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## Brightcove and the Future of Internet Television

On October 30, 2006, Brightcove, Inc., relaunched its website—and, in effect, its business.<sup>1</sup> Founded in March 2004, Brightcove provided a wide range of services and technologies for the publishing, distribution, and consumption of Internet video content.<sup>2</sup> In its first year and a half of operation, the company had focused on building a comprehensive Web-based software platform for video publishers large and small. By mid-2006, it had secured revenue-producing deals with such clients as MTV, the New York Times Company, and Sony BMG. Those companies paid usage fees to Brightcove for tools that let them upload, manage, and deliver video files via broadband Internet.<sup>3</sup>

Yet serving customers in that way had always been a means to an end for Jeremy Allaire, founder and CEO of Brightcove. From the company's initial conception, he had envisioned Brightcove as a multisided media distribution business, serving not only content owners but also advertisers, affiliated distributors, and consumers. The relaunch of Brightcove.com was a major step toward fulfilling Allaire's ambition to position his company at the center of the nascent world of Internet television. "Internet TV," in its current form, amounted to the delivery of video content via the Internet to personal computers (PCs). In time, Allaire and others believed, this new medium would deliver content to television sets and thereby reconfigure the traditional network TV business. At Brightcove's new destination site ([www.brightcove.com](http://www.brightcove.com)), PC users could search, browse, view, and participate in the Web's fast-growing pool of video media.

At the same time, Allaire was conducting a private-placement funding round that eventually brought in \$59.5 million, a sum that far exceeded the \$22 million that Brightcove had previously raised.<sup>4</sup> Allaire and his executive team faced key decisions on how to allocate this new money. As they saw it, Brightcove had four basic options: build out key elements in its software platform, invest in various efforts to drive traffic to its network, expand internationally, or make acquisitions that would fill a gap in either its platform business or its network business.<sup>5</sup>

Meanwhile, just weeks before the relaunch, news came of an event that would reconfigure the competitive landscape for Internet TV: In early October, the online search giant Google agreed to buy YouTube ([www.youtube.com](http://www.youtube.com)), a hugely popular video-sharing site.<sup>6</sup> YouTube, by showcasing user-generated short-form video content, had already demonstrated the potential inherent in at least one form of Internet TV. Now it would join forces with another high-traffic destination site in order to target the rapidly evolving online video market. "This space is moving much faster than any of us thought it would," Tareef Kawaf, vice president of engineering, acknowledged in mid-2006.<sup>7</sup> For Brightcove, the window for building a media distribution company would soon close—Allaire estimated that he had 12 to 18 months—if the company failed to make the right strategic bets.<sup>8</sup>

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Professors Andrei Hagiu and David B. Yoffie and Research Associate Michael Slind prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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## The Birth of Brightcove

From a young age, Allaire had shown promise both as an entrepreneur and as a technologist. At age 13, he started a baseball-card-trading business with \$5,000 that his parents gave him and eventually doubled that initial stake. In his early twenties, during the early days of the Internet, he formed a consultancy that helped build websites for MIT linguist and political activist Noam Chomsky and others. Along with his brother, J.J. Allaire, he launched Allaire Corp. in 1995. Allaire Corp. produced Cold Fusion, a Web-development software package whose popularity led Macromedia to acquire the company for \$360 million in 2001. Jeremy Allaire then became chief technology officer at Macromedia, where he helped transform its Flash product from a Web animation tool into a leading platform for applications on the broadband Internet. In 2003, Allaire left Macromedia and joined General Catalyst, a Cambridge, Massachusetts-based venture capital firm.<sup>9</sup>

At General Catalyst, Allaire began work on the business idea (code-named Vidmark, for “video marketplace”) that later emerged as Brightcove. By August 2004, he had secured \$5.5 million in Series A funding from General Catalyst and from Palo Alto-based Accel Partners, and early the next year he publicly launched his new company.<sup>10</sup> The name Brightcove was meant to evoke the “bright” promise of the Internet TV market, as well as the gentle “cove” that the company would offer to both consumers and video publishers who sought a haven within the vast, churning sea of the Internet.<sup>11</sup>

### *Developing a Vision*

The core focus of Brightcove was on helping video-rights owners build businesses around the delivery of content via broadband Internet. An opportunity had opened up, Allaire believed, to construct a new model for media delivery in which video publishers would essentially control the monetization and distribution of their own content. Such an arrangement would mark a radical shift away from the traditional model, in which control resided mostly with broadcast networks, cable providers, and other large-scale gatekeepers. Brightcove would drive that shift and also benefit from it, first by developing a technology platform on which to build broadband video services and then by creating a multisided business that embraced content providers, advertisers, and affiliated programmers. “Jeremy doesn’t want to build another enterprise software company,” said Elisabeth Carpenter, vice president of business development. “He wants to build a site that gets tons and tons of traffic”—a consumer destination site that would form the nucleus of a media distribution network.<sup>12</sup> Only a network strategy would promote Allaire’s larger vision; only a media distribution company would earn the high valuation (perhaps as high as \$1 billion) that he aimed for.<sup>13</sup>

In one early formulation, Allaire compared his company to a combination of Comcast and eBay. Like Comcast, Brightcove would host, “aggregate,” and distribute a broad array of video content. And like eBay, Brightcove would also serve as an ever-expanding marketplace where buyers and sellers—of video programming and advertising placement, in this case—would find each other. Unlike Comcast and other traditional media companies, however, Brightcove existed to support a relatively open system.<sup>14</sup> Allaire argued that “radically empowered” video publishers were now in a position to gain unprecedented control of the delivery and monetization of their content. He outlined this vision in a March 2005 statement:

From production and distribution to marketing and viewing, television’s business model is undergoing a significant transformation. We are working towards a world where television and video production and distribution are much more democratized and where a creative spark, a camera, and a computer are all it takes to put television programming before the eyes of the consumer. Hundreds of mainstream video providers will make this transition, and thousands more will be born.<sup>15</sup>

In other words, Brightcove was working to enable and serve the “long tail” of video content. The long tail, a concept introduced by *Wired* magazine editor Chris Anderson in a 2004 article (and expanded into a book of that title, published in August 2006), referred to the process by which new technologies were turning the traditional hits-based media business into one in which non-blockbusters accounted for an increasingly high fraction of sales. According to Anderson, companies such as Amazon and Netflix had demonstrated the value and the viability of making an extensive inventory available to consumers. Sales at such companies, he argued, followed a “98 percent rule”: Over a given period, they would sell 98% of all items in their inventory at least once.<sup>16</sup> Likewise, for video content owners, digitization and the nonlinear nature of online programming (Allaire called the Internet “the ultimate on-demand machine”) created a new opportunity to distribute vast libraries of content.<sup>17</sup>

