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## Google Still Searching for Ways to Master Media

– The Wharton School, CIO

**April 17, 2007**

Viacom and CBS have pulled videos from Google's YouTube. The Academy of Motion Picture Arts and Sciences recently requested that some Oscar footage be taken down from YouTube as well. And Google's efforts to sell radio and print advertising have not met expectations. In short, Google's ability to navigate the traditional media landscape doesn't seem to be going particularly well.

What's the problem?

The simple answer:

The traditional media environment is

complicated. While Google has the resources to create significant deals with content companies, it still must contend with a number of confounding crosscurrents—content owners' concerns over intellectual property and a clash of advertising models, among others. Signing a deal with a television network like CBS is just the first step; figuring out all the back-end issues to make the partnership work is a whole other issue.



"It's difficult for Google," says Wharton marketing professor Patricia Williams. Traditional media companies "have models that have evolved to be inefficient." For example, a single snippet of video content—such as a commercial—most likely has multiple parties looking for compensation. An actor in a television commercial may get paid every time it runs, and the ad agency could also be remunerated based on the number of times the commercial is aired. What happens if that same commercial is uploaded and played on YouTube? Williams says the challenge for Google is finding a way to compensate all the various players in the traditional media food chain.

Wharton marketing professor Peter Fader attributes Google's YouTube troubles to missed opportunities. Last fall, Google announced the [\\$1.65 billion acquisition of YouTube](#) and a series of business development deals with content providers like CBS. However, according to Fader, Google has failed to do much with the partnerships since. "I think Google was handed a golden opportunity with YouTube," he says. Indeed, "content providers and Google seemed to get along" in the beginning. "It's hard to say why they can't get along now."

Compounding the issues for Google may be media companies' fears about its intentions. Google's stated goal—to organize all the information in the world—worries those who see Google as more of a threat

than an ally. For instance, companies like Viacom could find that their options for monetizing their video content are limited if consumers view it on YouTube. "For content providers, intellectual property drives revenue, and content drives viewers and ads. If content is snatched, revenue is lost," says Williams. Meanwhile, copyright skirmishes with the book-publishing industry haven't helped Google's cause, either.

Wharton legal studies and business ethics professor Kevin Werbach says the irony is that traditional media companies need Google and its platform to reach a new audience. Werbach outlines the Google-traditional media conundrum. "Google wants to be the center of the universe for all information and content. That's a scary thing for a lot of companies, including media companies," says Werbach. "[But] the media companies want and need Google, because Google is extraordinarily good at the two things that underlie most media businesses: directing users to content, and matching advertisers to users."

Ultimately, Google and traditional media companies will join forces because they need each other, say experts at Wharton. After all, Google requires strong content to drive video traffic and create a business model for YouTube. But there are many issues yet to be resolved. According to Eric Clemons, Wharton professor of operations and information management, one reason these partnerships between Google and traditional media companies have been slow to develop is that Google hasn't found a way to make YouTube profitable. If YouTube can't make money, how will revenue be shared with media companies? "It is not at all clear to me that anyone can monetize the Web traffic on YouTube," says Clemons.

### **Creators vs. Distributors**

One big issue hindering Google's ability to partner effectively with media companies is the debate over who has more power over content: the creator or the distributor.

Kartik Hosanagar, professor of operations and information management at Wharton, says it's likely that traditional media companies are concerned that Google will get the lion's share of the value from any partnership. That seems to be one reason why Viacom pulled its videos from YouTube and signed a partnership with an unproven rival Internet video service called Joost. Viacom said it teamed with Joost because it "is powered by a secure, efficient, piracy-proof Internet platform" that guarantees copyright protection. But it may go deeper than that, according to experts at Wharton. "If Google is the one controlling all the matching of ads and consumers, [traditional media companies will be] really worried about Google's market power," says Hosanagar. "That worry is reflected in Viacom's deal with Joost." Financial terms of the Joost deal with Viacom were not disclosed.

On an earnings conference call March 1, Viacom CEO Philippe Dauman said the company removed its video content—including MTV clips and Comedy Central skits—to protect "the value of our content online." Dauman added: "We are heartened by the broad industry support of this action. Since we issued the takedown notice, video streaming traffic on our sites has increased dramatically. This is an important validation of our strategy. ... At the same time, we are interested in entering into deals that provide distribution for our content in a controlled way that respects our copyright, and we think we can generate incremental revenues that way."

