

AS SEEN ON TV

From *30 Rock* to *Barney Miller*, your favorite television shows are now online, free and legal. Why Hulu is the new way to watch.

BY FRANK ROSE

2 million people went to the Hulu site in July, and here are the shows they streamed.

1. *Arrested Development*
2. *Family Guy*
3. *The Office*
4. *It's Always Sunny in Philadelphia*
5. *American Dad!*

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"To me, this is the way media always should have been," says Hulu CEO Jason Kilar.

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WHAT'S A HULU? In August 2007, this question ricocheted through the blogosphere to a chorus of derisive laughter. Fox and NBC were going to make the Internet safe for television! They were building a "YouTube killer"! And they were calling it Hulu! It was almost too perfect—an absurdist topper to the idea that two major broadcast networks could devise an Internet video service people would actually use. The name was even more delicious than the venture's placeholder moniker, NewCo., which the online world had changed to Clown Co. And now Hulu? It means "snoring" in Chinese, one blogger declared. "'Cease' and 'desist' in Swahili," Michael Arrington reported on TechCrunch. "Perhaps they should have just stuck with Clown Co.," he added.

Jason Kilar read these posts and winced. A 36-year-old ex-Amazon.com executive newly relocated to Los Angeles, Kilar had followed—even admired—many of these bloggers for years. Now he was Hulu's CEO,

CHART SOURCES: COMSCORE, HULU

and their ridicule wasn't so funny.

What's a Hulu? Kilar had gotten the same question from Jeff Zucker, chief of NBC Universal, and Peter Chernin, president of News Corporation, Fox's corporate parent. In English it means nothing. In Mandarin, when pronounced another way, it means not snoring but "bottle gourd," which, in an old Chinese proverb, stands for a "holder of precious things." If you say so, they responded.

Even Kilar was starting to wonder whether he could make this thing work. Along with the new name, he had just announced

ON A SUMMER EVENING in Santa Monica, Kilar is sitting in a café near his house, reminiscing about the vintage anime series *Speed Racer*. As a kid, he was one of the millions who used to rush home from school every day to watch the hero's Mach 5 blow by Racer X. "It came on at 3:30," Kilar says, "and if I was late, I missed it."

Tall and loose-limbed, with rosy cheeks and an eager smile, Kilar looks more like an oversize Boy Scout than the man who would finally usher the television networks into

loaded it with restrictions. And on the music side there was Sony Connect, a stillborn Web store that had the same problem.

At the time, the business that Fox and NBC Universal had in mind was still poorly defined. "It started out of frustration that other people were using our video online and creating a business," Zucker says. A year earlier, NBC had forced YouTube to pull clips of *Saturday Night Live*'s "Lazy Sunday" skit, even though it was sparking new interest in the show. YouTube complied; pirate sites didn't bother. The networks needed to find some way to keep others from grabbing their shows—and their profits. But the companies were too accustomed to competing with one another to form a common strategy. Disney, corporate parent of ABC, joined talks for a while but opted to focus on its own Web business rather than join forces. CBS and Viacom (which owns MTV and Comedy Central) decided to invest in Joost, an online-TV startup

from the Net-savvy guys behind Skype and Kazaa, and Viacom hit Google, which had just bought YouTube, with a \$1 billion lawsuit for good measure. That left Fox and NBC Universal to team up on some sort of Web video service. Chernin and Zucker were still trying to figure out what it would be when news of their plans leaked out, forcing them to make a hasty announcement.

Jonathan Nelson, CEO of Providence Equity Partners, read the same story as Kilar. Head of a \$21 billion private-equity fund focused on media and telecommunications, Nelson was set to go heli-skiing in Greenland with Chernin. Now he called his buddy and offered to invest in the startup. We don't need any money, Chernin replied. Maybe not, Nelson countered, but you do need validation. Bringing in an outside partner would make the thing look less like a Fox-NBC Universal promo vehicle and perhaps make competing networks more interested in joining. Nelson had a point, and as the two sides hammered out the terms of the investment, he and Al Dobron, head of Providence's Internet practice, joined the discussions about what the new company would become.

As Dobron describes it, the initial busi-

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that Hulu, which he had been running for only seven weeks, would launch in beta in two months—much later than expected but far too soon for a team that had barely gotten started. He was heading an operation of 20 people holed up in an office suite in West LA. To meet the deadline, he had turned the place into a bunker: Newspapers covered every window. People were sleeping on air mattresses on the floor. Half-eaten pizzas littered the empty cubicles. Fruit flies were the only visitors.

