



 FUNG BUSINESS INTELLIGENCE

Asia Distribution and Retail

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***Editor's note:** Research for this report was completed before the outbreak in China of the coronavirus disease 2019 (COVID-19), along with stringent government measures to contain it, began impacting domestic consumption, supply chains, logistics and other major economic activities in China and beyond. Fung Business Intelligence is monitoring developments closely and shall bring you our latest findings in upcoming reports and regular updates.*

While Douyin and Kuaishou are mostly mentioned when marketers talk about Chinese video-sharing platforms, Bilibili – another fast growing video sharing platform which is highly popular among China's Generation Z consumers – is often overlooked. This article looks into Bilibili's business model, with a focus on its e-commerce initiatives, and highlights the company's latest developments. It also includes a SWOT analysis of Bilibili.

Please visit <https://www.fbicgroup.com/?q=reports/innovations-technology> for other issues in the series "Uncovering the emerging players in China's e-commerce".

## Company background

Bilibili first launched its website in June 2009 and the “Bilibili” brand was officially created in January 2010. Bilibili started as a content community inspired by anime, comics and games (ACG) which focused on Japanese anime, manga and video games (so-called 2nd-dimensional space 二次元). Later, it evolved into a full-spectrum online entertainment provider covering a wide array of genres and media formats, including videos, live-streaming and mobile games. Bilibili platform comprises various sections powered by abundant supply of creative professional user generated content (PUGC) as well as licensed videos, live-streaming videos and mobile games<sup>1</sup>. Bilibili also owns a professional team Bilibili Gaming (BLG) in Chinese League of Legends, which competes in China’s top-level League of Legends Pro League (LPL), and a team in the prestigious Overwatch League. Venturing into the increasingly popular sports space - which is highly relevant to young generation - enables Bilibili to better resonate with its target users.

Bilibili is backed by both Tencent and Alibaba, with the former holding 12% and the latter holding 8% of the company’s shares. Bilibili was listed on the NASDAQ in March 2018.

### Bilibili and Tencent

Tencent has invested in Bilibili three times now – in July 2015, Tencent and China Media Capital invested US\$161.4 million in Bilibili; the two companies further invested US\$100 million in Bilibili in May 2017; and in October 2018, Tencent announced that it would invest US\$317.6 million in the company for a 12.3% stake. Tencent is now the second largest shareholder of Bilibili. In the same month, Tencent and Bilibili further announced that they reached a strategic cooperation agreement that covers the upstream and downstream of the ACG value chain. Tencent and Bilibili will share their library of original animations (if the copyright allows), and build a deep collaborative mechanism in terms of purchase, investment, and production of animated programming. They will also share production costs, sync up on premieres and broadcasting, and offer investment priorities to one another<sup>2</sup>. The deal shows Tencent’s efforts to expand its ecosystem with younger users and fend off ambitious challengers like ByteDance which owns Douyin and Xigua Video<sup>3</sup>. It also helps Bilibili to further leverage Tencent’s resources in ACG and its capability in social media.

