of quality programming, a revered brand name — in other words, a network news division?

Because YouTube was everything the network news divisions were not. It was distributing video in a way audiences not only wanted but had come to expect: on demand. Its founders were obsessive about responding to the needs of their audience, experimenting with new ideas, and looking for ways to improve the user experience.

But perhaps most impressive about YouTube, given the splintered Internet landscape, was its success in capturing the lion's share of its niche market. And if anyone recognized first-hand the power and potential value of cornering a market online, it was Eric Schmidt.

### **THE MAN KNEW WHAT HE WAS DOING**

When Google acquired YouTube in 2006, users were uploading only 65,000 videos to YouTube every day.<sup>14</sup> Today, YouTube measures how many *hours* of

videos are uploaded every *minute*. In January of 2009, the number was 15.<sup>15</sup> By May, it was 20.<sup>16</sup> Six months later, in November, Chad Hurley confirmed that YouTube users were uploading 24 hours of video — an entire day’s worth — every single minute.<sup>17</sup> It was a breakout year for YouTube. While bloggers and analysts debated how much money YouTube would lose for Google, the only red, by year’s end, was on the faces of its [vocal detractors](#).

YouTube’s hard work had paid off. It spent 2009 working to close deals with high-quality content providers, pushing to increase advertising revenues, experimenting with numerous improvements to its Web functionality and tweaking the plans for a bold, multi-tiered model for paid content.

Additionally, the popularity of online video exploded in 2009. It is now the fastest-growing sector on the Internet. According to comScore, 178 million people in the U.S. — nearly 87% of the total Internet audience — viewed online video in December 2009.<sup>18</sup> The average viewer watched 187 videos, up an astonishing 95% over the previous year.<sup>19</sup>

On YouTube alone, more than 134 million people in the U.S. watched 13 billion videos, for an average of 97 videos per visitor.<sup>20</sup> In fact, Internet users spent more time watching videos on YouTube, the #1 video site, than they did on the sites ranked #2 through #25 combined.<sup>21</sup>

Video search on YouTube accounts for more than a quarter (28%) of all Google search in the U.S., according to comScore, making it the second-largest search engine. Searches on YouTube grew 35% in December, to almost four billion queries.<sup>22</sup>

Internet users are not only going online more frequently for video content, they’re watching more of it. A study by the Pew Research Center found that nearly 9 out of 10 (89%) Internet users between the ages of 18-29 said they watched online video in 2008, on a daily basis. And they were watching about



five hours a day — almost as much as the average number of hours American adults spent watching television.<sup>23</sup>

Internet users are not only watching more video, they are also going online, increasingly, to seek news. In 2008, the average number of unique visitors to the top 50 Internet news sites increased by 27% over the previous year. The top four news sites (MSNBC, Yahoo, CNN, AOL) had almost 24 million more visitors than the year before, an increase of 22%, according to the [State of the News Media Report](#) published in 2009.

With more people going online for news and more people going online to watch video, YouTube has the potential to become a viable source for news with younger audiences. It's a powerful video platform that the network news divisions should be exploiting to reach today's consumers of news.

### **YOUTUBE'S QUEST FOR QUALITY**

"Me at the Zoo," the first video ever uploaded to YouTube, features co-founder Jared Karim standing in front of elephants at a zoo in April 2005. In the grainy [18-second clip](#), Karim has this to say, "The cool thing about these guys is they have really, really, really, um, long trunks. And, that's, that's cool."

The clip not only illustrates the founders' modest vision for their inchoate venture — as a place to share videos with friends — it is also a fair representation of the majority of YouTube's video inventory today.

But that is changing. In 2009, YouTube aggressively wooed traditional media companies and, in the second half of the year, made deals with studios and networks including PBS, Current TV, Discovery, Documentary Channel, National Geographic, HBO, Showtime, Sony, MGM, Lionsgate, Channel 4 and Channel 5 in the U.K., and Univision, the highest-rated Spanish language network in the U.S.

