

What Will Hulu's IPO Mean for Advertisers?

Contributed by eMarketer
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When it comes to the average number of minutes each audience member spent viewing videos in July 2010, only YouTube outranks Hulu, according to research from comScore Video Metrix.

Internet users spend 282.7 minutes streaming video on YouTube vs. 158 minutes on Hulu.

But when it comes to online video advertising, Hulu rules. The site is the top online destination for broadcast TV shows, and each Hulu viewer saw an average of 27.9 ads in July, in contrast to only 4.6 ads per user on YouTube.

Looked at another way, advertisers ran over 783 million streaming-video ads on Hulu, but about 452 million on the second-largest online video property, the Tremor Media network, and only 219 million on YouTube.

Even when you compare Hulu just with other professional-video sites, effectively meaning the various TV network sites, Hulu is still the king.

Advertisers bought more ads per viewer on Hulu in June 2010 than on the sites of some of Hulu's current owners, such as ABC or FOX.

Trust is the core reason why brand marketers will run more video ads on Hulu or TheWB.com than on YouTube. Much of today's online video content presents safety risks for brand marketers.

Their concerns include content that is not suitable for (most) brands or too often simply not knowing if the content is suitable, even when it may be.

That uncertainty encourages many brands to stay "traditional" and simply place video ads only within fully trusted content, such as full television episodes on Hulu and the TV-network-owned sites.

And brand advertisers' current reliance on Hulu is why its reported IPO casts large shadows among those companies and their agencies. If Hulu becomes a public company, that will likely result in classic good news/bad news scenarios.

The good news will come from the IPO's capital infusion, which will give Hulu greater resources for obtaining more studio-level video content, the kind of content that soothes safety-conscious brand marketers.

That extra cash will also help Hulu compete against various forces like Netflix, the cable companies and TV networks.

The potential bad news, however, is more legion:

- * The pressure that shareholders will place on Hulu is harder to gauge than the current pressure from its parent TV networks.

- * As an independent entity, Hulu will incur greater costs for locking up video content. That's because the broadcast networks that now supply nearly all of Hulu's content will become the site's competitors and therefore will need substantial payments to entice deal-making. Greater expenses for Hulu likely will mean higher CPMs for video advertisers.

- * In addition to higher CPMs or other possible pricing shifts, Hulu will probably need to place more ads per video stream. That could have a twofold effect: greater clutter that reduces the advertising's effectiveness and reduced audience size disenchanted by an increasing ad load.

- * And as the Wall Street Journal reported in August, "Some of Hulu's owners also would like to dial back how much free video they offer, believing it diminishes the value of their reruns, and could entice viewers to ditch their cable or satellite subscriptions, which generate hefty revenue." That possibility could affect Hulu's usefulness for advertisers, even if the rumored IPO fails to take place.

Will greater competition for professional video content notably from its former owners undercut Hulu's independence?

Will more video content and services such as Hulu's new Plus premium subscription package mean an uptick in audience beyond the site's current 9.4% reach?

Will that larger audience mean advertisers will get their money's worth from higher CPMs for ads?

Stay tuned for answers.

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