Web TV Networks Challenge Linear Business Models

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17-21 minutes

What is a "network" in a post-network era?

Most people find web TV – television programming served exclusively via Internet protocols – hard to grasp. Typically it's because they have not considered how "networks" function differently outside the legacy cable system.

Historically, television network executives guide series development. They commission new and renew existing scripted series. They program schedules and market shows to guide audiences on what to watch and when. They keep this system stable by managing advertising sales through relationships with ad and ratings agencies. This type of "network" connects producers to audiences and sponsors. It took decades for linear TV networks to develop this system, which has remained relatively stable. Its deep history gives it cultural, economic and political power, making it very difficult for audiences, sponsors, critics and regulators to imagine alternatives.

Internet distribution changes everything. Producers can upload series directly to the internet, which facilitates an innumerable number of connections. Fans can find series without television network executives curating them. Sponsors have infinitely more spaces to place their ads. The internet is a more open television system, and web TV networks must respond to the needs of producers, fans or sponsors who now have more options than in the system run by the biggest program distributors, including the Big Four broadcasters (ABC, NBC, CBS, Fox). Because internet distribution gives the people critical to a show's success – producers, fans, brands – more options, web TV networks are more diverse in their business strategies and more difficult to categorize than traditional TV networks. Because there is more supply – more producers writing series, more audiences and niches to support them, and more time and space for sponsors to buy – demand for content is more diffuse. So too is the payoff. The crisis in demand is why, as Michael Wolff recently wrote, television will likely disrupt the internet, and not the other way around.

Nevertheless, we can see in web TV network visions of more open, fair and efficient forms of television series development, driven by the diversity in business strategies that an open internet allows.

Here are the four types of web TV networks you need to know:

1. Corporate, subscription networks have had the most success in series development because their revenue stream is independent of brands, which have been slow to fund native-digital programming.

2. Corporate, ad-supported networks have had the most challenges as they cannot afford programming slates as large as traditional television networks and aren't social media sites like YouTube.

3. Multichannel networks on YouTube have engaged a broad base of producers and fans but have found it challenging to raise funds from brands, forcing them to sell their companies to major media conglomerates.

4. Independent networks have innovated new types of stories, showcased a diverse group of storytellers, and connected with niche audiences but have found financing hard to come by.

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The web TV networks people are most familiar with are supported directly by subscription fees. These include Netflix, Amazon and, on a smaller scale, Vimeo. Vimeo made its name by offering HD streaming before YouTube, allowing it to amass a base of indie filmmakers willing to pay monthly rates for priority uploading for high quality videos without ads. Now working with film festivals and releasing its first series in *High Maintenance*, Vimeo is looking for a new revenue stream in selling programs directly to viewers, though it is reportedly planning a subscription service too.

Netflix and Amazon clearly dominate this space. Both have followed the lead of premium subscription networks like HBO by building large libraries of content – for Netflix, studio films and TV series, and for Amazon, pretty much everything – to attract millions of consumers willing to pay a subscription fee for access. This strategy helped both publicly traded companies become two of the largest and most successful internet businesses, affording them the cash to make massive investments in original programming. Amazon reportedly spent $100 million on original programming this past quarter, while Netflix has spent many times that since 2012.

Netflix and Amazon's considerable resources have meant they develop programs similarly to their premium cable counterparts. They largely draw from the same pool of producers and scripts as linear TV channels: Netflix snagged *House of Cards* from HBO and Amazon's original programming line-up consists largely of studio TV and film veterans, save some exceptions like Gortimer Gibbon's *Life on Normal Street*, a children's show written by a teacher discovered through Amazon Studios. Amazon initially flirted with a more open development process with its Studios, asking writers to submit scripts, but issues over intellectual property dissuaded talented writers and the company found itself ill-prepared for such a complicated undertaking. So, it looked to established Hollywood talent. Netflix also has ordered series from top-tier producers and major content IP holders like Dreamworks and Marvel studios, just like linear networks do.

