

# ***Analysis of Bilibili's Operating Model and Research on Homogeneous Competition Strategy in the Perspective of New Media***

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**Abstract:** In 2019, it became increasingly difficult for China's mobile internet users to grow. Fewer new users were downloading mobile apps, causing the incremental market to transform into a stock market in that major mobile companies started to compete. Against this backdrop of profitability still being a certain distance away, Bilibili could prioritize slightly delaying its core goal of profiting and instead increase its shared revenue and content costs to further enhance its core competitiveness and expand its influence. This article analyzes Bilibili's development environment and trends from two perspectives: macro analysis of China's video industry development and micro analysis of Bilibili and other peer companies' development. Finally, the article provides suggestions, such as strengthening content innovation, improving user experience, expanding user groups, and building a solid brand image, to create a more promising future for Bilibili. Finally, this article presents a vision for conducting further research and analysis on Bilibili in the future.

**Keywords:** business management, competition, sinking market, existing market

## **1. Introduction**

In 2019, the growth of mobile internet users in China has essentially reached its peak. With the end of the demographic dividend of internet users, intensifying overlap among top APP users, limited increase in APP usage duration, and the plateauing number of young and middle-aged users, there are few new users entering the mobile app market. As a result, the incremental market of smartphone applications has shifted to a stock market, and major manufacturers have launched a fierce competition for existing users [1]. Against this social background, Bilibili and the development of China's internet industry have entered a new stage. Previous competition and development strategies may be difficult to adapt to changes in the new environment. This article aims to explore how Bilibili can develop better and more long-term and how to gain more advantages in homogeneous competition. Starting from the overall situation of the development of China's Internet, this study first judges the direction of the operation of the Internet industry from a macro perspective and analyzes how companies should maintain their core competitiveness in the new environment. Next, this study will start from the standpoint of Bilibili and its competitors, using comparative analysis and copy analysis methods to summarize the internal strengths and weaknesses of Bilibili's development, as well as the opportunities and challenges it faces externally. Finally, based on the above analysis, this paper will attempt to propose suggestions and discussions on Bilibili's

homogeneous competition strategy, completing this paper's analysis of Bilibili's operating model and a summary study of homogeneous competition strategies in the new media field.

## **2. Bilibili's Operating Model Analysis**

### **2.1. Overview of the Development Status of Chinese Video Platforms**

The number of Chinese online video users has been increasing since 2011. After experiencing a significant slowdown in growth in 2019, the total number of Chinese online video users is still slightly increasing, but it has basically stabilized. In addition, the usage rate of Chinese online video has entered a high level of stability after a slight fluctuation in 2018-2019, reaching 95% in 2020[2]. At this point, the Internet population dividend has reached its peak, and the number of Internet users has basically reached its peak. The incremental market of the Chinese video industry has transformed into a stock market. As the overlap of business content among major manufacturers intensifies, enhancing their own characteristics and maintaining their core competitiveness will become the primary task for significant manufacturers at this stage.

### **2.2. The Basic Operation Mode of Bilibili Running**

Bilibili is a cultural community and video website highly concentrated by the young generation in China. The website was created on June 26, 2009. On March 28, 2018, Bilibili went public on Nasdaq in the United States. On March 29, 2021, Bilibili was officially listed in Hong Kong for the second time.

Bilibili is a video website mainly devoted to creating and sharing ACG (Animation, Comics, and Games) content. After more than ten years of development, a high-quality content-producing ecosystem has been constructed around users, creators, and content. Bilibili has now covered more than 7,000 diverse cultural communities of interest. It has been awarded first place in two lists, "Z Generation's Favorite App" and "Z Generation's Favorite Entertainment App," selected by QuestMobile Research Institute, and was included in the "BrandZ" report as one of the top 100 most valuable Chinese brands in 2019 [3].

At the same time, Bilibili is also a UGC (User-Generated-Content) dominated video platform app, and its basic operational logic is as follows: users share content to the platform as uploaders, and the platform pushes the content to other users. All users can provide positive feedback to the content creators by "throwing coins," "liking," "favoriting," or "charging" the uploader for the content they enjoy. The uploader is incentivized to continue creating new content, thus forming a circular ecosystem of uploader, user, and content.

