Research on the Profit Model of Tiktok Live Broadcast E-commerce Platform

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Abstract. With the arrival of the 5G era, the live broadcast e-commerce market, an important emerging market, has greatly impacted the traditional market. In the research significance based on the theoretical value level, it is undeniable that there are many academic topics and papers on the analysis of Tiktok's profit model. Still, only some in-depth studies analyze Tiktok's profit model from a long-term perspective. This paper takes the Tiktok live broadcast e-commerce platform as the research object, studies the profit model of Tiktok from three aspects: Tiktok advertising marketing competition, online celebrity live broadcast and reward, and discusses the competition strategy of Tiktok three aspects: big data algorithm, platform integration method, and preventing multiple ownership of live broadcast e-commerce. Finally, it proposes to build a professional after-sales team; Optimize and improve the supervision system; Cooperate with the counterfeit identification platform; Promote through big data analysis; Tiktok lives broadcast e-commerce platform needs innovation and other suggestions.

Keywords: Tiktok, E-commerce, Profit Model, Competitive Strategy, Optimization Suggestions.

1. Introduction

According to the 49th Statistical Report on the Development of China's Internet released by China Internet Network Information Center, by December 2021, China's Internet users had reached 1.032 billion, and online shopping users had reached 842 million. With the rapid development of the 5G era, traditional physical store transactions are increasingly challenging to meet people's diversified shopping needs [1,2]. The high price, the lack of offline shopping time for office workers, the epidemic of "home isolation" and the inability to go out, and other reasons have promoted the rapid development of the live broadcast e-commerce platform led by "Tiktok" [3,4]. Since Tiktok launched its e-commerce platform in 2020, Tiktok's e-commerce live broadcast platform has ushered in its mature stage of development [5]. In just two years, Tiktok's live broadcast e-commerce platform has achieved ideal results and earned enough national popularity [6, 7]. As of November 12, 2022, Tiktok's e-commerce released the data report of "Tiktok Double Ten Eleven Good Events". According to the data report, the total time of Tiktok live broadcast with goods has reached 38.21 million hours, and the average daily live broadcast time has reached 3.184 million hours. The sales of 7667 live broadcast rooms exceeded one million yuan. What profit model and competitive strategy has Tiktok live broadcast e-commerce platform used to become a dark horse in the online shopping market in just two years? In combination with the development trend of the e-commerce market economy, are there any loopholes in its profit model development and competitive strategy? How to solve it? And other issues deserve serious consideration.

2. literature review

Due to the development of the Internet, people have easy access to different information, bringing people closer to each other, and making people's consumption patterns change a lot. Along with economic development, people's income level has gradually increased. In the process of consumption, they not only pay attention to the goods themselves but also pay more attention to their purchasing perception and experience. In the digital network era, people pay more attention to establishing good relationships, and relationship marketing also plays a unique role. With the rapid development of the short-video broadcasting industry, Jitterbug e-commerce has been further developed. The anchors with goods on the Jitterbug platform have enhanced consumers' emotional attachment to themselves by improving their sense of happiness and pleasure, thus further improving user stickiness [8]. The rise of the term interest-based e-commerce attracted much attention, but Jitterbug did not gain users' trust initially and broke through Ali's deep-rooted trust in users. With many merchants crowding in, the good and bad goods and Jitterbug have not kept up with the after-sales system has become its most significant bottleneck. Although Jitterbug currently claims that related issues will become its critical problems [9]. Users will be a little blind to this aspect of the popularity of short videos and do not know what they want. Behind the rapid development of interest, e-commerce hides many problems and faces many challenges. The first point is to get the quality right; the second is to get the service right. Whether offline retail or traditional shelf e-commerce, product quality after-sales service is essential and vital [10].

3. Case Analysis

3.1. Profit model of Tiktok live broadcast e-commerce platform

3.1.1. Tiktok advertising marketing competition

Tiktok advertising marketing uses the star effect for marketing promotion. Tiktok cooperated with many stars to make the small videos created by star accounts attract fans' attention and browsing, and Tiktok's search volume and short video clicks increased accordingly. This includes some new users who have just registered Tiktok, who also push small videos sent by star users first, and some short videos from official businesses so that new audiences can sneak into Tiktok APP. Thus, some live broadcast e-commerce companies invite stars to sit down and attract users to buy to promote consumption. As a promotion platform, Tiktok charges fees for promotion and heating:

1) Deduction based on CPM (cost per mile per thousand people): the price of each exhibition bid=the price of the next exhibition+0.01. At present, the CPM charging mode is 10-20 yuan. That is, Tiktok charges 10 yuan for every thousand exposures of display advertisements.

2) CPC (Cost Per Click intelligent advertising mode) deduction: each bid=next bid * next quality/self-quality+0.01. Click deduction at present, the price of Tiktok CPC is 1-2 yuan, that is, if the user clicks the advertising link put by the advertiser, the Tiktok advertising system will charge the advertiser 1-2 yuan (at least 1 yuan per click).