It's all part of YouTube's push to increase its advertising revenues. YouTube needs more content from professional partners, including traditional national and local news organizations, so that advertisers have more content around which to place ads. And the more professional news content there is on YouTube, the more that Internet users will turn to YouTube for one-stop news viewing. And the more news visitors to YouTube, the higher advertising revenues will climb.

#### **NETWORKS — WE HAVE ONE BILLION EYES, HELP US MONETIZE**

Online video became the most sought-after advertising medium on the Internet in 2009. While online ad spending declined across all other sectors, it grew 41% for online video in October, according to eMarketer.

That same month, YouTube announced it was "monetizing" (selling ads against) one billion videos a week, roughly 14% of its overall content. YouTube saw its strongest gains in ad revenues in the third and fourth quarters of 2009 and Chad Hurley is confident 2010 will be even stronger.<sup>24</sup>

YouTube is also starting to allow some larger media partners to use their own sales forces to sell advertising, rather than insisting they rely on YouTube's inventory of advertising. Those in-house ad teams are able to sell more effective ads at higher rates, because they can design multi-purpose advertising campaigns across a variety of platforms.

YouTube says it will continue to make more of these deals, which will give more media outlets the incentive to put their quality content on YouTube, according to TechCrunch's Erik Shonfeld. "The prospect of selling ads against all of their videos on YouTube at those higher ad rates has them salivating, even if they have to share the spoils with YouTube."<sup>25</sup>

## YOUTUBE'S SERIOUS SIDE

There are obvious drawbacks to having billions of videos in one place. But when YouTube takes a role in organizing, featuring and promoting certain categories, that content gets attention. And YouTube then becomes a go-to destination site for that content.

The most well-known example of this was YouTube's handling of political content during the 2008 presidential campaign. Candidates and voters alike widely recognized YouTube as a game-changer. Seven of the 16 original presidential candidates announced their candidacy on YouTube. Eventually all of the candidates recognized YouTube as a promotional platform not to be missed and, during the campaign, they uploaded thousands of videos to their branded channels. The Obama campaign's approximately 1,800 videos were viewed at least 100 million times.<sup>26</sup> YouTube and CNN co-hosted two groundbreaking presidential debates with candidates fielding questions from YouTube users.

After the election, YouTube continued to promote its political content. In January 2009, YouTube provided every member of congress with its own YouTube channel. In January 2010, President Obama's State of the Union address was broadcast live on YouTube and YouTube asked its users to submit questions for the president to answer in a later interview from the White House, aired live on YouTube.

YouTube has also aggressively courted colleges and universities for content and is now the leading destination web site for free online higher education courses. YouTube created its *Education* category in March 2009 and now offers more than 200 complete college courses and 50,000 individual lectures. More than 250 of the world's leading universities have YouTube channels, including

MIT, Oxford, Yale, Stanford, UCLA and Columbia.<sup>27</sup> In September 2009, UCLA announced that its channel had surpassed one million views.<sup>28</sup>

Tufts University is one of the first colleges to use YouTube in the admissions process. Tuft applicants have the option of creating and submitting a short personal [video, such as this one](#), to YouTube, as a supplement to their written applications.

YouTube has proven it can be a credible destination for serious, quality content and I believe YouTube can do for news content what it has done for educational and political content.

## **NAVIGATION AND DISCOVERY**

Anyone who uploads a video to YouTube — whether it's an individual or an organization — must first create a personalized Channel page where all future uploads will be stored.

Videos on YouTube are organized into “Categories” and “Shows” — and they can be sorted either by individual videos or by “Channels.” There are 15 “Categories” of video content — some of a more serious nature (Education, News & Politics, Non-Profits & Activism) and some not (Gaming, Comedy, Pets & Animals). For longer-form content, there are 25 classifications under “Shows” and, again, some are for more serious content (Documentary & Biography, Science & Technology, News) and some not (Soaps, Horror, Animation & Cartoons).

There is also a new “Movies” section, unveiled in January 2010, which is YouTube's first foray into selling movies online. It began small, offering a handful of independent films that were screened at the 2010 Sundance Film Festival.

The organizational layout of YouTube's Web page, when "All Channels" is selected, is illustrated [here](#).

