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Youku Tudou: SHAPING ENTERTAINMENT AND MEDIA in China[[1]](#endnote-1)

Xi Zhang and Ning Su wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Since their inception, China’s two leading video-sharing platforms, Youku.com and Tudou.com, had been committed to promoting user-generated, original content. In 2007, Youku created its slogan, “Video creators are everywhere,”[[2]](#endnote-2) to encourage users across China to engage in user-generated videos. Tudou’s slogan, “Everyone is the director of life,”[[3]](#endnote-3) reflected its own positioning: helping users create video products of good quantity and quality. While the platforms were similar to YouTube, during the decade that followed, the two platforms developed unique business models and contents. Overall, however, the two platforms were on a collision course. The rivalry between the two platforms increasingly intensified. In the midst of rising competition, the two platforms announced a merger in 2012. Post-merger, Youku Tudou became the largest video-sharing platform in China.[[4]](#endnote-4)

While Youku and Tudou, to some extent, created China’s online video streaming industry and enjoyed huge popularity among viewers, this industry had been rapidly changing and becoming even more crowded and competitive. Baidu iQIYI, which was backed by China’s largest search engine company, Baidu, Inc. (Baidu), had been producing its own programming, similar to Netflix. Baidu iQIYI’s content had achieved huge popularity across China. The mobile internet giant Tencent Holdings Ltd. (Tencent) had launched its own video platform. Other companies had also been actively experimenting with different models, such as video subscription combined with the provision of electronic devices (TVs and phones) for consuming the videos.[[5]](#endnote-5) In this highly dynamic environment, what should Youku Tudou’s next step be?

The JOURNEY OF Youku TuDou

The inception of the global online video industry as we know today can be traced back to the year 2005. On February 14, 2005, two American entrepreneurs came up with the idea of facilitating the sharing of videos on the Internet. This idea led to the creation of the online video powerhouse YouTube. Its well-designed, easy-to-use functions, and the emphasis on creativity and sharing among young Internet users enabled YouTube to grow into one of the most popular websites on the Internet. A year after its founding, the website’s potential attracted Google, which acquired the company for US$1.65 billion.[[6]](#endnote-6) The online video industry also started to emerge in China. The industry landscape, however, looked vastly different.[[7]](#endnote-7)

Youku

Around as early as 2005, the same year YouTube was created, Gu Yongqiang, or Victor Koo, the former chief executive of Sohu.com, one of China’s leading Internet portals, saw the future of video sharing in China. As an Internet entrepreneur, Koo had a passion for documenting events and encounters in life and sharing them with family and friends. Digital photos were no longer a sufficient medium. With the rise of the Internet, Koo therefore selected online video as the focus of his start-up adventure.[[8]](#endnote-8)

After one year’s preparation, on December 21, 2006, www.youku.com was launched. The early version of Youku had an advantage in video speed, as the company had deployed network infrastructure in both Northern and Southern China to accelerate the streaming of online videos. Focusing on the concept of “speed,” broadly defined, including the speed of video streaming and the speed of content creation and distribution, Youku was able to quickly grow into a video-sharing platform with tremendous popularity among China’s netizens.[[9]](#endnote-9)

Shortly after the launch of the video-sharing website, several major news events in China, from severe weather conditions to domestic politics, became an unexpected, golden opportunity for Youku. For example, in early 2007, as a rare, extremely severe snowstorm shut down parts of the city of Shenyang in Northern China, traditional TV stations and their crews could not access the city to cover the incident. Individual Internet users, however, were able to quickly upload videos onto Youku. Even the Chinese Central TV, the government’s main TV station, broadcast self-uploaded video footage from Youku, further increasing the popularity and awareness of the website. The website, on the one hand, facilitated the rise of citizen journalism and, on the other hand, the emergence of citizen journalism and user-generated content in general, which directly contributed to the success of Youku. Within a year of its creation, Youku had grown into a leading site for video sharing in China.[[10]](#endnote-10)

