

Indications of Predatory Pricing on *TikTok Shop* and Its Impact on MSME Actors

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Abstract. *This research aims to analyze the indications of predatory pricing on TikTok Shop and its impact on MSME players in Sidoarjo Regency. There are indications of predatory pricing carried out by TikTok Shop as an e-commerce. The action is practiced through flash sales, live streaming and discounts that continue to be carried out at any time. The method used in this research is qualitative by conducting literature studies and interviews. The results showed that tikTok Shop had a negative impact on MSME in Sidoarjo Regency.*

Keywords: MSME; Predatory Pricing; TikTok Shop

I. INTRODUCTION

Technological disruption represents a major change in the business world. The use of digitalization is changing the behavior of sellers and buyers by relying on digital resources for the transaction process. This assumption is supported by an internet usage survey conducted by (Indonesian Internet Service Providers Association, 2023) which shows that in 2023, the number of Indonesians who use the internet is 78.19% with a calculation that there are 215.626,156 million people who use the internet out of a total population of 275,773,901 Indonesian citizens. Furthermore (Central Bureau of Statistics, 2023) notes that technological advances supported by infrastructure and ease of regulation have encouraged the growth and development of digital-based businesses. This can be seen from the growth in the number of e-commerce businesses in 2022, which is estimated to increase by 4.46 per cent to 2,995,986 businesses. The survey also estimates that 8.89 per cent will directly receive orders or make sales via the internet from the time of commercial operations in 2022. Thus the presence of *e-commerce* in the business world brings several benefits to various parties, both for sellers and buyers.

The benefits obtained for businesses/sellers are in the form of cost efficiency and service to customers, expansion of market share and business partner networks, and the ease of providing more responsive services. While the benefits for consumers/buyers, namely in the form of ease of obtaining the necessary goods, flexibility of time and shopping methods, and ease of obtaining alternative shopping options (Wirdasari, 2009).

TikTok is a social media application that later entered the e-commerce business. The application, which was originally a space for self-expression, lifestyle and entertainment, developed with new innovations through the addition of features. One of the features that was later considered to have a negative impact on offline MSMEs was TikTok Shop. This feature can be used as a buying and selling media that offers a variety of products, ranging from fashion, electronics to daily necessities. There are many

products sold at TikTok Shop. There are a variety of attractive imported goods and offered at very low prices. This is confirmed by (Ananta, 2023) that offers accompanied by attractive videos, sometimes make consumers who do not need but can have the desire to buy. Not only that, consumers will then depend on the TikTok application. Thus, it can be justified that the presence of TikTok Shop is considered to have a negative impact on MSMEs.

Speaking of MSMEs, Sidoarjo is one of the MSME cities in Indonesia. Most entrepreneurs run their businesses *offline*. In initial observations, researchers found complaints from several informants of MSME players in Sidoarjo. For example, from Kurniawan (2023) when interviewed, he felt disappointed with the low prices offered by TikTok shop because it was very detrimental to MSME players. Meanwhile Amelia (2023) said, Some of the discounts offered by TikTok Shop do not make sense, the impression is selling at a loss. This is supported by research conducted (Febriana, 2017) which explains that the impact of selling losses or setting very low prices can get rid of or kill competitors' businesses in the market. This action is a strategy for monopolistic practices and or unfair competition. Furthermore, in research (Siahaan Nurani Dian et al., 2023), explained that the Indonesian Business Competition Supervisory Commission (KPPU) since 2018 has suspected predatory pricing practices carried out by a number of online stores in Indonesia, including Tokopedia, Bukalapak, Shopee, and Lazada. However, there is research from (Andinda Octa et al., 2022) which explains that the TikTok application is very helpful for economic growth by facilitating community business fields. And TikTok with its features cannot be said to be an act of *predatory pricing* but as an opportunity to create new business competition.

Research Objectives

The purpose of this study is to find out whether there is predatory pricing on TikTok Shop and its impact on MSME players.

