

Analysis of Kwai's Profit Model Based on the Five Elements Theory

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Abstract. In recent years, the short video industry has become popular worldwide due to its characteristics of popularization, personalization, and diversification. Among them, Kwai App has become the second largest short video company in the world with its huge number of users. Therefore, this article's theme was to study the profit model of Kwai Technology Company by using the five elements theory. The research methods of this article mainly included literature review and case analysis. The results showed that the financial situation of Kwai is not optimistic, the operating costs are huge, the enterprise has suffered losses for years, and the growth rate of customer groups is also slowing. In the future, Kwai should try its best to reduce costs, increase profits, expand its user range and achieve better development. Through the analysis of Kwai's profit model, this paper was conducive to Kwai's understanding of its profit model status and risk warning, as well as investors' understanding of the profit model of the short video industry, helping them make correct judgments on their own investment decisions.

1 Introduction

In recent years, with the continuous development of internet technology, the market size of online video has been continuously expanding. Taking China as an example, according to the 51st Statistical Report on China's Internet Development released by the China Internet Network Center (CNNIC), the number of Chinese internet users has reached 1.067 billion, with an internet penetration rate of 75.6%. At the same time, the user base of Chinese online videos (including short videos) reached 1.031 billion, accounting for 96.5% of the total number of internet users [1]. Based on the above data, it can be found that the number of users of online video is huge and has huge market potential, making online video a major industry pursued by investors. To compete for huge profits in the online video market, many enterprises continuously innovate their products and services, and many new economic forms have emerged. The most representative of many new economic forms is the short video industry.

Kwai Technology Co., Ltd. is one of the first established companies in the short video industry, and also one of the most promising short video companies. Kwai has developed rapidly since its inception with the slogan of "using technology to enhance everyone's unique sense of happiness". By the end of 2022, Kwai Technology Company has become the second largest short video company in China and the world. It has over 600 million monthly active users, accounting for more than two-thirds of the total number of users in the industry, with a total user duration of over 130 minutes [2]. On Kwai, people can record their lives through

videos, photos and other forms, and also interact with other users around the world through live broadcast. Kwai has a large user group and extensive content. People can find their favorite content on Kwai and make friends with people they are interested in. At the same time, Kwai's recommendation algorithm can analyze the user's personality and hobbies and other factors through the computer to play personalized content for users.

In 2021, Kwai Technology Co., Ltd. was listed on the Hong Kong stock market. On its first day of listing, its share price rose by 160%. As a representative enterprise in the short video industry, Kwai's share price rise on its first day of listing also reflects that investors have great confidence in the short video industry. However, after the listing, the financial statements of Kwai show that the company's profits remain in deficit every year. The contradiction between the high stock price of Kwai technology companies and their huge losses has attracted investors' attention. The financial statements of Kwai cannot truly and effectively reflect its profitability, and it is necessary to conduct an objective and systematic analysis of the profit model of Kwai Technology Company.

Therefore, this article starts from the perspective of the five elements theory of profit models. This paper first gives a brief introduction to Kwai and combs its development, and then analyzes the structure of Kwai's profit model layer by layer using the theory of five elements of profit model. After that, this paper analyzes the current profit status of Kwai. At the same time, it compares and analyzes the profit models of Kwai technology companies and companies in the same industry. Finally, the paper draws reasonable conclusions

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and puts forward suggestions for Kwai technology profit model.

Using the literature survey method and case analysis method, by combing Kwai's financial situation in recent years and reading relevant literature, this paper analyzes its profit model, and will further explore the deep logic system of the profit model of the short video industry.

2 Analysis of business model elements based on the five elements theory of profit model

At present, most of the research on profit models is an extension and supplement to the framework of profit model elements. The Five Elements Theory of Profit Model is currently the closest to the actual situation of most enterprises and has also been recognized by most scholars [3]. The Five Elements Theory of Profit Model was proposed by Adrian Slavoski in the United States, which includes: profit point, profit source, profit object, profit leverage, and profit barrier. This paper selects this theory to analyze the profit model of Kwai.

2.1 From the perspective of profit points

Kwai's profit points include video content (core), advertising and e-commerce.

