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NEWS & INSIGHTS

What Comes After YouTube

Meet the startups making deals with Big Media for online video's next step

With all the hubbub around Google Inc.'s (**GOOG**) purchase of YouTube Inc., it's easy to think that three-minute, streaming clips mark the culmination of the online video revolution. But what Google paid $1.65 billion for is more like the king of what works now. And a crowd of startups is hard at work developing Web technologies that will radically change how TV, movies, and other video are distributed, packaged, and experienced in the future. "We're just at the beginning stages of what will be a long evolution," says Joe Laszlo, an analyst at JupiterResearch.

The next few months will see the unveiling of a slew of innovative approaches to dishing up video. They range from the much anticipated launch of something called the Venice Project, by the founders of Skype Ltd., the Internet phone service, to the rebirth of BitTorrent, the video piracy software of choice as a legitimate business. Unlike Napster or even YouTube, both of which rose to popularity on the back of illegally posted content, these would-be video giants are teaming up with established media companies, in part to aid them in their battle against piracy. Indeed, one of the most startling developments over the past year is how Hollywood has loosened up, taking a more experimental approach toward online video distribution.

There's plenty of work still to be done before video blossoms into its full potential. "What's the advertising model? How does search work? What's the syndication model? It's the same questions asked with the Web in 1995 that startups helped answer," says Josh Bernoff, an analyst at Forrester Research (**FORR**).

Take something as basic as how you track down specific clips. Getting video search right is critical because it is expected to provide the backbone for the sort of targeted advertising that will prop up video sites. But the technology is still primitive. Google dropped the ball by relying on text descriptions, rather than audio or video identification, in its video search. That created an opening for upstarts Blinkx and TVEyes, which look for actual images and spoken words.

PEER-TO-PEER PRESSURE

Right now, the startup that's creating the biggest buzz is the Venice Project. That's the code name for a service that expects to launch by the end of this year. Rather than join the 150 YouTube video-sharing clones dishing up short, static-ridden videos, the Venice Project is tackling the problem of streaming long videos of nearly high-definition-TV quality in a cost-effective way. It's counting on peer-to-peer technology (P2P), which creates a network of users whose individual computers help share the burden of distributing files.

That's no surprise coming from company founders Janus Friis and Niklas Zennström. They're the masterminds behind two of the best-known P2P applications: Kazaa, the infamous music file-sharing service, and Skype, which eBay Inc. (**EBAY**) bought for $2.6 billion a year ago. These services showed how P2P could boost data-streaming speeds while cutting costs.

Unlike Kazaa, the Venice Project won't let people illegally trade copyrighted works. Instead, the company is in talks with media and TV companies to create ad-supported channels for full-length, professional content. Individuals can also upload videos. "People love to watch TV," says Friis. "And people love the Internet because of the choice and the social qualities. We're trying to bring the best of both worlds together."

The most dramatic proof of how the video picture has shifted is BitTorrent's transformation. Founded by programming whiz Bram Cohen, the company has signed licensing agreements with around 20 media companies, including Warner Bros. Inc. (**TWX**), to sell movies and TV shows at prices starting at $1 apiece. Soon it will announce deals to put the BitTorrent software on DVRs, cable boxes, and wireless routers, enabling BitTorrent to link up to the net and download legal movies or TV shows to PCs and TVs.

Not so long ago, such a collaboration would have been unthinkable; even today, most files downloaded using BitTorrent are illegal. But Warner hopes that by competing side by side it can convert at least 10% of those users to buyers. "The industry has to be willing to take chances," says Darcy Antonellis, executive vice-president for distribution and technology operations at Warner.

That's a stark turnabout for big media, which until recently was focused on tracking down pirates and limiting web distribution of their videos. Now outfits like Maven Networks Inc. and Brightcove Inc. are helping CBS (**CBS**), *The New York Times* (**NYT**), and Time Warner (**TWX**) create Web channels featuring footage that might have ended up on the cutting room floor or in archives. Powered by Maven, CBS's CSTV lets online subscribers stream live and taped college sports games from 100 schools. The startups also help content owners syndicate videos across the Net, much as the Reuters wire service licenses its stories to news outlets. "Syndicating video content is where things really get interesting," says Channing Dawson, senior vice-president at Scripps Networks, which runs the Food Network and HGTV. It's examining deals like syndicating home improvement videos to the Web sites of big retailers.

For all the loosening up, entertainment giants are still quick to draw the line with upstarts that may become rivals. News Corp. (**NWS**), whose MySpace site is a rich video distribution platform, doesn't feel it has much to gain by doing deals with ad-supported networks like the Venice Project. "If our people are going to wander, we want them to wander to something else we own," says Peter Levinsohn, president of Fox Digital (**NWS**).

These would-be video moguls also face fierce competition from deeper-pocketed tech rivals, including Amazon.com Inc. (**AMZN**) and Apple Computer Inc. (**AAPL**) Consolidation is inevitable. Todd Dagres, general partner at venture capital firm Spark Capital, estimates that only 10% of today's 300 video startups will survive. Of course, the rest can hope they get snatched up by someone who sees a glimmer of the next YouTube.

By Heather Green, with Sarah Lacy in San Mateo and Steve Rosenbush in New York