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YouTube's Marketing Strategies in the Digital Age: Balancing Profitability, User Experience, and Competitive Edge

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Abstract. This study analyzes two key challenges that YouTube faces in the digital media landscape: balancing profitability and user experience in its advertising strategies, and competing with short-video platforms like TikTok. These issues are critical for understanding the marketing strategies and sustainable development of online video platforms. The research combines a qualitative assessment of YouTube's historical business models and case studies with quantitative data analysis, including advertising revenue, to explore the drivers behind its remarkable profits and viewership. The findings reveal that in-stream Ads have successfully improved the video completion rates by utilizing a 5-second skippable format and targeting advertisements related to video content through algorithms, while also effectively promoting products to users simultaneously. Besides, to counter the fierce competition from TikTok, YouTube has launched the Shorts feature, offering Shorts funds to encourage more creators and more high-quality videos. This research highlights that YouTube's strategic shift toward user autonomy and a hybrid content model serves as a model for online video platforms. These insights provide an operational framework for digital marketing and platform economics.

Keywords: YouTube, In-stream Ads, Online video media

1. Introduction

Since its establishment in 2005, YouTube has grown to become the largest online video-sharing platform globally. It utilizes its precise recommendation algorithm function and user-generated content, attracting countless users and creators. As a cornerstone of digital media platform, YouTube has not only changed people's ways of entertainment, but also pioneered new business marketing strategies. However, during its development, it has faced two main challenges: the first is how to balance profit goals and user experience in advertising strategies. Early forced non-skippable advertisements led to user churn and lower video completion rates. The second is how to deal with the impact of short-video platforms like TikTok. The latter, with its low creation threshold and content forms that fit the fast-paced life, has diverted a large number of young users and creator resources.

As a major success platform in online video field, YouTube's innovative advertising model and its ability to respond instantly to market changes and customer demands make it a worthy topic for study. By studying how YouTube strikes a balance between user experience and profitability, as well as its strategies in dealing with emerging competitors, valuable insights can be provided for the dynamic development of digital platforms. This study explores the evolution, challenges and solutions of YouTube, providing references for enterprises to develop in the rapidly changing streaming media industry.

Existing literature has laid a foundation for understanding related fields, particularly in online advertising and recommendation systems. In the realm of online advertising, by constructing a taxonomy of models on how advertising affects consumers, Vakratsas and Ambler proposed that advertising effects can be studied in a three-dimensional space of affect, cognition and experience, and they find that there is no evidence to support a hierarchical relationship in the time series of advertising effectiveness [1]. Similarly, Tsang et al. investigated consumers' attitudes towards advertisements and found that users generally held negative views of unauthorized mobile advertisements. Their research confirmed the direct connection between consumer attitudes and behaviors, providing an important basis for the effectiveness of mobile advertising [2]. Furthermore, Jedidi and Gupta analyzed eight years of panel data by constructing a novel heteroscedastic varying-parameter model, revealing the long-term trades-off effect between advertising and promotion. The results show that although price promotion can bring short-term benefits, advertising can continuously enhance brand value compared with price promotion, which indicates that advertising plays a significant role in long-term profits [3]. Beyond advertising, video recommendation systems are pivotal to YouTube's viewership growth. Davidson et al. conducted research on YouTube's video recommendation system, elaborating on the mechanism by which the system provides personalized video recommendations to signed-in users based on their activities on the site, and analyzing solutions to challenges such as missing or poor-quality video metadata from aspects like system design and testing [4]. Building on this, Covington et al. Investigated this system more deeply. They detailed YouTube's deep learning-based video recommendation system, including the design, key technologies and experimental results of the candidate generation and ranking module, while they also explored the role of deep learning and shared practical experiences [5].

This article aims to explore the marketing strategies of YouTube from an economic perspective through two main aspects: Application of in-stream Ads and tactics for responding to the development of the short-video era.

2. Case description

YouTube was founded by three former PayPal employees Steve Chen, Chads Hurley, and Jawed Karim, and it was headquartered in San Bruno, California. On April 23rd in 2005, the first video called Me at The Zoo was officially published on YouTube, featuring Karim. As an experimental version, it brought a small amount of popularity and views, only relying on social media platforms such as Friendster or Myspace, and emails for dissemination. Initially, the founders planned to focus on designing it as a social video network for dating, but this positioning would soon be shifted to the global video-sharing platform. This stemmed from a critical realization after the launch of the official beta version: People uploaded a wide variety of video content on YouTube, ranging from funny videos to educational tutorials, bore little relevance to social networking. This strategic repositioning found its defining moment in Nike's Ronaldinho football ads, which became the first video that surpassed one million views. This demonstrated Youtube's potential and solidified its important role in the whole industry.

Following successful financing from the venture firm Sequoia Capital, the site experienced significant growth. In 2006, Google announced that it would acquire YouTube for 1.65 billion dollars, a move driven by the need for new equipment and broader internet capabilities to support

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the rapid growth of YouTubers [6]. This action promoted YouTube's rise to dominance in the social media industry, creating a multi-billion-dollar business that has surpassed many other.