### *The Market Opportunity*

Several other factors created a burgeoning opportunity for Internet television. The success of this new medium depended on widely available “rich-media” formats and on widespread high-speed access, and both elements had fallen into place. Flash-player technology had come of age, with a market penetration on PCs of 95%.<sup>18</sup> In 2006, an estimated 68% of U.S. online users (95 million in all) had broadband Internet access.<sup>19</sup> Worldwide, broadband subscribers numbered 200 million in 2005; that figure would double by 2010, forecasters believed.<sup>20</sup> Interest in online video ran high, with nearly half of Internet users reporting that they routinely watched video files.<sup>21</sup> Interest among advertisers was also high and growing fast. By one estimate, spending on online video advertising would leap from \$225 million in 2005 to \$1.5 billion in 2009.<sup>22</sup> (In 2006, TV advertising was a \$74 billion industry.)<sup>23</sup> On the production side, meanwhile, the falling cost of video cameras, editing software, and other technologies made possible an ever-lengthening “tail” of new content owners. In 2004, by one reckoning, more than 16,000 independent video producers were at work in the United States.<sup>24</sup>

While Allaire’s vision in some ways involved a disruption of the traditional television distribution model, in other ways it emulated that model. In effect, Brightcove’s position within the Internet TV landscape would resemble that of a broadcast network within the traditional TV landscape. Like a broadcast network, Brightcove would distribute producers’ content both to consumers (viewers) and to affiliates (local stations); it would sell advertising, and it would enable affiliates to sell advertising as well. In addition, with the “eBay” piece of its strategy, Brightcove would create a business-to-business marketplace that functioned as “a twenty-first-century version of NATPE,” according to Adam Gerber, vice president of ad products. The annual conference of NATPE—the National Association of Television Programming Executives—was the chief venue where TV programmers and TV producers bought and sold television content. Similarly, through Brightcove’s marketplace offering, website affiliates would gain access to video syndication opportunities put forth by content owners.<sup>25</sup> Taken as a whole, this model put Brightcove at the center of a new, multisided television ecosystem. “We make money wherever users view content,” Allaire said.<sup>26</sup>

### *Setting Priorities*

Allaire believed that the PC would be the primary target for Internet television during the medium’s early stages, and that over time technology would enable distribution of video content directly from the Internet to television sets and mobile devices. Aiming to position Brightcove for each phase in the development of Internet TV, Allaire envisioned services that fell into three categories. (See **Exhibit 1**.) Under *distribution*, the company would offer tools for publishing content, services to help syndicate content to third-party affiliates, and features to generate consumer interest. (Syndication, in the context of the Web, referred to the common practice in which one site licensed

content for other sites to use.) Under *monetization*, it would offer products and services to support advertising, pay-per-view, and subscription-based business models. Under *delivery*, it would offer technology to support the viewing of content on PCs, TV sets, and mobile devices. The overarching goal was to provide a one-stop shop that would serve all constituents in the Internet TV market. At the crux of that offering would be a consumer destination site that brought together the various parts of this multisided business.<sup>27</sup>

Allaire and his fellow executives recognized, however, that they could not build this one-stop shop all at once. Thus, in the summer of 2005, they had to decide on the sequence in which they would roll out key elements of their business. At the most general level, they distinguished between the platform portion of the business (that is, the technology offering for content owners) and the network portion (that is, the various offerings that would include the destination site, the affiliate network, and the advertising network). After some debate, they opted to focus first on building the publishing platform and to defer development of a consumer-facing website—along with other parts of the planned network business. Brightcove, with its software platform, would bring publishers into its orbit. Once publishers were onboard, Allaire believed, the company could leverage those customers to gain attention from consumers and advertisers. And, in turn, it would create a compelling marketplace where those publishers could promote their content.<sup>28</sup>

One option that Allaire and his team did not seriously consider was launching a site built around “consumer-generated media” (CGM). They did not foresee the incredible popularity of YouTube, which Allaire later attributed to a widespread fascination with “voyeuristic” programming of the kind offered in so-called reality TV.<sup>29</sup> YouTube and other CGM sites acquired content and drew traffic by letting consumers upload homemade videos, as well as videos with pirated commercial content.<sup>30</sup> Allaire’s initial focus, by contrast, was strictly on creating a distribution network for commercial, professional-quality media publishers.

## The Brightcove Software Platform

In the spring of 2005, Brightcove made its software platform available on an invitation-only basis to 18 content providers.<sup>31</sup> Late that year, it began offering its service commercially to premium customers—most of them large, established media companies such as Discovery Communications and Newsweek. By mid-2006, the company had more than 20 paying clients in that category.<sup>32</sup>

### *Technology*

With its publishing platform, Brightcove presented a turnkey solution for creating and maintaining broadband video channels. Using the Brightcove Console, a Web application, a publisher could upload its video assets to a Brightcove server, encode them in the Flash format if necessary, and deploy this content into one or more “players.” Each player, or channel, was a discrete broadband “media experience” that had its own location on the Internet and that publishers could incorporate into their websites. By mid-2006, publishers had archived more than 1,700 players into the Brightcove system. Other tools allowed publishers to track usage, manage content rights and security, program channels around interactive consumer options, and customize channels using Brightcove application programming interfaces (APIs).<sup>33</sup>

The Brightcove-enabled process for distributing online video content was “dramatically faster than anything publishers had before,” according to Mason. Once publishers had encoded their files in Flash, they were generally able to launch a broadband channel from the Brightcove Console in as

little as 30 minutes.<sup>34</sup> Other elements of the platform would eventually include tools for integrating, delivering, and tracking advertising spots within each player; order and payment processing for rental, purchase, and subscription options; and community tools that let consumers rate, review, and share videos. As part of its platform offering, Brightcove also handled broadband delivery and hosting of publishers' content.<sup>35</sup>

Brightcove executives said that their chief competition in the Internet TV platform market was "build your own": To maintain control over content and branding, some large media companies had tried to develop a video distribution system in-house. MTV, for example, spent two years and more than \$2 million on its MTV Overdrive project, according to Carpenter.<sup>36</sup> At a minimum, she explained, it would take six to nine months and require \$750,000 in engineering staff time for a publisher to replicate Brightcove's platform. She summarized her basic pitch to prospective customers in this way: "With BC, you pay nothing upfront and pay only if people actually watch your video on the web."<sup>37</sup> She and others believed that the Brightcove offering was sufficiently advanced and comprehensive to serve as a competitive advantage in the platform market—but only in the near term. "What we've done is nothing that a bunch of smart engineers couldn't build in 10 months," noted Adam Berrey, vice president of marketing. "We're constantly in a footrace."<sup>38</sup>

### *Early Customers*

Platform customers during this early stage fell into two categories. In one group were "long-tail publishers"—small, niche-based content owners that sought an inexpensive, all-inclusive Internet TV solution. Examples included Shipwreck Central ([www.shipwreckcentral.com](http://www.shipwreckcentral.com)), a producer of underwater-exploration videos, and Barrio 305 ([www.barrio305.com](http://www.barrio305.com)), which made hip-hop and Latin R&B videos. Such publishers allowed Brightcove to feature its branding on their video players.<sup>39</sup> Customers in the second group were large media companies that expected "high-touch" service from Brightcove, while insisting that they retain full control over use and branding. One example of such "premium customers," as Brightcove leaders called them, was the New York Times Company. When readers clicked on a video player at the *New York Times* website ([www.nytimes.com](http://www.nytimes.com)), they saw a video clip enabled by the Brightcove technology platform. (The same was true of video content at other top media websites, including WSJ.com, the *Wall Street Journal* site.) The New York Times deal, like many other premium-customer deals, also included the possibility that Brightcove could syndicate Times content.<sup>40</sup>

