

## **A Study on the Evolution of MCN Services and Diversification of Revenue Models**

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### **Abstract**

*The development of the Internet and mobile technology has brought various changes to society. In particular, the growth of video platforms such as YouTube has allowed those who have watched videos through legacy media to enjoy videos freely at the time and place they want. The freedom of time and space, consequently, has changed content use behavior, causing a paradigm shift in media consumption. It has brought unprecedented changes in media consumption patterns such as vertical media, and short-form content. Starting with the new social and cultural changes brought about by the YouTube platform, this paper aims to examine the changes in newly emerged MCN companies and the media industry. In particular, this paper shall examine in depth the implementation of novel revenue diversification strategies by MCN companies, who are aware the limitations of advertising revenue received from YouTube. Such revenue diversification strategies of MCN companies appear to be excellent examples to understand and analyze trends in management strategies, as well as new marketing strategies in the digital age. By examining the changed media industry's latest corporate management strategies, it is possible to derive two implications: management insight and sociological insight.*

**Keywords:** *YouTube, Creators, MCN, Video Platforms, Revenue Models*

### **1. Introduction**

The development of the Internet and mobile technology has brought many changes to society. In particular, the growth of video platforms such as YouTube, has opened the doors for those who have watched videos through legacy media to enjoy videos freely at the time and place they want. In the past, when video could be solely accessed through legacy media, viewers did not have the liberty of choosing the time and place to enjoy their media. However, with the growth of video platforms, it has become possible to escape from the

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limitations of time and place that existed with legacy media. This freedom of space and time is a great benefit brought by the Internet and mobile technology.

The freedom of time and space has led to changes in content use behavior. In other words, it has caused a paradigm shift in media consumption. For example, it has brought unprecedented changes in media consumption patterns such as snack culture, vertical media, and short-form content. Snack culture is a compound word a combination of 'snack' and 'culture'. It tells of the change media consumption without the burden of time has brought. Vertical media refers to concentrated media consumption in a specific field of one's choosing. Short-form content refers to the consumption of short videos lasting as short as 15 seconds to 1 minute and can be seen as the definitive version of snack culture and vertical media.

It is YouTube that has led this change in media consumption patterns. YouTube, which started in 2005, was a platform that allowed individual users to freely create and share videos on the Internet. After its acquisition from Google in 2006, YouTube grew explosively. In particular, the YouTube Partners program, which began in 2007, served as a groundbreaking opportunity for platform growth. In hopes to spur individual YouTubers' uploads, Google began distributing advertising revenue, while at the same time improving the quality of their videos. Furthermore, with the emergence of MCN companies, the evolution of the monetization model through the production of high-quality videos took form. It created a driving force that opened up the media industry, which had been monopolized by giant legacy media companies, to individual video producers.

Admittedly, despite all the positives, these changes gave rise to new social and cultural challenges. There remains a vast task ahead, such as regulating overly stimulating and violent content, the shrinkage of viewing options due to Internet algorithms, the spread of false information such as fake news, and conflicts pertaining to copyright and ethics. In this paper, the above problems will be concisely mentioned in relation to the discussion on MCN companies.

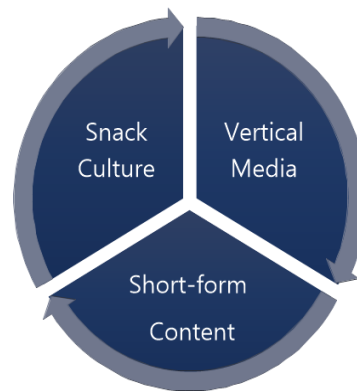
Beginning with the new social and cultural changes brought about by the YouTube platform, this paper aims to examine the changes in newly emerged MCN companies and the media industry. In particular, this paper will delve into detail on MCN companies who are aware of the limitations of advertising revenue received from YouTube and are implementing new revenue diversification strategies. The revenue diversification strategies of MCN companies are formidable examples that demonstrate key trends in management strategies, including new marketing strategies of the digital age. By examining the changed media industry's latest corporate management strategies in depth, it is possible to derive two implications: management insight and sociological insight.

