

Analysis of Bilibili's Business Model

Zhihan Wang^{1,*}, Weijie Xiao²

¹ School of Economics, South-Central University for Nationalities, Wuhan, Hubei, 430074, China.

² Hangzhou college of commerce, Zhejiang Gongshang University, Hangzhou, Zhejiang, 311500, China.

*Corresponding author. Email: ZhihanWang217@163.com

ABSTRACT

In recent years, online browsing videos has become one of the most typical and popular ways for entertainment. Bilibili Inc. has stood out from the mass of online entertainment video platform and attracted a lot of young people, especially in the Chinese market. However, the way to solve the problem it is facing and how to be more competitive in future development remains unsolved. This work examined the characteristics of the business model of Bilibili Inc., set a comparative analysis with a flourishing video platform, iQIYI, and analyzed the strength, weakness, opportunity, and threat by SWOT matrix. Thus, this work shall provide future development strategies corresponding to the problems Bilibili Inc. is facing and about to face.

Keywords: Bilibili, Business Model, UGC, Comparative Analysis, SWOT

1. INTRODUCTION

1.1. Esearch Background

A new generation, Generation Z, who was born between 1995-2009, rises with an era of rapid economic growth in China and the boom of the Internet. Like no other generation before, Generation Z is the trend-setter and the astute Internet consumer who grew up in an affluent time. Indeed, they are transferring the online entertainment environment of China.

Bilibili Inc.(Bilibili) is a company that is born to address the demand of Generation Z by providing diverse Internet content. Started as a small content community inspired by ACG(anime, comics, and games), Bilibili has developed into a full-spectrum online entertainment video platform within 9 years with 72 million and growing monthly-active-users, over 80% of whom are Generation Z.[1] As the market of entertainment media keeps expanding, whether Bilibili can make further development in the future by taking Generation Z as its core customer and fully combining its own development status and characteristics is worth exploring.

1.2. Main Research Content

This work will first start with a thorough examination of Bilibili Inc.'s business model and summarize the four features of its business model. Second, this work shall compare Bilibili Inc. with a leading figure in the online entertainment market in the extent of users and

profitability to identify the pros and cons of its business model. Third, this work is going to describe the overall circumstance by applying the SWOT analysis and offer some future strategies based on it. Finally, this work will conclude based on all the analyses to identify the business model of Bilibili Inc..

2. THE ANALYSIS OF BILIBILI'S BUSINESS MODEL

The business model of Bilibili has four main features: ACG Business, UGC mode, focusing on Generation Z, and pre-roll ad-free.

2.1. CG Business

When Bilibili was just a start-up company, its main content is ACG (Animation, Cartoon, and Game), this explained why the user base of Bilibili mainly consisted of six types of people:

- A. Otaku (Avid ACG fans who are also considered as indoorsman).
- B. ACG content creators.
- C. Online video fans (people who love watching online videos for fun or to kill time).
- D. Live streaming fans.
- E. Learners (people watch online classes on platforms like Bilibili).
- G. Game players.

These six types of people are loyal users of Bilibili and Bilibili has purchased a large number of copyrights of Japanese animation to keep these users as well as to attract more ACG fans to create an ever-flourishing and ever-expanding community. Though Bilibili has expanded its business to other fields, ACG related content has always been the majority of Bilibili's content.

2.2. UGC mode

UGC, the abbreviation of User Generated Content, means that users can upload their own original content to the video platform. The core of Bilibili's UGC mode is community culture. In the past 10 years, Bilibili has

formed a loyal and active. Members of this community dedicated to upload high-quality videos. These members of Bilibili community would spontaneously keep the peace of the platform which is very rare to see in other video platforms. Thus, Bilibili's unique UGC mode and community culture helped to win itself a large amount of active and loyal users.

Such a great number of users can be shown by some key performance indicators (KPI). MAU is a statistical index used to measure the performance of a website, Internet application, or online game. MAU typically counts the number of users who have logged in or used a product within a month (excluding repeat users).