But Kilar would make it work. He and his crew would emerge from their dismal cave with the sleekest, easiest-to-use, most professional video site on the Internet. Not only would it deliver shows and movies from Fox and NBC Universal, it would take you to programs from every other major network and studio. Full-length episodes. Entire seasons. For free. Within months of that late-August announcement, Hulu would be among the top 10 US video sites in number of clips streamed. Om Malik, one of the bloggers who had ridiculed it from the start, would pronounce it "brilliant." TechCrunch readers would vote it best video startup of 2007. "Game Over. Hulu Wins," Arrington would declare in a conciliatory post. How did *that* happen?

the Internet age. But his earnestness and enthusiasm have served him well among entertainment execs. He has won their support by explaining the obvious: In a world of limitless choice, 10-year-olds are no longer going to race home to catch a TV show. Admitting that fact means surrendering the scheduling power the networks have always enjoyed and putting a lot of their profits at risk. But Kilar focuses on the opportunity. If you were a network exec, he says, playing with his cheese-and-veggie scramble, "and I told you here was a tool that enabled your content to be shared, to be forwarded, to make your audience your most powerful marketing vehicle—it would be music to your ears, right? This is a tectonic shift, and what it does is allow network heads to find the audience they always should have had but couldn't reach."

Like a lot of other people, Kilar read about the News Corp.-NBC Universal venture when it was announced in March 2007 and thought, "Huh—I wonder how *this* will turn out." Not well, if earlier digital efforts by media giants were any indication. The classic example was Movielink, a Hollywood download service that never took off because the studios

ness plan was all too predictable: “It was like, you’re watching TV, you turn to the left and look at a computer screen, and you watch the same thing you were watching on TV in the same way.” AOL, MSN, Yahoo, and MySpace had been enlisted as distribution partners, but at first, Fox and NBC Universal were planning to contribute just a few shows each and, in most cases, only recent episodes at that. Anything more would jeopardize the networks’ existing businesses—especially syndication and DVD sales. If they were going to make this thing work, Nelson and Dobron realized, they needed somebody with no TV experience—“somebody who was going to say, ‘This is not television on the Internet; this is the Internet.’” Chernin was thinking the same thing.

Kilar quickly surfaced as a likely candidate. At Amazon, he had helped expand the company beyond books and into home video; then he had led the teams that built such apps as 1-Click checkout and the Amazon Prime premium shipping service.

Kilar was understandably skeptical when the headhunter approached him. Were Fox and NBC really ready to entrust their most valuable assets, their programming, to an outsider? But the more he thought about it, the more he was drawn to what Chernin and Zucker were proposing. He had always loved TV and movies. And though the music industry had blown its chance to stay ahead of digital culture, he saw a brief window of opportunity for Hollywood. More than 60 million Americans now had broadband, but most hadn’t yet gotten into the habit of using BitTorrent to download sitcoms. What if he could help show business make the transition that the music industry had flubbed?

In late June, Kilar agreed to take the job. He already had his pick for CTO: Eric Feng, a 28-year-old engineer he had known in Seattle. Feng had gone to Beijing for Microsoft and ended up launching his own company there. His startup, Mojiti, was one of the first sites to enable users to put text comments on a Web video, but what had been leading-edge a year earlier was quickly becoming commonplace. Feng had seven

young developers who knew a great deal about Web video—even if most of them spoke only Mandarin. So eight days after accepting the position, Kilar flew to China and persuaded the entire team to join him. Feng would return to the US; the others would stay in Beijing and build the service.

The following Monday morning, Kilar showed up for work in LA to find his offices already teeming with people. Fox and NBC Universal had provided a couple of dozen employees on loan and brought in 40-odd consultants from PricewaterhouseCoopers and Avenue A/Razorfish. The plan was to outsource both the site design and the underlying computer code. Kilar was aghast. “Technology is the source of our competitive advantage,” he explains—the key to a service that would provide a high-quality videostream and support an ever-growing number of users and shows. “For us to design the company to last, we had to write every line of code ourselves.” He sent the network people back to their old jobs and told the consultants they were out. Then he affixed whiteboard to three of the walls in his office and wrote out a mission statement and some basic design principles.

HE EXAMINED A LIST OF ALL THE PROGRAMS HULU WOULD HAVE. “IT WAS ONE PIECE OF PAPER,” HE SAYS. “I WISHED IT WAS A PHONE BOOK.”

The top Internet services—Google, Flickr, YouTube—thrive because they are simple. Kilar wanted a clean, uncluttered look. He wanted a service that worked inside your browser, not one that required you to download a player—an obstacle that has kept Joost from taking off. And he wanted it to be so easy to use that his 62-year-old mom could have it working within 15 seconds. Plus, of course, he wanted a lot of shows.

Shortly before he arrived, Kilar had gotten a list of all the programs the new service would have. “It was one piece of paper,” he says. “I wished it was a phone book.” He

went to Dan Fawcett, head of digital media at Fox, and to J. B. Perrette, head of digital distribution at NBC Universal, and told them this wouldn’t work. To compete with BitTorrent sites, Hulu needed every movie they had ever made and every TV show they had ever aired—and not just four or five episodes but all of them. Fawcett and Perrette were taken aback. Not only was the task of clearing the legal rights daunting, but Fox and NBC Universal, like all entertainment conglomerates, make millions selling their movies and television shows to cable channels and other outlets in a series of distribution windows. “We have to respect those windows,” Fawcett says. Yet he and Perrette worked overtime to clear everything that wasn’t already spoken for.

