

# The Profiting Modes of China's Online Video Platforms

## —A Case Study of iQIYI

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### ABSTRACT

From 2004 to 2020, the online video platforms in China have developed for 17 years. After the early stage of wild growth, the industry entered the stage of normal development. The IPOs of iQIYI and Bilibili in Nasdaq demonstrated the potential of China's online video platforms. However, the platforms, including the leaders like iQIYI and Tencent Video, are still losing money in the background of increased investments. The successive losses are harmful to the future development so that it is especially important to study how to improve the profiting modes of the online video platforms.

After introducing the development of China's online video platforms, the essay conducts a case study of iQIYI, which includes the development stages, the key elements of its profiting mode. Finally, in the summary of the case study, the advantages of iQIYI are introduced: strategic investment vision, unique IP liquidity ability and cross-platform cooperation awareness.

**Keywords:** *China's online video platform, Mode of profitability, iQIYI.*

### 1. INTRODUCTION

From 1994 when China got access to the internet, it experienced three waves: first, 4 big searching engines; second, from searching engines to social networks; and third, from PC network to mobile network. Nowadays, internet became an indispensable communication facility. In March 2020, there were 904 million netizens in China, an increase of 75.08 million over the end of 2019. The network popularity rate reached 64.5%, an increase of 4.9% in the same period.

In November 2004, LETV, the first online video company was created, marking the birth of China's online video platform industry. The early competition was focused on attracting consumers, clicks and grasping broadbands. In order to attracting consumers, the big platforms pirated the cable TV programs. On December 29, 2007, the regulatory body published the administrative rules, introducing the "licensing system" which put an end to piracy. This was the first wave of re-shuffle.

In the second half of 2008, due to the financial crisis, the online video platforms, characterized with

high cost and unclear profiting mode, were heavily struck by the want of financing. Some 400 mid-to-small platforms bankrupted. This was the second wave of re-shuffle.

In December 2009, the regulatory body carried out anti pirate video resource movement called "Jian Wang Activity", in which LETV became the pioneer of the copyright protection because it had started to engage in the trade of online video resource copyright since 2004. 110 online video copyright owners formed in Beijing the China Online Video Anti-piracy Alliance to push forward the protection of online video copyrights. The movement caused the large increase of the cost to buy the copyrights of films and TV plays. Some online video platforms, unable to afford the costly copyrights, had to give up playing films and TV plays. They returned to the cheap UGC road or announced bankruptcy. This was the third wave of re-shuffle.

From 2004 to 2020, the online video platforms in China have developed for 17 years. But the financial reports of the big online video platforms showed that they encountered a serious problem which existed since the early days of the industry—they were still losing

money. The successive losses forced some old platforms to exit the market or sell the platforms to bigger capitals. It is especially important to study how to improve the profiting mode of the online video platforms and help them achieve profit.

## 2. LITERATURE REVIEW

Many researches were done on China's online video platforms. Huang Yan (2019) thought that the industrial ecology of online video platforms is being reshaped with the development of 5G technology. The convergence video platform would become the key strategy of China's online video platform in future.

Shang Qiufen & Niu Zeyi (2019) suggested that Fans economy be used as a lever for the online video platform industry. Fans are both consumers and producers, who can make UGC through clip-editing platform videos to increase the richness of contents and expand the influence of the platform.

Hu Yangjuan & Yu Guoming (2018) thought that there were 5 activity modes in China's online video platform---"membership", "downloading", "public", "minigroup" and "elites". The programs and advertisers should pay attention to accurate analyses of the modes and aim to the targeted consumers.

Li Jiesi (2018) thought that China's online video platforms should strengthen the co-operations with the TV stations to expedite the integration of all-media industry so as to achieve the sustainable operations.

Sun Lei (2016) thought China's video platforms should push the contents according to both the characteristics of various playing ends and the preference of users so as to expand the coverage of the receivers. At the same time, they should construct the interaction between different platforms. That is, to build up multiple marketing channels with "multi-platforms"+"multi-ends".

## 3. THE CURRENT STATUS OF CHINA'S ONLINE VIDEO PLATFORMS

After three waves of re-shuffles, three major groups shared the China's online video market--- online TV stations owned by state medias, commercial online video platforms and web portals, where commercial online video platforms enjoyed dominance. Competitions took place among three tiers of online video companies. The first tier includes Youku, iQIYI and Tencent Video; the second tier has Mango TV, Bilibili, LETV, Sohu Video and Migu Video; the third tier is composed of PP Video, Fengxing Video, Baofeng and 56 Video. According to the data released by Qianzhan Industrial Institute, in August 2019, the number of active consumers of the first tier platforms

was 418 million, 86% of the total online video consumers.