Compiling a roster of "reference" clients paid off for Brightcove, generating buzz in the business press and positioning the company for further growth. In November 2005, a Series B funding round brought in \$16.2 million from AOL, the lead investor, along with InterActiveCorp. (IAC), the Hearst Corp., and the investment banking firm Allen & Co. In addition, media titan Barry Diller, the CEO of IAC, joined the Brightcove Board of Directors.<sup>41</sup>

Yet delivering its platform to premium publishers presented serious challenges for the company. "What happened is that we got sucked into the highly custom needs of all these guys," Allaire said.<sup>42</sup> Demands for customization work by these clients drained crucial engineering and business-development resources. Partly as a result, by mid-2006 the company was behind schedule by one quarter or more in advancing against its software road map.<sup>43</sup> Serving premium customers had become "addictive," Carpenter said, and made it harder to manage the transition from providing back-end technology services to constructing a media distribution network.<sup>44</sup>

### *Business Model*

Before its relaunch, Brightcove had bundled its platform service with content delivery network (CDN) fees. In effect, it operated as a CDN reseller, purchasing bandwidth wholesale from major CDN suppliers and charging publishers for that service at retail rates that defrayed the costs of developing and operating the platform. The actual costs of the software platform were thus invisible to customers, which otherwise would have paid the same rate to a CDN company such as Akamai or Limelight Networks.<sup>45</sup>

The software-platform business yielded Brightcove its first significant revenue. In 2006, the company expected to log sales “in the single-digit millions,” most of it from platform operations. Its cost of goods sold (consisting mainly of CDN fees) accounted for roughly half of its revenue, beyond which it experienced a monthly burn rate that Brightcove leaders called “relatively high.”<sup>46</sup> The company expected to reach a break-even point by 2008 or 2009. By then, however, it planned to generate most of its revenue from sources other than the platform business. In 2006, only a small portion of its income (less than 10%) derived from network-related operations. By the end of the decade, Brightcove leaders believed, the company would become a highly profitable \$100 million business, with advertising accounting for more than half of its sales, other network revenue for slightly less than a quarter of its sales, and platform fees for the remainder. Meanwhile, Brightcove’s headcount stood at 105 in late 2006 and would reach a projected total of more than 500 by 2011.<sup>47</sup>

A sense of urgency marked efforts to augment the existing revenue stream with new revenue streams. Scot Rosenblum, CFO, and other executives worried that CDN retail prices would soon begin to fall, undermining the viability of Brightcove’s early business model. Even more worrisome was the specter of commoditization in the market for video-enabling platform technologies.<sup>48</sup>

As Brightcove leaders confronted those challenges, they considered possible models for the strategic transformation that they sought to make from a platform business to a media distribution business. General Counsel Andy Feinberg cited Google as one company that had made that transition. Leveraging its search-technology licensing business, Google had turned itself into a powerful advertising-based consumer destination. Allaire and other executives noted that Apple and Microsoft had built prominent media businesses (iTunes and MSN, respectively) after first succeeding as technology platform providers. Carpenter, however, suggested that Brightcove lacked the “deep pockets” and the established user relationships that those companies had possessed. “Aren’t we trying to get into the [distribution and] network business far earlier than any of these companies transformed themselves?” she asked.<sup>49</sup>

## **The Brightcove Media Network**

Concurrent with relaunching Brightcove.com as a consumer-facing destination site, Brightcove aimed to deploy in full the four-sided media business that Allaire had originally envisioned. Making up those four sides were publishers, advertisers, affiliates, and consumers. (See **Exhibit 2**).

### *Publishers*

Attracting high-quality publishers was essential to Allaire’s strategy. While the company continued to offer usage-based fee plans, it aimed to shift more and more of its customers to revenue-sharing arrangements based on advertising and “pay-media” sales. (Brightcove’s pay-media offering

enabled publishers to rent or sell “near-DVD-quality” video downloads, with publishers keeping 70% of the revenue from such transactions.)<sup>50</sup>

To segment the market for video-publishing services, Brightcove offered two main account types. (See **Exhibit 3**.) The main differences between accounts involved payment for Brightcove’s software platform and control over content distribution and monetization. *Premium*-account publishers maintained full control over how their content was used, but they had to pay for platform services. They could also participate, at their discretion, in Brightcove’s other offerings. In June 2006, for example, Sony BMG launched its Musicbox Video site (<http://musicbox.sonybmg.com>), which took part in Brightcove advertising and syndication opportunities.<sup>51</sup>

*Brightcove Network*-account publishers, by contrast, effectively traded “nearly 100% control over all revenue-generating functions on the publisher’s content in exchange for free and unlimited use of our platform and deep access to our networks,” Allaire wrote in an internal document.<sup>52</sup> Once accepted into the Brightcove Network, publishers yielded control to Brightcove over whether and how their content appeared on Brightcove.com and over their entire advertising inventory. They received 50% of gross revenue from advertising sales, with Brightcove taking responsibility for selling and serving all ad spots.

In mid-2006, the question of which publishers fit an “ideal customer” profile was a matter of hot debate among Brightcove executives. In a presentation to employees, Allaire cited these groups as belonging to that category: “major media companies launching niche channels,” especially channels built around deep video libraries; small-scale professional producers that sought to create broadband channels; and individuals with quasi-professional ambitions to produce and distribute videos.<sup>53</sup> Brian Monnin, vice president of publishing products, suggested that the company’s target customer base was “70% long tail, 30% premium.” Allaire stressed that Brightcove would eventually target all publisher types, including CGM producers. “We are well on our way to serving long-, mid-, and short-tail content,” he noted in late 2006.<sup>54</sup>

### *Advertisers*

Brightcove’s offering to advertisers involved placement of ads in various formats across the Brightcove AdNet, which consisted of several parts.<sup>55</sup> (See **Exhibit 4**.) AdNet Opportunistic, for example, took remnant advertising inventory of premium publishers and made it available to ad buyers. Publishers in the network could bar advertising that conflicted with their own ad sales operations or that posed a content-based conflict. (An environmentally oriented publisher, for example, could exclude SUV ads.)

The key to Brightcove’s advertising strategy, though, was AdNet Select. Using ad inventory claimed mainly from Brightcove Network publishers, Brightcove sold advertisers placement not against specific channels but against Brightcove-designated genres—travel and leisure, health and wellness, and so forth. Ad spots then ran within video players on relevant publisher sites, on third-party affiliate sites, or on Brightcove.com. Brightcove’s pitch to advertisers highlighted the carefully vetted quality of its Brightcove Network and its ad-serving technology, which distributed ad spots according to demographic and behavioral formulas. Brightcove controlled this process, though publishers had a limited ability to exclude some categories of advertising.

