



ANOTHER BATMAN

Internet giants are replacing coal mine tycoons as the big players in the film industry. BAT (Baidu, Alibaba and Tencent) want to be more than “small partners” in the film industry, but instead have become the “barbarian insiders.” Will Huayi Bros. Media Group, Enlight Media, and Polybona be on BAT’s future lists of acquisitions, in addition to UC, dianping.com and Didi Taxi?

By Zou Lin

“Do you know of any Internet companies recruiting now that you would recommend to me?” A former employee of a film production studio shared the anecdote that, in recent months, he has received over 10 such requests, all from people in the film industry. As a successful case of someone who transferred from the film industry to the Internet industry, he has been embraced by the local well-to-do ever since, and is envied by his former peers.

The frequent personnel turnover in the film industry is driven by tremendous changes that are still brewing. “In the future, film companies will be working for BAT,” said Yu Dong, chairman of Polybona, at the Shanghai International Film Festival in June. His words were like a bomb that woke up the sleepy bosses in the traditional film industry. Yu Dong even said, “While Hollywood still has eight film studios, there will only be three in China (Baidu, Alibaba and Tencent)!”

Whether or not the future belongs only to these “three,” there is no denying that BAT have become

major players, perhaps even the mainstream force in the film industry. Traditional film bosses such as Huayi Bros. Media Group and Enlight Media are now riding on the same express train to the future with Internet giants Tencent and Alibaba.

“We just want to strengthen the capabilities of excellent content companies, introduce the Internet model of thinking to film-making, and create a new business model,” said Liu Chunning, president of Digital Entertainment Group, Alibaba.

His humble words were just enough to get on the nerves of the traditional film bosses. Mergers with Internet companies have become the hot option for program production houses. Who’s going to be topped in the future? The Internet has pushed the film-making industry to a crossroads.

Competition for Talent

For the cultural and creative industries, talent is the core resource, and a fierce competition for talent is quietly coming into being, especially with the “nerve-wracking” BAT factors in play. “Promotion directors are utterly important for film companies. One of my promotion directors was once head-hunted and offered an annual income of over [\$160,000],” said Wang Changtian, chairman of Enlight Media, at a forum.

And for BAT, which have limited experience and resources in the film industry, “stealing” talent seems to be their preferred choice.

“We are an Internet-based business, so having a pool of talent is not our core competitiveness in our industry, but in the cultural and creative industries, it is the core, which is unimaginable in Internet circles,” said Sun Zhonghuai, general manager of Tencent’s Online Video Department. “Hiring the right talent and retaining them” is the most frustrating issue now, according to An Yugang, CEO of In-entertainment.com, a marketing company that has successfully promoted such films as *Love Is Not Blind* and *Batman*.

In-entertainment.com has been expanding rapidly, thanks to vigorous developments in the film industry. But it has also seen a lack of suitable talent. “Newcomers [to the industry] were mostly born in the 1990s. They usually quit after a couple of days on board, and we found out that many of them go to Internet companies.”

And the same situation is troubling Maxtimes, which helped with the marketing of *Tiny Times*. “We want to hire some relatively green hands with one to two years of experience. But we are competing for talent against Internet companies who bid at prices we cannot afford. So we have a dim chance of hiring the right people,” said Yue Yang, president of Maxtimes.

When it comes to attracting talent, it’s not just the marketing area but the whole film industry chain that is competing for talented people. In May 2013, Zhang Yimou, the famous film director who had been out



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Baidu



June 2014

iQIYI announced it would integrate iQIYI and PPS into an iQIYI brand.

May 2013

Baidu purchased PPS's video business at a price of \$370 million.



May 2014

Baidu announced a strategic partnership with the largest entertainment company in South Korea, SM Entertainment. Baidu Music and iQIYI will gain full authorization in Mainland China to promote and sell genuine digital music, MVs, videos, and similar products featuring SM Entertainers.

February 2014

Li Yanhong invested in a film production company in Los Angeles. Its first project is to produce a 3D animation film titled *Wukong* with a budget of up to \$40 million.