## **2. VIDEO PLATFORMS AND SOCIOCULTURAL CHANGES**

The development of the Internet and mobile technology is accelerating an unprecedented paradigm shift in media consumption. Various video contents that could only be viewed on TV in the past can now be freely enjoyed anywhere, regardless of time and place. Technological advances such as high-speed internet and the evolution of mobile devices have made it possible for consumers to consume media content at any place of their choosing. In particular, the emergence of video platforms such as YouTube has created an environment in which people can select and enjoy a wider range of video content matching their preferences. The expansion of smartphone distribution has made it possible for all viewers to go beyond consumption and even produce their own content with high-quality cameras at their disposal. The introduction of the term prosumer [1] would suits the changes brought by these technological advances.

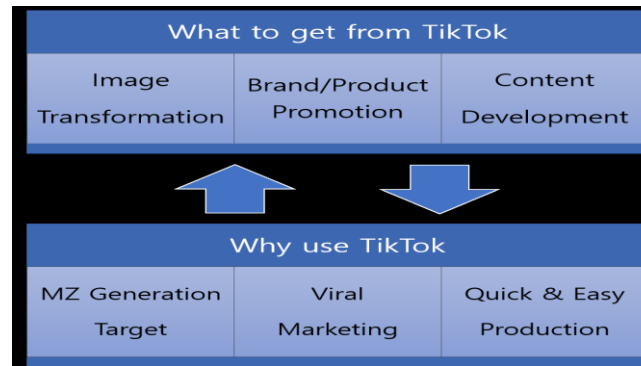
Advances in technology have also brought about changes in the average amount of time spent on video viewing. Short video contents that can be enjoyed while taking a short break or even in a short time riding a bus or subway have become widely available on various platforms. In a similar way to enjoying a cup of coffee and a biscuit for a break in a busy daily life, videos can also be consumed like snacks. The term for such a phenomenon is *snack culture* [2]. Such contents are gaining popularity due to their nature, as viewers can comfortably and quickly consume content, similarly to a snack. The popularity of content such as webtoons, web novels, and web dramas is growing rapidly as they increase their market share within a changing paradigm.

These changes have made it possible for consumers to focus on topics of their choice when consuming video content. With the help of algorithms, the automatic linking of topics matching consumers' preferences has made it easy to access contents similar to one another. So-called vertical media performs this function, connecting preferred content to viewers [3]. In a situation where each individual has differing areas of interest, algorithms automatically lead to customer-oriented consumption patterns, providing the convenience of being able to spend more time on one's specialized interests. Platforms such as YouTube continue to spur vertical media consumption, recommending similar content as viewers consume more content pertaining to topics of their interest such as fashion, gaming, beauty, documentaries, and news.



**Figure 1. Media Consumption Paradigm Shift**

Short-form content can be said to be a combination of snack culture and vertical media. Short-form content that is less than one minute in length matches the tastes of the MZ generation and is rapidly growing in popularity. TikTok is a representative short-form content, and it is an example that clearly shows what kind of impact content of 1 minute or less can have. The origin of TikTok lies in Douyin, which was launched in China in September 2016 by ByteDance, a Chinese IT company. The name TikTok came to be in September 2017. The turning point for TikTok to enter the global market arrived when ByteDance acquired the US lip-syncing video app 'Musical.ly', which was an increasingly popular app in the US that allows users to easily create lip-sync videos. In 2018, as ByteDance merged TikTok and Musical.ly, users of Musical.ly were automatically absorbed into TikTok, opening the doors to global expansion[4]. Since then, TikTok has grown into an incredibly popular short-form content platform among the world's MZ generation



**Figure 2. Why choose TikTok**

As if reflecting the popularity of TikTok's short-form content, the proportion of short-form content is also increasing on YouTube and other platforms. The above diagram shows a mind map that schematically demonstrates TikTok's service provision and goal-setting. It is significant as an example to show the service evolution and profit diversification strategies of MCN companies, which will be explored in greater detail in the latter parts of this study. The use of TikTok is regarded as a prominent example of digital technology development, changing media consumption patterns, and novel strategies for establishing a new platform and diversifying profits.

