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Free Digital Content Business Model: Value Creation Mechanisms and Sustainable Competitive Advantage

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Abstract. Digital media's rapid development has changed how content platforms create, promote, and monetize content. In China, the free content plus advertising model has become increasingly important in the digital content industry. This study uses Fanjie Free Novel from ByteDance as the case, combining zero-price effect and two-sided market theory to analyze the value creation mechanism, structural challenges, and sustainability problems of free digital content business models. The study finds that a free business model can lower the entry barrier for users and rapidly scale the market, and a two-sided market model can help the platform turn users' attention into revenue through advertising. At the same time, large-scale behavior data can support content discovery, recommendation, and cross-media IP development. However, this model also faces three major challenges: conflicts among lower user commitment, advertising intensity, and user experience. And how creator incentives guided by immediate traffic will affect long-term content quality. To address these challenges, the study suggests a more flexible freemium model, dynamic advertising governance, and a redesigned creator incentive system. These strategies aim to help digital content platforms strike a more stable balance among user growth, monetization, creator incentives, and sustainable competitive advantage.

Keywords: Attention Economy, Creator Incentives, Sustainable Competitive Advantage, Two-Sided Market, Zero-Price Effect

1. Introduction

1.1. Research background

Digital media's rapid development has not only changed how content is made and spread, but also how digital media creates income. In China, digital media has already developed into a huge and mature market. According to the 2025 China Digital Reading Report, Chinese digital reading users have reached 689 million, which is 61.24% of total Chinese online users; the digital reading market's overall revenue reached 78.937 billion yuan, a year-on-year increase of 19.35%. More importantly, in the mass reading market, income from advertising and other non-subscription services accounted for 51.81%, for the first time surpassing subscription income and becoming the biggest income source [1]. Online novels have also maintained growth. At the end of 2025, the scale of the Chinese

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online novel reading market had reached 50.21 billion Chinese yuan, and the scale of the online novel IP adaptation market had reached 367.61 billion Chinese yuan [2].

Digital content business models have become more diverse. Platforms have gradually transformed from a subscription or pay-per-chapter business model to a free content model using advertising to create revenue. Although this model lowers the user entry level and expands the scale of users, it also brings non-monetary costs to customers, which can decrease authors' motivation, content quality, and long-term sustainability. Therefore, examining how free digital content creates commercial value and sustains competitive advantage is important for the whole market.

1.2. Literature review

The current studies have already developed free digital content business models from different perspectives. Shampanier et al. identified the "zero-price effect," in which free products often trigger disproportionate customer demand. However, Fan et al. discovered the boomerang effect, where if customers realize there are no monetary costs involved, the attraction for free products will be even lower than low-priced alternatives. From a platform economics perspective, Parker and Van Alstyne explained how a two-sided market subsidizes one type of market participant and uses advertising to monetize another [3]. Zhang et al. and Li et al. studies also pointed out that although a free business model can increase reach and increase monetization, it can also decrease user engagement and content contribution. Achieving the best results and revenue largely depends on balancing free content, paid offerings, advertising revenue, and users' tolerance [4, 5].

Existing research separately discusses problems such as zero-price effect, two-sided platform economics, advertising-supported content, and creator incentives. Yet few studies have combined these perspectives to examine whether advertising-supported models can sustain platform, consumer, and creators' interests over the long term as free digital platforms rapidly expand.

1.3. Research framework

This study mainly focuses on analyzing the free content's value creation mechanism and competitive effects. First, describe free content platforms' current development and their business model characteristics through typical digital content cases. Second, analyze how the free content model lowers the entry threshold for users, expands the ability to monetize advertisements, and increases market reach through positive effects. Third, analyze the major problems under this model, as well as creator incentives and distribution of benefits. On top of those findings, the following study will focus on how to provide an optimal strategy based on this business model.

2. Case description

2.1. Platform overview

Fanqie Free Novel was launched in 2019 by ByteDance, using a free reading model instead of a traditional pay-per-chapter approach. As shown in Figure 1, in May 2026, Fanqie Free Novels had approximately 145 million average daily active users and a year-over-year growth rate of 10.9%, ranking first in China's digital reading market [6].

