Research on Exploration of Bilibili's Contentious Profitability and Development

Tianning Shi *

Zhenhai High School of Zhejiang, Ningbo, China

* Corresponding Author Email: s17706618@outlook.com

Abstract. With the rapid development of Internet technology, traditional online video websites have transformed into diversified commercial trading platforms. This paper takes Bilibili as the research object to analyze its development process from ACG community to a multi-cultural development business platform centered on Generation Z. The development stages of Bilibili are introduced, including initial community formation, middle community expansion, and later community maturity. It analyzes its status, such as becoming one of the largest video sites in the world and growing revenue in advertising and games. This paper discusses the reasons and problems of Bilibili's profitability, including its marketing strategy (internal strategy encourages user creation, provides personalized recommendations and unique community culture, and adopts diversified business strategy combining hard and soft business models), and analyzes the current problems and competition, such as limited profitability and uneven content quality. SWOT analysis is also carried out. Finally, suggestions for the future are put forward, including diversification of profit models, improvement of content quality, lowering of creation threshold and strengthening community management, and the conclusion is that Bilibili's success is due to its adaptability, innovation and strong community participation, and it needs to constantly explore new profit models and enhance competitiveness to meet the challenges of the online video market.

Keywords: Bilibili, Profitability, Financial performance.

1. Introduction

With the rapid development of Internet technology, traditional online video websites have transformed from simple "video players" to diversified commercial trading platforms. According to the China Internet Network Information Center (CNNIC), by the end of 2020, the number of Internet users in China had increased to 989 million, and the Internet penetration rate reached 70.4%. The popularization of the Internet has caused people's behavioral patterns, social habits, and the landscape of the media industry to undergo significant transformation. Especially during the pandemic, the landscape of the media industry also changed dramatically. While television remains irreplaceable, the integration of all types of media is shifting from simple overlay to in-depth integration. In the face of these changes, the media industry and companies need to consider how to innovate in the form of content, breadth and depth of information. Domestic video websites such as iQIYI and Tencent have attracted many users in terms of traditional content while emerging platforms such as Bilibili and Tiktok have risen rapidly thanks to the development of the Internet and their unique operational strategies. Bilibili, as a leading video platform in China, has gradually transformed from an initial ACG community into a multicultural development business platform centered on Gen Z. The study aims to analyze how Bilibili, as a leading video platform in the country, has developed into a business platform for the development of multiculturalism, with a strong emphasis on the Z-generation. This study aims to analyze the transformation and innovation of Bilibili's business model, deeply analyze its current situation of sustainable profitability, and assess its future development.

As a Chinese Internet platform and pop culture trend leader, Chen has pointed out that Bilibili has established a network ecosystem that centers around audiences, creators and content and constantly produces high-quality content, which covers thousands of categories from life, games, fashion, knowledge to music [1]. Li and Meng argued that Bilibili's revenue sources are diversified, including mobile games, value-added businesses, advertising, e-commerce and other methods, and it also has a number of unique and innovative business marketing models. First, Bilibili implemented a "degaming" strategy after its IPO to reduce its reliance on a single-game business, and the proportion of mobile game revenue declined significantly. Value-added business has become the main source of income, advertising revenue has rebounded, and e-commerce businesses such as "membership purchase" has also achieved significant growth, becoming an important part of the profit model [2]. Secondly, Feng mentioned that Bilibili Mini Theater adopts an innovative business model that allows creators to communicate directly with viewers and rapidly iterate content through an open and interactive platform environment. The platform incorporates pop culture elements into its content, keeping it close to the lives of young viewers while focusing on the depth and educational significance of the content. Audience participation is enhanced through highly enriched video media and real-time interactive features such as pop-ups and comment sections [3]. Additionally, Chen also proposed that Bilibili has opened a knowledge part and launched a first-level partition called "Knowledge Zone" to share knowledge, experience, skills and other content. It has attracted many knowledgeable UP masters. The platform has launched the "Knowledge Sharing Officer Recruitment Order" providing millions of prizes and traffic support, and inviting experts and scholars to create videos on popular science knowledge [4]. According to Li and Lu, Bilibili has also established a content ecosystem centered on PUGC through its unique cultural industry business model. The platform has created a brand identity and trendy creativity characterized by the platform through three channels: original works, co-productions, the introduction of external content and self-produced videos by professional units. In the PUGV segment, the platform incentivizes creators through coins, likes and charges, and organizes prize-winning activities, building a two-way symbiotic relationship between high-quality content and the fan economy. Bilibili also provides personalized content recommendations based on the interests and needs of its audience through precise algorithms and user profiling [5]. Lv and Li once alluded to Bilibili, who encourages and inspires online video creators (UP owners). These UP owners utilize the UGC platform to produce a variety of content to attract audiences and generate revenue through knowledge payment, advertising endorsement and platform incentives. Researchers have explored the commercial value of UP owners, noting that they can help businesses build a favorable brand image among young people and enhance the consumer experience of their fans [6]. The scope and aspects of these research cases are incomplete, as Bilibili's business model is constantly changing and innovating according to social and market developments.