To raise capital, strengthen the brand, and expand into markets outside China, Youku chose to pursue an initial public offering (IPO) overseas. On December 8, 2010, the company listed on the New York Stock Exchange (NYSE), where it issued 15.84 million shares of American Depository Receipts (ADRs), representing 16 per cent of the total shares. The IPO price was US $12.80, but the stock opened at US $27[[11]](#endnote-11) and closed at US $33.44, giving the company a market capitalization of approximately US $3.3 billion, more than AOL at the time. Despite an over US $25 million loss on a US $35 million revenue during the first 9 months of 2010, the company boasted about 200 million monthly visitors in China, equivalent to an over 40 per cent market penetration among China’s over 400 million Internet users.[[12]](#endnote-12) While the IPO was considered overvalued by some analysts,[[13]](#endnote-13) the company did demonstrate the huge potential of China’s emerging online streaming industry, as well as investors’ enthusiasm and curiosity about this nascent industry.[[14]](#endnote-14)

Tudou

Tudou represented the second largest, and one of the oldest and most influential, online video platforms in China. Tudou was founded in Shanghai by Wei Wang,[[15]](#endnote-15) who had previously worked at Bertelsmann AG in China and obtained his master’s degree from Johns Hopkins University in the US and an MBA from INSEAD in France. Tudou’s website, www.tudou.com, went live on April 15, 2005, which made it one of the earliest dedicated video websites worldwide. “Everyone is the director of life” was the slogan and key value proposition of Tudou. The company name can be translated as “Potato Net” in Chinese, based on the English idiom “couch potato.” The company heavily emphasized the creativity and imagination of the young generation of Internet users, encouraging consumers to create their own videos to express their own perspectives about life.[[16]](#endnote-16)

The company’s model can be considered a hybrid of Netflix and YouTube. The content on Tudou primarily consisted of user-generated or shared programmes, videos from content suppliers, such as movie and TV clips and music videos, and proprietary programmes invested in, and produced by, Tudou itself. Tudou’s video technology was initially primarily based on Macromedia’s Flash Player, a video player highly popular among Internet and PC users in China in the early 2000s. Increasingly, the company also adapted its technology for multiple platforms, especially mobile platforms, which became a major medium for video viewing among Chinese consumers.[[17]](#endnote-17)

After six years’ rapid growth and success in the Chinese market, the company went public on the Nasdaq on August 17, 2011. In the over-subscribed IPO, the company offered 6 million shares, priced at US $29, which allowed it to raise US $174 million and reach a valuation of US $3.2 billion.[[18]](#endnote-18) In fiscal year 2011, the company achieved a net revenue of RMB 512.2 million[[19]](#endnote-19) (US $81.4 million), a 78.9 per cent increase from the previous year.[[20]](#endnote-20) Online advertising service was the main source of revenue, generating RMB 443.5 million (US $70.5 million) for the company, up 67.2 per cent year-on-year. Mobile video service was a fast-growing revenue stream, bringing RMB 57.8 million (US $9.2 million), a 203.4 per cent increase from the previous year.[[21]](#endnote-21)

The Rivalry

In China’s nascent online streaming market, the two first movers, Youku and Tudou, became market leaders. In 2011, Youku had the largest share of China’s online streaming advertising market, about 23 per cent, followed by Tudou’s 14 per cent. Third place was taken by Sohu, one of China’s oldest and largest web portals featuring a variety of content, such as news and videos, with 13 per cent[[22]](#endnote-22) of the market.[[23]](#endnote-23) Behind these three players, a team of formidable competitors, such as Baidu iQIYI, Tencent, Baidu, and Xunlei, was on the horizon.[[24]](#endnote-24) While Youku and Tudou combined only accounted for less than half of the market, compared to their other competitors, with their strong focus on video streaming, they were the clear leaders in the market.