In each of these ad networks, the chief product was the 15-second “pre-roll” video ad spot. Before watching a video segment, consumers would have to view such an ad, much as they would view a TV commercial during a broadcast program. The new medium of Internet TV offered considerable value to advertisers, improving their ability to track impressions and to target specific consumer

groups. Brightcove tools let them do so at the level not just of demographics but of behavior. Moreover, with a network that included publishers such as Barrio 305 and the parenting site MomMeTV ([www.mommetv.com](http://www.mommetv.com)), Brightcove delivered access to highly segmented audiences that advertisers might otherwise be unable to reach.<sup>56</sup>

For these reasons, Web video advertising in 2006 sold at a premium over standard TV advertising. Online CPM rates (CPM being the traditional term for “cost per thousand” viewer impressions) ranged from \$20 to \$30. By contrast, the average broadcast TV rate was about \$15, and cable TV rates went as low as \$5.<sup>57</sup> Brightcove took advantage of the higher prevailing online rates, although Gerber acknowledged that Brightcove Network rates were likely to dip to a CPM of \$15.<sup>58</sup> The Brightcove ad sales staff remained relatively small, with two ad salespeople on board and with plans to hire two more by the end of the year.<sup>59</sup> In 2006, this staff had mainly targeted large advertisers such as Ford, McDonald’s, and Unilever for selected premium accounts. But with the launch late that year of its Brightcove Network and its AdNet offerings, the company attracted a new slate of ad buyers, including Proctor & Gamble, Starwood Hotels, and others.<sup>60</sup>

### *Affiliates*

The Brightcove affiliate network offered third-party online properties a way to use Brightcove-powered video content on their websites.<sup>61</sup> From the Brightcove Console, publishers flagged video players that they wished to make available for syndication. Those players appeared in the company’s Syndication Marketplace, which any would-be affiliate could access via the Brightcove destination site. Using the Brightcove platform, affiliated programmers could review syndication offers and then apply to content owners for the right to run a specific player on their site. Publishers could accept or reject each application and also set terms related to use and branding.

This service benefited affiliates by giving them access to varied broadband content. A fan site devoted to Latin R&B music, for example, could apply for permission to feature videos from the Barrio 305 channel. Meanwhile, the service benefited publishers—small, niche publishers especially—by enabling them to market their content through “viral syndication.” (While some premium publishers showed interest in distributing content to affiliates, many of them were leery of ceding control in this way, Carpenter noted.)<sup>62</sup> Publishers and affiliates could monetize syndicated content through advertising and pay-media models. In the case of advertising, the Syndication Marketplace offered a split that gave 20% of revenue to affiliates, 40% to publishers, and 40% to Brightcove.<sup>63</sup>

The affiliate network was an essential ingredient in Allaire’s larger vision for a media distribution network. Brightcove, according to Allaire, was creating a “boundaryless, seamless environment” where those who owned content and those who needed content could find and work with each other. Through its Syndication Marketplace, the company stood to make money not just at its destination site but wherever Brightcove-enabled video content appeared. At the same time, each syndicated video player contained hooks (such as a requirement to sign up for a Brightcove account) that linked consumers to Brightcove.com.<sup>64</sup>

### *Consumers*

In relaunching Brightcove.com, Allaire and his team transformed the site from a corporate public relations vehicle into a destination for consumers in search of high-quality broadband video content.<sup>65</sup> Visitors could hunt down videos using a tool powered by Truveo, a leading video-search capability that the company acquired as part of its deal with AOL. While search results gave preference to Brightcove video players, this tool scoured the entire Web for content. (In late 2006,

Brightcove was also negotiating with Google and Yahoo! to make sure that its content was discoverable on those companies' search engines.) For developers of the revamped site, "browse" functionality was at least as important as "search." Through a carefully tailored shopping-like experience, visitors could browse through videos that Brightcove had organized by genre or explore recommendations that the site generated according to their search-and-browse behavior.<sup>66</sup>

Both at its site and in its video-player environment, Brightcove offered consumers an overall user experience that surpassed that of competing services, company leaders believed.<sup>67</sup> Even before the site relaunch, Brightcove designed its player technology to provide a consumer-friendly, network-promoting experience: Each player included Brightcove-branded tools that allowed users to share a video through e-mail or RSS feed. At its destination site, the company invited visitors to open accounts that enabled them to rate and review video content, to compile their own video lineups, to submit videos to Brightcove.com from other websites, and to make and track video purchases. In an internal document, Allaire explained the rationale behind these features: "Brightcove will leverage deep consumer interest and passion to provide a 'democratized editorial' system for the site."<sup>68</sup>

Other efforts to attract consumers to Brightcove.com were also under way. In February 2007, the company introduced Brightcove Personal, a service that allowed nonprofessional users to upload their own content to the site and to share it from a personal page. Inviting users to "share your video in style," the service combined YouTube-like functionality with technology and video quality that was superior to that of most other sharing sites.<sup>69</sup> Aftermix, planned for beta release in 2007, was a technology that allowed consumers to capture all or part of a Brightcove video and to "mix and mash" it with other material to create content of their own.<sup>70</sup>

The overriding goal, Berrey said, was "consumer aggregation."<sup>71</sup> The Brightcove media network would not garner substantial interest from publishers and advertisers until it captured consumer interest. But with every step that the company took toward becoming a destination for consumers, it risked angering publishers—premium publishers, at least—that wanted to claim those consumers for their own destination strategy. Allaire, to reassure premium publishers, noted that they would retain "fine-grained control" over both the usage and monetization of their content on Brightcove.com.<sup>72</sup> In any event, consumer interest in the site did increase following the October 2006 relaunch. (See **Exhibit 5**.)

## Competitors

Allaire and his team divided competitors into four categories, each built around a different business model.<sup>73</sup> Numerous companies vied with Brightcove in each category. (See **Exhibit 6**.)

*Technology suppliers* included companies that delivered all or part of an online video distribution platform. Best-of-breed suppliers had emerged to serve large media organizations that followed a "build-your-own" course, providing content-management software, CDN services, advertising-support technology, and other pieces of what Brightcove offered on a one-stop-shop basis.

A second grouping, that of *aggregators*, encompassed companies that offered traditional, fairly closed systems of media delivery. Major cable providers such as Comcast and telephony carriers such as Verizon had test-marketed Internet protocol television (IPTV) services in selected areas. IPTV, unlike Internet TV, operated across proprietary networks rather than via the open Internet.<sup>74</sup> Internet portals such as AOL, Microsoft's MSN, and Yahoo! had rolled out broadband video offerings as well. Aggregators also included retail services such as Amazon, Apple Computer's iTunes, and RealNetworks. At iTunes, Apple sold downloads of TV shows for \$1.99 apiece; consumers bought

1 million such downloads within 20 days of the service's launch in October 2005.<sup>75</sup> (Early in 2007, Apple went further, shipping an "Apple TV" device that streamed video content from its iTunes online store to TV sets.)<sup>76</sup> To one degree or another, all of these companies centralized and packaged content for audiences that they controlled. Brightcove leaders contrasted that approach with their model, which allowed publishers to aggregate content and audiences on their own.

