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A STUDY ON THE BUSINESS MODELS OF CHINESE  
VIDEO WEBSITES AND ITS EVOLUTION

WANG XIAOHUI

SINGAPORE MANAGEMENT UNIVERSITY

2023

A Study on the Business Models of Chinese Video Websites and Its  
Evolution

Wang Xiaohui

Submitted to Lee Kong Chian School of Business in partial  
fulfillment of the requirements for the  
Degree of Doctor of Business Administration

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2023

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I hereby declare that this DBA dissertation is my original work and it has been written by me in its entirety. I have duly acknowledged all the sources of information which have been used in this DBA dissertation.

This DBA dissertation has also not been submitted for any degree in any university previously.

A handwritten signature in black ink, appearing to read '王晓辉' (Wang Xiaohui).

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Wang Xiaohui

5 April 2023

# A Study on the Business Models of Chinese Video Websites and Its Evolution

Wang Xiaohui

## **Abstract**

This dissertation delves into the 20-year developmental history of Chinese video websites, with specific emphasis on major players currently in operation such as iQIYI, Tencent Video, Youku, Bilibili, and Mango TV. It critically analyzes the business model of Chinese video websites from five key dimensions—developmental evolution, market operation, content production, user relationships, and policy relations—providing a comprehensive understanding of the industry’s landscape. Research has shown that the business models of Chinese video websites present not a simple chain relationship but a complex network of relationships. Elements such as capital, market, content, technology, users, and policies dynamically interact and balance each other in a game that reflects the unique “Chinese characteristics” of the business model. Several conclusions have been made: 1) While the business model may dynamically adjust according to various technological and capital conditions over time, shifting the focus from valuing UGC to prioritizing PGC as the core represents a fundamental change; 2) Although video websites may have created capital myths through financing and mergers, the core of their business models is centered around excavating and developing user power. Balancing income and expenses, reducing costs, and increasing efficiency, remain key to achieving success in their business models; 3) User power on video websites depends on the content produced, which is now focused on specialization, IP, intelligence, and scenario-based production; 4) Video websites and their users are in a constant dynamic game, where membership systems and fan economies have

become both a boon and a bane for the industry's development. They serve as effective means to stimulate user participation and enhance user loyalty; 5) The survival and development of Chinese video websites are deeply influenced by state power. Their business models need to comply with national laws, regulations, and policies and constantly balance public and commercial interests.

Keywords: Chinese Video Websites, Business Model, Evolution, Business Value, Relationship Model

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# Chapter 1 Introduction

## 1.1 Research problem

### 1.1.1 Fundamentals and rationales for research

Video websites are a popular form of online media that have emerged in the Internet age. They provide Internet users with an easy way to post, browse, and share videos using advanced technological platforms. Over the past 15 years, Chinese video websites have undergone explosive growth, evolving from early exploration and pioneering to rapid development and promising prospects. Given the vast business opportunities presented by the Internet market, video websites faced intense competition from their peers since inception. As the video website market gradually became saturated, their competition heightened. While some video websites exited the scene due to technological and capital constraints or were acquired or merged with other well-established players, others managed to survive, grow, and thrive. Currently, there are five large and well-developed video websites in China, namely iQIYI, Tencent Video, Youku, Mango TV, and Bilibili.

The growth and development of video websites can be attributed to various underlying factors, including the business model which determines their development strength and prospects. A business model encompasses a diverse range of areas, composed of different factors, including product nature, organizational framework, circulation operation, and profits. At its core, the fundamental purpose of a business is to offer value to others in exchange for equal value, while the business model outlines the process through which a

company generates and exchanges value. The distinct combinations of such factors as corporate production, operation, and decision-making will form different business models and create different value systems. The profound impact of the Internet, mobile Internet, Internet of Things (IoT), and intelligent technology on human production and lifestyle has greatly expanded or reduced various aspects and elements of business models. This in turn has driven the constant development and evolution of business models, keeping them aligned with the dynamic pace of the times.

The business model is a common issue in enterprise management, which requires knowledge from various disciplines such as economics, organizational management, and marketing. In addition, for video websites, expertise in fields like communication and film and television arts may be necessary.

Regarding the evolution of business models, the traditional model focuses on payment and profit structures for enterprises or society at the end of the value chain. It takes into account the relationships and logic between production and consumption within organizations. But in the Internet age, business models have emerged as a crucial factor for driving innovation in enterprises. Companies can now adapt their business models dynamically to changes in various production and environmental factors while also analyzing and maintaining a sustainable competitive edge. As video websites continue to evolve, they have developed business models with competitive advantages that sustain their growth in a fiercely competitive environment, laying a solid foundation for having a better understanding of these business models and the underlying logic, for opening up channels for the good development of video websites, and for predicting the future development of the business models.

This study examines the business models of high-quality video websites in China, analyzing and synthesizing the key factors that shape the construction of their business models. By exploring the interaction between these factors and the business model, I provided a detailed analysis of its development path. Moreover, I predict future trends and offer practical recommendations for the continued growth and success of video websites.

### 1.1.2 Research problem description

Since the late 1990s, online platforms such as Blogger, Wikipedia, MySpace, and Facebook have emerged one after another. They have gradually given rise to corresponding online communication methods and changed users' traditional reading and viewing habits. During this stage, online video websites began to emerge, offering a "TV replacement" approach and catering to internet users' preferences. As network technology continues to update and develop, the online video industry has demonstrated distinct characteristics from traditional broadcasting and television industries—user habits differ, the content varies, and the business model has undergone a thorough renovation. During this process, online video platforms such as Netflix and YouTube have stood out as prominent players. They have evolved from online movie rental stores and user-uploaded video platforms into comprehensive and highly influential Internet video platforms. In China, video websites like iQIYI, Tencent Video, Youku, Mango TV, and Bilibili have followed a similar trajectory and grown into major players within the country's video industry. This dissertation explored the business models of video websites and attempts to address the following questions:

Question 1. How have video websites developed with the development of the Internet? In particular, how have China's online video websites gradually developed and grown with the development of the Internet? Chinese video websites have experienced a relatively short history, characterized by initial struggles, rapid growth, and eventual consolidation within a few dominant players. Based on the history of online video development in China, it is worthwhile to study the various business decisions and models that contribute to the success or failure of a website.

Question 2. How does the Internet impact the business models of video websites? Many people believe that online videos are a substitute for television, even transforming the passive viewing experience of television into an interactive "lean-in" mode. The shift towards streaming content reflects a change in user viewing habits. However, how does this change reflect the succession of new business models?

Question 3. What are the main components of the business model of video websites? What are the decisive factors that make up a video website's business model and profoundly impact the value production of the video website? This is a critical topic of this study. A business model is a complete and open ecological system that varies across different video websites, resulting in diverse ecosystems and creating distinct values. In this ecosystem, what are the key or constant factors of the business model? This paper will explore the impact of different factors on business models based on specific research methods, in order to better predict the future development of video websites. This is also the innovation and difficulty of this study.

### 1.1.3 Research significance

This paper focuses on studying the business models of video websites and their significance lies in:

First, it analyzed video websites in a comprehensive and systematic manner. Video websites have emerged as a crucial component of China's Internet development, providing the public with essential access to information and daily entertainment. These platforms have established and fostered users' habits and preferences for consuming videos. In addition, they are significantly influencing and reshaping China's film and television sector from economic, cultural, technological, and social viewpoints. So far, there have been relatively few scholars who have conducted comprehensive research on video websites. Therefore, this paper analyzed and explored video websites in a comprehensive and long-term manner, in the hope of providing sustainable development recommendations for China's film and television industry.

Second, it provides a reference for understanding the critical factors of the business model of video websites. The factors such as politics, economy, and culture have led to the unstable development of the business models of video websites. As a result, it is a significant part of this study to examine how distinct video websites select the business models in favor of their development which further promotes the benign competition among video websites and leverages their respective advantages.

Third, this paper analyzed the roles of different factors in the business models of video websites, which can provide a reference model for the establishment of the business model evaluation system for video websites and



for the future development of the industry.

Fourth, the research on the business model of video websites involves multiple levels such as operations, strategies, and production, so it is a necessary path to explore the sustained development and competitive advantage of video websites. Video websites have become an integral part of the Internet economy and are closely related to the overall development strategy and layout of a country or society. Therefore, studying the business model of video websites is essential in promoting the coordinated development of the social economy.

## 1.2 Research objectives

### 1.2.1. Specific objectives

Based on the research question and significance, as well as the practical and academic perspectives, this paper primarily aims to achieve the following research objectives:

The first objective is to comprehensively and systematically understand the development and changes of domestic and foreign video websites, as well as the basis for the formation and evolution of their business models.

Secondly, building upon the previous research foundation, this paper aims to summarize and analyze the key components and factors that influence the business models of domestic and foreign video websites. It will also uncover their crucial role in the value-creation process of video websites by examining the business models in light of the specific historical, commercial, and other environmental contexts.

Thirdly, by utilizing the theories of business models, value chains, and

game, this paper intends to establish a business model evaluation system for video websites and explore the current state and trends of video website development. Specifically, it aims to develop a comprehensive list of factors required for building video websites based on two main areas: business models horizontally and the video website content production value chain and enterprise value chain vertically. The goal is to construct a business model evaluation system for video websites by summarizing the key factors needed for each part, thus providing a reference for the future development of the video industry.

### 1.3 Research background (literature review)

#### 1.3.1 Research on the essence of the business model concept

The business model is a concept that covers a wide range of areas and has rich content and strong practicality. This term first appeared in an academic paper in the 1950s. Gardner M. Jones first used the “business model” in a paper title. After the 1990s, the business model became an independent field and attracted wide attention from researchers. Over time, research on business models has progressed from establishing conceptual definitions to delving into the various components that make up these models, as well as detailed interpretations of the components and the establishment of digital models, among other advancements. When it comes to elucidating the concept of a business model, one approach is to consult the classification of business model definitions by Morris et al. (2005). According to this framework, business models can be categorized as economic, operational, or strategic, and these categories are believed to exhibit a hierarchical relationship, with each type progressively leading towards more integrated concepts.

The economic business model centers around identifying the fundamental essence, with a particular emphasis on the sources of revenue and the cost structure of the enterprise. Scholars have described business models as ways of obtaining profits from the perspective of corporate operations. Afuah (2001) argued that the business model is a way for a company to obtain profits. Stewart & Zhao (2000) expressed that the business model is the basic logical way for businesses to obtain and maintain their profitability. Wei and Zhu (2008) proposed that at the core of a business model lies the transactional structure created by stakeholders.

The operation-oriented business model focuses on describing how enterprises or organizations create value by utilizing the conditions and basic structure within their internal networks. Timmers (1998) defined a business model as an architecture for the product, service, and information flows, a description of the potential benefits for the various business actors, and a description of the sources of revenues. According to Mahadeva (2000), a business model is a unique blend of three streams that are critical to the business. These include the value stream for the business partners and the buyers, the revenue stream, and the logistical stream. Thomas (2001) thought that a business model involves the internal and external factors of a company such as customers, suppliers, resources, channels, and capabilities. In contrast to the economic business model, the operation-oriented model places emphasis on depicting the inner workings of a company or organization in accordance with a defined business model. It further focuses on establishing and modifying the operational structure.

Compared with the previous two types, the strategic business model is all-

encompassing, centering on explaining the interplay between an enterprise and its diverse strategic stakeholders. It presents the business model as a comprehensive analysis of various business strategies involving market demands, organizational conduct, growth prospects, competitive edges, and sustainability, taking into account variables such as stakeholder identification, value creation, differentiation, vision, network, value, and alliances as well (Yuan, 2007). As Dubosson-Torbay, Osterwalder, and Pigneur (2001) defined, a business model is nothing else than the architecture of a firm and its network of partners for creating, marketing, and delivering value and relationship capital to one or several segments of customers in order to generate profitable and sustainable revenue streams. Luo et al. (2005) proposed that a business model refers to the structure and system that an enterprise employs to integrate all of its value chain members, including customers, resource supply partners, employees, and shareholders. The primary goal of this integration is to drive strategic innovation and ultimately generate excess profits for the organization.

In recent years, researchers have elevated the study of enterprise economic models, operational structures, and strategic directions to a new level of integration with the concept of business models. In terms of tool application, they have expanded their use to include other disciplines such as systems theory and evolution theory, in addition to theories from economics and management. Morris et al. (2005) gave an integrative definition that a business model is a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in a defined market.

Amit and Zott (2010) believed that a business model articulates a firm's

value proposition, its sources of revenue, the resources used to extract rents, and the governance mechanism that links firm's stakeholders. According to Luo et al. (2005), the business model encompasses three key aspects: implicit assumptions that form the foundation of its rationality; a structural relationship that involves both internal and external elements, with each part (such as the organization itself, customers, and supply chain partners) having a mutually influential relationship; and a strategic innovation or transformation that enables the company to achieve long-term advantages. Sorescu et al. (2011) proposed that a business model is a well-specified system of interdependent structures, activities, and processes that serves as a firm's organizing logic for value creation (for its customers) and value appropriation (for itself and its partners). Bock and George (2011) reported on a discourse analysis of 151 surveys of practicing managers to better understand their conceptualization of a business model. They found that the underlying dimensions of the business model are resource structure, transactive structure, and value structure, and discussed the nature and implications of dimensional dominance for firm characteristics and behavior. The resource structure refers to the fixed organizational framework of a firm, including its production technology and essential resources, all designed to meet the needs of customers. The transactive structure pertains to the way in which a firm is organized to conduct critical transactions with partners and stakeholders. Lastly, the value structure represents the set of rules, expectations, and mechanisms that determine how a firm generates and retains value.

At the same time, value creation is a fundamental component in the definition of business models. Yuan (2007) proposed that a business model essentially refers to the underlying logic of value creation for a firm,

encompassing the creation of customer value, partner value, and enterprise value. Shafer et al. (2005) defined a business model as a representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network. Teece (2010) believed that the essence of a business model is that it crystallizes customer needs and ability to pay, defines the manner by which the business enterprise responds to and delivers value to customers, entices customers to pay for value, and converts those payments to profit through the proper design and operation of the various elements of the value chain. The value proposition a good business model generates will attract customers and create significant value through producing and delivering products and services.

From a cultural perspective, some scholars have conducted comparative research on the Chinese business model based on the comparative analysis of domestic and foreign business models. For example, Lee (2013) contrasted between the Hofstede cultural dimensions and the philosophical constituents of Confucianism to disclose the idiosyncrasy and incongruence of the leadership and stakeholder management of Chinese corporate executive officers (CEOs) across the Chinese mainland, Hong Kong, and Taiwan. CEOs in the mainland China are more autocratic and power-lopsided, emphasizing Confucian loyalty and ritual/propriety. CEOs in Hong Kong are hierarchical but flexible, accentuating Confucian loyalty and integrity. CEOs in Taiwan are alternatively modest and less patriarchal, avowing the importance of Confucian integrity, righteousness, and humaneness. For business practitioners around the world, a fundamental but thorough understanding of such cross-cultural managerial dissimilarity is crucial not only to enriching one's inter-personal and inter-

corporate experience, but also to prospering mutual corporate relationships and business capacity.

Overall, a more comprehensive business model definition includes not only value creation as a core component, but also revenue generation, relationship networks, resource capabilities, strategic decision-making, and systemic connections. This expresses the logic of enterprise integration of internal and external resources and activities to create value for customers, enterprises, and partners.

### 1.3.2 Research on the structure system of business models

There are varying understandings of the composition of the business model, which stem from different interpretations of the essence of the business model. Foreign scholars focus on the elements and structure of the business model in their research. During the early period of business model analysis, scholars typically centered on identifying and listing the specific elements that comprised a company's activities. For example, Horowitz (1996) proposed that a business model consists of five parts: price, product, distribution, organizational characteristics, and technology; Timmers (1998) defined a business model as an architecture for the product, service, and information flows, a description of the potential benefits for the various business actors, and a description of the sources of revenues.

As the research deepens, scholars have studied the organic structures and their interrelationships from a networked perspective. Specifically, Osterwalder's (2001) research on business models has had a significant influence. He determined the business model according to the four components

of the adopted framework: Product, Customer, Infrastructure, and Finance. The four components are therefore divided into nine elements: value proposition, target customer, channels, customer relationships, key activities, key resources, key partnerships, revenue streams, and cost structure. However, this framework has limitations in business practice as it does not consider corporate activities in the cyclic structure.

Yuan (2007) summarized 24 different components of business models proposed by some scholars from 1996 to 2005 by reviewing the literature. He found that “value proposition” was mentioned most frequently, followed by economic model, customer interface/relationship, partner network/role, internal structure/interrelated behavior, and target market.

Table 1.1 Yuan Lei’s Summary of Different Perspectives on the Composition of the Business Model System

Source	Constituent Factors	Number	Scope <sup>⑤</sup>
Horowitz (1996)	Price, product, distribution, organizational features, and technology	5	General
Viscio et al. (1996)	Global core, regulation, business unit, service, and connection	5	General
Timmers (1998)	Structure of products/services/information flow, interests of participants, and sources of revenue	3	Electronics
Markides (1999)	Product innovation, customer relations, infrastructure management, and finance	4	General
Donath (1999)	Customer understanding, market tactics, company management, internal networking ability, and external networking ability	5	Electronics



Chesbrough et al. (2000)	Value proposition, target market, internal value chain structure, cost structure and profit model, value network, and competitive strategy	6	General
Gordijn et al. (2001)	Participants, value objectives, value ports, value creation, value interface, value exchange, and target customers	7	Electronics
Linder et al. (2001)	Pricing model, revenue model, distribution model, business process model, internet-based business relationships, organizational form, and value proposition	8	General
Hamel (2000)	Core strategy, strategic resources, value network, and customer interface	4	General
Petrovic et al. (2001)	Value model, resource model, production model, customer relationship model, revenue model, asset model, and market model	7	Electronics
Dubosson Torbay et al. (2001)	Products, customer relations, partner foundation and networks, and finance	4	Electronics
Afuah et al. (2001)	Customer value, scope, price, revenue, related behavior, implementation capabilities, and sustainability	8	Electronics
Weill et al. (2001)	Strategic objectives, value proposition, sources of revenue, success factors, channels, core capabilities, target customers, and IT technology facilities	8	Electronics
Applegate (2001)	Concept, ability, and value	3	General
Amit et al. (2001)	Transaction content, transaction structure, and transaction governance	3	Electronics
Alt et al. (2001)	Mission, structure, process, revenue, legal obligations, and technology	6	Electronics
Rayport et al. (2001)	Value stream, market space offerings, resource system, and financial model	4	Electronics

Betz (2002)	Resources, sales, profit, and assets	4	General
Stahler (2002)	Value proposition, product/service, value system, and revenue model	4	General
Forzi et al. (2002)	Product design, revenue model, output model, market model, financial model, network, and information model	6	General
Gartner (2003)	Market offerings, capabilities, core technology investment, and overview	4	Electronics
Osterwalder et al. (2005)	Value proposition, target customers, distribution channels, customer relationships, value structure, core competencies, partner network, cost structure, and revenue model	9	General

Weng (2004) defined a business model as a meaningful combination of core interface elements along three dimensions: customer interface, internal structure, and partner interface. Within these dimensions, specific elements are subdivided into four categories: value proposition, value content, value delivery (method or approach), and value recovery. Yuan and Zhang (2008) proposed a commercial model system called “3-4-8”, which comprehensively explores the commercial model across three levels: “far, middle, and near”. In this system, “3” represents the contact interface, encompassing customer value, partner value, and corporate value; “4” represents the constituent unit, including value proposition, value network, value maintenance, and value realization; “8” represents the constituent factors, which include target customers, value content, network form, business positioning, partner relationships, isolation mechanisms, income models, and cost management. But this type of classification lacks the constituent elements of the production process. Wei and Zhu (2008) proposed

six constituent elements, namely localization, business system, key resource capabilities, profit model, free cash flow structure, and enterprise value. Teece (2010) indicated that good business model design and implementation involves assessing such internal factors as process and organizational structure arrangement as well as external factors concerned with customers, suppliers, and the broader business environment.

Table 1.2 Weng Junyi's Classification of Core Elements of Business Models

Element	Customer Interface	Internal Structure	Partner Interface
Value object	Market segmentation Target market selection Market positioning Others	Corporate mission Stakeholder concept Others	Split-up Merging and acquisition Outsourcing Supplier selection Others
Value content	Product quality and performance Price Services Experience Contact distance Others	Customer value Partner value Remuneration Others	Establish supply partnership Integrate supply network Provide guidance for suppliers Leverage supplier innovation Develop global supply base Strategic alliance Industry standards Others

Value proposition	Sales channel Brand design Marketing communication Advertising and sales promotion Sales After-sales service Customer relationship management Others	Governance structure Capital structure Decision-making and leadership styles Performance evaluation and supervision system Organizational structure Product or service portfolio Process flow Business process Quality management Information management Knowledge management Value chain management Corporate boundary setting and adjustment Others	Quality control Procurement management Logistics management Partner relationship management Others
Value recovery	Charging method Receivable management Others	Dividend distribution Shareholder value management Others	Payment method Payable management Others

### 1.3.3 Research on business model innovation in the internet age

Business models of enterprises may remain relatively stable for a period of time, but under the influence of external economic, political, cultural, and technological environments and the driving force of economic rent, innovation in business models will constantly evolve (Gao, 2006). A good business model will provide considerable value to the customer and collect (for the developer or implementer of the business model) a viable portion of this in revenues. Business model innovation (BMI) can itself be a pathway to competitive advantage if the model is sufficiently differentiated and hard to replicate for

incumbents and new entrants alike (Teece, 2010). Foss and Saebi (2017) identified and analyzed 150 peer-reviewed scholarly articles on BMI published between 2000 and 2015, providing the first comprehensive systematic review of the BMI literature. They argued that the literature faces problems with respect to construct clarity and has gaps with respect to the identification of antecedent conditions, contingencies, and outcomes. With the thriving development of information technology, traditional business transaction methods are constantly integrating with new technologies, channels, and consumer demands, expanding their transaction modes outward and forming new business models. The business model in the internet age has become a hot topic of academic research.

Some scholars have conducted research on the antecedents of BMI. Luo et al. (2005) used the concept of “Rent of Enterprise” to explain the internal and external driving forces behind BMI. They believed that only through continuous reconstruction or creative destruction of business models, can enterprises effectively survive. Osterwalder and Pigneur (2011) argued, from the perspective of transaction cost theory, that due to the development of information and communication technologies and the decrease in usage costs, companies are now able to construct value networks with significantly lower collaboration and transaction costs. As a result, they are able to create innovative business models. Wu et al. (2016) indicated that internal factors such as management cognition, resource capabilities, organizational activities, and profit models, as well as external factors such as technological innovation, contextual factors, market opportunities, and the company’s value network, are the prerequisites for promoting BMI.

The characteristics of the internet play a crucial role in BMI and cannot be

overlooked. According to Luo et al. (2015), in the internet age, unclear boundaries between organizations, uncertainty, decentralization, and the non-replicability of resources have replaced one-way supplier outputs with bidirectional flows between supply and demand. Community-based technology and channels have become heterogeneous resources, and businesses have shifted from enhancing utility value to strengthening the perception of utility value and customer experience, which has become the driving force behind business model innovation. Yang et al. (2019) believe that the features—such as the individual needs of internet customers, the low cost of producing and distributing products online, network externalities, interconnectivity, and big data analysis based on interconnectivity—have led to the emergence of a large number of highly customized and differentiated products. Huang (2015) thought that the internet is open, equal, and interactive, and technologies such as cloud computing, IoT, and mobile communication networks promote information dissemination and integration.

In the internet age, the innovative development of business models is fundamentally closely linked to the transformation of media forms. Li and Luo (2017) summarized three media transformations: content media, social media, and scene media, which gave rise to three corresponding business models. The first model is the content media model which relies on the connection between people and content, obtaining advertising revenue through traffic logic. For example, early commercial portal websites like Sina and Sohu established cooperation with a great number of content suppliers to provide extensive content and exchange huge value in advertising placement through click-through rates and traffic. The second is social media, which leverages the

connections between individuals to foster a sharing economy through the logic of relationships. For example, We-media “Logic Show” drives offline activities through social communities, and ultimately realizes monetization through e-commerce. The third is scene-based media which connects people and scenes, achieves precision and humanized marketing through big data, and generates e-commerce payments through cross-boundary logic. For example, the e-commerce platform Alibaba collects user information and enriches their experience by utilizing data from e-commerce websites, browser data, search data, map geographic location data, Weibo social data, and entertainment data from video websites. Huang and Zhong (2014) classified portal websites into “media platforms” and “relationship networks”. The former, represented by Sina and Sohu, focuses on businesses and profits driven by content production, while the latter, represented by NetEase and Tencent, is based on social relationships and the production of user-generated content (UGC) that is becoming mainstream. The essence of the transformation of the business model is attributed to the shift from “mass communication” to “network communication”.

Scholars have conceptually summarized the manifestations of BMI in the internet age from different perspectives. Yao (2011) stated that the corporate governance mechanism determines the innovation path by influencing the motivation, risk selection, and the degree of innovation (novelty) of BMI. Li et al. (2013) summarized six basic business models from the perspective of the “big data” industry chain, including data rental and sales model, information rental and sales model, knowledge rental and sales model, hardware rental and sales model, software rental and sales model, and service model. They also

proposed platform-based business models and data-driven cross-border models as new trends in the industry. From the perspective of the sharing economy, Zheng (2016) indicated that, based on technologies such as mobile internet, third-party payment, big data, and cloud computing, and surplus idle resources, the sharing economy has become a new form of “new economy” and “new business” under the internet. The core basis of the sharing economy business model is “idle + value + return”. Meng et al. (2017) found from the perspective of mental models that “self-deconstruction”, “empathy transformation”, “self-dreaming”, “dimensionality upgrade layout”, and “self-renewal” constitute the characteristics of entrepreneurial mental models in the context of BMI. They proposed that entrepreneurial mental models evolve progressively following the levels of enterprise, industry, and career. Li and Luo (2017) summarized the new business model of internet thinking as the “New 4C Rule”. It leverages a suitable scenario (Context) to connect content and community, with a specific community (Community) as the target, high-quality content (Content) as the value, and the connection between people, content, and brand (Connection) as the center.

BMI involves systematic innovation in various areas such as market, operations, marketing, and profitability (Osterwalder et al., 2005). Scholars often summarize the innovation paths and design of business models based on case studies. Tian et al. (2006) decomposed the components of a business model into four parts: for whom (customer definition), do what (value proposition/product service), how to do it (value production/creation system), and how to make a profit (revenue reporting, etc.). They believed that the main ways to innovate a business model are to redefine customers, offer special



products/services, change the way products/services are provided, change the revenue model, change the customer support system, and develop a unique value network. Based on practical enterprise cases, Zhang (2010) proposed five ways of BMI: value activity, resource capability, income model, value network, and value curve. Luo (2014) proposed that the business models in the internet age have unique key elements: community, platform, cross-border, resource aggregation, and product design. Based on the community-based economy theory, Wu et al. (2017) selected We-Meida “Logic Show” as a case study, researched its three business model transformations, and proposed that the core driving force of future business society lies in community, and the community-based economy is gradually becoming a trend; the personal charm of entrepreneurs plays a crucial role in the early stage and later depends on the maturity of organizational management and business community. Liu et al. (2021) studied the social e-commerce platform Pinduoduo and analyzed its BMI path. They identified the core business model of Pinduoduo as group buying and highlighted its reliance on social platforms such as WeChat to convert traffic, incentivize users, and stimulate random consumption, all of which have an impact on the company’s performance.

In terms of the BMI impact, in business practice, enterprises can leverage BMI to reduce transaction costs, increase value growth points, and meet customers’ diversified needs (Amit and Zott, 2001 & 2010). Meanwhile, business models under internet forms such as the sharing economy and platform economy have created social issues such as a lack of social responsibility in actual operation (Xiao and Li, 2019). BMI is neutral for enterprises and capital markets. The key is to utilize the business model effectively to serve value co-

creation and achieve the collaborative innovation and development of the product market and capital market (Zhang, 2020).

### 1.3.4 Research on video websites

#### 1.3.4.1 Research on the business models of video websites.

Video websites are internet media that provide users with free or paid services for uploading, storing, streaming, broadcasting, and downloading audiovisual content. (Wang, 2012). With the rapid development of the online video market, domestic video websites have formed a competitive pattern with comprehensive video websites as the main body and vertical video websites growing together.

Since the birth of video websites, both industry and academia have been concerned about how video websites can make profits. Research on the profit model of video websites has focused on profit methods and conditions. Scholars believe that video websites generate profits through various means such as advertising, user-paid services, video e-commerce, multi-party profit sharing, and extended business within the industry chain. (Xiong and Zhang, 2006; Li, 2016; Cao, 2019). Out of these, advertising is considered to have promising profit prospects, while value-added services are believed to hold unlimited potential for the future (Hu, 2007). Advertising can be specifically divided into homepage advertising, built-in advertising, and video advertising (Hu, 2012). As the sales of peripheral products and other businesses of video websites are developed, a video business ecosystem has been built, which includes e-commerce, gaming, movie ticketing, copyright operations, streaming hardware, and other industry chains, connecting people and services. (Li, 2016; Cao, 2019).

With the further development of video websites, a significant increase in the number of participants and an extension of the business industry chain have been observed. The investor, producer, platform operator, and advertiser collaboration has facilitated the expansion of the value chain for video products, which now follow a structured order of “video production–product placement–video and advertisement playback–user viewing–user payment”. As a result, a standardized commercial cooperation model has been established. (Bu and Dong, 2019) Scholars have studied the development of video websites from a business model perspective based on profit models. Zhang et al. (2009) systematically categorized the business models of online videos into product management models, industry value chain operation models, and profit models. They stated that the business model of online videos faces several challenges, including content homogenization, copyright issues, a lack of stable and sustainable three-dimensional profit models, and difficulties in coordinating the interests of various stakeholders in the industry value chain. Therefore, they recommended that a product-based approach be taken to create a system for matching elements and building three-dimensional profit models through industrial links with upstream and downstream partners in the industry value chain. Chen (2014) divided video websites into video sharing, P2P, and vertical video websites, from the perspective of product positioning. She proposed four dimensions (target positioning, partner interface, basic resources, and profit model) and eight elements (product positioning, customer positioning, customer relationship, partner network, core resources, key business, revenue source, and cost structure) for analyzing the business model of video websites. Tang and Yin (2007) analyzed the business model of video websites from financing methods,

marketing methods, positioning strategies, content provision, advertising models, and other dimensions, using YouTube as a case study. Gao (2010) explained that Hulu in the United States has presented the talent strategy, content strategy, and business strategy.

Many scholars have utilized Osterwalder's business model canvas to conduct in-depth discussions and analyze the specific business models of video websites. Wang's (2019) analysis of traditional TV media internet platforms, represented by Mango TV and Hulu, examined core resources, user relationships, revenue sources, cost structure, and other factors. The study also identified bottleneck problems faced in the operation of TV video websites, including unstable business models, inadequate content ecology construction, insufficient big data utilization, and technical capabilities. She suggested using differentiation advantages and mainstream media resources to build a unique brand. Scholars have analyzed Bilibili from various dimensions such as product, customer, infrastructure, and profit model. They have focused on key business elements such as core resources, value propositions, customer relationships, and channel access to summarize its focus on building a highly-engaged "two-dimensional" subculture user community, low content costs, and stable revenue growth. Additionally, they have highlighted the development model based on video website operations, where games, live broadcasting, and peripheral sales play important roles. (Liu, B. and Liu, C., 2018; Zhou, 2020)

#### 1.3.4.2 Research on copyright content of video websites

Copyright research is a focal issue for video websites. On the one hand, it discusses the scope of application of relevant laws, especially the "International

Safe Harbor Privacy Principles (ISHPP)” and the “Red Flag Rules”. Hu (2009) analyzed the five principles set in the *Regulations on the Protection of the Right of Communication through Information Network* and proposed that “while protecting the legitimate rights and interests of copyright owners, it is equally important to consider the public’s right to access information. As for the emerging video industry, a balance must be struck between regulation and isolation to ensure its development is not stifled due to temporary copyright issues”. Wang (2012) argued that the implementation of ISHPP has brought clarity and formalized the legal litigation process for addressing copyright infringement on Chinese video websites. As a result, there has been a surge in the number of copyright infringement cases being filed against these sites. Misunderstandings of ISHPP and stricter applications have worsened this trend, resulting in more losses than wins in litigation outcomes.

Some research focuses on infringement phenomena, including infringement on video websites and the current situation, reasons, and countermeasures for regulatory difficulties. For example, Liu (2011) pointed out that the phenomenon of piracy remains common in China, and there are increasing copyright litigation disputes. At the same time, the continuous price rise in copyrights constrains the development of video websites. Chao (2011) proposed that in the face of infringement, not only should administrative supervision be improved, but also the self-discipline and copyright protection awareness of video websites should be strengthened, and profit models should be constantly expanded. Video websites need to pay high copyright fees to suppliers in order to obtain corresponding online broadcasting rights. Therefore, major video websites continuously innovate content models by making self-

production a new highlight in their development. Wang (2012), based on the creative development theory about self-produced works on video websites, particularly analyzed how to achieve the industrial upgrading of video websites through self-produced works, and conceived how video websites evolve into creative industry bases.

Wen (2012) summarized the reasons for the emergence of self-produced content: alleviating copyright pressure, expanding marketing space, and competition in content differentiation. Chang and Yang (2014) believed that the fundamental reason lies in the competition among media, including user market demand, constraints from copyright protection, the inevitability of media development, and the seen effectiveness of self-produced content. Chen and Xu (2012) summarized the necessary elements for the development of self-produced content, including a fully marketized production mechanism, abundant and sustained capital amount, professional program producers, and agile and extensive content dissemination. Regarding the characteristics of self-produced content, Jin (2012) indicated that self-produced content on websites features avant-garde topics, lively forms, young audiences, low production costs, and high visibility compared to traditional TV programs. Li (2014) believed that self-produced programs on video websites are apparently distinguished from traditional TV programs by highlighting the characteristics of the internet. To be specific, the former shows new program formats, the entertainment features of network varieties, and the repackaging and retransmission in a material arrangement. Regarding the development directions of self-produced content, Zhang (2013) summarized three major measures for creating program brands: dividing the audience into segments, innovating production mechanisms, and

innovating program formats. Zhang (2013) put forward four ideas about the development of self-produced internet programs: improving the professionalism of programs, carrying out three-dimensional cross-media promotion and marketing, establishing brand image and pursuing brand extension, and strengthening the normative guidance of the law.

#### 1.3.4.3 Study on content production of video websites

Since the birth of video websites, content has been basically divided into user-generated content (UGC) and professionally generated content (PGC). With the development of PGC and content produced by video websites, video websites have presented a multi-element development model under which multiple content models coexist. Xu (2012) proposed that the evolution process from UGC to PGC, based on the accumulation and support of five dimensions i.e. mechanism, the quantity of capital, producer, content, and audience, is precisely the process by which Chinese video websites evolve towards the network television format. From a “unique” perspective, the internet is seen as “the dissemination of information from everyone to everyone.”

In terms of specific content production, Zeng and Zhang (2013) believed that Chinese video websites were facing a shift from the formal level to the content level in terms of station-website integration. Video websites not only collaborate with TV stations on content production, but also output content produced by themselves in reverse to TV stations. Liu and Shu (2013) pointed out that video websites had started to enter the upstream link of the industry chain—content generation and manufacturing—to achieve differentiated development.

Many scholars have discussed content development strategies based on practice. Li (2013) summarized the strategies of content production through case analysis, including differentiation in positioning, diversification and subdivision in types, emphasis on scarcity and uniqueness in concepts, and pursuit of networked style. Ma (2015) summarized three major content management strategies of mainstream video websites: actively purchasing copyrighted content and implementing the strategy of exclusive broadcasting; developing a self-produced drama business; and integrating premium User Generated Content (UGC). He also put forward the optimization scheme of “focusing on competitive content packaging and long-tail content development and tapping into the potential value of mass and niche markets; improving user interaction platforms and the interactiveness of contents; and using big data to guide content decision-making and optimize services”. Besides, some scholars have summarized content strategies like multi-screen linkage production, short videos as the mainstream of mobile terminals, improving user experience and interactive operation, and refinement of head contents and integrated operation of middle and tail contents. (Han & Zheng, 2016)

#### 1.3.3.4 Research on overseas video websites

Scholars have mainly focused on the business models, content strategies, and user operations of overseas video websites in their research, with Netflix, Hulu, and other representative overseas video websites as their important research subjects. Through analyzing their content layout and operation modes, scholars aim to explore the current situation and future trends of video websites and compare them with Chinese video websites, in order to provide guidance and references for the development mode of Chinese video websites.



Regarding the content model of overseas video websites, Gao (2010), taking Hulu as an example, believed that in terms of content strategy, it is necessary to highlight shareability and practicality. According to Wang's (2014) analysis of Netflix's high-end original content strategy, vertical integration between media streaming platforms and production companies is a major trend. When user segmentation reaches a certain level, this type of online content creation will surpass traditional models by fully integrating with the platform's operation mode and user behavior to develop content that is more suitable for the platform and its users. Liu and Yang (2013) proposed that in the era of big data, video websites should rely on the support of big data in the process of content layout, create original and exclusive content, and explore new business models for film and television production. As overseas video website users continue to expand, these platforms are striving to transform and innovating their content production modes. According to Wang and Zhao (2018), platforms such as Netflix have moved upstream into content production, which has undeniable commercial value. However, they have also faced criticism regarding their values, depth of thought, and content quality. If we look deeper, it can be found that the advantages of being technology-driven and data-driven and market-based thinking that new media possesses are also the disadvantages that lead to criticism. Therefore, the challenges for new media audiovisual content production are how to leverage the advantages of platform businesses while avoiding their shortcomings and how to strike a balance between depth of thought and current topics, content quality and market returns, and value orientation and data analysis, which are also topics requiring further research and attention.

Lzquierdo-Castillo (2015) believed that Netflix follows a user satisfaction-oriented business model in its user operations. Under this user-experience-oriented video website operation mode, Gao (2021) proposed a market-oriented operation model based on user thinking, which emphasizes the experience needs of users and aims to provide personalized and distinctive audiovisual content to achieve accurate marketing through user segmentation. When producing the American TV drama *House of Cards*, Netflix utilized big data to conduct a rational analysis of audience behavior, deduce audience preferences and viewing habits, and ultimately broke the traditional mode of producing and broadcasting American TV dramas in real time. It released the entire season at once, which won a broad market appeal.

In terms of revenue models, overseas video websites have a more diverse range of revenue models. Scholars have summarized three main revenue models for American network videos: the “secondary sales” model, also known as the advertising payment model (represented by Hulu and YouTube); secondly, pay-per-view (represented by Amazon); and thirdly, membership-based (represented by Netflix). The revenue models of American video websites have their own characteristics and emphases and are not limited to any single operation mode (Liu S., Liu Y., Zhang, 2015). Daidj and Egert (2018) propose that faced with the entry of online streaming into the market, traditional media have made proactive adjustments and adopted a competitive mode of cooperation with internet companies. They also took Netflix as an example to analyze the success of this competition mode.

User payment is an important source of revenue for video websites, and overseas video websites represented by the United States have developed a

certain payment habit. From the characteristics of paying users, although the overall number of paying video users in China is constantly expanding, the proportion is still lower than that of the United States. The paying users are mainly young, highly educated, and relatively high-income males, which are similar to those in the United States (Liu S., Liu Y., Zhang, 2015). However, in China, users have not yet developed such a payment habit and lack awareness of paid viewing. But China's huge and rapidly growing user base of online video reflects the development prospects of the paid video industry.

After analyzing overseas video websites, scholars eventually focused on the shortcomings of Chinese video websites and proposed directions for improvement. Gao (2010) proposed that to improve Chinese video websites, a professional new media team should be established to optimize content resources and leverage copyright advantages. Content development should be strengthened in a hierarchical manner, with targeted resource integrated to create a media alliance. Additionally, expanding operations and strengthening brand management are also important strategies. From a user perspective, it is important to focus on user data security, explore personalized customization modes to enhance user stickiness, expand profit models to achieve revenue diversification, and deepen cooperation with various regions to meet diverse market demands (Gao, 2021). From a technological perspective, Chen (2016) proposed that the future trend of video websites should be content production and precision marketing based on big data, the broadcasting mechanism for films and TV dramas based on user experience, the application of social forces based on technological innovation, and the integration of production and broadcasting processes. In terms of commercial operation models, it is

important to recognize that today's young Chinese internet users are increasingly willing to pay for quality content. Therefore, Netflix's self-produced commercial operation model is worthy of attention and emulation (Lu and You, 2016).

#### 1.4 Research hypotheses, directional questions or model building

According to Porter's Value Chain Analysis, a company's value activities can be divided into two categories: primary activities and support activities. Primary activities include internal logistics, production operations, external logistics, marketing and sales, and services. Support activities include enterprise infrastructure, human resource management, technological development, and procurement. The supplier value chain, the enterprise value chain, the channel value chain, and the buyer value chain constitute the entire value system. In the internet era, the carrier of value creation has transformed from a single value chain to two value management modes: value shop and value network. Compared with the linear thinking of the traditional value chain, value shop and value network take into account dynamic network economic activities, achieve a close combination of virtuality and physicality, and consider value creation from both the perspectives of manufacturers and communities.

Back to the analysis of the business model of video websites, the development of the internet field and the value chain in the internet field have become more complex. Online videos have obvious differences and distinctions from general commodities. The former has more complex attributes, and its profit model has faced more uncertainty under the dual characteristics of the content industry and the internet industry. Video websites have more

characteristics of traditional broadcasting and television compared with other commercial websites, and have more “online” attributes of the internet compared with traditional broadcasting and television. When analyzing the business model of video websites, on the one hand, we must see the characteristics shared by all internet platforms—strong interactivity and sociality, interaction with users and fans, development and operation of the fan economy, as well as strong capital attributes, including massive financing, listing and merger & acquisition. On the other hand, we also need to consider the special attributes of video websites as content producers—cultural attributes and ideological attributes. This involves not only administrative regulation from governmental departments stipulated by law, but also whether content can match with and lead to social interest, social aesthetics, and social values, and further enhance the influence of websites. This double logic can be found on video websites in China, Europe and the United States.

In this regard, the author combines the Actor-Network Theory (ANT) and the standpoints of political economy on the basis of the business model theoretical framework as the overall analysis perspective of this article. ANT is a theory proposed by Bruno Latour, Michel Callon, John Law, and others. Under this theoretical framework, platforms are viewed as the infrastructure of technology integration and expression behavior. ANT does not study “society” itself, but aims to describe the relationships between people and society and explain how these relationships are both material and symbolic. In this theory, both humans and non-humans are “actors” that interact with and shape each other (Latour, 2005). This allows us to simultaneously consider factors such as people, technology, and capital within the same system. But ANT pays little

attention to the content and cultural forms created through technology and users, which are exactly the core of video website development; meanwhile, it hardly pays attention to the legal and ethical issues behind the technology. Therefore, it is very necessary to draw inspiration from political economy. Castells (1997; 2009) conducted analyses of the internet from a perspective of power, answering questions about the power structure of cyberspace. Although his research could not fully explain and solve the power structure and network governance issues in China's cyberspace, a perspective of political economy is very helpful for us to think about video websites in the background of the relationship among state, market, and society, because the development of video websites cannot be separated from the combined action and influence of these factors, and these factors are closely related to the formation of business models.

Therefore, in order to derive the analysis value chain of this study, the author first listed the key factors related to the business models of video websites from both online and offline perspectives, as shown in the following figure:

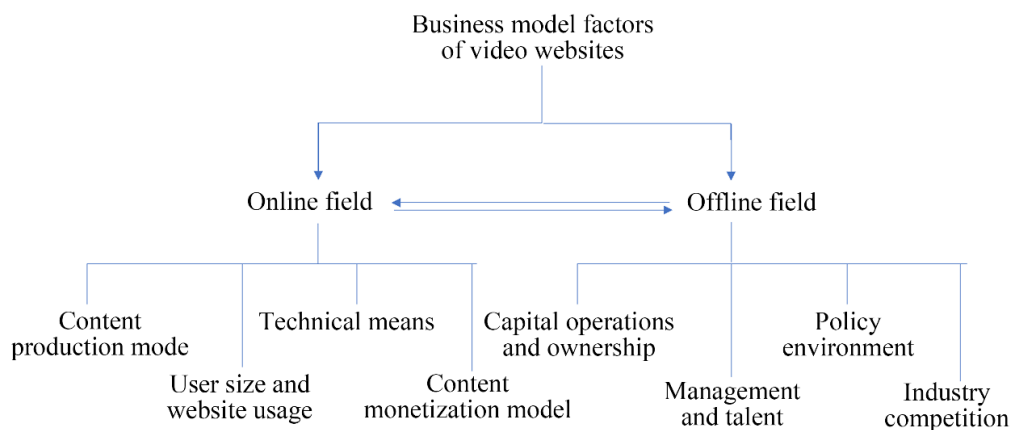


Figure 1.1 Key Factors About the Business Model of Video Websites

Based on the model shown above, this paper examines the business model of video websites from four dimensions, namely market operation, content operation, user relationships, and policies and regulations. Detailed analysis and discussion are conducted for the business model of video websites from the four perspectives.

Chapter I provides a detailed review and summary of the main development and evolution history of video websites, outlining the overall development trajectory of video websites from the beginning of the 21<sup>st</sup> century to the present. Research has found that China's video websites are still exploring a more mature business model. The business model undergoes changes and adjustments due to the technological environment, market competition, policies, and other influencing factors, making it difficult for video websites to form a relatively stable business model.