YouTube is keenly aware of the pitfalls of its own popularity and that's why it razor-focused on improving consumer convenience in late 2009 and early 2010.

Forrester Research analysts believe "a market driven by digital economics rather than analog efficiencies will tend to compete on a single, overarching dimension: consumer convenience." Forrester recommends making it easy for consumers to discover, consume, share and rate content.<sup>29</sup>

In November 2009, CEO Chad Hurley said that one of YouTube's immediate goals was to improve the site's navigational search features so users can more easily find relevant content. In early 2010, YouTube started beta testing a revised version of YouTube's Web pages that offers many more social media features and much less clutter. The new streamlined design — which YouTube users are overwhelmingly endorsing on YouTube's blog — offers a higher quality viewing experience and an easier way for users to share, rate and comment on videos.

But the most promising feature is one designed to get users — who now stay on YouTube an average of 15 minutes per visit — to stay on the site longer.

Hunter Walk, the director of product management, says YouTube wants users to search less and watch more. The idea is to improve what they call "discovery" — and what those bemoaning the death of newspapers often call "serendipity."

That's when a reader or viewer runs across an article or video they didn't search for and didn't *know* they would care about, but are then grateful to have found.

(Ironically, YouTube wants to give users the very thing that they lost when by choosing self-selected information online over the newspapers and television news experience.)

At login, users see a queue of videos, titled "More Videos," that YouTube thinks a user might want to watch based on his or her viewing history and on

what others with similar tastes have watched and liked, similar to the way Netflix and Amazon make movie and book recommendations.

Another priority for YouTube is to do a “better job of indexing and finding video wherever it exists” and, toward that end, YouTube plans to unveil new features that will spotlight the stories that are getting considerable traction on third party web sites and blogs — but are getting lost on YouTube — so that YouTube users don’t miss out on them.<sup>30</sup>

### **SHOW ME THE MONEY**

The year 2009 may be remembered as the year Internet aggregators and Internet users started to accept, begrudgingly, that some content will come with a price. Multiplatform subscription models started to be taken seriously.

*Journalism Online*, a pay-for-news start-up, began quietly testing “Press+” its flexible hybrid model for paid content from newspaper and magazine publishers.

In early 2010, YouTube started beta tests of a similar model that gives content owners the choice of whether, and how, to charge for its content. In an interview in November 2009, Chad Hurley said YouTube planned to make “the system flexible so any partner, big or small, has the freedom to implement it how they wish [because] different types of content require different types of models.”

“New business models ... will not come from traditional media establishments, but from companies such as Google, Yahoo and YouTube,” Don Tapscott and Anthony D. Williams argue in their book *Wikinomics*. “This new generation of companies is not burned by the legacies that inhibit the publishing incumbents, so they can be much more agile in responding to customer demands.”<sup>31</sup>

China's largest video sharing site, Youku, pays media companies for their content, mostly through flat rate, one-year licensing fees. It describes its service as a "media syndication platform for licensed films and TV content, some user-generated content and Youku's own self-produced content." It has had success with a few subscription pilot programs and expects to expand that model. And, with 700 million mobile subscribers in China, Youku believes its 3G content will be another promising revenue source.<sup>32</sup>

In February 2010, V.P. David Eun announced he was leaving Google-YouTube to join AOL. Eun was in charge of convincing more media companies to partner with YouTube. In its coverage of Eun's departure, *The New York Times* quoted an unnamed former colleague of Eun's who, indirectly, suggests YouTube might be willing to pay large media companies for content: "[David] was essentially getting a lot of heat to make YouTube a more user-friendly, bigger partnership kind of place. [CBS interactive CEO] Quincy [Smith] has been negotiating with Eun for two to three years. [The deal] was going to have a big dollar figure. Eun was under a lot of pressure and couldn't get it done."

Would YouTube ever go so far as to license content from the broadcast networks? Probably not. But perhaps it isn't out of the question, considering parent company Google does license content from the AP and other news wire services.

## **PIRACY**

YouTube has managed to turn what was one of its biggest liabilities — pirated video content — into a major asset for content owners.