### **2.3. Bilibili's Profit-Making Model**

According to the first quarter 2020 filing with the US Securities and Exchange Commission by Bilibili, the primary sources of profit for the company are mobile games(162.5million), value-added services(112.1million), advertising(30.3 million), e-commerce, and other income(22.2 million) [4].

The bulk of Bilibili's game revenue comes from in-app purchases and other value-added services. Most of the games developed and operated independently by Bilibili fall under the category of value-added services, with features such as "gacha" (random item drops) that encourage user spending. For games that are exclusively licensed or jointly operated by Bilibili, revenue is earned according to different revenue-sharing ratios. Value-added services, as defined by Bilibili's official financial reports, include membership services, live-streaming value-added services, and other value-added services [4].

The gaming revenue is the highest among the components of Bilibili's profit structure, according to its IPO prospectus. In 2017, the gaming business accounted for as much as 83.4% of the company's total revenue and heavily depended on a single game, Fate/Grand Order. Gaming has been the most significant revenue source for Bilibili [5]. However, Bilibili has been committed to optimizing its revenue structure and steadily reducing its reliance on gaming revenue. Therefore, by the fourth quarter of 2020, the revenue from value-added services (191.1 million) surpassed gaming revenue (US191.1million) for the first time and became the largest revenue source [6,7,8]. From a pure data analysis perspective, this marks milestone progress in Bilibili's revenue structure optimization.

## 2.4. The Composition and Analysis of Bilibili's Operating Costs

Bilibili's cost items are mainly divided into four categories: profit-sharing costs, content costs, server bandwidth costs, and e-commerce-related costs. Among them, profit-sharing costs include game developers' shares, game channel distributors' shares, payment shares, live broadcast hosts' shares, and Up loader's creative shares. This item accounts for the largest proportion of operating costs, about 40%, which is the key to Bilibili's core competitiveness. The second is content costs, mainly including self-produced dramas such as documentaries and variety shows, and the cost of purchasing copyright for movies, TV dramas, and documentaries. This accounts for about 14% of the cost and is relatively stable. Compared with the three major long video leading companies, Youku, iQIYI, and Tencent Video, Bilibili's cost is about two-thirds lower [9].

## 2.5. Bilibili's Basic Operating Framework

In summary, the operating framework of Bilibili can be visually displayed in Fig.1.