This paper will examine the logic and reasons behind Bilibili's sustained profitability. Explore the history of its development and the strategic measures it has taken at different stages. Analyze its current profit model and its strengths and weaknesses, and explore the sustainability of its profitability. Combine and compare Bilibili's profitability model with that of other well-known Internet companies, and make recommendations to promote future long-term development and how to improve the profit to cope with market competition and industry changes.

2. Bilibili's Development and Current Situation

2.1. Bilibili’s Development

The development process of Bilibili can be roughly divided into the following three phases.

2.1.1. Initial community formation (2009-2013)

Bilibili was founded in 2009 by Xu Yi, a loyal fan of Acfun, initially as "MikuFans", a video-sharing platform focusing on ACG (animation, comics, games) culture. Seeing the potential of ACG culture in China, Xu Yi decided to create a platform where more people could share and exchange this content. In its early days, Bilibili was primarily a sharing platform for ACG content. Users could upload, watch and share various animations, comics, games and other content. As the number of users increased, it began to expand its content range by introducing more types of videos, including variety shows, movies, and music. In 2012, it introduced the pop-up feature, an innovation that allowed users to post their own comments while watching a video and see real-time comments from other users. This interactivity makes B station a vibrant community where users can exchange ideas and share their feelings. In the early days, Bilibili mainly relied on webpage advertisements and game revenues, and offline activities such as the Bilibili Macro Link series of comic exhibitions and cooperation with other comic exhibitions also brought some revenue to the platform.

2.1.2. Mid-term community expansion (2014-2017)

With the deepening of Sino-Japanese cultural exchanges and the popularization of domestic ACG culture, the user base expanded rapidly. In 2014, it reached 150 million users and grew to 340 million in 2017. Additionally, the increase in ACG users made the content of B station more diversified, and the target group expanded from secondary yuan fans to a wider group. It completed several rounds of financing during this period and attracted a large audience by purchasing licensed dramas and attracting a large audience. In 2016 and 2017, its revenue increased by 299.5% and 371.7%, respectively, making it profitable for the first time. The main sources of revenue include games, live broadcasts and advertisements, with games accounting for the largest share of revenue. It gradually emphasized copyright and original content from UP owners, and its video content shifted from mainly carried to 90% original content self-produced by UP owners. In 2017, it saw a significant increase in the number of video submissions, and a significant increase in the cultural atmosphere of the community and the stickiness of its users.

2.1.3. Late community maturity (2018-present)

On March 28, 2018, Bilibili was listed on NASDAQ in the United States, marking its official entry into the commercialization stage. The main user group expanded to Generation Z, and the number of users continued to grow, and in the third quarter of 2020, the monthly active users exceeded 200 million. It enhances user connection through pop-ups and community culture, launches a creator incentive program, and introduces high-quality PGC content. In addition, the platform's content covers a wide range of areas such as life, games, fashion, knowledge, music, etc., making it an important place of life, entertainment, interest and learning for Generation Z. Bilibili has continued to explore new business models such as mobile games, value-added businesses, advertising, e-commerce, etc. while maintaining a good user reputation. However, it also faces challenges such as profitability pressure, market competition and content auditing. All in all, it is committed to maintaining its leadership position in the video sector and making a greater impact on China's economy and culture through content innovation, business model optimization, technology development and international expansion [7].