There was an intense battle between these two platforms. Compared to other players, such as Sohu, Youku and Tudou had a particularly similar and converging business model, increasingly putting these two platforms on a direct collision course. Both platforms offered a combination of user-generated content, licensed intellectual property, such as film, TV, and music from third-party providers, and self-produced content. Both platforms incurred high costs in content acquisition and the development of digital infrastructure. Both platforms relied on online advertising to generate revenue. The rivalry became particularly heated. For example, it was reported that the two platforms had reposted videos from each others’ sites; in early 2012, Youku even filed a lawsuit against Tudou, claiming that the latter had misused its copyrighted materials and seeking compensation of ¥4.8 million (US $762,000).[[25]](#endnote-25) Friction and tension started to escalate between the rivals. Overall, however, both platforms were highly popular among China’s growing number of Internet users, especially younger viewers.[[26]](#endnote-26) In the midst of rising competition and tension, another strategic option emerged.

The Merger

On March 12, 2012, Youku and Tudou made a joint announcement: They would pursue a merger through a 100 per cent swap of shares; the all-stock transaction would be worth over US $1 billion. On August 20, 2012, the proposal to merge received approval from the vast majority of shareholders of both firms.[[27]](#endnote-27) Upon completion of the transaction on August 23, 2012, the combined company was named Youku Tudou Inc. Tudou was delisted from the Nasdaq,[[28]](#endnote-28) while Youku continued to be listed on the NYSE.

The two platforms joining forces created a technology giant and clear market leader in China’s video streaming industry—a market with over 450 million Internet users at the time.[[29]](#endnote-29) The merger would significantly shape China’s video streaming landscape and, more generally, the country’s digital economy. The top decision makers of Youku and Tudou saw much value and potential in this merger.[[30]](#endnote-30)

Youku’s founder, chairperson, and CEO, Victor Koo, described his vision for the future of the combined Youku Tudou:

We intend to lead the next phase of online video development in China. Youku Tudou Inc. will represent a differentiated leader in the online video market in China with the largest user base, most comprehensive content library, most advanced bandwidth infrastructure and strongest monetization capability within the sector. … Youku Tudou Inc. will have the reach and scale to bring our users high quality content at high speeds. The combined company will have the two leading online video brands in China: Youku and Tudou.[[31]](#endnote-31)

Tudou’s founder, chairperson, and CEO, Gary Wang, further explained the synergy between these two platforms:

Youku and Tudou share a vision for the future of online video in China and how to deliver the best user experience possible. … This transaction further strengthens our market position as Tudou brings its valuable brand, library of professional licensed content, user generated content platform, extensive user base, broad range of partnerships and expertise in mobile video. Together, we believe Youku Tudou Inc. will be able to provide the best-in-class experience for users interested in uploading, watching and sharing videos, and to grow together with our advertisers, and our content and industry partners.[[32]](#endnote-32)

Following the merger, the two companies’ strategies focused on preserving their own identities, while seeking and creating synergy through various measures. The immediate synergy between these two platforms would come from several areas, including the consolidation and procurement of copyrights of videos, the sharing of the two companies’ technological resources and capabilities, and increased scale of purchase through capitalizing on the existing user bases of the two platforms.

The merger turned out to be a win-win situation for both companies, at least in the short run. After the merger, during the fourth quarter of 2012, the company’s revenue reached US $102 million, a 30 per cent increase from the previous year, and the company’s loss was US $18.2 million, a 43 per cent decrease from the year before.[[33]](#endnote-33) Victor Koo envisioned even more significant synergies arising in multiple areas of the two platforms:

When the strategic combination is complete, Tudou will retain its distinct brand identity and platform in Youku Tudou Inc., strengthening and complementing Youku’s video business. Youku Tudou Inc. would establish a clear and dominant leadership position in China’s online video sector and become one of the largest Internet properties in China. This transaction would also lead to improvement in the industry structure and the underlying economics of the online video sector in China.[[34]](#endnote-34)

Competition

Meanwhile, as China’s online video industry took shape, it also started becoming increasingly competitive. The industry landscape echoed the rivalry between YouTube, Netflix, Amazon, Apple, and others in Western markets. In China, in 2013, while Youku Tudou Inc. was the market leader, the company was also facing an increasing number of formidable competitors (see Exhibit 1).