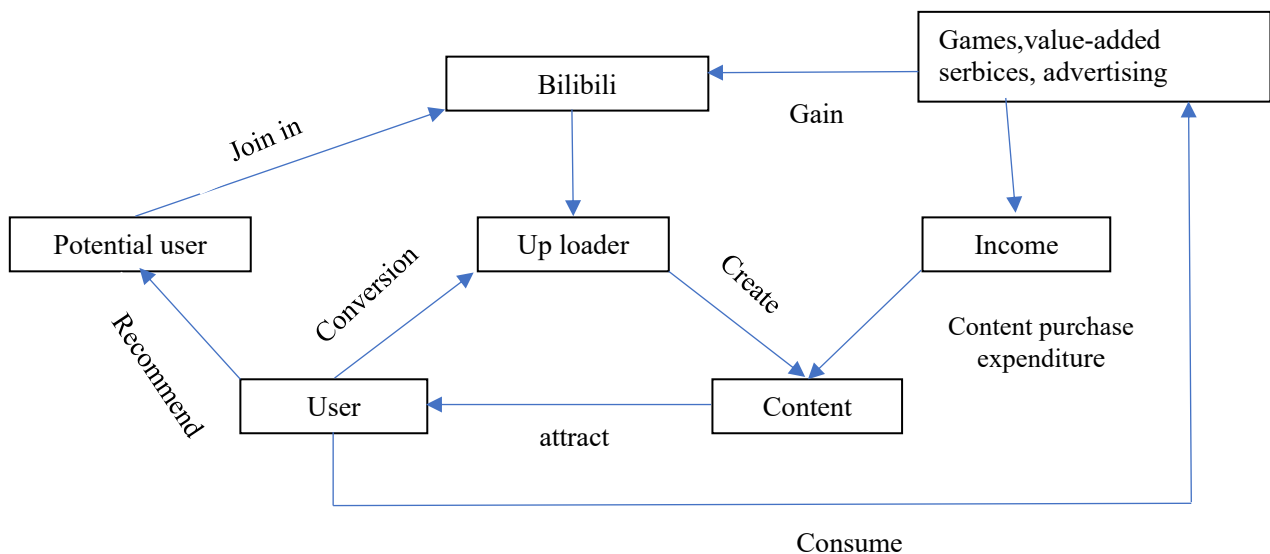


Figure 1: Bilibili's basic operating framework.

## 3. Analysis of Bilibili's Corporate Development Environment.

### 3.1. Internal Strengths and Weaknesses

Bilibili has a unique community culture and excellent user stickiness in the domestic video website industry, with its barrage of interactive comments far outnumbering those of its industry-leading competitors, Youku, iQiyi, and Tencent Video [10]. The video content covers a wide range of topics,

and the platform has a high upper limit on video quality due to its large amount of PUGC (Professional-User-Generated-Content) content.

However, Bilibili's nature, which contains a large amount of ACG and second-dimensional cultural content, makes it difficult to break out of its own circle and attract other groups who have little interest in second-dimensional culture. Furthermore, even with its promising development prospects, Bilibili's years of continuous losses have undoubtedly reduced investors' confidence in its fundraising ability, which has a negative impact on its ability to raise funds. In comparison to its main competitor, Xigua Video, Bilibili has relatively weak funding support. Xigua Video, relying on its parent company ByteDance, has strong financial support and powerful algorithm technology as technical support, as well as solid promotion channels and a more mature industrialized video publishing process. In contrast, Bilibili's funding supply chain is relatively lacking, making it difficult to form an absolute competitive advantage.

### 3.2. External Opportunities and Challenges

Bilibili's main business can be divided into three categories: 1) copyright content; 2) user-generated content (UGC); 3) live streaming. Although Bilibili has been working to increase the proportion of revenue from live streaming, its business scale in live streaming still lags behind major live streaming apps such as Huya and Douyu. Therefore, this article will not discuss Bilibili's competitiveness in live streaming. In terms of copyright content, Bilibili faces tough competitors such as Youku, iQiyi, and Tencent Video, and strong competitors such as Xigua Video and Mango TV. In the field of PUGC, the leading short video platforms such as Douyin and Kuaishou each have their own advantages. They differ greatly from Bilibili's video model. Bilibili's advantage lies in providing medium to long-length videos, which these short video platforms cannot compare with. Among apps that offer various video lengths, Xigua Video can be considered a "true competitor" to Bilibili.

Similar to Bilibili, Xigua Video is a medium-to-long-length video app dominated by UGC, created to compete with Bilibili under the banner of Douyin. Xigua Video targets different user groups than Bilibili. Xigua Video's target audience is the lower-tier market, which is sensitive to price changes, and even small price changes can make them change their purchase strategy. For example, Pinduoduo is the leader in the competition for lower-tier market online shopping, while Bilibili attracts the "Z-generation" users, the young and energetic user group who were born between 1990-2009 and grew up under the Internet.

Xigua Video started with the farming theme, especially the farming of bamboo rats and fishing. To expand its market, Xigua Video gradually diversified its content, beginning to develop gaming, interest, and knowledge-based video businesses. Xigua Video began to attract high-quality video creators from Bilibili by offering a 10-20x higher incentive program compared to Bilibili. Thus, both parties start competing for market users.