Chapter II mainly conducts a detailed analysis and discussion of the market operation mechanism of video websites. Through a relatively systematic analysis of the capital operation and profit model of video websites, this paper finds that capital provides many possibilities for exploring the business model of video websites. The core and essence of the business model of video websites are to form "user power", and the process of developing a business model is the process of stimulating user power.

Chapter III studies the content production and operation of video websites. Various specific content production models of video websites are discussed, including specific forms such as content model, IP model and copyright model. Research has found that the shift from "content-focused" to "scenario-focused"

has become an important direction in the production of video website content.

Chapter IV studies the operation and maintenance of user relationships for video websites. The multiple relationships between video websites and users are discussed in detail, with a focus on some complex controversies behind these relationships, such as the advanced order-based screening, membership system, fan economy, and so on. After studying these specific forms, this paper believes that how video websites truly tap into participatory culture is the core and foundation of exploring user relationships.

Chapter V succeeds the previous three chapters and discovers that the business model of video websites is not only a market behavior and a market competition, but also is deeply influenced by national policies and regulations. On the one hand, policies and regulations truly promote the development of video websites and guide their development direction; on the other hand, the specific business models formed by video websites are directly influenced by national regulations, which may even affect the existence of specific business models.

The business model of video websites is a comprehensive issue that requires systematic analyses at the macro, meso, and micro levels. In different cases and different stages of development, these factors will be combined in different ways to form corresponding value chains. It is worth noting that due to the relatively rapid development of the online video industry, even the same company may have multiple industrial structures and business models in the same time and space. In such a case, it is necessary to separately analyze each model separately.



Specifically, the success or failure of the business models of video websites depends mainly on the influence of two factors. The first is the online domain. Video websites are network platforms, so their content presentation, interaction with users, and content monetization mainly rely on online platforms. This shows the most significant difference between the business models of network platforms and traditional ones. The second is offline domain. This mainly examines and analyzes the activities of video websites outside cyberspace. Commercial success is related to political, economic, social, and industrial factors that affect video websites in their development process, as well as the actions of video websites as enterprises in the areas of enterprise ownership, intellectual property operations, management, and investment and financing. Therefore, when studying key elements such as capital, content, users, and policies, it is necessary to consider both online and offline elements of video websites.

Regarding the result evaluation of business models, this study believes that only models that can achieve virtuous circulation and interaction among capital, the platform, and users can be considered feasible. However, in reality, achieving this can often be difficult. In light of this, this study takes a “result-oriented” approach to comprehensively weigh whether a business model brings about the development of the corresponding website and user growth, in order to ultimately determine the success or failure of the business model.

## 1.5 Research methodology

This study adopts three research methods.

The first method is case study. This is the main foundation of this study.

This study takes Chinese video websites as the studied cases and delves into the history and changes of Chinese video websites by analyzing these cases.

The second method is document research. This study selects speeches of participants and witnesses of the analyzed websites at industry meetings or in public interviews to deeply analyze and grasp the complex factors and motives behind the decision-making of video websites at key moments and important nodes, thus offering solid support for this study. The main targets for information collection are five senior executives of the five studied video websites, namely Cai Huaijun (chairman of Mango Excellent Media), Chen Rui (chairman and CEO of Bilibili), Gong Yu (founder and CEO of iQIYI), Victor Koo (former chairman and CEO of Youku Tudou Group), and Sun Zhonghuai (CEO of Tencent Online Video). The mainly collected information includes interviews and speeches of senior executives at key moments of enterprises such as before and after listing, year-end summaries, the launch of important products, and corporate transformations, as well as speeches and remarks given by them at annual conferences and national-level industry meetings. Their statement covers the executives' industry perception and judgments, development summaries and strategic planning for video websites, and path selection by the companies at critical moments.

The third method is comparative research. This study compares the video websites from both historical and current perspectives, analyzes the similarities and differences in their business models, and thus discovers the uniqueness of their business models.

## Chapter 2: The Development and Evolution of Chinese Video Websites

The development process of Chinese video websites is closely tied to the development process of Chinese Internet technology. Chinese video websites have gone through more than 20 years, from the emergence of a podcast era, to a transformation era marked by waves of listings and acquisitions, and then to a prosperous period of vigorously developing self-produced works. Over the two decades, online videos have gradually shifted from a supplementary product to a mainstream one, and several video websites have gained a monopoly over the online video industry.

### 2.1 The podcast era: the rise of Chinese video websites (1996-2007)

The year 1994 marked the first year for China to access the internet. From then on, the country's internet industry ushered in a period of rapid development. Also in this period, online videos began to emerge as a new media form, and the embryonic form of video websites appeared. Network videos embraced its initial development.

#### 2.1.1 Online videos as a supplementary product

In the early stage of development for internet, due to technical limitations such as network bandwidth, videos were not a dominant component among websites, but a supplementary part. Video business became affiliated with mainstream media business, and portal websites conducted preliminary explorations of the video business.

#### 2.1.1.1 Early development of video service on mainstream media

Mainstream media represented by CCTV and *People's Daily* pioneered video services and live streaming services. In 1996, CCTV.com, a subordinate to CCTV, was established and put into trial operation. One of China's earliest websites for publishing Chinese information, the website marked the beginning of CCTV's expansion into the internet business. In 1997, CCTV.com provided live signals to the world for the first time during the coverage of Hong Kong's return to the motherland. Backed by the powerful resources of CCTV, CCTV.com has gradually developed into a comprehensive network medium that integrates news, information, entertainment, and services characterized by "audio-visual" and "interactive".

In January 1997, the online version of *People's Daily* officially joined the international internet and became a large-scale online information interaction platform focused on news. People's Daily Online began to launch its online audio and video channels in 1998, gradually forming a business pattern dominated by news video programs, and supplemented by culture, entertainment, sports, life, society, and other content.

CCTV.com and People's Daily Online as the earliest mainstream media organizations that ventured into the video business have always relied on their media resources in the process of building video websites. However, due to the technical limitation of network bandwidth, the websites were not the media's main business in this period, but an extension of their existing television and newspaper business, with limited autonomy. But the mainstream media's exploration of video website models during this period marked the emergence

and beginning of Chinese video websites.

#### 2.1.1.2 Exploration of video business by portal websites

In addition to mainstream media, a group of portal websites created during the incipient stage of the internet also began to explore the video business. This fraction of websites laid a foundation for the subsequent formation of a video website pattern. In this regard, the video business explorations of three major portal websites were the most representative. Sina's video business mainly includes "Sina Internet Star Podcast", "Sina Studio" and "SinaTV". Sina and China Telecom joined hands to launch the "Sina Internet Star Podcast" in 2006. The channel mainly offers videos uploaded by users and also helped partner television stations open their own Sina podcasts for broadcasting TV news programs. The channel is maintained by over 30 editors. "Sina Studio" integrates various video programs originally created by Sina, altogether a dozen of programs including guest interviews, on-site interviews, and comments. Sina TV mainly provides users with a comprehensive interactive platform for online anchors, on-demand programs, and communication. It cooperates with multiple TV stations and content providers to offer live broadcasts of films, TV dramas, animations, and other programs. Users can interact with each other by text entry or comment on/save programs on the platform. Sohu's video business primarily includes four channels: Sohu Entertainment News, Sohu Sports News, Sohu Blog·Video, and Sohu Video. These four channels respectively provide entertainment news broadcasts, major Chinese and international sports events, a collection of Sohu blog videos, and comprehensive news video programs. The sources of video content included popular TV shows, self-produced programs, and users' blogs in varied forms and lengths. 24-hour live broadcasts are also

available. Tencent's video business is delivered mainly through [bb.news.qq.com](http://bb.news.qq.com), which is comprised of twelve subchannels including studios, movies, TV dramas, DV originals, news, sports, podcasts, and live broadcasting. Video content includes original sports, entertainment and financial interview programs, film and TV dramas obtained from TV stations, and user-generated videos and live broadcasts. This content is also output in turn to cooperative television stations, so that both sides can take what they needed.

It can be seen from the above description that the videos offered on the three major portals feature rich content, diverse sources, and more free forms and lengths.

#### 2.1.1.3 Summary

By summarizing the early development of video business by mainstream media such as CCTV and *People's Daily*, as well as portal websites, we can find the characteristics of early online videos. Firstly, due to technical restrictions such as network bandwidth, online videos had poor definition and production techniques; secondly, although the internet got initially developed in the late 1990s to the early 21<sup>st</sup> century, television media remained the most important part of people's lives, and television stations still held a dominant position in the Chinese media landscape. Online videos mostly relied on content produced by television stations, including cooperation with television stations and the introduction of films and TV dramas. The introduced content was still the main component of online videos. However, the inherent genes of the new medium internet did inject new vitality into online videos. Compared with television media, the views of internet audience were not limited by time and space, and

there were fewer restrictions on content, bringing about more flexible duration, richer content, and freer topic selection. At the same time, the popularity of the internet enabled users to become producers, resulting in a series of user-generated videos. This is also a major point of innovation. In addition, compared with traditional TV media, online videos had stronger marketized characteristics, making profits mainly through advertising, user subscription, cooperation with enterprises, and various value-added methods. The popularity and profitability of video content were largely influenced by users. As mainstream media and portal websites flocked to take a foothold in the video field by the chance of rapid Internet development, the basic models of content production and profit making for video websites began to take shape.

#### 2.1.2 The birth of UGC video websites

In February 2005, Chinese-American Steve Chen and others founded YouTube, where users can download, watch, and share films and short videos. By 2006, YouTube had 40 million short videos and attracted 6 million viewers every day. Within just 15 months of its establishment, it surpassed competitors such as MSN VIDEO and GOOGLE VIDEO to become the most viewed website of this century (Liu, 2008). On October 9, 2006, Google announced the acquisition of YouTube with USD 1.65 billion in stocks and began to operate the website as a subsidiary. They reached content licensing agreements with multiple copyright companies to eliminate various risks that may arise from video uploading. Despite the acquisition, YouTube remained popular with netizens worldwide.

With the worldwide popularity of YouTube, there have also been a series

of video-sharing websites in China that allow users to upload videos. In April 2005, Tudou.com was officially launched as the first video website in China. With the slogan of “everyone is the director of their own life”, it initially offered video programs autonomously produced or shared by users, video programs from content providers, and programs produced by Tudou. Following Tudou.com, the number of video websites in China doubled within just one year. Youku, 6.cn, Ku6.com, and other video websites sprang up. So the year 2006 was known as the first year of videos.

The UGC video websites mentioned above have been widely welcomed by users in China since their appearance. On these video websites, users only need to register as members in order to upload their own filmed or collected videos for others to view for free. The convenience of video uploading attracts more and more netizens who love filming or video production to become the main force of video creation. This enriches the content of video creation and makes the subject matters more liberal. The grassroots nature of the uploaders and the content they produce has led to the rise of internet grassroots celebrities, with many of their videos going viral and being widely shared on the internet. At the end of 2005, a network spoof short film titled *A Bloody Case Triggered by a Steamed Bun* edited and produced by the freelancer Hu Ge from China’s mainland became a hit. The producer re-edited the Chinese film *The Promise*, the TV program *China Legal Report* and the performance videos of Shanghai Circus World. The work is only 20 minutes long, but its nonsensical content was favored by a large number of netizens. In addition, a group of internet grassroots celebrities sprang up including Houshe Boys, who received wide attention by uploading their own cover song videos.



As a flock of grassroots videos and grassroots producers went viral, mainstream media realized the bright prospects and great popularity of video websites among users. According to *The 21<sup>st</sup> Statistical Report on China's Internet Development* released by CNNIC, the number of Internet users in China reached 210 million and 94% of them gave positive comments on the use of entertainment functions such as network film, television, and music. At the same time, there was a certain amount of loss in the users of traditional media such as TV and newspaper (CNNIC, 2008), so the mainstream media further changed the traditional mode of communication and began to participate in this kind of “sharing” spontaneously by uploading their news and other videos to video websites for netizens to watch at any time.

After UGC video websites were born and widely used, video websites in this era mainly featured: First, it was more convenient to share and spread videos and had lower technical requirements for video producers, which fully stimulated users' desire for production and sharing. Second, the proportion of videos uploaded by users was greatly increased as the users have gained greater initiative. It became one of the most important content in this kind of video websites. However, such sharing was unsustainable to some extent even though such free production, sharing and uploading of videos have flourished in a short time. Specifically, the quality of the videos produced and uploaded by users was uneven due to their different cultural literacy, moral level and technical ability, resulting in chaotic video contents, most of which is poorly produced content. Meanwhile, the development of video websites was completely influenced by the market, so a large number of videos were made based only on “eye-catching” standards, with low content quality and ambiguous value orientation. In addition,

a large number of video websites have appeared in a short period of time due to the sudden rise of UGC video websites, while China has yet to specify clear national policies on copyright protection and content review and supervision, and many pirated and reproduced contents have appeared in the platform because of users' weak awareness of personal copyright, which have led to the chaotic development of UGC video websites as they have not been effectively managed. For example, the short video *A Murder Caused by a Steamed Bread* mentioned above was sued for copyright infringement by Chen Kaige, the director of *The Promise*.

In a word, a series of subsequent piracy chaos required further improvement and management of video websites although the birth and popularity of UGC video websites has indeed provided a more convenient platform for users to participate in the creation, uploading and sharing of Internet videos.

### 2.1.3 Birth and development of VOD websites

While UGC video websites have gained wide attention, some professional video-on-demand websites such as Xunlei and LeTV have also begun to rise and develop. As various independent video websites have launched streaming video-on-demand or downloading services, netizens no longer need to buy DVDs for personal entertainment experience. Xunlei was founded in 2002 in Silicon Valley, through which users can search the connection of film and television resources and download them free of charge. Founded in 2004 in Beijing, LeTV initially focused on 3G streaming video business. Later, it began to enrich the content resources by outsourcing and self-making to develop

Internet video, such as purchasing movie and TV series copyrights at low prices in large quantities and providing the online viewing and playing resources of a large number of TV series and American dramas to gain users' attention and use.

But at the same time, the growth of such professional video-on-demand websites has brought a series of problems, including rampant piracy and the emergence of pornographic videos. Since such websites allowed netizens to watch videos or even download them for free in a short time through "search", the fast replication of network links and the concealment of links have brought certain difficulties to supervision. At the beginning of the introduction of film and television copyright in China, there were no perfect laws, regulations and supervision measures and no clear regulations on the copyright purchase, broadcast mechanism and payment mode of video websites, which resulted in endless disputes over website copyright. For example, Youdu sued Xunlei for violating its right to network dissemination by providing a download link of the movie *Confession of Pain* on its website in 2006. Other similar cases also proved the need for stricter and improved supervision of film and television copyright introduced by video websites at that time. In addition to piracy, pornographic videos also emerged. The difficulty in supervision made it relatively free for users to upload videos and provide links, so some of them uploaded pornographic videos and download links of pornographic videos on the platform in order to gain viewership and attention. In the meantime, since these on-demand websites made no clear requirements on the contents of uploaded videos or download links provided in the early stage of development, and some of these contents were relatively hidden and spread quickly, it caused more regulatory difficulties.

To sum up, a large number of video websites sprang up at the beginning of the initial exploration and development of video websites, bringing users rich entertainment experience. As we moved into an era when the growth of users uploading videos was synchronous with the development of websites purchasing copyrights and making videos themselves, video has become a more important medium in the Internet and laid a foundation for the further development of video websites. However, the chaos of piracy and pornographic videos on video websites caused by the difficulty in supervision and unclear laws and policies showed that it was in urgent need to have more strict control for the sound development of video websites.

## 2.2 “Capital” times: The transformation period of Chinese video websites (2008-2015)

After several years of development, watching videos on the Internet has increasingly become an important part of people’s life. With the increasing number of users and the ever-expanding scale of development, video websites have also moved towards a more mature and stronger mainstream position. In this period, video websites embarked on the road of IPOs and acquisitions, and the competition between video websites more and more became a game of capital. At the same time, the development pattern of China’s video websites ushered in a period of comprehensive transformation, as they began to find out their own development directions.

### 2.2.1 Video websites are becoming increasingly dominant

By the end of 2007, with the popularity of broadband video-on-demand and the rise of video websites, the viewing rate of network film and television

by Chinese netizens was 76.9% and the number of users reached 160 million. In particular, 40.5% of netizens had downloaded network film and television. Due to the technical requirements for downloading online videos, highly educated netizens had a higher downloading rate and viewing rate of online videos compared with those with low education background. When it comes to netizens creating contents independently, 17.5% of them have experience in uploading film and television programs and other videos (CNNIC, 2008). The above data shows that by the end of 2007, most netizens could use the Internet to watch online videos, and some netizens had experience of downloading and uploading videos. Although the number of online video users had reached a certain scale, the popularity rate of downloading and uploading videos was not high.

After seven years of development, the number of Internet users in China had reached 688 million by December 2015. With the rapid expansion of Internet users, the number of online video users had reached 504 million, up several times from seven years ago. Among them, the number of mobile video users was 405 million, iQIYI, Youku Tudou, and Tencent Video became the top three platforms, and there was a significant growth of the paid business, which initially formed the video industry ecosystem. (CNNIC, 2015) According to the relevant data by iResearch, the scale of China's online video market was RMB 24.5 billion by the end of 2014, with a year-on-year growth of 80.3%. Among all kinds of network services, online video became one of the most important entertainment forms for Internet users by virtue of its rich types, numerous video contents and diversified services. (iResearch, 2015). By October 2015, more than 600 million people were using multimedia video and audio services in the

monthly coverage of China's main mobile network services; while in the share of monthly effective use time of PC network services, online video accounted for the largest proportion, reaching 32.8%, surpassing other services, such as community dating services, search services, and e-commerce services. (iResearch, 2016).

It indicates that video entertainment has been increasingly becoming the most important part of people's Internet life and video websites have been more and more important as a medium with an increasing scale of audience.

As the popularity of the Internet has been further accelerated, the mainstream media has also been trying to transform and further expand the development space, while the scale of online video users has been growing rapidly and video websites have been going and growing strong. At the same time, the credibility crisis of traditional media appeared with the rise of new media, and the powerful public opinion field has also brought concerns at the national level about the loss of "mainstream communication channels". Therefore, it was crucial to accelerate the establishment of network TV station and grasp the dominance of network public opinion with the support of policies. On December 28, 2009, China Network Television (CNTV), China's first network TV station, was officially launched. Later, Shanghai, Zhejiang, Jiangsu, Anhui and other provinces and cities also carried out the trial broadcast of network TV stations. In early 2013, the *Opinions on Promoting the Development of Mainstream Media Network Radio and Television Stations*, the No. 1 document issued by the National Radio and Television Administration, required that network radio and television stations should be promoted to the same important position as the development of radio and television stations and

station directors are encouraged to take charge of the network stations. In the system, the three-level integration from top to bottom should be implemented. (National Radio and Television Administration: Accelerating the Construction of Network Radio and Television Stations, 2013). Such policies reflected the state's encouragement and support for the establishment of network TV stations. Meanwhile, the *Notice on the Establishment of Network Radio and Television Stations*, issued by the National Radio and Television Administration in May 2010, also pointed out that the application for setting up network radio and television stations must be filed by local radio and television broadcasting agencies (National Radio and Television Administration: Network TV Stations Must Be Applied by Broadcasting Agencies, 2010), which means that iQIYI, Youku Tudou and other private video websites were not eligible to apply. Under the premise of tri-networks integration, TV stations tried to compete with private video websites in the field of new media by setting up network TV stations, but they failed to fully adapt to the market demand because they only focused on the increase of new media communication channels in the construction process and ignored that the core of their contents still belonged to traditional radio and television media. Also, faced with the increasingly mature operation of private commercial video websites and their accumulation of users, TV media needed to improve their own competitive strength, define their positioning and layout, change the relatively fixed program production mode and operation mode, and meet more flexible, diversified, personalized needs of network users in the process of the construction of network TV stations, which brought more challenges to the construction of network TV stations. However, most network TV stations failed to change the way of program production and

thinking of traditional media in the process of construction, so they lacked a good core of content, attraction and follow-on motivation in the market competition. At the same time, network TV stations were constrained by their responsibility as mainstream media to spread mainstream values since they were born out of traditional TV stations, and they were not given a high degree of flexibility and freedom when creating self-produced programs. This also led to the loss of audience of network TV stations. In addition, given that the operation of network TV stations was related to the financial strength of local radio and television stations in the process of marketization, their profit channels were relatively narrow compared with those of private video websites due to the limited sources of funds. The above disadvantages has resulted in the unsustainable development and low attention of network TV stations. In a word, they have been facing difficulties in their growth.

The rapid development of Internet also promoted the growth of Internet TV terminal products. In 1998, Microsoft's "Venus project" began to test the OTT (Over THE Top) business, thus promoting the intelligent transformation of traditional TV. The Internet TV box is such a product. Internet TV box, or smart TV box, is a device that connects the TV to the Internet, through which we can watch TV programs. The launch of Internet TV enabled consumers to get rid of the viewing mode of traditional cable TV, choose TV programs based on their preferences, and realize web browsing, video playing, game entertainment, online movies and TV and other functions on TV. At that time, the main brands of Internet TV boxes included Xiaomi Box and LeTV Box. As these two brands, as Internet enterprises, began to involve in the production of TV boxes, smart TV boxes have entered the stage of rapid development, and more and more



Internet companies, traditional household appliance enterprises and communication companies began to provide TV box business. The launch of Internet TV box enabled the Internet of TV terminals to be realized at a low cost, which had a broad market. This, coupled with no clear national regulatory measures in the early stage of development, promoted it to enter the golden period of development from 2013 to the first half of 2014. However, the lack of supervision led to the emergence of a lot of counterfeit boxes, even though Xiaomi, LeTV, and other well-known enterprises have started to engage in the production of Internet boxes. With low production cost, these counterfeit boxes offered pirated contents and overseas illegal contents at a low price, seriously disrupting the market. In July 2014, the State Administration of Press, Publication, Radio, Film and Television issued several notification policies, requiring strict management of the Internet TV terminals, so TV and other terminal manufacturers are not allowed to launch their own Internet TV terminals and can only cooperate with legal Internet TV integration platforms (Xue, 2011). In terms of content management, Internet TV boxes are required not to be preinstalled with unapproved video apps, including iQIYI, Sohu Video and other Internet video websites. This officially clarified the access and regulatory standards for terminals such as Internet TV boxes, which had a great impact on the development of the industry. As a result, the popularity of the TV box, an emerging terminal, has finally declined, and the industry has ushered in a more healthy development.

In summary, as the Internet video industry ushered in rapid growth during this period with the increasing number of netizens and the popularity of video websites, traditional mainstream media, major terminal production enterprises,

and Internet video website enterprises have been trying to control the good chance of the market, but the wild growth of the industry caused by unclear development direction, and regulatory policies need to be controlled by more calm thinking and policy management.

### 2.2.2 Formation of video websites' patterns and characteristics

When video websites began to develop, the copyright of most content products was held by TV stations. Later, the development of the Internet has made the limitations of TV stations gradually prominent, which are mainly reflected in the following aspects. First, TV media has greater resources, time and space constraints, which puts forward higher requirements for users on hardware. Second, television, as a mature form of media with a wider audience, undertakes the task of political publicity, so it is faced with a larger scale of control. However, the rise of video websites has not only attracted the attention of capitals as an emerging market, but also reflected the development limitations of TV stations. In particular, the decrease in advertising revenue has caused a great impact on television stations. Capital has reduced support for TV stations and turned the attention to video websites, providing certain financial support for video websites to build their characteristics and conduct model innovation.

At that time, TV stations, as the mainstream media form, still held a large number of copyrights, while video websites were in a passive position, mainly serving as the broadcasting platforms of the copyrighted contents of TV stations. Even so, video websites had greater creative freedom and faced less state control compared with TV stations, which became an important opportunity for their development. In this process, the copyright issue involved became an obstacle,

so both Chinese and foreign video websites, from a global perspective, have begun to transform themselves to produce original content and seize the initiative to expand the business scale.

Starting from DVD rental business, Netflix, an American video website, founded the world's first online DVD rental company and provided DVD mailing services for various types of works. With the progress of science and technology, Netflix began to shift from DVD rental to OTT business model of copyright content, using the type labels accumulated before 2007 to develop the algorithms of video recommendation and launch movie streaming services. It mainly introduced copyrighted content during this period. However, with the intensifying competition of OTT market in 2012, TV stations withdrew their copyrights one after another. Starz, an American cable pay-TV station, canceled the license agreement and removed about 1,000 movies from Netflix. FOX gave up the renewal of its contract with Netflix and removed about 200 seasons of drama series. Disney took down the Marvel and Star Wars series from Netflix to make way for its Disney+ platform. This meant that Netflix's mode of relying on content copyright provided by TV stations needed to be changed, and video websites should take the initiative to purchase copyright and form their own characteristics. Therefore, video websites have gradually started to launch original content and continue to increase investment since 2012. Netflix released its first original drama *House of Cards* in 2012, followed by *Orange Is the New Black*. As it gradually realized the importance of having exclusive content rights, Netflix began to rely less on cable TV stations and studios. It was the key for the platform to transform into an original content producer. Following Netflix's lead, Hulu and Amazon have also entered the competition

for streaming media and gradually formed scale, attracting more and more attention and investment and financing. In this regard, China's video websites face the same problem as overseas video websites. From the platform-based media at the beginning to the wave of IPOs and acquisitions after the capital flowing into, video websites gradually find their own development direction and usher in transformation.

### 2.2.3 IPOs and acquisitions of video websites

As video websites continued to expand and grew into preliminary maturity, they began to usher in the wave of IPOs and acquisitions.

Ku6.com, which was founded in Beijing in 2006, was the first to be listed overseas. It put forward UGA, a new video marketing concept, and the slogan of "making money together, making ideas together". In 2008, Ku6.com, as the first video sharing website to obtain a license issued by the National Radio and Television Administration, began to lead the "private" video website industry. After two rounds of financing, Ku6.com officially joined Shanda Group in November 2009, and merged with Hurray for listing, becoming the world's first listed video website and the first listed website since China has entered the era of entrepreneurship 2.0.

The listing of Ku6.com officially started a wave of major video websites going public. In December 2010, Youku was successfully listed on the New York Stock Exchange, becoming the world's first video website independently listed in the United States, with the stock code of YOKU, the issue price of USD 1.28 billion and a total of 15,847,700 American depositary shares (ADS). The IPO raised about USD 203 million (Le, 2010). In this period, video websites

such as LeTV and Tudou also went public. Due to relatively high investment, low output and low profitability, most of the private websites were in the state of loss and failed to solve the problem of insufficient funds on their own strength. Therefore, they could raise resources through public offering and listing, so as to further expand their business, improve the quality of content, and realize the healthy development of private video websites.

iQIYI was born as video websites went public. “QIYI.COM”, iQIYI’s predecessor, was founded by Baidu and is the first large-scale professional website dedicated to providing high-definition network video services in China. It was officially launched on April 22, 2010. In 2011, it was strategically upgraded and renamed “iQIYI”. After two years of development, the number of users grew to 200 million, and by 2012, iQIYI became the third-largest video website after Youku Tudou and Sohu Video.

The IPOs of video websites has also promoted the merger and integration of the industry. Among them, the merger of Youku and Tudou is one of the most influential cases in the industry. In August 2012, Youku and Tudou joined forces through 100% equity exchange. After the approval of the shareholders’ meeting of both parties held in Hong Kong, Youku and Tudou merged through 100% equity exchange and formally established Youku Tudou Inc. After the merger and acquisition, Youku Tudou’s net income reached RMB 635.8 million in the fourth quarter of 2012, an increase of 30% compared to the same period last year (Gu, 2013). Youku Tudou thus became the largest online platform in China at that time, achieving a scale effect. For Youku, the merger and acquisition increased its market share, eliminated a competitor in the video website industry, and reduced the operating costs of both parties, while achieving a good

synergistic effect and fully enhancing its market competitiveness. In May 2013, Baidu announced the acquisition of the PPS business for USD 370 million and its subsequent integration with iQIYI's video business. As a result, PPS was to be retained as a subsidiary brand of iQIYI. Following a series of mergers and acquisitions, the market share in the online video industry has become increasingly concentrated.

Tencent Video entered the online video market relatively late, evolving from its predecessor QQ Live. Though it officially entered the market in April 2011, with the support of Tencent Group and clear market positioning, Tencent Video experienced rapid growth and emerged as a dark horse in the online video industry. To begin with, Tencent Group, a prominent player in the internet industry with more than a decade of history, has access to abundant resources, strong financial backing, and a wealth of talent. These factors have provided a solid foundation and assurance for the platform construction, content investment, and expansion of Tencent Video. Secondly, Tencent Video benefits from the platform provided by Tencent Group and its social media-related products, which have a vast user base. Leveraging this, Tencent Video can gain a comprehensive understanding of users' demographic information, such as age, gender, occupation, and preferences, to offer precise content recommendations. Additionally, Tencent Video is integrated and linked with other products within Tencent Group, maximizing the use of brand synergy. Moreover, Tencent Group's wealth of experience in operating internet businesses has given Tencent Video a strong foundation and the DNA of an internet media company from the outset. This has allowed Tencent Video to take a proactive approach when it comes to copyright acquisitions and content production. These factors have

enabled Tencent Video to gain ground and gradually establish itself as a top-tier member of the video website industry.

During the era of rapid expansion and development in the online video industry, the competition among video websites is, in fact, a game of capital. Video websites require capital to achieve larger-scale development and invest in content production and development, whether through public listings and mergers and acquisitions to expand their own strength, or like Tencent Video, by leveraging the strong capital support of their internet parent companies. Capital is an indispensable factor for their growth.

#### 2.2.4 Identification of development paths by video websites

While the development of video websites requires strong capital support, their internal growth and success ultimately depend on identifying their unique positioning, producing high-quality content, and enhancing competitiveness. This is essential for achieving a healthy and sustainable future. During the early stages of development, video websites prioritized expanding their user base, and therefore, placed a significant emphasis on UGC as a means of monetizing the vast amount of content produced by users. During the development of video websites, however, it becomes clear that UGC content required a significant amount of resources and human labor for moderation due to its large volume. Additionally, the controllability and stability of commercial monetization are weaker for UGC content. As a result, the dependence of video websites on UGC content gradually shifted towards PGC or PUGC. In response, video websites began to explore new development models. In general, the development focus of each video website varies, but can be summarized into several categories:

firstly, there is a trend of importing large quantities of American and British dramas; secondly, there has been the emergence of video websites with a focus on subcultures, such as AcFun and Bilibili, which create their own variety shows and talk shows and there has been an expansion into the film industry.

#### 2.2.4.1 The import of a large number of overseas TV dramas

In fact, since the early stage, video websites have offered online or downloadable overseas TV dramas. However, for a long time, Chinese video websites did not have copyrights for British and American dramas. In 2009, the National Radio and Television Administration (NRTA) issued *The Notice on Strengthening the Administration of the Internet Audio-visual Program Contents*, which prohibited the spread of films, TV dramas, cartoons, theoretical literature films, and TV programs without licenses on the internet (NRTA, 2009). As a result, the administration cracked down on pirated overseas TV dramas, and video websites actively removed pirated content and began to purchase and import legitimate resources. Major video websites such as iQIYI, Youku, Tencent Video, Sohu Video, and LeTV have all imported overseas TV dramas. According to data, as of 16:00 on March 14, 2016, the top three video websites with the highest number of imported TV dramas were Sohu Video, Youku, and Tencent Video. The most numerous types of TV dramas imported were American dramas, followed by Korean and British dramas. There were also a small number of Japanese dramas, Thai dramas, and other types of dramas. In terms of views, Korean dramas have the highest total viewership among imported TV dramas, and the Korean drama *My Love from the Stars*, with 4.48 billion views, became the most viewed Korean drama on video websites (Chen). Each video website has its own focus when it comes to importing the copyrights



of overseas TV dramas. iQIYI has formed cooperative relationships with TV stations in South Korea to import popular Korean dramas such as *My Love from the Stars* and *Descendants of the Sun*. Tencent focuses on importing British and American dramas. In May 2013, it reached a cooperation agreement with six major production companies including the BBC and Worldwide to import the largest collection of British dramas into China. Tencent exclusively broadcast the British drama *Coupling* and later launched an English drama platform, aiming to create the first English drama platform in China. Tencent Video announced its cooperation with HBO, an American cable network, in November 2014. It exclusively imported multiple award-winning American dramas, including *Game of Thrones*, and became the official exclusive authorized online platform for HBO in China. Sohu focuses on importing Japanese dramas and aims to become the first Japanese drama platform in China.

The competition among video websites in importing overseas TV dramas is associated with several reasons from a strategic perspective. Firstly, the competition among video websites has become apparent. After a video website achieves commercial success by introducing overseas TV dramas, it is inevitable that peer video websites will take similar strategies to join the competition. Secondly, overseas TV dramas are able to attract a large number of middle-class users on the internet. This group has a habit of viewing online videos, a demand for high-quality overseas TV dramas, and sufficient purchasing power to pay for advertisements, making it a valuable target audience for video websites. This is the main reason why video websites are actively pursuing the import of overseas TV dramas.

The large-scale import of overseas TV dramas has also flourished the paid

services of video websites. According to Endata, the paid services of video websites expanded in 2015 and 57% of all types of dramas were overseas paid copyrighted dramas, with Korean dramas accounting for 35%. The success of the Korean drama *Descendants of the Sun* on iQIYI drove growth in the platform's in-app paid revenue, and it even reached sixth place on the App Store's best-selling list. (Endata, 2015)

#### 2.2.4.2 Emergence of video websites with subcultural characteristics

As competition in the online video industry has intensified, a pattern has emerged with iQIYI, Youku Tudou, Tencent Video, Sohu Video, and LeTV as the main players. Additionally, video websites such as AcFun and Bilibili, representing China's subculture communities, have gained popularity due to their unique features. Subculture video websites such as AcFun and Bilibili have become popular among young people due to their unique bullet screen culture and ACG culture. They have successfully occupied the market with a distinct business model based on these cultures, resulting in high user satisfaction.

AcFun was founded in June 2007 and is recognized as the first bullet comment video website in the Chinese Mainland. During its initial development, AcFun served as a website with animated series. However, in March 2008, it became the first website in China to introduce the bullet comment player which originated from the Japanese website niconico. AcFun, starting with bullet comment-style anime videos, gradually developed a complete ecosystem centered around original content and secondary creativity, and became the birthplace of China's bullet comment culture. On June 26, 2009, Bilibili was founded by a member of AcFun as a backup website for AcFun. Bilibili, which

was born out of AcFun, initially served as a gathering place for the ACGN culture community. However, due to its continuously growing ecosystem of high-quality content and a more advanced community management mechanism, its influence has increased, making it a rising star in the video website industry.

AcFun and Bilibili differ from mainstream video websites such as iQIYI, Youku Tudou, and Tencent Video in that they were originally a community for niche youth subcultures centered around ACGN culture. As a result, they have a more distinct subcultural identity and a more loyal user base. For instance, Bilibili has a membership test that users must pass to become official members, therefore creating a certain level of user threshold. This requirement has contributed to higher user retention rates for Bilibili and other youth-oriented video websites focused on ACGN culture. The subculture community focused on ACGN culture related to anime, games, and similar elements, along with the unique bullet screen-style interaction, has given rise to its own unique language system. The unconventional content and operating models of these ACGN bullet comment video websites have resulted in a higher level of user loyalty. This dedicated user base has become the foundation for the continued development of platforms such as Bilibili and AcFun.

Bilibili, which originated from the ACGN culture community, has also tried to expand its business scope. While initially focused on ACGN culture related to anime and games, Bilibili has since expanded its content offerings to include music, dance, technology, lifestyle, film, variety shows, and live streaming. This has allowed the platform to increase its audience and maintain its growth momentum.

Therefore, it is evident that Bilibili and other similar bullet comment video websites representing the ACGN culture community, although starting later, have been able to quickly establish their own development direction due to their unique cultural DNA. This has allowed them to successfully compete in the rapidly evolving and competitive video website industry.

#### 2.2.4.3 Emergence of self-produced variety shows

In order to increase their competitiveness and appeal, video websites have started exploring self-produced programs such as talk shows and variety shows, in addition to purchasing TV drama copyrights from domestic and international broadcasters. This shift towards professional production aims to break away from homogenized competition and create brand effects, ultimately enhancing user stickiness.

Before introducing self-produced variety shows, video websites mainly operated as platform products, without taking responsibility for video content production. Consequently, they were in a relatively passive position with limited development space. Furthermore, due to rising copyright costs and TV stations attempting to establish their own exclusive online platforms, video websites often had a dearth of diverse content. Around 2015, NRTA continued to introduce restrictions on the import of overseas TV dramas, further limiting video platforms' ability to obtain copyrights. As a result, video websites had to find new ways to thrive and proactively produce their own content. Exploring self-produced programs became the next step for video websites to transform themselves.

In March 2012, Youku launched *Morning Call*, a talk show hosted by Gao

Xiaosong that focused on light entertainment and cultural topics. The show successfully sold its copyright to TV stations and debuted in September 2012 on ZJTV's prime-time slot, achieving a cross-platform effect of online-to-TV and TV-to-online interaction. The success of *Morning Call* represented a departure from the "grassroots," "rough production," and "vulgarity" labels often associated with self-produced online video programs, particularly talk shows. Its success showed that high-quality content can compete with TV programs, and it made major video websites realize the feasibility of producing self-made variety shows.

iQIYI launched *I Can I BB* in 2014, which pioneered the language-based online variety show genre. The *I Can I BB* series quickly became one of the most influential online variety IPs in China's entertainment industry, marking the beginning of the online variety show era. One of the most significant reasons for the great success of *I Can I BB* was its ability to fully cater to the preferences and values of online audiences. As an online-exclusive variety show, *I Can I BB* attracted a massive audience by using the highly engaging format of "debate" and focusing on topics that reflected the values of the "internet generation." Each contestant had unique characteristics and represented young people while the guests were topical and popular, making use of the celebrity effect. The show also incorporated interactive features such as bullet comments, a popular interaction method among young people, and used highly saturated colors in its stage design, creating a strong visual impact. The combination of these factors enabled *I Can I BB* to quickly dominate the market as a highly representative online variety show and become one of the most influential online variety shows.

The success of online talk shows and variety shows such as *Morning Call*

and *I Can I BB* has proven that video websites can function as content production platforms. These shows are low-cost and cater to the values of online communication, making them popular among young audiences. The high-quality content of online variety shows provides a valuable reference for the healthy development of video websites. Unique self-produced online variety shows are becoming an increasingly important area of competition among major video websites.

#### 2.2.4.4 Entering the film industry

Major video websites have expanded their reach beyond self-produced variety shows and entered the film industry, using their financial backing to invest in movies and explore new avenues for growth.

Among the various internet companies, Alibaba which controls Youku has made the most significant investment in this area. Since Alibaba's investment in Youku in 2014 and its acquisition of all remaining shares of Youku Tudou in 2015, Youku has become a part of Alibaba's vast entertainment ecosystem. Leveraging its substantial financial resources, Alibaba Pictures has utilized Youku's video platform to facilitate smooth progress across various business areas, including IP incubation, content research and development, and production and distribution. This strategy has enabled Alibaba Pictures to establish its own film industry footprint.

Tencent Pictures has built a comprehensive entertainment platform with Tencent Video. With the financial support, interactive platform support, and a large and stable consumer base provided by Tencent, Tencent Pictures has centered its strategy around IP authorization. It has leveraged its own resource

advantages, including Tencent Games, AC.QQ.COM, and Tencent Literature, and has used Tencent Video as an exclusive broadcast platform to achieve internal resource integration and sharing. This has enabled Tencent Pictures to construct a unique ecosystem for its movie content.

In contrast to the previous examples, iQIYI's strength in entering the film industry primarily lies in content production. Since its inception, iQIYI has possessed a strong DNA in online video and has developed a comprehensive and sophisticated internet-based operational system. The production of self-made TV dramas and variety shows has helped iQIYI establish a specialized content creation team with strong innovation capabilities and a stable fan base. Using content creation as a starting point for its film development, iQIYI Pictures ensures that the works it invests in have high-quality content and appeal to audiences. This approach enables iQIYI to expand its industry chain and achieve vertical development by using content as a focal point.

The major video websites each have their own strengths in investing in and producing films. However, entering the film industry is undoubtedly an important factor in transforming and expanding the business scope of video websites, extending the industry chain, and enhancing industry competitiveness. As a result, video websites are gradually becoming more specialized and focusing on the production of PGC. This is essentially a significant outcome driven by capital investment. The controllability of PGC and its mass appeal have made it increasingly popular and sought-after. Through continuous exploration of self-made variety shows, self-made TV dramas, film investment, and copyright acquisition, video websites have developed distinct and mature development models. As a result, their scale of development continues to

expand, and they have entered a period of prosperity and growth.

## 2.3 Self-made content era: Prosperity of video websites in China (2016–)

After over a decade of development, particularly through the wave of video website IPOs and acquisitions, and the continuous exploration of development models by major video websites, mainstream video websites have become monopolized by a few major capital players. This has resulted in an ongoing oligopoly pattern of competition. Several major video websites have engaged in a copyright war and attempted to improve their competitiveness by releasing their own unique self-made content, including variety shows, TV dramas, and movies. The competition among video websites and the growing demand for entertainment from users have resulted in the industry's prosperity. However, behind this prosperity, there are also several problems and crises that hinder the development of video websites.

### 2.3.1 Formation of an oligopoly pattern in the video website industry

During the early stage, video websites mainly consisted of video-sharing sites like Tudou and Youku, as well as portal websites. However, these video websites were relatively small in scale and did not establish any monopolistic advantages. In 2010, there was a significant number of video websites in operation, such as the video channel launched by Netease, the establishment of an online video company by Baidu, the [www.s1979.com](http://www.s1979.com) formed by Shenzhen Media Group, and the Hualuwood video website established by Hualu Culture as well as existing video websites such as Youku, Tudou, QIYI, and Ku6, fully exhibiting the diverse and fiercely competitive environment of the video website



industry at that time.

However, in such a competitive environment, there was also fast-paced competition among businesses, markets, and various forms of capital. Particularly when numerous capital giants became deeply involved in the competition among video websites, mergers and market competition between the websites become especially intense. Even large internet capital players like BAT and major TV stations joined the fray. Ultimately, video websites with strong financial support succeeded in the competition. In the end, a monopolistic pattern emerged with three dominant players: iQIYI, majority-owned by Baidu; Youku Tudou, majority-owned by Alibaba; and Tencent Video, majority-owned by Tencent. While Mango TV, backed by Hunan Provincial Radio and Television Bureau, and Bilibili, which is gradually expanding beyond the subculture niche and attracting more young users, have shown strong development momentum in recent years, iQIYI, Youku Tudou, and Tencent Video still hold a significant position in the video websites industry. According to the *2021 Research Report on the Development of China's Internet Audiovisual Industry*, iQIYI, Youku Tudou, Tencent Video, Mango TV, and Bilibili together occupied nearly 90% of the market share, indicating a high level of market concentration (China Netcasting Services Association, 2021).

To gain an advantage in the competitive landscape of video websites, it is necessary to produce high-quality self-produced dramas, variety shows, and films. This requires building a high-quality content creation and marketing team, as well as establishing a unique copyright library and obtaining technical support. All of these require significant financial support, which is where the BAT (Baidu, Alibaba, and Tencent) as the most influential capital giants in the

current Internet industry, with their strong financial power, provide support to the development of iQIYI, Youku Tudou, and Tencent Video.

The continued market concentration of the video websites industry has given the top three video websites significant influence and bargaining power, not only in the media and market domains but also in the cultural and political arenas. According to the *2020 Online Original Program Development Analysis Report* released by NRTA in June 2021, a total of 230 web series were launched in 2020. Among them, iQIYI had the highest number of exclusive dramas, accounting for 38% of the total. iQIYI also upgraded its operation model and created a theater brand logo to further enhance its market position. In the area of online movies, the primary platforms for broadcasting online movies in 2020 remained iQIYI, Youku, and Tencent Video, and the market share of these platforms continued to consolidate towards the alliance of iQIYI, Youku Tudou, and Tencent Video. Together, they accounted for 93% of the total number of exclusive online movies, with iQIYI launching the highest number of online movies at 305, accounting for 46% of the total number of online movie releases. This makes iQIYI the largest platform for online movie broadcasting. In terms of variety shows, a total of 229 shows were launched throughout the year. Among them, Tencent Video, Mango TV, iQIYI, and Youku launched 177 exclusive ones, accounting for 77% of the total. Out of these, Tencent Video launched the highest number, with 72 in total. In the area of online documentaries, a total of 259 were launched throughout the year, with Tencent Video, Youku, and Bilibili being the main platforms for broadcasting them. Among these platforms, Tencent Video had the highest number of programs, with its food documentary programs becoming a well-known brand. Youku

continued to focus on humanistic documentaries, demonstrating its commitment to social and cultural issues. Bilibili's several programs reflecting social reality were highly popular among younger audiences, as they resonate with their aesthetic preferences. (Shi, 2021). The online program industry is dominated by iQIYI, Youku, Tencent Video, Mango TV, and Bilibili, which lead in both the quantity and quality of their offerings. This has resulted in a monopolistic pattern within the industry. The significant influence of these platforms has resulted in a high level of user stickiness. As a result, the three major video websites have almost monopolized the majority of the video entertainment traffic, allowing them to occupy the majority of the market share. According to data by iResearch, throughout the year 2021, iQIYI, Tencent Video, and Youku ranked among the top three in terms of monthly coverage of viewership. (iResearch, 2021). According to the financial reports of iQIYI, Youku, and Tencent Video, in 2020, iQIYI had an average of 479.8 million monthly active users and 115.6 million daily active users on mobile devices. These users spent an average of 8.4 billion hours per month watching videos on iQIYI, and the platform had 101.7 million registered members, generating membership revenue of USD 252 million (iQIYI, Inc., 2021). Tencent Group's video subscription service had 123 million paid members in 2020 (Tencent, 2021). In the 2021 fiscal year, Alibaba's digital media and entertainment revenue reached RMB 31.186 billion, with Youku's subscription revenue being the main source of income (Alibaba Group, 2021). Their financial and performance reports indicate that iQIYI, Youku, and Tencent Video have an absolute advantage in market share. Mango TV closely followed with a YoY revenue growth of 16.8% in 2020, and a YoY increase in advertising, member, and operator revenue by

81%, 114%, and 52%, respectively (Mango Excellent Media, 2021). Bilibili showed strong momentum in its development, with 202 million monthly active users and 102.6 million paying members on average in Q4 2020, representing a YoY increase of 51.1%. The platform had an average of 1.2 billion daily video views, indicating a YoY increase of 70.1% (Bilibili Inc., 2021).