In 2007, YouTube introduced *Content ID* — an anti-piracy fingerprinting tool that makes it easy for large media companies to identify where their copyrighted video content lives on YouTube. Content owners give YouTube their archive of

copyrighted materials in the form of “reference files” and YouTube then uses those files to see if the same copyrighted content has been illegally uploaded to its site.

In the fall of 2009, YouTube added even more value to *Content ID* by integrating it with *YouTube Insight*, an [analytics tool](#) that offers content owners free, detailed metrics about their video views. They can outline a video’s views over time, map its global popularity by regions, learn the demographics of its top audiences and find out the Web sites and search terms driving traffic to the video.

YouTube partners then have the option of choosing between taking their copyrighted content off YouTube or keeping it there and benefiting from the metric analysis of its audience, while sharing advertising revenue. All of the major media companies are using *Content ID* and *Insight* — every major national network broadcaster, movie studio and music label — and YouTube says the content owners are choosing to keep the vast majority of their content on YouTube.

## **YOUTUBE NEWS TODAY**

YouTube’s *News & Politics* [home page](#) features five or six topics, under *Top Headlines*, which represent the most important news stories of the moment. The topics are chosen using Google’s algorithms, which track the stories across the Web that are seeing widespread spikes in traffic and popularity. The thousands of other daily news videos on YouTube can be sorted any number of ways — by popularity, news outlet, most discussed, most favorited, or recently added, for example. YouTube’s news videos are also available on Google News’s home page, alongside their related print stories, giving a content owner’s news video even wider audience exposure.



In the summer of 2009, YouTube added *News Near You*, a local news feature with enormous potential. It employs an individual's computer IP address to showcase the most recent local stories in that location. YouTube's Steve Grove, who heads up *News & Politics* for YouTube, claims that 5-10 percent of people who land on YouTube's *News & Politics* home page are watching at least one *News Near You* video.<sup>33</sup>

"If one percent of YouTube's estimated 11.8 million daily U.S. visitors go to the news section, that's an audience of 118,000," calculates Mac Slocum, of the Nieman Journalism Lab. "Applying the 5-10 percent click-through rate, between 6,000 and 12,000 people view videos through *News Near You*." Not much, Slocum admits, but he goes on to imagine what might happen if YouTube added the *News Near You* section to additional pages on its site. "The potential audience would go through the roof if a local news module were added to YouTube's video playback pages."<sup>34</sup>

Local television stations deliver about 90 percent of *News Near You* videos, but local news could become an increasingly popular "beat" for YouTube's aspiring citizen journalists. And as this section becomes more populated, it could become a valuable source for content for national news organizations.

In late 2009, YouTube News started offering *YouTube Direct*, a tool that connects news organizations with citizen journalists. Using a free YouTube application, news outlets create a "bureau" for citizen journalists on their own Web sites and solicit footage for stories in progress. If aspiring citizen journalists choose to contribute, they can upload their videos directly to both YouTube and the third party site, and it's up to the news organizations whether they reject or use their content.

The first media outlets to use *YouTube Direct* were ABC, Huffington Post, NPR, *Politico* and *The San Francisco Chronicle*. YouTube expects non-profits,

universities, advertising agencies and other businesses to take advantage of the *YouTube Direct* platform.

And as more and more news organizations vie for content from citizen journalists, (CNN has *iReports*, the BBC has *YourNews*, Yahoo/Reuters have *You Witness News*, MSNBC has *Newsvine*) the ease of YouTube's application may help YouTube stand out from the rest.

Citizen journalists have certainly played a significant role in building YouTube's name recognition around the world. Their video clips have destroyed political careers, solved crimes and exposed unrest in places like Iran, Burma and Madagascar. And when Apple added a "send to YouTube" button on its iPhones, for instant uploading of videos, it became even easier.

YouTube takes citizen journalism seriously. Its "Reporters Center" channel is devoted to training aspiring journalists. A budding reporter can get advice such as "how to conduct a good interview" from CBS's Katie Couric, "how to do investigative reporting" from the *Washington Post's* Bob Woodward, and "how to tell a story" from NPR's Scott Simon. (The length of these videos suggests the learning curve for becoming a journalist is roughly half a day.)

