

## Research on Profit Model of Internet Enterprise Bilibili

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**Abstract.** With the rapid development of Internet companies, mainstream video sites such as iQiyi and Tencent have become leaders in this wave, but there are also niche video sites that are developing steadily and rapidly. Bilibili is one of them. Its unique profit model is thought-provoking. This article combines the five elements of Adrian Slevorsky's profit model to study the characteristics of bilibili's profit model. Through research, it is found that its profit model has problems such as too single profit target, lack of balance of profit sources, and weak copyright supervision awareness. Improve its profit model and put forward relevant suggestions.

### 1. Bilibili Profit Model Analysis

As the global vice president of Mercer Management Consultants, Adrian Slevorsky proposed in his book "Profit Model": To study the profit model of a company, we need to analyze it from "one core and five basic points", namely With value creation as the core, there are five basic elements including who the company provides value, how the company creates value, what are the sources of corporate income, what are the key activities that the company can provide value, and how the company maintains its advantages. Based on the profit model theory of Adrian Slevorsky, this article analyzes the profit model of bilibili from the five elements of profit object, profit point, profit source, profit lever and profit barrier.

#### 1.1 Profitable Objects

The profit object refers to the object to which the enterprise provides value services. According to the financial report for the third quarter of 2020 disclosed by bilibili: the company's average monthly active users reached 197.2 million, mobile MAU reached 183.5 million, an increase of 54% and 61% respectively over the same period in 2019; average daily active users reached 53.3 million, An increase of 42% over the same period in 2019, and the monthly active users in August 2020 reached more than 200 million, setting a new monthly record. With such a large user base, there are many users who are willing to spend. In the third quarter of 2020, the average monthly paying users will reach 15 million, an increase of 89% over the same period in 2019. Among these active users, nearly 80% of the users are born in the 90s, which is also the generation Z that has been popular in Europe and the United States recently. Therefore, it is not difficult to see that bilibili's profit target is Generation Z.

Generation Z refers to people born between 1995 and 2009. This generation is deeply influenced by high-tech products such as the Internet, instant messaging, and smart phones. Generation Z have received higher education. They have a strong ability to accept new things and pay more attention to experience. They only focus on high-quality, cost-effective things. According to calculations from the National Bureau of Statistics, the total number of Generation Z is approximately 260 million, accounting for approximately 19% of the total population. The "2019 White Paper on the Consumption Power of Generation Z" released by Tencent shows that the monthly disposable income of Generation Z amounts to 3,501 yuan. Some institutions predict that in 2020, Gen Z will account for 40% of the overall consumption power. The white paper also pointed out that the

average person of Gen Z uses a mobile phone for 3.54 hours, and their two favorite things are social chat and watching videos.

