

Business Models and Risks in Medium-Length Video Content: Case Study of Bilibili

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Abstract. As a famous Chinese Internet video pop-up sharing website, Bilibili is gradually gaining popularity among contemporary young people because of its secondary culture, which young people love. Taking off the secondary yuan's outer layer, Bilibili, as a successful commercial website, its business model is worth analyzing and studying. Bilibili, because of its favorable network environment, has formed a fertile soil suitable for the healthy growth and prosperous development of secondary culture and its industry. With many registered members and a young user base, Bilibili has performed particularly well in many secondary development industries and attracted many investors' attention. This paper uses the literature research method to summarize the relevant literature. Bilibili, a representative of online video platforms, was chosen as a case study object and analyzed by combining the comparative analysis method. This paper takes Bilibili's business model innovation as an entry point to discover the characteristics and shortcomings of Bilibili's unique business model. Finally, it suggests medium- and long-run video platforms similar to Bilibili's and advises on their risks.

Keywords: Mid-length video; Risk study; Business model; Bilibili.

1. Introduction

Entertainment content, the rapid expansion of the scale of Internet users and the rapid development of mobile communication technology, the network video industry is emerging in line with the trend, and the competition is becoming more and more intense. Bilibili, as an emerging video website, has been developing rapidly in recent years, gradually growing from a niche "secondary yuan" video website into China's largest "secondary yuan" hobbyist dating community, and has a different high viscosity of users from conventional video websites, and the characteristics of the exchange community. After Bilibili accumulated enough popularity, Bilibili bravely broke through, "broke the circle" to accept more content to PUGC (Professional Generated Content + Generated Content, i.e., "professional user-produced content" or "expert-produced content") content production mode to realize the "curved road to overtake the car," and interactive video to improve user stickiness, improve the quality of original works, and successfully enter the first echelon of China's current commentary website. Of course, Bilibili still has a lot of problems; However, Bilibili has a stable customer base, and Bilibili still needs a complete profit model. So far, Bilibili is still at a loss.

This study uses library materials and authoritative databases such as China Knowledge and Wind to search and review relevant literature and theories, carefully study, and deeply understand their significance. It grasps the current research status of business models and value creation in the current academic world, exercises the ability to analyze theories, and provides a sufficient theoretical foundation for the case study of Bilibili.

This paper takes Bilibili as the research object, pays close attention to the current development trend of video websites and network communities, analyzes and discusses the Bilibili business model, analyzes the current risks of Bilibili, and finally draws conclusions and gives suggestions to achieve a more effective analysis of the competitiveness of the enterprise business model.

2. Literature Review

A business model derives from - a business idea that enriches and logically organizes opportunities, identifies unspecified market needs and discovers unutilized resources [1]. In the field of business models, think tanks have done a long exploration of research; a survey study in 2005 can be seen in the business community on the importance of the business model, the CFO of large enterprises in various countries when talking about the importance of the business model, more than half of the 4,000 interviewees said that "the future of the enterprise's arena, the status of the pivotal position of the business model innovation is not inferior to the innovation of the products and services" Domestic research on the business model is more lagging but still collects a lot of goods [2].

Massa said in 2017, after a study, that many internationally recognized and important annual academic conferences attach great importance to the discussion of business model issues. Still, there needs to be more consensus in the academic community on the problem of defining many business model concepts [3]. The business model explains the creation of value by a firm through the structure, content and process of transactional activities [4].

Based on the process perspective, the business model is viewed as the necessary resources and means to accomplish business activities. Li and other scholars pointed out that in the context of "Internet +," the traditional business model is no longer in line with the status quo and must make corresponding reforms and innovations to adapt to the high-speed changes of the "Internet +" [5]. According to Wu and others, optimizing the value creation network and the way of value creation requires adjusting the architecture of value creation innovation, driven by internal and external factors such as market, resources, and organization [6]. Hao believes that based on the advantages of the Internet in terms of time, space and efficiency, the "Internet +" business model can better integrate resources and take advantage of them. Chesbrough emphasized in the open innovation theory that the interaction process between firms and stakeholders is also the value creation process, so the value generation path can be selected as the starting point of analysis to explore business model innovation [7]. Li proposed new business models by integrating Internet technology and other industries, such as the sharing economy, free model, and online integration [8]. Wang believes that the business model reflects the strategic position of the company and the strategy of its operations and that the business model aims to create a strategy suitable for the company's development to improve its core competitiveness [9].

