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Hulu Readies Its Online TV, Dodging the Insults

By [BRAD STONE](#)

The knives are out for [Hulu.com](#).

Hulu is the new-media creation of two old-media rivals, NBC, which is owned by [General Electric](#), and Fox, owned by the [News Corporation](#). Since March, when the broadcasters announced their joint effort to bring free, ad-supported television shows to the Web, critics have pounced, predicting the venture would be doomed by diverging agendas, technical challenges and an all-powerful enemy: YouTube.

Skeptical bloggers even slapped Hulu with a derisive moniker: “Clown Co.”

Now the defense is ready to present its case.

Today, Hulu, now an independent company with more than a hundred employees and its own offices in Los Angeles, will begin privately testing its new service with select users at Hulu.com. It will also begin sending its videos to the sites of five distribution partners, [Microsoft](#), [AOL](#), [MySpace](#), [Yahoo](#) and [Comcast](#).

Hulu is presenting select episodes of some 90 television shows, including new and old programs from NBC (“The Office,” “The A-Team”), Fox (“24” and “The Simpsons”) and an assortment of smaller broadcasters like USA Networks. It has also added two new partners, Metro-Goldwyn-Mayer, which distributes programs like “Chappelle’s Show” and “Reno 911,” and [Sony](#) Pictures Television, which will make selections in its archives like “I Dream of Jeannie,” available on Hulu.com.

All the shows are viewable inside a Web browser and festooned with advertisements.

“You will not find this lineup from top to bottom anywhere else,” said Jason Kilar, 36, chief executive of Hulu and a nine-year veteran of [Amazon.com](#).

Mr. Kilar says that although some of the same shows are also available free to viewers on sites like [NBC.com](#) and [Fox.com](#), Hulu has a unique agenda: to marry the largest collection of professionally-produced video to the widest audience possible. “We don’t have to worry about showing TV schedules or letting fans get to know the actors,” he said. “All we have to worry about

is the video.”

Rival ABC, owned by the [Walt Disney Company](#), is focusing on bringing high-quality versions of its programs to its own site, [ABC.com](#). [CBS](#) has developed its own relationships with video sites like [AOL.com](#) and a new independent online video service, Joost.

Hulu, demonstrated last week to reporters, might surprise some of its critics. In addition to television shows, the company is experimenting with free movies. The service will begin with 10 films, including “Master and Commander” and “Sideways,” though each will run with commercial breaks.

Hulu’s long-awaited introduction and new content deals are giving the executives involved in the effort a chance to respond to the criticism.

“I think there’s a snarky desire to say this is big dumb media and this is a big dumb joint venture,” said [Peter Chernin](#), president of the News Corporation. He said he first conceived of Hulu when thinking of ways to get Fox shows distributed as widely as possible. “If there is a product that’s attractive to consumers, we’ll be just fine,” he said.

Hulu might prove most attractive to advertisers, since the videos on Hulu are chock-full of promotional opportunities. Messages for companies like [Cisco](#) and [General Motors](#) remain above the video player during each program. Hulu is also using overlays, promotional graphics that roam over the bottom of the screen during a show. (YouTube is also experimenting with this ad format). Hulu is, however, cutting by half the length of traditional commercial breaks during its videos.

For each show streamed online, Hulu splits the revenue with the content creator and the distribution site, like MySpaceTV or MSN. The revenue splits vary by the type of program, but the content owner takes a majority, according to Mr. Kilar.

Hulu will offer some features not available on other online video sites. One innovation lets users share television shows and video clips with friends. An easy editing tool lets users isolate a select clip of any length from a program and e-mail that clip to a friend or post it on a blog. “This is a big deal,” Mr. Kilar said. “It is a great way to let users express themselves through our content.”

Mr. Kilar promises that Hulu will continually add new shows from its two primary backers. “Fox and NBC are doing everything possible to clear the rights and get us material,” he said.

Critics have questioned whether NBC and Fox are truly motivated to make Hulu succeed. Both networks make many of the same programs freely available on their own Web sites.

In addition, Fox sells ad-free, downloadable versions of its programs on [Apple's](#) iTunes. NBC pulled its material off iTunes earlier this fall, citing Apple's reluctance to let content creators set their own price and now sells shows on [Amazon.com's](#) Unbox service.

NBC recently removed its content from YouTube to make way for the Hulu introduction. Hulu "is really the centerpiece of what we're trying to evolve to digitally," said [Jeff Zucker](#), president and chief executive of [NBC Universal](#).

Hulu must still overcome some significant obstacles. If it wants to become the true destination site for professionally made TV shows and movies, it must attract other major content providers like [Viacom](#) and Disney. Those media companies reportedly rejected previous offers to participate in the service.

The executives involved in Hulu say they will again approach those companies and others when the service is offered more widely, and give them better revenue-sharing terms than they can find anywhere else. But big companies like Viacom will likely be reluctant to embrace an effort jointly owned by two of their largest competitors.

"These are all friends of mine," Mr. Chernin of the News Corporation said. "They all have their own strategies. They have every right to sit back and see how this works and if it is in their best interests. I'm optimistic that others will join us, but even if nothing else changes, I already think this has more premium video than anywhere else."

Another challenge: Hulu's operating costs could quickly escalate. Hulu wants to offer the rich video that people are used to seeing on television. It will have to spend far more than other video sites to store the video on servers and then transmit the files to users, and at the same time give away much of the advertising revenue to its partners.

YouTube, by contrast, does not pay anything for its content (users freely submit it). It gets to keep all its ad revenue and does not provide video in a high-quality format. Still, because of the high operating costs of running a video-sharing service, YouTube is not thought to be very profitable for [Google](#).

"To me the biggest challenge is economics," said James L. McQuivey, an analyst with [Forrester Research](#) who was briefed on Hulu last week. "The content is good, and they are distributing it in all the right places. But over time they will have pressure to increase the quality of the streams and that is going to raise costs even more."

Mr. Zucker does not appear to be concerned about the long-term financial viability of Hulu. That might actually provide more fodder for those critics who say Hulu has so many diverging mandates that it will be difficult for it to create an enduring, stand-alone business.

“At a minimum it’s another way for us to offer our content to users and get paid for it,” Mr. Zucker said. “If the site itself does well, that will be gravy on top of it.”

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