YouTube videos are "embeddable," meaning users can "copy and paste" them onto their own Web sites, blogs, or social network profile pages for viewing.

This feature is often credited with helping a video go "viral," meaning, the more Web sites that embed a particular video or offer a link to that video, the more people who will watch it and, theoretically, pass it on to someone else. In other words, the growth in traffic becomes exponential.

A recent addition to the News home page, called *As Seen On*, tracks the YouTube videos being viewed on third party Web sites, such as DailyKos, BoingBoing, HuffingtonPost and Gawker.

In a study by Sysomos, YouTube was found to be the video platform favored most by the 100 million bloggers it analyzed. Almost 82% of all embedded videos and direct links on the Web pages of bloggers were YouTube videos. Vimeo was a distant second with less than 9%. Hulu came in with 0.5%.

“High-authority” bloggers (those with the largest audiences and reach) embed and link to far more news videos than do “low-authority” bloggers, according to Sysomos’s analysis. This “sharing” of YouTube news videos by the blogosphere is another small, but legitimate, way news outlets can reach a broader, younger audience through YouTube.

YouTube doesn’t break out statistics for its *News & Politics* category. In mid-2009, they said traffic had increased 650% in the past two years, but that includes the unusually heavy traffic to YouTube during the 2008 campaign.<sup>35</sup> As for its news *inventory*, YouTube has publicly stated only that news partners are uploading “thousands and thousands” of videos every hour.<sup>36</sup>

At the end of 2009, YouTube had hundreds of major news partners, including most large U.S. news organizations (the AP, Reuters, *The Washington Post*, *The New York Times*, Fox, Bloomberg) and many of the large but lesser-known international media outlets (Russia Today, Al-Jazeera English, EuroNews, etc.)

It is a list high on quality but low on quantity. Each network news division has a YouTube channel but none uploads close to its full programming.

In an online essay for the Nieman Journalism Lab, YouTube’s Steve Grove wrote, “It could be argued, in fact, that the YouTube platform is the new frontier in newsgathering.” Of the media outlets that hadn’t yet embraced YouTube, Grove said, “They ignore the opportunity at their own peril.”<sup>37</sup>

## FOLLOW THE AUDIENCE

In 1980, the year a *U.S. News & World Report* cover story asked “Is TV News Growing Too Powerful?” an average of 52 million Americans were watching one of the three network newscasts each evening. That same year, Ted Turner launched the first 24-hour cable news network, CNN, marking the end of the three television networks’ monopoly. By 2008, the combined audience for the three network evening newscasts had fallen to almost [23 million](#), less than half its size three decades earlier.<sup>38</sup>

But isn’t 23+ million nightly news viewers an extraordinary audience, given today’s fragmented options? Not necessarily, when you consider the average age of those viewers. In 2002, the median age of regular viewers of each program was about 50. In 2009, just seven years later, it was approaching 62 years old, according to PEW’s research. And less than a quarter of those viewers are under the age of 55. (The morning shows audiences are younger, but at 54 years old, still an undesirable demographic by advertisers’ standards.)

Gone are the days when network executives could count on young people to grow up and replace their older news viewers. Even Katie Couric, during a recent appearance on David Letterman’s *Late Night*, poked fun at her geriatric audience.

The dramatic shift in how, when and where young people choose to get their news is irrefutably irreversible, and the evening news audiences will only continue to age. And as online advertising becomes more efficient at hyper-targeting its audiences, advertisers will flee television news’s aging audiences.

The former president of CBS News, Andrew Heyward, describes the decline in network news viewers, to date, as “an erosion.” Looking ahead, he predicts the future will look “more like a cliff.”<sup>39</sup>

PEW Research analysts suggest that “the survival of network news divisions may well depend on escaping the mindset and the brand of being tied to broadcast television.” They urged networks to become “truly multiplatform, to exploit their distinctive skills across multiple Internet platforms.”

Clayton Christensen, author of *The Innovator’s Dilemma*, says that when well-managed companies are confronted by new technologies or new business models, they flounder by fiercely defending their existing business models and not changing fast enough.