Portfolio theory suggests that if the premise of investing is to choose among several projects with the same rate of return, the investor will inevitably choose to invest in the project with the lower systematic risk [10]. However, investors are looking for a high rate of return that also reduces risk, and that's when they need a portfolio to achieve their goals. But even if we can make a portfolio, the investment goal of the company is to increase profits, which means that it is only possible to do so by taking risks. Due to the specificity of business model innovation, investing in a single channel will result in low utilization of funds and thus bring about great investment risks and ultimately ensure investment efficiency.

3. Analysis of Bilibili's Business Model

3.1. Background of Bilibili

Bilibili, hosted by Shanghai Kuan Entertainment Digital Technology Co., Ltd, is a highly aggregated cultural community and video website for China's young generation, which was created on June 26, 2009, and is affectionately known as "Bilibili" by netizens. In the early days, it was mainly an interest-oriented secondary yuan video platform, but after Chen Rui joined the company, it was gradually capitalized. In March 2018, Bilibili was successfully listed on NASDAQ in the U.S.; in March 2021, it was successfully listed in Hong Kong for the second time. It then received strategic investments from Tencent, Ali and Sony, forming a linkage with the company's business and continuously expanding its business boundaries. Regarding foreign investment, Bilibili has

accelerated the layout of the pan-entertainment industry chain since its listing, and the scope has gradually penetrated the entire pan-entertainment industry from the core field of secondary yuan.

3.2. Bilibili's Revenue Sources

According to the analysis of Bilibili's past earnings releases, its main sources of revenue are in four segments: value-added services, advertising, mobile games, IP derivatives, and others. As shown in Figure 1, its value-added services (premium membership program, live streaming services and other value-added services) turnover in the first quarter of 2023 was RMB 2.2 billion, advertising turnover was RMB 1.3 billion, mobile game turnover was RMB 1.1 billion, and IP derivatives and others were RMB 5.1 million, accounting for 43%, 25%, 22% and 10% of the overall revenue, respectively. However, compared to other video websites, Bilibili has a relatively small number of users and poor spending power, which, to a certain extent, affects Bilibili's marketing ability, resulting in advertisements and other revenues not being able to compare with other video websites and achieve more revenue.

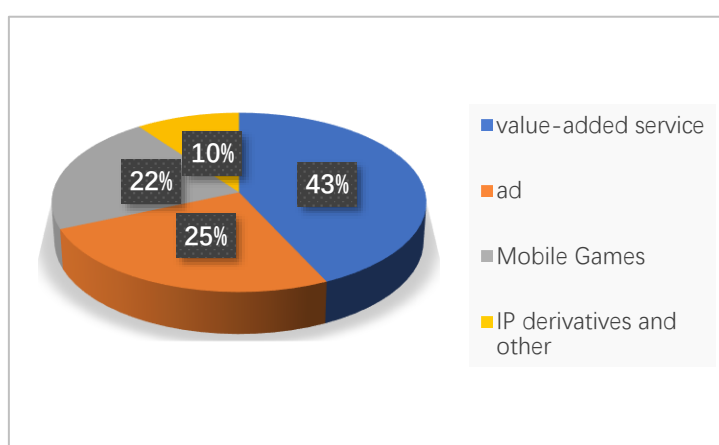


Fig. 1 Percentage of total net turnover of Bilibili in the first quarter of 2023. (Photo/Picture credit: Original)

3.3. Bilibili's Operating Revenue and Profit

As shown in Table 1, Bilibili's revenue has been maintaining rapid growth, with revenue of \$4,129 million, \$6,778 million, \$11,999 million, \$19,384 million and \$21,900 million from 2018-2022, respectively, with an annual growth rate of more than 60% from 2018 to 2021. Bilibili's major business revenues have also shown good momentum, and the company's development model has shifted from its previous reliance on game revenues to a diversification-led development, with games, value-added services, advertising and e-commerce becoming the four main components.