2.2. Bilibili’s Current Situation

Bilibili has now grown into one of the largest video websites in the world, with a huge user base and its influence occupies an absolute leadership position in China's online video sector. After its IPO, Bilibili has gradually commercialized, and despite maintaining a relatively restrained advertising strategy, it has achieved significant revenue growth through diversified business models such as gaming, live streaming, value-added member services and peripheral product sales. It is also actively laying out its own R&D and investing in game companies to strengthen its position in the game industry chain. In the field of live-streaming e-sports, Bilibili has become a new engine of revenue growth by overpowering other live-streaming platforms through high investment and exclusive copyrights. In addition, it consolidated its position in the field of secondary yuan culture by organizing large-scale offline activities such as BML and linking up with theaters, demonstrating its strong commercial potential and cultural influence.

Bilibili's total revenue for Q2 2024 amounted to RMB 6.127 billion, an increase of 16% year-on-year, with significant year-on-year growth in advertising and gaming, as shown in Fig. 1.

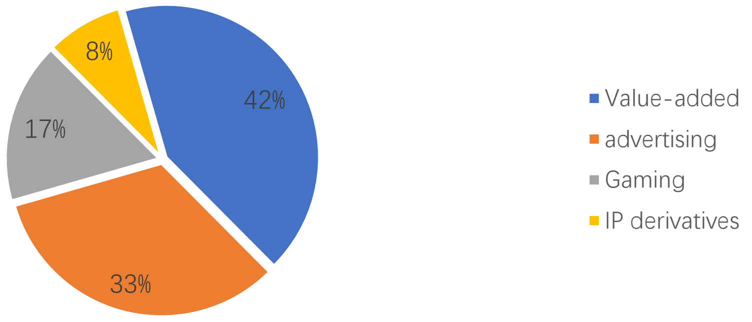

Figure 1. 2024Q2 Revenue Business distribution/ yuan (Photo credit: Origin)

Additionally, a positive operating cash flow of $2.4 billion was achieved in the first half of the year, but overall profit was still in the red. Overall gross margin improved for the eighth consecutive quarter, as shown in Fig. 2.

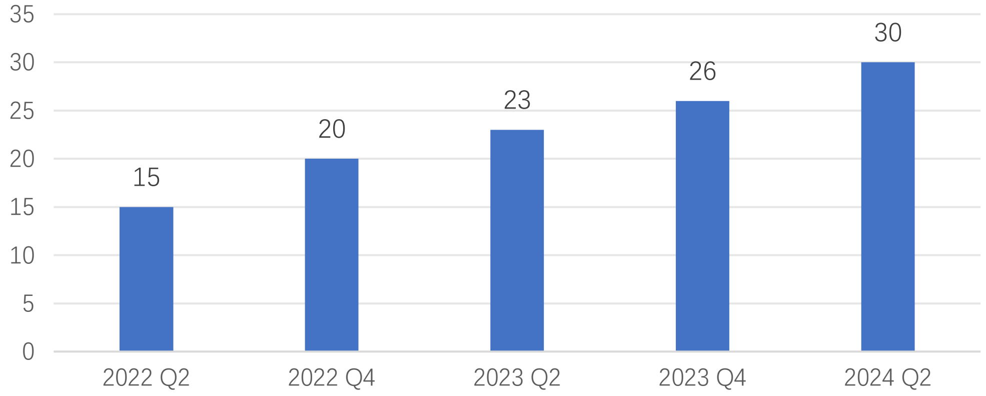

Figure 2. Gross profit margin of Bilibili through 2 years/ percentage of yuan (photo credit: Origin)

In stark contrast to the prevalent downturn in profitability witnessed among its peers and the broader economic uncertainty, Bilibili has demonstrated an impressive and enduring profitability trajectory. This is primarily attributable to the platform's strategic expansion and refinement of its diverse business lines, coupled with substantial growth in its user base and heightened user loyalty. Consequently, Bilibili is poised to not only secure sustainable profits but also to potentially establish itself as a dominant player in the industry moving forward.

The company's robust financial performance can be attributed to several key factors.