Alibaba

March 2014

Alibaba purchased a 60% stake in Culture China at a price of \$812 million.

60%

Entertainment Investment Fund

Alibaba launched the Entertainment Investment Fund that allows netizens to invest \$16 in popular films and TV series with an expected annual earnings of 7%. The fund sold out within three days.

March 27, 2014

According to Yonhap News Agency, Keyeast, the agent for "Professor Du" Quan Xiuxian, announced a strategic cooperation agreement with Tencent. Later, rumor had it that Tencent held a 20% stake in Keyeast.

\$1 billion

April 8, 2014

Jack Ma and Shi Yuzhu, chairman of Giant Interactive Group, spent \$1 billion purchasing a 20% stake in Wasu Media.

youku

April 28, 2014

Jack Ma teamed up with Yunfeng Fund, spending \$1.22 billion to purchase an 18.5% stake in YOKU.

April 16, 2014

Tencent announced an interactive entertainment strategy to consolidate literature, animation and games on a single platform for the first time.

June 18, 2014

Tencent announced "Tencent Video joins hands with Big Movies," representing its official entry into the movie industry.

Tencent





of public notice for some time, announced he would join Le Vision Pictures (Levp), which aroused hot discussions in many circles. Instead of Huayi Bros. Media Group, Enlight Media, or even Wanda, Zhang saw himself going to a company in existence for only three years, mostly because Levp had represented itself as “a film company for the Internet era.”

When interviewed by magazine, Zhang Yimou admitted that this was the primary reason he chose Levp. “The future of film will belong to young people. And the Internet has infiltrated much of the lives of youth of this generation. It will change the film industry, and far more, the political and democratic process of this country,” said Zhang Yimou.

That’s a strong signal that the closed loop of the film industry—where directors, film producers and performers were flowing through small circles—has been broken. “That used to be the protection mechanism for the film industry when it was vulnerable. Insiders were intuitively distrustful of newcomers stepping in,” said ZheErwei, president of Angel Wings (Beijing) Film And Television Investment Co. Ltd. The film industry has had its market value inflated by the rapid influx of capital. But BAT will not hesitate to spend big money on its entry into the industry because they see it as a strategic investment.

“Alibaba Pictures Group Ltd. acquired the film resources of some top-level directors including Wong Karwai, instead of acquiring just one traditional filmmaker. This would be unimaginable if it had happened two years ago,” said one observer of the film industry.

He noted that it used to be coal mine tycoons, mostly from Shanxi Province, who threw their money into the industry just to have some fun; they had no knowledge of the film industry, or they just invested in it for the opportunity to socialize with the beautiful women found in film circles. All resources were flowing within a closed loop, which was not considered a “bad thing” in

this field. Lack of transparency could be considered perhaps the best barrier to entry in the film industry. But here come BAT that first will overcome such barriers and then create a greater sense of crisis among existing industry players.

At the Shanghai International Film Festival, at least five film forums covered topics related to the Internet, including film financing, sales, promotion and circulation, and film production. And at each of these forums, public figures of the Internet industry were the icons. As it turned out, Liu Chunning, president of Alibaba Digital Entertainment Group, grabbed more attention than Gong Li, winner of the Best

“In the future, film companies will be working for BAT.”
—Yu Dong, chairman, Polybona

Actress award at the festival. Moreover, people from the Internet circle and the movie industry are seen more and more at the same gatherings.

“I noticed that BAT made their appearance at many gatherings among film critics,” said Zhou Liming, a well-known film commentator, at a private party of his circle. This included “iQIYI.COM, Tencent Online Video and Alibaba Pictures. They used to be little known to us,” he said. And Li Xingwen, a renowned TV series critics, even claimed that online TV soap operas would revolutionize the TV industry in the future.

Besides impressing key opinion leaders as film and TV soap opera series critics, BAT are also good at winning over experienced film experts to act as their “external brains.” “To be honest, we are new in the film and TV industry. We are adults in Internet products but we are three-year-olds in the cinema area. So we hire a bunch of very experienced people to be members of our Expert Consultants Group,” said Mi Yufeng, deputy project director of Alibaba Yulebao. Mi

Yufeng also told China Entrepreneur magazine that Yulebao would ask these external consultants for advice when selecting projects in order to reduce risk. “We email our Expert Consultants Group when we have new projects. We will combine our big data with their recommendations before making the final decision,” said Mi Yufeng.

