2017 China’s Short Video Industry Report
Internal Driving Force of Short Video Industry - Advertiser

Advertisers Have Larger Budget For Mobile Videos. The Marketing Value of Short Videos Become Prominent

The rise of the internet, especially the mobile internet media, has made a tremendous impact on the marketing value of traditional media. The value of mobile short video marketing has drawn great attention. According to the “China’s Advertising Industry Ecology Investigation Report 2016” released by the Advertiser Research Institute of Communication University of China, the advertisers’ budget for TV advertising has been declining year by year. However, their budget for internet media has been increasing. As to the budget for internet media, the proportion of mobile devices has been rising while that of PCs has been falling. In 2016, the mobile advertising budget exceeded the PC advertising budget. Mobile media became more favored by advertisers. iResearch points out that in the aspect of video ads, the budget for traditional TV video advertising keeps falling and that for mobile videos keep increasing. Due to the lack of long video advertising resources (TV series, variety shows, etc.), the mobile short video, which has high traffic, huge carrying capacity and long-tail effect, will account for a major part of advertisers’ media advertising budget. This short video business model will be further developed and short video will drive the continuous development of the industry.


Proportions of Chinese Advertisers’ Budget For TV Advertising And Online Advertising 2010-2017

<table>
<thead>
<tr>
<th>Year</th>
<th>% TV advertising</th>
<th>% Online advertising</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>42.0%</td>
<td>11.3%</td>
</tr>
<tr>
<td>2011</td>
<td>40.5%</td>
<td>15.4%</td>
</tr>
<tr>
<td>2012</td>
<td>36.1%</td>
<td>22.2%</td>
</tr>
<tr>
<td>2013</td>
<td>33.4%</td>
<td>23.3%</td>
</tr>
<tr>
<td>2014</td>
<td>25.7%</td>
<td>21.2%</td>
</tr>
<tr>
<td>2015</td>
<td>25.0%</td>
<td>21.1%</td>
</tr>
<tr>
<td>2016</td>
<td>28.3%</td>
<td>24.0%</td>
</tr>
<tr>
<td>2017e</td>
<td>32.0%</td>
<td>24.4%</td>
</tr>
</tbody>
</table>

Proportions of Chinese Advertisers’ Budget For Advertising Via PC And Mobile Device 2010-2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Advertising via PC</th>
<th>Advertising via mobile device</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>95.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>2011</td>
<td>95.1%</td>
<td>4.9%</td>
</tr>
<tr>
<td>2012</td>
<td>90.6%</td>
<td>9.4%</td>
</tr>
<tr>
<td>2013</td>
<td>86.0%</td>
<td>14.0%</td>
</tr>
<tr>
<td>2014</td>
<td>73.6%</td>
<td>26.4%</td>
</tr>
<tr>
<td>2015</td>
<td>65.5%</td>
<td>34.5%</td>
</tr>
<tr>
<td>2016</td>
<td>46.0%</td>
<td>54.0%</td>
</tr>
<tr>
<td>2017e</td>
<td>39.0%</td>
<td>61.0%</td>
</tr>
</tbody>
</table>

Status Quo of Capital in The Short Video Industry

The Short Video Content Producers Are Increasingly Favored by Capital

Judging from the whole industry, the capital that entered the short video industry mainly focus on platforms. From 2012 to 2017, financing events of the short video platforms accounted for 44.8%. However, with the short video industry becomes increasingly popular, the capital, which used to concentrate on platforms, concentrate on content providers instead. In 2017, the number of investment and financing events in content providers accounted for 47.9%. iResearch believes that the focus of investment moved from the platforms to the content providers because of two reasons. First, in the past two years, the short video platform developed rapidly and the leading platforms gradually formed. The market segments were being developed continuously, the opportunities for entrance declined and threshold of investment became higher. Second, because of the scarcity of high-quality content, the platforms and the market urgently need a large amount of content to support user dividends. Therefore, the content startups will become the focus of a new round of investment from capital market.

Number of Investment in Different Parts of China’s Short Video Industry 2012-2017

Proportions of Different Types of Investment in China’s Short Video Industry 2012-2017

Source: The data are based on publicly available information Itjuzi. The research and the chart are done by iResearch independently.

Note: The tools refer to the APPs that have short video shooting and editing functions.
Market Size of Short Video Industry

In 2017, The Revenue of Short Video Industry Reached 5.7 Billion Yuan and is Expected to Exceed 30 Billion Yuan in 2020

The short video industry rose in 2016. The short video platforms which started early began to try monetization. In 2017, short video became popular. The increase of users and the attention from the advertisers helped to boost the overall market size. In 2017, the revenue of short video market reached 5.73 billion Yuan, increasing by 183.9% YoY.