Research Benefits

The benefits of this research are to provide scientific answers to business actors on social commerce TikTok Shop and MSME traders about indications of predatory pricing by TikTok Shop business actors and its impact on MSME entrepreneurs. Furthermore, it can be a source of reference for further researchers with the same objects and variables.

II. THEORETICAL REVIEW

A. Getting to Know Predatory Preying from Past Research

Predatory pricing is the act of setting the lowest price to sell a product or service. It is often below the cost of production. Business actors dare to decide to sell at a loss or at a very low price with the intention of eliminating their competitors or preventing new competitors from entering the market. The goal is to achieve future interests or obtain a dominant position, monopoly or market dominance. This action is certainly contrary to fair competition.

Research conducted by (Febriana, 2017) explains that predatory pricing is a form of strategy carried out by business actors in selling products at prices below production costs with the aim of removing competing business actors from the market and preventing potential competitors from entering the same market. In order for business actors to be able to carry out their actions without losing money, they must have a large market share and the profits to be obtained can cover the losses suffered during the predatory period.

Faishol et al., (2022) found other indicators that predatory pricing practices exist in export and import activities. In export and import activities, there is an opportunity for predatory pricing because competition is something that can not be avoided from every country in capturing international market share and even world market share. In the process, unfair competition tends to occur such as selling products at prices below the general market price, even selling below the fair price with the aim of seizing a wider market share and causing damage to the market mechanism. This unfair practice makes MSME players and domestic industries feel disadvantaged, and will even have a negative impact on the economy of a country.

Andinda Octa et al., (2022) found another thing that the increasing number and value of e-commerce transactions in Indonesia has opened up opportunities for acts of business competition. This is considered good because technological developments give rise to new innovations such as the features provided in making sales such as *flash sales* with the *live steaming* feature carried out by sellers, especially in the Tiktok application. In contrast to the findings of the researchers above, the results of this study explain that the practice of flash sales on the Tiktok application with the live streaming feature can't necessarily be classified as predatory pricing because this does not trigger monopolistic practices and unfair business competition.

Siahaan Nurani Dian et al., (2023) found different things that in 2018 there were allegations of predatory

pricing carried out by several online stores including Tokopedia, Bukalapak, Shopee, and Lazada. However, it is explained that not all flash sales are included in predatory pricing practices. Flash sales are considered as a marketing strategy with large discounts within a limited period of time. This means that the industry should be wary of predatory pricing that harms businesses, but not ignore competitors in the digital business space.

Based on the explanations of several researchers above, it can be found that predatory pricing is an act of lowering prices or "selling at a loss" as a form of marketing strategy carried out by sellers to sell goods or services at prices that are relatively low from production costs or acquisition costs. In contrast to previous researchers, this study focuses more on indications of predatory pricing on TikTok Shop and its impact on MSMEs in Sidoarjo Regency.

B. Get to know the TikTok Tiktok Shop App as E Commerce

Tik-Tok Shop is an e-commerce feature launched by the Tiktok application. This feature, allows TikTok users to browse and buy products directly from the TikTok application *online*. In other words, there are trading activities via the internet. Another interesting thing is that TikTok users can create content for promotion as well as sell their products there with a tantalising frontend display. This can be seen in the attractive product catalogue display. As an e-commerce, TikTok Shop also offers payment in various ways including e money: bank transfers, OVO, Dana, Alfamart and GoPay.

Aisyah et al., (2023) in their research found that with digitalisation, people shopping patterns have shifted. Transaction activities that were originally carried out by meeting and meeting face to face are modernised through web media and platforms. Researchers consider that the TikTok application is a very interesting application because in it there are meetings of people from various circles.

Enjelica et al., (2023) found that the concept of decent content on Instagram and TikTok brought changes to JHN shop MSME's. The use of social media as a medium for promoting MSME's is considered to be moving in a positive direction because good content will develop, expand and brand an MSME business. The presence of social media brings changes to business actors because it always attracts new customers.