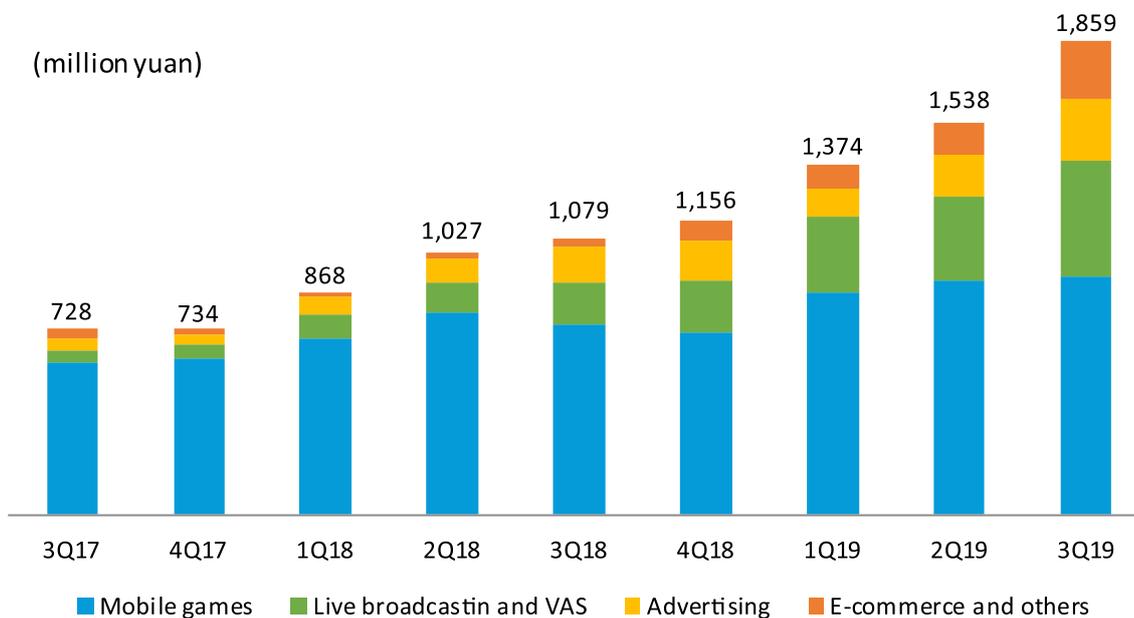
### Bilibili and Alibaba

Alibaba’s Taobao marketplace and Bilibili announced a partnership in December 2018 to monetize Bilibili’s content assets and help Bilibili creators sell merchandise through Taobao. Following the partnership, in February 2019, Alibaba purchased an 8% stake in Bilibili through Taobao, which further unleashes Bilibili’s commercial potential. Alibaba is now the third largest shareholder of Bilibili.

## Bilibili posts strong revenue growth; e-commerce revenue increases particularly fast

Bilibili posted a revenue of 4.1 billion yuan in 2018, up 67% yoy; most of its revenue was generated from popular mobile games like “Fate/Grand Order” (命运/冠位指定) and “Azur Lane” (碧蓝航线). As shown in Exhibit 1, in 3Q19, revenue of mobile games reached 933 million, accounting for 50% of the total revenue. Revenue from live broadcasting and value-added services (VAS) amounted to 452.5 million yuan, accounting for 24% of the total revenue. Bilibili has large numbers of paying users for its live broadcasting services. It launched a premium membership program in 2016. For an annual fee of 233 yuan, members could access to exclusive and advanced high quality content. According to the company, the average number of monthly paying users reached 7.9 million as of 3Q19. Revenue from advertising totaled 247.2 million yuan in 3Q19, accounting for 13% of the total revenue. Revenue from e-commerce and others amounted to 226.1 million yuan, accounting for 12% of the total revenue, but the growth was as high as 703% yoy. Bilibili has been ramping up its e-commerce efforts by increasing sales of products through its e-commerce platform.

**Exhibit 1: Revenue of Bilibili, 3Q17-3Q19**



Source: Bilibili Financial Report, 3Q19

## Generation Z is the major target audience

Bilibili is popular among young generation. According to QuestMobile, 80% of Bilibili's user base are "Generation Z" who were born from 1990 to 2009 in China; they typically receive quality education and are technology savvy, with strong demand for culture products and avenues for self-expression and social interaction. The majority of Bilibili users access the platform through mobile devices. The number of monthly active users (MAUs) on Bilibili has increased significantly over recent years. As shown in Exhibit 2, Bilibili has 128 million MAUs in 3Q19, up from 74 million in 3Q17.