IResearch believes that in the next 1-2 years, short video platform will provide a lot of commercial opportunities. Monetization of traffic will bring great increase of the revenue. At the same time, with the continuous improvement of the quality of short video content marketing, there will also be a big chance of content monetization. It is estimated that short video revenue will exceed 30 billion Yuan in 2020.

Note: The revenue of short video industry refers to the revenue of the independent short video platforms. It does not include all revenue from the short video forms. Source: The data is based on the financial results published by enterprises, interviews with experts and IResearch’s statistical model, for reference only.

Revenue of China’s Short Video Industry 2016-2020

<table>
<thead>
<tr>
<th>Year</th>
<th>The revenue (bn Yuan)</th>
<th>% YoY growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1.9</td>
<td></td>
</tr>
<tr>
<td>2017e</td>
<td>5.7</td>
<td>183.9%</td>
</tr>
<tr>
<td>2018e</td>
<td>11.8</td>
<td>113.5%</td>
</tr>
<tr>
<td>2019e</td>
<td>21.5</td>
<td>84.4%</td>
</tr>
<tr>
<td>2020e</td>
<td></td>
<td>67.6%</td>
</tr>
</tbody>
</table>

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Status Quo of Comprehensive Short Video Platforms

Platforms: Different Types of Comprehensive Platforms Actively Plan Their Layout in Short Video Market

In addition to independent short video platforms, more and more integrated platforms are also beginning to lay out in the short video distribute short video market. 1) For the news and information platforms, short video can carry rich information and convey more vivid and in-depth information; 2) For social platforms, the social attribute of short videos can attract more users to participate and increase the user’s stickiness; 3) For traditional video websites, short video, as a supplement to long video, can meet the more diversified needs of audiences and it can suit the users’ habit of watching and reading in fragmented time.

Comprehensive Platforms’ Layout in Short Video Market in 2017

<table>
<thead>
<tr>
<th>News and information platform</th>
<th>Social networking platform</th>
<th>Traditional video websites</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toutiao</td>
<td>Qzone</td>
<td>Fengxing Video</td>
</tr>
<tr>
<td>Yidianzixun</td>
<td>Weibo</td>
<td>Sohu Video</td>
</tr>
<tr>
<td>Sohu News</td>
<td>Momo</td>
<td>Tencent Video</td>
</tr>
</tbody>
</table>

Content carrier

- Text
- Image
- Video

Enhance the richness of information

Social networking tools

Improve user stickiness

Supplementary form

1. Cut long videos into short videos. So users can watch them in fragmented time.
2. Introduce some short video content to enrich platform’s content.

Meet the diversified needs of users

Source: publicly available information and iResearch Consulting Group
Independent Platform Case Study--Huoshan Short Video
15-seconds Original Short Video Community

Huoshan Short Video is a 15-seconds original short video community produced by Toutiao. It was launched in December 2016. Via short videos, it helps users quickly gain access to content, express themselves, get fans and find people who share the same interests with them. Huoshan Short Video is a UGC platform. The users upload their own content, share and record their life, and they can add text effects to the videos. Users can exchange their Huoli value for money. In this way, the platform can stimulate users to create content. Huoshan Short Video users are mainly from the third and fourth tier cities. The Huoshan Short Video mainly tries to increase their users in the rural areas and build UGC content creation ecology. In August 2017, it held a conference in rural area. On the conference, it announced that it would subsidize content creators with 1 billion yuan, launch the "Huomiao Program", launch a tip function and a short video training program to support the content ecology of the platform.

The “Huomiao Plan of Huoshan Short Video”

Users’ tips

Training plan

Start a short video training program and a Huomiao popular list. Invite senior creators and producers in short video area to teach the TOP 20 creators on the list as well as the short video creators with great potential.

“Huoli” Subsidy of Huoshan Short Video

Huoli can be exchanged for cash. 10 Huoli=1RMB. And the users can exchange their Huoli for money at any time

Source: interview with enterprises and publicly available materials.
Platform: The Short Video Platforms Are Facing Huge Changes

The Industry Competition Intensified. Integration, Overseas Market And Cooperation with content producers Are The Platforms’ Ways to The Future

Currently, the short video platforms are still in a period of rapid growth. There are constantly new platforms entering the market and the homogeneity is low. There’s still differentiated competition among most platforms in the aspects of positioning, content and target users. However, in the next two years, the user dividend will gradually disappear and the market penetration will be near the ceiling. The structure of the flourishing short video platform market will face huge changes. In response to industry changes, the platforms will show three major trends.