Firstly, Bilibili has successfully diversified its revenue streams, reducing over-reliance on any single source of income. This includes a significant increase in advertising revenue, which grew by 27% year-over-year in 2023, and a substantial rise in value-added services revenue, which reached 99.1 billion yuan, reflecting a 14% year-over-year growth. Additionally, the mobile gaming segment, although experiencing a slight decline in 2022, rebounded in 2023 with a total of 40.2 billion yuan in revenue, indicating a promising recovery and potential for future growth.

Moreover, Bilibili's user engagement metrics are a testament to the platform's strong community and content ecosystem. With daily active users surpassing 100 million and monthly active users reaching 336 million, the platform has not only retained its existing user base but also attracted new users, contributing to its revenue growth. The average daily usage time of 95 minutes further underscores the platform's appeal and stickiness among its user demographic.

3. Bilibili's Profitability Reasons and Problems

3.1. Bilibili's Marketing Strategies

3.1.1. Internal strategy

Bilibili is primarily a community video platform with UGC (user-generated content) and PUGC (Professional User Generated Content) as its core, encouraging users to upload and share video content. Among other things, UP owners (content creators) are encouraged to contribute self-produced first or second-creation works, which greatly expands the possibilities of innovation in video works, extends the value of materials such as anime, news, life, etc., and provides viewers with more diversified content, and earns revenues through a variety of realization methods provided by the platform. Secondly, Bilibili relies on powerful algorithmic technology to provide users with personalized content recommendations through its recommendation system, which improves user activity and retention. In addition, Bilibili has a unique community culture, from the precise niche positioning of ACG at the early stage of its founding to the user threshold created by the addition of entry exams, as well as its unique pop-up function, which creates Bilibili's free and open, eclectic and young community atmosphere. It also provides private messages, columns, interactive videos and other features, further enhancing user stickiness and activity.

In addition, Bilibili has adopted a user-friendly pricing strategy, and in doing so, it has stood out in a highly competitive market. Its membership system is simple and straightforward, with users paying a fixed fee to enjoy all content on the platform without having to pay separately for individual videos. This simplification of the payment process makes Bilibili particularly attractive among the many platforms with complex fee mechanisms. In addition, its membership fees are more affordable than those of competitors such as iQIYI and Youku. This strategy not only promotes subscription willingness but also further enhances the platform's price/performance ratio and user acceptance. Bilibili now has an animation zone, a music zone, a dance zone, a game zone, a technology zone, and a knowledge zone. Among them, the Knowledge Zone was officially launched on June 5, 2020, which integrated and upgraded the original Science and Technology Zone, focusing on the sharing of knowledge, experience, skills and humanities content. Since February 2020, it has launched the "Knowledge Sharing Officer Recruitment Order" campaign and provided millions of prizes and hundreds of millions of traffic support for creators. From November 29 to December 31, 2021, Bilibili launched the "Knowledge Light Year Youth Science Popularization Program", inviting 21 experts, scholars, Nobel Prize winners and head UP masters to provide popular science knowledge videos for teenagers and minors. To improve the quality of minors' content, it also launched the Youth Content Incentive Program, providing millions of special funds to support UP masters and organizations to create high-quality youth content, and the platform to provide official operational support. This has not only attracted many high-quality content creators and improved the quality and influence of the content, but also strengthened its competitive advantage in the field of knowledge sharing.

3.1.2. Business strategies

Bilibili has adopted a diversified business strategy that combines hard business and soft business to create a comprehensive revenue model. Hard businesses such as video streaming, live streaming, and game agencies are used to provide exclusive content and interactive experiences, bringing stable income to the platform and filling the revenue gap of the video community's soft business. Soft businesses, on the other hand, create high-frequency traffic to ensure the sales of hard businesses. This complementary model enhances user experience and community stickiness while providing UP hosts with rich creative materials.

The main income costs of Bilibili include revenue-sharing costs, content costs, bandwidth costs, and other costs, with revenue-sharing costs accounting for the highest proportion at 37% of total revenue. These costs cover payments to game developers, app stores, payment platforms, live streaming rewards for hosts, incentives, and revenue splits for UP hosts, and other costs.