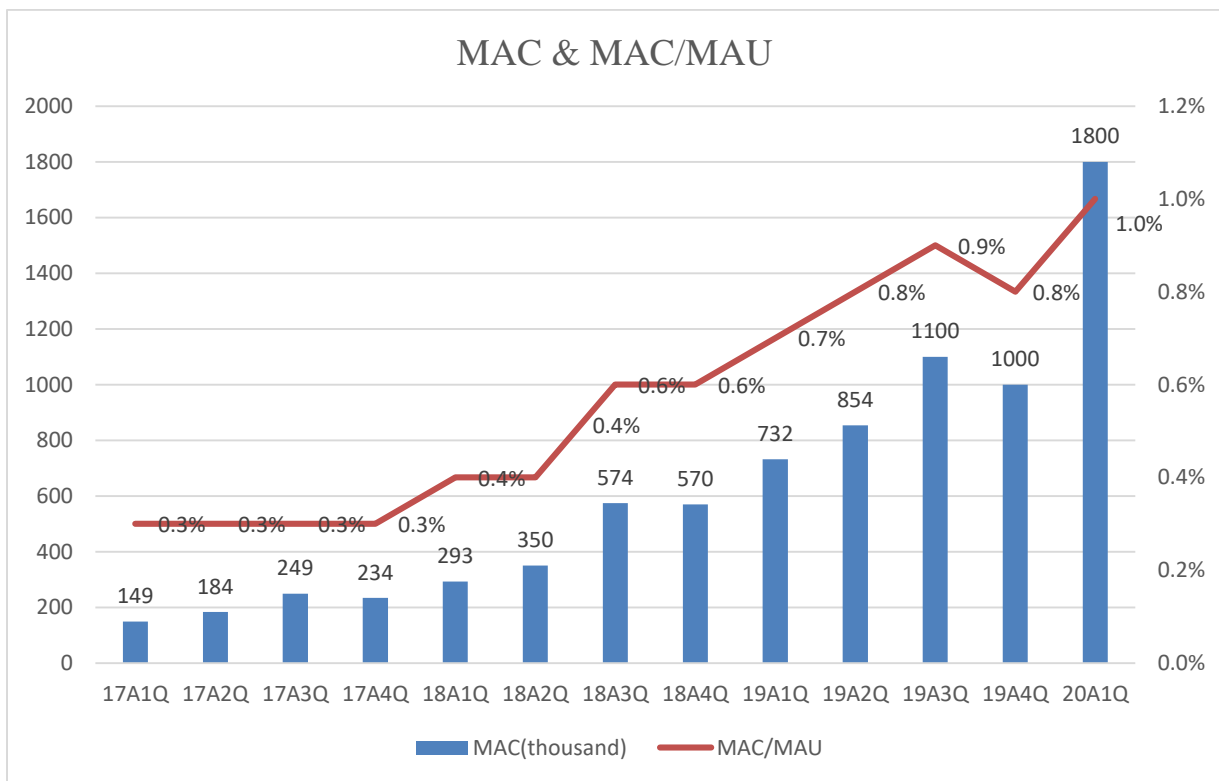


Figure 1 MAC from 2016Q1 to 2020Q1 [2]

In 2018Q4, the MAU of Bilibili reached 93 million and in 2019Q4, it rocketed to 130 million, which increased by nearly 140%. It is a positive sign indicating that Bilibili's ability to attract new users keeps growing. Considering the pandemic of COVID-19 in 2020, people have to stay at home so they have more time to spend their time on apps like Bilibili, which is also the reason why the MAU soared to 170 million in 2020Q1.

Interaction Generated Monthly (IGM) is another KPI, indicating the users' interaction rate. Interaction in Bilibili refers to the comments and bullet screens users made during watching the video. Therefore, the IGM would be able to reflect users' stickiness or how much they are dependent on this app or website.

IGM divided by MAU is a ratio evaluating interaction generated by active users. This ratio indicates the loyalty of active users and the degree of loyalty is decided by the interactions they have. If the ratio increased, the users are becoming more loyal and as a result, the effect of Bilibili's community culture can be showed by this ratio (see Figure 2 for more details).