(Priyono Bintang et al.,2023) explains that online shopping has become a popular trend, and digital marketing strategies, such as using social media platforms like TikTok, have emerged as an effective way for MSME's to promote their products. TikTok has gained immense popularity and has become a significant social media phenomenon, changing the way people interact and consume content. With TikTok Shop feature, the platform has facilitated e-commerce and boosted the economy for MSME traders.

Based on previous research, it can be concluded that TikTok Shop is an online shopping feature in the TikTok application. In addition, as a business actor, TikTok Shop is an effective means of promotion through the creativity of the content created by the seller to attract

consumer attention to the items offered. The shopping process in this feature is very simple. Where only need to ensure that the application has been downloaded on the mobile phone and already has a registered account.

Based on the existing data, it is assumed that previous research emphasised the potential of TikTok Shop as an effective medium for MSMEs. In contrast to the above researchers, the research to be carried out is to look at conditions from the point of view of MSMEs that sell offline.

Type of Research

This research is qualitative research. Qualitative research methods are problem-solving procedures that are investigated by describing / describing the state of the subject or object of research at the present time based on the facts that appear or as they are. This research method is not limited to data collection, but includes analysis and interpretation of the meaning, meaning, benefits and purpose of the data. (Sugiyono, 2014) The author uses qualitative research with the intention of describing carefully the indications of predatory pricing on TikTok Shop and its impact on Sidoarjo Regency MSME players.

III. RESEARCH METHODS

Data Collection Technique

Sugiyono, (2014) explains that in conducting research there are several stages that are passed, namely;

- a. Observation or observation which is an assessment tool that can be used to regulate individual behaviour or an activity that can be observed properly in actual situations.
- b. An interview is a conversation between a researcher or someone hoping to obtain information and an informant or someone who is assumed to have important information about the object to be studied, in this case, MSME actors.
- c. Documentation is one of the qualitative data collection methods used by researchers by viewing, taking pictures and analysing documents.

Data Analysis Technique

(Sugiyono, 2014) explains the stages in conducting data analysis, among others; data reduction, data presentation and data interpretation. In this study, the data analysis techniques were carried out as follows:

- a. Data Reduction; The researcher reduced the data obtained during the research. These data are data obtained during observations and interviews with Sidoarjo MSME actors about indications of predatory pricing on TikTok Shop and its impact on Sidoarjo Regency MSME actors.
- b. Data Presentation; The data that has been reduced is then arranged and presented systematically, to help researchers see and analyse the perceptions of Sidoarjo MSME actors about indications of predatory pricing on TikTok Shop and its impact on Sidoarjo Regency MSME actors.

- c. Data Interpretation; At this stage, researchers interpreted the data to explain the meaning and findings of the research results on indications of predatory pricing on TikTok Shop and its impact on Sidoarjo Regency MSME players.

IV. RESEARCH RESULTS

Indications of Predatory Pricing TikTok Shop in Flash Sale Practices with Live Streaming Features

TikTok is an e-commerce application that facilitates businesses in providing live streaming and flash sale features. Flash sales are short-term promotions that offer discounts, cashback, or free shipping to shoppers who shop online in e-commerce. Flash sales offer very low prices, possibly even below production prices (Virgiawan Dimas, 2020). However, in practice, this e-commerce company does not prohibit if the selling price of an item is not higher than the production price itself is a promotional activity carried out by business actors in a short period of time by cutting the price of a product carried out through the E-Commerce platform (Devica, 2019).

Generally, there are many e-commerce sites that attract consumers with their easy-to-shop applications and many additional features, but it cannot be denied that humans are visual creatures who prefer interesting things and can be directly seen in videos not just pictures so that shopping enthusiasts in the Tiktok application soar rapidly quickly because it is easy to buy goods and can conduct questions and answers directly with the hosts who sell their goods. Initially, this application conducted flash sales only on certain days such as on the eve of holidays, but more and more buyers made sellers often conduct random flash sales during live streaming by offering lower prices on a limited selection of products and for a short time so that when the live streaming is finished the price will return to the normal price with this, consumers prefer to shop when the seller is live streaming and this makes other business actors less buyers so that this practice is suspected of predatory pricing. The results of interviews with informants in this study confirm that TikTok Shop sells cheaply and there are many foreign products that are unique and attract consumers.

