

Google diversifies its revenue stream away from advertising

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In a major announcement this week, YouTube let the market know they will be offering a subscription service model, ad free to market. What does this mean for advertisers?

Background

YouTube in a major announcement this week let the market know they will be offering a subscription service model, ad free to market. This has been widely rumoured with some leaks of its imminence in the lead up to yesterday's news. As a precursor YouTube had already launched a USA only

Kids version of their content ad free, showing an early incantation of their thinking. What does it mean for advertisers who are increasingly shifting TV budgets into wider Audio Visual cross platform campaigns and is this a signal of the death of this popular format? In some ways yes, but more so it's a challenge to be better marketers.

Details

YouTube Red will be a monthly subscription service to content allowing for cross device viewing and saving of content to watch offline without the intrusion of ad formats. The service will launch within the week with a promise of unique content under the Originals banner slated for 2016. Alongside YouTube Red is YouTube music, a diversification into category segmenting from the platform as we recently saw with the launch of YouTube Gaming. With an increase in their channel programming the platform that used to be primarily user generated content is repositioning itself as the TV channel of the millennial world.

Implications

In short YouTube faces a lot of competition in this space and it was incumbent on them to reappraise their position if they were to retain the time share of consumers they had previously garnered. Subscription models for premium ad free viewership were tried and tested with the success of Netflix, Amazon and Apple following the directive that consumers were moving away from acceptance of disruptive advertising if they had the option to opt out. Reinforced by the rise of ad blocking software's.

Similarly Facebook is moving into video is a big way and hoping to be the one stop shop for your internet browsing posing a challenge to Google's core advertising revenue stream model as its primary source of income. The diversification of revenue streams for Google shores up its growth trajectory in the wake of real competition for the consumer's home page destination. The success YouTube Red will generate will be incumbent on the level of exclusive programming they have access to generate subscribers. Beyond the YouTube loyalists growth for subscribers has to follow the same market demand Netflix has successfully created with award winning programming only accessible through their platform.

If you take music subscription services as a proxy there will always be a divide between those willing to pay and those happy to view ads for the privilege. It's the demographics divide that this creates advertisers won't like. Your AB types having more likelihood and means to opt out of advertising and migrate to the ad free environment. More importantly though I think it's further reinforcement that consumers want less interruptive formats. The YouTube ad experience in the main has been a replica of the TV experience of traditional commercial breaks. This has worked well for advertisers, and has ensured an easy transition of investments to the medium. Consumers though have higher expectations of what digital advertising can offer them. This will be the key attractiveness of the YouTube Red proposition and the important challenge to marketers to find better formats and opportunities to reach consumers with Audio Visual content

Summary

Marketers should not be concerned at the opportunity YouTube Red presents to opt out of advertising. Instead it reinforces the importance of seeing digital media opportunities in new ways and not repurposing the approaches to advertising we have always used for TV advertising into digital channels. Content and better native experience for video are core objectives to set your teams and agencies. Improving the consumer experience of your brand and in turn the rewards this will repay. Quality content and deeper partnerships will rise as a result where everyone is a winner. YouTube Red presents an opportunity to reappraise what success looks like in this medium. Mediacom as the content and connections agency are doing just that, aiding our brands in building deeper content partnerships while seeking out more innovative and consumer permissible formats to achieve marketing objectives.

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