Some of these competitors already had a significant share of the market. While some of these older firms did not initially focus primarily on video streaming services, these platforms offered online video as part of their product portfolio. These companies included the Internet portal Sohu.com and the network technology provider Xunlei. There tended to be a high level of overlap between the user bases of these online video companies, further intensifying the competition (see Exhibits 2 and 3).

A few other Internet companies, however, would collide directly with Youku Tudou, as these companies’ business models, user bases, revenue sources, and even the content distributed on the platforms could overlap with Youku Tudou. Two of the strongest competitors were Baidu iQIYI, owned by China’s leading search engine, Baidu, and the technology giant Tencent.[[35]](#endnote-35)

**Baidu iQIYI**

Baidu iQIYI was founded on April 22, 2010 as a producer and platform of high-quality video and entertainment services, with the slogan “Joy and Quality,” by China’s top search engine, Baidu.[[36]](#endnote-36) In May 2013, after the acquisition of the online video business of PPS, a major Internet video provider in China, and merging the business with Baidu iQIYI, Baidu created one of the largest online video platforms in China.[[37]](#endnote-37) Baidu iQIYI had been actively producing its own content through multiple channels. On the one hand, the company made large investments into film and TV companies to develop high-quality resources; on the other hand, it actively promoted its self-produced entertainment content.[[38]](#endnote-38)

Meanwhile, Baidu iQIYI pioneered several innovative forms of content creation in China. The first area was in distribution channels, where it experimented with the genre of TV-Web interaction. Specifically, the company successfully implemented several programmes connecting TV viewers and Internet users, such as *Heroes of the Chinese Language* (*Han Zi Ying Xiong*) and *I am Going to School* (*Wo Qu Shang Xue La*). Based on the difference between distribution platforms and audiences, every episode of these programmes had two versions, one for TV broadcast and the other for Internet distribution. This hybrid model balanced the broad reach of TV in China with the flexibility of the openness of a Web-based broadcast.[[39]](#endnote-39)

The second area of innovation was in content, especially in forms of self-produced entertainment. Baidu iQIYI had accumulated a comprehensive collection of shows, including content related to culture, finance and business, music, and overseas entertainment news. In 2014, Baidu iQIYI launched China’s first talk show competition, *Qi Pa Shuo*, whose format was similar to *American Idol*. The show became a phenomenal success on the Internet in China and one of China’s most popular talk shows.[[40]](#endnote-40) In the same year, Baidu iQIYI partnered with the 71st Venice International Film Festival to promote the festival and deliver content to online audiences.[[41]](#endnote-41) In 2019, Baidu iQIYI produced and broadcasted *The Big Band*, a variety show prompting the revival of Chinese indie music.[[42]](#endnote-42)

In addition to focusing on high-quality content, coupled with the investment, data, and technology from Baidu, Baidu iQIYI capitalized on a big data-driven approach to managing its business, operations, and content creation. The company was the first in China to launch personalized programming for viewers and pioneer new payment models for media websites. Producers used precise user research and data mining to gain insights into viewers’ needs and wants and created content catering to the different preferences of the Internet. In 2014, Baidu iQIYI even overtook Youku as the most popular video streaming platform in China.[[43]](#endnote-43) By 2020, Baidu iQIYI had reached approximately 119 million monthly subscribers.[[44]](#endnote-44)

Tencent Video

Another key competitor that emerged was the technology powerhouse Tencent. Tencent first launched its own video platform, Tencent Video, in April 2011. With a strong focus on the content and user experience, Tencent sought to provide viewers with rich, smooth entertainment videos that were delivered through PCs, mobile devices, and smart TVs. On November 4, 2016, Tencent Video defined the slogan of Tencent Video’s brand as “Don’t let go the great time.”[[45]](#endnote-45)