Netflix and Amazon's innovations in development have been limited to the distribution side, where their accountability to paying viewers and freedom from cable distribution has compelled them to release episodes all at once with a variety of program lengths, though most conform to half-hour and hour-long formats similar to premium cable channels. Both companies allow subscribers to rate programs and use that data to shape development. Netflix claims it develops series based on what's popular on the site and promotes series to subscribers based on previous viewing habits. Amazon used user comments to inform its decisions on which pilots to pick up from those posted on its site. Yet, both companies have had the most success hewing to the cable script: creating "edgy," racially and sexually diverse programming unlike those on existing networks – particularly *Orange is the New Black* for Netflix (which it has claimed is its most popular original series) and Amazon's *Transparent*, the first critically successful series about trans identity and the most trans-inclusive US series in TV history (though the bar is low).

Transparent wins at the Golden Globes

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Web TV development looks very different without a large subscriber base. Corporate networks relying on advertising like Hulu, AOL and Yahoo have struggled to attract the levels of financing from brands necessary to compete with linear television in production quality and scale, and because most are not social media sites like YouTube, they have found it challenging to find fans without the marketing budgets of the major networks.

This is largely because digital video ad revenue totals just $3-4 billion, according to the IAB. Much of that goes to YouTube – hundreds of channels – and Hulu, which gets high CPMs (cost per mille, the standard measurement for ad rates) because it shows legacy TV content with more ad breaks and has paying subscribers, some of whom verify cable subscriptions for expedited access to premium content. Other web TV networks have generated hits when they work with celebrities – most notably, Yahoo's deal with Ben Stiller's production company for *Burning Love* – but have otherwise proven unable to nurture a new crop of producers and fans like YouTube.

For the best perspective on the challenges of ad-supported web TV development, look no further than the NewFronts, the web's answer to the television upfronts. At the upfronts, linear television networks present programs to advertisers to build buzz for the upcoming season, where brands will purchase time based on the demographic size and makeup of each network's audience. There are limited slots alongside primetime scripted series and ad agencies have years-long relationships with the networks, so the upfront market, while stagnant, still takes in roughly $9 billion each year for broadcast channels and a little more for ad-supported cable networks.

Online, the space for ads is nearly limitless, so networks banded together to present a curated slate for brands. Hence, the NewFronts. Initially run by Digitas and now run by the IAB, the Newfronts have been slow to get major brands to shift campaign dollars from linear TV to the web. I argue it is partly because ad-supported series have not attracted the same level of attention from critics and fans as subscription offerings like House of Cards and Transparent. So, some Newfront partners are giving up. This year, founding partner Microsoft left the original programming business and shuttered Xbox Entertainment Studios, retaining interest in only one series: the Halo franchise in development at a linear network, Showtime.

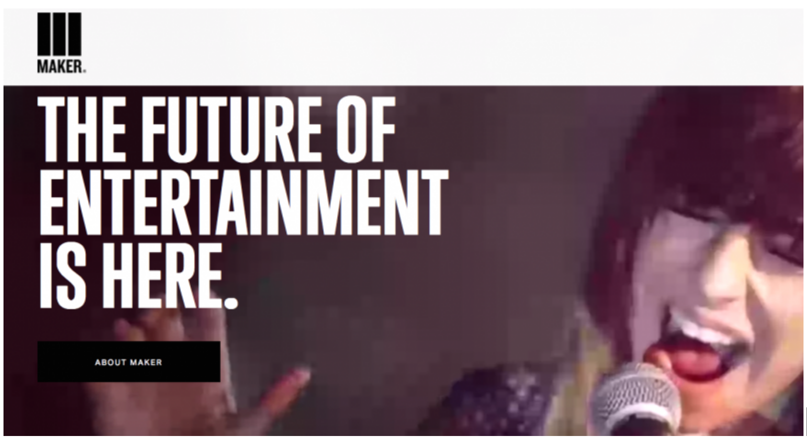
The system of ad-buying online is vastly different from television. Most buying still occurs through advertising networks and exchanges, which tailor buys to the audience and context for programs using rapid, real-time bidding and algorithms. Brands have been very skeptical of this system, though certain metrics like brand recall, reach and engagement are reportedly higher online than on TV.