To attract young audiences and promote brand partnerships, Bilibili offers a range of collaboration options. The platform's content mix includes officially purchased copyrighted media content such as domestic anime, variety shows, documentaries, and e-sports events, as well as exclusive large-scale events such as the New Year's Eve gala "The Most Beautiful Night," the entertainment carnival BW (Bilibili world), the ACG offline concert BML (Bilibili micro link), and the online New Year's Eve gala "New Year's Eve Celebration." These content offerings cover a wide range of interest areas and reach different audiences through different formats [8].

In addition, Bilibili also launched a new brand growth plan to provide support resources such as exposure inside and outside the site, UP main recruitment, and content e-commerce cooperation priority for brands that join the plan. Through these measures, it not only enhances the appeal of its own platform but also provides brands with an effective platform to connect with younger consumers.

In the game business, it is divided into exclusive agency and joint operation of two models. In the exclusive agency model, Station B is the only platform responsible for the operation of the game and enjoys a high revenue share, usually 55%. Currently, Bilibili has 44 exclusive games, such as FGO and Re: Dive. Under the co-operating model, it only provides download channels and promotion services and gets 30% of the game revenue. Due to the simplicity of this model, the number of co-operated games exceeds 900.

Through online and offline value-added service business, such as the peripheral purchase of members, hand office, jewelry, clothing sales, as well as the offline comic-con meeting, Bilibili has created more profits and brought quite objective income to the platform. Furthermore, Bilibili has co-branded with a number of companies and well-known brands and promoted them with videos and offline events.

3.2. Analysis of Bilibili’s Current Problems and Competition

3.2.1. SWOT Analysis of Bilibili’s current challenges

(1) Strengths

Vast User Base: Bilibili boasts the highest number of monthly active users in the current ACG culture community, with a substantial user base and strong purchasing power.

Unique Community Culture: Renowned for its bullet comment feature, it has fostered a strong sense of community and user engagement.

Rich Content Resources: The platform offers numerous exclusive licensed anime and a variety of high-quality, user-generated content. There are also a lot of different zones, providing diverse and interesting content for different user groups.

Abundant commercial joint paths: open diversified commercial lines, co-branding with famous brands to produce products to attract more new users and enhance profitability. Multiple ways to publicize online and offline to expand influence.

(2) Weaknesses

Limited Profitability: Despite its IPO, Bilibili has yet to achieve profitability, relying mainly on mobile games and value-added services, with a low proportion of advertising revenue.

Content Quality Concerns: Although the content is abundant, the inconsistent quality affects user experience.

High Content Creation Barriers: Compared to platforms like TikTok and Kuaishou, Bilibili has higher barriers to content creation, increasing the difficulty for users to produce and upload videos.

Bullet Comment Issues: While bullet comments enhance user interaction, issues such as inappropriate content can negatively impact the user experience.

(3) Opportunities

Government Support: National policies supporting the ACG culture provide a favorable environment for Bilibili’s development.

Young User Demographics: The Z-generation’s (post-95s and post-00s) affinity for ACG culture injects fresh blood into Bilibili.

Rising Copyright Awareness: The awakening of copyright awareness in China allows Bilibili to benefit from exclusive licensed content.

Market Potential: The rapid growth of the domestic animation market and the extensive reach of the pan-ACG audience with strong purchasing power offer significant market opportunities.

(4) Threats

Intense Competition: Competitors like Youku, Tencent Video, and iQIYI vie for anime licensing, increasing costs and challenging Bilibili's market position.

Profitability Pressure: Bilibili's increasing net losses necessitate the discovery of new revenue streams to maintain investor confidence.

Stiff Competition in Live-streaming: Established platforms like Douyu and Huya dominate the top anchors' resources, making it difficult for Bilibili to profit from live-streaming.

Sluggish Game Business Growth: Bilibili's game business revenue growth is slow, and heavily reliant on a few key titles, posing significant uncertainty [9].

3.2.2. Comparison with competitors throughout the world

In China, Bilibili's main competitors are iQIYI and Tencent, while globally, Bilibili's competitor is YouTube, which is also the benchmark for Bilibili's development and progress.

