

Could Auto Renew Help Online Video Platforms? Taking iQIYI As an Example

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Abstract: There has been a long controversy about the rationality of auto renewing. Customers are observed having hostility against this mechanism, while companies take it as key to fortune. This paper attempts to study the impact of car updates on online video platforms from the perspective of car updates. It is worth discovering that how much auto renew exactly affects the business and why people do not like it. In this paper, the object of study is iQIYI corporation and connection between number of subscribers and auto renewing would be observed and analyzed though its financial reports over years as well as source from Internet. To stand on the position of users, news and social articles are also cited. It is proved that auto renew help companies increase and remain their subscribers. The overuse of auto renewing could be the main reason why users boycott it. Possible developments under the impact of Covid-19 are also discussed.

Keywords: auto renewing, internet video platform, case study

1. Introduction

Nowadays, when people download an application or log in a website, the first advertisement jumped out properly would be auto renewing subscription. It is nothing surprising for everyone to have one or two auto renewing subscriptions, maybe with one or two unnoticed. Mountains of complaints from users about it are received daily, saying their money has been stolen by this mechanism. At the same time, companies regard it as the most effective way to remain subscribers and earn more. How does this paradox happen? According to this question, this paper would firstly illustrate auto renewing in the perspective of behavior economics. After that, the connection between auto renewing agreement and rise of amount of subscribers would be explored though financial results of iQIYI over years. Complaints from users would be summarized and the tricks played by companies would be disclosed. The efforts done by the government are also recorded. Finally, this paper would come back to the position of online video platforms, state possible issues they are facing and analyze possible improvement of their content as well as service under the impact of Covid-19.

Currently, social reports over subscribers' loss because of auto renew have been discussed enough, so this paper would briefly summarize some common causes and cite some famous cases. The paper would stand in the position of companies most of time, in this case, iQIYI. For example, effect of auto renew would be simply calculated by the increasing and percentage of remain subscription in next period though the data collected from financial results over years. Besides, under

the condition that Covid-19 affects video industry negatively, viable ways of maintaining users would be discussed in the last part.

2. Case Description

2.1. Background of iQIYI

iQIYI, known as one of the largest online video platforms in China, was found in April 22nd, 2010. In May 2011, iQIYI launched its membership services for the first time. Subscribing members are offered with ad-free streaming of premium content, such as movies and TV series. At that time, like other starter video platforms in China, iQIYI earned benefits from fees of subscription and advertisement. In October 2017, iQIYI announced that it would build a multiple cultural platform that could bond the connection between viewers with Intellectual Property (IP) [1]. In March 2018, iQIYI debuted on the Nasdaq exchange.

According to iQIYI Announces Third quarter 2019 Financial Results, during this quarter their income from subscription reached 2.9 billion yuan, while income from advertisement was 2.4 billion yuan. For the first time, membership service income has become the largest source of income for iQIYI. Another noticeable announcement is that in June 2019, iQIYI have reached 100 million subscribing members [2]. The success of maintaining the number of subscribing members cannot do without highly applied auto renewing subscription.

2.2. Status Quo Bias

To understand how could auto renewing help remain subscription, it is necessary to introduce status quo bias. Status quo bias comes from behavior economics, which introduces a tendency in a given scenario: when people are facing a choice with several options, they tend to maintain on the default they are given, and any changes would be regarded as a loss [3]. Besides, in 1991, Hartman, Doane and Woo have studied how status quo bias would affect people's decision as consumers [4]. 20 years have passed since that, hence there is nothing surprising that the bias has applied in business strategy. In the case of iQIYI, auto renewing as a choice offered to consumers is a developed application of it. Once consumers assign the agreement, companies have changed their default status from "not subscribe" into "subscribe". With the tendency of sticking to the default, they are likely to remain subscription for next period. The graph 1 proof the impressing effect of auto renewing with a boom of active subscribing members as well as high percentage of remain.

