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## How YouTube's Global Platform Is Redefining the Entertainment Business

By [Danielle Sacks](#)

**Salar Kamangar** floats unnoticed through YouTube's sprawling San Bruno, California, offices dressed in a navy blue hooded sweater and jeans, laptop cocked on his hip. He might as well be just another anonymous, nomadic programmer rather than YouTube's newly named CEO.

The exceedingly shy 34-year-old escorts me into a corner office filled with a cornucopia of Silicon Valley souvenirs, including hundreds of conference badges and, naturally, a Segway. "None of this is mine," Kamangar tells me. The office belongs to YouTube founders Chad Hurley and Steve Chen, even though neither technically works there anymore. Kamangar's own desk is a naked cubicle right outside. Jeff Zucker he isn't.

Sitting stiffly on Hurley's tan couch, Kamangar has a nervous demeanor, which only begins to melt after I accept his offer to take a spin through his favorite YouTube channels. "This is pretty funny. Have you seen this before?" he asks, sounding almost like a teenager. He props his worn Lenovo on his lap. "It's Indian pole gymnastics," which is exactly what it sounds like. With his eyes glued to the screen, he shows me vintage footage of bluegrass flatpicker Doc Watson; the fan-created *Lord of the Rings* prequel "The Hunt for Gollum," which, he tells me, has been mistaken for a Peter Jackson flick; and Sal Khan, the young hedge-fund manager who ditched his career to become the most prolific math instructor on the web and whose audience, says Kamangar, surpasses those for recorded Stanford and MIT lectures. Kamangar's tour is a peek into a side of himself that he doesn't show the public, even if some of the videos are the kind of baseline entertainment that has made YouTube beloved by audiences but infamous to advertisers. (I mean, seriously: Gymnasts flinging themselves onto a pole is a few steps above talking-cat voyeurism.)

Since YouTube's earliest days, Kamangar has envisioned the site's transformational potential. Unknown to many, he was the driving force behind Google's acquisition of YouTube for \$1.65 billion in 2006, less than 20 months after Hurley, Chen, and Jawed Karim registered the domain youtube.com. Google's youngest VP at the time, Kamangar ran Google Apps, including Google Video. "As quickly as Google Video was going, we realized it wasn't that likely to catch up with YouTube," he says. He felt that while

Google Video obsessed over comprehensiveness, YouTube's founders made the smarter bet of cultivating its vibrant community.

Despite YouTube's issues with copyright infringement and a fuzzy business model, "we realized that YouTube is a rocket ship and that this is an incredibly big space. I started agitating for it," Kamangar says. "I was the most passionate voice for acquiring YouTube: 'The price tag seems really high, but it is going to be worth it.' "

Ever since, the sharpies and know-it-alls have been highly skeptical that YouTube would ever merit its exorbitant cost (which, in the wake of Google's \$6 billion offer for coupon service Groupon, doesn't seem all that expensive anymore). The conventional wisdom has been to lampoon YouTube as "Google's folly," an earnings millstone that becomes more expensive to operate every time a new video is uploaded, a "Technicolor cataract of skateboarding dogs, lip-synching college students, political punditry, and porn," as one writer on Henry Blodget's Business Insider site characterized it in 2009.

Kamangar joined YouTube in the fall of 2008 to co-lead the operation along with founder Hurley (who decamped last October, paving the way for Kamangar's promotion). Since then, YouTube has accelerated its momentum as the world's largest video platform. Its monthly global audience has mushroomed from 344 million unique users to 500 million. It has relentlessly experimented with new revenue models, such as creating branded channels and charging advertisers only when viewers actually watch an ad; nurtured a new generation of producers that are building huge audiences by eschewing traditional Hollywood fare; and ushered the YouTube experience onto every screen, particularly TVs.

All of these efforts are translating into more and more money. Google does not break out specific numbers for YouTube, but financial analysts who cover the company estimate that YouTube's revenue has grown from somewhere between \$100 million and \$250 million in 2008 to just shy of \$1 billion in 2010. Google has hinted that profitability is nigh. A company spokesperson would only say that revenue has increased more than sevenfold since 2007.

And yet, the skeptics persist. They believe that YouTube still needs more Hollywood content if it is to compete with Hulu and Netflix -- services that YouTube dwarfs in size and global scope. "It needs to make deals with more TV networks and studios," says David Hallerman, principal analyst at eMarketer.