In addition to wielding significant influence in the content domain and market share, the top three video websites have gained greater influence in the cultural and political spheres. According to the *48th Statistical Report on China's Internet Development* released in September 2021, as of June 2021, the number of internet users in China reached 1.011 billion, with an internet penetration rate of 71.6%. Among them, the number of online video users reached 944 million, accounting for 93.4% of the total internet users. Based on the age structure of internet users, the three age groups with the highest proportion in China were 30-39 years old, 40-49 years old, and 20-29 years old (CNNIC, 2021). It can be said that the majority of internet users in China are middle-aged and young adults. This indicated that the number of online video users was growing, and users were spending increasingly more time on the internet. Online videos had become an increasingly important form of entertainment in people's lives, and the cultural works produced by video websites had played an increasingly important role in shaping people's values. In recent years, TV dramas with patriotic overtones such as *Minning Town*, *The Awakening Age*, *Like a Flowing River*, and various cultural and art variety shows have received widespread attention from audiences. The video websites that broadcast these works have become increasingly important platforms for disseminating mainstream cultural values and conveying the Chinese spirit,

exerting a significant influence on the public.

### 2.3.2 Copyright war

With the continuously intensified competition among video websites, the deepening of protection for copyrights of long videos, and the increasing awareness of users to pay for content, major video websites are increasingly investing in purchasing copyrights. By adding high-quality copyrighted content, these video websites aim to attract more users, leading to fiercer competition among them for copyrights.

Around 2010, the Chinese government's crackdown on piracy websites led to the gradual disappearance of the majority of piracy-based video-sharing websites. Video websites then began to compete fiercely to purchase the copyrights of hit TV dramas, sparking a "copyright war". The price for purchasing the copyright of a single episode surged from tens of thousands to hundreds of thousands or even millions of RMB. Tencent Video, backed by Tencent Group, gained significant development, and the price for a single TV drama surged to RMB 40 million. The competition among video websites caused copyright prices to continue to soar. Despite the government's continued demand for shorter TV dramas and other works, copyright expenses remain the most significant cost for video websites. Taking iQIYI as an example, its financial report shows that the company's content costs have been steadily rising and reached a record high of RMB 22.2 billion in 2019. One of the biggest contributors to this cost was the expense of acquiring copyrights (iQIYI, Inc., 2021). As a leading entertainment conglomerate, Tencent has attempted to take the lead in promoting the establishment of an all-IP system to achieve long-term

development and operation of video copyrights. Games, novels, and other content within the Tencent entertainment ecosystem can all potentially serve as targets for adaptation into IP, thereby reducing the costs of acquiring new copyrights. iQIYI has also proposed a “milking the cow for all its worth” model, aiming to monetize an IP throughout the entire industrial chain and increase the utilization rate of copyrights.

Furthermore, despite major video platforms establishing a certain level of copyright barriers through significant purchases, the subsequent development of these copyrights still requires substantial investments, and the profitability performance is not always clear. As a result, in recent years, the exclusive streaming of top-tier copyrighted dramas has decreased. Major video websites have attempted to reduce content costs through more reasonable profit-sharing models, as well as copyright sharing, swapping, and distribution. Platforms collaborate on copyright sharing and joint purchasing to collectively control the online information dissemination rights of the works. Additionally, they bring forth their top-tier drama resources and, after conducting a comprehensive evaluation of the content, reach a cooperative agreement through copyright swapping. In copyright distribution, a platform that participates as a producer distributes its portion of the copyright to third parties while still retaining the overall copyright of the work. Through the three methods to jointly bear the cost and share the risk, top-tier dramas have transitioned from exclusive broadcasting to being co-broadcasted on multiple platforms (Tian, 2020). According to the *2021 Research Report on the Chinese TV Drama Market* by Endata, the number of TV dramas exclusively broadcast in 2021 was 237, a decrease from 297 in 2020. However, the number of TV dramas broadcast

jointly increased from 31 in 2020, accounting for 10.4% of the market share, to 44 in 2021, accounting for 18.9% (Endata, 2021). Moreover, a mutually beneficial partnership with film and television companies can be established through a more reasonable and cost-effective revenue-sharing model.

The rise in copyright prices and competition has caused video websites to face pressure in reducing content costs. In addition to sharing copyright expenses, they are also striving to decrease their dependence on purchasing copyrights by creating high-quality original dramas, variety shows, and films. This approach not only reduces costs but also boosts their bargaining power in the content market. The competition among video websites for copyright content will be further analyzed later in this paper. However, it is important to note that this competition has raised the industry barriers for video websites and intensified the competition among them. The competition for copyrights has, to some extent, turned into a battle among capital holders, with companies lacking adequate financial support gradually falling behind in the race.

### 2.3.3 Self-made dramas, variety shows, and film

The surge in copyright prices has led to the creation of a series of self-made dramas, variety shows, and films. Apart from copyright issues, financial reports from various video websites have shown a slowing growth rate in the number of both users and subscriptions in recent years. Video websites often adopt outsourcing and separate production and broadcasting methods in video content production to alleviate the burden of complex supply and demand and human resources. However, this approach can hinder their ability to ensure content quality and maintain overall control over their content. Relying solely on

television networks for content supply does not align with video websites' goal of maximizing commercial benefits and exploring IP opportunities. As a result, the pursuit of self-produced content has become a key strategy for video websites to compete in a copyright-centered market.

#### 2.3.3.1 Self-made TV dramas

In the production of self-made TV dramas, online video platforms have showcased high-quality content, diverse genres, internationally acclaimed works, and a blurring of boundaries between online and traditional television. Paid viewing has also become the norm.

To improve their competitiveness, major platforms have shifted away from the previous trend of producing low-cost and low-quality web dramas. Instead, they have invested more in content and improved their production standards by carefully selecting IP, adapting scripts, and elevating their filming and production processes. As a result, they have produced a series of high-quality self-made dramas. iQIYI has leveraged its funding and production capabilities through partnerships with over 70 content studios and collaborative projects to create a range of self-made dramas. These include popular titles such as *The Lost Tomb*, *The Mystic Nine*, *Burning Ice*, *Story of Yanxi Palace*, *The Thunder*, and *The Bad Kids*. iQIYI acquires IPs through various means such as production, adaptation, or purchasing from third-party sources. It then collaborates with entertainment companies to produce and develop these IPs. In addition to television dramas, iQIYI also develops a complete range of industries associated with these IPs, including online games, animation, online literature, and merchandise. Tencent Video has leveraged its extensive content IP library within



the Tencent ecosystem, which includes the world's largest game ecosystem, China's top online literature ecosystem, music ecosystem, and animation ecosystem. With a leading position in the long video market, Tencent Video has created a collaborative and mutually supportive environment across all content ecosystems. This has led to the production of high-quality dramas such as *You Are My Glory*, which incorporates elements from the popular game "Honor of Kings," and the *Douluo Continent* series. Youku's Super Dramas series has proven to be highly successful, with the platform releasing highly acclaimed dramas such as *The Advisors Alliance* and *Day and Night*. In particular, *Day and Night* became the highest-rated web series on Douban in 2017, thanks to its high production standards. In addition to iQIYI, Youku, and Tencent Video, Mango TV has the backing of the Hunan Provincial Radio and Television Bureau and has focused on developing self-made content since its inception. The platform has released a range of critically acclaimed, low-cost self-made dramas, such as *Go Ahead* and *Don't Want to Be Friends with You*. In May 2020, Mango TV launched the Monsoon Theater, showcasing high-quality short dramas, including *Remembrance of Things Past*. This initiative also included a collaboration with traditional television networks, which received high praise and recognition. Bilibili is also trying to carve out a niche in the market for self-made dramas. Since 2020, it has successively released dramas such as *Run For Young*, and *Couple of Mirrors*, winning the love of young audiences with high-quality content.

Another notable feature of self-produced dramas on major platforms is the diversified range of genres and themes. iQIYI has introduced a genre-based drama series broadcasting model, releasing a series of productions such as

“Light On” for suspense themes, “Sweet On” for romantic themes, and “Laugh On” for comedy themes in early 2022. These modes cater to different groups and preferences, providing users with a more diverse and ample selection. Currently, dramas such as *The Bad Kids*, *The Long Night*, *The Day of Becoming You*, and *Moonlight* have received high acclaim. Tencent Video has consistently released a diverse range of blockbuster drama series across multiple genres, earning recognition and approval in the market. This includes the popular sci-fi thriller *Reset* that was released early in 2022, the 2021 gaming romance drama *You Are My Glory*, as well as male-oriented series such as *Candle in the Tomb: The Lost Caverns* and *Candle in the Tomb: The Worm Valley*, and low-budget dramas such as *Delicious Romance* and *The Imperial Coroner*. The types of self-produced dramas on various platforms have become increasingly diverse, ranging from romance to suspense, and from dramas with patriotic themes to realistic genres. As a result, an increasing number of high-quality self-produced dramas on multiple platforms have become the norm.

As self-produced dramas continue to improve in quality, more and more works on video websites are able to gain recognition and popularity overseas. For these programs, expanding overseas not only helps broaden their international audience but also serves as a testament to their growing influence and popularity. For example, dramas such as *The Bad Kids* on iQIYI, *The Untamed*, *Three Lives Three Worlds: The Pillow Book*, and *Reset* on Tencent Video have sold their copyrights overseas, showcasing the appeal of Chinese domestic dramas to foreign audiences.

Moreover, the increased quality of self-produced TV dramas has led to a blurring of the line between online and traditional television networks. As a

result, video websites are now gaining greater dominance in program production. Currently, most of the TV dramas released by major platforms are simultaneously broadcast on both online and traditional TV channels, or even first released online and then on TV. For example, web series such as *Spring Breeze Ten Miles* were first released on Youku before being broadcast on TV. These trends demonstrate that video websites are gradually gaining dominance and influence over the production and creation of Chinese TV dramas.

#### 2.3.3.2 Self-made variety shows

Similar to the development of TV dramas, the production of self-made variety shows has followed a comparable path and logic, emphasizing the features and characteristics of IP. This has led to the emergence of a diverse range of variety shows that focus on the latest trends and encompass a multitude of program types.

Firstly, in terms of content, major platforms are continuously creating branded web variety shows, emphasizing the IP core and value, and continuously releasing multi-seasonal popular variety shows. Tencent Video has released several self-produced variety show series such as *Produce Camp*, *Rock & Roast*, *An Exciting Offer*, *The Coming One*, and *Super Novae Games*. These shows have already been produced for three or more seasons, fully showcasing Tencent Video's strong content production capabilities in self-produced variety shows. iQIYI's self-produced variety show lineup includes popular series such as *I Can I BB* which has been released for seven seasons, *The Big Band*, and *Super Sketch Show*. These shows have built a relatively stable viewership among their audience. Mango TV has fully utilized the advantages of the "studio

model,” with each studio responsible for producing variety shows. They have launched a range of multi-seasonal variety shows, including *Who’s the Murderer*, *Detective School*, *Great Escape*, *Welcome Back To Sound*, *Sisters Who Make Waves*, and *Call Me by Fire*. These shows have become popular among viewers and have gained a considerable following. The multitude of multi-seasonal variety shows that have emerged over the years has established a powerful brand effect and a relatively loyal fan base, contributing to an increase in membership revenue.

Secondly, in terms of production and development, one approach is to establish in-house teams and collaborate with external teams to jointly produce and complete the project. After 2014, as video websites gained greater influence and traditional television networks’ impact declined, coupled with increased capital investment in content production such as variety shows and TV dramas, many prominent producers quit their jobs within the established system and partnered with video websites under the banners of their own studios or companies. Moreover, the rise of new online video content companies has made production and broadcasting separation the dominant approach to producing variety shows on video websites. For example, MEWE Culture Media has produced many popular web variety shows, with several becoming cultural phenomena. Xiaoguo Culture Media has developed a content system based on the American-style talk show format, using a platform-based production model to create content. They focus on content operation and artist IP incubation as core elements of their content production.

From the perspective of user demand, self-produced variety shows are developed with a wide range of program types to fully meet the needs of

different user groups. These include male and female idol competition shows such as Tencent Video's *Produce Camp*, iQIYI's *Youth With You*, and Youku's *We Are Young*, script murder-based shows such as *Game of Shark* and *Who's the Murderer*, and romance variety shows such as *Heart Signal* and *See You Again*. These shows have diverse genres and high production value, making them popular among audiences.

#### 2.3.3.3 Self-made films

When it comes to self-made films, major video websites are shifting towards a focus on creating high-quality and premium content. In the early days of web film development, self-produced films primarily focused on capturing attention through eye-catching themes and titles to attract views from users. This often came with low production costs. In 2014, mainstream video websites in China offered a total of 450 web feature films. However, by 2016, web films experienced explosive growth, with over 2,000 self-produced web feature films released online. This attracted major video websites like iQIYI, Youku, and Tencent to enter the upstream of the film industry chain and collaborate with traditional film and television enterprises. As a result, the cost and quality of web films have significantly improved (Wang, 2021). In 2020, iQIYI attempted to use the PVID (Premium Video-on-demand) mode to release films for the first time, while Tencent Video tried to transform its own IPs into high-quality films. This not only provides creators with a convenient and efficient creative channel but also gives financial support for high-quality web film projects by improving the platform's basic services. In the future, they will continue to release many excellent self-produced blockbusters such as the *Ghost Blows Out the Light* series, *Siping Police Story*, and *Battle Through the Heavens*.

It can be seen that, after entering a period of comprehensive development, video platforms have been increasingly involved in the production and investment of TV dramas, variety shows, and films. They are moving away from being simple platform websites and towards full industry chain production and monetization. The development of self-produced content has become the trend in industry competition for video websites. This also means that the development model of video websites is becoming more mature and distinctive.

#### 2.3.4 Long-term hazards in the content production of video website

Before 2017, video websites were highly favored by financing parties, resulting in the prosperous development of their content. However, as financing sources cool down and economic slowdown brings pressure, hazards arising from long-term content production on video websites have become apparent. It is now necessary for these websites to constantly make adjustments and improvements.

Firstly, video artworks often present issues related to ideology and values, while certain variety shows may have the problem of being excessively focused on entertainment. With the increasing penetration of the internet, video websites are attracting audiences from wider age groups. This includes many minors who are now joining these sites. To align with mainstream values, it is necessary for video websites to adjust the orientation of their content. Chinese news media have reported that some popular suspense variety shows contain excessive amounts of bloody violence or misleading content. Additionally, some shows greatly support and vote for underage individuals to participate in boy and girl group competitions. These shows are criticized for excessively pursuing

economic benefits and luring people to spend large amounts of money supporting and voting for their idols, or crowdfunding to boost their popularity. Blind admiration for stars has also attracted attention. The belief is that these shows have gone too far in pursuing entertainment value, resulting in negative impacts. Although the government has implemented measures to address these issues, video websites still need to exercise caution during program production. It is important to produce high-quality and value-oriented artworks that result in a win-win situation for both economic and social benefits.

Secondly, due to the intensification of competition among various platforms, video websites are increasing their efforts to create unique and recognizable content for their own platforms. However, due to a lack of innovation and the pursuit of economic benefits, the problem of following trends and homogenization has become increasingly serious in the works launched by major platforms. For example, Youku's *Street Dance of China* and iQIYI's *Hot-blood Dance Crew*, both are competitive variety shows about street dance. After the success of iQIYI's *The Rap of China*, other platforms began to introduce rap-themed programs such as *Rap Star*, *Rap for Youth*, *New Generation Hip-hop Project*, and *Girls Like Us*. After *The Big Band* gained popularity, similar variety shows such as *The Coming One - Super Band* and *The Flash Band* have also been introduced. With the *Idol Producer* becoming popular in 2018, idol selection competition programs for boy and girl groups such as *Youth With You*, *Produce 101*, and *All for One* have also entered the market, attempting to get a share of the pie... All of these facts indicate that when a platform releases a certain type of content, other video websites will follow suit. A certain type of content has been flourishing, which, to some extent, implies the popularity of

such programs, forming a scale effect. However, this homogenization may quickly consume the curiosity and enthusiasm of the market, as well as the resources and abilities required to produce such programs. Therefore, in response to the homogenization issue, major video websites have to constantly enhance their innovation capabilities. They not only need to develop new themes and topics for TV dramas, variety shows, and other works but also need to find what makes them unique and seek breakthroughs. In addition, piracy is a persistent problem behind the thriving of video websites. In 2021, Tencent Video made an announcement about the issue of a leaked source for the drama series *Crime Crackdown*, stating that someone had illegally spread and sold pirated content of the drama online without permission. Tencent Video reported it to the public security authorities as soon as it was aware of it to investigate the source of the piracy. At the same time, the copyright owner urged viewers to watch the drama on authorized platforms. China has made great efforts to improve copyright protection laws and regulations over the past decade. Although large-scale piracy has become increasingly less, piracy still exists. Currently, ‘soft piracy’ is a phenomenon that involves activities such as dismantling, commentary, and secondary creation of copyrighted content. This type of infringement on intellectual property rights is most prevalent on short video platforms. While soft piracy is not as severe as outright piracy, it still has a negative impact on the development of video websites and undermines the value of original content. In April 2021, 73 Chinese film and television organizations including the China Television Art Exchange Association and China Television Drama Production Industry Association issued a joint statement proposing to take necessary legal actions against unauthorized editing,



cutting, handling, and spreading of film and television works on the internet. Subsequently, Tencent Video, iQIYI, Youku, and other long-form video platforms, along with 76 media agencies and more than 500 artists, jointly released a proposal to address the problem of infringement in short-form videos on the internet. They called on short-form video platforms and public account operators to promptly clear unauthorized short-form video content and protect the legal rights and interests of the industry. This has demonstrated the widespread issue of intellectual property infringement in the form of “soft piracy”, and legal regulations should be refined to control this situation.

Actor-network theory gives equal weight to technology and humans, to discuss the exchange of information resources. This new perspective on relationships is equally applicable in discussions about the business models of video websites. Technology not only serves as an important support for the constant updating of video websites but also plays a crucial role in improving the efficiency of these websites.

## 2.4 Summary

By sorting out the development history of video websites for more than two decades, these sites have evolved from being an accessory product to a business model after experiencing waves of IPOs, mergers and acquisitions, as well as constant exploration. In terms of copyright procurement, self-produced content production, and advertising marketing, relatively complete processes have been developed. Unlike the development model of television, the private nature of video websites has made the market the only criterion for judging the quality of content production, thereby attracting major capital to enter the scene

and participate in all aspects of the production of artistic works, involving comprehensive competition. This indicates that capital and technology are of great significance to the development of video websites. In recent years, video websites have also offered numerous high-quality works with clear value orientations and innovative content, which have been recognized by the market, since they are more inclusive for free and independent creation compared with TV stations. For more than a decade, various video websites have tried to improve their competitiveness through high-quality self-produced content, tailored traffic, and membership revenue. However, the development model that makes content decide traffic does not give video websites high user stickiness, and content production depends on capital support. Therefore, competition among video websites will continue to be dominated by the rivalry among the industry's super fund contributors in the internet sector, such as BAT, for a long time in the future. In addition, video websites are currently constrained by a relatively single revenue structure, mainly relying on advertising and membership fees. Furthermore, the government has tightened its control over audio-visual works, so the current development model for video websites deviates from a healthy development track. Therefore, a breakthrough is urgently needed.

## Chapter 3 Market Operation Models and Evolution of Chinese Video Websites

### 3.1 Major models of capital operation of Chinese video websites

For enterprises, capital operation is an important driving force to support long-term sustainability. Whether it is through listing or mergers and acquisitions, both are important logic in economic development.

The internet has come a long way since the era of portal websites to the age of social media, and its development has been largely driven by capital investment. Without the support of capital, updates would not have occurred at such a rapid pace. After many years of development, the film and television industry has also acquired a distinct economic and capital orientation. In particular, in the second decade of the 21st century, China's film and television industry has seen explosive growth. As a video website operating at the intersection of film and television, it combines the internet's capabilities with the need for capital investment that video websites depend on. In a sense, the influence of capital has been the primary and prerequisite condition for Chinese video websites to achieve their current status. Moreover, the success or failure of capital operations can also determine the future trajectory of these websites. Building on the historical analysis presented in the previous chapter, this paper will delve deeper into the primary modes of capital operation employed by video websites, with a focus on commercial video websites.

#### 3.1.1 Financing and listing: two waves of IPOs of video websites

YouTube, a platform that had been established just over a year, was

acquired by Google for USD 1.65 billion in 2006. The exorbitant acquisition price was a significant catalyst and encouragement for both the internet industry and the video website sector. The flourishing video website sector, coupled with capital's favorable outlook towards it, has been fueling the capital operation of this industry.

Looking back at the development history of video websites, there were two significant periods of close collaboration between video websites and capital: one around 2010 and the other around 2018. The former period was characterized by a financing wave that followed the emergence of video websites. These sites were eager to go public and hoped to secure increased investment support after listing. The latter period mainly refers to the strategic choices made by existing video websites at the capital level to expand their businesses and ensure long-term development in an industry dominated by monopolies.

#### 3.1.1.1 IPO wave of video websites in 2010

There were many companies that went public around 2010, mainly Ku6.com, LeEco, Youku, Tudou, Xunlei, and Storm. The table below shows the IPOs of these companies.

Table 3.1 Listed Companies Around 2010

Time	Website	Listing Place
2010.6	Ku6	NASDAQ (United States)
2010.8	LeTV	Shenzhen Stock Exchange
2010.12	Youku	New York Stock Exchange (NYSE)

2011.8	Tudou	NASDAQ (United States)
2014.6	Storm	NASDAQ (United States)

In August 2010, Ku6 became the first privately-owned Chinese commercial video website to be listed on NASDAQ as the first Chinese video website to go public in the United States. Ku6's listing triggered a wave of Chinese video websites going public. Shortly after its debut, LeTV also went public in China and entered the A-share market. Two months later, Youku was listed on the New York Stock Exchange in the United States. In August 2011, Tudou caught up with other video websites and went public on NASDAQ. In June 2014, Xunlei, which serves as an important broadcasting portal, was also listed on NASDAQ in the United States. However, objectively speaking, a "trend" surfaced and was embodied by the concentrated IPO activities of several video websites including Ku6 and Tudou, which took place within a span of just one year.

Based on their IPOs, it can be seen that this wave was dominated by the fact of listing with underlying issues. In December 2010, Netease conducted an online survey of netizens to gauge their sentiment regarding the prospects of Youku's upcoming listing. Out of 3164 votes, 1,888 respondents expressed pessimism, accounting for 59.7% of the total. (Do you have a positive outlook on Youku's development prospects after its IPO, 2010). Apparently, this IPO wave has caused controversy. Before these companies went public, many of them went through multiple financing rounds. For instance, Youku received around USD 160 million in financing over several rounds before its IPO, while Tudou aimed to raise USD 120 million through its own IPO during that same

period. However, this does not necessarily indicate that video websites had already achieved positive profitability or found a clearly defined development path at the time of their IPO. In the year prior to Youku's IPO, which was 2009, the company reported a net loss of USD 26.7 million. Tudou, on the other hand, disclosed in its IPO filing that it had incurred annual net losses of RMB 95.9 million in 2007 and RMB 212.6 million in 2008. In the first three quarters of 2010, Tudou reported a loss of RMB 83.73 million, while Ku6's losses amounted to RMB 220 million (Xu, 2010). However, the successful but risky listing of Ku6, which suffered the most severe losses, provided a strong motivation for other video websites to accelerate their own listings even in the absence of profitability.

#### 3.1.1.2 IPO wave of video website around 2018

The second IPO wave for video sites took place in 2018, with Bilibili and iQIYI both going public in the United States. In 2016, there were reports in the media about iQIYI's plans to go public in China (Xia, 2016). However, it wasn't until 2018 that iQIYI eventually went public in the United States. Prior to iQIYI's IPO, Bilibili became the first video website to be listed on the NASDAQ of the United States. Following iQIYI's IPO, in 2019, five companies affiliated with the Hunan Provincial Radio and Television Bureau—Happy Sunshine, Mangofun, EE-Media, Mango Studios, and Mangguoyule.com—were collectively valued at RMB 11.5 billion and merged into Happigo. Mango TV, being one of the strategic entities of the “dual-core drive” strategy of Hunan Provincial Radio and Television Bureau, has officially become the first state-owned controlling shareholder video platform to be listed on the A-share market in China. (Approval for Major Asset Restructuring of Happigo, Mango TV to

be Listed on A-Share Market, 2019) Compared to the 2010 wave, significant changes had occurred in the cultural industry environment and competitive landscape. As a result, video websites established a relatively stable pattern. The first Chinese website to go public in 2010 in the United States, Ku6, has since retreated from the competition in the video site sector. Similarly, Youku is no longer the miracle it once was.

During this stage, the three companies that went public shared some common characteristics. Firstly, they were oligarchs in China's video website competition pattern with an unshakeable predominance over their small and medium-sized peers. As a result, they had a more stable business and revenue prior to going public. Secondly, they had already established their own independent and distinctive characteristics and styles prior to going public. They also had a fixed user base and a relatively stable and clear development path. For instance, iQIYI is dedicated to producing professional content and has developed a specific style in TV dramas, variety shows, and other areas. As a result, it has acquired a relatively stable group of subscribers. Mango TV has benefited from the excellent program production team and experience of Hunan Satellite TV, which makes it produce programs that have a wide range of influence, breaking through the linear playback and duration restrictions of television. Bilibili, on one hand, continues to rely on its large amount of high-quality UGC production, and on the other hand, it is also exploring the path of professional content production, expanding its business areas by making a continuous effort in various fields including documentaries. Thirdly, they have not completely addressed their problems of losses. In its prospectus, iQIYI stated that its total revenue from 2015 to 2017 was RMB 5.319 billion, RMB

11.237 billion, and RMB 17.378 billion, respectively. However, during the same period, it also reported net losses of RMB 2.575 billion, RMB 3.074 billion, and RMB 3.7369 billion, respectively. Therefore, iQiyi is constantly faced with the challenge of turning losses into profits, which remains a difficult problem to tackle. However, prior to its IPO, Hapigo presented financial statements indicating that Mango TV had successfully turned losses into profits. Specifically, in 2017, Mango TV reported a net profit of RMB 489 million, which represented a stark improvement from the loss of RMB 690 million in the corresponding period of the previous year. It is undeniable that Mango TV's profits and losses paled in comparison to those of iQiyi in terms of volume. However, this relative scale also made it easier for Mango TV to turn losses into profits. Prior to its IPO, Bilibili had not fully resolved its issue of losses, but it had made progress in reducing them. From 2015 to 2017, its net losses narrowed from RMB 373 million and RMB 912 million to RMB 184 million.

A closer examination of this shared characteristic revealed that the actual channels through which these three enterprises conducted their IPOs, as well as the underlying motivations behind their respective decisions to go public, were different. Mango TV is a state-owned organization, and state capital has played a vital role in promoting its IPO and supporting its development. During the IPO process, state capital also served as a crucial source of support for Mango TV. Bilibili's IPO was not just a matter of listing as a regular "video website". As a platform that caters to China's vast pool of adolescent users, Bilibili has cultivated a strong user base with its focus on second-dimension culture. Starting from UGC content, it has gradually fostered a community of talented short video creators who generate income through the traffic they attract. These



creators produce high-quality PUGC with strong vertical features, not only generating profits for themselves but also supporting the site's main content. Following that, Bilibili also began to prioritize the development of PGC products that catered to its users' needs. However, it depends on gaming business to maintain profits. According to Bilibili's prospectus, the company's total revenue for 2015, 2016, and 2017 amounted to RMB 131 million, RMB 523 million, and RMB 2.468 billion, respectively. Notably, game revenue comprised 65.7%, 65.4%, and 83.4% of the total revenue for each year, respectively. Bilibili released the game *Fate/Grand Order* in China, which accounted for 71.8% of its game revenue. This demonstrates the pivotal role that games played in changing its pre-IPO profit structure.

### 3.1.2 Analysis of the background and motivation for the IPO of video websites

In the context of China's video website landscape, where development has been inspired by American websites like YouTube and influenced by their acquisition trends, commercial Chinese video websites have begun pursuing the path of going public. During this process, what factors led to the decision to go public and what complex and diverse motives were behind the two waves of IPOs? These are all important questions that warrant attention and further research.

#### 3.1.2.1 Overall motivations for the IPO of video websites

"Burning money" is a common perception and understanding across various sectors towards the internet and video websites. Since its inception, the question of how the internet can generate revenue and transform losses into

profits has become a contentious issue. In order to sustain website expansion and operations, as well as acquire more financial support from external sources, continuous “blood transfusions” to video websites have become a necessary means.

Firstly, going public is a means of support and a strategic choice for commercial video websites to maintain their operations. Except for the state-owned video website Mango TV, all other video websites are privately owned and assume responsibility for their own profits and losses, which has become a defining characteristic of these enterprises. For them, high operating costs and low profitability have always been major obstacles to their development. Upon analyzing the pre-IPO financial statements of different websites, it becomes apparent that video websites primarily incur costs related to server and broadband expenses, revenue-sharing expenses, employee expenses, research and development costs, copyright acquisition expenses, as well as sales and marketing expenses.

Secondly, China’s internet industry has gained significant attention and favor from foreign investors, thereby serving as a crucial catalyst for the IPOs of video websites, particularly those listed overseas. Following the 2008 financial crisis in Western countries, financing funds from the West have increasingly shifted their focus towards China. Youku serves as a prime example, as almost all of its funding sources within its financing party have stemmed from investments in American projects. For these American investors, an IPO in the United States can facilitate better capital realization. Moreover, the swift growth of the Chinese internet during that period provided a strong assurance to both the American market and investors. The intriguing narrative surrounding the

rapid expansion of Chinese video websites also attracted ample foreign capital investment. Thirdly, according to Chinese media reports at the time, Youku's IPO in 2011 resulted in losses. However, despite this setback, foreign investors maintained their confidence in Chinese videos and continued to invest large amounts of hot money into the industry (Wang, 2011).

Except for Mango TV, all other Chinese video websites that have been listed are privately owned enterprises. Therefore, for enterprise owners, investors, and major shareholders, advancing the capital operation of their enterprises can enable them to obtain equity, options, cash out, and ultimately exit. This dream has become a driving force for many practitioners in the industry. Therefore, driven by the allure and motivation of realizing their "wealth dream," many practitioners in the industry have been actively pursuing the goal of going public.

#### 3.1.2.2 Specific reasons behind two rounds of IPO waves

During the two IPO waves of video websites, the specific historical backgrounds have given rise to different tasks and missions in each listing wave.

Looking at the stages experienced by video websites, during the first wave of IPOs, the cost pressures faced by these companies mainly came from expenses such as server and bandwidth costs, high-priced purchases of long video copyright transactions, and other similar factors. During this stage, video websites were experiencing a constant increase in the number of users. From December 2009 to December 2010, the number of domestic online video users increased by 43.53 million, with an annual growth rate of 18.1% (China Internet Network Information Center (CNNIC), 2011). The significant growth in data

during this stage proved to be extremely tempting for video websites. Video websites typically acquire users first and then explore their resources. This development process often leads to an “enclosure movement” in the internet industry. To enhance the quality of user service and enable more users to access the website simultaneously, server and bandwidth costs have become necessary expenses. However, during this period, video websites often lacked sufficient content production capabilities. They must rely on traditional TV stations for content output to maintain content updates. Additionally, their ability to monetize original content was not ideal, which ultimately led to weak profitability. In order to break through this situation, video websites often have to rely on obtaining more external funding to temporarily alleviate the structural dilemma of costs exceeding revenue. After Ku6 completed its risky listing, this path inspired many other video websites. Therefore, relying on listing to obtain more capital support became a solution to the predicament of the video website sector. Following Youku’s IPO, Wei Ming, who was then the senior vice president of Youku, stated that “Youku will increase its purchasing power for legally authorized long-form video programs, such as movies and variety shows” (Feng, 2011). This demonstrates the development direction that Youku pursued after going public.

During the second wave of IPOs, video websites focused more on purchasing and hoarding film and television IPs, paying for appearances and performances by online celebrities with huge fan bases, and participating in shows. These activities incurred significant expenses during this phase. On one hand, the user base of video websites continued to grow, but the long-term expenses for servers and other projects had not decreased. On the other hand,

the competition for purchasing copyrights reached an unprecedented level of intensity during this phase, accompanied by rising prices for celebrity appearances and salaries. Ultimately, this led to a continuous increase in costs for video websites, reaching unprecedentedly high levels. When revenue and expenses are not balanced, going public becomes an option for many video websites to obtain more capital support. In a sense, compared to the first wave of IPOs, the second wave had a relatively stable market competition pattern and had developed a stable user base with viewing and usage habits as well as a clear sense of payment consciousness. This stability was advantageous for video websites. However, this indicated that China's internet audiovisual market was early-saturated around the second wave of IPOs. While the first wave saw significant growth in the number of users, it became challenging to replicate or surpass that state. The video websites entered a phase of relatively stable competition, but they were contending with more stringent network supervision and regulations. Furthermore, the emergence of new audiovisual content forms like short videos had an impact on the market. As a result, the second wave presented video websites with greater pressures and challenges than those encountered during the first wave.

### 3.1.3 M&A and motivations of video websites

#### 3.1.3.1 Several large M&A cases of video websites in China

In addition to financing and IPOs, video websites are increasingly reliant on mergers and acquisitions as a means of development. These transactions offer vital support for their growth. China's online video industry has seen several remarkable mergers and acquisitions of video websites during its development.

The first case was the merger of Ku6 by Hurray! Holding Co. Ltd., which was also the first large-scale acquisition case in China's video website industry. On November 27, 2009, Ku6 reached an agreement with Hurray for an all-stock transaction that would result in the former being acquired. In January 2010, both parties officially closed the acquisition transaction. Hurray was originally a telecommunications value-added service provider. In 1999, it spun off from NASDAQ-listed company UTStarcom and became an independent entity. It was listed on NASDAQ in 2005 and subsequently diversified into the digital entertainment market. The acquisition of Ku6 by Hurray essentially allowed Ku6 to go public using a shell company. In June 2010, Shanda Networking Co., Ltd. announced that it had acquired Hurray's two primary operations, music recording and wireless value-added services, for USD 36.94 million in cash. This transaction resulted in the successful separation of these businesses from Hurray, and Ku6 became the listed entity of Hurray. In this case, the acquisition of Ku6 served the direct purpose of taking the company public, providing a shortcut for Ku6 to engage in capital operations. At the time of the acquisition, Ku6 had only been in existence for four years. As analyzed in the previous paragraphs, there was a high level of competition among video websites during the first wave of IPOs. According to media and industry insiders, Ku6 was expected to utilize the overseas capital market to gain a significant financial advantage over its competitors and continue its money-burning strategy after completing a backdoor listing (Lin, 2010).

The second merger case was between Youku and Tudou. The merger was finalized on March 9, 2012. At the time, Youku's closing price was USD 25.01, resulting in a market value of USD 2.85 billion. In comparison, Tudou carried a

lower closing price of USD 15.39 with a market value of USD 370 million. As part of the merger agreement, Tudou eliminated its depositary receipts and received a premium exchange rate of 1.095 of Youku's depositary receipts in the United States for each of its shares. On March 11, the two parties completed their merger as per the agreement, resulting in a 100% conversion merger. The newly merged company was known as Youku Tudou Inc., where Youku held 71.5% of the shares while Tudou held 28.5%. According to some media reports, this transaction could be considered an "M&A" rather than a "merger" as stated in the press release (Li, 2012). Unlike the merger case of Ku6, Youku and Tudou were listed on the NASDAQ in the United States in 2010 and 2011, respectively, and were also the top two video websites. From 2009 to 2011, Tudou and Youku conducted business negotiations on a feasible collaboration, but the negotiations ended in failure. Prior to the merger, Youku and Tudou were engaged in a fierce rivalry over copyright issues and piracy lawsuits and had even faced each other in court over piracy disputes. However, in the long run, engaging in such homogeneous competition may not be beneficial to the growth and progress of the enterprises as well as the industry they belong to. Despite the fact that the merged companies still operate under the names Youku and Tudou when it comes to user-facing operations, they have thoroughly integrated their allocation of funds, manpower, resources, and other aspects of their business. Thus, following their merger, the two companies are theoretically capable of achieving a synergistic effect, reducing platform costs for purchasing copyrights and publishing content, and ultimately gathering more strength to better deal with competition from other video websites. However, within a year of the Youku and Tudou merger, a significant number of middle and senior-level

executives, including Tudou's founder Wang Wei, resigned one after the other. As a result, the Tudou brand was weakened.

The third case was the M&A case between iQIYI and PPS in 2013. On May 7, 2013, Baidu announced that it would acquire the video segment of PPS for USD 370 million in cash and merge it with its subsidiary iQIYI. In theory, the merger of iQIYI and PPS has the potential to exhibit greater synergies when compared to the merger of Youku and Tudou. iQIYI hoped to capture a greater market share by integrating many video playback terminals. iQIYI suggested during the merger that it would leverage Baidu's dominant search market share, PPS's terminal market, and its own content production capabilities to integrate technology and content. The ultimate goal was to create a future vision of "one cloud, multiple screens" (Xie, 2013). Following the merger, iQIYI shifted its focus towards content creation, specifically in three areas: authentic long-form videos, self-produced dramas, and UGC. To boost the new iQIYI's reach, the company proposed utilizing other Baidu products to increase its influence and expand its video library. (Lei, 2013). Subsequently, iQIYI lived up to its expectations and made consistent efforts in the areas of long-form videos and self-produced dramas. As a result, it has emerged as a significant video streaming platform in China. Regrettably, the UGC segment, including the utilization of Baidu's resources to expand iQIYI's reach and growth, did not yield the expected outcomes. This will be further analyzed and discussed below.

#### 3.1.3.2 Reasons for mergers and acquisitions of video websites

Throughout the brief history of video streaming platforms in China, mergers and acquisitions among these companies primarily took place during



the early stages of their development. At that time, many emerging video websites appeared rapidly and China's population of 1.3 billion provided a huge market and bonus for the development and growth of video websites. As an emerging form of the internet industry, the online video quickly attracted the attention of netizens, and many websites began to rapidly expand with the support of financiers. However, at the same time, issues such as malicious competition and copyright problems between websites became major factors plaguing the development of websites. Amid this background, video websites started to attempt mergers and acquisitions. Specifically, the three aforementioned merger and acquisition cases share some common reasons, mainly including:

Firstly, mergers and acquisitions may alleviate the competitive pressure in purchasing copyrights for video websites and offset the "sunk costs" of copyright purchases. For online video websites, adopting methods of merger and acquisition as a form of corporate integration is mostly based on considerations of the collaborative economy. Integration can allow media groups to obtain more sustainable development genes from "economies of scale" and "economies of scope" (Mirrlees, 2020, p.57), which is the primary element that video websites need to consider. Since around 2009, video websites have started to purchase the copyrights of TV programs and dramas, and the prices of copyright content have continued to skyrocket. Before 2009, the exclusive online copyrights of TV dramas were only sold for RMB 2,000 to RMB 3,000 per episode. For example, the 81-episode TV drama *My Own Swordsman* which was popular across the country in 2008, was sold for only RMB 100,000 in a single transaction. However, after 2009, the prices of popular TV dramas have

risen to RMB 30,000 to RMB 50,000 per episode (Bian, 2012). Since then, copyright fees have continued to make a record high. In 2011, iQIYI bought *Secret History of Princess Taiping* for RMB 2 million per episode, and the copyright price war among video websites has created obstacles for its own development. For video websites, the majority of TV dramas and variety shows contain content with significant “sunk cost”, which is accompanied by the continuous increase of copyright fees. The number of users watching and their conversion into advertising fees is already far behind the speed of the growth of copyright fees. However, the competition among video websites for copyright is still intensifying, which has brought great pressure to the growth of video websites. Therefore, mergers may alleviate competition and consumption among enterprises at the copyright level.

Secondly, mergers and acquisitions may avoid competition between companies in business, copyright, and other aspects, and can also change the legal and public image of companies. In December 2011, or 3 months before the merger of Youku and Tudou, Tudou claimed that it was the victim of copyright infringement by Youku and requested RMB 150 million in compensation. Afterward, Youku initiated a counterattack, stating that its hundreds of movies, TV shows and dramas, variety shows, and original content were pirated by Tudou, and indicating that it would file a lawsuit and claim over RMB 100 million in compensation from Tudou. The competition between the two websites over pirated playback and anti-pirated playback reflects, to a certain extent, the rampant piracy in video websites at that time. Worse still, the conflict between piracy and anti-piracy has become an excuse for video websites to engage in malicious competition, launching lawsuits in hopes of suppressing

their competitors (Wang, 2010). Undoubtedly, this competition over copyright has affected the industry image of video websites and the image of related enterprises. Therefore, even though reversing this malicious competition and improving corporate image is not the most fundamental and direct intention of video websites, it will also help objectively.

Thirdly, mergers and acquisitions are the result of video websites taking the development path of the Western commercial Internet. Since the commercialization of the Internet began in China in the 1990s, many Internet companies have started telling stories of commercial myths, digital myths, and wealth myths to investors and society. This myth is not only a creation of these Internet entrepreneurs under multiple temptations such as technological idealism and business interests, but also a choice influenced deeply by the capital operation in Western countries, especially the Internet wealth creation myth represented by Wall Street and NASDAQ, which greatly stimulated and encouraged the entrepreneurs who studied and worked in the United States at that time. When they realized the vast market potential and prospects in the domestic market of China, a group of websites appeared in China, including video websites. With regard to the development of the Western media industry, including the Internet, mergers and acquisitions are a result of the development of the Western media industry to a certain extent, especially under the dominance of monopoly capitalism. Therefore, the Chinese Internet industry, which takes the Western Internet industry as a development model, will inevitably adopt a similar path to achieve its development goals.

## 3.2 Main profit model of China's video websites

Essentially, a business model is primary to address the profitability issues of a company. Whether it is the support of capital introduction or merger and acquisition activities, it is all to help enterprises establish a first-mover advantage in an intensely competitive environment and maintain structural barriers in the competition pattern of video websites. However, for video websites to maintain this advantage in the long term, relying solely on external resources for “blood transfusion”-like support is far from sufficient. Video websites must explore their own profitable models in line with their positioning and development goals, and find intrinsic “hematopoietic” models, which is the key to the sustainable development of video websites.

### 3.2.1 “User power”: core of the profit model of video websites

“The Audience Commodity Theory” points out that commercial mass media under the monopoly capitalist system has two purposes: firstly, to use audience power to market mass-produced consumer goods and services under the monopoly capitalist system on a large scale; secondly, to market massively the legitimacy of the state and its strategic or tactical policies and actions (Smythe, 2022, p.26). The development logic of commercial mass media under monopolistic capitalism has changed in the era of the Internet. In China, a country adopting a mechanism different from monopolistic capitalism, the commercial development logic of the Internet cannot completely follow the framework of capitalism. However, it must be admitted that as a form of media, the commercial logic of the Internet also follows the path of mainstream media development. The market-oriented reforms in China's media industry also

began after China's reform and opening up. After Western communication studies entered China and advertising, public relations, and other professions started to take root and grow. Gradually, attention has been given to the "audience" and discussions about turning audiences into purchasing power.

As mentioned earlier, China's Internet websites imitated the characteristics of their US peers, so their commercial development path actually followed the model of America's. Meanwhile, the exploration of Internet commercial models also follows the pace of China's media marketization. Therefore, the explored profitability models for video websites have been developed after learning from the American model and adapting it to fit China's actual situation. The core of this business model remains "audience power," but in the space and conditions of the Internet, it is transformed into "user power" in a specific form. Nevertheless, its core sales logic is still based on multi-layer selling centered on users.