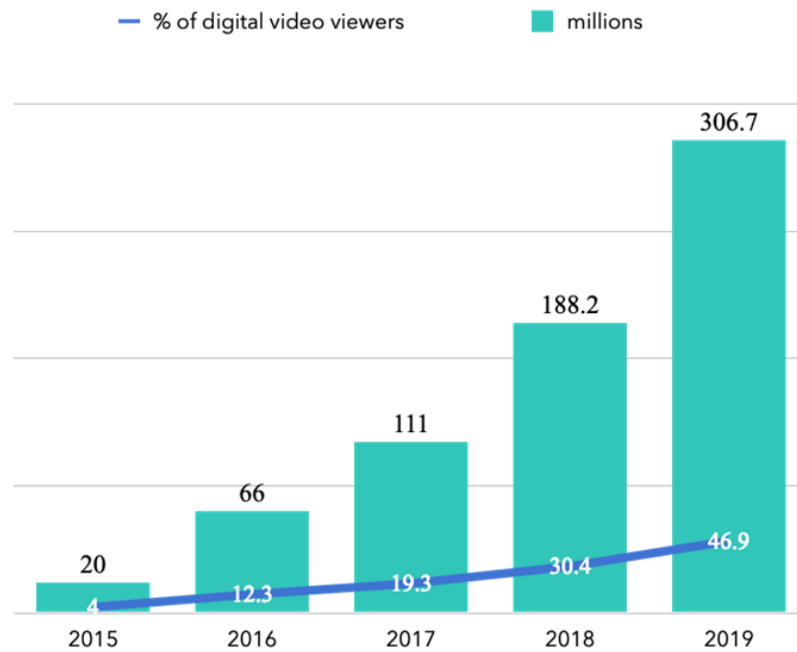


Figure 1: Increase of active subscribing users of iQIYI.
Source: eMarketer.

2.3. Sweeten the Pot

An issue here is that since only few users would take automatically renew as a convenient way that saves effort, what companies should do to change users' default option of not assigning auto-renew agreement? The process of auto renewing is like boiling a frog in warm water, taking subscribers money every period, companies are trying various ways to sweeten the pot so that users are willing to jump in. The most common way is offer delicious discounts. For example, iQIYI offers a 10% off for members who choose to auto renew.

3. Analysis on Problems

3.1. Traditional Working Process

In traditional business model of Internet video platform, the platform usually invests on popular TV series or entertainment programs. With exclusive broadcast of these programs, it could attract users and charge for member service. At the same time, auto renewing is applied to help maintain subscribing members. In this way, the platform could gain more and more users and is able to earn from advertising. Finally, the earning from subscribing members as well as advertisement would be used to invest new series and programs. In this model, companies are taking risk as they invest series or programs in advance, and are not sure about whether users would subscribe for these programs or not. According to Graph 2, it can be seen that although its earnings increased continuously, net losses still sustained over the whole year.

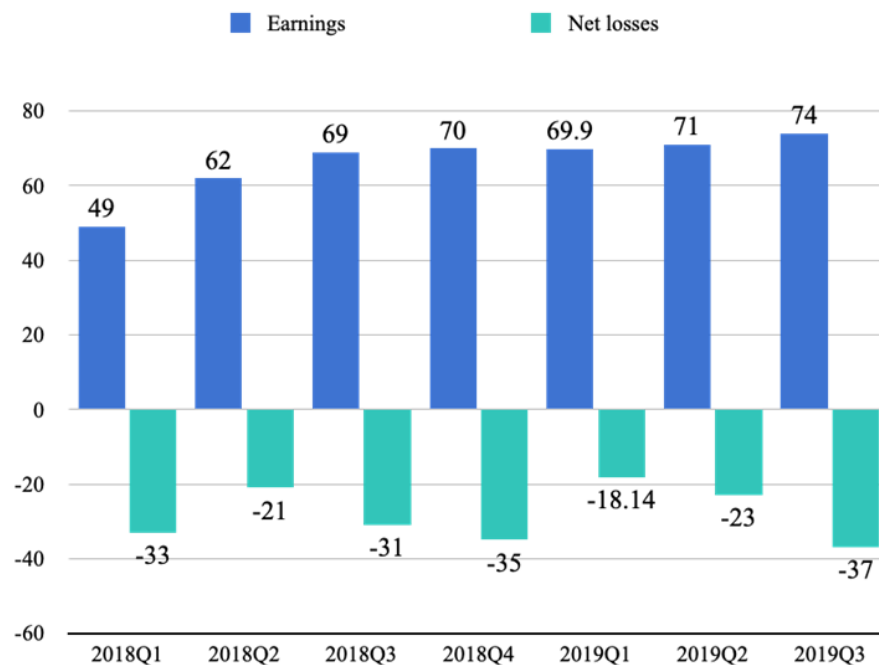


Figure 2: Earning and net losses of iQIYI during 2018 and 2019.
Sources: iQIYI Announces Financial Results 2018-2019.

3.2. Concerns on Auto-renew

Auto renewing is not magic. With noticeable subscriptions “caught” by it, numerous of consumers have made complaints on this unfriendly mechanism, which are not only about online video platforms like iQIYI. In plenty of cases, subscribers remain their subscription because of barriers that stop them from canceling the agreement.