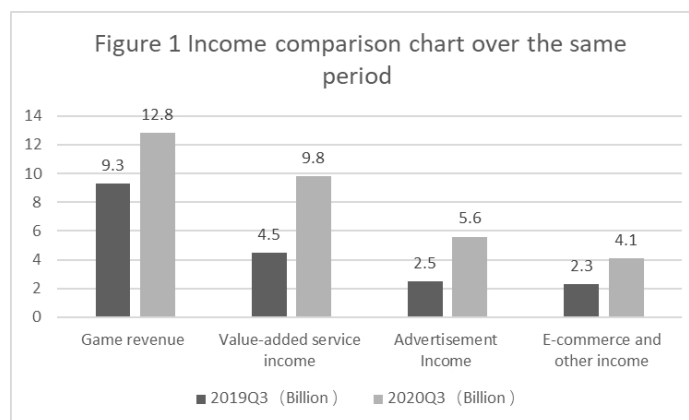
## 1.2 Profit Point

The profit point is the product or service for which the enterprise can obtain profit. As a two-dimensional pan-two-dimensional video website, bilibili's rich and special content is its main profit point. bilibili first had only three sections: animation, comics, and games. Now it includes animation, music, dance, knowledge, life, fashion, entertainment, theater, animal circle, stand-alone games, fan drama, national innovation, games, digital, ghost animals, Information, film, funny, food, VLOG and other all-encompassing sections. Users can choose the sections they are interested in, post comments in their relevant communities, communicate with the bullet screen while watching the video, or become the UP master by uploading their own videos, and gather users with common hobbies to form An independent circle. In addition, unlike traditional video sites, watching videos on bilibili can enjoy no ads at all if you are not a member. According to related surveys, 90% of people will be dismissed because of 60s or longer advertisements, and they are disgusted with the bundling sales that must be opened to close the advertisements. In contrast, the big members of bilibili only get the right to watch new content a week in advance, and users can choose to open or not open it, which can effectively increase user stickiness. Excellent video and user-friendly management make users more willing to consume in its games and e-commerce products, so as to achieve profitability.

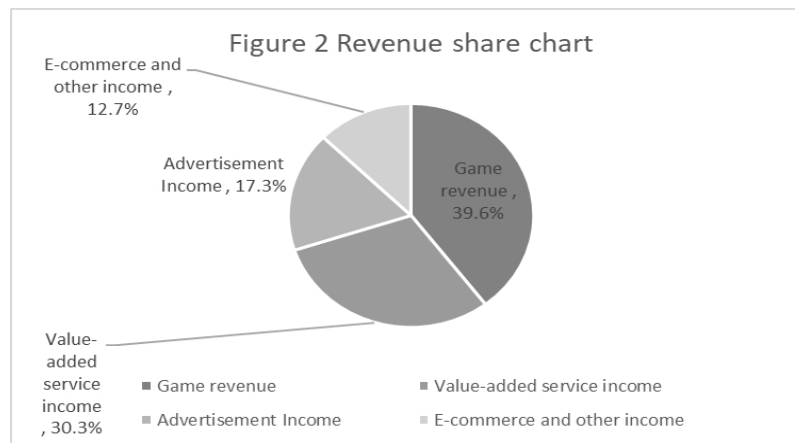
Domestic animation has always been a subject of criticism, and there is indeed a big gap with Japanese fan dramas. In March 2017, bilibili established the Guochuang District, invested in nearly 20 animation teams, and participated in more than 50 animation investment and production cooperation, including the recent fire "Ling Cage: INCARNATION", "Drawing Jianghu" and so on. As of 2019, bilibili has launched a total of 104 domestic animations, with a total playback time of more than 300 million hours. The number of monthly active users in the Guochuang District has surpassed the Fanju District for the first time. We have truly seen the growth of domestic animations. And change. Bilibili owns the copyright to these national comics, and other video sites need to purchase the copyright to play it. The big members' advance viewing of the latest content also makes users more willing to consume for them, so as to make money from it.

## 1.3 Sources of Profit

The source of profit is the main way for an enterprise to obtain profit. bilibili's main sources of profit include game revenue, value-added service revenue, advertising revenue, e-commerce and other revenues. According to the financial report for the third quarter of 2020 disclosed by bilibili, this article sorts out the amount and proportion of its profitable income sources, as shown in Figure 1 and Figure 2.



**Figure 1.** Income comparison chart over the same period



**Figure 2.** Revenue share chart

It can be seen from Figure 1 and Figure 2 that in the third quarter of 2020, bilibili's game revenue was 1.28 billion yuan, accounting for 39.6%, an increase of 37% year-on-year, and it was bilibili's main source of profit. In terms of games, bilibili mainly focuses on intermodal transportation, and does not independently develop games, that is, major game manufacturers develop new games. bilibili cooperates with these manufacturers to provide an independent server for bilibili users to enter, and bilibili's game management You can manage the activities in the game and the krypton gold entrance by yourself, and the game revenue obtained is divided into five to five accounts with the game manufacturer. bilibili does not cooperate with all game manufacturers. When screening games, bilibili attaches great importance to the user experience, focusing on the two-dimensional culture and the hobbies of Generation Z, and relying on the high adhesion and strong community atmosphere of Generation Z users, which has achieved considerable Income.