Bilibili's UGC mode forms a virtuous cycle. The beginning is talented content creators. They create high-quality content creation, and these creations engage a loyal fan base for Bilibili. Due to the loyal fan base, these content creators could be encouraged to create more in the future. This cycle is the chain between Bilibili and its users, bringing them together.

2.3. Focusing on Generation-Z

Bilibili focuses on satisfying the demand of Generation Z. People who were born in the late nineties or early noughties are classified as Generation Z, which is also known as “Gen Z”.

Those Gen Z have become the target users or prospective users for three reasons.

A. Gen Z’ is viewed as shallow digital natives, spending a large amount of time online.

B. Gen Z pays so much attention to Animation, Cartoon, Game (ACG) which leads to the revolution and development of the ACG industry and derivative products of ACG.

C. Gen Z is an enormous group having great power of consuming. Gen Z is a large unexplored market with great potential of consumption, which provides the possibility for Bilibili’s further development.

Bilibili started up as a platform offering free ACG contents, so it is inevitable that its users are clustered in a relatively young age group. This is due to the strategy of Bilibili is focusing on youngsters, especially those Gen Z. Those Gen Z obsess a great potential ability and desire to consume, and it is foreseeable that Gen Z would become the majority of digital users.

Via analyzing Gen Z, it is easy to find out that those Gen Z have three needs that Bilibili may satisfy:

2.3.1 Social needs

Because of the Chinese government’s one-child policy, many Gen Z are the only child in their family. They desire to communicate with other people who share the same interest. Bilibili provides a platform for them to communicate. It is a community for them to get involved, make friends with other users which satisfies their social needs.

2.3.2. Entertainment needs

Gen Z knows how to entertain themselves using the Internet better than any other generation before. In Bilibili, they could enjoy watching ACG content and creating their own videos. These satisfy their entertainment needs.

2.3.3. Consuming needs

The booming of the ACG industry generates various kinds of ACG derivative goods and services. Gen Z, born in a time when China’s economy is soaring, they have more money than other generation, which implies a strong power of consuming. Bilibili is expanding their game business these years so they could attract more Gen Z.

Because of these three needs, Gen Z is the most essential key to win the competition among online entertainment companies. Obviously, Bilibili is taking the lead in this competition.

