

China video sites confident public will pay

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In this Thursday, Dec. 12, 2013 photo, Zhu Huilong, senior vice president of Youku Tudou, answers questions during an interview at the Youku headquarters in Beijing, China. In China, pirate DVDs in stores and on the street were traditionally the fastest way to get access to a film, and cheaper than going to the theater. A few years ago, piracy also dominated online. Today, China's major video streaming sites have deals with Hollywood studios and others and are filled with licensed content. To protect their investments, a group of video sites announced in November they had teamed up with the Motion Picture Association of America to sue other Chinese sites they accuse of copyright violations. (AP Photo/Ng Han Guan)

When media studies student Liu Zhiqi settles down to watch a movie or TV drama at the home of the San Francisco family she lodges with, she misses the convenience of downloading content for free like in China.

For Liu, an on-demand streaming service such as Netflix isn't worth the \$7.99 a month subscription. "As a Chinese, I am not used to paying to watch TV," said Liu, 20, from Jiangmen city in southern Guangdong province. "Instead I watch free websites."

Liu's attitude encapsulates the dilemma that has faced China's video-on-demand industry: how to persuade people to pay to watch in a country where piracy is still rampant and licensed content such as American TV dramas is free online due to deals between Hollywood and site operators.

Some companies believe the answer lies in expansion of the mobile Internet, making it convenient for people to watch and pay and getting movies out before the pirates do. Revenue from nascent pay services has grown rapidly and one Hollywood studio says it is very optimistic about the prospects for making money here.

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Today, China's major video streaming sites have deals with Hollywood studios and others and are filled with licensed content but get most of their revenue from advertising. To protect their investments, a group of video sites announced in November they had teamed up with the Motion Picture Association of America to sue other Chinese sites they accuse of copyright violations.

Charles Zhang, CEO of Sohu.com and its video unit, said it would buy "many more" Hollywood movies this year and charge users to watch

them on a pay-per-view or monthly subscription basis following the "huge victory" of Chinese authorities naming top search engine Baidu and software company QVOD as the biggest video-copyright violators last year. The Dec. 30 announcement showed the government was cracking down on online piracy, he said.

Whereas TV dramas have several episodes which allows more time for advertising, for movies "the only viable business model is by charging," said Zhang.



In this Dec. 12, 2013 photo, people meet at a lounge of the Youku headquarters in Beijing, China. In China, pirate DVDs in stores and on the street were traditionally the fastest way to get access to a film, and cheaper than going to the theater. A few years ago, piracy also dominated online. Today, China's major video streaming sites have deals with Hollywood studios and others and are filled with licensed content. To protect their investments, a group of video sites announced in November they had teamed up with the Motion Picture Association of America to sue other Chinese sites they accuse of copyright

violations. (AP Photo/Ng Han Guan)

He estimated that video site companies would pay \$100-150 million this year for American TV shows. By 2016, if there are 10 successful video sites in China, purchases from the American entertainment industry alone could total \$500 million, Zhang said.

Domestic content dominates online in China but Hollywood movies and U.S., British, South Korean and Japanese shows are also popular. British drama "Sherlock" was available on China's Youku site 30 minutes after its BBC broadcast ended on New Year's Day. Chinese fans had bombarded a web chat with British Prime Minister David Cameron when he visited China in December to tell him they were tired of waiting for the new series.

Internet-based and other on-demand video has taken off in the last few years and is now expanding through tablets and smartphones. YOU On Demand, which brought video-on-demand to China, changed direction in the summer to become "a mobile-driven company," said CEO Liu Weicheng.

"People pay to buy a large-screen phone, they've got to have a reason otherwise what is the purpose for you to carry this thing other than making a phone call, talking to someone," he said.

It has developed an app in conjunction with Huawei that pushes two new-release Hollywood movies per week to the 6.1 inch-screen Huawei Mate phone. Its Hollywood studio partners receive a guaranteed payment and then share [subscription revenue](#).

Liu believes the phenomenon of people watching movies on mobile

devices will gather pace, providing consumers have the option of a box or component that allows them to also watch the content on their TV.

Daniel Solnicki, head of worldwide franchise development for DreamWorks Animation, whose blockbusters include "Kung Fu Panda 2" and "The Croods," said the migration from DVDs to digital consumption offers great opportunities for content-providers.

He said U.S. studios were pricing their content in China at levels intended to compete against local piracy, for example, 5 yuan (80 cents) to watch a new release compared with \$5 in the U.S.

China's online video sites make most of their money from the advertising that accompanies free-to-watch content. China online video revenue hit 2.85 billion yuan (\$470 million) in the second quarter of 2013, up 43 percent from a year earlier, according to iResearch. The major catalyst for this growth was rising advertising revenue. The current number of paid subscriptions is tiny, but video sites are confident of growth.

"Perhaps only one in a hundred would be happy to pay to watch a movie online three years ago in China, but today maybe three to five out of a hundred feel it's ok to pay for that," said Zhu Huilong, senior vice president of Youku Tudou, which runs two leading sites.

Zhu said subscription revenue grew 300 percent in 2013 compared with the year before, and expects it to continue growing at the same rate over the next three or five years. He expects the industry's revenue from online video subscriptions to grow to 1 billion yuan (\$164 million) in the next three years.

To some extent, online [video](#) sites have already killed off physical piracy. In one pirate DVD and music store in a basement of a shopping

center full of knock-off bags, t-shirts and winter boots, the 10 yuan (\$1.60) per disc price was failing to pull in many customers. "Game of Thrones," "The Good Wife" and "How I Met Your Mother" were among titles on display.

A year ago, they had about 20 customers per day. Today, there's only about five or six who ever intend to buy, said the seller, dressed in a fake leather jacket and trendy hairstyle. People prefer to download for free, he said.

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