Table 1. Bilibili 2018-2022 Operating Income Split (Unit: millions of dol

Particular year	2018	2019	2020	2021	2022
Mobile Games	2936	3599	4803	5091	
Year-on-year increase	43%	23%	33%	6%	
Live Streaming & Value-Added Services	586	1641	3846	6935	
Year-on-year increase	232%	180%	134%	80%	
Ad	463	817	1843	4523	
Year-on-year increase	191%	76%	126%	145%	
IP Derivatives and Others	143	722	1507	2834	
Year-on-year increase	92%	403%	109%	88%	
Total revenue	4129	6779	11999	19384	21900
Year-on-year increase	67%	64%	77%	62%	13%

Bilibili's largest source of revenue until 2020 is games, which accounted for more than 50% of operating revenue in 2018-2019. Still, with expanding its user base and needs, Bilibili has continued exploring commercialization channels beyond mobile games. As a result, in terms of changes in revenue, the share of games in revenue has been declining over the past few years, although the share of game revenue has declined.

Among the other three major businesses, value-added service revenue accounted for the largest increase in the proportion of operating revenue, which grew from 14.18% to 32.05% from 2018 to 2021, which was mainly attributable to the increasing number of paying subscribers for large memberships, live streaming services and other value-added services. From 2018 to 2020, the proportion of Bilibili's advertising revenue increased by 76.27%, 125.56% and 145.47% year-on-year, respectively, representing strong growth momentum, and this growth trend is closely related to the growth in the number of Bilibili's users. The average number of Bilibili's monthly active users increased from 87 million in 2018 to 185.8 million in 2020. With the growing user base, more and more advertisers are choosing to promote their products and services on Bilibili to gain higher exposure.

Overall, Bilibili's revenue concentration has declined, and its businesses have gradually diversified, with each business drawing traffic from the other, forming a good ecosystem. Mobile games have led to the birth of many game anchors, pushing the live-streaming business to grow rapidly, while UP owners create more videos to make the site richer and more appealing.

Bilibili's profit model combines four modes: gaming, live streaming, advertising and e-commerce. The adoption of such an approach stems from Bilibili's difficulty in meeting the higher demands of its members when it comes to producing quality content. Overall, Bilibili has chosen to diversify its profit model and rely on more than just game revenue. However, while maintaining its characteristics, Bilibili is now faced with the practical challenge of increasing the number of large members and advertising revenue.

In 2017, Bilibili's gross profit was 549.2 million, and in 2021, it will be 4.043 billion; as shown in Figure 2 and Figure 3, we can see that it is continuously rising. In 2021, this value exceeded 4 billion yuan, but according to Bilibili's financial report, Bilibili is still in a state of loss. Bilibili's operating costs have always been very high, which also shows that in terms of cost control, Bilibili still needs to improve.