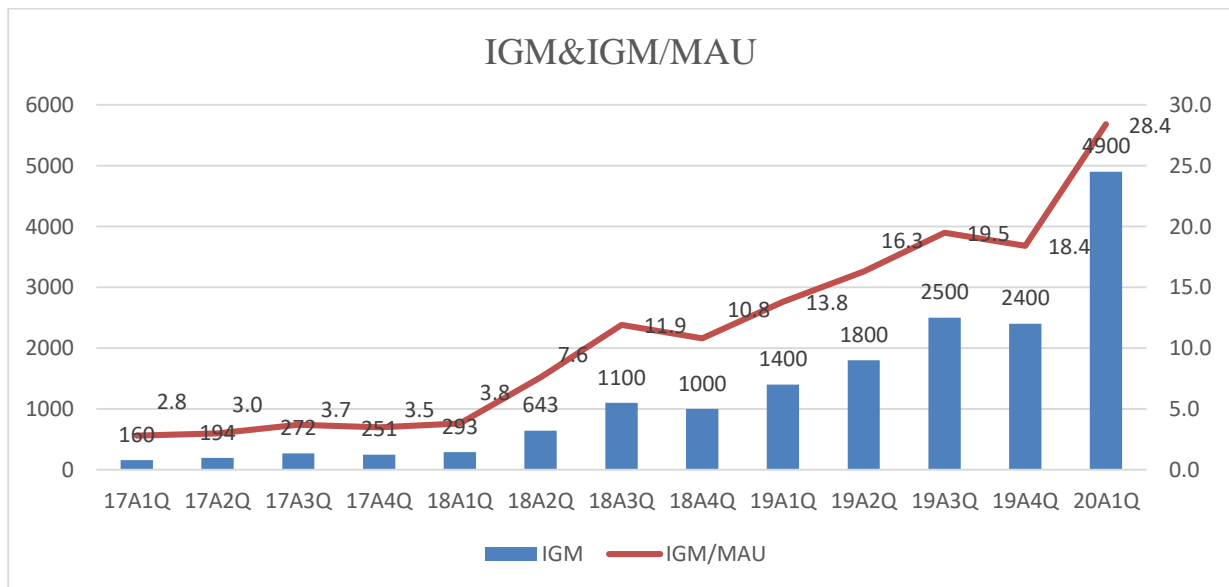


Figure 2 IGM from 2017Q1 to 2020Q1[2]

2.4. Pre-roll ad-free

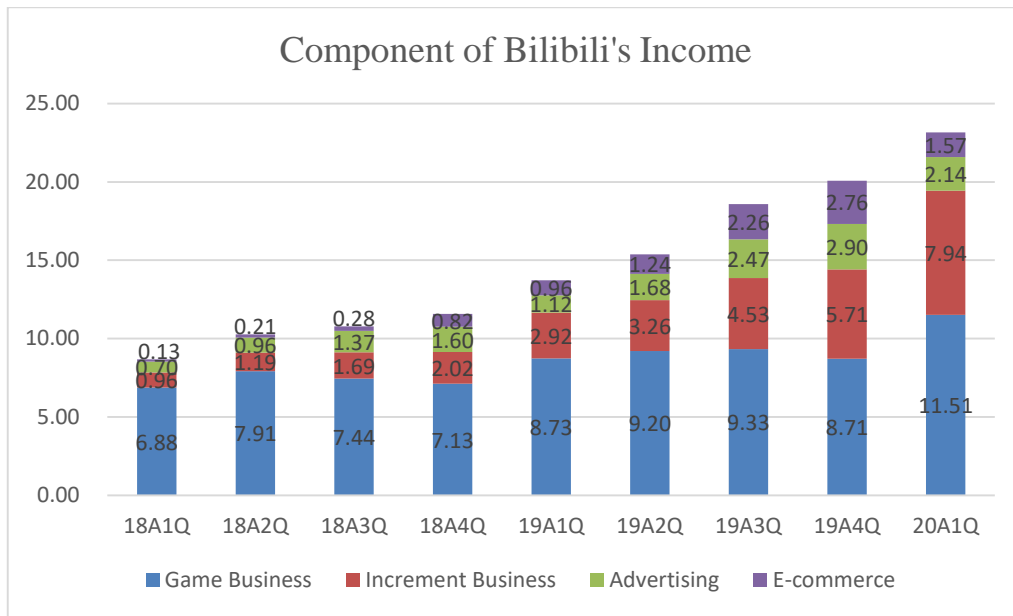


Figure 3 Component of Bilibili's Income [3]

As Figure 4 have shown, the percentage of advertising in the income revenue is very low. The founder of Bilibili promised that they would never set any pre-roll ads and they stuck to this promise until today. Though lost a large amount of revenue because of its ad-free strategy, Bilibili gained a considerable number of loyal users and fans.

3. COMPARATIVE ANALYSIS

As the "new generation" of video apps, Bilibili's business model is quite different from that of traditional video apps. Among the traditional video apps, this work chooses iQIYI as the representative, which is a leading enterprise in this industry to compare with Bilibili in the extent of users and profitability.

3.1. Users

In this part, the comparison between Bilibili and iQIYI will focus on the scale of users, the age distribution of users, and users' loyalty.

3.1.1. The Scale of Users

The scale of users can be measured by MAU. By using Bilibili and iQIYI's MAU data from Q4 2017 to Q3 2019. MAU's growth rate of these two apps can be calculated. This work finds out that iQIYI's MAU is much higher than that of Bilibili. However, Bilibili's growth rate of MAU is much higher than iQIYI. It shows that although Bilibili's current user base is small, it has a quiet potential to grow in the future.

