

Business Analysis of YH Entertainment

The Development Prospect of Virtual Idol

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ABSTRACT

YH Entertainment is a leading company in China's entertainment industry. Looking back on its development in the idol business, YH Entertainment has achieved a wide range of achievements and has its own exclusive way of cultivating idols. It also launched a virtual idol group in December 2020., which is also relatively new in the entertainment industry. The purpose of this research is whether virtual idols can gain a place in the traditional entertainment industry. The research employs SWOT and PEST analysis and analyzes the company's financial data. The research results show the characteristics of virtual idol business with low risk and high growth compared with traditional business are obtained. These results show that the virtual idol business is worthy of further development by the YH Entertainment, showing a different perspective for investors.

Keywords: *YH entertainment, Virtual Idol, Entertainment Industry.*

1. INTRODUCTION

This research constitutes a relatively new area which has emerged from traditional entertainment industry. The research mainly focuses on YUE HUA Entertainment (YH Entertainment), which operates TV series production and distribution, film production, artist management and training, music and music video production, public relations and entertainment marketing.[1] In 2021, YH Entertainment announces the formation of virtual girl group A-SOUL. Unlike virtual idol Hatsune Miku (Widely regarded as the originator of modern virtual idols, whose voices and movements are synthesized by computer.), the virtual idols of YH Entertainment company are not completely virtual, but have real actors behind them. Through motion capture, AR technology and so on, the actors' actions and language in the real world are fully reflected in their virtual idols. It should be pointed out that virtual idols are generally anime images, which coincide with the popular concept of the metaverse.

Compared to other studies on entertainment companies, this study focuses more on the impact of virtual idols on YH Entertainment, which is research in

an unexplored field. In order to carry out the research, the next step will be to analyze the whole business of YH Entertainment.

The aims of this paper are twofold: firstly, whether virtual idols are more competitive than real idols, secondly whether virtual idols have profitability of the target. In other words, is the social environment suitable for the development of the virtual idol industry? And from the perspective of the company's interests, whether virtual idols have a positive impact on the company's economic benefits.

2. BUSINESS ANALYSIS

2.1 PEST Analysis:

Table 1. PEST Analysis table

Political	Economic
1. The Chinese political restriction on Korean entertainment.	1. Rapid growth of GDP of China.
2. The regulation of talent shows.	2. Rapid growth of the entertainment industry.
Society	Technology

1. The youth of China pay more of their time in entertainment. 2. The youth of China would more likely to spend rather than save money.	1. The advances in programming designing and motion capture of the virtual idol. 2. Innovation of offline and online music distribution channels.
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For the political aspect, first of all, in November 2016, the State Administration of Radio restricted Korean actors, music, and so on. Meanwhile, the Chinese government also restricts the talent show in 2021.

For the economic aspect, China’s GDP has a rapid growth for example, in 2021, the GDP growth rate is approximately 8.1%. What’s more, according to the data of Frost& Sullivan, the compound annual growth rate for the entertainment industry from 2019 to 2020 was 22.8%.

From a societal aspect, the majority of the youth of China have paid more time on entertainment like music, movies, and cartoon and most of them would like to spend more money on them.

For the technology aspect, Motion Capture is a technology that uses external equipment to record data and restore posture of human body structure displacement [2]. And the advanced program system called Optitrack can significantly reduce the cost by 20%. In addition, the entertainment company now can use the new offline and online music distribution channels to the public the new work.

2.2 SWOT Analysis

Table 2. SWOT Analysis table

Strength	Weakness
1. The company has advanced Korean operation and training experience. 2. Having a huge amount of musical intellectual property.	1. Over-reliance on top idols. 2. The high cost of promotion cost for the idol.
Opportunity	Threat
1. Rapid growth in pan-entertainment 2. The increasing demand for professional artist management companies.	1. Uncertainties of pandemic spread 2. Tighter regulation of the entertainment industry

The strength of the company is that firstly, the YH Group has a subsidiary in Korea. Hence the company has advanced operation capability and training experience. And then, until December 2021, the YH Entertainment Group had approximately 1,100 original music and over 50,000 music licenses from third-party copyright holders.