YouTube sees it differently, and Kamangar and his team are seizing the opportunity created by the site's vast breadth. "When cable came along, those new special-interest channels wouldn't have worked on ABC, CBS, or NBC," Kamangar says. CNN was mocked at the start (Ted Turner's folly!), as was ESPN (Australian-rules football?). "On cable, there is no kitesurfing channel, no skiing channel, no piano channel," adds the avid kitesurfer, skier, and pianist. "Technology and business-model limitations mean those things aren't going to appear in the traditional medium. So what's really exciting to me is that we're helping define a new way for content creators to reach an audience, and all these topics I care about suddenly have a home."

In other words, video delivered via the Internet is creating a world with hundreds of thousands of channels, and YouTube is helping people build these next-generation networks and sharing in the upside. "Not only has YouTube created the largest online video community in the world, it's shaping the way video is produced, distributed, and monetized," says Google chairman and CEO Eric Schmidt. Hunter Walk, YouTube's head of product, puts it bluntly. "YouTube is emerging as the first global TV station," he says. "The living room for the world."

**Shishir Mehrotra** and Salar Kamangar started at YouTube the same week in the fall of 2008, but their paths to San Bruno couldn't have been more different. Mehrotra, a coder since first grade and a veteran of both his own startup and a six-year hitch at Microsoft, had joined Google six months earlier to run the project code-named Mosaic, which became Google TV. Susan Wojcicki, who runs Google's ads business, came to him and said, "Hey, we've got a little problem. YouTube is burning through cash. And we need somebody to help them with monetization," Mehrotra, 31, recalls. He told her, "I don't know shit about the ad space. You really want me to do this?" She made Mehrotra an offer he couldn't refuse.

Kamangar's journey to YouTube was a little more willful. He was a rising star at Google, employee No. 9. (He met Sergey Brin at a Stanford job fair and was hired, he says, as "the gofer. I did everything they didn't want to do.") He is forever etched in company lore as the guy who codeveloped AdWords, cracking the code on how Google's search engine would make money. After four years running Google Apps, Kamangar got antsy for something new. "I enjoy problem solving," he says. "If you have a seed of an idea, how do you operationalize that, how do you scale it, how do you bring together the best team to see it through?"

That's exactly what YouTube needed, since questions were mounting about how and whether the site would make money. Kamangar had gotten to know Hurley and Chen after the acquisition, but his conversations with the CEO intensified in 2008. "Chad and I started talking more about the challenges he was having," he says, "and I got more and more passionate, seeing what was possible." Kamangar and Hurley met in Menlo Park several times for burgers at the Dutch Goose, a pub near both of their homes, to hammer out the details of their working relationship.

Kamangar, who grew up in California after emigrating from Tehran at age 2, before the Iranian Revolution, was chasing the startup thrill that has led many of his former Google colleagues to places like Facebook and Twitter. "Why did Salar end up here?" observes Walk, 37, who had relocated from Google to YouTube a year before. "This [place] feels like the magic that he experienced in the early days of Google."

"My first realization was how much I didn't know," admits Kamangar. "I was new to the rights and licensing challenges, and 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. He put Walk in charge of the product, even though his last entertainment-world experience was his 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 surprisingly has far more non-engineers than one might assume. 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 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."

Butler came up with the "Real Women of Philadelphia" competition and hired Food Network star Paula Deen [1] 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 -- 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 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 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 Stropoulos, 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 awareness that she wouldn't otherwise. That's one reason I live and breathe YouTube: I'm working on a platform that enables people to exercise and get appreciation for their special talent, whatever it is."

"I don't think we're a media company," says Walk, who helped build *Second Life* into a global platform in the early 2000s before moving on to Google. "We're a media catalyst. We've built the technology platform, aggregated the audience, and now have the monetization tools that allow anyone who wants to create and distribute content to do it successfully through a single point at a global scale." There are now more than 10,000 partners in the program, and Marc Hustvedt, editor-in-chief of the web-video analyst Tubefilter, estimates that the top 350 to 400 have been able to quit their day jobs and earn a living off the platform.

