

PREDATORY PRICING IN E-COMMERCE: ANALYZING INDONESIA'S GOVERNMENT POLICY ON TIKTOK SHOP

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ABSTRACT

Predatory pricing, or predator pricing strategy, is one of the issues affecting business competition in the digital era, especially on e-commerce platforms like TikTok Shop. This research aims to analyze the Indonesian government's policies in addressing the issue of predatory pricing on e-commerce platforms, particularly TikTok Shop. TikTok Shop, as a digital platform, offers highly competitive prices, even below production costs, which has the potential to monopolize the market and hinder local entrepreneurs. Based on an analysis of existing regulations, such as Law No. 5 of 1999 concerning the Prohibition of Monopoly Practices and Unfair Business Competition, as well as KPPU policies, this study identifies the steps that have been and will be taken by the government to tackle this issue. The study also discusses a literature review that includes various opinions from economic and legal experts on predatory pricing, as well as case study analyses from various countries. Using a descriptive qualitative approach, this research presents interviews with business actors and regulators to delve deeper into the effectiveness of existing policies and the obstacles in their implementation. The research concludes that the government needs to strengthen oversight and regulation of e-commerce platforms to protect local entrepreneurs from the negative impacts of predatory pricing.

Keywords: *Predatory Pricing, Tiktok Shop, Government Policy, Business Competition, E-Commerce, KPPU.*

INTRODUCTION

Predatory pricing has become a heated topic in the e-commerce sector, particularly with the rise of digital platforms like TikTok Shop. TikTok Shop, part of the popular social media application TikTok, offers entertainment and an increasingly favored e-commerce service for consumers in Indonesia. In its operations, TikTok Shop frequently offers products at extremely low prices, even below production costs. This raises concerns that the platform employs predatory pricing strategies to eliminate competitors and monopolize the market.

In Indonesia, predatory pricing practices violate Law No. 5 of 1999 on the Prohibition of Monopolistic Practices and Unfair Business Competition. In this context, the government and the Indonesian Competition Commission (KPPU) are crucial in supervising and ensuring

healthy business competition. However, with the rapid development of technology and e-commerce, existing regulations seem inadequate in governing and controlling business behavior in the digital sphere.

According to a report from KPPU (2023), complaints regarding unfair competition in the e-commerce sector have increased significantly over the past five years. This is driven by the emergence of large platforms offering products at very low prices, making it nearly impossible for local business players, especially MSMEs (micro, small, and medium enterprises), to compete. TikTok Shop has been highlighted as one such platform, known for its aggressive pricing strategies. Predatory pricing typically involves setting prices so low that competitors are forced out of the market, followed by a price increase to maximize profits once competition is eliminated.

Table 1. below illustrates the long-term impact of predatory pricing on market structure:

<i>No</i>	<i>Stage</i>	<i>Product Price</i>	<i>Competitor position</i>	<i>Impact on Consumers</i>
1	Initial Stage	Low price	not so many competitors	a positive impact on consumers (short-term)
2	Middle Stage	Stable price with fewer competitors	Weak competitors	Consumers still benefit
3	Final stage	high price increases	Competitors are out of the market	a negative impact on consumers (long-term)