**Exhibit 2: Number of monthly active users on Bilibili, 3Q17-3Q19**

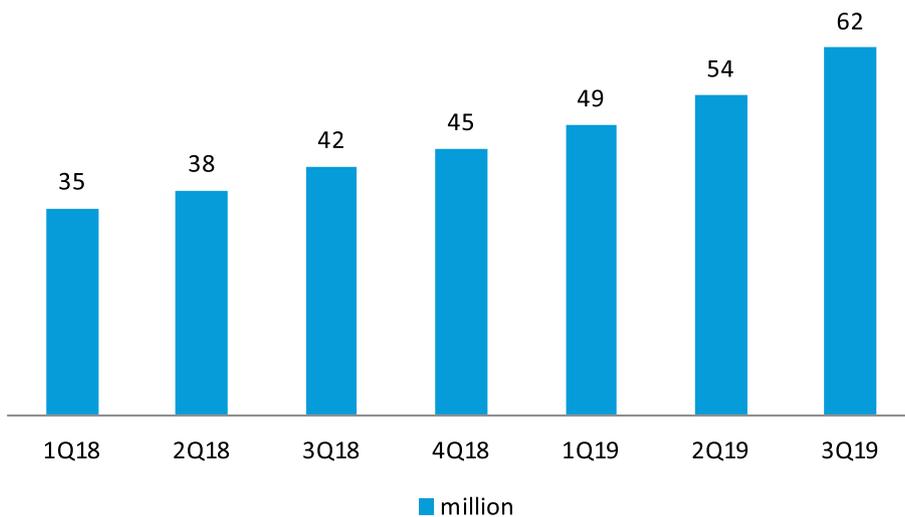


Source: Bilibili Financial Report, 3Q19

### Bilibili has established a unique membership system

To become an official member (registered or paying user), user needs to take and pass a “community entrance examination” which consists of 100 questions covering community etiquette and various topics. This enables Bilibili to build a community full of engaged and knowledgeable users. Official members can increase their “level” of membership by watching or uploading videos, which, in turn, will also increase user stickiness. This high user loyalty is indeed one of the biggest competitive advantages of Bilibili. As shown Exhibit 3, Bilibili has 62 million official members in 3Q19, up from 35 million in 1Q18.

**Exhibit 3: Number of official members on Bilibili, 1Q18-3Q19**



Source: Bilibili Financial Report, 3Q19

## 90% of video views are contributed by own members

Bilibili offers a wide range of content, including both mainstream and non-mainstream anime, and videos of different themes. Majority of these videos are contributed by its members, or content creators – in 3Q19, 90% of video views were generated by its content creators. To become a content creator, user needs to register as a Bilibili's member and create a unique Bilibili ID on the “Bilibili channel”. In 3Q19, the number of monthly active content creators topped 1.1 million, up from 0.6 million in 3Q18, and together they created an average of 3.1 million videos in a month.

To encourage more content creators to join the platform and upload videos (and become the so-called “uploaders”), Bilibili launched campaigns to give cash bonus to popular uploaders. For instance, Bilibili launched a “Creator Driving Plan” in January 2018 for accounts with more than 1,000 followers or generated a total of over 100,000 individual views. Qualified uploaders will receive cash bonus if their uploaded videos are being viewed more than 1,000 times<sup>4</sup>. More than 160,000 uploaders have joined the plan as of June 2019<sup>5</sup>. Bilibili has also launched vlogging competitions to encourage more vlogs to be released on Bilibili platform.

## Bilibili pioneers video streaming with live commenting function

Bilibili provides an immersive entertainment experience for consumers and builds its platform based on the strong emotional connections of users to the content and communities. Bilibili pioneered the “bullet chatting” (or “Dan Mu” 弹幕) feature, a live commenting function that has transformed the viewing experience by allowing viewers to contribute their thoughts and feelings while viewing the livestreaming or videos. This signature feature fosters a highly interactive viewing experience and enables users to form strong emotional bonds with other users who share similar aspiration and interests. In 3Q19, there were 2.5 billion interactions generated monthly on Bilibili platform, including “bullet chats”, commentaries, followings, sharing, “bilibili moment” posts, virtual gifting and “likes” etc., representing a 122% yoy growth. These help to retain user's interest and give rise to a feedback loop that promotes the platform's further growth.



Source: Bilibili app

## Bilibili in the e-commerce scene

### Content creators can set up their own business on Bilibili

Since July 2018<sup>6</sup>, Bilibili has started to allow its leading content creators to set up businesses on its platform. Content creators can sell merchandise on the “commodities” column of their own Bilibili channel. Most of the products sold are cosmetics and skin care products. However, Bilibili does not provide back-end services for these content creators. Content creators have to manage inventory, provide delivery services and after-sales services themselves. Bilibili only offers an entry point for them to tap e-commerce. Viewers can click the links in the videos or click the “commodities” column of the content creator’s Bilibili channel to get to the product purchasing page<sup>7</sup>.