The video content of Kwai can be divided into User-generated-Content (UGC), Professionally-generated Content (PGC) and Professional-User-Generated-Content (PUGC). UGC is the main part of Kwai video content. Because Kwai advocates "decentralization", so that every user has an equal opportunity to show themselves, Kwai users have a stronger willingness to create videos and a higher degree of activity. Kwai has also greatly increased its PGC content and shot a large number of short plays. Kwai's PUGC content also brings a huge number of users to it. For example, "CCTV News", the blogger ranking first in Kwai, has 66.279 million fans. Many bloggers like "CCTV News" have hundreds of millions of fans, bringing huge users to Kwai.

Because the content on short video platforms is more fragmented, it is more suitable for advertising placement [4]. The advertising of Kwai is mainly divided into two types. The first type is "open screen advertising". The opening screen advertisement appears when the Kwai software is opened, and the time is 3-5 seconds. Because open screen advertising is the first thing users see when entering the app, it can have a good marketing effect. The second type is "information flow advertising". This type of advertisement is a personalized advertisement that is accurately delivered to users based on analyzing their preferences and needs.

There are two kinds of Kwai e-commerce. The first type is video marketing, where sellers promote products by shooting short video content. This method has the characteristic of being short, flat, and fast. The second type is live streaming sales, where sellers stimulate consumer purchasing interest through live streaming

explanations, ultimately achieving the goal of selling products.

2.2 From the perspective of profit target

The profit target is the customer group which the enterprise provides products and services. Different customers are influenced by various factors such as their cultural level, personality preferences, income level, etc., and have different requirements for the services provided by the enterprise. Therefore, enterprises need to continuously improve their service level and provide more personalized services to customers to enhance the competitiveness of their products. As a short video enterprise, Kwai's user experience, satisfaction and even their income level will affect Kwai's profitability.

At present, the profit target of Kwai has the following characteristics:

A large number of users and a large scale. Under the good ecological construction of community content and refined management and operation of Kwai, the number of Kwai users has maintained a steady growth.

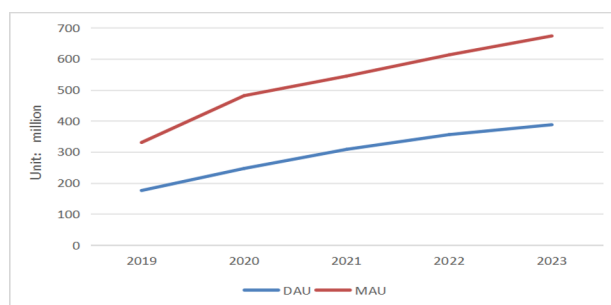


Fig. 1. Average number of daily/monthly active users of Kwai from 2019 to 2023 [5]

According to figure 1, the monthly active users of the platform have reached nearly 700 million, with a year-on-year growth of about 15%. Kwai's daily and monthly live users are expected to continue to grow rapidly in 2024.

For short video platforms, it is not only necessary to continuously increase the number of users, but also to continuously increase user activity. When the platform has more active users, it can attract more merchants to join the platform, and more merchants will bring more revenue [5]. For Kwai, the number of DAUs and MAUs keeps growing every year. Based on the analysis of data, this paper finds that although the number of profitable objects of Kwai is growing, the growth rate is gradually slowing down.

2.3 Colour illustrations

The profit sources refer to the channels through which enterprises obtain profits. Kwai technology companies mainly make profits through advertising, live streaming sales commission and live rewards [6].

At present, Kwai's advertising business is mainly to cooperate with third-party companies or brands who are willing to purchase advertising space [6]. Kwai mixes advertising videos with user generated videos, and

provides them to other users using Kwai through algorithms.

Kwai's live delivery business is an important part of Kwai's profit source. If a merchant wants to sell 10000 yuan of goods on Kwai APP, it needs to pay 500 yuan of entry fee, 6% of the commission and 10% of the service fee to Kwai.

Kwai's live broadcast service has the function of sending virtual gifts to the anchor. Users can interact with their favorite anchors by buying virtual gifts on the Kwai platform, and the Kwai platform will extract half of the gift income. This is one of the main sources of income of Kwai.

Through the above analysis, this study find that the revenue of Kwai depends on the quality of users and the popularity of content.

2.4 From the perspective of profit leverage

The profit leverage is the relevant investment made by enterprises to increase profits.

At present, the profit leverage of Kwai is mainly the community construction of the platform. On the one hand, Kwai constantly improves various video creation functions and social functions to provide a better experience for users and video creators. At the same time, Kwai continues to strengthen the supervision of content, improve the quality of video content, and create a positive, healthy, and upward platform environment [7]. On the other hand, Kwai actively promotes cooperation between users and third-party enterprises, constantly simplifies cooperation procedures, improves live broadcast functions, and promotes the development of live broadcast with goods.