The fast-growing world of *social-networking and consumer-sharing sites*, epitomized by MySpace, made up a third category. These services provided a forum for consumers to post CGM videos. One such site was Metacafe ([www.metacafe.com](http://www.metacafe.com)), which used producer rewards to attract content owners; by late 2006, it had become one of the most-visited video destinations on the Web.<sup>77</sup> In September 2006, Microsoft announced that it would soon launch a sharing service called Soapbox on MSN Video (<http://soapbox.msn.com>).<sup>78</sup>

Finally, several companies had set up operation as *broadband media distributors*, the category to which Brightcove itself belonged. Occupying what Brightcove called the "sweet spot" of the Internet TV space, such companies as Revver ([www.revver.com](http://www.revver.com)) and the Roo Group ([www.roo.com](http://www.roo.com)) combined platform services with media distribution elements to create a new way for publishers to reach and build audiences. Revver originated as a CGM-style video-sharing business, although it had recently moved toward a Brightcove-like model, with a four-sided approach that targeted "makers," "sharers," "watchers," and "sponsors."<sup>79</sup> Roo emphasized its turnkey video-packaging solution for publishers, although it too offered advertising-management and content-licensing services.<sup>80</sup> Brightcove leaders saw neither company as a serious competitor, noting that these and other entrants in this category had relatively weak platform offerings.

### *YouTube and Google*

As the late-October relaunch approached, two competitors posed especially strong threats to Brightcove's bid to build an Internet TV network around its consumer destination site: YouTube, founded in February 2005 and now the market leader in the consumer video-sharing space; and Internet search giant Google, which had launched a video-sharing site of its own, Google Video (<http://video.google.com>), in January 2006. Both of these companies already generated significant traffic at their destination sites. Then, just weeks before the Brightcove.com relaunch, Google acquired YouTube for \$1.65 billion in stock.<sup>81</sup>

By September 2006, less than a year after it became open to the public, YouTube served more than 100 million video clips per day. It logged 20 million unique visitors per month, and its video streams accounted for up to 60% of all videos watched online. Anyone could upload content at the site and users did so at the rate of 65,000 videos per day. YouTube also offered a growing set of tools for browsing, searching, rating, and sharing videos.<sup>82</sup>

Most videos at the site fell into one of two groups: amateur productions (pet-trick displays, martial arts clips, and similar antics), and clips from DVDs or television feeds that viewers captured and then posted, often illegally. When media companies threatened legal action, as NBC did in early 2006, YouTube removed the offending content.<sup>83</sup> As of September 2006, YouTube's revenues were negligible, and the company depended on venture funding of \$11.5 million to cover its considerable costs (by one estimate, it incurred bandwidth charges of \$500,000 per month).<sup>84</sup> Despite the site's uncertain business model, Brightcove executives appreciated what YouTube had achieved through CGM-driven audience aggregation. "That was a really big oversight," Berrey said in August 2006. "It was too bad that we missed that. We could have built YouTube last summer."<sup>85</sup>

Google executives, when they announced the purchase of YouTube, said that the company would continue to operate independently. (Google, meanwhile, planned to retain Google Video as a separate entity.) Concurrent with that announcement, YouTube leaders reported having struck deals with several major media companies: Universal, Sony BMG, and CBS Television agreed to license video content to YouTube in exchange for shares of advertising revenue. In addition, YouTube was developing technology that would spot copyrighted videos that users posted to the site and provide for revenue sharing with copyright owners.<sup>86</sup> Even NBC had signed a deal with YouTube, agreeing in June 2006 to buy ads on the site and to provide clips to promote its fall lineup.<sup>87</sup> Nonetheless, in March 2007, NBC joined with News Corp. (parent company of the Fox Network) to create both a new, as-yet-unnamed video destination site and a service that would distribute video content through portals such as AOL, MySpace, and Yahoo.<sup>88</sup>

With a market valuation of more than \$100 billion and with \$10.4 billion in cash as of late 2006, Google had ample resources to build a leading broadband video destination, whether through YouTube or its own portal.<sup>89</sup> (See **Exhibit 7**.) Brightcove executives, however, believed that their company offered publishers greater functionality and greater control over branding. With Google, Carpenter said, “everything comes with a Google wrapper.”<sup>90</sup> While Google and YouTube had gone far with CGM content, they did not provide a way for content owners to build and sustain broadband video businesses.<sup>91</sup> Moreover, while they had begun to form alliances with customers at the upper end of the market, Google and YouTube continued to face resistance from such companies. In February 2007, for example, Viacom lodged a blanket demand that YouTube remove more than 100,000 video clips that it said were in violation of copyright.<sup>92</sup>

### *An Unsettled Landscape*

Prominent entrants into the Internet television market continued to appear, even after the Brightcove.com relaunch. One of them, Joost ([www.joost.com](http://www.joost.com)), proposed yet another model of online video distribution. In January 2007, the creators of the music file-sharing service KaZaA and the Internet telephony service Skype introduced a beta version of Joost—“the first global TV distribution platform, bringing together advertisers, content owners and viewers in an interactive, community-driven environment.”<sup>93</sup> Like Brightcove, Joost would distribute mainly professional video content in a channel-based, on-demand format, building its revenue model around advertising sales. Unlike Brightcove—but like KaZaA and Skype—Joost would operate on a peer-to-peer file-sharing network that would enable the company to reduce bandwidth costs.<sup>94</sup>

## **Strategic Options for Brightcove**

Brightcove had a good problem in the winter of 2007: Having received an infusion of nearly \$60 million in new private funding, Allaire and his team had to decide how to spend it. On the one hand, Allaire was intent on making this financing round the last one before an initial public offering or sale; Brightcove, therefore, had to use its resources judiciously. On the other hand, as the YouTube acquisition demonstrated, the Internet TV market was changing at an incredible speed. In his pitch to investors, Allaire had cited four areas in which he planned to spend the new money: completing Brightcove’s publishing-technology platform, building out key elements of its media network, acquiring companies that could supply missing technology or content pieces, and expanding into fast-growing international markets.<sup>95</sup> “We have the luxury of placing multiple bets,” Allaire said in August 2006. “We’ll follow an investment-portfolio strategy, testing the marketplace in different areas. Then, over the next year, we’ll decide whether to lop off certain bets.”<sup>96</sup> Several of his fellow executives, though, argued that some options were more promising—or more urgent—than others.

### *Complete the Platform*

By early 2007, Brightcove offered publishers a set of technologies and services that met with steady demand from prospective premium customers. “We’re signing deals left and right,” Allaire said. The company was also turning away platform business that involved too much customization. Meanwhile, the full self-service platform offering—the envisioned one-stop shop for independent publishers—was not yet operational, and some executives believed that developing it should be a top priority. “Get it done, make it easy, make it scalable,” Carpenter said. “You’ve got to feed the long tail.”<sup>97</sup> Andy Feinberg concurred, arguing that bringing smaller-scale publishers into the Brightcove system was an essential prerequisite to capturing consumers and hence advertisers.<sup>98</sup> Worries remained that resources were spread too thinly to achieve such goals.