Tencent Video had several advantages. First, it had a large user base. Relying on Tencent’s hugely successful QQ, an instant messaging app that had dominated China’s social networking market, the company was able to easily promote its new video services online. Tencent’s user base further expanded after the company released the app WeChat in 2011. In a few years, it grew into one of the largest standalone apps in the world, reaching over 1 billion users in 2018.[[46]](#endnote-46) The size of Tencent’s user base was an unparalleled advantage. It allowed the company to accumulate a large amount of data about users, further helping Tencent Video to market and deliver its content in a highly targeted manner. Within a few years, Tencent Video quickly grew into one of the most popular video platforms in China, reaching 112 million paying subscribers by 2020.[[47]](#endnote-47)

The Alibaba Acquisition

In late 2015, Youku Tudou entered a new phase when the technology giant Alibaba announced its plan to acquire the company. Alibaba was listed on the NYSE. The company’s IPO was the biggest in history at the time.[[48]](#endnote-48) With abundant capital, Alibaba had previously spent US $1.22 billion to acquire an approximately 18.3 per cent stake in Youku Tudou. Through the acquisition of the remaining 82 per cent of the company for US $3.67 billion, Alibaba could further strengthen its presence in the growing online video industry and solidify its leadership position in China’s digital economy.[[49]](#endnote-49)

The acquisition was important to both Youku Tudou and Alibaba. Before the acquisition, despite strong competition, Youku Tudou had already recorded strong performance in the market, with over 13 million subscribers by December 2015.[[50]](#endnote-50) In addition to Youku Tudou’s scale, growth potential, and opportunities for profit, it was strategically critical for Alibaba to further incorporate online video services into its digital ecosystem. The merger was approved by Youku Tudou’s shareholders in March 2016 and completed in April 2016. Post merger, Victor Koo would remain the CEO of Youku Tudou. In the process of completing the acquisition, Youku Tudou was taken private, ceasing to be a publicly traded company on the NYSE and becoming a wholly owned subsidiary of Alibaba.[[51]](#endnote-51)

The acquisition and integration would further combine Youku Tudou’s core competencies in online video streaming with Alibaba’s e-commerce ecosystem. Victor Koo described the rationale behind Alibaba’s acquisition as follows:

We believe this combination with Alibaba maximizes value for Youku Tudou shareholders and significantly benefits our customers, users and team… We are eager to work with Alibaba to grow our multi-screen entertainment and media ecosystem. We are confident that we will strengthen our market position and further accelerate our growth through the integration of our advertising and consumer businesses with Alibaba’s platform and Alipay services. With Alibaba’s support, Youku Tudou’s future as the leading multi-screen entertainment and media platform in China has been firmly secured.[[52]](#endnote-52)

The Future of Youku Tudou

Youku and Tudou, previously two separate start-ups, were among the first movers and pioneers of China’s online video streaming industry. Over the last decade, the industry had grown exponentially and transformed dramatically. Through continuous innovation, combined with a series of financial transactions, including going public on the NYSE and the Nasdaq, a merger between the two rivals, and a partial acquisition followed by full purchase by a third technology giant, Youku Tudou had become an important component of China’s vast and dynamic digital ecosystem and an indispensable part of the life of hundreds of millions of users.[[53]](#endnote-53)

Overseas, the online media landscape had also evolved significantly. The industry was characterized by, most notably, Netflix’s meteoric rise, technology giants, such as Amazon’s and Apple’s entry into online streaming, and the transformation of incumbent media companies, such as Disney, from traditional content producers to online platforms.[[54]](#endnote-54)

In China, Baidu iQIYI, Tencent Video, and Alibaba’s Youku Tudou had established their position as the three largest platforms for online videos, with 189.14 million, 189.13 million, and 166.08 million monthly unique visitors, respectively, in April 2020.[[55]](#endnote-55) China’s online video market was expected to continue to grow to an estimated RMB 174.38 billion (approximately US $26 billion) by 2022.[[56]](#endnote-56) In this market, which many considered to be the largest and most innovative in the world,[[57]](#endnote-57) as well as in China’s broader entertainment and media industry in general,[[58]](#endnote-58) the competition among Baidu iQIYI, Tencent, Youku Tudou, and other incumbent and emerging players would continue to intensify.