3. Multichannel networks (MCNs) on YouTube – organizations who manage multiple, sometimes thousands, of YouTube channels and their creators – have engaged a broader base of producers and fans but have found it challenging to raise funds from brands, forcing them to sell their companies to major media conglomerates.

Google's Brandcast initiative is the company's latest attempt to restrict the supply of advertising space and boost revenue for multichannel and individual networks on its site. Brandcast is a hybrid marketing initiative meant to translate YouTube's vast, user-generated networks to advertisers accustomed to making deals based on demographic buys. Most recently, Google has created a "preferred" group of channels, the top 5% on the site, and sells brands based on their demographics, notably the types of viewers advertisers are missing on linear television: viewers roughly 13-34 but expanding beyond that demographic every year.

In this way Google is trying retain the most powerful, bottom-up aspects of their platform – that fans can directly subscribe to channels whose small teams of producers create content for very specific niche interests – while bulk-selling advertising space to top-down media conglomerates. It's the latest of many attempts by Google to drive up ad rates: first with its partner program in 2007, then its "100 original channel" initiative. Most recently Google has said it will fund top channels directly and broker deals with studios. It is also building studios in Los Angeles, New York, London, Tokyo and Sao Paulo to give creators access to high quality cameras, lighting, production and post-production sound technologies, sound stages and green screens.

While Google is experimenting and investing, so-called multichannel networks have filled the void, signing up tens of thousands of individual YouTube channels and star producers, organizing them into niches and genres, helping develop talent and brokering TV and film deals with studios, linear networks and brands. Last year multichannel networks received a host of bad press, particularly Machinima and Maker Studios, for allegedly taking intellectual property rights from thousands of producers. YouTube has worked to mediate disputes between producers and their networks, with unclear success. Major YouTube stars who have amassed millions of fans, however, now routinely move between multichannels in search of the best deals.



Disney bought Maker Studios in 2014

Meanwhile, low ad rates for online video have forced many multichannel networks to sell out to major media conglomerates looking for a cheap foothold in a potentially lucrative market, specifically younger audiences who don't watch linear television. Among the most prominent are Disney's reported nearly $500 million acquisition of Maker Studios, Dreamworks acquired Awesomeness TV, which then purchased Big Frame; RTL purchased StyleHaul; AT&T and Chernin Group bought a majority stake in Fullscreen. Other networks have been able to attract investors with minority stakes, including Collective Digital Studio (best known for Cartoon Network's Annoying Orange), Kin Community, and Machinima, in which Time Warner and Google itself have invested millions.

New entrants to multichannel distribution are trying to avoid the weak digital video ad market by offering a mix of ad- and subscription-based revenue, such as ex-Hulu CEO Jason Kilar's start-up Vessel.

4. Independent networks have innovated new types of stories, showcased a diverse group of storytellers, and connected with niche audiences but have found financing hard to come by.

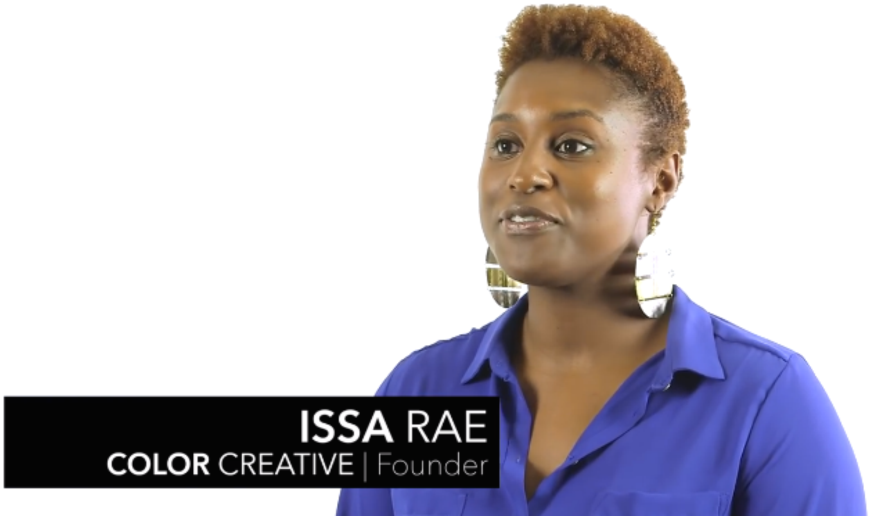
Because they are smaller than corporate web TV networks, independent networks have experimented with a range of financing strategies, including crowdfunding and subscription. They date back to the turn of the century with short film network Atom.com and The Sync, which broadcast proto-vloggers Jennifer Ringley (JenniCam) and Terry Crummitt (SnackBoy).