Content creators can create a page on their channel to sell products

Source: 36Kr<sup>8</sup>

## Brands can partner with popular KOLs or KOCs to promote products on Bilibili

Apart from anime and gaming, Bilibili hosts sections devoted to beauty, fashion, entertainment, advertising and digital. Brands can partner with popular key opinion leaders (KOLs) or key opinion consumers (KOCs) who are active on Bilibili to engage with Generation Z consumers – often through the user generated content (UGC) on Bilibili. Meanwhile, brands can also leverage Bilibili’s performance-based advertising to work with KOLs/ KOCs to promote products. With in-program advertising, KOLs/ KOCs can agree to have ads placed within their Bilibili channels; meanwhile, the platform also runs traditional display ads. Customized and innovative performance-based ads also help advertisers reach target audiences and convert them into potential customers.



Source: Bilibili Financial Report, 3Q19

## Bilibili creators can open stores on Taobao with KOC verification

In December 2018, Alibaba and Bilibili jointly launched various initiatives to better connect users, merchandise and content creators on both platforms and to drive growth through content-driven e-commerce. Alibaba allows content creators on Bilibili to register KOC accounts on Taobao to promote their own merchandise. The focus is on products and services related to lifestyle, fashion, as well as ACG movies and novels. The two companies also commercialize Bilibili's assets with more tie-in products, and those sales are analyzed with Alibaba's analytics tools<sup>9</sup>. Additionally, Taobao provides Bilibili with e-commerce technical support to ensure a more efficient user experience<sup>10</sup>. Further in April 2019, Bilibili launched a campaign to urge 1,000 Bilibili content creators to register KOC accounts on Taobao and add product links directing to Taobao in their videos to lure consumers.

### Case study on how a content creator leveraged Bilibili and Tmall to make a fortune

Benny (Dong Zichu), a 23-year-old young man from Beijing, is a popular KOC on Bilibili (Bilibili account name: 千户长生) and Weibo (Weibo account name: Benny董子初). He is also a content creator who specializes in creating beauty-related videos such as makeup tutorials and writing product reviews. He often introduces himself as “Benny Bitch” and is known for his fast-talking, sometimes acid-tongued videos reviewing and testing cosmetics, makeup brushes and occasionally other types of products. His androgynous look also makes him stand out from other content creators. Benny has over 1.5 million followers on Bilibili, of which many of them are female, and generated over 110 million views on the platform.



Source: Bilibili

After gaining massive followings on Bilibili, he started to monetize the traffic by launching his own cosmetics brand Croxx in 2017. Benny started his business by joining hands with Intalk Studio, a multi-channel network (MCN) and KOL incubator that provides support to beauty-related KOLs in product design and production, e-commerce operation, etc. Benny is the creative director of the brand, and Intalk Studio helps him turn his ideas into real products by working with suppliers. Benny also produces promotion videos with well-known video directors, and promotes his products on his Bilibili channel.



Source: Fung Business Intelligence

The first product of Croxx, which is a beauty blender, was launched on Tmall in January 2018. 14,000 beauty blenders were sold just in a few hours after launching. Other products including lipstick, foundation, eye shadow, hand cream, were also available on its Tmall store afterwards. During 11.11 Global Shopping Festival in 2018, Croxx was the best-selling KOL-produced cosmetics brands. It ranked at 48 among all beauty brands and brought in 50 million yuan in revenue. As of February 2020, Croxx Tmall store has over 844,000 followers.



Source: Tmall

During the 11.11 Global Shopping Festival in 2018, Bilibili launched an integrated marketing program with Alibaba's Tmall and Taobao marketplaces, which allows the two companies to directly sell products via "one stop shop" ads on each other's platforms. Shoppers could purchase products with just a single click.



