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technology

Do You Think Bandwidth Grows on Trees?

User-generated content may have changed the Internet, but sites like YouTube are suffocating under the costs of storing it.

By Farhad Manjoo

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Everyone knows that print newspapers are our generation's horse-and-buggy; in the most wired cities, they've been pummeled by competition from the Web. But it might surprise you to learn that one of the largest and most-celebrated *new-media* ventures is burning through cash at a rate that makes newspapers look like wise investments. It's called YouTube: According a recent report by analysts at the financial-services company Credit Suisse, Google will lose [\\$470 million](#) on the video-sharing site this year alone. To put it another way, the *Boston Globe*, which is on track to [lose \\$85 million in 2009](#), is five times more profitable—or, rather, less unprofitable—than YouTube. All so you can watch [this helium-voiced oddball](#) whenever you want.

YouTube's troubles are surprisingly similar to those faced by newspapers. Just like your local daily, the company is struggling to sell enough in advertising to cover the enormous costs of storing and distributing its content. Newspapers have to pay to publish and deliver dead trees; YouTube has to pay for a gargantuan Internet connection to send videos to your computer and the millions of others who are demanding the most recent [Dramatic Chipmunk](#) mash-up. Google doesn't break out YouTube's profits and losses on its earnings statements, and of course it's possible that Credit Suisse's estimates are off. But if the analysts are at all close, YouTube, which Google bought in 2006, is in big trouble. As Benjamin Wayne, the CEO of the rival video-streaming company Fliqz, pointed out in a recent [article for Silicon Alley Insider](#), not even Google can long sustain a company that's losing close to half a billion dollars a year.

But YouTube's problems point to a larger difficulty for many Web startups: "User-generated content" is proving to be a financial albatross. Two years ago, *Time* magazine named ["you" its Person of the Year](#) for doing your small part in fueling the Web 2.0 revolution. The magazine

argued that by collecting and distributing the creations of millions of individuals, the Web is upending the way we learn about what's going on in the world around us. There's no doubt this is true; you experienced the presidential inauguration through [millions of pictures captured by ordinary people](#), and a lot of what you learn these days comes from articles put together by the anonymous hordes who power Wikipedia. Yet even though they've changed the way we live, sites that collect and share content produced by all of us haven't done the one thing many tech evangelists said they'd do—make a ton of money. Or, in many cases, any money.

There's a simple reason for this: Advertisers don't like paying very much to support homemade photos and videos. As a result, the economics of user-generated sites are even more crushing than those of the newspaper business. At least newspapers see a proportional relationship between circulation and revenues—when the paper publishes great stories, it attracts more readers, and, in time, more advertisers. At YouTube, the relationship can be backward: The videos that get the most clicks—and are thus most expensive for YouTube to carry—trend toward the sort of lewd or random flavor that doesn't sit well with advertisers. Look at some of the site's hits over the last few days: a clip of a [guest fainting on Glenn Beck's show](#) filched from Fox News; a video of a Brazilian soccer coach [punching a referee](#), also recorded from TV; a cell phone capture showing Britney Spears [misidentify the city she's performing in](#); and a shot of a ["boob grab" among spectators](#) at the Masters golf tournament. Would you pay to stick your product's logo under any of them?

Probably not—YouTube sells ads on [fewer than 10 percent of its videos](#). Credit Suisse estimates that 375 million people around the world will play about 75 billion YouTube videos this year. To serve up all these streams, the company has to pay for a broadband connection capable of hurtling data at the equivalent of 30 million megabits-per-second—about 6 million times as fast as your home Internet connection. All this bandwidth costs Google \$360 million a year, the analysts estimate. Then there's the cost of the videos themselves: Even though many of the site's most popular content is uploaded for free from users, Credit Suisse says YouTube spends about \$250 million a year to acquire licenses to broadcast professionally produced videos. Add in all other expenses, and the cost of running YouTube for one year exceeds \$700 million. But the company makes only a fraction of that back in advertising—about \$240 million in revenues for 2009, according to the report.

YouTube isn't alone in Poor House 2.0. Yahoo bought the popular photo-sharing site Flickr in 2005, and though the service might be marginally profitable, it certainly hasn't added appreciably to Yahoo's bottom line. (Yahoo similarly doesn't break out Flickr's financials.) Facebook provides an even better example. The social network is running up a huge tab to store and serve up all the photos, videos, and other junk you stuff into your profile. Last year, [TechCrunch reported](#) that Facebook spends \$1 million a month on electricity, \$500,000 a month on bandwidth, and up to \$2 million per week on new servers to keep up with its users' insatiable photo-uploading needs. (Members post nearly [a billion photos every month](#).) But Facebook gets relatively little in return

for storing all your memories. Ad rates on its network [are terribly low](#), the company doesn't make a profit, and it hasn't shed any light on how it will make good on investments that [valued the company at \\$15 billion](#).

For all the frenzy surrounding citizen-produced media, the content that seems to do best online is the same stuff that did well offline—content produced by professionals. My colleague [Jack Shafer recently listed the many services](#) that people are willing to pay for online. They include music from iTunes, game videos from MLB.TV, reviews from *Consumer Reports*, and articles from the *Wall Street Journal*—and nothing made on some dude's cell phone. Or look at Hulu, the video site that shows TV shows and movies. It attracts far less traffic than YouTube does (and thus pays far less for bandwidth). But because advertisers are willing to pay much more to be featured on its videos, Hulu is [on track to match YouTube's revenues](#) and with much lower overhead.

YouTube has been trying to catch up to Hulu in the non-user-generated video business. It has signed content-licensing deals with several Hollywood studios and recording companies in the hopes that it can attract an audience—and advertisers—for the kind of quality programming we now run to Hulu for. But as Benjamin Wayne points out, those deals won't solve YouTube's fundamental problem; even if it does begin to make respectable profits from, say, [showing old feature films](#), it'll still have to keep paying huge infrastructure costs to host the world's home videos. It's possible that over the next few years, Google's engineers could find a way to reduce dramatically the costs of hosting such a service. (They're capable of amazing things.) But that proposition is iffy. As Wayne argues, there's a very real possibility that YouTube as we know it is doomed. The company may have to institute restrictions to keep its bandwidth in check, or it could unveil any number of pay-per-use schemes (as some [other video sites have done](#)). Then the video free-for-all that we've grown to love will come to an end.

That would be unfortunate. *Time* wasn't wrong: YouTube and its fellow user-contributed sites really did change the world. Too bad nobody could find a way to pay for it.

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