### 3. YOUTUBE AND CREATORS

YouTube is the first platform that truly led the change in the media consumption patterns discussed above. Despite TikTok's prominence today as a result of its recent growth in popularity, it is necessary to understand the fundamental cause of the media paradigm shift symbolized by prosumers to understand the YouTube platform, as well as preceding policy changes that opened up such changes in consumption patterns. Google, having acquired YouTube in 2006, achieved explosive growth by introducing the YouTube Partners program in 2007. By distributing advertising revenue to uploaders on the YouTube platform, Google could motivate them to create quality content and improve the quality of videos available on the platform. In turn, these events gave rise to MCN, a new media company that actively utilized the YouTube Partners program. It would not be an exaggeration to say that the YouTube Partners program created a new industrial ecosystem, bringing about various MCN companies and a host of professional creators.

Under the YouTube Partners program, creators can monitor the number of ad impressions and clicks attached to their content, based on which they are entitled to a distribution of revenue from YouTube [5]. In other words, the YouTube Partners Program works as a form of motivation system that YouTube provides to creators. Later, this served as an important basis for the existence of MCN. On YouTube, the distribution of advertising revenue is typically 55% for content creators, while YouTube claims the remaining 45%. At such point, the MCN divides income between itself and the creator once again, typically at a ratio of 3 to 7. Given, there are cases where this allocation can differ. Eventually, this series of revenue-sharing steps demonstrated the possibility of video production being able to generate commercial profits, giving rise to MCN – agencies and advertisers that endorse popular creators. However, diversified revenue generation strategies are being sought by MCN companies to account for the limit to the advertising profits they can claim from YouTube creators. This will be discussed in further detail in the following chapter.

The power of content provided by various YouTube creators has explosively expanded the media consumption market, moving away from legacy media and allowing viewers to freely enjoy a wide variety of creative video contents at any time and place of their choice. Despite the positive changes that have been brought to the media consumption environment, it is necessary to consider the newly raised negative aspects. It is also necessary to discuss the negative influences that are emerging socially and culturally in relation to video content consumption by YouTube and its creators. Some of the major issues are as follows.

First, problems caused by violent and stimulating content are being raised, as mass media fails to perform its function in maintaining neutrality and objectivity. In particular, concerns exist around the potentially adverse effects of violent and sensational remarks on children. Secondly, increasing false information such as fake news and transmission of information without sources is leading society to a problematic and radically divisive direction. Additionally, algorithms give rise to concerns such as filter bubbles, trapping users in their own 'bubble', relying solely on the information provided by Internet algorithms to suit their interests. In turn, this leads to a narrower field of view due to the bias of the algorithm. Finally, copyright issues, including plagiarism and illegal filming, are emerging. Key examples include infringement of the portrait rights of others, including passers-by, or cases of filming without consent.

#### **4. MCN ROLE AND SERVICE EVOLUTION**

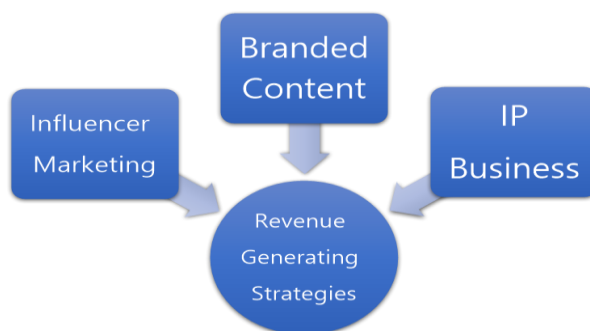
Through the YouTube Partners program, Google began to decompose creators and YouTube advertising revenue, leading to the emergence of professional creators and MCN companies that aim to nurture and support professional creators. MCN companies, in YouTube terms, are the equivalent to entertainment agencies, providing overall consulting and support to creators from the planning to execution stages when creating a video. MCN companies are defined as management companies that provide omnidirectional consulting and support for consumer analysis, marketing, and copyright issues, as well as studios and equipment necessary for video production [6]. As mentioned above, earnings of MCN companies lie in the distribution of YouTube advertising revenue. However, to offset the difficulties in leading a management company solely with distributed marketing revenue, MCN companies are seeking and implementing diversification of revenue structures through more diversifying services and business strategies.