Some scholars pointed out that Chinese video websites also follow the three-tier logic of "selling content", "selling advertisements", and "selling brands" to explore profit models (Yu, 2020). Firstly, selling content, i.e., video websites sell content to users. In the early stages of the development of video websites, the content of the websites appeared in front of users in a free form. Whether it is user-generated content in large quantities, video websites purchasing TV dramas or variety shows from TV stations, or self-produced content by video websites, almost all content is provided to users for free. However, when users become loyal to video websites and the video websites have been constantly improving in terms of ability and level of content creation, it becomes possible to directly sell paid content to users. Free content is still

greater than paid one on a whole. Secondly, selling advertisements means the traditional method of selling “audience power.” Since the birth of China’s video websites, selling advertising spots based on the traffic generated by their content has become their main source of profits. In fact, the profit model that transforms the audience into audience power to attract advertisers has already existed in traditional media such as newspapers, magazines, radio, and television. Moreover, on the Internet platform, the potential of this model has been further unleashed. The form of advertising spots is more diverse, and it has greater extension in space and time dimensions, which has yielded a great impact on the advertising revenue from traditional media. Meanwhile, compared with television broadcasting, video websites can more accurately describe their user base and generate portraits of users based on dimensions such as gender, age, and preferences. This can provide clearer and more precise marketing support for advertisers and form the most obvious advantage of video websites compared to television broadcasting. This advantage is extremely evident in the early days of video websites. In 2011, Youku’s net income reached RMB 897.6 million, with the main source coming from brand advertising revenue. The total number of Youku’s advertising clients increased from 423 to 505 in the year, and the average investment per client also grew from RMB 1.1 million to RMB 2 million. (Youku’s financial report of Q4 2011, 2012) But with the saturation of the advertising market, the competition between various video websites in terms of content and advertising has become increasingly fierce. Of course, due to the continuous improvement in the production level of video websites, especially the launch of a group of popular programs, many advertisers have been drawn to them. This allows top programs to attract more attention and

resources, and thus also gain favor from advertisers. Thirdly, selling brands. The selling of brands refers to relying on the popularity of video websites and their related programs. Once video websites have established their own brand, they can monetize it by leveraging the brand value and credibility. Engaging in various non-streaming content production activities has become the ongoing expansion and innovation for video websites. However innovative it may be, the development and monetization of its brand still rely on user power. This also signifies that video websites, known as the content industry, fundamentally focus on developing users' abilities to watch, purchase and consume. Essentially, it is the excavation and development of so-called "user power".

### 3.2.2 "Attention economy": essence of the profit model of video websites

Political economists often emphasize that entertainment media such as television and video streaming sites are essentially using consumers' leisure time, converting users into "knowledge laborers," and transforming the time originally used for leisure and rest into capital accumulation for enterprises, thus commercializing leisure time. Under such circumstances, "the general intelligence of productive forces has replaced paid labor... Service workers in metropolis enjoy the happiness brought by 'self-media' with the rich expression of 'post-modernism'" (Mosco & Mckercher, 2014, p.252). This analysis fully reveals the fundamental rules of operation for entertainment media such as video websites, but for now, we will not discuss the inherent exploitation of users by this model. Instead, we will first consider why video websites have developed in this way from the perspective of these sites. From the perspective of video websites, they try their best to transform consumers' leisure time into

the long-term goals they have pursued in the past. Marxist theory believes that with the replacement of labor by technological machines, fixed capital increases and variable capital decreases, leading to a general decline in the profit rate. Capitalism will then seek to eliminate internal contradictions through expanding scale and external restrictions. The attention economy is a “specific mechanism to prevent the trend of declining profit rate.” (Ma & Cui, 2021). Video websites face competition from other video websites and other types of media in their specific operational processes. Some scholars suggested that the attention economy is essentially an economic production form concerning “desire” (Bueno, 2016). Capitalists’ desire to pursue surplus value constitutes the driving force of production, while stimulating users’ desire to engage in “watching” activities becomes the goal of enterprises. Therefore, how to attract more users’ attention, control their watching and consumption behavior, and further convert this attention into the capital needed for the development of video websites has become an essential problem in the pursuit of profit models for video websites, and also become the foundation for a series of business models established by video websites.

In order to fully stimulate users’ watching “desire”, video websites have begun to focus on creating a more accurate and segmented attention market, in other words, creating a user market that structures user “preferences”. Only in this way can they accurately locate the requirements of each user and users can be converted into consumers of the video website as much as possible, especially for deep binding consumers. Under this logic, video websites, on the one hand, are constantly creating content that can attract users to watch and participate, and on the other hand building market and user information



mechanisms through operations, marketing, and other channels in the information linkages, thereby establishing a more precise attention market.

Taking iQIYI as an example, iQIYI has adopted a model of “selected content + subscription revenue + information flow advertising”, and has built an attention market centered around video content based on this model. In this model, the preferred content includes audio-visual content such as TV dramas, variety shows, and web movies produced by iQIYI, as well as literary works (including online literature and light novels), comics, online games, and online shops. For enterprises, this IP chain can fully attract users’ attention at the content level, enhance their stay time on the platform, enhance user stickiness with multi-level and dimensional content, form relatively stable and lasting watching habits, and lay the groundwork for increasing subscription and advertising revenue in the business model. Subscription revenue, or the subscription payment model, refers to the practice of using content to capture users’ attention on a platform and encourage them to pay for high-quality and interesting content on the platform over a longer period of time. In 2011, iQIYI began to explore a membership subscription model, but it did not show significant results until the widespread adoption of mobile payments in 2015, which led to a surge in membership subscriptions, even surpassing the milestone of 100 million subscribers thereafter. In 2021, or the 10<sup>th</sup> year of iQIYI’s exploration of the paid model, iQIYI’s membership revenue became its largest source of revenue. In the Q4 of 2021, iQIYI’s membership revenue hit RMB 4.1 billion, a 7% increase from the same period in 2020. The logic behind user payment behavior and related discussions will be expounded in subsequent chapters, but it should be emphasized here that user payment behavior has not

only become an important method for video websites to increase their revenue, but also a major indicator for video websites to ensure and demonstrate their attention economy strength. Therefore, premium subscribers have extra importance in the attention economy. The level of advertising revenue is also proportional to the development of the attention economy to a certain extent.

The development model of attention economy is a typically double-edged sword for video websites. On the one hand, attention economy has become the foundation for establishing business models for video websites. On the other hand, the focus on user attention in the market also brings many limitations to the development of video websites, especially for the development of commercial websites, which has caused obvious bottlenecks. This is most directly proved by the fact that the number of users determines the development space of video websites in the attention economy. In recent years, the number of users on internet video websites has gradually reached saturation, and the attention economy profit model that video websites rely on is facing limitations and restrictions, making it difficult to achieve more remarkable breakthroughs in membership services, advertising services and other aspects. From another perspective, video websites also need to compete with other internet application platforms for users' attention resources, especially when mobile short videos are developing faster and stronger to attract users' attention. Data showed that, as of March 2022, the number of active users of comprehensive video websites was 818 million, while short video platforms had 849 million users, demonstrating fierce competition between the two areas. From the platform's data, the monthly active users of video websites such as iQIYI, Tencent, bilibili, and Mango TV have declined from the previous period, while the monthly

active users of TikTok have increased compared to the previous period, indicating the intensity of competition between long and short video platform for users. (Qianfan.tech, 2022).

Table 3.2 Users of Short and Long Video Websites in March 2022

Platform Name	Monthly Active Users (billion)	Increase/Decrease in Monthly Active Users over Previous Periods (%)
iQIYI	4.95	-0.97
Tencent Video	4.32	-5.50
Bilibili	1.86	-3.22
Mango TV	1.85	-3.84
TikTok	6.76	0.34
Kwai	4.57	-2.97
Wesee	0.24	-0.80

### 3.2.3 Strong PGC and weak UGC: basic operating mode of video websites

The competition between long and short video websites is not only reflected in the competition for attention economy, but also in the various operation modes. Based on the analysis of the development history of video websites in the previous text, it can be easily figured that the basic operation mode and path of video websites still follow the development path of professionally-generated content (PGC). This is the result of the capital-driven competition and development in the sector of long video, where video websites attract a large number of TV content producers, and also the result of a large

amount of capital entering the sector of internet long video, forcing video websites to quickly take up the market and compete for users.

On the other hand, UGC is relatively disadvantaged in the layout and distribution of video websites. UGC on video websites, such as bullet comments and commentaries, are accessory products of PGC, and they have become important indicators for measuring the quality of PGC. Hence, the overall operation mode of China's video websites is still based on the production of PGC.

Under this operating model, video websites are also constantly adjusting and optimizing at the organizational level, in a bid to build a more PGC-focused organizational operating model. From a holistic perspective, variety shows and web dramas have always been the core that video websites rely on in their production of professional content. Especially popular variety shows and online self-produced dramas have become important content for demonstrating the production and dissemination capabilities of video websites, attracting users, maintaining user stickiness, and enhancing the industry's bargaining power and market discourse power. It is closely related to the long-term development and market competition of video websites. Under such logic, video websites continuously adjust their revenue framework and organizational structure to truly achieve longer-term development.

In the development process of video websites, they mainly compete for copyrighted TV dramas, online novels and other content IPs by launching a price war. With the help of traffic-driven celebrities, the battle between IPs and traffic attracts users to actively watch, participate and pay. The price of content

IPs keeps rising. In this process, the production capability of video websites continues to increase, and a large amount of high-quality content is constantly being created, while the brand awareness of video websites among users is also constantly strengthening. Therefore, the second decade of the 21<sup>st</sup> century has become a golden period of China's online video development. But in this process, due to the influx of a large amount of hot money, the IP price has been continuously pushed up, causing some celebrities with a large number of fans to have market prices much higher than the normal range, and also leading to the problem of "focusing too much on popularity while overlooking the content." In addition, as a result of the introduction and adjustment of relevant regulatory policies by the state, the short videos taking up more users' leisure time, and the impact of the market environment on advertising revenue, all these factors have ultimately led to challenges in the prospects and future of the online video industry.

Since 2020, the global outbreak of the COVID-19 pandemic, along with the overall downturn in global economic development, has caused a significant shock to the internet industry (including video websites), and their revenue growth has gradually slowed down. This, in turn, it has brought the momentum of the long-term pursuit of IP and traffic under control, and video websites are starting a new round of planning. Since 2021, top video websites such as Tencent and iQIYI have made organizational structure adjustments to better meet the needs of the current video website industry, thereby improving their business development and operation models.

In H1 2021, Tencent Group made changes to the development and positioning of Tencent Video. As Tencent Video, Tencent Wesee, and

Application Treasure all involve video business, Tencent Group merged them to form the Tencent Online Video Business Unit (BU). The newly established business unit has two main goals—"One is to serve as a front-end weapon against ByteDance, competing for users with content and product capabilities based on the combination of long and short videos. The second is to cultivate an online entertainment empire belonging to Tencent, and to achieve the group's IP dream through internal cooperation within PCG and with other business units." (Wang, 2021). Under such goals, Tencent Video's demands in operation mode and business development have become increasingly clear: Firstly, the competition among video websites is no longer limited to long videos, and how to integrate long and short videos has become a new field for video websites to compete in; and secondly, the development of intellectual property (IP) is still and will continue to be a long-term goal for video websites. How to build an IP industry chain that can cross different industries and connect the audio-visual entertainment industry with content at its core is a problem that has plagued the development of video websites, and has become a direction in which they are exerting their efforts in business layout. Essentially, this is all about video websites continuing to engage in new competition with other commercial platforms in the overall entertainment consumption market under new technological conditions and situations.

In the specific architecture layout adjustment of 2021, Tencent Video's content layout is divided into two main parts. One part is the Scripted Content Production Department, which is mainly responsible for film and television content, including TV series and movies. The other part is the UNScripted Content Production Department, which covers variety shows, sports, and

documentaries. Under such a framework, content production is divided into three major stages: operation, production, and commercialization. Among them, the so-called operation needs to be subdivided into specific projects for each category. The operators have to participate in the script plan and evaluate the projects, which reflects the importance and prominent position of operation in the video business. This layout implied that Tencent Video platform is entering a new stage and focusing more on the production and creation of content on its main business line. By improving the quality of content, and exploring the commercial value and potential of content, Tencent Video aims to increase revenue. Therefore, although the revenue sources of video websites still come from the conversion of attention economy resources such as advertising and membership income, in the actual execution and operation process, video websites are still constantly being adjusted. Specifically, firstly, Tencent Video will continue to adhere to the development path of IP, and begin to lay out IP series to stimulate emotions and maintain user emotional attributes and payment stickiness. Secondly, Tencent Video is committed to designing content for different user groups, such as sports and documentaries. Thirdly, Tencent Video relies on the huge scale advantages and group effects of Tencent Group, in order to firmly grasp the ownership of all content products in its own hands. Meanwhile, Tencent Video is also trying to change the industry's common practice of "procuring by episode", attempting to measure the results and outputs of content from a financial performance-oriented perspective (Wang, 2021). Through optimizing management processes, Tencent Video has accomplished high-quality content production at the minimum costs.

Unlike Tencent, iQIYI's development path is distinctly different. Besides

constantly adjusting and transforming the PGC production line, iQIYI is also constantly opening up new business lines. In iQIYI's business layout, the first line is the technology product line, primarily to explore and enhance intelligent manufacturing capabilities and platform capabilities at the technical level. Both of these abilities serve to enhance the efficiency and quality of video content production and dissemination. The second line is the online video content business line, which can be further divided into specific business groups like professional content group, new consumer group, overseas business group, film industry, games, and digital assets groups. Take the professional content group as an example. iQIYI's business lines are more refined, including copyright distribution, TV series, variety shows, intellectual property, artists, animation, documentaries, and other content. The new consumer business group aims to connect online and offline channels and develop a complete offline consumption industry chain that fits the content and style, such as script killing and trendy play. For example, iQIYI has collaborated with a professional operations team of script murder to turn online variety shows centered around crime-solving and murder mysteries into offline script murder. On the contrary, excellent script murder IPs also have the opportunity and potential to be developed into online projects such as web dramas and movies. For example, iQIYI's "FOURTRY" program will collaborate with many brands to empower various trendy brands, enhance brand awareness, and also help iQIYI open up its new consumer brand Fourtry through the interaction with the program, incubating more brands. Therefore, on the professional content chain, iQIYI's expectations and pursuit have never been merely video content, but the constant exploration of the consumption potential and value behind the video content. The third line can be



roughly summarized as non-professional content for online videos. This business line covers film industry, digital assets, and other related content. This business unit, as a long-term planned unit of iQIYI, helps iQIYI deepen its cultivation in fields such as theaters, and more importantly, these contents also involve iQIYI's layout and planning in the era of web 3.0, demonstrating the company's attention to and emphasis on the future tracks.

Therefore, iQIYI's overall operating orientation shows a very distinct difference from Tencent Video. From the perspective of development trends, iQIYI will mainly focus on several aspects in its future layout: Firstly, it pays more attention to the production of self-produced content, and continuously improves the quality of content. Starting from 2020, iQIYI has launched the "Light On" series, which can satisfy the viewing demands of middle-income users with consumption ability, and can also quickly form and enhance brand effects. Secondly, from the user perspective, iQIYI focuses on and anchors the young generation who have been deeply influenced by consumerism and subcultures. Programs have become both a space for young people to form a cultural identity within their circle, while also stimulating and guiding their consumption, thereby achieving a transition from online to offline and from content to consumption. In other words, programs have created a scene that integrates youth culture, video content, and stimulating consumption, fully tapping into the ability to mine user engagement in online video content. Thirdly, from the perspective of production processes, the industrial capacity and level of online video content production have been continuously improved. From technological innovation to creative content, what remains unchanged for iQIYI is the continuous improvement of its capabilities and levels in professional

content production. This will also become the direction that the platform will continue to strive for in the future.

In addition to this strong PGC model, the overall operating mode of bilibili mainly relies on the content provided by its platform's uploaders as supportive content for the video website, forming a more vertically segmented and more subcultural video culture circle. However, on a whole, the quality of the website's UP content is constantly improving, and even more distinctive and stylized video uploaders are emerging, forming a PUGC production group. Therefore, although Bilibili is not operated completely in a PGC manner, it has become a gathering platform for PUGC.

#### 3.2.4 Main modes of commercial operation for video websites

Under the operation mode of strong PGC and weak UGC, the main revenue of video websites' commercial operation comes from advertising and membership subscriptions.

From a global perspective, overseas video websites such as YouTube and Netflix, primarily count on advertising and membership subscriptions to earn revenue. Among them, YouTube's advertising and subscription revenue exceeded USD 8 billion in 2018, and its membership subscription revenue reached USD 700 million to USD 800 million. Netflix's subscription revenue reached USD 15.4 billion, accounting for 97.69% of its total revenue. In 2018, the advertising revenue of the American video website Hulu was close to USD 1.5 billion, and the subscription revenue was approximately USD 3 billion, accounting for 33.33% and 66.67% of the total revenue, respectively. From this, it is found that although the proportion of advertising and membership

subscription revenue may differ depending on the specific business model of video websites, advertising and membership subscription revenue are still the main income sources for overseas video websites. From the perspective of China's video websites, similar to their foreign peers, advertising and membership revenue are still the main sources of income for video websites. Take iQIYI as an example. According to iQIYI's financial report for 2022, membership revenue accounted for 61.1% of the total revenue, and online advertising revenue accounted for 18.4%, which are the two main sources of iQIYI's revenue. It can be seen that both domestic and foreign video websites have formed a revenue model based mainly on subscriptions and advertising, and these two sources of revenue will continue to make a great contribution to the growth of video website revenue.

However, through further observation, it is found that foreign video websites have gradually increased their existing monetization methods and continuously developed new ones. Netflix, Disney+ and HBOMAX are constantly developing new forms of revenue through subscription and advertising, including content and service grading based on factors such as the number of devices permitted to stream simultaneously, video quality, etc. This drives users to subscribe for and upgrade their membership and develop advertising expenditure models. For example, HBO generates additional ARPU through advertising, offering a USD 10 /month package with ads and a USD 15 /month package without ads. Packaging sales across multiple platforms are offered, such as Disney+ and Hulu bundled sales; individual content is priced separately and driving sales of other high-margin products (theme parks, peripherals) through streaming media services, etc. In addition, overseas video

websites are constantly developing monetization methods, including peripheral development, rights of interactive community, interactive games, and so on.

Domestic video websites are also developing in a similar direction and are constantly exploring various innovative ways to monetize in order to break the model of “user subscription + advertising revenue”. In terms of content, iQIYI has launched an RMB 520 video reward model to reward content creators. In terms of derivatives, it has developed an independent e-commerce platform and based on platform dramas, variety shows, and peripheral products, it has extended to offline fans carnival ticket sales. In terms of value-added services, it mainly opens up user consumption channels through a variety of value-added projects such as unlocking expressions, privileges, names, and backstage viewing rights for which users can pay. In other channels, it has also developed games, live streaming, interactive videos/games, etc. It can be seen that in the exploration of various monetization channels, iQIYI has made useful attempts, but the business scale of this part is limited, and the channels are still constantly enriching, which has not brought significant revenue growth to video websites, nor has it brought about changes in revenue models. This also reflects the dilemma in front of video websites in exploring various operating models.

Therefore, although domestic video websites such as iQIYI have already diversified their innovation and monetization methods, there is still room for exploration, including the need to further improve issues such as the abnormality of the iQIYI e-commerce website, taking products off the shelf, and quality issues of exclusive behind-the-scenes footage. These are also areas that video websites need to pay more attention to in their exploration and optimization of revenue models.

### 3.3 A great hit, so what? Reflection on the business model of video websites

#### 3.3.1 Loss is a long-term problem faced by video websites

Despite China's video websites constantly creating so-called "traffic myths" and "wealth myths" in the media and investment field, looking at the performance and results of video websites, losses are the long-term problem that video websites face. In 2022, as the Chinese cultural and entertainment industry entered a relatively difficult stage of development, video websites began to experience a bottleneck period. This procrastination is mainly reflected in two aspects:

Firstly, Chinese video websites in overseas stock markets don't perform well enough. After the listing of iQIYI in the United States, the highest point of its stock price reached USD 29, but in 2022 it dropped to USD 2. Not only iQIYI, the stock prices of Bilibili (including US and Hong Kong stocks) also started to decline from 2021. In February 2021, the stock price of Bilibili on the US stock market reached its historical highest point at USD 157.66 per share, but since then, the stock price has started to plummet. On June 9, 2022 (North American Eastern Time Zone), Bilibili's US stock price cumulatively went down by 83%. In the Hong Kong stock market, after Bilibili's secondary listing on the Hong Kong Stock Exchange in March 2021, it reached a historical high of HKD 1,052 per share in June of the same year, but then began to decline significantly. By June 2022, Bilibili's Hong Kong stock price had fallen to HKD 211, a drop of 80%, and its total market value evaporated by approximately RMB 281.7 billion (Liu, 2022). Video websites like iQIYI and Bilibili were overlooked in overseas

stock markets due to two main direct reasons: one is the generally cold reception of China concept stocks in overseas markets, which is directly related to the overseas capital market's understanding and perception of the Chinese market. When there is a lack of confidence in the development of the Chinese internet and even the global internet, a decline in stock prices is inevitable.

The other reason is that Chinese video websites have long faced the problem of losses and lack of profitability. This is also the second presentation of the delayed development of video websites. Video websites have been facing long-term losses and unprofitability, as mentioned repeatedly in the previous text, which has indeed become a fatal problem for the development of China's video websites. Data showed that from 2013 to 2021, iQIYI lost RMB 43.8 billion in 9 years (Ha, 2022). According to financial reports of iQIYI after its listing, the company's net losses from 2018 to 2021 totaled RMB 26.4 billion. As of November 17, 2021, iQIYI released its unaudited financial statements for the third quarter ending on September 30, 2021, which showed a net loss of RMB 1.7 billion, a 42% increase in losses compared to the same period last year. The majority of these losses come from increased content costs (including copyright fees and self-produced content costs), loss of subscribers, and decreased advertising revenue (iQIYI Q3 2021 Financial Statements, 2021). In December 2021, iQIYI announced a large-scale layoff plan with and 20%-40% of employees expected to be laid off. iQIYI is not the only Chinese website that faces this dilemma. The 2021 annual financial statements released by Tencent showed that despite an increase in the number of paid members for Tencent Video, it still faced financial losses. Alibaba Group's annual financial statements also indicate that the digital media and entertainment sector,

including Youku, had a pre-tax profit loss of RMB 6.118 billion in the 2021 fiscal year (Alibaba's 2021 Annual Statement, 2022). All of this data reflected the challenges that Chinese video websites face in survival and development—fierce competition among major video websites in copyright procurement and content creation, great difficulty in creating popular self-made content, inability to guarantee the continual release of popular content, and the loss of subscribers and decrease in advertising revenue due to the rise of short video platforms. The more details will be further discussed in the next section.

### 3.3.2 Causes of losses and long-term issues in the operational mode of video websites

The losses of video websites are closely related to their long-term development patterns, and also attributed to the current environment in which the video websites operate. Specifically, it can be discussed in the following three points:

First of all, the long-term development model of Chinese video websites is “spending lavishly”, which is not a sustainable development path for video websites. In fact, such a dilemma is not exclusive to Chinese video websites. For example, Netflix also faced a 35% stock price drop in Q1 2022 due to a decline in the number of users. However, when the platform's development hits the ceiling of user numbers, the lack of growth in user numbers would inevitably lead to a slowdown in platform development. The same situation also occurred to Chinese video websites. The financial data of iQIYI in the following table showed that iQIYI had experienced rapid growth from 2015 to 2019, increasing by 5.45 folds over five years. Such a growth rate has assured the capital market.

However, the data in the financial report also shows that the overall growth rate of iQIYI is decreasing year by year, and this growth is dependent on high investment. Between 2015 and 2019, iQIYI's costs and revenue of main operations showed simultaneous growth, but revenue could not cover expenses. Therefore, the development of iQIYI presents a more apparent "lavishly spending" mode. This model is also the inertia path that video websites have relied on for long-term development. Nevertheless, when the whole industry declines and the capital market lacks expectations and confidence in video websites, poor cashflow may occur and the "blood transfusion" mode becomes unsustainable for the development of enterprises. To some extent, iQIYI's case is just a microcosm of the development of Chinese video websites during the epidemic era, and Bilibili's development shows a similar path to iQIYI. Although Tencent Video and Youku have a larger group to rely on and support, it is difficult for them to survive and develop by simply relying on external funding in the current economic downturn. This also makes the negative effects of losses more prominent.

Table 3.3 iQIYI's Financial Data over Past Years

iQIYI's Financial Data over Past Years (unit: RMB billions)								
Year	Revenue	Year-on-year Increase/Decrease	Costs of Main Operations	Year-on-year Increase/Decrease	Net of after-tax Profits	Year-on-year Increase/Decrease	Net Cash Flows from Operating Activities	Year-on-year Increase/Decrease
2021	305.54	2.85%	275.13	-1.33%	-61.09	-12.82%	-59.52	10.00%
2020	297.07	2.46%	278.84	-8.12%	-70.07	-31.82%	-54.11	-238.53%



				%		%		
2019	289.94	16.03 %	303.48	11.85 %	-102.77	13.42 %	39.06	35.44%
2018	249.89	43.80 %	271.33	56.05 %	-90.61	142.47 %	28.84	-28.12%
2017	173.78	54.65 %	173.87	52.02 %	-37.37	21.57 %	40.12	53.60%
2016	112.37	111.26 %	114.37	89.29 %	-30.74	19.38 %	26.12	143.88%
2015	53.19		60.42		-25.75		10.71	

Secondly, during the early and middle stages of the development of video websites, there was a certain degree of malicious competition among video websites. In order to compete for user attention and guarantee PGC, video websites have engaged in vicious competition over copyright content IPs and traffic stars, greatly increasing the operating costs of video websites. In Q1 2018, the online selling price of a single episode on iQIYI reached over RMB 10 million and the net value of copyright content assets accounted for 69.18%. Driven by malicious competition, the pursuit of online copyright prices has been quite irrational. Some media have compiled a list of intellectual properties (IPs) of 70 films and television series in 2019. Of these, 11 have a copyright price of over RMB 10 million, and 43 have a copyright price of over RMB 1 million (Ming, 2019). Similarly, the sky-high remuneration of actors and actresses with a lot of followers has become an important factor in increasing content costs. Since 2018, the “sky-high remuneration” of actors and celebrities has attracted attention from all over the internet. The single-episode salary of some so-called top stars exceeds RMB 1 million. According to the number of episodes of TV

dramas, some stars' total remuneration may exceed RMB 50 million, and some are even close to RMB 100 million (Lin and Bai, 2018). Behind such high costs is the pursuit and admiration of popular actors or actresses by film and television companies and video websites. After all, in the competitive market of attention, actors and actresses play a crucial role in attracting a large amount of attention. This, nevertheless, has greatly increased the production and manufacturing costs of video websites and even begun to restrict the healthy development of the industry.

Once again, video websites are facing competition from other emerging platforms, particularly short video platforms, making video websites more difficult in surviving. Short video platforms have a large number of “re-creation” works that have infringed on copyrights. Many short video operators choose to cut and edit copyrighted videos from video websites in order to attract more followers and increase traffic. One TV drama can be edited into hundreds of short videos and then spread widely on short video platforms, not only infringing on the copyright, but also causing a significant loss of users for the video websites. And in December 2021, the number of active users on video websites was already less than that of short video platforms, indicating the short video platforms' seizing of users from video websites. According to data from Qianfan.tech, the number of active users on video websites during that month was 842 million, while the number on short video platforms was 847 million. This is the first time that short video platforms have exceeded video websites (Analysys, 2022). This proves the significant impact of emerging video platforms on traditional video websites.

### 3.3.3 Controlling costs, improving quality, and increasing efficiency: the future of video website operating models

Is the future of video websites really gloomy? Is it really so difficult for video websites to find their own path of development? From the perspective of the business model, video websites are trying to adopt a cost-cutting and efficiency-increasing strategy in the face of profitability dilemma, by reducing production and operating costs, and improving the efficiency of corporate operations to achieve profitability. The so-called cost reduction and efficiency increase is different from other business models such as cost priority and strives to achieve the operation of the business model through both cost and profit.

“Reducing costs” is not simply compressing projects or cutting expenses in a bold way, but rather systematically cutting costs. Firstly, a platform will give more consideration to the rational allocation of production for different types of content, overall considering the cost of different elements such as actors and content. “Reducing costs” strictly refers to controlling costs and expenditures, constantly reducing the high costs and resource complexity caused by repetitive work in the production process of film and variety shows. Therefore, controlling costs is the process of optimizing expenditures. From the perspective of improving efficiency, video websites hope to achieve more efficient, high-definition picture quality, high-quality content through technology, and improve user loyalty and high stickiness through more precise user push and content promotion. From the current perspective, video websites are gradually finding out a path that is more in line with their own development by improving quality and efficiency, and controlling costs.

In the landscape of video website business models, capital plays a primary but non-core role, and it becomes the crucial foundation for the inception and early development of video websites. In many discussions, people have talked about capital as the core of business models for a long time, but the business models that rely too much on capital are not healthy and business-friendly. Therefore, a rational and healthy concept of capital and business model is crucial.

The Q1 financial statement of iQIYI in 2022 showed that iQIYI embraced its first quarterly profit after 12 years of consecutive losses. In this quarter, iQIYI achieved an operating profit of RMB 93.4 million, with a profit margin of 1%. In the same period last year, the operating loss was RMB 1 billion, with a loss ratio of 13%. According to the financial data, the main reason for such profitability is the reduction of costs. On one hand, iQIYI began layoffs at the end of 2021, reducing marginal departments; on the other hand, it has cut back on non-head content, no longer investing financial and material resources in mid-level content and differentiated content. In this mindset, in Q1 of 2022, iQIYI's revenue costs decreased by 16%, sales and management expenses decreased by 38%, and content costs fell by 19%. Revenue was achieved through cost control. This transformation is both due to changes in the objective environment and the considerations and choices that video websites need to make in their new development stages. The current pattern of Chinese video websites has become relatively stable, and they don't have to monopolize the market share by spending lavishly. How should they continuously output high-quality content in a cost-effective way and enhance the relationship with users will become the core of enhancing platform profitability, and this will also be

further analyzed in the following two chapters.

### 3.4 Summary

In this chapter, it is found that the core of the development of the profit model of video websites is “user power”, which is also the most significant difference in the operating mode between video websites and television stations. From the perspective of comparing business models, video websites have a stronger potential to tap into the “attention economy” value, and PGC production has become the optimal solution for tapping into this value, making it the core of video website business models.

In competition with television stations, video websites rely on their technology and capital to gain early development strength, which in turn enables them to quickly rise and obtain funding and technology, which is an advantage that television stations can hardly catch up with. However, this also led video websites to a wrong way of excessively pursuing capital during the development process. Some opinions and viewpoints even believe that having capital means success, thereby ignoring the significance of other crucial elements. Especially when the competition between video websites enters a relatively stable development stage, capital and technology are no longer the main factors, and content strategy and production plans become important.

## Chapter 4 Content Production and Operation Models for Video Websites

### 4.1 Moving towards professionalism: overall trend in content production for video websites

#### 4.1.1 Two paths of content production for video websites

PGC and UGC are the two main paths for video website content production. UGC, or User Generated Content, refers to a “new way for users to use the internet, which has evolved from primarily downloading to a combination of downloading and uploading, where everyone may display or provide their DIY (do it yourself) content through internet platforms to other users.” (Chen, Zhu and Zhao, 2009). In the era of Web 2.0, web content tends to become dynamic and diverse, and the decentralized model of the internet empowers users to upload an infinite amount of self-made content to websites. UGC has become the main source of content for video websites since their inception. The first generation of video websites, represented by foreign YouTube and domestic Tudou and Youku, creatively used user-uploaded content as their main content type, creating new ways of browsing and interacting. At this time, video websites focus on the quantity of content to attract audiences and obtain traffic, and they exist more as “platforms”.

However, the prosperity of such UGC has also brought a series of problems, such as the lack of unified audit standards for video quality, the problem of uneven video quality caused by the varying video production abilities of users, and the possible piracy problems caused by users freely uploading content, etc.

As more video websites such as iQIYI and Tencent Video enter the segment, more and more users flock to these sites, and competition among them has reached a fever pitch. The battle for traffic has become the core of the competition among video websites, and to attract more traffic, these sites must provide higher-quality content. Ordinary UGC cannot meet competition requirements, and PGC is gradually becoming mainstream.

PGC (Professional Generated Content) refers to content produced by professionals or industry experts and related organizations with professional qualifications (Zhang and Ge, 2014). These types of videos are generally created for profit. China's PGC video websites, represented by iQIYI and Tencent, started later but developed rapidly. Currently, a pattern has formed with iQIYI, Youku, and Tencent in the first tier while Mango TV and Bilibili follow closely behind. The production of PGC videos requires a high cost. Taking iQIYI as an example, according to iQIYI's 2021 annual statement, the total revenue cost of iQIYI in 2021 was RMB 27.51 billion, while the content cost was RMB 20.74 billion, accounting for about 75.4% of the total revenue cost. In order to obtain traffic, video websites have invested a large amount of capital to produce professional, high-quality content, launch self-made content, and share costs through platform-network collaboration and copyright distribution methods. Major video websites are increasingly becoming producers and providers of high-quality content as they gradually accumulate experience in content creation.

In addition, subculture groups represented by Bilibili have produced a large amount of PUGC content. PUGC, or Professional User Generated Content mode, which refers to the mode of professional users producing content, was first

proposed and applied to the production of audio content for Internet radio by Himalaya FM. Later, Bilibili, Douban, and others adopted it to varying degrees and types and attempted to develop PUGC modes suitable for their own platforms (Li, 2019). As for Bilibili, on one hand, it invites famous or professional people in the industry to become uploaders; on the other hand, it provides professional teaching, training, and packaging for ordinary users, in order to create a platform for creative atmosphere and culture.

Bilibili's PUGC model has taken a unique path of development, but professional content production capability has played an extremely important role in the survival of video websites for a long time. Compared to user-generated content, professional content production and commercial operation are more systematic, so the commercialization ability is stronger. Therefore, the specialization of video website content has become the direction and trend for the healthy development of major websites.

#### 4.1.2 Characteristics of professional content production

Analysis of the professional content production model of several video websites reveals the following characteristics: firstly, the professionalization of production teams, with rich industry experience in producing television dramas and variety shows launched by major video websites; secondly, the commercialization of content operation, with a strong feature of standardized models in variety shows and obvious characteristics of typification in film and television dramas. Finally, the prominent feature of IP-based operation helps produce various forms of content based on IP copyright, which forms an industrial chain operation of IP.

##### 4.1.2.1 Professionalism of production teams



As mentioned before, the improvement of the professional content production capability of video websites is achieved on the basis of rapidly absorbing TV station production teams. The majority of professional content produced by video websites is made by teams with rich experience in the industry. They mostly enter video websites from institutional backgrounds like television stations to participate in content creation. Using iQIYI as an example, MeWe Media, co-founded by Ma Dong, Liu Xu, and Mu Di, has created popular variety shows such as *I Can I BB*, *Super Sketch Show*, and *The Big Band*. Prior to joining iQIYI as Chief Content Officer, MeWe Media CEO Ma Dong hosted and produced multiple programs for traditional TV media such as Hunan Satellite TV and CCTV. COO of MeWe, Mu Di, previously served as the overall director of the variety show *Joy Street* on CCTV's integrated channel and was the youngest overall director at CCTV. The production team of *Joy Street* followed her to *I Can I BB*, and later Mu Di, as the executive producer and chief producer, launched the phenomenal music variety show *The Big Band*. After years of experience on traditional media platforms, the core production teams of major programs, represented by the Ma Dong team, have a high pursuit of refined content production. Through long-term experience in traditional media, they have gained a lot of industry experience and resources required for various productions. Ma Dong has also served as the Chief Content Officer at iQIYI, accumulating understanding in the areas of network video production form and network dissemination characteristics. As a result, they are able to fully adapt to the current Internet environment, break free from the framework of traditional program production, and make content more entertaining and interactive in their selection. All creative inspiration is also easier to achieve on the platform of a

video website. Thus, while ensuring content quality, they are more flexible and creative, becoming a solid guarantee for the level of Internet content production.

#### 4.1.2.2 High level of commercialization

The production of professional content on video websites shows a high level of commercialization, which is manifested in the standardized features of variety shows and the typified features of TV dramas.

Mode and standardization are different, but there are also some similarities: successful variety shows create a borrowable pattern and are sold in the form of copyright, which brings about the standardization of variety shows. This standardization is manifested in the fact that although the specific content types of current variety shows are different, the basic elements are relatively fixed, and successful themes and their production modes will be replicated again and again. From the perspective of model source, on the one hand, several major video websites have introduced and borrowed mature variety show models from abroad, for example, several major video websites have introduced the copyright of the *Produce 101* series from South Korean Mnet and launched multiple competition shows of boy and girl groups such as *Idol Producer*, *Youth With You*, *We Are Young*, *Produce Camp* and so on. Mango TV, Tencent Video, and other platforms have introduced the basic model of observational variety shows, using a combination of recording and guest commentary from an observation room. Mango TV has introduced the Korean variety show models of *Crime Scene* and *The Great Escape*, and launched *Who's the Murderer* and *Great Escape* which have received the audience's approval. On the other hand, there are also many original innovations, such as iQIYI's band competition

variety show, *The Big Band*. After gaining recognition and popularity in the program format, it enters another stage of standardizing variety show format, by fixing the same format and forming IP effects through seasonal broadcasting. For example, Tencent Video's *Produce Camp* has four seasons, Mango TV's *Who's the Murderer* has seven seasons, and iQIYI's *I Can I BB* has seven seasons. They have formed stable audience groups.

However, one important problem that comes with standardization is the homogenization of content. Talent shows are rampant, with at least 400 boy and girl idols participating in the competitions on the major video websites each year. The content of shows such as Mango TV's *Who's the Murderer* has become difficult to create new stories, causing viewers to experience extreme visual fatigue. Variety shows have established a fixed pattern, making it difficult to provide viewers with an "unexpectedly surprising" experience. Overreliance on standardized modes will lead to the loss of novelty, which will also cause a loss of audience and traffic, resulting in a decrease in revenue. Therefore, how to improve the ability of content innovation, combine mature models with localized innovation, and enhance user stickiness is also a question that major video websites need to consider.

The categorization of TV dramas is another manifestation of the commercialization of professional content production by video websites. Type theory is an inevitable development in the artistic process, as humans have a habit of classifying things with similar properties. Classification is actually an accumulative, historical and diachronic activity. "Only through the precipitation of time can things gradually be classified." (Zheng, 2006) Firstly, the typification of film and television dramas is not only expressed in artistic form,

but also in content themes and social values. In other words, the typification of television dramas includes a fixed pattern of plot development, and the values conveyed are all positive and upward. The advantage of typified film and television dramas is that they have a relatively fixed audience group, and stories can be structured according to a specific “format” to accurately target the audience and “supply according to demand”. For example, the audience for mainstream film and television dramas may be more mature, while idol dramas may be more popular among younger people, thus ensuring expected viewership. Typed film and television dramas can therefore more accurately subdivide the market, and promote the improvement of the professional level of TV dramas and the maturity of genre classification.

However, similar to variety shows, on the one hand, fixed plots and specific genres have to some extent degraded the artistic value of the works, turning them into products with the industrial characteristics of an assembly line. The so-called production line of video website content is actually an industrialized layout imitating Hollywood film and television enterprises such as Universal, Fox, and Disney. It uses a production model of an assembly line to finely and normally complete the production of content. In this context and trend, iQIYI is also constantly pursuing the path of industrial development. Specifically, its efforts focus on two main aspects: on the one hand, there is a continuous update in the management system, with the industry chain constantly being subdivided and refined, leading to the establishment of a series of studios. For example, currently, iQIYI has nearly 20 drama studios, and each team relies on their own expertise in project operation and management to specialize in certain genres of dramas, thus enhancing their capability in selecting IPs, operating and managing

them. On the other hand, technology is used to empower and continuously develop new technologies to make content production more intelligent and data-driven. Compared to the former, this is a long-term task that video websites have to face, but it also means that video websites are beginning to enter the upstream business of the video production industry. The intelligent production system developed by iQIYI mainly has three functions: firstly, rely on big data to develop business intelligence systems, and complete the work of script, casting, and IP value evaluation through technology and data; secondly, digitize the process and integrate the production system with research and development only; thirdly, develop intelligent production tools to provide on-set tools and post-production quick selection tools in order to improve work efficiency. Therefore, overall, iQIYI's industrialization of production mainly relies on two paths. One is to systematize and institutionalize the production process, fully stimulate and mobilize productivity through studio-based specialization, and then carry out typed production of video content. The other is through technological paths, rationalizing the process of selection and decision-making through people, and striving to rely on big data and relatively objective ways to help video content production become more market-oriented and efficient in completing content production work.

However, in the competitive landscape of Chinese video websites, video websites face competition pressure from other websites, television stations, short video platforms, etc., so they need to constantly pursue commercialization and unfold highly competitive industrialization and commercialization. However, this also brings about some new problems: for example, content creation is susceptible to falling into the trap of homogenization and

standardization. Therefore, getting rid of the negative competition brought by homogenization will always be the goal that professional creative teams need to strive for and work towards.

#### 4.1.2.3 IP-based operation

Obvious IP-based operation is another feature of professional content production by video websites. IP or intellectual property refers to literature, music, cartoons, online dramas, and so on. Once a premium IP work has gained a significant fan base, it has the potential for exponential growth in both popularity and commercial value. This can be achieved through the continuous expansion of its industrial chain and the identification of new development channels, such as games, movies, e-commerce, and more. For example, after a long time of in-depth exploration in the field of IP development, iQIYI put forward the “one IP, multiple products” model. From *Light On* to *Universe* to *China Ancient City Universe* based on the *Feng Qi XX* series, iQIYI’s IP layout covers both online and offline fields, including art exhibitions, murder mystery games, VR immersive movies, and so on, and spanning various content forms, thus realizing the multi-directional value unleashing of IP works. Recently, iQIYI has launched murder mystery games adapted from *Light On*’s classic play scripts *The Pavilion* and *Who is the Murderer*. According to data from iQIYI (2022), the murder mystery game *Who is the Murderer* has been played over 400 times by more than 5,000 people since its release at the end of January. On average, each time of game lasted 4.5 hours, and each game shop provided services for the game about ten times. iQIYI has successfully carried out IP commercialization by leveraging the suspenseful storytelling elements of *Light On* dramas and incorporating them into current popular murder mystery games.

Therefore, making full use of IP work characteristics to develop IP works in a chain-like way is beneficial to deeply exploring content and realizing the value of IP works. This is also an important and constructive direction for content operations.

#### 4.1.3 Process of professional content production

Globally, Netflix has established a relatively complete in-depth independent platform management model, which is aimed to realize the concept of “global content rights forever, on everything”. Relying on its sophisticated project management capabilities, Netflix has gradually transitioned towards an independent management model in the process of professional content production. This has allowed it to control the entire content value chain while ensuring production capacity and improving efficiency by leasing and purchasing production facilities. To build an exceptional talent team, Netflix employs a multi-pronged approach: It selects creators in chief in advance, launches talent cultivation programs, offers competitive salaries, and fosters a free and responsible corporate culture. To increase the number of deeply self-made dramas under platform management, Netflix has built a 30-person cross-functional team to supervise production and review content. Netflix, as a data-driven company, also capitalizes on various indicators and models to get access to insights and forecasts. Additionally, it develops analytical and management tools that help to improve performance and efficiency, thereby gradually developing key capabilities covering all value chain links. By involving itself in every aspect, Netflix has achieved whole-process control over professional content. At the initial stage of production, it undertakes the role of reviewing play script ideas or preliminary scripts from creation staff and cooperates with

a production company that will be responsible for production execution while Netflix's platform assumes the controlling role. Netflix provides daily or weekly support for project reviews and updates so that dramas are reviewed on the creative and technological content levels episode by episode, ensuring content review and creative content quality of each episode. Concurrently, the production company focuses on content production while providing on-site supervision of the production process and its execution. Under this model, Netflix has obtained the exclusive content right in all markets, which leads to the optimization of cost control and also allows it to kill projects that fall short of expectations early and have more control over content production.

In fact, video websites worldwide are on the track of strengthening control over copyrights and content production. In this context, Chinese video websites, after more than a decade of development, have also established a mature and complete process of professional content production, which facilitates scientific whole-process decision-making and judgment for professional content, optimizes production efficiency and quality of professional content by dint of technologies, and reduces costs while increasing profits.

Taking iQIYI's drama *Wild Bloom* as an example, this paper will analyze its entire process of content production. *Wild Bloom* is a popular TV drama released in 2022. It follows the entrepreneurial journey of three partners who start with nothing, collecting and recycling scrap steel, and gradually transition to the steel industry. Along the way, the trio looks for their careers between state-owned enterprises, multinational enterprises, and privately-owned Chinese enterprises. The drama portrays the rollercoaster ride of entrepreneurship, exposing the brutal realities of the business world, and depicting the



protagonists' inner conflicts and struggles between their conscience and pursuit of profits, and between their humanity and capital.