At the same time, the premium business remained vital to the company’s strategy. Brightcove, Carpenter and others contended, could not afford to forgo any current or potential platform revenue.<sup>99</sup> In its investment pitch, Brightcove announced that it would use new funding to hire business-development staff to pursue premium customers, to amass resources for managing and supporting premium relationships, and to develop publishing technologies that would help maintain its market-leading position. Also in that pitch, the company noted plans to invest in channel and partner relationships that would help build an ecosystem around its platform. Partner targets included advertising agencies, interactive design firms, video production houses, and other companies that could serve as Brightcove platform resellers.

### *Build the Network*

While creating a more robust video-publishing platform might help to attract content owners, other steps were necessary to develop the remaining three sides of Brightcove’s multisided business. Efforts to attract and serve affiliates, consumers, and advertisers thus made up a significant part of the company’s forward strategy. With its new funding, Brightcove planned to complete development of self-service tools for its affiliate network. But the need to bring consumers and advertisers into Brightcove’s orbit posed the greatest challenge to executives. “We don’t have an audience, and if you don’t have an audience, you can’t sell ads,” said Adam Gerber.<sup>100</sup> Similarly, until advertisers joined the Brightcove network in large numbers, the company would struggle to lure high-quality publishers—and, in turn, consumers.

To attract consumers, both to Brightcove.com and to the network as a whole, Brightcove planned to invest in search marketing, through Google and other providers; in consumer-friendly online tools such as Aftermix; and in developing and programming the destination site. Berrey suggested that spending on traditional outbound marketing might be necessary to reach consumers; after all, he noted, that was how AOL built its audience early on.<sup>101</sup> Allaire, for his part, doubted the value of direct (as opposed to viral) marketing in a Web-centered business like Brightcove.

To build its advertising network, Brightcove intended to focus primarily on hiring ad sales staff and secondarily on developing advertising technologies. Gerber, while he advocated investment in several business areas, believed that the company must “get people out on the streets to sell ads.” Persuading ad buyers to take online media seriously was already an uphill battle, he said, and persuading them to take Brightcove’s advertising products seriously would require far more than the handful of salespeople currently on board.<sup>102</sup> According to Monnin, advertising would be the core driver of Brightcove’s success as a media company. Other sources of monetization, such as pay media, would never generate significant revenue; competing retail sites would claim much of that business, he suggested. Monnin worried, therefore, that Brightcove was not investing rapidly enough in either expanding its ad sales team or developing tools to support rich-media advertising.<sup>103</sup>

### *Make Key Acquisitions*

Both in platform operations and in network operations, Brightcove leaders faced tough choices—choices that they summarized in a phrase: Build or buy? For the most part, they preferred to build products and to amass resources internally. However, Allaire planned to set aside a portion of Brightcove's new funding for acquisition opportunities that might arise. Targets within the technology category included social-networking tools, advertising technologies, and CDN tools and services that could lower the company's cost structure. On the network side, targets included video-programming providers, community sites, and other consumer-facing businesses.

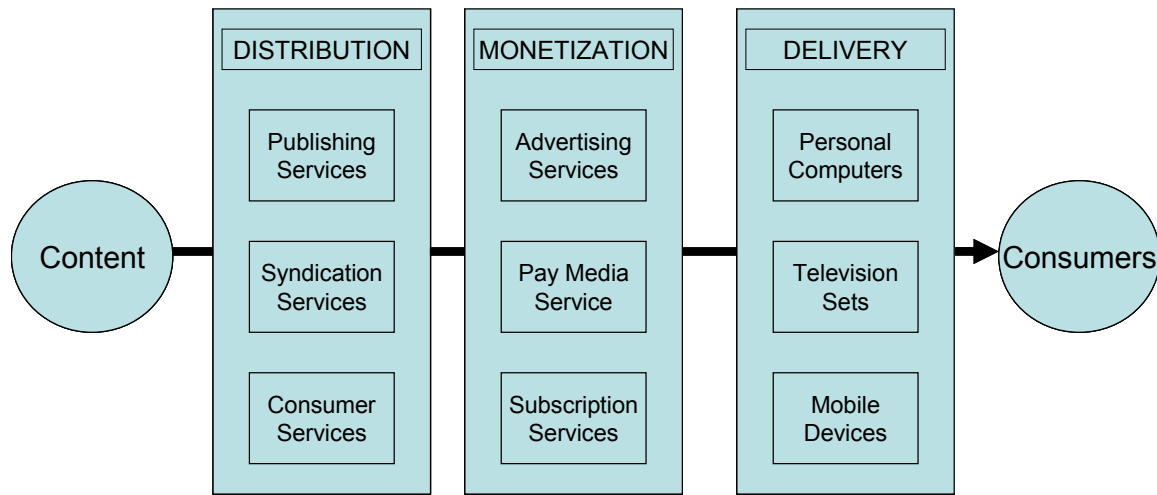
### *Expand Internationally*

Markets in Europe and Asia held high promise for Brightcove, Allaire believed. During 2006, he and others surveyed the terrain in those regions and concluded that no company there offered broadband video services that were comparable to those of Brightcove. Moreover, unlike the U.S. market, these markets featured no companies that operated in this space on the scale of Google or YouTube. To create a strong initial footprint overseas, Brightcove planned to spend \$5 million to \$10 million in 2007 and 2008 on opening wholly owned subsidiaries in western Europe, Japan, and China, where it would provide a full range of platform and network services. The company suggested to investors that those operations would turn profitable by 2009.

## **A Bright Future?**

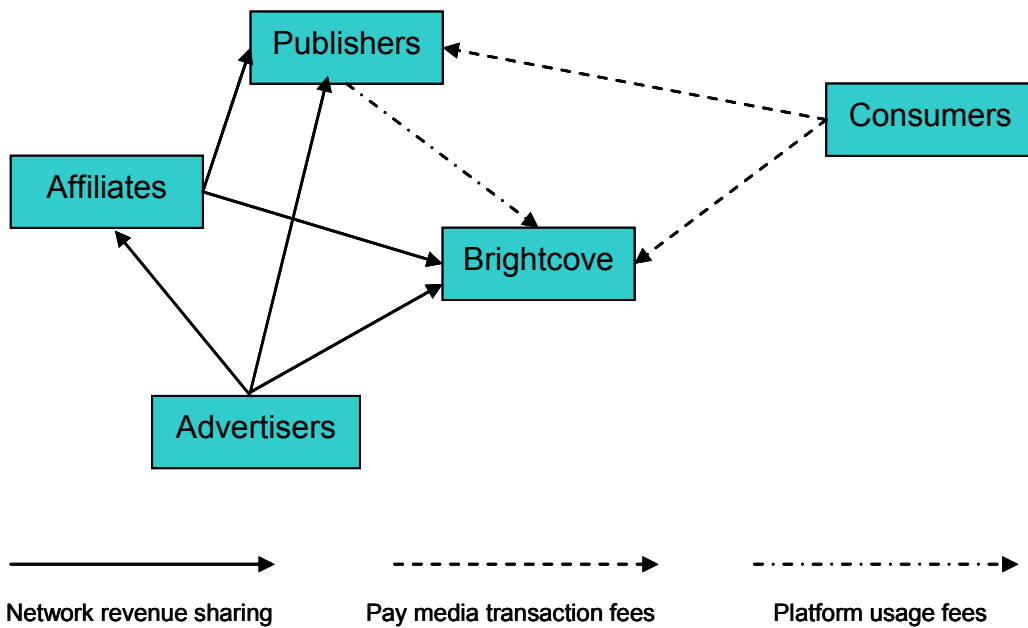
In the wake of Brightcove's latest funding round, Allaire stood to gain financial resources that most start-up leaders could only dream of. But could he afford to place multiple bets? At a time when the Internet television space was evolving rapidly, could he afford *not* to? Or should he "double-down" on one or two bets in particular? With its relaunch as a destination site, Brightcove.com was meant to serve as the point where the four sides of Brightcove's business would converge. But even before the relaunch, serious tensions had emerged between different sides of that business. The acquisition of YouTube by Google heightened those tensions and added new ones. The ultimate question for Allaire was this: What would it take for Brightcove to reach *its* destination?

