

Research on Business Model and Profitability of the Short Video: TikTok as a Case Study

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Abstract. With the rapid development of the world economy and technology, the short video industry has gradually emerged. The short video has become a common social and lifestyle in society. But there are relatively few studies on its business model and profitability. At the same time, under the development and progress of education, teenagers and adults are enthusiastic about aspiring for beautiful art and improving their aesthetic skills. Meanwhile, with a huge number of users under successful operation and management, TikTok has become one of the most successful social media platforms. The study focuses on the business and profit model of TikTok in new technological times by using case studies and literature review research methods. Through its lean operations and applying reasonable internet traffic algorithms, plus the help of big data, TikTok has created a unique success path and profit channel and has harvested a large number of users during a short period of time. TikTok's great success is worth learning from other business companies.

Keywords: TikTok; short video; social media; business model; case study.

1. Introduction

Nowadays, the world business environment has been changing dramatically. Under the influence of economic globalization and political multipolarity, the virtual economy has emerged and has a huge impact on people's life. It is widely known that the virtual economy is derived from the real economy, they are not only not contradictory, but they can play a greater role in the conditions of corporation and combination. Virtual economy and the real economy are not in opposition to each other. However, due to the uncertainty of speculative behavior and improper management, the virtual economy has caused some damage to the real economy and affected the stability of the real economy. At the same time, COVID-19, which swept the world in the early 21st century, has also caused great damage to the real economy, and this damage is serious, even irreversible. The recession of the real economy has caused negative fluctuations in the virtual economy as well.

Political policy is also an aspect that must be considered. China is promoting cultural industries and is emphasizing the importance of cultural confidence to its people. It is a country with a history of more than 5,000 years, with deep cultural background and vast innovative possibilities.

The international economy is becoming integrated rapidly, and the short video industry is emerging all over the world. Firstly, under the guidance and leadership of the world's most successful technology companies, such as APPLE and HUAWAI, the progress of smartphones making industry can be noticed obviously. Smartphones have changed from their original single-call function, gradually to be an indispensable tool in daily life. It is widely witnessed that the buttons on smartphones are getting fewer, the screen is getting bigger, and the fluency and resolution are getting higher. Meanwhile, the form of social media has successfully completed the transition from words to pictures, and it is now experiencing the process of pictures to videos, this great development has made daily life easier and has brought benefits to people all over the world. All of these create the rise of the short video industry basis. As of June 2022, the size of Chinese short video platform users has grown to 962 million, accounting for 91.5% of Internet users, and users spend more than a quarter of their time browsing short videos every day in China. It can be clearly seen that short video is becoming a new form of entertainment, far more than online shopping, online education and take-out services, and e-commerce become the necessary channel naturally to monetize internet traffic into cash [1].

In addition, the competition among various developed economies around the world is getting fiercer and the growth rate of the social economy is accelerating, which results in more and more pressure on people. It can be easily observed that the world population is growing faster relatively than the required jobs, so people need to work more efficiently and have more labor hours. At the same time, more and more students in China are willing to complete their postgraduate degrees after their bachelor's, or even go abroad to other developed countries, in order to enrich their knowledge and gain international height and perspective.

It is widely known that "attention" is an important source of business profitability, especially in streaming services platforms. If a company has successfully accumulated a large amount of capital and profit, it must have grabbed users' attention. In such an international context, most young people's schedules tend to be saturated. Whole periods of free time in previous times have disappeared, some adults and teens have only short periods of time to spend, such as time waiting for the subway, time in elevators, and waiting for friends at crossroads. As the amount of time people can provide their attention gets shorter and more fragmented, many content providers are moving away from longer-running clips to shorter videos to build customer bases and promote brands, products and services [2]. Thus, the fast-paced life drives the rise and growth of the short video industry. As a matter of fact, unlike movies which cost 2-3 hours, short videos are only usually 15-30 seconds, which can perfectly meet modern life. In particular, during COVID-19, some users got movement restrictions and reduced lot of outdoor activities, which improved user stickiness and created more business value undoubtedly. The remaining parts of this article will adopt a case study and literature review approach, first introducing the founding and important events of TikTok, followed by four main sections to learn and understand TikTok's successful business module design and profit model, analyze the reasons for its success, and finally offer practical suggestions on the problems it is currently facing.