3.1.2. The Age Distribution of Users

Table 1 The rank of prevalence among Gen Z [6]

The rank of prevalence among Z – Gen	
APP	TGI(Target Group Index)
Bilibili	247.5
Mango TV	190.6
Youku	142.8
iQIYI	127.3
Tencent Video	118.4

As the mainstream users of Bilibili, Gen Z's consuming desire directly relates to Bilibili's profitability. According to data from QuestMobile, it is obvious that the online payment willingness of Gen Z is higher than the average of the whole netizens. Additionally, according to the data from QuestMobile, the per capita disposable income of Gen Z is 3,501 yuan per month [6] and most of Gen Z are still students. Therefore, with a loyal group of users who have a high willingness to pay online, Bilibili's future profits will increase as Gen Z's income increases.

3.1.3. Users' Loyalty

Different from the one-way output mode of traditional video apps, Bilibili has its own community which is a hallmark of its business model which makes its users' loyalty higher than other video apps. Bilibili and iQIYI's users' loyalty can be measured by using the two indexes of monthly average using times per person and monthly average using duration per person. According to

Data from QuestMobile, the monthly average using times per person of Bilibili is 117.9 minutes, It's almost twice as much as IQIYI. The monthly average using times per person of Bilibili is 834.4 minutes, but IQIYI is just 435.6 minutes.[7] The more the monthly average using times per person and the longer the monthly average using time per person, the higher the users' loyalty of the industry or the app. Bilibili's users' loyalty is its advantage.

3.2. Profitability

3.2.1. Revenue Structure

According to the company's earnings reports, Bilibili's biggest source of revenue is mobile games while iQIYI's biggest source of revenue is membership services. Besides, there is another big difference between them that the advertising revenue of iQIYI accounts for 28.5% while that of Bilibili only accounts for 12.1%. [4,5] As mentioned before, pre-roll ad-free is a great feature of Bilibili's business model, and therefore, its advertising revenue is much lower than other video apps, which affects Bilibili's profitability.

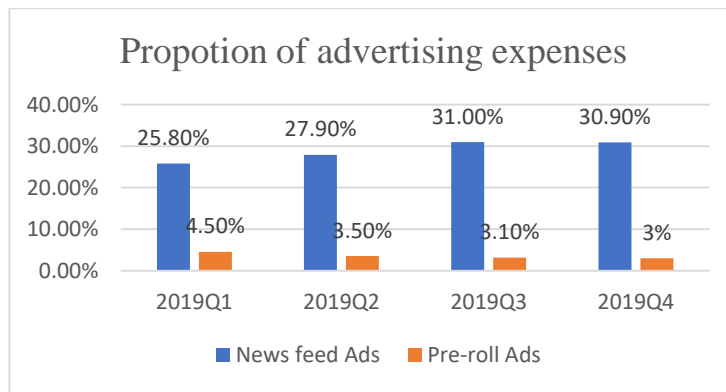


Figure 4 Proportion of advertising expense [8]

However, according to data from QuestMobile, in recent years, the scale of pre-roll ads is declining, while news feed ads are becoming the mainstream. Bilibili has plenty of news feed ads business. So in the future, as news feed ads gradually replace the pre-roll ads, Bilibili's advertising revenue would gradually increase.

3.2.2. Cost Structure

From company's annual reports, the content costs of iQIYI account for 77.6% while that of Bilibili only accounts for 17.9%.[4,5] This is due to the fact that the main products of iQIYI and other traditional video apps are various shows made by itself and TV series and movies cooperated with film and television companies which makes their content cost very high and reduces their profits. However, Bilibili produces its content by the mode of UGC, which keeps the content costs very low and helps Bilibili improve its profitability.

3.2.3. Profit Potential

From the comparative results of user characteristics and profitability, although Bilibili's profit scale is much lower than other video apps at present, the great potential earnings from its mainstream users, Gen Z and its own low content costs all indicate that Bilibili has huge profit potential in the future.