**Exhibit 1** Long-Run Vision: Structure of Brightcove Internet TV Service



Source: Adapted from Brightcove internal documents.

**Exhibit 2** Brightcove Media Network: Revenue Flows



Source: Casewriters' analysis.

**Exhibit 3** Brightcove, Inc.: Publisher Account Types

<b>Account</b>	<b>Customer Profile</b>	<b>Description</b>	<b>Fees</b>	<b>Revenue</b>	<b>Notes</b>
<b>Premium</b>	Large media companies that have, and want to retain control of, existing advertising and distribution functions.	Access to full platform service, with option to take part in advertising, affiliate, and consumer networks.	Five-tier rate structure that charges for combined platform and CDN services on a per-stream basis.	Publisher mainly controls its own revenue streams. Option to use Brightcove pay-media service, affiliate network, "opportunistic" ad network.	Mainstay of early platform business.
<b>Standard</b>	Small and medium-sized organizations that seek basic online video capability but do not (in most cases) require monetization.	Automated access to platform functionality, with some limitations. Publishers can opt into some advertising and syndication offers.	Tiered, usage-based rate structure, albeit simpler than Premium plan. Publishers pay via credit card.	Publisher has partly limited ability to sell its own advertising using self-service tools. Option to use pay-media service, affiliate network.	Launched in October 2006.
<b>Brightcove Network</b>	Independent, small, and medium-sized (long-tail) publishers that seek to create broadband video channels.	Publishers receive platform services in exchange for yielding content rights to Brightcove media network. By invitation only.	Free access to platform.	Brightcove sells advertising, with 50-50 revenue split for publisher. Access to pay-media service, affiliate network.	Launched in October 2006.

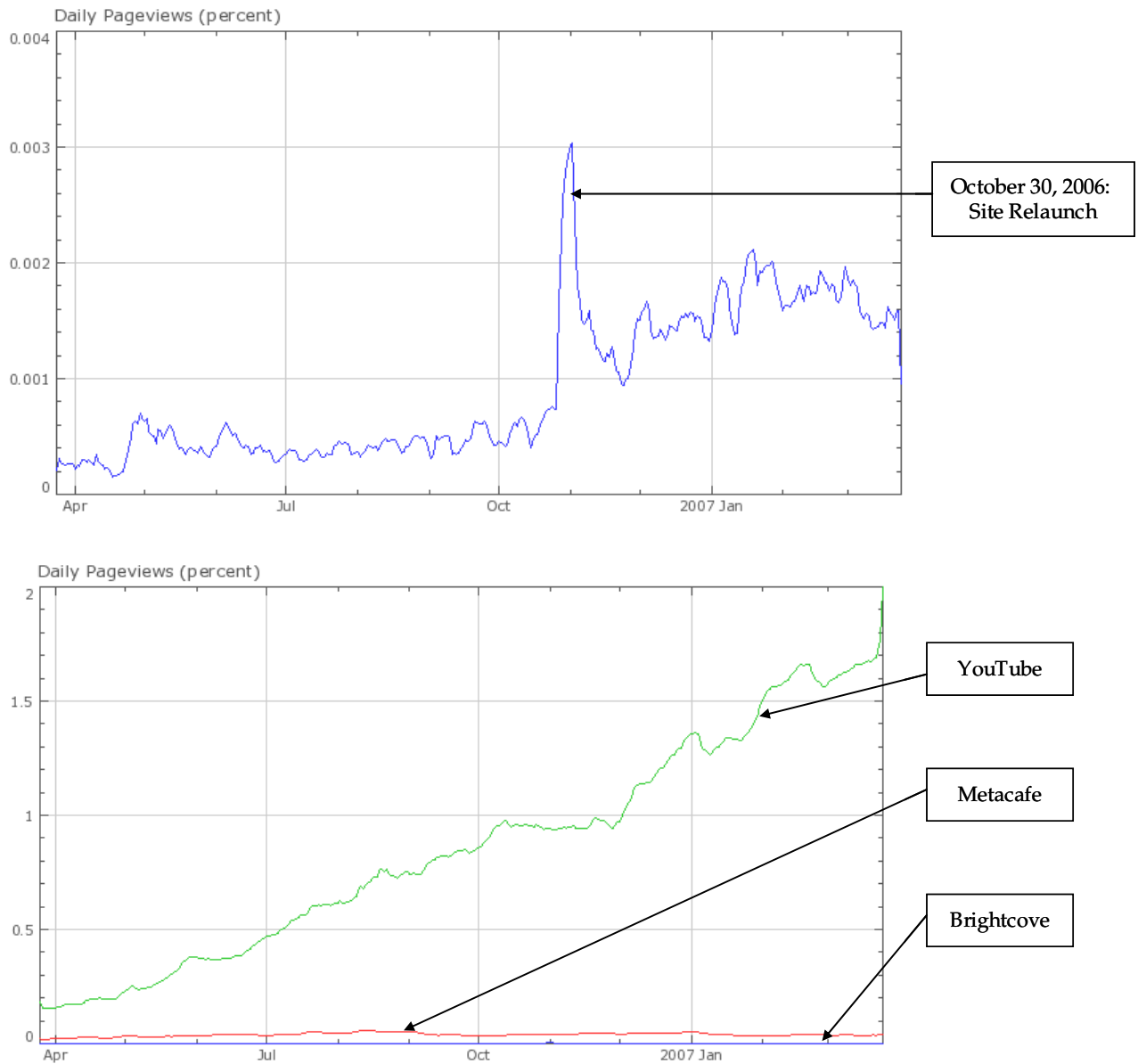
Source: Brightcove website; Brightcove internal documents.

## Exhibit 4 Brightcove, Inc.: Advertising Network Products

Ad Network	Description	Publisher Types	Division of Control	Notes
<b>AdNet Opportunistic</b>	Publishers with their own ad-sales capability offer remnant inventory for sale, with Brightcove serving as broker.	Premium publishers only.	Ad buyers cannot specify publisher placement. Publishers have very limited control over ads placed against their content.	
<b>AdNet Select</b>	Ad buyers purchase spots in Brightcove-designated genres. Each genre includes content from various prime publishers. Ads might also run on affiliated sites or on Brightcove.com.	Brightcove Network publishers, almost exclusively.	Ad buyers can specify genre only when placing ad spots. Publishers have almost no say over ads placed against their content.	Brightcove uses advanced technology to serve ads according to demographic, behavioral formulas.
<b>Site-Specific</b>	Brightcove sells specific advertising inventory on behalf of large publishers.	Premium publishers only.	Ad buyers purchase placement on specific sites. Publishers can opt in or out of deal.	Example: Sony BMG allows Brightcove to sell advertising for its Musicbox video sites.
<b>Self-Service</b>	Advertisers upload ads and—using an auction system inspired by Google's AdSense product—offer them for placement to publishers.	Premium, Standard, and Brightcove Network publishers.	Ad buyers, publishers have limited control over ad placement. Brightcove controls automated system.	Not available as of October 2006. (Still in development.)