The weakness of the company is obvious. First of all, the majority of the revenue of the company is based

on the top-level idol making the idol debut would cost a high promotion fee [3].

For the opportunity aspect, according to the data of Frost& Sullivan [4], the size of the pan-entertainment market would increase from 244.2 billion yuan in 2016 to 1,334.8 billion yuan in 2025. And the data also shows that the market size of professional artist management would increase from 52.3 billion yuan in 2020 to 102.5 billion yuan in 2025.

The threat is that firstly, the pandemic continues which makes the concert or cinema closed affected the revenue of the company. And then on March 16th, 2021 the State Administration of Radio announce the Radio and Television Law of the People’s Republic of China (Draft) which if the idol violates relevant laws and regulations, the State Administration of Radio has the power to restrict the relevant programs or works.

2.3 Business strategy:

2.3.1 Consolidating the advantage of signed idols and strengthening the quality and quantity of training and musical intellectual property:

For consolidating the advantage of signed idols, the company not only produces the music but also more care about the reputation of the idol. For example, the company uses diverse promotion channels such as social media, television, and short video platform like TikTok for letting the idol connect closely with the fans. In addition, the company continually strengthens access to resources. For instance, the commercial activities increase rapidly from more than 380 activities to approximately 640 activities in 2021 which effectively enhances the career development of the idol.

And then, compared with other traditional entertainment like Huayi Brothers Media Group, YH Entertainment Group has the systematic training of trainees and the professional operation system of the idol. According to the data of Frost& Sullivan, YH Entertainment Group is one of the first companies to use overseas management patterns. So, the company benefits from the management and training system in Korea which has accumulated rich experience and special training plans in selecting, training, and promoting high-quality artists. This serious selection and training system increases the quality and quantity of the idol. Until December 2021, YH Entertainment Group has received more than 58,000 applications for iconic trainees but the company only select 19 candidates in 2019, 28 in 2020, and 50 in 2021. Although the selective rate increase which shows the quantity is increasing, the acceptance rate is no higher than 0.3% which shows the company has a high requirement for the idol.

2.3.2 Developing diversity of the company business, especially focusing on the virtual idol aspect:

More and more youth are interesting in two dimensions culture so the company is caring about this market [5]. According to the data of Frost& Sullivan, the company is one of the first companies entering into the virtual idol market in China. Because the ByteDance which is the parent company of TikTok is one of the shareholders of the YH Entertainment Group and they have a good cooperation experience. Meanwhile, compared with other companies, the ByteDance which is the head company can obtain more resources and has high technology and technical reserve in computer programs and motion capture [6]. Therefore, the YH company has a huge advantage in the virtual idol. And then, its first virtual idol team calls A-Soul has the maximum number of followers. For example, one of its team members has almost 2 million fans in Bilibili. So, in the virtual idol aspect, the company has the advantage of technology and training experience.

2.3.3 Broaden the international business by using the localization strategy.

Compared with other competitors, the YH Group also pays more attention to international business. But the company would more likely use the localization strategy to enter the international market. The company signing some Korean as the idol and let language studying as the general study for all the trainees.

3. FINANCIAL ANALYSIS

3.1 The ability to repay the debt:

According to the financial report, the cash and cash equivalent of the company is 448 million yuan at the end of the year 2021 which shows the company has sufficient cash to repay the debt. Meanwhile, the current ratio is 1.8 in 2021 which also shows that the company has the ability to repay the debt and has a good financial situation.

3.2 The ability of operation:

For the operation, the company also performed well. The days' sales outstanding of the company is constantly maintained at 31 days. It represents that the company can more efficiently operate the current cash and have a high ability to operate the asset of the company.

3.3 The ability of profitability:

The profitability of the company is good. Based on the financial report of the YH Entertainment Group, the earnings are 290 million yuan in 2020 and 335 million

yuan in 2021 which adjusted the net interest rate is 32.1% and 30.6% in 2020 and 2021. Therefore, the capability of profitability of the company is well and has a constant growth trend.

4. DISCUSSION

In this part, we will first talk about the risks YH entertainment group faces. After that, we will show that compared with traditional business model, virtual idol can effectively flee the risks.

