

TikTok's Revenue Dynamics: Exploring Income Streams Beyond the Surface

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Abstract. Social media has emerged as the predominant mode of global digital communication, captivating a vast and varied spectrum of users with its inventive and swift content. It fundamentally shapes how information is conveyed and social engagements are performed. This article thoroughly analyzes TikTok's business model with a focus on advertising, virtual gifts, and e-commerce. TikTok's core advertising revenues, which amount to £10 billion annually, are obtained through various channels, such as recommended videos, app opening screens, and search ads. However, virtual gifts represent a significant income source for TikTok, with users making substantial contributions through rewards. Regarding e-commerce, TikTok has excelled in cross-border trading, experiencing a growth of over 80 percent due to ongoing user experience enhancement, resulting in increased Gross Merchandise Value. The article concludes by assessing TikTok's current issues and offering recommendations to improve its business model and enhance its long-term profitability. With its pioneering business approach and extensive global user base, TikTok has emerged as a trailblazer in the social media domain.

Keywords: Social media, TikTok, Profit Model.

1. Introduction

With the advent of the digital media age, social media platforms have become the center of global communication and interaction [1]. In this diverse social media ecosystem, short video platforms have risen to lead the way, with TikTok standing out for its unique innovation and global appeal [2-4]. This study aims to delve into the compelling social media phenomenon that is TikTok. As the core product of ByteDance Group, TikTok has amassed a huge global user base and achieved a preeminent position in the short-video social platform space with its innovative product features, user experience, and global strategy [5, 6].

To better understand TikTok's business operations, this paper will focus on advertising revenue, virtual gifts, and e-commerce by analyzing its profit model. This comprehensive study will shed light on TikTok's business practices in these key areas and the impact of these practices on its global market share and commercial success. In exploring TikTok's business model, we will pay particular attention to its innovations in advertising, virtual gifts and e-commerce and the potential challenges these innovations pose to the platform's sustainability. This study will provide insights into understanding TikTok and its unique contribution to the social media landscape by analyzing these issues in depth. It will also provide useful references for future related research and industry practice.

2. Case Description

TikTok is a subsidiary of ByteDance Group. ByteDance is one of the most valuable start-ups in China, with a valuation of more than 100 billion dollars [7]. As one of the core products of ByteDance, TikTok has a huge user base and global market share [8]. TikTok has a large number of employees worldwide. According to public reports, as of 2021, Tiktok has about 6000 employees worldwide. These employees are distributed in different functional departments, including technology development, content operations, marketing, business cooperation, etc. As a well-known social media

company, TikTok has achieved considerable benefits. Specific financial data may be difficult to obtain, but according to public reports, TikTok's advertising revenue is growing.

TikTok has achieved good commercial benefits by cooperating with brands and advertisers to provide advertising display and promotion services. TikTok has a strong industry position in the short video social platform field. With its innovative product features, user experience and globalization strategy, TikTok has attracted many users worldwide and competed with other social media platforms. TikTok has become one of the most popular social media applications in some countries and regions, and its influence and market value among young users are remarkable. The organizational structure of TikTok Company may be a huge organization, including different departments and teams. The organizational structure may change due to the company's development and strategic adjustments. In general, TikTok may include a technical research and development team, content operation team, business cooperation team, marketing team, etc. These teams work together to drive the development and operation of the company. The financial performance of TikTok Company reflects its commercial success and profitability to a certain extent. Although the specific financial data is not open and transparent, TikTok, as one of the core products of ByteDance Group, has its advertising revenue and business model success, which make the company perform well in financial aspects. TikTok's financial performance may be affected by market competition, user growth, advertising and other factors [9, 10].

3. Profit Model Analysis

3.1. Advertisement Revenue

The section headings are in boldface capital and lowercase letters. Second-level headings are typed as part of the succeeding paragraph (like the subsection heading of this paragraph). All manuscripts must be in English, as well as the table and figure texts. Otherwise, we cannot publish your paper. Please keep a second copy of your manuscript in your office.

TikTok is primarily monetized through advertising revenues, with core advertising revenues reaching £10 billion in 2022 alone. This substantial revenue comes primarily from the diverse ways ads are delivered on the platform. TikTok's ads can be categorized into five main categories. The first is infomercials, which appear primarily in recommended videos. Advertisers can choose to use video, text, or images, while users can click to navigate to the ad detail page to learn more about the product. This flexibility makes infomercials applicable to the needs of all types of advertisers.

Another influential type of ad is the app opening ad, which is displayed when the app is launched and lasts for two to five minutes. These ads can include GIFs, images, videos, and other media, creating a strong visual impact and significantly increasing the ad's click-through rate. Additionally, TikTok has introduced search ads, a highly accurate advertising option. TikTok automatically plays the relevant ad video when a user search using a brand name.

In addition to these formal advertising channels, TikTok emphasizes the importance of working with social media opinion leaders (influencers) as a key strategy for advertising success. Social media opinion leaders are crucial in promoting products, increasing product awareness and attracting large traffic. Businesses are encouraged to leverage their accounts for advertising by posting videos emphasizing store locations and contact information, thereby increasing the effectiveness of advertising and promotion on the platform.

It is worth noting that the current cost per click is RMB 0.2, which means advertisers will be charged RMB 0.2 every time a user clicks on a link. This makes TikTok's advertising platform diverse and cost-effective for businesses looking to reach various audiences.

3.2. Virtual Gifts

TikTok's revenue comprises virtual gifts and tips its users receive. On TikTok, users can exchange one British pound for ten TikTok coins, and the platform offers gifts ranging in value from 1 TikTok coin to 188,888 TikTok coins. TikTok typically receives 50% to 70% of live broadcast revenue. If

the anchor hasn't joined the guild, TikTok's share is 70%. However, the platform's share is around 50% if the anchor joins the guild. Therefore, TikTok's live broadcast revenue is substantial. TikTok's virtual rewards income is sizeable, with a daily user base of 700 million and a potential 100,000 daily broadcasters.