Source: Brightcove website; Brightcove internal documents.

**Exhibit 5** Brightcove.com: Site Traffic Trends, 2006–2007



Source: Alexa Internet traffic rankings, [http://www.alexa.com/data/details/traffic\\_details?url=brightcove.com](http://www.alexa.com/data/details/traffic_details?url=brightcove.com), accessed March 2007.

Note: These data, though indicative of overall trends, did not encompass all Web traffic. Alexa Internet explained the data as follows: "Alexa computes traffic rankings by analyzing the Web usage of millions of Alexa Toolbar users. . . . Page views measure the number of pages viewed by Alexa Toolbar users. . . . The page view rank is a ranking of all sites based solely on the total number of page views (not page views per user)." These charts indicate the percentage of all page views by toolbar users that went to a particular site.

## Exhibit 6 Brightcove Competitors: Selected Online Video Services

Company	Broadband Video Offering	Business Model	Details	Company Notes
<b>YouTube</b> ( <a href="http://www.youtube.com">www.youtube.com</a> )	Video-sharing site: anyone can post videos to the site. Content (some of it pirated, much of it of amateur quality) is organized by popularity and by genre.	Content is free to users. YouTube pays for hosting, bandwidth. Revenue model is evolving: banner ads, licensing deals with major media companies.	Established basic video-sharing model: easy uploading, in-line video player, rating and sharing tools (e-mail, Web links).	Founded in 2005. Purchased by Google for \$1.65 billion in October 2006.
<b>Joost</b> ( <a href="http://www.joost.com">www.joost.com</a> )	Streaming of commercial, channel-based content via peer-to-peer file-sharing network. Goal: combine "best of TV" and "best of the Web."	Free content, to be supported by advertisers. Focus on using peer-to-peer distribution to save costs.	An apparently three-sided model: content owners, advertisers, viewers. (Announcement mentions no affiliation/syndication offering.)	Beta version of service launched in January 2007. Founders include creators of KaZaA and Skype.
<b>Metacafe</b> ( <a href="http://www.metacafe.com">www.metacafe.com</a> )	A sharing site ("serving the world's best videos") that focuses on incentives for video producers and quality control of featured videos.	Free content. Revenue comes from advertising (banner ads). To attract content, Metacafe pays producers who license videos.	Content vetting (based on user voting and special VideoRank algorithm) is key differentiator from YouTube.	Privately held, with venture capital funding.
<b>Revver</b> ( <a href="http://www.revver.com">www.revver.com</a> )	"A video-sharing platform built the way the Internet really works": User-generated videos, with emphasis on "viral" sharing.	Free content. Advertising-based model, with Revver sharing revenue with content owners and syndication partners.	Four-sided model (makers, watchers, sharers, sponsors) resembles that of Brightcove.	Founded in 2004. Financed through venture funding.
<b>Roo Group</b> ( <a href="http://www.roo.com">www.roo.com</a> )	Not a consumer-oriented content destination. Rather, a provider of "turnkey solutions" (platform, hosting) for Web video publishers.	Charges fees for various behind-the-scenes services: content management, delivery; advertising; syndication; and so on.	Customers: 180-plus Web properties, including CitySearch, Music.com, Verizon.	Founded in 2001; went public in 2003. Sales in 2005 of \$6.6 million.
<b>MSN Video</b> ( <a href="http://video.msn.com">video.msn.com</a> )	Streaming of commercial content provided by media partners. Later move into amateur video sharing with Soapbox on MSN Video.	Free content, supported by advertising. Revenue model for Soapbox service remains uncertain as of 2006 beta launch.	Content providers on MSN Video include FOX Sports and MSNBC. As of late 2006, Soapbox is in invitation-only beta release.	Part of MSN, Microsoft's large, major Web portal (with 465 million unique visitors per month).
<b>Yahoo! Video</b> ( <a href="http://video.yahoo.com">video.yahoo.com</a> )	User-generated video sharing, plus some commercial content.	Advertising-based. (Commercial videos feature pre-roll video ads.)	Emphasis also on Yahoo!'s video-search capability.	Embedded in Yahoo! portal and MyYahoo! service.

Source: Company websites; Brightcove internal documents.

**Exhibit 7** Google, Inc.: Financial Performance (in millions of dollars), 2003–2006

	2003	2004	2005	2006
Revenue	1,465.9	3,189.2	6,138.6	10,604.9
Cost of Goods Sold	625.8	1,457.7	2,577.1	3,766.9
Gross Profit	840.1	1,731.6	3,561.5	6,838.0
Gross Margin	57.3%	54.3%	58.0%	64.5%
Operating Income	342.5	640.2	2,107.3	4,011.4
Operating Margin	23.4%	20.1%	32.9%	37.8%
Net Income	105.7	399.1	1465.4	3,077.4
Net Profit Margin	7.2%	12.5%	23.9%	29.0%
Return on Equity	31.3%	23.0%	23.7%	18.1%
Market Value at Year-End <sup>a</sup>	NA	11,154.3	82,765.8	102,865.2

Source: Compiled from Hoovers Online; OneSource Global Business Browser; Google website, [http://investor.google.com/fin\\_data.html](http://investor.google.com/fin_data.html), accessed February 2007.

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<sup>12</sup> Interview with Elisabeth Carpenter, August 18, 2006.

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<sup>27</sup> "Realizing the Promise of Internet TV," internal Brightcove presentation (no date), provided to casewriters by Elisabeth Carpenter; interview with Jeremy Allaire, August 18, 2006; interview with Robert Mason, August 18, 2006; interview with Elisabeth Carpenter, August 18, 2006; interview with Adam Berrey, August 23, 2006.

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<sup>57</sup> Kenneth Li, “Net TV Startup Lands \$16.2 Mln from AOL, IAC,” *Reuters News*, November 21, 2005, accessed via Factiva, July 2005.

<sup>58</sup> Interview with Adam Gerber, August 24, 2006.

<sup>59</sup> *Ibid.*

<sup>60</sup> *Ibid.*; communication from Jeremy Allaire to casewriters, November 30, 2006.

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<sup>62</sup> Interview with Elisabeth Carpenter, August 18, 2006.

<sup>63</sup> Brightcove memo, August 2006.

<sup>64</sup> Interviews with Jeremy Allaire, August 18, 2006, and August 24, 2006.

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<sup>71</sup> Interview with Adam Berrey, August 23, 2006.

<sup>72</sup> Communication from Jeremy Allaire to casewriters, November 30, 2006.

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