At Hulu, 'free' may soon turn into 'fee'

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Hulu soared to popularity by offering free online viewing of popular TV shows. Now that free ride may soon end.

The Internet video site is weighing plans to charge users to watch episodes of "30 Rock," "Modern Family" and "House." The move would mark a sharp change of course for the venture, which was launched nearly two years ago by a consortium of studios to distribute without charge TV shows and movies over the Internet.

The site has spent months studying how to strike a balance between what people expect to watch for free online and for what they would be willing to pay, according to a person familiar with the matter who was not authorized to speak publicly.

One plan under consideration would allow users to view the five most recent episodes of TV shows for free, but require a subscription of $4.99 a month to watch older episodes. Hulu believes it will need at least 20 television series -- both current and those no longer on the air -- to make such a pay service attractive to users. A firm pricing model could emerge within six months, they said.

A Hulu spokeswoman declined to comment.

Hulu's plan to charge for some programs comes as many publishers are similarly grappling over how to get people to pay for online content they've long gotten for free.

On Wednesday, in a development that could have implications for embattled newspapers, the New York Times Co. unveiled its awaited plan to charge online readers for stories. The Times will adopt a "metered" approach, starting next year, in which users can read a limited number of articles before being charged.

Hulu and the Times join a growing lineup of companies that are building pay walls around their content.

Internet radio company Pandora Media Inc., which was entirely free, recently started charging users a monthly fee of 99 cents if they listened to more than 40 hours per month.

"The economic reality of any type of content is that you need people to put some money into the tip jar," said Tim Westergren, founder of the company.

That imperative has grown as advertising dollars flooding online is expected to slow. Research firm eMarketer estimates that online advertising will grow 40 percent this year, down from a 127 percent increase last year.

Boxee Inc., a company that lets people pipe Netflix movies, YouTube videos, Pandora music and other online media directly to their TVs, on Wednesday introduced a way for studios and publishers to charge for on-demand content rather than rely on advertising.

"This lets content owners dictate the way they want to sell online," said Andrew Kippen, Boxee's vice president of marketing. "There will be more content available online, and there's not going to be one clear way to win. What we're saying is, work with us to try out some different business models and see what works."

Analysts say Hulu may be preparing to deliver its video service through the array of Internet-connected TVs, game consoles and other devices that were on display everywhere at the recent Consumer Electronics Show in Las Vegas.

"The whole reason Hulu needs to consider a subscription model is that the long-term play for online video is not to computers, it's to a collection of other devices -- connected TVs, video game consoles," said Forrester Research media analyst James McQuivey.

Indeed, Netflix has found that an increasing percentage of its subscribers use an on-demand service to watch movies through Internet-connected video game consoles, Blu-ray players and other devices connected to the TV.

Hulu, a partnership between NBC Universal, News Corp., Walt Disney Co. and Providence Equity Partners, has emerged as an Internet darling _ and a thorn in the side of some investors, who see the site not as a defense against piracy or video phenomenon YouTube but as a threat to the economics of the television business.

Cable operators, in particular, protested Hulu allowing free Internet access to shows like FX's "It's Always Sunny in Philadelphia" or USA Networks' "Psych," which were previously available only to their subscribers. Hulu responded by reining in online access to certain cable programs.

Many media analysts expect that Comcast Corp.'s plan to buy controlling interest in NBC Universal will give it a significant say in the future of online video -- and accelerate Hulu's move to a subscription service.

For newspapers, the announcement by The New York Times on Wednesday could likewise accelerate a move to requiring readers to pay for online access.

It's not the first time the company tried to get readers to pony up. It ended its TimesSelect online subscription program in 2007, even though the effort generated $10 million a year in revenue.

"We've learned several things from TimesSelect," said Times spokeswoman, Diane McNulty. Among them: People will pay for content online, McNulty said, and that publishers "have to carefully weigh the benefits of an advertising and a subscription model."

The company has seen the part of its revenue come from selling ads on its digital properties grow from 4 percent in 2004 to 13.4 percent in the first nine months of 2009.

"The New York Times is very smart," said Mike Vorhaus, president of media consultant Magid Advisors. "The person who comes once or twice for a really big news article is never going to become a payer, so let's not try to force them. Let's not try to make a sheep into a cow. The most frequent viewers should be paying the most."

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