Amelia, (2023) When opening the Tiktok application and viewing the videos, users are usually directed directly to products in the TikTok Shop with cheap coupon offers and discounts. Prices on Tiktok are very cheap. Usually with the language of discounts and flash sales . (Ananta, 2023). But discounts every day certainly make MSME traders unable to compete. Coupons and discounts are said to be special offers. But all the shops on tiktok shop every day live streaming with lots of discounts (Kurniawan, 2023).

Tiktok shop is great because everyone can sell in it. But entrepreneurs who already have offline stores find it very difficult to switch because they don't understand how and the prices in it are very cheap (Zulfikar, 2023). The problem is that the price is very much different from what is sold offline (Setiawan, 2023). Consumers in Sidoarjo always compare prices. The price difference certainly makes tiktok shop more crowded with visitors than MSME traders. Tiktok shop makes sales easier. It is time for all

MSME players to switch and take advantage of digitalisation (Ridho, 2023).

Based on the explanation of the informants above, it can be concluded that empirically there have been sales at lower prices during flash sales and sold at prices below the average selling price of other business actors and this can be indicated as predatory pricing. These indications are confirmed by Wijaksana and Elsina, (2023) flash sale activities can be said to be predatory pricing if the average price on the market is lower than the production price, the duration of the flash sale time is not limited and has a bad intention to get rid of business actors in the market or prevent other competitors from entering the market.

The impact of *Tiktok Shop* on Sidoarjo MSME's

Micro, Small and Medium Enterprises (MSME's) are business activities that are able to expand employment and provide broad economic services to the community. MSMEs are able to play a role in the process of equalising and increasing people's income, as well as encouraging economic growth and playing a role in realising national stability (Hastuti et al., 2020). Business actors included in the Micro, Small and Medium Enterprises (MSMEs) category have a very important role in encouraging and sustaining economic growth in Indonesia, including in Sidoarjo Regency. In this context, MSMEs have made a significant contribution in providing resources for entrepreneurs and creating jobs for the community. (Priyono Bintang, Muhammad Sari Permata, 2023)

Based on (Law of the Republic of Indonesia Number 20 Year, 2008) on Micro, Small and Medium Enterprises, the definition of MSMEs in Article 1 is as follows:

1. Micro Businesses are productive businesses owned by individuals and/or individual business entities that fulfil the criteria of Micro Businesses as stipulated in this Law.
2. Small Businesses are productive economic businesses that stand alone, conducted by individuals or business entities that are not subsidiaries or branches of companies owned, controlled, or part of either directly or indirectly by Medium Enterprises or Large Enterprises that fulfil the criteria of Small Businesses as referred to in this Law.
3. Medium-sized Enterprises are productive economic businesses that stand alone, conducted by individuals or business entities that are not subsidiaries or branches of companies owned, controlled, or part of either directly or indirectly by Small Enterprises or Large Enterprises with a net worth or annual sales as regulated in this Law.
4. Large Enterprises are productive economic businesses conducted by business entities with a net worth or annual sales revenue greater than that of Medium Enterprises, which include state-owned or private national businesses, joint ventures, and foreign businesses conducting economic activities in Indonesia.
5. The Business World is Micro Enterprises, Small Enterprises, Medium Enterprises, and Large

Enterprises that conduct economic activities in Indonesia and are domiciled in Indonesia.

