

internet evolution

Hulu May Be Doomed By Success

Written by [Robert McGarvey](#)

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Feast on this paradox: The more eyeballs that video streaming service [Hulu LLC](#) wins, the nearer it steps to death at the hands of its parents. At least, that's the bizarre reality that [the LA Times reports](#) is believed by many media watchers.

Hulu's problem: It is the bastard child of an old media threesome that included News Corp., Walt Disney Co., and NBCUniversal. When they birthed the idea of Hulu, they were driven by fear of [Netflix Inc.](#) (Nasdaq: NFLX), says Tom Siebert, a vice president at new media ad agency Digitaria. But now, he says, "They find themselves between a rock and hard place."

Netflix is the rock, but the hard place is the pittance online ads are fetching for Hulu -- "much less than similar ads on the same programs on traditional televisions," says Siebert.

And now Hulu is siphoning viewers from traditional TV as a [generation](#) of [cable cord cutters](#) turns off the old-fashioned TV and tunes into Internet-streamed media on demand.

From the perspective of old media, worse is coming. Hulu's success is a threat to traditional modes of distribution," says Monty Kosma, COO of [Fandor](#), a streaming site for independent films. "Old media are losing their control over price, and that scares them."

"The biggest concern for the networks is the loss of advertising revenue, or the belief that advertising revenue will be lost if Hulu is allowed to progress without some constraints or control mechanisms," says media lawyer [Torin Dorros](#).

Bottom line: Hulu now attracts over 27 million users monthly, but annually, it generates only \$100 million apiece for its three old media owners, according to the *LA Times*. That compares to an estimated \$30 billion that cascades into those old media companies from their traditional partners.

Hulu has pushed to raise new revenue streams. Hulu Plus, a premium subscription service available on a wide range of platforms, generates tasty income -- it will have [one million subscribers](#) at \$7.99 per month by year end. But that's chump change compared to the billions rolling in the old way.

If it were your child, you might think about strangling it, too.

The pressure point is that this summer, Hulu's rights to distribute programming from ABC, NBC, and Fox expires. So far, the old media behemoths have been slow to renew deals. Rumors fly that they

want to delay availability of shows via Hulu, which would force viewers to wait weeks, and maybe remove some content altogether.

There also are rumors that Hulu's owners may begin demanding fees from Hulu for permission to show their content, exactly as cable operators do (they pay so-called carriage fees). Right now, the owners share only in ad revenues -- they get 70 percent of the ad dollars, according to the *LA Times* -- but they apparently want even more money from their offspring.

But the paradox thickens: "The less they support Hulu, the more they help Netflix," says Siebert.

If the old media behemoths chase away Hulu viewers by restricting content or adding more commercials, customers have other places to go. Netflix, of course, offers a comparably priced service at \$7.99 per month, and it can play old media outlets off against each other because it is independent. Ditto for emerging services such as [Amazon's video on demand](#).

Rumors also [are multiplying](#) that [Apple Inc.](#) (Nasdaq: AAPL) plans to unplug Apple TV and instead offer an ambitious cloud-based video streaming service intended to go head to head with Netflix (and Amazon, Hulu, and the rest).

"In a world of online access, the less control any one big player can have," says Kosma. "Big media companies have been successful -- but suddenly competition is opening up."

Are Hulu's old media parents savvy enough to recognize that they need Hulu, their stalking horse in the era of Internet streaming of media content?

You remember what happened to Dr. Frankenstein's monster, don't you? Will the old media companies abandon Hulu, just as Frankenstein abandoned his creation? We'll know by this summer.

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