4. BILIBILI 'S FUTURE STRATEGY BASED ON SWOT ANALYSIS

4.1. SWOT Analysis

4.1.1. Strength

A. Community features lead to high user loyalty

Bilibili is a website with a more mature community environment. The community enables users to actively participate in the topics they are interested in, which is a good cohesion of Bilibili users, especially for those young people. There is no doubt such community cultural characteristics and a good community atmosphere contributes to the loyalty of users and makes Bilibili a typical representative of Chinese community culture focusing on the content.

B. The consumption potential of Gen Z

Gen Z lives in a time when living conditions have improved dramatically. From the data of QuestMobile,[7] the online payment willingness of Gen Z is higher than the average of the whole netizens. Therefore, As the main force of Bilibili consumption, Gen Z has great consumption potential. This provides a substantial basis for Bilibili's future earnings.

C. Low content cost

Bilibili acquires a wide variety of premium video content at a lower cost. Professional user-created video (PUGV) accounts for the highest percentage of Bilibili's video content. By Q1 of 2020, PUGV plays 91% of the videos on the whole site, covering animation, games, fashion, and other fields.[9] Compared with other mainstream video sites, Bilibili has a low cost of content acquisition. Many PUGVs are uploaded by users independently. The proportion of outsourcing and self-made content is not high, and the cost is lower than that of purchased header content. This provides opportunities for earnings to grow.

D. Pre-roll ad-free is popular among users

To provide users with a good experience, Chen Rui, the current chairman of Bilibili, promised their loyal users that "Bilibili will not add any pre-roll ads". In fact, many people feel that pre-roll ads affect their watching experience a lot, especially for young people. A survey focused on ads of YouTube shows that 46% of people think those pre-roll ads are too distracting and annoying.[10] For Bilibili, also as an online video website, the survey is still instructive. That is, in the face of their largest user group, Gen Z, their pre-roll ad-free mode is popular and has become a feature of Bilibili itself.

4.1.2. Weakness

A. The pre-roll ad-free model affects their profit revenue

Bilibili had ever tried to add some pre-roll ads, but it had met with protests and discontent from its loyal users. As a result, Bilibili has to keep only a few ads insertions. In this online video field, Bilibili has a very small proportion of advertising revenue. On the one hand, video websites are a costly industry. Their profit comes from many parts, among which advertising profit is very important. On the other hand, Bilibili started from the beginning of pre-roll ad-free mode, its proportion of advertising revenues is low. This is a loss of profit for a company.

B. Small user scale and base

With the development, yet as a leading anime culture community in China, Bilibili's core users are still concentrated in the anime culture users. Therefore, leaving its comfort zone of ACG culture has never been an easy task for Bilibili. Acceptance of core users and the expansion of user scale are both restricted by the original website culture. This also restricts the development speed of Bilibili.

C. Insufficient censorship of video content

Because the majority of Bilibili's video content is produced by users, the genre of video is varied so that it

is not easy to regulate. Some teenagers are taking advantage of users' rights to broadcast violent online videos. Also, the video infringement problem has appeared. Some users upload first-level video clips to the Bilibili platform as multiple clips. Such illegality would no doubt be harmful to Bilibili's brand image.

4.1.3. Opportunity

A. The rise of the Esports industry brings profit opportunities to Bilibili With the rapid development of China's the Esports industry, China has corresponding supporting policies for the development of Esports industry, which brings great business opportunities to live broadcast platforms.

Bilibili, founded on ACG culture, has a sophisticated game video division. Bilibili paid 800 million yuan in 2019 for the exclusive rights to the League of Legends (LOL) World Championship for three years,[11] which means it has the power over the distribution and pricing of the right to broadcast any competition of LOL World Championship in the future. As China has the largest player base of LOL, the attention of the game will continue to rise in the future. Therefore, Bilibili's purchase of the 3-year exclusive broadcast rights of LOL foreshadows the opportunity to obtain considerable future income and increase the number of users.