The major means of income of the platforms are 1. advertisements, 2. Charges from consumers, and 3. franchise income. Recently, the advertisement income was declining while the consumer charges are increasing. The franchise income stays almost unchanged.

## 4. CASE STUDY---THE PROFITING MODE OF IQIYI

### 4.1. The Development of iQIYI

January 6, 2010, Baidu announced to establish an independent video company. In April, QIYI was put online.

In June 2011, QIYI announced its "Produced by QIYI" strategy, setting the standard of online UGC (user generated contents) industry. July, "QIYI audio and video", the PC end of QIYI was put online. November, QIYI company changed its name to iQIYI.

In April, 2012, iQIYI, Tencent Video and Sohu Video formed a Video Content Cooperation (VCC), carrying out the deep co-operation of video copyrights and broadcasts in order to alleviate the high-price competitions for copyright resource.

In May, 2013, Baidu acquired PPS for 370 million dollars and handed it to iQIYI as a subsidiary. This A & M achieved a very good result. The coverage over consumers reached No. 1 in China's online video platforms.

In August, 2014, iQIYI formed a joint-venture company with Huace Film & TV Company.

In June, 2015, iQIYI reached an exclusive strategic co-operation with Jingdong to explore the electronic commerce.

In December, 2016, iQIYI co-operated with Sony Pictures Entertainment strategically. They would make films late.

In March, 2018, iQIYI accomplished its IPO in Nasdaq. In July it acquired Skymoons Inc. and Crimoon Corp. Its business expanded to game industry. In August, iQIYI set up a joint venture company with Xin Ying Sports to run iQIYI sports business.

### 4.2. The Profiting Modes of iQIYI

#### 4.2.1. The Users

The following is the number of active users and hours of use of iQIYI.

**Table 1.** The Number of Active Users and Hours of Use between 2015 and 2017 (million)

	daily active users	daily mobile active users	Daily hours of use
2015	88.3	125.4	126
2016	169.9	259.1	300.1
2017	365.5	405.4	421.3

Sources: iQIYI prospectus

#### 4.2.2. Earning Points

The video contents of iQIYI include the following: 1. Purchased copyrights of films from other companies and TV stations. 2. Self-made comprehensive entertainment TV plays. 3. User generated contents. The main revenue of iQIYI was generated from the incomes of advertisements, subscriptions and franchise.

**Table 2.** Breakdown of Incomes of iQIYI from 2015 to 2019

	advertisements	subscriptions	franchise	others
2015	64%	19%	7%	10%
2016	50%	34%	4%	12%
2017	47%	38%	7%	8%
2018	37.2%	42.4%	8.8%	11.6%
2019	28.62%	49.66%	8.69%	13.04%

Sources: the prospectus and annual financial reports of iQIYI in 2018 and 2019.

#### 4.2.3. Profiting Leverage

In 2018, iQIYI proposed the “Apple Orchard” plan. The center of the plan is video play, around which there were literature, cartoon, light fictions, live broadcast, games, shopping malls and ticket services. Through the above-mentioned matrices, iQIYI collects the users’ data so as to better understand their demand. Based on the data, iQIYI produces more valuable IP, and through subscriptions, tips, advertisements, publishing, distribution, franchise, electronic business and games 9 charging methods it constructs the profiting leverage.

#### 4.2.4. Profiting Edges

##### 4.2.4.1. Co-operation with Baidu

The biggest stock owner of iQIYI, Baidu is a long-time established internet server, which has outstanding market status, abundant capital and advanced network technology. It provides iQIYI with supports in capital, technology and data. The first data search platform, Baidu established with iQIYI the co-operations in cloud service, online advertisements, data and contents, artificial intelligence facilities and technology. The supports from Baidu helped iQIYI build up solid profiting advantage.

##### 4.2.4.2. Rich Video Content Resources

iQIYI was listed in Nasdaq in 2018. The ample financing gave it enough money to both produce and buy video contents.

#### 4.3. The Profiting Modes of iQIYI

##### 4.3.1. Subscription of Members

There are 6 types of iQIYI members, all of which shall pay subscription fees to enjoy their respective rights.