A representative revenue generation strategy model of MCN companies is to utilize their creators in all directions. Creators with a large number of subscribers, also referred to as influencers, often wield great influence. MCN companies take advantage of this influence to generate profits via influencer marketing, branded content, and IP (Intellectual Property). Influencer marketing is a concept closely related to social media marketing and refers to a method of marketing through influencers who have hundreds of thousands of subscribers. Branded content can also be seen as a part of corporate marketing by producing content that aims to imprint a positive brand by bolstering corporate through popular influencers. An IP business refers to a business that generates revenue by utilizing intellectual property rights such as images, cartoon characters, or the affiliated creators themselves [7].

Influencer marketing is a new marketing concept born with the advent of social media. A marketing strategy that utilizes social media, it is being developed in wildly diverse sub-strategies. Although influencer marketing using YouTube is still widely used, creators are now being placed in the center of marketing, as are famous celebrities. Those with hundreds of thousands of subscribers are providing advertisers with a high return on investment because creators build strong trust relationships with their subscribers. A form alike to influencer marketing is corporate image promotion marketing through branded content production [8]. Being

a type content that acts advertises naturally conveyed brand messages via video content, branded content holds an advantage in terms of linking the viewer's trust toward the creator with the advertiser's product or brand.

An IP business is a method of generating revenue by utilizing intellectual property rights such as images or cartoon characters of affiliated creators. The IP business can be divided into three categories - commercialization, digital, and media[9]. The role of the commercialization business is to produce and sell the unique characters and images of affiliated creators as products, ranging from toys and daily items to clothing and stationery. In the digital business, licensing matters come into play with the production of smartphone applications such as games, design of emoticons and stickers, or the licensing of the voices of affiliated creators to business partners. Finally, the role of the media business is to assist its creators in their ventures within broadcasting industry. As the social influence of YouTube creators continues to expand with the support of the younger generation, legacy media continues to appear on broadcasts in an attempt to secure young viewers.



**Figure 3. Three Key Revenue Generating Strategies for MCN**

In addition to the above three revenue generation strategies, MCN companies are placing strategic efforts in various channels to secure corporate interests. For instance, the academy business is becoming an attractive model as it provides a curriculum to prospective creators and generates revenue through tuition fees. From a long-term perspective, the academy business also has the advantage of being able to discover future creators in advance and secure them as a future resource. Several MCN companies are also implementing strategies to expand their businesses by pioneering overseas markets. In contrast, there are MCN companies that compete with unique and specific high-quality through positioning a specific concentration or field. In the new media industry ecosystem, MCN companies are pioneering the market with various survival strategies.

## 5. MCN REVENUE DIVERSIFICATION STRATEGY

The aforementioned media business is designed to create various profits for MCN companies by aiding creators enter the broadcasting industry. One may wonder, however, why legacy media accepts such form of cooperation with MCN companies. The cause can be attributed to the fact that legacy media are also aware of the ever-changing media industry trends, going against their will. As mentioned, due to the development of the Internet and mobile technology, viewers are watching more videos via video platforms such as YouTube rather than through television. Such changes in viewers' video consumption patterns naturally give a sense of crisis to legacy media that enjoyed such great power in the past. Such a sense of urgency felt by

legacy media and the search of MCN companies for novel revenue generation channels converge to create a new cooperative relationship. Furthermore, a major change in the media industry is that legacy media have also begun MCN services. Terrestrial broadcasters are also showing interest in MCN and are entering the market.