Bilibili's second largest source of profit is revenue from value-added services. bilibili's value-added services mainly include live broadcast and large membership business. In the third quarter of 2020, the value-added service revenue is 980 million yuan, accounting for 30.3%, an increase of 116% year-on-year. The live broadcast is mainly hosted by the UP host. According to the popularity accumulated by the UP host's usual upload of videos, through the live broadcast, users can purchase virtual gifts to reward their favorite anchors. Fans with a lot of rewards can appear on the anchor's weekly and general charts and become The host's room manager can also pay to become a captain or admiral, and enter the live broadcast room with exclusive special effects and privileges, and the platform earns a commission from the gift income. The second is the major membership business. What is interesting is that if you want to become a bilibili major member, you must first pass the bilibili entry exam. This requires users to have a sufficient understanding of the two-dimensional culture, so that the two-dimensional users have a sense of belonging, and think this is what Where you should stay, the user's adhesion is improved.

Bilibili's third largest source of profit is advertising revenue. Advertising revenue in the third quarter of 2020 is 560 million yuan, accounting for 17.3%, a year-on-year increase of 126%. Different from traditional video sites, bilibili has been adhering to the tenet of user experience supremacy from the beginning, attracting a large wave of traffic with no-post ads, but the advertising profits are still huge. With the progress of commercialization, the investment sponsorship required by bilibili has gradually increased. Facing the huge business opportunities of advertising, bilibili has gradually distributed advertisements in specific areas of the homepage. In addition, bilibili and game manufacturers jointly operate games and need to provide a certain amount of advertising space for game promotion. Some UP owners will also receive some ads and put them in their own videos, and bilibili can get commissions from them. As a result, bilibili's advertising revenue has grown rapidly and its proportion has increased year by year. It is expected that the proportion will further expand in the future.

Bilibili's fourth largest source of profit is e-commerce and other income. In the third quarter of 2020, e-commerce and other revenues were 410 million yuan, accounting for 12.7%, an increase of

83% year-on-year. bilibili established its own e-commerce platform "Membership Purchase" in 2017, focusing on comic show concert ticketing, figures, models, fashion, and peripheral sales. It has become the largest market in the two-dimensional ticketing domain. At the end of October 2019, bilibili's e-commerce business GMV has exceeded 1 billion yuan. bilibili will also organize an annual comic show, organize large-scale offline gatherings, in the comic show will sell some animation peripherals, not only can make a certain profit from it, but also increase the user's stickiness.

#### **1.4 Profit Leverage**

Profit leverage refers to a series of business activities that a company produces products or services and attracts customers to purchase and use the company's products or services. As an emerging Internet company, bilibili has created a variety of activities, large and small, in order to attract users and increase user retention.

First of all, the most widely known is bilibili's annual New Year's greetings. Since 2010, bilibili has held a New Year's Eve, known as the Second Yuan Spring Festival Gala, every New Year's Eve. The New Year Festival is produced by bilibili in cooperation with many UP owners. From 40 UP owners in 2010 to 2020, nearly 400 UP owners participated in joint production, and produced many excellent video songs. Since 2018, the New Year's Festival will be carried out around a theme, from the bilibili park in 2018 as the theme, to the theme of "restaurants" in 2019, and the theme of "hot pot city" in 2020. In 2020, the New Year's Festival has adopted an interactive video mode. Different choices of users will bring different results and increase the fun of the activity. Nearly one million users watch at the same time. At present, the broadcast volume has exceeded 70 million, which is an audio-visual feast for many two-dimensional users.