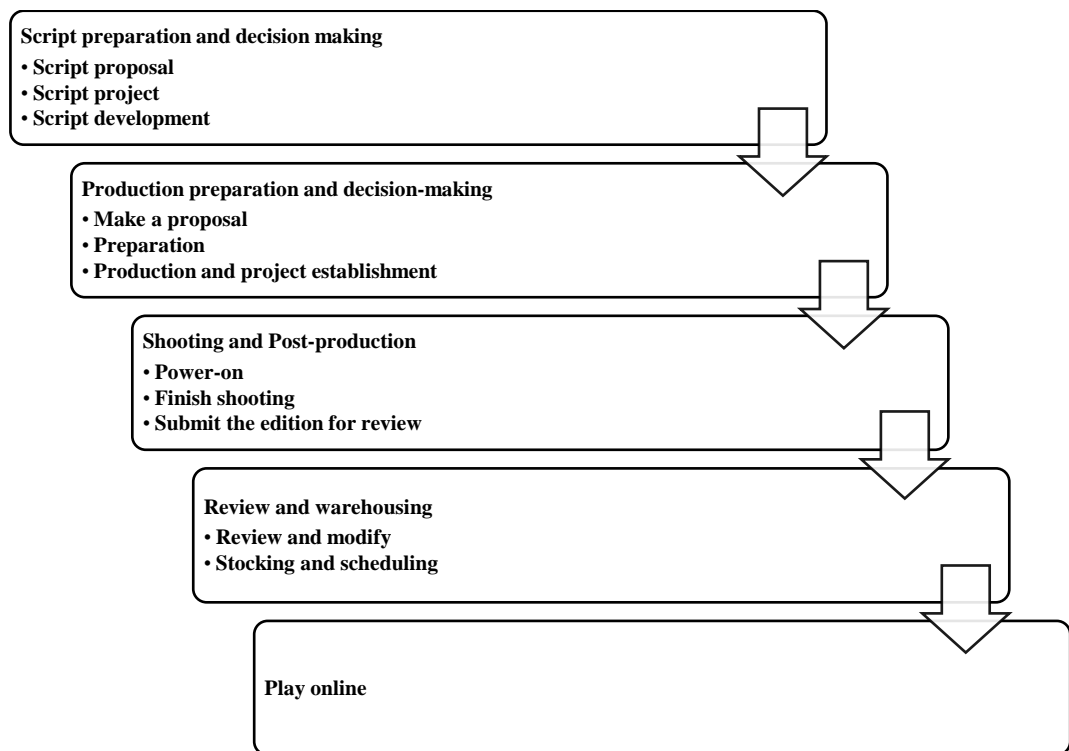


Figure 4.1 iQIYI's complete process of content production

This drama is also a representative example of novel adaptation, showcasing the process of China's IP operations in recent years. The figure above illustrates iQIYI's whole content production process, which can be roughly divided into five stages: script development and decision, production preparation and decision-making, post-stage of filming and production, review and archiving, and online release. Each stage of the production process has its own specific goals and tasks. The primary objective of the script-related stage is to evaluate the IP, and the content team will scrutinize content creation ideas, among which the approved ones will progress to the script approval stage, starting the long-time process of script development. Following the script development, the content team will assess its quality based on various factors

such as professionalism, marketability, and risk. This evaluation process will entail a thorough review of the script, followed by a rating assignment and cost analysis. Content that successfully passes the rating and cost analysis phases will be considered for approval and production. iQIYI has a content rating system consisting of several levels, which are S, A+, A, and B. Based on the assigned rating, iQIYI determines whether to approve the content for production and provide financial or other resource support. *Wild Bloom* underwent an incubation period of over three years before its final release, which included two years of script preparation and four months of production preparation. The most time-consuming stage was the script development phase, which lasted for over 400 days. This also indicates that the evaluation and review in the decision-making stage are crucial.

During script preparation and production preparation, the content production draft will undergo a step-by-step refinement process. For example, the novel IP *Wild Bloom* will be submitted to a script proposal review by an evaluation team consisting of the content studio leader and the content middle office. The evaluation team will assess the project from aspects such as subject matter, market performance of existing IPs, story and character development, creative team proposals, post-production monetization potential, and policy risks. In 2019, this IP received a recommendation rate of 64% during the proposal stage and subsequently entered the project establishment phase. After the script project was established, the screenwriter and director were officially confirmed and they started developing and writing the script. After an extended period of scriptwriting, the script would be evaluated. During the evaluation stage, the decision-making process for *Wild Bloom* will not only involve

finalizing the script but also selecting the male and female leads and confirming the sponsor for the entire filming of the TV series. This has led to a relatively complete preparatory plan. The creative team will present their proposal at the production proposal meeting, where studio executives and content middle office will still be responsible for the final decision-making. However, the evaluation criteria will be expanded to include aspects such as creative proposals, script evaluation, cost plans, revenue projections, and shooting schedules. This reveals that during the production stage, the evaluation and assessment of professional content on video websites have transcended the boundaries of simply evaluating the content itself. It now encompasses a wider range of factors, including the appeal of the content (such as scripts and actors) to users, as well as its commercial value and potential. At this point, the preparation phase moves into the production preparation period, and professional content begins to progress according to the business plan. Ideas and plans need to be developed and confirmed regarding the revenue, expenses, and profitability of content production. During the production proposal meeting for *Wild Bloom*, it underwent a comprehensive evaluation of the overall proposal. As a result, its recommendation rate increased from 64% to 90%. Following an assessment of the script based on text, review, and production levels, *Wild Bloom* was awarded one of the top three ratings in recent years. This indicates that the TV drama has a significant potential to become a high-quality product in terms of its script, cast, and revenue generation. After the production proposal meeting, the shooting costs were continuously refined and optimized, eventually resulting in a cost reduction of nearly 20%. Finally, the project underwent evaluation through a combination of human and artificial intelligence (AI) evaluation. The

cost rate was determined by estimating revenue from advertising, membership, and distribution. Based on this evaluation, a decision can be made regarding the feasibility of proceeding with production. AI evaluation refers to the use of accumulated data from past broadcasts and AI algorithms to predict market feedback for TV drama content. *Wild Bloom* has been rated as High A+ by the video website middle office. Therefore, from an overall standpoint, the preparation and decision-making stages of content creation mainly involve multi-level and full-process quality control of content. The content team screens ideas, evaluates film and television IPs and scripts, exercises risk management oversight, controls production costs, and ultimately leverages “beings+AI” methods to complete the planning and control work in the early stage.

For professional content, it usually takes around a year to shoot and produce as well as get approval. *Wild Bloom* underwent a filming period of approximately five months, followed by four months of post-production work, and then a four-month review process before it was finally released. While filming a TV drama, the production team simultaneously begins executing relevant marketing and teaser campaigns in preparation for the content’s release. During the marketing process for *Wild Bloom*, there were more than 50 interested parties. Character relationships and other materials from the drama were continuously shared on social media platforms, generating buzz and leading to 21 Weibo trending topic nominations. Throughout the filming period, official behind-the-scenes videos as well as fan-made videos helped generate buzz around the upcoming drama. This resulted in the series receiving over 2 million pre-orders before its official release. Through pre-investment and promotion and operation on video websites and social media platforms, fans of

the IP, celebrity fans, and drama fans have high expectations for the TV drama. At this point, the early-stage filming and post-production of the TV drama have basically ended and it's entering the stage of content review. The Chinese government has a strict screening process and mechanism for the content on video websites. Industry experts are invited to screen the ideological and moral issues, as well as the so-called directional issues, of TV dramas. Therefore, during production, video websites also allocate sufficient time for content review, which adds to the overall production cost. *Wild Bloom* went through seven rounds of review lasting 124 days. iQIYI also organized multiple viewing sessions and made adjustments to the content based on feedback from various stakeholders. As a result, iQIYI decided to increase its estimated revenue by 30%, and the drama was upgraded from High A+ to S-level. Soon after, the drama was broadcasted simultaneously on ZJTV and JSTV. In recent years, simultaneous broadcasting on both TV and online platforms has emerged as one of the most popular strategies for broadcasting TV dramas in China. Dual-track broadcasting can reach the largest possible audience, breaking through circle barriers and appealing to viewers of all ages, thus achieving maximum efficiency.

After *Wild Bloom* was broadcasted, it performed as expected. Maoyan, a Chinese film and television data platform, reported that *Wild Bloom* achieved great success following its initial broadcast. The drama earned 17 spots on Maoyan's total TV drama popularity chart, and there were a remarkable 1795 hot search topics related to the show on various social media platforms. Such achievements made it one of the most popular dramas of 2022. This also indicates that, with more than a decade of professional production experience,

video websites can accurately predict the popularity of their content and audience feedback, and control the revenue generated by each drama on their website. Indeed, this further confirms the success of video websites in producing professional content with a focus on refinement, data, commercialization, and IP. The optimization of content production is an important part of video websites' continuous adjustment of their business models. From a macro perspective, the business model of video websites revolves around the attention economy. At its core, this model involves a constant effort to balance the relationship between production costs and broadcast revenue. To strengthen their user base, video websites continuously strive to lower production costs and unlock revenue potential through dual pathways. This approach provides video websites with greater profit opportunities in the face of intense and limited competition. In terms of professional content production, video websites aim to continuously optimize their business models by focusing on "limited increment" and "stock optimization." This approach is designed to enhance user power and improve the overall user experience. The early stage focuses on the content, while the later stage emphasizes marketing. By following a dual-track production approach that combines content creation and marketing, and leveraging precise cost-benefit calculations and computer-assisted decision-making, video websites can maximize the effectiveness of professional content.

#### 4.1.4 The dilemma of PUGC

Since the Web 2.0 era came, the decentralization of the internet and the empowerment of technology have given users greater creative freedom. Especially in the new media era, UGC has become increasingly important in the content production field. The social nature of video content has been stimulated,

and a circle-based and community-based content consumption market has been gradually formed. (Tian, 2021) However, the PGC of professional video websites such as iQIYI still holds an important position. The mutual relationship between UGC and PGC and their corresponding production modes have become a primary concern for digital audio-visual researchers. In contrast to the traditional media era, where products held a core position, the modern era places audience labor at the forefront. (NIXON, 2014) In this environment, there has been growing interest in PUGC, which is a hybrid content production mode that differs from both pure UGC and PGC. The PUGC mode strengthens the personalized production features of users while integrating professional production into individualized creation, greatly enhancing the quality of video content.

As a successful PUGC video community in China, Bilibili adheres to a circle-based and social development strategy. Since 2018, Bilibili has implemented a “Creator Incentive Plan” for qualified uploaders, providing rewards and establishing an official “Creation College” to guide ordinary users to learn professional skills, gradually transforming itself from a UGC video community to a unique PUGC one. According to Bilibili’s 2020 Content Marketing Report, uploaders were the most loyal users on the platform and the main force behind content production. They provided 90% of the PUGV (Professional User-Generated Video) content on the platform, forming a virtuous ecological loop of “uploaders-PUGV-community genes-fans attracted-community genes”. This has led to a prosperous situation where PUGV accounted for 90% of the total video views, and the monthly active uploaders grew by 93% YoY while the monthly active uploaders’ contribution rate

increased by 83%. (Bilibili, 2020) According to Bilibili's 2021 annual report, the platform had an average monthly active user of 271.7 million in Q4 2021, and users spent an average of 80 minutes per day on the app in 2021. This shows that the content production and circle-based operation characteristics of Bilibili's PUGC mode have created strong user stickiness, allowing Bilibili to gradually occupy more market share and become a competitive player in the highly competitive video website industry, despite its initial focus on the ACG subculture.

But at the same time, a series of issues of the PUGC mode has gradually emerged. Firstly, when compared to video streaming websites like iQIYI and Tencent Video which primarily focus on PGC, it is not clear where the profit point lies for PUGC. On June 20, 2022, @Goushou Laodaye Dengken (literally Grandpa Duncan with Bent Hands), a Bilibili user, uploaded a collection of videos titled "Top 10 Unsolved Mysteries of the World". This series marks the first paid video collection on the entire Bilibili platform. To access the series, users must pay RMB 30 for the entire set of 10 videos as they cannot be purchased individually. As of August 2022, only six episodes of the series have been released with less than 20,000 views per episode. Additionally, it appears that the uploader's experiment with paid content has had a negative impact on their number of followers, which has decreased since the release of the series. The recent release of the video collection has raised concerns among netizens. Some are of the opinion that the content is not worth the RMB 30 price tag, with many criticizing the series for being a mere compilation of internet materials that fall short of the professional standards expected at such a price. This suggests that, in terms of content quality and copyright concerns, the videos



currently offered may not be adequate to generate significant profits for Bilibili on a large scale. Unlike YouTube, Bilibili has not developed a comprehensive commercial system and instead relies primarily on the self-interest and efforts of its uploaders. Looking at income structure, iQIYI serves as a good example. Based on the company's publicly released 2021 annual report, its primary revenue streams came from membership fees and online advertising generated by professional content production. These two channels accounted for 54.7% and 23.1%, respectively, of iQIYI's total annual revenue. (iQIYI, 2022) For Bilibili, its main sources of net income are mobile games, value-added services (membership subscription fees and live stream donations), advertising, e-commerce, and other sources. Regarding its primary sources of revenue, Bilibili's PUGC uploaded by its users has not generated proportionate income despite the platform's large scale. Consequently, the company has not fully realized the commercial value of PUGC. Furthermore, as previously noted, the trial of paid videos has yet to demonstrate a mature and feasible environment for practical implementation. In terms of Bilibili's operating mode, revenue sharing is the primary source of income for uploaders, but it is not the primary contributor to company profits. In short, further exploration is required to fully leverage the benefits and commercial potential of Bilibili's PUGC.

The absence of clear revenue streams also presents a challenge in converting a significant portion of Bilibili's PUGC into a sustainable PGC model. From a capital perspective, there currently does not appear to be a viable or established method for securing investment in PUGC production. Additionally, there is a lack of well-developed monetization channels for these types of content to support their growth as an industry. From a content

standpoint, PGC places a strong emphasis on producing professional-grade content and places significant value on maintaining copyright protection and ensuring the scarcity of its content. As a result, PGC has established higher standards for content quality and implements more rigorous review processes to uphold the overall quality of its content offerings. Although Bilibili's PUGC combines users themselves and professional production, its core remains personalized content created by uploaders. However, when compared to PGC, the professionalism of PUGC is relatively limited and the variety of content is not as extensive. Thus, a complete transformation into professional content produced solely by a professional team may not be feasible or desirable. From a content creation perspective, Bilibili primarily functions as a platform for uploaders to publish their videos and does not exert control over their creative process. As a result, Bilibili occupies a passive position that can make it challenging to facilitate significant transformations.

The two primary methods for content production on video websites are UGC and PGC. UGC provides users with complete autonomy and flexibility, leading to the initial success of video websites. However, as these platforms have continued to evolve, competition for views and traffic has made PGC increasingly mainstream. Video websites are now investing significant funds and resources into acquiring copyrights and developing IP, leading to a new wave of growth in the industry.

To ensure the quality of PGC, many video websites have started hiring production teams from television stations who are experienced in the system. This has led to a noticeable commercialization of content, with standardized features being employed in variety shows and TV dramas produced around

several basic themes. While this approach meets the diverse viewing needs of users, there is a concern that assembly line production may result in a lack of industry innovation capabilities and an increase in homogenization. It is worth noting that “IP-ification” operations have become an important trend in PGC. Developing the entire industry chain around an IP can not only extend the life of the IP but also bring more diverse monetization opportunities. However, this also brings deeper considerations for IP operation in the industry.

In addition to traditional PGC and UGC content, a new form of content called PUGC has also emerged. PUGC combines both modes of content creation and is exemplified by platforms like Bilibili. While PUGC combines the strengths of both UGC and PGC and provides users with high-quality content that meets their personalized needs, there is currently a lack of clear profit points for platforms utilizing the PUGC model. Furthermore, the unique characteristics of PUGC and its production costs make it challenging to transition towards more professional commercial development such as PGC. Therefore, it is crucial to deeply consider the direction that the PUGC model should take in the future.

#### 4.2 Which should be the primary focus? Controversies in content production and operation of video websites

As content production on video websites continues to evolve, it is leading to a constant reevaluation of production concepts and operating methods for streaming media content. This has resulted in controversies and new forms of content, which have become an integral part of the dialectical relationship that must be addressed in both practical and academic contexts. This paper will discuss three main relationships and controversies.

#### 4.2.1 Is content king or operation king?

How should we view the relationship between content and operation during the process of video content production on video websites, and which one is more important? The discussion regarding this issue has been ongoing as video websites continue to grow.

During the development of Netflix, the company follows a two-pronged approach. On the one hand, it produces high-quality content through rigorous script quality control in both preparation and production stages. This entails evaluating and providing feedback on scripts using data analysis, offering off-site project management support during production, and creating a cross-functional team of approximately 30 individuals to oversee production and content review. On the other hand, during the promotion stage, it operates and markets content by developing effective marketing strategies. With the support of content and marketing, multiple platforms have been able to produce deep self-produced dramas such as *Stranger Things* as a representative. From a global perspective, the dispute over content and operation and the balance between these two aspects on video websites continue to persist. Indeed, this controversy also exists in the development process of Chinese video websites.

Undoubtedly, content is the lifeblood of video websites, serving as the cornerstone of their competitiveness and the foundation upon which they depend for survival and development. High-quality content can provide a reliable user base, generating stable traffic for video sites and establishing a positive brand image. Consequently, creating high-quality content is paramount to the growth and development of video websites. Using iQIYI as an example,

the company actively produces high-quality content by enhancing its original capabilities and creating unique, quality content. Additionally, it invests significantly in copyright acquisition and improves the overall quality of its content through various means. I once expressed in an iQIYI event that content has unique spiritual and value attributes in addition to its commercial attributes. To truly satisfy the sophisticated spiritual needs of today's users, content creation must capture the essence of our time and popular sentiment while staying true to its original purpose of praising our nation, people, and heroes. This approach allows us to resonate with users on multiple levels and dimensions. (iQIYI, 2021) In early 2023, iQIYI and CCTV Drama Channel jointly aired the TV drama *The Knockout* which tells the story of China's over the 10-year-long fight against organized crime. The high quality of the series has made it a "phenomenal" TV drama in the Chinese market, receiving extremely high praise and popularity. Such high-quality content has led to a surge in the number of iQIYI's subscribers, which surpassed 120 million after the TV drama was released. The excellent content quality has also had a positive impact on the company's stock price. On the day of the final episode's broadcast, iQIYI's stock price rose by 9.10%, indicating the significant benefits that high-quality content can bring. It is clear that content creation is a top priority for iQIYI, as the platform strives to understand users' spiritual needs fully. By precisely targeting and intimately understanding its audience, the platform resonates well with users in content selection, effectively capturing their interests from the start of the creative process and taking the first step towards successful content creation.

At the 2021 iJOY Conference, iQIYI announced plans to launch various

programs, including *Super Sketch Show* and *The Detectives' Adventures 2*, in response to the living conditions of young people from multiple dimensions, encouraging them to be brave, firm, and pursue their desired life. In terms of dramas, the platform has planned to release quality series such as *A Lifelong Journey*, *Love Between Fairy and Devil*, and *Light On* series, which convey positive spiritual power and reflect on historical and cultural changes while focusing on the growth of the national spirit. In the process of content creation, high-quality TV dramas serve as the standard. Over 70 content studios have been established, and deep cooperative relationships have been forged with numerous film and television creators as well as artists, including directors, actors, screenwriters, cinematographers, and art designers, to ensure the quality of content production through professional teams. The collaboration between topic selection and production has significantly enhanced the quality of iQIYI's content.

However, operations also provide opportunities for high-quality content to reach a larger audience. If the content is the foundation, then operations serve as the guarantee. Operations centered around the core of content IP, and combined with the unique features of each IP extend and amplify the value of the content. iQIYI's IP operation serves as an example. First, in order to fully realize the core value of IP content, it adopts an exclusive or joint broadcast mode and tries to maintain differentiation from the content of other platforms. Besides, it develops the membership system to satisfy users' demand for new and different viewing experiences and fully attracts users through the methods of "VIP Preview" and "VIP Exclusive". In terms of program scheduling, iQIYI fully takes user demand as the basis, and multiple dramas and variety shows on

the platform form a broadcasting matrix to avoid user churn and enhance the continuity of programming as much as possible. Meanwhile, iQIYI has fully utilized its platform advantage and achieved the circle-based, segmentation, and scaled operation of genre dramas by launching the “Theater Mode”. In addition to the main content, iQIYI fully taps into the potential of the IP content and enhances user stickiness by releasing spin-offs, behind-the-scenes footage, and other forms. Furthermore, iQIYI has increased fan stickiness through community engagement, by inviting actors and guests from currently popular drama and variety shows to participate in real-time bullet comments, as well as launching a dedicated community Paopao Circle within the Paopao Community to encourage massive discussions on plot developments. This product helps to create a gathering place for fans, greatly enhancing their stickiness either to the IP itself or to the platform.

In the extension, development, and operation of IP, iQIYI has also made more diversified and innovative development attempts based on various high-quality content. Based on the trendy variety show *FOURTRY Season 2*, the fashion brand Fourtry launched nearly 300 products, including shoes, clothing, and accessories. During the show’s broadcast, it saw online sales exceeding RMB 13 million, attracting a large number of fashion-conscious consumers’ attention. Leveraging the show’s popularity, iQIYI continues to operate Fourtry on its platform, maintaining a regular update schedule to provide users with more consumption options. Drawing inspiration from the sweet and healing style of “Sweet On”, iQIYI introduced the product PDC “Sweet Mystery Box”. Based on the offline scene of the TV drama *Luoyang* and the urban culture of the city of Luoyang, iQIYI has worked with the Luoyi Ancient City in Luoyang

and developed a themed murder mystery game, VR experience, and hotel. In addition, iQIYI has also launched products such as clothing, pop-up books, and toys developed from IP derivatives such as *The Rap of China* and *The Bad Kids* to meet the diverse consumption needs of different user groups. iQIYI relies on its deep insight and understanding of young people to operate its content and fully taps into the commercial consumption potential of high-quality IPs through methods such as IP authorization and offline scene creation.

If high-quality content attracts users to the platform, good operations can make users become loyal to the platform. Relying on high-quality IP content, iQIYI has opened the doors to the market, and its strong operational capabilities have maximized the market value of IP. Therefore, the crux of the debate is whether “operation is king” or “content is king” should be focused on how to create high-quality content and use operations to promote widespread recognition of that content.

Choosing between content and operations is never a simple decision, so platforms should fully explore high-quality content by leveraging the expertise of professional teams to create a strong core of the content. In addition, relying on this content core, platforms can utilize reasonable broadcast modes and scale operations of their drama types through iQIYI’s mature membership system to fully leverage the strengths of the content and form a fan stickiness for IP or the platform itself, thereby continuing to develop the IP industry chain and extend the life of the IP. This allows the content to be “seen” and the IP to continue to exert its influence for driving the growth and expansion of the entire platform.



#### 4.2.2 Is originality king or mode king?

Another important discussion regarding content production on video websites is whether “originality is king” or “mode is king”. On the one hand, originality can provide video websites with a constant stream of content production; on the other hand, mature modes can bring relatively stable revenue guarantees to video websites. Therefore, I believe that originality can make video websites more dynamic, but at the same time, it is also important to be insightful to introduce relevant modes.

To produce high-quality original content, it is crucial to have a strong understanding of user preferences and needs. It’s important to delve into their spiritual world and understand their innermost desires. Ultimately, producing top-notch content is the foundation for the success and longevity of any video platform. Taking iQIYI as an example, the platform pays close attention to the emotional trends of the times and reflects the spirit of the times in its original productions. “Focusing on the spiritual attributes of content will become the key to all of iQIYI’s future content creation.” In creating variety shows, iQIYI adheres to the principles of “meaning greater than form, mainstream greater than diversity, leading instead catering, and sincerity over image”. It fully caters to the current state of young people and encourages them to be brave and steadfast. iQIYI showcases various stages of life such as relationships, work, and interests from different perspectives and circles, while also striving for excellence in focusing on a single theme. By doing these, iQIYI has built high-quality “originality” into its new brand.

On September 15, 2022, iQIYI announced its 2022 variety show lineup (as

shown in the table below) at the iJOY Conference, demonstrating diversification in original variety show genres, including stage performance competitions, life healing, fun games, and cultural trends. Among them, the stage competition category attracts users' attention with a variety of entertainment forms, involving various music genres such as folk music, rap, bands, and street dancing, which can fully meet the needs of different hobby groups. The life-healing category is presented in various forms, focusing on the living conditions of different groups. It takes the needs of young people as the starting point to present the current life and hobbies of young people from multiple perspectives: *Mr. Housework 4* continues to focus on the position of men in the family, *The Secret X 2* focuses on contemporary youth romance, *Embrace Love Again* focuses on new family relationships, and *Be With You 3* focuses on brotherhood and sisterhood. *Chasing the Wind*, *Adventures in Winter*, and *Camping LIFE 2* fully observe the interests of young people and integrate popular entertainment activities such as road trips, skiing, camping, and more with original variety shows, thereby providing comprehensive care and attention to young people. iQIYI fully utilizes innovative ability in the fun game category to further enrich the program format and content and satisfy the entertainment needs of young people. At the same time, iQIYI's original variety shows can fully reflect the times and pursue the core spirit of originality. They have launched cultural trend-themed variety shows that not only focus on current trends but also incorporate rich Chinese traditional culture. One example is *Glory Is Back! Beijing*, which continues the "Glory Is Back!" series' concern for cultural heritage, and combines with the rich history of Beijing's central axis culture, has achieved a balance between the spiritual and entertainment attributes of their

original variety show content and a mutually beneficial outcome. In addition, in the process of creating original variety shows, iQIYI also combines current trends and emerging technologies. For example, *Memoon Player* caters to the currently popular concept of the metaverse and uses virtual reality technology to create a virtual world on the moon within a studio. Using motion capture technology to generate virtual characters, the variety show allows audiences to immerse themselves in the scene by wearing VR glasses to enjoy it. This is a major innovation in the format of iQIYI's programs. From the current lineup of variety shows, it can be seen that iQIYI's original variety shows satisfy different groups' interests, combine with current social hot topics, prioritize both entertainment and societal values, and incorporate new technologies. As a result, iQIYI has established its own brand in the field of original variety shows, gained a good reputation, and received wide recognition from audiences. For instance, *Super Sketch Show* is one example of an original variety show that has achieved both high popularity and positive reviews.

Table 4.1: iQIYI's 2022 IJOY Conference Variety Show Lineup

Program Type	Program Name
Stage performance competition	<i>Memoon Player, Folk 2022, The Rap of China 2023</i> <i>The Big Band 3, Battle Street Dance</i>
Life-healing	<i>Chasing the Wind, Adventures in Winter, Mr. Housework 4, The Secret X 2</i> <i>Embrace Love Again, Be With You 3, Camping LIFE 2</i>
Fun game	<i>Super Sketch Show 2, Young Man, Let's Farm, Super Fun Human Conference</i> <i>Interesting Short Film, HAHAAHAHA 3, The Detectives' Adventures 3</i> <i>The Girls' Travel, WARRIOR GIRLS, GIRL</i>

Besides, a professional creative team provides talent assurance for the improvement of iQIYI's original content quality. IQIYI adopts a 'studio strategy' that combines unique innovative genes, bringing together a large number of excellent producers and professional talents to achieve innovation in program themes, formats, and value output. This, combined with IQIYI's innovative culture and internal mechanisms, allows for a continuous enrichment of its content offerings. At present, iQIYI has over 70 content studios for content creation, establishing a mature and complete self-produced drama production system to promote high-quality content.

iQIYI's strategy for TV dramas involves focusing on long series and short dramas, prioritizing the power of good storytelling, and providing support for screenwriters. They also aim to fully utilize the brand value of short drama subcategories and constantly innovate in this area. In addition to their ongoing efforts with "Light On", they are promoting various high-quality short drama brands, with the goal of creating a healthy content ecosystem. In terms of long series, iQIYI has developed a series of continuation modes, character connections, and shared themes. Whether it is serialization or theatrical release, it creates a long cycle for content and fully upgrades its value. This not only brings higher commercial value but also fosters long-term emotional connections with users. In the field of variety shows, iQIYI has strategically developed five major tracks, focusing on Generation Z and launching diverse online variety shows that cater to their multi-faceted demands for content. These

shows aim to create emotional connections and value resonance while also taking into account individual preferences. In addition, iQIYI is actively expanding into multiple areas such as children's programming, animation, and documentaries, improving domestic production capacity for Chinese animation, launching high-quality original children's content, and gradually moving towards internationalization. iQIYI also creates original IPs and prioritizes humanistic values, focusing on cultural diversity and forming a comprehensive ecosystem for original content.

However, high-quality original content requires time and effort to produce. Due to the long production cycle and relatively low success rate of work, it is difficult to maintain a steady output of original self-produced content. Therefore, acquiring mature content through copyright purchases and innovating through localization has become another way for iQIYI to continuously increase the platform's high-quality content.

In recent years, major video platforms have introduced a large number of new modes, with the most prominent being the introduction of variety shows. Mango TV serves as an example. In recent years, Mango TV has successively introduced a number of mature variety shows such as *Who's the Murderer* and *Great Escape*. The fourth and fifth seasons of the variety show *Detective School* also adopted the treasure hunt format from the variety show *Village Survival*, which has been well received by viewers. *Who's the Murderer* was introduced from the Korean JTBC TV show *Crime Scene*. The original show was a classical detective show, in which several guests played different roles and had different storylines. They searched for evidence to restore the plot and deduce the culprit using a logical reasoning format. After introducing mature program formats,

Mango TV has expanded its offerings to include a variety of genres such as science fiction, costume dramas, and Republican-era dramas in addition to the classical detective genre. This has greatly increased the entertainment value and appeal of the shows, with the added incentive of gold rewards further enhancing their enjoyment. Since 2016, the show has aired seven seasons and garnered a loyal fan base, making it one of Mango TV's most representative variety shows and sparking a nationwide "craze for murder mystery games". The show has successfully combined entertainment and social awareness by incorporating discussions on current social issues within its plot, such as raising awareness for depression and addressing campus violence, thereby achieving a win-win situation between entertainment and social issues. Starting from the seventh season, the show introduced a new segment called "The Great Detective Panel" at the end of each episode. This segment invites judges from the Supreme People's Court and sociology professors to provide legal and social analysis of the issues raised in the show. This addition has further enhanced the show's social impact, successfully introducing a new mode that not only enriches the show's content and format but also strengthens the social value of the show by combining it with China's current reality.

The ability to create original content is crucial for video websites to stay competitive and maintain their relevance. Original works are the most important aspect of differentiation in competition between video websites and other types of media. As a result, major video websites have increased their investment in the development of original content to strengthen their position in the market. However, the high cost and long production cycle of original content can easily lead to a situation where video websites struggle to make ends meet. Therefore,

in addition to developing original content, video websites are actively introducing new modes and engaging in secondary creative works. The mode introduction generates lower costs and can attract audiences by leveraging the stable fanbase of the original work. Therefore, to be successful in content creation, video websites must possess the ability to create original works and the vision to discover new ideas. They must constantly innovate their programming while also identifying and utilizing high-quality modes that cater to Chinese audiences with cultural sensitivity, which are challenging tasks for improving the innovation capabilities of video websites.

#### 4.2.3 Is self-production king or cooperation king?

Self-production and cooperation have now become two important paths for video websites to launch high-quality content. The main focus is on the cooperation mode of video websites in the content production process. For platforms, these two modes have their own advantages and disadvantages.

Self-produced content is an important source of current video website content, and it is also important content that can help video websites gain a strong position in the industry competition. Proactively creating self-produced content empowers video websites to control content quality. In the process of producing self-produced content, video websites can decide the content style and customize content works that meet the needs of the platform's users. Moreover, major video websites can to some extent reduce production costs by vigorously developing self-produced content. Self-produced content is also an important part of the differentiation competition for video websites, and high-quality self-produced content is crucial for platforms to establish their own

brand image.

iQIYI's self-produced content is taken as an example. Since the launch of its first self-produced content *Say Yes Online* in November 2011, iQIYI has actively developed self-produced content and built up a relatively rich content library and a series of self-produced products over the past decade or so. In recent years, iQIYI has been exploring the studio mode for self-produced content and frequently releasing popular works, thereby achieving autonomy and differentiation in content production. In 2014, iQIYI proposed the studio strategy and took a relatively elite route among video websites by inviting Ma Dong and others to form studios. This strategy achieved the basic goal of “integrating upstream high-quality resources, grafting top talents in the content production industry, providing high-quality and diversified content, and enhancing iQIYI's self-made content generation function” (Wang, 2022). Taking variety shows as an example, iQIYI has now formed various studios such as YOH Studio which produced *The Rap of China*, *Hot Blood Dance Crew*, and other super online variety shows; Little Monster Studio which produced *Youth With You* and *Super Sketch Show*; and Encore Studio which produced *The Big Band* and *I Can I BB*. Each studio focuses on different types of content, thereby forming different brand concepts, and together constituting the brand characteristics of iQIYI's self-produced variety shows. The studio mode can significantly improve operational efficiency, create an efficient content production chain, reduce and standardize cooperation with external companies, intuitively reduce project costs, and enable direct communication with external partners. Streamlining the production process also allows external teams to closely cooperate with the studio from the beginning of a project. Such a linear



production flow greatly enhances the efficiency of self-production, realizes deep integration, and fulfills the goal of “reducing costs while increasing efficiency”. For example, *ACTION* is a variety show that showcases the director’s working style and the operational process of the film and television industry. The show involves various complex and intricate job roles, and Tan Na works as the program producer and production manager. “The studio serves both the initiator and responsible party, with clear objectives, positioning, and responsibilities. The studio functions like a brain, linking up with external suppliers to become an efficient central communicator when calling upon external resources, ensuring the efficient operation of projects and opening up the door for iQIYI to cooperate with external forces (Tang, 2022).” From the proposal, approval, and filming to broadcast, iQIYI’s various large-scale variety show studios respond to market changes with sufficient sensitivity and rapid response capabilities, thereby turning proposals into practical and executable implementation plans. In addition, iQIYI adopts a “large middle office and small front office” mode in its auxiliary studio mode, providing a comprehensive middle office system including complete business marketing, publicity and operation, post-production, production and mode development, music copyright, offline activities, artist management, and other middle office departments to escort the front office’s large-scale innovation. Through this mode, iQIYI can establish a vertical management structure that covers strategy, operation, and monetization throughout the process of creating self-produced programs. Besides, technological means are also able to penetrate various stages of content creation. Meanwhile, various studios can help each other improve the efficiency and quality of program production. iQIYI has built a self-production mode

centered around studios, forming a complete industry chain. Each studio is able to fully grasp the initiative and control of program production, focus on developing and innovating their own content, and enhance their own brand as well as iQIYI's overall brand awareness and influence. "iQIYI Production" has become a guarantee of content quality. However, the self-production mode has some problems. In the early stages of development for video platforms, self-produced content achieved mass growth due to limited platform costs and talent, despite the poor production quality. However, since overall technical proficiency was limited, audiences' demands for content quality were not high. Yet, as competition between video platforms intensified, requirements for content quality grew increasingly higher. However, platform content costs remain limited, and producing high-quality self-produced content requires significant amounts of capital and talent investment. As a result, the limited costs involved have led to a greater risk of self-funding and loss. Although revenue from self-produced content can be obtained by the platform, if the content doesn't generate expected returns, the platform will also bear more risks.

The cooperation mode is another important way for video websites to produce content, and it has become an increasingly important component of video website content in recent years. This mode involves cooperation with companies from the upstream and downstream of the industry chain, as well as cooperation among video platforms. As the competition among video websites is getting fiercer, the demand for high-quality content is also growing. For video websites, using a cooperation mode for content production can share costs, as well as share revenue and risks. Unlike that the costs and risks are borne by the platform alone, the high costs of self-produced content can be shared by several

companies, thus reducing the financial burden of content investment. The allocation of costs also brings about the sharing of risks. Content production is influenced by multiple factors, and it is uncertain whether works will be liked by audiences. Although a precise understanding of user preferences can provide some guidance for content creation, literary works are subjective and risky investments. Adopting a cooperative model can mitigate risks to a certain extent. In addition, the cooperation mode is highly advantageous for fully integrating the strengths of multiple companies and producing high-quality content. Enlisting the services of specialized film and television production companies for content production, while entrusting platforms with tasks such as scheduling, broadcasting, and marketing, can lead to an overall improvement in content quality. The model of broadcasting across multiple video websites can attract a wider range of audiences from different platforms and allow each platform to leverage its advantages in advertising resources and other areas to promote the expansion of the content's influence.

For example, *HAHAHAHAHA*, the first domestic road-trip reality show co-produced and first broadcasted by iQIYI and Tencent Video, represents a new concept variety show that is jointly produced, broadcasted, exclusively shown, and commercially sponsored in rotation. The success of *HAHAHAHAHA* also represents a trend of cooperation and mutual benefit among video websites in China. In terms of content, *HAHAHAHAHA* explores a new form based on the long-term deep cultivation and innovations of iQIYI and Tencent Video in the field of content. The program features guests leading viewers to discover the unique characteristics of different cities after the pandemic outbreak, and integrates the core values of both platforms into its content, achieving originality

and high quality. The two platforms also utilize their own advantages to integrate resources. Tencent Video uses its group's strength and financial and technological advantages to explore new types of modes, while iQIYI focuses on precise audience operations. In addition, each of the two giant video websites has a large base of members, helping enhance the influence of their programs. Through their collaborative production, the two giants have not only broken down the barriers between platforms but also shared the benefits and risks, resulting in a win-win situation. This has provided new directions and breakthroughs for the development of video websites and has driven the overall development of the online variety show industry.

Unlike the self-production mode, the cooperative mode is likely to result in a decrease in earnings. The revenue obtained by video websites needs to be shared during various production stages by several major video websites, which leads to a reduction in content profits. At the same time, cooperation between various platforms to broadcast the same content may lead to the homogenization of content. For video websites, adopting a cooperative production mode for content requires the ability to implement differentiated scheduling and broadcasting methods, as well as multiple marketing and interactive methods to attract viewers and increase the attractiveness of the platform's content.

Self-production or cooperation? Actually, both modes have their advantages and disadvantages, so it is best to combine them to continually improve the competitiveness of video websites' content. It is necessary for a video website to continuously grow and develop by enhancing the differentiation of website content through the introduction of high-quality self-produced content to form a brand effect. Meanwhile, it is also necessary to fully

leverage the advantages of each partner through cooperative modes to bring stronger vitality to the video website.

#### 4.2.4 Summary

Video websites face controversies about whether it is content or operation, originality or mode, and self-production or cooperation. However, it is precisely through such debates that these websites continue to develop into an essential part of people's cultural and entertainment lives.

Through analysis of the several contradictions, it can be seen that content is the foundation, operations are the driving force, originality makes the video website more vibrant, the mode introduction ensures profitability to a certain extent, and self-made content makes the video website more differentiated, but the cooperative mode allows the partners to share risks and profits.

Therefore, these controversies are not binary issues. Video websites must fully leverage and combine the advantages of these creative methods to make their content increasingly diverse and gain recognition from users.

### 4.3 Heading towards the scenario: the future of video website content production and operations

For video websites, the competition for core content is becoming increasingly fierce. This requires video websites to fully leverage the value of their content, and this value cannot be realized without deep development of the content, namely the process of "IP-ification". The "IP-ification" is based on a content core to achieve the integration of the upstream and downstream of the industrial chain and the horizontal expansion. In the future, IPs are expected to

expand from online to offline, from virtual to real, and from content consumption to scenario consumption. This expansion relies not only on the quality and innovation of IPs but also on technological development. With the advancement of technologies such as VR and AR, creating personalized scenarios will become a new mode and possibility for future consumption.

#### 4.3.1 Originality: attracting new users and developing core competitiveness of platform brand image

The ability to produce original content has become a key ability for building video websites' core competitiveness and acquiring more ordinary and subscription users and has played an important role in platform development.

Creating original content has become a paramount objective for global video websites in their pursuit of growth. Netflix, which was born in 1997, has become a global leading subscription streaming media entertainment service company in just over 20 years. Netflix was originally established as a DVD-based business and underwent a transformation from sales to rentals. In 2006, Netflix astutely recognized the power of the rapidly developing internet and entered the streaming media industry. Since then, Netflix has transitioned from a distributor to a content provider and has continuously explored its originality by increasing investment in streaming media original productions year by year. The release and broadcast modes for original content have broken traditional industry practices, and by continuously introducing original content, Netflix has gained more subscribers.

Many users' understanding of Netflix as a streaming platform began with the series *House of Cards*, but prior to that, video platforms like Netflix had

already started expanding into the field of producing original content. Purchasing content implies high content licensing fees. During the early stages of streaming development, many production companies were hesitant to license their content for unrestricted distribution on streaming platforms. Companies like Disney integrated content resources by merging with businesses such as Pixar and Marvel, and launched their own streaming platforms such as Hulu and Amazon Prime Video. In a complex marketplace, Netflix's development of original content is a crucial strategic measure to reduce its reliance on cable TV stations and production companies, and also form a core competitive advantage in the content market to prevent major production companies from canceling content licensing.

In 2011, Netflix's production team participated in the creation of *House of Cards*. This series became Netflix's first hit show, attracting 2 million new users, with its meticulous script, superb performances, excellent audiovisual language, and refreshing full-season release pattern. Thanks to the show, the company's profits showed tremendous growth, rising 18% from USD 1.02 billion in the same period last year. Later, Netflix presented high-quality series and films such as *Orange Is the New Black*, *Mindhunter*, *Stranger Things*, *Marriage Story*, and *American Factory*, which enabled Netflix to create a deep self-produced mode for platform management. By creating original content with novel themes and controversial topics, Netflix gradually expanded diverse sub-genres such as comedy, documentary, drama, animation, and action, attracting subscription users, expanding profitability, and solidifying industry reputation. These successes demonstrated the enormous potential of original content development. Data shows that after Netflix entered the world of original content, its

investment in content increased from around USD 1.3 billion in 2012 to around USD 17 billion in 2020. In 2020, Netflix released 483 original productions. The number of subscribers has also increased correspondingly, skyrocketing from 48.19 million people in 2013 to 169 million people in 2019, with an annual growth rate of around 20%. Netflix places significant emphasis on quality control for its self-produced content. From 2013 to 2020, the number of original content produced by Netflix increased by more than 30 times. However, the company maintained strict control over the ratio of low-rated dramas and movies, ensuring that it remained below 3%. Netflix evaluated content quality using both soft and hard indicators, such as efficiency ratio, 24-hour viewing rate, and completion rate. Netflix's complete and mature development mode, coupled with its rigorous quality control measures, ensures the high quality of its original content.

As Chinese video websites continue to enhance and internalize their platform capabilities, they have begun producing an increasing amount of original content. This has resulted in a significant release of platform-produced content. The year 2014 was dubbed the “first year of online self-production” due to the launch of representative self-produced (original) content by major video platforms, such as Youku's *Surprise*, iQIYI's *The Ferry Man*, and Tencent Video's *Darkers*. In addition to film and television works, original content also includes self-produced variety shows such as the talk show *I Can I BB*. Original content has become a crucial factor for video websites to attract new subscribers, increase revenue, and enhance industry influence. Major video websites, including iQIYI, Tencent, Youku, and Mango TV, are striving to create original content. These platforms are gradually increasing their output of platform-



produced IPs. For instance, in 2020, iQIYI's platform-produced IPs accounted for 60% of the total, while producer-made IPs accounted for 40%. Similarly, Tencent's platform-produced IPs accounted for 40% of the total, while producer-made IPs accounted for 60%. Meanwhile, video websites are gradually reducing their reliance on copyright acquisition models (i.e., direct purchase of finished works), which have decreased from nearly 100% to close to or less than 50%. It is expected that copyright acquisitions will further decrease to only include high-quality third-party TV series. This shows that content and IPs originally produced by platforms will be key elements for major video websites to maintain their platform competitiveness and shape their identity.

Between 2018 and 2021, the majority of the top 30 online dramas were either self-produced or tailored by the four major video platforms, with over 50% presented by iQIYI and Tencent Video. Examples include *Story of Yanxi Palace*, *Legend of Fuyao*, *The Romance of Tiger and Rose*, and *I Will Find You A Better Home*. Over 65% of these series have been played on iQIYI and Tencent Video. Since 2019, iQIYI has been leading in the number of dramas produced. The original series produced by these platforms have received praise from both audiences and professionals. The number of highly-rated series increases each year, and more and more original content receives a score of over 7 on Douban. Additionally, these series have been selected for industry professional and authoritative awards such as the Magnolia Award, China TV Golden Eagle Award, and Flying Apsaras Award. The high quality of original content not only provides a new path for video websites to retain existing users and attract new ones, but also enhances the industry's recognition of their independent

development and production capacities.

Tencent Video and iQIYI have their own unique characteristics in original content, but both have played crucial roles in attracting new users and enhancing competitiveness for their respective platforms. iQIYI's strategy for developing original content encompasses a diverse range of genres, including TV dramas, variety shows, movies, animation, sports, and documentaries. From its initial foray into original content in 2011 to a large-scale investment in 2014, iQIYI has over 50% of its traffic and revenue now attributed to the original content. In contrast, iQIYI allocates RMB 18–20 billion annually toward content investment, which constitutes 60% of its total budget. iQIYI's emphasis on its original content strategy has resulted in a significant increase in its production of high-quality original dramas. The proportion of original content in iQIYI's key new drama series has steadily increased from 20% in 2018 to over 50% in 2022. In the same year, its original content accounted for over 60% of popular TV series and contributed to more than 60% of its revenue during the hot broadcast period. In the fourth quarter of 2022 alone, members' total viewing time of original content doubled compared to the same period in the previous year.

Tencent Video is also committed to enhancing its management of content costs, quality, and IP rights. It focuses on self-produced dramas and develops original content in various genres, including dramas, variety shows, animations, and movies. It also keenly observes that high-quality IPs with a certain user base are gradually becoming scarce. As the platform continues to expand self-produced content, its original works are becoming increasingly prominent, and their brilliance is no longer overshadowed by big IPs. *The Romance of Tiger*

*and Rose* is a prime example of a successful case. Despite lacking big-budget production or support from famous IPs, and featuring lead actors who are not A-list celebrities, the show has received high praise for its unconventional plot and exploration of gender equality themes. It has broken away from the traditional formula of relying on IP and traffic, demonstrating a successful approach to producing original content. The emergence of high-quality original works can be attributed to the sudden rise of emerging forces in the industry, represented by a new generation of directors and screenwriters who possess strong professional skills and innovative creative ideas. The influx of new forces has diversified and differentiated the genres of content being produced. In terms of genre, iQIYI focuses on diversifying genres, trying to continuously enhance the innovative capabilities of its video website by innovating content and genres. In contrast, some video websites tend to innovate in a “path dependence” way, excelling in specific genres such as costume dramas and crux plays. However, this approach can make them more vulnerable to changes in user preferences and competition from other video websites, making it difficult to respond quickly and effectively to challenges.