1) **Integration and elimination**. The traffic of users gradually goes to a few leading platforms and vertical segments of the medium platforms. A large number of long-tail platforms will face integration or even elimination;

2) **Expand overseas markets**. After the domestic market reached saturation, a large number of platforms will enter the foreign blue ocean market;

3) **Cooperate with content producers**. With spare energy and increased size, the platforms that stand out in the fierce competition will gradually start MCN business and establish direct contact with the content providers. They will compete for high-quality content resources, seize content sources, and consolidate competition barriers.

### Future Trends of The Short Video Platform Industry

<table>
<thead>
<tr>
<th>Integration</th>
<th>Overseas</th>
<th>Cooperate with content producers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leading platform</td>
<td>Domestic red ocean</td>
<td>Platform</td>
</tr>
<tr>
<td>Medium platform</td>
<td>Look for Blue Ocean in foreign countries</td>
<td>Direct cooperation</td>
</tr>
<tr>
<td>Long-tail platform</td>
<td></td>
<td>Producer of huge amount of content</td>
</tr>
</tbody>
</table>

Source: iResearch Consulting Group
# Table of Contents of The Full Report

1 Development Background of Short Video Industry in China  
1.1 Definition of Short Video Industry in China  
1.2 Characteristics of Short Video  
1.3 General Development Background of Short Video Industry in China  
1.4 External Environment of Short Video Industry——Policy Analysis  
1.5 External Environment of Short Video Industry——Technology Analysis  
1.6 External Environment of Short Video Industry——Social Environment Analysis  
1.7 External Environment of Short Video Industry——Capital Environment Analysis  
1.8 Internal Driving Force of Short Video Industry——Content Driving  
1.9 Internal Driving Force of Short Video Industry——Platform Driving  
1.10 Internal Driving Force of Short Video Industry——Advertiser Driving  
1.11 Internal Driving Force of Short Video Industry——Layout of Internet Giants  
1.12 Development of Short Video Platforms  

2 Status Quo of Short Video Industry in China  
2.1 Overview of Status Quo of Short Video Industry  
2.2 Status Quo of Capital in Short Video Industry  
2.3 Characteristics of Different Types of Short Video Industry  
2.4 Short Video Market Size  
2.5 Forecast of Short Video Market Concentration Trend  
2.6 Analysis of Cross-Platform Cooperation of Short Video  
2.7 Increase of Users in Short Video Industry  
2.8 User Stickiness in Short Video Industry
3 Analysis of Short Video Industry Chain in China
3.1 Short Video Industry Chain in China
3.2 Analysis of Short Video Industry Chain in China
3.3 Content Provider: Talents in Traditional Media Industry Keep Joining Short Video Content Startups
3.4 MCN: Maintain Strong Development Momentum. Many Large Content Platforms Support MCN
3.5 MCN: The “Transfer Station” of Short Video Industry Chain
3.6 Platform: Short Video is The Core Business of Independent Platforms And it is Inside Comprehensive Platforms
3.7 Platform: Various Types of Comprehensive Platforms Actively Enter Short Video Market
3.8 Content Operation Mode: The U Series Platforms Emphasize on People And The P Series Platforms Emphasize on Content
3.9 Time Length: UGC And PGC Are Very Different in Time Length. The Richness of The Content is The Key
3.10 Portrait And Landscape Modes: The Portrait Mode Emphasizes on People And The Landscape Mode Emphasizes on Stories
3.11 Monetization Modes in Short Video Industry in China
3.12 Advertising: The Platforms Relies on News Feed And In-stream Ads. The Creators Depend on Content Marketing
3.14 Users’ Payment: It is Hard to Make Big Progress in The Short Term. Payment For Content Product Will be The Key in The Future

4 Case Study of Typical Short Video Companies in China
4.1 Independent Platform Case Study—Toutiao
4.2 Independent Platform Case Study—Xigua Video
4.3 Independent Platform Case Study—Huoshan Short Video
4.4 Independent Platform Case Study—Douyin
4.5 Independent Platform Case Study—Kuaishou
4.6 Independent Platform Case Study—Pear Video
4.7 Independent Platform Case Study—Meipai
4.8 Independent Platform Case Study—Miaopai
4.9 Comprehensive Platform Case Study—Fengxing
4.10 Comprehensive Platform Case Study—Qzone
4.11 Comprehensive Platform Case Study—Sohu Video
Table of Contents of The Full Report

5 Future Trends Short Video Industry in China
5.1 Content: Increasingly Rich and Detailed Content in Vertical Areas
5.2 Platform: The Structure of Short Video Platforms Facing Huge Changes
5.3 Channel: Refinement of Content Distribution Channels Intelligent
5.4 Technology: Intelligent Content Recommendation System
5.5 Business Model: Standardization of Short Video Marketing
Company Introduction / Legal Notice

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