Is there an online video bubble?

Plenty of start-ups are hoping to cash in on the online video craze. Is there enough money to go around?

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NEW YORK (CNNMoney.com) - Meet the next big television star: You.

Web sites such as the insanely popular YouTube are turning average schmos with a video camera into pop culture phenomena. And naturally, corporate America and investors have taken notice of this growing trend.

But with so many sites cropping up and trying to attract financing from venture capitalists, a couple of questions need to be asked.

Is there really enough demand for so-called user-generated content, especially when more big media companies like CBS (Research) and Disney's (Research) ABC are putting mainstream programming online for free?

And more importantly, how are companies going to make any money from hosting videos of cats chasing a ball or Chinese teens lipsyncing to the Backstreet Boys?

Well, there is good reason to believe that online video is not just a fad. According to a study of more than 1,200 Internet users released by the Online Publishers Association, 24 percent said they watched online video at least once a week, while 46 percent said they watched at least once a month.

What's more, two-thirds of those who regularly viewed online video said they also watched online video ads, and 44 percent of those users said they have taken action on what they've seen, i.e. they went to an advertiser's Web site and, in some cases, even made a purchase.

"It's easy to say this is just a bunch of junk video. But there is money to be made in this. Advertisers can reach a specific type of demographic that you're not going to reach on TV because they are more likely to be on their PC," said Rich Dorfman, managing director with Richard Alan Inc., a financial advisory and investment company focusing on the media industry.

Dorfman said that in addition to YouTube, he thinks that sites such as Grouper, Break.com and MetaCafe, which also show humorous user-generated videos, are attracting buzz.

But others think that there may not be room for companies that are merely trying to attract viewers and offer little else that makes them unique.

"Online video is absolutely an area we're looking at, but a YouTube imitator is not interesting. You need a differentiated technology," said Michael Brown, principal with Partech International, a San Francisco-based venture capital firm.

Some promising start-ups...

Along those lines, one start-up called Revver wants to help users make money from their online videos. Steven Starr, the founder and CEO of Revver, said his firm has developed technology that inserts a one-frame ad at the end of a video. Users can then track how many times a video is viewed and the ad is clicked. Revver splits ad sales with the people who produce the videos.

"Our goal is not to build a big video sharing portal. Our goal is to get creators paid," Starr said, adding that he thinks there will be interest in short commercials at the end of videos because viewers won't find the ads to be as obtrusive as commercials that begin before a video.

The company, which is currently beta-testing the Revver ad-tagging service, has attracted some high profile investors. It recently closed a round of financing that included money from venture capitalists Bessemer Venture Partners and Draper Fisher Jurvetson.

Revver is far from alone in this market. Another company that is trying to take advantage of the growing demand for online video and user-created content in particular is one called DAVE.TV.

CEO Rex Wong said DAVE, which stands for Distributed Audio Video Entertainment, will soon be launching a site called MyDAVE.TV that will feature user-generated content like YouTube. The company also makes set-top boxes that allow people to upload online video content to an actual TV screen.

But the company's biggest strength could lie in technology that will allow advertisers to insert ads based on the specific content of a video. Like Revver, DAVE.TV would split ad sales with creators of videos.

As an example, Wong said that a video showing highlights of basketball star Kobe Bryant slam-dunking could then be immediately followed by a spot from Nike showing Kobe dunking in the company's sneakers.

Wong said this could serve as kind of like Google's AdSense, which helps advertisers target ads based on specific keywords, for video. "It's not that users don't want to watch ads. They want to watch ads that are more relevant to them," Wong said.

And he knows what he's talking about. Wong was a co-founder of Applied Semantics, the company that developed AdSense and was acquired by Google (Research) in 2003.

Another company, PhotoBucket, is making a name for itself by allowing people to upload photos and videos and copy links to the videos to social networking sites like MySpace and Facebook.

Alex Welch, the company's founder and CEO, said the firm has more than 14 million registered members and generates revenue through advertising as well as some premium services.

He adds that it doesn't matter to him which specific video sites are the most popular as long as demand for online video keeps growing. "We're kind of like Switzerland," he joked.

...but consolidation needed in a crowded field

Still, some wonder how many online video companies can actually prosper.

John Taylor, vice president of research for the National Venture Capital Association, said that the memory of the dot.com bubble's burst is still fresh in the minds of many venture capitalists.

"We learned in 2000 and 2001 that just because somebody develops a great technology that doesn't make it a great investment," Taylor said. "There is absolutely more caution. We're seeing a strong allergic reaction to me-too projects."

So sites that are offering something unique could thrive. But companies that are simply libraries for user-generated videos could wind up needing to sell-out to a company with deeper-pockets.

"Many of these video-sharing sites are all variations on a theme," said Greg Sterling, founding principal of Sterling Market Intelligence, a consulting and research firm. "So at some point, we're going to see consolidation."

In fact, it's already begun. AOL recently bought video search firm Truveo. (AOL, like CNNMoney.com, is a subsidiary of Time Warner) Time Warner also announced Tuesday that it, along with former Disney CEO Michael Eisner, was also investing in an online video firm called Veoh. And another video search firm, Blinkx, has been often mentioned as a possible acquisition candidate.

Sterling thinks Google, Yahoo! (Research) and Microsoft (Research) are likely to make some online video acquisitions and that media companies such as News Corp (Research). and Viacom, which already owns iFilm, could do some deals as well.

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The reporter of this story owns shares of Time Warner through his company's 401(k) plan. ■