YH entertainment group's business mainly has three sections: artists management, music IP production and pan entertainment. However, its major source of income is from artist management. The income from this section accounts for 84 percent, 87.7 percent and 91 percent of the total income respectively in year 2019, 2020 and 2021. As a result, the risks mostly lie in this section.

Firstly, the cost of cultivating a successful artist is huge, both in finance and in time. In the development of the emerging cultural and entertainment industry, talents who understand both the cultural and artistic forms and the rules of commercial operation are in hot demand. How to cultivate the ability of talents innovation is the core problem of cultivating talents in entertainment media industry. [7] In the process of attracting and training new artists and trainees, YH entertainment group needs to invest a lot of time, manpower and capital, and it may take the group a long time to secure an artist's business opportunities. These new artists or trainees may not be as successful as expected. If YH is unable to strive for the ideal opportunities for artists to participate in commercial activities or perform in films, dramas and variety shows, YH may not be able to attract trainees or maintain the relationship with new artists. YH cannot guarantee that it can expand the number of contracted artists and trainees within a reasonable period of time, and even if YH succeeds in attracting more contracted artists and trainees, huge costs and resources may be spent. In this case, the business, financial condition and operating results will be adversely affected.

Secondly, artist management is highly sensitive to public preference. These preferences vary by age and background, and the continued success of the business depends on the ability to acquire and cultivate popular artists. The artist management business depends to some extent on the ability to predict the preferences of different audiences, to train or retain artists who attract audiences, and to hire contracted artists to perform popular and high-quality entertainment content. Changing preferences, market trends, overall economic conditions or other factors may prevent our contracted artists from gaining the expected popularity and audience attention, which may have an adverse impact on the business. Although YH are now signing with a

number of artists in the market, it cannot guarantee that this success will sustain. If YH cannot effectively satisfy the changing needs and preferences of the public, it may not be able to recover its high investment in artist training. YH may need to pay additional fees to attract new artists or provide additional training to adapt to the changing public preferences, which will have a significant adverse impact on its business and financial situation.

Thirdly, Business of artists management relies heavily on the reputation of contracted artists and public awareness of the group's brand. Any litigation, non-compliance with laws or regulations, personal misconduct, rumors or negative publicity involving our contracted artists, even if inaccurate or unfounded, may seriously damage their reputation and adversely affect our promotion activities for such artists, which is detrimental to YH's business. Although before signing artist management contracts with these artists, YH will conduct background checks on them and strictly manage the daily behavior of contracted artists and trainees. However, YH cannot guarantee that it can in time find or deal with adverse publicity involving contracted artists or trainees in the future.

The last risk which is mentioned in this part is related to COVID-19. Although significant progress has been made in integrating COVID-19 prevention and control with economic and social development, the risk of sporadic cases and local outbreaks of COVID-19 still exists. [8] The virus can have very bad impacts on YH entertainment group. For example, offline filming of some films, dramas and variety shows participated by contracted artists was postponed. Some of the customers cancel their offline promotion activities, resulting in reduced demand for live performances and services of the contracted artists. Recently, due to delta and Omicron variants, more and more covid-19 cases have appeared all over the world. General concerns and uncertainties about the epidemic and the economy, as well as the overall weak consumer sentiment, may have a negative impact on YH's business. YH cannot reasonably estimate the final impact and duration of covid-19 epidemic, including the extent of any adverse impact on business, revenue, operating performance, cash flow and financial condition. The severity of impact will depend on the duration and spread of covid-19, the response measures taken and will be taken by the government and the effectiveness of the actions taken to control or mitigate the epidemic and improve the economic situation.

Although these risks seem unavoidable, the introduction of virtual idols can partly solve the dilemmas. With the development of the two-dimensional culture and the expansion of the two-dimensional crowd, China's virtual idol industry is gradually rising.[9] Virtual artists are

computer-generated animated characters that interact with reality through augmented reality and virtual reality technology. Developers use advanced animation and rendering technology to create characters with fine facial expressions and body movements. Besides, it is because the virtual idol carries some cultural spirit and values that the virtual idol has long vitality and attraction.[10]