First of all, what have been compliant most is the absent of a noticeable reminder that allow customers to choose remaining subscription or not at the end of a period of subscription. It would be annoying if people wake up and finally find they have automatically paid for a service that have not been used for a long time. In December 2019, JiangSu Consumer Council published its research of subscribing service of 24 applications. According to the result of research, 17 of these applications would automatically charge for the subscription of next period without any notification, 7 of them would notify users though platform before charging and only 4 applications would send messages to users [5].

Secondly, some companies are playing tricks in their agreement to trap consumers. Their methods are various. Some applications use auto renewing as the only option to subscribe their service: on an app named Ulikecam, users could only assign an auto-renew agreement to access extra functions [6]. Some applications may not mention their auto-renewing agreement but only add some tiny words at the bottom of page with a default tick, which means it may look like a simple subscription but silently equipped with auto renewing. In this way, plenty of subscribers had not realized their auto-renew subscription till they have been charged for the fee of next period [7]. As a efficient way, companies usually attract users to become subscribers by offering a trial period of their service. However, some applications would add conditions like a compulsive subscription after that. For instance, numerous complaints can be seen from comments about an application named Meiyi on Apple store. It offers users a trial period of 3 days of their membership service, but the condition is to agree on its auto-renew agreement. Subscribers use it after 3 days then compulsively pay for membership service of 1 year [8]. These tricks are not only played by small companies. Ac-

cording to the research of Shanghai Consumer Council in November 2021, Bilibili, one of the biggest online video platforms in China, has been found renew the subscription of next period 3 days before due day [9]. Even users are conscious of these traps and are willing to cancel subscription; they would find it difficult to operate. Some applications hide the button “cancel subscription” deeply and may take several minutes to find. In China, the biggest barrier in the road is unclear responsibility diversion between payment platform and applications. To be more specific, common auto-renew subscriptions are done by assigning assignment with payment platforms, basically Alipay, Wechat and Apple store. Some applications do not install a cancel button inside app but ask subscribers to cancel on these platforms, while platforms may tell users to cancel service on website of applications [10].

Worse situation for subscribers is that, once the fee has been charged, it is hard for them to get their money back. Although they resist that they are deceived to subscribe, it is hard to judge fraud or misleading though existing law. Currently, the government is taking effort to update laws and regulations to protect rights and interests of consumers. However, even the market of auto renewing become well-organized, consumers have already lost trust in this mechanism.

4. Suggestion

Since the trend of boycotting auto renewing spread rapidly through Internet, it is necessary for online video platforms to find out new ways to remain their users and subscriptions. What is worse, due to the impact of Covid-19, the entire Internet video industry has been negatively affected. For iQIYI, with the weakened supply of content, subscribing member base has witnessed fluctuation since the first half of 2020 [2]. It becomes urgent and necessary for platforms to work out new ways of gaining and remaining users.

As a significant part of income, present subscribing membership is waiting for development. In advertisement of video platform, subscribing membership sounds equal to privilege. In fact, consumers usually find its functions highly similar in every platform: skip ads and access to extra contents. As a result, users are more stick with popular content rather than the platform, which means they would cancel the subscription without hesitation if there is no anymore content attracts them. Some of platforms have already found their answer. For instance, Bilibili attracts the youth with subculture they interested in and created community for them to share their own videos.

In December 15th, iQIYI announced to increase the price of subscribing membership at a range round 20% [11]. Plenty of users discussed about the rationality of this measure, though iQIYI regard it as a reasonable adjustment. There has been a long controversy about the definition of iQIYI's membership. In June 2nd, 2020, iQIYI was taken to the court because the user cannot stand extra fee for access to series in advance though he was already paid for the membership [12]. As result, iQIYI canceled the extra fee and add the function into membership. In short, differentiation and extra privileges are two ways to gain loyal subscribers.

5. Conclusion

The rationality of applying auto renew is argued over years, a clear answer still cannot be given after the research. This is because people standing in different sides would give opposite answer. Therefore, this paper only gives conclusion about this mechanism based on logic analysis. According to the case study of iQIYI company, auto renewing do play an important role on maintain subscribers for several years. However, because of overuse of this mechanism, it might be the time for platforms to explore new ways to gain and remain users. One possible way could be redesign of membership service, to make it differentiate or to offer more exclusive content. Though research, this paper gives readers a whole picture from how auto renew works to why users hate it. Besides, it

is believed that readers would obtain some knowledge of Chinese online video platforms as well as their market. The weakness of this research is some of data collected is out of date. Positive affect on subscriptions of applications is observed though this paper, but with the updating of the regulations as well as boycotting from users started recently, the effect of auto renew is believed to be weaken than before. In further future, how would online video platforms expand into a multiple community and in which way latest technology like virtual reality would change consumers' attitude towards these platforms. These questions are still worth-discussed and waiting for exploration.

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