Secondly, it is Bilibili Macro Link (BML), the biggest offline activity of bilibili. New Year's Eve is bilibili's largest online event. BML is bilibili's annual large-scale offline event. The scene will invite first-line animation singers, popular UP hosts, and representatives of young online culture to participate. The two-dimensional elements fill the entire venue, which is also bilibili. A meeting between users and many two-dimensional stars and UP owners. Since 2013, BML has been held for 8 sessions. From the first session with only 800 offline viewers to the current 10,000 gatherings, BML has become one of the most well-known offline events in the ACG field, and it has been held in the younger generation of Z Has a huge influence. Due to the impact of the epidemic in 2020, BML was changed to live online, and the number of appointments was nearly 700,000.

#### **1.5 Profit Barrier**

The profit barrier is a measure taken to prevent competitors from encroaching on the company's resources and interests. As an emerging barrage video website, bilibili needs to establish a sound profit barrier if it wants to compete with mainstream video websites. bilibili has the largest two-dimensional community resources in the country that traditional video sites do not have, and a highly sticky Gen Z user group, which forms the core competitiveness of bilibili. bilibili adheres to the principle of user experience first, continuously strengthens the site's two-dimensional community atmosphere, and establishes a benign ecosystem. While increasing the stickiness of the original users, it introduces new user flows, and while ensuring its own profitability, it also continuously improves its core. Competitiveness.

bilibili knows that its core user group is the second-generation pan-two-dimensional generation Z population. In order to ensure that the core user group will not be lost, it has set up a membership access system. That is, to become a member of bilibili, you must choose 100 questions in three two-dimensional areas and answer more than 60 correctly. This is very difficult for people who do not understand two-dimensional, but it is a piece of cake for generation Z people. Effectively improve the sense of belonging and stickiness of core users. At the same time, bilibili has purchased the copyrights of many animations, such as "Detective Conan" and its previous theatrical versions. This is simply the gospel for the two-dimensional users, and users do not need to worry about finding resources.

## **2. Problems with Bilibili's Profit Model**

Although bilibili's unique profit model has brought better company development and benefits, it can also be found that there are still many problems with this model.

### **2.1 The Profit Target is Too Single**

For many years, bilibili has been committed to establishing a high-quality ecosystem of two-dimensional and pan-two-dimensional, which makes bilibili's profit targets are the Z generation people who are keen on ACG and home culture, and the profit targets are too small. And today's Generation Z are people aged 18 to 26. Some of them are college students who have just entered university, and some are ignorant young people who have just entered society. Although their stickiness is high, their consumption level is not high, and the generation Z population is after all It is a minority, and the profit is limited.

Compared with the video site iQiyi, which was also founded in 2010, the average monthly active users of iQiyi reached 550 million, and its total number of subscribers was 104.8 million, while the average monthly active users of bilibili reached a record high of only 2 The number of paying users is only 15 million, which is inseparable from the fact that bilibili only develops generation Z people who are keen on ACG and home culture in terms of profitability. IQiyi does not have such a strong two-dimensional atmosphere, but it is developing movies, TV series, variety shows and animation at the same time. In contrast, iQIYI is a paid video website that focuses on the development of paid video sites, while bilibili is more inclined to build an ACG multi-community dedicated to two-dimensional users. If Internet companies want to become bigger and stronger, they are only limited to such specific users. Groups are not enough. IQiyi's total revenue for fiscal year 2020 was RMB 29.7 billion, while bilibili's total revenue reached RMB 12 billion. Judging from the profit results, the gap between bilibili and mainstream video sites is still very large, indicating that it only relies on increasing users. Viscosity does not bring more profit to the company.