From “luring” others’ employees with higher salaries and competing for creative talent, to winning over opinion leaders and bringing together external experts, BAT have clear views on the film and TV industries. They are going to take action.

Deng Shao, a senior observer of the radio and TV industries and CEO of www.lmtw.com, described BAT’s route as clear and easily understood: hiring talent first; injecting capital next; and finally changing or even setting the rules.

Breaking Old Rules

“Do not ever exaggerate the statement that you are ‘working for BAT,’ or the industry could get hurt,” said Liu Chunning to China Entrepreneur, responding to the great public’s reaction to Yu Dong’s pronouncements. Tencent and iQIYI.COM also demonstrated an attitude of “Dedicate yourself to your work and mind your words,” which stands in sharp contrast to their high-profile actions.

According to Gu Jianbing, director of public relations of Alibaba, the company has two strategic directions over the next 10 years, i.e. the healthcare industry and the cultural entertainment industry. “People have more spiritual needs after the economy has developed to a certain level,” Gu Jianbing said.

That’s the reason why Alibaba invests in the cultural entertainment industry. Before getting listed, Alibaba invested in almost the entire chain of the cultural entertainment industry, purchasing 60% of the shares of China Vision Media Group Ltd. for \$32 billion to form Alibaba Pictures Group Ltd., and buying 18.5% of the shares of Youku Tudou Inc. for \$1.22 billion. Alibaba is not just

standing at the threshold of the film industry; rather, it's already armed and fighting to be an insider.

It used to be that film companies just viewed the Internet as a new "channel." In addition to traditional theaters, they put their movies on new media platforms such as video websites to gain extra exposure. But the deeper their inroads to the film industry, the more Internet companies want to go beyond becoming just another channel.

At the Shanghai International Film Festival, Liu Chunming commented that China has a population of 1.3 billion, who in total possess nearly 1 billion smart phones and 500 million TV sets; these form the foundation for the rapid future development of the digital entertainment industry.

According to Yu Dong, the only choice left for traditional filmmakers is to build up their size and production capacity as quickly as possible. "A film company without sizable scale is also without a future. Independent film-makers will all be taken in by BAT, which are restructuring the industry in a disruptive way. The next step is to restructure the content companies. This provides a real chance for the industry, and the coming decade will be the period when the Internet is leading the industrial revolution." As an executive of Polybona, a traditional film-making company, Yu Dong thinks in a way that agitates the rest of the industry.

Cloud Funding

How will BAT lead the industrial revolution? Just look at Yulebao. The first round of financing of Yulebao was launched in March 2014, with nearly 300,000 users snapping up shares worth \$11.5 million, which could support the production of four films. On June 13, the second round was launched. By 2 a.m. on June 14, nearly 160,000 users had bought up shares worth \$14.7 million, which would support production of another five films.

"We provide our Yulebao users with a

return of 7 percent [fixed] plus X. And Yulebao takes all the risks on these films," a Yulebao director said.

But things are not as simple as they seem to be. "Film financing used to be like private equities. For example, 10 trusted insiders invest more than a million dollars each and take the profits or losses themselves, which is highly risky. But at Yulebao, it is like 10,000 people investing \$16 each, with much less risk [because it is] averaged out," one observer said. According to one private equity manager, Yulebao is absolutely subversive.

This subversion is possible because of the open platform and large consumers' pool on the Internet, which will invigorate the film industry with greater creativity, from film-making and circulation to financing. "Movie directors are still talking about the fourth- or fifth-generation film languages and ways of expression learned from film academies, while the market and young people are choosing newer styles of films which we would not have cared about previously," the manager said.