In the face of competitors' expansion, Bilibili began rapid development in 2019. For example, 1) signed high-popularity anchor Feng Timo and vigorously developed live streaming business; 2) acquired the exclusive broadcast rights for the League of Legends LPL professional league for three years, attracting many "outsiders" who were passionate about LOL; 3) developed the knowledge field, which, due to the impact of the COVID-19 epidemic, coincidentally became one of China's largest online learning platforms in 2020; 4) the emergence of the Life Zone, attracting a large number of rural life video creators. In 2019, about 54% of new users came from small and medium-sized cities and towns, undoubtedly in direct competition with Xigua Video [11]. Bilibili has already formed a unique closed-loop creative ecosystem in its mature stage. Uploader creates high-quality content, which attracts more users; users then convert into an "open" closed-loop ecosystem of the uploader, which means that while uploading high-quality content, the uploader constantly attracts "outsiders." The closed loop refers to the above conversion process. Based on this, Bilibili has a lower content

purchase spending compared to other video platforms like Youku, iQiyi, and Tencent Video [9]. In response to Xigua Video's challenge, Bilibili chose to deepen its basic operations and launched a series of submission activities. Many creators who post videos on Xigua Video generally upload the same video on Bilibili to enjoy the revenue from both platforms, while the playback volume of Xigua Video is average. For example, the professional animal farming brothers HuaNong, who became famous after joining Bilibili, met the conditions for being one of the top 100 upvote creators on Bilibili. Yet, as Xigua Video's exclusive authors, they did not truly become one of Bilibili's top 100 upvotes creators in 2019.

#### **4. Bilibili's strategy for Homogeneous Competition**

Homogeneous competition refers to the competition between different websites or platforms within the same field, where their products or services are similar or the same in terms of functionality, making it difficult to distinguish them in terms of user experience and service quality. In this competitive environment, how formulating competitive strategies, increasing user stickiness, and increasing the number of users are the issues that every platform needs to face. This article proposes four strategies for homogeneous competition based on Bilibili's current business operations and related development issues:

##### **4.1. Enhance Content Innovation**

As a video-sharing platform that emphasizes "originality" and "uniqueness," Bilibili should constantly introduce unique content innovations to improve users' recognition and loyalty to its platform. This can be achieved by collaborating with well-known video production teams and artists to produce high-quality original videos, while also encouraging users to create and share their content. Additionally, Bilibili should also strengthen its supervision of piracy, plagiarism, and other behaviors, protect the copyright of original content, and increase users' trust and satisfaction with Bilibili.

##### **4.2. Improve User Experience**

Inhomogeneous competition, user experience is one of the critical factors for efficient customer acquisition for enterprises and platforms. Bilibili should improve the speed and stability of the website, and increase functionality and services to improve user experience. At the same time, Bilibili should also pay attention to community management, maintain interaction and communication between users, and hold various activities and competitions to increase user participation and a sense of belonging. In addition, standardized community operations require efficient community management tools and regulations. Bilibili should increase control over malicious and conflict-causing content to create a better platform atmosphere.

##### **4.3. Expand User Base**

As one of the key UGC platforms, the number of users and the breadth of the user base are channels for Bilibili's development. Bilibili should expand its user base through various methods, such as promotion, marketing, and social media. Bilibili can attract more users through targeted advertising, and social media marketing and also encourage existing users to invite more friends to join. Additionally, Bilibili can strengthen cooperation with other platforms, such as game platforms and social platforms, to increase user sources.



#### 4.4. Build a Strong Brand Image

Bilibili should pay attention to shaping its brand image and create an influential and reputable brand. This includes focusing on the brand image's dissemination and promotion in marketing activities, as well as strengthening attention and response to user feedback, and establishing a sound customer service system. Additionally, Bilibili can also strengthen cooperation with the industry and community to increase its brand influence and position within the industry.

#### 5. Discussion

Bilibili, in the future, needs to build a community that belongs to its users and allows them to feel the beauty within. Secondly, Bilibili needs to create a big stage for creators, allowing outstanding creators to showcase their talents. Lastly, Bilibili needs to enable China's original animation and games to go global and be recognized around the world [12].