In the ever-changing global and domestic industry, how could Youku Tudou remain competitive within and even outside China? How could it effectively compete with other giants such as Baidu and Tencent? What was the future of the global online video industry? What were the future challenges and opportunities? Many strategic questions needed to be answered by Youku Tudou’s decision makers.

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EXHIBIT 1: MARKET LEADERS IN THE CHINESE ONLINE VIDEO MARKET – 2013

|  |  |  |
| --- | --- | --- |
| **Market Leaders** | **Traffic (Sep. 2013)** | **Company Background** |
| Youku Tudou | 309 million | Youku Tudou was created through a merger of two video platforms, Youku and Tudou. |
| Sohu | 254 million | Sohu was one of China’s earliest Internet companies. Founded in 1996 by Charles Zhang, after he completed his PhD at MIT, as an Internet portal providing rich content to China’s growing number of netizens. |
| Tencent | 251 million | Founded in 1998, Tencent had grown into one of the world’s largest social media companies, offering a large portfolio of technology products and services, including e-commerce, payment services, and video games. |
| Baidu iQIYI | 168 million | Incorporated in 2000, Baidu was China’s largest search engine. The company also specialized in a variety of Internet and artificial intelligence-related services and products, such as driverless vehicles. |

Source: The Economist, “The Chinese Stream,” November 12, 2013, accessed May 1, 2020, http://www.economist.com/business/2013/11/12/the-chinese-stream.

EXHIBIT 2: MAIN VIDEO PLATFORMS’ PC Users Overlap

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Youku Tudou** | **Baidu iQIYI** | **Tencent Video** | **Sohu** | **LeShi** | **PPTV** |
| **Youku Tudou** | 100.0% | 75.8% | 51.7% | 50.9% | 45.3% | 41.5% |
| **Baidu iQIYI** | 83.8% | 100.0% | 52.0% | 49.9% | 47.0% | 42.4% |
| **Tencent Video** | 84.7% | 77.1% | 100.0% | 60.5% | 48.7% | 43.5% |
| **Sohu** | 88.7% | 78.7% | 64.4% | 100.0% | 55.2% | 46.6% |
| **LeShi** | 89.5% | 84.2% | 58.9% | 62.8% | 100.0% | 50.1% |
| **PPTV** | 90.0% | 83.2% | 57.6% | 57.9% | 54.8% | 100.0% |

Source: China Internet Network Information Center (CNNIC), “2013 Chinese Netizens: Online Streaming Adoption Research Report,” CNNIC, June 1, 2014, accessed June 21 , 2021, http://www.cac.gov.cn/files/pdf/wangluoshipin.pdf.

EXHIBIT 3: MAIN VIDEO PLATFORMS’ MOBILE Users Overlap

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Youku Tudou** | **Baidu iQIYI** | **Tencent Video** | **Sohu** | **LeShi** | **PPTV** |
| **Youku Tudou** | 100.0% | 64.0% | 37.5% | 33.6% | 33.0% | 27.8% |
| **Baidu iQIYI** | 70.0% | 100.0% | 39.5% | 34.4% | 34.2% | 30.0% |
| **Tencent Video** | 69.0% | 66.5% | 100.0% | 35.2% | 40.9% | 35.8% |
| **Sohu** | 79.1% | 73.8% | 45.0% | 100.0% | 44.7% | 30.5% |
| **LeShi** | 77.7% | 74.0% | 52.5% | 44.8% | 100.0% | 34.4% |
| **PPTV** | 78.3% | 76.8% | 54.7% | 36.4% | 40.9% | 100.0% |

Source: China Internet Network Information Center (CNNIC), “2013 Chinese Netizens: Online Streaming Adoption Research Report,” CNNIC, June 1, 2014, accessed June 21, 2021, http://www.cac.gov.cn/files/pdf/wangluoshipin.pdf.

ENDNOTES

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