By producing a vast amount of high-quality original content, video websites can reduce their reliance on content providers and copyright owners, which helps alleviate the cost pressure of external procurement. This strategy significantly enhances the voice and influence of video websites in both domestic and overseas content production markets, surpassing traditional TV media content of the same type. As a result, video websites gain a competitive edge over TV media and other entities in terms of creating content. Producing high-quality, personalized, and platform-specific original content has become a

crucial factor for video websites to build competitive advantages, shape their brands, enhance their professionalism, and create an industry reputation.

It is evident that in an increasingly competitive market environment, the capability to create original content has become a fundamental competitive advantage that video websites must possess. It is also a crucial aspect for the future development of video websites.

#### 4.3.2 Intelligent technology: Material support for video website to produce content

Technology has been discussed multiple times in the previous text. Technology plays a positive role in enabling video websites to achieve cost reduction and efficiency increase. It also plays a significant role in assisting decision-making for content planning and production planning. Actually, intelligent production is a systematic engineering project and a crucial direction for the future content production of video websites. Video websites serve as the infrastructure for video content creation, gathering technologies such as audiovisual film technology, big data, and artificial intelligence. These technologies form a platform with efficient processes and standard characteristics, supported by intelligent tools and systems. This platform continuously optimizes the creative experience of the production and creation ends of the video website, as well as the user experience of the consumption end. In the ever-changing landscape of information communication technology, video websites must continuously adjust and optimize their technology and user experience. Failure to do so may result in being categorized as “traditional media” and being abandoned by users and the market.

In terms of developing an intelligent technology landscape, iQIYI has established an intelligent production system underpinned by AI, 5G, and cloud technology. Additionally, iQIYI has implemented a three-dimensional content production mode, represented by a pyramid-like structure (shown in the figure below).

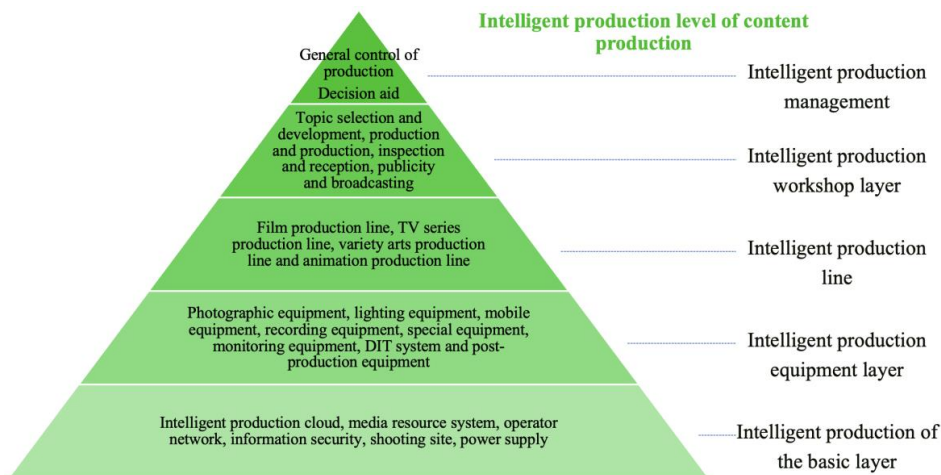


Figure 4.2: iQIYI's Pyramid-shaped Three-dimensional Content Production Mode

In the process of intelligent production, AI technology is applied to work across five layers: the basic layer, equipment layer, production line, workshop layer, and production management. This enables the connection from decision-making management to content production control, equipment terminals, and different production infrastructure. In such comprehensive and multi-layered applications, intelligence plays the roles of “production service provider”, “quality leader”, and “standard setter” in decision-making. Production service primarily involves the participation of AI technology in the production process, assisting with tasks such as IP screening and intelligent evaluation. It can also empower the production process and tools in management processes, enabling producers to complete production more efficiently. Through the upgrade of

production, enterprises can gain continuous improvement in decision-making, content, production tools, and audio-visual experience. This also helps them to enhance the quality of physical and digital assets. From a longer-term perspective, intelligence allows video websites to set the bar for future audiovisual content production and production standards. Therefore, with the introduction of AI technology in the decision-making, management, production, marketing, and consumer experience of content production, the system is applied to multiple endpoints such as video websites and IP companies, production studios, casting agencies, production companies, and ordinary users. As intelligent tools and products penetrate the professional content industry chain of video websites, video websites are also using intelligent technology to establish standards in fields such as content setting, production processes, content delivery, virtual production, and digital assets.

In addition, with the support of data, video websites have developed a more scientific evaluation system for content quality. This trend is not unique to Chinese video websites, but is being experienced by video websites worldwide. For instance, Netflix uses intelligent means to focus on two aspects: new user registration and user retention. Netflix needs to accurately identify segmented user groups in developed country markets, as well as users with different preferences in the global market. They also need to capture the preferences of the general user population, provide precise content recommendations, attract new users, and increase users' willingness to pay. At the content generation level, data-driven and data-closed-loop production is crucial for creating sufficient, trend-following, and personalized original content. At the content preparation level, intelligent technology is used to screen a large number of creative IPs that

match the preferences of different users. Netflix integrates AI models into the IP selection process to ensure their best performance and continuous evolution based on data feedback. On the content manufacturing level, due to the need to produce a large number of personalized works, the quantity of production content needs to exceed other platforms. Therefore, data needs to be used to improve the cost-effectiveness of content production, such as integrating intelligent scheduling tools and AI-based quality control into Netflix's production management platform Prodicle. During the promotion stage, it is necessary to accurately promote personalized original content to the target user group and predict their preferences accurately. Due to the variability of user preferences, more advanced AI algorithms and more refined content tags are needed for precise recommendations. In summary, Netflix makes data-driven decisions in various aspects such as content production and user experience to accurately meet user needs, produce high-quality content, and increase audience satisfaction and retention rates.

Compared to Youku and Tencent Video, iQIYI has developed a more scientific system for evaluating popularity by introducing the "popularity score" index. Popularity is no longer measured solely by view counts, but also based on intelligent and data-driven evaluation trends. In 2018, iQIYI first used "content popularity score" as an evaluation standard instead of relying solely on front-end view counts. The evaluation is based on a comprehensive analysis of user viewing behavior, interactive behavior, sharing behavior, and other factors, incorporating a more diverse set of user behaviors. This indicator provides a more comprehensive measure of playback performance and has become more scientific with the development of data-driven and intelligent algorithms. Likes,

bullet comments, and dwell time are given different weights, and through intelligent algorithms, the true quality of the content can be maximized and the current level of attention to the content can be more accurately reflected using technical means.

In summary, intelligent technology can empower professional content production and content quality evaluation, gradually closing the gap with PUGC and UGC in technology, content quality, standards, and other aspects, thereby ensuring that PGC occupies a place in the long-term content competition.

#### 4.3.3 IP-based: The overall idea of content production and operation of video websites

##### 4.3.3.1 Path: Thinking based on horizontal and vertical development

At the outset of video website development, the content was considered valuable in its own right. However, as the cost of content production increases, there is also a demand for this content to have more commercial value and encompass a wider range. Creating IP-based content is crucial to enhance the commercial value of content. IP, short for intellectual property, originally refers to the general term for the rights generated by the creation of achievements and the legal registration of trademarks. However, in this context, it is extended to include the meaning that it can be developed and utilized. On the one hand, this development means the precise expansion of content, that is, by forming a content matrix that integrates multi-generational variety shows, serialized short dramas, and marketized long dramas. On the other hand, it also involves the vertical and horizontal expansion of the industrial chain.

Several large video websites have already established respective rich



content matrices. In terms of variety shows, multi-generational variety shows cover multiple fields and industries, with rich content, such as iQIYI-produced series including *I Can I BB*, *Mr. Housework*, and *Youth With You*, Tencent Video-produced series including *Produce Camp* and *Irresistible Offer*, and Mango TV-produced series like *Who's the Murderer* and *Great Escape*. In terms of TV dramas, iQIYI has formed a genre advantage thanks to its *Light On* series, while Tencent Video has released high-quality content based on a large library of drama IPs. These rich and high-quality dramas and variety shows have become the beginning of IP-based content development, providing a stable fan base and ensuring the success of IP-based content development.

The connection of the upstream and downstream of the IP industry chain is manifested in video websites, which not only serve as a platform but also undertake the entire process of IP, including copyright acquisition, production, broadcast, and promotion. Taking online novel IP as an example, high-quality works play a dominant role in the whole industry chain, and they can provide high-quality content support for the development of the entire industry chain. The upstream of the industrial chain is the source of high-quality IPs. Companies in the upstream of the online novel industry chain mainly include creators of online novels, online comics, and other fields, as well as online novel platforms that publish their content and publishing organizations that discover and excavate high-quality online novels. Through online novel platforms, these high-quality novels created by these writers are invested and incubated into IP resources, which are then developed into IPs. Therefore, mastering high-quality IPs upstream of the industrial chain is of great importance for video websites to reduce copyright acquisition costs. Currently, Tencent's subsidiary, China

Literature, has a strong team of creators and a rich collection of works, covering over 200 categories. The company has popular online novel IPs such as *Fights Break Sphere*, *Candle in the Tomb*, and *Joy of Life*. Leveraging these IPs, China Literature provides a content library for Tencent Video's IP development. iQIYI has launched iQIYI Literature and iQIYI Comics, holding content copyrights such as *With You* and *Ode to Joy*. With these abundant IP resources, these platforms can save a lot of copyright purchase costs. The midstream of the industrial chain comprises production companies that specialize in movies, TV dramas, and web series. Companies such as Tencent Pictures, Alibaba Pictures, and iQIYI Pictures are involved in the production of film and television works. The wide audience reach and low entry barriers of video content provide a fan base for the subsequent monetization of IP. The downstream of the industrial chain involves content monetization and enhancing economic benefits. For example, iQIYI acquires excellent IP resources, which enable the development of derivative products, transforming its platform from a single content publisher into an IP owner, content producer, and content monetization entity. Connecting the upstream and downstream of the IP industry chain is crucial in strengthening the dominance of IP, expanding the economic benefits of IP, and achieving comprehensive development of the IP industry.

The horizontal expansion of IP is evident in the growing diversity of derivative content and the increasing cross-border development of new product categories that cater to various needs. This has led to the realization of multi-field ecological development both online and offline. Tencent Video produced a TV series based on the game CrossFire which was under Tencent's agency operation in 2007. This adaptation brings the digital e-sports game content to

life within Tencent's digital ecosystem, in a visual format. From a novel to animation and then to a TV series, *The King's Avatar* has expanded into publishing, side-line products, and other business fields, successfully broadening the scope of IP development. iQIYI has launched *The Big Band*, a music variety show that extends the trend of band culture beyond the show itself to live houses and music festivals. iQIYI has not only developed multiple derivative variety shows in various content formats for the variety show *Youth With You*, but has also released a manga version of the same name, a light novel named *Youth With You Memorandum on the Filming Site*, and an audio manga *FM Youth With You* through various means such as rewards, payments, readings, and merchandising authorizations. Additionally, iQIYI has collaborated with its multifunctional fan-following software to release commemorative albums, dolls, and other peripheral products, and has launched offline activities such as joint check-ins and meet-and-greets in seven cities. A business model centered around IPs has been developed by implementing a long-term and branded management strategy for IPs.

#### 4.3.3.2 Direction: Offline, real, scenario-based

IP-based content creation has become a crucial method for video websites to fully leverage the commercial value of content works. The trend of IP-based content creation has expanded from online to offline, from virtual to real, and from content consumption to scenario consumption.

iQIYI Chinese Historic City Universe (iCHCU) is the most prominent example of a full industrial chain layout in this regard. On November 26, 2021, iQIYI officially launched the new concept of "iCHCU", based on Chinese

traditional culture. Through the development of diverse business in a series of IP stories, iQIYI creates panoramic entertainment content in diverse formats to showcase the history of Chinese civilization for users worldwide. iQIYI first introduced the city of Luoyang, an important cradle of Chinese civilization, under the iCHCU concept. Based on the city's rich historical and cultural heritage, iQIYI has developed a variety of entertainment formats under an IP worldview, utilizing creativity, planning, technical skills, and industrial integration capabilities. iCHCU breaks the boundaries of history and reality, China-chic and trend, online and offline, culture and commerce, and is a successful implementation of iQIYI's strategy of using one resource in multiple ways. In terms of online content, Luoyang-themed IP series include the drama *Luoyang* (also known as *Wind from Luoyang*), the variety show *Glory Is Back*, the documentary *Luoyang, the Capital of Divine Land*, animated series *Luoyang Divine Youth*, the animated film *Track Down the Murderer in Luoyang*, and online movie *Reincarnation Land*, as well as related games to be launched successively. Luoyang-themed IP series cover all age groups and user preferences.

Apart from the traditional online content mentioned earlier, iQIYI is also set to launch stage plays with the same titles to offer a more immersive experience to fans. In addition, it will introduce murder mystery games to cater to users' preferences for offline entertainment, while the same-named VR full-sensory movies will take the user's sense of reality to a whole new level. iQIYI also plans to develop real estate to transform virtual content into physical landmarks. These strategies are crucial in fully monetizing the content.

A key factor enabling the Luoyang-themed IP series to successfully

transition from online to offline, virtual to real, and content to scene consumption in IP development is the careful selection of the IPs. During the development of the Luoyang-themed IP series, iQIYI did not focus on a single content work. Instead, it chose Luoyang as the inspiration and drew from its rich cultural heritage to create a solid foundation for subsequent scenario-based and realistic IP products. As a result, the success of the Luoyang-themed IP series has not only captivated audiences with online visual entertainment but also sparked a trend of interest in the ancient city. This has encouraged young people to move beyond simple online visual entertainment and explore offline cultural experiences based on Luoyang's food culture, etiquette culture, architectural culture, clothing culture, and more. The popularity of the Luoyang-themed IP series has boosted tourism in the ancient city and made Luoyang one of the most sought-after cultural destinations. Through collaboration between the government, enterprises, and the cultural industry, Luoyang's traditional culture is being promoted, and the entire IP industry chain has been revitalized, providing young people with a chance to experience the rich allure of traditional culture from different perspectives.

Building on the success of the Luoyang-themed IP series, iQIYI is expanding its exploration of traditional Chinese cultural IPs under its iCHCU. These efforts will extend to cultural areas beyond Luoyang, including Longxi, Dunhuang, Nanjing, Beijing, and Guangzhou. iQIYI plans to leverage film and television IPs like *The Wind Blows From Longxi*, *Dunhuang*, *15 Days from Nanjing to Beijing*, and *Thirteen Hongs of Canton* to develop IP content with traditional features. By tapping into the unique ancient city cultures across China, iQIYI aims to create larger-scale online and offline linkages that achieve

scenario-based and realistic IP development.

Nevertheless, the development of the Luoyang-themed IP series also highlights the numerous difficulties and obstacles that persist in the current process of IP development. Firstly, realizing the transition from online to offline, virtual to reality in IPs demands the support of technological advancements, along with a vast pool of technical experts available on the platform who can provide the necessary technical guarantees for IP development. Secondly, the high-quality core content is essential for IPs to succeed. On the one hand, rich content is required to support the IP's expansion. The core content of the Wind from Luoyang IP series, for instance, draws on the rich cultural heritage of the ancient city of Luoyang as well as China's 5,000 years of civilization. Only a deep cultural connotation can propel IPs forward. On the other hand, as the industrial chain of IP development continues to expand, it is crucial to fully adapt to the unique characteristics of each IP. iQIYI based its IP development on ancient city culture for offline tourism and real estate, but this model may not be suitable for other types of IPs. Therefore, content producers must have a deeper understanding of each IP to develop high-quality content. Finally, it needs to fully mobilize the strength of all sectors of society to achieve online and offline interaction of IP. As a model of development that integrates culture, government, and enterprise, Luoyang IP development also provides a guide for the following development of other IPs. With the financial and talent support of the government and enterprises to the platform, IPs can be developed in better and high-quality ways, and the support of the government also ensures an adequate policy setting for the implementation of a large number of offline projects, which is extremely important for the realization of IP scenes.

#### 4.3.4 Scenes: new models and new possibilities

In the early stage of video website development, IP development mainly involved the expansion of content forms and was limited to online content enrichment. Yet as VR, AR, and other technologies develop, IP content development is increasingly shifting to offline, realistic scene consumption. Along with the development of consumption upgrading and grading, content-based consumption growth has become more and more imaginative, and the creation of personalized scenarios will become a new model and new possibility for future consumption.

“The development of AI and other technologies has allowed new scenes to emerge, and the accumulation of quality in each new scene heralds a reinvention and renewal of life and emotion,” said Kurzweil, chief futurist at Google. (Fu, Wang, and Zhu, 2016)

In the mobile internet era, the internet has realized the feature of “linking everything”, connecting the real and virtual, online and offline, and scene connection has become a new feature of the era. Professor Peng put it, “Mobile communication is essentially a scene-based service, that is, the perception of the scene and information adaptation” (Peng, 2015). Therefore, it is evident that for the entire media industry, scenes will be an important direction for future development, and they are becoming another core element of media after content, form, and social, and video websites are no exception.

The term “scene” originally referred to a part of a play or movie. Wu suggested that a scene is an action that takes place in a specific event and space and is influenced by the relationship between the characters and the context,

affecting people's actions and behavior. (Wu, 2015)

In their book *Age of Context: Mobile, Sensors, Data and the Future of Privacy*, Scoble and Israel proposed that the application of scenes requires five technologies or the “five forces of context”: mobile devices, social media, big data, sensors, and positioning systems. While fully transforming the user experience, these five technologies also present significant challenges to changes in corporate business models. Maturing technologies provide the conditions for the development mode of video website IP to shift to the direction of scene consumption. Relying on these technologies, the long video platforms, represented by iQIYI, have gradually evolved out of the concept of a single “content provider” and extended outward from the content by exploring more scenes in the commercialization mode of core IP, gradually materializing a pathway from content production to consumption scenes.

At the 2021 iJOY Conference, iQIYI proposed a new content strategy that integrates content and commerce, while making content consumption more scene-based. It will bring iQIYI's online IP offline and make it penetrate into users' segmented scenes, targeting personalized characteristics of users, further bridging IP with specific consumption scenes, and allowing these personalized scenes to drive diversified monetization of consumption. Supported by technology, iQIYI continues to promote original content IP to incubate offline business, realizing the expansion of consumption scenes with content, launching the youth culture label BKStore, combining online community operation and offline art exhibitions, performances, and other layouts to produce trendy culture and launch tide brand stores. Relying on the core value of the content, iQIYI has gradually evolved from pure advertising, membership, games, and



derivatives to a marketing chain with scene consumption as the core, successfully transforming the profit model of IP.

In the process of reinventing scenes, video websites should fully rely on the development of technology, and thus need to explore new features and new paths of big data and AI in capturing user preferences and building consumption scenes. They should also continue to develop high-quality content IP to drive the realization of core values, and moreover, they should identify the scene preferences of target users with an open vision to promote the realization of content consumption.

The soul of video websites lies in the content, and at the core of all content on these platforms is IP thinking. In the process of turning content into IP, video websites on the one hand should connect the upstream and downstream of the industry chain from purchasing to developing and monetizing IP, on the other hand, they should continuously explore new paths of IP consumption horizontally, and dig deeper and explore the core value of IP in a comprehensive and multi-angle manner.

Now, in the process of mining the core value of IP, an obvious trend is that such efforts are increasingly shifting from online to offline, from virtual to real, from content consumption to scene consumption, and from the expansion of pure content and forms to gradually exploring new consumption scenes, allowing users to access more consumption paths in addition to content viewing, and enabling the value of IP to expand to physical scene consumption.

Therefore, it will be a new model and a new possibility for video websites to create personalized scenes for future consumption by relying on big data and

AI technologies.

Content is the core of video website building, and also the key to starting its differentiated competition. Due to the fierce competition in the industry, the content on Chinese video websites is being produced in an innovative way and the business model is being adjusted, putting a lot of pressure on the development of the business model of video websites. But it also shows that content is the most important aspect in building the relational diagram of a business model.

#### 4.4 Summary

Currently, a relatively stable model has been formed for content production and operation of video websites, with a relatively stable situation in terms of content production, content operation, original content production, and self-production of content. The competition and differences between video websites mainly manifest in the content strategy. An analysis of a number of Chinese video websites shows that the smoothness of the content production arrangement and content production process of a video website can affect the quality and efficiency of content production. Therefore, continuous optimization of production processes and efficiency has become something that video websites are working on and pursuing. iQIYI has started to produce content by “reducing costs and enhancing efficiency”, which actually means that after the production process is optimized, the input-output ratio is improved as much as possible by cutting expenses and increasing production efficiency, thus ultimately making the video website profitable.

In addition, an analysis of the content production and operation strategies

of several video websites shows that innovation has become the core of content competition. Innovations in content types and themes can help video websites constantly expand their attention market and thus obtain a steady stream of user power. Therefore, long-term innovative thinking is of great significance to the development of video websites. This is closely related to the strategic layout, action plan, and organizational structure of video websites.

## Chapter 5: Operational Modes and Evolution of User

### Relationships on Video Websites

#### 5.1 “From leaning back to leaning in”: the basic pattern and evolution of user relationships on video websites

##### 5.1.1 From watching to experiencing: changes in interactive participation from users’ perspective

TV media was once the “living room favorite” of ordinary Chinese families and the only scene for home video transmission. Some studies have shown that in families, television serves social functions, including fulfilling organizational and bonding roles. (Ruyle, 1987) Television can satisfy the family’s needs for obtaining information, leisure, and gathering. In the viewing scene shaped by TV media, users act as “viewers” and passively receive video products with a fixed schedule and content from TV stations. Viewers cannot independently select the content they want to watch or provide immediate feedback on TV content.

As the internet gains popularity, the importance of television to households is diminishing. Online video websites feature rich means of expression that television has while providing viewers with more diverse content choices and the right to watch videos at any time. In the process of proactive selection, viewers gain a sense of participation and involvement, becoming active recipients, disseminators, and producers, which brings an unprecedented impact to conventional TV media.

As media technology upgrades, it is difficult to meet the user demand for

further active consumption by simple page operation, and touch-screen mobile terminal represented by mobile phone can meet people's consumption demand in "fragmented" time and personalized consumption mode to the maximum extent, making it possible to consume everywhere at any time and becoming the main portal for users to consume videos. Meanwhile, users can click, comment, and forward videos on the website to realize active personal sharing, while video websites can recommend more personalized content to users by using big data analysis based on the viewing behavior of user accounts or through other ways to gain further attention from bonded users.

In the video dissemination environment where users share content with multiple screens, the engagement of users in video content has gone beyond the conventional model of simple feedback-based interaction. (Gao, 2017) Since 2007, there has been a gradual emergence of interactive online video forms, led by bullet comment websites. AcFun (or "A site") and Bilibili (or "B site") are two major such sites in China. In June 2007, AcFun was established as the first interactive online video platform in China, based on bullet comments (*danmu*). In June 2009, Bilibili was established. Users can post bullet comments on these two platforms, participate in video creation in the form of text, complete "virtual interactive rituals that take the non-physical presence of the body as a spatial station" (Deng, 2015), and achieve "collective carnival" in virtual space. In September 2019, Bilibili launched an interactive video zone. Interactive videos emerged in response to the slowing growth of mobile terminals and the increasing user base. Through advanced technology, users can engage in real-time interaction with video content, participating in the development of the plot and exploring different perspectives through self-selected branch narrative lines.

This enables multi-dimensional interaction and co-creation between viewers and video content.

Under the multi-scene mode built by the internet, mobile terminal, and other channels, and with the introduction of VR, AR, and other interactive technologies, viewing behavior has been redefined, and users as content consumers have become more active, from “backward” passive acceptance to “lean-in” active selection, feedback, and participation. The individual user experience has evolved into an immersive experience, and enhancing users’ sense of subject and participation has become a crucial element in the competition among video platforms.

#### 5.1.2 From free to paid: The establishment and cultivation of membership on Chinese video websites

Influenced by the paid model of foreign video websites, domestic video websites tried to gain revenue by offering paid services at the beginning of their creation (2010-2011), breaking the model of selling ads for profit while audiences watched for free in the TV era. During this period, online video platforms attracted members mainly relying on foreign copyright services and accumulated members by introducing a large number of genuine copyrighted video works for distribution. Despite efforts to engage memberships, such initiatives struggled to deliver successful results due to the long-standing perception of free viewing in the TV era, the availability of a large volume of free content on each platform during the initial launch stages, and the limited number of self-produced dramas. Only a few users with high demand for episodes and strong copyright awareness chose to pay for this service.

In recent years, strengthened copyright protection in China, rising national income and consumption levels, the popularity of mobile payment, and increased demand for quality viewing experiences, have created great opportunities for the development of video website membership payment models, and have contributed to the gradual formation of video website membership payment ecosystems. Since 2005, the National Copyright Administration and other authorities have launched the “Sword Network Action” against online copyright infringement and piracy, focusing on online videos, online music, and other areas to carry out special rectification of copyright. In the 2021 “Sword Network Action” special campaign, a total of 1.197 million infringing and pirated links were deleted, and 1,066 infringing and pirated websites and apps were shut down. (Li, 2022) The growing emphasis on protecting intellectual property rights has improved the distribution environment of online videos to some extent and has also increased people’s awareness of copyright. Meanwhile, internet platforms relying solely on advertising are experiencing decreasing profitability, and video websites are competing for original content, driving up the price of copyrights. As a result, video websites are shifting their focus from purchasing copyrights to self-producing high-quality content. Around 2010, a large number of legitimate movies and TV shows, as well as TV-produced variety shows, entered online video platforms, rapidly boosting the number of members for the websites. (Chen and Tan, 2022) Since 2014, the quality content launched by iQIYI, such as *Soul Ferry*, *The Mystic Nine*, *Tientsin Mystic*, *Burning Ice*, and *I Can I BB*, has become a hit content, boosting the rapid growth of members. According to CNSA’s annual *Research Report on the Development of China’s Internet*

*Audiovisual Industry* (2015 Research Report on the Development of China's Internet Audiovisual Industry, 2019), the online video user payment market transformed from the previous quantitative accumulation to the qualitative change stage in 2015. The usage rate of the monthly subscription model surpassed that of the single on-demand model, becoming the most commonly used payment model. As a result, users' payment habits have matured. More than 40% of users paid for videos in 2017, indicating that the awareness of payment has been formed, the ability of users to pay has been greatly improved, and user content needs have been segmented.

According to the NRTA website, as of the end of 2021, there were 710 million annual paying users for internet video, 150 million annual paying users for internet audio, and over 700 million short video uploaders. (youth.cn, 2022) The pay-per-click model has become a new growth point for video websites. Viewers subscribe to video memberships to access content, and the membership revenue is input to create high-quality content. This creates a virtuous circle.

Besides attractive and high-quality content, a great viewing experience for users is one of the most important factors prompting domestic audiences to abandon their long-standing concept of watching movies for free. Video websites provide differentiated services for their members. Services include priority rights for viewing video products. For example, members can watch episodes one week before other users and exclusive sidelights. There are also higher-quality video and audio options, such as Dolby launched in partnership with iQIYI for a much better audiovisual experience. There are other benefits available, such as increased access to movies, movie tickets, and exclusive offline events for members. With iQIYI as an example, members can enjoy four



types of privileges of content, watching, identity, and other, which include 36 specific privileges such as early access to popular TV shows, ad skipping, Blu-ray, 1080P, download acceleration, and birthday gifts (Zhang, 2019).

Due to a combination of factors including low pricing, rising content and operational costs, increased investment in high-quality original content and copyright purchases, as well as insufficient financial support for the platform, adjustments have been made to membership pricing since 2020. In November 2020, iQIYI was the first to adjust its membership prices. In April 2021, Tencent Video announced an adjustment to its VIP membership prices. From the end of 2021 to 2022, multiple video platforms readjusted their membership prices. Following multiple adjustments, the price competition among video websites has begun to ease, resulting in more consistent membership prices. This suggests that the paid membership model has entered a stage of maturity. (Li, 2019)

The paid membership system helps websites further explore the value of users. To maintain continuous consumption by members, video websites have constantly innovated marketing methods to cultivate users' habits. First, the membership is bundled with software for shopping, takeout services, music, and reading at discounted package prices to keep loyal members. Second, promotional activities are regularly released, and friends invited for viral marketing. Third, cooperation with software from other industries is sought to provide promotional measures such as point redemption for membership and free membership for signing in.

Currently, it has become a trend in the online consumer market for users to

share their member accounts with others. The emergence of “shared membership” reflects users’ need for “subjectivity”. Through online community interactions, users can strengthen their sense of belonging to the platform to a significant extent.

### 5.1.3 Multiple identities: subjectivity and roles of Chinese video website users

The platform is closely associated with users. In fact, given the nature of video websites as a platform, there are multiple associations between the platform and users eventually.

First, users are a vital source of revenue for video websites and therefore, they play a significant role as consumers. Users are not only a source of profit but also an essential resource for video websites, making them a key battleground among major players in the industry. Users are the consumers of video products, and the video website earns revenue as they watch advertisements or purchase membership services. The greater the number of users, the higher the income generated for the platform, resulting in more funds available to create sustainable content. Therefore, users have become an important target for competition among video websites. It can be argued that content competition among video websites is essentially a battle for users. In April 2022, the National Radio and Television Administration released the 2021 National Broadcasting and Television Industry Statistics Bulletin, which showed that the annual number of paying users for internet videos in 2021 exceeded 710 million, and the number of users uploading video clips exceeded 700 million. (China News Service, 2022) Given that video websites have a finite

number of users, winning over more users from within this limited pool has become the primary goal and task of their business model.

Second, users are important content creators. Users have provided a large amount of content for video websites where professional content is widely available. Users themselves can become suppliers for video websites by editing and uploading their own videos. Additionally, they can be part of the marketing industry chain for video websites by forwarding, commenting, sharing, and even collaborating as a team or organization. People are empowered for the user operation of video websites, thereby promoting the development of human subjectivity and enabling true equal communication and dialogue, fully autonomous rights to choose, free emotional expression, exploration of potential creativity, and self-worth and meaning. (Wu, 2019)

Third, users are important data providers for video websites, and the data can help video websites achieve accurate positioning and portraits and point the way for content production. First, big data can help analyze and track users' habits, generate user profiles, more accurately identify users' attributes and needs, improve user satisfaction and loyalty through personalized interactive services, and maximize the effectiveness of marketing funds. Second, users' preferences, likes, and dislikes are analyzed from the user behaviors, and the quality of content comprehensively judged and analyzed where big data play a big part.

Fourth, users provide positive feedback on content for video websites. The quality of content on video websites can be determined by user feedback and ratings. Users' investment in membership can also positively encourage video

platforms to output high-quality original content and increase the speed and scale of self-produced content.

Therefore, for video websites, users are a multidimensional and complex image, and actually a fusion of multiple identities such as producer, disseminator, and consumer.

#### 5.1.4 Competition for users: competition among video websites in patterns of user relationships

From the perspective of the relationship between video websites and users, the latter's multiple identities encourage imagination for video websites to explore their relationship with users from a business model perspective. In July 2012, there were 350 million Chinese online video users (CNNIC, China Statistical Report on Internet Development (July 2012), 2012), but by June 2022, ten years later, the number grew to 995 million, accounting for 94.6% of the total net users in China (CNNIC, 2022). This change indicates that the Chinese online video industry has rapidly gained a large number of users over the past decade. However, it also highlights that Chinese video websites have been engaged in fierce competition for users for a prolonged period. The next section will focus on the disputes that arise from the relationship and competition. Before delving into these disputes, the paper needs to provide further context. As the number of users on Chinese video websites continues to grow, video websites have leveraged this growth to maximize their existing resources. However, as various video websites in China continue to adjust their paying membership systems, competition has intensified.

Video websites are constantly evolving, with ongoing adjustments to

content, pricing mechanisms, and strategies. This evolution is evident in two key aspects:

First, the paper previously points out that video websites have shifted from UGC to PGC in content production, which shows the ambition of video websites to attract users with greater stickiness and to transform them from free users to paying ones. Regardless of how the business model changes, the core of a video website lies in content. In recent years, Mango TV, a video website mainly funded by Chinese state-owned capital, has been able to compete with private counterparts because its self-produced content is irreplaceable in the video website market. It has attracted a large number of loyal users and built its own brand.

Second, video websites rely on high-quality content to cultivate users' awareness of membership and consumption. Video websites have produced numerous TV dramas, and these have attracted large numbers of fans who are willing to pay for the privilege of early viewing. The growth of membership systems on video websites relies heavily on self-produced content. By offering members the option to access six episodes in advance or view them one week earlier than non-members, video websites have successfully enticed a dedicated group of users. iQIYI's expansion of VIP membership can be largely attributed to the immense popularity of its self-produced and exclusive TV drama, *Story of Yanxi Palace*. According to maoyan.com, 73% of viewers sign up for a VIP membership on iQIYI because of the drama (East-West Entertainment, 2018). The show's ability to captivate a large audience is rooted in its ability to evoke strong emotions in viewers who identify with the female protagonist's determination to climb the ladder. This emotional connection creates a sense of

pleasure for the audience. What's more important, it has 70 episodes, with eight aired each week on the platform. This extended format not only boosts user engagement but also allows ample time for the TV series to gain popularity online and attain its full commercial potential. For users, their consumption enables access to early viewing privileges, based on which the membership systems are developing properly for video websites in China. As video websites continue to produce high-quality content at an increasing rate, paying to access this content has become a common consumer habit and a widely accepted practice amongst users. Consequently, subscription-based revenue models have become a crucial source of cash flow for these websites.

Third, the growing trend of increasing membership prices is resulting in a higher price threshold for consumers to become members. On the one hand, video websites are gradually increasing the prices of their memberships. Between 2020 and the end of 2022, iQIYI and Tencent Video adjusted their membership prices three times. As a result of these adjustments, the pricing offered by several video platforms is now approximately similar, though Mango TV's membership price per unit is lower than that of both iQIYI and Tencent Video. On the other hand, video websites have enriched the levels of VIP members based on their membership systems. Video websites classify VIP members into different levels according to the rights and privileges opened to membership. For example, iQIYI's VIP members are divided into four levels: Golden, Platinum, and Star Diamond, and the difference between them lies in the number of broadcasting platforms. Golden VIP users can only watch videos on mobile phones, computers, and platforms, Platinum VIP users gain the additional privilege of TV. Star Diamond VIP users can also access VR

(adventures), sports, and others.

Fourth, more precise recommendations can be achieved through big data analysis. On the one hand, video websites will push customized content based on users' consumption habits, so as to gain their favor and attention. On the other hand, for content with a high degree of specialization and great fan stickiness, a more in-depth development mindset has been adopted to create content for fans, so as to more accurately explore the commercial value of user groups.

Based on the three aspects mentioned, a rather intricate relationship has developed between video websites and their users. This dynamic has also sparked numerous controversies and debates, which will be explored in greater detail in the following section.

## 5.2 Controversies in the relationship between video websites and users

### 5.2.1 Profit or users? Development and controversy of the membership system

The sustained expansion of China's video membership base can be attributed to the provision of premium content and innovative rights. Following almost a decade of development, the membership system for video websites has gained widespread acceptance among Chinese internet users. There is now a general consensus that paying for video content is reasonable and appropriate. In recent years, however, the growth rate of paying members of several major

video websites in China has tended to slow down, and membership liquidity has almost reached its peak. The main reasons include: first, due to the rapid rise of specialized video platforms focusing on video clips and live streaming, video websites with long-form videos as their core content have faced bottlenecks to hinder the increase of paying members. Second, China's leading video websites are developing rapidly in terms of content production quality, with small differentiation in membership services and network user traffic pools seeing their limits. Third, there are still a large number of free platforms in the video market where users can obtain content resources through other channels without purchasing a membership. Such illegal video websites have harmed the rights and interests of members, and also to a certain extent reduced the opportunity for the expansion of paying members. But with the continuous improvement of the video network ecology and the large-scale reform of the video market, the membership system itself, as the main profit model of video websites in China, remains one of the important strategies for mainstream video websites to expand their user groups and achieve long-term development. iQIYI released its unaudited financial report for the second quarter ending on June 30, 2022 in August 2022. It shows that iQIYI's total revenue in the second quarter was RMB 6.7 billion, with RMB 4.3 billion from membership services, a year-on-year increase of 7%. (iQIYI, 2022) This shows that the membership system is still an important business model for video websites to make a profit.

Currently, there are several factors that affect user payments. The first factor is functional privileges at the technical level, such as ad-skipping, improved picture quality, and free movies for members. The second factor is emotional preferences, where users become members of different platforms



based on the content provided according to their preferences (also a kind of emotional preference). The third factor is the economic aspect, where users evaluate price advantages based on different payment strategies on different video websites. However, marketing combinations related to membership in the market are currently limited, and there are small differences in membership rights and prices between video websites. Simply increasing the price may not improve the competitiveness of video websites. Lastly, there is the social factor. From an information economics perspective, a membership system's core is its mechanism for displaying signals and identifying identity information. In situations with information asymmetry, potential members with different characteristics are encouraged to signal themselves in order to enjoy the benefits from the membership organizations. Additionally, membership organizations are motivated to distinguish between potential members with different characteristics and identify their information (identity) based on their selection. (Tang and Wang, 2008) For example, expressions to show the member's status are commonly seen among the bullet-screen comments. Sharing, participation, and additional benefits (such as video skins, offline activities, celebrities' meet-and-greets, and coupons) not only increase users' perception of the added value of products, but also serve as important ways and a social lifestyle for users in a media society to realize their self-worth and social value.

From a user's point of view, the membership system is an economic behavior that aims to improve their experience and provide more value. This encourages video websites to continuously enhance their content and service quality in order to meet the evolving needs of their users. Users pay for premium privileges on video websites, which can include access to additional functions,

content, identity verification, and lifestyle services. As paying customers, consumers have the right to expect high-quality services and standards from video websites. To retain and expand their paying member base, video websites must strive to consistently produce high-quality content and improve their services to ensure members are satisfied and recognize the value of their membership. For example, in terms of content creation, iQIYI has launched a series of self-produced dramas of different production models and different genres (such as *Light On* and *Sweet On*). It has made efforts to locate user preferences, satisfy the differentiated needs of different circles of members, bring together talent and resources for creating high-quality content, and achieve outstanding self-produced dramas on the basis of innovation, and thus materialized the long-term value of the film and television industry. In 2022, iQIYI saw less yet higher-quality creations, such as the popular dramas of *A Lifelong Journey*, *Ordinary Greatness*, and *Love Between Fairy and Devil*, which generated high income for the company. It is evident that long-form videos featuring immersive experiences and fine production still see a high premium now, and high-quality content remains an important cultural factor for video websites to maintain their membership system.

To a certain extent, “trust” is the foundation for all social activities. The implementation of a paying membership system, as an economic behavior, relies heavily on the trust between consumers and developers. But whether users’ trust can be reciprocated and fulfilled has generated some degree of controversy.

A controversy that has arisen pertains to consumer rights associated with early access to video websites, which may prompt members to pay again. Users with different payment behaviors show significant differences in perceived

value scores, and users' perceived value scores for paid content are significantly related to their intentions of future payment. On October 4, 2021, the cancellation of early access on various video platforms generated significant attention on Sina Weibo and initiated discussions among netizens. Early access fees are additionally paid by paying members on the video websites for the latest episodes. Despite consumers' willingness to pay, repeated requests for payment can easily evoke negative emotions and be perceived as an unreasonable profit model. "Induced consumption", "bundle of services", and "forced transactions" have become synonymous with early access to watch content. According to Article IX of the *Consumer Rights Protection Law*, "Consumers have the right to choose goods or services on their own." Consumers have the right to make independent decisions to purchase or not purchase any kind of product or to accept or not accept any kind of service." (Consumer Rights Protection Law of the People's Republic of China, 2005) Therefore, how to best protect consumers' rights has become an issue that should be taken seriously by the online audio-visual industry.

Another controversy is seen over the consistency between membership prices and the value of members. Starting from 2020, iQIYI, Tencent, and Mango TV have implemented various methods to increase their membership prices. However, this has led to uncertainty regarding the behavior and attitudes of paying members. Video websites in China have historically maintained low membership fees without any significant increases over several years. This has resulted in many video websites operating at a loss, and as a result, they have been forced to increase their prices. (Zhan, 2021) There are gaps between the fees of subscription to video platforms and the costs of content production,

marketing, and other benefits, so it is necessary to maintain a balance in the industrial ecology and make price consistent with value. For users, while the increase in membership prices ranges from RMB 3 to RMB 10 only, users are highly sensitive to such changes, and frequent price hikes have led to negative reactions among consumers. A significant number of users are willing to pay for membership as long as they feel that the user experience and benefits justify the price. The core value of membership lies in content and member benefits. The rising prices of program and film sources for video websites are often a result of the websites attempting to monopolize the market. Therefore, it is not reasonable to rationalize the increase in membership prices for consumers as a necessity due to the high costs associated with content creation. In terms of member benefits, video websites often take advantage of paying users in several ways, such as forcing advertisements and classifying members, which can reduce the value provided to these users. These tactics may lead to paying members being lured into a trap set by video websites. As Steven Van Belleghem has pointed out in his book *When Digital Becomes Human: The Transformation of Customer Relationships*, the customer relationship of the future will be both digital and human. Scholars have proposed precise operational rules for the digital age through analysis of front-end markets and case studies: what users really need is “customization” and “emotional resonance”. (Belleghem, 2016) By providing emotion-oriented services and sincerely serving customers, businesses can effectively reduce customers’ decision-making costs. This not only enhances the added value in a highly competitive market but also helps to establish a good reputation and foster customer loyalty.

As of the end of 2021, the number of annual paying users for Internet

videos in China had reached 710 million. (National Radio and Television Administration, 2022) What strategies can be implemented to expand the reach of paying memberships to a wider user base? In order to attract more paying users, video websites have implemented various strategies and tactics. These include shifting their focus from content+ to service+, improving the user experience, and creating a website-centered ecosystem to expand their user base.

Platform expansion is a development trend for new media enterprises. The platform functions to provide services for its partners in the ecosystem. The more functions it can provide, the higher status and greater say it will boast in the ecosystem. It is learned that the upgrading of video websites has gone through three stages: in the first stage, video websites developed into multi-sided markets through vertical expansion; in the second stage, video websites utilized platform embedding strategies to create an online video ecosystem centered around their own platforms; in the third stage, video websites began to enter and integrate the offline video content industry chain by enveloping platforms, and establish a platform ecosystem for the entire video industry. (Wan Xing, Yang Jing, 2015) Currently, video websites are using the customer base, user base, technological base, and service base they have built over many years of development to further integrate the diverse production and consumption actors into one platform ecosystem, and using the D2C (Direct to Consumer) model to closely connect production and consumption actors. iQIYI launched its membership platform in 2021 and worked closely with content providers, product providers, service providers, and technology providers to enhance the member experience. This involved upgrading members' content rights, viewing rights, and product and service rights, resulting in a more personalized and

multi-dimensional membership service system tailored to user needs. Specifically, since 2019, iQIYI has partnered with multiple brand providers such as Watsons, KFC, GOME, DQ, Starbucks, McDonald's, and Xibei, offering its members over a hundred different benefits. In the era of user-oriented services, iQIYI has built platforms and provided resources through its open membership platform, and offered marketing platforms, IP empowerment, and brand value to content providers, commodity providers, service providers, and technology providers. It also provides users with more content rights, viewing rights, commodity rights, and service rights. Collaborators from various industries can integrate their products and services into the iQIYI VIP membership service in a faster and more effective manner, leading to win-win cooperation.

High-quality content is always an important factor in capturing user attention. High-quality content has a positive long-tail effect and is often reflected in a consistent number of clicks over time. Even though it first aired in 2012, the TV series *Empresses in the Palace* still generates tens of millions of RMB in revenue each year for the platform. The logic of internet film and television content is evolving, and long-form video websites are now closely linked to metrics such as user engagement time, acquisition rate of new users, user retention rate, membership payments, and more. During the initial stages of video website development, they were unable to produce their own films or videos, thus they had to expand their content libraries by purchasing copyrights. This resulted in intense competition for high-quality copyrights and led to exorbitant payments for dramas. But reducing costs, increasing efficiency, and prioritizing quality have become the keywords for the current development of the video industry. On the one hand, with the differentiation and specialization

of content, video websites are continuously creating content to attract young people, such as rap music, trends, and murder mystery games. For example, iQIYI's entertainment ecosystem offers a variety of content formats, including TV series, movies, variety shows, anime, light novels, and games. By developing high-quality IP content in multiple dimensions, members can experience deeper emotional satisfaction and engagement with the platform over a longer period of time. On the other hand, the metaverse, non-fungible tokens (NFTs), and other forms of entertainment have attracted a lot of capital recently due to their ability to deeply engage users in virtual worlds and inspire imaginative visions of the future. Users are enthusiastic about high-quality content and value and also require rich experiences to be motivated for consumption.