It is further explained in Article 6 (Law of the Republic of Indonesia Number 20 Year, 2008) regarding the criteria for MSMEs in the form of capital are as follows:

1. The criteria for Micro Enterprises are as follows:
 - a. has a net worth of at most Rp50,000,000.00 (fifty million rupiah) excluding land and building of the place of business; or
 - b. has annual sales revenue of at most Rp 300,000,000.00 (three hundred million rupiah).
2. The criteria for a Small Business are as follows:
 - a. Has a net worth of more than Rp 50,000,000.00 (fifty million rupiah) up to a maximum of Rp 500,000,000.00 (five hundred million rupiah) excluding land and building of the place of business; or
 - b. Has annual sales revenue of more than Rp 300,000,000.00 (three hundred million rupiah) up to a maximum of Rp 2,500,000,000.00 (two billion five hundred million rupiah).
3. The criteria for medium-sized enterprises are as follows:
 - a. Has a net worth of more than Rp 500,000,000.00 (five hundred million rupiah) up to a maximum of Rp 10,000,000,000.00 (ten billion rupiah) excluding land and building of the place of business; or
 - b. Has annual sales revenue of more than Rp 2,500,000,000.00 (two billion five hundred million rupiah) up to a maximum of Rp 50,000,000,000.00 (fifty billion rupiah).

The emergence of *Tiktok Shop* since the beginning has been a challenge for MSME players. Some offline MSMEs responded and switched to using *Tiktok shop*, but most MSME players, especially in Pertokohan, continued to sell *offline*. The results of interviews with informants in this study found that most MSME players were not ready to switch to online due to limited resources and selling prices that were below the production price.

The stock of goods available in the store is very large and it is difficult if we sell at a loss (Amelia, 2023). Although there is a decrease in the number of customers, it is better to survive than to sell at a loss through the *TikTok Shop* application. (Ananta, 2023) Since the covid 19 pandemic, sales have decreased. At the same time, people turn to e-commers including *TikTok Shop*. After that, people can't leave because there are many discounts and discounts offered. This has an impact on the decline in customers and store turnover.

It has a very bad impact because offline MSMEs cannot compete fairly with business actors in the *TikTok Shop* (Kurniawan, 2023). There are also imported goods that look better than local goods. *TikTok Shop* has a positive impact because it opens up employment opportunities (Ridho, 2023). All generations can sell in the *tiktok shop* with minimal or no capital. So economic progress in

Sidoarjo is actually supported by the existence of tiktok shop.

TikTok Shop with flash sales and discounts offered killed offline MSMEs (Setiawan, 2023). This had a bad impact on Sidoarjo MSMEs. Many shops have closed and lost money and most of them have experienced a decrease in turnover. The reason is because the selling price at the tiktok shop is very cheap compared to the offline price. With the Tiktok Shop, Sidoarjo MSMEs have experienced a decrease in transactions (Zulfikar, 2023). Stores that were busy are very quiet.

Based on the explanation of the information above, it can be concluded that the emergence of tiktok shop has an impact on the Sidoarjo community, especially MSME players. On the part of MSME players who use tiktok shop to conduct business, respond that tiktok shob has a positive impact with a wide market reach. Meanwhile, MSMEs that sell offline feel disadvantaged because the selling price at the tiktok shop is very cheap. Thus, the Business Competition Supervisory Commission (KPPU) is needed to oversee every business activity, both conventional and online-based businesses, so that business actors can conduct healthy business competition. The government, in this case KPPU, prevents monopolistic practices and unfair business competition. In the case of predatory pricing practices with a flash sale system through live streaming activities, KPPU should be able to detect early, and look carefully at the actions that refer such as selling which losses are only classified as marketing strategies and which selling actions result in monopolistic practices and unfair business competition.

V. CONCLUSION

The results of this study indicate that tiktok shop as an e-commerce provides unhealthy space for business actors. Flash sales, live streaming and discounts that are carried out continuously show predatory pricing actions. This certainly has a negative impact on Sidoarjo MSME players who sell offline. With the TikTok Shop loss selling strategy, it monopolises the market and has an impact on falling prices which makes it possible to sell products without profit. The algorithm run on the tiktok shop tends to favour foreign products so that local MSMEs that sell local products experience a decrease in the number of transactions.

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