2. Development of TikTok

This article focuses on the business model and profit chain of the TikTok application under the background of electronic information times. Since the birth of video technology, short music videos have gradually been noticed and gained people's attention. On September 20, 2016, TikTok was launched by Beijing Bytedance Technology Corporation. In fact, TikTok is not available in China, but software pioneered by the same parent company, Dou Yin, can be used in China. They are both owned by Beijing Bytedance Technology Corporation. Outside of China, Facebook, Twitter and Instagram have large market shares, but they are actually not available in China. Similarly, Weibo and WeChat are preferred by Chinese users. China and the Western world are separated in terms of social media, but TikTok emerged and managed to enter two different markets successfully [3]. TikTok is an application that combines music and creative short videos. Actually, the software is an online community platform that allows users to register an account with their phone number and use creative virtual props and interesting music, to shoot and record their beautiful life. According to statistics and case studies, the total number of TikTok users in 2022 is roughly 809 million, the average number of monthly active users is about 1.5 billion, the number of daily active users has exceeded 700 million in 2022, and the average time which its users spend on has exceeded two hours per day. These figures show that TikTok nowadays has become one of the most successful short video platforms, which contains steady market opportunities, strong market power and a big market share. In 2017, the overseas version of TikTok was released, which gained lots of social attention. In 2019, China Central Broadcasting Station decided to make a cooperation with TikTok, officially announcing that TikTok would be the exclusive social media distribution platform for the 2019 Spring Festival Gala, which reflected the success of TikTok. At the same time, more and more Internet companies are realizing the huge profits that short videos can bring. For example, Tencent launched its software "yoo" in November 2018, and Bili Bili's operating revenue in 2019 increased by about 64% compared with 2018 [4].

3. Analysis of TikTok's Business Model and Profitability

The reason why TikTok has become the main social media platform in people's daily life mainly relies on creating internet traffic and using big data algorithms. Internet traffic plays a major role in profitability. Under the steady development of the world economy, people are pursuing things with beauty, the desire for a better life is the "sense of beauty" created by TikTok. According to the case study, it is obvious that the videos on the TikTok platform are closer to the "beautiful shore" in people's minds. When the employees are tired after work, they open the TikTok application and enjoy famous places around the world, the great mountains and rivers, instead of funny and vulgar videos. This has brought TikTok a large number of loyal users. Besides, TikTok officials also create socially focused topics, which provoke users' thoughts, induce their emotions, happiness or anger, or gain their attention using topics when festivals. The celebrity effect also brings part of the profit for TikTok. At the same time, TikTok has successfully used big data algorithms to get users' attention. TikTok has one of the most sophisticated operation official teams and its own efficient algorithm. Unlike other short video platforms, TikTok's Internet algorithm makes users more focused on content creation and less likely to form more fixed fan relationships, so it weakens fan attributes [5]. From the perspective of works, when a blogger successfully posts a video, the official starts to monitor it using data algorithms. Initially, it will judge the primary traffic of this video first, which is based on the number of likes and comments, and the visit rate of this author's personal home page. Based on the primary traffic, the data algorithm will automatically decide whether to push this video to popular channels for more users to view, or whether to push this author's old videos for second promotion. From the perspective of watching, the data algorithm will analyze the user's preferences based on the time spent on a video, the number of views, the number of comments viewed, whether to recommend it to friends, etc. After a certain number of calculations, it will determine the type of video the user likes and push it in large quantities.