NBC/Universal’s CEO Jeff Zucker, and others, describe the economics of putting network content online as “trading analog dollars for digital pennies.”

That’s true, but the news divisions can’t wait around for a day that will never come: the day advertisers value their content online at levels that match the cost of producing it — for *television*. They need to prepare for the day they will be producing digital-only content.

And that means they need to do two things: drastically cut their analog infrastructures and reallocate those resources into figuring out what kind of news content people might pay for online.

Forrester Research lays out three phases that media industries have begun to pass through as content moves to online digital distribution: digitization, meltdown and rebuild. Television is in the middle of the meltdown phase. The final part of meltdown is when “media companies face the inevitability of digital economics” and they finally start to shed their costly analog infrastructures. The television networks aren’t there yet, but Forrester urges companies to get out of the second act as soon as possible. “The time to rebuild is now.”

“Let’s be clear,” the report says. “We’re not suggesting that it’s wrong to milk analog processes and assets for everything you can. But media businesses have to realize that they do so under a sun that is gradually sinking on the horizon.

That’s why we recommend spending as little time in meltdown as possible, so that the business can focus on creating a more sustainable model in the third act.”

Of the three networks, NBC is certainly in the best position, financially. It is the only news division thought to be profitable and the only network with cable properties. CNBC and MSNBC not only generate subscription fees for NBC News — an additional revenue source beyond advertising — they also help NBC amortize the hefty costs of newsgathering. So NBC may have the most incentive to stick with television longer.

NBC’s online news property, MSNBC.com, is also the largest, according to Nielsen, with 40 million unique visitors a month. That’s more than three times the traffic to the news sites of Fox, ABC and CBS combined.

MSNBC.com benefits from having an abundance of news content from its television properties. It is also the exclusive news provider for MSN, giving its brand wider exposure to younger audiences.

But the age of its television news audience is not getting any younger. The median age of NBC Nightly News viewers is 61 years old, roughly the same age as the news audiences watching ABC and CBS. And, like its competition, NBC will see its television audience continue to age, until advertisers eventually abandon it and move their ad spending online.

So what might the third act, the “rebuild” phase, look like for the networks?

Much of the network news content that is now created by reporters, producers, associate producers, camera crews and editors — and delivered by anchors in studios equipped with edit suites, control rooms and satellite dishes — will eventually be replaced by content that is largely shot — and edited — by one producer working in the field with a small HD camera and a laptop.

Michael Rosenblum, a former CBS News producer, teaches amateurs and professionals to shoot, edit and post news stories on the Web. “When anyone can pick up a video camera, shoot a story and post it on the Web, then the ‘TV professional’ is an oxymoron, to be sure, no longer special.”

CBS pays Katie Couric \$15 million a year. In 2006, Brian Williams was reportedly making more than \$10 million, so is likely paid more today. Diane Sawyer’s salary, estimated by Forbes between \$12 and \$15 million in 2005, is probably now closer to Couric’s \$15 million.<sup>40</sup> Combined, the three are paid at least \$40 million a year — the salaries of 300-350 network news producers. The networks bet millions on three anchors who have each failed to attract a younger audience. That must have some network executives wondering how to measure the value an anchor really adds to a 19-minute evening newscast.

In the meantime, there are dozens of easier cost-cutting pills for a network to swallow. In 2009, there were 84 network evening news reporters who filed fewer than two stories a month, according to ADT Research. Many news programs still use two camera crews to film interviews that get less than a few seconds of airtime. The “stand-up” or “bridge” (when a reporter speaks directly to the camera in a taped story) often takes half a day to set up and is often not an editorial necessity.

To an online audience, many evening news stories (each more often than not replicated every night by all three networks) are considered old news before they’re out of the editing room. Networks are wasting resources to produce news for television — resources that could be used to build an online brand that digital consumers of news will pay to watch.

No one is going to pay for information he or she can get somewhere else for free. But people will pay for content that is original, in-depth, investigative or

exclusive. And some will pay if the reporter reporting it offers a distinctive analysis, viewpoint, commentary or opinion they want to hear.