"YouTube makes it easier for us to run a media company," says Next New Networks CEO Fred Seibert, a 40-year entertainment vet with stints at MTV, Nickelodeon, Comedy Central, and Hanna-Barbera Cartoons. Next New Networks' 16 networks, on topics such as filmmaking (Indy Mogul) and DIY fashion (ThreadBanger), draw 160 million views a month, and the company expects to be profitable in early 2011. (This success has led to speculation that YouTube is acquiring Next New Networks. YouTube and Next New Networks declined our requests for comment.)

The site's tools -- tagging, annotations, search, related videos, playlists, and response videos -- help creators boost viewership, engagement, and ultimately revenue. They also allow creators to interact with fans in a way that conventional TV can't match. That has been key to the success of top partners such as the sketch group Smosh, Dane Boedigheimer (*The Annoying Orange*), and Fred Figglehorn, the squeaky-voiced creation of teenage comedian Lucas Cruikshank, who made the successful leap to TV last summer with a hit movie on Nickelodeon. (As these creators get big-time Hollywood agents and managers, the YouTube tool they are now angling for is upfront money for more ambitious projects.)

YouTube even lets partners sell their own ads, splitting the revenue. Rio Caraeff, the Chuck Taylor-donning 35-year-old CEO of Vevo, the so-called Hulu of music videos that gets 80% of its traffic from YouTube, says his business sells all its own ads (typically those that roll before the music video). "We're elevating music," he says, "to the same level of CPM as premium television content online."

**YouTube's** attitude about "premium television content" -- a value judgment created by others that assumes that *30 Rock* is qualitatively better than *Key of Awesome* -- is complicated. "We see barely any difference between [ad] rates for premium and other content," Mehrotra says. "We almost never get asked anymore." When he tells me, "The cost of creating content is quickly going to zero -- it's a lot more about how creative you are than about how big your studio is and whether you are in Burbank or not," it's hard not to imagine sphincters tightening all the way from those Burbank back lots to Beverly Hills talent agencies.

"TV companies have grown very fat off the success of the traditional TV model," says United Talent Agency's Jason Nadler, who reps new-media stars such as Smosh and Cruikshank. "They have to be very circumspect of a business model that aims to smash paradigms."

And yet, despite Mehrotra's rhetoric, YouTube has worked hard to mollify Hollywood. A program called Content ID alerts participating copyright holders when their content is uploaded to YouTube, giving

them the option to remove it or to monetize it by placing ads against it. Although studios still privately grumble that Content ID is not as sophisticated as they'd like, YouTube says more than 100 million videos are in the program. Content ID accounts for one-third of the more than 2 billion views that YouTube monetizes each week. Google has also stepped up efforts to invest in or acquire digital-video technologies that would benefit YouTube, such as Widevine, a content-protection solution it purchased in December that is currently used by Netflix. But for all this effort, Hollywood players still view YouTube primarily as a great promotion platform rather than a home for their crown jewels.

Kamangar's savviest move to remedy this problem came last September when he hired away Robert Kyncl from Netflix. During his seven years there as the VP of digital content, Kyncl negotiated thousands of on-demand titles for Netflix's streaming service. Kyncl is now YouTube's global head of TV and film entertainment. Says Kamangar with a coy smirk: "He wasn't convinced right off the bat, but we convinced him. I spent quite a bit of time going to L.A. -- well, he can tell you about our late-night drinking sessions."

Kyncl, still less than 90 days into the job when we meet during one of his regular trips from L.A. to San Bruno, understands exactly why he's there: "What I generally call myself is the translator between Silicon Valley and Hollywood," says the 40-year-old exec. "What they [Hollywood] want is somebody who helps them monetize content in the right way, not in pennies but in dollars. That's our objective."

Kamangar and Kyncl aren't showing all their cards yet, but YouTube will probably not compete directly with either Hulu or Netflix. "We don't want to simply replicate what's out there," Kyncl says. Adds Kamangar: "We want to bring to you the kind of content that you can't get on TV, that's already made for TV." He points to the success YouTube has had offering Major League Baseball games in Japan and live-streaming Indian Premier League cricket matches across the world, drawing 55 million streams (and more U.S. viewers than Indian ones). "Historically, it's been hard for content creators to gain worldwide distribution," adds Walk. "They would have to sublicense, fragment, lose touch with their users, and in fact have the majority of the world be too cumbersome for them to even license to in any timely fashion."