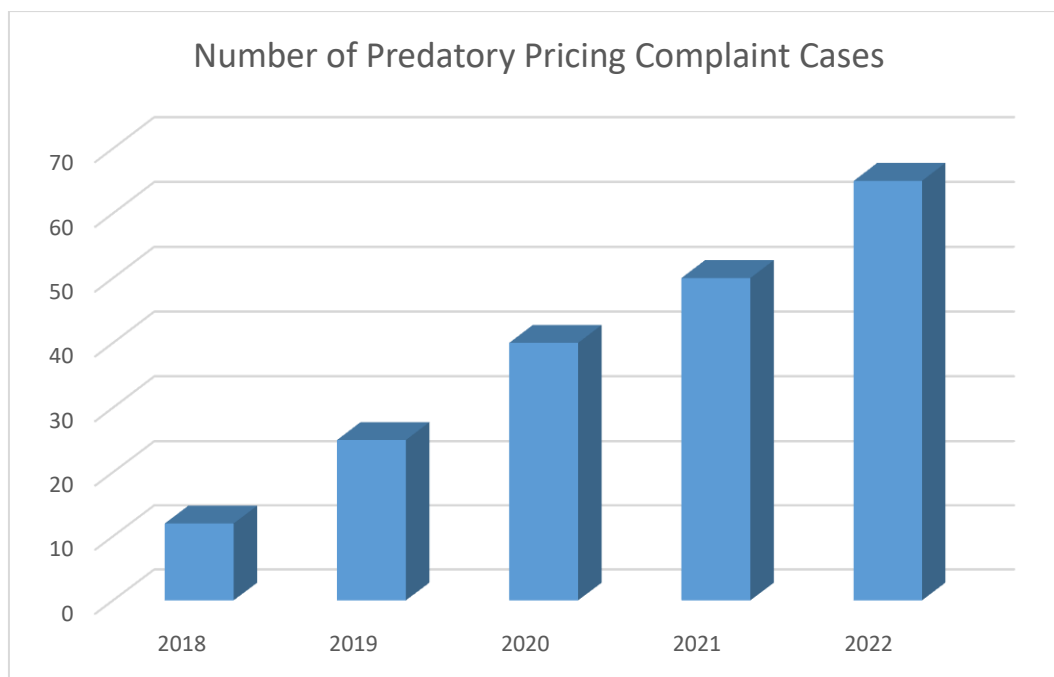
While TikTokShop has introduced innovative features that facilitate transactions, the long-term impact of such practices poses serious challenges to the sustainability of local businesses. According to Dr. Irfan Syahputra, a digital economy expert from the University of Indonesia, predatory pricing in e-commerce can lead to high dependency on large platforms, restricting opportunities for innovation and growth among small businesses.

Globally, the history of predatory pricing offers important lessons on the negative effects of such practices. For instance, the caseAmazon's caseUnited States shows that major platforms often sacrifice short-term profitability for market dominance. This is similar to what is happening with TikTok Shop in Indonesia. Research by Rahmatullah (2020) revealed that predatory pricing by e-commerce platforms in Southeast Asia indicates that countries with weak regulations tend to experience a decline in the competitiveness of local businesses.

According to a survey by the Indonesian E-Commerce Association (2022), 60% of local business players experienced a drop in sales after large platforms, including TikTok

Shop, began offering excessively low prices. The survey also revealed that many MSMEs struggled to survive the unfair price competition.

Chart 1. Data on complaints regarding predatory pricing cases in the e-commerce sector submitted to KPPU over the past five years.



Source: Competition Supervisory Commission (KPPU) (2023). Data on complaints regarding predatory pricing cases in the e-commerce sector (2018-2022).

Given the current trend, the government needs to take more decisive action in regulating competition in the e-commerce sector.

Theoretical Framework

In economic theory, predatory pricing is a strategy where companies set prices extremely low to eliminate competition from the market. According to Baumol (2015), predatory pricing occurs when dominant companies lower prices below production costs for a certain period, causing their competitors to exit the market. Once competitors are eliminated, the dominant companies increase prices without facing significant competition.

TikTok Shop employs an innovative business model by integrating social media with e-commerce, commonly referred to as social commerce. However, the application of predatory pricing in social commerce presents new challenges for regulators worldwide. From the perspective of competition theory, predatory pricing undermines the basic principles of a free market, where prices should reflect a balance between supply and demand.

Porter's Five Forces model (1980) emphasizes that unhealthy price competition is a serious threat to industries, especially when large companies use their financial strength to suppress prices and eliminate competitors. With financial backing from its parent company, ByteDance, TikTok Shop has a greater capacity to apply predatory pricing compared to MSMEs with limited capital.