CJ E&M initially entered the MCN market in 2013 with the creation of *Creator Group*, the first MCN to take form in Korea. With the establishment of *DIA TV* in 2015, their market share is expanding at a steep rate. As a large conglomerate, it can be sufficiently said that CJ E&M's sizeable investment led Korea's way into the MCN market. Large legacy media companies such as MBC, KBS, SBS, EBS, and JTBC have also attempted to enter the market with their own strategies in relation to MCN services [6]. Terrestrial broadcasters are also responding to changes in the web content ecosystem, recognizing the rapidly changing media market and the ever-changing content needs of users. Beyond the traditional media platform base, a new approach is being attempted for the younger generations who are accustomed to consuming content through the Internet. Such changes in legacy media are not limited to Korea, but is evidenced in various countries, including the United States, where a host of new strategic responses can be seen.

Legacy media companies in the US have a tendency, unlike others, to enter the MCN field through strategic alliances or M&As rather than internally starting MCN businesses. The changes facing the legacy media sector are being reflected in the United States as well [10]. In terms of devices, the use of mobile media centered on smart phones has reached a level that threatens the use of fixed TVs. Also, broadcasters' advertising revenues are on a continuous decline, while online video platforms continue to grow in their share of broadcasting content distribution. Moreover, there is a trend in which the importance of online-only content is gradually increasing as the public gradually breaks away from its dependence on broadcasting content. The media market is undergoing a transformation to such an extent that Netflix and Amazon in the US are producing online-only dramas, while even Google and Apple have jumped on the bandwagon.

Legacy media in Korea are also implementing MCN services through various unique approaches. EBS, led by the EBS Contents Division, is operating various YouTube channels for the preservation and spread of cultural knowledge and health, as well as increasing accessibility to documentaries, news, and radio. On the other hand, MBC was the first Korean broadcasting company to utilize YouTube; in 2011, it became the first Korean broadcaster to partner with Google Korea to upload various contents. Currently, MBC is actively opening and operating several YouTube channels to aid revenue generation. In 2015, KBS established an online studio at its headquarters to discover single creators and support the production of smart media content, then recruiting creators to kickstart the MCN business. There exist collaborative projects such as KBS LABS, in which startups to provide convergence-type services to enhance the competitiveness of KBS broadcasting contents. At the same time, it also pursues the public goal of fostering content startups and creating a startup ecosystem [11]. Legacy media companies around the world, including the US and Korea, are also using MCN services in various ways to adapt to the changing ecosystem and overcome the consequent sense of crisis.

## 6. CONCLUSION

In this study, social changes brought by the development of the Internet and mobile technology have been examined in the order of changes in media consumption patterns, the emergence of new industry MCN companies, and the response of legacy media. It is necessary to reconsider what Marshall McLuhan argued

that the medium is the message; as the same food feels different when consumed in different bowls, the content conveyed and perceived can also vary depending on whether it is a letter, e-mail, or text message. McLuhan's argument that 'the medium itself is the message' may seem to deviate from common sense, but it can be observed that the means used for communication greatly influences the content that is communicated. As the meaning of conveyed messages differ based on the media form, audiences' perceptions differ accordingly. In this regard, he insisted that the message is not the 'content' flowing through the media, but the 'media itself'. Viewers who used to passively watch TV are making a change in their view of the world through a completely different media consumption pattern with the advent of new media such as YouTube.

Unprecedented changes in media consumption patterns such as snack culture, vertical media, and short-form content have moved away from passive media consumption and into active media consumption at a very rapid pace. Given, not all changes can be positive, and a contemplation of the negative impacts on human life and society brought about by new technologies and changes should always be done in parallel. Nevertheless, positive changes have taken society to a different level to that of the past. Active citizen participation, represented by prosumers, demonstrates a unity between consumers and producers. In another side effect, the concentration of imposing power, which had been concentrated in specific media in the past, is being dispersed among smaller producers. Furthermore, the production and consumption of high-quality videos due to the emergence of MCN companies is aiding in diversifying the ranges of video consumption beyond the monopoly of legacy media. It opened the media industry, which had been monopolized by giant legacy media companies, to individual video producers. Although MCN companies' efforts at seeking diversified profit generation methods speaks of the harshness of the competitive landscape and industrial ecosystem, ways to build a sound ecosystem for continuous creative production and consumption must be actively sought. Corresponding policy efforts and alternatives should also be presented and studied continuously.

## Acknowledgement

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