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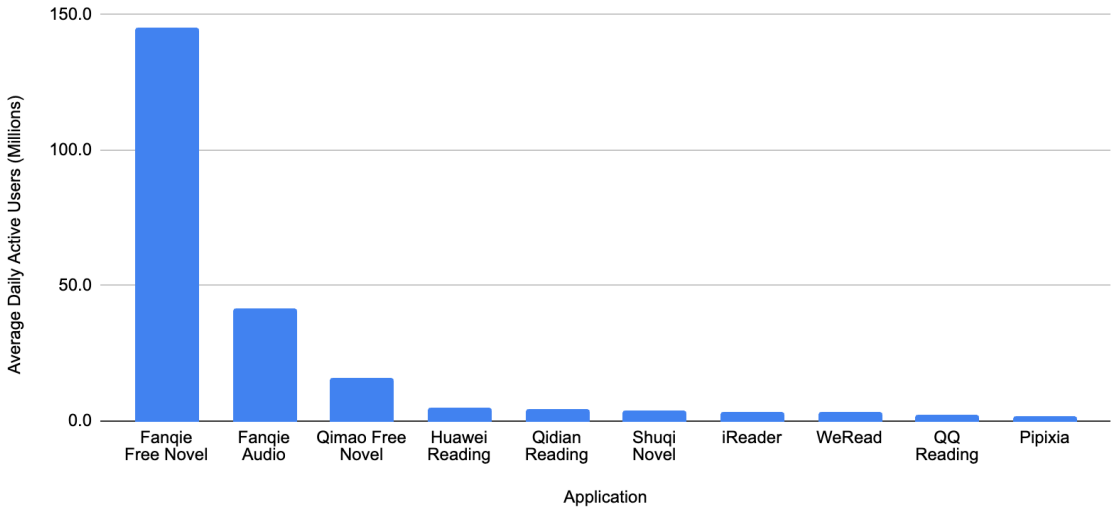


Figure 1. Top 10 digital reading apps by average daily active users in May 2026

At the same time, this platform also creates a large-scale content supply network, reporting approximately 3 million registered writers, 700,000 contracted writers, and over 1.8 million copyrighted works across multiple online literature genres as of May 2026 [7]. Other than original novels, Fanqie has also gradually turned its intellectual property into different media forms such as short dramas, animation, film and television, audio, games, publishing, and comics.

2.2. Operating model and content commercialization

Fanqie Novel uses a free-reading plus advertising model. This model is different than platforms such as Qidian and Jinjiang Literature City's subscription-based model. As part of ByteDance's entertainment ecosystem, Fanqie uses its original novels as upstream resources to develop short dramas and other audiovisual formats. In 2025, it licensed and released over 7,000 adaptations [7]. One of the most significant adaptations, "I Learn to Slay Gods in a Mental Hospital," has already attracted approximately 102 million readers and 21 million comments before the cross-media adaptation. This case illustrates a digital content platform model within a broader technology ecosystem, combining free access, advertising monetization, large-scale content production, and cross-media copyright development.

3. Analysis of value creation and challenges

3.1. Value creation mechanisms

3.1.1. Zero-price effect and market scale expansion

The free online reading model's most competitive advantage is its ability to increase platform reach. Underpaid reading, customers often pay for the whole story before fully knowing the content's quality. Zero pricing removes this monetary decision at the point of entry. The zero-price effect suggests that consumers exhibit a disproportionately positive response to free offerings, beyond mere cost savings [8].

Fanqie novels clearly illustrate how these models impact a large market. In May 2026, Fanqie's free novels' daily active users amounted to 145 million. This figure substantially surpasses that of its

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competitors [6]. This scale's strategic value is not only how many it reaches, but also that it can cover more potential customers and provide more opportunities for unknown authors and new types of content to be discovered by users. For digital Content platforms, this kind of model can rely less on the small group of users who pay and accelerate market penetration.

3.1.2. Zero-price effect and market scale expansion

Free access does not preclude monetization; rather, it reconfigures the revenue source from the reader to third-party advertisers. Parker and Van Alstyne's two-sided market framework explains how a platform may subsidize one side of the market when it can capture value from the other side [3].

In Fanqies' model, readers don't have to pay per chapter, and the advertiser pays for readers' attention. By that, readers' scale and amount of time spent can be transformed into advertising stock. This model also lets the platform gain commercial value from the users who originally don't pay for content. If used properly, this kind of Structure can become a cycle, where more free users bring more advertising exposure opportunities. The revenue from advertising can support platform management, Creator compensation, and content acquisition. Studies on digital content platforms also point out that advertising policies and revenue-sharing arrangements can directly shape creators' effort and the equilibrium quality of content [9]. Therefore, advertising is not only a source of revenue but also an important tool for connecting users, advertisers, and creators.