From Yu Dong's point of view, it would have been totally unimaginable in the past, but the film *Dad, Where Are We Going*, which was shot in just four and a half days, made a box office record of \$112 million;



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—Yu Dong,
Polybona



Tiny Times, which cast no big stars as has been traditionally been defined, made nearly \$80 million. Productions and results like these would not have been imaginable in the past. "Should we stick to our traditional process and mechanism when making films? I'm desperate to know the answer myself, Yu Dong wondered. He thinks the traditional way of thinking in the film industry is collapsing, but this old way of thinking within the industry still has its own momentum.

Mi Yufeng believes that the industry has a strong intuitive sense of self-protection; new participants have difficulties in entering their circle because industry veterans would not allow outsiders to invest in good projects within the industry. Mi Yufeng used to represent Yulebao in its lobbying efforts for the film *The Continent*, directed by Han Han, but was rejected anyway despite lobbying for over a month.

"We didn't reach consensus on the rights and interests of users. A film company cannot control its cast of movie stars."

Chinese Film

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Alibaba

According to Mi Yufeng, Yulebao will not only be an Internet financing product, but also a platform for users to have high engagement with the film-making. When a film project is initially set up, users of Yulebao can vote to choose their favorite acting cast, and decide how the plot goes. Customized film tickets may even be made, on which users are named producers, to create a specialized sense of identity.

On the other hand, the Internet will provide the largest circulation platform outside of cinemas. Traditionally, film companies recover their costs and gain profits through box-office performance. But one of BAT's future goals is to develop online cinemas to enable people to pay for watching movies in their own living room. 4K TV and high-quality stereo equipment can to some extent replicate the visual and audio effects that real cinemas provide, and a monthly film subscription package payment of \$4.80 is much cheaper than going to theaters. According to Sun Zhonghuai, 100 million users of paid online theater platforms would create a market valued more than \$1.6 billion.

"The existing business models are out-of-date and the future belongs to the IP address-based operating model," said Zhang Zhao of Levp, who points to Disney spending \$4 billion to buy Marvel as an IP address-based operation. To be specific,

Internet companies put users before directors and movie stars as they operated under the old model. "You meet users' needs by allowing them to choose the content, directors and actors they like. The

"BAT cannot completely monopolize the content market."

—Huayi Bros.

Media Group executive

Internet is the future battlefield for film companies, which is also the core for the Chinese film industry to be able to stand up against Hollywood," he said.

Distribution channels for film tickets is another area that has already been taken on by the Internet. Wanda spent over 10 years and nearly \$1.6 billion before it took a 20% share of the film market. And ticket-selling websites such as maoyan.com (under meitu.com) and Gewara almost caught up with Wanda in just one year. Gewara sold nearly \$160 million in tickets last year, better than most cinemas.

Xu Wu, product director of maoyan.com, said that his website sold nearly \$256 million tickets last year, making up 10% of the Chinese market, and that that would rise to 13% or 14% this year. In the future it might

be common for 3-year-old companies to surpass 13-year-old ones in performance.

Not So Fast

But there are also different opinions. "BAT are unlikely to dominate the film industry. Good projects in the industry do not worry about funding, so why would they let Alibaba and Tencent in so easily? BAT cannot completely monopolize the content market," an executive of Huayi Bros. Media Group said, adding that it was a positive influence that BAT are entering the film industry now, because they help expand the pie and provide pressure for industry reforms. However, she also felt that sometimes she "cannot comprehend the industry," for example, how Levp, a company very different from any traditional film companies, actually managed to grow so strong in the film industry.

An Yugang takes an interesting point of view that, due to the nature of the political system, mergers, acquisitions and restructurings would be restricted in the traditional media industry, and that's why there are no comprehensive entertainment groups. But BAT in the future will serve as the actual integrating parties, becoming the three giants in the overall entertainment arena. In the foreseeable future, BAT will even take direct part in industry competition armed with their investment capital. In March 2014, Huayi Bros. Media Group announced it would invest \$120 million to \$150 million in shares of Studio8, an American company. But Huayi lost its potential deal to Fosun International at the final stage in June. Insiders said Alibaba was among the bidding competitors, and Jack Ma was once known to be a shareholder of Huayi Bros. Media Group.

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