### **2.2 Lack of Balance in Sources of Profit**

Although bilibili is a video website, it is not an exaggeration to say that it is a game company. Nearly 40% of the company's profit revenue comes from games, and 80% of its revenue comes from the two games "Fate/GO" and "Azur Lane". It is unreasonable to rely too much on the profit source structure of game revenue, not to mention only one of them. For the two games, the imbalance of profit sources will bring huge hidden dangers to the company. First of all, the two core games that bilibili relies on are jointly operated. Once the developer does not renew the contract, bilibili will lose profitability within a short period of time. Secondly, a game has a lifespan. The user has no freshness and only feelings are left, but feelings do not make users desire to recharge. After the two games came out in 2018, the game revenue in the four quarters increased by 97%, 61%, 24%, and 15% year-on-year. The reason for the increase was the popularity of the two games, but the rate of growth was also very low. fast. Game revenue in the first three quarters of 2020 increased by 32%, 36%, and 37% year-on-year. Although the growth rate has stabilized and increased slightly, for the rapidly developing Internet companies, this growth rate is not enough and increases. The reason is mainly due to the company's launch of a new mobile game, and the revenue growth brought by the two core games is no longer the same year. In addition, the current government has strengthened the supervision of the game market, and the version number of the game industry is restricted.

## **3. Suggestions for Improving the Profit Model of Bilibili**

### **3.1 Efforts to "Break the Circle" and Expand the Scope of Profitability**

The gap between the average monthly active users of bilibili and iqi yi is enough to show that the two-dimensional circle is still a minority in our country. Coupled with the influence of traditional thinking in our country, some older people think that the second dimension is a cartoon when they were young, and being addicted to the second dimension is a manifestation of immature thinking.

Therefore, if bilibili wants to develop upstream, "breaking the circle" is the only way to make the minority become the masses.

First of all, bilibili can increase the promotion of the learning sector. In the learning section of bilibili, there are actually many instructional videos uploaded by highly professional UP masters. These videos are very suitable for users who want to learn professional knowledge online. Therefore, the company should increase the promotion of this section to attract more non-two-dimensional new users. Secondly, while buying the copyright of the new fan, you must also purchase the copyrights of popular movies and TV series. This not only stabilizes the core business, but also drives a diversified strategy, which not only improves the stickiness of the original users, but also introduces new user streams. In addition, bilibili must keep up with the trend of modern video sites, and strive to expand the content of self-made reality shows and variety shows, and increase the development of reality shows and variety shows. At present, the variety show sector has the largest amount of playback on modern video sites, and the variety show sector has the greatest competition. Through pre-publicity and topic production, iQiyi's "China New Rap" has exceeded 300 million views within 24 hours of its launch, becoming the TOP1 of the entire network; "Run Bar", "Extreme Challenge", "Sister Riding the Wind and Waves" "These are all topics that people talk about after dinner. Therefore, bilibili should actively develop self-made variety shows and promote them to attract new users.

### 3.2 Expand Revenue and Improve Profit Source Structure

The main source of profit for bilibili is game revenue. It can be said that the game saved bilibili and promoted the rapid development of bilibili. However, it only relies on two core games for revenue. Such development has huge profit risks. As far as the current situation is concerned, the fact that bilibili relies on game revenue development cannot be changed in the short term. Therefore, bilibili should increase the intensity of self-developed games and increase the research and development expenditures for game development, so as to reduce the profit risk caused by excessive reliance on the two games. Secondly, bilibili should also strengthen the development of advertising, value-added services and e-commerce, and increase advertising fields. Even if the principle of no-post advertising is adhered to, the company can still choose more ads that ACG users like or in the videos of the top 100 UP owners. Insert some ads. In addition, bilibili can also take the following measures to actively expand its income sources: such as increasing investment in live broadcast services, recommending various anchors in specific sections on the homepage, increasing the enthusiasm of anchors; improving the cost-effectiveness of large members, and continuous monthly subscription can buy one more than normal. There are monthly discounts to buy more fan drama copyrights, especially the copyrights of new fans for free viewing by big member users; while cooperating with big platforms such as Taobao, develop your own e-commerce platform "Member Purchase" Only by further improving the company's profit sources can bilibili develop benign and sustainable.

In the current wave of rapid development of Internet companies, bilibili, as a niche video site, benefits from its profit model at this stage, but its profit model still has many problems, and the gap with mainstream video sites is still very large. To become a mainstream video site, there is still a long way to go. Through the study of its profit model, it can provide help for the healthy development of bilibili, and can provide valuable reference for other similar Internet companies that are just starting out.

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