3.1.3. Data-driven content curation and IP development

The massive user base generates a wealth of behavioral data. That data can help the platform indicate which contexts have more potential in the market. The frequency of reading, how much they finish and comment, and their continual engagement can all signal the story's attractiveness. The recommendation system can further decide how much exposure each work gets. Based on the study, the recommendation system affects not only customers' demand but also creators' behavior [10]. Fanqie's content ecosystem illustrates this possibility. The platform reported around 3 million writers and more than 1.8 million copyrighted works in 2026. More than 7,000 short dramas adapted from Fanqie's original novels were released in 2025 [7]. These adaptations show that online literature can function as an upstream source for short dramas, animation, audio, games, and other media.

Compared to the audiovisual context, which started with high costs, Platforms can observe users' feedback at the novel level and then decide whether to make further investments. This method doesn't guarantee that every adaptation project will be successful, but it can provide more market signals when there is a large amount of alternative content.

3.2. Structural challenges and negative externalities

3.2.1. Commitment paradox: reduced user engagement

The zero-price mechanism attracts users and can also reduce how much users invest in a single piece of content. Fan et al. show that free offers are not always superior when consumers face other non-monetary costs [11]. Zhang et al. observed that a platform's transition to an ad-supported free model led to a decline in both reader engagement and the volume of content contributions [4]. This may be attributed to the sunk-cost effect: paid users, having already invested financially, exhibit higher

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commitment and are more likely to continue consuming the content. For Fanqie, it made a real difference, since the size of the user base doesn't determine how deeply users will invest in particular content. A platform can have really high reach, but it is still hard to form long-term loyalty to a single story. If users often try out and quickly give up on the content, then the large number of users will not transform into long-term loyalty and franchise potential.

3.2.2. Attention paradox: advertising vs. user experience

Advertisements are an important revenue base for a free online reading model. But the amount of advertising may also undermine the user experience that generates these revenues. Li et al. show that the effectiveness of freemium platform design depends partly on users' tolerance for advertising [5]. Similarly, Goli et al. find that heavier advertising exposure can reduce usage and long-term retention in an ad-supported digital media environment [12].

Therefore, the core challenge lies not in maximizing advertising revenue, but in striking a balance between monetization and user experience. Adding the frequency of advertisements may increase short-term revenue, but it can also interrupt the reading experience and lower users' immersion, which leads users to switch to other platforms. This became a structural conflict. The platform uses users' attention to make revenue, but excessive advertising can potentially reduce how much attention users want to offer. For free reading platforms, long-term competitiveness depends on whether the platform can maintain advertising revenue without significantly reducing user retention.

3.2.3. Algorithmic bias and the erosion of content quality

The third challenge is that the platform metrics shape creator behavior. Algorithmic recommendation systems and revenue distribution mechanisms collectively determine content visibility. Also, what kind of content can gain more payback? Qian and Jain show that recommendation systems can affect creators' production decisions, while Ren demonstrates that advertising and revenue-sharing policies can influence equilibrium content quality [10, 13]. As a result, creators may start leaning more toward creating based on measurable engagement metrics, Such as clicks, retention, or rapid traffic growth. More powerful beginnings, frequent dramatic scenes, and popular themes may be recommended by algorithms more easily, but short-term engagement is not necessarily equivalent to originality or durable IP value. Zhang et al. further suggest that ad-sponsored models may reduce creator effort under certain conditions [4]. Therefore, a platform with a large creator base faces a long-term risk if its incentive system rewards quantity and immediate traffic more strongly than sustained quality and creative differentiation.

Overall, the real challenge for the free-content model is not its ability to generate scale, but whether it can convert scale into long-lasting value. The platforms' ability to discover a balance among user growth, advertising revenue, and creator incentives will determine whether this model is sustainable enough to compete with other models.

4. Sustainable optimization: realigning value creation with content production

4.1. From reach to commitment: a tiered freemium architecture

To address lower user engagement under the free business model, platforms could develop a more flexible freemium structure on top of it. The free level is still the main entrance for users, but for users who have a higher engagement rate, platforms can provide optional premium benefits, such as

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an ad-free experience, a personalized reading list, and various community features. Existing studies point out that combining free and premium structures can help the platform satisfy users' different demands for advertising tolerance and willingness to pay [5]. The newest study on freemium services also found that users' perceptions of functional value, hedonic value, and social value can influence their willingness to buy premium services [11].