Although KPPU recognizes the potential dangers of predatory pricing in Indonesia, one of the biggest challenges is detecting and proving that a company is engaging in such practices. Companies often argue that price reductions are driven by efficiency or economies of scale rather than anti-competitive intent.

RESEARCH METHODS

This study uses a qualitative method with a descriptive approach to analyze the Indonesian government's policies in addressing the issue of predatory pricing on TikTok Shop. Data collection was conducted through literature reviews and in-depth interviews with regulators, business actors, and academics. The research steps included:

1. **Secondary Data Collection:** A literature review was conducted by gathering data from government regulations, KPPU's annual reports, and relevant journals and articles on predatory pricing and competition policy.
2. **Interviews:** Semi-structured in-depth interviews were conducted to gain insights from key stakeholders. Interview questions focused on direct experiences regarding the impact of predatory pricing.

RESULTS AND DISCUSSION

The data collected indicate that TikTok Shop employs predatory pricing strategies to strengthen its position in Indonesia's e-commerce market. This strategy is supported by the substantial financial resources of its parent company, Byte Dance. Interviews with MSME actors and local entrepreneurs revealed their inability to compete with TikTok Shop's low prices. Although these prices initially benefit consumers, they harm the business ecosystem in the long run and force many small businesses out of the market.

In line with Porter's Five Forces model, competitive pricing strategies can push smaller businesses out of the market, allowing dominant players to monopolize. Similar trends were observed in Rahmatullah's (2020) research on Southeast Asia, highlighting the need for adaptive reforms in digital price regulation.

Table 2. The table below shows how predatory pricing can impact market structure in the long term.

<i>No</i>	<i>Factor</i>	<i>Impact of TikTok Shop</i>	<i>Impact on MSMEs</i>
1	Price	Low Price	Unable to compete
2	Business Resilience	High	Reducing profitability
3	Consumer Access	Increase	Customer decline
4	Product Availability	Varies	Limited by capital

Source: Data from Interviews with MSME Actors and Local Entrepreneurs (2023)

Based on the analysis above, the predatory pricing phenomenon carried out by TikTok Shop is not in accordance with the concept of a competitive and healthy market. This is reminiscent of the Amazon case in the United States, where the low-price strategy forced small competitors out of the market before eventually raising prices again after becoming dominant. This approach theoretically contradicts the concept of perfect competition described by Baumol (2015), where the market should be able to regulate prices based on the balance between supply and demand without the intervention of aggressive strategies from large players.

Based on the research results, activities carried out by the government, including the implementation of Law No. 5 Year 1999 and KPPU policies, have not been fully effective in overcoming predatory pricing by TikTok Shop. Although these regulations aim to maintain fair business competition, the lack of monitoring tools specific to digital platforms hinders the achievement of the original objectives of the policy.

However, the implementation of a stricter pricing policy for e-commerce platforms, as recommended, will provide great benefits:

1. Academics: For further study on the impact of digital platforms on business competition.
2. Practitioners and MSMEs: Providing a more stable business environment to compete fairly.
3. School Environment: Become an interesting case study in the field of digital economy and government policy.
4. Society: Ensuring more reasonable prices for goods without harming local businesses in the long run.

Overall, this research has shown that existing regulations need adjustments to meet the challenges of the digital economy.

CONCLUSION

This study highlights that the Indonesian government's current policies are insufficient to address the predatory pricing practices employed by TikTok Shop. Strengthening regulations, particularly in the digital realm, is crucial for fostering healthier competition in the e-commerce sector.

While Law No. 5 of 1999 prohibits monopolistic practices, more specific legal frameworks for e-commerce are urgently needed. The government should create specialized regulations for e-commerce that include price control mechanisms and monitoring systems for digital platforms to prevent harmful practices that undermine MSMEs.

For future research, it is recommended that the social impacts of predatory pricing in the digital sector be explored and adaptive policy instruments developed in response to technological changes. This research also provides implications for policymakers to continue to reform in order to protect small and medium enterprises in Indonesia.

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