In terms of premium strategy, video websites primarily rely on the content as their business model, so they compete through brand differentiation to achieve premium with membership prices roughly the same among them. In terms of differentiated positioning, iQIYI largely focuses on professional content production for branding. Therefore, iQIYI prioritizes the middle class as its core consumer group for both self-produced dramas and variety shows, with a focus on developing and operating IP content and trends. The platform aims to establish a content core by establishing sub-brands such as "Light On." In contrast, Tencent Video competes for members by offering romance dramas and similar genres, such as *The Untamed*, which has generated significant membership revenue. Meanwhile, Mango TV attracts a younger, fan-oriented user group with youth-oriented romance dramas. Therefore, based on the objective results, the differentiation of high-quality content has in some ways

stimulated users to pay for membership across various video websites. Although video websites in China claim to be comprehensive and excel in a wide range of content, their business models often blur the lines of differentiation to gain greater influence within the industry. Video websites in China compete based on differences in their business model strategies as they strive for dominance and leadership in the market. Consequently, conflicts often arise at the business model level.

With the change in users' living scenarios and lifestyles, there is still ample opportunity for the development of scenario-based and personalized user experiences. Making video terminals accessible for users' daily lives in a faster, more convenient, and wider manner is also one of the directions for video websites to expand their user base. On the one hand, a majority of paying members are from first-tier and second-tier cities. To expand their reach to lower-tier markets, platforms such as iQIYI have launched "lite" versions that retain the brand's impact while attracting new customers. The "lite" version is tailored to the characteristics of users in lower-tier markets, retaining the same range of content and services while providing faster and improved user experiences to better meet their needs. On the other hand, users' two major entertainment and life scenarios include home scenarios and in-vehicle scenarios. There is still potential for exploring users at the large-screen in-house terminals and in-vehicle terminals. Over-the-top (OTT) services have emerged as a new form of viewing experience in recent years. These services offer secure, reliable, interactive and manageable multimedia options to the public through television, STBs, and other terminals using video, audio, graphics, text, and data transmitted via the public internet. In comparison to the other two forms of



viewing, OTT services provide more open-ended and diverse content, while also allowing for multiple terminal support. With the rapid development of online videos in recent times, OTT has emerged as a popular choice among consumers. (Yang, 2020) As of the end of 2021, the number of households using OTT services had risen to 1.083 billion, compared to 821 million in 2019 (National Radio and Television Administration, 2022). With longer consumption durations and the widespread adoption of 5G technology, features such as ultra-high-definition and 3D stereo sound are creating a synergistic effect, effectively turning living rooms into cinematic experiences. For example, iQIYI has launched a series of big-screen content, technology, and marketing plans. As multi-screen and large-screen trends continue to gain traction in the automotive industry, major video websites in China have started collaborating with automotive companies to develop car networking services and expand the commercial space for automotive terminals.

#### 5.2.2 Fan economy: a double-edged sword utilized by video websites

Fans are a unique audience compared to regular users. Fan groups exhibit a deep admiration and even obsession with their idols, investing significant amounts of money, time, and emotions. Rather than being passive consumers, they actively and creatively construct meaning in their lives through consumption, making them representative of consumerism. (Smith, 2007) In contrast to traditional fans, the modern fan community places a strong emphasis on self-expression and taking action. They boldly and cohesively demonstrate their adoration for idols, and actively engage in a variety of idol-related activities. In summary, fans possess greater purchasing power, communication capabilities, and organizational skills, as well as a higher level of engagement

compared to regular users. They are common as they are willing to input money, time, and emotions. These features have also become an important factor for video websites to promote the development of the fan economy.

So, how exactly do fans engage with video websites, and how does the fan economy serve as a revenue stream for the business models of these websites? Marketing scholars, based on consumer behavior, use different concepts and theories to explain fans' abnormal consumption behavior, including fanaticism and rational addiction. (Liu, Wang, 2011) The paper uses the above analytical framework of the abnormal consumption behavior of fans to further elaborate the economic relationship between fans and video websites.

Fans' fanatical consumption behavior can be observed across three dimensions: cognitive, emotional, and behavioral. Fanatical fans display intense and obsessive cognitive and emotional attachment to a particular subject, which is reflected in their consumption behavior. For instance, they may express their loyalty and obsession by purchasing related merchandise, such as film memorabilia or idol merchandise. The cognitive behavior has been noticed by video websites, which generate revenue by launching idol-themed programs and related content. Examples include iQIYI's *Youth With You* and *The Rap of China*, as well as Tencent Video's *Produce Camp*. User attention serves as a crucial reference system for commercial monetization. Click-through rate, popularity value, bullet screen value, and trending topics are all important indicators to attract developers and investors to certain platforms. Compared to TV dramas, talent shows like *Youth With You* and *Produce Camp* have a greater potential to attract and cultivate fans, as well as encourage social expression and interaction. This, in turn, drives higher exposure and popularity of the show, directing more

traffic to video websites and increasing the likelihood of purchasing video copyrights and attracting investment. Fans can be considered the primary group of mass or participatory culture, and their participatory behavior plays a crucial role in increasing revenue.

The theory of rational addiction refers to the predictable dynamic behavior pattern that is characterized by the habit-forming type of consumption with increasing marginal utility. One important foundation for rational addiction is the assumption of preference or taste. Generally speaking, almost all rational addiction models assume that preferences are endogenous, and past consumption can affect current preferences through a certain mechanism. (Chen, 2016) Fan behavior falls under it. The fan community has a relatively stable and habitual consumption behavior toward specific things, and the behavior is predictable. To retain the fan base and develop the fan economy, video websites are constantly developing full-ecosystem products such as communities, fan stores, and fan events to attract fans to consumption and participation. According to Baxter, author of the book *The Membership Economy*, “The membership economy goes through four reforms, namely the transfer of ownership to the right to use, the shift from one-time payment to regular micropayments, the development of a relationship from strangers to acquaintances, and the integration of value proposition into daily communication and community relationships.” (Robbie Kellman Baxter, 2021) The fan economy emerged out of the diversity of internet applications, data, industrial chains, and customized demands on the supply side. It breaks through traditional membership models and realizes new forms of membership services such as consumption grading, personalized demands, and connection of

scenarios.

But fan economy is a double-edged sword. Fan culture is different from general consumer culture. Fan groups tend to be young, individualistic, and fanatical. Their abnormal consumption behavior is based on their intense emotional cognition, rather than rational judgment. Therefore, video websites face certain risks when utilizing fans' "fanatical behavior". It will be discussed in detail in the next chapter, but it should be emphasized that video websites should undertake their social responsibility while pursuing commercial interests, and create a proper consumption environment for user groups and fan groups.

### 5.3 Future of video websites in terms of users: stimulating user engagement is the key

#### 5.3.1 Valuing users is the key to the sustainable development of video websites

User engagement is becoming increasingly important in the development of video websites. From a global perspective, content can generate more stable income for the website, which highlights the increasing importance of maintaining users. Domestic and foreign websites have realized it during development and tried to promote their sustainable development by continuously adjusting their direction and stressing the user experience and user participation.

According to the situation in China, the leading video websites have launched on-demand applications based on large-screen web TV. According to the ranking in the on-demand media industry released by Gozen in February

2023, the top five are QIYIGUO TV under iQIYI, Yunshiting Jiguang under Tencent Video, CIBN Kumiao Yingshi under Youku, Mango TV and Yunshiting Xiaodianshi under Bilibili. Among them, QIYIGUO TV attracted 45.914 million households on a daily basis and 114.215 million households on a monthly basis, and saw a total daily viewing duration of 18,440.9 hours. The user scale and viewing duration of on-demand media suggest that users have become more active in selecting genres and deciding on viewing duration, rather than being passive consumers. This has led to a significant increase in user engagement and greater subjectivity for users.

Looking at the global picture, it is evident that exceptional content creation is the prerequisite and foundation for the growth of video websites. It helps to attract new subscribers, but as the website's user base reaches its peak and continues to expand, retaining subscribers becomes increasingly crucial. According to Netflix, the *House of Cards* released in Q1 of 2013 contributed to a 10% growth in new subscribers. However, as its subscribers appeared nearly saturated, the contribution of high-quality original videos to the subscriber growth on Netflix gradually declined. In 2016, the phenomenal TV series, *Stranger Things*, contributed only 1% to its new subscriber growth. In 2020, with the most outstanding contribution to the subscriber increase, *Tiger King* brought about only a 3% increase.

Disney also faces the same plight. According to Antenna's daily user registration index of Disney+ from August 2019 to June 2021, the daily user registration index was 7 in *The Mandalorian* launched in November 2019 (based on the number of user registration of Netflix subscribers = 100 for indexation). However, as for the blockbuster *Hamilton* premiered in 2020, this

index was only around 1, and for *Soul* which premiered in January 2021, it was only around 0.3.

The newly launched platform HBO is no exception. Based on the daily user index, the daily user registration index for *Wonder Woman 1984* in January 2021 is about 1.0, while that for the popular series *Friends: The Reunion* in June 2021 is only 0.5.

As several major platforms hit their ceiling of premium users, the marginal contribution of launching original popular content for the growth of premium subscribers decreases. When popular content becomes less effective in attracting new users, video websites like iQIYI provide new solutions from the perspective of user relationships by focusing on user participation and selection.

From the internal traffic structure of iQIYI, it is found that the top-ranking traffic port is the mobile app. In recent years, the user traffic of TV screens was surging, making the TV screen the most potential marketing area for iQIYI. As the media platform with the greatest advantage in the current VOD industry, QIYIGUO TV focuses on user experience and fully utilizes the new advantage of content. In terms of visual presentation, iQIYI has developed various user modes and created a high-quality, home theater-grade audio-visual configuration “Vivid Picture MAX” for TV screens. At the same time, product optimization design is carried out for the elderly and children, providing users with more convenient and comfortable experiences, and effectively attracting the attention of viewers. On the marketing side, iQIYI covers interactive points with it of high-quality audiences to drive growth in large screen marketing. According to iQIYI and third-party platforms, nearly 70% of QIYIGUO TV

users are young people aged between 19 and 36, with an average monthly household income of over RMB 150,000. This user group shows stronger aesthetic abilities and payment consciousness, especially the habit of paying for high-quality content. Therefore, to better serve high-quality user groups on TV screens, iQIYI is innovating in OTT advertising by presenting brand creativity on the screen, which greatly amplifies its visual impact. It provides interactive screen projection products for large-screen viewing and small-screen shopping, achieving instant viewing and buying, fully satisfying user interaction needs, and also achieving the transformation of commercial value.

### 5.3.2 Participatory culture: a crucial foundation for the development of video websites

Henry Jenkins mentioned interactive phenomena in participatory culture in his book *Textual Poachers*. In the interaction between fans and texts with media as the intermediary agent, the subjectivity of the audience groups such as fans is fully stimulated, providing continuous materials and energy sources for the creation of media content. Some scholars proposed that in today's online world, participatory culture has formed a new space (Fu and Zhao, 2022). In this space, the media's discourse power is redistributed, traditional media power dynamics are disrupted, the interaction among users greatly increases, and the interpretation of text has formed a popular trend, where cultural dialogue is transitioning from individual poaching activities to a massive group hunting activity. The fan culture mentioned above is actually a "hunting" scene.

The development of video websites has been constantly advancing in the Web 2.0 era. Although there are significant differences between video websites

and social media platforms, the attributes and development of social functions have always been what video websites keep exploring. Although there is no instant messaging platform for real-time interaction, video websites continuously bring the hidden message generated by users' viewing and experience to the front in terms of content and function development, making it a daily landscape that can be watched and discussed.

As for the current settings of video websites for users, I believe that it is actually a composite landscape. Specifically, the PGC produced and played by video websites is the first layer, which is viewed and accepted by massive users and becomes content mostly exposed to the audience. Based on the first layer, many users will engage in real-time interaction on the viewing page, forming plenty of bullet comments. These comments themselves provide real-time feedback on the content being watched, and facilitate interaction and communication between viewers. They are UGC together enhancing video popularity, which forms the second landscape created by users. The third tier of the landscape is a closer relationship that users establish based on content. They start to transform the weak ties in internet socialization into slightly stronger ties, forming group behaviors by either using circle platforms on social media websites or directly entering other instant messaging platforms for closer connections. This activity with different user circles shows strong interactivity and impulsivity, but also breeds more persistent and active internet participants.

Therefore, from this perspective, the establishment of the business model of video websites essentially requires a large amount of PGC as well as plenty of UGC. Only with sufficient and organic integration between the two can the business model become more sustainable ultimately. This also resonates with



the fundamental change from “leaning back” to “leaning forward” in viewing behavior mentioned before.

### 5.3.3 How to deal with “re-creation”: a new topic in the development of video websites

Realistically, every video website values UGC because it is the core driver for the continuous advancement of video websites. However, only a few video website can become a platform with strong UGC and social attributes like YouTube. Platforms like iQIYI focus more on attempts to become video website like Netflix that relies on PGC. In China, there are platforms such as Bilibili whose development and growth rely heavily on the uploading and sharing of content from specific cultural communities, thus forming a unique style and positioning of socializing and content sharing.

In a sense, video websites require users to engage in re-creation, processing, and sharing of PGC. Users’ productivity and creativity can be maximized, and professional content can also be infused with greater energy and vitality. But from the perspective of the industry, this method of re-creation undoubtedly will infringe on the copyright of video content. In particular, with the rise of short videos, a group of professional “re-creation” producers has emerged. They shorten TV dramas and other content into clips under five minutes by extracting the key nodes of the story and reconstructing the storyline. This form is in the stratosphere on short video platforms, but it yields great negative impact on the original user group. In other words, this form of re-creation is a huge consumption for video websites. iQIYI has once filed a lawsuit against some companies specializing in short video editing and ultimately won the case. In

the court's decision, it was also explicitly mentioned that the short video platform companies and the companies engaged in editing have diverted viewers from the original video websites and need to bear infringement responsibilities (Wang, 2022).

On April 9, 2021, more than 50 film and television companies, five major long video platforms, and film industry associations issued a joint statement, calling on short video platforms and public account producers and operators to respect original works, protect copyrights, and not engage in infringement behaviors such as unauthorized editing, cutting, reposting, and spreading of film and television works on the internet. On April 23, 2021, over 70 film and television media units and more than 500 artists issued a joint initiative again, hoping that short video platforms would actively participate in copyright compliance management and properly clear unauthorized video content such as cuts, reposts, fast views and collection of film and television works.

However, this doesn't mean to completely discourage or suppress the creative enthusiasm of users. Instead, it requires developing IP in a long-term manner on the basis of safeguarding intellectual property rights. On July 19, 2022, iQIYI and TikTok started cooperation to explore the re-creation and promotion of short video content. In the short term, the cooperation between long-video websites and short-video websites is more advantageous to the latter because it can provide them with a continuous supply of rich content. In the long run, however, the integration of copyright content is not only beneficial for exploring new users in vertical fields, but also for breaking the ceiling of viewing time, thus enriching the user community and optimizing the platform's creative ecosystem.

However, after delving into the problems behind the “re-creation” in video websites, it is suggested that the root causes go far beyond this, and the controversy between short and long videos stems from a deeper difference by nature. According to Kwai’s financial report in Q4 2022, its business revenue mainly came from live streaming and online marketing services, with the scale of online marketing services continuing to expand. In 2018, 92% of Kwai’s main business revenue was from live streaming, and 8% from online marketing services. Starting from Q1 2020, online marketing services have surpassed live streaming services and become the service with the highest revenue share. By Q4 2022, the revenue of the live streaming services of Kwai only accounted for 36%, while the online marketing services reached 53%. This shows that the main source of revenue for short video platforms comes from live streaming and online marketing, and the latter is playing an increasingly important role.

In fact, for short video platforms, the content resources produced by long video websites are just tools for them to attract attention through commentaries, auto-tune remix-themed editing, and fan-made video creating. They aim to realize traffic monetization, instead of producing high-quality content. It can be seen from Kwai’s Financial Report for Q4 2022 that only through online marketing and live streaming services in the fourth quarter, Kwai received over RMB 25 billion in revenue, which is somewhat unobtainable by long video websites. Compared with those long video websites, which obtain advertising and subscription income by creating high-quality content, short video websites have much stronger attention monetization abilities.

Short videos are quite different from long videos in terms of technology architectural logic, and user relationships. Short videos are more fragmented,

with more commercial value, which is why short video websites enjoy stronger attention monetization abilities. Short video websites can meet people's fragmented needs through technology architecture, whereby users can use their fragmented time to watch short videos or live streams, and then engage in shopping and consumption. This feature provides consumers with richer consumption scenarios and short video websites with more monetization channels.

From this perspective, short video websites are actually utilizing methods like "re-creation" to stimulate user engagement and experience, and then achieve attention monetization. But it needs to be made clearer that this kind of monetization is actually not an inner feature of long video websites. The content production and user engagement of long videos should be more profound in the first place, and require users with higher personal quality to invest more time. Therefore, it is more important to think about how to expand the engagement space and attention monetization channels of long video websites.

Currently, like short video websites, long video websites have also introduced product replacements and advertisement insertions, so that users can click on links to make purchases directly. In fact, however, this model has not been widely accepted by users, let alone giving play to the monetization ability. It has not been fully integrated with platforms' own malls, and has not utilized built-in malls in video websites, so attention monetization is hard to achieve. The reason for the failure of online shopping malls is due to the different technological logic and user relationship inherent in long video websites. This difference determines that video websites are mainly focused on content viewing, while short video platforms are primarily focused on purchasing and

monetization. The high monetization ability of short video websites inevitably puts long video websites under pressure and impact, which then becomes a new subject that should be discussed during the development and growth of video websites.

Therefore, users' power becomes an important channel for video websites to realize monetization, and the ability of video websites to monetize their users is directly related to their competitiveness in the external competition. As a result, the content on a video website is inextricably linked to its competition with other video websites. The difficulty of video websites to form a relatively stable business model is not only due to external factors such as technological changes, but is also because of the fact that users are not completely passively accepting the output of video websites, nor are they giving perfect feedback like "stimulus-response". It is precisely this kind of uncertain feedback that leads to the situation faced by video websites in terms of market competition and policy regulation.

For video websites, how to deal with the problem of "re-creation" actually refers to how to better stimulate the engagement of users. This kind of stimulation of user engagement and investment comes not only from content quality improvement, but also through means such as operations and marketing. It is not hard to stimulate user engagement, but hard to find a successful path leading to attention monetization of video websites, namely, the fragmented technical architecture and user logic. Nonetheless, whether the path can be identified will be affected by defects brought by the mode of the long video website and those of the platform itself under the current attention economy, to which there is no solution. The best course of action, therefore, is to conduct

extensive cooperation with short-form video platforms or to pivot toward becoming a professional content producer in a different direction.

Not all user engagement stimulation methods with good market feedback can receive positive feedback from social and national regulations. The pursuit of attention monetization also requires positive guidance of national regulations. This is what to talk about in the next chapter.

## 5.4 Summary

The development and maintenance of user relationships set Chinese video websites and European and North American video websites aside significantly. The culture of Chinese video websites has been deeply influenced by the popular cultures of Japan and South Korea. Plus, the rapid development of Chinese internet technology has led to the rise of social media and participatory culture. Therefore, China pays special attention to the development of user engagement. This is also a unique feature of Chinese video websites revealed through their commercial operations. For video websites, developing and utilizing user relationships can fully attract the attention of users and achieve multiple conversions of users' power. Especially in the competition between video websites and short video platforms, the powerful attention economy and commercialization model of short video platforms have had a huge impact on video websites. While doing a good job in professional content production, video websites have not given up the exploration of user relationships, although a clear development path has not been found yet.

From another perspective, while stimulating the development of the membership system and user growth of video websites, user relationships have

also brought some problems, which often lead to state intervention due to their relation to ideology. I will deeply discuss it in the next chapter.

## Chapter 6 Policy-driven Business Model of Video

### Websites

#### 6.1 Evolution of regulations for Chinese video websites

With the development of China's network video industry, the Chinese government is actively encouraging the development of internet-related industries, while also continuously introducing regulations to standardize its development path. Generally speaking, we should promote the commercial development while emphasizing public construction. In other words, attaching equal importance to economic and social benefits has become an important principle for the Chinese government to regulate and standardize video websites.

##### 6.1.1 The main historical stages of regulation development for Chinese video websites

###### 6.1.1.1 The starting stage aimed at channel control (1999-2008)

The first stage of regulation development for video websites is roughly from 1999 to 2002. In 1999, the National Radio and Television Administration released the first regulatory document on the management of network audiovisual field in China, named the *Announcement on Strengthening the Management of Broadcasting, Film, and Television Programs Transmitted to the Public through Information Networks*. The document required that “all the broadcasting, film and television programs transmitted through various information networks within China, including the international internet, must be reviewed and approved by the National Radio and Television Administration”. The transmission of network audiovisual programs was directly restricted at the



channel level, which has put the dissemination of the audiovisual content on the internet under effective control of relevant departments of the Chinese government from the very beginning.

Upon the release of this document, the National Radio and Television Administration began to further strengthen the management of audiovisual programs on the internet, by such means as organizing routine national law enforcement and inspections of online audiovisual programs. Afterward, the management of the dissemination channels of network video programs was further tightened through the licensing system. The introduction of such documents as the *Interim Measures for the Supervision and Management of Information Networks Transmitting Broadcasting, Film and Television Programs* clarified that the licensing management system should be implemented for the online dissemination of various programs. But in the meantime, these documents also encouraged and supported traditional radio stations and TV stations to air their own programs on the internet, so as to enhance their online presence (National Radio and Television Administration, 2000). Moreover, apart from the department responsible for regulating audiovisual programs, many other national government departments such as the National People's Congress and the Ministry of Information Industry of the People's Republic of China also participated in the regulation of online information dissemination, network security, and other related areas, with audiovisual content included in the scope of regulation.

Since 2003, the regulation of state institutions on commercial video websites has entered a new stage. As video website enterprises gradually rise, and browsing video websites gradually becomes a media consumption method

for the elite group, relevant national institutions have formulated clearer and more specific regulations for video websites. Overall, relevant government departments have developed stricter regulations on the access system for network audiovisual programs. In 2004, the National Radio and Television Administration issued the *Administrative Measures for Audiovisual Programs Transmitted through the internet and Other Information Networks* (No. 39), which stipulated that the License for Audiovisual Programs to Be Transmitted through Information Networks was required to enter the field of netcasting, and presented the conditions for obtaining the license. It also proposed for the first time that network audiovisual programs should conform to the relevant regulations of the *Copyright Law*. In 2007, the National Radio and Television Administration issued the *Regulations on the Administration of internet Audiovisual Program Services*, which further clarified the access system and raised the entry threshold. This document stated that only state-owned sole proprietorships or state-owned holding units could apply to engage in net casting services. It also put forward the social and cultural responsibilities network audiovisual platforms should take on for the first time, and proposed that the netcasting industry should establish their own regulations. Therefore, in 2008, the first industrial *China Network Audiovisual Program Service Self-Discipline Convention* was issued. It encouraged contracting parties not to spread pornographic, violent, vulgar, infringing, and pirated content but actively promote “internet audiovisual programs with healthy and beneficial content that conform to socialist moral norms, reflect the development of the times and social progress, and carry forward the excellent cultural traditions of the Chinese nation” (*China Network Audiovisual Program Service Self-Discipline*

*Convention*, 2008).

In summary, during this stage, Chinese video websites were in their early stages of development, not seeing the introduction of many regulations or policies in the related fields. However, in accordance with these documents, we can still figure out the overall logic of regulations for video websites. On the one hand, the development of the Chinese internet should be encouraged, supported, and embraced, and more importantly, state media should be encouraged to actively expand their content layout into the internet, so as to promote the development and construction of the country's mainstream ideology in the cyberspace. On the other hand, necessary restrictions must also be imposed on the dissemination of network audiovisual content from the perspective of transmission channels, to ensure that the dissemination of audiovisual content in the cyberspace is subject to relatively strict control from the very beginning. Therefore, the logic of regulation in the internet industry has been formed since its inception, which combines “national institutions + industry self-discipline + promotion + regulated development” and “industry driving + content supervision”.

#### 6.1.1.2 The formation stage of the basic regulatory framework (2008-2017)

I see 2008 as a watershed of the regulatory framework mainly because during this year, the General Office of the State Council issued the *Provisions on the Major Responsibilities, Internal Institutions and Staffing of the National Radio and Television Administration* (General Office of the State Council, 2008). This document proposed to establish the Netcasting Program Management Division within the National Radio and Television Administration, responsible

for “drafting development plans and policies for netcasting services and guiding their development and promotion; undertaking the examination and approval of netcasting services (including IP TV programs, network broadcasting TV programs, and mobile audiovisual programs), as well as content supervision”. It indicates that the National Radio and Television Administration has become the main regulatory body of network audiovisual content, and the establishment of an independent institution also reveals that the country attaches great importance to the regulation of video websites. Once the management rights and responsibilities of video websites and net casting content have been divided and defined, there will be more effective and targeted measures for the development and standardization of video websites.

These regulations mainly focus on the following aspects:

First, the regulation and management of online audiovisual content. Relevant national departments focused on the supervision of video website content. At this stage, relevant departments of the country gradually completed the institutionalized construction of online audiovisual content. The forms, content, and dissemination methods of internet audiovisual content have been constantly changing with the upgrading and iteration of technology, and related regulations have also been continuously adjusted according to the video website content, to achieve timely regulation. But overall, content regulation at this stage was mainly done in the following aspects:

Firstly, established an orderly and rigorous license management system. In 2010, the National Radio and Television Administration issued the *Management Regulations for internet TV Content Services* and the *Management Regulations*

*for internet TV Integration Services*, which focus on the issuance of the two types of licenses for internet TV content services and integration services, further clarifying and improving the licensing system of the network audiovisual industry. In addition to the regulation and control of the National Radio and Television Administration departments, the regulation of video websites also featured multi-party management, namely, multiple departments simultaneously involved in the management. Apart from the network audiovisual content, which was directly managed by the National Radio and Television Administration, other online cultural products were mainly supervised by the then Ministry of Culture of the People's Republic of China. In 2011, the then Ministry of Culture revised the *Interim Regulations on internet Culture Management* (Order No. 51), proposing the licensing and filing systems for online music, games, animation, and other products. This indicates that the country has included all types of internet content forms within its regulatory scope.

Secondly, the regulation of video website content was continuously strengthened, especially the self-audit and self-examination of content on video websites. In 2010, the National Radio and Television Administration also issued the *Management Regulations for internet TV Content Services*, which proposed the establishment of a sound management and review system for programs and also classified and defined the business of internet audiovisual programs. Since then, as market entities, video websites have begun to assume clearer social responsibilities. In 2012, as web series and microfilms gradually became the mainstream of video websites, the censorship and regulation of such content were also strengthened accordingly. In the *Notice on Further Strengthening the*

*Management of Network Audiovisual Programs such as Web Series and Microfilms*, the “internet audiovisual program” has been renamed as “network audiovisual program”. Since then, this expression has been adopted in all subsequent regulatory documents. It was clearly stated in the document that network audiovisual programs such as web series and microfilms would adopt the “pre-broadcasting approval” content review system, and this responsibility would be undertaken by network audiovisual platforms. Under the principle that “Whoever operates the website undertakes the due obligations”, video websites have begun to undertake the task of content review and supervision. In other words, starting from the release of this document, video websites not only needed to consider how to make a profit through web series, microfilms, and others but also needed to bear the main responsibility for the political and moral orientation, copyright protection, and other aspects of the video content itself. In terms of the specific content regulation, video websites are mainly responsible for two aspects. First, supervising and controlling the illegal content such as pornography, gambling, and drug-related content on the platforms. For example, the “Special Action against Pornography and Illegal Publications on the internet” jointly organized by multiple departments every year was mainly targeted at those illegal video websites. Second, putting forward requirements on the management of video website content from various aspects such as politics and ethics, centering on the guidance issue of network audiovisual content.

Furthermore, this type of content regulation will be continuously updated and timely adjusted along with the emerging forms of internet content. The year 2016 was known as the first year of China’s network live streaming (Sun, 2017).

China's user base for network live streaming rapidly expanded to 325 million that year, with a market size of RMB 15 billion. At the same time, the National Radio and Television Administration successively issued the *Notice on Strengthening the Management of Network Audiovisual Program Live Streaming Services*, *Regulations on the Management of internet Live Streaming Services*, *Measures for the Administration of Network Performance Activities*, and others, to directly regulate and supervise the new audiovisual business form of network live streaming. These documents required the implementation of supervision over network live streams, an emerging form of audiovisual content, in accordance with the dual standards of "access system + review requirements".

#### 6.1.1.3 The regulatory upgrading and policy improvement stage (2017 till now)

2017 marks a key year for China's internet regulation, and has thus become a transitional period for the formation and upgrading of the regulatory framework. Also in this year, the Communist Party of China held the 19<sup>th</sup> National Congress. In early 2018, the country began a new round of institutional reforms. The State Administration of Press, Publication, Radio, Film and Television, established in 2013, was discontinued and replaced by the National Radio and Television Administration, and the National Press and Publication Administration and China Film Administration were established, which were managed uniformly by the Publicity Department of the Communist Party of China. Among them, the newly established National Radio and Television Administration is still responsible for the management of network audiovisual programs, while the Netcasting Program Management Division still "guides the development and promotion of network audiovisual programs, and supervises

the audiovisual programs transmitted through information networks and public carriers”.

Before the institutional reform starting in 2017, relevant national departments entered a high-frequency supervision stage on the internet audiovisual content. This is also related to the continuous enrichment of online audio-visual content. Video websites have become the mainstream platforms for internet content consumption and audio-visual content consumption. In other words, video websites are becoming emerging “mainstream media” of the internet era. In this context, the regulation at this stage has mainly focused on the following aspects:

First, standards on content supervision and regulation were improved overall, and equal management of TV stations and video websites was achieved. In its 2017 *Notice on Further Strengthening the Management of Network Audiovisual Program Creation and Broadcasting*, the National Radio and Television Administration clearly stated for the first time that it would bring online audiovisual programs in line with the standards and guidelines set for traditional radio and television programs. This holistic regulatory approach encompasses political orientation, values, and quality control. In this way, the supervision of video websites became stricter and more detailed. This kind of rigor and meticulousness is even more evidently reflected in the industry self-regulatory documents. In June 2017, the China Netcasting Services Association passed an industry regulation titled the *General Guidelines for Content Review of Network Audiovisual Programs* (2017), which explicitly stated to strengthen the guidance for the content review of network audiovisual programs, and highlighted their political, ideological, and aesthetic orientations, as well as the



review elements of plots, pictures, dialogues, music, sound effects, characters, and subtitles. It also emphasized the principle of “approval before broadcasting and thorough reviews”. After the regulation of long videos, the same logic is now applied to the regulation of short video content as the short video business continues to develop. In 2019, China Netcasting Services Association released the *Guidelines for Reviewing Short Video Content* and the *Management Standards for Online Short Video Platforms*, which listed 100 specific contents that “must not be allowed” in short videos. In addition to the requirements such as licensing management, and the editor-in-chief content responsibility system of approval before broadcasting, it also specified that the main body uploading content to the platform needs to be real-name authenticated, and individual users need to provide ID numbers and other information to publish content.

Secondly, there have been more cases of multiple-department participation in governance, and the supervision of other departments on video websites has become more obvious. The Netcasting Program Management Division of the National Radio and Television Administration directly supervises video websites, while both network information and cultural departments conduct more active and detailed regulations on video website content. In 2019, for example, the Cyberspace Administration of China released the *Regulations on the Ecological Governance of Network Information Content*. It clearly defined the rights and obligations of some network information producers, especially the principles and logic that should be followed in network ecological governance. In particular, responsibilities of network information platforms as well as a series of “warning lines” were clearly stipulated in it, and responsibilities of platforms including video websites were strengthened. In

2021, the Publicity Department of the Chinese Communist Party issued the *Notice on Carrying out Comprehensive Management Work in the Field of Culture and Entertainment*, which put forward clearer and more stringent regulations on the film and television industry and network content supervision. In terms of the management of variety shows, it was clearly stated that “minors should be strictly prohibited in talent show programs; the specialized rectification work for online variety shows should be continuously carried out; a correct aesthetic sense should be established and the control over the aesthetic guidance of literary and artistic works should be strengthened.” (Xinhua News Agency, 2021) This implies that the national regulation of video websites has become increasingly detailed and clearer. In addition to the National Radio and Television Administration, more and more departments have been engaged in the regulation of video websites.

During this stage, therefore, the national regulation of video websites has become increasingly stricter and more detailed, and multi-party supervision has become more prominent. In addition, the effectiveness of the self-discipline documents in the industry has also become increasingly stronger. Industry organizations have begun to establish clearer and more operational industry standards to regulate the development of video websites from the industry’s perspective.

#### 6.1.2 Main characteristics of the regulation for Chinese video websites

The development process of regulatory measures for Chinese video websites has undergone continuous changes and is consistent with the development of video websites, but overall, it presents a transition from being

lenient to strict, from being extensive to refined, and from single-department regulation to multi-party governance. This tendency is manifested more specifically in the following aspects:

Firstly, regulatory entities of Chinese video websites continue to expand along with the enrichment of the platform attributes. The development trajectory and business model of video websites have undergone constant enrichment and improvement. These websites not only provide audiovisual content but have diversified their profit models through their IP development mode. Their business scope is expanding, and their channels for customer connection and communication are increasing. Especially after the 19<sup>th</sup> National Congress of the Communist Party of China, the Publicity Department of the Party has continuously strengthened its coordination and management of literature and art and their publicity, network information departments have continuously strengthened their management of internet content ecology and network ecology, and cultural departments have also proposed new regulatory measures for the network cultural forms of non-audiovisual content. Efforts from all these different departments will make a difference in video websites. Therefore, video websites may face multi-party control when communicating the government departments and accepting government department management.

Secondly, the regulation as a whole is mostly in the form of management method and notice, which means that the regulatory measures for video websites are relatively administrative in nature. In terms of laws in the current field of the internet, the legal documents related to the development of video websites include the *Copyright Law*, the *Law on the Protection of Minors*, the *Electronic Commerce Law*, the *Law on the Protection of Consumer Rights and Interests*,

etc. Due to the platform attribute of video websites, they will involve in various types of laws related to the internet, IP, consumer rights and interests, etc. Therefore, these laws mainly regulate video websites from such aspects as commerce and copyrights. However, the specific business guidance for video websites and regulations on content directions rely more on the implementation of management measures. Due to the fast development and frequent content updates of video websites, it is difficult for internet laws to timely and accurately control the content on these sites. On the contrary, the current combination of “review mechanism + administrative notification” can effectively regulate the content on video websites in a timely manner. By disclosing targeted and detailed terms and notices in a timely manner, the content and political orientations of video websites can be immediately adjusted, making it possible to balance the pursuit of attention while maintaining control over the orientations.

Thirdly, an unchanging aspect of state regulation of video websites is the ongoing monitoring of their ideological bottom line. During the early stages of promoting the development of video websites, the Chinese government strongly encouraged and supported mainstream media, especially TV stations, to open websites in cyberspace as part of its policy to promote the implementation of mainstream ideologies on the internet. Similarly, in the face of a series of problems in the construction and development of video websites, the national regulations are also adjusted timely through policies, documents, notices and other forms to quickly stop the negative outcomes caused by programs or the relevant content in society. Especially when it comes to issues related to the youth’s personal growth and ideologies, such as fans problem, consumerism,

and food waste, regulations can be very tough and decisive. Therefore, all relevant regulations aim at ensuring the ideological security of the Communist Party of China and the country.

Fourth, China's regulations on video websites have gone from being loose to tight, and online platforms and satellite TV channels have gradually been governed equally by regulations. At the initial stage of the development of video websites, the national regulations on video websites were relatively loose, encouraging the development of the internet culture industry including video websites. The reason why the country has strengthened the regulations on video websites is that a series of new problems occurred in the advancement of video websites. For example, video websites are developed under capital's coercion and video contents are affected by capital; celebrities with a lot of followers on social media and Japanese and Korean fashion style aesthetics once dominated the whole entertainment industry and the social aesthetic culture, which, however, were resisted by forces of society and the country. Against this background, relevant authorities have strengthened control over video websites and introduced a raft of measures on celebrities with a lot of followers on social media, the insane hype of we-media, and celebrities' tax revenue, which have an impact on video websites' content production and business model. This is the main question to discuss in the next chapter.

## 6.2 The business model of video websites governed by regulations

After analyzing the relevant regulations on video websites, we find that the development of video websites is affected by national regulations. The last chapter emphasized that the country will make timely and dynamic adjustments

in its regulations due to the development and changes of video website business. Video websites also make prompt adjustments and responses according to national policy adjustments. In other words, the business model and route of video websites are always under the influence of national policies and regulations.

### 6.2.1 Video websites driven by policies of cultural industry

In the preceding chapters, we discussed the business models of video websites. We regarded the business model as a market economic behavior and conducted a multi-angle analysis of their formation and adjustments from the perspective of video websites. But in fact, their formation is not driven by video websites, nor is it a pure commercial behavior. In China, the shaping of the business model of video websites is bound up with national policies and regulations. China's video websites are developed along with the national support for the development of the internet industry. As an important form of the network culture industry and an emerging business mode, video websites have gradually become the growth driver of China's internet economy over the past more than two decades, which is closely associated with government support for the network culture industry. This kind of support is most directly reflected in China's *Outline of the Five-Year Plan for Social and Economic Development*.

The *Outline of the Tenth Five-Year Plan for National Economic and Social Development* issued in 2001 stated, "We will promote the integration of the information industry with the relevant cultural industry, as well as the integration of telecommunications networks, cable TV networks and the

internet”. It was the first time that China had included the cultural industry in the national economic development plan. In this context, film, games, radio, film and television, and other industries stepped up their pace of digital development. The introduction of policies such as *the Outline of the Digital Development of Films* and *Several Official Opinions on the Development of China’s Film and Television Animation Industry* greatly advanced the development of the above-mentioned industries in the field of the internet.

The *Outline of the 11th Five-Year Plan for National Economic and Social Development* issued in 2006 provided the more detailed and explicit planning for the digitization and networking of the cultural industry, for example, actively promoting the tri-network integration and developing digital television; building the next-generation internet and accelerating its commercialization; encouraging the development of the digital content industry in education, culture, publishing, radio, and film and television and enriching Chinese digital content resources; developing digital radio, film and television, as well as the modern publishing industry. These requirements indicated that the digital content industry, which emphasized digital production and online distribution, was gaining policy support. In this process, the government began to attract and encourage non-public capital in the field of video websites by virtue of government grants, subsidies, and tax incentives. In such a context, China’s video websites got the opportunities for rapid development. In 2009, the State Council adopted and promulgated the *Cultural Industry Revitalization Plan*, which upgraded the development of the cultural industry to the national strategic level. With the development of 3G network technology and the comprehensive promotion of the tri-network integration, the Plan aimed to “adopt the digital

technology, the internet-based technology, and other high and new technologies to vigorously promote the upgrading of the cultural industry”, “support the development of mobile multimedia broadcast TV, network broadcast TV, digital multimedia broadcasting, phone broadcast TV, and develop mobile cultural information services, digital entertainment products, and other value-added services”, and “accelerate the digitization of broadcast TV transmission and film projection”. With the help of these policies and technologies, online videos were developed rapidly and comprehensively. Therefore, video websites ushered in a boom in listing and saw a peak in the number of homemade online variety shows and homemade online dramas.

*The Outline of the 12th Five-Year Plan for National Economic and Social Development* issued in 2013 provided a long-term plan for industries including the online audiovisual industry, for example, constructing the next-generation information infrastructure, and coordinating the construction of the next-generation mobile communication network, the next-generation internet, the digital broadcast TV network, satellite communications, and other facilities; pushing forward with structural adjustment in the cultural industry, vigorously developing key cultural industries such as cultural creativity, film and television production, publishing and distribution, printing and reproduction, performing arts and entertainment, digital content and animation, and improving the scale, intensification, and specialization of the cultural industry. All indicated the country’s high expectations for the development of the internet content industry including video websites, as well as industrial clusters and industrial matrices. In addition, the initiative of “mass entrepreneurship and innovation” put forward in China after 2013 promoted the further development of the online audiovisual



content industry. It is worth mentioning that during the 12th Five-Year Plan period, relevant authorities launched a cultural financial support plan to encourage and support financial capital investment in the cultural industry, explore the establishment of the risk-sharing and compensation mechanism for loan defaults of the cultural industry, and promote the integrated development of the internet finance business and the cultural industry. In 2015, the central government allocated RMB 5 billion for the development of the cultural industry, showing the country's support for the reform of the cultural management system as well as the development of the cultural industry (Industrial Development Department of the Ministry of Culture and Tourism of the People's Republic of China, 2015). Against this backdrop, video websites were developed rapidly, which saw the increases in membership, and began to continuously improve the production level of their homemade contents.

The *Outline of the 13th Five-Year Plan for National Economic and Social Development* issued in 2017 marked that the country's strategies on promoting the network culture industry such as video websites entered a new stage. On the one hand, the country needed to promote the innovative development of cultural business forms, encourage the integrated development of culture with science and technology, information, tourism, sports, finance, and other industries, and expand and guide cultural consumption, which aimed at exploring and realizing the forms of the integration of cultural industries. These were also new goals and suggestions for deepening the development of the cultural industry from the level of policies and national strategies to some extent. At that time, the country officially began to supervise online platforms. The Outline stressed, "We will differentiate management based on the type of online operators and ensure

online operators strengthen their sense of social responsibility,” to purify the online environment. During this period of time, the country strengthened the management of both video websites and TV programs, and its supervision on TV stations was stronger than that on video websites. In fact, with the continuous improvement of the production capacity and level of homemade contents of video websites, the gap between video websites and TV stations was narrowing. Video websites were even better than TV stations in using capital and grasping contents and subjects, which intensified the competition between them. But on the other hand, as entertainment contents were increased and TV stations influenced public opinions by creating entertainment-related topics or hyping, serious problems appeared in the cultural industry and the public opinion ecology. In response to these problems, the National Radio and Television Administration issued the *Notice on Building Satellite TV Channels into Culture Communication Platforms Sticking to Correct Orientation of Public Opinion* in 2017 to limit airtime for entertainment contents of TV stations. However, video websites were not directly affected by the policy. In addition, the carrying capacity of video websites was larger and users had more options, so it was not easy to implement “unified online and offline standards”. As a result, there was a widespread belief in the industry that the “unified standards cannot be followed in supervision, so there was a perception that the internet outmatches TV”. (Gu, 2018). Under this background, the country’s strict supervision on TV stations also brought a new round of development opportunities to video websites. The *Notice on Several Policies of Supporting the Flourishing of TV Series* issued in September 2017 emphasized that excellent production agencies should be encouraged to participate in the

production of online contents and video websites should be encouraged to invest in the production of film and television series, which laid a good foundation for the subsequent production of homemade contents. The media value of the videos on video websites was highlighted in the circumstances. Analysis by iResearch (2017) shows that from 2012 to 2016, the average daily TV viewing time per person decreased from 169 minutes to 152.4 minutes, while usage time for online video mobile devices increased from 13.2 minutes to 94.6 minutes. The daily reach rate of TV viewers dropped from 68.4% to 60.5%, while the usage rate of online videos by internet users increased from 65.9% to 74.5%. Therefore, policies will not only directly promote or inhibit the development of video websites, but policies targeting other areas will also objectively stimulate the development of video websites.

*The 14th Five-Year Plan for National Economic and Social Development of China* in 2022 proposed to implement a digital strategy for the cultural industry, accelerate the development of new cultural enterprises, cultural business forms, and cultural consumption patterns, and strengthen industries such as digital creativity, online audio-visuals, digital publishing, digital entertainment, and online performances and broadcasting; accelerate the development of ultra-high-definition television production capabilities, promote the transition of television channels into high-definition ones, and advance the application of immersive videos and cloud broadcasting; implement a robust cultural branding strategy and establish a portfolio of influential and representative cultural brands. This indicates that China's focus on the cultural industry and its expectations for the development of the cultural industry has shifted from pursuing scale to pursuing quality, while also putting more

emphasis on online content guided by new technologies. The trend of combining technology and art has shown as a result of the government's policies. This is the strength and advantage of video websites, and it is also the future and direction of video websites under the guidance of policies and technology. In addition, in the Plan, it was clearly stated that efforts should be made to strengthen the creation, production, and dissemination of excellent cultural works, increase cultural exchanges with foreign countries and multi-level cultural dialogues, innovatively promote international communication, and use both online and offline platforms to well tell China's stories, spread China's voice, and promote mutual understanding among the people. This is the common development direction of Chinese video websites under the guidance of policies and technology.

Overall, in this section, the paper, starting from the country's *Five-Year Plan for National Economic and Social Development*, the paper carefully sorts out the relationship between Chinese cultural policies and the development of video websites every five years, clearly demonstrating the connection between the development of video websites and national policies. The development of video websites in China is closely related to the promotion and support of policies, which include both strategic and funding ones. But overall, video websites have gradually become "mainstream media" under the driving force of policies, and have begun to shoulder stronger social responsibilities as well as the mission of telling Chinese stories to the world.

#### 6.2.2 The video websites industry in the process of legalization

China not only provides policy guidance and encourages the allocation of

capital and technical resources toward the audiovisual content industry but also advances the legal systematization of this sector. The government is improving laws to strengthen the protection and regulation of market operations in video websites and promoting the legal systematization of the audiovisual content industry in the process. This is mainly reflected in the protection of copyright.