At the same time, the recommendation system should focus more on completion rate, repeat visits, and long-term retention, rather than just relying on instant clicks and short-term retention. This will help the platform to better distinguish temporary browsing from deeper engagement. As for Fanqie Novel, their goal shouldn't be to force free users to pay, but to build different engagement structures and gradually turn broad reach into more stable user commitment.

4.2. From extraction to stewardship: context-aware advertising governance

The second strategy is to more carefully manage advertising intensity. Since excessive advertising can reduce usage, advertising shouldn't use a fixed frequency; it should vary based on different reading scenarios. For example, during highly engaging story sections, it can reduce disruptive ads and use more natural ads during chapter switches. It can also offer more options to users, such as skippable ads, rewarded ads, or paid ad removal.

Academic research also supports this kind of flexible commercial strategy. Goli et al. found that higher advertising exposure can decrease long-term use among digital media users [12]. Dukes et al. further indicate that, under certain market conditions, skippable advertising can give users more control, helping the platform attract and retain users [14]. These findings suggest the advertising strategy shouldn't focus only on short-term benefits but should also consider long-term revenue and retention. The platform can continually monitor session length, abandonment rate, and repeat usage to identify where advertising begins to degrade the user's reading experience.

4.3. From clicks to craft: a quality-weighted creator incentive system

The third priority should be decreasing platforms' overreliance on short-term traffic metrics. The recommendation and revenue-sharing system will affect what kind of content the creators choose to produce [9, 10]. Therefore, creator and content evaluation can consider both traffic performance and longer-term quality indicators such as completion rates, long-term reader retention, editorial assessment, originality, and cross-media development potential.

Platforms can create tiered incentive systems; work that sustains long-term engagement can earn additional rewards or exposure, rather than being rewarded only based on rapid traffic growth. It can also create fundamental support for new authors or less-known themes or individual discovery channels. Qian and Jain argued that recommendation-system design affects creators' productivity and output decisions; Ren also found that advertising and revenue-sharing policies can affect platform content quality [9, 10]. It is crucial for Fanqie since the platform's future value continuously relies on whether it can discover novel content that can further develop into intellectual property and expand to different media formats. A creator incentive system that focuses on long-term quality can help the platform better connect large-scale content and its future cross-media strategy.

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5. Conclusion

5.1. Key findings

This study uses Fanqie Free Novel as a case, analyzing the value-creation mechanisms of free digital content business models and the structural challenges it faced. The study finds that the zero-price effect lowers users' entry barriers and helps the platform reach a larger audience. At the same time, the two-sided market model also lets the platform turn users' attention into advertising revenue. A larger scale of behavioral data can also support content discovery, recommendation, and cross-media IP development.

However, those strategies also come with some structural problems. Free use will reduce user commitment; over-advertising will eliminate the reading experience, and recommendation systems that are based on traffic can also let the creators focus more on short-term engagement instead of long-term content quality. To address those problems, the study proposed three main strategies: first, using a more flexible freemium model to strengthen user engagement; Second, using dynamic advertising governance to balance monetization and user experience; And last, redesigning the creator incentive system so that long-term quality, rather than immediate traffic, earns more awards.

5.2. Research significance

This study has practical value for digital content platforms that want to improve the sustainability of advertising-supported business models. For platforms, the study indicates that user base size alone cannot guarantee long-term competitive advantage; sustainable growth requires balancing user engagement, advertising revenue, and content quality. For creators, a more reasonable incentive structure can reduce overreliance on immediate traffic and better support original, high-quality content.

At the industry level, this study can also help explain the transition of the digital content business model from direct payment to attention-based monetization. The results can be valued not only for online literature platforms, but also for short-video, audio, information platforms, and other advertising-supported digital services.

5.3. Limitations and future study

This study's main limitation is that it focuses only on the case of Fanqie Free Novel and mainly relies on secondary data and qualitative analysis. This study didn't directly measure users' advertising tolerance, creators' motivations, or the IP conversion efficiency of different themes of content. Therefore, these findings are more suitable as a case-based conclusion. It cannot be generalized to all digital content platforms.

Future studies can further test these relationships using surveys, interviews, or platform-level behavioral data to collect primary data. It can also compare multiple free content platforms to see whether a similar model applies across different digital media sectors. Additionally, longitudinal research can help determine whether the free-content model's competitive advantage can last over the long term.

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