*The Wall Street Journal* reported on Feb. 21 that talks regarding a sweeping partnership to distribute CBS clips on YouTube also unraveled. According to the story, CBS and Google couldn't agree on the length of the deal, and some CBS division heads were reluctant to sign off because of copyright concerns.

Fader notes that Google doesn't seem to have a game plan to bring traditional media players on board to YouTube. "There's a degree of indecision with no clear strategy for how to use YouTube or deal with content owners," he says. Fader also argues that deals with content providers should span many Google businesses beyond just YouTube.

Werbach acknowledges that Fader's theory may be on target. "[Google] is a big, scary competitor, but also a powerful enabler for media giants," he says. "The leaders of 'old media' aren't stupid, but they also aren't doing this for fun—they are playing a high-stakes game to win. They will work with Google when it makes sense to them, just like they will work with Microsoft, AT&T or Comcast."

### **Algorithms vs. Relationships**

A clash of advertising models may be another reason YouTube has stumbled with traditional media. To Google, advertising is about algorithms and return on investment calculations. The traditional media

industry relies on relationships. If Google controls access to the content, it could wind up owning the relationship with advertisers.

According to Hosanagar, Google is an opportunity and a terror to traditional media players. "The old world is moving into a new one. It's hard to give up a model you are so used to and partner with the dominant player. [Traditional media firms] have benefited by the inefficiencies of the old world. Google wants to democratize the advertising world."

The contrast was evident on Google's fourth-quarter earnings conference call Jan. 31. Jonathan Rosenberg, Google's senior vice president of product management, said the company has been focused on "accountability and enabling measurement" for radio advertising. "One of the things that we provide is real-time reports on exactly where the ad played and when it played. These are things that sound simple, but they are a pretty huge improvement over the way that traditional radio reports, which aren't otherwise available until 12 weeks after the ads run, had previously played out," said Rosenberg. "The same thing is true of some of the efforts that we're doing in print with a bunch of the newspapers right now."

That innovation is impressive, but also very scary for a media industry accustomed to sealing deals based on general historical data and approximate audience estimates. Werbach, however, expects these issues to be resolved in the future. "There are plenty of inefficiencies in the advertising market. The question is how to align the business interests involved. In search, Google found a sweet spot by giving users, websites and advertisers what they wanted, at a time when no one else fully appreciated the economic potential of being in the middle of those relationships. Media companies today realize full well that Google could be both their salvation and their doom. So they are treading carefully, even as they recognize there is value in partnering with Google and other Web-based players."

Fader agrees: "I think Google could step in and create many efficiencies," he says. "Here's an example of where the models hit real problems: The agencies are going to get squeezed out. That will work in Google's favor, but it will be tough initially [on ad agencies]." Fader expects Google and media companies to figure out a workable structure, but it will take time.

Clemons, however, suggests that even if the two different approaches mesh, there's a bigger threat: Traditional media's entire advertising model is under fire. Advertising that's produced and pushed to consumers will be shunned, he argues. "Old media is nervous because traditional paid-for-by-the-company, push-it-out-to-users advertising has lost its credibility and because the viewer community is fragmenting. Any form of paid-push advertising will be ignored."

### **The BBC Blueprint?**

Despite Google's problems befriending traditional media, progress is being made. On March 2, the British Broadcasting Corp. (BBC) announced a broad deal with YouTube. Under the arrangement, the BBC will have its own channels on YouTube for BBC video clips. The deal encompasses BBC and BBC Worldwide. It also restricts how the clips are viewed in the United Kingdom.

One of the hurdles facing Google is forging different partnerships for each individual content owner, say experts at Wharton, and the BBC deal may provide a blueprint for future traditional media partnerships.

For Google CEO Eric Schmidt, the BBC deal is an important win following a rough stretch of dealings with the television industry. "We're delighted to be joining forces with the BBC to bring the best TV programming available to the YouTube community," said Schmidt in a statement. "We will continue to invest in our platforms and technologies to help our partners make the most of the enormous opportunities presented by the billion people now online."

Nevertheless, future dealings between Google and media companies are likely to be difficult because of the many content and advertising issues still to be worked out. "From a media company perspective, Google is a behemoth. [Traditional media companies] are concerned about Google. How much more business are they willing to give it?" asks Williams. "I don't see this story going away. There will be short-term [deals with Google] because it's in traditional media's best interest. For now, Google will just have to keep negotiating."

*Originally published in [Knowledge@Wharton](#).*

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