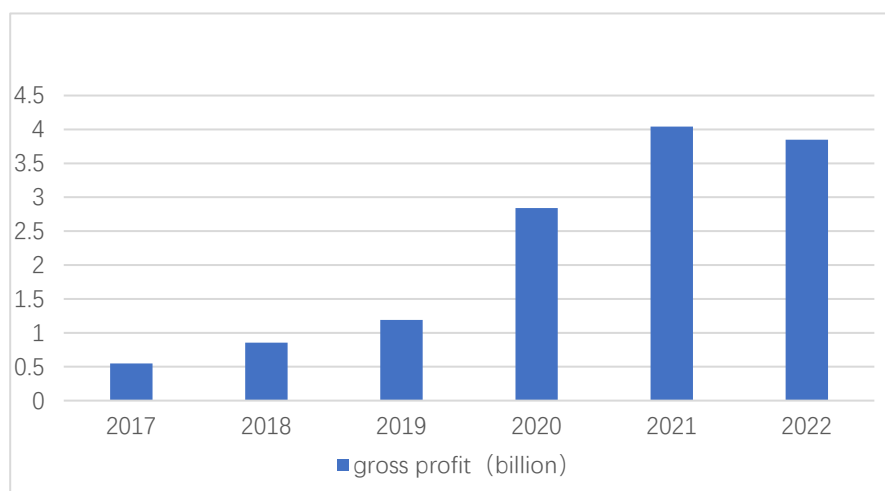


Fig. 2 Gross Profit Histogram of Bilibili 2017-2022 (Photo/Picture credit: Original)

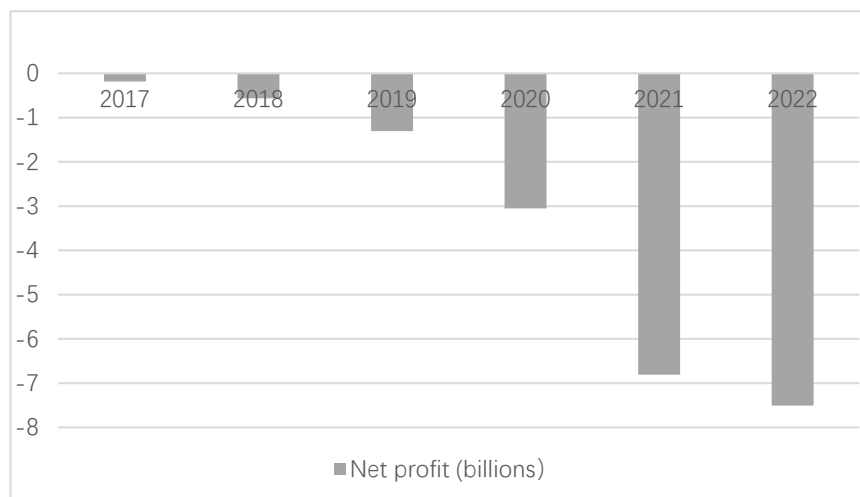


Fig. 3 Bilibili Net Profit Histogram 2017-2022 (billions) (Photo/Picture credit: Original)

4. Risk Study Analysis of Bilibili

Risk of user growth slowdown: For Internet companies, user growth is often one of the most important things. Currently, the user penetration rate of the Internet industry has gradually peaked, and competition has become more intense, especially in the short and medium video industry. Station B will face the risk of slowing down user growth if it fails to meet the needs of users actively.

Risk of dilution of community atmosphere: Bilibili is a video community based on PUG content, and the community atmosphere is very important for user retention; in the process of "breaking the circle," a large number of new users flocked to the community, and if the relationship between old and new users cannot be handled well, there may be a risk of dilution of the community atmosphere, which will affect Bilibili's long-term user retention ability. Bilibili's long-term user retention ability will be affected.

Lax regulation and remediation of illegal content: The current Bilibili group has a large proportion of young people, and the youth group is even larger. Recently, the government has become more stringent in regulating the online audiovisual and other cultural and entertainment industries, covering both creative content and copyright qualifications. Bilibili's creative content covers games, animation and other areas favored by young people, which, coupled with its characteristic pop-up atmosphere, has made it progressively more difficult to regulate.

As can be seen from Figure 4, the trend of increase in R&D expenses and general and administrative expenses was relatively slow from 2017-2019, with increased investment in R&D and general and administrative expenses after 2020. In respect of the latter, to a certain extent, this reflects that Bilibili's management efficiency has realized a qualitative and quantitative increase, and the management ability of Bilibili's relevant staff and the management level of Bilibili's relevant staff have been improved to a certain extent. Compared with administrative expenses, although R&D expenses have increased, in the context of the Internet, R&D is equivalent to innovation, and only through innovation can competitive strengths be built out; therefore, making an increase in R&D expenses is a key decision for Bilibili to maintain its competitiveness, and this is an area in which many companies have invested a great deal of money.