YouTube has had great success with globally broadcasted live concerts that the North America-bound Hulu and Netflix can't match. Last November, on the cusp of the release of Bon Jovi's greatest-hits album and international tour, the band gave an intimate concert in a 2,100-person venue in New York's Times Square and streamed it live via YouTube around the world. "YouTube gives us a worldwide audience," says band manager Paul Korzilius while on the road in Japan. He says the YouTube team globally marketed the show from Britain to Japan and let Bon Jovi use its new moderator tool to give fans an opportunity to interact, helping the band pick the concert's set list. "The numbers are mind-boggling when it's all said and done," he says. "The record debuted in the top five in more than 20 markets around the world. It definitely worked as far as selling the record."

**If YouTube is going** to be the living room of the world, it needs to create an experience tailored to every screen that people will use to enjoy video, particularly that big one in people's living rooms. "In 10 years," Kamangar says, "most people will have access to any video channels that they want" delivered

via the Internet. "YouTube cares about being on larger-screen and consumption devices, whether they're tablets or TVs."

And YouTube isn't waiting a decade. "Every six months, people's understanding of television changes, so you feel like you're inventing the future," says Margaret Stewart, head of user experience. Stewart, 39, melds anthropology, visual design, and software engineering when figuring how those half a billion users a month watch and interact with YouTube. "It's this nuanced balance between creating the best possible frame without having the frame take over the experience," says Stewart, who studied interdisciplinary interactive television at New York University in the mid-'90s before becoming an experience designer for web 1.0 personal-publishing innovator Tripod, and then Google. "It's our game to lose."

Walk wooed Stewart from Google, in part to help create a version of the YouTube experience that more closely resembles the passive, TV-viewing one. Everyone at YouTube will tell you how happy they are with the average YouTube session clocking in at 15 minutes, while at the same time making it clear that they're jonesing for the five hours a day that people spend watching TV. "There's still a lot of room for us to grow," says Walk.

YouTube execs don't reflexively assume longer sessions require long-form content. "We don't think the way to get people to watch for an hour is to make sure they watch two 30-minute chunks of video," Mehrotra says. "It may be a whole bunch of five-minute shows that are stitched together well."

Last summer, Walk's product team launched Leanback [2] on its beta TestTube site, which allows users to create a customized channel based on content they subscribe to, content their friends are watching, as well as some additional channels curated by YouTube. "What we'd like to do is make it easier for you to be able to know that there is great content waiting for you, and you can just press play," Walk says.

The team concedes this is still a work in progress, and the critics agree. "The whole experience of YouTube on your TV is pretty flawed right now," says James McQuivey, media technology analyst at Forrester Research, who says that not even one in 10 users with TV access to YouTube uses it. "Here's where thinking like an algorithm could help them."

To a degree, this is exactly what they're doing. In December, Walk's team released a beta version of Personalized Channels, which tries to replicate for video the predictive experience that Pandora creates for music. "How do I find everybody's needle in the haystack without them having to sort through it themselves?" Walk asks, noting that the size of his haystack is both YouTube's biggest asset and liability: Users upload 35 hours of video every minute.

Walk says solving this is "going to be about user experience and front-end design as much as it is about algorithm, infrastructure, and servers," with Stewart emphasizing the complexity of an automated, emotionally driven product. "Things that are funny or sad, those are messy queries to deal with," Stewart says, flashing her charcoal gray nail polish. "Just because I wanted to laugh yesterday doesn't mean I

want to today." But they're clearly chuffed at the early signs of progress: Walk couldn't wait to tell me that viewing sessions on Leanback were 30 minutes -- double the average for the regular site -- before YouTube announced it to the world in December.

After spending two days with the team, I think back to when Kamangar and I were on the couch in that corner office, flipping through his favorite YouTube channels. One video he showed me featured wingsuit flying: "They ski off a mountain," he said, cracking his first smile during our interview. We watched as an adrenaline-amped dude dressed in a modified jumpsuit and skis barrels off a snowcapped peak, seemingly plummeting into the abyss. Kamangar was transfixed as the jumper miraculously takes command in midair, guiding himself down in breathtaking fashion to a safe landing below. "I'm not going to ever be a wingsuit flyer," Kamangar said. But he may be more of one than he realizes.

*A version of this article appears in the February 2011 issue of Fast Company.*

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**Links:**

[1] <http://www.youtube.com/watch?v=fzEp6ootJh0>

[2] <http://www.youtube.com/leanback>