B. The expansion of the news feed ads market helped Bilibili create profit space

In recent years, the scale of pre-roll ads is declining, while news feed ads become the mainstream, its market size is growing. Bilibili has plenty of news feed ads business so that it can accurately obtain target customers. In the future, as news feed ads gradually replace the pre-roll ads, Bilibili's advertising revenue will gradually increase.

C. The exposure of Bilibili from the mainstream media can also help it to increase its publicity.

In the past several years, Bilibili had created a host of videos that not only match the interest of young generations but also correspond to the Chinese government's new proposal of "positive energy" which literally means to be optimistic. As the People's Daily, the biggest media in China, commented on the New Year Eve Gala held by Bilibili, "This is the voice of young people. This is the voice of the generations!", the influence of Bilibili was broadened, which means Bilibili will get more opportunities to be exposed by mainstream media and expand its influence in video website market.

4.1.4. Threat

A. The weakening ability in generating profit from mobile games

In recent years, the growth of the anime game market scale has slowed down, and the market penetration rate is low, which has been stable at about 14% in the last three years.[12] This is mainly because there are fewer high-quality products stimulating the further development of the anime mobile game market. The mobile game business has always been the most important income source of Bilibili in which FGO is the major income

source of Bilibili's mobile game business. Nevertheless, in 2019, FGO falls out of the top 100 in the best-selling list of IOS games, which shows a decline in its download and popularity. Bilibili may lose the appeal of some mobile game users.

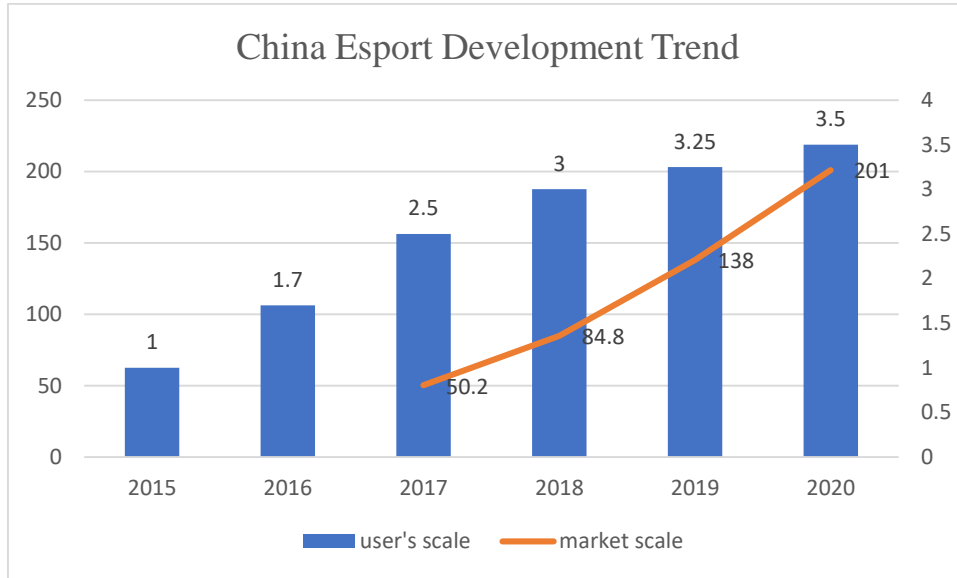


Figure 5 Esports development trend in China [11]

4.2. SWOT Matrix of Bilibili

Table2: SWOT Matrix of Bilibili

SWOT	Strength	Weakness
	<ul style="list-style-type: none"> 1. High user loyalty 2. Consumption potential 3. Low content cost 4. Pre-roll ad-free mode 	<ul style="list-style-type: none"> 1.The influence of Pre-roll ad-free mode 2.Small user scale and base 3.Insufficient censorship Under UGC
Opportunity	SO strategy	WO strategy
<ul style="list-style-type: none"> The rise of Esports industry The expansion of news feed ads Mainstream media helps it increase its publicity 	<ul style="list-style-type: none"> (SO1) Create more Content relating to Esports at a low cost to attract users in the ever-growing Esports Industry (SO2) Make news feed ads more in line with the preferences of potential consumers 	<ul style="list-style-type: none"> (WO1) Use news feed ads To make up the weakness of Bilibili's pre-roll ad-free mode
Threat	ST strategy	WT strategy
<ul style="list-style-type: none"> Weakening ability in generating profit from mobile games 	<ul style="list-style-type: none"> (ST-) Explore video theme that Gen Z 	<ul style="list-style-type: none"> (WT-) Try to weaken the negative impact by increasing other kinds of