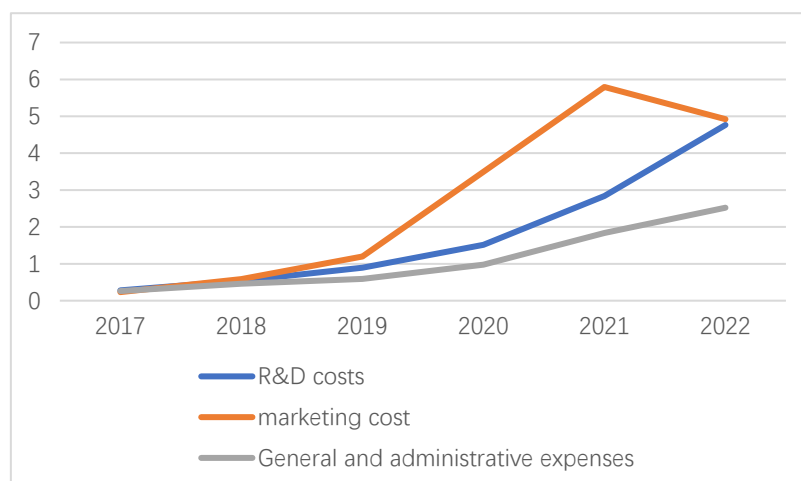


Fig. 4 Bilibili Operating Expense Breakdown, 2017-2022 (billions) (Photo/Picture credit: Original)

Since 2017, marketing expenses have been on the rise; Bilibili is located in the middle of the development period, and this investment is an indispensable part of the investment, online and offline, to enable it to have a higher visibility among users. Bilibili's marketing expenses have grown from \$232.5 million to nearly \$5.795 billion between 2017 and 2021. The reason for the increase is mainly due to the increase in the cost of marketing activities, royalties for film and television works such as anime, manga, movies, and other works, agency fees for game agents and live streaming agents, as well as creative incentive expenditures for UP masters, expenditures for the company's operations, and open-card expenditures for the maintenance of the network technology, among other things.

5. Conclusions

The article takes Bilibili as the research object. It first analyzes Bilibili's unique business model and conducts systematic and specific research on it. Then, from the business model perspective, analyze the causes of financial risk and put forward targeted prevention suggestions.

First, Bilibili needs to promote non-core users' consumption and improve realization efficiency. It can expand the payment scene by presenting secondary content in a more popularized form. Secondly, Bilibili improves the core competitiveness of the enterprise and attracts member conversion. Many original uploaders are one of the biggest advantages of Bilibili, which has original video content to attract huge traffic. In addition to this, it is necessary to follow the trend of the times, to meet the preferences of young people today, and to develop the columns of cute pets, traditional culture and traditional costumes, ancient style entertainment content, etc., to increase user stickiness and enhance the core competitiveness of the website. Then, while Bilibili develops itself, it also needs to strengthen content auditing and encourage member autonomy. With the listing of Bilibili, Bilibili's operational content and audience are expanding rapidly. Due to Bilibili's content diversification, Bilibili's projects are also very diverse, and these various projects can bring Bilibili revenue. Still, at the same time, they also carry a lot of potential risks, which need to be regulated and remedied in time to prevent them from occurring. The following is a list of the most popular programs on Bilibili. Finally, Bilibili needs to control the cost expenditure; nowadays, the need to achieve long-term sustainable development in the competition to improve the core competitiveness of enterprises is an important measure of cost management control. For Bilibili's development and business model, the cost of content discovery and investment cannot be reduced, but the cost of the operating process can be controlled. For example, the targeted placement of advertisements can reduce the loss of costs.

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