



**Selected Papers of #AoIR2024:
The 25th Annual Conference of the
Association of Internet Researchers**
Sheffield, UK / 30 Oct - 2 Nov 2024

STRATEGIC AUTONOMY IN FLUX: EXAMINING POWER DYNAMICS IN TIKTOK SHOP'S MANAGED MODELS

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Introduction

Initially a video-sharing app, TikTok has emerged as a leading player in Chinese cross-border e-commerce, alongside AliExpress, SHEIN, and Temu (NielsenIQ, 2023), with an estimated combined global market value projected to reach \$2 trillion by 2030. The introduction of TikTok Shop has sparked a transformative shift, creating a thriving ecosystem and reshaping relationships among creators, sellers, platforms, and the social media industry. Seeking to leverage its ties to the 'world's factory' and challenge established market players like Amazon, TikTok has actively courted Chinese sellers to offer competitively priced products globally through cross-border e-commerce. Central to this strategy is the 'Fulfilled by TikTok' program, which streamlines global logistics for merchants, encompassing storing, packing, and shipping (Korn, 2023). Based on that, TikTok has furthered the comprehensive supply chain management responsibilities, including online sales processes. However, while economic prospects for merchants seem promising, complaints have arisen regarding the perceived cost pressures and loss of autonomy under TikTok's fully and partially managed models.

The study of TikTok is gaining popularity, yet the understanding of the TikTok economy and its global economic expansion remains relatively underdeveloped. As TikTok Shop introduces a novel business model for a global user base, reminiscent of the one that

Suggested Citation (APA): Zhu, S., Liu, X., Peng, X., & Luo, Y. (2024, October). *Strategic Autonomy in Flux: Examining Power Dynamics in TikTok Shop's Managed Models*. Paper presented at AoIR2024: The 25th Annual Conference of the Association of Internet Researchers. Sheffield, UK: AoIR. Retrieved from <http://spir.aoir.org>.

revolutionized Chinese shopping habits and significantly altered the retail industry on Douyin (Kaye et al., 2021), it is urgent to explore its patterns and mechanisms. Moreover, online sellers' complaints showcase another representation of platform power affecting stakeholders, and unraveling the power dynamics and negotiations within the current complex ecosystem surrounding TikTok is crucial.

To delve into these complicated inquiries regarding the TikTok ecosystem, we aim to investigate the business model, platform policies, and their implications. Employing online ethnography since November 2022, we have been actively tracking updates of TikTok Shop policies and services, documenting live streams, and engaging in forums to discuss with sellers on TikTok Shop to gather materials for analysis. Through this approach, we have established some preliminary findings focusing on two main aspects. Firstly, our exploration of the past delves into the formation and evolution of TikTok's business model, elucidating its origins and key milestones. Secondly, we analyze the ecosystem and power dynamics at play within the TikTok platform and its impact on various stakeholders.

Economy & Business Model: Re-thinking Platform Vertically

Originating from China, TikTok operates within a distinct business model and context that have been shaped by its developmental trajectory and the influence of its sister platform, Douyin. Douyin first introduced its transactional e-commerce feature and Douyin Shop Center during the early stages of the Covid-19 outbreak in 2020. Drawing inspiration from established platforms like TaoBao and WeChat, Douyin evolved its features to cater to the growing demand for online shopping in China. Following Douyin's success, TikTok embarked on a similar path by launching its TikTok Shop marketplace and services in the UK and Asia in 2021. This initiative gradually expanded to include U.S. users and other regions worldwide in 2022, with the goal of replicating Douyin's achievements on a global scale. To streamline product delivery from China's manufacturing hub to consumers worldwide, TikTok adopted an extended fulfillment strategy similar to that of Temu, a prominent e-commerce platform. This strategy involved TikTok assuming a more significant role in the supply chain, facilitating the logistics of product storage, packaging, and shipping.

The platform economy is deeply intertwined with regional economic strengths and specializations (Athique, 2019), a concept underscored by TikTok's design and business model. TikTok's ecosystem is cultivated within China's unique market ecology, influenced by the country's techno-nationalist pursuits and its robust e-commerce landscape (Qiu, 2023; Plantin & De Seta, 2019). This contextual backdrop has provided ByteDance, the parent company of TikTok, with a solid foundation to replicate successful practices from Douyin to TikTok Shop, leveraging its experience and expertise in navigating China's dynamic digital market.

Platform design is often perceived as geared towards horizontal expansion, rather than internalizing external elements (Plantin et al., 2018). However, with TikTok's foray into e-commerce and especially supply chain management, encompassing various components such as logistics, warehousing, and agency operations, it becomes

imperative to reconsider the vertical dimension of platforms, specifically by emphasizing the analysis of manufacturing as a critical site (Qiu et al., 2014).