Aqiyi has a very long history of operation and a huge user base in China and has successfully built a video business ecosystem that includes e-commerce, games, movie tickets and other businesses, connecting people and services, and has led the diversification of the business model of video websites. By comparing with Bilibili, we can find that iQIYI has invested more in AI, big data, cloud services and other technical fields, while Bilibili has unique advantages in user-generated content and community interaction, forming a community culture with a high degree of participation. By contrast, AQIYI's target user group is relatively broad, covering young to middle-aged users, whereas Bilibili mainly attracts young people, resulting in a smaller user base. As well, iQIYI focuses on the development of the movie and television sector, while Bilibili focuses on ACG culture and short videos [10].

YouTube, the world's largest user-generated content (UGC) and professional user-generated content (PUGC) system, is the best template for Bilibili, which has formed a mature closed loop of content creation and commercialization and is currently the world's largest video streaming site, with more than 2 billion monthly users. Bilibili is also centered on UGC and PUGC and relies on powerful algorithms to recommend content. Both have diversified vertical community mechanisms that bring together creators from multiple locations to develop together. Although the commercialization and globalization of Bilibili are not as mature as YouTube, it also relies on its unique pop-up feature to enhance user interaction and sense of belonging, and other innovative features to have a place in the market.

4. Suggestions and Expectation for the Future

Diversifying Monetization Models Bilibili should embark on a mission to diversify its revenue streams, reducing over-reliance on mobile games and value-added services. The platform can explore lucrative avenues such as e-commerce, where it can leverage its vast user base and strong brand affinity to sell merchandise related to popular content. Additionally, the company can capitalize on the trend of live-streaming e-commerce, which has gained significant traction in China. Hosting offline events, such as concerts, fan meetings, and pop culture expos, can also generate substantial revenue while strengthening the bond with the community. Moreover, Bilibili should enhance its advertising capabilities, offering more targeted and engaging ad formats that resonate with its young and diverse audience.

Enhancing Content Quality To meet and exceed user expectations, Bilibili must prioritize content quality. This involves implementing a robust content review system that ensures compliance with community guidelines and legal standards. The platform should also invest in content promotion. By fostering a culture of creativity and excellence, Bilibili can attract top-tier content creators and retain its user base. Furthermore, Bilibili should consider offering content production workshops and resources to help creators improve their skills and produce more professional content.

Lowering Content Creation Barriers To encourage greater user participation in content creation, Bilibili should simplify the video production and uploading process. This can be achieved by developing user-friendly tools and tutorials that make it easier for users to create and edit videos. The platform should also streamline the content submission process, reducing the time and effort required to upload content. By lowering these barriers, Bilibili can empower more users to share their creativity and contribute to the platform's vibrant content ecosystem.

Strengthening Community Management Bilibili's unique community culture is one of its greatest assets, and it must be protected and nurtured. The platform should implement stricter regulations on bullet comments to prevent the spread of inappropriate or harmful content. This involves using advanced moderation tools and algorithms to identify and remove offensive comments in real time. Additionally, Bilibili should encourage positive interactions by highlighting high-quality comments and rewarding users who contribute to a healthy community environment. By fostering a safe and welcoming space, Bilibili can enhance user satisfaction and encourage long-term engagement.

5. Conclusion

This study has provided a comprehensive analysis of Bilibili's business model transformation and its path to profitability. Bilibili, initially established as a niche ACG community platform, has successfully evolved into a multifaceted multimedia business platform, particularly catering to Generation Z. The platform's unique community culture, diverse content resources, and innovative business strategies have played pivotal roles in its growth.

The analysis of Bilibili's current situation reveals a robust revenue structure, with significant contributions from gaming, live streaming, and advertising. Despite facing challenges such as profitability pressure and intense market competition, Bilibili continues to innovate and diversify its revenue streams, including e-commerce and value-added services.

The SWOT analysis highlights Bilibili's strengths in its vast user base, unique community culture, and rich content resources, while also identifying weaknesses in its limited profitability and content quality concerns. The opportunities for growth lie in government support, a favorable demographic, and rising copyright awareness, although threats from competitors and the need for sustainable profitability strategies remain.

In summary, Bilibili's success can be attributed to its adaptability, innovation, and strong community engagement. To ensure continued growth and profitability, Bilibili must focus on enhancing content quality, exploring new revenue streams, and maintaining its competitive edge in the dynamic online video market. By leveraging its unique position and strategic initiatives, Bilibili is well-positioned to navigate future challenges and capitalize on emerging opportunities in the multimedia industry.

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