In addition to controlling Internet traffic and using big data algorithms accurately, the content creation of TikTok deserves to be noticed as well. TikTok gives users a lot of freedom and encourages them to create different content. Whether showing off cooking skills, recording three meals a day, or even doing extreme sports, users are encouraged to post videos on the TikTok platform and receive appreciation or challenges from other users [6]. After passing strict review, the videos on the platform contain positive energy and high quality. Some videos related to pornography, violence and other negative aspects of society are automatically deleted by administrators. Meanwhile, in terms of application design, TikTok brings users an immersive and the most intuitive viewing experience. In other words, unlike other video software, TikTok takes the form of automatic loading, which means ensuring each video is played in UHD and full screen, which improves the user's visual experience. The immersive experience is reflected in many aspects. Take another video software "Meipai" as an example, four videos will be automatically loaded on one page when users open this software, instead of browsing in order, users will pick the most interesting one among the four videos. So, the improvement of TikTok is that it reduces the cost of selection and ensures the pleasure of use. In addition, pre-loading means that when a video is being viewed, the system will automatically load the next few videos that will be viewed, which allows users to watch videos smoothly even when they lose their signal for a short time, this technology greatly increases the satisfaction of users. From the perspective of posting videos, TikTok is making more and more interesting functions. Users can use different kinds of filters and gadgets or collaborate with web celebrities to create to get attention from other users. In short, content creation has greatly improved user satisfaction and user stickiness, which is a necessary factor for the success of TikTok and is a worthy reference in its business model.

TikTok is sophisticated in content creation and has complete profit chains. On the one hand, the official puts forward the slogan "all people create together", in order to motivate and attract users to actively create videos. The platform will discover creators with correct values, high aesthetic standards and talented video editing skills and encourage them to create works. Importantly, with a large population base, the platform will be able to make economic profits through scale economies. When a certain user has enough followers and market influence, the official may connect live

commerce with customers, which means combining live streaming with selling goods, to create more commercial value. Reasonably, the platform will take a part of it as net profit. During COVID-19, many inefficient physical stores faced the problem that difficulty expanding the scale of sales of goods, TikTok e-commerce live streaming has become an effective way and has attracted many businesses and users. Users can buy goods that temporarily have no sales channels through the live streaming platform, and also be able to broaden their horizons, exchange social resources, and eventually contribute to economic development [7]. On the other hand, users can spend money to buy virtual small gifts to express their support or likes, the gifts vary in price from 1 RMB to 30,000 RMB, which will become the anchor's livestream income. If the anchor is an individual broadcaster and does not join a union, then the gift commission is thirty percent. In other words, with 10,000 yuan of virtual gift income, the anchor can earn roughly 3000 yuan of real income. If the anchor joins the union, he can get a higher commission. If he joins the higher-level union, the anchor will have more resource support and become the target object of officials to widen the cooperation, which is helpful to the anchor's better development, and the net income earned by the TikTok platform will also increase. In addition, cooperation with other companies also accounts for a large part of the overall profit. For example, milk manufacturing companies use the TikTok platform to market their products. It will pay TikTok huge amounts of advertising money. But the precondition is that the platform already has enough market dominance and influence.

TikTok has created social values which adapt to the times. In electronic information times, although people's lives are more convenient, the health and protection of teenagers have become a major concern. Accordingly, TikTok applies an anti-addiction system and timed closing for teenagers, which is helpful to protect their mental and vision health, also the arrangement of study and entertainment time. At the same time, when the system detects that the user has stayed on the software for more than a certain amount of time, it will be pushed a video which released by TikTok officials with the content prompting users to put down their phone and move their legs. These initiatives have gained the trust and respect of users undoubtedly. What's more, some news media officials have also joined the TikTok platform and created their accounts as a new channel for spreading news. This is an innovative approach that plays a more effective role in guiding public opinion. "China People's Daily" account has 120 million followers on TikTok, which shows the strong influence of the official news media and the success of TikTok. In addition, due to the high popularity of social media in society, public health agencies have begun to use social media to spread and explain health information. TikTok as a short video platform with a large number of users has become a major platform for conveying information and knowledge about COVID-19 [8].

4. Suggestion

From the time it was founded to its nowadays development, TikTok has created a path of technology that is in line with the times. It has correctly applied big data algorithms to control Internet traffic, created a sense of immersive experience, and perfect profit chains, while also creating social value. All these factors have made TikTok what it is today. However, from 2016 to 2022, the problems that emerged in the operation cannot be easily ignored.