The *Copyright Law of the People's Republic of China* was passed and implemented in 1990, and was revised in 2010 and 2020. The law protects the rights of copyright owners and related rights holders and provides detailed regulations for legal responsibilities, supervision, and disputes of publishing, broadcasting, radio and television stations in the film and culture industry. In its third revision in 2020, the Law took proactive measures to address the development of China's digital technology and new cultural industries and included new situations related to the copyright protection and regulation of online audiovisual content within its scope of legal protection and regulation. Its impact on the online audiovisual industry mainly manifests in several aspects: First, the range of protection for objects under the *Copyright Law* is expanded. Specifically, films and works made with film-making-alike technologies are converted into audiovisual works, and open-ended provisions protect new types of works, thereby clearly including online audiovisual content in the scope of protection. The second is further clarification of the ownership of copyright. Specifically, the ownership of the copyright for historical self-made programs as well as that for works people create during their employment for organizations in the media industry is clarified. The third is to ensure that protecting rights will no longer "cost more than it is worth", and to strengthen protection for intellectual property rights of audio and visual content. To be

specific, the minimum limit of statutory compensation (RMB 500) is clarified, and the maximum limit of statutory compensation is raised to RMB 5 million. Punitive damages are clearly defined and the system of punitive damages for intellectual property rights is improved, which reduces the difficulty of proof giving. With constantly-improved laws, video websites have also taken up legal weapons to protect their copyrights against infringement. In Chapter 2, when discussing the competition between video websites and Chinese short video platforms, the paper mentioned that many short video bloggers engaged in illegal “secondary creation” without authorization. By suing the businesses and platforms that engage in “secondary creation”, video websites are utilizing the copyright law to safeguard their own legal rights and interests.

While strengthening copyright protection and cracking down on piracy and infringement, the government is also encouraging and guiding the management of copyright assets and the marketization of copyrights. In 2010, the National Radio and Television Administration issued the *Opinions on the Implementation of the Radio and Television Intellectual Property Rights Strategy*, emphasizing the need to strengthen copyright protection, and promote the construction and implementation of systems. The 2018 *Guidelines for Copyright Asset Management in News Publishing, Broadcasting, and Film and Television Enterprises (Trial)* focuses on the operation and management of copyright assets. Currently, video websites have set up specialized copyright management departments to achieve scientific, standardized, and normalized copyright management. For example, Youku’s legal department includes both BU Legal and Middle Office Legal sections. Among them, BU Legal section focuses on the front-end business, involving content, operations, and commercialization.

Middle Office Legal section is mainly responsible for contract management, copyright management, litigation and rights protection, compliance review, etc. The copyright asset management team is responsible for data collection, management, and operation of all copyright assets in the content domain of the group.

However, in the process of copyright protection, video websites rely on national laws and regulations and relevant guidance documents to carry out copyright-related work. In addition, because copyright is closely related to consumers, copyright protection and management is also a game between video websites and users. For example, the issue of shared account for the same membership number logging in to multiple devices at the same time is a concern for video websites both domestically and internationally. If the video website's copyright protection measures are too strict, it will lead to user resistance. However, if they do not take action, it will result in losses for the video website due to the lack of precise copyright management. From a practical perspective, therefore, the protection of copyright is still a process of constant negotiation and balance between the protection of video websites' interests and that of consumers' rights. Only through this ongoing process can progress be made.

### 6.2.3 The interaction and co-construction between video websites and national regulations

As mentioned in the previous text, the relationship between video websites and state regulation is essentially interactive and interconnected. As for the country's regulation, timely adjustments will be made based on the action strategies of video websites and the social effects they generate. Conversely,

video websites will also make dynamic business adjustments based on the regulations. This process is actually the interaction process between video websites and regulations. Here, the paper uses several incidents related to video websites as examples to show the interaction between the development of video websites and government regulations.

#### 6.2.3.1 Interactions between BL dramas, adapted BL dramas, and national regulations

Firstly, there was a trend of boys' love (BL) dramas and adapted BL dramas on Chinese video websites. Mainstream media in China have defined the BL culture as "a loanword from Japan that originated in the 20<sup>th</sup> century, meaning 'indulging in beautiful things', now commonly used in China to describe stories of love between beautiful men, primarily created by female authors for female readerships, aiming at satisfying female emotional desires." (Meng, 2021) BL dramas and adapted BL dramas have become an important genre of content on Chinese video websites. In 2016, a web series called *Addiction* became extremely popular during the Spring Festival period. After being aired on January 29th, it entered the top ten list of daylight web-series rankings on February 9 and garnered over 100 million views in total. Within 24 hours of airing, the show broke the record for the highest number of clicks on the first day of a web series with 10 million views. As a same-sex-themed TV series that was launched on Chinese video websites, it received attention from all sides, but due to the sensitivity of the subject matter, the TV series was taken down before its end.

Before the airing of *Addiction*, China's first so-called adapted BL drama



*Counterattack* was officially released in 2015, but it did not truly ignite public attention on the internet. Although *Addiction* has not been fully aired, it has proven that content involving same-sex emotional themes is more likely to be successful in the market. After the web series ended, the two lead actors became well-known in China and even the Southeast Asian market, achieving a leap from ordinary people to stars. Therefore, a large number of BL novel IPs have been acquired by TV stations and film companies and turned into web series. In order to avoid directly discussing same-sex emotions in the web series, the content creators have adapted the explicit same-sex emotions in novels to be more ambiguous, vague, and obscure emotions. Brotherhood, master-disciple relationships, and colleague relationships are transformed into the main storyline of the plot, making the “adapted BL web series” different from the “BL web series”. According to incomplete media statistics, from 2015 to 2021, a total of 24 adapted BL network dramas were broadcast on various platforms (Lanjinger, 2021). Among them, dramas such as *Guardian*, *The Untamed*, and *Word of Honor* have become explosive hits in the Chinese television market, creating extremely high online popularity and helping their main cast to gain value and acclaim in the commercial and professional fields. *The Untamed* is the most representative. In the one or two years after the drama aired, both male lead actors consistently topped the list on social media platforms such as Weibo. Driven by such huge benefits and temptations, a fierce battle for IP adaptation rights of adapted BL dramas has also erupted among video websites. In 2021, many leading film and television companies and video websites began to hoard BL novel IPs, with 59 BL adaptations registered at that time. It is evident that the market for adapted BL dramas is booming.

To some extent, this trend of popularity also indicates the excessive pursuit of video websites towards this type of subject and content, leading to overheating of capital and market. The reason why this type of TV series can be greatly sought after is mainly related to the “fujoshi” market it uses and exploits. Fujoshi culture is a new subculture group born from Japanese anime culture, which fantasizes about intimate relationships between the protagonists and different characters in web series and personally participates in the re-creation of web series. They actively grasp the movements of actors in the series, filming location, and promotional activities, capturing details of the actors from such activities and magnifying these details to imagine—in a state of “painstaking investigation”—the two main actors as a same-sex couple. For example, data shows that in the bullet comments of the web series *Guardian*, the term “eye contact” was mentioned over 100,000 times. The audience fantasizes and constructs an intimate relationship between the actors through their eye interactions and communication (Fang, 2019). Therefore, fujoshi girls (girls who enjoy imagining romantic relationships between male fictional characters) are actually the most active producers of participatory culture, as described by Jenkins (2016), and as a result, they have become the most willing consumers of CP (couple) content featuring their favorite actors. In fact, they have also demonstrated an astonishingly powerful purchasing power. The BL (Boys’ Love) web series *Counter Attack* follows the production model of *Addiction*, but instead of partnering with video websites for distribution, it is sold in the form of DVD on Taobao. The first batch of products, 7,000 copies at a price of RMB 235 per copy, was sold out within three minutes after being released. Tickets for the fan meeting were also snatched within three seconds, with scalpers raising

its original price of RMB 380 to over RMB 2,000. In 2019, *The Untamed*, an exclusive web series on Tencent Video, apart from being viewed nine billion times, garnered a revenue of over RMB 150 million from paid early access to the final episode in 2019. Afterward, Tencent Video exclusively live broadcast the farewell concert, directly earning a ticket revenue of RMB 200 million. Of course, these figures do not include benefits from increase in active users and members brought by web series to the website when the drama was on. These data fully illustrate that video websites and film and television companies have seen the consumption potential of this sub-cultural group of fujoshi and are trying to continuously tap into their real purchasing power. Some media even describe this as a “small-cost, high-yield, quick money grabbing war” (Deep Echo, Tingting, 2021). Of course, not to mention that behind this, it involves the driving forces for deeper economic interests such as film and television companies achieving their listing goals and valuation adjustment mechanism.

But in such a fan frenzy, what’s being reaped is not only the fans’ wallets, but also their values. Firstly, for the entire industry, overly emphasizing a specific culture, particularly this kind of subculture, will reversely push the overall aesthetics and overall trend of the industry to excessively cater to the market. During a certain period of time, “flower boys,” “handsome but effeminate young men,” and “youth idols” became the mainstream recognized by the market. From the perspective of national governance and social culture, this trend solely driven by the market and capital actually hinders the diversified development of social aesthetics. Secondly, from the perspective of adolescent growth, there is quite a lot of pornographic and violent content, and even much fallacious physiological knowledge hidden in the fujoshi culture. The highly

segmented and strongly divided group communication characteristics among fan communities have allowed a large number of young fan groups to talk to themselves within subcultures. The fan groups, which are divided into various factions, have shown a strong fighting spirit towards each other, freely attacking and insulting each other, and launching cyber violence at will, which has become a new norm in the struggle of young fans. This not only poses a threat to the stable development of cyberspace in China, but also undermines efforts to ensure the country's ideological security, especially in relation to shaping the online behaviors and personalities of the younger generation.

Faced with such a problem, relevant government departments have jointly begun to regulate the adaptations of BL works. On September 16, 2021, the National Radio and Television Administration held a meeting, clarifying the need to severely crack down on chaotic phenomena in the entertainment industry. The meeting proposed to strengthen positive guidance for the creation and production of TV series and firmly resist the phenomenon of entertainment-oriented concepts such as pursuing popularity alone, fan culture chaos, and the trend of adapting BL works. Afterward, a lot of "BL novel-adapted" series productions were soon halted, and even some series that had already obtained broadcasting qualifications were ultimately stopped to be aired online. From the perspective of both the market and the platform, a U-turn in relevant policies has led to economic losses. However, in the face of tough policies, the business model dependent on fan economy and fan culture quickly came to an end.

#### 6.2.3.2 Interaction between idol development programs and national regulations

Since 2018, platforms such as Tencent Video, iQIYI, and Youku have successively launched idol development programs, gaining popularity in the market. In fact, since the beginning of the 21<sup>st</sup> century, China's entertainment culture industry has experienced multiple waves of talent shows, which—especially those that chose talent in the form of voting—have indeed delivered outstanding cultural and artistic talent to China's entertainment industry. To a certain extent, this type of program can turn into a talent selection mechanism targeting the market.

But unlike previous TV talent shows, this type of program that started in 2018 places more emphasis on the “development” property. It is most intuitively reflected in the fact that fans need to witness the so-called “idol artists” transform from ordinary people into a group of male artists after the program's production cycle, just like sands washed by great waves. Therefore, both programs' operational logic and the audience's viewing logic have changed. Specifically, the programs' selection mechanism targets both selecting individuals and individuals and groups. In the past, talent shows focused more on individual selection, while development programs finally select boy/girl groups. This performance form, originating from Japan and South Korea, aims to let every audience/user find his/her favorite idol from a group with multiple individuals, thus achieving the “maximum common denominator” coverage for this type of group. Secondly, this kind of program focuses on “development” and continuously develops emotional connections between users and trainees. Unlike television programs, the duration of videos on video websites is not

strictly limited by frequency spectrum resources. Therefore, a single episode of them can last more than three hours, ensuring that many participants can get adequate exposure. In addition to the main program, the production team also specially edited behind-the-scene footage for the fans. Users can see interactions between trainees during their practice in the behind-the-scenes footage, and observe their more everyday training life. By constantly deepening their emotional investment in the trainees through this “surveillance” of their daily lives and observation of their stage performances, loyal and reliable fan bases of the trainees are eventually formed. They accompany the trainees throughout their growth and debuts and ultimately contribute to their commercial success by purchasing products endorsed by the trainees. It is precisely because of such a close and deep emotional link that the relationship between fans and idols is unimaginable and incomprehensible to non-fans. For this reason, this type of program is able to garner unprecedented user engagement, with fans deeply investing in both emotionally and financially, which further deepens their love and adoration for their idol artists. This is the third characteristic of this type of program. Idol development programs are, to some extent, also a manifestation of maximizing user engagement. The sponsorship fee for these types of programs is not low. In 2021, *Youth With You 3* had collaborations with sponsors such as Mengniu Zhengguoli, and Estée Lauder. *Produce Camp 2021* also had sponsorship from brands such as Mengniu Chunzhen, Darlie Toothpaste, and YSL. In terms of categories, these sponsors cover food, household necessities and cosmetics, electronic products, internet platforms (including music platforms), online education, clothing, and others. The sponsorship fees offered by these advertisers also amount to billions. Why are these advertisers willing

to invest in these types of programs even during the COVID-19 pandemic? The reason lies in the strong purchasing power of fans. In terms of programs' voting mechanism, fans need to buy specific consumer goods of sponsor brands and vote for the contestants through the QR codes on the consumer products. Under this mechanism, sponsors' consumer goods are highly involved in the process and links of the program and play a role of influencing and even determining the fates of the contestants; identities of platform users and sponsor consumers overlap a lot, with strong and impulsive consumption intentions, finally becoming a user power with an extremely high value under the business logic of video websites.

However, fan groups are not completely subservient to or dependent on the commercial logic of video websites. Fan groups are fully aware of the profit motives of video websites and brand sponsors, but still accept the fact that they have to invest in emotional labor for the debut of their beloved idols. It is precisely based on this logic that the relationship between users and platforms appears to be relatively tense and torn. Therefore, as fans, users are constantly seeking opportunities to break platform rules to vote for the contestants they like, which has led to vicious competition among fan circles. This vicious competition has some consequences. Firstly, the negative impact of fan culture popular on Chinese social media is gradually outweighing the positive impact. Fans engage in direct attacks through collective actions such as insults, slanders, and cyber violence. Many participants of such actions are minors, which exerts a negative influence on the growth of adolescents. Secondly, a gray industrial chain has been formed in the fan culture, which negatively affects not only the values of teenagers but also video websites and even the entire cultural

entertainment industry. With multiple platform accounts, fans contribute to trainees' statistical data (comments received, likes, etc.) on social media platforms to highlight the trainees' commercial value, which is actually what paid posters do. This, however, greatly undermines the significance of the data for various parties such as video websites and advertisers—as it cannot reflect the real market situation —and will affect the market's perception of the commercial value of celebrities. The process itself forms a gray industry chain, which is likely to be exploited by people with ulterior motives to interfere with the market and make a profit for themselves. Thirdly, the development of the cultural entertainment industry is becoming increasingly transparent, with the “black box” gradually opened to the public. To ensure the debut of their favorite trainees, fans not only vote for, increase comments, and give “likes” to their liked stars, but also go through various means to uncover the “black histories” of their competitors. The “black histories” includes not only other trainees' past personal moral and legal problems but also the problems or disputes that their families have faced or are facing. Fans see that trainees who want to become idols need to do their best to ensure perfection in their appearances. However, due to fans' emphasis on stars' law observation, as well as the “one-vote veto system” gradually formed in China's regulation of the entertainment industry regarding law-violation celebrities, many trainees' problems and flaws in their family and personal backgrounds have been exposed and even have a fatal impact on the development directions of their programs. From this perspective, therefore, such an environment tightens the requirements for the background and knowledge of trainees. Objectively, however, programs of the same kind continuously released on multiple platforms for consecutive years ultimately



leads to a shortage of high-quality talent in the trainee market and even the situation that some trainees participate in the program after only a few months of training, ultimately affecting the programs' quality and presentation effect.

In 2021, during the recording of *Youth With You 3*, a short video became a hot topic on Weibo, in which a group of rural women sat around a ditch, twisting open yogurt bottle caps and pouring out the yogurt inside. Soon, internet users discovered that these bottles of yogurt were actually bought for voting, but it ended up causing food waste. After the incident sparked heated discussions, iQIYI announced the suspension of the show's recording, Mengniu released an apology letter, and Beijing Municipal Radio and Television Bureau required talent competition-type network variety shows not to set up the link of letting audiences buying votes. Later, iQIYI also publicly announced that idol talent shows and any off-site voting links would be canceled in the coming years. This has had a huge impact on video websites and even the entire industry, causing considerable economic losses. Since then, all relevant platforms have stopped producing and making related programs.

Looking back at the relationship between this type of program and relevant national regulations, it is not difficult to find that these regulations are also triggered by important and social incidents. Since the day when idol talent shows gained popularity, they have come under much social attention and discussion, but on the regulatory level, they didn't receive an "absolute ban". But when similar social phenomena were repeated over time, qualitative changes caused a quantitative change. In terms of the business model of video websites, such regulations will have a significantly negative impact on the revenue of video websites in the short term. However, given both commercial

interests and social benefits, as well as the long-term and healthy development of the industry, the introduction of such regulations is both reasonable and necessary.

Based on the above two cases, we can see that in the development process of Chinese video websites, national regulations have a decisive impact on their specific business models. This is reflected in the “one-vote veto” system, which allows the government to halt the production, distribution, and operation of certain types of content on video websites as well as development targeting fan groups. Once negative social impacts occur, this business model will be stopped. However, the formulation of policies follows the principle of prioritizing social and public interests, and the ban on such a business model has its basis of legitimacy. Therefore, the relationship between policy regulation and business model is a dynamic and seesaw process.

## 6.3 The future under the interaction of regulation and business model

### 6.3.1 Rethinking the relationship between national regulation and business model

A long time ago, China formed a relatively extensive but extremely effective post-incident regulation form for audiovisual content. With the continuous development of video websites and introduction of regulations, video websites, following the footsteps of regulations, achieve a balance between publicity and commercialization. “The essence of this balance is to let

the power of the market and capital satisfy the country's political and ideological requirements, to realize the effective and even maximum realization of capital interests while ensuring the effective dissemination of the country's ideology.” (Lang and Pan, 2016) Therefore, the exploration of the business model of Chinese video websites must, in essence, attach equal importance to economic and social benefits, and only in this way can the business model of video websites continue to be enriched and improved.

Under this logic, the significance of national policies to the business model of video websites mainly lies in the following aspects. Firstly, national policies provide opportunities for the development and growth of video websites and create possibilities and space for the development of their business model. The introduction of regular relevant policies by the country actually guides video websites in the development direction of the industry. In particular, dividends and opportunities given by relevant policies to the development of video websites provide important opportunities for them to gain the favor of the capital market, rise rapidly, and further develop. The establishment of some important awards has also guided the direction of their creation. Secondly, in the development of video websites, relevant national regulations are actually becoming more and more stringent. Strict regulations imposed by relevant departments on TV stations objectively provide video websites with a longer window phase in terms of development. As commercial entities, video websites will actively stimulate user activity and engagement, promoting the conversion of viewing power to consumption power. However, when the triggered social effects and negative effects outweigh commercial effects, in other words, when the business model brings greater negative social impacts, regulations will make

their appearances and play their role after incidents happen. This will directly invalidate the business model formed by video websites, which fully demonstrate the authority and strength of state power.

From a national perspective, as the user base of commercial websites continues to grow, video websites have gradually become the mainstream media platforms in the era of the internet from the perspective of national governance. Thus, the country attaches more and more importance to video websites. It not only regards the websites as crucial economic subjects in the market but also important ideological entities. The content production by video websites is assigned social responsibilities and the responsibility and mission of ideological transmission. This is just the reason why the country rolls out relevant regulations. So to establish a business model, video websites must respect and follow these requirements and missions.

Of course, such regulations are not completely fixed, or never unaffected by other forces. The establishment of regulations also must conform to the will of the public and meet their needs. Realistically, many national regulations are also adjustments and decisions made based on public opinions and social feedback. On the one hand, active internet users can report content and websites they think have problems through channels established by relevant national departments, which will respond to and rectify them. On the other hand, when the content of video websites is controversial online and even among the public, it is time for regulations to be introduced. Behind the introduction of regulations, therefore, there also exists control from public opinions. Therefore, as for the introduction of regulations, it also needs to consider whether it excessively restricts the development of the market and the operation of video websites. For

many, when regulations cover too wide of a scope, especially when they affect people's viewing experience and make their needs unmet, overly strict regulations will draw attention and even criticism from internet users. Some cases that are not actually subject to these regulations—such as web series not allowed to be released and celebrities banned from appearing on screen—are perceived as such by the public. In fact, to some extent, this is also a manifestation of excessive “politicization”. Overall, therefore, the relationship between national regulations and the business model of video websites is a dynamic, seesaw, and mutual trade-off process.

### 6.3.2 Restart: reconstruction of the business model after introduction of regulations

**National policies and regulations reflect the influence of national power in the development of video websites.** When analyzing the relationship between national regulations and video websites, we need to see that regulations have no decisive influence on the business model of the websites, nor do they completely contain the development of the model. The two have been exploring a dynamic balance.

In European and North American countries, video website-related regulations and standards mainly focus on the commercial competition field of the websites, anti-monopoly, anti-unfair competition, and copyright protection. In addition to these aspects, China pays more attention to the content strategies and orientations of video websites. For Chinese video websites, opening up the user market through BL and idol development programs is of great significance to their early rise and content breakthroughs. On this basis, video websites

continuously enrich and expand their sub-categories. In fact, it is not only Chinese video websites that have adopted such strategies. Video websites worldwide used similar strategies to achieve breakthroughs in their early development stage. For example, Netflix made content breakthroughs through sensitive and controversial web series such as *House of Cards 2012* and *Orange Is the New Black* in 2012 and 2013. *House of Cards 2012* focuses on the US presidential election and presents the political black box in an artistic way through a web series; *Orange is the New Black* associates women with prison culture and explores topics of institutional systems and human nature. By focusing on highly political and social issues, Netflix quickly gained an audience base and opened up new markets. The public and critical nature of this content also attracted the attention of industry professionals, especially film and literary critics, earning praise and recognition from professional circles. As a result, the video website was able to reach a win-win situation between the market and the public, establishing brand awareness through high-quality content. In other words, innovation became a major advantage for video websites to compete with TV stations in the early days. Unlike Netflix, breakthroughs that Chinese video websites relied on for their early rise were not focused on public or political issues, but a path with subculture as the breakthrough point at the commercial and consumer levels. Subcultures naturally have some critical elements, but when subcultures enter the market and are influenced by commercialism, critical subcultures show romanticism. Video websites continuously amplify this romanticism and even combine it with consumerism, triggering waves of online consumer frenzy. When certain factors of enthusiasm and romance in subcultures are activated and amplified by video

websites, they can create huge ripple effects at a social level, causing the pursuit of a certain subculture to become a trend and phenomenon, and subculture issues therefore transform into public issues. This is also the root of success for this type of program. However, once the popularity of a subculture's attributes touches upon the requirements of social morality or is deemed by the government or mainstream to have a negative impact on social stability and the growth of minors, it may be restricted by relevant state departments. This shows the differences between China's video websites and those in Europe and North America. But this does not mean that the Chinese government's regulatory power is entirely negative for the development of video websites. The regulation is based on the "bottom line" principle, requiring video websites to constantly explore the direction of development in their interactions with the country's regulations. In recent years, some self-produced series under the theme of cracking down on criminal activities such as combating and rooting out organized crimes and drug prohibition and crime have helped video websites gain acclaim in the market, industry, and political spheres. The success of *Knockout* mentioned earlier is a typical example, proving that the country's regulations of the content and operation of video websites are not to suppress the development of video websites with a heavy hand, but with the hope that the content and development of video websites can play a positive role in maintaining national social stability, guiding social progress, and shaping the image of the Communist Party of China and the Chinese government. Therefore, compared with other countries, the business model of Chinese video websites not only has commercial characteristics but also has social characteristics. And to some extent, social characteristics become the premise of commercial ones.

If the specific operation of a video website is against the national development and social public interests, then it will be vetoed regardless of how excellent its content and operational strategies are in terms of business.

Nonetheless, these regulations have been unable to solve some of the disorder and problems that persist within the market and the industry. This problem is mainly reflected in professionalism. Some scholars suggest that in China, the country effectively integrates both market regulations and moral sanctions through administrative and economic means, thereby influencing or guiding the direction of audiovisual content production and creation (Wu and Zhao, 2014). Such a regulatory logic can have an immediate effect in guiding the direction of creation and solving problems involving moral and legal aspects. However, such regulatory measures cannot completely solve the problem of “bad money driving out good money” in the cultural and entertainment industries. For a long time, some series did not have obvious flaws in terms of morality, law, and ideology though, their content went against the audience’s aesthetics and preferences. This relatively vulgar way of winning public attention and popularity is not uncommon, but often evades the censorship rules of TV series. For video websites, after such content types as talent shows and BL adaptations that can fully stimulate users’ enthusiasm for participation are forbidden, what kind of other content can be favored and liked by the audience, and how they can continue to develop business models based on content are what the websites need to continue to explore.

## 6.4 Summary

This chapter deeply analyzes regulations and supportive policies



concerning Chinese video websites, finding that the country encourages and regulates the development of video websites simultaneously. It supports video websites from an industrial perspective while imposing certain restrictions on their content and operations from an ideological perspective. Compared with European and North American countries, which attach more importance to monopoly and copyrights, China's regulations and policies on video websites are more diverse and dynamic. But fundamentally, in China, the relationship between the business model of video websites and relevant policies and regulations is not a binary opposition, but is aimed to achieve a synergy between market and governance objectives. This is also a goal that video websites need to fulfill. To this end, it is more important to innovate from the perspectives of content production and user relationships.

## Conclusion: The landscape and future of the business model of Chinese video websites

At the end of the paper, we need to return to the three questions to answer raised at the beginning. In fact, the overall discourse of this paper, based on the business value chain theory and the actor–network theory, revolves around them. Here, I will summarize the business model of video websites based on the three questions.

Firstly, the development history of Chinese video websites is consistent with that of the Chinese internet, and video websites become a microcosm of observing and studying the development of the Chinese internet industry. Overall, the development of Chinese video websites has experienced the podcast era, the capital era, and the self-production era. Fueled by investment and financing activities and waves of mergers and acquisitions of video websites, and supported by continuous technological advances, these websites have achieved a content production shift from UGC to PGC. Chinese video websites' business model is not exclusive to this industry alone. Their dependence on content and capacity, and continuous readjustment to align with realities are both defining characteristics of Chinese video websites' business model development and of the overall growth trajectory of China's internet industry. From this perspective, the development of video websites relies on the development of China's internet industry and internet market.

Secondly, the understanding of the business model of video websites cannot be separated from that of the media market. From TV's "leaning back" experience to the "leaning forward" interactive mode, video websites maintain

their focus and development of attention resources, which is consistent with previous media. The core of video websites' business model is to attract users' attention and to develop and transform this attention, called "user power" in this paper. The shift from "leaning back" to "leaning in" means that video websites can develop user power in more possible ways. Video websites are constantly fueling user participation and investment, encouraging them to put in more time in video watching, interacting, and experiencing on video websites. Video websites have shifted their focus from UGC to PGC development essentially because they discover that PGC can attract the most user power. This explains why they commercialize it. When video websites form a business model with PGC as the core, they will constantly upgrade and adjust it. Essentially, this is a process of looking for new ways to stimulate user power, or of looking for ways to more efficiently stimulate user power.

Thirdly, this paper lists the main components of the video website business model and attempts to break down and analyze the model from four angles: market and capital, content production, user relationship, and policy. This paper finds that video websites always opt for these four factors in the process of building and developing their business models. In other words, these factors are key to their business models. The merger and acquisition spree that capital and video websites experience has helped video websites establish the current competition pattern; content production provides a lasting impetus for the commercial development of video websites, and user relationship affords video websites the possibility to continue to maximize commercial value. State policy provides policy support for business models and at the same time, prevents the business model of video websites from becoming overly entertaining and overly

commercialized. See the table below for details:

Table 7.1 Key Factors and Action Mechanism of the Business Model of Video

Websites

Key Factors	Definition	Mechanism of Action on Business Model	Potential Problems
Technology	The development of video websites depends on physical support from technology. Technology includes not only the whole of the internet infrastructure but also specific technical tools that video websites use to deliver services.	The existence of technology is the premise for the existence of the business model of video websites. The adjustment and upgrading of the business model of video websites are closely related to technology's implementation power. The iteration of technologies related to the internet, the mobile internet, and the Metaverse makes it necessary for video websites to constantly adjust their specific business models. The technological upgrade is of crucial significance for product improvement and efficiency enhancement on video websites.	Technology is often overlooked as a background existence in discussions about business models. Technology research and development require huge investment and expenditure, so video websites should strike a balance between technology and content production.
Capital	The pillar of and guarantee for the continuous development and growth of video websites lie in their confidence in expansion and active market competition.	Video websites have been spreading stories about development and wealth to attract capital since their establishment. Therefore, in the early stages of their development, video	The sequacious and overheated pursuit of capital led to the erosion of content production by capital in China's video website industry. The overheated

		<p>websites sought to draw more user attention, funding, and mergers to monopolize the market.</p>	<p>pursuit of capital gave rise to video websites that “burn money” to survive. The capital competition model can hardly ensure video websites’ sustainable development and self-renewal.</p>
Content	<p>Content is crucial to the survival and development of video websites. Video websites rely primarily on content in competition. In the business map of China’s video websites, content includes self-made/cooperative TV dramas, variety shows, online movies, cinema movies, documentaries, and sports competitions. It can be divided into PGC, UGC, and PUGC by the source of production.</p>	<p>Content is the core of the business model of video websites. The establishment of all business models—the management, cost, and income—all depends on the production and distribution of content. This is why video websites implement the cost-first strategy.</p> <p>China’s video websites innovatively converted the concept of IP from a legal concept to a market and operation-based one in their development. IP thinking (systematic content development) has become the main content operation model for video websites.</p>	<p>The uneven quality of content still restricts the development of video websites, which are supposed to deliver a stable supply of high-quality content.</p> <p>The industry still lacks a systematic awareness of how content can really attract users and stand out.</p> <p>The production of much non-mainstream content makes it hard for content producers to make ends meet, resulting in project loss.</p>
Users	<p>Users are content consumers on video websites; they are also producers of voluminous UGC.</p>	<p>User power is the ultimate goal of video websites that explore business models. It is not only a display of strength for video websites in the capital market, but also the ultimate goal of video</p>	<p>Three controversies surround the membership system. The rates, in particular, are always at the root of the tension between users and video websites.</p>

		<p>websites' content-based IP development and operation. The goal of differentiated competition between video websites is to attract maximum user attention, increase membership, and boost the cashability of the membership system.</p> <p>In the Chinese market, the fans of content and celebrities have become the key group for development and attention.</p>	<p>In addition to membership fees, the dispute over the fan economy, the "secondary creation" by users, and copyright have long been the focus of controversy.</p>
Market competition	<p>Video websites will generally compete for users.</p> <p>Competition for users and copyright disputes also occur between long-video websites and short-video platforms.</p>	<p>The type of ongoing competition determines the business model to be adopted. Competition in China's video website industry can be described as a rat race. This requires video websites to constantly innovate their content to retain users.</p> <p>A large share of user leisure time has been grabbed by short videos, forcing video websites to deliver short, adaptable, and fast content and tweak their strategies in a timely manner.</p>	<p>The over-exploitation of content has long plagued the development of video websites. Content production imitation can cause aesthetic fatigue with a certain type of content. Excessive competition has led to rapid content consumption.</p> <p>Short-video platforms can reduce the user base of video websites and they are often involved in disputes over content copyright with long-video websites.</p>
Government policies and regulations	Government policies and regulations include the laws, regulations,	On the one hand, government policies and regulations can	Business models must not cross the red line drawn by

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<p>policies, and rules issued by the central government and local governments on video websites' content production and marketing.</p>	<p>contribute to the rise and development of business models. However, a content type or content model which overly compromises public good or rouses negative public opinion may face a "one-vote veto" from the state.</p>	<p>the government in its policies and regulations. They should maintain a balance between commerciality and publicity and between commercial interests and social interests. Video websites may continue to double down on public good and other issues, but mainstream content which causes controversy and discussion remains under the control of national policies and regulations.</p>
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It is proposed in Introduction that the business value chain is an important theoretical source and foundation for this study. This means that both the key factors in the business model and the relationships between them will be under discussion. In this paper's first part of the theoretical basis, it is proposed that the business model can form a chain-like value chain. However, this relatively static value chain can neither reflect the objective reality that the business model of China's video websites is being dynamically adjusted nor adequately describe the interaction among the various factors. Bauman put forward the concept of a "liquid state society" to describe the high mobility and significant uncertainty surrounding the components in a data- and technology-driven era. The analysis of and research on the business model of China's video websites show that the business model of video websites also has a distinct "liquid state" nature, forming a "liquid state" business model and that it changes with specific changes in technologies, the market environment, and user relationships. This

change in the business model is the result of continuous adjustment and testing of these relationships. Therefore, if users do not significantly change their viewing habits and status, the adjustment and optimization of the business model of video websites will revolve around the changes in the relationships between these factors. The value of the relationships between the factors is far more meaningful than that of these factors. To describe this relationship more comprehensively and scientifically, the Actor-Network Theory (ANT) is used as an important theoretical resource for discussing the relationships and considering factors such as people, enterprises, technology, and content on the same dimension. This is a point of innovation in this paper's theoretical exploration of the business model.

While the business model of video websites adopts differentiation as its main strategy, it should dynamically adjust the factors in line with the specific political and economic context when highlighting the differentiated competition. From a historical perspective, the business model of China's video websites is a "liquid state business model". Since it is difficult to summarize this model in one linear statement, the relationship is shown in the following figure.



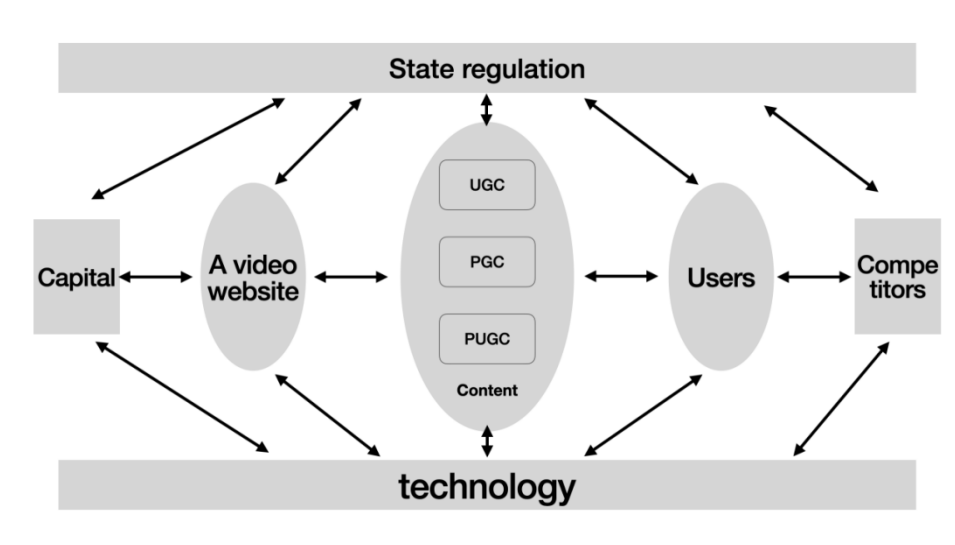


Figure 7.1 The “Liquid State Business Model” of China’s Video Websites

This research proves that ANT can adequately explain the formation of the business model of video websites. People, technology, content, and system constitute the key factors and core of the model. None is more important than another; they interact with and accompany each other. The relationships formed in the business model of video websites are not like a chain; they are like a network. In this paper, they are seen to form a network-like business value model for China’s video websites. Although every node is playing a role in this model, the business model of video websites is essentially a process of fully stimulating user power in one way or another. For video websites, the professional content they produce is what primarily attracts users. To enable user power, the business model of video websites mainly aims to bring video websites and users together. This emotional connection can effectively stimulate impulsive consumption in users. In the specific implementation process, video websites seek to fully understand and activate user participation to stimulate user power. Some video websites encourage users to upload videos to establish

an online community where users are amassed; some video websites use professional content to attract the largest number of users possible and use high-quality content to boost users' willingness to watch and build a user membership system.

From an external perspective, capital, national policies, technology, other technology platforms, and other video websites have an impact on the business model of video websites. Whether capital can give video websites more room to "burn money", whether national regulations can afford video websites more possibilities to explore user power, and the competition between video websites are set to affect the business model of video websites (convergence or divergence). To some extent, these external factors will even determine the success or failure of the business model of video websites as well as its future.

For this reason, the business model of China's video websites is not aimed at merely increasing revenue or cutting expenses, but at optimizing internal resources (content resources, human resources, production resources, etc.) to achieve cost control; on the other hand, it is aimed at increasing income by improving content production efficiency, relying on technology, developing the user operation model, and other means, going further than the cost-first strategy, and strategically constructing a two-wheel model driven by cost and profit. This is a holistic picture of the relationships built in the business model of China's video websites.

However, multiple specific cases and discussions presented in this paper show that the dynamic nature of this relationship model which surfaces when different factors exert influence on the decision-making and development of

video websites at different times is mainly manifested in the difference between the most influential key factors in the business model of video websites.

Table 7.2 Key Factors and Mechanisms of the Business Model on Different Dimensions

Dimension of Business Model Comparison	Key Factors	Mechanism of Acting Key Factors
TV stations Vs video websites	Technology and capital	Technology and capital support provide video websites with content production strength and ability. They contribute to the rapid rise of video websites and enable them to surpass TV stations.
Video websites Vs video websites	Content, user relationships, capital	Content innovation and production capacity and the ability to develop and maintain user relationships are the primary driving force behind the competition among video websites.  The capital strength gap between websites determines what specific competition strategies to take.
Video websites Vs short-video platforms	Technology, user relationships	The difference in the underlying technical logic of long and short videos determines the difference in their profit models and paths. Compared with short-video platforms, video websites tend to regard users as audiences, while short-video platforms tend to regard users as consumers.
China's video websites Vs foreign video websites	User relationships, national policies	In China, national policies and regulations have a great impact on the business model of video websites. The content orientation and user relationships on video websites are regulated by the state, and national regulations have an important impact on the survival and content orientation of video websites. In other words, China's video websites are not merely businesses; they must perform the function of guiding public opinion.

Table 7.2 is a summary of the influence of the key factors of video websites

on different dimensions. Focusing on different relationship subjects in the mobile and dynamic business relationship network of video websites, we can find that the key factors play a crucial role. In the competition between TV stations and video websites, technology and capital are key factors. In the early stages of the development of the internet, the investment and financing support obtained by video websites helped them build a complete technical framework and underlying logic. On this basis, video websites showed amazing technical advantages and content production potential, which helped them win out in the competition with TV stations. In their early days, video websites quickly obtained attention resources and opened up the market by producing breakthrough content, thus rising rapidly in the competition for user attention. In addition, technology also empowered consumption scenarios and consumption spaces and enabled video websites to sell “user power” three times. This model is more complicated than the operation model chosen by TV stations. The competition among China’s video websites means that these websites have obtained a certain amount of capital and formed similar basic technical architectures and operation models. Against this background, video websites mainly competed in content production and content strategy, which was supplemented by competition in user relationships. Compared to other video websites, the rapid increase in iQIYI’s number of users and membership is thanks to its doctrine of “long-term innovation” in content production. Previous analysis shows that iQIYI did not confine its efforts to just one type of innovative original content production. When it found that a certain type of content was liked on the market, it did not rely solely on one model or line of thinking; instead, it pushed the boundaries of content creation and began to

explore brand-new fields that other video websites had failed to tap into. It was this content strategy that helped iQIYI maintain its leading edge in competition. In the competition between video websites and short-video platforms, the difference in technical logic has led to differences in communication logic and user relationships. Short-video platforms regard the content of video websites as important direction-pointing content and attempt to increase traffic through e-commerce and live streaming. The professional content of video websites is merely a primary product of the short-video business model. This shows that video websites cannot rival short-video websites when it comes to business liquidity. More importantly, secondary short-video creation is highly likely to dissolve the professional content of video websites and can have a negative impact on content value. From this point of view, video websites should focus on professional content production and continuously build viewing and consumption scenarios. By comparison, the business models of both Chinese and foreign video websites featured integrality, but Chinese video websites pay more attention to the development of user relationships. This is due to the intense competition among Chinese video websites, and the superior interactive technology. When the bullet comment and fan culture of Japan and South Korea are integrated with the interactivity of Chinese video websites, the stimulation and maintenance of user relationships of Chinese video websites reveal differences from those of European and American video websites. But this participation attribute is easily affected by national policies and regulations. Compared to situations in other countries, China's laws and regulations not only regulate video websites in terms of commercial competition and copyright, but also regulate the content of video websites. This makes the commercial model

of video websites in line with national ideological governance. In other words, in China, the business model of video websites needs to further consider the ideological attributes of content. Thus it can be seen that the key factors of the business models of video websites show differences from different comparative perspectives, but all of them play a common shaping role in terms of the business models of video websites in different historical stages and dimensions.

In summary, the innovation and significance of this paper are mainly manifested in several aspects: firstly, by combining the theory of actor network, the value chain of the Chinese business model is upgraded to the value network to be discussed; secondly, it attempts to examine the evolution of China's video website business model from a dynamic perspective, avoiding the complexity and dynamic nature of the business model being covered by a single value chain. In other words, we need to explore the business models with a historical and dynamic perspective, which helps us to understand the variability and invariability of the business models in the internet era more comprehensively and profoundly. Thirdly, this paper provides a historical, comprehensive, and integrated analysis of the development of Chinese video websites from a business model perspective. Drawing on a wealth of first-hand observations and second-hand information, it serves as a valuable reference for observing and understanding the business models of Chinese video websites.

Based on the above analysis, this paper suggests that the business model of Chinese video websites can be further examined from the following perspectives:

First, the profitability and revenue-generating potential of content will

become an increasingly important criterion for assessing content quality. Under this standard, whether the content can be profitable and make money will unprecedentedly become an important criterion for measuring content quality. It needs to be seen that there is still demand for long-form videos in the market, but as the capital market becomes relatively conservative and cautious, the focus on policy orientation, quality orientation, and user market orientation will become the driving force for the future. Because of this, the business model of video websites needs to pay extremely close attention to the relationship between content and profitability. The balance doctrine has become a crucial aspect of the business model of video websites, with a multi-dimensional balance between input and output, survival and development, and quantity and quality becoming the primary focus of video websites. To break away from the conventional profit model, it is still necessary to achieve scarcity in long-form video content. In the future, high-quality video content that can fully engage users and evoke emotions will unleash even more powerful energy.

Second, from the perspective of content, the diversification of content types remains a key focus for video websites in terms of content exploration. Firstly, video websites should continue to prioritize innovative production and rely on a pyramid content strategy to promote the “long-term innovation” of video website optimization. Content like commercial movies that target the market and the general public may account for about 85%, with easy-to-understand and entertaining stories being the main attraction. Content that clearly defines the platform’s value proposition and atmosphere may account for about 10%, while content that can be incubated into big IP accounts for about 4%, forming sustainable and long-term developable big brands. There is still 1%

room and opportunity to create timeless masterpieces. Secondly, in the specific settlement process, the content types of video websites will continue to increase. In the future, the types of dramas aimed at different age groups on video websites will continue to increase. As video websites continue to attract and accumulate users of different age groups, providing diverse content for young, middle-aged, and elderly audiences will effectively address the issue of homogeneous content. To some extent, this requires us to return to the essence of the measuring standard at the core of the story. Moreover, it is necessary to redefine the “quality” standards for content. In the future, the evaluation system for the content of high-quality video websites should be more diversified. The measurement of content quality should shift from relying solely on cost inputs to considering input-output ratios, and from solely focusing on content quality to paying more attention to the content’s scene extensibility. IP-based content creation is still the direction. Starting from the content and its advertising, the IP layout should be comprehensively carried out in dimensions such as novels, comics, animations, variety shows, games, online movies, documentaries, murder mystery games, and offline live-action entertainment. This should be considered the future direction and goal of all the content. In other words, it is crucial for brands to fully unleash the “spillover effect” of content brands and fully tap into the “spillover value” of content.

Thirdly, the layout of new technology arenas, new content, and new scenarios should be always paid attention to. Video websites should not only be capital-oriented, but also be technology-oriented. Therefore, in the process of transformation from web2 to web3, it is necessary to continuously rely on technology to strengthen the layout and construction of content scenarios. Only



in this way can video websites stay at the forefront of the times.

Fourthly, Chinese video websites will continue to seek a dynamic balance between commercialization and publicity. As profit-making enterprises, video websites need to continuously rely on user engagement in the limited market to realize profits by compressing costs and expanding revenue channels; however, profit is not the only goal of video websites in China. These video websites still need to aim to achieve social benefits, set clear boundaries and rules for content creation and orientation, and aspire to become leaders in disseminating positive values in China. This is the pursuit of video websites for publicity. In fact, in almost every aspect discussed above, video websites are always in the gambling and balance between these two factors, and they are not binary oppositions. In most cases, only by achieving the unity of commercialization and publicity can we truly explore the unique features of Chinese video websites.

To sum up, the business model of Chinese video websites has its own uniqueness which is different from that of Western video websites. This kind of “uniqueness” is manifested in the “liquid” and “web-based” features of video websites, which are constantly balancing and negotiating between historical and future perspectives, capital investment and cost control, competition among video websites and across platforms, technology and content, professional content production and user-generated content, users and platforms, national and market interests, as well as publicity and commercialization. These conflicts are resolved through the process of adjusting content patterns and business strategies, seeking organic integration among different relationships. This is the result jointly shaped by China’s current political development, social and cultural atmosphere, and the development pattern of the internet economy, and

the presentation of the inheritance and continuation of the traditional commercial culture of “valuing virtues and promoting righteousness, and helping the world through commerce”. It is the “Chinese characteristic” of the business model of China’s video websites.

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