For any commercial internet company, profitability is often an important criterion. Bilibili's chairman, Chen Rui, once promised not to include video overlay ads, which makes its advertising revenue relatively low compared to competitors [6,9]. Moreover, due to this promise, it is unlikely that Bilibili's advertising revenue will increase significantly in the future. Therefore, if it wants to increase its revenue, it must pay more attention to existing sources of revenue, such as value-added services and gaming revenue, and expand its revenue sources through the development of new business models. In addition, Bilibili needs to attract more users and increase its revenue by breaking down its own barriers.

Currently, developing its own game is not Bilibili's best choice. In the second-dimensional gaming market, games such as "Genshin" from miHoYo and veteran second-dimensional games such as "Fate/Grand Order," "AzurLane," "Arknights" and "Punishing gray raven" occupy most of the market [13]. It is unclear whether a new game developed with significant resources can attract enough users and bring in substantial revenue, given the competition. Furthermore, Bilibili's game production team is not particularly powerful. This article suggests that increasing Bilibili's gaming revenue growth potential mainly depends on intensifying the cooperation with other higher-quality games developed by other companies, bringing sure profits while reducing investment costs.

Secondly, Bilibili should focus on the long-term and not sacrifice its long-term interests for short-term gains. Each video platform in China has its different strategies based on its long-term development. For example, Tencent Video has invested the most in content, while Mango TV emphasizes self-developed projects. These are all essential strategies related to the company's long-term development. Bilibili's cost analysis, it is divided into four categories, namely bandwidth costs, e-commerce, and other costs, revenue-sharing costs, and content costs. Revenue-sharing costs and content costs, which are closely related to Bilibili's long-term core competitiveness, account for approximately 40% and 14%, respectively.

As mentioned earlier, Watermelon Video has attracted high-quality video creators from Bilibili to its platform with video creation incentives ranging from 10 to 20 times higher than Bilibili, leveraging solid financial support from its parent company ByteDance, which directly exchanges high-quality resources from Bilibili for capital, ultimately hurting Bilibili's long-term development potential. In the context of a certain distance from profitability, Bilibili can consider slightly lowering the priority of profitability, increasing its investment in revenue-sharing costs and content costs, and further improving its core competitiveness and expanding its influence, thereby using the network effect of the Internet platform to gradually defeat competitors and achieve higher overall company efficiency.

## 6. Conclusion

The first part of this article analyzes the current development status of China's video industry, explaining why video companies must build their own core competitiveness to achieve long-term development and using surveys to provide a comprehensive analysis of Bilibili in terms of revenue sources, proportions, cost analysis, and operational models. The second part focuses on Bilibili's unique characteristics, firstly analyzing Bilibili's advantages and disadvantages in competitive development, then conducting an analysis of competitive opponents and the competitive environment, and using case analysis to examine the fierce competition between Xigua Video and Bilibili, highlighting the external opportunities and challenges faced by Bilibili at present. The third part builds on the previous sections, proposing constructive suggestions for Bilibili to adopt a homogeneous competition strategy based on the general development status of the Chinese video industry and Bilibili's own characteristics. In the final section, the article provides unique insights into the current development status of Bilibili and its future prospects.

As a comprehensive literature review, this article's data support is derived from past literature and other sources as evidence. Thus, this article does not involve data-based predictions of Bilibili's future development, relying on macro-environmental analysis and micro-enterprise analysis and using several already publicly available or accessible data to analyze the current state of Bilibili. Secondly, due to the unattainability of some data and the discontinuity of open data, the evidence used for diagnosing Bilibili's current condition often spans three months or six months, and fluctuations between these periods may not have been observed or used in this article, resulting in some uncertainty and ambiguity in the analysis relying on data.

Regarding the research analysis of Bilibili's future development, this article hopes to incorporate more quantitative predictive models to predict Bilibili's development status, including but not limited to building an evolving diagram of market share changes over time between Bilibili and similar companies and establishing reliable algorithms to predict a series of development indicators for Bilibili's future market share, stock price, user usage growth rate, and user retention rate to more comprehensively evaluate Bilibili's development status.

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