3.3. E-commerce

In recent years, the popularity of cross-border e-commerce has continued to be high. Many companies have set their sights on cross-border e-commerce to find new growth curves. There are many participants in the cross-border e-commerce field, and their strengths must be recognized. However, in the face of these competitors with different advantages, Tiktok has the power of a battle.

First, Tiktok e-commerce has been continuously improved, and users' minds have been gradually cultivated. After a long period of continuous development, the popularity and recognition of Tiktok e-commerce is continuously expanding using live broadcast with goods and other playing methods, and users have gradually formed the habit of completing e-commerce consumer demand on the Tiktok platform, which is reflected in the continuous improvement of Tiktok e-commerce GMV.

According to the data disclosed by Wei Wenwen, president of Tiktok E-commerce, the GMV of Tiktok E-commerce increased by more than 80% in the past year. Among them, the mall's GMV increased by 277% year-on-year, and the e-commerce search GMV increased by 159% year-on-year. It can be seen from the data that current consumers have become more accustomed to purchasing goods on TikTok. In addition, consumers have a certain demand for imported goods. Tiktok will launch the "Tiktok Import Supermarket" and focus on cross-border e-commerce business, which will meet this part of consumer demand well and further strengthen the e-commerce brand.

Second, TikTok has been groping in the cross-border e-commerce field for a long time, and the accumulated experience can provide a reference for developing new businesses. As mentioned earlier, TikTok has tested the cross-border e-commerce field for a long time. Through this series of tests, Tiktok has accumulated a lot of experience and can accurately grasp consumer needs, thus better promoting cross-border e-commerce business.

For example, Tiktok's "Tiktok Import Supermarket" has adopted the self-support mode. Through the self-support mode, TikTok can control the whole link and avoid problems such as fake products, thus affecting the consumer experience. It is reported that the goods of Tiktok's import supermarket are directly purchased from the world by Tiktok's senior procurement team. After strict supplier qualification review, entry compliance customs clearance, commodity warehouse inspection and other processes, the official delivers them directly. Some goods also support quality traceability.

Third, Tiktok's expansion in overseas markets is conducive to its cross-border e-commerce business. TikTok has entered the overseas market for a long time. Thanks to its localization operation strategy, its Tiktok International APP "TikTok" has a strong influence in many countries worldwide and has accumulated many users. The localized operation also gives Tiktok a deeper understanding of overseas countries, which can help import cross-border e-commerce products and is conducive to promoting the import supermarket business.

4. Problem analysis and suggestions

4.1. Problem analysis

A more effective merchant evaluation system would help to promote sustained profitability. Numerous retailers have chosen to use the TikTok platform since it is inexpensive to record short films and to make investments in them. The way TikTok and shopping software differ is that TikTok uses dynamic short films or live broadcast rooms to offer things, while shopping software is often static. Furthermore, TikTok's return and exchange policies are quite complicated, which raises administrative costs and makes it harder for profits to be sustained. In the present short video market, where consumers are primarily interested in profit and amusement, the barrier to video posting might be raised, decreasing the value of traffic monetization. Some short video producers even record

"illegal content" to draw in "fans," which will serve as a poor role model for kids. For instance, a parent on TikTok uploaded a brief video that ultimately resulted in serious injury to his daughter's spine. An increasing number of devoted TikTok "fans" are used to staying late to watch the platform. They have grown engrossed in it, creating non-mainstream ideas for youngsters and indirectly impacting users' lives. The material will lose "traffic" if some people believe it vulgar.

4.2. Suggestion

The platform should create and enhance the review system, closely examine the settled merchants, regulate the quality of the items, and create a strong after-sales platform to actively welcome customer feedback in light of the asymmetry of commodity information. Merchants who give misleading product information, break platform rules, or offer poor-quality products will be penalized. Simultaneously, an exclusive post-purchase platform is instituted to expedite prompt correspondence between retailers and customers while safeguarding both sides' lawful rights and concerns. "Return or exchange" for returnable or exchangeable products is not feasible. It can potentially improve retailers' self-discipline and the sustainability of their earnings. The first step in enhancing social responsibility and improving video quality is to watch over youngsters when they activate the youth anti-addiction mode. TikTok has introduced an anti-addiction system and parent-child supervision function, which may be promoted in the short video stream and encourage parents to monitor since some teens who lack self-consciousness are frequently addicted to the platform's short films. In addition, the platform ought to be tightly regulated, and the account should use a real-name registration process. Teenagers are not allowed to use adult ID cards for fraudulent registration. Second, disperse good vibes. The wider TikTok community is growing as the platform continues to popularity. TikTok video material must be standardized to provide good content and boost consumer stickiness, as the platform's content can subtly impact user values. In the same market, TikTok APP's business strategy is one of the most promising for short video applications, and it's worth studying. However, the primary growth path should also consider our social influence and ability to infuse positivity into society.

5. Conclusion

The study indicates that TikTok has attained substantial commercial prosperity by utilizing varied revenue channels, chiefly advertising, virtual gifts, and e-commerce. Advertising revenue has emerged as one of TikTok's principal revenue streams, while virtual gifts and reward mechanisms have infused substantial capital into the platform. TikTok has successfully attracted global users in cross-border e-commerce by continuously enhancing its business model and expanding overseas. Nevertheless, this research identifies some challenges, including an incomplete merchant review mechanism and substandard quality of short videos, and provides recommendations for better development and sustainable profitability.

Authors Contribution

All the authors contributed equally, and their names were listed alphabetically.

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