Ecosystem & Power: A Case of Full-Hosting Model

TikTok Shop has introduced two distinct managed models for merchants: full hosting and semi-hosting. In the full hosting model, TikTok takes on comprehensive supply chain management responsibilities, including online sales processes and logistics operations (See dotted area in Figure 1). This arrangement signifies TikTok's shift towards a more active role as a wholesaler, curating products from participating suppliers and streamlining the sales process within its platform. However, this transition has not been without challenges, with some platform merchants expressing concerns about reduced profitability and limited autonomy.

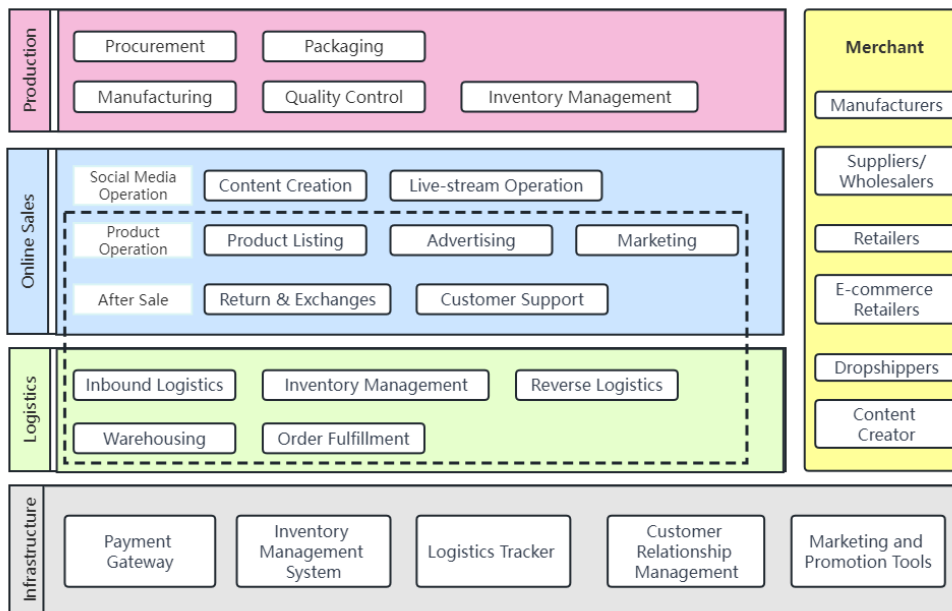


Figure 1 Building Blocks and Operational Flow in Social-Media E-commerce

Merchants operating under the full hosting model often find themselves facing pressure to lower supply prices in order to remain competitive in the rapidly evolving market. Despite the promise of increased sales volume, many merchants report minimal profits or even losses under this model. Furthermore, the liquidity of suppliers within the platform exacerbates pricing pressures, leading to a race to the bottom in terms of pricing.

Moreover, the life of a semi-hosting merchant is not without its challenges. Despite promises of profit sharing and exposure, sellers concentrated on online sales often find themselves relegated to disposable assets within the platform economy, investing significant resources in branding, content creation, and product selection only to be swiftly replaced when the platform identifies the next trending item. This disposability not only undermines the sustainability of their businesses but also fosters a sense of exploitation, as they feel used and discarded by the platform at its convenience.

Furthermore, the overarching trend towards managed models, particularly full-hosting arrangements, exacerbates these challenges by favoring suppliers and merchants with supply chain advantages or manufacturing capabilities, leaving independent sellers marginalized and vulnerable to the platform's influence. While the semi-hosting model offers some degree of autonomy in pricing and sales decisions, merchants still grapple with diminishing maneuverability and strategic autonomy, limiting their ability to compete effectively and adapt to evolving market dynamics. These observations underscore the inherent precariousness associated with platform-based business models (Duffy, 2021) and highlight the extent of control wielded by platforms over economic activities.

Through vertical integration and control of the value chain, platforms further extend their power, which call for attention to the examination of the dynamics and implications of platform power (Gillespie, 2010; van Dijck et al., 2018). Furthermore, TikTok Shop's model facilitates the direct connection between suppliers and buyers, leading to the disintermediation of the middlemen within the platform. Such disintermediation, as identified by Chircu et al. (1999), brings about transformations in the retail industry, which has been attributed to infrastructure and bears significant societal implications (van Dijck et al., 2018). Therefore, in our future exploration, we will keep scrutinizing the dynamics of TikTok's economic activities, examining their impact and power, and addressing issues of public accountability.

Additionally, the strategic move by TikTok Shop prompts questions about whether it is rebranding Chinese products or simply using them to establish platform dominance. These questions require thorough examination.

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