2.5 From the perspective of profit barrier

The profit barrier refers to the relevant defensive measures taken by enterprises to cope with competition from other companies in the same industry. Because Kwai is the first batch of short video enterprises, there were not many competitors in the early days of Kwai. The initial development of Kwai is relatively smooth. In 2018, TikTok appeared, and Kwai welcomed its biggest competitor. The top management of Kwai soon found the great threat of Tiktok and began to implement a series of measures to resist the competition of Tiktok. These measures include:

Kwai significantly accelerated the update speed of APP and updated a large number of new functions in a short time. For example, filters, character effects, and so on.

Kwai began to optimize its enterprise organizational structure. For example, Kwai changed its management from dual core to single core, improving the efficiency of enterprise operations.

Kwai strives to provide differentiated content, providing more diverse content. For example, Kwai has made a lot of investment in sports, academia and other aspects.

3 Analysis of problems and challenges

In recent years, although Kwai has become the second largest short video platform after Tiktok, it still faces many problems such as huge losses and competition in the same industry.

3.1 The current operating status of Kwai profit model

The profitability is an important indicator in analyzing an enterprise's profit model. To better analyze the profit model of Kwai, this paper combs the profit situation of Kwai in recent years.

Table 1. The data of Kwai's financial report.

Project	Formula	2022	2021	2020	2019	2018
Operating revenue (billions of yuan)	-	9.42	9.93	6.97	4.35	2.31
Sales gross profit margin (%)	gross profit/operating income	44.7	42.0	40.5	36.1	28.6
Sales net profit margin (%)	net income/operating income	-14.5	-96.3	-198.4	-60.2	-61.2

As shown in Table 1, although the growth rate of Kwai's total operating revenue is gradually declining, the operating revenue from 2018 to 2022 is still growing year after year. At the same time, this paper finds that the gross profit rate of Kwai has kept rising year by year in the past five years. Because gross profit rate can well reflect the product competitiveness and profitability of an enterprise, Kwai's profitability is good at present and will continue to increase in the future.

However, the net interest rate of Kwai has been negative in the last five years. It can be seen that Kwai

technology companies have suffered losses in the past five years. However, through analyzing the prospectus published by Kwai, this paper finds that the loss of Kwai is not due to the lack of business ability, but due to the active investment of Kwai itself.

Kwai's huge initiative investment every year is to compete with the industry. Currently, there are over 3.8 billion social media users worldwide, and short video platforms, as emerging social apps, are becoming increasingly popular among users. This is a huge market, and many companies have entered this industry to compete. At present, TikTok has become the largest

short video platform in China. In 2020, TikTok will become the world's largest application with 626 million downloads [8]. To compete with other enterprises, Kwai will invest huge amounts of money to expand its publicity, update APP functions, and so on. So the current profitability of Kwai is very strong. Its losses just show that Kwai has greater development potential in the future.

3.2 Comparative analysis of profit models of peer companies

To better analyze the profit model of Kwai, this paper selects TikTok, a popular short video platform, for comparative analysis. As two powerful short video platforms, Kwai and TikTok have a lot in common. For example, both focus on UGC and PUGC content. But at the same time, there are also significant differences in their profit models.

TikTok implements centralization, that is, the more popular the video is, the easier it is to be recommended to other users, and the easier it is to cultivate popular online celebrities. Kwai implements decentralization, pays more attention to the social attributes between users, and focuses on the interaction between users.

TikTok's advertising revenue accounts for a larger proportion. Because TikTok is more likely to be popular videos, it can attract a lot of traffic. TikTok's advertising revenue accounts for 80% of the total revenue. Kwai has a larger proportion of live broadcast revenue. Kwai earns profits by drawing royalties from virtual gifts that users buy for their favorite anchors. This part of income accounts for 60% of the total income of Kwai.

According to the above analysis, this paper finds that although TikTok can gain huge profits from a short time explosion of a video, the profit model of Kwai may be more stable through social attributes among users.