Source: <https://world.taobao.com/dianpu/151121773.htm>

### Bilibili launches its own Mini Program for e-commerce

In March 2019, Bilibili reportedly launched a beta version of its own Mini Program, literally translated as "Potential energy grass planter (势能种草草机)", which promotes and sells mainly cosmetics and skincare products. These products are mostly from well-known brands such as Shiseido, KOSÉ, Rohto, as well as brands launched by top content creators on Bilibili such as "Croxx" by Benny. Currently, in addition to scanning the specific QR code, users can enter this Mini Program through active links released by content creators. Bilibili platform does not have a dedicated entrance for the Mini Program on the Bilibili platform. Customers can purchase via the Mini Program directly without leaving Bilibili platform<sup>11</sup>. Providing an e-commerce platform for its own content creators would be a good way to monetize the traffic. However, it remains a challenge for Bilibili to convert the viewers to shoppers on the Mini Program.



Source: Tencent<sup>12</sup>

## Comments from Fung Business Intelligence

For brands and retailers that target the youth market, Bilibili is one of the many video-sharing platforms that could be leveraged. It provides a platform for China's Millennial and Generation Z to review or generate their own content or videos. Meanwhile, Bilibili is proactively attracting young generation by acquiring the exclusive distribution rights of popular animations, dramas and mobile games among younger users. It focuses on ACG content which makes Bilibili unique among other video platforms; this also increases the stickiness of young generation, who reportedly spends an average of 83 minutes on Bilibili each day. Bilibili is particularly strong in creating a highly sticky community in the niche market of the ACG culture.

Bilibili is also attractive to e-comments giants – both Tencent and Alibaba show their interests in the company as they are both eager to win over emerging Generation Z consumers and looking to create synergies with Bilibili by engaging with Bilibili's young user base.

Bilibili's unique membership program helps create a sense of belonging on the platform. To become an official member, user needs to take and pass a "community entrance examination" which consists of 100 questions covering community etiquette and various topics. This not only enables Bilibili to build loyalty among users, but also enables it to create a community full of engaged and knowledgeable users.

The future growth prospect of Bilibili depends on the ability of its content creators to realize and improve their commercial values. Currently, the platform has yet to be fully ready to work with brands; it is still unclear how brands can leverage Bilibili to sell or promote their products. However, as the management of Bilibili aimed at building a more virtuous content community and commercialization-focused ecosystem, brands and retailers should closely monitor the movements of the company and explore ways to leverage Bilibili platform to engage with consumers. In particular, ACG content is the key to engaging with many of Bilibili's young fans, brands who want to promote awareness among China's emerging young consumers are advised to get familiar with the functions and offerings of the platform and see how to best leverage it to reach out to the young generation. Fung Business Intelligence believes that Bilibili's ability to reach large numbers of Generation Z is invaluable to brands and retailers.

## SWOT analysis of Bilibili

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Majority of Bilibili's users are "Generation Z", who are the major consumer segment to drive the growth of China's retail and e-commerce markets</li> <li>Offers a wide range of video content, from AGC to beauty, fashion, entertainment, advertising and digital, among others</li> <li>Its signature feature "Bullet chats" fosters a highly interactive viewing experience</li> <li>High user loyalty and stickiness</li> <li>Backed by leading e-commerce players Tencent and Alibaba: Bilibili can leverage their resources along the upstream and downstream of the ACG value chain</li> <li>Signs partnership agreements with many leading content creators to secure large numbers of quality videos</li> </ul>	<ul style="list-style-type: none"> <li>Sources of revenue is not diverse enough; over 50% of revenue still come from mobile games</li> <li>E-commerce model is not very mature; Bilibili is relatively inactive when working with brands to promote and sell products</li> <li>Highly depends on the quality of UGC to attract viewership</li> <li>Popularity of Bilibili still lags behind other video-sharing platforms such as Douyin and Kuaishou</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>Video and livestreaming are extremely popular among younger generation. Focusing on gaming and video allows Bilibili to build its user base quickly</li> <li>Collaborations with leading e-commerce players offer Bilibili more resources for commercialization</li> </ul>	<ul style="list-style-type: none"> <li>Faces fierce competition from other short-video platforms such as Douyin, Kuaishou, Xigua Video, etc. Tencent and Youku are also strong competitors of Bilibili in terms of ACG content</li> <li>Content creators may migrate to other platforms if these platforms offer better incentives and more resources than Bilibili; they may bring users away from Bilibili to other platforms</li> </ul>

Source: Fung Business Intelligence

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