Managing virtual artists involves fewer challenges than managing real artists. Rather than invest considerable time and resources in the moulding and packaging of a biological body in order to create a product which can only ever approximate an ideal, and which will inevitably lose its appeal as it ages, the virtual idol promises the possibility of building an idol to order, ensuring that it perfectly reflects consumer tastes and will never change. [11] The public image of virtual artists can be effectively managed, and the artist management company can exercise overall control over virtual artists. Therefore, virtual artists can hardly face negative publicity and maintain their reputation. At the same time, through technical methods, artist management companies can timely adjust the public image and professional skills of their virtual artists, so as to grasp the latest changes in public taste and market preference and maintain their popularity. The content performed by virtual artists can be customized according to the needs of the brand or audience. In addition, virtual artists are easier to reach the audience and can actively interact with followers. Finally, virtual artists can break through the boundaries of time and space and appear in multiple channels all day. Therefore, brands, content producers and media platforms are more inclined to cooperate with virtual artists. For example, Ling, jointly created by MOFA technology and sub world culture, officially made its debut on May 18, 2020. Its content released on the social platform involves piano, chess, calligraphy and painting, plum, orchid, bamboo and chrysanthemum, all of which create a "sense of national style of science and technology", which is unique among virtual idols. Thanks to the original intelligent virtual content production technology and real-time interaction technology of virtual characters, Ling, in live broadcast and video, has succeeded in narrowing the distance with the audience, regardless of the space-time constraints.

Since we have been and perhaps will continue to be faced with COVID-19 and its variants, YH entertainment group will certainly enlarge its business in this field for its unique advantage. We all know that for the specific characteristics of the virtual idols, audience and customers do not have to watch the performance offline, which can be achieved on the Internet. So maybe we can safely say that the current situation of the world can push the development of the business in the field of virtual idols.

In brief, for its characteristics and potential source of income, virtual entertainment may become an important section of the YH's business.

5. CONCLUSION

5.1 Key Findings

In conclusion, the research shows that affected by political factors, domestic artists and idols have always occupied a dominant position in China's entertainment market, and there is a large demand for domestic artists in the market. YH Entertainment has a mature model for artist training and promotion. It can train qualified idol trainees in an industrial chain and help them quickly attract popularity. The main business of YH company is artist management, which accounts for nearly 90% of the company's profits. This part of the income mainly comes from the profits of the top idols, but the idols' private lives are not controlled. The Chinese government takes measures against idols once they break the law, all works related to it will be banned. The selection rate of idols is less than 0.3%. These all pose a high risk to YH Entertainment. In general, from a business perspective, the development of virtual idols (pan-entertainment business) is a strategy that can help companies reduce risks and increase profits to a certain extent. Research also shows that YH Entertainment's financial analysis. YH Entertainment has good solvency, strong liquidity and good profitability. It is a great help for YH Entertainment to start new business. At the same time, according to Frost & Sullivan, the pan-entertainment market will grow from 244.2 billion yuan in 2016 to 1,334.8 billion yuan in 2025. These are the basis for supporting YH Entertainment to further develop the virtual idol business. On the premise of not affecting its main business, artist management business, further developing the virtual idol business is an effective strategy to increase the company's revenue and reduce risks.

5.2 Research Significance

The main significance of this research is to encourage the promotion of the development of virtual idols. Today, with the COVID-19 pandemic, the activities and performances of virtual idols are all carried out online, and there will be no real contact. This also helps reduce the spread of Covid-19. In addition, YH Entertainment is preparing to be listed on the Hong Kong Stock Exchange. This research can also better help investors understand YH Entertainment's business situation and future trends worthy of attention.

5.3 Limitations

YH Entertainment's virtual girl group was

announced at the end of 2020. The data on virtual idols in the study came from the end of 2020 to today. Although Frost & Sullivan's data is optimistic about the virtual idol business, it still needs to be in the future, we will continue to pay attention to many data such as the proportion of profit to total business revenue, profit growth, gross profit margin, and market share in the virtual idol industry.

This article is generally based on the author's analysis and summary of the literature. The literature mainly comes from the prospectus of the initial public offering issued by YH Entertainment. Although the analysis process maintains objectivity, it still has a lot of subjectivity.

5.4 Further Study

Virtual idols only account for a relatively small part of China's entertainment market, and previous researches have paid less attention to this field, with limitations in terms of time and paper sources.

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