What might survive behind a pay wall? Exclusive interviews with newsmakers, investigative pieces, *exclusive* breaking news stories, longer form news magazine stories, comedy/fake news and news from brands they trust.

It could take a much longer period of trial and error, than news divisions realize, to figure out what people will pay for online. And in order to build an online brand that will attract a larger, younger audience, the networks have to create one. To create one, they have to experiment, dare to test groundbreaking, pioneering new ideas.

After years of declining audiences, “it is hard for network professionals to generate a spirit of raw innovation or bold vision,” states PEW Research. “Many in network news feel a strong sense of tradition and responsibility, but there is an air to it of greatness that is past rather than ahead.”

The networks have to throw everything against the wall to see what sticks. “To survive, media companies have to get out of a broadcast mentality,” Quincy Smith, the departing head of CBS Interactive, told Ken Auletta, author of *Googled*. “Web sites like YouTube should be used by the networks as promotional platforms to promote our content and drive audiences, particularly younger audiences, to our primary platform. On the Web, you build communities. And traditional media has to change its DNA to think about that community.”

The networks are very good at one news format. Now, they need to become “good enough” at many. And the faster the networks downscale their production infrastructure to pay for this period of experimental innovation, the more likely they’ll be around in the future.

Esther Dyson, an investor in Internet start-ups, told Auletta, “They [the broadcast television networks] are behaving foolishly, like the music companies.



They are fighting their own customers when what they should do be doing is using YouTube as a platform and share in all the revenues. They need to come to an agreement that encourages more trial and error between them.”

### **YouTube Partners**

“Legitimate internet video operators are far from the ‘parasites’ that some have sought to portray them as in the past,” the U.K.’s Channel 5’s Dawn Airey told the British newspaper, *The Guardian*.<sup>41</sup> “On the contrary, they can be an important partner in helping modern day broadcasters reach new audiences and continue to fund high quality original content.”

In late 2009, following in the footsteps of the BBC, two U.K. networks made deals with YouTube. In fact, Britain’s Channel 4 became the first YouTube television network to offer all of its full-length programming (in the U.K. only), as well as 3,000 hours of archival material. The U.K.’s Channel 5 followed and is now offering full-length programs shortly after they air on television.

On December 9, 2009, PBS’s *The News Hour*, became the first U.S. television news program to offer all of its full-length programming on YouTube the same day it airs on television.

### **IT’S ABOUT QUALITY AND CONVENIENCE**

As young multi-tasking Internet users grow up, they’ll have jobs and families competing for their time. As they view more of their online content on a television screen, their priorities will shift. They’ll seek out content distributors who offer convenience and content providers who offer quality.

Research firm iSuppli estimates that by 2013, around 90 million television sets world-wide (about 40% of the market) will be Web-enabled. TDG Research is more bullish, predicting 170 million homes will have Internet access televisions

by 2014. The new Sony televisions have widgets for streaming videos directly from YouTube, as well as other content providers.

YouTube's Chad Hurley believes that Internet television convergence will be here in five plus years. Hurley is confident paid-content will become a fabric of our lives, but he "doesn't think we'll see big numbers until it's connected to TV. Then, when it becomes a seamless experience, [paid content] will work."<sup>42</sup>

*The Wall Street Journal's* Henry Blodgett predicts this on his Business Insider blog: "You'll be able to watch anything you want, live or taped. You'll be able to watch it wherever you want — TV, computer, mobile device... A lot of this content, by the way, won't — and shouldn't — be free. But you won't have to pay your cable company for the dozens of channels you won't ever watch, you'll just get the ones you do... A few clever online aggregators — YouTube? Hulu? Cable companies? Netflix? — will create nice video portals and build powerful new businesses. When will this happen? Over the next 5-10 years. And it will leave today's TV industry looking like today's newspaper industry."

At an online media conference in November 2009, CBS's Quincy Smith spoke of the urgency traditional media are facing to make the move online, "We are going to get there and the speed with which we get there absolutely is linked to the success of how good this initiative is going to be, right, because something else is going to come around." If Quincy Smith is right, the broadcast network news divisions had better start innovating.

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