3) OPCM (Optimized) deduction: target conversion bidding adopts a more accurate click-through rate and conversion rate prepayment mechanism to display advertisements to users who are prone to conversion.

3.1.2. Online celebrity live broadcast

They use low customer prices, low risk, and low threshold to attract customers to place orders. Consumers who enter the live broadcast room to buy things are random, and most are impulsive. If the product price is too high, the consumer's decision-making risk will be high, so they will not make impulsive purchases. So Tiktok takes advantage of this marketing and draws a low percentage. For example, the commission for daily necessities, clothing, shoes, boots, bags, household necessities, personal care, cosmetics, books, and audio-video products is 10%; 5% for beverages, jewelry, household appliances, and local specialties, and 3% for alcohol; The commission for office computers, televisions, mobile phones, seafood, agricultural materials, green plants, and digital products is 2%. Whether a big star or a small anchor, low-price products will always be the majority. Whether it's food, cosmetics, or small household goods, these products are products that consumers can make decisions without collecting much information, without spending much time and energy on research, and can only buy on impulse. They are products with low decision-making thresholds.

3.1.3. Reward

Some e-commerce companies will also get rewards from fans through live broadcasts. Tiktok draws 50% - 55% from the sound waves obtained through tips, another different profit model obtained through e-commerce.

In general, although the proportion of Tiktok is small, the low threshold will attract many merchants of different levels to sell goods, which may lead to quality assurance. So many customers will feel that they go to Taobao instead of placing orders in Tiktok. It is because of the sales method of low customer price that some customers are attracted. This development is not long, and it won't be easy to compete with Taobao Jingdong, Although the live broadcast traffic of Taobao Jingdong is not as much as Tiktok.

3.2. Current competitive strategy

Use big data algorithms to enhance platform design. Tiktok uses big data algorithm technology to calculate users' interest in using Tiktok to browse short video works on the platform and quickly locate users' age, gender, and identity. Build a specific user profile in real-time, recommend works of interest to users through user profiles, and install a live broadcast room when users swipe videos. If users are interested in entering the live broadcast room, such commodity live broadcast rooms will appear in users' Tiktok apps with a higher probability in the future. The clearer the user's portrait is, the more accurate the information pushed by the platform will be. The application of big data technology provides opportunities for developing Tiktok live broadcast e-commerce.

Use the platform integration method. The operators of Tiktok live broadcast e-commerce are first movers, use the strategy of outflanking to occupy market share while reducing the threshold of live broadcast e-commerce to attract a large number of e-commerce to settle in, use e-commerce diversion to weaken the overall strength of Taobao e-commerce, and improve Tiktok's competitiveness. During the epidemic promotion period from 2020 to 2021, the GMV of Tiktok e-commerce will increase from 486 billion yuan to 870 billion yuan, realizing double growth. In 2022, Tiktok's live broadcast e-commerce will still have a large room for improvement and will have the blessing of the Double Twelfth Festival in 2022, which is expected to reach 1200 billion yuan this year (as shown in figure 1).

Prevent live e-commerce merchants from belonging to more than one place. Tiktok will start the first year of building a closed e-commerce loop in 2020. Goods from third-party sources will no longer be supported to enter the shopping cart in the live broadcast room, and interests from the Tiktok platform will not be affected. After closing the external chain, Tiktok will immediately launch the Tiktok box independent e-commerce app at the end of 2021. In 2022, Tiktok e-commerce will expand the scale of e-commerce transactions using live broadcast apps, localization, and other ways.

The current achievements of Tiktok live broadcast e-commerce platform can show that its selected competitive strategy is feasible. The big data algorithm and the creation of an e-commerce closed-loop make Tiktok stand at the forefront of live broadcast e-commerce and use the platform inclusion and financing method to shunt and significantly weaken the strength of competitors. However, the current competitive strategy must be a short-term strategy. With the popularity of big data algorithms in various applications, Tiktok's ability to portray user profiles will no longer be its dominant strategy. Major platforms will also start the strategy to prevent ownership of multiple live broadcast e-commerce businesses. At this time, Tiktok will face problems with user selection and quality.

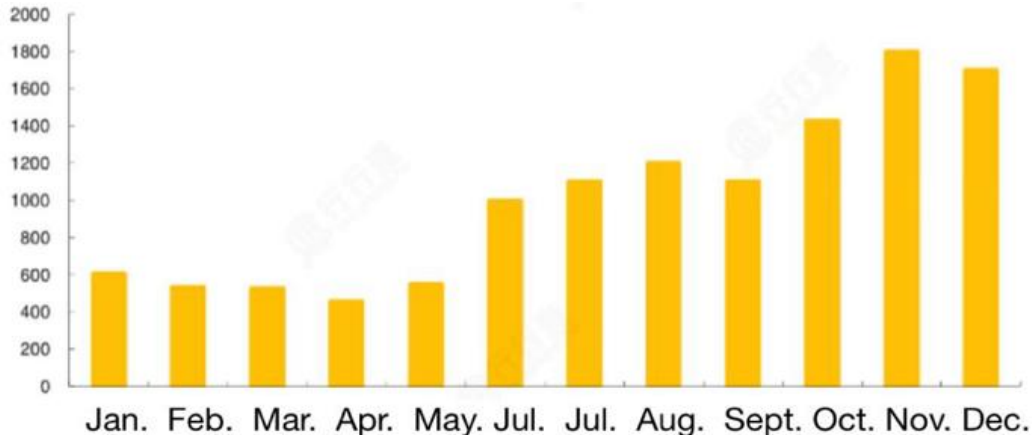

Figure 1. Tiktok e-commerce GMV and forecast in 2022 (Source: Huaxin Securities)