**Table 3.** The Subscription Fees of Various Members

Types of members	Periods of subscription	Fees (RMB)
Diamond VIP	1 month	49.80
	3 months	120.00
	12 months	360.00
	Continuous 1 month	30.00
	Continuous 3 months	88.00
	Continuous 1 year	330.00
Gold VIP	1 month	19.80
	3 months	58.00
	12 months	198.00
	Continuous 1 month	15.00
	Continuous 3 months	45.00
	Continuous 1 year	178.00
Student VIP	Year card	123.00
Sports general	Continuous month	3.00
	Month card	6.00
	Gold VIP + month card	30.00
Sports professional	La Liga season	168.00
	Gold VIP + La Liga year card	278.00
	Tennis month card	17.00
	Tennis year card	198.00
	Golf month card	67.00
	Golf year card	798.00
FUN members	1 month	19.80
	3 months	58.00
	12 months	198.00
	Continuous month	6.00
	Continuous season	32.00
	Continuous year	120.00

Sources: the website of iQIYI

Derived from the subscription mode, iQIYI has a controversial “VIP Advance Click Play” service. After paying a sum of money, VIP members can view the end of a TV play in advance. Many criticized it as being desperate to snatch money. Some thought it as a price discrimination, if used wisely, which could bring more income to the company.

**Table 5.** The Revenue of Each Profiting Mode and Its Share in the Total Revenue (billion RMB)

	Membership		Advertisements		Content distribution		Others	
	Revenue	Share	Revenue	Share	Revenue	Share	Revenue	Share
2017	6.54	37.63	8.158	46.94	1.19	6.85	1.49	8.57
2018	10.7	42.8	9.3	37.2	2.187	8.75	2.813	11.25
2019	14.4	49.66	8.3	28.62	2.529	8.51	3.768	13.21

Sources: the prospectus and the annual reports of 2018 and 2019

### 4.3.2. Other Modes of Profiting

Among other modes of profiting, there are advertisements, distribution, live broadcast, sales of intelligent hardware, online games, online literature service and franchise.

### 4.4. The Profiting Situation of iQIYI

**Table 4.** The Revenue and Profit of iQIYI from 2017 to 2019 (100 million yuan, %)

	Revenue	Net profit	Rate of profit
2017	173.8	-37.369	-22
2018	250	-91	-36
2019	290	-93	-32

Sources: the prospectus and the annual reports of 2018 and 2019

Although the deficit of iQIYI is increasing, the revenues of 2018 and 2019 grew apparently. In 2018 and 2019 iQIYI increased the investments in content production, R & D and ecology construction, which pushed up the operating costs dramatically. However, from the long-term perspective, the short-term investment would do more good than harm. This can tell from the changes in the revenue from membership fees, advertisements, content distribution and others.

Table 5 showed the amounts of revenues of the four profiting modes and their respective shares in the total revenues during 2017 and 2019.

From the data we could tell that the revenues from membership fees and advertisements were two most important business incomes, which composed of 84.57%, 80% and 78.28% of the iQIYI's operating income of 2017, 2018 and 2020.

## 5. CONCLUSIONS

From 2010 to 2020, iQIYI has existed for 10 years. It grew up from an unknown company to the leader of online video platforms. Although it has not yet made profits, still it has many good experiences for us to learn.

First, it has the strategic foresight in investment. Baidu supported iQIYI in its surfing resource, but the lack of mobile users was its short board. Its acquisition

of PPS, a website with 25% to 30% mobile page view clients, made up this short coming. The purchase greatly expanded the profiting points.

Meanwhile, the purchase of the Huace Film & TV Company was a successful example of the development strategy of film & TV play production + mobile phone games.

iQIYI spent large sum of money on high quality content production. High quality contents are essential to attract users and for sound development of a platform. iQIYI not only spent money on purchasing high quality contents, but also gradually moved emphasis to producing them. Over the past years, iQIYI created many comprehensive art programs, cartoons and TV plays which attracted large number of loyal consumers.

Second, it has a strong IP liquidity ability. In addition to being an online video platform, iQIYI set foot in the fields of online games, online literature and hardware sales. Through these investments, it constructed the income channels of VIP charges, tips, advertisements, publishing, distribution, franchise, electronic business and games.

Third, it has a consciousness of cross-platform cooperations. At present, the membership fee is the No. 1 revenue of iQIYI and has a tendency of growth. In order to keep the leading status in the industry, iQIYI cooperated with the big players of other industries. The gold VIPs could enjoy many privileges of both iQIYI and other companies. This stimulated the consumptions of the VIP members in many other platforms and brought to iQIYI large sum of income. It is in nature a leveraged operation.

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