After 2007, YouTube refined its business model, with the introduction of the YouTube Partner Program and TrueView ads system, substantially increasing its profits. In 2015, it launched YouTube Premium, offering ads-free viewing and more original content. The Shorts function was released in 2020 and has undergone improvements like longer video duration and unlimited music copyright.

As the world's largest UGC platform, YouTube boasts a highly diverse and stratified content ecosystem. This diversity is reflected in its detailed content categorization, which covers more than 15 official categories to cater to varied user interests. The most prominent categories include Entertainment and Music, accounting for 25.2% and 22.9% of the total content respectively [7]. As of November 2024, the total number of views on YouTube reached as high as 72.8 billion. By the end of 2024, there were approximately 2.74 billion active users, making it one of the most popular applications in the world, only behind Google and Facebook in total usage.

YouTube advertising revenue was 36.1 billion US dollars in 2024, which is an increase of 14.7% compared with the previous year, and the accurate data of revenue for four quarters in 2023 and 2024 is shown in the Table 1. Behind the high profits, advertising, as the main source of income for YouTube, has undergone a long and complex development.

Table 1. YouTube advertising revenue for the four quarters in 2023 and 2024

Advertising revenue/$	First quarter	Second quarter	Third quarter	Fourth quarter
2023	6693	7665	7952	9200
2024	8090	8663	8921	10473

3. Problem and countermeasure analysis

3.1. Forced non-skippable Ads hurt user video views and solutions

In 2007, YouTube launched pre-roll Ads for the first time and set the duration to around 15 to 20 seconds, which couldn't be skipped. This seriously decreased the viewing times of videos. Psychologically, these forced advertisements disrupted the expected process, which led to frustration and dissatisfaction. On the other hand, because of poor relevance between ads and video content and great repeatability of one kind of Ads, users gradually lost interest in videos. That was the main reason why users chose to quit the page directly after they saw the Ads. In a highly competitive market environment, even minor improvements in efficiency can bring about great competitive advantage. Therefore, staffs need to design a proper advertising method which can ensure the promotion of products while also preventing users from losing interest in watching videos. In 2010, YouTube launched TrueView function for the first time. TrueView is an advertising model that can mainly be divided into two categories based on functions and application scenarios——in-stream Ads and Video Discovery Ads.

in-stream Ads are short advertisements placed within social media video content, which account for large amounts of the advertisements placed on the YouTube platform and bring great revenue. It can be broken into the following three categories: Linear Ads, Non-linear Ads and Companion Ads. Linear Ads are timed as pre-roll, mid-roll, or post-roll. Users can skip after 5 seconds, but after 6 seconds the Ads cannot be skipped. advertisers only pay for effective interactions, such as viewing long Ads for more than 30 seconds, watching short Ads in full, or users clicking on them voluntarily, which are always called Cost-Per-View. Non-linear Ads always appear on the top of playing content

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without interrupting it. This kind of Ads not only can make a promotion but will also not influence users to focus on the video scenes. While linear Ads and non-linear Ads play their role within the video stream, companion Ads are positioned outside the video player, and it is important for improving brand visibility and combating banner blindness.

3.2. Competitive pressure from Tiktok threatens user and creator resources and solutions

With the continuous development of the streaming media market, YouTube is facing tremendous competitive pressure. The rapid rise of TikTok has attracted a large number of users, especially the young user group, and its short-video format aligns with the fast-paced lifestyle of the present day. In this situation, long videos may be not attractive. In addition, the content creation threshold on TikTok is relatively low, making it easy for newcomers to gain attention, which poses a certain threat to the creator resources on YouTube.

Due to the intense competition from TikTok, YouTube introduced its own Shorts feature with strategic techniques like "Watch Full Video" buttons to drive traffic to long-form content. The length of shorts is limited to 60 seconds and it adopts an infinite scrolling mod, which lowers the viewing threshold for users and extends the usage time by taking advantage of users' psychology. YouTube also allocates more of its internal resources to the short-video community such as Shorts Fund about 100 million dollars during 2021 and 2022 and development of innovative tools which can lower the threshold for creation and encourage long-video creators to engage in dual creation of both short and long videos. Furthermore, YouTube Shorts uses algorithms to make more precise push notifications by analyzing user behavior data such as viewing completion rates and interaction indicators like likes, comments, and shares. Normally, videos with high viewing completion rates are more often pushed to individual users. Also, YouTube Partner Program protects and encourages great content and the creative minds behind videos, which has paid 70 billion dollars from 2021 to 2024. In 2023, YouTube Shorts global monthly active usage in 2023 has increased to 2 billion.

4. Discussion

The effectiveness of YouTube's in-stream linear Ads, as the most common and typical format among the three ads types, stems from a dynamic balance between user experience, marketing logic, and platform strategy. This balance is shaped by psychological insights, technical optimizations, and business model innovations, which together address early advertising pain points while driving sustained revenue growth.