3.3. Suggestions for optimizing the Douyin live streaming e-commerce platform

First, build a professional after-sales team. Douyin live streaming e-commerce platform should be more professional in the face of after-sales problems. In front of consumer complaints and feedback, Taobao, Jingdong, and other e-commerce platforms should be used for reference to open user evaluation channels so that consumers can comprehensively evaluate the products in the store. A comprehensive evaluation of merchants should also be carried out within the platform, and merchants' praise lists should be set up for consumers' reference. The platform must treat disputes between customers and merchants fairly and help consumers protect their rights. At the same time, the after-sales team should also have good risk control ability and public relations ability to avoid the butterfly effect caused by a minor incident into a big disaster and avoid the adverse impact on consumers and the platform.

Second, we need to improve the regulatory system. The live-streaming e-commerce platform of Douyin is still in the early stage of development. A sound regulatory system has been established, and severe punishments should be given to those who violate the law and harm the interests of consumers. The threshold requirements for merchants to enter the Douyin live-streaming e-commerce platform should be improved to ensure the legitimacy and safety of merchants, increase the entry threshold fee, and regularly ask merchants to conduct legal compliance questionnaires to remind them of legal compliance and security. The platform should also establish a reward system for reporting. Merchants and consumers can voluntarily report rewards, resist unscrupulous merchants, and purify the live-streaming e-commerce platform.

Third, cooperate with platforms that identify fake products. Nowadays, there are many stores and complicated products on live-streaming e-commerce platforms, and Douyin is no exception. Therefore, fakes are also prevalent everywhere. Now it is in the early stage of developing the Douyin live-streaming e-commerce platform, and it is impossible to create a set of mature identification platforms. Therefore, it is necessary to cooperate with identification platforms, such as spot goods and Hupu, and get identification platforms. In this way, consumers can better guarantee the authenticity of goods when shopping on the live-streaming e-commerce platform of Douyin and can crack down on fake and shoddy merchants. Of course, Douyin can directly accept the sale of official directly sold products when cooperating with brand parties to guarantee the way to obtain the products.

Fourthly, it is promoted to Douyin users through big data analysis. However, it can accurately respond to the crowd's needs to better serve the live delivery. However, Douyin mainly engaged in short videos at the beginning, so its traffic sources are divided into natural and freight traffic. Many buyers are stimulated by a video they inadvertently watch rather than deliberately watch the live video to buy a particular product; that is to say, people do not have a strong desire to buy Douyin. Therefore, it is necessary to improve the popularity and publicity of the Douyin store so that when people buy goods online, they will think not only of Taobao, Jingdong, and other famous e-commerce platforms but also of Douyin, as well as personalized measures of marketing content.

Fifth, the live-streaming e-commerce platform of Douyin needs to innovate. In the face of mature e-commerce platforms such as Taobao and JD.com, Douyin should give play to its advantages, such as the attraction of short videos and the spread of funny jokes. For example, in the Douyin live broadcast of Crazy Young Brother, the two of them planned the program effect to promote the live atmosphere so that the live broadcast room was not dull and attracted a large number of viewers to watch it so that the flow rate increased, and the purchasing power also increased. Of course, live streaming with goods is, on the one hand. Douyin's e-commerce platform can also publicize the promotion of goods in short videos. After all, not all users are simultaneously in the live streaming time, so short videos are an excellent opportunity to assist live streaming with goods.

4. Conclusion

Throughout the research on the profit model of the Douyin live-streaming e-commerce platform, we focus on the marketing competition of Douyin advertising, the charging standard of the promotion platform, and the royalty and reward fees brought by the online celebrity live-streaming e-commerce platform. Therefore, the flow rate is particularly critical for the long-term development of Douyin's e-commerce live streaming platform. How to seize market share with Taobao, Jingdong, and other media has become the primary goal. Therefore, Douyin has used big data algorithms to enhance the platform design, use the platform inclusion method, and prevent the competition strategy of live streaming e-commerce merchants from multiple ownership. Under the strategy, there are also other aspects of the problem. After the research, we put forward five suggestions on user selection and quality supervision, which are to build a professional after-sales team, optimize and improve the supervision system, cooperate with the identification platform, use big data to promote users, and future innovation and development of Douyin live streaming e-commerce platform. The rapid growth of the short live video e-commerce industry is worth studying how Douyin will stand out in the future and its innovative business profit model. Live-streaming e-commerce will affect social life and further promote the continuous optimization and innovation of the live-streaming e-commerce industry.

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