Indie networks take on many shapes, styles and sizes, depending on the historical moment in which they arise. Many have failed. A telling example is that of Strike.TV, a network borne of the 2007-2008 Writers Guild of America strike. Because television is a writer's medium, much of production in Hollywood stopped during the strike. Directors, actors, editors and cinematographers had time to produce content independent of the linear networks and organized their efforts under Strike.TV, partially to prove the viability of digital distribution (digital royalties being the key contention in negotiations). When the strike ended, workers went back to their paying jobs and Strike.TV died a slow death.

This is the challenge for indie networks. Short of financing, they have to motivate producers to work consistently for less money and have enough programming to attract fan attention away from linear TV and corporate web networks – all without much left over for marketing their series.

Those networks that do sustain themselves provide meaningful insight into the possibilities of a more open TV system as they tend to be more diverse than corporate networks and led by women and people of color.

Perhaps the best example is that of Felicia Day. Day gained acclaim by writing and producing *The Guild*, a classic web series best summarized as *Friends* for the diverse gamer market. Gamers initially supported *The Guild* directly (pre-Kickstarter), which attracted Microsoft as a semi-exclusive distributor. As Day's celebrity and *The Guild* audience grew, Google approached Day with a deal to create Geek & Sundry, a network for traditionally under-served geeks (primarily young women). Geek & Sundry produced a number of solid programs and sold to Legendary this summer.



On a smaller scale, networks serving women and writers of color have developed innovative program slates and reached fans. Issa Rae, creator of the hit comedy *The Mis-adventures of Awkward Black Girl*, used her success with that show to inaugurate Color Creative this year, releasing three 30-minute pilots from writers of color, including a dark comedy about a serial killer from the Black List, a comedy about lesbians of color and a stoner comedy. Color Creative is soliciting monthly donations from fans. Rae has been distributing indie comedies and dramas on her YouTube channel for years, sometimes partnering with fellow LA-based indie Black and Sexy TV, known for realist black comedies with an art-house feel.

In recent years fans that are under-served by corporate networks have started to support indie networks directly through crowdfunding or subscription.

Sometimes they raise enough to fund a small studio. One example is Freddie Wong's RocketJump, the network that built the half-hour series *Video Game High School*, Wong achieved YouTube fame by producing music videos, films, visual effects how-tos and gamer content, amassing millions of followers, much of them from Asian Americans, who have enthusiastically supported online video more than other ethnic categories. When the network opted to create its first original series, it took to Kickstarter asking for $75,000 in 2011. They raised $273,000. Season two raised over $800,000. Wong was also able to bring in sponsors.

On a much smaller scale, lesbian consumers have routinely supported indie networks releasing series for them. Emmy Award-winning *Venice*, started in 2009 after Crystal Chappell lost her lesbian storyline on daytime soap *Guiding Light* after CBS canceled it, sustained itself for four seasons with just over 10,000 fans contributing $10 per season. Chicago-based network, tello films, has thousands of fans paying $5 each month for original lesbian comedies and dramas, along with films provided by its sister site One More Lesbian.

Indie series and networks release new stories, told across genres and developed in interesting ways, for communities eager for programs speaking to their specific experiences. As the legacy television industry consistently neglects diversity in program development – as studies from the Writers Guild and Bunche Center have shown – this is an innovation, enabled by the openness in distribution vexing larger networks looking to develop new stories and find new audiences and sponsors.