From users’ perspective, in-stream linear Ads successfully capture users' psychology. On the one hand, 5 seconds is short enough, and users normally will not mind the losses brought by this five-second advertisement. Therefore, the phenomenon of losing interest in original video due to the advertisement being too long has improved. On the other hand, unlike previous mandatory advertisements, in-stream linear Ads grants users’ autonomy. They can choose for themselves whether to quit or continue watching. This aligns with the psychological principle of Self-Determination Theory: SDT has demonstrated that autonomy is a fundamental human need. It is proposed that the social environment in which individuals’ functions influence the degree to which their psychological needs are satisfied. When authoritative figures offer choices to individuals, such choices can promote the satisfaction of their psychological needs [8]. As a result, negative emotions will drop, significantly reducing skip rates. This psychological mechanism directly and specifically addresses the drawback of early advertisements that could not be skipped. As mentioned earlier, compared to the previously released advertisements, linear Ads not only reduce immediate churn but

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also retain users' engagement with the original video by transforming the 5-second window into a "choice" rather than a "forced interference", thus reversing the problem of declining video views caused by the overly intrusive nature of the Ads. Additionally, because this kind of Ads often appears during video playback, users are in an active viewing state and their attention is more concentrated, thus, products are more likely to be sold to public. Notably, the advertisements that appear along with the video are usually related to the content of the video, which to some extent attracts users' interest. The AIDA model indicates that an advertisement initially attracts consumers' attention by its various features, and more important, sales people have to stimulate and maintain consumers' interest and create their purchasing desire which can make success in selling goods finally [9]. Also, in YouTube's in-stream linear Ads, the first 5 seconds are critical for audience retention. Under the Cost-Per-View model, advertisers' aims shift from chasing impressions to creating highly engaging content. Successful Ads immediately capture attention in the first 5 seconds through various methods and increase views. According to research, audio content, visual category, content category and message appeal are significantly positively correlated with consumers' views. Among audio content, fear appeal and social appeal have the greatest influence. The advertisers usually use the fear appeal approach, stimulating users' fear emotions, in order to prompt them to take certain actions such as purchasing their goods [10]. In addition, social appeal utilizes social connections to create a sense of belonging and social identity, for example, the slogan "90% of students are using this kind of pencil", thereby playing a role in brand promotion. Complementing this perspective, abundant images, choice of music and unexpected format will also affect consumers' preference. This emphasis on interaction rather than mere exposure has directly driven the growth of YouTube's advertising revenue.

For platforms, they put Ads before, during or after the video users are watching on YouTube, which ensure the products' message hits users when they're most engrossed in the content for maximum impact. Moreover, they skillfully incorporate interactive elements like click-to-expand overlays and prominent "Buy Now" buttons into in-stream Ads. These innovations simplify the purchasing process by allowing users to view product details and complete transactions without leaving the page. Relying on data such as users' viewing history and interest tags, they can achieve precise push of interstitial advertisements, enabling marketing information to reach high-potential audiences, and relevance of advertisements has increased successfully. Nowadays, YouTube has introduced the AI algorithm function, which can adjust the frequency of advertisements in real time, such as avoiding the recurrence of an advertisement within 24 hours, achieving more effective advertisement push. In response to the possibility that ads might leads to a decrease in the number of users, YouTube has also launched YouTube Premium. People who subscribe to premium can watch videos without Ads. This, on the one hand, has increased YouTube's revenue sources, and on the other hand, has also enhanced user loyalty. What's more, in the fierce competition of the streaming media market, the existence of YouTube Premium can attract those users who pursue a high-quality viewing experience, and Premium has extended the viewing time for users. These strategies jointly build a powerful ecosystem that supports the effectiveness of linear advertising: Algorithm optimization ensures that advertisements match user preferences, reducing the irrelevant issue of early pre-roll Ads, while the Premium membership service, by offering an ads-free option, not only retains users who are sensitive to Ads but also enables advertisers to focus on highly engaged non-member users. This dual design enhances the resilience of the platform and also consolidates the position of linear advertising as a core source of revenue.

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5. Conclusion

This study explores two significant problems that YouTube faces in the digital media environment: balancing advertising profitability and user experience, as well as responding to competition from short-video platforms such as TikTok. Research has found that YouTube's in-stream Ads, especially the 5-second linear Ads that can be skipped, have effectively addressed the issue of early mandatory non-skippable Ads by granting users autonomy and algorithm-driven content relevance. This action not only boosts the videos' completion rate but also increases advertising revenue largely. Facing TikTok's dominance in short-form video, YouTube Shorts has successfully carved out its market position by providing financial support to creators and constructing a sophisticated recommendation algorithm and integrating deeply with YouTube's existing platform. These strategies collectively indicate that in the highly competitive digital market, prioritizing user experience and technological innovation can leads to sustainable growth.

Although this study has certain implications, it still has limitations. The analysis of information flow advertising mainly focuses on linear formats, with less exploration of the unique roles of nonlinear advertising and concomitant advertising. In addition, quantitative data on the impact of Shorts on the viewing volume of long videos is relatively limited. Further research could compare in-stream advertisements across demographics or quantify Shorts' impact on long-form video engagement. Meanwhile, investigating how AI algorithms can achieve greater personalization will provide deeper insights for developing targeted marketing strategies for diverse user groups.

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