	are interested in to find new profit strategy	ads profit (WT ₂) Strengthen the censorship of video Content to reduce the impact on the brand of Bilibili
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SO1: Create more content relating to Esports at a low cost to attract users in the ever-growing Esports industry.

Since the Esports industry is very popular in China, Bilibili can encourage users to produce more videos related to Esports with low production costs and create a good Esports community. By doing so, Bilibili could attract more users to use Bilibili, participate in video production, and join in the community communication.

SO2: Make news feed ads more in line with the preferences of potential consumers

By making use of the feature that news feed ads will become the mainstream advertising profit, Bilibili can introduce more advertising content that fits its potential consumer age group, so as to increase its advertising profit.

WO1: Use news feed ads to make up the weakness of Bilibili's pre-roll ad-free model.

As the scale of pre-roll ads has declined in recent years, news feed ads have become mainstream, Bilibili can take advantage of this trend to increase its own advertising profit, thus making up for the original profit model without pre-roll ads.

ST1: Explore the video theme that Gen Z is interested in to find new profit strategy.

Bilibili can explore its potential consumer groups' interest in video content through surveys and other means. Look for new profit strategy direction and drive potential consumer groups to gradually alleviate the profit problem brought by the mobile game industry.

WT1: Try to weaken the negative impact by increasing other kinds of ads profit

Bilibili can increase its advertising profit and share of overall advertising profit by introducing other types of advertising rather than pre-roll ads. This can reduce the impact of low advertising profits brought by pre-roll ad-free mode to some extent, and reduce the negative impact brought by the fading of Bilibili's profit momentum of mobile games.

WT2: Strengthen the censorship of video content to reduce the impact on the brand of Bilibili

Bilibili should strengthen the censorship of video content to ensure the quality of it. By doing so, the negative impact on the Bilibili brand caused by copyright factors and violent online video content can be reduced and the weakness of Bilibili can be minimized.

5. CONCLUSION

This work aims to analyze the business model Bilibili has developed in recent years. By examining the current stage of Bilibili, this work shall provide some insights regarding its future development based on its business model.

To begin with, this work explored features of Bilibili's business model. First, Bilibili attracts a lot of people and makes them into loyal users by the ACG culture which Bilibili established upon and the promise of pre-roll ad-free. Second, among those users, Gen Z is the largest group which contains the greatest potential ability of consumption. Third, due to the promotion of the UGC mode and the healthiness of the community, Bilibili has made itself unique from other online video platforms.

Moreover, by comparing Bilibili with a typical traditional online video platform, iQIYI, it is reasonable to conclude that Bilibili is still in its developing stage. However, the potential ability to consume and the loyalty of its users have shown the advantage Bilibili has over other comparable online video platforms. In addition, the relatively lower cost of content production has provided innovative ideas for the future development of Bilibili.

Finally, this work provided some insights for the future development of Bilibili by considering the opportunity, threat, strength, and weakness. This work has provided strategies, like how to take the advantage of the rise of the Esports industry, minimize the passive influence of the muted growth of the mobile game industry, use the influence of the prevailing of news feed ads to further increase Bilibili's revenue, and many more.

In the future, the goal of this work thrives to further collect data from Bilibili and analyze it quantitatively to reveal the core competitiveness within its business model, and thus provide strategies in detail. Furthermore, there are many aspects like Bilibili's marketing strategies, or management that are noteworthy and deserve further research.

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