Kilar’s next test came in New York on August 15, at the new company’s first board meeting. The Providence Equity investment hadn’t closed yet, so the board consisted of just Kilar and six network people—three each from Fox and NBC Universal, led by Chernin and Zucker. Kilar announced a couple of jaw-droppers: His team was going to provide embed codes so users could post Hulu’s programming on their own Web sites,

and they were building a search engine that would direct people to every movie and TV show online, even if it was on a competitor’s site. The normal response would have been “Is this guy nuts?” But as Kilar made his case, first Chernin and then Zucker swung to his side. The embed codes would enable their videos to go viral, and the search function solved the problem of how to provide a full offering with only two networks. The plans were approved.

For the next 10 weeks, as Feng and his team raced to build the service, Kilar focused on getting more shows. He kept a color-coded

spreadsheet—green for yes, yellow for maybe, red for no—that listed every property Fox and NBC Universal controlled, with details about every remaining legal hurdle: Are the rights owned by the network, the producer, or a third party? Can we clear all the music? Each new green was celebrated. One by one, they picked up cult favorites like *30 Rock*, *Buffy the Vampire Slayer*, and *Battlestar Galactica*. Almost the last to go green before Hulu's beta launch at the end of October was one of the shows they had focused on most: *Arrested Development*, which Fox had canceled due to poor ratings despite multiple Emmys and heaps of critical acclaim.

In March 2008, Hulu officially opened for business with more than 250 TV shows and 100 movies—not only from Fox, NBC, Universal, and their affiliated cable channels, but from new partners like the indie film studio Lionsgate and the television arm of Warner Bros., which makes shows for all the networks. Visitors were delighted to discover that they could quickly find and

watch full-length programs and movies, even ones that weren't hosted by Hulu.

Two months later, Hulu edged ahead of ESPN.com to become one of comScore's top 10 US video sites. Its growing popularity led Viacom to offer recent episodes of *The Colbert Report* and *The Daily Show With Jon Stewart*, two of Comedy Central's most popular programs. Meanwhile, the accolades were pouring in. Users and critics alike praised its straightforward design and even the way it implemented ads. *Entertainment Weekly* called it "some kind of TV addict's fever dream." "This is the entertainment we've all been looking for," one user wrote in to the company. Another declared simply, "You have done something great." Hulu had gotten online TV right.

SO MUCH FOR Clown Co. The big question now is, can Hulu turn a profit? Hulu isn't releasing any numbers, though Dobron says

its revenue will "dramatically exceed initial forecasts." The only credible outside guess seems to come from Michael Learmonth at *Silicon Alley Insider*, who estimates that Hulu will generate between \$45 million and \$90 million in advertising in the year following its launch. Since he estimates that 70 percent of that money goes to content providers, this doesn't leave much for operating costs. And while Hulu gets two to three times the ad rate that the broadcast networks command, that's on a cost-per-thousand-viewers basis. Hulu says its highest-rated shows get "millions of streams" per month, but a popular show like *CSI* will draw 16 million viewers on TV in a single night. Worse yet, from a financial perspective, part of Hulu's bargain with users is fewer ads: While broadcasters cram eight minutes of advertising into a half-hour show, Hulu sells only two.

"So what?" Chernin says. "You can't protect old business models artificially." This is a truth the tech community knows well, but it's not what you expect to hear from a

media baron like Chernin. What he and Zucker have come to understand is that the media companies no longer have a choice: If they don't put their shows online, someone else will. "The best way to combat piracy is to make your content available," Zucker says. "We don't know for sure what the impact is going to be on our established businesses. But we want to make sure consumers know they don't need to steal our content. That's really what Hulu is about."

In the meantime, Hulu provides a tantalizing glimpse of the future of television. Unlike the networks, which have always been carefully programmed by their executives, Hulu is programmed by user choices and recommendation software. Schedules don't matter; popularity alone will bubble a show to the top. The results can be startling. One of Hulu's top five shows is *It's Always Sunny in Philadelphia*, an FX series starring Danny DeVito that has never gotten much attention on TV. Another is *Arrested Development*.

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Hulu isn't saying exactly how many people watch a given show, but the numbers are high enough that Kilar is becoming a must-see guy for producers. Joss Whedon, who created such shows as *Buffy the Vampire Slayer* and *Angel*, popped in to talk about *Dr. Horrible's Sing-Along Blog*, his three-part video—which Hulu got as a Web exclusive. *Family Guy* creator Seth MacFarlane met with Kilar over the summer to chat about how well his show has been doing. As usage grows, Kilar can expect many more such tête-à-têtes.

"The world has turned completely upside down," Kilar says, mopping up the last of his scramble as dusk settles outside the little Santa Monica restaurant. "I find that very

inspiring. Others might be scared out of their wits. But to me, this is the way media always should have been." He allows himself a slight chuckle. As he speaks, Hulu is weeks away from unveiling a tool that lets users embed the Hulu service itself into their Web site. Soon you'd be able to stick all of online television into your blog. Finally, after decades of dictating what we can watch and when, the networks would be reduced to a Web widget, functioning at the user's whim. Just as it should be. [W](#)

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Contributing editor **FRANK ROSE** (frank_rose@wired.com) wrote about a new Web video series, Gemini Division, in issue 16.08.