3.3 Problems under this profit model

Although Kwai has achieved some success with its unique profit model, it also has great defects in competing with companies in the same industry. Tiktok's centralized operation mode makes it easier to cultivate pop videos make it easier to attract new users. The decentralized operation mode of Kwai relies more on the cultivation of feelings between users. Because Kwai implements decentralized operation, it is more difficult to produce popular videos than TikTok, and lacks traffic to attract new customers. Therefore, Kwai needs to spend more time and money to promote itself and expand new customers. This may also be the reason why Kwai has been spending a lot of money to update and promote itself in the past five years, which has led to the loss of the enterprise year after year.

4 Suggestions and prospects

4.1 Increase profit leverage and improve profitability

Kwai needs to constantly update its marketing methods, service strategies and other profit leverage measures to make its services and products more popular and recognized. In the face of the current problems of insufficient traffic and high cost in the process of expanding the market, Kwai should give full play to its social attribute advantages of the platform while looking for new profit levers. For example, Kwai can introduce some stars or online celebrities and use their popularity and influence to attract more users. At present, internet celebrity marketing has become the main driving force for the development of e-commerce. Therefore, cooperation between short video companies and reliable internet celebrities or celebrities is an effective way to attract consumers and increase the number of users [9].

4.2 Enhance profit barriers and improve competitiveness

With the booming short video industry, various short video apps are constantly being launched, and competition is becoming increasingly fierce. As a pioneer in the short video industry, Kwai is facing increasing competitive pressure. On the one hand, Kwai needs to increase investment in scientific research. In today's globalized world, most enterprises are facing technological updates and changes, leading to shortened product and service lifecycles [10]. So, Kwai needs to invest more scientific research funds and improve the conversion rate of scientific research achievements to improve the competitiveness of its products and services. On the other hand, Kwai should strengthen the supervision of content, create a good content ecology, crack down on counterfeit and shoddy products, and prohibit illegal and illegal content to improve its evaluation and influence.

4.3 Continuously optimizing the structure and saving operating costs

An excellent enterprise should have an organizational structure that suits itself. Undoubtedly, organizational flexibility has a positive impact on a company's competitiveness, and innovation in organizational structure plays an important role in maintaining its core competitiveness [11]. The correct organizational structure can help enterprises improve operational efficiency, save operating costs, reduce the likelihood of crises, and so on. In recent years, to seize the market, Kwai has increased its publicity expenses, and the huge cost has brought a loss of 10 billion yuan to Kwai. In the face of this situation, Kwai needs to optimize its internal organizational structure, streamline its work team, reduce costs and alleviate huge losses by improving work efficiency. For example, Kwai can establish a scientific budget team to strictly control each

expenditure and avoid unnecessary waste. At the same time, Kwai should streamline staff and reduce the daily expenses of the enterprise.

5 Conclusion

This article aims to analyze the profit model of Kwai and make a reasonable evaluation of its profit model. Based on the theory of the five elements of the profit model conduct a detailed analysis of the profit model. In addition, this paper also analyzes and evaluates the current profit status of Kwai and compares it with TikTok's profit model, and draws the following conclusions.

Kwai's profit model is successful. This paper analyzes the profit model of Kwai from the perspective of the five elements of the profit model, and finds that the content of Kwai is suitable for most people, and the user scale is huge. At the same time, Kwai attaches great importance to the social attribute of the development platform. It has unique and significant advantages, and has a strong profit leverage and profit barrier. In general, Kwai's profit model is effective and worth learning from other enterprises in the same industry.

Although Kwai has been losing money in recent years, Kwai has strong profitability. The gross profit rate of Kwai is high and keeps growing, which proves that Kwai has strong profitability. The huge loss of Kwai comes from its annual investment in promotion and scientific research. Perhaps soon, these investments will bring huge profits to Kwai. In any case, Kwai has a large number of users and strong stickiness, which has brought stable and huge income to Kwai.

Although Kwai has developed into the second largest short video enterprise, its profit model still has some problems. On the one hand, the profit source of Kwai is relatively single. At present, the profit source of Kwai mainly depends on users' purchase of virtual gifts, e-commerce and advertising. There is a lack of new profit sources that can promote the further development of Kwai. On the other hand, the cost of publicity and promotion of Kwai is too high. The high annual publicity costs of Kwai have made it lose money for many consecutive years, which has greatly affected the development of Kwai.

Today, as the second largest short video platform in the world, the development of Kwai not only conforms to the trend of the Internet development, but also gives play to many of its advantages. Although there are some problems with the current profit model of Kwai, in any case, the profit model of Kwai is successful and worth learning from other short video companies.

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