# "HULU Business Model"

#### **HULU - BUSINESS MODEL:**

Hulu operates a hybrid business model often found in the media industry: that of a traditional for TV networks **two-sided business model** where programs are free to users and are paid for by advertisers, as well as subscription based business model.

#### **HISTORY - The exemplar firm and others:**

Hulu, founded in 2007, is an online video service that offers a selection of hit shows, clips, movies and more at Hulu.com supported by advertising. Hulu also offers subscription based service Hulu Plus, allows viewing current and back season TV shows and acclaimed movies anytime in HD for \$7.99/month with limited advertising. Hulu has reached 6 million subscribers on its premium service Hulu Plus. Hulu accounted for 10% of shows streamed Q1 2013. Video on demand industry is a crowded one, with multiple players and business models. Players in the industry compete on price, exclusivity and range of content, user experience in terms of personalization and compatibility with different devices. Some of the large competitors include Netflix (over 40 million subscribers, the largest video on demand streaming company proving advertising-free service in exchange for fee) and Amazon's Prime offering as a complementary to their retail business.

## **CUSTOMERS** - who are they:

Hulu has two distinct groups of customers. Firstly, it is the users of VOD streaming service. Secondly, Hulu partners of over 1700 advertisers.

#### **ENGAGEMENT – value creation proposition (including network effects):**

Hulu engages differently with its users and advertisers: Hulu is a "bus" for users (with the exception of features enabling higher advertising performance), and a "taxi" for advertisers.

#### <u>Users</u>

Hulu offers users legal access to wide range of premium content free of charge. Hulu partners with various TV networks to make TV shows episodes available within 24 hours or less or their original airtime. Hulu allows different search options for its content, as well as non-personalised recommendations (such as "most popular" function). Basic version of Hulu only allows accessing content via computer. Hulu doesn't let users skip pre-roll ads, while Google's YouTube does: viewers who opt out of the ads also opt out of the rest of the show they're watching. Hulu does offer users customized advertising viewing options, such as the ability to swap out an ad or choose one of three ads at the outset of a show.

In addition to the offer for free users, premium subscribers (Hulu Plus) have access to full databases of current hit TV shows, HD viewing when available and use on multiple devices including smart phones and games consoles.

### <u>Advertisers</u>

Hulu creates value for advertisers by offering narrowly targeted high-performing advertising and highly customised service. The company keeps innovating in the ways advertising is delivered to viewers. It offers "instream purchasing" (such as option to order Pizza Hut); cross-platform interactive ads optimized for a user's current viewing device; and "Hulu 360 Ad," which will target mobile users. Hulu also uses performance-based pricing mechanism for advertisers (see Monetization).

# **DELIVERY - the value chain:**

Hulu licenses content from broadcast network, cable network providers. Hulu loads advertisements from its sponsors every time a user requests a video. These ads include short video spots that run before and after the video, and during the video's natural commercial breaks. Each sponsor also contributes ad banners and video overlays, which are displayed with the video and linked to the sponsor's site. Hulu offers its sponsors a complete

list of these and other ad formats in its media kit.

Hulu.com uses Cascading Style Sheets (CSS) and JavaScript to lay out its web pages, and it powers the video and controls it through the Flash player. The site uses the On2 Flash VP6 codec for video streams. This codec is supported by Flash versions 8.0 and higher, which is installed in more than 98% of computers in the U.S. More intensive codecs (for HD video) follows the H.264 video coding standard, which requires Flash 9.0.124.0 or higher. Hulu creates their web browser themselves. Adobe provides Hulu's video player platform, Adobe Flash Player. Hulu also collaborates with tech giant Akamai, who manages its content delivery network (CDN).

# **MONETIZATION - value capture**

Firstly, Hulu captures value through advertisement revenue: it partners with more than 1700 advertisers. Whereas usually advertisers are charged when an ad begins playing, Hulu only charges when their ads are viewed to completion. Other companies using purely this monetization mechanism are platforms, which specialize largely in user-generated content or non-premium content, which is also sponsored by advertisers, such as Facebook and Youtube. Secondly, Hulu captures value by charging flat \$7.99 subscription fee to users for the benefits of Hulu Plus. Currently Hulu does not use price discrimination for its users.