First of all, the threshold for video distribution has been lowered unconsciously. With the development of the Internet, more and more people are keen on showing their individuality and personality on the Internet. However, unlike the situation when it was just created, there are more and more video types, as well as many vulgar and meaningless videos. This deviates from the "sense of beauty" which created by the platform, more and more users have found that TikTok has changed negatively, instead of enjoying it, it is considered wasting time. Meanwhile, because the cost of spreading thoughts on the internet is relatively low, many users are trying to attract Internet traffic by posting immoral comments or inducing heated arguments in the comments area to trick other users to reply. However, a phenomenon has been noticed that users gradually find short video content tends to be "homogenized" due to accurate recommendation algorithms. After the accurate calculation of

big data, users end up watching short videos which have a single theme, thus reducing the stickiness and losing their interest [9]. These problems with content creation are the huge challenges of TikTok. To be honest, it is a challenge that every short video platform has been facing in the process of development. Strengthening the investment in technology research can be an efficient method. At the same time, TikTok should realize that there are many bugs in the manual review system, and it should strengthen its cooperation with technology companies. In addition, when users argue on the Internet which overuses public resources, TikTok officials should take a firm stand and protect justice.

E-commerce is booming which is driven by TikTok's successful business model. However, many problems have emerged at the same time. The platform was created with the original intention of recording a beautiful life, but it is clear that the aggression of e-commerce has led it to a negative side. Many enterprise manufacturers have taken advantage of the Internet and started to aggressively sell their products on the platform. If so, TikTok is turning into a large shopping site. Perhaps the merchants have become the winner, but TikTok has lost a large number of users as a result. In addition, many consumers responded to the poor consumer experience and the number of bad posts increased dramatically. These problems are easy to understand but need a lot of time to tackle. Internet traffic is money, but if it is too eager to monetize, it could lead to serious consequences. TikTok should immediately strengthen its control over the e-commerce accounts, improve the service chain and create a satisfactory shopping experience for users, the platform which contains a sense of beauty should not be abandoned and turned into an absolute shopping platform.

If a company wants to maintain market power in the long run, it must understand its pain points and meet the requirements of each consumer group and avoid becoming a phenomenal product. Phenomenal products are Internet or mobile Internet products that suddenly become popular and well-known and used in a short period of time but have difficulty sustaining long-term development [10]. At present, the users of TikTok are mainly young people aged 18-30, which were born in the background of booming electronic information, they are willing to accept new things and experience a new lifestyle. On the contrary, middle-aged and elderly people are not used to the short video and fast-paced life. As a matter of fact, they may prefer more official social media. This leads to a single target group and fewer profit points. According to the case analysis, TikTok has been desired to create different video browsing modes for young people, middle-aged people and elderly people to enhance the immersive experience of users.

5. Conclusion

The success of TikTok has benefited from the development of information technology. It has also contributed to Internet development by applying its successful business model, they are a mutually reinforcing relationship. From the customer's point of view, TikTok is a short video software that brings convenience and relaxation to people's lives, enriches their free time, and helps them find the meaning of life. From the business point of view, the background of conforming to the development of the Internet economy helps a lot, using successful data algorithms and Internet traffic, it has occupied a huge market share successfully. Of course, a lean operation team is also necessary. TikTok's future development should focus on improving the corner part of its business model, extending the profit chain and creating more positive value to the society. Meanwhile, strengthen the investment in scientific and technological research and development, improve the public opinion environment of the network, and at the same time better integrate its main business with e-commerce. At the same time, the technology company's unique business planning and profitability channels have become assets to the industry, and knowledge spillover benefits the world economy. Through case studies and a literature review, this article examines how responsive technology companies can survive and explores the challenges and threats that technology companies face in today's society. As an industry leader, TikTok is supposed to use the power of technology to provide perfect services to high-quality users and strengthen its sense of social responsibility, and produce greater market value and make greater contributions to the world economy with groundbreaking historical significance. In

future research, the study areas will be expanded to the whole streaming video platform in order to discover more business values on uncharted territory.

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